



## **Market Study**

## **Proposed Baker Hotel in Mineral Wells, Texas**

### **Prepared For:**

Mr. Laird Fairchild  
Baker Hotel Development Partners, LLC  
410 North Carroll Avenue, Suite 180  
Southlake, Texas 76092

### **Prepared By:**

PKF Consulting USA  
Houston, Texas

### **Date of the Report:**

August 11, 2014

**4-1182**

August 8, 2014

Mr. Laird Fairchild  
Baker Hotel Development Partners, LLC  
410 North Carroll Avenue, Suite 180  
Southlake, Texas 76092

Dear Mr. Fairchild:

In accordance with our engagement letter dated January 30, 2014, we have completed a market study with financial projections for the redevelopment of the Baker Hotel in Mineral Wells, Texas. The conclusions reached are based upon our present knowledge of the competitive market resulting from our fieldwork completed June 12, 2014.

As in all studies of this type, the estimated results are based upon competent and efficient management and presume no significant change in the competitive market from that set forth in this report. The terms of our engagement are such that we have no obligation to revise this report to reflect events or conditions that occur subsequent to the date of completion of our fieldwork. However, we are available to discuss the necessity for revision in view of changes in the economy or market factors affecting the proposed project. This report is subject to the Statement of Assumptions and Limiting Conditions presented in the Addenda.

Although they have been conscientiously prepared using information obtained during the course of this study and our experience in the industry, the future performance of the proposed hotel are based on estimates and assumptions, which are subject to uncertainty and variation, and we do not represent them as results that will actually be achieved.

We would be pleased to hear from you if we can be of further assistance in the interpretation of our findings. We appreciate the cooperation extended to us by you and your associates during the course of this assignment.

Sincerely,

**PKF Consulting USA**



G. Randle McCaslin, CRE  
Senior Vice President

**MARKET STUDY WITH FINANCIAL PROJECTIONS  
PROPOSED BAKER HOTEL IN MINERAL WELLS, TEXAS**

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PROPOSED BAKER HOTEL IN MINERAL WELLS, TEXAS**

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**ADDENDA**

- A. Photographs of the Site
- B. Photographs of Competitive Supply
- C. Statement of Assumptions and Limiting Conditions
- D. Certification

**SECTION I**  
**EXECUTIVE SUMMARY**

## SCOPE AND METHODOLOGY

In preparing this study, we completed the research and analysis listed below:

- Conducted an inspection of the subject site and the surrounding area in order to determine its impact on the proposed hotel.
- Assembled, reviewed and analyzed economic, demographic and real estate market data pertaining to the Fort Worth, Texas market area in general and the Mineral Wells market in particular.
- Interviewed representatives of hotels, businesses and area brokers and developers to gather data on current and future area growth and the demand for lodging and meeting facilities.
- Evaluated the existing supply of lodging in the market to determine the degree of competition that they are likely to offer the proposed hotel.
- Prepared a summary of historic market performance, including available rooms, occupied rooms, market occupancy, market segmentation, and average daily room rate for the period 2009 to 2013 and May 2013 year-to-date compared to May 2014 year-to-date.
- Identified other proposed hotels to assess their probability of completion and the degree to which they will compete with the subject project.
- Estimated future market performance for the competitive set for the period 2017 through 2020.
- Assessed the appropriateness of the concept, facilities and amenities for the proposed hotel.
- Estimated future competitive position and market performance of the subject proposed hotel for the period 2017 to 2020, the stabilized year.
- Based on the estimated future competitive position of the subject proposed hotel, prepared a schedule of prospective cash flow before debt service and income taxes for the subject hotel for the period 2017 to 2026.

## CONCLUSIONS

A concise summary of the conclusions of this report follows:

- Fort Worth and the Mineral Wells-area sub-market are expected to achieve solid economic growth over both the near and long-term. Fort Worth will continue to expand due to the growth in military aircraft, motor vehicles and electronics manufacturing and a rebound in housing construction. The American Airlines merger and its emergence from bankruptcy will provide significant upsides in transportation, hospitality, and retail businesses. Longer term, above-average population growth, a diversified manufacturing base and lower business costs and costs of living relative to Dallas will help support above-average gains.
- The redeveloped Baker Hotel is located at the intersection of East Hubbard Street/H-180 and North East 1<sup>st</sup> Avenue in Mineral Wells, Texas. The property will be a renovated historic hotel built in 1929.
- The table below represents the proposed facilities for the proposed Baker Hotel.

Proposed Facilities Proposed Baker Hotel Mineral Wells, Texas		
Type of Hotel	Resort/Spa	
Guest Rooms	157	
Meeting Space		
Total	23,750	sq.ft.
Function space	16,000	sq.ft.
Ballroom	4,875	sq.ft.
Meeting Rooms	2,875	sq.ft.
Food & Beverage	Restaurant Coffee Shop Banquet Kitchen Room Service Pool Bar	
Amenities	Spa Swimming Pool Fitness Center High-speed Internet Business Center Laundry	
Source: PKF Consulting USA		

- The 23,750 square feet of meeting space that the existing hotel has should accommodate most uses for the Group Segment. The large ballroom combined with the of variety function space will provide significant group demand. The food and beverage offerings will support the concept of creating a destination hotel. The restaurant will be marketed for both transient and local demand. The addition of a pool bar will increase Leisure demand.
- Based upon our review of the proposed Baker Hotel, we have identified six hotels containing 1,166 rooms as the Subject hotel's competitive set. These properties were included in the competitive supply based upon their location, facilities, brands, markets served and/or average daily rates.



- The market ended 2013 with a record high ADR of \$175.92, up 4.6% from the 2012 ADR of \$168.23. The market ADR experienced a compounded annual growth of 3.2% over the five year period. With the rise in occupied rooms and ADR, the market RevPAR increased in 2011 and 2012 by 9.7% and 12.0%, respectively, due to the slower recovery of resort properties from the economic recession from the previous years. Overall, RevPAR increased an average of 7.3% annually over the five year period displaying significant market growth.
- The total competitive set captures 18% of its demand from the Corporate Individual segment, 28% from the Leisure segment and 54% from the Group segment, as indicated in the following table.

<b>Competitive Market 2013 Mix of Demand</b>		
<b>Market Segment</b>	<b>Room Nights</b>	<b>Ratio</b>
Corporate Individual	48,930	18%
Leisure	76,114	28%
Group	146,791	54%
Total	271,835	100%
Source: PKF Consulting USA		

- The only addition to supply in the competitive market is the proposed 157-room Baker Hotel in 2017.
- The market is projected to drop to 63% in 2017 with the addition of the 157-room Baker Hotel then increase to 65% in 2018. With no other additions to supply, the market is projected to stabilize at 68% by 2019.
- Estimated market segmentation and penetration for the proposed Baker Hotel are, as follows:

**Proposed Baker Hotel**  
**2020 Mix of Demand and Market Penetration**

Market Segment	Room Nights	Ratio	Penetration
Corporate Individual	5,300	14%	75%
Leisure	10,700	27%	98%
Group	23,000	59%	110%
Total	39,000	100%	101%

Source: PKF Consulting USA

Upon stabilization in the fourth year of operation, the proposed Baker Hotel is projected to receive less than its fair share of demand from the Corporate Individual segment due to its location away from significant corporate demand generators. The property is projected to receive just below its fair share of demand from the Leisure segment due to its location. The hotel is projected to receive more than its fair share of demand from the Group segment due to its meeting space offerings within the Mineral Wells market area.

- The estimated operating performance of the proposed Baker Hotel is, as follows:

<b>Estimated Operating Performance</b>			
<b>Proposed Baker Hotel</b>			
<b>Year</b>	<b>Annual Occupancy</b>	<b>Average Daily Rate*</b>	<b>Net Operating Income</b>
2016	56%	\$182	\$2,187,000
2017	62%	\$193	\$3,158,000
2018	65%	\$202	\$3,744,000
2019	68%	\$208	\$4,220,000
2020	68%	\$215	\$4,825,000

\* Stated Year Dollars, rounded to the nearest dollar

Based on an ADR of \$164 in 2014 dollars.

Source: PKF Consulting

**SECTION II**  
**AREA OVERVIEW**

## INTRODUCTION

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

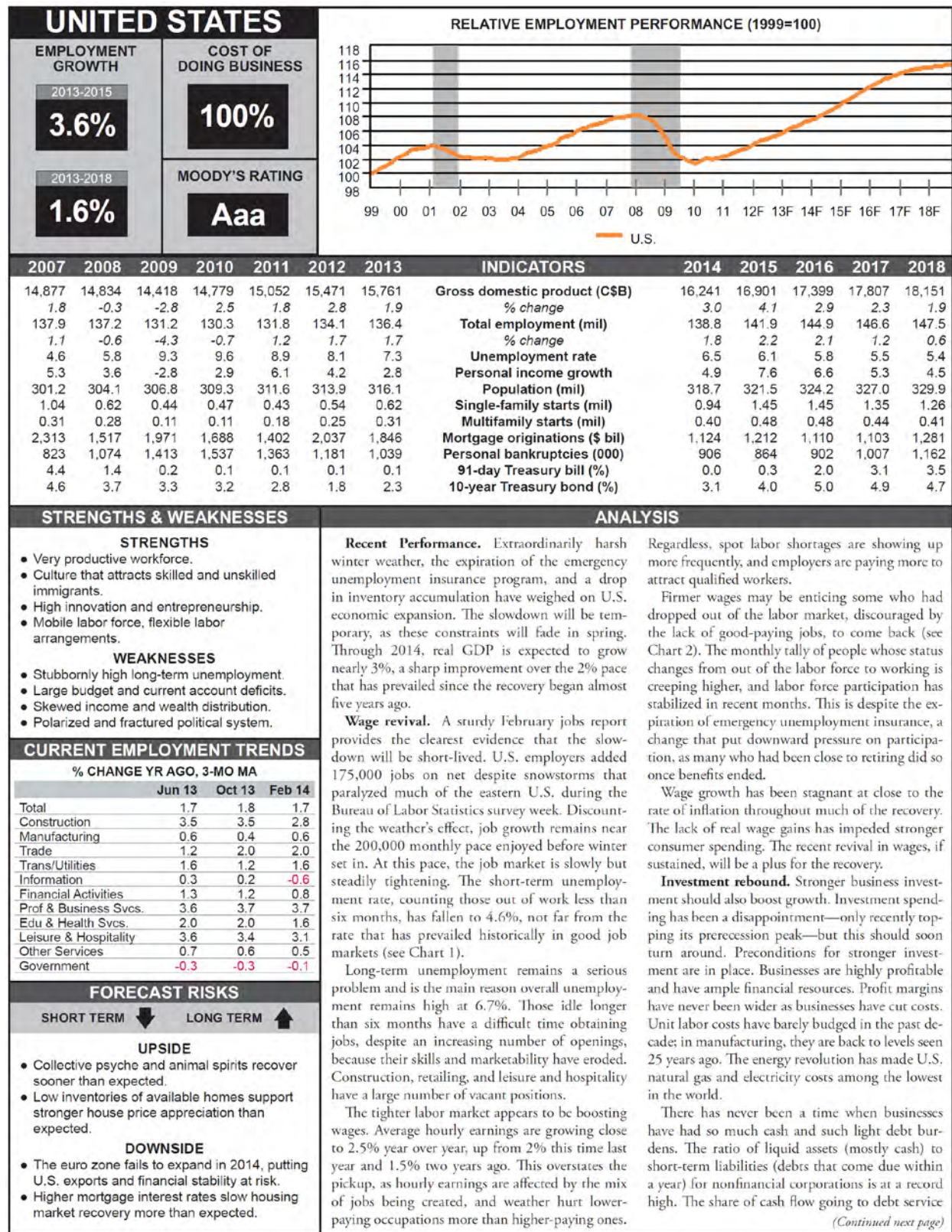
The Fort Worth/Arlington Metropolitan Statistical Area (MSA) encompasses Hood, Johnson, Parker and Tarrant counties. The Dallas MSA includes the counties of Collin, Dallas, Denton, Ellis, Henderson, Hunt, Kaufman and Rockwall. The Dallas/Fort Worth Consolidated Metropolitan Statistical Area (CMSA) commonly referred to as the Metroplex, covers nearly 7,000 square miles and has an estimated total population of 6.4 million. It is the largest CMSA in Texas and the fourth-largest metropolitan area in the country.

The redeveloped Baker Hotel is located in downtown Mineral Wells, Texas at the intersection of East Hubbard Street/H-180 and North East 1st Avenue. Mineral Wells is approximately 50 miles from the Dallas/Fort Worth area.

## DEMOGRAPHIC AND ECONOMIC TRENDS

*Note: Economy.com provided the following demographic and economic data. Information relating to other topics has been obtained through a variety of media, including websites, publications, interviews or other sources considered reliable. PKF Consulting has reviewed and analyzed the Economy.com data.*

The following pages present an economic snapshot of the United States, South, Fort Worth MSA and Dallas MSA, respectively.



### CURRENT EMPLOYMENT TRENDS

% CHANGE YR AGO, 3-MO MA

	Jun 13	Oct 13	Feb 14
Total	1.7	1.8	1.7
Construction	3.5	3.5	2.8
Manufacturing	0.6	0.4	0.6
Trade	1.2	2.0	2.0
Trans/Utilities	1.6	1.2	1.6
Information	0.3	0.2	-0.6
Financial Activities	1.3	1.2	0.8
Prof & Business Svcs.	3.6	3.7	3.7
Edu & Health Svcs.	2.0	2.0	1.6
Leisure & Hospitality	3.6	3.4	3.1
Other Services	0.7	0.6	0.5
Government	-0.3	-0.3	-0.1

### FORECAST RISKS

**SHORT TERM** ↓

**LONG TERM** ↑

**UPSIDE**

- Collective psyche and animal spirits recover sooner than expected.
- Low inventories of available homes support stronger house price appreciation than expected.

**DOWNSIDE**

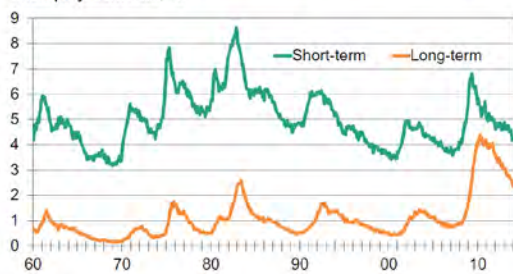
- The euro zone fails to expand in 2014, putting U.S. exports and financial stability at risk.
- Higher mortgage interest rates slow housing market recovery more than expected.



## UNITED STATES

## Low Short-Term, High Long-Term Unemployment

Unemployment rate, %



Sources: BLS, Moody's Analytics

## The Discouraged Return to Work

From out of the labor force to employed, ths, SA



Sources: BLS, Moody's Analytics

is low and should stay low even when rates rise, as businesses have refinanced to lock in rock-bottom rates (see Chart 3).

Capital is cheap and readily available for businesses looking to expand. The bond market is wide open, with below-investment-grade companies able to issue debt at close to 7%, a record low. At the lowest investment grade, companies can borrow for as little as 5%. Banks have also eased underwriting to small and medium-size firms. Bank loans to businesses have been rising at a nearly double-digit pace for more than two years. Lending to very small businesses has been more constrained, but this too is easing.

Investment has been held back by a lack of confidence, probably related to the lingering nightmare of the Great Recession and the uncertainty created by regulatory changes. The merits of the Dodd-Frank financial reform and the Affordable Care Act aside, changes brought by these reforms to large parts of the economy are substantial. Adjusting to them has likely made businesses less willing to take on the risks associated with new investment. Indeed, regulatory issues top the list of concerns in the Moody's Analytics weekly survey of business sentiment (see Chart 4).

Dysfunction in Washington also damaged confidence. Going to the financial brink twice over raising the Treasury debt limit and shutting down the government have been traumatic. The budget deal reached late in 2013 and the more recent agreement to put off further debt-ceiling fights for at least another year are encouraging. Businesses are

still figuring out financial and healthcare reform, but this process is well along. Business confidence, as measured by the Moody's Analytics survey, has improved since the end of last year and is close to record highs, signaling that stronger investment is coming.

**Fiscal stability.** The near-term outlook is also made brighter by an improving fiscal picture at all levels of government. State tax revenues have come in stronger than anticipated; some states are even discussing what to do with surpluses. Local governments are not doing as well, but with property values up, tax receipts should improve soon.

States and local governments have largely stopped shedding jobs and are expected to begin adding to payrolls this spring. This is a welcome respite after nearly five years of cuts, which hit middle-income households who rely on these jobs. State and local government spending more broadly will provide a small but meaningful boost to economic growth in the next several years.

The federal fiscal situation is also improving. The annual federal deficit will be close to \$500 billion over the next few fiscal years, equal to less than 3% of GDP. The deficit peaked in 2009 at \$1.4 trillion, equal to 10% of GDP. The nation's publicly traded debt will roughly stabilize below 75% through the rest of the decade.

This is still an uncomfortably high debt ratio, compared with the ratio of about 40% that prevailed between the Korean War and the Great Recession, and the fiscal outlook will erode quickly in the next decade if lawmakers fail to

enact tax and entitlement reform. But near-term fiscal stability is encouraging, particularly because it has quieted the congressional budget wars that seriously damaged confidence and economic growth.

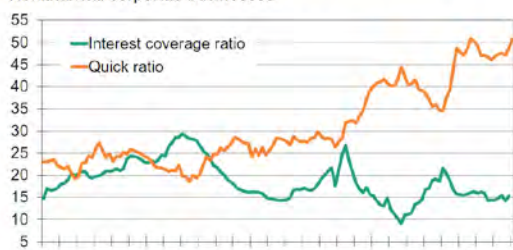
**A steady near-term outlook.** Moody's Analytics has long held that expansion would accelerate by mid-decade, with the economy returning to full employment by the end of 2016. All the necessary conditions for this forecast are in place, and it will be evident soon if the forecast is accurate. Whether growth ramps up this spring is the test.

A botched normalization of monetary policy by the Federal Reserve is the most serious threat to the outlook. The Fed has the tools and the will to wind down quantitative easing and increase interest rates consistent with an improvement in the economy, but pulling this off may be tricky. A premature jump in rates, as occurred in the summer, could short-circuit the housing revival and disable the broader recovery.

Threats also lurk abroad. Emerging economies with current account deficits are sure to come under more financial pressure as U.S. interest rates rise. The European debt crisis may not be over as those economies continue to struggle, disinflation intensifies, and a banking union remains elusive. Tensions with Russia over Ukraine could also result in higher oil and natural gas prices, and Chinese policymakers may not be able to gracefully address that country's economic imbalances.

## Business Balance Sheets Are Rock Solid

Nonfinancial corporate businesses



Sources: Federal Reserve, Moody's Analytics

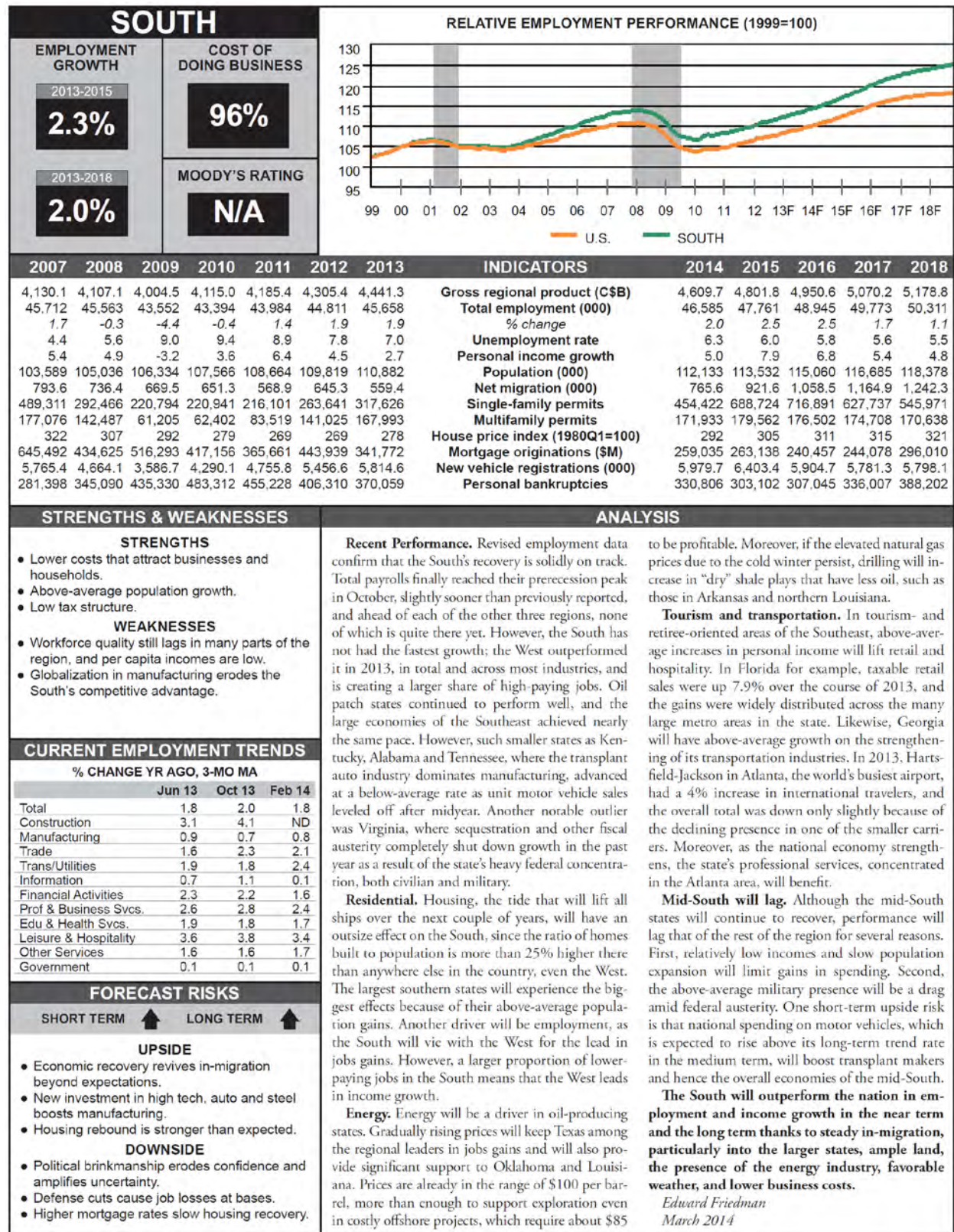
## Regulatory Worries Trump Sales Concerns

% of respondents that say this is their biggest worry



Source: Moody's Analytics





### CURRENT EMPLOYMENT TRENDS

**% CHANGE YR AGO, 3-MO MA**

	Jun 13	Oct 13	Feb 14
Total	1.8	2.0	1.8
Construction	3.1	4.1	ND
Manufacturing	0.9	0.7	0.8
Trade	1.6	2.3	2.1
Trans/Utilities	1.9	1.8	2.4
Information	0.7	1.1	0.1
Financial Activities	2.3	2.2	1.6
Prof & Business Svcs.	2.6	2.8	2.4
Edu & Health Svcs.	1.9	1.8	1.7
Leisure & Hospitality	3.6	3.8	3.4
Other Services	1.6	1.6	1.7
Government	0.1	0.1	0.1

### FORECAST RISKS

**SHORT TERM** ↑

**LONG TERM** ↑

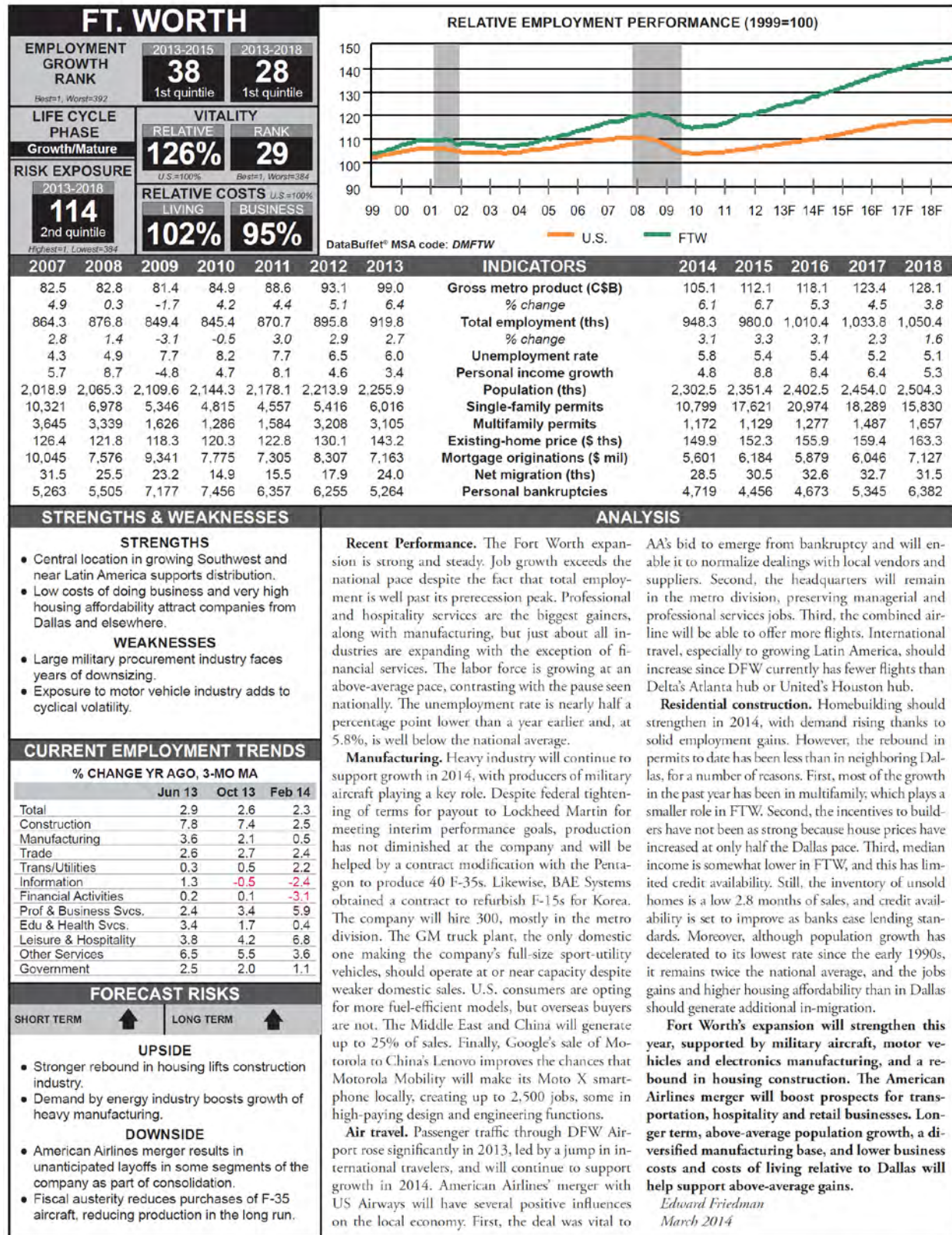
**UPSIDE**

- Economic recovery revives in-migration beyond expectations.
- New investment in high tech, auto and steel boosts manufacturing.
- Housing rebound is stronger than expected.

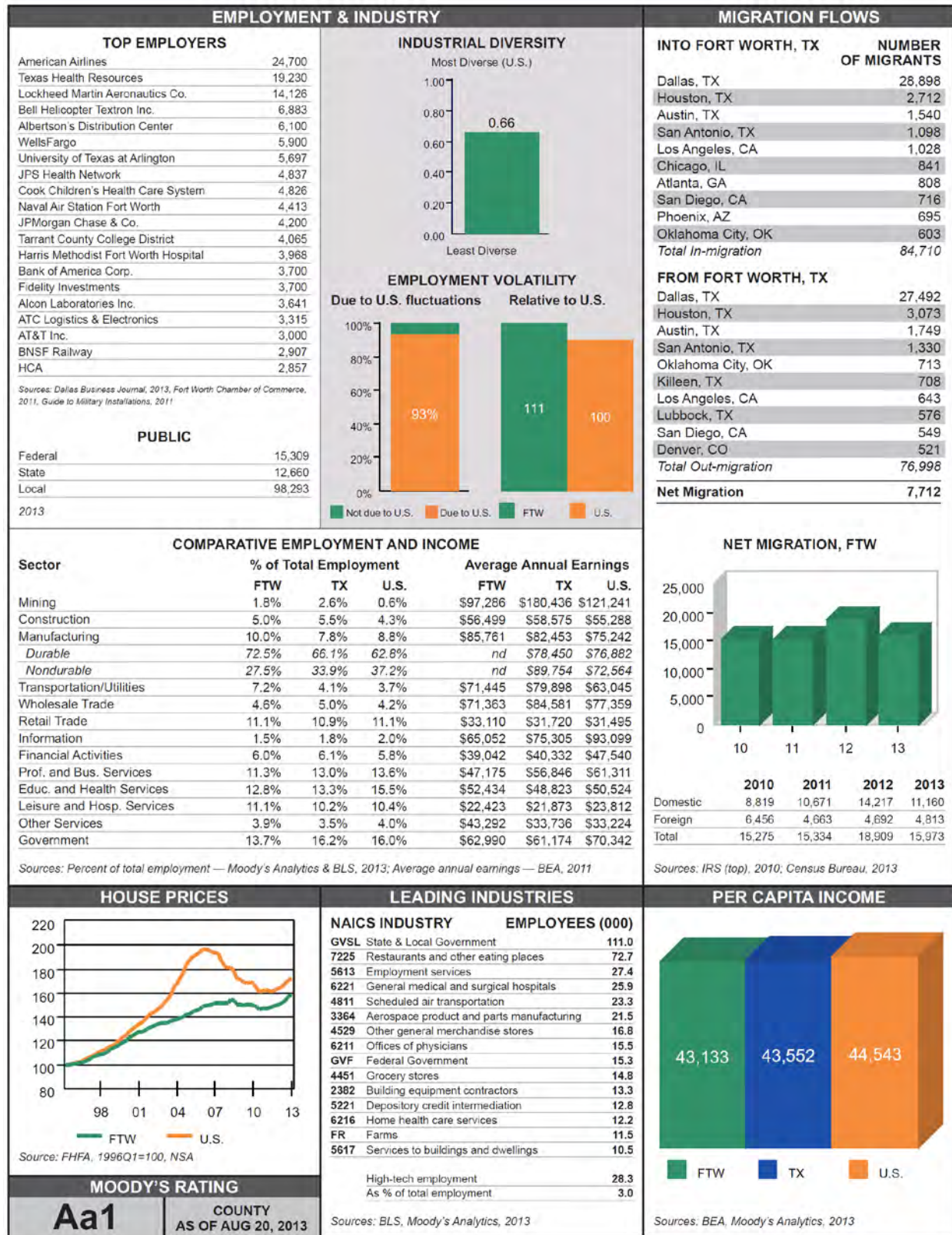
**DOWNSIDE**

- Political brinkmanship erodes confidence and amplifies uncertainty.
- Defense cuts cause job losses at bases.
- Higher mortgage rates slow housing recovery.





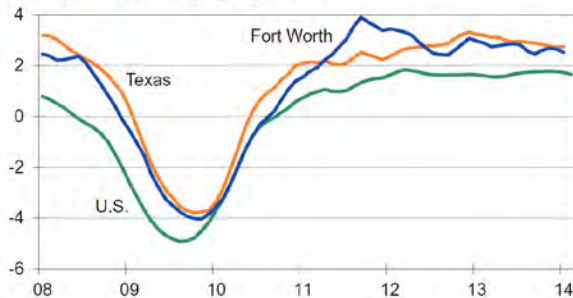




## FT. WORTH

### Fort Worth Steadily Outperforms the Nation

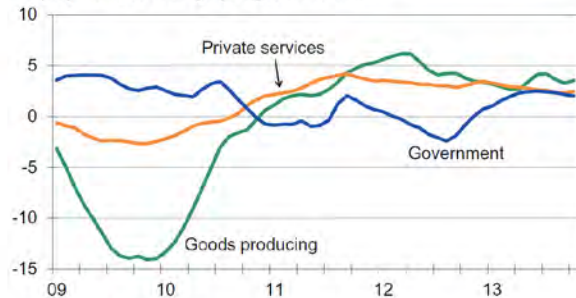
Employment, % change yr ago, 3-mo MA



Sources: BLS, Moody's Analytics

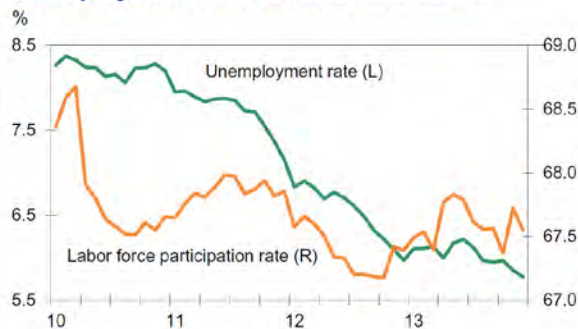
### Core Aircraft, Car Manufacturing Lead the Way

Employment, % change yr ago, 3-mo MA



Sources: BLS, Moody's Analytics

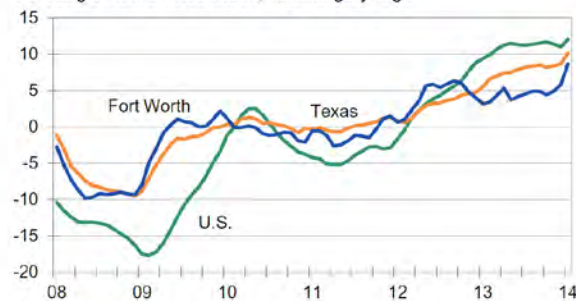
### Unemployment Has Declined as a Result



Sources: BLS, Moody's Analytics

### Improvement in Housing Lags the State...

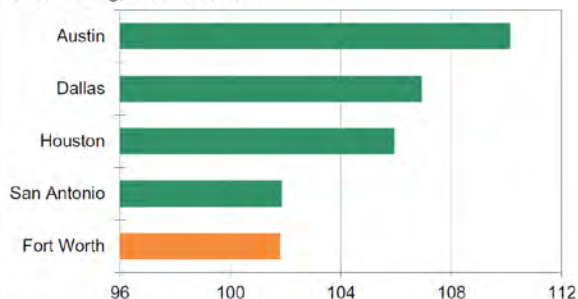
CoreLogic Home Price Index, % change yr ago



Sources: CoreLogic, Moody's Analytics

### ...Despite Better Affordability

Cost of living, U.S.=100, 2011

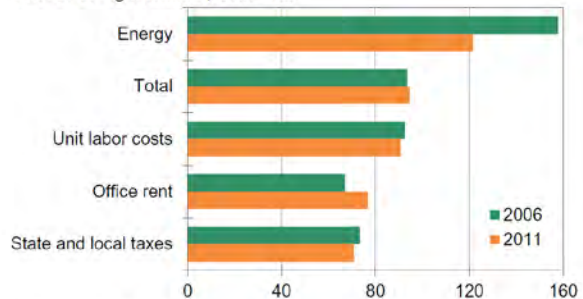


Source: Moody's Analytics

FTW's low cost of living, particularly its high housing affordability, will be a driver of in-migration over the coming years. New arrivals can tap labor markets in both FTW and Dallas, and as public transportation improves, especially the coverage of Dallas Area Rapid Transit, their ability to do so will be even greater. One benefit will be that new housing construction, which is currently underperforming that of neighboring Dallas, will accelerate over the next couple of years as a stronger labor market and growing population support a faster rate of household formation.

### Low Taxes, Rents Attractive to New Companies

Cost of doing business, U.S.=100



Source: Moody's Analytics

FTW will also benefit from business costs that are much lower than in Dallas or nationally. This is especially true of office and warehouse rents but also taxes to some extent. FTW's strategic location in the center of the country makes it a destination of choice for businesses that need to store and move goods. FTW has a highly developed regional network that features major rail lines, interstate highways, and Dallas/Fort Worth International Airport and major investments by BNSF and the merger of American Airlines and US Airways will add to FTW's strength as a distribution hub.

## FORT WORTH OVERVIEW

The Fort Worth economic recovery has decelerated since mid-2013 but its expansion is intact. Employment growth has doubled the national average over the past year and manufacturing has led the way, boosted by increased demand for heavy manufacturing from the energy industry. The unemployment rate remained relatively flat near 6% throughout 2013, a full percentage point below the national average. With the exception of government, all industry segments have contributed to this growth. The costs of living and doing business are lower than in other major Texas cities which should provide for an above-average population growth and will likely increase corporate relocations and homebuilding.

Fort Worth is expected to continue to grow economically over the next five years, as indicated on the following table.

<b>Key Economic Indicators</b> <b>Compound Annual Growth</b> <b>2013 through 2017</b>			
	<b>Fort Worth</b>	<b>Texas</b>	<b>United States</b>
Gross Domestic Product (GDP)	5.1%	4.3%	3.1%
Population	2.1%	1.7%	0.9%
Total Employment	2.6%	2.2%	1.9%
Source: Moody's Analytics			

The key economic indicators for Fort Worth are forecasted to grow significantly ahead of the U.S. and Texas as a whole over the next five years. Throughout 2013, particularly strong growth was experienced in the manufacturing and construction segments, as well as in the leisure and hospitality and professional and business services sectors. In 2014, construction is leading the way and the professional and business services and financial activities segments remain strong.

## EMPLOYMENT

### Largest Employers

Several Fortune 1000 companies call Fort Worth home including XTO Energy, American Airlines, Radio Shack, AmeriCredit, BNSF Railway and D.R. Horton. As one of the most diverse high-tech manufacturing locations in Texas, Fort Worth is home to a variety of high tech corporations including Lockheed Martin, Bell Helicopter, Siemens, Motorola and DynCorp International. Fort Worth's economy is still heavily related to the oil and gas industry. In 2006, activity flourished with mineral rights, exploration and well activity associated with the Barnett Shale. Although activity slowed during 2009 and 2010, activity increased in 2011. Some of the larger area employers related to Barnett Shale include Chesapeake Energy, XTO, Basic Energy, Stream Energy, Legend Natural Gas, EnCana, Weir Oil and Gas, and Fractech.

The central time zone and location, together with the access afforded by the Dallas/Fort Worth International Airport (DFW) are some of the keys to this appeal. In addition, Texas has no personal or corporate income tax and has the fifth lowest percentage of unionized workers of any state.

The following table illustrates the variety of major employers that are located in Fort Worth. A large portion of the largest employers are in transportation, health care, manufacturing and financial services. Some of these major companies are directly or indirectly responsible for significant lodging demand in the Subject's lodging market.

<b>Top-10 Fort Worth Employers</b>		
<b>Company</b>	<b>Industry</b>	<b>Number of Employees</b>
American Airlines	Transportation	24,700
Texas Health Resources	Health Care	19,230
Lockheed Martin Aeronautics Co.	Manufacturing	14,126
Bell Helicopter Textron Inc.	Manufacturing	6,883
Albertson's Distribution Center	Retail/Logistics	6,100
Wells Fargo	Banking	5,900
University of Texas at Arlington	Education	5,697
JPS Health Network	Health Care	4,837
Cook Children's Hospital System	Health Care	4,826
Naval Air Station Fort Worth	Government	4,413
Source: Moody's Analytics		

According to Moody's Analytics, all sectors except for government should see continued growth in 2014. Fort Worth will continue to recover and the American Airlines merger and its emergence from bankruptcy should provide upside for the hospitality, transportation and retail industries. Longer term, above average population growth, a diversified manufacturing base, lower business costs and costs of living relative to Dallas will contribute to an above average economic performance for Fort Worth.

### **Unemployment**

The following table shows that Fort Worth unemployment rates are in line with the State levels and considerably below the U.S. As of year-end 2013, Fort Worth experienced a reduction in unemployment of 0.5 of a percentage point over 2012.



<b>Unemployment Comparison</b>			
	<b>2011</b>	<b>2012</b>	<b>2013</b>
United States	8.9%	8.1%	7.3%
Texas	7.9%	6.8%	6.0%
Austin	6.8%	5.8%	5.4%
Dallas	7.9%	6.7%	6.2%
Fort Worth	7.7%	6.5%	6.0%
Houston	8.1%	6.8%	5.8%
San Antonio	7.5%	6.5%	6.2%
Source: Moody's Analytics / US Bureau of Labor Statistics			

According to the Moody's Analytics March 2014 forecast, the Fort Worth unemployment rate is forecasted to decrease to approximately 5.8% in 2014, 5.4% in 2015 and 2016, 5.2% in 2017 and 5.1% in 2018. Decreasing unemployment translates to greater corporate travel and the resulting increase in consumer confidence leads to increased leisure travel.

## **OFFICE MARKET**

The following table presents net rentable area (NRA), vacant space, vacancy rate, rent per square foot and net absorption for multi-tenant office space (all classes) in each submarket in Dallas/Fort Worth as of the second quarter of 2014.

**Dallas-Fort Worth Office Statistics (Classes A, B and C)**  
**Second Quarter 2014**

Market	Net Rentable Area SF	Vacancy SF	Vacancy Rate	Q2 2014 Total	
				Total Net Absorption	Rate per SF
Central Expressway	11,668,510	2,252,728	19.3%	58,115	\$21.24
Dallas CBD	28,637,303	7,153,302	25.0%	12,281	\$20.60
East Dallas	3,914,818	597,569	15.3%	94,634	\$15.69
Far North Dallas	37,948,792	5,514,857	14.5%	94,634	\$15.69
<b>Fort Worth CBD</b>	<b>9,388,949</b>	<b>1,503,904</b>	<b>16.0%</b>	<b>103,843</b>	<b>\$25.63</b>
Las Colinas	29,492,886	4,877,537	16.5%	337,608	\$21.18
LBJ Freeway	19,753,628	5,091,217	25.8%	49,765	\$17.89
Lewisville/Denton	4,626,163	618,638	13.4%	116,661	\$18.45
Mid Cities	15,832,231	2,679,431	16.9%	56,031	\$17.63
<b>North Fort Worth</b>	<b>1,096,767</b>	<b>28,868</b>	<b>2.6%</b>	<b>(10,228)</b>	<b>\$18.53</b>
NE Fort Worth	1,922,379	350,178	18.2%	7,380	\$14.27
Preston Center	3,860,000	331,146	8.6%	(19,312)	\$30.69
Richardson/Plano	20,821,770	2,936,596	14.1%	355,569	\$18.59
<b>South Fort Worth</b>	<b>6,972,387</b>	<b>556,769</b>	<b>8.0%</b>	<b>(22,772)</b>	<b>\$19.90</b>
SW Dallas	1,665,033	178,011	10.7%	44,326	\$15.57
Stemmons Freeway	10,092,068	2,708,579	26.8%	1,272	\$13.65
Uptown/Turtle Creek	10,346,569	1,048,490	10.1%	76,046	\$29.78
Dallas Total	182,827,540	33,308,670	18.2%	1,221,599	\$19.92
Fort Worth Total	35,212,713	5,119,150	14.5%	134,254	\$19.19
<b>Total</b>	<b>218,040,253</b>	<b>38,427,820</b>	<b>17.6%</b>	<b>1,355,853</b>	<b>\$20.08</b>

Source: CB Richard Ellis

In the fourth quarter 2013, the Dallas/Fort Worth office total vacancy rate dropped to 15.6%, falling another 0.2 points from the third quarter rate of 15.8%. The average rental rate finished the quarter at \$20.72, which represented an increase of 0.7% increase over the previous quarter. Net absorption for the market totaled 1,056,274 square feet during the fourth quarter, which compares to almost 2.8 million square feet in the previous quarter.

Following a lull during recent years, developers have begun breaking ground on new sites and at the end of 2013 more than 4.4 million square feet were under construction. The amount under construction at year-end 2013 is double the amount of the previous year-end. Most of the construction activity is Class A, which accounted for almost four million square feet of the total and the majority of this space is being built in the Richardson/Plano and Far North Dallas submarkets.

## TRANSPORTATION

### Dallas/Fort Worth International Airport

DFW is located approximately 18 miles northwest of Downtown Dallas. The airport is the third largest in land area, the fourth largest in flight operations and the eighth largest in passenger volume in the U.S. DFW hosts 155 gates within five terminals. A 54,000-square foot expansion of Terminal E has been announced and the project is scheduled for completion in 2017. A major hub for American Airlines, it serves 191 destinations with 11 domestic and nine foreign carriers. All domestic destinations can be reached within four hours from DFW. The following table presents activity statistics for the airport.

DFW International Airport Passenger and Cargo Activity				
Year	Passenger Activity*	Percent Change	Cargo Activity	Percent Change
2004	59,446,078	--	817,825	--
2005	59,176,265	-0.5%	817,866	0.0%
2006	60,226,829	1.8%	832,131	1.7%
2007	59,786,476	-0.7%	798,433	-4.0%
2008	57,093,187	-4.5%	719,545	-9.9%
2009	56,030,457	-1.9%	638,199	-11.3%
2010	56,905,600	1.6%	711,606	11.5%
2011	57,773,610	1.5%	654,414	-8.0%
2012	58,590,633	1.4%	664,448	1.5%
2013	60,436,739	3.2%	652,303	-1.8%
CAAG**		0.2%		-2.5%
YTD 2013 May	24,314,285	---	55,885	---
YTD 2014 May	25,286,059	4.0%	57,646	3.2%
* Passenger Activity includes total enplaned and deplaned.				
** CAAG = Compound Average Annual Growth				
Source: DFW International Airport				

DFW handled 58.6 million passengers in 2012 and 60.4 million passengers in 2013, representing a 3.2% year-over-year increase in passenger traffic. This was the fourth year-over-year increase since the end of the recession. For Year-to-date through May 2014, both passenger and cargo activity are up 4.0% and 3.2% over the same period in 2013. It is estimated that the airport provides \$16.6 billion in annual impact to the DFW region.

American Airlines (AA), including its subsidiary, American Eagle, accounted for approximately 84% of the airline market share at DFW in 2013. As mentioned above, 2013 passenger activity increased 3.2% over 2012. Considering that most airlines have decreased their capacities over the last year, this increase in air travel bodes well for tourism and the increasing passenger activity typically leads to an increase in the demand for hotel rooms in the market. Cargo activity was up in 2012 but was down 1.8% in 2013.

In November 2011, AMR Corporation, the parent company of AA and American Eagle, filed for Chapter 11 bankruptcy protection. A merger with US Airways was announced but the Justice Department attempted to block it due to possible anti-trust issues. However, on January 22, 2014, a judge approved a settlement resolving the opposition and the merger continues to move forward. The combined carrier will carry the AA name and the headquarters will remain in Fort Worth. As AA emerges from bankruptcy, it can normalize dealings with local vendors and suppliers. The airline will have the ability to offer more international and domestic flights to and from DFW International Airport.

### Love Field

The following table presents passenger activity statistics for the airport for the past 10 years and year-to-date through May 2014.

Love Field Passenger Activity		
Year	Passenger Activity*	Percent Change
2004	5,889,756	--
2005	5,909,959	0.3%
2006	6,874,717	16.3%
2007	7,953,385	15.7%
2008	8,060,792	1.4%
2009	7,744,522	-3.9%
2010	7,960,809	2.8%
2011	7,982,844	0.3%
2012	8,173,927	2.4%
2013	8,470,586	3.6%
CAAG**		4.1%
YTD 2013 May	3,989,318	
YTD 2014 May	4,175,712	4.7%
* Passenger Activity includes total enplaned and deplaned.		
** CAAG = Compound Average Annual Growth		
Source: Love Field Airport		



Dallas Love Field is located approximately five miles northwest of Downtown Dallas and is a hub for regional commuter travel and the headquarters of Southwest Airlines. Love Field handled almost 8.0 million passengers in 2011, 8.2 million passengers in 2012 and almost 8.5 million passengers in 2013. In 2013, Southwest Airlines garnered approximately 96% of the airport's market share. Year-to-date through May 2014, passenger activity is up 4.7% over the same period in 2013.

The Wright Amendment, a federal law governing traffic at Dallas Love Field, was amended in October 2006 and will be eliminated in late 2014. Although the ban on nonstop flights outside the Wright Zone is in place until 2014, through-ticketing to domestic and foreign airports was approved in late 2006. Southwest has increased the destinations it offers from Love Field by 400% since the changes in 2006. Southwest's incremental "Wright Amendment" revenue at Love Field increased from \$11 million in 2006, a year largely limited to short-haul flights, to \$113 million in 2007. By late 2014, Southwest will be able to offer long-haul flights to domestic and international destinations from Love Field.

The airport is currently undergoing a modernization program. In the new design, the terminal will decrease approximately 25% in size by replacing a large amount of unused and outdated space with modern and efficient facilities. The three original concourses have been demolished and consolidated into one centrally located concourse with 20 gates which will serve all airlines. In addition to the new concourse, the check-in and baggage claim areas will be redesigned and enlarged. The main lobby space has been renovated but retains the overall structure and volume of the original design. In addition, the modernization plans have more than doubled the amount of available airport concessions. The increasing passenger activity is an indicator of increasing hotel demand in the local market. As of year-end 2013, 12 gates had opened in the new terminal and eight additional gates were scheduled to open in 2014.

## Highways

Highway transportation systems and ease of access can significantly affect demand for lodging accommodations. Six interstate highways converge in the Metroplex, including I-20, I-30, I-35 and I-45. A loop freeway, I-635, circles Dallas, while I-820 circles Fort Worth providing easier navigation for residents and visitors. In addition, there are seven major U.S. highways and 21 state highways serving the area. Fort Worth-Arlington connects to four major interstate highways – I-20, I-30, I-35W and I-45 – all of which have recently been upgraded or are in the process of being expanded.

At present, an expansion of I-35 north of downtown Fort Worth is underway. The plan calls for doubling the number of lanes from two to four in both directions and two toll lanes will also be added in each direction. The construction of the stretch from Downtown Fort Worth to I-820 is expected to be completed by 2018 and the stretch from I-820 to North Tarrant Parkway is expected to be finished by 2016. Applications are currently underway for the funding of the section from North Tarrant Parkway to Eagle Parkway. This section is estimated to be completed sometime in late 2018 or 2019. The northern section of loop 820, east of I-35 and Hwy 121 east of loop 820 are also currently being expanded with completion expected by the end of 2014.

In Dallas, I-45 becomes US 75 north of I-30 and provides a north-south highway. The highway has just completed a major renovation which now provides eight continuous general-purpose lanes from downtown Dallas to Legacy Drive in Plano. While US 75 provides north-south highway access along the east-side of the city the North Dallas Toll Road is the north-south artery that provides access along the west-side of the City. The roadwork on State Highway (SH) 114 north of DFW is nearing completion, however, construction on SH 114 between SH 183 and the airport is still to come and the construction on SH 183 heading west toward Fort Worth is just beginning on the Irving portion. This construction will continue to impact the DFW Airport South market.

The approximately 17-mile LBJ Express project encompasses improvements along IH-635 from Luna Road to Greenville Avenue, as well as on IH-35E between Loop 12 and Valwood Parkway. These improvements will dramatically expand the capacity of the current road, relieving traffic congestion for millions of North Texas commuters each year along these major corridors. LBJ Express will combine the same number of general purpose main lanes that exist today with continuous frontage roads and approximately 13 miles of new express managed toll lanes. Drivers will have the choice to remain on the free, main lanes or to opt for new high-speed, express lanes with adjustable toll rates. Construction began in 2011 and is on track for completion in 2016.

## **Rail**

A major rail center for more than a century, Fort Worth now serves as headquarters of BNSF Railway, a wholly owned subsidiary of Berkshire Hathaway Inc., is the nation's second largest railroad. BNSF's \$100 million, state-of-the-art intermodal hub at Fort Worth Alliance Airport is the fifth largest in the railroad's system.

### **Trinity Railway Express (TRE)**

What began in 1996 as a small commuter rail has become the Trinity Railway Express, a major link between Fort Worth and Dallas. The TRE was cooperatively developed and operated by the Trinity and Dallas Area Rapid Transit (DART) and links the T&P Station in Fort Worth to the DFW Airport and Dallas Union Station. The TRE served 2.4 million passengers in 2011.

### **TEX Rail**

TEX Rail, formerly known as the Southwest-to-Northeast Rail Corridor, is a light rail system that will carry passengers from southwest Fort Worth, through downtown, on to Grapevine and into the north end of DFW Airport. Construction of the line is scheduled to begin in 2014 and will connect to the TRE, Amtrak and the downtown Fort Worth bus transfer station. TEX Rail is expected to be operational by 2016 and it estimated that 16,800 commuters will utilize the service daily as a means of transport to both downtown and the Medical Center.

### **Dallas Area Rapid Transit (DART)**

Downtown Dallas is the center of the DART network – bus, light rail, commuter HOV lanes and the Trinity Railway Express (TRE) that move over 200,000 people daily within a 700-square mile service area. There are six downtown stations – Convention Center, Union Station, West End, Akard, St. Paul and Pearl, and one station in Uptown –

Victory. At present, the light rail system runs 72 miles with 55 total stations. The TRE provides daily services, except for Sundays, from Dallas Union Station to Fort Worth's Intermodal Transportation Center.

The DART Rail System provides fast, convenient service to work, shopping and entertainment destinations in Dallas, Irving, Carrollton, Farmers Branch, Garland, Plano and Richardson. The TRE commuter line links DART customers to DFW International Airport and downtown Fort Worth. Free parking is available at most rail stations and all are served by DART bus routes. Future expansion of the Orange Line to DFW International Airport's Terminal A is expected to be completed by the end of 2014.

## **TOURISM AND CONVENTION ACTIVITY – FORT WORTH**

### **Tourism**

Fort Worth is filled with a unique mix of attractions for visitors from cowboy to cultural. Fort Worth attractions include the Fort Worth Stockyards, the world class Cultural District with five museums, downtown's Sundance Square and the Fort Worth Zoo. The Kimbell Art Museum is currently undergoing a \$125 million expansion. The new, 90,000-square foot building will allow the museum to display traveling exhibitions and still show its permanent collection in the original building. The new building will be the latest addition to the Cultural District, which has seen more than \$300 million in renovations and new buildings in the last 11 years. The Will Rogers Memorial Center hosts 25 major equestrian events each year including the Stock Show and Rodeo, the American Paint Horse Association World Championship and three National Cutting Horse Association Triple Crown Shows. The Center recently completed a \$32 million expansion/renovation which will further enhance Fort Worth's offerings to the equestrian business market. Will Rogers has recently proposed a renovation/expansion of its livestock barns and the building of a new parking garage.

Sundance Square is a 35-block entertainment center for the city. The brick-paved sidewalks on the Square are lined with restaurants, nightclubs, boutiques, museums, live theater, Cineplex movie theaters and art galleries. Sundance Square Plaza opened in early November 2013 and provides a pedestrian-friendly area with fountains and a small outdoor amphitheater. Bass Performance Hall is located in Downtown and is home to the Fort Worth Symphony Orchestra, Texas Ballet Theater and Fort Worth Opera. Convention activity in Fort Worth is centered in the downtown area that features the Fort Worth Convention Center which is surrounded by the new Omni Hotel, the Hilton and the Sheraton Hotel.

Dallas/Fort Worth is one of the few metropolitan areas nationwide with five major professional sports teams. Major sports venues include The Ballpark in Arlington, American Airlines Center, Dallas Cowboy Stadium and Texas Motor Speedway. The 95-acre Dallas Zoo, located on the eastern edge of Oak Cliff is recognized as the largest zoological park in the state, featuring the Wilds of Africa, Zoo North and Lacerte Family Children's Zoo.

Nearby Arlington is home to some of the top tourist attractions in the state, including Six Flags over Texas and Hurricane Harbor, The Rangers Ballpark in Arlington and the Dallas Cowboys stadium. The Rangers Ballpark in Arlington opened in 1994, seats 49,170 and is home to the Texas Rangers. The complex also includes a four-story office building within the ballpark, a youth baseball park, a 12-acre lake and parks and recreation space on the perimeter. Average annual attendance has increased since the downturn in 2008. Average attendance was 36,382, 42,719 and 38,759 for the 2011, 2012 and 2013 seasons, respectively. The attendance spike in 2012 was due to an extended season resulting from a successful playoff season. The 2012 average attendance was almost a record, trailing only the Ballpark's inaugural 1994 season. The 2.3 million-square foot AT&T Stadium opened in July 2009, is home to the Dallas Cowboys and seats 80,000 for football games and up to 105,000 for concerts. The stadium hosted the 2011 Super Bowl, will host the NCAA Final Four in 2014 and the NCAA College Football Championship in 2015. Average annual attendance was 89,700 for the opening season in 2009, 87,000 in 2010, 85,000 in 2011 and 88,000 in 2012.

### **Convention Activity**

Fort Worth's success as a convention destination has largely been due to the excellent air lift provided by DFW Airport and the City's ability to provide a "Texas experience" that embraces Fort Worth's western heritage. The downtown area is clean, safe, pedestrian friendly and offers numerous restaurants, shops and entertainment venues. A city-wide convention is defined as a group with more than 1,800 peak room nights. The Alliance-area hotels will likely not participate in citywide blocks, nor will they see much compression in the future, especially with the additional hotels being built in Fossil Creek.

The City of Fort Worth operates the Fort Worth Convention Center in downtown Fort Worth, which completed an \$80 million expansion and renovation doubling the center's footprint to 714,000 square feet plus an additional 50,000-square foot exterior Events Plaza adjacent to the Fort Worth Water Gardens. The center offers 253,226 square feet of exhibit space, almost 60,000 square feet of flexible meeting space that includes 41 meeting rooms in addition to a 28,160 square foot ballroom and a 13,500 seat arena. Since the opening of the 614-room Omni Fort Worth Convention Center hotel in January 2009, the Fort Worth Convention Center has experienced increases in convention bookings as the result of having a headquarters hotel.

The City also operates the Will Rogers Memorial Center, located two miles west of downtown Fort Worth and three miles from the Fort Worth Convention Center. This 105-acre facility includes the 2,856 seat Will Rogers Auditorium, the 118,000 square-foot Amon G. Carter Jr. Exhibits Hall and the 2,500-stall Will Rogers Equestrian Center that offers two show arenas.

The following table shows the historical room night bookings by the Fort Worth CVB for all convention bookings from 2008 through 2013.

**Fort Worth Convention & Visitors Bureau  
Historical Convention and Meeting Bookings**

<b>Year</b>	<b>Number of Bookings</b>	<b>Room Nights Booked</b>	<b>Percent Change</b>	<b>Average Room Nights per Booking</b>	<b>Percent Change</b>
2008	227	183,080	--	807	--
2009	267	174,481	-4.7%	653	-19.0%
2010	272	220,481	20.4%	811	0.5%
2011	311	242,574	10.0%	780	-3.8%
2012	335	235,752	-2.8%	704	-9.8%
2013	407	247,812	5.1%	609	-13.5%
Average	303	217,363	--	727	--

Source: Fort Worth Convention & Visitors Bureau

During the 2008 through 2013 period, the Fort Worth CVB booked an average of 303 groups annually throughout the city, representing approximately 217,000 room nights on average.

The following table shows the future room night bookings by the Fort Worth CVB for all conventions across the city from 2014 through 2019.

**Fort Worth Convention & Visitors Bureau  
Future Convention Bookings as of June, 2014**

<b>Year</b>	<b>Number of Bookings</b>	<b>Room Nights Booked</b>	<b>Average Room Nights per Booking</b>
2014	61	126,223	2,069
2015	61	112,576	1,846
2016	56	125,715	2,245
2017	41	110,433	2,693
2018	35	115,194	3,291
2019	19	86,659	4,561

Source: Fort Worth Convention & Visitors Bureau

Looking ahead, 2014 is ahead of the planned booking pace but all future years are currently behind pace. Representatives of the CVB feel confident that much of this shortfall will be made up with short-term bookings.

The amount and quality of lodging supply has allowed Fort Worth to reposition itself as a top-tier destination for meetings and mid-size conventions. According to the CVB, not only has demand increased but the City has been able to add corporate and association meetings with rates ranging from \$149 to \$189 to the SMERF group base. With the addition of the Omni Hotel in 2009, the number of annual convention bookings, both at the Convention Center and for the City as whole have greatly increased.

## MARKET AREA REVIEW

### **Barnett Shale**

Barnett Shale is a large natural gas reserve encompassing more than 5,000 square miles and covering at least 17 counties in North Texas. Palo Pinto and Parker County are included in the Barnett Shale territory. Beginning in 2005, Barnett Shale provided an economic boost to many North Texas counties with leasing companies, exploration and production (E&P) and service companies relocating and bringing workers into the area.

### **Palo Pinto County**

Palo Pinto County's population was 28,111 at the 2010 Census. The region consists of 951 square miles and includes six towns; the largest are Mineral Wells and Graford.

### Mineral Wells

The City of Mineral Wells has encountered several economic boom and bust cycles. It is 51 miles west of downtown Fort Worth and approximately 82 miles west of downtown Dallas. Mineral Wells is a town located in Palo Pinto and Parker Counties and its population was 16,790 at the 2010 Census. The city is gaining recognition for its array of outdoor attractions that have brought in visitors from throughout Texas. Mineral Wells' rich history displays its growth from a small town to an expanding city. The community features over 13,500 acres filled with commercial developments, population housing, the school system, and a multitude of visitor attractions. Founded for its water, the city has thrived on the water/spa tourism industry for about 30 years. Mineral Wells has a diverse economic base including manufacturing, natural gas, oilfield services, retail and tourism. Other major employers include Palo Pinto General Hospital, Ventamatic, Cobham Avionics Integrated Systems and Peco-Facet. Palo Pinto and Mineral Wells have several historical landmarks, outdoor gardening attractions and the natural lakes and rivers that attract visitors to the North Texas Hill Country. There are several special events hosted annually including the Western Swing Society, Holiday Festival, two bike races, 50-year club and a professional rodeo. Some of the key attractions in Mineral Wells include:

- Lake Mineral Wells State Park – The Park is the 4<sup>th</sup> busiest in Texas attracting over 420,000 visitors annually. The Park includes 16.5 miles of bike and equestrian trails, Penitentiary Hollow for rock climbing, a lake for fishing and boating and 110 campsites.
- Autocross Facility at Airport – The 50-acre, asphalt facility is used for autocross events. For the past 20 years, the facility has been used by car clubs across the metroplex for time trials and autocross racing. Almost every weekend, the facility hosts an event with an average of 40 participants.
- Clark Botanical Gardens – A 35-acre oasis of water gardens and native plants displayed in over 50 different gardens. In addition to the daily visitors estimated at 15,000 annually, the gardens are frequently used for social events, weddings and educational tours.

- Boudreau Herb Farm – A 77-acre herb farm with views of native perennials and herb gardens.
- Famous Mineral Water Company – Now celebrating over 100 years of service, the company continues to serve loyal patrons and visitors at their operating site with an estimated 15,000 visitors annually. They currently bottle four different water products and distribute to major retailers including Market Street, Whole Foods and Central Market.

### Graford

Graford, Texas is the home of Possum Kingdom State Park and Lake which has an estimated 1,400 homeowners and over 1.5 million visitors annually. The Chamber sited the point of origin for most visitors as the D/FW metroplex, West Texas, Wichita Falls and Oklahoma. The lake offers boating, water sports, cliffs for diving and superior fishing. There are several lodges and condo rentals in the area but homes are restricted from rental use. The Cliffs Resort is located in Graford and offers lodging, condos, homes, a marina and three signature golf courses. The Brazos River is another large attraction in Graford with several canoe and kayak shops.

### **Parker County**

Parker County borders Palo Pinto County to the east and the population was 116,927 at the 2010 Census. The county's growth can be attributed to the city's proximity to Fort Worth and the westward residential migration. The region consists of 903 square miles which includes 22 towns including Weatherford.

### Weatherford

Weatherford borders Mineral Wells to the east and is approximately 30 miles west of Fort Worth. Dallas and Fort Worth visitors travel through Weatherford on Interstate 20 or US 180 to reach Mineral Wells. Located on US 180 is Weatherford's historic downtown with a restored courthouse, antique shopping and restaurants. Weatherford has experienced strong residential growth with eastward migration out of Fort Worth. The city had a population of 25,250 at the 2010 Census. Major employers in the City of Weatherford include Weatherford Regional Medical Center, Jamak Fabrication Inc., Hobson Services and First Financial Bank. Residential and retail development have accounted for much of the growth in Weatherford over the past five years. The Interstate 20 corridor is where most of the mixed-use retail, hospitality and office development has occurred.

### **Young County**

Young County borders Palo Pinto County to the northwest and had an estimated population of 18,550 in 2010. The region consists of 914 square miles which includes three towns. Young County offers 50 historical sites and five national landmarks.

### Graham

Graham is a small town in the North Texas Hill Country with a population of 8,908 at the 2010 Census and an excellent community for outdoor recreation. The Young County Arena is located in Graham and hosts over 200 different types of events such as rodeos, bull riding competitions, team ropings and horse shows. The area has several leases for deer, quail and turkey hunting. There are some small manufacturing companies in the city and they are looking towards commercial growth in their future.

### **Major Employers**

The following table shows the largest employers currently based within the city of Mineral Wells.

<b>Mineral Wells Major Area Employers</b>	
<b>Company</b>	<b>Industry</b>
Mineral Wells School District	Education
Palo Pinto General Hospital	Health Care
Peco-Facet	Oil Equipment Manufacturing
Baker Hughes	Oilfield Services
Wal-Mart	Discount Retail
City of Mineral Wells	Government
Palo Pinto County	Government
Ventamatic	Industrial Fan Manufacturing
Cobham Avionics Integrated Systems	Autopilot Manufacturing
National Oilwell Varco	Fiberglass Pipe Manufacturing
Source: City of Mineral Wells	

### **CONCLUSION**

Fort Worth and the Mineral Wells-area sub-market are expected to achieve solid economic growth over both the near and long-term. Fort Worth will continue to expand due to the growth in military aircraft, motor vehicles and electronics manufacturing and a rebound in housing construction. The American Airlines merger and its emergence from bankruptcy will provide significant upsides in transportation, hospitality, and retail businesses. Longer term, above-average population growth, a diversified manufacturing base and lower business costs and costs of living relative to Dallas will help support above-average gains.

Based on expected economic growth rates, the local, city and state conditions reflect a positive economic environment and continued support for the local hospitality industry over the foreseeable future.



**SECTION III**  
**PROPERTY DESCRIPTION**

## **LOCATION**

The proposed Baker Hotel will be located at the intersection of East Hubbard Street/H-180 and North East 1<sup>st</sup> Avenue in Mineral Wells, Texas. The property will be a renovated historic hotel built in 1929. Photographs and the location of the subject property can be found in Addenda A, respectively.

## **SITE DESCRIPTION**

### **Visibility**

The proposed Baker Hotel is visible from the intersection of H-180 and H-28. The height and central location of the structure allows the hotel to be seen from a far distance along the majority of the roadways entering Mineral Wells, Texas.

### **Accessibility**

The proposed Baker hotel is centrally located adjacent to two major roads in Mineral Wells, Texas; H-180 and H-281. The closest metro area is Dallas/Fort Worth. From there, travel west on I-20 and take the exit for H-180. Continue on H-180 into Mineral Wells, Texas the existing hotel is on the right where North East 1<sup>st</sup> Avenue intersects with H-180.

## **SURROUNDING AREA**

The proposed Baker Hotel is centrally located in Mineral Wells, Texas. The immediate vicinity primarily consists of municipal buildings. Within short driving distance of the property are restaurants, retail and Lake Mineral Wells.

## **DEVELOPMENT CONCEPT**

The proposed Baker Hotel is a massive renovation of an existing historic hotel in Mineral Wells. Originally opened in 1929, the Baker Hotel was the first skyscraper to be built outside a major metropolitan area. It became a major destination throughout the 1930s as a premier health resort. The hotel closed in 1972 and in 1982 it was placed on the National Register of Historic Places.

The Subject hotel will be a destination resort with a spa and a variety of meeting spaces to capture Leisure and Group demand. It will house a fine-dining restaurant, coffee shop and retail space to capture local demand.

## **PROPOSED HOTEL FACILITIES**

The following table presents the facilities for the proposed Baker Hotel.

Proposed Facilities Proposed Baker Hotel Mineral Wells, Texas		
Type of Hotel	Resort/Spa	
Guest Rooms	157	
Meeting Space		
Total	23,750	sq.ft.
Function space	16,000	sq.ft.
Ballroom	4,875	sq.ft.
Meeting Rooms	2,875	sq.ft.
Food & Beverage	Restaurant Coffee Shop Banquet Kitchen Room Service Pool Bar	
Amenities	Spa Swimming Pool Fitness Center High-speed Internet Business Center Laundry	
Source: PKF Consulting USA		

The 23,750 square feet of meeting space that the existing hotel has should accommodate most uses for the Group Segment. The large ballroom combined with the variety function space will create demand for weddings, galas or corporate retreats.

The food and beverage offerings will support the concept of creating a destination hotel. The restaurant will be marketed for both transient and local demand and be a premier dining establishment in Mineral Wells, Texas. The addition of a pool bar will increase Leisure Demand.

The amenities for the proposed Baker Hotel will support the destination resort concept. The Spa combined with the retail facilities will offer a significant value proposition for the area and generate local and transient demand.

## **CONCLUSION**

The proposed Baker Hotel will be a destination property that will create demand for Mineral Wells, Texas. The resort concept will enhance the market area by creating another leisure option for the North Texas Area. The hotel is centrally located and within short travel distance to numerous leisure activities in the area. It is the perceived that the restored historic property will revitalize downtown Mineral Wells and be an icon for the city.

**SECTION IV**  
**HOTEL MARKET ANALYSIS**

## MARKET INTERVIEWS

In order to understand the needs of Mineral Wells and the facilities needed in the market, PKF Consulting USA (PKF) conducted a series of interviews. The organizations and hotels that we interviewed indicated a desire for an historic resort hotel in Mineral Wells, Texas.

## COMPETITIVE SUPPLY OF HOTELS

Based upon our review of the proposed Baker Hotel, we have identified six hotels containing 1,166 rooms as the subject hotel's competitive set. These resort properties were included in the competitive supply based upon their location, facilities, brands, markets served and/or average daily rates.

The competitive properties are listed in the following table. The photographs of the individual properties can be found in Addendum B.

<b>Proposed Baker Hotel Competitive Set Hotels</b>						
<b>Property</b>	<b>Location</b>	<b>Year Built</b>	<b>Number of Rooms</b>	<b>Meeting Space SF*</b>	<b>Ballroom</b>	<b>Mtg. SF Guestroom</b>
Wyndham Hotel Galvez	Galveston, TX	1911	224	13,000	4,550	58
Hotel Settles	Big Spring, TX	1930	65	15,000	3,093	231
Lakeway Resort and Spa	Austin, TX	1963	174	24,000	5,200	138
Wyndham Tremont House	Galveston, TX	1985	119	15,776	7,946	133
San Luis Resort	Galveston, TX	1985	242	40,000	6,000	165
Horseshoe Bay Resort	Horseshoe Bay, TX	2004	342	36,000	12,012	105
<b>Total / Average</b>			<b>1,166</b>	<b>23,963</b>	<b>6,467</b>	<b>138</b>
* Meeting space does not include prefunction space						
Source: PKF Consulting USA						

The competitive set includes resort style hotels located near major cities which operate within Texas and currently attract a similar market segment the proposed Baker Hotel would target.

## HISTORICAL MARKET PERFORMANCE

The following table indicates the historical performance of the competitive set of hotels for the period of 2009 through 2013 and year-to-date May 2013 compared to year-to-date May 2014.

<b>Historical Market Performance of the Competitive Supply</b>									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	RevPAR	Percent Change
2009	385,721	N/A	209,832	N/A	54.4%	\$155.11	N/A	\$84.38	N/A
2010	403,690	4.7%	230,103	9.7%	57.0%	156.74	1.1%	89.34	5.9%
2011	403,690	0.0%	243,829	6.0%	60.4%	162.20	3.5%	97.97	9.7%
2012	405,705	0.5%	264,520	8.5%	65.2%	168.23	3.7%	109.69	12.0%
2013	427,415	5.4%	271,836	2.8%	63.6%	175.92	4.6%	111.89	2.0%
CAAG	2.6%		6.7%			3.2%		7.3%	
YTD 5/2013	178,120	N/A	110,434	N/A	62.0%	\$166.95	N/A	\$103.51	N/A
YTD 5/2014	178,120	0.0%	109,188	-1.1%	61.3%	175.39	5.1%	107.51	3.9%

Source: PKF Consulting USA

The annual supply in the competitive market increased significantly in 2010 and 2013. This was due to the Wyndham Tremont House Galveston opening midway through 2009 and the Hotel Settles opening at the beginning of 2013. Occupied rooms have grown at a compounded annual growth of 6.7% during the five year period. The market occupancy ranged from a low of 54.4% in 2009 to a high of 65.2% in 2012.

The market ended 2013 with a record high ADR of \$175.92, up 4.6% from the 2012 ADR of \$168.23. The market ADR experienced a compounded annual growth of 3.2% over the five year period. With the rise in occupied rooms and ADR, the market RevPAR increased in 2011 and 2012 by 9.7% and 12.0%, respectively, due to the slower recovery of resort properties from the economic recession. Overall, RevPAR increased an average of 7.3% annually over the five year period displaying significant market growth.

Year-to-date May 2014, supply and occupied rooms have remained relatively constant over the same period in 2013. However, the market has increased significantly in terms of ADR with a 5.1% increase over 2013, with a RevPAR increase of 3.9%.

## **FUTURE ADDITIONS TO SUPPLY**

The only addition to supply in the competitive market is the 157-room Baker Hotel expected to open in 2017. The location of the property is shown on the map in Addendum C.

## **MARKET DEMAND**

### **Mix of Demand**

The following table summarizes the competitive market's mix of demand in 2013.

<b>Competitive Market 2013 Mix of Demand</b>		
Market Segment	Room Nights	Ratio
Corporate Individual	48,930	18%
Leisure	76,114	28%
Group	146,791	54%
Total	271,835	100%
Source: PKF Consulting USA		

The proposed Baker Hotel will compete with the above listed properties for hotel demand. The total competitive set captures 18% of its demand from the Corporate Individual segment, 28% from the Leisure segment and 54% from the Group segment.

### **Corporate Individual Demand**

We estimate that Corporate Individual demand will increase at 2% throughout the projection period. Induced corporate demand has been projected at 3,000 room nights due to the opening of the Subject Hotel.

### **Leisure Demand**

We estimate that Leisure demand will increase by 2% throughout the projection period. Induced demand in the Leisure segment has been projected at 4,500 room nights due to the opening of the Subject Hotel.

### **Group Demand**

We estimate that Group demand will increase at a steady rate of 2% throughout the projection period. Induced demand in the Group segment has been projected at 7,500 room nights due to the opening of the Subject Hotel.

### **Key Assumptions**

The key assumptions related to future market growth are, as follows:

- Economic stability continues in the Texas market in general and the Mineral Wells in particular.
- No major terrorist events or wars occur that have a material adverse impact on local travel volume.
- No natural disasters including but not limited to hurricanes and floods will occur to influence market travel.
- There are no new additions to the competitive supply, other than the projects mentioned earlier.



**Future Growth in Lodging Demand**

Using the historical growth in the market as a base, we have estimated future growth in overall market demand. The table on the following page presents the estimated future growth in the lodging supply and demand of the competitive market from 2014 through 2020.

<b>Proposed Baker Hotel</b>							
<b>Competitive Market</b>							
<b>Estimated Future Growth in Lodging Supply and Demand</b>							
<b>2014-2020</b>							
	2014	2015	2016	2017	2018	2019	2020
<b>ROOMS SUPPLY</b>							
Cumulative Rooms Supply	1,171	1,171	1,171	1,328	1,328	1,328	1,328
Total Annual Rooms Supply	427,415	427,415	427,415	484,720	484,720	484,720	484,720
Growth Over the Prior Year	0.0%	0.0%	0.0%	13.4%	0.0%	0.0%	0.0%
<b>DEMONSTRATED DEMAND IN BASE YR</b>							
Corp Individual	18%						
Leisure	28%						
Group	54%						
TOTAL DEMONSTRATED DEMAND	100%						
<b>INDUCED/(UNSATISFIED) DEMAND</b>							
Corp Individual	0	0	0	2,000	1,000	0	0
Leisure	0	0	0	3,000	1,500	0	0
Group	0	0	0	5,000	2,500	0	0
TOTAL INDUCED/(UNSATISFIED) DEMAND	0	0	0	10,000	5,000	0	0
<b>GROWTH RATES</b>							
Corp Individual	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Leisure	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Group	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<b>PROJECTED DEMAND</b>							
Corp Individual							
Demonstrated	49,909	50,907	51,925	52,964	56,063	58,204	59,369
Induced/(Unsatisfied)	0	0	0	2,000	1,000	0	0
Total	49,900	50,900	51,900	55,000	57,100	58,200	59,400
Growth Over Prior Year	2.0%	2.0%	2.0%	6.0%	3.8%	1.9%	2.1%
Leisure							
Demonstrated	77,636	79,189	80,773	82,388	87,096	90,368	92,175
Induced/(Unsatisfied)	0	0	0	3,000	1,500	0	0
Total	77,600	79,200	80,800	85,400	88,600	90,400	92,200
Growth Over Prior Year	2.0%	2.1%	2.0%	5.7%	3.7%	2.0%	2.0%
Group							
Demonstrated	149,727	152,722	155,776	158,892	167,170	173,063	176,524
Induced/(Unsatisfied)	0	0	0	5,000	2,500	0	0
Total	149,700	152,700	155,800	163,900	169,700	173,100	176,500
Growth Over Prior Year	2.0%	2.0%	2.0%	5.2%	3.5%	2.0%	2.0%
Total Market Demand	277,200	282,800	288,500	304,300	315,400	321,700	328,100
Growth Over Prior Year	2.0%	2.0%	2.0%	5.5%	3.6%	2.0%	2.0%
<b>Market Occupancy</b>	<b>65%</b>	<b>66%</b>	<b>67%</b>	<b>63%</b>	<b>65%</b>	<b>66%</b>	<b>68%</b>
Source: PKF Consulting USA							

The market is projected to drop to 63% in 2017 with the addition of the 157-room Baker Hotel, then increase to 65% in 2018. With no other additions to supply, the market is projected to stabilize at 68% by 2019.

**SECTION V**  
**SUBJECT HOTEL PERFORMANCE**

## **METHODOLOGY**

In formulating our estimates of the subject property's position in the competitive market, we considered its fair market share and potential ability to penetrate the market. Fair market share is defined as the percentage of demand allocated to a given property based on its ratio of available guestrooms to the total number of rooms in the competitive market. For example, the proposed Baker Hotel has 157 of the competitive market's 1,328 available rooms (including the subject), equating to a fair market share of 11.8% (157 divided by 1,328) in 2017, the subject's first full year.

Market penetration is based on the attributes of a hotel relative to the competitive market. It is defined as the percentage of fair market share demand allocated to a property on the basis of such competitive characteristics as location, appearance, management expertise, physical condition, marketing orientation, rate structure, age, brand affiliation, reputation, size, facilities, and amenities. Factors indicating that a property will possess competitive advantages suggest a market penetration in excess of 100% of fair market share, while competitive disadvantages are reflected in penetration rates of less than 100%.

## **EXPECTED COMPETITIVE POSITION**

Estimated future occupancy rates at the proposed Baker Hotel are based upon an evaluation of its expected future advantages and/or disadvantages relative to the competitive hotels within the context of estimated levels of future supply and demand. The proposed Baker Hotel is expected to achieve a strong competitive position in the future competitive lodging market, as follows:

- The subject hotel will be well-located in proximity to significant growth and development within the Mineral Wells area.
- The hotel will be developed, designed and furnished with upscale, quality facilities and amenities, as described in this report.
- The hotel will be competently managed, aggressively marketed and will maintain high levels of service throughout the hotel.
- The addition of the Baker Hotel to the area will give the hotel a strong competitive position, especially in the Leisure and Group Individual segments.

## **ESTIMATED PENETRATION**

Estimated penetration rates and resulting occupancy levels are presented in the following table for the proposed Baker Hotel.

<b>Proposed Baker Hotel</b>				
<b>Market Penetration and Projected Occupancy</b>				
	2017	2018	2019	2020
TOTAL ROOMS AVAILABLE				
<b>Proposed Baker Hotel</b>	<b>57,305</b>	<b>57,305</b>	<b>57,305</b>	<b>57,305</b>
Competitive Market	484,720	484,720	484,720	484,720
	=====	=====	=====	=====
Fair Share of Supply	11.8%	11.8%	11.8%	11.8%
	=====	=====	=====	=====
ESTIMATED TOTAL MARKET DEMAND				
Corp Individual	55,000	57,100	58,200	59,400
Leisure	85,400	88,600	90,400	92,200
Group	163,900	169,700	173,100	176,500
	-----	-----	-----	-----
TOTAL	304,300	315,400	321,700	328,100
	-----	-----	-----	-----
	304,300	315,400	321,700	328,100
FAIR SHARE OF DEMAND				
Corp Individual	6,500	6,800	6,900	7,000
Leisure	10,100	10,500	10,700	10,900
Group	19,400	20,100	20,500	20,900
	-----	-----	-----	-----
TOTAL	36,000	37,400	38,100	38,800
	-----	-----	-----	-----
SUBJECT PENETRATION				
Corp Individual	55%	65%	70%	75%
Leisure	88%	94%	96%	98%
Group	102%	106%	108%	110%
	-----	-----	-----	-----
ROOM NIGHTS CAPTURED				
Corp Individual	3,600	4,400	4,800	5,300
Leisure	8,900	9,800	10,300	10,700
Group	19,800	21,300	22,100	23,000
	-----	-----	-----	-----
TOTAL CAPTURED DEMAND	32,300	35,500	37,200	39,000
	=====	=====	=====	=====
MARKET SHARE CAPTURED	10.6%	11.3%	11.6%	11.9%
<b>OVERALL MARKET PENETRATION</b>	<b>90%</b>	<b>95%</b>	<b>98%</b>	<b>101%</b>
	-----	-----	-----	-----
<b>SUBJECT OCCUPANCY</b>	<b>56%</b>	<b>62%</b>	<b>65%</b>	<b>68%</b>
	-----	-----	-----	-----
MARKET MIX				
Corp Individual	11%	12%	13%	14%
Leisure	28%	28%	28%	27%
Group	61%	60%	59%	59%
	-----	-----	-----	-----
TOTAL	100%	100%	100%	100%
	=====	=====	=====	=====
Source: PKF Consulting USA				

The proposed Baker Hotel is expected to achieve occupancy of 56% in its opening year (2017), grow to 62% in 2018 and 65% in its third year (2019) of operation. Upon stabilization, the Subject is projected achieve an occupancy of 68% and penetrate the market at 101% of its fair share.

## ESTIMATED MARKET SEGMENTATION

Estimated market segmentation for the proposed hotel is summarized, as follows:

<b>Proposed Baker Hotel</b>			
<b>2020 Mix of Demand and Market Penetration</b>			
<b>Market Segment</b>	<b>Room Nights</b>	<b>Ratio</b>	<b>Penetration</b>
Corporate Individual	5,300	14%	75%
Leisure	10,700	27%	98%
Group	23,000	59%	110%
Total	39,000	100%	101%
Source: PKF Consulting USA			

Upon stabilization in the fourth year of operation, the proposed Baker Hotel is projected to receive less than its fair share of demand from the Corporate Individual segment due to its location away from significant Corporate demand generators. The property is projected to receive just below its fair share of demand from the Leisure segment due to its location. The hotel is projected to receive more than its fair share of demand from the Group segment due to its meeting space offerings within the Mineral Wells market area.

## ESTIMATED AVERAGE DAILY RATE

We have projected the average daily rate for the proposed Baker Hotel based on an ADR of \$164 in 2014 dollars. The hotel is a destination hotel, which enables ADR to be above the market average.

The following table shows the estimated occupancy and ADR for the proposed hotel, stated in inflated dollars, assuming a 3% average rate increase throughout the projection period.

<b>Estimated Occupancy and ADR Proposed Baker Hotel</b>		
<b>Year</b>	<b>Annual Occupancy</b>	<b>Average Daily Rate*</b>
2017**	56%	\$182
2018	62%	\$193
2019	65%	\$202
2020	68%	\$208
2021	68%	\$215
* Stated Year Dollars, rounded to the nearest dollar		
**Hotel opens in January 2017		
Based on an ADR of \$164 in 2014 dollars.		
Source: PKF Consulting		



**SECTION VI**  
**PROSPECTIVE FINANCIAL ANALYSIS**

## BASES OF ESTIMATIONS

On the basis of our evaluation of market findings relative to the proposed 157-room Baker Hotel, we have prepared schedules of estimated operating results, which we believe could be generated by the operation of a facility of the type, size and caliber as described in the preceding sections of the report. The proposed Baker Hotel is estimated to open in January 2017.

In estimating the future operating results of the Subject hotel, we analyzed historical operating statements of five comparable hotels from 2013. We have not identified them in order to protect the confidentiality of our sample. These properties ranged in size from 119 to 224 rooms with an average of 168. The meeting space for the comparable properties range from 4,500 to 14,000 square feet with an average of 11,376 square feet. Occupancy rates ranged from 63% to 77% with an average of 73%. ADR ranged from \$148 to \$195 with an average of \$171.

We estimated revenues and expenses based on the market analysis described herein, the performance of comparable properties, typical industry parameters, premiums and efficiencies for boutique hotels. In evaluating comparables, we considered expenses as a percent of revenue, as well as per occupied room (POR) and per available room (PAR). We then incorporated such estimates into the assumptions that we have made, regarding inflation (3% per year), start-up period and market penetration rates, in order to generate the estimated annual operating results, presented at the end of this section. Our estimates for the proposed Baker Hotel are for the years beginning 2017 through 2026. All dollar financial POR and PAR are expressed in 2014 dollars.

The classification of income and expenses in the statements presented in this report generally follows the *Uniform System of Accounts for Hotels*, recommended by the American Hotel & Lodging Association.

## DEPARTMENTAL REVENUES

Revenue from guestroom rentals is a result of two factors: occupancy level, or occupied room nights, and average daily room rate (ADR). Based on data presented in the Market Analysis section of this report, estimated occupancy levels, average daily room rates, and resulting room revenue for the subject hotel over the projection period are summarized in the following table.

<b>Estimated Rooms Revenue Proposed Baker Hotel</b>			
Year	Annual Occupancy	Average Daily Rate	Rooms Revenue
2017	56%	\$182	\$5,879,000
2018	62%	\$193	\$6,852,000
2019	65%	\$202	\$7,514,000
2020	68%	\$208	\$8,106,000
2021	68%	\$215	\$8,379,000
Source: PKF Consulting USA			

Additional sources of revenue for the proposed Baker Hotel include Food & Beverage, Other Operated Departments and Rentals and Other Income. Our stabilized year projections (in 2014 dollars) for additional revenue items are summarized below.

<b>Departmental Revenues - Baker Hotel Dollars Per Occupied Room</b>				
Items	Comparable Hotels			Subject Hotel Projections
	Range	Average	Median	Stabilized Year
Food & Beverage	\$76.53 - \$156.09	\$101.24	\$133.22	\$120.00
Other Operated Departments	\$8.88 - \$32.67	\$17.85	\$29.86	\$25.00
Rentals and Other Income	\$0.81 - \$22.95	\$8.56	\$4.34	\$4.25
Source: PKF Consulting USA				

## DEPARTMENTAL EXPENSES

Departmental expenses are chargeable to a specific revenue-producing department, in this case Rooms, Food & Beverage and Other Operated Departments for the proposed Baker Hotel.

<b>Departmental Expenses - Baker Hotel Percent of Departmental Revenue</b>				
Items	Comparable Hotels			Subject Hotel Projections
	Range	Average	Median	Stabilized Year
Room (\$ POR)	\$36.90 - \$59.91	\$46.49	\$48.10	\$44.50
Food and Beverage	69.9% - 87.2%	75.8%	73.7%	72.0%
Other Operated Departments	57.0% - 314.5%	114.5%	125.4%	60.0%
Source: PKF Consulting USA				

## UNDISTRIBUTED OPERATING EXPENSES

Undistributed operating expenses are necessary to the operation of the property though not directly chargeable to a revenue-producing department and include Administrative and General, Marketing, Property Operations and Maintenance (POM) and Utilities.

<b>Undistributed Operating Expenses - Baker Hotel</b>				
<b>Dollars Per Available Room</b>				
<b>Items</b>	<b>Comparable Hotels</b>			<b>Subject Hotel</b>
	<b>Range</b>	<b>Average</b>	<b>Median</b>	<b>Projections Stabilized Year</b>
Administrative and General	\$6,764 - \$11,202	\$8,617	\$7,818	\$7,250
Marketing	\$4,929 - \$7,521	\$6,739	\$5,847	\$5,000
POM	\$3,542 - \$4,918	\$4,402	\$4,020	\$3,650
Utilities	\$2,746 - \$4,422	\$3,077	\$3,592	\$3,200
Source: PKF Consulting USA				

## FIXED EXPENSES

Fixed expenses are necessary to maintain the property's availability to guests and, except for management fees, do not necessarily vary with performance.

<b>Fixed Expenses - Baker Hotel</b>				
<b>Dollars Per Available Room</b>				
<b>Items</b>	<b>Comparable Hotels</b>			<b>Subject Hotel</b>
	<b>Range</b>	<b>Average</b>	<b>Median</b>	<b>Projections Stabilized Year</b>
Management Fee (% of Total Rev)	2.0% - 3.5%	2.4%	3.1%	3.0%
Property Taxes	\$0 - \$1,751	\$1,417	\$448	\$0
Insurance	\$425 - \$2,193	\$1,225	\$1,164	\$1,000
Source: PKF Consulting USA				

The Subject hotel will have a property tax abatement.

## RESERVE FOR REPLACEMENT

The reserve for replacement provides for the replacement of furniture, fixtures and equipment, as well as certain building finishes and systems. Based on assumptions provided by the developer, the reserve for the Subject has been tiered at 0.5% of total revenues in the first year of operation (2017), 1.0% in the second year, 2.0% in the third year and 2.5% in the fourth year and thereafter to ensure an adequate reserve level.

## SCHEDULE OF PROSPECTIVE CASH FLOW BEFORE DEBT SERVICE

The following schedule reflects the estimate of future operating performance of the subject hotel for years 2017 through 2026. The schedules are presented in stated year (inflated) dollars.

<b>Proposed Baker Hotel</b>		
Projected Operating Results		
Calendar Years		

<b>Proposed Baker Hotel</b> Projected Operating Results Calendar Years						
	<b>2022</b>		<b>2023</b>		<b>2024</b>	
Number of Units:	157		157		157	
Number of Annual Rooms Available:	57,305		57,305		57,305	
Number of Rooms Occupied:	38,970		38,970		38,970	
Annual Occupancy:	68%		68%		68%	
Average Daily Rate:	\$221.00		\$228.00		\$235.00	
Revenue Per Available Room:	\$150.28		\$155.04		\$159.80	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Revenues</b>						
Rooms	\$8,612,000	48.0%	\$8,885,000	48.0%	\$9,158,000	48.0%
Food & Beverage	5,924,000	33.0%	6,102,000	33.0%	6,285,000	33.0%
Spa	1,976,000	11.0%	2,035,000	11.0%	2,097,000	11.0%
Other Operated Departments	1,234,000	6.9%	1,271,000	6.9%	1,309,000	6.9%
Rentals and Other Income	210,000	1.2%	216,000	1.2%	223,000	1.2%
<b>Total Revenues</b>	<b>17,956,000</b>	<b>100.0%</b>	<b>18,509,000</b>	<b>100.0%</b>	<b>19,072,000</b>	<b>100.0%</b>
<b>Departmental Expenses</b>						
Rooms	2,197,000	25.5%	2,263,000	25.5%	2,330,000	25.4%
Food & Beverage	4,265,000	72.0%	4,393,000	72.0%	4,525,000	72.0%
Spa	1,324,000	67.0%	1,364,000	67.0%	1,405,000	67.0%
Other Operated Departments	740,000	60.0%	763,000	60.0%	786,000	60.0%
<b>Total Departmental Expenses</b>	<b>8,526,000</b>	<b>47.5%</b>	<b>8,783,000</b>	<b>47.5%</b>	<b>9,046,000</b>	<b>47.4%</b>
<b>Departmental Profit</b>	<b>9,430,000</b>	<b>52.5%</b>	<b>9,726,000</b>	<b>52.5%</b>	<b>10,026,000</b>	<b>52.6%</b>
<b>Undistributed Expenses</b>						
Administrative & General	1,442,000	8.0%	1,486,000	8.0%	1,531,000	8.0%
Marketing	994,000	5.5%	1,024,000	5.5%	1,055,000	5.5%
Property Operation and Maintenance	726,000	4.0%	748,000	4.0%	770,000	4.0%
Utility Costs	636,000	3.5%	656,000	3.5%	675,000	3.5%
<b>Total Undistributed Operating Expenses</b>	<b>3,798,000</b>	<b>21.2%</b>	<b>3,914,000</b>	<b>21.1%</b>	<b>4,031,000</b>	<b>21.1%</b>
<b>Gross Operating Profit</b>	<b>5,632,000</b>	<b>31.4%</b>	<b>5,812,000</b>	<b>31.4%</b>	<b>5,995,000</b>	<b>31.4%</b>
<b>Base Management Fee</b>	<b>539,000</b>	<b>3.0%</b>	<b>555,000</b>	<b>3.0%</b>	<b>572,000</b>	<b>3.0%</b>
<b>Fixed Expenses</b>						
Property Taxes	0	0.0%	0	0.0%	0	0.0%
Insurance	199,000	1.1%	205,000	1.1%	211,000	1.1%
Equipment Leases	48,000	0.3%	49,000	0.3%	51,000	0.3%
<b>Total Fixed Expenses</b>	<b>247,000</b>	<b>1.4%</b>	<b>254,000</b>	<b>1.4%</b>	<b>262,000</b>	<b>1.4%</b>
<b>Net Operating Income</b>	<b>4,846,000</b>	<b>27.0%</b>	<b>5,003,000</b>	<b>27.0%</b>	<b>5,161,000</b>	<b>27.1%</b>
<b>FF&amp;E Reserve</b>	<b>449,000</b>	<b>2.5%</b>	<b>463,000</b>	<b>2.5%</b>	<b>477,000</b>	<b>2.5%</b>
<b>Net Operating Income After Reserve</b>	<b>\$4,397,000</b>	<b>24.5%</b>	<b>\$4,540,000</b>	<b>24.5%</b>	<b>\$4,684,000</b>	<b>24.6%</b>
Source: <b>PKF Consulting USA</b>						

**ADDENDUM A**  
**PHOTOGRAPHS OF EXISTING BAKER HOTEL**











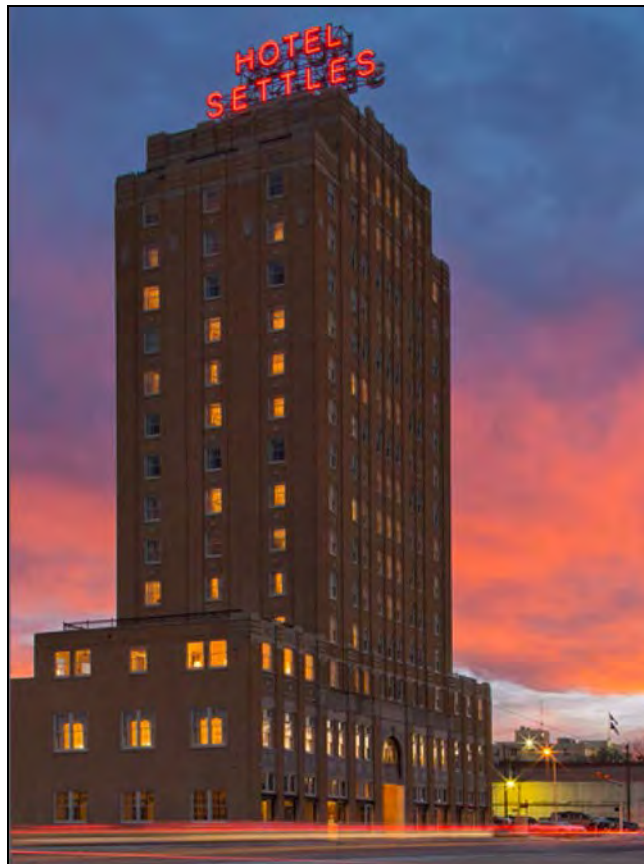


**ADDENDUM B**  
**PHOTOGRAPHS OF COMPETITIVE SUPPLY**





Wyndham Hotel Galvez, Galveston



Hotel Settles, Big Spring



Lakeway Resort and Spa, Austin



Wyndham Tremont House, Galveston





San Luis Resort, Galveston



Horseshoe Bay Resort, Horseshoe Bay

## **ADDENDUM C**

### **STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**



## STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

*The following Standard Conditions apply to real estate consulting assignments by PKF Consulting USA and will be attached to the report:*

***Achievability of Projections*** - Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore actual results achieved during the period under study will vary from our estimates and the variations may be material.

***Archaeological Significance*** - No investigation has been made by the consultant and no information has been provided to the consultant regarding potential archaeological significance of the subject property or any portion thereof. This report assumes no portion of the subject property has archaeological significance.

***Definitions and Assumptions*** - The definitions and assumptions upon which our analyses, opinions and conclusions are based are set forth in appropriate sections of this report and are to be part of these general assumptions as if included here in their entirety.

***Dissemination of Material*** - Neither all nor any part of the contents of this report (including the identity of the consultant or PKF Consulting USA) shall be disseminated to the general public through advertising or sales media, public relations media, news media or other public means of communication without the prior written consent and approval of PKF Consulting USA.

***Distribution and Liability to Third Parties*** - The party for whom this report was prepared may distribute copies of this report only in its entirety to such third parties as may be selected by the party for whom this report was prepared; however, portions of this report shall not be given to third parties without the written consent of PKF Consulting USA. Liability to third parties will not be accepted.

***Economic and Social Trends*** - The consultant assumes no responsibility for economic, physical or demographic factors which may affect or alter the opinions in this report if said economic, physical, or demographic factors were not present as of the date of the letter of transmittal accompanying this report. The consultant is not obligated to predict future political, economic or social trends.

***Engineering Survey*** - No engineering survey has been made by the consultant. Except as specifically stated, data relative to size and area of the subject property was taken from sources considered reliable and no encroachment of the subject property is considered to exist.

***Hazardous Materials*** - The consultant has not been provided any information regarding the presence of any material or substance on or in any portion of the subject property or improvements thereon, which material or substance possesses or may possess toxic, hazardous and/or other harmful and/or dangerous characteristics. Unless otherwise stated in the report, the consultant did not become aware of the presence of any such material or substance during the consultant's inspection of the subject property. However, the consultant is not qualified to investigate or test for the presence of such materials or substances. Unless otherwise stated, this report assumes the subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

***Hidden Conditions*** - The consultant assumes no responsibility for hidden or unapparent conditions of the property, subsoil, ground water or structures that render the subject more or less valuable. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

***Income Data Provided by Third Party*** - Income and expense data related to the property being appraised was provided by the client and is assumed, but not warranted, to be accurate.

## **STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**

(Continued)

**Information Furnished by Others** - In preparing the report, the consultant was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either express or implied, is given by the consultant for the accuracy of such information and the consultant assumes no responsibility for information relied upon later found to have been inaccurate. The consultant reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

**Legal Expenses** – Any legal expenses incurred in defending or representing ourselves concerning this assignment will be the responsibility of the client.

**Legal Matters** - No opinion is intended to be expressed for matters that require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate consultants.

**Licenses and Permits** - Unless otherwise stated, the property is evaluated assuming that all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the analysis contained in this report is based.

**Limits of Liability** – PKF Consulting USA cannot be held liable in any cause of action resulting in litigation for any dollar amount which exceeds the total fees collected from this individual engagement.

**Maps, Plats and Exhibits** - Maps, plats and exhibits included in this report are for illustration only to serve as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from the report.

**Not a CPA Firm** – PKF Consulting USA is not a Certified Public Accounting firm.

**Obligation to Update Report** - The report will be dated to coincide with our last day of fieldwork. The terms of this engagement are such that we have no obligation to update our estimates to reflect events or conditions which occur subsequent to the last day of our fieldwork. However, we will be available to discuss the necessity for revision in view of changes in the economic or market factors affecting the project.

**Right of Publication** - Possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of PKF Consulting USA, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose.

**Testimony in Court** - Testimony or attendance in court or at any other hearing is not required by reason of rendering this report, unless such arrangements are made a reasonable time in advance of said hearing. Further, unless otherwise indicated, separate arrangements shall be made concerning compensation for the consultant's time to prepare for and attend any such hearing.

**Use in Offering Materials** - This report, including all cash flow forecasts, market surveys and related data, conclusions, exhibits and supporting documentation may not be reproduced or references made to the report or to PKF Consulting USA in any sales offering, prospectus, public or private placement memorandum, proxy statement or other document ("Offering Material") in connection with a merger, liquidation or other corporate transaction unless PKF Consulting USA has approved in writing the text of any such reference or reproduction prior to the distribution and filing thereof.

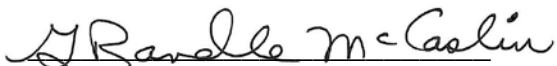
**Zoning and Land Use** - Unless otherwise stated, the subject property is evaluated assuming it to be in full compliance with all applicable zoning and land use regulations and restrictions.

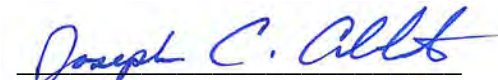
**ADDENDUM D**  
**CERTIFICATION**

## CERTIFICATION

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is our personal, unbiased professional analyses, opinions and conclusions.
- We have no present or prospective interest in the project that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon the developing or reporting of predetermined results.
- Our compensation is not contingent upon the development or reporting of predetermined results that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
- We have made a personal inspection of the proposed site that is the subject of this report.
- No one provided significant professional assistance to the persons signing below except as sourced within the body of this report.

  
**G. Randle McCaslin, CRE**  
Senior Vice President

  
**Christian Abbate**  
Vice President