Recommendation
That Council receive this report for information purposes. FORTHWITH

Summary
The purpose of this report is to provide Council with the findings of the study conducted to determine the market feasibility of a new hotel development in the area of downtown St. Catharines as well as in Port Dalhousie.

Background
In July of 2015, City Council approved entering into a Funding Agreement with the Ontario Ministry of Tourism, Culture and Sport through its Tourism Development Fund for a grant to support a hotel feasibility study for Downtown St. Catharines and Port Dalhousie (see Appendix 1 for an executive summary). Subsequently, a Request for Quotes was issued and posted on the City’s website. A total of four quotes were received, and each proponent was scored using set evaluation criteria resulting in Cushman Wakefield as the successful proponent.

Report
St. Catharines is entering an exciting period of economic renewal and urban revitalization. Located within the heart of wine country, St. Catharines is well positioned to be an integral part of the visitor destination that is Niagara. Minutes from the iconic Niagara Falls and quaint experiences of Niagara-the-Lake, the City of St. Catharines has an interesting diversity of urban and rural attractions offering a variety of exceptional dining and retail opportunities - including wineries, natural attractions, lakefront and waterways, the Welland Canal (old and new), and a rich history that includes industrial, black history and themes relating to the war of 1812. The City has successfully hosted world class events such as the 2015 Pan Am Games, the Niagara Wine Festival and the Henley Rowing Regatta and continues to its goal in developing a strong profile as a destination of choice for both sporting and cultural events of all levels.
The Downtown and Port Dalhousie are very distinctive destinations for residents and visitors alike. Recent developments in our city’s core have changed the face of our community for generations to come. Investments in arts and culture and infrastructure total more than $300 million. The new Meridian Centre Spectator Facility, FirstOntario Performing Arts Centre and Brock University’s Marilyn I. Walker School of Fine & Performing Arts are catalytic developments for the urban core as well as the planned retail, hospitality and residential developments in Port Dalhousie. The injection of a state-of-the-art spectator facility and theatre complex with world class programming coupled with the ability to showcase local artists and additional private investment will make the downtown a compelling destination. The renaissance investment in Port Dalhousie will have similar benefit and contribute to a better visitor profile for the lakeside community and St. Catharines in general.

As a result of the above factors and consultation with representatives from the hotel industry, Economic Development & Tourism identified the need to conduct a hotel feasibility study to present to potential investors and developers for the purposes of attracting a new hotel development in both areas. The study commenced in November / December of 2015, and the scope of work was based on two main objectives: defining commercial opportunities in relation to the lodging sector based on the study of the local and regional market, and using available data on the tourism and lodging market in the surrounding area as the basis for future hotel operational projections.

The purpose of this analysis was to provide the case for a potential hotel in either the downtown or Port Dalhousie areas as a whole, with no specific sites or properties being recommended. Over the course of the study, a number of tasks were completed to achieve the objectives including:

- a comprehensive study of St. Catharines and the Niagara region including economic analysis of hotel study areas
- interviews of key players and stakeholders in the local tourism industry as well as other key contributors to the local economy
- analysis of economic and demographic data for the region
- analysis of existing / proposed lodging inventory in the market
- estimates of historical and potential demand growth in both study areas as well as potential hotel development scenarios
- forecasts for hotel occupancy, Average Daily Rate (ADR), as well as 10-year pro forma and forecasts of cash-flow performance for each hotel scenario
- valuation of each hotel scenario based on projected income over 10 years
- estimates of hotel construction and operation for each hotel scenario
- final report outlining the above

As a result of the aforementioned fieldwork, analysis, and forecasting, the study looked at the feasibility of a hotel in the following scenarios:

- 100-room branded Downtown hotel
- 50-room independent Downtown hotel
- 25-room independent Downtown hotel
- 50-room independent Downtown hotel in a mixed-use development
- 25-room independent Port Dalhousie hotel
Looking at each of the scenarios outlined above, the study concluded that a hotel in Port Dalhousie would not be able to provide a reasonably sustainable level of operational performance. Due to a highly seasonal and weekend-centric demand, coupled with a lack of complimentary attractions and competition from nearby Niagara-on-the-Lake, a hotel in Port Dalhousie would as a result not be feasible.

Of the above mentioned scenarios for a Downtown hotel, the 100-room, 50-room, and 25-room stand-alone hotels were also identified as not being feasible due to a combination of a lack of demand and very low levels of return that would not be able to attract hotel investors. This is due largely to high land and construction costs at each scenario, which are in excess of $165,000 per room. Further figures are outlined in detail with projected values over 10 years in the final report.

The conclusion of the report is that a Downtown hotel would be feasible at the maximum 50-room scenario within the context of a mixed-use development. With construction costs being the main hindrance to a hotel development in the above mentioned scenarios, a maximum 50-room hotel in a mixed-use scenario would be able to share land and construction costs with other components of the development, thereby providing the highest level of return on investment at an estimated 12.1%. The conclusion of the report is based on the assumption that the proposed hotel in each scenario would be operational as of January 1, 2017, and assumes no material change in overall market conditions in the interim period.

**Financial Implications**
Not Applicable.

**Relationship to Strategic Plan**
This report directly relates to the Strategic Plan’s first goal to “attract public and private investment, support local businesses and provide excellent customer service to demonstrate we are open for business.” The resulting report will be shared with prospective investors and developers in the hotel industry to provide the market and financial basis for a hotel in Downtown St. Catharines.

**Conclusion**
The conclusion of the hotel feasibility study indicates that the most viable option for prospective hotel investment would be in downtown St. Catharines in the context of a maximum 50-room mixed-use development scenario. The consultant’s findings further indicate that this type of development would provide the highest rate of return and lowest construction costs. The resulting report will be distributed to potential investors as a part of Economic Development and Tourism staff’s efforts to support and attract new investment to the community. This further contributes to the work of the Downtown Creative Cluster Master Plan, which outlined the potential for attracting a hotel development as one of its findings.

**Prepared by:**
Samir Husika
Downtown Development Officer

**Submitted and Approved by:**
Brian York
Manager, Economic Development & Tourism Services
FEASIBILITY ANALYSIS OF PROPOSED HOTEL PROPERTIES

Proposed Hotels In
St. Catharines (Downtown & Port Dalhousie), Ontario

IN A MARKET STUDY AND
FEASIBILITY ANALYSIS REPORT
As of January 1, 2017

Prepared For:
Economic Development &
Tourism Department
The Corporation of the
City of St. Catharines
City Hall
50 Church Street,
St. Catharines, Ontario L2R 7C2

Prepared By:
Cushman & Wakefield Ltd.
Valuation & Advisory
33 Yonge Street, Suite 1000
Toronto, ON M5E 1S9
C&W File ID: 15-444-900115
CONFIDENTIAL
March 17, 2016

Economic Development & Tourism Department
The Corporation of the City of St. Catharines
City Hall
50 Church Street,
St. Catharines
Ontario L2R 7C2

C&W File ID: 15-444-900115

Re: Market Study and Feasibility Analysis for Proposed Hotels in St. Catharines (Downtown & Port Dalhousie), Ontario

In fulfillment of our agreement as outlined in the Letter of Engagement, we are pleased to transmit the following report regarding market feasibility studies for proposed hotels in each of St. Catharines Downtown and Port Dalhousie areas. More specifically, our mandate has been to examine the feasibility of a new hotel development within a defined area of St. Catharines Downtown core, as well as a second hotel in the City’s Port Dalhousie district (located approximately 6.4 km or a 15 minute drive north of the Downtown core).

In order to accomplish these objectives, we have conducted a thorough analysis of the St. Catharines Downtown and Port Dalhousie markets with the express purpose of providing insight into the area’s lodging market landscape, while also identifying market prospects for the proposed hotel developments. This report addresses the prevailing market conditions, existing supply of hotel accommodation in the area, hotel demand trends, discusses and then quantifies users of hotel demand in the market, and identifies the performance characteristics of the proposed hotels based on various scenarios of feasibility. Our report then concludes with a projection of the costs of development, the values of each hotel based on its projected income, and finally an investment analysis showing the overall viability of the proposed hotel scenarios.

This report is dated March 17, 2016. This report was prepared for the exclusive use of the City of St. Catharines to assist it in assessing the market and financial feasibility for the proposed hotels, to help in attracting potential investors and also in helping secure mortgage financing.

In conducting this study, we have found that the lodging market of St. Catharines (including both Downtown and Port Dalhousie) is quite leisure-centric, with reasonably strong demand on weekends and in the peak summer months, but with demand levels falling at other times. When analyzing weekly occupancy levels, the data indicates that the area hotels see the majority of business on Friday and Saturday nights, with the balance of the week recording soft occupancy levels. The weekend demand is primarily made up of social groups (weddings, family reunions, bus tours etc.), those attending events (mostly sports teams), and those visiting family and friends. This suggests the justification for increased hotel capacity in the market is primarily driven by strong demand on two days of the week only. Added capacity during the other days would result in even softer hotel occupancy levels and
the probability that the area hotels would then compete for the limited amount of available demand by reducing prices; this is a common strategy that can result in a downward spiral in pricing across the area hotel market.

The St. Catharines lodging market (incorporating the hotels actually in St. Catharines, as well as those in the immediate area and which would be considered as options for those seeking overnight stays in or near St. Catharines), features 11 hotels and motels equating to approximately 1,171 rooms. The proposed hotel in Downtown St. Catharines would likely primarily compete with the six existing branded, full-service hotels that feature an on-site restaurant and several amenities including an indoor swimming pool and fitness centre. These hotels also offer meeting space ranging from 288 sq. ft. up to 20,000 sq. ft. In order to attract sports teams, weddings and other such leisure-related groups, which make-up a significant portion of area hotel demand – as will be discussed further – the selected hotel preference is for a full-service property that includes restaurant and bar space, as well as an area where these groups can gather and/or store sports equipment. As a result, the preferred hotel needs to have an on-site restaurant, meeting space, indoor pool, and other similar facilities. Port Dalhousie currently lacks any hotel accommodations, with the area currently serviced by Bed and Breakfasts and Inns, such as the B&B in Port Dalhousie and the 4-room HarbourFront Inn.

The recent addition of new hotel supply in Niagara Falls and Niagara-on-the-Lake has hurt demand in St. Catharines (demand previously used to overflow from Niagara Falls to surrounding areas in the summer months, but the increased capacity in Niagara Falls has reduced this overflow of demand). The Niagara Falls and Niagara-on-the-Lake markets now include in the range of 80 hotels, offering approximately 15,000 rooms. Furthermore, Buffalo and Niagara Falls, NY have and will continue to see an increase in hotel developments, which may pose a further threat to the St. Catharines lodging industry.

Our research, combined with conversations with representatives of the area hotels, indicate that the St. Catharines lodging market tends to perform at around 50% average annual occupancy and with an Average Daily Rate (“ADR”) of approximately $120. Much of this demand is already represented by events and sports tourism, which tend to be most active during limited periods (i.e. weekends, peak summer vacation months etc.) with occupancy levels on Friday and Saturday nights typically reaching into the 70% - 80% level. For the balance of the week, the hotels operate at low occupancy levels (i.e. 35% - 55%). Some of this low occupancy levels during the week is the result of a decline in corporate demand in recent years with several major corporate clients moving out of St. Catharines and the Niagara Region. Our interviews with the City’s business community indicate that overall commercial accommodation requirements are fairly limited; many of those visiting St. Catharines for business purposes come on day-trips.

In addition to our analysis of St. Catharines historical levels of hotel demand, we have conducted interviews with representatives of various organizations within the City to ascertain the potential growth in future demand, particularly in the event of increased capacity following construction of a new hotel in the Downtown core. We have found that while the new FirstOntario Performing Arts Centre and Meridian Centre pose as potential demand generators for the City, the majority of events held at these venues are attended by residents of the Niagara Region who would not generally require overnight accommodation. Furthermore, according to the Niagara Sport Commission, in order to attract large-scale sport events that would generate increased overnight demand, the City would need to implement a more comprehensive Sports Tourism Strategy and Hosting Fund. However, should the City succeed in attracting more large-scale sport events, such events tend to be linked with budget-level hotels and multiple occupancy of guest rooms (often 3, 4 or 5 people in a room), which may ultimately detract from the financial performance of the existing area hotels.

In looking at the market feasibility of any proposed hotel in Downtown St. Catharines, we have considered a number of scenarios, including a 100-room, branded hotel, a 50-room, independent hotel, a 25-room, independent hotel, and then to a 50-room hotel integrated within a mixed-use development. In the case of Port Dalhousie, we have
focused on a 25-room hotel to be developed close to the marina. In each case, we have assumed that the hotel will be fully open and operational as of January 1, 2017.

In the following report, we have conducted the necessary research and analyses in order to project the annual occupancy and ADR under each scenario. Using this data, we have then prepared financial projections for a period of ten years; these financial projections are then used to determine the overall value of the hotel; the value of the hotel is important in that it dictates the amount of debt financing likely available from lenders. Finally, we have estimated the overall construction costs, determined the amount of equity required in addition to the debt financing to complete the construction, and then calculated the return on equity. This final calculation, the return on equity, provides the necessary information to potential developers or investors as a means of measuring the project viability and its appeal. It is important to note that the most active hotel developers in the region tend to have multiple options under consideration, and that these developers will evaluate this project against other options.

In conducting the feasibility analyses, we have found that construction costs are proving to be significant hindrances to the overall financial viability of the proposed hotel developments. In light of these prevailing conditions, we believe the proposed hotels would need to be relatively small developments, able to accommodate the amount of demand available to them, and while still able to maintain the balance between the active and less active periods. However, in the case of the proposed hotel in Downtown St. Catharines, we have found it is more feasible that any proposed hotel be integrated within a mixed-use development where the cost of land and construction can be shared with the other components of the development.

As a result of our analysis, we have formed an opinion that the market could not likely sustain a stand-alone hotel development in Downtown St. Catharines or Port Dalhousie. Our research shows these projects would generate very low levels of return – levels of return that we believe are not sufficient to attract typical hotel investors. However, we do believe that a hotel of approximately 50 suites, integrated within a mixed-use development in Downtown St. Catharines, would lead to a more feasible venture.

In the case of the proposed hotel development in Port Dalhousie, we find the hotel would not be able to provide a reasonably sustainable level of operational performance – a result of the highly-seasonal and weekend-centric nature of demand in the area, the lack of complementary developments and attractions, and the competitive environment created by Niagara-on-the-Lake. This, combined with the relatively high cost of constructing a small hotel is projected to deliver a very low return on investment. The following report details our findings and conclusions.

The analyses contained in this report are based upon assumptions and estimates that are subject to uncertainty and variation. These estimates are often based on data obtained in interviews with third parties, and such data are not always completely reliable. In addition, we make assumptions as to the future behaviour of consumers and the general economy, which are highly uncertain. However, it is inevitable that some assumptions will not materialize and unanticipated events may occur that will cause actual achieved operating results to differ from the financial analyses contained in this report and these differences may be material. Therefore, while our analyses were conscientiously prepared on the basis of our experience and the data available, we make no warranty that the conclusions presented will, in fact, be achieved. Additionally, we have not been engaged to evaluate the effectiveness of management and we are not responsible for future marketing efforts and other management actions upon which actual results may depend. The opinions of value include the land, the improvements thereto, and the contributory value of the furniture, fixtures and equipment. We assume that the hotel will be, and shall remain, open and operational.

We did not ascertain the legal, engineering, and regulatory requirements applicable to the property, including state and local government regulations, permits and licenses. No effort has been made to determine the possible impact on the property of present or future federal, state or local legislation, including any environmental or ecological
matters or interpretations thereof. With respect to the market demand analysis, our work did not include analysis of the potential impact of any significant rise or decline in local or general economic conditions.

We take no responsibility for any events, conditions, or circumstances affecting the market that exists subsequent to the last day of our fieldwork, December 2, 2015.

The market potential, value opinions and investment analyses in this report are qualified by certain assumptions, limiting conditions, certifications, and definitions. We particularly call your attention to the extraordinary assumptions and hypothetical conditions listed below.

**EXTRAORDINARY ASSUMPTIONS**

For a definition of Extraordinary Assumptions please see the Glossary of Terms & Definitions.

- Our conclusion of the proposed hotel performance measures are based upon the assumption that the proposed hotels would be completed and operational as of January 1, 2017, as detailed in this report. Further, in our 100-room hotel scenario, we have assumed that the hotel will be affiliated with a midscale and nationally-recognized hotel brand. We also assume the hotel, in each scenario, will be competently managed and that there will be an effective pre-opening and ongoing sales and marketing plan.

- Our conclusion of the proposed hotel values are based upon market participant attitudes and perceptions existing as of the date of our fieldwork. We assume no material change in overall market conditions between the date of fieldwork and effective date of value, except for those identified within the report.

Respectfully submitted,

CUSHMAN & WAKEFIELD LTD.

Charles Suddaby, MRICS, CMC  
Vice President and Practice Leader  
Hospitality & Gaming Group  
Valuation & Advisory  
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SUMMARY OF FEASIBILITY ANALYSIS METHODOLOGY & CONCLUSION

The following is an executive summary of the information that we present in more detail in the report.

Through data collected from interviews, published sources and industry reports, we are able to present an analysis of current and future demand levels within the St. Catharines hotel market. This, in turn, has allowed us to prepare financial projections for each hotel scenario for a period of ten years; these financial projections are then used to determine the overall value of the hotels (necessary in order to determine the amount of debt financing that would be available). Finally, we have estimated the overall construction costs, determined the amount of equity required in addition to the debt financing to complete the construction, and then calculated the return on equity. This final calculation, the return on equity, provides the necessary information to potential developers or investors as a means of measuring the project viability and appeal.

Financial projections of the various hotel scenarios take into account the prevailing market-wide demand and existing hotel supply, the associated market occupancy levels, an estimate of future induced demand growth – stimulated primarily by the FirstOntario Performing Arts Centre and Meridian Centre – and finally the overall annual ADR seen in the St. Catharines lodging market. Our hotel supply and demand analysis provides information that allows us to ascertain how much demand would be available to any proposed hotel, which dictates, in large part, the size of hotel that might be supported. As shown in this report, the existing hotels operate at a relatively lower annual occupancy (recognizing that some hotels do better than others) and that demand is concentrated into Friday and Saturday nights; occupancy levels during other days of the week are generally between 35% and 55% which are levels that generally result in inefficient and probably unprofitable operations. We concluded from our analyses that any new hotel should likely be ‘smaller’ rather than ‘larger’, and we have tested a number of scenarios and projected occupancy and ADR for each scenario. This was then coupled with comparable hotel operating ratios to develop a 10-year financial pro-forma for each of the hotel scenarios. As hotels typically transact, and therefore are valued, based on their income-producing ability, we used the projections for each scenario to determine the value of the hotel once operating. With lenders typically providing debt financing at approximately 55% of value, we calculated the level of debt and annual debt service for each hotel, and determined the annual return to the owner after debt service. The final stages of our work entailed estimating the capital costs of each hotel scenario, allowing for varying land and building area requirements among the scenarios. We then deducted the amount of available debt financing from the capital costs to calculate the amount of equity required to complete the construction process, and then measured the return on equity for each hotel.

According to interviews with local real-estate brokers, land costs in Downtown St. Catharines and Port Dalhousie are estimated to be approximately $1 million per acre, while smaller parcels of 0.5 acres would still cost around $750,000. This is mainly driven by the Meridian Centre and FirstOntario Performing Arts Centre developments, which have increased the value of commercial real estate in the Downtown core. Hotel construction cost estimates were then developed through an analysis of standard construction costs provided by midscale brands and a discussion with construction companies who specialize in hotel construction. It should be noted that due to the unknown size and composition of the non-hotel components of any mixed-use development, we have not estimated a construction cost for this scenario. Instead, for the 50-suite hotel integrated within a mixed-use development scenario, we have taken the annual return to owner after debt service and factored a 12% investment return (the anticipated minimum reasonable rate of return) in order to ascertain the level of total equity that can be required; this combined with the debt component, tells us the total amount that could be allocated to the hotel construction costs as part of the cost of the overall mixed-use development project.
The following table summarizes the results of our analysis for each of the three scenarios considered for St. Catharines and the one scenario for Port Dalhousie. Greater detail is provided in our financial projections for each scenario and other relevant material presented later in this report:

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<tbody>
<tr>
<td>Projected Stabilized Year (2019) Revenue</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Number of Days Open:</td>
<td>365</td>
<td>365</td>
<td>365</td>
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<tr>
<td>Number of Rooms:</td>
<td>100</td>
<td>50</td>
<td>25</td>
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<tr>
<td>Stabilized Occupancy:</td>
<td>59.0%</td>
<td>61.0%</td>
<td>59.0%</td>
<td>66.0%</td>
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<td>Occupied Rooms (Stabilized Year):</td>
<td>21,535</td>
<td>11,133</td>
<td>5,384</td>
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<td>Stabilized Average Rate:</td>
<td>$133.25</td>
<td>$138.38</td>
<td>$141.84</td>
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<td>Stabilized RevPAR:</td>
<td>$78.62</td>
<td>$84.41</td>
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<td>Rooms Revenue:</td>
<td>$2,870,000</td>
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<td>Net Operating Income:</td>
<td>$627,000</td>
<td>$477,000</td>
<td>$262,000</td>
<td>$653,000</td>
<td>$179,000</td>
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<td>Estimated Hotel Value</td>
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<tr>
<td>Discounted Cash Flow</td>
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<tr>
<td>Projection Period:</td>
<td>10 Years</td>
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<td>Holding Period:</td>
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<tr>
<td>Terminal Capitalization Rate:</td>
<td>9.00%</td>
<td>9.00%</td>
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<td>Discount Rate:</td>
<td>11.00%</td>
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<td>Indicated Value of Hotel:</td>
<td>$6,400,000</td>
<td>$5,000,000</td>
<td>$2,700,000</td>
<td>$6,800,000</td>
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<td>Per Room</td>
<td>$64,000</td>
<td>$100,000</td>
<td>$108,000</td>
<td>$136,000</td>
<td>$76,000</td>
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<td>Estimated Construction Cost</td>
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<tr>
<td>Number of Rooms:</td>
<td>100</td>
<td>50</td>
<td>25</td>
<td>25</td>
<td>25</td>
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<tr>
<td>Gross Building Area (GBA) Per Guest Room:</td>
<td>650</td>
<td>600</td>
<td>600</td>
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<td>Estimated Total Gross Building Area (GBA):</td>
<td>65,000</td>
<td>30,000</td>
<td>15,000</td>
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<td>Estimated Land Cost:</td>
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<td>$750,000</td>
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<td>Estimated Hotel Construction Cost:</td>
<td>$15,615,360</td>
<td>$7,767,680</td>
<td>$4,748,840</td>
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<td>Total Hotel Construction Cost Including Land:</td>
<td>$16,615,360</td>
<td>$8,517,680</td>
<td>$4,748,840</td>
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<td>Total Hotel Construction Cost Per Room:</td>
<td>$166,154</td>
<td>$170,354</td>
<td>$189,954</td>
<td>$189,954</td>
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<td>Total Hotel Construction Cost Per Square Foot (GBA):</td>
<td>$256</td>
<td>$284</td>
<td>$317</td>
<td>$317</td>
<td>$317</td>
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<tr>
<td>Investment Analysis</td>
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<tr>
<td>Total Estimated Property Value:</td>
<td>$6,400,000</td>
<td>$5,000,000</td>
<td>$2,700,000</td>
<td>$6,800,000</td>
<td>$1,900,000</td>
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<tr>
<td>Loan to Value Ratio:</td>
<td>60%</td>
<td>50%</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
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<td>Mortgage Component:</td>
<td>$3,840,000</td>
<td>$3,000,000</td>
<td>$1,620,000</td>
<td>$4,080,000</td>
<td>$1,140,000</td>
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<td>Equity Component:</td>
<td>$12,775,360</td>
<td>$5,517,680</td>
<td>$3,128,840</td>
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<td>Minimum Equity Component Required for a 12% Return =</td>
<td>$3,608,840</td>
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<td>Annual Debt Service:</td>
<td>$304,108</td>
<td>$237,584</td>
<td>$128,265</td>
<td>$323,114</td>
<td>$90,282</td>
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<td>NOI After Debt Service (Stabilized Year):</td>
<td>$322,892</td>
<td>$239,416</td>
<td>$133,735</td>
<td>$329,886</td>
<td>$88,718</td>
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<td>10-Year Cash Flow to Equity (Excluding Assumed Sale):</td>
<td>$3,197,924</td>
<td>$2,487,159</td>
<td>$1,383,046</td>
<td>$3,360,915</td>
<td>$967,181</td>
</tr>
<tr>
<td>Return on Equity (%):</td>
<td>25%</td>
<td>45%</td>
<td>44%</td>
<td>124%</td>
<td>27%</td>
</tr>
<tr>
<td>Average Annual Rate of Return:</td>
<td>2.4%</td>
<td>4.3%</td>
<td>4.3%</td>
<td>12.1%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

*Equity Component is comprised of the Construction Cost minus the Mortgage Component
The analyses contained in this report are based upon assumptions and estimates that are subject to uncertainty and variation. These estimates are often based on data obtained in interviews with third parties, and such data are not always completely reliable. In addition, we make assumptions as to the future behaviour of consumers and the general economy, which are highly uncertain. However, it is inevitable that some assumptions will not materialize and unanticipated events may occur that will cause actual achieved operating results to differ from the financial analyses contained in this report and these differences may be material. Therefore, while our analyses were conscientiously prepared on the basis of our experience and the data available, we make no warranty that the conclusions presented will, in fact, be achieved. Additionally, we have not been engaged to evaluate the effectiveness of management and we are not responsible for future marketing efforts and other management actions upon which actual results may depend. The opinions of value include the land, the improvements thereto, and the contributory value of the furniture, fixtures and equipment. We assume that the hotel will be, and shall remain, open and operational.

We did not ascertain the legal, engineering, and regulatory requirements applicable to the property, including state and local government regulations, permits and licenses. No effort has been made to determine the possible impact on the property of present or future federal, state or local legislation, including any environmental or ecological matters or interpretations thereof. With respect to the market demand analysis, our work did not include analysis of the potential impact of any significant rise or decline in local or general economic conditions.

We take no responsibility for any events, conditions, or circumstances affecting the market that exists subsequent to the last day of our fieldwork, December 2, 2015.

The market potential, value opinions and investment analyses in this report are qualified by certain assumptions, limiting conditions, certifications, and definitions. We particularly call your attention to the extraordinary assumptions and hypothetical conditions listed below.

**Extraordinary Assumptions**

For a definition of Extraordinary Assumptions please see the Glossary of Terms & Definitions.

- Our conclusion of the proposed hotel performance measures are based upon the assumption that the proposed hotels would be completed and operational as of January 1, 2017, as detailed in this report. Further, in our 100-room hotel scenario, we have assumed that the hotel will be affiliated with a midscale and nationally-recognized hotel brand. We also assume the hotel, in each scenario, will be competently managed and that there will be an effective pre-opening and ongoing sales and marketing plan.

- Our conclusion of the proposed hotel values are based upon market participant attitudes and perceptions existing as of the date of our fieldwork. We assume no material change in overall market conditions between the date of fieldwork and effective date of value, except for those identified within the report.
Respectfully submitted,

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