



**Market Study &
Statement of Estimated
Annual Operating Results**

Proposed Hotel Ukiah Ukiah, California



Date of the Report:
November 4, 2016

Prepared for:
Mr. Sage Sangiacomo
City Manager

Ms. Shannon Riley
Senior Management Analyst/Visit Ukiah Administrator

City of Ukiah
300 Seminary Avenue
Ukiah, California 95482

Prepared By:
CBRE Hotels
101 California Street, 44th Floor
San Francisco, California 94010

16-490SF-0113

CBRE

Chris Kraus
Managing Director
CBRE Hotels



CBRE, Inc.
101 California Street, 44th Floor
San Francisco, CA 94111

+1 415 652 4483 Mobile

chris.kraus@cbre.com
www.cbrehotels.com

November 4, 2016

Mr. Sage Sangiacomo
City Manager

Ms. Shannon Riley
Senior Management Analyst/Visit Ukiah Administrator

City of Ukiah
300 Seminary Avenue
Ukiah, California 95482

Re: Market Demand and Analysis of Economic Feasibility
Proposed Hotel – Downtown Ukiah
Ukiah, California 95482
CBRE, Inc. File No. 16-490SF-0113

Dear Mr. Sangiacomo and Ms. Riley:

In accordance with your request, we have completed our analysis, which is a study of the potential market demand and preparation of a statement of estimated annual operating results for the development of hotel to be located in Historic Downtown Ukiah (the "Hotel" or "Subject"). Pursuant to our engagement, we have prepared this letter report summarizing our findings.

The conclusions set forth are based on an analysis of the existing and potential future supply and demand for the competitive lodging market as of the completion of our fieldwork in September, October, and November of 2016.

The purpose of this analysis is for use by representatives of the City of Ukiah to evaluate the potential market and financial performance of a hotel in Historic Downtown Ukiah. The intended users will include city representatives and the intended use will be for soliciting interest from the private sector for the development of a hotel in the local market.

As in all studies of this type, the estimated results are based on competent and efficient management and presume no significant change in the status of the competitive lodging market from that as set forth in this report. The terms of our engagement are such that we have no

obligation to revise our conclusions 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 revisions in view of changes in the economy or market factors impacting the competitive lodging market.

Since the future performance of the proposed Hotel is based on estimates and assumptions that are subject to uncertainty and variation, we do not present them as results that will actually be achieved. However, our analysis has been conscientiously prepared on the basis of information obtained during the course of this assignment and on our experience in the industry. This report is subject to the Certification and Assumptions and Limiting Conditions presented in the Addenda.

After you have had an opportunity to review this report, please feel free to contact us with any questions or comments. Thank you for the opportunity to work with you on this interesting engagement.

Yours sincerely,

CBRE HOTELS



By: Chris Kraus
Managing Director
chris.kraus@cbre.com | 415.652.4483



By: Miky Kuo
Director
miky.kuo@cbre.com | 415.772.0358

A. EXECUTIVE SUMMARY

1. INTRODUCTION

CBRE Hotels was formally retained on September 6, 2016 by Mr. Sage Sangiacomo of the City of Ukiah to conduct a study of the potential market demand and estimated financial performance for a proposed Hotel to be located in Historic Downtown Ukiah. As a component of this analysis, we first determined the market potential for a proposed hotel in the local market and offered our recommendations as to the most appropriate size and type of lodging facility. At your specific request, we have also evaluated three hypothetical hotel sites in Historic Downtown Ukiah and ranked them in terms of suitability for the development of the recommended Hotel. Based on the recent performance of comparable hotels in the market, we then provided our projections of the occupancy and average daily room rate (“ADR”) the proposed Hotel could achieve for its first ten years of operation. From this, we then prepared a statement of the estimated annual operating results for the proposed Hotel’s first ten years of operation.

For the purpose of this analysis, we have assumed that after a nearly three year pre-development and construction period, the proposed Hotel would be open and available for occupancy by January 1, 2020.

2. SCOPE AND METHODOLOGY OF WORK

Specifically, in conducting the study of the potential market demand, we:

- Met with representatives of the City of Ukiah to fully understand the goals and objectives for the study;
- Conducted a detailed tour of Historic Downtown Ukiah and personally inspected three hypothetical hotel sites suitable for a hotel development. We assessed the impact of each site’s accessibility, visibility, and location relative to demand generators and proximity to downtown amenities such as retail and restaurants;
- Conducted market research in the area, including interviews with key demand generators, inspection and evaluation of existing hotels, and discussions with people familiar with development patterns and the local hotel market;
- Researched and analyzed current economic and demographic trends to determine their impact on future lodging demand in the market;
- Researched the competitive lodging supply in and around Ukiah, with a particular focus on the hotels that would compete most directly with a hotel in the downtown neighborhood;
- Reviewed the historical performance of the competitive lodging market over the last 11 years;

- Estimated the anticipated growth in supply and demand for lodging accommodations in the local market area;
- Prepared a forecast of future performance for the competitive lodging market;
- Evaluated the appropriateness of the available sites in the City of Ukiah for the development of a hotel and recommended the most optimal site of the three hypothetical sites available;
- Provided a recommendation for the sizing, concept, potential brand affiliations, amenities to be provided, and timing of the proposed Hotel;
- Developed a forecast of the likely occupancy levels and the average daily room rates the proposed Hotel could reasonably achieve over its first ten years of operation; and,
- Developed a statement of the estimated annual operating results for the proposed Hotel for its first ten years of operation, assuming an opening date of January 1, 2020.

Several sources were used in compiling the background information and preparing the analyses contained in this report. These sources include CBRE's *Trends® in the Hotel Industry*, data gathered through direct interviews with representatives of local businesses, data provided by sources in the lodging chains with which the competitive properties are affiliated, and data from various local government agencies.

3. HYPOTHETICAL DEVELOPMENT SITES

We have evaluated and inspected three hypothetical development sites, currently controlled by the City of Ukiah in terms of their individual attributes and constraints for development. In doing so, we have examined the size and location, access and visibility, ambiance, present utilization, and relationship to demand generators and area amenities such as retail, restaurants, and the existing conference center of these three hypothetical sites. Based on our evaluation and inspection of the three hypothetical sites, we are of the opinion that **Parking Lot A (West Standley and Oak Streets)**, or similar, would be the optimal location for the development of a downtown hotel. It is well located in Historic Downtown Ukiah and has the appropriate ambiance for the proposed Hotel. The vicinity of **Parking Lot C (East Standley and Main Streets)** would be the secondary choice for the development of the proposed Hotel. Finally, we are of the opinion that the Ukiah Valley **Conference Center/Parking Lot E (School and Church Streets)** would not be appropriate for the development of the proposed Hotel due to the prohibitive cost of redeveloping the Ukiah Valley Conference Center and building above it.

4. RECOMMENDED HOTEL DEVELOPMENT

As will be discussed in further detail later in this report, we have determined that there is sufficient market demand to support the development of a new hotel in Historic Downtown Ukiah.

Based on our research, we recommend that the proposed Hotel be positioned as an upscale hotel affiliated with a major hotel company as a “soft brand.” Soft brands allow hotels to be part of a major hotel company’s sales and marketing platforms, including access to their central reservation systems and guest loyalty programs, however, can retain their unique, design, orientation, and independent status. As such, soft-branded hotels do not have to conform to all the stringent standards typically required by traditional hotels. Examples of “soft brands” that may be appropriate for the proposed Hotel include, but are not limited to, Ascend Hotel Collection (Choice Hotels), BW Premier Collection (Best Western), Lexington Legacy Hotels, and IBC Hotels.

We envision that the proposed Hotel would be positioned as the highest quality hotel in the local market and would cater to guests seeking an authentic wine country experience in Historic Downtown Ukiah. While subject to further refinement, we recommend that the proposed Hotel contain approximately 75 guestrooms, one meeting room of between 1,500 to 2,500 square feet, a full-service restaurant/bar (operated or leased), possibly a tasting room, and typical amenities found at hotels (fitness center, business center, etc.). The recommended Hotel would be the only hotel in the Ukiah market containing a restaurant.

5. PROJECTED OCCUPANCY AND AVERAGE DAILY RATE

Based on our analysis of the competitive market and the local and regional demand generators, we are of the opinion that there would be sufficient demand for the recommended Hotel in Downtown Ukiah. Furthermore, we would recommend that the proposed Hotel be developed on **Parking Lot A (West Standley and Oak Streets)** or similar setting. Based on the recommended Hotel’s competitive positioning, we have projected the occupancy and ADR of the proposed Subject over its first five years of operation (assumed opening date of January 1, 2020).

Proposed Ukiah Hotel Projected Performance								
Year	Hypothetical ADR	Market Growth	Introductory Discount	Actual ADR	Percent Change	Occupancy	RevPAR	Percent Change
2015	\$130.00	-						
2016	\$140.40	8.0%						
2017	\$147.00	5.0%						
2018	\$153.00	4.0%						
2019	\$158.00	3.0%						
2020	\$163.00	3.0%	2.0%	\$160.00	-	65%	\$103.45	-
2021	\$168.00	3.0%	0.0%	\$168.00	5.0%	68%	\$114.76	10.9%
2022	\$173.00	3.0%	0.0%	\$173.00	3.0%	72%	\$124.50	8.5%
2023	\$178.00	3.0%	0.0%	\$178.00	2.9%	72%	\$128.09	2.9%
2024	\$183.00	3.0%	0.0%	\$183.00	2.8%	72%	\$131.69	2.8%

Source: **CBRE Hotels**

6. ESTIMATED ANNUAL OPERATING RESULTS

Based on our analysis of market demand and the estimated occupancy for the proposed Hotel, we have estimated the revenues and expenses for the proposed Hotel’s first ten years of operation. This results in a net operating income (“NOI”) before fixed charges of interest, depreciation, amortization, and income taxes, but after deducting an FF&E reserve in an amount of 4.0 percent. The following table presents a summary of the estimated operating results of the proposed Hotel for the first ten years of operation.

Summary of Estimated Annual Operating Results			
Year	Total Revenue	Net Operating Income ¹	Ratio to Total Revenues
2020	\$3,982,000	\$873,000	21.9%
2021	4,320,000	1,060,000	24.5%
2022	4,668,000	1,244,000	26.6%
2023	4,803,000	1,281,000	26.7%
2024	4,941,000	1,312,000	26.6%
2025	5,079,000	1,344,000	26.5%
2026	5,239,000	1,393,000	26.6%
2027	5,400,000	1,440,000	26.7%
2028	5,561,000	1,484,000	26.7%
2029	5,726,000	1,527,000	26.7%

¹ Income before the deduction of depreciation, interest, amortization, and income taxes, but after the deduction of a reserve for capital replacement.

B. SITE RECOMMENDATION

1. AVAILABLE HOTEL SITES

As we understand it, there are three hypothetical sites in Historic Downtown Ukiah that may be appropriate for a hotel development. These three sites are controlled by the City of Ukiah and have different attributes. These three sites are discussed below and are identified on the map on the following page.

SITE NO. 1 - Parking Lot A (West Standley and Oak Streets)

- The site encompasses and entire city block bound by Pine Street to the west, Standley Street to the north, Oak Street to the east, and Perkins Street to the south;
- The existing use is as a city controlled surface parking lot;
- The site is located in Historic Downtown Ukiah and is walking distance to restaurant and retail amenities and is two blocks from Ukiah Valley Conference Center;

- The site has direct access from the Perkins Street Exit off Highway 101 (approximately $\frac{3}{4}$ of a mile);
- Based on the Ukiah Municipal Airport Master Plan Compatibility Zoning Map dated July 1996, developments above three stories are permitted on this site; and,
- The site has good ambiance for an upscale, independent hotel along tree lined streets and would provide guests with a wine country hotel experience.

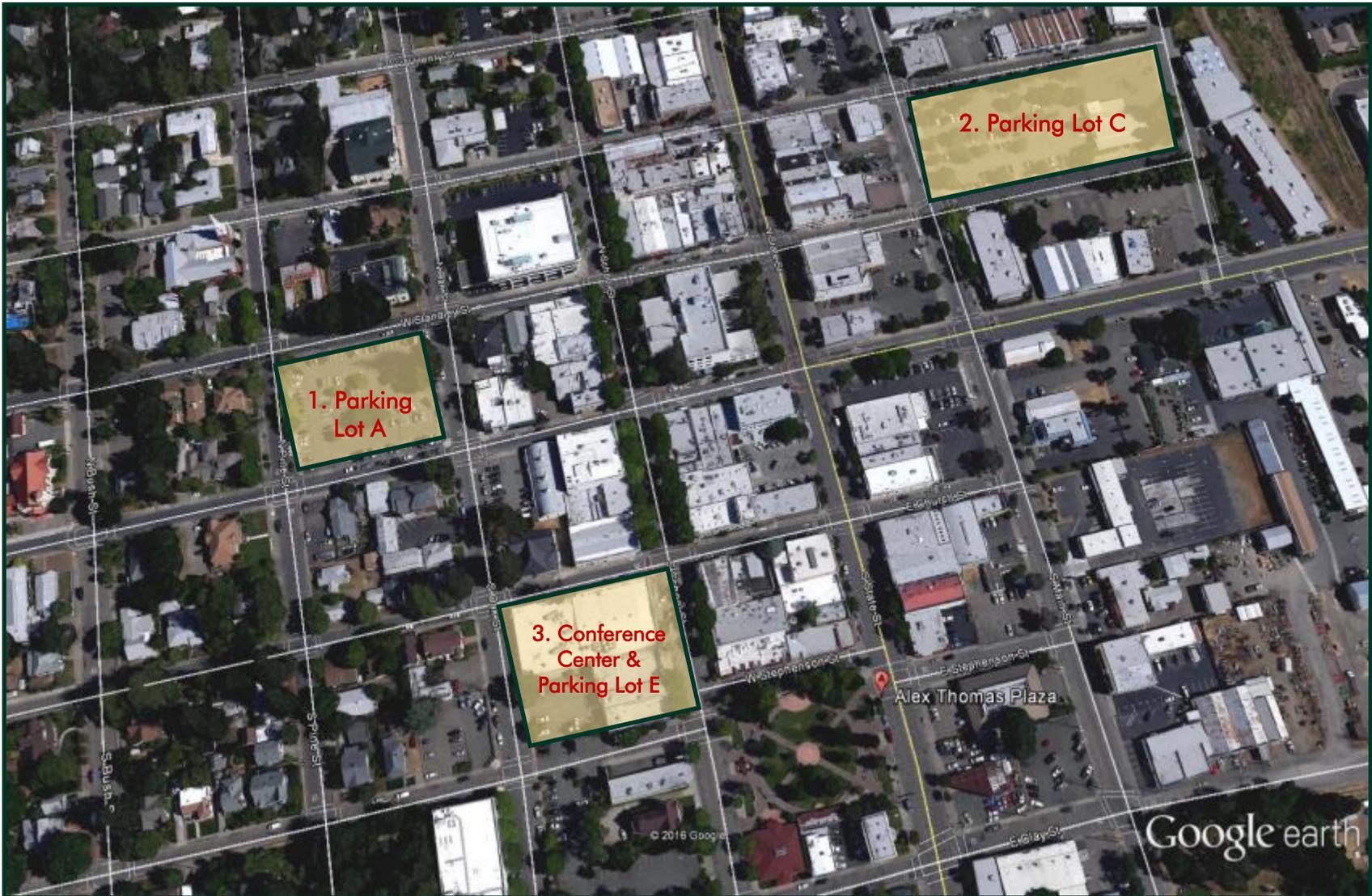
SITE NO. 2 - Parking Lot C (East Standley and Main Streets)

- The site is bound by Main Street to the west, Smith Street to the north, Mason Street to the east, and Standley Street to the south;
- It is the largest of the three hypothetical sites with the ability to be combined with the adjacent commercial building site to the east;
- The existing uses include a city controlled surface parking lot on the west side and a commercial building on the east side;
- It is not located within the boundaries of Historic Downtown Ukiah. Guests would have to cross State Street to reach Historic Downtown amenities. State Street is a busy, two-way, north/south arterial;
- This location does not possess the ideal ambiance for an upscale, full-service, wine country hotel;
- Based on the Ukiah Municipal Airport Master Plan Compatibility Zoning Map dated July 1996, developments above three stories are not permitted on this site; and,
- The site is the closest to Highway 101 and the Perkins Street Exit (approximately $\frac{1}{2}$ mile).

SITE NO. 3 – Ukiah Valley Conference Center & Parking Lot E (School and Church Streets)

- A hotel would be developed above the existing Ukiah Valley Conference Center;
- As part of the hotel development, the Ukiah Valley Conference Center would be renovated and updated;
- The hotel would effectively be part of the Ukiah Valley Conference Center and have access to its meeting and catering facilities;
- The site is located in Historic Downtown Ukiah and walking distance to restaurant and retail amenities. It is the closest to Alex Thomas Plaza;

- Based on the Ukiah Municipal Airport Master Plan Compatibility Zoning Map dated July 1996, developments above three stories are permitted on this site; and,
- The development cost of a hotel at this site would likely also include the cost to renovate the Ukiah Valley Conference Center. As such, we are of the opinion that the total development cost of a hotel on this site would be prohibitive in attracting private investment.

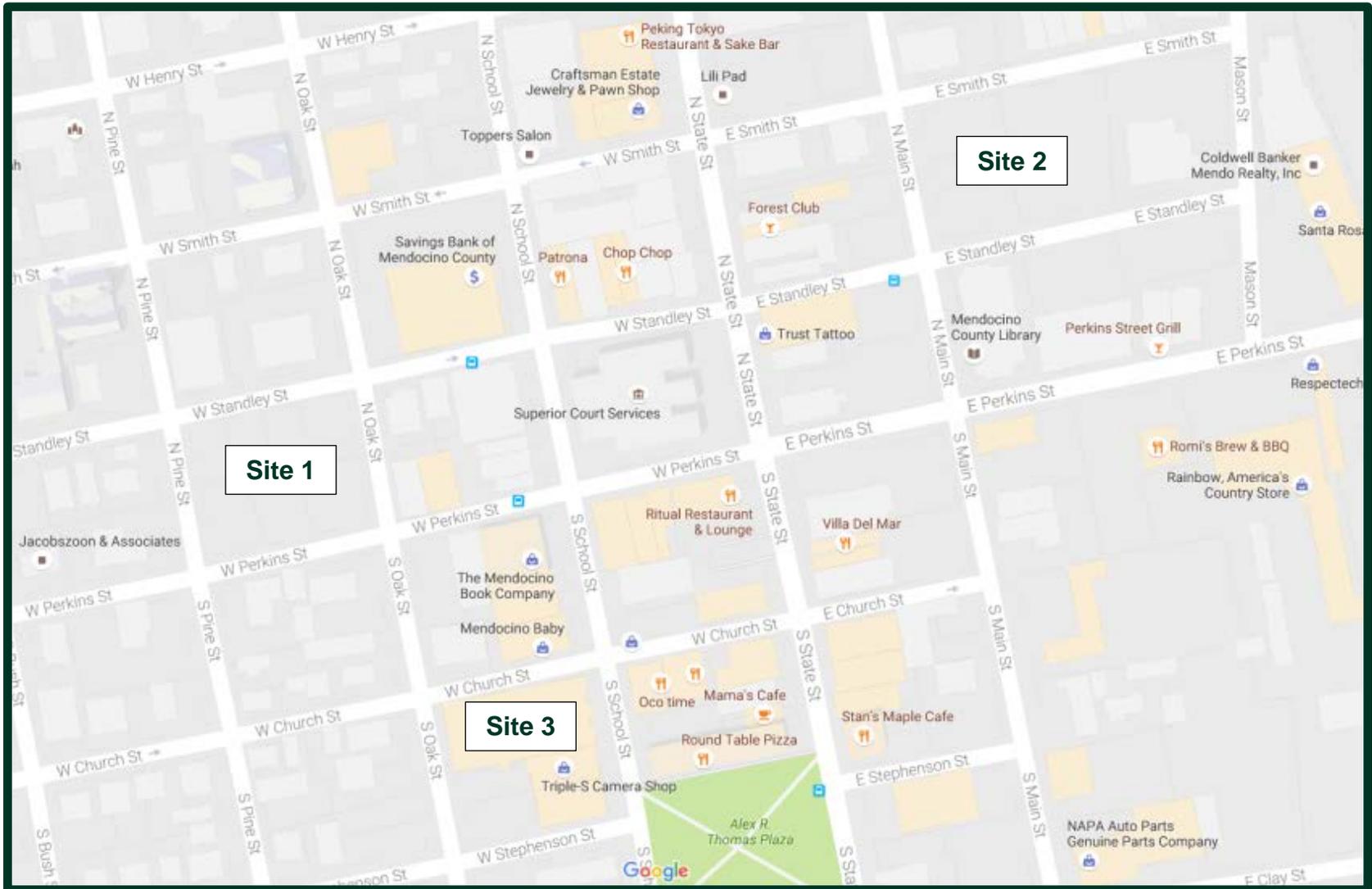


Hypothetical City Controlled Hotel Development Sites in Historic Downtown Ukiah

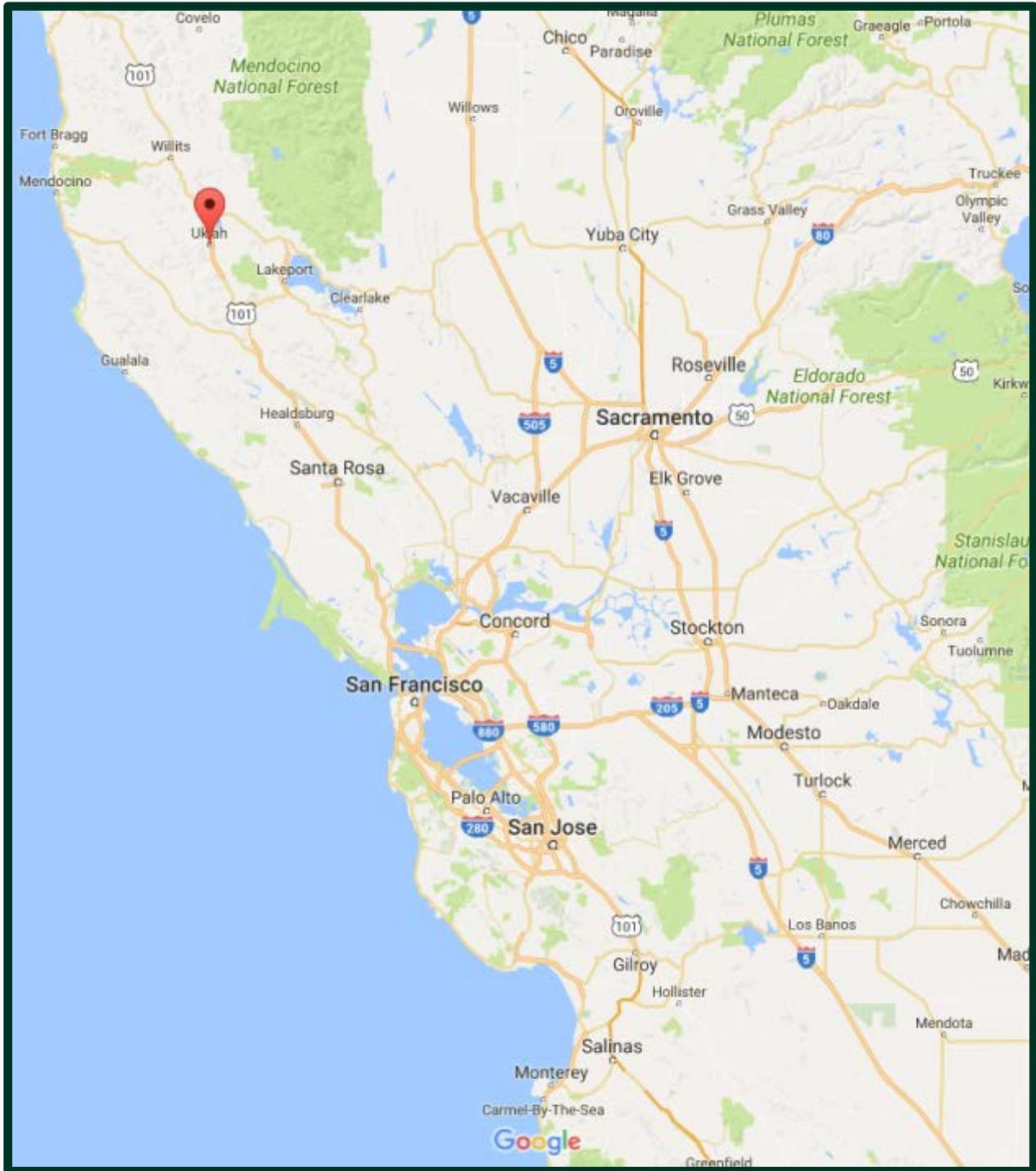
Upon inspection of the three hypothetical sites in Ukiah and review of their individual attributes, we would rank the three sites in the following order:

- 1. Parking Lot A:** Parking Lot A is the optimal site for the development of a hotel. The site has good ambiance for a wine country hotel and is proximate to Historic Downtown Ukiah amenities. While it will not have visibility from Highway 101, it can be easily accessed from the Perkins Street Exit off Highway 101. The site is rectangular in shape and at grade with its surroundings. Based on our physical inspection, this site is adequate in size and would be well suited for the development of a hotel
- 2. Parking Lot C:** Among the three identified sites, Parking Lot C is the second best site for the development of a hotel. Like Parking Lot A, this site will not have visibility from Highway 101, but it is the closest to the Perkins Street Exit off Highway 101. This site is the largest of the three sites. Based on our inspection, this site is adequate in shape and size for the development of a hotel. We are of the opinion, however, that this location would not provide the ideal setting for an upscale, wine country hotel.
- 3. Ukiah Valley Conference Center & Parking Lot E:** Conference Center & Parking Lot E is well located in the heart of Historic Downtown Ukiah for the development of a hotel. If a hotel were to be developed in this location, it would be constructed above the existing facility. A hotel developed above the conference center would have access to conference center facilities. That being said, we are of the opinion that the cost to develop a hotel above the conference center would be prohibitive in attracting private investment.

Presented on the following pages are local and regional maps illustrating the three hypothetical development sites and the location of Ukiah.



Local Map



Regional Map

C. AREA REVIEW

As previously stated, the proposed Subject will be located in Ukiah, California. Provided in the following section is an overview of the regional and local markets.

1. STATE OF CALIFORNIA

Over the past fifteen years, California has experienced the full spectrum of the economic cycle. It entered into a recession in the early 2000s, followed by a period of economic recovery and growth beginning in mid-year 2003. This recovery period was marked by a decline in the state's unemployment rate, an increase in the employment base, and strong growth in the state's gross domestic product, fueled by a diversifying knowledge-based economy. In conjunction with the strengthening of the national economy and a booming real estate market, California's economy prospered from mid-year 2003 through mid-year 2007. Beginning in the second half of 2007, the Californian economy slowed due to a national recession driven by the national mortgage credit crisis. This most recent recession lasted approximately 20 months and is believed to have ended in August 2009.

After multi-billion dollar shortfalls in recent years, including a \$26.6 billion budget gap in 2011, California ended the 2014/15 fiscal year with revenues for the General Fund totaling \$6.8 billion more than anticipated one year ago when the 2014/15 budget was enacted. This is 6.4 percent higher than projected. Compared to the previous fiscal year, California revenues were \$12.7 billion higher, an increase of 12.5 percent over prior year levels. For the entire 2014/15 fiscal year that ended June 30th, personal income tax led the surge, accounting for \$5.8 billion of the \$6.8 billion windfall. Corporation taxes beat projections by \$1.6 billion, while retail sales and use taxes for the year came in \$395.9 million lower than expected. Of the \$12.7 billion revenue increase over the 2013/14 fiscal year, \$10.1 billion or 80 percent consisted of personal income taxes.

2. MENDOCINO COUNTY

The proposed Hotel lies within Mendocino County, which is located in Northern California, to the north of Sonoma County, to the west of Lake, Glenn, and Tehama Counties, and to the south of Humboldt and Trinity Counties. Mendocino County is approximately 3,500 square miles and features approximately 80 miles of coastal frontage along the Pacific Ocean. The county's southern boundary is approximately 115 miles north of San Francisco while the county's northern border is approximately 180 miles south of the Oregon border.

Mendocino County is traversed by U.S. Highway 101 in its interior, and by Highway 1 along the Pacific Coast. Several routes connect these major highways including Highway 128 and Highway 20. Most of Mendocino County's major cities are situated along these highways. The cities of Hopland, Ukiah (the county seat and largest city, as well as the subject of this report), Willits,

Laytonville, and Leggett all straddle Highway 1. Gualala, Anchor Bay, Point Arena, Manchester, Elk, Albion, Little River, Mendocino, Fort Bragg, and Westport are all small, former logging communities along Highway 1.

Mendocino County is characterized by picturesque terrain including breathtaking coastal views, rolling, vineyard-covered hills, redwood forests, and rugged mountains. It is known for outdoor recreational activities such as camping, diving, fishing, whale watching, ocean-kayaking, and hiking.

Population: According to the California Department of Finance Demographic Research Unit, Mendocino County has a 2016 population of approximately 88,400, representing an increase of 0.2 percent over 2015 levels. The City of Ukiah is the largest city with approximately 16,200 residents as of January 1, 2016. The countywide population has grown at a compound annual growth rate (CAGR) of 0.1 percent since 2010, slower than the statewide CAGR of 0.9 percent over the same period.

Employment: The major employers in Mendocino County consist primarily of government, hospitals, agriculture, and tourism/gaming. Historically, the economy in Mendocino County has been driven by the timber and commercial fishing industries, but employment in these industries has decreased considerably over the past three decades as a result of environmental preservation efforts and the modernization of processing techniques. The following table summarizes the largest employers in the county, as of 2016.

Major Employers in Mendocino County - 2016			
Employer	Location	Employer	Location
City of Ukiah	Ukiah	Mendocino Redwood Co LLC	Calpella
Coyote Valley Casino	Redwood Valley	Raley's	Ukiah
Dharma Realm Buddhist Assn	Talmage	Redwood Empire Packing Inc.	Ukiah
Fetzer Vineyards	Hopland	Safeway	Fort Bragg
Forestry & Fire Protection	Willits	Trinity Youth Services	Ukiah
Hillside Health Center	Ukiah	Ukiah Campus	Ukiah
Hopland Sho Ka Wah Casino	Hopland	Ukiah City Civic Center	Ukiah
Little River Inn Golf & Tennis	Little River	Ukiah High School	Ukiah
Mendocino Coast District Hospitality	Fort Bragg	Ukiah Valley Medical Center	Ukiah
Mendocino College	Ukiah	Walmart	Ukiah
Mendocino County	Ukiah		

Source: State of California Employment Development Department

As of August 2016, Mendocino County reported a total labor force of approximately 40,900 people. Unemployment for the county was 5.0 percent, on par with the statewide unemployment rate 4.9 percent.

Transportation: Primary transportation through Mendocino County is provided by U.S. Highway 101 and State Highways 1, 20, 128, 162, and 253. Highway 101 travels north to the Oregon Border and south to San Francisco. Highway 1, also known as the Pacific Coast Highway, travels south to San Francisco and north through Mendocino County, where it connects to Highway 101.

Highway 128 travels southeast from Highway 1, where it connects with Highway 101 in Cloverdale. Highways 20, 128, 162, and 253 travel in east-west directions.

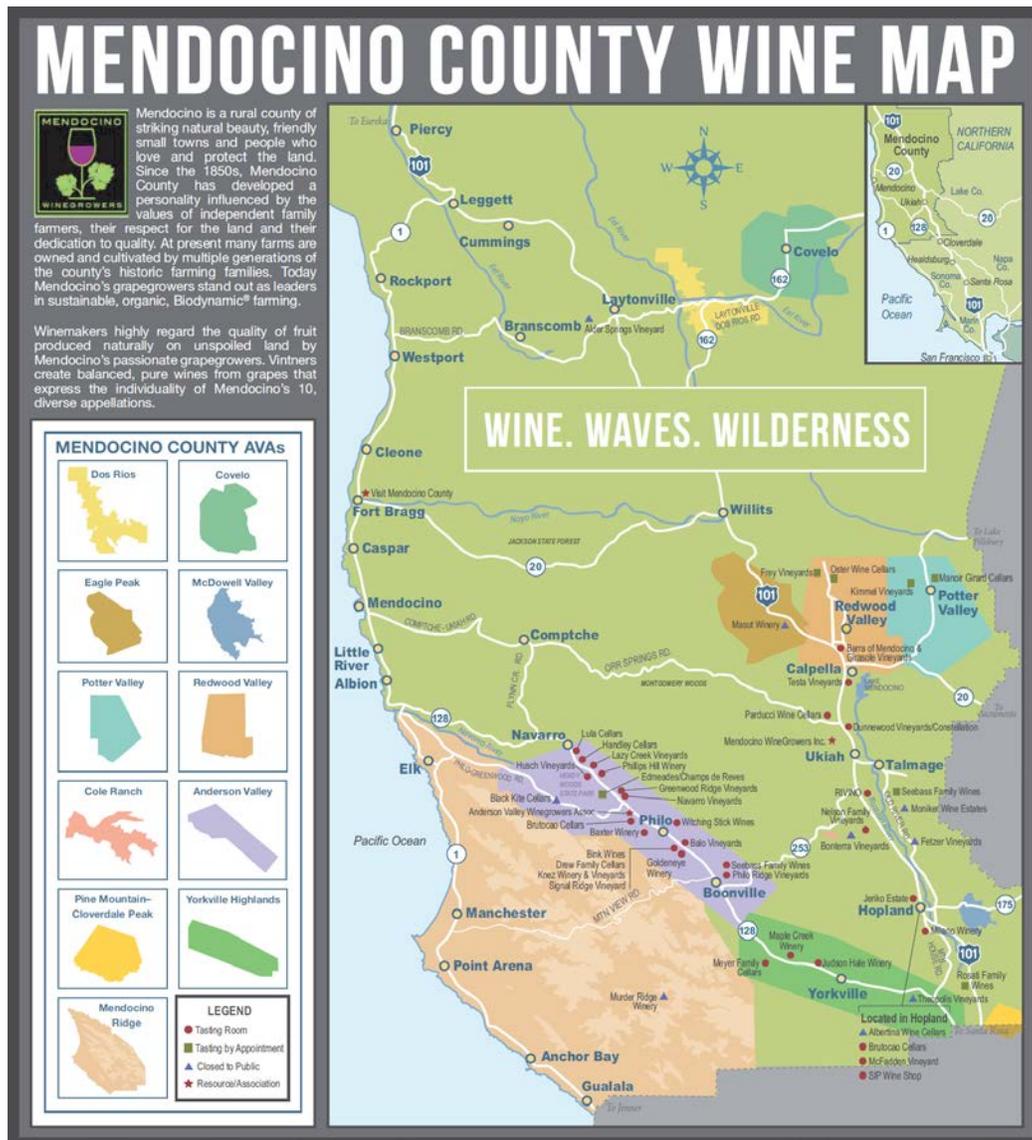
Public transportation is provided by the Mendocino Transit Authority (MTA), serving Ukiah, Mendocino Valley, and other coastal communities. MTA operates several routes, most of which radiate from the main city of Ukiah.

Mendocino County has two public airports: the Round Valley Airport and the Little River Airport. The Round Valley Airport is an unmanned airport with a paved runway, runway lights, and a tie down area that serves a remote area of the County. The Little River Airport, which serves the central Mendocino coast, provides more thorough services, is located 3 miles southeast of Little River, and has one runway.

The Ukiah Municipal Airport is a public airport located just south approximately 1.5 miles south of Downtown Ukiah. It is a general aviation airport situated on 160 acres and has one runway. The airport opened in the 1930's and has 87 aircrafts based on site.

Tourism: The Mendocino coast is a popular weekend getaway for many San Francisco Bay Area residents. Among the attractions are the coastal scenery, state parks and beaches, and other outdoor activities. Among the most popular destinations are the Russian River, the Albion River, Sinkyone Wilderness State Park, Van Damme State Park, Hendy Woods State Park, Mendocino Headlands State Park, and Navarro River Redwoods State Park. Popular outdoor activities include camping, hiking, rafting, canoeing & kayaking, and diving. Additionally, Mendocino County is known for its many excellent wineries. Indeed, the vineyards in this region are leaders in sustainable, organic, and Biodynamic grape growing practices. Displayed below is a map highlighting some of the county's most popular wineries.

Ukiah serves as the starting point for visitors traveling along the Pacific Coast. From Ukiah, visitors head west along Highway 253 to Boonville which then connects to Highway 128. Heading north along Highway 128 from Boonville, through Philo and Navarro, visitors traverse through the heart of Anderson Valley. Anderson Valley is Mendocino County's most well-known wine growing region. Only fifteen miles long, Anderson Valley is home to a unique group of vineyards and wineries producing a broad range of excellent wines including world class Pinot Noir and Alsace Varietals. Highway 128 then connects to Highway 1, also known as the Pacific Coast Highway.



Climate: The Mendocino coast is characterized by seasonal weather conditions with lower temperatures and greater precipitation during winter months and higher temperatures and little precipitation during the summer. The average high temperature in July in Mendocino County is 81.3 degrees F, while the average low in January is 36 degrees F. However, it should be noted that Mendocino County has a range of microclimates which are largely influenced by the geography and topography of the region.

3. CITY OF UKIAH

The first Anglo settler to dwell in what is now Ukiah was John Parker, a vaquero who worked for pioneer cattleman James Black. Black had taken possession of a block of grazing land just south of present-day Ukiah, and Parker constructed his cabin on the banks of what was known as Wilson Creek. In 1857, seven more settlers arrived in the city. The first United States post office

opened in the city in 1858, and by 1859 the population of Ukiah had grown to approximately 100 people. Ukiah was incorporated in 1876, but it was not until 1889 that the San Francisco and North Pacific Railroad completed its line from Cloverdale (30 miles south) to Ukiah, finally linking Ukiah to the national rail network.

Present day Ukiah is the largest city in Mendocino County and serves as the county seat. With its accessible location along the busy north/south Highway 101 corridor and near the east/west Highway 20 corridor, Ukiah serves as a hub for both Mendocino County and much of neighboring Lake County. The city has an estimated population of approximately 16,075 people. However, as the Mendocino County seat and the business/education/shopping center for much of the region, the weekday population swells to roughly 35,000, generating significant lodging demand.

Ukiah is surrounded by natural beauty and hosts a variety of recreational activities, including the county's only 18-hole golf course, three disc golf courses, Lake Mendocino for boating, fishing, hiking, and camping, and thousands of acres of BLM land for recreation and off-road vehicle use. It possesses a vibrant and diversified economy and a mix of small town charm and big city culture. For these reasons, Ukiah is rapidly being discovered by visitors looking for an easy, inspiring getaway. Since 2010 visitor spending in Ukiah has increased by nearly 50 percent. Presented below is a summary of several of the attributes of the City of Ukiah.

- Ukiah was voted "Best in California" and "6th Best Small Town in the U.S." by Norman Crampton's *The 100 Best Small Towns in America* and one of the "8 Great Places You've Never Heard Of" by Mother Earth News.
- Ukiah is centrally located to over 30 winery tasting rooms, making it an ideal location for residents of nearby San Francisco or Sacramento interested in a weekend of wine-tasting as an alternative to the more expensive and crowded Napa or Sonoma Counties. The region is also a national leader in organic vineyard practices and has been dubbed the greenest wine region in America. In June and November, the city hosts the weekend-long event A Taste of Redwood Valley, a celebration of the region's wineries. Wine tourism is one of the primary lodging demand generators in Ukiah.
- Downtown Ukiah is home to a multitude of visitor attractions, including a bustling restaurant scene largely focused around local, organically grown produce, meats, and wines; the Grace Hudson Museum and Sun House, an art and history museum that features the intricate basketry of the local Pomo Indian tribe; and a wide variety of family-owned boutiques appealing to window shoppers, souvenir seekers, and locals alike. Additionally, Ukiah is home to the City of 10,000 Buddhas, one of the largest Buddhist communities in the Western Hemisphere, and Montgomery Woods Redwood

Grove, one of the most pristine redwood tree groves anywhere. Historic Vichy Springs, the only warm and naturally carbonated mineral baths in North America, is just outside the city limits. Orr Hot Springs, the first commercial hot springs in the country, is approximately 25 minutes outside of town.

- The region's multitude of wineries, combined with its spectacular natural beauty and abundance of visitor attractions, make it a popular destination for events such as weddings and reunions.
- A variety of major projects will bring significant changes to Ukiah over the next several years. Some of these include the new Costco development planned near Talmage Road and Highway 101; the new Ukiah Courthouse, which is anticipated to cost more than \$100 million; a new affordable senior housing project and more multi-family housing to support the growing population; an extension of the existing Rail Trail, which will create a safe and efficient pedestrian and bike pathway through the city; and the Downtown Streetscape Project between Mill and Henry Streets, which will include widened sidewalks, bulbouts for greater pedestrian safety, and improved traffic circulation. Additionally, an expansion of the Ukiah Valley Medical Center, which serves 122,000 people annually, was approved in 2014. This expansion will help the facility's efforts to advance its trauma designation from level 4 to level 3.
- Ukiah has a vibrant economy and a friendly business climate, in part due to its comprehensive workforce development network which includes education, training, support services, and the facilitation of business development, job retention, and expansion. On average, the City of Ukiah's development fees are 50 to 60 percent lower than other cities in the area, and there are no school impact fees.
- A long list of innovators and industry leaders are based in the Ukiah area. Among others, Maverick Enterprises, a privately owned company that produces capsules and alternative closures for the wine, distilled spirits, and specialty food and beverage industries, and Factory Pipe, which makes specialized mufflers for snowmobiles and jet skis, are based in Ukiah. Solar Living Institute, which manages the Solar Living Center, a 12-acre renewable energy and sustainable living demonstration site that is visited by 200,000 people annually, is located in nearby Hopland. Advance Power, which was the first California business to be solar and wind powered and has been a leader in the energy production industry since 1978, is located just north of Ukiah in Redwood Valley. The area is also home to Parducci Wine Cellars, the first carbon neutral winery in the U.S., and Fetzer Winery, the sixth largest wine producer in the U.S., the first California winery

to operate on 100 percent renewable energy, the first winery to achieve zero waste, and the site of the largest solar array in the wine industry.

- Ukiah offers an array of post-secondary educational opportunities. Mendocino College, founded in 1973, is located in Ukiah and is part of the Mendocino-Lake Community College District. The 127-acre campus enrolls approximately 5,150 students and employs 55 full-time and 200 adjunct faculty members. Sonoma State University offers an upper-division extension program in Ukiah leading to a Bachelor of Arts in Liberal Studies, with an emphasis on American Studies. In nearby Hopland, the University of California Davis operates a Research and Extension Center, one of nine such centers operated by the UC Division of Agriculture and Natural Resources.
- The map on the following page illustrates the relative location of the three hypothetical sites to some of the development projects in Downtown Ukiah.

4. CONCLUSION

After review of the general economic and demographic information for the City of Ukiah and the greater Mendocino County area, we are of the opinion that the local and regional economies are poised for continued economic growth. Due to its abundance of visitor attractions and proximity to major population centers, Ukiah is projected to remain a very desirable visitor destination. As such, growth in lodging demand, both from individual business and leisure travelers as well as group demand generated from social functions, is expected to continue to increase.

City of Ukiah
Downtown Ukiah

Site 1

Site 2

Site 3

Ukiah Valley Medical Center—expanding (2017 *)

Perkins St. Electric Utilities being undergrounded (2016)

Site of new \$120M+ courthouse (2017)

Rail Trail from Clara to Gobbi St. complete; Phase 2 starting 2016 to Taimage

Downtown Streetscape Project; construction 2017 (***)

Grace Hudson Museum Nature Education Project (2016-17) **

New 42-unit senior housing project (2016)

City of Ukiah

Downtown Ukiah

Standley St.

School Street

State Street

Perkins Street

Main Street

Ukiah, CA 95682

Google Earth

* The Ukiah Valley Medical Center is dramatically expanding their services and their facilities; the project is ongoing, beginning in 2016

** The grounds of the Grace Hudson Museum are being completely renovated to create an interactive Nature Education Project; construction began in late 2015 and is expected to be completed in 2017

*** The Downtown Streetscape project will improve State Street between Clay and Henry Streets; it will help traffic flow more smoothly, widen the sidewalks, improve pedestrian safety and walkability in general, and more

In addition to these projects, several multi-family housing projects in and around the downtown are in progress. For more details the projects on this image (and more), please visit www.cityofukiah.com/projects

D. HOTEL MARKET ANALYSIS

1. NATIONAL MARKET OVERVIEW

The research division of CBRE Hotels (formerly PKF Hospitality Research) owns the database for *Trends® in the Hotel Industry*, the statistical review of U.S. hotel operations, which first appeared in 1935 and has been published every year since. Beginning in 2007, the powerful *Hotel Horizons®* was unveiled. *Hotel Horizons®* is an economics-based hotel forecasting model that projects five years of supply, demand, occupancy, ADR, and revenue per available room (“RevPAR”) for the U.S. lodging industry with a high degree of accuracy. *Hotel Horizons®* reports are published on a quarterly basis for 59 markets and six national chain-scales.

Based on the *September - November 2016 National Edition of Hotel Horizons®*, revenue per available room for the U.S. lodging market grew by 8.1 percent in 2011, 6.7 percent in 2012, 5.2 percent in 2013, 8.1 percent in 2014, and 6.2 percent in 2015. As a point of comparison, RevPAR declined by 16.7 percent in 2009, the largest percentage decline since CBRE Hotels/PKF Hospitality Research began tracking lodging performance in 1935. This significant drop was a direct result of the severe national and global recession which began in the fall of 2007 and lasted well into 2009. Further, it resulted in a 40.0 percent decrease in hotels’ net operating income (“NOI”), subsequently impacting hotel values throughout the nation.

For the following three years (2016, 2017, and 2018), the overall U.S. lodging market is projected to achieve RevPAR growth rates of 3.6 percent, 3.9 percent, and 3.7 percent, respectively, with ADR gains leading these increases. However, it should be noted that these RevPAR growth rates are below the growth experienced over the last five years as the national lodging recovery cycle is nearing an end as supply growth is beginning to have a negative impact on occupancy and subsequently ADR growth.

2. COMPETITIVE LODGING MARKET OVERVIEW

In our analysis of the competitive market for the proposed Hotel, we have identified nearly all of the existing hotels in the Ukiah market. The existing competitive hotel supply in the City of Ukiah, which represents a self-contained lodging market along the Highway 101 corridor, consists of upper midscale, midscale, and economy hotels (per Smith Travel Research chain scale definitions). Based on our research, we have identified nine properties as representing the primary competitive market for the proposed Hotel. The total number of rooms in the competitive supply is 522. Competitive properties were identified on the basis of location, room product offered, guest type, and overall quality. These hotels are identified in the table below and we have provided a table highlighting the primary facilities of each hotel on the next table.

Competitive Market					
Hotel	City	Rooms	Opening Date	Chain Class	Affiliation
Best Western Orchard Inn	Ukiah	54	2001	Midscale	Best Western
Super 8 Ukiah	Ukiah	54	1981	Economy	Wyndham
Days Inn Ukiah	Ukiah	54	1959	Economy	Wyndham
Quality Inn Ukiah	Ukiah	40	1960	Midscale	Choice
Motel 6 Ukiah	Ukiah	70	1970	Economy	Motel 6
Fairfield Inn & Suites Ukiah Mendocino	Ukiah	56	2005	Upper Midscale	Marriott
Hampton Inn Ukiah	Ukiah	76	2002	Upper Midscale	Hilton
Comfort Inn & Suites Ukiah	Ukiah	63	2007	Upper Midscale	Choice
Travelodge Ukiah	Ukiah	55	1997	Economy	Wyndham
Subtotal		522	-	-	
Proposed Ukiah Hotel		75	-	-	
Total		597	-	-	

As noted, these hotels range in size between 40 guestrooms (Quality Inn Ukiah) and 76 guestrooms (Hampton Inn Ukiah) and opened between 1959 and 2007.

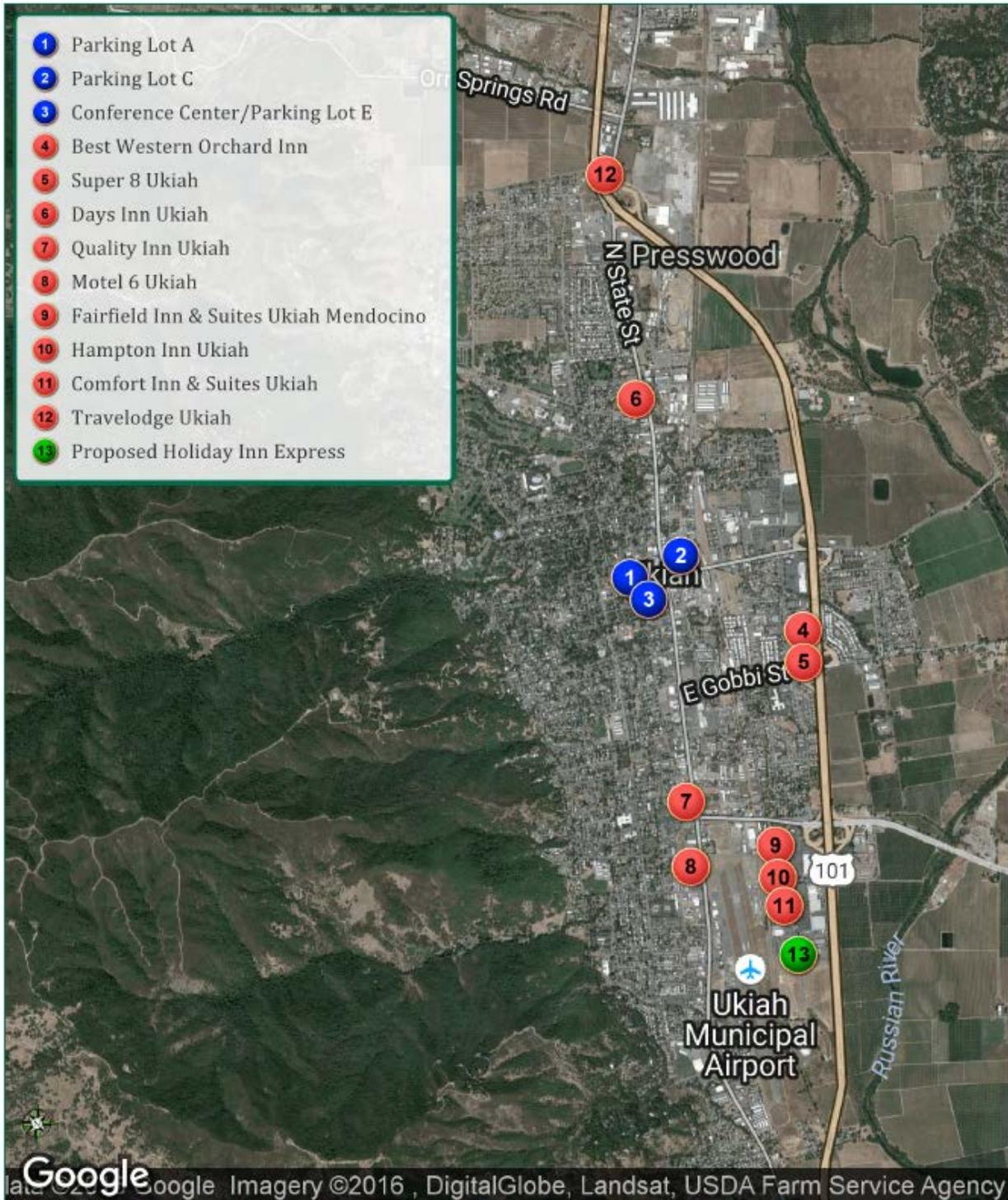
It should be noted that while other hotels in the regional market may be deemed competitive to the proposed Hotel, the selected properties were useful in illustrating the general performance of the local hotel market. Specifically, we have excluded independent hotels and motels from our sample. A map of the competitive market has been presented on page 25.

SUMMARY OF UKIAH HOTELS				
Property	Best Western Orchard Inn	Super 8 Ukiah	Days Inn Ukiah	Quality Inn Ukiah
				
Address	555 S Orchard Ave	693 S Orchard Ave	950 N State St	1050 S State St
Year Opened	2001	1981	1959	1960
Number of Rooms	54	54	54	40
Affiliation	Best Western	Wyndham	Wyndham	Choice Hotels
Amenities				
Food & Beverage	Complimentary Breakfast	Complimentary Breakfast	Complimentary Breakfast	Complimentary Breakfast
Recreation	Fitness Center, Outdoor Pool	Fitness Center, Outdoor Pool	Fitness Center, Outdoor Pool	Fitness Center
Meeting Space	N/A	N/A	N/A	N/A
Property	Motel 6 Ukiah	Fairfield Inn & Suites Ukiah	Hampton Inn Ukiah	Comfort Inn & Suites Ukiah
				
Address	1208 S State St	1140 Airport Park Blvd	1160 Airport Park Blvd	1220 Airport Rd
Year Opened	1970	2005	2002	2007
Number of Rooms	70	56	76	63
Affiliation	Motel 6	Marriott	Hilton	Choice Hotels
Amenities				
Food & Beverage	N/A	Complimentary Breakfast	Complimentary Breakfast	Complimentary Breakfast
Recreation	Outdoor Pool	Fitness Center, Indoor Pool	Fitness Center, Outdoor Pool	Fitness Center, Outdoor Pool
Meeting Space	N/A	414 sq. ft.	1,800 sq. ft.	N/A

SUMMARY OF UKIAH HOTELS

Property	Travelodge Ukiah
	
Address	1720 N State St
Year Opened	1997
Number of Rooms	55
Affiliation	Travelodge
Amenities Restaurant Recreation Meeting Space	Complimentary Breakfast Fitness Center, Outdoor Pool N/A

Proposed Hotel Ukiah Competitive Hotel Map



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3. HISTORICAL PERFORMANCE OF THE COMPETITIVE MARKET

Presented in the following table is a summary of the historical supply and demand and the resulting occupancy percentages for the identified competitive market for the period 2005 to 2015 as well as year-to-date (“YTD”) August 2016 and 2015. Also included are the competitive market’s average daily rate (“ADR”) and revenue per available room (“RevPAR”) figures. RevPAR is an industry standard which equates to the total revenue generated by available rooms and thereby measures the operational success of a market or individual property.

Proposed Ukiah Hotel									
Historical Performance of the Competitive Market									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2005	152,205		89,649		58.9%	\$70.26		\$41.38	
2006	167,535	10.1%	100,018	11.6%	59.7%	\$73.63	4.8%	\$43.96	6.2%
2007	178,850	6.8%	100,871	0.9%	56.4%	\$77.17	4.8%	\$43.52	-1.0%
2008	190,530	6.5%	107,459	6.5%	56.4%	\$78.27	1.4%	\$44.14	1.4%
2009	190,530	0.0%	95,074	-11.5%	49.9%	\$76.87	-1.8%	\$38.36	-13.1%
2010	190,530	0.0%	101,934	7.2%	53.5%	\$75.06	-2.4%	\$40.16	4.7%
2011	190,530	0.0%	109,555	7.5%	57.5%	\$76.39	1.8%	\$43.92	9.4%
2012	190,530	0.0%	111,460	1.7%	58.5%	\$76.21	-0.2%	\$44.58	1.5%
2013	190,530	0.0%	118,129	6.0%	62.0%	\$78.99	3.6%	\$48.97	9.8%
2014	190,530	0.0%	120,987	2.4%	63.5%	\$86.98	10.1%	\$55.23	12.8%
2015	190,530	0.0%	129,179	6.8%	67.8%	\$96.87	11.4%	\$65.68	18.9%
CAGR	2.3%	-	3.7%	-	58.6%	3.3%	-	4.7%	-
YTD Aug '15	127,020	-	84,849	-	66.8%	\$94.39	-	\$63.05	-
YTD Aug '16	127,020	0.0%	85,866	1.2%	67.6%	\$101.94	8.0%	\$68.91	9.3%

Source: CBRE Hotels

- As can be noted from the table above, supply for the competitive market has increased at a compound annual growth rate (“CAGR”) of 2.3 percent from 2005 to 2015. During this period, the two additions to supply were the 56-room Fairfield Inn & Suites Ukiah Mendocino (October 2005) and the 63-room Comfort Inn & Suites Ukiah (July 2007).
- Demand, as measured by occupied room nights for the competitive market, has increased at a CAGR of 3.7 percent from 2005 through 2015. During this period, demand growth ranged from a decline of 11.5 percent to an increase of 11.6 percent. Prior to the recent recession (2005 to 2008), demand growth ranged from 0.9 percent to 11.6 percent. Occupancy declined slightly from 58.9 percent in 2005 to 56.4 percent in 2008 as the two aforementioned additions to supply were absorbed by the competitive market. Demand declined 11.5 percent and occupancy reached a low of 49.9 percent in 2009 due to the effects of the last economic recession. Following the recession, demand growth ranged from 1.7 percent to 7.5 percent, between 2010 and 2015. Occupancy increased from 53.5 percent in 2010 to a record high of 67.8 percent in 2015. As of year-to-date (“YTD”) August 2016, demand increased 1.2 percent over YTD August 2015, resulting in occupancy of 67.6 percent. Demand growth following the recent recession has been driven by the economic growth benefitting all of Northern California.

- The competitive market's occupancy over this 11-year period ranged from 49.9 percent (2009) to 67.8 percent (2015), with an average of 58.6 percent. As a point of comparison, the long-run average occupancy for the U.S. lodging market is 62.1 percent. As noted, occupancy of the competitive lodging market has been below the long-run national average for nine of the past 11 years. Only recently as of 2013 has the Ukiah lodging market achieved an occupancy level above 62 percent. The performance of the competitive market is indicative of the location of Ukiah relative to local and regional demand generators, the small size of the market, and the relatively low quality/condition of the existing hotels. Overall, Ukiah represents a tertiary hotel market that is quite sensitive to economic changes effecting lodging demand. It will typically be one of the first markets to be affected by economic downturns and the last to benefit from economic growth. At recent occupancy levels (67.8 percent in 2015), however, the competitive market is effectively operating at maximum annual capacity due to seasonality and demand segmentation. As such, the competitive market is unable to accommodate additional demand during peak periods; thereby creating unsatisfied demand.
- ADR for the competitive market increased at a CAGR of 3.3 percent from 2005 to 2015. During this period, ADR growth for the competitive market ranged from a decline of 2.4 percent to growth of 11.4 percent. ADR increased 4.8 percent in both 2006 and 2007 due to the additions of the Fairfield Inn & Suites and the Comfort Suites. These two hotels were able to achieve ADR premiums over the competitive supply and thus provided a "lift" to the aggregate ADR of the competitive market. It is interesting to note that when occupancy was at its lowest point during the recent recession in 2009, ADR only declined 1.8 percent. Comparatively, the ADR of the national lodging market declined 8.6 percent in 2009. As occupancy in the competitive market reached record levels in 2014 and 2015, hotel general managers have been able to aggressively increase asking room rates during periods of peak demand. This strategy has yielded double-digit ADR growth of 10.1 percent in 2014 and 11.4 percent in 2015, well above the CAGR of 3.3 percent. This trend has continued as the competitive market achieved 8.0 percent ADR growth as of YTD August 2016 over YTD August 2015.
- With healthy increases in both occupancy and ADR between 2005 and 2015, RevPAR growth has ranged from a decline of 13.1 percent to growth of 18.9 percent. The competitive market achieved record double-digit RevPAR growth levels in 2014 and 2015. YTD August 2016 RevPAR growth tapered to 9.3 percent over YTD August 2015. With the competitive market effectively operating at maximum annual capacity, RevPAR growth was driven primarily by ADR growth.
- In 2015, the occupancy of the individual properties ranged from approximately 45 to 80 percent. We further estimate that ADR of the individual hotels ranged from approximately

\$50 to \$130 in 2015. As the individual upper midscale hotels have historically achieved significantly stronger occupancy and ADR than the individual midscale and economy hotels, it is evident that there is more demand for the higher quality lodging products in Ukiah.

- We estimate the demand segmentation of the competitive market is comprised of approximately 95 percent transient commercial and leisure demand and 5 percent group demand. We further estimate that the transient demand is comprised of approximately 50 percent commercial demand and 50 percent leisure demand.
- As illustrated in the chart below, occupancy in the competitive market does exhibit seasonal patterns. The strongest months are the months of June through October when occupancy is in the 70 percent to 80 percent range. April, May, and November are shoulder months with occupancy in the high-50 to low-60 percent range. January, February, March and December are the slowest months with occupancy in the high 40 to mid-50 percent range.

Competitive Market Seasonality (Monthly)				
Monthly Occupancy	2013	2014	2015	3-Year Avg.
January	44%	49%	54%	49%
February	52%	55%	62%	56%
March	51%	53%	56%	53%
April	55%	60%	61%	58%
May	65%	62%	67%	65%
June	75%	71%	76%	74%
July	76%	75%	78%	76%
August	75%	84%	81%	80%
September	71%	73%	84%	76%
October	68%	67%	74%	70%
November	61%	61%	63%	62%
December	51%	54%	57%	54%
	62%	63%	68%	64%

- The chart on the following page illustrates the demand in the competitive market by day of the week. Commercial travel drives demand on Tuesday and Wednesday with occupancy of 70 percent. Leisure travel drives demand on Friday and Saturday with occupancy of 69 percent and 73 percent, respectively. Saturday is historically the busiest day of the week. Monday and Thursday are shoulder periods with a mix of commercial and leisure demand. Sundays are the slowest day of the week with average occupancy of approximately 50 percent.

Competitive Market Seasonality (Weekly)				
Day of Week	TTM 8/14	TTM 8/15	TTM 8/16	3-Year Avg.
Sunday	48%	48%	53%	50%
Monday	60%	63%	66%	63%
Tuesday	67%	70%	72%	70%
Wednesday	68%	71%	72%	70%
Thursday	63%	66%	69%	66%
Friday	67%	69%	70%	69%
Saturday	71%	73%	76%	73%
Year	63%	66%	68%	66%

4. ADDITIONS TO SUPPLY

During the course of our research, we have identified one new hotel project that has been proposed.

- **Upper Midscale Hotel:** A 92-room, upper midscale hotel has been proposed near Highway 101 in Ukiah. While it is in preliminary planning stages, it is currently scheduled to open in January 2019. We have included the annualized addition of this hotel in our projection of future supply and demand.

5. RECOMMENDED HOTEL PRODUCT

Based on the information obtained during the course of this assignment and a review of the individual performance levels of the competitive hotels, we have determined that there is sufficient market demand to support the development of a new hotel in Historic Downtown Ukiah. As discussed earlier, we are of the opinion that the vicinity of **Parking Lot A (West Standley and Oak Streets)** would be the optimal site for such a hotel development.

Based on our research, we recommend that the proposed Hotel be positioned as an independent, upscale hotel, affiliated with one of the major hotel companies as a “soft brand.” As discussed earlier, soft brands allow hotels to be part of a major hotel company’s sales and marketing platforms, including access to their central reservation systems and guest loyalty programs, while retaining their unique, design, orientation, and independent status. As such, soft-branded hotels do not have to conform to all the stringent standards typically required by traditional hotels. Examples of “soft brands” that may be appropriate for the proposed Hotel include, but are not limited to, Ascend Hotel Collection (Choice Hotels), BW Premier Collection (Best Western), Lexington Legacy Hotels, and IBC Hotels.

While subject to further refinement, we recommend that the proposed Hotel contain up to 75 guestrooms, restaurant/bar, approximately 1,500 to 2,500 square feet of meeting space, a full-service restaurant/bar (operated or leased), possibly a tasting room, and typical amenities found at upscale hotels (fitness center, business center, etc.). For the purpose of our analysis, we have

assumed that the proposed Hotel would be open and available for occupancy by January 1, 2020. We have summarized the recommended facilities in the table below.

Proposed Ukiah Hotel Summary of Recommended Facilities	
Room Count:	Up to 75 guestrooms
Chain Scale:	Upscale
Gross Building Area:	48,750 SF
Gross Square Feet Per Room:	+/-650 SF
Floors:	Up to four stories
Food & Beverage Facilities:	Restaurant and Bar
Meeting Space:	1,500 to 2,500 square feet
Other:	business center, fitness center, whirlpool, sundries shop

We envision that the proposed Hotel would be uniquely positioned as the highest quality hotel in the local market and would cater to guests seeking an authentic wine country experience in Downtown Ukiah. The proposed Hotel would be located in picturesque Historic Downtown Ukiah and would be the only hotel with a restaurant and bar in Ukiah. We expect that the restaurant and bar would be utilized by both hotel guests and local patrons and could either be operated by the hotel operator, or leased to a local restaurateur. Furthermore, based on our interviews with representatives of local wineries, wine grower’s associations, hotel owners/operators, and the conference center, we are of the opinion that there is demand for an upscale hotel product in Ukiah, which currently does not exist. This is further supported by the fact that the two existing highest quality hotels achieve the strongest levels of performance. Therefore, we deem a full-service, upscale hotel to be the most appropriate hotel product to serve the unmet lodging needs of Ukiah. The recommended Hotel would capture existing unsatisfied demand, existing demand seeking a higher-end experience and would induce new demand into the Ukiah market.

E. PROJECTED MARKET AND SUBJECT PERFORMANCE

1. PROJECTED PERFORMANCE OF THE COMPETITIVE MARKET

Presented in the following table is a summary of our occupancy and ADR projections for the competitive market for the years 2016 through 2024, coinciding with the proposed Hotels' first five full years of operation. As discussed, we have assumed that the proposed Hotel would be open and available for occupancy by January 1, 2020 and the Holiday Inn Express would be delivered in 2019.

Proposed Ukiah Hotel Projected Performance of the Competitive Market									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2015	190,530	0.0%	129,179	6.8%	68%	\$96.87	11.4%	\$65.68	18.9%
2016	190,530	0.0%	133,100	3.0%	70%	\$105.00	8.0%	\$73.35	11.7%
2017	190,530	0.0%	131,500	-1.2%	69%	\$110.00	5.0%	\$75.92	3.5%
2018	190,530	0.0%	129,600	-1.4%	68%	\$114.00	4.0%	\$77.54	2.1%
2019	221,555	16.3%	141,800	9.4%	64%	\$117.00	3.0%	\$74.88	-3.4%
2020	248,930	12.4%	149,400	5.4%	60%	\$121.00	3.0%	\$72.62	-3.0%
2021	248,930	0.0%	149,400	0.0%	60%	\$125.00	3.0%	\$75.02	3.3%
2022	248,930	0.0%	149,400	0.0%	60%	\$129.00	3.0%	\$77.42	3.2%
2023	248,930	0.0%	149,400	0.0%	60%	\$133.00	3.0%	\$79.82	3.1%
2024	248,930	0.0%	149,400	0.0%	60%	\$137.00	3.0%	\$82.22	3.0%
CAGR	3.4%	-	1.5%	-	-	3.4%	-	1.4%	-

Source: CBRE Hotels

- Supply in the competitive market is projected to increase by 16.3 percent in 2019 due the annualized addition of the 85-room Holiday Inn Express in January 2019. Supply is then projected to increase 12.4 percent following the assumed addition of the 75-room proposed Hotel in January 2020.
- Consistent with YTD occupancy and demand trends, we project occupancy to increase slightly to 70 percent in 2016. We project occupancy to then decline slightly to 69 percent in 2017 and 68 percent in 2018. While all indicators suggest that lodging demand growth in Northern California will remain strong, normal economic cycles suggest a more reasonable long-term stabilized occupancy level lower than current record highs. In 2019, following the addition of the proposed 85-room Holiday Inn Express, we project occupancy to decline to 64 percent. We then project occupancy to decline to 60 percent in 2020 following the addition of the proposed Hotel. Occupancy is projected to decline following these additions as demand growth will trail the rapid increase in supply. Occupancy is projected to stabilize at 60 percent from 2020 onward. As a point of comparison the occupancy of the competitive market averaged 58.6 percent from 2005 through 2015. This projection of stabilized occupancy assumes that the upscale and upper midscale hotels (including the proposed Subject) operate at above 70 percent

occupancy while the midscale and economy hotels operate at below 60 percent occupancy.

- Based on the performance of the competitive market through YTD August 2016, we project ADR to increase 8.0 percent through year-end 2016, resulting in a market ADR of \$105. Going forward, ADR growth is projected to taper to 5.0 percent in 2017, 4.0 percent in 2018, and 3.0 percent from 2019 onward, consistent with our long-term outlook for inflation. As a point of comparison, ADR increased at a CAGR of 3.3 percent from 2005 through 2015.

2. PROJECTED PERFORMANCE OF THE PROPOSED HOTEL

Based upon our analysis contained herein, including a review of the overall competitive market and of each identified hotel, we have provided our occupancy and ADR projections for the proposed Hotel's first five years of operation, as stated in calendar years. In providing these projections, we have considered the following advantages and disadvantages impacting the future performance of the proposed Subject.

- The proposed Hotel will represent the newest and only upscale (per Smith Travel Research chain scale classifications) hotel in Ukiah.
- The proposed Hotel will be a unique lodging facility in Ukiah. It will be the only hotel with a restaurant/bar and will have the most amount of meeting space (1,500 to 2,500 square feet). The restaurant/bar will be utilized by both hotel guests and local patrons.
- The proposed Hotel will be well located in Downtown Historic Ukiah and will allow guests to walk to downtown restaurant and retail amenities. The location has excellent ambiance and will provide guests with an authentic wine country experience.
- The proposed Hotel will have a "soft-brand" and will be affiliated with a national hotel chain. As such, the proposed Subject will benefit from a strong national marketing brand association and guest loyalty program.

Based upon the aforementioned, the proposed Subject's occupancy is projected to stabilize at **72 percent by 2022**, the Subject's third year of operation. During the first and second years of operation, we project the Subject to achieve occupancy of 65 and 68 percent as the proposed Hotel gains recognition in the local market. It should be noted that a stabilized occupancy level of 72 percent results in a market penetration of 120 percent (2022), which is deemed reasonable based on the location, number of rooms, and market share achieved by the other branded, upper midscale hotels in the competitive market. This is also deemed reasonable due to the proposed addition of a 92-room, upper midscale hotel in 2019. At this level of performance, we estimate that approximately 85 to 90 percent of the captured demand would be from the transient business and leisure market segments.

Based on the individual attributes and performance levels of the individual competitive hotels, we believe that the proposed Subject could achieve an **ADR of \$130** under the hypothetical condition that it was open in 2015. This ADR is approximately \$33 above the 2015 ADR for the competitive market (\$97), which is warranted due to its high-quality product, brand affiliation, and unique location. Furthermore, this would position the proposed Hotel at the top of the competitive market. It should be noted that we have included a 2.0 percent introductory discount for the proposed Hotel in its first year of operation, which is typical as hotels offer discounts and promotions to create awareness in the local market. This results in an ADR upon opening in **2020 of \$160**.

Based on the analysis contained herein, we have provided our projections for the proposed 75-room Hotel in the table below. Our projections for both occupancy and ADR for the proposed Subject’s first five years of operation are presented in the following table. In providing our projections, we have assumed that the Hotel would be open and available for occupancy by January 1, 2020.

Proposed Ukiah Hotel Projected Performance								
Year	Hypothetical ADR	Market Growth	Introductory Discount	Actual ADR	Percent Change	Occupancy	RevPAR	Percent Change
2015	\$130.00	-						
2016	\$140.40	8.0%						
2017	\$147.00	5.0%						
2018	\$153.00	4.0%						
2019	\$158.00	3.0%						
2020	\$163.00	3.0%	2.0%	\$160.00	-	65%	\$103.45	-
2021	\$168.00	3.0%	0.0%	\$168.00	5.0%	68%	\$114.76	10.9%
2022	\$173.00	3.0%	0.0%	\$173.00	3.0%	72%	\$124.50	8.5%
2023	\$178.00	3.0%	0.0%	\$178.00	2.9%	72%	\$128.09	2.9%
2024	\$183.00	3.0%	0.0%	\$183.00	2.8%	72%	\$131.69	2.8%

Source: **CBRE Hotels**

Although it is possible that the proposed Subject will experience growth in occupancy and ADR above those estimated in this report, it is also possible that sudden economic downturns, unexpected additions to the room supply, or other external factors will force the property below the selected point of stability. Consequently, the estimated occupancy and ADR levels are representative of the most likely potential operations of the proposed Subject over the projected holding period based on our analysis of the market as of the date of this report.

F. ESTIMATED ANNUAL OPERATING RESULTS

Based on the projections of occupancy and average daily rate presented above, we have provided our projections of estimated annual operating results for the proposed Hotel for the ten-year period 2020 to 2029. In preparing these projections, we have relied upon the actual financial performance of a sample of branded, upscale hotels in California (presented in Addendum A). This information was obtained from confidential financial statements submitted in compilation of the 2016 edition (summarizing year-end 2015 data) of CBRE Hotels' publication *Trends® in the Hotel Industry*. In addition, in providing our cash flow projections, we have utilized the assumptions below. Direct or departmental revenues and expenses, which typically vary with occupancy, are generally analyzed on a per-occupied-room ("POR") basis, while undistributed expenses, which are more fixed in nature, are typically analyzed on total expense or a per-available-room ("PAR") basis.

1. Departmental Revenues and Expenses

- **Rooms Revenue** is based on the number of occupied rooms multiplied by the ADR for each respective year as previously presented in this report. For the first year of operation (2020), rooms revenue is projected to be \$2,846,000 (17,790 occupied rooms X \$160 ADR). We project rooms revenue to increase to \$3,410,000 (19,710 occupied rooms X \$173 ADR) in 2022, when the proposed Hotel's occupancy is expected to stabilize.
- **Rooms Expense** consists of salaries and wages, employee benefits, commissions, cleaning supplies, complimentary guest services, laundry and dry cleaning, linen, operating supplies, reservation costs, uniforms, and other items related to the rooms department. Rooms expense is estimated to be approximately \$26 POR in 2016 dollars and is projected to increase to approximately \$31 POR (\$549,000) in 2020, the Hotel's first year of operation. This estimate of rooms expense equates to approximately 18.0 percent of rooms revenue upon reaching operational stabilization.
- **Food and Beverage Revenue** is generated from the restaurant, catering, and meeting room, and audio/video equipment rentals. It is assumed that the restaurant will be utilized by both hotel guests and local patrons and operated by the hotel operator. We estimate food and beverage revenue of approximately \$20 POR from hotel guests and \$600,000 for total local sales, in 2016 dollars. Food and beverage revenue is projected to increase to \$22.50 POR from hotel guests and \$675,000 for total local sales in 2020 (\$1,076,000 total), the Hotel's first year of operation.
- **Food and Beverage Expense** includes product costs, payroll and related expenses, and other items such as laundry and linen, china, glassware and silverware, uniform costs, supplies, and other miscellaneous items. Food and beverage expense for the proposed

Hotel is estimated to be approximately 95 percent of departmental revenue in 2020 and is projected to decrease to 85 percent upon achieving operational stabilization in 2022.

- **Other Operated Departments Revenue** includes income associated with minor departments such as telecommunications, movies, and miscellaneous sources. We estimate other operated departments revenue of \$2.00 POR in 2016 dollars and is projected to increase to \$2.25 POR (\$40,000) in 2020, the Hotel's first year of operation. This estimate of other operated departments revenue equates to approximately 1.0 percent of the proposed Hotel's total revenue upon achieving operational stabilization.
- **Other Operated Departments Expense** includes expenses associated with other operated departments revenue. Other operated departments expense is estimated to be approximately 60 percent of departmental revenue throughout the projection period.
- **Rentals and Other Income** includes revenue from attrition, cancellation fees, vending machines, and other miscellaneous income. We estimate rentals and other income of \$1.00 POR in 2016 dollars and is projected to increase to approximately \$1.13 POR (\$20,000), in 2020, the Hotel's first year of operation. This estimate of rentals and other income equates to approximately 0.5 percent of the proposed Hotel's total revenue upon achieving operational stabilization. It should be noted that we have not accounted for any lease income from a potential wine tasting room or other retail vendor at the hotel.

2. Undistributed Operating Expense

- **Administrative and General Expense (A&G)** includes the salary and wages of the general manager and office staff, cash overages and shortages, credit card commissions, bad debt expense, security, accounting expense, and office supplies. We estimate administrative and general expense to be approximately 8.5 percent of total revenues in 2020, the proposed Hotel's first year of operation. A&G expense is then projected to stabilize at 8.0 percent of total revenue upon achieving operational stabilization in 2022.
- **Marketing Expense** includes the cost of advertising, printing of brochures, salary associated with sales and marketing personnel, frequent stay programs, and other costs associated with an ongoing sales and promotion program. We have also included franchise-related fees (royalties, marketing assessments, loyalty programs) in this category. We estimate marketing expense to be approximately 10.7 percent of total revenues in 2020, the proposed Hotel's first year of operation. Marketing expense is then projected to stabilize at 10.5 percent of total revenue upon achieving operational stabilization in 2022.
- **Property Operations and Maintenance Expense ("POM")** is a function of building age and usage. This expense category is comprise of engineering salaries, wages, employee benefits, normal maintenance of the building, normal maintenance of electrical,

mechanical, and other operating supplies. We estimate POM expense of \$1,550 PAR in 2016 dollars and is projected to increase to approximately \$1,745 PAR (\$131,000), in 2020, the Hotel’s first year of operation. This estimate of POM expense equates to approximately 3.0 percent of the proposed Hotel’s revenue upon achieving operational stabilization.

- **Utility Costs** include electricity, gas, water, sewer, and waste removal. These costs vary among hotels given the different building characteristics, HVAC systems, and building age. We estimate utility expense of \$2,050 PAR in 2016 dollars and is projected to increase to approximately \$2,300 PAR (\$173,000), in 2020, the Hotel’s first year of operation. This estimate of utility expense equates to approximately 4.0 percent of the proposed Hotel’s revenue upon achieving operational stabilization.
- **Information and Telecommunications Systems (IT)** includes the cost of providing all information technology and telecommunications for both guests and hotel operations. We estimate IT expense of \$600 PAR in 2016 dollars and is projected to increase to approximately \$675 PAR (\$51,000), in 2020, the Hotel’s first year of operation. This estimate of IT expense equates to approximately 1.2 percent of the proposed Hotel’s revenue upon achieving operational stabilization.
- **Management Fees:** For the purpose of our analysis, we have assumed a professional management company, with experience operating lodging facilities similar in tier to the proposed Hotel, will be retained by ownership to operate the proposed Hotel for a market rate management fee of 4.0 percent of total revenues.
- **Property Taxes:** Our property tax projections are based on the following estimated development costs for the proposed Hotel and an estimated property tax rate of 1.1 percent.

Proposed Hotel Ukiah	
Hard Construction Costs (includes construction contingency)	\$8,530,000
FF&E and OS&E (includes signage and landscaping)	\$1,350,000
Total	\$9,880,000

This results in property tax expenses that stabilize at 2.6 percent of total revenues by the third year of operation, or approximately \$113,000.

- **Insurance Expense** is for both general liability and property coverage. We estimate insurance expense of \$550 PAR in 2016 dollars and is projected to increase to approximately \$619 PAR (\$46,000), in 2020, the Hotel’s first year of operation. This estimate of insurance expense equates to approximately 1.0 percent of the proposed Hotel’s revenue upon achieving operational stabilization.

- We have projected a reserve for capital replacement expense of 4.0 percent of total hotel revenues for the proposed Hotel. Over the first three years of operation, we project the reserve to “ramp up” from 2.0 percent in year one, to 3.0 percent in year two, and 4.0 percent thereafter.
- With the exception of property taxes, all other revenues and expenses are projected to increase at 3.0 percent per annum throughout the projection period. Property taxes are projected to increase at a rate of 2.0 percent per year in accordance with California law.

Based upon this analysis, we project that the Hotel will achieve a total net operating income (“NOI”) of \$873,000 in its first year of operation, increasing to \$1,244,000 by 2022, at which point occupancy and ADR growth will have stabilized. We have summarized our projections of total revenue, NOI, and ratio of NOI to total revenues in the table below. It should be noted that NOI is reflected before a deduction for interest, depreciation, amortization, and taxes on income. Our ten-year pro-forma for the proposed Subject is presented on pages 35 and 36.

Summary of Estimated Annual Operating Results			
Year	Total Revenue	Net Operating Income¹	Ratio to Total Revenues
2020	\$3,982,000	\$873,000	21.9%
2021	4,320,000	1,060,000	24.5%
2022	4,668,000	1,244,000	26.6%
2023	4,803,000	1,281,000	26.7%
2024	4,941,000	1,312,000	26.6%
2025	5,079,000	1,344,000	26.5%
2026	5,239,000	1,393,000	26.6%
2027	5,400,000	1,440,000	26.7%
2028	5,561,000	1,484,000	26.7%
2029	5,726,000	1,527,000	26.7%

¹ Income before the deduction of depreciation, interest, amortization, and income taxes, but after the deduction of a reserve for capital replacement.

Proposed Hotel Ukiah Projected Operating Results Calendar Years		2020		2021		2022		2023		2024	
Number of Units:	75			75		75		75		75	
Number of Annual Rooms Available:	27,375			27,375		27,375		27,375		27,375	
Number of Rooms Occupied:	17,790			18,620		19,710		19,710		19,710	
Annual Occupancy:	65.0%			68.0%		72.0%		72.0%		72.0%	
Average Daily Rate:	\$160.00			\$168.00		\$173.00		\$178.00		\$183.00	
Revenue Per Available Room:	\$104.00			\$114.24		\$124.56		\$128.16		\$131.76	
	Amount	Ratio		Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenues											
Rooms	\$2,846,000	71.5%		\$3,128,000	72.4%	\$3,410,000	73.1%	\$3,508,000	73.0%	\$3,607,000	73.0%
Food & Beverage	1,076,000	27.0%		1,127,000	26.1%	1,187,000	25.4%	1,223,000	25.5%	1,259,000	25.5%
Other Operated Departments	40,000	1.0%		43,000	1.0%	47,000	1.0%	48,000	1.0%	50,000	1.0%
Rentals and Other Income	20,000	0.5%		22,000	0.5%	24,000	0.5%	24,000	0.5%	25,000	0.5%
Total Revenues	3,982,000	100.0%		4,320,000	100.0%	4,668,000	100.0%	4,803,000	100.0%	4,941,000	100.0%
Departmental Expenses											
Rooms	549,000	19.3%		578,000	18.5%	612,000	17.9%	630,000	18.0%	649,000	18.0%
Food & Beverage	1,022,000	95.0%		1,015,000	90.1%	1,009,000	85.0%	1,039,000	85.0%	1,071,000	85.1%
Other Operated Departments	24,000	60.5%		26,000	60.5%	28,000	59.6%	29,000	60.4%	30,000	60.0%
Total Departmental Expenses	1,595,000	40.1%		1,619,000	37.5%	1,649,000	35.3%	1,698,000	35.4%	1,750,000	35.4%
Departmental Profit	2,387,000	59.9%		2,701,000	62.5%	3,019,000	64.7%	3,105,000	64.6%	3,191,000	64.6%
Undistributed Expenses											
Administrative & General	340,000	8.5%		356,000	8.2%	372,000	8.0%	383,000	8.0%	395,000	8.0%
Marketing (Including Franchise Fees)	425,000	10.7%		458,000	10.6%	490,000	10.5%	504,000	10.5%	519,000	10.5%
Property Operation and Maintenance	131,000	3.3%		135,000	3.1%	139,000	3.0%	143,000	3.0%	147,000	3.0%
Utility Costs	173,000	4.3%		178,000	4.1%	184,000	3.9%	189,000	3.9%	195,000	3.9%
Information and Telecommunications Systems	51,000	1.3%		52,000	1.2%	54,000	1.2%	55,000	1.1%	57,000	1.2%
Total Undistributed Operating Expenses	1,120,000	28.1%		1,179,000	27.3%	1,239,000	26.5%	1,274,000	26.5%	1,313,000	26.6%
Gross Operating Profit	1,267,000	31.8%		1,522,000	35.2%	1,780,000	38.1%	1,831,000	38.1%	1,878,000	38.0%
Base Management Fee	159,000	4.0%		173,000	4.0%	187,000	4.0%	192,000	4.0%	198,000	4.0%
Fixed Expenses											
Property Taxes	109,000	2.7%		111,000	2.6%	113,000	2.4%	115,000	2.4%	118,000	2.4%
Insurance	46,000	1.2%		48,000	1.1%	49,000	1.0%	51,000	1.1%	52,000	1.1%
Total Fixed Expenses	155,000	3.9%		159,000	3.7%	162,000	3.5%	166,000	3.5%	170,000	3.4%
Net Operating Income	953,000	23.9%		1,190,000	27.5%	1,431,000	30.7%	1,473,000	30.7%	1,510,000	30.6%
FF&E Reserve	80,000	2.0%		130,000	3.0%	187,000	4.0%	192,000	4.0%	198,000	4.0%
Net Operating Income After Reserve	\$873,000	21.9%		\$1,060,000	24.5%	\$1,244,000	26.6%	\$1,281,000	26.7%	\$1,312,000	26.6%
Source: CBRE Hotels	Full Year of Operation										

Proposed Hotel Ukiah Projected Operating Results Calendar Years		2025		2026		2027		2028		2029		
Number of Units:	75	75	75	75	75	75	75	75	75	75	75	
Number of Annual Rooms Available:	27,375	27,375	27,375	27,375	27,375	27,375	27,375	27,375	27,375	27,375	27,375	
Number of Rooms Occupied:	19,710	19,710	19,710	19,710	19,710	19,710	19,710	19,710	19,710	19,710	19,710	
Annual Occupancy:	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	
Average Daily Rate:	\$188.00	\$194.00	\$200.00	\$206.00	\$212.00	\$218.00	\$224.00	\$230.00	\$236.00	\$242.00	\$248.00	
Revenue Per Available Room:	\$135.36	\$139.68	\$144.00	\$148.32	\$152.64	\$156.96	\$161.28	\$165.60	\$170.00	\$174.32	\$178.64	
	Amount	Ratio										
Revenues												
Rooms	\$3,705,000	72.9%	\$3,824,000	73.0%	\$3,942,000	73.0%	\$4,060,000	73.0%	\$4,179,000	73.0%	\$4,297,000	73.0%
Food & Beverage	1,297,000	25.5%	1,336,000	25.5%	1,376,000	25.5%	1,417,000	25.5%	1,460,000	25.5%	1,503,000	25.5%
Other Operated Departments	51,000	1.0%	53,000	1.0%	55,000	1.0%	56,000	1.0%	58,000	1.0%	60,000	1.0%
Rentals and Other Income	26,000	0.5%	26,000	0.5%	27,000	0.5%	28,000	0.5%	29,000	0.5%	30,000	0.5%
Total Revenues	5,079,000	100.0%	5,239,000	100.0%	5,400,000	100.0%	5,561,000	100.0%	5,726,000	100.0%	5,897,000	100.0%
Departmental Expenses												
Rooms	669,000	18.1%	689,000	18.0%	709,000	18.0%	731,000	18.0%	753,000	18.0%	775,000	18.0%
Food & Beverage	1,103,000	85.0%	1,136,000	85.0%	1,170,000	85.0%	1,205,000	85.0%	1,241,000	85.0%	1,278,000	85.0%
Other Operated Departments	31,000	60.8%	32,000	60.4%	33,000	60.0%	34,000	60.7%	35,000	60.3%	36,000	60.0%
Total Departmental Expenses	1,803,000	35.5%	1,857,000	35.4%	1,912,000	35.4%	1,970,000	35.4%	2,029,000	35.4%	2,097,000	35.4%
Departmental Profit	3,276,000	64.5%	3,382,000	64.6%	3,488,000	64.6%	3,591,000	64.6%	3,697,000	64.6%	3,800,000	64.6%
Undistributed Expenses												
Administrative & General	406,000	8.0%	419,000	8.0%	431,000	8.0%	444,000	8.0%	457,000	8.0%	470,000	8.0%
Marketing (Including Franchise Fees)	534,000	10.5%	550,000	10.5%	567,000	10.5%	584,000	10.5%	601,000	10.5%	619,000	10.5%
Property Operation and Maintenance	152,000	3.0%	156,000	3.0%	161,000	3.0%	166,000	3.0%	171,000	3.0%	176,000	3.0%
Utility Costs	201,000	4.0%	207,000	4.0%	213,000	3.9%	219,000	3.9%	226,000	3.9%	233,000	3.9%
Information and Telecommunications Systems	59,000	1.2%	60,000	1.1%	62,000	1.1%	64,000	1.2%	66,000	1.2%	68,000	1.2%
Total Undistributed Operating Expenses	1,352,000	26.6%	1,392,000	26.6%	1,434,000	26.6%	1,477,000	26.6%	1,521,000	26.6%	1,567,000	26.6%
Gross Operating Profit	1,924,000	37.9%	1,990,000	38.0%	2,054,000	38.0%	2,114,000	38.0%	2,176,000	38.0%	2,240,000	38.0%
Base Management Fee	203,000	4.0%	210,000	4.0%	216,000	4.0%	222,000	4.0%	229,000	4.0%	236,000	4.0%
Fixed Expenses												
Property Taxes	120,000	2.4%	122,000	2.3%	125,000	2.3%	127,000	2.3%	130,000	2.3%	133,000	2.3%
Insurance	54,000	1.1%	55,000	1.0%	57,000	1.1%	59,000	1.1%	61,000	1.1%	63,000	1.1%
Total Fixed Expenses	174,000	3.4%	177,000	3.4%	182,000	3.4%	186,000	3.3%	191,000	3.3%	199,000	3.3%
Net Operating Income	1,547,000	30.5%	1,603,000	30.6%	1,656,000	30.7%	1,706,000	30.7%	1,756,000	30.7%	1,807,000	30.7%
FF&E Reserve	203,000	4.0%	210,000	4.0%	216,000	4.0%	222,000	4.0%	229,000	4.0%	236,000	4.0%
Net Operating Income After Reserve	\$1,344,000	26.5%	\$1,393,000	26.6%	\$1,440,000	26.7%	\$1,484,000	26.7%	\$1,527,000	26.7%	\$1,571,000	26.7%
Source: CBRE Hotels												

G. CONCLUSION

Based on the preceding work program, we have made a determination of the market viability for a hotel in Historic Downtown Ukiah. In conclusion, we are of the opinion that there is sufficient market demand to support the development of a 75-room, upscale hotel in Historic Downtown Ukiah. Furthermore, we are of the opinion that the vicinity of Parking Lot A (West Standley and Oak Streets) is the optimal site for the development of the recommended Hotel.

This completes our analysis of the potential market demand and preparation of a statement of estimated annual operating results for a proposed hotel in Ukiah. After you have had an opportunity to review this letter, please feel free to contact us with any questions or comments. Thank you for this opportunity and we look forward to working with you on this engagement in the future.

Yours sincerely,

CBRE Hotels



By: Chris Kraus
Managing Director
chris.kraus@cbre.com | 415.652.4483



By: Miky Kuo
Director
miky.kuo@cbre.com | 415.772.0358

ADDENDA

ADDENDUM A

COMPARABLE FINANCIALS

Proposed Hotel Ukiah
Operating Results of Comparable Hotels

	Hotel A			Hotel B			Hotel C		
	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.
Revenues									
Rooms	61.0%	\$18,157	\$97.15	93.2%	\$33,473	\$121.67	91.0%	\$35,212	\$120.87
Food & Beverage	35.2%	10,461	55.97	5.5%	1,991	7.24	6.5%	2,526	8.67
Other Operated Departments	2.7%	814	4.36	1.1%	408	1.48	2.1%	797	2.73
Rentals and Other Income	1.0%	311	1.66	0.1%	38	0.14	0.4%	156	0.54
Total Revenues	100.0%	29,744	159.14	100.0%	35,910	130.52	100.0%	38,691	132.81
Departmental Expenses									
Rooms	23.0%	4,169	22.31	19.9%	6,672	24.25	22.7%	7,985	27.41
Food & Beverage	84.6%	8,850	47.35	108.9%	2,168	7.88	129.1%	3,262	11.20
Other Operated Departments	69.6%	566	3.03	56.2%	229	0.83	56.6%	451	1.55
Total Departmental Expenses	45.7%	13,585	72.69	25.3%	9,069	32.96	30.2%	11,697	40.15
Departmental Profit	54.3%	16,158	86.45	74.7%	26,841	97.56	69.8%	26,994	92.66
Undistributed Expenses									
Administrative & General	10.0%	2,985	15.97	8.7%	3,108	11.30	8.2%	3,189	10.95
Marketing (Including Franchise Fees)	10.2%	3,026	16.19	10.9%	3,906	14.20	13.8%	5,339	18.32
Property Operation and Maintenance	4.3%	1,291	6.91	3.5%	1,268	4.61	3.2%	1,254	4.31
Utility Costs	5.1%	1,506	8.06	4.6%	1,670	6.07	3.7%	1,423	4.89
Information and Telecommunications Systems	1.7%	500	2.67	2.0%	704	2.56	0.0%	0	0.00
Total Undistributed Operating Expenses	31.3%	9,308	49.80	29.7%	10,654	38.73	29.0%	11,205	38.46
Gross Operating Profit	23.0%	6,851	36.66	45.1%	16,187	58.84	40.8%	15,789	54.20
Base Management Fee	3.0%	892	4.77	3.0%	1,077	3.92	4.0%	1,548	5.31
Fixed Expenses									
Property Taxes	2.4%	709	3.79	2.9%	1,059	3.85	2.4%	910	3.12
Insurance	4.4%	1,298	6.94	1.4%	511	1.86	1.9%	744	2.56
Total Fixed Expenses	6.7%	2,006	10.74	4.4%	1,570	5.71	4.3%	1,654	5.68
Net Operating Income	13.3%	3,952	21.15	37.7%	13,540	49.21	32.5%	12,587	43.21
FF&E Reserve/Capital Expenditures	4.0%	1,190	6.37	4.0%	1,436	5.22	4.0%	1,548	5.31
Net Operating Income After Reserve	9.3%	\$2,762	\$14.78	33.7%	\$12,103	\$43.99	28.5%	\$11,040	\$37.89

Source: **CBRE Hotels**

Proposed Hotel Ukiah
Operating Results of Comparable Hotels

	Hotel D			Hotel E			Weighted Average		
	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.
Revenues									
Rooms	91.7%	\$33,109	\$109.97	86.3%	\$36,732	\$127.73	85.2%	\$31,147	\$116.35
Food & Beverage	7.6%	2,727	9.06	12.0%	5,112	17.78	12.9%	4,711	17.60
Other Operated Departments	0.7%	259	0.86	1.3%	574	2.00	1.6%	577	2.16
Rentals and Other Income	0.0%	0	0.00	0.4%	160	0.56	0.4%	175	0.68
Total Revenues	100.0%	36,096	119.89	100.0%	42,578	148.06	100.0%	36,573	136.61
Departmental Expenses									
Rooms	22.4%	7,426	24.66	17.8%	6,527	22.70	21.0%	6,539	24.43
Food & Beverage	101.9%	2,780	9.23	90.4%	4,619	16.06	94.6%	4,457	16.65
Other Operated Departments	62.6%	162	0.54	46.2%	265	0.92	58.9%	340	1.27
Total Departmental Expenses	28.7%	10,368	34.44	26.8%	11,411	39.68	31.0%	11,336	42.35
Departmental Profit	71.3%	25,727	85.45	73.2%	31,167	108.38	69.0%	25,236	94.27
Undistributed Expenses									
Administrative & General	8.4%	3,021	10.03	12.6%	5,379	18.71	9.7%	3,545	13.24
Marketing (Including Franchise Fees)	15.5%	5,604	18.61	13.0%	5,532	19.24	12.9%	4,710	17.60
Property Operation and Maintenance	3.5%	1,273	4.23	3.2%	1,383	4.81	3.5%	1,295	4.84
Utility Costs	4.2%	1,533	5.09	3.5%	1,507	5.24	4.2%	1,521	5.68
Information and Telecommunications Systems	1.4%	520	1.73	0.0%	0	0.00	0.9%	563	2.23
Total Undistributed Operating Expenses	33.1%	11,951	39.69	32.4%	13,802	48.00	31.2%	11,403	42.59
Gross Operating Profit	38.2%	13,776	45.75	40.8%	17,365	60.39	37.8%	13,834	51.67
Base Management Fee	2.5%	902	3.00	5.5%	2,342	8.14	3.7%	1,357	5.07
Fixed Expenses									
Property Taxes	0.0%	0	0.00	3.4%	1,448	5.04	2.2%	1,026	3.97
Insurance	0.1%	37	0.12	0.7%	306	1.06	1.6%	584	2.18
Total Fixed Expenses	0.1%	37	0.12	4.1%	1,754	6.10	3.8%	1,391	5.19
Net Operating Income	35.6%	12,836	42.63	31.2%	13,270	46.14	30.3%	11,086	41.41
FF&E Reserve/Capital Expenditures	4.0%	1,444	4.80	4.0%	1,703	5.92	4.0%	1,463	5.46
Net Operating Income After Reserve	31.6%	\$11,393	\$37.84	27.2%	\$11,566	\$40.22	26.3%	\$9,623	\$35.95

Source: CBRE Hotels

ADDENDUM B

CERTIFICATION

Certification

We, Chris Kraus and Miky Kuo, certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, conclusions, and recommendations.
3. We have no present or prospective interest in or bias with respect to the property that is the subject of this report and have no personal interest in or bias with respect to the parties involved with this assignment.
4. We have performed no (or the specified) services, as an appraiser or in any other capacity regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
5. We have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
7. Chris Kraus and Miky Kuo have made personal inspections of the identified hotel sites.
8. No one has provided significant professional assistance to the persons signing this report.
9. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
10. Valuation & Advisory Services operates as an independent economic entity within CBRE, Inc. Although employees of other CBRE, Inc. divisions may be contacted as a part of our routine market research investigations, absolute client confidentiality and privacy were maintained at all times with regard to this assignment without conflict of interest.
11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
12. As of the date of this report, Chris Kraus has completed the continuing education program for Designated Members of the Appraisal Institute.
13. Chris Kraus is a Certified General Real Estate Appraiser in the State of California.



Chris Kraus
Managing Director
chris.kraus@cbre.com
415.652.4483



Miky Kuo
Director
miky.kuo@cbre.com
415.772.0358

Addendum C

ASSUMPTIONS AND LIMITING CONDITIONS

Assumptions and Limiting Conditions

1. CBRE, Inc. through its appraiser (collectively, "CBRE") has inspected through reasonable observation the subject property. However, it is not possible or reasonably practicable to personally inspect conditions beneath the soil and the entire interior and exterior of the improvements on the subject property. Therefore, no representation is made as to such matters.
2. The report, including its conclusions and any portion of such report (the "Report"), is as of the date set forth in the letter of transmittal and based upon the information, market, economic, and property conditions and projected levels of operation existing as of such date. The dollar amount of any conclusion as to value in the Report is based upon the purchasing power of the U.S. Dollar on such date. The Report is subject to change as a result of fluctuations in any of the foregoing. CBRE has no obligation to revise the Report to reflect any such fluctuations or other events or conditions which occur subsequent to such date.
3. Unless otherwise expressly noted in the Report, CBRE has assumed that:
 - (i) Title to the subject property is clear and marketable and that there are no recorded or unrecorded matters or exceptions to title that would adversely affect marketability or value. CBRE has not examined title records (including without limitation liens, encumbrances, easements, deed restrictions, and other conditions that may affect the title or use of the subject property) and makes no representations regarding title or its limitations on the use of the subject property. Insurance against financial loss that may arise out of defects in title should be sought from a qualified title insurance company.
 - (ii) Existing improvements on the subject property conform to applicable local, state, and federal building codes and ordinances, are structurally sound and seismically safe, and have been built and repaired in a workmanlike manner according to standard practices; all building systems (mechanical/electrical, HVAC, elevator, plumbing, etc.) are in good working order with no major deferred maintenance or repair required; and the roof and exterior are in good condition and free from intrusion by the elements. CBRE has not retained independent structural, mechanical, electrical, or civil engineers in connection with this appraisal and, therefore, makes no representations relative to the condition of improvements. CBRE appraisers are not engineers and are not qualified to judge matters of an engineering nature, and furthermore structural problems or building system problems may not be visible. It is expressly assumed that any purchaser would, as a precondition to closing a sale, obtain a satisfactory engineering report relative to the structural integrity of the property and the integrity of building systems.
 - (iii) Any proposed improvements, on or off-site, as well as any alterations or repairs considered will be completed in a workmanlike manner according to standard practices.
 - (iv) Hazardous materials are not present on the subject property. CBRE is not qualified to detect such substances. The presence of substances such as asbestos, urea formaldehyde foam insulation, contaminated groundwater, mold, or other potentially hazardous materials may affect the value of the property.
 - (v) No mineral deposit or subsurface rights of value exist with respect to the subject property, whether gas, liquid, or solid, and no air or development rights of value may be transferred. CBRE has not considered any rights associated with extraction or exploration of any resources, unless otherwise expressly noted in the Report.
 - (vi) There are no contemplated public initiatives, governmental development controls, rent controls, or changes in the present zoning ordinances or regulations governing use, density, or shape that would significantly affect the value of the subject property.
 - (vii) All required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, nor national government or private entity or organization have been or can be readily obtained or renewed for any use on which the Report is based.
 - (viii) The subject property is managed and operated in a prudent and competent manner, neither inefficiently or super-efficiently.
 - (ix) The subject property and its use, management, and operation are in full compliance with all applicable federal, state, and local regulations, laws, and restrictions, including without limitation environmental laws, seismic hazards, flight patterns, decibel levels/noise envelopes, fire hazards, hillside ordinances, density, allowable uses, building codes, permits, and licenses.
 - (x) The subject property is in full compliance with the Americans with Disabilities Act (ADA). CBRE is not qualified to assess the subject property's compliance with the ADA, notwithstanding any discussion of possible readily achievable barrier removal construction items in the Report.

- (xi) All information regarding the areas and dimensions of the subject property furnished to CBRE are correct, and no encroachments exist. CBRE has neither undertaken any survey of the boundaries of the subject property nor reviewed or confirmed the accuracy of any legal description of the subject property.

Unless otherwise expressly noted in the Report, no issues regarding the foregoing were brought to CBRE's attention, and CBRE has no knowledge of any such facts affecting the subject property. If any information inconsistent with any of the foregoing assumptions is discovered, such information could have a substantial negative impact on the Report. Accordingly, if any such information is subsequently made known to CBRE, CBRE reserves the right to amend the Report, which may include the conclusions of the Report. CBRE assumes no responsibility for any conditions regarding the foregoing, or for any expertise or knowledge required to discover them. Any user of the Report is urged to retain an expert in the applicable field(s) for information regarding such conditions.

4. CBRE has assumed that all documents, data and information furnished by or behalf of the client, property owner, or owner's representative are accurate and correct, unless otherwise expressly noted in the Report. Such data and information include, without limitation, numerical street addresses, lot and block numbers, Assessor's Parcel Numbers, land dimensions, square footage area of the land, dimensions of the improvements, gross building areas, net rentable areas, usable areas, unit count, room count, rent schedules, income data, historical operating expenses, budgets, and related data. Any error in any of the above could have a substantial impact on the Report. Accordingly, if any such errors are subsequently made known to CBRE, CBRE reserves the right to amend the Report, which may include the conclusions of the Report. The client and intended user should carefully review all assumptions, data, relevant calculations, and conclusions of the Report and should immediately notify CBRE of any questions or errors within 30 days after the date of delivery of the Report.
5. CBRE assumes no responsibility (including any obligation to procure the same) for any documents, data or information not provided to CBRE, including without limitation any termite inspection, survey or occupancy permit.
6. All furnishings, equipment and business operations have been disregarded with only real property being considered in the Report, except as otherwise expressly stated and typically considered part of real property.
7. Any cash flows included in the analysis are forecasts of estimated future operating characteristics based upon the information and assumptions contained within the Report. Any projections of income, expenses and economic conditions utilized in the Report, including such cash flows, should be considered as only estimates of the expectations of future income and expenses as of the date of the Report and not predictions of the future. Actual results are affected by a number of factors outside the control of CBRE, including without limitation fluctuating economic, market, and property conditions. Actual results may ultimately differ from these projections, and CBRE does not warrant any such projections.
8. The Report contains professional opinions and is expressly not intended to serve as any warranty, assurance or guarantee of any particular value of the subject property. Other appraisers may reach different conclusions as to the value of the subject property. Furthermore, market value is highly related to exposure time, promotion effort, terms, motivation, and conclusions surrounding the offering of the subject property. The Report is for the sole purpose of providing the intended user with CBRE's independent professional opinion of the value of the subject property as of the date of the Report. Accordingly, CBRE shall not be liable for any losses that arise from any investment or lending decisions based upon the Report that the client, intended user, or any buyer, seller, investor, or lending institution may undertake related to the subject property, and CBRE has not been compensated to assume any of these risks. Nothing contained in the Report shall be construed as any direct or indirect recommendation of CBRE to buy, sell, hold, or finance the subject property.
9. No opinion is expressed on matters which may require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate appraisers. Any user of the Report is advised to retain experts in areas that fall outside the scope of the real estate appraisal profession for such matters.
10. CBRE assumes no responsibility for any costs or consequences arising due to the need, or the lack of need, for flood hazard insurance. An agent for the Federal Flood Insurance Program should be contacted to determine the actual need for Flood Hazard Insurance.
11. Acceptance or use of the Report constitutes full acceptance of these Assumptions and Limiting Conditions and any special assumptions set forth in the Report. It is the responsibility of the user of the Report to read in full, comprehend and thus become aware of all such assumptions and limiting conditions. CBRE assumes no responsibility for any situation arising out of the user's failure to become familiar with and understand the same.

12. The Report applies to the property as a whole only, and any pro ration or division of the title into fractional interests will invalidate such conclusions, unless the Report expressly assumes such pro ration or division of interests.
13. The allocations of the total value estimate in the Report between land and improvements apply only to the existing use of the subject property. The allocations of values for each of the land and improvements are not intended to be used with any other property or appraisal and are not valid for any such use.
14. The maps, plats, sketches, graphs, photographs, and exhibits included in this Report are for illustration purposes only and shall be utilized only to assist in visualizing matters discussed in the Report. No such items shall be removed, reproduced, or used apart from the Report.
15. The Report shall not be duplicated or provided to any unintended users in whole or in part without the written consent of CBRE, which consent CBRE may withhold in its sole discretion. Exempt from this restriction is duplication for the internal use of the intended user and its attorneys, accountants, or advisors for the sole benefit of the intended user. Also exempt from this restriction is transmission of the Report pursuant to any requirement of any court, governmental authority, or regulatory agency having jurisdiction over the intended user, provided that the Report and its contents shall not be published, in whole or in part, in any public document without the written consent of CBRE, which consent CBRE may withhold in its sole discretion. Finally, the Report shall not be made available to the public or otherwise used in any offering of the property or any security, as defined by applicable law. Any unintended user who may possess the Report is advised that it shall not rely upon the Report or its conclusions and that it should rely on its own appraisers, advisors and other consultants for any decision in connection with the subject property. CBRE shall have no liability or responsibility to any such unintended user.