



Market Study with Financial Projections

Proposed Headquarters Hotel

Dallas, Texas

Prepared by:

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February 5, 2004

Ms. Theresa O'Donnell
Director, Development Services
City of Dallas
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Re: Proposed Headquarters Hotel
Dallas, Texas
HVS Reference: #2004240001

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Dear Ms. O'Donnell:

We herewith submit our market study pertaining to the above-captioned project. We have inspected the sites and analyzed the hotel market conditions in the Dallas area. This document details our forecast of income and expense for the defined hotel.

We hereby certify that we have no undisclosed interest in the project, and our employment and compensation are not contingent upon our findings and recommendation. This report may not be distributed or relied upon by other persons or entities without our written permission. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Very truly yours,
HVS INTERNATIONAL
Division of DFW Hospitality Consulting, LLC

A handwritten signature in black ink, appearing to read 'Rodney G. Clough'.

Rodney G. Clough, MAI
Managing Director

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1. Introduction

Executive Summary

The subject of the market study is a proposed 1,200-room convention headquarters hotel to be located adjacent to the Dallas Convention Center in downtown Dallas, Texas. Site factors are further detailed in Chapter Two. We have assumed an opening date of January 1, 2008 for this property. In addition to these rooms, it is assumed that the hotel will offer approximately $\pm 60,000$ square feet of meeting and function space, a concept restaurant, a casual restaurant, a lobby lounge, a business center, a gift shop, an indoor pool and whirlpool, an exercise room, and back-of-the-house facilities typically found in a hotel of this type. The proposed building is further analyzed in Chapter Seven.

Over the past three years, Downtown Dallas has experienced a considerable decline in hotel demand, due primarily to the weakened local economy and reduced levels of activity at the Dallas Convention Center. These economic trends, which are further detailed in Chapter Three, show downtown office vacancy climbed to just over 29.0%, as companies downsized during the recession. Unemployment surpassed 7.0% in the Dallas MSA by year-end 2002 and peaked in June 2003 at 8.0%. Fortunately, recent months have shown an improving employment trend; however, part of this improvement is attributed to benefit expiration. Downtown Dallas will likely experience additional consolidation due to the recently announced merger of J.P. Morgan Chase and Bank One. Both banks are major downtown tenants, occupying almost one million square feet combined. Despite this particular consolidation, the outlook for the greater market area remains positive as the nation's economic recovery continues to accelerate.

Slow production from the Dallas Convention Center after 2000 did not assist the ailing downtown hotel market. After producing over 500,000 room nights per year between 1997 and 2000, annual production averaged only 375,000 (rounded) room nights between 2001 and 2003.

This decline was attributed to factors such as an overall decline in convention travel following the terrorist attacks of September 2001 and the economy's

constriction, the disruption from the construction of the center's expansion (which spanned 2001 through 2002), as well as heightened competition from other convention destinations in the nation, such as Chicago, Las Vegas, and Orlando. Convention trends are further detailed in Chapter Eight.

Additions on the supply side also compounded falling occupancy levels. The addition of the massive Adam's Mark in the fall of 1998 did not help market trends, as its new 1,340 rooms diluted existing demand and did not induce considerable levels of new demand into the market. The Hyatt also expanded in 2000, adding 183 guestrooms to its inventory. The following table further illustrates these historical market supply and demand trends.

Historical Supply and Demand Trends (STR)

	1997	1998	1999	2000	2001	2002	Year-to-Date Through November		Average Annual Compounded Change: 1997-2002
							2002	2003	
Average Daily Room Count	4,987	5,434	6,323	6,458	6,487	6,487	6,488	6,480	
Available Room Nights	1,820,255	1,983,247	2,307,895	2,357,120	2,367,840	2,367,840	2,166,960	2,164,320	
Change	—	9.0 %	16.4 %	2.1 %	0.5 %	0.0 %	—	(0.1) %	5.4 %
Occupied Room Nights	1,206,813	1,295,129	1,392,655	1,449,346	1,213,071	1,242,132	1,175,678	1,133,394	
Change	—	7.3 %	7.5 %	4.1 %	(16.3) %	2.4 %	—	(3.6) %	0.6 %
Occupancy	66.3 %	65.3 %	60.3 %	61.5 %	51.2 %	52.5 %	54.3 %	52.4 %	
Change	—	(1.5) %	(7.6) %	1.9 %	(16.7) %	2.4 %	—	(3.5) %	(4.6) %
Average Rate	\$116.84	\$123.77	\$131.00	\$133.77	\$130.28	\$131.93	\$132.87	\$129.11	
Change	—	5.9 %	5.8 %	2.1 %	(2.6) %	1.3 %	—	(2.8) %	2.5 %
RevPAR	\$77.47	\$80.83	\$79.05	\$82.25	\$66.74	\$69.21	\$72.09	\$67.61	
Change	—	4.3 %	(2.2) %	4.1 %	(18.9) %	3.7 %	—	(6.2) %	(2.2) %

Source: Smith Travel Research

Despite obvious excess capacity within the local hotel market, the salability of the Dallas Convention Center has become increasingly crippled due to the lack of an adjacent headquarters hotel. The center, with its recently completed \$125-million renovation and addition of a new 203,000-square-foot exhibit hall, remains underutilized due – in part – to the lack of an adjacent headquarters hotel, a requirement high on the priority list of today's convention meeting planners. The following table summarizes the factors cited as important by meeting planners when choosing a destination and a host hotel within that destination.

Factors in Choosing an Association Meeting Location and Facility

Top Factors When Choosing Location	Association Meetings	Conventions
Availability of Suitable Hotels	70 %	80 %
Affordability of Destination	76	75
Safety and Security of Destination	45	51
Ease of Transportation	50	50
Transportation Costs	43	39
Distance Traveled by Attendees	54	49
Clean and Unspoiled Environment	28	31
Climate	19	23
Availability of Recreational Facilities	16	19
Sightseeing, Cultural Events, Attractions	17	19
Mandated by By-Laws	23	26
Glamorous/Popular Image of Location	11	11

Top Factors When Choosing Hotel Within Location	Association Meetings	Conventions
Number, Size, and Quality of Meeting Rooms	71 %	87 %
Negotiable Food, Beverage, and Room Rates	71	80
Cost of Hotel or Meeting Facility	76	80
Quality of Food Service	62	71
Number, Size, and Quality of Sleeping Rooms	54	71
Efficiency of Billing Procedures	44	48
Availability of Meeting Support Services	47	50
Assignment of One Staff Person To Handle Meeting	43	52
Efficiency of Check-in/Check-out Procedures	40	44
Availability of Exhibit Space	21	44
Previous Experience in Dealing with Facility and Staff	39	43
Proximity to Shopping, Restaurants, Off-site Entertainment	16	24
Number, Size, and Quality of Suites	23	21
Proximity to Airport	26	21
Convenience to Other Modes of Transportation	25	22
Provision of Special Meeting Services	17	16
Meeting Rooms with Multiple High Speed Lines/Outlets	22	21
Fax Modem Hook-Ups in Sleeping Rooms	16	15
Other On-site Recreational Facilities	10	9
On-site Golf Course	10	9

Source: 2002 Meetings Market Report, *Meetings and Conventions Magazine*

Moreover, the City of Dallas will soon be one of a select few cities without a significant, adjacent headquarters hotel. This is illustrated in the following table.

Hotel Presence in Competitive Convention Cities

Convention Center	Proposed/Planned Headquarters Hotel	Adjacent Headquarters Hotel	Existing Primary Hotel	Existing Primary Hotel	Existing Primary Hotel
Orlando Orange County	1,000-rm Peabody Expansion	891-rm Peabody Hotel	2,267-rm Swan & Dolphin	2,000-rm Marriott	Many other large Orlando hotels
Chicago McCormick Place	—	800-rm Hyatt	2,019-rm Hyatt Regency	1,543-rm Hilton	1,192-rm Marriott & 1,209-rm Sheraton
Atlanta Georgia World Congress	—	1,067-rm Omni (Expanded)	1,675-rm Marriott	1,264-rm Grand Hyatt	1,224-rm Hilton
Dallas	Subject	—	1,122-rm Hyatt	1,614-rm Wyndham Anatole	1,840-rm Adam's Mark
New Orleans	Under Study	1,616-rm Hilton	1,100 Sheraton	1,344-rm Marriott	1,184-rm Hyatt
Houston	—	1,200-rm Hilton (New)	977-rm Hyatt	350-rm DoubleTree	399-rm Four Seasons
Denver	1,100-rm Hyatt (late 2006)	—	1,225-rm Adam's Mark	613-rm Marriott	511-rm Hyatt
San Diego Convention Center	—	1,303-rm Marriott	1,625-rm Hyatt (Expanded)	450-rm Westin	—
St. Louis	—	875-rm Renaissance (New)	910-rm Adam's Mark	780-rm Millenium	672-rm Marriott & 538-rm Hyatt
San Antonio	Under Study	—	1,001-rm Marriott	632-rm Hyatt	515-rm Marriott
Kansas City	—	946-rm Marriott	731-rm Hyatt	729-rm Westin	—
Indianapolis	—	587-rm Marriott (New)	573-rm Westin	497-rm Hyatt	424-rm Omni
Charlotte	—	700-rm Westin (New)	613-rm Adam's Mark	434-rm Marriott	407-rm Hilton
Austin	—	800-rm Hilton (New)	446-rm Hyatt	413-rm Radisson	375-rm Omni
Fort Worth	Under Study	—	517-rm Radisson	504-rm Renaissance	430-rm Fort Worth Plaza Hotel
Birmingham	—	770-rm Sheraton	298-rm Radisson	—	—
Tampa Convention Center	—	717-rm Marriott (New)	521-rm Hyatt	299-rm Wyndham	312-rm Holiday Inn
Memphis	202-rm Marriott Expansion	400-rm Marriott	468-rm Peabody	280-rm Radisson	—

Moreover, downtown Dallas and its convention center will only face stiffer competition later this year, as the massive Gaylord Texan is set to open in early April in Grapevine with 1,500 guestrooms and over 400,000 square feet of meeting and exhibition space.

While the presence of a headquarters hotel downtown would lessen the impact of the Gaylord Texan and other regional headquarters hotel openings such as Austin and Houston on City of Dallas hotel occupancy tax collections, the lack of a headquarters hotel is not the only factor limiting the center's salability. Now that headquarters hotels are becoming more the norm nationwide, rather than the exception to the norm, meeting planners are placing an increasingly greater emphasis on other complementary factors, such as the attractiveness of the convention experience within the local neighborhood. While efforts underway by the convention and visitors bureau to enhance downtown's image and popularity as a leisure destination will help, there is not a significant presence of retail and entertainment venues within close proximity to the center.

These factors, as well as the demonstrated levels of turn-away demand presented by the convention bureau and examples of other headquarters hotel openings, are utilized in the development of our induced demand estimate. This is presented in Chapter Eight, which is followed by our estimates of occupancy and average room rate which are detailed in Chapters Nine and Ten.

Chapter Eleven details our income and expense projection, which is based on a review of comparable operations and local market revenue and expense factors. The tables on the following pages present our projection: first, a detailed forecast through the fourth projection year, including amounts per available room (PAR) and per occupied room (POR); second, a summary forecast through the tenth projection year. The forecasts pertain to calendar operating years beginning January 1, 2008, and are expressed in inflated dollars for each year.

Detailed Forecast of Income and Expense, Proposed Headquarters Hotel, Dallas, Texas

	2008				2009				2010				Stabilized			
Number of Rooms:	1200				1200				1200				1200			
Occupancy:	48%				56%				60%				62%			
Average Rate:	\$134.48				\$139.37				\$143.54				\$147.09			
RevPAR:	\$64.55				\$78.05				\$86.12				\$91.19			
Days Open:	365				365				365				365			
Occupied Rooms:	210,240	%Gross	PAR	POR	245,280	%Gross	PAR	POR	262,800	%Gross	PAR	POR	271,560	%Gross	PAR	POR
REVENUE																
Rooms	\$28,274	60.4 %	\$23,562	\$134.48	\$34,184	60.2 %	\$28,487	\$139.37	\$37,721	59.9 %	\$31,434	\$143.54	\$39,943	59.8 %	\$33,286	\$147.09
Food & Beverage	15,464	33.0	12,886	73.55	18,969	33.4	15,807	77.33	21,200	33.7	17,666	80.67	22,603	33.9	18,836	83.23
Telephone	984	2.1	820	4.68	1,161	2.0	968	4.73	1,272	2.0	1,060	4.84	1,349	2.0	1,125	4.97
Other Income	2,079	4.4	1,733	9.89	2,493	4.4	2,078	10.16	2,757	4.4	2,298	10.49	2,868	4.3	2,390	10.56
Total Revenues	46,801	100.0	39,001	222.61	56,807	100.0	47,339	231.60	62,950	100.0	52,458	239.53	66,763	100.0	55,636	245.85
DEPARTMENTAL EXPENSES *																
Rooms	7,267	25.7	6,056	34.57	8,335	24.4	6,946	33.98	8,996	23.8	7,496	34.23	9,387	23.5	7,822	34.57
Food & Beverage	11,766	76.1	9,805	55.96	13,845	73.0	11,537	56.44	15,072	71.1	12,560	57.35	15,766	69.8	13,138	58.06
Telephone	660	67.1	550	3.14	737	63.4	614	3.00	777	61.1	647	2.96	810	60.0	675	2.98
Other Expenses	246	11.8	205	1.17	264	10.6	220	1.08	278	10.1	231	1.06	287	10.0	239	1.06
Total	19,939	42.6	16,616	94.84	23,180	40.8	19,317	94.51	25,123	39.9	20,936	95.60	26,249	39.3	21,874	96.66
DEPARTMENTAL INCOME	26,862	57.4	22,385	127.77	33,627	59.2	28,022	137.10	37,827	60.1	31,523	143.94	40,514	60.7	33,762	149.19
UNDISTRIBUTED OPERATING EXPENSES																
Administrative & General	3,982	8.5	3,318	18.94	4,250	7.5	3,542	17.33	4,454	7.1	3,712	16.95	4,621	6.9	3,851	17.02
Marketing	4,367	9.3	3,639	20.77	4,661	8.2	3,884	19.00	4,885	7.8	4,071	18.59	5,069	7.6	4,224	18.66
Prop. Operations & Maint.	2,569	5.5	2,141	12.22	2,742	4.8	2,285	11.18	2,874	4.6	2,395	10.94	2,982	4.5	2,485	10.98
Energy	1,927	4.1	1,606	9.16	2,056	3.6	1,714	8.38	2,155	3.4	1,796	8.20	2,236	3.3	1,863	8.23
Total	12,844	27.4	10,704	61.09	13,710	24.1	11,425	55.90	14,369	22.9	11,974	54.68	14,908	22.3	12,423	54.90
HOUSE PROFIT	14,017	30.0	11,681	66.67	19,917	35.1	16,597	81.20	23,458	37.2	19,548	89.26	25,607	38.4	21,339	94.30
Management Fee	1,404	3.0	1,170	6.68	1,704	3.0	1,420	6.95	1,888	3.0	1,574	7.19	2,003	3.0	1,669	7.38
INCOME BEFORE FIXED CHARGES	12,613	27.0	10,511	59.99	18,213	32.1	15,177	74.25	21,570	34.2	17,975	82.08	23,604	35.4	19,670	86.92
FIXED EXPENSES																
Property Taxes	1,834	3.9	1,528	8.72	1,861	3.3	1,551	7.59	1,889	3.0	1,574	7.19	1,917	2.9	1,598	7.06
Insurance	682	1.5	568	3.24	703	1.2	585	2.86	724	1.1	603	2.75	745	1.1	621	2.74
Reserve for Replacement	936	2.0	780	4.45	1,704	3.0	1,420	6.95	2,518	4.0	2,098	9.58	3,338	5.0	2,782	12.29
Total	3,452	7.4	2,876	16.42	4,268	7.5	3,557	17.40	5,131	8.1	4,276	19.52	6,001	9.0	5,001	22.10
NET INCOME	\$9,162	19.6 %	\$7,635	\$43.58	\$13,945	24.6 %	\$11,621	\$56.85	\$16,439	26.1 %	\$13,699	\$62.55	\$17,603	26.4 %	\$14,669	\$64.82

*Departmental expenses are expressed as a percentage of departmental revenues.

Summary Forecast of Income and Expense, Proposed Headquarters Hotel, Dallas, Texas

	2008		2009		2010		2011		2012		2013		2014		2015		2016		2017	
Number of Rooms:	1200		1200		1200		1200		1200		1200		1200		1200		1200		1200	
Occupied Rooms:	210,240		245,280		262,800		271,560		271,560		271,560		271,560		271,560		271,560		271,560	
Occupancy:	48%		56%		60%		62%		62%		62%		62%		62%		62%		62%	
Average Rate:	\$134.48	% of	\$139.37	% of	\$143.54	% of	\$147.09	% of	\$151.50	% of	\$156.04	% of	\$160.73	% of	\$165.55	% of	\$170.51	% of	\$175.63	% of
RevPAR:	\$64.55	Gross	\$78.05	Gross	\$86.12	Gross	\$91.19	Gross	\$93.93	Gross	\$96.75	Gross	\$99.65	Gross	\$102.64	Gross	\$105.72	Gross	\$108.89	Gross
REVENUE																				
Rooms	\$28,274	60.4 %	\$34,184	60.2 %	\$37,721	59.9 %	\$39,943	59.8 %	\$41,141	59.8 %	\$42,376	59.8 %	\$43,647	59.8 %	\$44,956	59.8 %	\$46,305	59.8 %	\$47,694	59.8 %
Food & Beverage	15,464	33.0	18,969	33.4	21,200	33.7	22,603	33.9	23,281	33.9	23,979	33.9	24,699	33.9	25,440	33.9	26,203	33.9	26,989	33.9
Telephone	984	2.1	1,161	2.0	1,272	2.0	1,349	2.0	1,390	2.0	1,432	2.0	1,475	2.0	1,519	2.0	1,564	2.0	1,611	2.0
Other Income	2,079	4.4	2,493	4.4	2,757	4.4	2,868	4.3	2,954	4.3	3,042	4.3	3,133	4.3	3,227	4.3	3,324	4.3	3,424	4.3
Total	46,801	100.0	56,807	100.0	62,950	100.0	66,763	100.0	68,765	100.0	70,829	100.0	72,954	100.0	75,142	100.0	77,397	100.0	79,718	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	7,267	25.7	8,335	24.4	8,996	23.8	9,387	23.5	9,668	23.5	9,958	23.5	10,257	23.5	10,565	23.5	10,882	23.5	11,208	23.5
Food & Beverage	11,766	76.1	13,845	73.0	15,072	71.1	15,766	69.8	16,238	69.8	16,726	69.8	17,227	69.8	17,744	69.8	18,277	69.8	18,825	69.8
Telephone	660	67.1	737	63.4	777	61.1	810	60.0	834	60.0	859	60.0	885	60.0	911	60.0	939	60.0	967	60.0
Other Expenses	246	11.8	264	10.6	278	10.1	287	10.0	295	10.0	304	10.0	313	10.0	323	10.0	332	10.0	342	10.0
Total	19,939	42.6	23,180	40.8	25,123	39.9	26,249	39.3	27,036	39.3	27,847	39.3	28,682	39.3	29,543	39.3	30,429	39.3	31,342	39.3
DEPARTMENTAL INCOME	26,862	57.4	33,627	59.2	37,827	60.1	40,514	60.7	41,729	60.7	42,982	60.7	44,271	60.7	45,599	60.7	46,967	60.7	48,376	60.7
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	3,982	8.5	4,250	7.5	4,454	7.1	4,621	6.9	4,760	6.9	4,903	6.9	5,050	6.9	5,201	6.9	5,357	6.9	5,518	6.9
Marketing	4,367	9.3	4,661	8.2	4,885	7.8	5,069	7.6	5,221	7.6	5,377	7.6	5,539	7.6	5,705	7.6	5,876	7.6	6,052	7.6
Prop. Operations & Maint.	2,569	5.5	2,742	4.8	2,874	4.6	2,982	4.5	3,071	4.5	3,163	4.5	3,258	4.5	3,356	4.5	3,456	4.5	3,560	4.5
Energy	1,927	4.1	2,056	3.6	2,155	3.4	2,236	3.3	2,303	3.3	2,372	3.3	2,443	3.3	2,517	3.3	2,592	3.3	2,670	3.3
Total	12,844	27.4	13,710	24.1	14,369	22.9	14,908	22.3	15,355	22.3	15,815	22.3	16,290	22.3	16,779	22.3	17,282	22.3	17,800	22.3
HOUSE PROFIT	14,017	30.0	19,917	35.1	23,458	37.2	25,607	38.4	26,375	38.4	27,167	38.4	27,981	38.4	28,821	38.4	29,685	38.4	30,576	38.4
Management Fee	1,404	3.0	1,704	3.0	1,888	3.0	2,003	3.0	2,063	3.0	2,125	3.0	2,189	3.0	2,254	3.0	2,322	3.0	2,392	3.0
INCOME BEFORE FIXED CHARGES	12,613	27.0	18,213	32.1	21,570	34.2	23,604	35.4	24,312	35.4	25,042	35.4	25,793	35.4	26,566	35.4	27,364	35.4	28,184	35.4
FIXED EXPENSES																				
Property Taxes	1,834	3.9	1,861	3.3	1,889	3.0	1,917	2.9	1,975	2.9	2,034	2.9	2,095	2.9	2,158	2.9	2,223	2.9	2,289	2.9
Insurance	682	1.5	703	1.2	724	1.1	745	1.1	768	1.1	791	1.1	814	1.1	839	1.1	864	1.1	890	1.1
Reserve for Replacement	936	2.0	1,704	3.0	2,518	4.0	3,338	5.0	3,438	5.0	3,541	5.0	3,648	5.0	3,757	5.0	3,870	5.0	3,986	5.0
Total	3,452	7.4	4,268	7.5	5,131	8.1	6,001	9.0	6,181	9.0	6,366	9.0	6,557	9.0	6,754	9.0	6,957	9.0	7,165	9.0
NET INCOME	\$9,162	19.6 %	\$13,945	24.6 %	\$16,439	26.1 %	\$17,603	26.4 %	\$18,131	26.4 %	\$18,676	26.4 %	\$19,236	26.4 %	\$19,812	26.4 %	\$20,407	26.4 %	\$21,019	26.4 %

*Departmental expenses are expressed as a percentage of departmental revenues.

Definition of the
Convention
Headquarters Hotel

The subject property is expected to serve as the primary convention headquarters hotel for groups utilizing the Dallas Convention Center in downtown Dallas, Texas. The term “headquarters” is given to that hotel which serves as the center of operations for an event occurring in the city’s convention center. This hotel typically dedicates the largest room block to the event, sometimes devoting up to 90% of its room count during the peak day(s) of the convention to that specific group. The headquarters property also handles a majority of the food and beverage needs of the group (outside of those held in the convention center), in particular receptions and banquet lunches and dinners. While the adjacent convention center may handle the large-scale exhibits and meetings, the convention headquarters hotel will often handle smaller ancillary meetings and breakouts, and pre- and post-group meetings.

The headquarters property typically features one of the larger room counts in the given market with one of the larger ballrooms. The most prominent brands for a convention headquarters hotel include Hyatt, Hilton, Marriott, Starwood’s Westin and Sheraton brands, Omni, and Peabody. Our report will feature an extensive review of regionally-significant headquarters hotels, as these facilities will compete with the subject property for regionally- and nationally-based meeting demand.

Objective of the
Market Study

The objective of this report is to evaluate the supply and demand factors affecting the market for hotel accommodations in the Dallas area as well as those factors affecting the market for regional and national meetings demand, for the purpose of developing an income and expense projection for the proposed facilities.

Use of the Study

This market study is being prepared for use by City of Dallas in connection with the development of the subject property. The information presented in this report should not be disseminated to the public or third parties (with the exception of potential investors and lenders) without the express written consent of HVS International.

Method of Study

The methodology used to develop this market study is based on the market research and analysis techniques set forth in the textbooks authored by HVS International for the American Institute of Real Estate Appraisers and the

Appraisal Institute, entitled *The Valuation of Hotels and Motels*,¹ *Hotels, Motels and Restaurants: Valuations and Market Studies*,² *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*,³ and *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*.⁴ The specific steps of which are as follows:

1. The physical orientation of the subject site with respect to access and visibility to highways, other forms of transportation and the local demand for transient and meeting accommodations was analyzed. We also reviewed the supportive nature of surrounding land uses as they related to demand trends and the proposed subject property.
2. The demand for transient and meeting and group accommodations was investigated to identify the various generators of visitation operating within the local market. The current and anticipated potential of each of these market segments was evaluated to determine the extent of existing and future demand. Interviews with officials of business and government, as well as statistical data collected during the fieldwork, was useful in locating and quantifying transient demand.
3. The market orientation of area lodging facilities was evaluated to determine their competitive position with respect to the proposed subject property. Those properties displaying similar market attributes received a physical inspection, along with selective management interviews, to estimate levels of occupancy, room rates, operating ratios, market segmentation and other pertinent operational characteristics. Some of the competitive factors that were specifically reviewed include: location, type and quality of facilities, rate structure (daily, weekly, monthly), physical condition, management expertise and chain affiliation.
4. Statistical data relating to general economic and demographic trends often foreshadows future potential for market areas and neighborhoods.

¹ Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

² Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).

³ Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).

⁴ Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*. (Chicago: Appraisal Institute, 1992).

Interviews with local Chambers of Commerce, economic development agencies and other related organizations, along with an investigation of the subject property's primary market area revealed patterns reflecting stability with a moderate amount of growth.

5. Expense factors relating to local conditions such as labor, food and beverage costs, energy rates, assessed values and taxes were researched. We utilized actual expense experience from comparable properties in the economic portions of our report.
6. Through interviews with hotel operators, developers, governmental officials and others, we ascertained the status of projects under construction, proposed or rumored which might be competitive with the subject property.
7. Based on the data and information gathered during the fieldwork phase, along with our extensive library of actual hotel operating statements, financial statistics, area hotel trends and investor requirements, we performed a supply and demand analysis for the subject property to determine its anticipated market orientation and competitive position with respect to other lodging facilities. This analysis resulted in a quantification and documentation of probable future trends in the subject property's occupancy, average rate, and overall rooms revenues.
8. A projection of income and expenses representing future expectations of income potential was made for a ten-year period of time. This analysis utilized HVS software, a sophisticated computerized financial analysis package, developed by Stephen Rushmore, CRE, CHA, MAI and Suzanne Mellen, CRE, MAI. The logic behind the projection of income and expense is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. The software takes a known level of revenue or expense and calculates the fixed and variable component. The fixed component is then held constant while the variable component is adjusted for the percent change between the projected occupancy and facility usage that produced the known level of revenue or expense. Our projected income and expense statement conforms with the Uniform System of Accounts for Hotels and includes a detailed line-by-line account of all revenue sources and expenses.

Management Company
and Affiliation

Upon completion, we have assumed that the subject property would be managed by a nationally recognized management company with a nationally recognized and well-respected brand name affiliation. As of the date of this report, the brand name affiliation had not been chosen for the proposed subject property.

Pertinent Dates

HVS International completed its fieldwork and analysis during the month of January 2004. The sites and market was visited and analyzed by Heather Gravelle and Rod Clough, MAI.

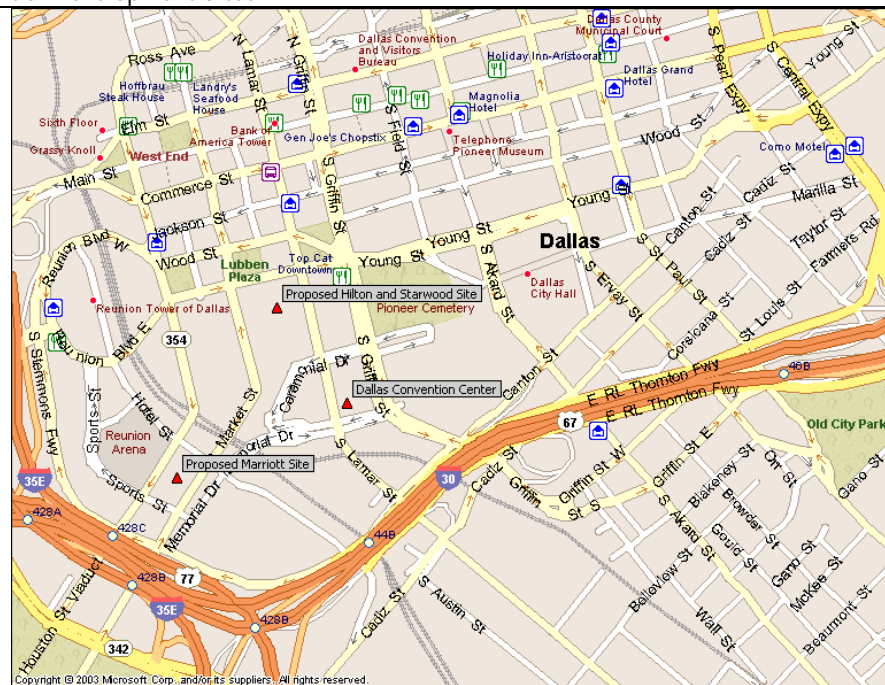
2. Description of the Real Estate

The suitability of the land for the operation of a convention headquarters hotel is an important consideration affecting the economic viability of a proposed property and its overall potential for revenue generation. Factors such as proximity of the convention center, proximity of leisure attractions and shopping, proximity to other complementary demand generators, site size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site.

Site Characteristics

Two sites are under consideration for potential hotel development. Both are adjacent to the Dallas Convention Center, and are indicated on the following map.

Potential Development Sites



The Marriott site is located along the western side of the Convention Center atop the Reunion Arena Parking Deck (the parking deck was constructed with the ability to add an additional 30-story tower). Hilton and Starwood also have a bid for a site which is located at the intersection of Young and Lamar Streets, just north of the Convention Center.

For the purposes of our study, we have assumed that the parcel designated for hotel use will be of ample size to contain the recommended improvements and necessary parking. We have assumed that the development of the site with hotel use will fall within City guidelines for property development and will conform to applicable City and County development guidelines. Hence, we assume that all necessary permits and approvals will be secured (including an appropriate liquor license), and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. We assume that a flood zone analysis would be completed and that appropriate insurance would be obtained for this risk if deemed necessary.

We assume that the subject site will be served by all necessary utilities. These should be acquired from the most cost effective providers. We note that TXU, Southwestern Bell, and the City of Dallas are major utility providers in the local market area. Geological and soil reports were not provided to the consultants or made available for review during the preparation of this report. The consultants are not qualified to evaluate soil conditions other than by a visual inspection of the surface. No extraordinary conditions were apparent. Moreover, the consultants have not been informed of any site-specific nuisances or hazards, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because the consultants are not experts in this field, we do not warrant the absence of hazardous waste, and we urge the reader to obtain an independent analysis of these factors.

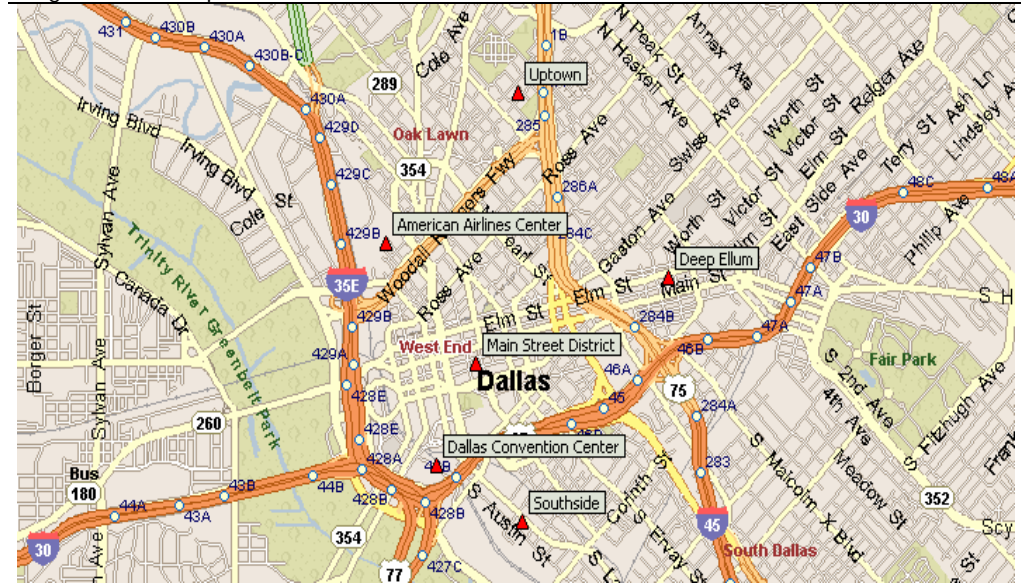
Neighborhood and Access to Demand Generators

The suitability of the neighborhood for a convention headquarters hotel and the accessibility to local demand generators are important factors when analyzing a marketplace. Corporate travelers prefer hotels close to their places of business, while leisure travelers prefer accommodations close to restaurants, museums, theaters, stores, and other attractions. Meeting travelers prefer lodging close to their meeting facility and to the amenities popular with leisure travelers.

As noted, the sites are located adjacent to the convention center, which is ideal for serving this demand generator. The center anchors the southwestern portion of downtown Dallas, and is bordered by Interstate 30 to the south and Interstate 35E to the west. Other sites in this general area are improved with office buildings, hotels, a special events arena, as well as surface parking lots. Convention travelers prefer to be in close proximity to stores, restaurants, and performing arts venues. Although the primary shopping, restaurant, and entertainment areas are several blocks north and northeast of the hotel sites, the headquarters hotel would be within walking distance to some of these activities; other attractions could be reached via a short cab ride or through other forms of arranged transportation.

Considerable expansion occurred in downtown Dallas in the 1980s, when several new office buildings were constructed, primarily along Elm, Bryan, and Ross streets. Underground malls were constructed to connect these buildings via retail promenades and walkways. However, as a result of a weakened economy and tax-law changes in the latter 1980s, development halted and downtown was faced with an oversupply of office space. Companies that may have been considering downtown locations were drawn to attractive, new, accessible office space in suburban markets. Various companies occupying space in downtown moved out to these areas during this time as well, including the Mobil Oil Corporation which previously occupied the Magnolia Building, now the site of the Magnolia Hotel. Left with largely vacant office buildings, downtown Class A rental rates fell, attracting tenants from Class B and Class C downtown office buildings to move into more attractive Class A space. These relocations left many downtown Class B and Class C office buildings vacant. Also, the underground retail space captured the majority of retail demand, resulting in the vacating of the older and street-front retail spaces.

Neighborhood Map



Downtown redevelopment projects emerged beginning in the mid- to late 1990s as financing incentives were made available to developers trying to renovate older, vacant buildings. This revitalization continues today, and is transforming central downtown into a more vibrant neighborhood. According to the Center City TIF District, the following is a list of downtown redevelopment projects of former vacant commercial space into alternative uses.

- **Thompson Building** – 19,000 square feet of retail space
- **1600 Elm Street** - 15,000 square feet of retail space
- **Gulf States Building** – 69 apartments
- **1414 Elm Street** – 8 condominium units and 5,000 square feet of retail space
- **1608 Main Street** and Pedestrian Access way – 8,000 square feet of retail and 4,000 square feet of office space
- **1217 Main** – 28,000 square feet of retail space
- **Dallas Power & Light Building** – 154 apartments and 28,000 square feet of retail space
- **1530 Main Street** – 97-unit hotel and 5,000 square feet of retail space

- **Tower Petroleum Building** – 203 apartments and 9,000 square feet of retail

Several years ago, residential redevelopment interest in the downtown area was sparked in older, historic office buildings which have long since been vacated. This new interest in downtown development first began in the bordering districts, which featured many low-rise, vacant, historic buildings that were well-suited for loft apartment conversions. Other important districts in this area include the following:

- **The Deep Ellum District** – This popular area is home to more than 100 night clubs, jazz clubs, restaurants, and galleries. Two townhouse projects were recently completed in this district.
- **The Arts District** – This area has been the site of renewed residential interest. As well as the residential interest, the Nasher Sculpture Center opened in October 2003. The Nasher Center was created at a cost of roundly \$70 million which includes nearly \$2 million in streetscape improvements.
- **Uptown Dallas** - This area is part of a 10-year master plan which includes nearly \$550 million in new construction. Some of the projects included in the master plan developments have been completed and/or announced. These projects include the W Dallas Victory Hotel and the W Residences scheduled to be completed in late 2005; the Waverly at Cityplace includes 218 apartments and 25,000 square feet of retail space which opened in October 2003, and the West Village development of 178 luxury apartments as well as just over 122,000 square feet of high-end retail space.
- **The Cedars** - Located just south of downtown, this area features nearly 247 acres and is currently a mix of residential, commercial, and light industrial. Projects in this area include Gilley's, which opened in October 2003, and is a 150,000-square-foot Texas style honky-tonk. According to the downtown economic development office, there is a grant for streetscaping to connect the Cedars DART station to the Police Station headquarters to the South Side on Lamar and to the Convention Center. One of the two proposed sites for the new Cowboys football stadium is also located in this area which is just south of the proposed subject sites and the convention center.
- **Trinity River Corridor** – A \$246 million bond program is currently in the review and approval stages for this area. The bond program is slated to

improve traffic congestion in downtown, as well as encourage development of land along the Trinity River and provide recreational amenities. According to the City of Dallas Economic Development office the Environmental Impact Statement for this area, impact studies could be completed by 2007, and design and construction will follow thereafter.

- **West End** – this historic district and popular tourist area includes over 30 restaurants and 50 retail shops as well as many businesses. The Dallas World Aquarium, located within this district, is currently under an expansion.

Overall, the outlook for downtown Dallas is encouraging. Although the land immediately surrounding the convention center is void of stores, restaurants, and entertainment venues, these businesses are nearby.

Regional Access

It is important to analyze a lodging facility's ease of access with respect to regional transportation routes in the area. In general, Dallas County enjoys excellent accessibility to points throughout the region. The following map illustrates Dallas' location and the major interstate highways which serve the city.

Regional Accessibility



It is important to analyze the site in regards to ease of access with respect to regional and local transportation routes and demand generators. The subject

sites enjoy excellent accessibility via a variety of local, county, state, and interstate highways. Accessibility has been a major factor in Dallas' success as a regional, national, and international marketplace. This accessibility is a function of the variety of transportation services that serve the area: more than a dozen major highways, two transcontinental bus lines, Amtrak, Love Field Airport, and the Dallas/Fort Worth International Airport. Dallas is a central point between North America's four largest business centers: New York, Chicago, Los Angeles, and Mexico City. Overall, accessibility within the market of proposed subject is considered excellent.

Local Access and Visibility

Local access to the downtown Dallas area and the subject sites is convenient from the various regional transportation routes that converge upon the downtown area. The street network in the downtown area, both east/west and north/south, is typically characterized by an alternating, one-way traffic pattern. Although accessing different sites in the downtown area may require looping around the block depending on your entry point to the area, the one-way streets generally provide improved overall local access in the downtown area.

The sites are located proximate to the convention center and other downtown office buildings. Because of the southwestern location of each site within the neighborhood, the hotel tower should enjoy adequate visibility within the market. However, because the property is not expected to generate a considerable amount of highway-related demand from motorists passing on the surrounding regional transportation routes, this visibility attribute is not considered a significant factor.

Airport Access

The subject property is well served by the Dallas/Fort Worth International Airport (D/FW International Airport) and Dallas Love Field, located roughly fifteen and five miles northeast of the subject site, respectively. Access to each airport is simple to navigate via the city's well-marked roadway system.

Airport Location Relative to Convention Center



The airlift capability of D/FW International Airport is a key sales point made to convention planners. Fortunately, Dallas benefits from a competitive airport facility which will be discussed in greater detail in the following section of this report. The facility is utilized by a variety of airlines (primarily American Airlines and Delta), as well as a number of discount airlines. The presence of discount airlines is also attractive to convention meeting planners.

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities, and we note the following advantages and disadvantages.

Advantages

- The sites are located within the revitalizing downtown market of Dallas, and are adjacent to the recently expanded Dallas Convention Center, which is a major demand generator for the downtown market.
- The sites are easily found within downtown Dallas and are proximate to southern entry points into the downtown area. Also, the market is well-served by an international airport, which remains one of the busiest airports in the nation.

- The sites have the appropriate size and topography to allow for the development of the planned hotel facility.

Disadvantages

- The sites are not within the most popular districts of central Dallas, which offer many stores, restaurants, and entertainment venues which are popular with hotel guests.
- The sites are not immediately adjacent to any major office complexes or significant commercial demand generators. As such, the hotel will need to rely first and foremost upon the convention center and its in-house meeting space for demand.

3. Market Area Analysis

The economic vitality of the market area and neighborhood surrounding the subject property is an important consideration in forecasting lodging demand and income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project hostelry demand. The purpose of the market area analysis is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilize, or decline. In addition to predicting the direction of the economy, the rate of change must be quantified. These trends are then correlated based on their propensity to reflect variations in lodging demand with the objective of forecasting the amount of growth or decline in transient visitation by individual market segment (e.g., commercial, meeting and group, and leisure).

Market Area Definition

The “Metroplex” is a term coined for the metropolitan area formed by Dallas, Fort Worth, and the various cities which surround them. The area is roughly 210 miles north of Houston, 250 miles north of San Antonio, and 170 miles north of Austin. This region sits at the eastern edge of the Texas Plains and the western edge of the Piney Woods. The Metroplex comprises two primary metropolitan statistical areas, or MSAs. The Dallas MSA constitutes the following eight counties: Dallas, Collin, Denton, Ellis, Henderson, Hunt, Kaufman, and Rockwall. Four counties comprise the Fort Worth/Arlington MSA: Tarrant, Parker, Johnson, and Hood.

Economic and Demographic Statistics

The following summary of economic and demographic statistics is taken from the Complete Economic and Demographic Data Source published by Woods & Poole Economics, Inc. – a well-regarded forecasting service based in Washington, DC. Using a database containing more than 300 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Historical statistics are based on census data and information published by the Bureau of Economic Analysis. Projections are formulated by Woods & Poole, and all dollar amounts have been adjusted for inflation, and thus reflect real change. It

should be noted that the percent changes indicated in the following tables are based on unrounded figures, and thus may not calculate exactly.

Economic and Demographic Data Overview

	1990	2000	2003	2010	Average Annual % Change		
					1990-00	2000-03	2003-10
Resident Population (Thousands)							
Dallas County	1,863.5	2,224.6	2,293.6	2,444.8	1.8%	1.0%	0.9%
Collin County	266.9	499.9	583.2	724.8	2.8%	2.2%	1.6%
Denton County	276.4	438.8	497.7	603.7	4.7%	4.3%	2.8%
Dallas, TX MSA	2,693.7	3,542.6	3,785.5	4,243.0	2.8%	2.2%	1.6%
Tarrant County	1,177.2	1,454.9	1,555.1	1,783.1	2.1%	2.2%	2.0%
Fort Worth-Arlington, TX MSA	1,368.7	1,713.8	1,837.4	2,112.9	2.3%	2.3%	2.0%
State of Texas	17,056.8	20,955.2	22,062.6	24,451.8	2.1%	1.7%	1.5%
United States	249,622.8	282,224.3	291,214.8	311,573.1	1.2%	1.1%	1.0%
Per Capita Personal Income*							
Dallas County	\$26,478.0	\$34,023.0	\$34,855.0	\$37,522.0	2.5%	0.8%	1.1%
Collin County	28,247.0	38,243.0	39,692.0	43,010.0	3.1%	1.2%	1.2%
Denton County	22,075.0	28,858.0	29,610.0	31,039.0	2.7%	0.9%	0.7%
Dallas, TX MSA	25,318.0	32,779.0	33,669.0	36,192.0	2.6%	0.9%	1.0%
Tarrant County	22,852.0	28,027.0	28,394.0	30,246.0	2.1%	0.4%	0.9%
Fort Worth-Arlington, TX MSA	22,246.0	27,277.0	27,653.0	29,484.0	2.1%	0.5%	0.9%
State of Texas	20,374.0	25,832.0	26,584.0	28,754.0	2.4%	1.0%	1.1%
United States	22,856.0	27,432.0	28,326.0	30,637.0	1.8%	1.1%	1.1%
W&P Wealth Index							
Dallas County	119.9	125.5	124.5	123.8	0.5%	-0.3%	-0.1%
Collin County	135.7	153.3	153.6	153.1	1.2%	0.1%	0.0%
Denton County	106.1	113.6	112.6	109.0	0.7%	-0.3%	-0.5%
Dallas, TX MSA	114.7	121.8	121.2	120.4	0.6%	-0.2%	-0.1%
Tarrant County	103.5	104.4	102.6	101.1	0.1%	-0.6%	-0.2%
Fort Worth-Arlington, TX MSA	100.5	101.3	99.6	98.2	0.1%	-0.6%	-0.2%
State of Texas	91.9	95.1	94.8	94.8	0.3%	-0.1%	0.0%
United States	100.0	100.0	100.0	100.0	0.0%	0.0%	0.0%
Food & Beverage Sales (Gross)*							
Dallas County	\$2,387.3	\$3,131.2	\$3,401.7	\$4,027.0	2.7%	2.8%	2.4%
Collin County	212.5	511.3	628.6	870.0	9.2%	7.1%	4.8%
Denton County	173.3	364.4	435.2	588.6	7.7%	6.1%	4.4%
Dallas, TX MSA	2,918.1	4,240.0	4,733.1	5,829.4	3.8%	3.7%	3.0%
Tarrant County	1,231.1	1,861.2	2,093.8	2,667.1	4.2%	4.0%	3.5%
Fort Worth-Arlington, TX MSA	1,339.8	1,987.5	2,238.3	2,855.0	4.0%	4.0%	3.5%
State of Texas	14,484.2	20,777.4	23,014.9	28,344.9	3.7%	3.5%	3.0%
United States	216,297.9	282,228.8	306,830.3	365,034.7	2.7%	2.8%	2.5%
Total Retail Sales (Millions)*							
Dallas County	\$20,416.2	\$29,054.7	\$30,651.8	\$34,898.5	3.6%	1.8%	1.9%
Collin County	2,396.1	5,720.3	6,828.4	9,063.9	9.1%	6.1%	4.1%
Denton County	1,887.7	4,140.5	4,805.7	6,226.7	8.2%	5.1%	3.8%
Dallas, TX MSA	26,415.3	41,696.6	45,375.6	53,963.4	4.7%	2.9%	2.5%
Tarrant County	11,038.8	17,080.9	18,681.9	22,881.6	4.5%	3.0%	2.9%
Fort Worth-Arlington, TX MSA	12,337.3	19,085.1	20,918.4	25,671.3	4.5%	3.1%	3.0%
State of Texas	139,372.3	216,486.6	233,325.1	276,760.3	4.5%	2.5%	2.5%
United States	2,089,724.5	2,933,677.5	3,100,300.8	3,553,091.5	3.5%	1.9%	2.0%

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

Population

Although there is no direct correlation between the size of an area's population and its specific level of transient visitation, a review of an area's historical and projected population trends and composition is an important step in evaluating the local economic climate and determining projected growth in demand for lodging facilities. An expanding area population suggests both an increasing commercial base and growth in room night demand attributable to relocations. In addition, an increase in the local resident base indicates a rise in the number of leisure travelers arriving in the area, because the motivation behind many trips is to visit friends and relatives. The rate of population growth will generally establish a minimum rate of increase in an area's lodging demand.

According to Woods & Poole Economics, Inc., the population of Texas expanded thus far in this decade at an annual average rate of 1.7% (slower than the 2.1% average annual growth rate of the 1990s), while the nation as a whole increased at an average annual rate of 1.1% between 2000 and 2003 (similar to the 1.2% average annual growth rate of the 1990s). Within the Metroplex, the Fort Worth – Arlington MSA achieved 2.3% population growth on average annually thus far in this decade, slightly stronger than the Dallas MSA's average annual growth rate of 2.2%. Tarrant County population expanded by 2.2% on average annually in this decade, which fell between Dallas County's average annual growth rate of 1.0% and Denton and Collin counties stronger average annual growth rates of 4.3% and 2.2%, respectively. This mirrored trends through the 1990s, where the population expansion was considerably greater in the northern Dallas MSA counties of Collin and Denton, trailed by Tarrant County and then Dallas County.

Projections indicate that population increases for Texas are expected to continue through 2010. The state population is projected to increase by 1.5% annually between 2003 and 2010. Forecasts for the nation as a whole indicate an average annual compounded population increase of 1.0% between 2003 and 2010. Expansion is expected to be greatest in Denton (at 2.8%) and Tarrant (at 2.0%) counties, followed by Collin (at 1.6%) and Dallas (at 0.9%) counties. Dallas County should remain the most populated Metroplex county, with nearly 2.5 million residents by 2010, followed by Tarrant County with almost 1.8 million residents. By 2010, Collin County population is expected to nearly triple from the 1990 level, while Denton County population should have more than doubled from the 1990 level.

Per Capita Personal Income

According to the procedures outlined in the National Income and Product Accounts, personal income is calculated by totaling earned income (wages, salaries, other labor income, and proprietor's income), non-earned income, and residence adjustments and subtracting personal contributions to social insurance. Trends in personal income reflect the spending ability of local residents.

Woods & Poole Economics, Inc. data indicated that per capita personal income showed positive change in this decade, albeit at a slower pace than the average growth of the 1990s. Average income for the state of Texas increased at an average annual rate of 1.0%, off of the 2.4% annual growth rate achieved on average annually during 1990 through 2000; this closely mirrored national trends. Within the Metroplex, both MSAs fell below the 1.0% mark in income growth, with Dallas outpacing Fort Worth-Arlington. Dallas County per capita personal income expanded by 0.8% on average annually thus far this decade, which topped Tarrant County's growth rate of 0.5%. During the 1990s, Collin County experienced the greatest income expansion, at 3.1% annually on average, followed by Denton's 2.7% annual rate. Dallas County's and Tarrant County's income growth levels were slightly more modest, at 2.5% and 2.1% respectively, on average annually.

By 2003, Collin County represented the selected county with the highest per capita personal income level, at just under \$40,000. Dallas County followed with roundly \$35,000 and Denton County with roundly \$30,000. Tarrant County's per capital personal income level averaged roundly \$28,000 in 2003. This ranking relationship is forecast to remain in place through 2010, according to this source.

Projections through the year 2010 suggest continued slow growth for personal income for the Metroplex. Forecast income changes largely mirror early trends for the decade. Per capita personal income within the state of Texas is projected to increase by 1.1% annually between 2003 and 2010, similar to the forecast rate of change for the nation. Income growth in local counties and MSAs should closely bracket the 1.0% mark, according to Woods and Poole Economics, Inc.

W&P Wealth Index

The W&P Wealth Index measures a populace's affluence relative to the national average (US=100.0). The Woods & Poole wealth index recognizes a 100.0 level for the nation as an equal percentage; higher levels indicate a wealthy and stable level while lower levels indicate slightly lower wealth levels in a particular area. In Texas, the wealth index was measured at 91.9 in 1990, 95.1 in 2000, and 94.8 in 2003. This reflects relative economic strengthening that occurred throughout the state throughout much of the 1990s. Almost no change in the W&P Index level is anticipated by 2010 for the state, as indicated by the projected 94.8 index level.

Within the Metroplex, the relative wealth within the Dallas MSA has improved while the Fort Worth-Arlington MSA index has declined. In 1990, the Dallas MSA maintained a wealth index of roundly 115.0, which increased to roundly 121.0 by 2003; the Fort Worth-Arlington MSA wealth index was roundly 101.0 in 1990, which fell to roundly 100.0 in 2003. Much of the increase within the Dallas MSA was attributed to wealth expansion within the northern counties of the Metroplex, and Collin County in particular. By 2003, Collin County's wealth index reached roundly 154.0, increasing from roundly 136.0 in 1990. By comparison, other counties' indexes showed less change. Tarrant County was most stable, decreasing from roundly 104.0 to roundly 103.0 between 1990 and 2003.

Food and Beverage Sales (Gross)

Food and beverage sales are important trends for hotels. Full-service and convention-oriented hotels generate a significant portion of their revenues from hotel restaurants and banquet activities. Restaurant patronage and revenue trends also have a direct correlation to the propensity for area residents to use area venues. For tourist-rich regions, food and beverage sales also indicate levels of visitation.

Trends provided by Woods & Poole Economics, Inc. show that food and beverage sales between 1990 and 2000 expanded by 3.7% and 2.7%, respectively, in Texas and the nation. Food and beverage sales in the Dallas MSA and Fort Worth-Arlington MSA respectively increased by 3.8% and 4.0% annually during the period. Although the Fort Worth-Arlington MSA outpaced the Dallas MSA overall in growth, the Dallas MSA counties of Collin and Denton surpassed both Dallas and Fort Worth in expansion pace. Between 1990 and 2000, Collin and Denton counties experienced respective

food and beverage sales growth of 9.2% and 7.7% on average annually, while Tarrant and Dallas counties experienced respective annual growth of 4.2% and 2.7%.

From 2000 to 2003, food and beverage sales growth in the state moderated slightly, registering a growth rate of 3.5% on average annually, while national food and beverage sales expanded by a similar 2.8% average annual level. Growth in this decade within the local MSAs closely mirrored trends of the 1990s, with 4.0% average annual growth in the Fort Worth-Arlington MSA and 3.7% average annual growth in the Dallas MSA. This trend indicated that the Fort Worth-Arlington MSA maintained stability from its 1990s growth level, while the Dallas MSA growth rate moderated downward slightly. Growth within Collin and Denton counties remained strong through 2003, at 7.1% and 6.1%, respectively, on average annually. Tarrant and Dallas counties followed with respective average annual growth rates of 4.0% and 2.8% through 2003.

Local counties food and beverage sales are projected to expand at a slightly slower pace than recent historical figures, but at a continued healthy rate. Forecasts show an average annual compounded rate of 4.8% and 4.4% between 2003 and 2010 for Collin and Denton counties respectively, followed by respective growth rates of 3.5% and 2.4% for Tarrant and Dallas counties. Similarly, food and beverage sales trends for the Dallas MSA, the Fort Worth-Arlington MSA, Texas, and the nation are expected to increase at annual levels of 3.0%, 3.5%, 3.0%, and 2.5%, respectively.

Part of the past increase has been attributed to expenditures by new residents in the area. Per capita food and beverage sales growth for Dallas County, the local MSA, the state, and the nation are illustrated in the following table.

Food and Beverage Sales Trends – Per Capita

Data Type	Period	Data Point	Data Point	Avg. Annual Comp. Change
Long-Term Historical Eating and Drinking Place Sales Per Capita				
Dallas County	1990-2003	1,281.0	1,483.2	1.1
Dallas, TX MSA	1990-2003	1,083.3	1,250.3	1.1
State of Texas	1990-2003	849.2	1,043.2	1.6
United States	1990-2003	867.0	1,041.5	1.4
Short-Term Historical Eating and Drinking Place Sales Per Capita				
Dallas County	2000-2003	1,407.5	1,483.2	1.8
Dallas, TX MSA	2000-2003	1,196.9	1,250.3	1.5
State of Texas	2000-2003	991.5	1,043.2	1.7
United States	2000-2003	999.2	1,041.5	1.4
Projected Eating and Drinking Place Sales Per Capita				
Dallas County	2003-2010	1,483.2	1,647.2	1.5
Dallas, TX MSA	2003-2010	1,250.3	1,373.9	1.4
State of Texas	2003-2010	1,043.2	1,159.2	1.5
United States	2003-2010	1,041.5	1,141.0	1.3

Source: Woods & Poole Economics, Inc.

Total Retail Sales

Retail sales levels reflect both population trends and the propensity to spend money on retail goods. There is no direct correlation between retail sales and hotel demand; however, retail sales trends tend to gauge the economic health and vitality of the market. Retail sales growth should cause local businesses to prosper and make it more likely for new firms to enter the market, thus causing an increase in the demand for lodging facilities. In areas where tourism is a significant economic factor, retail sales also reflect the amount of visitation.

Information from Woods & Poole Economics, Inc. reveals that between 1990 and 2000, the state experienced a retail sales growth rate of 4.5%, moderating to a growth rate of 2.5% between 2000 and 2003. From 1990 to 2000, the nation registered an average annual growth rate of 3.5% in retail sales, decreasing to 1.9% growth from 2000 to 2003. Local county and MSA trends for retail sales closely mirrored those illustrated for food and beverage sales. The Fort Worth-Arlington MSA showed some slowing into 2003, maintaining a 3.1% average annual growth rate since 2000, after averaging 4.5% annual growth in the 1990s. The Dallas MSA showed a sharper moderation, with

retail sales expanding by 2.9% on average annually this decade after averaging 4.7% growth during the 1990s. Collin County experienced the greatest levels of retail sales change, followed by Denton, Tarrant, and Dallas counties.

Through the year 2010, retail sales growth in all of the local demographic areas is expected to slow somewhat. The Dallas and Fort Worth-Arlington MSAs are expected to increase at average annual rates of 2.5% and 3.0%, respectively. Texas and the nation as a whole are forecast to increase at average annual compounded rates of 2.5% and 2.0%, respectively, through 2010.

As with food and beverage sales, part of the past increase in retail sales has been attributed to expenditures by new residents in the area. Per capita retail sales growth for Dallas County, the local MSA, the state, and the nation are illustrated in the following table.

Retail Sales Trends – Per Capita

<u>Data Type</u>	<u>Period</u>	<u>Data Point</u>	<u>Data Point</u>	<u>Avg. Annual Comp. Change</u>
Long-Term Historical Retail Sales Per Capita				
Dallas County	1990-2003	10,955.5	13,364.2	1.5
Dallas, TX MSA	1990-2003	9,806.4	11,986.8	1.6
State of Texas	1990-2003	8,171.1	10,575.6	2.0
United States	1990-2003	8,376.8	10,620.7	1.8
Short-Term Historical Retail Sales Per Capita				
Dallas County	2000-2003	13,060.6	13,364.2	0.8
Dallas, TX MSA	2000-2003	11,770.1	11,986.8	0.6
State of Texas	2000-2003	10,330.9	10,575.6	0.8
United States	2000-2003	10,325.2	10,620.7	0.9
Projected Personal Retail Sales Per Capita				
Dallas County	2003-2010	13,364.2	14,274.9	0.9
Dallas, TX MSA	2003-2010	11,986.8	12,718.1	0.8
State of Texas	2003-2010	10,575.6	11,318.6	1.0
United States	2003-2010	10,620.7	11,252.2	0.8

Source: Woods & Poole Economics, Inc.

Employment

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses.

Sectors such as finance, insurance, and real estate (FIRE), wholesale trade, and services produce a considerable number of visitors who are not particularly rate sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, and transportation, communications, and public utilities (TCPU) employers can also be important, depending upon the company type.

Employment Overview – Dallas, TX MSA

Industry	1990	Percent of Total	2000	Percent of Total	2003	Percent of Total	2010	Percent of Total	Average Annual Compounded Change		
									1990- 2003	2000- 2003	2003- 2010
Farm	13.3	0.7 %	14.4	0.6 %	14.8	0.6 %	15.3	0.5 %	0.8 %	0.8 %	0.5 %
Agriculture Services, Other	12.7	0.7	23.2	0.9	24.7	0.9	27.7	0.9	5.2	2.0	1.7
Mining	36.4	2.0	21.8	0.9	21.8	0.8	22.8	0.8	(3.9)	0.0	0.7
Construction	74.4	4.2	149.4	6.0	155.4	6.0	171.2	5.9	5.8	1.3	1.4
Manufacturing	240.5	13.4	261.0	10.5	264.1	10.1	272.3	9.3	0.7	0.4	0.4
Trans., Comm. & Public Utils.	95.4	5.3	165.1	6.7	170.5	6.5	185.4	6.3	4.6	1.1	1.2
Total Trade	413.5	23.1	557.9	22.5	586.8	22.5	657.7	22.5	2.7	1.7	1.6
Wholesale Trade	130.6	7.3	171.7	6.9	182.5	7.0	205.2	7.0	2.6	2.1	1.7
Retail Trade	283.0	15.8	386.2	15.6	404.3	15.5	452.5	15.5	2.8	1.5	1.6
Finance, Insurance, & Real Estate	202.3	11.3	263.5	10.6	276.4	10.6	305.1	10.4	2.4	1.6	1.4
Services	520.5	29.1	795.2	32.1	855.7	32.8	1,002.9	34.3	3.9	2.5	2.3
Total Government	181.5	10.1	227.0	9.2	237.3	9.1	260.3	8.9	2.1	1.5	1.3
Federal Civilian Govt.	32.2	1.8	31.8	1.3	31.9	1.2	33.3	1.1	(0.1)	0.1	0.6
Federal Military Govt.	12.2	0.7	10.6	0.4	10.7	0.4	10.9	0.4	(1.0)	0.3	0.4
State & Local Govt.	137.1	7.7	184.6	7.4	194.8	7.5	216.1	7.4	2.7	1.8	1.5
TOTAL	1,790.5	100.0 %	2,478.7	100.0 %	2,607.6	100.0 %	2,920.7	100.0 %	2.9 %	1.7 %	1.6 %

Source: Woods and Poole Economics, Inc.

Employment Overview – Fort Worth/Arlington, TX MSA

Industry	1990	Percent of Total	2000	Percent of Total	2003	Percent of Total	2010	Percent of Total	Average Annual Compounded Change		
									1990- 2003	2000- 2003	2003- 2010
Farm	6.9	0.9 %	7.9	0.8 %	8.2	0.8 %	8.6	0.7 %	1.4 %	1.0 %	0.6 %
Agriculture Services, Other	6.2	0.8	9.9	1.0	10.6	1.0	12.0	1.0	4.2	2.2	1.7
Mining	11.4	1.5	9.4	0.9	9.5	0.9	10.3	0.8	(1.4)	0.4	1.2
Construction	36.8	4.9	66.6	6.7	71.2	6.8	83.4	6.9	5.2	2.2	2.3
Manufacturing	121.9	16.3	115.2	11.6	115.4	10.9	116.8	9.6	(0.4)	0.1	0.2
Trans., Comm. & Public Utils.	61.5	8.2	83.8	8.4	91.3	8.7	111.2	9.1	3.1	2.9	2.9
Total Trade	177.3	23.6	228.1	23.0	240.1	22.8	275.3	22.6	2.4	1.7	2.0
Wholesale Trade	40.1	5.3	48.8	4.9	52.4	5.0	60.3	5.0	2.1	2.4	2.0
Retail Trade	137.2	18.3	179.3	18.0	187.7	17.8	215.0	17.7	2.4	1.5	2.0
Finance, Insurance, & Real Estate Services	50.5	6.7	80.7	8.1	84.4	8.0	94.1	7.7	4.0	1.5	1.6
Total Government	192.7	25.7	286.4	28.8	311.3	29.5	374.4	30.8	3.8	2.8	2.7
Federal Civilian Govt.	85.0	11.3	105.9	10.7	112.9	10.7	130.0	10.7	2.2	2.1	2.0
Federal Military Govt.	13.8	1.8	14.3	1.4	14.1	1.3	14.5	1.2	0.2	(0.5)	0.4
State & Local Govt.	10.0	1.3	5.5	0.5	5.5	0.5	5.7	0.5	(4.5)	0.3	0.4
TOTAL	61.2	8.2	86.1	8.7	93.3	8.8	109.9	9.0	3.3	2.7	2.4
TOTAL	750.1	100.0 %	994.0	100.0 %	1,054.9	100.0 %	1,216.1	100.0 %	2.7 %	2.0 %	2.1 %

Source: Woods and Poole Economics, Inc.

Total employment in the Fort Worth-Arlington MSA increased at an average annual rate of 2.7% between 1990 and 2003, while growth was faster paced, at 2.9% annually, in the Dallas MSA during the same period. Both MSAs have experienced slower employment growth between 2000 and 2003, with the Fort Worth-Arlington MSA experiencing employment expansion of 2.0% on average annually which outpaced Dallas MSA average annual employment growth of 1.7%. Growth over the 11-year period has been largely paced by expansions in the services sector.

Between 1990 and 2003, the service sector's portion of the total employment picture increased substantially, bracketing the 30-percent mark in both MSAs. Manufacturing employment decreased from 16.3% in Fort Worth-Arlington in 1990 to 10.9% in 2003; manufacturing in the Dallas MSA declined similarly from 13.4% to 10.1%. This trend is in line with nationwide trends in employment, where higher-paying, value-added jobs in the manufacturing sector are replaced with lower-paying service sector jobs. Overall, the employment picture is expected to remain favorable through 2010, with growth of 2.1% per year expected in the Fort Worth-Arlington MSA and 1.6% per year expected in the Dallas MSA.

Unemployment Statistics

The following table presents historical average unemployment rates for the local MSAs, versus those of the state and the nation, from 1993 through 2002.

Unemployment Statistics - Metroplex, State, & Nation

Year	Dallas MSA	Fort Worth/ Arlington MSA	Texas	U.S.
1993	6.0 %	6.4 %	7.2 %	6.9 %
1994	5.2	5.6	6.4	6.1
1995	4.7	4.9	6.0	5.6
1996	4.0	3.9	5.6	5.4
1997	3.7	3.7	5.4	4.9
1998	3.2	3.3	4.8	4.5
1999	3.1	3.1	4.6	4.2
2000	3.1	3.2	4.2	4.0
2001	4.8	4.1	4.8	4.8
2002	7.1	6.1	6.3	5.8

Source: U.S. Bureau of Labor Statistics

Following the trend of the state economy, local area unemployment rates steadily declined during much of the latter 1990s. State unemployment trends have closely followed those for the nation, declining from 7.2% in 1993 to a low 4.2% in 2000. The Dallas and Fort Worth/Arlington unemployment rates have typically been one to two points below the statewide level, indicating a robust, local economy. Prior to 2001, the Dallas MSA had normally fallen just under the Fort Worth/Arlington MSA in unemployment, suggesting the Dallas MSA experienced a slightly stronger economic climate during much of the 1990s. The state's unemployment rates for 2001 and 2002 then turned to 4.8% and 6.3%, reflecting the economic slowdown (wiping out the unemployment improvement since 1994). More specifically, in 2002 the Dallas MSA unemployment levels exceeded those of the Fort Worth MSA and the State reaching 7.1%.

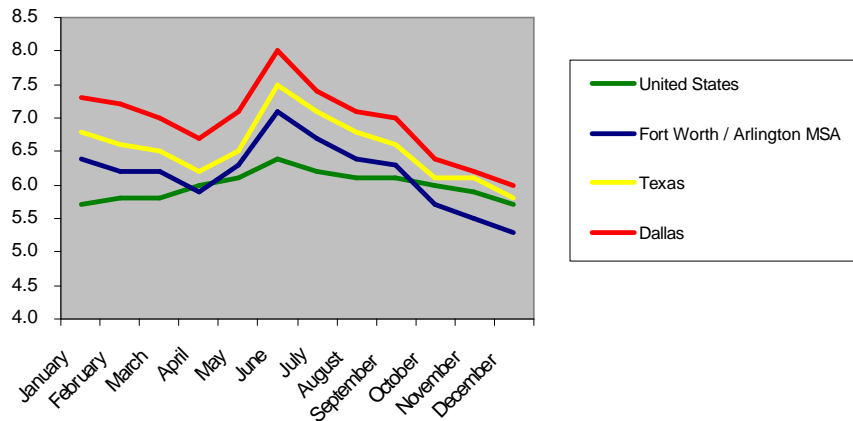
Unemployment Statistics – Recent Months

Month	Dallas MSA	Fort Worth/ Arlington MSA	Texas	U.S.
<i>2003</i>				
January	7.3 %	6.4 %	6.8 %	5.7 %
February	7.2	6.2	6.6	5.8
March	7.0	6.2	6.5	5.8
April	6.7	5.9	6.2	6.0
May	7.1	6.3	6.5	6.1
June	8.0	7.1	7.5	6.4
July	7.4	6.7	7.1	6.2
August	7.1	6.4	6.8	6.1
September	7.0	6.3	6.6	6.1
October	6.4	5.7	6.1	6.0
November	6.2	5.5	6.1	5.9
December	6.0	5.3	5.8	5.7

Source: U.S. Bureau of Labor Statistics

Year-to-date trends indicate lower unemployment rates for the Dallas MSA in the latter half of the year, concurrent with lower unemployment statewide and for the nation.

Chart of Recent Unemployment Statistics



These unemployment statistics are encouraging, but do not necessarily relate to a direct correlation in new jobs; some of the decline is due to benefit expiration which typically occurs after 26 months (moreover, Federal extended unemployment benefits were available through the summer of 2003).

Office Space Statistics

Trends in occupied office space are among the most reliable indicators of lodging demand, because firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Thus, trends that cause changes in vacancy rates or in the amount of occupied office space may have a proportional impact on commercial lodging demand, and a less direct effect on meeting demand.

The Dallas CBD contains the largest amount of the office supply in the market, at just over 32.3 million square feet of available office space. As of the third quarter of 2003, it also experienced one of the highest vacancy rates, at just over 29.0%. Because office tenants are typically important generators of hotel demand, this high vacancy rate has a direct correlation with hotel demand and helps to explain why downtown hotel occupancies are so low at this time. Fortunately, it appears that office vacancy has stabilized just below the 30.0% level, after increasing consistently since early 2001. The following table details office space statistics for the Dallas/Fort Worth Metroplex area.

Office Space Statistics

Sub-Market	First Qtr '01	First Qtr '02	First Qtr '03	Third Quarter 2003		Average Asking Lease Rates				
	Vacancy Rate	Vacancy Rate	Vacancy Rate	Vacancy Rate	Vacant SF	Net Absorption (SF)	1st Qtr 2001	1st Qtr 2002	1st Qtr 2003	3rd Qtr 2003
Central Expressway	15.3 %	18.3 %	15.9 %	17.8 %	1,887,652	(195,094)	\$19.89	\$19.70	\$18.77	\$18.57
Dallas CBD	24.9	27.2	29.2	29.1	9,122,560	121,329	18.29	17.08	16.80	15.61
East Dallas	15.2	15.0	14.9	16.0	407,606	(26,941)	13.54	13.55	14.21	13.60
Far North Dallas	11.0	24.4	25.7	21.9	5,210,364	(98,540)	22.98	21.83	20.21	19.41
Fort Worth CBD	15.8	16.7	14.7	11.2	1,042,915	(76,345)	15.68	16.73	17.23	17.40
LBJ Freeway	17.9	22.7	28.6	29.4	6,052,951	(221,669)	20.41	19.23	17.34	17.06
Las Colinas	12.8	23.1	26.1	26.1	4,847,140	12,530	22.88	21.13	18.73	18.04
Lewisville/Denton	4.9	33.5	39.2	49.9	1,409,755	125,233	16.25	18.22	16.72	17.24
Mid-Cities	10.8	15.5	17.9	21.2	2,259,453	(42,352)	17.22	17.33	18.73	18.61
North Fort Worth	38.3	53.4	16.2	32.9	524,508	36,825	18.23	17.87	16.92	16.78
Northeast Fort Worth	16.3	14.6	12.1	12.2	125,432	(12,786)	15.20	16.45	16.67	16.42
Preston Center	8.8	11.2	10.3	10.7	389,840	(21,954)	23.55	21.42	21.69	21.86
Richardson/Plano	8.3	25.6	24.4	26.8	2,860,123	(76,911)	20.04	20.66	18.33	17.87
South Fort Worth	11.0	15.0	15.4	13.5	497,877	16,864	15.53	17.95	17.83	17.36
Southwest Dallas	10.4	13.9	15.6	14.6	154,445	2,313	13.23	13.44	11.67	12.52
Stemmons Freeway	16.0	22.9	21.9	24.3	1,989,741	(77,511)	16.83	17.01	15.45	14.29
Uptown/Turtle Creek	9.4	12.3	15.9	17.1	1,412,816	(31,492)	22.99	22.28	22.30	22.10
Totals	15.5 %	22.2 %	23.4 %	23.8 %	40,195,178	(566,501)	\$19.76	\$19.47	\$18.17	\$17.54

Source: CB Richard Ellis Market Index Briefs

The sobering downtown office market trends also reflect that the corporate jobs and expansion that may otherwise be implied by the reduced unemployment rates has not yet materialized in central Dallas. On a nationwide basis, companies are generally becoming more profitable and this should lead to expansion in activity and improvements in related hotel demand over the longer term – Dallas should benefit from this trend as well over the longer term perspective - this assumption is incorporated into our demand growth rates for the defined competitive hotel market.

The D/FW market offers roundly 168,000,000 square feet of office space, and the eight largest submarkets are (1) the Dallas CBD with roundly 31,700,000 square feet, (2) the far north Dallas area with roundly 23,800,000 square feet, (3) the LBJ Freeway area with roundly 20,600,000 square feet, (4) the Las Colinas area with roundly 18,500,000 square feet, (5) the Central Expressway area with roundly 10,590,000 square feet, (6) the Richardson/Plano area with roundly 10,700,000 square feet, (7) the mid-cities area with roundly 10,600,000 square feet, and (8) the Fort Worth CBD with roundly 9,300,000 square feet.

The Metroplex vacancy rate during the third quarter 2003, at 23.8%, was weaker than the first quarters' vacancy rates of 2001, 2002, and 2003, indicating that no significant turn in company activity has yet occurred for the Metroplex as a whole. Moreover, the overall average asking lease rate for the Metroplex in the third quarter 2003 continued to weaken.

Major Employers

The Metroplex is a diversified business and industrial center; the city boasts over 200 planned industrial districts and is home to over 250 insurance companies and many major oil companies. The Metroplex has also been a dominating force in the state's activities in the electronic and telecommunications industry, despite the sector's recent downturn. The city is also one of the major fashion markets and a leading exporter in the cotton market.

The following table summarizes the top 100 employers in the Metroplex for 2003.

Metroplex Major Employers

Rank	Company	Description	Employees	Headquarters
1	AMR Corp.	American and American Eagle Airlines	26,700	Fort Worth
2	Lockheed Martin Aeronautics Co.	Aerospace	15,500	Fort Worth
3	SBC Communications Inc.	Telecommunications	14,093	San Antonio
4	Verizon Communications Inc.	Telecommunications	14,000	New York
5	Brinker International Inc.	Restaurant Chain Operator	12,000	Dallas
6	J.C. Penney Co.	Retailer, Eckerd drug stores, and catalog operations	10,869	Plano
7	Texas Instruments Inc.	Semiconductor Manufacturer	10,200	Dallas
8	The Kroger Co.	Supermarket Chain	9,832	Cincinnati
9	Albertson's Inc.	Supermarket Chain	9,700	Boise, Idaho
10	Citigroup Inc.	Financial Services	9,404	New York
11	HCA Inc.	Health Care Services Provider	8,707	Nashville, Tenn.
12	Electronic Data Systems Corp.	Information Services and Technologies	8,200	Plano
13	Raytheon Co.	Defense Systems; Commercial Electronics	8,000	Lexington, Mass.
14	Yum Brands Inc.	Restaurant Chain Operator	7,851	Louisville, Ky.
15	The Home Depot Inc.	Retailer	7,800	Atlanta
16	Bank of America Corp.	Bank	7,687	Charlotte, N.C.
17	Target Corp.	Retailer	7,371	Minneapolis
18	TXU Corp.	Utility	7,272	Dallas
19	Safeway Inc.	Supermarket Chain	7,022	Pleasanton, Calif.
20	Southwest Airlines Co.	Airline	6,218	Dallas
21	Affiliated Computer Services Inc.	Information Services and Technologies	6,000	Dallas
22	Bell Helicopter Textron Inc.	Vertical Lift Aircraft	5,950	Fort Worth
23	Minyard Food Stores Inc.	Supermarket Chain	5,774	Coppell
24	United Parcel Service Inc.	Package Delivery Services	5,557	Atlanta
25	Sears, Roebuck and Co.	Retailer	5,000	Hoffman Estates, Ill
26	Bank One Corp.	Bank	5,000	Chicago
27	Sprint Corp.	Telecommunications	4,800	Overland Park, Kan.
28	Nortel Networks	Telecommunications	4,730	Richardson
29	International Business Machines Corp.	Information Technology	4,700	Armonk, N.Y.
30	Frito-Lay Inc.	Food Manufacturer	4,660	Plano
31	Blockbuster Inc.	Retailer	4,500	Dallas
32	J.P. Morgan Chase & Co.	Financial Services	4,454	New York
33	RadioShack Corp.	Retailer	4,453	Fort Worth
34	Dillard's Inc.	Retailer	4,400	Little Rock, Ark.
35	FedEx Corp.	Package Delivery Services	4,034	Memphis, Tenn.
36	Delta Air Lines Inc.	Airline	4,000	Atlanta
37	The Neiman Marcus Group Inc.	Retailer	3,800	Dallas
38	Nokia Americas	Telecommunications	3,600	Irving
39	May Department Stores Co.	Retailer	3,500	St. Louis
40	Vought Aircraft Industries Inc.	Aerostructure Manufacturer	3,500	Dallas
41	Carlson Restaurants Worldwide Inc.	Restaurant Chain Operator	3,500	Dallas
42	Sabre Holdings Corp.	Travel Services and Information Technology	3,400	Southlake
43	Burlington Northern Santa Fe Corp.	Railroad and Transportation Company	3,400	Fort Worth
44	7-Eleven Inc.	Retailer	3,375	Dallas
45	General Motors Corp.	Auto Manufacturing, Financial Services, Electronics	3,200	Detroit
46	WorldCom Inc.	Telecommunications	3,100	Clinton, Miss.
47	Jack in the Box Inc.	Restaurant Chain Operator	3,059	San Diego
48	Metromedia Restaurant Group	Restaurant Chain Operator	3,025	Plano
49	Belo Corp.	Media Company	3,000	Dallas
50	Landry's Restaurants Inc.	Restaurant Chain Operator	3,000	Houston

Source: Dallas Morning News

Metroplex Major Employers (Continued)

Rank	Company	Description	Employees	Headquarters
51	Centex Corp.	Construction, Commercial Banking	2,950	Dallas
52	Lowe's Cos.	Retailer	2,894	North Wilkesboro, N.
53	Fidelity Investments Co.	Investment Company	2,788	Boston
54	Cingular Wireless	Wireless Communications	2,770	Atlanta
55	VarTec Telecom Inc.	Utility	2,700	Dallas
56	Alcatel USA	Telecommunications	2,679	Plano
57	Alcon Inc.	Ophthalmic Medical Products	2,600	Hunenberg, Switzerla
58	Allstate Insurance	Insurance and Financial Services	2,560	Northbrook, Ill.
59	State Farm Insurance Cos.	Insurer	2,553	Bloomington, Ill.
60	Lockheed Martin Missiles and Fire Control	Defense and Space Systems	2,500	Fort Worth
61	Wells Fargo & Co.	Bank	2,500	San Francisco
62	Blue Cross and Blue Shield of Texas	Health Coverage, Benefit Services	2,450	Richardson
63	Consolidated Restaurant Operations Inc.	Restaurant Chain Operator	2,440	Dallas
64	ClubCorp Inc.	Club Owner and Operator	2,365	Dallas
65	Wyndham International Inc.	Hotel Owner and Operator	2,347	Dallas
66	Aerus Electrolux	Vacuum Cleaner/Home Care Manufacturer	2,215	Dallas
67	Texas Industries Inc.	Building Materials Manufacturer	2,125	Dallas
68	Bimbo Bakeries USA	Baked Goods Manufacturer	2,075	Fort Worth
69	Boeing Co.	Aircraft Manufacturing	2,000	Chicago
70	Mary Kay Inc.	Skin-care Products and Cosmetics	1,966	Addison
71	CompUSA Inc.	Retailer	1,950	Dallas
72	Frozen Food Express Industries	Refrigerated Trucking Company	1,926	Dallas
73	Paccar Inc.	Peterbilt Motors, Paccar Financial	1,850	Bellevue, Wash.
74	Fleming Cos.	Distributes Consumable Goods	1,800	Lewisville
75	Motorola Inc.	Wireless Communications	1,765	Schaumburg, Ill.
76	Pilgrim's Pride Corp.	Poultry Products	1,712	Pittsburg, Texas
77	Atrium Cos.	Manufactures and Distributes Windows and Doors	1,700	Dallas
78	Fujitsu Network Communications Inc.	IT and Telecommunications Equipment	1,700	Richardson
79	Greyhound Lines Inc.	Bus Transportation	1,693	Dallas
80	Ericsson Inc.	Telecommunications	1,664	Plano
81	Computer Sciences Corp.	Information Technology	1,645	El Segundo, Calif.
82	Knight Ridder	Media Company	1,637	San Jose, Calif.
83	Halliburton Co.	Energy Services	1,593	Houston
84	Ben E. Keith Co.	Distributes Food and Beverages	1,532	Fort Worth
85	ADL Investments Inc.	Restaurant Management and Development	1,500	Irving
86	Alliance Data Systems Corp.	Electronic Transaction and Credit Card Services	1,500	Dallas
87	Culinaire International Inc.	Food Service	1,500	Dallas
88	Microsoft Corp.	Software, Services and Internet Technologies	1,500	Redmond, Wash.
89	Abbott Laboratories	Health Care Products	1,477	Abbot Park, Ill.
90	STMicroelectronics Inc.	Semiconductors	1,428	Carrollton
91	Austin Industries Inc.	General Contractor and Construction Manager	1,410	Dallas
92	AT&T Corp.	Telecommunications	1,400	New York
93	Perot Systems Corp.	Consulting, Technology Services	1,400	Plano
94	Aegis Communications Group	Telemarketing	1,400	Irving
95	Ernst & Young	Accounting, Business Consulting	1,350	New York
96	Allegiance Telecom Inc.	Telecommunications	1,314	Dallas
97	Dallas Semiconductor Corp.	Specialty Computer Chips	1,311	Farmers Branch
98	Accenture	Consulting	1,300	New York
99	Exxon Mobil Corp.	Integrated Oil Company	1,300	Irving
100	Xerox Corp.	Information Systems	1,285	Stamford, Conn.

Total employment for companies listed

428,916

Source: Dallas Morning News

Highlights for selected employers in the subject property's neighborhood are as follows:

- Downtown Dallas is a major financial center, with many of the city's primary institutions located downtown. **Bank of America**, one of the city's major employers, has their primary downtown offices just north of the convention center. The bank announced in late October 2003 that it had completed a merger with FleetBoston Financial making Bank of America the second largest bank in the United States (CitiBank ranks as the largest bank in the U.S.).
- **Bank One** also has a significant presence downtown, and reported a record year in 2003 with a net income of roundly \$3.5 billion. The company also recently reported a fourth quarter 2003 net income of \$978 million compared to its \$842 million in the fourth quarter 2002. On January 15, 2004, a merger was announced between **J.P. Morgan Chase** and Bank One; both banks have a considerable presence in Texas and some consolidation is expected. No specific cuts were announced as of the date of this report, but the majority of impact is expected in Houston where J.P. Morgan Chase has its Texas headquarters. Bank One does not operate a formal Texas headquarters. According to Cushman and Wakefield, Bank One and J.P. Morgan occupy a combined nearly 1 million square feet in downtown Dallas, and represent two of the largest downtown tenants; all banking and financial firms currently comprise roughly 13% of the CBD's office space occupancy, according to the same source.
- Conversely, **Wachovia** announced in February 2004 that it will enter Texas with Dallas as its headquarters and plans to open 30 to 50 branches per year from 2005 to 2010 (no headquarters office site had been selected as of the date of this report). Wachovia, which is based in Charlotte, North Carolina, is the fourth largest bank in the nation.
- **Blockbuster Entertainment** moved their headquarters to downtown Dallas earlier this decade, and has since become an important demand generator for area hotels. This company is located at 1201 Elm Street, and has recently been under talks with primary stakeholder, Viacom Incorporated, to sell its 82% shares of Blockbuster. As of February 2, 2004 the company had not secured a buy and was nearing a decision

to spin off the video-rental chain which would most likely involve an exchange of stock between Viacom shareholders and shareholders of the 18 percent of Blockbuster that is publicly owned.

- **TXU**, one of the region's primary utility companies, is headquartered downtown in the Energy Plaza at 1601 Bryan Street. This company announced on January 16, 2004 it agreed to sell TXU Communications, its telecommunications unit, to Consolidated Communications Incorporated for \$527 million. The company sold the telecommunications company in an effort to pay down debt, the proceeds from the sale will be used to repay senior secured notes of Pinnacle One Partners, LP. The sale is expected to close during the first half of 2004.
- **Neiman Marcus** operates its flagship store, as well as its headquarters offices, in downtown Dallas at One Marcus Square which is located just off of Main Street. This important retailer noted sales for the first quarter, ending November 1, 2003, of \$825 million up from the same quarter a year prior of \$734 million. Net earnings were at \$56 million for the first quarter of fiscal year 2004 compared to \$29 million in the first fiscal quarter of 2003.
- **Belo Corporation** is the media company that publishes the Dallas Morning News, operates 19 television stations (including WFAA-TV in Dallas/Fort Worth), operates 34 web-sites through Belo Interactive, and operates two regional cable channels: the Texas Cable News (TXCN) and NorthWest Cable News (NWCN). The headquarters of this company is located just north of the convention center and thus very proximate to the proposed hotel sites. The company employs nearly 7,800.

In addition to these entities, downtown is replete with additional banks, government institutions, courthouses, accounting firms, oil and gas companies, and other corporations which generate hotel demand.

The Dallas Market Center

Bordering the northwest side of the downtown district is market center district. Its namesake is the actual Dallas Market Center which conducts 50 wholesale-merchandise markets each year, attended by more than 130,000

retail buyers. It spans 6.9 million square feet in six buildings with 2,200 permanent showrooms and one million square feet of temporary show space. The facility is for wholesalers only and is not open to the public. As shown below, the Dallas Market Center houses its events in four large complexes:

- **Trade Mart and World Trade Center** – this center houses 17,000 lines of furniture, bedding, floor covering, gifts, decorative accessories, collectibles, floral, gourmet, jewelry, and other items. Temporary exhibits are housed on the 13th, 14th, and 15th floors of the center during major gift and home furnishings markets.
- **Market Hall** – this venue features temporary exhibit space for major markets.
- **International Apparel Mart** – this facility offers 12,000 lines of women's and children's apparel and accessories.
- **International Menswear Mart** – this center houses 3,000 lines of men's, boy's, and western apparel and accessories.

January and June are the busiest months, with the greatest number of shows – and the largest – occurring in these months. The next busiest months are March, August, September, and October. The markets usually occur during the weekends. There are several hotels serving this area, making it a distinct sub-market of central Dallas. Also in this neighborhood is the 1,000-seat **Medieval Times** Dinner and Tournament restaurant.

Directly south of the Dallas Design District is the **Trinity Design District**, which since the completion of the American Airlines Arena has seen a tremendous amount of growth. The district has an occupancy rate above 90% and rented space for \$6 to \$13 per square foot and \$20 per square foot in the Oak Lawn Design Plaza. The Dallas based company Pleiades Ventures LLC has partnered with Richard Beech in a seven-year business plan to purchase and convert the old warehouse properties into business or residential uses.

Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area. The Metroplex is served by several airports, providing excellent accessibility via air to the market.

Dallas/Fort Worth International Airport

Occupying roughly 18,000 acres, Dallas/Fort Worth International Airport is one of the largest airports in the world, covering more land than JFK, O'Hare, and Los Angeles International Airports combined. The airport serves the following airlines: American, American Eagle, America West, Atlantic Southeast, British Airways, Continental, Delta, Lone Star, Lufthansa, Midwest Express, Northwest, TWA, United, and US Airways.

A summary of the annual volume of total passengers at the facility between 1985 and 2003 is set forth in the following table.

Airport Statistics – Dallas/Fort Worth International Airport

Year	Passenger Traffic	Percent Change*	Percent Change**
1985	37,486,864	—	—
1986	43,406,078	15.8 %	15.8 %
1987	41,976,452	(3.3)	5.8
1988	44,230,889	5.4	5.7
1989	47,579,823	7.6	6.1
1990	48,515,464	2.0	5.3
1991	48,174,344	(0.7)	4.3
1992	51,981,267	7.9	4.8
1993	49,654,730	(4.5)	3.6
1994	52,642,225	6.0	3.8
1995	56,490,845	7.3	4.2
1996	58,034,503	2.7	4.1
1997	60,488,713	4.2	4.1
1998	60,313,000	(0.3)	3.7
1999	60,000,127	(0.5)	3.4
2000	60,771,052	1.3	3.3
2001	55,150,693	(9.2)	2.4
2002	52,814,185	(4.2)	2.0
2003	53,241,614	0.8	2.0

* Annual average compounded percentage change from the previous year

** Annual average compounded percentage change from 1985

Source: Dallas/Fort Worth International Airport Authority

The trends prior to 2001 indicate stable and high levels of traffic at this airport. Passenger traffic exceeded 60 million passengers from 1997 to 2000. Between 1985 and 2000, passenger traffic improved by 3.3% on an average

annual compounded basis. Year-end 2001 and 2002 trends reflected the economic correction for the Metroplex, with 9.2% and 4.2% respective declines in activity. The 2001 slowdown was also largely affected by the airport-shutdown and effects of the September 11, 2001 terrorist attacks. Trends for 2003 reflect stabilization, with a 0.8% improvement noted.

Just south of the Dallas/Fort Worth International Airport (D/FW) are the world headquarters for **AMR Corporation** (AMR operates American Airlines, American Eagle, and TWA). **Delta Airlines**, an Atlanta-based airline, also operates a hub at the Dallas Fort Worth Airport.

Despite the travel slowdown of 2001 and 2002, D/FW International Airport continues its \pm \$2.5-billion expansion and renovation project. A major rental car facility opened in March 2000; this facility allows several on-airport rental car agencies to be located in a central area. Additional capital improvements to the airport include a renovation of the fuel storage facility, a new holding pad for improved aircraft circulation, and the lengthening of various runways. The most notable portion of the expansion project is the addition of an international terminal (Terminal D), which is budgeted to cost \$1.03 billion. Planned to open in 2005, Terminal D is considered the “crown jewel” of the airport’s expansion project and is projected to accommodate \pm 38,000 passengers daily.

Dallas Love Field

This city-owned, 1,300-acre airport was the city’s first major air facility, with passenger service beginning as early as 1927. The airport was named in memory of Lt. Moss Lee Love, a pilot killed in an airplane crash in California in 1913. The Wright and Shelby Amendments, which were enacted in 1979 and 1997, respectively, to help guarantee the success of D/FW International Airport, originally stated that airlines utilizing Love Field for flights with 56 passengers or more could fly only to states contiguous to Texas (Alabama, Mississippi, and Kansas were later added to the list). Passengers seeking to go beyond those points must first buy a ticket to airports in those states, and then purchase a separate ticket to their destination.

A summary of the annual volume of total passengers at the facility between 1982 and 2003 year-to-date is set forth in the following table.

Airport Statistics – Dallas Love Field

Year	Passenger Traffic	Percent Change*	Percent Change**
1982	4,363,262	—	—
1983	5,218,253	19.6 %	19.6 %
1984	6,350,669	21.7	20.6
1985	6,483,649	2.1	14.1
1986	5,446,259	(16.0)	5.7
1987	4,881,896	(10.4)	2.3
1988	4,953,361	1.5	2.1
1989	5,533,938	11.7	3.5
1990	5,748,451	3.9	3.5
1991	5,582,533	(2.9)	2.8
1992	5,887,759	5.5	3.0
1993	6,384,282	8.4	3.5
1994	6,827,790	6.9	3.8
1995	6,826,703	(0.0)	3.5
1996	7,064,515	3.5	3.5
1997	6,807,894	(3.6)	3.0
1998	6,715,596	(1.4)	2.7
1999	6,820,867	1.6	2.7
2000	7,077,549	3.8	2.7
2001	6,685,618	(5.5)	2.3
2002	5,622,754	(15.9)	1.3
<i>Year-to-Date Through November</i>			
2002	5,173,772	—	—
2003	5,138,333	(0.7) %	—

*Annual average compounded percentage change from the previous year

**Annual average compounded percentage change from 1982

Source: Love Field Operations

A significant percentage drop in activity in 2002 occurred at Dallas Love Field. American Airlines has not used the facility in 2002 and 2003 after representing almost 3.0% of the airport's activity as of mid-2001; Continental and Delta continue to serve the airport at considerably reduced passenger levels. Southwest Airlines remains the airport's primary user, with over 95% of the airport's activity in 2002 and thus far in 2003. Like DFW International Airport, trends still note a decline in passenger travel of 0.7%, albeit this is a substantial improvement from the declines noted in 2001 and 2002.

Tourist Attractions

Central Dallas offers a variety of attractions, which are summarized as follows.

- Anchoring the western side of Uptown is the new **Victory** area. Victory is highlighted by the new **American Airlines Arena**, which hosts 41 regular season Mavericks basketball games and also hosts Dallas Stars hockey games. The arena features 20,000 seats and spans 840,000 square feet.
- Downtown's **West End** district is a popular tourist destination, featuring many attractions, such as monuments related to the assassination of J.F.K. and the West End Marketplace (this area is just south of Victory). The Marketplace, which reports roughly 3 million annually, is home to the annual Taste of Dallas and Mardi Gras celebrations. The district features many restored and renovated buildings dating from the early 1900s.
- The southern section of the CBD houses the previously discussed **Dallas Convention Center**, the **Farmers Market**, **Old City Park**, and **Union Station**. Just northeast of this metro center is the **Dallas Arboretum and Botanical Gardens**, located on the southeastern shore of White Rock Lake. Just southwest of downtown is the **Dallas Zoo**, which opened in 1888, and hosts over 500,000 visitors annually.
- Just southeast of downtown Dallas is **Fair Park**, home to nine museums and six performance facilities, including the **Texas State Fairgrounds** and the **Cotton Bowl**. The park is one of Dallas' most significant historical landmarks, and opened first in 1904. The Park hosts over six million visitors annually.
- Downtown arts venues include the **Morton H. Meyerson Symphony Center**, which hosts the Dallas Symphony Orchestra, the **Nasher Sculpture Center**, and the **Dallas Museum of Art**. Just northwest of downtown Dallas is the **Dallas Center Theater**, which hosts a variety of events year round.
- The northeast corner of the Dallas North Tollway and I-635 is home to the city's famed **Galleria Shopping Mall**, the largest shopping complex in the region. The complex, which opened in 1982, includes a Westin Hotel, an ice-rink, and four-stories of retailers. The Galleria hosts roughly 16.0 million visitors annually.
- Even more popular than the Galleria is Dallas' **NorthPark Center**, which hosts nearly 20 million visitors annually. This shopping center opened in 1965 and offers tax-free shopping for international travelers.

Market Area
Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. Based on our research of this region, we are able to draw the following conclusions:

- In general, the market population is stable and retail sales and income have expanded over the past decade. Despite declines in the economic activity, these indicators are positive and the housing market remains relatively strong.
- Employment is diversified in this market, with an emphasis on the technology and services sectors within the city of Dallas. The technology and telecommunications sectors, both very active in Dallas, have been badly hit by the economic slowdown. These sectors are less prevalent in downtown Dallas.
- The market is well served by two local airports, which have noted recent declines in activity concurrent with the September 2001 terrorist attacks and the economy slowdown. Activity is now beginning to note stabilization at both facilities.
- Dallas offers a multitude of tourist attractions, most of which are within a short cab ride of the convention center.

Overall, the subject market experienced economic decline in 2001 through 2003. A gradual recovery is now underway, and should continue through the near term.

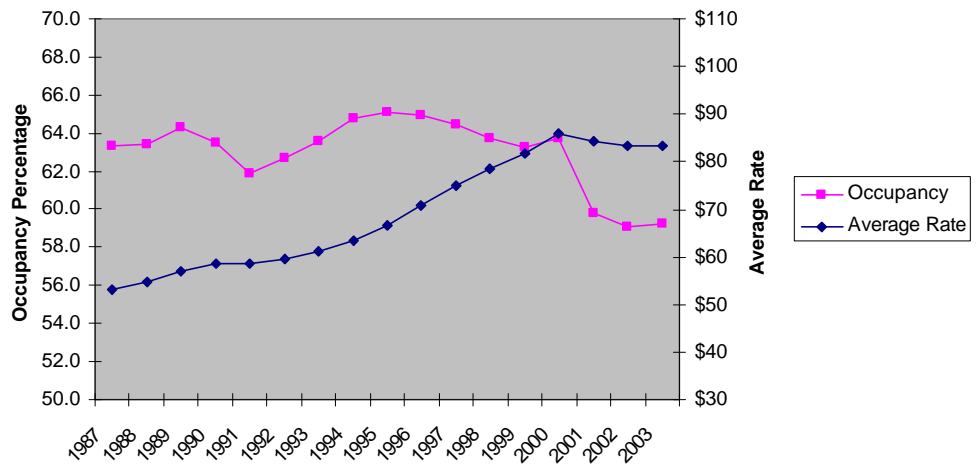
4. Market for Hotel Accommodations

The market for hotel accommodations is an all-encompassing term referring to the many types of travelers who use lodging facilities in a given area. These travelers represent the market's accommodated room night demand. In addition, the market may be characterized by latent demand, which consists of unaccommodated demand and/or induced demand; this demand is discussed in chapter eight of this report. This section will begin with an analysis of historical lodging demand trends to determine what changes have occurred; the historical number of competitive hotel rooms will then be estimated to evaluate local supply trends. Areawide occupancy levels can be calculated based on the number of hotel rooms available in the market and the demand for lodging accommodations. The total room night demand will be divided into individual market segments to allow us to forecast growth rates based on the economic and demographic data set forth earlier in this report.

Overview of National Trends

The U.S. lodging industry showed stabilizing trends in 2003 after experiencing a considerable downturn in 2001 which continued through 2002. The first quarter of 2003 was particularly hard, as military action in the Middle East and uncertain investment markets kept travel budgets tight. Summer travel picked up modestly, and the fall season benefited from real travel increases over 2002 levels. The following table illustrates nationwide occupancy and average rate trends from 1987 through 2003.

National Occupancy and Average Rate Trends (Source: Smith Travel Research)



By the end of the year of 2002, national hotel occupancy fell to 59.1% (a very slight improvement was noted for 2003 to 59.2%), off 0.7 of a point from the 2001 level, according to Smith Travel Research. Average rates dropped by just over \$1.00 to \$83.35 in 2002; average rates realized a slight decline in 2003 to \$83.28.

Gains should regain some momentum in 2004, as the nation's economy continues to pick up steam and companies start infusing renewed room night demand into the national market. Most lodging markets are expected to begin seeing more direct benefit of the recovery in 2004 and into 2005, as travel trends tend to lag somewhat behind other indicators.

Definition of Subject Hotel Market

The Dallas, Texas MSA is a vast market of roundly 490 motels and hotels comprising roundly 68,000 guestrooms. The city of Dallas has the greatest share of rooms, at 49.3%, followed by Irving with 16.6%, Addison with 4.8%, Richardson with 3.5%, Grand Prairie with 3.0%, and Lewisville with 2.8%. The remaining percent is shared among numerous suburbs of Dallas. Of the MSA lodging establishments, roughly 78.9% are affiliated with a wide variety of brands and the remaining share of hotels are non-affiliated. The most prevalent brand name is Marriott International with a 13.0% share of the MSA branded market, followed by Six Continents with an 11.4% share, Hilton Corporation with a 10.1% share, Accor Hotels with a 4.9% share, and Budget Suites of America with 4.8%.

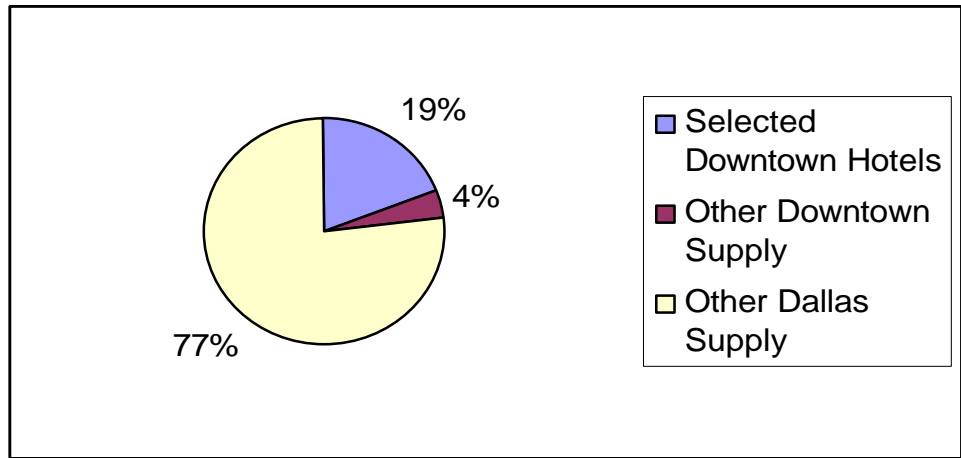
The city of Dallas is served by approximately 215 hotels, ranging in size from small motels to the 1,840-unit Adam's Mark downtown. In total, the market includes approximately 33,800 guestrooms. Approximately 13 of the 215 hotels are located in the CBD (which does not include Uptown), or approximately 7,800 guestrooms (almost 23% of the city's supply). These hotels are listed in the following table.

Downtown Supply

Property	Number of Rooms
Adam's Mark Dallas	1,840
Hyatt Regency Dallas	1,122
Fairmont Dallas	551
Wyndham Hotels Anatole	1,614
Renaissance Dallas Hotel	518
Westin City Center Dallas	407
The Adolphus Hotel	428
Hampton Inn	309
Ramada Plaza Hotel Dallas	236
Hotel Lawrence	118
Holiday Inn Dallas Aristocrat	172
AmeriSuites West End	149
The Magnolia Hotel Dallas	330
Totals/Averages	7,794

Of these 13 hotels, the subject property is expected to compete primarily with the larger, group-oriented hotels.

Breakdown of Hotel Room Supply in Market



The following table illustrates Dallas' occupancy levels over the past six years, and the occupancy trends of other pertinent MSAs for comparison.

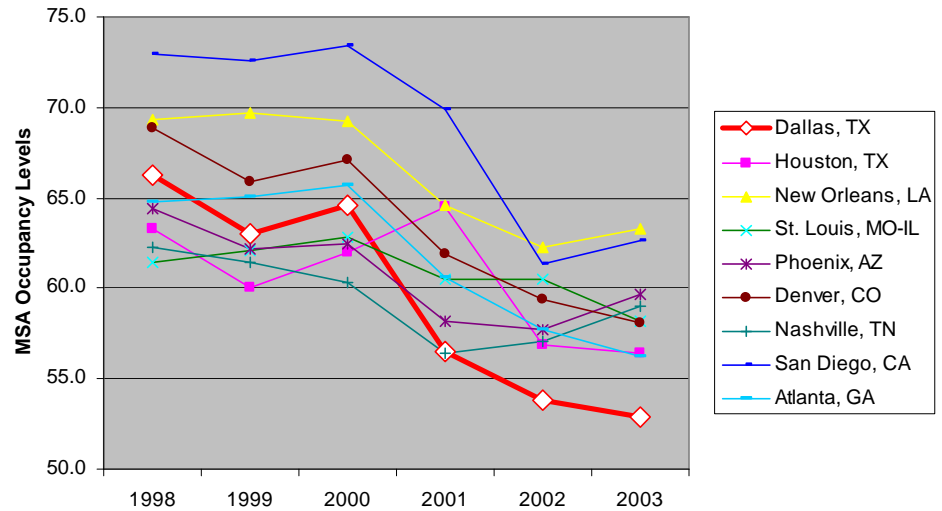
Historical Occupancy Trends: Greater Dallas MSA vs. Other Top 25 Cities

MSA	1998	1999	2000	2001	2002	2003
Dallas, TX	66.3	63.0	64.6	56.5	53.8	52.8
Houston, TX	63.3	60.0	62.0	64.5	56.9	56.4
New Orleans, LA	69.3	69.7	69.2	64.6	62.3	63.3
St. Louis, MO-IL	61.4	62.1	62.8	60.5	60.5	58.2
Phoenix, AZ	64.4	62.2	62.5	58.2	57.7	59.7
Denver, CO	68.9	65.9	67.1	61.9	59.4	58.1
Nashville, TN	62.3	61.4	60.3	56.4	57.1	59.0
San Diego, CA	73.0	72.6	73.4	69.9	61.3	62.6
Atlanta, GA	64.8	65.1	65.7	60.6	57.7	56.2

Source: Smith Travel Research

The relationship between the various occupancy levels is also illustrated by the following chart.

Historical Occupancy Trends: Greater Dallas MSA vs. Other Top 25 Cities (STR)



This data reflects the somewhat depressed, current occupancy levels of the MSA when compared to the other selected top MSAs in the nation. While the Dallas MSA enjoyed an occupancy level in the “middle of the pack” in the late 1990s, the MSA lost its footing in 2001 through 2003, as oversupply, the lack of convention-related-demand (albeit in part due to the lack of a headquarters hotel and the on-going expansion construction at the center), and the decline in business travel took its toll on the market.

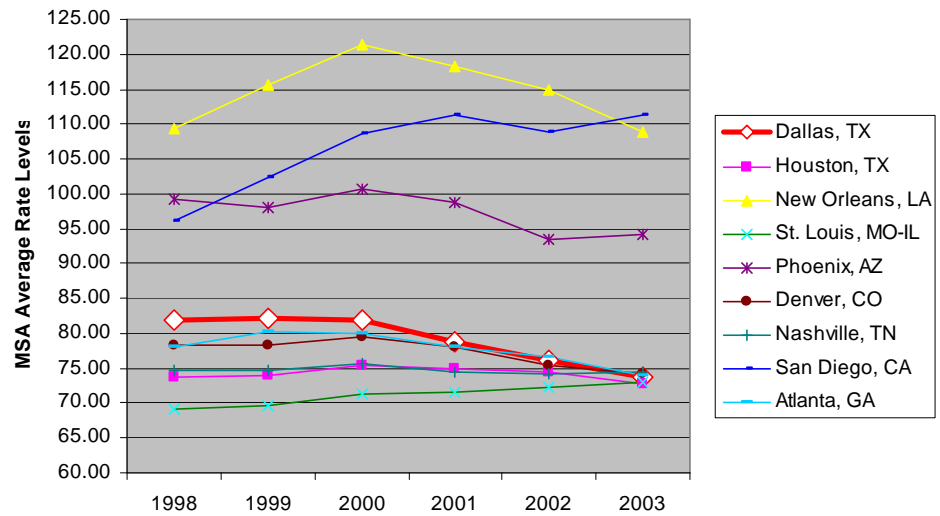
Historical Average Rate Trends: Greater Dallas MSA vs. Other Top 25 Cities

MSA	1998	1999	2000	2001	2002	2003
Dallas, TX	81.82	82.06	81.99	78.76	76.19	73.44
Houston, TX	73.79	74.00	75.46	74.98	74.37	72.77
New Orleans, LA	109.28	115.59	121.37	118.24	114.91	108.76
St. Louis, MO-IL	69.26	69.62	71.36	71.67	72.34	72.93
Phoenix, AZ	99.30	98.00	100.79	98.81	93.48	94.12
Denver, CO	78.32	78.29	79.55	77.97	75.50	74.22
Nashville, TN	74.65	74.75	75.68	74.53	74.29	74.51
San Diego, CA	96.14	102.33	108.69	111.27	108.93	111.34
Atlanta, GA	77.95	80.29	80.09	78.04	76.54	74.03

Source: Smith Travel Research

The relationship between the various average rate levels is also illustrated by the following chart.

Historical Average Rate Trends: Greater Dallas MSA vs. Other Top 25 Cities (STR)



This data illustrates that the Dallas MSA also experienced a relatively strong average rate level in 1998 and 1999, at a point higher than many of the regionally significant cities in this comparison. By 2003, the Dallas MSA had lost this position, and is now on par with those cities it has previously surpassed.

The following chart provides further insight into the Dallas, TX MSA lodging market by presenting occupied room nights, available room nights, occupancies, average rates, and RevPAR levels.

Historical Supply and Demand Trends (STR) – DALLAS MSA

Year	Occupied Room Nights	Change	Available Room Nights	Change	Occupancy	Change	Average Rate	Change	RevPAR	Change
1997	12,401,838	—	18,811,528	—	65.90 %	—	\$78.65	—	\$51.83	—
1998	13,202,803	6.5	20,258,976	7.7	65.20	(1.1)	80.52	2.4	52.50	1.3
1999	14,110,064	6.9	22,606,693	11.6	62.40	(4.3)	80.18	(0.4)	50.03	(4.7)
2000	15,416,712	9.3	24,044,762	6.4	64.10	2.7	80.29	0.1	51.47	2.9
2001	13,966,237	(9.4)	24,816,503	3.2	56.30	(12.2)	77.56	(3.4)	43.67	(15.2)
2002	13,468,531	(3.6)	25,059,528	1.0	53.70	(4.6)	75.83	(2.2)	40.72	(6.7)
2003	13,355,142	(0.8)	25,286,820	0.9	52.80	(1.7)	73.44	(3.2)	38.78	(4.8)
Average Annual Compounded Change: 1997-2003		1.3 %	4.4 %		(3.0) %		(1.0) %		(3.9) %	

Source: Smith Travel Research

This data again reflects the correction in the overall market, which generated almost 13,400,000 room nights in 2003. Although the MSA has experienced a three-year decline and RevPAR fell to under \$40.00 in 2003, the diminishing trend in the occupancy decline rate does reflect stabilization – and the level of captured room nights, or actual demand, remains above 1997 and 1998 levels.

**Historical Supply
and Demand Data**

Smith Travel Research (STR) is an independent research firm which compiles data on the lodging industry; its published data is routinely used by typical hotel buyers. It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample, and not every property reports data in a consistent and timely manner; these factors can influence the overall quality of the information by skewing the results. These inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provides the best indication of aggregate growth or decline in existing supply and demand, and thus it has been considered in our analysis.

Local hotels included in the following Smith Travel Research trend include the Adam's Mark, the Hyatt Regency, the Fairmont, the Wyndham Anatole, the Renaissance Dallas, the Westin Center City, and the Adolphus.

Historical Supply and Demand Trends (STR)

	1997	1998	1999	2000	2001	2002	Year-to-Date Through November		Average Annual Compounded Change: 1997-2002
							2002	2003	
Average Daily Room Count	4,987	5,434	6,323	6,458	6,487	6,487	6,488	6,480	
Available Room Nights	1,820,255	1,983,247	2,307,895	2,357,120	2,367,840	2,367,840	2,166,960	2,164,320	
Change	—	9.0 %	16.4 %	2.1 %	0.5 %	0.0 %	—	(0.1) %	5.4 %
Occupied Room Nights	1,206,813	1,295,129	1,392,655	1,449,346	1,213,071	1,242,132	1,175,678	1,133,394	
Change	—	7.3 %	7.5 %	4.1 %	(16.3) %	2.4 %	—	(3.6) %	0.6 %
Occupancy	66.3 %	65.3 %	60.3 %	61.5 %	51.2 %	52.5 %	54.3 %	52.4 %	
Change	—	(1.5) %	(7.6) %	1.9 %	(16.7) %	2.4 %	—	(3.5) %	(4.6) %
Average Rate	\$116.84	\$123.77	\$131.00	\$133.77	\$130.28	\$131.93	\$132.87	\$129.11	
Change	—	5.9 %	5.8 %	2.1 %	(2.6) %	1.3 %	—	(2.8) %	2.5 %
RevPAR	\$77.47	\$80.83	\$79.05	\$82.25	\$66.74	\$69.21	\$72.09	\$67.61	
Change	—	4.3 %	(2.2) %	4.1 %	(18.9) %	3.7 %	—	(6.2) %	(2.2) %

Source: Smith Travel Research

Room supply in this market has noted several increases over the historical period shown, beginning in late 1998 continuing through 2001. In 1998, supply increased with the Adam's Mark addition of 1,342-units. This hotel prompted the 9.0% room increase in 1998 and 16.4% increase in 1999. Then in 2000, the Hyatt completed the addition of 183-units to its existing room count which increased supply by 2.1% and 0.5% in 2001. This defined market now offers almost 6,500 rooms per night, or almost 2,200,000 available room nights per year.

Despite this capacity, room nights generated stagnated at roughly 1,200,000 in 2001 through 2003, after growing to almost 1,450,000 room nights in 2000. Occupancy for this downtown Dallas set declined first in 1998 and 1999 with the entrance of the massive Adam's Mark, and then declined again in 2001 concurrent with the economic correction, the year's terrorist attacks, and a drop off in convention-related demand (discussed in chapter eight). Year-to-date trends show continued weakness, with a 3.5% occupancy decline. The following table illustrates the monthly occupancy statistics for this market.

Monthly Occupancy Trends (STR)

Month	1997	1998	1999	2000	2001	2002	Year-to-Date Through November	
							2002	2003
January	71.5 %	77.4 %	69.1 %	69.3 %	64.6 %	56.3 %	56.3 %	50.3 %
February	71.3	73.4	66.2	67.8	64.1	63.9	63.9	62.4
March	67.7	70.5	58.7	68.6	72.2	58.8	58.8	57.7
April	65.7	64.4	62.2	61.1	54.6	56.5	56.5	45.6
May	61.9	67.4	72.7	60.1	47.0	46.2	46.2	53.4
June	69.1	70.8	61.2	64.9	47.5	56.3	56.3	55.4
July	61.4	64.2	56.6	58.4	58.7	58.0	58.0	51.3
August	60.0	63.2	57.7	59.9	54.9	54.2	54.2	54.7
September	74.6	63.6	57.1	66.1	33.2	46.4	46.4	42.7
October	78.0	73.8	72.2	75.4	49.3	56.6	56.6	61.5
November	69.7	60.6	55.7	54.4	42.3	44.1	44.1	41.3
December	45.6	41.2	35.1	33.0	26.7	33.1	—	—
Annual Occupancy	66.3 %	65.3 %	60.3 %	61.5 %	51.2 %	52.5 %	—	—

Source: Smith Travel Research

The data further illustrates the shift in occupancy levels into the low 50-percent range, reflective of a market with considerable excess hotel capacity. Roughly half of the guestrooms in the downtown market remained unsold on average during much of 2003.

One contributor to the low amount of captured room nights is reported to be the lack of selected major brand names downtown. Primary brand names bring brand-loyal customers into a competitive area – and also allows hotels to benefit from nationally-sourced group demand and major corporate accounts. For example, the sub-market lacks the “Marriott” name from the Marriott family – which typically drive overall captured demand and occupancy levels higher (we note that Marriott’s Renaissance is included in the defined competitive set). Major Marriott-loyal groups requiring more space than is available in the Renaissance must utilize other Marriott hotels in the Metroplex or regionally. Another example can be drawn from the Hilton brand, where downtown travelers seeking first class, Hilton-accommodations must stay at their Embassy Suites Market Center or at the DoubleTree on Central Expressway. Until recently, the market did not have a Starwood property, and the Westin brand and Starwood affiliation may help the former Meridien hotel improve its position in the market.

Another contributor to the low occupancy level is the very low performance levels of the massive Adam's Mark. The Adam's Mark has operated with occupancies well below 50%, and its meeting space potential was never truly realized – hence, the low performance levels. Nationally, this brand name is currently in transition as many of the HBE-owned hotels are now in the process of being sold. Although no future change has been officially announced for the Dallas property, there is always a chance it could be sold and re-branded with a more highly competitive brand name that could benefit from nationally-sourced group demand (granted, this is total speculation as of the date of this report – but it is important to at least note the possibility, however slight). It is also important to note that this conversion possibility would make this hotel a more formidable competitor against the proposed convention center headquarters hotel.

It is also important to note, that were this hotel historically branded with such a brand name in the past, the market would have most likely trended higher than it did since the hotel's opening.

Thus, both supply-side and demand-side issues have prompted low operating levels to become the norm in the downtown Dallas market during the last several years. Monthly average rate trends are illustrated in the following table.

Monthly Average Rate Trends (STR)

Month	1997	1998	1999	2000	2001	2002	Year-to-Date Through November	
							2002	2003
January	\$114.46	\$127.94	\$138.32	\$142.30	\$143.14	\$136.77	\$136.77	\$129.50
February	119.49	125.58	135.16	135.74	141.70	157.83	157.83	138.48
March	113.25	126.35	133.79	138.35	147.48	146.10	146.10	138.94
April	117.09	124.58	134.32	138.10	127.06	135.59	135.59	128.53
May	116.81	124.49	146.66	135.64	128.65	130.34	130.34	130.25
June	114.12	125.38	125.79	133.38	125.87	138.38	138.38	128.58
July	109.23	110.96	113.04	110.65	114.12	118.97	118.97	115.36
August	104.25	105.10	109.75	112.26	108.04	107.29	107.29	115.88
September	130.86	125.54	127.37	137.87	138.32	128.16	128.16	134.40
October	128.09	132.08	149.14	159.98	140.37	133.32	133.32	136.28
November	118.16	139.83	129.62	131.17	125.99	123.44	123.44	120.25
December	109.31	105.78	109.93	109.27	104.01	115.33	—	—
Annual Average Rate	\$116.84	\$123.77	\$131.00	\$133.77	\$130.28	\$131.93	—	—

Source: Smith Travel Research

Average rates showed improvement in 1998 and 1999, but then remained relatively flat in 2000 through 2002. Year-to-date through November average rate has dropped almost 3.0%. This reflects a relatively weak market, with demand levels not high enough to cause compression and force rate increases among competitors in the market. Major hotel users have become savvy negotiators and have been able to command rate discounts within the market, which dipped below the \$130.00 average level in 2003 (the first time since 1998).

Demand Analysis
Using Market
Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Although a market may have various segments, the three primary classifications occurring in most areas are commercial, meeting and group, and leisure.

Market segmentation is a useful procedure because individual classifications often exhibit unique characteristics in terms of growth potential, seasonality of demand, average length of stay, double occupancy, facility requirements, price sensitivity, and so forth. By quantifying the room night demand by market segment and analyzing the characteristics of each segment, the demand for transient accommodations can be projected. Lodging demand in the local area is generated primarily by the following market segments.

Segment 1	Meeting and Group
Segment 2	Commercial
Segment 3	Leisure

Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the base year distribution of accommodated room night demand was as follows. This data reflects all primary and secondary hotels noted in chapter six of our report – thus, the demand total is notably higher than the demand levels illustrated in the previous STR data.

Accommodated Room Night Demand

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Meeting and Group	1,031,950	73 %
Commercial	316,292	22
Leisure	60,196	4
Total	1,408,438	100 %

Demand generated by meeting and convention activities was estimated to comprise roundly 73% of the total market in 2003, with the remaining demand related to commercial and leisure sources. Commercial demand was estimated to comprise 22% of the total market demand in 2003, while the remaining 4% was leisure-related. (Due to rounding, these do not add up to 100.)

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment in an effort to determine future trends in room night demand. These growth rates represent base demand growth independent of demand that would be expected to be induced by the introduction of the new headquarters hotel.

Meeting and Group Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Because of vacations, the summer months represent the slowest period for this market segment; winter demand varies. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERF (social, military, educational, religious, and fraternal) groups.

Corporate groups are one of the most profitable components of this segment, because they exhibit limited price sensitivity and they often sponsor banquets and other events that generate revenue for the host hotel. In the subject property's market, most corporate group activity is generated by the same major employers that contribute high-volume corporate accounts. This demand may take the form of training programs, sales meetings, division conferences, and similar events with a business purpose. Corporate groups

generally meet during the work week, thus generating lodging demand on Monday through Thursday nights. The average length of stay is two to four days, although training groups may stay six nights or more. Double-occupancy rates in this category typically range from 1.0 to 1.5.

Association demand is generally divided on a geographical basis: the most common categories are national, regional, and state associations. Depending on their nature, these associations may be more rate sensitive than commercial groups. This is particularly true when members are not reimbursed by their employers, but must pay to attend (i.e., guestroom and conference fees). The scheduling pattern of associations also depends on the nature of the group. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends.

The SMERF market consists of groups that are social, military, educational, religious, or fraternal in nature. Examples include family or military reunions, youth groups, and fraternal organizations such as the Knights of Columbus. These groups are extremely budget conscious, and have a strong preference for weekend and summer meeting times, when rates are generally lowest. Typically, groups such as this have a high double-occupancy rate of 2.0 to 2.5, and the length of stay is relatively short (one to three nights). Most hotel operators use this type of demand to bolster occupancy during off-peak times of the month and year, when other demand sources are limited.

Future meeting and group demand is closely related to growth in the commercial segment. Because most meetings have either a direct or an indirect business purpose, the economic considerations that have an impact on commercial travel also affect meeting and group demand. The exception is non-commercial meetings, which are tied to the economic factors that influence leisure travel. It should be noted that meetings and similar events are booked in advance, and thus growth in this segment tends to lag slightly behind increases in commercial demand.

In projecting meeting and group demand in the proposed subject property's market, we have considered all of the data sources applicable to the commercial segment, as well as trends in convention activity and leisure travel. According to the Dallas Convention and Visitors Bureau, 2004 convention bookings are down from the 2003 levels. The convention books for 2005 and the years forward are up slightly according to the information provided for by the Dallas CVB for this report (convention statistics are

illustrated in chapter eight). Accordingly, we have forecast 1.5% shrinkage in meeting and group demand in 2004, followed by three years of recovery from the weak demand trends which began a few years ago. We have forecast an increase of roundly 1.5% in 2005, followed by 2.5% annually through 2009.

In 2010 through stabilization, we estimate a base growth rate of 2.0% for demand in this segment will be obtained. This base growth is in addition to the induced demand that is expected to be obtained by the opening of the proposed headquarters hotel. This induced demand will be discussed in greater detail later in our report.

Commercial Segment

The commercial segment consists of individual businesspeople who are visiting various firms in the subject market. This demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday. Commercial demand is relatively constant throughout the year, although some declines are noticeable in late December and during other holiday periods. The typical length of stay for commercial guests ranges from one to three days, and the rate of double occupancy is a low 1.2 to 1.3 people per room. In markets where the weekday occupancy often exceeds 90%, some unaccommodated commercial demand is likely to be present.

The commercial segment includes numerous smaller classifications; however, the primary categories considered in this analysis are individual business travelers and high-volume corporate accounts. Most individual business travelers are visiting firms in the immediate area or passing through en route to other destinations. Their lodging choices are influenced by brand loyalty (and frequent traveler programs in particular), as well as location and convenience with respect to businesses and amenities.

High-volume corporate accounts are generated by local companies (e.g. TXU, area accounting firms, Belo); demand in this sub-segment may include employees of the firm or its affiliates, and often consists of training groups. These companies typically designate hotels as "preferred" accommodations; in return, the selected lodging facilities generally offer a significant discount from their published rates. Typically, these rates are negotiated on an annual basis, and the size of the discount is tied to the number of room nights produced.

Downtown Dallas has a relatively shallow commercial demand base, which must be complemented by group demand for most hotels to maintain

occupancy levels (accommodated commercial demand was just over 300,000 room nights in 2003).

All of the economic and demographic data presented earlier have some influence on commercial lodging demand; the trends that have the most direct correlation are changes in FIRE, service, wholesale trade, and total employment; occupied office space; and air passenger counts. As such, we have forecast growth of 0.5% in 2004, followed by 1.0% growth annually in 2005 through 2007, before reaching a stabilized growth rate of 0.5% in 2008.

Leisure Segment

The leisure market segment consists of individuals and families who are spending time in the area or passing through en route to other destinations. Their travel purposes may include sightseeing, recreation, visiting friends and relatives, or numerous other non-business activities. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. These peak periods are negatively correlated with commercial visitation, underscoring the stabilizing effect of capturing weekend and summer tourist travel. The typical length of stay ranges from one to four days, depending on the destination and travel purpose, and the rate of double occupancy typically ranges from 1.8 to 2.5 people per room. Leisure demand is generally consistent throughout the year, with some slowing during holiday periods and winter months.

Leisure travelers tend to be the most price-sensitive segment of the lodging market. The downtown market area – as a whole – only captures a small portion of leisure demand due to its lack of perceived, leisure destination appeal to travelers. Most leisure demand in the greater area is captured by the more weekend-popular Uptown hotels, just north of the CBD. However, as noted in chapter two, revitalization continues downtown which should only improve its leisure appeal in the future; the addition of the Nasher Sculpture Center in October 2003 is one example. Moreover, the Dallas Convention and Visitors Bureau (DCVB) has a new focus to drive leisure tourism for downtown; for example, the DCVB will be launching two or more annual festivals in the near term.

Based on our analysis of these indicators and the longer-term benefits expected from DCVB goals, we project growth in this sub segment in 2005 at 0.5% after expected stability in 2004. We then project growth in this segment to experience growth of 1.0% in 2006 and 2007 before growing at 0.5% on average annually thereafter.

Conclusion

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of the local area, several segments were defined as representing the subject property's lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. Based on this procedure, we forecast the following annual market segment growth rates.

Annual Market Segment Growth Rates

Market Segment	Annual Growth Rate								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Meeting and Group	-1.5 %	1.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %	2.0 %
Commercial	0.5	1.0	1.0	1.0	0.5	0.5	0.5	0.5	0.5
Leisure	0.0	0.5	1.0	1.0	0.5	0.5	0.5	0.5	0.5
Base Demand Growth	-1.0 %	1.3 %	2.1 %	2.1 %	2.0 %	2.0 %	1.6 %	1.6 %	1.6 %

These growth rates will be used in subsequent sections of this report to forecast changes in lodging demand. Again, we note that these growth rates represent change in base year demand, and do not include additional demand expected to be induced by the introduction of the proposed headquarters hotel. This induced demand is discussed in chapter eight of our report.

5. Overview of the United States Meetings Market

Meetings represent an important source of income for hotels. These events are generally planned for ten or more people, depending on the need of the group and the capacity of the hotel's function space or nearby convention center. Meetings can be classified into many different categories, such as corporate, association, and SMERF; SMERF is an acronym for meetings that are social, military, educational, religious, or fraternal in purpose. This national trends overview will focus on the corporate and association meetings categories.

Meetings and Conventions Magazine publishes a bi-annual report on the meetings industry, named the *Meetings Market Report*. This well-respected study has been published since 1974, and is a compilation of reports and opinions of meeting planners. We have illustrated samples of data from this report in this overview. The latest report was published in August of 2002, which includes mainly 2001 data. The next report will be published in August 2004, which will cover 2003 data.

The following table provides an overview of the number of meetings, number of attendees, and dollars of expenditures from 1985 through 2001.

Summary of National Corporate, Convention, and Association Meetings Market

Year	Total Number of Meetings			Total
	Corporate	Convention	Association	
1985	706,100	12,200	185,400	903,700
1987	807,200	12,700	181,700	1,001,600
1989	866,800	12,600	186,600	1,066,000
1991	806,200	10,200	215,000	1,031,400
1993	801,300	11,800	206,500	1,019,600
1995	797,100	10,900	175,600	983,600
1997	783,900	11,300	189,500	984,700
1999	835,700	11,600	174,200	1,021,500
2001	844,100	11,800	177,700	1,033,600

Year	Total Number of Attendees			Total
	Corporate	Convention	Association	
1985	39,800,000	13,500,000	18,200,000	71,500,000
1987	47,300,000	10,700,000	16,300,000	74,300,000
1989	58,400,000	13,600,000	21,700,000	93,700,000
1991	49,600,000	8,600,000	22,600,000	80,800,000
1993	55,100,000	10,700,000	18,700,000	84,500,000
1995	49,300,000	13,000,000	15,100,000	77,400,000
1997	49,900,000	11,700,000	17,900,000	79,500,000
1999	51,111,111	12,188,889	15,600,000	78,900,000
2001	51,500,000	12,500,000	15,900,000	79,900,000

Year	Total Expenditures (In Billions)			Total
	Corporate	Convention	Association	
1985	7.5	12.7	11.2	31.4
1987	7.1	11.8	10.0	28.9
1989	9.7	15.0	14.9	39.6
1991	8.7	11.0	15.3	35.0
1993	10.6	15.5	14.3	40.4
1995	8.6	16.8	12.0	37.4
1997	10.8	16.7	14.3	41.8
1999	10.2	16.3	13.7	40.2
2001	10.3	16.6	13.9	40.9

Sources: 1996, 2000, & 2002 Meetings Market Reports,
Meetings & Conventions Magazine

In this illustrated trend, the total number of meetings peaked first in 1989 at just over one million. By 1991, the quantity of meetings began to decline until a turning point in the mid 1990s. Through its decline and recovery, the number of meetings has closely bracketed the one million mark throughout the last 16 years. The number of corporate meetings was near its high in 2001, at over 840,000 events. Despite the economic turmoil of 2001 and cancellations caused by the terrorist attacks of September 11, 2001, this year generated corporate meetings activity only surpassed in the illustrated trend previously in 1989. However, we note that while data for 2000 is not tracked, meeting trends would have likely significantly surpassed 1999 trends, as the economy peaked in this year and millennium related travel and meetings were at an all-time high. Also, were 2000 data shown, statistics for 2001 would have likely shown a decline from activity levels in this year.

The number of conventions continued to bracket the 12,000-event mark, showing continued, gradual increases since 1995; again, the likely peak experienced in 2000 is not tracked. Non-convention association meetings showed some improvement as well, to almost 178,000 events, but remain off the event levels seen in much of the historical data.

Meeting attendance was also on the rise in 2001, continuing to show slow and steady growth and remaining in the high 70-million range. Overall attendance is still off of the high years of 1989, 1991, and 1993. Expenditures showed similar stability, bracketing the \$41.0 billion mark, which it has remained near since 1997.

Corporate Meetings

Corporate meetings consist of an integral component of the convention segment, and its attendees consist of over two thirds of all meeting, group, and convention attendees. Corporate groups tend to have a low double occupancy of 1.1 to 1.5, while social groups are likely to have somewhat higher double occupancy rates ranging from 1.5 to 1.9.

Corporate groups generally meet during the workweek, thus generating lodging demand on Monday through Thursday nights. The average length of stay for typical meetings and conventions ranges from two to three days. According to the *2002 Meetings Market Report*, the average duration of a corporate meeting is 2.7 days, with a six-month planning window. Feeder markets are an important factor influencing corporate meeting demand. Generally, facilities that attract travelers from distant areas are characterized

by greater room night demand and longer lengths of stay than those destinations that draw a more local clientele.

Corporate groups are one of the most profitable components of this segment, because they exhibit limited price sensitivity and they often sponsor banquets and other events that generate revenue for the host hotel.

According to the 2002 Meetings Market Report, 53% of corporate expenditures went to the host hotel, with 30 out of the 53 points allocated to hotel rooms and 23 points allocated to food and beverage costs. The remaining 47% is spent on such areas as air transportation, speakers, entertainment, AV equipment, ground transportation, and third-party fees.

The following table illustrates a breakdown of corporate meeting purpose by number of meetings and number of attendees.

Number of Meetings and Attendees by Type of Corporate Meeting

Type of Corporate Meeting	Number in Past Year	% of Total	Attendance in Past Year	% of Total
Sales and Marketing Meetings	177,300	21 %	5,665,000	11 %
Training and Educational Seminars	253,200	30	15,965,000	31
Management Meetings	151,900	18	5,150,000	10
Professional and Technical Meetings	76,000	9	10,815,000	21
New Product Introductions	59,100	7	5,665,000	11
Group Incentive Meetings	59,100	7	5,665,000	11
Individual Incentive Meetings	42,200	5	515,000	1
Stockholder Meetings	16,900	2	1,030,000	2
Other Meetings	8,400	1	1,030,000	2
Total Corporate Meetings	844,100	100 %	51,500,000	100 %

Source: 2002 Meetings Market Report, *Meetings and Conventions Magazine*

As the previous data indicates, the most important corporate meetings activity is for training and education, while the professional and technical meeting category shows the second highest attendance level.

The following table illustrates the percentage of corporate meeting planners that utilize various types of facilities during a given year. Since the majority of meeting planners organize more than one meeting per year, the percentages will sum to greater than 100%.

Types of Hotels Used by Corporate Meeting Planners

<u>Types of Hotels Used</u>	<u>Corporate Meetings</u>
Downtown Hotels	74 %
Resort Hotels (not including golf resorts)	50
Convention Centers	47
Suburban Hotels	54
Suite Hotels	27
Airport Hotels	39
Golf Resorts	36
Gaming Facilities	19
Residential Conference Centers	15
Non-residential Conference Centers	12
Cruise Ships	10

Source: 2002 Meetings Market Report,
Meetings and Conventions Magazine

Downtown hotels, proximate to a city's central business district, are most likely to be recipients of corporate meeting demand, primarily due to the large percentage of businesses located in midtown areas. Suburban hotels are the second most used hotel type.

This table illustrates the opportunity Dallas has for capturing this group segment. As noted, 74% of meeting planners use downtown hotels and 47% use convention centers.

The following table summarizes the factors cited as important by meeting planners when choosing a destination and a host hotel within that destination.

Factors in Choosing a Corporate Meeting Location and Facility

Top Factors When Choosing Location	Corporate Meetings (except Incentive Trips)	Group Incentive Trips
Availability of Suitable Hotels	75 %	60 %
Affordability of Destination	68	52
Safety and Security of Destination	57	70
Ease of Transportation	57	52
Distance Traveled by Attendees	49	37
Transportation Costs	49	45
Clean and Unspoiled Environment	35	56
Climate	30	78
Mandated by Corporate Policy	26	26
Availability of Recreational Facilities	24	83
Sightseeing, Cultural Events, Attractions	17	78
Glamorous/Popular Image of Location	13	67

Top Factors When Choosing Hotel Within Location	Corporate Meetings (except Incentive Trips)	Group Incentive Trips
Cost of Hotel or Meeting Facility	75 %	65 %
Negotiable Food, Beverage, and Room Rates	77	77
Number, Size, and Quality of Meeting Rooms	77	47
Quality of Food Service	69	86
Number, Size, and Quality of Sleeping Rooms	63	81
Efficiency of Billing Procedures	58	70
Availability of Meeting Support Services	55	29
Efficiency of Check-in/Check-out Procedures	50	70
Assignment of One Staff Person To Handle Meeting	55	66
Previous Experience in Dealing with Facility and Staff	51	50
Convenience to Other Modes of Transportation	28	37
Proximity to Airport	26	28
Meeting Rooms with Multiple High Speed Lines/Outlets	44	33
Availability of Exhibit Space	56	15
Number, Size, and Quality of Suites	24	59
Proximity to Shopping, Restaurants, Off-site Entertainment	18	63
Provision of Special Meeting Services	18	43
Other On-site Recreational Facilities	15	68
On-site Golf Course	11	50

Source: 2002 Meetings Market Report, *Meetings and Conventions Magazine*

As the preceding table indicates, location factors cited as most important include the availability of suitable hotels, affordability, safety, and ease of transportation. A balance therefore must exist between what constitutes a suitable yet affordable hotel.

We note that corporate planners reported an average room rate of \$150.00 for hotel accommodations, but this number is somewhat skewed by higher-priced destinations (37% of respondents noted accepting rates of \$151.00 or more). Approximately 77% of respondents accepted room rates more than \$100.00, while 23% accepted room rates below \$100.00. Given the current average rate level of the downtown Dallas market (discussed in the following chapters), Dallas is very well suited for capturing a majority of demand from the \$100 to \$150 price point range.

Despite the economic downturn of late 2000 into 2001, approximately 48% of meeting planners in the latest survey reported the 2001 meeting budgets remained unchanged versus 2000 budget levels. Of the remaining participants, 26% noted an increase in the budget, and similarly, 26% noted a decrease. Budget anticipations for 2002 in this survey reflect a slight shift towards a decline: 47% of budgets are expected to remain unchanged, 26% of budgets are expected to increase, and 27% of budgets are expected to decrease.

One of the after-effects of the terrorist attacks of September 11, 2001, is that more corporate meetings are being planned closer to home. Fewer meetings are being planned outside of the United States (36% in 2001 vs. 33% in 1999); and the next-published trends available from this source illustrating 2003 data (available in 2004) are expected to show further proportion of U.S.-based meetings.

Association Meetings

Association demand is generally divided on a geographical basis: the most common categories are national, regional, and state associations. Depending on their nature, these associations may be more rate sensitive than commercial groups. This is particularly true when members are not reimbursed by their employers, but must pay to attend (i.e., guestroom and conference fees). The scheduling pattern of associations also depends on the nature of the group. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends.

While an event may span three to four days, the majority of delegates may mainly seek accommodations for one or two nights during the event. Therefore, event attendance typically mimics a curve, with fewer room nights booked the first and last nights of the event, and more rooms required during the middle. According to the *2002 Meetings Market Report*, the average duration of an association meeting is 2.0 days, with a nine-month planning window (the planning window for a corporate meeting was a shorter six months).

According to the *2002 Meetings Market Report*, 57% of corporate expenditures went to the host hotel (versus 53% for corporate meetings), with 31 out of the 57 points allocated to food and beverage costs (versus 23 points for corporate meetings) and 26 points allocated to hotel costs (versus 30 points for corporate meetings). Hence, associations are apt to spend modestly more on food and beverage and less on hotel rooms, when compared to corporate groups. The remaining 43% is spent on remaining meeting needs. The following table illustrates a breakdown of association meeting purpose by number of meetings and number of attendees.

Number of Meetings and Attendees by Type of Association Meeting

Type of Association Meeting	Number in Past Year	% of Total	Attendance in Past Year	% of Total
Training and Educational Seminars	65,700	37 %	6,519,000	41 %
Board Meetings	33,800	19	2,703,000	17
Professional and Technical Meetings	30,200	17	2,862,000	18
Regional/Local Chapter Meetings	30,200	17	1,113,000	7
Other Off-Premises Meetings	17,800	10	2,703,000	17
Total Association Meetings	177,700	100 %	15,900,000	100 %

Source: 2002 Meetings Market Report, *Meetings and Conventions Magazine*

As the previous data shows and as was the case with corporate meetings, the most important association meetings activity is for training and education, while the professional and technical meeting category shows the second highest attendance level (board meetings and other off-premises meetings are tied for a close third in attendance).

The following table illustrates the percentage of association meeting planners that utilize various types of facilities during a given year; this data is

illustrated for conventions and non-convention association meetings. Since the majority of meeting planners organize more than one meeting per year, the percentages will sum to greater than 100%.

Types of Hotels Used by Association Meeting Planners

Types of Hotels Used	Conventions	Association Meetings
Downtown Hotels	64 %	71 %
Resort Hotels (not including golf resorts)	15	35
Suburban Hotels	17	47
Suite Hotels	14	12
Airport Hotels	10	29
Golf Resorts	10	20
Gaming Facilities	4	6
Residential Conference Centers	2	11
Non-residential Conference Centers	1	7
Cruise Ships	-	2
Other Facilities	4	35
Did Not Require Hotels	3	3

Source: 2002 Meetings Market Report, *Meetings and Conventions Magazine*

Therefore, considerable potential exists for the Dallas downtown destination to capture this type of demand.

The following table summarizes the factors cited as important by meeting planners when choosing a destination and a host hotel within that destination.

Factors in Choosing an Association Meeting Location and Facility

Top Factors When Choosing Location	Association Meetings	Conventions
Availability of Suitable Hotels	70 %	80 %
Affordability of Destination	76	75
Safety and Security of Destination	45	51
Ease of Transportation	50	50
Transportation Costs	43	39
Distance Traveled by Attendees	54	49
Clean and Unspoiled Environment	28	31
Climate	19	23
Availability of Recreational Facilities	16	19
Sightseeing, Cultural Events, Attractions	17	19
Mandated by By-Laws	23	26
Glamorous/Popular Image of Location	11	11

Top Factors When Choosing Hotel Within Location	Association Meetings	Conventions
Number, Size, and Quality of Meeting Rooms	71 %	87 %
Negotiable Food, Beverage, and Room Rates	71	80
Cost of Hotel or Meeting Facility	76	80
Quality of Food Service	62	71
Number, Size, and Quality of Sleeping Rooms	54	71
Efficiency of Billing Procedures	44	48
Availability of Meeting Support Services	47	50
Assignment of One Staff Person To Handle Meeting	43	52
Efficiency of Check-in/Check-out Procedures	40	44
Availability of Exhibit Space	21	44
Previous Experience in Dealing with Facility and Staff	39	43
Proximity to Shopping, Restaurants, Off-site Entertainment	16	24
Number, Size, and Quality of Suites	23	21
Proximity to Airport	26	21
Convenience to Other Modes of Transportation	25	22
Provision of Special Meeting Services	17	16
Meeting Rooms with Multiple High Speed Lines/Outlets	22	21
Fax Modem Hook-Ups in Sleeping Rooms	16	15
Other On-site Recreational Facilities	10	9
On-site Golf Course	10	9

Source: 2002 Meetings Market Report, *Meetings and Conventions Magazine*

As the preceding table indicates, location factors cited as most important include the availability of suitable hotels, affordability, safety, and ease of transportation. Association planners reported an average room rate of \$133.00 for hotel accommodations, roughly \$17.00 lower than the corporate mark of \$150.00. This price point is again on-target for the current downtown Dallas market.

Again contrasting the economic downturn of late 2000 into 2001, approximately 52% of association meeting planners in the latest survey reported the 2001 meeting budgets remained unchanged versus 2000 budget levels. Of the remaining participants, a high 34% noted an increase in the budget, and only 14% noted a decrease. Budget anticipations for 2002 in this survey suggest continued expansion: 48% of budgets are expected to remain unchanged, 36% of budgets are expected to increase, and 16% of budgets are expected to decrease.

As shown previously, the availability of hotel rooms in a city is an important criterion when event planners are making meeting location decisions. The Salt Lake Convention and Visitors Bureau publishes a biannual survey on available hotel supply in various cities throughout the United States. We have illustrated the following selection of data from this report.

Total Hotel and Motel Rooms In The Community (Including Committable to Convention and Not Committable)

Eastern Cities	Rank	Rooms	Western Cities	Rank	Rooms
Orlando	3	101,833	Las Vegas	1	124,200
Atlanta	4	85,000	Los Angeles	2	110,147
Chicago	5	79,234	Dallas	9	62,000
New York	6	68,900	Phoenix	10	51,476
Washington, DC	7	64,935	San Diego	11	50,000
Miami	8	63,000	Anaheim	12	48,000
Detroit	15	34,603	Houston	13	46,000
New Orleans	16	33,022	Denver	14	36,246
Nashville	17	31,642	San Francisco	18	31,101
St. Louis	19	31,000	Honolulu	20	30,641
Minneapolis	23	28,000	Seattle	21	30,000
Philadelphia	25	26,000	Reno	22	28,093
Cincinnati	27	23,000	San Antonio	24	27,000
Baltimore	28	21,120	Kansas City	26	25,200
Indianapolis	29	20,788	Salt Lake	35	17,549
Columbus	30	20,000	Portland, OR	36	17,500
Cleveland	31	19,500	Tucson	38	15,100
Charlotte	32	19,304	Albuquerque	39	15,000
Memphis	33	19,000	Palm Springs	40	15,000
Tampa	34	17,738	Oklahoma City	46	13,000
Boston	37	17,400	Fort Worth	47	11,000
Louisville	41	14,232	Corpus Christi	48	9,018
Birmingham	42	14,000	Sacramento	49	8,500
Pittsburgh	43	14,000	Des Moines	50	8,050
Raleigh	44	13,189	El Paso	52	7,900
Milwaukee	45	13,000	San Jose	55	7,312
Little Rock	51	8,000	Arlington, TX	56	6,453
Hartford	53	7,600	Anchorage	57	6,109
Lexington	54	7,488	Long Beach	59	5,000
Norfolk	58	5,205			
Opryland Nashville	60	4,476			

Source: Salt Lake Convention and Visitors Bureau

Committable Hotel and Motel Rooms In TheCommunity

Eastern Cities	Rank	Rooms	Western Cities	Rank	Rooms
Orlando	2	80,000	Las Vegas	1	124,200
Chicago	3	60,000	Los Angeles	4	55,000
Atlanta	5	45,000	San Diego	6	33,000
New York	10	25,000	Phoenix	7	29,000
New Orleans	11	20,000	Houston	8	26,000
Minneapolis	13	18,000	Anaheim	9	25,000
Tampa	15	17,000	San Francisco	12	19,500
Philadelphia	16	17,000	Dallas	14	17,509
Charlotte	17	15,000	Seattle	18	15,000
Miami	19	14,000	Albuquerque	23	12,000
Nashville	20	12,830	Denver	24	12,000
Columbus	21	12,500	Kansas City	25	11,400
Indianapolis	22	12,000	San Antonio	26	10,000
Memphis	28	10,000	Palm Springs	27	10,000
Detroit	29	10,000	Tucson	30	9,500
St. Louis	31	9,200	Honolulu	32	9,000
Louisville	33	9,000	Salt Lake	35	8,854
Cincinnati	34	9,000	Portland, OR	37	8,000
Pittsburgh	36	8,500	Corpus Christi	39	6,000
Milwaukee	38	6,370	Oklahoma City	40	6,000
Cleveland	41	6,000	Anchorage	46	5,000
Boston	42	6,000	Sacramento	50	4,500
Birmingham	43	6,000	Des Moines	51	4,200
Baltimore	44	5,500	Long Beach	52	4,125
Washington, DC	46	5,000	Arlington, TX	53	3,000
Raleigh	47	5,000	Fort Worth	55	2,800
Little Rock	48	5,000	El Paso	56	2,700
Hartford	49	5,000	Reno	58	2,000
Lexington	54	3,000	San Jose	59	1,620
Norfolk	57	2,600			

Source: Salt Lake Convention and Visitors Bureau

Committable Hotel and Motel Rooms Within One Mile of the Convention Center

Eastern Cities	Rank	Rooms	Western Cities	Rank	Rooms
New York	3	17,000	San Francisco	1	19,500
New Orleans	4	16,548	Las Vegas	2	18,376
Orlando	5	10,900	Anaheim	7	10,000
Atlanta	6	10,000	Honolulu	8	9,000
Philadelphia	10	7,000	Seattle	9	7,500
Miami	13	5,300	San Antonio	11	6,317
Boston	14	5,000	San Diego	12	6,000
Washington, DC	15	5,000	Dallas	16	4,833
St. Louis	20	3,900	Los Angeles	17	4,768
Opryland Nashville	21	3,725	Salt Lake	18	4,220
Milwaukee	22	3,714	Portland, OR	19	4,000
Minneapolis	23	3,600	Denver	24	3,455
Indianapolis	25	3,315	Kansas City	29	2,800
Charlotte	26	3,088	Anchorage	30	2,800
Baltimore	27	3,000	Palm Springs	32	2,400
Detroit	28	2,906	Reno	35	2,054
Louisville	31	2,500	Long Beach	37	2,000
Pittsburgh	33	2,400	Sacramento	38	2,000
Cincinnati	34	2,100	Houston	40	1,910
Nashville	36	2,025	Phoenix	44	1,795
Columbus	39	2,000	Arlington, TX	45	1,500
Cleveland	41	1,800	Fort Worth	46	1,410
Memphis	42	1,800	Corpus Christi	50	1,200
Tampa	43	1,800	Des Moines	51	1,120
Birmingham	47	1,400	Albuquerque	52	1,058
Norfolk	48	1,388	Tucson	54	915
Hartford	49	1,300	San Jose	56	770
Little Rock	53	1,000	Oklahoma City	57	700
Chicago	55	800	El Paso	60	350
Lexington	58	650			
Raleigh	59	600			

Source: Salt Lake Convention and Visitors Bureau

Total Rooms of Three Largest Hotels Within One Mile of the Convention Center

Eastern Cities	Rank	Rooms	Western Cities	Rank	Rooms
New York	2	5,663	Las Vegas	1	9,346
New Orleans	4	5,215	Honolulu	3	5,627
Atlanta	6	4,300	San Francisco	5	4,614
Orlando	9	3,418	Anaheim	7	3,913
Opryland Nashville	10	3,402	Dallas	8	3,679
Boston	11	3,286	Los Angeles	13	3,075
Detroit	12	3,212	Long Beach	14	2,951
Philadelphia	15	2,668	San Diego	16	2,542
Washington, DC	17	2,541	Kansas City	18	2,455
Miami	19	2,420	Denver	21	2,348
St. Louis	20	2,380	Seattle	22	2,280
Baltimore	25	2,079	Salt Lake	23	2,140
Cincinnati	27	1,994	San Antonio	24	2,135
Minneapolis	28	1,932	Reno	26	2,054
Louisville	29	1,930	Houston	31	1,705
Pittsburgh	30	1,926	Anchorage	34	1,539
Indianapolis	32	1,685	Fort Worth	39	1,452
Milwaukee	33	1,541	Portland, OR	40	1,434
Tampa	35	1,535	Phoenix	41	1,404
Nashville	36	1,488	Sacramento	42	1,372
Columbus	37	1,475	San Jose	47	1,149
Charlotte	38	1,454	Palm Springs	48	1,100
Cleveland	43	1,361	Corpus Christi	49	1,020
Memphis	44	1,350	Arlington, TX	51	960
Birmingham	45	1,295	Des Moines	52	908
Norfolk	46	1,194	Albuquerque	53	900
Hartford	50	1,000	Oklahoma City	58	700
Lexington	54	807	Tucson	59	550
Little Rock	55	800	El Paso	60	477
Chicago	56	800			
Raleigh	57	753			

Source: Salt Lake Convention and Visitors Bureau

This data indicates that San Francisco (1), Las Vegas (2), New York (3), New Orleans (4), Orlando (5), Atlanta (6), Anaheim (7), Honolulu (8), Seattle (9), and Philadelphia (10) are able to commit the largest room total room blocks – within one mile of their center -- to convention center events in the United States. But once you look beyond the mile-limit and review the community wide committable-room rankings, Las Vegas and Orlando rise to the number one and two positions, respectively, with available, committable room counts

well above the remainder of the survey cities. Dallas ranks in the top 20 of each survey.

Meeting and Convention Timing and Seasonal Patterns

Nationwide, the meeting and convention segment of the market has exhibited a strong preference for planning events during the late spring/early summer and fall months, with October, November (the first three weeks), May, and June representing the strongest months. The table below depicts the breakdown of percentages for the favorability of planning meetings in each month throughout the year.

Frequency and Seasonality of Major Conventions

<u>Frequency</u>	<u>Percentage</u>
Every Other Year	5 %
Annually	75
Twice a Year	12
Four Times Per Year	3
Other	5
No Major Convention	11

<u>Seasonality</u>	<u>Percentage</u>
January	4 %
February	4
March	5
April	9
May	10
June	11
July	9
August	6
September	8
October	17
November	13
December	4

Source: 2002 Meetings Market Report,
Meetings and Conventions Magazine

As the table above indicates, summer months are popular to group business to a lesser degree, for lifestyle and vacation reasons. The summer months are oftentimes selected by those groups in need of a price discount, which generally occurs during this season. Association meetings typically display

slightly different characteristics than commercial meetings. State and regional associations often hold their meetings during the summer season, contributing to the annual occupancies of lodging facilities with meeting space at a time when commercial activity and room rates may be at their lowest. This typically occurs in May through August. Association gatherings are generally larger than corporate meetings and utilize a convention center and require larger amounts of exhibition and/or meeting space.

6. Competition

An integral component of the supply and demand relationship that has a direct impact on the availability of lodging demand is the current and anticipated supply of competitive lodging facilities. To evaluate an area's competitive environment, the following steps should be taken:

- Identify the area's lodging facilities and determine which are expected to be directly and indirectly competitive with the proposed subject property.
- Determine whether additional hotel rooms, besides the proposed subject, will enter the market in the foreseeable future (net of attrition).
- Quantify the number of existing and proposed hotel rooms available in the market.
- Review the rate structure, occupancy levels, market orientation, facilities, and amenities of each competitor.

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of the area's hotels, as well as the comments of area hotel representatives, we have identified seven properties that are expected to be primarily competitive with the proposed headquarters hotel. These primary competitors total 6,480 rooms.

Additional lodging facilities are judged to be only secondarily competitive; although the facilities, rate structures, or market orientations of these hotels prevent their inclusion among the primarily competitive supply, they are expected to compete with the subject property to some extent. The room count of the secondary aggregate supply has been weighted to reflect the degree to which the set competes with the proposed headquarters hotel; the aggregate weighted room count of the secondary competitors is 986.

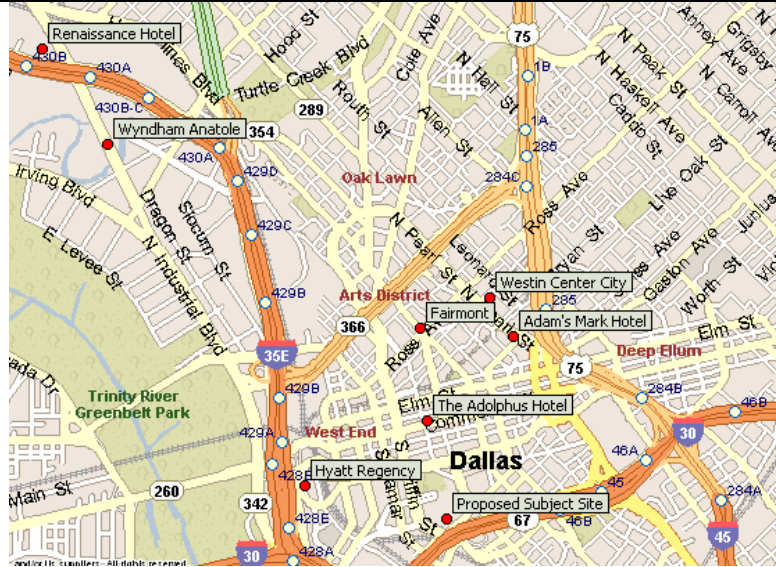
Primary Competitors The following table summarizes the important operating characteristics of the primary competitors and the aggregate secondary competitors. Ranges are illustrated due to the confidentiality of the data; actual occupancy and average rate levels were used in our financial models. This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data.

Primary Competitors and Aggregate Secondary Competitors

Property	Number of Rooms	Est. Segmentation			Estimated 2002			Estimated 2003		
		Meeting and Group	Commercial	Leisure	Weighted Annual Room Count	Occupancy	Average Rate	Weighted Annual Room Count	Occupancy	Average Rate
Adam's Mark Dallas	1,840	90 %	9 %	1 %	1,840	35 - 40 %	\$120 - \$130	1,840	35 - 40 %	\$120 - \$130
Hyatt Regency Dallas	1,122	85	13	2	1,122	60 - 65	120 - 130	1,122	55 - 60	120 - 130
Fairmont Dallas	551	60	35	5	551	55 - 60	130 - 140	551	55 - 60	130 - 140
Wyndham Hotels Anatole	1,614	85	14	1	1,614	55 - 60	140 - 150	1,614	55 - 60	130 - 140
Renaissance Dallas Hotel	518	50	48	2	518	60 - 65	100 - 110	518	55 - 60	100 - 110
Westin City Center Dallas	407	57	40	3	407	50 - 55	120 - 130	407	50 - 55	120 - 130
The Adolphus Hotel	428	50	44	6	428	55 - 60	140 - 150	428	55 - 60	140 - 150
Sub-Totals/Averages	6,480	76 %	21 %	2 %	6,480	52.7 %	\$131.83	6,480	52.4 %	\$129.06
Secondary Competitors	1,314	50 %	30 %	20 %	986	49.0 %	\$99.00	986	47.0 %	\$96.00
Totals/Averages	7,794	73 %	22 %	4 %	7,466	52.2 %	\$127.76	7,466	51.7 %	\$125.09

Our survey of the primarily competitive hotels in the downtown Dallas lodging market shows a mixture of hotels affiliated with nationally recognized lodging chains as well as independently operated hotels.

Map of Local Competition



Each future competitor was inspected and evaluated. Descriptions of our findings are presented on the following pages.

Adam’s Mark Dallas

The HBE-owned, 1,840-room **Adam's Mark** includes a 500-room hotel tower built in 1959; its additional rooms were added in the fall of 1998 in two adjoining office towers. In addition to guestrooms, the hotel features 122,800 square feet of meeting space, including 40,000 square feet of exhibit space.

Adam’s Mark Dallas



With ±122,800 square feet of meeting space, the hotel offers the second-largest amount of function space among the competitors (the Wyndham

Anatole ranks as the largest). On a per-room basis, the meeting space equates to 67 square feet per guestroom. The hotel also features three restaurants and two lounges, and a business center. Recreational amenities at the property include a fitness center with an outdoor swimming pool. According to management representatives, the hotel has no plans for expansion. The hotel is generally in good condition, and no major plans for renovations exist at this time.

In 2003, we estimate that this property achieved an occupancy level under 40.0% at an average rate near \$120.00. The hotel's 2003 operating results reflect, in part, the downturn in citywide demand from the convention center – as the Adam's Mark is typically a host hotel or a major benefactor from citywide events. The property's market segmentation during 2003 is estimated at 90% meeting and group, and due to the size of the property, the Adam's Mark enjoys one of the highest group capture rates in the market area. The remaining demand comprises of commercial demand at 9% and 1% leisure.

Hyatt Regency

The 1,122-room Hyatt Regency was built in 1978 and is owned by the Hunt Reunion Joint Venture. The Hyatt also features 160,000 square feet of meeting space inclusive of a 30,000-square-foot ballroom and 40,000 square feet of exhibit space, three restaurants, two lounges, a gift shop, a business center, an outdoor swimming pool, a whirlpool, and a fitness center.

Hyatt Regency Dallas



In April of 2000, the hotel completed a \$65-million expansion project, which included an additional 183 guestrooms, a \pm 30,000-square-foot ballroom with a 30-foot ceiling, 15,000 square feet of pre-function space, and a \pm 40,000-

square-foot exhibit hall with a 15-foot ceiling. An addition to the existing health club and a 200-space underground parking facility has also enhanced the Hyatt's product offering. Ownership completed a \$15 million renovation of all guestroom soft goods and bathrooms, as well as guestroom corridors. As part of this renovation, high-speed internet access was added to all guestrooms.

In 2003, the property achieved an estimated occupancy in the low 60-percent range at an average rate in the mid \$120-range. The property's market segmentation during 2003 is estimated at 85% meeting and group, 13% commercial, and 2% transient. The large portion of convention business accommodated is a direct result of the hotel's proximity to the Dallas Convention Center, the large number of rooms, and the property's own extensive meeting facilities.

Fairmont

The Fairmont is a formidable, 551-room hotel located just south of the Uptown district. The hotel offers a tremendous amount of meeting space for a hotel of its size, with over 61,000 square feet of space inclusive of two major ballrooms sized with roughly 15,000 and 18,000 square feet. The hotel also offers a pool, exercise room, and its Pyramid Restaurant and Lounge.

Fairmont



This hotel offers a luxuriously appointed product, and its space has been well-maintained over the years. Built in 1969, the 550-room Fairmont Hotel is one of the most well-known and highly regarded hotels in downtown Dallas. In addition to standard guestrooms, the hotel features 50 suites (included in the above room count). In 1998 and 1999, the guestrooms, corridors and some of the property's public areas were renovated and refurbished. Since this

time, renovations at the property have been on-going and the property appeared in good condition upon inspection.

The hotel offers the fourth-largest amount of function space among the competitors. The hotel also features two restaurants and a lobby lounge, in addition to several retail stores, a business center, and a beauty salon. Recreational amenities at the property include a fitness center with an outdoor swimming pool. According to management representatives, the hotel has no plans for expansion.

We estimate that approximately 60% of the demand accommodated by the Fairmont in 2003 was meeting and group. Roughly 35% of the Fairmont's demand was derived from the commercial segment. The commercial transient demand peaks on Tuesday and Wednesday nights, but on the weekends the hotel tries to emphasize leisure guest accommodations which accounted for approximately 5% of total demand.

Wyndham Anatole

The Wyndham Anatole is owned by Trammell Crow and managed by Wyndham International. The full-service property features 1,614 units, five restaurants, five bars/lounges, lighted outdoor tennis courts, a health club facility and spa, indoor and outdoor swimming pools, and a business center. The property also features five restaurants and lounges including the five-star Nana restaurant.

Wyndham Anatole



The property completed its most recent expansion and renovation project in December of 2003. This expansion added an additional 17,000 square feet of meeting space to the West Wing inclusive of two junior ballrooms at 6,500 square feet and 7,500 square feet. During this project the property also

completed a guestroom renovation of 900 rooms, the remaining 714 rooms are scheduled to be renovated in late 2004.

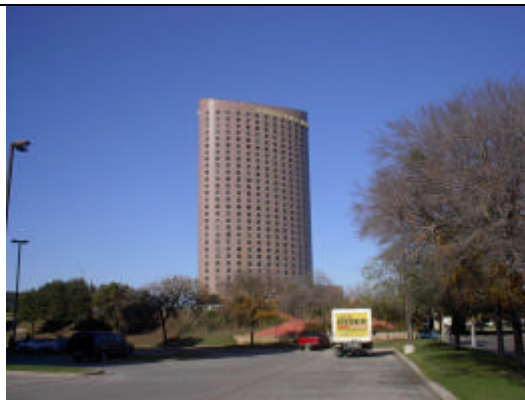
The property currently offers approximately 314,000 square feet of pre-function and meeting space – the largest component of function space provided by a single hotel in the Dallas competitive market. The meeting space encompasses six ballrooms, as well as approximately 76 meeting rooms, breakout rooms, boardrooms, permanent theaters, lecture halls, pavilions, private dining rooms, and a separate conference center.

The Wyndham Anatole is able to house many conferences and groups in-house, as well as to accommodate groups and associations who are attending events at the Market Center, Info Mart, and the Dallas Convention Center. The Anatole's 2003 market mix is estimated as 85% convention business – just below that of the lower priced Adam's Mark and comparable to that of the Hyatt Regency. Completing the market mix for this hotel are 14% commercial business, and 1% leisure demand. According to management, the property accommodates very little leisure demand. This business mix is believed to be consistent with the hotel's orientation toward the convention market.

Renaissance

CTF Hotels owns the 518-room Renaissance Hotel, while Marriott International manages the property. This hotel is located at 2222 North Stemmons Freeway, which is along the northern side of Interstate 35 and directly north of the downtown Dallas area and approximately three miles from the proposed subject property. This 30-story property features the Charisma Restaurant, the T-Bone Steakhouse Restaurant, a lounge, 17 meeting rooms accounting for approximately ±19,000 square feet of meeting space, an outdoor pool and whirlpool, a health club, a gift shop, and a business center.

Renaissance



On May 1, 2001, the hotel took 22 rooms on the fourth floor out of available inventory in order to convert the floor to breakout meeting rooms. The project was completed in October 2001 and added an additional six meeting rooms and a total of 5,500 square feet. The original property room count was 540 guestrooms prior to the deduction on May 1, 2001 to 518 guestrooms.

We estimate that approximately 50% of the demand accommodated by the Renaissance in 2003 was meeting and group. The property captures a smaller portion of meeting and group demand compared to the competitive set due to its rooms to meeting space ratio. Roughly 48% of the Renaissance's demand was derived from the commercial segment, the highest in the competitive set, due to its popular Marriott brand name affiliation. The remaining 2% of demand is derived from the transient segment. The property finished 2003 with an estimated occupancy in the low 60-percent range, and an average rate below \$120.00.

Westin

Built in 1980, the 407-room Westin Hotel is located in the Plaza of the Americas, roughly one mile from the convention center. The property became affiliated with Starwood in mid-2003, prior to this date the property was affiliated with Le Meridien. In addition to standard guestrooms, the hotel features 35 suites (included in the above room count). The hotel also features a restaurant and a bar as well as two tennis courts, racquetball facilities, a steam room, and a sauna. Meeting space at the property measures approximately 23,200 square feet.

Westin



The most recently reported renovations occurred in the winter of 1999/2000, which installed all new case goods and soft goods into the guestrooms. As a result, the guestrooms were in excellent condition at the time of our inspection. Guestroom bathrooms are slated to undergo renovation next. Overall, this property was in very good condition. According to management representatives, the hotel has no plans for expansion.

Approximately 57% of the guests accommodated by Westin in 2003 were considered meeting and group travelers. Roughly 40% of Westin's demand was derived from the commercial segment. Management reports that this demand has been weakening with recent corporate consolidations out of the Plaza of the Americas office complex, which is attached to the hotel. Roundly 3% of Westin's demand was generated by leisure travelers.

It is estimated that in 2003, the Westin achieved an occupancy level in the low 50% range and an average rate just below \$130.00. Occupancy at this hotel may increase as marketing efforts under the new Starwood affiliation take hold.

Adolphus

The Adolphus is one of Dallas' trophy properties, built at the time of the city's oil boom and at the height of the city's agricultural industry. Guestrooms at the 428-unit property are housed in the original 1912 tower and in an adjoining and adjacent west tower, which was constructed in the 1940s. By the 1970s and after decades of operation, the hotel's small guestrooms became dated and in need of renovation. The hotel subsequently closed in 1979 and reopened in 1981. During the two-year project, the hotel was totally renovated and the room configuration was changed to allow for more

spacious guestrooms and larger guest bathrooms. The hotel reopened with its current room count.

Adolphus



Guestrooms at the Adolphus, which include 120 suites, feature classic Queen Anne furniture, marble and brass bathrooms with hair dryers, minibars, and three telephones. A \$6-million guestroom and guestroom corridor renovation was completed in 1995 and 1996, with the majority of the units undergoing refurbishment. Renovations in 1997 included the porte cochere and the lobby, while 1998 upgrades to the lobby living room occurred. Renovations in 1999 included all elevators. Meeting space at the hotel totals 23,000 square feet and includes two grand ballrooms and 17 additional meeting rooms. The hotel features several popular food and beverage outlets and a boutique retail shop. Recreational amenities include a fitness room. The property is owned in part by Metropolitan Life and is operated by Noble House Hotels.

Approximately 50% of the guests accommodated by the Adolphus in 2003 were classified as meeting and group travelers. The hotel benefits from a considerable social catering business. Moreover, the hotel services a strong corporate meeting base. Management representatives report that the Adolphus also serves as a meeting destination for smaller corporate groups. Roughly 44% of the Adolphus' demand is generated by the commercial transient segment; the property accommodates a high amount of repeat clientele and has a strong reputation. The remaining 6% of the Adolphus' demand is attributed to the leisure segment. Leisure business accommodated by this property consists of high-end, destination leisure travelers. It is estimated that in 2003, the Adolphus achieved an occupancy level in the mid 50-percent range and an average rate near \$150.00. The Adolphus hotel

maintains its high average rates due to its ability to capture high-end demand from repeat business and social events held at the hotel.

Aggregate Secondary Competitors

Six Dallas hotels are expected to compete with the subject property on a secondary basis. The Ramada Plaza is expected to compete with the proposed subject for meetings business primarily due to its location near the Convention Center. The subject is also expected to compete with the remaining five secondary competitors for overflow meeting and group business as well as commercial and transient business.

Together, the aggregate secondary competitors achieved an overall weighted occupancy of roundly 47% at an average rate of roundly \$96.00 yielding a rounded RevPAR of \$45.00. The following paragraphs briefly describe each aggregate secondary competitor.

- Built in 1925, the 172-room **Holiday Inn Aristocrat** first opened as a Hilton. In 1938, the hotel changed its name to the White Plaza and subsequently changed ownership and names at various times throughout its history. In November of 1993, the property became the Holiday Inn Aristocrat Hotel. Meeting space at the hotel measures 3,335 square feet and was in good condition at the time of our inspection. The hotel also features a bar and grill and an exercise room. According to management representatives, the hotel has no plans for expansion. October of 1995, the hotel was purchased by Patriot American Hospitality, Inc. from Highgate Hotels for a reported price of \$9,150,000. The property is currently owned by Wyndham Hotels and managed by a subsidiary.
- The 309-room **Hampton Inn** originally opened in 1969 as a 308-room Holiday Inn. Subsequently, the hotel lost its franchise affiliation and became a Howard Johnson. The 18-story hotel then closed in early 1995 and reopened as a Hampton Inn in July of 1996. Prior to reopening, the hotel underwent a total renovation of its guestrooms and public space at a reported cost of \$10 million. The hotel currently offers no meeting space and is situated adjacent to a parking garage; however, there have been plans for some time now to convert a portion of the garage space to meeting rooms, to renovate the hotel, and to convert the property to a DoubleTree. Construction had not commenced on this project as of our date of inspection and no specific completion date was reported. Recreational facilities include a

swimming pool and a workout room. The property is owned by Felcor.

- The **AmeriSuites West End** is a relatively new property in the competitive set. The hotel is located in the popular West End district and has been able to attract relatively strong levels of occupancy with its new product and moderate average room rate. The hotel offers 149 guestrooms, a continental breakfast area, an outdoor pool, a business center, and an exercise room. This hotel benefits from higher occupancy levels on Tuesday and Wednesday nights.
- One of the central business district's newest hotels, the 330-room **Magnolia**, is owned and operated by Denver-based Magnolia hotels. The hotel is limited-service in nature, but its expansive rooms (most are suites with full kitchens) are well-appointed; hence, this product makes this property competitive for transient based downtown demand and some meetings business for very small groups. The hotel only offers 3,952 square feet of meeting space and its largest room is only 1,332 square feet in size. The hotel has a breakfast dining area that is used for its complementary morning dining service. The hotel also offers an exercise room.
- The 236-room **Ramada Plaza** is located just south of the Dallas Convention Center on Akard Street. The hotel has been affiliated with the Ramada franchise since 1988, the property originally opened in 1972. The property is the only hotel in the downtown Dallas area that offers a heated indoor pool; other recreational amenities at the hotel include a whirlpool and an exercise room. The property offers a limited amount of meeting space; the largest meeting room can accommodate approximately 400 people banquet style. The property is largely dated in appearance and in below-market condition.
- The small 118-room **Hotel Lawrence** is a historic hotel property located in western downtown – proximate to the West End, the courthouse/government district, and the convention center. The building dates from 1925 and recent renovations have allowed this property to offer a renewed, boutique product to travelers in the downtown Dallas area. The hotel is affiliated with the Magna Hospitality Group.

Additions to Supply

It is important to consider any new hotels that may have an impact on the subject property's operating performance.

Opening in April 2004, the **Gaylord Texan Resort and Convention Center** is expected to become an important regional meeting and convention destination over the course of the next several years. This roughly 1,500-room property will provide over 400,000 square feet of meeting and convention space. Set in Grapevine, Texas, the resort is located on Lake Grapevine and resort guests will enjoy regional and lakeside dining, a 25,000-square-foot world-class spa and fitness facility, and championship golf at the Cowboys Golf Club. We have taken this resort into consideration in the positioning of our induced demand estimate for the subject property, which is discussed in chapter eight.

A partnership comprising Gatehouse Capital Corporation, Hillwood Development Company, and Southwest Sports Realty broke ground on the **W Dallas Victory Hotel and Residences** in February 2004, just south of the American Airlines Arena. The 251-room hotel will occupy the lower floors of the tower, while the upper floors will house 94 condominiums. This luxury hotel is expected to be a formidable competitor within the Dallas Uptown market, which features other luxury hotels such as the Crescent Court, Hotel ZaZa, and the Mansion on Turtle Creek. Due to its expected luxury orientation and uptown market position, the W would not be expected to be a formidable competitor to the subject convention hotel.

Conclusion

We have identified seven downtown properties and six secondary competitors that are expected to be competitive to some degree with the proposed subject property. In 2003, the total competitive supply achieved an estimated roundly 52.0% occupancy at a \$125.00 average rate, resulting in a RevPAR of roundly \$65.00.

7. Review of Proposed Hotel Facility

For the purposes of estimating income and expense for the subject property, we have relied on a proposed facility program for the subject property which includes 1,200 guestrooms. We have assumed other ancillary components of the hotel would be constructed along with this guestroom tower, in order to allow the hotel to be a formidable competitor within the U.S. convention hotel market. These assumptions and a review of the facilities offered by competitive cities are illustrated in this chapter.

Project Timing

Our forecast must begin on a given date. For the purpose of this analysis, we have assumed an opening date of January 1, 2008. This date takes into consideration time for funding, pre-development (plan approval, permits), pre-marketing and pre-booking, and construction. Moreover, our occupancy build-up takes into consideration the formidable task of opening a hotel on a specific date. Most often, hotels are open “almost finished.” These properties are in functional condition, but staff is still being trained and construction odds and ends are being attended to. Technology glitches are being handled, and back-ordered items are still being installed.

Product Quality Category and Brand Affiliation

It is assumed that the hotel will be full-service in nature and with the finish-out typical of a first-class, convention headquarters hotel. The hotel’s facility is expected to be of high quality, conforming at a minimum to the brand-specific guidelines set forth by the operator that is chosen for the hotel. Our forecast assumes that the property will be maintained in a competitive condition, undergoing regular renovations of soft goods and case goods funded primarily by a reserve for replacement.

The quality of a lodging facility's physical improvements has a direct influence on marketability, attainable occupancy, and average room rate. The design and functionality of the structure can also affect operating efficiency and overall profitability. The hotel's facilities are expected to be of a high quality level for the Dallas market area, and similar in finish and first-class feel to the Fairmont, Hyatt Regency, or the Westin City Center. Hence, the proposed subject property's guestrooms are expected to be upscale and

comfortable as the hotel facilities are expected to serve as the host hotel for conventions, in-house groups, and transient travelers. The product should conform to the guidelines to achieve at least a 3-star Mobil hotel rating and 4-diamond AAA hotel rating.

HOTEL DESIGN AND FUNCTIONALITY

In the remainder of this section, we will discuss each component of the hotel in greater detail. Both design and functionality features are discussed, as well as a review of the necessary features required within each hotel area.

Exterior, Entryway, and Lobby

A hotel's entrance and exterior appearance is important to the overall image of a lodging facility. In addition to serving a number of functional uses, the entryway, exterior grounds, and hotel lobby create the important first impression on the arriving guest. Therefore, the exterior of the hotel must be first-class in appearance and should conform to the design requirements for a significant downtown structure. The building should be highlighted by exterior lighting as necessary during the evening hours and should have easily identifiable signage at the entry to the site and on the hotel building itself. The grounds of the hotel should be landscaped with a variety of trees, shrubs, and flower beds to complement the well kept, landscape of the convention center. The grounds and the parking structure should be well lit during evening and night hours.

The main entrance of the hotel should feature a porte cochere (covered entry) that is easily identifiable from the main entrance to the site. The entrance should have a breezeway with automatic, revolving doors. The lobby area should be well organized, to minimize confusion and maximize traffic flow for guests and personnel. The lobby seating area should be ample, in order to accommodate guests who wish to socialize or groups of people assembling for other functions. Lighting, furniture, and decor should be designed for aesthetics and guest comfort. Public restrooms, telephones, and elevators should be clearly identifiable and easy to reach. Other facilities expected to be accessed off of the lobby include the hotel's concept restaurant, casual restaurant, lobby lounge, the gift shop, and the escalators to the any upper level public space.

The front desk should be located within the lobby and should be well equipped for guest registration, advance reservations, cashier services, money changing, information, distribution of room keys and guest mail, messages, switchboard operation, and accounting. It should be finished with a marble top, and artwork should be placed on the wall behind the desk. The front desk area should have direct telephone and/or intercom linkage with all areas

of the hotel including administrative offices, the housekeeping department, restaurant and lounge, fitness area, and guestrooms.

The front desk should also provide a system of security for cash and guests' valuables; this is best accomplished through the use of a safe, located in a separate room designed for this purpose. Guests should be allowed to see their valuables being placed into the safe, but this area should not be readily visible to passers-by or employees.

Guestrooms

Arguably, the two most important factors in choosing any city's convention center and its convention headquarters hotel are the size of the available room block at the hotel and the size of the center's and hotel's main ballroom. In this sub-section, we will discuss the guestrooms.

Meeting planners prefer to have a majority of their constituents within the larger, headquarters room block. If a convention is able to house the majority of constituents at a singular property, less coordination efforts are needed between hotels. Moreover, the meeting planner has a greater chance at capturing the attendee for more convention-related events if the attendee is being housed within the property. Smaller room blocks are made at surrounding hotels as necessary, typically within close proximity to the convention center and headquarters hotel.

Convention travelers themselves also prefer to be within the headquarters hotel. Often, meeting attendees want to escape to their guestrooms between meetings for breaks, to drop-off or pick-up materials, or handle other necessities. It is also the most easy and preferred access to the meetings at the beginning and end of the day's sessions. If staying at a nearby hotel, guests often have to reserve more time for transportation to and from the meeting facility and cannot escape to guestrooms between sessions.

Several years ago (and even today), the presence of the substantial headquarters hotel was more of an exception to the norm. As such, large conventions were willing to split up their attendees among many different hotels, as well as settling for a smaller headquarters hotel block. However, the market is now shifting as more and more cities build substantial headquarters hotel properties. Substantial room blocks are now becoming available in large hotels located adjacent to the region's most significant convention centers. Meeting planners will now have their pick of facilities, which offer substantial room blocks within the headquarters hotel.

As noted previously, the subject hotel is proposed to have 1,200 guestrooms, which is expected to contain a mix of standard rooms and suites. This will enable the Dallas Convention Center to better compete with other cities which offer a headquarters hotel capability. The following survey illustrates the room supply offered or to be offered by a selection of these competitive convention cities.

Hotel Presence in Competitive Convention Cities

Convention Center	Proposed/Planned Headquarters Hotel	Adjacent Headquarters Hotel	Existing Primary Hotel	Existing Primary Hotel	Existing Primary Hotel
Orlando Orange County	1,000-rm Peabody Expansion	891-rm Peabody Hotel	2,267-rm Swan & Dolphin	2,000-rm Marriott	Many other large Orlando hotels
Chicago McCormick Place	—	800-rm Hyatt	2,019-rm Hyatt Regency	1,543-rm Hilton	1,192-rm Marriott & 1,209-rm Sheraton
Atlanta Georgia World Congress	—	1,067-rm Omni (Expanded)	1,675-rm Marriott	1,264-rm Grand Hyatt	1,224-rm Hilton
Dallas	Subject	—	1,122-rm Hyatt	1,614-rm Wyndham Anatole	1,840-rm Adam's Mark
New Orleans	Under Study	1,616-rm Hilton	1,100 Sheraton	1,344-rm Marriott	1,184-rm Hyatt
Houston	—	1,200-rm Hilton (New)	977-rm Hyatt	350-rm DoubleTree	399-rm Four Seasons
Denver	1,100-rm Hyatt (late 2006)	—	1,225-rm Adam's Mark	613-rm Marriott	511-rm Hyatt
San Diego Convention Center	—	1,303-rm Marriott	1,625-rm Hyatt (Expanded)	450-rm Westin	—
St. Louis	—	875-rm Renaissance (New)	910-rm Adam's Mark	780-rm Millenium	672-rm Marriott & 538-rm Hyatt
San Antonio	Under Study	—	1,001-rm Marriott	632-rm Hyatt	515-rm Marriott
Kansas City	—	946-rm Marriott	731-rm Hyatt	729-rm Westin	—
Indianapolis	—	587-rm Marriott (New)	573-rm Westin	497-rm Hyatt	424-rm Omni
Charlotte	—	700-rm Westin (New)	613-rm Adam's Mark	434-rm Marriott	407-rm Hilton
Austin	—	800-rm Hilton (New)	446-rm Hyatt	413-rm Radisson	375-rm Omni
Fort Worth	Under Study	—	517-rm Radisson	504-rm Renaissance	430-rm Fort Worth Plaza Hotel
Birmingham	—	770-rm Sheraton	298-rm Radisson	—	—
Tampa Convention Center	—	717-rm Marriott (New)	521-rm Hyatt	299-rm Wyndham	312-rm Holiday Inn
Memphis	202-rm Marriott Expansion	400-rm Marriott	468-rm Peabody	280-rm Radisson	—

As illustrated, a majority of those cities considered competitive with Dallas currently offer, or will soon offer, the convention planner an adjacent headquarters hotel. This data also illustrates the many cities which have recently added headquarters capabilities.

Review of Competitors' Room Counts, Suite Mix, and Food and Beverage Offering

The following two tables display the current room counts of select competitors including opening year, suite counts, and food and beverage offerings.

Guestroom Count, Suite Mix, Food and Beverage Outlets – Competitive Review

Hotel Name	Number of Rooms	Year Opened	Current Ratings		Suites Total	% Suites of Total	Food and Beverage Facilities		
			Mobil Stars	AAA Diamonds			Concept/ Fine	Casual	Lounge
Dallas, TX									
Adam's Mark	1,840	1959/98	NA	NA	211	11.5 %	1	3	2
Wyndham Anatole	1,614	1979/83	3	4	129	8.0	1	4	3
Dallas Hyatt	1,122	1978	3	4	41	3.7	1	2	2
Grapevine, TX									
Gaylord (Under Const.)	1,500	2004	NA	NA	120	8.0	1	4	2
Fort Worth, TX									
Radisson	517	1921/81	2	3	11	2.1 %	0	2	1
Renaissance	504	1981	3	4	30	6.0	1	1	1
Fort Worth Plaza	430	1973	2	0	24	5.6	0	1	2
San Antonio, TX									
Marriott Rivercenter	1,001	1968	4	4	86	8.6 %	1	1	1
Hyatt	632	1981	3	4	28	4.4	0	1	1
Marriott Riverwalk	515	1979	3	4	5	1.0	0	2	1
Austin, TX									
Hilton	800	2004	NA	NA	25	3.1 %	0	2	1
Hyatt	446	1982	3	4	18	4.0	0	2	1
Radisson	413	1966	3	3	99	24.0	0	1	0
Houston, TX									
Hilton Americas	1,200	2003	NA	4	66	5.5 %	1	2	1
Houston Hyatt	977	1973	3	3	30	3.1	1	2	1
New Orleans, LA									
New Orleans Hilton	1,616	1977	3	4	73	4.5	0	2	2
New Orleans Sheraton	1,100	1982	3	4	53	4.8	0	2	1
New Orleans Marriott	1,344	1972	4	3	54	4.0	1	1	3

Guestroom Count, Suite Mix, Food and Beverage Outlets – Competitive Review (Continued)

Hotel Name	Number of Rooms	Year Opened	Current Ratings		Suites Total	% Suites of Total	Food and Beverage Facilities		
			Mobil Stars	AAA Diamonds			Concept/ Fine	Casual	Lounge
Denver, CO									
Adam's Mark	1,225	1959/97	3	3	92	7.5 %	1	2	4
Marriott City Center	613	1982	3	3	16	2.6	0	1	1
Hyatt Regency	511	1979	3	3	25	4.9	1	0	2
Kansas City, MO									
Marriott	946	1985	3	3	37	3.9 %	0	3	2
Hyatt	731	1980	3	4	42	5.7	1	2	1
Westin	729	1973	3	3	49	6.7	1	1	1
St. Louis, MO									
Renaissance	875	2003	NA	4	43	9.6 %	1	0	1
Adam's Mark	910	1986	2	3	96	9.6	1	2	2
Millennium	780	1969	3	3	25	3.2	1	2	2
Chicago, IL									
Hyatt McCormick Place	800	1998	3	NA	53	6.6 %	1	0	1
Hyatt Downtown	2,019	1974/80	3	4	175	8.7	1	4	2
Hilton and Towers	1,543	1927	3	3	65	4.2	1	2	1
Indianapolis, IN									
Marriott	587	2001	3	4	28	4.8 %	1	1	1
Westin	573	1989	3	3	30	5.2	1	1	1
Hyatt	497	1977	3	3	21	4.2	1	1	1
Atlanta, GA									
Atlanta Grand Hyatt	1,264	1967	3	3	58	4.6 %	2	2	2
Omni	1,067	1976/03	3	4	30	2.8	1	1	1
Atlanta Marriott	1,675	1985	3	3	66	3.9	1	3	1
San Diego, CA									
Manchester Grand Hyatt	1,625	1992	3	4	95	5.9 %	1	2	2
San Diego Marriott	1,303	1987	3	4	55	4.2	1	3	1

As noted, the subject property should ideally attain 3-star and 4-diamond ratings. The suite mix should be near 5.0%. We note that the latest in hotel design shows that a lesser suite count is now demanded in today's market; this trend is taken into consideration in our suite count recommendation. Some suites are still an important inclusion and are typically included as upgrades for meeting planners, association officials, or corporate officers visiting the convention.

The proposed property's guestrooms should be designed to efficiently use space and should appear spacious and comfortable. The guestrooms should consist of a mixture of double/doubles and kings, in addition to a combination of several suite arrangements. Guestroom furnishings should reflect a first-class level of quality. Because hotel decor periodically undergoes changes in style, an experienced interior designer should be consulted in order to implement the current offerings. Some of the items that should be provided in the living area of the guestrooms are outlined in the following table.

Guestroom Amenities and Furnishings

Beds with box springs, headboards, mattresses, and pillows
Recessed reading light(s) proximate to bed(s)
Nightstand(s)
Bedside alarm clock radio
Bureau
Remote-controlled color cable television with cable service
Over-sized desk or work table with adequate chair and lighting
Direct-dial, touch-tone with message light, computer modem-port,
clear instructions and extra long phone cord to allow use at
desk or bed
Comfortable armchair(s) and couch
Coffee and end table(s)
Curtains with blackout panels
Artwork or wall hangings
Portable luggage rack
Adequate room lighting
Wastebasket(s)
Small refrigerator in suites
Electronic card-style door lock with deadbolt
Door chain or other, similar security device
Security peephole

The closet should have a sufficient number and variety of one-piece, non-captive hangers and a hanger bar of suitable length to accommodate three days worth of clothing for two people.

Most guestroom floors should be designated as non-smoking floors. Guestroom wall covering should be of top-grade vinyl and color-coordinated with plush carpeting, bedspreads, and floor-length drapes. Draperies may be equipped with a valance and extend past the window edge, perhaps

covering the entire wall. An efficient heating and air-conditioning system that operates quietly, is thermostatically controlled, and permits guests a year-round choice of either heat or air conditioning is necessary. Special effort should be made to limit sound transmission between guestrooms and from plumbing, HVAC units, and outside sources such as passing traffic.

The bath area should contain a sink with a vanity top, a large mirror, and superior lighting from recessed-type fixtures; the commode and combination tub/shower should be designed to be located in the same room as the sink and vanity. Adequate and quiet ventilation is necessary during shower use. Other bath amenities should include easily reached electrical outlets, shower area hand rails, a tissue dispenser, towel racks, toilet paper with spare, good quality bath and wash towels, soap and shampoo, and a trash can.

Proper corridor design is needed so guests are always within a short walking distance of their rooms. When possible, corridor lengths from the elevators and lobbies should be minimized. A six-foot-wide corridor, along with proper lighting and wall treatment, will reduce the tunnel effect of a long hallway. Bright corridors with overhead lighting increase the attractiveness and safety of the corridor. Provisions should be made to protect walls from rolling room attendant's carts and luggage carts that can scratch and tear the wall covering. Vending and ice machines should be readily accessible to guests and be located in an area that will not create noise disturbances for nearby guestrooms.

Food and Beverage Outlets

The food and beverage facilities appropriate for a convention headquarters hotel include a casual restaurant, a concept restaurant, and a lobby lounge. This outlet mix is well supported by the current offerings of competitors in the market and nationwide, as illustrated on the previous table. These outlets should be located on the first level of the hotel and should feature a first-class design consistent with the overall feel and style of the hotel. Each outlet should be themed to highlight its presence within the hotel and downtown Dallas. Its décor should follow this theme and should provide diners with unique, interesting on-site dining experiences. The hotel should benefit from a strong capture for breakfast, as there are relatively few other competitive dine-in establishments in the immediate market for this meal.

The casual restaurant and lounge should be adjacent to one another, to allow for synergy and efficiency in staffing and management. At least one restaurant, preferably the concept room, should be designed with its own, identifiable outside entryway. As an additional marketing tool, the entryway

signage of the hotel should also feature the name of this hotel restaurant. Management should advertise the presence of the restaurants throughout the hotel, as well as in local convention fliers and at local venues. Management should also market the restaurants to nearby employment centers. The restaurant entrance should be visible from the main entrance of the hotel, and ideally from the entrance to the convention center as well, so that center users see the presence of a restaurant for potential before-event or after-event use.

Meeting and Function Space

As noted previously, the size and capacity of the headquarters hotel's meeting space is of utmost importance, and the size of the hotel's grand ballroom is typically one of the most critical factors. While meeting planners may use the convention center's ballroom(s) throughout their event, planners typically prefer to have the closing banquet or other selected events in the ballroom of the headquarters hotel. Even if the convention center has a large ballroom, the headquarters hotel must also have a large ballroom in order to house these special convention-related events. The ballroom must also be large enough to support large in-house groups that may be utilizing the hotel while the convention center is not in use.

The 1,200-room hotel's meeting space is expected to span roughly 60,000 square feet, mainly comprising a 30,000-square-foot ballroom. The ballroom will be fully divisible into an array of smaller and mid-sized meeting rooms. Necessary pre-function space is not included in the above figures. The hotel is expected to offer an adequate business center to provide the necessary services and amenities to meeting patrons and commercial travelers.

Most meeting planners prefer that all meeting space is located on one floor, which typically causes an increase in traffic between the uses of each space. The meeting space should feature the latest in technology, preferably offering a greater capability than the present hotels in the market. This latest in technology, in addition to the brand new finish and construction, should afford the subject property an appropriate competitive position both in the local, regional, and national market.

The following tables illustrate a competitive review of the other hotels in the competitive area as well as regionally and nationally significant hotels. This portion of the review illustrates each hotel's proximity to the convention center, grand ballroom space, junior ballroom space, total meeting space, exhibit space, and number of breakout rooms.

Meeting Space – Competitive Review

Hotel Name	Connected to Convention Center?	If no, how far to center?	Meeting Space Square Feet				
			Grand Ballroom	Junior Ballroom	Total Meet. Sp.	Per Room	Exhibit Space
Dallas & Grapevine, TX							
Adam's Mark	No	1/2 Mile	40,800	24,624	122,800	67	40,000
Wyndham Anatole	No	2 1/2 Miles	28,400	17,400	341,000	211	128,000
Dallas Hyatt	No	1/4 Mile	30,000	19,400	160,000	143	55,000
Grapevine, TX							
Opryland (Under Const.)	N/A	N/A	49,900	32,375	112,296	75	180,288
Fort Worth, TX							
Radisson	No	Adjacent	13,624	3,192	21,219	41	0
Renaissance	No	1/2 Mile	10,530	5,452	31,575	63	12,600
Ramada Plaza	No	1 Block	8,652	4,624	16,324	38	0
San Antonio, TX							
Marriott Rivercenter	No	1 Block	41,600	0	57,300	57	0
Hyatt	No	2 Blocks	10,700	4,264	39,000	62	18,000
Marriott Riverwalk	No	Adjacent	9,800	0	15,116	29	0
Austin, TX							
Hilton	Yes	Adjacent	27,452	15,608	55,525	69	0
Hyatt	No	3 Blocks	10,290	0	19,378	43	0
Radisson	No	2 Blocks	5,400	0	9,600	23	0
Houston, TX							
Hilton Americas	Yes	Connected	39,138	29,170	91,500	76	0
Houston Hyatt	No	10 Blocks	16,000	3,200	36,000	37	30,000
New Orleans, LA							
New Orleans Hilton	No	Adjacent	26,894	24,139	130,000	80	20,582
New Orleans Sheraton	No	1/4 Mile	22,882	18,762	90,000	82	0
New Orleans Marriott	No	1/4 Mile	27,089	10,368	72,880	54	0

Meeting Space – Competitive Review (Continued)

Hotel Name	Connected to Convention Center?	If no, how far to center?	Meeting Space Square Feet				
			Grand Ballroom	Junior Ballroom	Total Meet. Sp.	Per Room	Exhibit Space
Denver, CO							
Adam's Mark	No	3 Blocks	28,000	15,000	105,670	86	20,000
Marriott	No	4 Blocks	14,508	5,940	24,858	41	0
Hyatt	No	5 Blocks	8,848	6,885	34,384	67	0
Kansas City, MO							
Marriott	No	Adjacent	17,040	15,080	58,240	62	12,000
Hyatt	No	12 Blocks	17,487	3,741	44,804	61	15,360
Westin	No	12 Blocks	16,089	6,777	43,747	60	0
St. Louis, MO							
Renaissance	No	Adjacent	18,652	11,053	41,865	48	0
Adam's Mark	No	2 Blocks	19,758	16,800	49,740	55	25,000
Millennium	No	4 Blocks	20,800	7,020	34,844	45	15,350
Chicago, IL							
Hyatt McCormick Place	Yes	Adjacent	11,948	0	17,467	22	0
Hyatt Downtown	No	3 Miles	24,500	16,560	110,000	54	70,000
Hilton and Towers	No	2 Miles	21,996	12,640	234,000	152	64,790
Indianapolis, IN							
Marriott	Yes	Adjacent	21,008	8,320	35,356	60	0
Westin	Yes	Adjacent	17,000	6,700	33,453	58	0
Hyatt	Yes	1 Block	7,208	3,850	20,890	42	9,408
Atlanta, GA							
Atlanta Hyatt	No	1 Mile	28,832	17,000	126,050	100	53,950
Omni	No	Adjacent	19,864	14,196	102,000	96	15,000
Atlanta Marriott	No	1 Mile	28,884	16,026	112,000	67	38,000
San Diego, CA							
Manchester Grand Hyatt	No	1 Block	29,000	25,192	120,000	74	34,000
San Diego Marriott	Yes	Adjacent	23,108	15,111	83,585	64	25,254

As illustrated in the previous tables, the larger properties tend to offer ballrooms of 20,000 square feet or larger. The larger headquarters hotels under construction at this time typically feature ballrooms of 25,000 to 45,000 square feet on average. The ballroom must offer the latest in available technology and a competitive ceiling height that allows for proper visibility of the stage area and overhead exhibits or screens.

Junior ballrooms vary in size in the sample and are not always prevalent. The inclusion of a junior ballroom is essential for the subject hotel. Typically, the junior ballroom can be used for exhibits or dining, while the grand ballroom is used for general sessions, or the like. The junior ballroom can also allow the hotel to host two groups simultaneously, with the smaller group utilizing the junior ballroom space. As such, advantageous hotel design separates these two spaces somewhat so that two simultaneous groups do not necessarily conflict with one another.

Separate exhibit space is not absolutely needed in the case of the proposed subject. For smaller meetings requiring exhibits, the pre-function space of the grand ballroom can typically be utilized, or the junior ballroom can be utilized for this function (or a portion of a divided grand ballroom). Larger events requiring significant exhibits will most likely utilize the adjacent convention center.

The number of breakout rooms should be at least 20 for the headquarters property. These breakout spaces can also be incorporated into a divisible junior and grand ballroom. The additional space provided by breakout rooms should add up to the previously stated additional meeting space planned for the hotel.

Recreational Amenities and Parking

The proposed subject property should contain amenities appropriate for a first-class hotel in this market. Our review of this market revealed that appropriate amenities include an indoor pool, an indoor whirlpool, and an exercise room. A small gift shop off of the lobby is expected to be the only retail amenity within the hotel.

Ample parking for the hotel should be conveniently available to hotel guests within the area parking decks and surface spaces created at the hotel. There should be both valet and self-park options at rates consistent with those charged at the other downtown area hotels. A typical rule of thumb for parking capacity at a hotel is one space per guestroom. This can certainly vary, depending on agreements reached with possible adjacent parking facilities, or the likelihood of those traveling to the market to drive-in or rent a car at the airport. Our experience in markets similar to Dallas, where drive-in demand is prevalent (or rental cars at D/FW International are utilized), has shown that hotels can typically operate with a ratio between 0.8 and 1.0 spaces per guestroom.

The following tables illustrate a competitive review of the significant hotels. This portion of the review illustrates each hotel's number of retail outlets, pools, whirlpools, and other amenities.

Retail and Recreational Amenities – Competitive Review

Hotel Name	Number of Retail Outlets	Recreational Amenities					Other (List)
		Indoor Pool	Outdoor Pool	Whirlpool/ Hot Tub	Fitness Center		
Dallas & Grapevine, TX							
Adam's Mark	2	Y	Y	Y	Y	Gameroom	
Wyndham Anatole	5+	Y	Y	Y	Y	8 Racquetball, 6 tennis, 2 squash courts	
Dallas Hyatt	1	N	Y	Y	Y	New 3rd-floor fitness center	
Grapevine, TX							
Opryland (Under Const.)	10,000 SF	Y	Y	Y	Y	Spa, jogging trails (outdoor)	
Fort Worth, TX							
Radisson	1	N	Y	N	Y		
Renaissance	1	Y	N	Y	Y	Sauna	
Ramada Plaza	1	N	Y	Y	Y		
San Antonio, TX							
Marriott Rivercenter	1	Y	Y	Y	Y	Sauna	
Hyatt	3	N	Y	Y	Y		
Marriott Riverwalk	1	Y	Y	Y	Y	Sauna	
Austin, TX							
Hilton	1	N	Y	Y	Y		
Hyatt	1	N	Y	Y	Y		
Radisson	1	N	Y	N	Y		
Houston, TX							
Hilton Americas	2	N	Y	Y	Y		
Houston Hyatt	2	N	Y	N	Y	Sundeck	
New Orleans, LA							
New Orleans Hilton	4	N	Y	Y	Y	11 tennis, 4 racquetball, 3 sqsh cts	
New Orleans Sheraton	1	N	Y	N	Y		
New Orleans Marriott	1	N	Y	N	Y	Sauna	

Retail and Recreational Amenities – Competitive Review (Continued)

Hotel Name	Number of Retail Outlets	Recreational Amenities					Other (List)
		Indoor Pool	Outdoor Pool	Whirlpool/ Hot Tub	Fitness Center		
Denver, CO							
Adam's Mark	3	N	Y	N	Y	Pool is heated year-round	
Marriott	1	Y	N	Y	N	Hertz counter, sauna, guest laundry	
Hyatt	2	Y	Y	Y	Y	Roof top location for recreational amenities	
Kansas City, MO							
Marriott	1	Y	N	N	Y		
Hyatt	1	N	Y	Y	Y	Sundeck, tennis, connected to Crowne Center mall	
Westin	1	N	Y	Y	Y	Tennis, connected to shopping mall	
St. Louis, MO							
Renaissance	1	Y	N	Y	Y	Jogging	
Adam's Mark	2	Y	Y	Y	Y	Racquetball, sauna	
Millennium	1	Y	Y	N	Y	Game room	
Chicago, IL							
Hyatt McCormick Place	1	Y	N	N	Y	Sauna, outdoor sundeck	
Hyatt Downtown	2	N	N	N	N	Adjacent to The Athletic Club Health Club and Spa	
Hilton and Towers	3	Y	N	Y	Y	Beauty salon, walking track	
Indianapolis, IN							
Marriott	1	Y	N	Y	Y		
Westin	1	Y	N	Y	N	Complimentary 24-hour fitness center nearby	
Hyatt	3	Y	N	Y	Y	Hair Salon	
Atlanta, GA							
Atlanta Hyatt	1	N	Y	N	Y		
Omni	4	N	Y	N	Y		
Atlanta Marriott	1	Y	Y	Y	Y	Solarium, sauna	
San Diego, CA							
Manchester Grand Hyatt	3	N	Y	Y	Y	Spa Services	
San Diego Marriott	1	N	Y	Y	Y	Massage, 6 Tennis Crts, Sauna, Jogging Trail	

Back-of-the-House Space

The housekeeping department should include the linen issue, storage area, and the laundry. The linen room should have an office for the executive housekeeper and a rooms status system joined to the front desk. Adequate storage areas are required for linens and supplies in use, as well as new, unused linen and supplies. These areas should be locked and secured at all times. A linen and uniform issue area should be situated adjacent to the

linen storage rooms, where employees will pick up their clean uniforms and the linen supplies required for the day.

Sufficient storage is required in the maintenance area to hold items such as spare parts, mechanical equipment, furniture, carpet, wall covering, cleaning materials, and cleaning and maintenance equipment.

Administrative Offices The offices should be located adjacent to the hotel's reception desk. They should be attractively decorated. The office design should be functional with no wasted space.

Fire Protection Fire safety should be planned on a structural level to separate areas of high fire risk (e.g., laundry room) from areas in which fire is likely to cause particular hazards (e.g., corridors, stairwells, public rooms). Smoke and heat detectors, sprinkler systems, exit signage, fire extinguishers, pull stations, standpipes, and emergency lighting should be installed according to code. System design considerations should be geared to adjust to future codes.

ADA Conformance Following the January 26, 1992, passage of the Americans with Disabilities Act (ADA), the proposed hotel will be subject to specific physical standards. ADA standards principally address the number and accessibility of guestrooms designed to accommodate physically challenged guests, though a variety of safety standards are also included that can touch on the status of building systems. We have assumed that the hotel will conform to all ADA requirements.

Conclusion In the planning and design considerations for hotels, guest comfort and satisfaction is paramount, but must be developed within the boundaries defined by economic feasibility. Guest satisfaction is generated not only by the aesthetic and structural design parameters that directly affect the hotel's guestrooms and public areas, but also by the functional layout and configuration of the building as a whole.

The design, functional layout, and configuration of the proposed subject property must be straightforward and incorporate sound design principles for hotel construction and in accordance with generally accepted standards for a first-class hotel. The design of guest, public, and back-of-the-house traffic circulation patterns, the separation of back-of-the-house facilities from the public facilities, and the ease of access from public to non-public areas are also among the major design factors that promote guest comfort and efficiency of operation. The optimal design for the proposed subject property

should not only encompass the recommended facilities but should also appropriately balance the considerations of guest satisfaction, operational efficiency, and cost benefit.

The proposed subject improvements are expected to contain 1,200 guestrooms and approximately 60,000 square feet of meeting and function space, casual and concept restaurants, a lobby lounge, a fitness room, an indoor swimming pool and whirlpool, a gift shop, and other support facilities necessary for the operation of a full-service, convention headquarters hotel. The subject property's furniture, fixtures, and equipment should be of first-class quality and comparable or superior to those of its competitors in the area.

8. Projection of Latent Demand

As illustrated in Chapter 5 of our report, we estimate the base year distribution of accommodated room night demand was as follows.

Accommodated Room Night Demand

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Meeting and Group	1,031,950	73 %
Commercial	316,292	22
Leisure	60,196	4
Total	1,408,438	100 %

This estimate, of roundly 1,400,000 room nights, is based on historical occupancy levels and includes only those hotel rooms that were used by guests within the defined and weighted competitive set. Latent demand reflects potential room night demand that has not been realized by the existing competitive supply and can be divided into unaccommodated demand and induced demand.

Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all of the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historical accommodated room night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests will be able to secure hotel rooms in the future and it is necessary to quantify this demand.

Areawide occupancy in excess of 70% is typically the first sign of possible unaccommodated demand in any given market. The following table again illustrates the monthly occupancy trends, as provided by Smith Travel Research for this market.

Monthly Occupancy Trends (STR)

Month	1997	1998	1999	2000	2001	2002	Year-to-Date Through November	
							2002	2003
January	71.5 %	77.4 %	69.1 %	69.3 %	64.6 %	56.3 %	56.3 %	50.3 %
February	71.3	73.4	66.2	67.8	64.1	63.9	63.9	62.4
March	67.7	70.5	58.7	68.6	72.2	58.8	58.8	57.7
April	65.7	64.4	62.2	61.1	54.6	56.5	56.5	45.6
May	61.9	67.4	72.7	60.1	47.0	46.2	46.2	53.4
June	69.1	70.8	61.2	64.9	47.5	56.3	56.3	55.4
July	61.4	64.2	56.6	58.4	58.7	58.0	58.0	51.3
August	60.0	63.2	57.7	59.9	54.9	54.2	54.2	54.7
September	74.6	63.6	57.1	66.1	33.2	46.4	46.4	42.7
October	78.0	73.8	72.2	75.4	49.3	56.6	56.6	61.5
November	69.7	60.6	55.7	54.4	42.3	44.1	44.1	41.3
December	45.6	41.2	35.1	33.0	26.7	33.1	—	—
Annual Occupancy	66.3 %	65.3 %	60.3 %	61.5 %	51.2 %	52.5 %	—	—

Source: Smith Travel Research

Our interviews with market representatives and this data indicate that no significant unaccommodated demand exists in the Dallas CBD at this time.

INDUCED DEMAND

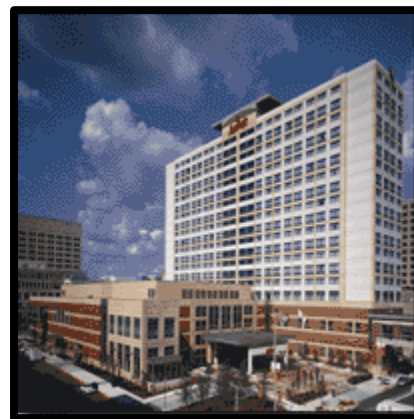
Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities. The addition of the subject property would be expected to be such an event, and its opening should induce considerable levels of demand into this market.

**Induced Demand:
Industry Examples**

As a starting point in our analysis, we reviewed the performance of other convention headquarters hotels that opened in the recent past. These recent openings provide us with direct insight into how new convention headquarters hotels actually induce demand levels into their respective markets.

Indianapolis Marriott

The 615-unit Marriott Indianapolis opened in February 2001. In its partial, first calendar year of operation, the hotel achieved an occupancy level in the range of 65% to 70% (the actual level is not stated due to confidentiality of this data). In 1999 and 2000, downtown occupancy was 70% and 71%, respectively. In 2001, the market's occupancy dropped roundly three points to 68%. The demand induced into the market by the opening of the Marriott did not equal the supply increase, hence leading to the occupancy decline. But, this is to be expected in the first year of operation for the hotel, and with the travel slowdowns prevalent in the fall months of 2001.



The new hotel added roundly 205,000 available room nights to the market in 2001 (615 rooms x 334 nights), but the market actually accommodated almost 270,000 more room nights in 2001 than it did in 2000. This increase is attributed to both base demand growth, but more importantly to demand induced into the market by the new headquarters hotel. Even if only 70% to 80% is attributed to induced demand by the new Marriott (of both convention group, in-house group, and transient Marriott demand), this equates to roughly 189,000 to 216,000 room nights, or roundly 307 to 351 room nights per headquarters hotel guestroom. Moreover, this represents only for the first year of operation for the property; when the Marriott continues to ramp up to higher occupancy levels, there should be additional net increases in induced demand.

Contributing to the hotel's ability to induce this level of demand was the already very popular market dynamics of Indianapolis itself. The market was benefiting from strong occupancy levels, as the other many first class hotels in the market achieved occupancy levels bracketing the 70% mark. Because the Marriott was added among an array of other first class hotels, the CVB of Indianapolis is able to offer a large, competitive first class room block.

Tampa Marriott

The 708-room Tampa Marriott Waterside opened in February of 2000, and in its first partial year of operation the hotel achieved an occupancy level in the range of 65% to 70%. The occupancy of nearby hotels was minimally impacted in this otherwise strong demand year; for example, the Wyndham Harbour Island lost less than one point of occupancy in 2000, compared to the 1999



level, and held its rate largely unchanged for the year. The Marriott effectively induced between 70% and 80% of its captured demand into the local market in 2000, while the remaining amount of its capture was largely base demand growth otherwise already occurring within the downtown district.

This induced demand estimate equates to between 110,000 and 120,000 room nights as a result of the addition of the headquarters hotel to the defined downtown competitive set, or 155 to 170 room nights per headquarters hotel guestroom. The new Tampa property is also on the waterfront, next to the Aquarium, and next to the city's sports arena. Therefore, its location is favorable for capturing other demand sources.

Hyatt Regency Chicago

Those familiar with Chicago's convention center realize that the Hyatt there is not surrounded by any confluence of office buildings and leisure demand generators. This activity is focused well to the north of the hotel, along Michigan Avenue and the Loop. The Hyatt at the convention center is almost purely a meetings hotel, and was built after the older 614-room McCormick Inn was demolished.



The Hyatt Regency opened in June of 1998, and in its first partial year of operation achieved an occupancy level between 45% and 50%, and in 1999 achieved an occupancy level between 60% and 65%. The previous group power houses of Chicago still experienced strong occupancies in 1999 and 2000, despite the opening of the new Hyatt. Group hotels such as the Chicago Hilton and Towers, Sheraton, Hyatt Chicago (another Hyatt property), and the Marriott maintained high occupancies during this time in the 75% to 80% range. Hence, the captured demand of the Hyatt is considered to be largely induced into the competitive market during this initial ramp up phase, which equated to between 175,000 and 200,000 total room nights, or 220 to 250 room nights per headquarters guestroom.

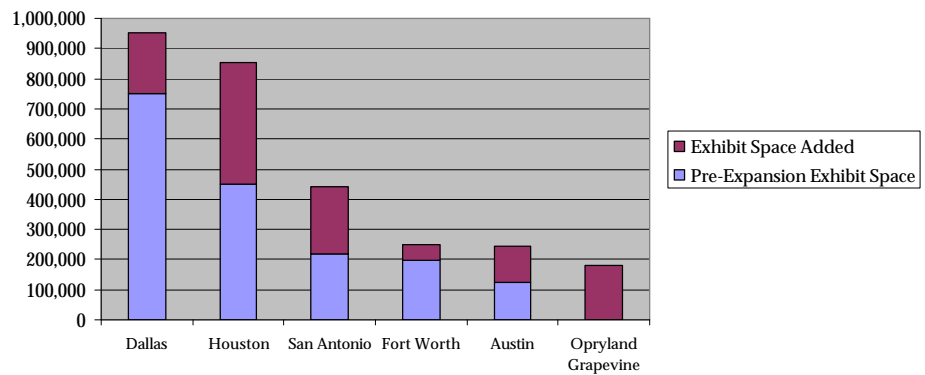
Induced Demand:
The Statewide
Convention Center
Expansions and New
Headquarters Hotels
Factor

After reviewing the previous examples, this data suggests that the new Dallas headquarters hotel could have the potential to induce between roundly 150 to 250 room nights per headquarters guestroom, or 180,000 to 300,000 room nights into this market. In further studying these figures, we note the following.

There has been unprecedented recent expansion in Texas exhibit space and new headquarters hotels over the last several years. Over the next five years the competitive landscape of Texas convention centers will transform, as the new headquarters hotels in Austin and Houston ramp-up in competitiveness and the new Gaylord Texan opens in Grapevine. This will intensify the competitive level within the state for convention demand (the recent redevelopment of Fort Worth's convention center is also important to

consider), and will drive the net gain of induced demand lower. Moreover, Fort Worth and San Antonio are pursuing development of new headquarters hotels as well.

Texas Exhibit Space Additions: 2000 vs. 2004 (Square Feet)



Chicago added its hotel at quite a distance from the nearest major competitor and to a market that was already performing quite well; McCormick Place is also the nation’s largest convention center. Tampa added its hotel to a market that was performing relatively well, but it was a totally new size and product for the CBD relative to what was there in the past. Indianapolis added its hotel in a market that was also performing well overall; and had little competition within the state of Indiana for convention demand (Indy is also a low-cost alternative to Chicago’s McCormick Place). Dallas, Texas faces a much stiffer competitive picture, amidst massive expansion statewide in both exhibit space square feet and hotel rooms. Thus, both the increasing competitive nature of the Texas convention landscape together with the current supply and condition of salable rooms each center’s available block would cause downward pressure on the indicated, potential range of induced demand for the proposed subject property.

After Gaylord’s opening, the state is expected to have almost three million square feet of exhibit space among the six largest facilities, representing a 68% increase over the capacity of exhibit space available among the sample historically. Because a 68% increase in demand is not expected or realistic, demand will be dispersed among the available space and overall utilization levels are expected to moderate. This will make it more and more difficult for

Dallas and its competitive cities to convert tentatively booked groups into definite groups.

Induced Demand:
The Convention Center
Capacity Factor

Despite recent declines in activity, the Dallas Convention Center remains an important demand generator for central Dallas area hotels, and is located along the southern border of the central business district. The convention center features two ballrooms of $\pm 27,000$ and $\pm 20,000$ square feet, which can seat over 4,600 attendees theatre style, a theatre with $\pm 1,770$ opera style seats, and an arena which features seating for $\pm 9,800$. In 1997, the Dallas City Council funded a \$125 million expansion and renovation of the center. The expansion, which debuted on September 26, 2002, added a 203,000-square-foot exhibit hall contiguous with the center's main exhibit level. The new hall is now marketed as the world's largest column free exhibit space. The center offers over 700,000 square feet of contiguous space, as well as its Level 1, 225,000-square-foot exhibit space.

Historical Event and Future Bookings: Dallas Convention Center

Year	Number of Conventions		Number of Room Nights	
	Definite	Tentative	Definite	Tentative
1997	45	—	506,903	—
1998	51	—	557,310	—
1999	47	—	582,945	—
2000	41	—	572,547	—
2001	33	—	314,206	—
2002	38	—	470,971	—
2003	36	—	342,533	—
2004	35	1	274,934	5,850
2005	27	15	311,747	80,496
2006	23	16	252,428	97,890
2007	20	15	232,850	154,541
2008	14	19	151,613	171,440
2009	14	15	184,373	175,890
2010	11	14	114,953	196,170
2011	9	13	88,920	209,430
2012	6	14	76,050	205,140
2013	6	18	49,920	451,230

* For the historical data presented through 2003, the Total Room Nights provided by the DCVB were calculated on 4.2 days, an attendee's average length of stay. Beginning for 2004 figures, the Total Room Nights are now calculated on 3.9 days. For comparison purposes, we have recalculated historical roomnights based on the now utilized 3.9-day factor.

Source: Dallas Convention and Visitors Bureau

This data illustrates that the center produced room nights for the market at a much greater level in the late 1990s, but production dropped off considerably in 2001 through 2003. The Dallas Convention and Visitors Bureau (DCVB) attributed the decline to several factors, such as the expansion construction which was occurring at the Dallas Convention Center during this time, a change-over in management at the Dallas Convention and Visitors Bureau in 2003, and an increasingly competitive environment.

What this data does illustrate is that the capacity exists for major new demand to be generated from the center – were more conventions to elect to come to Dallas. With room nights generated in excess of 600,000 in the past, adding the induced demand potential from the subject property is possible.

Induced Demand:
The Turned-Away
Demand Factor

We inquired about turn away demand for the center to study actual demand that is not accommodated due to the lack of a headquarters hotel. According to the Convention and Visitors Bureau, the conventions listed on the following tables turned down Dallas due to a lack of an adjacent hotel.

Conventions Which Turned Down Dallas Due to Lack of Headquarters Hotel

Organization	Attendance	Peak Rooms	Total Room Nights
American Academy of Dermatology	17,050	6,600	25,740
American Academy of Family Physicians	14,886	4,900	19,110
American Academy of Orthopedic Surgeons	29,216	14,400	56,160
American Academy of Otolaryngology - Head & Neck Surgery	9,126	4,200	16,380
American Academy of Physician Assistants	9,198	3,550	13,845
American Association for Cancer Research	12,600	6,500	25,350
American Association of Immunologists	3,900	1,500	5,850
American Association of Neurological Surgeons	18,000	3,000	11,700
American Association of Pharmaceutical Scientists	6,000	4,200	16,380
American Ceramic Society	3,700	1,900	7,410
American Chemical Society (Fall)	15,584	4,600	17,940
American Chemical Society (Spring)	18,400	6,000	23,400
American College of Cardiology	29,000	9,400	36,660
American College of Obstetricians & Gynecologists	12,000	4,600	17,940
American College of Physicians	14,000	3,800	14,820
American College of Surgeons	16,763	7,500	29,250
American Dental Association	58,000	9,800	38,220
American Dietetic Association	10,500	3,800	14,820
American Health Information Management	5,500	2,400	9,360
American Library Association	24,913	8,900	34,710
American Psychiatric Association	19,887	6,600	25,740
American Society for Cell Biology	10,000	3,000	11,700
American Society of Biochemistry & Molecular Biology	4,232	1,200	4,680
American Society of Clinical Oncology	26,536	14,800	57,720
American Society of Health Systems Pharmacists	20,000	9,200	35,880
American Society of Hematology	19,668	8,200	31,980
American Society of Microbiology	14,000	6,100	23,790
American Society of Nephrology	10,734	6,500	25,350
American Society of Plastic Surgeons	6,251	3,100	12,090
American Thoracic Society	16,700	7,800	30,420

Conventions Which Turned Down Dallas Due to Lack of Headquarters Hotel (Continued)

Organization (Continued)	Attendance	Peak Rooms	Total Room Nights
American Urological Association	15,806	6,000	23,400
American Water Works Association	14,532	6,300	24,570
Association of Computing Machinery	38,834	6,100	23,790
American Financial Professionals	7,000	3,800	14,820
Association of periOperative Registered Nurses	12,934	6,500	25,350
Biophysical Society	5,323	2,100	8,910
Book Expo	10,664	3,100	120,901
Cellular Telecommunications & Internet Association	36,200	10,000	39,000
Congress of Neurological Surgeons	5,667	2,700	10,530
Council on Logistics Management	5,000	4,100	15,990
Federation of American Societies for Experimental Biology	14,615	5,800	22,620
Golf Course Superintendents Association of America	21,000	6,400	24,960
Infectious Diseases Society of America	4,443	2,600	10,140
Interex	7,200	1,500	5,850
INTERBEV	15,000	5,200	20,280
International Association of Chief of Police	17,300	6,200	24,180
International Nortel Networks Meridian Users	2,800	1,600	6,240
International Reading Association	19,623	7,000	27,300
International Trademark Association	6,976	4,176	16,286
National Association for the Education of Young Children	20,000	6,900	26,910
National Association of Broadcasters	7,680	2,900	11,310
National Association of Home Builders	72,000	20,000	78,000
National Association of Retailers	23,695	7,600	29,640
National Association of Secondary School Principals	6,500	2,900	11,310
National Automobile Dealers Association	2,100	1,300	5,070
National Business Aviation Association	31,663	7,900	30,810
National Postal Forum	6,300	3,000	11,700
National Safety Council	19,008	6,600	25,740
North American Association of Food Equipment	16,500	6,300	24,570
Pittsburgh Conference	30,000	11,500	44,850
Satellite Broadcast Communications Association	4,260	1,100	4,290
Society of Nuclear Medicine	6,700	3,600	14,040
Totals (from two both tables)	983,667	350,826	1,477,752

If the City were to add a hotel, there is no absolute guarantee these groups would book Dallas – but one major reason for not booking would be overcome. Moreover, information pertaining to timing and dates lost was unavailable, so it is unclear over what timeframe this business was in fact “lost”; given booking timeframes and rotations prevalent in the industry,

most of these conventions were most likely looking at dates four to eight years in the future. We also note that the peak and total room nights figures represent all available hotels, not just the defined competitive set considered in our analysis. Therefore, we composed a matrix of possible scenarios regarding this data, under different assumptions as follows:

- Data is averaged for a four-year window loss, as well as a six-year, eight-year, and ten-year window loss.
- Data is then weighted by the share of this lost business that would actually then book the city after the addition of the hotel was actually made. It is assumed that a portion would not book, and still opt for an alternative location based on other factors.
- Data is then weighted again by the share of this lost business that would be captured by the defined CBD set. During peak days of a few major conventions, some demand would have to stay outside of the CBD set due to the size of the group.

Analysis of Lost Business

Years	Window of Years Business Was Lost			
	Four	Six	Eight	Ten
Average Room Nights Lost Per Year	369,438	246,292	184,719	147,775
Share of Tentatives That Could Be Booked Definite (Citywide)				
60%	221,663	147,775	110,831	88,665
50%	184,719	123,146	92,360	73,888
40%	147,775	98,517	73,888	59,110
Share of Potential Definites Captured by only defined CBD Set				
95%	210,580	140,386	105,290	84,232
90%	166,247	110,831	83,124	66,499
85%	125,609	83,739	62,804	50,244

Therefore, based on this scenario analysis, the downtown set of hotels could benefit from 83,000 to 111,000 additional room nights from the conversion of demonstrated lost business from the lack of a convention headquarters hotel.

Demand induced by the brand-specific, in-house meetings business of the selected brand name (generated through national sales of the brand name) would need to be added to this figure, which would suggest an appropriate range of 105,000 to 140,000 room nights.

Induced Demand:
The Neighborhood
Factor

Our discussions with the Convention and Visitors Bureau noted the primary reason for losing conventions to be a lack of a headquarters hotel and a lack of tourist-related activities within close proximity to the convention center. Therefore, after the addition of the subject headquarters hotel, the City will certainly be able to offer a more competitive convention package to meeting planners, but will still lack the adjacent, convention friendly tourist-venues that are so plentiful in key competitor cities.

Fortunately, Dallas is working towards rejuvenating its CBD, and this is evident through redevelopment along Main Street and the continued popularity of the West End. But this level of activity is not at the comparable point of destinations such as San Antonio (Riverwalk), Fort Worth (Sundance Square), Austin (Warehouse District), New Orleans (French Quarter), Denver (Pavilions and LoDo), and Indianapolis (City Center Mall) which offer the convention attendee an arguably better tourist-friendly experience. This outside-the-center experience is an important aspect of convention travel, because the more attractive the destination is, the more chance the convention planner will have in capturing high attendance levels.

Induced Demand:
HVS Estimate

Based on our analysis and the discussion noted in this chapter, we estimate that the addition of the subject property and the resulting, enhanced salability of the convention center - together with nationally-generated in-house meetings business of the selected brand name - would induce 125,000 room nights into the Dallas market by its stabilized year (2011).

Because convention events typically spill into outlying hotels on peak nights - utilizing properties outside of the defined competitive set - and the 125,000 figure represents demand induced only into the competitive set itself. Our estimate and phase-in of these induced demand figures are presented in the following table.

Induced Demand Calculation

Market Segment	2008	2009	2010	2011	2012
Meeting and Group	93,750	106,250	125,000	125,000	125,000
Commercial	-	-	-	-	-
Leisure	-	-	-	-	-
Total	93,750	106,250	125,000	125,000	125,000

Again, we note that this induced demand depends on the pre-selling of the hotel for months and years in advance of the hotel's opening. The following points are highlighted:

- Conventions typically book three to eight years in advance, and therefore with each passing month potential conventions may be lost for the critical opening years of the hotel. Our induced demand estimates depend on achieving an appropriate booking pace between now and the hotel's opening.
- Accordingly, it is imperative that approximately 60% to 80% of the phased-in *induced* demand – this is the demand above and beyond what would be typical for the market without the addition of the new hotel - for the opening year of the hotel be *definite* by one year prior to the hotel's opening date; for the purposes of our analysis, this date would be January 1, 2007.
- It is reasonable that the remaining roughly 25% of induced tentative demand could turn definite during the 12 months prior to the hotel's opening, between January 1 and December 31, 2007, or during the first six months of operation for later months in the year.
- We would expect approximately 30% to 50% of the induced demand for the opening year would comprise *definite* bookings two years prior to the hotel's opening date, or by January 1, 2006. It is again reasonable to assume that the remaining roughly 60% of tentative bookings would turn definite between January 1, 2006 and the opening date of the hotel.

9. Projection of Occupancy

Along with average rate results, the occupancy levels achieved by a hotel are the foundation of the property's financial performance. Most of a lodging facility's other revenue sources (such as food, beverages, and telephone income) are driven by the number of guests, and many expense levels also vary with occupancy. Consequently, a well-documented forecast of occupancy is essential. To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a competent hotel management team to achieve an optimal mix of occupancy and average rate.

Potential Demand

Once market segment growth rates and degrees of latent demand are estimated, the annual marketwide potential demand can be determined. Potential demand is essentially the amount of demand which would be possible in a market which has no seasonality restrictions (e.g. the maximum monthly occupancy is 100% each month). Thus, the potential demand equates to the base year accommodated demand, inflated at the growth rates set forth for each market segment, plus any estimation of unaccommodated or induced demand. The following table details the potential annual room night demand for the subject property's market area.

Potential Demand

Market Segment	Potential Room Nights								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Meeting and Group	1,016,471	1,031,718	1,057,511	1,083,949	1,204,797	1,245,073	1,286,600	1,309,832	1,333,529
Commercial	317,874	321,052	324,263	327,506	329,143	330,789	332,443	334,105	335,775
Leisure	60,196	60,497	61,102	61,713	62,022	62,332	62,643	62,957	63,271
Total	1,394,540	1,413,267	1,442,876	1,473,167	1,595,962	1,638,194	1,681,686	1,706,893	1,732,575

Accommodated
Demand and
Marketwide
Occupancy

Based upon a review of the market dynamics in the proposed subject property's competitive environment, we have forecast growth rates for each market segment. We have also analyzed the possible existence of unaccommodated demand in the market (we found there to be a negligible amount), as well as the potential for induced demand to occur in the future. Using the calculated potential demand for the market, we have then determined marketwide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area.

The following table details our projections of market demand growth. This includes total occupied room nights, as well as any residual unaccommodated demand in the market.

Accommodated Demand

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Meeting and Group									
Occupied Room Nights	1,016,471	1,031,718	1,057,511	1,083,949	1,204,797	1,245,073	1,286,600	1,309,832	1,333,529
Residual Demand	0	0	0	0	0	0	0	0	0
Accommodated Demand Growth	-1.5 %	1.5 %	2.5 %	2.5 %	11.1 %	3.3 %	3.3 %	1.8 %	1.8 %
Commercial									
Occupied Room Nights	317,874	321,052	324,263	327,506	329,143	330,789	332,443	334,105	335,775
Residual Demand	0	0	0	0	0	0	0	0	0
Accommodated Demand Growth	0.5 %	1.0 %	1.0 %	1.0 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %
Leisure									
Occupied Room Nights	60,196	60,497	61,102	61,713	62,022	62,332	62,643	62,957	63,271
Residual Demand	0	0	0	0	0	0	0	0	0
Accommodated Demand Growth	0.0 %	0.5 %	1.0 %	1.0 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %
Totals									
Occupied Room Nights	1,394,540	1,413,267	1,442,876	1,473,167	1,595,962	1,638,194	1,681,686	1,706,893	1,732,575
Residual Demand	0	0	0	0	0	0	0	0	0
Accommodated Demand Growth	-1.0 %	1.3 %	2.1 %	2.1 %	8.3 %	2.6 %	2.7 %	1.5 %	1.5 %
Available Room Nights per Year	2,724,908	2,724,908	2,724,908	2,724,908	3,162,908	3,162,908	3,162,908	3,162,908	3,162,908
Available Room Night Growth	0.0 %	0.0 %	0.0 %	0.0 %	16.1 %	0.0 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	51.2 %	51.9 %	53.0 %	54.1 %	50.5 %	51.8 %	53.2 %	54.0 %	54.8 %

We forecast marketwide occupancy will remain in the low 50-percent range in 2004 and 2005, which reflects the oversupply of downtown's hotel rooms and the still hesitant economic climate, as well as the need for the market to continue to recover from slow convention center bookings after 2001. As the downtown market begins this recovery and convention attendance increases, we have forecast the market to rebound to mid-50% range by 2007. As

previously shown, the trend from STR indicated a rounded occupancy level of near 62.0% in 2000, before declining to roundly 51.0% in 2001.

Upon the opening of the subject in 2008, we have forecast an occupancy decline to 50.5%, as the considerable influx of rooms is felt by the market. Because the date of this report is early 2004, and many conventions have already booked their locations for 2007 through 2009 and beyond, it will be difficult to get full-production in the early operating years of the hotel. Thus, the subject hotel will be a greater threat to local hotels in these first years of operation, as the hotel targets more local sources of hotel demand to fill its space.

As years pass, and Dallas continues to develop its tourist appeal and rejuvenate its CBD district, a recovery is forecast thereafter, to the mid-55.0% range by 2011/12.

Demand Forecast
Without Subject
Development

We have also stipulated a demand forecast which assumes the subject property is not added to the market. For this purpose, we have selected a 2008 stabilization year for the market, which allows the market to grow its occupancy level from the previously set forth 2007 forecast of 54.1%. This forecast is illustrated in the following table.

Accommodated Demand

	2004	2005	2006	2007	2008
Meeting and Group					
Occupied Room Nights	1,016,471	1,031,718	1,057,511	1,083,949	1,111,047
Residual Demand	0	0	0	0	0
Accommodated Demand Growth	-1.5 %	1.5 %	2.5 %	2.5 %	2.5 %
Commercial					
Occupied Room Nights	317,874	321,052	324,263	327,506	329,143
Residual Demand	0	0	0	0	0
Accommodated Demand Growth	0.5 %	1.0 %	1.0 %	1.0 %	0.5 %
Leisure					
Occupied Room Nights	60,196	60,497	61,102	61,713	62,022
Residual Demand	0	0	0	0	0
Accommodated Demand Growth	0.0 %	0.5 %	1.0 %	1.0 %	0.5 %
Totals					
Occupied Room Nights	1,394,540	1,413,267	1,442,876	1,473,167	1,502,212
Residual Demand	0	0	0	0	0
Accommodated Demand Growth	-1.0 %	1.3 %	2.1 %	2.1 %	2.0 %
Available Room Nights per Year	2,724,908	2,724,908	2,724,908	2,724,908	2,724,908
Available Room Night Growth	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	51.2 %	51.9 %	53.0 %	54.1 %	55.1 %

Therefore, the market stabilizes at a roundly 55.0% occupancy level by 2008 under this scenario, or with roughly 1,500,000 occupied room nights (rounded).

We note that this 55.0% position is not particularly strong for this market. As illustrated in Chapter Four, the competitive set operated with annual occupancy levels ranging from 60.3% to 66.3% between 1997 and 2000, before declining to 51.2% and 52.5% in 2001 and 2002, respectively.

Penetration Rate Analysis

The subject property's forecasted market share and occupancy levels are based upon its anticipated competitive posture within the market, as quantified by its penetration rate. The penetration rate is the ratio of a property's market share to its fair share.

In this equation, market share represents that portion of total market demand accommodated by a property and fair share represents the subject hotel's portion of the total supply (calculated as the subject's room count divided by the total supply of the market at large).

If a property with a fair share of 5% is capturing 5% of the market demand in a given year, then its occupancy will equal the marketwide occupancy, and its penetration rate will equal 100% ($5\% \div 5\% = 100\%$). If the same property achieves a market share in excess of its fair share, then its occupancy will be greater than the marketwide occupancy, and its penetration rate will be greater than 100%. For example, if a property's fair share is 5% and its market share is 7%, then its penetration rate is 140% ($7\% \div 5\% = 140\%$). Conversely, if the property captures less than its fair share, then its occupancy will be below the marketwide average, and its penetration rate will be less than 100%.

Penetration rates can be calculated for each market segment of a property, and for the property as a whole. For example, leisure segment penetration can be determined by: 1) dividing the subject property's leisure room nights captured (property's total room nights captured multiplied by property's leisure segment percentage) by: 2) the hotel's fair share of total areawide leisure demand (property's fair share percentage multiplied by the market's total leisure room night demand). Simplifying the formula, a hotel's market share percentage divided by its fair share percentage equals its market penetration. In essence, a penetration above 100% in a certain market segment indicates that the hotel is capturing more than its fair share of that source of demand, while a penetration rate below 100% indicates that a hotel is capturing less than its fair share of demand. A penetration of 100% indicates that the hotel is capturing its pro-rata share of the market segment's room night demand.

Explanation of Market Share and Penetration Rate Adjustment

The subject's occupancy is forecast by estimating the hotel's penetration by market segment for each year of the forecast period. The estimation of penetration rates is based upon our review of the historical penetration rates of the subject and its competitors. If the subject hotel and all of its competitors are expected to remain stable in their ability to penetrate the market, then the historical penetration rates may be appropriately projected to remain the same throughout the forecast period. However, when additions to supply are anticipated or if a particular hotel is expected to alter its ability to compete in some way (e.g. through a refurbishment or change in brand or management), then penetration rates for all the hotels in the market

must be adjusted. The reason for the need to adjust the penetration rates of all the hotels in the market is due to the circular calculation of the penetration rate. A hotel's penetration rate is calculated as its market share of demand divided by its fair share of demand. If one hotel's penetration rate increases, thereby increasing its market share and leaving less demand for the other hotels in the market to capture, then the penetration rates of the remaining hotels automatically decline (all other things being equal).

For example, let us assume that a hotel is slated for a renovation and repositioning, thus enabling the hotel to improve its occupancy through increased market penetration. A higher penetration by one hotel will result in a larger capture of room nights by that hotel, thus leaving a reduced number of room nights to be shared by the rest of the competitive set. The additional room nights captured by this hotel will come out of the same finite pie of demand from which the other hotels in the market draw their demand. Any inducement of new demand due to the repositioning will have already have been built into the forecast of marketwide demand in the forecast of marketwide occupancy.

A similar impact is felt when a new hotel is added to the market. Penetration rates for the new hotel are forecast. The penetration rates are multiplied by the hotel's fair share percentage (calculated as the hotel's fair share of supply) to calculate the hotel's market share percentage. The hotel's market share percentage is then multiplied by the total demand forecast for that market segment in that year, resulting in the room nights captured by the new hotel in that segment. When the new hotel enters the market the penetration of all the existing hotels will automatically be impacted because they will each be capturing a smaller amount of the demand pie once the new hotel takes its share. If the new hotel captures less than its fair share of demand then the penetration rates of the existing hotels will increase, and alternatively, if the new hotel captures greater than its fair share of demand then the penetration rates of the existing hotels will decline. Thus, the penetration rate of a stable hotel is often impacted year to year by the penetration rates of its competitors.

An existing hotel may retain the same number of room nights captured in a particular market segment when a new hotel is added to the market, but that hotel's penetration rate must increase to do so. This is because the existing hotel's fair share percentage declines as new rooms are added to the market, and so to remain at the same level of room night capture its penetration rate must increase (rooms night captured = fair share x penetration rate x total

market segment demand). A complete description of this process is presented in an addendum to this report.

Historical Penetration Rates by Market Segment

In the following table, the penetration rates attained by the primary competitors and the aggregate secondary competition are set forth for each segment for the base year, 2003. The results are used as a basis for the positioning of the subject property, as well as our forecast of penetration rates for the subject (after its opening) and each competitive hotel into the future.

Historical Penetration Rates

Property	Meeting and Group	Commercial	Leisure
Adam's Mark Dallas	93 %	30 %	18 %
Hyatt Regency Dallas	139	69	56
Fairmont Dallas	89	169	127
Wyndham Hotels Anatole	128	69	26
Renaissance Dallas Hotel	79	248	54
Westin City Center Dallas	77	176	69
The Adolphus Hotel	73	208	149
Secondary Competition	62	121	426

Historical meeting and group penetration rates ranged widely from 62% to 139%. The best performers for demand in this segment were the Hyatt Regency Dallas and the Wyndham Anatole. Commercial demand penetration ranged from 30% to 248%, with the Renaissance Dallas leading the set. Also strong in this segment was the upscale Adolphus Hotel. Leisure penetration rates ranged from 18% to 426%. The secondary competition achieved the highest penetration in this segment, followed closely by the centrally-located Adolphus Hotel.

Projected Penetration Rates by Market Segment

Penetration rates for the proposed subject property and each of the competitive hotels have been forecast based upon the historical performance of each property and the changes we foresee in the marketplace going forward. Changes in market share and penetration rates are expected due to variables such as the recovery in the mid-week corporate market and the entry of the subject property which will focus primarily on convention-related demand.

The following tables set forth, by market segment, the projected penetration rates for the proposed subject property and each hotel in the competitive set throughout the projection period.

Meeting and Group Segment Adjusted Penetration Rates

Hotel	2004	2005	2006	2007	2008	2009	2010	2011	2012
Adam's Mark Dallas	93 %	93 %	93 %	93 %	91 %	87 %	86 %	86 %	86 %
Hyatt Regency Dallas	139	139	139	139	137	135	134	131	131
Fairmont Dallas	89	89	89	89	88	85	84	82	82
Wyndham Hotels Anatole	128	128	128	128	127	124	123	124	124
Renaissance Dallas Hotel	79	79	79	79	77	76	76	77	77
Westin City Center Dallas	77	77	77	77	75	74	74	75	75
The Adolphus Hotel	73	73	73	73	71	68	67	66	66
Secondary Competition	62	62	62	62	60	58	56	55	55
Proposed Headquarters Hotel	0	0	0	0	111	127	134	137	137

Commercial Segment Adjusted Penetration Rates

Hotel	2004	2005	2006	2007	2008	2009	2010	2011	2012
Adam's Mark Dallas	30 %	30 %	30 %	30 %	41 %	50 %	54 %	58 %	58 %
Hyatt Regency Dallas	69	69	69	69	72	70	68	68	68
Fairmont Dallas	169	169	169	169	181	181	177	175	175
Wyndham Hotels Anatole	69	69	69	69	76	75	75	74	74
Renaissance Dallas Hotel	248	248	248	248	257	250	247	246	246
Westin City Center Dallas	176	176	176	176	182	177	173	174	174
The Adolphus Hotel	208	208	208	208	222	218	217	214	214
Secondary Competition	121	121	121	121	135	135	139	137	137
Proposed Headquarters Hotel	0	0	0	0	43	40	36	36	36

Leisure Segment Adjusted Penetration Rates

Hotel	2004	2005	2006	2007	2008	2009	2010	2011	2012
Adam's Mark Dallas	18 %	18 %	18 %	18 %	25 %	33 %	37 %	37 %	37 %
Hyatt Regency Dallas	56	56	56	56	56	55	55	55	55
Fairmont Dallas	127	127	127	127	129	128	125	125	125
Wyndham Hotels Anatole	26	26	26	26	30	33	37	37	37
Renaissance Dallas Hotel	54	54	54	54	55	57	60	60	60
Westin City Center Dallas	69	69	69	69	74	73	74	74	74
The Adolphus Hotel	149	149	149	149	153	152	152	152	152
Secondary Competition	426	426	426	426	427	417	411	411	411
Proposed Headquarters Hotel	0	0	0	0	76	71	65	65	65

In the meeting and group segment, the subject reaches a positioned 137% penetration rate by the fourth operating year. The hotel is appropriately shown as the market leader in this segment, as would be expected for the city's convention headquarters hotel.

Because conventions take considerable lead time to book, and meeting planners often want to visit the property before making a commitment to the hotel, this type of demand requires a ramp-up period over many years. In the interim, we would expect the subject to accommodate more transient demand, and then taper these demand sources off as the group base is built within the hotel. As such, the commercial and leisure penetration rates of the subject property are forecast to decline over the course of the first few years of operation.

Based on the preceding analyses, the proposed subject property's occupancy forecast is set forth as follows, with the projected penetration rates used as a basis for calculating the amount of captured market demand.

Forecast of Subject Property's Occupancy

Market Segment	2008	2009	2010	2011	2012
Meeting and Group					
Demand	1,204,797	1,245,073	1,286,600	1,309,832	1,333,529
Market Share	15.2 %	17.6 %	18.6 %	19.0 %	19.0 %
Capture	183,675	218,941	238,688	248,389	252,883
Penetration	111 %	127 %	134 %	137 %	137 %
Commercial					
Demand	329,143	330,789	332,443	334,105	335,775
Market Share	6.0 %	5.5 %	5.0 %	4.9 %	4.9 %
Capture	19,699	18,309	16,666	16,526	16,608
Penetration	43 %	40 %	36 %	36 %	36 %
Leisure					
Demand	62,022	62,332	62,643	62,957	63,271
Market Share	10.5 %	9.8 %	8.9 %	8.9 %	8.9 %
Capture	6,504	6,132	5,602	5,630	5,658
Penetration	76 %	71 %	65 %	65 %	65 %
Total Room Nights Captured	209,878	243,382	260,956	270,545	275,149
Available Room Nights	435,599	438,000	438,000	438,000	438,000
Subject Occupancy	48 %	56 %	60 %	62 %	63 %
Marketwide Available Room Nights	3,162,908	3,162,908	3,162,908	3,162,908	3,162,908
Fair Share	14 %	14 %	14 %	14 %	14 %
Marketwide Occupied Room Nights	1,595,962	1,638,194	1,681,686	1,706,893	1,732,575
Market Share	13 %	15 %	16 %	16 %	16 %
Marketwide Occupancy	50 %	52 %	53 %	54 %	55 %
Total Penetration	95 %	107 %	112 %	114 %	115 %

Based on the positioned penetration rates by segment, the overall penetration rate of the subject property is forecast to reach 115%, well over its fair share due to its placement as the headquarters hotel. This position also reflects the lower competitive position of the Adam's Mark, which drives the overall market average lower.

The following table summarizes the proposed subject property's projected market segmentation.

Subject Property's Market Segmentation

	2008	2009	2010	2011	2012
Meeting and Group	88 %	90 %	91 %	92 %	92 %
Commercial	9	8	6	6	6
Leisure	3	3	2	2	2
Total	100 %	100 %	100 %	100 %	100 %

As shown, we have forecast the hotel to house a significant base of group business, at roundly 92% of captured demand, which reflects its position as the city's primary headquarters property.

Based on the preceding analysis, the following forecast of occupancy results. Dividing the total number of room nights captured by the subject property's annual number of available room nights (calculated as 1200 x 365) produces the projected occupancy percentage.

Subject Property's Occupancy Forecast

	2008	2009	2010	2011	2012
Total Room Nights Captured	209,878	243,382	260,956	270,545	275,149
Available Room Nights	435,599	438,000	438,000	438,000	438,000
Subject Occupancy	48.2 %	55.6 %	59.6 %	61.8 %	62.8 %
Rounded	48 %	56 %	60 %	62 %	63 %

We have chosen to use a stabilized occupancy level of 62%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given any and all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability. For the purpose of forecasting income and expense, we will use the following occupancy levels.

Forecast of Occupancy

<u>Year</u>	<u>Subject Occupancy</u>
2008	48 %
2009	56
2010	60
2011	62

10. Average Rate Analysis

One of the most important considerations in estimating the financial performance of a lodging facility is a supportable forecast of its attainable average rate, which is more formally defined as the average rate per occupied room. Average rate can be calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which in turn provides the basis for estimating most other income and expense categories.

The Concept of Average Rate

A hotel's average room rate is the weighted average of the various amounts charged to different market segments, such as rack rates, published rates, commercial rates, and contract rates. The average rate also takes into account differentials during peak and off-peak periods, including various seasons of the year, holidays, and weekends. Different types of rooms may also command varying rates, and thus have an impact on the overall average rate. The following is a description of several typical rate categories.

- *Rack Rate* – An undiscounted room rate generally given to anyone who does not qualify for or request a discounted rate. The term is derived from the room rack (now a computer terminal) at the front desk, which contains information about each room's rate, including the highest amount that can be charged for that type of unit. When a hotel is expected to be full during a certain period or when a guest arrives without a reservation, the rack rate is usually the only rate available. The average rate is almost always lower than the rack rate.
- *Published Rate* – The rate listed in directories and other publications. This rate is usually quoted as a range (i.e., single: \$70-\$100), and represents the various rack rates for specific types of accommodations. Published rates usually set the upper limit of average rate, and average rates tend to be closest to published rates in the case of single (rather than double) rooms.

- *Commercial Rate* – A discounted rate available to certain commercial travelers. Some hotels charge all commercial travelers a commercial rate upon request, while others offer it only to established accounts based on their projected use of the hotel. Commercial rates vary because they can be negotiated between the business and the hotel. These rates are always below the rack and published rates and, depending on the market mix, may approximate the property's average rate.
- *Contract Rate* – A discounted rate available to specific high-volume users, such as airlines, convention groups, and bus tours. Contract rates are negotiated and often apply to a block of rooms that are reserved on an ongoing basis and paid for regardless of use. Depending on the amount of use and the time it occurs, a contract rate may be heavily discounted and thus significantly lower than both the average rate and the commercial rate.
- *Complimentary Rooms* – It is customary for hotels to provide rooms to very important guests on a complimentary basis. When performing a room night analysis, complimentary rooms should be included in the occupancy projection, because these occupied rooms represent actual demand (although they generate no revenue). However, the inclusion of complimentary rooms in the occupancy lowers the calculated average rate, and thus the treatment of complimentary rooms in the average rates obtained from competitive properties must be consistent in order to draw an accurate rate comparison.

In forecasting average room rate for a proposed hotel, the average rates of similar hotels operating in the same market are examined as a starting point and future rate changes are forecast based on market conditions and the proposed property's relative competitiveness. The process is outlined as follows:

1. The average room rates for the competition are researched to position rates for the subject, which reflect market conditions and competent management.
2. Factors that impact future trends in room rate change are analyzed and projected annual inflationary changes are then quantified.
3. The proposed subject property's average room rate is quantified and projected into the future utilizing either the competitive positioning or the market segmentation method. These two methods are described as follows:

Competitive Positioning Method: Competitive positioning starts with the analysis of the average room rates currently achieved by the local competitive hotels. These rates establish a range within which the room rate for the subject property should fall. The likely average rate for the subject property is then positioned relative to the average rate of the hotel in the sample that is most similar in quality, size, facilities, amenities, market orientation, location, management, image and affiliation. Upward and/or downward adjustments are made to the subject's average rate to reflect any differences between the comparable and the subject that might be realized by affiliation or positioning.

Market Segmentation Method: In applying the market segmentation method, an average room rate is developed by individual market segments. This method starts with the previously developed demand forecast for the subject property, which includes a projection of the number of room nights captured for each market segment. Using the room rates charged on a segmented basis by the competitive properties as a base, a room rate estimate is developed for each market segment. The estimated room rate for each market segment is then multiplied by the projected number of room nights captured and the results are totaled to yield the total rooms revenue. An average rate can be calculated by dividing the total rooms revenue by the number of rooms occupied. The advantage of the market segmentation method is its ability to adjust the projected average room rate for changes in market mix. The disadvantage is that detailed rate data for each competitor in the market is not usually public knowledge and is difficult, if not impossible, to obtain.

Competitive Position

Although the average rate analysis presented here follows the occupancy projections, these two statistics are highly correlated; in reality, one can not project occupancy without making specific assumptions regarding average rate. This relationship is best illustrated by rooms revenue per available room (RevPAR), which reflects a property's ability to maximize rooms revenue. The following table summarizes the 2003 average rate and RevPAR levels of the identified competitors.

Average Rate and RevPAR of the Competitors

Property	Estimated 2003 Average Room Rate
Adam's Mark Dallas	\$120 - \$130
Hyatt Regency Dallas	120 - 130
Fairmont Dallas	130 - 140
Wyndham Hotels Anatole	130 - 140
Renaissance Dallas Hotel	100 - 110
Westin City Center Dallas	120 - 130
The Adolphus Hotel	140 - 150
Average	\$129.06

This data illustrates an average rate range, from \$100.00 to \$150.00. The upscale Adolphus Hotel achieved the highest rate in the market; the Wyndham Anatole and the Fairmont Dallas are just below that of the Adolphus Hotel. The Westin City Center, the Hyatt Regency Dallas, and the Adam's Mark Hotel all achieved average rates in the \$120.00 range due to their heavy citywide convention demand segmentation. The lower rated hotel in the market, the Renaissance Dallas, achieved the lowest rate in comparison to the market, primarily as a result of its contract demand accommodation.

**Market
Segmentation**

This technique begins with an analysis of the room rates commanded by local hotels in each market segment. Using this information, we can forecast the subject property's rate on a segment-by-segment basis. The projected rate in each segment is then multiplied by the number of room nights the hotel is expected to capture in that segment (as determined earlier in this analysis). These amounts are totaled, yielding the overall rooms revenue. Average rate is then calculated by dividing the property's total rooms revenue by the estimated number of occupied rooms. The advantage of the market segmentation method is its ability to reflect anticipated changes in the subject property's market mix and their impact on average rate.

Average rate can be projected by considering anticipated changes in the subject property's demand mix and the rates that can be commanded in each market segment. The proposed subject property has been positioned with an estimated average rate of roundly \$130.00, in 2003 dollars. The average rates by segment for the subject property have been positioned at \$130.00 in the meeting and group segment, \$140.00 in the commercial segment, and \$105.00

in the leisure segment. These rates are well-supported by data gathered from the competitive market.

Average Rate Increases

It is important to note that hotel room rate increases do not necessarily conform to the underlying monetary inflation rate, because lodging facilities are influenced by market conditions such as the relationship between supply and demand. A hotel's ability to raise room rates is affected by a number of factors, including the following.

- **Supply and Demand Relationships** – The relationship between supply and demand is one of the factors that determine hotel occupancies and average rates. Strong markets, where lodging demand is increasing faster than supply, are often characterized by rate growth that exceeds inflation. Markets that are overbuilt or suffering from declining demand are unlikely to exhibit any significant increases in average rates.
- **Inflationary Pressures** – Price increases caused by inflation affect hotel room rates by eroding profit margins and encouraging operators to raise prices. This strategy is effective only in markets that are characterized by a healthy supply and demand relationship.
- **Improving the Competitive Standard** – When a new lodging facility enters a mature market, its rates may be set higher than the marketwide average in an effort to justify the development costs. This may allow other competitors to achieve corresponding gains by effectively raising the amount the market will bear. However, if the addition to supply has a severe impact on the occupancy levels of other hotels, price competition may ensue.
- **Property-Specific Improvements** – Changes that make a hotel more or less attractive to guests can have an impact on average rate. An expansion, renovation, upgrading, or the introduction of additional facilities and amenities may enable greater-than-inflationary room rate increases. Likewise, deferred maintenance may make a property less competitive, engendering a decline in room rates.

In determining average rate projections, changes that occur prior to occupancy stabilization are generally attributable to factors that are specific to the property and the market. After a hotel achieves a stabilized occupancy, room rates are generally expected to continue to increase at the underlying inflation rate throughout the remainder of the projection period.

As noted by the Smith Travel Research trend illustrated previously in our report, and confirmed by our fieldwork, average rates continue to show stagnation after growth through 2000. Some decline was even noted for 2003, as hotels competed for demand and offered more competitive room rates. Lower convention demand also prompted less compression. Because no new major influx of demand is anticipated and the economy recovery has been slow to date, only minimal positive average rate change is expected in the near term. Average rate change would again be expected to slow after the entry of the subject property.

Based on these considerations, the following table identifies the positioned segmented average rates and the growth rates that have been applied to each rate through the stabilized year.

Forecast of Average Rate Growth

	2003 Average Room Rate	Projected Growth Rate								
		2004	2005	2006	2007	2008	2009	2010	2011	2012
Meeting and Group	\$130.00	1.0 %	1.5 %	2.0 %	2.5 %	0.0 %	0.5 %	2.0 %	2.5 %	2.5 %
Commercial	140.00	1.5	2.5	3.0	3.0	0.5	1.5	2.5	2.5	2.5
Leisure	105.00	1.5	2.0	2.5	3.0	0.5	1.5	2.5	2.5	2.5
Total	\$130.10	- %	- %	- %	- %	- %	0.5 %	2.0 %	2.5 %	2.5 %

The following table illustrates the methodology we have used for projecting the subject property's average rate.

Subject Property's Average Rate Forecast

	2004	2005	2006	2007	2008	2009	2010	2011
Meeting and Group								
Average Rate Growth	1.0 %	1.5 %	2.0 %	2.5 %	0.0 %	0.5 %	2.0 %	2.5 %
Captured Room Nights	0	0	0	0	183,675	218,941	238,688	248,389
Rooms Revenue	\$0	\$0	\$0	\$0	\$25,592,057	\$30,658,228	\$34,091,928	\$36,364,474
Average Rate	\$131.30	\$133.27	\$135.93	\$139.33	\$139.33	\$140.03	\$142.83	\$146.40
Commercial								
Average Rate Growth	1.5 %	2.5 %	3.0 %	3.0 %	0.5 %	1.5 %	2.5 %	2.5 %
Captured Room Nights	0	0	0	0	19,699	18,309	16,666	16,526
Rooms Revenue	\$0	\$0	\$0	\$0	\$3,059,173	\$2,885,984	\$2,692,594	\$2,736,706
Average Rate	\$142.10	\$145.65	\$150.02	\$154.52	\$155.30	\$157.62	\$161.57	\$165.60
Leisure								
Average Rate Growth	1.5 %	2.0 %	2.5 %	3.0 %	0.5 %	1.5 %	2.5 %	2.5 %
Captured Room Nights	0	0	0	0	6,504	6,132	5,602	5,630
Rooms Revenue	\$0	\$0	\$0	\$0	\$750,124	\$717,862	\$672,264	\$692,516
Average Rate	\$106.58	\$108.71	\$111.42	\$114.77	\$115.34	\$117.07	\$120.00	\$123.00
Total								
Average Rate Growth	- %	- %	- %	- %	- %	0.5 %	2.0 %	2.5 %
Captured Room Nights	-	-	-	-	209,878	243,382	260,956	270,545
Rooms Revenue	-	-	-	-	\$29,401,354	\$34,262,074	\$37,456,786	\$39,793,696
Average Rate (Before Discount)	-	-	-	-	\$140.09	\$140.78	\$143.54	\$147.09
Average Rate Penetration	- %	- %	- %	- %	108.3 %	108.2 %	108.7 %	108.7 %
Marketwide Average Rate Growth	0.5 %	1.5 %	2.0 %	2.5 %	-3.0 %	0.5 %	1.5 %	2.5 %
Marketwide Average Rate	\$125.72	\$127.61	\$130.16	\$133.41	\$129.41	\$130.06	\$132.01	\$135.31

We also forecast the marketwide average rate under the assumption the subject property was not added to this market. For this scenario, we assumed a 2.0% average annual growth could be maintained in 2008 through 2011.

Marketwide Average Rate Forecast, Assuming No Subject Hotel Addition

	2004	2005	2006	2007	2008	2009	2010	2011
Marketwide Average Rate Growth	0.5 %	1.5 %	2.0 %	2.5 %	2.0 %	2.0 %	2.0 %	2.0 %
Marketwide Average Rate	\$125.72	\$127.61	\$130.16	\$133.41	\$136.08	\$138.80	\$141.58	\$144.41

We have forecast a 4.0% room rate discount in the first projection year of the subject property's operation, followed by a 1.0% discount in the second year. This accounts for needed discounts which may be necessary in the opening months to attract groups and demand initially to the property. The following

average rates represent calendar years beginning January 1, 2008, and will be used to project the subject property's rooms revenue.

Forecast of Average Rate

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount
2008	48 %	\$140.09	4.0 %	\$134.48
2009	56	140.78	1.0	139.37
2010	60	143.54	0.0	143.54
2011	62	147.09	0.0	147.09

11. Projection of Income and Expense

The forecast of income and expense is expressed in current dollars for each year. The stabilized year is intended to reflect the anticipated operating results of the property over its remaining economic life, given any or all applicable stages of build-up, plateau, and decline in the life cycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses. The 10-year period reflects the typical holding period of large real estate assets such as hotels. The forecasted income streams reflect the future benefits of owning specific rights in income-producing real estate.

Comparable Operating Statements

In order to project future income and expense for the proposed subject property, we have included a sample of individual comparable operating statements from our database of hotel statistics.

The following operating data reflects the performances of five convention-oriented, full-service hotels. For comparison purposes, we have included a management fee of 3.0% of total revenue and a reserve for replacement expense of 5.0% of total revenue in these comparable statements. These levels are considered typical in today's market for a full-service hotel. All financial data is presented according to the three most common measures of industry performance: ratio to sales (RTS), amounts per available room (PAR), and amounts per occupied room night (POR). A composite statement is also illustrated.

Comparable Operating Statements Ratio to Sales

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Number of Rooms:	1,000 - 1,200	1,100 - 1,300	600 - 700	700 - 800	700 - 800	700 - 800
Total Meeting Space:	85,000	180,000	67,000	42,000	33,000	55,000
Grand Ballroom:	25,000	25,000	16,000	10,000	8,000	20,000
Total F&B Outlets:	3	4	3	3	2	2
Days Open:	365	365	365	365	365	365
Occupancy:	64%	66%	64%	61%	70%	68%
Average Rate:	\$145	\$132	\$116	\$139	\$152	\$113
REVENUE						
Rooms	63.1 %	55.0 %	60.2 %	61.8 %	72.6 %	56.1 %
Food & Beverage	31.0	38.2	35.2	34.8	21.2	35.7
Telephone	2.4	2.3	1.3	1.5	2.5	1.8
Other Income	3.4	4.6	3.3	1.9	3.7	6.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	24.1	24.1	23.3	20.1	23.3	24.5
Food & Beverage	68.2	63.5	75.4	71.2	76.3	71.6
Telephone	58.2	52.6	114.1	80.2	35.0	54.1
Total	38.0	39.4	44.0	38.4	34.6	44.0
DEPARTMENTAL INCOME						
	62.0	60.6	56.0	61.6	65.4	56.0
OPERATING EXPENSES						
Administrative & General	6.1	6.0	6.4	6.7	6.7	7.0
Marketing	4.8	9.2	7.5	5.5	6.0	7.3
Property Operations & Maintenance	4.3	4.4	3.8	4.1	4.0	4.4
Energy	3.3	2.5	3.3	3.0	2.6	3.5
Total	18.5	22.1	21.0	19.3	19.4	22.3
HOUSE PROFIT						
	43.5	38.5	35.0	42.3	46.0	33.7
Management Fee	3.0	3.0	3.0	3.0	3.0	3.0
INCOME BEFORE FIXED CHARGES						
	40.5	35.5	32.0	39.3	43.0	30.7
FIXED EXPENSES						
Property Taxes	2.2	3.0	3.3	5.1	9.6	2.6
Insurance	1.5	1.1	1.1	1.0	0.9	0.5
Reserve for Replacement	5.0	5.0	5.0	5.0	5.0	5.0
Total	8.7	9.1	9.4	11.1	15.5	8.1
NET INCOME						
	31.8 %	26.4 %	22.6 %	28.2 %	27.5 %	22.6 %

* Departmental expense ratios are expressed as a percentage of departmental revenues

Comparable Operating Statements Per Available Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Number of Rooms:	1,000 - 1,200	1,100 - 1,300	600 - 700	700 - 800	700 - 800	700 - 800
Total Meeting Space:	85,000	180,000	67,000	42,000	33,000	55,000
Grand Ballroom:	25,000	25,000	16,000	10,000	8,000	20,000
Total F&B Outlets:	3	4	3	3	2	2
Days Open:	365	365	365	365	365	365
Occupancy:	64%	66%	64%	61%	70%	68%
Average Rate:	\$145	\$132	\$116	\$139	\$152	\$113
REVENUE						
Rooms	\$33,762	\$32,115	\$26,995	\$31,117	\$38,539	\$27,935
Food & Beverage	16,596	22,305	15,797	17,518	11,261	17,798
Telephone	1,310	1,320	561	743	1,321	910
Other Income	1,845	2,687	1,488	962	1,988	3,141
Total	53,514	58,427	44,842	50,340	53,109	49,785
DEPARTMENTAL EXPENSES						
Rooms	8,127	7,743	6,279	6,251	8,981	6,849
Food & Beverage	11,324	14,168	11,906	12,472	8,594	12,740
Telephone	762	694	640	596	462	493
Total	20,333	23,011	19,708	19,319	18,375	21,930
DEPARTMENTAL INCOME	33,181	35,416	25,133	31,021	34,734	27,855
OPERATING EXPENSES						
Administrative & General	3,258	3,502	2,873	3,383	3,578	3,490
Marketing	2,557	5,397	3,363	2,789	3,190	3,646
Property Operations & Maintenance	2,297	2,578	1,702	2,051	2,121	2,207
Energy	1,791	1,434	1,493	1,501	1,387	1,754
Total	9,904	12,911	9,431	9,725	10,277	11,098
HOUSE PROFIT	23,277	22,505	15,702	21,296	24,457	16,757
Management Fee	1,605	1,753	1,345	1,510	1,593	1,494
INCOME BEFORE FIXED CHARGES	21,672	20,752	14,357	19,786	22,863	15,263
FIXED EXPENSES						
Property Taxes	1,193	1,748	1,490	2,590	5,096	1,312
Insurance	817	643	498	510	461	262
Reserve for Replacement	2,676	2,921	2,242	2,517	2,655	2,489
Total	4,686	5,313	4,229	5,617	8,212	4,063
NET INCOME	\$16,986	\$15,439	\$10,128	\$14,169	\$14,651	\$11,200

Comparable Operating Statements Per Occupied Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Number of Rooms:	1,000 - 1,200	1,100 - 1,300	600 - 700	700 - 800	700 - 800	700 - 800
Total Meeting Space:	85,000	180,000	67,000	42,000	33,000	55,000
Grand Ballroom:	25,000	25,000	16,000	10,000	8,000	20,000
Total F&B Outlets:	3	4	3	3	2	2
Days Open:	365	365	365	365	365	365
Occupancy:	64%	66%	64%	61%	70%	68%
Average Rate:	\$145	\$132	\$116	\$139	\$152	\$113
REVENUE						
Rooms	\$144.95	\$132.42	\$115.52	\$138.77	\$151.86	\$112.95
Food & Beverage	71.25	91.97	67.60	78.13	44.37	71.96
Telephone	5.62	5.44	2.40	3.31	5.20	3.68
Other Income	7.92	11.08	6.37	4.29	7.83	12.70
Total	229.74	240.91	191.89	224.50	209.27	201.30
DEPARTMENTAL EXPENSES						
Rooms	34.89	31.93	26.87	27.88	35.39	27.69
Food & Beverage	48.62	58.42	50.95	55.62	33.86	51.51
Telephone	3.27	2.86	2.74	2.66	1.82	1.99
Total	87.29	94.88	84.34	86.16	72.41	88.67
DEPARTMENTAL INCOME						
	142.45	146.03	107.55	138.34	136.86	112.63
OPERATING EXPENSES						
Administrative & General	13.99	14.44	12.30	15.09	14.10	14.11
Marketing	10.98	22.25	14.39	12.44	12.57	14.74
Property Operations & Maintenance	9.86	10.63	7.28	9.14	8.36	8.93
Energy	7.69	5.91	6.39	6.70	5.47	7.09
Total	42.52	53.24	40.36	43.37	40.50	44.87
HOUSE PROFIT						
	99.93	92.79	67.20	94.98	96.37	67.75
Management Fee	6.89	7.23	5.76	6.73	6.28	6.04
INCOME BEFORE FIXED CHARGES						
	93.04	85.56	61.44	88.24	90.09	61.72
FIXED EXPENSES						
Property Taxes	5.12	7.21	6.37	11.55	20.08	5.30
Insurance	3.51	2.65	2.13	2.27	1.82	1.06
Reserve for Replacement	11.49	12.05	9.59	11.22	10.46	10.06
Total	20.12	21.91	18.10	25.05	32.36	16.43
NET INCOME						
	\$72.92	\$63.65	\$43.34	\$63.19	\$57.73	\$45.29

Comparable Operating Statements: Composite Statement Per Occupied Room

	Days Open: Occupancy: Average Rate:	365 66% \$134	Percentage of Revenue	Amount per Available Room	Amount per Occupied Room
REVENUE					
Rooms		\$169,718	60.9 %	\$32,053	\$134.03
Food & Beverage		92,125	33.1	17,398	72.75
Telephone		5,778	2.1	1,091	4.56
Other Income		11,066	4.0	2,090	8.74
Total		278,687	100.0	52,632	220.08
DEPARTMENTAL EXPENSES					
Rooms		39,721	23.4	7,502	31.37
Food & Beverage		63,751	69.2	12,040	50.34
Telephone		3,324	57.5	628	2.62
Total		109,660	39.3	20,710	86.60
DEPARTMENTAL INCOME					
		169,027	60.7	31,922	133.48
OPERATING EXPENSES					
Administrative & General		17,822	6.4	3,366	14.07
Marketing		19,092	6.9	3,606	15.08
Property Operations & Maintenance		11,766	4.2	2,222	9.29
Energy		8,308	3.0	1,569	6.56
Total		56,988	20.4	10,763	45.00
HOUSE PROFIT					
		112,039	40.2	21,159	88.48
Management Fee		8,361	3.0	1,579	6.60
INCOME BEFORE FIXED CHARGES					
		103,678	37.2	19,580	81.88
FIXED EXPENSES					
Property Taxes		11,220	4.0	2,119	8.86
Insurance		2,998	1.1	566	2.37
Reserve for Replacement		13,934	5.0	2,632	11.00
Total		28,152	10.1	5,317	22.23
NET INCOME					
		\$75,526	27.1 %	\$14,264	\$59.64

We will refer to this comparable operating data in our discussion of each line item which follows later in this section of the report.

Premise of Forecast The forecast of income and expense is intended to reflect the consultant's qualitative estimate of how a typical investor would project the subject property's future operating results. Depending on the dynamics of the local market, a typical investor's projection may be adjusted upward or downward. We have attempted to consider these factors in formulating this forecast.

Fixed and Variable
Component Analysis HVS International uses a fixed and variable component model to project a lodging facility's revenue and expense levels. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then held constant, while the variable component is adjusted for the percent change between the projected occupancy and facility usage and that which produced the known level of revenue or expense.

The following table illustrates the revenue and expense categories that can be projected using this fixed and variable component model. These percentages show the portion of each category that is typically fixed and variable; the middle column describes the basis for calculating the percentage of variability while the last column sets forth the fixed percentage that has been utilized in this valuation.

Range of Fixed and Variable Ratios

Category	Percent Fixed	Percent Variable	Index of Variability	Fixed Ratio
Revenues				
Food & Beverage	25 - 50	50 - 75	Occupancy	25 %
Telephone	10 - 40	60 - 90	Occupancy	10
Other Income	30 - 60	40 - 70	Occupancy	70
Departmental Expenses				
Rooms	50 - 70	30 - 50	Occupancy	60
Food & Beverage	35 - 60	40 - 65	Food & Beverage Revenue	55
Telephone	40 - 60	40 - 60	Telephone Revenue	60
Other Expenses	40 - 60	40 - 60	Other Income	70
Undistributed Operating Expenses				
Administrative & General	65 - 85	15 - 35	Total Revenue	75
Marketing	65 - 85	15 - 35	Total Revenue	75
Prop. Operations & Maint.	55 - 75	25 - 45	Total Revenue	75
Energy	80 - 95	5 - 20	Total Revenue	75
Management Fee	0	100	Total Revenue	0
Fixed Expenses				
Property Taxes	100	0	Total Revenue	100
Insurance	100	0	Total Revenue	100
Reserve for Replacement	0	100	Total Revenue	0

This forecast of revenue and expense is accomplished through a step-by-step approach, following the format of the *Uniform System of Accounts for Hotels*. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

A general rate of inflation must be established that will be applied to most revenue and expense categories. The following table shows inflation estimates made by economists at some noted institutions and corporations.

Inflation Estimates

Source	Projected Increase in Consumer Price Index (Annualized Rate Versus 12 Months Earlier)	
	May	November
	of 2004	of 2003
Brian S. Wesbury, Griffin, Kubik	2.5 %	2.6 %
Lawrence Kudlow, Kudlow & Co.	2.0	2.3
Gail Fosler, Conference Board	2.6	2.5
Saul Hymans, University of Michigan	2.0	1.7
Gary Thayer, A.G. Edwards	2.1	2.3
Robert DiClemente, Citigroup	1.2	1.4
Susan M. Sterne, Economic Analysis	2.2	2.0
James F. Smith, University of North Carolina	1.4	1.0
Richard Rippe, Prudential Equity Group	1.7	1.9
David L. Littmann, Comerica Bank	2.3	2.0
Ian Shepherdson, High Frequency Economics	2.1	1.8
William T. Wilson, Ernst & Young	2.3	2.1
Neal Soss, CSFB	1.7	1.6
Joel L. Prakken, Macroeconomic Advisers	1.8	1.5
John Ryding/David Malpass, Bear Stearns	2.0	1.7
Stephen Gallagher, Societe Generale	2.2	2.0
Sung Won Sohn, Wells Fargo & Co.	1.2	1.4
Allen Sinai, Decision Economics	1.9	1.7
Peter Hooper, Deutsche Bank	1.9	1.5
Arun Raha, Eaton Corp.	2.6	2.4
Daniel Laufenberg, American Express	2.5	2.2
Douglas G. Duncan, Mortgage Bankers	1.5	NA
Henry Willmore, Barclays Capital	1.7	2.5
Shrouds & Fry, DuPont	2.1	2.0
J. Dewey Daane, Vanderbilt University	2.2	2.3
Maria Florini Ramirez, MFR Inc.	2.4	1.8
Nariman Behraves, Global Insight	1.5	1.9
David Lereah, Natl. Ass. of Realtors	1.6	1.7
David W. Berson, Fannie Mae	1.8	1.9
William B. Hummer, Wayne Hummer Invest.	1.4	2.3
Berner & Greenlaw, Morgan Stanley	1.6	1.8
David Resler, Nomura Securities	2.0	2.0
David Wyss, Standard & Poor's	1.5	1.9
Diane Swonk, Bank One	1.5	1.8
John Silvia, Wachovia	2.2	1.6
Mark Zandi, Economy.Com	1.7	1.7
McGee & Synnott, U.S. Trust	1.9	1.4
Nicholas S. Perna, Perna Associates	1.9	2.2
Ram Bhagavatula, The Royal Bank of Scotland	2.1	2.1
Richard DeKaser, National City Corporation	2.2	2.2
Donald H. Straszheim, Straszheim Advisors	2.0	2.0
Ethan Harris, Lehman Brothers	1.6	1.6
Paul Kasriel, Northern Trust Company	1.9	NA
Stuart G. Hoffman, PNC	2.3	2.2
Maury Harris, UBS	2.0	1.5
John Lonski, Moody's	2.5	2.2
Tracey Herrick, Jefferies & Co.	2.5	2.6
William C. Dudley, Goldman Sachs	1.7	1.7
Ellen Hughes-Cromwick, Ford Motor Company	2.0	NA
Kurt Karl, Swiss Re	1.4	1.4
Mickey D. Levy, Bank of America	1.6	2.0
Mike Cosgrove, Econoclast	1.2	1.5
Gene Huang, FedEx Corporation	2.2	NA
Edward Leamer, UCLA Anderson	2.1	NA
Averages	1.9 %	1.9 %
Actual Number as of November 30, 2003		1.8 %

As the preceding table indicates, the financial analysts who were surveyed anticipated inflation rates ranging from 1.0% to 2.6% (on an annualized basis) as of May 2004. A majority of the respondents estimate rates of 1.7% to 2.2%; the average is 1.9%. For the twelve months ending in November of 2003, the inflation forecasts ranged from 1.2% to 3.3%; most were between 1.9% and 2.4%, and the average was 2.2%. As a further check on these inflation projections, we have reviewed historical increases in the Consumer Price Index (CPI-U). Because the value of real estate is predicated on cash flows over a relatively long period, inflation should be considered from a long-term perspective.

National Consumer Price Index (All Urban Consumers)

Year	National Consumer Price Index	Percent Change from Previous Year
1993	144.5	---
1994	148.2	2.6 %
1995	152.4	2.8
1996	156.9	3.0
1997	160.5	2.3
1998	163.0	1.6
1999	166.6	2.2
2000	172.2	3.4
2001	177.1	2.8
2002	179.9	1.6
Average Annual Compounded Change,		
	1993 - 2002	2.5 %
	1998 - 2002	2.5

Source: Bureau of Labor Statistics

Between 1993 and 2002, the national CPI increased at an average annual compounded rate of 2.5%, showing a declining trend in recent years. In consideration of the most recent trends, the projections set forth above, and our assessment of probable property appreciation levels, we have applied an underlying inflation rate of 2.0% in the first two projection years, increasing to 3.0% per year thereafter. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the

application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

Forecast of Income and Expense

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take four years for the subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based on comparable income and expense statements. The following forecast is based upon calendar years beginning January 1, 2008, and is expressed in inflated dollars for each year.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. Our projection of the subject property's occupancy and average rate was presented earlier in this report.

Food and Beverage Revenues

Food and beverage revenue is generated by a hotel's restaurants, coffee shops, snack bars, banquet rooms, and room service. In addition to providing a source of revenue, these outlets serve as an amenity that assists in the sale of guestrooms. With the exception of properties with banquet facilities that draw local residents, in-house guests generally represent a substantial percentage of a hotel's food patrons.

The *Uniform System of Accounts for Hotels/Eighth Revised Edition* defines food revenue as "revenue derived from the sale of food, including coffee, milk, tea and soft drinks. Food sales do not include meals charged on employees' (staff) checks." Beverage revenues are "derived from the sale of beverages." In addition to the revenue generated by the sale of food and beverages, hotels often produce other income that is related to this department, such as meeting room rentals, cover charges, service charges, and miscellaneous banquet revenue. Although food revenue varies directly with changes in occupancy, the small portion generated by banquet sales and outside capture is relatively fixed.

As was illustrated by the comparable operating statements, combined food and beverage revenue ranged between roundly \$44.00 and \$92.00 per occupied room, or roundly 21.0% to 38.0% of total revenue. After eliminating the high and the low mark, the food and beverage collection per occupied room ranged from roundly \$68.00 to \$78.00; or between roundly 31.0% and 36.0% of total revenue. The composite average collection was 33.1% of total revenue, or \$72.75 per occupied room.

There are many alternatives for dining within the general of the Dallas CBD, particularly in the Uptown area and along emerging Main Street; however, guests will likely not choose to walk to these destinations at night (Uptown is too far away) and may not choose to pay for a cab ride to and from. Therefore, the hotel should benefit from relatively strong capture of guests within its own in-house restaurants. Moreover, the subject hotel should achieve high banquet revenues, due to its meetings-based demand capture. Based on this data, we have projected that the subject property will earn food and beverage revenues of roundly \$74.00 per occupied room in the first operating year, increasing to roundly \$83.00 by the stabilized year. In total, food and beverage revenues are forecast to stabilize at nearly 34.0% of total revenues, which is considered appropriate for a convention headquarters hotel of this type.

Telephone Revenue

Telephone revenue is generated by hotel guests who charge local and long-distance calls to their rooms, and by individuals who use the property's public telephones. The comparable operating statements indicated a range per occupied room of roundly \$2.00 to \$6.00. The average collection was \$4.56 per occupied room.

As popularity of cell phones increase, we expect telephone collections to continue to decline. Based on this data and industry-wide trends in telephone revenue collections, we have positioned the subject property with a telephone projection of under \$5.00 per occupied room in the first projection year.

Other Income

Other income is derived from sources other than guestrooms, food and beverages, and telephone services. Depending on the type of hotel and the facilities and amenities offered, other income may include income generated by laundry and valet commissions, vending machines, in-room movies, front desk faxing charges, parking commissions, and short-term interest income. For the subject property, the most important and profitable components of this category are expected to be revenues from cancellation fees, valet parking premiums, the business center, short-term interest income, and gift shop profits.

We have projected the subject property to accrue other income of roundly \$11.00 per occupied room by the stabilized year. This level is supported by the comparable statements, which display a range of revenue levels ranging between \$4.00 and \$13.00 per occupied room.

Rooms Expense

Rooms expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy (because managers can schedule maids, bell personnel, and house cleaners to work when demand requires), much of a hotel's payroll is fixed. Front desk personnel, public area cleaners, the housekeeper, and other supervisors must be maintained at all times. As a result, salaries, wages, and employee benefits are only moderately sensitive to changes in occupancy.

Commissions and reservation expenses are usually based on room sales, and thus are highly sensitive to changes in occupancy and average rate. Linen, operating supplies, and other operating expenses are only slightly affected by volume.

The individual comparable operating statements illustrate expense levels between roundly 20.0% and 25.0% of rooms revenue, with the composite statement showing an average of 23.4%. On a per occupied room basis, rooms expense ranges from \$27.00 to \$35.00, with an overall average of \$31.37. We forecast the subject property's rooms expense to be 25.7% of rooms revenue in the first projection year, stabilizing at 23.5% in 2011; this equates to nearly \$35.00 per occupied room by 2011.

Food and Beverage Expense

Food expenses consist of items necessary for the primary operation of a hotel's food and banquet facilities. Beverage expenses consist of items necessary for the operation of a hotel's lounge and bar areas. The costs associated with food and beverage sales and payroll are moderately to highly correlated to their respective revenues. Items such as china, linen and uniforms are very slightly dependent on volume. Although the other expense items are basically fixed, they represent a relatively insignificant factor.

After considering the fixed and variable components, we forecast the subject property's food and beverage expense at 69.8% of food and beverage revenues by the stabilized year. Food and beverage expense, as indicated by the comparable statements, averaged 69.2%, from a category range of roundly 64.0% to roundly 76.0%.

Telephone Expense

Telephone expense consists of all costs associated with this department. In the case of small hotels with automated systems, the operation of telephones may be an additional responsibility of front desk personnel; however, most large properties employ full-time operators. The bulk of the telephone

expense consists of the cost of local and long-distance calls billed by the telephone companies that provide these services. Because most calls are made by in-house guests, these costs are moderately correlated to occupancy.

The HVS-selected operating statements showed a relatively wide range of cost ratios in this category, between roundly 35.0% and 114.0% of telephone revenues, with an average of 57.5% of telephone revenue. We have positioned a first year telephone expense of roundly 67.0% of telephone revenue in 2008, stabilizing at roundly 60.0% of telephone revenue in 2011.

Administrative and General Expense

Administrative and general expense includes the salaries and wages of all administrative personnel who are not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category.

Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages; commissions on credit card charges; provision for doubtful accounts, which are moderately affected by the number of transactions or total revenue; and salaries, wages, and benefits, which are very slightly influenced by volume.

The selected comparable income statements indicate a cost range from roundly \$2,900 to roundly \$3,600 per available room for administrative and general expenses; the composite average is roundly \$3,400 per available room, or 6.4% of total revenue.

We have projected the administrative and general expense to equate to roundly \$3,300 per available room by 2008 (inflated dollars) and stabilize at roundly \$3,900 per available room in 2011 dollars. On a stabilized basis, this expense level equates to 6.9% of total revenues.

Marketing Expense

Marketing expense consists of all costs associated with advertising, sales, and promotion; these activities are intended to attract and retain customers. Marketing can be used to create an image, develop customer awareness, and stimulate patronage of a property's various facilities.

The marketing category is unique in that all expense items, with the exception of fees and commissions, are totally controlled by management. Most hotel operators establish an annual marketing budget that sets forth all planned expenditures. If the budget is followed, total marketing expenses can be projected accurately.

Marketing expenditures are unusual because although there is a lag period before results are realized, the benefits are often extended over a long period. Depending on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months.

Comparable income statements selected by HVS indicate a range from 4.8% to 9.2% of total revenue, or \$2,600 to \$5,400 per available room. The average for the selected comparable statements is \$3,606 per available room, or 6.9% of total revenue.

Marketing costs, inclusive of brand marketing fees, are forecast to total 7.6% of total revenues by the stabilized year, or roundly \$4,200 per available room in 2011 dollars.

Property Operations and Maintenance

Property operations and maintenance expense is another expense category that is largely controlled by management. Except for repairs that are necessary to keep the facility open and prevent damage (e.g., plumbing, heating, and electrical items), most maintenance can be deferred for varying lengths of time.

Maintenance is an accumulating expense. If management elects to postpone performing a required repair, they have not eliminated or saved the expenditure; they have only deferred payment until a later date. A lodging facility that operates with a lower-than-normal maintenance budget is likely to accumulate a considerable amount of deferred maintenance.

The age of a lodging facility has a strong influence on the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. However, as a hostelry grows older, maintenance expenses escalate. A well-organized preventive maintenance system often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend. The quality of initial construction can also have a direct impact on future maintenance requirements. The use of high-quality building materials and construction methods generally reduces the need for maintenance expenditures over the long-term.

For property operations and maintenance, the selected comparable income statements indicate a range from roundly 3.8% to 4.4% of total revenue, or 4.2% on average. We have projected the property operations and maintenance expense to equate to roundly \$2,100 per available room in the first projection year and stabilize at roundly \$2,500 per available room by 2011. On a stabilized basis, this expense level equates to 4.5% of total revenues.

Energy Expense

The energy consumption of a lodging facility takes several forms including water and space heating, air conditioning, lighting, cooking fuel, and other miscellaneous power requirements. The most common sources of hotel energy are electricity, natural gas, fuel oil, and steam. This category also includes the cost of water service.

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement their energy requirements with less expensive sources such as gas and oil for heating and cooking.

The selected comparable income statements indicate an energy cost range from roundly 2.5% to 3.5%; the composite average is 3.0% of total revenue. We have positioned the subject property with a stabilized energy cost of 3.3% of total revenues, which equates to roundly \$1,900 per available room in 2011 dollars.

Management Fee

Management expense consists of the basic fee paid to the type of company that is anticipated to operate the subject property. Some companies provide management services alone, while others also provide a brand name affiliation. When a management company has no brand identification, the property owner often acquires a franchise that provides the necessary image and recognition. Although most hotel management companies employ a fee schedule that includes a basic fee (usually a percentage of total revenue) and an incentive fee (usually a percentage of defined profit), the incentive portion is often subordinated to debt service and may not appear in a forecast of net income before debt service. Basic hotel management fees are almost always based on a percentage of total revenue, which means they have no fixed component.

Management fees today are typically structured as some combination of a base fee calculated as a percentage of total revenues and an incentive fee

calculated as a percentage gross operating income or net operating income. While base fees typically range from 1% to 4% of total revenue, incentive fees are deal specific and often are calculated as a percentage of income available after debt service and, in some cases, after a preferred return on equity. Due to the deal specificity of the incentive portion of the management fee total management fees are difficult to hypothesize without a specific management agreement. Even then, the ownership structure and debt level of a deal may impact the ultimate fees paid. HVS monitors current trends in management agreements and is familiar with the current range of total management. We are finding that in today's market total management fees for a first-tier management company which provides both a brand name and management expertise are ranging from 4% to 5% of total revenue. Fees paid to second-tier management companies which provide management expertise but no brand identity are ranging from 2% to 3% of total revenue.

Our forecast assumes management of the subject property by one of the major branded operating companies. For the purposes of this report, we have chosen to use a stabilized management fee of 3.0% of total revenues less net parking revenue, which we believe to be appropriate for a hotel property of this type.

Property Taxes

Property (or ad valorem) tax is one of the primary revenue sources of municipalities. Based on the concept that the tax burden should be distributed in proportion to the value of all properties within a taxing jurisdiction, a system of assessments is established. Theoretically, the assessed value placed on each parcel bears a definite relationship to market value, so properties with equal market values will have similar assessments and properties with higher and lower values will have proportionately larger and smaller assessments. Depending on the taxing policy of the municipality, property taxes can be based on the value of the real property or the value of the personal property and the real property.

The taxing jurisdiction governing the subject property assesses real property only; there is no separate personal property assessment in Dallas County. The assessed value ratio is 100% of the county's market value. A review of the assessed values of several hotels located in the comparable jurisdiction reveals the following information.

Subject Property's Assessment History

Hotel	Number of Rooms	Total Assessment		Assessment per Room	
		Land	Improvements	Land	Improvements
Adam's Mark	1,840	\$3,185,790	\$79,943,270	\$1,731	\$43,447
Hyatt Recency Dallas	1,122	4,109,180	65,890,820	3,662	58,726
Westin City Center	407	2,362,410	16,637,590	5,804	40,879
Fairmont Dallas	551	2,638,410	25,361,590	4,788	46,028

Source: Dallas County Assessor's Office

This data represents a range of land assessments at roundly \$2,400,000 to \$4,100,000 and improvements assessments of roundly \$41,000 to \$59,000 per room.

Tax rates are based on the city and county budgets, which change annually. The following table shows changes in the tax rate per \$100 of assessed value since 1999.

Historical Tax Rates

Year	Tax Rate per \$100 of Assessment	Percent Change from Previous Year
1999	2.9334	—
2000	3.0493	4.0 %
2001	3.1141	2.1
2002	3.1740	1.9
2003	2.8090	(11.5)
Average Annual % Change:		(1.1) %

Source: Dallas County Assessor's Office

The tax rate in the Dallas County increased at a declining rate in 2000 through 2002; the 2003 tax rate then declined by 11.5%. Due to the unpredictability in future tax rate changes, we have applied a 1.0% rate increase in 2004 through 2007, followed by a 1.5% increase in 2008 through 2011; property taxes then increase by the underlying inflationary rate thereafter.

Based on the comparable assessments and the tax rate information, the subject property's historical and projected property tax expense levels are

calculated as follows. We have positioned the proposed subject property's assessment at \$4,800,000 for the land and \$57,000,000 for the improvements.

Historical and Projected Property Tax Expense

Year	Assessed Value		Total	Tax Rate per \$100 Assd.	Tax Forecast
	Land	Improvements			
Positioned	\$4,800,000	\$57,000,000	\$61,800,000	2.8090	—
2004	4,800,000	57,000,000	61,800,000	2.8371	—
2005	4,800,000	57,000,000	61,800,000	2.8655	—
2006	4,800,000	57,000,000	61,800,000	2.8941	—
2007	4,800,000	57,000,000	61,800,000	2.9231	—
2008	4,800,000	57,000,000	61,800,000	2.9669	\$1,833,546
2009	4,800,000	57,000,000	61,800,000	3.0114	1,861,049
2010	4,800,000	57,000,000	61,800,000	3.0566	1,888,965
2011	4,800,000	57,000,000	61,800,000	3.1024	1,917,299

This assessment levels are solely for the purposes of estimating property taxes and are not an indication of market value on the part of HVS International. We note that if the property is assessed at its construction (which would likely be in excess of \$200 million), and not based on a review of comparable hotels and their assessments, the tax forecast and our forecast of fixed expenses for this hotel would accordingly be impacted.

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. It does not include liability coverage, which is a component of administrative and general expense.

Insurance rates are based on many factors including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy. Insurance rates for hotels remained relatively low throughout the latter half of the 1990s, as competition among the insurance companies kept price increases to a minimum in most markets. In 2001, insurance rates began to increase substantially. The terrorist attacks of September 11th have strained the financial resources of the insurance and reinsurance industries, resulting in further increases in insurance costs. As a result, premiums have increased by anywhere from 25% to 100%.

Eliminating the high and low statements, the selected comparable operating statements indicated an insurance expense range of 0.9% to 1.1% of total revenue, or \$461 to \$643 per available room. The composite statement indicated an average insurance expense of 1.1% of total revenue or \$566 per available room.

Based on historical levels, we project the subject property's insurance expense at \$568 per available room in the first projection year. In subsequent years, this amount is assumed to increase in tandem with inflation; the stabilized insurance expense ratio for the property is forecast to be 1.1%.

Reserve for
Replacement

Furniture, fixtures, and equipment are essential to the operation of a lodging facility, and their quality often influences a property's class. This category includes all non-real estate items that are capitalized, rather than expensed. The furniture, fixtures, and equipment of a hotel are exposed to heavy use and must be replaced at regular intervals. The useful life of these items is determined by their quality, durability, and the amount of guest traffic and use.

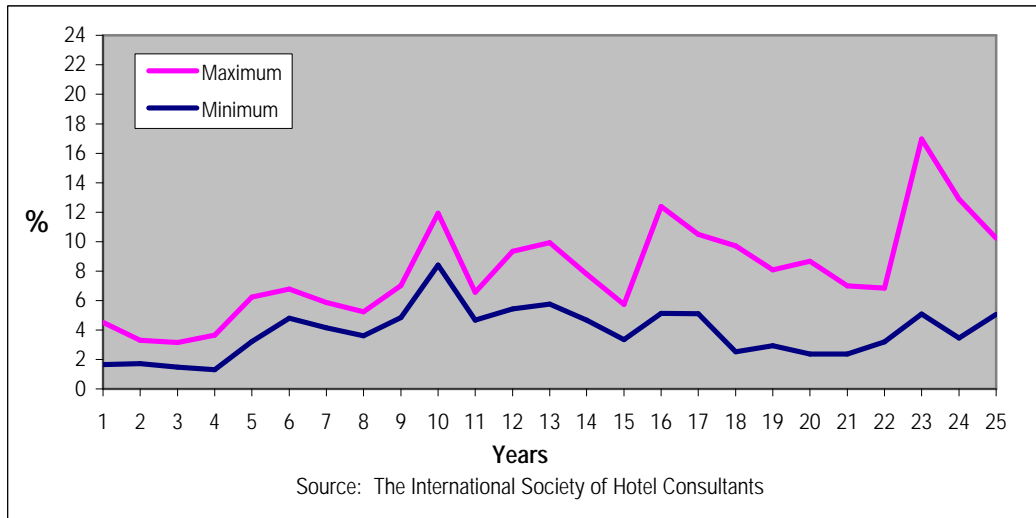
Periodic replacement of furniture, fixtures, and equipment is essential to maintain the quality, image, and income-producing potential of a lodging facility. For the purposes of this market study and based on the financing structure of the Fort Worth project, the reserve for replacement is allocated after debt service and is therefore not illustrated in the upcoming forecast of income and expense. The following reserve discussion is included for illustrative and informational purposes only.

The International Society of Hospitality Consultants (ISHC) undertook a major industry-sponsored study of the capital expenditure requirements for full-service, limited-service, and all-suite hotels (inclusive of extended-stay). A separate category of all-suite hotels was added as a result of the aggressive development of this product over the past ten years and its growing percent of total rooms in the U.S. hotel industry. The findings of the study were published in a report in 2000.¹ The historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by hotel owners and operators for the 1988 to 1998 period in the United States. This resulted in useable survey data from approximately 350 hotels.

¹The International Society of Hotel Consultants, *CapEx 2000, A Study of Capital Expenditures in the U.S. Hotel Industry*, 2000.

A prospective analysis of future capital expenditure requirements was also performed based upon the cost to replace short and long lived building components over a hotel's economic life. The study showed that the capital expenditure requirements for hotels vary significantly from year and depend upon both the actual and effective age of a property. The ISHC advocates a position that the right amount to set aside for, or spend on, capital expenditures varies from property to property and is dependent upon a number of variables that must be evaluated in the context of the competitive market, financial resources of the owner/operator, quality of construction, age of the property, as well as the philosophy and strategic operating approach of the stakeholders in the asset. The study shows that average capital expenditure spending increases over time, ranging between 1.31% and 6.23% of total revenues in the first five years of operation with an average of expenditure of 3.02%. This range increased to between 2.37% and 16.98% over the next twenty years, assuming a product life cycle of twenty-five years. The following chart illustrates that the minimum and maximum ends of the ranges generally move further apart as the hotels increase in age.

Average Capital Expenditure Range by Year as a Ratio to Total Revenue



The previous chart sets forth capital expenditures for the entire hotel of which 14% to 30% or more of that spending is spent on the building and other long-lived items. Because the reserve for replacement is meant primarily to renovate or replace FF&E and other short-lived items, lenders and management companies typically require reserves ranging from 2% to

5% of total revenue. We believe this range of reserve for replacement is adequate particularly for new hotels or recently renovated hotels.

Given the new construction of the property, this reserve gradually increases through the first several years of operation. Based on an analysis of comparable lodging facilities, we estimate reserve for replacement of 2.0% of total revenue in the first projection year, 3.0% in the second year, 4.0% in the third year, and 5.0% of total revenues in the stabilized year and annually thereafter.

Summary of
Projections

Based on the preceding analysis, we have formulated a forecast of income and expense. The tables on the following pages present the following: first, a detailed forecast through the fourth projection year, including amounts per available room (PAR) and per occupied room (POR); second, a summary forecast through the tenth projection year. The forecasts pertain to calendar operating years beginning January 1, 2008, and are expressed in inflated dollars for each year.

Detailed Forecast of Income and Expense, Proposed Headquarters Hotel, Dallas, Texas

	2008				2009				2010				Stabilized			
Number of Rooms:	1200				1200				1200				1200			
Occupancy:	48%				56%				60%				62%			
Average Rate:	\$134.48				\$139.37				\$143.54				\$147.09			
RevPAR:	\$64.55				\$78.05				\$86.12				\$91.19			
Days Open:	365				365				365				365			
Occupied Rooms:	210,240	%Gross	PAR	POR	245,280	%Gross	PAR	POR	262,800	%Gross	PAR	POR	271,560	%Gross	PAR	POR
REVENUE																
Rooms	\$28,274	60.4 %	\$23,562	\$134.48	\$34,184	60.2 %	\$28,487	\$139.37	\$37,721	59.9 %	\$31,434	\$143.54	\$39,943	59.8 %	\$33,286	\$147.09
Food & Beverage	15,464	33.0	12,886	73.55	18,969	33.4	15,807	77.33	21,200	33.7	17,666	80.67	22,603	33.9	18,836	83.23
Telephone	984	2.1	820	4.68	1,161	2.0	968	4.73	1,272	2.0	1,060	4.84	1,349	2.0	1,125	4.97
Other Income	2,079	4.4	1,733	9.89	2,493	4.4	2,078	10.16	2,757	4.4	2,298	10.49	2,868	4.3	2,390	10.56
Total Revenues	46,801	100.0	39,001	222.61	56,807	100.0	47,339	231.60	62,950	100.0	52,458	239.53	66,763	100.0	55,636	245.85
DEPARTMENTAL EXPENSES *																
Rooms	7,267	25.7	6,056	34.57	8,335	24.4	6,946	33.98	8,996	23.8	7,496	34.23	9,387	23.5	7,822	34.57
Food & Beverage	11,766	76.1	9,805	55.96	13,845	73.0	11,537	56.44	15,072	71.1	12,560	57.35	15,766	69.8	13,138	58.06
Telephone	660	67.1	550	3.14	737	63.4	614	3.00	777	61.1	647	2.96	810	60.0	675	2.98
Other Expenses	246	11.8	205	1.17	264	10.6	220	1.08	278	10.1	231	1.06	287	10.0	239	1.06
Total	19,939	42.6	16,616	94.84	23,180	40.8	19,317	94.51	25,123	39.9	20,936	95.60	26,249	39.3	21,874	96.66
DEPARTMENTAL INCOME	26,862	57.4	22,385	127.77	33,627	59.2	28,022	137.10	37,827	60.1	31,523	143.94	40,514	60.7	33,762	149.19
UNDISTRIBUTED OPERATING EXPENSES																
Administrative & General	3,982	8.5	3,318	18.94	4,250	7.5	3,542	17.33	4,454	7.1	3,712	16.95	4,621	6.9	3,851	17.02
Marketing	4,367	9.3	3,639	20.77	4,661	8.2	3,884	19.00	4,885	7.8	4,071	18.59	5,069	7.6	4,224	18.66
Prop. Operations & Maint.	2,569	5.5	2,141	12.22	2,742	4.8	2,285	11.18	2,874	4.6	2,395	10.94	2,982	4.5	2,485	10.98
Energy	1,927	4.1	1,606	9.16	2,056	3.6	1,714	8.38	2,155	3.4	1,796	8.20	2,236	3.3	1,863	8.23
Total	12,844	27.4	10,704	61.09	13,710	24.1	11,425	55.90	14,369	22.9	11,974	54.68	14,908	22.3	12,423	54.90
HOUSE PROFIT	14,017	30.0	11,681	66.67	19,917	35.1	16,597	81.20	23,458	37.2	19,548	89.26	25,607	38.4	21,339	94.30
Management Fee	1,404	3.0	1,170	6.68	1,704	3.0	1,420	6.95	1,888	3.0	1,574	7.19	2,003	3.0	1,669	7.38
INCOME BEFORE FIXED CHARGES	12,613	27.0	10,511	59.99	18,213	32.1	15,177	74.25	21,570	34.2	17,975	82.08	23,604	35.4	19,670	86.92
FIXED EXPENSES																
Property Taxes	1,834	3.9	1,528	8.72	1,861	3.3	1,551	7.59	1,889	3.0	1,574	7.19	1,917	2.9	1,598	7.06
Insurance	682	1.5	568	3.24	703	1.2	585	2.86	724	1.1	603	2.75	745	1.1	621	2.74
Reserve for Replacement	936	2.0	780	4.45	1,704	3.0	1,420	6.95	2,518	4.0	2,098	9.58	3,338	5.0	2,782	12.29
Total	3,452	7.4	2,876	16.42	4,268	7.5	3,557	17.40	5,131	8.1	4,276	19.52	6,001	9.0	5,001	22.10
NET INCOME	\$9,162	19.6 %	\$7,635	\$43.58	\$13,945	24.6 %	\$11,621	\$56.85	\$16,439	26.1 %	\$13,699	\$62.55	\$17,603	26.4 %	\$14,669	\$64.82

*Departmental expenses are expressed as a percentage of departmental revenues.

Summary Forecast of Income and Expense, Proposed Headquarters Hotel, Dallas, Texas

	2008		2009		2010		2011		2012		2013		2014		2015		2016		2017	
Number of Rooms:	1200		1200		1200		1200		1200		1200		1200		1200		1200		1200	
Occupied Rooms:	210,240		245,280		262,800		271,560		271,560		271,560		271,560		271,560		271,560		271,560	
Occupancy:	48%		56%		60%		62%		62%		62%		62%		62%		62%		62%	
Average Rate:	\$134.48	% of	\$139.37	% of	\$143.54	% of	\$147.09	% of	\$151.50	% of	\$156.04	% of	\$160.73	% of	\$165.55	% of	\$170.51	% of	\$175.63	% of
RevPAR:	\$64.55	Gross	\$78.05	Gross	\$86.12	Gross	\$91.19	Gross	\$93.93	Gross	\$96.75	Gross	\$99.65	Gross	\$102.64	Gross	\$105.72	Gross	\$108.89	Gross
REVENUE																				
Rooms	\$28,274	60.4 %	\$34,184	60.2 %	\$37,721	59.9 %	\$39,943	59.8 %	\$41,141	59.8 %	\$42,376	59.8 %	\$43,647	59.8 %	\$44,956	59.8 %	\$46,305	59.8 %	\$47,694	59.8 %
Food & Beverage	15,464	33.0	18,969	33.4	21,200	33.7	22,603	33.9	23,281	33.9	23,979	33.9	24,699	33.9	25,440	33.9	26,203	33.9	26,989	33.9
Telephone	984	2.1	1,161	2.0	1,272	2.0	1,349	2.0	1,390	2.0	1,432	2.0	1,475	2.0	1,519	2.0	1,564	2.0	1,611	2.0
Other Income	2,079	4.4	2,493	4.4	2,757	4.4	2,868	4.3	2,954	4.3	3,042	4.3	3,133	4.3	3,227	4.3	3,324	4.3	3,424	4.3
Total	46,801	100.0	56,807	100.0	62,950	100.0	66,763	100.0	68,765	100.0	70,829	100.0	72,954	100.0	75,142	100.0	77,397	100.0	79,718	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	7,267	25.7	8,335	24.4	8,996	23.8	9,387	23.5	9,668	23.5	9,958	23.5	10,257	23.5	10,565	23.5	10,882	23.5	11,208	23.5
Food & Beverage	11,766	76.1	13,845	73.0	15,072	71.1	15,766	69.8	16,238	69.8	16,726	69.8	17,227	69.8	17,744	69.8	18,277	69.8	18,825	69.8
Telephone	660	67.1	737	63.4	777	61.1	810	60.0	834	60.0	859	60.0	885	60.0	911	60.0	939	60.0	967	60.0
Other Expenses	246	11.8	264	10.6	278	10.1	287	10.0	295	10.0	304	10.0	313	10.0	323	10.0	332	10.0	342	10.0
Total	19,939	42.6	23,180	40.8	25,123	39.9	26,249	39.3	27,036	39.3	27,847	39.3	28,682	39.3	29,543	39.3	30,429	39.3	31,342	39.3
DEPARTMENTAL INCOME	26,862	57.4	33,627	59.2	37,827	60.1	40,514	60.7	41,729	60.7	42,982	60.7	44,271	60.7	45,599	60.7	46,967	60.7	48,376	60.7
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	3,982	8.5	4,250	7.5	4,454	7.1	4,621	6.9	4,760	6.9	4,903	6.9	5,050	6.9	5,201	6.9	5,357	6.9	5,518	6.9
Marketing	4,367	9.3	4,661	8.2	4,885	7.8	5,069	7.6	5,221	7.6	5,377	7.6	5,539	7.6	5,705	7.6	5,876	7.6	6,052	7.6
Prop. Operations & Maint.	2,569	5.5	2,742	4.8	2,874	4.6	2,982	4.5	3,071	4.5	3,163	4.5	3,258	4.5	3,356	4.5	3,456	4.5	3,560	4.5
Energy	1,927	4.1	2,056	3.6	2,155	3.4	2,236	3.3	2,303	3.3	2,372	3.3	2,443	3.3	2,517	3.3	2,592	3.3	2,670	3.3
Total	12,844	27.4	13,710	24.1	14,369	22.9	14,908	22.3	15,355	22.3	15,815	22.3	16,290	22.3	16,779	22.3	17,282	22.3	17,800	22.3
HOUSE PROFIT	14,017	30.0	19,917	35.1	23,458	37.2	25,607	38.4	26,375	38.4	27,167	38.4	27,981	38.4	28,821	38.4	29,685	38.4	30,576	38.4
Management Fee	1,404	3.0	1,704	3.0	1,888	3.0	2,003	3.0	2,063	3.0	2,125	3.0	2,189	3.0	2,254	3.0	2,322	3.0	2,392	3.0
INCOME BEFORE FIXED CHARGES	12,613	27.0	18,213	32.1	21,570	34.2	23,604	35.4	24,312	35.4	25,042	35.4	25,793	35.4	26,566	35.4	27,364	35.4	28,184	35.4
FIXED EXPENSES																				
Property Taxes	1,834	3.9	1,861	3.3	1,889	3.0	1,917	2.9	1,975	2.9	2,034	2.9	2,095	2.9	2,158	2.9	2,223	2.9	2,289	2.9
Insurance	682	1.5	703	1.2	724	1.1	745	1.1	768	1.1	791	1.1	814	1.1	839	1.1	864	1.1	890	1.1
Reserve for Replacement	936	2.0	1,704	3.0	2,518	4.0	3,338	5.0	3,438	5.0	3,541	5.0	3,648	5.0	3,757	5.0	3,870	5.0	3,986	5.0
Total	3,452	7.4	4,268	7.5	5,131	8.1	6,001	9.0	6,181	9.0	6,366	9.0	6,557	9.0	6,754	9.0	6,957	9.0	7,165	9.0
NET INCOME	\$9,162	19.6 %	\$13,945	24.6 %	\$16,439	26.1 %	\$17,603	26.4 %	\$18,131	26.4 %	\$18,676	26.4 %	\$19,236	26.4 %	\$19,812	26.4 %	\$20,407	26.4 %	\$21,019	26.4 %

*Departmental expenses are expressed as a percentage of departmental revenues.

Conclusion

In this section, we presented a forecast of income and expense for the proposed subject property. This forecast was presented in calendar years, reflecting inflated dollars beginning in 2008. Our cash flow projections follow from previously discussed occupancy and average rate projections set forth in previous sections. As noted, it is assumed that the subject property would be built with the facilities listed in the proposed facility chapter of this report, and that the hotel would be first-class in nature and be branded as such.

Our report assumes that the pre-selling of the hotel will begin no later than 2005, and that a certain pre-booking pace will be maintained between this time and the opening of the hotel. Additionally, our projections assume that management will sell the guestrooms of the hotel at a price point commensurate with a first-class, full-service hotel, at the rate levels set forth in the average rate chapter of this report. Should a strategy of considerable rate discounting be employed, our operating projections would be impacted.

Finally, we assume that the relationship between the hotel, the convention center, and Dallas CVB will be a positive and effective one, as the convention center would serve as the hotel's primary demand generator.

12. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. No responsibility is assumed for matters of a legal nature.
3. We have not considered the presence of potentially hazardous materials on the proposed sites, such as asbestos, urea formaldehyde foam insulation, PCBs, any form of toxic waste, polychlorinated biphenyls, pesticides, or lead-based paints. The consultants are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
4. We have made no survey of the property, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that there is no encroachment or trespass unless noted.
5. All information, estimates, and opinions obtained from parties not employed by HVS International are assumed to be true and correct. We can assume no liability resulting from misinformation.
6. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
7. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
8. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
9. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per diem fees and travel costs are paid prior to the appearance.

10. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
11. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
12. The quality of a lodging facility's on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
13. The estimated operating results presented in this report are based on an evaluation of the overall economy, and neither take into account nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of rooms, food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been prepared on the basis of information obtained during the course of this study and are intended to reflect the expectations of a typical hotel investor.
14. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on the date of our field inspection.
15. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
16. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.

17. This report was prepared by HVS International, a division of DFW Hospitality Consulting, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of DFW Hospitality Consulting, LLC as employees, rather than as individuals.
18. This report is set forth as a market study of the proposed subject property; this is not an appraisal report.

13. Certification

We, the undersigned, hereby certify:

1. that the statements of fact presented in this report are true and correct to the best of our knowledge and belief;
2. that the reported analyses, opinions, and conclusions presented in this report are limited only by the assumptions and limiting conditions set forth, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. that Heather Gravelle and Rodney G. Clough personally inspected the property described in this report;
4. that the consultants have extensive experience in the evaluation of hotels and believe that they are competent to undertake this market study;
5. that we have no current or contemplated interests in the real estate that is the subject of this report;
6. that we have no personal interest or bias with respect to the subject matter of this report or the parties involved;
7. that this report sets forth all of the limiting conditions (imposed by the terms of this assignment) affecting the analyses, opinions, and conclusions presented herein;
8. that the fee paid for the preparation of this report is not contingent upon our conclusions, or the occurrence of a subsequent event directly related to the intended use of this study;
9. that this report has been prepared in accordance with, and is subject to, the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute;
10. that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives;

11. that this report has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice (as adopted by the Appraisal Foundation);
12. that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this market study report;
13. that our engagement in this assignment was not contingent upon developing or reporting predetermined results; and
14. that this report is not based on a requested minimum results or the approval of a loan.



Rodney G. Clough, MAI
Managing Director

Penetration Explanation

Let us illustrate the penetration adjustment with an example.

A market has three existing hotels with the following operating statistics:

Base Year Occupancy and Penetration Levels

Property	Number of Rooms	Fair Share	Estimated Market Segmentation			Occupancy	Penetration
			Commercial	Meeting	Leisure		
Hotel A	100	23.5%	60%	20%	20%	75.0%	100.8%
Hotel B	125	29.4	70	10	20	65.0	87.4
Hotel C	200	47.1	30	60	10	80.0	107.5
Total/Average	425	100.0%	47%	38%	15%	74.4%	100.0%

Based upon each hotel's room count, market segmentation and annual occupancy the annual number of room nights accommodated in the market from each market segment can be quantified, as set forth below:

Marketwide Room Night Demand

Market Segment	Annual Room Night Demand	Percentage of Total
Commercial	54,704	47.4%
Meeting	43,481	37.7
Leisure	17,246	14.9
Total	115,431	100.0%

The following discussion will be based upon an analysis of the commercial market segment. The same methodology is applied for each market segment to derive an estimate of a hotel's overall occupancy. The chart below sets

forth the commercial demand accommodated by each hotel. Each hotel's commercial penetration factor is computed by:

- 1) calculating the hotel's market share % of commercial demand (commercial room nights accommodated by subject hotel divided by total commercial room nights accommodated by all hotels) and
- 2) dividing the hotel's commercial market share % by the hotel's fair share %.

The following chart sets forth each hotel's fair share, commercial market share and commercial penetration factor.

Commercial Segment Penetration Factors

<u>Property</u>	<u>Number of Rooms</u>	<u>Fair Share</u>	<u>Commercial Capture</u>	<u>Commercial Market Share</u>	<u>Commercial Penetration</u>
Hotel A	100	23.5%	12,973	30.0%	127.6%
Hotel B	125	29.4	14,054	37.9	129.0
Hotel C	200	47.1	27,677	32.0	68.1
Total/Average	425	100.0%	115,431	100.0%	100.0%

When a new 100-room hotel enters the market the fair share of each hotel changes due to the new denominator which has been increased by the 100 rooms which have been added to the market.

Commercial Segment Fair Share

<u>Property</u>	<u>Number of Rooms</u>	<u>Fair Share</u>
Hotel A	100	19.0%
Hotel B	125	23.8
Hotel C	200	38.1
New Hotel	100	19.0
Total	525	100.0%

The new hotel's penetration factor is projected for its first year of operation. It is estimated that the hotel will capture (penetrate) only 85% of its fair share as it establishes itself in the market. The new hotel's market share and room night capture can be calculated based upon the hotel's estimated penetration factor. The market share of the existing hotels and that of the new hotel are added up and they no longer equal 100% because of the new hotel's entry into the market. The market share of each hotel must be adjusted to reflect the change in the denominator which is comprised of the sum of each hotel's market share.

This adjustment can be mathematically calculated by dividing each hotel's market share percentages by the new denominator of 97.1%. The resulting calculations reflect each hotel's new adjusted market share. The sum of the adjusted market shares equals 100%, indicating that the adjustment has been successfully completed. Once the market shares have been calculated, the penetration factors can be recalculated (adjusted market share divided by fair share) to derive the adjusted penetration factors based upon the new hotel's entry into the market. Note that each existing hotel's penetration factor actually increases because the new hotel is capturing (penetrating) less than its fair share of demand.

Commercial Segment Projections (Year 1)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0%	127.6%	24.3%	25.0%	131.4%	13,687
Hotel B	125	23.8	129.0	30.7	31.6	132.8	17,299
Hotel C	200	38.1	68.1	25.9	26.7	70.1	14,600
New Hotel	100	19.0	85.0	16.2	16.7	87.5	9,117
Total	525	100.0%		97.1%	100.0%		54,704

In its second year of operation the new hotel is projected to penetrate above its fair share of demand. A penetration rate of 130% has been chosen, as the new hotel is expected to perform at a level commensurate with Hotel A and Hotel B in this market segment. The same calculations are performed to adjust market share and penetration factors. Note that now the penetration factors of the existing hotels decline below their original penetration rates due to the new hotel's above market penetration. Also note that after the market share adjustment the new hotel retains a penetration rate commensurate

with Hotel A and Hotel B, though the penetration rates of all three hotels have declined by approximately nine percentage points due to the reapportionment of demand.

Once the market shares of each hotel have been adjusted to reflect the entry of the new hotel into the market, the commercial room nights captured by each hotel may be projected by multiplying the hotel's market share percentage by the total commercial room night demand. This calculation is shown below.

Commercial Segment Projections (Year 2)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0%	131.4%	25.0%	23.1%	121.5%	12,662
Hotel B	125	23.8	132.8	31.6	29.3	122.9	16,004
Hotel C	200	38.1	70.1	26.7	24.7	64.8	13,507
New Hotel	100	19.0	130.0	24.8	22.9	120.3	12,531
Total	525	100.0%		97.1%	100.0%		54,704
