



Date: January 30, 2008

To: Mayor & City Council Members

From: James M. Palenick, City Manager

Re: Results of Market Analysis and Financial Projections for Proposed Hotel/Conference Center

As you know, one of the most important prerequisites to the successful development of a public/private partnership, hotel/conference center within Downtown Gastonia, is the completion of a market analysis and feasibility study, by an independent, nationally recognized consulting firm in order to objectively evaluate the expected market viability of such a product; and further, to then use the results of such study to identify and recruit a private/sector developer/partner to work with the City toward project completion. To that end, we engaged Atlantic Hospitality Advisors, of Atlanta, Georgia, to complete such a study on our behalf. This firm is one of the few recognized national leaders in the development of such consulting efforts, and their work product is well respected within the hospitality industry.

This study, which has been underway for approximately seven weeks, is now complete and the narrative work product resulting therefrom is being forwarded for your use and review. It is 57 pages in total length and contains many charts, graphs, and statistics, which should be closely reviewed. The full effort, however, can best be summarized and understood by reading the first five pages of the document, which is the "Executive Summary." Within that summary, you may want to pay particular attention to page 3, the "Recommended Facilities," and page 5, the "Financial Projections."

In reading the document, I believe it comes to a series of conclusions, which are both expected and predictable. It is also, I firmly believe, a document whose conclusions will allow this project to move forward because of "financial and market viability," but only when the following is kept firmly in mind:

- That the project consists of a "select-service" hotel of approximately 120 rooms, developed in conjunction with a City-owned conference center of 10,000 to 12,000 net square feet of appropriately configured meeting space and a 300-space parking deck/garage, along with an integrated restaurant and lounge, indoor pool and spa, exercise facility, business center, and associated other business-type amenities. This is entirely consistent with the Downtown Revitalization Plan put forward and fully in keeping with the budget therefore as well. The study further recommends the property maintain a national brand affiliation, which, again, is consistent with the Plan proposal.

- There is an ever-present and long-standing “image” problem associated with Gastonia and particularly its “Downtown” and this is clearly reflected in some of the responses received in the investigative portion of the study and possibly reflective in the overall conservative approach to market demand. This speaks to the very nature of the need for such a “Catalyst” project and associated efforts with Arts and Entertainment and ancillary developments/improvements (Salvation Army relocation). To put it bluntly, the survey question was posed to potential users of the facility in and around Gastonia and Gaston County as, “What would be your interest in utilizing a meeting-oriented property in Downtown Gastonia?” This is a very different question than had it been inquired as to interest by those same potential users in utilizing a meeting-oriented property within a certain prescribed proximity to their existing facility. The current “image” of Gastonia’s Downtown -- which is one of inactivity, decline and decay, almost certainly colored the responses received and we have to be mindful of that and remember that it will take a certain vision and boldness to counteract that image.
- Further, the study results point out quite clearly that which I have put forward as the central overall logic of my proposal. That is, if we expect or imagine that a project of this type, quality, or magnitude will ever be done by the private sector exclusively within Downtown Gastonia given the current state of our Center City, we will find that it cannot and will not happen -- it is simply not viable under those terms. That is why we have proposed the project that we have. The City must provide the financing to develop, build, and construct those portions of the project that cannot otherwise be economically viable by exclusively private financing (i.e. parking deck, conference space, land acquisition and demolition, and certain design and construction engineering) and, we must further take full advantage of the New Market Tax Credits which were designed by the federal government for projects specifically like this one, wherein areas of decline and relative poverty need an infusion of investment and jobs as a catalyst in order to allow a pure market economy to take over following substantial “cornerstone” development.
- On pages 39-42, the study examines “Financial Projections” based on an expected private sector investment of \$12M in the Hotel, divided as 30% equity and 70% debt. It concludes that the expected Rate of Return would not be sufficient to meet the typical profit margins expected by most Hotel investors, unless the City provides the investment in project components and economic incentives contemplated by the proposal, namely the conference center, parking deck/garage, etc.
- Finally, I am genuinely optimistic about the results of this study. The occupancy rates are higher than even I had anticipated, and the average daily room rates projected, while still arguably conservative, are solid and viable. What this should translate to is, when combined with the incentives that we have proposed and the financing structure available, the Plan should allow us to find, recruit, and partner with a very solid and viable private-sector developer in whom we can have complete confidence. I am, in fact, very eager to begin taking this document to a number of possible developers/partners for their review and input.

Should you have any questions or comments with regard to any of the information provided within the document, or if you wish to discuss any of the information or materials at greater length, please don’t hesitate to contact me at your convenience.



***Market Analysis
and
Financial Projections***

***Proposed
120-Room Select-Service Hotel
Gastonia, North Carolina***

January 2008



January 24, 2008

Mr. Jim Palenick
Manager
City of Gastonia
181 South Street
Gastonia, North Carolina 28052

Dear Mr. Palenick:

In accordance with the engagement letter dated October 14, 2007, we have prepared a market analysis and projections of occupancy, average daily rate and cash flow for a proposed hotel to be located adjacent to a City-owned convention/conference center in the northwest quadrant of Franklin Boulevard and Marietta Street in downtown Gastonia, North Carolina. The following paragraphs present our conclusions.

EXECUTIVE SUMMARY

Metropolitan Charlotte Overview

- The subject site is located in Gaston County, a component of the Charlotte-Gastonia-Concord metropolitan statistical area (Charlotte MSA). The MSA includes four other counties in North Carolina (Anson, Cabarrus, Mecklenburg, and Union) as well as York County in South Carolina. The MSA is the largest in the region between Atlanta and Washington, DC. The 2007 population for the MSA was slightly in excess of 1,580,000. Gaston County's population, which comprises approximately 12.5 percent of the MSA, was 198,200.
- The Charlotte area was once dominated by manufacturing employment because of its location, accessibility and inexpensive labor. However, the local economy has become increasingly diverse, with the trade, professional and business services, and government sectors bypassing manufacturing employment. Employment for the MSA increased at a compound annual rate of 1.3 percent from 2001 to 2006, with most of the growth coming from the government, leisure and hospitality, financial activities, and educational and health services sectors. Manufacturing, on the other hand, experienced a compound annual decrease of more than four percent over the five-year period.



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- The unemployment rate for the MSA has fluctuated with the closing of manufacturing facilities. As of November 2007, the unemployment rates for Gaston County and the MSA were 5.9 and 4.7 percent, respectively. The rates for North Carolina and the nation were 4.6 and 4.5 percent, respectively.
- The Charlotte MSA provides an improving economic environment for lodging operations. The MSA was significantly impacted by the recent recession and, as a result, was one the poorest-performing lodging markets in the nation. Over the past three years, however, conditions have improved dramatically.

Neighborhood Overview

- Separated by the Catawba River, Gaston County is located west of Mecklenburg County and Charlotte.
- Historically a base for manufacturing, Gaston County has suffered as manufacturers and textile mills have reduced operations and/or closed. Though textiles remain a meaningful component of Gastonia's economy, future employment growth will undoubtedly come from other sectors.
- Benefitting from its proximity to Mecklenburg County and Charlotte, the eastern portion of Gaston County has experienced significant residential and retail development. According to the City of Gastonia, there are more than 46,000 commuter work trips between Gaston and Mecklenburg counties on a daily basis.
- The site for the proposed hotel is located in the northwest quadrant of Franklin Boulevard and Marietta Street in downtown Gastonia, an area targeted for re-development by City leaders.
- There are currently two closed bank buildings occupying the site. It is bordered by a parking lot for office and retail buildings facing South Street to the west, the back side of office and retail buildings fronting Main Avenue to the north, Marietta Street followed by the First Methodist Church and a new Wachovia Bank building to the east, and Franklin Boulevard followed by Binswanger Glass and an AT&T relay building to the south.
- The site is proximate to City Hall and all downtown Gastonia office and retail areas. In our analysis, we have assumed at least two full-service restaurants,



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in addition to that provided by the subject hotel, will be developed within walking distance of the property.

Recommended Facilities

- Based on our analyses, a “select-service” hotel appears best suited to the needs of the market. We recommend a relatively small property of 120 rooms that will be developed in conjunction with a City-owned convention/conference center with 10,000 to 12,000 square feet of meeting space and a 300-space parking garage. The property should also include a restaurant and lounge, an indoor swimming pool and whirlpool spa, an exercise facility, a business center and a sundry shop. It should be affiliated with one of the national select-service brands. Possible affiliations include Hilton Garden Inn, Hyatt Place, *aloft* and Cambria Suites.
- We have assumed the convention/conference center will be managed by the hotel operator so that meeting planners need deal with only one representative for sleeping room and event requirements, and conflicts between the space needs of the hotel and the City can be minimized.
- For purposes of this analysis, we have assumed a January 1, 2010 opening date.

Supply and Demand Analysis

- The defined supply of competitive hotels in Gastonia presently includes five properties with 518 rooms, all located along Interstate 85 (I-85). Four of the properties carry a limited-service brand while the fifth is a select-service hotel.
- We are aware of no additions to the competitive supply beyond the subject. Should any other competitive supply additions occur, the estimates of occupancy and ADR contained herein would thus be affected and a revision might be required.
- Demand emanates from three primary sources: commercial travelers (61 percent), leisure guests (25 percent) and groups (14 percent). Growth within the commercial and group segments is expected to be moderate, with minimal growth expected in the leisure segment. A level of supply-driven growth should result from the opening of the subject.



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- Though the Gastonia market is quite strong from an occupancy perspective, and substantial average daily rate (ADR) growth has been experienced recently, the market must nonetheless be characterized as rate sensitive.

Estimated Levels of Utilization

- The proposed select-service hotel is expected to achieve penetration levels well in excess of its fair market share in the group segment and below its fair share in the commercial and leisure segments.
- Interviews with Gastonia area employers as well as state and regional association meeting planners were conducted to gauge interest in utilizing a meeting-oriented property in downtown Gastonia. The responses were mixed. Though the property will appeal to certain corporate groups and small rate-sensitive associations, Gastonia's status as a component of the Charlotte MSA will limit its ability to capture most groups. Charlotte's extensive convention complex and surrounding support facilities are a significant competitive advantage.
- Projected occupancy, ADR and revenue per available room (RevPAR) are presented below:

ESTIMATED OCCUPANCY, AVERAGE DAILY RATE AND REVPAR PROPOSED 120-ROOM SELECT-SERVICE HOTEL 2010 THROUGH 2014

Year	Occupancy	Average Daily Rate		RevPAR (Inflated \$)
		Constant 2007 Dollars	Inflated Dollars ¹	
2010	62%	\$85.00	\$ 93.00	\$57.66
2011	66	86.00	96.75	63.86
2012	68	87.00	100.75	68.51
2013	70	87.00	104.00	72.80
2014	70	87.00	107.00	74.90

¹ Inflated annually at 3.0 percent and rounded to the nearest \$0.25. Inflation rates were based on the results of recent investor surveys and forecasts by the U.S. Congressional Budget Office.



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Financial Projections

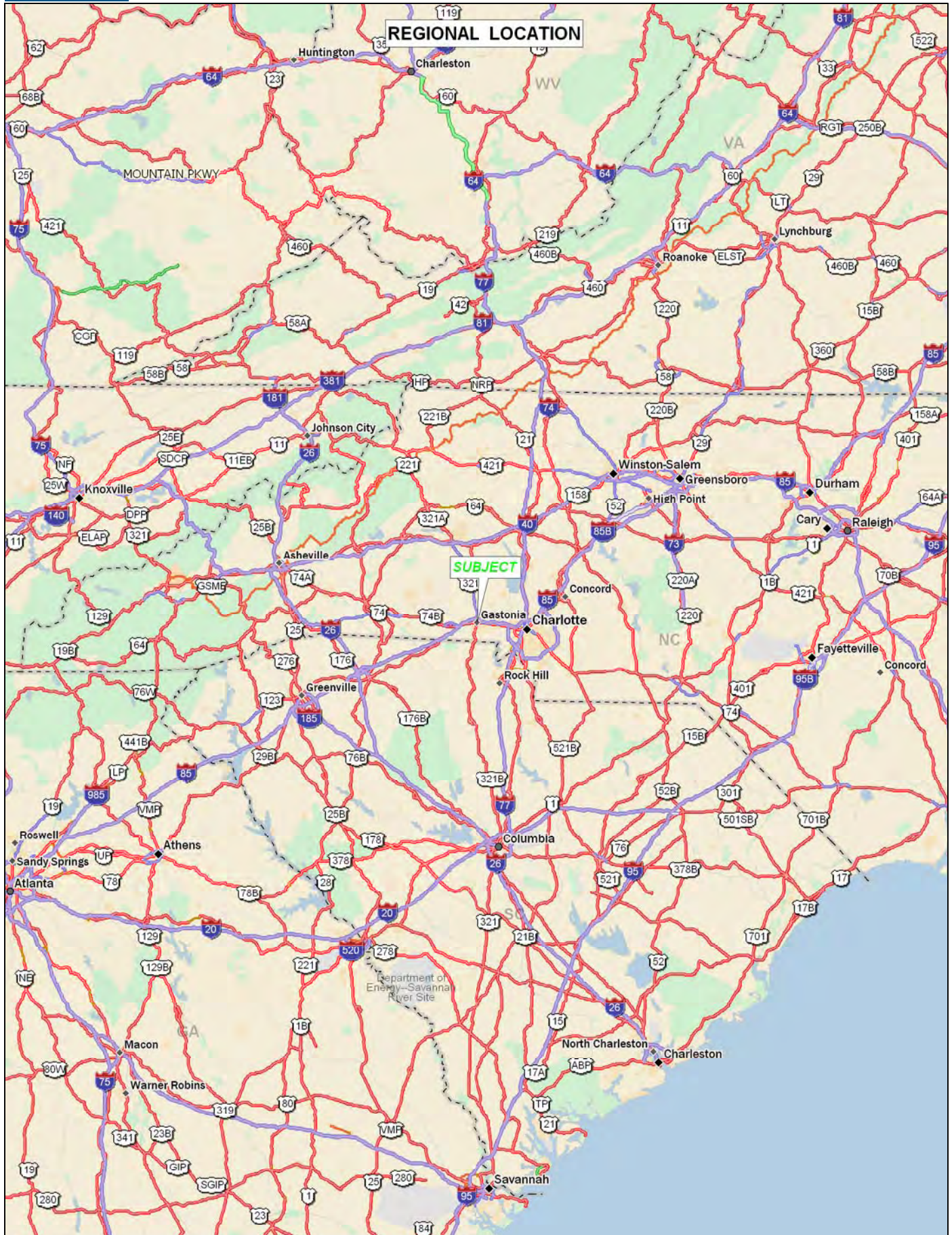
- Projected cash flows from operations before debt service and income taxes, in constant 2007 and inflated dollars, are depicted in the following table.

PROJECTED CASH FLOWS FROM OPERATIONS BEFORE DEBT SERVICE AND INCOME TAXES PROPOSED 120-ROOM SELECT-SERVICE HOTEL 2010 THROUGH 2014		
Year	Constant 2007 Dollars	Inflated Dollars
2010	\$636,000	\$698,000
2011	724,000	814,000
2012	739,000	854,000
2013	800,000	959,000
2014	787,000	968,000

- The projected cash flows generate a leveraged internal rate of return (IRR) of 8.09 percent based on typical debt terms and an investment of \$100,000 per room. This level of return, by itself, is not sufficient to attract a viable hotel developer. However, the City's plan to provide incentives to the project through the contribution of land, development of the convention/conference center and parking garage, TIF financing, property tax abatements and New Market Tax Credits will substantially reduce the investment risk and enhance the project yield.

METROPOLITAN CHARLOTTE OVERVIEW

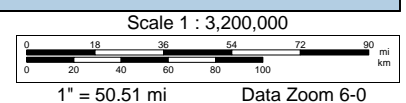
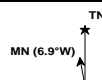
The Charlotte-Gastonia-Concord metropolitan statistical area is strategically located on the Piedmont plateau, a corridor extending from New York to Alabama. The Piedmont region contains a disproportionately large share of the Carolinas' population, cities and industry, and Charlotte's central location within the region has enabled it to emerge as a business hub. The MSA, which includes five counties in North Carolina (Anson, Cabarrus, Gaston, Mecklenburg, and Union) as well as one in South Carolina (York), is the largest in both the state and the region stretching from Atlanta to Washington, DC.



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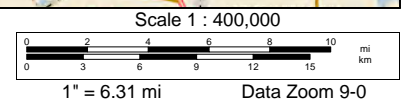
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Charlotte is the seat of government for Mecklenburg County and serves as the MSA's core city. The map on the facing page depicts the MSA's location within the region, while the map on the following facing page denotes the subject's location within the MSA. Once viewed as a separate economic entity, Gastonia must now be considered an integral component of the MSA. The eastern portions of Gaston County are particularly influenced by Charlotte's expansion.

Population: Population growth is an important factor in determining the economic strength of a given area. Although the growth of a local population is not related directly to room-night demand, it does reflect employment growth and future employment concentration which, in turn, typically influence levels of commercial room-night demand.

The Charlotte MSA had an estimated 2007 population of 1,580,100, representing an increase of 2.7 percent compounded annually since 2002. For the same period, Gaston County, which contains over 12 percent of the metropolitan population, grew 0.6 percent annually. Projections through 2012 indicate that the population of the MSA and Gaston County will increase at compound annual rates of 2.2 and 0.6 percent, respectively. The following table depicts population characteristics for Gaston County, the Charlotte MSA and North Carolina.

POPULATION GASTON COUNTY, THE CHARLOTTE MSA AND NORTH CAROLINA 2002, 2007 AND 2012 (in thousands)					
	2002	2007	Compound Annual Change 2002-2007	2012	Compound Annual Change 2007-2012
<i>Gaston County</i>	<i>192.8</i>	<i>198.2</i>	<i>0.6%</i>	<i>204.2</i>	<i>0.6%</i>
Charlotte MSA	1,385.3 ¹	1,580.1	2.7	1,758.4	2.2
North Carolina	8,263.3	8,875.4	1.4	9,466.5	1.3
<i>Gaston County's Share of MSA</i>	<i>13.9%</i>	<i>12.5%</i>		<i>11.6%</i>	
¹ Reflects the omission of Lincoln and Rowan counties and the addition of Anson County for comparison purposes. These counties were deleted from and added to the MSA, respectively, by the U.S. Census Bureau in 2003.					
Source: <u>Sales & Marketing Management's</u> 2002 "Survey of Buying Power" and <u>TradeDimensions'</u> "Demographics USA 2007 - County Edition"					





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Effective buying income (EBI) statistics for Gaston County residents as compared to those for the MSA and North Carolina are presented in the following table. The elevated EBI figures for the MSA are indicative of Charlotte's position as a major economic center in North Carolina and the higher paying jobs associated therewith.

EFFECTIVE BUYING INCOME STATISTICS GASTON COUNTY, THE CHARLOTTE MSA AND NORTH CAROLINA 2007		
	Median Household EBI	Percent of Households With EBI Over \$50,000
<i>Gaston County</i>	\$36,301	30.2%
Charlotte MSA	43,923	41.8
North Carolina	37,685	33.2
Source: <u>TradeDimensions</u> ' "Demographics USA 2007 - County Edition"		

Employment and Economy: The Charlotte area was once dominated by manufacturing employment because of its location, accessibility and inexpensive labor. Charlotte's location at the junction of Interstates 77 (I-77) and 85 facilitates transportation from coastal ports in South Carolina to inland states up and down the East Coast. This highway access to markets in the South, Midwest and North bolsters the area's distributive services sector. The section of I-85 from Durham, North Carolina through Charlotte, to Atlanta, Georgia, has been one of America's fastest growing industrial corridors.

In the past two decades, the local economy has become increasingly diverse, with both the trade and the professional and business services sectors bypassing manufacturing employment. Moderate labor costs, a large labor force, a wide variety of educational opportunities and a high quality of life contribute to the MSA's ability to attract new businesses, especially entrepreneurial and service firms. During the last ten years, nearly 8,500 new firms have opened, creating over 77,000 jobs and investing \$9.6 billion in new facilities.

The MSA became home to its ninth Fortune 500 company when Lowe's Co. moved into its new satellite headquarters near Mooresville in September 2003. Other Fortune 500 companies with headquarters in the MSA are Bank of America Corporation, Duke Energy, SPX, Family Dollar Stores, Goodrich, Nucor, Sonic Automotive and Wachovia Corporation.



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Charlotte is first and foremost a banking center. With more than \$1.3 trillion in assets, it is the second largest financial center in the nation, behind only New York. By comparison, Atlanta has assets of only \$128 billion. Two of the nation's largest banks, Bank of America and Wachovia, are headquartered in Charlotte. In total, 20 banks with more than 218 local branches, as well as a Federal Reserve Branch, are located in Charlotte. The list of largest employers presented below clearly demonstrates the importance of financial services to the local economy and its overall diversity.

LARGEST EMPLOYERS CHARLOTTE MSA	
Employer	Number of Employees
Carolinas Healthcare System	26,283
Wachovia Corporation	20,000
Bank of America	13,960
Wal-Mart Stores	12,918
Food Lion	8,658
Duke Energy	7,500
Charlotte-Mecklenburg Schools	7,500
North Carolina State Government	7,749
City of Charlotte	5,896
ADECO	5,000
US Airways	4,981
Source: Charlotte Chamber of Commerce - January 2007	

Employment by nonagricultural industry for the MSA in 2001 and 2006 is depicted in the following table.



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**EMPLOYMENT BY NONAGRICULTURAL INDUSTRY
CHARLOTTE-GASTONIA-CONCORD MSA
2001 AND 2006
(in thousands)**

Industry	2001 Employment		2006 Employment		Compound Annual Change
	Number	Percent	Number	Percent	
TTU ¹	168.5	21.8%	171.6	20.9%	0.4%
PBS ²	117.2	15.2	123.4	15.0	1.0
Government	91.0	11.8	101.9	12.4	2.3
Manufacturing	103.4	13.4	82.6	10.1	(4.4)
Financial Activities	59.5	7.7	77.1	9.4	5.3
Leisure & Hospitality	65.0	8.4	76.6	9.3	3.3
EHS ³	56.4	7.3	71.7	8.7	4.9
Construction & Mining	51.2	6.6	56.8	6.9	2.1
Other Services	35.6	4.6	37.5	4.6	1.0
Information	23.4	3.0	21.8	2.7	(1.4)
Total	<u>771.2</u>	<u>100.0%</u>	<u>821.0</u>	<u>100.0%</u>	1.3%

¹ Trade, Transportation & Utilities

² Professional & Business Services

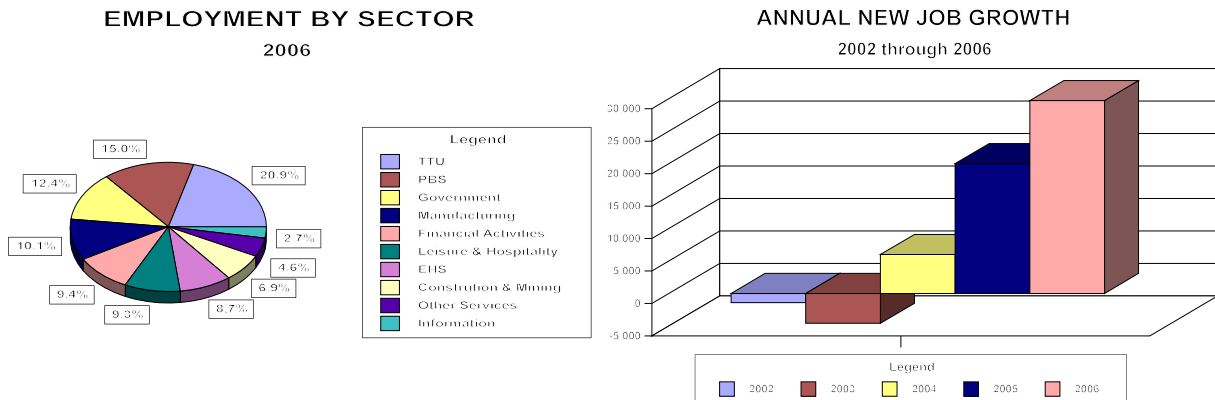
³ Educational & Health Services

Source: U.S. Department of Labor, Bureau of Labor Statistics

From 2001 through 2006, total nonagricultural employment for the metropolitan area grew at a compound annual rate of 1.3 percent. Reflective of the national economic recession, 6,000 jobs were lost in 2002 and 2003 after several years of robust growth. Modest job growth occurred in 2004 followed by healthy job growth of 20,000 jobs in 2005 and 29,700 jobs in 2006. Based on data through November 2007, average monthly employment grew 2.5 percent as compared to the same period in 2006. A loss in the manufacturing sector of 20,800 jobs has been partially mitigated by increases in most other sectors. Still, textile jobs have declined nearly one-third over the past three years. Graphical depictions of 2006 employment by sector and the annual new job growth for 2002 to 2006 are presented below.



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Forecasts by Woods & Poole Economics, Inc. indicate employment growth for the MSA of 2.2 percent compounded annually through 2015. As of November 2007, the unemployment rates for Gaston County and the MSA were 5.9 and 4.7 percent, respectively. Comparatively, the unemployment rates for North Carolina and the United States were 4.6 and 4.5 percent, respectively.

Convention Activity and Tourism: The new Charlotte Convention Center opened in February 1995 in the Uptown area of Charlotte. This 850,000-square foot facility includes a 280,000-square foot exhibit hall, a 35,000-square foot ballroom and 46 meeting rooms totaling 57,800 square feet. The convention center has acted as a catalyst for attracting larger groups to the Charlotte area, with the Uptown hotels being the primary beneficiaries.

Sports activities in Charlotte include Lowe's Motor Speedway (a NASCAR racing facility), the Carolina Panthers (the city's National Football League franchise) and the Carolina Bobcats (the National Basketball Association's newest expansion team). The Bobcats recently moved to the new Charlotte Arena in Uptown Charlotte. This facility hosts a variety of events, including college basketball games, tournaments, concerts, religious assemblies and family shows.

On a smaller scale, Charlotte is home to the Charlotte Knights baseball club, the Triple-A affiliate of the Chicago White Sox; the Women's National Basketball Association's Charlotte Sting; the Carolina Cobras arena football team and the Charlotte Checkers hockey team.



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Cultural attractions include Discovery Place, a hands-on science and technology museum; Spirit Square, a renovated church that houses art galleries, studios and classrooms; the Museum of the New South, Daniel Stowe Botanical Garden and the Mint Museum of Craft & Design. The North Carolina Blumenthal Performing Arts Center has separate halls for concert music, opera, theater and dance. An additional source of family entertainment in the Charlotte area is Paramount's Carowinds, an amusement park situated on the North Carolina/South Carolina border. The state line runs directly through the middle of the park.

Charlotte will become the home of NASCAR's first officially sanctioned Hall of Fame, to be developed adjacent to the Charlotte Convention Center. Part of the plan includes a new \$43 million ballroom at the convention center. The NASCAR Hall of Fame will be a \$107.5 million project (not including the new ballroom). It is scheduled to open in 2009 and is expected to draw 800,000 visitors in its first year of operation, declining to a stabilized annual visitation of approximately 400,000.

Located off I-85 along the Catawba River and just west of Charlotte is the 300-acre U.S. National Whitewater Center (USNWC). This facility is considered by many to be the world's premier outdoor recreation and environmental learning center. Inspired by the successful Penrith Whitewater Stadium built for the 2000 Olympics and the stadium built for the 2004 Athens games, the USNWC is the world's only multi-channel recirculating whitewater river. The United States Olympic Committee has formally endorsed the center and committed to designating it an Official Olympic Training Site. Alongside mountain-biking trails, a climbing center, running trails and camping areas, the whitewater river provides rafting as well as the ability to kayak and canoe for enthusiasts of all abilities.

Transportation: The MSA's transportation infrastructure includes an international airport, two interstate highways, several state and federal highways, rail service and public transportation, the latter including plans for a light rail system.

Employing over 18,500 people, Charlotte-Douglas International Airport has perhaps had the greatest positive impact on the MSA. Acting as a hub for US Airways, the airport also is served by eight other American-based and two international airlines with over 640 flight departures to 120 destinations, including 27 international destinations. The airport is the nation's 10th largest



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in total operations and 18th busiest in the U.S. in terms of total passengers. The following table depicts passenger activity at the airport since 2001.

PASSENGER ACTIVITY CHARLOTTE-DOUGLAS INTERNATIONAL AIRPORT 2001 THROUGH NOVEMBER 2007		
Year	Passengers	Percent Change
2001	23,177,555	-
2002	23,597,926	1.8%
2003	23,062,570	(2.3)
2004	25,162,943	9.1
2005	28,206,052	12.1
2006	29,693,949	5.3
Compound Annual Change		5.1%
YTD 11/06	27,183,455	-
YTD 11/07	30,549,693	12.4%
Source: Charlotte-Douglas International Airport		

Despite the financial troubles of its dominant carrier, US Airways, the airport has realized steady gains. In order to address the growing traffic volume the addition of a fourth, 9,000-foot runway is underway. Phase II of the project, which will include paving and lighting the runway is scheduled to begin in the spring of 2009 with completion in early 2010. The addition of this new runway will allow three independent approaches for arrivals. Additionally, construction of a second 3,000-space parking deck was recently completed bringing total parking to 23,000 spaces.

As previously noted, the MSA's interstate highway network provides excellent access to other major markets throughout the region. I-77 is a north/south route extending from Cleveland, Ohio to Columbia, South Carolina. I-85 intersects I-77 on the north side of Charlotte and connects Montgomery, Alabama with Interstate 95 in Virginia. Interstate 277 (I-277) encircles Uptown Charlotte, while a perimeter highway some 10 to 15 miles outside the city center (Interstate 485; I-485) is under development. Also known as the Outer Beltway, this route is designed to provide both efficient traffic flow around the city limits as well as access to major thoroughfares leading to Charlotte. The beltway is currently open from NC Route 27 west of



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Charlotte to I-85 northeast of the city, roughly two-thirds of its ultimate length. Completion of all phases is anticipated by 2015.

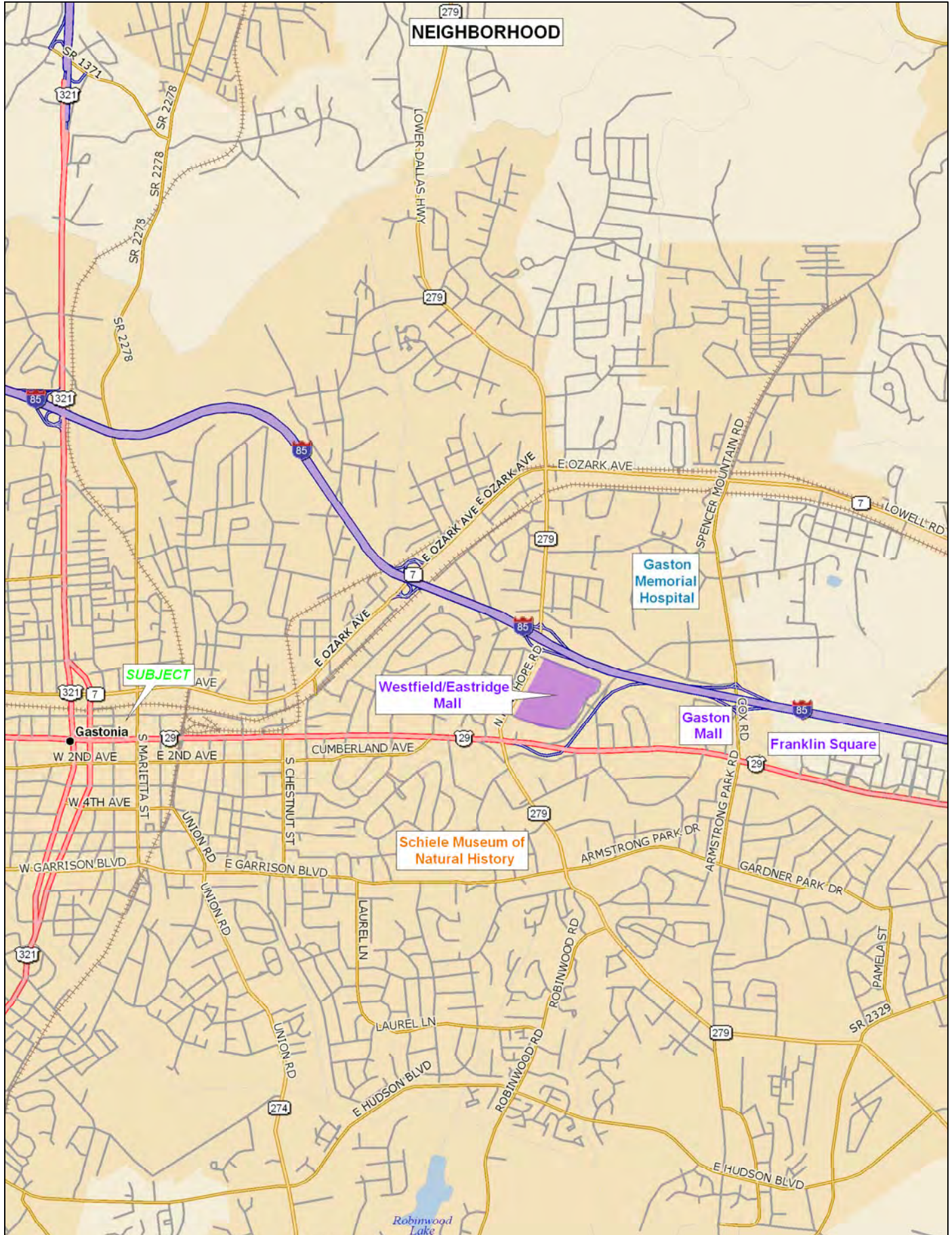
Future Outlook: In summary, the MSA is the largest between Washington, DC and Atlanta, is centrally located and serves as the hub of commerce for the Carolinas. The MSA's economy has become increasingly diverse and less dependent on manufacturing employment. Transportation infrastructure has been a major benefit to the MSA and should be further enhanced by the expansion of Charlotte-Douglas International Airport and construction of the Outer Beltway. Continued corporate expansion combined with a positive business climate, suggest a favorable long-term outlook.

NEIGHBORHOOD OVERVIEW

The proposed hotel is to be located in downtown Gastonia, which is in central Gaston County and is the largest of 15 incorporated towns in the county. The defined service area for the hotel (the neighborhood) extends north and east from downtown.

Gaston County encompasses approximately 364 square miles and borders Mecklenburg County and Charlotte to the west and the state of South Carolina to the south. It offers easy access to Charlotte, including Charlotte-Douglas International Airport. With a historical reliance on manufacturing and the textile industry, the county has suffered as manufacturing firms and mills have reduced operations and/or closed. Nonetheless, the textile industry continues to be a significant employer. Once known as the "combined yarn capital of the world," Gaston County still leads all other counties in the state both in the number of spindles in operation and the number of bales of cotton consumed. Pertinent facts about the county are summarized below:

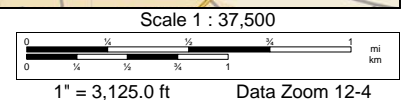
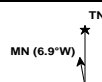
- The county offers 16 business parks in a variety of locations and price ranges.
- Gastonia is the largest municipality with a population in excess of 70,000.
- The largest employers in the county are listed in the following table:



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**LARGEST EMPLOYERS
GASTON COUNTY**

Employer	Number of Employees
Gaston County Schools	1,000 & over
CaroMont Health	1,000 & over
Freightliner Mount Holly LLC	1,000 & over
Wix Filtration Corporation	1,000 & over
County of Gaston	1,000 & over
Wal-Mart Associates, Inc.	1,000 & over
Pharr Yarns, Inc.	1,000 & over
American & Efird, Inc.	1,000 & over
Freightliner of Gastonia LLC	1,000 & over
City of Gastonia	500-999

Source: Gaston County Economic Development Commission, April 2007

- Institutions of higher education in Gaston County include Gaston College, a county-supported community college, and Belmont Abbey College, a private four-year institution.
- Benefitting from proximity to Mecklenburg County and Charlotte, the eastern portion of Gaston County has experienced significant residential and retail development. According to the City of Gastonia, there are more than 46,000 commuter work trips between Gaston and Mecklenburg counties on a daily basis.
- Gaston County's arts community features several significant museums as well as the Daniel Stowe Botanical Gardens, which borders Lake Wylie and is recognized as one of the finest perennial gardens in the southeastern United States.

As depicted by the map on the facing page, the subject site is located in the northwest quadrant of Franklin Boulevard and Marietta Street in downtown Gastonia. The neighborhood continues northward on U.S. 321 towards Exit 17 on I-85, and eastward along I-85 to Exit 21 (Cox Road).

Access throughout the neighborhood is excellent via I-85 or several surface routes, including Franklin Boulevard. Over its length, I-85 is a north/south highway; however, it traverses Gaston County in an east/west manner. To access the site from I-85, eastbound motorists take Exit 17, while westbound motorists utilize Exit 19. From Exit 17, motorists must exit to U.S. 321 south



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for approximately 1.6 miles, turn left on Franklin Boulevard and proceed three blocks. From Exit 19, motorists turn south on East Ozark Avenue (which becomes East Long Avenue), proceed approximately 1.5 miles, turn left on Marietta Street and proceed two blocks south.

New development in Gaston County has generally occurred east and north of downtown Gastonia, along I-85. Several prominent retail developments are located at I-85 Exits 20 and 21:

- **Westfield/Eastridge Mall** is the fourth largest enclosed mall in the Carolinas. Located at the I-85/New Hope Road interchange (Exit 20), it includes approximately 800,000 square feet and over 100 retail stores and restaurants. Dillard's, JC Penney, Matthews Belk, Sears and Goody's serve as anchor tenants.
- Located at I-85/Cox Road interchange (Exit 21), **Gaston Mall** is an older retail center with over 25 tenants such as Harris Teeter, Media Play, Mary Jo's Cloth Store, Lebo's, Jackson's Cafeteria and Dollar General.
- Also located near Exit 21, **Franklin Square** is a major retail center with over 1,000,000 square feet. Wal-Mart, Lowe's, Kohl's, Best Buy, Office Max, Ross Dress for Less, S&K Menswear and Pep Boys are some of the tenants, along with numerous other retail stores, restaurants and a movie theater.

Other developments of note in the neighborhood include **Gaston Memorial Hospital** and the **Schiele Museum of Natural History**. The highly rated, non-profit Gaston Memorial Hospital offers over 440 beds. The facility's services include outpatient eye, ear, nose and throat procedures, a comprehensive cancer center, a birthing center, a long-term care facility, urgent care, occupational medicine and home health care. Founded in 1960, the Schiele Museum of Natural History features the largest collection of land mammal species in the Southeast. It is designated as one of only 70 museums in the U.S. as an affiliate of the Smithsonian Institution, enabling it to work with Smithsonian artifacts and materials. The Schiele Museum offers visitors five permanent galleries and also includes outdoor recreations of an Indian village and an 18th century farm as well as a planetarium.



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As demonstrated by the foregoing, the majority of commercial development in Gaston County has occurred in the eastern portion of the county to serve the growing residential population, many of whom commute to Mecklenburg County and Charlotte. As the metropolitan area continues to expand, the central and western portions of Gaston County should benefit accordingly.

Consistent with national trends, the 1970s saw downtown Gastonia businesses move towards outlying areas proximate to I-85 and major surface routes. As a result, the downtown area currently suffers from a dearth of commercial activity beyond the traditional urban functions of banking and government. Downtown Gastonia accommodates approximately 1.1 million square feet of office and retail space in an approximate five-block area.

Encouraged by successes experienced by other smaller cities on Charlotte's periphery, the City is focused on encouraging new private investment with zoning ordinance modification and incentive programs for commercial and residential investment. In addition, the City itself made a major investment of \$6.3 million by renovating the 1911 Gaston County Courthouse, which now houses the James B. Garland Municipal Business Center, a one-stop government service facility.

For purposes of this analysis, we have assumed the City will continue to actively promote redevelopment of Gastonia's downtown area. We have further assumed that meaningful redevelopment momentum will be in place prior to the opening of the subject hotel.

RECOMMENDED FACILITIES

The guidelines for facilities and services outlined in this section of the report are based on our analysis of the properties in the competitive set as well as both the current desires and anticipated needs of the market. In order to better quantify the wants and needs of the market, we conducted a survey of potential hotel and conference center users to ascertain their potential utilization, as well as their requirements, particularly as they relate to meeting facilities.



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While the final configuration of the structure and its amenities will largely be determined by architectural and management considerations, the facilities as described herein were used as the basis for all further analyses.

Branding: Brand affiliation has become increasingly important to successful hotel operations. Accordingly, the competitive strengths and weaknesses of a particular brand can have a substantial impact on a property's performance. Based on our market analysis and our experience with similar projects, we recommend the development of a select-service hotel; e.g., Hilton Garden Inn, Hyatt Place, *aloft*, Cambria Suites, etc. Courtyard by Marriott would typically be included in this list; however, the brand is already represented in the Gastonia market.

Select-service (also referred to as focused-service) properties have been at the forefront of new hotel construction in recent years. For instance, over 100 Hilton Garden Inns have been constructed over the past three years alone. Similarly, Hyatt Place, *aloft* and Cambria Suites are newly introduced brands, yet each claims to have over 100 projects in their pipeline.

Select-service hotels are typically designed to cater to individual commercial travelers and weekend leisure guests. They offer many of the attributes of a full-service property (e.g., food and beverage outlets, and meeting space), but are generally smaller, cost less to develop and are operated more like limited-service properties. The catering services, multiple restaurants and extensive recreational amenities that characterize full-service hotels are typically omitted. In some instances, however, these hotels can be designed to function much like a full-service property. This is particularly true when they are connected or adjacent to free-standing meeting facilities or restaurants. It is our understanding that the City of Gastonia plans to develop a convention/conference facility adjacent to the subject hotel. We have also assumed that two or more new restaurants will be developed proximate the property.

Guest Rooms: Based on the needs and characteristics of the Gastonia market area, approximately 120 guest rooms appear to be appropriate. The largest hotel in Gastonia today is the Courtyard by Marriott at 130 rooms. The average size of properties in the competitive set is 103 rooms. The relative lack of commercial activity in the downtown area limits the recommended size of the subject. Of course, the property could be enlarged at a later date if market support exists.



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Due to the presence of the adjacent convention/conference center, the property will likely garner a material portion of its room-nights from groups. Still, careful consideration needs to be afforded the requirements of the other potential segments.

The property's orientation towards the group meeting market segment, which tends to be more prone to double occupancy, suggests that the majority of the guest rooms be double bedded. We therefore recommend that 60 percent of units be double bedded. Guest room design and furnishings will be based on standards for the selected brand; however, it is essential the hotel offer the highest quality guest rooms in Gastonia. Typical select-service guest rooms range in size from 325 to 525 square feet.

Meeting Facilities: The ability of the proposed hotel to accommodate various sized groups will be an important factor to its year-round success. In order to maximize utilization, the property needs to accommodate significant levels of group meeting-related demand and thus lessen the impact of the peaks and valleys of seasonal leisure demand and the mid-week focus of commercial demand.

Conferences and meetings have long been an integral part of corporate and association efforts to maintain internal and external communications. As these types of organizations have grown in size and complexity, an increasing demand has evolved for facilities designed to hold conferences. Typical meeting locations which have been developed to house this demand range from corporate board rooms to hotels, resorts, country clubs, continuing education centers and dedicated conference centers. As the demand for appropriate facilities has become more pronounced, it is essential that the meeting space be of a suitable design.

We recommend that the meeting facility contain at least 10,000 to 12,000 square feet of usable meeting space. In terms of the size of the facilities required, our interviews revealed most companies require smaller breakout space in which to conduct management/planning retreats, sales meetings and training sessions. Demand for larger space for special, typically formal, functions was also mentioned, but is not apt to be required as often as smaller meetings. The following configuration is recommended:



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Space	Total Square Footage
Ballroom, divisible into four sections	7,000 to 8,000
Dedicated breakout rooms (six to eight)	3,000 to 4,000
Boardroom	<u>400</u>
Total	<u>10,400 to 12,400</u>

The ballroom should allow for the hosting of groups of moderate size (at least 400 banquet style). Breakout rooms are designed primarily for dividing larger general meetings into smaller, more intensive groups oriented toward accomplishing specific tasks. These rooms are a necessity when accommodating a convention offering concurrent sessions. The boardroom is best suited to small corporate groups desirous of dedicated space.

Audio/visual aids should be available in major gathering rooms, operated by the meeting department staff. An audio/visual technician should be available to keep all equipment in proper working condition.

General considerations which should be incorporated into meeting rooms are:

- The rooms should be well lit with flexible fluorescent and incandescent lighting controlled by rheostats with the capability for track lighting and spotlights.
- Boardroom chairs should be comfortable and equipped with arm rests.
- Table arrangements should include different configurations such as circles, squares, U-shape and classroom. This generally requires rooms which are nearly square or only slightly rectangular in shape.
- Both ceiling and walls should be acoustically superior and provide good sound absorption. The walls should be sufficiently soundproof to minimize noise from other meeting rooms.
- The meeting rooms should be carpeted in an unobtrusive color.



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- Walls should have adequate tack boards for the hanging of charts and other written material.
- Meeting room positioning should permit convenient access from banquet kitchen facilities and provide for adequate “back of the house” service corridors.

We recognize that the City perceives a need for space to accommodate local events or civic functions. These types of events, typically accruing to a “civic center” could certainly be accommodated by the subject hotel and conference center. It should, nonetheless, be recognized that few room-nights are generated therefrom. For this reason, hotels often limit the use of meeting space for these types of functions if other groups generating room-nights are available.

Food and Beverage Facilities: Significant food and beverage facilities within a hotel generally represent higher risks, require significant management time and expertise and often detract from the overall profitability of the hotel. While select-service hotels include a restaurant and lounge, these facilities are typically limited in scope. Accordingly, the inclusion of a banquet kitchen within the convention/conference center will be required, as will the presence of adjacent independently-operated restaurants.

Other Facilities: The hotel also should offer amenities typical of a select-service hotel including an indoor swimming pool and whirlpool spa, an exercise facility, a business center and a sundry shop.

It should be noted that our facilities recommendations are general in scope. The ultimate configuration of the building will be dictated by architectural and management considerations as well as the requirements of the selected franchisor.

HOTEL INVESTMENT MARKET OVERVIEW

In the analysis of hotel investments, it is essential to understand overall market trends and their potential impact on a given property. The following paragraphs outline factors influencing the current hotel investment market.



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Throughout the 1980s, hotels were developed at a record pace. The unparalleled activity was due to several factors, the most prominent of which were a highly favorable tax code, substantial availability of funds through savings and loan establishments, and the introduction of a large number of new limited-service brands. The resulting oversupply caused many hotels to decline in value during the early 1990s as net operating income levels plummeted. In addition, the failure of numerous lending institutions placed vast numbers of assets in the hands of federal regulators, many of which were disposed of at below-market values.

In the mid-1990s, market conditions improved. In fact, until late 1998, there were far more willing buyers than willing sellers, particularly with the advent of several highly capitalized real estate investment trusts (REITs) and other large equity groups targeting the hotel industry.

After several years of declining occupancy, the nation's lodging industry began improving in 1992. Continued gains in occupancy and stronger rate growth were experienced from 1993 through 1995, with ADR increasing at a pace in excess of inflation in 1994 and 1995. Strong rate growth was upheld in 1996, but occupancy began a slight decline. This trend continued in 1997. Since 1997, national supply and demand conditions have changed as depicted below.

OCCUPANCY, AVERAGE DAILY RATE AND REVPAR NATIONAL LODGING MARKET 1997 THROUGH 2007						
Year	Occupancy	Percent Change	Average Daily Rate	Percent Change	RevPAR	Percent Change
1997	64.5%	-	\$ 75.31	-	\$48.58	-
1998	63.8	(1.1%)	78.15	3.8%	49.86	2.6%
1999	63.1	(1.1)	81.29	4.0	51.29	2.9
2000	63.7	1.0	86.04	5.8	54.81	6.9
2001	59.8	(6.1)	84.45	(1.8)	50.49	(7.9)
2002	59.0	(1.3)	83.19	(1.5)	49.04	(2.9)
2003	59.1	0.2	83.11	(0.1)	49.11	0.1
2004	61.3	3.7	86.24	3.8	52.88	7.7
2005	63.1	2.9	90.95	5.5	57.39	8.5
2006	63.3	0.3	97.89	7.6	61.96	8.0
2007	63.2	(0.2)	103.64	5.9	65.50	5.7

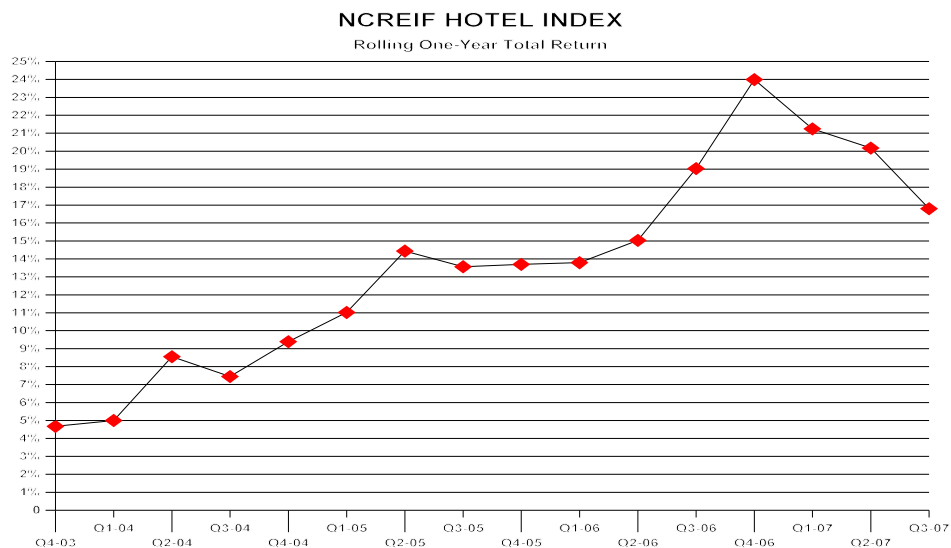
Source: Smith Travel Research and Atlantic Hospitality Advisors



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As depicted, RevPAR was down 7.9 percent in 2001, primarily as a result of deteriorating economic conditions. Occupancies dropped precipitously after the September 11th terrorist attacks and then rebounded. However, it was not until 2005 that RevPAR returned to pre-September 11th levels.

Total returns on hotel investments as reported by NCREIF further demonstrate the steady improvement in industry performance. The following chart presents the median rolling one-year total return for the period from the fourth quarter of 2003 through the third quarter of 2007.



Several industry trends are evident:

- New construction has been limited over the past few years. According to Smith Travel Research, supply growth in 2005 was only 0.2 percent while demand grew at a rate of 3.1 percent. In 2006, demand was only slightly more than supply. In 2007, for the first time in several years, supply exceed demand. Supply grew 1.4 percent while demand grew 1.2 percent. Most analyst expect the gap to widen in 2008, though, from a historical perspective, supply growth will still be minimal.
- Institutional investors are still able to obtain large, full-service hotels at less than cost, thus inhibiting new construction of these type properties. As a result,



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demand for existing full-service product is fierce. Well-located, strongly-branded hotels, particularly in resort environments, routinely sell at single-digit capitalization rates.

- Until recently, demand for sites by condominium developers in coastal and/or resort locations, had severely limited the construction of hotels in these environments. In fact, the inventory of hotel rooms actually shrunk in some markets as hotels were converted to condominium use. In recent months this situation has largely subsided. The exodus of speculators from the market has left a severe imbalance between supply and demand in many areas.
- Major hotel companies have a renewed interest in developing new brands. Intercontinental's introduction of Hotel Indigo, Choice Hotels' development of Cambria Suites, Starwood's recent announcement of the *aloft* and Element brands and Global Hyatt Corporation's launch of Hyatt Place have garnered considerable attention. Most of the new brands are aimed at the mid-market.
- The improvement in basic market dynamics, combined with the increased interest in new development, has allowed franchisors to insist on enhanced amenity packages. Complimentary hot breakfast and luxury bedding packages are examples.
- Dramatic increases in construction costs have forced many would be developers to consider acquisitions instead, resulting in greater demand for product and lower capitalization rates.
- Private equity firms have developed an extreme appetite for REITs. Eight such acquisitions were announced or closed in 2007. The latest examples are Goldman Sachs purchase of Equity Inns, Inc. and Inland American's acquisition of Apple Hospitality Five.
- Prompted by the troubles of the sub-prime mortgage market, securitized mortgage lending recently has come to a dramatic halt. Thus, the massive debt availability that characterized the industry in recent years has diminished considerably.
- The post-September 11th downturn in industry performance forced operators to reassess labor productivity. As a result, the number of employees per occupied room declined seven percent from 2001 to 2003. Although market fundamentals have since improved, the labor productivity gains remain.



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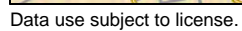
The forecast for the industry is generally favorable, absent a significant downturn in national economic conditions. Though occupancy for 2007 was flat, ADR continued to grow at a rapid pace resulting in RevPAR growth of 5.9 percent. Most analysts anticipate a slowing of overall demand growth. Still, minimal supply growth should ensure a healthy operating environment for the foreseeable future.

SUPPLY AND DEMAND ANALYSIS

The supply and demand analysis involves a qualitative and quantitative evaluation of the lodging facilities in Gastonia with which the proposed select-service hotel would potentially compete for various segments of demand. The analysis is for the period through 2014 to encompass the first five full years of operation for the subject following its anticipated opening by January 1, 2010. This section includes a description of the existing supply of, and demand for, hotel rooms in the subject market area, identification of proposed competitive properties, and a discussion of the growth potential of area demand by segment.

Existing Competitive Facilities: There are currently five lodging facilities located in Gastonia which would compete to some degree with the subject 120-room select-service hotel. While other lodging facilities are located in the market area, they are not considered to be directly competitive due to disparities in terms of size, markets served, quality of facilities and/or rate structure.

The tables on the following page provide a summary profile of the defined competitive properties. The map facing the tables depicts the location of each property in relation to the subject hotel.



**SUMMARY OF COMPETITIVE PROPERTIES
GASTONIA
PROPOSED 120-ROOM SELECT-SERVICE HOTEL**

Name of Property	Number of Units	Year Opened	Estimated 2007			Estimated 2007 Demand Segmentation			Total Sq. Ft. Meeting Space	Amenities
			Percent Occupancy	Average Daily Rate	RevPAR ¹	Commercial	Leisure	Group		
Holiday Inn Express Gastonia	81	2005	70%-74%	\$65-\$69	\$50-\$74	60%	25%	15%	800	B-D-E-F
Courtyard by Marriott Gastonia	130	2001	70-74	85-89	65-69	65	20	15	3,000	A ² -B-D-F
Fairfield Inn by Marriott Gastonia	89	1997	75-79	70-74	50-54	55	35	10	450	B-D-E-F
Comfort Suites Gastonia	109	1996	65-69	80-84	50-54	60	25	15	2,200	C-D-E-F
Hampton Inn Charlotte-Gastonia	<u>109</u>	1990	70-74	85-89	60-64	65	20	15	Minimal	C-E-F
Total/Averages	<u>518</u>		72%	\$80.00	\$57.75	61%	25%	14%		

Name of Property	Fair Market Share	Estimated 2007 Market Share Percentage ³				Estimated 2007 Market Penetration as a Percentage of Fair Market Share ⁴				RevPAR Penetration ⁵
		Total	Commercial	Leisure	Group	Total	Commercial	Leisure	Group	
Holiday Inn Express Gastonia	15.64%	16.02%	15.65%	16.34%	17.05%	102%	100%	105%	109%	88%
Courtyard by Marriott Gastonia	25.10	25.71	27.21	20.98	27.36	102	108	84	109	113
Fairfield Inn by Marriott Gastonia	17.18	18.08	16.19	25.82	12.82	105	94	150	75	93
Comfort Suites Gastonia	21.04	19.81	19.36	20.21	21.08	94	92	96	100	94
Hampton Inn Charlotte-Gastonia	21.04	20.39	21.59	16.64	21.70	97	103	79	103	105

Notes:

- ¹ Occupancy x average daily rate.
- ² Restaurant is open for breakfast only.
- ³ Property's accommodated demand divided by total demand accommodated in market.
- ⁴ Market share percentage divided by fair market share.
- ⁵ Property's RevPAR divided by market RevPAR.

Amenities Key

- | | |
|--------------------|--|
| A = Restaurant (s) | E = Complimentary Breakfast and/or Social Hour |
| B = Indoor Pool | F = Complimentary High-Speed Internet Access |
| C = Outdoor Pool | |
| D = Exercise Room | |

Source: Properties concerned and Atlantic Hospitality Advisors



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The following paragraphs present additional information about each of the competitive properties.

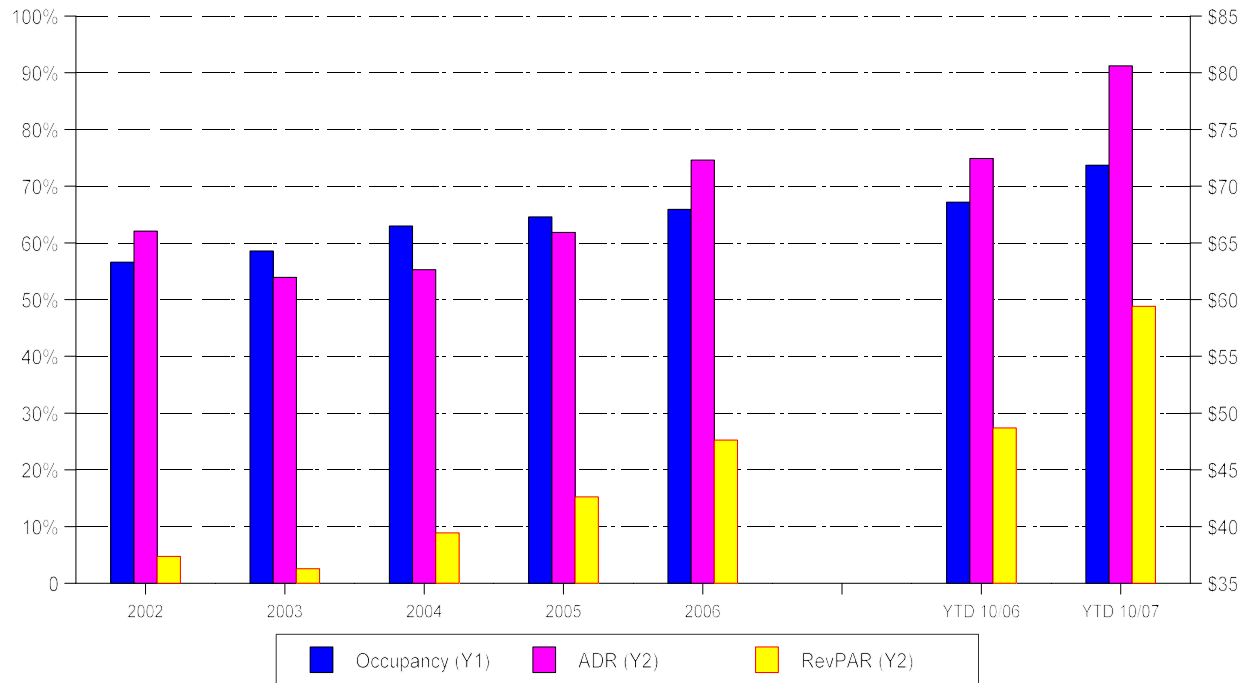
- The 81-room ***Holiday Inn Express Gastonia*** opened in 2005 and is located in the northwest quadrant of the I-85/U.S. 321 interchange. This is the newest property in the competitive supply and, while it is located adjacent to a Microtel and a Motel 6, it competes primarily with hotels located at Exit 17, three miles east on I-85. In general, this interchange lacks the more upscale retail and restaurants found at Exit 17. Still, the property's new facilities and generally high quality enable it to compete effectively with other hotels in the market. The owners of this property also own a Holiday Inn Express in Belmont, in far eastern Gaston County. While the Belmont property is not deemed to be competitive, it is noteworthy that the two hotels send overflow to each other.
- The ***Courtyard by Marriott Gastonia*** opened in 2001 and is located, along with the other competitive hotels, at Exit 17 in the northeast quadrant of the I-85/New Hope Road interchange. With 130 rooms, the Courtyard is the largest and highest quality property in Gastonia. It offers an indoor swimming pool as well as approximately 3,000 square feet of meeting space. It achieves the highest RevPAR among all competitive properties and would likely be the subject's most direct competitor.
- The 89-room ***Fairfield Inn by Marriott Gastonia*** opened in 1997 and is located adjacent to and immediately east of the Courtyard. Owned and operated by the same company as the Courtyard, the Fairfield Inn captures a higher percentage of I-85 motorists due to its lower pricing structure. It offers an indoor swimming pool and an exercise room.
- The ***Comfort Suites Gastonia*** is located adjacent to and immediately east of the Fairfield Inn. This property offers 109 larger guest units, each of which is equipped with a microwave oven, a small refrigerator and a wet bar. The hotel has approximately 2,200 square feet of meeting space. With its oversized units, the property is particularly successful in capturing weekend sports groups, most of which require multiple occupancy.
- The 109-room ***Hampton Inn Charlotte-Gastonia*** is located just south of the Courtyard, Fairfield Inn and Comfort Suites. This property was built in 1990 and is the oldest property in the competitive set. Nonetheless, its exceptional brand

**MARKET AREA SUPPLY, DEMAND, OCCUPANCY, AVERAGE DAILY RATE AND REVPAR TRENDS
GASTONIA¹
2002 THROUGH OCTOBER 2007**

Year	Annual Supply	Percent Change	Accommodated Demand	Percent Change	Occupancy	Percent Change	Average Daily Rate	Percent Change	RevPAR	Percent Change
2002	159,505	-	90,246	-	56.6%	-	\$66.04	-	\$37.37	-
2003	159,505	0.0%	93,415	3.5%	58.6	3.5%	61.96	(6.2%)	36.29	(2.9%)
2004	159,505	0.0	100,416	7.5	63.0	7.5	62.64	1.1	39.43	8.7
2005	176,839	10.9	114,318	13.8	64.6	2.7	65.92	5.2	42.61	8.1
2006	189,070	6.9	124,538	8.9	65.9	1.9	72.30	9.7	47.62	11.8
Compound Annual Change 2003-2006		4.3%		8.4%		3.9%		2.3%		6.2%
YTD 10/06	157,472	-	105,880	-	67.2%	-	\$72.44	-	\$48.70	-
YTD 10/07	157,472	0.0%	116,048	9.6%	73.7	9.6%	80.61	11.3%	59.40	22.0%

¹ Defined competitive supply.

Source: Smith Travel Research





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strength enables it to achieve the market's second highest RevPAR behind the Courtyard.

The table and the graph on the facing page depict trends in occupancy, ADR and RevPAR for the defined competitive supply since 2002. With the exception of 2003, market performance has consistently improved. 2002 was an exceptionally poor year for the nation's lodging industry and the Charlotte MSA was among the weakest markets. In an effort to increase occupancy (which was in the mid 50s), area operators chose to discount rates. Thus the decline in market ADR for 2003. Beginning in 2004 market conditions rapidly improved, and RevPAR increased over eight percent each of the next three years. Through October 2007, RevPAR was up 22 percent over the previous year. For the period 2002 through 2007, occupancy increased 15 points and ADR increased nearly 22 percent. It is instructive to note the absorption of the Holiday Inn Express Gastonia, which opened in June 2005. This property represented an increase in supply of 18.5 percent, yet demand increased 19.8 percent for the first 12 months after the property opened.

Supply Additions: Based on our research, we have not identified any additions to the competitive supply of guest rooms beyond the subject select-service hotel. A Hampton Inn is under construction near Belmont in far eastern Gaston County. However, due to its removed location relative to Gastonia and its orientation towards Mecklenburg County, we have not considered this property an addition to the competitive supply.

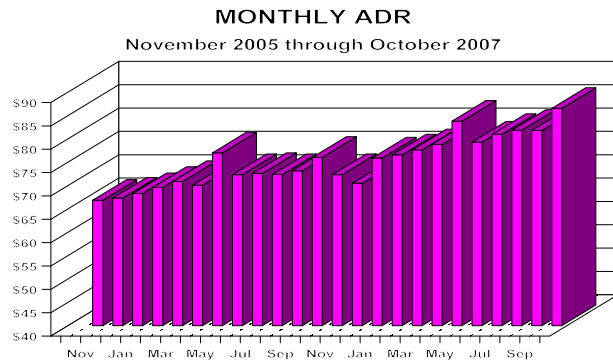
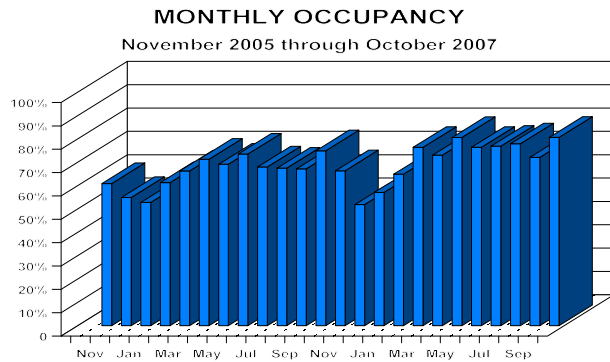
Should any other competitive supply additions occur beyond the subject, the estimates of occupancy (and perhaps ADR) contained herein would thus be affected and a revision might be required.

Principal Sources of Demand: The principal sources of demand for transient lodging accommodations in the market are the commercial, leisure and group segments. From our analysis of the operating performance of the existing competitive properties, it is estimated that the total demand accommodated by these properties in 2007 was segmented as follows:

**SEASONALITY TRENDS
DEFINED COMPETITIVE SUPPLY
GASTONIA
NOVEMBER 2005 THROUGH OCTOBER 2007**

Month	Occupancy		Average Daily Rate	
	2005/2006	2006/2007	2005/2006	2006/2007
November	60.9%	66.4%	\$66.88	\$72.36
December	54.9	51.9	67.34	70.51
January	52.8	57.1	68.31	75.92
February	61.3	64.9	69.63	76.60
March	66.3	76.4	70.88	77.67
April	71.3	73.1	70.10	78.83
May	69.2	80.6	77.03	83.79
June	73.5	76.4	72.35	79.32
July	68.0	76.9	72.62	80.98
August	67.5	77.9	72.38	81.87
September	67.2	72.1	73.16	81.82
October	74.9	80.7	76.05	86.54

Source: Smith Travel Research





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ESTIMATED ACCOMMODATED DEMAND SEGMENTATION DEFINED COMPETITIVE SUPPLY GASTONIA 2007		
Demand Segment	Annual Accommodated Room-Nights	Percent of Total Demand
Commercial	83,900	61%
Leisure	33,500	25
Group	<u>19,200</u>	<u>14</u>
Total	<u>136,600</u>	<u>100%</u>

Seasonality of Demand: The subject market experiences its strongest utilization levels during the spring and fall months, but also performs well during summer months. December is typically the slowest month of the year, when business demand is curtailed due to the holidays. With the exception of the holiday period, commercial demand is fairly consistent on a year-round basis and generally concentrated on Monday through Thursday nights. Leisure demand is strongest on weekends and generally corresponds with typical vacation patterns. Corporate-related group demand tends to be strongest in the spring and fall, while leisure-based group demand is strongest during the summer months. The graphs on the facing page profile the trend in seasonality for the defined competitive set from November 2005 through October 2007.

The following table depicts occupancy and ADR by day of week for the three-year period ended October 2007.



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**OCCUPANCY AND ADR BY DAY OF THE WEEK
DEFINED COMPETITIVE SET
GASTONIA**

Day of the Week	Occupancy	ADR
Sunday	43.0%	\$71.61
Monday	67.3	73.01
Tuesday	79.9	74.06
Wednesday	80.4	74.06
Thursday	67.7	72.21
Friday	63.8	70.14
Saturday	67.9	71.68
Three-Year Average	67.2%	\$72.55

Source: Smith Travel Research

The strong performance of the market mid-week reflects the dominance of the commercial segment, which contributes over 60 percent of total market demand. The market reaches capacity on a regular basis mid-week and occasionally on weekends. Therefore, a level of unaccommodated demand was included in our analysis.

Future Demand: Future room-night demand for the commercial, leisure and group demand segments was estimated based upon an analysis of key economic and demographic indicators. For each segment, relevant factors were identified and weighted according to their relative impact on demand. The annual growth rates estimated for each segment are discussed in the following paragraphs.

Commercial Demand: This segment consists of transient demand generated by vendors, service representatives, corporate executives and other visitors to area businesses and industries. Those commercial travelers on a per diem, such as government employees, tend to choose lower-priced facilities offering a good price/value relationship (and often including complimentary food and beverage), while business people on an expense account consider the quality of the accommodations to be more important than the price charged. Commercial demand within the subject market is generated by businesses and industries located within the immediate and surrounding area. Commercial demand in Gastonia emanates from a large number of companies, none of which are dominant demand generators. Among the largest



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room-night producers are CaroMont Health, Wix Filtration Corporation, Pharr Yarns, American & Efird and Freightliner.

As noted earlier, employment growth within the MSA increased at a compound annual rate of 1.3 percent over the past five years and was up 2.5 percent year-to-date November 2007 as compared to the first 11 months of 2006. Employment is projected to grow 2.2 percent compounded annually through 2015. Through November 2007, transient demand was up 2.5 percent nationally. It should be noted, however, that this figure includes both corporate and leisure transient guests.

Based on the foregoing, we have projected moderate, steady growth within this segment.

Leisure Demand: Leisure demand consists of pleasure visitors to the area as well as friends and relatives of local residents. Additionally, highway motorists on I-85 provide a significant amount of overnight leisure demand to area hotels. High gasoline prices and diminishing consumer confidence have negatively impacted leisure demand levels in most markets, particularly those with a highway orientation. Gaston County is not a primary tourist destination and much of the leisure demand in the market is driven by highway motorists. We therefore have projected flat near-term demand levels in this segment with modest increases thereafter.

Group Demand: The group meetings market, on a national level, is diverse and can be defined as follows.

- **Conventions:** Private groups or associations meeting to exchange ideas. National and regional associations generally prefer larger markets with activities for spouses. Gastonia's penetration of this sub-segment is likely to be limited to small associations. Larger events will undoubtedly accrue to Charlotte.
- **Conferences:** Small private groups conducting training sessions, sales presentations or exchanging ideas. The subject property should be well suited to these groups.
- **Assemblies:** These groups are typically larger and usually require tiered seating. Examples are Amway, religious groups, etc. The subject will not participate in this market.



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- **Trade Shows:** The primary purpose of a trade show is to bring buyers and sellers together within a particular industry. These events typically require large amounts of exhibit space. In general, trade show promoters try to attract as many participants as possible; accordingly, they are often held in major cities with extensive transportation networks and large populations.
- **Consumer Shows:** These events are organized to sell goods and/or services directly to the public and are usually space intensive. Most attendees are from the local area which serves to limit economic impact. Accordingly, few hotel room-nights are generated.
- **Special Events:** Most of these events are entertainment oriented (e.g. athletic events, concerts, festivals, large banquets, etc.). Depending upon the event, a substantial number of room-nights can be generated.

The vast majority of group meeting demand accommodated by the competitive set consists of small corporate groups holding meetings or conducting training, supplemented by SMERF (social, military, educational, religious and fraternal) and sports groups. The meeting facilities associated with the subject will be much more extensive than those offered in Gastonia today. Accordingly, management should be able to attract some groups that previously could not meet in the county.

Nationwide, group demand was up 0.3 percent year-to-date November. However, this statistic is heavily influenced by data collected from large convention-oriented hotels. In the case of Gastonia, group demand tends to be driven by the same forces that impact commercial and leisure growth and we have weighted growth in this segment accordingly.

Supply-Driven Demand: The subject will add 120 guest rooms to the market. The total impact of these new rooms should not, however, be fully visited on the defined competitive supply as the subject hotel will likely carry an affiliation currently not available in the area. The immediate absorption of the Holiday Inn Express in 2005 clearly demonstrates this phenomenon. "Supply-driven" demand has therefore been taken into account in our projected growth rates.

Overall Demand: The segmented growth rates and overall lodging demand growth anticipated for the subject lodging market are as shown in the following table. The higher than "normal" rates for 2010 reflect the opening of the subject and the demand that it is likely to induce. This



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is particularly true in the group segment due to the assumed presence of the City-owned convention/conference center.

ESTIMATED ANNUAL GROWTH RATES BY SEGMENT AND TOTAL DEMAND DEFINED COMPETITIVE SUPPLY GASTONIA 2007 THROUGH 2014								
Year	Commercial		Leisure		Group		Total	
	Percent Change	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change	Amount
2007	-	91,800 ¹	-	36,300 ¹	-	21,900 ¹	-	150,000 ¹
2008	1.5%	93,200	0.0%	36,300	0.8%	22,100	1.0%	151,600
2009	1.5	94,600	0.0	36,300	0.7	22,200	1.0	153,100
2010	5.3	99,600	2.4	37,200	31.1	29,200	8.4	166,000
2011	1.9	101,600	1.0	37,600	1.2	29,500	1.6	168,700
2012	1.9	103,500	1.0	38,000	1.2	29,900	1.6	171,400
2013	1.9	105,500	1.0	38,300	1.2	30,300	1.6	174,100
2014	1.9	107,600	1.0	38,700	1.2	30,600	1.6	176,900

¹ Includes unaccommodated demand as discussed herein.

Our projections of demand growth are relatively modest, particularly in view of the market's recent performance. It is important to note, however, that as yet unknown supply additions are likely given the high market occupancy level, thus the somewhat conservative projection.

Estimated Relationship of Supply to Demand: Based on the foregoing discussion of growth in demand for transient lodging facilities in the subject market, together with our analysis of existing and foreseeable supply characteristics, the following table indicates resulting market occupancy levels estimated for the defined competitive supply from 2007 through 2014.



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**ESTIMATED RELATIONSHIP OF SUPPLY TO DEMAND
DEFINED COMPETITIVE SUPPLY
GASTONIA
2007 THROUGH 2014**

Year	Estimated <u>Rooms Supply</u>		Estimated Annual <u>Demand in Room-Nights</u>		Estimated Market Area Occupancy ^B
	Daily	Annual	Total ^A	Accommodated	
2007	518 ¹	189,070	150,000	136,600	72%
2008	518	189,070	151,600	138,000	73
2009	518	189,070	153,100	139,400	74
2010	638 ²	232,870	166,000	162,800	70
2011	638	232,870	168,700	165,400	71
2012	638	232,870	171,400	168,100	72
2013	638	232,870	174,100	170,800	73
2014	638	232,870	176,900	170,800	73

^A Includes unaccommodated demand which cannot, due to capacity constraints, be totally accommodated.

^B Based on estimated levels of accommodated demand in the market area. Rounded to the nearest whole percentage point.

¹ Existing competitive supply.

² First full year of operation for the subject 120-room select-service hotel.

ESTIMATED LEVELS OF UTILIZATION

Prospective levels of utilization, market mix and average daily rates for the proposed hotel were determined through our evaluation of the property's competitive position, future supply and demand, and fair share penetration rates.

Summary of Meeting Planner Interviews: As part of our research, we conducted interviews with representatives of some of Gastonia's largest employers as well as planners with state and regional professional associations. The purpose of this research was to gauge the respondents' interest in utilizing a nationally-branded, 120-room hotel with 10,000 to 12,000 square feet of meeting space in downtown Gastonia.



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Parkdale Mills, Pharr Yarns, American & Efird, Stabilus, Food Lion and CaroMont Health were among the Gastonia corporations that participated in the interview process. Meeting planners with the Independent Garage Owners of North Carolina, the North Carolina Egg Association, the Southern Building Materials Association, the North Carolina Chapter of the American Institute of Architects, the North Carolina Land Title Association and the North Carolina Poultry Federation were among the associations that participated. While our sampling of local companies and professional associations was by no means meant to be exhaustive, several trends and consistent responses were evident by those interviewed:

- Most local companies interviewed have their own on-site meeting facilities which are suitable for the majority of their meeting needs. For example, CaroMont Health has an auditorium, three large meeting rooms and a dedicated catering staff and chef for their event facilities. Further, they make their space available at low or no cost to non-profit entities such as the Gaston County Commission and the Cancer Society.
- When local companies do host employees or visitors from out of town, they use the Gastonia properties located in the I-85 corridor, particularly the Courtyard, Comfort Suites and Holiday Inn Express. Typically, local companies negotiate annual sleeping room rates between \$60.00 and \$80.00 per night, depending on the property chosen. If a local company hosts a VIP guest, they will often utilize the Sheraton Charlotte Airport Hotel. Most of those interviewed stated they were satisfied by the quality of accommodations provided in the hotels they currently use.
- For the relatively infrequent times a local company wishes to host a larger social event not appropriate for on-campus meeting facilities, they will use the Sheraton Charlotte Airport Hotel or the River Hills Country Club. With respect to these events, local companies expressed much greater interest in the subject hotel.
- Some representatives from local companies expressed concern about safety and/or the lack of available restaurants and nightlife in downtown Gastonia. Clearly, this objection would need to be overcome to entice local companies to utilize the property.
- Generally speaking, the subject hotel would be most likely to host state and regional association events with approximately 100 to 200 attendees that require approximately 75 to 100 overnight sleeping rooms during the duration of their



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event. Gastonia would be in competition with cities in North Carolina such as Greenville, Fayetteville and Hickory. The property also would be well suited to the accommodation of larger corporate meetings. Continuing education classes would be a possibility; however, these events typically do not utilize a significant number of sleeping rooms and are generally booked to offer education to the association's local members.

- State associations often rotate their meetings to different areas of the state; e.g., Charlotte, the Triad area, Raleigh-Durham, the mountains or the beaches. Charlotte and Gastonia are considered to be in the same area, thus Gastonia would compete with Charlotte for certain meetings. When presented with the availability of a new, high-quality meeting-oriented hotel in Gastonia, most planners expressed they would likely continue to meet in Charlotte where they can typically negotiate reasonable Thursday through Saturday room rates, as well as offer meeting attendees a wide variety of dining and nightlife. Gastonia's advantage would be limited to smaller, price-sensitive groups who do not wish to be a minor customer in the larger Charlotte market, but prefer to be the dominant event in a smaller center.

If developed, it is apparent there would need to be a significant marketing effort on behalf of Gastonia to promote itself as an enticing meetings destination. This marketing effort would be further enhanced by a savvy and dedicated management and sales staff to target the property to the types of groups most likely to utilize it. For those planners unfamiliar with Gastonia, there was neither a negative nor a positive reaction to the community. This would be considered a positive as Gastonia formulated its message to reach the state and regional association planner community.

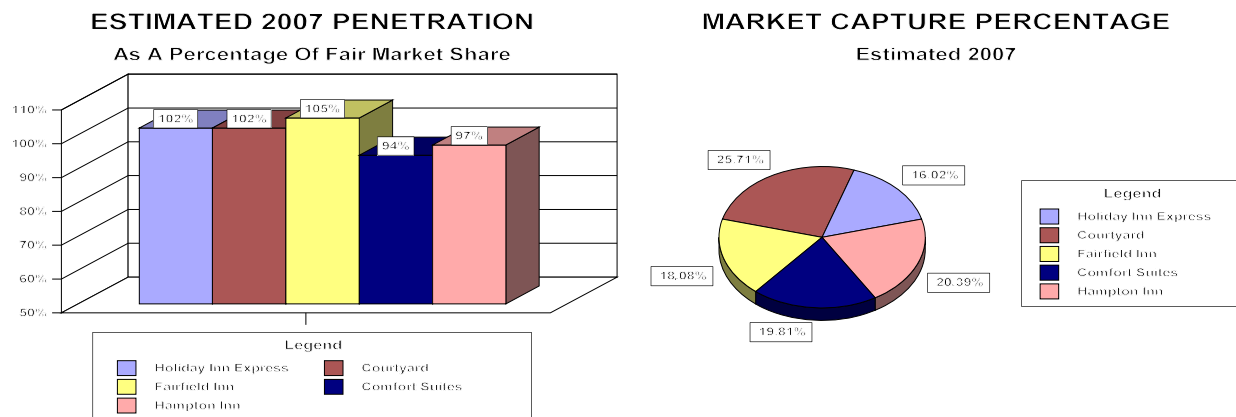
Estimated Occupancy and Market Segmentation: Prospective levels of utilization for the subject hotel have been analyzed for its first five full years of operation beginning January 1, 2010. Our quantitative analysis anticipated the hotel's ability to capture future market area demand in terms of its "fair share" percentage of the competitive room supply. Fair market share is based on the ratio of the hotel's available guest rooms to the total market supply.

As discussed previously, there are currently 518 rooms in the competitive market. This number will increase to 638 by January 1, 2010 with the opening of the subject. Accordingly, the subject's fair market share will be 120 divided by 638, or 18.81 percent. This fair market share is assumed to remain constant throughout the projection period based on our assumption no



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other supply additions will occur. The existing competitive properties' estimated 2007 penetration as a percentage of fair market share and market capture percentage are depicted by the following graphs.



The proposed hotel is anticipated to achieve a market penetration above its fair market share in the group segment and below its fair share in the commercial and leisure segments based on the following factors:

- The hotel will be the newest property in the market and will have 10,000 to 12,000 square feet of state-of-art meeting space, far more than any of the competitive properties.
- The subject will be affiliated with a strong national brand, likely one not currently represented in Gastonia.
- Gastonia currently is in its infancy with regards to downtown redevelopment. Designated a national historic district, areas of the downtown core are attractive. However, there is little evening activity, few restaurants and limited daytime office and retail activity at present. These factors must be resolved for the subject property to reach its potential. For purposes of this analysis, we have assumed the downtown area will gradually be redeveloped through the efforts of the City.

**ESTIMATED MARKET PENETRATION, OCCUPANCY AND MARKET SEGMENTATION
PROPOSED 120-ROOM SELECT-SERVICE HOTEL
GASTONIA, NORTH CAROLINA**

	2010	2011	2012	2013	2014
Commercial					
Market Area Accommodated Demand	97,600	99,500	101,400	103,400	105,400
Subject's Capture Percentage	14.21%	14.80%	15.38%	15.73%	15.48%
Room-Nights Captured	13,900	14,700	15,600	16,300	16,300
Penetration as a Percentage of Fair Market Share	76%	79%	82%	84%	82%
Leisure					
Market Area Accommodated Demand	37,000	37,300	37,700	38,100	38,500
Subject's Capture Percentage	12.90%	13.55%	13.95%	14.09%	13.91%
Room-Nights Captured	4,800	5,100	5,300	5,400	5,400
Penetration as a Percentage of Fair Market Share	69%	72%	74%	75%	74%
Group					
Market Area Accommodated Demand	28,200	28,600	28,900	29,300	29,600
Subject's Capture Percentage	29.94%	31.44%	31.50%	31.47%	30.97%
Room-Nights Captured	8,500	9,000	9,100	9,200	9,200
Penetration as a Percentage of Fair Market Share	159%	167%	167%	167%	165%
Total					
Market Area Accommodated Demand	162,800	165,400	168,100	170,800	173,500
Subject's Capture Percentage	16.64%	17.39%	17.83%	18.06%	17.78%
Room-Nights Captured	27,100	28,800	30,000	30,800	30,800
Penetration as a Percentage of Fair Market Share	88%	92%	95%	96%	95%
Market Segmentation					
Commercial	51.3%	51.0%	52.0%	52.9%	52.9%
Leisure	17.7%	17.7%	17.7%	17.5%	17.5%
Group	31.4%	31.3%	30.3%	29.9%	29.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Projected Occupancy	62%	66%	68%	70%	70%



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- The subject property's location in downtown is reasonably accessible from I-85; however, the hotels located along I-85 enjoy a significant competitive advantage relative to exposure and proximity to retail and full-service restaurant options.
- The subject hotel should be recognized as Gastonia's highest quality and only full-service property. Thus it should appeal to those guests desirous of the market's best accommodations regardless of price or location.
- The subject property will be the second largest hotel in the market.

Based on the foregoing considerations and assuming competent management, the penetration rates by segment and the resulting estimated occupancy and corresponding room-nights for the proposed select-service hotel are presented on the facing page. The stabilized occupancy represents a long-term average. Year-to-year fluctuations can be expected in actuality, and the property may in fact achieve occupancies and/or rates (as discussed below) higher or lower than those depicted herein during its initial five years of operation. The tables on the following facing page depict our projections of occupancy by day of the week and our projections of occupancy and ADR by month, respectively.

Estimated Average Daily Rate: The estimates of future average daily rates for the proposed select-service hotel are based on the following factors:

- The competitive advantages and disadvantages outlined previously;
- Anticipated rate structure relative to the competitive lodging supply; and
- Estimated economic inflation of 3.0 percent per annum.

Average daily rates for each of the competitive properties in 2007 were as follows:

**OCCUPANCY BY DAY OF THE WEEK
PROPOSED 120-ROOM SELECT-SERVICE HOTEL
GASTONIA, NORTH CAROLINA**

Year	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
2010	45%	60%	74%	76%	64%	56%	58%
2011	49	64	78	80	69	60	61
2012	52	67	81	83	72	62	63
2013	53	69	84	86	74	64	65
2014	53	69	84	86	73	63	65
Weekday Average (Sunday through Thursday) Stabilized Year							73%
Weekend Average (Friday and Saturday) Stabilized Year							64%

**OCCUPANCY AND ADR BY MONTH
PROPOSED 120-ROOM SELECT-SERVICE HOTEL
GASTONIA, NORTH CAROLINA**

Month	2010		2011		2012		2013		2014	
	Occ	ADR	Occ	ADR	Occ	ADR	Occ	ADR	Occ	ADR
January	37%	\$ 89	53%	\$ 92	55%	\$ 96	56%	\$ 99	56%	\$102
February	51	90	61	94	63	98	65	101	65	104
March	58	91	69	95	71	99	73	102	73	105
April	69	92	69	95	72	99	74	103	74	106
May	71	99	72	103	75	107	77	111	77	114
June	71	93	72	97	75	101	77	104	77	107
July	69	95	70	98	72	102	74	106	74	109
August	69	95	70	99	73	103	75	106	75	109
September	66	95	67	99	70	103	72	107	72	110
October	74	100	75	104	78	108	80	112	80	115
November	60	86	61	89	64	93	65	96	65	99
December	51	85	51	88	53	92	55	95	55	98
Annual	62%	\$ 93	66%	\$ 97	68%	\$101	70%	\$104	70%	\$107



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**ESTIMATED 2007 AVERAGE DAILY RATES
DEFINED COMPETITIVE SUPPLY
GASTONIA**

Property	Average Daily Rate
Holiday Inn Express Gastonia	\$65-\$69
Courtyard by Marriott Gastonia	85-89
Fairfield Inn by Marriott Gastonia	70-74
Comfort Suites Gastonia	80-84
Hampton Inn Charlotte-Gastonia	85-89
Market Average	\$80.00

Based on the anticipated branding and quality level of the subject property, the Courtyard by Marriott Gastonia provides the best benchmark for gauging the subject's ADR. While the Courtyard is an attractive and well-managed property, it must be recognized its ADR is well below the Courtyard brand average of \$124.52 (as of June 30, 2007). In fact, this is generally true for the remaining competitors. Despite recent gains in ADR, the Gastonia market is still quite rate sensitive.

The subject property will offer more extensive facilities and a higher quality of finish than the Courtyard. However, its location must be considered inferior, at least in the near to mid term. Further the subject's market segmentation is likely to be much more oriented towards price-sensitive groups than is the case with other Gastonia hotels.

On balance, the property should be able to achieve an ADR level comparable to the Courtyard and higher than the remaining properties in the competitive set as outlined in the following table.



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**ESTIMATED AVERAGE DAILY RATE AND REVPAR
PROPOSED 120-ROOM SELECT-SERVICE HOTEL
2010 THROUGH 2014**

Year	Average Daily Rate		RevPAR (Inflated Dollars)
	Constant 2007 Dollars	Inflated Dollars ¹	
2010	\$85.00	\$ 93.00	\$57.66
2011	86.00	96.75	63.86
2012	87.00	100.75	68.51
2013	87.00	104.00	72.80
2014	87.00	107.00	74.90

¹ Inflated annually at 3.0 percent and rounded to the nearest \$0.25. Inflation rates were based on the results of recent investor surveys and forecasts by the U.S. Congressional Budget Office.

FINANCIAL PROJECTIONS

Estimates of cash flow before debt service and income taxes have been prepared for the property's first five years of operation, 2010 through 2014. All projections and calculations were based on an analysis of the proposed facilities, operating data for comparable hotels, the experience of the consultants and industry statistics for similar type properties. Property taxes were based upon the assessments of comparable properties located in Gaston County. It should be noted that the City has a program whereby the subject project would be eligible to receive a rebate of property tax paid to the City amounting to \$0.54 for each \$100 of assessed value. In year one, 90 percent of the assessed value would qualify; in year two, 80 percent; in year three, 50 percent; and in year four, 40 percent.

In preparing the financial projections, stabilized year amounts were projected first on the bases presented in the following table. The fixed and variable components presented in the table were based on industry standards and the consultants' experience.



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BASES OF PROJECTIONS AND FIXED AND VARIABLE COMPONENT PERCENTAGES				
Line Item	Basis	Fixed	Variable	
Food Sales	\$30.00/occupied room	25%	75%	
Beverage Sales	\$6.00/occupied room	25	75	
Other F&B Income	\$10.00/occupied room	25	75	
Telephone Sales	\$0.65/occupied room	5	95	
Rentals and Other Income (Net)	\$1.50/occupied room	5	95	
Rooms Payroll	\$15.00/occupied room	70	30	
Rooms Other Expense/Breakfast	\$8.00/occupied room	35	65	
Food Cost	35.0% of food sales	10	90	
Beverage Cost	24.0% of beverage sales	5	95	
F&B Payroll	35.0% of food & beverage sales	70	30	
F&B Other Expense	10.0% of food & beverage sales	35	65	
Telephone Expense	150.0% of telephone revenues	10	90	
Administrative & General	\$2,800/available room	75	25	
Management Fees	3.0% of total revenues	0	100	
Chain Fees	9.3% of room revenues	0	100	
Marketing	\$2,000/available room	75	25	
Utility Costs	\$6.00/occupied room	65	35	
Property Operation & Maintenance	\$1,500/available room	75	25	
Property Taxes	\$95,000 annually after 2013	100	0	
Insurance	\$400/available room	100	0	
Replacement Reserve	2.0% to 4.0% of total revenues	0	100	

Each line item was evaluated on the most appropriate basis for that particular revenue or expense. For example, rooms department payroll was projected on a “per occupied room” basis versus a percentage basis since increases in average daily rate do not result in corresponding increases in payroll.

Prospective revenues and expenses were first prepared and expressed in constant 2007 dollars (see Exhibit I). These amounts were then inflated at 3.0 percent annually and rounded to the nearest thousand dollars. The 3.0 percent inflation rate was selected based upon the results of recent investor surveys and forecasts by the U.S. Congressional Budget Office. Statements were then prepared in inflated dollars (see Exhibit II). If higher or lower inflation rates are experienced, these statements would thus be affected and a revision would be appropriate. All account classifications generally conform to the definitions prescribed in the Uniform System of Accounts for the Lodging Industry.

**INVESTMENT SUMMARY
PROPOSED 120-ROOM SELECT-SERVICE HOTEL
GASTONIA, NORTH CAROLINA**

Assumptions:

Loan Amortization Period (Months):	240	Equity Amount:	\$3,600,000
Interest Rate (Monthly):	0.63%	Debt Amount:	\$8,400,000
Cost Per Room:	\$100,000	Monthly Payment:	\$67,670
Rooms:	120	Terminal Capitalization Rate:	9.50%
Total Costs:	\$12,000,000	Sales Costs:	2.00%
Equity Percent:	30.00%		
Debt Percent:	70.00%		

	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten
Cash Flow Before Debt Service	\$698,000	\$814,000	\$854,000	\$959,000	\$968,000	\$998,000	\$1,027,000	\$1,060,000	\$1,092,000	\$1,121,000
Annual Debt Service (Monthly Amortization)	812,038	812,038	812,038	812,038	812,038	812,038	812,038	812,038	812,038	812,038
Cash Flow After Debt Service	-114,038	1,962	41,962	146,962	155,962	185,962	214,962	247,962	279,962	308,962
Cash On Cash Return	-3.17%	0.05%	1.17%	4.08%	4.33%	5.17%	5.97%	6.89%	7.78%	8.58%
Unleveraged Internal Rate of Return										7.66%
Leveraged Internal Rate of Return										8.09%
Debt Service Coverage	0.86	1.00	1.05	1.18	1.19	1.23	1.26	1.31	1.34	1.38

Note: The foregoing is based upon market, financial and costs assumptions that may differ materially from actual circumstances. Accordingly, these projections should not be construed as results which will actually be achieved.



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Investment Summary: Based on the foregoing, we have prepared an investment summary as presented on the facing page, reflecting hypothetical return levels given certain investment parameters. The following assumptions were employed:

INVESTMENT SUMMARY ASSUMPTIONS	
Assumption	Amount
Project Costs	\$12,000,000
Interest Rate	7.50% per annum
Amortization Period	20 years
Equity Contribution	30.00%
Holding Period	10 years
Terminal Capitalization Rate	9.50%
Sales Costs	2.00%

It is important to note that these assumptions are based on broad investment parameters. Actual costs and terms will likely differ. Accordingly, the returns presented herein should not be construed as projections by Atlantic Hospitality Advisors.

As depicted by the investment summary, the project generates an unleveraged IRR of 7.66 percent and a leveraged IRR of 8.09 percent. Obviously, these returns will vary depending upon the actual project costs and debt terms. Returns of this magnitude are not sufficient to meet the yield requirements of most hotel investors. Thus it will be necessary to provide economic incentives to bridge the gap. Based on our conversations with City officials, it is our understanding that the following benefits could potentially accrue to the developers of a hotel on the subject site:

- The City will provide all land, in prepared form, without cost to the developer, as well as nearly all design, architectural and construction engineering for the project as an integrated whole.
- The City will fully finance the proposed 300-space parking deck, making it available to the private hotel developer/operator to manage. Preliminary estimates by the City suggest that the parking garage should generate approximately \$200,000 in net revenues for the hotel property annually.



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- The proposed location is fully eligible for (and is expected to receive, with facilitation by the City) New Market Tax Credits (NMTC). This program permits taxpayers to claim a credit against federal income taxes for Qualified Equity Investments (QEI) made to acquire an interest in Community Development Entities (CDEs). The investor, or a subsequent purchaser, receives a tax credit equal to five percent of the total amount invested over the first three years, and six percent over the following four years, for a total credit of 39 percent.
- The City expects to put in place a Tax Increment Financing (TIF) district. Such districts are created for the purpose of publicly financing certain redevelopment activities in underdeveloped areas. A tax increment is the difference between the amount of property tax revenue generated before TIF district designation and the amount of property tax revenue generated after the district designation. In this case, the tax increment will be used to fully fund a capital replacement reserve for the conference center and parking deck, fund and/or replenish a debt service reserve fund for City debt service on the conference center and parking deck, and to further fund surrounding streetscape and public infrastructure improvements.

The precise value of the incentives will vary depending upon the project costs and deal structure. Nonetheless, it can be assumed that the benefits are substantial and will materially alter investment returns.

TERMS AND CONDITIONS

The projections of occupancy, average daily rate and cash flow in this report are based on estimates, assumptions and other information developed from research of the market as of January 24, 2008, knowledge of the industry and other factors including certain information provided by you. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis may vary from the estimates, and these variations may be material. Further, the performance estimates assume the hotel will be professionally and effectively managed.

Atlantic Hospitality Advisors will make no representations or warranty as to the accuracy or completeness of the information contained within this report, including any estimates, and shall have no liability for any representations (expressed or implied) contained herein. This report



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is intended for your internal information only. Otherwise, neither our report, nor any reference to our firm, may be included or quoted in any offering circular or registration statement, prospectus, sales brochure or appraisal.

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We appreciate your consideration of Atlantic Hospitality Advisors for professional services. Please contact us should you have any questions regarding this report.

Sincerely,

ATLANTIC HOSPITALITY ADVISORS

HBS/mrk (07-130)

CONSTANT 2007 DOLLAR FINANCIAL STATEMENTS

PROPOSED 120-ROOM SELECT-SERVICE HOTEL
GASTONIA, NORTH CAROLINA
PROJECTED CASH FLOW FROM OPERATIONS BEFORE
DEBT SERVICE AND INCOME TAXES
EXPRESSED IN THOUSANDS OF CONSTANT 2007 DOLLARS
2010 THROUGH 2014

	2010		2011		2012		2013		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Revenues:										
Rooms	\$2,308	63.1%	\$2,486	63.7%	\$2,591	64.2%	\$2,667	64.4%	\$2,667	64.4%
Food and Beverage	1,293	35.3	1,352	34.7	1,381	34.2	1,410	34.0	1,410	34.0
Telephone	18	0.5	19	0.5	19	0.5	20	0.5	20	0.5
Rentals and Other Income (Net)	41	1.1	43	1.1	45	1.1	46	1.1	46	1.1
	3,660	100.0	3,900	100.0	4,036	100.0	4,144	100.0	4,144	100.0
Departmental Expenses:										
Rooms	671	29.1	688	27.7	697	26.9	705	26.4	705	26.4
Food and Beverage	953	73.7	977	72.3	989	71.6	1,001	71.0	1,001	71.0
Telephone	27	151.8	28	150.9	29	150.4	30	150.0	30	150.0
	1,651	45.1	1,694	43.4	1,715	42.5	1,736	41.9	1,736	41.9
Gross Operating Income	2,009	54.9	2,207	56.6	2,322	57.5	2,408	58.1	2,408	58.1
Undistributed Operating Expenses:										
Administrative and General	326	8.9	331	8.5	334	8.3	336	8.1	336	8.1
Management Fees	110	3.0	117	3.0	121	3.0	124	3.0	124	3.0
Chain Fees	215	5.9	231	5.9	241	6.0	248	6.0	248	6.0
Marketing	233	6.4	236	6.1	238	5.9	240	5.8	240	5.8
Utility Costs	177	4.8	180	4.6	182	4.5	184	4.4	184	4.4
Property Operation and Maintenance	126	3.4	153	3.9	179	4.4	180	4.3	180	4.3
	1,186	32.4	1,249	32.0	1,295	32.1	1,312	31.7	1,312	31.7
Cash Flow From Operations Before Fixed Charges	823	22.5	958	24.6	1,026	25.4	1,096	26.4	1,096	26.4
Fixed Charges:										
Property Taxes	65	1.8	69	1.8	78	1.9	82	2.0	95	2.3
Insurance	48	1.3	48	1.2	48	1.2	48	1.2	48	1.2
	113	3.1	117	3.0	126	3.1	130	3.1	143	3.4
Cash Flow From Operations Before Reserve For Replacement of Fixed Assets	709	19.4	841	21.6	900	22.3	966	23.3	953	23.0
Reserve For Replacement of Fixed Assets	73	2.0	117	3.0	161	4.0	166	4.0	166	4.0
Cash Flow From Operations Before Debt Service and Income Taxes	\$636	17.4%	\$724	18.6%	\$739	18.3%	\$800	19.3%	\$787	19.0%
Statistics:										
Number of Rooms	120		120		120		120		120	
Percentage of Occupancy		62%		66%		68%		70%		70%
Average Daily Rate	\$85.00		\$86.00		\$87.00		\$87.00		\$87.00	

Notes:

- Percentages of departmental expenses are to departmental revenue; all other percentages are to total revenue.
- Totals may not add due to rounding.

CONSTANT 2007 DOLLAR FINANCIAL STATEMENTS

EXHIBIT I
(Continued)

PROPOSED 120-ROOM SELECT-SERVICE HOTEL GASTONIA, NORTH CAROLINA PROJECTED ROOMS AND FOOD AND BEVERAGE DEPARTMENTAL INCOME EXPRESSED IN THOUSANDS OF CONSTANT 2007 DOLLARS 2010 THROUGH 2014

	2010		2011		2012		2013		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Rooms Department:										
Room Revenue	\$2,308	100.0%	\$2,486	100.0%	\$2,591	100.0%	\$2,667	100.0%	\$2,667	100.0%
Payroll and Related Expenses	444	19.2	452	18.2	456	17.6	460	17.2	460	17.2
Other Expenses	227	9.8	236	9.5	241	9.3	245	9.2	245	9.2
Departmental Income	\$1,637	70.9%	\$1,798	72.3%	\$1,895	73.1%	\$1,962	73.6%	\$1,962	73.6%
Food and Beverage Department:										
Revenues:										
Food	\$841	65.0%	\$880	65.1%	\$900	65.2%	\$920	65.2%	\$920	65.2%
Beverage	172	13.3	178	13.2	181	13.1	184	13.0	184	13.0
Other	280	21.7	293	21.7	300	21.7	307	21.7	307	21.7
	1,293	100.0	1,352	100.0	1,381	100.0	1,410	100.0	1,410	100.0
Cost of Food Sales	297	35.3	310	35.2	316	35.1	322	35.0	322	35.0
Cost of Beverage Sales	41	24.1	43	24.0	43	24.0	44	24.0	44	24.0
Total Gross Profit	955	73.8	1,000	73.9	1,022	74.0	1,044	74.0	1,044	74.0
Payroll and Related Expenses	481	37.2	487	36.1	491	35.5	494	35.0	494	35.0
Other Expenses	133	10.3	137	10.2	139	10.1	141	10.0	141	10.0
Departmental Income	\$340	26.3%	\$375	27.7%	\$392	28.4%	\$410	29.0%	\$410	29.0%

Notes:

- Percentages of departmental expenses are to departmental revenue.
- Totals may not add due to rounding.

INFLATED DOLLAR FINANCIAL STATEMENTS

**PROPOSED 120-ROOM SELECT-SERVICE HOTEL
GASTONIA, NORTH CAROLINA
PROJECTED CASH FLOW FROM OPERATIONS BEFORE
DEBT SERVICE AND INCOME TAXES
EXPRESSED IN THOUSANDS OF INFLATED DOLLARS
2010 THROUGH 2014**

	2010		2011		2012		2013		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Revenues:										
Rooms	\$2,526	63.1%	\$2,797	63.7%	\$3,001	64.2%	\$3,189	64.4%	\$3,281	64.4%
Food and Beverage	1,413	35.3	1,522	34.7	1,601	34.2	1,684	34.0	1,735	34.0
Telephone	19	0.5	21	0.5	22	0.5	24	0.5	25	0.5
Rentals and Other Income (Net)	45	1.1	49	1.1	52	1.1	55	1.1	57	1.1
	4,003	100.0	4,389	100.0	4,676	100.0	4,951	100.0	5,096	100.0
Departmental Expenses:										
Rooms	733	29.0	775	27.7	808	26.9	842	26.4	867	26.4
Food and Beverage	1,042	73.7	1,100	72.3	1,146	71.6	1,195	71.0	1,231	71.0
Telephone	29	151.8	32	150.9	34	150.4	36	150.0	37	150.0
	1,805	45.1	1,906	43.4	1,988	42.5	2,073	41.9	2,135	41.9
Gross Operating Income	2,198	54.9	2,482	56.6	2,688	57.5	2,879	58.1	2,961	58.1
Undistributed Operating Expenses:										
Administrative and General	356	8.9	373	8.5	387	8.3	401	8.1	413	8.1
Management Fees	120	3.0	132	3.0	140	3.0	149	3.0	153	3.0
Chain Fees	235	5.9	260	5.9	279	6.0	297	6.0	305	6.0
Marketing	255	6.4	266	6.1	276	5.9	287	5.8	295	5.8
Utility Costs	193	4.8	203	4.6	211	4.5	220	4.4	226	4.4
Property Operation and Maintenance	138	3.4	172	3.9	207	4.4	215	4.3	221	4.3
	1,297	32.4	1,406	32.0	1,501	32.1	1,567	31.7	1,614	31.7
Cash Flow From Operations Before Fixed Charges	902	22.5	1,077	24.5	1,187	25.4	1,311	26.5	1,347	26.4
Fixed Charges:										
Property Taxes	71	1.8	77	1.8	91	1.9	97	2.0	116	2.3
Insurance	52	1.3	54	1.2	56	1.2	57	1.2	59	1.2
	124	3.1	131	3.0	146	3.1	155	3.1	175	3.4
Cash Flow From Operations Before Reserve For Replacement of Fixed Assets	778	19.4	945	21.5	1,041	22.3	1,157	23.4	1,172	23.0
Reserve For Replacement of Fixed Assets	80	2.0	132	3.0	187	4.0	198	4.0	204	4.0
Cash Flow From Operations Before Debt Service and Income Taxes	\$698	17.4%	\$814	18.5%	\$854	18.3%	\$959	19.4%	\$968	19.0%
Statistics:										
Number of Rooms	120		120		120		120		120	
Percentage of Occupancy		62%		66%		68%		70%		70%
Average Daily Rate	\$93.00		\$96.75		\$100.75		\$104.00		\$107.00	

Notes:

- Percentages of departmental expenses are to departmental revenue, all other percentages are to total revenue.
- Totals may not add due to rounding.

INFLATED DOLLAR FINANCIAL STATEMENTS

EXHIBIT II
(Continued)

PROPOSED 120-ROOM SELECT-SERVICE HOTEL
GASTONIA, NORTH CAROLINA
PROJECTED ROOMS AND
FOOD AND BEVERAGE DEPARTMENTAL INCOME
EXPRESSED IN THOUSANDS OF INFLATED DOLLARS
2010 THROUGH 2014

	2010		2011		2012		2013		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Rooms Department:										
Room Revenue	\$2,526	100.0%	\$2,797	100.0%	\$3,001	100.0%	\$3,189	100.0%	\$3,281	100.0%
Payroll and Related Expenses	485	19.2	509	18.2	529	17.6	549	17.2	566	17.2
Other Expenses	248	9.8	266	9.5	279	9.3	293	9.2	302	9.2
Departmental Income	\$1,792	71.0%	\$2,022	72.3%	\$2,193	73.1%	\$2,347	73.6%	\$2,413	73.6%
Food and Beverage Department:										
Revenues:										
Food	\$919	65.0%	\$991	65.1%	\$1,043	65.2%	\$1,098	65.2%	\$1,131	65.2%
Beverage	188	13.3	200	13.2	210	13.1	220	13.0	226	13.0
Other	306	21.7	330	21.7	348	21.7	366	21.7	377	21.7
	1,413	100.0	1,522	100.0	1,601	100.0	1,684	100.0	1,735	100.0
Cost of Food Sales	325	35.3	348	35.2	366	35.1	384	35.0	396	35.0
Cost of Beverage Sales	45	24.1	48	24.0	50	24.0	53	24.0	54	24.0
Total Gross Profit	1,043	73.8	1,125	73.9	1,185	74.0	1,247	74.0	1,284	74.0
Payroll and Related Expenses	526	37.2	549	36.1	569	35.5	589	35.0	607	35.0
Other Expenses	146	10.3	154	10.2	161	10.1	168	10.0	173	10.0
Departmental Income	\$372	26.3%	\$422	27.7%	\$455	28.4%	\$489	29.0%	\$504	29.0%

Notes:

- Percentages of departmental expenses are to departmental revenue
- Totals may not add due to rounding.