



Conference Center Hotel Feasibility Study

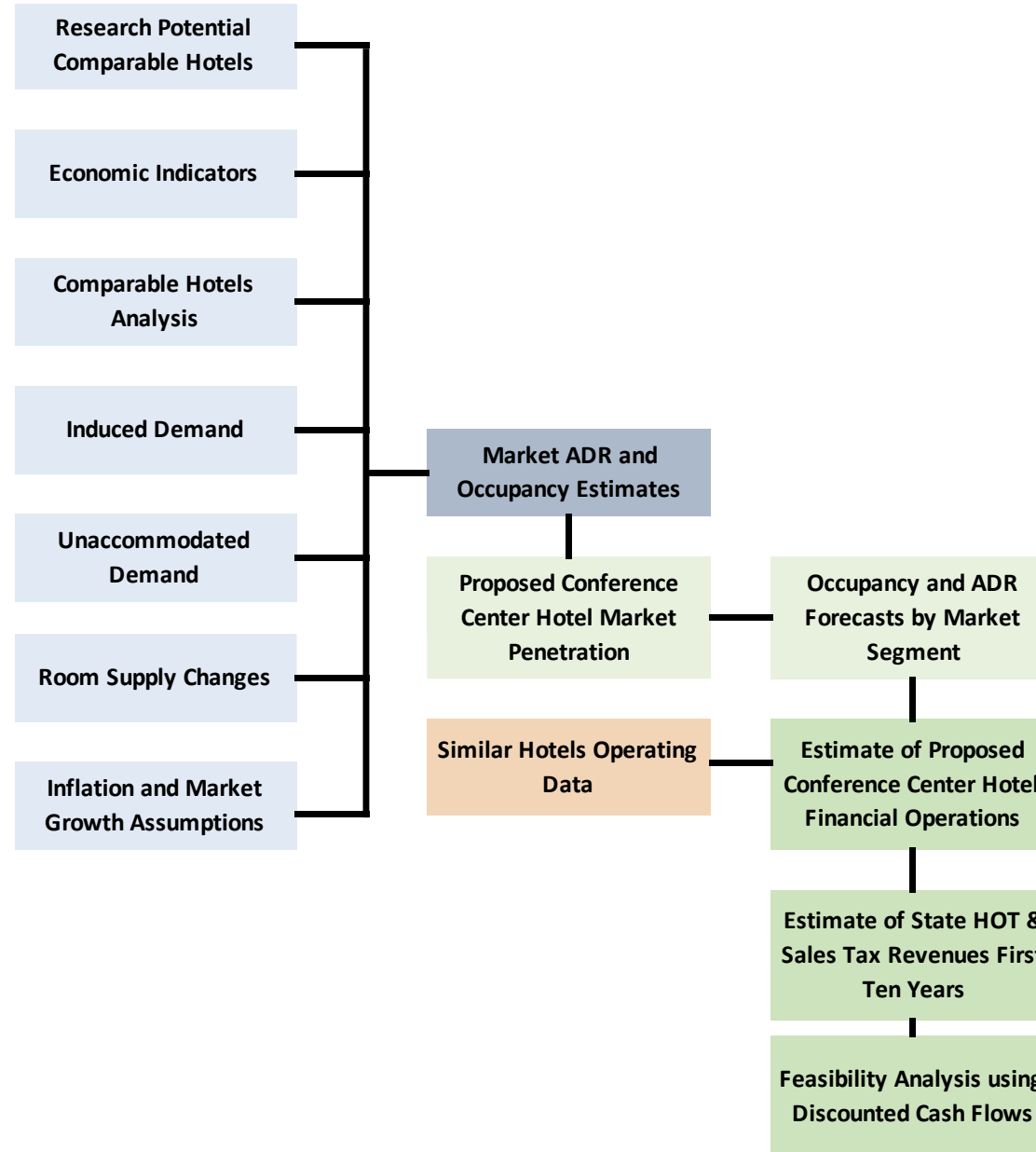
Fredericksburg, Texas

January 25, 2022

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Lodging Market Analysis

Hotel Feasibility Study Methodology

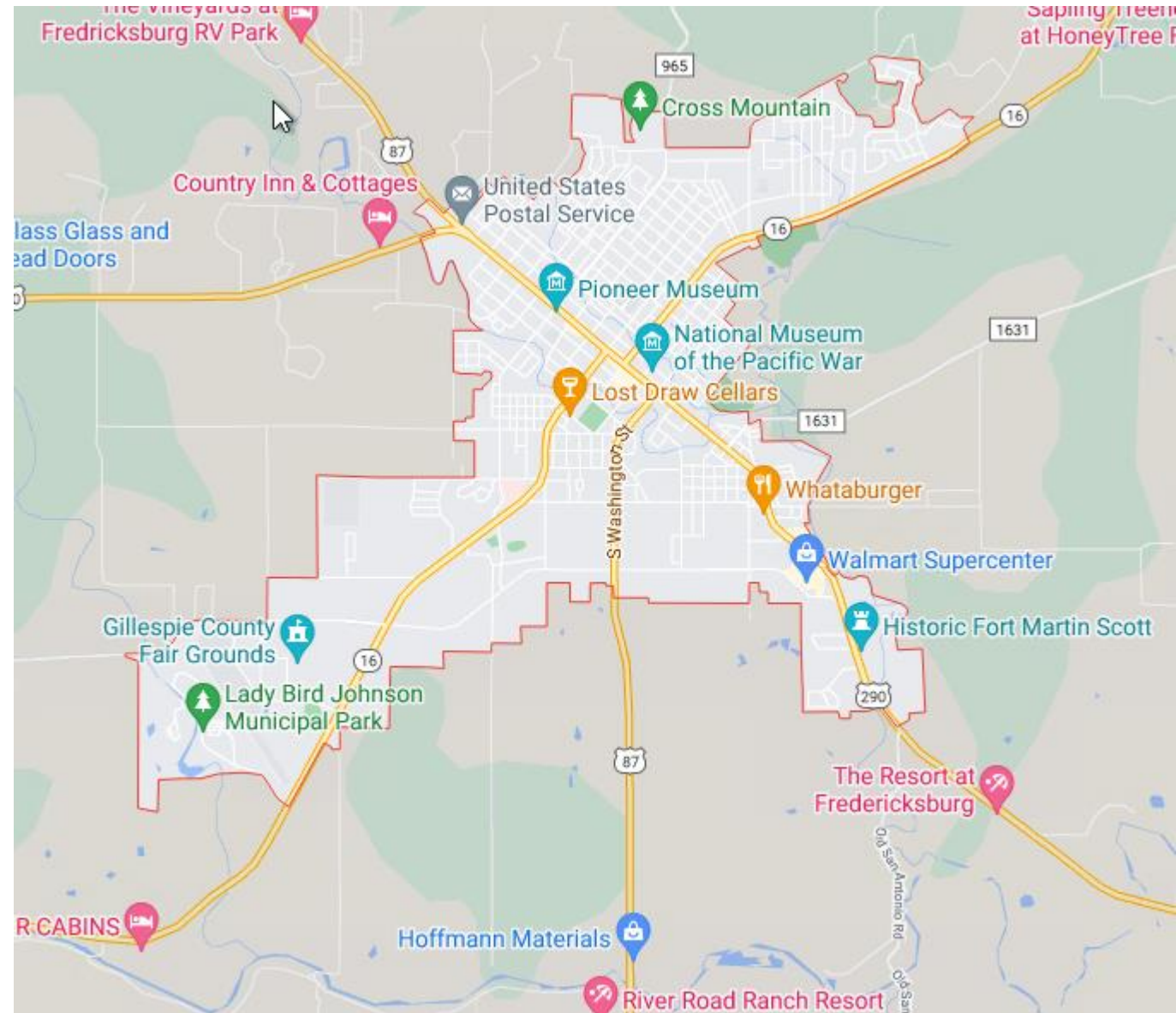


Site

The site for the proposed Conference Center Hotel has not been selected.

The site would be either:

- Located within the City limits
- Be able to be annexed into the City



Building Program

The proposed Conference Center Hotel would have a minimum of:

- 150 rooms
- 8,000 square foot ballroom
- 4,000 square feet of meeting rooms
- Restaurant with outside dining
- Lounge
- Pool bar with light food
- Outdoor pool and whirlpool
- Exercise room and business center

Guestroom Configuration

Keys

Kings	100
Queen/Queen	40
Suites	10
Total (ADA-Compliant Rooms per Local Code)	150

Food & Beverage Facilities

Seating Capacity

Full-Service with option Outside Dining	105
Lounge	38
Pool Bar with Light Food	30
Total Food and Beverage Capacity	173

Indoor Meeting & Banquet Facilities

Square Feet

Ballroom	8,000
Meeting Rooms (Six)	4,000
Total Sellable Meeting Space	12,000

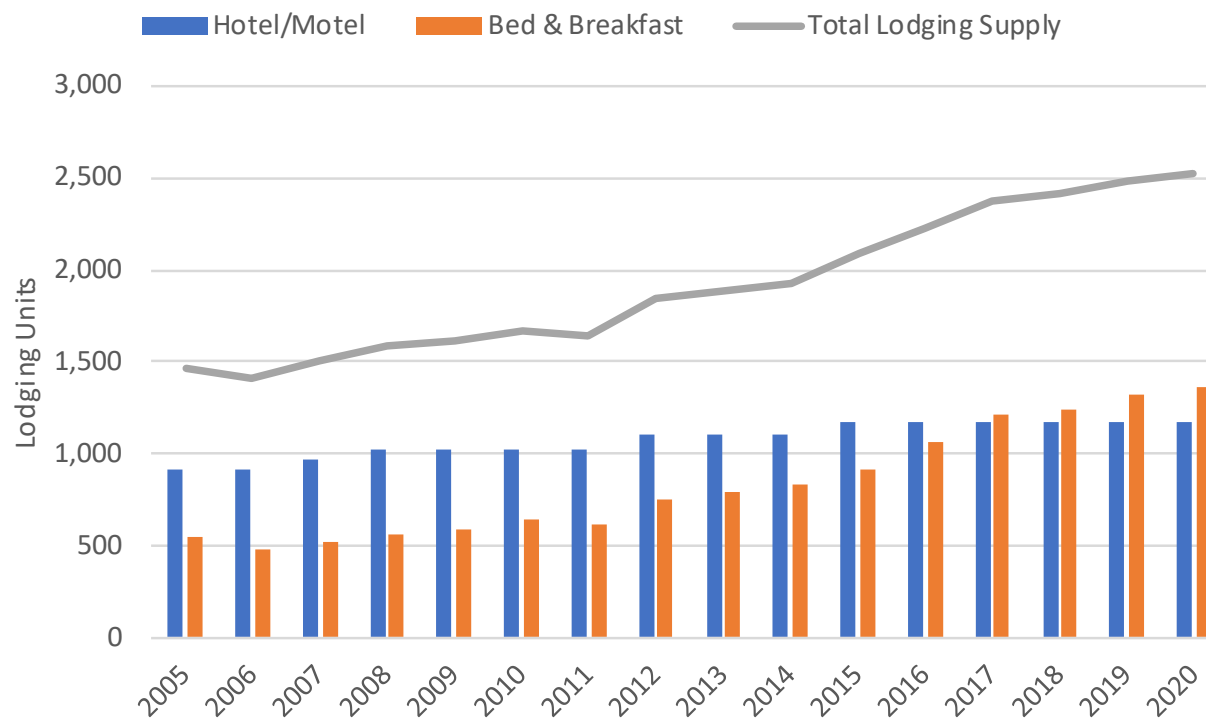
Amenities & Services

Outdoor Pool	Business Center
Outdoor Whirlpool	Market Pantry
Fitness Center	Guest Laundry Area

Infrastructure

Parking Spaces Hotel	150 Spaces
Elevators	2 Guest/1 Service
Life Safety Systems	Sprinklers, Smoke Detectors
Construction Details	Building Height Restriction Three Stories

Gillespie County Lodging Supply Growth 2005-2020



Source: Gillespie County Economic Development Commission

The number of bed & breakfast units overtook the hotel/motel room supply in 2017.

From 2005 to 2020, total lodging supply grew at an annual rate of 3.72%:

- Hotel/motel grew at 1.61%
- Bed & breakfast grew at 6.34%

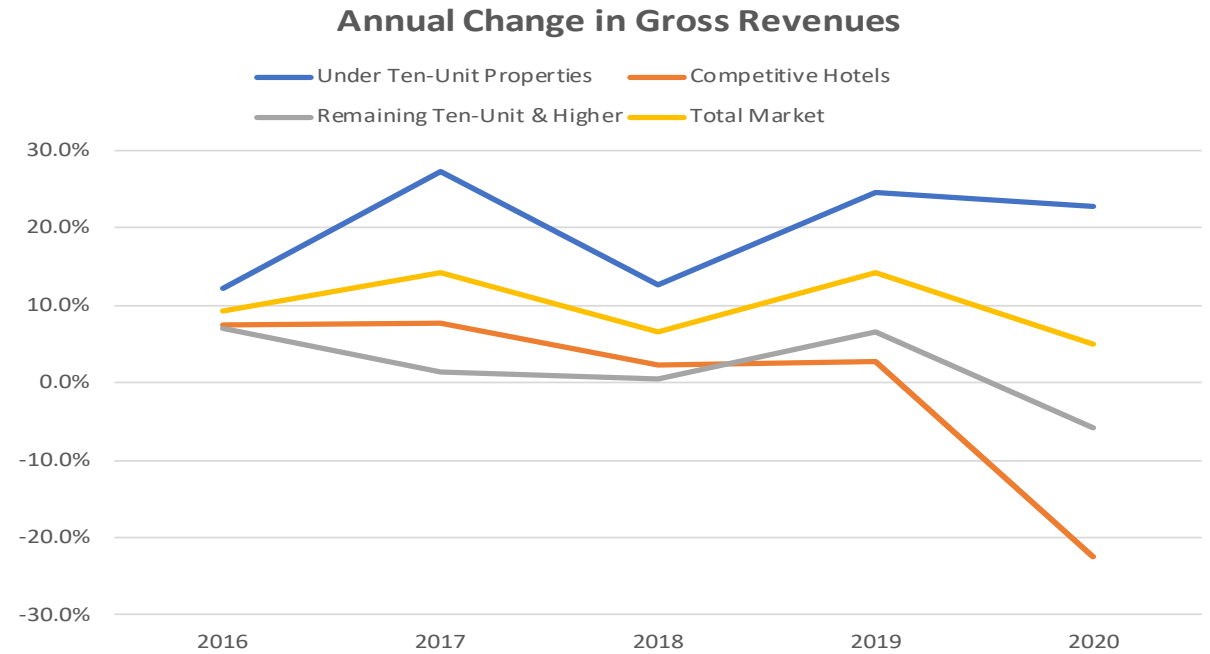
Gillespie County 2015-2020 Lodging Market

Gillespie County Lodging Market	2015		2016		2017		2018		2019		2020	
	Units	Gross Revenues	Units	Gross Revenues	Units	Gross Revenues	Units	Gross Revenues	Units	Gross Revenues	Units	Gross Revenues
Competitive Hotels	568	\$15,683,820	569	\$16,854,111	569	\$18,145,829	570	\$18,555,652	569	\$19,043,026	569	\$14,744,354
Remaining Ten-Unit & Higher	782	12,265,267	783	13,114,772	803	13,303,746	819	13,358,748	800	14,247,925	843	13,428,613
Under Ten-Unit Properties	745	18,790,614	873	21,104,048	1,002	26,883,641	1,022	30,292,226	1,120	37,748,730	1,112	46,360,575
Totals Lodging Revenues	2,095	\$46,739,700	2,225	\$51,072,931	2,374	\$58,333,216	2,411	\$62,206,626	2,489	\$71,039,682	2,524	\$74,533,541

Sources: Gillespie County Economic Development Commission & Texas Comptroller Office

Lodging revenues:

- Grew at an annual rate of 9.8% from 2015 to 2020
- Did not expand for the competitive hotels due to lack of new supply and the impact of the COVID-19 pandemic
- The under ten-unit portion of the market grew to 62% of total lodging revenues in 2020 due to supply growth and the impact of the COVID-19 pandemic on larger properties



Sources: Gillespie County Economic Development Commission & Texas Comptroller Office

Gillespie County Lodging Market Revenue per Available Room 2015-2020

Gillespie County Lodging Market	2015	2016	2017	2018	2019	2020
Competitive Hotels	\$76	\$81	\$87	\$89	\$92	\$71
Ten-Unit & Higher Properties	43	46	45	45	49	44
Under Ten-Unit Properties	69	66	74	81	92	114
Total Lodging Market	61	63	67	71	78	81

Sources: Gillespie County Economic Development Commission & Texas Comptroller Office

Gillespie County properties with less than ten units had Revenues per Available Room Night ("RevPAR") greater than the Competitive Hotels. Due to the unit size and Average Daily Room Rate ("ADR"), HVS considers the under ten-unit properties in the Gillespie lodging market to be secondary competitors of the proposed Conference Center Hotel.

The Competitive Hotels

HVS obtained information on the Competitive Hotels from Smith Travel Research and the Texas Comptroller Office. The selected properties submit ADR and occupancy information to Smith Travel Research.

HVS used 2019 data as the base year of our forecasts because it is more representative of a normal market than data from 2020 and 2021, during which the COVID-19 pandemic disrupted the lodging market.

Property	STR Class	Opened	Rooms
Fredericksburg Inn & Suites	Upscale	Jun 1996	103
Inn On Barons Creek	Upscale	Mar 2005	90
Fairfield Inn & Suites Fredericksburg	Upper Midscale	Feb 2015	78
Holiday Inn Express & Suites Fredericksburg	Upper Midscale	Jun 2012	76
Comfort Inn & Suites Fredericksburg	Upper Midscale	May 2004	57
Best Western Plus Fredericksburg	Upper Midscale	Mar 2002	56
La Quinta Inns & Suites Fredericksburg	Upper Midscale	Nov 2004	55
Hampton Inn & Suites Fredericksburg	Upper Midscale	May 2007	55
Total Rooms			570

Source: Smith Travel Research

Primary Competitors	2018			2019		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Best Western	60%	\$131	\$79	60%	\$134	\$80
Comfort Inn & Suites	60%	\$93	56	60%	112	67
Fairfield Inn & Suites	69%	\$129	89	64%	123	79
Fredericksburg Inn & Suites	56%	\$169	94	55%	181	100
Hampton Inn & Suites	76%	\$175	133	75%	177	133
Holiday Inn Express & Suites	74%	\$126	93	74%	131	96
Inn On Barons Creek	60%	\$154	92	60%	161	97
La Quinta Inn & Suites Fredericksburg	60%	\$121	73	60%	129	77
Total	64%	\$139	\$89	63%	\$146	\$92

Map of the Competitive Hotels

All the Competitive Hotels in Fredericksburg are near or in the downtown area. The properties are in either the upper midscale or upscale class as defined by Smith Travel Research.



Best Western Plus Fredericksburg



Comfort Inn & Suites Fredericksburg



Fairfield by Marriott Fredericksburg



Fredericksburg Inn & Suites



Hampton by Hilton Fredericksburg



Holiday Inn Express Fredericksburg



Inn on Barons Creek



La Quinta Inn & Suites Fredericksburg

Historical Performance of the Competitive Hotels

- From 2011 to 2021, annual room night demand grew approximately 1.2% faster per year than available room nights, causing the occupancy rate to rise.
- The 76-room Holiday Inn Express & Suites Fredericksburg opened in 2012.
- The 78-room Fairfield Inn & Suites Fredericksburg opened in 2015.
- The COVID-19 pandemic caused sharp declines in impacted occupancy in 2020, but ADR held steady.
- The complete year of 2021 occupancy data was not available at the time of this writing. But, based on year-to-date data from Smith Travel Research, HVS estimates that 2021 ADR and Occupancy will exceed pre-COVID levels.

Year	Available Room Nights	Annual Change	Occupied Room Nights	Annual Change	% Occ	Annual Change	ADR	Annual Change	RevPAR	Annual Change
2011	152,083		86,485		56.9%		\$114		\$65	
2012	168,104		95,749		57.0%		\$120		\$68	
2013	179,580		105,382		58.7%		\$125		\$73	
2014	179,580		110,394		61.5%		\$128		\$78	
2015	205,632		122,372		59.5%		\$129		\$77	
2016	208,050		123,004		59.1%		\$137		\$81	
2017	208,050		126,309		60.7%		\$138		\$84	
2018	208,050		132,889		63.9%		\$139		\$89	
2019	208,050		130,904		62.9%		\$146		\$92	
2020	206,400		99,260		48.1%		\$147		\$71	
2021*	208,050		133,152		64.0%		\$165		\$106	

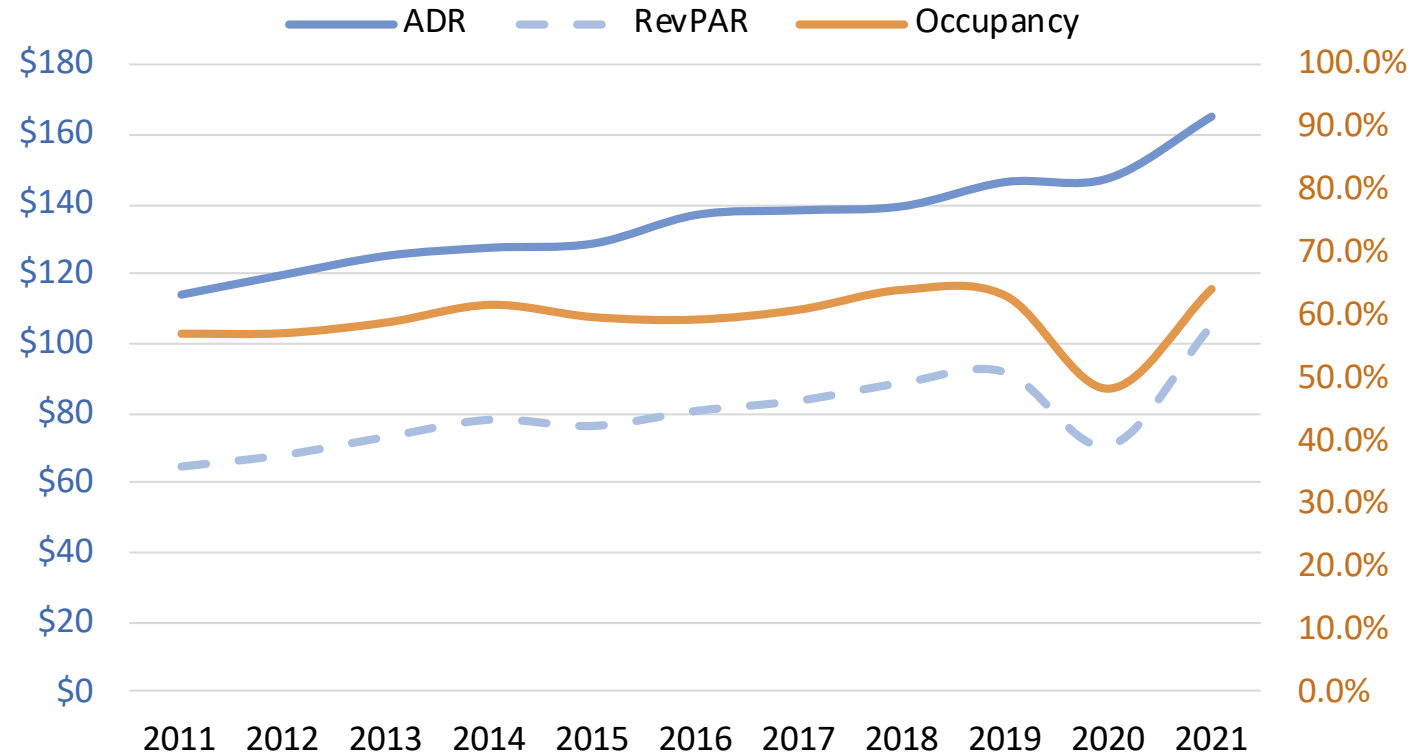
Average Annual Compounded Change: 2011-2021

3.2% 4.4% 1.2% 3.8% 5.0%

* January through November Smith Travel Research, December estimated by HVS

Sources: Smith Travel Research & HVS

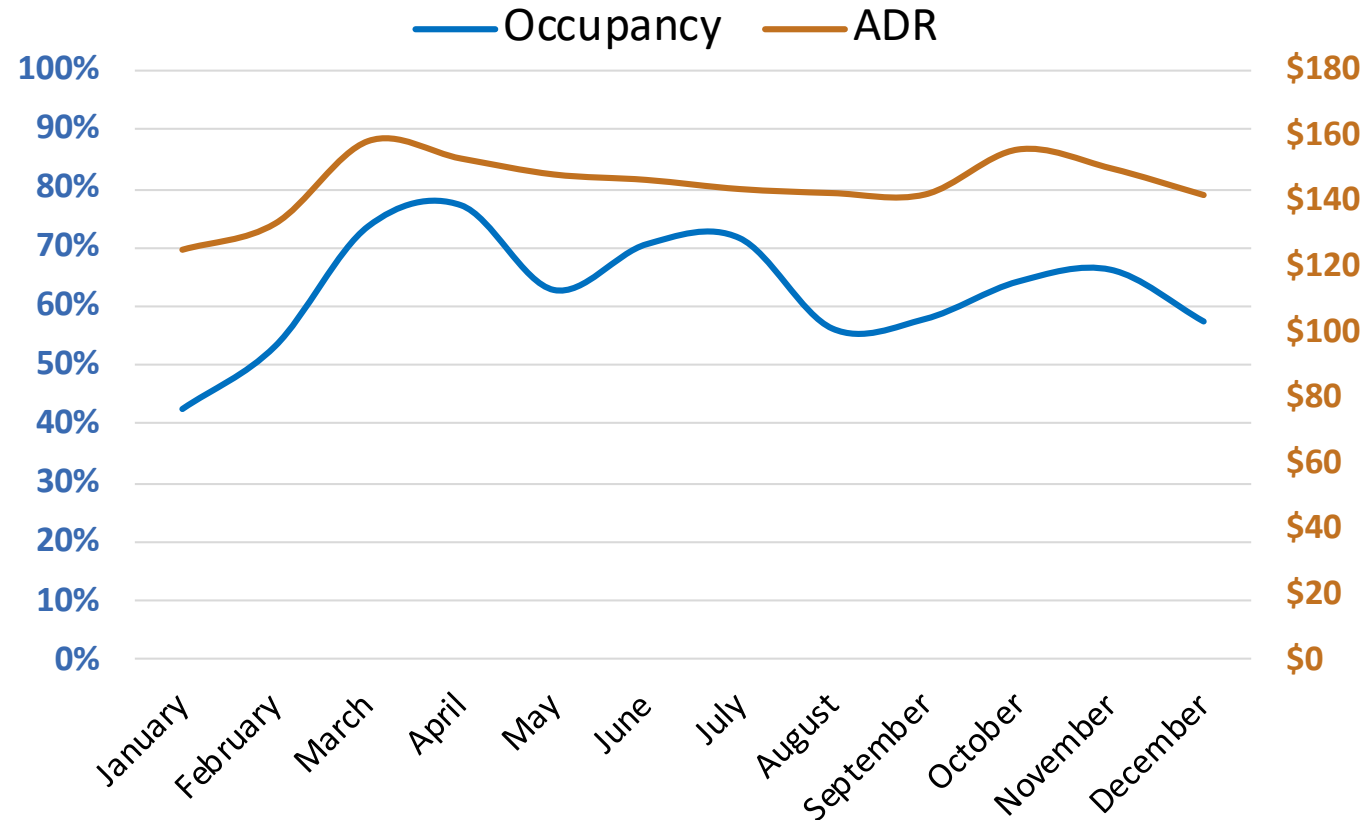
ADR, RevPAR, & Occupancy of Competitive Hotels Ten-year Trends



Sources: Smith Travel Research & HVS

The Competitive Hotels' ADR and occupancy rates increased from 2011 to 2019. In 2020, the COVID-19 pandemic impacted room night demand, but ADR grew by .1%. In 2021, occupancy recovered, and ADR reached an all-time high. The growth of the non-traditional lodging market has slowed the long-term growth of ADR for the Competitive Hotels.

ADR and Occupancy Monthly Trend of Competitive Hotels December 2020 through November 2021

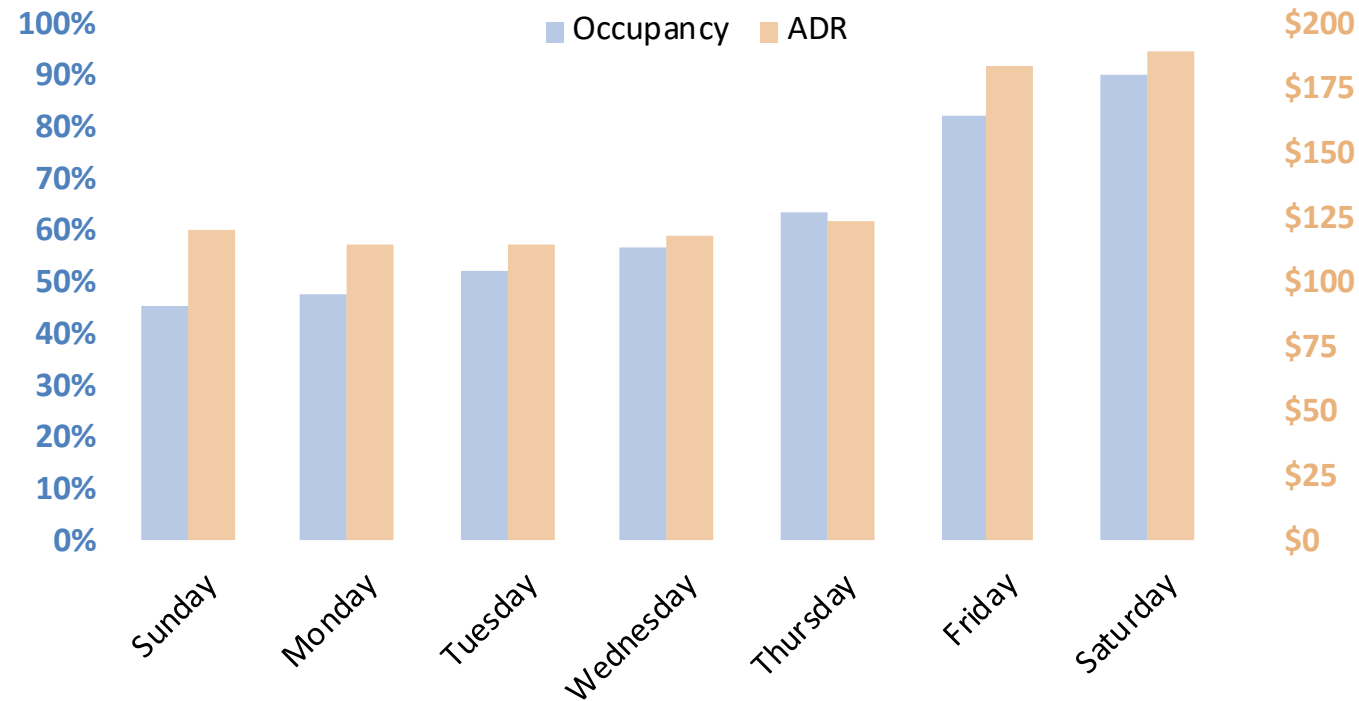


Source: Smith Travel Research

The Competitive Hotels' occupancy and ADR are weakest in winter, with the highest occupancy in April and ADR in March.

Competitive Hotels Day of Week Occupancy

December 2018 through November 2021



Source: Smith Travel Research

The Competitive Hotels had the highest occupancy and ADR on Friday and Saturday. Sunday had the lowest occupancy, which is typical of most leisure markets. Interviews indicate the under ten-unit lodging supply had a similar occupancy distribution, with a higher percentage of total demand on the weekend. Weekday occupancy has increased over the last few years, and weekend occupancy decreased by a few percentage points.

Year-to-Date Historical Performance of the Competitive Hotels

Year-to-Date Through November			
	2020	2021	Percent Change
Room Night Demand	89,997	125,479	39.4%
Available Room Nights	188,730	190,380	0.9%
Occupancy	47.7%	65.9%	38.2%
ADR	\$146.76	\$168.86	15.1%
RevPAR	\$69.98	\$111.30	59.0%

Source: Smith Travel Research

Room night demand increased 39% year-to-date in 2021, increasing the occupancy rate to 66%.

Daily Occupancy Rates of Competitive Hotels

Month	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Dec - 20	46.3%	48.8%	44.0%	39.2%	47.3%	66.0%	82.1%	52.4%
Jan - 21	27.1%	20.5%	23.5%	25.8%	31.3%	64.0%	76.2%	40.0%
Feb - 21	54.7%	51.8%	54.0%	54.3%	62.6%	75.4%	83.1%	62.3%
Mar - 21	60.0%	59.0%	64.4%	69.5%	76.7%	91.5%	96.3%	73.0%
Apr - 21	56.5%	62.5%	71.3%	78.5%	81.8%	95.7%	97.3%	78.4%
May - 21	52.4%	43.6%	54.8%	61.6%	68.0%	90.8%	96.6%	66.6%
Jun - 21	56.0%	68.3%	70.2%	75.0%	83.4%	94.5%	97.1%	77.4%
Jul - 21	63.9%	63.8%	71.5%	77.1%	75.6%	85.5%	93.6%	76.7%
Aug - 21	38.2%	42.4%	47.8%	52.1%	57.1%	70.2%	80.1%	54.2%
Sep - 21	54.6%	45.3%	48.1%	50.7%	55.4%	78.8%	90.7%	60.0%
Oct - 21	49.5%	54.6%	66.1%	68.5%	70.6%	87.3%	92.4%	70.5%
Nov - 21	45.8%	51.2%	60.8%	57.9%	69.5%	89.5%	93.1%	66.1%
Total Year	49.8%	50.8%	56.5%	59.1%	64.9%	82.5%	89.9%	64.8%

Below Average █
 Average █
 Above Average █

Source: Smith Travel Research

The Competitive Hotels show the strongest occupancy on Friday night (82.5%) and Saturday night (89.9%). Sunday night had the lowest occupancy (49.8%), typical for most markets. April had the highest monthly occupancy rate (78.4%), and January the lowest (40%).

Daily ADR of Competitive Hotels

Month	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Dec - 20	\$127	\$124	\$126	\$124	\$135	\$195	\$201	\$153
Jan - 21	117	110	105	109	109	168	175	145
Feb - 21	110	105	106	106	108	157	159	126
Mar - 21	140	131	134	131	140	214	223	163
Apr - 21	142	131	136	139	145	226	225	171
May - 21	158	131	132	135	147	233	237	180
Jun - 21	140	135	135	139	151	243	245	174
Jul - 21	155	134	140	143	150	241	249	183
Aug - 21	135	127	127	128	138	222	223	164
Sep - 21	155	121	125	126	134	224	240	170
Oct - 21	142	135	135	140	148	248	257	186
Nov - 21	138	131	131	140	146	236	244	175
Average	140	128	130	132	140	220	225	168

Below Average ■
 Average ■
 Above Average ■

Source: Smith Travel Research

The Competitive Hotels show the highest ADR on Friday and Saturday night. The other days of the week had a significantly lower ADR. October had the highest ADR at \$186, and February the lowest at \$126.

Historic Competitive Lodging Supply

Competitive Lodging Supply			
	2018	2019	2020
Rooms Competitive Hotels	570	570	570
Percentage Competitive	100%	100%	100%
Rooms Under Ten-Unit Properties	1,022	1,120	1,112
Percentage Competitive	80%	80%	80%
Competitive Lodging Supply	1,388	1,466	1,460
RevPAR Competitive Hotels	\$89	\$92	\$71
RevPAR under Ten-Unit Properties	\$81	\$92	\$114
Competitive Lodging Supply RevPAR	\$84	\$92	\$97

Sources: Gillespie County Economic Development Commission, Texas Comptroller Office, and Smith Travel Research

The competitive lodging supply consists of Competitive Hotels and under ten-unit properties. The historical competitive lodging supply provides the foundation for projecting the ADR and occupancy of the proposed Conference Center Hotel.

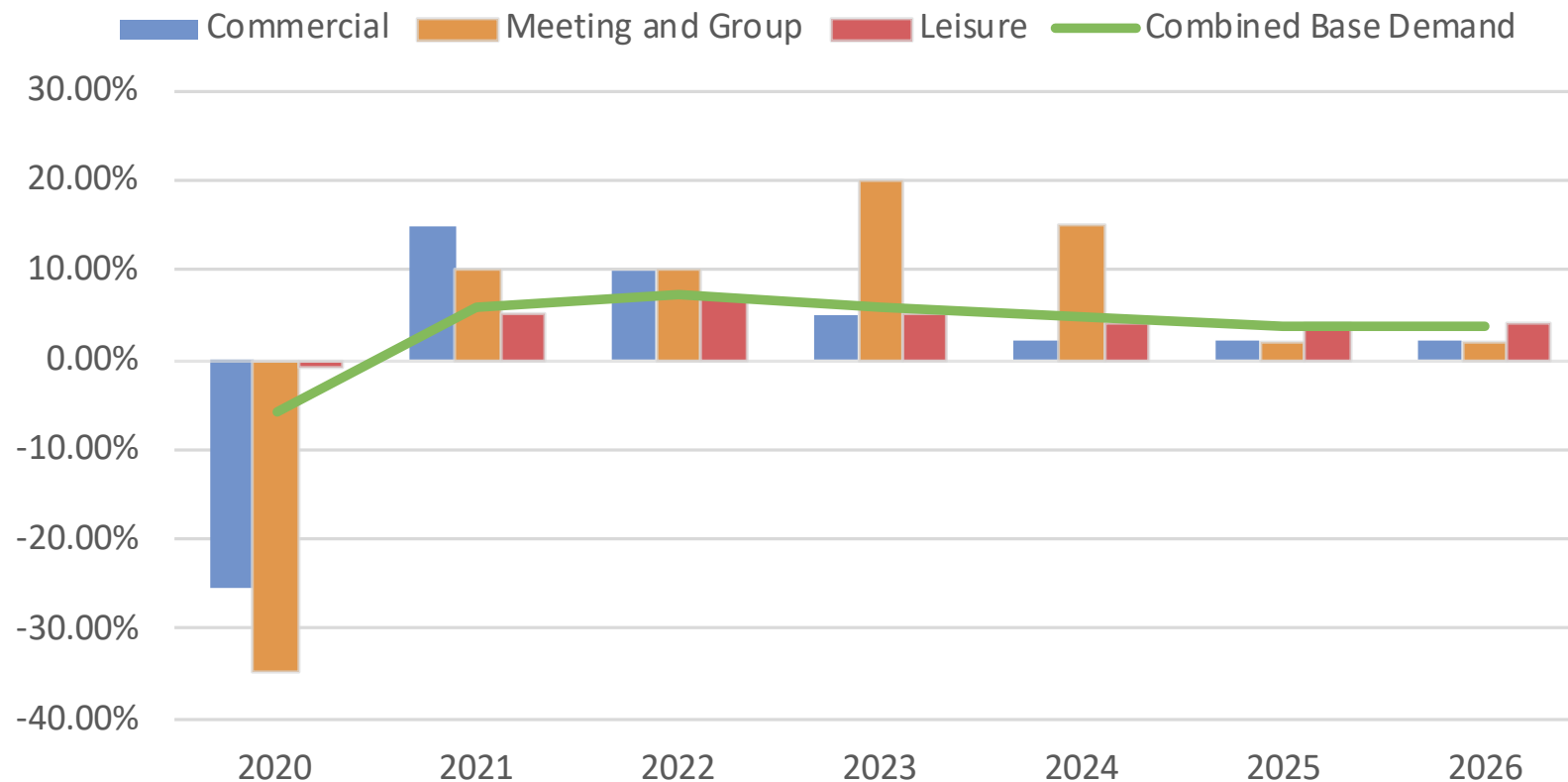
New Lodging Supply

Year	Proposed Property	Competitive Weight	Proposed Rooms	Weighted Room Count	Cumulative Weighted Room Count
2022	Growth Under Ten-Unit Properties	80%	30	24	
2022	Albert Hotel	100%	110	110	
2023	Growth Under Ten-Unit Properties	80%	30	24	
2024	Proposed Conference Center Hotel	100%	150	150	
2024	Growth Under Ten-Unit Properties	80%	30	24	
2025	Growth Under Ten-Unit Properties	80%	30	24	
2026	Growth Under Ten-Unit Properties	80%	30	24	
Totals			410	380	

The supply of hotel rooms will increase in Fredericksburg. Two new hotels entering the market—the Albert Hotel and the Proposed Conference Center Hotel—would increase the supply of upper midscale and above rooms by 46%. Estimated growth in the under ten-unit properties will increase supply by 13%.



Projections of Occupancy and Average Daily Room Rate

Base Demand Change







Base demand represents sources of demand in the market that currently generate room night demand. Base demand declined in 2020 due to the impact of the COVID-19 pandemic. Base demand is projected to increase from 2021 to 2026 due to demand and supply growth in the under ten-unit sector. In addition, base demand would expand when the Albert Hotel opens in 2022 and the proposed Conference Center Hotel in 2024.

Unaccommodated Demand

Market Segment	Total Room Nights	Unaccommodated		
		% of Total	Room Nights	
Leisure	232,229	5.4%	12,654	
Meeting and Group	26,173	5.4%	1,406	
Commercial	19,630	0.0%	0	
Total	278,031	5.1%	14,060	

Unaccommodated demand occurs on peak days April, May, June, July, and November, when room night demand is greater than the supply of available room nights. This demand either flows outside the competitive set or cannot enter the Fredericksburg hotel market. The new hotels and additional under ten-unit properties entering the market will provide the room nights needed to meet this demand.

Induced Demand

Calendar Year	Meeting and Group	Leisure	Total Induced Room Nights	
2024	6,723	3,000	9,723	
2025	2,123	0	11,846	
2026	1,506	0	13,352	
2027	1,029	0	14,380	

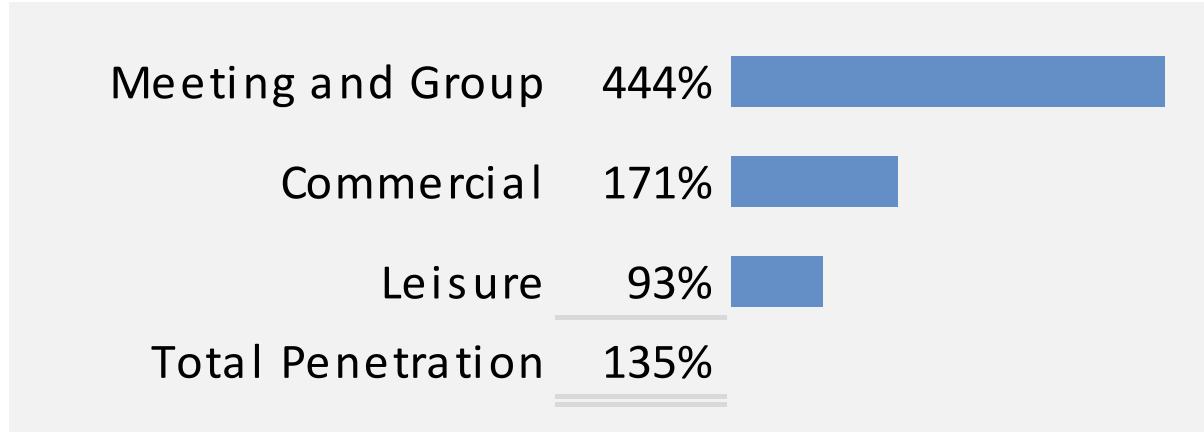
Induced demand would be generated by the opening of the proposed Conference Center Hotel as it attracts new business that would not otherwise come to Fredericksburg. HVS estimates that the proposed Conference Center Hotel would induce over 14,000 room nights by 2027.

Competitive Lodging Forecast Demand & Occupancy

Source	2019	2020	2021	2022	2023	2024	2025	2026	2027
Base Accommodated	278,000	262,000	277,000	297,000	315,000	330,000	343,000	355,000	365,000
Previously Unaccommodated	0	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000
Induced	0	0	0	0	0	10,000	12,000	13,000	14,000
Total Available Demand	278,000	276,000	291,000	311,000	329,000	354,000	369,000	382,000	393,000
(Less Residual Demand)	0	(14,000)	(15,000)	(18,000)	(16,000)	(9,000)	(17,000)	(26,000)	(37,000)
Total Accommodated Demand	278,000	262,000	276,000	293,000	313,000	345,000	352,000	356,000	356,000
Accommodated Demand Change	4.0%	-5.9%	5.9%	6.6%	7.0%	10.4%	2.0%	1.7%	0.2%
Available Room Night Change	5.7%	-0.4%	0.0%	4.2%	6.4%	10.8%	1.3%	1.3%	0.0%
Occupancy	52%	49%	52%	53%	54%	53%	54%	54%	54%

The figure above shows the historical and projected room night demand for the competitive lodging market, including the proposed Conference Center Hotel, the under-development Albert Hotel, and supply growth in under ten-unit properties.

Proposed Conference Center Hotel Market Segment Penetration



The proposed Conference Center Hotel would:

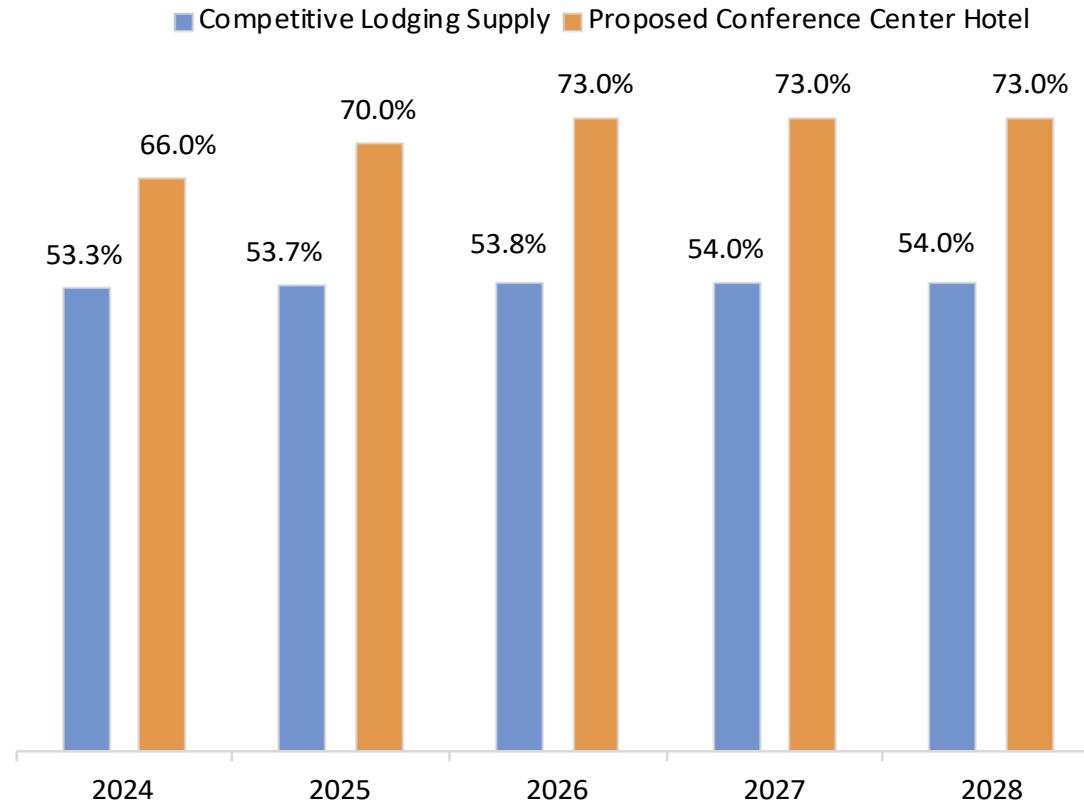
- Over penetrate the meeting and group market segment due to the 12,000 square foot conference center,
- Over penetrate the commercial segment due to new construction, high quality, and extensive facilities, and
- Under penetrate the leisure market segment due to the higher ADR and focus on the meeting and group & business market segments.

Proposed Conference Center Hotel Market Segment Demand Projections

Calendar Year	2024	2025	2026	2027	2028
Available Room Nights	54,750	54,750	54,750	54,750	54,750
Absorption by Segment					
Commercial	2,000	3,000	3,000	3,000	3,000
Meeting and Group	13,000	14,000	14,000	14,000	14,000
Leisure	20,000	21,600	22,900	22,900	22,900
Total Absorption	35,000	38,600	39,900	39,900	39,900
Projected Occupancy	66%	70%	73%	73%	73%
Occupancy Market Penetration	124%	130%	135%	135%	135%
Percent Segmentation					
Commercial	6%	8%	8%	8%	8%
Meeting and Group	37%	36%	35%	35%	35%
Leisure	57%	56%	57%	57%	57%

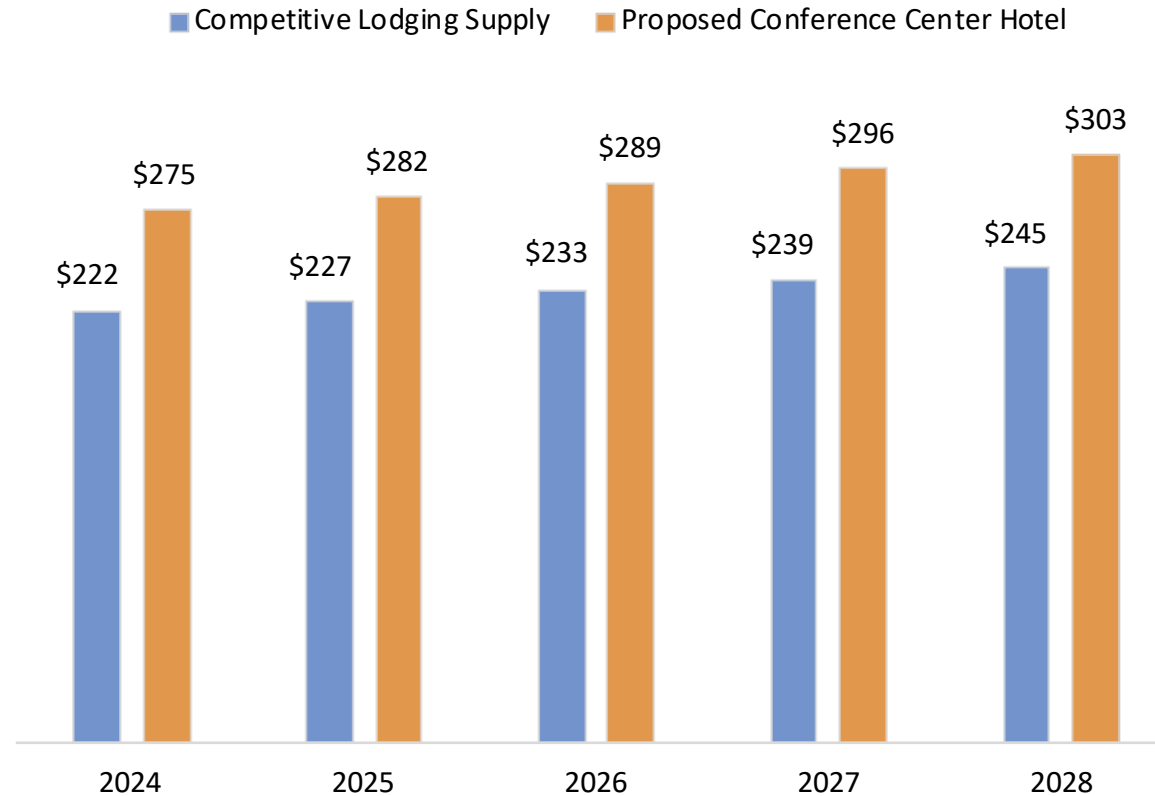
Even though the proposed Conference Center Hotel would under penetrate the leisure market, tourists would provide the primary source of room night demand. The property is also strong in the meeting and group market segment due to the conference center and lack of competitive properties with significant meeting space.

Proposed Conference Center Hotel Projected Occupancy versus Market Occupancy



The proposed Conference Center Hotel generates a higher occupancy than the competitive lodging supply due to the conference center, upscale accommodations, and new construction. The under ten-unit secondary competitors have historically had lower occupancy than the Competitive Hotels.

Proposed Conference Center Hotel Projected ADR versus Market ADR



The proposed Conference Center Hotel would generate a significantly higher ADR than the competitive lodging supply due to new construction, high quality, and large conference center.

Projection of Income and Expense

Comparable Properties

	Comp A	Comp B	Comp C	Comp D	Comp E	Subject Hotel
Year	2019/20	2019	2019	2019	2019	*
Number of Rooms:	200 to 260	120 to 150	150 to 200	200 to 260	220 to 280	150
Meeting Space (sf):	7,418	7,000	6,000	7,418	35,221	12,000
Meeting Space per Room:	32	51	34	32	139	80
Occupied Rooms:	50,861	37,887	51,649	53,715	78,251	39,968
Average Rate:	\$241	\$196	\$238	\$250	\$192	\$242
RevPAR:	\$146	\$150	\$191	\$161	\$163	\$176

For the purpose of estimating hotel income and expenses, HVS selected and analyzed the profit-loss statements of five comparable properties that are like the proposed Conference Center Hotel with respect to their quality, room counts, average daily rate, and amounts of function space.

Comparable Properties Ratio to Sales

In this figure, the green shaded cells indicate where HVS has positioned the proposed Conference Center Hotel, which is typically in the mid-range of comparable hotel financial statements.

The franchise fee is higher than the comparable properties due to increases in the cost of a franchise.

RANK - PERCENTAGES	1	2	3	4	5	6
REVENUE						
Rooms	87.7	87.6	83.9	75.8	73.9	67.4
Food & Beverage	22.3	22.0	20.2	11.8	11.7	9.7
Other Operated Departments	5.6	3.6	2.2	1.3	0.5	0.5
Miscellaneous Income	8.2	2.3	0.9	0.7	0.1	0.0
DEPARTMENTAL EXPENSES*						
Rooms	23.1	21.0	21.0	19.2	18.0	17.7
Food & Beverage	90.7	88.2	74.9	72.0	71.0	67.9
Other Operated Departments	104.1	70.0	61.3	58.5	48.6	26.7
Total Department Expenses	32.8	32.6	30.4	30.1	26.7	26.2
OPERATING EXPENSES **						
Administrative & General	9.9	8.0	7.9	7.5	7.4	6.6
Info. and Telecom. Systems	2.0	1.8	1.6	1.0	0.9	0.8
Marketing	9.7	9.2	8.8	6.5	6.1	5.0
Franchise Fee	7.2	7.0	6.7	6.3	4.8	3.2
Property Operations & Maintenance	8.1	4.5	4.3	3.5	3.0	3.0
Utilities	3.3	3.1	3.1	3.0	2.7	2.1
Total Operating Expenses	34.5	32.9	31.1	28.7	27.9	24.3
GROSS OPERATING PROFIT						
	45.6	42.7	40.4	39.3	38.7	35.1

* Ratio to Department Revenue

** Ratio to Total Revenue

indicates position of Proposed Conference Center Hotel


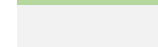
indicates position of comparable hotels

Comparable Properties

Amounts per Occupied Room Night

The proposed Conference Center Hotel generates higher food & beverage revenue and expense than the comparable hotels due to the larger amount of meeting space per room. Similarly, utility expenses are slightly higher per occupied room night due to the amount of function space.

RANK - PER OCCUPIED ROOM REVENUE	AMOUNTS PER OCCUPIED ROOM NIGHT					
	1	2	3	4	5	6
Rooms	250	242	241	238	196	192
Food & Beverage	70	65	63	33	33	23
Other Operated Departments	13	11	6	4	1	1
Miscellaneous Income	23	7	3	2	0	0
Total	322	319	285	285	275	234
DEPARTMENTAL EXPENSES						
Rooms	51	46	44	44	43	41
Food & Beverage	50	48	44	29	29	16
Other Operated Departments	14	7	3	2	1	1
Total Department Expenses	104	97	94	75	73	71
OPERATING EXPENSES						
Administrative & General	26	24	23	22	21	19
Info. and Telecom. Systems	6	4	4	3	2	2
Marketing	27	26	25	21	20	12
Property Operations & Maintenance	19	12	12	11	10	8
Utilities	10	9	9	9	7	6
Total Operating Expenses	91	90	89	81	80	78
GROSS OPERATING PROFIT						
	146	123	122	112	111	82

 indicates position of Proposed Conference Center Hotel
 indicates position of comparable hotels

Proposed Conference Center Hotel Pro Forma in a Stabilized Year of Operation - 2026

STATISTICS	
Number of Rooms	150
Occupied Room Nights	39,968
Occupancy	73%
Average Rate	\$288.88
RevPAR	\$210.88

The proposed Conference Center Hotel would have an occupancy rate of 73% and ADR near \$290 in 2026. Both the occupancy and ADR are favorable for the development of the property.

	\$000	% Gross
Operating Revenue		
Rooms	\$11,546	75.8%
Food	2,866	18.8%
Beverage	478	3.1%
Other Operated Departments	191	1.3%
Miscellaneous Income	143	0.9%
Total Operating Revenues	\$15,225	100%
Departmental Expenses*		
Rooms	\$2,425	21.0%
Food & Beverage	2,408	72.0%
Other Operated Departments	134	70.0%
Sub-total	\$4,966	32.6%
Departmental Income	\$10,258	67.4%
Undistributed Operating Expenses		
Administrative & General	\$1,142	7.5%
Marketing	990	6.5%
Franchise Fee	1,097	7.2%
Prop. Operations & Maint.	533	3.5%
Utilities	457	3.0%
Info & Telecom Systems	152	1.0%
Sub-total	\$4,370	28.7%
Gross House Profit	\$5,888	38.7%
Management Fee	\$457	3.0%
Income Before Non-Opr. Inc. & Exp.	\$5,432	35.7%
Non-Operating Income & Expenses		
Property Taxes	\$959	6.3%
Insurance	126	0.8%
FF&E Reserve	609	4.0%
Sub-total	\$1,694	11.1%
EBITDA Less Reserve	\$3,738	24.6%

*Departmental expense ratios are calculated as a percentage of departmental revenue.

Ten-year Hotel Pro Forma

	2024		2025		2026		2027		2028		2029		2030		2031		2032		2033	
STATISTICS																				
Number of Rooms	150		150		150		150		150		150		150		150		150		150	
Occupied Room Nights	36,135		38,325		39,968		39,968		39,968		39,968		39,968		39,968		39,968		39,968	
Occupancy	66%		70%		73%		73%		73%		73%		73%		73%		73%		73%	
Average Rate	\$266.71		\$279.01		\$288.88		\$296.10		\$303.50		\$311.09		\$318.86		\$326.84		\$335.01		\$343.38	
RevPAR	\$176.03		\$195.31		\$210.88		\$216.15		\$221.55		\$227.09		\$232.77		\$238.59		\$244.56		\$250.67	
	\$000	% of Gross	\$000	% of Gross	\$000	% of Gross	\$000	% of Gross	\$000	% of Gross	\$000	% of Gross	\$000	% of Gross	\$000	% of Gross	\$000	% of Gross	\$000	% of Gross
Operating Revenue																				
Rooms	\$9,637	74.7	\$10,693	75.4	\$11,546	75.8	\$11,834	75.8	\$12,130	75.8	\$12,433	75.8	\$12,744	75.8	\$13,063	75.8	\$13,389	75.8	\$13,724	75.8
Food	2,532	19.6	2,710	19.1	2,866	18.8	2,938	18.8	3,012	18.8	3,087	18.8	3,164	18.8	3,243	18.8	3,324	18.8	3,407	18.8
Beverage	430	3.3	455	3.2	478	3.1	490	3.1	502	3.1	514	3.1	527	3.1	541	3.1	554	3.1	568	3.1
Other Operated Departments	177	1.4	184	1.3	191	1.3	196	1.3	201	1.3	206	1.3	211	1.3	216	1.3	222	1.3	227	1.3
Miscellaneous Income	132	1.0	138	1.0	143	0.9	147	0.9	151	0.9	154	0.9	158	0.9	162	0.9	166	0.9	170	0.9
Total Operating Revenues	\$12,908	100.0	\$14,181	100.0	\$15,225	100.0	\$15,605	100.0	\$15,995	100.0	\$16,394	100.0	\$16,805	100.0	\$17,225	100.0	\$17,655	100.0	\$18,097	100.0
Departmental Expenses*																				
Rooms	\$2,219	23.0	\$2,327	21.8	\$2,425	21.0	\$2,485	21.0	\$2,547	21.0	\$2,611	21.0	\$2,676	21.0	\$2,743	21.0	\$2,812	21.0	\$2,882	21.0
Food & Beverage	2,220	75.0	2,318	73.2	2,408	72.0	2,468	72.0	2,530	72.0	2,593	72.0	2,658	72.0	2,724	72.0	2,792	72.0	2,862	72.0
Other Operated Departments	126	71.5	130	70.6	134	70.0	137	70.0	141	70.0	144	70.0	148	70.0	151	70.0	155	70.0	159	70.0
Sub-total	\$4,566	35.4	\$4,774	33.7	\$4,966	32.6	\$5,090	32.6	\$5,218	32.6	\$5,348	32.6	\$5,482	32.6	\$5,619	32.6	\$5,759	32.6	\$5,903	32.6
Departmental Income	\$8,343	64.6	\$9,407	66.3	\$10,258	67.4	\$10,514	67.4	\$10,777	67.4	\$11,046	67.4	\$11,323	67.4	\$11,606	67.4	\$11,896	67.4	\$12,194	67.4
Undistributed Operating Expenses																				
Administrative & General	\$1,057	8.2	\$1,101	7.8	\$1,142	7.5	\$1,170	7.5	\$1,200	7.5	\$1,230	7.5	\$1,260	7.5	\$1,292	7.5	\$1,324	7.5	\$1,357	7.5
Marketing	916	7.1	955	6.7	990	6.5	1,014	6.5	1,040	6.5	1,066	6.5	1,092	6.5	1,120	6.5	1,148	6.5	1,176	6.5
Franchise Fee	916	7.1	1,016	7.2	1,097	7.2	1,124	7.2	1,152	7.2	1,181	7.2	1,211	7.2	1,241	7.2	1,272	7.2	1,304	7.2
Prop. Operations & Maint.	493	3.8	514	3.6	533	3.5	546	3.5	560	3.5	574	3.5	588	3.5	603	3.5	618	3.5	633	3.5
Utilities	423	3.3	441	3.1	457	3.0	468	3.0	480	3.0	492	3.0	504	3.0	517	3.0	530	3.0	543	3.0
Info & Telecom Systems	141	1.1	147	1.0	152	1.0	156	1.0	160	1.0	164	1.0	168	1.0	172	1.0	177	1.0	181	1.0
Sub-total	\$3,946	30.6	\$4,173	29.4	\$4,370	28.7	\$4,479	28.7	\$4,591	28.7	\$4,706	28.7	\$4,824	28.7	\$4,944	28.7	\$5,068	28.7	\$5,195	28.7
Gross House Profit	\$4,397	34.0	\$5,234	36.9	\$5,888	38.7	\$6,035	38.7	\$6,186	38.7	\$6,340	38.7	\$6,499	38.7	\$6,662	38.7	\$6,828	38.7	\$6,999	38.7
Management Fee	\$387	3.0	\$425	3.0	\$457	3.0	\$468	3.0	\$480	3.0	\$492	3.0	\$504	3.0	\$517	3.0	\$530	3.0	\$543	3.0
Income Before Non-Opr. Inc. & Exp.	\$4,010	31.0	\$4,808	33.9	\$5,432	35.7	\$5,567	35.7	\$5,706	35.7	\$5,849	35.7	\$5,995	35.7	\$6,145	35.7	\$6,298	35.7	\$6,456	35.7
Non-Operating Income & Expenses																				
Property Taxes	\$913	7.1	\$936	6.6	\$959	6.3	\$983	6.3	\$1,008	6.3	\$1,033	6.3	\$1,059	6.3	\$1,085	6.3	\$1,112	6.3	\$1,140	6.3
Insurance	119	0.9	122	0.9	126	0.8	129	0.8	132	0.8	135	0.8	139	0.8	142	0.8	146	0.8	149	0.8
FF&E Reserve	258	2.0	425	3.0	609	4.0	624	4.0	640	4.0	656	4.0	672	4.0	689	4.0	706	4.0	724	4.0
Sub-total	\$1,291	10.0	\$1,484	10.5	\$1,694	11.1	\$1,736	11.1	\$1,779	11.1	\$1,824	11.1	\$1,869	11.1	\$1,916	11.1	\$1,964	11.1	\$2,013	11.1
EBITDA Less Reserve	\$2,719	21.1%	\$3,325	23.4%	\$3,738	24.6%	\$3,831	24.6%	\$3,927	24.6%	\$4,025	24.5%	\$4,126	24.6%	\$4,229	24.6%	\$4,334	24.5%	\$4,443	24.6%

*Departmental expense ratios are calculated as a percentage of departmental revenue.

Feasibility Analysis

Feasibility Methodology

The feasibility of the proposed Conference Center Hotel is based on:

- The funding capacity based on the projected future earnings of the property
 - Debt based on 65% of EBITDA less reserve
 - Equity of 35% of EBITDA less reserve
 - Assumed sales after ten years of operations
- The value of certain state incentives generated from the operation of the property
 - State hotel occupancy tax ("HOT") of 6.0%
 - State sales tax of 6.25%
- Project costs cannot be determined at this time due to uncertainty about the cost of site acquisition and the current volatility of construction costs. The project would be feasible if the total development cost is less than the funding capacity of the project, plus the value of the state incentives.

State Incentives

2019 HB 4347 State and Local Incentives Convention Center Hotels

Participating cities are entitled to receive a rebate for the first ten years of the project of:

- State hotel occupancy tax ("HOT") of 6.0%
- State sales tax of 6.25%
- Local alcoholic beverage taxes (not included in this analysis)

An eligible project must:

- Be located within 1,000 feet of a qualifying convention center facility
- Be directly related to the convention center project
- Have at least 10,000 square feet of meeting space

Fredericksburg has a special state exemption allowing for private ownership of the convention center. Cities with a population less than 175,000 are limited to one convention center project that is eligible for state tax rebates.

State Tax Incentive Estimated Revenues (000's)

	Gross Room Revenues	Taxable Revenues 95% *	State HOT 6%	Food & Other Operated Department Sales	Taxable Sales 90%	State Sales Tax 6.25%
2024	\$9,637	\$9,155	\$549	\$2,709	\$2,438	\$152
2025	10,693	10,158	610	2,894	2,605	163
2026	11,546	10,969	658	3,058	2,752	172
2027	11,834	11,242	675	3,134	2,821	176
2028	12,130	11,524	691	3,212	2,891	181
2029	12,433	11,811	709	3,293	2,963	185
2030	12,744	12,107	726	3,375	3,037	190
2031	13,063	12,410	745	3,459	3,113	195
2032	13,389	12,720	763	3,546	3,191	199
2033	13,724	13,038	782	3,634	3,271	204
Total	\$121,193	\$115,133	\$6,908	\$32,314	\$29,083	\$1,818

* Base on the historical percentage of taxable versus gross room revenue for lodging in Gillespie County in 2019 & 2020

A portion of gross room revenues, food sales, and other department revenues are not subject to taxation due to exemptions. The state's HOT and sales taxes produced by the property for ten years are included in calculating benefits available from the state. The local mixed beverage tax is excluded.

Valuation

Proposed Conference Center Hotel

Key Assumptions for Loan

- Full-service brand
- Third party management
- Current market rates
- Conventional loan
- 35% equity

The cost to develop the proposed Conference Center hotel will depend on the cost of the selected site, the property's design, and prevailing construction costs.

The development cost of the proposed Conference Center Hotel would need to be at or below **\$315,000 per room**, or City would need to offer additional incentives to make the project feasible.

Financing Parameters	
Rooms	150
Loan-To-Value Ratio	65%
Blended Yield Senior and Mezz.	4.75%
Equity Yield	18.00%
Transaction Costs for Sale	2.00%
Property Sale End of Year	10
Terminal Capitalization Rate	8.00%
Total Property Yield	10.78%
Estimated Value at Opening January 1, 2024	
Mortgage Component	\$27,440,344
Equity Component	14,775,570
Value of State Tax Incentives at Total Property Yield of 10.78%	5,043,693
Total	\$47,259,607
Value per Room	\$315,000

Assumptions, Limiting Conditions and Certifications

Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. No responsibility is assumed for matters of a legal nature.
3. We have not considered the presence of potentially hazardous materials on the proposed site, such as asbestos, urea formaldehyde foam insulation, PCBs, any form of toxic waste, polychlorinated biphenyls, pesticides, or lead-based paints.
4. All information, financial operating statements, estimates, and opinions obtained from parties not employed by HVS are assumed to be true and correct. We can assume no liability resulting from misinformation.
5. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
6. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.
7. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
8. We take no responsibility for any events or circumstances that take place after the date of our report.
9. The quality of a convention facility's on-site management has a direct effect on a facility's economic performance. The demand and financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
10. The impact analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease due to market volatility and economic forces outside the control of the facility's management.
11. We do not warrant that our estimates will be attained, but they have been developed based on information obtained during our market research and are intended to reflect reasonable expectations.
12. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded. Thus, these figures may be subject to small rounding errors.
13. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
14. Although this analysis employs various mathematical calculations, the final estimates are subjective and may be influenced by our experience and other factors not specifically set forth in this report.
15. This report was prepared by HVS Convention, Sports & Entertainment Facilities Consulting. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of this organization, as employees, rather than as individuals.
16. This report is set forth as a market study of the subject facility; this is not an appraisal report.

Certifications

The undersigned hereby certify that, to the best of our knowledge and belief:

1. the statements of fact presented in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved;
4. HVS is not a municipal advisor and is not subject to the fiduciary duty set forth in section 15B(c)(1) of the Act (15 U.S.C. 78o-4(c)(1)) with respect to the municipal financial product or issuance of municipal securities;
5. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
6. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
7. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this analysis.



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