



Market Demand Analysis

Proposed HYATT house Davis, California



Prepared For:
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**Re: Phase I – Potential Market Demand Analysis
Proposed HYATT house – Davis, CA**

Dear Mr. Patel and Mr. Bisch:

In accordance with your request, we have completed Phase I of our engagement contract, which is a study of the potential market demand for a proposed HYATT house (the “Subject” or “Hotel”) to be located at 2750 Cowell Boulevard in Davis, California. Pursuant to our engagement, we have prepared a brief letter report summarizing our findings.

The conclusions set forth are based on an analysis of the existing and potential future supply and demand for the competitive lodging market as of the completion of our fieldwork in May and June of 2015. Due to the abbreviated nature of this report, it is intended for your internal management use in determining the potential market demand for the proposed Hotel.

As in all studies of this type, the estimated results are based on competent and efficient management and presume no significant change in the status of the competitive lodging market from that as set forth in this report. The terms of our engagement are such that we have no obligation to revise our conclusions to reflect events or conditions that occur subsequent to the date of completion of our fieldwork. However, we are available to discuss the necessity for revisions in view of changes in the economy or market factors impacting the competitive lodging market.

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

After you have had an opportunity to review this letter, please feel free to contact us with any questions or comments. We appreciate the opportunity to work with you on this interesting assignment.

Yours sincerely,

PKF Consulting USA
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A. INTRODUCTION

1. Overview of the Market Study

PKF Consulting USA (“PKF Consulting”) was formally retained on May 13, 2015 by representatives of Presidio Companies to conduct a study of the potential market demand for a hotel to be located in Davis, California. As we understand it, the property will be affiliated with Hyatt Hotels & Resorts (“Hyatt”) under the HYATT house hotel brand, which represents Hyatt’s upscale extended-stay lodging product. As a component of this analysis, we first determined the market potential for the Hotel. We then provided our projections of the occupancy, average daily room rates (“ADR”), and revenue per available room (“RevPAR”) the Hotel could reasonably expect to achieve over its first five years of operation. For the purpose of this analysis, we have assumed that after a +/- 18-month pre-development and construction period, the proposed Hotel would be open and available for occupancy by January 1, 2017.

2. Methodology

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

- *Visited the Hotel site and assessed the impact of the site’s accessibility, visibility, and location relative to demand generators;*
- *Researched and analyzed current economic and demographic trends to determine their impact on future lodging demand in the market;*
- *Researched the lodging supply within the City of Davis and performed an analysis of the current and future supply and demand for hotel facilities in Davis;*
- *Reviewed the historical performance levels of the hotels comprising the Davis lodging market;*
- *Developed a forecast of the likely occupancy levels and average daily room rates the overall Davis lodging market could reasonably achieve over the next eight years (consistent with the proposed Hotel’s first five years of operation)., addressing the impact the proposed Hotel would have on the existing supply; and,*
- *Developed a forecast of the likely occupancy levels and average daily room rates the proposed Hotel could reasonably achieve over its first five years of operation.*

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

Based on the preceding work program, we have made a determination of the market viability for a proposed hotel in Davis, California. The results of our research and analysis are summarized in the following paragraphs.

B. SITE DESCRIPTION

As stated, the proposed 2.31-acre site is located at 2750 Cowell Boulevard in Davis, California, immediately south of Interstate 80 ("I-80"). The site is bordered by Cowell Street and I-80 to the north, single family residential to the south, Davis Diamonds Gymnastics to the east, and Cowell Boulevard and Playfields Park to the west. The site is located along a bike path that would provide guests convenient access to downtown Davis. The neighborhood is comprised of various residential and commercial components including single family housing, hotels, restaurants, retail, and a golf course.

The Subject site, which is currently unimproved, will provide the proposed Hotel with excellent visibility given its frontage on Cowell Boulevard. The proposed Hotel will have excellent visibility from I-80 for motorists traveling in both directions. Additionally, access to I-80 is deemed very good as the Mace Boulevard exit is located less than a few miles from the Subject site for westbound travelers, and the Richards Boulevard exit is located less than a few miles from the Subject site for eastbound travelers. Downtown Davis and the University of California at Davis ("UC Davis") are located less than two miles west of the Subject site.

Photographs of the Subject site in its existing condition are presented below. These photographs are followed by an aerial view of the site.

Photographs of the Subject Site

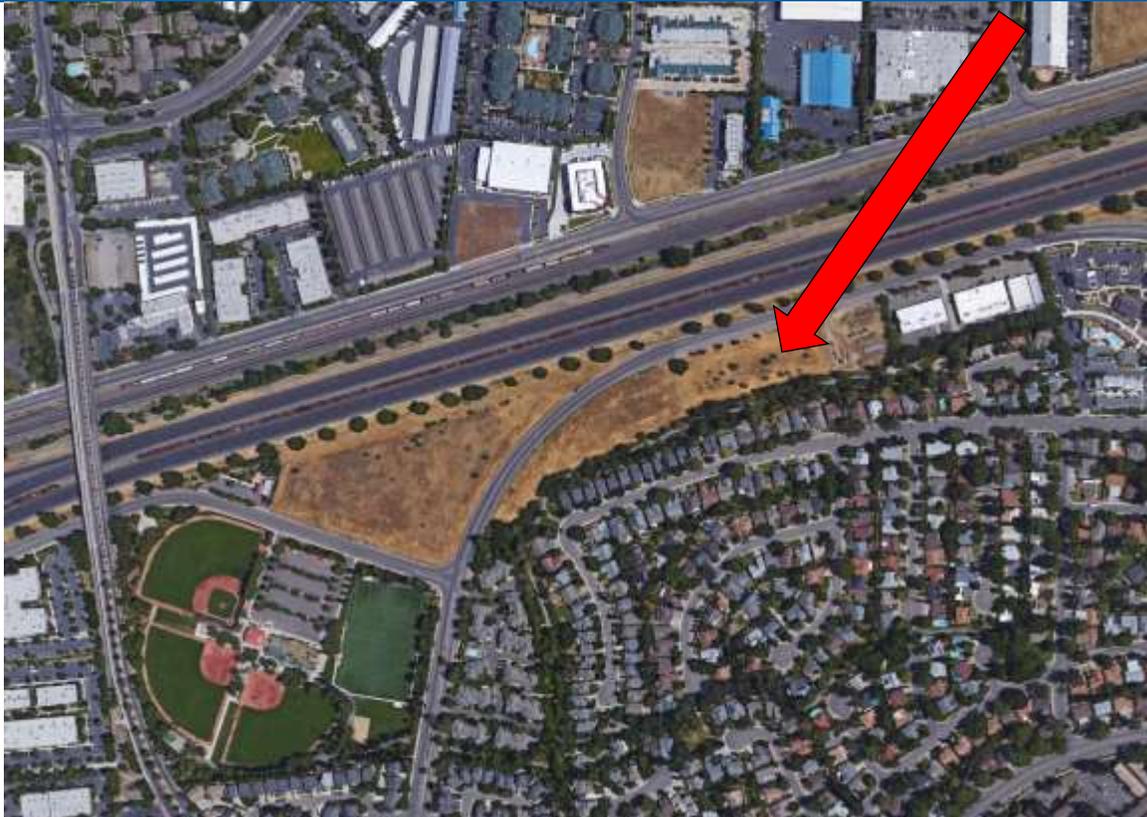


View of Site Facing Northwest



View from Site Facing South

Aerial View



Overall, the site's location is considered to be "excellent," as outlined in the table below.

Subject Site Analysis					
	Excellent	Very Good	Good	Fair	Poor
Accessibility	X				
Visibility	X				
Proximity to Demand	X				
Long-term Strategic Potential	X				

A map highlighting the location of the site within the greater Sacramento region is presented below.



C. PROPOSED HOTEL DEVELOPMENT

Based on your preliminary development program, we understand that you are desirous of developing a HYATT house hotel, which is an upscale extended-stay lodging product affiliated with Hyatt Hotels & Resorts (“Hyatt”). The HYATT house hotel features studios, one-, and two-bedroom kitchen suites and den guestrooms.

The kitchen suites feature a fully-equipped kitchen with full-size appliances, cookware, dishes, and utensils, while the den guestrooms feature only a microwave and refrigerator. All guestrooms feature plush bedding, a flexible workspace, a flat-panel high definition LCD television, and complimentary Wi-Fi service. HYATT house hotels also feature indoor and outdoor social spaces, a lounge with an adjacent H BAR and social sectional, the Bits+Bites+Borrows Market, a fitness center, and swimming pool. Guests can enjoy a happy hour that includes premium wine, beer, cocktails, and light fare for purchase; this service sets the HYATT house brand apart from most extended-stay lodging products. According to Hyatt, the HYATT house hotel caters primarily to mid- to upper-income transient and interim individual guests looking for spacious accommodations and the comforts and conveniences of a space that allows them to live as though they were in a home. Presented in the following table is a summary of the components of the HYATT house prototype.

HYATT house		
Guestrooms		
<u>Number: 125 - 200 suites</u>	<u>% of Rooms</u>	<u>Square Feet</u>
Den Guestroom	22	308
Studio Kitchen Suite	49	431
One-Bedroom Kitchen Suite	27	477
Two-Bedroom Kitchen Suite	2	720
Public Areas		
		<u>Square Feet</u>
Lounge		4,350
Outdoor Lounge		1,480
Meeting Space 1		326
Meeting Space 2		564
Pre-function Space		137
Fitness Center		970
Pool and Pool Deck		2,895
<i>Source: Hyatt Hotels & Resorts</i>		

We understand your current development program is based on a 122-room hotel. Based on the size of the individual hotels comprising the Davis lodging market, which range in size from 27 to 127 guestrooms, as well as the historical demand trends for the Davis lodging market, we are of the opinion that this hotel size is appropriate for Davis. This hotel size is also in line with the typical range (125 to 200 guestrooms) for HYATT house properties. Photographs of representative HYATT house hotels are presented below.

Representative Photographs of HYATT house Hotels



Exterior



Guestroom

As a HYATT house, the proposed Subject will represent the only extended-stay hotel within the Davis lodging market. For the purpose of this analysis, we have assumed the proposed HYATT house would feature 122 guestrooms and would be open and available for occupancy by January 1, 2017.

D. LOCAL AREA ECONOMIC HIGHLIGHTS

As previously stated, the identified site is located approximately two miles east of downtown Davis and UC Davis, immediately south of I-80. Presented below is a summary of several of the primary economic attributes of Davis.

- The City of Davis is located in Yolo County, approximately 11 miles west of Sacramento and 70 miles northeast of San Francisco, and is the most populous city within the county. Davis is widely known for its UC Davis presence, as well as its bicycling infrastructure. Excluding the on-campus population of UC Davis, the City of Davis is estimated to have a population of approximately 66,700 as of January 1, 2014, representing 32 percent of the Yolo County population. Since 2000, the population in Davis has increased at a compound annual growth rate (“CAGR”) of 0.7 percent.
- As of April 2015, the unemployment rate for the City of Davis was 4.7 percent, down from 5.3 percent in March 2015 and 6.9 percent one year ago. Comparatively, Yolo County had an unemployment rate of 6.1 percent at this same point in time. The largest employer in Davis is UC Davis with more than 28,000 employees, followed by the Davis Joint Unified School District, the City of Davis, and Sutter Davis Hospital. Companies nearby the Subject site include manufacturing companies such as DMG MORI USA and Schilling Robotics, LLC.
- UC Davis is a public research university located in Davis. It encompasses 5,300 acres of land, making it the second largest UC campus in terms of land ownership after UC Merced, and has the third largest enrollment in the UC System after UCLA and UC Berkeley. The university has expanded over the past century to include graduate and professional programs in medicine (which includes the UC Davis Medical Center located in Sacramento), law, veterinary medicine, education, nursing, and business management, in addition to 90 research programs offered by UC Davis Graduate Studies. UC Davis’ School of Veterinary Medicine is the largest in the U.S. and is ranked first in the nation. The UC Davis Aggies athletic teams compete in the NCAA Division I level, primarily in the Big West Conference and Big Sky Conference, as well as the Mountain Specific Sports Federation.

The university, which had an enrollment in the Fall of 2014 of more than 27,700 undergraduate students, announced a “2020 Initiative” in March of 2013 to increase the campus’ undergraduate enrollment by 20 percent above the levels of Fall 2011. The 2020 plan calls for the addition of 5,000 undergraduate students. It is interesting to note that when this initiative was announced, it was estimated that the university would have an undergraduate population of approximately 26,050 by 2014/15, which is approximately 1,650 students below the actual Fall 2014 enrollment. With this increase in the undergraduate student population, the university has also increased its faculty and student class and programs accordingly. In fact, as of June 16, 2014, more than \$16 million has been invested to increase availability of large enrollment gateway courses necessary for progress towards graduation, hiring of additional staff for academic advising and counseling services, development of software to improve the student interface with university offices including the registrar, financial aid and

advising resources and improvement of classroom conditions and technology. As the largest employer in Davis, coupled with the increasing student population, the university contributes significantly to the economic stability of the City of Davis.

- The City of Davis, in collaboration with UC Davis and Yolo County, is embarking on a community-based planning process for the Downtown Nishi Gateway Innovation District, including the 45-acre Nishi property (located near Richards Boulevard along I-80), West Olive Drive, and the adjacent UC Davis land. The development of the 45-acre Nishi property is referred to as the “Nishi Gateway Project.” The Nishi Gateway Project would include a gross building area of 1,100,000 square feet with 325,000 square feet of research and development space, 20,000 square feet of retail, potentially a hotel, 6.5 acres of green space, 440 apartments, and 210 condominium units. A rendering of the proposed larger Downtown Nishi Gateway Innovation District planning effort is presented below. The smaller Nishi Gateway Project is situated along I-80.

Downtown Nishi Gateway Innovation District



- In May of 2014, the City of Davis issued a Request for Expressions of Interest (“REFI”) for Davis innovation and technology center proposals. In July of 2014, three responses were received and two were invited to submit applications; however, one of these responses which proposed a 208-acre high-technology innovation and research campus located at Highway 113

and Covell Boulevard has since been placed on hold. The proposed center that remains active is the Mace Ranch Innovation Center. This proposed project is described in more detail below.

The Mace Ranch application was submitted on behalf of Ramco Enterprises, a West Sacramento land developer, and The Buzz Oates Group, a Sacramento real estate firm. This proposed innovation center is referred to as the Mace Ranch Innovation Center. The application proposes pre-zoning and annexation of +/-212 acres of land at the northeast corner of Mace Boulevard and County Road 32A, immediately adjacent to the city limits. Upon completion, the Mace Ranch Innovation Center would feature 1,510,000 square feet of research, office, and research and development space; 884,000 square feet of manufacturing and research space; a 150-room hotel and conference center with a gross building area of 160,000 square feet; and 100,000 square feet of ancillary retail. In total, this project proposes a development with a gross building area of 2,654,000 square feet. A rendering of the proposed innovation and technology center is presented below.

Mace Ranch Innovation Center



- The total gross building square footage for the Nishi Gateway Project and the Mace Ranch Innovation Center is 3,754,000 square feet. If approved, these two proposed projects will be placed on a ballot in 2016 for action by the voters within the local community. Based on discussions with city representatives, we understand that these developments, if approved, could be open as early as 2018, one year after our projected opening of the proposed Hotel.
- Another major development in Davis is the Panattoni Project. Panattoni Development Co., Inc. has proposed to develop up to 225,000 square feet of lab, office, and technology space on a 15-acre parcel located approximately one mile east of the Subject site at 3501 Chiles Boulevard.

Based on the foregoing overview of the City of Davis, it is clear that Davis is poised for continued economic growth.

E. HOTEL MARKET ANALYSIS

1. National Hotel Market Analysis

In addition to PKF Consulting, our Firm contains a research division, PKF Hospitality Research. Beginning in 2007, PKF unveiled its powerful *Hotel Horizons®*, an economics-based hotel forecasting model that projects five years of supply, demand, occupancy, ADR, and revenue per available room (“RevPAR”) for the U.S. lodging industry with a high degree of accuracy. *Hotel Horizons®* reports are published on a quarterly basis for 55 markets and six national chain-scales.

Based on the *June – August 2015 National Edition of Hotel Horizons®*, RevPAR for the U.S. lodging market grew by 5.4 percent in 2010, 8.1 percent in 2011, 6.6 percent in 2012, 5.2 percent in 2013, and 8.2 percent in 2014. As a point of comparison, RevPAR declined by 16.7 percent in 2009, the largest percentage decline since PKF Research began tracking lodging performance in 1935. This significant drop was a direct result of the severe national and global recession which began in the fall of 2007 and lasted well into 2009. Further, it resulted in a 40.0 percent decrease in hotels’ net operating income (“NOI”), subsequently impacting hotel values throughout the nation.

For the following three years (2015, 2016, and 2017), the overall U.S. lodging market is projected to achieve RevPAR growth rates of 7.2 percent, 6.8 percent, and 4.0 percent, respectively, with ADR gains leading these increases. In addition, the national occupancy is projected to reach the highest level ever achieved, or 66.0 percent, in 2016. Beginning in 2018, RevPAR growth is anticipated to begin tapering to long-term averages. As a result of the strong national performance,

2015 is projected to represent the sixth consecutive year of double-digit net operating income percent gains, the longest such period on record.

2. Davis Lodging Market Overview

The Davis lodging market is comprised of a variety of lodging facilities ranging in chain scale from economy (Days Inn Sacramento UC Davis) to upscale (Hyatt Place UC Davis). Nine of the eleven properties are affiliated with a national chain including Hyatt, Best Western, G6 Hospitality, La Quinta, Wyndham, and Choice; the remaining two properties operate as independent hotels. The largest hotel in the Davis lodging market is the 127-room Hyatt Place UC Davis, which recently completed a 52-room expansion in March of 2014. The smallest property is the 33-room Aggie Inn, an Ascend Collection Hotel. Presented below is a table summarizing the hotels that comprise the Davis lodging market, followed by a map.

Summary of the Davis Lodging Market

Hotel	Rooms	Open Date	Chain Scale	Affiliation
Hyatt Place UC Davis	127	March 2010	Upscale	Hyatt
Best Western Plus Palm Court Hotel	27	April 1994	Upper Midscale	Best Western
Motel 6 Davis	103	November 1978	Economy	G6 Hospitality
La Quinta Inn & Suites Davis	51	January 1997	Midscale	La Quinta
Days Inn Sacramento UC Davis	78	June 1974	Economy	Wyndham
Hallmark Inn	120	April 1990	Upper Midscale	No affiliation
Best Western University Lodge	52	June 1968	Midscale	Best Western
Econo Lodge Davis	26	June 1963	Economy	Choice
Comfort Suites	71	May 2000	Upper Midscale	Choice
Ascend Collection Hotel Aggie Inn	33	Not available	Upscale	Choice
University Park Inn & Suites	43	June 1973	Independent	No affiliation
Total	731			

Source: STR, Inc.

Map of Competitive Hotels



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3. Demand Generators

Based on our research, demand for hotel accommodations in Davis is primarily generated from the transient commercial and leisure market segments (approximately 80 percent), with the group segment (20 percent) generating the balance. The following is a list of the major demand generators for the Davis lodging market.

- Managers, sales representatives, and other business-related travelers visiting the Davis area businesses;
- Travelers to UC Davis for parent’s weekend, sporting events, graduation ceremonies, guest lectures, scholastic events, etc.;
- International students traveling to Davis to participate in academic programs at UC Davis;
- Youth sports teams across all ages visiting Davis for tournaments and events;
- Motorists traveling on Interstate 80 and Highway 113; and,
- Friends and family visiting local area residents.

4. Additions to and Deletions from Supply

Since 2000, only one hotel has entered the Davis lodging market – the Hyatt Place UC Davis. In fact, this hotel originally opened with only 75 rooms before undergoing a 52-room expansion in 2014. Ownership of this property recognized a need for more hotel rooms and, therefore, expanded the hotel by approximately 70 percent of the original room count.

Based on our discussions with representatives of the City of Davis, we understand that there are several hotels proposed within Davis. Two of these projects, which are proposed to be developed in conjunction with the innovation and technology centers mentioned above, are deemed speculative at this point in time and have not been included in our analysis. The third project is the proposed 132-room Embassy Suites by Hilton Hotels and Resorts. This hotel, which will be six stories in height, will replace the existing 45-room University Park Inn & Suites and Caffé Italia located on Richards Boulevard, immediately west of I-80 (a 2.8-acre site). In addition to 132 guestroom suites, the hotel will include a +/-18,000-square-foot conference center and a 172-car parking garage. We further understand that the hotel will break ground in 2015 and will be completed in early 2017 and will represent the net addition of 89 rooms (132 – 43 = 89).

For the purpose of this analysis, we have assumed the proposed Embassy Suites would be open and available for occupancy by January 1, 2017. Additionally, we have phased out the guestroom inventory at the 45-room University Park Inn between 2015 and 2016, as this hotel will be replaced by the Embassy Suites. The fourth proposed addition to supply is a 117-room Residence Inn. This hotel is

proposed to be located at the southwest corner of 2nd Street and Mace Boulevard near the proposed Mace Ranch Innovation Center. For the purpose of this analysis, we have assumed the Residence Inn would be open and available for occupancy by January 1, 2018.

As noted, the proposed Embassy Suites will feature a +/-18,000-square-foot conference center. The ratio of meeting space to guestrooms at this property will be approximately 136 square feet per guestroom based on 132 guestrooms, which is significantly higher than a more typical average of approximately 30 to 40 square feet per guestroom. Group business booked at the proposed conference center that would utilize even half of the 18,000 square feet of meeting space would likely require additional guestrooms than what would be offered at the Embassy Suites, thus requiring additional, conveniently located hotels to accommodate this overflow demand. Based on this proposed development, as well as other positive economic factors presented above, we are of the opinion that the proposed hotels will be absorbed rather quickly by the Davis hotel market and will be necessary additions to accommodate growing individual business and group demand.

5. Historical Performance of the Competitive Market

Presented in the following table is a summary of the historical supply and demand and the resulting occupancy percentages for the identified competitive market for the period 2007 to 2014 and for year-to-date (“YTD”) April 2014 and 2015. Also included are the competitive market’s average daily rate (“ADR”) and revenue per available room (“RevPAR”) figures. RevPAR is an industry standard which equates to the total revenue generated by available rooms and thereby measures the operational success of a market or individual property.

Proposed Residence Inn - Davis, CA Historical Performance of the Competitive Market									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2007	226,300	-	128,272	-	56.7%	\$81.05	-	\$45.94	-
2008	226,300	0.0%	122,117	-4.8%	54.0%	\$88.03	8.6%	\$47.50	3.4%
2009	226,300	0.0%	115,129	-5.7%	50.9%	\$90.37	2.7%	\$45.98	-3.2%
2010	249,295	10.2%	126,794	10.1%	50.9%	\$92.55	2.4%	\$47.07	2.4%
2011	252,945	1.5%	147,872	16.6%	58.5%	\$88.46	-4.4%	\$51.72	9.9%
2012	247,835	-2.0%	150,767	2.0%	60.8%	\$91.28	3.2%	\$55.53	7.4%
2013	247,835	0.0%	159,025	5.5%	64.2%	\$95.34	4.4%	\$61.18	10.2%
2014	263,895	6.5%	176,473	11.0%	66.9%	\$99.31	4.2%	\$66.41	8.6%
CAGR	2.2%	-	4.7%	-	-	2.9%	-	5.4%	-
YTD April '14	40,179	-	24,888	-	61.9%	\$96.95	-	\$60.06	-
YTD April '15	43,247	7.6%	29,531	18.7%	68.3%	\$102.70	5.9%	\$70.13	16.8%

Source: STR, Inc.

Supply for the competitive market fluctuated over the past eight years as one hotel was added to the market and the guestroom inventory at other existing hotels decreased. The annualized addition of the 75-room Hyatt Place UC Davis in March of 2010 resulted in a 10.2 percent increase in supply in 2010 and a 1.5 percent increase in 2011. This hotel expanded its guestroom inventory by 52 rooms in March of 2014, resulting in an increase in supply of 6.5 percent through year-end 2014. The increase in supply shown above through YTD April 2015 is also attributable to the annualized addition of the 52-room expansion at the Hyatt Place UC Davis.

Demand accommodated by the Davis hotels increased at a compound annual growth rate (“CAGR”) of 4.7 percent between 2007 and 2014. Similar to the overall U.S. hotel market, the Davis hotel market experienced a decrease in accommodated demand of 4.8 and 5.7 percent in 2008 and 2009, respectively, which is attributable to the economic downturn during this time. As the Great Recession ended in late 2009, demand increased in each consecutive year by between approximately 2.0 and 17.0 percent. It is interesting to note that in 2010, the increase in accommodated demand matched the increase in supply, indicating that the Hyatt Place UC Davis was readily absorbed by the market. In 2011, market occupancy increased to 58.5 percent, exceeding 2007 levels. As a result of the aforementioned year-over-year growth in demand, the Davis hotel market achieved a year-end 2014 occupancy of nearly 67 percent. Through YTD April 2015, accommodated demand increased a significant 18.7 percent. As a result, market occupancy increased from 61.9 percent to 68.3 percent.

With the exception of the performance of the market in 2011, the Davis hotels achieved growth in ADR each year over the past eight years. As a result, ADR increased at a CAGR of approximately 3.0 percent and ranged between \$81.05 in 2007 and \$99.31 in 2014. More recently, the Davis hotels achieved ADR growth of 3.2, 4.4, and 4.2 percent in 2012, 2013, and 2014, respectively. Through YTD April 2015, ADR further increased 5.9 percent, resulting in an ADR of \$102.70.

As a result of growth in occupancy and ADR, the RevPAR of the competitive market has increased at a CAGR of 5.4 percent since 2007. This growth is attributable to an improving local economy and hotel market. Through YTD April 2015, RevPAR increased a significant 16.8 percent as a result of healthy increases in both occupancy and ADR.

Presented in the following table is a summary of the 2014 performance of the competitive market by month, illustrating the seasonality of the Davis lodging market.

Monthly Performance of the Davis Lodging Market (2014)			
Month	Occupancy	ADR	RevPAR
January	52.7%	\$88.19	\$46.47
February	68.5%	\$94.62	\$64.81
March	62.5%	\$97.76	\$61.11
April	66.5%	\$103.69	\$69.00
May	70.0%	\$104.24	\$73.01
June	75.2%	\$109.56	\$82.35
July	73.7%	\$95.14	\$70.09
August	75.3%	\$97.15	\$73.11
September	76.8%	\$101.17	\$77.66
October	71.1%	\$100.52	\$71.46
November	63.9%	\$97.57	\$62.39
December	51.9%	\$89.38	\$46.39
Average	66.8%	\$99.31	\$66.38

Source: STR, Inc.

As noted, occupancy for the Davis hotels is highest during the months of June through September. As is typical for hotels throughout the nation, the months of November, December, and January are moderately slower as travel declines during the winter months and holiday season. ADR in 2014 ranged from a low of \$88.19 in January to a high of \$109.56 in June and averaged \$98.80. As noted, the low and high ADR levels coincide with the low and high occupancy levels as hotel rates are discounted when demand is low and are increased during peak periods.

F. PROJECTED MARKET AND SUBJECT PERFORMANCE

1. Projected Performance of the Competitive Market

Presented in the following table is a summary of our occupancy and ADR projections for the competitive market for the years 2015 through 2021, coinciding with the proposed Subject's first five full years of operation. As previously mentioned, we have assumed that the proposed Subject would be open and available for occupancy by January 1, 2017 and will contain 122 guestrooms. We have also accounted for the previously mentioned deletion of the 45-room University Park Inn & Suites, the addition of the 132-room Embassy Suites hotel, and the addition of the 117-room Residence Inn.

Proposed HYATT house - Davis, CA Projected Performance of the Competitive Market									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2014	263,895	6.5%	176,473	11.0%	67%	\$99.31	4.2%	\$66.41	8.6%
2015	264,625	0%	185,200	5%	70%	\$104	5%	\$73	10%
2016	251,120	-5%	175,800	-5%	70%	\$109	5%	\$76	5%
2017	343,830	37%	228,000	30%	66%	\$120	10%	\$80	4%
2018	386,535	12%	249,800	10%	65%	\$134	12%	\$87	9%
2019	386,535	0%	257,300	3%	67%	\$138	3%	\$92	6%
2020	386,535	0%	265,000	3%	69%	\$142	3%	\$97	6%
2021	386,535	0%	270,600	2%	70%	\$146	3%	\$102	5%
CAGR	6.5%	-	6.5%	-	-	5.8%		5.8%	

¹ Assumed phase out of the 43-room University Park Inn beginning in late 2015

² Assumed opening date of the proposed 122-room HYATT house and the 132-room Embassy Suites on January 1, 2017

³ Assumed opening date of the proposed 117-room Residence Inn on January 1, 2018

Note: Numbers may not foot due to rounding

Source: PKF Consulting USA, a CBRE Company

As noted, supply is projected to decrease 5.0 percent in 2015 as the 43-room University Park Inn & Suites is phased out and construction on the 132-room Embassy Suites is fully underway. As a result of the assumed addition of the Embassy Suites in January of 2017 as well as the opening of the proposed 122-room Subject, supply is projected to increase 37.0 percent. Lastly, with the assumed opening of the proposed 117-room Residence Inn in January of 2018, supply is projected to further increase 12.0 percent.

Market occupancy is projected to increase to approximately 70.0 percent in 2015 where it is projected to remain in 2016. Coinciding with the opening of the proposed Subject and the Embassy Suites, market occupancy is projected to decrease to 66.0 percent. A slight decrease in occupancy is also projected for 2018 as a result of the opening of the Residence Inn. However, as these three additions to supply are readily absorbed by the market, occupancy is projected to increase to 67.0 percent in 2019 and further increase to approximately 70.0 percent in 2020 and 2021. It is at this level we project the Davis hotel market to stabilize. While this stabilized occupancy level is above the annual average occupancy level achieved by the Davis hotel market since 2007, it is in line with the year-to-date performance and is reflective of the growth occurring in Davis.

As discussed, the Davis hotel market achieved ADR growth of 4.4 and 4.2 percent in 2013 and 2014, respectively, and through the first four months of 2015, ADR increased 5.9 percent over prior year levels. We project ADR growth of 5.0 percent in 2015 and 2016, which is consistent with growth levels projected for the greater Sacramento MSA. While ADR is projected to taper for the greater Sacramento MSA beginning in 2017, we project the Davis hotel market to achieve ADR growth of 10.0 percent, which results in an ADR of \$120, approximately \$21 above 2014

levels. It is during this time the HYATT house and the Embassy Suites will enter the Davis hotel market and naturally lift the market ADR due to their size and projected rate structure. Similarly, coinciding with the opening of the proposed Residence Inn, ADR is projected to increase approximately 12.0 percent in 2018. Thereafter, we project ADR to increase 3.0 percent per annum, in line with the assumed long-term outlook of inflation.

2. Projected Performance of the Proposed Hotel

Based upon our analysis contained herein, including a review of the overall competitive market and of each identified hotel, we have provided our occupancy and ADR projections for the proposed Subject's first five years of operation, as stated in calendar years beginning January 1, 2017.

Assuming that the Subject will be a newly-constructed, 122-room HYATT House, we believe that it will be able to achieve an occupancy above its fair share of demand. We project that it could achieve an occupancy of 78.0 percent in 2020, its third year of operation and the point at which we project it will reach operational stabilization. For the Hotel's first year, we project that it will achieve an occupancy of 73.0 percent, increasing to 76.0 percent in its second year of operation. A stabilized occupancy level of 78.0 percent results in a stabilized penetration level of 112.0 percent, indicating the Hotel will achieve above its fair share of demand, which will be the result of the high quality construction, excellent location on I-80 and brand affiliation.

We expect the proposed Subject to achieve an ADR well above the overall market average, which was \$99.31 through year-end 2014, as we expect the Subject to represent one of the highest quality hotels in the local market. We believe that an upscale hotel like a HYATT House affiliated with Hyatt could achieve an **ADR of \$145**, under the hypothetical condition that it was open in 2014. This ADR is approximately \$45 above the market average and slightly above the Hyatt Place UC Davis, currently the highest quality hotel in Davis.

We project ADR to grow at rates in line with the market in 2015 and 2016 but to taper beginning in 2017. Specifically, ADR is projected to increase by 5.0 percent in 2015 and 2016, 4.0 percent in 2017, and 3.0 percent per annum thereafter. Our projections for both occupancy and ADR for the Subject's first five full years of operation are presented in the following table. As indicated, the proposed Hotel is projected to achieve an ADR of \$166 in its first year of operation.

Proposed HYATT house - Davis, CA Projected Performance						
Year	Hypothetical ADR	Market Growth	Subject Occupancy	Subject Penetration	RevPAR	Percent Change
2014	\$145	-	-	-	-	-
2015	\$152	5%	-	-	-	-
2016	\$160	5%	-	-	-	-
2017	\$166	4%	73%	110%	\$121	-
2018	\$171	3%	76%	117%	\$129	7%
2019	\$176	3%	78%	117%	\$137	6%
2020	\$181	3%	78%	114%	\$141	3%
2021	\$186	3%	78%	112%	\$146	3%

¹ Assumed opening date of the proposed Subject on January 1, 2017

Note: Numbers may not foot due to rounding

Source: PKF Consulting USA, a CBRE Company

Additionally, we have reviewed the individual performance levels of HYATT house hotels located throughout the greater San Francisco Bay Area. These properties are summarized in the following table.

HYATT house Hotels - San Francisco Bay Area		
Hotel	Rooms	Year Built
HYATT House Belmont	132	1995
HYATT House Pleasant Hill	142	2002
HYATT House San Ramon	142	2002
HYATT House Pleasanton	128	1998
HYATT House Emeryville	234	2000
HYATT House Santa Clara	150	2004
HYATT House San Jose/Silicon Valley	164	2011
HYATT House Rancho Cordova	158	1989
Average	156	-
YE 2014 Average Occupancy		75% - 85%
YE 2014 Average ADR		\$150 - \$175

Source: PKF Consulting USA, a CBRE Company

As noted, these hotels range in size from 132 to 234 guestrooms and opened between 1989 and 2011. Through year-end 2014, the average occupancy for these properties was between approximately 75.0 and 85.0 percent, and the average ADR was between approximately \$150 and \$175. Comparatively, the North American system wide occupancy average for HYATT house hotels in 2014 was 80.0 percent and ADR was \$124. Based on the individual performance levels of the hotels located in Davis, the performance of the local HYATT house hotels listed above, and the proposed Hotel's positioning within the greater San Francisco Bay

Area, we are of the opinion that our projections for the proposed Hotel are reasonable.

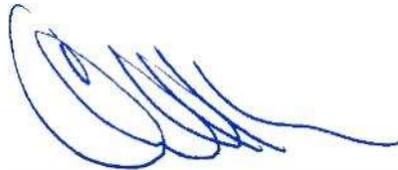
Lastly, as previously stated, should the Embassy Suites be developed, inclusive of the 18,000 square feet of meeting space, the proposed Subject will represent one of the closest and highest quality hotels to the Embassy Suites. Given the imbalance of guestrooms relative to the meeting space (a meeting utilizing all 18,000 square feet of space may include 500 to 1,000 attendees depending on the type of function), the proposed HYATT house would represent a necessary complement to the local market serving to capture either overflow group demand that is booked at the Embassy Suites (but can't be accommodated) or from traditional unsatisfied transient demand that cannot be accommodated by the Embassy Suites due to a large group in house. A hotel with approximately 18,000 square feet of meeting space would typically feature between 350 and 400 guestrooms.

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

This completes Phase I of our analysis of the potential market demand for the proposed Hotel. After you have had an opportunity to review this letter, please feel free to contact us with any questions or comments. Upon your authorization, we will commence a formal Phase II of our study which would include a detailed analysis of the economic viability for the proposed Hotel. We look forward to continue working with you on this interesting engagement.

Yours sincerely,

PKF Consulting USA
A Subsidiary of CBRE, Inc.



By: Chris Kraus, MAI
Managing Director
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By: Catherine Bolstad
Vice President
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ADDENDA

- A. CERTIFICATION OF THE CONSULTANTS**
- B. TERMS AND CONDITIONS**

ADDENDUM A
CERTIFICATION OF THE CONSULTANTS

CERTIFICATION OF THE CONSULTANTS

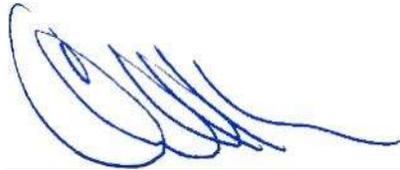
We, Chris Kraus, MAI and Catherine Bolstad certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, conclusions, and recommendations.
- We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
- We have performed no services, as appraisers or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- We have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
- We have made a personal inspection of the potential hotel site.
- No one has provided significant professional assistance to the persons signing this report.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, Chris Kraus, MAI has completed the continuing education program for Designated Members of the Appraisal Institute.

- Chris Kraus, MAI is a Certified General Real Estate Appraisers in the State of California.

Yours sincerely,

PKF Consulting USA
A Subsidiary of CBRE, Inc.



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Managing Director
chris.kraus@pkfc.com | 406.582.8189



By: Catherine Bolstad
Vice President
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ADDENDUM B
TERMS AND CONDITIONS

TERMS AND CONDITIONS

1. The Terms and Conditions herein are part of an agreement for consulting services (the "Agreement") between CBRE, Inc. (the "Consultant") and the client signing this Agreement, and for whom the consulting services will be performed (the "Client"), and shall be deemed a part of such Agreement as though set forth in full therein. The Agreement shall be governed by the laws of the state where the Consultant's office is located for the Consultant executing this Agreement.
2. Client shall be responsible for the payment of all fees stipulated in the Agreement. Payment of the engagement fee and preparation of a report (the "Report") are not contingent upon any predetermined value or on an action or event resulting from the analyses, opinions, conclusions, or use of the Consulting Report. Final payment is due as provided in the Proposal Specifications Section of this Agreement. If a draft report is requested, the fee is considered earned upon delivery of the draft report. It is understood that the Client may cancel this assignment in writing at any time prior to delivery of the completed report. In such event, the Client is obligated only for the prorated share of the fee based upon the work completed and expenses incurred (including travel expenses to and from the job site), with a minimum charge of \$500. Additional copies of the Reports are available at a cost of \$250 per original color copy and \$100 per photocopy (black and white), plus shipping fees of \$30 per report.
3. If Consultant is subpoenaed to give testimony or otherwise required or requested by Client or a third party to participate in meetings, phone calls, conferences, litigation or other legal proceedings (including preparation for such proceedings) because of, connected with or in any way pertaining to this engagement, the Report, the Consultant's expertise, or the Property, Client shall pay Consultant's additional costs and expenses based on Consultant's then-prevailing hourly rates and related fees. Such charges include and pertain to time spent in preparing for and providing court room testimony, depositions, travel time, mileage and related travel expenses, waiting time, document review and preparation time (excluding preparation of the Report), meeting participation, and Consultant's other related commitment of time and expertise. Hourly charges and other fees for such participation will be provided upon request. In the event Client requests additional consulting services beyond the scope and purpose stated in the Agreement, Client agrees to pay additional fees for such services and to reimburse related expenses, whether or not the completed report has been delivered to Client at the time of such request.
4. Consultant shall have the right to terminate this Agreement at any time for cause effective immediately upon written notice to Client on the occurrence of fraud or the willful misconduct of Client, its employees or agents.
5. In the event Client fails to make payments when due then, from the date due until paid, the amount due and payable shall bear interest at the maximum rate permitted in the state where the office is located for the Consultant executing the Agreement. In the event either party institutes legal action against the other to enforce its rights under this Agreement, the prevailing party shall be entitled to recover its reasonable attorney's fees and expenses. Each party waives the right to a trial by jury in any action arising under this Agreement.
6. Consultant assumes there are no major or significant items or issues affecting the Property that would require the expertise of a professional building contractor, engineer, or environmental consultant for Consultant to prepare a valid report. Client acknowledges that such additional expertise is not covered in the engagement fee and agrees that, if such additional expertise is required, it shall be provided by others at the discretion and direction of the Client, and solely at Client's additional cost and expense.
7. In the event of any dispute between Client and Consultant relating to this Agreement, or Consultant's or Client's performance hereunder, Consultant and Client agree that such dispute shall be resolved by means of binding arbitration in accordance with the commercial arbitration rules of the American Arbitration Association, and judgment upon the award rendered by an arbitrator may be entered in any court of competent jurisdiction. Depositions may be taken and other discovery obtained during such arbitration proceedings to the same extent as authorized in

civil judicial proceedings in the state where the office of the Consultant executing this Agreement is located. The arbitrator shall be limited to awarding compensatory damages and shall have no authority to award punitive, exemplary or similar damages. The prevailing party in the arbitration proceeding shall be entitled to recover its expenses from the losing party, including costs of the arbitration proceeding, and reasonable attorney's fees. Client acknowledges that Consultant is being retained hereunder as an independent contractor to perform the services described herein and nothing in this Agreement shall be deemed to create any other relationship between Client and Consultant. This engagement shall be deemed concluded and the services hereunder completed upon delivery to Client of the Report discussed herein.

8. All statements of fact in the report which are used as the basis of the Consultant's analyses, opinions, and conclusions will be true and correct to the best of the Consultant's knowledge and belief. Consultant does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information or the condition of the Property furnished to Consultant by Client or others.
9. Consultant shall have no responsibility for legal matters, including zoning, or questions of survey or title, soil or subsoil conditions, engineering, or other similar technical matters. The report will not constitute a survey of the Property analyzed.
10. Client shall provide Consultant with such materials with respect to the assignment as are requested by Consultant and in the possession or under the control of Client. Client shall provide Consultant with sufficient access to the Property to be analyzed, and hereby grants permission for entry unless discussed in advance to the contrary.
11. The data gathered in the course of the assignment (except data furnished by Client) and the report prepared pursuant to the Agreement are, and will remain, the property of Consultant. With respect to data provided by Client, Consultant shall not violate the confidential nature of the Consultant-Client relationship by improperly disclosing any proprietary information furnished to Consultant. Notwithstanding the foregoing, Consultant is authorized by Client to disclose all or any portion of the report and related data as may be required by statute, government regulation, legal process, or judicial decree, including to appropriate representatives of the Appraisal Institute if such disclosure is required to enable Consultant to comply with the Bylaws and Regulations of such Institute as now or hereafter in effect.
12. Unless specifically noted, in preparing the Report the Consultant will not be considering the possible existence of asbestos, PCB transformers, or other toxic, hazardous, or contaminated substances and/or underground storage tanks (collectively, "Hazardous Material) on or affecting the Property, or the cost of encapsulation or removal thereof. Further, Client represents that there is no major or significant deferred maintenance of the Property that would require the expertise of a professional cost estimator or contractor. If such repairs are needed, the estimates are to be prepared by others, at Client's discretion and direction, and are not covered as part of the engagement fee.
13. In the event Client intends to use the Report in connection with a tax matter, Client acknowledges that Consultant provides no warranty, representation or prediction as to the outcome of such tax matter. Client understands and acknowledges that any relevant taxing authority (whether the Internal Revenue Service or any other federal, state or local taxing authority) may disagree with or reject the Report or otherwise disagree with Client's tax position, and further understands and acknowledges that the taxing authority may seek to collect additional taxes, interest, penalties or fees from Client beyond what may be suggested by the Report. Client agrees that Consultant shall have no responsibility or liability to Client or any other party for any such taxes, interest, penalties or fees and that Client will not seek damages or other compensation from Consultant relating to any such taxes, interest, penalties or fees imposed on Client, or for any attorneys' fees, costs or other expenses relating to Client's tax matters.
14. Consultant shall have no liability with respect to any loss, damage, claim or expense incurred by or asserted against Client arising out of, based upon or resulting from Client's failure to provide

accurate or complete information or documentation pertaining to an assignment ordered under or in connection with this Agreement, including Client's failure, or the failure of any of Client's agents, to provide a complete copy of the Report to any third party.

15. LIMITATION OF LIABILITY. EXCEPT TO THE EXTENT ARISING FROM SECTION 16 BELOW, OR SECTION 17 IF APPLICABLE, IN NO EVENT SHALL EITHER PARTY OR ANY OF THEIR OFFICERS, DIRECTORS, EMPLOYEES OR CONTRACTORS BE LIABLE TO THE OTHER, WHETHER BASED IN CONTRACT, WARRANTY, INDEMNITY, NEGLIGENCE, STRICT LIABILITY OR OTHER TORT OR OTHERWISE, FOR (I) ANY SPECIAL, CONSEQUENTIAL, PUNITIVE, INCIDENTAL OR INDIRECT DAMAGES AND (II) AGGREGATE DAMAGES IN CONNECTION WITH THIS AGREEMENT (EXCLUDING THE OBLIGATION TO PAY THE FEES REQUIRED HEREUNDER) IN EXCESS OF THE GREATER OF THE AMOUNT OF THE TOTAL FEES PAID TO CONSULTANT UNDER THIS AGREEMENT OR TEN THOUSAND DOLLARS (\$10,000). THIS LIABILITY LIMITATION SHALL NOT APPLY IN THE EVENT OF A FINAL FINDING BY AN ARBITRATOR OR A COURT OF COMPETENT JURISDICTION THAT SUCH LIABILITY IS THE RESULT OF A PARTY'S GROSS NEGLIGENCE, FRAUD OR WILLFUL MISCONDUCT.
16. Client shall not disseminate, distribute, make available or otherwise provide any Report prepared hereunder to any third party (including without limitation, incorporating or referencing the Report , in whole or in part, in any offering or other material intended for review by other parties) except to (i) any third party approved in writing by Consultant and identified herein as an "Intended User" of the Report, (ii) any third party service provider (including rating agencies and Client's auditors) using the Report in the course of providing services for the sole benefit of Client, or (iii) as required by statute, government regulation, legal process, or judicial decree. In the event Consultant consents, in writing, to Client incorporating or referencing the Report in any offering or other materials intended for review by other parties, Client shall not distribute, file, or otherwise make such materials available to any such parties unless and until Client has provided Consultant with complete copies of such materials and Consultant has approved all such materials in writing. Client shall not modify any such materials once approved by Consultant. In the absence of satisfying the conditions of this paragraph with respect to a party who is not designated as an Intended User, in no event shall the receipt of a Report by such party extend any right to the party to use and rely on such report, and Consultant shall have no liability for such unauthorized use and reliance on any Report. In the event Client breaches the provisions of this paragraph, Client shall indemnify, defend and hold Consultant, and its affiliates and their officers, directors, employees, contractors, agents and other representatives (Consultant and each of the foregoing an "Indemnified Party" and collectively the "Indemnified Parties"), fully harmless from and against all losses, liabilities, damages and expenses (collectively, "Damages") claimed, sustained or incurred by any party arising out of or in connection with such breach, regardless of any negligence on the part of any Indemnified Party in preparing the Report.
17. In the event Client incorporates or references the Report, in whole or in part, in any offering or other material intended for review by other parties, Client shall indemnify, defend and hold each of the Indemnified Parties harmless from and against any Damages in connection with (i) any transaction contemplated by this Agreement or in connection with the engagement of or performance of services by any Indemnified Party hereunder, (ii) any actual or alleged untrue statement of a material fact, or the actual or alleged failure to state a material fact necessary to make a statement not misleading in light of the circumstances under which it was made with respect to all information furnished to any Indemnified Party or made available to a prospective party to a transaction, or (iii) an actual or alleged violation of applicable law by Client (including, without limitation, securities laws) or the negligent or intentional acts or omissions of Client (including the failure to perform any duty imposed by law); and will reimburse each Indemnified Party for all reasonable fees and expenses (including fees and expenses of counsel) (collectively, "Expenses") as incurred in connection with investigating, preparing, pursuing or defending any threatened or pending claim, action, proceeding or investigation (collectively, "Proceedings")

arising there from, and regardless of whether such Indemnified Party is a formal party to such Proceeding. Client agrees not to enter into any waiver, release or settlement of any Proceeding (whether or not any Indemnified Party is a formal party to such Proceeding) without the prior written consent of Consultant (which consent will not be unreasonably withheld or delayed) unless such waiver, release or settlement includes an unconditional release of each Indemnified Party from all liability arising out of such Proceeding.