



FEASIBILITY STUDY

Proposed Balsam House Resort

477 ATATEKA DRIVE
CHESTERTOWN, NEW YORK



SUBMITTED TO:

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PREPARED BY:

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August 2, 2024

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Re: Proposed Balsam House Resort
Chestertown, New York
HVS Reference: 2023021165

Dear Mr. Ellis:

Pursuant to your request, we herewith submit our feasibility study pertaining to the above-captioned property. We have inspected the real estate and analyzed the hotel market conditions in the Chestertown, New York, area. We have studied the proposed project, and the results of our fieldwork and analysis are presented in this report. We have also reviewed the proposed improvements for this site. This report is not an appraisal but has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), as provided by the Appraisal Foundation and as applicable for this consulting assignment.

We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Sincerely,
TS Worldwide, LLC

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1. Executive Summary

Subject of the Feasibility Study

The subject of the feasibility study is a site measuring 3,078,821 square feet (70.68 acres) that is planned to be improved with a full-service lodging facility; the hotel is not anticipated to be associated with a major hotel brand. The property, which is expected to open on January 1, 2026, will feature 59 rooms, two restaurants and a lakeside café, 5,000 square feet of meeting space, two outdoor pools, an indoor whirlpool, a lobby workstation, a sundries shop, kayak rentals, canoe rentals, ice skating rentals, snowshoeing and cross-country skiing, and an approximately 10,000-square-foot full-service spa/salon that will also be open to the surrounding community. The hotel will also contain the appropriate parking capacity (approx. 75) and all necessary back-of-the-house space. There will also be employee housing, constructed dormitory style, east of Atateka Road. The hotel portion of the property is located on the private Friends Lake and has riparian rights and lakefront access.

SUBJECT HOTEL



The proposed subject property is a redevelopment of the Balsam House, which was closed due to fire in 1994 and has remained vacant since. The proposed subject property will be the first hotel of its type in Warren County and is expected to be expansive, comprising a number of components and a variety of rental unit types. The guest units will include a main hotel building and stand-alone cabins. The guestroom bed configuration will consist of rooms with a king or double queen and

sofa bed in the main hotel building and two bedrooms with a sofa bed in the ten private cabins.

The resort will be repositioned and branded as a wellness resort, incorporating sustainable building materials and food sourcing practices, along with geothermal utilities under radiant floors. Additionally, the property will promote healthy living through nutritional food products, personal training, yoga classes, state-of-the-art Italian spa facilities with natural cosmetic products, meditation classes, sleep therapy, circadian lighting, and filtered in-room water.

Furthermore, the resort will feature an upscale formal dining restaurant, a casual bistro restaurant, a lakeside cafe, a 5,000-square-foot event center, a large lap pool, a plunge pool, an indoor hot tub, and a full-service spa/salon and fitness center. The full-service spa/salon will feature innovative spa treatments by a major spa brand, anticipated to be Naturopathica, that bases its products and treatments on natural and indigenous herbs and plants. The fitness center will encompass approximately 400 square feet and work in complement with the full-service spa/salon, featuring equipment by Technogym and offering infra-red saunas, steam rooms, cold plunges, snow rooms, and indoor hot tubs. There will also be complimentary water activities on Friends Lake, including canoeing and kayaking, as well as ice skating, snowshoeing, and cross-country skiing during the winter months. Furthermore, the Circle B ranch is located within half-a-mile from the proposed subject property and guests will be able to enjoy discounted rates on hay rides and horse riding adventures. Lastly, Cronin's Golf Resort, a renowned golf course in the Adirondack Region, is located seven minutes away from the subject site, and guests will be able to enjoy discounted tee times at this course that overlooks the Hudson River from April through November. The proposed subject property is expected to compete regionally with other luxury and upper-upscale hotels. The subject site's location is 477 Atateka Drive, Chestertown, New York 12817.

Pertinent Dates

The effective date of the report is August 2, 2024. The subject site was inspected by Cole Masler on September 7, 2023. In addition to the inspection, Cole Masler participated in the research for this assignment and assisted in the report's preparation. Jerod S. Byrd, MAI, and Christian Cross participated in the analysis and reviewed the findings but did not personally inspect the property.

Global Considerations

The hospitality industry has been, and continues to be, affected by a variety of external factors that influence both the lodging and the investment markets. The following paragraphs outline the global factors that are the most impactful to the lodging industry as of the effective date of this report.

The COVID-19 pandemic began in early 2020 and had a significant impact throughout the world. The onset of the pandemic resulted in decreased business

activity, causing widespread economic hardships, including higher levels of unemployment. The hospitality industry was severely affected, as travel declined sharply and as restrictions on group sizes resulted in the cancellations of meetings, conventions, and events. The depth and duration of this impact was influenced by the course of the pandemic and the nature and extent of restrictions on business and travel activity; the period of greatest impact was 2020. With the availability of vaccines and lifting of restrictions, conditions generally improved in 2021, although the Omicron variant slowed the recovery in the latter part of the year. The peak impact of the pandemic on the travel industry is well behind us. While group meetings and events have resumed, business travel remains below pre-pandemic levels given that office occupancy and work-related travel have been affected by more widespread hybrid work options; furthermore, travel patterns have shifted to include a leisure element, anticipated to comprise a greater proportion of lodging demand in the future. While ADR and RevPAR have surpassed 2019 levels in most markets, our research reflects a general expectation that lagging occupancy levels will continue to improve over the next two years; the timing and pace of recovery for individual markets will vary based on market-specific characteristics and conditions.

Exacerbated by rising oil and gas prices in the wake of the Russia-Ukraine war, the inflationary trends that first emerged during the pandemic continued through 2022 and early 2023. Driven by supply-chain disruptions and pent-up consumer demand during the pandemic, prices for most goods and services increased substantially. The Federal Reserve has addressed inflation through successive interest-rate hikes (seven in 2022, and another four in 2023), and the pace of inflation has decelerated. As of the fourth quarter of 2023, inflation levels are anticipated to moderate downward to more normalized levels. However, as a result of increased interest rates and lender caution, financing is now both more expensive and less available than in recent years, causing a notable slowing in transaction activity. These market forces have put downward pressure on real estate values.

The recent, successive increases in GDP, as well as continued strong job growth, paint a positive picture of the U.S. economy, but the continuing Russia-Ukraine war and events in the Middle East have resulted in a lack of overall clarity. Moreover, the specter of a recession remains. Within the hospitality industry, concerns related to tightening corporate travel budgets and rising expenses, particularly related to labor costs, are creating some headwinds.

In preparing this report, we have considered the impact of these factors on the lodging and investment markets to the best of our ability. However, our analysis only considers what is known at the time of the effective date of the report, and there is a high degree of uncertainty currently influencing the market and the economy.

**Ownership of the
Subject Site**

The current owner of the subject site is Frank Ellis. Frank Ellis has owned the main hotel parcel since 1981. Parcel 2, which is directly south of the main hotel parcel, was purchased by Frank Ellis under the operating company known as Associated Equipment Rental Co. in 2011. Parcel 3, located east of Atateka Drive, was purchased by Frank Ellis in 2020. The developers of the subject site noted that an appraisal of all buildings in their present state as of June 2024 will be completed.

**Management and
Franchise Assumptions**

Details pertaining to management terms were not yet determined at the time of this report; however, we assume that the proposed hotel will be managed by a professional hotel-operating company, with fees deducted at rates consistent with current market standards. Our projections reflect a management fee of 3.0% of total revenues.

The proposed hotel will reportedly remain independently operated throughout the forecast period; therefore, it will not be subject to franchise fees.

**Summary of Hotel
Market Trends**

During the illustrated historical period, both occupancy and ADR strengthened through 2012 as the market continued to rebound from the effects of the Global Financial Crisis, before both declining in 2013. Occupancy improved in 2014 as overall market supply decreased given the decline in room count at the High Peaks Resort and the temporary closure of the Hotel Saranac in order to complete comprehensive renovations; ADR, however, further declined. Despite consecutive increases in new supply in 2016, 2017, and 2018, occupancy and ADR followed a strengthening trend through 2019, largely owing to this region's popularity as a leisure travel destination. In 2020, the COVID-19 pandemic affected the local market, similar to the rest of the nation, resulting in stay-at-home orders, group cancellations, and decreased business travel; as such, occupancy declined significantly. However, given this market's popularity as a drive-to leisure destination and the gradual lifting of COVID-19 restrictions by June 2020, ADR improved significantly in 2020, reaching a historical peak for the competitive submarket. This strengthening trend continued through 2021 and 2022; however, ADR growth normalized in 2022 given the significant gains achieved in the prior two years. Year-end 2023 data illustrate continued modest growth in occupancy ADR; conversely, the year-to-date 2024 data illustrate occupancy remaining stable, while ADR has declined by over \$12. This trend can be attributed to a normalization in the level of domestic leisure demand.

The following table provides a historical perspective on the supply and demand trends for a selected set of hotels, as provided by STR.

FIGURE 1-1 HISTORICAL SUPPLY AND DEMAND TRENDS

| Average Daily | | Available | | Occupied | | Average | | | | |
|--|------------|-------------|--------|----------------------|--------------------|-----------------|-----------------|-------------|----------------------------|---------|
| Year | Room Count | Room Nights | Change | Room Nights | Change | Occupancy | Rate | Change | RevPAR | Change |
| 2010 | 810 | 295,502 | — | 141,291 | — | 47.8 % | \$175.96 | — | \$84.13 | — |
| 2011 | 810 | 295,502 | 0.0 % | 144,008 | 1.9 % | 48.7 | 179.20 | 1.8 % | 87.33 | 3.8 % |
| 2012 | 810 | 295,502 | 0.0 | 146,445 | 1.7 | 49.6 | 180.25 | 0.6 | 89.33 | 2.3 |
| 2013 | 810 | 295,502 | 0.0 | 143,203 | (2.2) | 48.5 | 172.76 | (4.2) | 83.72 | (6.3) |
| 2014 | 713 | 260,245 | (11.9) | 134,210 | (6.3) | 51.6 | 163.92 | (5.1) | 84.54 | 1.0 |
| 2015 | 713 | 260,245 | 0.0 | 135,728 | 1.1 | 52.2 | 171.23 | 4.5 | 89.31 | 5.6 |
| 2016 | 763 | 278,452 | 7.0 | 150,489 | 10.9 | 54.0 | 174.86 | 2.1 | 94.50 | 5.8 |
| 2017 | 833 | 303,864 | 9.1 | 170,913 | 13.6 | 56.2 | 179.48 | 2.6 | 100.95 | 6.8 |
| 2018 | 926 | 338,113 | 11.3 | 180,527 | 5.6 | 53.4 | 184.10 | 2.6 | 98.29 | (2.6) |
| 2019 | 935 | 341,275 | 0.9 | 184,182 | 2.0 | 54.0 | 184.83 | 0.4 | 99.75 | 1.5 |
| 2020 | 929 | 339,116 | (0.6) | 138,242 | (24.9) | 40.8 | 204.55 | 10.7 | 83.39 | (16.4) |
| 2021 | 911 | 332,631 | (1.9) | 158,091 | 14.4 | 47.5 | 238.66 | 16.7 | 113.43 | 36.0 |
| 2022 | 997 | 363,812 | 9.4 | 185,353 | 17.2 | 50.9 | 238.86 | 0.1 | 121.69 | 7.3 |
| 2023 | 1,072 | 391,280 | 7.6 | 203,000 | 9.5 | 51.9 | 241.43 | 1.1 | 125.26 | 2.9 |
| Year-to-Date Through June | | | | | | | | | | |
| 2023 | 1,072 | 194,032 | — | 88,348 | — | 45.5 | \$212.35 | — | \$96.69 | — |
| 2024 | 1,072 | 194,032 | 0.0 % | 88,453 | 0.1 % | 45.6 | 199.02 | (6.3) % | 90.72 | (6.2) % |
| Average Annual Compounded Change: | | | | | | | | | | |
| 2010 – 2019 | | | 1.6 % | 3.0 % | | | 0.5 % | | | 1.9 % |
| 2010 – 2023 | | | 2.2 | 2.8 | | | 2.5 | | | 3.1 |
| Hotels Included in Sample | | | | Class | Competitive Status | Number of Rooms | Year Affiliated | Year Opened | Comments* | |
| Holiday Inn Resort Lake George Adirondack Area | | | | Upper Midscale Class | Primary | 129 | Aug 1990 | Jun 1966 | | |
| Fort William Henry Hotel | | | | Upper Upscale Class | Primary | 194 | Jun 1911 | Jun 1911 | | |
| Courtyard by Marriott Lake George | | | | Upscale Class | Primary | 119 | Aug 2016 | Aug 2016 | | |
| Golden Arrow Lakeside Resort | | | | Luxury Class | Primary | 166 | May 2020 | Jun 1958 | S/O Apr 2020; R/O May 2020 | |
| High Peaks Resort | | | | Luxury Class | Primary | 177 | Jun 2008 | Oct 1978 | S/O Dec 2020; R/O Aug 2022 | |
| Grand Adirondack Hotel, Lake Placid, a Tribute Portfolio Hotel | | | | Upper Upscale Class | Primary | 92 | Aug 2022 | Nov 1986 | | |
| Hotel Saranac, Curio Collection by Hilton | | | | Upper Upscale Class | Primary | 102 | Jan 2018 | Jul 1927 | | |
| Saranac Waterfront Lodge, Trademark Collection by Wyndham | | | | Upper Midscale Class | Primary | 93 | Mar 2023 | Nov 2020 | S/O Feb 2021; R/O May 2021 | |
| Total | | | | | | 1,072 | | | | |
| *S/O= Suspended Operations, R/O= Resumed Operations | | | | | | | | | | |
| **Friends Lake Inn & Lodge at Schroon Lake not included in STR Trend | | | | | | | | | | |
| Source: STR | | | | | | | | | | |

The following tables reflect our estimates of operating data for hotels on an individual basis. These trends are presented in detail in the Supply and Demand Analysis chapter of this report.

FIGURE 1-2 PRIMARY COMPETITORS – OPERATING PERFORMANCE

| Property | Est. Segmentation | | | Estimated 2022 | | | | Estimated 2023 | | | | | |
|------------------------------|-------------------|-------------|-------------|---------------------------------|---------------|-----------------|-----------------|----------------------------|---------------|-----------------|---------------|-----------------------|-------------------|
| | Number of Rooms | Transient | Group | Weighted Annual Room Count | Occ. | Average Rate | RevPAR | Weighted Annual Room Count | Occ. | Average Rate | RevPAR | Occupancy Penetration | Yield Penetration |
| Friends Lake Inn Chestertown | 18 | 95 % | 5 % | 18 | 40 - 45 % | \$300 - \$325 | \$130 - \$140 | 18 | 40 - 45 % | \$300 - \$325 | \$140 - \$150 | 80 - 85 % | 110 - 120 % |
| Lodge at Schroon Lake | 116 | 85 | 15 | Closed 2022; Reopen August 2023 | | | | 58 | 40 - 45 | 170 - 180 | 70 - 75 | 80 - 85 | 55 - 60 |
| Sub-Totals/Averages | 134 | 87 % | 13 % | 18 | 41.0 % | \$320.00 | \$131.20 | 76 | 42.5 % | \$210.36 | \$89 | 83 % | 72.8 % |
| Secondary Competitors | 1,072 | 78 % | 22 % | 791 | 50.9 % | \$238.83 | \$121.65 | 858 | 52.1 % | \$241.39 | \$126 | 102 % | 102.4 % |
| Totals/Averages | 1,206 | 78 % | 22 % | 809 | 50.7 % | \$240.29 | \$121.86 | 934 | 51.3 % | \$239.29 | \$123 | 100 % | 100.0 % |

* Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.

It should be noted that the two competitive properties differ from the proposed subject property in that Friends Lake Inn contains significantly less meeting space and offers only one formal dining restaurant. Furthermore, this property does not have the same amenity and facility offering as the proposed subject hotel; however, this property is the most locationally relevant competitor, being that it is the only other property located on Friends Lake and near this area's primary demand generators. The Lodge at Schroon Lake recently opened in August 2023 after a temporary closure and has not yet opened their spa, glamping sites, and restaurant; however, these facilities and room types are anticipated to open in 2024, prior to the opening of the proposed subject hotel.

FIGURE 1-3 SECONDARY COMPETITORS – OPERATING PERFORMANCE

| Property | Est. Segmentation | | | | Estimated 2022 | | | | Estimated 2023 | | | |
|---|-------------------|-------------|-------------|-------------------------|----------------------------|---------------|-----------------|-----------------|----------------------------|---------------|-----------------|-----------------|
| | Number of Rooms | Transient | Group | Total Competitive Level | Weighted Annual Room Count | Occ. | Average Rate | RevPAR | Weighted Annual Room Count | Occ. | Average Rate | RevPAR |
| Courtyard by Marriott Lake George | 119 | 85 % | 15 % | 80 % | 95 | 65 - 70 % | \$230 - \$240 | \$150 - \$160 | 95 | 65 - 70 % | \$240 - \$250 | \$160 - \$170 |
| Holiday Inn Resort Lake George - Water View | 129 | 75 | 25 | 80 | 103 | 50 - 55 | 230 - 240 | 115 - 120 | 103 | 50 - 55 | 230 - 240 | 120 - 125 |
| Fort William Henry Hotel and Conference | 194 | 70 | 30 | 80 | 155 | 40 - 45 | 240 - 250 | 100 - 105 | 155 | 40 - 45 | 250 - 260 | 110 - 115 |
| Golden Arrow Lakeside Resort | 166 | 75 | 25 | 80 | 133 | 50 - 55 | 220 - 230 | 120 - 125 | 133 | 50 - 55 | 230 - 240 | 125 - 130 |
| Grand Adirondack Hotel Lake Placid a Tribute Portfolio | 92 | 85 | 15 | 80 | 25 | 45 - 50 | 170 - 180 | 80 - 85 | 74 | 45 - 50 | 170 - 180 | 85 - 90 |
| High Peaks Resort | 177 | 75 | 25 | 80 | 124 | 60 - 65 | 240 - 250 | 150 - 160 | 142 | 60 - 65 | 240 - 250 | 150 - 160 |
| Hotel Saranac, Curio Collection by Hilton | 102 | 80 | 20 | 80 | 82 | 35 - 40 | 210 - 220 | 80 - 85 | 82 | 35 - 40 | 210 - 220 | 85 - 90 |
| Saranac Waterfront Lodge | 93 | 90 | 10 | 80 | 74 | 35 - 40 | 300 - 325 | 115 - 120 | 74 | 35 - 40 | 325 - 350 | 125 - 130 |
| Totals/Averages | 1,072 | 78 % | 22 % | 80 % | 791 | 50.9 % | \$238.83 | \$121.65 | 858 | 52.1 % | \$241.39 | \$125.72 |
| * Specific occupancy and average rate data was utilized in our analysis, but is presented in ranges in the above table for the purposes of confidentiality. | | | | | | | | | | | | |

Summary of Forecast Occupancy and Average Rate

Based on our analysis presented in the Projection of Occupancy and Average Rate chapter, we have chosen to use a stabilized occupancy level of 69% and a base-year rate position of \$305.00 for the proposed subject hotel, with the occupancy and average daily rate (ADR) projections summarized below.

FIGURE 1-4 FORECAST OF OCCUPANCY AND AVERAGE RATE

| Year | Occupancy | Average Rate | | Average Rate | | RevPAR |
|------|-----------|-----------------|----------|----------------|--|----------|
| | | Before Discount | Discount | After Discount | | |
| 2026 | 63 % | \$344.70 | 5.0 % | \$327.47 | | \$206.30 |
| 2027 | 69 | 355.04 | 2.0 | 347.94 | | 240.08 |
| 2028 | 69 | 365.69 | 0.0 | 365.69 | | 252.33 |

Summary of Forecast Income and Expense Statement

Our positioning of each revenue and expense level is supported by comparable operations or trends specific to this market. Our forecast of income and expense is presented in the following table.

FIGURE 1-5 DETAILED FORECAST OF INCOME AND EXPENSE

| | 2026 (Calendar Year) | | | | 2027 | | | | Stabilized | | | |
|---|----------------------|--------|----------|----------|----------|--------|----------|----------|------------|--------|----------|----------|
| Number of Rooms: | 59 | | | | 59 | | | | 59 | | | |
| Occupancy: | 63% | | | | 69% | | | | 69% | | | |
| Average Rate: | \$327.47 | | | | \$347.94 | | | | \$365.69 | | | |
| RevPAR: | \$206.30 | | | | \$240.08 | | | | \$252.33 | | | |
| Days Open: | 365 | | | | 365 | | | | 365 | | | |
| Occupied Rooms: | 13,567 | %Gross | PAR | POR | 14,859 | %Gross | PAR | POR | 14,859 | %Gross | PAR | POR |
| OPERATING REVENUE | | | | | | | | | | | | |
| Rooms | \$4,443 | 51.1 % | \$75,305 | \$327.48 | \$5,170 | 52.6 % | \$87,627 | \$347.93 | \$5,434 | 53.1 % | \$92,102 | \$365.70 |
| Food & Beverage | 3,063 | 35.2 | 51,921 | 225.79 | 3,375 | 34.4 | 57,209 | 227.16 | 3,477 | 34.0 | 58,925 | 233.97 |
| Other Operated Departments | 82 | 0.9 | 1,387 | 6.03 | 87 | 0.9 | 1,467 | 5.82 | 89 | 0.9 | 1,511 | 6.00 |
| Spa/Salon | 852 | 9.8 | 14,440 | 62.80 | 917 | 9.3 | 15,549 | 61.74 | 945 | 9.2 | 16,016 | 63.59 |
| Resort Fees | 246 | 2.8 | 4,161 | 18.10 | 260 | 2.6 | 4,401 | 17.47 | 267 | 2.6 | 4,533 | 18.00 |
| Miscellaneous Income | 16 | 0.2 | 277 | 1.21 | 17 | 0.2 | 293 | 1.16 | 18 | 0.2 | 302 | 1.20 |
| Total Operating Revenues | 8,702 | 100.0 | 147,491 | 641.40 | 9,826 | 100.0 | 166,546 | 661.29 | 10,230 | 100.0 | 173,389 | 688.46 |
| DEPARTMENTAL EXPENSES * | | | | | | | | | | | | |
| Rooms | 1,038 | 23.4 | 17,597 | 76.52 | 1,108 | 21.4 | 18,778 | 74.56 | 1,141 | 21.0 | 19,341 | 76.80 |
| Food & Beverage | 2,386 | 77.9 | 40,435 | 175.84 | 2,532 | 75.0 | 42,907 | 170.37 | 2,607 | 75.0 | 44,194 | 175.48 |
| Other Operated Departments | 33 | 40.8 | 565 | 2.46 | 35 | 40.0 | 587 | 2.33 | 36 | 40.0 | 604 | 2.40 |
| Spa/Salon | 686 | 80.5 | 11,622 | 50.54 | 716 | 78.0 | 12,128 | 48.16 | 737 | 78.0 | 12,492 | 49.60 |
| Total Expenses | 4,143 | 47.6 | 70,218 | 305.36 | 4,390 | 44.7 | 74,400 | 295.41 | 4,521 | 44.2 | 76,632 | 304.27 |
| DEPARTMENTAL INCOME | 4,559 | 52.4 | 77,273 | 336.04 | 5,437 | 55.3 | 92,147 | 365.88 | 5,709 | 55.8 | 96,757 | 384.18 |
| UNDISTRIBUTED OPERATING EXPENSES | | | | | | | | | | | | |
| Administrative & General | 570 | 6.5 | 9,655 | 41.99 | 600 | 6.1 | 10,166 | 40.36 | 619 | 6.1 | 10,499 | 41.69 |
| Info & Telecom Systems | 65 | 0.7 | 1,103 | 4.80 | 69 | 0.7 | 1,162 | 4.61 | 71 | 0.7 | 1,200 | 4.76 |
| Marketing | 391 | 4.5 | 6,620 | 28.79 | 411 | 4.2 | 6,971 | 27.68 | 425 | 4.2 | 7,199 | 28.58 |
| Prop. Operations & Maint. | 228 | 2.6 | 3,862 | 16.79 | 240 | 2.4 | 4,066 | 16.15 | 248 | 2.4 | 4,199 | 16.67 |
| Utilities | 169 | 1.9 | 2,869 | 12.48 | 178 | 1.8 | 3,021 | 11.99 | 184 | 1.8 | 3,120 | 12.39 |
| Total Expenses | 1,422 | 16.2 | 24,109 | 104.84 | 1,498 | 15.2 | 25,385 | 100.80 | 1,547 | 15.2 | 26,217 | 104.10 |
| GROSS OPERATING PROFIT | 3,137 | 36.0 | 53,164 | 231.20 | 3,939 | 40.1 | 66,761 | 265.08 | 4,162 | 40.7 | 70,540 | 280.09 |
| Management Fee | 261 | 3.0 | 4,425 | 19.24 | 295 | 3.0 | 4,996 | 19.84 | 307 | 3.0 | 5,202 | 20.65 |
| INCOME BEFORE NON-OPR. INC. & EXP. | 2,876 | 33.0 | 48,739 | 211.96 | 3,644 | 37.1 | 61,765 | 245.25 | 3,855 | 37.7 | 65,339 | 259.43 |
| NON-OPERATING INCOME & EXPENSE | | | | | | | | | | | | |
| Property Taxes | 313 | 3.6 | 5,300 | 23.05 | 322 | 3.3 | 5,459 | 21.67 | 332 | 3.2 | 5,623 | 22.32 |
| Insurance | 67 | 0.8 | 1,131 | 4.92 | 69 | 0.7 | 1,165 | 4.63 | 71 | 0.7 | 1,200 | 4.76 |
| Sales & Use Tax Reimbursement | 0 | 0.0 | 0 | 0.00 | (609) | (6.2) | (10,324) | (40.99) | (340) | (3.3) | (5,762) | (22.88) |
| Mortgage Tax Reimbursement | 0 | 0.0 | 0 | 0.00 | (113) | (1.1) | (1,912) | (7.59) | 0 | 0.0 | 0 | 0.00 |
| Total Expenses | 379 | 4.4 | 6,431 | 27.97 | (331) | (3.3) | (5,613) | (22.29) | 63 | 0.6 | 1,060 | 4.21 |
| EBITDA | 2,496 | 28.6 | 42,309 | 183.99 | 3,975 | 40.4 | 67,378 | 267.53 | 3,792 | 37.1 | 64,279 | 255.23 |
| Reserve for Replacement | 174 | 2.0 | 2,950 | 12.83 | 295 | 3.0 | 4,996 | 19.84 | 409 | 4.0 | 6,936 | 27.54 |
| EBITDA LESS RESERVE | \$2,322 | 26.7 % | \$39,359 | \$171.16 | \$3,680 | 37.5 % | \$62,381 | \$247.69 | \$3,383 | 33.1 % | \$57,343 | \$227.69 |

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

FIGURE 1-6 TEN-YEAR FORECAST OF INCOME AND EXPENSE

| | 2026 | | 2027 | | 2028 | | 2029 | | 2030 | | 2031 | | 2032 | | 2033 | | 2034 | | 2035 | |
|---|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|
| Number of Rooms: | 59 | | 59 | | 59 | | 59 | | 59 | | 59 | | 59 | | 59 | | 59 | | 59 | |
| Occupied Rooms: | 13,567 | | 14,859 | | 14,859 | | 14,859 | | 14,859 | | 14,859 | | 14,859 | | 14,859 | | 14,859 | | 14,859 | |
| Occupancy: | 63% | | 69% | | 69% | | 69% | | 69% | | 69% | | 69% | | 69% | | 69% | | 69% | |
| Average Rate: | \$327.47 | % of | \$347.94 | % of | \$365.69 | % of | \$376.66 | % of | \$387.96 | % of | \$399.60 | % of | \$411.59 | % of | \$423.94 | % of | \$436.66 | % of | \$449.76 | % of |
| RevPAR: | \$206.30 | Gross | \$240.08 | Gross | \$252.33 | Gross | \$259.90 | Gross | \$267.70 | Gross | \$275.73 | Gross | \$284.00 | Gross | \$292.52 | Gross | \$301.29 | Gross | \$310.33 | Gross |
| OPERATING REVENUE | | | | | | | | | | | | | | | | | | | | |
| Rooms | \$4,443 | 51.1 % | \$5,170 | 52.6 % | \$5,434 | 53.1 % | \$5,597 | 53.1 % | \$5,765 | 53.1 % | \$5,938 | 53.1 % | \$6,116 | 53.1 % | \$6,299 | 53.1 % | \$6,488 | 53.1 % | \$6,683 | 53.1 % |
| Food & Beverage | 3,063 | 35.2 | 3,375 | 34.4 | 3,477 | 34.0 | 3,581 | 34.0 | 3,688 | 34.0 | 3,799 | 34.0 | 3,913 | 34.0 | 4,030 | 34.0 | 4,151 | 34.0 | 4,276 | 34.0 |
| Other Operated Departments | 82 | 0.9 | 87 | 0.9 | 89 | 0.9 | 92 | 0.9 | 95 | 0.9 | 97 | 0.9 | 100 | 0.9 | 103 | 0.9 | 106 | 0.9 | 110 | 0.9 |
| Spa/Salon | 852 | 9.8 | 917 | 9.3 | 945 | 9.2 | 973 | 9.2 | 1,002 | 9.2 | 1,033 | 9.2 | 1,064 | 9.2 | 1,095 | 9.2 | 1,128 | 9.2 | 1,162 | 9.2 |
| Resort Fees | 246 | 2.8 | 260 | 2.6 | 267 | 2.6 | 275 | 2.6 | 284 | 2.6 | 292 | 2.6 | 301 | 2.6 | 310 | 2.6 | 319 | 2.6 | 329 | 2.6 |
| Miscellaneous Income | 16 | 0.2 | 17 | 0.2 | 18 | 0.2 | 18 | 0.2 | 19 | 0.2 | 19 | 0.2 | 20 | 0.2 | 21 | 0.2 | 21 | 0.2 | 22 | 0.2 |
| Total Operating Revenues | 8,702 | 100.0 | 9,826 | 100.0 | 10,230 | 100.0 | 10,537 | 100.0 | 10,853 | 100.0 | 11,179 | 100.0 | 11,514 | 100.0 | 11,859 | 100.0 | 12,215 | 100.0 | 12,581 | 100.0 |
| DEPARTMENTAL EXPENSES * | | | | | | | | | | | | | | | | | | | | |
| Rooms | 1,038 | 23.4 | 1,108 | 21.4 | 1,141 | 21.0 | 1,175 | 21.0 | 1,211 | 21.0 | 1,247 | 21.0 | 1,284 | 21.0 | 1,323 | 21.0 | 1,363 | 21.0 | 1,403 | 21.0 |
| Food & Beverage | 2,386 | 77.9 | 2,532 | 75.0 | 2,607 | 75.0 | 2,686 | 75.0 | 2,766 | 75.0 | 2,849 | 75.0 | 2,935 | 75.0 | 3,023 | 75.0 | 3,113 | 75.0 | 3,207 | 75.0 |
| Other Operated Departments | 33 | 40.8 | 35 | 40.0 | 36 | 40.0 | 37 | 40.0 | 38 | 40.0 | 39 | 40.0 | 40 | 40.0 | 41 | 40.0 | 43 | 40.0 | 44 | 40.0 |
| Spa/Salon | 686 | 80.5 | 716 | 78.0 | 737 | 78.0 | 759 | 78.0 | 782 | 78.0 | 805 | 78.0 | 830 | 78.0 | 854 | 78.0 | 880 | 78.0 | 906 | 78.0 |
| Total Expenses | 4,143 | 47.6 | 4,390 | 44.7 | 4,521 | 44.2 | 4,657 | 44.2 | 4,797 | 44.2 | 4,941 | 44.2 | 5,089 | 44.2 | 5,241 | 44.2 | 5,399 | 44.2 | 5,561 | 44.2 |
| DEPARTMENTAL INCOME | 4,559 | 52.4 | 5,437 | 55.3 | 5,709 | 55.8 | 5,880 | 55.8 | 6,056 | 55.8 | 6,238 | 55.8 | 6,425 | 55.8 | 6,617 | 55.8 | 6,816 | 55.8 | 7,021 | 55.8 |
| UNDISTRIBUTED OPERATING EXPENSES | | | | | | | | | | | | | | | | | | | | |
| Administrative & General | 570 | 6.5 | 600 | 6.1 | 619 | 6.1 | 638 | 6.1 | 657 | 6.1 | 677 | 6.1 | 697 | 6.1 | 718 | 6.1 | 740 | 6.1 | 762 | 6.1 |
| Info & Telecom Systems | 65 | 0.7 | 69 | 0.7 | 71 | 0.7 | 73 | 0.7 | 75 | 0.7 | 77 | 0.7 | 80 | 0.7 | 82 | 0.7 | 85 | 0.7 | 87 | 0.7 |
| Marketing | 391 | 4.5 | 411 | 4.2 | 425 | 4.2 | 437 | 4.2 | 451 | 4.2 | 464 | 4.2 | 478 | 4.2 | 492 | 4.2 | 507 | 4.2 | 522 | 4.2 |
| Prop. Operations & Maint. | 228 | 2.6 | 240 | 2.4 | 248 | 2.4 | 255 | 2.4 | 263 | 2.4 | 271 | 2.4 | 279 | 2.4 | 287 | 2.4 | 296 | 2.4 | 305 | 2.4 |
| Utilities | 169 | 1.9 | 178 | 1.8 | 184 | 1.8 | 190 | 1.8 | 195 | 1.8 | 201 | 1.8 | 207 | 1.8 | 213 | 1.8 | 220 | 1.8 | 226 | 1.8 |
| Total Expenses | 1,422 | 16.2 | 1,498 | 15.2 | 1,547 | 15.2 | 1,593 | 15.2 | 1,641 | 15.2 | 1,690 | 15.2 | 1,741 | 15.2 | 1,793 | 15.2 | 1,847 | 15.2 | 1,902 | 15.2 |
| GROSS OPERATING PROFIT | 3,137 | 36.0 | 3,939 | 40.1 | 4,162 | 40.7 | 4,287 | 40.7 | 4,415 | 40.7 | 4,548 | 40.7 | 4,684 | 40.7 | 4,824 | 40.7 | 4,969 | 40.7 | 5,118 | 40.7 |
| Management Fee | 261 | 3.0 | 295 | 3.0 | 307 | 3.0 | 316 | 3.0 | 326 | 3.0 | 335 | 3.0 | 345 | 3.0 | 356 | 3.0 | 366 | 3.0 | 377 | 3.0 |
| INCOME BEFORE NON-OPR. INC. & EXP. | 2,876 | 33.0 | 3,644 | 37.1 | 3,855 | 37.7 | 3,971 | 37.7 | 4,090 | 37.7 | 4,213 | 37.7 | 4,339 | 37.7 | 4,469 | 37.7 | 4,603 | 37.7 | 4,741 | 37.7 |
| NON-OPERATING INCOME & EXPENSE | | | | | | | | | | | | | | | | | | | | |
| Property Taxes | 313 | 3.6 | 322 | 3.3 | 332 | 3.2 | 342 | 3.2 | 352 | 3.2 | 362 | 3.2 | 373 | 3.2 | 385 | 3.2 | 396 | 3.2 | 408 | 3.2 |
| Insurance | 67 | 0.8 | 69 | 0.7 | 71 | 0.7 | 73 | 0.7 | 75 | 0.7 | 77 | 0.7 | 80 | 0.7 | 82 | 0.7 | 85 | 0.7 | 87 | 0.7 |
| Sales & Use Tax Reimbursement | 0 | 0.0 | (609) | (6.2) | (340) | (3.3) | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Mortgage Tax Reimbursement | 0 | 0.0 | (113) | (1.1) | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total Expenses | 379 | 4.4 | (331) | (3.3) | 63 | 0.6 | 415 | 3.9 | 427 | 3.9 | 440 | 3.9 | 453 | 3.9 | 467 | 3.9 | 481 | 3.9 | 495 | 3.9 |
| EBITDA | 2,496 | 28.6 | 3,975 | 40.4 | 3,792 | 37.1 | 3,556 | 33.8 | 3,663 | 33.8 | 3,773 | 33.8 | 3,886 | 33.8 | 4,002 | 33.8 | 4,122 | 33.8 | 4,246 | 33.8 |
| Reserve for Replacement | 174 | 2.0 | 295 | 3.0 | 409 | 4.0 | 421 | 4.0 | 434 | 4.0 | 447 | 4.0 | 461 | 4.0 | 474 | 4.0 | 489 | 4.0 | 503 | 4.0 |
| EBITDA LESS RESERVE | \$2,322 | 26.7 % | \$3,680 | 37.5 % | \$3,383 | 33.1 % | \$3,135 | 29.7 % | \$3,229 | 29.7 % | \$3,326 | 29.7 % | \$3,425 | 29.7 % | \$3,528 | 29.7 % | \$3,633 | 29.7 % | \$3,743 | 29.7 % |

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

As illustrated, the hotel is expected to stabilize at a profitable level. Please refer to the Forecast of Income and Expense chapter of our report for a detailed explanation of the methodology used in deriving this forecast.

Feasibility Conclusion

The conclusion of this analysis indicates that the property would generate a 20.2% return on an initial investment of \$21,240,000. This initial investment of \$21,240,000 includes a \$4,500,000 Upstate Revitalization Grant by the Empire Development Agency. The \$4,500,000 grant was an estimate provided by the developers of the subject property; we note that, if the amount of the grant varies from this estimate, the implied return on investment may change. The investor surveys indicate discount rates ranging from 6.75% to 12.5%; the averages of the surveys range from 9.5% to 10.9%. Based on these parameters, the calculated return of 20.2% on the project is above the range of returns, primarily due to the fact that the main hotel building, as well as various other structures throughout the proposed subject property, have previously existed prior to this resort concept; as such, the total development cost is significantly lower than that of a ground-up hotel build. Additionally, the IDA tax exemption benefits, which will be presented subsequently in this report, and the Upstate Revitalization Grant that are expected to be received also contribute to this high internal rate of return. Return requirements vary based on an individual investor's circumstances, including the cost and availability of both debt and equity capital. This analysis is intended to provide information to assist the developer in evaluating the feasibility of the proposed project.

Assignment Conditions

Per USPAP, an "Extraordinary Assumption" is defined as follows:

An assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser's opinions or conclusions. Comment: Uncertain information might include physical, legal, or economic characteristics of the subject property; or conditions external to the property, such as market conditions or trends; or the integrity of data used in an analysis.¹

The analysis is based on the extraordinary assumption that the described improvements have been completed as of the stated date of opening. The reader should understand that the completed subject property does not yet exist as of the date of this report. Our feasibility study does not address unforeseeable events that could alter the proposed project, and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, shall take place between the date of inspection and stated

¹The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice*, 2020–2021 ed.

date of opening. The use of this extraordinary assumption may have affected the assignment results. We have made no other extraordinary assumptions specific to this feasibility study. However, several important general assumptions have been made that apply to this feasibility study and our studies of proposed hotels in general. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

Intended Use of the Feasibility Study

This feasibility report is being prepared for use in the development of the proposed subject hotel.

Identification of the Client and Intended User(s)

The client for this engagement is Frank P. Ellis. This report is intended for the addressee person and may not be distributed to or relied upon by other persons or entities.

Scope of Work

The methodology used to develop this study is based on the market research and valuation techniques set forth in the textbooks authored by Hospitality Valuation Services for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels*,² *Hotels, Motels and Restaurants: Valuations and Market Studies*,³ *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*,⁴ *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*,⁵ and *Hotels and Motels – Valuations and Market Studies*.⁶

1. All information was collected and analyzed by the staff of TS Worldwide, LLC. Information was supplied by the client and/or the property's development team.
2. The subject site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.

² Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

³ Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).

⁴ Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).

⁵ Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations* (Chicago: Appraisal Institute, 1992).

⁶ Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies*. (Chicago: Appraisal Institute, 2001).

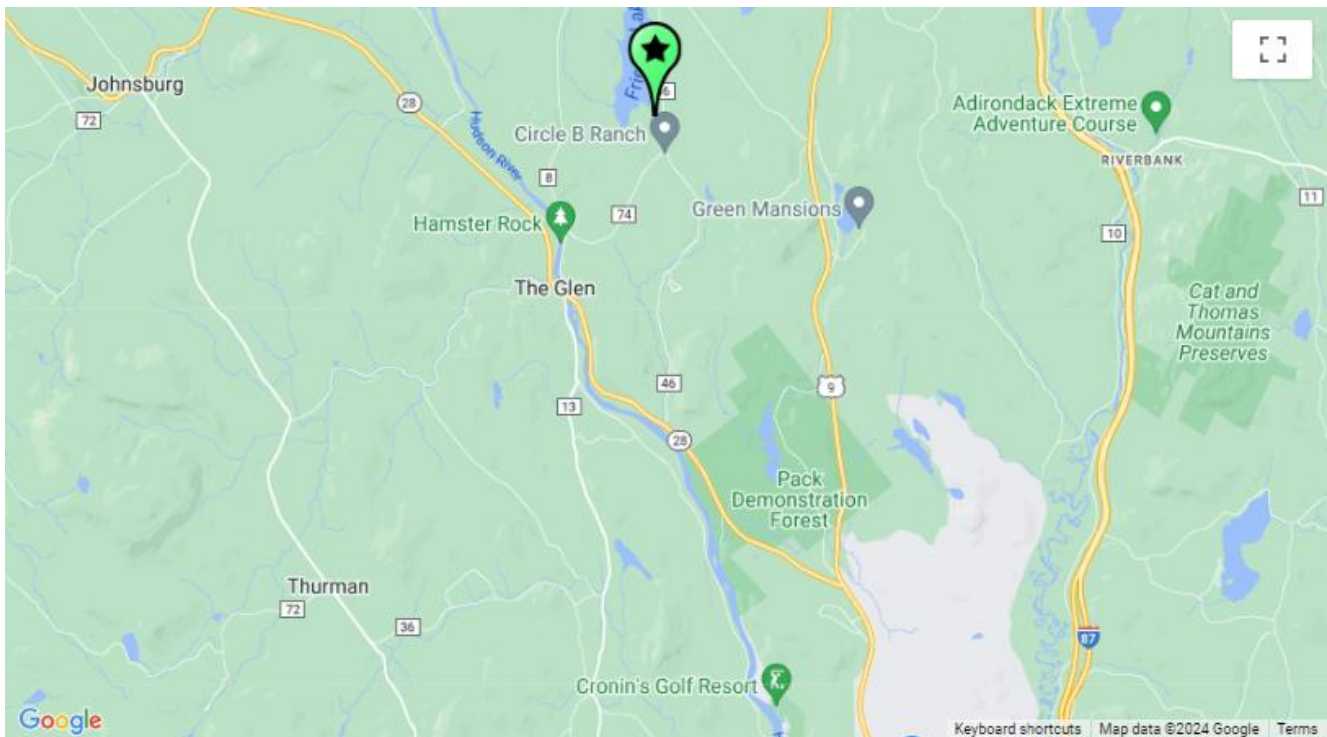
3. The subject property's proposed improvements have been reviewed for their expected quality of construction, design, and layout efficiency.
4. The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
5. Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.
6. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Unless noted otherwise, we have inspected the competitive lodging facilities summarized in this report.
7. Documentation for an occupancy and ADR projection is derived utilizing the build-up approach based on an analysis of lodging activity.
8. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry (USALI) sets forth the anticipated economic benefits of the proposed subject property.
9. A feasibility analysis is performed, in which the total property yield that the project would generate is compared to the total property yields indicated by market surveys.

2. Description of the Site and Neighborhood

The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property and its ultimate marketability. Factors such as size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site.

The subject site is located in the hamlet of Chestertown, in the southwest quadrant of the intersection formed by Atateka Drive and Valentine Park Road. This site is in the city of Chestertown, New York.

LOCATION MAP



Physical Characteristics

The subject site measures approximately 70.68 acres, or 3,078,821 square feet. This site comprises three separate parcels, each of which measure 18.70 acres (main hotel parcel), 51.65 acres, and .33 acres (one two-story residential home). The parcel's adjacent uses are set forth in the following table.

Topography and Site Utility

FIGURE 2-1 SUBJECT PARCEL'S ADJACENT USES

| Direction | Boundary | Adjacent Use |
|-----------|---------------|--------------|
| North | Property Line | Friends Lake |
| South | Property Line | Residential |
| East | Property Line | Vacant Land |
| West | Property Line | Residential |

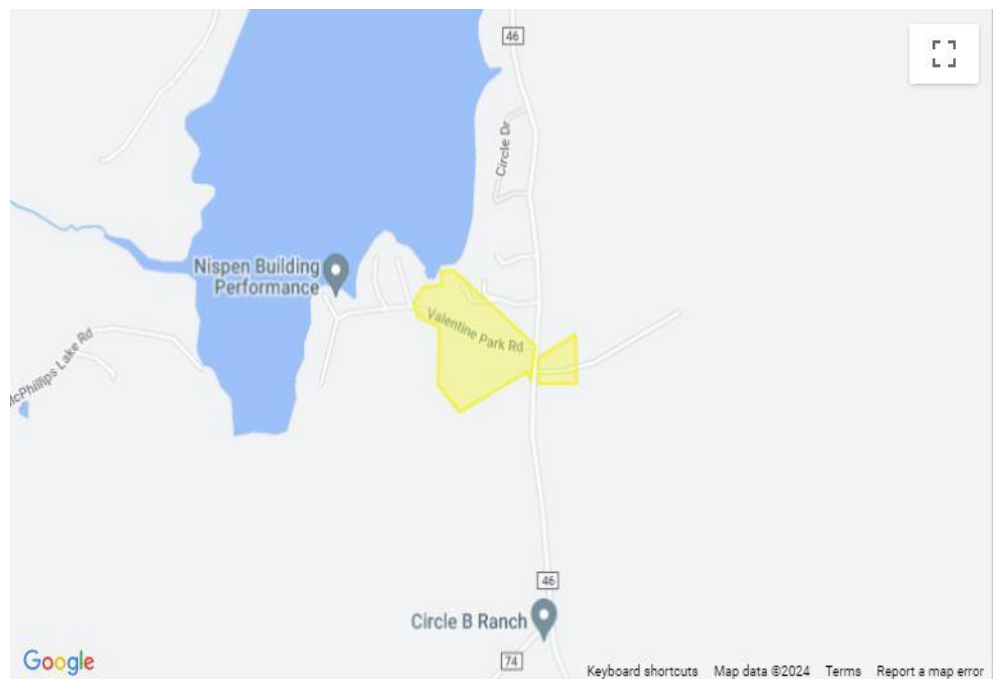
The topography of the site slopes gently downward from east to west, and its shape should permit efficient use of the site for the building and other improvements, as well as ingress and egress. Upon completion of construction, the subject site should not contain significant portions of undeveloped land that could be sold, entitled, and developed for alternate use. Given the property's offering of stand-alone cabins, any undeveloped land would be expected to further contribute to the proposed property's outdoor-oriented nature, providing guests with a more immersive experience in the outdoors.

The subject site comprises three parcels. The main parcel (Parcel 1) measures 814,572 square feet and is expected to feature the main hotel building, the cabins, all recreational amenities, the event center, hotel parking, and employee housing. We note that this parcel is separated by Atateka Drive, but is considered to be one parcel. Approximately 100,000 square feet of the parcel is located to the east of Atateka Drive, while the remaining land, which includes the hotel building, event center, and recreational activities, as well as some of the hotel parking, is located to the west of Atateka Drive. The second parcel (Parcel 2) is also located west of Atateka Drive, south of Parcel 1, and measures 2,249,874 square feet, and is expected to be improved with a renovated barn to be used as a bath house and a renovated four-bedroom house used as a rental. We note that the four-bedroom house that is expected to be used as a rental property has not been considered in the scope of this study. Lastly, the third parcel (Parcel 3), located east of Atateka Drive, measures 14,375 square feet and is currently improved with a single-family home that has been utilized for construction housing. The use of this parcel has not yet been determined, however, ownership noted that they plan to rent this house under a short-term rental site, such as Airbnb or VRBO. The use of this single-family home as a potential rental property has not been considered in the scope of this study.

VIEW OF SUBJECT SITE



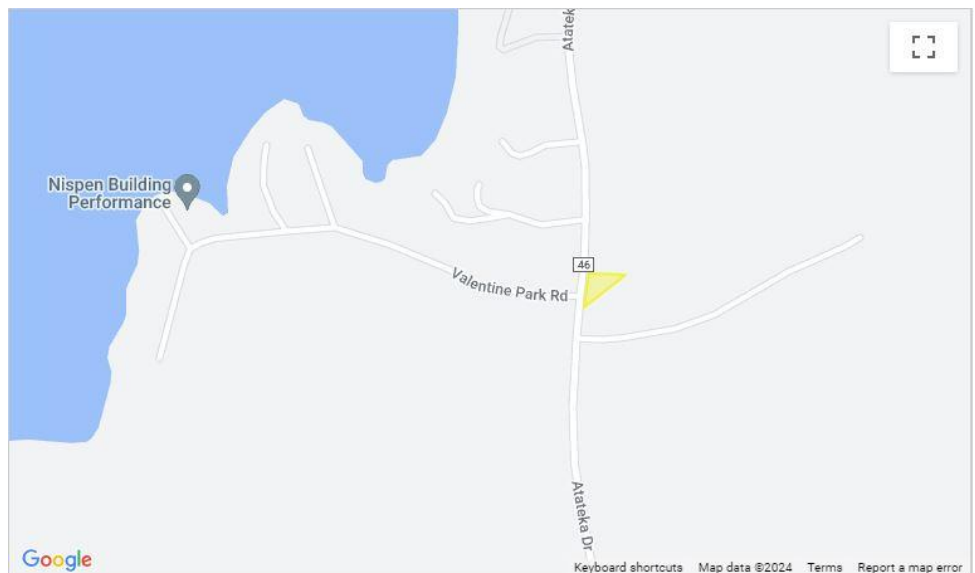
AERIAL PHOTOGRAPH (MAIN PARCEL)



AERIAL PHOTOGRAPH (PARCEL 2)



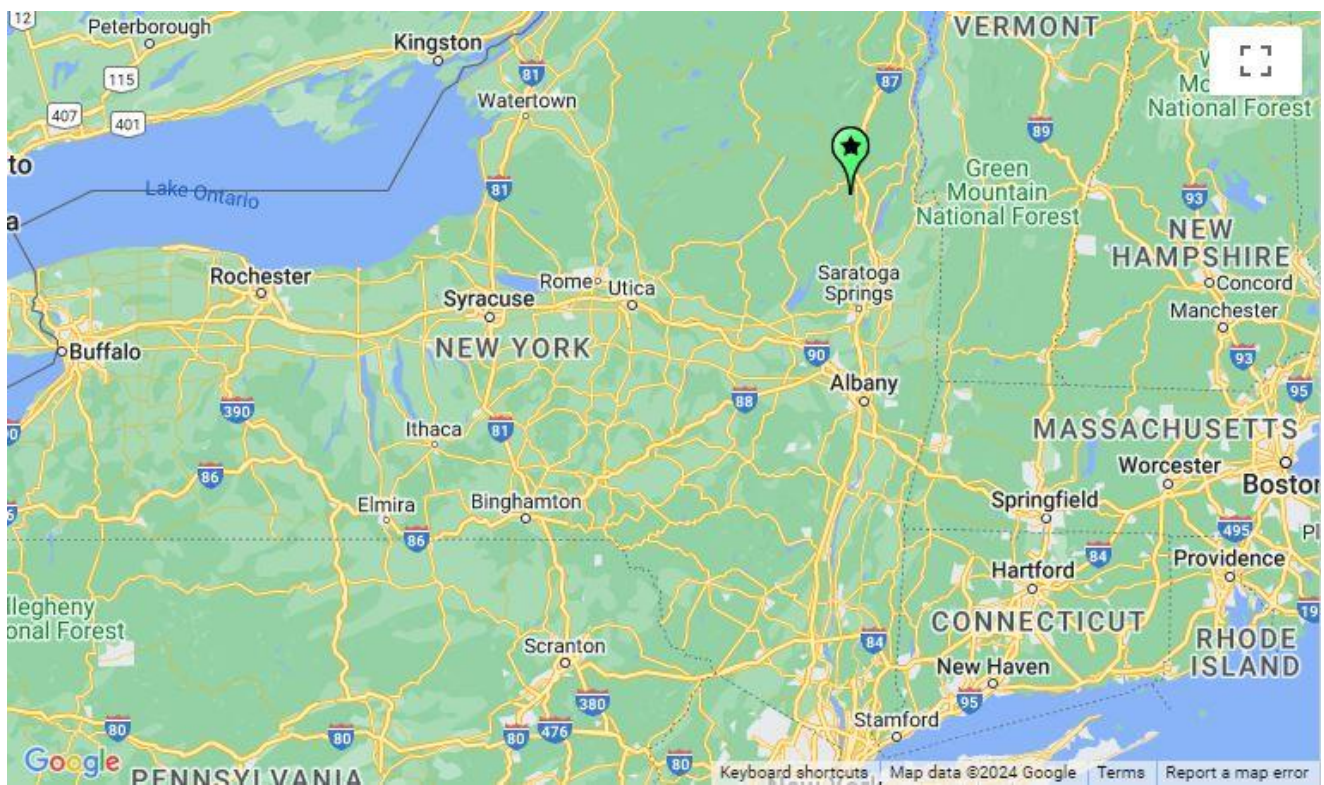
AERIAL PHOTOGRAPH (PARCEL 3 – VACANT LAND)



Access and Visibility

It is important to analyze the site with respect to regional and local transportation routes and demand generators, including ease of access. The subject site is readily accessible to a variety of local and county roads, as well as state and interstate highways.

MAP OF REGIONAL ACCESS ROUTES



Primary regional access through the area is provided by north/south Interstate 87, which extends to Canada to the north and New York City to the south. East/west Interstate 90 is another major highway, providing access to such cities as Boston, Massachusetts, to the east and Buffalo to the west.

Primary vehicular access to the subject site will be provided by Atateka Drive; access will also be available from Valentine Park Road. The subject site is located near a busy intersection and is relatively simple to locate from Interstate 87, which is the closest major thoroughfare. The proposed subject hotel is anticipated to have adequate signage at the street, as well as on its façade. Overall, the subject site benefits from very good accessibility, and the proposed hotel is expected to enjoy good visibility from within its local neighborhood.

Airport Access

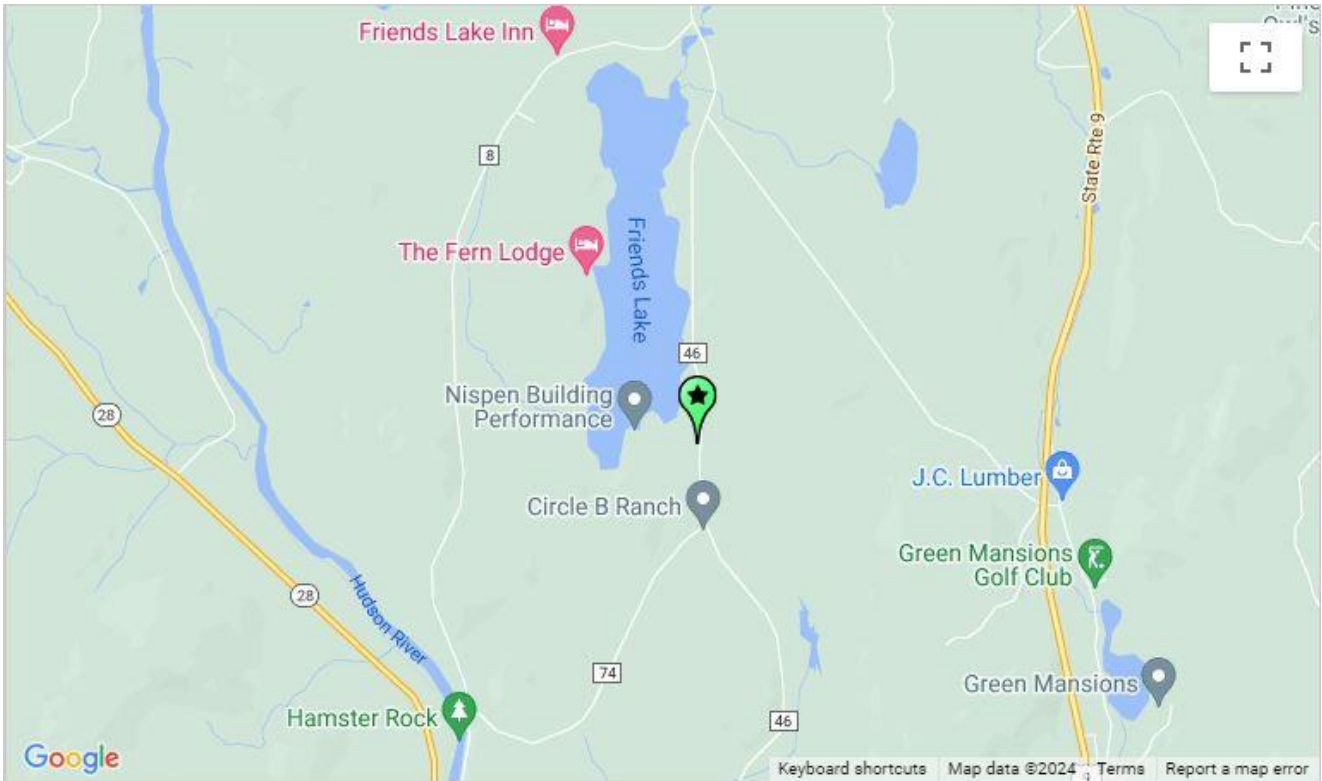
The proposed subject hotel will be served by the Albany International Airport, which is located approximately 50 miles to the south of the subject site.

Neighborhood

The neighborhood surrounding a lodging facility often has an impact on a hotel's status, image, class, style of operation, and sometimes its ability to attract and properly serve a particular market segment. This section of the report investigates the subject neighborhood and evaluates any pertinent location factors that could affect its future occupancy, average rate, and overall profitability.

The neighborhood that surrounds the subject site is generally defined by Stock Farm Road to the north, State Route 9/Main Street to the east, Route 74 to the south, and Route 8 to the west. The neighborhood is primarily undeveloped and includes a large portion of Friends Lake. Restaurants, offices, and small retail shops are featured along the primary roadways, while residential areas are featured along both the primary and secondary roadways. Some specific businesses and entities in the area include Circle B Ranch, Nispen Performance Building, and Cronin's Golf Resort; nearby hotels include The Fern Lodge and the Friends Lake Inn. Restaurants located near the subject site include Silver Star Restaurant & Tavern, Look Lake Market & Deli, and The Place. We note that, while these restaurants are not located within the immediate neighborhood, they are within five miles of the proposed subject property. In general, this neighborhood is in the stable stage of its life cycle. The proposed hotel's opening should be a positive influence on the area, and the property is expected to be in character with and to complement surrounding land uses.

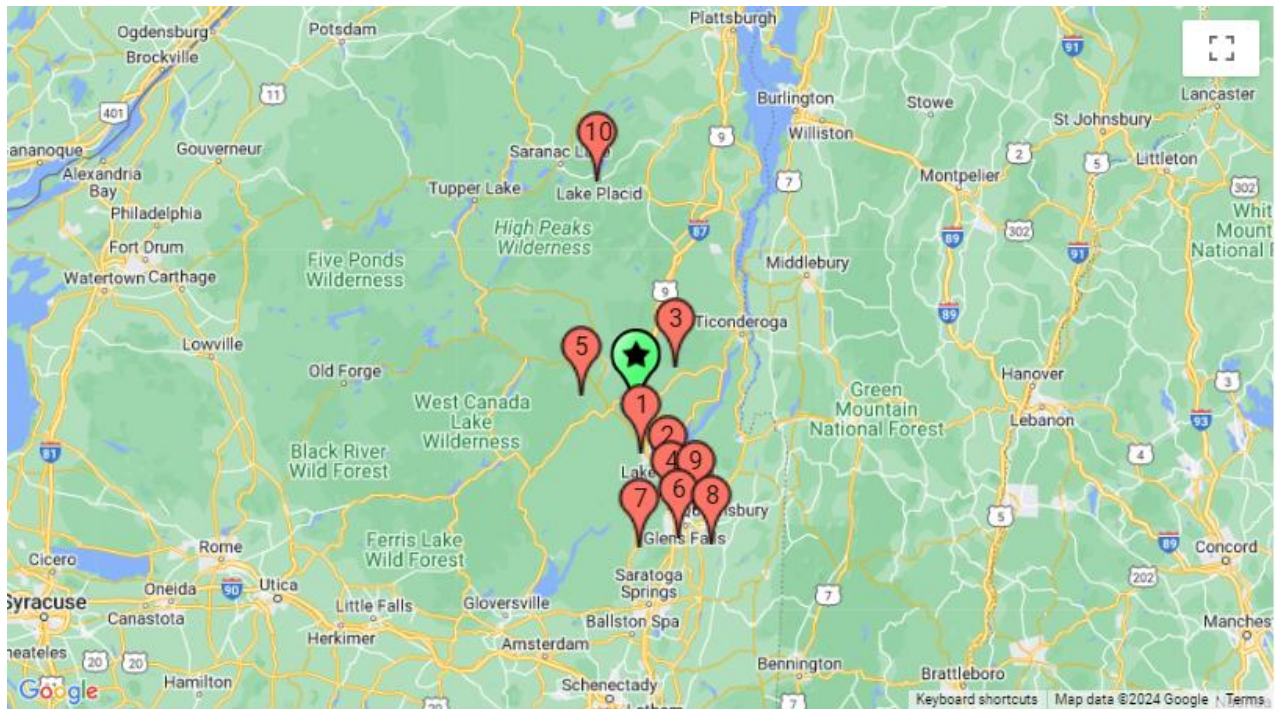
MAP OF NEIGHBORHOOD



Proximity to Local Demand Generators and Attractions

The subject site is located near the area's primary generators of lodging demand. A sample of these demand generators is reflected on the following map, including respective distances from and drive times to the subject site. Overall, the subject site is well situated with respect to demand generators.

ACCESS TO DEMAND GENERATORS AND ATTRACTIONS



| | <u>Demand Generator</u> | <u>Approx. Time from Subject Property</u> | <u>Approx. Distance</u> |
|----|---|---|-------------------------|
| | Subject Property | | |
| 1 | Cronin's Golf Resort | 🚗 12 minutes | 7.8 miles |
| 2 | Lake George | 🚗 25 minutes | 16.0 miles |
| 3 | Adirondack Park Preserve | 🚗 26 minutes | 16.1 miles |
| 4 | Six Flags Great Escape Lodge & Indoor Waterpark | 🚗 29 minutes | 21.6 miles |
| 5 | Gore Mountain | 🚗 35 minutes | 24.5 miles |
| 6 | BD Beckton Dickinson | 🚗 35 minutes | 25.4 miles |
| 7 | West Mountain | 🚗 36 minutes | 26.5 miles |
| 8 | Glens Falls Hospital | 🚗 37 minutes | 27.4 miles |
| 9 | Angio Dynamics | 🚗 38 minutes | 27.3 miles |
| 10 | Lake Placid | 🚗 1 hour, 15 minutes | 65.6 miles |

Utilities

The subject site will reportedly be served by all necessary utilities. According to the developers of the subject property, there will be geothermal wells installed to provide heating and air-conditioning. This method of utilizing geothermal energy will reportedly reduce the utility cost and dependency on fossil fuels.

**Soil and
Subsoil Conditions**

Geological and soil reports were not provided to us or made available for our review during the preparation of this report. We are not qualified to evaluate soil conditions other than by a visual inspection of the surface; no extraordinary conditions were apparent.

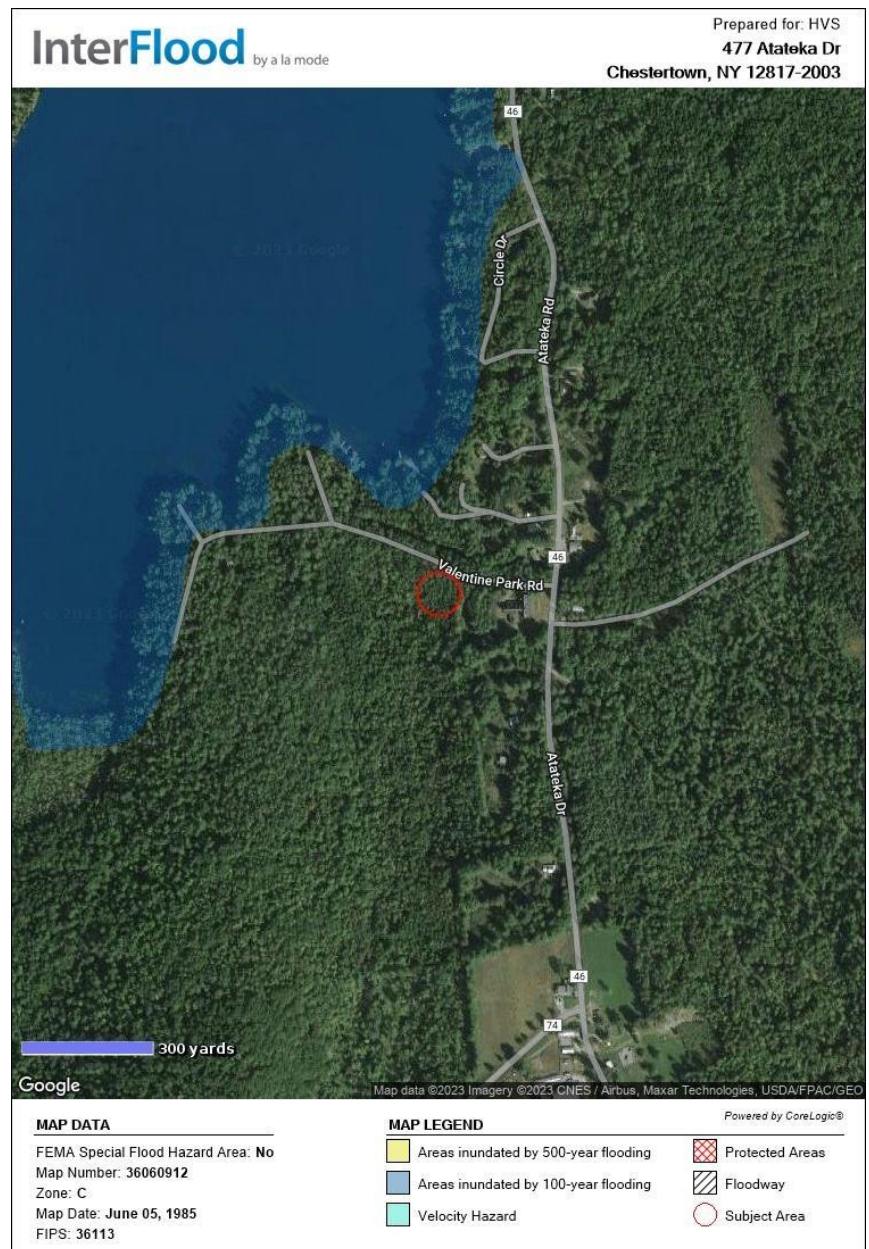
**Nuisances
and Hazards**

We were not informed of any site-specific nuisances or hazards, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because we are not experts in this field, we do not warrant the absence of hazardous waste and urge the reader to obtain an independent analysis of these factors.

Flood Zone

According to the Federal Emergency Management Agency map illustrated below, the subject site is located in Zone C.

COPY OF FLOOD MAP AND COVER



The flood zone definition for the Zone C designation is as follows: the flood insurance rate zone that corresponds to areas outside the 100-year floodplains, areas of 100-year sheet flow flooding where average depths are less than 1 foot,

areas of 100-year stream flooding where the contributing drainage area is less than 1 square mile, or areas protected from the 100-year flood by levees. No Base Flood Elevations or depths are shown within this zone.

Zoning

According to the local planning office, the subject property is zoned as follows: R-Rural. Additional details pertaining to the proposed subject property's zoning regulations are summarized in the following table.

FIGURE 2-2 ZONING

| | |
|-------------------------------|--|
| Municipality Governing Zoning | Town of Chester |
| Current Zoning | Rural Use |
| Current Use | Hotel |
| Is Current Use Permitted? | Yes, by Site Plan Review Approval |
| Is Change in Zoning Likely? | No |
| Permitted Uses | Hotel, Agriculture, Campground, Residential, Forestry Use, Fraternal Organization, Mobile Home |
| Hotel Allowed | Yes, by Site Plan Review Approval |
| Legally Non-Conforming | Not Applicable |

We assume that all necessary permits and approvals will be secured (including the appropriate liquor license) and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. Our zoning analysis should be verified before any physical changes are made to the site.

Easements and Encroachments

The subject property features an ingress and egress easement along Valentine Road for residences of homes in the Valentine Road HOA. However, this easement would not significantly affect the utility of the site or marketability of this project.

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The subject site is favorably located on Friends Lake, with riparian rights and lakefront access, and within five miles of Interstate 87, a major north/south thoroughfare. In general, the site should be well suited for future hotel use, with acceptable access, visibility, and topography for an effective operation.

3. Market Area Analysis

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

Market Area Definition

The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject site is located in the city of Chestertown, the county of Warren, and the state of New York. Chestertown is a hamlet in the Town of Chester, which is part of the greater Warren County economic base. Because of its location within the Adirondack Mountain Range, lumber collection and distribution was the principal industry upon the founding of Warren County. Today, Warren County benefits from a more diverse economic base; the county contains the largest concentrated area of medical manufacturers in New York, with many medical inventions originating in the county. Furthermore, the greater area is also known throughout the region as a major tourist attraction primarily owing to its location proximate to the 28,000-acre Lake George, which offers a variety of activities throughout the year.

The subject property's market area can be defined by its Combined Statistical Area (CSA): Albany-Schenectady, NY. The CSA represents adjacent metropolitan and micropolitan statistical areas that have a moderate degree of employment interchange. Micropolitan statistical areas represent urban areas in the United States based around a core city or town with a population of 10,000 to 49,999; the MSA requires the presence of a core city of at least 50,000 people and a total population of at least 100,000 (75,000 in New England). The following exhibit illustrates the market area.

FIGURE 3-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

| | 2010 | 2020 | 2023 | 2028 | Avg. Annual Compounded Chg. | | |
|--|-----------|-----------|-----------|-----------|-----------------------------|---------|--------|
| | | | | | 2010-20 | 2010-23 | 2023-2 |
| Resident Population (Thousands) | | | | | | | |
| Warren County | 65.7 | 65.6 | 65.4 | 66.0 | (0.0) % | (0.0) % | 0.2 |
| Glens Falls, NY MSA | 129.0 | 126.7 | 125.4 | 126.7 | (0.2) | (0.2) | 0.2 |
| Albany-Schenectady, NY CSA | 1,169.3 | 1,190.4 | 1,192.2 | 1,201.8 | 0.2 | 0.1 | 0.2 |
| State of New York | 19,419.9 | 20,104.7 | 19,571.2 | 19,779.7 | 0.3 | 0.1 | 0.2 |
| United States | 309,382.3 | 331,526.9 | 334,914.9 | 346,327.0 | 0.7 | 0.6 | 0.7 |
| Per-Capita Personal Income* | | | | | | | |
| Warren County | \$45,186 | \$55,902 | \$54,173 | \$58,040 | 2.2 | 1.4 | 1.4 |
| Glens Falls, NY MSA | 40,000 | 49,945 | 49,095 | 52,217 | 2.2 | 1.6 | 1.2 |
| Albany-Schenectady, NY CSA | 46,669 | 57,701 | 57,241 | 61,422 | 2.1 | 1.6 | 1.4 |
| State of New York | 53,670 | 66,790 | 68,497 | 74,915 | 2.2 | 1.9 | 1.8 |
| United States | 44,807 | 56,530 | 58,292 | 62,852 | 2.4 | 2.0 | 1.5 |
| W&P Wealth Index | | | | | | | |
| Warren County | 98.4 | 96.7 | 90.7 | 90.3 | (0.2) | (0.6) | (0.1) |
| Glens Falls, NY MSA | 87.7 | 86.9 | 82.5 | 81.6 | (0.1) | (0.5) | (0.2) |
| Albany-Schenectady, NY CSA | 101.3 | 99.9 | 96.5 | 96.1 | (0.1) | (0.4) | (0.1) |
| State of New York | 114.8 | 113.8 | 113.3 | 114.8 | (0.1) | (0.1) | 0.3 |
| United States | 100.0 | 100.0 | 100.0 | 100.0 | 0.0 | 0.0 | 0.0 |
| Food and Beverage Sales (Millions)* | | | | | | | |
| Warren County | \$152 | \$190 | \$285 | \$266 | 2.2 | 4.9 | (1.4) |
| Glens Falls, NY MSA | 184 | 222 | 333 | 311 | 1.9 | 4.7 | (1.4) |
| Albany-Schenectady, NY CSA | 1,746 | 2,050 | 3,084 | 2,879 | 1.6 | 4.5 | (1.4) |
| State of New York | 34,723 | 44,218 | 61,894 | 58,571 | 2.4 | 4.5 | (1.1) |
| United States | 502,827 | 611,998 | 889,926 | 859,598 | 2.0 | 4.5 | (0.7) |
| Total Retail Sales (Millions)* | | | | | | | |
| Warren County | \$1,651 | \$1,820 | \$2,085 | \$2,207 | 1.0 | 1.8 | 1.1 |
| Glens Falls, NY MSA | 2,182 | 2,464 | 2,818 | 2,983 | 1.2 | 2.0 | 1.1 |
| Albany-Schenectady, NY CSA | 18,609 | 20,722 | 23,835 | 25,215 | 1.1 | 1.9 | 1.1 |
| State of New York | 279,751 | 347,195 | 389,595 | 413,070 | 2.2 | 2.6 | 1.2 |
| United States | 4,638,710 | 5,826,739 | 6,749,686 | 7,329,239 | 2.3 | 2.9 | 1.7 |

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

Workforce Characteristics

The U.S. population grew at an average annual compounded rate of 0.6% from 2010 through 2023. The county's population has grown more slowly than the nation's population; the average annual growth rate of 0.0% between 2010 and 2023 reflects a relatively stable area. Per-capita personal income increased slowly, at 1.4% on average annually for the county between 2010 and 2023. Local wealth indexes have remained stable in recent years, registering a modest 96.7 level for the county in 2023.

Food and beverage sales totaled \$285 million in the county in 2023, versus \$152 million in 2010. This reflects a 4.9% average annual change. The pace of growth is anticipated to be -1.4% through 2028. The retail sales sector demonstrated an annual increase of 1.8% from 2010 to 2023. An increase of 1.1% average annual change is expected in county retail sales through 2028.

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE); wholesale trade; and services produce a considerable number of visitors who are not particularly rate sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities (TCPU) employers can also be important, depending on the company type.

The following table sets forth the county workforce distribution by business sector in 2010, 2020, and 2023, as well as a forecast for 2028.

FIGURE 3-2 HISTORICAL AND PROJECTED EMPLOYMENT (000S)

| Industry | 2010 | Percent of Total | 2020 | Percent of Total | 2023 | Percent of Total | 2028 | Percent of Total | Avg. Annual Compounded Chg. | | |
|---|-----------|---------------------|-----------|---------------------|-----------|---------------------|-----------|---------------------|-----------------------------|-----------|-----------|
| | | | | | | | | | 2010-2020 | 2020-2023 | 2023-2028 |
| Farm | 0.1 | 0.3 % | 0.2 | 0.3 % | 0.2 | 0.3 % | 0.2 | 0.4 % | 1.1 % | 2.1 % | 1.5 % |
| Forestry, Fishing, Related Activities And Other | 0.2 | 0.5 | 0.2 | 0.5 | 0.2 | 0.4 | 0.2 | 0.4 | (0.9) | (3.1) | (0.3) |
| Mining | 0.2 | 0.3 | 0.1 | 0.3 | 0.2 | 0.3 | 0.1 | 0.3 | (1.2) | 2.9 | (1.3) |
| Utilities | 0.2 | 0.4 | 0.2 | 0.5 | 0.1 | 0.3 | 0.1 | 0.3 | 0.2 | (11.6) | (0.1) |
| Construction | 2.7 | 5.8 | 2.4 | 5.3 | 2.4 | 5.0 | 2.4 | 4.8 | (1.5) | 0.7 | 0.3 |
| Manufacturing | 4.0 | 8.3 | 3.4 | 7.7 | 3.5 | 7.1 | 3.4 | 6.7 | (1.5) | 0.4 | (0.6) |
| Total Trade | 7.2 | 15.2 | 6.9 | 15.4 | 7.3 | 14.9 | 7.3 | 14.4 | (0.5) | 1.9 | (0.1) |
| Wholesale Trade | 0.9 | 2.0 | 1.0 | 2.3 | 1.1 | 2.4 | 1.2 | 2.3 | 0.8 | 3.8 | 0.6 |
| Retail Trade | 6.3 | 13.2 | 5.8 | 13.1 | 6.1 | 12.6 | 6.1 | 12.0 | (0.8) | 1.6 | (0.2) |
| Transportation And Warehousing | 0.6 | 1.3 | 0.9 | 1.9 | 1.1 | 2.4 | 1.1 | 2.2 | 3.2 | 10.3 | (0.7) |
| Information | 1.0 | 2.2 | 0.8 | 1.8 | 0.8 | 1.7 | 0.8 | 1.6 | (2.7) | 0.5 | (0.1) |
| Finance And Insurance | 2.4 | 5.0 | 2.5 | 5.5 | 2.7 | 5.6 | 2.8 | 5.6 | 0.4 | 3.7 | 0.5 |
| Real Estate And Rental And Lease | 1.8 | 3.8 | 2.2 | 4.9 | 2.7 | 5.6 | 3.2 | 6.4 | 1.7 | 7.8 | 3.5 |
| Total Services | 21.9 | 46.1 | 20.3 | 45.6 | 22.8 | 46.8 | 24.1 | 47.7 | (0.8) | 4.0 | 1.1 |
| Professional And Technical Services | 2.2 | 4.5 | 2.3 | 5.1 | 2.3 | 4.7 | 2.4 | 4.8 | 0.5 | 0.1 | 1.3 |
| Management Of Companies And Enterprises | 0.4 | 0.9 | 0.6 | 1.3 | 0.6 | 1.3 | 0.7 | 1.4 | 3.3 | 1.0 | 2.4 |
| Administrative And Waste Services | 3.1 | 6.5 | 2.8 | 6.2 | 3.0 | 6.1 | 3.3 | 6.6 | (1.2) | 2.4 | 2.5 |
| Educational Services | 0.5 | 1.0 | 0.4 | 0.9 | 0.5 | 1.0 | 0.5 | 1.0 | (1.4) | 4.5 | 0.6 |
| Health Care And Social Assistance | 6.9 | 14.5 | 6.4 | 14.4 | 6.8 | 14.0 | 7.0 | 13.8 | (0.7) | 1.9 | 0.5 |
| Arts, Entertainment, And Recreation | 1.8 | 3.7 | 1.2 | 2.6 | 1.8 | 3.6 | 1.9 | 3.8 | (4.1) | 15.3 | 1.4 |
| Accommodation And Food Services | 5.0 | 10.4 | 4.8 | 10.7 | 5.9 | 12.0 | 6.2 | 12.2 | (0.4) | 7.1 | 1.0 |
| Other Services, Except Public Administration | 2.1 | 4.5 | 1.9 | 4.3 | 2.0 | 4.2 | 2.1 | 4.2 | (1.2) | 2.3 | 0.7 |
| Total Government | 5.1 | 10.7 | 4.6 | 10.3 | 4.7 | 9.6 | 4.8 | 9.4 | (1.1) | 0.8 | 0.3 |
| Federal Civilian Government | 0.3 | 0.5 | 0.2 | 0.5 | 0.2 | 0.4 | 0.2 | 0.4 | (1.9) | (3.6) | (0.1) |
| Federal Military | 0.1 | 0.2 | 0.1 | 0.2 | 0.1 | 0.2 | 0.1 | 0.2 | (0.7) | 0.3 | 0.0 |
| State And Local Government | 4.7 | 9.9 | 4.3 | 9.6 | 4.4 | 9.0 | 4.5 | 8.8 | (1.0) | 1.0 | 0.4 |
| TOTAL | 47.5 | 100.0 % | 44.5 | 100.0 % | 48.7 | 100.0 % | 50.5 | 100.0 % | (0.7) % | 3.0 % | 0.8 % |
| MSA | 70.2 | — | 66.5 | — | 71.6 | — | 73.9 | — | (0.5) % | 2.5 % | 0.6 % |
| U.S. | 172,901.7 | — | 195,286.6 | — | 216,167.4 | — | 230,072.0 | — | 1.2 | 3.4 | 1.3 |

Source: Woods & Poole Economics, Inc.

**Radial Demographic
Snapshot**

The preceding data illustrate the long-term employment trends in this market, including the recent impact of the pandemic and the subsequent recovery. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 0.8% on average annually through 2028. The trend is below the forecast rate of change for the United States as a whole during the same period.

The following table reflects radial demographic trends for our market area measured by three points of distance from the subject site.

FIGURE 3-3 DEMOGRAPHICS BY RADIUS

| | 0.00 - 1.00 miles | 0.00 - 3.00 miles | 0.00 - 5.00 miles |
|--|-------------------|-------------------|-------------------|
| Population | | | |
| 2028 Projection | 3,946 | 36,204 | 55,772 |
| 2023 Estimate | 4,005 | 36,214 | 55,601 |
| 2020 Census | 4,062 | 36,294 | 55,591 |
| Percent Change: 2023 to 2028 | -1.5% | 0.0% | 0.3% |
| Percent Change: 2020 to 2023 | -1.4% | -0.2% | 0.0% |
| Households | | | |
| 2028 Projection | 1,886 | 16,153 | 24,493 |
| 2023 Estimate | 1,905 | 16,079 | 24,320 |
| 2020 Census | 1,924 | 16,058 | 24,238 |
| Percent Change: 2023 to 2028 | -1.0% | 0.5% | 0.7% |
| Percent Change: 2020 to 2023 | -1.0% | 0.1% | 0.3% |
| Income | | | |
| 2023 Est. Average Household Income | \$121,080 | \$101,669 | \$101,462 |
| 2023 Est. Median Household Income | 91,783 | 73,869 | 75,536 |
| 2023 Est. Civ. Employed Pop 16+ by Occupation | | | |
| Architecture/Engineering | 34 | 516 | 740 |
| Arts/Design/Entertainment/Sports/Media | 32 | 530 | 655 |
| Building/Grounds Cleaning/Maintenance | 39 | 507 | 700 |
| Business/Financial Operations | 156 | 1,345 | 1,917 |
| Community/Social Services | 42 | 358 | 501 |
| Computer/Mathematical | 26 | 324 | 543 |
| Construction/Extraction | 174 | 727 | 1,292 |
| Education/Training/Library | 216 | 1,619 | 2,481 |
| Farming/Fishing/Forestry | 0 | 0 | 17 |
| Food Preparation/Serving Related | 75 | 986 | 1,625 |
| Healthcare Practitioner/Technician | 210 | 1,759 | 2,488 |
| Healthcare Support | 8 | 561 | 945 |
| Installation/Maintenance/Repair | 17 | 346 | 680 |
| Legal | 28 | 112 | 157 |
| Life/Physical/Social Science | 21 | 87 | 102 |
| Management | 226 | 1,553 | 2,561 |
| Office/Administrative Support | 223 | 2,168 | 3,341 |
| Production | 85 | 707 | 1,157 |
| Protective Services | 117 | 604 | 928 |
| Sales/Related | 249 | 1,907 | 3,101 |
| Personal Care/Service | 21 | 616 | 1,168 |
| Transportation/Material Moving | 136 | 1,471 | 2,271 |

Source: Environics Analytics

Unemployment Statistics

This source reports a population of 55,601 and 24,320 households within a five-mile radius of the subject site. The average household income within this radius is reported at \$101,462, while the median is \$75,536.

The following table presents historical unemployment rates for the proposed subject hotel's market area.

FIGURE 3-4 UNEMPLOYMENT STATISTICS

| Year | County | MSA | State | U.S. |
|---------------------------|--------|-------|-------|-------|
| 2014 | 6.6 % | 6.4 % | 6.3 % | 6.2 % |
| 2015 | 5.5 | 5.3 | 5.3 | 5.3 |
| 2016 | 5.3 | 5.0 | 4.9 | 4.9 |
| 2017 | 5.3 | 5.0 | 4.7 | 4.4 |
| 2018 | 4.7 | 4.4 | 4.1 | 3.9 |
| 2019 | 4.6 | 4.3 | 4.0 | 3.7 |
| 2020 | 8.1 | 7.6 | 9.8 | 8.1 |
| 2021 | 5.0 | 4.8 | 7.1 | 5.4 |
| 2022 | 3.5 | 3.4 | 4.3 | 3.6 |
| 2023 | 3.7 | 3.6 | 4.2 | 3.6 |
| <i>Recent Month - May</i> | | | | |
| 2023 | 3.2 % | 3.0 % | 3.9 % | 3.7 % |
| 2024 | 3.6 | 3.6 | 4.2 | 4.0 |

Source: U.S. Bureau of Labor Statistics

Prior to the pandemic, U.S. unemployment levels were firmly below the 4.6% level recorded in 2006 and 2007, the peak years of the economic cycle prior to the Great Recession. The unemployment rate for February 2020 was 3.5%. The unemployment rate had remained in the 3.5% to 3.7% range since April 2019, reflecting a trend of stability and strength. However, in April 2020, unemployment rose to 14.7%, and employment dropped by 20.7 million because of the COVID-19 pandemic. Steady gains in employment have been registered since that time; most recently, the national unemployment rate was 3.7% in December 2023. A 105,000-, 173,000-, and 216,000-person rise in employment was registered in October, November, and December, respectively. In December, the most significant gains were reported in government, health care, social assistance, and construction.

Locally, the unemployment rate was 3.7% in 2023; for this same area in 2024, the most recent month's unemployment rate was registered at 3.6%, versus 3.2% for

Major Business and Industry

the same month in 2023. As illustrated in the foregoing table, unemployment declined in 2015, and this positive trend generally continued through 2019, with only a minor fluctuation registered in 2017. Economic development officials noted that local employment had remained strong within the technology, hospitality, and healthcare sectors. However, unemployment data from 2020 illustrate a sharp increase given the effects of the COVID-19 pandemic and related global economic crisis, which included massive furloughs/layoffs. Unemployment then declined in 2021 and 2022 as the economy rebounded. The most recent comparative period shows where the local market stands in 2024 relative to the same month of 2023, reflecting modest increase in unemployment.

Providing additional context for understanding the nature of the regional economy, the following table presents a list of the major employers in the proposed subject property's market.

FIGURE 3-5 MAJOR EMPLOYERS

| Rank | Employer | Number of Employees |
|------|----------------------------------|---------------------|
| 1 | Glens Falls Hospital | 2,800 |
| 2 | Hudson Headwaters Health Network | 930 |
| 3 | BD Beckton Dickinson | 785 |
| 4 | Finch Paper | 700 |
| 5 | AngioDynamics | 560 |
| 6 | Sagamore Resort | 500 |
| 7 | Glens Falls National Bank | 470 |
| 8 | Community Work Independence | 450 |
| 9 | Nielsen/Gracenote | 400 |
| 10 | Gross Electric | 350 |

Source: Warren County Economic Development Corporation, 2022

The tourism, medical, and manufacturing industries all play an important role in the Warren County economy. According to the Warren County Economic Development Corporation, the total economic impact from tourism totals approximately \$628 million annually and supports over 8,800 jobs. Glens Falls Hospital, the county's largest employer, is a general medical and surgical hospital that is continuously ranked by U.S. News & World Report as one of the "Best Regional Hospitals in Northern New York." The medical industry is also supported by Hudson Headwaters Health Network, a collection of 19 facilities located throughout upstate and northeastern New York. Manufacturing also supports the medical industry with

large employers such as AngioDynamics, BD Becton Dickinson (formerly C.R. Bard), and Medline Industries developing and manufacturing medical devices. Finally, the pulp and paper manufacturing industry plays an important role in the larger regional economy with Finch Paper employing 700 people within Warren County. Other notable pulp and paper manufacturers within the larger region include International Paper, Essity Paper, Irving Tissue, Morcon Tissue, and Cascades Paper.

Although the local economy was negatively affected by the COVID-19 pandemic in 2020 and 2021, it largely recovered in 2022 and 2023, boding well for the market and lodging demand; a normalization is expected in the near term.

Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

Albany International Airport (ALB) serves as the major air center for the Capital Region, Northeastern New York, and Western New England. Many major commercial airlines service the airport. A \$139-million capital plan was completed in phases from 2010 through 2014 in order to improve safety and accommodate more travelers and air carriers. In September 2018, work commenced on a \$92-million project to upgrade the terminal, increase parking, and reshape the approach for arriving motorists. The project was completed in June 2020; however, the new parking garage was not opened until April 2021 given the significant decline in passenger traffic caused by the COVID-19 pandemic. In August 2023, construction began on another \$100-million renovation of the terminal in an effort to alleviate passenger congestion; this renovation will include the ticketing, baggage claim, and concession areas. In addition, the rotunda and passenger bridge will be removed in order to construct a new main entrance, the security checkpoint area will be relocated and expanded, and a new children's play zone and calming room will be constructed. Heating, ventilation, and air-conditioning systems will also be upgraded. These renovations are expected to be completed in early 2025.

The following table illustrates recent operating statistics for the Albany International Airport, which is the primary airport facility serving the proposed subject hotel's submarket.

FIGURE 3-6 AIRPORT STATISTICS - ALBANY INTERNATIONAL AIRPORT

| Year | Passenger Traffic | Percent Change* | Percent Change** |
|--------------------------|-------------------|-----------------|------------------|
| 2014 | 2,457,080 | — | — |
| 2015 | 2,589,252 | 5.4 % | 5.4 % |
| 2016 | 2,818,013 | 8.8 | 7.1 |
| 2017 | 2,831,987 | 0.5 | 4.8 |
| 2018 | 2,923,226 | 3.2 | 4.4 |
| 2019 | 3,031,237 | 3.7 | 4.3 |
| 2020 | 1,042,524 | (65.6) | (13.3) |
| 2021 | 1,948,677 | 86.9 | (3.3) |
| 2022 | 2,585,405 | 32.7 | 0.6 |
| 2023 | 2,753,543 | 6.5 | 1.3 |
| Year-to-date, Jun | | | |
| 2023 | 1,275,333 | — | — |
| 2024 | 1,415,167 | 11.0 % | — |

*Annual average compounded percentage change from the previous year

**Annual average compounded percentage change from first year of data

Source: Albany International Airport

This facility recorded 2,753,543 passengers in 2023. The change in passenger traffic between 2022 and 2023 was 6.5%. The average annual change during the period shown was 1.3%. Following years of record growth in passenger traffic, data for 2020 illustrate substantial declines given the impact of the COVID-19 pandemic and the travel restrictions that were implemented. The 2021 data show a significant rebound from 2020 levels, and this trend continued in 2022 and 2023, per the latest statistics. Passenger volume should continue to recover and improve now that travel restrictions have been rescinded and economic activity has rebounded.

Tourist Attractions

The subject market benefits from a variety of tourism and leisure attractions in the area. The six-million-acre Adirondack Park features more than 30,000 miles of rivers and streams, 3,000 lakes, and a variety of flora and fauna. Within the park, Bolton Landing, Lake George, and North Creek comprise the Lake George Region, a well-known summer colony. This area is popular in summer and early fall for fishing, boating, hiking, swimming, and apple picking; the fall foliage also attracts guests to this area. During colder times of the year, tourism is driven by the expansive snowmobile trails and by guests looking to ski at destinations such as Gore Mountain and West Mountain. Furthermore, Ice Castles, a company that creates LED-lit ice castles, sculptures, frozen thrones, ice-carved tunnels, slides,

fountains, and other castle accessories, returned to Lake George in February 2023, bolstering tourism demand in the winter months. Special events also have an impact on the market, such as the Adirondack Balloon Festival, where dozens of hot air balloons rise above the Adirondack Mountains; Americade, a week-long motorcycle rally; and the Adirondack Nationals Car Show. Furthermore, Six Flags Great Escape is a popular amusement park located in the area. Due to the COVID-19 pandemic, entertainment venues were temporarily closed (and events were postponed or canceled) in 2020 and early 2021; however, as of the date of this report, all area attractions were open, and events were taking place on a normal schedule.

ADIRONDACK BALLOON FESTIVAL



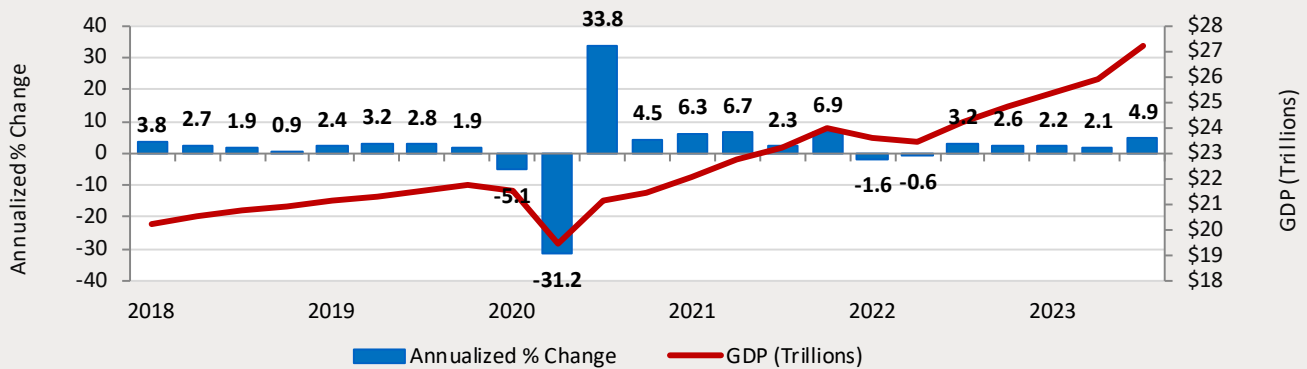
Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. The local market area benefits from a strengthening economy that is primarily led by the manufacturing and medical industries, which are expanding. Additionally, the tourism industry is a major draw to the market and has rebounded in the last couple of years, with key attractions such as Lake George and the Adirondack Mountains being primary draws. Thus, the near-term market outlook is overall positive.

Our analysis of the outlook for this specific market also considers the broader context of the national economy. For the eight quarters leading up to 2020, GDP quarterly growth ranged between 0.9% and 3.8%, reflecting moderate economic expansion. The impact of the pandemic was considerable in 2020. As shutdowns halted major components of the U.S. economy from mid-March through May, the GDP contracted by an annualized rate of 31.2% in the second quarter of 2020, the

largest such decline in U.S. history. While shocking, this GDP decline was offset by a significant rebound in economic activity in the third quarter of 2020, greatly moderating the overall impact for the year. The U.S. economy grew by 33.8% on an annualized basis in the third quarter, followed by more modest gains in the five quarters that followed through the end of 2021, with GDP having surpassed the pre-pandemic peak by the first quarter of 2021). A pullback during the first half of 2022 was driven by the trade deficit and decreases in government spending and inventory investment, although the decline was offset by gains during the second half of the year.

FIGURE 3-7 UNITED STATES GDP GROWTH RATE



Sources: tradingeconomics.com, Bureau of Economic Analysis

While the positive trend continued during the first and second quarters of 2023, the GDP gain waned, reflecting 2.2% and 2.1% increases, respectively. The third estimate for third-quarter 2023 GDP growth was released on December 21, 2023, at a higher-than-expected 4.9%. According to the report from the Bureau of Economic Analysis, "Compared to the second quarter, the acceleration in real GDP in the third quarter reflected accelerations in consumer spending, private inventory investment, and federal government spending and upturns in exports and residential fixed investment. These movements were partly offset by a downturn in nonresidential fixed investment and a deceleration in state and local government spending. Imports turned up." Despite this favorable economic news, transaction activity has been curtailed by high borrowing costs and stricter lending requirements. While the possibility of a market downturn in the near term remains a concern, the long-term outlook for the industry is optimistic.

4. Supply and Demand Analysis

In the lodging industry, price varies directly, but not proportionately, with demand and inversely, but not proportionately, with supply. Supply is measured by the number of guestrooms available, and demand is measured by the number of rooms occupied; the net effect of supply and demand toward equilibrium results in a prevailing price, or average daily rate (ADR). The purpose of this section is to investigate current supply and demand trends, as indicated by the current competitive market, and to set forth a basis for the projection of future supply and demand growth.

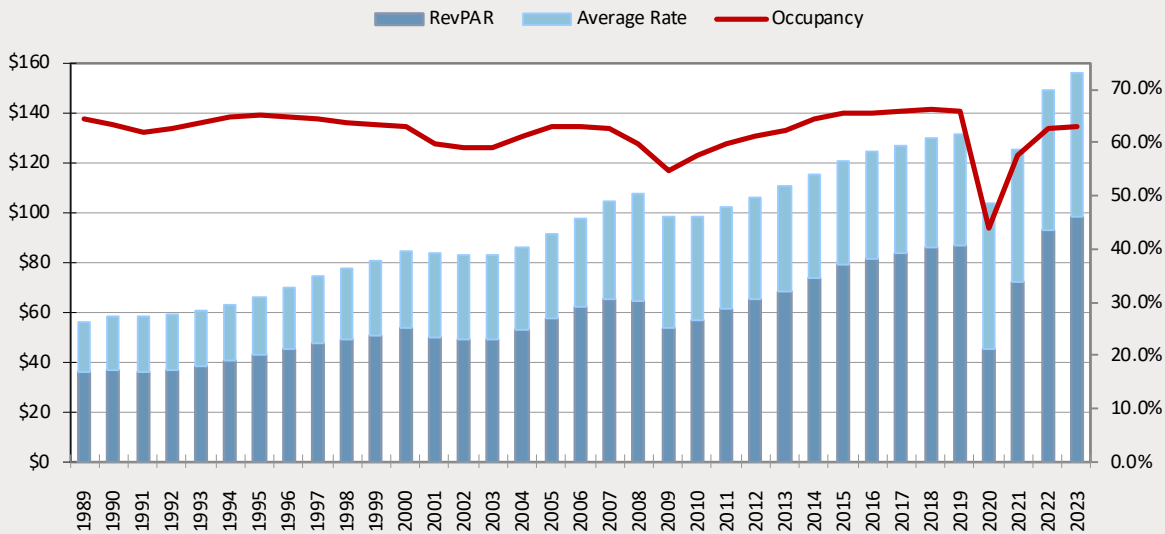
Definition of Subject Hotel Market

The subject site is located in the greater Warren County lodging market. Within this greater market, the proposed subject hotel will compete with a smaller set of hotels based on various factors, such as location, price point, and product offering. Furthermore, given the resort-style nature of the proposed subject property and its expansive amenity offering, the proposed subject hotel will also compete with other unique, resort-style properties in the greater Upstate New York region.

National Trends Overview

A hotel's local lodging market is most directly affected by the supply and demand trends within the immediate area. However, individual markets are also influenced by conditions in the national lodging market. We have reviewed national lodging trends to provide a context for the forecast of the supply and demand for the proposed subject hotel's competitive set.

STR is an independent research firm that compiles data on the lodging industry, and this information is routinely used by typical hotel buyers. The following STR diagram presents annual hotel occupancy, ADR, and rooms revenue per available room (RevPAR) data since 1989. RevPAR is calculated by multiplying occupancy by ADR and provides an indication of how well rooms revenue is being maximized.

FIGURE 4-1 NATIONAL OCCUPANCY, ADR, AND REVPAR TRENDS

Source: STR

The preceding chart illustrates the impact of the recessions of the early 1990s, 2000s, the financial crisis of 2008/09, and the recent pandemic on the U.S. lodging industry. In each case, the downturn caused lodging demand to drop, resulting in an occupancy decline. The aggregate ADR also fell, as hoteliers used price as a marketing tool to attract demand and support occupancy levels. As occupancy recovered, ADR growth resumed, although the ADR recovery lagged somewhat behind occupancy levels, as price discounts contributed to the initial recovery of demand. Following the financial crisis of the Great Recession, occupancy fell by over eight points, and ADR declined by 5.9%, resulting in an 18.3% decrease in RevPAR. The market recovered steadily thereafter, with occupancy surpassing the 65.0% mark in 2015, and ADR also consistently growing, albeit at a decelerating pace.

FIGURE 4-2 NATIONAL OCCUPANCY AND ADR TRENDS: 2019, 2020, 2021, 2022, 2023

| | Occupancy | | | | | Average Rate | | | | | RevPAR | | | | |
|------------------|-----------|--------|--------|--------|--------|--------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2019 | 2020 | 2021 | 2022 | 2023 | 2019 | 2020 | 2021 | 2022 | 2023 |
| United States | 66.0 % | 44.0 % | 57.5 % | 62.6 % | 63.0 % | \$131.23 | \$103.25 | \$124.96 | \$149.24 | \$155.62 | \$86.64 | \$45.48 | \$71.88 | \$93.39 | \$97.97 |
| Region | | | | | | | | | | | | | | | |
| New England | 64.7 % | 38.8 % | 55.5 % | 63.4 % | 63.7 % | \$161.08 | \$123.17 | \$155.80 | \$179.29 | \$188.79 | \$104.25 | \$47.77 | \$86.54 | \$113.78 | \$120.22 |
| Middle Atlantic | 69.0 | 41.3 | 55.2 | 62.6 | 65.0 | 166.27 | 115.26 | 144.08 | 179.82 | 192.02 | 114.81 | 47.65 | 79.56 | 112.48 | 124.80 |
| South Atlantic | 67.5 | 45.7 | 59.8 | 64.7 | 64.5 | 128.41 | 107.99 | 130.45 | 152.61 | 156.17 | 86.68 | 49.40 | 77.95 | 98.70 | 100.75 |
| E. North Central | 61.1 | 39.1 | 52.3 | 57.2 | 57.5 | 112.64 | 86.72 | 105.25 | 123.33 | 128.91 | 68.82 | 33.93 | 55.09 | 70.52 | 74.13 |
| E. South Central | 62.4 | 45.7 | 59.5 | 61.0 | 61.0 | 103.58 | 85.74 | 104.70 | 119.73 | 125.79 | 64.61 | 39.18 | 62.30 | 73.04 | 76.74 |
| W. North Central | 58.3 | 39.1 | 51.0 | 55.3 | 56.1 | 99.28 | 83.65 | 97.34 | 109.00 | 114.93 | 57.88 | 32.72 | 49.68 | 60.27 | 64.49 |
| W. South Central | 62.6 | 44.9 | 58.1 | 59.9 | 60.2 | 101.84 | 82.88 | 95.75 | 112.13 | 116.07 | 63.77 | 37.25 | 55.64 | 67.20 | 69.84 |
| Mountain | 66.9 | 46.7 | 59.3 | 66.3 | 67.1 | 121.89 | 105.70 | 125.74 | 153.87 | 165.08 | 81.54 | 49.39 | 74.59 | 101.94 | 110.81 |
| Pacific | 73.6 | 47.1 | 60.2 | 66.9 | 66.6 | 171.40 | 129.57 | 157.79 | 190.58 | 196.17 | 126.16 | 61.01 | 95.00 | 127.42 | 130.67 |
| Class | | | | | | | | | | | | | | | |
| Luxury | 70.9 % | 36.8 % | 52.5 % | 65.3 % | 66.9 % | \$304.11 | \$285.78 | \$322.00 | \$376.48 | \$377.58 | \$215.73 | \$105.29 | \$168.95 | \$245.93 | \$252.76 |
| Upper-Upscale | 72.6 | 34.8 | 50.0 | 63.4 | 66.7 | 188.24 | 159.14 | 175.05 | 213.96 | 220.78 | 136.67 | 55.30 | 87.49 | 135.70 | 147.21 |
| Upscale | 71.5 | 42.8 | 59.3 | 66.8 | 68.5 | 143.60 | 117.80 | 132.34 | 156.30 | 163.77 | 102.68 | 50.45 | 78.42 | 104.39 | 112.14 |
| Upper-Midscale | 67.5 | 45.3 | 61.2 | 65.7 | 66.1 | 115.91 | 98.80 | 114.14 | 128.53 | 133.17 | 78.20 | 44.72 | 69.83 | 84.50 | 87.97 |
| Midscale | 59.5 | 44.4 | 56.8 | 59.7 | 58.8 | 95.82 | 84.47 | 98.83 | 100.19 | 101.88 | 57.03 | 37.52 | 56.10 | 59.83 | 59.91 |
| Economy | 59.4 | 49.2 | 58.7 | 56.4 | 54.2 | 75.50 | 65.45 | 76.14 | 77.65 | 78.62 | 44.83 | 32.30 | 44.72 | 43.80 | 42.59 |
| Location | | | | | | | | | | | | | | | |
| Urban | 73.2 % | 37.9 % | 51.8 % | 63.3 % | 66.4 % | \$183.20 | \$127.80 | \$152.81 | \$196.47 | \$206.62 | \$134.12 | \$48.47 | \$79.12 | \$124.44 | \$137.26 |
| Suburban | 66.7 | 46.4 | 59.9 | 63.8 | 64.1 | 111.26 | 88.81 | 104.93 | 126.13 | 131.93 | 74.24 | 41.24 | 62.90 | 80.45 | 84.54 |
| Airport | 73.7 | 44.5 | 60.3 | 67.9 | 68.4 | 119.22 | 93.71 | 104.82 | 126.57 | 133.02 | 87.85 | 41.72 | 63.18 | 85.91 | 90.93 |
| Interstate | 57.9 | 44.8 | 57.8 | 58.5 | 57.4 | 87.86 | 79.05 | 92.22 | 100.90 | 104.59 | 50.85 | 35.39 | 53.31 | 59.04 | 59.99 |
| Resort | 70.0 | 42.9 | 57.7 | 66.8 | 67.1 | 182.74 | 170.36 | 209.77 | 236.76 | 239.12 | 127.85 | 73.13 | 121.06 | 158.20 | 160.53 |
| Small Town | 57.8 | 44.4 | 56.7 | 57.5 | 56.5 | 107.26 | 96.95 | 116.96 | 124.72 | 128.86 | 61.98 | 43.07 | 66.34 | 71.72 | 72.79 |
| Chain Scale | | | | | | | | | | | | | | | |
| Luxury | 73.8 % | 32.0 % | 48.0 % | 63.1 % | 65.8 % | \$343.02 | \$329.54 | \$383.48 | \$435.46 | \$429.14 | \$253.17 | \$105.40 | \$184.12 | \$274.64 | \$282.58 |
| Upper-Upscale | 73.9 | 33.4 | 48.7 | 63.9 | 67.7 | 189.25 | 158.86 | 176.66 | 215.96 | 223.27 | 139.80 | 53.10 | 86.11 | 138.05 | 151.05 |
| Upscale | 72.6 | 43.0 | 59.6 | 67.4 | 69.2 | 142.38 | 115.11 | 128.62 | 155.28 | 162.28 | 103.32 | 49.52 | 76.68 | 104.58 | 112.31 |
| Upper-Midscale | 67.5 | 45.4 | 61.6 | 65.8 | 66.2 | 112.80 | 96.04 | 111.14 | 127.56 | 132.16 | 76.14 | 43.61 | 68.47 | 83.93 | 87.45 |
| Midscale | 58.1 | 44.2 | 56.5 | 60.1 | 59.2 | 86.61 | 77.29 | 89.48 | 95.19 | 96.54 | 50.30 | 34.19 | 50.59 | 57.18 | 57.11 |
| Economy | 58.7 | 50.9 | 59.7 | 57.2 | 55.0 | 63.70 | 58.21 | 66.88 | 72.24 | 72.79 | 37.36 | 29.64 | 39.90 | 41.34 | 40.06 |
| Independents | 63.5 | 44.8 | 56.9 | 60.0 | 59.2 | 133.08 | 110.74 | 137.44 | 155.20 | 161.46 | 84.44 | 49.56 | 78.24 | 93.05 | 95.55 |

Source: Year-End STR Lodging Reviews

*Middle Atlantic includes New York City lodging market.

The onset of the COVID-19 pandemic in March 2020 had a severe impact on the lodging industry, causing occupancy, ADR, and RevPAR to decline by unprecedented levels. By the conclusion of 2020, occupancy had fallen 22 points, with ADR decreasing by roughly \$28.00, resulting in a RevPAR loss of 48.0% (rounded). Led by strong leisure demand, many markets began to recover mid-year 2021. The recovery continued in 2022 and 2023, as group activity returned. Business travel has also improved, although hybrid work options and lower office occupancy rates continue to constrain demand recovery in this segment. By year-end 2023, the U.S. occupancy level had reached 96.0% of the occupancy level attained in 2019. Supported by strong levels of leisure demand, ADR registered 18.6% higher than the national rate in 2019, resulting in a RevPAR increase of 13.1% in 2023 over the level achieved in 2019.

Excluding fluctuations due to the Great Recession in 2008/09 and the pandemic from 2020 to 2022, supply growth ranged between 0.4% to 2.0%, averaging 1.1% in these years. The pace of supply growth slowed significantly in the two to three years following the downturns in 2001/02, 2008/09, and 2020/21, reflecting the decline in new project-starts during these periods. As the market moved out of these cycles, supply growth accelerated. The impact of the pandemic caused a decline in supply, as hotels temporarily suspended operations or closed, in many cases for conversion to alternate use. The reopening of the temporarily closed properties caused an artificial spike in supply growth. Supply growth in 2023 and 2024 reflects the constraints imposed by the pandemic, as well as the limited availability of financing for new construction, which particularly affected the market in 2023 and early 2024. Thus, the pace of supply growth is expected to remain muted through 2026.

The changes in demand, as measured by the number of occupied rooms, display similar patterns. The years following the noted recessionary periods reflect relatively strong growth, as the market recovered from these downturns. Excluding the years of downturn and recovery, demand growth ranged from 1.0% to 4.6%.

FIGURE 4-3 RECENT NATIONAL OCCUPANCY AND ADR TRENDS

| | Occupancy - YTD June | | | Average Rate - YTD June | | | RevPAR - YTD June | | | Percent Change | |
|------------------|----------------------|--------|----------|-------------------------|----------|----------|-------------------|----------|----------|----------------|-----------|
| | 2023 | 2024 | % Change | 2023 | 2024 | % Change | 2023 | 2024 | % Change | Rms. Avail. | Rms. Sold |
| United States | 61.5 % | 61.2 % | (0.5) % | \$153.80 | \$156.61 | 1.8 % | \$94.59 | \$95.83 | 1.3 % | 0.6 % | 0.0 % |
| Region | | | | | | | | | | | |
| New England | 59.1 % | 60.4 % | 2.1 % | \$173.41 | \$178.23 | 2.8 % | \$102.56 | \$107.61 | 4.9 % | (1.3) % | 0.7 % |
| Middle Atlantic | 61.7 | 63.3 | 2.5 | 176.29 | 183.36 | 4.0 | 108.81 | 115.02 | 6.6 | (0.6) | 1.9 |
| South Atlantic | 66.4 | 66.0 | (0.6) | 164.05 | 165.26 | 0.7 | 108.93 | 109.05 | 0.1 | 0.9 | 0.3 |
| E. North Central | 55.5 | 55.4 | (0.2) | 124.27 | 127.43 | 2.5 | 69.03 | 70.61 | 2.3 | 0.8 | 0.6 |
| E. South Central | 61.9 | 59.8 | (3.4) | 124.99 | 126.81 | 1.5 | 77.33 | 75.78 | (2.0) | 1.3 | (2.2) |
| W. North Central | 54.6 | 54.0 | (1.2) | 112.48 | 116.39 | 3.5 | 61.43 | 62.80 | 2.2 | (0.1) | (1.3) |
| W. South Central | 62.1 | 61.7 | (0.7) | 118.01 | 120.80 | 2.4 | 73.33 | 74.57 | 1.7 | 0.6 | (0.1) |
| Mountain | 67.5 | 66.9 | (0.8) | 167.36 | 172.33 | 3.0 | 112.91 | 115.31 | 2.1 | 0.8 | 0.0 |
| Pacific | 66.0 | 65.7 | (0.5) | 193.41 | 192.73 | (0.4) | 127.62 | 126.57 | (0.8) | 0.8 | 0.3 |
| Class | | | | | | | | | | | |
| Luxury | 65.5 % | 66.6 % | 1.6 % | \$383.82 | \$385.47 | 0.4 % | \$251.48 | \$256.65 | 2.1 % | 3.2 % | 4.8 % |
| Upper-Upscale | 67.2 | 68.1 | 1.4 | 221.93 | 224.21 | 1.0 | 149.06 | 152.57 | 2.4 | 1.0 | 2.4 |
| Upscale | 68.7 | 69.0 | 0.5 | 162.40 | 164.84 | 1.5 | 111.57 | 113.80 | 2.0 | 1.0 | 1.5 |
| Upper-Midscale | 65.9 | 65.3 | (0.8) | 132.11 | 133.48 | 1.0 | 87.00 | 87.16 | 0.2 | 1.1 | 0.2 |
| Midscale | 58.4 | 57.7 | (1.2) | 99.96 | 99.79 | (0.2) | 58.37 | 57.58 | (1.4) | (0.1) | (1.3) |
| Economy | 54.1 | 52.5 | (3.0) | 77.60 | 76.43 | (1.5) | 42.02 | 40.15 | (4.4) | (0.9) | (3.9) |
| Location | | | | | | | | | | | |
| Urban | 65.8 % | 67.0 % | 1.9 % | \$202.02 | \$206.49 | 2.2 % | \$132.84 | \$138.36 | 4.2 % | 0.9 % | 2.8 % |
| Suburban | 63.5 | 63.2 | (0.5) | 125.50 | 126.78 | 1.0 | 79.73 | 80.17 | 0.6 | 0.5 | 0.0 |
| Airport | 70.4 | 69.9 | (0.7) | 135.23 | 136.38 | 0.9 | 95.16 | 95.31 | 0.2 | 0.2 | (0.5) |
| Interstate | 57.4 | 56.0 | (2.3) | 104.59 | 106.43 | 1.8 | 59.99 | 59.65 | (0.6) | 0.3 | (2.0) |
| Resort | 70.3 | 69.9 | (0.6) | 246.71 | 248.51 | 0.7 | 173.36 | 173.61 | 0.1 | 1.2 | 0.6 |
| Small Town | 54.5 | 53.5 | (1.8) | 126.55 | 129.57 | 2.4 | 68.93 | 69.33 | 0.6 | 0.2 | (1.6) |
| Chain Scale | | | | | | | | | | | |
| Luxury | 65.9 % | 68.1 % | 3.4 % | \$434.88 | \$421.94 | (3.0) % | \$286.43 | \$287.42 | 0.3 % | 6.7 % | 10.4 % |
| Upper-Upscale | 67.9 | 69.0 | 1.7 | 224.52 | 227.94 | 1.5 | 152.38 | 157.26 | 3.2 | 2.1 | 3.9 |
| Upscale | 69.3 | 69.5 | 0.3 | 160.89 | 163.13 | 1.4 | 111.57 | 113.46 | 1.7 | 1.0 | 1.3 |
| Upper-Midscale | 66.2 | 65.7 | (0.8) | 131.18 | 132.77 | 1.2 | 86.86 | 87.19 | 0.4 | 1.6 | 0.8 |
| Midscale | 58.8 | 58.1 | (1.2) | 94.99 | 95.04 | 0.1 | 55.84 | 55.18 | (1.2) | (0.3) | (1.6) |
| Economy | 55.0 | 53.8 | (2.2) | 71.97 | 70.53 | (2.0) | 39.57 | 37.92 | (4.2) | (0.8) | (3.0) |
| Independents | 58.8 | 57.9 | (1.5) | 158.15 | 160.72 | 1.6 | 92.95 | 93.04 | (0.1) | (0.9) | (2.4) |

Source: STR - June 2024 Lodging Review

FIGURE 4-4 NATIONAL OCCUPANCY TRENDS – WEEKLY DATA

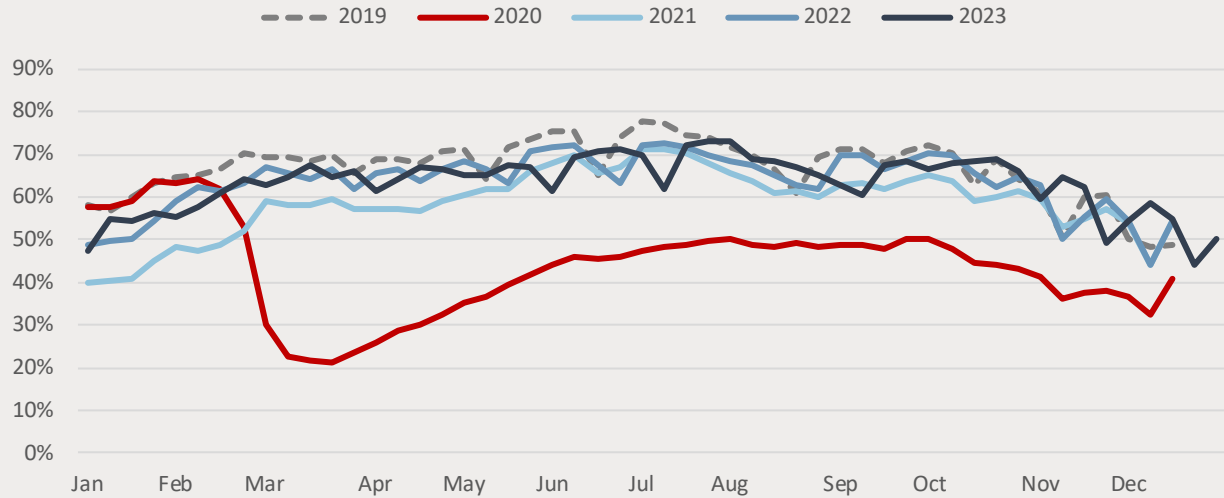


FIGURE 4-5 NATIONAL ADR TRENDS – WEEKLY DATA

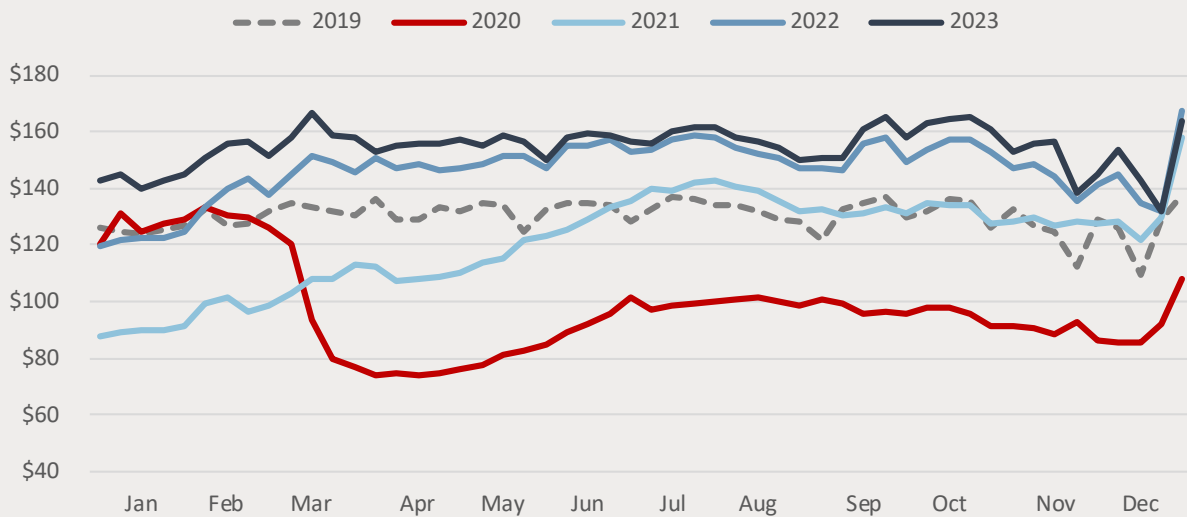
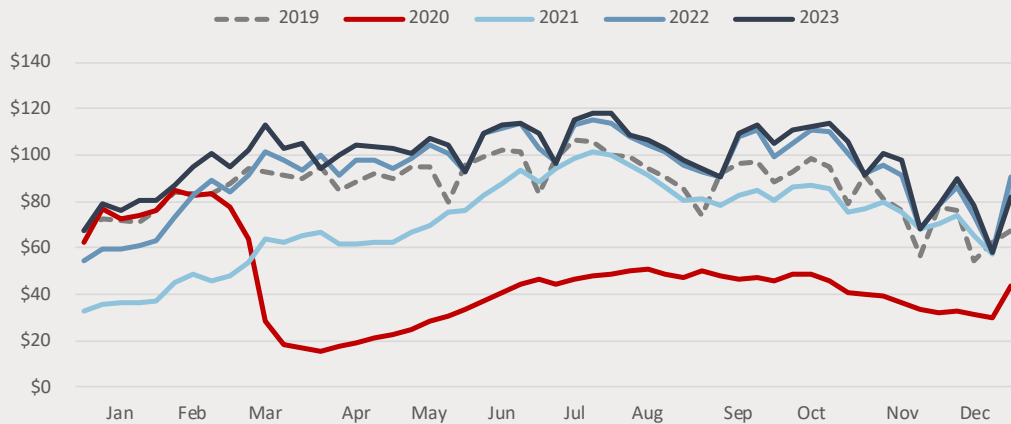


FIGURE 4-6 NATIONAL REVPAR TRENDS – WEEKLY DATA

Historical Supply and Demand Data

STR is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. HVS has ordered and analyzed an STR Trend Report of historical supply and demand data for a group of hotels considered applicable to this analysis for the proposed subject hotel. This information is presented in the following table, along with the market-wide occupancy, ADR, and RevPAR.

In response to the travel restrictions and the decline in demand associated with the COVID-19 pandemic, numerous hotels in markets across the nation temporarily suspended operations. During these suspensions, hotels were typically closed to the public, with the majority of staff furloughed; however, key management and maintenance staff were retained to preserve the property and prepare for reopening. Four hotels in the competitive subject market suspended operations because of the COVID-19 pandemic; however, all have since reopened. Our analysis considers the full supply of competitive rooms, including any hotels that may have temporarily suspended operations. It is important to note that we have adjusted STR data to reflect the total available rooms in the market and true occupancy, regardless of suspended operations at competitive hotels. Furthermore, we note that the proposed subject hotel's primary competitors do not report to STR; as such, they were not included in the STR data trend.

The second chart presents the monthly data for 2019, 2020, 2021, 2022, and 2023, illustrating the fluctuations in occupancy, ADR, and RevPAR; the impact of the pandemic and the timing and pace of the subsequent recovery are reflected in the data.

FIGURE 4-7 HISTORICAL SUPPLY AND DEMAND TRENDS

| Year | Average Daily Room Count | Available Room Nights | Change | Occupied Room Nights | Change | Occupancy | Average Rate | Change | RevPAR | Change |
|-----------------------------------|--------------------------|-----------------------|--------|----------------------|--------|-----------|--------------|---------|---------|---------|
| 2010 | 810 | 295,502 | — | 141,291 | — | 47.8 % | \$175.96 | — | \$84.13 | — |
| 2011 | 810 | 295,502 | 0.0 % | 144,008 | 1.9 % | 48.7 | 179.20 | 1.8 % | 87.33 | 3.8 % |
| 2012 | 810 | 295,502 | 0.0 | 146,445 | 1.7 | 49.6 | 180.25 | 0.6 | 89.33 | 2.3 |
| 2013 | 810 | 295,502 | 0.0 | 143,203 | (2.2) | 48.5 | 172.76 | (4.2) | 83.72 | (6.3) |
| 2014 | 713 | 260,245 | (11.9) | 134,210 | (6.3) | 51.6 | 163.92 | (5.1) | 84.54 | 1.0 |
| 2015 | 713 | 260,245 | 0.0 | 135,728 | 1.1 | 52.2 | 171.23 | 4.5 | 89.31 | 5.6 |
| 2016 | 763 | 278,452 | 7.0 | 150,489 | 10.9 | 54.0 | 174.86 | 2.1 | 94.50 | 5.8 |
| 2017 | 833 | 303,864 | 9.1 | 170,913 | 13.6 | 56.2 | 179.48 | 2.6 | 100.95 | 6.8 |
| 2018 | 926 | 338,113 | 11.3 | 180,527 | 5.6 | 53.4 | 184.10 | 2.6 | 98.29 | (2.6) |
| 2019 | 935 | 341,275 | 0.9 | 184,182 | 2.0 | 54.0 | 184.83 | 0.4 | 99.75 | 1.5 |
| 2020 | 929 | 339,116 | (0.6) | 138,242 | (24.9) | 40.8 | 204.55 | 10.7 | 83.39 | (16.4) |
| 2021 | 911 | 332,631 | (1.9) | 158,091 | 14.4 | 47.5 | 238.66 | 16.7 | 113.43 | 36.0 |
| 2022 | 997 | 363,812 | 9.4 | 185,353 | 17.2 | 50.9 | 238.86 | 0.1 | 121.69 | 7.3 |
| 2023 | 1,072 | 391,280 | 7.6 | 203,000 | 9.5 | 51.9 | 241.43 | 1.1 | 125.26 | 2.9 |
| Year-to-Date Through June | | | | | | | | | | |
| 2023 | 1,072 | 194,032 | — | 88,348 | — | 45.5 | \$212.35 | — | \$96.69 | — |
| 2024 | 1,072 | 194,032 | 0.0 % | 88,453 | 0.1 % | 45.6 | 199.02 | (6.3) % | 90.72 | (6.2) % |
| Average Annual Compounded Change: | | | | | | | | | | |
| 2010 – 2019 | | | 1.6 % | 3.0 % | | | 0.5 % | | | 1.9 % |
| 2010 – 2023 | | | 2.2 | 2.8 | | | 2.5 | | | 3.1 |

| Hotels Included in Sample | Class | Competitive Status | Number of Rooms | Year Affiliated | Year Opened | Comments* |
|--|----------------------|--------------------|-----------------|-----------------|-------------|----------------------------|
| Holiday Inn Resort Lake George Adirondack Area | Upper Midscale Class | Primary | 129 | Aug 1990 | Jun 1966 | |
| Fort William Henry Hotel | Upper Upscale Class | Primary | 194 | Jun 1911 | Jun 1911 | |
| Courtyard by Marriott Lake George | Upscale Class | Primary | 119 | Aug 2016 | Aug 2016 | |
| Golden Arrow Lakeside Resort | Luxury Class | Primary | 166 | May 2020 | Jun 1958 | S/O Apr 2020; R/O May 2020 |
| High Peaks Resort | Luxury Class | Primary | 177 | Jun 2008 | Oct 1978 | S/O Dec 2020; R/O Aug 2022 |
| Grand Adirondack Hotel, Lake Placid, a Tribute Portfolio Hotel | Upper Upscale Class | Primary | 92 | Aug 2022 | Nov 1986 | |
| Hotel Saranac, Curio Collection by Hilton | Upper Upscale Class | Primary | 102 | Jan 2018 | Jul 1927 | |
| Saranac Waterfront Lodge, Trademark Collection by Wyndham | Upper Midscale Class | Primary | 93 | Mar 2023 | Nov 2020 | S/O Feb 2021; R/O May 2021 |

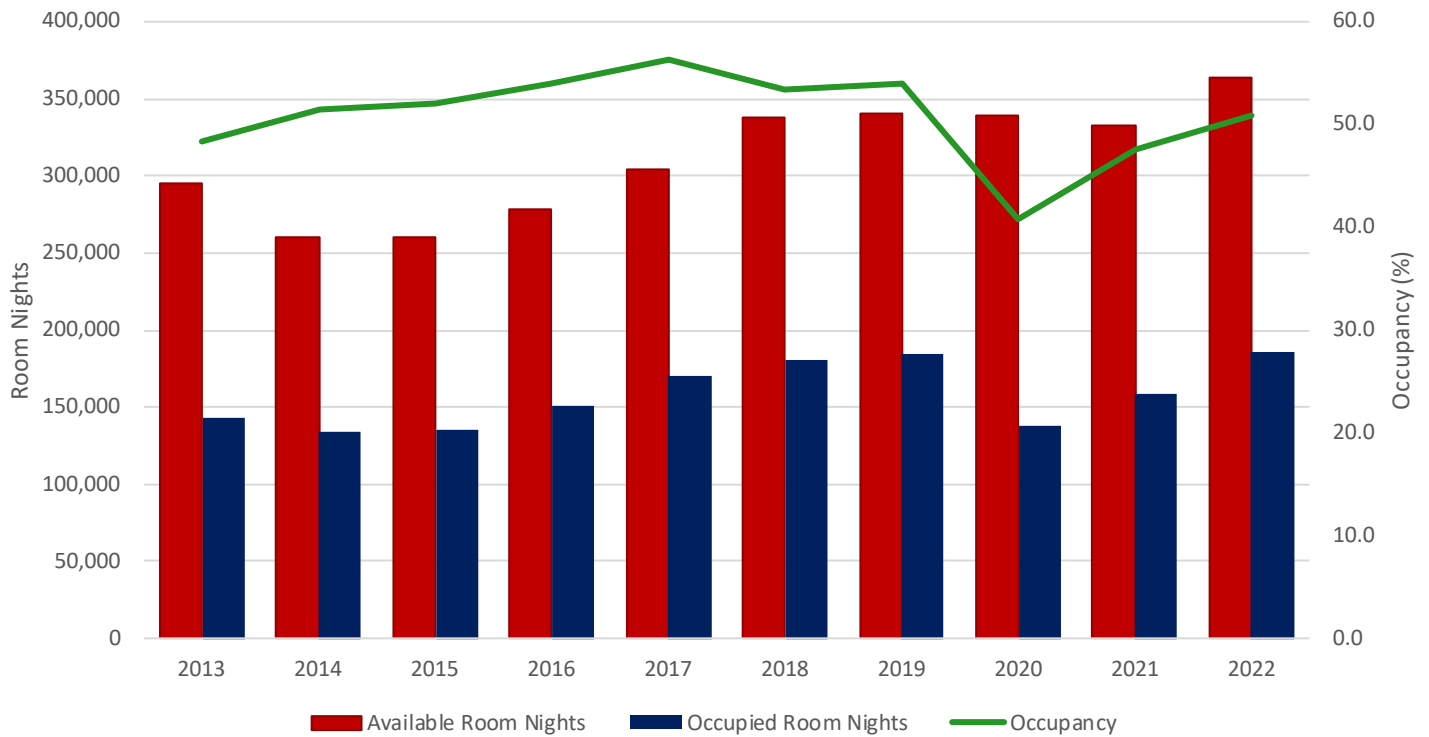
Total 1,072
**S/O= Suspended Operations, R/O= Resumed Operations*
***Friends Lake Inn & Lodge at Schroon Lake not included in STR Trend*

Source: STR

FIGURE 4-8 HISTORICAL SUPPLY AND DEMAND TRENDS (MONTHLY)

| Month | 2019 | | 2020 | | 2021 | | 2022 | | RevPAR | 2023 | | 2024 | |
|---------------------------|-----------|----------|-----------|----------|-----------|----------|-----------|----------|----------|-----------|----------|-----------|----------|
| | Occupancy | ADR | Occupancy | ADR | Occupancy | ADR | Occupancy | ADR | | Occupancy | ADR | Occupancy | ADR |
| January | 37.7 % | \$138.25 | 36.9 % | \$155.30 | 28.1 % | \$174.37 | 30.3 % | \$204.85 | \$61.99 | 45.7 % | \$240.49 | 32.8 % | \$187.73 |
| February | 48.7 | 173.33 | 54.8 | 172.21 | 48.6 | 198.32 | 61.0 | 229.43 | 139.91 | 52.8 | 258.01 | 50.1 | 244.32 |
| March | 39.9 | 132.27 | 18.1 | 123.19 | 34.0 | 159.54 | 37.5 | 159.07 | 59.61 | 41.1 | 174.71 | 43.9 | 164.24 |
| April | 36.8 | 117.01 | 3.1 | 91.72 | 32.7 | 145.85 | 38.1 | 150.80 | 57.41 | 31.5 | 150.01 | 37.3 | 190.05 |
| May | 44.9 | 147.59 | 11.2 | 119.50 | 40.2 | 176.96 | 42.7 | 174.46 | 74.50 | 44.9 | 179.15 | 49.1 | 177.12 |
| June | 63.8 | 186.94 | 30.0 | 155.48 | 55.6 | 231.30 | 57.3 | 244.52 | 140.21 | 57.9 | 238.62 | 61.0 | 220.12 |
| July | 78.8 | 262.31 | 72.5 | 249.90 | 73.7 | 332.44 | 75.1 | 335.99 | 252.17 | 71.0 | 332.63 | — | — |
| August | 91.5 | 261.04 | 86.4 | 281.73 | 81.3 | 330.22 | 79.6 | 321.38 | 255.88 | 75.5 | 324.61 | — | — |
| September | 64.6 | 187.01 | 63.8 | 213.22 | 59.5 | 250.00 | 55.9 | 253.95 | 142.00 | 65.6 | 248.23 | — | — |
| October | 58.6 | 160.91 | 60.1 | 180.76 | 54.7 | 218.02 | 57.1 | 212.91 | 121.51 | 59.0 | 214.59 | — | — |
| November | 41.8 | 121.84 | 23.8 | 146.71 | 25.7 | 165.36 | 32.8 | 167.60 | 54.91 | 37.5 | 166.04 | — | — |
| December | 39.7 | 160.78 | 23.7 | 202.39 | 33.1 | 215.96 | 41.5 | 205.36 | 85.21 | 39.7 | 212.81 | — | — |
| Annual Averages | 54.0 % | \$184.83 | 40.8 % | \$204.55 | 47.5 % | \$238.66 | 50.9 % | \$238.86 | \$121.69 | 51.9 % | \$241.43 | — | — |
| Year-to-Date | 45.2 % | \$153.32 | 26.0 % | \$153.28 | 39.7 % | \$187.16 | 44.2 % | \$199.23 | \$87.98 | 45.5 % | \$212.35 | 45.6 % | \$199.02 |
| Change from Prior Year | 2019 | | 2020 | | 2021 | | 2022 | | RevPAR | 2023 | | 2024 | |
| | Occupancy | ADR | Occupancy | ADR | Occupancy | ADR | Occupancy | ADR | | Occupancy | ADR | Occupancy | ADR |
| January | 1.4 pts | -3.9 % | -0.8 pts | 12.3 % | -8.8 pts | 12.3 % | 2.2 pts | 17.5 % | 26.6 % | 15.4 pts | 17.4 % | -12.9 pts | -21.9 % |
| February | -1.9 | 3.0 | 6.1 | -0.6 | -6.2 | 15.2 | 12.3 | 15.7 | 45.1 | -8.2 | 12.5 | -2.8 | -5.3 |
| March | -1.3 | -0.5 | -21.8 | -6.9 | 15.9 | 29.5 | 3.5 | -0.3 | 9.9 | 3.6 | 9.8 | 2.8 | -6.0 |
| April | 2.2 | 0.3 | -33.6 | -21.6 | 29.6 | 59.0 | 5.4 | 3.4 | 20.4 | -6.6 | -0.5 | 5.8 | 26.7 |
| May | -1.0 | 6.4 | -33.7 | -19.0 | 29.0 | 48.1 | 2.5 | -1.4 | 4.7 | 2.2 | 2.7 | 4.3 | -1.1 |
| June | -0.7 | -3.6 | -33.8 | -16.8 | 25.6 | 48.8 | 1.7 | 5.7 | 9.0 | 0.5 | -2.4 | 3.2 | -7.8 |
| July | 0.6 | -0.4 | -6.2 | -4.7 | 1.1 | 33.0 | 1.4 | 1.1 | 3.0 | -4.1 | -1.0 | — | — |
| August | 6.4 | 3.7 | -5.2 | 7.9 | -5.0 | 17.2 | -1.7 | -2.7 | -4.7 | -4.1 | 1.0 | — | — |
| September | -1.7 | -3.5 | -0.8 | 14.0 | -4.3 | 17.2 | -3.6 | 1.6 | -4.6 | 9.7 | -2.3 | — | — |
| October | -3.8 | 3.1 | 1.4 | 12.3 | -5.4 | 20.6 | 2.4 | -2.3 | 1.9 | 2.0 | 0.8 | — | — |
| November | 5.2 | 0.9 | -18.0 | 20.4 | 1.9 | 12.7 | 7.1 | 1.4 | 29.3 | 4.8 | -0.9 | — | — |
| December | 3.3 | -2.0 | -16.0 | 25.9 | 9.3 | 6.7 | 8.4 | -4.9 | 19.3 | -1.8 | 3.6 | — | — |
| Annual Change | 0.6 pts | 0.4 % | -13.2 pts | 10.7 % | 6.8 pts | 16.7 % | 3.4 pts | 0.1 % | 7.3 % | 0.9 pts | 1.1 % | — | — |
| Year-to-Date | -0.4 | -0.5 % | -19.2 | 0.0 % | 13.7 | 22.1 | 4.4 | 6.4 | 18.4 | 1.4 | 6.6 | 0.1 pts | -6.3 % |

Source: STR

FIGURE 4-9 HISTORICAL SUPPLY AND DEMAND TRENDS (STR)

It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample; furthermore, not every property reports data in a consistent and timely manner. These factors can influence the overall quality of the information by skewing the results, and these inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand; thus, these trends have been considered in our analysis. Opening dates, as available, are presented for each reporting hotel on the previous table.

The STR data for the competitive set reflect a market-wide occupancy level of 2023 in 51.9%, which compares to 50.9% for 2022. The STR data for the competitive set reflect a market-wide ADR level of \$241.43 in 2023, which compares to \$238.86 for 2022. These occupancy and ADR trends resulted in a RevPAR level of \$125.26 in 2023.

During the illustrated historical period, both occupancy and ADR strengthened through 2012 as the market continued to rebound from the effects of the Global

Financial Crisis, before both declining in 2013. Occupancy improved in 2014 as overall market supply decreased given the decline in room count at the High Peaks Resort and the temporary closure of the Hotel Saranac in order to complete comprehensive renovations; ADR, however, further declined. Despite consecutive increases in new supply in 2016, 2017, and 2018, occupancy and ADR followed a strengthening trend through 2019, largely owing to this region's popularity as a leisure travel destination. In 2020, the COVID-19 pandemic affected the local market, similar to the rest of the nation, resulting in stay-at-home orders, group cancellations, and decreased business travel; as such, occupancy declined significantly. However, given this market's popularity as a drive-to leisure destination and the gradual lifting of COVID-19 restrictions by June 2020, ADR improved significantly in 2020, reaching a historical peak for the competitive submarket. This strengthening trend continued through 2021 and 2022; however, ADR growth normalized in 2022 given the significant gains achieved in the prior two years. Year-end 2023 data illustrate continued modest growth in occupancy ADR; conversely, the year-to-date 2024 data illustrate occupancy remaining stable, while ADR has declined by over \$12. This trend can be attributed to a normalization in the level of domestic leisure demand.

The following table illustrates the monthly occupancy, ADR, and RevPAR for the competitive set measured as a percentage of 2019 levels.

FIGURE 4-10 OCCUPANCY, ADR, AND REVPAR AS A PERCENTAGE OF 2019 LEVELS

| | 2021 | | | 2022 | | | 2023 | | | 2024 | | |
|-----------------|-----------|---------|---------|-----------|---------|---------|-----------|---------|---------|-----------|---------|---------|
| | Occupancy | ADR | RevPAR | Occupancy | ADR | RevPAR | Occupancy | ADR | RevPAR | Occupancy | ADR | RevPAR |
| January | 74.4 % | 126.1 % | 93.8 % | 80.2 % | 148.2 % | 118.8 % | 121.1 % | 173.9 % | 210.7 % | 87.0 % | 135.8 % | 118.1 % |
| February | 99.9 | 114.4 | 114.3 | 125.3 | 132.4 | 165.8 | 108.5 | 148.9 | 161.5 | 102.8 | 141.0 | 144.9 |
| March | 85.3 | 120.6 | 102.9 | 94.0 | 120.3 | 113.1 | 103.1 | 132.1 | 136.2 | 110.0 | 124.2 | 136.6 |
| April | 88.9 | 124.6 | 110.8 | 103.6 | 128.9 | 133.5 | 85.6 | 128.2 | 109.8 | 101.4 | 162.4 | 164.7 |
| May | 89.5 | 119.9 | 107.3 | 95.0 | 118.2 | 112.3 | 99.9 | 121.4 | 121.3 | 109.4 | 120.0 | 131.3 |
| June | 87.2 | 123.7 | 107.9 | 89.9 | 130.8 | 117.5 | 90.7 | 127.6 | 115.7 | 95.6 | 117.7 | 112.6 |
| July | 93.5 | 126.7 | 118.5 | 95.3 | 128.1 | 122.0 | 90.1 | 126.8 | 114.3 | — | — | — |
| August | 88.9 | 126.5 | 112.4 | 87.0 | 123.1 | 107.1 | 82.5 | 124.4 | 102.6 | — | — | — |
| September | 92.1 | 133.7 | 123.1 | 86.5 | 135.8 | 117.5 | 101.5 | 132.7 | 134.7 | — | — | — |
| October | 93.3 | 135.5 | 126.4 | 97.3 | 132.3 | 128.8 | 100.7 | 133.4 | 134.3 | — | — | — |
| November | 61.5 | 135.7 | 83.5 | 78.5 | 137.6 | 107.9 | 89.9 | 136.3 | 122.5 | — | — | — |
| December | 83.3 | 134.3 | 111.9 | 104.5 | 127.7 | 133.5 | 99.9 | 132.4 | 132.2 | — | — | — |
| Annual Averages | 88.1 % | 129.1 % | 113.7 % | 94.4 % | 129.2 % | 122.0 % | 96.1 % | 130.6 % | 125.6 % | — | — | — |
| Year-to-Date | 87.9 | 122.1 | 107.3 | 97.7 | 129.9 | 127.0 | 100.8 | 138.5 | 139.6 | 100.9 % | 129.8 % | 131.0 % |

Source: STR

Seasonality

The market's seasonal trends are presented in the following table.

FIGURE 4-11 SEASONALITY

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| High Season - June, July, August, September, October | | | | | | | | | | | | | |
| Occupancy | 66.2 % | 63.0 % | 69.3 % | 71.2 % | 71.3 % | 74.7 % | 71.4 % | 71.6 % | 62.8 % | 65.1 % | 65.1 % | 65.9 % | — % |
| Average Rate | \$205.62 | \$197.93 | \$188.36 | \$197.13 | \$202.89 | \$212.93 | \$216.54 | \$218.64 | \$229.20 | \$280.75 | \$280.58 | \$276.65 | — |
| RevPAR | 136.18 | 124.67 | 130.53 | 140.36 | 144.58 | 159.00 | 154.63 | 156.49 | 143.85 | 182.77 | 182.74 | 182.18 | — |
| Shoulder Season - February, May | | | | | | | | | | | | | |
| Occupancy | 42.8 % | 44.0 % | 46.3 % | 46.6 % | 48.5 % | 50.2 % | 48.1 % | 46.7 % | 31.9 % | 44.0 % | 51.4 % | 48.7 % | 49.6 % |
| Average Rate | \$155.32 | \$150.55 | \$143.60 | \$147.64 | \$148.82 | \$148.01 | \$153.52 | \$160.32 | \$162.47 | \$187.62 | \$205.43 | \$219.78 | \$209.32 |
| RevPAR | 66.42 | 66.17 | 66.52 | 68.81 | 72.16 | 74.36 | 73.87 | 74.89 | 51.82 | 82.57 | 105.54 | 106.94 | 103.78 |
| Low Season - January, March, April, November, December | | | | | | | | | | | | | |
| Occupancy | 34.1 % | 34.4 % | 35.9 % | 35.2 % | 38.3 % | 40.1 % | 37.0 % | 39.2 % | 21.9 % | 30.6 % | 36.1 % | 39.2 % | — % |
| Average Rate | \$138.96 | \$133.85 | \$126.83 | \$130.96 | \$132.96 | \$132.38 | \$135.81 | \$134.31 | \$156.84 | \$173.58 | \$178.13 | \$192.57 | — |
| RevPAR | 47.36 | 46.07 | 45.49 | 46.16 | 50.91 | 53.12 | 50.32 | 52.60 | 34.36 | 53.13 | 64.28 | 75.39 | — |

Source: STR

The illustrated occupancy and ADR patterns reflect important seasonal characteristics. We have reviewed these trends in developing our forthcoming forecast of market-wide demand and average rate. The competitive market has historically been characterized by a significant degree of seasonality. COVID-19 prompted some abnormalities to this regular trend in 2020 and early 2021; however, the regular seasonality patterns returned to the market soon thereafter. The strongest occupancy levels are often recorded in the summer months when leisure-related is highest and is supplemented by increased commercial and group travel. ADR levels have historically reflected a similar pattern.

Patterns of Demand

A review of the trends in occupancy and ADR by day of the week provides some insight into the impact that the current economic conditions have had on the competitive lodging market. The data, as provided by STR, are illustrated in the following tables.

FIGURE 4-12 OCCUPANCY BY DAY OF WEEK (TRAILING 12 MONTHS)

| Month | Sunday | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday | Total Month |
|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Jul - 23 | 67.8 % | 67.1 % | 65.5 % | 61.2 % | 71.9 % | 80.9 % | 81.6 % | 71.0 % |
| Aug - 23 | 70.8 | 76.8 | 79.7 | 68.3 | 71.8 | 80.5 | 82.5 | 75.5 |
| Sep - 23 | 54.0 | 50.1 | 52.9 | 59.8 | 66.8 | 79.3 | 87.5 | 65.6 |
| Oct - 23 | 45.6 | 42.3 | 51.5 | 56.1 | 56.4 | 81.6 | 89.1 | 59.0 |
| Nov - 23 | 16.3 | 26.7 | 25.4 | 27.4 | 42.1 | 61.9 | 64.3 | 37.5 |
| Dec - 23 | 37.1 | 22.8 | 23.9 | 30.0 | 40.7 | 53.5 | 61.4 | 39.7 |
| Jan - 24 | 34.7 | 16.8 | 20.7 | 20.5 | 28.9 | 53.0 | 65.3 | 32.8 |
| Feb - 24 | 41.8 | 33.4 | 31.0 | 34.2 | 48.6 | 75.8 | 86.0 | 50.1 |
| Mar - 24 | 30.8 | 33.2 | 29.3 | 28.1 | 41.6 | 65.8 | 69.4 | 43.9 |
| Apr - 24 | 37.1 | 34.3 | 28.1 | 35.6 | 30.6 | 45.1 | 53.1 | 37.3 |
| May - 24 | 42.1 | 33.5 | 44.5 | 45.3 | 46.6 | 62.3 | 68.2 | 49.1 |
| Jun - 24 | 46.6 | 50.4 | 56.6 | 64.3 | 59.8 | 71.7 | 77.4 | 61.0 |
| Average | 43.9 % | 40.6 % | 42.6 % | 44.0 % | 50.6 % | 67.4 % | 73.9 % | 51.9 % |

Source: STR

FIGURE 4-13 ADR BY DAY OF WEEK (TRAILING 12 MONTHS)

| Month | Sunday | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday | Total Month |
|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Jul - 23 | \$330.29 | \$321.85 | \$302.06 | \$299.30 | \$313.92 | \$366.87 | \$369.09 | \$332.63 |
| Aug - 23 | 311.27 | 305.90 | 311.50 | 306.73 | 304.27 | 368.72 | 366.88 | 324.61 |
| Sep - 23 | 237.08 | 181.71 | 197.10 | 194.94 | 224.90 | 302.56 | 303.10 | 248.23 |
| Oct - 23 | 213.55 | 182.90 | 179.65 | 182.21 | 191.50 | 252.29 | 259.76 | 214.59 |
| Nov - 23 | 145.54 | 131.42 | 144.08 | 150.78 | 160.16 | 184.98 | 189.00 | 166.04 |
| Dec - 23 | 209.87 | 155.67 | 194.62 | 210.43 | 216.19 | 225.66 | 225.15 | 212.81 |
| Jan - 24 | 180.70 | 147.86 | 143.09 | 144.59 | 164.09 | 213.60 | 228.37 | 187.73 |
| Feb - 24 | 226.39 | 212.01 | 187.77 | 177.62 | 199.49 | 287.32 | 306.15 | 244.32 |
| Mar - 24 | 138.19 | 138.21 | 141.93 | 145.36 | 157.22 | 180.57 | 187.31 | 164.24 |
| Apr - 24 | 285.08 | 223.90 | 141.15 | 135.41 | 148.45 | 174.66 | 202.52 | 190.05 |
| May - 24 | 179.42 | 145.47 | 143.02 | 149.25 | 169.72 | 208.17 | 207.45 | 177.12 |
| Jun - 24 | 198.27 | 186.30 | 182.74 | 186.07 | 200.11 | 269.24 | 271.34 | 220.12 |
| Average | \$237.00 | \$217.91 | \$210.26 | \$204.83 | \$216.94 | \$259.81 | \$267.49 | \$235.61 |

Source: STR

FIGURE 4-14 OCCUPANCY AND ADR BY DAY OF WEEK (TRAILING 12 MONTHS)

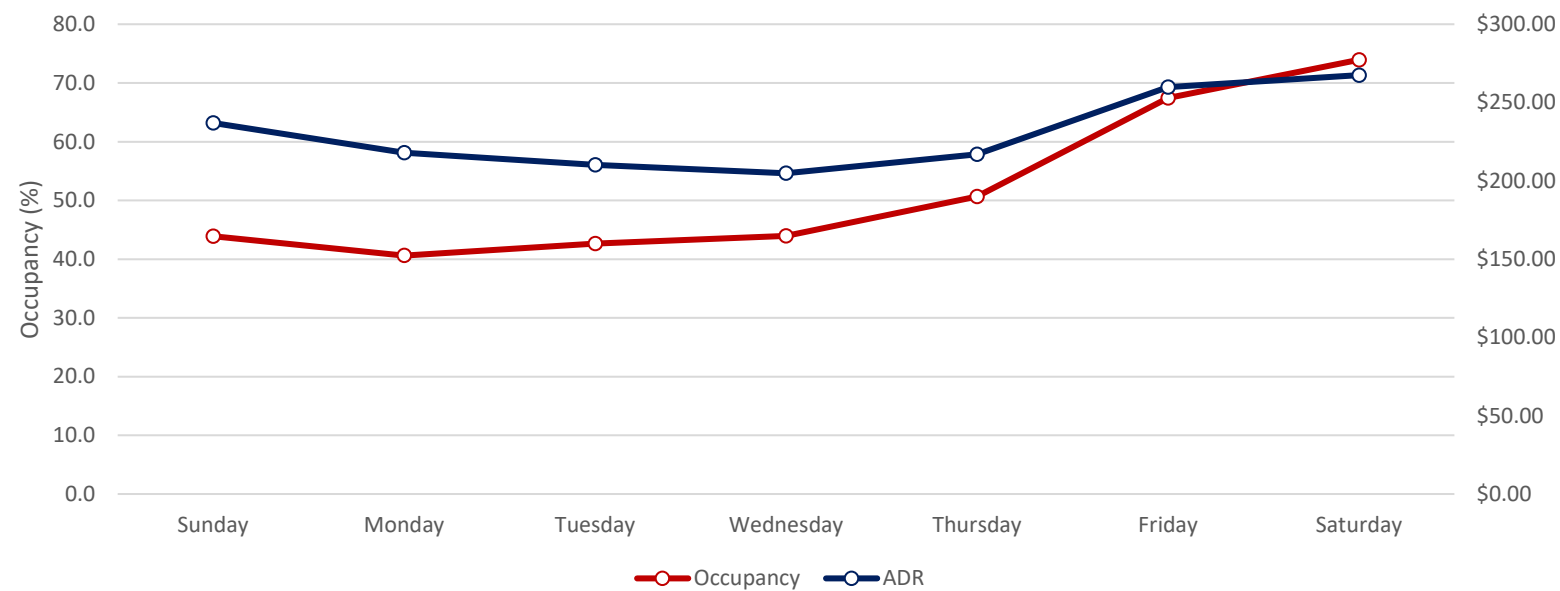


FIGURE 4-15 OCCUPANCY, ADR, AND REVPAR BY DAY OF WEEK (MULTIPLE YEARS)

| Occupancy (%) | Sunday | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday | Total Year |
|---|---------------|---------------|----------------|------------------|-----------------|---------------|-----------------|-------------------|
| Jul 21 - Jun 22 | 40.6 % | 37.6 % | 39.7 % | 41.2 % | 47.5 % | 66.7 % | 73.4 % | 49.5 % |
| Jul 22 - Jun 23 | 41.7 | 39.2 | 42.8 | 42.6 | 49.3 | 68.0 | 74.5 | 51.2 |
| Jul 23 - Jun 24 | 43.9 | 40.6 | 42.6 | 44.0 | 50.6 | 67.4 | 73.9 | 51.9 |
| <u>Change (Occupancy Points)</u> | | | | | | | | |
| FY 21 - FY 22 | 1.2 | 1.6 | 3.1 | 1.4 | 1.8 | 1.3 | 1.1 | 1.7 |
| FY 22 - FY 23 | 2.2 | 1.4 | (0.2) | 1.4 | 1.3 | (0.6) | (0.6) | 0.7 |
| ADR (\$) | Sunday | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday | Total Year |
| Jul 21 - Jun 22 | \$239.80 | \$222.81 | \$218.08 | \$219.40 | \$225.14 | \$262.73 | \$264.39 | \$240.62 |
| Jul 22 - Jun 23 | 238.18 | 223.07 | 216.93 | 215.77 | 225.66 | 267.13 | 270.96 | 241.99 |
| Jul 23 - Jun 24 | 237.00 | 217.91 | 210.26 | 204.83 | 216.94 | 259.81 | 267.49 | 235.61 |
| <u>Change (Dollars)</u> | | | | | | | | |
| FY 21 - FY 22 | (\$1.63) | \$0.26 | (\$1.15) | (\$3.62) | \$0.52 | \$4.40 | \$6.57 | \$1.37 |
| FY 22 - FY 23 | (1.18) | (5.17) | (6.68) | (10.95) | (8.72) | (7.32) | (3.47) | (6.38) |
| <u>Change (Percent)</u> | | | | | | | | |
| FY 21 - FY 22 | (0.7) % | 0.1 % | (0.5) % | (1.7) % | 0.2 % | 1.7 % | 2.5 % | 0.6 % |
| FY 22 - FY 23 | (0.5) | (2.3) | (3.1) | (5.1) | (3.9) | (2.7) | (1.3) | (2.6) |
| RevPAR (\$) | Sunday | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday | Total Year |
| Jul 21 - Jun 22 | \$97.29 | \$83.69 | \$86.64 | \$90.36 | \$107.02 | \$175.25 | \$194.14 | \$119.17 |
| Jul 22 - Jun 23 | 99.40 | 87.39 | 92.94 | 91.86 | 111.30 | 181.64 | 201.87 | 123.90 |
| Jul 23 - Jun 24 | 104.02 | 88.48 | 89.65 | 90.04 | 109.84 | 175.16 | 197.79 | 122.30 |
| <u>Change (Dollars)</u> | | | | | | | | |
| FY 21 - FY 22 | \$2.11 | \$3.70 | \$6.30 | \$1.50 | \$4.28 | \$6.39 | \$7.72 | \$4.74 |
| FY 22 - FY 23 | 4.62 | 1.09 | (3.29) | (1.82) | (1.46) | (6.48) | (4.08) | (1.60) |
| <u>Change (Percent)</u> | | | | | | | | |
| FY 21 - FY 22 | 2.2 % | 4.4 % | 7.3 % | 1.7 % | 4.0 % | 3.6 % | 4.0 % | 4.0 % |
| FY 22 - FY 23 | 4.6 | 1.2 | (3.5) | (2.0) | (1.3) | (3.6) | (2.0) | (1.3) |

Source: STR

In most markets, business travel, including individual commercial travelers and corporate groups, is the predominant source of demand on Monday through Thursday nights. Leisure travelers and non-business-related groups generate a majority of demand on Friday and Saturday nights.

SUPPLY

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified two properties that are expected to be primarily competitive with the Proposed Balsam House Resort.

Primary Competition

The following table summarizes the important operating characteristics of the future primary competitors of the Proposed Balsam House Resort. This information was compiled from personal interviews, inspections, online resources, and our in-house database of operating and hotel facility data. In cases where exact operating data for an individual property (or properties) were not available, we have used these resources, as well as the STR data, to estimate positioning within the market.

FIGURE 4-16 PRIMARY COMPETITORS – OPERATING PERFORMANCE

| Property | Est. Segmentation | | | Estimated 2022 | | | | Estimated 2023 | | | | | |
|------------------------------|-------------------|-------------|-------------|---------------------------------|---------------|-----------------|-----------------|----------------------------|---------------|-----------------|---------------|-----------------------|-------------------|
| | Number of Rooms | Transient | Group | Weighted Annual Room Count | Occ. | Average Rate | RevPAR | Weighted Annual Room Count | Occ. | Average Rate | RevPAR | Occupancy Penetration | Yield Penetration |
| Friends Lake Inn Chestertown | 18 | 95 % | 5 % | 18 | 40 - 45 % | \$300 - \$325 | \$130 - \$140 | 18 | 40 - 45 % | \$300 - \$325 | \$140 - \$150 | 80 - 85 % | 110 - 120 % |
| Lodge at Schroon Lake | 116 | 85 | 15 | Closed 2022; Reopen August 2023 | | | | 58 | 40 - 45 | 170 - 180 | 70 - 75 | 80 - 85 | 55 - 60 |
| Sub-Totals/Averages | 134 | 87 % | 13 % | 18 | 41.0 % | \$320.00 | \$131.20 | 76 | 42.5 % | \$210.36 | \$89 | 83 % | 72.8 % |
| Secondary Competitors | 1,072 | 78 % | 22 % | 791 | 50.9 % | \$238.83 | \$121.65 | 858 | 52.1 % | \$241.39 | \$126 | 102 % | 102.4 % |
| Totals/Averages | 1,206 | 78 % | 22 % | 809 | 50.7 % | \$240.29 | \$121.86 | 934 | 51.3 % | \$239.29 | \$123 | 100 % | 100.0 % |

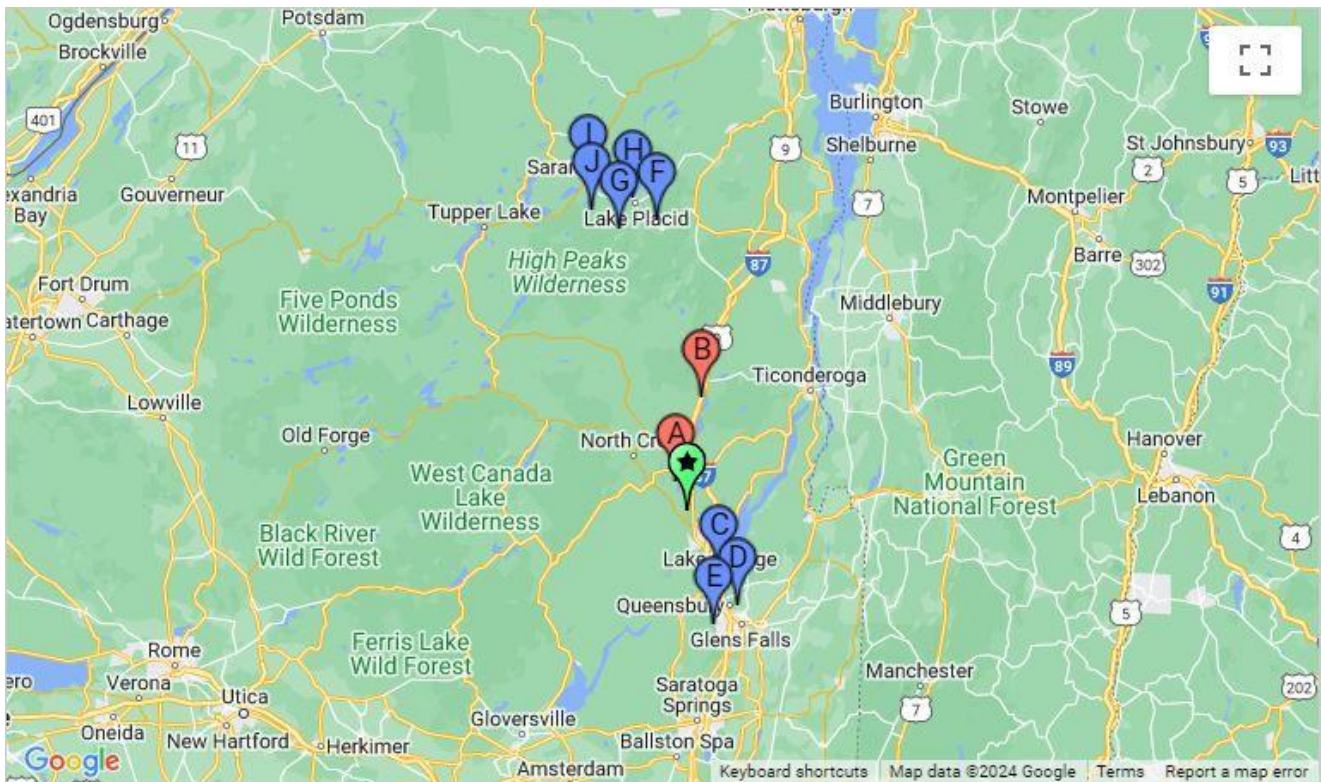
* Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.

FIGURE 4-17 PRIMARY COMPETITORS – FACILITY PROFILES

| Property | Number of Rooms | Year Opened | Last Major Renovation(s) | Approx. Miles To Subject Property | Food and Beverage Outlets | Indoor Meeting Space (SF) | Meeting Space per Room | Facilities & Amenities |
|---|-----------------|-------------|--------------------------|-----------------------------------|---|---------------------------|------------------------|---|
| Friends Lake Inn Chestertown 963 Friends Lake Road | 18 | 1983 | — | 2.1 | Friends Lake Inn Restaurant, Birch Bistro | 200 | 11.1 | Lake Services; Hiking Trails; Outdoor Patio & Fire Pit |
| Lodge at Schroon Lake 210 Registration Way | 160 | 1917 | | 15.8 | The Brown Swan; The Tavern; The Bevy | 9,628 | 60.2 | Guest Laundry Area; Beach Services; Indoor Swimming Pool; Marina; Fitness Center; Game Room; Sauna; Sport Court; Outdoor Patio & Fire Pit |

The following map illustrates the locations of the proposed subject property and its future competitors.

MAP OF COMPETITION



- | | | | |
|---|---|---|--|
|  | Proposed Hotel Chestertown |  | Golden Arrow Lakeside Resort (Secondary) |
|  | Friends Lake Inn Chestertown (Primary) |  | Grand Adirondack Hotel Lake Placid a Tribute Portfolio (Secondary) |
|  | Lodge at Schroon Lake (Primary) |  | High Peaks Resort (Secondary) |
|  | Courtyard by Marriott Lake George (Secondary) |  | Hotel Saranac, Curio Collection by Hilton (Secondary) |
|  | Holiday Inn Resort Lake George - Water View (Secondary) |  | Saranac Waterfront Lodge (Secondary) |
|  | Fort William Henry Hotel and Conference (Secondary) | | |

Our survey of the primarily competitive hotels in the local market shows a range of lodging types and facilities. Each primary competitor was inspected and evaluated. Descriptions of our findings are presented below.

PRIMARY COMPETITOR #1 - FRIENDS LAKE INN CHESTERTOWN



**Friends Lake Inn
Chestertown
963 Friends Lake Road
Chestertown, NY**

FIGURE 4-18 ESTIMATED HISTORICAL OPERATING STATISTICS

| Year | Wtd. Annual Room Count | Occupancy | Average Rate | RevPAR | Occupancy Penetration | Yield Penetration |
|-----------|---------------------------|-----------|---------------|---------------|--------------------------|----------------------|
| Est. 2019 | 18 | 55 - 60 % | \$250 - \$260 | \$140 - \$150 | 100 - 110 % | 150 - 160 % |
| Est. 2020 | 18 | 45 - 50 | 250 - 260 | 125 - 130 | 120 - 130 | 150 - 160 |
| Est. 2021 | 18 | 55 - 60 | 300 - 325 | 180 - 190 | 130 - 140 | 160 - 170 |
| Est. 2022 | 18 | 40 - 45 | 300 - 325 | 130 - 140 | 75 - 80 | 100 - 110 |
| Est. 2023 | 18 | 40 - 45 | 300 - 325 | 140 - 150 | 80 - 85 | 110 - 120 |

This hotel is disadvantaged by the lack of lakefront access; however, this hotel benefits from its offering of an onsite restaurant. Overall, the property appeared to be in good condition. Its location is similar to that of the Proposed Balsam House Resort.

PRIMARY COMPETITOR #2 - LODGE AT SCHROON LAKE



Lodge at Schroon Lake
210 Registration Way
Schroon Lake, NY

FIGURE 4-19 ESTIMATED HISTORICAL OPERATING STATISTICS

| Year | Wtd. Annual Room Count | Occupancy | Average Rate | RevPAR | Occupancy Penetration | Yield Penetration |
|-----------|---------------------------|---|---------------|-------------|--------------------------|----------------------|
| Est. 2019 | 160 | 45 - 50 % | \$150 - \$160 | \$65 - \$70 | 85 - 90 % | 70 - 75 % |
| Est. 2020 | 160 | 35 - 40 | 170 - 180 | 60 - 65 | 90 - 95 | 75 - 80 |
| Est. 2021 | 160 | <i>Closed 2021 & 2022; Reopened August 2023</i> | | | | |
| Est. 2022 | 160 | | | | | |
| Est. 2023 | 116 | 40 - 45 | \$170 - \$180 | \$70 - \$75 | 80 - 85 | 55 - 60 |

This hotel closed at the onset of the COVID-19 pandemic and remained closed in 2021 and 2022 in order to perform a \$21-million renovation of the property's guestrooms and public areas, as well as the construction of an event center. This hotel also has the advantage of lakefront access. Overall, the property appeared to be in good condition. Its location is similar to that of the Proposed Balsam House Resort.

**Secondary
Competitors**

We have also reviewed other area lodging facilities to determine whether any may compete with the proposed subject hotel on a secondary basis. The room count of each anticipated secondary competitor has been weighted based on its assumed degree of competitiveness in the future with the proposed subject hotel. By assigning degrees of competitiveness, we can assess how the proposed subject hotel and its future competitors may react to various changes in the market, including new supply, changes to demand generators, and renovations or franchise changes of existing supply. The following table sets forth the pertinent operating characteristics of the secondary competitors.

FIGURE 4-20 SECONDARY COMPETITORS – OPERATING PERFORMANCE

| Property | Est. Segmentation | | | Total Competitive Level | Estimated 2022 | | | | Estimated 2023 | | | |
|--|--------------------|-------------|-------------|-------------------------------|-------------------------------------|---------------|-----------------|-----------------|-------------------------------------|---------------|-----------------|-----------------|
| | Number of Rooms | Transient | Group | | Weighted Annual Room Count | Occ. | Average Rate | RevPAR | Weighted Annual Room Count | Occ. | Average Rate | RevPAR |
| Courtyard by Marriott Lake George | 119 | 85 % | 15 % | 80 % | 95 | 65 - 70 % | \$230 - \$240 | \$150 - \$160 | 95 | 65 - 70 % | \$240 - \$250 | \$160 - \$170 |
| Holiday Inn Resort Lake George - Water View | 129 | 75 | 25 | 80 | 103 | 50 - 55 | 230 - 240 | 115 - 120 | 103 | 50 - 55 | 230 - 240 | 120 - 125 |
| Fort William Henry Hotel and Conference | 194 | 70 | 30 | 80 | 155 | 40 - 45 | 240 - 250 | 100 - 105 | 155 | 40 - 45 | 250 - 260 | 110 - 115 |
| Golden Arrow Lakeside Resort | 166 | 75 | 25 | 80 | 133 | 50 - 55 | 220 - 230 | 120 - 125 | 133 | 50 - 55 | 230 - 240 | 125 - 130 |
| Grand Adirondack Hotel Lake Placid a Tribute Portfolio | 92 | 85 | 15 | 80 | 25 | 45 - 50 | 170 - 180 | 80 - 85 | 74 | 45 - 50 | 170 - 180 | 85 - 90 |
| High Peaks Resort | 177 | 75 | 25 | 80 | 124 | 60 - 65 | 240 - 250 | 150 - 160 | 142 | 60 - 65 | 240 - 250 | 150 - 160 |
| Hotel Saranac, Curio Collection by Hilton | 102 | 80 | 20 | 80 | 82 | 35 - 40 | 210 - 220 | 80 - 85 | 82 | 35 - 40 | 210 - 220 | 85 - 90 |
| Saranac Waterfront Lodge | 93 | 90 | 10 | 80 | 74 | 35 - 40 | 300 - 325 | 115 - 120 | 74 | 35 - 40 | 325 - 350 | 125 - 130 |
| Totals/Averages | 1,072 | 78 % | 22 % | 80 % | 791 | 50.9 % | \$238.83 | \$121.65 | 858 | 52.1 % | \$241.39 | \$125.72 |

* Specific occupancy and average rate data was utilized in our analysis, but is presented in ranges in the above table for the purposes of confidentiality.

We have identified eight hotels that are expected to compete with the proposed subject hotel on a secondary basis. These properties are dispersed throughout the resort towns of Lake George, Lake Placid, and Saranac. These properties will be similar to the subject hotel in terms of product offering and location, however, each of these properties services a somewhat different market as they feature their own demand generators, and a variety of these properties feature brand affiliations, as well.

Supply Changes

It is important to consider any new hotels that may have an impact on the proposed subject hotel's operating performance. However, according to the local planning office and our research, no new hotels are expected within the subject property's competitive submarket at this time.

In response to the travel restrictions and the decline in demand associated with the COVID-19 pandemic, numerous hotels in markets across the nation temporarily suspended operations. During these suspensions, hotels were typically closed to the public, with the majority of staff furloughed; however, key management and maintenance staff were retained to preserve the property and prepare for reopening. Four hotels in the competitive subject market suspended operations because of the COVID-19 pandemic; however, all have since reopened. Our analysis considers the full supply of competitive rooms, including any hotels that may have temporarily suspended operations. It is important to note that we have adjusted STR data to reflect the total available rooms in the market and true occupancy, regardless of suspended operations at competitive hotels.

While we have taken reasonable steps to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future or what its marketing strategy and effect on the market will be. Depending on the outcome of current and future projects, the operating potential of the proposed subject hotel may be affected. Future improvement in market conditions will raise the risk of increased competition. Our forthcoming forecast of stabilized occupancy and ADR is intended to reflect such risk.

Supply Conclusion

We have identified various properties that are expected to be competitive to some degree with the proposed subject hotel. We have also investigated potential increases in competitive supply in this Chestertown submarket. The Proposed Balsam House Resort should enter a dynamic market of varying product types and price points. Next, we will present our forecast for demand change, using the historical supply data presented as a starting point.

DEMAND

The following table presents the most recent trends for the subject hotel market as tracked by HVS. These data pertain to the competitors discussed previously in this section; performance results are estimated, rounded for the competition, and weighted if there are secondary competitors present. In this respect, the information in the table differs from the previously presented STR data and is consistent with the supply-and-demand analysis developed for this report.

FIGURE 4-21 HISTORICAL MARKET TRENDS

| Year | Accommodated Room Nights | % Change | Room Nights Available | % Change | Market Occupancy | Market ADR | % Change | Market RevPAR | % Change |
|----------------------------|-----------------------------|----------|--------------------------|----------|---------------------|------------|----------|------------------|----------|
| Est. 2019 | 192,808 | — | 365,146 | — | 52.8 % | \$181.44 | — | \$95.80 | — |
| Est. 2020 | 135,134 | (29.9) % | 335,165 | (8.2) % | 40.3 | 199.95 | 10.2 % | 80.62 | (15.9) % |
| Est. 2021 | 130,717 | (3.3) | 292,460 | (12.7) | 44.7 | 240.53 | 20.3 | 107.51 | 33.4 |
| Est. 2022 | 149,754 | 14.6 | 295,285 | 1.0 | 50.7 | 240.29 | (0.1) | 121.86 | 13.4 |
| Est. 2023 | 174,885 | 16.8 | 340,938 | 15.5 | 51.3 | 239.29 | (0.4) | 122.74 | 0.7 |
| Avg. Annual Compounded | | | | | | | | | |
| Chg., Est. 2019-Est. 2023: | | (1.9) % | | | (1.4) % | | | 5.7 % | 5.1 % |

Although not shown in the preceding table, as a point of comparison, the year-to-date 2024 STR trend data indicates a market occupancy level of 45.6% versus 45.5% for the same period of time in 2023. Moreover, ADR registered 45.6% for the year-to-date 2024 period, reflecting a change of (6.3)% when compared with the ADR for the same period of time in 2023.

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2023 distribution of accommodated-room-night demand as follows.

FIGURE 4-22 BASE-YEAR ACCOMMODATED-ROOM-NIGHT DEMAND

| Market Segment | 2023 Marketwide | |
|----------------|------------------------|------------------------|
| | Accommodated Demand | Percentage of Total |
| Transient | 137,255 | 78 % |
| Group | 37,629 | 22 |
| Total | 174,885 | 100 % |

In the base year, the market's demand mix comprised transient demand, with this segment representing roughly 78% of the accommodated room nights in this Chestertown submarket, while the group segment comprised 22% of the total.

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment in an effort to determine future trends in room-night demand.

Transient Segment

Transient demand consists of individuals and families spending time in an area or passing through en route to other destinations; this segment represents travelers that are not associated with a group or room-night contract. Travel purposes include business, sightseeing, recreation, or visiting friends and relatives. Transient demand also includes room nights booked through Internet sites such as Expedia, Hotels.com, and Priceline; however, this demand may include group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. In resort destinations, transient demand is strongest Friday and Saturday nights, and all week during holiday periods and the summer months. In urban and suburban destinations, transient demand is typically strongest on Tuesday, Wednesday, and Thursday nights. The typical length of stay ranges from one to four days, depending on the destination and travel purpose. The rate of double occupancy typically ranges from 1.0 to 3.0 people per room, with higher double occupancy occurring in resort destinations. Price sensitivity tends to vary with product type. All-suite properties with inclusive food and beverage or luxury destination properties tend to drive strong transient room rates, with discounted rates offered at older or value-oriented hotels with limited amenities. For destination locations, future transient demand is related to the overall economic health of the primary source cities for visitation; the overall economic health of the surrounding neighborhood is considered for urban and suburban locations.

Transient demand comprises both commercial and leisure travelers to the submarket. In respects to this specific competitive submarket, transient demand is mostly comprised of leisure travelers; however, there is some commercial demand generated by healthcare and manufacturing companies, such as AngioDynamics, BD Becton Dickinson, and Medline Industries. The Glens Falls Hospital also generates commercial demand in this submarket. Commercially driven demand declined notably in 2020 and early 2021 given the COVID-19 pandemic; however, as employees began to return to offices, and as business travel resumed, demand increased in 2022, and this upward trend was more prevalent in 2023. Commercial demand is forecast to continue to increase through the stabilized year. Leisure demand for this highway-adjacent market is typically generated by leisure travelers seeking to enjoy Lake George, Lake Placid, or the plethora of outdoor activities available in the Adirondack Mountain Region, in addition to motorists on Interstate 87 seeking a convenient stopover en route to other destinations. Leisure demand

remained strong throughout this market in 2020 and 2021 as many travelers sought drive-to vacation destinations. Demand within from leisure travelers has surpassed pre-pandemic levels and is expected to moderate downwards as commercial and group demand continue to recover.

Group Segment

In the limited-service sector, group demand is most commonly generated by groups that require ten or more room nights, but which need little to no meeting space within the hotel. Examples of these groups include family reunions, sports teams, and bus tours. In some markets, limited-service hotels may also accommodate demand from groups or individuals attending events at the local convention center or at one of the larger convention hotels in the area.

Social groups and sports groups represent the primary sources of group demand in this market. The scenic landscape of the Adirondack Region lends itself to being a primary wedding destination; as such, wedding room blocks comprise a large source of demand. Furthermore, many hotels in the region benefit from groups of travelers seeking to experience the fall foliage as the seasons change. Additionally, training groups from nearby companies also generate modest meeting demand for local hotels.

Base Demand Growth Rates

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

FIGURE 4-23 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

| Market Segment | Annual Growth Rate | | | | |
|---------------------------|--------------------|--------------|--------------|--------------|--------------|
| | 2024 | 2025 | 2026 | 2027 | 2028 |
| Transient | 4.0 % | 3.0 % | 6.0 % | 1.5 % | 0.0 % |
| Group | 4.0 | 1.0 | 1.0 | 1.0 | 0.0 |
| Base Demand Growth | 4.0 % | 2.6 % | 4.9 % | 1.4 % | 0.0 % |

Accommodated Demand and Market-wide Occupancy

Based upon a review of the market dynamics in the proposed subject hotel's competitive environment, we have forecast growth rates for each market segment. Using the calculated potential demand for the market, we have determined market-wide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area.

The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.

FIGURE 4-24 FORECAST OF MARKET OCCUPANCY

| | 2019 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Transient | | | | | | | |
| Total Demand | 154,246 | 137,255 | 142,746 | 147,028 | 155,850 | 158,187 | 158,187 |
| Growth Rate | | (11.0) % | 4.0 % | 3.0 % | 6.0 % | 1.5 % | 0.0 % |
| Group | | | | | | | |
| Total Demand | 38,562 | 37,629 | 39,134 | 39,526 | 39,921 | 40,320 | 40,320 |
| Growth Rate | | (2.4) % | 4.0 % | 1.0 % | 1.0 % | 1.0 % | 0.0 % |
| Totals | | | | | | | |
| Total Accommodated Demand | 192,808 | 174,885 | 181,880 | 186,554 | 195,771 | 198,508 | 198,508 |
| Overall Demand Growth | — | 16.8 % | 4.0 % | 2.6 % | 4.9 % | 1.4 % | 0.0 % |
| Market Mix | | | | | | | |
| Transient | 80.0 % | 78.5 % | 78.5 % | 78.8 % | 79.6 % | 79.7 % | 79.7 % |
| Group | 20.0 | 21.5 | 21.5 | 21.2 | 20.4 | 20.3 | 20.3 |
| Existing Hotel Supply | 1,000 | 934 | 992 | 992 | 992 | 992 | 992 |
| Proposed Hotels | | | | | | | |
| Proposed Balsam House Resort ¹ | | | | | 59 | 59 | 59 |
| Available Room Nights per Year | 365,146 | 340,938 | 361,934 | 361,934 | 383,469 | 383,469 | 383,469 |
| Nights per Year | 365 | 365 | 365 | 365 | 365 | 365 | 365 |
| Total Supply | 1,000 | 934 | 992 | 992 | 1,051 | 1,051 | 1,051 |
| Rooms Supply Growth | | | 6.2 % | 0.0 % | 5.9 % | 0.0 % | 0.0 % |
| Marketwide Occupancy | 52.8 % | 51.3 % | 50.3 % | 51.5 % | 51.1 % | 51.8 % | 51.8 % |

¹ Opening in January 2026 of the 100% competitive, 59-room Proposed Balsam House Resort

The defined competitive market of hotels experienced a sharp occupancy decline in 2020 and early 2021 because of the severe downturn in travel associated with the COVID-19 pandemic. However, given the nature of this market's dynamics as a highly-sought leisure destination, occupancy rebounded by year-end 2021, and further improved in 2022. Additionally, ADR reached a historical peak for the competitive submarket by year-end 2021, and continued this trend in 2022. Year-end 2023 data illustrate a continuation of these trends given the gradual return of both commercial and group demand in conjunction with sustained demand levels from leisure travelers. However, ADR has declined in the year-to-date 2024 period as these elevated levels of leisure demand have begun to normalize and more lower-rated group demand returns to the market.

5. Description of the Proposed Improvements

The quality of a lodging facility's physical improvements has a direct influence on marketability, attainable occupancy, and average room rate. The design and functionality of the structure can also affect operating efficiency and overall profitability. This section investigates the subject property's proposed physical improvements and personal property in an effort to determine how they are expected to contribute to attainable cash flows.

Project Overview

The Proposed Balsam House Resort will be a full-service lodging facility containing 59 rentable units. The 4-story property is planned to open on January 1, 2026. The property was opened in 1891 as a hotel built in the Victorian style, and is one of the only "Grand Dame" Adirondack lakefront resorts on Friends Lake, which is a private lake with no public access. The proposed subject property is a redevelopment of the Balsam House, which was closed due to fire in 1994 and has remained vacant since. The proposed subject property will be the first hotel of its type in Warren County and is expected to be expansive, comprising a number of components and a variety of rental unit types. The guest units will include a main hotel building and stand-alone cabins. Furthermore, the resort will feature an upscale formal dining restaurant, a casual bistro restaurant, a lakeside cafe, a 5,000-square-foot event center, a large lap pool, a plunge pool and hot tub, and a full-service spa/salon and fitness center. There will also be employee housing, constructed dormitory style, for seasonal employees of the resort. The fitness center will encompass approximately 400 square feet and contain a variety of equipment. There will also be complimentary water activities on Friends Lake, including canoeing, kayaking, and ice skating during the winter months. Furthermore, the Circle B ranch is located within half-a-mile from the proposed subject property and guests will be able to enjoy discounted rates on hay rides and horse riding adventures. Lastly, Cronin's Golf Resort, a renowned golf course in the Adirondack Region, is located seven minutes away from the subject site, and guests will be able to enjoy discounted tee times at this course that overlooks the Hudson River from April through November. The proposed subject property is expected to compete regionally with other luxury and upper-upscale hotels.

Summary of the Facilities

Based on information provided by the proposed subject hotel's development representatives, the following table summarizes the facilities that are expected to be available at the proposed subject hotel.

FIGURE 5-1 PROPOSED FACILITIES SUMMARY

| Guestroom Configuration | | Number of Units |
|--|--|---|
| Main House Guestrooms (King & Queen/Queen) | | 48 |
| One-Bedroom Suite | | 1 |
| Two-Bedroom Cabins | | 10 |
| Total | | 59 |
| Food & Beverage Facilities | | Seating Capacity |
| Upscale Restaurant | | 161 |
| Casual Bistro | | 111 |
| Lakeside Café | | 30 |
| Indoor Meeting & Banquet Facilities | | Square Footage |
| Event Conference Center | | 5,000 |
| Amenities & Services | | |
| Full-Service Spa/Salon | | Fitness Center |
| Outdoor Swimming Pool & Lap Pool | | Sundries Counter |
| Indoor Whirlpool | | Lobby Workstation |
| Cross Country Skiing/Snow Shoeing | | Canoe Rentals |
| Cayak Rentals | | Ice Skating Rentals |
| Infrastructure | | |
| Parking Spaces | | Approx. 75 |
| Elevators | | Guest, Service |
| Life-Safety Systems | | Sprinklers, Smoke Detectors |
| Construction Details | | Wood-Framing, Poured Concrete |
| Utilities | | Geothermal Heating/Air-Conditioning with Radiant Floors |

Site Improvements and Hotel Structure

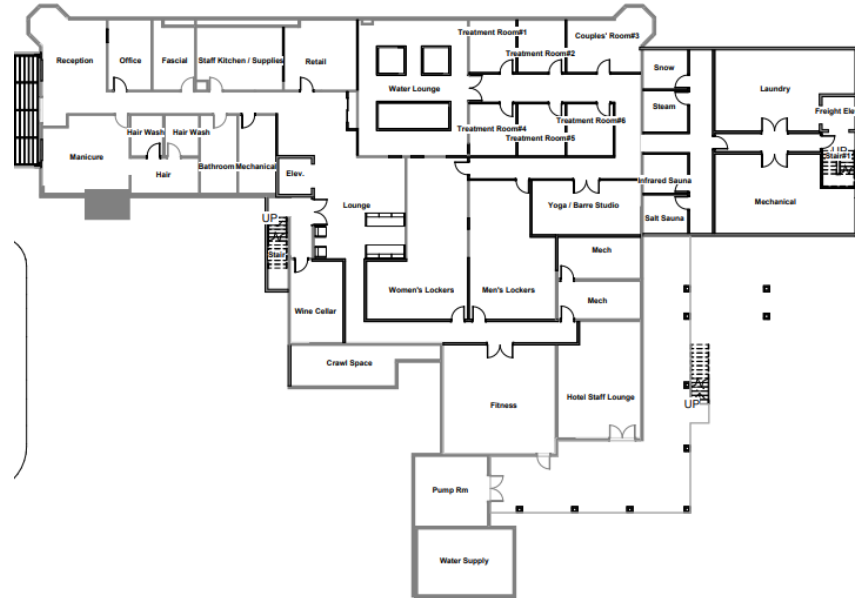
We were provided with schematic building plans and architectural drawings and a site plan for the main parcel that will include the hotel building. Additionally, the property was under construction upon our inspection. The proposed hotel will occupy one four-story building with a basement level and ten cabins. Surface parking will be located to the north, south, and east of the main hotel building. Other site improvements are expected to include freestanding signage, located at the main entrance to the site, as well as landscaping and sidewalks. Additional signage is expected to be placed on the exterior of the building. The hotel's main entrance will lead directly into the lobby, and the first (ground) floor will house the public areas and the back-of-the-house space. Guestrooms are planned to be located on the first through fourth floors. The site and building components appear to be normal for a hotel of this type and should meet the standards for this resort market.

MAIN PARCEL SITE PLAN

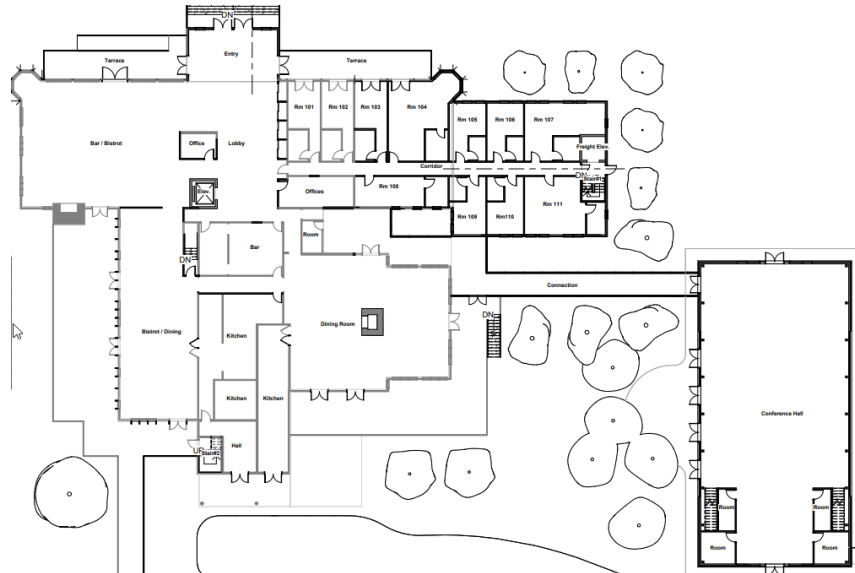


The layout of the spa/salon and first floor of the hotel property are illustrated in the following photos

BASEMENT (SPA/SALON) LEVEL



FIRST FLOOR (GUESTROOMS AND PUBLIC AREAS)



Planned Facilities

As previously mentioned, the hotel will feature two restaurants and a lakeside cafe. The restaurants will be located in the main hotel building, adjacent to the lobby area. The restaurants will utilize farm-to-table ingredients sourced from within 25 miles of the facility. The size and layout of these outlets should be appropriate for the hotel. The furnishings of the space are expected to be of a similar style and finish as lobby and guestroom furnishings. The hotel is anticipated to offer a 5,000-square-foot event building that will be a separate structure from the main hotel building; however, as per the renderings provided, there will be a walkway from the main hotel building connecting these two spaces. This meeting space should be adequate and appropriate for a hotel of this type. The hotel is expected to offer an outdoor lap pool and swimming pool with sundeck, an indoor whirlpool, a fitness room, water activities on Friends Lake, and a full-service, branded spa/salon that will be centered on wellness and healthy living, along with yoga and fitness classes. Other amenities are likely to include a lobby workstation and a small sundries counter integrated into the front desk. Lastly, there will be employee housing offered for seasonal employees of the resort. Overall, the supporting facilities should be appropriate for a hotel of this type, and we assume that they will meet the competitive standards that currently prevail for luxury, resort-style hotels in this region.

Guestrooms

The hotel is anticipated to feature standard room configurations, with guestrooms present on all levels of the property's proposed single building; several of the guestrooms are anticipated to feature outdoor decks/balconies. Furthermore, there will be one suite located on the fourth floor of the hotel building. The standard guestrooms should offer typical amenities for this product type, while the suite is expected to feature a larger living area and additional amenities such as a microwave and small refrigerator; however, the amenity offering is subject to change. The guestroom bathrooms are anticipated to be of a standard size, with a shower-in-tub or shower stall, commode, and single sink with vanity area, featuring a stone countertop. Overall, the guestrooms should offer a competitive product for the luxury, resort-style hotel products available in the region.

The proposed subject property will also feature ten stand-alone cabins. These cabins will have one king-bedded room and one double queen-bedded room, a sofa bed, a separate living space, a large stone fireplace, and an outdoor deck with private hot tub. These cabins will contain the same upscale finishes present in the main hotel building. We note that there will employee housing east of Atateka Road, across from the main hotel parcel, that will be constructed dormitory-style.

Back-of-the-House

The hotel is expected to be served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and a full-service kitchen to service the needs of the two restaurants and the event center. The event center will also feature a small warming kitchen. There will also be a small warming

kitchen within the lakeside cafe to service the needs of that outlet. These spaces should be adequate for a hotel of this type and should allow for the efficient operation of the property under competent management.

**ADA and
Environmental**

We assume that the property will be built according to all pertinent codes and brand standards. Moreover, we assume its construction will not create any environmental hazards (such as mold) and that the property will fully comply with the Americans with Disabilities Act.

Capital Expenditures

Our analysis assumes that the hotel will require ongoing upgrades and periodic renovations after its opening in order to maintain its competitive level in this market. These costs should be adequately funded by the forecasted reserve for replacement, as long as hotel staff employs a successful, ongoing preventive-maintenance program.

Construction Budget

The construction budget for the 59-room subject hotel, as provided by the project developer, is illustrated in the following table.

FIGURE 5-2 SUBJECT PROPERTY CONSTRUCTION BUDGET

| Component | Cost | Cost per Room |
|--|----------------------|------------------|
| Hard Costs & Site Improvements | | |
| Main Construction (Hotel, Conference Center, Pool) | \$15,295,330 | \$259,243 |
| Cabins Construction | 2,050,500 | 34,754 |
| Lakehouse | 73,500 | 1,246 |
| Employee Housing | 732,000 | 12,407 |
| Site Work, Roads, and Features | 600,000 | 10,169 |
| Wells | 55,000 | 932 |
| Septic | 85,000 | 1,441 |
| Geothermal | 750,000 | 12,712 |
| Subtotal Hard Cost & Site Improvements | \$19,641,330 | \$332,904 |
| FF&E | | |
| FF&E Main Hotel | \$961,605 | \$16,298 |
| FF&E Cabins | 303,696 | \$5,147 |
| FF&E Employee Housing | 125,000 | \$2,119 |
| FF&E Pool, Outdoor Furniture, Dining | 250,000 | \$4,237 |
| FF&E Lake House Outdoor Furniture | 10,000 | \$169 |
| FF&E Conference Center | 300,000 | \$5,085 |
| On-Site Materials & Costs Spent | (506,000) | (\$8,576) |
| Tech Services & Systems | 75,000 | 1,271 |
| Subtotal FF&E | 1,519,301 | \$25,751 |
| Pre-Opening Costs and Working Capital | | |
| Inventory/Operating Equipment | 225,000 | \$3,814 |
| Pre-Opening/Marketing | 300,000 | 5,085 |
| Working Capital | 475,000 | 8,051 |
| Subtotal Pre-Opening and Working Capital | \$1,000,000 | \$16,949 |
| Soft Costs | | |
| Approvals | \$50,000 | \$847 |
| Professional Fee & Soft Costs | 1,707,347 | 28,938 |
| Admin Fees | 10,000 | 169 |
| Legal | 50,000 | 847 |
| Insurance | 25,000 | 424 |
| Subtotal Soft Costs | \$1,842,347 | \$31,226 |
| Subtotal (without Land and Developer's Fee) | \$24,002,978 | \$406,830 |
| Site Cost | \$485,000 | \$8,220 |
| Subtotal (without Developer's Fee) | \$24,487,978 | \$415,050 |
| Developer's Fee | \$1,252,175 | \$21,223 |
| Upstate Revitalization Grant | (\$4,500,000) | \$76,271 |
| Total | \$21,240,153 | \$360,003 |

Conclusion

Overall, the proposed subject property should offer a well-designed, functional layout of support areas and guestrooms. All typical and market-appropriate features and amenities are expected to be included in the hotel's design. We assume that the building will be fully open and operational on the stipulated opening date and will meet all local building codes. Furthermore, we assume that the hotel staff will be adequately trained to allow for a successful opening and that pre-marketing efforts will have introduced the product to major local accounts at least six months in advance of the opening date.

6. Projection of Occupancy and Average Rate

Along with ADR results, the occupancy levels achieved by a hotel are the foundation of the property's financial performance and market value. Most of a lodging facility's other revenue sources (such as food and beverage, other operated departments, and miscellaneous income) are driven by the number of guests, and many expense levels vary with occupancy. To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a typical, professional hotel management team to achieve an optimal mix of occupancy and average rate.

Penetration Rate Analysis

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

Base-Year Penetration Rates by Market Segment

In the following table, the penetration rates attained by the primary competitors and the aggregate secondary competitors are set forth for each segment for the base year.

FIGURE 6-1 HISTORICAL PENETRATION RATES

| Property | Transient | Group | Overall |
|------------------------------|-----------|-------|---------|
| Friends Lake Inn Chestertown | 104 % | 20 % | 86 % |
| Lodge at Schroon Lake | 89 | 57 | 82 |
| Secondary Competition | 101 | 105 | 102 |

The secondary competition achieved the highest penetration rate within the transient and group segments.

Forecast of Subject Property's Occupancy

Because the supply and demand balance for the competitive market is dynamic, there is a circular relationship between the penetration factors of each hotel in the market. The performance of individual new hotels has a direct effect upon the aggregate performance of the market and, consequently, upon the calculated penetration factor for each hotel in each market segment. The same is true when the performance of existing hotels changes, either positively (following a

refurbishment, for example) or negatively (when a poorly maintained or marketed hotel loses market share).

A hotel's penetration factor is calculated as its achieved market share of demand divided by its fair share of demand. Thus, if one hotel's penetration performance increases, thereby increasing its achieved market share, this leaves less demand available in the market for the other hotels to capture, and the penetration performance of one or more of those other hotels consequently declines (other things remaining equal). This type of market share adjustment takes place every time there is a change in supply or a change in the relative penetration performance of one or more hotels in the competitive market. Our projections of penetration, demand capture, and occupancy performance for the proposed subject hotel account for these types of adjustments to market share within the defined competitive market.

The proposed subject hotel's occupancy forecast is set forth as follows, with the adjusted projected penetration rates used as a basis for calculating the amount of captured market demand.

FIGURE 6-2 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY

| Market Segment | 2026 | 2027 | 2028 | 2029 |
|-----------------------------------|---------------|---------------|---------------|---------------|
| Transient | | | | |
| Demand | 155,850 | 158,187 | 158,187 | 158,187 |
| Market Share | 7.0 % | 7.2 % | 7.2 % | 7.2 % |
| Capture | 10,880 | 11,423 | 11,423 | 11,423 |
| Penetration | 124 % | 129 % | 129 % | 129 % |
| Group | | | | |
| Demand | 39,921 | 40,320 | 40,320 | 40,320 |
| Market Share | 6.8 % | 8.5 % | 8.5 % | 8.5 % |
| Capture | 2,727 | 3,420 | 3,420 | 3,420 |
| Penetration | 122 % | 151 % | 151 % | 151 % |
| Total Room Nights Captured | 13,607 | 14,842 | 14,842 | 14,842 |
| Available Room Nights | 21,535 | 21,535 | 21,535 | 21,535 |
| Subject Occupancy | 63 % | 69 % | 69 % | 69 % |
| Market-wide Available Room Nights | 383,469 | 383,469 | 383,469 | 383,469 |
| Fair Share | 6 % | 6 % | 6 % | 6 % |
| Market-wide Occupied Room Nights | 195,771 | 198,508 | 198,508 | 198,508 |
| Market Share | 7 % | 7 % | 7 % | 7 % |
| Market-wide Occupancy | 51 % | 52 % | 52 % | 52 % |
| Total Penetration | 124 % | 133 % | 133 % | 133 % |

Within the transient segment, the proposed subject hotel's occupancy penetration is positioned above the market-average level. As previously mentioned, the transient segment comprises both leisure and commercial travelers. The proposed subject hotel's above market penetration within this segment is largely attributed to its expansive amenity offering, prime location along Friends Lake, and relatively small room count in relation to its competitors. While the proposed subject hotel is more distant from the area's commercial demand generators, its positioning as a luxury, resort-style hotel will be attractive to commercial travelers. The proposed subject hotel's occupancy penetration in the group segment is also positioned above the market-average level as the hotel is expected to generate significant group demand from its event center offering.

These positioned segment penetration rates result in the following market segmentation forecast.

FIGURE 6-3 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY

| | 2026 | 2027 | 2028 | 2029 |
|--------------|-------|-------|-------|-------|
| Transient | 80 % | 77 % | 77 % | 77 % |
| Group | 20 | 23 | 23 | 23 |
| Total | 100 % | 100 % | 100 % | 100 % |

Based on our analysis of the proposed subject hotel and market area, we have selected a stabilized occupancy level of 69%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life given all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the proposed subject hotel may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

Average Rate Analysis

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

Competitive Position

Although the ADR analysis presented here follows the occupancy projection, these two statistics are highly correlated; in reality, one cannot project occupancy without making specific assumptions regarding ADR. This relationship is best illustrated by revenue per available room (RevPAR), which reflects a property's ability to maximize rooms revenue. The following table summarizes the historical ADR and RevPAR levels of the proposed subject hotel's future primary competitors.

FIGURE 6-4 BASE-YEAR ADR AND REVPAR OF THE COMPETITORS

| Property | Estimated 2023 Average Room Rate | Average Room Rate Penetration | Occupancy | Occupancy Penetration | Rooms Revenue Per Available Room (RevPAR) | RevPAR Penetration |
|---|--|----------------------------------|---------------|--------------------------|---|-----------------------|
| Friends Lake Inn Chestertown | \$300 - \$325 | 100 - 110 % | 40 - 45 % | 80 - 85 % | \$140 - \$150 | 110 - 120 % |
| Lodge at Schroon Lake | 170 - 180 | 55 - 60 | 40 - 45 | 80 - 85 | 70 - 75 | 55 - 60 |
| Average - Primary Competitors | \$210.36 | 87.9 % | 42.5 % | 82.8 % | \$89.34 | 72.8 % |
| Average - Secondary Competitors | 241.39 | 100.9 | 52.1 | 101.5 | 125.72 | 102.4 |
| Overall Average | \$239.29 | 100.0 % | 51.3 % | 100.0 % | \$122.74 | 100.0 % |
| Subject As If Stabilized (in 2023 Dollars) | \$305.00 | 127.5 % | 68.3 % | 133.1 % | \$208.30 | 169.7 % |

The Saranac Waterfront Lodge (a secondary competitor) achieved the highest estimated average rate in the local competitive market, by a minimal margin, because of its positioning as a luxury hotel, its location along Saranac Lake, and its recent construction. Of the primary competitive set, the Friends Lake Inn achieved the highest estimated average rate, largely attributed to the other primary competitor, The Lodge at Schroon Lake, being closed from the onset of the COVID-19 pandemic through June 2023 and having to ramp back up in operations. The selected rate position for the proposed subject hotel, in base-year dollars, takes into consideration factors such as its luxury positioning, strong location, and expansive amenity and product type offering.

We have selected the rate position of \$305.00, in base-year dollars (2023), for the proposed subject hotel. We have positioned the proposed subject hotel's stabilized ADR in the 2023 base year in consideration of its new facility, diverse product offering, expansive amenity offering, and strong location. Average rates for this competitive market are anticipated to continue the strong growth trend that was realized in 2021 and 2022 through the first two quarters of 2023; thereafter, the pace of ADR growth is expected to moderate somewhat. The projected recovery related to the market's ADR growth in our forecast is based upon the expectation that leisure demand will remain high in conjunction with the continued return of commercial and group demand.

The following table presents the ADR forecast for the market and the proposed subject hotel on a calendar-year basis, as well as the resulting ADR penetration level.

The proposed subject hotel's projected ADR (as if stabilized) is then fiscalized to correspond with the hotel's anticipated date of opening for each forecast year.

FIGURE 6-5 ADR FORECAST – MARKET AND PROPOSED SUBJECT PROPERTY

| Calendar Year | Historical | | | | | | |
|--|-----------------|----------|----------|-----------------|-----------------|-----------------|-----------------|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Market ADR | \$239.29 | \$251.26 | \$262.56 | \$270.44 | \$278.55 | \$286.91 | \$295.52 |
| Projected Market ADR Growth Rate | | 5.0% | 4.5% | 3.0% | 3.0% | 3.0% | 3.0% |
| Proposed Subject Property ADR (As-If Stabilized) | \$305.00 | \$320.25 | \$334.66 | \$344.70 | \$355.04 | \$365.69 | \$376.66 |
| ADR Growth Rate | | 5.0% | 4.5% | 3.0% | 3.0% | 3.0% | 3.0% |
| Proposed Subject Stabilized ADR Penetration | 127% | 127% | 127% | 127% | 127% | 127% | 127% |
| Fiscal Year | | | | | | | |
| | | | | 2026 | 2027 | 2028 | 2029 |
| Proposed Subject Property Average Rate | | | | \$344.70 | \$355.04 | \$365.69 | \$376.66 |
| Opening Discount | | | | 5.0% | 2.0% | 0.0% | 0.0% |
| Average Rate After Discount | | | | \$327.47 | \$347.94 | \$365.69 | \$376.66 |
| Real Average Rate Growth | | | | — | 6.3% | 5.1% | 3.0% |
| Market ADR | | | | \$270.44 | \$278.55 | \$286.91 | \$295.52 |
| Proposed Subject ADR Penetration (After Discount) | | | | 121% | 125% | 127% | 127% |
| ADR Expressed in Base-Year Dollars Deflated @ Inflation Rate | | | | \$298.23 | \$307.65 | \$313.93 | \$313.93 |

Market-wide rates began trend upward in 2014 and have continued to do so since. Despite the onset of the COVID-19 pandemic in 2020, ADR grew by almost \$20 that year given the influx of leisure demand that occurred as pandemic-related restrictions began to be lifted and travelers sought drive-to vacation destinations. ADR growth progressed in 2021, with a gain of almost \$40; however, ADR growth normalized in 2022 as this metric remained generally stable. ADR continued to improve in 2023, but has declined in the year-to-date 2024 period. However, stronger fundamentals are expected as the year progresses; according to market participants, there is a heavy influx of high-rated group/convention business expected in the second half of the year that will supplement leisure and commercial travel.

The proposed subject hotel's ADR penetration level is forecast to reach 127% by the stabilized period, consistent with our stabilized ADR positioning. Based on our review of the proposed improvements and the anticipated profile of the hotel product and its operation, it is our opinion that the ADR penetration level should be achievable with appropriate management and marketing. The proposed hotel's positioned stabilized ADR is projected to increase at the same rate as the overall market's ADR, prior to consideration of any ADR discounting during the hotel's ramp-up period. Discounts of 5% and 2% have been applied to the stabilized room

rates projected for the first two years of operation, as would be expected for a new property of this type as it builds its reputation and becomes established in the market.

Note that our forecast of income and expense, which follows later in this report, assumes the following underlying inflation rates.

FIGURE 6-6 INFLATION ASSUMPTIONS

| Timeframe | | | Rate of Inflation Assumed |
|-----------|----|------|------------------------------|
| 2023 | to | 2024 | 3.0 % |
| 2024 | to | 2025 | 3.0 |
| 2025 | to | 2026 | 3.0 |
| 2026 | to | 2027 | 3.0 |
| 2027 | to | 2028 | 3.0 |

The following table sets forth our concluding forecast of the proposed subject hotel's occupancy, ADR, and RevPAR, with corresponding penetration levels, for the first projection year through the stabilized year of operation. The competitive market's historical and projected occupancy, ADR, and RevPAR levels are presented for comparison, with the projections fiscalized to correspond with the proposed subject hotel's forecast, as appropriate.

FIGURE 6-7 COMPARISON OF HISTORICAL AND PROJECTED OCCUPANCY, ADR, AND REVPAR – PROPOSED SUBJECT PROPERTY AND MARKET

| | 2019 | 2020 | 2021 | 2022 | 2023 | Calendar Year Projections Prior to Rate Discounting | | | | | |
|------------------------------|------------|----------|----------|----------|----------|---|----------|----------|----------|----------|----------|
| | | | | | | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Proposed Balsam House Resort | | | | | | | | | | | |
| Occupancy | | | | | | — | — | 63.2 % | 68.9 % | 68.9 % | 68.9 % |
| Change in Points | | | | | | — | — | — | 5.7 | 0.0 | 0.0 |
| Occupancy Penetration | | | | | | — | — | 123.8 % | 133.1 % | 133.1 % | 133.1 % |
| Average Rate | | | | | \$305.00 | \$320.25 | \$334.66 | \$344.70 | \$355.04 | \$365.69 | \$376.66 |
| Change | | | | | | — | 4.5 % | 3.0 % | 3.0 % | 3.0 % | 3.0 % |
| Average Rate Penetration | | | | | | 127.5 % | 127.5 % | 127.5 % | 127.5 % | 127.5 % | 127.5 % |
| RevPAR | | | | | | — | — | \$217.80 | \$244.70 | \$252.04 | \$259.60 |
| Change | | | | | | — | — | — | 12.4 % | 3.0 % | 3.0 % |
| RevPAR Penetration | | | | | | — | — | 157.8 % | 169.7 % | 169.7 % | 169.7 % |
| | Historical | | | | | Projected | | | | | |
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Competitive Set | | | | | | | | | | | |
| Occupancy | 52.8 % | 40.3 % | 44.7 % | 50.7 % | 51.3 % | 50.3 % | 51.5 % | 51.1 % | 51.8 % | 51.8 % | 51.8 % |
| Change in Points | — | (12.5) | 4.4 | 6.0 | 0.6 | (1.0) | 1.3 | (0.5) | 0.7 | 0.0 | 0.0 |
| Average Rate | \$181.44 | \$199.95 | \$240.53 | \$240.29 | \$239.29 | \$251.26 | \$262.56 | \$270.44 | \$278.55 | \$286.91 | \$295.52 |
| Change | — | 10.2 % | 20.3 % | (0.1) % | (0.4) % | 5.0 % | 4.5 % | 3.0 % | 3.0 % | 3.0 % | 3.0 % |
| RevPAR | \$95.80 | \$80.62 | \$107.51 | \$121.86 | \$122.74 | \$126.26 | \$135.33 | \$138.07 | \$144.20 | \$148.52 | \$152.98 |
| Change | — | (15.9) % | 33.4 % | 13.4 % | 0.7 % | 2.9 % | 7.2 % | 2.0 % | 4.4 % | 3.0 % | 3.0 % |

The following occupancies and average rates will be used to project the proposed subject hotel's rooms revenue; this forecast reflects years beginning on January 1, 2026, which correspond with our financial projections.

FIGURE 6-8 FORECASTS OF OCCUPANCY AND ADR

| Year | Occupancy | Average Rate | | Average Rate After Discount |
|------|-----------|-----------------|----------|--------------------------------|
| | | Before Discount | Discount | |
| 2026 | 63 % | \$344.70 | 5.0 % | \$327.47 |
| 2027 | 69 | 355.04 | 2.0 | 347.94 |
| 2028 | 69 | 365.69 | 0.0 | 365.69 |

7. Projection of Income and Expense

In this chapter of our report, we have compiled a forecast of income and expense for the proposed subject hotel. This forecast is based on the facilities program set forth previously, as well as the occupancy and average rate (ADR) forecast discussed previously.

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

Comparable Operating Statements

In order to project future income and expense for the proposed subject hotel, we have included a sample of individual comparable operating statements from our database of hotel statistics. All financial data are presented according to the three most common measures of industry performance: ratio to sales (RTS), amounts per available room (PAR), and amounts per occupied room night (POR). These historical income and expense statements will be used as benchmarks in our forthcoming forecast of income and expense. The proposed subject hotel's stabilized statement of income and expense, deflated to 2022 dollars, is also presented.

FIGURE 7-1 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

| | Comp 1 | Comp 2 | Comp 3 | Comp 4 | Comp 5 | Subject |
|--|------------|----------|-----------|-----------|-----------|---------------|
| | | | | | | Stabilized \$ |
| Year: | 2022 | 2022/23 | 2022 | 2021 | 2021 | 2023 |
| Number of Rooms: | 100 to 140 | 30 to 50 | 90 to 110 | 80 to 100 | 90 to 120 | 59 |
| Days Open: | 365 | 365 | 365 | 365 | 365 | 365 |
| Occupancy: | 67% | 63% | 64% | 67% | 75% | 69% |
| Average Rate: | \$311 | \$268 | \$320 | \$267 | \$275 | \$305 |
| RevPAR: | \$208 | \$168 | \$204 | \$178 | \$206 | \$210 |
| REVENUE | | | | | | |
| Rooms | 56.7 % | 59.2 % | 55.3 % | 62.5 % | 74.2 % | 53.1 % |
| Food & Beverage | 38.6 | 36.3 | 39.9 | 33.0 | 17.0 | 34.0 |
| Other Operated Departments | 4.2 | 0.4 | 3.2 | 4.4 | 8.7 | 10.1 |
| Miscellaneous Income | 0.5 | 4.1 | 1.6 | 0.1 | 0.1 | 2.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| DEPARTMENTAL EXPENSES* | | | | | | |
| Rooms | 19.1 | 24.5 | 21.1 | 20.0 | 20.6 | 21.0 |
| Food & Beverage | 68.5 | 65.9 | 77.2 | 87.2 | 91.5 | 75.0 |
| Other Operated Departments | 47.7 | 46.6 | 72.1 | 60.5 | 60.2 | 59.4 |
| Total | 39.3 | 38.6 | 44.8 | 44.0 | 36.1 | 44.2 |
| DEPARTMENTAL INCOME | 60.7 | 61.4 | 55.2 | 56.0 | 63.9 | 55.8 |
| UNDISTRIBUTED OPERATING EXPENSES | | | | | | |
| Administrative & General | 6.4 | 9.8 | 7.8 | 6.8 | 6.8 | 6.1 |
| Info. and Telecom. Systems | 0.8 | 2.1 | 1.7 | 1.5 | 0.7 | 0.7 |
| Marketing | 5.9 | 3.8 | 5.7 | 5.4 | 3.4 | 4.2 |
| Franchise Fee | 4.0 | 0.0 | 0.0 | 3.5 | 0.0 | 0.0 |
| Property Operations & Maintenance | 2.5 | 6.3 | 2.7 | 3.6 | 2.9 | 2.4 |
| Utilities | 2.0 | 2.1 | 2.2 | 2.0 | 2.7 | 1.8 |
| Total | 21.6 | 24.1 | 20.1 | 22.8 | 16.6 | 15.1 |
| GROSS OPERATING PROFIT | 39.1 | 37.3 | 35.1 | 33.2 | 47.3 | 40.7 |
| Management Fee | 3.3 | 4.1 | 3.0 | 3.0 | 3.0 | 3.0 |
| INCOME BEFORE NON-OPER. INC. & EXP. | 35.8 | 33.2 | 32.1 | 30.2 | 44.3 | 37.7 |

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

FIGURE 7-2 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM

| | Comp 1 | Comp 2 | Comp 3 | Comp 4 | Comp 5 | Subject |
|--|------------|----------|-----------|-----------|-----------|---------------|
| | | | | | | Stabilized \$ |
| Year: | 2022 | 2022/23 | 2022 | 2021 | 2021 | 2023 |
| Number of Rooms: | 100 to 140 | 30 to 50 | 90 to 110 | 80 to 100 | 90 to 120 | 59 |
| Days Open: | 365 | 365 | 365 | 365 | 365 | 365 |
| Occupancy: | 67% | 63% | 64% | 67% | 75% | 69% |
| Average Rate: | \$311 | \$268 | \$320 | \$267 | \$275 | \$305 |
| RevPAR: | \$208 | \$168 | \$204 | \$178 | \$206 | \$210 |
| REVENUE | | | | | | |
| Rooms | \$75,789 | \$61,269 | \$74,377 | \$65,034 | \$75,345 | \$76,760 |
| Food & Beverage | 51,624 | 37,557 | 53,651 | 34,303 | 17,312 | 49,111 |
| Other Operated Departments | 5,631 | 364 | 4,306 | 4,597 | 8,809 | 14,607 |
| Miscellaneous Income | 650 | 4,241 | 2,197 | 120 | 93 | 4,030 |
| Total | 133,694 | 103,432 | 134,531 | 104,054 | 101,560 | 144,507 |
| DEPARTMENTAL EXPENSES | | | | | | |
| Rooms | 14,509 | 15,001 | 15,686 | 13,034 | 15,527 | 16,120 |
| Food & Beverage | 35,364 | 24,737 | 41,426 | 29,922 | 15,844 | 36,833 |
| Other Operated Departments | 2,689 | 170 | 3,106 | 2,782 | 5,301 | 10,915 |
| Total | 52,562 | 39,908 | 60,219 | 45,739 | 36,671 | 63,868 |
| DEPARTMENTAL INCOME | 81,132 | 63,524 | 74,312 | 58,315 | 64,889 | 80,639 |
| UNDISTRIBUTED OPERATING EXPENSES | | | | | | |
| Administrative & General | 8,580 | 10,126 | 10,484 | 7,089 | 6,869 | 8,750 |
| Info. and Telecom. Systems | 1,055 | 2,147 | 2,234 | 1,571 | 761 | 1,000 |
| Marketing | 7,844 | 3,889 | 7,676 | 5,601 | 3,456 | 6,000 |
| Franchise Fee | 5,383 | 0 | 0 | 3,633 | 0 | 0 |
| Property Operations & Maintenance | 3,402 | 6,566 | 3,690 | 3,727 | 2,968 | 3,500 |
| Utilities | 2,625 | 2,193 | 3,008 | 2,105 | 2,774 | 2,600 |
| Total | 28,889 | 24,920 | 27,091 | 23,726 | 16,827 | 21,850 |
| GROSS OPERATING PROFIT | 52,243 | 38,604 | 47,221 | 34,589 | 48,062 | 58,789 |
| Management Fee | 4,357 | 4,231 | 4,036 | 3,122 | 3,047 | 4,335 |
| INCOME BEFORE NON-OPER. INC. & EXP. | 47,886 | 34,373 | 43,185 | 31,467 | 45,015 | 54,454 |

FIGURE 7-3 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM

| | Comp 1 | Comp 2 | Comp 3 | Comp 4 | Comp 5 | Subject |
|--|------------|----------|-----------|-----------|-----------|---------------|
| | | | | | | Stabilized \$ |
| Year: | 2022 | 2022/23 | 2022 | 2021 | 2021 | 2023 |
| Number of Rooms: | 100 to 140 | 30 to 50 | 90 to 110 | 80 to 100 | 90 to 120 | 59 |
| Days Open: | 365 | 365 | 365 | 365 | 365 | 365 |
| Occupancy: | 67% | 63% | 64% | 67% | 75% | 69% |
| Average Rate: | \$311 | \$268 | \$320 | \$267 | \$275 | \$305 |
| RevPAR: | \$208 | \$168 | \$204 | \$178 | \$206 | \$210 |
| REVENUE | | | | | | |
| Rooms | \$311.05 | \$268.08 | \$319.68 | \$266.56 | \$275.12 | \$304.78 |
| Food & Beverage | 211.87 | 164.33 | 230.60 | 140.60 | 63.21 | 195.00 |
| Other Operated Departments | 23.11 | 1.59 | 18.51 | 18.84 | 32.17 | 58.00 |
| Miscellaneous Income | 2.67 | 18.56 | 9.44 | 0.49 | 0.34 | 16.00 |
| Total | 548.70 | 452.56 | 578.23 | 426.49 | 370.84 | 573.78 |
| DEPARTMENTAL EXPENSES | | | | | | |
| Rooms | 59.55 | 65.63 | 67.42 | 53.42 | 56.69 | 64.00 |
| Food & Beverage | 145.14 | 108.24 | 178.05 | 122.64 | 57.85 | 146.25 |
| Other Operated Departments | 11.04 | 0.74 | 13.35 | 11.40 | 19.35 | 43.34 |
| Total | 215.72 | 174.61 | 258.83 | 187.47 | 133.90 | 253.59 |
| DEPARTMENTAL INCOME | 332.98 | 277.95 | 319.40 | 239.02 | 236.94 | 320.19 |
| UNDISTRIBUTED OPERATING EXPENSES | | | | | | |
| Administrative & General | 35.21 | 44.30 | 45.06 | 29.06 | 25.08 | 34.74 |
| Info. and Telecom. Systems | 4.33 | 9.39 | 9.60 | 6.44 | 2.78 | 3.97 |
| Marketing | 32.19 | 17.02 | 32.99 | 22.96 | 12.62 | 23.82 |
| Franchise Fee | 22.09 | 0.00 | 0.00 | 14.89 | 0.00 | 0.00 |
| Property Operations & Maintenance | 13.96 | 28.73 | 15.86 | 15.28 | 10.84 | 13.90 |
| Utilities | 10.77 | 9.60 | 12.93 | 8.63 | 10.13 | 10.32 |
| Total | 118.57 | 109.04 | 116.44 | 97.25 | 61.44 | 86.76 |
| GROSS OPERATING PROFIT | 214.41 | 168.91 | 202.96 | 141.77 | 175.49 | 233.43 |
| Management Fee | 17.88 | 18.51 | 17.35 | 12.79 | 11.13 | 17.21 |
| INCOME BEFORE NON-OPER. INC. & EXP. | 196.53 | 150.40 | 185.61 | 128.98 | 164.37 | 216.22 |

**Fixed and Variable
Component Analysis**

The comparable statements' departmental income ranged from 55.2% to 63.9% of total revenue. The comparable properties achieved a gross operating profit ranging from 33.2% to 47.3% of total revenue.

HVS uses a fixed and variable component model to project a lodging facility's revenue and expense levels. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then increased in tandem with the underlying rate of inflation, while the variable component is adjusted for a specific measure of volume such as total revenue.

The actual forecast is derived by adjusting each year's revenue and expense by the amount fixed (the fixed expense multiplied by the inflated base-year amount) plus the variable amount (the variable expense multiplied by the inflated base-year amount) multiplied by the ratio of the projection year's occupancy to the base-year occupancy (in the case of departmental revenue and expense) or the ratio of the projection year's revenue to the base year's revenue (in the case of undistributed operating expenses). Fixed expenses remain fixed, increasing only with inflation. Our discussion of the revenue and expense forecast in this report is based upon the output derived from the fixed and variable model. This forecast of revenue and expense is accomplished through a systematic approach, following the format of the Uniform System of Accounts for the Lodging Industry (USALI). Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation and Appreciation Assumptions

In consideration of the trends in the Consumer Price Index (CPI), inflation factors that directly influence lodging properties, projections set forth by economists surveyed, and the Federal Reserve's target inflation rate, we have applied the underlying inflation rates as reflected in the following table.

FIGURE 7-4 INFLATION ASSUMPTIONS

| Timeframe | | | Rate of Inflation Assumed |
|-----------|----|------|------------------------------|
| 2023 | to | 2024 | 3.0 % |
| 2024 | to | 2025 | 3.0 |
| 2025 | to | 2026 | 3.0 |
| 2026 | to | 2027 | 3.0 |
| 2027 | to | 2028 | 3.0 |

Beyond the illustrated year, we have applied a 3.0% annual rate of growth to income and expenses to reflect the longer-term expectation of asset appreciation by typical investors. This position is based on interviews with numerous market participants indicating a distinction in the expectations of near-term cost inflation (i.e., related to labor and supplies) versus long-term income growth that drives appreciation. Any exceptions to the application of the assumed underlying inflation and EBITDA Less Replacement Reserve growth rates are discussed in our write-up of individual income and expense items.

Forecast of Revenue and Expense

Based on an analysis that will be detailed throughout this section, we have formulated a revenue-and-expense forecast through the fifth projection year, including amounts per available room and per occupied room, as illustrated in the following table. The second table illustrates our ten-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to years that begin on January 1, 2026, expressed in inflated dollars for each year.

FIGURE 7-5 DETAILED FORECAST OF INCOME AND EXPENSE

| | 2026 (Calendar Year) | | | | 2027 | | | | Stabilized | | | |
|---|----------------------|--------|----------|----------|----------|--------|----------|----------|------------|--------|----------|----------|
| Number of Rooms: | 59 | | | | 59 | | | | 59 | | | |
| Occupancy: | 63% | | | | 69% | | | | 69% | | | |
| Average Rate: | \$327.47 | | | | \$347.94 | | | | \$365.69 | | | |
| RevPAR: | \$206.30 | | | | \$240.08 | | | | \$252.33 | | | |
| Days Open: | 365 | | | | 365 | | | | 365 | | | |
| Occupied Rooms: | 13,567 | %Gross | PAR | POR | 14,859 | %Gross | PAR | POR | 14,859 | %Gross | PAR | POR |
| OPERATING REVENUE | | | | | | | | | | | | |
| Rooms | \$4,443 | 51.1 % | \$75,305 | \$327.48 | \$5,170 | 52.6 % | \$87,627 | \$347.93 | \$5,434 | 53.1 % | \$92,102 | \$365.70 |
| Food & Beverage | 3,063 | 35.2 | 51,921 | 225.79 | 3,375 | 34.4 | 57,209 | 227.16 | 3,477 | 34.0 | 58,925 | 233.97 |
| Other Operated Departments | 82 | 0.9 | 1,387 | 6.03 | 87 | 0.9 | 1,467 | 5.82 | 89 | 0.9 | 1,511 | 6.00 |
| Spa/Salon | 852 | 9.8 | 14,440 | 62.80 | 917 | 9.3 | 15,549 | 61.74 | 945 | 9.2 | 16,016 | 63.59 |
| Resort Fees | 246 | 2.8 | 4,161 | 18.10 | 260 | 2.6 | 4,401 | 17.47 | 267 | 2.6 | 4,533 | 18.00 |
| Miscellaneous Income | 16 | 0.2 | 277 | 1.21 | 17 | 0.2 | 293 | 1.16 | 18 | 0.2 | 302 | 1.20 |
| Total Operating Revenues | 8,702 | 100.0 | 147,491 | 641.40 | 9,826 | 100.0 | 166,546 | 661.29 | 10,230 | 100.0 | 173,389 | 688.46 |
| DEPARTMENTAL EXPENSES * | | | | | | | | | | | | |
| Rooms | 1,038 | 23.4 | 17,597 | 76.52 | 1,108 | 21.4 | 18,778 | 74.56 | 1,141 | 21.0 | 19,341 | 76.80 |
| Food & Beverage | 2,386 | 77.9 | 40,435 | 175.84 | 2,532 | 75.0 | 42,907 | 170.37 | 2,607 | 75.0 | 44,194 | 175.48 |
| Other Operated Departments | 33 | 40.8 | 565 | 2.46 | 35 | 40.0 | 587 | 2.33 | 36 | 40.0 | 604 | 2.40 |
| Spa/Salon | 686 | 80.5 | 11,622 | 50.54 | 716 | 78.0 | 12,128 | 48.16 | 737 | 78.0 | 12,492 | 49.60 |
| Total Expenses | 4,143 | 47.6 | 70,218 | 305.36 | 4,390 | 44.7 | 74,400 | 295.41 | 4,521 | 44.2 | 76,632 | 304.27 |
| DEPARTMENTAL INCOME | 4,559 | 52.4 | 77,273 | 336.04 | 5,437 | 55.3 | 92,147 | 365.88 | 5,709 | 55.8 | 96,757 | 384.18 |
| UNDISTRIBUTED OPERATING EXPENSES | | | | | | | | | | | | |
| Administrative & General | 570 | 6.5 | 9,655 | 41.99 | 600 | 6.1 | 10,166 | 40.36 | 619 | 6.1 | 10,499 | 41.69 |
| Info & Telecom Systems | 65 | 0.7 | 1,103 | 4.80 | 69 | 0.7 | 1,162 | 4.61 | 71 | 0.7 | 1,200 | 4.76 |
| Marketing | 391 | 4.5 | 6,620 | 28.79 | 411 | 4.2 | 6,971 | 27.68 | 425 | 4.2 | 7,199 | 28.58 |
| Prop. Operations & Maint. | 228 | 2.6 | 3,862 | 16.79 | 240 | 2.4 | 4,066 | 16.15 | 248 | 2.4 | 4,199 | 16.67 |
| Utilities | 169 | 1.9 | 2,869 | 12.48 | 178 | 1.8 | 3,021 | 11.99 | 184 | 1.8 | 3,120 | 12.39 |
| Total Expenses | 1,422 | 16.2 | 24,109 | 104.84 | 1,498 | 15.2 | 25,385 | 100.80 | 1,547 | 15.2 | 26,217 | 104.10 |
| GROSS OPERATING PROFIT | 3,137 | 36.0 | 53,164 | 231.20 | 3,939 | 40.1 | 66,761 | 265.08 | 4,162 | 40.7 | 70,540 | 280.09 |
| Management Fee | 261 | 3.0 | 4,425 | 19.24 | 295 | 3.0 | 4,996 | 19.84 | 307 | 3.0 | 5,202 | 20.65 |
| INCOME BEFORE NON-OPR. INC. & EXP. | 2,876 | 33.0 | 48,739 | 211.96 | 3,644 | 37.1 | 61,765 | 245.25 | 3,855 | 37.7 | 65,339 | 259.43 |
| NON-OPERATING INCOME & EXPENSE | | | | | | | | | | | | |
| Property Taxes | 313 | 3.6 | 5,300 | 23.05 | 322 | 3.3 | 5,459 | 21.67 | 332 | 3.2 | 5,623 | 22.32 |
| Insurance | 67 | 0.8 | 1,131 | 4.92 | 69 | 0.7 | 1,165 | 4.63 | 71 | 0.7 | 1,200 | 4.76 |
| Sales & Use Tax Reimbursement | 0 | 0.0 | 0 | 0.00 | (609) | (6.2) | (10,324) | (40.99) | (340) | (3.3) | (5,762) | (22.88) |
| Mortgage Tax Reimbursement | 0 | 0.0 | 0 | 0.00 | (113) | (1.1) | (1,912) | (7.59) | 0 | 0.0 | 0 | 0.00 |
| Total Expenses | 379 | 4.4 | 6,431 | 27.97 | (331) | (3.3) | (5,613) | (22.29) | 63 | 0.6 | 1,060 | 4.21 |
| EBITDA | 2,496 | 28.6 | 42,309 | 183.99 | 3,975 | 40.4 | 67,378 | 267.53 | 3,792 | 37.1 | 64,279 | 255.23 |
| Reserve for Replacement | 174 | 2.0 | 2,950 | 12.83 | 295 | 3.0 | 4,996 | 19.84 | 409 | 4.0 | 6,936 | 27.54 |
| EBITDA LESS RESERVE | \$2,322 | 26.7 % | \$39,359 | \$171.16 | \$3,680 | 37.5 % | \$62,381 | \$247.69 | \$3,383 | 33.1 % | \$57,343 | \$227.69 |

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

FIGURE 7-6 TEN-YEAR FORECAST OF INCOME AND EXPENSE

| | 2026 | | 2027 | | 2028 | | 2029 | | 2030 | | 2031 | | 2032 | | 2033 | | 2034 | | 2035 | |
|---|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|
| Number of Rooms: | 59 | | 59 | | 59 | | 59 | | 59 | | 59 | | 59 | | 59 | | 59 | | 59 | |
| Occupied Rooms: | 13,567 | | 14,859 | | 14,859 | | 14,859 | | 14,859 | | 14,859 | | 14,859 | | 14,859 | | 14,859 | | 14,859 | |
| Occupancy: | 63% | | 69% | | 69% | | 69% | | 69% | | 69% | | 69% | | 69% | | 69% | | 69% | |
| Average Rate: | \$327.47 | % of | \$347.94 | % of | \$365.69 | % of | \$376.66 | % of | \$387.96 | % of | \$399.60 | % of | \$411.59 | % of | \$423.94 | % of | \$436.66 | % of | \$449.76 | % of |
| RevPAR: | \$206.30 | Gross | \$240.08 | Gross | \$252.33 | Gross | \$259.90 | Gross | \$267.70 | Gross | \$275.73 | Gross | \$284.00 | Gross | \$292.52 | Gross | \$301.29 | Gross | \$310.33 | Gross |
| OPERATING REVENUE | | | | | | | | | | | | | | | | | | | | |
| Rooms | \$4,443 | 51.1 % | \$5,170 | 52.6 % | \$5,434 | 53.1 % | \$5,597 | 53.1 % | \$5,765 | 53.1 % | \$5,938 | 53.1 % | \$6,116 | 53.1 % | \$6,299 | 53.1 % | \$6,488 | 53.1 % | \$6,683 | 53.1 % |
| Food & Beverage | 3,063 | 35.2 | 3,375 | 34.4 | 3,477 | 34.0 | 3,581 | 34.0 | 3,688 | 34.0 | 3,799 | 34.0 | 3,913 | 34.0 | 4,030 | 34.0 | 4,151 | 34.0 | 4,276 | 34.0 |
| Other Operated Departments | 82 | 0.9 | 87 | 0.9 | 89 | 0.9 | 92 | 0.9 | 95 | 0.9 | 97 | 0.9 | 100 | 0.9 | 103 | 0.9 | 106 | 0.9 | 110 | 0.9 |
| Spa/Salon | 852 | 9.8 | 917 | 9.3 | 945 | 9.2 | 973 | 9.2 | 1,002 | 9.2 | 1,033 | 9.2 | 1,064 | 9.2 | 1,095 | 9.2 | 1,128 | 9.2 | 1,162 | 9.2 |
| Resort Fees | 246 | 2.8 | 260 | 2.6 | 267 | 2.6 | 275 | 2.6 | 284 | 2.6 | 292 | 2.6 | 301 | 2.6 | 310 | 2.6 | 319 | 2.6 | 329 | 2.6 |
| Miscellaneous Income | 16 | 0.2 | 17 | 0.2 | 18 | 0.2 | 18 | 0.2 | 19 | 0.2 | 19 | 0.2 | 20 | 0.2 | 21 | 0.2 | 21 | 0.2 | 22 | 0.2 |
| Total Operating Revenues | 8,702 | 100.0 | 9,826 | 100.0 | 10,230 | 100.0 | 10,537 | 100.0 | 10,853 | 100.0 | 11,179 | 100.0 | 11,514 | 100.0 | 11,859 | 100.0 | 12,215 | 100.0 | 12,581 | 100.0 |
| DEPARTMENTAL EXPENSES * | | | | | | | | | | | | | | | | | | | | |
| Rooms | 1,038 | 23.4 | 1,108 | 21.4 | 1,141 | 21.0 | 1,175 | 21.0 | 1,211 | 21.0 | 1,247 | 21.0 | 1,284 | 21.0 | 1,323 | 21.0 | 1,363 | 21.0 | 1,403 | 21.0 |
| Food & Beverage | 2,386 | 77.9 | 2,532 | 75.0 | 2,607 | 75.0 | 2,686 | 75.0 | 2,766 | 75.0 | 2,849 | 75.0 | 2,935 | 75.0 | 3,023 | 75.0 | 3,113 | 75.0 | 3,207 | 75.0 |
| Other Operated Departments | 33 | 40.8 | 35 | 40.0 | 36 | 40.0 | 37 | 40.0 | 38 | 40.0 | 39 | 40.0 | 40 | 40.0 | 41 | 40.0 | 43 | 40.0 | 44 | 40.0 |
| Spa/Salon | 686 | 80.5 | 716 | 78.0 | 737 | 78.0 | 759 | 78.0 | 782 | 78.0 | 805 | 78.0 | 830 | 78.0 | 854 | 78.0 | 880 | 78.0 | 906 | 78.0 |
| Total Expenses | 4,143 | 47.6 | 4,390 | 44.7 | 4,521 | 44.2 | 4,657 | 44.2 | 4,797 | 44.2 | 4,941 | 44.2 | 5,089 | 44.2 | 5,241 | 44.2 | 5,399 | 44.2 | 5,561 | 44.2 |
| DEPARTMENTAL INCOME | 4,559 | 52.4 | 5,437 | 55.3 | 5,709 | 55.8 | 5,880 | 55.8 | 6,056 | 55.8 | 6,238 | 55.8 | 6,425 | 55.8 | 6,617 | 55.8 | 6,816 | 55.8 | 7,021 | 55.8 |
| UNDISTRIBUTED OPERATING EXPENSES | | | | | | | | | | | | | | | | | | | | |
| Administrative & General | 570 | 6.5 | 600 | 6.1 | 619 | 6.1 | 638 | 6.1 | 657 | 6.1 | 677 | 6.1 | 697 | 6.1 | 718 | 6.1 | 740 | 6.1 | 762 | 6.1 |
| Info & Telecom Systems | 65 | 0.7 | 69 | 0.7 | 71 | 0.7 | 73 | 0.7 | 75 | 0.7 | 77 | 0.7 | 80 | 0.7 | 82 | 0.7 | 85 | 0.7 | 87 | 0.7 |
| Marketing | 391 | 4.5 | 411 | 4.2 | 425 | 4.2 | 437 | 4.2 | 451 | 4.2 | 464 | 4.2 | 478 | 4.2 | 492 | 4.2 | 507 | 4.2 | 522 | 4.2 |
| Prop. Operations & Maint. | 228 | 2.6 | 240 | 2.4 | 248 | 2.4 | 255 | 2.4 | 263 | 2.4 | 271 | 2.4 | 279 | 2.4 | 287 | 2.4 | 296 | 2.4 | 305 | 2.4 |
| Utilities | 169 | 1.9 | 178 | 1.8 | 184 | 1.8 | 190 | 1.8 | 195 | 1.8 | 201 | 1.8 | 207 | 1.8 | 213 | 1.8 | 220 | 1.8 | 226 | 1.8 |
| Total Expenses | 1,422 | 16.2 | 1,498 | 15.2 | 1,547 | 15.2 | 1,593 | 15.2 | 1,641 | 15.2 | 1,690 | 15.2 | 1,741 | 15.2 | 1,793 | 15.2 | 1,847 | 15.2 | 1,902 | 15.2 |
| GROSS OPERATING PROFIT | 3,137 | 36.0 | 3,939 | 40.1 | 4,162 | 40.7 | 4,287 | 40.7 | 4,415 | 40.7 | 4,548 | 40.7 | 4,684 | 40.7 | 4,824 | 40.7 | 4,969 | 40.7 | 5,118 | 40.7 |
| Management Fee | 261 | 3.0 | 295 | 3.0 | 307 | 3.0 | 316 | 3.0 | 326 | 3.0 | 335 | 3.0 | 345 | 3.0 | 356 | 3.0 | 366 | 3.0 | 377 | 3.0 |
| INCOME BEFORE NON-OPR. INC. & EXP. | 2,876 | 33.0 | 3,644 | 37.1 | 3,855 | 37.7 | 3,971 | 37.7 | 4,090 | 37.7 | 4,213 | 37.7 | 4,339 | 37.7 | 4,469 | 37.7 | 4,603 | 37.7 | 4,741 | 37.7 |
| NON-OPERATING INCOME & EXPENSE | | | | | | | | | | | | | | | | | | | | |
| Property Taxes | 313 | 3.6 | 322 | 3.3 | 332 | 3.2 | 342 | 3.2 | 352 | 3.2 | 362 | 3.2 | 373 | 3.2 | 385 | 3.2 | 396 | 3.2 | 408 | 3.2 |
| Insurance | 67 | 0.8 | 69 | 0.7 | 71 | 0.7 | 73 | 0.7 | 75 | 0.7 | 77 | 0.7 | 80 | 0.7 | 82 | 0.7 | 85 | 0.7 | 87 | 0.7 |
| Sales & Use Tax Reimbursement | 0 | 0.0 | (609) | (6.2) | (340) | (3.3) | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Mortgage Tax Reimbursement | 0 | 0.0 | (113) | (1.1) | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total Expenses | 379 | 4.4 | (331) | (3.3) | 63 | 0.6 | 415 | 3.9 | 427 | 3.9 | 440 | 3.9 | 453 | 3.9 | 467 | 3.9 | 481 | 3.9 | 495 | 3.9 |
| EBITDA | 2,496 | 28.6 | 3,975 | 40.4 | 3,792 | 37.1 | 3,566 | 33.8 | 3,663 | 33.8 | 3,773 | 33.8 | 3,886 | 33.8 | 4,002 | 33.8 | 4,122 | 33.8 | 4,246 | 33.8 |
| Reserve for Replacement | 174 | 2.0 | 295 | 3.0 | 409 | 4.0 | 421 | 4.0 | 434 | 4.0 | 447 | 4.0 | 461 | 4.0 | 474 | 4.0 | 489 | 4.0 | 503 | 4.0 |
| EBITDA LESS RESERVE | \$2,322 | 26.7 % | \$3,680 | 37.5 % | \$3,383 | 33.1 % | \$3,135 | 29.7 % | \$3,229 | 29.7 % | \$3,326 | 29.7 % | \$3,425 | 29.7 % | \$3,528 | 29.7 % | \$3,633 | 29.7 % | \$3,743 | 29.7 % |

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

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take three years for the proposed subject hotel to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the proposed subject hotel's operating budget and comparable income and expense statements. The forecast is based upon calendar years beginning January 1, 2026, expressed in inflated dollars for each year.

Revenues associated with the proposed subject hotel's food and beverage (F&B) department, other operated departments, spa/salon department, and miscellaneous income category have been forecast to reflect the hotel's planned facilities and amenities, including two restaurants, a lakeside cafe, an event center, sundries counter, and a full-service spa/salon. Furthermore, given the proposed subject hotel's expansive amenity offering, we have forecast a resort fee that will be applicable to each guestroom stay. Expense levels fall within a range of reasonableness given the provided comparable operating statements; furthermore, management fees are set forth in accordance with our assumptions provided earlier in our report. The proposed subject property has also been granted a ten-year exemption on property tax, mortgage tax, and sales & occupancy tax by the Warren & Washington Counties IDA. The mortgage tax exemption and the sales & occupancy tax exemptions are reflected as a negative expense on the hotel's projected income statement; we note that the sales & occupancy tax exemption includes all FF&E and construction materials purchased during the initial construction of the hotel that contribute to revenue-generating aspects of the hotel. Based upon our conversations with a representative of the IDA, this exemption estimate should be based upon approximately two-thirds of construction related expenses.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate (ADR). We projected occupancy and ADR in a previous section of this report. The proposed subject hotel is expected to stabilize at an occupancy level of 69% with an ADR of \$365.69 in 2028. Following the stabilized year, the proposed subject hotel's ADR is projected to increase along with the underlying rate of growth assigned to EBITDA Less Replacement Reserve.

Food and Beverage Revenue

Food and beverage (F&B) revenue is generated by a hotel's restaurants, lounges, coffee shops, snack bars, banquet rooms, and room service. In addition to providing a source of revenue, these outlets serve as an amenity that assists in the sale of guestrooms. With the exception of properties with active lounges or banquet facilities that draw local residents, in-house guests generally represent a substantial percentage of a hotel's F&B patrons. In the case of the Proposed Balsam House Resort, the F&B department will include two restaurants and a lakeside café; moreover, banquet space is expected to encompass 5,000 square feet.

Although F&B revenue varies directly with changes in occupancy, the small portion generated by banquet sales and outside capture is relatively fixed.

FIGURE 7-7 FOOD AND BEVERAGE REVENUE

| | Comparable Operating Statements | | | | | Proposed Subject Property Forecast | |
|------------------------------------|---------------------------------|----------|----------|----------|----------|------------------------------------|---------------------|
| | #1 | #2 | #3 | #4 | #5 | 2026 | Deflated Stabilized |
| Food & Beverage Revenue | | | | | | | |
| Percentage of Revenue | 38.6 % | 36.3 % | 39.9 % | 33.0 % | 17.0 % | 35.2 % | 34.0 % |
| Per Available Room | \$51,624 | \$37,557 | \$53,651 | \$34,303 | \$17,312 | \$51,921 | \$49,111 |
| Per Occupied Room | \$211.87 | \$164.33 | \$230.60 | \$140.60 | \$63.21 | \$225.79 | \$195.00 |

Other Operated Departments Revenue

According to the USALI, other operated departments include any major or minor operated department other than rooms and F&B.

FIGURE 7-8 OTHER OPERATED DEPARTMENTS REVENUE

| | Comparable Operating Statements | | | | | Proposed Subject Property Forecast | |
|-----------------------|---------------------------------|--------|---------|---------|---------|------------------------------------|---------------------|
| | #1 | #2 | #3 | #4 | #5 | 2026 | Deflated Stabilized |
| Percentage of Revenue | 4.2 % | 0.4 % | 3.2 % | 4.4 % | 8.7 % | 0.9 % | 0.9 % |
| Per Available Room | \$5,631 | \$364 | \$4,306 | \$4,597 | \$8,809 | \$1,387 | \$1,259 |
| Per Occupied Room | \$23.11 | \$1.59 | \$18.51 | \$18.84 | \$32.17 | \$6.03 | \$5.00 |

Spa/Salon Income

We forecast the proposed subject hotel's spa/salon income to stabilize at \$62.80 per occupied room by the stabilized year, 2028. We have utilized operating statements of comparable spa facilities in order to position the revenue of the spa component at the proposed subject hotel. The spa facilities are expected to include a jacuzzi, hydrotherapy, six massage treatment rooms, and a salon with various manicure, pedicure, and hair treatments. The comparable spa operating metrics are presented in the following table.

FIGURE 7-9 SPA/SALON INCOME COMPARABLES

| Property | Location | Year of Data | Number of Rooms | Occupancy | Average Daily Rate | Number of Treatment Rooms | % of Total Revenue | Revenue Per Occupied Room | Revenue Per Treatment Room | Spa Expense Ratio |
|-------------------------------------|-----------------------|--------------|-----------------|-----------|--------------------|---------------------------|--------------------|---------------------------|----------------------------|-------------------|
| Comp 1 | Rocky Mountain Region | 2018/19 | 72 | 36.0 % | \$365 | 4 | 4.5 % | \$40.13 | \$94,212 | 88.9 % |
| Comp 2 | Rocky Mountain Region | 2017/18 | 80 | 61.0 | 340 | 9 | 9.0 | 51.91 | 102,610 | 67.2 |
| Comp 3 | Northern California | 2021/22 | 65 | 43.0 | 366 | 6 | 8.5 | 53.26 | 90,937 | 81.3 |
| Comp 4 | Mid-Atlantic | 2019 | 69 | 69.0 | 435 | 6 | 6.7 | 53.86 | 156,517 | 67.1 |
| Proposed Balsam House Resort | | | | | | | | | | |
| Deflated Stabilized | | | 59 | 69.0 % | \$305 | 6 | 9.2 % | 53.00 | \$131,256 | 78.0 % |

Miscellaneous Income

The miscellaneous income sources comprise those other than guestrooms, F&B, and the other operated departments. Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy.

FIGURE 7-10 MISCELLANEOUS INCOME

| | Comparable Operating Statements | | | | | Proposed Subject Property Forecast | |
|-----------------------|---------------------------------|---------|---------|--------|--------|------------------------------------|---------------------|
| | #1 | #2 | #3 | #4 | #5 | 2026 | Deflated Stabilized |
| Percentage of Revenue | 0.5 % | 4.1 % | 1.6 % | 0.1 % | 0.1 % | 0.2 % | 0.2 % |
| Per Available Room | \$650 | \$4,241 | \$2,197 | \$120 | \$93 | \$277 | \$252 |
| Per Occupied Room | \$2.67 | \$18.56 | \$9.44 | \$0.49 | \$0.34 | \$1.21 | \$1.00 |

Rooms Expense

Rooms expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy, and managers can generally scale the level of service staff on hand to meet an expected occupancy level, much of a hotel's payroll is fixed. A base level of front desk personnel, housekeepers, and supervisors must be maintained at all times. As a result, salaries, wages, and employee benefits are only moderately sensitive to changes in occupancy.

Commissions and reservations are usually based on room sales and, thus, are highly sensitive to changes in occupancy and ADR. While guest supplies vary 100% with occupancy, linens and other operating expenses are only slightly affected by volume.

FIGURE 7-11 ROOMS EXPENSE

| | Comparable Operating Statements | | | | | Proposed Subject Property Forecast | |
|-----------------------|---------------------------------|----------|----------|----------|----------|------------------------------------|---------------------|
| | #1 | #2 | #3 | #4 | #5 | 2026 | Deflated Stabilized |
| Percentage of Revenue | 19.1 % | 24.5 % | 21.1 % | 20.0 % | 20.6 % | 23.4 % | 21.0 % |
| Per Available Room | \$14,509 | \$15,001 | \$15,686 | \$13,034 | \$15,527 | \$17,597 | \$16,120 |
| Per Occupied Room | \$59.55 | \$65.63 | \$67.42 | \$53.42 | \$56.69 | \$76.52 | \$64.00 |

Food and Beverage Expense

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

FIGURE 7-12 FOOD AND BEVERAGE EXPENSE

| | Comparable Operating Statements | | | | | Proposed Subject Property Forecast | |
|-----------------------|---------------------------------|----------|----------|----------|----------|------------------------------------|---------------------|
| | #1 | #2 | #3 | #4 | #5 | 2026 | Deflated Stabilized |
| Percentage of Revenue | 68.5 % | 65.9 % | 77.2 % | 87.2 % | 91.5 % | 77.9 % | 75.0 % |
| Per Available Room | \$35,364 | \$24,737 | \$41,426 | \$29,922 | \$15,844 | \$40,435 | \$36,833 |
| Per Occupied Room | \$145.14 | \$108.24 | \$178.05 | \$122.64 | \$57.85 | \$175.84 | \$146.25 |

Other Operated Departments Expense

Other operated departments expense includes all expenses reflected in the summary statements for the divisions associated in these categories, as discussed previously in this chapter.

FIGURE 7-13 OTHER OPERATED DEPARTMENTS EXPENSE

| | Comparable Operating Statements | | | | | Proposed Subject Property Forecast | |
|-----------------------|---------------------------------|--------|---------|---------|---------|------------------------------------|---------------------|
| | #1 | #2 | #3 | #4 | #5 | 2026 | Deflated Stabilized |
| Percentage of Revenue | 47.7 % | 46.6 % | 72.1 % | 60.5 % | 60.2 % | 40.8 % | 40.0 % |
| Per Available Room | \$2,689 | \$170 | \$3,106 | \$2,782 | \$5,301 | \$565 | \$504 |
| Per Occupied Room | \$11.04 | \$0.74 | \$13.35 | \$11.40 | \$19.35 | \$2.46 | \$2.00 |

Spa/Salon Expense

We have projected a stabilized expense ratio of 80.5% in 2028.

Administrative and General Expense

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

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

FIGURE 7-14 ADMINISTRATIVE AND GENERAL EXPENSE

| | Comparable Operating Statements | | | | | Proposed Subject Property Forecast | |
|-----------------------|---------------------------------|----------|----------|---------|---------|------------------------------------|---------------------|
| | #1 | #2 | #3 | #4 | #5 | 2026 | Deflated Stabilized |
| Percentage of Revenue | 6.4 % | 9.8 % | 7.8 % | 6.8 % | 6.8 % | 6.5 % | 6.1 % |
| Per Available Room | \$8,580 | \$10,126 | \$10,484 | \$7,089 | \$6,869 | \$9,655 | \$8,750 |
| Per Occupied Room | \$35.21 | \$44.30 | \$45.06 | \$29.06 | \$25.08 | \$41.99 | \$34.74 |

Information and Telecommunications Systems Expense

Information and telecommunications systems expense consists of all costs associated with a hotel's technology infrastructure. This includes the costs of cell phones, administrative call and Internet services, and complimentary call and Internet services. Expenses in this category are typically organized by type of technology or the area benefiting from the technology solution.

Marketing Expense

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

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

Marketing expenditures are unusual because, although there is a lag period before results are realized, the benefits are often extended over a long period. Depending on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the

favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months.

FIGURE 7-15 MARKETING EXPENSE

| | Comparable Operating Statements | | | | | Proposed Subject Property Forecast | |
|-----------------------|---------------------------------|---------|---------|---------|---------|------------------------------------|---------------------|
| | #1 | #2 | #3 | #4 | #5 | 2026 | Deflated Stabilized |
| Percentage of Revenue | 5.9 % | 3.8 % | 5.7 % | 5.4 % | 3.4 % | 4.5 % | 4.2 % |
| Per Available Room | \$7,844 | \$3,889 | \$7,676 | \$5,601 | \$3,456 | \$6,620 | \$6,000 |
| Per Occupied Room | \$32.19 | \$17.02 | \$32.99 | \$22.96 | \$12.62 | \$28.79 | \$23.82 |

Franchise Fee

As discussed previously, the proposed subject property is expected to be operated independent of a brand; as such, there will be no franchise agreement, and no franchise fees are anticipated to be required throughout the ten-year forecast period.

Property Operations and Maintenance

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

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

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

Changes in this expense item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy.

FIGURE 7-16 PROPERTY OPERATIONS AND MAINTENANCE EXPENSE

| | Comparable Operating Statements | | | | | Proposed Subject Property Forecast | |
|-----------------------|---------------------------------|---------|---------|---------|---------|------------------------------------|---------------------|
| | #1 | #2 | #3 | #4 | #5 | 2026 | Deflated Stabilized |
| Percentage of Revenue | 2.5 % | 6.3 % | 2.7 % | 3.6 % | 2.9 % | 2.6 % | 2.4 % |
| Per Available Room | \$3,402 | \$6,566 | \$3,690 | \$3,727 | \$2,968 | \$3,862 | \$3,500 |
| Per Occupied Room | \$13.96 | \$28.73 | \$15.86 | \$15.28 | \$10.84 | \$16.79 | \$13.90 |

Utilities Expense

The utilities consumption of a lodging facility takes several forms, including water and space heating, air conditioning, lighting, cooking fuel, and other miscellaneous power requirements. The most common sources of hotel utilities are electricity, natural gas, fuel oil, and steam. However, in the case of the subject hotel, the use of geothermal energy will eliminate the need for oil and gas, thereby reducing expenses within this category. According to the developers of the subject property, savings related to the use of geothermal energy typically range from 30-70% for heating and 20-50% for cooling. This category also includes the cost of water service.

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement their utility requirements with less expensive sources, such as gas and oil, for heating and cooking. The changes in this utilities line item through the projection period are a result of the application of the underlying inflation rate and projected changes in occupancy.

FIGURE 7-17 UTILITIES EXPENSE

| | Comparable Operating Statements | | | | | Proposed Subject Property Forecast | |
|-----------------------|---------------------------------|---------|---------|---------|---------|------------------------------------|---------------------|
| | #1 | #2 | #3 | #4 | #5 | 2026 | Deflated Stabilized |
| Percentage of Revenue | 2.0 % | 2.1 % | 2.2 % | 2.0 % | 2.7 % | 1.9 % | 1.8 % |
| Per Available Room | \$2,625 | \$2,193 | \$3,008 | \$2,105 | \$2,774 | \$2,869 | \$2,600 |
| Per Occupied Room | \$10.77 | \$9.60 | \$12.93 | \$8.63 | \$10.13 | \$12.48 | \$10.32 |

Management Fee

Management expense consists of the fees paid to the managing agent contracted to operate the property. Some companies provide management services and a brand-name affiliation (first-tier management company), while others provide management services alone (second-tier management company). Some management contracts specify only a base fee (usually a percentage of total revenue), while others call for both a base fee and an incentive fee (usually a

percentage of defined profit). Basic hotel management fees are often based on a percentage of total revenue, which means they have no fixed component. While base fees typically range from 2.0% to 4.0% of total revenue, incentive fees are deal specific and often are calculated as a percentage of income available after debt service and, in some cases, after a preferred return on equity. Management fees for the proposed subject hotel have been forecast at 3.0% of total revenue.

Property Taxes

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

FIGURE 7-18 HISTORICAL PROPERTY TAX BURDEN (BASE YEAR)

| Year | Real Property | | | |
|------|----------------|--------------|---------------------|----------------|
| | Assessed Value | | | Percent Change |
| | Land | Improvements | Real Property Total | |
| 2020 | \$889,400 | \$987,000 | \$1,876,400 | — |
| 2021 | 889,400 | 987,000 | 1,876,400 | 0.0 % |
| 2022 | 889,400 | 987,000 | 1,876,400 | 0.0 |
| 2023 | 889,400 | 987,000 | 1,876,400 | 0.0 |

Source: Town of Chester Assessor's Office

Depending on the taxing policy of the municipality, property taxes can be based on the value of the real property or the value of the personal property and the real property. We have based our estimate of the proposed subject property's market value (for tax purposes) on an analysis of assessments of comparable hotel properties in the local municipality.

FIGURE 7-19 COUNTY-ASSESSED VALUE OF COMPARABLE HOTELS

| Hotel | Year Open | Land | Improvements | Total |
|--------------------------------------|-----------------|--------------------|---------------------|---------------------|
| Subject Property | 2026 | \$889,400 | \$987,000 | \$1,876,400 |
| Friends Lake Inn Chestertown* | 1983 | 318,000 | 1,682,000 | 2,000,000 |
| The Fern Lodge | 2006 | 470,000 | 918,200 | 1,388,200 |
| <i>Assessments per Room</i> | <i># of Rms</i> | | | |
| Friends Lake Inn Chestertown* | 18 | 17,667 | 93,444 | 111,111 |
| The Fern Lodge | 5 | 94,000 | 183,640 | 277,640 |
| Positioned Subject - Per Room | 59 | \$20,000 | \$343,000 | \$363,000 |
| Positioned Subject - Total | | \$1,180,000 | \$20,237,000 | \$21,417,000 |

*Friends Lake Inn is Only Competitor Located in Town of Chester

Source: Town of Chester Assessor's Office

We have positioned the future assessment levels of the subject site and proposed improvements, based upon the illustrated comparable data and construction budget. We have positioned the land assessment per room closest to the Friends Lake, because of its similarity in location, and we have positioned the improvement assessment per room closer to the Fern Lodge, as it features an upscale product offering, more similar to what is expected to be offered at the proposed subject hotel. However, we note that the proposed subject hotel will be the first luxury, resort-style hotel in the Town of Chester, with superior softgoods, case goods, FF&E, and overall product than what is currently available in the market. Therefore, we have also relied upon the construction budget as a basis for our property assessment positioning, as the Town Assessor reported they will utilize this budget in setting the assessed value upon completion of construction.

Tax rates are based on the city and county budgets, which change annually. The most recent tax rate in this jurisdiction was reported at 13.762%. The following table shows changes in the tax rate during the last several years.

FIGURE 7-20 COUNTY TAX RATES

| Year | Real Property Millage Rate |
|------|-------------------------------|
| 2020 | 13.970 |
| 2021 | 14.033 |
| 2022 | 13.460 |
| 2023 | 13.762 |

Source: Town of Chester Assessor's Office

Based on comparable assessments and the tax rate information, the following table illustrates the proposed subject property's projected property tax expense levels.

FIGURE 7-21 PROJECTED PROPERTY TAX BURDEN (BASE YEAR)

| | Real Property | | |
|--|---------------|--------------|--------------|
| | Land | Improvements | Total |
| Positioned (Assessed Value) | \$1,180,000 | \$20,237,000 | \$21,417,000 |
| Equalization Rate | | | 1.00000 |
| Millage Rate | | | 13.76180 |
| Tax Burden as of Current Assessment Year | | | \$294,736 |

FIGURE 7-22 PROJECTED PROPERTY TAX EXPENSE – REAL PROPERTY

| Year | Real Tax Burden (Positioned Prior to Increase) | Real Property | | Taxes Payable |
|------------|---|-------------------------------------|-------------------------------|------------------|
| | | Base Rate of Tax Burden Increase | % of Positioned Tax Burden | |
| Positioned | \$294,736 | — | | \$294,736 |
| 2026 | \$294,736 | 6.1 % | 100 % | \$312,686 |
| 2027 | 312,686 | 3.0 | 100 | 322,066 |
| 2028 | 322,066 | 3.0 | 100 | 331,728 |
| 2029 | 331,728 | 3.0 | 100 | 341,680 |
| 2030 | 341,680 | 3.0 | 100 | 351,931 |
| 2031 | 351,931 | 3.0 | 100 | 362,489 |
| 2032 | 362,489 | 3.0 | 100 | 373,363 |

As previously mentioned, the proposed subject property has been granted a ten-year exemption on property taxes by the Warren & Washington Counties IDA. This

exemption reduces the overall tax payment by 50% in the first five years, and by 25% in the following five years. The proposed subject property will be subject to the full tax burden in year eleven and so forth. The following chart illustrates our calculation of the PILOT amounts, as well as the total net exemption through the IDA Tax exemption program.

FIGURE 7-23 INSURANCE EXPENSE

| PILOT YEAR | % REDUCTION OF PAYMENT | COUNTY PILOT AMOUNT | TOWN PILOT AMOUNT | SCHOOL PILOT AMOUNT | TOTAL PILOT EXEMPTION | FULL PAYMENT W/O PILOT* | PAYMENT W/ PILOT EXEMPTION |
|------------|---------------------------|------------------------|----------------------|------------------------|--------------------------|----------------------------|-------------------------------|
| 1 | 50% | \$24,853 | \$9,410 | \$43,177 | \$77,440 | \$231,163 | \$153,723 |
| 2 | 50% | \$24,853 | \$9,410 | \$43,177 | \$77,440 | \$238,098 | \$160,658 |
| 3 | 50% | \$24,853 | \$9,410 | \$43,177 | \$77,440 | \$245,241 | \$167,801 |
| 4 | 50% | \$24,853 | \$9,410 | \$43,177 | \$77,440 | \$252,598 | \$175,159 |
| 5 | 50% | \$24,853 | \$9,410 | \$43,177 | \$77,440 | \$260,176 | \$182,737 |
| 6 | 25% | \$37,280 | \$14,115 | \$64,765 | \$116,159 | \$267,981 | \$151,822 |
| 7 | 25% | \$37,280 | \$14,115 | \$64,765 | \$116,159 | \$276,021 | \$159,861 |
| 8 | 25% | \$37,280 | \$14,115 | \$64,765 | \$116,159 | \$284,302 | \$168,142 |
| 9 | 25% | \$37,280 | \$14,115 | \$64,765 | \$116,159 | \$292,831 | \$176,671 |
| <u>10</u> | <u>25%</u> | <u>\$37,280</u> | <u>\$14,115</u> | <u>\$64,765</u> | <u>\$116,159</u> | <u>\$301,615</u> | <u>\$185,456</u> |
| Totals | | \$310,666 | \$117,623 | \$539,707 | \$967,996 | \$2,650,026 | \$1,682,031 |

**Assumes 3.0% increase in Property Taxes per year*

The property tax savings through the IDA exemption program are presented in the following chart; these exemption benefits have been discounted in order to produce a present value of the program, which have been added into the overall reversion value upon disposition of the hotel; furthermore, we note that property tax exemptions are not reflected in our forecast of property tax payments, but rather the full tax burden that would be applicable without the benefit of an IDA exemption program.

FIGURE 7-24 PROPERTY TAX SAVINGS VALUE

| Year | Tax Without Abatement | Taxes With Abatement | Benefit | Discount Rate 6.0% | Present Value |
|------|-----------------------|----------------------|----------|--------------------|------------------------|
| 2026 | \$231,163 | \$153,723 | \$77,440 | 0.9434 | \$73,056 |
| 2027 | 238,098 | 160,658 | 77,440 | 0.8900 | 68,921 |
| 2028 | 245,241 | 167,801 | 77,440 | 0.8396 | 65,020 |
| 2029 | 252,598 | 175,159 | 77,440 | 0.7921 | 61,339 |
| 2030 | 260,176 | 182,737 | 77,440 | 0.7473 | 57,867 |
| 2031 | 267,981 | 151,822 | 116,159 | 0.7050 | 81,888 |
| 2032 | 276,021 | 159,861 | 116,159 | 0.6651 | 77,253 |
| 2033 | 284,302 | 168,142 | 116,159 | 0.6274 | 72,880 |
| 2034 | 292,831 | 176,671 | 116,159 | 0.5919 | 68,755 |
| 2035 | 301,615 | 185,456 | 116,159 | 0.5584 | 64,863 |
| | | | | | <u>\$691,842</u> |
| | | | | | (say) \$692,000 |

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage.

Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy.

FIGURE 7-25 INSURANCE EXPENSE

| | Comparable Operating Statements | | | | | Proposed Subject Property Forecast | |
|-----------------------|---------------------------------|---------|---------|---------|---------|------------------------------------|---------------------|
| | #1 | #2 | #3 | #4 | #5 | 2026 | Deflated Stabilized |
| Percentage of Revenue | 0.8 % | 1.2 % | 1.1 % | 1.1 % | 1.8 % | 0.8 % | 0.7 % |
| Per Available Room | \$1,004 | \$1,238 | \$1,441 | \$1,134 | \$1,790 | \$1,131 | \$1,000 |
| Per Occupied Room | \$4.12 | \$5.42 | \$6.19 | \$4.65 | \$6.54 | \$4.92 | \$3.97 |

Reserve for Replacement

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

Periodic replacement of FF&E is essential to maintain the quality, image, and income-producing potential of a lodging facility. Because capitalized expenditures are not included in the operating statement but affect an owner's cash flow, a forecast of income and expense should reflect these expenses in the form of an appropriate reserve for replacement.

The International Society of Hospitality Consultants (ISHC) oversees a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent study was published in 2023.⁷ Historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by most of the major hotel companies in the United States. A prospective analysis of future capital expenditure requirements was also performed based upon the cost to replace short- and long-lived building components over a hotel's economic life. The study showed that the capital expenditure requirements for hotels vary significantly from year to year and depend upon both the actual and effective ages of a property. The results of this study showed that hotel lenders and investors are requiring reserves for replacement ranging from 4.0% to 5.0% of total revenue.

Based upon the results of our analysis, our review of the proposed subject asset, and current industry norms, a reserve for replacement equal to 4.0% of total revenues has been factored into our forecast of revenue and expense for funding the periodic replacement of the proposed subject property's FF&E. This amount has been ramped up during the initial projection period.

Forecast of Revenue and Expense Conclusion

Projected total revenue, gross operating profit, and EBITDA Less Replacement Reserve are set forth in the following table. Moreover, based on our conversations with a representative of the IDA, the sales and use tax exemption should be reduced to 67% of the new assessed value following completion of construction in order to exclude expenses that were not specifically related to construction materials and FF&E, such as professional fees, legal fees, and insurance, among others. As forecast, approximately \$620,000 of this benefit will be reimbursed to the subject property owners in 2027, and the remaining approximately \$330,000 will be reimbursed to the subject property owners in 2028. These individual payments account for the forecasted decline in EBITDA Less Replacement Reserve in 2028 and 2029.

⁷ The International Society of Hotel Consultants, *CapEx 2023, A Study of Capital Expenditures in the U.S. Hotel Industry*.

FIGURE 7-26 FORECAST OF REVENUE AND EXPENSE CONCLUSION

| | Year | Total Revenue | | Gross Operating Profit | | House Profit Ratio | EBITDA Less Replacement Reserve | | |
|------------------|------|---------------|----------|------------------------|----------|--------------------------|---------------------------------|----------|----------------------|
| | | Total | % Change | Total | % Change | | Total | % Change | As a % of Ttl Rev |
| Projected | 2026 | \$8,702,000 | — | \$3,137,000 | — | 36.0 % | \$2,322,000 | — | 26.7 % |
| | 2027 | 9,826,000 | 12.9 % | 3,939,000 | 25.6 % | 40.1 | 3,680,000 | 58.5 % | 37.5 |
| | 2028 | 10,230,000 | 4.1 | 4,162,000 | 5.7 | 40.7 | 3,383,000 | (8.1) | 33.1 |
| | 2029 | 10,537,000 | 3.0 | 4,287,000 | 3.0 | 40.7 | 3,135,000 | (7.3) | 29.7 |
| | 2030 | 10,853,000 | 3.0 | 4,415,000 | 3.0 | 40.7 | 3,229,000 | 3.0 | 29.7 |

8. Feasibility Analysis

Return on investment (ROI) can be defined as the future benefits of an income-producing property relative to its acquisition or construction cost. The first step in performing an ROI analysis is to determine the amount to be initially invested. For a proposed property, this amount is most likely to be the development cost of the hotel. Based on the total development cost, the investor will utilize an ROI analysis to determine if the future cash flow from a current cash outlay meets their own investment criteria and at what level above or below this amount such an outlay exceeds or fails to meet these criteria.

Development Cost Estimate

Because the proposed subject property will be a hotel, we have reviewed the development budget for the proposed subject hotel in performing a cost analysis. The detailed budget is presented in the Description of the Proposed Improvements chapter and reflects a total construction cost of \$21,240,153, including site costs, hard and soft costs, and pre-opening and working capital, as well as any developers fee.

The development cost estimate for the proposed subject property includes allowances for the contractor's overhead and profit but does not include an entrepreneurial incentive. The entrepreneurial incentive is "the amount an entrepreneur expects to receive for his or her contribution to a project.... The amount of entrepreneurial incentive required for a project represents the economic reward sufficient to motivate an entrepreneur to accept the risk of the project and to invest the time and money necessary in seeing the project to completion."⁸ In the case of the subject property, we have elected to not include an entrepreneurial incentive given the strong development opportunity present as this project represents a redevelopment opportunity of a former hotel, thereby lessening the total initial investment necessary from the subject property developers. Additionally, the long-term ownership of the subject property contributes to the lack of a need for an entrepreneurial incentive.

Entrepreneurial incentive is different than entrepreneurial profit, which cannot be measured until it is achieved. Entrepreneurial profit can be achieved through profit on a sale (i.e., the sales price less the development cost) or additional returns on an investment in an operating property. Whether the entrepreneur ultimately realizes a profit depends on how successful they have been in selecting the site, constructing

⁸ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th Edition, 2015

the improvements, positioning the property appropriately in the market, and establishing and stabilizing business operations.

Investment Components

As an individual or company considering investment in hotel real estate, the decision to use one's own cash, an equity partner's capital, or lender financing will be an internal one. Because hotels typically require a substantial investment, only the largest investors and hotel companies generally have the means to purchase properties with all cash. We would anticipate the involvement of some financing by a third party for the typical investor or for those who may be entering the market for hotel acquisitions at this time. In leveraged acquisitions and developments where investors typically purchase or build upon real estate with a small amount of equity cash (20.0% to 50.0%) and a large amount of mortgage financing (50.0% to 80.0%), it is important for equity investors to acknowledge the return requirements of the debt participant (mortgagee), as well as their own return requirements. Therefore, we will begin our rate-of-return analysis by reviewing the debt requirements of typical hotel mortgagees.

Mortgage Component

Hotel financing is available for most tiers of the lodging industry from a variety of lender types. While many lenders remain active, underwriting standards are more stringent than the pre-pandemic market, and loan-to-value ratios remain in the 50.0% to 70.0% range, depending on the actual in-place operating cash flows and debt-service-coverage ratio requirements, among other things. Lenders continue to be attracted to the lodging industry because of the higher yields generated by hotel financing relative to other commercial real estate. Commercial banks, mortgage REITs, private-debt investors, insurance companies, and CMBS and mezzanine lenders continue to pursue deals. At present, we find that lenders that are active in the market are using loan-to-value ratios of 50.0% to 70.0%, and amortization periods of 20 to 30 years.

Over the course of the last decade, the federal funds rate remained relatively low, peaking at 2.25% to 2.5% in late 2018 through mid-year 2019. Subsequently, concern about the trade war and a slowing economy led the Federal Reserve (Fed) to reduce rates three times to a target rate of 1.5% to 1.75%. The rate remained at this level until mid-March 2020, at which point the Fed cut the target rate twice to zero. Furthermore, on March 23, 2020, the Fed pledged to maintain liquidity in debt markets by purchasing as many government and corporate-backed bonds, as necessary. In 2022, the Fed began raising the federal funds rate to combat heightened inflation. By July 2023, eleven increases had brought the rate to a range of 5.25% to 5.50%. Lenders have been adjusting their interest-rate levels to reflect these market conditions. Current interest-rate levels for most typical assets are primarily in the 7.0% to 9.5% range.

Based on our analysis of the current lodging industry mortgage market and adjustments for specific factors, such as the subject site, proposed facility, and conditions in the Chestertown hotel market, we have assumed a mortgage at a loan-to-cost ratio of 55% with an interest rate of 8.00% and an amortization period of 25 years. The following table summarizes the mortgage component.

FIGURE 8-1 MORTGAGE COMPONENT

| | |
|---------------------------------|---------------------|
| Initial Cost | \$21,240,000 |
| Loan to cost | 55.0% |
| Mortgage Amount | <u>\$11,682,000</u> |
| Assumed interest rate | 8.00% |
| Assumed Amortization | 25 years |
| Debt Service Constant | 0.09262 |
| Annual Debt Service | \$1,082,000 |
| Mortgage paid off over 10 years | 19.24% |
| Balance at end of 10 years | \$9,435,000 |

Equity Component

The remaining capital required for the development of the proposed subject property would be the equity investment. This is the balance of the total development cost less the assumed mortgage amount, as illustrated in the table that follows.

FIGURE 8-2 CALCULATION OF EQUITY COMPONENT

| | |
|-------------------|-------------------|
| Initial Cost | \$21,240,000 |
| Mortgage | <u>11,682,000</u> |
| Equity Investment | \$9,558,000 |

Reversion

The return on the development cost is derived from both the annual cash flow and the expectation of a sale of the property at the end of the holding period. For the purposes of this feasibility analysis, we have assumed that the developer would elect to hold the property for ten years. The estimated reversionary sales price as of that date is calculated by capitalizing the projected eleventh-year net income by an overall terminal capitalization rate. An allocation for the selling expenses is deducted from this sales price, and the net proceeds to the equity interest (also known as the equity residual) are calculated by deducting the outstanding mortgage balance from the reversion.

We have reviewed several recent investor surveys. The following chart summarizes the averages presented for terminal capitalization rates in various investor surveys during the past decade.

FIGURE 8-3 TERMINAL CAPITALIZATION RATES DERIVED FROM INVESTOR SURVEYS

| Source | Pre-COVID | | Current | |
|--|--------------------------------|---------|--------------------------------|---------|
| | Data Point Range | Average | Data Point Range | Average |
| <i>HVS Brokers Survey</i> | <i>Fall 2019 Survey</i> | | <i>Fall 2023 Survey</i> | |
| Luxury & Upper Upscale Hotels | 5.5% - 10.0% | 7.5% | 4.0% - 9.5% | 7.2% |
| Full-Service Hotels | 7.5% - 10.0% | 8.4% | 6.0% - 10.0% | 8.5% |
| <i>PWC Real Estate Investor Survey</i> | <i>1st Quarter 2020 Survey</i> | | <i>4th Quarter 2023 Survey</i> | |
| Luxury Hotels | 5.5% - 9.5% | 7.5% | 6.0% - 10.0% | 8.1% |
| Full-Service Hotels | 7.0% - 10.0% | 8.3% | 6.0% - 10.0% | 8.6% |
| <i>USRC Hotel Investment Survey</i> | <i>Winter 2020 Survey</i> | | <i>Mid-Year 2023 Survey</i> | |
| Full-Service Hotels | 5.5% - 8.5% | 7.6% | 7.0% - 10.5% | 8.2% |
| <i>Situs RERC Real Estate Report</i> | <i>1st Quarter 2020 Report</i> | | <i>3rd Quarter 2023 Report</i> | |
| Second Tier Hotels | 7.3% - 11.5% | 9.1% | 8.5% - 12.0% | 10.2% |
| First Tier Hotels | 6.8% - 9.5% | 8.7% | 7.0% - 11.0% | 9.1% |

For purposes of this analysis, we have applied a terminal capitalization rate of 9.00%.

The reversion to the mortgage and equity components is calculated below.

FIGURE 8-4 REVERSION TO MORTGAGE AND EQUITY COMPONENTS

| | |
|--------------------------------|--------------|
| Reversion | |
| Year 11 NOI | 4,547,000 |
| Terminal Cap Rate | 9.00% |
| Estimated Sales Proceeds | \$50,522,000 |
| Less: Transaction Costs @ 2.5% | \$1,263,000 |
| Net Sales Proceeds | \$49,259,000 |
| Less: Mortgage Component | \$9,435,000 |
| Equity Reversion | \$39,824,000 |

Internal Rate-of-Return Analysis

Using the aforementioned investment components, the internal rate of return (IRR) indicated by the EBITDA forecast and the assumed reversionary sales proceeds are calculated, as presented in the following table.

FIGURE 8-5 IRR TO THE TOTAL PROPERTY AND MORTGAGE AND EQUITY COMPONENTS

| Year | Total Project | | Mortgage Component | | Equity Component | |
|--------------------|----------------|----------------------------|--------------------|----------------------------|------------------|----------------------------|
| | Total EBITDA | Annual Cash on Cash Return | Debt Service | Annual Cash on Cash Return | NOI to Equity | Annual Cash on Cash Return |
| Initial Investment | (\$21,240,000) | | (\$11,682,000) | | (\$9,558,000) | |
| 2026 | \$2,322,000 | 10.9 % | \$1,082,000 | 9.3 % | \$1,240,000 | 13.0 % |
| 2027 | 3,680,000 | 17.3 | 1,082,000 | 9.3 | 2,598,000 | 27.2 |
| 2028 | 3,383,000 | 15.9 | 1,082,000 | 9.3 | 2,301,000 | 24.1 |
| 2029 | 3,135,000 | 14.8 | 1,082,000 | 9.3 | 2,053,000 | 21.5 |
| 2030 | 3,229,000 | 15.2 | 1,082,000 | 9.3 | 2,147,000 | 22.5 |
| 2031 | 3,326,000 | 15.7 | 1,082,000 | 9.3 | 2,244,000 | 23.5 |
| 2032 | 3,425,000 | 16.1 | 1,082,000 | 9.3 | 2,343,000 | 24.5 |
| 2033 | 3,528,000 | 16.6 | 1,082,000 | 9.3 | 2,446,000 | 25.6 |
| 2034 | 3,633,000 | 17.1 | 1,082,000 | 9.3 | 2,551,000 | 26.7 |
| 2035 | 3,743,000 | 17.6 | 1,082,000 | 9.3 | 2,661,000 | 27.8 |
| Reversion | 49,259,000 | 231.9 | 9,435,000 | 80.8 | 39,824,000 | 416.7 |
| Ten Year IRR | | 20.2 % | | 7.9 % | | 29.4 % |

Based on our forecast of EBITDA and the development cost, the total project would yield an internal rate of return of 20.2%. Based on the mortgage assumptions, the equity component's initial investment of \$9,558,000 would achieve an internal rate of return of 29.4% over a ten-year holding period.

To evaluate the indicated IRR to the total property, we have reviewed several recent investor surveys, including the *HVS Broker Survey*, *PWC Real Estate Investor Survey*, *USRC Hotel Investment Survey*, and *Situs RERC Real Estate Report*. The following table summarizes the range of discount rates and average IRRs indicated by the investor surveys for hotels similar in class to the proposed subject property.

FIGURE 8-6 RESULTS OF RECENT INVESTMENT SURVEYS – DISCOUNT RATES, HOTELS

| Source | Pre-COVID | | Current | |
|--|--------------------------------|---------|--------------------------------|---------|
| | Data Point Range | Average | Data Point Range | Average |
| HVS Hotel Sales - Full-Service & Luxury | 7.6% - 12.5% | 10.1% | 7.6% - 11.9% | 9.9% |
| HVS Hotel Sales - Select-Service & Extended-Stay | 8.3% - 12.7% | 10.6% | 9.4% - 12.3% | 10.7% |
| HVS Hotel Sales - Limited-Service | 10% - 13.9% | 11.6% | 10.6% - 13.6% | 12.0% |
| <i>HVS Brokers Survey</i> | <i>Fall 2019 Survey</i> | | <i>Fall 2023 Survey</i> | |
| Luxury & Upper Upscale Hotels | 7.0% - 12.0% | 8.9% | 6.0% - 11.5% | 9.8% |
| Full-Service Hotels | 8.0% - 15.0% | 10.6% | 8.0% - 12.5% | 10.6% |
| <i>PWC Real Estate Investor Survey</i> | <i>1st Quarter 2020 Survey</i> | | <i>4th Quarter 2023 Survey</i> | |
| Luxury Hotels | 6.25% - 12.0% | 9.3% | 7.0% - 12.0% | 9.7% |
| Full-Service Hotels | 8.5% - 11.0% | 10.0% | 4.5% - 12.0% | 9.9% |
| <i>USRC Hotel Investment Survey</i> | <i>Winter 2020 Survey</i> | | <i>Mid-Year 2023 Survey</i> | |
| Full-Service Hotels | 7.0% - 10.5% | 9.8% | 9.5% - 12.5% | 10.7% |
| <i>Situs RERC Real Estate Report</i> | <i>1st Quarter 2020 Report</i> | | <i>3rd Quarter 2023 Report</i> | |
| Second Tier Hotels | 6.5% - 13.5% | 10.1% | 9.0% - 13.5% | 11.0% |
| First Tier Hotels | 8.0% - 11.0% | 9.4% | 8.0% - 12.0% | 9.9% |

As discussed, based on our forecast of EBITDA and the development cost, the total project would yield an IRR of 20.2%. The investor surveys indicate discount rates ranging from 6.75% to 12.5%; the averages of the surveys range from 9.5% to 10.9%. Based on these parameters, the calculated return of 20.2% on the project is above the range of returns, primarily due to the fact that the main hotel building, as well as various other structures throughout the proposed subject property, have previously existed prior to this resort concept; as such, the total development cost is significantly lower than that of a ground-up hotel build. Additionally, the tax exemption benefits and Upstate Revitalization Grant that are expected to be received also contribute to this high internal rate of return. Return requirements vary based on an individual investor's circumstances, including the cost and availability of both debt and equity capital. This analysis is intended to provide information to assist the developer in evaluating the feasibility of the proposed project..

Conclusion

In determining the potential feasibility of the Proposed Balsam House Resort, we analyzed the lodging market, researched the area's economics, reviewed the estimated development cost, and prepared a ten-year forecast of income and expense, which was based on our review of the current and historical market conditions, as well as comparable income and expense statements.

The conclusion of this analysis indicates that the property would generate a return of 20.2% on an initial investment of \$21,240,000 . Based on the previously present mortgage loan assumptions, the equity component would receive a return of 29.4%

on the initial investment. Return requirements vary based on an individual investor's circumstances, including the cost and availability of both debt and equity capital. This analysis is intended to provide information to assist the developer in evaluating the feasibility of the proposed project. Furthermore, we note that the investment return percentages are subject to change if the total development cost of the proposed subject property were to increase or decrease.

9. Statement of Assumptions and Limiting Conditions

1. This report is set forth as a feasibility study of the proposed subject property; this is not an appraisal report.
2. This report is to be used in whole and not in part.
3. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed marketable and free of any deed restrictions and easements; the property is evaluated as free and clear unless otherwise stated.
4. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would affect the property's development potential. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
5. We have not considered the presence of potentially hazardous materials or any form of toxic waste on the project site. We are not qualified to detect hazardous substances and urge the client to retain an expert in this field if desired.
6. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have assumed the proposed hotel would be designed and constructed to be in full compliance with the ADA.
7. We have made no survey of the site, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the described real estate will be within the boundaries of the property described, and that no encroachment will exist.
8. All information, financial operating statements, estimates, and opinions obtained from parties not employed by TS Worldwide, LLC, are assumed true and correct. We can assume no liability resulting from misinformation.
9. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject site.
10. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including the appropriate liquor license if applicable), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.

11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
13. We are not required to give testimony or attendance in court because of this analysis without previous arrangements and shall do so only when our standard per-diem fees and travel costs have been paid prior to the appearance.
14. 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.
15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
16. The quality of a lodging facility's onsite management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
17. The financial 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 because of market volatility and economic forces outside the control of the hotel's management. We assume that the price of hotel rooms, food, beverages, and other sources of revenue to the hotel will be adjusted to offset any increases or decreases in related costs. We do not guarantee that our estimates will be attained, but they have been developed based upon information obtained during the course of our market research and are intended to reflect the expectations of a typical hotel investor as of the stated date of the report.
18. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of this analysis or the date of our field inspection, whichever occurs first.
19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out internally to many decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent; thus, these figures may be subject to small rounding errors.

20. 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; the 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.
21. Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide projections, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.
22. This study was prepared by TS Worldwide, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by our staff as company employees, rather than as individuals.