

## Executive Summary

Hospitality Resolutions Inc. (“HRI”) has completed a preliminary economic analysis and financing proposal to consider the development of a first class, full service hotel (the “Hotel,” the “Subject”, the “Proposed Hotel” or, the “Project”) on a site owned by the Client immediately adjacent to the Virginia Horse Center in Lexington, Virginia. The 7.4 acre Site is readily accessible from US Interstates I-64 and I-81.

Noted below are the principal findings and conclusions from HRI’s market reviews.

Lexington, Virginia is an attractive, multi-venue, destination tourist market. Lexington is centrally located in the in the midst of the historic and scenic Shenandoah Valley in west-central Virginia. Two of Virginia’s most prestigious educational institutions - VMI and W&L University - are located within the downtown Lexington District. Lexington’s entire downtown district is listed on the National Register District of Historic Places. Lexington’s bucolic center is located just 2½ miles west of the Client’s Site.

Lexington, with it population of 7000, is the county seat and the largest city in Rockbridge County. The next largest city in the County, Buena Vista, with a population of 6300, lies 6 miles to the east of Lexington. The local economy of the larger market area (to include Rockbridge County) has a population of 34000 residents and an employed base of 14000 workers. The market is diversified and not entirely reliant on tourism. The top three employment sectors in the area are Services (25.5%), Manufacturing (23.8%) and Trade (22.8%). The local manufacturing rate is far above the statewide average (at 11.3%). Area unemployment (2000) was less than 2%.

The single most important influence on the local economy and, for that matter, on the Proposed Hotel is the Horse Center (the “Center”) located on Route 39 just two miles east of downtown Lexington. Since opening in 1987, the Center has hosted nearly 1,000 events of state, national and international importance - it has attracted 300,000 participants and almost 5 million spectators to its diverse annual programs.....and, the Horse Center has contributed \$ 30 million per year to the local economy. In 2002, the Center hosted 81 horse events spread over 242 days. A typical event includes 350 to 400 horses and approximately 4000 participants, spectators or exhibitors. Most events are multi-day programs, many are three or four days events.

The Lexington Area’s lodging business has grown significantly since the inception of the Horse Center. Lexington’s current lodging (about 1,200 rooms in total) has benefitted from the growth and expansion of the Horse Center. A recent study undertaken by the University of Virginia attributes annual lodging expenditures of \$6.3 million to activities and events at the Center. A further survey from fifteen hotels in the market, indicates that 26% of all rooms sold are attributable to activities at the Center. Hotels located closer to the Center would be expected to capture a significantly greater portion of revenues from activities at the Center.

Select competitors in the market are operating at an annual occupancy pace of 60.2% with an average rate of \$80.00 - very credible performance in view of the economic conditions and concerns over terrorism and international events which overhang many similar markets. Leading competitors among the group are operating at premium rates in excess of the group averages.

Currently, the Center is about to embark on a \$10 million expansion program converting the recently acquired 196 acre Oak Hill farm to new or expanded facilities for Cross Country Trails , Steeplechase and Carriage Driving events. The expansion program will allow the Center to host the highest level of competition, such as the Olympic Trials. Funds for the expansion are being raised from the private sector. In HRI’s view, the Center’s planned expansion will support selective additions to the existing lodging supply.

## Property Description

After reviewing market demand, competitive locations and illustrative design and prototype hotel prints, HRI has recommended that the Proposed Hotel be built in a contemporary style with a facade resembling a country house and that the seven acre site itself, be designed with a long driveway and landscaped grounds to provide a inviting sense of arrival. In HRI's view, the Hotel should be built and positioned as an 'Upscale Inn' .

The Proposed Hotel (or, preferably, the Inn) will be built with 135 guest units, 5000 sf of meeting space (convertible to a large ballroom or separable up to six meeting rooms), a separate pub style restaurant/lobby lounge (with seating 50 to 60 guests), adequate pre-function corridor space, a kitchen sized to service the restaurant and function space, a fitness center, an indoor pool, a business center (with fax, copying, computer and Internet services available), a gift shop with convenience items (newspapers, magazines, toiletries and snacks) and vending machines located throughout the Inn. The Inn will be built with all interior corridors, adequate lighting and access controlled with an electronic card lock system. To conserve landscaped grounds, HRI would prefer a five story building containing 78,000 square feet - its footprint will be 15,200 square feet, excluding the porte-cochere.

Guest units will vary in type and size with up to 60 king rooms (338 sf); 70 doubles (338 to 392 sf); and up to five suites (550 to 610 sf). Guest units will include comfortable, but fully functional furnishings, including a desk with an ergonomic chair, task lighting, convenient outlets, data ports in the king rooms and a small dining table with seating for two in double rooms. Each unit will also contain either a lounge chair with ottoman or sleep sofa and king or double beds with comfortable sleep-sets and high quality linens - some poster beds are recommended. Convenience items will include a 25 inch television, coffee maker, bottled water, a hair dryer, iron & ironing board, closet and clock radio. Lavatories and vanities will be stocked with plush towels, bathrobes and upscale amenities (branded lotions, shampoos and soaps). The suites should include added amenities (fruit basket, floral arrangements, etc.) Each room will have independently operated temperature controls for air conditioning and fresh air ventilation. The Hotel's artwork, in both the public spaces and the guest rooms, should convey appropriate themes (countryside, horse farms and equestrian scenes).

In HRI's view, the Hotel will cater to visitors and patrons of the Horse Center and to equestrian groups. HRI anticipates that up to 60% of the hotels rooms will be sold to families and groups whose primary interest is the Horse Center. Sales to this key group, will be captured and referred by the reservations and referral services provided by the Center. Many of the guests with "equestrian" connections will represent multi-day stays. Further, with an effective direct sales efforts, the Hotel could capture an added 20 to 25% of rooms sold from events or activities of VMI and W&L University. University events and activities often require function rooms and could include social dining (banquet) events. The Inn will be the only hotel facility in the market suited to accommodate large group functions with dining. The balance of rooms sold (15% to 20%) could result from tour groups and local corporate referrals that requiring a hotel with function rooms and food and beverage operations. The Inn will target its marketing to committed equestrian enthusiasts and, as a results, the Inn's success will be less dependent on capturing overnight leisure transients and 'Lexington' tourists.

In HRI's view, the Inn will be positioned as the 'finest' hotel in the market. The Inn can achieve and sustain premium occupancy and room rates by providing product integrity and superior service while maintaining an appropriate price/value relationship (no gouging). During many of the major events hosted at the Horse Center, the Inn will be sold out to patrons of the Center. With the Center hosting 80 to 100 events a year, many of which are 3 to 4 day events, the Inn will be far less sensitive to the seasonal occupancy patterns and cyclical economic downturns than its limited service competitors that are more reliant on transient tourist travelers.



An Illustrative Prototype, Not a Rendering of the Proposed Hotel

LINE	BEARING	DISTANCE
L1	S 85°30'46" W	6.10
L2	N 54°38'26" W	20.00
L3	N 39°36'02" E	194.99
L4	S 00°43'37" W	34.02
L5	N 84°55'19" E	172.10
L6	S 54°28'22" E	97.01

CURVE	ARC	DELTA	RADIUS	CHORD LENGTH	CHORD BEARING	TAN LENGTH
C1	123.14	26°36'47"	265.10	122.03	S 73°12'23" W	62.15
C2	75.83	06°28'20"	671.33	75.79	S 56°34'57" W	37.55
C3	229.42	20°38'51"	636.62	229.16	S 29°08'29" E	115.37
C4	57.66	57°58'47"	33.72	50.89	S 42°05'24" W	36.78

THE VIRGINIA EQUINE CENTER FOUNDATION  
 TM 0510000A00000019  
 DB 422-529 PC 3-171

*Tom A. U. 9/25/01*  
 APPROVAL DIRECTOR OF PLANNING  
 TM 0510000A00000796  
 MORTGAGE SUBDIVISION



SEE HIGHWAY PLAT BOOK E-216 AND DEED  
 BOOK 494-205

BASED ON ACTUAL FIELD SURVEY

THIS PARCEL OF PROPERTY IS SUBJECT TO VIRGINIA DEPARTMENT OF TRANSPORTATION RIGHT OF WAY FOR ROUTE  
 39 AND ROUTE 750

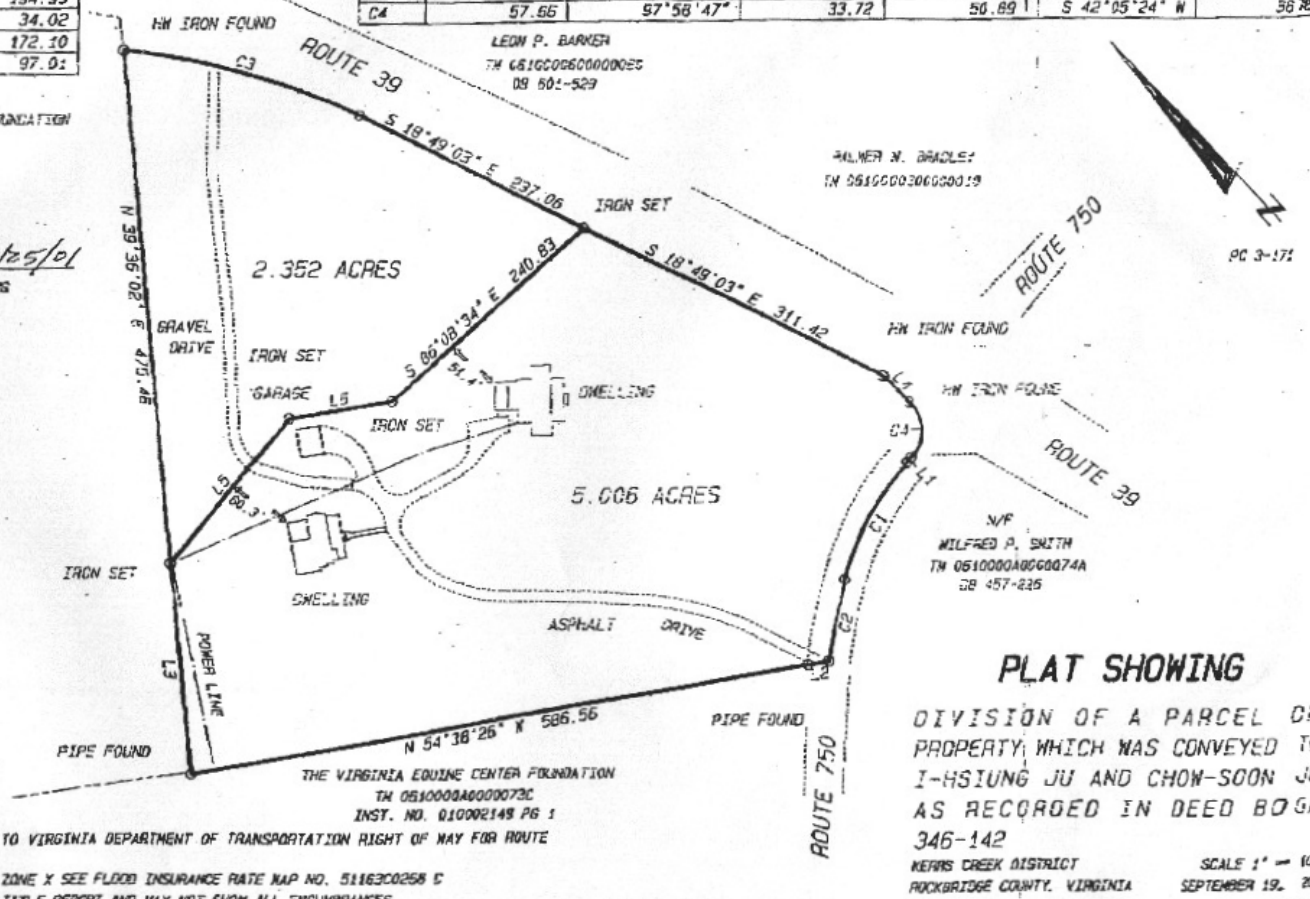
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THIS SURVEY DONE WITHOUT BENEFIT OF TITLE REPORT AND MAY NOT SHOW ALL ENCUMBRANCES

DORSEY SURVEYING P.L.C.  
 POST OFFICE BOX 1096  
 LEXINGTON, VA. 24450  
 540-463-4893

**DORSEY SURVEYING P.L.C.**

F.B.	JGD	NO.	DATE	BY	REVISION	FILE NO.
NAME	JUR					1627
DTSK						SHEET OF



**PLAT SHOWING**

DIVISION OF A PARCEL OF  
 PROPERTY WHICH WAS CONVEYED TO  
 I-HSIUNG JU AND CHOW-SOON JU  
 AS RECORDED IN DEED BOOK  
 346-142

KEARNS CREEK DISTRICT  
 ROCKBRIDGE COUNTY, VIRGINIA  
 SCALE 1" = 100'  
 SEPTEMBER 19, 2001

## **Market - General Conditions**

### **The Market**

HRI would consider the City of Lexington, Virginia to be an attractive, multi-venue, destination tourist market. Lexington is centrally located in the midst of the historic and scenic Shenandoah Valley in west-central Virginia. Lexington is the County Seat of Rockbridge County and the location of two of Virginia's most prestigious universities - Virginia Military Institute (VMI) and Washington and Lee University (W&L). Lexington's entire downtown district is listed on the National Register District of Historic Places.

Lexington hosts most of the historical, cultural and recreational attractions in the market - its sister city of Buena Vista, six miles to the east, is viewed as the industrial and manufacturing nucleus of the area. The Virginia Horse Center located, just to the east of Lexington's downtown, has considerably broadened the appeal and strengthened the economic fabric of the market. While Lexington's downtown provides the region's historic and cultural conscience, and Buena Vista provides the jobs, the Horse Center could be considered as the 'Economic Engine' fueling growth in the market.

### **Market Access**

The Lexington market area is located within a one day drive of half the population of the United States. Lexington is located 50 miles north of Roanoke; 140 miles west of Richmond; and 190 miles southwest of Washington, D.C. More distant, but still readily accessible markets include: Greensboro, North Carolina, 145 miles and Baltimore, Maryland 210 miles. Still within a 500 mile radius are: Atlanta, Georgia, 440 miles; New York City, 460 miles; and Cincinnati, Ohio, 460 miles. Interstates I-81 (north-south) and I-64 (east-west) intersect approximately 2 miles east of Lexington. The interstates connect the market with all the major metropolitan areas of the Northeast, Mid Atlantic and South Atlantic coastal regions. US Routes 11 (north-south) and 60 (east-west) provide alternate access to the market and the Blue Ridge Parkway offers a scenic access route for distant travelers.

Commercial air service to the area is available from regional airports within one hour's drive at Roanoke or Lynchburg. Those airports are serviced with direct flights provided by major carriers. The Shenandoah Valley Regional Airport, a commercial facility located in Augusta County, 45 miles from Lexington, provides connecting service on flights operated by US Airways Express and United Express

### **Local Economy**

While tourism is a key component of the local economy, the Rockbridge Area (consisting of Rockbridge, Lexington and Buena Vista) has demonstrated a relative measure of economic strength and diversity. The top three employment sectors in the area are Services (25.5%), Manufacturing (23.8%) and Trade (22.8%). Traditionally Manufacturing has been the largest sector in the area and, even with recent declines, the local manufacturing rate is far above the statewide average (at 11.3%). Manufacturing firms employed approximately 33% of the persons working in Rockbridge County; 39% of those working in Buena Vista; but only 11% of those working in the city of Lexington. By contrast, 70% of the persons employed in the city of Lexington were employed in the Services and Trades sectors. During 2000, the Civilian Labor Force residing in the Rockbridge County-Buena Vista-Lexington area reached 16,982 workers - unemployment rates ranged from 1.1% in Lexington to 1.8% in Buena Vista - Area unemployment was 1.6%

## Market - General Conditions (Continued)

### The Horse Center

The single most important influence on the local economy and, for that matter, on the Proposed Hotel is the Virginia Horse Center (the “Center”) located on Route 39 just two miles east of downtown Lexington. As a facility for horse shows and events, the Center has few equals. The Center, from its 600 acre scenic setting, provides state of the art facilities enjoyed by spectators and exhibitors from around the world including:

- . an indoor coliseum that seats 4500 and provides performance floor-space measuring 150 by 300 feet
- . An outdoor arena with covered grandstand seating 1000 and a 36000 square foot covered arena
- . eight barns (four winterized) with an indoor stabling capacity of nearly 1000 horses
- . twelve show rings, cross country, steeplechase timber and carriage courses (under development).

Since opening in 1987, the Center has had a significant impact on the local economy. Consider that the Center has hosted nearly 1,000 events of state, national and international importance. It has provided educational programs to youths and adults, including opportunities for handicapped riders and tours for school children. It has attracted 300,000 participants and almost 5 million spectators to its diverse annual programs.....And, the Center has contributed \$ 30 million per year to the local economy.

In 2002, the Center hosted 81 horse events spread over 242 days. A typical event includes 350 to 400 horses and approximately 4000 participants, spectators or exhibitors. Most events are multi-day programs, many are three or four days events. Recent popular shows included (1) an Arabian show in July 2002 with 1,000 horses; (2) an event hosted by the World Percheron Congress with 650 draft horses; (3) Quarter Horse shows; (4) Morgan Horse shows; (5) a five day Hunter Jumper show with 500 horses; and, (6) a Polo match with the visiting British Army Polo team and a team of Virginia All-Stars. A limited number of other animal events are hosted at the site and the Center hosts the annual Rockbridge Fair.

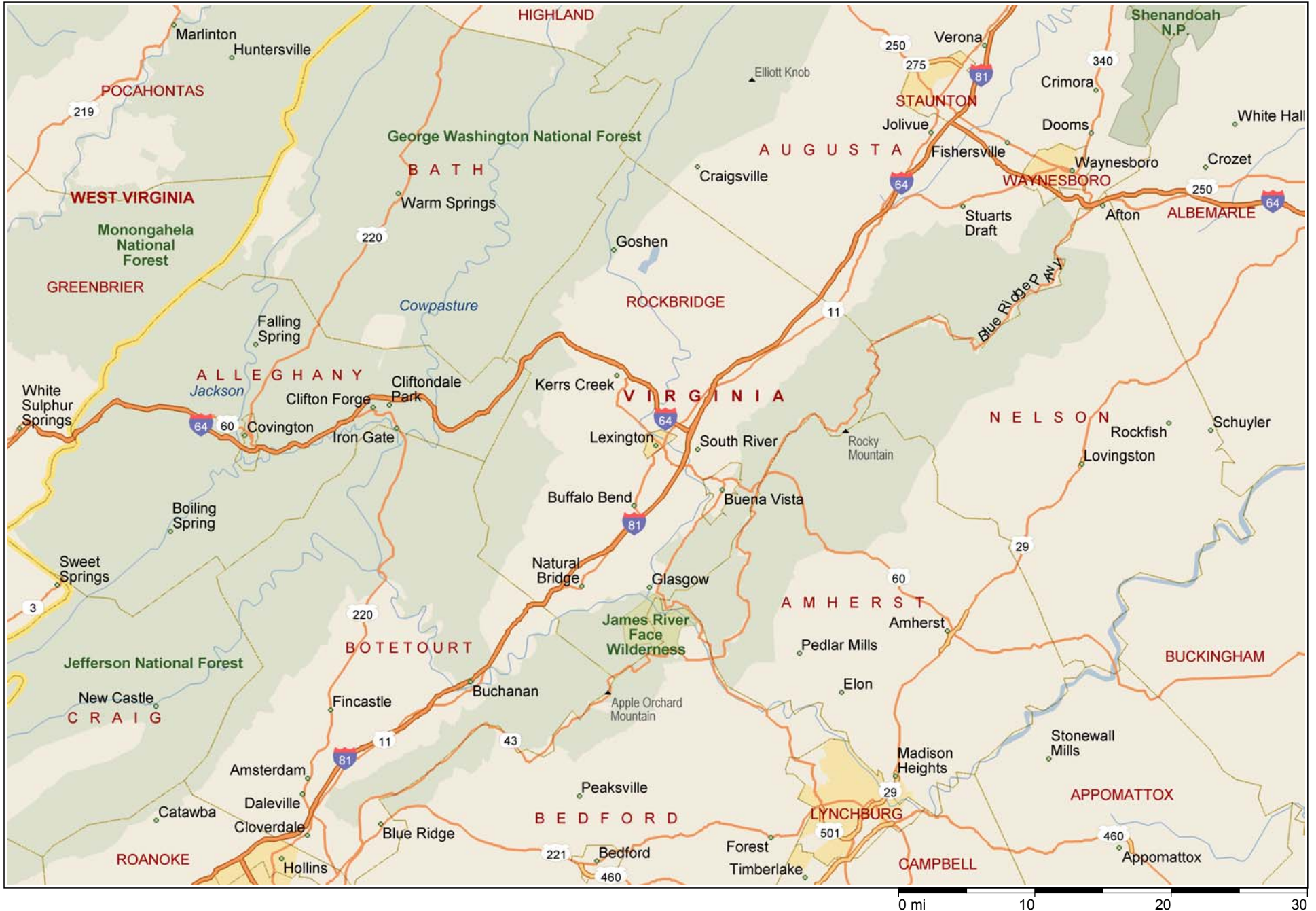
The Center was created by Virginia’s General Assembly in 1985 to enhance the economic impact of the horse industry in the state and to provide a showplace for state, national and international horse competitions and a marketplace for horse promotions and sales. Certainly, the Center has accomplished much of its mission. Currently, the Center is about to embark on a \$10 million expansion program converting the recently acquired 196 acre Oak Hill farm to new or expanded facilities for Cross Country Trails , Steeplechase and Carriage Driving events. The expansion program will allow the Center to host the highest level of competition, such as the Olympic Trials. Funds for the expansion are being raised from the private sector.

The Lexington Area’s lodging business has grown significantly since the inception of the Horse Center. Lexington’s current lodging (about 1,200 rooms in total) has benefitted from the growth and expansion of the Horse Center. A recent study undertaken by the University of Virginia attributes annual lodging expenditures of \$6.3 million to activities and events at the Center. A separate survey of fifteen lodging establishments attributed 26% of room sold on an annual basis, to the activities and events at the Center. In HRI’s view, Hotels located in close proximity to the Center (namely, the Best Western, the Wingate, the Super 8, the Comfort Inn, County Inn and Suites and the Holiday Inn Express) capture a far greater share of their business (say up to 40 to 50%) from events hosted at the Center. Conversely, hotels located within the downtown district of Lexington could be expected to be more dependent on tourism and university related events and less dependent on the events hosted at the Horse Center.

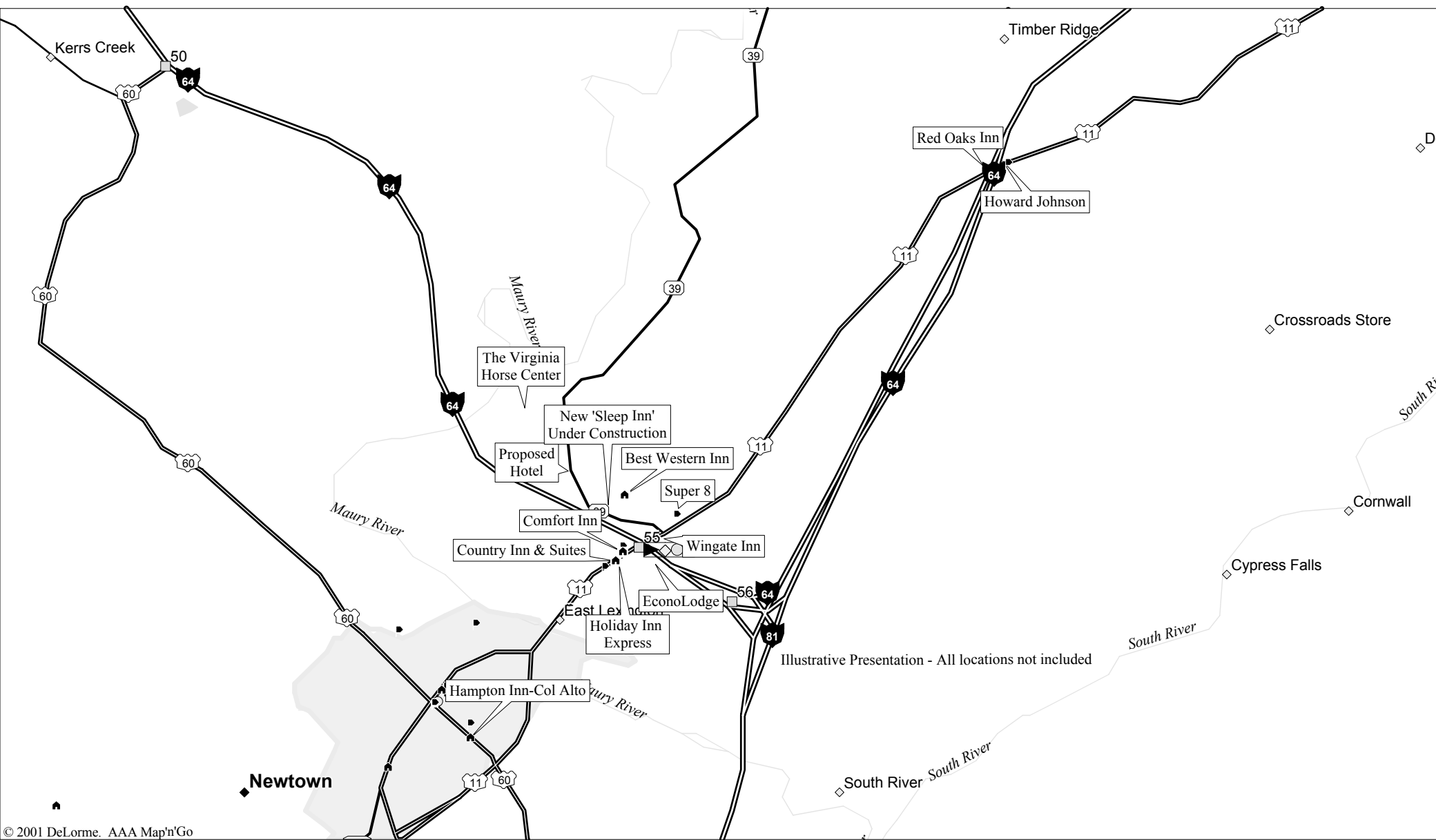
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Much of the market information included on pages four and five herein has been extracted from material published by The Central Shenandoah Planning District, Lexington & Rockbridge Visitors Center, Rockbridge Partnership for Economic Development and the News-Gazette. HRI attributes full credit to those agencies providing the published information.

# Lexington, Virginia - Area Map



# Lexington, Va. - Competitive Lodging Supply



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Mag 13.00  
Sun Nov 09 15:40 2003

Scale 1:62,500 (at center)  
1 Miles  
2 KM

— Major Connector  
— State Route

▲ Exit/Gas  
◇ Exit/Lodging

● Exit/Food  
— US Highway