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## Market Study

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### Proposed Renaissance Convention Hotel

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### Schaumburg, Illinois

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Prepared by:

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Submitted to:

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December 5, 2003

Mr. Brian A. Townsend  
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Village of Schaumburg, Illinois  
Municipal Center  
Schaumburg, Illinois 60193-1899  
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Re: Proposed Convention Hotel  
Schaumburg, Illinois  
HVS Reference: #2003090292

Dear Mr. Townsend:

Pursuant to your request, we herewith submit our study pertaining to the above-captioned property. We have inspected the site and facilities and analyzed the hotel market conditions in Schaumburg and the surrounding areas. The conclusions reached are based upon our present knowledge of lodging conditions in the competitive market, as of the completion of our fieldwork on October 31, 2003.

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

Very truly yours,  
HVS INTERNATIONAL  
Division of H&R Valuation Services, Inc.

Bethany Cronk, MBA  
Vice President  
Associate Member of the Appraisal Institute

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Bethany Cronk, MBA

Carter Wilson

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# 1. Summary of Salient Data and Conclusions

|                                 |  |
|---------------------------------|--|
| Property:                       | Proposed Renaissance Convention Hotel  |
| Location:                       | Northeast corner of Meacham Road and Interstate 90<br>Schaumburg, Illinois   |
| Date of Inspection:             | October 24, 2003   |
| <u>Land Description</u>         |  |
| Total Land Area:                | ± 10.498 acres, or ± 457,310 square feet   |
| Zoning:                         | B-3  |
| <u>Improvements Description</u> |  |
| Anticipated Date of Opening:    | June 1, 2006   |
| Property Type:                  | Full-service hotel   |
| Guestrooms:                     | 500  |
| Number of Stories:              | Sixteen stories  |
| Food and Beverage Facilities:   | ± 200-seat Three-Meal Restaurant; ± 75-seat Café;<br>Lobby Bar; Winter Garden atrium area  |
| Recreational Facilities:        | Indoor Swimming Pool; Health Club  |
| Meeting Space:                  | ± 31,968 square feet comprised of a ± 27,652-square-foot Grand Ballroom(also considered the Convention Center Grand Ballroom) and ± 4,316 in smaller Meeting Rooms. ± 18,709 square feet of additional Pre-Function/Circulation space is planned, including a Connecting Bridge between the Hotel and Convention Center. |
| Parking:                        | A total of +1,653 spaces planned for the entire Hotel/Convention Center/Theater complex (Phase I); Phase II of convention center expansion includes addition of three structured parking facilities.   |

Competition

|  |          |
|--|----------|
| 2003 Estimated Primary Competitive Rooms:                  | 2,167    |
| 2003 Estimated Primary Competitive Occupancy (rounded):    | 60.0%    |
| 2003 Estimated Primary Competitive Average Rate (rounded): | \$100.00 |

|  |          |
|--|----------|
| 2003 *Weighted Total Competitive Rooms:                  | 5,117    |
| 2003 *Weighted Total Competitive Occupancy (rounded):    | 59%      |
| 2003 *Weighted Total Competitive Average Rate (rounded): | \$103.00 |

\*Weighted denotes the application of a competitive level to each secondary competitor

Proposed Hotel Projections

| <u>Year</u>        | <u>Occupancy</u> | <u>Average Rate</u> |
|--------------------|------------------|---------------------|
| 2006 (open June 1) | 63%              | \$120.38            |
| 2007               | 68%              | \$125.53            |
| 2008               | 71%              | \$133.19            |
| 2009               | 72%              | \$140.93            |

Salient Conclusions

The purpose of this report is to assess the market's supply and demand factors in order to derive a projection of occupancy and average rate for the proposed Renaissance Convention Hotel in Schaumburg, Illinois. Our study also applied industry and comparable operating statistics for revenue and expense lines items to derive ten-year financial projections for the subject hotel. We assume the subject hotel will open June 1, 2006, forming a partial first calendar year of operation. Our projections assume the property will reach a stabilized level of operation at the end of calendar year 2009.

The subject property is proposed to be a full-service, convention-oriented hotel located on a site in Schaumburg within the northeast quadrant of the intersection formed by Interstate 90 and Meacham Road, adjacent to the site of the proposed Convention Center. Facilities at the 500-room subject property are expected to include ± 31,968 square feet of flexible meeting space, a full-service restaurant, a Café, a lobby bar, a business center, an indoor swimming pool, an exercise room, and on-grade parking. This selection of facilities and amenities is expected to competitively position the subject property within the local and regional markets.

Schaumburg is situated approximately twenty-six miles northwest of downtown Chicago in the northernmost part of Cook County, and benefits from its proximity to Interstates 90 and 290 and its subsequent convenient access to downtown Chicago and O'Hare International Airport. Schaumburg maintains prominent status as a major corporate and retail center due to its numerous office and

industrial developments, as well as the Woodfield Shopping Mall, considered one of the top leisure attractions in Illinois.

To take advantage of the sizeable hotel demand attributable to these and other sources in the area, the Village of Schaumburg and surrounding cities house numerous hotels. The proposed property's primary competitive set (Group I) consists of upscale, full-service hotels with major brands located in Schaumburg and the surrounding areas of Itasca, Arlington Heights, and Elk Grove. The proposed hotel is also expected to compete on a secondary basis with a large number of hotels, which have been grouped in three categories: local mid-to-upscale limited-service hotels, nearby mid-scale full-service hotels, and one more distantly located upscale full-service property (Group II); regional conference center hotels and resorts (Group III); and the upscale, full-service hotels with major brands located in Rosemont (Group IV).

In the mid- to late-1990s, numerous hotel projects came to fruition in the local market, particularly in the extended-stay and limited-service sectors. The most recent hotel supply changes among the subject property's selected primary and secondary competitors include the 1999 openings of the Candlewood Suites and Hawthorn Suites in Schaumburg and the Hyatt Rosemont; the 2000 openings of the Hilton Garden Inn in Hoffman Estates and the DoubleTree O'Hare Rosemont, as well as the addition of 50 rooms at the Radisson Arlington Heights; the 2001 openings of the SpringHill Suites and Residence Inn by Marriott properties; and the 2002 openings of the Marriott Prairie Stone in Hoffman Estates and the Doral Eaglewood Conference Resort.

Lodging demand in the overall competitive market is mainly derived from meeting and group and commercial oriented travelers. Within the overall meeting and group market segment, the majority of demand is derived from corporate group business. Historically, demand growth in the overall competitive market has fluctuated but has remained moderate, with growth of roundly 2% annually for the last four years. According to data compiled by Smith Travel Research, the competitive set achieved an overall occupancy and average rate of roundly 68% and \$123.00, respectively, in 2000. (We note that STR data is not weighted by competitive level.) In 2001, these properties posted a roundly ten-point occupancy decrease, with an average rate drop of roundly \$6.50. Data through year-end 2002, recorded a further (roundly) one and one-half point occupancy decrease, together with an additional \$6.50 decrease in average rate; 2002 performance equated to roundly 57% occupancy at \$110.00 average rate. This two-year decline in demand is attributable to a slowing economy, the events of September 11, 2001, and a reduction in overall travel throughout the U.S. The year-to-date trends through September 2003 indicate a strong demand rebound of 6.5% compared to the same period in 2002, which equates to a roundly one-point increase in occupancy; average rate posted a further decline of roundly \$5.50, indicative of the continued discounting trend as hotels vie for occupancy. Similar to many U.S. hotel markets, we anticipate improvement in occupancy to lead the rebound in this local market, while average rate continues lesser declines in the near-term followed by modest growth trends as economic and travel conditions improve.

We note that due to the soft economic conditions experienced over the last few years, combined with the limited availability of financing for new hotel development projects, there has been a reduction in the number of proposed projects. Currently, two projects are known to be proposed in the greater market. We have considered these hotels as secondary competitors with the subject property due to disparate locations and demand sources. As the market recovers, some new projects may emerge. Although we have taken reasonable steps to investigate proposed hotel projects and their status, given the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect on the market will be. Depending on the outcome of current and future projects, the subject property's positioning and projections may be positively or negatively affected. The consultant's forthcoming forecast of a stabilized occupancy and average rate is intended to reflect such risk.

In light of the September 11, 2001 terrorist activity in the U.S. and the resulting declines in airline travel, the tourism industry has been negatively impacted, with gradual improvements noted in some markets in 2003. Nationwide hotel RevPAR levels experienced significant declines throughout 2001, with continuing, but lesser, declines experienced throughout 2002. With the possible combination of a strengthening economy and a lessening of air travel restrictions and consumer fears, year-to-date 2003 RevPAR performance indicates lesser declines. Our projections assume no new terrorist activity and have taken into account, to the best of our ability, the global military situations related to the War on Terror, which are not projected to have lasting ramifications by the opening date of the subject property.

The opening of the new Renaissance Convention headquarters hotel with a sizeable amount of group space, coupled with a new convention center, should induce a significant amount of new demand into the local market. We expect this demand to be phased-in over several years, beginning in mid-2006. As many conventions are booked several years in advance and will not book until a facility's expansion is either well underway or completed, we expect this build-up period to last roughly four years. We anticipate this new, regional and national convention demand to be generally accustomed to paying higher room rates. Due to its headquarters hotel status, the proposed Renaissance is expected to highly participate in citywide conventions, with sizeable room blocks expected to be allocated to these groups. We also expect a notable portion of the subject property's demand to be derived from local corporate and SMERF groups, due to the property's expected sizeable meeting space and large ballroom facility.

The proposed Renaissance's anticipated opening date in June 2006 is expected to occur beyond much of the negative impact resulting from the recent economic crisis. The Schaumburg market occupancy is projected to gradually continue the occupancy rebound experienced in 2003, with stronger occupancy growth anticipated as the induced demand from the Convention Center is absorbed in the market and sales of the Convention Center are underway. As such, the subject property is forecast to perform well in this market by stabilization, in 2009. This performance is projected due to the hotel's Marriott-affiliation as a Renaissance, its sizeable meeting space attractive to group clientele, and its upscale full-service product considered desirable to the corporate transient segment. This anticipated ability to successfully

accommodate both group and transient guests, without being perceived as only a group hotel, is considered a competitive advantage in this market. We also note that the size and topography of the subject parcel appear well-suited for hotel use, and the anticipated visibility appear appropriate for its use as a full-service convention hotel facility. The location of the subject site is highly advantageous for attracting convention demand, the property's location opposite I-90 from the majority of ancillary lodging services such as existing restaurants and shopping venues is considered only moderately favorable. Nonetheless, the subject hotel would hold a highly favorable location as one of the most proximate upscale hotels to the Motorola campus, which is a notable advantage with regards to the commercial market segment.

Our analysis relies on certain key assumptions including the following:

- No new terrorist activity
- Completion of the new Convention Center on or about June 1, 2006
- Construction of the hotel and facilities in a manner consistent with current designs
- Opening of the hotel on or about June 1, 2006
- Operation of the hotel by Marriott or other competitive manager with a high-end, nationally recognized brand name
- Management fees of 2.5% in 2006, 2.8% in 2007, and 3.0% in 2008 and annually thereafter throughout the projection period, were supplied by the Village of Schaumburg, and are in line with industry standards.
- Reserve for replacement stabilizing at 4.0% of gross revenues in 2011, to cover the appropriate replacement of FF&E and other short-lived items at the subject property.

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## 2. Nature of the Assignment

|                               |  |
|-------------------------------|--|
| Subject of the Market Study   | The subject of the market study is a ±457,310-square-foot (±10.498-acre) parcel to be improved with a proposed Renaissance Convention Hotel. The proposed subject property is anticipated to be complete and operational on or about June 1, 2006. The proposed subject property is planned to be a first-class, full-service lodging facility expected to contain 500 rentable units, approximately ±31,968 square feet of meeting and function space in addition to ±18,709 square feet of pre-function/circulation space, a three-meal restaurant, a café, a lobby bar, a Winter Garden atrium area, a business center, an indoor swimming pool, a health club, on-grade parking, and back-of-the-house facilities typically found in a full-service hotel of this type. The property is to be located at the northeast corner of Meacham Road and Interstate 90 in the village of Schaumburg, the county of Cook, and the state of Illinois. |
| Objective of the Market Study | The objective of the market study is to evaluate the supply and demand factors affecting the market for transient accommodations in the Schaumburg area, for the purpose of developing a forecast of income and expense for the proposed subject property.   |
| Use of the Study              | This market study is being prepared for use by the Village of Schaumburg, Illinois in connection with the development of the subject property. The information presented in this report should not be disseminated to the public or third parties (with the exception of potential investors and lenders) without the express written consent of HVS International.  |
| Method of Study               | The methodology used to develop this market study is based on the market research and valuation techniques set forth in the textbooks authored by HVS International for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled <i>The Valuation of Hotels and Motels</i> , <sup>1</sup> <i>Hotels, Motels</i>  |

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<sup>1</sup>Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

and Restaurants: Valuations and Market Studies,<sup>2</sup> *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*,<sup>3</sup> and *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*.<sup>4</sup> The specific steps of which are as follows:

1. The physical orientation of the subject site with respect to access and visibility to highways, other forms of transportation and the local demand for transient and meeting accommodations was analyzed. We also reviewed the supportive nature of surrounding land uses as they related to demand trends and the proposed subject property.
2. The demand for transient and meeting and group accommodations was investigated to identify the various generators of visitation operating within the local market. The current and anticipated potential of each of these market segments was evaluated to determine the extent of existing and future demand. Interviews with officials of business and government, as well as statistical data collected during the fieldwork, was useful in locating and quantifying transient demand.
3. The market orientation of area lodging facilities was evaluated to determine their competitive position with respect to the proposed subject property. Those properties displaying similar market attributes received a physical inspection, along with selective management interviews, to estimate levels of occupancy, room rates, operating ratios, market segmentation and other pertinent operational characteristics. Some of the competitive factors that were specifically reviewed include: location, type and quality of facilities, rate structure (daily, weekly, monthly), physical condition, management expertise and chain affiliation.
4. Statistical data relating to general economic and demographic trends often foreshadows future potential for market areas and neighborhoods. Interviews with local Chambers of Commerce, economic development agencies and other related organizations, along with an investigation of

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<sup>2</sup> Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).

<sup>3</sup> Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).

<sup>4</sup> Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*. (Chicago: Appraisal Institute, 1992).

the subject property's primary market area revealed patterns reflecting stability with a moderate amount of growth.

5. Expense factors relating to local conditions such as labor, food and beverage costs, energy rates, assessed values and taxes were researched. We utilized actual expense experience from comparable properties in the economic portions of our report.
6. Through interviews with hotel operators, developers, governmental officials and others, we ascertained the status of projects under construction, proposed or rumored which might be competitive with the subject property.
7. Based on the data and information gathered during the fieldwork phase, along with our extensive library of actual hotel operating statements, financial statistics, area hotel trends and investor requirements, we performed a supply and demand analysis for the subject property to determine its anticipated market orientation and competitive position with respect to other lodging facilities. This analysis resulted in a quantification and documentation of probable future trends in the subject property's occupancy, average rate, and overall rooms revenues.
8. A projection of income and expenses representing future expectations of income potential was made for a ten-year period of time. This analysis utilized HVS software, a sophisticated computerized financial analysis package, developed by Stephen Rushmore, CRE, CHA, MAI and Suzanne Mellen, CRE, MAI. The logic behind the projection of income and expense 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. The software takes a known level of revenue or expense and calculates the fixed and variable component. The fixed component is then held constant while the variable component is adjusted for the percent change between the projected occupancy and facility usage that produced the known level of revenue or expense. Our projected income and expense statement conforms with the Uniform System of Accounts for Hotels and includes a detailed line-by-line account of all revenue sources and expenses.

Ownership, Franchise,  
and Management  
History and  
Assumptions

The four parcels which comprise the subject site are owned by the Village of Schaumburg, as stated in three Special Warranty Deeds dated March 17, 2000, as provided by the Village of Schaumburg. Upon completion of the subject improvements, the property is expected to be owned by the Village of Schaumburg. The subject property is planned to operate under a franchise agreement with Renaissance subject to a management agreement with Marriott International. We also assume that, throughout the 10-year projection period, the subject property is to be managed by a first-tier, hotel management company, which also provides a nationally recognized brand name appropriate for the operation of a first-class, full-service, convention-oriented hotel.

Date of Inspection

The subject site was inspected by Bethany Cronk on October 24, 2003.

### 3. Description of the Real Estate

The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property. 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 northeast quadrant of the intersection formed by Meacham Road and Interstate 90 (I-90), just west of the intersection of I-90 and I-290. Municipal jurisdictions governing the property include the village of Schaumburg, the county of Cook, and the state of Illinois.

Size and Topography

According to a Criteria Summary/Facilities Program from Marriott International, Inc., the subject parcel measures approximately ±10.498 acres, or ±457,310 square feet. The parcel's boundaries are set forth in the following table.

Subject Parcel's Boundaries/Surrounding Uses

| Direction | Boundary   |
|-----------|--|
| North     | Thoreau Drive North / Woodfield Green Office Center; Vacant Restaurant |
| South     | Interstate 90 / Windy Point Office Park; IKEA                          |
| West      | Meacham Road / Motorola  |
| East      | Multi -family residential development                                  |

The topography of the parcel appeared level and at grade with surrounding roadways.

Regional Access

It is important to analyze the site in regards to ease of access with respect to regional and local transportation routes and demand generators. The subject site is highly accessible to a variety of local, county, state, and interstate highways.

Regional access to the Schaumburg area is provided by Interstate 290, the Northwest Tollway (Interstate 90), the Elgin-O'Hare Expressway, Higgins Road (State Route 72), Golf Road (State Route 58), and Meacham Road.

Interstate 290 is a local spur of Interstate 90, which originates in downtown Chicago and loops to the north and west, serving as a key arterial for the suburbs located to the west of O'Hare International Airport, including Schaumburg, Itasca, Elk Grove Village, and Arlington Heights. This route terminates near Buffalo Grove. In the Schaumburg area, Interstate 290 is also known as State Route 53. The Northwest Tollway (I-90), accessible at Roselle Road and Interstate 290 (State Route 53), with entrances at Golf, Higgins, and Algonquin Roads, connects commuters and travelers to Chicago, many west and northwest suburbs, and O'Hare International Airport. Algonquin Road intersects Thoreau Drive North approximately two blocks north of the subject site. Interstate 90 runs along the subject site's southern boundary.

The Elgin-O'Hare Expressway, situated along the southern portion of Schaumburg, provides access to the neighboring southwestern communities of Elk Grove, Itasca, Roselle, Hanover Park, and Bartlett. Higgins Road (State Route 72) and Golf Road (State Route 58), both of which are lined with extensive commercial development and travel in an east-west direction, are located to the north of Schaumburg. Meacham Road is a primary north-south artery serving the Schaumburg area. This route runs along the subject site's western boundary.

Two commuter rail lines, Metra and the Chicago & Northwestern, also serve the Schaumburg area to provide a direct route to downtown Chicago.

Overall, regional access to the subject property is considered favorable. The well-developed network of high-speed interstate highways, along with superior local roadways, significantly increases the subject property's primary market area and facilitates the ability to capture rooms business.

#### Airport Access

The Chicago O'Hare International Airport is located approximately sixteen miles southeast of the subject site. From the airport, motorists take Interstate 90 westbound to Interstate 290/State Route 53. At this point, motorists have two options. Motorists may take I-290/SR-53 southbound and exit at Woodfield Road and make a right-hand turn (westbound) onto Woodfield Road. Motorists would then proceed roughly three-quarters of a mile to Meacham Road and turn right. Upon crossing over I-90, the site is located on the right. Motorists may also take I-209/SR-53 northbound and exit onto westbound Algonquin Road. After approximately three-quarters of a mile on

westbound Algonquin Road, a southbound turn onto Thoreau Drive North leads motorists to the subject site on the left.

Local Access and Visibility

Primary vehicular access to the site is provided by Thoreau Drive North, which is accessible via Meacham Road North or Algonquin Road. Meacham Road runs along the subject site's western boundary, while Algonquin Road is located approximately one-half mile north of the subject site and runs roughly parallel to I-90. Motorists traveling northbound or southbound on Meacham Road access Thoreau Drive North and proceed eastbound. Motorists traveling eastbound or westbound on Algonquin Road make a southbound turn onto Thoreau Drive. From either route, the entrance to the site of the proposed subject property and convention center/theater complex are located on the south side of Thoreau Drive.

Due to the hotel's sixteen-story tower structure, it is expected to be highly visible from I-90 and Meacham Road. Visibility from I-90 is considered to be a competitive advantage compared to several area hotels situated along secondary roads or located within office parks which obscures drive-by visibility. Overall, the site's accessibility and visibility appear appropriate for its planned use as full-service lodging facility.

Access to Local Demand Generators

The site of the proposed Renaissance Convention Hotel is situated within favorable proximity to some of the area's primary generators of lodging demand including the proposed Convention Center and Motorola's headquarters campus. The property's location opposite I-90 from the majority of ancillary lodging services such as existing restaurants and shopping venues, is considered moderately favorable.

Utilities

We assume the subject site will be served by all necessary utilities.

Soil and Subsoil Conditions

Geological and soil reports were not provided to the appraisers or made available for review during the preparation of this report. The consultants are not qualified to evaluate soil conditions other than by a visual inspection of the surface. No extraordinary conditions were apparent.

Nuisances and Hazards

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

Easements and Encroachments

There are no known easements attached to the property which would significantly affect the subject property's performance.

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities, and we note the following advantages and disadvantages.

#### Advantages

- The subject site's location adjacent to the anticipated new Convention Center is expected to be highly attractive to convention planners and attendees, and provide a sizeable competitive advantage in the meeting and group segment.
- The subject site is located opposite Meacham Road from the Motorola campus, providing excellent access for this notable commercial demand generator.
- Favorable regional access is provided by area interstates; Interstate 90 serves as the southern boundary of the subject site and provides excellent east-west local and regional access, while I-90's intersection with I-290 is located roughly three-quarters of a mile east of the site; I-290 is a major north-south artery.
- Airport access is highly convenient via Interstate 90.
- The subject site appears ample in size to allow for hotel improvements, ample parking, and attractive planned grounds.
- The planned special uses for the Hotel parcel, as well as the adjacent Convention Center parcel have been approved by the Village of Schaumburg Zoning Board.

#### Disadvantages

- The site is located opposite I-90 from the major retail, restaurant, and office core of Schaumburg and Woodfield, which is a competitive disadvantage compared to several hotels in the area.
- No exit exists off I-90 at Meacham Road, requiring motorists to exit at I-290 and proceed either one exit to the north or to the south and follow somewhat circuitous routes to the site.

The advantages noted above are important locational and size characteristics. Because the disadvantages are mitigated by the subject site's positive attributes, we believe that the subject parcel is well suited for hotel use.

**ZONING**

According to a Project Review Group Report provided by the Village of Schaumburg, the subject site is zoned as follows.

**B-3 Planned Office Business District**

On August 13, 2003, the Assistant Village Manager petitioned the Zoning Board of Appeals (case number Z0303-03) to grant several actions including: a special use for a ± 225,794-square-foot convention center, a special use for a ± 2,400-seat performing arts theatre, a special use for a 500-room hotel, a special use for an ± 11,500-square-foot restaurant, a height variance from 50 feet to 186 feet, a variance to reduce parking requirements from 3,210 to 1,671, a signage variance, a storm sewer and drainage system variance, and a B-3 site plan approval. According to the Village of Schaumburg Assistant Village Manager, this petition has been approved.

Based on this information, the subject property is expected to conform to local zoning regulations. We assume that all necessary permits and approvals have been or will be secured (including an 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 construction begins.

**Assessed Value  
and Taxes**

The following property tax discussion is for informational purposes only. As the Village of Schaumburg is anticipated to secure tax exemption for the hotel, the estimate of taxes payable does not factor into our financial projections.

While not the case for the Village of Schaumburg, property (or ad valorem) tax is often one of the primary revenue sources for 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. 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 note that county assessed values, in general, across the United States are typically quite different from actual estimated market value. This disparity is due to the mass-appraisal techniques used by a jurisdiction to appraise a vast array of property within a very short period of time. Due to the high number

of commercial properties in any given county, the appraiser can typically not dedicate any significant amount of time to any individual asset. For this reason, the county assessed value should not be relied upon as an indication of actual market value.

The Cook County taxing jurisdiction governing the subject property assesses real property. The assessed value ratio is reported to be approximately 38% of market value. Values for real property are based on a blend of the income and sales valuation approaches, according to the Township of Schaumburg Assessor's Office. Cook County reassesses on a triennial cycle, which varies by municipality. Schaumburg's most recent reassessment occurred in 2001. Notices of the 2004 assessment will be mailed in October 2004, with appeals taken until January 2005; assessments will be certified by the end of March 2005 and published in April 2005.

#### Comparable Assessments

Because the objective of assessed value is to maintain a specific value relationship among all properties in a taxing jurisdiction, comparable hotel assessments should be evaluated to determine an equitable assessed value for the subject property. A review of the current 2001 assessed values of six comparable hotels located in the Cook County taxing jurisdiction reveals the following information.

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#### County-Appraised Value of Comparable Hotels

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| Hotel                       | Number of Rooms | Total Assessment |              | Assessment per Room |              |
|-----------------------------|-----------------|------------------|--------------|---------------------|--------------|
|                             |                 | Land             | Improvements | Land                | Improvements |
| Marriott Schaumburg         | 398             | \$1,803,329      | \$5,485,582  | \$4,531             | \$13,783     |
| Embassy Suites Schaumburg   | 209             | 811,452          | 2,950,543    | 3,883               | 14,117       |
| Sheraton Suites Elk Grove   | 253             | 795,074          | 3,517,924    | 3,143               | 13,905       |
| Hyatt Regency Woodfield     | 470             | 2,965,819        | 6,770,496    | 6,310               | 14,405       |
| Radisson Schaumburg         | 200             | 773,068          | 2,038,932    | 3,865               | 10,195       |
| Holiday Inn Schaumburg      | 143             | 379,411          | 1,679,739    | 2,653               | 11,746       |
| Positioned Subject Property | 500             | \$2,500,000      | \$7,250,000  | \$5,000             | \$14,500     |

Source: Township of Schaumburg Assessor's Office

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The subject property's land assessment is positioned toward the high end of the range of current assessments (based on county values) of existing hotels located in the market area on a per room basis. The subject property's per room improvements assessed value, of roundly \$14,500, also falls at the high

end of the range, due to its anticipated first-class orientation, amenities, and furnishings.

Tax Rates

Tax rates are based on the county budgets, which change annually. Tax rates are published between March and October each year. Tax rates must be published prior to the issuance of the second installment tax bill, which is mailed on October 1. The following table shows changes in the tax rate per \$100 of assessed value since 1997.

| Historical Tax Rates     |                                  |                                   |
|--------------------------|----------------------------------|-----------------------------------|
| Year                     | Tax Rate per \$100 of Assessment | Percent Change from Previous Year |
| 1997                     | 9.240                            | —                                 |
| 1998                     | 8.838                            | (4.4) %                           |
| 1999                     | 8.516                            | (3.6)                             |
| 2000                     | 8.831                            | 3.7                               |
| 2001                     | 7.878                            | (10.8)                            |
| 2002                     | 7.510                            | (4.7)                             |
| Average Annual % Change: |                                  | (4.1) %                           |

Source: Township of Schaumburg Assessor's Office

Overall, tax rates have incurred declines each year since 1997, with the exception of 2000. On an average annual compounded basis, tax rates have decreased by 4.1% over the six-year period. For the purposes of this study, we have assumed that the overall tax burden will increase by 1.0% in the first projection year, by 2.0% in the second projection year, and by 3.0% in the third projection year and annually thereafter to allow for growth in taxes and assessed values throughout the projection period.

The State of Illinois also applies an equalization rate, which is determined by the Illinois Department of Revenue each year to ensure an equal assessment among all 102 counties in the state. To arrive at an estimate of property taxes, the state equalization rate is multiplied by the local area tax rate. The assessment is then multiplied by the effective tax rate. The historical equalization rates applicable to the subject property are presented in the following table. These rates are multiplied by the tax rates to calculate the effective tax rates applicable to the property.

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**Equalization Rates Applicable to the Proposed Subject Property**


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| Year   | State             |          |                              |                |
|--|-------------------|----------|------------------------------|----------------|
|  | Equalization Rate | Tax Rate | Effective Tax Rate per \$100 | Percent Change |
| 1997   | 2.1489            | 9.240    | 19.86                        | —              |
| 1998   | 2.1799            | 8.838    | 19.27                        | (3.0) %        |
| 1999   | 2.2505            | 8.516    | 19.17                        | (0.5)          |
| 2000   | 2.2235            | 8.831    | 19.64                        | 2.5            |
| 2001   | 2.3098            | 7.878    | 18.20                        | (7.3)          |
| 2002   | 2.4689            | 7.510    | 18.54                        | 1.9            |
| Average Annual Compounded Change, 1997-2002: |                   |          |                              | (1.4) %        |

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Taxes are due each year by March 1<sup>st</sup> and October 1<sup>st</sup>, with the latter payment subject to the new annual tax rate and state equalizer, which are issued by October. The first installment bill is calculated as 50% of the prior year's tax bill, as no tax or millage rates are available at that time.

**Property Tax Forecast**

We have considered the assessed values of existing hotel properties in the subject's neighborhood to estimate potential tax burden. We have also taken into consideration the timing of assessments given the anticipated construction of the property. The timing of tax payments for Cook County corresponds to our calendar year projections, which begin January 1 for all years except 2006, which begins June 1. The following table illustrates the calculation of the subject property's projected property tax expense levels, for reference purposes only. As the subject property is anticipated to be tax exempt, this estimate of taxes does not factor into our financial projections.

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**Projected Property Tax Expense**


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| Year       | Assessed Value |              | Total       | Effective Tax Rate per \$100 Assd. | Tax Calculation | Calendar Year Payable |
|------------|----------------|--------------|-------------|------------------------------------|-----------------|-----------------------|
|            | Land           | Improvements |             |                                    |                 |                       |
| Positioned | \$2,500,000    | \$7,250,000  | \$9,750,000 | 18.73                              | \$1,825,868     | —                     |
| 2004       | 2,500,000      | 0            | 2,500,000   | 19.10                              | 477,535         | —                     |
| 2005       | 2,500,000      | 2,175,000    | 4,675,000   | 19.67                              | 919,780         | 2006                  |
| 2006       | 2,500,000      | 7,250,000    | 9,750,000   | 20.26                              | 1,975,805       | 2007                  |
| 2007       | 2,500,000      | 7,250,000    | 9,750,000   | 20.87                              | 2,035,079       | 2008                  |
| 2008       | 2,500,000      | 7,250,000    | 9,750,000   | 21.50                              | 2,096,131       | 2009                  |

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## 4. Market Area and Neighborhood Analysis

The economic vitality of the market area and neighborhood surrounding the subject property is an important consideration in forecasting lodging demand and income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project hostelry 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 transient 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 transient visitation (demand) and the competitive supply are located. The subject property is located in the village of Schaumburg, the county of Cook, and the state of Illinois. Cook County is one of nine counties that constitute the Metropolitan Statistical Area (MSA) of Chicago, Illinois; the remaining eight counties are DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry, and Will Counties. The term MSA is the most standard definition used in comparative studies of metropolitan areas. The federal government defines an MSA as a large population nucleus, which, together with adjacent counties, has a high degree of economic and social integration. This MSA is the largest in the state, and ranks as one of the biggest in the nation, as it includes the city of Chicago. Approximately 75% of this MSA's population resides in Cook County, the majority of which reside within the city of Chicago.

## Illinois Overview

Illinois is located in the midwest United States and borders Wisconsin to the north, Indiana to the east, Kentucky to the southeast, Missouri and Iowa to the west, and Lake Michigan at the northeast corner. The Mississippi River forms a natural western boundary for the 55,593-square-mile state. Two additional rivers, the Wabash and the Ohio, border Illinois to the southeast and converge before meeting up with the Mississippi River at the southern tip of the state. Illinois ranked fourth as the headquarters to 39 of the nation's largest companies on the 2001 Fortune 500 list.

## Market Area Overview

Schaumburg is situated approximately twenty-six miles northwest of downtown Chicago, in the northernmost part of Cook County, and benefits from its proximity to both downtown Chicago and O'Hare International Airport. Schaumburg maintains prominent status as a major corporate center due to its numerous office and industrial developments, including over fifteen major office complexes and corporate headquarters. This corporate center status is fostered by Schaumburg's easy access to major interstates, proximity to O'Hare International Airport, and convenient commuter railroad connections.

Schaumburg is considered part of the Greater Woodfield area in Chicago's northern suburbs. This area consists of several villages, cities, and towns, including Schaumburg, Hoffman Estates, Rolling Meadows, Arlington Heights, Wood Dale, Bloomingdale, Elk Grove, Hanover Park, Itasca, Mount Prospect, Palatine, Roselle, and Streamwood. The Greater Woodfield area offers numerous shopping alternatives, hundreds of restaurants, and a variety of entertainment venues, along with a strong office and industrial component. The Greater Woodfield Convention and Visitors Bureau coordinates group bookings among hotels throughout these communities.

## Economic and Demographic Review

Based on fieldwork conducted in the area and our in-house sources, we have evaluated various economic and demographic statistics to determine trends in lodging demand. A primary source of economic and demographic statistics used in this analysis is the Complete Economic and Demographic Data Source published by Woods & Poole Economics, Inc. – a well-regarded forecasting service based in Washington, DC. Using a data base containing more than 300 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Historical statistics are based on census data and information published by the Bureau of Economic Analysis. Projections are formulated by Woods & Poole, and all dollar amounts have been adjusted for inflation, and thus reflect real change.

### Population

Although there is no direct correlation between the size of an area's population and its specific level of transient visitation, a review of an area's historical and projected population trends and composition is an important step in evaluating the local economic climate and determining projected growth in demand for lodging facilities. An expanding area population suggests both an increasing commercial base and growth in room night demand attributable to relocations. In addition, an increase in the local resident base indicates a rise in the number of leisure travelers arriving in the area, because the motivation behind many trips is to visit friends and relatives. The rate of population growth will generally establish a minimum rate of increase in an area's lodging demand, and thus population statistics are relevant to our analysis. Population changes are an economic trend that often reflects business activity and lodging demand.

According to Woods & Poole Economics, Inc., population growth has been moderate in Cook County over the historical periods. From 1990 to 2003, the county's population increased by 0.4% compounded annually, while population remained stable from 2000 to 2003. Population levels in Chicago MSA increased at an annual rate of 1.0%, while the state increased at an average annual compounded growth rate of 0.8%, between 1990 and 2003; slightly lower growth rates were registered from 2000 to 2003. These local figures fall below the national gains of 1.2% and 1.0% for each of these respective periods.

Projections indicate that population increases from 2003 through 2010 will remain similar to recent growth trends. Cook County and the MSA are projected to experience average annual compounded increases of 0.1% and 0.7%, respectively, during this period. Illinois population is forecast to increase at an average annual compounded rate of 0.6 % through 2010. The forecast for the United States population shows an expected increase of 1.0% annually through 2010.

### Total Retail Sales

Retail sales levels reflect both population trends and the propensity to spend money on retail goods. There is no direct correlation between retail sales and hotel demand; however, retail sales trends tend to gauge the economic health and vitality of the market. Retail sales growth should cause local businesses to prosper and make it more likely for new firms to enter the market, thus

causing an increase in the demand for lodging facilities. In areas where tourism is a significant economic factor, retail sales also reflect the amount of visitation.

Information from Woods & Poole Economics, Inc. reveals that between 1990 and 2003, retail sales in Cook County and the MSA increased at inflation-adjusted average annual compounded rates of 1.6% and 2.7%, respectively. Retail sales in the state increased by 2.6% annually during the period. In comparison, the national growth rate was 3.0% per year during this same time period. From 2000 to 2003, retail sales growth in Cook County decreased, registering a rate of 0.7%, while the MSA retail sales pace lessened to 1.6% annual level. State and national retail sales also lessened, increasing at average annual compounded rates of 1.4% and 1.9%, respectively, between 2000 and 2003.

Cook County retail sales are projected to increase moderately compared to recent historical figures at an average annual compounded rate of 1.0% between 2003 and 2010. Similarly, MSA retail sales are expected to increase by 1.7% annually, while statewide and nationwide retail sales are expected to increase at average annual rates of 1.6% and 1.8%, respectively.

#### Per Capita Personal Income

According to the procedures outlined in the National Income and Product Accounts, personal income is calculated by totaling earned income (wages, salaries, other labor income, and proprietor's income), non-earned income, and residence adjustments and subtracting personal contributions to social insurance. Trends in personal income reflect the spending ability of local residents.

Woods & Poole Economics, Inc. reports that per capita income rose at an average annual compounded rate of 1.8% in Cook County between 1990 and 2003, with a similar annual growth rate of 1.9% for the MSA. The state and nation's average per capita income level improved by 1.9% and 1.6%, respectively, during the same period. Per capita income growth from 2000 to 2003 for Cook County and the MSA were lower than increases achieved over the previous period. Between 2000 and 2003, the average annual compounded growth rate for per capita income was 1.4% in Cook County, 1.3% in the MSA and the state of Illinois, and 1.2% in the nation. Per capita income growth in Cook County, the MSA, the state, and the nation is projected to increase similarly at average annual compounded rates of 1.2%

for the county, the MSA, and the state, and 1.1% for the nation, between 2003 and 2010.

On a local level, Schaumburg experienced notable growth in population, median household income, and per capita income over the period shown in the following table.

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#### Historical Employment - Schaumburg

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|      | Population | Percent Change* | Median Household Income | Percent Change* | Per Capita Income | Percent Change* |
|------|------------|-----------------|-------------------------|-----------------|-------------------|-----------------|
| 1970 | 18,730     | —               | \$12,063                | —               | \$3,755           | —               |
| 1980 | 53,305     | 11.0 %          | 26,273                  | 8.1 %           | 10,053            | 10.3 %          |
| 1990 | 68,586     | 2.6             | 47,029                  | 6.0             | 20,826            | 7.6             |
| 2000 | 75,386     | 0.9             | 60,491                  | 2.5             | 30,587            | 3.9             |

\*Annual average compounded percentage change from the previous year shown

Source: Village of Schaumburg; U.S. Census Bureau

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Schaumburg median household income reached \$60,491 in 2000, far exceeding the Illinois and US levels (not shown) that year of \$45,590 and \$41,994, respectively. Per capita income for Schaumburg of \$30,587 also exceeded the 2000 Illinois level of \$29,652 and US level (not shown) of \$26,988. Per capita income grew by 3.9% annually between 1990 and 2000, which exceeded the growth rates for Cook County, the MSA, Illinois, and the US between 1990 and 2003; as shown previously, average annual compounded growth rates of 1.8%, 1.9%, 1.9%, and 1.6%, respectively, were posted for these areas. We note some disparity may be due to the Schaumburg data not including the economically softer years of 2001 through 2003.

Work Force  
Characteristics

The characteristics of an area's work force 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, and transportation, communications, and public utilities (TCPU) employers can also be important, depending upon the company type. The following table sets forth the Cook County work force distribution by business sector in 1990, 2000, and 2003, as well as a forecast for 2010.

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**Historical and Projected Employment - Cook County (000s)**


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| Industry                          | 1990    | Percent<br>of Total | 2000    | Percent<br>of Total | 2003    | Percent<br>of Total | 2010    | Percent<br>of Total | Average Annual<br>Compounded Change |               |               |
|-----------------------------------|---------|---------------------|---------|---------------------|---------|---------------------|---------|---------------------|-------------------------------------|---------------|---------------|
|                                   |         |                     |         |                     |         |                     |         |                     | 1990-<br>2003                       | 2000-<br>2003 | 2003-<br>2010 |
| Farm                              | 0.7     | 0.0 %               | 0.6     | 0.0 %               | 0.6     | 0.0 %               | 0.6     | 0.0 %               | (0.9) %                             | (1.2) %       | (1.2) %       |
| Agriculture Services, Other       | 11.8    | 0.4                 | 16.4    | 0.5                 | 16.5    | 0.5                 | 17.1    | 0.5                 | 2.6                                 | 0.2           | 0.5           |
| Mining                            | 4.2     | 0.1                 | 2.1     | 0.1                 | 2.1     | 0.1                 | 2.1     | 0.1                 | (5.2)                               | (0.2)         | 0.1           |
| Construction                      | 125.4   | 4.0                 | 137.6   | 4.1                 | 143.4   | 4.2                 | 148.7   | 4.2                 | 1.0                                 | 1.4           | 0.5           |
| Manufacturing                     | 477.7   | 15.2                | 402.2   | 12.0                | 395.1   | 11.6                | 380.3   | 10.7                | (1.5)                               | (0.6)         | (0.5)         |
| Trans., Comm. & Public Utils.     | 192.5   | 6.1                 | 219.9   | 6.6                 | 230.0   | 6.7                 | 246.3   | 6.9                 | 1.4                                 | 1.5           | 1.0           |
| Total Trade                       | 681.4   | 21.7                | 637.0   | 19.0                | 631.1   | 18.5                | 619.3   | 17.4                | (0.6)                               | (0.3)         | (0.3)         |
| Wholesale Trade                   | 216.9   | 6.9                 | 174.9   | 5.2                 | 169.1   | 4.9                 | 155.3   | 4.4                 | (1.9)                               | (1.1)         | (1.2)         |
| Retail Trade                      | 464.5   | 14.8                | 462.0   | 13.8                | 462.0   | 13.5                | 464.0   | 13.1                | (0.0)                               | (0.0)         | 0.1           |
| Finance, Insurance, & Real Estate | 341.9   | 10.9                | 366.0   | 10.9                | 381.1   | 11.1                | 400.3   | 11.3                | 0.8                                 | 1.4           | 0.7           |
| Services                          | 941.0   | 30.0                | 1,205.4 | 36.0                | 1,248.5 | 36.5                | 1,350.0 | 38.0                | 2.2                                 | 1.2           | 1.1           |
| Total Government                  | 358.8   | 11.4                | 362.2   | 10.8                | 369.5   | 10.8                | 386.9   | 10.9                | 0.2                                 | 0.7           | 0.7           |
| Federal Civilian Govt.            | 61.1    | 1.9                 | 51.1    | 1.5                 | 49.7    | 1.5                 | 49.8    | 1.4                 | (1.6)                               | (0.9)         | 0.0           |
| Federal Military Govt.            | 19.8    | 0.6                 | 12.0    | 0.4                 | 12.1    | 0.4                 | 12.5    | 0.4                 | (3.7)                               | 0.3           | 0.4           |
| State & Local Govt.               | 277.9   | 8.9                 | 299.1   | 8.9                 | 307.6   | 9.0                 | 324.6   | 9.1                 | 0.8                                 | 0.9           | 0.8           |
| TOTAL                             | 3,135.4 | 100.0 %             | 3,349.5 | 100.0 %             | 3,417.9 | 100.0 %             | 3,551.6 | 100.0 %             | 0.7 %                               | 0.7 %         | 0.5 %         |

Source: Woods and Poole Economics, Inc.

Total employment in Cook County increased at an average annual rate of 0.7% for both the long-term historical period, between 1990 and 2003, and the short-term historical period, between 2000 and 2003. Growth over the thirteen-year period has been largely paced by expansions in the services sector. Between 1990 and 2003, the service sector's portion of the total employment picture increased from 30.0% to 36.5%. Manufacturing employment decreased from 15.2% of the economy in 1990 to 11.6% in 2003. This trend is in line with nationwide trends in employment, where higher-paying, value-added jobs in the manufacturing sector are replaced with lower paying service sector jobs. Overall, the Cook County employment picture is expected to remain moderately favorable through 2010, with growth of 0.5% per year expected.

The composition of industry in Schaumburg has historically been heavily concentrated in the retail trade, manufacturing, and business, health and professional services. The following table illustrates the changes in each employment sector by number of firms between 1986 and 2002.

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#### Historical Employment - Schaumburg

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| Industry                          | 1986   |       | 1990   |       | 1996   |       | 2000   |       | 2002   |       |
|-----------------------------------|--------|-------|--------|-------|--------|-------|--------|-------|--------|-------|
| Construction                      | 661    | 1.9 % | 1,025  | 1.9 % | 1,633  | 2.2 % | 2,043  | 2.5 % | 2,586  | 3.3 % |
| Manufacturing                     | 9,539  | 27.5  | 14,342 | 26.1  | 16,386 | 22.1  | 15,748 | 19.5  | 5,537  | 7.1   |
| Transportation                    | 537    | 1.5   | 716    | 1.3   | 1,206  | 1.6   | 2,453  | 3.0   | 2,009  | 2.6   |
| Comm. & Utilities                 | 1,268  | 3.7   | 1,385  | 2.5   | 3,937  | 5.3   | 3,826  | 4.7   | 3,274  | 4.2   |
| Wholesale Trade                   | 3,740  | 10.8  | 5,547  | 10.1  | 6,062  | 8.2   | 6,288  | 7.8   | 5,875  | 7.5   |
| Retail Trade                      | 10,970 | 31.6  | 16,067 | 29.2  | 19,651 | 26.5  | 19,003 | 23.5  | 13,245 | 16.9  |
| Finance, Insurance, & Real Estate | 2,701  | 7.8   | 5,674  | 10.3  | 9,818  | 13.2  | 7,743  | 9.6   | 8,475  | 10.8  |
| Business, Health & Prof. Services | 5,222  | 15.0  | 10,161 | 18.5  | 15,463 | 20.8  | 23,571 | 29.2  | 37,500 | 47.7  |
| Non-Classified                    | 92     | 0.3   | 56     | 0.1   | 11     | 0.0   | 76     | 0.1   | 34     | 0.0   |
| Total                             | 34,730 | 100.0 | 54,983 | 100.0 | 74,167 | 100.0 | 80,751 | 100.0 | 78,535 | 100.0 |

Source: Village of Schaumburg

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From 1986 and 2002, the make-up of industry in Schaumburg has changed, with the overall number of firms more than doubling. Over the period shown, the manufacturing sector experienced a sizeable decrease, from 27% to 7.1% of total businesses. This trend is similar to similar to the trend shown previously for Cook County. As percent of total firms, retail trade has also

decreased from 31.6% of total firms in 1986 to 16.9% of the total in 2002. Declines in these sectors have been displaced by sizeable growth in the contribution from the business, health and professional services sector, increasing from 15.0% to 47.7% over the period shown. We note that while steady growth occurred in the total number of Schaumburg firms between 1986 and 2000, from 34,730 to 80,751, a decrease was reported in 2002 to 78,535. This trend can be attributed to the economic softening that has taken place nationwide in recent years.

#### Major Business and Industry

Providing additional context for understanding the nature of the regional economy, the following tables illustrate the major employers in both the local Schaumburg area and throughout metropolitan Chicago.

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#### Major Employers in Schaumburg

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| Firm                                  | Number of Employees |
|---------------------------------------|---------------------|
| Motorola                              | 7,000               |
| Woodfield Shopping Center             | 3,800               |
| School District 54                    | 2,000               |
| Zurich American Insurance Group       | 1,600               |
| Cingular                              | 1,200               |
| IBM                                   | 1,150               |
| G.E. Financial Assurance              | 800                 |
| Village of Schaumburg                 | 610                 |
| Illinois Department of Transportation | 600                 |
| Verizon Wireless                      | 600                 |
| Marshall Field                        | 600                 |
| Complete Business Solutions           | 457                 |
| Qwest                                 | 450                 |
| Friendship Village                    | 446                 |
| IKEA                                  | 425                 |
| Schaumburg Park District              | 420                 |
| Earle M. Jorgensen Steel              | 400                 |
| Nordstrom                             | 400                 |

Source: Village of Schaumburg

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Over the last two decades, Schaumburg has developed into a regional employment center in the northwest suburban Chicago area. Its status as a major commercial center is due in large part to its proximity to Interstates 90 and 290 and its subsequent convenient access to downtown Chicago and O'Hare International Airport. Employers in the community range from multi-national corporations employing several thousand workers to small cottage industries employing only a few. A sizable portion of the office space in Schaumburg is occupied by single corporate users. Several major corporations are headquartered or have major regional offices in the Schaumburg area; these companies include Cingular, Jorgensen Steel, Verizon Wireless, Zurich American Insurance Group, and Motorola. Motorola Corporation's international headquarters serve as a major demand generator for Schaumburg area hotels and is Schaumburg's largest single employer. The numerous office, industrial, and retail employers located in the area provide sizeable levels of hotel room nights. Approximately 3,400 businesses are located in the area employing  $\pm 81,000$  individuals, with most of the major employers located in the Woodfield Regional Center in the northeast portion of the Village. Upon full development of Village projects, which is expected to occur near the year 2020, employment in Schaumburg is projected to climb to 130,000.

For a greater understanding of the metropolitan area, Chicago's major employers are listed in the following table.

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**Major Employers in Metropolitan Chicago**


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| Firm                              | Employees |
|-----------------------------------|-----------|
| US Government                     | 88,000    |
| Chicago Public Schools            | 46,184    |
| City of Chicago                   | 39,275    |
| Jewel - Osco                      | 39,220    |
| Cook County                       | 26,082    |
| SBC Communications Inc.           | 21,000    |
| United Parcel Service             | 19,063    |
| Walgreen Co.                      | 17,567    |
| State of Illinois                 | 17,049    |
| Target Corp.                      | 17,000    |
| Archdiocese of Chicago            | 16,385    |
| United Airlines                   | 15,325    |
| Motorola                          | 15,000    |
| Bank One Corp.                    | 14,718    |
| Abbott Laboratories               | 14,373    |
| University of Illinois at Chicago | 12,948    |
| University of Chicago             | 12,623    |
| Sears Roebuck and Company         | 12,605    |
| Chicago Transit Authority         | 12,289    |
| Exelon Corp.                      | 11,892    |
| Dominick's Finer Foods            | 11,582    |
| American Airlines                 | 10,919    |
| Allstate Corp.                    | 9,527     |
| Rush University Medical Center    | 8,479     |
| Evanston Northwestern Healthcare  | 7,655     |
| Hewitt Associates Inc.            | 6,500     |
| Northwestern University           | 6,278     |
| McDonald's Corp.                  | 6,200     |
| Northwestern Memorial Hospital    | 5,842     |
| Loyola University Health System   | 5,686     |
| Northern Trust Corp.              | 5,418     |
| Harris Trust and Savings Bank     | 5,256     |
| LaSalle Bank Corp.                | 5,031     |
| Employco Group Ltd.               | 4,878     |

Source: Crain's Chicago Business November 2003

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Chicago is the headquarters location of numerous multi-billion-dollar companies, and over thirty Fortune 500 companies maintain corporate headquarters in the metropolitan area. Most of these employers are engaged in government, education, healthcare, manufacturing, high-technology, services, insurance, or banking industries. Broad employment categories

strengthen local economies by reducing the dependence on homogeneous market successes and balancing the fluctuations of numerous independent industries, which, in effect, reduce the peaks and valleys typically associated with less developed economies.

## Unemployment Statistics

The following table presents historical average unemployment rates for the Village of Schaumburg, the Chicago MSA, and Cook County versus those of the state and the nation, from 1991 to 2002. In addition, year-to-date data through September for 2002 and 2003 is presented.

### Unemployment Statistics

| Year          | Village of Schaumburg | Chicago MSA | Cook County | Illinois | U.S.  |
|---------------|-----------------------|-------------|-------------|----------|-------|
| 1991          | 4.4 %                 | 7.0 %       | 7.6 %       | 7.2 %    | 6.8 % |
| 1992          | 5.1                   | 7.4         | 8.0         | 7.6      | 7.5   |
| 1993          | 5.1                   | 7.3         | 8.0         | 7.5      | 6.9   |
| 1994          | 3.9                   | 5.6         | 6.1         | 5.7      | 6.1   |
| 1995          | 3.2                   | 5.1         | 5.6         | 5.2      | 5.6   |
| 1996          | 3.2                   | 5.0         | 5.6         | 5.3      | 5.4   |
| 1997          | 2.7                   | 4.5         | 5.0         | 4.7      | 4.9   |
| 1998          | 2.7                   | 4.3         | 4.8         | 4.5      | 4.5   |
| 1999          | 2.6                   | 4.1         | 4.6         | 4.3      | 4.2   |
| 2000          | 2.4                   | 4.1         | 4.6         | 4.3      | 4.0   |
| 2001          | 4.0                   | 5.4         | 5.9         | 5.4      | 4.7   |
| 2002          | 5.3                   | 6.7         | 7.3         | 6.5      | 5.8   |
| YTD Sept 2002 | 5.4 %                 | 6.5 %       | 7.4 %       | 6.4 %    | 5.7 % |
| YTD Sept 2003 | 5.3                   | 6.8         | 7.2         | 7.3      | 6.0   |

As indicated in the above table, unemployment rates for the MSA, county, state, and nation have typically exceeded those of the local Schaumburg area during the historical term reviewed. The Schaumburg unemployment rate has typically been at least 100 to 150 basis points below those of the MSA and the state, and further below those of the county, with the highest spreads occurring between 1991 and 1993. The robust labor market reflects a strong base of corporate and household income that could generate demand for local hotels and meeting space. Unemployment rates for all areas reviewed incurred large increases in 2001 and 2002, indicative of slowing economic trends. The year-to-date period for 2003 reveals a stabilizing of unemployment in the local Schaumburg area, indicative of possible

improvements in the economy on the horizon. The diverse economic make up of the subject area is expected to mitigate future downturns, and maintain the market’s appeal to all types of business. One such indication of the market’s appeal is the relocation of Boeing to the Chicago area.

Office Space Statistics

Trends in occupied office space are among the most reliable indicators of lodging demand, because firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Thus, trends that cause changes in vacancy rates or in the amount of occupied office space may have a proportional impact on commercial lodging demand, and a less direct effect on meeting demand. CB Richard Ellis categorizes Chicago’s suburbs into the following sub-markets: Northern Suburbs, Northwest Suburbs, O’Hare, East-West Tollway, West Cook, and South Suburbs. Schaumburg is located in the Northwest Suburbs sub-market. Of the approximately 25.2 million square feet of net rentable office space in this sub-market, the Village of Schaumburg houses ± 12.2 million square feet, or roughly 48% of this total.

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Office Space Statistics – Northwest Suburbs

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| Submarket           | Net Rentable Area (SF) | Vacancy Rate | Net Absorption (SF) | Under Construction (SF) | Average Asking Lease Range (\$/SF/Yr) |
|---------------------|------------------------|--------------|---------------------|-------------------------|---------------------------------------|
| Third Quarter 2003  | 25,229,640             | 20.7 %       | (117,567)           | 13,400                  | \$ 6.00 to \$ 16.00                   |
| Fourth Quarter 2002 | 25,209,396             | 17.2         | (190,324)           | 82,286                  | \$ 6.00 to \$ 17.00                   |
| Fourth Quarter 2001 | 24,628,354             | 14.8         | (206,572)           | 578,542                 | \$ 8.50 to \$ 18.00                   |

Source: CB Richard Ellis - Chicago Market Brief

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The performance of the Northwest Suburbs sub-market parallels that of the overall Chicago suburban office real estate market, with vacancy rates hovering at their highest levels in more than a decade. The overall Chicago suburban market posted a direct vacancy rate of 19.4% for the third quarter of 2003 (compared to 16.8% one year prior), while the Northwest Suburbs posted a slightly higher vacancy rate at 20.7% for the third quarter 2003, which was up from its fourth quarter 2002 rate of 17.2%. According to CB Richard Ellis, the market appears to have stabilized, with most companies continuing to make conservative estimates for their office space needs.

Although still negative, the office space absorption trend continues to show some signs of improvement, with decreasing negative absorption levels indicated over the last roughly three years for the Northwest Suburbs. Nonetheless, compared to the other suburban sub-markets, the Northwest Suburbs posted the highest negative net absorption level for the third quarter of 2003. With the existing imbalance between supply and demand, the average asking lease rates continue to trend lower by the third quarter 2003. Concessions, tenant improvement allowances, and flexible lease terms are increasingly considered by landlords, according to CB Richard Ellis.

According to the U.S. Commerce Department, the U.S. Gross Domestic Product expanded at an annual rate of 3.3% during the second quarter of 2003. This unexpected strength could portend to a more vigorous economic recovery than had been anticipated. Through the third quarter of 2003, the rising GDP had not been reflected in the traditionally lagging employment statistics presented previously. As employment levels and the subsequent demand for office space generally lags the broader economy, lower vacancy and positive net absorption are projected to follow the improving economic numbers reported during the third quarter 2003, according to CB Richard Ellis.

According to the Village of Schaumburg, ±12,152,692 square feet of office space are located in the Village. This space includes major corporate office centers and corporate headquarters. Many of the office buildings in Schaumburg are mid- to high-rise, ranging from ten to twenty stories; some smaller, low-rise complexes are situated throughout the village. Major corporate centers located within Schaumburg and their largest tenants include the following.

- Woodfield Corporate Center: a ±1.8-million-square-foot complex, which is home to major tenant G.E. Financial Assurance
- Zurich Towers: composed of two, 20-story office towers, which provide ±850,000 square feet of office space that house the headquarters of Zurich
- Motorola Corporation Headquarters: a ±325-acre complex containing ±737,000 million square feet of office/manufacturing/training space, which opened in 1956
- Schaumburg Corporate Center: contains ±665,486 square feet of office space

- Woodfield Lake Office Campus: contains ± 660,488 square feet of leasable space and major tenant Cingular
- Woodfield Preserve I & II: office complex with ± 628,648 square feet of space and major tenant First Penn-Pacific
- National Plaza Buildings: ± 453,732 square feet, housing major tenant Liberty Mutual
- Prudential Office Building: ± 340,000 square feet and IBM is the major occupant
- Centennial Center: ± 264,000 square feet with United Health Care as major tenant
- Century Centre I: Consecro is major tenant in this ± 230,000-square-foot complex
- Windy Point: ± 187,000-square-foot facility housing AT&T with major tenant Zurich
- Southwick: Texas Instruments is the major tenant in this ± 154,000-square-foot complex

According to the Village of Schaumburg Planning Department, it is anticipated that a significant amount of future office development will take the form of mid- and high-rise structures, thereby changing the physical image of the community from a formerly low-density suburb to that of an emerging city. Schaumburg has a number of office buildings in the planning and construction stages, which will increase the square footage total to over 13.5 million and reflects the forecasted amount of office space in Schaumburg by 2020.

The following table illustrates historical and projected office, commercial, and industrial development for the Schaumburg market from 1995 to 2020, according to the Village of Schaumburg Planning Department.

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**Schaumburg Office, Commercial, and Industrial Development Trends (Square Feet)**


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| Year | Office Space (SF) | Percent Change | Commercial Space (SF) | Percent Change | Industrial Space (SF) | Percent Change |
|------|-------------------|----------------|-----------------------|----------------|-----------------------|----------------|
| 1995 | 10,180,044        | ---            | 10,301,901            | ---            | 12,749,352            | ---            |
| 2002 | 11,644,196        | 14 %           | 9,527,597             | (8) %          | 13,250,000            | 4 %            |
| 2020 | 13,500,000        | 16             | 11,700,000            | 23             | 15,600,000            | 18             |

Source: Village of Schaumburg Planning Department

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The Schaumburg area experienced a surge of office development in the late-1990s, while growth in the construction of commercial space appeared to decline and industrial space grew at a more moderate pace, as indicated by the previous table. Significant development is projected for office, commercial, and industrial space by 2020, at growth rates of roundly 16%, 23%, and 18%, respectively. During this period of growth, in an effort to balance the tremendous demand for office space in the area, Schaumburg established incentives for industrial development such as tax-exempt bonds and real estate assessment reductions. Between 1997 and 2002, the Village of Schaumburg reportedly approved an estimated twenty-three new office developments totaling  $\pm 2.5$  million square feet, fifteen new industrial developments totaling  $\pm 850,000$  square feet, and 56 commercial developments totaling  $\pm 2.9$  million square feet.

#### Convention Activity

Convention activity is a strong force supporting lodging demand in the city of Chicago and the greater Chicago area. Our analysis reviews convention activity at McCormick Place in downtown Chicago and Donald E. Stephens Convention Center in the Rosemont/O'Hare market. Furthermore, a brief discussion of the proposed Schaumburg Convention Center is included in this report, as an in-depth study on this facility is being prepared under separate cover.

#### McCormick Place Convention Center

Located approximately 30 miles southeast of the subject market, McCormick Place is the most extensive convention facility in the nation. Chicago's ability to attract large meetings and conventions is enhanced by a recent expansion of McCormick Place. This  $\pm \$987$ -million project was completed in 1997, resulting in the addition of more than 1,000,000 square feet of exhibition space (doubling the amount available previously). The expanded facility is

better-equipped to accommodate small events, as well as large regional and national conventions.

The McCormick Place facility is the largest convention center in the Northern Hemisphere, and features over 2.2 million square feet of exhibition space, of which ±1.6 million resides on a single level; ±114 meeting rooms; assembly seating for ±10,000 people; a ±4,249-seat theater; three ±345-seat theaters; and access to over 8,000 parking spaces.

In 1999 and 2000, McCormick Place hosted 84 and 82 events, respectively, which, including time allocated for moving in, setting up, and moving out, equates to an effective sell-out. According to the Convention and Tourism Bureau, in order to accommodate future demand for this facility, in June 2001, the State Legislature approved an ±\$800-million expansion plan that would increase the center by ±610,000 square feet of exhibit space, ±140,000 square feet of meeting space, and ±60,000 square feet of ballroom space. The new development will be known as McCormick Place West. The Chicago Convention and Tourism Bureau has reportedly identified ±40 additional shows that could be approached immediately if there were additional space to sell. The target date for completion of the additional square footage is 2007.

While McCormick Place is an essential demand generator for the hotels in the Chicago market, this facility does not have a significant impact on the subject property's market area. This has reportedly been the case since 2001, with the beginning of the economic softening. It should be noted that prior to the softening economy and decrease in travel activity due to more cost-conscious business travelers and the negative impact of the September 11, 2001 terrorist attacks, the subject property's market did experience limited compression business from downtown conventions. We have included the convention statistics for McCormick Place for reference purposes.

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**McCormick Place Statistics**


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| Year | Number of Conventions | Percent Change | Number of Delegates | Percent Change |
|------|-----------------------|----------------|---------------------|----------------|
| 1994 | 54                    | —              | 2,792,205           | —              |
| 1995 | 59                    | 9.3 %          | 3,217,434           | 15.2 %         |
| 1996 | 53                    | (10.2)         | 3,099,588           | (3.7)          |
| 1997 | 50                    | (5.7)          | 3,019,629           | (2.6)          |
| 1998 | 54                    | 8.0            | 2,942,362           | (2.6)          |
| 1999 | 84                    | 55.6           | 3,062,124           | 4.1            |
| 2000 | 82                    | (2.4)          | 3,329,914           | 8.7            |
| 2001 | 80                    | (2.4)          | 3,018,702           | (9.3)          |
| 2002 | 76                    | (5.0)          | 2,666,762           | (11.7)         |

Source: Chicago Convention and Tourism Bureau

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**Donald E. Stephens Convention Center and Rosemont Conference Center**

Convention activity in the Rosemont/O'Hare area is generated by the Donald E. Stephens Convention Center and Rosemont Conference Center, situated in downtown Rosemont on the southeast side of O'Hare International Airport, roughly sixteen miles southeast of Schaumburg.

According to the Rosemont Convention Bureau, the ± 840,000-square-foot facility is reportedly the tenth largest convention center in the nation, with six contiguous halls, and the second largest in Illinois. A ± 100,000-square-foot expansion of the convention center was completed in September 1997, and ± 60,000 square feet were added in March 1998. A ± 145,000-square-foot expansion was completed in August 2001. An additional ± 52,000 square feet of function space is available in the Rosemont Conference Center and the Donald E. Stephens Ballroom, which adjoin the convention center. In July 2004, the convention center will add ± 40,000 square feet of flexible meeting space. According to the Rosemont Convention Bureau, the Center attracts ± 1.35 million visitors annually and consistently returns revenues to the Village of Rosemont (± \$9 million) and the State of Illinois (± \$7.3 million), and makes an economic impact of at least \$500 million to the northwest suburban Chicago area. The following table details convention activity from 1996 to 2002.

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**Rosemont Convention Activity**


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| Year | Number of Conventions | Percent Change | Number of Delegates | Percent Change |
|------|-----------------------|----------------|---------------------|----------------|
| 1996 | 354                   | —              | 135,995             | —              |
| 1997 | 346                   | (2.3) %        | 132,771             | (2.4) %        |
| 1998 | 353                   | 2.0            | 135,436             | 2.0            |
| 1999 | 328                   | (7.1)          | 127,407             | (5.9)          |
| 2000 | 367                   | 11.9           | 139,792             | 9.7            |
| 2001 | 325                   | (11.4)         | 126,428             | (9.6)          |
| 2002 | 320                   | (1.5)          | 125,010             | (1.1)          |

Source: Rosemont Convention and Visitors Bureau

The facility hosts over 300 events annually, not including corporate meetings and trade shows. In 2002, there were 320 conventions with a total attendance of 125,010. Both the number of events held at the facility and the delegates in attendance have declined in the last two years from the period highs experienced in 2000. Total convention, trade show, and corporate meeting attendance has also declined significantly since 2000, when ± 877,971 attendees generated an estimated ± \$495 million in expenditures. In 2002, ± 751,857 attendees generated ± \$417 million in expenditures. The following table outlines total corporate meeting, convention, and trade show attendance from 1996 to 2002.

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**Rosemont Convention, Tradeshow, and Corporate Meeting Activity**


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| Year | Number of Conventions, Trade Shows, and Corporate Meetings | Percent Change | Total Attendance | Percent Change |
|------|--|----------------|------------------|----------------|
| 1996 | 11,572   | —              | 874,754          | —              |
| 1997 | 11,421   | (1.3) %        | 860,148          | (1.7) %        |
| 1998 | 11,505   | 0.7            | 908,436          | 5.6            |
| 1999 | 11,235   | (2.3)          | 853,098          | (6.1)          |
| 2000 | 11,937   | 6.2            | 877,971          | 2.9            |
| 2001 | 10,737   | (10.1)         | 758,208          | (13.6)         |
| 2002 | 10,287   | (4.2)          | 751,857          | (0.8)          |

Source: Rosemont Visitors and Convention Bureau

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### Proposed Schaumburg Convention Center

A convention center is currently in the planning stages for Schaumburg along with the subject headquarters hotel. The development, as proposed for Phase I, currently includes a convention center with a  $\pm 99,020$ -square-foot exhibit hall and  $\pm 15,727$  square feet of meeting space, as well as a  $\pm 2,400$ -seat performing arts theater. Phase I of the Schaumburg Convention Center is projected to open in June 2006, concurrently with the adjacent subject 500-room Marriott Renaissance hotel. An opening date for the Phase II expansion of the Convention Center is not available as it is dependent on the success of Phase I and future market conditions.

### Chicago O'Hare International Airport

Chicago O'Hare International Airport is located roughly sixteen miles southeast of the subject property and is a source of room night demand for the subject property's market area. This facility officially opened to domestic commercial traffic in 1955, and provided the area with a second major airport to supplement the Chicago Municipal Airport (now known as Midway). Midway was the world's busiest airport until 1962, when all scheduled operations were transferred to Chicago O'Hare, which now handles more passengers than any other airport in the world.

Today, Chicago O'Hare International Airport encompasses roughly 7,700 acres and features four terminals and 162 gates. Regular service is provided by 42 commercial and commuter carriers, and another 27 cargo carriers use the facility. Chicago O'Hare handles the largest number of aircraft operations in the world, and it ranks third in the nation in terms of cargo tonnage. A new international terminal, constructed at a cost of  $\pm \$618$  million was completed in 1994, increasing Chicago O'Hare's ability to accommodate overseas flights. This  $\pm 100$ -acre facility features technological advances, such as an automated baggage sorting system and a lower-level signage system that changes to greet arriving passengers in 17 languages. In addition, the terminal houses 68 U.S. Customs booths and has the capacity to process 4,000 arriving passengers each hour. O'Hare International Airport reclaimed its title as the nation's busiest airport from Hartsfield Atlanta International Airport in 2001. The following table shows historical air passenger trends for the Chicago O'Hare airport beginning in 1985.

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**Airport Statistics**


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| Year           | Passenger<br>Traffic | Percent<br>Change* | Percent<br>Change** |
|----------------|----------------------|--------------------|---------------------|
| 1985           | 49,961,008           | —                  | —                   |
| 1986           | 54,771,979           | 9.6 %              | 9.6 %               |
| 1987           | 57,543,865           | 5.1                | 7.3                 |
| 1988           | 58,860,349           | 2.3                | 5.6                 |
| 1989           | 59,215,032           | 0.6                | 4.3                 |
| 1990           | 60,010,234           | 1.3                | 3.7                 |
| 1991           | 59,852,330           | (0.3)              | 3.1                 |
| 1992           | 64,441,087           | 7.7                | 3.7                 |
| 1993           | 65,091,168           | 1.0                | 3.4                 |
| 1994           | 66,468,269           | 2.1                | 3.2                 |
| 1995           | 67,253,358           | 1.2                | 3.0                 |
| 1996           | 69,153,529           | 2.8                | 3.0                 |
| 1997           | 70,385,073           | 1.8                | 2.9                 |
| 1998           | 72,485,218           | 3.0                | 2.9                 |
| 1999           | 72,610,121           | 0.2                | 2.7                 |
| 2000           | 74,144,244           | 2.1                | 2.7                 |
| 2001           | 67,448,064           | (9.0)              | 1.9                 |
| 2002           | 66,565,952           | (1.3)              | 1.7                 |
| YTD Sept. 2002 | 49,853,731           | —                  | —                   |
| YTD Sept. 2003 | 51,883,976           | 4.1 %              | —                   |

\*Annual average compounded percentage change from the previous year

\*\*Annual average compounded percentage change from 1985

Source: City of Chicago Department of Aviation

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The terrorist attacks of September 11th had an immediate negative impact on air travel, as aircraft were grounded for several days following the attack. Flights have since resumed; however, some airlines still offer revised schedules with a reduced number of flights. These reductions represent an effort to contain costs and offset the significant financial losses suffered by the industry, but also reflect the fact that even prior to September 11th air traffic was down from 2000 levels, due to the slowing economy.

In 2001, economic contraction followed by the events of September 11<sup>th</sup> resulted in a 9.0% overall decrease in passenger traffic. Year-end data for 2002 indicate a lesser decrease of 1.3% from the 2001 level. This decline is attributed to the events of September 11, 2001, which significantly impacted the way Americans and potential international tourists view air travel, as well as the national and regional economic recessions. However, significant hub

restructuring, and a resulting decline in the number of flights offered, is also fostering the decline in traffic.

Following the decreases posted in 2001 and 2002, passenger activity at Chicago O'Hare International Airport illustrated a striking rebound in 2003, with growth of 4.1% through September, over the same period in 2002. The airport is one of the strongest economic catalysts in the region. This facility employs more than 45,000 individuals, and provides over 300,000 jobs either directly or indirectly, making it one of the largest employers in the entire State of Illinois. Additionally, Chicago O'Hare International Airport contributes roughly \$15 million annually to the local economy, making it a significant force in the area's economic development.

#### Tourist Attractions

As mentioned previously, the subject property's market area is suburban in nature and therefore does not benefit significantly from the demand generators of the downtown Chicago area. Leisure guests are generally accommodated on the weekends at local hotels and are primarily comprised of social business relating to weddings, bar and bat mitzvahs, family reunions, college reunions, and other social gatherings. The area's numerous shopping venues, including the Woodfield Mall, IKEA, and Land's End Outlet are considered popular venues in the area. Local area leisure attractions also include the Prairie Center for the Arts, Medieval Times, Arlington Heights Museum, Metropolis Performing Arts Center, Alexian Field, Grand Victoria Casino, and Arlington Park Racetrack.

Tourism is a significant factor in the greater Chicago economy, and the city of Chicago offers a number of popular visitor destinations. The North Michigan Avenue area, which is also known as "the Magnificent Mile," is renowned for its shopping and dining alternatives. Oak Street is the site of a number of small, exclusive boutiques and shops that entice visitors with a variety of high-quality and unique merchandise. Rush Street offers a multitude of evening entertainment alternatives and restaurants. Old Town is another popular dining and entertainment area.

Chicago's Magnificent Mile district is considered one of the premier shopping areas in the nation, with upscale shops such as Saks Fifth Avenue, Marshall Field's, Tiffany & Co., Cartier, Nordstrom, and Neiman Marcus, as well as mass-market retailers such as Banana Republic, Niketown, and Eddie Bauer.

Navy Pier is a major leisure attraction on Chicago's lakefront. One feature, the Chicago Children's Museum, has tripled its attendance since relocating there in October 1996. Other attractions include a 440-seat IMAX Theater, a six-story glass-enclosed atrium called The Crystal Gardens, an outdoor ice skating rink, an indoor in-line skating rink, a Ferris wheel with enclosed seating, and regular performances by the Navy Pier Pops Orchestra. In addition, Navy Pier offers a TV production and editing studio, a 1,000-seat performing arts center, and a 400-seat children's theater.

Lincoln Park Zoo, a ±35-acre zoo, is the nation's oldest. The zoo is located within Lincoln Park, which fronts Lake Michigan, and stretches for nearly six miles.

The Art Institute of Chicago features post-World War II works by artists including Warhol, Picasso, and Hockney.

The Sears Tower Skydeck, which is 110 stories high, offers 360-degree views of the Chicago skyline and four neighboring states.

The Chicago Botanic Garden, a 385-acre living museum, features 23 gardens and native habitat areas, as well as educational greenhouses featuring tropical plants from around the world. It has more than 1.9 million plants of 8,800 taxa, the largest collection in the Upper Midwest. Located on Lake Cook Road, the Chicago Botanic Garden is the second-most-visited public garden in the United States.

Six Flags Great America, located in Gurnee, is a family amusement park featuring rides, games, food and entertainment.

In addition, Chicago is home to many other attractions and museums, including the Shedd Aquarium, the Adler Planetarium & Astronomy Museum, the Field Museum of Natural History, the Museum of Contemporary Art, and the Museum of Science and Industry, among others.

Chicago also has a full array of professional sports teams, including an NBA basketball franchise in the Bulls, and an NHL hockey team, the Blackhawks; both of these teams play at the United Center. Two Major League Baseball teams represent the city, the Chicago Cubs and the Chicago White Sox; the Cubs play at Wrigley Field, and the White Sox play at Comiskey Park. Chicago is also home to NFL football's Chicago Bears; the Bears play at Soldier Field. The following statistics show Chicago tourist attraction

attendance from 1995 to 2001. Data for 2002 was not available at the time of the writing of this report.

### Chicago Leisure Attraction Statistics

| Attractions                    | 1998              | % of Total   | 1999              | % of Total   | 2000              | % of Total   | 2001              | % of Total   |
|--------------------------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| Navy Pier                      | 8,248,000         | 37.6 %       | 7,750,000         | 38.1 %       | 9,100,000         | 36.8 %       | 8,150,000         | 36.7 %       |
| Lincoln Park Zoo               | 3,000,000         | 13.7         | 3,500,000         | 17.2         | 3,000,000         | 12.1         | 3,000,000         | 13.5         |
| Field Museum                   | 1,450,923         | 6.6          | 1,501,465         | 7.4          | 2,363,752         | 9.6          | 1,760,193         | 7.9          |
| Museum of Science and Industry | 1,750,000         | 8.0          | 1,656,611         | 8.1          | 2,187,475         | 8.8          | 1,597,887         | 7.2          |
| John G. Shedd Aquarium         | 1,981,000         | 9.0          | 1,851,618         | 9.1          | 1,720,174         | 7.0          | 1,681,609         | 7.6          |
| Art Institute of Chicago       | 1,537,157         | 7.0          | 1,358             | 0.0          | 1,543,915         | 6.2          | 1,704,441         | 7.7          |
| Sears Tower Skydeck            | 1,302,307         | 5.9          | 1,400,000         | 6.9          | 1,500,000         | 6.1          | 1,300,000         | 5.9          |
| Chicago Cultural Center        | 623,006           | 2.8          | 675,000           | 3.3          | 717,000           | 2.9          | 836,317           | 3.8          |
| Chicago Symphony Orchestra     | 272,628           | 1.2          | 580,000           | 2.9          | 576,062           | 2.3          | 512,000           | 2.3          |
| John Hancock Observatory       | N/Av              | --           | N/Av              | --           | 500,000           | 2.0          | N/Av              | --           |
| Adler Planetarium              | 459,626           | 2.1          | 460,815           | 2.3          | 465,299           | 1.9          | 434,086           | 2.0          |
| Chicago Children's Museum      | 471,602           | 2.2          | 459,106           | 2.3          | 435,000           | 1.8          | 690,078           | 3.1          |
| Chicago Historical Society     | 143,201           | 0.7          | 148,284           | 0.7          | 262,760           | 1.1          | 168,759           | 0.8          |
| Museum of Broadcast Comm.      | 500,000           | 2.3          | 200,000           | 1.0          | 225,000           | 0.9          | 200,000           | 0.9          |
| DuSable Museum                 | 171,186           | 0.8          | 147,336           | 0.7          | 147,453           | 0.6          | 158,698           | 0.7          |
| <b>Total Attractions</b>       | <b>21,910,636</b> | <b>100 %</b> | <b>20,331,593</b> | <b>100 %</b> | <b>24,743,890</b> | <b>100 %</b> | <b>22,194,068</b> | <b>100 %</b> |
| <b>Festivals</b>               |                   |              |                   |              |                   |              |                   |              |
| Taste of Chicago               | 3,065,000         | 41.2 %       | 3,695,000         | 43.1 %       | 3,570,000         | 42.8 %       | 3,575,000         | 44.0 %       |
| Air and Water Show             | 2,200,000         | 29.6         | 2,200,000         | 25.7         | 2,200,000         | 26.3         | 1,950,000         | 24.0         |
| Country Music Festival         | 250,000           | 3.4          | 600,000           | 7.0          | 600,000           | 7.2          | 605,000           | 7.4          |
| Blues Festival                 | 660,000           | 8.9          | 700,000           | 8.2          | 585,000           | 7.0          | 750,000           | 9.2          |
| Venetian Night                 | 500,000           | 6.7          | 550,000           | 6.4          | 550,000           | 6.6          | 575,000           | 7.1          |
| Jazz Festival                  | 310,000           | 4.2          | 360,000           | 4.2          | 310,000           | 3.7          | 315,000           | 3.9          |
| Celtic Festival                | 150,000           | 2.0          | 160,000           | 1.9          | 195,000           | 2.3          | Cancelled         | --           |
| Gospel Festival                | 150,000           | 2.0          | 150,000           | 1.7          | 175,000           | 2.1          | 200,000           | 2.5          |
| Vival! Chicago                 | 160,000           | 2.1          | 160,000           | 1.9          | 165,000           | 2.0          | 160,000           | 2.0          |
| <b>Total Festival</b>          | <b>7,445,000</b>  | <b>100 %</b> | <b>8,575,000</b>  | <b>100 %</b> | <b>8,350,000</b>  | <b>100 %</b> | <b>8,130,000</b>  | <b>100 %</b> |
| <b>Team</b>                    |                   |              |                   |              |                   |              |                   |              |
| Wrigley Field/Cubs             | 2,623,000         | 36.1 %       | 2,813,854         | 41.4 %       | 2,734,511         | 37.4 %       | 2,779,456         | 38.3 %       |
| Comisky Park/White Sox         | 1,391,146         | 19.2         | 1,338,851         | 19.7         | 1,947,799         | 26.7         | 1,766,172         | 24.4         |
| United Center/Bulls            | 1,269,645         | 17.5         | 907,064           | 13.3         | 975,330           | 13.4         | 851,940           | 11.8         |
| United Center/Blackhawks       | 808,044           | 11.1         | 710,503           | 10.4         | 614,875           | 8.4          | 675,723           | 9.3          |
| Soldier Field/Bears            | 512,465           | 7.1          | 452,635           | 6.7          | 535,891           | 7.3          | 620,226           | 8.6          |
| Soldier Field/Fire             | 275,000           | 3.8          | 215,000           | 3.2          | 195,000           | 2.7          | 231,000           | 3.2          |
| Chicago Wolves                 | 383,000           | 5.3          | 367,000           | 5.4          | 300,000           | 4.1          | 325,561           | 4.5          |
| <b>Total Team</b>              | <b>7,262,300</b>  | <b>100 %</b> | <b>6,804,907</b>  | <b>100 %</b> | <b>7,303,406</b>  | <b>100 %</b> | <b>7,250,078</b>  | <b>100 %</b> |
| <b>Total Visits</b>            | <b>36,617,936</b> |              | <b>35,711,500</b> |              | <b>40,397,296</b> |              | <b>37,574,146</b> |              |

Source: Chicago Convention and Tourism Bureau

The aforementioned sports teams, entertainment venues and attractions help to create a well-balanced demand pattern for the Chicago area that includes not only corporate business on the weekdays, but a significant amount of leisure business, which is particularly noticeable during the weekend. While these attractions are not directly related to the subject property's market, they are important to note.

Economic and  
Demographic Data

The following tables summarize the economic and demographic trends discussed throughout this section. All figures that reflect dollar amounts have been adjusted for inflation by Woods & Poole, and thus reflect real change. It should be noted that the percent changes indicated in the following tables are based on unrounded figures, and thus may not calculate exactly. With the exception of per capita data, figures shown in the following tables represent thousands.

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**Economic and Demographic Data for the Subject Property's Market Area**


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| Data Type                                    | Period    | Data Point  | Data Point  | Avg. Annual<br>Comp. Change |
|--|-----------|-------------|-------------|-----------------------------|
| Long-Term Historical Population              |           |             |             |                             |
| Cook County                                  | 1990-2003 | 5,109.5     | 5,378.9     | 0.4 %                       |
| Chicago, IL MSA                              | 1990-2003 | 7,430.2     | 8,492.4     | 1.0                         |
| State of Illinois                            | 1990-2003 | 11,453.3    | 12,670.6    | 0.8                         |
| United States                                | 1990-2003 | 249,464.4   | 290,459.3   | 1.2                         |
| Short-Term Historical Population             |           |             |             |                             |
| Cook County                                  | 2000-2003 | 5,377.9     | 5,378.9     | 0.0                         |
| Chicago, IL MSA                              | 2000-2003 | 8,293.2     | 8,492.4     | 0.8                         |
| State of Illinois                            | 2000-2003 | 12,440.8    | 12,670.6    | 0.6                         |
| United States                                | 2000-2003 | 282,124.6   | 290,459.3   | 1.0                         |
| Projected Population                         |           |             |             |                             |
| Cook County                                  | 2003-2010 | 5,378.9     | 5,422.2     | 0.1                         |
| Chicago, IL MSA                              | 2003-2010 | 8,492.4     | 8,927.7     | 0.7                         |
| State of Illinois                            | 2003-2010 | 12,670.6    | 13,189.2    | 0.6                         |
| United States                                | 2003-2010 | 290,459.3   | 310,519.0   | 1.0                         |
| Long-Term Historical Retail Sales            |           |             |             |                             |
| Cook County                                  | 1990-2003 | 42,025.9    | 51,754.5    | 1.6                         |
| Chicago, IL MSA                              | 1990-2003 | 64,832.3    | 92,176.3    | 2.7                         |
| State of Illinois                            | 1990-2003 | 94,517.9    | 132,432.1   | 2.6                         |
| United States                                | 1990-2003 | 2,089,724.5 | 3,084,868.1 | 3.0                         |
| Short-Term Historical Retail Sales           |           |             |             |                             |
| Cook County                                  | 2000-2003 | 50,662.7    | 51,754.5    | 0.7                         |
| Chicago, IL MSA                              | 2000-2003 | 87,899.9    | 92,176.3    | 1.6                         |
| State of Illinois                            | 2000-2003 | 127,015.0   | 132,432.1   | 1.4                         |
| United States                                | 2000-2003 | 2,913,002.0 | 3,084,868.1 | 1.9                         |
| Projected Retail Sales                       |           |             |             |                             |
| Cook County                                  | 2003-2010 | 51,754.5    | 55,455.1    | 1.0                         |
| Chicago, IL MSA                              | 2003-2010 | 92,176.3    | 103,805.7   | 1.7                         |
| State of Illinois                            | 2003-2010 | 132,432.1   | 147,527.9   | 1.6                         |
| United States                                | 2003-2010 | 3,084,868.1 | 3,494,021.5 | 1.8                         |
| Long-Term Historical Retail Sales Per Capita |           |             |             |                             |
| Cook County                                  | 1990-2003 | 8,225.0     | 9,621.7     | 1.2                         |
| Chicago, IL MSA                              | 1990-2003 | 8,725.5     | 10,853.9    | 1.7                         |
| State of Illinois                            | 1990-2003 | 8,252.5     | 10,452.0    | 1.8                         |
| United States                                | 1990-2003 | 8,376.8     | 10,620.7    | 1.8                         |

Source: Woods &amp; Poole Economics, Inc.

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**Economic and Demographic Data for the Subject Property's Market Area (Continued)**


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| Data Type  | Period    | Data Point | Data Point | Avg. Annual<br>Comp. Change |
|--|-----------|------------|------------|-----------------------------|
| Short-Term Historical Retail Sales Per Capita                    |           |            |            |                             |
| Cook County  | 2000-2003 | 9,420.5    | 9,621.7    | 0.7 %                       |
| Chicago, IL MSA  | 2000-2003 | 10,599.0   | 10,853.9   | 0.8                         |
| State of Illinois  | 2000-2003 | 10,209.5   | 10,452.0   | 0.8                         |
| United States  | 2000-2003 | 10,325.2   | 10,620.7   | 0.9                         |
| Projected Personal Retail Sales Per Capita                       |           |            |            |                             |
| Cook County  | 2003-2010 | 9,621.7    | 10,227.4   | 0.9                         |
| Chicago, IL MSA  | 2003-2010 | 10,853.9   | 11,627.4   | 1.0                         |
| State of Illinois  | 2003-2010 | 10,452.0   | 11,185.5   | 1.0                         |
| United States  | 2003-2010 | 10,620.7   | 11,252.2   | 0.8                         |
| Long-Term Historical Eating and Drinking Place Sales             |           |            |            |                             |
| Cook County  | 1990-2003 | 4,966.6    | 6,633.8    | 2.3                         |
| Chicago, IL MSA  | 1990-2003 | 7,048.1    | 10,044.5   | 2.8                         |
| State of Illinois  | 1990-2003 | 10,026.8   | 13,872.0   | 2.5                         |
| United States  | 1990-2003 | 216,297.9  | 302,524.4  | 2.6                         |
| Short-Term Historical Eating and Drinking Place Sales            |           |            |            |                             |
| Cook County  | 2000-2003 | 6,303.1    | 6,633.8    | 1.7                         |
| Chicago, IL MSA  | 2000-2003 | 9,341.9    | 10,044.5   | 2.4                         |
| State of Illinois  | 2000-2003 | 12,946.0   | 13,872.0   | 2.3                         |
| United States  | 2000-2003 | 281,887.0  | 302,524.4  | 2.4                         |
| Projected Eating and Drinking Place Sales                        |           |            |            |                             |
| Cook County  | 2003-2010 | 6,633.8    | 7,411.2    | 1.6                         |
| Chicago, IL MSA  | 2003-2010 | 10,044.5   | 11,666.2   | 2.2                         |
| State of Illinois  | 2003-2010 | 13,872.0   | 16,022.8   | 2.1                         |
| United States  | 2003-2010 | 302,524.4  | 354,299.5  | 2.3                         |
| Long-Term Historical Eating and Drinking Place Sales Per Capita  |           |            |            |                             |
| Cook County  | 1990-2003 | 972.0      | 1,233.3    | 1.8                         |
| Chicago, IL MSA  | 1990-2003 | 948.6      | 1,182.8    | 1.7                         |
| State of Illinois  | 1990-2003 | 875.5      | 1,094.8    | 1.7                         |
| United States  | 1990-2003 | 867.0      | 1,041.5    | 1.4                         |
| Short-Term Historical Eating and Drinking Place Sales Per Capita |           |            |            |                             |
| Cook County  | 2000-2003 | 1,172.0    | 1,233.3    | 1.7                         |
| Chicago, IL MSA  | 2000-2003 | 1,126.5    | 1,182.8    | 1.6                         |
| State of Illinois  | 2000-2003 | 1,040.6    | 1,094.8    | 1.7                         |
| United States  | 2000-2003 | 999.2      | 1,041.5    | 1.4                         |
| Projected Eating and Drinking Place Sales Per Capita             |           |            |            |                             |
| Cook County  | 2003-2010 | 1,233.3    | 1,366.8    | 1.5                         |
| Chicago, IL MSA  | 2003-2010 | 1,182.8    | 1,306.7    | 1.4                         |
| State of Illinois  | 2003-2010 | 1,094.8    | 1,214.8    | 1.5                         |
| United States  | 2003-2010 | 1,041.5    | 1,141.0    | 1.3                         |

Source: Woods &amp; Poole Economics, Inc.

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**Economic and Demographic Data for the Subject Property's Market Area (Continued)**


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| Data Type  | Period    | Data Point  | Data Point  | Avg. Annual<br>Comp. Change |
|--|-----------|-------------|-------------|-----------------------------|
| Long-Term Historical Personal Income             |           |             |             |                             |
| Cook County                                      | 1990-2003 | 132,261.9   | 176,072.7   | 2.2 %                       |
| Chicago, IL MSA                                  | 1990-2003 | 199,439.3   | 289,993.9   | 2.9                         |
| State of Illinois                                | 1990-2003 | 277,464.7   | 390,734.3   | 2.7                         |
| United States                                    | 1990-2003 | 5,705,389.4 | 8,120,002.3 | 2.8                         |
| Short-Term Historical Personal Income            |           |             |             |                             |
| Cook County                                      | 2000-2003 | 168,719.0   | 176,072.7   | 1.4                         |
| Chicago, IL MSA                                  | 2000-2003 | 272,773.7   | 289,993.9   | 2.1                         |
| State of Illinois                                | 2000-2003 | 368,894.0   | 390,734.3   | 1.9                         |
| United States                                    | 2000-2003 | 7,614,095.1 | 8,120,002.3 | 2.2                         |
| Projected Personal Income                        |           |             |             |                             |
| Cook County                                      | 2003-2010 | 176,072.7   | 193,271.4   | 1.3                         |
| Chicago, IL MSA                                  | 2003-2010 | 289,993.9   | 331,061.0   | 1.9                         |
| State of Illinois                                | 2003-2010 | 390,734.3   | 443,395.8   | 1.8                         |
| United States                                    | 2003-2010 | 8,120,002.3 | 9,386,118.9 | 2.1                         |
| Long-Term Personal Income per Capita             |           |             |             |                             |
| Cook County                                      | 1990-2003 | 25,885.0    | 32,734.0    | 1.8                         |
| Chicago, IL MSA                                  | 1990-2003 | 26,842.0    | 34,147.0    | 1.9                         |
| State of Illinois                                | 1990-2003 | 24,226.0    | 30,838.0    | 1.9                         |
| United States                                    | 1990-2003 | 22,871.0    | 27,956.0    | 1.6                         |
| Short-Term Historical Personal Income per Capita |           |             |             |                             |
| Cook County                                      | 2000-2003 | 31,372.0    | 32,734.0    | 1.4                         |
| Chicago, IL MSA                                  | 2000-2003 | 32,891.0    | 34,147.0    | 1.3                         |
| State of Illinois                                | 2000-2003 | 29,652.0    | 30,838.0    | 1.3                         |
| United States                                    | 2000-2003 | 26,988.0    | 27,956.0    | 1.2                         |
| Projected Personal Income per Capita             |           |             |             |                             |
| Cook County                                      | 2003-2010 | 32,734.0    | 35,645.0    | 1.2                         |
| Chicago, IL MSA                                  | 2003-2010 | 34,147.0    | 37,083.0    | 1.2                         |
| State of Illinois                                | 2003-2010 | 30,838.0    | 33,618.0    | 1.2                         |
| United States                                    | 2003-2010 | 27,956.0    | 30,227.0    | 1.1                         |
| Long-Term Historical Employment - Cook County    |           |             |             |                             |
| Farm   | 1990-2003 | 0.7         | 0.6         | (0.9)                       |
| Agriculture Services, Other                      | 1990-2003 | 11.8        | 16.5        | 2.6                         |
| Mining   | 1990-2003 | 4.2         | 2.1         | (5.2)                       |
| Construction                                     | 1990-2003 | 125.4       | 143.4       | 1.0                         |
| Manufacturing                                    | 1990-2003 | 477.7       | 395.1       | (1.5)                       |
| Trans., Comm. & Public Utils.                    | 1990-2003 | 192.5       | 230.0       | 1.4                         |
| Total Trade                                      | 1990-2003 | 681.4       | 631.1       | (0.6)                       |
| Wholesale Trade                                  | 1990-2003 | 216.9       | 169.1       | (1.9)                       |
| Retail Trade                                     | 1990-2003 | 464.5       | 462.0       | (0.0)                       |
| Finance, Insurance, & Real Estate                | 1990-2003 | 341.9       | 381.1       | 0.8                         |
| Services   | 1990-2003 | 941.0       | 1,248.5     | 2.2                         |
| Total Government                                 | 1990-2003 | 358.8       | 369.5       | 0.2                         |
| Federal Civilian Govt.                           | 1990-2003 | 61.1        | 49.7        | (1.6)                       |
| Federal Military Govt.                           | 1990-2003 | 19.8        | 12.1        | (3.7)                       |
| State & Local Govt.                              | 1990-2003 | 277.9       | 307.6       | 0.8                         |
| TOTAL  | 1990-2003 | 3,135.4     | 3,417.9     | 0.7                         |

Source: Woods &amp; Poole Economics, Inc.

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**Economic and Demographic Data for the Subject Property's Market Area (Continued)**


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| Data Type                                      | Period    | Data Point | Data Point | Avg. Annual<br>Comp. Change |
|--|-----------|------------|------------|-----------------------------|
| Short-Term Historical Employment - Cook County |           |            |            |                             |
| Farm   | 2000-2003 | 0.6        | 0.6        | (1.2) %                     |
| Agriculture Services, Other                    | 2000-2003 | 16.4       | 16.5       | 0.2                         |
| Mining   | 2000-2003 | 2.1        | 2.1        | (0.2)                       |
| Construction                                   | 2000-2003 | 137.6      | 143.4      | 1.4                         |
| Manufacturing                                  | 2000-2003 | 402.2      | 395.1      | (0.6)                       |
| Trans., Comm. & Public Utils.                  | 2000-2003 | 219.9      | 230.0      | 1.5                         |
| Total Trade                                    | 2000-2003 | 637.0      | 631.1      | (0.3)                       |
| Wholesale Trade                                | 2000-2003 | 174.9      | 169.1      | (1.1)                       |
| Retail Trade                                   | 2000-2003 | 462.0      | 462.0      | (0.0)                       |
| Finance, Insurance, & Real Estate              | 2000-2003 | 366.0      | 381.1      | 1.4                         |
| Services                                       | 2000-2003 | 1,205.4    | 1,248.5    | 1.2                         |
| Total Government                               | 2000-2003 | 362.2      | 369.5      | 0.7                         |
| Federal Civilian Govt.                         | 2000-2003 | 51.1       | 49.7       | (0.9)                       |
| Federal Military Govt.                         | 2000-2003 | 12.0       | 12.1       | 0.3                         |
| State & Local Govt.                            | 2000-2003 | 299.1      | 307.6      | 0.9                         |
| TOTAL  | 2000-2003 | 3,349.5    | 3,417.9    | 0.7                         |
| Projected Employment - Cook County             |           |            |            |                             |
| Farm   | 2003-2010 | 0.6        | 0.6        | (1.2)                       |
| Agriculture Services, Other                    | 2003-2010 | 16.5       | 17.1       | 0.5                         |
| Mining   | 2003-2010 | 2.1        | 2.1        | 0.1                         |
| Construction                                   | 2003-2010 | 143.4      | 148.7      | 0.5                         |
| Manufacturing                                  | 2003-2010 | 395.1      | 380.3      | (0.5)                       |
| Trans., Comm. & Public Utils.                  | 2003-2010 | 230.0      | 246.3      | 1.0                         |
| Total Trade                                    | 2003-2010 | 631.1      | 619.3      | (0.3)                       |
| Wholesale Trade                                | 2003-2010 | 169.1      | 155.3      | (1.2)                       |
| Retail Trade                                   | 2003-2010 | 462.0      | 464.0      | 0.1                         |
| Finance, Insurance, & Real Estate              | 2003-2010 | 381.1      | 400.3      | 0.7                         |
| Services                                       | 2003-2010 | 1,248.5    | 1,350.0    | 1.1                         |
| Total Government                               | 2003-2010 | 369.5      | 386.9      | 0.7                         |
| Federal Civilian Govt.                         | 2003-2010 | 49.7       | 49.8       | 0.0                         |
| Federal Military Govt.                         | 2003-2010 | 12.1       | 12.5       | 0.4                         |
| State & Local Govt.                            | 2003-2010 | 307.6      | 324.6      | 0.8                         |
| TOTAL  | 2003-2010 | 3,417.9    | 3,551.6    | 0.5                         |

Source: Woods &amp; Poole Economics, Inc.

## Market Area Conclusion

Our review of various sources of economic and demographic data for the subject property's market indicates that, while the local economy has contracted in recent years, strong growth has been experienced historically over the long term. The recent slowdown is attributed to the softening of the economy beginning in 2001, the terrorist attacks of September 11, 2001, and the more recent geo-political issues including the war with Iraq. We note that in 2001, 2002, and early 2003 increases were posted in unemployment and office vacancy rates, coupled with declines air traffic, reflective of the soft economic climate, both regionally and nationally. However, according to the U.S. Commerce Department, the U.S. Gross Domestic Product has expanded in mid-to-late 2003, which indicates a possible start of economic recovery. While the rising GDP had not been reflected in the employment and office market pictures through the third quarter of 2003, these statistics generally lag a resurgence in manufacturing and production. Also contributing to signs of economic recovery is the growth in airport passenger traffic experienced at O'Hare for year-to-date 2003. Overall, the underlying fundamentals of the region's economic base and broad employment spectrum appear sound. Given the current level of airport, convention center, hotel, and office market infrastructure, the subject market area is poised for growth in the future. As the national economy recovers, we anticipate that lodging demand in the subject property's market area will return to levels more characteristic of historical cycles.

## 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 property's neighborhood and evaluates any pertinent locational factors that could affect its occupancy, average rate and overall profitability.

Schaumburg is a major corporate center located in a suburb northwest of Chicago. Its status as a major corporate center is due in large part to its proximity to Interstates 90 and 290, as well as O'Hare International Airport. Much of the region's office space is occupied by single corporate users, while other buildings are multi-tenant in nature. Several major corporations are headquartered or have major regional offices in Schaumburg, including Motorola, Cingular, and the Zurich American Insurance Group. In addition to the significant office space, retail development is extensive in the Schaumburg area. Led by the 2.5-million-square-foot Woodfield Mall, there are presently 67 shopping centers and numerous free-standing stores in the Village, including Woodfield Village Green and Woodfield Shopping Center.

Woodfield Mall is reportedly one of the largest shopping facilities in the country, attracting patrons from the local area, as well as from a wider regional base. This facility offers a variety of retail alternatives, including major anchor stores, smaller specialty shops, and a wide variety of restaurants; the anchor stores include Marshall Fields, Nordstrom, Lord and Taylor, J.C. Penney, and Sears. Overall the village contains approximately 9.5 million square feet of commercial/retail space, including numerous amenities and services attractive to hotel patrons.

Neighborhood  
Conclusion

The neighborhood surrounding the proposed Renaissance Convention Hotel appears well suited to the operation of a first-class, full-service hotel. Due to the strong exposure to a wide array of major corporations and its proximity to O'Hare International Airport, the subject neighborhood is considered highly appropriate for the operation of a transient lodging facility.

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## 5. Market for Group and Transient Accommodations

The market for transient accommodations is an all-encompassing term referring to the many types of travelers who use lodging facilities in a given area. These travelers represent the market's accommodated room night demand. In addition, the market may be characterized by latent demand, which consists of unaccommodated demand and/or induced demand. Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all of the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can induce demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities.

This section will begin with an analysis of historical lodging demand trends to determine what changes have occurred; the historical number of competitive hotel rooms will then be estimated to evaluate local supply trends. Areawide occupancy levels can be calculated based on the number of hotel rooms available in the market and the demand for lodging accommodations. The total room night demand will be divided into individual market segments to allow us to forecast growth rates based on the economic and demographic data set forth earlier in this report. We will also identify unaccommodated and induced demand that may have an impact on the future performance of local lodging facilities.

Historical Supply  
and Demand Data

Smith Travel Research (STR) is an independent research firm which compiles data on the lodging industry; its published data is routinely used by typical hotel buyers. STR has compiled historical supply and demand data for the subject property's competitive market. This information is presented in the following table, along with the marketwide occupancy, average rate, and

rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate, and provides an indication of how well rooms revenue is being maximized.

To enhance our analysis, we studied four groups of competitive hotel properties, with Group I representing the subject property's primary competitors and Groups II, III, and IV representing the secondary competitors, due to their anticipated lesser competitive levels. Group I includes the six upscale, major branded, full-service hotels located in the market area that are considered primarily competitive with the proposed subject property. Group II includes a combination of seventeen limited-service and full-service hotels located in the area; these hotels are projected to compete less directly with the proposed subject property, due to either their mid-scale quality levels, limited-service orientations, or distance from the subject. Group III includes five conference center hotels, considered competitive due to their group-oriented, upscale, full-service orientation, but only on a secondary basis. Group IV includes a selection of upscale, full-service hotels with major brands located in the Rosemont market, which are highly group-oriented benefiting from their proximity to the Donald E. Stephens Convention Center and Rosemont Conference Center. The following analysis details each set individually, and then combines them for a more comprehensive view of this competitive market. We note that STR data represents each hotel as fully competitive, which may differ from our weighted analysis shown later in this report. Also, while STR reporting data for the majority of the hotel groups was available back to 1997, data for the conference center hotels was available only starting in 1999.

#### Group I: Full-Service, Major Branded Hotels (Primary Competitors)

This table reflects a compilation of operating statistics from six properties with a total of 2,167 rooms as of September 2003. The hotels in this Smith Travel Research trend include the Hyatt Regency Woodfield, the Marriott Schaumburg, the Embassy Suites Schaumburg, the Sheraton Northwest Arlington Heights, the Wyndham Itasca, and the Sheraton Suites Elk Grove.

**Historical Supply and Demand Trends (STR) - Group I: Local, Full-Service, Major Branded Hotels**

|                          | 1997     | 1998     | 1999     | 2000     | 2001     | 2002     | Year-to-Date Through<br>September |          | Average Annual<br>Compounded<br>Change: 1997-2002 |
|--------------------------|----------|----------|----------|----------|----------|----------|-----------------------------------|----------|---|
|                          |          |          |          |          |          |          | 2002                              | 2003     |   |
| Average Daily Room Count | 2,167    | 2,167    | 2,167    | 2,167    | 2,167    | 2,167    | 2,167                             | 2,167    |   |
| Available Room Nights    | 790,955  | 790,955  | 790,955  | 790,955  | 790,955  | 790,955  | 591,591                           | 591,591  |   |
| Change                   | —        | 0.0 %    | 0.0 %    | 0.0 %    | 0.0 %    | 0.0 %    | —                                 | 0.0 %    | 0.0 %   |
| Occupied Room Nights     | 567,777  | 558,233  | 570,675  | 553,130  | 441,634  | 430,116  | 321,372                           | 358,968  |   |
| Change                   | —        | (1.7) %  | 2.2 %    | (3.1) %  | (20.2) % | (2.6) %  | —                                 | 11.7 %   | (5.4) %   |
| Occupancy                | 71.8 %   | 70.6 %   | 72.2 %   | 69.9 %   | 55.8 %   | 54.4 %   | 54.3 %                            | 60.7 %   |   |
| Change                   | —        | (1.7) %  | 2.2 %    | (3.1) %  | (20.2) % | (2.6) %  | —                                 | 11.7 %   | (5.4) %   |
| Average Rate             | \$106.89 | \$113.43 | \$114.70 | \$119.80 | \$115.93 | \$106.84 | \$107.49                          | \$100.47 |   |
| Change                   | —        | 6.1 %    | 1.1 %    | 4.4 %    | (3.2) %  | (7.8) %  | —                                 | (6.5) %  | (0.0) %   |
| RevPAR                   | \$76.73  | \$80.05  | \$82.76  | \$83.78  | \$64.73  | \$58.10  | \$58.39                           | \$60.96  |   |
| Change                   | —        | 4.3 %    | 3.4 %    | 1.2 %    | (22.7) % | (10.2) % | —                                 | 4.4 %    | (5.4) %   |

Source: Smith Travel Research

The hotels included in this competitive group consist of nearly 2,200 guestrooms divided among six lodging facilities. These facilities represent full-service product types, with upscale improvements and amenities, and are considered to be the most competitive with the proposed subject property.

The majority of these hotels were introduced into the market in the early-1980s, with the exception of the two Sheraton properties. The Sheraton Northwest's improvements date to 1969, while the Sheraton Elk Grove opened in 1990. The two Sheraton properties and the Wyndham have undergone branding changes since opening. No supply changes have occurred in this competitive set since 1990.

Room night demand for the primary competitors posted mainly declines between 1997 and 2002, with the exception of moderate growth experienced in 1999. These declines were partly attributable to notable additions of new limited-service and extended-stay supply in the market area in the mid-to-late-1990s, which drew demand from the full-service properties. A sizeable 20.2% decline in demand was incurred in 2001, causing the marketwide occupancy rate to drop to 55.8%. This decline is chiefly attributed to the softening of the U.S. economy, in general, which was exacerbated by the adverse effects of the events of September 11, 2001. From a local perspective,

demand declines at area hotels were also due to the cutbacks at Motorola and other area employers. Historically, Motorola has been one of the largest generators of lodging demand in the market, generating both transient and group occupancy. Concurrent with the recent layoffs, Motorola also cut back on travel expenditures, with severe effects at several of the area hotels. Those hotels that previously relied heavily on Motorola reported occupancy decreases of five to fifteen percentage points in 2001. Demand and occupancy further declined in 2002, by 2.6%; this tapering decline in occupancy was partly attributable to rate discounting, as full-service hotels were forced to compete with limited-service properties to attract room nights. According to local hotel managers, this downturn has applied downward pressure on average rates. Year-to-date demand and occupancy figures for September 2003 reveal the market beginning to rebound from the impacts of these recent negative trends. In the absence of new competitive supply in the year-to-date period, demand and occupancy posted increases of 11.7% over the corresponding period of 2002, reflecting the slow recovery of the national economy.

During the historical period, the marketwide average rate incurred growth in the early years which was negated by declines posted in the latter years. This performance was due to rate discounts offered in an effort to attract rooms business. Typical to many U.S. markets, a rebound in rates is projected to lag improvements in occupancy. Given the dramatic downturn in the economy during 2001 and further drop in 2002, when occupancy dropped by 20.2% and 2.6%, respectively, average rate decreased by 3.2% and 7.8% during the same respective years. This reflects the lag effect that occurs with rate discounting as local hotel operators respond to losses of demand. Figures for year-to-date through September 2003 show that in spite of impressive growth in demand and occupancy, average rate still decreased by a sizeable 6.5% compared to the corresponding period of 2002.

RevPAR declined by 5.4% on an average annual compounded basis over the trend period, mainly influenced by the declines in recent years. We note that RevPAR posted growth of 4.4% for the year-to-date period in 2003, attributable to the impressive rebound in occupancy offsetting a continued decline in average rate.

For the long-term, we anticipate that the market will continue its demand recovery as the national and local economies strengthen. Average rate growth is projected to lag that of demand, as hotel operators transition from discounting strategies. The decrease in corporate travel in the market is believed to be short-term in nature and should be phased out as the economy resumes growth, which should also aid in growing average rate. An economic recovery in the Chicago suburbs is anticipated to be gradual. However, the area is believed to be fundamentally strong and the long-term outlook is favorable, particularly with the construction of the new convention center demand generator in Schaumburg.

**Group II: Other Full-Service and Limited-Service Hotels (Secondary Competitors)**

This table reflects a compilation of operating statistics from seventeen properties with a total of 3,029 rooms as of September 2003. The hotels included in this Smith Travel Research trend include the Holiday Inn Schaumburg, the Radisson Schaumburg, the Radisson Arlington Heights, the DoubleTree Club Palatine, the Holiday Inn Rolling Meadows, the Marriott Prairie Stone, the Hilton Garden Inn Hoffman Estates, the Wyndham Garden Schaumburg, the Courtyard by Marriott Arlington Heights South, the Courtyard by Marriott Arlington Heights North, the AmeriSuites Schaumburg, the SpringHill Suites by Marriott Schaumburg, the Residence Inn by Marriott Schaumburg, the Hawthorn Suites Schaumburg, the Candlewood Suites Schaumburg, the Homewood Suites Schaumburg, and the Summerfield Suites Schaumburg.

**Historical Supply and Demand Trends (STR)- Group II: Other Full-Service and Limited-Service Hotels**

|                          | 1997    | 1998    | 1999    | 2000    | 2001     | 2002      | Year-to-Date Through<br>September |         | Average Annual<br>Compounded<br>Change: 1997-2002 |
|--------------------------|---------|---------|---------|---------|----------|-----------|-----------------------------------|---------|---|
|                          |         |         |         |         |          |           | 2002                              | 2003    |   |
| Average Daily Room Count | 1,869   | 1,986   | 2,109   | 2,296   | 2,552    | 2,833     | 2,766                             | 3,029   |   |
| Available Room Nights    | 682,138 | 724,890 | 769,823 | 838,149 | 931,499  | 1,033,900 | 755,232                           | 826,917 |   |
| Change                   | —       | 6.3 %   | 6.2 %   | 8.9 %   | 11.1 %   | 11.0 %    | —                                 | 9.5 %   | 8.7 %   |
| Occupied Room Nights     | 491,736 | 486,339 | 520,957 | 584,615 | 540,165  | 554,788   | 417,939                           | 470,392 |   |
| Change                   | —       | (1.1) % | 7.1 %   | 12.2 %  | (7.6) %  | 2.7 %     | —                                 | 12.6 %  | 2.4 %   |
| Occupancy                | 72.1 %  | 67.1 %  | 67.7 %  | 69.8 %  | 58.0 %   | 53.7 %    | 55.3 %                            | 56.9 %  |   |
| Change                   | —       | (6.9) % | 0.9 %   | 3.1 %   | (16.9) % | (7.5) %   | —                                 | 2.8 %   | (5.7) %   |
| Average Rate             | \$83.35 | \$89.91 | \$89.67 | \$91.26 | \$86.99  | \$81.76   | \$81.72                           | \$78.15 |   |
| Change                   | —       | 7.9 %   | (0.3) % | 1.8 %   | (4.7) %  | (6.0) %   | —                                 | (4.4) % | (0.4) %   |
| RevPAR                   | \$60.09 | \$60.32 | \$60.68 | \$63.65 | \$50.45  | \$43.87   | \$45.22                           | \$44.46 |   |
| Change                   | —       | 0.4 %   | 0.6 %   | 4.9 %   | (20.8) % | (13.0) %  | —                                 | (1.7) % | (6.1) %   |

Source: Smith Travel Research

The hotels included in this competitive group consist of roundly 3,000 guestrooms divided among seventeen lodging facilities. These facilities represent full-service, modified full-service, and limited-service (all-suite and extended-stay) product types, with mid-scale or upscale improvements and amenities. These properties are considered to be only secondarily competitive with the proposed subject property due to product quality, orientation, or location.

Supply changes since 1997 have been significant within this group of hotels, mainly in the all-suite and extended-stay product categories. In 1997, the AmeriSuites opened in December, resulting in residual supply growth of 6.3% in 1998. The Candlewood Suites and the Hawthorn Suites opened in 1999, causing 6.2% growth in supply in that year, as well as residual growth in 2000. The Hilton Garden Inn opened in 2000, with 8.9% supply growth posted that year. In 2001, the adjacent SpringHill Suites and Residence Inn by Marriott properties opened, resulting in supply growth of 11.1% and residual growth in 2002. And in 2002, the Marriott Prairie Stone opened in September contributing to 11.0% supply growth that year and 9.5% growth in year-to-date 2003. Overall, hotel room supply for Group II grew by 8.7% between 1997 and 2002, on an average annual compounded basis.

Room night demand nearly kept pace with supply growth between 1997 and 2000, revealing the ability of the new supply to accommodate previously unaccommodated or turn-away demand in the market. Growth in occupied room nights (hotel demand) was reported at (1.1)% in 1998, 7.1% in 1999, and 12.2% in 2000. Nonetheless, as 2001 represented a major downturn for hotel demand throughout the country, due to the softening economy and the events of September 11th, demand declined by 7.6% in 2001. Unlike the primary competitive hotels (Group I), demand for this set rebounded in 2002, with growth of 2.7%. It appears this market was able to respond more quickly to demand losses with effective price discounting strategies, as the economy continued to remain soft and the lodging industry continued to experience suppressed travel trends. Even stronger demand growth, of 12.6%, was posted by this group of hotels for 2003 through September, which exceeded the growth level experienced by the primary competitive set.

Historical occupancy in this competitive group has fluctuated throughout the years in the trend period. As such, occupancy declined steadily from a high of roundly 72% in 1997 to roundly 68% in 1999. Occupancy growth in 2000 brought the market level back up to roundly 70%. We note that when a hotel market exhibits occupancies in excess of 70%, it usually indicates the presence of unaccommodated demand. According to local hotel managers, this unaccommodated demand was associated with the various office parks and companies located in the surrounding area, with a strong Tuesday through Thursday evening pattern generating the highest levels of guest turn-aways. Nonetheless, marketwide occupancy incurred a sizeable drop of roundly twelve occupancy points, in 2001, reflective of the hotel demand decline reported nationwide. Occupancy dropped even lower to 54% in 2002, as travel trends remained suppressed. Year-to-date occupancy through September 2003 posted a roundly two-point increase over the same period in 2002, representing a slow rebound of area demand, in light of new supply.

Average rate gains in some of the early trend years were essentially negated by the declining trends in the latter years, resulting in overall 0.4% drop in rates on an annual average compounded basis between 1997 and 2002. Similar to Group I, this group posted decreases in average rate since 2001, with greater declines incurred in 2002 vs. 2003, showing a lessening of the discounting trend.

Overall, rooms revenue per available room (RevPAR) followed these fluctuations in occupancy and rates, with an average annual compounded decrease of 6.1% between 1997 and 2002; this is similar to the trends

experienced by Group I. In contrast to Group I, however, Group II posted a continued RevPAR drop in 2003, which is attributable to new supply (Marriott Prairie Stone) absorbing some of the demand growth and tempering occupancy growth.

**Group III: Conference Center Hotels (Secondary Competitors)**

The following table reflects the performance of five dedicated conference center hotels. This table illustrates a compilation of operating statistics from these five properties, which totaled 1,849 rooms as of September 2003. The conference center hotels include the Indian Lakes Resort, the Marriott Hickory Ridge in Lisle, the Doral Eaglewood Conference Resort in Itasca, the Dolce Oak Brook Hills Resort, and the Pheasant Run Resort in St. Charles.

**Historical Supply and Demand Trends (STR)- Group III: Conference Center Hotels**

|                          | 1999     | 2000     | 2001     | 2002     | Year-to-Date Through<br>September |          | Average Annual<br>Compounded<br>Change: 1999-2002 |
|--------------------------|----------|----------|----------|----------|-----------------------------------|----------|---|
|                          |          |          |          |          | 2002                              | 2003     |   |
| Average Daily Room Count | 1,554    | 1,554    | 1,554    | 1,628    | 1,554                             | 1,849    |   |
| Available Room Nights    | 567,210  | 567,210  | 567,210  | 594,350  | 424,242                           | 504,777  |   |
| Change                   | —        | 0.0 %    | 0.0 %    | 4.8 %    | —                                 | 19.0 %   | 1.6 %   |
| Occupied Room Nights     | 335,524  | 306,865  | 261,878  | 263,879  | 202,299                           | 220,697  |   |
| Change                   | —        | (8.5) %  | (14.7) % | 0.8 %    | —                                 | 9.1 %    | (7.7) %   |
| Occupancy                | 59.2 %   | 54.1 %   | 46.2 %   | 44.4 %   | 47.7 %                            | 43.7 %   |   |
| Change                   | —        | (8.5) %  | (14.7) % | (3.8) %  | —                                 | (8.3) %  | (9.1) %   |
| Average Rate             | \$107.40 | \$112.24 | \$111.17 | \$107.53 | \$108.96                          | \$105.76 |   |
| Change                   | —        | 4.5 %    | (1.0) %  | (3.3) %  | —                                 | (2.9) %  | 0.0 %   |
| RevPAR                   | \$63.53  | \$60.72  | \$51.32  | \$47.74  | \$51.96                           | \$46.24  |   |
| Change                   | —        | (4.4) %  | (15.5) % | (7.0) %  | —                                 | (11.0) % | (9.1) %   |

Source: Smith Travel Research

As STR reporting data is limited for the five conference hotels selected as partial competitors in our analysis, this STR trend begins in 1999. The conference hotels are larger properties than a majority of the hotels in Group II and comparable in size to Group I hotels. The conference center hotels range from 295 to 473 rooms. While the Pheasant Run Resort opened in 1963,

the Marriott Hickory Ridge, the Indian Lakes Resort, and the Oakbrook Hills Resort all opened in the 1980s. In total, they represented stable supply, until October 2002, at which time the Doral Eaglewood Conference Resort opened its new 295-room facility in Itasca; residual supply growth for this group of hotels occurred into 2003, due to the opening of this property.

As a group, the conference hotels experienced demand and occupancy declines in 2000 and 2001, attributable to softening demand for this product in light of economic cutbacks. We note the Oakbrook Hills Resort became affiliated with Dolce in January 2000, which may have impacted this property's performance, as well. Modest demand growth of 0.8% followed in 2002, attributable to the opening of a new property. This demand trend improved in the year-to-date 2003 period through September, with sizeable growth, at 9.1%. Similar to Groups I and II, this demand trend in 2003 may reflect the beginning of a rebound for this market. Overall, demand declined by 7.7% compounded annually between 1999 and 2002. With the opening of the Doral Eaglewood, occupancy was tempered and decreased by 3.8% and 8.3% in 2002 and year-to-date 2003, respectively.

While occupancy posted annual declines between 2000 and 2003, average rate grew by 4.5% in 2000, followed by annual decreases between 2001 and 2003, due to the aforementioned factors. Overall, average rate for these conference center properties remained stable between 1999 and 2002. RevPAR was mainly negatively impacted by the declines in occupancy experienced since 1999, with an average annual decline of 9.1% for this period. We note that overall these conference center hotels achieved lower occupancy levels and similar average rates compared to the Group I hotels in this market.

#### Group IV: Full-Service, Major Branded Rosemont Hotels (Secondary Competitors)

This table reflects a compilation of operating statistics from eight properties with a total of 3,909 rooms as of September 2003. The hotels included in the Smith Travel Research trend include the Hyatt Regency O'Hare, the Hilton O'Hare, the Westin O'Hare, the Embassy Suites Rosemont, the Hotel Sofitel O'Hare, the Marriott O'Hare/Rosemont, the Hyatt Rosemont, and the DoubleTree O'Hare/Rosemont.

**Historical Supply and Demand Trends (STR)- Group IV: Rosemont Hotels**

|                          | 1997      | 1998      | 1999      | 2000      | 2001      | 2002      | Year-to-Date Through<br>September |           | Average Annual<br>Compounded<br>Change: 1997-2002 |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------------------------|-----------|---|
|                          |           |           |           |           |           |           | 2002                              | 2003      |   |
| Average Daily Room Count | 3,334     | 3,334     | 3,386     | 3,818     | 3,909     | 3,909     | 3,909                             | 3,909     |   |
| Available Room Nights    | 1,216,910 | 1,216,910 | 1,235,862 | 1,393,575 | 1,426,785 | 1,426,785 | 1,067,157                         | 1,067,157 |   |
| Change                   | —         | 0.0 %     | 1.6 %     | 12.8 %    | 2.4 %     | 0.0 %     | —                                 | 0.0 %     | 3.2 %   |
| Occupied Room Nights     | 904,966   | 916,137   | 897,990   | 998,198   | 917,785   | 926,171   | 695,108                           | 693,733   |   |
| Change                   | —         | 1.2 %     | (2.0) %   | 11.2 %    | (8.1) %   | 0.9 %     | —                                 | (0.2) %   | 0.5 %   |
| Occupancy                | 74.4 %    | 75.3 %    | 72.7 %    | 71.6 %    | 64.3 %    | 64.9 %    | 65.1 %                            | 65.0 %    |   |
| Change                   | —         | 1.2 %     | (3.5) %   | (1.4) %   | (10.2) %  | 0.9 %     | —                                 | (0.2) %   | (2.7) %   |
| Average Rate             | \$133.31  | \$142.41  | \$143.74  | \$147.78  | \$136.65  | \$130.12  | \$130.21                          | \$126.02  |   |
| Change                   | —         | 6.8 %     | 0.9 %     | 2.8 %     | (7.5) %   | (4.8) %   | —                                 | (3.2) %   | (0.5) %   |
| RevPAR                   | \$99.14   | \$107.21  | \$104.44  | \$105.85  | \$87.90   | \$84.46   | \$84.82                           | \$81.92   |   |
| Change                   | —         | 8.1 %     | (2.6) %   | 1.4 %     | (17.0) %  | (3.9) %   | —                                 | (3.4) %   | (3.2) %   |

Source: Smith Travel Research

This cluster of hotels is located proximate to the Chicago O'Hare International Airport, the Donald E. Stephens Convention Center, and the Rosemont Conference Center. The hotels range in size from 206 to 1,099 rooms, with the smaller the Hyatt Regency Rosemont and the larger the Hyatt Regency O'Hare. In total, these properties incurred 3.2% supply growth on an average annual compounded basis since 1997. Supply additions were incurred in 1999, with the opening of the Hyatt Rosemont and in 2000 with the opening of the DoubleTree. Residual supply growth attributable to this latter addition occurred in 2001.

As a group, the Rosemont/O'Hare hotels experienced slight overall demand growth throughout the reporting period shown, at 0.5% compounded annually between 1997 and 2002. The strongest demand growth occurred in 2000, attributable, in part, to the addition of new supply and a stronger economy. The largest decline in demand occurred in 2001, due to the negative factors presented previously. This market, however, posted a slight resurgence in demand in 2002. This trend lessened in the year-to-date 2003 period, with a slight demand decline of 0.2%. As such, occupancy for this group of hotels has dropped from roundly 75% to 65%, from 1998 to 2002. In turn, average rate and RevPAR have dropped since 2001, albeit at decreasing levels. Overall, we note that historically these Rosemont hotels achieved

higher occupancy levels at significantly higher average rates compared to the Group I hotels in this market.

Combined Competitive Set: Groups I, II, III, and IV

The following table reflects the combination of Group I (full-service properties), Group II (other full-service and limited-service hotels), Group III (conference center hotels), and Group IV (upscale, full-service, major branded Rosemont hotels). This tables illustrates a compilation of operating statistics from these 36 properties, which totaled roundly 11,000 rooms as of September 2003. As historical operating data for the conference hotels was only available since 1999, the overall trend report for the combined also reflects this.

**Historical Supply and Demand Trends (STR)- Groups I, II, III, and IV**

|                          | 1999      | 2000      | 2001      | 2002      | Year-to-Date Through<br>September |           | Average Annual<br>Compounded<br>Change: 1999-2002 |
|--------------------------|-----------|-----------|-----------|-----------|-----------------------------------|-----------|---|
|                          |           |           |           |           | 2002                              | 2003      |   |
| Average Daily Room Count | 9,216     | 9,835     | 10,182    | 10,537    | 10,396                            | 10,954    |   |
| Available Room Nights    | 3,363,850 | 3,589,889 | 3,716,449 | 3,845,990 | 2,838,222                         | 2,990,442 |   |
| Change                   | —         | 6.7 %     | 3.5 %     | 3.5 %     | —                                 | 5.4 %     | 7.4 %   |
| Occupied Room Nights     | 2,325,146 | 2,442,808 | 2,161,462 | 2,174,954 | 1,636,718                         | 1,743,790 |   |
| Change                   | —         | 5.1 %     | (11.5) %  | 0.6 %     | —                                 | 6.5 %     | 2.1 %   |
| Occupancy                | 69.1 %    | 68.0 %    | 58.2 %    | 56.6 %    | 57.7 %                            | 58.3 %    |   |
| Change                   | —         | (1.6) %   | (14.5) %  | (2.8) %   | —                                 | 1.1 %     | (5.0) %   |
| Average Rate             | \$119.25  | \$123.45  | \$116.92  | \$110.44  | \$110.74                          | \$105.28  |   |
| Change                   | —         | 3.5 %     | (5.3) %   | (5.5) %   | —                                 | (4.9) %   | (0.5) %   |
| RevPAR                   | \$82.43   | \$84.01   | \$68.00   | \$62.45   | \$63.86                           | \$61.39   |   |
| Change                   | —         | 1.9 %     | (19.1) %  | (8.2) %   | —                                 | (3.9) %   | (5.4) %   |

Source: Smith Travel Research

Based on the previous analysis by competitive group, our subsequent demand growth projections show continued growth, at a moderate pace. These projections, in light of limited new supply (the subject property), reflect slow steady occupancy growth. This demand growth forecast is supported by the addition of the new convention center, which should favorably impact occupancy during the initial years of operation of the subject property. Average rate growth, however, is projected to experience continued declines in the short-term followed by a rebound at a much slower pace, based on historical trends.

**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. Although a market may have various segments, the three primary classifications occurring in most areas are commercial, meeting and group, and leisure. For the purposes of our analysis, we have subdivided the meeting and group segment into convention group business, which is derived from citywide events held at the convention center, and in-house group, which includes demand from individual meetings held at area hotels.

Market segmentation is a useful procedure because individual classifications often exhibit unique characteristics in terms of growth potential, seasonality of demand, average length of stay, double occupancy, facility requirements, price sensitivity, and so forth. By quantifying the room night demand by market segment and analyzing the characteristics of each segment, the demand for transient accommodations can be projected.

Lodging demand in the Schaumburg area is generated primarily by the following three market segments.

|           |                   |
|-----------|-------------------|
| Segment 1 | Meeting and Group |
| Segment 2 | Commercial        |
| Segment 3 | Leisure           |

Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2003 distribution of accommodated room night demand as follows. The hotel data compiled for the remainder of this chapter includes the primary and secondary competitors as included in the STR data. The secondary competitors have been weighted to reflect anticipated lower competitive levels with the proposed subject property.

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Accommodated Room Night Demand

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| Market Segment    | Marketwide          |                     |
|-------------------|---------------------|---------------------|
|                   | Accommodated Demand | Percentage of Total |
| Meeting and Group | 515,195             | 47 %                |
| Commercial        | 487,722             | 44                  |
| Leisure           | 98,227              | 9                   |
| Total             | 1,101,144           | 100 %               |

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As the above table illustrates, the 2003 annual room night demand for the proposed subject property's competitive market is roughly equally divided between group and transient sources. The meeting and group and commercial segments each contributed the largest portions of market demand, representing approximately 47% and 44%, respectively, of the total. In 2003 the percentage of the market's demand derived from the commercial segment posted a decline from previous years' levels, as corporate transient demand levels have decreased, since 2000. The leisure segment accounted

for only 9% of total demand, due to this market's concentration of offices and commercial demand generators.

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.

#### Meeting and Group Segments

Within the meeting and group segment, the convention group sub-market includes meetings, seminars, trade association shows, and similar gatherings generally ranging from a few hundred to several thousand people. Convention attendance is also tracked by the number of room nights a group will provide on its peak night or nights during a multiple-day event. For example, while an event may span three to four days, the majority of delegates may mainly seek accommodations for one or two nights during the event. Therefore, event attendance typically mimics a curve, with fewer room nights booked the first and last nights of the event and more rooms required during the middle. Convention demand is currently limited in this market; however, this is projected to improve with the addition of a convention center.

In-house groups represent individual meetings, seminars, trade association shows, and similar events held at local hotels. These events are generally planned for ten or more people, depending on the size of the hotel's function space. On an annual basis, local hotels typically allocate far more guestrooms to in-house groups than to convention groups, as compression of citywides is highly limited. In-house groups also provide ancillary benefits from meeting room rental, food and beverage revenue, and other income streams resulting from hosting a group in-house.

Annually, the highest levels of group demand in Schaumburg typically occur in the spring, summer, and fall. Winter is the slowest period. Although there are numerous classifications of group business, the primary categories considered in this analysis are corporate, association, SMERF (social, military, educational, religious, and fraternal) groups, and government groups.

Corporate groups are one of the most profitable components of this segment, because they exhibit limited price sensitivity and they often sponsor banquets and other events that generate revenue for the host hotel. In the subject property's market, most corporate group activity is generated by the same major employers that contribute high-volume corporate accounts (e.g. Qwest, Verizon, IBM, and Motorola). This demand may take the form of training

programs, sales meetings, division conferences, and similar events with a business purpose. Corporate groups generally meet during the workweek, thus generating lodging demand on Monday through Thursday nights. The average length of stay is two to four days, although training groups may stay six nights or more. Double-occupancy rates in this category typically range from 1.0 to 1.5.

Association demand is generally divided on a geographical basis: the most common categories are national, regional, and state associations. Depending on their nature, these associations may be more rate sensitive than commercial groups. This is particularly true when members are not reimbursed by their employers, but must pay to attend (i.e., guestroom and conference fees). The scheduling pattern of associations also depends on the nature of the group. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends. This type of group is expected to be a very strong source of the demand for the subject property.

The SMERF market consists of groups that are social, military, educational, religious, or fraternal in nature. Examples include family or military reunions, youth groups, and fraternal organizations such as the Knights of Columbus. These groups are extremely budget conscious and have a strong preference for weekend and summer meeting times, when rates are generally lowest. Typically, groups such as this have a high double-occupancy rate of 2.0 to 2.5 persons per room, and the length of stay is relatively short (one to three nights). Most hotel operators use this type of demand to bolster occupancy during off-peak times of the month and year, when other demand sources are limited.

In the local market, the corporate sub-segment is the strongest, due to the number of companies located in office developments proximate to the Interstate 90 and 290 interchange and Schaumburg.

### *Meetings Market Report*

Meetings and Conventions Magazine publishes a bi-annual report on the meetings industry, named the *Meetings Market Report*. This well-respected study has been published since 1974 and is a compilation of reports and opinions of meeting planners. We have illustrated samples of data from this report in this overview. The latest report was published in August of 2002,

which includes mainly 2001 data. The next report will be published in August 2004, which will cover 2003 data.

The following table provides an overview of the number of meetings, number of attendees, and dollars of expenditures from 1985 through 2001.

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**Summary of National Corporate, Convention, and Association Meetings Market**

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| Year | Total Number of Meetings |            |             | Total     |
|------|--------------------------|------------|-------------|-----------|
|      | Corporate                | Convention | Association |           |
| 1985 | 706,100                  | 12,200     | 185,400     | 903,700   |
| 1987 | 807,200                  | 12,700     | 181,700     | 1,001,600 |
| 1989 | 866,800                  | 12,600     | 186,600     | 1,066,000 |
| 1991 | 806,200                  | 10,200     | 215,000     | 1,031,400 |
| 1993 | 801,300                  | 11,800     | 206,500     | 1,019,600 |
| 1995 | 797,100                  | 10,900     | 175,600     | 983,600   |
| 1997 | 783,900                  | 11,300     | 189,500     | 984,700   |
| 1999 | 835,700                  | 11,600     | 174,200     | 1,021,500 |
| 2001 | 844,100                  | 11,800     | 177,700     | 1,033,600 |

| Year | Total Number of Attendees |            |             | Total      |
|------|---------------------------|------------|-------------|------------|
|      | Corporate                 | Convention | Association |            |
| 1985 | 39,800,000                | 13,500,000 | 18,200,000  | 71,500,000 |
| 1987 | 47,300,000                | 10,700,000 | 16,300,000  | 74,300,000 |
| 1989 | 58,400,000                | 13,600,000 | 21,700,000  | 93,700,000 |
| 1991 | 49,600,000                | 8,600,000  | 22,600,000  | 80,800,000 |
| 1993 | 55,100,000                | 10,700,000 | 18,700,000  | 84,500,000 |
| 1995 | 49,300,000                | 13,000,000 | 15,100,000  | 77,400,000 |
| 1997 | 49,900,000                | 11,700,000 | 17,900,000  | 79,500,000 |
| 1999 | 51,111,111                | 12,188,889 | 15,600,000  | 78,900,000 |
| 2001 | 51,500,000                | 12,500,000 | 15,900,000  | 79,900,000 |

| Year | Total Expenditures (In Billions) |            |             | Total |
|------|----------------------------------|------------|-------------|-------|
|      | Corporate                        | Convention | Association |       |
| 1985 | 7.5                              | 12.7       | 11.2        | 31.4  |
| 1987 | 7.1                              | 11.8       | 10.0        | 28.9  |
| 1989 | 9.7                              | 15.0       | 14.9        | 39.6  |
| 1991 | 8.7                              | 11.0       | 15.3        | 35.0  |
| 1993 | 10.6                             | 15.5       | 14.3        | 40.4  |
| 1995 | 8.6                              | 16.8       | 12.0        | 37.4  |
| 1997 | 10.8                             | 16.7       | 14.3        | 41.8  |
| 1999 | 10.2                             | 16.3       | 13.7        | 40.2  |
| 2001 | 10.3                             | 16.6       | 13.9        | 40.9  |

Sources: 1996, 2000, & 2002 Meetings Market Reports,  
Meetings & Conventions Magazine

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In this illustrated trend, the total number of meetings peaked first in 1989 at just over one million. By 1991, the quantity of meetings began to decline until a turning point in the mid 1990s. Through its decline and recovery, the number of meetings has closely bracketed the one million mark throughout the last 16 years. The number of corporate meetings was near its high in 2001, at over 840,000 events. Despite the economic turmoil of 2001 and cancellations caused by the terrorist attacks of September 11, 2001, this year generated corporate meetings activity only surpassed in the illustrated trend previously in 1989. However, we note that while data for 2000 is not tracked, meeting trends would have likely significantly surpassed 1999 trends, as the economy peaked in this year and millennium related travel and meetings were at an all-time high. Also, were 2000 data shown, statistics for 2001 would have likely shown a decline from activity levels in this year.

The number of conventions continued to bracket the 12,000-event mark, showing continued, gradual increases since 1995; again, the likely peak experienced in 2000 is not tracked. Non-convention association meetings showed some improvement as well, to almost 178,000 events, but remain off the event levels seen in much of the historical data.

Meeting attendance was also on the rise in 2001, continuing to show slow and steady growth and remaining in the high 70-million range. Overall attendance is still off of the high years of 1989, 1991, and 1993. Expenditures showed similar stability, bracketing the \$41.0-billion mark, which it has remained near since 1997.

### *Corporate Meetings*

Corporate meetings consist of an integral component of the convention segment, and its attendees consist of over two thirds of all meeting, group, and convention attendees. Corporate groups tend to have a low double occupancy of 1.1 to 1.5, while social groups are likely to have somewhat higher double occupancy rates ranging from 1.5 to 1.9.

Corporate groups generally meet during the workweek, thus generating lodging demand on Monday through Thursday nights. The average length of stay for typical meetings and conventions ranges from two to three days. According to the *2002 Meetings Market Report*, the average duration of a corporate meeting is 2.7 days, with a six-month planning window. Feeder markets are an important factor influencing corporate meeting demand. Generally, facilities that attract travelers from distant areas are characterized

by greater room night demand and longer lengths of stay than those destinations that draw a more local clientele.

Corporate groups are one of the most profitable components of this segment, because they exhibit limited price sensitivity and they often sponsor banquets and other events that generate revenue for the host hotel. According to the 2002 Meetings Market Report, 53% of corporate expenditures went to the host hotel, with 30 out of the 53 points allocated to hotel rooms and 23 points allocated to food and beverage costs. The remaining 47% is spent on such areas as air transportation, speakers, entertainment, AV equipment, ground transportation, and third-party fees.

The following table illustrates a breakdown of corporate meeting purpose by number of meetings and number of attendees.

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**Number of Meetings and Attendees by Type of Corporate Meeting**

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| Type of Corporate Meeting           | Number in Past Year | % of Total | Attendance in Past Year | % of Total |
|-------------------------------------|---------------------|------------|-------------------------|------------|
| Sales and Marketing Meetings        | 177,300             | 21 %       | 5,665,000               | 11 %       |
| Training and Educational Seminars   | 253,200             | 30         | 15,965,000              | 31         |
| Management Meetings                 | 151,900             | 18         | 5,150,000               | 10         |
| Professional and Technical Meetings | 76,000              | 9          | 10,815,000              | 21         |
| New Product Introductions           | 59,100              | 7          | 5,665,000               | 11         |
| Group Incentive Meetings            | 59,100              | 7          | 5,665,000               | 11         |
| Individual Incentive Meetings       | 42,200              | 5          | 515,000                 | 1          |
| Stockholder Meetings                | 16,900              | 2          | 1,030,000               | 2          |
| Other Meetings                      | 8,400               | 1          | 1,030,000               | 2          |
| Total Corporate Meetings            | 844,100             | 100 %      | 51,500,000              | 100 %      |

Source: 2002 Meetings Market Report, Meetings and Conventions Magazine

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As the previous data indicates, the most important corporate meetings activity is for training and education, while the professional and technical meeting category shows the second highest attendance level.

The following table illustrates the percentage of corporate meeting planners that utilize various types of facilities during a given year. Since the majority of meeting planners organize more than one meeting per year, the percentages will sum to greater than 100%.

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**Types of Hotels Used by Corporate Meeting Planners**

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| <u>Types of Hotels Used</u>                | <u>Corporate Meetings</u> |
|--|---------------------------|
| Downtown Hotels                            | 74 %                      |
| Resort Hotels (not including golf resorts) | 50                        |
| Convention Centers                         | 47                        |
| Suburban Hotels                            | 54                        |
| Suite Hotels                               | 27                        |
| Airport Hotels                             | 39                        |
| Golf Resorts                               | 36                        |
| Gaming Facilities                          | 19                        |
| Residential Conference Centers             | 15                        |
| Non-residential Conference Centers         | 12                        |
| Cruise Ships                               | 10                        |

Source: 2002 Meetings Market Report,  
Meetings and Conventions Magazine

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Downtown hotels, proximate to a city's central business district, are most likely to be recipients of corporate meeting demand, primarily due to the large percentage of businesses located in midtown areas. Suburban hotels are the second most used hotel type. The suburban subject property is projected to benefit, however, from Schaumburg's high concentration of corporate offices.

The following table summarizes the factors cited as important by meeting planners when choosing a destination and a host hotel within that destination.

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## Factors in Choosing a Corporate Meeting Location and Facility

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| Top Factors When Choosing Location        | Corporate Meetings<br>(except Incentive Trips) | Group<br>Incentive Trips |
|---|--|--------------------------|
| Availability of Suitable Hotels           | 75 %   | 60 %                     |
| Affordability of Destination              | 68   | 52                       |
| Safety and Security of Destination        | 57   | 70                       |
| Ease of Transportation                    | 57   | 52                       |
| Distance Traveled by Attendees            | 49   | 37                       |
| Transportation Costs                      | 49   | 45                       |
| Clean and Unspoiled Environment           | 35   | 56                       |
| Climate                                   | 30   | 78                       |
| Mandated by Corporate Policy              | 26   | 26                       |
| Availability of Recreational Facilities   | 24   | 83                       |
| Sightseeing, Cultural Events, Attractions | 17   | 78                       |
| Glamorous/Popular Image of Location       | 13   | 67                       |

| Top Factors When Choosing Hotel Within Location            | Corporate Meetings<br>(except Incentive Trips) | Group<br>Incentive Trips |
|--|--|--------------------------|
| Cost of Hotel or Meeting Facility                          | 75 %   | 65 %                     |
| Negotiable Food, Beverage, and Room Rates                  | 77   | 77                       |
| Number, Size, and Quality of Meeting Rooms                 | 77   | 47                       |
| Quality of Food Service                                    | 69   | 86                       |
| Number, Size, and Quality of Sleeping Rooms                | 63   | 81                       |
| Efficiency of Billing Procedures                           | 58   | 70                       |
| Availability of Meeting Support Services                   | 55   | 29                       |
| Efficiency of Check-in/Check-out Procedures                | 50   | 70                       |
| Assignment of One Staff Person To Handle Meeting           | 55   | 66                       |
| Previous Experience in Dealing with Facility and Staff     | 51   | 50                       |
| Convenience to Other Modes of Transportation               | 28   | 37                       |
| Proximity to Airport                                       | 26   | 28                       |
| Meeting Rooms with Multiple High Speed Lines/Outlets       | 44   | 33                       |
| Availability of Exhibit Space                              | 56   | 15                       |
| Number, Size, and Quality of Suites                        | 24   | 59                       |
| Proximity to Shopping, Restaurants, Off-site Entertainment | 18   | 63                       |
| Provision of Special Meeting Services                      | 18   | 43                       |
| Other On-site Recreational Facilities                      | 15   | 68                       |
| On-site Golf Course  | 11   | 50                       |

Source: 2002 Meetings Market Report, Meetings and Conventions Magazine

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As the preceding table indicates, location factors cited as most important include the availability of suitable hotels, affordability, safety, and ease of transportation. A balance, therefore, must exist between what constitutes a suitable yet affordable hotel. We note that corporate planners reported an average room rate of \$150.00 for hotel accommodations, but this number is somewhat skewed by higher-priced destinations (37% of respondents noted accepting rates of \$151.00 or more). Approximately 77% of respondents accepted room rates more than \$100.00, while 23% accepted room rates below \$100.00.

The following table illustrates the top cities and states that were chosen for corporate meetings.

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Locations of Corporate Meetings

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| City                           | Percent Held | State         | Percent Held |
|--------------------------------|--------------|---------------|--------------|
| Chicago, IL                    | 27 %         | California    | 47 %         |
| Las Vegas, NV                  | 24           | Florida       | 43           |
| Orlando, FL                    | 24           | Illinois      | 30           |
| New York, NY                   | 21           | Nevada        | 26           |
| Los Angeles area, CA           | 19           | New York      | 22           |
| San Francisco/Oakland area, CA | 17           | Texas         | 22           |
| Phoenix/Scottsdale, AZ         | 17           | Arizona       | 20           |
| Atlanta, GA                    | 17           | Georgia       | 18           |
| Dallas/Fort Worth, TX          | 15           | Pennsylvania  | 12           |
| San Diego, CA                  | 15           | Massachusetts | 12           |
| Boston, MA                     | 11           | Louisiana     | 10           |
| Washington, DC                 | 11           | Colorado      | 10           |
| Miami, FL                      | 11           |               |              |
| New Orleans, LA                | 10           |               |              |

Source: 2002 Meetings Market Report, Meetings and Conventions Magazine

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As this data indicates, Chicago, Las Vegas, and Orlando remain the most popular destination cities for corporate meetings, while California and Florida are the top two state destinations. Meeting planners typically compose a selection list of several cities from which to choose an event location. For corporate meeting planners, 21% choose between two cities, 22% between three cities, and 28% have only one city in mind. As illustrated in the preceding table, Chicago accounted for an estimated 27% of national corporate meetings in recent years. This data bodes well for the strength of the Schaumburg group market and local acceptance of the proposed subject

property as a headquarters hotel to aid in attracting groups to suburban-located Schaumburg Convention Center.

One of the after-effects of the terrorist attacks of September 11, 2001 is that more corporate meetings are being planned closer to home. Intentions to plan meetings outside of the United States are lower currently (38% in 2002 vs. 43% in 2000); and the next-published trends available from this source illustrating 2003 data (available in 2004) are expected to show further proportion of U.S.-based meetings.

Despite the economic downturn of late 2000 into 2001, approximately 48% of meeting planners in the latest survey reported the 2001 meeting budgets remained unchanged versus 2000 budget levels. Of the remaining participants, 26% noted an increase in the budget, and similarly, 26% noted a decrease. Budget anticipations for 2002 in this survey reflect a slight shift towards a decline: 47% of budgets are expected to remain unchanged, 26% of budgets are expected to increase, and 27% of budgets are expected to decrease.

### *Association Meetings*

Association demand is generally divided on a geographical basis: the most common categories are national, regional, and state associations. Depending on their nature, these associations may be more rate sensitive than commercial groups. This is particularly true when members are not reimbursed by their employers, but must pay to attend (i.e., guestroom and conference fees). The scheduling pattern of associations also depends on the nature of the group. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends.

While an event may span three to four days, the majority of delegates may mainly seek accommodations for one or two nights during the event. Therefore, event attendance typically mimics a curve, with fewer room nights booked the first and last nights of the event, and more rooms required during the middle. According to the *2002 Meetings Market Report*, the average duration of an association meeting is 2.0 days, with a nine-month planning window (the planning window for a corporate meeting was a shorter six months).

According to the *2002 Meetings Market Report*, 57% of corporate expenditures went to the host hotel (versus 53% for corporate meetings), with 31 out of the 57 points allocated to food and beverage costs (versus 23 points for corporate meetings) and 26 points allocated to hotel costs (versus 30 points for corporate meetings). Hence, associations are apt to spend modestly more on food and beverage and less on hotel rooms, when compared to corporate groups. The remaining 43% is spent on remaining meeting needs. The following table illustrates a breakdown of association meeting purpose by number of meetings and number of attendees.

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**Number of Meetings and Attendees by Type of Association Meeting**

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| Type of Association Meeting         | Number in Past Year | % of Total | Attendance in Past Year | % of Total |
|-------------------------------------|---------------------|------------|-------------------------|------------|
| Training and Educational Seminars   | 65,700              | 37 %       | 6,519,000               | 41 %       |
| Board Meetings                      | 33,800              | 19         | 2,703,000               | 17         |
| Professional and Technical Meetings | 30,200              | 17         | 2,862,000               | 18         |
| Regional/Local Chapter Meetings     | 30,200              | 17         | 1,113,000               | 7          |
| Other Off-Premises Meetings         | 17,800              | 10         | 2,703,000               | 17         |
| Total Association Meetings          | 177,700             | 100 %      | 15,900,000              | 100 %      |

Source: 2002 Meetings Market Report, Meetings and Conventions Magazine

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As the previous data shows and as was the case with corporate meetings, the most important association meetings activity is for training and education, while the professional and technical meeting category shows the second highest attendance level (board meetings and regional/local chapter meetings are tied for a close third in attendance).

The following table illustrates the percentage of association meeting planners that utilize various types of facilities during a given year; this data is illustrated for conventions and non-convention association meetings. Since the majority of meeting planners organize more than one meeting per year, the percentages will sum to greater than 100%.

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**Types of Hotels Used by Association Meeting Planners**

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| Types of Hotels Used                       | Conventions | Association Meetings |
|--|-------------|----------------------|
| Downtown Hotels                            | 64 %        | 71 %                 |
| Resort Hotels (not including golf resorts) | 15          | 35                   |
| Suburban Hotels                            | 17          | 47                   |
| Suite Hotels                               | 14          | 12                   |
| Airport Hotels                             | 10          | 29                   |
| Golf Resorts                               | 10          | 20                   |
| Gaming Facilities                          | 4           | 6                    |
| Residential Conference Centers             | 2           | 11                   |
| Non-residential Conference Centers         | 1           | 7                    |
| Cruise Ships                               | -           | 2                    |
| Other Facilities                           | 4           | 35                   |
| Did Not Require Hotels                     | 3           | 3                    |

Source: 2002 Meetings Market Report, Meetings and Conventions Magazine

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Downtown hotels are most likely to be recipients of convention and association meeting demand, primarily due to the downtown location of most convention centers and large meeting hotels. Suburban hotels are the second most used hotel type. Due to Schaumburg's status as a corporate center, this improves its ability to compete as a suburb with downtown locations.

The following table summarizes the factors cited as important by meeting planners when choosing a destination and a host hotel within that destination.

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## Factors in Choosing an Association Meeting Location and Facility

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| Top Factors When Choosing Location        | Association Meetings | Conventions |
|---|----------------------|-------------|
| Availability of Suitable Hotels           | 70 %                 | 80 %        |
| Affordability of Destination              | 76                   | 75          |
| Safety and Security of Destination        | 45                   | 51          |
| Ease of Transportation                    | 50                   | 50          |
| Transportation Costs                      | 43                   | 39          |
| Distance Traveled by Attendees            | 54                   | 49          |
| Clean and Unspoiled Environment           | 28                   | 31          |
| Climate                                   | 19                   | 23          |
| Availability of Recreational Facilities   | 16                   | 19          |
| Sightseeing, Cultural Events, Attractions | 17                   | 19          |
| Mandated by By-Laws                       | 23                   | 26          |
| Glamorous/Popular Image of Location       | 11                   | 11          |

| Top Factors When Choosing Hotel Within Location            | Association Meetings | Conventions |
|--|----------------------|-------------|
| Number, Size, and Quality of Meeting Rooms                 | 71 %                 | 87 %        |
| Negotiable Food, Beverage, and Room Rates                  | 71                   | 80          |
| Cost of Hotel or Meeting Facility                          | 76                   | 80          |
| Quality of Food Service                                    | 62                   | 71          |
| Number, Size, and Quality of Sleeping Rooms                | 54                   | 71          |
| Efficiency of Billing Procedures                           | 44                   | 48          |
| Availability of Meeting Support Services                   | 47                   | 50          |
| Assignment of One Staff Person To Handle Meeting           | 43                   | 52          |
| Efficiency of Check-in/Check-out Procedures                | 40                   | 44          |
| Availability of Exhibit Space                              | 21                   | 44          |
| Previous Experience in Dealing with Facility and Staff     | 39                   | 43          |
| Proximity to Shopping, Restaurants, Off-site Entertainment | 16                   | 24          |
| Number, Size, and Quality of Suites                        | 23                   | 21          |
| Proximity to Airport                                       | 26                   | 21          |
| Convenience to Other Modes of Transportation               | 25                   | 22          |
| Provision of Special Meeting Services                      | 17                   | 16          |
| Meeting Rooms with Multiple High Speed Lines/Outlets       | 22                   | 21          |
| Fax Modem Hook-Ups in Sleeping Rooms                       | 16                   | 15          |
| Other On-site Recreational Facilities                      | 10                   | 9           |
| On-site Golf Course  | 10                   | 9           |

Source: 2002 Meetings Market Report, Meetings and Conventions Magazine

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As the preceding table indicates, location factors cited as most important include the availability of suitable hotels, affordability, safety, and ease of transportation. Association planners reported an average room rate of \$133.00 for hotel accommodations, roughly \$17.00 lower than the corporate mark of \$150.00.

The following table illustrates the top cities and states that were chosen for association meetings.

| Locations of Association Meetings |              |              |              |
|-----------------------------------|--------------|--------------|--------------|
| City                              | Percent Held | State        | Percent Held |
| Chicago, IL                       | 21 %         | California   | 30 %         |
| Washington, DC                    | 19           | Florida      | 29           |
| Orlando, FL                       | 13           | Illinois     | 24           |
| Atlanta, GA                       | 12           | Texas        | 21           |
| Los Angeles area, CA              | 12           | Arizona      | 17           |
| Phoenix/Scottsdale, AZ            | 11           | Georgia      | 15           |
| New York, NY                      | 11           | New York     | 14           |
| Las Vegas, NV                     | 10           | Colorado     | 14           |
| Dallas/Fort Worth, TX             | 10           | Nevada       | 12           |
| San Diego, CA                     | 9            | Pennsylvania | 11           |
| Denver, CO                        | 9            | Louisiana    | 11           |
| New Orleans, LA                   | 9            | Virginia     | 9            |
| San Francisco/Oakland area, CA    | 8            |              |              |

Source: 2002 Meetings Market Report, Meetings and Conventions Magazine

As this data indicates, Chicago, Washington, DC, and Orlando are the most popular destination cities for association meetings, while California and Florida are the top two state destinations (as was the case for corporate meetings). As noted previously, planners normally choose an event location from a short list of selected cities. For association meeting planners, 15% choose between two cities (this factor was 21% for corporate planners), 23% between three cities (this factor was 22% for corporate planners), and 38% have only one city in mind (versus 28% for corporate planners). As illustrated in the preceding table, Illinois accounted for an estimated 24% of national association meetings in recent years. Chicago reportedly hosted approximately 21% of these meetings, which bodes well for the strength of the Schaumburg group market and local acceptance of the proposed subject

property as a headquarters hotel to attract groups to the suburban Schaumburg Convention Center.

Again contrasting the economic downturn of late 2000 into 2001, approximately 52% of association meeting planners in the latest survey reported the 2001 meeting budgets remained unchanged versus 2000 budget levels. Of the remaining participants, a high 34% noted an increase in the budget, and only 14% noted a decrease. Budget anticipations for 2002 in this survey suggest continued expansion: 48% of budgets are expected to remain unchanged, 36% of budgets are expected to increase, and 16% of budgets are expected to decrease.

#### *Meeting and Convention Timing and Seasonal Patterns*

Nationwide, the meeting and convention segment of the market has exhibited a strong preference for planning events during the late spring/early summer and fall months, with October, November (the first three weeks), May, and June representing the strongest months. The table below depicts the breakdown of percentages for the favorability of planning meetings in each month throughout the year.

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**Frequency and Seasonality of Major Conventions**

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| <u>Frequency</u>    | <u>Percentage</u> |
|---------------------|-------------------|
| Every Other Year    | 5 %               |
| Annually            | 75                |
| Twice a Year        | 12                |
| Four Times Per Year | 3                 |
| Other               | 5                 |
| No Major Convention | 11                |

| <u>Seasonality</u> | <u>Percentage</u> |
|--------------------|-------------------|
| January            | 4 %               |
| February           | 4                 |
| March              | 5                 |
| April              | 9                 |
| May                | 10                |
| June               | 11                |
| July               | 9                 |
| August             | 6                 |
| September          | 8                 |
| October            | 17                |
| November           | 13                |
| December           | 4                 |

Source: 2002 Meetings Market Report,  
Meetings and Conventions Magazine

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As the table above indicates, summer months are popular to group business to a lesser degree, for lifestyle and vacation reasons. The summer months are oftentimes selected by those groups in need of a price discount, which generally occurs during this season. Association meetings typically display slightly different characteristics than commercial meetings. State and regional associations often hold their meetings during the summer season, contributing to the annual occupancies of lodging facilities with meeting space at a time when commercial activity and room rates may be at their lowest. This typically occurs in May through August. Association gatherings are generally larger than corporate meetings and utilize a convention center and require larger amounts of exhibition and/or meeting space.

Future meeting and group demand is closely related to growth in the commercial segment. Because most meetings have either a direct or an indirect business purpose, the economic considerations that have an impact on commercial travel also affect meeting and group demand. The exception is non-commercial meetings, which are tied to the economic factors that influence leisure travel. It should be noted that meetings and similar events are booked in advance, and thus growth in this segment tends to lag slightly behind increases in commercial demand.

The addition of a convention center in Schaumburg, coupled with the entrance of the subject property is expected to induce a considerable amount of both convention group and in-house group demand into this market. This induced demand will be considered later in this section of this report, and this demand estimate is in addition to the base levels of demand growth expressed as follows.

In projecting meeting and group demand in the subject property's market, we have considered all of the data sources applicable to the overall group and commercial markets, as well as trends in Chicago and Rosemont convention activity and leisure travel. Based on the aforementioned trends and projections for the market, we estimate that meeting and group room night demand will continue to increase in 2004, by an estimated 3.0%. Demand is projected to grow by 4.0% in 2005, by 4.5% in 2006 and 2007, and by 4.0% in 2008. We forecast a stabilized growth rate of 2.5% in this segment starting in 2009 and annually thereafter.

#### Commercial Segment

The commercial segment consists of individual businesspeople who are visiting various firms in the subject property's market. Employers in the Schaumburg community range from multi-national corporations employing several thousand workers to small cottage industries employing only a few. A sizable portion of the office space in Schaumburg is occupied by single corporate users. Several major corporations are headquartered or have major regional offices in the Schaumburg area; these companies include Cingular, Jorgensen Steel, Verizon Wireless, Zurich American Insurance Group, and Motorola. Motorola Corporation's international headquarters serve as a major demand generator for Schaumburg area hotels and is Schaumburg's largest single employer. These numerous office, industrial, and retail employers located in the area provide sizeable levels of hotel room nights.

This demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday. In markets where the weekday occupancy often exceeds 90%, some unaccommodated commercial demand is likely to be present. The typical length of stay for commercial guests ranges from one to three days, and the rate of double occupancy is a low 1.2 to 1.3 people per room. Commercial demand is relatively constant throughout the year, although some declines are noticeable in late December and during other holiday periods.

The commercial segment includes numerous smaller classifications; however, the primary categories considered in this analysis are individual business travelers and high-volume corporate accounts. Most individual business travelers are visiting firms in the immediate area or passing through en route to other destinations. Their lodging choices are influenced by brand loyalty (and frequent traveler programs in particular), as well as location and convenience with respect to businesses and amenities. High-volume corporate accounts are generated by local companies; demand in this sub-segment may include employees of the firm or its affiliates, and often consists of training groups. These companies typically designate hotels as “preferred” accommodations; in return, the selected lodging facilities generally offer a significant discount from their published rates. Typically, these rates are negotiated on an annual basis, and the size of the discount is tied to the number of room nights produced.

All of the economic and demographic data presented earlier have some influence on commercial lodging demand; the trends that have the most direct correlation are changes in FIRE (finance, insurance, and real estate), service, wholesale trade, and total employment; occupied office space; and air passenger counts. Smith Travel Research reports that overall lodging demand in the entire market increased by 2.1% from 1999 through 2002 on an average annual basis and by 6.5% through September 2003. Our research indicates that the growth of commercial demand has been higher than this level each year from 1997 to 2000 and much lower than this level in 2001 and 2002. Considering these historical trends and expectations of gradual economic improvement by year-end 2003, we project that commercial demand (which comprises roundly 44% of the total market) will incur growth of 4.5% in 2004. In future years, we project commercial demand to grow by 4.0% in 2005 and in 2006, 3.5% in 2007 and in 2008, and 2.5% in 2009 and annually thereafter.

## Leisure Segment

The leisure market segment consists of individuals and families who are spending time in the area or passing through en route to other destinations. Their travel purposes may include sightseeing, recreation, visiting friends and relatives, or numerous other non-business activities. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. These peak periods are negatively correlated with commercial visitation, underscoring the stabilizing effect of capturing weekend and summer tourist travel. The typical length of stay ranges from one to four days, depending on the destination and travel purpose, and the rate of double occupancy typically ranges from 1.8 to 2.5 people per room.

Leisure travelers tend to be the most price-sensitive segment of the lodging market. They may prefer low-rise accommodations where parking is convenient to the rooms, and they often select accommodations that include complimentary amenities such as continental breakfast. Ease of highway access and proximity to tourist attractions and retail centers are important locational considerations. Leisure demand in the subject property's market is generated by the sites and attractions described earlier in this report, including the various shopping venues including the Woodfield Mall and, to a lesser extent, the attractions of downtown Chicago.

Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income often have a strong correlation to non-commercial visitation. Of the economic and demographic data presented earlier in this report, the local market generates only a modest amount of leisure demand. Based on our analysis of these indicators, we project demand in the leisure segment to grow at an estimated level of 4.5%, in 2004. In future years, we project leisure demand to incur growth of 4.0% in 2005, 3.5% in 2006 and in 2007, 3.0% in 2008, and 2.5% in 2009 and annually thereafter.

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, three segments were defined as representing the subject property'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 annual market segment growth rates.

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**Annual Market Segment Growth Rates**

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| Market Segment     | Annual Growth Rate |       |       |       |       |       |       |
|--------------------|--------------------|-------|-------|-------|-------|-------|-------|
|                    | 2004               | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  |
| Meeting and Group  | 3.0 %              | 4.0 % | 4.5 % | 4.5 % | 4.0 % | 2.5 % | 2.5 % |
| Commercial         | 4.5                | 4.0   | 4.0   | 3.5   | 3.5   | 2.5   | 2.5   |
| Leisure            | 4.5                | 4.0   | 3.5   | 3.5   | 3.0   | 2.5   | 2.5   |
| Base Demand Growth | 3.8 %              | 4.0 % | 4.2 % | 4.0 % | 3.7 % | 2.5 % | 2.5 % |

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Based on the economic factors presented earlier, overall accommodated demand is estimated to have grown by 0.6% in 2002 and 6.5% through September 2003, in the overall competitive market. We acknowledge that a portion of the 2003 growth spurt may be attributable to the new rooms added to the market, as demand growth oftentimes accompanies a new property that houses previously unaccommodated room nights. As such, our growth rate projections for the ensuing years demonstrate a gradual rebound starting from a slightly lower point than the 6.5% level incurred thus far in 2003. These growth rates will be used in subsequent sections of this report to forecast changes in lodging demand.

**Latent Demand**

The table presented earlier in this section illustrated the accommodated room night demand in the subject property's competitive market. Because this estimate is based on historical occupancy levels, it includes only those hotel rooms that were used by guests. Latent demand reflects potential room night demand that has not been realized by the existing competitive supply, and can be divided into unaccommodated demand and induced demand.

**Unaccommodated Demand**

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all of the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historical accommodated room night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests will be able to secure hotel rooms in the future and it is necessary to quantify this demand. Areawide occupancy in excess of 70% is typically the first sign of possible unaccommodated demand in any given market.

We note that in the historical base year, Smith Travel Research reports an annual occupancy of 56.6% for the subject property’s overall competitive market area. This annual occupancy is comprised of a range of monthly occupancy levels, ranging from 41.0% in December to roundly 67.0% in June. Based on this trend, it is unlikely that unaccommodated demand currently exists in the market. The following table details the base year marketwide occupancy by month, along with the monthly maximum and minimum occupancy levels achieved over the trend period.

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Marketwide Base Year Occupancy and Maximum/Minimum Trends

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|           | Base Year<br>Monthly<br>Occupancy | Trend<br>Maximum<br>Occupancy | Trend<br>Minimum<br>Occupancy |
|-----------|-----------------------------------|-------------------------------|-------------------------------|
| January   | 42.5%                             | 59.9%                         | 42.5%                         |
| February  | 49.0%                             | 65.1%                         | 49.0%                         |
| March     | 51.9%                             | 72.8%                         | 51.9%                         |
| April     | 62.2%                             | 77.5%                         | 58.8%                         |
| May       | 57.2%                             | 76.0%                         | 57.2%                         |
| June      | 67.0%                             | 81.7%                         | 67.0%                         |
| July      | 61.9%                             | 79.4%                         | 61.9%                         |
| August    | 64.4%                             | 80.0%                         | 64.4%                         |
| September | 62.6%                             | 80.3%                         | 54.6%                         |
| October   | 64.5%                             | 82.2%                         | 58.4%                         |
| November  | 54.8%                             | 72.5%                         | 54.3%                         |
| December  | 41.0%                             | 54.7%                         | 39.0%                         |
|           | 56.6%                             | 73.0%                         | 56.6%                         |

Source: Smith Travel Research

In the base year, the subject property’s competitive market area realized typical trends in terms of seasonality. According to area hotel representatives, low occupancy typically occurs in December through February and then ramps up in March through November. The last week in November, however, is also relatively weak.

We have also compared the annual occupancies reported by Smith Travel Research to the annualized occupancy levels we derived from our own market interviews. In some cases, reporting by hotels to STR is inconsistent, thereby skewing the data. Furthermore, the STR estimation of marketwide occupancy gives equal competitive weight to all the hotels contained in the

sample, where in reality some of the hotels may only be partially competitive with the subject property. We have therefore made slight adjustments to the historical monthly occupancy levels shown above based on our estimation of the base year's weighted marketwide occupancy, which will be discussed in greater detail in the Competition section of this report.

#### Induced Demand

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities.

We anticipate induced demand for the local market in the future based on the construction of a sizeable new convention center in Schaumburg. Approximately 99,020 square feet of exhibit space and  $\pm 15,727$  square feet of additional meeting space is expected to be housed at the new convention center facility, along with pre-function/circulation areas. The  $\pm 27,652$ -square-foot Grand Ballroom, included in this report as the subject hotel's Grand Ballroom, is also considered to be the Convention Center's space. From a demand analysis perspective, the Convention Center study incorporates the Grand Ballroom in its induced demand projections; as such, this space is not counted twice quantitatively.

Increased accommodation of meeting and group demand is anticipated in the local market, due to the addition of this sizeable demand generator. It should be noted that we have applied to our analysis the level of induced room nights derived from the results of a separate study performed by HVS Convention, Sports, and Entertainment Consulting. This new conference space is forecast to generate approximately 24,300 induced room nights for the hotel during the first partial year of operation. In a stable operating year, beginning in 2009, the facility is projected to generate approximately 70,500 induced room nights. Our analysis assumes appropriate marketing and sales efforts by the new convention center and subject hotel. The following table summarizes the estimate of induced demand for the market, based on forecasts derived in the Demand Analysis chapter of this separate convention center report.

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## Induced Demand Calculation

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| Market Segment    | Induced Room Nights |          |               |               |               |               |               |
|-------------------|---------------------|----------|---------------|---------------|---------------|---------------|---------------|
|                   | 2004                | 2005     | 2006          | 2007          | 2008          | 2009          | 2010          |
| Meeting and Group | 0                   | 0        | 24,300        | 44,600        | 62,400        | 70,500        | 70,500        |
| Commercial        | 0                   | 0        | 0             | 0             | 0             | 0             | 0             |
| Leisure           | 0                   | 0        | 0             | 0             | 0             | 0             | 0             |
| <b>Total</b>      | <b>0</b>            | <b>0</b> | <b>24,300</b> | <b>44,600</b> | <b>62,400</b> | <b>70,500</b> | <b>70,500</b> |

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## Potential Demand

Once market segment growth rates and degrees of latent demand are estimated, the annual marketwide potential demand can be determined. Potential demand is essentially the amount of demand which would be possible in a market which has no seasonality restrictions (e.g. the maximum monthly occupancy is 100% each month). Thus, the potential demand equates to the base year accommodated demand, inflated at the growth rates set forth for each market segment, plus any estimation of unaccommodated or induced demand. The following table details the potential annual room night demand for the subject property's market area.

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## Potential Demand

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| Market Segment    | Potential Room Nights |                  |                  |                  |                  |                  |                  |
|-------------------|-----------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                   | 2004                  | 2005             | 2006             | 2007             | 2008             | 2009             | 2010             |
| Meeting and Group | 530,651               | 551,877          | 601,011          | 647,263          | 689,170          | 712,939          | 729,000          |
| Commercial        | 509,670               | 530,057          | 551,259          | 570,553          | 590,522          | 605,286          | 620,418          |
| Leisure           | 102,647               | 106,753          | 110,489          | 114,356          | 117,787          | 120,732          | 123,750          |
| <b>Total</b>      | <b>1,142,968</b>      | <b>1,188,687</b> | <b>1,262,759</b> | <b>1,332,173</b> | <b>1,397,479</b> | <b>1,438,956</b> | <b>1,473,168</b> |

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## Accommodated Demand and Marketwide Occupancy

Based upon a review of the market dynamics in the subject property's competitive environment, we have forecast growth rates for each market segment. We have also analyzed the existence of unaccommodated demand in the market, as well as the potential for induced demand to occur in the future. Using the calculated potential demand for the market, we have then determined marketwide usable demand based on the inherent limitations of demand fluctuations and other factors in the market area.

The following table details our projections of market demand growth. This includes total occupied room nights, as well as any residual unaccommodated demand in the market.

### Accommodated Demand

|                                | 2003      | 2004      | 2005      | 2006      | 2007      | 2008      | 2009      | 2010      |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Meeting and Group</b>       |           |           |           |           |           |           |           |           |
| Occupied Room Nights           | 515,195   | 530,651   | 551,877   | 601,011   | 647,263   | 689,170   | 712,939   | 729,000   |
| Residual Demand                | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         |
| Accommodated Demand Growth     | —         | 3.0 %     | 4.0 %     | 8.9 %     | 7.7 %     | 6.5 %     | 3.4 %     | 2.3 %     |
| <b>Commercial</b>              |           |           |           |           |           |           |           |           |
| Occupied Room Nights           | 487,722   | 509,670   | 530,057   | 551,259   | 570,553   | 590,522   | 605,286   | 620,418   |
| Residual Demand                | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         |
| Accommodated Demand Growth     | —         | 4.5 %     | 4.0 %     | 4.0 %     | 3.5 %     | 3.5 %     | 2.5 %     | 2.5 %     |
| <b>Leisure</b>                 |           |           |           |           |           |           |           |           |
| Occupied Room Nights           | 98,227    | 102,647   | 106,753   | 110,489   | 114,356   | 117,787   | 120,732   | 123,750   |
| Residual Demand                | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         |
| Accommodated Demand Growth     | —         | 4.5 %     | 4.0 %     | 3.5 %     | 3.5 %     | 3.0 %     | 2.5 %     | 2.5 %     |
| <b>Totals</b>                  |           |           |           |           |           |           |           |           |
| Occupied Room Nights           | 1,101,144 | 1,142,968 | 1,188,687 | 1,262,759 | 1,332,173 | 1,397,479 | 1,438,956 | 1,473,168 |
| Residual Demand                | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         |
| Accommodated Demand Growth     | —         | 3.8 %     | 4.0 %     | 6.2 %     | 5.5 %     | 4.9 %     | 3.0 %     | 2.4 %     |
| Available Room Nights per Year | 1,867,541 | 1,867,541 | 1,882,521 | 2,036,591 | 2,112,091 | 2,112,091 | 2,112,091 | 2,112,091 |
| Available Room Night Growth    |           | 0.0 %     | 0.8 %     | 8.2 %     | 3.7 %     | 0.0 %     | 0.0 %     | 0.0 %     |
| Marketwide Occupancy           | 59.0 %    | 61.2 %    | 63.1 %    | 62.0 %    | 63.1 %    | 66.2 %    | 68.1 %    | 69.7 %    |

According to STR, the competitive market occupancy declined annually since 1999, from levels of roundly 69% in 1999 to 57% in 2002. Recent sizeable declines which brought the market to the high-50% mark were mainly attributable to the slowing economy and the events of September 11. These declines appear to have bottomed-out in 2002, as travel patterns have begun to improve as the stigma of September 11 lessens and the economy begins to recover. Occupancy growth of roundly one point was posted for year-to-date 2003 through September. As illustrated in the above table, marketwide occupancy in 2004 is expected to sustain moderate growth over the anticipated 2003 year-end occupancy. Moreover, marketwide occupancy is projected to continue to improve slowly and steadily and reach roundly 63% by 2005; this growth is due to a continuation of the aforementioned trends. In 2006 and 2007, however, the opening of the sizeable new subject property and partially competitive new supply is forecast to create downward pressure on marketwide occupancy, as the market absorbs these new rooms. As new

demand is induced and absorbed in the market from both the new convention center and headquarters hotel complex in Schaumburg, the competitive market occupancy is expected to rebound, reaching roundly 68% by 2009, the subject property's stabilized year. This marketwide occupancy level is comparable to the level achieved by the combined overall market (Groups I, II, III, and IV) in 2000, but lower than the low-to-mid-70% occupancies achieved by Groups I, II, and IV, throughout the late-1990s.

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## 6. Competition

An integral component of the supply and demand relationship that has a direct impact on the availability of lodging demand is the current and anticipated supply of competitive lodging facilities. To evaluate an area's competitive environment, the following steps should be taken:

- Identify the area's lodging facilities and determine which are directly and indirectly competitive with the subject property.
- Determine whether additional hotel rooms will enter the market in the foreseeable future (net of attrition).
- Quantify the number of existing and proposed hotel rooms available in the market.
- Review the rate structure, occupancy levels, market orientation, facilities, and amenities of each competitor.

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of the area's hotels, as well as the comments of management representatives, we have identified six properties that are expected to be primarily competitive with the proposed Renaissance Convention Hotel. These primary competitors total 2,167 rooms in 2003. Thirty additional lodging facilities are judged to be only secondarily competitive; although the locations, product orientations, or rate structures of these hotels prevent their inclusion among the primarily competitive supply, they are expected to compete with the subject property to some extent. The room count of each secondary competitor has been weighted to reflect the degree to which it is anticipated to compete with the proposed Renaissance Convention Hotel, the aggregate weighted room count of the secondary competitors is 2,950.

The primary competitors, or Group I, are local upscale, full-service hotels with major brand affiliations, which cater roughly equally to group and transient demand. The secondary competitors include three aggregate groups: Group II represents other local full-service hotels and limited-service

hotels; Group III includes regional conference center hotels; and Group IV is a selected set of Rosemont properties. Group II competes on the basis of location, while Groups III and IV compete mainly due to product-orientation as they are mainly group houses.

Primary Competitors

The following tables summarize the important operating characteristics of the primary competitors and the aggregate secondary competitors. This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data. The table also sets forth each property's penetration factors; penetration is the ratio between a specific hotel's operating results and the corresponding data for the market. If the penetration factor is greater than 100%, the property is performing better than the market as a whole; conversely, if the penetration is less than 100%, the hotel is performing at a level below the marketwide average.

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**Primary Competitors and Aggregate Secondary Competitors**


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| Property                             | Number of Rooms | Estimated Segmentation |            |         | Estimated 2002             |        |              |         | Estimated 2003             |        |              |         |                       |                   |
|--------------------------------------|-----------------|------------------------|------------|---------|----------------------------|--------|--------------|---------|----------------------------|--------|--------------|---------|-----------------------|-------------------|
|                                      |                 | Meeting and Group      | Commercial | Leisure | Weighted Annual Room Count | Occ.   | Average Rate | RevPAR  | Weighted Annual Room Count | Occ.   | Average Rate | RevPAR  | Occupancy Penetration | Yield Penetration |
| Marriott Schaumburg                  | 398             | 27 %                   | 60 %       | 13 %    | 398                        | 61 %   | \$108.00     | \$65.88 | 398                        | 73 %   | \$100.00     | \$73.00 | 123.8 %               | 120.2 %           |
| Hyatt Regency Woodfield              | 470             | 62                     | 28         | 10      | 470                        | 57     | 108.00       | 61.56   | 470                        | 65     | 93.00        | 60.45   | 110.2                 | 99.5              |
| Embassy Suites Schaumburg            | 209             | 30                     | 60         | 10      | 209                        | 61     | 120.00       | 73.20   | 209                        | 75     | 113.00       | 84.75   | 127.2                 | 139.6             |
| Wyndham Itasca                       | 408             | 63                     | 27         | 10      | 408                        | 57     | 107.00       | 60.99   | 408                        | 64     | 98.00        | 62.72   | 108.5                 | 103.3             |
| Sheraton Northwest Arlington Heights | 429             | 60                     | 30         | 10      | 429                        | 42     | 105.00       | 44.10   | 429                        | 41     | 104.00       | 42.64   | 69.5                  | 70.2              |
| Sheraton Suites Elk Grove            | 253             | 30                     | 60         | 10      | 253                        | 46     | 91.00        | 41.86   | 253                        | 44     | 100.00       | 44.00   | 74.6                  | 72.5              |
| Sub-Totals/Averages                  | 2,167           | 47.5 %                 | 41.8 %     | 10.7 %  | 2,167                      | 53.9 % | \$106.95     | \$57.61 | 2,167                      | 60.0 % | \$100.06     | \$60.08 | 101.8 %               | 98.9 %            |
| Secondary Competitors                | 8,787           | 46.2 %                 | 46.2 %     | 7.6 %   | 2,827                      | 58.0 % | \$110.20     | \$63.97 | 2,950                      | 58.2 % | \$105.21     | \$61.20 | 98.7 %                | 100.8 %           |
| Totals/Averages                      | 10,954          | 46.8 %                 | 44.3 %     | 8.9 %   | 4,994                      | 56.2 % | \$108.85     | \$61.21 | 5,117                      | 59.0 % | \$102.99     | \$60.72 | 100.0 %               | 100.0 %           |

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**Primary Competitor Data**


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| Property                             | Number of Rooms | Year Opened | Facilities and Amenities  | Meeting Space (SF) | Meeting Space per Room | Ownership Entity          | Management Company        |
|--------------------------------------|-----------------|-------------|---|--------------------|------------------------|---------------------------|---------------------------|
| Marriott Schaumburg                  | 398             | 1983        | Restaurant, lounge, swimming pools, gift shop, business center  | 17,888             | 44.9                   | Strategic Hotel Capital   | Marriott International    |
| Hyatt Regency Woodfield              | 470             | 1981        | Bistro-style restaurant, lounge, swimming pools                 | 26,109             | 55.6                   | Hyatt Hotels Corporation  | Hyatt Hotels Corporation  |
| Embassy Suites Schaumburg            | 209             | 1984        | Restaurant, bar, fitness center, pools, sauna                   | 5,040              | 24.1                   | Wyndham International     | Interstate Hotels         |
| Wyndham Itasca                       | 408             | 1980        | Restaurants, two lounges, access to health club                 | 45,000             | 110.3                  | Wyndham International     | Wyndham International     |
| Sheraton Northwest Arlington Heights | 429             | 1969        | Two restaurants, lounge, health club, indoor pool, gift shop    | 60,000             | 139.9                  | Starwood Hotels & Resorts | Starwood Hotels & Resorts |
| Sheraton Suites Elk Grove            | 253             | 1990        | Restaurant, two lounges, gift shop, indoor pool, fitness center | 5,000              | 19.8                   | Starwood Hotels & Resorts | Starwood Hotels & Resorts |
| Totals/Averages                      | 2,167           |             |   | 159,037            | 73.4                   |                           |                           |

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Our survey of the primarily competitive hotels shows upscale, full-service hotels, with major brand affiliations. These properties range in size from 209 to 470 rooms. The market demand has a meeting and group orientation; in 2003, this segment contributes 47.5% of the overall occupancy. The commercial segment is also strong and comprises 41.8% of the total, followed by the leisure segment (at 10.7%).

In 2003, the primary competitors are estimated to achieve an overall occupancy of 60.0% at an average rate of \$100.06, yielding RevPAR of \$60.08. The Marriott and the Embassy Suites are the occupancy penetration leaders among this set, with occupancies above the 70%-mark. Yield penetration is also projected to be led by these two properties, with the Embassy Suites' yield penetration significantly higher than that of the Marriott.

Each primary competitor was inspected and evaluated. Descriptions of our findings are presented on the following pages.

#### Marriott Schaumburg

Location: 50 North Martingale Road

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#### Operating History

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|      | Wtd. Annual<br>Room Count | Occupancy | Average Rate | RevPAR | Occupancy<br>Penetration | Yield<br>Penetration |
|------|---------------------------|-----------|--------------|--------|--------------------------|----------------------|
| 2001 | 398                       | 62 %      | \$123        | \$76   | 106.7 %                  | 113.2 %              |
| 2002 | 398                       | 61        | 108          | 66     | 108.5                    | 107.6                |
| 2003 | 398                       | 73        | 100          | 73     | 123.8                    | 120.2                |

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The 398-room Marriott is located in the Woodfield Corporate Center, approximately two miles south of the subject property. Facilities at this 13-story hotel include a full-service restaurant, a lounge, banquet and meeting facilities totaling ±17,888 square feet, an exercise room, indoor and outdoor swimming pools, a whirlpool, a sauna, a gift shop, an airline crew lounge, and a business center. The property is owned by Strategic Hotel Capital and operated by Marriott International. In 1995, the guestrooms, guestroom corridors, and the concierge lounge were fully renovated, with all of the guestrooms receiving new soft and case goods; these renovations totaled approximately \$2.3 million. In 1996, the ballroom was fully renovated. In 1998, the façade was upgraded and repaired at a cost of \$750,000. Total capital expenditures in 1999 were approximately \$1.2 million, with the key

expenditures associated with the conversion of the former fine dining restaurant (Gaddi's) and a portion of the lounge to  $\pm 2,247$  square feet of new meeting space, as well as a renovation of the full-service restaurant (Allie's). In 2001, a renovation encompassed new carpeting in the guestrooms, new beds, new vinyl in  $\pm 25\%$  of the guestrooms, and furniture replacement as needed. In addition, the guestroom bathrooms were renovated including new tile, vinyl, paint, mirrors, and wall sconces. We note that the hotel's room count was expanded from 394 to 398 in January 2001 through an adaptation of space previously used as the Lexington and Lincolnshire meeting rooms. Capital expenditures for 2001 totaled roughly \$1.9 million, with the key expenditure associated with room renovations/additions of approximately \$1.5 million. In 2002, total expenditures of \$2 million were completed, with approximately \$1.4 million allocated to the ongoing guestroom renovations. Due to recent sizeable renovations, the hotel appeared in very good condition.

In 2003, the Marriott is projected to achieve a strong occupancy of 73% at an average rate of \$100, representing strong growth in occupancy and a large decrease in average rate. The Marriott is estimated to derive the majority of its business from the commercial segment, at 60%, and the meeting and group segment at 27% of total demand. The leisure segment comprises the remainder of the hotel's business, at 13%.

Hyatt Regency  
Woodfield

Location: 1800 East Golf Road

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#### Operating History

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|      | Wtd. Annual<br>Room Count | Occupancy | Average Rate | RevPAR | Occupancy<br>Penetration | Yield<br>Penetration |
|------|---------------------------|-----------|--------------|--------|--------------------------|----------------------|
| 2001 | 470                       | 60 %      | \$116        | \$70   | 103.3 %                  | 103.4 %              |
| 2002 | 470                       | 57        | 108          | 62     | 101.4                    | 100.6                |
| 2003 | 470                       | 65        | 93           | 60     | 110.2                    | 99.5                 |

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The 470-room Hyatt Regency Woodfield is located across from the Woodfield Mall in Schaumburg, approximately one mile south of the subject property. Facilities at this hotel include a bistro-style restaurant, a lounge, banquet and meeting facilities totaling  $\pm 26,109$  square feet, a fitness center, a heated outdoor pool, an indoor lap pool, and indoor and outdoor whirlpools. The property is owned and operated by Hyatt Hotels Corporation. A \$9-million

renovation of the hotel’s guestrooms and meeting and banquet space was completed in 1997. An additional expenditure of \$1 million was completed in 2000, addressing the hotel’s restaurant and lounge. Reportedly, a \$3-million renovation intended to encompass guestroom soft goods is yet to be approved. This hotel appears to be in good condition, and its interior features a striking mission-style design.

In 2003, the Hyatt Regency Woodfield is estimated to achieve an occupancy of 65% at an average rate of \$93, representing sizeable growth in occupancy and a significant drop in average rate. The Hyatt Regency Woodfield is estimated to derive the majority of its business from the meeting and group segment, at 62%, and the commercial segment at 28% of total demand. The leisure segment comprises the remainder of the Hyatt’s business, at 10%. It is important to note that due to the recent downturn in the economy and the corporate travel cutbacks of the local firms, this property has shifted its market positioning by targeting more meeting and group business. When comparing its market segmentation of 2000, the commercial demand comprised approximately 60% of its business, whereas currently, this segment represents less than one-half of that amount. Conversely, the meeting and group segment comprised roundly 30% of its business in 2000, whereas currently it is twice that amount.

Embassy Suites  
Schaumburg

Location: 1939 North Meacham Road

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**Operating History**

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|      | Wtd. Annual<br>Room Count | Occupancy | Average Rate | RevPAR | Occupancy<br>Penetration | Yield<br>Penetration |
|------|---------------------------|-----------|--------------|--------|--------------------------|----------------------|
| 2001 | 209                       | 60 %      | \$127        | \$76   | 103.3 %                  | 113.2 %              |
| 2002 | 209                       | 61        | 120          | 73     | 108.5                    | 119.6                |
| 2003 | 209                       | 75        | 113          | 85     | 127.2                    | 139.6                |

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The 209-room Embassy Suites is located just west of the intersection of Interstates 290 and 90, approximately one block north of the subject property. The property is owned by Wyndham International and operated by Interstate Hotels. The property opened in 1984. Facilities at this hotel include a restaurant, a bar, limited banquet and meeting space totaling ±5,040 square feet, a fitness center, an indoor heated swimming pool, a whirlpool, and a sauna. The hotel serves free full breakfast service in the

garden atrium each morning, as well as a manager's reception each evening. Additional services include free parking, complimentary morning newspaper, car rental facilities, free shuttle services anywhere within five miles, a guest laundry, valet, and room service. The hotel was renovated in 2000 at a cost of approximately \$4.1 million, with the guest suites, guest bathrooms, and the food and beverage outlets being the focus of the efforts.

For 2003, the Embassy Suites is expected to register a strong occupancy of 75% at a similarly strong average rate of \$113.00, representing notable growth in occupancy and a decline in average rate compared to 2002. In addition, this property derives the majority of its business from the commercial segment, at 60%, and the meeting and group segment, at 30%. The leisure segment comprises the remainder of its business, at 10%. This property benefits from its location opposite Meacham Road from the Motorola campus.

Wyndham Itasca

Location: 400 Park Boulevard

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**Operating History**


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|      | Wtd. Annual<br>Room Count | Occupancy | Average Rate | RevPAR | Occupancy<br>Penetration | Yield<br>Penetration |
|------|---------------------------|-----------|--------------|--------|--------------------------|----------------------|
| 2001 | 408                       | 57 %      | \$114        | \$65   | 98.1 %                   | 96.5 %               |
| 2002 | 408                       | 57        | 107          | 61     | 101.4                    | 99.6                 |
| 2003 | 408                       | 64        | 98           | 63     | 108.5                    | 103.3                |

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Located approximately three miles south of Schaumburg, the 408-room Wyndham Itasca is part of the 265-acre Chancellory mixed-use complex, which is located in the northeast quadrant formed by the interchange of Interstate 290 and Thorndale Avenue. The property was originally developed as an independent hotel by Trammel Crow. Prior to its affiliation with Wyndham Hotels and Resorts in 1994, the property was affiliated with Stouffer Hotels & Resorts. Trammel Crow sold the property to Patriot-American Hospitality (now Wyndham International) for approximately \$121,000 per room in December 1997. The hotel features a contemporary twelve-story atrium, approximately 45,000 square feet of meeting and banquet space, a fine-dining restaurant, a deli-style atrium restaurant, and two lounges. Hotel guests also have access to the Northwest Health Club, which is located on the lower level of the adjoining office building; facilities available at the health club include racquetball, basketball, state-of-the art aerobics equipment, and an indoor, heated swimming pool. Following a thorough renovation of the public space in 2000, the hotel is in very good physical condition.

For 2003, the Wyndham is expected to register an occupancy of 64% at an average rate of \$98.00, representing an increase in occupancy and a decrease in average rate compared to 2002. The property's market segmentation is dominated by meeting and group business, which accounts for 63% of this hotel's demand. The commercial segment accounts for 27% of demand, and the leisure segment comprises the remaining 10%.

Sheraton Northwest  
Arlington Heights

Location: 3400 West Euclid

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Operating History

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|      | Wtd. Annual<br>Room Count | Occupancy | Average Rate | RevPAR | Occupancy<br>Penetration | Yield<br>Penetration |
|------|---------------------------|-----------|--------------|--------|--------------------------|----------------------|
| 2001 | 429                       | 45 %      | \$106        | \$48   | 77.5 %                   | 70.8 %               |
| 2002 | 429                       | 42        | 105          | 44     | 74.7                     | 72.0                 |
| 2003 | 429                       | 41        | 104          | 43     | 69.5                     | 70.2                 |

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The 429-room Sheraton Northwest is located adjacent to the Arlington International Racecourse in Arlington Heights, Illinois, approximately five miles north of Schaumburg. Built in 1969, this hotel is the oldest in the competitive set. Facilities at this hotel include two restaurants, a lounge, sizeable banquet and meeting facilities totaling  $\pm$  60,000 square feet, a health club, a heated indoor swimming pool, a whirlpool, a gift shop, a car rental desk, a guest laundry, and tennis facilities. The hotel is owned by Starwood Hotels & Resorts, which converted the hotel from the Hilton to the Sheraton brand as of February 2000. At the same time, the hotel's guestroom supply was thoroughly renovated.

For 2003, the Sheraton Northwest is expected to register an occupancy of 41% at an average rate of \$104.00, representing declines in occupancy and average rate compared to 2002. The hotel's weak occupancy performance is partly a reflection of the hotel's somewhat marginal location. In addition, this property derives the majority of its business from the meeting and group segment, at 60%, and the commercial segment, at 30%. The leisure segment comprises the remainder of its business, at 10%

Sheraton Suites Elk  
Grove

Location: 121 Northwest Point

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Operating History

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|      | Wtd. Annual<br>Room Count | Occupancy | Average Rate | RevPAR | Occupancy<br>Penetration | Yield<br>Penetration |
|------|---------------------------|-----------|--------------|--------|--------------------------|----------------------|
| 2001 | 253                       | 52 %      | \$107        | \$56   | 89.5 %                   | 82.6 %               |
| 2002 | 253                       | 46        | 91           | 42     | 81.8                     | 68.4                 |
| 2003 | 253                       | 44        | 100          | 44     | 74.6                     | 72.5                 |

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The 253-room Sheraton Suites is located in the Park at Northwest Point, a corporate office park in Elk Grove Village, eight miles west of O'Hare International Airport, and three miles east of Schaumburg. Facilities at this hotel include a restaurant, two lounges, banquet and meeting facilities totaling  $\pm$  5,000 square feet, a fitness center, a gift shop, and an indoor, heated swimming pool and whirlpool. Additional amenities offered by the hotel include free parking, complimentary morning newspaper, car rental, guest laundry, valet, and room service. The Sheraton Suites, which originally opened as a Marriott in 1990, is owned and managed by Starwood Hotels and Resorts. The property appeared to be in good condition.

For 2003, the Sheraton Suites is expected to register an occupancy of 44% at an average rate of \$100.00, representing a decline in occupancy and notable increase in average rate compared to 2002. In addition, this property derives the majority of its business from the commercial segment, at 60%, and the meeting and group segment, at 30%. The leisure segment comprises the remainder of its business, at 10%.

Secondary  
Competitors

Thirty hotels compete with the proposed subject property on a secondary basis, mainly as a result of their locations and product orientations. The secondary competitors represent three aggregate groups: Group II represents other local full-service hotels and limited-service hotels, Group III includes regional conference center hotels, and Group IV is a selected set of Rosemont properties. Group II competes on the basis of location, while Groups III and IV compete mainly due to product-orientation as they are mainly group houses. The room count of each secondary competitor has been weighted by its assumed degree of competitiveness with the subject property. The following table sets forth the pertinent operating characteristics of the secondary competitors.

**Secondary Competitors**

| Property                                 | Number of Rooms | Estimated Segmentation |            |         | Total Competitive Level | Estimated 2001             |        |              |         | Estimated 2002             |        |              |         | Estimated 2003             |        |              |         |
|--|-----------------|------------------------|------------|---------|-------------------------|----------------------------|--------|--------------|---------|----------------------------|--------|--------------|---------|----------------------------|--------|--------------|---------|
|  |                 | Meeting and Group      | Commercial | Leisure |                         | Weighted Annual Room Count | Occ.   | Average Rate | RevPAR  | Weighted Annual Room Count | Occ.   | Average Rate | RevPAR  | Weighted Annual Room Count | Occ.   | Average Rate | RevPAR  |
| Group II: Other Local Hotels (L/S & F/S) | 3,029           | 23 %                   | 65 %       | 12 %    | 40 %                    | 1,021                      | 58 %   | \$86.99      | \$50.45 | 1,133                      | 53.7 % | \$81.76      | \$43.91 | 1,212                      | 56.0 % | \$78.00      | \$43.68 |
| Group III: Conference Center Hotels      | 1,849           | 70                     | 15         | 15      | 20                      | 311                        | 46     | 111.17       | 51.36   | 326                        | 44.4   | 107.53       | 47.74   | 370                        | 40.0   | 105.00       | 42.00   |
| Group IV: Rosemont Hotels                | 3,909           | 60                     | 37         | 3       | 35                      | 1,368                      | 64     | 136.65       | 87.87   | 1,368                      | 64.9   | 130.12       | 84.45   | 1,368                      | 65.0   | 126.00       | 81.90   |
| Totals/Averages                          | 8,787           | 46 %                   | 46 %       | 8 %     | 34 %                    | 2,700                      | 59.8 % | \$116.18     | \$69.52 | 2,827                      | 58.0 % | \$110.20     | \$63.97 | 2,950                      | 58.2 % | \$105.21     | \$61.20 |

In 2003, the secondary competitors are expected to achieve an overall weighted occupancy of 58.2% at an average rate of \$105.21 yielding a RevPAR of \$61.20. These levels illustrate stable occupancy compared to 2002 and a decrease in average rate of roundly \$5.00. The overall segmentation of the three groups comprising the secondary competitors is equally represented by commercial and meeting and group demand, at 46% each, with only 8% of accommodated room nights derived from leisure business. The following paragraphs briefly describe the rationale and selected hotels in each group of secondary competitors.

While the primary competitors are considered Group I, the secondary competitors represent three aggregate groups: Group II represents other local full-service hotels and limited-service hotels, Group III includes regional conference center hotels, and Group IV is a selected set of Rosemont properties. Group II competes on the basis of location, while Groups III and IV compete mainly due to product-orientation, as they are predominantly group houses.

#### Group II: Other Full-Service and Limited-Service Hotels

This group reflects a compilation of operating statistics from seventeen properties with a total of 3,029 rooms as of September 2003. The hotels include the Holiday Inn Schaumburg, the Radisson Schaumburg, the Radisson Arlington Heights, the DoubleTree Club Palatine, the Holiday Inn Rolling Meadows, the Marriott Prairie Stone, the Hilton Garden Inn Hoffman Estates, the Wyndham Garden Schaumburg, the Courtyard by Marriott Arlington Heights South, the Courtyard by Marriott Arlington Heights North, the AmeriSuites Schaumburg, the SpringHill Suites by Marriott Schaumburg, the Residence Inn by Marriott Schaumburg, the Hawthorn Suites Schaumburg, the Candlewood Suites Schaumburg, the Homewood Suites Schaumburg, and the Summerfield Suites Schaumburg.

The hotels included in this competitive group represent full-service, modified full-service, and limited-service (all-suite and extended-stay) product types, with mid-scale or upscale improvements and amenities. These properties are considered to be only secondarily competitive with the proposed subject property either due to product quality, orientation, or location. As such, we have weighted this group as only 40% competitive with the subject property.

The estimated 2003 market segmentation of this group is dominated by commercial demand, at 65% of the total, with the meeting and group and leisure segments representing only 23% and 12%, respectively, of total accommodated room nights. Occupancy and average rate for Group II is projected at 56% and \$78.00, respectively, in 2003. These levels represent a roundly two-point increase in occupancy and \$4.00 decrease in rate from 2002. As this group is dominated by limited-service hotels, average rate is lower than that of the remaining groups.

### Group III: Conference Center Hotels

This group reflects the performance of five dedicated conference center hotels. A compilation of operating statistics from these properties totaled 1,849 rooms as of September 2003. The conference center hotels include the Indian Lakes Resort, the Marriott Hickory Ridge in Lisle, the Doral Eaglewood Conference Resort in Itasca, the Dolce Oak Brook Hills Resort, and the Pheasant Run Resort in St. Charles.

The conference hotels are larger properties than a majority of the hotels in Group II and comparable in size to Group I hotels; the conference center hotels range from 295 to 473 rooms. While the Pheasant Run Resort opened in 1963, the Marriott Hickory Ridge, the Indian Lakes Resort, and the Oakbrook Hills Resort all opened in the 1980s. In total, they represented stable supply, until October 2002, at which time the Doral Eaglewood Conference Resort opened its new 295-room facility in Itasca. Due to the dedicated conference center and resort attributes of these properties, we have weighted this group as only 20% competitive with the subject property.

The estimated 2003 market segmentation of this group is dominated by meeting and group demand, at 70% of the total, with the commercial and leisure segments each representing only 15% of total accommodated room nights. Occupancy and average rate for Group III is projected at 40% and \$105.00, respectively, in 2003. These levels represent a roundly four-point decline in occupancy and \$3.00 decrease in rate. This group appears to have been most negatively impacted among all four groups of hotels analyzed. We attribute this to the conference center and resort niche of these properties, as they historically relied heavily on incentive group travel. This profitable segment incurred dramatic cutbacks over the last three years.

#### Group IV: Full-Service, Major Branded Rosemont Hotels

This table reflects a compilation of operating statistics from eight properties with a total of 3,909 rooms as of September 2003. The hotels included in this group are the Hyatt Regency O'Hare, the Hilton O'Hare, the Westin O'Hare, the Embassy Suites Rosemont, the Hotel Sofitel O'Hare, the Marriott O'Hare/Rosemont, the Hyatt Rosemont, and the DoubleTree O'Hare/Rosemont.

This cluster of hotels is located proximate to the Chicago O'Hare International Airport, the Donald E. Stephens Convention Center, and the Rosemont Conference Center. As such, we have weighted this group as only 35% competitive with the subject property. These hotels range in size from 206 to 1,099 rooms, with the smaller the Hyatt Regency Rosemont and the larger the Hyatt Regency O'Hare. Recent hotel openings in this group were incurred in 1999, with the opening of the Hyatt Rosemont and in 2000 with the opening of the DoubleTree.

The estimated 2003 market segmentation of this group is dominated by meeting and group demand, at 60% of the total, with the commercial and leisure segments representing 37% and 3%, respectively, of total accommodated room nights. Occupancy and average rate for Group IV is projected at 65% and \$126.00, respectively, in 2003. These levels represent flat occupancy and a roundly \$4.00 decrease in rate. This group has historically achieved rates well-above the other three groups analyzed. Average rate has typically been roundly \$20.00 higher than the Group I properties (primary competitors), for example.

#### Additions to Supply

It is important to consider any new hotels that may have an impact on the proposed subject property's operating performance. Based on our fieldwork in the market and our discussions with local hotel operators, developers, and government officials, with the exception of the proposed subject property, we have not identified any properties that are proposed in the subject market area that would compete as full primary competitors with the subject property. We do note one recently opened and two proposed projects in the market area, which are expected to be secondary competitors, either due to location or product offering.

A recent addition to area supply includes the Marriott Prairie Stone, which opened in September 2002 in Hoffman Estates. Despite this property's upscale, full-service product orientation and Marriott brand, we have included it as only a secondary competitor, due to this hotel's more distant location from the subject property.

The Village of Lombard has entered into a contract with a private developer to design and build a proposed conference center and attached hotel. The facility would be owned by the Village and is planned to open in 2006. The developer has control of a 6.7-acre site located near the Yorktown Shopping Center; however, financing for the project has not yet been finalized. Similar to the conference center hotels weighted as only secondary competitors with the subject property, the proposed 500-room Westin Hotel and Conference Center in Lombard is not expected to be fully competitive with the subject hotel and convention center. The Lombard project would include a ± 20,000-square-foot grand ballroom as part of its total 50,000 net square feet of exhibit, meeting, and banquet space. The full-service hotel is planned to be above the conference center. Current plans for the hotel include multiple restaurants and lounges, a catering kitchen, an indoor swimming pool, a fitness center, business amenities, and a spa. For transient commercial and leisure demand, this property would compete minimally with the subject, due to location. In terms of group demand, the Lombard hotel conference center is expected to primarily target local social events, corporate meetings, as well as regional conventions and tradeshow. It could also target certain state association events. Due to its location, this property would not be a significant competitor for social group events and corporate meetings from Schaumburg. However the proposed facility in Lombard would be a direct competitor for small state association conventions and small regional conventions and tradeshow. The larger exhibit hall and banquet spaces planned at the Schaumburg subject would offer a competitive advantage for medium-sized groups, especially those requiring more than 20,000 square feet of exhibit space.

In addition, the Naperville City Council is currently reviewing plans and a recently completed feasibility analysis for a 350-room Conference Center Hotel in Naperville. But, to date, the City Council has not given approval for the project's financing. The proposed conference center would include approximately 35,000 net square feet of meeting and banquet space, including a 15,000-square-foot multi-purpose room for banquets and exhibits. The full-service hotel plans to feature a restaurant, a lounge, a café, a catering kitchen, an indoor swimming pool, a fitness center, and a business center.

The proposed hotel conference center, planned to open in 2005, would primarily target local social events, corporate meetings, and state association business, in terms of group demand. Due to its location, this property would not be a significant competitor for social group events and corporate meetings from Schaumburg. The proposed facility in Naperville would compete for small state association conventions; however, the notable larger exhibit hall and banquet spaces at the Schaumburg subject would provide a competitive advantage for attracting larger state association conventions, especially those requiring more than 15,000 square feet of exhibit space. In terms of transient demand, this property would target mainly business along the Interstate 88 corridor. Similar to the conference center hotels weighted as only secondary competitors with the subject property, the proposed Naperville project is not expected to be fully competitive with the subject hotel and convention center.

#### Conclusion

We have identified 36 existing and two proposed properties that are anticipated to be competitive to some degree with the proposed subject property. In 2003, the total competitive supply is estimated to achieve roundly 59% occupancy at a \$103.00 average rate, resulting in a RevPAR of roundly \$61.00. While no new supply is expected to enter the market and fully compete as a primary competitor with the subject property over the next few years, two conference center hotel projects are proposed to be partially competitive with the subject. Due their reduced competitive levels, these proposed hotels are projected to minimally impact the overall operating performance of the Schaumburg market over that time period. We also note the induced demand brought to the market by the Schaumburg convention package of a new center and headquarters hotel is projected to somewhat buffer the market's absorption of this 500-room subject property.

As indicated by the rebound in demand growth in 2002 and 2003, we anticipate that the market will recover from the dramatic demand declines that have accompanied recent events. The decrease in corporate travel in the market is believed to be short-term in nature and should rebound as the economy resumes growth, albeit to slightly lower levels than experienced in the late-1990s. Overall, the area is believed to be fundamentally strong with a broad base of commercial and group demand. The long-term outlook is favorable, particularly in consideration of the construction of the new convention demand generator in Schaumburg.

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## 7. Facility Recommendations

HVS utilized the information in the preceding market overview and competitive supply analysis to review the planned convention hotel program for Schaumburg. This overview discusses the size and characteristics of the planned facility in relation to its ability to serve the demand for hotel rooms and meeting space in the market. The facility overview and recommendations will serve as a guide for subsequent architectural analysis aimed at providing, to the extent possible given any physical, financial, and public policy restraints, the best improvement option for the Village.

### Property Overview

The quality of a meeting and lodging facility's physical improvements has a direct influence on its marketability for events and its attainable occupancy and average rate. Also, the design and functionality of the structure can affect operating efficiency and overall profitability. A property's ability to offer products and services that are considered important to its customer base is also essential in penetrating a market and maintaining a competitive advantage.

Based on our analysis of the product and service descriptions of the existing competitors in the market, HVS has created an overview of the planned facility with a recommendation of facility attributes to be incorporated in the development of the subject property. The subject property is recommended to offer a competitive array of amenities in order to penetrate the convention market effectively. In order to appropriately forecast occupancy, average rate, and income and expense for the subject property, we have relied upon the following facility plan.

### *Project Timing*

Our forecast must begin on a given date. For the purpose of this analysis, we have assumed an opening date of June 1, 2006 for the convention headquarters hotel. This date is also assumed to be the opening date of the new convention center, which bodes well for unified introduction of this new convention package in the market. This date takes into consideration

necessary time for funding, pre-development (plan approval, permits), and construction. Moreover, our occupancy build-up takes into consideration the formidable task of opening a hotel on a specific date. Most often, hotels are open “almost finished.” These properties are in functional condition, but staff is still being trained and construction odds and ends are being attended to. Technology glitches are being handled, and back-ordered items are still being installed.

#### *Brand Affiliation*

Our projections assume that throughout the ten-year projection period, the subject hotel would be managed under the Renaissance flag by Marriott International, or a comparable first-tier, hotel management company which also provides a nationally recognized brand name appropriate for the operation of a first-class, full-service, convention-oriented hotel.

#### *Overall Hotel Design and Condition*

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. The hotel's facilities are expected to be of a high quality level for the Schaumburg area, conforming at a minimum to the brand-specific guidelines set forth by the operator of the hotel. Hence, the proposed subject property's guestrooms are expected to be upscale and comfortable as they are anticipated to serve as the host hotel for conventions, in-house groups, and transient travelers. The product should conform to the guidelines to achieve a minimum three-star Mobil hotel rating and three-diamond AAA hotel rating, with four-diamonds recommended.

We recommend that the hotel's design incorporate local architectural influences as much as possible. The convention headquarters hotel should serve as a gateway to the village and the new convention center. The hotel will likely be the first stop of many conventioners and guests and should therefore reflect a unique design that highlights what the market has to offer. This potential for an unparalleled experience would certainly give the hotel a competitive edge when compared to standard products featured by many existing hotels in the market.

The proposed convention hotel must be capable of accommodating both transient and group guests, along a wide array of events, which include corporate meetings, training seminars, association events, large banquets, government meetings, and various civic functions. Several events will require simultaneous use of space at the new convention center as well as the subject property's ballroom and meeting spaces.

The following table represents an overview of the planned facility program for the subject property.

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**Summary of Facility Program**

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| <u>Guestroom Configuration</u>          | <u>Number of Units</u>  |
|---|-------------------------|
| King                                    | 171                     |
| Double/Double                           | 261                     |
| Extended King                           | 16                      |
| Suites                                  | 52                      |
| <b>Total</b>                            | <b>500</b>              |
| <u>Food &amp; Beverage Facilities</u>   | <u>Seating Capacity</u> |
| Restaurant                              | 200                     |
| Café                                    | 75                      |
| Lobby Bar/Coffee Bar                    | flow                    |
| Winter Garden                           | flow                    |
| <u>Meeting &amp; Banquet Facilities</u> | <u>Square Footage</u>   |
| Grand Ballroom                          | 27,652                  |
| Meeting Rooms                           | 4,316                   |
| <b>Total</b>                            | <b>31,968</b>           |
| <u>Amenities</u>                        |                         |
| Indoor Swimming Pool                    | Business Center         |
| Health Club                             | Winter Garden           |
| Parking Spaces for Overall Complex      | 1,653 surface           |

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|                       |  |
|-----------------------|--|
| Description of Spaces | <p>The following discussion provides a general description of each of the major spaces the hotel plans to offer. The discussion includes an explanation of the basic functional requirements for each type of space and the necessary relationships they have with adjacent spaces. HVS also discusses amenities and key operational issues related to effective use of hotel and convention center spaces.</p>  |
| Entrance and Lobby    | <p>The lobby and entrance area are important to the overall image of a lodging facility. In addition to serving a number of functional uses, the lobby creates an initial impression on the arriving guest. The size of the lobby is a function of the number of guestrooms in the facility.</p> <p>Guests would enter a street-level lobby area via an easily identified entrance and preferably a porte cochere. The entrance should allow guests to be greeted with an attractive décor and access to the guest elevators and registration level. The registration level should be well organized, to minimize confusion and maximize traffic flow for guests and personnel. Public restrooms, telephones, and elevators should be clearly identifiable and easy to reach. Other facilities expected to be accessed off of the lobby include the hotel's food and beverage outlets, meeting space, business center, recreational areas, a possible gift shop or kiosk, and the remaining public areas or major hallways.</p> <p>The lobby seating area should be ample, in order to accommodate guests who wish to socialize or groups of people assembling for other functions. Lighting, furniture, and decor should be designed for aesthetics and guest comfort. The convention center lobby and spaces are also expected to be accessed from the subject hotel's lobby.</p> <p>The front desk should be located within the lobby and be planned to be well equipped for guest registration, advance reservations, cashier services, money changing, information, distribution of room keys and guest mail, messages, switchboard operation, and accounting. Computer terminals should be installed to facilitate accounting, registration and general office duties. The front desk area should have direct telephone and/or intercom linkage with all areas of the hotel including administrative offices, the housekeeping department, restaurant and lounge, fitness area, and guestrooms. The following functions should be located in offices situated either adjacent to or directly behind the front desk: reservations, telephone operations, night audit and guest accounting, and front office management.</p> |

A separate sizeable entrance is expected to be offered near the convention center, to provide direct access for meeting patrons to these facilities. This entrance is also recommended to have a porte cochere, for patrons to enter and exit the building protected from the weather. This separate entrance should relieve the hotel's main entrance from the extensive traffic created by meetings and conferences, and allow the hotel entrance to cater predominantly to overnight guests and food and beverage patrons.

#### Food and Beverage Outlets

The food and beverage facilities for the proposed subject property are expected to include a full-service, three-meal restaurant and a lobby lounge. These outlets are planned to be located with a separate entrance, to give the outlets a feeling of a free-standing restaurant. The décor should provide diners with a unique, interesting on-site dining experience. This should aid in attracting non-hotel guests to the hotel for drinks and meals. The restaurant should be designed in a way such that conference participants have a distinguishable area in which to dine, preventing the inflow and outflow of large groups of meeting attendees from disrupting non-meeting hotel guests. The hotel is also recommended to have some type of coffee shop for quick snacks and beverages. 24-hour room service is also expected to be offered. The subject also plans to include a Winter Garden space, which can be used for additional food and beverage seating or rented function space. Overall, the food and beverage outlets proposed for the subject property are expected to be of a first-class nature and consistent with the overall design of the hotel. These facilities will likely provide an upscale dining option for hotel guests, as well as walk-in clientele.

#### Meeting and Function Space

Due to the subject property's meeting and group orientation, the property is recommended to contain a minimum of 20,000 to 30,000 square feet of meeting space, including a ballroom, several breakout rooms, and a boardroom. For a hotel of this size, this range equates to roundly 40 to 60 square feet per guestroom. The hotel is reportedly planning to contain  $\pm 31,968$  square feet of meeting space to include a  $\pm 27,652$ -square-foot grand ballroom and  $\pm 4,316$  square feet of meeting and banquet rooms. This space equates to roundly 64 square feet per guestroom and appears large for a typical stand-alone property of this size; however, the subject is expected to hold events on-property in conjunction with the adjacent convention center, which supports a larger grand ballroom. At the time of our research, a question existed as to whether the grand ballroom was included in the hotel's or the convention center's square footage. We have included the grand ballroom in the hotel's improvements due to its location; however, any induced demand projected for this space has been considered in the

convention center study under separate cover. In addition, approximately 18,709 square feet of pre-function/circulation space is also planned surrounding the hotel's function rooms; this square footage includes the second floor connecting bridge between the hotel and the convention center. The subject also plans to include a Winter Garden space, which can be used as rented function space or additional food and beverage seating.

#### Other Amenities

The proposed subject property should feature amenities appropriate for a first-class hotel in this market. Our review of this market revealed that appropriate amenities include an indoor swimming pool, an indoor whirlpool, and an exercise room. A gift shop off of the lobby or a kiosk is recommended to be offered by the hotel. The subject property is also expected to offer an adequate business center to provide the necessary services and amenities to meeting patrons and commercial travelers.

#### Parking

Ample parking for the hotel should be conveniently available to hotel guests and meeting patrons, provided by a parking structure or a surface parking lot. The majority of competitors feature complimentary parking in an exterior parking lot. Valet parking should be available, for a fee, as an added service for guests. The overall hotel/convention center/theater complex is expected to offer  $\pm 1,653$  on-grade parking spaces. We recommend the hotel-designated spaces be adequately marked and controlled to enhance the convenience for hotel patrons.

#### Guestrooms

The hotel is projected to include a total room count of 500 units, including a mixture of standard rooms with one king bed or two beds (preferably queens), as well as suites. A variety of suite accommodations are recommended for the subject property. Due to the nature of the convention and in-house meetings segments, in particular, in which ancillary meetings are often planned to coincide with the main event, several hospitality and conference suites are recommended for the subject property. A hospitality suite is expected to contain a boardroom table, seating areas, and sleeping areas. We note that the latest in hotel design shows that a smaller suite count is now demanded in today's market; however, some suites are still an important inclusion and are typically included as upgrades for meeting planners, association officials, or corporate officers visiting the hotel. This trend is taken into consideration in the hotel program, with a suite count equating to roundly 10% of the total room count, or 52 suites.

The proposed property's guestrooms should be designed to efficiently use space, and should appear spacious and comfortable. Guestroom furnishings should reflect a first-class level of quality. Because hotel décor periodically undergoes changes in style, an experienced interior designer should be consulted in order to implement the current offerings. Some of the items that should be provided in the living area of the guestrooms are outlined in the following table.

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#### Guestroom Amenities and Furnishings

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Beds with box springs, headboards, mattresses, and pillows  
Recessed reading light(s) proximate to bed(s)  
Nightstand(s)  
Bedside alarm clock radio  
Bureau  
Remote-controlled color cable television with cable service  
Over-sized desk or work table with adequate chair and lighting  
Direct-dial, touch-tone with message light, computer modem-port,  
clear instructions and extra long phone cord to allow use at  
desk or bed  
Comfortable armchair(s) and couch  
Coffee and end table(s)  
Curtains with blackout panels  
Artwork or wall hangings  
Portable luggage rack  
Adequate room lighting  
Wastebasket(s)  
Small refrigerator in suites  
Electronic card-style door lock with deadbolt  
Door chain or other, similar security device  
Security peephole

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The closet should have a sufficient number and variety of one-piece, non-captive hangers and a hanger bar of suitable length to accommodate three days worth of clothing for two people.

Most guestroom floors should be designated as non-smoking floors. Guestroom wall covering should be of top-grade vinyl and color-coordinated with plush carpeting, bedspreads, and floor-length drapes. Draperies may be equipped with a valance and extend past the window edge, perhaps covering the entire wall. An efficient heating and air-conditioning system that operates quietly, is thermostatically controlled, and permits guests a year-round choice of either heat or air conditioning is necessary. Special

effort should be made to limit sound transmission between guestrooms and from plumbing, HVAC units, and outside sources such as passing traffic. High-speed Internet access has evolved into an expected amenity for hotel guests and is recommended.

The bath area should contain a sink with a vanity top, a large mirror, and superior lighting from recessed-type fixtures; the commode and combination tub/shower should be designed to be located in the same room as the sink and vanity. Adequate and quiet ventilation is necessary during shower use. Other bath amenities should include easily reached electrical outlets, shower area handrails, a tissue dispenser, towel racks, toilet paper with spare, good quality bath and wash towels, soap and shampoo, and a waste can.

One or two levels of upgraded executive rooms are recommended to be offered, which would offer enhanced guest amenities compared to the standard rooms including additional bathroom accessories, technology features such as fax machines, and enhanced desk features, such as ergonomic chairs. Bathrooms in these rooms should offer separate shower and tub units. These level rooms typically sell at higher rates than standard rooms due to these added services and upgrades.

Guestroom furnishings are expected to reflect a first-class level of quality. In total, the guestrooms should conform to the standards and guidelines of the AAA and Mobil ratings agencies to allow the subject property to achieve, at minimum, three-star and three-diamond ratings, with a recommended four-diamond rating.

#### Guestroom Corridors

Proper corridor design is needed so guests are always within a short walking distance of their rooms. When possible, corridor lengths from the elevators and lobbies should be minimized. A six-foot-wide corridor, along with proper lighting and wall treatment, will reduce the tunnel effect of a long hallway. Bright corridors with overhead lighting increase the attractiveness and safety of the corridor. Provisions should be made to protect walls from rolling room attendant's carts and luggage carts that can scratch and tear the wall covering. Vending and ice machines should be readily accessible to guests and be located in an area that will not create noise disturbances for nearby guestrooms.

## Back-of-the-House Areas

Food and beverage back-of-the house areas should include ample storage for china, glass, linens, tables, chairs, and service equipment. The kitchen should be ample in size to service both the a la carte restaurant and banquet areas. We recommend a banquet prep area for plating multiple, concurrent banquet functions, as well as a separate break servicing area for setting up and restocking refreshment breaks for meetings. Ample storage should be included in these areas for the numerous props used by hotels to decorate buffets and break tables. Storage for meeting areas should allow for tables, chairs, podiums, risers, and audiovisual equipment, among other items required to set-up meetings. Back-of-the-house meeting areas should be located with easy access to the loading dock and freight elevators, for the delivery of meeting materials and equipment.

The housekeeping department should include the linen issue, storage area, and the laundry. The linen room should have an office for the executive housekeeper and a rooms status system joined to the front desk. Adequate storage areas are required for linens and supplies in use, as well as new, unused linen and supplies. These areas should be locked and secured at all times. A linen and uniform issue area should be situated adjacent to the linen storage rooms, where employees will pick up their clean uniforms and the linen supplies required for the day.

Sufficient storage is required in the maintenance area to hold items such as spare parts, mechanical equipment, furniture, carpet, wall covering, cleaning materials, and cleaning and maintenance equipment.

The majority of the hotel's offices should be located adjacent to the hotel's reception desk. Sales offices, in particular, should be attractively decorated for guest visitation. The office design should be functional to enhance communication between departments.

## Fire Protection

Fire safety should be planned on a structural level to separate areas of high fire risk (e.g., laundry room) from areas in which fire is likely to cause particular hazards (e.g., corridors, stairwells, public rooms). Smoke and heat detectors, sprinkler systems, exit signage, fire extinguishers, pull stations, standpipes, and emergency lighting should be installed according to code. System design considerations should be geared to adjust to future codes.

## ADA Conformance

Following the January 26, 1992, passage of the Americans with Disabilities Act (ADA), the proposed subject property is subject to specific physical standards. ADA standards principally address the number and accessibility of guestrooms designed to accommodate physically challenged guests, though a variety of safety standards are also included that can touch on the status of building systems. We have assumed that the design of the subject property will meet all necessary requirements of the ADA.

Improvements  
Conclusion

In the planning and design considerations for convention center hotels, guest comfort and satisfaction is paramount, but must be developed within the boundaries defined by economic feasibility. Guest satisfaction is generated not only by the aesthetic and structural design parameters that directly affect the hotel's guestrooms and public areas, but also by functional layout and configuration of the building as a whole. The following conclusions may be drawn regarding the proposed subject property.

- The design, functional layout, and configuration of the proposed Convention Hotel must be straightforward and incorporate sound design principles for hotel construction and in accordance with generally accepted standards for a first class hotel.
- The design of guest, public, and back-of-the-house traffic circulation patterns, the separation of back-of-the-house facilities from the public facilities, and the ease of access from public to non-public areas are also among the major design factors that promote guest comfort and efficiency of operation.
- The optimal design for the proposed subject property should not only encompass the recommended facilities, but is also expected to appropriately balance the considerations of guest satisfaction, operational efficiency, and cost benefit. Hotel features should address the needs of not only convention guests, but commercial and leisure transient clientele, as well.
- The proposed subject property's improvements should contain an adequate mix of king, queen/queen, and suite units within the guestroom count of 500.
- The facilities program for the subject hotel offers ±31,968 square feet of meeting space, encompassing a large, dedicated ballroom and several meeting and breakout rooms. Additional pre-function/circulation space is also planned at ±18,709 square feet.

- The subject property's plans should offer recreational amenities and other ancillary support facilities necessary for the operation of a full-service, convention-oriented lodging facility.
- The subject property's furniture, fixtures, and equipment should be of high quality.
- The exterior design of the building is expected to be appealing and inviting to those passing by the property.
- The parking facilities should be conveniently located for hotel guests and patrons of the property's food and beverage outlets. We recommend establishing designated parking for hotel patrons.

We expect the property to be able to compete adequately with its local and regional counterparts based on this recommended offering. For the purposes of this report, we have assumed that the hotel will be maintained in a competitive condition over its economic life.

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## 8. Projection of Occupancy

Along with average rate 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, beverages, and telephone income) are driven by the number of guests, and many expense levels also vary with occupancy. Consequently, a well-documented forecast of occupancy is essential.

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 competent hotel management team to achieve an optimal mix of occupancy and average rate.

### Penetration Rate Analysis

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

In this equation, market share represents that portion of total market demand accommodated by a property and fair share represents the subject hotel's portion of the total supply (calculated as the subject's room count divided by the total supply of the market at large).

If a property with a fair share of 5% is capturing 5% of the market demand in a given year, then its occupancy will equal the marketwide occupancy, and its penetration rate will equal 100% ( $5\% \div 5\% = 100\%$ ). If the same property achieves a market share in excess of its fair share, then its occupancy will be greater than the marketwide occupancy, and its penetration rate will be greater than 100%. For example, if a property's fair share is 5% and its market share is 7%, then its penetration rate is 140% ( $7\% \div 5\% = 140\%$ ). Conversely, if the property captures less than its fair share, then its occupancy will be below the marketwide average, and its penetration rate will be less than 100%.

Penetration rates can be calculated for each market segment of a property, and for the property as a whole. For example, leisure segment penetration can be determined by: 1) dividing the subject property's leisure room nights captured (property's total room nights captured multiplied by property's leisure segment percentage) by: 2) the hotel's fair share of total areawide leisure demand (property's fair share percentage multiplied by the market's total leisure room night demand). Simplifying the formula, a hotel's market share percentage divided by its fair share percentage equals its market penetration. In essence, a penetration above 100% in a certain market segment indicates that the hotel is capturing more than its fair share of that source of demand, while a penetration rate below 100% indicates that a hotel is capturing less than its fair share of demand. A penetration of 100% indicates that the hotel is capturing its pro-rata share of the market segment's room night demand.

Explanation of Market Share and Penetration Rate Adjustment

The subject's occupancy is forecast by estimating the hotel's penetration by market segment for each year of the forecast period. The estimation of penetration rates is based upon our review of the historical penetration rates of the subject and its competitors. If the subject hotel and all of its competitors are expected to remain stable in their ability to penetrate the market, then the historical penetration rates may be appropriately projected to remain the same throughout the forecast period. However, when additions to supply are anticipated or if a particular hotel is expected to alter its ability to compete in some way (e.g. through a refurbishment or change in brand or management), then penetration rates for all the hotels in the market must be adjusted. The reason for the need to adjust the penetration rates of all the hotels in the market is due to the circular calculation of the penetration rate. A hotel's penetration rate is calculated as its market share of demand divided by its fair share of demand. If one hotel's penetration rate increases, thereby increasing its market share and leaving less demand for the other hotels in the market to capture, then the penetration rates of the remaining hotels automatically decline (all other things being equal).

For example, let us assume that a hotel is slated for a renovation and repositioning, thus enabling the hotel to improve its occupancy through increased market penetration. A higher penetration by one hotel will result in a larger capture of room nights by that hotel, thus leaving a reduced number of room nights to be shared by the rest of the competitive set. The additional room nights captured by this hotel will come out of the same finite pie of demand from which the other hotels in the market draw their demand. Any inducement of new demand due to the repositioning will have already

have been built into the forecast of marketwide demand in the forecast of marketwide occupancy.

A similar impact is felt when a new hotel is added to the market. Penetration rates for the new hotel are forecast. The penetration rates are multiplied by the hotel's fair share percentage (calculated as the hotel's fair share of supply) to calculate the hotel's market share percentage. The hotel's market share percentage is then multiplied by the total demand forecast for that market segment in that year, resulting in the room nights captured by the new hotel in that segment. When the new hotel enters the market the penetration of all the existing hotels will automatically be impacted because they will each be capturing a smaller amount of the demand pie once the new hotel takes its share. If the new hotel captures less than its fair share of demand then the penetration rates of the existing hotels will increase, and alternatively, if the new hotel captures greater than its fair share of demand then the penetration rates of the existing hotels will decline. Thus, the penetration rate of a stable hotel is often impacted year to year by the penetration rates of its competitors.

An existing hotel may retain the same number of room nights captured in a particular market segment when a new hotel is added to the market, but that hotel's penetration rate must increase to do so. This is because the existing hotel's fair share percentage declines as new rooms are added to the market, and so to remain at the same level of room night capture its penetration rate must increase (rooms night captured = fair share x penetration rate x total market segment demand). A complete description of this process is presented in an addendum to this report.

Historical Penetration  
Rates by Market  
Segment

In the following table, the penetration rates attained by the primary competitors and the aggregate secondary competition are set forth for each segment for the base year, 2003. The results are used as a basis for comparison with the subject property, as well as our forecast of penetration rates for the subject and each competitive hotel into the future.

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**Historical Penetration Rates**


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| Property                             | Meeting and Group | Commercial | Leisure | Overall |
|--------------------------------------|-------------------|------------|---------|---------|
| Marriott Schaumburg                  | 71 %              | 168 %      | 180 %   | 124 %   |
| Hyatt Regency Woodfield              | 146               | 70         | 124     | 110     |
| Embassy Suites Schaumburg            | 82                | 172        | 143     | 127     |
| Wyndham Itasca                       | 146               | 66         | 122     | 109     |
| Sheraton Northwest Arlington Heights | 89                | 47         | 78      | 70      |
| Sheraton Suites Elk Grove            | 48                | 101        | 84      | 75      |
| Secondary Competition                | 97                | 103        | 84      | 99      |

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The Marriott and Embassy Suites achieved overall penetration levels of 124% and 127%, respectively, in the base year. These properties accommodate large percentages of commercial transient demand. The Hyatt and the Wyndham also fully penetrated the market with overall penetration levels in the low 100%-range. Strong meeting and group penetration levels at the Hyatt and Wyndham contributed to their overall performance, due to their sizeable group facilities. The two Sheraton properties under-performed the market, in terms of occupancy, with overall penetration levels in the low- to-mid-70% range. These two properties do not benefit from the strong locations possessed by the majority of the other primary competitors.

**Projected Penetration Rates by Market Segment**

Penetration rates for the proposed subject property and each of the competitive hotels have been forecast based upon the historical performance of each property and the changes we foresee in the marketplace going forward. Changes in market share and penetration rates are expected due to variables such as renovations underway at various, older hotel properties and the introduction of new office space and the convention facility within the competitive market. Additionally, existing hotel properties may be repositioning within the market based on new supply proposed for the area.

The following tables set forth, by market segment, the projected adjusted penetration rates for the proposed subject property and each hotel in the competitive set throughout the projection period.

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**Meeting and Group Segment Adjusted Penetration Rates**


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| Hotel                                       | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|------|------|------|------|------|
| Marriott Schaumburg                         | 69 % | 66 % | 66 % | 66 % | 66 % |
| Hyatt Regency Woodfield                     | 141  | 127  | 127  | 127  | 127  |
| Embassy Suites Schaumburg                   | 79   | 75   | 75   | 75   | 75   |
| Wyndham Itasca                              | 141  | 128  | 127  | 127  | 127  |
| Sheraton Northwest Arlington Heights        | 86   | 86   | 86   | 86   | 86   |
| Sheraton Suites Elk Grove                   | 46   | 46   | 46   | 46   | 46   |
| Secondary Competition                       | 98   | 99   | 98   | 98   | 98   |
| Proposed Renaissance Convention Hotel       | 122  | 134  | 136  | 136  | 136  |
| Proposed Lombard Westin & Conference Center | 101  | 104  | 106  | 106  | 106  |
| Proposed Naperville Conference Center Hotel | 104  | 107  | 106  | 106  | 106  |

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In terms of group penetration, the Hyatt and the Wyndham are considered the most comparable to the proposed subject property; however, due to its role as a headquarters hotel, the subject property is projected to outperform these hotels in this segment. Upon the opening of the subject property, we project the majority of competitive hotels will lose penetration in this segment. Due to the anticipated strong penetration in the meeting and group segment as a result of its proximity to the convention center, the proposed subject property is expected to achieve a stabilized meeting and group penetration level of roughly 136% by 2008.

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**Commercial Segment Adjusted Penetration Rates**


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| Hotel                                       | 2006  | 2007  | 2008  | 2009  | 2010  |
|---|-------|-------|-------|-------|-------|
| Marriott Schaumburg                         | 169 % | 169 % | 169 % | 170 % | 170 % |
| Hyatt Regency Woodfield                     | 70    | 70    | 70    | 71    | 71    |
| Embassy Suites Schaumburg                   | 173   | 174   | 174   | 175   | 175   |
| Wyndham Itasca                              | 67    | 67    | 67    | 67    | 67    |
| Sheraton Northwest Arlington Heights        | 47    | 48    | 48    | 48    | 48    |
| Sheraton Suites Elk Grove                   | 102   | 102   | 102   | 102   | 103   |
| Secondary Competition                       | 103   | 104   | 104   | 104   | 104   |
| Proposed Renaissance Convention Hotel       | 93    | 91    | 89    | 85    | 83    |
| Proposed Lombard Westin & Conference Center | 91    | 99    | 104   | 104   | 105   |
| Proposed Naperville Conference Center Hotel | 99    | 104   | 104   | 104   | 105   |

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The Marriott, Embassy Suites, Secondary Competition, and the Sheraton Suites Elk Grove are projected to remain strong competitors in the commercial segment. Due to its role as a headquarters hotel, however, the subject property is projected to be a stronger competitor in the group

segment compared to the transient segments, by stabilization. We have accounted for the subject's location close to the Motorola campus in our projection of penetration. However, as a group base takes a few years to establish, we project the subject property will accommodate higher levels of transient demand in its initial years, and gradually displace some of this demand with meeting and group business. Due to its anticipated strong focus on the meeting and group segment, the proposed subject property is expected to achieve a commercial penetration level of roughly 85% by 2009.

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**Leisure Segment Adjusted Penetration Rates**


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| Hotel                                       | 2006  | 2007  | 2008  | 2009  | 2010  |
|---|-------|-------|-------|-------|-------|
| Marriott Schaumburg                         | 190 % | 195 % | 195 % | 195 % | 196 % |
| Hyatt Regency Woodfield                     | 130   | 134   | 134   | 134   | 134   |
| Embassy Suites Schaumburg                   | 150   | 154   | 154   | 154   | 155   |
| Wyndham Itasca                              | 128   | 131   | 132   | 132   | 132   |
| Sheraton Northwest Arlington Heights        | 82    | 84    | 84    | 84    | 84    |
| Sheraton Suites Elk Grove                   | 88    | 90    | 90    | 91    | 91    |
| Secondary Competition                       | 89    | 91    | 91    | 91    | 91    |
| Proposed Renaissance Convention Hotel       | 37    | 35    | 34    | 31    | 30    |
| Proposed Lombard Westin & Conference Center | 42    | 49    | 52    | 52    | 52    |
| Proposed Naperville Conference Center Hotel | 47    | 52    | 52    | 52    | 52    |

---

The Marriott, Hyatt, Embassy Suites, and Wyndham are projected to remain strong competitors in the leisure segment. Due to its role as a headquarters hotel, the subject property is projected to be a stronger competitor in the group segment compared to the transient segments, by stabilization. However, as a group base takes a few years to establish, we project the subject will accommodate higher levels of transient demand in its initial years, and gradually displace this demand with meeting and group business. Due to its anticipated strong focus on the meeting and group segment, the proposed subject property is expected to achieve a leisure penetration level of only 31% by 2009, which is typical of a convention hotel.

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**Forecast of Subject Property's Occupancy**


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| Market Segment                   | 2006      | 2007      | 2008      | 2009      | 2010      |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|
| <b>Meeting and Group</b>         |           |           |           |           |           |
| Demand                           | 601,011   | 647,263   | 689,170   | 712,939   | 729,000   |
| Market Share                     | 6.3 %     | 11.6 %    | 11.8 %    | 11.8 %    | 11.8 %    |
| Capture                          | 38,079    | 75,074    | 81,025    | 83,819    | 85,708    |
| Penetration                      | 122 %     | 134 %     | 136 %     | 136 %     | 136 %     |
| <b>Commercial</b>                |           |           |           |           |           |
| Demand                           | 551,259   | 570,553   | 590,522   | 605,286   | 620,418   |
| Market Share                     | 4.8 %     | 7.8 %     | 7.7 %     | 7.4 %     | 7.2 %     |
| Capture                          | 26,560    | 44,756    | 45,332    | 44,509    | 44,614    |
| Penetration                      | 93 %      | 91 %      | 89 %      | 85 %      | 83 %      |
| <b>Leisure</b>                   |           |           |           |           |           |
| Demand                           | 110,489   | 114,356   | 117,787   | 120,732   | 123,750   |
| Market Share                     | 1.9 %     | 3.0 %     | 2.9 %     | 2.7 %     | 2.6 %     |
| Capture                          | 2,122     | 3,417     | 3,411     | 3,276     | 3,246     |
| Penetration                      | 37 %      | 35 %      | 34 %      | 31 %      | 30 %      |
| Total Room Nights Captured       | 66,761    | 123,247   | 129,768   | 131,605   | 133,567   |
| Available Room Nights            | 106,000   | 182,500   | 182,500   | 182,500   | 182,500   |
| Subject Occupancy                | 63 %      | 68 %      | 71 %      | 72 %      | 73 %      |
| Marketwide Available Room Nights | 2,036,591 | 2,112,091 | 2,112,091 | 2,112,091 | 2,112,091 |
| Fair Share                       | 5 %       | 9 %       | 9 %       | 9 %       | 9 %       |
| Marketwide Occupied Room Nights  | 1,262,759 | 1,332,173 | 1,397,479 | 1,438,956 | 1,473,168 |
| Market Share                     | 5 %       | 9 %       | 9 %       | 9 %       | 9 %       |
| Marketwide Occupancy             | 62 %      | 63 %      | 66 %      | 68 %      | 70 %      |
| Total Penetration                | 102 %     | 107 %     | 107 %     | 106 %     | 105 %     |

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Overall, the subject property is expected to realize a ramp-up period in order to achieve an above-average penetration typical of a full-service, first-class convention hotel. Due to its role as a headquarters hotel, the subject property is projected to be a stronger competitor in the group segment compared to the transient segments, by stabilization. However, as a group base takes a few years to establish, we project the subject will accommodate higher levels of transient demand in its initial years, and gradually displace this demand with meeting and group business. In its first seven months of operation in 2006, the subject property is expected to penetrate the market occupancy at

102%. The subject property's overall penetration is expected to reach a level of roundly 106% by stabilization.

The following table summarizes the proposed subject property's projected market segmentation.

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Subject Property's Market Segmentation

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|                   | 2006    | 2007    | 2008    | 2009    | 2010    |
|-------------------|---------|---------|---------|---------|---------|
| Meeting and Group | 57.0 %  | 60.9 %  | 62.4 %  | 63.7 %  | 64.2 %  |
| Commercial        | 39.8    | 36.3    | 34.9    | 33.8    | 33.4    |
| Leisure           | 3.2     | 2.8     | 2.6     | 2.5     | 2.4     |
| Total             | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % |

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The proposed subject property is expected to accommodate a decreased percentage of commercial and leisure demand as it stabilizes. However, the commercial market segment is anticipated to remain a strong market segment for the subject property, accounting for roundly 34% of the proposed subject property's overall demand by 2009. The subject property is expected to establish itself as a leader in the meeting and group segment, due to its headquarters role and location adjacent to the new convention center. As such, the meeting and group segment is expected to be the dominant market segment for the subject property accounting for roughly 64% of the property's overall occupancy by its stabilized year. Demand associated with the leisure market segment is expected to remain relatively constant as a result of the property's limited accommodation of demand in this segment.

Based on the preceding analysis, the following forecast of occupancy results. Dividing the total number of room nights captured by the subject property's annual number of available room nights (calculated as 500 x 365) produces the projected occupancy percentage. Please note 2006 represents seven months of operation due to the subject's opening in June of that year.

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**Subject Property's Occupancy Forecast**


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|                            | 2006    | 2007    | 2008    | 2009    | 2010    |
|----------------------------|---------|---------|---------|---------|---------|
| Total Room Nights Captured | 66,761  | 123,247 | 129,768 | 131,605 | 133,567 |
| Available Room Nights      | 106,000 | 182,500 | 182,500 | 182,500 | 182,500 |
| Subject Occupancy          | 63.0 %  | 67.5 %  | 71.1 %  | 72.1 %  | 73.2 %  |
| Rounded                    | 63 %    | 68 %    | 71 %    | 72 %    | 73 %    |

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For the purpose of forecasting income and expense, we will use the following occupancy levels. These projections begin June 1, 2006, corresponding to the opening date of the subject property. We note that 2006 reflects a partial year of operation, with the remaining projection years representing full calendar years.

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**Forecast of Occupancy**


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| Year | Subject<br>Occupancy |
|------|----------------------|
| 2006 | 63 %                 |
| 2007 | 68                   |
| 2008 | 71                   |
| 2009 | 72                   |

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Although the preceding occupancy analysis shows the subject property achieving a 73% occupancy in 2010, we have chosen to use a stabilized level of 72%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given any and 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 subject property 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.

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## 9. 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, which is more formally defined as the average rate per occupied room. Average rate 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 average rate 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.

### The Concept of Average Rate

A hotel's average room rate is the weighted average of the various amounts charged to different market segments, such as rack rates, published rates, commercial rates, and contract rates. The average rate also takes into account differentials during peak and off-peak periods, including various seasons of the year, holidays, and weekends. Different types of rooms may also command varying rates, and thus have an impact on the overall average rate. The following is a description of several typical rate categories.

- **Rack Rate** – An undiscounted room rate generally given to anyone who does not qualify for or request a discounted rate. The term is derived from the room rack (now a computer terminal) at the front desk, which contains information about each room's rate, including the highest amount that can be charged for that type of unit. When a hotel is expected to be full during a certain period or when a guest arrives without a reservation, the rack rate is usually the only rate available. The average rate is almost always lower than the rack rate.
- **Published Rate** – The rate listed in directories and other publications. This rate is usually quoted as a range (i.e., single: \$70-\$100), and represents the various rack rates for specific types of accommodations. Published rates usually set the upper limit of average rate, and average rates tend to be closest to published rates in the case of single (rather than double) rooms.

- *Commercial Rate* – A discounted rate available to certain commercial travelers. Some hotels charge all commercial travelers a commercial rate upon request, while others offer it only to established accounts based on their projected use of the hotel. Commercial rates vary because they can be negotiated between the business and the hotel. These rates are always below the rack and published rates and, depending on the market mix, may approximate the property's average rate.
- *Contract Rate* – A discounted rate available to specific high-volume users, such as airlines, convention groups, and bus tours. Contract rates are negotiated and often apply to a block of rooms that are reserved on an ongoing basis and paid for regardless of use. Depending on the amount of use and the time it occurs, a contract rate may be heavily discounted and thus significantly lower than both the average rate and the commercial rate.
- *Complimentary Rooms* – It is customary for hotels to provide rooms to very important guests on a complimentary basis. When performing a room night analysis, complimentary rooms should be included in the occupancy projection, because these occupied rooms represent actual demand (although they generate no revenue). However, the inclusion of complimentary rooms in the occupancy lowers the calculated average rate, and thus the treatment of complimentary rooms in the average rates obtained from competitive properties must be consistent in order to draw an accurate rate comparison. Complimentary rooms are customarily offered to groups at a rate of 1 per 50 rooms blocked; however, this can change based on demand or management preference.

In forecasting average room rate for a proposed hotel, the average rates of similar hotels operating in the same market are examined as a starting point and future rate changes are forecast based on market conditions and the proposed property's relative competitiveness. The process is outlined as follows:

1. The average room rates for the competition are researched and compared to determine whether the proposed rates for the subject reflect market conditions, competent management and buyer's expectations.
2. Factors that impact future trends in room rate inflation are analyzed and projected annual inflationary changes are then quantified.

3. The proposed subject property's average room rate is quantified and projected into the future utilizing either the competitive positioning or the market segmentation method. These two methods are described as follows:

*Competitive Positioning Method:* Competitive positioning starts with the analysis of the average room rates currently achieved by the local competitive hotels. These rates establish a range within which the room rate for the subject property should fall. The likely average rate for the subject property is then compared to the average rate of the hotel in the sample that is most similar in quality, size, facilities, amenities, market orientation, location, management, image and affiliation. Upward and/or downward adjustments are made to the subject's average rate to reflect any differences between the comparable and the subject that might be realized by affiliation or positioning. The competitive positioning method works well if the subject property is an existing hotel and a comparable is present in the market.

*Market Segmentation Method:* In applying the market segmentation method, an average room rate is developed by individual market segments. This method starts with the previously developed demand forecast for the subject property, which includes a projection of the number of room nights captured for each market segment. Using the room rates charged on a segmented basis by the subject and competitive properties as a base, a room rate estimate is developed for each market segment. The estimated room rate for each market segment is then multiplied by the projected number of room nights captured and the results are totaled to yield the total rooms revenue. An average rate can be calculated by dividing the total rooms revenue by the number of rooms occupied. The advantage of the market segmentation method is its ability to adjust the projected average room rate for changes in market mix. The disadvantage is that detailed rate data for each competitor in the market is not usually public knowledge and is difficult, if not impossible, to obtain.

#### Competitive Position

Although the average rate analysis presented here follows the occupancy projections, these two statistics are highly correlated; in reality, one can not project occupancy without making specific assumptions regarding average rate. This relationship is best illustrated by rooms revenue per available room (RevPAR), which reflects a property's ability to maximize rooms revenue. The following table summarizes the estimated 2003 average rate and RevPAR levels of the subject property's competitors.

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**Average Rate and RevPAR of the Competitors**


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| Property                             | Estimated 2003<br>Average Room<br>Rate | Rooms Revenue Per<br>Available Room |
|--------------------------------------|--|-------------------------------------|
| Marriott Schaumburg                  | \$100.00                               | \$73.00                             |
| Hyatt Regency Woodfield              | 93.00                                  | 60.45                               |
| Embassy Suites Schaumburg            | 113.00                                 | 84.75                               |
| Wyndham Itasca                       | 98.00                                  | 62.72                               |
| Sheraton Northwest Arlington Heights | 104.00                                 | 42.64                               |
| Sheraton Suites Elk Grove            | 100.00                                 | 44.00                               |
| Average                              | \$100.06                               | \$60.08                             |

The primary competitive set includes a diverse representation of first-class, full-service hotel properties located within the competitive market. As noted above, estimated average room rates for the primary competitors ranged from \$93.00 to \$113.00 in 2003, with the higher rate at the Embassy Suites and the lower rate at the Hyatt Regency Woodfield. The Embassy Suites achieved the highest rate based on its all-suite product. Other top rate performers included the two Sheraton properties, whose occupancy penetration levels were, in contrast, the lowest in the set. The Marriott Schaumburg shares a common Marriott affiliation with the proposed subject property, which is expected to benefit both properties in terms of cross-marketing and referrals. Not shown above are the 2003 average rates of the Rosemont/O'Hare hotels, which are estimated at an aggregate average of \$126.00. The average rates of the competitive properties were used to help position the rate for the proposed subject property.

**Market  
Segmentation**

This technique begins with an analysis of the room rates commanded by local hotels in each market segment. Using this information, we can forecast the subject property's rate on a segment-by-segment basis. The projected rate in each segment is then multiplied by the number of room nights the hotel is expected to capture in that segment (as determined earlier in this analysis). These amounts are totaled, yielding the overall rooms revenue. Average rate is then calculated by dividing the property's total rooms revenue by the estimated number of occupied rooms. The advantage of the market segmentation method is its ability to reflect anticipated changes in the subject property's market mix and their impact on average rate.

Average rate can be projected by considering anticipated changes in the subject property's demand mix and the rates that can be commanded in each market segment. The proposed subject property has been positioned with an estimated average rate of roundly \$120.00, in 2003 dollars. The average rates by segment for the subject property have been positioned at \$115.00 in the meeting and group segment, \$130.00 in the commercial segment, and \$100.00 in the leisure segment in 2003. These rates are well-supported by data gathered from the competitive market.

#### Average Rate Increases

It is important to note that hotel room rate increases do not necessarily conform to the underlying monetary inflation rate, because lodging facilities are influenced by market conditions such as the relationship between supply and demand. A hotel's ability to raise room rates is affected by a number of factors, including the following.

- **Supply and Demand Relationships** – The relationship between supply and demand is one of the factors that determine hotel occupancies and average rates. Strong markets, where lodging demand is increasing faster than supply, are often characterized by rate growth that exceeds inflation. Markets that are overbuilt or suffering from declining demand are unlikely to exhibit any significant increases in average rates.
- **Inflationary Pressures** – Price increases caused by inflation affect hotel room rates by eroding profit margins and encouraging operators to raise prices. This strategy is effective only in markets that are characterized by a healthy supply and demand relationship.
- **Improving the Competitive Standard** – When a new lodging facility enters a mature market, its rates may be set higher than the marketwide average in an effort to justify the development costs. This may allow other competitors to achieve corresponding gains by effectively raising the amount the market will bear. However, if the addition to supply has a severe impact on the occupancy levels of other hotels, price competition may ensue.
- **Property-Specific Improvements** – Changes that make a hotel more or less attractive to guests can have an impact on average rate. An expansion, renovation, upgrading, or the introduction of additional facilities and amenities may enable greater-than-inflationary room rate increases. Likewise, deferred maintenance may make a property less competitive, engendering a decline in room rates.

In determining average rate projections, changes that occur prior to occupancy stabilization are generally attributable to factors that are specific to the property and the market. After a hotel achieves a stabilized occupancy, room rates are generally expected to continue to increase at the underlying inflation rate throughout the remainder of the projection period.

The overall competitive market achieved moderately-strong rate growth of 3.5% in 2000, followed by declines in 2001 and 2002 of 5.3% and 5.5%, respectively. These declines in average rate were posted as the market began to discount in order to compensate for occupancy losses. Most notably, the market's loss of demand, and subsequently average rate, was attributable to the U.S. economic downturn, which impacted the local market, particularly the influential technology and telecommunications industries; also the impact of the events of September 11, 2001 suppressed travel nationwide. STR reports a continued decrease in average rate for 2003 through September, at 4.9%. We forecast marketwide ADR to decline in 2004, which is a continuation of the declining trend experienced in recent years. Subsequently, ADR is projected to be relatively flat in 2005 and gradually pick up in later years. A rebound in average rate typically lags a rebound in occupancy, as the hotels and consumers shift from a discounting mentality. By 2010, marketwide rate growth should return to near the historical average growth rate of approximately 3.0% per year, and the subject property should benefit from this trend. After the stabilized year, average rate is projected to incur inflationary growth levels.

Based on these considerations, the following table identifies the positioned segmented average rates and the growth rates that have been applied to each rate through the stabilized year.

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**Forecast of Average Rate Growth**


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|                   | 2003 Average<br>Room Rate | Projected Growth Rate |       |       |       |       |       |       |
|-------------------|---------------------------|-----------------------|-------|-------|-------|-------|-------|-------|
|                   |                           | 2004                  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  |
| Meeting and Group | \$115.00                  | -2.0 %                | 0.0 % | 3.0 % | 5.0 % | 7.0 % | 7.0 % | 3.0 % |
| Commercial        | 130.00                    | -3.0                  | -0.5  | 2.0   | 4.0   | 5.0   | 4.0   | 3.0   |
| Leisure           | 100.00                    | -1.0                  | 1.0   | 2.5   | 4.0   | 5.0   | 4.0   | 3.0   |
| Total             | \$119.70                  | -                     | -     | -     | 4.3 % | 6.1 % | 5.8 % | 3.0 % |

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The following table illustrates the methodology we have used for projecting the subject property's average rate.

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**Subject Property's Average Rate Forecast**


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|                                | 2006        | 2007         | 2008         | 2009         | 2010         |
|--------------------------------|-------------|--------------|--------------|--------------|--------------|
| <b>Meeting and Group</b>       |             |              |              |              |              |
| Average Rate Growth            | 3.0 %       | 5.0 %        | 7.0 %        | 7.0 %        | 3.0 %        |
| Captured Room Nights           | 38,079      | 75,074       | 81,025       | 83,819       | 85,708       |
| Rooms Revenue                  | \$4,420,238 | \$9,150,438  | \$10,567,005 | \$11,696,660 | \$12,318,965 |
| Average Rate                   | \$116.08    | \$121.89     | \$130.42     | \$139.55     | \$143.73     |
| <b>Commercial</b>              |             |              |              |              |              |
| Average Rate Growth            | 2.0 %       | 4.0 %        | 5.0 %        | 4.0 %        | 3.0 %        |
| Captured Room Nights           | 26,560      | 44,756       | 45,332       | 44,509       | 44,614       |
| Rooms Revenue                  | \$3,399,181 | \$5,956,922  | \$6,335,347  | \$6,469,077  | \$6,678,808  |
| Average Rate                   | \$127.98    | \$133.10     | \$139.75     | \$145.34     | \$149.70     |
| <b>Leisure</b>                 |             |              |              |              |              |
| Average Rate Growth            | 2.5 %       | 4.0 %        | 5.0 %        | 4.0 %        | 3.0 %        |
| Captured Room Nights           | 2,122       | 3,417        | 3,411        | 3,276        | 3,246        |
| Rooms Revenue                  | \$217,491   | \$364,185    | \$381,701    | \$381,354    | \$389,096    |
| Average Rate                   | \$102.49    | \$106.59     | \$111.92     | \$116.40     | \$119.89     |
| <b>Total</b>                   |             |              |              |              |              |
| Average Rate Growth            | -           | 4.3 %        | 6.1 %        | 5.8 %        | 3.0 %        |
| Captured Room Nights           | 66,761      | 123,247      | 129,768      | 131,605      | 133,567      |
| Rooms Revenue                  | \$8,036,909 | \$15,471,545 | \$17,284,053 | \$18,547,091 | \$19,386,869 |
| Average Rate                   | \$120.38    | \$125.53     | \$133.19     | \$140.93     | \$145.15     |
| Average Rate Penetration       | 117.5 %     | 119.0 %      | 120.2 %      | 123.5 %      | 123.5 %      |
| Marketwide Average Rate Growth | 1.5 %       | 3.0 %        | 5.0 %        | 3.0 %        | 3.0 %        |
| Marketwide Average Rate        | \$102.44    | \$105.52     | \$110.79     | \$114.12     | \$117.54     |

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These growth rates are indicative of the subject property's market and represent a continuation of the trends experienced in recent years. We forecast marketwide ADR to decline in 2004. Subsequently, ADR is projected to be relatively flat in 2005 and gradually pick up in later years. As mentioned previously, a rebound in average rate typically lags a rebound in occupancy, as the hotels and consumers shift from a discounting mentality. The subject property is expected to incur rate growth at levels above the market in its initial years of operation, due to its new facility and relatively

captive base of convention demand. Induced demand attracted to the market due to opening of the new convention center is also expected to have a positive influence on rate growth for the subject property and the overall market. As such, average rate penetration for the subject property is projected to be strong by stabilization, reaching roundly 124% in 2009. By 2009, marketwide rate growth should return to near the historical average growth rate of approximately 3.0% per year, with the subject property's average rate to grow by the underlying rate of inflation in the years following the stabilized year.

The following average rates represent calendar years beginning June 1, 2006, with the first projection year reflecting a partial year of operation. This forecast will be used to project the subject property's rooms revenue.

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**Forecast of Average Rate**

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| Year | Subject<br>Average Rate |
|------|-------------------------|
| 2006 | \$120.38                |
| 2007 | 125.53                  |
| 2008 | 133.19                  |
| 2009 | 140.93                  |

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## 10. Projection of Income and Expense

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 10-year period reflects the typical holding period of large real estate assets such as hotels. 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 property, we have included a composite of comparable income and expense statements derived from the Smith Travel Research HOST report as well as a sample of individual comparable operating statements from our database of hotel statistics that were used in our formulation of the proposed subject property's projections. For the purposes of this assignment, we chose criteria which best describe characteristics of the subject property in a general way. The HOST report encompasses upscale, 300- to 500-room, suburban, chain-affiliated properties. The results are shown in the following tables.

**Comparable Operating Data - STR HOST**

|  | Chain-Affiliated |                 |                 | Suburban      |                 |                 | Upscale       |                 |                 | 300-500 rooms |                 |                 |
|--|------------------|-----------------|-----------------|---------------|-----------------|-----------------|---------------|-----------------|-----------------|---------------|-----------------|-----------------|
| Occupancy  | 65.4%            |                 |                 | 62.6%         |                 |                 | 63.9%         |                 |                 | 64.5%         |                 |                 |
| Rooms  | 304              |                 |                 | 247           |                 |                 | 243           |                 |                 | 378           |                 |                 |
| Average Rate   | \$128.98         |                 |                 | \$112.26      |                 |                 | \$109.83      |                 |                 | \$133.41      |                 |                 |
| <b>REVENUE</b>   | <b>%</b>         | <b>PAR</b>      | <b>POR</b>      | <b>%</b>      | <b>PAR</b>      | <b>POR</b>      | <b>%</b>      | <b>PAR</b>      | <b>POR</b>      | <b>%</b>      | <b>PAR</b>      | <b>POR</b>      |
| Rooms  | 62.8%            | \$30,716        | \$128.98        | 62.3%         | \$25,594        | \$112.26        | 65.0%         | \$25,402        | \$109.83        | 59.6%         | \$31,490        | \$133.41        |
| Food   | 20.4%            | \$9,982         | \$41.92         | 21.4%         | \$8,788         | \$38.55         | 19.4%         | \$7,576         | \$32.76         | 21.6%         | \$11,415        | \$48.36         |
| Beverage   | 5.2%             | \$2,539         | \$10.66         | 5.1%          | \$2,080         | \$9.12          | 4.9%          | \$1,921         | \$8.30          | 5.3%          | \$2,802         | \$11.87         |
| Other Food & Beverage  | 4.1%             | \$2,021         | \$8.49          | 5.2%          | \$2,122         | \$9.31          | 4.1%          | \$1,589         | \$6.87          | 5.0%          | \$2,618         | \$11.09         |
| Telephone  | 1.7%             | \$850           | \$3.57          | 1.7%          | \$697           | \$3.06          | 1.5%          | \$571           | \$2.47          | 1.7%          | \$884           | \$3.75          |
| Minor Operated Departments   | 3.6%             | \$1,741         | \$7.31          | 2.9%          | \$1,185         | \$5.20          | 3.4%          | \$1,342         | \$5.80          | 4.8%          | \$2,545         | \$10.78         |
| Rentals & Other Income   | 2.2%             | \$1,070         | \$4.49          | 1.4%          | \$674           | \$2.96          | 1.7%          | \$671           | \$2.90          | 2.0%          | \$1,050         | \$4.45          |
| <b>Total Revenue</b>   | <b>100.0%</b>    | <b>\$48,919</b> | <b>\$205.42</b> | <b>100.0%</b> | <b>\$41,140</b> | <b>\$180.46</b> | <b>100.0%</b> | <b>\$39,072</b> | <b>\$168.93</b> | <b>100.0%</b> | <b>\$52,804</b> | <b>\$223.71</b> |
| <b>DEPARTMENTAL EXPENSES</b>                                       |                  |                 |                 |               |                 |                 |               |                 |                 |               |                 |                 |
| Rooms  | 25.8%            | \$7,930         | \$33.30         | 21.5%         | \$6,432         | \$28.21         | 26.4%         | \$6,707         | \$29.00         | 25.5%         | \$8,015         | \$33.96         |
| Food & Beverage  | 75.4%            | \$10,967        | \$46.05         | 73.6%         | \$9,555         | \$41.91         | 77.6%         | \$8,603         | \$37.20         | 74.4%         | \$12,525        | \$53.06         |
| Telephone  | 58.8%            | \$500           | \$2.10          | 58.2%         | \$405           | \$1.78          | 68.3%         | \$390           | \$1.69          | 61.7%         | \$546           | \$2.31          |
| Other Departmental Expenses  | 2.9%             | \$1,405         | \$5.90          | 2.6%          | \$1,050         | \$4.60          | 3.0%          | \$1,171         | \$5.07          | 3.8%          | \$2,016         | \$8.54          |
| <b>Total Departmental Expenses</b>                                 | <b>42.5%</b>     | <b>\$20,802</b> | <b>\$87.35</b>  | <b>42.4%</b>  | <b>\$17,442</b> | <b>\$76.50</b>  | <b>43.2%</b>  | <b>\$16,871</b> | <b>\$72.96</b>  | <b>43.8%</b>  | <b>\$23,102</b> | <b>\$97.87</b>  |
| <b>Total Departmental Profit</b>                                   | <b>57.5%</b>     | <b>\$28,117</b> | <b>\$118.07</b> | <b>57.6%</b>  | <b>\$23,698</b> | <b>\$103.96</b> | <b>56.8%</b>  | <b>\$22,201</b> | <b>\$95.97</b>  | <b>56.2%</b>  | <b>\$29,702</b> | <b>\$125.84</b> |
| <b>UNDISTRIBUTED OPERATING EXPENSES</b>                            |                  |                 |                 |               |                 |                 |               |                 |                 |               |                 |                 |
| Administrative & General   | 8.1%             | \$3,950         | \$16.59         | 8.9%          | \$3,647         | \$16.00         | 8.8%          | \$3,450         | \$14.92         | 8.4%          | \$4,433         | \$18.78         |
| Marketing  | 6.6%             | \$3,237         | \$13.59         | 7.2%          | \$2,967         | \$13.02         | 6.9%          | \$2,705         | \$11.69         | 6.9%          | \$3,631         | \$15.38         |
| Franchise Fees   | 0.5%             | \$259           | \$1.09          | 0.6%          | \$241           | \$1.06          | 0.8%          | \$309           | \$1.34          | 0.4%          | \$211           | \$0.89          |
| Energy   | 3.6%             | \$1,779         | \$7.47          | 3.9%          | \$1,589         | \$6.97          | 4.0%          | \$1,563         | \$6.76          | 3.6%          | \$1,899         | \$8.05          |
| Property Operations & Maintenance                                  | 4.8%             | \$2,355         | \$9.89          | 5.0%          | \$2,046         | \$8.98          | 5.1%          | \$2,004         | \$8.67          | 4.7%          | \$2,480         | \$10.50         |
| <b>Total Undistributed Operating Expenses</b>                      | <b>23.6%</b>     | <b>\$11,580</b> | <b>\$48.63</b>  | <b>25.6%</b>  | <b>\$10,490</b> | <b>\$46.03</b>  | <b>25.6%</b>  | <b>\$10,031</b> | <b>\$43.38</b>  | <b>24.0%</b>  | <b>\$12,654</b> | <b>\$53.60</b>  |
| <b>GROSS OPERATING PROFIT</b>                                      | <b>34.4%</b>     | <b>\$16,796</b> | <b>\$70.53</b>  | <b>32.7%</b>  | <b>\$13,449</b> | <b>\$58.99</b>  | <b>31.9%</b>  | <b>\$12,479</b> | <b>\$53.93</b>  | <b>32.6%</b>  | <b>\$17,259</b> | <b>\$73.13</b>  |
| Management Fees  | 3.3%             | \$1,598         | \$6.71          | 3.1%          | \$1,262         | \$5.54          | 3.0%          | \$1,165         | \$5.04          | 3.3%          | \$1,732         | \$7.34          |
| <b>INCOME BEFORE FIXED CHARGES</b>                                 | <b>31.1%</b>     | <b>\$15,198</b> | <b>\$63.82</b>  | <b>29.6%</b>  | <b>\$12,187</b> | <b>\$53.45</b>  | <b>28.9%</b>  | <b>\$11,314</b> | <b>\$48.89</b>  | <b>29.3%</b>  | <b>\$15,527</b> | <b>\$65.79</b>  |
| Property Taxes   | 3.5%             | \$1,703         | \$7.15          | 3.0%          | \$1,239         | \$5.43          | 3.0%          | \$1,179         | \$5.10          | 3.2%          | \$1,682         | \$7.13          |
| Insurance  | 1.1%             | \$538           | \$2.26          | 1.1%          | \$435           | \$1.91          | 1.1%          | \$432           | \$1.87          | 1.1%          | \$555           | \$2.35          |
| Reserve for Replacement  | 2.2%             | \$1,057         | \$4.44          | 2.6%          | \$1,059         | \$4.65          | 2.3%          | \$908           | \$3.93          | 2.3%          | \$1,224         | \$5.18          |
| <b>AMOUNT AVAILABLE FOR DEBT SERVICE &amp; OTHER FIXED CHARGES</b> | <b>24.3%</b>     | <b>\$11,900</b> | <b>\$49.97</b>  | <b>22.9%</b>  | <b>\$9,454</b>  | <b>\$41.46</b>  | <b>22.5%</b>  | <b>\$8,795</b>  | <b>\$37.99</b>  | <b>22.7%</b>  | <b>\$12,066</b> | <b>\$51.13</b>  |
| <b>PAYROLL &amp; RELATED EXPENSES</b>                              |                  |                 |                 |               |                 |                 |               |                 |                 |               |                 |                 |
| Rooms  | 16.8%            | \$4,412         | \$19.08         | 16.9%         | \$4,044         | \$18.08         | 17.3%         | \$3,907         | \$17.95         | 16.2%         | \$5,019         | \$21.20         |
| Food & Beverage  | 44.3%            | \$4,875         | \$21.43         | 42.7%         | \$4,688         | \$21.25         | 44.9%         | \$3,975         | \$18.97         | 41.5%         | \$6,966         | \$29.74         |
| Telephone  | 39.9%            | \$327           | \$1.40          | 35.4%         | \$251           | \$1.08          | 44.5%         | \$227           | \$1.05          | 42.4%         | \$325           | \$1.36          |
| Other Operated Departments   | 1.5%             | \$1,174         | \$5.31          | 1.6%          | \$1,169         | \$5.53          | 2.5%          | \$1,585         | \$8.17          | 1.7%          | \$1,484         | \$6.38          |
| Administrative & General   | 5.1%             | \$1,991         | \$8.71          | 5.3%          | \$1,984         | \$8.96          | 5.3%          | \$1,806         | \$8.46          | 5.1%          | \$2,518         | \$10.76         |
| Marketing  | 2.8%             | \$1,108         | \$4.97          | 3.1%          | \$1,177         | \$5.37          | 3.0%          | \$1,017         | \$4.93          | 3.0%          | \$1,459         | \$6.32          |
| Property Operations & Maintenance                                  | 2.5%             | \$1,005         | \$4.41          | 2.5%          | \$937           | \$4.22          | 2.6%          | \$885           | \$4.23          | 2.5%          | \$1,265         | \$5.42          |
| <b>Total Payroll &amp; Related Expenses</b>                        | <b>33.1%</b>     | <b>\$14,023</b> | <b>\$61.39</b>  | <b>33.5%</b>  | <b>\$13,299</b> | <b>\$60.04</b>  | <b>33.7%</b>  | <b>\$12,095</b> | <b>\$57.11</b>  | <b>34.6%</b>  | <b>\$18,654</b> | <b>\$79.50</b>  |

Source: Smith Travel Research

Comparable Operating Data - STR HOST (Continued)

|  | Aggregate Averages of Comparables |                 |                 |               | Ranges of Comparables |                 |                   |                            |
|--|-----------------------------------|-----------------|-----------------|---------------|-----------------------|-----------------|-------------------|----------------------------|
| Occupancy  | 64.1%                             |                 |                 |               | 62.6% - 65.4%         |                 |                   |                            |
| Rooms  | 293                               |                 |                 |               | 243 - 378             |                 |                   |                            |
| Average Rate   | \$121.12                          |                 |                 |               | \$109.83 - \$133.41   |                 |                   |                            |
| REVENUE  | %                                 | PAR             | POR             | %             |                       | PAR             |                   | POR                        |
| Rooms  | 62.4%                             | \$28,301        | \$121.12        | 59.6%         | - 65.0%               | \$25,402        | - \$31,490        | \$109.83 - \$133.41        |
| Food   | 20.7%                             | \$9,440         | \$40.40         | 19.4%         | - 21.6%               | \$7,576         | - \$11,415        | \$32.76 - \$48.36          |
| Beverage   | 5.1%                              | \$2,336         | \$9.99          | 4.9%          | - 5.3%                | \$1,921         | - \$2,802         | \$8.30 - \$11.87           |
| Other Food & Beverage  | 4.6%                              | \$2,088         | \$8.94          | 4.1%          | - 5.2%                | \$1,589         | - \$2,618         | \$6.87 - \$11.09           |
| Telephone  | 1.7%                              | \$751           | \$3.21          | 1.5%          | - 1.7%                | \$571           | - \$884           | \$2.47 - \$3.75            |
| Minor Operated Departments   | 3.7%                              | \$1,703         | \$7.27          | 2.9%          | - 4.8%                | \$1,185         | - \$2,545         | \$5.20 - \$10.78           |
| Rentals & Other Income   | 1.8%                              | \$866           | \$3.70          | 1.4%          | - 2.2%                | \$671           | - \$1,070         | \$2.90 - \$4.49            |
| <b>Total Revenue</b>   | <b>100.0%</b>                     | <b>\$45,484</b> | <b>\$194.63</b> | <b>100.0%</b> | <b>- 100.0%</b>       | <b>\$39,072</b> | <b>- \$52,804</b> | <b>\$168.93 - \$223.71</b> |
| DEPARTMENTAL EXPENSES  |                                   |                 |                 |               |                       |                 |                   |                            |
| Rooms  | 24.8%                             | \$7,271         | \$31.12         | 21.5%         | - 26.4%               | \$6,432         | - \$8,015         | \$28.21 - \$33.96          |
| Food & Beverage  | 75.3%                             | \$10,413        | \$44.56         | 73.6%         | - 77.6%               | \$8,603         | - \$12,525        | \$37.20 - \$53.06          |
| Telephone  | 61.8%                             | \$460           | \$1.97          | 58.2%         | - 68.3%               | \$390           | - \$546           | \$1.69 - \$2.31            |
| Other Departmental Expenses  | 3.1%                              | \$1,411         | \$6.03          | 2.6%          | - 3.8%                | \$1,050         | - \$2,016         | \$4.60 - \$8.54            |
| <b>Total Departmental Expenses</b>                                 | <b>43.0%</b>                      | <b>\$19,554</b> | <b>\$83.67</b>  | <b>42.4%</b>  | <b>- 43.8%</b>        | <b>\$16,871</b> | <b>- \$23,102</b> | <b>\$72.96 - \$97.87</b>   |
| <b>Total Departmental Profit</b>                                   | <b>57.0%</b>                      | <b>\$25,930</b> | <b>\$110.96</b> | <b>56.2%</b>  | <b>- 57.6%</b>        | <b>\$22,201</b> | <b>- \$29,702</b> | <b>\$95.97 - \$125.84</b>  |
| UNDISTRIBUTED OPERATING EXPENSES                                   |                                   |                 |                 |               |                       |                 |                   |                            |
| Administrative & General   | 8.6%                              | \$3,870         | \$16.57         | 8.1%          | - 8.9%                | \$3,450         | - \$4,433         | \$14.92 - \$18.78          |
| Marketing  | 6.9%                              | \$3,135         | \$13.42         | 6.6%          | - 7.2%                | \$2,705         | - \$3,631         | \$11.69 - \$15.38          |
| Franchise Fees   | 0.6%                              | \$255           | \$1.10          | 0.4%          | - 0.8%                | \$211           | - \$309           | \$0.89 - \$1.34            |
| Energy   | 3.8%                              | \$1,708         | \$7.31          | 3.6%          | - 4.0%                | \$1,563         | - \$1,899         | \$6.76 - \$8.05            |
| Property Operations & Maintenance                                  | 4.9%                              | \$2,221         | \$9.51          | 4.7%          | - 5.1%                | \$2,004         | - \$2,480         | \$8.67 - \$10.50           |
| <b>Total Undistributed Operating Expenses</b>                      | <b>24.7%</b>                      | <b>\$11,189</b> | <b>\$47.91</b>  | <b>23.6%</b>  | <b>- 25.6%</b>        | <b>\$10,031</b> | <b>- \$12,654</b> | <b>\$43.38 - \$53.60</b>   |
| GROSS OPERATING PROFIT   | 32.9%                             | \$14,996        | \$64.15         | 31.9%         | - 34.4%               | \$12,479        | - \$17,259        | \$53.93 - \$73.13          |
| Management Fees  | 3.2%                              | \$1,439         | \$6.16          | 3.0%          | - 3.3%                | \$1,165         | - \$1,732         | \$5.04 - \$7.34            |
| <b>INCOME BEFORE FIXED CHARGES</b>                                 | <b>29.7%</b>                      | <b>\$13,557</b> | <b>\$57.99</b>  | <b>28.9%</b>  | <b>- 31.1%</b>        | <b>\$11,314</b> | <b>- \$15,527</b> | <b>\$48.89 - \$65.79</b>   |
| Property Taxes   | 3.2%                              | \$1,451         | \$6.20          | 3.0%          | - 3.5%                | \$1,179         | - \$1,703         | \$5.10 - \$7.15            |
| Insurance  | 1.1%                              | \$490           | \$2.10          | 1.1%          | - 1.1%                | \$432           | - \$555           | \$1.87 - \$2.35            |
| Reserve for Replacement  | 2.4%                              | \$1,062         | \$4.55          | 2.2%          | - 2.6%                | \$908           | - \$1,224         | \$3.93 - \$5.18            |
| <b>AMOUNT AVAILABLE FOR DEBT SERVICE &amp; OTHER FIXED CHARGES</b> | <b>23.1%</b>                      | <b>\$10,554</b> | <b>\$45.14</b>  | <b>22.5%</b>  | <b>- 24.3%</b>        | <b>\$8,795</b>  | <b>- \$12,066</b> | <b>\$37.99 - \$51.13</b>   |
| PAYROLL & RELATED EXPENSES   |                                   |                 |                 |               |                       |                 |                   |                            |
| Rooms  | 16.8%                             | \$4,346         | \$19.08         | 16.2%         | - 17.3%               | \$3,907         | - \$5,019         | \$17.95 - \$21.20          |
| Food & Beverage  | 43.4%                             | \$5,126         | \$22.85         | 41.5%         | - 44.9%               | \$3,975         | - \$6,966         | \$18.97 - \$29.74          |
| Telephone  | 40.6%                             | \$283           | \$1.22          | 35.4%         | - 44.5%               | \$227           | - \$327           | \$1.05 - \$1.40            |
| Other Operated Departments   | 1.8%                              | \$1,353         | \$6.35          | 1.5%          | - 2.5%                | \$1,169         | - \$1,585         | \$5.31 - \$8.17            |
| Administrative & General   | 5.2%                              | \$2,075         | \$9.22          | 5.1%          | - 5.3%                | \$1,806         | - \$2,518         | \$8.46 - \$10.76           |
| Marketing  | 3.0%                              | \$1,190         | \$5.40          | 2.8%          | - 3.1%                | \$1,017         | - \$1,459         | \$4.93 - \$6.32            |
| Property Operations & Maintenance                                  | 2.5%                              | \$1,023         | \$4.57          | 2.5%          | - 2.6%                | \$885           | - \$1,265         | \$4.22 - \$5.42            |
| <b>Total Payroll &amp; Related Expenses</b>                        | <b>33.7%</b>                      | <b>\$14,518</b> | <b>\$64.51</b>  | <b>33.1%</b>  | <b>- 34.6%</b>        | <b>\$12,095</b> | <b>- \$18,654</b> | <b>\$57.11 - \$79.50</b>   |

Source: Smith Travel Research

The following comparable operating statements are from our database of hotel statistics. All financial data is 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). A composite statement of the comparables is presented as well.

The following operating data reflect the performances of six similar Marriott-affiliated, full-service properties. It is important to note that these operating statements reflect 2002/03 and 2001/02 dollars. For comparison purposes, we have included a management fee of 3.0% and a reserve for replacement expense of 4.0% in these comparable statements.

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**Comparable Operating Statements Ratio to Sales (2002/03 and 2001/02 dollars)**


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|                                    | Comp 1   | Comp 2   | Comp 3   | Comp 4   | Comp 5   | Comp 6   |
|------------------------------------|----------|----------|----------|----------|----------|----------|
| Year:                              | 2002/03  | 2002/03  | 2002/03  | 2002/03  | 2001/02  | 2001/02  |
| Number of Rooms:                   | 398      | 405      | 390      | 646      | 402      | 615      |
| Occupied Rooms:                    | 99,091   | 114,488  | 94,419   | 194,545  | 91,832   | 146,667  |
| Days Open:                         | 364      | 365      | 365      | 365      | 365      | 365      |
| Occupancy:                         | 68.4%    | 77.4%    | 66.3%    | 82.5%    | 62.6%    | 65.3%    |
| Average Rate:                      | \$103.69 | \$110.21 | \$114.34 | \$196.65 | \$106.49 | \$166.23 |
| <b>REVENUE</b>                     |          |          |          |          |          |          |
| Rooms                              | 64.4 %   | 58.8 %   | 28.5 %   | 77.5 %   | 61.4 %   | 68.0 %   |
| Food                               | 32.5     | 34.7     | 39.6     | 19.9     | 29.1     | 25.0     |
| Beverage                           | 0.0      | 0.0      | 0.0      | 0.0      | 7.0      | 4.4      |
| Telephone                          | 1.3      | 1.1      | 1.0      | 1.4      | 1.3      | 1.2      |
| Other Income                       | 1.8      | 5.3      | 31.0     | 1.2      | 1.3      | 1.5      |
| Total                              | 100.0    | 100.0    | 100.0    | 100.0    | 100.0    | 100.0    |
| <b>DEPARTMENTAL EXPENSES*</b>      |          |          |          |          |          |          |
| Rooms                              | 25.3     | 21.5     | 25.3     | 32.7     | 32.7     | 19.7     |
| Food                               | 72.8     | 73.1     | 62.2     | 98.4     | 77.1     | 86.3     |
| Beverage                           | 0.0      | 0.0      | 0.0      | 0.0      | 48.4     | 0.0      |
| Telephone                          | 41.8     | 66.5     | 65.7     | 122.5    | 51.7     | 122.7    |
| Other Income                       | 26.6     | 57.7     | 75.9     | 21.0     | 67.1     | 83.5     |
| Total                              | 41.0     | 41.9     | 56.0     | 46.9     | 47.4     | 37.6     |
| <b>DEPARTMENTAL INCOME</b>         |          |          |          |          |          |          |
|                                    | 59.0     | 58.1     | 44.0     | 53.1     | 52.6     | 62.4     |
| <b>OPERATING EXPENSES</b>          |          |          |          |          |          |          |
| Administrative & General           | 9.7      | 7.8      | 6.8      | 10.0     | 11.6     | 8.7      |
| Marketing                          | 6.7      | 6.5      | 4.5      | 6.6      | 5.7      | 6.2      |
| Franchise Fee                      | 0.0      | 4.2      | 0.0      | 0.0      | 5.3      | 0.0      |
| Property Operations & Maintenance  | 5.3      | 3.7      | 3.5      | 5.0      | 6.6      | 5.1      |
| Energy                             | 3.2      | 3.2      | 2.1      | 2.8      | 3.7      | 3.1      |
| Total                              | 24.9     | 25.3     | 16.9     | 24.3     | 32.9     | 23.1     |
| <b>HOUSE PROFIT</b>                |          |          |          |          |          |          |
|                                    | 34.1     | 32.8     | 27.1     | 28.8     | 19.7     | 39.3     |
| <b>Management Fee</b>              |          |          |          |          |          |          |
|                                    | 3.0      | 3.0      | 3.0      | 3.0      | 3.0      | 3.0      |
| <b>INCOME BEFORE FIXED CHARGES</b> |          |          |          |          |          |          |
|                                    | 31.1     | 29.8     | 24.2     | 25.8     | 16.7     | 36.2     |
| <b>FIXED EXPENSES</b>              |          |          |          |          |          |          |
| Property Taxes                     | 8.8      | 2.9      | 2.3      | 7.7      | 2.1      | 6.1      |
| Insurance                          | 1.0      | 0.7      | 0.7      | 1.0      | 0.6      | 1.1      |
| Equipment Lease                    | 0.6      | 0.0      | 0.0      | 0.1      | 0.0      | 0.5      |
| Ground Lease                       | 0.0      | 0.0      | 3.1      | 0.0      | 0.0      | 1.1      |
| Other                              | 0.0      | 0.0      | 0.0      | 0.0      | 0.0      | 1.3      |
| Reserve for Replacement            | 4.0      | 4.0      | 4.0      | 4.0      | 4.0      | 4.0      |
| Total                              | 14.4     | 7.6      | 10.1     | 12.8     | 6.7      | 14.1     |
| <b>NET INCOME</b>                  |          |          |          |          |          |          |
|                                    | 16.7 %   | 22.2 %   | 14.1 %   | 13.0 %   | 10.0 %   | 22.1 %   |

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

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**Comparable Operating Statements Per Available Room (2002/03 and 2001/02 dollars)**


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|                                    | Comp 1         | Comp 2          | Comp 3          | Comp 4         | Comp 5         | Comp 6          |
|------------------------------------|----------------|-----------------|-----------------|----------------|----------------|-----------------|
| Year:                              | 2002/03        | 2002/03         | 2002/03         | 2002/03        | 2001/02        | 2001/02         |
| Number of Rooms:                   | 398            | 405             | 390             | 646            | 402            | 615             |
| Occupied Rooms:                    | 99,091         | 114,488         | 94,419          | 194,545        | 91,832         | 146,667         |
| Days Open:                         | 364            | 365             | 365             | 365            | 365            | 365             |
| Occupancy:                         | 68.4%          | 77.4%           | 66.3%           | 82.5%          | 62.6%          | 65.3%           |
| Average Rate:                      | \$103.69       | \$110.21        | \$114.34        | \$196.65       | \$106.49       | \$166.23        |
| <b>REVENUE</b>                     |                |                 |                 |                |                |                 |
| Rooms                              | \$25,817       | \$31,156        | \$27,682        | \$59,221       | \$24,326       | \$39,644        |
| Food                               | 13,038         | 18,398          | 38,451          | 15,203         | 11,527         | 14,551          |
| Beverage                           | 0              | 0               | 0               | 0              | 2,761          | 2,554           |
| Telephone                          | 523            | 590             | 995             | 1,093          | 520            | 694             |
| Other Income                       | 729            | 2,830           | 30,090          | 907            | 515            | 865             |
| Total                              | 40,106         | 52,973          | 97,218          | 76,424         | 39,649         | 58,309          |
| <b>DEPARTMENTAL EXPENSES</b>       |                |                 |                 |                |                |                 |
| Rooms                              | 6,543          | 6,694           | 6,992           | 19,358         | 7,958          | 7,815           |
| Food                               | 9,487          | 13,452          | 23,905          | 14,954         | 8,893          | 12,564          |
| Beverage                           | 0              | 0               | 0               | 0              | 1,336          | 0               |
| Telephone                          | 219            | 393             | 654             | 1,339          | 269            | 852             |
| Other Income                       | 193            | 1,632           | 22,849          | 190            | 346            | 722             |
| Total                              | 16,442         | 22,170          | 54,400          | 35,841         | 18,801         | 21,953          |
| <b>DEPARTMENTAL INCOME</b>         | <b>23,663</b>  | <b>30,802</b>   | <b>42,818</b>   | <b>40,584</b>  | <b>20,848</b>  | <b>36,356</b>   |
| <b>OPERATING EXPENSES</b>          |                |                 |                 |                |                |                 |
| Administrative & General           | 3,894          | 4,109           | 6,572           | 7,619          | 4,604          | 5,049           |
| Marketing                          | 2,678          | 3,425           | 4,415           | 5,029          | 2,264          | 3,623           |
| Franchise Fee                      | 0              | 2,225           | 0               | 0              | 2,082          | 0               |
| Property Operations & Maintenance  | 2,111          | 1,963           | 3,359           | 3,816          | 2,612          | 2,984           |
| Energy                             | 1,289          | 1,694           | 2,069           | 2,125          | 1,480          | 1,836           |
| Total                              | 9,972          | 13,415          | 16,415          | 18,590         | 13,042         | 13,491          |
| <b>HOUSE PROFIT</b>                | <b>13,691</b>  | <b>17,387</b>   | <b>26,403</b>   | <b>21,994</b>  | <b>7,806</b>   | <b>22,865</b>   |
| Management Fee                     | 1,203          | 1,589           | 2,917           | 2,293          | 1,189          | 1,749           |
| <b>INCOME BEFORE FIXED CHARGES</b> | <b>12,488</b>  | <b>15,798</b>   | <b>23,486</b>   | <b>19,701</b>  | <b>6,616</b>   | <b>21,116</b>   |
| <b>FIXED EXPENSES</b>              |                |                 |                 |                |                |                 |
| Property Taxes                     | 3,520          | 1,536           | 2,259           | 5,895          | 821            | 3,571           |
| Insurance                          | 407            | 363             | 636             | 766            | 251            | 628             |
| Equipment Lease                    | 231            | 0               | 0               | 85             | 0              | 263             |
| Ground Lease                       | 0              | 0               | 3,051           | 0              | 0              | 616             |
| Other                              | 0              | 0               | 0               | 0              | 0              | 740             |
| Reserve for Replacement            | 1,604          | 2,119           | 3,889           | 3,057          | 1,586          | 2,332           |
| Total                              | 5,763          | 4,018           | 9,835           | 9,803          | 2,658          | 8,150           |
| <b>NET INCOME</b>                  | <b>\$6,725</b> | <b>\$11,780</b> | <b>\$13,651</b> | <b>\$9,898</b> | <b>\$3,958</b> | <b>\$12,966</b> |

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**Comparable Operating Statements Per Occupied Room (2002/03 and 2001/02 dollars)**


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|                                    | Comp 1   | Comp 2   | Comp 3   | Comp 4   | Comp 5   | Comp 6   |
|------------------------------------|----------|----------|----------|----------|----------|----------|
| Year:                              | 2002/03  | 2002/03  | 2002/03  | 2002/03  | 2001/02  | 2001/02  |
| Number of Rooms:                   | 398      | 405      | 390      | 646      | 402      | 615      |
| Occupied Rooms:                    | 99,091   | 114,488  | 94,419   | 194,545  | 91,832   | 146,667  |
| Days Open:                         | 364      | 365      | 365      | 365      | 365      | 365      |
| Occupancy:                         | 68.4%    | 77.4%    | 66.3%    | 82.5%    | 62.6%    | 65.3%    |
| Average Rate:                      | \$103.69 | \$110.21 | \$114.34 | \$196.65 | \$106.49 | \$166.23 |
| <b>REVENUE</b>                     |          |          |          |          |          |          |
| Rooms                              | \$103.69 | \$110.21 | \$114.34 | \$196.65 | \$106.49 | \$166.23 |
| Food                               | 52.37    | 65.08    | 158.82   | 50.48    | 50.46    | 61.02    |
| Beverage                           | 0.00     | 0.00     | 0.00     | 0.00     | 12.09    | 10.71    |
| Telephone                          | 2.10     | 2.09     | 4.11     | 3.63     | 2.28     | 2.91     |
| Other Income                       | 2.93     | 10.01    | 124.29   | 3.01     | 2.25     | 3.63     |
| Total                              | 161.08   | 187.39   | 401.56   | 253.77   | 173.57   | 244.50   |
| <b>DEPARTMENTAL EXPENSES</b>       |          |          |          |          |          |          |
| Rooms                              | 26.28    | 23.68    | 28.88    | 64.28    | 34.84    | 32.77    |
| Food                               | 38.11    | 47.59    | 98.74    | 49.65    | 38.93    | 52.68    |
| Beverage                           | 0.00     | 0.00     | 0.00     | 0.00     | 5.85     | 0.00     |
| Telephone                          | 0.88     | 1.39     | 2.70     | 4.45     | 1.18     | 3.57     |
| Other Income                       | 0.78     | 5.77     | 94.38    | 0.63     | 1.51     | 3.03     |
| Total                              | 66.04    | 78.43    | 224.70   | 119.01   | 82.30    | 92.05    |
| <b>DEPARTMENTAL INCOME</b>         | 95.04    | 108.96   | 176.86   | 134.76   | 91.26    | 152.45   |
| <b>OPERATING EXPENSES</b>          |          |          |          |          |          |          |
| Administrative & General           | 15.64    | 14.53    | 27.14    | 25.30    | 20.16    | 21.17    |
| Marketing                          | 10.76    | 12.11    | 18.24    | 16.70    | 9.91     | 15.19    |
| Franchise Fee                      | 0.00     | 7.87     | 0.00     | 0.00     | 9.11     | 0.00     |
| Property Operations & Maintenance  | 8.48     | 6.94     | 13.87    | 12.67    | 11.43    | 12.51    |
| Energy                             | 5.18     | 5.99     | 8.55     | 7.06     | 6.48     | 7.70     |
| Total                              | 40.05    | 47.46    | 67.80    | 61.73    | 57.09    | 56.57    |
| <b>HOUSE PROFIT</b>                | 54.99    | 61.51    | 109.06   | 73.03    | 34.17    | 95.88    |
| Management Fee                     | 4.83     | 5.62     | 12.05    | 7.61     | 5.21     | 7.33     |
| <b>INCOME BEFORE FIXED CHARGES</b> | 50.16    | 55.89    | 97.01    | 65.42    | 28.96    | 88.54    |
| <b>FIXED EXPENSES</b>              |          |          |          |          |          |          |
| Property Taxes                     | 14.14    | 5.43     | 9.33     | 19.57    | 3.59     | 14.97    |
| Insurance                          | 1.63     | 1.28     | 2.63     | 2.54     | 1.10     | 2.63     |
| Equipment Lease                    | 0.93     | 0.00     | 0.00     | 0.28     | 0.00     | 1.10     |
| Ground Lease                       | 0.00     | 0.00     | 12.60    | 0.00     | 0.00     | 2.58     |
| Other                              | 0.00     | 0.00     | 0.00     | 0.00     | 0.00     | 3.10     |
| Reserve for Replacement            | 6.44     | 7.50     | 16.06    | 10.15    | 6.94     | 9.78     |
| Total                              | 23.15    | 14.21    | 40.62    | 32.55    | 11.64    | 34.18    |
| <b>NET INCOME</b>                  | \$27.01  | \$41.68  | \$56.39  | \$32.87  | \$17.32  | \$54.36  |

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**Comparable Operating Statements Composite Statement (2002/03 and 2001/02 dollars)**


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## Composite Statement

|                                    |                 |               |                 |                |
|------------------------------------|-----------------|---------------|-----------------|----------------|
| Number of Rooms:                   | 2,856           |               |                 |                |
| Occupied Rooms:                    | 741,042         |               |                 |                |
| Days Open:                         | 365             |               | Amount per      | Amount per     |
| Occupancy:                         | 71.1%           | Percentage    | Available       | Occupied       |
| Average Rate:                      | \$143.18        | of Revenue    | Room            | Room           |
| <b>REVENUE</b>                     |                 |               |                 |                |
| Rooms                              | \$106,106       | 60.1 %        | \$37,152        | \$143.18       |
| Food                               | 51,040          | 28.9          | 17,871          | 68.88          |
| Beverage                           | 2,681           | 1.5           | 939             | 3.62           |
| Telephone                          | 2,177           | 1.2           | 762             | 2.94           |
| Other Income                       | 14,496          | 8.2           | 5,076           | 19.56          |
| Total                              | 176,500         | 100.0         | 61,800          | 238.18         |
| <b>DEPARTMENTAL EXPENSES</b>       |                 |               |                 |                |
| Rooms                              | 28,552          | 26.9          | 9,997           | 38.53          |
| Food                               | 39,509          | 77.4          | 13,834          | 53.32          |
| Beverage                           | 537             | 20.0          | 188             | 0.72           |
| Telephone                          | 1,998           | 91.8          | 700             | 2.70           |
| Other Income                       | 10,355          | 71.4          | 3,626           | 13.97          |
| Total                              | 80,951          | 45.9          | 28,344          | 109.24         |
| <b>DEPARTMENTAL INCOME</b>         | <b>95,549</b>   | <b>54.1</b>   | <b>33,456</b>   | <b>128.94</b>  |
| <b>OPERATING EXPENSES</b>          |                 |               |                 |                |
| Administrative & General           | 15,655          | 8.9           | 5,481           | 21.13          |
| Marketing                          | 10,562          | 6.0           | 3,698           | 14.25          |
| Franchise Fee                      | 1,738           | 1.0           | 609             | 2.35           |
| Property Operations & Maintenance  | 8,295           | 4.7           | 2,904           | 11.19          |
| Energy                             | 5,103           | 2.9           | 1,787           | 6.89           |
| Total                              | 41,353          | 23.4          | 14,479          | 55.80          |
| <b>HOUSE PROFIT</b>                | <b>54,196</b>   | <b>30.7</b>   | <b>18,976</b>   | <b>73.13</b>   |
| Management Fee                     | 5,295           | 3.0           | 1,854           | 7.15           |
| <b>INCOME BEFORE FIXED CHARGES</b> | <b>48,901</b>   | <b>27.7</b>   | <b>17,122</b>   | <b>65.99</b>   |
| <b>FIXED EXPENSES</b>              |                 |               |                 |                |
| Property Taxes                     | 9,238           | 5.2           | 3,235           | 12.47          |
| Insurance                          | 1,539           | 0.9           | 539             | 2.08           |
| Equipment Lease                    | 309             | 0.2           | 108             | 0.42           |
| Ground Lease                       | 1,569           | 0.9           | 549             | 2.12           |
| Other                              | 455             | 0.3           | 159             | 0.61           |
| Reserve for Replacement            | 7,060           | 4.0           | 2,472           | 9.53           |
| Total                              | 20,170          | 11.4          | 7,062           | 27.22          |
| <b>NET INCOME</b>                  | <b>\$28,731</b> | <b>16.3 %</b> | <b>\$10,060</b> | <b>\$38.77</b> |

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|                      |   |
|----------------------|---|
| Premise of Forecast  | The forecast of income and expense is intended to reflect the appraiser's subjective estimate of how a typical buyer would project the subject property's future operating results. Depending on the dynamics of the local market, a typical buyer's projection may be adjusted upward or downward. We have attempted to consider these factors in formulating this forecast. |
| Inflation Assumption | A general rate of inflation must be established that will be applied to most revenue and expense categories. The following table shows inflation estimates made by economists at some noted institutions and corporations.  |

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**Inflation Estimates**


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| Source                                      | Projected Increase in Consumer Price Index<br>(Annualized Rate Versus 12 Months Earlier) |                     |
|---|--|---------------------|
|   | May<br>of 2004   | November<br>of 2003 |
| James Smith, University of North Carolina   | 1.0 %  | 1.5 %               |
| Ian Shepherdson, High Frequency Economics   | 1.8  | 2.2                 |
| David L. Littmann, Comerica Bank            | 2.0  | 2.2                 |
| Daniel Laufenberg, American Express         | 2.2  | 2.0                 |
| Maury Harris, UBS                           | 1.5  | 2.3                 |
| Henry Willmore, Barclays Capital            | 2.5  | 2.3                 |
| William T. Wilson, Ernst & Young            | 2.1  | 1.4                 |
| Joel Prakken, Macroeconomic Advisors        | 1.5  | 2.0                 |
| Arun Raha, Eaton Corp.                      | 2.4  | 2.2                 |
| Peter Hooper, Deutsche Bank                 | 1.5  | 1.4                 |
| Brener/Greenlaw, Morgan Stanley             | 1.8  | 1.9                 |
| Sung Won Sohn, Wells Fargo & Co.            | 1.4  | 1.5                 |
| Richard D. Rippe, Prudential Securities     | 1.9  | 2.3                 |
| John Ryding/David Malpass, Bear Stearns     | 1.7  | 1.8                 |
| Richard DeKaser, National City              | 2.2  | 2.4                 |
| Ram Bhagavatula, The Royal Bank of Scotland | 2.1  | 2.1                 |
| Brian Wesbury, Griffin, Kubik               | 2.6  | 2.6                 |
| Robert V. DiClemente, Citigroup             | 1.4  | 1.9                 |
| Susan Sterne, Economic Analysis Assoc.      | 2.0  | 2.5                 |
| Gail Fosler, The Conference Board           | 2.5  | 2.5                 |
| William Hummer, Wayne Hummer Investments    | 2.3  | 2.1                 |
| David Resler, Normura                       | 2.0  | 1.8                 |
| Lawrence Kudlow, Kudlow & Co., LLC          | 2.3  | 2.1                 |
| Neal Soss, CSFB                             | 1.6  | 2.4                 |
| Narلمان Behraves, Globel Insight            | 1.9  | 2.2                 |
| John Silvia, Wachovia Corporation           | 1.6  | NA                  |
| Stuart Hoffman, PNC Financial               | 2.2  | 2.4                 |
| Gary Thayer, A.G. Edwards                   | 2.3  | 2.1                 |
| David Rosenberg, Merrill Lynch              | 1.4  | 2.4                 |
| David Wyss, Standard & Poor's               | 1.9  | 2.2                 |
| Ethan Harris, Lehman Brothers               | 1.6  | 2.3                 |
| David Lereah, Nati Assoc. Of Realtors       | 1.7  | 2.4                 |
| McGee/Synnott, US Trust                     | 1.4  | 2.2                 |
| David Berson, Frannie Mae                   | 1.9  | 2.0                 |
| Maria Ramirez, MFR Inc.                     | 1.8  | 2.1                 |
| John Lonski, Moody's                        | 2.2  | 2.3                 |
| Allen Sinai, Decisions Economics            | 1.7  | 2.2                 |
| Kurt Kari, Swiss Re                         | 1.4  | 1.9                 |
| Saul Hymans, University of Michigan         | 1.7  | 2.4                 |
| Diane Swonk, Bank One                       | 1.8  | 2.9                 |
| Mark Zendi, Economy.com                     | 1.7  | 2.2                 |
| Stephen Gallagher, Societe Generale         | 2.0  | 2.3                 |
| Donald Straszheim, Straszheim Advisors      | 2.0  | 2.0                 |
| William Dudley, Goldman Sachs               | 1.7  | 2.1                 |
| Shrouds/Fry, DuPont                         | 2.0  | 1.9                 |
| Mike Cosgrove, Econoclast                   | 1.5  | 2.4                 |
| Mickey D. Levy, Bank of America             | 2.0  | NA                  |
| Tracey Herrick, Jefferies & Co.             | 2.6  | 2.7                 |
| Nicholas Perna, Perna Associates            | 2.2  | 2.3                 |
| Edward Leamer, UCLA Anderson Forecast       | 2.0  | 2.4                 |
| J. Dewey Daane, Vanderbilt University       | 2.3  | 2.0                 |
| Kathleen M. Camilli, Camilli Economic       | 1.9  | NA                  |
| Richard Yamarone, Argus Research Corp.      | 2.5  | 3.3                 |
| A. Gary Shilling, Shilling & Co.            | 1.2  | 1.2                 |
| Averages                                    | 1.9 %  | 2.2 %               |
| Actual Number as of May 31, 2003            |  | 2.1 %               |

Source: Wall Street Journal, July 3, 2003

As the preceding table indicates, the financial analysts who were surveyed anticipated inflation rates ranging from 1.0% to 2.6% (on an annualized basis) as of May 2004. A majority of the respondents estimate rates of 1.7% to 2.2%; the average is 1.9%. For the twelve months ending in November of 2003, the inflation forecasts ranged from 1.2% to 3.3%; most were between 1.9% and 2.4%, and the average was 2.2%. As a further check on these inflation projections, we have reviewed historical increases in the Consumer Price Index (CPI-U). Because the value of real estate is predicated on cash flows over a relatively long period, inflation should be considered from a long-term perspective.

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National Consumer Price Index (All Urban Consumers)

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| Year                               | National Consumer<br>Price Index | Percent Change<br>from Previous Year |
|------------------------------------|----------------------------------|--------------------------------------|
| 1992                               | 140.3                            | ----                                 |
| 1993                               | 144.5                            | 3.0 %                                |
| 1994                               | 148.2                            | 2.6                                  |
| 1995                               | 152.4                            | 2.8                                  |
| 1996                               | 156.9                            | 3.0                                  |
| 1997                               | 160.5                            | 2.3                                  |
| 1998                               | 163.0                            | 1.6                                  |
| 1999                               | 166.6                            | 2.2                                  |
| 2000                               | 172.2                            | 3.4                                  |
| 2001                               | 177.1                            | 2.8                                  |
| 2002                               | 179.9                            | 1.6                                  |
| Average Annual Compounded % Change |                                  |                                      |
|                                    | 1992 - 2002                      | 2.5 %                                |
|                                    | 1997 - 2002                      | 2.3                                  |

Source: Bureau of Labor Statistics

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Between 1992 and 2002, the national CPI increased at an average annual compounded rate of 2.5%, slowing to 2.3% over the most recent five years. In consideration of the most recent trends, the projections set forth above, and our assessment of probable property appreciation levels, we have applied an underlying inflation rate of 2.0% in 2004 and 2005, increasing to 3.0% per year thereafter. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the

assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

#### Forecast of Income and Expense

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take four years for the subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based on comparable income and expense statements. The following forecast is based upon calendar years beginning June 1, 2006, with 2006 reflecting a partial-year of operation, and is expressed in inflated dollars for each year.

#### Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. Our projection of the subject property's occupancy and average rate was presented earlier in this report.

#### Food and Beverage Revenue

Food revenue is generated by a hotel's restaurants, coffee shops, snack bars, banquet rooms, and room service. In the case of the subject property, food revenue is expected to be generated by the hotel's restaurant, café, lounge/coffee bar, room service, and banquets. Beverage revenue is generated by the sale of alcoholic beverages in a hotel's restaurants and banquet rooms and the sale of alcoholic and nonalcoholic beverages in the bars and lounges. The majority of the outlets are expected to have a strong pedestrian connection on the ground level of the hotel. Four of the six comparable operating statements combined revenues from food and beverage. As was illustrated by the comparable operating statements, combined food and beverage revenue ranged from \$50.48 to \$158.82 on a per occupied room basis. Comparables #5 and #6 indicated food revenues of \$50.46 and \$61.02, respectively, per occupied room. Based on this data, we have positioned combined food and beverage revenues of \$65.00 per occupied room, in 2003 dollars, which equates to \$53.00 food and \$12.00 beverage. This positioned level results in combined food and beverage revenues equating to \$72.34 per occupied room in the first projection year increasing to \$76.08 by the stabilized year, 2009.

#### Telephone Revenue

Telephone revenue is generated by hotel guests who charge local and long-distance calls to their rooms, and by individuals who use the property's public telephones. The HOST Report illustrates a range of telephone revenue from \$2.47 to \$3.75 per occupied room, while the comparable operating statements reveal a range of telephone revenue levels from \$2.09 and \$4.11

per occupied room. In the base year, 2003, we have positioned telephone revenue for the subject property at \$3.00 per occupied room; this level equates to \$3.26 per occupied room in 2006, the first partial year of operation, and \$3.51 per occupied room in 2009, the stabilized year. Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy.

#### Parking Revenue

Parking revenue for the hotel operation is projected to be derived predominantly from valet parking. The parking operation at the subject property is planned to be contracted to a parking operator. We have positioned parking revenue at \$1.00 per occupied room, in 2003 dollars. This level equates to .5% of total revenues in the stabilized year, or \$1.17 per occupied room.

#### Other Income

Other income for a hotel operation is derived from sources other than guestrooms, food and beverages, and telephone services. Because the other income category may include diverse items based on property type, the comparable statements display a wide range of revenue levels falling under other income. In the comparable operating statements shown, this category ranges from \$2.25 to \$124.29 on a per occupied room basis, with all but one comp ranging from \$2.25 to \$10.01. The HOST Report presents an aggregate range of other income from \$8.10 to \$15.27 per occupied room, based on combining the categories of minor operated departments and rentals & other income. We have projected the subject property to accrue other income of \$7.00 per occupied room in 2003 dollars. This amount equates to \$8.31 per occupied room by the first projection year, decreasing slightly to \$8.19 per occupied room by 2009, the stabilized year. Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. We note that POR levels equate to revenue divided by the number of occupied rooms; therefore, in certain years, when the rate of growth in occupied rooms (occupancy) exceeds the rate of revenue growth of certain line items, the POR level may decrease.

#### 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 (because managers can schedule maids, bell personnel, and house cleaners to work when demand requires), much of a hotel's payroll is fixed. Front desk personnel, public area cleaners, the housekeeper, and other

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 average rate. While guest supplies vary 100% with occupancy, linen, and other operating expenses are only slightly affected by volume.

The individual comparable operating statements ranged between 21.5% and 32.7% of rooms revenue, with the composite statement showing an average of 26.9%. The HOST Report data illustrated an aggregate rooms expense level of 24.8% of rooms revenue. We forecast the subject property's rooms expense to stabilize at 25.0% in 2009, which falls within the range of the comparables.

Food and Beverage Expense

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

Five of the six comparable operating statements illustrated combined food and beverage expenses ranging from 62.2% to 98.4% of food and beverage revenues; Comparable #5 shows food expense of 77.1% and beverage expense of 48.4%, of related revenues. The HOST Report illustrates a range of food and beverage expense levels from 73.6% to 77.6%, with an aggregate average of 75.3%. We project the subject property to have a first-year food and beverage expense of 73.7%. By the stabilized year, the subject hotel's combined food and beverage expense is estimated to be roundly 69% of food revenue, which falls within the range of the comparables.

Telephone Expense

Telephone expense consists of all costs associated with this department. In the case of small hotels with automated systems, the operation of telephones may be an additional responsibility of front desk personnel; however, most large properties employ full-time operators. The bulk of the telephone expense consists of the cost of local and long-distance calls billed by the telephone companies that provide these services. Because most calls are made by in-house guests, these costs are moderately correlated to occupancy.

The comparable operating statements illustrated a range of telephone expense levels between 41.8% and 122.7% of departmental revenues, with a composite expense level of 91.8%. The HOST Report illustrates a range of expense levels from 58.2% to 68.3%, with an aggregate average of 61.8%. We forecast telephone expense for the subject property at a stabilized level of 60% (rounded) of telephone revenues, which falls within this range.

Parking Expense

Due to the subject property's anticipated contracted parking arrangement, we project parking expense to stabilize at 100% of parking revenue.

Other Income Expense

Other income expense consists of costs associated with other income, and is dependent on the nature of the revenue. For example, if a hotel leases its gift shop to an outside operator, the gift shop expenses are limited to items such as rental fees and commissions. If the property operates its own gift shop, both revenues and expenses will be higher, and the hotel is responsible for the cost of goods sold, payroll, and so forth.

The comparable operating statements illustrated a range of other income expense levels between 21.0% and 83.5% of departmental revenues. Other income expense ratios at the subject property are projected to be 44.3% of other income revenue in the first projection year. Future other income expenses are projected to reach a stabilized level of 43.0%. This level is well supported by the comparable statements shown.

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.

The comparable income statements indicate a range of administrative and general expense from \$3,894 to \$7,619 per available room. The HOST Report illustrated a range from \$3,450 to \$4,433 per available room. We have projected the administrative and general expense to equate to \$4,500 per available room in 2003 dollars. This positioning inflates to \$4,859 per

available room by 2007 and stabilizes at \$5,271 per available room in 2009 dollars.

#### 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.

The individual comparable income statements illustrate a range of marketing expense levels from \$2,264 to \$5,029 on a per available room basis; with a range from \$2,678 to \$5,029 for the non-franchised properties. Two of the six comparable statements reflect franchised properties, which include franchise fee expenses that typically cover additional marketing costs. The HOST Report illustrates an aggregate expense level of \$3,135 per available room. We have positioned the subject with a 2003 expense level of \$3,500 per available room. After inflation, our projections assume a 2007 marketing expense of \$3,779 per available room and a stabilized marketing expense of \$4,100 per available room in 2009 dollars. Our projections assume a corporately managed property, with no franchise fees. We also have taken into account the subject property's anticipated brand affiliation, location, and its task of becoming a viable competitor in the local and regional convention markets.

#### 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, they have not eliminated or saved the expenditure; they have only deferred payment 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.

The comparable income statements indicate a range from \$1,963 to \$3,816 per available room for this expense. The composite statement illustrated an average per available room expense of \$2,904 for this category. The HOST Report illustrated an aggregate expense level of \$2,221 per available room. We have projected the property operations and maintenance expense to equate to \$2,500 per available room in 2003 dollars, which equates to \$2,565 per available room in 2007 and a stabilized level of \$2,928 per available room by 2009. These projected levels reflect the application of a 10% and a 5% reduction in expense level in 2006 and 2007, respectively.

#### Energy Expense

The energy 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 energy are electricity, natural gas, fuel oil, and steam. 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 energy requirements with less expensive sources, such as gas and oil, for heating and cooking.

The comparable income statements indicate a range from \$1,289 to \$2,125 per available room for this expense. The composite statement indicates an average expense level of \$1,787 per available room. Comparables #1 and #3 are regionally proximate and illustrated PAR energy expenses of \$1,289 and \$2,069, respectively. The HOST Report illustrates an expense range of \$1,563 to \$1,899 per available room. We have positioned the subject property with an expense level of \$1,500 per available room in this category, in 2003 dollars. This level equates to an energy expense of \$1,620 per available room by 2007, stabilizing at \$1,757 in 2009 dollars.

#### Management Fee

Management fees today are typically structured as some combination of a base fee calculated as a percentage of total revenues and an incentive fee calculated as a percentage of gross operating income or net operating income. While base fees typically range from 1% to 4% 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. Due to the deal specificity of the incentive portion of the management fee total management fees are difficult to hypothesize without a specific management agreement. Even then, the ownership structure and debt level of a deal may impact the ultimate fees paid. HVS monitors current trends in management agreements and is familiar with the current range of total management. We are finding that in today's market total management fees for a first-tier management company which provides both a brand name and management expertise are ranging from 3% to 5% of total revenue. Fees paid to second tier management companies which provide management expertise but no brand identity are ranging from 2% to 3% of total revenue.

Management fees for the subject property have been forecast at a stabilized level of 3.0% of total revenue, assuming the property is operated by a first-tier management company which provides a national brand affiliation. Based on data provided by the Village of Schaumburg, the subject's management fee expense has been ramped up as a percent of gross revenue, at 2.5% in 2006, 2.8% in 2007, and 3.0% in 2008 and annually thereafter throughout the projection period.

#### 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.

The comparable operating statements illustrated an insurance expense range of \$251 to \$766 per available room; the composite indicated an insurance expense of \$539 per available room. The HOST report indicates a range of insurance expense levels from \$432 to \$555, with an aggregate of \$490 per available room. We have positioned an insurance expense of \$450 per available room in 2003 dollars for the subject property. This level is in recognition that insurance costs have incurred notable increases in recent years, in the wake of September 11, 2001. This positioned level equates to \$497 per available room in 2007, growing to \$527 per available room by the stabilized year, 2009. In subsequent years, this amount is assumed to increase in tandem with inflation.

Reserve for  
Replacement

Furniture, fixtures, and equipment 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 furniture, fixtures, and equipment 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 furniture, fixtures, and equipment 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 nevertheless affect an owner's cash flow, an appraisal should reflect these expenses in the form of an appropriate reserve for replacement.

The International Society of Hospitality Consultants (ISHC) undertook a major industry-sponsored study of the capital expenditure requirements for full-service, limited-service, and all-suite hotels (inclusive of extended-stay). A separate category of all-suite hotels was added as a result of the aggressive development of this product over the past ten years and its growing percent of total rooms in the U.S. hotel industry. The findings of the study were

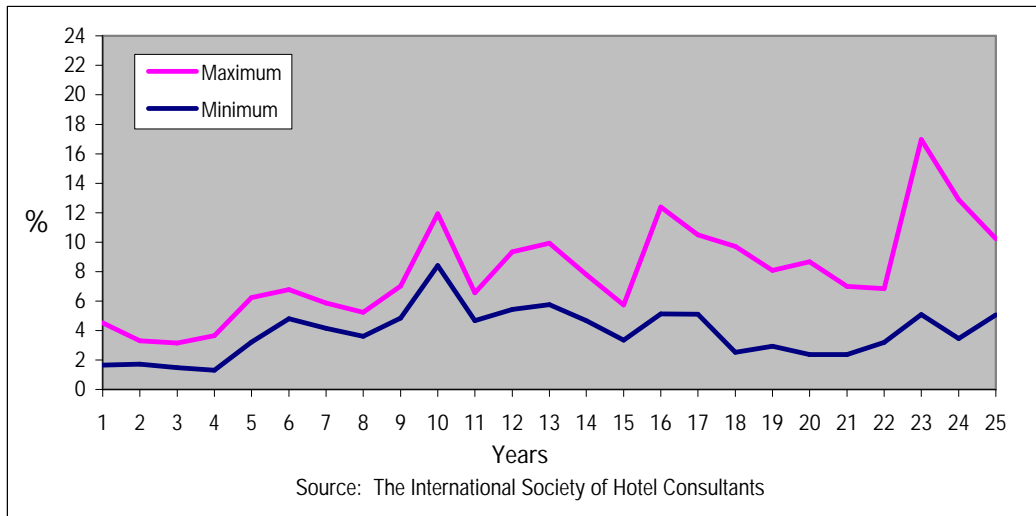
published in a report in 2000.<sup>1</sup> The historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by hotel owners and operators for the 1988 to 1998 period in the United States. This resulted in useable survey data from approximately 350 hotels.

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 and depend upon both the actual and effective age of a property. The ISHC advocates a position that the right amount to set aside for, or spend on, capital expenditures varies from property to property and is dependent upon a number of variables that must be evaluated in the context of the competitive market, financial resources of the owner/operator, quality of construction, age of the property, as well as the philosophy and strategic operating approach of the stakeholders in the asset. The study shows that average capital expenditure spending increases over time, ranging between 1.31% and 6.23% of total revenues in the first five years of operation with an average of expenditure of 3.02%. This range increased to between 2.37% and 16.98% over the next twenty years, assuming a product life cycle of twenty-five years. The following chart illustrates that the minimum and maximum ends of the ranges generally move further apart as the hotels increase in age.

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<sup>1</sup>The International Society of Hotel Consultants, *CapEx 2000, A Study of Capital Expenditures in the U.S. Hotel Industry*, 2000.

**Average Capital Expenditure Range by Year as a Ratio to Total Revenue**



The previous chart sets forth capital expenditures for the entire hotel of which 14% to 30% or more of that spending is spent on the building and other long-lived items. Because the reserve for replacement is meant primarily to renovate or replace FF&E and other short-lived items, lenders and management companies typically require reserves ranging from 2% to 5% of total revenue. We believe this range of reserve for replacement is adequate particularly for new hotels or recently renovated hotels.

Based on an analysis of comparable lodging facilities, we estimate that a stabilized reserve for replacement of 4.0% of total revenues in 2011 is sufficient to provide for the timely and periodic replacement of the subject hotel’s furniture, fixtures, and equipment. We have ramped up the reserve level during the first six projection years, based on information provided by the Village of Schaumburg; this is considered appropriate due to the property’s new construction.

Summary of Projections

Based on the preceding analysis, we have formulated a forecast of income and expense. The table on the following page presents a detailed forecast through the fifth projection year, including amounts per available room (PAR) and per occupied room (POR). The forecasts pertain to calendar operating years beginning June 1, 2006 (first partial year of operation) and are expressed in inflated dollars for each year.



Detailed Forecast of Income and Expense, proposed Renaissance Convention Hotel, Schaumburg, Illinois

|   | 2006 Open June 1 |        |          |          | 2007     |        |          |          | 2008     |        |          |          | Stabilized |        |          |          | 2010     |        |          |          |  |
|---|------------------|--------|----------|----------|----------|--------|----------|----------|----------|--------|----------|----------|------------|--------|----------|----------|----------|--------|----------|----------|--|
| Number of Rooms:                        | 500              |        |          |          | 500      |        |          |          | 500      |        |          |          | 500        |        |          |          | 500      |        |          |          |  |
| Occupancy:                              | 63%              |        |          |          | 68%      |        |          |          | 71%      |        |          |          | 72%        |        |          |          | 72%      |        |          |          |  |
| Average Rate:                           | \$120.38         |        |          |          | \$125.53 |        |          |          | \$133.19 |        |          |          | \$140.93   |        |          |          | \$145.16 |        |          |          |  |
| RevPAR:                                 | \$75.84          |        |          |          | \$85.36  |        |          |          | \$94.57  |        |          |          | \$101.47   |        |          |          | \$104.51 |        |          |          |  |
| Days Open:                              | 214              |        |          |          | 365      |        |          |          | 365      |        |          |          | 365        |        |          |          | 365      |        |          |          |  |
| Occupied Rooms:                         | 66,761           | %Gross | PAR      | POR      | 123,247  | %Gross | PAR      | POR      | 129,768  | %Gross | PAR      | POR      | 131,605    | %Gross | PAR      | POR      | 131,400  | %Gross | PAR      | POR      |  |
| <b>REVENUE</b>                          |                  |        |          |          |          |        |          |          |          |        |          |          |            |        |          |          |          |        |          |          |  |
| Rooms                                   | \$8,037          | 58.6 % | \$16,074 | \$120.38 | \$15,472 | 59.5 % | \$30,944 | \$125.54 | \$17,284 | 60.6 % | \$34,568 | \$133.19 | \$18,547   | 61.3 % | \$37,094 | \$140.93 | \$19,074 | 61.3 % | \$38,148 | \$145.16 |  |
| Food & Beverage                         | 4,829            | 35.2   | 9,658    | 72.34    | 8,989    | 34.6   | 17,977   | 72.93    | 9,620    | 33.7   | 19,239   | 74.13    | 10,013     | 33.1   | 20,026   | 76.08    | 10,301   | 33.1   | 20,603   | 78.40    |  |
| Telephone                               | 218              | 1.6    | 436      | 3.26     | 411      | 1.6    | 822      | 3.33     | 443      | 1.6    | 886      | 3.41     | 462        | 1.5    | 924      | 3.51     | 475      | 1.5    | 951      | 3.62     |  |
| Parking                                 | 79               | 0.6    | 159      | 1.19     | 142      | 0.5    | 285      | 1.15     | 149      | 0.5    | 298      | 1.15     | 154        | 0.5    | 308      | 1.17     | 158      | 0.5    | 317      | 1.21     |  |
| Other Income                            | 555              | 4.0    | 1,110    | 8.31     | 996      | 3.8    | 1,993    | 8.08     | 1,042    | 3.7    | 2,084    | 8.03     | 1,078      | 3.6    | 2,155    | 8.19     | 1,109    | 3.6    | 2,219    | 8.44     |  |
| Total Revenues                          | 13,718           | 100.0  | 27,436   | 205.48   | 26,010   | 100.0  | 52,020   | 211.04   | 28,537   | 100.0  | 57,075   | 219.91   | 30,254     | 100.0  | 60,508   | 229.88   | 31,119   | 100.0  | 62,237   | 236.82   |  |
| <b>DEPARTMENTAL EXPENSES *</b>          |                  |        |          |          |          |        |          |          |          |        |          |          |            |        |          |          |          |        |          |          |  |
| Rooms                                   | 2,351            | 29.3   | 4,703    | 35.22    | 4,256    | 27.5   | 8,511    | 34.53    | 4,472    | 25.9   | 8,945    | 34.46    | 4,632      | 25.0   | 9,265    | 35.20    | 4,768    | 25.0   | 9,537    | 36.29    |  |
| Food & Beverage                         | 3,559            | 73.7   | 7,118    | 53.31    | 6,410    | 71.3   | 12,820   | 52.01    | 6,715    | 69.8   | 13,431   | 51.75    | 6,950      | 69.4   | 13,899   | 52.81    | 7,154    | 69.5   | 14,309   | 54.45    |  |
| Telephone                               | 141              | 64.9   | 283      | 2.12     | 255      | 62.1   | 510      | 2.07     | 268      | 60.4   | 535      | 2.06     | 277        | 59.9   | 554      | 2.11     | 285      | 60.0   | 571      | 2.17     |  |
| Parking                                 | 83               | 104.2  | 165      | 1.24     | 145      | 101.9  | 290      | 1.18     | 149      | 100.4  | 299      | 1.15     | 154        | 100.0  | 308      | 1.17     | 158      | 100.0  | 317      | 1.21     |  |
| Other Expenses                          | 246              | 44.3   | 491      | 3.68     | 434      | 43.6   | 868      | 3.52     | 449      | 43.1   | 898      | 3.46     | 463        | 43.0   | 926      | 3.52     | 477      | 43.0   | 954      | 3.63     |  |
| Total                                   | 6,380            | 46.5   | 12,760   | 95.56    | 11,500   | 44.2   | 23,000   | 93.31    | 12,054   | 42.2   | 24,108   | 92.89    | 12,476     | 41.2   | 24,952   | 94.80    | 12,844   | 41.3   | 25,687   | 97.74    |  |
| DEPARTMENTAL INCOME                     | 7,338            | 53.5   | 14,676   | 109.92   | 14,510   | 55.8   | 29,020   | 117.73   | 16,483   | 57.8   | 32,967   | 127.02   | 17,778     | 58.8   | 35,555   | 135.08   | 18,275   | 58.7   | 36,550   | 139.08   |  |
| <b>UNDISTRIBUTED OPERATING EXPENSES</b> |                  |        |          |          |          |        |          |          |          |        |          |          |            |        |          |          |          |        |          |          |  |
| Administrative & General                | 1,359            | 9.9    | 2,719    | 20.36    | 2,430    | 9.3    | 4,859    | 19.71    | 2,541    | 8.9    | 5,081    | 19.58    | 2,636      | 8.7    | 5,271    | 20.03    | 2,714    | 8.7    | 5,427    | 20.65    |  |
| Marketing                               | 1,057            | 7.7    | 2,114    | 15.84    | 1,890    | 7.3    | 3,779    | 15.33    | 1,976    | 6.9    | 3,952    | 15.23    | 2,050      | 6.8    | 4,100    | 15.58    | 2,111    | 6.8    | 4,221    | 16.06    |  |
| Prop. Operations & Maint.               | 680              | 5.0    | 1,359    | 10.18    | 1,282    | 4.9    | 2,565    | 10.40    | 1,411    | 4.9    | 2,823    | 10.88    | 1,464      | 4.8    | 2,928    | 11.13    | 1,508    | 4.8    | 3,015    | 11.47    |  |
| Energy                                  | 453              | 3.3    | 906      | 6.79     | 810      | 3.1    | 1,620    | 6.57     | 847      | 3.0    | 1,694    | 6.53     | 879        | 2.9    | 1,757    | 6.68     | 905      | 2.9    | 1,809    | 6.88     |  |
| Total                                   | 3,549            | 25.9   | 7,099    | 53.16    | 6,412    | 24.6   | 12,823   | 52.02    | 6,775    | 23.7   | 13,550   | 52.21    | 7,028      | 23.2   | 14,057   | 53.40    | 7,237    | 23.2   | 14,473   | 55.07    |  |
| HOUSE PROFIT                            | 3,789            | 27.6   | 7,578    | 56.75    | 8,098    | 31.2   | 16,197   | 65.71    | 9,708    | 34.1   | 19,417   | 74.81    | 10,749     | 35.6   | 21,499   | 81.68    | 11,038   | 35.5   | 22,077   | 84.01    |  |
| Management Fee                          | 343              | 2.5    | 686      | 5.14     | 728      | 2.8    | 1,457    | 5.91     | 856      | 3.0    | 1,712    | 6.60     | 908        | 3.0    | 1,815    | 6.90     | 934      | 3.0    | 1,867    | 7.10     |  |
| INCOME BEFORE FIXED CHARGES             | 3,446            | 25.1   | 6,892    | 51.62    | 7,370    | 28.4   | 14,740   | 59.80    | 8,852    | 31.1   | 17,704   | 68.22    | 9,842      | 32.6   | 19,683   | 74.78    | 10,105   | 32.5   | 20,210   | 76.90    |  |
| <b>FIXED EXPENSES</b>                   |                  |        |          |          |          |        |          |          |          |        |          |          |            |        |          |          |          |        |          |          |  |
| Insurance                               | 141              | 1.0    | 283      | 2.12     | 248      | 1.0    | 497      | 2.02     | 256      | 0.9    | 512      | 1.97     | 263        | 0.9    | 527      | 2.00     | 271      | 0.9    | 543      | 2.07     |  |
| Reserve for Replacement                 | 137              | 1.0    | 274      | 2.05     | 520      | 2.0    | 1,040    | 4.22     | 856      | 3.0    | 1,712    | 6.60     | 908        | 3.0    | 1,815    | 6.90     | 934      | 3.0    | 1,867    | 7.10     |  |
| Total                                   | 279              | 2.0    | 557      | 4.17     | 769      | 3.0    | 1,537    | 6.24     | 1,112    | 3.9    | 2,224    | 8.57     | 1,171      | 3.9    | 2,342    | 8.90     | 1,205    | 3.9    | 2,410    | 9.17     |  |
| NET INCOME                              | \$3,167          | 23.1 % | \$6,335  | \$47.44  | \$6,602  | 25.4 % | \$13,203 | \$53.56  | \$7,740  | 27.2 % | \$15,481 | \$59.65  | \$8,671    | 28.7 % | \$17,341 | \$65.88  | \$8,900  | 28.6 % | \$17,800 | \$67.73  |  |

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

Ten-Year Projection of Income and Expense, proposed Renaissance Convention Hotel, Schaumburg, Illinois

|   | 2006 Open June 1 |               | 2007           |               | 2008           |               | 2009           |               | 2010           |               | 2011           |               | 2012           |               | 2013           |               | 2014           |               | 2015           |               |  |
|---|------------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|--|
| Number of Rooms:                        | 500              |               | 500            |               | 500            |               | 500            |               | 500            |               | 500            |               | 500            |               | 500            |               | 500            |               | 500            |               |  |
| Occupied Rooms:                         | 66,761           |               | 123,247        |               | 129,768        |               | 131,605        |               | 131,400        |               | 131,400        |               | 131,400        |               | 131,400        |               | 131,400        |               | 131,400        |               |  |
| Occupancy:                              | 63%              |               | 68%            |               | 71%            |               | 72%            |               | 72%            |               | 72%            |               | 72%            |               | 72%            |               | 72%            |               | 72%            |               |  |
| Average Rate:                           | \$120.38         | % of          | \$125.53       | % of          | \$133.19       | % of          | \$140.93       | % of          | \$145.16       | % of          | \$149.51       | % of          | \$154.00       | % of          | \$158.62       | % of          | \$163.38       | % of          | \$168.28       | % of          |  |
| RevPAR:                                 | \$75.84          | Gross         | \$85.36        | Gross         | \$94.57        | Gross         | \$101.47       | Gross         | \$104.51       | Gross         | \$107.65       | Gross         | \$110.88       | Gross         | \$114.21       | Gross         | \$117.63       | Gross         | \$121.16       | Gross         |  |
| <b>REVENUE</b>                          |                  |               |                |               |                |               |                |               |                |               |                |               |                |               |                |               |                |               |                |               |  |
| Rooms                                   | \$8,037          | 58.6 %        | \$15,472       | 59.5 %        | \$17,284       | 60.6 %        | \$18,547       | 61.3 %        | \$19,074       | 61.3 %        | \$19,646       | 61.3 %        | \$20,235       | 61.3 %        | \$20,842       | 61.3 %        | \$21,468       | 61.3 %        | \$22,112       | 61.3 %        |  |
| Food & Beverage                         | 4,829            | 35.2          | 8,989          | 34.6          | 9,620          | 33.7          | 10,013         | 33.1          | 10,301         | 33.1          | 10,610         | 33.1          | 10,929         | 33.1          | 11,257         | 33.1          | 11,594         | 33.1          | 11,942         | 33.1          |  |
| Telephone                               | 218              | 1.6           | 411            | 1.6           | 443            | 1.6           | 462            | 1.5           | 475            | 1.5           | 490            | 1.5           | 504            | 1.5           | 520            | 1.5           | 535            | 1.5           | 551            | 1.5           |  |
| Parking                                 | 79               | 0.6           | 142            | 0.5           | 149            | 0.5           | 154            | 0.5           | 158            | 0.5           | 163            | 0.5           | 168            | 0.5           | 173            | 0.5           | 178            | 0.5           | 184            | 0.5           |  |
| Other Income                            | 555              | 4.0           | 996            | 3.8           | 1,042          | 3.7           | 1,078          | 3.6           | 1,109          | 3.6           | 1,143          | 3.6           | 1,177          | 3.6           | 1,212          | 3.6           | 1,249          | 3.6           | 1,286          | 3.6           |  |
| Total                                   | 13,718           | 100.0         | 26,010         | 100.0         | 28,537         | 100.0         | 30,254         | 100.0         | 31,119         | 100.0         | 32,052         | 100.0         | 33,013         | 100.0         | 34,004         | 100.0         | 35,024         | 100.0         | 36,075         | 100.0         |  |
| <b>DEPARTMENTAL EXPENSES*</b>           |                  |               |                |               |                |               |                |               |                |               |                |               |                |               |                |               |                |               |                |               |  |
| Rooms                                   | 2,351            | 29.3          | 4,256          | 27.5          | 4,472          | 25.9          | 4,632          | 25.0          | 4,768          | 25.0          | 4,912          | 25.0          | 5,059          | 25.0          | 5,211          | 25.0          | 5,367          | 25.0          | 5,528          | 25.0          |  |
| Food & Beverage                         | 3,559            | 73.7          | 6,410          | 71.3          | 6,715          | 69.8          | 6,950          | 69.4          | 7,154          | 69.5          | 7,369          | 69.5          | 7,590          | 69.5          | 7,818          | 69.5          | 8,052          | 69.5          | 8,294          | 69.5          |  |
| Telephone                               | 141              | 64.9          | 255            | 62.1          | 268            | 60.4          | 277            | 59.9          | 285            | 60.0          | 294            | 60.0          | 303            | 60.0          | 312            | 60.0          | 321            | 60.0          | 331            | 60.0          |  |
| Parking                                 | 83               | 104.2         | 145            | 101.9         | 149            | 100.4         | 154            | 100.0         | 158            | 100.0         | 163            | 100.0         | 168            | 100.0         | 173            | 100.0         | 178            | 100.0         | 184            | 100.0         |  |
| Other Expenses                          | 246              | 44.3          | 434            | 43.6          | 449            | 43.1          | 463            | 43.0          | 477            | 43.0          | 491            | 43.0          | 506            | 43.0          | 521            | 43.0          | 537            | 43.0          | 553            | 43.0          |  |
| Total                                   | 6,380            | 46.5          | 11,500         | 44.2          | 12,054         | 42.2          | 12,476         | 41.2          | 12,844         | 41.3          | 13,229         | 41.3          | 13,626         | 41.3          | 14,034         | 41.3          | 14,456         | 41.3          | 14,889         | 41.3          |  |
| <b>DEPARTMENTAL INCOME</b>              | <b>7,338</b>     | <b>53.5</b>   | <b>14,510</b>  | <b>55.8</b>   | <b>16,483</b>  | <b>57.8</b>   | <b>17,778</b>  | <b>58.8</b>   | <b>18,275</b>  | <b>58.7</b>   | <b>18,823</b>  | <b>58.7</b>   | <b>19,387</b>  | <b>58.7</b>   | <b>19,969</b>  | <b>58.7</b>   | <b>20,569</b>  | <b>58.7</b>   | <b>21,186</b>  | <b>58.7</b>   |  |
| <b>UNDISTRIBUTED OPERATING EXPENSES</b> |                  |               |                |               |                |               |                |               |                |               |                |               |                |               |                |               |                |               |                |               |  |
| Administrative & General                | 1,359            | 9.9           | 2,430          | 9.3           | 2,541          | 8.9           | 2,636          | 8.7           | 2,714          | 8.7           | 2,795          | 8.7           | 2,879          | 8.7           | 2,965          | 8.7           | 3,054          | 8.7           | 3,146          | 8.7           |  |
| Marketing                               | 1,057            | 7.7           | 1,890          | 7.3           | 1,976          | 6.9           | 2,050          | 6.8           | 2,111          | 6.8           | 2,174          | 6.8           | 2,239          | 6.8           | 2,306          | 6.8           | 2,376          | 6.8           | 2,447          | 6.8           |  |
| Prop. Operations & Maint.               | 680              | 5.0           | 1,282          | 4.9           | 1,411          | 4.9           | 1,464          | 4.8           | 1,508          | 4.8           | 1,553          | 4.8           | 1,599          | 4.8           | 1,647          | 4.8           | 1,697          | 4.8           | 1,748          | 4.8           |  |
| Energy                                  | 453              | 3.3           | 810            | 3.1           | 847            | 3.0           | 879            | 2.9           | 905            | 2.9           | 932            | 2.9           | 960            | 2.9           | 988            | 2.9           | 1,018          | 2.9           | 1,049          | 2.9           |  |
| Total                                   | 3,549            | 25.9          | 6,412          | 24.6          | 6,775          | 23.7          | 7,028          | 23.2          | 7,237          | 23.2          | 7,454          | 23.2          | 7,677          | 23.2          | 7,908          | 23.2          | 8,145          | 23.2          | 8,389          | 23.2          |  |
| <b>HOUSE PROFIT</b>                     | <b>3,789</b>     | <b>27.6</b>   | <b>8,098</b>   | <b>31.2</b>   | <b>9,708</b>   | <b>34.1</b>   | <b>10,749</b>  | <b>35.6</b>   | <b>11,038</b>  | <b>35.5</b>   | <b>11,369</b>  | <b>35.5</b>   | <b>11,710</b>  | <b>35.5</b>   | <b>12,061</b>  | <b>35.5</b>   | <b>12,424</b>  | <b>35.5</b>   | <b>12,797</b>  | <b>35.5</b>   |  |
| Management Fee                          | 343              | 2.5           | 728            | 2.8           | 856            | 3.0           | 908            | 3.0           | 934            | 3.0           | 962            | 3.0           | 990            | 3.0           | 1,020          | 3.0           | 1,051          | 3.0           | 1,082          | 3.0           |  |
| <b>INCOME BEFORE FIXED CHARGES</b>      | <b>3,446</b>     | <b>25.1</b>   | <b>7,370</b>   | <b>28.4</b>   | <b>8,852</b>   | <b>31.1</b>   | <b>9,842</b>   | <b>32.6</b>   | <b>10,105</b>  | <b>32.5</b>   | <b>10,408</b>  | <b>32.5</b>   | <b>10,720</b>  | <b>32.5</b>   | <b>11,041</b>  | <b>32.5</b>   | <b>11,373</b>  | <b>32.5</b>   | <b>11,714</b>  | <b>32.5</b>   |  |
| <b>FIXED EXPENSES</b>                   |                  |               |                |               |                |               |                |               |                |               |                |               |                |               |                |               |                |               |                |               |  |
| Insurance                               | 141              | 1.0           | 248            | 1.0           | 256            | 0.9           | 263            | 0.9           | 271            | 0.9           | 280            | 0.9           | 288            | 0.9           | 297            | 0.9           | 305            | 0.9           | 315            | 0.9           |  |
| Reserve for Replacement                 | 137              | 1.0           | 520            | 2.0           | 856            | 3.0           | 908            | 3.0           | 934            | 3.0           | 1,282          | 4.0           | 1,321          | 4.0           | 1,360          | 4.0           | 1,401          | 4.0           | 1,443          | 4.0           |  |
| Total                                   | 279              | 2.0           | 769            | 3.0           | 1,112          | 3.9           | 1,171          | 3.9           | 1,205          | 3.9           | 1,562          | 4.9           | 1,608          | 4.9           | 1,657          | 4.9           | 1,706          | 4.9           | 1,758          | 4.9           |  |
| <b>NET INCOME</b>                       | <b>\$3,167</b>   | <b>23.1 %</b> | <b>\$6,602</b> | <b>25.4 %</b> | <b>\$7,740</b> | <b>27.2 %</b> | <b>\$8,671</b> | <b>28.7 %</b> | <b>\$8,900</b> | <b>28.6 %</b> | <b>\$8,846</b> | <b>27.6 %</b> | <b>\$9,111</b> | <b>27.6 %</b> | <b>\$9,385</b> | <b>27.6 %</b> | <b>\$9,667</b> | <b>27.6 %</b> | <b>\$9,957</b> | <b>27.6 %</b> |  |

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

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## 11. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. No responsibility is assumed for matters of a legal nature.
3. We have not considered the presence of potentially hazardous materials such as asbestos, urea formaldehyde foam insulation, any form of toxic waste, polychlorinated biphenyls (PCBs), pesticides, mold, or lead-based paints. The appraisers are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
4. We have made no survey of the property, 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 land and improvements is within the boundaries of the property described, and that there is no encroachment or trespass unless noted.
5. All information, estimates, and opinions obtained from parties not employed by HVS International are assumed to be true and correct. We can assume no liability resulting from misinformation.
6. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
7. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
8. 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.
9. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per diem fees and travel costs are paid prior to the appearance.

10. 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.
11. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
12. The quality of a lodging facility's on-site 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.
13. The estimated operating results presented in this report are based on an evaluation of the overall economy, and neither take into account nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of rooms, food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been prepared on the basis of information obtained during the course of this study and are intended to reflect the expectations of a typical hotel buyer.
14. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on the date of our field inspection.
15. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
16. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
17. This report was prepared by HVS International, a division of H&R Valuation Services, Inc. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of H&R Valuation Services, Inc. as employees, rather than as individuals.

18. At the time of our appraisal, the US was involved in a conflict with Iraq and under an elevated terrorist alert nationwide. The widely held view of various noted economists was that any such conflict or terrorist event had the potential to slow the pace of economic recovery. We have taken these general expectations into consideration in developing our appraisal.
19. This report is set forth as a market study of the proposed subject property; this is not an appraisal report.

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## 12. Certification

We, the undersigned, hereby certify:

1. that the statements of fact presented in this report are true and correct to the best of our knowledge and belief;
2. that the reported analyses, opinions, and conclusions presented in this report are limited only by the assumptions and limiting conditions set forth, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. that Bethany Cronk personally inspected the property described in this report; Carter Wilson and Gregory Hartmann participated in the analysis and reviewed the findings, but did not personally inspect the property;
4. that we have no current or contemplated interests in the real estate that is the subject of this report;
5. that we have no personal interest or bias with respect to the subject matter of this report or the parties involved;
6. that this report sets forth all of the limiting conditions (imposed by the terms of this assignment) affecting the analyses, opinions, and conclusions presented herein;
7. that the fee paid for the preparation of this report is not contingent upon our conclusions, or the occurrence of a subsequent event directly related to the intended use of this report;
8. that this report has been prepared in accordance with, and is subject to, the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute;
9. that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives;
10. that this report has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice (as adopted by the Appraisal Foundation);

11. that as of the date of this report, Gregory Hartmann has completed the requirements of the continuing education program of the Appraisal Institute;
12. that our engagement in this assignment was not contingent upon developing or reporting predetermined results; and
13. that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this market study.

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Bethany Cronk, MBA  
Vice President  
Associate Member of the Appraisal Institute

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Carter Wilson  
Senior Vice President  
Associate Member of the Appraisal Institute

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Gregory Hartmann, MAI, CHA  
Managing Director

BC:CW:GH:jbk

# Penetration Explanation

Let us illustrate the penetration adjustment with an example.

A market has three existing hotels with the following operating statistics:

## Base Year Occupancy and Penetration Levels

| Property      | Number of Rooms | Fair Share | Estimated Market Segmentation |         |         | Occupancy | Penetration |
|---------------|-----------------|------------|-------------------------------|---------|---------|-----------|-------------|
|               |                 |            | Commercial                    | Meeting | Leisure |           |             |
| Hotel A       | 100             | 23.5%      | 60%                           | 20%     | 20%     | 75.0%     | 100.8%      |
| Hotel B       | 125             | 29.4       | 70                            | 10      | 20      | 65.0      | 87.4        |
| Hotel C       | 200             | 47.1       | 30                            | 60      | 10      | 80.0      | 107.5       |
| Total/Average | 425             | 100.0%     | 47%                           | 38%     | 15%     | 74.4%     | 100.0%      |

Based upon each hotel's room count, market segmentation and annual occupancy the annual number of room nights accommodated in the market from each market segment can be quantified, as set forth below:

## Marketwide Room Night Demand

| Market Segment | Annual Room Night Demand | Percentage of Total |
|----------------|--------------------------|---------------------|
| Commercial     | 54,704                   | 47.4%               |
| Meeting        | 43,481                   | 37.7                |
| Leisure        | 17,246                   | 14.9                |
| Total          | 115,431                  | 100.0%              |

The following discussion will be based upon an analysis of the commercial market segment. The same methodology is applied for each market segment to derive an estimate of a hotel's overall occupancy. The chart below sets

forth the commercial demand accommodated by each hotel. Each hotel's commercial penetration factor is computed by:

- 1) calculating the hotel's market share % of commercial demand (commercial room nights accommodated by subject hotel divided by total commercial room nights accommodated by all hotels) and
- 2) dividing the hotel's commercial market share % by the hotel's fair share %.

The following chart sets forth each hotel's fair share, commercial market share and commercial penetration factor.

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#### Commercial Segment Penetration Factors

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| Property      | Number of Rooms | Fair Share | Commercial Capture | Commercial Market Share | Commercial Penetration |
|---------------|-----------------|------------|--------------------|-------------------------|------------------------|
| Hotel A       | 100             | 23.5%      | 12,973             | 30.0%                   | 127.6%                 |
| Hotel B       | 125             | 29.4       | 14,054             | 37.9                    | 129.0                  |
| Hotel C       | 200             | 47.1       | 27,677             | 32.0                    | 68.1                   |
| Total/Average | 425             | 100.0%     | 54,704             | 100.0%                  | 100.0%                 |

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When a new 100-room hotel enters the market the fair share of each hotel changes due to the new denominator which has been increased by the 100 rooms which have been added to the market.

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#### Commercial Segment Fair Share

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| Property  | Number of Rooms | Fair Share |
|-----------|-----------------|------------|
| Hotel A   | 100             | 19.0%      |
| Hotel B   | 125             | 23.8       |
| Hotel C   | 200             | 38.1       |
| New Hotel | 100             | 19.0       |
| Total     | 525             | 100.0%     |

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The new hotel's penetration factor is projected for its first year of operation. It is estimated that the hotel will capture (penetrate) only 85% of its fair share as it establishes itself in the market. The new hotel's market share and room night capture can be calculated based upon the hotel's estimated penetration factor. The market share of the existing hotels and that of the new hotel are added up and they no longer equal 100% because of the new hotel's entry into the market. The market share of each hotel must be adjusted to reflect the change in the denominator which is comprised of the sum of each hotel's market share.

This adjustment can be mathematically calculated by dividing each hotel's market share percentages by the new denominator of 97.1%. The resulting calculations reflect each hotel's new adjusted market share. The sum of the adjusted market shares equals 100%, indicating that the adjustment has been successfully completed. Once the market shares have been calculated, the penetration factors can be recalculated (adjusted market share divided by fair share) to derive the adjusted penetration factors based upon the new hotel's entry into the market. Note that each existing hotel's penetration factor actually increases because the new hotel is capturing (penetrating) less than its fair share of demand.

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#### Commercial Segment Projections (Year 1)

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| Property  | Number of Rooms | Fair Share | Hist./Proj. Penetration Factor | Hist./Proj. Market Share | Adjusted Market Share | Adjusted Penetration Factor | Projected Capture |
|-----------|-----------------|------------|--------------------------------|--------------------------|-----------------------|-----------------------------|-------------------|
| Hotel A   | 100             | 19.0%      | 127.6%                         | 24.3%                    | 25.0%                 | 131.4%                      | 13,687            |
| Hotel B   | 125             | 23.8       | 129.0                          | 30.7                     | 31.6                  | 132.8                       | 17,299            |
| Hotel C   | 200             | 38.1       | 68.1                           | 25.9                     | 26.7                  | 70.1                        | 14,600            |
| New Hotel | 100             | 19.0       | 85.0                           | 16.2                     | 16.7                  | 87.5                        | 9,117             |
| Total     | 525             | 100.0%     |                                | 97.1%                    | 100.0%                |                             | 54,704            |

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In its second year of operation the new hotel is projected to penetrate above its fair share of demand. A penetration rate of 130% has been chosen, as the new hotel is expected to perform at a level commensurate with Hotel A and Hotel B in this market segment. The same calculations are performed to adjust market share and penetration factors. Note that now the penetration factors of the existing hotels decline below their original penetration rates due to the new hotel's above market penetration. Also note that after the market share adjustment the new hotel retains a penetration rate commensurate

with Hotel A and Hotel B, though the penetration rates of all three hotels have declined by approximately nine percentage points due to the reapportionment of demand.

Once the market shares of each hotel have been adjusted to reflect the entry of the new hotel into the market, the commercial room nights captured by each hotel may be projected by multiplying the hotel's market share percentage by the total commercial room night demand. This calculation is shown below.

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**Commercial Segment Projections (Year 2)**


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| Property  | Number of Rooms | Fair Share | Hist./Proj. Penetration Factor | Hist./Proj. Market Share | Adjusted Market Share | Adjusted Penetration Factor | Projected Capture |
|-----------|-----------------|------------|--------------------------------|--------------------------|-----------------------|-----------------------------|-------------------|
| Hotel A   | 100             | 19.0%      | 131.4%                         | 25.0%                    | 23.1%                 | 121.5%                      | 12,662            |
| Hotel B   | 125             | 23.8       | 132.8                          | 31.6                     | 29.3                  | 122.9                       | 16,004            |
| Hotel C   | 200             | 38.1       | 70.1                           | 26.7                     | 24.7                  | 64.8                        | 13,507            |
| New Hotel | 100             | 19.0       | 130.0                          | 24.8                     | 22.9                  | 120.3                       | 12,531            |
| Total     | 525             | 100.0%     |                                | 97.1%                    | 100.0%                |                             | 54,704            |

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