3

Market Demand Study and Financial Projections

Proposed Boutique Hotel and Event Center

Wickford, RI

DRAFT

Prepared for:

Mr. Stanley Weiss
292 Westminster St.
Providence, RI 02903

January 31, 2014

Pinnacle
Advisory Group

Pinnacle Advisory Group
Boston New York Newport Beach Tampa

Hospitality Consulting
Asset Management
Real Estate Appraisal
Litigation Support

Rachel J Roginsky, ISHC
Principal

January 31, 2014

Mr. Stanley Weiss
292 Westminster St.
Providence, RI 02903

RE: Proposed Boutique Hotel and Event Space

Dear Mr. Weiss:

Per the terms of our engagement letter, we have completed our market research and have prepared financial projections for a proposed boutique hotel and event center in Wickford, Rhode Island. As we understand it, you are planning to develop a 38 unit high-end, upper upscale boutique hotel with event space to accommodate social events and small corporate groups and retreats. In addition to the 38 guest rooms, the hotel will contain a full service restaurant, catering/banquet facilities, and spa facilities.

This document presents our findings of occupancy and average rate based on your facility assumptions, and includes a five-year statement of income and expenses. The conclusions presented in this report are based upon our current knowledge of the market for lodging and related ancillary facilities in the defined market area as of the completion of our fieldwork conducted in December 2013.

As in all studies of this type, the estimated annual performance levels for the hotel are based on competent and efficient management and presume no significant changes in the competitive dynamics in the market other than those specifically discussed in the report. Projections contained herein are based upon estimates and assumptions that are subject to uncertainty and variability. While we do not represent the projected results as those which will ultimately be achieved, we have prepared them conscientiously based upon the most reliable forms of information available to us and our extensive experience in the lodging and real estate industries. We have no obligation, unless subsequently so engaged, to update this study because of events occurring subsequent to the completion of this study. Additional limitations regarding our research and projections are presented at the end of this report.

If there are any questions after you have had the opportunity to review the attached report, please do not hesitate to call us at your convenience. Thank you once again for the opportunity to be of service to you.

Sincerely,

TO BE INCLUDED IN FINAL

Pinnacle Advisory Group

Table of Contents

Introduction and Scope

Introduction

Pinnacle Advisory Group was engaged by Mr. Stanley Weiss to prepare an independent market demand study, including projections of occupancy, room rate, and income and expenses for a proposed high-end boutique hotel and event center in Wickford, Rhode Island. As we understand it, the property will consist of 38 guest rooms that will be housed with a historic building that was formerly the Wickford Elementary School. In addition to the 38 guest rooms, the development will contain a full service restaurant, approximately 6,000 square feet of catering/banquets facilities, and a 1,400 square foot spa. Our findings and projections are explicitly based on your assumptions regarding the design, size, and market position for the proposed project.

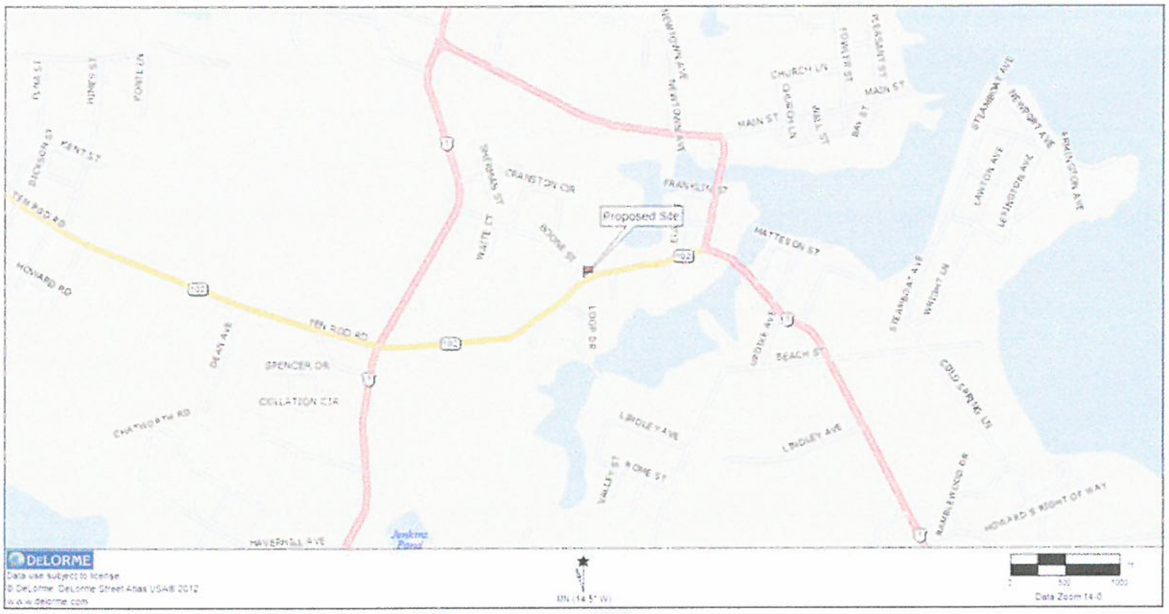
Scope of Research and Analysis

The primary scope of work completed during our research and analysis included:

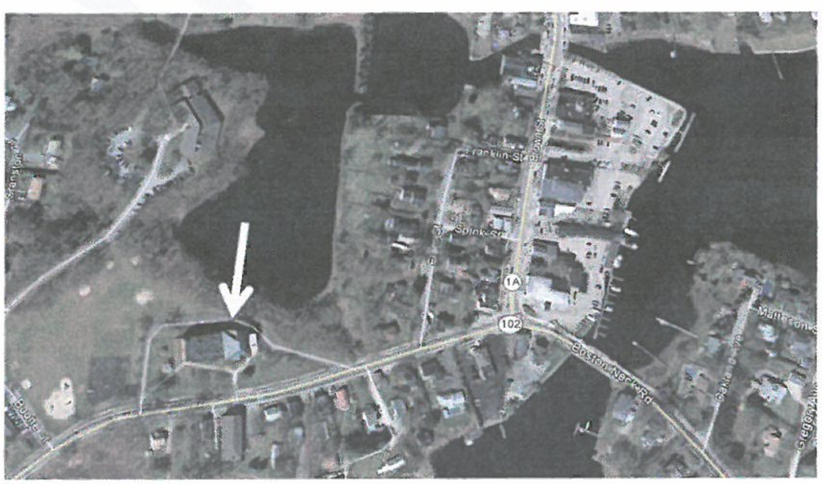
1. Examination of the site and evaluation of the surrounding environs with respect to its suitability for hotel operations;
2. Discussions with the project developer to garner a clearer understanding of scope and nature of the hotel and its facilities;
3. Interviews with government officials, management from competitive and comparable hotels, and other individuals with regard to the area's lodging market in general as it would relate to the subject hotel, including gathering detailed information regarding future trends and proposed developments. Interviews were supplemented with research on the Internet regarding the area economy and development patterns as well as via collection of data from Site to do Business (STDB);
4. In-depth analysis and preparation of projections of occupancy and average rate for the hotel for a period of five fiscal years;
5. Analysis and projections for the proposed hotel's ancillary facilities including meeting space, restaurant, and spa facilities;
6. Evaluation of financial operating data for a selection of similar hotels in New England;
7. Preparation of projected financial operating results for the subject hotel for five years beginning on May 1, 2016; and
8. Preparation of this comprehensive report detailing our findings and conclusions.

Site Analysis

The subject site is located at 99 Phillips St. in Wickford, Rhode Island, which is a village in the town of North Kingstown. The site is on the location of the former Wickford Elementary School, a historic 1907 building which is situated on a hill and overlooks Wickford Cove. The neighborhood surrounding the subject site is residential in nature, comprised mainly of single family year-round residences. Downtown Wickford, with its boutique shops and local restaurants, can be accessed within a five minute walk from the subject site.



The aerial map below provides a more accurate picture of the surrounding area.



The site is in an excellent location specifically in relation to downtown Wickford as it is located within five minutes walking distance from the center of the village. With leisure demand being the primary demand segment, the proposed hotel will benefit significantly as the only upscale lodging facilities of its kind in the immediate area. From its position on an elevated hill, the subject will have water views overlooking Wickford Cove and the harbor; however, it will not have direct beach access.

Given its location within a residential, coastal community, vehicular accessibility to the site is via local roads. The major highway in the area is Route-1 (Rt-1), which connects Wickford with Interstate-95 (I-95). I-95 provides access to all of the east coast and its major cities such as New York City and Boston. The location can be accessed from Route 4 which runs south off of I-95 in East Greenwich to the north parallel to Rt-1 and connects back with Rt-1 south of Wickford. From Route 4, the site is located directly on Route 102, which becomes Phillips St. after it crosses Rt-1 to the east. As travelers head into Wickford Village, the site has excellent visibility and direct access from Route 102. However, its location within the community does not give it visibility from the major interstate.

The subject site is situated approximately 20 miles from Providence, 70 miles from Boston, and 160 miles from New York City. For visitors flying to the area, the subject site is located approximately 15 miles from T.F Green Airport, the state's largest airport. Amtrak's Northeast Regional service runs south from Boston, its northern-most point, to Lynchburg, VA and serves Wickford via the Wickford Junction stop, which was added to the Route in June of 2012.

Advantages:

- The site is a convenient destination for leisure travelers located between New York City, Hartford, and Boston, and is within close proximity to a corporate base of demand from Quonset Business Park.

- Currently there are no high-end lodging options in the area, as the closest comparable properties are located in Newport (20 miles to the east) or Westerly (approximately 45 minutes to the southwest);

- Historic Wickford restaurants, entertainment, and shopping venues are within approximately five minutes walking distance of the subject site;
- The subject's location will allow the property to have views of the Wickford Cove to the north side of the hotel ;
- Airport and train facilities make it a convenient destination for those traveling from further locations;
- The site is large enough to accommodate on-site surface parking, which is currently a challenge for guests visiting Wickford Village;
- With a higher household income than the county and state as a whole, and a limited number of restaurants location in downtown Wickford, the site's location in North Kingstown is beneficial in attracting outside demand for a full-service restaurant to supplement demand from the proposed lodging development;
- Wickford is located within close proximity to Newport, allowing an opportunity for groups to plan day trips to the attractions of Newport, whereas the distance between Newport and competing hotels in Westerly, RI is substantially further. Direct ferry access between Wickford

and Newport, which does not yet exist but has been discussed as an option by the developer as part of the proposed project, would be a strong advantage for the subject in creating synergies with Newport.

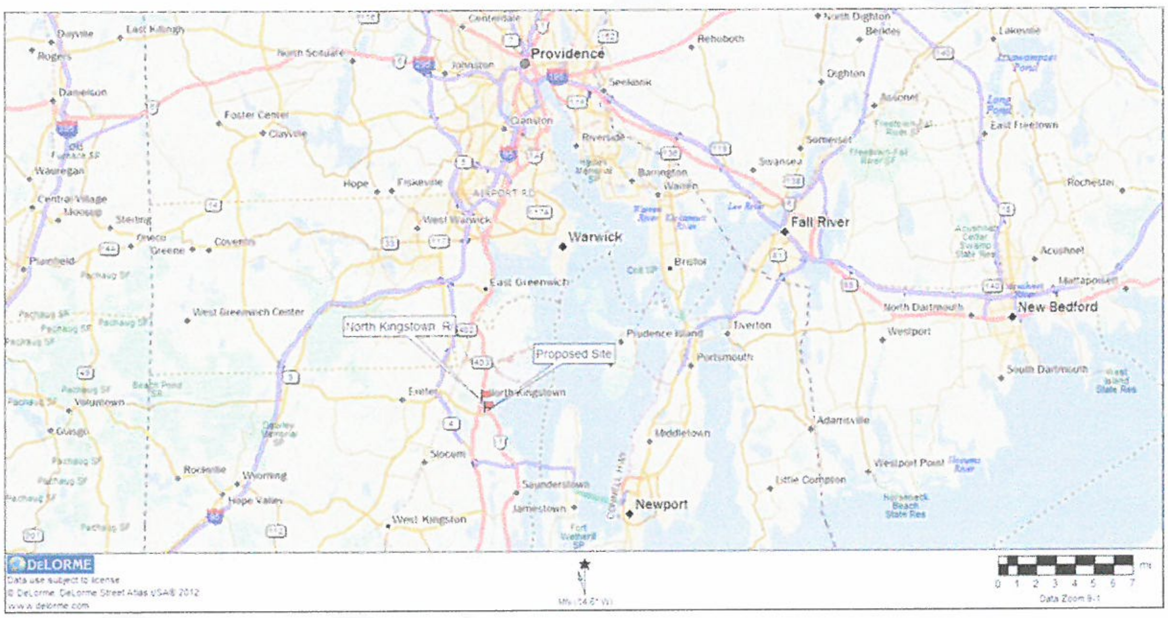
Disadvantages:

- Accessibility and visibility to the site is not advantageous because of its location within a residential area. Immediate vehicular accessibility is via local roads. However, as a destination property, this disadvantage is comparable to the location of other comparables, namely, those in Newport and Westerly, RI;
- The site does not have direct beach access as the North Kingstown local beach is located approximately 0.7 miles or 15 minutes walking distance from the subject ; and
- Wickford currently lacks the recognition and marketing resources devoted to the nearby city of Newport, which is home to a number of high-end lodging options.

Area Analysis

Wickford is a village located within the town of North Kingstown, Rhode Island. Established in 1709, the village is built around a harbor and contains a number of 18th century homes and buildings. The downtown area is comprised of small shops and restaurants with views of the harbor. Wickford is located approximately 20 minutes from downtown Newport, RI, which is accessed via two bridges on route 38 which cross over Jamestown. Access to Wickford is mainly vehicular via state and local roads, though commuter rail service is available to Wickford Junction, approximately two miles from the subject site. Historically, Wickford served as a port and shipbuilding area and through today has an active waterfront area.

A map depicting the location of the town of North Kingstown, in which Wickford lies, in relation to Providence and Newport, Rhode Island is presented below.



Economic and Demographic Analysis

Based on the fieldwork conducted in the area and a review of a wide variety of economic and demographic data sources, we have evaluated a host of statistics to determine trends that influence lodging demand. A primary source of economic and demographic statistics used in this analysis is the Site to Do Business (STDB) and the Bureau of Labor Statistics (BLS). The following paragraphs discuss the information derived from these and other sources, providing an economic frame of reference for the subject hotel. The data is presented for five areas: the Town of North Kingstown, Washington County, Providence- Fall River-Warwick MSA (of which Wickford is a part), the state of Rhode Island and the United States when available. While demand for a destination hotel is not necessarily driven by local and statewide economic data, the information presented below provides information regarding the current and projected health of the subject market area.

Population

In 2010, the year-round population of North Kingstown was approximately 26,500 residents, which is expected to increase by slightly fewer than 1000 residents by 2018. The population is relatively consistent throughout the year, with a seasonal population of fewer than 5 percent of the total population. The compound average growth rate between 2013 and 2018 is .25 percent, a higher growth rate than the state and MSA.

Washington County, the Providence-Fall River-Warwick MSA, and the State of Rhode Island are projected to remain practically stable between now and 2018. The United States continues to grow in population and is expected to grow at a compound annual growth rate of .68 percent through 2018.

Population					
	City / Town	County	MSA	State	Country
	North Kingstown	Washington	Providence-Fall River Warwick	Rhode Island	United States
2010	26,486	126,979	1,600,852	1,052,567	301,461,533
2013	27,103	128,620	1,600,611	1,048,491	313,129,017
CAGR 2013 - 2018	0.77%	0.43%	-0.01%	-0.13%	1.27%
Projected					
2018	27,442	129,056	1,606,851	1,048,149	323,986,227
CAGR 2013 - 2018	0.25%	0.07%	0.08%	-0.01%	0.68%

Source: STDB, U.S. Census Bureau, Census 2010 Summary File 1. Esri forecasts for 2013 and 2018.

Employment

Over the past ten years, total employment in North Kingstown decreased slightly with decline on a compound annual basis of 0.74 percent. With its working population relatively small, this represented a decline of approximately 1,300 workers in the town from the peak year of 2007 to the lowest employment level in 2011. This loss of jobs, as a percent, was the greatest experienced in all five of the regions analyzed. Washington County, the MSA, and the State of Rhode Island experienced similar declines in employment, .59, .60 and .67 percent, respectively. The country as a whole has seen employment increase 0.38 percent from 2003 and 2012, despite decreases from 2008 through 2010 due to the most recent economic recession.

Total Employment					
	City	County	MSA	State	Country
	North Kingstown	Washington	Providence-Fall River-Warwick	Rhode Island	United States
2003	14,889	69,236	659,302	533,265	137,736,000
2004	14,619	68,395	652,711	526,046	139,252,000
2005	14,791	69,527	660,094	532,961	141,730,000
2006	15,013	71,027	672,096	543,973	144,427,000
2007	15,152	71,174	672,654	544,437	146,047,000
2008	14,678	69,379	653,450	527,632	145,362,000
2009	14,063	66,612	625,697	504,616	139,877,000
2010	14,032	66,365	625,876	505,131	139,064,000
2011	13,848	65,428	621,528	499,481	139,869,000
2012	13,925	65,626	624,446	502,088	142,469,000
CAGR 2003 to 2012	-0.74%	-0.59%	-0.60%	-0.67%	0.38%

Source: Bureau of Labor Statistics

In 2012, the majority of Washington County's employment is concentrated in four industry sectors; Health Care and Social Assistance (18.1 percent), Manufacturing (16.6 percent), Retail Trade (15.7 percent), and Accommodation and Food Services (14.8 percent). The chart below summarizes employment by sector in the county in 2012.

Top Employment Sectors, Washington County

Sector	Average Employment
Health Care & Social Assistance	7,371
Manufacturing	6,793
Retail Trade	6,404
Accommodation & Food Services	6,031
Wholesale Trade	1,779
Professional & Technical Services	1,530
Construction	1,496
Arts, Entertainament & Recreation	1,443
Administrative Support & Waste Mgmt	1,330

Source: Rhode Island Department of Labor and Training, 2012

Located within Washington County is Quonset Business Park, situated on 3,207 acres in North Kingstown. Currently, the business park employs approximately 9,500 people within 185 companies. The park is approximately 2/3 occupied, with approximately 9 million square feet of office space currently occupied. The largest employer in the business park is Electric Boat, which recently signed a new 25-year lease in January of 2014, as the company is planning on doubling their workforce at the location to include an additional 3,000 employees.

Unemployment

Unemployment is a strong indication of an area's economic health. As can be noted in the table below, like most areas in the country, North Kingstown, Washington County, the Providence-Fall River-Warwick MSA and the State of Rhode Island all experienced increasing unemployment from 2008 through 2010 followed by a decline in unemployment in 2011, showing signs of overall recovery. Unemployment in

North Kingstown is at the lowest of the areas analyzed, with year to date November unemployment levels at 6.8 percent.

Unemployment Rate					
	City	County	MSA	State	Country
	North Kingstown	Washington	Providence-Fall River-Warwick	Rhode Island	United States
2003	4.1%	4.1%	5.6%	5.4%	5.7%
2004	4.1%	4.3%	5.5%	5.2%	5.4%
2005	4.1%	4.2%	5.3%	5.1%	4.9%
2006	4.1%	4.2%	5.3%	5.1%	4.4%
2007	4.2%	4.3%	5.4%	5.2%	5.0%
2008	6.5%	6.5%	7.6%	7.7%	7.3%
2009	8.8%	8.8%	11.1%	10.9%	9.9%
2010	9.6%	9.9%	11.7%	11.7%	9.3%
2011	9.4%	9.5%	11.1%	11.2%	8.5%
2012	8.7%	8.9%	10.3%	10.4%	7.8%
YTD Nov 2012	7.8%	8.1%	9.4%	9.4%	8.2%
YTD Nov 2013	6.8%	7.3%	8.6%	8.4%	7.4%

**YTD 2013 figure is preliminary*
Source: Bureau of Labor Statistics

Average Household Income

Trends in average household income reflect the spending ability of local residents. Like population, average household income has no direct correlation with hotel room night demand within a defined area, but these trends tend to gauge the economic health and vitality of the market. The table below details the historic and projected growth figures in average household income.

Average Household Income					
	City / Town	County	MSA	State	Country
	North Kingstown	Washington	Providence-Fall River Warwick	Rhode Island	United States
2013	$105,445	$91,399	$73,658	$73,710	$68,162
Projected					
2018	$124,897	$107,994	$85,253	$85,874	$77,137
CAGR 2013 - 2018	3.44%	3.39%	2.97%	3.10%	2.50%

Source: STDB, U.S. Census Bureau, Census 2010 Summary File 1. Esri forecasts for 2013 and 2018.

North Kingstown has an average household income that exceeds the county, MSA, state, and country as a whole, and that is expected to remain so through 2018. This is partially indicative of the affluent neighborhoods along the coast. The Town of North Kingstown's average household income is projected at a compound annual growth rate of 3.44 percent between 2013 and 2018, the highest of the five areas analyzed.

Transportation

Motorists

As previously noted, North Kingstown is a drive-to market, accessed via state roads (Rt-1 and I-95). Rt-1 provides direct access to I-95, while both run along the east coast of the United States. The main highway that services the area is I-95, which travels north-south along the eastern seaboard from the Canadian border to Miami, Florida. Within the State of Rhode Island, I-95 runs from the border of Connecticut, through Warwick and Providence to the border of Massachusetts.

Below is a list of major cities and their approximate drive times to Wickford.

- Providence, RI – approximately 22 miles, or 26 minutes
- Boston – approximately 72 miles, or 1 hour 15 minutes
- Hartford, CT – approximately 76 miles, or 1.25 hours
- Stamford, CT – approximately 130 miles, or 2.25 hours
- New York – approximately 170 miles, or 3 hours

Train

Wickford is served by commuter rail via the Wickford Junction station, located approximately two miles from the subject. The station has 20 trips per weekday to T.F. Green airport, Providence, and points north. Wickford Station is 35 minutes to Providence via rail, and under two hours to Boston's South Station. Rail service began to Wickford Junction in April of 2012.

Airplane

The T.F. Green Airport, located approximately 15 miles from the subject site, serves the greater Rhode Island area and is viewed as a less congested alternative to Logan International Airport in Boston, Massachusetts. The airport is owned by the State of Rhode Island and operated by the Rhode Island Airport Corporation (RIAC) which manages all publicly owned airports within the state. Seven airlines provide service to this airport, including JetBlue which began service in 2012. Passenger traffic has been declining since 2006, partially due to the increase in fuel costs which has caused airlines to cut down on the number of flights, especially to secondary and tertiary locations. In addition, American Airlines stopped service to and from T.F. Green in 2008, however, the recent merger between American Airlines and US Airways could potentially result in expanded service to the airport.

As illustrated in the following table, the decline has continued through 2012, however and year-to-date through November, passenger traffic is up 4.1 percent.

T.F. Green Airport Statistics

	Total Passengers	% change
2003	5,176,271	-
2004	5,509,186	6.4%
2005	5,730,557	4.0%
2006	5,203,396	-9.2%
2007	5,019,342	-3.5%
2008	4,692,974	-6.5%
2009	4,328,741	-7.8%
2010	3,936,423	-9.1%
2011	3,883,548	-1.3%
2012	3,650,737	-6.0%
CAGR 2003-2012		-3.8%
YTD Nov 2012	3,361,413	
YTD Nov 2013	3,499,846	4.1%

Source: Rhode Island Airport Corporation

In 2012, it was announced that the FAA plans to invest approximately $110 million in upgrading T.F. Green Airport, including a $50 million runway extension, $30 million for runway safety, and an estimated $30 million for noise mitigation. Once complete, the project is said to allow planes to carry heavier loads and more fuel which would open the airport up to longer national and international flights from untapped markets.

Education

There are several universities and colleges in Providence, including the ivy-league Brown University, Providence College, Rhode Island School of Design, and Johnson and Wales University. Newport is home to the U.S. Naval War College, and Salve Regina University, which has a student population of 2,600 and an 80 acre campus that features 21 structures of historic significance. The University of Rhode Island is located in Kingston approximately 9 miles from Wickford, and has an undergraduate enrollment of 13,000 students and 3,000 graduate students.

Commercial Office Market

The greater Providence Office market consists of approximately 38 million square feet, with approximately 10 million square located within the Central/West Bay region. Since 2007, Providence has suffered from historically high vacancy rates, which have remained above 15 percent over the past five years. The Providence Downtown market ended 2013 with a vacancy rate of 16.16 percent, higher than 2012 which ended at 16 percent. The chart below, prepared by CBRE, indicates the historical trend of office vacancy rates in Providence and the surrounding suburbs.

Source: CBRE Northeast

Most of the movement within Providence has been renewal of existing leases and movement and consolidation by existing businesses, which do not represent major increases in local employment, and hence lodging activity.

Within the West Bay office market, of which North Kingstown is a part, vacancy rates have fallen to 14.98 percent at year end 2013, which is the lowest since 2006. In general, leasing activity in the West Bay has been characterized by longer term leases.

Tourism and Attractions

Travel and tourism is one of Rhode Island's most important industries, and according to the Rhode Island Economic Development Corporation, generates more than $5.2 billion for the state's economy and supports more than 41,000 jobs. Like many of the other New England states, Rhode Island offers coastal beaches, picturesque shoreline, outdoor activities, historical attractions, and four distinctively unique seasons. Newport is the state's best-known leisure destination and Providence is well known as its major metropolitan center.

The South County region in which Wickford lies has become known as a summer leisure destination due to its long stretches of coastline. Visitors are attracted to the area for swimming, boating, fishing, water-skiing, whale-watching and other activities revolving around the water. The New England atmosphere of small villages, scenic roads, historic sites and woodlands which allow for hiking, cycling, and more draws visitors to this region.

Aside from the area's beaches and outdoor activities, some of the major tourist attractions in the area include:

- The Newport Mansions
- Cliff Walk
- Block Island
- Roger Williams Park Zoo
- International Tennis Hall of Fame
- Providence Performing Arts Center
- Watch Hill Lighthouse
- Multiple wineries and vineyards

Conclusion

The following factors are expected to impact the village of Wickford, the town of North Kingstown and the state of Rhode Island's lodging market over the next five years:

- Economic indicators including average household income and a decreasing unemployment rate are positive indicators that the local economy is recovering from the most recent economic downturn, however, slightly decreasing employment rates indicate that a full recovery in the area is still in progress;
- Tourism is a major component of the area's economy. The South County area in which Wickford lies attracts leisure travelers for its beaches and plethora of outdoor activities. Wickford in particular is an ideal leisure destination with its charming, authentic feel;
- Quonset Business Park continues to become a major employment center in Rhode Island, currently home to 185 companies and continuing to grow;
- Newport, RI is an upscale destination with visitor attractions and accommodations that will continue to attract leisure demand; and
- Access to Wickford is limited to state roads, which limits drive-through traffic to the area. T.F. Green Airport and the Wickford Junction commuter rail station help to make the area a more favorable destination to those not within driving distance.

Overall, based on our review of the leading economic indicators presented herein, we are of the opinion that the short-term prospects for the Wickford area economy are positive, and the market should expect modest growth over the long-term.

Lodging Market Analysis

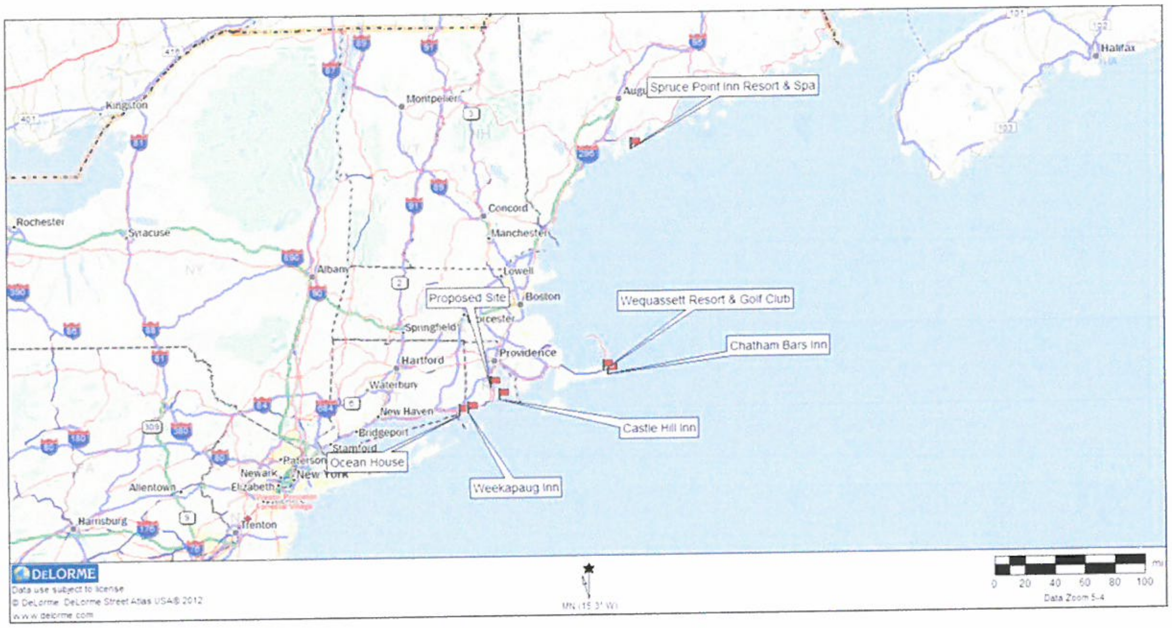
In order to evaluate the potential demand and operating performance for the subject hotel, we would typically define a competitive set of hotels and perform a penetration analysis to estimate occupancy and room rate for both the competitive lodging market as well as the subject property. However, due to the unique attributes of the subject hotel and event center, coupled with our analysis of the local area lodging supply, we have not identified any direct competitors in the immediate area. Given the destination orientation of the subject, we believe the most appropriate method for preparing projections for the hotel is to evaluate performance metrics at comparable hotels. More specifically, due to the lack of directly competitive hotels and the subject's unique nature within its market, we have made projections for the subject using a build-up analysis while relying on comparable data from seasonal operations in New England. The buildup analysis and projections of occupancy and room rate are presented in the Projected Performance section of the report.

The table below presents six comparable lodging properties. Although not considered directly competitive, these hotels represent other properties in New England that cater to demand segments similar to what is anticipated for the subject, namely transient leisure, corporate group, and social group. A map showing the location of these lodging properties relative to the proposed subject is presented on the following page.

Comparable Facilities

Property	Affiliation	Location	Rms *	Food & Beverage	Meeting Space**	Spa Facilities
Castle Hill Inn	Relais & Chateaux	Newport, RI	35	Upscale resaurant and bar	Unavailable	Guestroom Treatments
Chatham Bars Inn	Leading Hotels	Chatham, MA	217	Multiple outlets, casual and upscale	8,800	12 Treatment Rooms
Spruce Point Inn Resort & Spa	None	Boothbay Harbor, ME	81	Multiple outlets, casual and upscale	8,500	5 Treatment Rooms
Ocean House	Relais & Chateaux	Watch Hill, RI	71	Multiple outlets, casual and upscale	5,000	12,000 sq ft. 7 Rooms
Wequassett Inn & Golf Club	Preferred Hotel Group	Chatham, MA	120	Multiple outlets, casual and upscale	5,100	No spa facilities
Weekapaug Inn	Relais & Chateaux	Westerly, RI	31	Multiple outlets, casual and upscale	1,650	No spa facilities

** Includes residential condos/suites*
*** In square feet, rounded. Does not include outdoor venues*
Source: Compiled by Pinnacle Advisory Group



Despite the uniqueness of each property, commonalities may include locational attributes, meeting space, amenities, market mix, seasonality, and/or price points. The following paragraphs provide a brief description of each hotel.

Castle Hill Inn – Castle Hill is located in Newport, Rhode Island approximately 16 miles from the subject, on a 40-acre estate overlooking the Narragansett Bay. Thirty five rooms are located within the main mansion, along with a variety of cottages and houses, as well as a two bedroom chalet. Despite being built in 1874, regular upkeep and maintenance, multiple renovations, as well as standards from its Relais and Chateaux affiliation have kept the overall property in good condition. Given the hotel's waterfront location in New England, the hotel's demand is extremely seasonal, with its peak demand from May through October. Published rates in the peak season are often above $1,000 per night, while off season rates are typically offered between $300 and $400. Offering a variety of outdoor and indoor banquet space, the hotel is a popular destination for both corporate and social groups, particularly weddings in the shoulder and peak season. Newport is a coastal destination attracting guests from all over the world but primarily, the major cities in the United States and their wealthy suburbs, specifically those in the Northeast. Historically, the market mix for Castle Hill was 80 percent leisure and 20 percent group.

Chatham Bars Inn – This 217-room hotel is the largest of the comparable set. Located in Chatham, Massachusetts on Cape Cod, this Inn offers a variety of amenities which include a 9-hole golf course, tennis, private beaches, a pool, a spa and multiple dining outlets. The hotel is considered to be in good condition for its age and is a member of the Leading Hotels of the World affiliation. Cape Cod is a seasonal destination with its peak season being July Fourth through Labor Day Weekend, often experiencing sellouts on the weekends. Because Cape Cod has very little transient demand in the off season, Chatham Bars Inn markets itself as a group destination throughout most of the year, both for social and corporate groups. In the off season, rates are as low as $200 to $300 while peak season rates can be over $1,000. Demand for luxury accommodations on Cape Cod stems from the major cities and wealthy suburbs of the Northeastern states as well as international destinations. Historically, the market mix for Chatham Bars Inn has been approximately 75 percent leisure and 25 percent group.

Spruce Point Inn Resort and Spa – This 81-room hotel is located in Boothbay Harbor, Maine. Situated on 57 acres of shoreline adjacent to woodlands, the property offers a variety of amenities which include a spa, a saltwater pool and oceanfront deck, a freshwater heated pool, two clay tennis courts, bicycles, hiking paths, and multiple dining outlets. The hotel is a popular destination for families, as well as reunions, weddings, and corporate getaways due to its location and surroundings. Boothbay Harbor, Maine is a coastal destination located about an hour drive from Portland and attracts guests from areas in the Northeast. Historically, the market mix for Spruce Point Inn was 76 percent leisure and 24 percent group.

Ocean House - The Ocean House, located approximately 33 miles south of the subject, shares the same management as sister property the Weekapaug Inn and is affiliated with Relais & Chateaux. The property was rebuilt in 2010. In addition to the 49 guest rooms and 22 residential condominiums, the hotel offers over 5,000 square feet of indoor event space, multiple dining outlets, a 12,000 square foot spa, as well as other outdoor amenities such as a private beach and croquet. The hotel's guests are typically from the major cities along the east coast and their suburbs, as well as a variety of international destinations. Rates for the Ocean House in the off season can be as low as $250 while the same room is three times this in the peak season. With its large amount of indoor and outdoor space, the Ocean House accommodates a large amount of social and corporate groups throughout the year. In 2014, the Ocean House has estimated a market mix of approximately 60 percent transient and 40 percent group.

Wequassett Resort & Golf Club – The Wequassett Resort, located in Harwich, Massachusetts on Cape Cod, is affiliated with the Preferred Hotel Group and is open eight months of the year. This 27-acre property overlooks Pleasant Bay and offers a private beach, two outdoor pools, multiple dining outlets, a children's facility, four tennis courts, and a large amount of indoor and outdoor event space. Opened from early April through early December, the hotel has its peak and shoulder seasons similar to that of the comparable set and an abbreviated off season which typically consists of two months, November and April. Rates during these two months are approximately $350 to $450 and increase to over $1,000 in the peak season. Similar to the Chatham Bars Inn, its closest competitor, the hotel attracts demand from cities and wealthy suburbs of the Northeastern states as well as international destinations. The resort has become one of the area's premier wedding destinations, which comprises a large portion of its demand. Historically, the Wequassett Resort has had a market mix of 60 percent leisure and 40 percent group.

Weekapaug Inn - The Weekapaug Inn, located approximately 28 miles south of the subject, shares the same management as the Ocean House Inn and is also affiliated with Relais & Chateaux. The property was reopened in 2012 following a $20 million renovation, and it is the newest property of the comparable set. Weekapaug consists of 27 rooms and four two-bedroom suites. In addition to the guest rooms, the Inn contains a dining room, catering/banquet facilities, an all-day dining bistro, and a bath house that provides a seasonal lunch operation. Rates are positioned at a discount to the sister property Ocean House to appeal to slightly different demand segments. As the property just re-opened in 2012, we have estimated a market mix for the Weekapaug of approximately 75 percent transient and 25 percent group.

The performance of independent resorts and inns vary greatly depending on the type of lodging product, its location, and marketing affiliations. For those comparable properties for whose operating performance was available, in 2012, the comparable set ranged in occupancy between 57 and 65 percent, averaging 61.3 percent. The average daily rate for these properties ranged from a low of $280 to a high of $650, averaging $522. Given these performance metrics, these properties had an average RevPAR of $320 in 2012.

Potential New Supply

During the course of our fieldwork, we interviewed planning representatives from the communities and local area within which the competitive hotels operate to ascertain the status of any on-going or proposed hotel developments. From our research in the market, we have not identified any competitive hotel projects within North Kingstown that are under construction on in development. There is one boutique hotel that will be opening in Narragansett. The Break, a 16-room hotel which will be part of the Lark Hotels group, is scheduled to open in summer of 2014. However, due to its small size and lack of meeting facilities, we have not projected for this hotel to be a direct competitor to the subject. Additionally, in downtown Newport, preliminary plans for an independent, 30-room boutique hotel have been presented to the city planning board and have gone through the first stages of review. This project is currently undergoing review in regards to historic preservation in its design elements, and timing and likelihood of this project is still speculative.

Comparable Hotels - Market Demand Segmentation

Our interviews with representatives of luxury properties in New England as well as with regional tourism boards indicate that room night demand emanates primarily from transient leisure business. Other segments in the local destination market include corporate group and leisure group demand.

Demand for the comparable market is centered on weekends (primarily Friday and Saturday) as demand is primarily transient leisure. Average rates on the weekends are often significantly higher than weekday rates, and during the weekends, many properties are expected to sell out during the peak demand periods. The seasonality of the comparable market is heavily skewed toward the summer months with peak seasons occurring from May through October.

Transient Leisure Demand

The majority of the transient demand in the subject market is leisure oriented. The corporate transient demand that exists within Rhode Island is primarily accommodated in the more heavily populated areas in Providence, Newport or Warwick and typically at branded hotels. Demand from the transient leisure traveler is often characterized by the following.

- High degree of multiple occupancy (couples or families)
- Average length of stay typically two nights on weekends and longer for vacations
- Desire high quality accommodations with on-site food and beverage
- Require proximity to leisure destinations and to major transportation routes
- Strong demand typically occurs during summer months, weekends, and holiday periods

The comparable lodging market is driven primarily by leisure travelers, with virtually no corporate transient demand. Leisure demand is primarily driven by increases in tourist-related activities. In the summer months, proximity to the ocean, beaches, and other outdoor activities help fuel transient demand.

Group Demand

Group demand in the subject lodging market is comprised of two sub-segments:

- Corporate – Smaller, self-contained groups in the area for events such as training sessions, incentive programs or corporate retreats; and

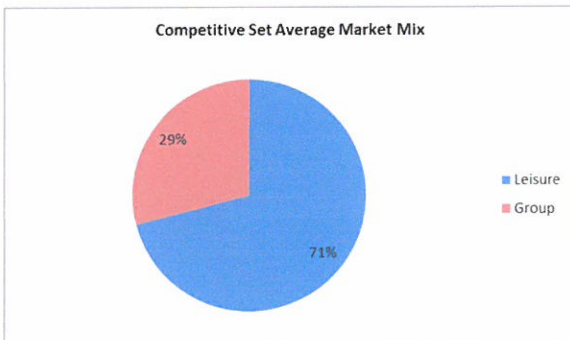
- Social – These groups are made up of Social, Military, Educational, Religious and Fraternal groups, known throughout the industry as SMERF groups in town for programmatic and/or social functions at individual hotel properties. A large component of this sub-segment, particularly for the subject hotel, is the wedding market.

The group segment can be characterized by the following:

- Require discounted room rates during low demand periods
- Flexible meeting and banquet facilities often required, as well as a variety of configurations
- Quality food and beverage service preferred

Meeting and group business in the comparable market is largely comprised of SMERF groups such as weddings or local or regional associations. Group demand generally exists during the shoulder seasons, with the exception of weddings, so as not to displace any of the higher rated leisure business.

The comparable set of hotels outlined above has an estimated average market mix of 71 percent leisure and 29 percent group.



Facility Assumptions

The proposed subject hotel is assumed to be built as a 38-room hotel. The property will be positioned as an upper upscale hotel, and will have high quality finishes comparable to other properties of that level. The following summarizes the features and amenities for the proposed hotel. The findings and forecasts that are outlined in this document explicitly assume these facility assumptions:

- The proposed hotel will contain 38 guest rooms, all with king sized beds, averaging 350 square feet;
- Food and Beverage options will consist of a full-service restaurant with a high quality chef that will cater to both hotel guests and local clientele. The restaurant is understood to have two levels – a lower level consisting of approximately 99 seats, and an upper level providing seasonal, outdoor dining with approximately 180 seats;
- The hotel will contain approximately 6,000 square feet of meeting space, consisting of a 2,400 square foot function hall and smaller breakout rooms to accommodate both social functions such as weddings up to 200 people, along with smaller, corporate meetings and events;
- Public areas to include an outdoor, seasonal pool, spa, business center and fitness center;
- The hotel will provide adequate parking, either surface or structured.
- To allow the proposed hotel to compete with upper-upscale and luxury properties in Newport and Westerly, the subject should obtain some type of marketing affiliation, such as with Leading Hotels of the World, Relais & Chateaux, or Preferred Hotel Group; and
- The hotel and the event space will be professionally managed by the same company, and professionally marketed and operated.

A breakdown of the square footage for the proposed hotel's conference space, restaurant, and hotel lobby and support space, as provided by Litman Architecture, is outlined on the following page:

Area Breakdown

99 Phillips St.

Wickford Elementary School

Updated January 20, 2014

Conference Spaces .... **6,457 SF**

a. Breakout Room 01 .... 763 SF
b. Breakout Storage .... 111 SF
c. Breakout Room 02 .... 592 SF
d. Breakout Room 03 .... 500 SF
e. Function Hall .... 2,407 SF
f. Function Hall Storage A .... 103 SF
g. Function Hall Storage B .... 166 SF
h. Breakout Room 04 .... 660 SF
i. Small Conference Room .... 333 SF
j. Breakout Room 05 .... 822 SF

2. **Restaurant** .... **6,555 SF**

a. Lower Level .... 1,585 SF
b. Upper Level .... 2,896 SF
c. Kitchen .... 1,600 SF
d. Office .... 200 SF
e. Prep and Plating Area .... 274 SF

3. **Hotel Lobby and Support** .... **4,795 SF**

a. Main Lobby .... 2,037 SF
b. Lobby Office .... 295 SF
c. Concierge Office and Holding Room ... 216 SF
d. Spa .... 1,403 SF
e. Upper Lobby – 1st Floor .... 422 SF
f. Upper Lobby – 2nd Floor .... 422 SF

Note: No outdoor spaces have be figured into these calculations

The below renderings have been provided by Litman Architecture:

Projected Performance

The general performance measures discussed in the Lodging Market Analysis section are relevant to the anticipated operating performance of the proposed hotel. However variables such as location, size, amenities, affiliation, and management make each hotel unique and not necessarily competitive or directly comparable. The focus of our analysis was the operating performance and demand trends of small luxury lodging properties located in resort settings, as we believe these properties accommodate guests that are similar to the type of guest envisioned for the subject. These guests are comprised of mostly high end leisure travelers, social groups and small corporate groups that desire an intimate, high-service, luxurious lodging experience in a unique setting. The projected performance of the subject was judged relative to the operating performances of comparable luxury properties in New England, taking into consideration the environs of the subject property's Rhode Island location.

Demand for the subject will be highly seasonal and mostly leisure oriented. The seasonal market will begin in late May and continues through early October, and will be weather dependent. The true peak season will generally begin the Fourth of July and end on Labor Day weekend. Visitors will typically come from regional, northeast markets, however, based on our conversations with the regional tourism offices, it is projected that there will be a smaller international leisure market, especially in the shoulder season as marketing efforts for the area are increasingly focusing on European and Chinese tourism.

In order to prepare projections of occupancy for the proposed hotel, we utilized a build-up method rather than a fair share analysis. This is the most applicable method for projecting the demand for the proposed hotel, given the lack of directly competitive hotels. Specifically, we estimated monthly occupancy and average rate for the proposed hotel, based on:

- Previously presented economic indicators;
- Discussions with regional tourism association leaders;
- Interviews and analysis of comparable hotels; and
- Seasonal lodging trends in regionally comparable properties and markets.

Projected Occupancy

Given the geographic attributes of the subject market, coupled with the waterfront location, the demand for the subject hotel will be very seasonal. As such, we analyzed monthly booking trends of a select number of comparable hotels in New England, as well as the operating performance for an aggregate of five properties in downtown Newport, Rhode Island. While Newport does not represent the booking trends likely to be experienced specific to Wickford, it does provide a clear indication of the seasonality for coastal Rhode Island as a destination. Because many of the comparable properties as outlined previously do not contribute to STR trend reporting we were unable to compile monthly data for all of the comparable hotels, but instead we relied on monthly data for two luxury hotels within close proximity to the subject hotel and have presented them below.

Monthly Occupancy

	Comparable Hotels	Newport, RI
Jan	21.4%	25%
Feb	36.7%	37%
Mar	39.1%	48%
Apr	55.3%	58%
May	65.1%	65%
Jun	82.9%	76%
Jul	86.9%	88%
Aug	93.9%	92%
Sep	84.2%	79%
Oct	64.6%	63%
Nov	48.5%	46%
Dec	35.8%	39%
Average	59.5%	59.6%

Compiled by Pinnacle Advisory Group
Note: Comparable Hotels data from 2012, Newport RI data froom T-12

The comparable hotels' monthly occupancies as presented in the table above represent the aggregate performance of the two luxury hotels that we have deemed closest competitors to the proposed subject hotel on the basis of location, product level, and amenities. The Newport performance numbers represent the averages of five downtown properties as listed below. As mentioned previously, while these properties do not necessarily represent the facility profile or targeted demand of the subject, it is worthwhile to compare the occupancies achieved to illustrate the seasonality of the coastal Rhode Island market as a whole.

Downtown Newport Set includes:

Property	Rooms
Marriott Newport	319
Vanderbuilt Grace	33
Hyatt regency Newport	257
Hotel Viking	209
Newport Harbor Hotel & Marina	133

The comparable properties and the set of Newport properties followed similar seasonality patterns and averaged 59.5 percent occupancy and 59.6 percent, respectively, which represents stabilized performance, noting that the occupancy rates from a high in the low 90's in August to a low in the 20's in January. The shoulder season can be considered May, June, September and October when occupancies are above 60 percent.

Based on the information presented above, it is reasonable to assume that a well-located hotel that offers upper upscale accommodations coupled with the appropriate supporting amenities to include event space, a restaurant, and spa facilities, which is well managed and properly marketed should have a stabilized occupancy comparable to the set analyzed and follow the seasonal trends found at other luxury destinations along the coast of New England. Using the presented seasonal demand information from comparable properties, and the aggregate of properties in Newport, Rhode Island, we projected monthly occupancy for the proposed subject hotel.

We have projected that the guestrooms at the subject property will have an annual stabilized occupancy of 59 percent. Our analysis was prepared for a stabilized year of operation in fiscal years beginning May given its assumed opening date. The projected stabilized monthly occupancies are outlined below.

Monthly Occupancy Projections

	Available Room Nights	Occupancy	Occupied Room Nights
May	1,178	63%	743
June	1,140	77%	876
July	1,178	86%	1,016
August	1,178	91%	1,074
September	1,140	84%	958
October	1,178	72%	842
November	1,140	45%	512
December	1,178	40%	471
January	1,178	27%	322
February	1,064	36%	380
March	1,178	34%	397
April	1,140	49%	553
Average/ Total	13,870	58.7%	8,144

Note: Assumes May 1, 2016 opening date
Source: Pinnacle Advisory Group

Our monthly projections show similar patterns of seasonality as those experienced at the comparable hotels and accounts for a similar market mix of demand.

Transient leisure is the highest rated business and will represent a significant portion of demand during the peak season, July and August. During peak months, the subject hotel will accommodate both transient leisure and transient discount demand (which includes discounted rates from internet bookings, packages, etc). During the shoulder months, May, June, September and October, group business will represent a portion of the demand, which will consist of mainly weddings. In the off season, November through April, the hotel will target corporate groups as their will be very little transient demand seeking accommodations. The demand mix by month is outlined in the following table.

Projected Demand Mix As Stabilized

Mix	Total	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Rack	40%	25%	45%	65%	65%	40%	40%	20%	25%	25%	25%	25%	30%
Transient Discount	30%	30%	25%	25%	25%	25%	25%	40%	45%	35%	40%	40%	35%
Weddings	19%	25%	25%	10%	10%	25%	30%	20%	15%	15%	15%	10%	15%
Corp Group	11%	20%	5%	0%	0%	10%	5%	20%	15%	25%	20%	25%	20%

The resulting market mix for the subject hotel is 70 percent transient demand and 30 percent group demand (corporate and wedding).

According to our conversations with those involved in booking corporate meetings and retreats in the area, there is a lack of product in the market that has the appropriate facilities to accommodate high end groups, in terms of number of guest rooms as well as suitable function space. While Newport offers a number of smaller properties with luxury accommodations, these properties do not have the event space that is needed for groups. Additionally, the subject will have an advantage in terms of location in attracting group demand over The Ocean House, as these groups will accept a 15 to 20 minute commute from Wickford to Newport, whereas the distance from Westerly to Newport is prohibitive. As mentioned above, in stabilized operations, this group demand will primarily be present during the shoulder and off seasons while July and August will be available for high rated transient leisure demand.

We have estimated a 59 percent stabilized occupancy for the subject hotel. Typically it takes several years for lodging properties to reach stabilization. Given its lack of brand recognition, coupled with its dependence on transient leisure demand in a seasonal market, we have estimated a build-up period of three years to reach stabilization. The three year build-up of annual occupancy is outlined below.

Projected Occupancy

Proposed Boutique Hotel - Wickford, RI

Year	Occupancy	Pt Change
2017	47%	
2018	53%	12.5%
2019	59%	11.1%
2020	59%	0.0%
2021	59%	0.0%

Assumed May 1, 2016 opening date.

Fiscal years are based on May 1 to April 30.

Source: Pinnacle Advisory Group

Projected Average Rate

Similar to occupancy, average rate follows a similar seasonal pattern with highest rates achieved during peak and shoulder seasons and lowest rates during the off season when demand is more heavily group based. The projected average daily room rates for the proposed hotel take into consideration the room rates achieved at the comparable properties, coupled with the attributes and facilities at the subject property.

We have compiled annual rates achieved for comparable properties in New England which offer similar facilities as the subject. We have analyzed each comparable property's average rate, looking at factors such as size of hotel, market mix, location, hotel amenities, affiliation, and seasonality and positioned the subject hotel accordingly. The table below outlines the average daily rate achieved at three comparable properties.

Comparable Monthly Average Rate - Rooms

Month	AVERAGE
January	$261.36
February	$269.94
March	$270.41
April	$324.78
May	$414.65
June	$533.74
July	$812.04
August	$785.29
September	$565.48
October	$485.01
November	$330.61
December	$334.99

Compiled by Pinnacle Advisory Group
Note: Average represents 2012 rates from (2) properties and 2013 budgeted rates from (1) property

Once we positioned the subject property by price point amongst these comparables, we analyzed average rate increases and decreases by month at the comparable properties. Because each month's demand will be made up of different rate segmented business it was necessary to determine what the rate mix would be on a monthly basis. We conducted a rate analysis using the four different rate categories presented previously; Transient Leisure (Rack), Transient Discount, Wedding, and Corporate group.

While considering the current rates achieved by the competitive set, the proposed hotel will be at a lower price point than the highest comparable properties analyzed, given the fact that the subject does not have direct beach access and will not be a five-star, five-diamond property. We have projected that the subject will be positioned at a stabilized rate of approximately $327 in 2013 dollars, as outlined in the chart below. We have projected rate growth to occur at an inflationary level of 3.0 percent per year over the projection period. The following table depicts our projections for average segmented rates in a base year and overall average daily rate for the subject through its first five years of operation.

Projected Segmented Average Rates

Year	Rack	Transient Discount	Weddings	Corp Group	Total
Base	$421	$281	$272	$194	$327
2017	$463	$309	$299	$213	$361
2018	$477	$318	$308	$220	$372
2019	$492	$327	$317	$226	$383
2020	$506	$337	$327	$233	$394
2021	$522	$347	$337	$240	$406

Note: Fiscal years are May-April
Source: Pinnacle Advisory Group

Summary

The following table presents the projected average rate, occupancy, RevPAR, and resulting rooms revenue (rounded to the nearest thousand) for the subject hotel for the first five years of operation:

Projected Occupancy, Average Daily Rate, and Room Revenue
Proposed Boutique Hotel - Wickford, RI

Year	Occupancy	% Change	Average Rate	% Change	RevPar	% Change	Rooms Revenue
2017	47%		$360.91		$169.53		$2,351,000
2018	53%	12.5%	$371.74	3.0%	$196.44	15.9%	$2,725,000
2019	59%	11.1%	$382.89	3.0%	$224.82	14.4%	$3,118,000
2020	59%	0.0%	$394.38	3.0%	$231.56	3.0%	$3,212,000
2021	59%	0.0%	$406.21	3.0%	$238.51	3.0%	$3,308,000

Assumed May 1, 2016 opening date, Fiscal years are based on May 1 to April

Rooms Revenue rounded to the nearst $1,000

Source: Pinnacle Advisory Group

Financial Projections

Methodology

In order to project financial operating results for the proposed subject property, we reviewed financial operating data for similar facilities on a line-by-line basis. Specifically, financial operating data from the following key sources were analyzed:

- Recent financial operating data from several independent upper upscale and luxury resorts and inns in the Northeast, as presented previously in the Lodging Market Analysis section of this report (owing to the confidentiality under which this information was secured, we have not shown a complete statement for each individual comparable.);
- Data from five sub-categories for full-service hotels from the 2013 HOST Report.

After reviewing the actual financial performance of comparable properties, we prepared detailed line-item projections to include staffing guidelines, estimates of wage rates, and other operating expenses.

Our statement of estimated operating results can be found at the end of this section and is presented in inflated dollars in the format prescribed by the Uniform System of Accounts for Hotels. Estimates of operating revenues were based on the projected market performance of the proposed subject and comparable properties and are presented based on a percentage of revenue, per available room, or per occupied room, on an annual basis.

Inflation and Growth in Revenues and Expenses

Our projections incorporate an estimate of general price inflation based upon economic projections from various sources, tempered by our observations and expectations based on historical perspectives both locally and nationally. According to the Bureau of Labor Statistics, the Consumer Price Index – Urban (CPI – U) for urban areas increased at a compound annual growth rate of 2.42 percent between 2001 and 2012. To portray price level changes, we have assumed an inflation rate of 3.0 percent throughout our projection. Overall, the 3.0 percent rate reflects a long-term outlook for the future movement of prices in the area and intended only to portray an expected long-term trend in price movements, rather than for a specific interval of times. Our growth assumptions for average rate have been presented previously in this report; all other line item revenues and expenses are projected to increase at the level of general inflation.

Term of Analysis

In the case of the subject property, a five-year projection period was utilized to reflect a typical lodging analyst's approach in reviewing a new development. It is envisioned that the proposed hotel will have reached a stabilized operating level within this time frame. The following text describes our rationale for each line item of the financial projections.

Departmental Revenues

Rooms Revenue

This line item is based on the number of occupied rooms multiplied by the average daily room rate for each respective year. Our projections for these components were presented in the Projected Performance analysis section of this report. Occupancy has been rounded to the nearest whole percentage point; however, revenues are based on projected occupied room nights.

Projected Occupancy, Average Daily Rate, and Room Revenue
Proposed Boutique Hotel - Wickford, RI

Year	Occupancy	% Change	Average Rate	% Change	RevPar	% Change	Rooms Revenue
2017	47%		$360.91		$169.53		$2,351,395
2018	53%	12.5%	$371.74	3.0%	$196.44	15.9%	$2,724,679
2019	59%	11.1%	$382.89	3.0%	$224.82	14.4%	$3,118,244
2020	59%	0.0%	$394.38	3.0%	$231.56	3.0%	$3,211,792
2021	59%	0.0%	$406.21	3.0%	$238.51	3.0%	$3,308,145

Assumed May 1, 2016 opening date.

Fiscal years are based on May 1 to April 30.

Source: Pinnacle Advisory Group

Food and Beverage Revenue

This line item includes food and beverage revenues from the restaurant as well as all food, beverage and room rental revenues associated with the banquets and catering.

A la Carte Revenues

The a la carte revenues for the proposed restaurant are based on national averages calculated by number of seats, for a full service restaurant. Based on the square footage provided for both the upper and lower levels of the restaurant, we have estimated the number of seats for both sections. In total, we have assumed a 280 seat restaurant, with 99 seats open year-round (lower level), and 181 seats open in the summer months as this portion of the restaurant will be seasonal. As such, we have calculated the number of seats for the upper level as 45 on an annual basis. Using a median dollar amount of sales per seat, we have calculated estimated total sales projected for the restaurant. The below tables show this analysis.

RESTAURANT
NATIONAL MEDIAN AVERAGE/SEAT - Full service restaurant

	Square Footage		4481
	SF/Seat		16
3 months (seasonal)	# Seats		45
Upper Level	Median $ sales per seat	$	10,117
	Total Sales	**$**	**457,952.33**

Source: National Restaurant Association, 2013-2014 Restaurant Operations Report

12 months	Square Footage		1585
Lower Level	SF/Seat		16
	# Seats		99
	Median $ sales per seat	$	10,117
	Total Sales	**$**	**1,002,215.31**

Source: National Restaurant Association, 2013-2014 Restaurant Operations Report

In total, the hotel is estimated to generate approximately $1,460,000 in a la carte food and beverage revenue in a stabilized year of operation (presented in 2013 dollars).

Banquet Revenues

Banquets and private events will be a significant source of revenue for the subject hotel, given the amount of function space and the popularity of the region as a wedding destination. While the hotel will do a significant number of weddings, it will also host other social functions and corporate events during the off season. In order to determine the subject's banquet revenues we have estimated the amount of covers for each event and the average check for each. Based on an analysis of comparable operations, coupled with the type and size of meeting and banquet space at the subject hotel, we have prepared the following estimates for banquet revenue.

WEDDINGS		
No Wed / Yr		19
Rental Fees		$1,000
No. Guests		125
Ave $ / Guest (Food and Beverage)		$175
Estimated Wed Rev		**$434,625**
Ave $ / Wedding		$22,875
Ave / Guest		$183
OTHER GROUPS/BANQUETS		
Total groups		32
Avg group size		40
Total covers		1280
Average Check		$75
Rental Fees/Group		$500
Revenues		
F&B Revenues		$96,000
Rental Fees	$	16,000
Total	$	112,000

In total, the hotel is estimated to generate approximately $546,600 in banquet revenue. This equates to $67.12 per occupied room in a stabilized year of operation (presented in 2013 dollars).

Summary

The restaurant outlet and meeting space revenue projections result in a per occupied room value, in 2013 value dollars, of $246.42, or total food and beverage revenue of approximately $2,006,800. As a percentage of revenue, this equates to approximately 40.2 percent as stabilized. The following table summarizes this projection.

Food & Beverage Revenue Build-up			
# Available rooms		38	
Stabilized Rooms Sold		8,144	
Rooms Revenue (Stab Year) -		$2,663,452	
Occupancy		59%	
ADR		$327	
Restaurant	$	1,460,167.64	
Weddings	$	434,625.00	
Other Banquets	$	112,000.00	
Total F&B Revenue		$2,006,793	
F&B POR		**$246.42**	POR

The following table presents the data for the six comparable hotels as well the projection for the subject.

Per Occupied Room			
Food and Beverage Revenue Comparable Data (Per Occupied Room)			
Comparable Properties (2013 $'s)		HOST Report (2013 $'s)	
Comparable A	$369.49		
Comparable B	$133.66		
Comparable C	$1,066.44		
Comparable D	$299.52	HOST High	$158.68
Comparable E	$453.66	HOST Average	$94.97
Comparable F	$754.85	HOST Low	$58.88
		Selection:	$246.42

Source: Respective Hotels, HOST Report; Compiled by Pinnacle Advisory Group

The six comparable hotels offer different food and beverage facilities and services and therefore have a wide range of food and beverage revenues ranging from $233 to $1066 per occupied room. As a percentage of total revenue, the average of the comparables is 44.0 percent, which is in line with our projections for the subject hotel.

Spa Revenue

This line item includes revenues from spa treatments from the facility operated by the hotel, as well as revenue generated by a small retail component located within the spa. Based on the square footage of the spa as provided at approximately 1,400 square feet, we have assumed a facility with two treatment rooms. Our projections have been made based on our knowledge of a comparably run spa in the market, with adjustments made for the subject's size and capacity. A summary of our assumptions and resulting projections is outlined below.

SPA Revenue Projections	
Facility Assumptions:	
Number of Rooms in Hotel	38
Number of Treatment Rooms	2
Estimated Spa Size	1,403
Standard Spa Calculations:	
# of Treatment Rooms	2
Possible # of Treatments per Room	5
Possible # of Treatments per Day	10
Estimated Utilization	35%
Estimated Number of Treatments per Day	4
Average Treatment Price	$150
Daily Revenue	$600
Days per Year	365
Annual Treatment Revenue	$219,000
Retail and Other Revenue (10% of Total Revenue)	$31,250
Total Annual Revenue	**$250,000**
Occupied Rooms (Stabilized)	8,144
Revenue Per Occupied Room	**$30**

Source: Pinnacle Advisory Group

We have projected total spa revenues of approximately $250,000, or $30 per occupied room, in 2013 dollars, for the subject hotel. This equates to approximately 4.9 percent of total revenue.

Other Operated Department Revenue

The revenue generating items which will contribute to this department include in-room movies, telephone, retail, and vending revenues. It is assumed that parking will be complimentary, and therefore no revenue or expense has been allocated.

Other Operated Departments	
POR	Revenue
Total	$80,000
Per Occupied Room (POR)	$9.82
Rounded	**$10.00**

Source: Pinnacle Advisory Group
Note: All expenses are noted in 2012 dollars. Other operated deparments include in-room movies, laundry, retail, vending

Because of the significant variables in this line item, we have not presented comparable property data. Based on a buildup of the various revenue generating factors, we have projected that the subject hotel would generate approximately $80,000 in other operated department revenues, in 2013 dollars, which equates to $10 per occupied room, in 2013 dollars, in other operated department revenues, or 1.6 percent of total revenues.

Departmental Expenses

Rooms Expense

Rooms departmental expenses include expenses associated with the operation of the hotel's rooms department including front office, housekeeping payroll, cable television expenses, laundry and cleaning supplies, guest amenities, maintenance contracts, travel agent commissions, and other expenses typically allocated to this line item. The following table presents the rooms expense per occupied room for the comparable properties.

Per Occupied Room

Rooms Exp. Comparable Data (Per Occupied Room)

Comparable Properties (2013 $'s)		HOST Report (2013 $'s)	
Comparable A	$205.78		
Comparable B	$74.68		
Comparable C	$203.51		
Comparable D	$100.60	HOST High	$77.60
Comparable E	$136.60	HOST Average	$51.22
Comparable F	$322.55	HOST Low	$35.53
		Selection:	$103.00

Source: Respective Hotels, HOST Report; Compiled by Pinnacle Advisory Group

In addition to the comparable statistics presented above, we also developed a detailed zero based budget for the department, estimating labor costs, guest supplies, and other expenses allocated this line item as listed above.

Our value of $103 on a per occupied room basis, in 2013 value dollars, equates to 31.5 percent of revenue, and is within the range of values and is similar to the average of the comparable properties analyzed as a percentage.

Food and Beverage Expenses

Food and beverage departmental expenses include expenses associated with the operation of the hotel's food and beverage operations including food costs, labor, cleaning and guest supplies, and laundry.

Percent of Sales

Food and Beverage Exp. Comparable Data (Percent of Sales)

Comparable Properties (2013 $'s)		HOST Report (2013 $'s)	
Comparable A	110%		
Comparable B	79%		
Comparable C	65%		
Comparable D	68%	HOST High	77%
Comparable E	70%	HOST Average	76%
Comparable F	87%	HOST Low	74%
		Selection:	74%

Source: Respective Hotels, HOST Report; Compiled by Pinnacle Advisory Group

Based on our analysis of the comparables, we project food and beverage expenses of 74 percent of food and beverage revenues. The projection is based on the average of the comparables analyzed, without one outlier.

Spa Expenses

Expenses in the spa facility consist of primarily labor related costs, along with costs of goods sold and other operating costs. Our selection for the subject was based on the expense as a percentage of comparable spas and our knowledge of averages in the industry. We have estimated an expense for the proposed hotel's spa of 82 percent of sales.

Other Operated Department Expense

Other operated department expense is attributed to the costs associated with in-room movies, telephone, retail, and vending revenues. After analyzing the costs associated with these types of items at a relevant comparable, we have projected other operated department expenses would be approximately 79 percent of other operated department revenues. Because this line item varies greatly from property to property and the subject has not budgeted for it, we have not presented comparable information.

Undistributed Operating Expenses

Administrative & General

Fixed administrative and general expenses include the salaries of the general manager, human resources, and administration personnel, contract accounting and audit fees, operating leases, licenses, administrative telephone, office supplies, travel costs, and other miscellaneous expenses. The following table outlines comparable administrative and general expenses.

Per Available Room

Administrative and General Comparable Data (Per Available Room)			
Comparable Properties (2013 $'s)		HOST Report (2013 $'s)	
Comparable A	$19,676		
Comparable B	$4,129		
Comparable C	$37,790		
Comparable D	$11,538	HOST High	$10,562
Comparable E	$18,684	HOST Average	$6,596
Comparable F	$39,643	HOST Low	$4,437
		Selection:	$12,100

Source: Respective Hotels, HOST Report; Compiled by Pinnacle Advisory Group

In addition to the above comparable analysis, we also developed a detailed zero based budget that considered labor expenses, office supplies, legal fees, and other items typically allocated to this expense line.

We selected our value for administrative and general expenses by considering the data on a per available room basis from the data compiled for the comparable properties and analyzing detailed expense statements from a selection of the comparables. Our value of $12,100 on a per available room basis, in 2013 value dollars, represents a value of 9.5 as stabilized as a percent of sales, which is on par with the comparables average of 9.6 percent.

Sales and Marketing Expense

Sales and marketing expense includes payroll expenses for an on-site sales and event manager, advertising and promotional expenses, website expenses, dues and subscriptions, supplies, and other marketing expenses. The following table outlines comparable sales and marketing expenses.

Per Available Room

Sales and Marketing Comparable Data (Per Available Room)			
Comparable Properties (2013 $'s)		HOST Report (2013 $'s)	
Comparable A	$14,050		
Comparable B	$2,789		
Comparable C	$9,313		
Comparable D	$6,156	HOST High	$8,471
Comparable E	$10,895	HOST Average	$5,385
Comparable F	$31,245	HOST Low	$3,355
		Selection:	$9,000

Source: Respective Hotels, HOST Report; Compiled by Pinnacle Advisory Group

In addition to the above comparable analysis, we also developed a detailed zero based budget that considered the expenses assigned to this line item.

On average, the comparable properties analyzed spent approximately $12,408 on a per available room basis on sales and marketing expenses. The subject will need to do substantial marketing to attract both leisure business and high-end events to Wickford as a destination to compete with Newport and their marketing efforts. We have projected $9,000 on a per available room basis in 2013 dollars for sales and marketing expenses, which approximately 7.0 percent of sales as stabilized, which falls within the HOST range of values. The range of the comparables varies greatly and have therefore not been strongly relied on as a bench marker.

Property Operation and Maintenance Expense

This expense consists of the payroll for the engineering department, as well as expenses associated with the upkeep of the building, grounds and landscaping, painting, maintenance of the electrical and mechanical systems within the property. The following table includes a summary of the comparable data.

Per Available Room

Property Operation and Maintenance Comparable Data (Per Available Room)

Comparable Properties (2013 $'s)		HOST Report (2013 $'s)	
Comparable A	$11,078		
Comparable B	$3,011		
Comparable C	$21,371		
Comparable D	$9,171	HOST High	$5,607
Comparable E	$21,052	HOST Average	$3,631
Comparable F	$23,112	HOST Low	$2,576
		Selection:	$7,500

Source: Respective Hotels, HOST Report; Compiled by Pinnacle Advisory Group

We selected our value for property operations and maintenance expenses by analyzing the comparables on a per available room basis from the data compiled for the comparable properties. In addition to the above comparable analysis, we also developed a detailed zero based budget that considered the expenses assigned to this line item. Our value of $7,500 on a per available room basis, in 2013 value dollars, represents a value that is below the average of the comparables listed above, however based on the new construction and size of the property, grounds, and supporting amenities as compared to the other properties analyzed, we believe that the selection is reasonable. As a percentage of total revenues, our selection results in a property operations and maintenance expense that is 5.8 percent, which is still reasonable, when compared to the average of the comparable properties of 6.7 percent.

Utilities Expense

Energy expense includes the cost of electricity, gas, water and trash collection for the subject property. The following table includes a summary of the comparables.

Per Available Room

Utilities Comparable Data (Per Available Room)			
Comparable Properties (2013 $'s)		HOST Report (2013 $'s)	
Comparable A	$6,817		
Comparable B	$1,966		
Comparable C	$11,259		
Comparable D	$4,129	HOST High	$3,991
Comparable E	$6,028	HOST Average	$2,894
Comparable F	$18,560	HOST Low	$2,360
		Selection:	$5,358

Source: Respective Hotels, HOST Report; Compiled by Pinnacle Advisory Group

Our value of $5,358 on a per available room basis in 2013 value dollars represents a value that is above the average of comparable properties analyzed as a percentage of total revenue. The selection represents 4.2 percent of total revenue, which is higher than the average of the comparables at 3.6 percent. As can be seen in the above table, the range of utility expense varies greatly from property to property. Our projections account for the subject's new construction with sustainable elements for assumed energy savings, however, the subject has a sizable amount of meeting space which contributes significantly to utility costs.

Management Fee

Industry standard suggests that the base management fees typically range from 3.0 percent to 4.0 percent of total revenues. In addition to a base management fee, professional management companies are typically paid an incentive fee, typically paid after Net Operating Income and/or after a specific return on investment. We have assumed a base management fee equivalent to 3.0 percent of total revenues for the subject.

Fixed Expenses

Property and Other Taxes

According to the Franklin County Tax Assessor, for a renovated project, the assessed value of a development is calculated at the current value of the existing building in year one, and then for the next five years, an additional 20 percent of the difference between the current value and the final projected assessed value is added to the assessment. For the fiscal 2012-2013 tax year, the North Kingstown real estate tax rate was $18.80 per $1,000 of assessed value.

However, current ownership of the subject has negotiated a deal for federal and state tax credits, so it is assumed that real estate taxes will not be paid at market level. As such, we have not included an amount for tax liability in our projections.

Insurance

This expense reflects building and contents insurance covering the subject property. We have selected a value of $1,350 on a per available room basis in 2013 value dollars for insurance expense. Our selection is based primarily on the insurance expense at a close comparable as a percentage of total revenues. Our selection results in a value of 1.0 percent of revenue which is also comparable to the HOST average.

Reserve for Replacement

A provision has been made in our projection regarding a reserve for periodic replacement of furnishings, fixtures, and equipment (FF&E) as well as other short-lived items pertaining to the real property. For a high-end property such as the subject, a five percent reserve is standard. We believe that due to the new construction of the hotel that a reserve for replacement of three percent in the first year of operation, four percent in the second, followed by an annual five percent reserve over the holding period is adequate to meet the property's future capital needs.

Cash Flow Projections

Our five-year projections for the subject property are presented in the table on the following page.

Projected 5-year Income and Expense Statement

Forecast of Income & Expense ($,000)
Proposed Inn and Event Center - Wickford Village, RI

Year (1)	2017		2018		2019		2020		2021	
Number of Rooms:	38		38		38		38		38	
Occupancy:	47%		53%		59%		59%		59%	
Average Rate:	$360.91		$371.74		$382.89		$394.38		$406.21	
	$	%	$	%	$	%	$	%	$	%
REVENUES										
Rooms	2,351	51.6%	2,725	52.6%	3,118	53.3%	3,212	53.3%	3,308	53.3%
Food and Beverage	1,882	41.2%	2,110	40.6%	2,349	40.2%	2,420	40.2%	2,493	40.2%
Other Operated Departments	83	1.8%	89	1.7%	95	1.6%	98	1.6%	101	1.6%
Spa	248	5.4%	267	5.1%	286	4.9%	295	4.9%	303	4.9%
Total	4,564	100.0%	5,191	100.0%	5,848	100.0%	6,025	100.0%	6,205	100.0%
DEPARTMENTAL EXPENSES (2)										
Rooms	829	35.3%	904	33.2%	982	31.5%	1,012	31.5%	1,042	31.5%
Food & Beverage	1,503	79.9%	1,618	76.7%	1,738	74.0%	1,791	74.0%	1,845	74.0%
Other Operated Departments	63	75.9%	69	77.5%	76	80.0%	78	79.6%	80	79.2%
Spa	216	87.1%	226	84.6%	235	82.2%	242	82.0%	250	82.5%
Total	2,611	57.2%	2,817	54.3%	3,031	51.8%	3,123	51.8%	3,217	51.8%
DEPARTMENTAL INCOME	1,953	42.8%	2,374	45.7%	2,817	48.2%	2,902	48.2%	2,988	48.2%
OPERATING EXPENSES										
Administrative & General	472	10.3%	512	9.9%	554	9.5%	570	9.5%	587	9.5%
Sales and Marketing	358	7.8%	383	7.4%	409	7.0%	421	7.0%	434	7.0%
Property Oper. & Maintenance	295	6.5%	318	6.1%	342	5.8%	352	5.8%	363	5.9%
Utilities	210	4.6%	227	4.4%	245	4.2%	252	4.2%	260	4.2%
Total	1,335	29.2%	1,440	27.8%	1,550	26.5%	1,595	26.5%	1,644	26.6%
GROSS OPERATING PROFIT	618	13.6%	934	17.9%	1,267	21.7%	1,307	21.7%	1,344	21.6%
Management Fee	137	3.0%	156	3.0%	175	3.0%	181	3.0%	186	3.0%
FIXED EXPENSES										
Property and Other Taxes (3)	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Insurance	57	1.2%	58	1.1%	60	1.0%	62	1.0%	64	1.0%
Replacement Reserve	137	3.0%	208	4.0%	292	5.0%	301	5.0%	310	5.0%
Total	194	4.2%	266	5.1%	352	6.0%	363	6.0%	374	6.0%
NET OPERATING INCOME (4)	287	6.4%	512	9.8%	740	12.7%	763	12.7%	784	12.6%

Notes
(1) All years represent fiscal years beginning May 1 and ending April 31
(2) Departmental expense ratios are expressed as a percentage of their respective departmental revenues.
(3) Real estate taxes have not been included in our projections, considering special tax credits the subject will receive
(4) Income before other deductions such debt service, interest, depreciation, amortization, and income taxes
(4) This forecast is intended to be read in conjunction with supporting documentation prepared by Pinnacle Advisory Group.
Unauthorized use or reliance on this forecast is prohibited by Pinnacle Advisory Group

Source: Pinnacle Advisory Group

Assumptions and Limiting Conditions

This report is subject to the following assumptions and limiting conditions:

1. Our conclusions are explicitly based upon the assumptions that the proposed hotel is built as a 38-room upper-upscale quality (4-star) hotel with the event space and amenities previously described in this report, which opens on May 1, 2016. It is expressly understood that the conclusions of this analysis could change upon any deviation from this assumptions. The changes that might arise could be material.
2. As in all studies of this type, the estimated results are based upon competent and efficient management and presume no significant change in the competitive position of the lodging industry in the immediate area set forth in our study.
3. This document is to be used in whole and not in part.
4. Estimated results are based on an evaluation of the present general economy of the area and do not take into account, or make provisions for, the effect of any sharp rise or decline in local or general economic conditions that may occur. There usually will be a difference between the estimated results and those actually achieved, as events and circumstances often deviate from expectations. Those differences may be material.
5. It is expressly understood that the scope of our study and resulting report does not include the possible impact of zoning or environmental regulations, licensing requirements or other such restrictions concerning the project except where such matters have been brought to our attention and are disclosed herein.
6. We have no obligation to update our findings regarding changes to the scope of the proposed development or changes in the market conditions subsequent to the completion of our fieldwork.
7. The information gathered during the course of the fieldwork and used in this analysis is assumed to be accurate.
8. Neither all nor part of the contents of this report (especially any findings or conclusions, the identity of the consultants, or the firm with which they are connected) shall be disseminated to the public through advertising media, news media, sales media or any public means of communication without the prior, written consent and approval of Pinnacle Advisory Group.
9. No liability is assumed for matters legal in nature. Pinnacle Advisory Group cannot be held liable in any cause of action concerning this assignment for any compensatory dollar amount over and above the total fees collected from this engagement.
10. Any and all legal expenses incurred in the defense or representation of Pinnacle Advisory Group, its principals, and its employees will be the responsibility of the client.
11. We are not required to give testimony or attendance in court by reason of this assignment, with reference to the property in question, unless prior arrangements have been made and agreed to in writing.