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Hotel Feasibility Study for Greenlee County, Arizona



October 6, 2016

Prepared for:

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P.O. BOX 908
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Mr. David Gomez
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Re: Feasibility Study of a Proposed Lodging Facility
Greenlee County, Arizona

Gentlemen:

Thank you for the opportunity to complete this market and feasibility study of a proposed hotel for Greenlee County, Arizona. We have studied the market area for the addition of a lodging facility, and the results of our fieldwork and analysis are presented in this report. We have also made recommendations for the scope of the proposed project, including general site location, size of hotel, and brand affiliation.

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

Sincerely,



Bryan Burchfiel
President

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Executive Summary & Purpose

Greenlee County, Arizona has engaged "plan B" Consultants to perform a feasibility analysis of a Proposed Hotel for Greenlee County ("Proposed Hotel"). The Proposed Hotel would be a select-service lodging facility at a site yet to be determined. For the purposes of this study, we assume that the Proposed Hotel would be as follows:

- Limited-service lodging facility operating with a national brand
- Approximate Required Site Size: 65,000 square feet (1.5 acres)
- Approximate Building Size: 28,000 square feet
- Recommended Number of Rooms: 65
- Recommended Food and Beverage Facilities: Breakfast area
- Ancillary Facilities: Exercise room, guest laundry facility, business center or lobby workstation, sundries counter or vending area, ice machine areas
- Parking Spaces Recommended: 70

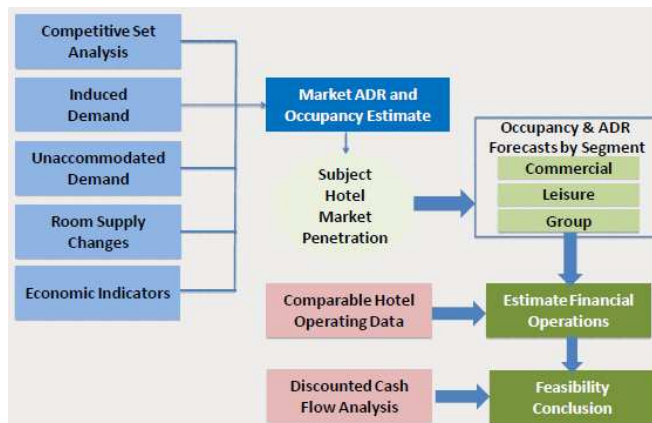
The purpose of this report is to review the potential development of a lodging facility within Greenlee County and assist in the attraction of developers for future phases of development.

Ownership, Franchise, and Mgt. Assumptions

Ownership and management of the Proposed Hotel was not known at the time of this report; therefore, our forecast fees assume a blended average of what would be expected on a base-fee and incentive-fee basis. We assume a market-appropriate total management fee of 3.0% of total revenues.

Scope of Work

The figure below illustrates the steps in the hotel market and feasibility analysis process.



Analytics of this study include the following: 1) the market's "present day" competitive set of hotels, 2) estimated the amounts of induced and demand in the market, 3) researched potential changes in room supply based on hotel market trends, economic and demographic indicators of future changes in hotel demand, projected future performance of the competitive set. A market penetration analysis determined the average daily room rate and occupancy of the Proposed Hotel in each of three market segments—Commercial, Meeting and Group, and Leisure demand segments. Estimates of average daily room rates and occupancies generates a projection of room

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revenues, which when combined with the operating data on comparable hotels yields a ten-year estimate of financial operations.

Given the preliminary stage of the potential development projects within the county, we have devised certain recommendations and assumptions illustrated in this report pertaining to the development of the following facilities:

Phase 1	40 - 60 room Hotel with food service and meeting room/s
Phase 2	Commercial shopping, retail, small truck stop
Phase 3	Additional 40 - 60 room Hotel in order to make the area eligible for small to mid-sized regional traveling summits, workshops, training events, etc.
Phase 4	The addition of multi-family dwellings and single family dwellings
Phase 5	build out to 150 + rooms making Greenlee County eligible for numerous mid-sized summits, training and similar semi-annual and annual events. Currently available locations are in Yuma, Prescott/Prescott Valley, Havasu City, Flagstaff, Tucson & Phoenix.

In addition to the immediate need of a Hotel, the Greenlee County market has been reviewed for the future requirements of additional phased facilities in regards to relevant related factors. The surrounding economic environment has been reviewed to identify economic and demographic trends that may have an impact on future demands for these facilities. As an example, the market for hotel accommodations is investigated, including factors such as purpose of visit, average length of stay, facilities and amenities, seasonality, daily demand fluctuations, and price sensitivity. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration, and the degree of competitiveness. Documentation for an occupancy and average rate projection is derived utilizing a penetration analysis based on an analysis of lodging activity. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the subject property.

Statewide Lodging Performance										
Market	June					Year to Date				
	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply
State of Arizona										
2016	64.1%	\$96.86	\$62.08	2,186,046	3,410,760	69.2%	\$122.94	\$85.02	14,176,300	20,498,363
% Ch June 2016 vs. 2015	5.5%	3.9%	9.6%	6.0%	0.6%	2.1%	1.7%	3.9%	2.5%	0.4%

Arizona Office of Tourism - Monthly Lodging Report for June 2016

Market Summary

Located one hundred sixty eight (168) miles northeast of Tucson, AZ and one hundred eighty four (184) miles northwest of Las Cruces, NM, Greenlee County, AZ benefits from this strategic "crossroad" location in Southeast Arizona. Clifton is the county seat of Greenlee County, Arizona, adjacent to the San Francisco River. In 2015, Clifton's population was recorded at 4,477 (Arizona Department of Economic Security). The area is well poised for growth, evidenced by the adjacency of the largest open-pit copper mine in North America and one of the largest in the world. The Morenci Copper Mine is the economic generator for Greenlee County of which 3,200 people are employed. In

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In addition to a substantial employment base, the mine typically has an ongoing contractor base of approximately 1,200+ at any given time. The mine is the largest producer of copper in North America. In addition to the major contribution copper mining makes to Greenlee County's economy, ranching, agriculture and tourism are additional employment contributors as depicted below.

Greenlee County - Summary Monthly	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016
<i>Persons (seasonally adjusted), Local Area Unemployment Statistics, BLS & EBRC</i>					
Civilian Labor Force	3,976.4	3,923.3	3,902.1	3,899.1	3,936.5
% Chg from Year Ago	-1.2% ↓	-1.8% ↓	-0.4% ↓	-0.9% ↓	-1.9% ↓
Employment	3,652.3	3,598.8	3,575.0	3,559.9	3,602.7
% Chg from Year Ago	-1.3% ↓	-2.2% ↓	-0.8% ↓	-1.9% ↓	-2.7% ↓
Unemployment	328.6	334.6	333.6	348.4	341.8
% Chg from Year Ago	0.6% ↑	2.1% ↑	5.1% ↑	12.2% ↑	8.0% ↑
Unemployment Rate	8.3	8.5	8.5	8.9	8.7
<i>Employees on Nonagricultural Payrolls by Industry (seasonally adjusted), Current Employment Statistics, BLS & EBRC</i>					
Total Nonfarm Employment	4,408.5	4,299.0	4,249.3	4,283.6	4,345.8
% Chg from Year Ago	-2.3% ↓	-2.0% ↓	-3.4% ↓	-2.3% ↓	-3.3% ↓
Total Private	3,824.7	3,722.5	3,685.1	3,679.5	3,743.5
% Chg from Year Ago	-2.8% ↓	-4.5% ↓	-3.7% ↓	-4.2% ↓	-4.7% ↓
Goods Producing	3,183.2	3,082.6	3,047.4	3,044.9	3,103.7
% Chg from Year Ago	-1.6% ↓	-4.0% ↓	-3.2% ↓	-3.9% ↓	-4.6% ↓
Service Providing	1,242.4	1,215.2	1,205.5	1,226.0	1,234.2
% Chg from Year Ago	-4.1% ↓	-2.0% ↓	-4.0% ↓	1.8% ↑	0.0% ↑
Trade, Transportation, and Utilities	316.3	322.1	311.3	307.6	313.2
Other Services	346.3	325.9	328.2	330.5	333.5
Government	570.9	567.5	568.1	609.5	583.4
% Chg from Year Ago	-0.4% ↓	0.1% ↑	-0.2% ↓	13.6% ↑	5.0% ↑
Federal	27.1	27.5	26.9	49.3	44.6
State and Local	544.2	540.5	540.5	556.3	535.0
<i>Sales (\$000s, accrual), Arizona Department of Revenue</i>					
Gross Taxable Sales*	NA	NA			
% Chg from Year Ago					
Retail	6,191,286.0	-768,249.0	8,000,894.0	-1,314,022.0	
% Chg from Year Ago	-42.7% ↓	-106.3% ↓	-40.7% ↓	-108.8% ↓	
Published by  Economic and Business Research Center. Powered by dataZoo					

Greenlee County has three lodging facilities within close proximity of each other; Rode Inn (33 rooms), Reardon Hotel (8 rooms) and Morenci Hotel (44 rooms) = 85 total hotel rooms that have a consistently high occupancy rate. There are numerous RV parks and a handful of bed and breakfast operations that offer a limited number of rooms with minimal services. Spaces for meetings or gatherings of 100 or more people is very limited and confined to mostly church buildings, courtrooms, American Legion building or Freeport owned facilities. Throughout the year there are social activities such as gatherings of large families, funerals, school reunions, and old-timer get-togethers that frequently occur in Greenlee County. Although these events are often attended by 200 to 300+ audiences, there is not enough lodging availability and this segment of visitors

and guests currently travel to offerings in other communities such as Safford, Lordsburg, Silver City, Alpine and Springerville for lodging facilities.

The proximity of Morenci Copper Mine, the greatest producer of copper in North America, is also a favorable necessity for increasing the lodging market in Greenlee County. A significant number of employees travel over 100 miles every day in order to be employed. Other than Rode Inn, Reardon Hotel or Morenci Hotel (85 rooms), there are no other lodging properties in the Clifton or Morenci area. Given the minimal amount of hotel rooms (95) in Greenlee County, there is opportunity for additional lodging properties with supporting services in the Clifton area to accommodate the "demand generators" in this area. The market area is further detailed in the *Neighborhood and Market Area Analysis* section of this report, and the competitive hotel market is detailed in the *Hotel Market Trends Chapter* of this report.

Proposed Facility Recommendation

The specifics of the Clifton / Greenlee area and scope of facilities and amenities described throughout this report are based on recommendations of plan B Consultants. Additionally, we have made a recommendation of the general site area to be in Clifton, AZ. We recommend that the proposed Phase 1 subject property be developed and operate as a limited-service hotel, affiliated with a national franchise. Limited-service products generally encompass similar facility programs, including limited food and beverage operations, a small amount of meeting space, and ancillary facilities. Given the limited-service operation and scope of the recommended hotels, we assume that the proposed subject hotel would be owner-operated.

Summary of Findings

The proposed lodging facility is definitely an "overdue" necessity to the market and very feasible. The following bullet points summarize feasibility aspects of the proposed subject property within the market.

- **Economic Feasibility** – Economic feasibility is evidenced by information related to the project site location, availability of trained or trainable labor, utilities, rail, air, road service to the site and the overall impact of the project. Overall, the project is deemed feasible due to the need of a hotel for business and pleasure. The area has an overdue source of demand and the Proposed Hotel is expected to capture a healthy share of this demand over the forecast period, noting occupancy levels near the market average.
- **Market Feasibility** – Market feasibility is evidenced by information on the nature and extent of market area, marketing plans for sale of project output, extent of competition, and commitments from customers. The proposed subject property's ownership/management entity would be expected to be experienced in hotel operations. Current lodging properties compose a total of 95 rooms in Greenlee County; Clifton - Rode Inn (33 rooms) & Reardon Hotel (8 rooms), Morenci - Morenci Motel (44 rooms), Duncan - Simpson B&B Hotel (6 rooms), Chaparral Mini Mart & Motel (6 rooms). The addition of a lodging facility is considered very favorable due to this minimal market lodging deficit and the over demand in the market. The proposed lodging facility's new construction, favorable condition and anticipated popular brand affiliation, is expected to

appeal to users of the demand generators in this market, particularly the Morenci Copper Mine who operates 24 hours a day, 7 days a week, 365 days a year and tourists who frequent the area year round.

- **Technical Feasibility** – The technical feasibility of the area addresses the suitability of potential sites for the intended use, as well as the feasibility of achieving the levels of income projected and the estimated operating costs. Given the availability of land in the market, the technical feasibility of the subject property is reasonable.
- **Financial Feasibility** - Financial feasibility can be determined by an opinion on the reliability of the financial projections and ability of the business to achieve the projected income and cash flow. An assessment of the cost accounting system, the availability of short-term credit for seasonal business and the adequacy of raw materials and supplies are also considered. The subject property's projection of income has been estimated in the *Forecast of Income and Expense* chapter. Overall, the subject property's construction is deemed feasible as the estimated income and expense levels represent a profitable operation.

While the project described in this report represents a profitable operation, a potential developer would review the cost to build the project against implied value. We note that our income and expense projections do not consider any possible incentives from Greenlee County, the Town of Clifton or Freeport-McMoRan Inc. (FMI); if incentives were offered, this benefit would increase the net present value. We note that the site cost and entrepreneurial incentive cannot be determined; however, given the assumption of relatively low land cost and a motivated developer, we would expect these costs to fall below the difference replacement cost of the building from the derived net present value.

The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property and its ultimate feasibility. Factors such as size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site. Although multiple sites are a possibility, the specific site of the proposed subject property has not been selected at the time of this study. Given the lack of a specific site location, flood zone, zoning, site-specific nuisances or hazards or toxic ground contaminants, and soil conditions were not analyzed. We assume that all necessary certifications, permits, and approvals will be secured (including an appropriate liquor license if applicable) and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. An independent analysis of hazardous waste and soil conditions should also be completed prior to construction. It is important to analyze the market in regards to ease of access with respect to regional and local transportation routes and demand generators. The subject area is readily accessible to a variety of local, county, state, and interstate highways.

Accessibility & Visibility Primary regional access to the area is provided by east/west Interstate 10, which extends to such cities as Tucson to the west and Las Cruces, New Mexico to the east.

State Highway 191 & 70 is another major thoroughfare, providing access north to Greenlee County from Interstate 10. The subject property's market is served by a variety of additional local routes, which are illustrated on the map on page 17. The area enjoys a well-developed network of local roadways, highways, and interstates. While a specific site has not been determined, the proposed subject property is expected to be located within Clifton and is expected to have adequate signage at the street; thus, the proposed hotel should benefit from very good visibility from within its local neighborhood. Overall, the subject site is expected to benefit from very good accessibility, and the proposed hotel is anticipated to enjoy very good visibility attributes. The proposed subject property will be well served by the Tucson International Airport, which is located approximately 164 miles (via I-10E & US-191) & to the west of Clifton. From the airport, motorists will follow signs to I-10E and travel east on this thoroughfare to US-191.

Neighborhood Analysis 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. The neighborhood is generally defined by the County Seat of Greenlee, Clifton. Clifton city limits straddle the San Francisco River & US-191. In general, this neighborhood is in the stable stage of its life cycle. Land use fronting US-191 is primarily commercial in nature, while residential and other community uses occupy land to the east and west of this main thoroughfare. Primarily a bedroom community, Clifton is characterized by the historic downtown architecture and natural setting adjacent to the San Francisco River and mountainous terrain.

Neighborhood Map A "cross-section" of area businesses include National Bank of Arizona, Starbucks, Basha's Grocery and Supermarket, Family Dollar, Dollar General, NAPA, Allstate Insurance Company, ACE Hardware, Cable One Digital, Kempton's Chevrolet & Buick, Chase Creek Marketplace, Valley Telecom Group, Margo's Kitchen & Bakery, FMI, Four Seasons Party Planner, Duncan Police Activities League, New Beginnings Baptist Church, Sacred Heart Church, Holy Cross Catholic Church, The Episcopal Church of Sts. Philip & James, Union Hall, Blue Door Sanctuary B & B / Events and Black Hills Catering. In a general approximation, we would characterize the neighborhood as 30% office/retail use, 60% residential use, 5% vacant, and 5% other.

Because of the local Police, Sheriff's Department and business / neighborhood participation, the crime rate in Clifton is 46.78% lower than the national average. The median age is 33.7, the married population at 55%, 2.53 household size and the unemployment rate is 5.4%. The proposed subject property's opening should be a positive influence on the area; the hotel will be in character with and will complement surrounding land uses. In conclusion, the neighborhood is appropriate for the operation of a lodging facility.

Market Area Analysis

Graham & Greenlee Counties
Travel Impacts, 2008-2015p

	2008	2010	2011	2012	2013	2014	2015p
Total Direct Travel Spending (\$Million)							
Destination Spending	57.7	52.6	59.6	64.4	76.5	80.8	60.8
Other Travel*	9.8	9.1	10.8	11.1	11.0	11.1	8.5
Total Direct Spending	67.5	61.7	70.4	75.6	87.6	91.8	69.3
Visitor Spending by Type of Accommodation (\$Million)							
Hotel, Motel	27.1	21.3	25.0	29.6	40.8	44.1	27.9
Private Home	21.7	22.7	25.0	25.1	25.4	26.0	23.5
Campground	2.0	1.9	2.0	2.1	2.1	2.0	1.9
Vacation Home	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Day Travel	6.0	6.0	6.6	6.8	7.3	7.7	6.5
Destination Spending	57.7	52.6	59.6	64.4	76.5	80.8	60.8
Visitor Spending by Commodity Purchased (\$Million)							
Accommodations	9.9	7.6	8.8	10.6	15.5	16.0	9.9
Food Service	15.4	15.2	16.6	17.7	20.4	22.1	18.6
Food Stores	5.2	5.2	5.6	5.7	6.1	6.5	5.9
Local Tran. & Gas	10.3	9.4	11.8	12.4	13.1	13.2	9.0
Arts, Ent. & Rec.	4.4	4.1	4.4	4.6	5.1	5.5	4.5
Retail Sales	12.5	11.2	12.4	13.5	16.3	17.5	13.0
Visitor Air Tran.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Destination Spending	57.7	52.6	59.6	64.4	76.5	80.8	60.8
Industry Earnings Generated by Travel Spending (\$Million)							
Accom. & Food Serv.	9.2	7.6	8.2	9.1	10.7	11.0	8.9
Arts, Ent. & Rec.	2.5	2.4	2.5	2.7	2.8	3.0	2.5
Retail**	3.0	2.4	2.7	2.8	3.2	3.5	2.9
Ground Tran.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Visitor Air Tran.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Travel*	0.7	0.4	0.4	0.4	0.5	0.5	0.4
Total Direct Earnings	15.3	12.8	13.9	15.0	17.1	18.0	14.7
Industry Employment Generated by Travel Spending (Jobs)							
Accom. & Food Serv.	640	500	520	570	660	650	520
Arts, Ent. & Rec.	420	380	380	390	400	410	330
Retail**	120	100	110	110	120	130	110
Ground Tran.	0	0	0	0	0	0	0
Visitor Air Tran.	0	0	0	0	0	0	0
Other Travel*	30	20	20	20	20	20	20
Total Direct Employment	1,230	1,000	1,030	1,090	1,210	1,210	980
Government Revenue Generated by Travel Spending (\$Million)							
Local Tax Receipts	2.3	2.0	2.3	2.5	3.2	3.3	2.5
State Tax Receipts	3.1	3.0	3.4	3.7	4.0	4.1	3.3
Total Direct Gov't Revenue	5.4	5.1	5.7	6.2	7.2	7.4	5.8

Details may not add to totals due to rounding.

*Other Travel includes ground transportation to other Arizona destinations and travel arrangement services. **Retail includes gasoline.

The economic vitality of the market area is an important consideration in forecasting lodging demand. The purpose of this section is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilize, or decline. These trends are then correlated based on their propensity to reflect variations in lodging demand. Although Clifton is located in the west central portion of Greenlee County, Graham County borders Greenlee County to the west and Cochise County borders to the south. Because of their arterial connections to major metropolitan statistical areas, both counties are considered an important economic indicator for Clifton and the greater southern Arizona Market. Total direct travel spending for Greenlee and neighboring Graham County was \$69.3 million while Hotel and Motel destination spending was \$27.9 million in 2015. Local officials believe this number would increase in all travel segments if there were greater opportunities for lodging availability within Greenlee County.

Major Employers & Economic Indicators

In 1872, a group of soldiers from Silver City, New Mexico, lead by Captain Chase were seeking renegade Apaches, in the group were Jim and Bob Metcalf. While passing through the canyon the Metcalfs noticed rich copper deposits in the walls close to the present day town of Clifton and Morenci. The troops never found the Apaches and returned to Silver City. The Metcalf brother later returned to prospect and staked a claim where they located rich copper deposits. The discovery of the rich copper deposits in Greenlee County has transformed today into the largest open-pit copper mine in North America with an ample workforce of approximately 3,200 employees and an ongoing contractor base of 1,200+. The county was established in 1909 and is governed today by a three member Board of Supervisors. According to the Arizona Department of Economic Security 2015 statistics, Greenlee County has a population of 10,556, making it the least populous county in Arizona. Greenlee County is strategically located to benefit from its own economic drivers, as well as commerce and tourism from surrounding communities. The 2016 labor force of Greenlee County is approximately 4,700 (Arizona Commerce Authority). Greenlee County's largest employers are Copperroom Restaurant & Lounge, Duncan Unified School District, Freeport-McMoRan, Greenlee County, Kempton Chevrolet & Buick, Morenci Healthcare Center, Morenci Water and Electric Company and Town of Clifton. The highest level of income growth in the Southeast Arizona Region is Greenlee County, which saw an increase of 22.7% from 2010 to 2014 (more than twice the statewide rate). In Greenlee and adjacent Graham

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county, rising wages were a result of construction jobs attributed to the Freeport-McMoRan mine expansion in the area, and increases in mining related wages.

Employment for the County is industry segregated as follows:

EMPLOYMENT BY SECTOR (IN THOUSANDS)		
Agriculture, forestry, fishing, hunting, & mining	1.5	47.6 %
Education, health care & social assistance	0.5	15.3 %
Construction	0.3	8.7 %
Retail trade	0.2	6.3 %
Arts, entertainment, food & recreation services	0.2	6.2 %
Public administration	0.1	4.5 %
Professional, scientific, & administrative services	0.1	3.8 %
Transportation, warehousing, & utilities	0.1	2.7 %
Other services, except public administration	0.0	1.4 %
Manufacturing	0.0	1.2 %
Finance, insurance & real estate	0.0	0.9 %
Wholesale trade	0.0	0.9 %
Information	0.0	0.7 %

2014 Arizona Department of Administration

Major economic generator factors for this market:

- Clifton is the county seat of Greenlee County and is the principal city within the county.
- The natural beauty of Greenlee County serve as a "backdrop" for the year round influx of visitors attending private and public events (Fall Festival, Greenlee County Fair, Clifton Hill Climb, Festival of Lights, "Colors of Copper Art & Wine Festival" (400+ people per day) Blues Festival, Horse Races, Junior Rodeo, Rodeo Queen Contest and Spring Rampage). County visitors each year are as follows:

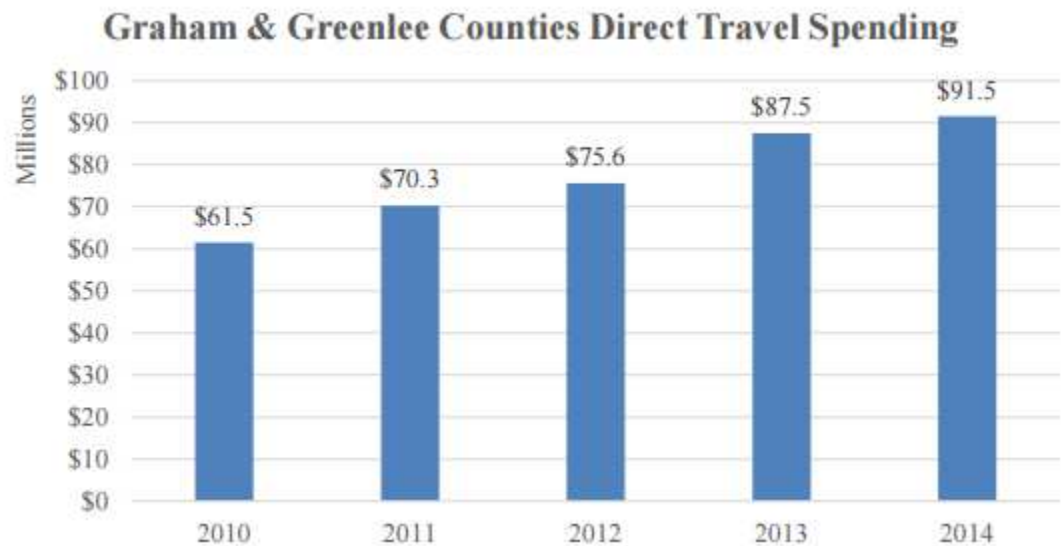
Event	Approximate Attendees
Commuters - 550 x 365 days	200,750
Contractors & Sales - 275 x 365 days	100,375
Sporting Events - 68 x 140 events	9,520
Funerals	6,300
County Fair	5,540
Hunting & Fishing	2,450
Parades	3,200
Weddings	1,800
Misc. Events (Colors of Copper, Javelina Chase, etc.)	1,650
Parties	1500
Training Events	1380
Workshop Events	675
TOTAL ANNUAL ATTENDEES	335,140

- The economic anchor of Greenlee County is anchored by the mining industry.
- As shown below, direct travel spending in the Greenlee county region increased steadily from 2010 through 2014. In 2014, southeastern Arizona travel spending totaled \$91.5 million (up 4.6% from 2013). Spending in 2014 was up nearly 50% from 2010. In 2014,

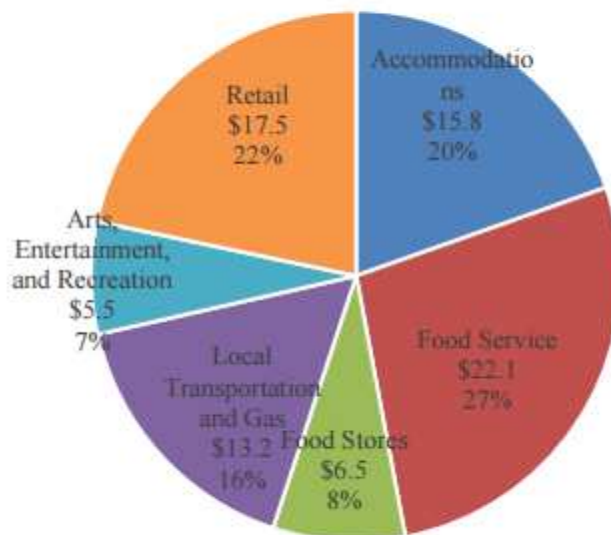
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spending for food service accounted for the largest share of visitor destination spending in the southeastern region at 27%, followed by retail at 22% and accommodations at 20%.



Graham & Greenlee Counties Travel Destination Spending (2014)



Arizona Office of Tourism

Economic & Demographic Trends

Throughout the year, Greenlee County engages residents and visitors of all ages in various activities as follows:

- 1.) The Javelina Chase– Two day event with 250+ racers and family members
- 2.) Two Annual Car Shows – 20+ participants
- 3.) Spring Rampage – 3,000 ± participants attend this one weekend event
- 4.) July 4th - 500 ± participants attend local festivities
- 5.) All Star Football Game - Players and parents currently stay in the high school or in Safford or Lordsburg for three or four nights
- 6.) Greenlee County Fair - 5,540 participants over four days
- 7.) Camping in the Park – Cyclists asked to camp in the park during the summer
- 8.) School Reunions – 3,000 attendees; Attendees stay in Lordsburg or Safford
- 9.) Harvest Festival – 500+ attendees
- 10.) MudDrags – 500+ attendees
- 11.) Christmas Light Parade
- 12.) Family Reunions - 300 ±
- 13.) Clifton Hill Climb
- 14.) Colors of Copper Art Gala - 250 avg. participants per day
- 15.) Memorial Golf Tournament
- 16.) Lions Club Baseball Tournament
- 17.) County and School District sponsored events.

Access to county events previously listed are by state and interstate highway which accommodates the travel into and through Greenlee County. Multiple avenues of county accessibility are provided by US Interstate 191 & 70 which traverse east / west and north / south accessing US 10 into Tucson, Phoenix and New Mexico while State Highways 75 & 78 provide north / south arterial access to the county.

The market benefits from a healthy number of tourists each year that visit major tourist attractions in the southeast region including the Apache Sitgreaves National Forest, Roper Lake State Park, Black Hills Back Country Byway, Black River, Blue Vista Rim Overlook, Blue River/ Eagle Creek, Dankworth Ponds, Chase Creek, Discovery Park, Eastern Arizona History Museum, Klondyke and Aravaipa Canyon Preserve, Coronado Trail Scenic Byway, The Old West Highway, Salt River Canyon, Gila River, Arizona's Salsa Trail, Arizona and New Mexico Railway Passenger Station, and Morenci and the Morenci open pit mine. In addition to the natural attractions, hunting and fishing enthusiasts also often frequent the area during the season in attempts to land their prized trophy.

Governmental and Environmental Factors

Greenlee County is subject to a normal form of local government and is also subject to the laws and regulations of the state of Arizona. None of these laws or government entities was noted to have a particularly abnormal influence on the operation of potential real estate developments or property values in the market area. The environment of Greenlee County appears normal to other surrounding counties; we observed no adverse conditions. No noted environmental factors have positive or negative influences on property values in the Greenlee County market area.

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Conclusion

We have reviewed and studied various social, economic, government, and environment data and observations pertaining to Greenlee County and the state of Arizona. The research revealed that although the area will always be impacted by its remote "destination" location, the greater market benefits from a well-established large and well-known successful mining operation and tourism economy. The ongoing stability of the mining and tourism industry will always positively impact the local economy of Greenlee County. Adverse governmental or environmental factors were noted to not be a factor in future real estate development projects within Greenlee County.

Hotel Market Trends

This section will begin with an overview of national lodging demand trends to determine what macro changes have occurred in this real estate sector. Next, we will provide a definition of the subject's pertinent hotel market and review each competitive hotel (future competitors). We then provide an analysis and discussion pertaining to the occupancy and average rate trends of this competitive set.

Arizona Lodging Performance by County 2Q16

Lodging performance by occupancy, ADR (average daily rate), RevPAR (revenue per available room), demand and supply on a monthly, quarterly and year-end basis, as reported by Arizona Office of Tourism.

Statewide Lodging Performance by County Second Quarter 2016 (April, May, June)										
County	Occupancy		ADR (\$)		RevPAR (\$)		Demand		Supply	
	2016	% Ch Q2 2016 vs 2015	2016	% Ch Q2 2016 vs 2015	2016	% Ch Q2 2016 vs 2015	2016	% Ch Q2 2016 vs 2015	2016	% Ch Q2 2016 vs 2015
Apache	61.7%	-0.2%	89.92	4.6%	55.47	4.4%	57,592	-0.2%	93,366	0.0%
Cochise	48.1%	-0.2%	70.07	2.5%	33.67	2.3%	133,681	-0.6%	278,183	-0.2%
Coconino	83.2%	1.8%	123.38	2.6%	102.60	4.5%	856,692	3.9%	1,030,260	1.8%
Gila	57.0%	9.1%	86.07	1.7%	49.02	10.9%	64,372	9.1%	113,022	0.0%
Graham	45.2%	-3.2%	78.47	-1.8%	35.51	-4.8%	23,757	-10.3%	52,507	-6.9%
Greenlee	N/A		N/A		N/A		N/A		N/A	
La Paz	49.5%	10.7%	70.92	-0.8%	35.08	9.8%	27,909	10.7%	56,420	0.0%
Maricopa	67.9%	6.1%	115.78	3.3%	78.66	9.5%	3,745,571	6.5%	5,513,164	0.4%
Mohave	67.8%	3.5%	78.76	5.0%	53.39	8.8%	257,707	4.4%	380,136	0.8%
Navajo	62.7%	1.2%	79.77	3.8%	50.05	5.1%	178,714	1.4%	284,860	-0.1%
Pima	57.7%	0.4%	93.95	2.9%	54.23	3.3%	833,708	-0.2%	1,444,469	-0.7%
Pinal	58.8%	4.1%	80.89	3.9%	47.58	8.1%	117,856	4.3%	200,382	0.0%
Santa Cruz	43.1%	1.9%	71.06	0.2%	30.61	2.2%	41,040	0.4%	95,277	-1.1%
Yavapai	70.3%	1.6%	164.22	8.0%	115.52	9.7%	318,219	2.6%	452,362	1.0%
Yuma	55.7%	4.4%	78.00	3.6%	43.41	8.3%	181,465	4.1%	326,053	0.0%

Statewide Lodging Performance Second Quarter 2016 (April, May, June)					
Market Year	Occupancy	ADR	RevPAR	Demand	Supply
United States					
2015	68.9%	\$120.94	\$83.39	311,988,494	452,516,205
2016	69.4%	\$124.43	\$86.33	318,813,114	459,503,588
% change Q2	0.6%	2.9%	3.5%	2.2%	1.5%
Mountain Region					
2015	66.8%	\$104.02	\$69.49	36,051,478	53,962,822
2016	68.2%	\$108.80	\$74.21	37,071,899	54,352,475
% change Q2	2.1%	4.6%	6.8%	2.8%	0.7%
State of Arizona					
2015	63.6%	\$106.35	\$67.63	6,544,858	10,290,896
2016	66.3%	\$110.40	\$73.14	6,840,601	10,324,924
% change Q2	4.2%	3.8%	8.1%	4.5%	0.3%
Metro Phoenix					
2015	63.8%	\$110.98	\$70.83	3,630,981	5,689,381
2016	67.6%	\$114.72	\$77.57	3,863,427	5,713,546
% change Q2	6.0%	3.4%	9.5%	6.4%	0.4%
Metro Tucson					
2015	57.5%	\$91.12	\$52.35	835,668	1,454,509
2016	57.7%	\$93.95	\$54.23	833,708	1,444,469
% change Q2	0.5%	3.1%	3.6%	-0.2%	-0.7%
Flagstaff AZ					
2015	82.1%	\$96.08	\$78.87	393,935	479,873
2016	80.7%	\$101.10	\$81.56	386,302	478,882
% change Q2	-1.7%	5.2%	3.4%	-1.9%	-0.2%
Non-metro AZ					
2015	64.9%	\$106.17	\$68.88	1,949,495	3,004,887
2016	66.4%	\$110.68	\$73.53	2,007,496	3,021,849
% change Q2	2.4%	4.3%	6.8%	3.0%	0.6%

The Arizona travel industry had its second consecutive year of exceptionally strong growth, following mostly modest increases in spending and related impacts since the recession of 2007 to 2009. Over the past two years, travel spending in real (inflation-adjusted) dollars has increased by 3.9 percent per year. Real travel spending increased by 1.8 percent per year during the preceding four year period (2009 through 2013). Visitor air travel on domestic flights to Arizona destinations increased by 5.4 percent in 2015, following a 3.9 percent increase the preceding year. Room demand increased by 4.2 percent for the year, following a similar increase the preceding year.

The recommended "phased" facilities described in this report represents a limited-service lodging facility in a small metro area in the Southwestern Region (other states in this region include New Mexico, Colorado, and Utah) as categorized by STR.

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Additionally, it can be characterized as mid-price property operating under a mid-scale chain affiliation that typically does not include food and beverage facilities beyond a breakfast area.

Definition of Subject Market

The proposed development should be located in the County Seat, Clifton, Arizona. In order to review hotels in the greater market surrounding the proposed subject property, we constructed a list of hotels within a 50 and 100 mile radius. The "area" market offers 14 hotels and motels, spanning 741 rooms in a fifty (50) mile radius and an additional 36 hotels and motels spanning 1,555 rooms in a hundred (100) mile radius.

The proposed developments will compete with neighboring community facilities based on various factors. These factors may include location, price point, product quality, length of stay (such as an extended-stay vs. non-extended stay), room type (all-suite vs. standard), hotel age, or brand, among other factors. We have reviewed these pertinent attributes and established a competitive set based upon this review. In addition to the primary and secondary competitive sets established, we note the presence of other lodging properties (Bed & Breakfast, Vacation Rentals by Owner) throughout the area.

Hotels - 50 Mile Radius	Location	Miles from Clifton, AZ	Total Rooms
Simpson B & B Hotel	Duncan, AZ	28.4	6
Chaparral Mini Mart & Motel			7
DUNCAN, AZ SUB-TOTAL			13
Rode Inn	Clifton, AZ	NA	33
Reardon Hotel			8
CLIFTON, AZ SUB-TOTAL			41
Morenci Hotel	Morenci, AZ	1.6	44
MORENCI, AZ SUB-TOTAL			44
Comfort Inn & Suites	Safford, AZ	28	88
Comfort Inn & Suites			102
Best Western Desert Inn			70
Garden Inn			44
Highway Express Inn & Suites			58
Economy Inn			40
Days Inn			43
Econo Lodge			39
SAFFORD, AZ SUB-TOTAL			484
Comfort Inn and Suites	Thatcher, AZ	46	88
Springhill Suites by Marriott			71
THATCHER, AZ SUB-TOTAL			159
50 MILE RADIUS ROOM COUNT SUB TOTAL			741

Hotels - 100 Mile Radius	Location	Miles from Clifton, AZ	Total Rooms
Econo Lodge	Lordsburg, NM	64.1	40
Hampton Inn			64
Comfort Inn			64
Motel 6			40
Holiday Motel			46

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Days Inn & Suites			56
Super 8			41
Motel 10			30
American Motor Inn			88
Plaza Inn			41
LORDSBURG, NM SUB-TOTAL			510
Comfort Inn	Silver City, NM	89	52
Murray Hotel			77
Palace Hotel			22
Holiday Inn Express			60
Econo Lodge			61
Copper Manor			55
Rodeway Inn			63
Drifter Motel			6
Motel 6			69
SILVER CITY, NM SUB-TOTAL			465
Hannagan Meadow Lodge	Alpine, AZ	117	18
Tal-Wi-Wi Lodge			20
Sportsman Lodge			14
Deer Dancer Cabins			8
Alpine Inn			3
ALPINE, AZ SUB-TOTAL			63
Reed's Lounge	Springerville, AZ	144	50
Rode Inn			63
X Diamond & MLY Ranch			7
America's Best Value Inn			41
El Jo Motor Inn			36
SPRINGERVILLE, AZ SUB-TOTAL			197
Comfort Inn	Benson, AZ	121	63
Best Western			83
Motel 6			63
Days Inn			61
Super 8			40
Quarter Horse Motel			4
El Rio Motel			6
BENSON, AZ SUB-TOTAL			320
100 MILE RADIUS ROOM COUNT SUB TOTAL			1,555
100 & 50 MILE RADIUS ROOM COUNT GRAND TOTAL			2,296

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100 Mile Radius from Clifton



Feasibility Study

Greenlee County, Arizona

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New Supply

It is important to consider any new hotels that may have an impact on the proposed subject property's operating performance. According to the Greenlee County Board of Supervisors, no new hotels are expected within the proposed subject property's neighborhood at this time (aside from the proposed subject property).

Review of the Proposed Facility

The subject property is expected to be a limited-service lodging facility containing the facilities described below as well as the requisite back of the house ancillary facilities.

Expected Opening Year:	2017 - 2018
Dining Facilities:	Breakfast area
Number of Buildings:	One
Number of Stories:	Three
Meeting Space:	500 square feet
Building Square Feet:	28,000
Parking Spaces:	70
Amenities:	Pool, whirlpool, exercise room, guest laundry facility, business center or lobby workstation, sundries counter or vending area, ice machine areas

Guestroom Type Breakdown

King Rooms:	20
Double/Double Rooms:	40
Suites:	5
Total:	65

Franchise & Mgt. Recommendations

We recommend that the proposed subject property be developed and operate as a limited-service hotel. We note that the potential brand would be subject to location and impact analysis of the franchisor if the brand is already represented in the greater market. Limited-service products generally encompass similar facility programs, including limited food and beverage operations, a small amount of meeting space, and ancillary facilities. As such, it is our opinion the designation of a specific brand is pertinent to this study. Given the limited-service operation and scope of the recommended hotel, we assume that the proposed subject hotel would be owner-operated.

Site Improvements, Entry, Lobby, Structure, & Vertical Access

Once guests enter the site, ample parking should be available on the surface lot around the perimeter of the hotel. Site improvements should include free-standing signage, which should be located on the sides of the site with roadway frontage (additional signage should be placed on the exterior of the building). We assume that all signage will adequately identify the property and meet the to-be-determined brand standards. Planned landscaping should allow for a positive guest impression and competitive exterior appearance. Sidewalks should be present along the front entrance and around the perimeter of the hotel. Overall, the site improvements for the property should reflect an appropriate look and feel for a hotel in a suburban location. The hotel

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structure should comprise one single building, which is likely to be constructed of a timber frame. The exterior of the hotel should be finished with an attractive building material, such as stucco, brick, or stone. Stairways and an elevator will provide internal vertical transportation within the main structure as needed. The hotel's roof should be constructed consistent with energy conservation construction techniques. The installation of double-paned windows will reduce noise transmission into the rooms. Heating and cooling should be provided by individual in-room systems and several large units for the public areas. Overall, the building components should meet prototype development specifications set forth by the chosen brand. We assume that this type of limited-service hotel will meet the standards for this market and should complement existing nearby improvements. We assume that all structural components will meet local building codes and that no significant defaults will occur during construction that may impact the future operating potential of the hotel or delay its assumed opening date. In addition, one factor that that will be critical is the shortage of labor (having to compete with the mine). A substantial price increase for construction labor is a possibility due to the lack of labor availability in Clifton. As a result, workers may have to be provided with temporary housing on the construction site (RV's etc) or shipped in daily from outlying areas.

Other Public Areas

We have assumed the future development of a limited-service hotel facility. Although facility programs and development specifications may differ among brands and facilities being considered, the limited-service programming development specifications are generally consistent. Guests should enter the hotel through a single set of automatic doors, which will open to a small vestibule, and then through a second set of automatic doors. The lobby décor should be attractively finished and in line with brand standards. The front desk should feature a stone countertop and should be installed with appropriate property management and telephone systems. The furnishings and finishes in this space should offer an appropriate first impression, and the design of the space should lend itself to adequate efficiency. We assume that all property management and guestroom technology will be appropriately installed for the effective management of hotel operations. The hotel's breakfast dining area should be located within or adjacent to the lobby, which is appropriate for this type of hotel. The furnishings of the space are expected to be of a similar style and finish as lobby and guestroom furnishings. Windows and a mounted television should further enhance the look and functionality of the room. The hotel should offer one meeting room located near the lobby on the first floor. The meeting space should be appropriate for a hotel of this type and is expected to meet brand standards. Public restrooms near the entrance to the meeting space should enhance the overall functionality of the area. The hotel should offer a pool, a whirlpool, and an exercise room as recreational facilities. Other amenities should include a small business center or lobby workstation, a guest laundry room, a small sundries counter or a vending area, and ice machines on each floor. Overall, the supporting facilities should be appropriate for a hotel of this type, and we assume that they will meet brand standards.

Guestrooms

The hotel is expected to feature standard and suite-style configurations, and guestrooms should be present on all levels of the property within the single building. The guestrooms should offer typical amenities for this product tier. In addition

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to the standard furnishings, rooms should feature an iron and ironing board and a coffeemaker. All guestrooms should provide high-speed, wireless Internet access. Suites, which will be available for a premium rate, should feature a larger living area, as well as a microwave and small refrigerator. Overall, the guestrooms should offer a competitive product for this area. Guestroom bathrooms should be of a standard size, with a shower-in-tub, toilet, and single sink with vanity area, featuring a stone countertop. The floors are anticipated to be finished with tile, and the walls should be finished with knockdown texture or vinyl wall-covering. Bathrooms should feature a hairdryer and complimentary toiletries. Overall, the bathroom design is expected to be appropriate for a product of this type. The interior guestroom corridors should be wide and functional, permitting the easy passage of housekeeping carts. Corridor carpet, wall covering, signage, and lighting are expected to be in keeping with the overall look and design of the rest of the property.

Support Areas & Engineering Systems

The hotel is expected to be served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and a small kitchen to serve the needs of the proposed property's complimentary breakfast operation. These spaces should be adequate for a hotel of this type and should allow for the efficient operation of the property under competent management. We assume that the property will be built according to all pertinent codes and brand standards. Moreover, we assume its construction will not create any environmental hazards (such as mold) and that the property will fully comply with the Americans with Disabilities Act.

Capital Expenditures

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

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

Occupancy Projections

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.

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Our occupancy forecast for the proposed subject property reflects the strengthening of the hotel to a market appropriate penetration level. Clifton neighbors Morenci to the north and is immediately adjacent to a major demand economic generator, the Morenci Copper Mine, and the proposed subject hotel's product should be popular with users associated with this entity as well as the "tourism factor." Overall, our forecast position reflects the proposed hotel's expected quality and facility scope, its location attributes, and an anticipated brand affiliation. Therefore, we expect the hotel to achieve a penetration level of 90.0% in Year 1 and 93.0% in Year 2, before stabilizing at a penetration level of 95.0% in Year 3 and beyond.

Forecast of Income & Expense

This forecast is based on the facilities program set forth previously, as well as the occupancy forecast discussed previously. For the purpose of forecasting the hotel's remaining revenue sources and expense categories, we have reviewed actual operating statements from other similar hotels, as well as national averages.

Comparable Operating Data

Because of the lack of proposed nature of the subject property, we have positioned expenses based on our industry knowledge and a review of comparable operating statements. The following comparable operating statements from similar scope of service properties are from hotel statistics and were also used in our formulation of the subject property's projections. While these statements are not from the established competitive set, they represent properties of a similar scope as the recommended subject property, including brand representation from national brands such as Comfort Inn, Super 8, and Sleep Inn. This data is presented in four tables:

1.) Percent of Revenue

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Year:	2010	2009	2008	2008	2010	2010
Number of Rooms:	50 to 70	60 to 90	60 to 80	80 to 110	50 to 70	60 to 80
Days Open:	365	365	366	366	365	365
Occupancy:	62%	63%	65%	67%	63%	64%
Average Rate:	\$73	\$61	\$63	\$66	\$74	\$69
RevPAR:	\$45	\$38	\$41	\$44	\$47	\$44
REVENUE						
Rooms	98.5 %	100.0 %	100.0 %	98.2 %	99.2 %	99.1 %
Other Operated Departments	1.5	0.0	0.0	1.8	0.8	0.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	24.7	12.7	15.7	26.7	26.9	26.6
Other Operated Departments	66.7	0.0	0.0	83.3	112.5	70.0
Total	25.3	17.9	15.7	27.8	27.7	27.0
DEPARTMENTAL INCOME	74.7	82.1	84.3	72.2	72.3	73.0
OPERATING EXPENSES						
Administrative & General	10.6	11.1	11.8	6.7	13.2	11.3
Marketing	2.6	1.2	3.4	3.4	2.5	3.3
Franchise Fee	7.6	11.3	6.6	5.9	7.3	7.3
Property Operations & Maintenance	5.6	4.2	3.0	4.2	3.8	4.6
Utilities	5.6	8.1	7.3	6.0	4.2	4.4
Total	32.0	35.9	32.2	26.3	31.0	30.9
HOUSE PROFIT	42.7	46.2	52.1	45.9	41.3	42.1
Management Fee	3.2	0.2	0.0	2.8	3.3	3.3
INCOME BEFORE FIXED CHARGES	39.5	46.0	52.1	43.2	38.0	38.8
FIXED EXPENSES						
Property Taxes	3.0	0.2	3.2	4.2	8.6	5.3
Insurance	1.0	2.8	0.8	1.1	0.8	0.9
Miscellaneous Fixed Expenses	(0.2)	0.7	0.0	0.0	(0.1)	(0.1)
Reserve for Replacement	4.0	0.0	0.0	0.0	4.0	4.0
Total	7.8	3.7	4.0	5.3	13.3	10.1
NET INCOME	31.7 %	42.3 %	48.1 %	37.9 %	24.7 %	28.7 %

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

2. Amounts Per Occupied Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Year:	2010	2009	2008	2008	2010	2010
Number of Rooms:	50 to 70	60 to 90	60 to 80	80 to 110	50 to 70	60 to 80
Days Open:	365	365	366	366	365	365
Occupancy:	62%	63%	65%	67%	63%	64%
Average Rate:	\$73	\$61	\$63	\$66	\$74	\$69
RevPAR:	\$45	\$38	\$41	\$44	\$47	\$44
REVENUE						
Rooms	\$73.06	\$61.10	\$62.51	\$66.45	\$73.50	\$69.01
Other Operated Departments	1.09	0.00	0.00	1.24	0.62	0.62
Total	74.15	61.10	62.51	67.69	74.12	69.63
DEPARTMENTAL EXPENSES						
Rooms	18.01	7.76	9.84	17.75	19.80	18.35
Other Operated Departments	0.73	1.98	0.00	1.04	0.69	0.43
Total	18.74	10.91	9.84	18.79	20.49	18.79
DEPARTMENTAL INCOME	55.41	50.18	52.67	48.90	53.63	50.85
OPERATING EXPENSES						
Administrative & General	7.87	6.77	7.40	4.56	9.79	7.87
Marketing	1.90	0.76	2.13	2.32	1.85	2.29
Franchise Fee	5.61	6.89	4.14	3.98	5.39	5.08
Property Operations & Maintenance	4.16	2.57	1.88	2.86	2.85	3.22
Utilities	4.16	4.96	4.58	4.06	3.08	3.04
Total	23.70	21.94	20.13	17.79	22.96	21.52
HOUSE PROFIT	31.72	28.24	32.54	31.11	30.67	29.33
Management Fee	2.41	0.12	0.00	1.87	2.47	2.29
INCOME BEFORE FIXED CHARGES	29.31	28.13	32.54	29.24	28.20	27.04
FIXED EXPENSES						
Property Taxes	2.26	0.12	2.01	2.86	6.39	3.72
Insurance	0.73	1.69	0.50	0.75	0.62	0.62
Miscellaneous Fixed Expenses	(0.15)	0.41	0.00	0.00	(0.08)	(0.06)
Reserve for Replacement	2.99	0.00	0.00	0.00	2.93	2.79
Total	5.83	2.22	2.51	3.61	9.86	7.07
NET INCOME	\$23.48	\$25.91	\$30.03	\$25.63	\$18.34	\$19.97

3. Amounts Per Available Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Year:	2010	2009	2008	2008	2010	2010
Number of Rooms:	50 to 70	60 to 90	60 to 80	80 to 110	50 to 70	60 to 80
Days Open:	365	365	366	366	365	365
Occupancy:	62%	63%	65%	67%	63%	64%
Average Rate:	\$73	\$61	\$63	\$66	\$74	\$69
RevPAR:	\$45	\$38	\$41	\$44	\$47	\$44
REVENUE						
Rooms	\$16,426	\$13,960	\$14,881	\$16,182	\$17,036	\$16,130
Other Operated Departments	246	0	0	303	143	145
Total	16,672	13,960	14,881	16,485	17,179	16,275
DEPARTMENTAL EXPENSES						
Rooms	4,049	1,773	2,343	4,323	4,589	4,290
Other Operated Departments	164	453	0	253	161	101
Total	4,213	2,493	2,343	4,576	4,750	4,391
DEPARTMENTAL INCOME	12,459	11,467	12,537	11,909	12,429	11,884
OPERATING EXPENSES						
Administrative & General	1,770	1,547	1,761	1,111	2,268	1,841
Marketing	426	173	507	566	429	536
Franchise Fee	1,262	1,573	985	970	1,250	1,188
Property Operations & Maintenance	934	587	448	697	661	754
Utilities	934	1,133	1,090	990	714	710
Total	5,328	5,013	4,791	4,333	5,321	5,029
HOUSE PROFIT	7,131	6,454	7,746	7,576	7,108	6,855
Management Fee	541	27	0	455	571	536
INCOME BEFORE FIXED CHARGES	6,590	6,427	7,746	7,121	6,536	6,319
FIXED EXPENSES						
Property Taxes	508	27	478	697	1,482	870
Insurance	164	387	119	182	143	145
Miscellaneous Fixed Expenses	(33)	93	0	0	(18)	(14)
Reserve for Replacement	672	0	0	0	679	652
Total	1,311	507	597	879	2,286	1,652
NET INCOME	\$5,279	\$5,920	\$7,149	\$6,242	\$4,250	\$4,667

4. Composite statement

Total U.S. Summary	Total U.S.			Chain-Affiliated			Independent			Total U.S.
Occupancy (of Sample)	73.7%			73.9%			70.4%			Same Store Analysis
Average Size of Property (Rooms)	197			198			192			
Average Daily Rate	\$164.44			\$162.14			\$200.90			
	Ratio-to-Sales	Per-Available-Room	Per-Occupied-Room Night	Ratio-to-Sales	Per-Available-Room	Per-Occupied-Room Night	Ratio-to-Sales	Per-Available-Room	Per-Occupied-Room Night	2015 Variance from 2014
REVENUE										
Rooms	69.6%	\$44,076	\$164.44	70.5%	\$43,608	\$162.14	59.9%	\$51,091	\$200.90	4.7%
Food	14.9	9,420	35.14	14.6	9,033	33.58	17.8	15,215	59.83	3.7
Beverage	4.5	2,857	10.66	4.2	2,627	9.77	7.4	6,303	24.78	1.9
Other Food & Beverage	4.9	3,115	11.62	5.0	3,120	11.60	3.6	3,046	11.98	20.2
Other Operated Departments	3.8	2,386	8.90	3.4	2,088	7.76	8.0	6,859	26.97	(5.5)
Miscellaneous Income	2.3	1,484	5.54	2.3	1,393	5.18	3.3	2,845	11.19	28.0
Total Revenue	100.0%	\$63,338	\$236.30	100.0%	\$61,868	\$230.03	100.0%	\$85,360	\$335.65	5.1%
DEPARTMENTAL EXPENSES										
Rooms	25.2%	\$11,111	\$41.45	24.9%	\$10,875	\$40.43	28.7%	\$14,649	\$57.60	2.8%
Food & Beverage	71.6	11,015	41.10	71.3	10,540	39.19	73.8	18,138	71.32	4.6
Other Operated Departments	67.4	1,608	6.00	67.2	1,403	5.22	68.0	4,666	18.35	(4.1)
Total Departmental Expenses	37.5%	\$23,734	\$88.55	36.9%	\$22,818	\$84.84	43.9%	\$37,453	\$147.27	3.1%
Total Departmental Profit	62.5%	\$39,604	\$147.75	63.1%	\$39,050	\$145.19	56.1%	\$47,906	\$188.38	6.3%
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	7.9%	\$4,991	\$18.62	7.8%	\$4,840	\$18.00	8.5%	\$7,245	\$28.49	2.5%
Information & Telecommunications Systems	1.1	667	2.49	1.1	657	2.44	1.0	812	3.19	58.7
Marketing	6.7	4,241	15.82	6.8	4,193	15.59	5.8	4,966	19.53	8.6
Franchise Fees	1.7	1,085	4.05	1.8	1,142	4.25	0.3	233	0.91	9.0
Utility Costs	3.4	2,126	7.93	3.4	2,076	7.72	3.4	2,871	11.29	1.9
Property Operations & Maintenance	4.3	2,705	10.09	4.2	2,616	9.72	4.7	4,050	15.93	(3.5)
Total Undistributed Operating Expenses	25.0%	\$15,815	\$59.00	25.1%	\$15,524	\$57.72	23.6%	\$20,176	\$79.34	5.1%
GROSS OPERATING PROFIT	37.6%	\$23,789	\$88.75	38.0%	\$23,526	\$87.47	32.5%	\$27,731	\$109.04	7.1%
Management Fees	3.0	1,890	7.05	3.0%	1,865	6.93	2.7	2,271	8.93	5.3
INCOME BEFORE FIXED CHARGES	34.6%	\$21,898	\$81.70	35.0%	\$21,661	\$80.53	29.8%	\$25,460	\$100.11	7.3%
Selected Fixed Charges										
Taxes	3.5%	\$2,208	\$8.24	3.5%	\$2,194	\$8.16	2.8%	\$2,418	\$9.51	7.1%
Insurance	1.0	644	2.40	1.0	613	2.28	1.3	1,109	4.36	(3.6)
EBITDA	30.1%	\$19,047	\$71.06	30.5%	\$18,854	\$70.10	25.7%	\$21,933	\$86.24	6.4%
Reserve for Replacement	2.0%	\$1,281	\$4.78	2.1%	\$1,277	\$4.75	1.6%	\$1,345	\$5.29	9.2%

Inflation Assumption

A general rate of inflation must be established that will be applied to most revenue and expense categories. A *Wall Street Journal* survey found on average financial analysts who were surveyed anticipated inflation rates ranging from 0.7% to 3.1% (on an annualized basis) for the six-month period. The average estimate was 1.9%; the same group forecast 1.3% inflation for the six-month period ending December of 2010, and the actual inflation rate during this period was 1.6%. 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 3.0% throughout our projection period.

Building Replacement Summary

Replacement cost is the current construction cost of a building with the same utility as the subject property, but built with modern materials and according to current construction and design standards. As a basis for estimating the developmental costs, we have used a hotel development cost survey conducted by HVS International. This survey is published annually in a newsletter entitled *The HVS Hotel Valuation Journal*. The survey presents the range of per-room costs associated with various components of hotel development, including improvements, furniture and equipment, pre-opening expenses, and operating capital. Statistics are compiled for budget/economy hotels, mid-scale hotels with and without food and beverage, extended-stay hotels, and full-service hotels. The results of this survey are presented in the following table. The

plan B

real estate • construction management • project management

proposed subject represents a limited-service hotel with 65 guestrooms and the appropriate public areas and back of-the-house spaces for a hotel of this type.

We have further positioned per-room costs per category for the subject property as follows.

Subject Room Count:		65 Units
<i>Total Replacement Costs</i>	<i>Per Room</i>	<i>Total</i>
Building	\$36,000	\$2,340,000
FF&E	8,000	520,000
Pre-Opening Costs and Working Capital	1,000	65,000
Soft Costs	1,500	97,500
Total	\$46,500	\$3,022,500
Rounded To:		\$3,000,000

As a check, we have relied on information from Marshall & Swift, a nationally recognized authority, to estimate the replacement cost of the proposed subject property's building. Using the Marshall & Swift Commercial Estimator computer software program, the estimated replacement cost derived from this method includes all direct costs plus a portion of indirect costs, such as construction financing, temporary utilities, and general conditions. The proposed subject property would most likely be classified as a Class D, Rank 3 limited-service hotel building based on parameters in the Marshall & Swift Commercial Estimator. The total building area of the proposed subject property is estimated to be 28,000 square feet. Given these considerations, the replacement cost of the proposed subject property as if new has been estimated to be \$2,400,000.

Marshall & Swift Estimate

Occupancy:	Limited Service Hotel
Class	Class D
Height	10'
Rank	3
Total Area (Square Feet)	28,000
Number of Stories	3
Number of Elevators	1
Number of Rooms	65

Basic Structure	Unit	Cost per SF	Total
Base Cost	28,000	\$59.08	\$ 1,654,240
Exterior Walls	28,000	\$13.97	\$ 391,160
Heating & Cooling	28,000	\$7.50	\$ 210,000
Elevator (s)	28,000	\$2.31	\$ 64,629
Sprinklers	28,000	\$2.55	\$71,400
Total Cost (Building Only)			\$ 2,400,000
	Per Room		\$ 36,923

Site Value Estimate

Site value may be estimated in a variety of ways including the sales comparison approach and the allocation, extraction, or ground lease capitalization methods. For the majority of hotel properties, the two primary methods used are the sales comparison approach and the ground lease capitalization approach. We note that the time of this study, no specific site has been determined. We have identified the site by a general location only, and the site size is an estimate based on a review of site size of comparable hotel operations. Therefore, we have not estimated the site value.

Entrepreneurial Incentive

Entrepreneurial incentive represents the profit hotel developers expect to earn prior to commencing a new project. As a result of economic conditions in the hotel industry, actual earned developer's profit after the completion of the hotel has not always been in evidence. If the economic value of a new hotel does not exceed development cost, indicating that developers will not earn any profit from their effort, the project would most likely not be completed since the financial incentive is not present. An incentive would be considered given the proposed nature of the hotel and current market dynamics.

Conclusion

The indicated replacement cost totaled roughly \$3,000,000. The net present value of the proposed subject property totaled \$3,600,000. The site value has not been determined, and entrepreneurial incentive is dependent on the total of the land and development cost. The feasibility result would be dependent on the total project cost, including land and entrepreneurial incentive. If the land and entrepreneurial incentive costs combined total less the difference of the replacement cost from the net present value, the project would prove feasible. While the feasibility should be tested against an actual development budget with a more specific scope of improvements and a specific site identified, it is our opinion the project is considered feasible given the assumption of low land cost in the market and a motivated developer. We also note that the forecast income and expense levels would be positively impacted by possible incentives from Greenlee County and or the Town of Clifton.

ASSUMPTIONS AND LIMITING CONDITIONS

1. This report is set forth as a feasibility study of the proposed subject property; this is not an appraisal report.
2. This report is to be used in whole and not in part.
3. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed to be marketable and free of any deed restrictions and easements. The property is evaluated as though free and clear unless otherwise stated.
4. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would impact the property's development potential. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
5. We have not considered the presence of potentially hazardous materials or any form of toxic waste on the project site. The consultants are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
6. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have assumed the proposed hotel would be designed and constructed to be in full compliance with the ADA.
7. We have made no survey of the site, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the described real estate will be within the boundaries of the property described, and that no encroachment will exist.
8. We can assume no liability resulting from misinformation.
9. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
10. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
13. We are not required to give testimony or attendance in court 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.
14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
16. The quality of a lodging facility's on-site management has a direct effect on a property's economic viability. Any departure from this assumption may have a significant impact on the projected operating results.
17. 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 investor.
18. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of value or the date of our field inspection, whichever occurs first.

19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out 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.

20. 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.

21. Evaluating and comprising forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.