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# 1. Executive Summary

## **Subject of the Feasibility Study**

HVS has been retained by McCament & Rogers, who are in contract with the City of Lakewood to investigate hotel market conditions in the local area and to opine whether hotel development is feasible in the Pacific Highway SW area of Lakewood, and if so, to make a recommendation as to the most likely, financially feasible lodging product. The consultants were specifically asked to consider the potential for hotel development that would occur on a site along Pacific Highway SW in the city of Lakewood, Washington. This study is being used by the City of Lakewood in conjunction with the planned overall redevelopment of Pacific Highway SW, which includes retail, commercial office, and hotel, among other potential uses to upgrade the existing facilities and uses along a roughly 2.5-mile stretch of roadway that extends parallel to Interstate 5, between State Highway 512 and Gravelly Lake Drive.

As this study is being used to determine market feasibility for a new hotel property, the consultants were not provided with a specific site or hotel type. Based on our analysis and market research, we have determined that lodging demand in the market is sufficient to support the development of a mid-scale extended-stay/limited-service hotel property that is affiliated with a national brand. Additionally, while we have not been provided a specific site to analyze for this project, applicable site criteria for potential development are also discussed in a subsequent chapter of this report.

For the purposes of this analysis, we have assumed that the project will be a prototypical branded extended-stay product. The size of the hotel is considered appropriate, given the size of the other existing lodging products in the market, the strong demand evidenced for lodging accommodations, the limited supply of quality extended-stay lodging products in the market, and the strong profitability generated by extended-stay hotels has led us to make this product recommendation. However, in our opinion, a branded limited-service hotel would be feasible as well. Whatever product is developed, we recommend that it be affiliated with a strong national brand, with the ability to attain strong market penetration levels.





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**Example of Mid-Rate Extended-Stay Brand**

TownePlace Suites by Marriott®

**Pertinent Dates**

The effective date of the report is December 1, 2009. The subject area was inspected by Shawn Hong and Suzanne Mellen, MAI, CRE, FRICS, ISHC on October 1, 2009. Primary fieldwork was completed on October 1 and October 2, 2009.

**Brand, Franchise, and Management Assumptions**

The consultants have concluded that a mid-rate extended-stay or limited-service hotel with a strong brand affiliation is financially feasible in the subject site area. Possible brands include the TownePlace Suites by Marriott, Home 2 Suites by Hilton, and Fairfield Inn by Marriott.

We have assumed that the proposed subject property will be professionally managed by a hotel management company. Accordingly, total management fees equating to a market-appropriate 3.0% of total revenues have been included in our forecast.

We have also assumed that the proposed subject property will operate pursuant to a franchise agreement with a major brand. Franchise expense has been forecast based on the most current published franchise fees for a typical brand at 6.5% of rooms revenue, which is assumed to include both a royalty component and marketing assessments. Reservations fees will also be due, but are included in the rooms expense line item of our forecast.



## **Summary of Hotel Market Trends**

Military demand is the market's primary source of lodging demand, along with drive-in transient visitation from the interstate. The market's available lodging properties are primarily clustered along Interstate 5, and proximate to the entrances of Fort Lewis and McChord Air Force Base, providing easy access to and from the market's major demand generators. Military lodging demand is significant, and includes traveling military personnel on orders, as well as government sub-contractors working on various projects on the area military installations, most notably McChord Air Force Base, Ft. Lewis Army Post, and Camp Murray Washington National Guard. With the country engaged in two major military conflicts, base operations continue to remain very active year-round.

The steady base of military demand has facilitated the expansion of the market's lodging supply, resulting in notable increases in supply and demand since 2005. With the exception of 2006, supply growth into the market was quickly absorbed with only modest impacts on overall occupancy levels. Average annual growth in available room nights was nearly even with average annual growth in occupied room nights, further evidencing the market's ability to absorb the new supply. Recent hotel development in the market has also helped to upgrade the market's available inventory to include nationally represented limited-service brands such as the La Quinta Inn & Suites and Hampton Inn Suites. In addition, non-affiliated lodging supply has also been built, such as the Liberty Inn and Guesthouse Inn & Suites in Dupont.

The following table provides a long-term perspective on the supply and demand trends for a selected set of hotels, as provided by Smith Travel Research.

**Figure 1-1 Historical Supply and Demand Trends (STR)**

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change	
1999	827	301,855	—	193,829	—	64.2 %	\$53.10	—	\$34.10	—	
2000	895	326,605	8.2 %	234,779	21.1 %	71.9	53.05	(0.1) %	38.14	11.8 %	
2001	917	334,705	2.5	213,672	(9.0)	63.8	54.75	3.2	34.95	(8.4)	
2002	917	334,705	0.0	216,444	1.3	64.7	57.43	4.9	37.14	6.3	
2003	917	334,705	0.0	218,085	0.8	65.2	60.94	6.1	39.70	6.9	
2004	827	301,705	(9.9)	196,260	(10.0)	65.1	60.56	(0.6)	39.39	(0.8)	
2005	887	323,630	7.3	219,135	11.7	67.7	63.33	4.6	42.88	8.9	
2006	916	334,340	3.3	210,534	(3.9)	63.0	69.74	10.1	43.92	2.4	
2007	1,003	365,937	9.5	235,198	11.7	64.3	75.52	8.3	48.54	10.5	
2008	1,170	427,020	16.7	270,628	15.1	63.4	87.93	16.4	55.72	14.8	
<b>Year-to-Date Through August</b>											
2008	1,164	282,816	—	183,827	—	65.0 %	\$87.11	—	\$56.62	—	
2009	1,182	287,226	1.6 %	190,695	3.7 %	66.4	88.35	1.4 %	58.66	3.6 %	
Average Annual Compounded Change:											
1999-2008											
			3.9 %				3.8 %			5.8 %	5.6 %
<b>Hotels Included in Sample</b>				<b>Number of Rooms</b>	<b>Year Affiliated</b>	<b>Year Opened</b>					
Hampton Inn Suites Tacoma Mall				146	Nov 2007	Nov 2007					
La Quinta Inn & Suites Lakewood				120	Jun 2007	Jun 2007					
Rodeway Inn Tacoma				55	Oct 2006	Oct 2006					
Comfort Inn Tacoma				90	Apr 2000	Apr 2000					
Crossland Suites Tacoma Hosmer				129	Jan 1999	Jan 1999					
Extended Stay America Tacoma South				109	May 1998	May 1998					
Holiday Inn Express & Suites Tacoma				78	Mar 1998	Mar 1998					
Shilo Inn Tacoma				132	Jun 1985	Jun 1985					
Econo Lodge Tacoma				85	Jun 2002	Jun 1975					
Red Lion Hotel Tacoma				119	Apr 2005	Jun 1967					
Motel 6 Tacoma South				119	Jan-00	Jan 1900					
<b>Total</b>				<b>1,542</b>							

Source: Smith Travel Research

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

**Figure 1-2 Lakewood Competitors – Operating Performance**

Property	Number of Rooms	Est. Segmentation			Estimated 2007				Estimated 2008				Projected Year-End 2009					
		Transient	Meeting and Group	Extended-Stay	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Holiday Inn Express & Suites Tacoma	78	85 %	15 %	0 %	78	80 %	\$135.00	\$108.00	78	76 %	\$139.00	\$105.64	78	78 %	\$134.00	\$104.52	119.8 %	192.9 %
Hampton Inn Suites Tacoma Mall	146	75	25	0	24	21	114.00	23.60	146	61	122.00	74.54	146	78	126.00	98.28	119.8	181.4
La Quinta Inn & Suites Lakewood	120	75	25	0	70	53	109.30	58.37	120	68	117.96	80.68	120	67	127.00	85.09	102.9	157.0
Red Lion Hotel Tacoma	119	75	25	0	119	48	91.21	43.87	119	56	89.59	49.90	119	73	100.00	73.00	112.1	134.7
Remaining STR Composite	719	90	10	0	719	64	57.08	36.67	719	62	68.49	42.35	719	57	60.71	34.81	88.1	64.2
<b>Sub-Totals/Averages</b>	<b>1,182</b>	<b>85 %</b>	<b>15 %</b>	<b>0 %</b>	<b>1,011</b>	<b>61.8 %</b>	<b>\$71.61</b>	<b>\$44.22</b>	<b>1,182</b>	<b>62.7 %</b>	<b>\$87.93</b>	<b>\$55.15</b>	<b>1,182</b>	<b>63.8 %</b>	<b>\$88.07</b>	<b>\$56.20</b>	<b>98.0 %</b>	<b>103.7 %</b>
Extended-Stay Competitors	300	30 %	5 %	65 %	194	74.7 %	\$52.75	\$39.38	210	71.5 %	\$62.72	\$44.83	210	72.3 %	\$59.21	\$42.83	111.1 %	79.0 %
<b>Totals/Averages</b>	<b>1,482</b>	<b>76 %</b>	<b>13 %</b>	<b>11 %</b>	<b>1,205</b>	<b>63.8 %</b>	<b>\$68.05</b>	<b>\$43.44</b>	<b>1,392</b>	<b>64.0 %</b>	<b>\$83.69</b>	<b>\$53.60</b>	<b>1,392</b>	<b>65.1 %</b>	<b>\$83.24</b>	<b>\$54.18</b>	<b>100.0 %</b>	<b>100.0 %</b>

\* Core competitors have been defined as those properties affiliated with strong national brands, are located adjacent to Interstate 5 and within a five-mile driving distance from either end of Pacific Highway SW, and offer quality accommodations due to recent construction or renovation. Unaffiliated properties such as the Liberty Inn and Guesthouse Inn & Suites located nine miles south of Pacific Highway SW in Dupont are reflected in "Remaining STR Composite."

**Figure 1-3 Area Extended-Stay Competitors – Operating Performance**

Property	Number of Rooms	Est. Segmentation			Total Competitive Level	Estimated 2007				Estimated 2008				Projected Year-End 2009			
		Transient	Meeting and Group	Extended-Stay		Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Extended Stay America Tacoma South	109	35 %	5 %	60 %	75 %	82	74 %	\$60.00	\$44.58	82	76 %	\$65.00	\$49.66	82	77 %	\$57.00	\$43.66
Crossland Suites Tacoma South	129	25	5	70	75	97	77	42.00	32.21	97	65	48.00	31.01	97	65	44.00	28.60
Candlewood Suites Lacey-Olympia	62	30	5	65	50	16	64	90.00	57.60	31	80	95.00	76.00	31	84	102.00	85.68
<b>Totals/Averages</b>	<b>300</b>	<b>30 %</b>	<b>5 %</b>	<b>65 %</b>	<b>70 %</b>	<b>194</b>	<b>74.7 %</b>	<b>\$52.85</b>	<b>\$39.47</b>	<b>210</b>	<b>71.5 %</b>	<b>\$62.87</b>	<b>\$44.94</b>	<b>210</b>	<b>72.3 %</b>	<b>\$59.34</b>	<b>\$42.92</b>



### Summary of Forecast Occupancy and Average Rate

Based on our analysis presented in the Projection of Occupancy and Average Rate chapter, we have chosen to use a stabilized occupancy level of 76% and a base-year rate position of \$92.71 for the proposed subject property. The following table reflects a summary of our market-wide and proposed subject property occupancy and average rate projections.

**Figure 1-4 Market and Subject Property Average Rate Forecast**

Year	Areawide (Calendar Year)			Subject Property (Calendar Year)			
	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	64.0 %	—	\$83.69	—	—	\$92.71	110.8 %
2009	65.0	0.0 %	83.69	—	0.0 %	92.71	110.8
2010	66.0	-2.0	82.02	—	-2.0	90.86	110.8
2011	65.5	4.0	85.30	61.0 %	4.1	94.60	110.9
2012	66.6	6.0	90.41	72.0	6.1	100.37	111.0
2013	67.8	6.0	95.84	76.0	6.0	106.38	111.0
2014	68.3	5.0	100.63	76.0	5.0	111.65	111.0

The following table summarizes the proposed subject property's forecast, reflecting fiscalization and opening-year rate discounts as applicable.

**Figure 1-5 Forecast of Average Rate**

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount
2011/12	67 %	97.46	5.0 %	92.59
2012/13	74	103.35	3.0	100.25
2013/14	76	108.99	0.0	108.99

### Summary of Forecast Income and Expense Statement

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

**Figure 1-6 Detailed Forecast of Income and Expense**

	2011/12 Begins July				2012/13				Stabilized			
<b>Number of Rooms:</b>	<b>120</b>				<b>120</b>				<b>120</b>			
<b>Occupancy:</b>	<b>67%</b>				<b>74%</b>				<b>76%</b>			
<b>Average Rate:</b>	<b>\$92.59</b>				<b>\$100.25</b>				<b>\$108.99</b>			
<b>RevPAR:</b>	<b>\$62.03</b>				<b>\$74.18</b>				<b>\$82.84</b>			
<b>Days Open:</b>	<b>365</b>				<b>365</b>				<b>365</b>			
<b>Occupied Rooms:</b>	<b>29,346</b>	<b>%Gross</b>	<b>PAR</b>	<b>POR</b>	<b>32,412</b>	<b>%Gross</b>	<b>PAR</b>	<b>POR</b>	<b>33,288</b>	<b>%Gross</b>	<b>PAR</b>	<b>POR</b>
<b>REVENUE</b>												
Rooms	\$2,717	99.2 %	\$22,642	\$92.59	\$3,249	99.2 %	\$27,075	\$100.24	\$3,628	99.3 %	\$30,233	\$108.99
Telephone	6	0.2	54	0.22	7	0.2	61	0.22	8	0.2	64	0.23
Other Income	16	0.6	135	0.55	18	0.6	152	0.56	19	0.5	160	0.58
<b>Total Revenues</b>	<b>2,740</b>	<b>100.0</b>	<b>22,830</b>	<b>93.36</b>	<b>3,274</b>	<b>100.0</b>	<b>27,287</b>	<b>101.03</b>	<b>3,655</b>	<b>100.0</b>	<b>30,457</b>	<b>109.80</b>
<b>DEPARTMENTAL EXPENSES *</b>												
Rooms	521	19.2	4,344	17.76	558	17.2	4,647	17.21	581	16.0	4,838	17.44
Telephone	12	187.5	101	0.41	13	177.5	108	0.40	13	175.0	112	0.40
Other Expenses	4	21.7	29	0.12	4	20.3	31	0.11	4	20.0	32	0.12
<b>Total</b>	<b>537</b>	<b>19.6</b>	<b>4,474</b>	<b>18.30</b>	<b>574</b>	<b>17.5</b>	<b>4,786</b>	<b>17.72</b>	<b>598</b>	<b>16.4</b>	<b>4,982</b>	<b>17.96</b>
<b>DEPARTMENTAL INCOME</b>	<b>2,203</b>	<b>80.4</b>	<b>18,356</b>	<b>75.06</b>	<b>2,700</b>	<b>82.5</b>	<b>22,502</b>	<b>83.31</b>	<b>3,057</b>	<b>83.6</b>	<b>25,476</b>	<b>91.84</b>
<b>UNDISTRIBUTED OPERATING EXPENSES</b>												
Administrative & General	272	9.9	2,270	9.28	290	8.9	2,417	8.95	305	8.3	2,538	9.15
Marketing	87	3.2	722	2.95	92	2.8	769	2.85	97	2.7	808	2.91
Franchise Fee	177	6.4	1,472	6.02	211	6.4	1,760	6.52	236	6.5	1,965	7.08
Prop. Operations & Maint.	133	4.9	1,112	4.55	144	4.4	1,196	4.43	152	4.2	1,269	4.58
Utilities	112	4.1	930	3.80	119	3.6	990	3.67	125	3.4	1,040	3.75
<b>Total</b>	<b>781</b>	<b>28.5</b>	<b>6,507</b>	<b>26.61</b>	<b>856</b>	<b>26.1</b>	<b>7,132</b>	<b>26.41</b>	<b>914</b>	<b>25.1</b>	<b>7,621</b>	<b>27.47</b>
<b>HOUSE PROFIT</b>	<b>1,422</b>	<b>51.9</b>	<b>11,849</b>	<b>48.45</b>	<b>1,844</b>	<b>56.4</b>	<b>15,369</b>	<b>56.90</b>	<b>2,143</b>	<b>58.5</b>	<b>17,855</b>	<b>64.37</b>
Management Fee	110	4.0	913	3.73	131	4.0	1,091	4.04	146	4.0	1,218	4.39
<b>INCOME BEFORE FIXED CHARGES</b>	<b>1,312</b>	<b>47.9</b>	<b>10,936</b>	<b>44.72</b>	<b>1,713</b>	<b>52.4</b>	<b>14,278</b>	<b>52.86</b>	<b>1,996</b>	<b>54.5</b>	<b>16,637</b>	<b>59.97</b>
<b>FIXED EXPENSES</b>												
Property Taxes	104	3.8	870	3.56	108	3.3	896	3.32	111	3.0	923	3.33
Insurance	34	1.3	287	1.17	35	1.1	296	1.09	37	1.0	305	1.10
Reserve for Replacement	55	2.0	457	1.87	98	3.0	819	3.03	146	4.0	1,218	4.39
<b>Total</b>	<b>194</b>	<b>7.1</b>	<b>1,614</b>	<b>6.60</b>	<b>241</b>	<b>7.4</b>	<b>2,010</b>	<b>7.44</b>	<b>294</b>	<b>8.0</b>	<b>2,446</b>	<b>8.82</b>
<b>NET INCOME</b>	<b>\$1,119</b>	<b>40.8 %</b>	<b>\$9,322</b>	<b>\$38.12</b>	<b>\$1,472</b>	<b>45.0 %</b>	<b>\$12,267</b>	<b>\$45.42</b>	<b>\$1,703</b>	<b>46.5 %</b>	<b>\$14,191</b>	<b>\$51.16</b>

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

**Figure 1-7 Ten-Year Forecast of Income and Expense**

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Number of Rooms:</b>	120	120	120	120	120	120	120	120	120	120
<b>Occupied Rooms:</b>	29,346	32,412	33,288	33,288	33,288	33,288	33,288	33,288	33,288	33,288
<b>Occupancy:</b>	67%	74%	76%	76%	76%	76%	76%	76%	76%	76%
<b>Average Rate:</b>	\$92.59 % of	\$100.25 % of	\$108.99 % of	\$112.26 % of	\$115.63 % of	\$119.10 % of	\$122.67 % of	\$126.35 % of	\$130.14 % of	\$134.05 % of
<b>RevPAR:</b>	\$62.03 Gross	\$74.18 Gross	\$82.84 Gross	\$85.32 Gross	\$87.88 Gross	\$90.52 Gross	\$93.23 Gross	\$96.03 Gross	\$98.91 Gross	\$101.88 Gross
<b>REVENUE</b>										
Rooms	\$2,717 99.2 %	\$3,249 99.2 %	\$3,628 99.3 %	\$3,737 99.3 %	\$3,849 99.3 %	\$3,965 99.3 %	\$4,084 99.3 %	\$4,206 99.3 %	\$4,332 99.3 %	\$4,462 99.3 %
Telephone	6 0.2	7 0.2	8 0.2	8 0.2	8 0.2	8 0.2	9 0.2	9 0.2	9 0.2	9 0.2
Other Income	16 0.6	18 0.6	19 0.5	20 0.5	20 0.5	21 0.5	22 0.5	22 0.5	23 0.5	24 0.5
Total	2,740 100.0	3,274 100.0	3,655 100.0	3,765 100.0	3,878 100.0	3,994 100.0	4,114 100.0	4,237 100.0	4,364 100.0	4,495 100.0
<b>DEPARTMENTAL EXPENSES*</b>										
Rooms	521 19.2	558 17.2	581 16.0	598 16.0	616 16.0	634 16.0	653 16.0	673 16.0	693 16.0	714 16.0
Telephone	12 187.5	13 177.5	13 175.0	14 175.0	14 175.0	15 175.0	15 175.0	16 175.0	16 175.0	17 175.0
Other Expenses	4 21.7	4 20.3	4 20.0	4 20.0	4 20.0	4 20.0	4 20.0	4 20.0	5 20.0	5 20.0
Total	537 19.6	574 17.5	598 16.4	616 16.4	634 16.4	653 16.4	673 16.4	693 16.4	714 16.4	735 16.4
<b>DEPARTMENTAL INCOME</b>	2,203 80.4	2,700 82.5	3,057 83.6	3,149 83.6	3,243 83.6	3,341 83.6	3,441 83.6	3,544 83.6	3,650 83.6	3,760 83.6
<b>UNDISTRIBUTED OPERATING EXPENSES</b>										
Administrative & General	272 9.9	290 8.9	305 8.3	314 8.3	323 8.3	333 8.3	343 8.3	353 8.3	364 8.3	375 8.3
Marketing	87 3.2	92 2.8	97 2.7	100 2.7	103 2.7	106 2.7	109 2.7	112 2.7	116 2.7	119 2.7
Franchise Fee	177 6.4	211 6.4	236 6.5	243 6.5	250 6.5	258 6.5	265 6.5	273 6.5	282 6.5	290 6.5
Prop. Operations & Maint.	133 4.9	144 4.4	152 4.2	157 4.2	162 4.2	166 4.2	171 4.2	177 4.2	182 4.2	187 4.2
Utilities	112 4.1	119 3.6	125 3.4	129 3.4	132 3.4	136 3.4	140 3.4	145 3.4	149 3.4	154 3.4
Total	781 28.5	856 26.1	914 25.1	942 25.1	970 25.1	999 25.1	1,029 25.1	1,060 25.1	1,092 25.1	1,125 25.1
<b>HOUSE PROFIT</b>	1,422 51.9	1,844 56.4	2,143 58.5	2,207 58.5	2,273 58.5	2,342 58.5	2,412 58.5	2,484 58.5	2,558 58.5	2,635 58.5
Management Fee	110 4.0	131 4.0	146 4.0	151 4.0	155 4.0	160 4.0	165 4.0	169 4.0	175 4.0	180 4.0
<b>INCOME BEFORE FIXED CHARGES</b>	1,312 47.9	1,713 52.4	1,996 54.5	2,056 54.5	2,118 54.5	2,182 54.5	2,248 54.5	2,315 54.5	2,384 54.5	2,455 54.5
<b>FIXED EXPENSES</b>										
Property Taxes	104 3.8	108 3.3	111 3.0	114 3.0	118 3.0	121 3.0	125 3.0	128 3.0	132 3.0	136 3.0
Insurance	34 1.3	35 1.1	37 1.0	38 1.0	39 1.0	40 1.0	41 1.0	42 1.0	44 1.0	45 1.0
Incentive Management Fee	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
Reserve for Replacement	55 2.0	98 3.0	146 4.0	151 4.0	155 4.0	160 4.0	165 4.0	169 4.0	175 4.0	180 4.0
Total	194 7.1	241 7.4	294 8.0	302 8.0	311 8.0	321 8.0	330 8.0	340 8.0	350 8.0	361 8.0
<b>NET INCOME</b>	\$1,119 40.8 %	\$1,472 45.0 %	\$1,703 46.5 %	\$1,754 46.5 %	\$1,807 46.5 %	\$1,861 46.5 %	\$1,917 46.5 %	\$1,974 46.5 %	\$2,033 46.5 %	\$2,094 46.5 %

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



As illustrated, the hotel is expected to stabilize at a profitable level. Additional detail and discussion pertaining to the methodology used in deriving this forecast is provided in the Forecast of Income and Expense chapter of this report.

### **Feasibility Conclusion**

The Feasibility Analysis chapter of this report converts these cash flows into a net present value indication assuming set-forth debt and equity requirements. The conclusion indicates that an equity investor contributing \$6,154,000 (roughly 50% of a \$12,300,000 development cost/value findings) would expect to receive a 22.5% internal rate of return over a ten-year holding period. Based on these parameters, the project is determined to be feasible.

### **Identification of the Clients and Intended Use of the Feasibility Study**

The client for this engagement is McCament & Rogers LLC, who are under contract by the City of Lakewood. This feasibility report is being prepared for use by McCament & Rogers LLC and the City of Lakewood, Washington in conjunction with the potential redevelopment of Pacific Highway SW in Lakewood, Washington. This report is intended for use by McCament & Rogers LLC and McCament & Rogers LLC.

### **Scope of Work**

The methodology used to develop this study is based on the market research and valuation techniques set forth in the textbooks authored by Hospitality Valuation Services for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels*,<sup>1</sup> *Hotels, Motels and Restaurants: Valuations and Market Studies*,<sup>2</sup> *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*,<sup>3</sup> *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*,<sup>4</sup> and *Hotels and Motels – Valuations and Market Studies*.<sup>5</sup>

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

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

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

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

<sup>5</sup> Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies*. (Chicago: Appraisal Institute, 2001).



1. All information was collected and analyzed by the staff of M&R Valuation Services. Information was supplied by the client and/or representatives of the City of Lakewood, Washington.
2. The proposed subject area was evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.
3. The surrounding economic environment, on both an area and neighborhood level, was reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
4. Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.
5. An analysis of existing and proposed competition provided an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Unless noted otherwise, we inspected the competitive lodging facilities summarized in this report.
6. The proposed subject property's core competitive market has been defined as extended-stay and transient lodging properties located within a five-mile driving distance from either end of Pacific Highway SW that offer quality accommodations due to recent construction or renovation. Additionally, this set of core competitive properties has been limited to only those properties that are affiliated with strong national brands and are located adjacent to Interstate 5.
7. Documentation for an occupancy and average rate projection was derived utilizing the build-up approach based on an analysis of lodging activity.
8. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the subject property.
9. A feasibility analysis was performed that compares the net present value of the forecast cash flows to an estimated development cost of the proposed subject property.