

FISCAL AND ECONOMIC IMPACT ANALYSIS

Proposed Development of the
Residence Inn Hotel
3558 Round Barn Circle
Santa Rosa, California

Client # 19-414NH-0246

Mr. Ajaib Bhadare
Co-Developer/Property Owner

Mr. Don Cape
Vice President
Tharaldson Hospitality
4255 Dean Martin Drive, Suite J
Las Vegas, Nevada 89103

CBRE





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July 9, 2019

Mr. Ajaib Bhadare
Co-Developer/Property Owner

Mr. Don Cape
Vice President
Tharaldson Hospitality
4255 Dean Martin Drive, Suite J
Las Vegas, Nevada 89103

Dear Messrs Bhadare and Cape:

Pursuant to your request, we have analyzed the economic and fiscal impact of the proposed hotel development to be located at 3558 Round Barn Circle in Santa Rosa, California. The conclusions reached are based on our present knowledge of the competitive lodging market as of the completion of our analysis as of July 2019. It should be noted that certain figures may not foot due to rounding.

We have analyzed the development of the subject site as a good-quality 114-room Residence Inn by Marriott hotel. For the purposes of our analysis, we have assumed that the subject hotel would be completed and open on or about January 1, 2022. Our estimates of operating results are based on the facilities and amenities proposed, as provided by the development team. In addition, we reviewed the projected operating results for the hotel provided by the developer to test the reasonableness of their assumptions. In doing so we analyzed the occupancy and average daily rate of comparable hotels in the local hotel market, as well as reviewed actual financial operating statements of similarly positioned hotels. Based on a review of the comparable data, we are of the opinion that the developer's projections are within a reasonable range for extended-stay hotels in a suburban market.

Based on the above we have analyzed the potential economic and fiscal impact of the proposed project to the City of Santa Rosa.

The scope of our work included an analysis of the following:

Operational Phase (reoccurring annually)

- The flow of dollars through the economy into the City of Santa Rosa attributable to hotel guest spending induced by the project;
- The indirect spending created by this spending;

- The measurable taxes generated to the City of Santa Rosa through the operations of the proposed project; and,
- The number of jobs supported by the direct spending associated with the operations of the project.

It should be noted that the analysis of the tax revenues was limited to impact to the City of Santa Rosa, as opposed to the larger market of Sonoma County or the State of California.

This report was prepared for your internal use to assist you in analyzing the financial impact of your development to the City of Santa Rosa and for discussion purposes with City of Santa Rosa representatives. As is customary in assignments of this type, neither our name nor the material submitted may be included in any prospectus or as part of any printed material or used in offerings or representations in connection with the sale of securities or participation interest to the public without our prior written consent.

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 market from that as set forth in this report. Since our results are based on estimates and assumptions that are subject to uncertainty and variation, we do not represent them as results that will actually be achieved.

It is expressly understood that the scope of our study and report thereon do not include the possible impact of zoning or environmental regulations, licensing requirements or other restrictions concerning the project, except where such matters have been brought to our attention and are disclosed in the report. It is expected that the development of the project will adhere to all such legislative or other restrictions. This report is subject to the Terms and Conditions presented in the Addenda.

We appreciate the opportunity to work on this assignment and look forward to answering any questions you may have regarding our findings and conclusions presented herein.

Sincerely,



CBRE Hotels Advisory
Jeff Lugosi, CRE, MAI, FRICS, ISHC
Managing Director | Practice Leader

EXECUTIVE SUMMARY

INTRODUCTION

CBRE Hotels was retained by Tharaldson Hospitality Development to conduct an analysis of the economic and fiscal impact of their planned 114-room Residence Inn by Marriott hotel to be developed at 3558 Round Barn Circle in Santa Rosa, California. This report represents the culmination of our market research, analysis, and assessments relative to the proposed development.

Based on discussion with Tharaldson Hospitality Development, we have analyzed the fiscal and economic impact of a lodging development plan to include a good-quality, extended-stay hotel, as well as appropriate supporting facilities anticipated to include limited meeting space, fitness facilities, sundry shop, guest amenities, and administrative space.

Our analysis is focused on presenting the economic and fiscal impact in a representative year in 2019 dollars. In addition, we will also present a 10-year projection. As mentioned in the introduction, projections of property operations for the proposed Residence Inn were prepared by Tharaldson and reviewed by our firm for their reasonableness based on analysis of comparable hotels in the local competitive market. Our estimates of economic and fiscal impacts are based upon these projected cash flows and operating levels and have been presented as Addendum A of this report. The financial comparables utilized to determine the reasonableness of the subject's anticipated operating performance are presented as Addendum B.

It should be noted that we obtained data regarding visitor levels, spending, and the economic multipliers in Sonoma County from Dean Runyan Associates, Inc. To complete our analysis and compile this we have utilized a Regional Travel Impact Model (RTIM) developed by Dean Runyan Associates, Inc. The input data used to detail the economic and fiscal impacts on the Santa Rosa travel industry were derived from various local, state, and federal sources during this study.

SUMMARY OF FINDINGS

The following tables summarize our findings for a representative year and a 10-year period as noted herein. These projections assume a stable economy. The proposed subject hotel is assumed to open on January 1, 2022. The representative year assumes a stabilized year of impact in 2019 dollars.

| Total Annual Economic Impact (Based Upon a Stabilized Year of Operation, 2019 Dollars) | |
|---|--------------------------------------|
| | Proposed Residence Inn Santa Rosa |
| Hotel Guests | |
| Occupied Hotel Rooms | 34,098 |
| Double Occupancy Factor | 1.60 |
| Number of Hotel Visitor Days | 54,557 |
| Average Daily Expenditure for Visitors (Rounded) | \$434 |
| Total Visitor Spending (Based on average daily spending; Rounded) | \$23,700,000 |
| Multiplier | 1.3 |
| TOTAL ECONOMIC IMPACT (Direct and Indirect; Rounded) | \$30,800,000 |
| NUMBER OF JOBS SUPPORTED | 250 |

In a representative year, the proposed Residence Inn hotel development will have an estimated economic impact, which includes both direct and indirect visitor spending, of \$30,800,000 (rounded). It is conservatively estimated that 250 jobs will be supported annually by the direct spending associated with the proposed hotel development.

| Operational Phase Measurable Tax Revenues (Stabilized Year of Operations, 2019 Dollars) | |
|--|--------------------------------------|
| | Proposed Residence Inn Santa Rosa |
| Applicable Revenues (Rooms) | \$6,445,000 |
| TOT Rate | 9.0% |
| TOT Generated (Rounded) | \$580,000 |
| Applicable Revenues (Rooms) | \$6,445,000 |
| Tourism Business Improvement Area Assessment | 3.0% |
| Administrative Fee Deduction | 2.0% |
| Percent to City | 30.0% |
| TBIA Assessment Generated (Rounded) | \$57,000 |
| Anticipated Assessed Value | \$29,200,000 |
| Tax Rate | 1.00% |
| Percent to City | 16.06% |
| Property Taxes Generated to the City (Rounded) | \$47,000 |
| Utility Tax Generated (Rounded) | \$4,000 |
| Applicable Sales Revenues (Other Operated Departments) | \$44,000 |
| Sales Tax Rate to City | 0.75% |
| Sales Tax Generated (Rounded) | \$300 |
| Annual Business License Tax (Rounded) | \$2,000 |
| TOTAL MEASURABLE TAX REVENUES TO THE CITY OF SANTA ROSA | \$690,000 |

The proposed hotel is anticipated to have an aggregate fiscal impact to the City of Santa Rosa of \$690,000 (rounded) in a representative year.

The following table presents a 10-year stream of economic and fiscal impact due to the proposed 114-room Residence Inn hotel development to be developed at 3558 Round Barn Circle in Santa Rosa, California.

**Economic and Fiscal Impact for 10-Year Period Beginning 2022:
Proposed Residence Inn Santa Rosa**

| | Economic Impact | Transient Occupancy Tax | Tourism Business Improvement Area Assessment | Property Tax | Utility Users Tax ¹ | Business License Tax | Sales Tax | Total |
|--------------|----------------------|-------------------------------|--|------------------|--------------------------------------|----------------------------|----------------|--------------------|
| Rep Year | \$30,800,000 | \$580,000 | \$57,000 | \$47,000 | \$4,000 | \$2,000 | \$300 | \$690,000 |
| 2022 | 31,000,000 | 584,000 | 57,000 | 51,000 | 4,000 | 2,000 | 300 | 698,000 |
| 2023 | 33,400,000 | 629,000 | 62,000 | 52,000 | 4,000 | 2,000 | 400 | 749,000 |
| 2024 | 35,500,000 | 669,000 | 66,000 | 53,000 | 4,000 | 3,000 | 400 | 795,000 |
| 2025 | 36,600,000 | 691,000 | 68,000 | 54,000 | 4,000 | 3,000 | 400 | 820,000 |
| 2026 | 37,800,000 | 712,000 | 70,000 | 55,000 | 4,000 | 3,000 | 400 | 844,000 |
| 2027 | 38,900,000 | 734,000 | 72,000 | 57,000 | 4,000 | 3,000 | 400 | 870,000 |
| 2028 | 40,100,000 | 755,000 | 74,000 | 58,000 | 4,000 | 3,000 | 400 | 894,000 |
| 2029 | 41,200,000 | 777,000 | 76,000 | 59,000 | 4,000 | 3,000 | 500 | 920,000 |
| 2030 | 42,500,000 | 801,000 | 79,000 | 60,000 | 4,000 | 3,000 | 500 | 948,000 |
| 2031 | 43,800,000 | 826,000 | 81,000 | 61,000 | 4,000 | 3,000 | 500 | 976,000 |
| Total | \$380,800,000 | \$7,178,000 | \$705,000 | \$560,000 | \$40,000 | \$28,000 | \$4,000 | \$8,514,000 |

¹Limited to \$4,000 per year based on a cap of \$1,000 per utility type (electric, gas, telephone, video services)

CBRE Hotels

Over the 10-year period beginning in 2022 the estimated fiscal impact of the proposed hotel development is approximately \$8,514,000; while the economic impact is estimated to be approximately \$380.8 million.

METHODOLOGY

ECONOMIC IMPACT METHODOLOGY

The total economic impact of the proposed development in the City of Santa Rosa consists of direct spending by hotel guests that includes lodging, food and beverage, entertainment, transportation, and retail as well as indirect spending. Indirect spending is a function of monies spent by visitors in area businesses, which in turn these businesses utilize to operate and spend on other items. We have applied our economic analysis to the operational phase of the development. In addition to this impact, the proposed development will create additional impact such as jobs and spending during the construction phase, which we have not incorporated into this analysis.

Operational Phase Economic Impact

The methodology used to determine the economic impact of the operational phase of the proposed development in the City of Santa Rosa includes an estimation of visitor spending within the different categories outlined above. This allocation of visitor spending is performed by taking the estimated percentage that each visitor to Sonoma County spent on the abovementioned categories in 2018, as derived by Dean Runyan Associates, and making an adjustment to account for the estimated slightly higher average daily rate at the subject hotel by comparison to the regional average. By utilizing the average daily rate and number of occupied rooms for the proposed Residence Inn Santa Rosa, we can derive the amount visitors to the hotel are anticipated to spend on lodging. From there, by utilizing the anticipated percentage spend by category, we were able to estimate the amount spent on other categories. We have also analyzed the number of jobs directly supported by this visitor spending utilizing the Regional Travel Impact Model (RTIM) developed by Dean Runyan Associates, Inc.

FISCAL IMPACT METHODOLOGY

Fiscal impact is the amount of tax revenue generated directly to the City of Santa Rosa by visitor spending of hotel guests. This includes an estimation of the associated tax revenues (transient occupancy, business improvement area, property, utility, business license, and sales tax revenues) generated during a representative year and a 10-year operational period for the proposed development. The aggregate result of the 10-year operational period is the fiscal impact to the City of Santa Rosa.

PROJECTED PERFORMANCE OF THE SUBJECT HOTEL

We were provided projections of property operations for the proposed Residence Inn Santa Rosa by Tharaldson Hospitality. These projections can be found in Addenda A of the report. As a point of background, Tharaldson Hospitality is Marriott International's largest franchisee, and was selected as "Developer of the Year" in 2018. Additionally, having built, owned, and managed over 400 hotel properties in the United States, with 40 in California, Tharaldson is one of the largest franchisees of Hilton Hotels and Resorts and Intercontinental Hotels Group. To effectively evaluate the reasonableness of the provided projections, we have analyzed the historical performance of the competitive market within which the subject hotel is expected to compete. Based on a consideration of the size, facilities, location, market orientation, and rate structure of the proposed Residence Inn, we have identified eight properties in the cities of Santa Rosa,

Rohnert Park, Windsor, and Healdsburg that we feel will offer competition to the subject hotels. The table below summarizes these hotels and their corresponding room counts.

| Proposed Residence Inn Santa Rosa | |
|--|-----------------|
| Current Competitive Supply | |
| Property | Number of Rooms |
| Courtyard Santa Rosa | 138 |
| Hilton Garden Inn Sonoma County Airport | 90 |
| DoubleTree Sonoma Wine Country | 245 |
| Hampton Inn Rohnert Park | 102 |
| Holiday Inn Windsor | 100 |
| Hampton Inn Windsor Sonoma | 116 |
| Hyatt Regency Santa Rosa | 253 |
| Residence Inn Healdsburg | 122 |
| Competitive Market | 1,166 |
| Source: CBRE Hotels | |

Though there are a number of additional properties in the regional market, we have not included these for a number of reasons, including positioning, location, and rate structure. The competitive supply offers a reasonable basis of historical demand and operating performance on which to evaluate management's projections for the proposed subject hotel.

The below table summarizes the historical performance of the competitive market. The aggregate average annual available and occupied rooms, resulting occupancy levels, average daily rate, and revenue per available room (RevPAR) for this sample set between 2014 and 2018 are presented in the following table.

| Historical Market Performance of the Competitive Supply | | | | | | | | | |
|--|---------------|----------------|----------------|----------------|------------------|--------------------|----------------|----------|----------------|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 402,960 | N/A | 330,199 | N/A | 81.9% | \$145.76 | N/A | \$119.44 | N/A |
| 2015 | 402,960 | 0.0% | 335,369 | 1.6% | 83.2 | 158.60 | 8.8% | 132.00 | 10.5% |
| 2016 | 402,960 | 0.0 | 322,998 | -3.7 | 80.2 | 172.54 | 8.8 | 138.30 | 4.8 |
| 2017 | 399,918 | -0.8 | 324,921 | 0.6 | 81.2 | 182.24 | 5.6 | 148.06 | 7.1 |
| 2018 | 377,045 | -5.7 | 307,008 | -5.5 | 81.4 | 195.53 | 7.3 | 159.21 | 7.5 |
| CAAG | -1.6% | | -1.8% | | | 7.6% | | 7.4% | |
| Source: CBRE Hotels | | | | | | | | | |

Supply in the competitive market has declined by a compound average annual growth (CAAG) rate of 1.6 percent over the five-year period surveyed due to the destruction of the 250-room Hilton Sonoma Wine Country in October 2017 by the Tubbs Wildfire. Despite the overall decline in annual supply in 2017 and 2018, there were three additions to supply during this period, including: the 100-room Holiday Inn Windsor in September 2017; the 122-room Residence Inn Healdsburg in July 2018; and finally, the 90-room expansion of the Hyatt Regency in October 2018.

Due to the removal of the Hilton Sonoma from the inventory of local hotel rooms, demand, as measured by occupied room nights, has declined by 1.8 percent on an annual basis for the historical period, ending 2018 with an occupancy of 81.4 percent. Average daily rate in the competitive market has increased at a robust annual rate of 7.6 percent for the period 2014-2018, outpacing the growth rate in ADR of approximately 3.0 percent exhibited by the national hotel market as measured by CBRE Hotels' publication *Hotel Horizons*.

As a point of reference, the United States hotel industry as a whole ended 2018 at an occupancy of 66.2 percent an all-time high. As part of our *Hotel Horizons* publication, we also track the individual performance of the country's largest 60 hotel markets. Hypothetically, if the collection of Santa Rosa hotels presented on the preceding page were considered among the Top 60 markets, it would be ranked 4th nationally, only behind New York City (87.3%), Oahu (83.8%), and San Francisco (81.9%) and greater than Los Angeles (79.5%), San Diego (78.7%), and Anaheim (77.6%).

Based on the above analysis we find the projected rate and occupancy performance of the subject hotel to be reasonable as outlined below.

| Proposed Residence Inn Santa Rosa Projected Rooms Revenue (Representative Year of Operations: 2019 Dollars) | | | | | | | | | |
|--|---------------|----------------|----------------|----------------|----------------------|--------------------|----------------|----------|----------------|
| 114 Rooms x 365 Days x 82.0% Occupancy x \$189 Room Rate = \$6,445,000 | | | | | | | | | |
| Projected Performance of the Proposed Residence Inn Santa Rosa | | | | | | | | | |
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Occupancy Percentage | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2022 | 41,610 | N/A | 32,456 | N/A | 78% | \$200.00 | N/A | \$156.00 | N/A |
| 2023 | 41,610 | 0.0% | 33,429 | 3.0% | 80 | 210.00 | 5.0% | 168.71 | 8.1% |
| 2024 | 41,610 | 0.0 | 34,098 | 2.0 | 82 | 218.00 | 3.8 | 178.64 | 5.9 |
| 2025 | 41,610 | 0.0 | 34,098 | 0.0 | 82 | 225.00 | 3.2 | 184.38 | 3.2 |
| 2026 | 41,610 | 0.0 | 34,098 | 0.0 | 82 | 232.00 | 3.1 | 190.12 | 3.1 |
| 2027 | 41,610 | 0.0 | 34,098 | 0.0 | 82 | 239.00 | 3.0 | 195.85 | 3.0 |
| CAAG | 0.0% | | 1.0% | | | 3.6% | | 4.7% | |
| Source: Tharaldson Hospitality | | | | | | | | | |

ECONOMIC IMPACT CALCULATION

Total annual economic impact attributed to the proposed Residence Inn Santa Rosa assuming stabilized operations is approximately \$30,800,000. Based on this estimated economic impact, the total number of new local jobs created is conservatively estimated at 250 jobs for the subject hotel. All monetary figures are stated in 2019 value dollars.

The following table summarizes our findings.

| Total Annual Economic Impact (Based Upon a Stabilized Year of Operation, 2019 Dollars) | |
|---|-----------------------------------|
| | Proposed Residence Inn Santa Rosa |
| Hotel Guests | |
| Occupied Hotel Rooms | 34,098 |
| Double Occupancy Factor | 1.60 |
| Number of Hotel Visitor Days | 54,557 |
| Average Daily Expenditure for Visitors (Rounded) | \$434 |
| Total Visitor Spending (Based on average daily spending; Rounded) | \$23,700,000 |
| Multiplier | 1.3 |
| TOTAL ECONOMIC IMPACT (Direct and Indirect; Rounded) | \$30,800,000 |
| NUMBER OF JOBS SUPPORTED | 250 |

The following text provides summary tables and the assumptions used to reach the aforementioned conclusions.

Total Hotel Visitors

To calculate the visitor impact of the hotel operations, it is first necessary to estimate total hotel visitors. This has been derived by taking the projected occupancy of the proposed facilities in a stabilized year of operation and multiplying them by the double occupancy factor, which is the average number of adults per hotel room. Based on our knowledge of the subject property and the Santa Rosa lodging market and it being primarily a commercial destination during the week and a leisure destination during the weekends, we estimate that a double occupancy factor of 1.6 people per occupied room is reasonable. Next, to develop a base line expenditure that we can extrapolate to total visitor expenditure, we have utilized daily lodging expenditure per hotel visitor. This is calculated by taking the average daily rate and dividing it by the multiple occupancy factor.

| Total Hotel Visitors and Daily Lodging Expenditure | |
|---|--------------------------------------|
| | Proposed Residence Inn Santa Rosa |
| Total Occupied Rooms | 34,098 |
| Occupancy Factor | 1.60 |
| Total Hotel Visitor Days | 54,557 |
| Average Daily Rate | \$189.00 |
| Daily Hotel Spending per Visitor | \$118.13 |
| Source: CBRE Hotels | |

Direct Visitor Spending

Based on the daily lodging expenditure, it is now possible to project spending on other categories. Our estimates of overnight visitors are based upon the projected occupancy and ADR of the proposed Residence Inn Santa Rosa. The following table presents the spending by category for Sonoma County for direct visitor expenditure for 2018, as determined by Dean Runyan Associates, Inc. We have adjusted these ratios to reflect the slightly higher proportion of total spend that visitors to the subject hotel will necessarily allocate to lodging. This is due to the fact that the average daily rates at the proposed Residence Inn are projected to be approximately eight percent greater than the average daily rate for all Sonoma County hotels. As a result, visitors to the subject hotel will have slightly less money to spend on other items such as food, retail, and entertainment.

The adjusted ratios are then applied to the lodging spend per visitor, which reflects current market conditions and the positioning of the subject property. For example, if the average daily rate is \$140, and there is an occupancy factor of 1.4, then the lodging spend per visitor is \$100. If lodging spend comprises 50 percent of total spending, we can then calculate what a visitor spends in each other category based on the ratios. In this example, every percent is equal to \$2.00 in daily spending (lodging = \$100 per day, which comprises 50 percent of total spending, therefore $\$100/50\% = \2.00 per one percent).

For these segments, our analysis of daily expenditures for overnight stays included the following categories:

- Lodging & Accommodations
- Food and Beverage
- Transportation
- Entertainment
- Shopping/Retail

| 2018 - Visitors to Sonoma County Spending by Category | | | |
|---|-----------------|------------|--|
| Spending Category | Total Spending | % of Total | Proposed Residence Inn Visitor: Adjusted Ratio |
| Lodging & Accommodations | \$504,000,000 | 25.0% | 27.0% |
| Food and Beverage | 625,000,000 | 31.0 | 31.0 |
| Transportation | 190,000,000 | 10.0 | 9.0 |
| Entertainment | 351,000,000 | 18.0 | 17.0 |
| Shopping/Retail | 329,000,000 | 16.0 | 16.0 |
| Total | \$1,999,000,000 | 100.0% | 100.0% |

As we have already determined the average daily expenditure on lodging, we can then apply the average visitor spend per category to the subject property. These spend amounts per category for the subject property are presented in the following tables.

| Total Hotel Visitor Direct Spending Per Day | |
|---|-----------------------------------|
| Spending Category | Proposed Residence Inn Santa Rosa |
| Lodging & Accommodations | \$118.13 |
| Food and Beverage | 133.38 |
| Transportation | 39.02 |
| Entertainment | 74.03 |
| Retail | 69.13 |
| Total (Rounded) | \$434.00 |

Next, we will apply this daily expenditure to the number of hotel visitor days to calculate total direct visitor spending for each category. The following table presents our conclusions of total direct visitor spending in a representative year for the subject hotel.

| Total Hotel Visitor Direct Spending | |
|-------------------------------------|-----------------------------------|
| Spending Category | Proposed Residence Inn Santa Rosa |
| Lodging & Accommodations | \$6,445,000 |
| Food and Beverage | 7,276,534 |
| Transportation | 2,128,998 |
| Entertainment | 4,038,911 |
| Retail | 3,771,476 |
| Total (Rounded) | \$23,700,000 |
| CBRE Hotels | |

The Multiplier Effect

The total impact of direct spending related to the introduction of the proposed subject is amplified by means of an economic multiplier. A multiplier is used to estimate the impact that the visitor dollar makes beyond the initial goods/services purchased. The infusion of new dollars into the local economy also produces additional goods and services. In short, "direct" visitor spending

creates indirect and induced economic benefits for the city. For example, visitor spending collected “directly” within a hotel restaurant also “indirectly” supports food and beverage suppliers and delivery services. Moreover, the direct and indirect spending induces further spending in the community by employees of the benefiting businesses.

Based upon the RIMS II economic modeling system we have used an overall economic multiplier of 1.3. We applied these multipliers to the expenditures related to the visitors to the subject property, to determine the overall economic impact of the proposed Tharaldson development.

| Total Hotel Visitor Direct and Indirect Spending | |
|---|--------------------------------------|
| | Proposed Residence Inn Santa Rosa |
| Direct Spending | \$23,700,000 |
| Multiplier | 1.3 |
| Direct and Indirect Spending | \$30,800,000 |
| Source: CBRE Hotels, Dean Runyan | |

Operational Phase Employment

Our employment and salary estimates for a stabilized year of operation of the subject are based upon industry standards, benchmarks provided by CBRE Hotels’ in-house data, related analyses, and our understanding of the project. It should be noted that certain categories have been combined in accordance with the most recent categorization of industry employment generated by travel spending as detailed in California Travel Impacts by County report prepared by Dean Runyan Associates, Inc. for the California Tour & Travel Commission.

| Visitor Spending | | Proposed Residence Inn Santa Rosa |
|--|--|--------------------------------------|
| Lodging ¹ | | \$6,445,000 |
| Food and Beverage | | \$7,276,534 |
| Transportation | | \$2,128,998 |
| Entertainment | | \$4,038,911 |
| Retail | | \$3,771,476 |
| Related Jobs | | |
| 9.94 jobs/\$1 million in spending for Hotels | | 64 |
| 9.94 jobs/\$1 million in spending for Food and Beverage Establishments | | 72 |
| 3.84 jobs/\$1 million in spending for Transportation | | 8 |
| 23.42 jobs/\$1 million in spending for Entertainment and Other Spending | | 88 |
| 4.47 jobs/\$1 million in spending for Retail | | 18 |
| TOTAL JOBS | | 250 |
| ¹ Rooms Revenue Only | | |
| Source: Dean Runyan Associates, Inc. | | |

FISCAL IMPACT ANALYSIS

Taxes and Other City Revenues

City revenue generated by lodging facilities represents a relatively large source of tax collections for the City of Santa Rosa. Potential government revenues drawn from tourism-related projects include:

- Transient Occupancy Tax (TOT)
- Santa Rosa Tourism Business Improvement Area Assessment
- Sonoma County Tourism Business Improvement Area Assessment
- Property Tax
- Utility Users Tax
- Business License Tax
- Sales Tax

Our analysis of the total tax revenues for the City of Santa Rosa is limited to measurable tax revenues which include transient occupancy tax (TOT), property tax, utility users tax, business license tax, direct sales tax, and the relevant portion of the Santa Rosa Tourism Business Improvement Area Assessment (SRTBIAA) revenues. After the deduction of a 2.0 percent administrative fee, 30.0 percent of the revenue generated from the SRTBIAA is allocated to the City of Santa Rosa, and the remaining 70.0 percent of revenue is allocated to the Santa Rosa Metro Chamber for the operation of the Santa Rosa Convention and Visitors Bureau and Welcome Center. While the funds allocated to the Santa Rosa Metro Chamber represent a crucial source of funding for an organization that benefits the local economy, they do not accrue to the City of Santa Rosa's general fund. Accordingly, we have only included the portion of the SRTBIAA revenues that flows through to the City of Santa Rosa's general fund. As a hotel in the City of Santa Rosa, the proposed subject will also generate funds to Sonoma County Tourism (the official marketing organization dedicated to promoting Sonoma County as an overnight destination), via the Sonoma County Tourism Business Improvement Area Assessment (SCTBIAA). While the City of Santa Rosa will benefit from the dollars generated by the SCTBIAA levied on the proposed Residence Inn, they will not accrue to the City's general fund and have not been included in this analysis.

We were provided an estimate of total development costs by Tharaldson Hospitality for the proposed Residence Inn of \$29,215,843, or approximately \$256,000 per room. In order to test the reasonableness of the provided costs, we utilized the Marshall and Swift Valuation Cost Guide coupled with our knowledge of development budgets for similar extended-stay developments. Based on our experience, an average per-room cost of approximately \$256,000 is a reasonable, if not conservative estimate to construct the proposed project.

We have utilized the above estimates to approximate the assessed value of the proposed development. The current method of taxation of real property in California is mandated by the Jarvis-Gann Property Tax Initiative, known as Proposition 13, under which real estate taxes were reduced to one percent of the property's full market value as of the 1975/76 fiscal year, plus any voter-approved bond indebtedness. The subject property is in the real estate taxing jurisdiction of the Sonoma County Assessor's Office. Proposition 13 limits property taxes to 1.0 percent of the assessed value as of the current fiscal year, plus city, special district, and county bonds. We have applied a tax rate of 1.0 percent. Based on our research of the tax structure in Santa Rosa, and information provided by Sonoma County officials, approximately 16.06 percent of the real estate taxes remain within the city and accrue to Santa Rosa's General Fund. We have applied this ratio accordingly.

The current transient occupancy tax rate in the City of Santa Rosa is calculated at a rate of 9.0 percent of guest room revenues. As discussed in the preceding paragraphs there is an additional Tourism Business Improvement Area Assessment of 3.0 percent of guest room revenues.

The City of Santa Rosa charges a 5.0 percent utility users tax on electric, gas, telephone, and the provision of leased video access channels to businesses in the City of Santa Rosa. The utility users tax is limited to \$1,000 for each utility in a given year. The current retail sales tax that is contributed to the City is 0.75 points of the retail sales. Finally, the City of Santa Rosa charges a business license tax that is calculated based on \$0.34 per every \$1,000 in gross total revenues over \$25,000. The following tables present the tax revenues for the proposed hotel in a stabilized year of operations, stated in 2019 dollars.

| Operational Phase Measurable Tax Revenues (Stabilized Year of Operations, 2019 Dollars) | |
|--|--------------------------------------|
| | Proposed Residence Inn Santa Rosa |
| Applicable Revenues (Rooms) | \$6,445,000 |
| TOT Rate | 9.0% |
| TOT Generated (Rounded) | \$580,000 |
| Applicable Revenues (Rooms) | \$6,445,000 |
| Tourism Business Improvement Area Assessment | 3.0% |
| Administrative Fee Deduction | 2.0% |
| Percent to City | 30.0% |
| TBIA Assessment Generated (Rounded) | \$57,000 |
| Anticipated Assessed Value | \$29,200,000 |
| Tax Rate | 1.00% |
| Percent to City | 16.06% |
| Property Taxes Generated to the City (Rounded) | \$47,000 |
| Utility Tax Generated (Rounded) | \$4,000 |
| Applicable Sales Revenues (Other Operated Departments) | \$44,000 |
| Sales Tax Rate to City | 0.75% |
| Sales Tax Generated (Rounded) | \$300 |
| Annual Business License Tax (Rounded) | \$2,000 |
| TOTAL MEASURABLE TAX REVENUES TO THE CITY OF SANTA ROSA | \$690,000 |

The following summarizes the projected impacts in a representative year.

- Based on the assumptions of occupancy and average daily rate upon stabilization, we have estimated representative year transient occupancy tax due to the opening of the proposed hotel at approximately \$580,000 stated in 2019 value dollars.
- In addition to TOT, the City of Santa Rosa will receive 30.0 percent of the 3.0 percent municipal Tourism Business Improvement Area Assessment, which is applied to rooms revenue. After a 2.0 percent administrative fee deduction, the proposed hotel is projected to generate \$57,000 in a representative year.
- We have included in our analysis the property taxes that the City of Santa Rosa will receive. We have estimated total property tax revenues at approximately \$292,000. The City of Santa Rosa collects approximately 16.06 percent of the property tax collected. The fiscal impact of property tax revenue to the City of Santa Rosa in a representative year of operation of the proposed hotel is approximately \$47,000.

- The City of Santa Rosa is estimated to receive 0.75 points of the sales tax generated from the minor other operated departments of the proposed hotel, including the sundry shop. We estimate that approximately \$300 sales tax revenue will be generated from expenditures by hotel visitors at the proposed subject in the City of Santa Rosa.
- Finally, the proposed hotel is projected to contribute approximately \$2,000 in annual business license tax to the City of Santa Rosa, based on \$0.34 per every \$1,000 in gross total revenues over \$25,000.

In addition, we have also calculated the tax revenue and ultimate fiscal impact for a 10-year period beginning January 1, 2022, the estimated opening date of the proposed hotel development.

| Economic and Fiscal Impact for 10-Year Period Beginning 2022: Proposed Residence Inn Santa Rosa | | | | | | | | |
|--|----------------------|-------------------------------|--|------------------|--------------------------------------|----------------------------|----------------|--------------------|
| Rep Year | Economic Impact | Transient Occupancy Tax | Tourism Business Improvement Area Assessment | Property Tax | Utility Users Tax ¹ | Business License Tax | Sales Tax | Total |
| | \$30,800,000 | \$580,000 | \$57,000 | \$47,000 | \$4,000 | \$2,000 | \$300 | \$690,000 |
| 2022 | 31,000,000 | 584,000 | 57,000 | 51,000 | 4,000 | 2,000 | 300 | 698,000 |
| 2023 | 33,400,000 | 629,000 | 62,000 | 52,000 | 4,000 | 2,000 | 400 | 749,000 |
| 2024 | 35,500,000 | 669,000 | 66,000 | 53,000 | 4,000 | 3,000 | 400 | 795,000 |
| 2025 | 36,600,000 | 691,000 | 68,000 | 54,000 | 4,000 | 3,000 | 400 | 820,000 |
| 2026 | 37,800,000 | 712,000 | 70,000 | 55,000 | 4,000 | 3,000 | 400 | 844,000 |
| 2027 | 38,900,000 | 734,000 | 72,000 | 57,000 | 4,000 | 3,000 | 400 | 870,000 |
| 2028 | 40,100,000 | 755,000 | 74,000 | 58,000 | 4,000 | 3,000 | 400 | 894,000 |
| 2029 | 41,200,000 | 777,000 | 76,000 | 59,000 | 4,000 | 3,000 | 500 | 920,000 |
| 2030 | 42,500,000 | 801,000 | 79,000 | 60,000 | 4,000 | 3,000 | 500 | 948,000 |
| 2031 | 43,800,000 | 826,000 | 81,000 | 61,000 | 4,000 | 3,000 | 500 | 976,000 |
| Total | \$380,800,000 | \$7,178,000 | \$705,000 | \$560,000 | \$40,000 | \$28,000 | \$4,000 | \$8,514,000 |

¹Limited to \$4,000 per year based on a cap of \$1,000 per utility type (electric, gas, telephone, video services)
CBRE Hotels

CONCLUSIONS

The estimated economic and fiscal impact of the proposed hotel development to the City of Santa Rosa is expected to be material. We have estimated a total economic impact of approximately \$30,800,000 in a representative year in 2019 dollars for the overall hotel development. This includes direct visitor spending of approximately \$23,700,000. During a 10-year period of operation beginning in 2022, the estimated direct visitor spending is approximately \$292.9 million while the total direct and indirect economic impact is estimated at \$380.8 million.

The estimates of economic impact generated by the proposed hotel are not inclusive of all potential economic benefits. Excluded from our analysis are:

- The economic impact upon the City of Santa Rosa during the construction of the proposed scenario. This impact includes applicable salary taxes, spending by the workers with the City, and property taxes during the construction period;
- Developer's estimate of permit fees to the City as part of the development process;

- Santa Rosa Tourism Business Improvement Area tax dollars generated by the project that will be utilized by the Santa Rosa Metro Chamber to fund the Santa Rosa Convention and Visitors Bureau, tasked with marketing Santa Rosa as a tourism destination;
- The tax dollars generated to the County of Sonoma via the Sonoma County Tourism Improvement Area Assessment, which is used to promote overnight visitation to Sonoma County;
- The spending induced by day visitors; and finally,
- The incremental impact from the eventual sale of the Residence Inn Santa Rosa, which would also likely result in a significantly higher assessed value.

Our analysis of the total tax revenues for the City of Santa Rosa is limited to measurable tax revenues which include transient occupancy tax (TOT), property tax, utility users tax, business license tax, direct sales tax, and the relevant portion of the Santa Rosa Tourism Business Improvement Area Assessment revenues. It is our opinion that the proposed hotel development would bring significant fiscal impact to the City of Santa Rosa through visitor spending, tax revenue, and jobs. The total measurable tax revenues generated to the City of Santa Rosa in a representative year as a result of the development of the proposed Residence Inn hotel equates to approximately \$690,000. The total fiscal impact for a 10-year period beginning January 1, 2022 is approximately \$8,514,000.

Addenda

- A. PROJECTED OPERATING RESULTS
- B. OPERATING RESULTS OF COMPARABLE HOTELS
- C. TERMS AND CONDITIONS

Addendum A
Projected Operating Results

Proposed Residence Inn

Projected Operating Results

Calendar Years

| |
|-----------------------------------|
| Number of Units: |
| Number of Annual Rooms Available: |
| Number of Rooms Occupied: |
| Annual Occupancy: |
| Average Daily Rate: |
| Revenue Per Available Room: |

| 2022 | |
|----------|-------|
| 114 | |
| 41,610 | |
| 32,456 | |
| 78.0% | |
| \$200.00 | |
| \$156.00 | |
| Amount | Ratio |

| 2023 | |
|----------|-------|
| 114 | |
| 41,610 | |
| 33,288 | |
| 80.0% | |
| \$210.00 | |
| \$168.00 | |
| Amount | Ratio |

| 2024 | |
|----------|-------|
| 114 | |
| 41,610 | |
| 34,120 | |
| 82.0% | |
| \$218.00 | |
| \$178.76 | |
| Amount | Ratio |

| 2025 | |
|----------|-------|
| 114 | |
| 41,610 | |
| 34,120 | |
| 82.0% | |
| \$225.00 | |
| \$184.50 | |
| Amount | Ratio |

| 2026 | |
|----------|-------|
| 114 | |
| 41,610 | |
| 34,120 | |
| 82.0% | |
| \$232.00 | |
| \$190.24 | |
| Amount | Ratio |

| |
|----------------------------|
| Revenues |
| Rooms |
| Other Operated Departments |
| Total Revenues |

| | |
|-------------|--------|
| \$6,491,000 | 99.3% |
| 46,000 | 0.7% |
| 6,537,000 | 100.0% |

| | |
|-------------|--------|
| \$6,990,000 | 99.3% |
| 49,000 | 0.7% |
| 7,039,000 | 100.0% |

| | |
|-------------|--------|
| \$7,438,000 | 99.3% |
| 51,000 | 0.7% |
| 7,489,000 | 100.0% |

| | |
|-------------|--------|
| \$7,677,000 | 99.3% |
| 53,000 | 0.7% |
| 7,730,000 | 100.0% |

| | |
|-------------|--------|
| \$7,916,000 | 99.3% |
| 55,000 | 0.7% |
| 7,971,000 | 100.0% |

| |
|-----------------------------|
| Departmental Expenses |
| Rooms |
| Other Operated Departments |
| Total Departmental Expenses |

| | |
|---------|-------|
| 922,000 | 14.2% |
| 25,000 | 54.3% |
| 947,000 | 14.5% |

| | |
|---------|-------|
| 962,000 | 13.8% |
| 26,000 | 53.1% |
| 988,000 | 14.0% |

| | |
|-----------|-------|
| 1,003,000 | 13.5% |
| 28,000 | 54.9% |
| 1,031,000 | 13.8% |

| | |
|-----------|-------|
| 1,033,000 | 13.5% |
| 28,000 | 52.8% |
| 1,061,000 | 13.7% |

| | |
|-----------|-------|
| 1,064,000 | 13.4% |
| 29,000 | 52.7% |
| 1,093,000 | 13.7% |

| |
|---------------------|
| Departmental Profit |
|---------------------|

| | |
|-----------|-------|
| 5,590,000 | 85.5% |
|-----------|-------|

| | |
|-----------|-------|
| 6,051,000 | 86.0% |
|-----------|-------|

| | |
|-----------|-------|
| 6,458,000 | 86.2% |
|-----------|-------|

| | |
|-----------|-------|
| 6,669,000 | 86.3% |
|-----------|-------|

| | |
|-----------|-------|
| 6,878,000 | 86.3% |
|-----------|-------|

| |
|---|
| Undistributed Expenses |
| Administrative & General |
| Information and Telecommunication Systems |
| Marketing |
| Property Operations and Maintenance |
| Energy and Utility |
| Total Undistributed Operating Expenses |

| | |
|-----------|-------|
| 405,000 | 6.2% |
| 16,000 | 0.2% |
| 681,000 | 10.4% |
| 157,000 | 2.4% |
| 178,000 | 2.7% |
| 1,437,000 | 22.0% |

| | |
|-----------|-------|
| 417,000 | 5.9% |
| 16,000 | 0.2% |
| 701,000 | 10.0% |
| 161,000 | 2.3% |
| 184,000 | 2.6% |
| 1,479,000 | 21.0% |

| | |
|-----------|-------|
| 430,000 | 5.7% |
| 16,000 | 0.2% |
| 722,000 | 9.6% |
| 166,000 | 2.2% |
| 189,000 | 2.5% |
| 1,523,000 | 20.3% |

| | |
|-----------|-------|
| 442,000 | 5.7% |
| 17,000 | 0.2% |
| 744,000 | 9.6% |
| 171,000 | 2.2% |
| 195,000 | 2.5% |
| 1,569,000 | 20.3% |

| | |
|-----------|-------|
| 456,000 | 5.7% |
| 17,000 | 0.2% |
| 766,000 | 9.6% |
| 176,000 | 2.2% |
| 201,000 | 2.5% |
| 1,616,000 | 20.3% |

| |
|------------------------|
| Gross Operating Profit |
|------------------------|

| | |
|-----------|-------|
| 4,153,000 | 63.5% |
|-----------|-------|

| | |
|-----------|-------|
| 4,572,000 | 65.0% |
|-----------|-------|

| | |
|-----------|-------|
| 4,935,000 | 65.9% |
|-----------|-------|

| | |
|-----------|-------|
| 5,100,000 | 66.0% |
|-----------|-------|

| | |
|-----------|-------|
| 5,262,000 | 66.0% |
|-----------|-------|

| |
|--------------------------------|
| Source: Tharaldson Hospitality |
|--------------------------------|

| |
|------------------------|
| Full Year of Operation |
|------------------------|

Proposed Residence InnProjected Operating Results
Calendar Years

| | 2022 | | 2023 | | 2024 | | 2025 | | 2026 | |
|---|------------------------|--------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|
| Number of Units: | 114 | | 114 | | 114 | | 114 | | 114 | |
| Number of Annual Rooms Available: | 41,610 | | 41,610 | | 41,610 | | 41,610 | | 41,610 | |
| Number of Rooms Occupied: | 32,456 | | 33,288 | | 34,120 | | 34,120 | | 34,120 | |
| Annual Occupancy: | 78.0% | | 80.0% | | 82.0% | | 82.0% | | 82.0% | |
| Average Daily Rate: | \$200.00 | | \$210.00 | | \$218.00 | | \$225.00 | | \$232.00 | |
| Revenue Per Available Room: | \$156.00 | | \$168.00 | | \$178.76 | | \$184.50 | | \$190.24 | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Revenues | | | | | | | | | | |
| Rooms | \$6,491,000 | 99.3% | \$6,990,000 | 99.3% | \$7,438,000 | 99.3% | \$7,677,000 | 99.3% | \$7,916,000 | 99.3% |
| Other Operated Departments | 46,000 | 0.7% | 49,000 | 0.7% | 51,000 | 0.7% | 53,000 | 0.7% | 55,000 | 0.7% |
| Total Revenues | 6,537,000 | 100.0% | 7,039,000 | 100.0% | 7,489,000 | 100.0% | 7,730,000 | 100.0% | 7,971,000 | 100.0% |
| Departmental Expenses | | | | | | | | | | |
| Rooms | 922,000 | 14.2% | 962,000 | 13.8% | 1,003,000 | 13.5% | 1,033,000 | 13.5% | 1,064,000 | 13.4% |
| Other Operated Departments | 25,000 | 54.3% | 26,000 | 53.1% | 28,000 | 54.9% | 28,000 | 52.8% | 29,000 | 52.7% |
| Total Departmental Expenses | 947,000 | 14.5% | 988,000 | 14.0% | 1,031,000 | 13.8% | 1,061,000 | 13.7% | 1,093,000 | 13.7% |
| Departmental Profit | 5,590,000 | 85.5% | 6,051,000 | 86.0% | 6,458,000 | 86.2% | 6,669,000 | 86.3% | 6,878,000 | 86.3% |
| Undistributed Expenses | | | | | | | | | | |
| Administrative & General | 405,000 | 6.2% | 417,000 | 5.9% | 430,000 | 5.7% | 442,000 | 5.7% | 456,000 | 5.7% |
| Information and Telecommunication Systems | 16,000 | 0.2% | 16,000 | 0.2% | 16,000 | 0.2% | 17,000 | 0.2% | 17,000 | 0.2% |
| Marketing | 681,000 | 10.4% | 701,000 | 10.0% | 722,000 | 9.6% | 744,000 | 9.6% | 766,000 | 9.6% |
| Property Operations and Maintenance | 157,000 | 2.4% | 161,000 | 2.3% | 166,000 | 2.2% | 171,000 | 2.2% | 176,000 | 2.2% |
| Energy and Utility | 178,000 | 2.7% | 184,000 | 2.6% | 189,000 | 2.5% | 195,000 | 2.5% | 201,000 | 2.5% |
| Total Undistributed Operating Expenses | 1,437,000 | 22.0% | 1,479,000 | 21.0% | 1,523,000 | 20.3% | 1,569,000 | 20.3% | 1,616,000 | 20.3% |
| Gross Operating Profit | 4,153,000 | 63.5% | 4,572,000 | 65.0% | 4,935,000 | 65.9% | 5,100,000 | 66.0% | 5,262,000 | 66.0% |
| Source: Tharaldson Hospitality | Full Year of Operation | | | | | | | | | |

Addendum B
Operating Results of Comparable Hotels

Proposed Residence Inn
Operating Results of Comparable Hotels

| | Hotel D | | | Hotel E | | | Weighted Average | | |
|---|---------|----------|----------|---------|----------|----------|------------------|----------|----------|
| | Ratio | Per Room | P.O.R. | Ratio | Per Room | P.O.R. | Ratio | Per Room | P.O.R. |
| Revenues | | | | | | | | | |
| Rooms | 96.5% | \$81,289 | \$277.12 | 99.2% | \$57,130 | \$189.80 | 98.1% | \$65,651 | \$223.14 |
| Other Operated Departments | 3.5% | 2,962 | 10.10 | 0.8% | 453 | 1.50 | 1.9% | 1,270 | 4.32 |
| Total Revenues | 100.0% | 84,251 | 287.22 | 100.0% | 57,583 | 191.30 | 100.0% | 66,922 | 227.46 |
| Departmental Expenses | | | | | | | | | |
| Rooms | 14.1% | 11,469 | 39.10 | 19.5% | 11,144 | 37.02 | 15.6% | 10,261 | 34.88 |
| Other Operated Departments | 8.9% | 262 | 0.89 | 17.9% | 81 | 0.27 | 13.5% | 172 | 0.58 |
| Total Departmental Expenses | 13.9% | 11,731 | 39.99 | 19.5% | 11,226 | 37.29 | 15.6% | 10,433 | 35.46 |
| Departmental Profit | 86.1% | 72,520 | 247.23 | 80.5% | 46,358 | 154.01 | 84.4% | 56,489 | 192.00 |
| Undistributed Expenses | | | | | | | | | |
| Administrative & General | 5.8% | 4,910 | 16.74 | 10.5% | 6,019 | 20.00 | 7.5% | 5,024 | 17.08 |
| Information and Telecommunication Systems | 0.6% | 477 | 1.63 | 1.0% | 566 | 1.88 | 0.7% | 446 | 1.51 |
| Marketing | 10.0% | 8,445 | 28.79 | 5.5% | 3,141 | 10.43 | 9.0% | 6,027 | 20.49 |
| Property Operations and Maintenance | 2.3% | 1,925 | 6.56 | 4.1% | 2,386 | 7.93 | 3.3% | 2,234 | 7.59 |
| Energy and Utility | 2.1% | 1,777 | 6.06 | 2.8% | 1,619 | 5.38 | 2.3% | 1,511 | 5.14 |
| Total Undistributed Operating Expenses | 20.8% | 17,534 | 59.78 | 23.8% | 13,731 | 45.62 | 22.8% | 15,242 | 51.81 |
| Gross Operating Profit | 65.3% | 54,986 | 187.45 | 56.7% | 32,627 | 108.39 | 61.6% | 41,247 | 140.19 |

Source: **CBRE Hotels**

Addendum C
Terms and Conditions

TERMS AND CONDITIONS

1. CBRE, Inc. through its advisor (collectively, "CBRE") has inspected through reasonable observation the subject property. However, it is not possible or reasonably practicable to personally inspect conditions beneath the soil and the entire interior and exterior of the improvements on the subject property. Therefore, no representation is made as to such matters.
2. The report, including its conclusions and any portion of such report (the "Report"), is as of the date set forth in the letter of transmittal and based upon the information, market, economic, and property conditions and projected levels of operation existing as of such date. The dollar amount of any conclusion as to value in the Report is based upon the purchasing power of the U.S. Dollar on such date. The Report is subject to change as a result of fluctuations in any of the foregoing. CBRE has no obligation to revise the Report to reflect any such fluctuations or other events or conditions which occur subsequent to such date.
3. Unless otherwise expressly noted in the Report, CBRE has assumed that:
 - (i) Title to the subject property is clear and marketable and that there are no recorded or unrecorded matters or exceptions to title that would adversely affect marketability or value. CBRE has not examined title records (including without limitation liens, encumbrances, easements, deed restrictions, and other conditions that may affect the title or use of the subject property) and makes no representations regarding title or its limitations on the use of the subject property. Insurance against financial loss that may arise out of defects in title should be sought from a qualified title insurance company.
 - (ii) If any, existing improvements on the subject property conform to applicable local, state, and federal building codes and ordinances, are structurally sound and seismically safe, and have been built and repaired in a workmanlike manner according to standard practices; all building systems (mechanical/electrical, HVAC, elevator, plumbing, etc.) are in good working order with no major deferred maintenance or repair required; and the roof and exterior are in good condition and free from intrusion by the elements. CBRE has not retained independent structural, mechanical, electrical, or civil engineers in connection with this report and, therefore, makes no representations relative to the condition of improvements. CBRE advisors are not engineers and are not qualified to judge matters of an engineering nature, and furthermore structural problems or building system problems may not be visible. It is expressly assumed that any purchaser would, as a precondition to closing a sale, obtain a satisfactory engineering report relative to the structural integrity of the property and the integrity of building systems.
 - (iii) Any proposed improvements, on or off-site, as well as any alterations or repairs considered will be completed in a workmanlike manner according to standard practices.
 - (iv) Hazardous materials are not present on the subject property. CBRE is not qualified to detect such substances. The presence of substances such as asbestos, urea formaldehyde foam insulation, contaminated groundwater, mold, or other potentially hazardous materials may affect the value of the property.
 - (v) No mineral deposit or subsurface rights of value exist with respect to the subject property, whether gas, liquid, or solid, and no air or development rights of value may be transferred. CBRE has not considered any rights associated with extraction or exploration of any resources, unless otherwise expressly noted in the Report.
 - (vi) There are no contemplated public initiatives, governmental development controls, rent controls, or changes in the present zoning ordinances or regulations governing use, density, or shape that would significantly affect the value of the subject property.
 - (vii) All required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, nor national government or private entity or organization have been or can be readily obtained or renewed for any use on which the Report is based.
 - (viii) The subject property is managed and operated in a prudent and competent manner, neither inefficiently or super-efficiently.
 - (ix) The subject property and its use, management, and operation are in full compliance with all applicable federal, state, and local regulations, laws, and restrictions, including without limitation environmental laws, seismic hazards, flight patterns, decibel levels/noise envelopes, fire hazards, hillside ordinances, density, allowable uses, building codes, permits, and licenses.
 - (x) The subject property is in full compliance with the Americans with Disabilities Act (ADA). CBRE is not qualified to assess the subject property's compliance with the ADA, notwithstanding any discussion of possible readily achievable barrier removal construction items in the Report.
 - (xi) All information regarding the areas and dimensions of the subject property furnished to CBRE are correct, and no encroachments exist. CBRE has neither undertaken any survey of the boundaries of the subject property nor reviewed or confirmed the accuracy of any legal description of the subject property.

Unless otherwise expressly noted in the Report, no issues regarding the foregoing were brought to CBRE's attention, and CBRE has no knowledge of any such facts affecting the subject property. If any information inconsistent with any of the foregoing assumptions is discovered, such information could have a substantial

TERMS AND CONDITIONS

(continued)

negative impact on the Report. Accordingly, if any such information is subsequently made known to CBRE, CBRE reserves the right to amend the Report, which may include the conclusions of the Report. CBRE assumes no responsibility for any conditions regarding the foregoing, or for any expertise or knowledge required to discover them. Any user of the Report is urged to retain an expert in the applicable field(s) for information regarding such conditions.

4. CBRE has assumed that all documents, data and information furnished by or behalf of the client, property owner, or owner's representative are accurate and correct, unless otherwise expressly noted in the Report. Such data and information include, without limitation, numerical street addresses, lot and block numbers, Assessor's Parcel Numbers, land dimensions, square footage area of the land, dimensions of the improvements, gross building areas, net rentable areas, usable areas, unit count, room count, rent schedules, income data, historical operating expenses, budgets, and related data. Any error in any of the above could have a substantial impact on the Report. Accordingly, if any such errors are subsequently made known to CBRE, CBRE reserves the right to amend the Report, which may include the conclusions of the Report. The client and intended user should carefully review all assumptions, data, relevant calculations, and conclusions of the Report and should immediately notify CBRE of any questions or errors within 30 days after the date of delivery of the Report.
5. CBRE assumes no responsibility (including any obligation to procure the same) for any documents, data or information not provided to CBRE, including without limitation any termite inspection, survey or occupancy permit.
6. Any cash flows included in the analysis are forecasts of estimated future operating characteristics based upon the information and assumptions contained within the Report. Any projections of income, expenses and economic conditions utilized in the Report, including such cash flows, should be considered as only estimates of the expectations of future income and expenses as of the date of the Report and not predictions of the future. Actual results are affected by a number of factors outside the control of CBRE, including without limitation fluctuating economic, market, and property conditions. Actual results may ultimately differ from these projections, and CBRE does not warrant any such projections.
7. The Report contains professional opinions and is expressly not intended to serve as any warranty, assurance or guarantee of the performance of the subject property. Accordingly, CBRE shall not be liable for any losses that arise from any investment or lending decisions based upon the Report that the client, intended user, or any buyer, seller, investor, or lending institution may undertake related to the subject property, and CBRE has not been compensated to assume any of these risks. Nothing contained in the Report shall be construed as any direct or indirect recommendation of CBRE to buy, sell, hold, or finance the subject property.
8. No opinion is expressed on matters which may require legal expertise or specialized investigation or knowledge beyond that customarily employed by the advisors. Any user of the Report is advised to retain experts in areas that fall outside the scope of the advisor for such matters.
9. CBRE assumes no responsibility for any costs or consequences arising due to the need, or the lack of need, for flood hazard insurance. An agent for the Federal Flood Insurance Program should be contacted to determine the actual need for Flood Hazard Insurance.
10. Acceptance or use of the Report constitutes full acceptance of these Assumptions and Limiting Conditions and any special assumptions set forth in the Report. It is the responsibility of the user of the Report to read in full, comprehend and thus become aware of all such assumptions and limiting conditions. CBRE assumes no responsibility for any situation arising out of the user's failure to become familiar with and understand the same.
11. The Report applies to the property as a whole only, and any pro ration or division of the title into fractional interests will invalidate such conclusions, unless the Report expressly assumes such pro ration or division of interests.
12. The maps, plats, sketches, graphs, photographs, and exhibits included in this Report are for illustration purposes only and shall be utilized only to assist in visualizing matters discussed in the Report. No such items shall be removed, reproduced, or used apart from the Report.

The Report shall not be duplicated or provided to any unintended users in whole or in part without the written consent of CBRE, which consent CBRE may withhold in its sole discretion. Exempt from this restriction is duplication for the internal use of the intended user and its attorneys, accountants, or advisors for the sole benefit of the intended user. Also exempt from this restriction is transmission of the Report pursuant to any requirement of any court, governmental authority, or regulatory agency having jurisdiction over the intended user, provided that the Report and its contents shall not be published, in whole or in part, in any public document without the written consent of CBRE, which consent CBRE may withhold in its sole discretion. Finally, the Report shall not be made available to the public or otherwise used in any offering of the property or any security, as defined by applicable law. Any unintended user who may possess the Report is advised that it shall not rely upon the Report or its conclusions and that it should rely on its own consultants and advisors for any decision in connection with the subject property. CBRE shall have no liability or responsibility to any such unintended user.