UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT & FINANCE

Postgraduate & Mid-career Development Unit

Master of Business Administration in International Business 2015/2017 Programme
(Trimester VI) Examination – October, 2017

MBAIB 5216 – Project Management

Three (03) Hours
Answer All Questions
Open Book- Open Notes Examination

Write a report based on the case titled "**Hotel Vertu: Analyzing the Opportunity in the Boutique Hotel Industry**" which is provided herewith, taking following questions into account.

Task:

Assume that you have been appointed as a Strategic Project Management Consultant by Yvonne D'Arcy and Elisabeth Whiting to advise them on their Hotel Vertu Project. Write a report to Yvonne and Elisabeth analyzing the current situation and giving your recommendations on how to go ahead with the project. Your report should include answers to following questions. However, your analysis MUST NOT BE LIMITED to these questions only and you are free to discuss additional aspects as you think relevant.

1. How do you analyze the industry attractiveness of the Boutique Hotel Industry in the U.S.?

   (25 Marks)

2. How do you evaluate the business plan of the Vertu project?

   (25 Marks)

3. What are the key weaknesses and risks associated with the agreement between Yvonne and Elisabeth and their project financing arrangements?

   (25 Marks)

4. Give your recommendations to Yvonne and Elisabeth on how go ahead with the Vertu project? (25 Marks)

(Total 100 Marks)

BRIEF CASES

9-917-501
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Hotel Vertu: Analyzing the Opportunity in the Boutique Hotel Industry

Yvonne D'Arcy and Elisabeth Whiting sat across from each other, contemplating the decision that confronted them about their fledgling venture. It was early May of 2015, and the two women were soon to graduate with their MBAs. They had spent most of their second year working together on an independent project. First, they had explored the boutique hotel industry. Then, after deciding it was an attractive space, they had made significant progress toward a plan to open a boutique hotel in Savannah, Georgia. Now, D'Arcy and Whiting had a property under contract, architectural plans and estimates for a renovation, and a tentative proposal for debt financing.

The women were meeting to discuss how to approach investors. Whiting observed:

> We feel like we have made a lot of progress, and Mr. D'Arcy—Elisabeth's father—has offered to introduce us to some of his friends whom he believes would be interested. He has also said he is willing to match their funding dollar for dollar. So, if we need a bit over $13 million in equity, we really need to find only $6.5 million from outside investors and Mr. D'Arcy would provide the remainder. It has been a great project and we've learned a lot. But, once we go out to investors, then I feel like we are really committed. I want to be sure it is as attractive an opportunity as we think it is.

For her part, D'Arcy added:

> We've become really excited about the boutique hotel industry and this opportunity in particular. I put a lot of stock in the fact that my father is enthusiastic enough to put up half the money. I think we have nothing to lose and a lot of upside.

Yvonne D'Arcy and Elisabeth Whiting

D'Arcy and Whiting were fellow second-year MBA students at a business school in the Midwestern United States. D'Arcy was born in Brussels and then moved to Paris when her father's base of business shifted. Following her graduation from Oxford University with a degree in economics, she worked in

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HBS Professor Emeritus Howard H. Stevenson and former senior lecturer Michael J. Roberts prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The assistance of Michael Depatie, former CEO of Kimpton Hotels, is gratefully acknowledged. Although based on real events, and despite occasional references to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental.

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London for a large investment bank. Her father was the principal of a small, well-known real-estate investment firm and had developed and financed residential and commercial properties all over Europe.

Whiting had grown up in San Francisco and attended Stanford University. She had then worked in the internship program of an international hotel chain. Whiting spent the first 18 months in various managerial roles at two separate hotels, eventually serving as the assistant general manager of a 250-room hotel in New York City. Her next position was in the firm's London headquarters in a strategic planning role, investigating potential locations for new resort hotels in Portugal, Spain, and Mexico.

The two women had met on their first day of business school. Their friendship had grown during their first year and deepened during the summer of 2014, when they both worked for the same consulting firm.

At the start of their second year, D'Arcy had enlisted Whiting's help in a field-study project that D'Arcy had structured with her father's encouragement:

> My father has financed a lot of different hotels around Europe, and one of his latest investments was a boutique hotel in London. He didn't know much about the broader boutique industry and trends, so he wanted to know what was happening in the boutique hotel business, and it sounded interesting to me. I liked my time in private equity and consulting, but I knew it was a grueling lifestyle and I wasn't sure I wanted to sign up for that. I'd done a lot of travelling and was fascinated with the hotel business and thought there might be an interesting career there. I reached out to Elisabeth because of our friendship and the great background she had in this business. I've seen the kind of flexibility and success my father has had as an entrepreneur, and that's extremely appealing to me.

Whiting described her motivation for getting involved:

> I tested the waters in consulting over the summer. It was intellectually stimulating, but I missed the more tangible, operations-oriented kind of experience I had enjoyed in the hotel business. So I was thinking about going back to this industry and also looking at other roles that seemed similarly operational in nature. When Yvonne came up with this independent project proposal, it seemed like a great opportunity to dig into a niche of the hotel business to which I'd not had much exposure. Also, it seemed like a great time to pursue an entrepreneurial opportunity. I really felt like we had very little to lose.

D'Arcy was similarly motivated: "I was always envious of the people who were more involved in the operations, when I worked in private equity. We'd spend three months digging into a company and then move on to the next deal. I missed the opportunity to be involved with ongoing operations."

The Hotel and Boutique Hotel Industry

In 2013, the hotel industry was a large part of the $900 billion U.S. tourism market. Hotel spending accounted for $163 billion in sales in 2013 and included nearly 53,000 properties and almost five million guestrooms.[1] The industry was relatively concentrated: Hilton, Marriott, Wyndham, Choice, and InterContinental, controlled nearly 46% of rooms with 62 different hotel brands between them.[2]

Boutique hotels were an emerging segment in the hotel industry. They were generally defined as intimate, luxurious, and upscale hotels that featured unique architecture and design that targeted a younger, more upscale audience and often included a restaurant/bar designed to attract customers who were not guests of the hotel itself. Boutique hotels were typically smaller, with fewer than 100 rooms, and often avoided some of the major capital expenditures required for larger hotels, such as large rooms, lobbies, and extensive meeting facilities. Boutique hotels offered higher profit margins than a typical hotel did because they were priced at the premium end of the market and were often successful at avoiding price competition by differentiating themselves through design and service.[3]

In 2015, boutique hotels were estimated to account for $6.3 billion in revenue and generated $1.1 billion in profit. Room charges accounted for about 69% of that revenue, while 25% came from food and beverage, and 6.5% from spa and wellness services. The growth of the boutique segment had outperformed the industry overall, with 5.6% annual growth between 2010 and 2015. Growth was forecast to continue outpacing the overall hotel business, with growth rates of 5.9% forecast for the five-year period 2015–2020. In the boutique segment, business travelers booked 68% of room nights, leisure travelers booked 29%, and other travelers booked the remainder. In most states, boutique properties were still a small (less than 3%) share of the hotel market overall, but they represented about 11% of properties in California; 4% of hotels in New York; 7% in Florida; and 3.2% in North Carolina. Boutique hotels had a 2.2% share in South Carolina and 3.4% in Georgia.[4]

Travel spending was forecast to grow 3.5% annually in international arrivals and 2.9% annually in domestic travel. Industry analysts believed that the target market for boutique hotels was more willing to pay for the unique accommodation experience offered by boutique hotels. Moreover, the growth in high-income households (income over $100,000), and the forecast of continued growth in that segment, led to optimism that the boutique segment would continue to outperform.[5]

Early boutique hotels were frequently one-off properties, but the pioneer in the field, Kimpton Hotels, had grown to a 60-hotel chain by 2015 and was acquired by InterContinental Hotel Group (IHG) for $430 million in late 2014.[6] Westin created its W brand in 1998 and by 2015 had 44 properties and 12,610 rooms under that brand. Marriott established the Edition brand as its boutique entry, with two hotels opened in 2015 and 15 more slotted for opening. Richard Branson's Virgin Group had announced its plans to open a boutique hotel chain under the Virgin brand.[7]

Observers believed that changes in the market had allowed smaller, independent boutique hotels to exist. In particular, the advent of the Internet allowed hotels to market themselves directly and via online travel agencies (OTAs) such as Expedia, TripAdvisor, hotels.com, and so on, rather than to rely on the reservation systems of the major brands. In response to the success of the boutiques marketing through OTAs, some major hotel chains were modifying their policies so that independent hotels could use their proprietary websites and reservation systems without actually being part of the overall brand. Marriott had launched Autograph, Hilton, Curio, Starwood, and Tribute, as programs under which independent hotels marketed their rooms through these larger chains' reservation systems, paying roughly a 5% fee. This was far lower than the 20% and more that OTAs typically charged.

The economics of the hotel business were driven by simple math. The average nightly room rate multiplied by the occupancy rate equaled Revenue per Average Room (RevPAR). This was a key statistic used in evaluating the economic performance of a property, and increases in RevPAR were driven by increasing occupancy rate and/or by increases in the average nightly room rate.

The Independent Project

D'Arcy and Whiting worked diligently throughout the fall and were excited by the shape of the opportunities they had discovered. D'Arcy related some of their findings:

> People of our generation want an *experience*. A Marriott or Hilton is simply a transaction where you pay as little as you can to reserve a room. The boutique hotel guest wants to feel a connection to the property. Research shows that the key to a boutique property's success is personalizing the experience by making the guest feel as though she is known to the staff, has a connection to the restaurant, and is doing something cool. And, she wants to seem cool when telling her Facebook friends where she is staying.

Whiting explained other conclusions they had reached:

> For a boutique hotel—especially a new one, without a proven brand name—you want to be in a good market, with limited supply. You need to drive trial. If the existing properties have a 55% occupancy, people won't try something else. You need sell-outs that drive people to try new properties. Social media has really democratized the marketing of boutique properties. The experts we talked to thought that we could market a property ourselves, that is, we wouldn't need the brand name, marketing, and reservation system provided by one of the major chains. TripAdvisor is a huge driver, as are Facebook and other social media platforms. Google AdWords is also a great tool.

Their work convinced D'Arcy and Whiting that this was an industry in which they could start an interesting company and grow it by developing additional hotels under their brand, or sell their first property (or properties) if they became disenchanted with the business. D'Arcy explained: "There is a ready market for the sale of properties. The big guys are always interested in growing their footprint."

D'Arcy planned to be in London during the holidays and invited Whiting to come over for a brief working vacation: "My father is in the real estate investment business and is a very savvy investor. I thought we could get a lot of insight from him and test our ideas."

Whiting recounted the experience:

> Yvonne's father was throwing a big New Year's Eve party at a fancy hotel in London. Several hundred people, including some of the leading lights in business, entertainment, and politics in the UK, and from all over Europe, attended. I had known that Yvonne came from a pretty posh background, but then I saw her in a whole new light.
>
> We spent the next morning with Mr. D'Arcy, and he was most impressed with the growth in the industry and the fact that the fundamentals made it possible to do this as a one-off project, as there were few barriers to entry and few economies of scale. In the best of all worlds, he said, we would create a brand that we could expand into a small chain. Elisabeth and I agreed we'd do another field study during our final semester, develop a real business plan, and then try to raise some financing, so that we could hit the ground when we graduated.
>
> Mr. D'Arcy said he would introduce us to some people who financed projects like this, and agreed to match any financing we pulled together from outside sources, one-to-one. We were excited that he was willing to pull out his own checkbook to support it.

In the winter and spring of 2015, D'Arcy and Whiting set to work trying to find a suitable location for the prospective hotel. As the semester began, Whiting was aware that other students were working on independent projects that were oriented toward starting a business. Having heard about some unfortunate incidents in which teams had blown up over disagreements over roles, titles, and equity ownership, she initiated a series of discussions concerning their roles, titles, and equity stakes in their nascent business, which culminated in the letter of agreement shown in **Exhibit 1**.

Unearthing an Opportunity

Through her contacts in the hotel industry, Whiting had put out the word that she was looking for potential hotel properties. The women received a number of leads, which they explored by reviewing the pitch books that the respective brokers had prepared on various properties. They learned a lot through this process and made two trips south to look at several properties. Whiting reflected: "We saw dumps that could not become the kind of property we wanted. We also saw some lovely places that were priced at top dollar, and we couldn't imagine how we would add value."

Then, in early February, a contact of Whiting's at a big hotel chain passed along a lead on the Peach Tree Inn in Savannah, Georgia. Whiting's friend had reviewed the deal and passed on it because it was too small for the chain, but commented that it was an interesting property in a solid market. The inn was a converted stately office building built in the late 1800s. The Peach Tree had been converted to an inn in the early 1980s and was a "tired" property. However, D'Arcy and Whiting believed it was well located and had good underlying structure. While the rooms and infrastructure would need considerable updating, the basic layout of the building and the rooms was sound and convenient. The property had 145 rooms and was on the market for $21 million. See **Exhibit 2** for the historical financial performance of the inn.

D'Arcy and Whiting were especially enthusiastic because Savannah had a vibrant historic district at its center and a thriving tourist industry built around that district. The number of hotels there was limited by available property and zoning considerations. The Peach Tree had an ideal location, and the woman believed they could add real value by turning it from a 2.5- or 3-star property into a 4-star hotel. They settled on renaming it The Vertu.

The Business Plan

After negotiations with the owners, D'Arcy and Whiting procured a three-month option to buy the property for $20 million, with $25,000 for the option, which they drew from their personal savings. That $25,000 would be deducted from the ultimate purchase price, which represented a multiple of 13.2 times the expected 2015 cash flow.[1]

The Savannah Market

Savannah was an appealing market for several reasons. First, it was located near several popular beach communities such as Hilton Head, South Carolina. Savannah had approximately 350,000 residents and was growing steadily. It was one of the state's fastest growing areas, with several significant employers, including Gulfstream Aerospace, Memorial Health, and St. Joseph's Health. The city was home to the nation's fifth-largest container port (Garden City Terminal). Tourism was one of the its significant industries. A bestselling book, *Midnight in the Garden of Good and Evil,* had generated ongoing interest in Savannah. The city attracted more than 12 million visitors in 2014, with 50% staying the night; 62% stayed approximately 2.2 nights each. In total, 83% of visitors were considered leisure visitors while the remaining 17% were there for business purposes. Overall, visitor spending exceeded $2 billion in 2013, with 38% of that spent on lodging and 26% on food and beverage. Activity in

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[1] Note: Cash flow was equivalent to Net Operating Income in the real estate business; buyers and sellers typically talked in terms of a cap rate rather than a multiple. The cap rate was the inverse of the multiple, i.e., the rate at which cash flow was capitalized to get a price. In this example, the cash flow of $1,515,000 divided by the price of $20 million = a cap rate of 7.6%, the inverse of the 13.2 x multiple.

Savannah was steady, although spring was the busiest time of year. The city was well served by interstate highways and a relatively new airport.[8] See **Exhibit 3** for a summary of key lodging statistics.

Competition

Nine existing hotels constituted the competition, also shown in **Exhibit 3**. As mentioned above, D'Arcy and Whiting planned to position The Vertu as a 4-star property, and to compete in the range served by the nationally branded hotels, but at a price point below the Bohemian property, the premium hotel in the market, by approximately $50 per night. On average, they expected The Vertu to stabilize at a price point of 120%, or so, of the average of its competition. Potential additions to the supply of rooms were limited, given the lack of available land and restrictive zoning laws in the area.

Renovations and Repositioning

Working with her contacts in the hotel industry, Whiting found experienced architects in the Georgia area who had worked on similar projects. They were impressed with the building and its potential, and developed a plan for upgrading the hotel. The Vertu would have large rooms, ranging from 380 to 560 sq. feet, and would include 35 king rooms, 85 double rooms, and 25 suites. The pool area would be refurbished and expanded to include an outdoor dining area adjacent to the renovated restaurant space. HVAC systems would be upgraded to give each room individual control. Sprinklers and fire alarms would be replaced and elevators improved. The lobby would be transformed into a modern and inviting space with a lounge/bar area. The restaurant and bar would be visible from the lobby and street entrance, thereby enhancing the draw. All guestrooms would be upgraded to an appropriate level of furnishings and fixtures, with a significant emphasis on the bathrooms and entertainment facilities in each room. The suites would receive particular attention, including the addition of soaking tubs and multi-head showers.

Based on their experience in the field, the architects estimated a total renovation cost of approximately $7.8 million. Additional fees and expenses of approximately $10 million brought the total capital requirement to $37.9 million. See **Exhibit 4** for details of the project budget.

Moving Forward

By mid-April, D'Arcy and Whiting believed that an important piece of the puzzle had fallen into place. They had found a property they were excited about and then obtained a reasonable estimate for the renovation costs. They now needed to develop a detailed financial plan and explore sources of bank financing. Mr. D'Arcy expressed his continued willingness to help finance the deal himself as well as to provide introductions to his friends and associates. Yet, as the plan became more concrete, Whiting began to feel less comfortable:

> I am excited about all we've done, but I want to be sure we are doing the right thing. As we start to think about financing the project, I worry that Yvonne's father will have undue influence if all the money comes from him and his friends. On the other hand, you always have investors and they always have some degree of power. Maybe the devil you know...

Exhibit 1 Letter of Agreement between D'Arcy and Whiting

Whereas Yvonne D'Arcy and Elisabeth Whiting ("the Founders") have worked together and have jointly contributed to the idea and intellectual property that constitutes the basis of the initial business plan for The Vertu Hotel ("the Venture"); and,

Whereas the Founders mutually desire to continue working on this idea toward the objective of launching the Venture; and,

Whereas each Founder wishes to have her rights acknowledged and acknowledges those of the other, the Founders now agree as follows:

1. Founders shall continue to work on this idea during their final semester of studies, and each shall be compensated with equity in the business, should a business be founded as a result of their efforts;

2. If the business is founded, and if each Founder forgoes other full-time employment to devote her full-time efforts to the Venture following graduation, then the Founders shall each be entitled to a 50% interest in the business, to be diluted equally by any subsequent financing events, and subject to the vesting provisions discussed below.

3. If one Founder does continue with the Venture on a full-time basis and forgoes other employment upon graduation, but the other does not, then the Founder who remains with the business shall receive 90% of the initial equity and the nonparticipating Founder 10% of the equity in the business; again, all subject to the vesting provisions discussed below.

4. If both parties continue as equal Founders, their shares shall be subject to vesting provisions, in which 20 percentage points of each Founder's equity share shall vest upon the actual incorporation or legal founding of the business (and the signing of contemplated employment agreements with the business) and the remaining 30 percentage points vests equally in equal monthly installments over the remaining 30 months.

5. In the case where one Founder continues with the venture and one does not, then the Founder who is NOT continuing with the venture shall receive her 10 percentage points' share free and clear upon the incorporation of legal founding of the business (i.e., without vesting) and the remaining Founder shall receive 30 percentage points of her equity ownership upon the actual incorporation or legal founding of the business, and the remaining 60 percentage points in equal monthly installments over the ensuing 30 months. Note that it is anticipated that both parties' ownership stakes shall be diluted by subsequent financing events and subsequent issuance of stock, although it is anticipated that the issuing of any additional "founder's stock" shall come from the continuing Founder(s) initial share(s).

6. In the case where one Founder elects not to continue with the business on a full-time basis, she will execute an agreement giving the Venture full right to all inventions, intellectual property, and confidential business information, and irrevocably assign any and all rights in all inventions, including without limitation improvements, formulae, processes, techniques, knowhow, data, whether or not patentable, that she may have made, conceived, or reduced to practice or learned, either alone or jointly with others, during the course of her work on the project, and that the 10% ownership stake articulated above shall be full and just compensation for this transfer and any and all work done up until that point on the venture.

7. The Founders recognize that these terms may be changed in response to requests from investors who may elect to finance the Venture, and nothing in this agreement shall be construed to restrict the Founders from amending this agreement to conform to the requirements of securing financing.

8. The Founders recognize that this agreement is silent on the issue of which individual may fill specific roles in the business, and that this lack of specificity is a necessary consequence of the early stage of this work and the uncertainty that exists. The Founders pledge to use their good-faith efforts to resolve these issues in a manner that seems consistent with the ultimate success of the business and with any requirement to obtain financing for the Venture.

SIGNED and AGREED

Yvonne D'Arcy	Elisabeth Whiting
Date	Date

Note: Some language here is adapted from "Addressing difficult issues of role, commitment and equity ownership," by Michael J. Roberts, HBS class note, unpublished.

Exhibit 2 Peach Tree Inn Historical Performance and Financials

Peach Tree Inn – Historical Performance

	2010	2011	2012	2013	2014	2015[a]
# rooms	145	145	145	145	145	145
Rooms sold	35597	35879	36028	36148	35553	35670
Occupancy	67.3%	67.8%	68.1%	68.3%	67.2%	67.4%
ADR (1)	130.34	132.22	137.65	139.27	140.65	142.21
ADR % Change		1.4%	4.1%	1.2%	1.0%	1.1%
RevPAR (2)	87.67	89.63	93.70	95.12	94.48	95.85
RevPAR % Change		2.2%	4.5%	1.5%	-0.7%	1.4%

Peach Tree Inn Financials

	2013			2014			2015[a]		
	$(000)	%	Per Rm	$(000)	%	Per Rm	$(000)	%	Per Rm
Revenues									
Rooms	5,034	82.0%	139.27	5,001	81.5%	140.65	5,073	81.4%	142.21
Food & Bev	950	15.5%	26.28	1,020	16.6%	28.69	1,012	16.2%	28.37
Telephone	2	0.0%	0.06	2	0.0%	0.06	1	0.0%	0.03
Parking	-	0.0%	-	90	1.5%	2.53	93	1.5%	2.61
Other	152	2.5%	4.20	23	0.4%	0.65	56	0.9%	1.57
TOTAL	6,138	100.0%	169.81	6,136	100.0%	172.57	6,235	100.0%	174.79
Expenses									
Rooms	981	16.0%	27.14	1,178	19.2%	33.13	1,214	19.5%	34.03
Food & Bev	786	12.8%	21.74	812	13.2%	22.84	870	14.0%	24.39
Telephone	39	0.6%	1.08	42	0.7%	1.18	44	0.7%	1.23
Parking	-	0.0%	-	-	0.0%	-	-	0.0%	-
Other	83	1.4%	2.30	17	0.3%	0.48	4	0.1%	0.11
TOTAL	1,889	30.8%	52.26	2,049	33.4%	57.63	2,132	34.2%	59.77
			-			-			-
Total Operating Profit	4,249	69.2%	117.55	4,087	66.6%	114.94	4,103	65.8%	115.02
Unallocated Operating Expenses									
General & Admin	502	8.2%	13.89	575	9.4%	16.17	556	8.9%	15.59
Sales & Marketing	182	3.0%	5.03	303	4.9%	8.52	298	4.8%	8.35
Property Operations	307	5.0%	8.49	237	3.9%	6.67	289	4.6%	8.10
Energy	202	3.3%	5.59	214	3.5%	6.02	195	3.1%	5.47
TOTAL	1,193	19.4%	33.00	1,329	21.7%	37.38	1,338	21.5%	37.51
			-			-			-

Exhibit 2 Peach Tree Inn Historical Performance and Financials (continued)

Gross Operating Profit	3,056	49.8%	84.55	2,758	44.9%	77.56	2,765	44.3%	77.51
Fixed Expenses									
Property Taxes	339	5.5%	9.38	311	5.1%	8.75	276	4.4%	7.74
Insurance	91	1.5%	2.52	83	1.4%	2.33	102	1.6%	2.86
Management Fee	234	3.8%	6.47	248	4.0%	6.98	252	4.0%	7.06
Franchise Fee	565	9.2%	15.63	382	6.2%	10.74	370	5.9%	10.37
Other Fixed	16	0.3%	0.44	-	0.0%	-	-	0.0%	-
TOTAL	1,245	20.3%	34.44	1,024	16.7%	28.80	1,000	16.0%	28.03
Income before Reserve	1,811	29.5%	50.11	1,734	28.3%	48.76	1,765	28.3%	49.47
Reserve for Replacement (3)	243	4.0%	6.72	247	4.0%	6.95	250	4.0%	7.01
Net Operating Income / Cash Flow	1,568	25.5%	43.39	1,487	24.2%	41.81	1,515	24.3%	42.46

[a] Note 2015 is actual for first 6 months and forecast for remainder of year (i.e., through Dec 31, 2015) 13.20 purchase multiple
Darcy and Whiting believed the forecast to be accurate 0.076 Cap rate

(1) ADR = Average Daily Rate, the average rate per room, when a room is sold

(2) RevPAR = Revenue per Average Room = to the ADR x the occupancy rate

(3) In the hotel industry, rather than use *depreciation*, companies factored in a reserve for *replacement*, which was designed to capture the annual cost associated with maintaining and upgrading the property, even though it might not be spent in the year in which it was booked.

Exhibit 3 Key Lodging Statistics in Savannah Market

Savannah (Overall) Market Data

Year	Supply Change (%)	Demand Change (%)	Occupancy (%)	Occupancy Change	ADR ($)	ADR Change (%)	RevPAR ($)	RevPAR Change (%)
2011	6.20	2.60	70.10	-0.80	130.87	-3.3%	91.74	-5.1%
2012	9.00	3.90	66.80	-4.70	131.36	0.4%	87.75	-4.4%
2013	2.30	10.90	72.60	8.40	130.16	-0.9%	94.50	7.7%
2014	0.00	0.10	72.70	0.20	136.54	4.9%	99.26	5.0%
2015[a]	0.00	1.80	73.90	1.80	140.73	3.1%	104.00	4.8%

Savannah Competition

Property	Type	Rooms	2014 Occupancy
Andaz	Boutique	151	80.2%
Autograph Mansion	Boutique	125	68.4%
Bohemian Hotel	Boutique	75	88.2%
Residence Inn	National Chain	109	87.4%
Marshall House	Boutique	68	NA
Planters Inn	Boutique	60	NA
Hyatt Regency	National Chain	351	80.9%
Marriott	National Chain	387	65.9%
River Street Inn	Boutique	86	NA

Specific Stats for Savannah competitive set (9 hotels above)

	2009	2010	2011	2012	2013	2014	2015[a]
ADR	145.33	151.88	153.67	157.74	161.03	163.29	167.33
Occupancy	74.3%	75.4%	74.3%	73.6%	72.4%	73.5%	74.3%

[a] Forecast for 2015

Exhibit 4 Project Budget ($000)

Property Acquisition	20,000
Construction / renovation	7,770
Other Fees & Expenses	
Architects, designers	519
Hotel & Rest F&F	3,348
Information Technology	584
Operating supplies / Equipment	1,081
Pre-opening & Marketing	858
Property Taxes & Insurance	62
Financing Fees & Expenses	233
Construction Period Debt Payment	2,029
Accounting & Legal	123
Reserve / Working capital	250
Contingency	1,000
Total "other"	10,087
Grand Project Total	37,857
Financing Structure	
Debt Capacity	65%
Total Debt	24,607
Total Equity	13,249

Endnotes

[1] 2013 data from American Hotel and Lodging Association, 2014 Lodging Industry Profile, https://www.ahla.com/content.aspx?id=36332

[2] "Americas: Lodging," Goldman Sachs, May 15, 2013, p. 12

[3] "Boutique Hotels in the US," Ibis world Industry Report OD5464, Andrew Alvarez, ibisworld, January 2015, pp. 7-8, 18.

[4] Ibid, pp. 4–16.

[5] Ibid. pp. 9-12.

[6] Ibid, p. 23.

[7] Ibid, p. 23.

[8] Savannah Chamber of Commerce, "Visit Savannah," www.savannahchamber.com