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Hotel feasibility in the recessionary economy of 2010: A case study in Reno, Nevada

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HOTEL FEASIBILITY IN THE RECESSIONARY ECONOMY OF 2010: A CASE STUDY IN RENO, NEVADA

by

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ABSTRACT

**Hotel Feasibility in the Recessionary Economy Of 2010:
A Case Study in Reno, Nevada**

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In the aftermath of the economic crisis of 2008, it became evident that Nevada’s economy felt pains greater than that of the rest of the country. With sinking property values, opportunities may exist for the hotel investor. The purpose of this paper is to analyze the risks and benefits of acquiring a hotel property through the instrumentality of a hotel feasibility report. The literature review includes an evaluation of hotel feasibility analysis, its historical context, criticisms, and recommendations for performing effective studies. The case study part of this paper investigates the broader implications of hotel acquisition in the current recessionary economy. The target property is a 103-room Quality Inn located in Reno, Nevada. A multi-phased market analysis and income forecast was performed to ascertain a valuation of the property. When compared to the listing price, the valuation indicated the potential for opportunity based on an eventual economic recovery. The paper concludes with a discussion on the investment’s risks, which are inherent in a broader recessionary climate.

Keywords: hotel feasibility, hotel valuation, recession, economic crisis of 2008, Nevada economy

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PART ONE

Introduction

In the aftermath of the American economic crisis of 2008, it became evident that Nevada's economy felt pains greater than that of the rest of the country. The state's unemployment rate set a new record in June of 2010 at 14.2%, whereas the national average was 9.5% for the same period (Chereb, 2010). Nevada has ranked highest in the nation in home foreclosures for the first half of 2010 (Wargo, 2010a). In the commercial real estate market, billions of dollars have also been lost (Wargo, 2010b). Though this may appear to be a gloomy picture for some, for others looking to follow the mantra of "buy low, sell high," Nevada may represent an opportunity. Through a case study method, this paper investigates the potential opportunities that may exist for hotel investors in a distressed economy such as Nevada's.

Feasibility analysis is a research tool used by hotel investors seeking justification on whether to pursue a hotel development project. This professional paper project represents a feasibility analysis for a hypothetical hotel acquisition in Reno, Nevada. The target property is branded as a Quality Inn. It is situated on a 2.8 acre lot and has two stories with 103 rooms. This property was selected for this paper for its size and also because of the accessibility to revenue data and information on the competitive set.

This professional paper is structured in the following way. This introduction will be followed by explanations of the purpose, justification, and constraints of this professional paper. The literature review section discusses the origins of hotel feasibility analysis as well as its critiques and recommendations for effective studies. The methodology for feasibility analysis is also presented in this section. The feasibility report itself, is presented in seven phases: (1) site review, (2) market area and demographic analysis, (3) market for transient accommodations,

(4) competitive landscape, (5) hotel financial analysis, (6) forecast of income and expenses, and (7) property valuation. Feasibility studies are in essence, a case study of a real-world real estate investment scenario. Naturally, this professional paper will follow a case study format.

Purpose

The purpose of this professional paper is to analyze the risks and benefits of pursuing a hotel acquisition in a distressed Nevada economy through the instrumentality of a feasibility analysis.

Statement of Problem

The Nevada economy faces a long uphill climb toward recovery with many challenges. Within these challenges, the problem most relevant to this study is if and how to invest in a hotel investment in a recessionary environment. As hotel feasibility is directly related to tourism, this problem is confounded by the fact that Nevada's economy is largely tourism dependent. To address these issues, this study seeks to determine the possibility of a positive return on investment through the acquisition of a Quality Inn hotel property in Reno, Nevada.

Justification

Studying the feasibility of a hotel development in this unique period will provide insights on a variety of viewpoints, not just for the business investor in this specific scenario. For the investor of a more general nature, this research provides a case study for commercial real estate opportunities that can exist in distressed markets. Furthermore, a better understanding can be gained about the risks and rewards associated with entering major tourism markets such as Nevada. This information is also useful to the broader stakeholders of the local economy including policymakers and planners whom have a real interest in growing the local economy while preventing it from unsustainable cycles of boom-and-bust.

Constraints

An externally imposed constraint is the degree to which information can be gathered about the competitive set. This is dependent on the discretion of management and the agent representing the sale of the property. Non-disclosure agreements assisted in this regard. With the use of non-disclosure agreements, the researcher agreed to keep financial information confidential to other potential bidders.

Another constraint of this study is geographic in nature. The target property is located in Reno, Nevada, while the researcher is located in Las Vegas, Nevada. Thus, a physical site visit was not performed. This restricts the depth of analysis in this study to some degree but mostly from a qualitative standpoint. Online mapping and geographic imagery from Google Maps were employed to account for this constraint. The quantitative dimension of this report remains complete as it is based upon financial and competitive data.

PART TWO

Introduction

The literature review in this paper serves to provide support to the purpose of this professional paper with respect to the following three areas:

1. To provide an overview of the concept of hotel feasibility and its origins.
2. To provide a discussion on what constitutes an effective feasibility study as it relates to critiques made of methodologies employed historically in feasibility studies.
3. To provide a basis for the framework and property valuation methodology employed in this study.

Literature Review

Historical Context

Beals (1989) provides a historical overview of the feasibility analysis from a broader real estate perspective. The antecedents of hotel feasibility date to the 1930s. During this period leading up to World War II, early versions of the hotel feasibility report consisted of basic information such as inventories, estimated occupancy, and average rates and were prepared by accountants in the hospitality industry. Based on these cursory statistics and one's own instinct for the local market, the developer evaluated the financial feasibility of the property (Beals, 1989).

During the 1950s and 1960s, the lodging industry started evolving both in its facility offerings as well as its overall growth. The 1950s marked the beginning of a radical change in transportation. The railroad, which had served travelers for more than a century, began to lose customers to the more economical automobile and the faster airplane (Rushmore, 1992a). This expansion was heavily fueled by the birth of the motel. This paved the way for the modern

motel industry. In the 1950s, "the supply of motel rooms nationwide increased from 600,000 to 1,500,000" (Rushmore, 1992a). This increased need for hotel development coincided with increased investment into the industry. Moving into the 1970s, new construction was sparked by enormous amounts of financing made available by lenders, particularly real estate investment trusts (REITS) (Rushmore, 1992a). With greater investment in the hospitality industry brought a need for improved analysis of hotel investments.

In response to the expansion of the lodging industry, Hodgson (1973) introduced the hotel feasibility study to the academic literature. Hodgson defined the feasibility study as a creative, objective, and rational process whereby marketing and financial data are collected, assimilated, and analyzed. The study's purpose is to determine whether or not to proceed with the project under investigation, define the optimum scope and quality of its facilities, and quantify its prospects for financial success or failure with reasonable accuracy. Hodgson (1973) provides an introduction to performing a hotel feasibility study from the perspective of the analyst.

Eyester (1973), which appears in the same journal as Hodgson (1973), discusses hotel from an investor perspective. In addition to outlining several investor demands as to the content of the study, the article introduces the importance of the independence and objectivity of the person or firm conducting the study. It is important to look critically at the relationship between the firm conducting the study and the study's promoter for any vested interest the firm may have in its relationship with the promoter (Eyester, 1973).

The period following the hotel boom of the early 1970s may have introduced new analysis tools for investors. However, feasibility studies could not have prevented the industry's eventual bust. The combination of readily available financing and aggressive hotel chains eager

to sell franchises resulted in overbuilding and the development of many poorly located, undercapitalized sites managed by inexperienced owners. The bubble burst on the industry when inflation caused construction costs and interest rates to escalate. The 1974 energy crisis drastically reduced travel, and the accompanying recession curtailed business trips, conferences, and conventions (Rushmore 1992a).

The boom-and-bust of the hotel industry in the 1970s in some ways exposed the poor investment decisions made in hotel development, even during a time where tools such as feasibility studies were available to investors.

Critiques

Beals (1989) investigated the validity of feasibility analyses performed by third-party analysts. It was suggested that feasibility studies at the time, were inadequate in their analytical depth and were more aptly termed feasibility reports. It was also concluded that feasibility analysis was essentially an attempt to do the impossible—to develop enough rational, defensible information about a project to overcome its underlying uncertainty. As a general principle, feasibility studies should always be understood as imperfect and tentative predictors of performance (Beals, 1989). Walker (1978) highlights how feasibility studies require a critical analysis of the relationship between a property’s potential earnings and the investment required. It is noted that historically, lenders and investors simply felt that the assessment of market demand and a projection of estimated annual operating results constituted an adequate level of analysis.

Criticisms of hotel feasibility arise in a case study of a hotel development in Charlottesville, Virginia (Overstreet, 1983). Many industry observers at the time of the article blamed optimistic feasibility studies for the overproduction of hotel rooms in much U.S. market.

Despite this concern, the purpose of this study was to explore the multitude of rationales and motivations underlying hotel development. Factors relating to the local competition, broader economic conditions, and pressure from financiers, civic authorities, and other stakeholders of the project are discussed as contributory factors to moving forward on the decision to construct a hotel. Though these observations focus on a single market, the story pieced together in this case study could have taken place almost anywhere (Overstreet, 1983). This study reinforces Beals (1983) suggestion that no matter the depth of analysis of a feasibility study, it remains simply a tool for the hotel investor. No feasibility analysis should be viewed as a crystal ball of a hotel's success or failure.

Recommendations

In addition to introducing the concept of the hotel feasibility study to academic literature, Hodgson (1973) also discusses a few basic principles an analyst should follow when conducting a study. First, it is important to tailor the study to the project's requirements. In practice, approaches used to determine market support, scope and hotel design criteria, and a proposed financial plan must be individually tailored to the unique requirements of the project under consideration (Hodgson, 1973).

Additionally, evidence submitted must be sufficient to permit a decision. In other words, the report should present factual evidence and then draw conclusions and not merely express opinions. There must be sufficient evidence so the reader has a basis for intelligently agreeing or disagreeing with its conclusions. Few businesspeople are willing to commit large amounts of capital on the basis of faith (Hodgson, 1973). Correspondingly, accuracy and reliability in data used in the study are important. This recommendation is made with an understanding that it is

often impractical and uneconomic to obtain complete and wholly accurate data on each aspect of a study.

Hodgson also affirms the importance of mathematics as a useful tool, but only when applied properly. A mathematical approach is useful to insure orderly thinking and should be employed in its proper place. The danger is that mathematical approaches are often abused by use in situations which do not lend themselves well either to, non-controversial weighting of variables or to point-score designations. Finally, the analyst conducting the study must recognize when the facts point to a negative conclusion. The research effort should be terminated as soon as possible if both analyst and developer concur that the study findings are leading to a negative conclusion (Hodgson, 1973).

Beals and Troy (1982b) suggest a more exhaustive effort when performing research on the local market. The procedure for achieving insight into the local market is not to infer its configuration from performance results in an existing property but rather to duplicate pro forma, the proposed hotel's marketing effort. This recommendation is provided in response to the perception that many accounting firms perceive the presentation of summary operating results as the keystone of their analysis (Beals & Troy, 1982b).

Beyond the local market, research should also be performed in feeder markets. This approach touches upon the analyst's ability to predict consumer behavior with greater accuracy than is possible merely by inferring the market's preferences through observation of, and extrapolation from, existing offerings (Beals & Troy, 1982b). To develop this approximate profile of consumer needs, the analyst should interview the following intermediaries in the locale's four or five most important feeder markets: the local convention bureau; local hotel and

restaurant association representatives; representatives of local hotel and restaurant workers' unions; and representatives of local ground-transportation companies (Beals & Troy, 1982b).

Methodology

The structure of the feasibility study performed in this professional paper is modeled after a phased approach outlined in Rushmore (1986). This eight-phased approach is used by Hotel Valuation Services (HVS), a leading hospitality consulting firm, and was developed by the company's founder, president, and CEO, Steve Rushmore. The eight phases are as follows:

Site Review

The site review evaluates the subject parcel from the viewpoint of size and topography, access and visibility, availability of utilities, and other site-related attributes necessary for a successful lodging facility. This section includes a description of the physical land as well as an economic and demographic analysis of the area (Rushmore, 1986).

Market Demand Quantification

This section involves a room night analysis to estimate the current level of patronage and to evaluate the potential for future demand growth. Future demand growth (or decline) is based upon a combination of historic economic and demographic trends, coupled with expectations for changes in the future (Rushmore, 1986).

Competitive Analysis

This phase starts with a review of existing rival lodging facilities to determine occupancy, average rate, and market penetration. Also, proposed hotels must be evaluated based on their probable impact on the overall market. Combining the findings of the market demand quantification phase with the competitive analysis performed in this phase forms a supply and

demand equation that substantiates the probable level of occupancy and average rate for the subject property (Rushmore, 1986).

Facilities and Concept Recommendations

The facilities and concept is established based on the market demand and competitive findings for the subject property. The number of guestrooms, the size and type of restaurants, lounges, meeting space, and other amenities must be precisely programmed to meet local demand while optimizing the property's profit potential (Rushmore, 1986).

Forecast of Income and Expense

This forecast is made using the recommended facilities and concept. The anticipated occupancy and average rate should reflect the supply and demand relationship previously evaluated and should be tied directly to the size and type of facility being recommended. (Rushmore, 1986).

Economic Value Estimate

This is calculated through an income capitalization approach. Generally, property appraisers rely on three approaches to estimate market value (cost, sales comparison, and income capitalization). The income capitalization approach, in which future benefits are discounted at an appropriate rate, is generally given the greatest weight in valuing income properties such as hotels and motels (Rushmore, 1992a). This approach takes a property's forecasted net income before debt service and allocates future benefits to the mortgage and equity components based on market rates of return and loan-to-value ratios. Through a discounted cash flow and income capitalization procedure, the value of each component is calculated. The total of the mortgage component plus the equity component equals the economic value of the property (Rushmore, 1986).

Estimate of Total Project Cost

This includes all components necessary to construct and open the hotel. Hard costs consist of the building and non-building expenses such as furniture, fixtures and equipment, and site improvements. Land value is added based on the higher of either cost or market value. Soft costs are also included and consist of legal and architectural fees; financing, insurance, and taxes during construction; pre-opening expenses; operating capital; and initial operating losses (Rushmore, 1986).

Return on Investment Analysis

Economic feasibility is demonstrated when a proposed hotel's economic value equals or exceeds its total project cost. A return on investment (ROI) analysis provides further confirmation of feasibility through an internal rate of return or IRR calculation using the total project cost estimate as outflows and the forecast of income and expense as inflows. The IRR is a statistical standard for measuring a uniform comparison of different financial opportunities (Rushmore, 1986).

Studying Hotel Feasibility in Distressed Markets

Rushmore (1992b) provides specific valuation guidelines for distressed markets where negative cash flows exist. For a distressed hotel to have value, the property must exhibit turnaround potential. Such turnaround may be attributed to an improved economy, a reduction in the competitive supply, or increased revenues and efficiencies from better management (Rushmore, 1992b). Rushmore suggests employing a longer-term discounting procedure when appraising the distressed hotel. Similarly, performing a valuation based on sales of comparable hotels can be short-sighted because it does not consider a recovery and this can understate the indicated value (Rushmore, 1992b). Without making such considerations to a distressed

property, values are more aptly viewed as a liquidation price rather than a market-value price. Approaching hotel valuation in this manner enables investors to look at the potential for eventual turnaround rather than to come to a quick conclusion and dump properties for all cash (Rushmore, 1992b).

Conclusion

The preceding literature review provides a basis of understanding as to the concept, purpose, and instrumentality of a hotel feasibility study. While Rushmore (1986) outlines the structure for the methodology for performing a feasibility study, Hodgson (1973) provides the underlying principles for performing an effective one. Consistent within these principles lie the necessities of objectivity, accuracy, and integrity in research. The research performed in the professional paper aimed to follow these principles while also giving credence to the criticisms of feasibility studies outlined in Beals and Troy (1982a), Beals and Troy (1982b), and Overstreet (1983). By doing so, the following research yielded insights germane to the purpose of this study.

PART THREE

Introduction

The target property is a Quality Inn located in Reno, Nevada. This section begins with a discussion on how this site was selected. To follow will be the feasibility report, which is rooted in the methodology described in the literature review. This feasibility report is presented in seven sections: (1) site review, (2) market area and demographic analysis (3) market for transient accommodations, (4) competitive landscape, (5) hotel financial analysis, (6) forecast of income and expenses, and (7) property valuation. To follow will be a discussion on the feasibility of the proposed acquisition and the broader implications of hotel feasibility in a recessionary economy.

Site Selection

Several hotel and motel properties were evaluated for this professional paper. These properties were initially researched using LoopNet.com, a website used to search businesses for sale. Three screening conditions were established in order to determine the ideal property for study.

The first condition was to select a property that was located in a major tourism market and thus, Reno and Las Vegas were isolated. These two cities are Nevada's largest as the combined population of these two cities make up 85% of the State's total population (Nevada Small Business Development Center, 2006). One of the sub-research questions in this study is to draw conclusions about hotel investment in major tourism markets. Furthermore, Reno and Las Vegas both have well-established conventions and visitors bureaus providing easier access to tourism data.

The second condition was to select a property that was relatively small. This condition was applied for the following reasons. Given the requirements of this professional paper project, it was deemed important to select a property of a scale that can be manageable for a single researcher. Feasibility studies of large-scale resort properties with a wide array of accommodations and amenities generally require a team of analysts. Correspondingly, feasibility studies of such nature include several hundreds of pages of analysis. Selecting a smaller property allowed for a more manageable task while enabling a sufficient depth of analysis. With respect to this condition, motel and budget hotel properties were isolated.

The final condition was the degree to which current financial data was available to the researcher. This condition was applied because drawing projections of future business can be done with greater accuracy with more data. Further, having recent data is important to forecasting and for this reason, only lodging facilities operating currently were reviewed. After applying these three screening conditions, the 103-room Quality Inn Reno, with an asking price of $4,800,000, was selected as the target.

Assumptions

Some assumptions had to be made in this study and warrant mentioning prior to presenting the study. The property listing states that assumed financing is available with acquisition of the Quality Inn (Appendix A). This means that it is possible for the investor to take over the existing mortgage arrangement under current ownership. However, this mortgage information was not made available to the researcher and it is assumed that the potential buyer will introduce a new financing structure.

This analysis does not include recommendations for facility improvements nor does it present a marketing plan. Some facility recommendations are included in the discussion section

following the analysis but are not included as a component of the future financial performance of the hotel. It is also assumed that under new ownership, the Quality Inn will continue to operate under current conditions. Analyzing facility improvements or changes in marketing strategies introduces a new dimension of analysis, which the researcher concluded was not central to the primary purpose of this paper, which is to analyze the general feasibility of a hotel investment within a broader recessionary economy.

Hotel Feasibility Report

Site Review

Size and topography.

The land under consideration for the development of the subject hotel consists of a 2.8 acre parcel of land. It is located on the Northeast corner of South Virginia Street, a six-lane local road that runs North/Northwest-South/Southeast, and West Plumb Lane, a four-lane local road which runs East-West. As is shown in Figure 1, the site is an irregular rectangle plot. Parking spaces surround the main facilities of the building and the property is vehicle accessible via an entrance on South Virginia Street. The parcel is situated in an urban setting and is immediately surrounded by other commercial real estate properties. The topography of the land is flat.

Geography and climate.

Reno is situated just east of the Sierra Nevada Mountains on the western edge of the Great Basin at an elevation of about 4,400 feet above sea level. Located to the north is the 400 square mile Black Rock Desert, which is flat and without vegetation or animals. Reno is considered to lie in the “rain shadow” of the Sierra Nevada Mountains. A bit of a misnomer, the city receives on average 7.29 inches of rain and 23.1 inches of snow and enjoys 300 days of

sunshine annually with low humidity. Temperatures are mild but can fluctuate as much as 45 degrees between day and night.

Area and neighborhood.

The primary market area encompassing the subject property is mostly suburban in character. There are residential areas the East and West of the target property. Within the vicinity of the property lies Washoe Country Golf Course, a public course, as well as Virginia Lake Park.

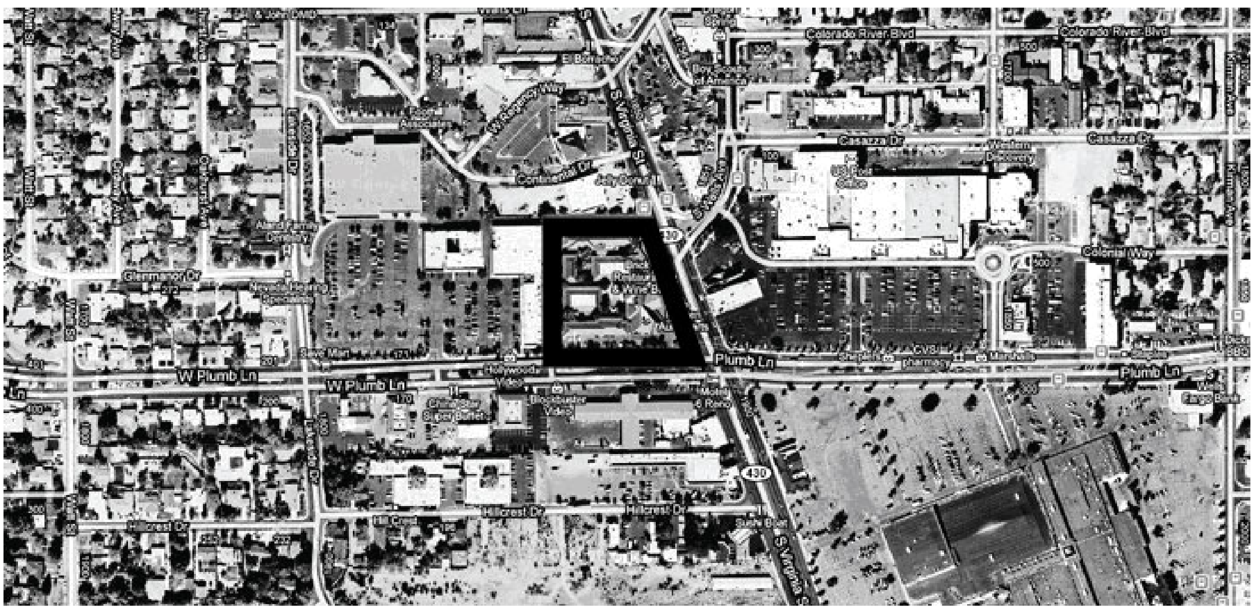

Figure 1. Aerial view of Quality Inn Reno (outlined) and surrounding area.
Note. Photograph retrieved from Google Maps.

Access and visibility.

The subject property is readily accessible to various local, county, state, and interstate highways. The U.S. 395, known in Reno as the Martin Luther King Jr. Freeway is located within one mile of the property.

The U.S. 395 route runs along the east side of the Sierra Nevada. Moving north along U.S. 395, this route crosses in to Nevada from California at Topaz Lake before entering the Reno/Sparks region. Continuing North, U.S. 395 then crosses back into California at the city of Cold Springs. The site is also accessible to U.S. Interstate 80, the second-longest Interstate Highway in the United States (following Interstate 90). I-80 connects San Francisco California, to Teaneck, New Jersey.

In terms of local throughways, Plumb Lane, which passes along the Southern edge of the property runs East-West. Travelling West from the property, Plumb Lane ends at the Reno-Tahoe International Airport located approximately 1.8 miles away. Travelling East, Plumb lane continues for approximately 3 miles through a suburban residential neighborhood before ending at McCarran Way. South Virginia Street, which runs along the east side of the property is a main thoroughfare and runs through the entire length of Reno in a North/West direction. Travelling North from the property, South Virginia crosses over the Truckee River, through Downtown Reno and eventually hits the I-80, roughly 4 miles away. The I-80 is accessible via South Virginia Street or South Wells Avenue, which runs directly North of the site. The intersection of South Virginia and Plumb is a medium traffic area and is regulated by traffic signals in all directions, with the inclusion of left-turn signals.

Area access to the subject property can be considered excellent. The well-developed network of interstate highways along with superior local roadways, significantly increases the primary market area and facilitates the capture of both transient travelers for room business and local residents for food and beverage sales. Accessing the subject property either locally or from outside of the city is an extremely simple procedure. Despite the property’s ease of access, one area of concern may be visibility. Since the subject property is located on a flat parcel of land

and is several miles from an interstate overpass, lines of sight to the hotel's facilities and signage is limited. In spite of this, the ease of access to the property, particularly to and from the airport and downtown Reno make this location desirable as a transient lodging facility.

Figure 2. Exterior view of Quality Inn Reno.
Note. Photograph retrieved from Google Maps.

Hotel facilities and features.

The building itself was built in 1963 and has 103 total guest rooms spread across a two-story, six building complex. All rooms have either balconies or patios. Connecting units are also present. The hotel's décor can be described as a garden setting with a large swimming pool and spa located in the central courtyard. The property also has a leased restaurant and lounge called the JM Restaurant and Grill. The lounge once housed a row of slot machines but it has since been removed. The main entrance features a front drive with a roof overhang. The buildings themselves are located in the center of the land plot and are encircled by parking stalls for guests and hotel staff.

Figure 3. Aerial view of Quality Inn Reno.
Note. Photograph retrieved from Google Maps.

Hotel services.

Many of the included services at the Quality Inn Reno are designed to fit the brand standards set forth by the franchise. This includes complimentary breakfast and high-speed Internet access. In addition, guests receive free local calls, direct-dial telephones and access to fax services. Each room includes cable television with HBO, coffee makers, and refrigerators.

Availability of utilities.

Since the property is in current operation, the assumption in this paper is being made that the subject property is adequately served by its existing utility infrastructure, which includes water, sewage, electricity, and telephone lines.

Market Area and Demographic Analysis

Market area definition.

The subject property's immediate market area consists of the City of Reno as well as the City of Sparks, located east of Reno. Both Reno and Sparks are the only incorporated cities

within Washoe County, Nevada. Washoe County itself, is located on the Northwest part of Nevada.

Population.

Though there may not be a direct correlation between the size of an area's population and its specific level of transient visitation, historic data and future demographic expectations often reflect the locale's economic climate (Rushmore, 1988). In July 2008, the population of Washoe County was estimated to be 410,443 (U.S. Census Bureau). The following table illustrates historic population trends for Washoe County, Nevada and the United States.

Table 1

Historic Population Trends, Reno, Nevada, and the U.S.

Year	Washoe County	% Change[1]	% Change[2]	Nevada	% Change[1]	% Change[2]	U.S.A.	% Change[1]	% Change[2]
2008	410,443	10.73%	14.28%	2.6m	18.18%	28.57%	304.1m	4.79%	5.35%
2003	370,654	14.17%	16.51%	2.2m	18.92%	25.00%	290.2m	5.22%	5.54%
1998	324,665	16.52%	16.52%	1.85m	32.14%	32.14%	275.8m	6.12%	6.12%
1993	278,628			1.4m			259.9m		

Note. Data collected from U.S. Census Bureau
[1]Annual compounded percent change from previous year listed
[2]Annual compounded percent change since 1993

Between 1993-2008, the population of Nevada grew at a faster rate than Washoe County. Though the growth should not be as rapid as that of Nevada's, Washoe County is expected to continue its historic population trends and to experience a positive growth pattern through 2013.

The age distribution of an area's population can lend insight to the spending patterns for locally-generated food, beverage, and gaming patronage. In 2000, the median age of Washoe

County was 35.6 years, which is nearly identical to that of the greater U.S. at the same time (35.3 years).

Table 2

Population Age Distribution, Washoe County

years of age	2000	years of age	1990	% Change
under 5	7.0%	under 5	7.3%	0.30%
5-9	7.1%			
10-14	7.0%	5-17	15.8%	
15-19	6.7%	18-20	4.3%	
20-24	7.0%	21-24	6.2%	
25-34	31.0%	25-44	36.3%	
45-59	19.9%	45-59	15.6%	-4.29%
60-64	3.9%	60-64	4.2%	0.25%
65-74	6.9%	65-74	6.7%	-0.24%
75-84	3.6%	75-84	2.9%	-0.73%
85+	1.0%	85+	0.7%	-0.26%

Note. Data collected from U.S. Census Bureau

Growth in the 18-34 age group may generate increased lounge and restaurant related patronage. Also, the 35-54 age group generally has the most disposable income and could also signal growth in patronage. Stratification of the age sampling occurred differently in the Census of 1990 and 2000. It can still be inferred that these two key age groups experienced steady increases alongside the growth of the overall population of Washoe County.

Market for Transient Accommodations

Visitor profile summary.

According to the Reno-Sparks Convention and Visitors Authority, the estimated number of visitors to the region has steadily declined since 2002. In 2007, it was estimated that 5.1

million people visited the Washoe County area, including Reno, Sparks, and Northeast Lake Tahoe.

Table 3

Estimated Number of Visitors to the Reno/Sparks Region

Year	Estimated number of visitors	Percentage change from previous year
2007	5,097,591	-1.6%
2006	5,180,692	-1.7%
2005	5,266,405	-5.1%
2004	5,535,812	-0.1%
2003	5,543,977	-2.6%
2002	5,688,469	

Note. Data collected from the Reno-Sparks Convention and Visitors Authority

In 2007, California continued to represent the major feeder market to the Reno-Tahoe area, accounting for 48%, up from 46% in 2006. Another 14% of visitors resided in Washington and resided in Washington and Oregon. 55% of visitors traveled by personal vehicle to the area, down from 57% in 2006.

Of all those who visited the area, 20% were first-time visitors, 80% were repeat visitors, and 97% of all visitors stayed overnight. The mean number of nights that overnight visitors spent in Reno-Tahoe was 3.3. The median age of adult visitors to the Reno area was 56 years, which was the median age in 2006 as well. Older visitors who were age 45 or older were more likely to stay longer than were younger visitors. About half the visitors from Oregon (48%) and Canada (53%) were retired. The median family income of the visitor in 2007 was $77,200, up from 2006, which was $69,200.

Segmenting the transient lodging markets into groups of leisure and business/convention enables a clearer definition of the proposed hotel's markets. Estimates of future growth trends and customer characteristics can be done more effectively with a healthy understanding of historical data in both markets.

Business and convention attendance.

In 2007, convention attendance was at 17%, similar to the year prior at 18%. One out of ten visitors came to the area with the sole purpose of attending a convention or trade show. On average, convention goers spent more on lodging and less on gaming than did non-convention associated visitors. Visitors with high household incomes ($100,000 or higher) were more likely to attend conventions while visiting the area than were visitors with household incomes of less than $100,000.

Leisure segment.

Leisure remains the dominant reason for trips to the Reno area. While "vacation" was cited as the primary reason by 24% of respondents, down from 32% in 2006, "gaming" as the primary reason has shown steady increase: 15% in 2007, up from 14% in 2006, 12% in 2004, and 8% in 2003. Gaming, shopping, sightseeing, entertainment and visiting friends or family were the top five activities of visitors as evidenced in Figure 4.

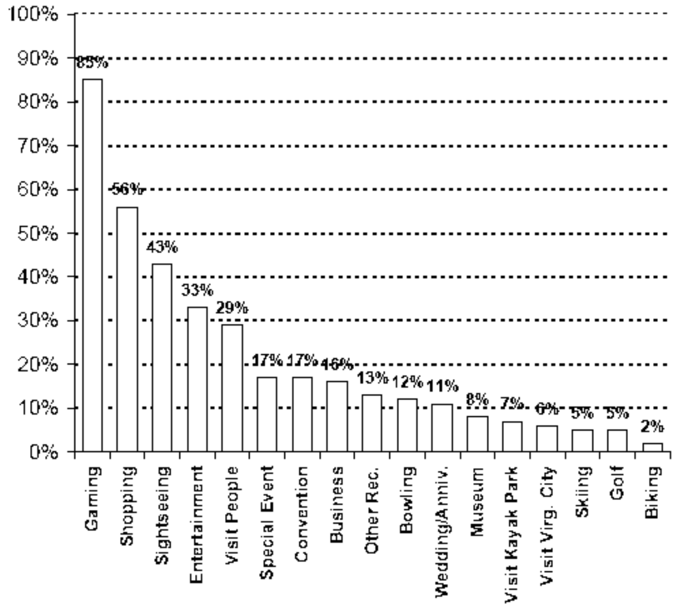

Figure 4. Activity participation on Reno Trip.
Note. Retrieved from InfoSearch International, 2008, *2007 Reno-Tahoe visitor profile study: Prepared for Reno-Sparks Convention and Visitors Authority.*

Accommodation selection.

It has been consistent over the last six years that visitors to the area stayed in hotels; 96% in 2002, 96% in 2003, 97% in 2004, 96% in 2005, 96% in 2006, and 97% in 2007. In 2007, making reservations directly through the hotel or motel remained the primary method of booking lodging reservations (41%), followed by the Internet (24%). On average, visitors booked their reservations three to four weeks in advance.

With respect to the statistics provided in this section, compounded annual growth rates can be projected. Various economic and demographic data were evaluated to determine the following estimates of the growth rate in the leisure and business/convention markets. A factor of conservatism was also introduced to these projections since the broader economic climate is recessionary. The estimates presented in Table 4 will be used in financial performance projections to be performed in a latter section.

Table 4

Reno Transient Market Segment Growth Forecast

Segment	Compounded Annual Growth Rate
Business/Convention	1.0%
Leisure	0.5%

Competitive Landscape

An integral component of determining the demand availability in the future is the analysis of the supply of competitive lodging facilities. Since Reno is considered a tourist destination, the research indicates a strong competitive environment. The Reno/Tahoe Conventions and Visitors Authority identified a total of 81 lodging facilities segmented into three categories: hotels, motels, and bed & breakfasts. These properties range in size and cater to different markets and do not all represent direct competition for the target property.

With respect to the target property, the Quality Inn brand is part of a broader collection of branded hotels of Choice Hotels International. The tagline of the Quality Inn brand is, "Everything you expect at an exceptional value." The brand can be described as a mid-priced hotel. Hotels in this mid-priced category and located within the proximity to the target property are identified in an industry analysis product developed by STR Global called the STAR Report (Smith Travel Accommodation Report) (Appendix D). This competitive analysis tool is widely used in the hospitality for benchmarking property occupancy performance against competitors. STR global recommends the following attributes as considerations in determining the competitive set:

- price;

- location (close to where they are visiting, sights, offices);
- need/preference for room service in the hotel;
- meeting space;
- complimentary breakfast;
- hotel loyalty program;
- other full-service amenities/services, such as bellman or concierge;
- and specific brand or hotel personal preference (Yoshii, 2010).

The competitive set, which includes the target property, is comprised of the following five properties listed in Table 5.

Table 5

Quality Inn Reno Competitive Set

Property Name	Number of Rooms	Year opened	Driving distance from target property
Quality Inn Reno	103	1963	
Ramada Reno	281	1974	2.0 miles
Best Western Airport Plaza Hotel	265	1982	1.5 miles
La Quinta Inn Reno	130	1981	2.0 miles
Comfort Inn & Suites Reno Airport	59	2007	1.1 miles
Total number of rooms in comp set	838		

Note. Adapted from STR Global, STAR Report, 2009, *Quality Inn South Reno Monthly STAR Report*.

The Quality Inn, with its 103 rooms represents 12.3% of the room inventory available to the market within the competitive set. This Ramada is considered a price competitor to the target property. It far exceeds the Quality Inn in terms of size. Having the most rooms in the competitive set at 281 rooms (33.5% of room inventory), the Ramada also includes a casino with a sports book as well as 8,500 square feet of convention space. The Best Western Airport Plaza

Hotel is the second largest property in the competitive set with 265 rooms (32% of comp set room inventory). Facilities include meeting space, an outdoor pool and spa, as well as a workout room. Like the Ramada, the Best Western can be considered a price competitor to the Quality Inn. At 130 rooms or 15.6% of comp set inventory, the La Quinta Inn Reno is a close competitor to the target property with respect to hotel size. The facility includes an outdoor pool and fitness center. Though it offers complimentary breakfast, the La Quinta does not offer complimentary high-speed Internet access. The Comfort Inn & Suites Reno Airport is the smallest competitor in size at 59 rooms (7% of comp set inventory). It is also the newest facility having opened in 2007. It should be noted that the Comfort Inn brand also falls under the Choice Hotels brand portfolio. Future success at the target property may cause concerns for the franchisee of this competitor. However, Choice Hotels may take comfort in knowing that sales at one property is being cannibalized by a performance boost in another one of its branded hotels as opposed to one that is not.

Hotel Financial Analysis

Room night and occupancy analysis.

The analysis of room rate and average rate performed in this section will aide in projecting a future occupancy rate for the target property. A room night is a measure of demand, equal to one room occupied by one or more guests for one night. Occupancy is expressed as a percentage and is calculated by dividing the number of room nights of demand by the number of room nights available (Rushmore, 1986). The target property has 37,595 room nights available in any year, assuming that all rooms are sellable. However, rooms can be determined as unavailable if it is deemed unsuitable for guests due to repair or maintenance. Hotel management can also remove rooms from inventory in order to reduce the costs of maintaining

them. This distinction provides two ways of looking at occupancy, as a percentage of total rooms, or as a percentage of total available rooms. Table 6 shows the annual average occupancy for the target property from 2006 to 2009.

Table 6

Quality Inn-Reno, Occupancy and Room Night Statistics, 2006-2009

	2006	2007	2008	2009
Occupancy % of Total Rooms	67.35%	70.02%	63.19%	49.61%
Total room nights available (annual)	37,595	37,595	37,595	37,595
Number of room nights (occupied)	25,320	26,324	23,756	18,651
Percentage change from previous year		3.96%	-9.75%	-21.49%

Note. Adapted from hotel statistics report provided by Quality Inn, Reno (2009).

It is clear that the hotel's occupancy has fallen significantly in the last two years from 2008 to 2009. When this data is compared to the year-to-year changes in visitation statistics of the Reno area, it becomes evident that the target property is showing substandard performance. From 2006 to 2007, the number of visitors to Reno increased by 1.6% (Table 3). The Quality Inn-Reno did increase its occupancy by nearly 4% during this same period (Table 6). However, in the following periods, the occupancy of the property fell by nearly 10%, a 21.49% drop in 2009, far outpacing the average drop in number of visitors to the Reno-Nevada area year-over-year.

This may appear to investors as a discouraging trend. However, when analyzing occupancy with respect to the competitive set, it is apparent that others are enduring similar declines. Table 7 displays year-to-date occupancy statistics for the target property and its competitive set.

Table 7

Quality Inn Reno Year-to-date Occupancy Statistics, 3Q 2009

	YTD Occupancy	% change from 2008
Quality Inn Reno	54.50%	-17.90%
Competitive Set	41.80%	-23.70%

Note. Adapted from STR Global, STAR Report, 2009, *Quality Inn South Reno Monthly STAR Report*.

The Quality Inn has witnessed a significant drop in occupancy over the last several years. However, potential investors should take note that occupancy level have been down for the entire competitive set. In fact, Table 7 indicates that the target property has outperformed the average occupancy of the competitive set by nearly 13% for the first three quarters of 2009. Based on these occupancy statistics, projections can be made by factoring in the forecasted growth rate expressed in Table 4. It was determined that the leisure segment would increase by a factor of 0.5% and that the business convention/segment would increase by a factor of 1%.

Table 8 projects the occupancy for the next seven years out. The growth rate of the leisure segment is given a heavier weight in this projection for three reasons. First, it was established in the market analysis that leisure remains the most dominant reason for travel to the Reno-Sparks area. Second, the Ramada Reno and the Best Western Airport Plaza, the two largest competitors to the Quality Inn, have convention and meeting space on site. Because of this, it can be assumed with some confidence that these two properties will have a greater ability to capture a greater portion of the estimated increase of this demand. Third, since the broader visitation statistics remain in decline, implementing any growth estimate should remain conservative at best.

Table 8

Projected Occupancy Based on Compounded Annual Growth Rate, 2010-2016

	2009 (Historical)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Growth rate		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Occupancy	49.61%	49.86%	50.11%	50.36%	50.61%	50.86%	51.12%	51.37%

Note. Adapted from hotel statistics report provided by Quality Inn, Reno (2009).

Average Room Rate and Revenue Analysis.

The average rate analysis of the property is performed both in isolation as well as in comparison to the competitive set. Room revenue is analysis is particularly important as the hotel represents the greatest source of revenue at this property. In 2009, 86% of total revenue derived from room revenue (Appendix C). A key statistic in this arena is Average Daily Rate, commonly referred to as ADR. It can be calculated by dividing the room revenue by the number of rooms sold within a given interval of time. Another key statistic is Revenue Per Available Room (RevPAR), which is calculated by dividing the total room revenue by the total number of available rooms in a given interval of time. Table 9 provides the historical trends in room revenue and ADR and RevPAR for the Quality Inn Reno. These historic statistics will be employed in the forecast of income analysis appearing in the next section of this report.

Table 9

Quality Inn Reno, Key Revenue and Rate Statistics, 2006-2009

	2006	2007	2008	2009
Total Room Revenue	$1,614,650.45	$1,720,796.13	$1,474,050.27	$1,165,704.11
Total Available Rooms	36,820	37,281	36,715	36,251
Number of rooms sold	25,155	26,235	23,694	18,588
ADR	$64.19	$65.59	$62.21	$62.71
RevPAR	$43.85	$46.16	$40.15	$32.16

Note. Adapted from hotel statistics report provided by Quality Inn, Reno (2009).

The statistics in Table 9 reaffirm a declining trend in hotel performance. This downward trend is evident throughout the competitive set. Table 10 shows the ADR and RevPAR statistics for the target property as compared with the competitive set expressed as an average over the first three quarters of 2009. It also provides the percentage change in both statistics from the year previous.

Table 10

Competitive Set ADR and RevPAR, 3Q 2009

	YTD ADR	% change from 2008	YTD RevPAR	% change from 2008
Quality Inn Reno	$63.19	-0.60%	$35.47	-16.30%
Competitive Set	$71.77	-0.60%	$29.75	-25.50%

Note. Adapted from STR Global, STAR Report, 2009, *Quality Inn South Reno Monthly STAR Report*.

Table 10 indicates that though the ADR is lower than the competitive set average, rates have been managed in such a way to keep RevPAR greater than the average of the overall competitive set. This can suggest that the current operations management has been able to provide relatively good performance in a declining environment. This is important to the would-be investor who must question whether or not to change the existing operational management team.

When compared to the overall market of Reno, it evident that the increase in ADR at the Quality Inn from 2006-2007 coincides the market trend. Figure 5 shows this increase.

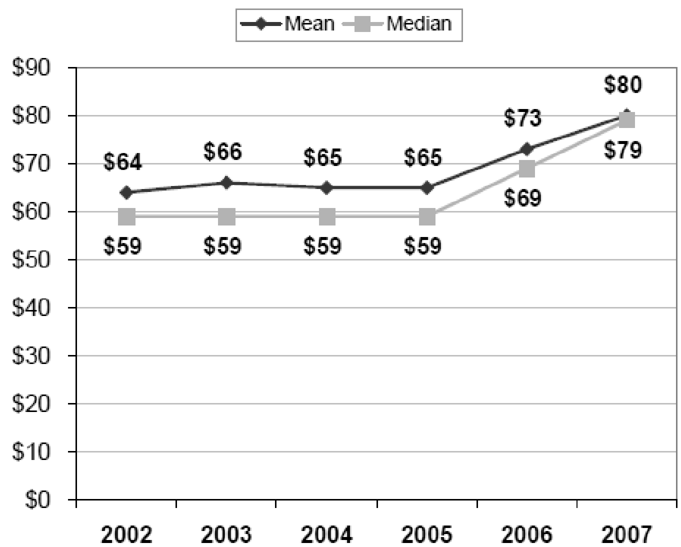

Figure 5. Average nightly rates reported for commercial accommodations, Reno-Sparks. Note. Retrieved from InfoSearch International, 2008, *2007 Reno-Tahoe visitor profile study: Prepared for Reno-Sparks Convention and Visitors Authority.*

Figure 5 also shows that prior to the increase in room rates occurring from 2005-2007, rates in the area remained stable from 2002-2005. This indicates that the tourism market in Reno over a broader period of time remains flat. This implies low volatility in rates in the area and provides some basis for an assumption that the ADR at their current level will remain at or near the same level for the next several years for the competitive set, $63.19 and $71.77 respectively.

Forecast of Income and Expenses

After reviewing the market for transient accommodations, a forecast of income and expenses is developed. This feasibility report will develop projections for the next two years, 2010 and 2011. The third projection, or stabilized year, is intended to reflect the anticipated operating results of the property over its remaining economic life, given any or all cyclical stages in the business life cycle. The estimates employed in this stabilized period is based on averages

from the financial performance statistics of the Quality Inn from 2006-2007 (Appendix B). This period reflects not only a period prior to the financial crisis of 2008-2010, but also, a benchmark of financial performance recovery for potential investors.

Rooms Revenue.

Room revenue is determined by two variables: occupancy and average room rate. Using the projections of occupancy and ADR established in the previous sections, the following forecast of rooms revenue is calculated as follows in Table 11.

Table 11

Forecast of Rooms Revenue

	Occupancy	ADR	Number of Units	Days	Rooms Revenue
2010	49.61%	$63.19	103	365	$1,178,549.08
2011	49.86%	$63.19	103	365	$1,184,488.15
Stabilized	70.00%	$64.89	103	365	$1,707,677.69

Other Revenue.

As reported on income statements, other sources of revenue for the Quality Inn include telephone charges and rent from the leased restaurant. Monthly rent from the leased restaurant has remained fixed at $3,644 from 2008-2009. In 2009, revenue from these two sources totaled $45,495.46, which represents 3.9% of room revenue in the same period (Appendix C). This trend is assumed to continue throughout the next several years. Combined with rooms revenue, in 2009, gross revenue for the Quality Inn was $1,211,199.57.

Expenses.

There were 25 line item expenses that were identified in the 2009 income statement (Appendix C). Table 12 shows a summary of these expenses allocated into broader categories.

Table 12

Quality Inn Reno, Summary of Expenses, 2009

	Total	Monthly Average	% of Total Expenses
Franchise Fee (Quality Inn)	$74,666.13	$6,222.18	7.92%
Taxes	$199,403.78	$16,616.98	21.15%
Insurance expenses	$26,623.50	$2,218.63	2.82%
Utilities	$200,930.14	$16,744.18	21.31%
Supplies	$31,481.09	$2,623.42	3.34%
Labor	$336,592.65	$28,049.39	35.70%
Repair and Maintenance	$19,501.88	$1,625.16	2.07%
Food and Beverage	$42,023.09	$3,501.92	4.46%
Other Expenses	$11,649.28	$970.77	1.24%
	$942,871.54	$78,572.63	100.00%

Note. Adapted from income statement provided by Quality Inn, Reno (2009).

Total expenses for the 2009 period totaled to $942,871.54. This figure represents 80.88% of total rooms revenue and 77.85% of gross revenue in the same period. The percentage is used to develop an expense forecast for the next two years and the stabilized year.

Net income.

In 2009, the Quality Inn had a total profit $268,328.03 (gross revenue subtracted by expenses), which represents a profit margin of 22.15%. Based on the established ratio of revenue to costs, the net income is trended for the next two years and for a stabilized year in Table 13. These projections should be taken with a grain of salt as changes in occupancy and

rate trends can exert increases or decreases in net income that do not parallel the changes in operational costs, and in turn, bottom line profit.

Table 13

Forecast of Net Income

	Rooms Revenue	Other Revenue	Gross Revenue	Expenses	Net Income
2010	$1,178,549.08	$45,963.41	$1,224,512.49	$953,210.49	$271,302.00
2011	$1,184,488.15	$46,195.04	$1,230,683.18	$958,014.01	$272,669.17
Stabilized	$1,707,677.69	$66,599.43	$1,774,277.11	$1,381,169.71	$393,107.40

Property Valuation

The economic value of a lodging facility is based on the principle that value is the net return on the initial investment. This can also be termed as the present value of future benefits (Rushmore, 1986). Future value can be converted into an indication of the market value through a capitalization process and discounted cash flow analysis.

Most hotel properties when acquired are purchased with a combination of equity and loans. The target property is listed at the asking price of $4,800,000. Generally, a hotel investment consists of a large amount of mortgage money (60%-75% of the total investment) and a smaller amount of equity capital (25%-40%) (Rushmore, 1986). For this case study, it is assumed that 25% of the acquisition will be financed by equity ($1,200,000) and 75% with debt financing ($3,600,000).

Mortgage component.

The 75% debt financing is assumed to originate from a commercial bank. In this case, Commercial Loan Direct, a division of Prudential Capital, would be servicing the loan.

According to the company's website, a $3,600,000 for a hotel is considered a mid-balance wholesale commercial mortgage (Commercial Loan Direct). Because of the amount of the loan, the terms of the loan rate are generally negotiated between the lender and the purchaser of the loan.

A 5.4% fixed loan rate over a 25-year amortization period mortgage term is assumed for this study. This interest rate reflects an average of rates available at the time of this study from commercial lenders who offer loans for hotels and motels. These rates are generally calculated by adding a factor to the prime rate. The prime rate is the interest rate charged by commercial banks to their most credit-worthy customers, which are usually large corporations. As for the amortization period, hotel financing loans are typically structured to be repaid over a 20 to 30 year period (Rushmore, 1986). Furthermore, these terms are consistent with current loans that are granted by the United States Small Business Administration to entrepreneurs (U.S. Small Business Administration.

Equity component.

The 25% equity component originates from the equity investor or pool of investors. In general, hotel investors seek cash-on-cash equity dividends between 10-15% for good quality hotel properties over the initial years of ownership. A conservative 10% equity dividend is assumed in this study. This approach is applicable in a distressed economy scenario. Table 14 provides a summary of the finance terms.

Table 14

Finance Terms for the Proposed Acquisition of the Quality Inn Reno

Loan amount	$3,600,000
Interest rate	5.40%
Amortization	25 years
Loan-to-value ratio	75%
Equity amount	$1,200,000
Equity dividend rate	10%

Valuation.

The income capitalization approach was employed in providing a valuation of the Quality Inn. This approach converts the anticipated future benefits of property ownership into an estimate of present value. To appraise the property, a rate to capitalize the forecasted net income must be developed. In this study, the band-of-investment (weighted cost of capital) technique was utilized. This is performed by combining the weighted average of the return demanded by the mortgage position of the investment with the dividend required by the equity component results in a capitalization that reflects the basic financial composition of the hotel investment (Rushmore, 1986).

When, inserting the financing terms into the equation, an overall capitalization rate of .0655 was produced.

	Portion		Rate		Weighted Rate
Mortgage	0.75	x	0.054	=	0.0405
Equity	0.25	x	0.100	=	0.025
				Overall Capitalization Rate	0.0655

The stabilized net income was then divided by the capitalization rate to produce the capitalized value. As presented in Table 13, \$393,107.40 was the projected net income for the stabilized period.

$$\frac{\$393{,}107.40}{.0655} = \$6{,}001{,}640\ (\textit{rounded})$$

This capitalized value of the Quality Inn was reapplied to the weighted average equation to provide present values for the mortgage and equity portions of the investment.

75% Mortgage	\$4,501,230	x	0.054	=	\$243,066.42
25% Equity	\$1,500,410	x	0.100	=	\$150,041.00
Value	\$6,001,640				\$393,107.42

These calculations show that the \$6,001,640 value can be divided into a mortgage portion of \$4,501,230 and an equity portion of \$1,500,410. The yearly mortgage payment was calculated by multiplying the original mortgage balance by the rate and this results in an annual debt service of \$243,066.42. Similarly, the equity dividend was established by multiplying the equity investment by the anticipated rate of return, which equates to \$150,041.

Discussion

When compared to the asking price of \$4,800,000, the valuation of \$6,001,640 is 25% higher than the asking price. On its face, this conclusion could indicate a heavily discounted price for the investor. However, there are several things to consider with this valuation with respect to both the limitations of this study and the implications of the broader recessionary economy.

The value of the hotel yielded from the income capitalization approach was determined with an income of the stabilized year. The use of this value should be noted for several reasons. First, it is based on an occupancy and rate value that reflects a period of steady operation over a longer economic life span. The stabilized year is not however, reflective of the current performance of the hotel. Based on projections on rate and revenue presented in earlier sections, the property as well as its competitive set have a long way to go to reach the levels of the stabilized projection. Occupancy levels would have to increase by over 20% and room revenue by over 46%. Based on the recent declines in visitation to the area, such growth may not be easily achieved through increased patronage. Investors must be mindful of this degree of recovery when determining the economic life span of their investment.

Growth could be achieved in other ways however. This study did not include recommendations for facility improvements or an updated marketing plan. Successful implementation of either of these could enable the property's revenue base to grow. Another possibility for growth is to change the flag of the hotel from the Quality Inn to that of another mid-priced brand. Though it may incur greater upfront costs, this may infuse higher quality standards of both product and service, which could in turn, drive rates upward. Finally, as it had been done in the past, the investor could reinstall gaming devices into the hotel lounge providing another source of revenue. After all, gaming remains the number one reason, by far, for visiting the Reno-Sparks area as evidenced in the market analysis (Figure 4).

While the listed price of the Quality Inn is a good value based on the projection of eventual stabilization, the investor must decide whether to pursue this opportunity in relation to his or her confidence in the broader economy's stabilization. The overall competitive set of the Quality Inn has endured substandard performances post-2008. It remains to be seen whether the

economy in the region will undergo a steady rise to recovery or a more turbulent one. Hotel Valuation Services, a leading valuation firm, concluded that in 2010, U.S. hotel values are projected to bottom out and recover over a five-year period (Rushmore, Smith, & Lund, 2009). Based on this assumption, the Quality Inn appears to be an opportunity that should be seized upon sooner than later. However, investors should take careful note of the loan-to-value ratio used in this study and make necessary adjustments to their capital structure before subscribing to this notion.

The timing of entry into a hotel investment in this economy is also an important factor to consider. The listing price of the Quality Inn represents a bargain with respect to its potential in a stabilized period of business. The investor who considers passing on this particular opportunity based on the assumption that the economy will continue to stagnate may want to think twice. The number of properties available on the market may dwindle as the window of opportunity to seize a lodging property may be diminishing in a poor economy. Hotel Valuation Services projects that over the next 12 to 18 months, the volume of hotel sales transactions is expected to illustrate a progressively upward trend (Rushmore, Smith, & Lund, 2009).

It can be concluded that the long-term benefits to the investor are evident in this particular investment. However, there are short-term risks that the investor should note. Current performance is substandard and far from the projections made in a more stabilized period. New ownership would have to face the risk of negative cash flows. This risk can be mitigated if a financing arrangement that minimizes the debt service payments is put in place. The savvy investor would not want to overleverage the investment with a high loan-to-value ratio as this would increase the risk of the investment.

Limitations

In the literature review, a distinction was identified by Beals (1989) between feasibility studies and feasibility reports based on the depth of analysis. In this regard, the analysis provided in this paper would at best, be characterized as a feasibility report. This study employed a relatively straightforward income capitalization approach to determine the Quality Inn's value. There are however many valuation techniques used today including sales comparison, cost analysis, and discounted-cash-flow approaches. In feasibility reports and studies of a larger scale, a combination of such techniques may be utilized to provide investors a more detailed analysis of their investments.

Further qualitative support for this analysis could be gained through interviews with management throughout the competitive set as well as feeder markets. This practice is common in real-life feasibility studies. However, access to management was limited for the research given the study's hypothetical nature. Information gathered in this domain would provide further support to the trends in business and visitation in the defined market area and the competitive set. This form of information would have been particularly useful in this study because the visitor profile study used in this study was conducted in 2007, which was prior to the economic crisis of 2008-2010. A stronger understanding of trends can help the potential hotel investor develop a more targeted strategy going forward.

Conclusion

For the hotel investor, a recessionary economy can represent a period of great risk as well as great opportunity. In a period of uncertainty, information and research based in empirical evidence becomes of paramount importance and thus, hotel feasibility analysis is an imperative tool for the investor. Feasibility studies can provide the investor a great deal of insight as it

employs a mixed-method research methodology with both quantitative and qualitative analyses. It should still not be forgotten that the feasibility study no matter the depth of analysis, remains simply a tool (Beals, 1983).

The literature and research posed in this paper illustrates that analysis of a hotel investment involves attention to a wide array of specific information. While the breadth of the information is dictated by the depth of analysis, all the information presented in a feasibility study relate to the key indicators of a hotel's performance. This essentially reflects an approach to commercial real estate valuation that is specific to the lodging industry.

The current financial performance of the Quality Inn Reno is considerably below its potential. However, armed with a hotel feasibility analysis such as the one performed in this report, the investor would now have a stronger understanding of the property's current position in relation to the *hotel* business life cycle and its competitors. Furthermore, the investor can pursue a hotel acquisition or project with a well-informed understanding of risk, which is inherent in a broader recessionary climate.

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Appendix A

Property Listing

WESTWOOD
HOSPITALITY GROUP

QUALITY INN HOTEL
RENO, NEVADA

- *Number of Rooms: 103*
- *Priced at $46,600 per room*
- *2008 Room Gross: $1,474,050*
- *Prime High Traffic Location*
- *Interior & Exterior Corridor Rooms*
- *2.8 acre Garden Setting*
- *Floors: 2 story*

This Quality Inn is on South Virginia Street at one of the busiest intersections on Reno's major casino and shopping corridor . Strategically located, this property has the major downtown casinos to the north and the Peppermill and Atlantis casinos to the south where the large regional convention center is located. Well maintained the property includes a leased restaurant, lounge and swimming pool and spa in the garden courtyard.

Room Revenue: 2006: $1,614,650, 2007: $1,720,796 2008: $1,474,050
2009 Jan through October (10mos): $1,092,872

Restaurant Lease Income: $ 43,728 per year

$4,800,000
$4,000,000 IN ASSUMABLE FINANCING AVAILABLE

CONTACT: GREG ROBERTI
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EXCLUSIVE AGENT:
WESTWOOD HOSPITALITY GROUP
9700 VILLAGE CENTER DRIVE, STE 50
GRANITE BAY, CA 95746
916-788-1939

Appendix B

Quality Inn Reno, Hotel Statistics, 2006-2009

Hotel Statistics

Business Date: 12/31/2006 Property Code: NV049 Shift: None User: Night Audit

Room Statistics	Dec 31,2006	PTD	YTD
Total Rooms	103	3,193	37,595
Out Of Order	1	58	775
Rooms Available to Sell	**102**	**3,135**	**36,820**
Day Use Rooms	0	6	116
Stay Over Rooms	101	1773	25,039
Total Revenue Rooms	**101**	**1,779**	**25155**
Comp Rooms	0	25	167
House Use Rooms	0	0	0
Total Non-Revenue Rooms	**0**	**25**	**167**
Total Occupied Rooms	**101**	**1,804**	**25,322**

Occupancy Statistics	Dec 31,2006	PTD	YTD
Occupancy % of Total Available Rooms	99.02%	57.54%	68.77%
Occupancy % of Total Rooms	98.06%	56.50%	67.35%
Average Daily Rate Stay Over Rooms	82.67	59.49	64.49
Average Daily Rate for Total Revenue Rooms	82.67	59.29	64.19
Average Daily Rate for Total Occupied Rooms	82.67	58.47	63.76
RevPAR	81.86	33.65	43.85

Revenue	Dec 31,2006	PTD	YTD
Room Revenue(Non-Exempt From Taxes)	8,349.50	105,483.36	1,614,708.44
Room Revenue(Exempt From All Taxes)	0.00	0.00	-57.99
Total Room Revenue	**8,349.50**	**105,483.36**	**1,614,650.45**
Other Revenue	0.00	0.00	0.00
Total Revenue	**8,349.50**	**105,483.36**	**1,614,650.45**

Guest Statistics	Dec 31,2006	PTD	YTD
Number of Adults	193	2761	39959
Number of Children	12	190	3158
Total Number of Guests	**205**	**2951**	**43117**
Average Adults Per Room	1.91	1.53	1.58
Average Rate Per Adult	43.26	38.20	40.41
Average Revenue Per Adult	43.26	38.20	40.41

Today's Activity	Dec 31,2006	PTD	YTD
Arrived With Reservations	54	713	9903
Walk Ins	12	277	4001
No Shows	1	32	378
Cancellations for Today's Arrivals	33	231	2720
Checked Out Today	65	936	13886

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Appendix B

Hotel Statistics

QUALITY INN RENO

Business Date: 12/31/2007 Property Code: NV049 Shift: 2 User: EG

Room Statistics	Dec 31,2007	PTD	YTD
Total Rooms	103	3,193	37,595
Out Of Order	0	21	314
Rooms Available to Sell	103	3,172	37,281
Day Use Rooms	1	5	110
Stay Over Rooms	93	1549	26,125
Total Revenue Rooms	94	1,554	26235
Comp Rooms	0	0	90
House Use Rooms	0	0	0
Total Non-Revenue Rooms	0	0	90
Total Occupied Rooms	94	1,554	26,325

Occupancy Statistics	Dec 31,2007	PTD	YTD
Occupancy % of Total Available Rooms	91.26%	48.99%	70.61%
Occupancy % of Total Rooms	91.26%	48.67%	70.02%
Average Daily Rate Stay Over Rooms	79.37	60.21	65.87
Average Daily Rate for Total Revenue Rooms	78.52	60.01	65.59
Average Daily Rate for Total Occupied Rooms	78.52	60.01	65.37
RevPAR	71.65	29.40	46.16

Revenue	Dec 31,2007	PTD	YTD
Room Revenue(Non-Exempt From Taxes)	7,381.19	93,308.88	1,721,079.10
Room Revenue(Exempt From All Taxes)	0.00	-48.85	-282.97
Total Room Revenue	7,381.19	93,260.03	1,720,796.13
Other Revenue	0.00	0.00	0.00
Total Revenue	7,381.19	93,260.03	1,720,796.13

Guest Statistics	Dec 31,2007	PTD	YTD
Number of Adults	171	2272	40750
Number of Children	15	119	2173
Total Number of Guests	186	2391	42923
Average Adults Per Room	1.82	1.46	1.55
Average Rate Per Adult	43.16	41.05	42.23
Average Revenue Per Adult	43.16	41.05	42.23

Today's Activity	Dec 31,2007	PTD	YTD
Arrived With Reservations	45	596	10596
Walk Ins	14	244	3790
No Shows	0	18	225
Cancellations for Today's Arrivals	12	119	2429
Checked Out Today	39	824	14394

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Appendix B

Hotel Statistics

Business Date: 12/30/2008 Property Code: NV049 Shift: None User: Night Audit

Room Statistics	Dec 30,2008	PTD	YTD
Total Rooms	103	3,090	37,595
Out Of Order	3	427	880
Rooms Available to Sell	**100**	**2,663**	**36,715**
Day Use Rooms	0	6	103
Stay Over Rooms	40	1316	23,591
Total Revenue Rooms	**40**	**1,322**	**23694**
Comp Rooms	2	25	64
House Use Rooms	0	0	0
Total Non-Revenue Rooms	**2**	**25**	**64**
Total Occupied Rooms	**42**	**1,347**	**23,758**

Occupancy Statistics	Dec 30,2008	PTD	YTD
Occupancy % of Total Available Rooms	42.00%	50.58%	64.71%
Occupancy % of Total Rooms	40.78%	43.59%	63.19%
Average Daily Rate Stay Over Rooms	50.15	54.88	62.48
Average Daily Rate for Total Revenue Rooms	50.15	54.63	62.21
Average Daily Rate for Total Occupied Rooms	47.76	53.61	62.04
RevPAR	20.06	27.12	40.15

Revenue	Dec 30,2008	PTD	YTD
Room Revenue(Non-Exempt From Taxes)	2,006.05	72,215.86	1,474,062.64
Room Revenue(Exempt From All Taxes)	0.00	0.00	-2.37
Total Room Revenue	**2,006.05**	**72,215.86**	**1,474,060.27**
Other Revenue	0.00	0.00	0.00
Total Revenue	**2,006.05**	**72,215.86**	**1,474,060.27**

Guest Statistics	Dec 30,2008	PTD	YTD
Number of Adults	67	2051	36872
Number of Children	7	115	1331
Total Number of Guests	**74**	**2166**	**38203**
Average Adults Per Room	1.60	1.52	1.55
Average Rate Per Adult	29.94	35.21	39.98
Average Revenue Per Adult	29.94	35.21	39.98

Today's Activity	Dec 30,2008	PTD	YTD
Arrived With Reservations	18	549	9266
Walk Ins	5	245	3758
No Shows	0	4	130
Cancellations for Today's Arrivals	3	92	2120
Checked Out Today	22	789	13075

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Appendix B

Hotel Statistics

Business Date: 12/31/2009 | Property Code: NV049 | Shift: None | User: Night Audit

Room Statistics	Dec 31,2009	PTD	YTD
Total Rooms	103	3,193	37,595
Out Of Order	22	730	1,344
Rooms Available to Sell	**81**	**2,463**	**36,251**
Day Use Rooms	0	1	83
Stay Over Rooms	77	810	18,503
Total Revenue Rooms	**77**	**811**	**18586**
Comp Rooms	0	1	63
House Use Rooms	0	0	0
Total Non-Revenue Rooms	**0**	**1**	**63**
Total Occupied Rooms	**77**	**812**	**18,649**

Occupancy Statistics	Dec 31,2009	PTD	YTD
Occupancy % of Total Available Rooms	95.06%	32.97%	51.44%
Occupancy % of Total Rooms	74.76%	25.43%	49.61%
Average Daily Rate Stay Over Rooms	62.26	55.84	63.00
Average Daily Rate for Total Revenue Rooms	62.26	55.77	62.72
Average Daily Rate for Total Occupied Rooms	62.26	55.71	62.51
RevPAR	59.18	18.36	32.16

Revenue	Dec 31,2009	PTD	YTD
Room Revenue(Non-Exempt From Taxes)	4,793.75	45,232.82	1,165,550.65
Room Revenue(Exempt From All Taxes)	0.00	0.00	153.46
Total Room Revenue	**4,793.75**	**45,232.82**	**1,165,704.11**
Other Revenue	0.00	0.00	0.00
Total Revenue	**4,793.75**	**45,232.82**	**1,165,704.11**

Guest Statistics	Dec 31,2009	PTD	YTD
Number of Adults	139	1320	28936
Number of Children	6	101	1538
Total Number of Guests	**145**	**1421**	**30474**
Average Adults Per Room	1.81	1.63	1.56
Average Rate Per Adult	34.49	34.27	40.29
Average Revenue Per Adult	34.49	34.27	40.29

Today's Activity	Dec 31,2009	PTD	YTD
Arrived With Reservations	46	312	7572
Walk Ins	17	243	3316
No Shows	0	2	136
Cancellations for Today's Arrivals	21	109	1776
Checked Out Today	21	506	10902

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Appendix C

Quality Inn Reno, Income Statement, 2009

Appendix D

Quality Inn Reno, STAR Report Excerpts, October 2009

Tab 2 - Monthly Performance at a Glance - My Property vs. Competitive Set

Quality Inn South Reno 1885 S Virginia St Reno, NV 89502-3401 Phone: (775) 329-1001

STR # 2865 ChainID: NV049 MgtCo: None Owner: None

For the Month of: October 2009 Date Created: November 19, 2009 Monthly Competitive Set Data Includes Subject Property

October 2009

	Occupancy (%)			ADR			RevPAR		
	My Prop	Comp Set	Index	My Prop	Comp Set	Index	My Prop	Comp Set	Index
Current Month	40.5	45.3	89.4	61.93	69.26	89.4	25.10	31.39	80.0
Year To Date	54.5	41.8	130.3	63.09	71.49	88.3	34.41	29.91	115.0
Running 3 Month	51.9	51.8	100.3	71.67	78.12	91.7	37.21	40.45	92.0
Running 12 Month	53.4	40.7	131.0	61.88	70.55	87.7	33.02	28.73	114.9

October 2009 vs. 2008 Percent Change (%)

	Occupancy			ADR			RevPAR		
	My Prop	Comp Set	Index	My Prop	Comp Set	Index	My Prop	Comp Set	Index
Current Month	-37.2	-10.5	-29.9	6.2	-2.7	9.1	-33.4	-12.9	-23.5
Year To Date	-17.9	-23.7	7.7	0.0	-0.9	0.9	-17.9	-24.4	8.6
Running 3 Month	-27.5	-9.6	-19.8	7.5	2.2	5.1	-22.1	-7.6	-15.7
Running 12 Month	-17.6	-23.8	8.1	-1.4	-1.7	0.3	-18.7	-25.1	8.5

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STR#	Name	City, State	Zip	Phone	Rooms	Open Date
2865	Quality Inn South Reno	Reno, NV	89502-3401	(775) 329-1001	103	196306
1590	Ramada Reno	Reno, NV	89512-3513	(775) 786-5151	281	197402
2864	Best Western Airport Plaza Hotel	Reno, NV	89502-3215	(775) 348-6370	265	198204
5155	La Quinta Inn Reno	Reno, NV	89502-3110	(775) 348-6100	130	198103
56748	Comfort Inn & Suites Reno Airport	Reno, NV	89502-3611	(775) 682-4444	59	200710
					838	

Appendix D

Tab 3 - STAR Summary - My Property vs. Comp Set and Industry Segments

Quality Inn South Reno 1885 S Virginia St Reno, NV 89502-3401 Phone: (775) 329-1001

STR # 2865 ChainID: NV049 MgtCo: None Owner: None

For the Month of: October 2009 Date Created: November 19, 2009 Monthly Competitive Set Data Includes Subject Property

	Occupancy (%)								Supply			
	Current Month	% Chg	Year to Date	% Chg	Running 3 Month	% Chg	Running 12 Month	% Chg	Month % Chg	YTD % Chg	Run 3 Mon % Chg	Run 12 Mon % Chg
Quality Inn South Reno	40.5	-37.2	54.5	-17.9	51.9	-27.5	53.4	-17.6	0.0	-0.4	-0.3	-0.4
Market: Nevada (Exc Las Vegas)	48.8	-10.5	50.9	-11.3	57.7	-5.4	48.6	-13.0	0.4	0.8	0.6	0.7
Market Class: Midscale w/ F&B Class	47.8	-12.9	49.0	-14.6	57.2	-6.7	46.7	-16.1	-3.4	-3.4	-3.4	-3.1
Tract: Reno MSA	46.2	-11.3	47.7	-14.4	55.1	-6.8	45.3	-16.8	-1.0	-0.4	-0.6	-0.1
Tract Scale: Midscale Chains	45.6	-19.0	43.5	-21.4	52.0	-11.2	42.8	-21.0	37.7	11.5	20.1	7.0
Competitive Set: Competitors	45.3	-10.5	41.8	-23.7	51.8	-9.6	40.7	-23.8	0.0	0.0	0.0	0.0

	Average Daily Rate								Demand			
	Current Month	% Chg	Year to Date	% Chg	Running 3 Month	% Chg	Running 12 Month	% Chg	Month % Chg	YTD % Chg	Run 3 Mon % Chg	Run 12 Mon % Chg
Quality Inn South Reno	61.93	6.2	63.09	0.0	71.67	7.5	61.88	-1.4	-37.2	-18.2	-27.7	-17.9
Market: Nevada (Exc Las Vegas)	81.16	-5.5	87.45	-4.4	91.74	-4.4	86.44	-4.3	-10.1	-10.8	-4.9	-12.3
Market Class: Midscale w/ F&B Class	97.07	-4.0	106.08	-2.2	111.36	-3.3	104.74	-2.0	-15.9	-17.5	-9.9	-18.7
Tract: Reno MSA	89.13	-7.0	98.11	-4.0	104.48	-4.5	96.91	-3.6	-12.2	-14.7	-7.3	-16.9
Tract Scale: Midscale Chains	77.53	-3.0	78.63	2.5	82.83	1.7	78.01	2.5	11.6	-12.4	6.7	-15.5
Competitive Set: Competitors	69.26	-2.7	71.49	-0.9	78.12	2.2	70.55	-1.7	-10.5	-23.7	-9.6	-23.8

	RevPAR								Revenue			
	Current Month	% Chg	Year to Date	% Chg	Running 3 Month	% Chg	Running 12 Month	% Chg	Month % Chg	YTD % Chg	Run 3 Mon % Chg	Run 12 Mon % Chg
Quality Inn South Reno	25.10	-33.4	34.41	-17.9	37.21	-22.1	33.02	-18.7	-33.4	-18.2	-22.3	-19.0
Market: Nevada (Exc Las Vegas)	39.56	-15.4	44.51	-15.3	52.89	-9.6	42.00	-16.8	-15.1	-14.6	-9.0	-16.1
Market Class: Midscale w/ F&B Class	46.39	-16.4	51.95	-16.5	63.66	-9.8	48.88	-17.8	-19.3	-19.3	-12.9	-20.3
Tract: Reno MSA	41.20	-17.5	46.75	-17.8	57.57	-11.0	43.95	-19.8	-18.3	-18.1	-11.5	-19.9
Tract Scale: Midscale Chains	35.38	-21.4	34.20	-19.4	43.11	-9.7	33.39	-19.1	8.3	-10.1	8.4	-13.4
Competitive Set: Competitors	31.39	-12.9	29.91	-24.4	40.45	-7.6	28.73	-25.1	-12.9	-24.4	-7.6	-25.1

	Census/Sample - Properties & Rooms				
	Census		Sample		Sample %
	Properties	Rooms	Properties	Rooms	Rooms
Market: Nevada (Exc Las Vegas)	278	33580	71	7031	20.9
Market Class: Midscale w/ F&B Class	28	9955	12	1659	16.7
Tract: Reno MSA	121	20504	28	3795	18.5
Tract Scale: Midscale Chains	10	1443	10	1443	100.0
Competitive Set: Competitors	5	838	5	838	100.0

Pipeline			
Market: Nevada (Exc Las Vegas)			
Under Construction		Planning	
Properties	Rooms	Properties	Rooms
1	84	10	1364

See Help page for pipeline definitions.

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