Market Study

Proposed Westin Convention Center Hotel

Portland, Oregon

Prepared by:

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August 9, 2007

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Re: Proposed Westin Convention Center Hotel
Portland, Oregon
HVS Reference: #2007040186

Dear Sirs:

Pursuant to your request, we herewith submit our market study pertaining to the proposed Westin Convention Center Hotel. We have inspected the site and facilities and analyzed the hotel market conditions in the Portland, Oregon area. Our report was prepared in accordance with, and is subject to, the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP), as provided by the Appraisal Foundation.

We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings and valuation.

This market study is being prepared for use by the Metro and its subsidiary, the Metropolitan Exposition Recreation Commission. This report may not be distributed to or relied upon by other persons or entities without our written permission. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Very truly yours,
HVS INTERNATIONAL
Division of M&R Valuation Services, Inc.

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1. Nature of the Assignment

Subject of the Market Study

The subject of the market study is a ±34,412-square-foot (±0.79-acre) parcel to be improved with a 600-room, full-service lodging facility that will be known as the Westin Convention Center Hotel. The hotel will be constructed adjacent to the Oregon Convention Center (OCC). We assume that an outdoor pedestrian connection will be included; however, the concept and design has not been determined at this time.

The Portland Development Commission (PDC) has recently completed an assembly of two blocks bounded by Northeast Martin Luther King Jr. Boulevard, Northeast Grand Avenue, Northeast Holladay, and Northeast Oregon Streets adjacent to the OCC in order to support the development of a headquarters hotel. In October 2005, the PDC selected Ashforth Pacific/Garfield Traub to develop the proposed subject, while Metro, a governmental entity, will be the owner of the publicly owned facility.

The proposed improvements are still in a conceptual design stage. No formal plans have been prepared. The following description is based on information provided by Starwood Hotels & Resorts, the Westin's designated management company. In addition to guestrooms, the hotel improvements are expected to contain a three-meal restaurant, a lobby bar, a coffee bar, ±36,130 square feet of meeting space, ±22,000 square feet of prefunction space, an indoor pool and whirlpool, an exercise room, ±4,265 square feet of leased restaurant space, ±4,265 square feet of leased office space, a business center, a gift shop, and ±170 surface parking spaces for the convenience of hotel guests. An additional 250 parking spaces will be leased from the Oregon Convention Center parking structure. As design plans have not yet been prepared for the improvements, the facility program may change. This market study is prepared assuming the above described facilities. Changes in the space program may produce different operating results. According to Metro representatives, the proposed Westin Convention Center is anticipated to open on January 1, 2011. We assume that the proposed improvements will be constructed according to the description in a professional, workmanlike manner.

Management Assumptions

The proposed hotel is expected to operate under a management agreement with Starwood Hotels & Resorts over the projected term. Management fees are expected to be 3.0% of total revenue. Management agreement terms were not provided for this analysis. The forecast of income and expense does not consider an incentive management fee. The terms of an executed operating agreement may be different from the terms used in this market study. For the purposes of this market study, we assume that the property will be operated by Starwood.

The Westin management and brand will bring the resources of Starwood operations and sales and marketing to the hotel. Starwood marketing includes 32 Global Sales offices with over 230 senior sales professionals. The Starwood Preferred Guest loyalty program has enrolled over 20 million members since its inception and accounts for over 44% of rooms revenue across all of Starwood's brands. The reservation system handles over 16 million telephone calls worldwide per year. The subject property is expected to be marketed by Starwood using all of the resources described. In addition, the subject property will be marketed as part of Starwood's Convention Collection, which is a group of Starwood's larger, group hotels which co-market and work together to move large groups amongst Starwood hotels. Starwood representative expect that a new Westin in Portland, particularly with a large ballroom, of which few exist in hotels in the Pacific Northwest, would be well positioned against all Portland and Seattle area hotels.

Objective of the Market Study

Metro, on behalf of the Metropolitan Exposition Recreation Commission (MERC), is requesting a market study of a convention center headquarters hotel. The objective of the market study is to evaluate the market supply and demand for a Convention Center Headquarters Hotel in Portland, Oregon and to project the estimated costs of, and revenues derived from, such a facility, and evaluate various operating models that have been suggested for the proposed property.

Use of the Market Study

This market study is being prepared for use by the MERC in its ongoing efforts to obtain approvals and financing for the project. This report is intended to provide an independent third party analysis of the proposed project.

Scope of the Market Study

All information was collected and analyzed by the staff of HVS International. Information such as pro forma operating statements, a floor plan, and the like were supplied by Starwood Hotels & Resorts and Metro.

Method of Study

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

1. The subject site was evaluated from the viewpoint of its physical utility for the operation of a hotel, as well as access, visibility, and other relevant locational factors.
2. The subject's proposed improvements were based on information provided by Starwood Hotels & Resorts.
3. The surrounding economic environment, on both an area and neighborhood level, was reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
4. Dividing the market for transient accommodations into individual segments defined specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated included purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.
5. An analysis of existing and proposed competition provided an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Wherever possible, competitive properties were inspected and management interviewed.

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[1] Rushmore, Stephen. *The Valuation of Hotels and Motels.* Chicago: American Institute of Real Estate Appraisers, 1978.
[2] Rushmore, Stephen. *Hotels, Motels and Restaurants: Valuations and Market Studies*. Chicago: American Institute of Real Estate Appraisers, 1983.
[3] Rushmore, Stephen. *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations.* Chicago: American Institute of Real Estate Appraisers, 1990.
[4] Rushmore, Stephen. *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations.* Chicago: Appraisal Institute, 1992.
[5] Rushmore, Stephen and Baum, Erich. *Hotels and Motels—Valuations and Market Studies.* Chicago: Appraisal Institute, 2001.

6. Documentation for an occupancy and average rate projection was derived using the build-up approach based on an analysis of lodging activity.
7. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for Hotels set forth the anticipated economic benefits of the proposed subject property and provided the basis for the income capitalization approach.

Pertinent Dates

The completion date of the proposed development is January 1, 2011. All projections are expressed in inflated dollars. Research and primary fieldwork were performed on May 30, 2007 and June 5, 2007. We have only considered information available on these dates. The subject site was inspected by Eric H. Fong and Tom Hazinski on May 30, 2007.

2. Description of the Real Estate

When evaluating real estate, it is important to analyze the physical and functional attributes of the property. This section addresses the real estate elements that are pertinent to this market study: the land and improvements.

LAND

The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property. Factors such as size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site.

The proposed subject property is located within one block of the Oregon Convention Center. The site is bounded by N.E. Martin Luther King Jr. Boulevard to the west, Grand Avenue to the east, Holladay Street to the north, and Oregon Street to the south. It is within walking distance to the Max Light Rail line. Primary vehicular access to the proposed Westin Convention Center Hotel is available from N.E. Martin Luther King Jr. Boulevard and Oregon Street, where the main entrance and vehicular loading areas are located.

Physical Characteristics

According to conceptual design sketches provided by the client, the subject parcel measures ±0.79 acres, or ±34,412 square feet. The shape of the site is generally rectangular, and the topography is mostly flat. The parcel's boundaries are set forth in the following table.

Table 2-1 Subject Parcel's Boundaries

Direction	Boundary
North	Holladay Street
South	Oregon Street
East	Grand Avenue
West	N.E. Martin Luther King Jr. Boulevard

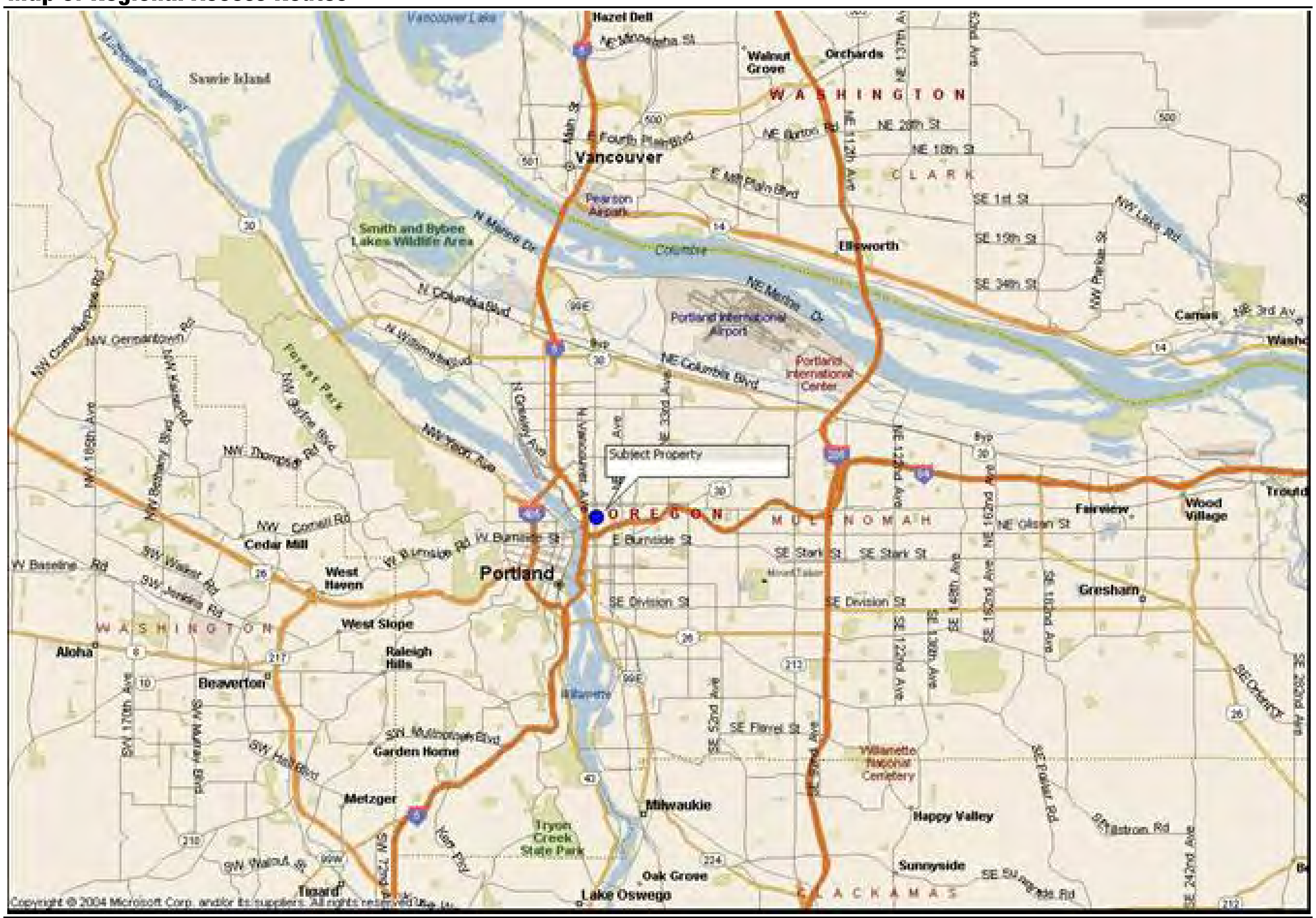
Views from Site to the East

Views from Site to the South and West

Site Utility

Once developed, the subject site is not expected to contain any excess development potential.

Map of Regional Access Routes



Regional Access

Primary regional access through the area is provided by Interstate 84 (I-84), which serves as a major regional transportation route linking Oregon and Idaho. Interstate 5 (I-5), which spans the western United States from the state of Washington's border with Canada to California's border with Mexico, runs along the eastern shore of the Willamette River within the Portland area. The proposed subject property's market is served by a variety of additional local routes, which are illustrated on the preceding map.

From the Portland International Airport, motorists follow signs to I-84, which is south of the airport. Motorists take Exit 21B and turn right on the first ramp. Motorists execute a right turn onto Holladay Street for approximately three blocks and make another right turn onto N.E. Martin Luther King Jr. Boulevard for three blocks. The proposed subject property is located on the motorists' right-hand side. The proposed property is expected to offer adequate signage at the street level; thus, the hotel will benefit from very good visibility from within its neighborhood.

Local Access and Visibility

Access to downtown Portland is gained via a variety of interstate highways, bridges, and thoroughfares. The proposed subject is most proximate to Interstate 5, which runs along the eastern shore of the Willamette River within the Portland area. Seven bridges link motorists on I-5 to the western shore and the Portland central business district. Just south of the central business district, Marquam Bridge is the span upon which I-5 bridges the Willamette River; I-5 then continues southward to Salem and Eugene, Oregon. Between the North Essex-Fremont Bridge to the north and the Marquam Bridge to the south, five bridges provide access to downtown Portland, namely the Broadway, Steel, Burnside, Morrison, and Hawthorne Bridges.

Access to Local Demand Generators

The site of the proposed subject is situated within a short driving distance of many of the area's primary generators of lodging demand. Lodging demand for the subject property’s market is primarily commercial in nature, with local companies generating individual and group demand for meeting space at the Oregon Convention Center. The Portland area comprises hotels in the downtown Portland area and those on the outskirts of downtown, east of the Willamette River. Most of this market falls into a small 10- to 15-mile radius, and strong demand downtown occasionally results in outward compression to the surrounding areas. The following table outlines some of the local demand generators most proximate to the subject site.

Table 2-2 Local Demand Generators

Demand Generator	Approximate Mileage From Subject Property		Approximate Driving Time from Subject Property (Minutes)		
Oregon Convention Center	One Block	E	0	to	0
Lloyd Center Mall	0.5	NE	0	to	5
Holladay Park	0.5	NE	0	to	5
Rose Quarter	0.5	NW	0	to	5
Historic Waterfront District	0.5	W	0	to	5
Memorial Coliseum	0.5	NW	0	to	5
Nike	5.0	W	10	to	15
Portland Metro Exposition Center	5.0	W	10	to	15
IBM Corporation	9.0	NW	15	to	20
Intel Corporation	11.0	NW	20	to	25

Neighborhood

The neighborhood surrounding a lodging facility often has an impact on a hotel's status, image, class, style of operation, and sometimes its ability to attract and properly serve a particular market segment. This section of the report investigates the subject property's neighborhood and evaluates any pertinent locational factors that could affect the hotel's occupancy, average rate, and overall profitability.

The subject property's neighborhood is defined by Holladay Street to the north, N.E. Martin Luther King Jr. Boulevard to the west, Oregon Street to the south, and Grand Avenue to the east. In general, this neighborhood is in the premature stage of its life cycle, with major growth occurring in the residential and retail sectors. Within the immediate proximity of the site, land use is primarily restaurant and lodging in nature. The neighborhood is characterized by the presence of the MAX Light Rail line, a few full-service restaurants, two limited- and full-service hotels, the Oregon Convention Center, and a residential building.

Some specific businesses in the greater Portland market area include Nike, IBM Corporation, and Intel Corporation. In general, the subject property's neighborhood consists of businesses on either side of Grand Avenue. Grand Avenue is a major north-south thoroughfare that crosses through the eastern side of Portland. As a result of commercial, lodging, residential, and industrial development, the neighborhood has experienced some growth in recent years.

The subject's neighborhood is poised for significant redevelopment. According to representatives of the Portland Development Commission, numerous residential and commercial projects are proposed within the blocks surrounding the subject site. The following details are a summary of some of the future projects expected to be developed in the proposed site's immediate area or surrounding neighborhood:

- **Eastbank at Burnside – T**he Portland Development Commission is working with Opus Northwest, LLC to redevelop a five-block parcel located along East Burnside and Grand Avenue, directly east of the Burnside Bridge. The project is expected to include approximately 421 residential units and is scheduled to be completed by 2010.

- **The Cosmopolitan** – Developer Joe Westin has acquired an 18,000-square-foot parcel from the Portland Development Commission and plans to develop a 325-foot "point" tower with 200 condominiums. The project is scheduled to be completed by 2010.

- **Grand Central Market Building –** Concept Entertainment is working with Holst Architecture on the redevelopment of the Grand Central Market Building. The project will include the restoring of the 1929 building's exterior to its original grandeur, while converting the interior into a 12-lane bowling alley and lounge, surrounded by retail shops along the outside. The project is expected to be completed by 2007.

According to discussions with local hotel operators, city and county officials, and the client, the Lloyd Center District is expected to include new high-end residential housing and retail shops over the near future. However, we assume that the hotel would not be expected to perform as well if the neighborhood does not transform into an area that will generate a strong appeal to the general public.

Map of Neighborhood

Land Conclusion

We have analyzed the issues of size, topography, access, and the availability of utilities. An advantage of the site includes its location proximate to the Oregon Convention Center and MAX Light Rail line, with nearby various demand generators and attractions. Disadvantages of the site include its limited access from downtown Portland and other major thoroughfares that provide access to it. Additionally, the site is removed from the current core of hotel inventory, the major downtown attractions, which include restaurants and retail shops. The advantages noted outweigh the disadvantages.

Proposed Property Overview

The proposed Westin Convention Center Hotel will be a full-service lodging facility containing 600 rentable units, ±36,130 square feet of meeting space, ±22,000 square feet of prefunction space, a three-meal restaurant, a lobby bar and coffee shop, a gift shop, a business center, ±4,265 square feet of leased office space, ±4,265 square feet of leased restaurant space, an exercise room, an indoor pool and whirlpool, and appropriate back-of-the-house facilities. The hotel will be constructed adjacent to the Oregon Convention Center

(OCC). We assume that an outdoor pedestrian connection will be included; however, the concept and design has not been determined at this time.

Proposed Exterior Rendering

Proposed Design and Configuration

Based on the conceptual design layouts provided by the client, the proposed subject's conference and hotel functions will provide a covered street level connection, sufficient to be considered a headquarters convention center hotel. Several of the upper-tiered meeting rooms will offer captivating views of the Willamette River and downtown Portland. Additionally, the recreational amenities, guestrooms, public areas, and interior finishes of the proposed Westin will be modern and high quality, similar to the Oregon Convention Center. Parking is to be provided by 170 on-site spaces and 250 off-site spaces located directly across the street at the convention center's parking structure.

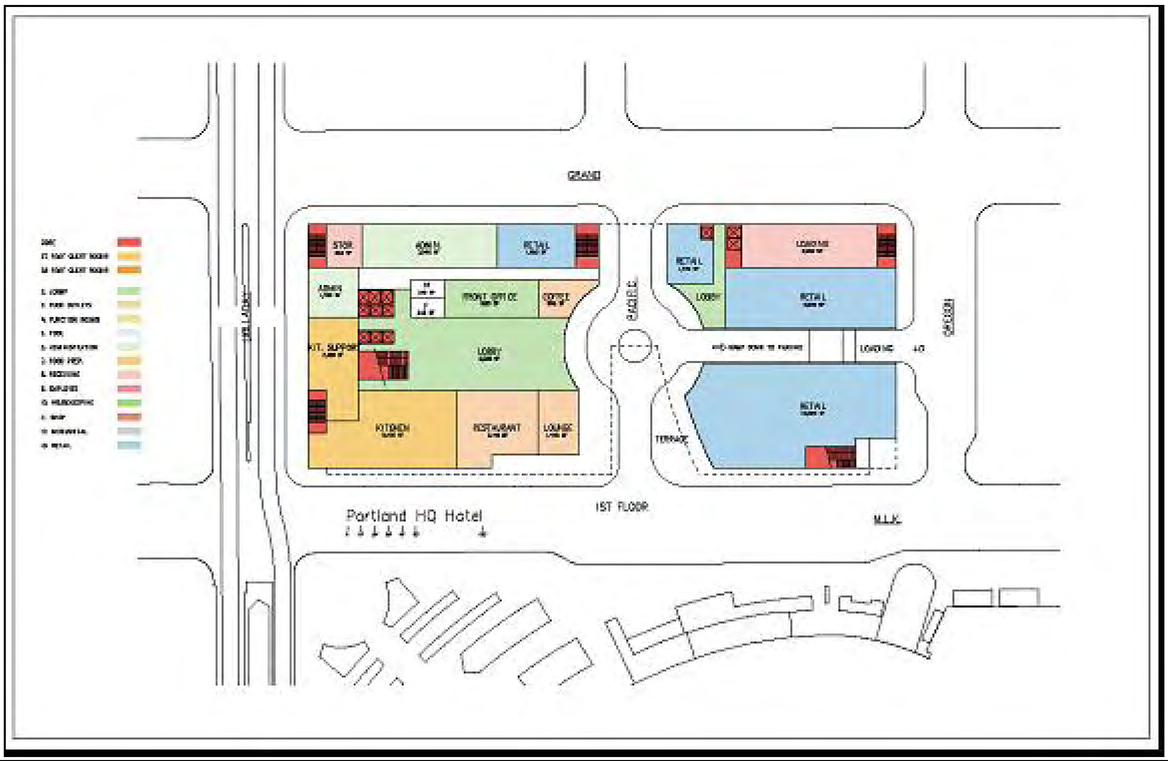
Summary of the Proposed Facilities

Based on information provided by the client, the following table summarizes the proposed facilities at the proposed Westin Convention Center Hotel.

Table 2-3 Proposed Facilities Summary

Guestrooms	Number of Rooms	
King	287	
Double/Double	287	
Executive Suite	20	
Hospitality Suite	4	
Presidential Suite	2	
Total Guestrooms	**600**	
Food and Beverage	**Number of Seats**	**Concept**
Restaurant	150	3-Meal
Lobby Bar	50	Serves Lobby Area
Coffee Express	20	Starbucks Type
Leased Three-Meal Restaurant	N/A	N/A
Meeting and Banquet Space	**Size (Square Feet)**	
Grand Ballroom (Includes Pre-Function)	14,000	
Junior Ballroom	7,000	
5 Meeting Rooms	14,060	
Board Room	1,070	
Pre-Function Space	22,000	
Total Meeting Space	**58,130**	
Amenities		
Indoor Swimming Pool and Whirlpool		
Exercise Room		
Business Center		
Leased Office		
Gift Shop		
Services		
Valet Parking		

First-Floor Rendering



Proposed Guestrooms

Guestrooms at the proposed subject will include high-end design and décor to match the overall contemporary design of the building. Typical new Westin projects include high-quality furnishings and upholstery details; we assume the subject property will include the same quality of furnishings. Additionally, all rooms will include the Westin Heavenly Bed and Westin Heavenly Bath programs.

Proposed Lobby

The lobby is anticipated to make a strong first impression. As with all newly built Westin projects, the subject's lobby is planned to provide a warm, inviting, and soothing ambiance to guests upon entry. Additionally, the lobby configuration will facilitate a strong interaction between guests and employees.

Proposed Food and Beverage Outlets

The subject's proposed food and beverage venues will reflect the typical Westin design and philosophy in their décor and table settings. The three-meal restaurant will be operated by the hotel and will connect guests to the culture and environment of Portland. The restaurant will be casual, yet elegant, with quality service levels. The restaurant will be located on the lobby level, facing Martin Luther King Jr. Boulevard.

The lounge will be located on the lobby level, and is anticipated to be a congenial place where guests and local residents can gather.

The lobby-level coffee bar is expected to provide a layout and service similar to that at Starbucks coffee shops.

Proposed Meeting and Banquet Space

The proposed subject's meeting and function space are expected to include state-of-the-art audiovisual equipment, including sound and lighting controls, incorporated into all rooms. The proposed subject's meeting and banquet space will include an internally controlled catering department. Note, each ballroom will be of high-quality design, integrated with professionally selected colors and patterns. The location of the breakout rooms and meeting rooms is expected to be easily accessible through entrances and exits. The total meeting space at the proposed subject is ±36,130 square feet, with the prefunction space totaling ±22,000 square feet.

Proposed Recreational Amenities

The proposed subject property is expected to include a typical Westin Workout program, a nationally recognized brand standard, which elevates the fitness room to a level of perfection and sophistication on both the design and equipment standpoints. The proposed subject is also expected to include a full-service business center, a gift shop, and an indoor pool and whirlpool.

Proposed Parking/Garage

The proposed subject will include approximately 170 parking spaces used for valet and self parking. Additionally, an off-site parking structure located directly across the street at the convention center, will offer roundly 250 leased spaces on a daily basis. Details about the leased parking spaces were not available.

Proposed Retail Space

The proposed subject will include a leased three-meal restaurant and office space, which will also be leased to a third-party operator. Details of the restaurant program and office space have not been determined.

Proposed Back-of-the-House

The subject property is expected be adequately served by the necessary back-of-the-house space, including an in-house laundry, a kitchen, and an administrative office.

Proposed Improvements Conclusion

We have analyzed the improvements, facilities, and amenities offered by the proposed Westin Convention Center Hotel. The hotel is anticipated to benefit from an attractive exterior upon entry and a well-designed, upscale interior upon completion of the construction.

3. Market Area Analysis

The economic vitality of the market area surrounding the subject property is an important consideration in forecasting lodging demand and income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project hostelry demand. The purpose of the market area analysis is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilization, or decline. In addition to predicting the direction of the economy, the rate of change must be quantified. These trends are then correlated based on their propensity to reflect variations in lodging demand, with the objective of forecasting the amount of growth or decline in transient visitation by individual market segment (e.g., commercial, meeting and group, and leisure).

Market Area Definition

The market area for a lodging facility is the geographical region where the sources of transient visitation (demand) and the competitive supply are located. A lodging facility's market area is generally defined as the geographical area of influence surrounding the property. In most instances, this area also encompasses the hotel's demand generators and competitive lodging facilities. The economic and demographic profile of the defined market area is typically relevant in gauging the strength of the market's lodging demand.

The subject property is located in the city of Portland, the county of Multnomah, and the state of Oregon. With a population of over 752,000, Portland is located at the confluence of the Columbia and Willamette rivers, with its metropolitan area covering ±4,416 square miles in two states, Oregon and Washington. The region encompassing the subject property can be defined generally as the Portland, Oregon-Vancouver, Washington Metropolitan Statistical Area (MSA). Five counties make up this MSA: Multnomah, Clackamas, Washington, and Yamhill in the state of Oregon, and Clark in the state of Washington.

The Portland area is naturally divided into eastern and western portions by the Willamette River. To the north, the area is bounded by the Columbia River, which has enabled shipping and logging industries to thrive. The Columbia River empties into the Pacific Ocean 80 miles west of Portland. The Portland area, readily accessible by both land and sea, acts as a major transportation and trade hub for the Pacific Northwest.

Portland is located in a region known for its high level of precipitation. Although this reputation is well founded in winter months, summer months are relatively dry. Additionally, year-round temperatures are mild, with an average low of 34 degrees Fahrenheit in the winter and an average high of 79 degrees Fahrenheit in the summer. The beauty and natural attractions of the Pacific Northwest, including Mount Hood, make the subject property's market area aesthetically appealing.

The economy of the Portland metropolitan area has experienced positive trends since the mid-1980s, with the strongest growth occurring during the early to mid-1990s. The exodus of Californians to the less populated and more affordable Portland area, coupled with substantial Pacific Rim investment in the Pacific Northwest, stimulated the economy of the Portland area. While the area has historically been dependent upon the cyclical lumber industry, the area's economy has branched into the high-technology sector; Portland includes Oregon's "Silicon Forest," home to high-tech companies such as Tektronix, Inc., Intel Corporation, LSI Logic, and Sequent Computers. In addition, the headquarters of several large sports-oriented companies such Nike, Adidas, Columbia Sportswear, and Jantzen are located in the Portland area. As a result, Portland now boasts one of the most diversified economies of any major city on the West Coast.

Affected by the downturn in the national economy and the events of September 11, 2001, the Portland market experienced declining lodging demand for several months; however, as will be discussed later, areawide demand has rebounded somewhat since the middle of 2002, and year-to-date 2007 data show strong demand growth as a result of a strengthening economy.

Area Map

Economic and Demographic Review

The following demographic and economic review sets forth population, per capita income, wealth index, and retail sales data for Multnomah County, the Portland-Vancouver-Beaverton Metropolitan Statistical Area (MSA), the state of Oregon, and the United States as a whole from 1980 through (projected) 2010. While not directly correlated with hotel room night demand, population and retail sales serve as a general measure of a market's health. The per capita income reflects the economic well-being of the populace. Note that information from 2006 through 2010 is a forecast by Woods & Poole.

Table 3-1 Economic and Demographic Data Summary

	1990	2000	2006	2010	Average Annual Compounded Change 1990-00	2000-06	2006-10
Resident Population (Thousands)							
Multnomah County	586.6	661.5	675.3	678.3	1.2 %	0.3 %	0.1 %
Portland-Vancouver-Beaverton, OR-WA MSA	1,536.0	1,936.0	2,128.9	2,239.9	2.3	1.6	1.3
State of Oregon	2,860.4	3,431.1	3,692.5	3,862.0	1.8	1.2	1.1
United States	249,622.8	282,193.5	300,085.8	311,844.0	1.2	1.0	1.0
Per-Capita Personal Income*							
Multnomah County	$24,137.0	$30,243.0	$31,351.0	$32,766.0	2.3	0.6	1.1
Portland-Vancouver-Beaverton, OR-WA MSA	23,390.0	30,050.0	29,250.0	30,413.0	2.5	(0.4)	1.0
State of Oregon	20,930.0	26,284.0	26,229.0	27,329.0	2.3	(0.0)	1.0
United States	22,634.0	27,919.0	28,805.0	30,133.0	2.1	0.5	1.1
W&P Wealth Index							
Multnomah County	106.4	108.2	108.9	108.8	0.2	0.1	(0.0)
Portland-Vancouver-Beaverton, OR-WA MSA	104.7	108.9	103.1	102.6	0.4	(0.9)	(0.1)
State of Oregon	94.8	96.4	93.5	93.2	0.2	(0.5)	(0.1)
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Total Retail Sales (Millions)*							
Multnomah County	$5,854.3	$8,570.5	$9,356.7	$9,750.5	3.9	1.5	1.0
Portland-Vancouver-Beaverton, OR-WA MSA	14,030.6	22,569.4	26,411.5	28,791.8	4.9	2.7	2.2
State of Oregon	25,241.1	38,474.8	44,399.4	48,274.3	4.3	2.4	2.1
United States	2,079,504.0	2,867,300.2	3,273,827.4	3,538,596.1	3.3	2.2	2.0

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

The population growth of Multnomah County has slowed to well below the national average, while the greater MSA is evidencing stronger growth than that of the county, state, and nation. Per capita personal income and wealth index data for Multnomah County indicate a populace that is wealthier than that of the other regions, which is forecast to continue through the end of the decade. Retail sales and personal income trends reflect a favorable economy.

Work Force Characteristics

The characteristics of an area's work force provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Employment categories such as finance, insurance, and real estate (FIRE); wholesale trade; and services produce a considerable number of visitors who are not particularly rate sensitive. The government sector often generates transient room nights, but per diem reimbursement allowances frequently limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing; construction; and transportation, communications, and public utilities (TCPU) employers can also be important, depending upon the company type. The following table sets forth the MSA workforce distribution by business sector in 1990, 2000, and 2006, as well as a forecast for 2010.

Table 3-2 Historical and Projected Employment – Multnomah County ('000s)

Industry	1990	Percent of Total	2000	Percent of Total	2006	Percent of Total	2010	Percent of Total	Average Annual Compounded Change 1990-2000	2000-2006	2006-2010
Farm	1.7	0.4 %	1.3	0.2 %	1.4	0.3 %	1.4	0.2 %	(2.5) %	0.8 %	0.2 %
Agriculture Services, Other	2.5	0.5	4.5	0.8	4.3	0.8	4.7	0.8	6.0	(0.8)	2.5
Mining	0.4	0.1	0.3	0.0	0.2	0.0	0.2	0.0	(5.4)	(3.4)	3.0
Construction	20.6	4.5	28.1	5.1	25.7	4.7	26.9	4.7	3.2	(1.5)	1.1
Manufacturing	53.0	11.6	53.6	9.7	43.3	7.9	44.0	7.7	0.1	(3.5)	0.4
Trans., Comm. & Public Utils.	31.1	6.8	37.8	6.8	33.4	6.1	33.4	5.9	2.0	(2.0)	0.0
Total Trade	101.4	22.1	118.7	21.4	113.5	20.7	113.0	19.9	1.6	(0.8)	(0.1)
Wholesale Trade	33.1	7.2	35.1	6.3	32.3	5.9	31.7	5.6	0.6	(1.4)	(0.5)
Retail Trade	68.3	14.9	83.6	15.1	81.1	14.8	81.3	14.3	2.0	(0.5)	0.1
Finance, Insurance, & Real Estate	42.7	9.3	49.5	8.9	50.5	9.2	49.7	8.8	1.5	0.3	(0.4)
Services	144.4	31.5	191.4	34.6	204.9	37.3	218.6	38.5	2.9	1.1	1.6
Total Government	61.2	13.3	68.6	12.4	71.5	13.0	75.8	13.3	1.1	0.7	1.4
Federal Civilian Govt.	13.6	3.0	12.0	2.2	12.1	2.2	12.2	2.1	(1.2)	0.1	0.2
Federal Military Govt.	3.6	0.8	2.7	0.5	2.8	0.5	2.8	0.5	(3.0)	0.9	(0.2)
State & Local Govt.	44.0	9.6	53.9	9.7	56.7	10.3	60.8	10.7	2.1	0.8	1.8
TOTAL	459.1	100.0 %	553.7	100.0 %	548.6	100.0 %	567.7	100.0 %	1.1 %	(0.2) %	0.9 %

Source: Woods & Poole Economics, Inc.

According to Woods & Poole, Multnomah County's largest employment sectors are services, total trade, and government. From 1990 through 2000, total employment in Multnomah County increased at an average annual compounded rate of 1.1%, and the most significant non-agricultural growth occurring in the services, FIRE, and construction sectors. During the period from 2000 through 2006, total employment was flat, reflecting the economic recession during that time, with moderate growth occurring in the services and FIRE sectors; however, the employment declines in other sectors, such as transportation and trade, negated any overall positive growth. Woods & Poole projects that employment in Multnomah County will increase by 0.9% per year through 2010, reflecting the expectation of only moderate economic growth through the remainder of the decade

Major Employers

Providing additional context for understanding the nature of the regional economy, the following table presents a list of the major employers in Portland, Oregon.

Table 3-3 Major Employers in Portland

Rank	Firm	Number of Employees
1	Intel Corporation	15,500
2	Providence Health System	14,007
3	Safeway, Inc.	13,453
4	Oregon Health and Science University	11,400
5	Fred Meyer, Inc.	9,663
6	Legacy Health System	7,900
7	NIKE, Inc.	6,100
8	Wells Fargo	4,285
9	Shari's Restaurants	3,725
10	Freightliner, LLC	3,500
11	Hewlett-Packard	3,500
12	Albertsons Food Centers	3,450
13	SW Washington Medical Center	3,268
14	United Parcel Service	2,800
15	Portland General Electric	2,781
16	Standard Insurance Co.	2,066
17	Tektronix, Inc.	2,030
18	Xerox Corporation	1,783
19	PacifiCorp.	1,762
20	New Seasons Market	1,222

Source: 2006 Book of Lists, Portland Business Journal, PDC Research 2006

The major employers in Portland represent a cross-section of hotel demand potential. Some are national in scope, while others operate on a more local basis; some are engaged in technology and manufacturing, and others are active in the healthcare sector. According to the Portland *Business Journal*, Portland is home to over 2,000 business headquarters. It also reports that there are currently no prospects of new major employers entering the marketplace, nor are there prospects of any departing from it.

Unemployment Statistics

The following table presents historical average unemployment rates for the subject property's MSA, the county, the state, and the nation, from 2001 to the most recent month of 2006 data available.

Table 3-4 Unemployment Statistics

Year	Portland MSA	Multnomah County	State of Oregon	U.S.
2001	6.0 %	6.3 %	7.7 %	4.7 %
2002	7.8	8.1	7.6	5.8
2003	8.3	8.6	7.8	6.0
2004	7.1	7.6	7.3	5.5
2005	5.8	5.1	5.7	5.1
2006	5.1	5.2	5.4	4.6
Recent Month - May				
2006	4.8 %	5.1 %	5.1 %	4.4 %
2007	4.5	4.7	4.7	4.3

Source: U.S. Bureau of Labor Statistics

Recent unemployment rates in this area have been declining, as area industries have continued their recovery trend after a difficult period earlier this decade. Local employment has been strong in the technology and healthcare sectors. Our interviews with economic development officials reflect a promising outlook for the area.

Office Space Statistics

Trends in occupied office space are typically among the most reliable indicators of lodging demand, because firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Thus, trends that cause changes in vacancy rates or in the amount of occupied office space may have a proportional impact on commercial lodging demand, and a less direct effect on meeting demand. The following tables detail office space statistics for the Portland metropolitan area for the fourth quarter of 2006 and the first quarter of 2007.

Table 3-5 Office Space Statistics – Fourth Quarter 2006

Sub-Market	Net Rentable Area (SF)	Under Construction (SF)	Vacancy Rate	Average Asking Lease Rate	Sale & Lease Activity (SF)
CBD	14,455,884	0	11.30 %	$18.82	47,046
Lloyd Center	**1,602,547**	**0**	**6.74**	**23.21**	**(10,909)**
Northwest	3,638,556	0	10.13	19.82	(126)
Johns Landing	1,021,026	0	9.74	19.06	6,934
Barbur Blvd	467,897	0	11.74	16.45	(354)
Kruse Way	2,106,364	0	4.76	27.46	87,022
Lake Oswego	561,981	0	17.48	24.57	109
Tigard	1,579,690	84,621	9.07	21.34	11,753
Washington Square	1,123,686	0	10.12	21.42	23,018
Beaverton	3,130,278	0	17.80	19.30	3,099
West Hills	703,955	0	12.85	17.35	9,619
Airport Way	364,830	0	11.55	16.23	(14,767)
Eastside	1,975,982	99,558	22.15	15.78	28,212
Clackamas	1,112,457	64,419	7.23	19.60	21,909
Vancouver	4,247,651	172,000	13.22	20.32	14,487
Tualatin	773,985	0	16.38	21.66	16,817
Wilsonville	441,558	0	7.08	19.69	(16,488)
Hillsboro	1,074,243	0	25.11	18.73	7,763
Totals	40,382,570	420,598	11.23 %	$19.61	235,144

Source: CB Richard Ellis, Fourth Quarter 2006 Market Index Brief

Table 3-6 Office Space Statistics – First Quarter 2007

Sub-Market	Net Rentable Area (SF)	Under Construction (SF)	Vacancy Rate	Average Asking Lease Rate	Sale & Lease Activity (SF)
CBD	14,455,884	0	12.06 %	$19.05	(69,509)
Lloyd Center	**1,602,547**	**0**	**8.52**	**23.53**	**(28,457)**
Northwest	3,638,556	82,843	8.25	20.06	68,246
Johns Landing	1,021,026	0	8.50	19.57	12,633
Barbur Blvd	482,447	0	13.45	17.20	(8,866)
Kruse Way	2,106,364	0	4.82	28.05	(1,415)
Lake Oswego	561,981	0	16.63	24.90	4,785
Tigard	1,579,690	204,528	9.54	21.91	(7,335)
Washington Square	1,123,686	0	10.34	22.13	(2,473)
Beaverton	3,276,175	158,400	20.64	19.23	(62)
West Hills	703,955	0	13.59	17.53	(5,226)
Airport Way	364,830	0	10.04	17.35	1,876
Eastside	2,023,598	99,558	17.81	16.22	94,823
Clackamas	1,211,387	0	10.93	20.79	46,931
Vancouver	4,264,151	172,000	14.16	20.14	(26,987)
Tualatin	773,985	0	14.20	21.50	16,873
Wilsonville	441,558	0	6.06	19.29	4,509
Hillsboro	1,074,243	0	23.00	18.42	22,676
Totals	40,706,063	717,329	11.45 %	$19.87	123,022

Source: CB Richard Ellis, First Quarter 2007 Market Index Brief

Overall, office vacancy was 11.45% in the greater market area, and the area's lease rate was $19.87 per square foot in the year-to-date period through March 2007. The subject property's location is contained in the category named Lloyd Center. This submarket recorded a vacancy rate of 8.52% compared to the market as a whole, and a lease rate of $23.53 per square foot. Portland's office market shows continual signs of improvement. Office vacancy rates are expected to continue to decline in the Portland metropolitan area, while some submarkets are anticipated to continue to record substantial lease rate increases. With higher demand for space, all sectors are expected to experience increased absorption for 2007.

Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

Major commercial airlines that serve Portland International Airport include Alaska, American, Continental, Delta, Northwest, Southwest, and United Airlines. As a result of the soaring growth in passenger counts and traffic loads at the airport during the 1990s, Portland International Airport underwent a major expansion in 1998. Phase one included major pavement construction around Concourse C and the addition of 10 gates to the west end of Concourse C. Phase two entailed extending the terminal more than 200 feet to the south, replacing existing gates with a modern concourse, connecting Concourses B and C with a lobby, adding a light-rail station, and making aircraft pavement and taxiway improvements. Access to the Lloyd Center District from the airport is available on the MAX Light Rail line.

The following table illustrates recent operating statistics for the primary airport facility serving the subject property's submarket.

Table 3-7 Airport Statistics

Year	Total Passengers	Percent Change
1995	11,212,189	---
1996	12,590,588	12.3 %
1997	12,810,540	1.7
1998	13,019,358	1.6
1999	13,721,684	5.4
2000	13,790,115	0.5
2001	12,703,606	(7.9)
2002	12,241,975	(3.6)
2003	12,400,010	1.3
2004	13,038,057	5.1
2005	13,879,701	6.5
2006	14,043,489	7.7
Avg. Annual Compounded		
% Change 1995-2006:		25.3 %
% Change 2000-2006:		1.8
Year-to-Date through May:		
2006	5,326,113	---
2007	5,509,007	3.4 %

Source: Portland International Airport

Total passengers increased by 5.4% in 1999, indicating that the area's economy was adjusting from the effects of the Asian economic downturn in 1998. Modest growth in 2000 indicated that the economy was slowing down. Following the events of September 11, a dramatic downturn in travel activity occurred nationwide; Portland International Airport was also affected. In 2001, the impact of decreased travel budgets is evident, with a 7.9% decline in travelers. A change in traveler perception relating to the safety of air travel and positive economic activity resulted in a modest increase in passenger counts in 2003. A modest portion of this increase is also due to the increase in military activity subsequent to the start of international conflict in February 2003. Data for 2005 and 2006 indicate healthy increases in passenger counts; year-to-date data for May shows further improvement in 2007, as passenger traffic has increased by 3.4% over the year-to-date period through May 2006.

Convention Center

The Oregon Convention Center ("OCC") is a key component of this project as the subject property is intended to serve as its headquarters hotel. Out-of-town attendees to events at the OCC are expected provide a primary source of demand of the subject property. The hotel is also expected to improve the performance of the OCC, thereby inducing new demand into the market.

Given the importance of event demand at the OCC to the subject property, HVS has provided an analysis of event demand and room night generation by the OCC an appendix to this report.

Tourist Attractions and Events

Portland features a multitude of dining, cultural, and recreational opportunities, the nation's greatest number of local microbreweries, and the nation's largest independent bookstore.

A variety of demand generators draw tourists to the Portland market area. Within the central business district, Portland's relatively new Center for the Performing Arts features symphony, opera, ballet, and theater performances. The Oregon Symphony Orchestra is the oldest orchestra in the western United States; the Portland Opera Association offers a minimum of four operas each year; two ballet companies, Ballet Oregon and Pacific Ballet Theater, serve the area; and nearly 20 theater companies round out Portland's performing arts offerings. Portland is also home to a large collection of public art, a number of unique museums, the Washington Park Zoo, and two professional sports teams, the NBA's Portland Trailblazers and the Western Hockey League's Winter Hawks.

Located to the north of downtown Portland across the Willamette River is the Rose Quarter, an entertainment complex featuring the Rose Garden, the Memorial Coliseum, and the Rose Quarter Commons. The Rose Garden, a sports arena, contains approximately 20,000 seats and has replaced Memorial Coliseum as the home of the Portland Trailblazers. Memorial Coliseum, a 12,000-seat arena, is still used by the Winter Hawks and for concerts and special events. The coliseum also houses an exhibit hall with ±40,000 square feet of exhibit space. The Rose Quarter Commons is an outdoor paved plaza that connects the new Rose Garden, the Memorial Coliseum, and the Rose Quarter Restaurants. At more than 125,000 square feet, the Rose Quarter is Portland's largest outdoor public plaza.

Rose Garden

In terms of outdoor recreation, Portland hosts several festivals throughout the year, including the Portland Rose Festival, a 22-day event in June that includes carnival rides and a starlight parade. Skiing, golfing, wind surfing, fishing, hiking, hunting, camping, sailing, running, and mountain climbing are year-round activities in areas east of Portland, such as the Columbia River Gorge and Mount Hood. Additionally, the Pacific Ocean is approximately 80 miles west of Portland.

Market Area Conclusion

In this section, we reviewed a wide variety of economic indicators for the pertinent market area. Based on our research of this region, we are able to draw the following conclusions.

- In general, population growth in the Portland-Vancouver-Beaverton, OR-WA MSA is strong.
- Retail sales and personal income are projected to experience moderate growth in the future.
- Employment is diversified in the Portland area, with an emphasis on the high-tech and services sectors. Unemployment rates in all of the statistical areas reviewed recorded significant declines in 2007, boding well for the subject market area.
- Office space statistics for the Portland metropolitan area indicate continual improvement.
- The market is served by Portland International Airport, which has recorded recent increases in passenger traffic.

Overall, the subject market is experiencing a continual rebound in terms of overall economic health, as the regional and national economies continue to strengthen.

4. Supply and Demand Analysis

Definition of Subject Hotel Market

The proposed Westin Convention Center Hotel is expected to be located directly across from the Oregon Convention Center, along Martin Luther King Jr. Boulevard. The property is located within the Portland market area, specifically, the Portland Lloyd Center submarket, which is situated roughly three miles east of downtown Portland, across from the Willamette River. The Portland hotel market is composed of a mix of lodging facilities from limited-service and extended-stay properties to full-service and luxury class hotels. The entire Portland market contains approximately 22,000 guestrooms, of which 5,240, or roundly 23.8%, are considered competitive with the subject.

Historical Supply and Demand Data

Smith Travel Research (STR) is an independent research firm that compiles data on the lodging industry; the data published by STR is routinely used by typical hotel buyers. For the purposes of this analysis, HVS International has ordered and analyzed two STR Trends Reports with historical supply and demand data for the subject property and its competitors. One report tracks the historical performance of the largest hotels in Lloyd Center and downtown Portland; the other provides the operating results of the smaller hotels located in downtown Portland. This information is presented in the following tables, along with the marketwide occupancy, average rate, and rooms revenue per available room (RevPAR). Rooms revenue per available room is calculated by multiplying occupancy by average rate, and provides an indication of how well rooms revenue is being maximized.

Table 4-1 Historical Supply and Demand Trends (STR) - Primary Competitors (Large Portland Hotels)

Year	Occupied Room Nights	Change	Available Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
1996	610,792	—	792,050	—	77.1 %	$106.28	—	$81.96	—
1997	570,840	(6.5) %	792,050	0.0 %	72.1	112.67	6.0 %	81.21	(0.9) %
1998	545,342	(4.5)	792,050	0.0	68.9	118.84	5.5	81.82	0.8
1999	588,653	7.9	830,147	4.8	70.9	115.83	(2.5)	82.13	0.4
2000	597,896	1.6	882,935	6.4	67.7	113.81	(1.7)	77.07	(6.2)
2001	577,430	(3.4)	882,935	0.0	65.4	110.92	(2.5)	72.54	(5.9)
2002	605,986	4.9	943,103	6.8	64.3	107.27	(3.3)	68.92	(5.0)
2003	627,928	3.6	1,002,290	6.3	62.6	106.60	(0.6)	66.78	(3.1)
2004	674,210	7.4	1,002,290	0.0	67.3	104.87	(1.6)	70.54	5.6
2005	729,789	8.2	1,002,290	0.0	72.8	110.03	4.9	80.12	13.6
2006	724,237	(0.8)	1,002,290	0.0	72.3	118.27	7.5	85.46	6.7
Average Annual Comp. Change, 1996-2006:		1.7 %		2.4 %			1.1 %		0.4 %
Year-to-Date Through April									
2006	220,247	—	329,520	—	66.8 %	$111.30	—	$74.39	—
2007	218,348	(0.9) %	329,520	0.0 %	66.3	118.19	6.2 %	78.32	5.3 %

Source: Smith Travel Research

Table 4-2 Primary Competitive Hotels Included in Smith Travel *Trend* Report

Name	Location	Rooms	Year Opened/ Rebranded
Marriott Portland Downtown Waterfront	Portland, OR	502	1980
Red Lion Hotel Portland Convention Center	Portland, OR	174	1962/2003
Doubletree Portland Lloyd Center	Portland, OR	476	1964/1997
Hilton Portland & Executive Towers	Portland, OR	782	1963
Coast Hotels The Benson Hotel	Portland, OR	287	1912/2003
Embassy Suites Portland Downtown	Portland, OR	276	1912/1997
Marriott Portland City Center	Portland, OR	249	1999

It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample, and not every property reports data in a consistent and timely manner; these factors can influence the overall quality of the information by skewing the results. These inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand, and thus these trends have been considered in our analysis.

It should be noted that two STR data sets have been ordered in an attempt to accurately gauge the primary hotels competing directly with the proposed subject; hotels included in the set are larger, branded, full-service hotels located in downtown and the Lloyd Center district. The second STR set compiled includes a longer list of boutique hotels either branded or independently operated, competing with the subject either by location or similar capture in market demand.

With the exception of the Marriott City Center constructed in 1999, the additions in supply have resulted from renovations and affiliation changes of existing properties, such as the Red Lion Hotel and the Benson Hotel.

Demand during the period shown in the trend report has largely been positive. Demand declined most noticeably during the Asian economic downturn in 1997 and 1998 and following the economic downturn in 2001. Demand has rebounded steadily since that time. In the year-to-date period through April 2007, demand remained flat, compared to the previous period in 2006. Market-wide occupancy recently achieved the low-70% range. Year-to-date occupancy levels are in the mid-60.0% level, which is typically for the first half of the year. The higher summer occupancy levels and strong business demand in the autumn months usually results in higher year-end occupancy. Year-to-date demand in 2007 is relatively level compared to the same period in 2006. Based on our discussions with area operators, the year-end occupancy for 2007 is expected to be modestly higher than the occupancy level in 2006. The decline in occupancy compared to previous years is attributed to the notable average rate gains the market experienced in recent periods.

After 1998, average rate declined due to the effects of the economic recession and the events of September 11, 2001, which hindered average rate growth through 2004. In 2005, average rate recorded a healthy increase, indicative of the beginning of the economic recovery. In 2006, average rate rebounded by 7.5%. This increase in average rate is an indication of the recovery of the regional economy and hoteliers' decreasing reliance on low-rated booking channels as a result of higher-rated commercial negotiated room nights. Average rates in the year-to-date period through April 2007 recorded an increase of 6.2% versus the same period in 2006. In line with the improvement in average rate, marketwide RevPAR increased a phenomenal 13.6% in 2005 and 6.7% in 2006. Note that the RevPAR increase of 5.3% in the year-to-date period through April 2007 is a result of further increases in market average rates, an indication of the health of the market.

The following chart sets forth the second group of hotels trended by STR for HVS International.

Table 4-3 Historical Supply and Demand Trends (STR) - Secondary Competitors

Year	Occupied Room Nights	Change	Available Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
1996	501,943	—	654,570	—	76.7 %	$98.57	—	$75.59	—
1997	499,428	(0.5) %	681,090	4.1 %	73.3	107.05	8.6 %	78.50	3.9 %
1998	473,472	(5.2)	681,090	0.0	69.5	112.32	4.9	78.08	(0.5)
1999	496,041	4.8	753,385	10.6	65.8	113.89	1.4	74.99	(4.0)
2000	551,161	11.1	871,255	15.6	63.3	110.14	(3.3)	69.68	(7.1)
2001	568,431	3.1	947,653	8.8	60.0	107.26	(2.6)	64.34	(7.7)
2002	616,073	8.4	1,001,560	5.7	61.5	101.07	(5.8)	62.17	(3.4)
2003	630,503	2.3	984,012	(1.8)	64.1	100.68	(0.4)	64.51	3.8
2004	676,383	7.3	978,990	(0.5)	69.1	103.03	2.3	71.18	10.3
2005	744,886	10.1	1,000,830	2.2	74.4	110.39	7.1	82.16	15.4
2006	768,775	3.2	1,000,830	0.0	76.8	120.02	8.7	92.20	12.2
Average Annual Comp. Change, 1996-2006:		4.4 %		4.3 %			2.0 %		2.0 %
Year-to-Date Through April									
2006	233,047	—	329,040	—	70.8 %	$109.99	—	$77.90	—
2007	235,508	1.1 %	329,040	0.0 %	71.6	119.60	8.7 %	85.60	9.9 %

Source: Smith Travel Research

Table 4-4 Secondary Competitive Hotels Included in Smith Travel *Trend* Report

Name	Location	Rooms	Aff Date	Open Date
Inn @ The Convention Center	Portland, OR	97	Aug 2002	Jun 1968
Holiday Inn Portland Downtown	Portland, OR	239	Jul 2003	Jan 1980
Four Points Portland Downtown	Portland, OR	140	Jul 1999	Jun 1952
Governor Hotel	Portland, OR	100	Aug 1997	Jun 1909
La Quinta Inns Portland Convention Center	Portland, OR	79	Jan 2002	Jun 1965
Hotel Lucia	Portland, OR	127	Aug 2000	Jun 1908
Hotel de Luxe	Portland, OR	130	Jun 1912	Jun 1912
Riverplace A Larkspur Hotel	Portland, OR	84	Nov 1985	Nov 1985
Heathman Hotel @ Salmon	Portland, OR	150	Oct 2004	Jun 1927
Mark Spencer Hotel	Portland, OR	102	Jun 1907	Jun 1907
Jupiter Hotel	Portland, OR	80	Oct 2004	Jun 1963
Hotel Vintage Plaza	Portland, OR	107	1996	1996
Residence Inn Portland Downtown Lloyd Center	Portland, OR	168	Dec 1990	Dec 1990
Hotel Monaco Portland	Portland, OR	221	May 1996	May 1996
Coast Hotels The Paramount Hotel	Portland, OR	154	Mar 2003	Jan 2000
Courtyard Portland Lloyd Center Downtown	Portland, OR	202	May 1999	May 1999
Westin Portland	Portland, OR	205	Aug 1999	Aug 1999
Avalon Hotel & Spa	Portland, OR	99	Jun 2001	Jun 2001
Residence Inn Portland Downtown Riverplace	Portland, OR	258	Jun 2001	Jun 2001

In Table 5-3, the STR data display a similar trend in demand. Demand increased from 1999 to 2006 at healthy rates. In similar fashion with the primary STR data set, market occupancy declined in 2001 as a result of a weakened economy, but experienced occupancy gains through 2006. In the year-to-date period through 2007, occupancy has increased almost a full percentage point.

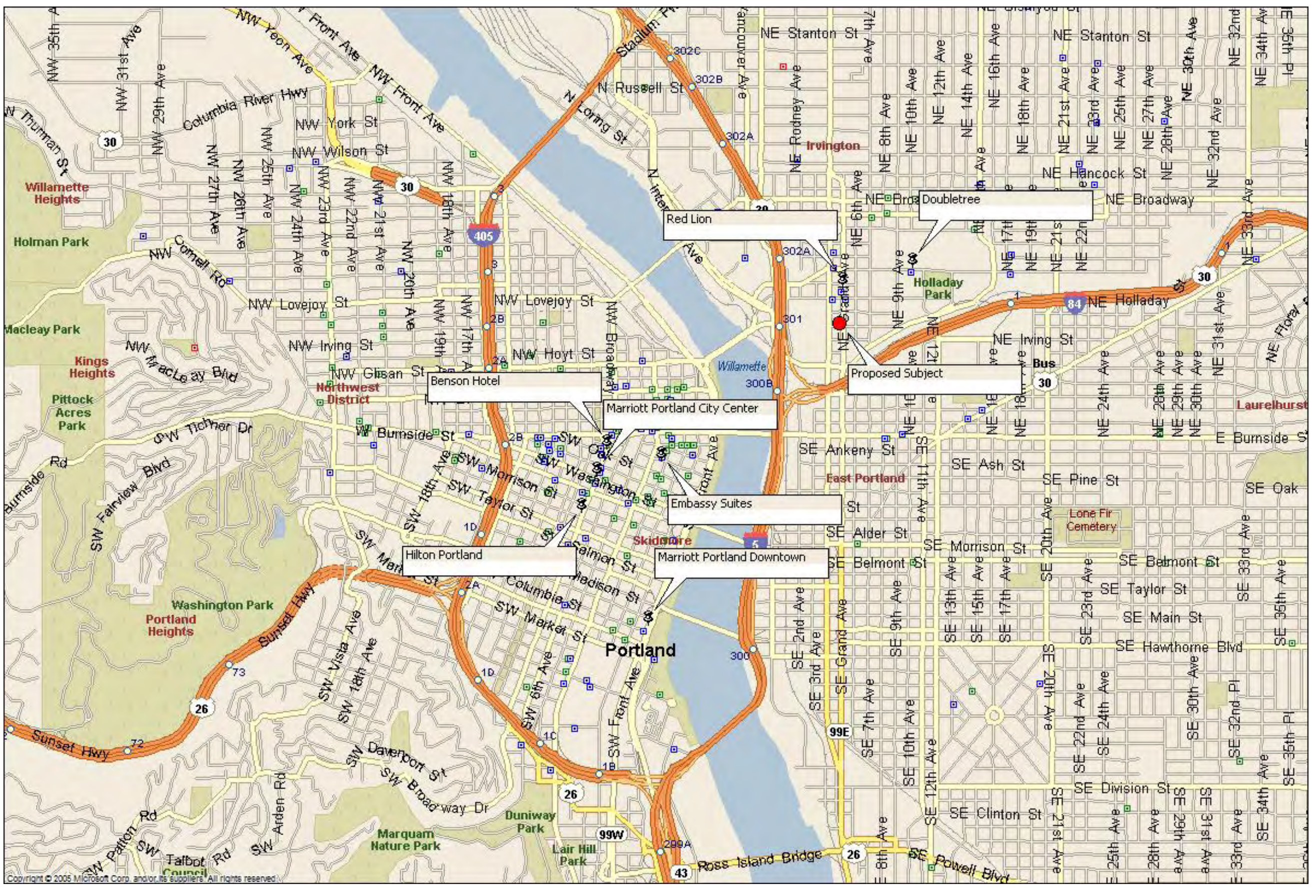
The secondary STR data reveal a similar decrease in average rates compared to the primary set from 2000 to 2003. However, average rates rebounded as early as 2004, continuing through 2006. In the year-to-date period through April 2007, market average rates increased 8.7% compared to the same period in 2006. Note that due to the strong occupancy and average rate gains beginning in 2004, RevPAR marked double-digit growth rates through three straight years. Due to the strong health of the Portland market area, RevPAR has risen almost 10.0% in the year-to-date period through April 2007 versus the 2006 period.

SUPPLY

An integral component of the supply and demand relationship that has a direct impact on the availability of lodging demand is the current and anticipated supply of competitive lodging facilities. For the purposes of this analysis, the hotel inventory in Portland has been categorized into two sets:

primary competitors and secondary competitors. The subject property's primary competitive set includes the large properties in the downtown Portland and Lloyd Center submarkets.

Competitor Map



Primary Competitors

The following tables summarize the important operating characteristics of the primary and secondary competitors. This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data.

Table 4-5 Primary Competitors and Aggregate Secondary Competitors

		Est. Segmentation				Estimated 2004				Estimated 2005				Estimated 2006					
Property	Number of Rooms	Commercial	Meeting and Group	Leisure	Contract	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Marriott Portland Downtown Waterfront	502					502				502				502					
Red Lion Hotel Portland Convention Center	174					174				174				174					
Doubletree Portland Lloyd Center	476					476				476				476					
Hilton Portland & Executive Towers	782					782				782				782					
Benson Hotel	287					287				287				287					
Embassy Suites Downtown	276					276				276				276					
Marriott Portland City Center	249					249				249				249					
Sub-Totals/Averages	**2,746**	**35 %**	**40 %**	**18 %**	**6 %**	**2,746**	**67.5 %**	**$104.98**	**$70.90**	**2,746**	**71.7 %**	**$109.69**	**$78.67**	**2,746**	**72.3 %**	**$118.08**	**$85.34**	**98.5 %**	**97.2 %**
Secondary Competitors	2,494	52 %	21 %	26 %	0 %	1,247	70.2 %	$105.08	$73.80	1,247	74.3 %	$114.03	$84.67	1,247	75.8 %	$122.93	$93.13	103.3 %	106.1 %
Totals/Averages	**5,240**	**41 %**	**34 %**	**21 %**	**4 %**	**3,993**	**68.4 %**	**$105.01**	**$71.80**	**3,993**	**72.5 %**	**$111.08**	**$80.54**	**3,993**	**73.4 %**	**$119.64**	**$87.77**	**100.0 %**	**100.0 %**

Table 4-6 Primary Competitors – Facilities and Amenities

Property	Number of Rooms	Year Opened	Last/Upcoming Renovation	Distance To Subject	Facilities and Amenities: Restaurant	Lounge	Room Service	Health Club	Business Center	Prefunction Space	Meeting Space	Total Prefunction and Meeting Space (SF)	Total Prefunction and Meeting Space per Room	Exhibit Hall	Ownership Entity	Management Company
Marriott Portland Downtown Waterfront 1401 S.W. Naito Parkway	502	1980	2007	1.2 miles	2	1	Y	Y	Y	1,300	20,450	21,750	43.3	15,500	Host Marriott International	Marriott Hotels
Red Lion Hotel Portland Convention Center 1021 N.E. Grand Avenue	174	1962	2007	5 blocks	2	1	Y	Y	Y	None	5,900	5,900	33.9	None	Gaha, LLC	Wright Hotels, Inc.
Doubletree Portland Lloyd Center 1000 N.E. Multnomah Street	476	1964	2007/08	0.3 miles	2	1	Y	Y	Y	1,000	38,500	39,500	83.0	17,000	Boykin Lodging Company/ Braveheart Holdings LP	Hilton Hotels
Hilton Portland & Executive Towers 921 S.W. Sixth Avenue	782	1963	2007/08	1.1 miles	2	1	Y	Y	Y	5,000	66,000	71,000	90.8	None	The Blackstone Group	Hilton Hotels
Benson Hotel 309 S.W. Broadway Avenue	287	1913	2006/07	1.0 mile	2	1	Y	Y	Y	1,000	13,500	14,500	50.5	None	Benson Hotel Limited Partnership	Paramount Hotels & Resorts
Embassy Suites Downtown 319 S.W. Pine Street	276	1997	2006	1.0 mile	1	1	Y	Y	Y	2,078	11,758	13,836	50.1	None	The Blackstone Group	Hilton Hotels
Marriott Portland City Center 520 S.W. Broadway	249	1999	2005	1.0 mile	1	1	Y	Y	Y	800	5,253	6,053	24.3	None	Sunstone Hotels	Sunstone Hotels
Totals/Averages	2,746											172,539	62.8			

Our survey of the primary competitive hotels in the greater Portland lodging market shows a representation of nationally recognized chains. The primary competitors range in size from 174 to 782 rooms. Overall, the primary competitors accommodated approximately 40% meeting and group demand, 35% commercial demand, 18% leisure demand, and 6% contract demand in 2006. The secondary competitors accommodated less meeting and group demand and more commercial demand than the primary competitors, due to majority of the properties' location in downtown.

Each of the properties displayed in the preceding chart include internal meeting and function space, accommodating meeting and group business as a primary segment. Currently, these properties accommodate convention center group blocks and according to discussions with lodging operators, approximately 20% of their group business is convention center affiliated and roundly 25% is internal group related business. Note that the respective properties have historically recorded lower average rates than the secondary competitors, due to their high group base business. Additionally, properties located in the Lloyd District generally achieve lower overall rates than the downtown properties.

In 2006, the primary competitive set achieved an overall occupancy of 72.3% at an average rate of $118.08, yielding RevPAR of $85.34.

Secondary Competitors

The secondary competitors were deemed less competitive due to differences in location, amenities, facilities, rate structure, or market orientation. The majority of these hotels are located downtown. Considering these factors, we have assigned the secondary competitive set a percentage of 50% competitiveness that expresses the extent to which it competes with the subject property.

The secondary competitors have modest meeting space and generally cater to individual transient demand. According to local lodging operators, meeting and group business is considered one of the lowest demand segments captured. The room count of each of the secondary competitors, as weighted, as well as other pertinent data, is included in the following chart.

Table 4-7 Secondary Competitors

		Est. Segmentation			Estimated 2004				Estimated 2005				Estimated 2006					
Property	Number of Rooms	Commercial	Meeting and Group	Leisure	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Inn at the Convention Center	97				97				97				97					
Holiday Inn Portland	239				239				239				239					
Four Points Portland	140				140				140				140					
Governor Hotel	100				100				100				100					
La Quinta Inn Portland Convention Center	79				79				79				79					
Hotel Lucia	127				127				127				127					
Hotel de Luxe	130				130				130				130					
Riverplace Hotel	84				84				84				84					
Heathman Hotel	150				150				150				150					
Mark Spencer Hotel	102				102				102				102					
Jupiter Hotel	80				80				80				80					
Hotel Vintage Plaza	107				107				107				107					
Residence Inn Portland Downtown Lloyd Center	168				168				168				168					
Hotel Monaco	221				221				221				221					
The Paramount Hotel	154				154				154				154					
Courtyard Portland Lloyd Center	202				202				202				202					
Westin Hotel	205				205				205				205					
Avalon Hotel & Spa	99				99				99				99					
Residence inn Portland Downtown Riverplace	258				258				258				258					
Totals/Averages	**2,494**	**52 %**	**21 %**	**26 %**	**2,494**	**70.2 %**	**$105.08**	**$73.80**	**2,494**	**74.3 %**	**$114.03**	**$84.67**	**2,494**	**75.8 %**	**$122.93**	**$93.13**	**100.0 %**	**100.0 %**

As previously mentioned, the secondary competitors accommodated more commercial demand than meeting and group demand, due to the majority of their respective locations in downtown, boutique orientation, and limited size of meeting and function space at each property. In 2006, the secondary competitive set achieved an overall occupancy of 75.8% at an average rate of $122.93, yielding RevPAR of $93.13.

Supply Changes

It is important to consider any proposed hotels that may have an impact on the subject property's operating performance in the future.

Based on our fieldwork in the market and our discussions with local hotel operators, developers, and government officials, we have identified three properties that are proposed or currently undergoing construction in Portland: the proposed subject, a Starwood Luxury Collection hotel, and a Marriott property. The following table shows these current and potential changes in supply for the lodging market.

Table 4-8 Primary Competitors

Proposed Property	Number of Rooms	Total Competitive Level	Estimated Opening Date	Development Stage
Proposed Portland Convention Center Hotel	600	100 %	January 1, 2011	Approved
The Nines	400	100	August 1, 2008	Under Construction
Proposed Courtyard by Marriott	258	50	June 1, 2009	Approved
Totals/Averages	**1,258**			

The Nines, Starwood's Luxury Collection property, is currently undergoing construction and is tentatively scheduled to open in August 2008. Due to the luxurious level of the property, Starwood brand, and meeting and group demand capture, we expect this property to compete with the subject property. The Nines, is expected to operate at the highest rate level of the market and is anticipated to attract high rated corporate and social events and commercial travelers.

Additionally, a proposed **Courtyard by Marriott Hotel** is scheduled to contain 258 guestrooms and is expected to be completed and open by June 2009. Due

to the property's location and expected commercial demand capture, we have weighted this property as 50% competitive with the subject.
While we have taken reasonable steps to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect in the market will be.

While other new hotels have been proposed for the Portland market, based on our fieldwork, concrete development plans have not been made public. However, future improvement in market conditions will raise the risk of increased competition. The forecast of stabilized occupancy and average rate are intended to reflect such risk.

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2006 distribution of accommodated room night demand for the primary and weighted secondary supply as follows.

Table 4-9 Accommodated Room Night Demand

	Marketwide	
Market Segment	Accommodated Demand	Percentage of Total
Commercial	436,907	41 %
Meeting and Group	367,045	34
Leisure	224,033	21
Contract	41,206	4
Total	**1,069,191**	**100 %**

The market-wide distribution of demand indicates that the commercial demand accounted for 41% of marketwide demand in the subject market, driven by major retail manufacturers such as Nike and Adidas. In addition, various banking and technology firms, such as Hewlett-Packard, Intel, and Citibank, are also increasing their demand for room nights in the area. Marketwide, meeting and group segment constituted roughly 34% of market-wide demand in 2006, due to the density of the convention center activity in the area. Leisure business accounted for 21% of accommodated room nights. Lastly, contract demand accounted for the remaining 4% of accommodated room nights. Due to the proposed subject's large complement of meeting space and its location proximate to the Oregon Convention Center, the subject property is expected to capture more meeting and group demand than the market as a whole when open.

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment to determine future trends in room night demand.

Commercial Segment

The commercial segment consists primarily of individual travelers who are visiting various firms in the subject property's market. This segment also consists of government demand. This demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday. The typical length of stay for commercial guests ranges from one to three days, and the rate of double occupancy is a low 1.2 to 1.3 people per room. Commercial travel is relatively constant throughout the year, although some declines are noticeable in late December and during other holiday periods. Corporate travel in the downtown market is generated by a variety of corporations and several with sizeable operations in the Portland area. Commercial travel includes corporations such as Intel, IBM, Oracle, Nike, Adidas, Nordstrom, Deloitte & Touche, Boston Consulting Group, PricewaterhouseCoopers, KPMG, Daimler Chrysler, Toyota, Qwest, and Citibank.

As noted previously, Smith Travel Research data through year-to-date April 2007 indicate that Portland's hotel market is rebounding strongly. This growth bodes well for area hotels and the local economy. Area operators report that weekday nights are often sold out. While there have been periods of demand where occupancy levels have exceeded the mid-70s% currently experienced by Portland, we have assumed that the market has reached its relatively peak occupancy levels and have therefore forecast commercial demand for the market to grow modestly through the projection period.

Meeting and Group Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings with negotiated rates for at multiple rooms. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERF (social, military, educational, religious, and fraternal) groups.

Meeting and group demand in the market is closely tied to activities at the Oregon Convention Center, as discussed in a previous section of this report. Additionally, most in-house meetings have either a direct or indirect business purpose, thus the economic considerations that have an impact on commercial travel also affect meeting and group demand. The exceptions to this are non-commercial meetings, which are tied to the economic factors that influence leisure travel. It should be noted that growth in this segment tends to lag slightly behind increases in commercial demand. Based on the significant increase in events at the convention center in 2006 relative to 2005, and based on our knowledge of and experience in the lodging market, we have assumed that the market has reached its highest occupancy levels and have therefore forecast meeting and group demand for the market to grow modestly through the duration of the projection period.

Leisure Segment

Leisure travelers include individuals and families who are spending time in the area or passing through en route to other destinations. Their travel purposes may include sightseeing, recreation, visiting friends and relatives, or numerous other non-business activities. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. A number of dining, shopping, and entertainment attractions in the subject property’s market area, including the celebrated Lloyd Center shopping mall, contribute to leisure demand. Based largely on the same factors that influence commercial demand, we have forecast leisure demand for the market to grow at modest rates through the projection period.

Contract Segment

Contract demand specifically includes airline demand, which is generated by flight crews and delayed passengers. This type of demand is advantageous because it provides a base level of occupancy over a long period that normally includes weekends and slow seasons. The occupancy benefit is offset by low contract room rates, which have an adverse impact on average rate. According to discussions with area managers, the Marriott Portland Downtown, the Hilton Portland and Executive Towers, the Benson Hotel, and the Embassy Suites accommodate airline crew room nights. Considering historical trends, we have forecast contract demand to grow slightly through the projection period.

Seasonality

The following tables detail the daily and annual occupancy and average rate trends of the subject property's market.

Table 4-10 Historical Daily Occupancy Trends (STR)

	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
May - 06	46.5 %	58.0 %	75.4 %	76.2 %	73.7 %	66.0 %	67.8 %	66.6 %
Jun - 06	54.7	76.6	85.6	91.8	82.5	82.5	79.6	79.4
Jul - 06	74.3	80.2	75.4	81.3	80.1	87.0	92.0	82.2
Aug - 06	68.6	85.4	85.6	91.9	90.7	90.7	92.1	87.5
Sep - 06	62.9	70.1	75.4	86.6	89.9	84.9	89.3	81.1
Oct - 06	63.7	74.4	85.6	91.3	90.0	90.0	89.3	82.2
Nov - 06	39.2	56.6	75.4	75.6	76.6	80.5	73.8	67.6
Dec - 06	42.6	53.2	85.6	55.1	56.2	56.2	58.6	52.7
Jan - 07	38.4	50.0	75.4	64.0	53.9	43.2	51.8	52.3
Feb - 07	45.1	64.5	85.6	79.9	69.7	69.7	66.1	68.5
Mar - 07	51.6	76.9	75.4	87.6	77.8	73.3	77.9	76.1
Apr - 07	40.2	63.7	85.6	87.2	70.0	70.0	63.0	68.5
Total Year	**52.5 %**	**67.3 %**	**77.7 %**	**80.4 %**	**76.7 %**	**74.5 %**	**75.4 %**	**72.1 %**

Source: Smith Travel Research

Table 4-11 Historical Daily Average Rate Trends (STR)

	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
May - 06	$105.81	$115.68	$120.81	$122.03	$116.55	$104.53	$103.88	$114.05
Jun - 06	115.18	123.08	124.57	125.49	118.08	112.33	111.76	118.69
Jul - 06	119.45	129.28	130.65	128.90	126.30	118.26	118.68	124.18
Aug - 06	118.78	125.78	130.89	133.25	127.05	120.09	118.18	125.63
Sep - 06	115.66	130.05	131.27	132.05	127.69	115.84	117.85	123.95
Oct - 06	124.69	127.75	131.40	132.16	129.13	121.81	121.48	127.07
Nov - 06	109.99	121.90	127.98	127.24	122.24	111.44	108.90	119.28
Dec - 06	110.70	119.49	121.96	118.72	110.22	104.61	104.58	112.28
Jan - 07	110.28	117.91	123.10	124.96	119.81	104.49	103.72	116.55
Feb - 07	112.15	122.02	125.22	123.86	119.72	108.49	109.61	117.87
Mar - 07	113.48	120.42	123.48	123.79	117.77	109.84	108.81	116.77
Apr - 07	112.04	124.58	129.15	129.79	125.37	112.04	108.43	121.42
Total Year	**$115.16**	**$123.65**	**$126.99**	**$127.27**	**$122.27**	**$112.81**	**$112.38**	**$120.37**

Source: Smith Travel Research

Daily occupancy and average rate data complied by Smith Travel Research indicate that the subject market is influenced by some degree of seasonality.

Demand and occupancy levels peak in the spring and summer months, and are at a low point in the months of November, December, and January. Average rate is moderately influenced by these occupancy patterns. On a weekly basis, demand is strongest on weeknights, peaking on Tuesday and Wednesday; demand levels on Thursday and Friday nights are also strong, although typically below the midweek levels. Occupancy levels are generally lower on weekends, with some strength on Saturday nights. Average rates follow a similar pattern.

Latent Demand

Table 4-13 illustrates the accommodated room night demand in the subject property's competitive market. Because this estimate is based on historical occupancy levels, it includes only those hotel rooms that were used by guests. Latent demand reflects potential room night demand that has not been realized by the existing competitive supply, and can be divided into unaccommodated demand and induced demand.

Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all of the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it was not included in the estimate of historical accommodated room night demand

The following chart delineates our forecast of unaccommodated demand.

Table 4-12 Unaccommodated Demand Estimate – Base Year

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Commercial	436,907	2 %	9,536
Meeting and Group	367,045	0	0
Leisure	224,033	4	9,743
Total	**1,069,191**	**2 %**	**19,279**

According to local hotel operators, during the summer and fall months of high demand, hotels are reportedly sold-out Monday through Thursday, due to the lack of rooms supply in the immediate area. With the expected supply of three new hotels entering the marketplace over the next few years, we assume that demand will no longer be forced out of the market.

Induced Demand

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities. A detailed discussion of induced demand for the proposed subject is included the appendix of the addenda.

Forecast of Marketwide Occupancy

Based upon a review of the market dynamics in the proposed subject property's competitive environment, we have forecast growth rates for each market segment. We have also analyzed the existence of unaccommodated demand in the market, as well as the potential for demand to be induced in the future. In the following table, total demand is then divided by the forecast of market supply, rendering an overall estimate of areawide occupancy. Thus, the forecast of marketwide occupancy is calculated as follows:

Table 4-13 Forecast of Market Occupancy

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Commercial											
Base Demand	436,907	445,645	454,558	463,649	472,922	482,381	492,028	501,869	511,906	522,144	532,587
Induced Demand		0	1,521	3,971	4,205	4,205	4,205	4,205	4,205	4,205	4,205
Total Demand		455,372	466,000	477,740	487,449	497,114	506,972	517,028	527,284	537,746	548,416
Growth Rate		4.2 %	2.3 %	2.5 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Meeting and Group											
Base Demand	367,045	370,715	374,422	378,167	381,948	385,768	389,625	393,522	397,457	401,431	405,446
Induced Demand		0	7,604	19,856	21,024	74,676	97,435	108,618	108,618	108,618	108,618
Total Demand		370,715	382,026	398,023	402,972	460,444	487,061	502,140	506,075	510,049	514,064
Growth Rate		1.0 %	3.1 %	4.2 %	1.2 %	14.3 %	5.8 %	3.1 %	0.8 %	0.8 %	0.8 %
Leisure											
Base Demand	224,033	228,513	233,084	237,745	242,500	247,350	252,297	257,343	262,490	267,740	273,095
Induced Demand		0	760	1,986	2,102	4,073	4,303	4,402	4,402	4,402	4,402
Total Demand		238,451	243,981	250,070	255,149	262,181	267,573	272,937	278,307	283,785	289,373
Growth Rate		6.4 %	2.3 %	2.5 %	2.0 %	2.8 %	2.1 %	2.0 %	2.0 %	2.0 %	2.0 %
Contract											
Base Demand	41,206	41,618	42,035	42,455	42,879	43,308	43,741	44,179	44,621	45,067	45,517
Total Demand		41,618	42,035	42,455	42,879	43,308	43,741	44,179	44,621	45,067	45,517
Growth Rate		1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %
Totals											
Base Demand	1,069,191	1,086,492	1,104,099	1,122,016	1,140,250	1,158,807	1,177,692	1,196,912	1,216,474	1,236,382	1,256,645
Induced Demand		0	9,885	25,813	27,331	82,954	105,944	117,225	117,225	117,225	117,225
Total Demand		1,106,157	1,134,041	1,168,288	1,188,449	1,263,047	1,305,347	1,336,283	1,356,287	1,376,647	1,397,371
less: Residual Demand		21,225	22,289	14,389	13,478	0	0	0	0	0	0
Total Accommodated Demand		1,084,931	1,111,753	1,153,899	1,174,972	1,263,047	1,305,347	1,336,283	1,356,287	1,376,647	1,397,371
Overall Demand Growth		1.5 %	2.5 %	3.8 %	1.8 %	7.5 %	3.3 %	2.4 %	1.5 %	1.5 %	1.5 %
Market Mix											
Commercial	40.9 %	41.2 %	41.1 %	40.9 %	41.0 %	39.4 %	38.8 %	38.7 %	38.9 %	39.1 %	39.2 %
Meeting and Group	34.3	33.5	33.7	34.1	33.9	36.5	37.3	37.6	37.3	37.1	36.8
Leisure	21.0	21.6	21.5	21.4	21.5	20.8	20.5	20.4	20.5	20.6	20.7
Contract	3.9	3.8	3.7	3.6	3.6	3.4	3.4	3.3	3.3	3.3	3.3
Existing Hotel Supply	3,993	3,993	3,994	3,993	3,993	3,993	3,993	3,993	3,993	3,993	3,993
Proposed Hotels											
Proposed Portland Convention Center Hotel [1]						600	600	600	600	600	600
The Nines [2]			167	400	400	400	400	400	400	400	400
Proposed Courtyard by Marriott [3]				76	129	129	129	129	129	129	129
Available Rooms per Night	1,457,445	1,457,445	1,518,645	1,631,051	1,650,530	1,869,530	1,869,530	1,869,530	1,869,530	1,869,530	1,869,530
Nights per Year	365	365	365	365	365	365	365	365	365	365	365
Total Supply	3,993	3,993	4,161	4,469	4,522	5,122	5,122	5,122	5,122	5,122	5,122
Rooms Supply Growth	—	0.0 %	4.2 %	7.4 %	1.2 %	13.3 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	**73.4 %**	**74.4 %**	**73.2 %**	**70.7 %**	**71.2 %**	**67.6 %**	**69.8 %**	**71.5 %**	**72.5 %**	**73.6 %**	**74.7 %**

[1] Opening in January 2011 of the 100% competitive, 600-room Proposed Portland Convention Center Hotel

[2] Opening in August 2008 of the 100% competitive, 400-room The Nines

[3] Opening in June 2009 of the 50% competitive, 258-room Proposed Courtyard by Marriott

As illustrated in the preceding table, market-wide occupancy is forecast to moderate throughout the projection period, due to increases in average rate growth and the opening of The Nines, Courtyard by Marriott, and the subject property. However, due to the market's historical strength of quickly absorbing new rooms supply, strong demand base, and the potential for growth in the meeting and group segment, the market is expected to rebound to the current level over the projected term.

5. Projection of Occupancy

Along with average rate results, the occupancy levels achieved by a hotel are the foundation of the property's financial performance. Most of a lodging facility's other revenue sources (such as food, beverages, and telephone income) are driven by the number of guests, and many expense levels also vary with occupancy. To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a typical, professional hotel management team to achieve an optimal mix of occupancy and average rate.

Penetration Rate Analysis

The proposed subject property's forecasted market share and occupancy levels are based upon its anticipated competitive position within the market, as quantified by its penetration rate. The penetration rate is the ratio of a property's market share to its fair share. A complete discussion of the concept of penetration is presented in the addenda.

Historical Penetration Rates by Market Segment

In the following table, the penetration rates attained by the competitors are set forth for each segment for the base year, 2006.

Table 5-1 Historical Penetration Rates

Property	Commercial	Meeting and Group	Leisure	Contract
Marriott Portland Downtown Waterfront	88 %	134 %	73 %	133 %
Red Lion Hotel Portland Convention Center	60	129	141	0
Doubletree Portland Lloyd Center	47	169	92	0
Hilton Portland & Executive Towers	77	105	64	233
Benson Hotel	83	99	92	251
Embassy Suites Downtown	120	95	78	283
Marriott Portland City Center	164	49	133	0
Secondary Competition	132	64	130	0

The Doubletree Portland Lloyd Center achieved the highest meeting and group penetration at 169%, due to its location proximate to the convention center and large amount of internal meeting space. Additionally, the Doubletree Lloyd Center currently boasts the largest room count in the Lloyd District, including their high-quality Executive Meeting Center (EMC). The Marriott Portland City Center achieved the highest commercial penetration at 164%, benefits from its affiliation with Marriott, well-maintained and full-service product, and location in downtown Portland, and is considered the newest product in the competitive set. Additionally, the Marriott City Center contains only ±6,053 square feet of prefunction and meeting space; thus, it accommodates mostly commercial and leisure transient guests. Note that market hotel operators have reported that weekday business from Monday through Thursday is generally sold out from commercial travelers and weekends are filled with leisure travelers and tourists.

The Red Lion Portland Convention Center recorded the highest leisure segment and second-lowest commercial segment, due to its location outside of the downtown area. As previously discussed in a prior section of the report, the Marriott Portland Downtown, Hilton Portland, Benson Hotel, and Embassy Suites recorded contract room nights.

Forecast of Subject Property's Occupancy

Because the supply and demand balance for the competitive market is dynamic, particularly in relation to proposed new hotel supply entering the competitive market, there is a circular relationship between the penetration factors of each hotel in the market. The performance of individual new hotels has a direct effect upon the aggregate performance of the market, and consequently upon the calculated penetration factor for each hotel in each market segment. The same is true when the performance of existing hotels changes, either positively (following a refurbishment, for example) or negatively (when a poorly maintained or marketed hotel loses market share).

A hotel's penetration factor is calculated as its achieved market share of demand divided by its fair share of demand. Thus, if one hotel's penetration performance increases, thereby increasing its achieved market share, this leaves less demand available in the market for the other hotels to capture and the penetration performance of one or more of those other hotels consequently declines (other things remaining equal). This type of market share adjustment takes place every time there is a change in supply, or a change in the relative penetration performance of one or more hotels in the competitive market.

Our projections of penetration, demand capture and occupancy performance for the subject property account for these types of adjustments to market share within the defined competitive market. Consequently, the actual penetration factors applicable to the subject property and its competitors for each market segment in each projection year may vary somewhat from the penetration factors delineated in the previous tables. A complete description of this process is presented in the addenda to this report.

As previously discussed, market-wide occupancy levels have remained relatively strong—many of the competitive properties in the downtown area are reportedly sold out during the week with commercial demand. However, due to the proposed subject's location in the Lloyd Center district, several miles east of downtown, and without the surrounding amenities and restaurants available in the downtown core, the subject property is expected to accommodate less commercial business. The majority of the businesses in the surrounding Lloyd District area include government and federal corporate agencies. Therefore, the proposed subject property's penetration of the commercial demand segment is forecast at below its fair share throughout the projection period.

Since the proposed property will be a headquarters convention center hotel and will include a significant amount of internal meeting and function space, the proposed subject's penetration of the meeting and group demand segment is forecast at above its fair share in 2011. As the property ramps up its operations and increased citywide group business is successfully booked, the subject's meeting and group penetration is forecast to increase through 2014.

The proposed subject property's penetration of the leisure demand segment is forecast below its fair share in 2011. Based on discussions with area development professionals and planning organizations, a number of projects are planned for Lloyd Center. The addition of new residences and commercial ventures would provide a more conducive environment for hotel development. The market study assumes that enough new projects are developed to enhance the amenities of the neighborhood for hotel guests. Thus the analysis assumes that as the Lloyd Center neighborhood is revitalized with the addition of high-end retail shops and restaurants, a higher volume of leisure transient business and tourists is expected to stay in the area. Therefore, leisure penetration for the proposed subject is forecast to increase through 2014.

Based on the preceding analysis, the following forecast of occupancy results. Dividing the total number of room nights captured by the subject property's annual number of available room nights (calculated as 600 x 365) produces the projected occupancy percentage.

Table 5-2 Forecast of Subject Property's Occupancy

Market Segment	2011	2012	2013	2014	2015	2016
Commercial						
Demand	497,114	506,972	517,028	527,284	537,746	548,416
Market Share	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %
Capture	29,704	30,293	30,894	31,507	32,132	32,770
Penetration	51 %	51 %	51 %	51 %	51 %	51 %
Meeting and Group						
Demand	460,444	487,061	502,140	506,075	510,049	514,064
Market Share	16.4 %	16.9 %	17.7 %	18.2 %	18.2 %	18.2 %
Capture	75,495	82,073	89,104	92,028	92,751	93,481
Penetration	140 %	144 %	151 %	155 %	155 %	155 %
Leisure						
Demand	262,181	267,573	272,937	278,307	283,785	289,373
Market Share	10.7 %	11.2 %	11.2 %	11.2 %	11.2 %	11.2 %
Capture	28,076	30,066	30,669	31,273	31,888	32,516
Penetration	91 %	96 %	96 %	96 %	96 %	96 %
Contract						
Demand	43,308	43,741	44,179	44,621	45,067	45,517
Total Room Nights Captured	**133,275**	**142,432**	**150,667**	**154,808**	**156,771**	**158,767**
Available Room Nights	218,999	219,000	219,000	219,000	219,000	219,000
Subject Occupancy	**61 %**	**65 %**	**69 %**	**71 %**	**72 %**	**72 %**
Marketwide Available Room Nights	1,869,530	1,869,530	1,869,530	1,869,530	1,869,530	1,869,530
Fair Share	**12 %**	**12 %**	**12 %**	**12 %**	**12 %**	**12 %**
Marketwide Occupied Room Nights	1,263,047	1,305,347	1,336,283	1,356,287	1,376,647	1,397,371
Market Share	**11 %**	**11 %**	**11 %**	**11 %**	**11 %**	**11 %**
Marketwide Occupancy	**68 %**	**70 %**	**71 %**	**73 %**	**74 %**	**75 %**
Total Penetration	**90 %**	**93 %**	**96 %**	**97 %**	**97 %**	**97 %**

The proposed subject property is projected to penetrate the market near its fair share throughout the projected term, beginning in 2011. However, the proposed subject property's total occupancy levels are projected to be slightly below that of the overall market, due in part to the fact that the downtown full-service, branded hotels are expected to continue to dominate the commercial and leisure segments.

We have chosen to use a stabilized occupancy of 71% for the proposed subject property. Overall occupancy for the proposed subject—and the competitive set as a whole—is constrained to a degree by the seasonality nature of the market. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given any and all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the proposed subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

6. Average Rate Analysis

One of the most important considerations of a lodging facility is a supportable forecast of its attainable average rate, which is more formally defined as the average rate per occupied room. Average rate can be calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which in turn provides the basis for estimating most other income and expense categories.

In 2006, the market achieved an average rate of $118.08. Based on our knowledge of and experience in the Portland lodging market, the proposed Westin Convention Center is anticipated to be positioned as a four-star, high-quality convention center hotel, offering state-of-the-art amenities and facilities. As such, the proposed subject is forecast to record an average rate slightly higher than the composite average rate estimated for the primary and weighted secondary set. It should be noted that we expect the downtown properties to generate a higher average room rate than the hotels located in the Lloyd Center area.

Market Segmentation Method

In the market segmentation method, average room rate is projected by individual market segment. This is the preferred method for forecasting average rate, based on the operational and marketing practices of hotel operators. Consistent with hotel management's tracking of historical average rates by market segment and their own budgeting methods, segmentation of demand and average rate allows for yield management resulting in the maximization of room revenue.

Based upon the segmented average room rates achieved by the competitive hotels, as well as our discussions with area general managers, we have estimated the average room rate that that the subject would have achieved in 2006, by segment, had the hotel been operational and stabilized at that time. Each market segment's average rate is projected through the stabilized year based upon the annual rate of change anticipated for that market segment's rate. For each forecast year, the segmented average rate is multiplied by the number of occupied rooms previously projected to be captured in that segment; this results in a forecast of total rooms revenue by market segment. The segmented rooms revenue is summed, resulting in the total rooms revenue. Dividing the total rooms revenue by the total number of occupied rooms results in the overall weighted average room rate.

In the past, the downtown Portland market area suffered from continual average rate declines, largely due to the significant increase in supply to the competitive market. However, year-to-date statistics through April 2007 from Smith Travel Research reflect a 6.2% increase in the market's average rate, indicating further upside in average rate growth for the market. Further, area managers reported that they have been able to increase their average rates within the past year due to significant increases in demand, which is also reflected in the 2005 and 2006 year-end STR data. Therefore, many area managers anticipate above inflationary rate growth over the next few years.

We have estimated the average room rate for each segment that the subject would have achieved in 2006, if it were operational and stabilized, and have expanded that forecast throughout the projected term.

In general, the Portland hotel market's recent average rate increases have been due to the healthy economy and diversified industry. The forecasted growth of average rate in the commercial segment throughout the projection period is attributable to the increased demand expected in the Lloyd Center area as more businesses move in and the neighborhood's overall condition improves. Average rate growth in the meeting and group segment is based on the market's historical operating performance as well as the strength of the convention center's schedule going forward. Average rate growth projections are also tied to Portland hotel operators' outlook on the hotel's penetration of the meeting and group segment. Average rate growth in the leisure segment has been forecast for reasons similar to those for average rates in the commercial segment.

The following table identifies the projected segmented average rates and the growth rates that have been applied to each rate through the stabilized year. As a context for the average rate growth factors, note that we have applied a base underlying inflation rate of 3.0% throughout our projection.

Table 6-1 Subject Property's Average Rate Forecast

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Commercial									
Average Rate Growth	—	6.0 %	5.0 %	4.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %
Captured Room Nights						29,704	30,293	30,894	31,507
Rooms Revenue						$4,741,990	$4,981,123	$5,232,317	$5,496,195
Average Rate	$130.00	$137.80	$144.69	$150.48	$154.99	$159.64	$164.43	$169.36	$174.44
Meeting and Group									
Average Rate Growth	—	8.0 %	6.0 %	5.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %
Captured Room Nights						75,495	82,073	89,104	92,028
Rooms Revenue						$11,552,911	$12,936,288	$14,465,872	$15,388,916
Average Rate	$120.00	$129.60	$137.38	$144.24	$148.57	$153.03	$157.62	$162.35	$167.22
Leisure									
Average Rate Growth	—	5.0 %	5.0 %	4.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %
Captured Room Nights						28,076	30,066	30,669	31,273
Rooms Revenue						$3,415,235	$3,767,084	$3,957,880	$4,156,834
Average Rate	$100.00	$105.00	$110.25	$114.66	$118.10	$121.64	$125.29	$129.05	$132.92
Total									
Average Rate Growth	—	7.0 %	5.6 %	4.6 %	3.0 %	2.9 %	2.9 %	3.1 %	3.0 %
Captured Room Nights						133,275	142,432	150,667	154,808
Rooms Revenue						$19,710,136	$21,684,496	$23,656,069	$25,041,945
Average Rate (Before Discount)	$118.00	$126.30	$133.38	$139.54	$143.72	$147.89	$152.24	$157.01	$161.76
Fiscalized Average Rate		$126.30	$133.38	$139.54	$143.72	$147.89	$152.24	$157.01	$161.76
Discount		0.0 %	0.0 %	0.0 %	0.0 %	8.0 %	6.0 %	3.0 %	0.0 %
Average Rate After Discount		126.30	133.38	139.54	143.72	136.06	143.11	152.30	161.76
Average Rate in Base Year Dollars		$122.62	$125.73	$127.70	$127.70	$117.37	$119.85	$123.83	$127.70

For the purposes of this analysis, we have used 2014 as the stabilized year for average rate. The stabilized average daily rate deflated to current dollars equates to $127.70, due to strong market dynamics. As indicated in the preceding table, the subject property's average rate was discounted during its first three years of operation (a practice that is common among new hotels attempting to increase market share). Compared to the proposed subject property's projected year-end 2006 result of $118.00, our forecast indicated real rate growth of $9.70 through the stabilized year. The proposed subject property's average rate and real rate growth projections are appropriate considering the hotel's anticipated high-quality improvements and competitive positioning

Similar to the analysis of the proposed subject's occupancy projections, the forecast of average rate represents calendar years beginning January 1, 2011. Based upon the preceding analysis, the following table sets forth our projected forecast of the proposed subject property's occupancy, average rate, and RevPAR.

Table 6-2 Forecast of Occupancy, Average Rate, and RevPAR

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount	RevPAR	Average Rate After Discount in 2006 Dollars
2011	61 %	$147.89	8 %	$136.06	$83.00	$117.37
2012	65	152.24	6	143.11	93.02	119.85
2013	69	157.01	3	152.30	105.09	123.83
2014	71	161.76	0	161.76	114.85	127.70

7. Forecast of Income and Expense

Methodology

A forecast of income and expense has been prepared for the subject property by analyzing the local market for transient accommodations, examining existing and proposed competition, and developing a forecast of income and expense that reflects current and anticipated income trends and cost components through a stabilized year of operation.

The forecast of income and expense is expressed in current dollars for each year. The stabilized year is intended to reflect the anticipated operating results of the property over its remaining economic life, given any or all applicable stages of build-up, plateau, and decline in the life cycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses.

Comparable Operating Statements

In order to gauge the subject's profitability, we have reviewed the following individual income and expense statements from comparable hotels, derived from HVS International’s database of hotel income and expense statements. These historical income and expense statements will be used as benchmarks in our forthcoming forecast of income and expense. Each of the operating comparables is a large, full-service, branded hotel. Additionally, each of the respective hotels is located in convention center markets. When forecasting many of the revenue and expense items, the performance of these hotels provided the primary benchmarks. It should be noted that each of the comparable hotels is located in areas of the northwestern and western United States.

Table 7-1 Comparable Operating Data—Percentage of Revenue

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6	Comp 7
Year:	**2005/06**	**2005/06**	**2005/06**	**2004/05**	**2004**	**2004**	**2004**
Number of Rooms:	**488**	**476**	**613**	**483**	**522**	**728**	**838**
Occupied Rooms:	**132,176**	**118,178**	**159,778**	**128,646**	**142,853**	**190,570**	**212,363**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**70%~75%**	**65%~70%**	**70%~75%**	**70%~75%**	**70%~75%**	**70%~75%**	**60%~65%**
Average Rate:	**$130~$135**	**$100~$105**	**$135~$140**	**$130~$135**	**$130~$135**	**$160~$165**	**$160~$165**
RevPAR:	**$95~$100**	**$65~$70**	**$95~$100**	**$95~$100**	**$95~$100**	**$115~$120**	**$110~$115**
REVENUE							
Rooms	57.9 %	55.2 %	64.3 %	56.1 %	60.1 %	49.9 %	61.9 %
Food & Beverage	31.7	38.9	33.6	38.4	34.2	39.3	30.5
Telephone	1.1	0.9	0.9	1.6	0.9	2.4	1.9
Other Income	9.3	4.9	1.1	4.0	4.7	8.5	5.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*							
Rooms	22.7	22.5	21.7	25.9	22.2	27.0	22.6
Food & Beverage	62.6	65.6	64.6	74.2	82.7	89.6	71.0
Telephone	45.4	35.3	162.3	77.8	107.8	51.4	52.8
Other Income	18.1	38.8	17.7	0.0	45.4	63.2	36.8
Total	35.2	40.2	37.3	44.2	44.8	55.2	38.7
DEPARTMENTAL INCOME	64.8	59.8	62.7	55.8	55.2	44.8	61.3
OPERATING EXPENSES							
Administrative & General	7.6	7.0	10.0	12.0	7.4	6.3	6.2
Marketing	7.4	7.6	8.1	5.5	7.3	6.3	5.1
Franchise Fee	0.0	6.4	0.0	4.1	0.0	0.0	0.0
Property Operations & Maintenance	3.7	4.4	4.1	3.9	4.5	3.8	3.4
Energy	3.5	3.4	3.3	3.9	4.0	5.7	3.3
Total	22.3	28.8	25.5	29.4	23.2	22.1	18.0
HOUSE PROFIT	42.5	31.0	37.2	26.4	32.0	22.7	43.3
Management Fee	3.0	3.0	3.0	0.0	4.0	1.9	3.0
INCOME BEFORE FIXED CHARGES	39.5	28.1	34.1	26.4	28.0	20.7	40.3

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

Table 7-2 Comparable Operating Data—Per Occupied Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6	Comp 7
Year:	**2005/06**	**2005/06**	**2005/06**	**2004/05**	**2004**	**2004**	**2004**
Number of Rooms:	**488**	**476**	**613**	**483**	**522**	**728**	**838**
Occupied Rooms:	**132,176**	**118,178**	**159,778**	**128,646**	**142,853**	**190570**	**212363**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**70%~75%**	**65%~70%**	**70%~75%**	**70%~75%**	**70%~75%**	**70%~75%**	**60%~65%**
Average Rate:	**$130~$135**	**$100~$105**	**$135~$140**	**$130~$135**	**$130~$135**	**$160~$165**	**$160~$165**
RevPAR:	**$95~$100**	**$65~$70**	**$95~$100**	**$95~$100**	**$95~$100**	**$115~$120**	**$110~$115**
REVENUE							
Rooms	$132.59	$100.89	$135.47	$133.56	$131.37	$166.36	$160.10
Food & Beverage	72.58	71.14	70.84	91.37	74.80	131.10	78.83
Telephone	2.63	1.70	1.83	3.72	2.07	7.87	4.86
Other Income	21.27	9.00	2.40	9.48	10.19	28.23	15.04
Total	229.07	182.73	210.54	238.13	218.42	333.55	258.83
DEPARTMENTAL EXPENSES							
Rooms	30.15	22.66	29.45	34.55	29.20	44.96	36.11
Food & Beverage	45.42	46.64	45.79	67.85	61.85	117.42	55.98
Telephone	1.20	0.60	2.97	2.89	2.23	4.05	2.57
Other Income	3.84	3.49	0.43	0.00	4.62	17.83	5.53
Total	80.61	73.40	78.63	105.29	97.90	184.25	100.19
DEPARTMENTAL INCOME	148.46	109.34	131.91	132.84	120.52	149.30	158.64
OPERATING EXPENSES							
Administrative & General	17.50	12.76	21.10	28.48	16.21	20.97	15.99
Marketing	17.05	13.87	17.09	13.21	15.95	20.94	13.29
Franchise Fee	0.00	11.72	0.00	9.76	0.00	0.00	0.00
Property Operations & Maintenance	8.44	8.00	8.62	9.27	9.86	12.68	8.81
Energy	8.03	6.20	6.90	9.22	8.65	19.15	8.52
Total	51.02	52.55	53.71	69.94	50.66	73.74	46.61
HOUSE PROFIT	97.45	56.79	78.20	62.89	69.86	75.56	112.03
Management Fee	6.87	5.48	6.32	0.00	8.74	6.4	7.8
INCOME BEFORE FIXED CHARGES	90.57	51.31	71.88	62.89	61.12	69.2	104.3

Table 7-3 Comparable Operating Data—Per Available Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6	Comp 7
Year:	**2005/06**	**2005/06**	**2005/06**	**2004/05**	**2004**	**2004**	**2004**
Number of Rooms:	**488**	**476**	**613**	**483**	**522**	**728**	**838**
Occupied Rooms:	**132,176**	**118,178**	**159,778**	**128,646**	**142,853**	**190,570**	**212,363**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**70%~75%**	**65%~70%**	**70%~75%**	**70%~75%**	**70%~75%**	**70%~75%**	**60%~65%**
Average Rate:	**$130~$135**	**$100~$105**	**$135~$140**	**$130~$135**	**$130~$135**	**$160~$165**	**$160~$165**
RevPAR:	**$95~$100**	**$65~$70**	**$95~$100**	**$95~$100**	**$95~$100**	**$115~$120**	**$110~$115**
REVENUE							
Rooms	$35,912	$25,048	$35,310	$35,573	$35,950	$43,548	$40,573
Food & Beverage	19,658	17,662	18,465	24,337	20,469	34,317	19,976
Telephone	713	422	476	990	567	2,059	1,232
Other Income	5,762	2,235	626	2,524	2,787	7,390	3,810
Total	62,045	45,368	54,878	63,424	59,774	87,315	65,591
DEPARTMENTAL EXPENSES							
Rooms	8,166	5,626	7,675	9,203	7,992	11,769	9,152
Food & Beverage	12,303	11,580	11,936	18,070	16,925	30,736	14,186
Telephone	324	149	773	770	611	1,059	650
Other Income	1,041	868	111	0	1,264	4,668	1,401
Total	21,834	18,223	20,496	28,043	26,793	48,232	25,389
DEPARTMENTAL INCOME	40,211	27,145	34,382	35,381	32,981	39,082	40,202
OPERATING EXPENSES							
Administrative & General	4,740	3,168	5,499	7,586	4,435	5,489	4,051
Marketing	4,619	3,443	4,454	3,520	4,364	5,481	3,368
Franchise Fee	0	2,910	0	2,600	0	0	0
Property Operations & Maintenance	2,285	1,985	2,248	2,468	2,697	3,320	2,233
Energy	2,174	1,540	1,799	2,455	2,368	5,014	2,160
Total	13,818	13,046	14,000	18,629	13,864	19,304	11,811
HOUSE PROFIT	26,393	14,099	20,382	16,752	19,117	19,778	28,391
Management Fee	1,861	1,361	1,646	0	2,391	1,667.6	1,967.7
INCOME BEFORE FIXED CHARGES	24,532	12,738	18,735	16,752	16,726	18,111.3	26,422.5

Typical of successful full-service hotels in convention-center-related markets, each of the comparable hotels exhibited healthy profit margins; house profit among the comparables ranging from 22.7% to 43.3% of total revenue. Total departmental expenses and undistributed operating expenses, as a percentage of total revenue, ranged from 35.2% to 55.2% and 18.0% to 29.4%, respectively. Rooms expense, as a percentage of departmental expense, ranged from 21.7% to 27.0%. As indicated, Comparable 7 recorded much higher food and beverage expenses due to a much higher volume of catering and banquet functions at the property, as well as labor costs associated with the food and beverage outlets.

An operating budget for the proposed subject property, as provided by Starwood Hotels & Resorts, is presented in the following table.

Table 7-4 Operating Budget – Starwood Hotels & Resorts – Westin

Westin Portland Conv. Center

Projected Statement of Operations

	OPENING 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of Rooms	600	600	600	600	600	600	600	600	600	600
Available Rooms	110,400	219,000	219,600	219,000	219,000	219,000	219,600	219,000	219,000	219,000
Occupied Rooms	66,240	142,350	155,916	155,490	155,490	155,490	155,916	155,490	155,490	155,490
Occupancy	**60.0%**	**65.0%**	**71.0%**	**71.0%**	**71.0%**	**71.0%**	**71.0%**	**71.0%**	**71.0%**	**71.0%**
ADR	**$ 133.00**	**$145.00**	**$149.00**	**$153.00**	**$158.00**	**$163.00**	**$168.00**	**$173.00**	**$178.00**	**$183.00**
RevPAR	**$ 79.80**	**$ 94.25**	**$ 105.79**	**$ 108.63**	**$ 112.18**	**$ 115.73**	**$ 119.28**	**$ 122.83**	**$ 126.38**	**$ 129.93**
Revenues:										
Rooms	8,810	20,641	23,231	23,790	24,567	25,345	26,194	26,900	27,677	28,455
Banquets & Catering - Food	3,986	9,314	11,061	11,361	11,702	12,053	12,449	12,787	13,171	13,566
Banquets & Catering - Beverage	359	838	995	1,023	1,053	1,085	1,120	1,151	1,185	1,221
All Other F&B - Food	641	1,497	1,778	1,826	1,881	1,937	2,001	2,055	2,117	2,180
All Other F&B - Beverage	256	599	711	730	752	775	800	822	847	872
Total Food & Beverage	5,242	12,248	14,545	14,940	15,388	15,850	16,370	16,815	17,320	17,839
Telecommunications	295	654	738	758	780	804	830	853	878	905
Total Other Operated Department (Parking)	557	1,201	1,302	1,341	1,381	1,423	1,465	1,509	1,555	1,601
Rentals & Other Income	214	499	593	609	627	646	667	685	706	727
Total Revenues	**15,118**	**35,242**	**40,408**	**41,437**	**42,744**	**44,067**	**45,527**	**46,762**	**48,136**	**49,527**
Change		*133.1%*	*14.7%*	*2.5%*	*3.2%*	*3.1%*	*3.3%*	*2.7%*	*2.9%*	*2.9%*
Departmental Profits:										
Rooms	5,740	14,314	16,623	17,002	17,575	18,143	18,756	19,259	19,808	20,349
Food & Beverage	1,053	2,822	3,782	3,884	4,001	4,121	4,256	4,372	4,503	4,638
Telecommunications	77	171	193	198	204	210	217	223	230	236
Total Other Operated Department (Parking)	364	786	852	878	904	931	959	988	1,018	1,048
Rentals & Other Income	101	254	326	335	345	355	367	377	388	400
Total Departmental Profits	**7,335**	**18,347**	**21,775**	**22,297**	**23,029**	**23,760**	**24,555**	**25,219**	**25,946**	**26,671**
Undistributed Operating Expenses:										
Administrative & General	994	1,935	1,993	2,052	2,114	2,177	2,243	2,310	2,379	2,451
Credit Card Commissions	272	634	727	746	769	793	819	842	866	891
Marketing	805	1,596	1,644	1,693	1,744	1,796	1,850	1,906	1,963	2,022
SPG Fees (% of GOR)	181	423	485	497	513	529	546	561	578	594
Chain Marketing Fees (% GOR)	287	670	768	787	812	837	865	888	915	941
Property Operations & Maintenance	764	1,681	1,767	1,820	1,874	1,931	1,988	2,048	2,110	2,173
Energy	570	1,262	1,424	1,463	1,507	1,552	1,603	1,646	1,696	1,747
Total Undistributed Operating Exps	**3,874**	**8,201**	**8,807**	**9,059**	**9,333**	**9,615**	**9,915**	**10,202**	**10,506**	**10,819**
GROSS OPERATING PROFIT	**3,462**	**10,146**	**12,968**	**13,238**	**13,696**	**14,145**	**14,640**	**15,017**	**15,440**	**15,853**
Fixed Charges:	**22.9%**	**28.8%**	**32.1%**	**31.9%**	**32.0%**	**32.1%**	**32.2%**	**32.1%**	**32.1%**	**32.0%**
Real Estate Taxes (Tax-Exempt)	-	-	-	-	-	-	-	-	-	-
Insurance	129	263	271	279	288	296	305	314	324	333
Total Fixed Charges	**129**	**263**	**271**	**279**	**288**	**296**	**305**	**314**	**324**	**333**
EBITDA BEFORE MGMT FEES	**3,333**	**9,883**	**12,697**	**12,959**	**13,408**	**13,849**	**14,335**	**14,703**	**15,116**	**15,519**
Management Fees:										
Base Fees	454	1,057	1,212	1,243	1,282	1,322	1,366	1,403	1,444	1,486
Incentive Fee	-	-	-	-	-	-	-	-	-	-
Total Management Fees	**454**	**1,057**	**1,212**	**1,243**	**1,282**	**1,322**	**1,366**	**1,403**	**1,444**	**1,486**
EBITDA	**2,879**	**8,826**	**11,485**	**11,716**	**12,126**	**12,527**	**12,969**	**13,300**	**13,672**	**14,034**
Reserve for Replacement	302	705	1,212	1,657	1,710	1,763	1,821	1,870	1,925	1,981
NOI	**2,577**	**8,121**	**10,272**	**10,058**	**10,416**	**10,764**	**11,148**	**11,430**	**11,747**	**12,052**

Premise of Forecast

The forecast of income and expense is intended to reflect our subjective estimate of how a typical buyer would project the subject property's future operating results.

Fixed and Variable Component Analysis

HVS International uses a fixed and variable component model to project a lodging facility's revenue and expense levels. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then increased in tandem with the underlying rate of inflation, while the variable component is adjusted for a specific measure of volume such as total revenue.

The following table illustrates the revenue and expense categories that can be projected using this fixed and variable component model. These percentages show the portion of each category that is typically fixed and variable; the middle column describes the basis for calculating the percentage of variability while the last column sets forth the fixed percentage that has been utilized in this valuation.

Table 7-5 Range of Fixed and Variable Ratios

Category	Percent Fixed	Percent Variable	Index of Variability	Selected Fixed Ratio
Revenues				
Food	25 - 50 %	50 - 75 %	Occupancy	25 %
Beverage	0 - 30	70 - 100	Food Revenue	0
Telephone	10 - 40	60 - 90	Occupancy	10
Garage/Parking	30 - 70	30 - 70	Occupancy	70
Other Income	30 - 70	30 - 70	Occupancy	70
Departmental Expenses				
Rooms	50 - 70	30 - 50	Occupancy	60
Food & Beverage	35 - 60	40 - 65	Food & Beverage Revenue	55
Telephone	40 - 60	40 - 60	Telephone Revenue	60
Garage/Parking	30 - 70	30 - 70	Garage/Parking Revenue	100
Other Expenses	30 - 70	30 - 70	Other Income	70
Undistributed Operating Expenses				
Administrative & General	65 - 85	15 - 35	Total Revenue	75
Marketing	65 - 85	15 - 35	Total Revenue	75
Prop. Operations & Maint.	55 - 75	25 - 45	Total Revenue	75
Utilities	75 - 95	5 - 25	Total Revenue	75
Management Fee	0	100	Total Revenue	0
Fixed Expenses				
Insurance	100	0	Total Revenue	100
Reserve for Replacement	0	100	Total Revenue	0

Our fixed and variable projection model is based upon variables that we input for each revenue and expense item for a "base year," which in this case is 2006. The base-year forecast sets forth the ratios to revenue, amounts per available room, or amounts per occupied room, which we believe can be achieved at the stated base-year average rate and occupancy. Our input variables are derived from the subject's comparable hotel statements. The model then calculates a base-year forecast of income and expense in 2006 dollars. The actual forecast is derived by adjusting each year's revenue and expense by the amount fixed (the fixed expense multiplied by the inflated base-year amount) plus the variable amount (the variable expense multiplied by the inflated base-year amount) multiplied by the ratio of the projection year's occupancy to the base-year occupancy (in the case of departmental revenue and expense) or the ratio of the projection year's revenue to the base year's revenue (in the case of undistributed operating expenses). Fixed expenses remain fixed, increasing only with inflation. Our discussion of the revenue and expense forecast in this report is based upon the output derived from the fixed and variable model. This forecast of revenue and expense is accomplished through a step-by-step approach, following the format of the *Uniform System of Accounts for Hotels*. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

A general rate of inflation must be established that will be applied to most revenue and expense categories. The following table shows inflation estimates made by economists at some noted institutions and corporations.

Table 7-6 Inflation Estimates

Source	Previous Projections through November 2006	Projected Increase in Consumer Price Index (Annualized Rate Versus 12 Months Earlier) May 2007	November 2007
Brian S. Wesbury, First Trust Advisors, L.P.	3.6 %	2.0 %	3.5 %
Stephen Gallagher, Societe Generale	N/A	1.6	2.1
John Ryding, Bear Stearns & Co. Inc.	2.7	2.4	2.0
Kathleen M. Camilli, Camilli Economics, LLC	N/A	2.5	2.7
Gene Huang, FedEx Corp.	3.5	2.0	3.2
Kurt Karl/Arun Raha, Swiss Re	2.5	1.4	2.4
Dean Maki, Barclays Capital	3.0	2.0	3.5
Robert DiClemente, Citigroup	3.1	1.4	2.4
Gail Fosler, The Conference Board	3.4	3.4	3.2
William T. Wilson, Keystone Business Intelligence India	3.9	2.5	2.8
Scott Anderson, Wells Fargo & Co.	3.1	1.8	2.7
Allen Sinai, Decision Economics Inc.	3.8	1.8	2.7
Gary Thayer, A.G. Edwards	2.9	1.8	2.5
David Resler, Nomura Securities International Inc.	3.5	1.1	2.2
Richard DeKaser, National City Corporation	3.2	1.3	2.1
Michael P. Niemira, International Council of Shopping Centers	2.9	1.4	2.8
Lou Crandall, Wrightson ICAP	3.3	1.5	2.5
John Lonski, Moody's Investors Service	3.3	1.5	2.6
Sung Won Sohn, Hanmi Bank	2.8	2.8	2.8
Mike Cosgrove, Econoclast	2.8	2.3	2.5
Ethan S. Harris, Lehman Brothers	3.6	2.3	3.6
Saul Hymans/Joan Crary/Janet Wolfe, RSQE, U. of Michigan	2.8	1.4	2.1
Dana Johnson, Comerica Bank	3.1	1.0	2.1
Bruce Kasman, JP Morgan Chase & Co.	3.1	1.5	2.4
Stephen Stanley, RBS Greenwich Capital	N/A	1.7	2.9
David Wyss, Standard & Poor's	2.4	1.4	2.3
J. Dewey Daane, Vanderbilt University	3.8	1.8	2.0
Douglas Duncan, Mortgage Bankers Association	3.3	1.5	2.6
William B. Hummer, Wayne Hummer Investments LLC	2.8	1.5	2.1
Richard Berner/David Greenlaw, Morgan Stanley	3.1	1.4	1.8
David W. Berson, Fannie Mae	3.3	1.6	2.6
Steve East, Friedman Billings Ramsey	N/A	0.7	1.7
David Lereah, National Association of Realtors	3.4	2.3	2.3
Joel Prakken/Chris Varvares, Macroeconomic Advisers	3.2	1.6	2.7
Nariman Behravesh, Global Insight	2.5	1.3	2.4
Stuart Hoffman, PNC Financial Services Group	3.9	1.9	2.5
James F. Smith, Western Carolina Univ. and Parsec Fin. Mgmt.	(1.6)	0.9	0.8
Diane Swonk, Mesirow Financial	3.3	1.3	1.2
Ram Bhagavatula, Combinatorics Capital	3.0	1.9	1.8
Maria Fiorini Ramirez, Maria Fiorini Ramirez Inc.	3.2	2.8	2.6
Jan Hatzius, Goldman Sachs & Co.	2.9	1.5	2.5
Robert J. Hughes, Prudential Equity Group, LLC	4.5	1.7	2.0
Lawrence Kudlow, Kudlow & Co. LLC	3.2	1.5	1.7
Daniel Laufenberg, Ameriprise Financial	2.8	2.5	2.7
Jim Meil/Tianlun Jian, Eaton Corp.	3.5	2.3	2.0
Nicholas S. Perna, Perna Associates	3.1	1.4	2.7
Joseph Carson, AllianceBernstein	2.9	1.5	2.2
Maury Harris, UBS	3.0	2.3	2.8
Paul Kasriel, The Northern Trust	3.2	1.3	2.4
Edward Leamer, UCLA Anderson Forecast	2.8	2.2	2.9
David Rosenberg, Merrill Lynch	2.4	1.7	1.9
Neal Soss, Credit Suisse	3.6	1.8	3.1
Mickey D. Levy, Bank of America	2.9	1.6	2.5
Tracy Herrick, The Private Bank	3.7	3.2	2.7
John Silvia, Wachovia Corp.	3.0	1.4	2.3
Peter Hooper/Joseph A. LaVorgna, Deutsche Bank Sec. Inc.	2.4	2.0	2.2
Paul Ashworth, Capital Economics	N/A	1.4	1.7
Robert T. McGee, U.S. Trust Company	2.8	1.5	2.3
Susan M. Sterne, Economic Analysis	2.7	0.2	1.3
Ian Shepherdson, High Frequency Economics	3.5	1.5	2.6
Averages	3.1 %	1.7 %	2.4 %
Actual Inflation for the Period	2.0 %		

Source: wsj.com, January 3, 2007

As the preceding table indicates, the economists who were surveyed by the *Wall Street Journal* in the middle of 2006 anticipated inflation rates ranging from deflation of 1.6% to inflation of 4.5% (on an annualized basis) for the six months ending November 2006. The average estimate was 3.1%, well above the actual 2.0% inflation for the period.

As a further check on these inflation projections, we have reviewed historical increases in the Consumer Price Index (CPI).

Table 7-7 National Consumer Price Index (All Urban Consumers)

Year	Portland MSA Price Index	National Consumer Price Index	National Percent Change from Previous Year
1996	158.6	156.9	---
1997	164.0	160.5	2.3 %
1998	167.1	163.0	1.6
1999	172.6	166.6	2.2
2000	178.0	172.2	3.4
2001	182.4	177.1	2.8
2002	183.8	179.9	1.6
2003	186.3	184.0	2.3
2004	191.1	188.9	2.7
2005	196.0	195.3	3.4
2006	201.1	201.6	3.2

National Average Annual Compounded Change,

1996-2006:	2.5 %
2001-2006:	2.6

Source: Bureau of Labor Statistics

Between 1996 and 2006, the national CPI increased at an average annual-compounded rate of 2.5%, increasing to 2.6% from 2001 to 2006. In 2006, the CPI increased by 3.2%. In consideration of the most recent trends, the projections set forth previously, and our assessment of probable property appreciation levels, we have applied an underlying inflation rate of 3.0% annually. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

Forecast of Income and Expense

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take four years for the subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the subject's operating history and operating budget, comparable income and expense statements, and our industry knowledge. The following forecast is based upon calendar years beginning January 1, 2011, and is expressed in inflated dollars for each year.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. Both were projected earlier in this report. The subject property is forecast to stabilize with an occupancy of 71% at an average rate of $161.76 in 2014. Following the stabilized year, the subject property's average rate is projected to increase at a level equal to the underlying rate of inflation.

- Based on the information provided in Table 7-4, the subject property is forecast to stabilize at a similar occupancy to Westin's pro forma, but achieve a higher average rate.

The following tables present the food and beverage comparable properties that we have used to accurately gauge and forecast food and beverage revenues and expense for the proposed subject.

Table 7-8 Food and Beverage Comparables and Analysis

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Subject
						SUBJECT PROPERTY
Rooms:	484	1192	591	553	838	600
Meeting Space:	89,000	56,000	55,000	23,000	37,301	41,630
Meeting Space/Room:	183.88	46.98	93.06	41.59	44.51	69.38
Rooms Revenue:	$16,451,867	$64,182,415	$33,901,713	$20,031,453	$33,999,516	$19,855,456
Occupied Rooms:	124,744	363,770	153,759	136,895	212,363	155,490
Year:	2005	2005	2005	2006	2004	2006
Food Revenue:						
Total Restaurant Revenue:	$5,135,944	$2,272,392	$4,271,250	$3,299,786	$1,684,401	$1,088,430
% of Total:	80.8 %	7.9 %	24.7 %	70.3 %	11.8	10.6 %
POR:	41.17	6.25	27.78	24.10	7.93	**7.00**
PAR:	10,611	1,906	7,227	5,967	2,010	1,814
Total Lounge Revenue	0	804,067	1,431,409	0	178,491	124,392
% of Total:	0.0 %	2.8 %	8.3 %	0.0 %	1.3	1.2 %
POR:	0.00	2.21	9.31	0.00	0.84	**0.80**
PAR:	0	675	2,422	0	213	207
Total Room Service Revenue	771,943	1,964,016	174,732	448,803	673,216	494,458
% of Total:	12.1 %	6.9 %	1.0 %	9.6 %	4.7	4.8 %
POR:	6.19	5.40	1.14	3.28	3.17	**3.18**
PAR:	1,595	1,648	296	812	803	824
Total Banquet Revenue	449,953	23,559,486	11,416,265	948,261	11,699,052	8,534,150
% of Total:	7.1 %	82.4 %	66.0 %	20.2 %	82.2	83.3 %
POR:	3.61	64.76	74.25	6.93	55.09	54.89
PAR:	929.65	19,764.67	19,316.86	1,714.76	13,961	14,224
Per sq. ft. of meeting space:	5.06	420.71	207.57	41.23	314	**205.00**
Total Food Revenue	6,357,840	28,599,961	17,293,656	4,696,850	14,235,160	10,241,430
% of Total:	90.3 %	88.8 %	76.4 %	87.0 %	85.0	85.1 %
POR:	50.97	78.62	112.47	34.31	67.03	65.87
PAR:	13,136.03	23,993.26	29,261.69	8,493.40	16,987	17,069
Beverage Revenue:						
Total Restaurant Revenue:	$672,138	$569,537	$1,485,773	$484,752	$362,082	$272,108
% of Total:	98.3 %	15.7 %	27.8 %	68.8 %	14.5	15.2 %
POR:	5.39	1.57	9.66	3.54	1.71	**1.75**
PAR:	1,389	478	2,514	877	432	454
Total Lounge Revenue	0	358,331	1,332,310	219,427	759,925	544,215
% of Total:	0.0 %	9.9 %	25.0 %	31.2 %	30.3	30.5 %
POR:	0.00	0.99	8.66	1.60	3.58	**3.50**
PAR:	0	301	2,254	397	907	907
Total Room Service Revenue	11,760	192,770	343,487	0	72,290	54,422
% of Total:	1.7 %	5.3 %	6.4 %	0.0 %	2.9	3.0 %
POR:	0.09	0.53	2.23	0.00	0.34	**0.35**
PAR:	24.30	161.72	581.20	0.00	86	91
Total Banquet Revenue	0	2,503,765	2,175,757	0	1,310,874	915,860
% of Total:	0.0 %	69.1 %	40.8 %	0.0 %	52.3	51.3 %
POR:	0.00	6.88	14.15	0.00	6.17	5.89
PAR:	0	2,100	3,681	0	1,564	1,526
Per sq. ft. of meeting space:	0.00	44.71	39.56	0.00	35.14	**22.00**
Total Beverage Revenue	683,898	3,624,403	5,337,327	704,179	2,505,171	1,786,604
% of Total:	9.7 %	11.2 %	23.6 %	13.0	15.0	14.9 %
POR:	5.48	9.96	34.71	5.14	11.80	11.49
PAR:	1,413	3,041	9,031	1,273	2,989	2,978

Table 7-9 Food and Beverage Comparables and Analysis (Continued)

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Subject
Total Food Revenue	$6,357,840	$28,599,961	$17,293,656	$4,696,850	$14,235,160	$10,241,430
POR:	50.97	78.62	112.47	34.31	67.03	65.87
PAR:	13,136	23,993	29,262	8,493	16,987	17,069
Total Beverage Revenue	683,898	3,624,403	5,337,327	704,179	2,505,171	1,786,604
POR:	5.48	9.96	34.71	5.14	11.80	11.49
PAR:	1,413	3,041	9,031	1,273	2,989	2,978
Total Food and Beverage Revenue:	$7,041,738	$32,224,364	$22,630,983	$5,401,029	$16,740,331	$12,028,034
POR:	56.45	88.58	147.18	39.45	78.83	77.36
PAR:	14,549	27,034	38,293	9,767	19,977	20,047
Total Food and Beverage Expense	$1,431,409	$24,746,443	$20,457,240	$4,207,092	$11,888,174	$8,900,745
% of Total:	20.3 %	76.8 %	90.4 %	77.9 %	71.0	**74.0**
POR:	11.47	68.03	133.05	30.73	55.98	57.24 %
PAR:	2,957	20,760	34,615	7,608	14,186	14,835
Food to Rooms:	38.6 %	44.6 %	51.0 %	23.4 %	41.9	51.6
Beverage to Food:	10.8 %	12.7 %	30.9 %	15.0 %	17.6	17.4 %
Total Food and Beverage Revenue (Restaurant)/Seat:	$12,000	$2,384	$9,741	$6,844	$2,442	$2,268 %
Total Food and Beverage Revenue (Lounge)/Seat:	$0	$975	$4,676	$397	$1,120	$1,114
Total Food and Beverage Revenue (Room Service)/Seat:	$1,619	$1,809	$877	$812	$890	$915
Total Food and Beverage Revenue/SF:	$79.12	$575.44	$411.47	$234.83	$448.79	$288.93

Food Revenue

As described earlier in the report, the proposed improvements will include ±36,130 square feet of meeting space, ±22,000 square feet of prefunction space, a three-meal restaurant, a lobby bar, and a coffee bar. For purposes of this analysis, we have assumed that approximately 5% of the prefunction space will be utilized as actual meeting room space and therefore, an additional 5,500 square feet of prefunction space will be added to the total meeting space. According to the client, the proposed restaurant is expected to be operated by Starwood Hotels & Resorts, a successful hotel management company that owns and operates hotels and restaurants all over the world. We anticipate the internal catering and banquets department as well as the restaurant to positively impact the proposed hotel's operating performance, as the proposed facilities are expected to cater to large group events and hotel guests, along with the restaurant and bar attracting additional demand from Portland visitors and local patrons.

Based on the preceding food and beverage comparable charts, total food revenue for the comparables ranged from 23.4% to 51.0% of rooms revenue. As the comparable properties offer amenities that are similar to the proposed subject's, we have forecast food revenue for the proposed subject at 50.0% of rooms revenue in the first year, stabilizing at 51.6% of rooms revenue in 2014.

Based on the information provided in Table 7-4, the subject property's food revenue is expected to stabilize below the Westin's pro forma.

Beverage Revenue

Beverage revenue for the proposed subject will be generated by the proposed restaurant, lobby bar, coffee bar, and the proposed banquet rooms. Based on the preceding food and beverage comparable charts, total beverage revenue for the comparable properties ranged from 3.5% to 15.7% of rooms revenue. We have forecast beverage revenue at $1,585,000, or 8.7% of rooms revenue, in the first year, stabilizing at $2,263,000, or 9.0% of rooms revenue, in 2014.

- Based on the information provided in Table 7-4, the subject property's beverage revenue is forecast to stabilize above the Westin's pro forma.

Telephone Revenue

Telephone revenue is generated by hotel guests who charge local and long-distance calls to their rooms, and by individuals who use the property's public telephones. Declining telephone revenues is a nationwide trend, due largely to the proliferation of cellular phone usage.

Telephone revenue for the comparables ranged from $1.70 to $7.87 per occupied room, or 0.3% to 2.4% of total revenue. As such, we have projected telephone revenue at $1.50 per occupied room, or 0.6% of total revenue, in the first year, stabilizing at $1.62 per occupied room, or 0.6% of total revenue, in 2014.

- Based on the data provided in Table 7-4, the subject property's telephone revenue is forecast to stabilize below the Westin's pro forma.

Garage/Parking Revenue

Garage/parking revenue is generated from the subject's valet and self parking services. Additionally, the proposed subject will contain ±250 additional leased spaces from the Oregon Convention Center across the street from the proposed subject. Based on parking rates offered by the neighboring hotels, the parking rate fees quoted by Starwood Hotels, and the projected occupied room nights, we have projected garage/parking revenue at $1,659,000, or $12.42 per occupied room, in the first year, stabilizing at $1,770,000, or $11.38 per occupied room, in 2014. The following chart shows the calculated forecast for the proposed subject's garage/parking revenue.

- Based on the data provided in Table 7-4, the subject property's garage/parking revenue is forecast to stabilize above the Westin's pro forma.

Table 7-10 Proposed Westin Convention Center Garage/Parking Revenue Calculations

Hotel		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Valet Parking Spaces	100										
Capture Ratio	90%										
Valet Fee (2006 $)	$24										
Revenues ('000s)		$788	$812	$836	$862	$887	$914	$941	$970	$999	$1,029
Profit Margin @	35%	276	284	293	302	311	320	329	339	350	360
Self Parking Spaces	70										
Capture Ratio	90%										
Fee (2006 $)	$18										
Revenues ('000s)		$414	$426	$439	$452	$466	$480	$494	$509	$524	$540
Profit Margin @	70%	290	298	307	317	326	336	346	356	367	378
Convention Center											
Parking Spaces	250										
Capture Ratio	50%										
Fee (net of $8 returns to CC)	$10										
Revenues ('000s)		$456	$456	$456	$456	$456	$456	$456	$456	$456	$456
Profit Margin @	75%	342	352	363	374	385	397	409	421	433	446
Total Parking Revenues ('000s)		$1,659	$1,695	$1,732	$1,770	$1,809	$1,850	$1,892	$1,935	$1,979	$2,025
Total Parking Profit ('000s)		908	935	963	992	1022	1052	1084	1117	1150	1185

Other Income

Other income is derived from sources other than guestrooms, food and beverage sales, and telephone service. Other income for the subject property will be generated by guest dry-cleaning services, vending machines, in-room movie and videogame rentals, commissions from catering, and other miscellaneous items. It should be noted that our forecast of other income revenue is based on specific facilities and services to be provided by the subject hotel. Other income for the comparables ranged from $2.40 to $28.23 per occupied room, or from 1.1% to 9.3% of total revenue. In its first year of operation, other income revenue for the proposed subject property is projected at $345,000, which equates to $2.58 per occupied room, or 1.1% of total revenue. Other income revenue is forecast to stabilize in 2014 at $2.53 per occupied room, or 0.9% of total revenue.

- Based on the data provided in Table 7-4, the subject property's other income is forecast to stabilize below the Westin's pro forma.

Rooms Expense

Rooms expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy (because managers can schedule housekeepers to work when demand requires), much of a hotel's payroll is fixed. Front desk personnel and the executive housekeeper are maintained at all times. As a result, salaries, wages, and employee benefits are only moderately sensitive to changes in occupancy.

Commissions and reservations are usually based on room sales, and thus are highly sensitive to changes in occupancy and average rate. While guest supplies vary 100% with occupancy, linen and other operating expenses are only slightly affected by volume.

The rooms expense ratios recorded at the comparable properties ranged from 21.7% to 27.0% of departmental revenue. Considering the range formed by the relevant comparables, the subject property's rooms expense is forecast at 26.3% of departmental revenue in year one. As the property creates efficiencies with rising occupancy levels, this expense is expected to moderate, decreasing to 22.0% in 2014, as the hotel reaches a stabilized level of operation.

- Based on the data provided in Table 7-4, the subject property's rooms expense is forecast to stabilize below the Westin's pro forma.

Food and Beverage Expense

Food expense consists of those items necessary for the operation of a hotel's food and banquet facilities. Beverage expense consists of items necessary for the operation of a hotel's lounge and bar areas. The costs associated with beverage sales and payroll correlate highly with beverage revenues. Items such as china, linen, and uniforms are less dependent on volume. Although the other expense items are basically fixed, they represent a relatively insignificant factor.

In Table 8-9, food and beverage expense for the comparables ranged from 20.3% to 90.4% of departmental revenue. Due to the anticipated high-quality orientation of the propose subject's meeting and banquet space and food and beverage facilities, we have forecast food and beverage expense to fall at the high end of the range. As such, food and beverage expense is forecast at 86.5% of departmental revenue in year one, stabilizing at 74.0% of departmental revenue in 2014.

- Based on the data provided in Table 7-4, the subject property's food and beverage expense is forecast to stabilize in line with the Westin's pro forma.

Telephone Expense

Telephone expense consists of all costs associated with this department. In the case of small hotels with automated systems, the operation of telephones may be an additional responsibility of front desk personnel; however, most large properties employ full-time operators. The bulk of telephone expense is related to the cost of local and long-distance calls billed by the telephone companies that provide these services. Because most calls are made by in-house guests, these costs are moderately correlated to occupancy.

For the comparable properties, telephone expense ranged from 35.3% to 162.3% of departmental revenue. We have projected a telephone expense ratio of 54.4% of departmental revenue in year one, stabilizing at 50.0% of departmental revenue in 2014.

- Based on the data provided in Table 7-4, the subject property's telephone expense is forecast to stabilize below the Westin's pro forma.

Garage/Parking Expense

Based on the proposed Westin budget provided by Starwood Hotels & Resorts and our knowledge of and experience in the hotel industry, we have forecast garage/parking expense to reach 45.3% of departmental revenue in year one, stabilizing at 44.0% of departmental revenue, in 2014.

- Based on the data provided in Table 7-4, the subject property's garage/parking expense is forecast to stabilize above the Westin's pro forma.

Other Income Expense

Other income expense consists of costs associated with generating other income revenue, and is dependent on the nature of the revenue sources. Other income expense for the proposed subject property has been forecast at 46.4% of departmental revenue in year one, improving slightly upon stabilization at 45.0% of departmental revenue in 2014.

- Based on the data provided in Table 7-4, the subject property's other income expense is forecast to stabilize in line with the Westin's pro forma.

Administrative and General Expense

Administrative and general expense includes the salaries and wages of all administrative personnel who are not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category.

Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages; commissions on credit card charges; provisions for doubtful accounts; and salaries, wages, and benefits, which are very slightly influenced by volume.

Administrative and general expense at the comparable properties ranged from $3,168 to $7,586 per available room, or from 6.2% to 12.0% of total revenue. Based on the range formed by the comparables, we have forecast the subject property's administrative and general expense in the middle of the range at $4,991 per available room, or 9.6% of total revenue, in year one, stabilizing at $5,762 per available room, or 8.1% of total revenue, in 2014.

- Based on the data provided in Table 7-4, the subject property's administrative and general expense is forecast to stabilize above the Westin's pro forma.

Marketing Expense

Marketing expense consists of all costs associated with advertising, sales, and promotion; these activities are intended to attract and retain customers. Marketing can be used to create an image, develop customer awareness, and stimulate patronage of a property's various facilities. The marketing category is unique in that all expense items, with the exception of fees and commissions, are totally controlled by management. Most hotel operators establish an annual marketing budget that sets forth all planned expenditures. If the budget is followed, total marketing expense can be projected accurately.

Marketing expenditures are unusual because although there is a lag period before results are realized, the benefits are often extended over a long period. Depending on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months.

Marketing expense among the comparable properties ranged from $3,368 to $5,481 per available room, or from 5.1% to 8.1% of total revenue. Based on the range formed by the comparables, the subject property's marketing expense is forecast at $4,159 per available room, or 8.0% of total revenue, in year one, stabilizing at $4,802 per available room, or 6.7% of total revenue, in 2014.

- Based on the data provided in Table 7-4, the subject property's marketing expense is forecast to stabilize below the Westin's pro forma.

Property Operations and Maintenance Expense

Property operations and maintenance expense is another expense category that is largely controlled by management. Except for repairs that are necessary to keep the facility open and prevent damage (e.g., plumbing, heating, and electrical items), most maintenance can be deferred for varying lengths of time.

Maintenance is an accumulating expense. If management elects to postpone performing a required repair, they have not eliminated or saved the expenditure; they have only deferred payment until a later date. A lodging facility that operates with a lower-than-normal maintenance budget is likely to accumulate a considerable amount of deferred maintenance.

The age of a lodging facility has a strong influence on the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. However, as a hostelry grows older, maintenance expenses escalate. A well-organized preventive maintenance system often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend. The quality of initial construction can also have a direct impact on future maintenance requirements. The use of high-quality building materials and construction methods generally reduces the need for maintenance expenditures over the long term.

Among the comparables, property operations and maintenance expense ranged from $1,985 per available room, or 3.4% of total revenue, to $3,320 per available room, or 4.5% of total revenue. Based on the range formed by the comparable properties, property operations and maintenance expense has been forecast at $2,262 per available room, or 5.1% of total revenue, in year one, stabilizing at $3,841 per available room, or 5.4% of total revenue, in 2014.

- Based on the data provided in Table 7-4, the subject property's operations and maintenance expense is forecast to stabilize above the Westin's pro forma.

Energy Expense

Energy consumption at the subject property includes water and space heating, air conditioning, lighting, cooking fuel, and other miscellaneous power requirements. Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. This category also includes the cost of water service.

Energy expense has been forecast using the local comparables as a benchmark. These hotels recorded energy expense of $1,540 per available room, or 3.3% of total revenue, and $5,014, or 5.7% of total revenue, respectively. The subject's energy expense is forecast at $1,725 per available room, or 3.3% of total revenue, in year one, stabilizing at $1,991 per available room, or 2.8% of total revenue, in 2014.

- Based on the data provided in Table 7-4, the subject property's energy expense is forecast to stabilize below the Westin's pro forma on a per available room basis and on a percentage of total revenue basis.

Management Fee

Management expense consists of the fees paid to the managing agent contracted to operate the property. Some companies provide management services and a brand-name affiliation (first-tier management company), while others provide management services alone (second-tier management company). Some management contacts specify only a base fee (usually a percentage of total revenue), while others call for both a base fee and an incentive fee (usually a percentage of defined profit). Basic hotel management fees are almost always based on a percentage of total revenue, which means they have no fixed component. While base fees typically range from 2% to 4% of total revenue, incentive fees are deal specific and often are calculated as a percentage of income available after debt service and, in some cases, after a preferred return on equity.

The proposed hotel is expected to operate under a management agreement with Starwood Hotels & Resorts over the projected term. Management fees are expected to be 3.0% of total revenue. Management agreement terms were not provided for this analysis. The forecast of income and expense does not consider an incentive management fee. The terms of an executed operating agreement may be different from the terms used in this market study. For the purposes of this market study, we assume that the property will be operated by Starwood.

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage.

Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expense is expected to stabilize at 1.0% of total revenue in 2014. This is supported by data from the comparable properties, whose insurance expenses ranged from 0.2% to 2.8% of total revenue. Note, the forecast of insurance expense is in-line with Starwood's pro forma.

- Based on the data provided in Table 7-4, the subject property's insurance expense is forecast to stabilize above the Westin's pro forma.

Reserve for Replacement

Furniture, fixtures, and equipment are essential to the operation of a lodging facility. This category includes all non-real estate items that are capitalized, rather than expensed. The furniture, fixtures, and equipment of a hotel are exposed to heavy use and must be replaced at regular intervals. The useful life of these items is determined by their quality, durability, and the amount of guest traffic and use.

Maintenance is an accumulating expense. If management elects to postpone performing a required procedure, the expenditure has not been eliminated or saved, but only deferred payment until a later date. The age of a lodging facility greatly influences the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. A well-organized preventative maintenance program often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend.

The International Society of Hospitality Consultants (ISHC) undertook a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent findings of the study were published in a report in 2007[1]. Historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by most of the major hotel companies in the United States. A prospective analysis of future capital expenditure requirements was also performed based upon the cost to replace short- and long-lived building components over a hotel's economic life. The study

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[1] The International Society of Hotel Consultants, *CapEx 2007, A Study of Capital Expenditure in the U.S. Hotel Industry*.

showed that the capital expenditure requirements for hotels vary significantly from year to year, and depend upon both the actual and effective age of a property. Based on the results of this study, it is our opinion that hotel lenders and investors are requiring reserves for replacement ranging from 4% to 5% of total revenue.

Periodic replacement of furniture, fixtures, and equipment is essential to maintain the quality, image, and income-producing potential of a lodging facility. Because capitalized expenditures are not included in the operating statement but nevertheless affect an owner's cash flow, these expenses are in the form of an appropriate reserve for replacement.

Due to the subject property's new construction, we have assumed a reserve for replacement equating to 2.0% of total revenue in year one, 2.0% of total revenue in year two, 3.0% of total revenue in year three, and 4.0% of total revenue in year four and each year thereafter. It should be noted that the executed operating agreement in the future, may have different terms.

Retail Revenue – Restaurant and Office Space

Retail revenue is generated by the proposed Westin's lease revenue obtained by the restaurant lease and office lease. According to Metro representatives, both leases will be leased out to a third-party operator. Details about the restaurant program and office space have not been finalized. Based on our knowledge of and experience in the hotel market, we have assumed that there will be a 5% vacancy collection and 5% management expense associated with the respective leases. The following chart outlines the forecast in determining the leased retail revenue from the restaurant and office space.

Table 7-11 Proposed Westin Convention Center Leased Retail Revenue Calculations

Total Retail Space 8,530 SF

Retail Space	SF	Price/SF	Lease Revenue	Vacancy Collection	Adjusted Revenue	Management Expense	Rental Revenue
Restaurant	4,265	$30	$127,950	5%	$121,553	5%	$115,475
Office Space	4,265	$18	76,770	5%	72,932	5%	69,285
						Total	**185,000**

Summary of Projections

Based on the preceding analysis, we have formulated a forecast of income and expense. The following table presents a detailed forecast through the stabilized year, including amounts per available room and per occupied room.

The second table illustrates our 10-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to annual operating years beginning January 1, 2011, and are expressed in inflated dollars for each year.

Table 7-12 Detailed Forecast of Income and Expense, Proposed Westin Convention Center Hotel, Portland, Oregon ('000s)

	2011				2012				2013				Stabilized			
Number of Rooms:	**600**				**600**				**600**				**600**			
Occupancy:	**61%**				**65%**				**69%**				**71%**			
Average Rate:	**$136.06**				**$143.11**				**$152.30**				**$161.76**			
RevPAR:	**$83.00**				**$93.02**				**$105.09**				**$114.85**			
Days Open:	**365**				**365**				**365**				**365**			
Occupied Rooms:	**133,590**	**%Gross**	**PAR**	**POR**	**142,350**	**%Gross**	**PAR**	**POR**	**151,110**	**%Gross**	**PAR**	**POR**	**155,490**	**%Gross**	**PAR**	**POR**
REVENUE																
Rooms	$18,176	58.5 %	$30,293	$136.06	$20,372	58.0 %	$33,953	$143.11	$23,014	57.8 %	$38,357	$152.30	$25,152	58.8 %	$41,920	$161.76
Food	9,088	29.3	15,147	68.03	10,614	30.2	17,690	74.56	12,330	30.9	20,549	81.59	12,974	30.3	21,623	83.44
Beverage	1,585	5.1	2,642	11.87	1,852	5.3	3,086	13.01	2,151	5.4	3,585	14.23	2,263	5.3	3,772	14.56
Telephone	201	0.6	335	1.50	219	0.6	365	1.54	238	0.6	397	1.58	252	0.6	419	1.62
Garage/Parking	1,659	5.3	2,764	12.42	1,695	4.8	2,824	11.90	1,732	4.3	2,886	11.46	1,770	4.1	2,950	11.38
Other Income	345	1.1	575	2.58	362	1.0	603	2.54	379	1.0	632	2.51	394	0.9	657	2.53
Total Revenues	31,055	100.0	51,758	232.46	35,113	100.0	58,522	246.67	39,843	100.0	66,406	263.67	42,804	100.0	71,340	275.29
DEPARTMENTAL EXPENSES *																
Rooms	4,779	26.3	7,964	35.77	5,040	24.7	8,399	35.40	5,312	23.1	8,853	35.15	5,534	22.0	9,223	35.59
Food & Beverage	9,230	86.5	15,383	69.09	9,996	80.2	16,661	70.22	10,843	74.9	18,071	71.75	11,275	74.0	18,792	72.51
Telephone	109	54.4	182	0.82	115	52.5	192	0.81	121	50.8	201	0.80	126	50.0	210	0.81
Garage/Parking	751	45.3	1,251	5.62	760	44.8	1,266	5.34	769	44.4	1,281	5.09	778	44.0	1,297	5.00
Other Expenses	160	46.4	267	1.20	166	45.8	276	1.16	172	45.3	286	1.14	177	45.0	295	1.14
Total	15,028	48.4	25,047	112.50	16,076	45.8	26,794	112.93	17,216	43.2	28,693	113.93	17,890	41.8	29,816	115.05
DEPARTMENTAL INCOME	16,026	51.6	26,711	119.97	19,037	54.2	31,728	133.73	22,628	56.8	37,713	149.74	24,915	58.2	41,524	160.23
UNDISTRIBUTED OPERATING EXPENSES																
Administrative & General	2,995	9.6	4,991	22.42	3,150	9.0	5,249	22.13	3,321	8.3	5,535	21.98	3,457	8.1	5,762	22.23
Marketing	2,496	8.0	4,159	18.68	2,625	7.5	4,375	18.44	2,767	6.9	4,612	18.31	2,881	6.7	4,802	18.53
Prop. Operations & Maint.	1,597	5.1	2,662	11.96	1,890	5.4	3,150	13.28	2,103	5.3	3,505	13.92	2,305	5.4	3,841	14.82
Utilities	1,035	3.3	1,725	7.75	1,088	3.1	1,814	7.65	1,147	2.9	1,912	7.59	1,195	2.8	1,991	7.68
Total	8,122	26.0	13,537	60.80	8,752	25.0	14,587	61.49	9,339	23.4	15,564	61.80	9,837	23.0	16,396	63.27
HOUSE PROFIT	7,904	25.6	13,174	59.17	10,285	29.2	17,141	72.25	13,289	33.4	22,149	87.94	15,077	35.2	25,128	96.96
Management Fee	1,025	3.3	1,708	7.67	1,159	3.3	1,931	8.14	1,315	3.3	2,191	8.70	1,413	3.3	2,354	9.08
INCOME BEFORE FIXED CHARGES	6,880	22.3	11,466	51.50	9,126	25.9	15,210	64.11	11,974	30.1	19,957	79.24	13,665	31.9	22,774	87.88
FIXED EXPENSES																
Insurance	376	1.2	626	2.81	387	1.1	645	2.72	398	1.0	664	2.64	410	1.0	684	2.64
Reserve for Replacement	621	2.0	1,035	4.65	702	2.0	1,170	4.93	1,195	3.0	1,992	7.91	1,712	4.0	2,854	11.01
Total	997	3.2	1,661	7.46	1,089	3.1	1,815	7.65	1,594	4.0	2,656	10.55	2,123	5.0	3,538	13.65
NET INCOME	$5,883	19.1 %	$9,805	$44.04	$8,037	22.8 %	$13,395	$56.46	$10,381	26.1 %	$17,301	$68.70	$11,542	26.9 %	$19,237	$74.23
RETAIL REVENUE																
Restaurant	115	0.4	192	0.86	119	0.3	198	0.83	122	0.3	204	0.81	126	0.3	210	0.81
Office Space	69	0.2	115	0.52	71	0.2	119	0.50	73	0.2	122	0.49	74	0.2	124	0.48
TOTAL NET INCOME	$6,067	19.7 %	$10,112	$45.42	$8,227	23.3 %	$13,711	$57.79	$10,576	26.6 %	$17,627	$69.99	$11,742	27.4 %	$19,570	$75.52

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

	2011	2012	2013	Stabilized
Food/Rooms	50.0%	52.1%	53.6%	51.6%
Beverage/Rooms	8.7%	9.1%	9.3%	9.0%
Telephone/Rooms	1.1%	1.1%	1.0%	1.0%
Garage/Parking/Rooms	9.1%	8.3%	7.5%	7.0%
Other Income/Rooms	1.9%	1.8%	1.6%	1.6%

Table 7-13 Ten-Year Forecast of Income and Expense, Proposed Westin Convention Center Hotel, Portland, Oregon (‘000s)

	2011		2012		2013		2014		2015		2016		2017		2018		2019		2020	
Number of Rooms:	**600**		**600**		**600**		**600**		**600**		**600**		**600**		**600**		**600**		**600**	
Occupied Rooms:	**133,590**		**142,350**		**151,110**		**155,490**		**155,490**		**155,490**		**155,490**		**155,490**		**155,490**		**155,490**	
Occupancy:	**61%**		**65%**		**69%**		**71%**		**71%**		**71%**		**71%**		**71%**		**71%**		**71%**	
Average Rate:	**$136.06**	**% of**	**$143.11**	**% of**	**$152.30**	**% of**	**$161.76**	**% of**	**$166.61**	**% of**	**$171.61**	**% of**	**$176.76**	**% of**	**$182.06**	**% of**	**$187.53**	**% of**	**$193.15**	**% of**
RevPAR:	**$83.00**	**Gross**	**$93.02**	**Gross**	**$105.09**	**Gross**	**$114.85**	**Gross**	**$118.30**	**Gross**	**$121.85**	**Gross**	**$125.50**	**Gross**	**$129.27**	**Gross**	**$133.14**	**Gross**	**$137.14**	**Gross**
REVENUE																				
Rooms	$18,176	58.5 %	$20,372	58.0 %	$23,014	57.8 %	$25,152	58.8 %	$25,907	58.8 %	$26,684	58.8 %	$27,485	58.8 %	$28,309	58.8 %	$29,158	58.8 %	$30,033	58.9 %
Food	9,088	29.3	10,614	30.2	12,330	30.9	12,974	30.3	13,363	30.3	13,764	30.3	14,177	30.3	14,602	30.3	15,040	30.4	15,491	30.4
Beverage	1,585	5.1	1,852	5.3	2,151	5.4	2,263	5.3	2,331	5.3	2,401	5.3	2,473	5.3	2,547	5.3	2,624	5.3	2,702	5.3
Telephone	201	0.6	219	0.6	238	0.6	252	0.6	259	0.6	267	0.6	275	0.6	283	0.6	292	0.6	300	0.6
Garage/Parking	1,659	5.3	1,695	4.8	1,732	4.3	1,770	4.1	1,809	4.1	1,850	4.1	1,892	4.0	1,935	4.0	1,979	4.0	2,025	4.0
Other Income	345	1.1	362	1.0	379	1.0	394	0.9	406	0.9	418	0.9	430	0.9	443	0.9	457	0.9	470	0.9
Total	31,055	100.0	35,113	100.0	39,843	100.0	42,804	100.0	44,075	100.0	45,384	100.0	46,732	100.0	48,120	100.0	49,549	100.0	51,022	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	4,779	26.3	5,040	24.7	5,312	23.1	5,534	22.0	5,700	22.0	5,870	22.0	6,047	22.0	6,228	22.0	6,415	22.0	6,607	22.0
Food & Beverage	9,230	86.5	9,996	80.2	10,843	74.9	11,275	74.0	11,613	74.0	11,962	74.0	12,321	74.0	12,690	74.0	13,071	74.0	13,463	74.0
Telephone	109	54.4	115	52.5	121	50.8	126	50.0	130	50.0	133	50.0	137	50.0	142	50.0	146	50.0	150	50.0
Garage/Parking	751	45.3	760	44.8	769	44.4	778	44.0	788	43.5	798	43.1	808	42.7	818	42.3	829	41.9	840	41.5
Other Expenses	160	46.4	166	45.8	172	45.3	177	45.0	183	45.0	188	45.0	194	45.0	200	45.0	206	45.0	212	45.0
Total	15,028	48.4	16,076	45.8	17,216	43.2	17,890	41.8	18,413	41.8	18,951	41.8	19,506	41.7	20,078	41.7	20,666	41.7	21,273	41.7
DEPARTMENTAL INCOME	16,026	51.6	19,037	54.2	22,628	56.8	24,915	58.2	25,662	58.2	26,432	58.2	27,226	58.3	28,042	58.3	28,883	58.3	29,749	58.3
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	2,995	9.6	3,150	9.0	3,321	8.3	3,457	8.1	3,561	8.1	3,667	8.1	3,777	8.1	3,890	8.1	4,006	8.1	4,126	8.1
Marketing	2,496	8.0	2,625	7.5	2,767	6.9	2,881	6.7	2,967	6.7	3,056	6.7	3,147	6.7	3,242	6.7	3,339	6.7	3,438	6.7
Prop. Operations & Maint.	1,597	5.1	1,890	5.4	2,103	5.3	2,305	5.4	2,374	5.4	2,445	5.4	2,518	5.4	2,593	5.4	2,671	5.4	2,751	5.4
Utilities	1,035	3.3	1,088	3.1	1,147	2.9	1,195	2.8	1,230	2.8	1,267	2.8	1,305	2.8	1,344	2.8	1,384	2.8	1,426	2.8
Total	8,122	26.0	8,752	25.0	9,339	23.4	9,837	23.0	10,132	23.0	10,435	23.0	10,747	23.0	11,069	23.0	11,400	23.0	11,741	23.0
HOUSE PROFIT	7,904	25.6	10,285	29.2	13,289	33.4	15,077	35.2	15,531	35.2	15,997	35.2	16,478	35.3	16,973	35.3	17,483	35.3	18,008	35.3
Management Fee	1,025	3.3	1,159	3.3	1,315	3.3	1,413	3.3	1,454	3.3	1,498	3.3	1,542	3.3	1,588	3.3	1,635	3.3	1,684	3.3
INCOME BEFORE FIXED CHARGES	6,880	22.3	9,126	25.9	11,974	30.1	13,665	31.9	14,076	31.9	14,499	31.9	14,936	32.0	15,385	32.0	15,848	32.0	16,325	32.0
FIXED EXPENSES																				
Insurance	376	1.2	387	1.1	398	1.0	410	1.0	423	1.0	435	1.0	448	1.0	462	1.0	476	1.0	490	1.0
Reserve for Replacement	621	2.0	702	2.0	1,195	3.0	1,712	4.0	1,763	4.0	1,815	4.0	1,869	4.0	1,925	4.0	1,982	4.0	2,041	4.0
Total	997	3.2	1,089	3.1	1,594	4.0	2,123	5.0	2,186	5.0	2,251	5.0	2,318	5.0	2,387	5.0	2,458	5.0	2,531	5.0
NET INCOME	$5,883	19.1 %	$8,037	22.8 %	$10,381	26.1 %	$11,542	26.9 %	$11,890	26.9 %	$12,249	26.9 %	$12,619	27.0 %	$12,998	27.0 %	$13,390	27.0 %	$13,794	27.0 %
RETAIL REVENUE																				
Restaurant	115	0.4	119	0.3	122	0.3	126	0.3	127	0.3	131	0.3	135	0.3	139	0.3	143	0.3	147	0.3
Office Space	69	0.2	71	0.2	73	0.2	74	0.2	77	0.2	79	0.2	81	0.2	84	0.2	86	0.2	89	0.2
TOTAL NET INCOME	$6,067	19.7 %	$8,227	23.3 %	$10,576	26.6 %	$11,742	27.4 %	$12,094	27.4 %	$12,458	27.4 %	$12,834	27.5 %	$13,221	27.5 %	$13,619	27.5 %	$14,029	27.5 %

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

8. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed to be marketable and free of any deed restrictions and easements. Income and expense for the property is estimated as though title is free and clear unless otherwise stated.
3. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would render the property more or less operable. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
4. We have not considered the presence of potentially hazardous materials such as asbestos, urea formaldehyde foam insulation, any form of toxic waste, polychlorinated biphenyls (PCB), pesticides, toxic mold, or lead-based paints. The appraisers are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
5. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have conducted no specific compliance survey to determine whether the subject property will be operated in accordance with the various detailed requirements of the ADA
6. We have made no survey of the property, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the land and improvements is within the boundaries of the property described, and that there is no encroachment or trespass unless noted.
7. All information, financial operating statements, estimates, and opinions obtained from parties not employed by HVS International are assumed to

be true and correct. We can assume no liability resulting from misinformation.

8. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
9. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
10. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
11. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
12. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per diem fees and travel costs are paid prior to the appearance.
13. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
14. We take no responsibility for any events or circumstances that take place subsequent to either the date of our field inspection.
15. The quality of a lodging facility's on-site management has a direct effect on a property's economic viability and performance. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results and the value estimate.
16. The estimated operating results presented in this report are based on an evaluation of the overall economy, and neither take into account nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of rooms, food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been prepared on the basis of

information obtained during the course of this study and are intended to reflect the expectations of a typical hotel buyer.

17. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of value or the date of our field inspection, whichever occurs first.
18. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
19. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
20. Although this analysis employs various mathematical calculations to provide value indications, the final estimate is subjective and may be influenced by our experience and other factors not specifically set forth in this report.
21. This study was prepared by HVS International, a division of M&R Valuation Services, Inc. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of M&R Valuation Services, Inc. as employees, rather than as individuals.
22. This analysis assumes that the development and planning of the subject property prior to opening have been competently managed. Among the items assumed to occur are the employment of management and executive positions, the hiring and training of hotel staff, the establishment and implementation of operating policies and procedures, and the production and execution of a sales and marketing plan. The projections in this analysis are dependent upon a typical preopening process. Any variance from industry preopening planning and process for a hotel of this nature may materially affect the value(s) set forth in this report.
23. The proposed hotel is expected to operate under a management agreement with Starwood Hotels & Resorts over the projected term. Management fees are expected to be 3.0% of total revenue. An executed agreement may contain different management fee terms and/or FF&E

reserve requirements. For the purposes of this market study, we assume that the property will be operated by Starwood Hotels or a similar competent professional management company.

24. We assume that the proposed improvements will be constructed according to the development programs and timing described in this report in a professional, workmanlike manner.

25. We assume that approximately 250 spaces will be provided to the proposed hotel in the convention center parking structure for a nominal charge.

26. According to discussions with local hotel operators, city and county officials, and the client, the Lloyd Center District is expected to include new high-end residential housing and retail shops over the near future. However, we assume that the hotel would not be expected to perform as well if the neighborhood does not transform into an area that will generate a strong appeal to the general public.

9. Certification

We, the undersigned appraisers, hereby certify:

1. that the statements of fact presented in this report are true and correct to the best of our knowledge and belief;
2. that the reported analyses, opinions, and conclusions presented in this report are limited only by the assumptions and limiting conditions set forth, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. that Eric H. Fong, Elaine Sahlins, and Tom Hazinski personally inspected the property described in this report;
4. that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this feasibility report;
5. that the consultants have extensive experience in the valuation of hotel real estate and believe that they are competent to undertake this feasibility study;
6. that we have no current or contemplated interests in the real estate that is the subject of this report;
7. that we have no personal interest or bias with respect to the subject matter of this report or the parties involved;
8. that this report sets forth all of the limiting conditions (imposed by the terms of this assignment) affecting the analyses, opinions, and conclusions presented herein;
9. that the fee paid for the preparation of this report is not contingent upon our conclusions, or the occurrence of a subsequent event directly related to the intended use of this report;
10. that the reported analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal

Practice of the Appraisal Institute, which includes the Uniform Standards of Professional Appraisal Practice;

11. that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives;
12. that this report has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice (as adopted by the Appraisal Foundation);
13. that our engagement in this assignment was not contingent upon developing or reporting predetermined results;
14. that this feasibility study is not based on a requested minimum value, a specific value, or the approval of a loan.

Eric H. Fong
Senior Associate
M&R Valuation Services, Inc.

Elaine Sahlins
Senior Vice President
M&R Valuation Services, Inc.

Tom Hazinski
Managing Director
HVS Convention, Sports & Entertainment Facilities Consulting
A Division of HVS International

EHF: ES: TH: leg

Appendix A. OCC Room Night Analysis

This appendix presents a forecast of the event demand and new room nights that are likely to be generated by the Oregon Convention Center ("OCC") by the addition of the proposed headquarters hotel property. Based on a projection of the number and types and assumptions about average attendance, HVS estimates in increase in room nights, to be generated by the OCC after the addition of the headquarters, of approximately 60,000 room nights by 2014.

Description of the OCC

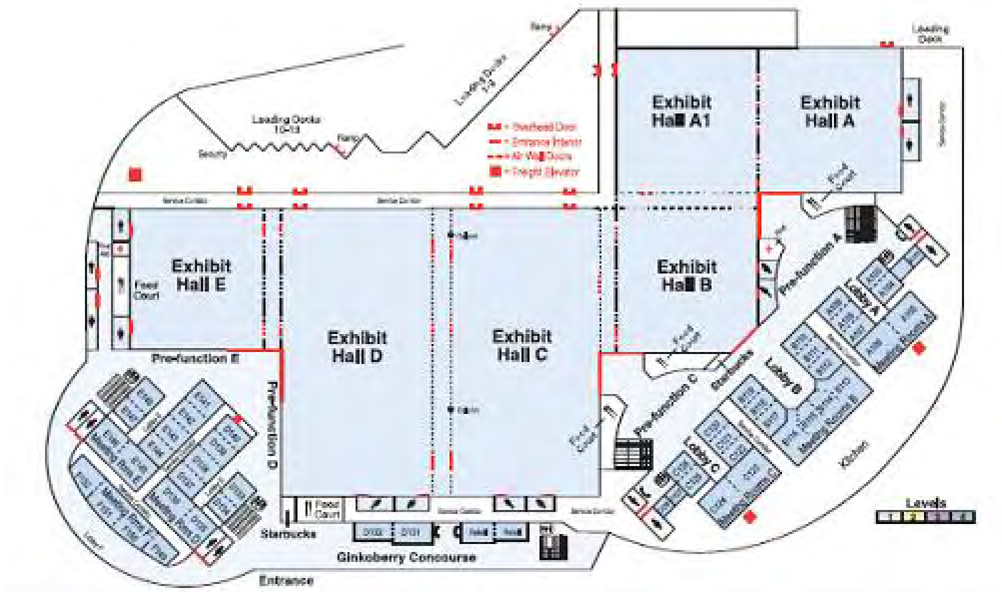
Located along Martin Luther King Boulevard between the Lloyd District and the East Bank of the Willamette River in Downtown Portland, the OCC is owned and operated by the Metropolitan Exposition Recreation Commission ("MERC"). While the facility is self-operated by MERC, the food and beverage services are currently outsourced exclusively to ARAMARK. Originally opened in 1990, a $116 million expansion completed in 2003 nearly doubled its size to approximately 1 million gross square feet.

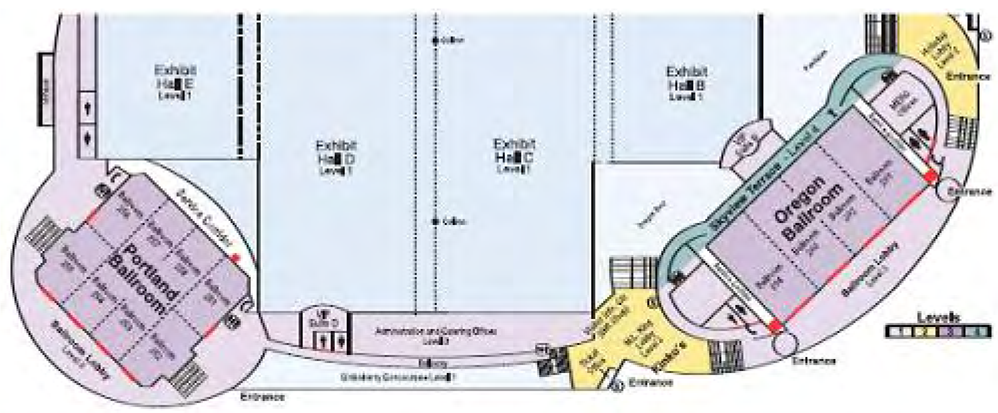
Oregon Convention Center

The venue features 255,000 square feet of exhibit space (105,000 of which is part of the 2003 expansion); 20 loading docks; two ballrooms of 25,200 and 34,200 square feet; and 50 meeting rooms. Upon inspection by HVS, it appears that the OCC is efficiently designed, well maintained, and provides users with a high-quality experience.

The following figure illustrates the floor plan of the OCC.

OCC Floor Plans





Historical Demand Analysis

HVS evaluated historical convention center demand and projected the annual number of events and attendance at the OCC with and without a headquarters hotel. HVS conducted the following tasks to assess demand potential for this project:

- Analyzed historic event demand data from the OCC;

- Reviewed and analyzed in detail the OCC lost business data, as reported by the Portland Oregon Visitor's Association; and

- Generated event demand and room night projections for the proposed development scenario.

Event Types

The OCC currently tracks the number of events and attendance at the OCC, and it provided HVS with detailed historical event data for the complete calendar years of 2004 through 2006. HVS used the data provided by OCC management to profile annual historical event demand by event type. The OCC also tracks the geographic scope of each event, indicating whether a significant number of attendees at the events are international, national, regional, state or local. The number of room nights associated with each event is highly dependent on its geographic scope.

A careful evaluation of historic demand provides a basis for understanding potential future demand if the headquarters hotel would be created. For the purpose of this analysis, we assume that the subject hotel would open in 2011. The proposed addition of the hotel may allow the OCC to capture a larger share of events and their associated room nights.

HVS has organized event demand into the following basic event categories. Internal events such as staff and board meetings have not been included in this analysis. These event categories are ones that are commonly used to track events at national and regional convention centers in the United States.

- **Conventions and Tradeshows–** exhibition events that require the use of exhibition, banquet, and meeting spaces. These are typically multi-day events that focus on the exchange of information between delegates or business exchanges between industry buyers and suppliers.

- **Consumer Shows –** exhibition events that require the use of exhibition space. Some consumer shows utilize a small amount of meeting space as well. These events are open to the public and generally charge an admission fee. Consumer shows generally are focused on the exchange of goods or services between vendors and local consumers.

- **Banquets –** non-exhibition events that utilize ballrooms or other banquet space to host a meal function. These events generally last a few hours and require the use of a catering kitchen and food service staff. Examples include dinners, fundraisers, and wedding receptions.

- **Meetings –** non-exhibition events that utilize meeting rooms. These are typically small, single-day events that require one or more meeting rooms for training, strategy sessions, or educational purposes.

- **Sports and Entertainment–** non-exhibition events that utilize an exhibition hall or multi-purpose ballroom for spectator events or assemblies. Sports may include such activities as cheerleading contests or martial arts classes. Entertainment events include concerts, family shows, comedy acts, festivals, and circus events.

Conventions and tradeshows often represent an opportunity to generate substantial economic impacts for a community because they attract delegates and exhibitors from out of town. Consumer shows, sporting events, assemblies and entertainment shows are generally geared toward serving the local resident population. These events typically generate small to moderate levels of economic impact for a community. Banquets and meetings also serve local social groups, institutions and corporations. Consequently, they tend to generate only modest economic impact.

The following table shows historical event demand and attendance estimates for the OCC during calendar years 2004 through 2006.

Historical Event Demand & Attendance by Event Type

Type of Event	2004	2005	2006	Average 2004-2006
NUMBER OF EVENTS				
Conventions & Tradeshows	64	81	87	77
Consumer Shows	22	39	52	38
Banquets	147	123	118	129
Meetings	238	278	382	299
Sports & Entertainment	11	11	11	11
Other	10	8	21	13
TOTAL	492	540	671	568
AVERAGE EVENT LENGTH (Excludes moving days)				
Conventions & Tradeshows	2.2	2.4	2.4	2.3
Consumer Shows	1.9	2.1	2.0	2.1
Banquets	1.0	1.0	1.0	1.0
Meetings	1.2	1.2	1.2	1.3
Sports & Entertainment	1.4	1.3	1.5	1.4
Other	1.1	1.1	1.6	1.3
EVENT DAYS (exludes moving days)				
Conventions & Tradeshows	139	192	206	166
Consumer Shows	41	80	102	61
Banquets	150	127	121	139
Meetings	277	338	451	308
Sports & Entertainment	15	14	17	15
Other	11	9	34	10
TOTAL	633	760	931	775
AVERAGE ATTENDANCE				
Conventions & Tradeshows	2,196	2,392	1,771	2,120
Consumer Shows	7,911	8,318	5,046	7,092
Banquets	416	465	507	462
Meetings	195	184	190	190
Sports & Entertainment	1,282	929	1,011	1,074
Other	1,904	492	680	1,025
TOTAL ATTENDANCE				
Conventions & Tradeshows	140,536	193,784	154,041	162,787
Consumer Shows	174,046	324,410	262,370	253,609
Banquets	61,182	57,135	59,784	59,367
Meetings	46,300	51,260	72,425	56,662
Sports & Entertainment	14,104	10,221	11,124	11,816
Other	19,035	3,935	14,288	12,419
TOTAL	455,203	640,745	574,032	556,660

Sources: OCC & HVS

During the past three years the OCC has hosted, on average, approximately 570 events annually. This represents an average annual attendance of approximately 557,000 people each year. Consumer shows account for the roughly half of the total attendance at the OCC. The facility also hosts a significant number of conventions and tradeshows. In 2004 through 2006 the facility hosted an average of 77 conventions and tradeshows, which are most likely to generate room night demand.

The following table shows historical event demand and attendance estimates for the OCC by geographic scope.

Historical Event Demand & Attendance by Scope

Geographic Scope of Events	2004	2005	2006	Average 2004-2006
NUMBER OF EVENTS				
International	5	4	4	4
National	27	42	45	38
Regional	22	36	29	29
State	63	73	111	82
Local	375	385	482	414
TOTAL	492	540	671	568
AVERAGE EVENT LENGTH (Excludes moving days)				
International	4.4	6.0	4.5	5.3
National	2.3	1.9	2.0	2.2
Regional	1.8	1.9	2.1	2.0
State	1.2	1.3	1.3	1.3
Local	1.2	1.3	1.3	1.4
EVENT DAYS (exludes moving days)				
International	22	24	18	23
National	63	81	90	72
Regional	39	68	60	54
State	75	93	143	84
Local	434	494	620	464
TOTAL	633	760	931	775
AVERAGE ATTENDANCE				
International	4,369	1,848	775	2,331
National	1,687	2,047	1,346	1,693
Regional	1,872	1,919	1,336	1,709
State	572	527	381	493
Local	828	1,142	891	954
TOTAL ATTENDANCE				
International	21,847	7,390	3,100	10,779
National	45,549	85,980	60,579	64,036
Regional	41,186	69,085	38,745	49,672
State	36,024	38,460	42,324	38,936
Local	310,597	439,830	429,284	393,237
TOTAL	455,203	640,745	574,032	556,660

Sources: OCC & HVS

Over this three-year period, over 70 percent of events and attendance at the OCC are from local events and unlikely to have produced any significant room night impact. However, state, regional, national and international events are all likely to have a significant component of non-local attendees. Average attendance in non-local events was approximately 163,000 with most attending national and regional events.

Lost Business Data

The Portland Oregon Visitors Association ("POVA") tracks groups that showed a significant level of interest in holding an event at the OCC, but that ultimately decided not to come to Portland. Such events are referred to as lost business. All of the lost business events in the POVA data base had tentatively reserved dates in the OCC for their events and had sought a proposal from POVA. HVS analyzed the subset of business that was lost due at least in part to the lack of a proximate headquarters hotel.

POVA tracks lost business with a standardized report on each lost event, which includes among other information, the name of the group, the proposed dates of the events, and estimates of how many room nights each group would use at peak and throughout the course of the event. The reasons for the lost business are identified by the sales manager and recorded at the time the OCC reserved dates are released.

HVS reviewed and analyzed the reasons for each piece of lost business in 2005 and 2006. All the lost business analyzed herein listed the lack of a headquarters hotel as the primary reason for choosing another destination; however, multiple secondary reasons were listed for most lost events.

The following table summarizes lost business from the POVA for the years 2005 and 2006. This figure highlights lost business as measured by the number of lost room nights.

Summary of Lost Business due to Lack of a Headquarters Hotel (2005 and 2006)

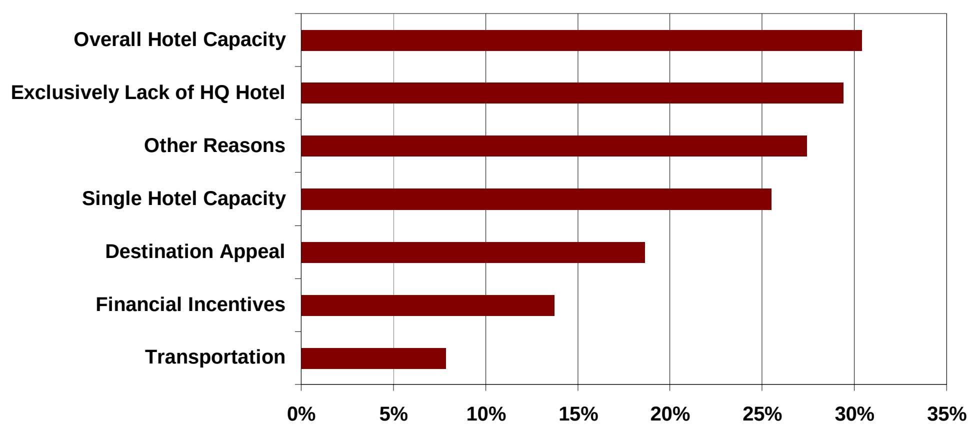
Year Lost	Number of Events	Attendees	Room Nights
2005	38	89,576	223,621
2006	44	127,370	239,409
Total	82	216,946	463,030
Average per Year		108,473	231,515
Average per Event		1,323	5,647

Sources: POVA & HVS

Eighty-two unique events were lost in 2005 and 2006. (HVS eliminated the duplication of events that had reserved dates for multiple years.). The OCC lost an average of approximately 232,000 room nights per year, with the average event having an estimated room block of 2,800 rooms.

Event planners most often gave multiple reasons for the lost events. The figure below breaks down these reasons.

Multiple Reasons for Lost Business



Sources: POVA and HVS

Approximately 28% of business was lost exclusively due to the lack of a headquarters hotel. Thirty percent of event planners were also concerned with the overall hotel capacity in the market. The lack overall capacity most often meant that the room block was spread out in too many hotels and competitive cities were able to offer the same number of rooms in fewer properties closer to the convention center. In some cases, the event planners were concerned about the lack of capacity in a single hotel. Other factors such as destination appeal, lack of financial incentives and adequate transportation arrangements also affected the decision not to locate the event in Portland.

The proposed addition of an adjacent headquarters hotel will significantly address many of the reasons cited for lost business. Moreover, it is likely that a substantial share of potential business, in addition to lost business, has not considered Portland in past years because event planners know there are insufficient hotel room blocks for their events. These events have not been recorded as lost business because an initial inquiry was never made. Although it is not possible to determine the extent of this latent business, it is possible could add significantly to the amount of lost business actually recorded.

The table below shows the impact of between 10 and 50 percent recovery of lost business with the addition of a headquarters hotel.

Recovery of Lost Business

Percent Recovery	Room Nights	Events
10%	23,152	4
15%	34,727	6
20%	46,303	8
25%	57,879	10
30%	69,455	12
35%	81,030	14
40%	92,606	16
45%	104,182	18
50%	115,758	21

Source: HVS

Recovering 25 percent of current lost business would require an increase of approximately 58,000 room nights. With average room night generation per event at 2,800, 10 new events would be necessary to produce this level of room night impact.

For the purposes of this analysis, HVS assumes that 20 percent of lost business could be recovered by POVA. This judgment is based in part upon the finding that approximately one fourth of business is lost solely because of the lack of a headquarters hotel. However, it is unlikely that every one of those lost events could be recovered.

The lost room nights reported by POVA reflect the room blocks requested by event planners. However, delegates and exhibitors, increasingly tend not to book their rooms through this distribution channel, but rather to use the internet or some other direct channel to make their reservations.

In a stabilized year, 8 new city-wide convention center events could produce another 46,000 room nights in the Portland hotel market. If one in four delegates to the 8 events recovered events were to book hotel rooms through direct channels, an additional 14,000 room night would be attracted to the market. This would result in an aggregate addition of approximately 60,000 room nights to the market. The following table shows an estimate of the change in OCC event demand that would produce an additional 60,000 room nights.

Estimate of Change in OCC Demand and Room Nights

Scope of Event	Without Hotel	With Hotel	Change
NUMBER OF EVENTS			
International	4	4	-
National	38	42	4
Regional	29	31	2
State	82	84	2
Local	414	414	-
TOTAL	567	575	8
AVERAGE ATTENDANCE			
International	2,300	2,300	-
National	1,700	1,700	-
Regional	1,700	1,700	-
State	500	500	-
Local	1,000	1,000	-
TOTAL ATTENDANCE			
International	9,000	9,000	-
National	65,000	71,400	6,400
Regional	49,000	52,700	3,700
State	41,000	42,000	1,000
Local	414,000	414,000	-
TOTAL	578,000	589,100	11,100
Ratio of Room Nights to Attendance in Lost Business Reports			4.10
Estimated Increase in Room Block (room nights)			46,000
Plus Direct Channel Bookings (room nights)			14,000
TOTAL Estimated New Room Nights			60,000

Source: HVS

Implications for the Subject Hotel

HVS added the projected number of additional group room nights that could be obtained by improved performance of the OCC (60,000) to the pool of convention center room nights that are otherwise available in the local area hotel market. This new demand is added incrementally until the headquarters hotel reaches a point of stabilized demand in the fourth year of operation. The projection of occupancy for the subject property (analyzed and described in Section 5 of this report) determines the extent to which the headquarters hotel will penetrate the convention group segment.