

BROUGHTON DISTRICT BURKEMONT AVENUE HOTEL

LIMITED - SERVICE HOSPITALITY



VISION STATEMENT

An upscale flag hotel bounds the southwestern corner of the Broughton District, adjacent to the Western Piedmont Community College (WPCC) and in close proximity to the District's many amenities. Guests of the hotel are well-situated to enjoy Morganton's charming downtown and Western North Carolina's exceptional beauty and outdoor recreation opportunities.

VALUE PROPOSITION

With excellent highway access and visibility, the Burkemont Avenue hotel attracts both passing visitors as well as patrons visiting Morganton for conferences, recreation, and events hosted by the local schools and universities. Beyond its well-appointed rooms, a pool, meeting space and a fitness center, the flag hotel offers first-rate access to the region's numerous draws. The hotel meets an existing shortage of upscale accommodations for corporate gatherings, continuing education courses at WPCC, and local recreational draws including athletic tournaments, and music and art festivals.



PROJECT SCOPE

HOTEL AVERY/
AVERY COMMONS
MUSEUM CAMPUS
BROUGHTON
TERRACE
SILO RIDGE
HOTEL COLONY/
COLONY COMMONS
**BURKEMONT
AVENUE HOTEL**



OVERALL SITE PLAN

PROGRAM	
HOTEL ROOMS	120 KEYS
AMENITIES	POOL, FITNESS CENTER (1000 SF), MEETING ROOMS (1500 SF)

AREA DRAWS

Morganton is situated near I-40, I-26, I-77, and I-85, one hour from both Charlotte, NC and Asheville, NC, positioning it as a convenient option for business and leisure travelers to the mountains from a wide geographic area. The site sees 46,000 automobile trips per day on adjacent routes.¹ Morganton is one of the most convenient destinations from Charlotte that provides access to the recreational amenities of western North Carolina, including the Blue Ridge Mountains, Pisgah National Forest, Linville Gorge and Lake James State Park, which attract visitors from North Carolina and surrounding southeastern states.² Last year, the Blue Ridge Parkway alone generated nearly 16.1 million visitors, 152,000 overnight stays, and 50,000 overnight stays in hotels.³

Burke County has experienced the second largest growth in tourism economic impact and visitor spending in the state in recent years, behind only Buncombe County.⁴ Burke County hosts numerous recreational and cultural opportunities, such as the Annual Historic Morganton Festival, which draws 40,000 attendees;⁵ the Red, White and Bluegrass Festival, drawing 1,000-3,000 attendees; and popular fall foliage tours in October that are correlated with markedly lower vacancy rates and higher revenue per available room (RevPAR) than the annual average for comparable hotel projects.⁶

The City's Parks and Recreation Department oversees extensive recreational facilities that draw regional and statewide visitors including nine baseball and softball fields at Catawba Meadows Park and over four miles of paved trails on the Morganton Greenway System. The local Catawba River Soccer Complex is currently being expanded to attract soccer tournaments that could generate overnight stays in Morganton.⁷

Morganton is also home to several educational institutions that account for over 7,000 students. These institutions will draw families for weekend visits and graduation ceremonies each year.⁸ Additionally, Downtown Morganton, only 1.5 miles from the site, is served by several craft breweries and wineries, as well as an abundance of shops and restaurants that provide a charming small-town feel that makes Morganton an ideal vacation spot in western North Carolina.



TRAILS



HISTORIC MORGANTON FESTIVAL



PARKS



NORTH CAROLINA SCHOOL FOR SCIENCE AND MATH FAMILY DAY

MARKET INDICATORS AND COMPS

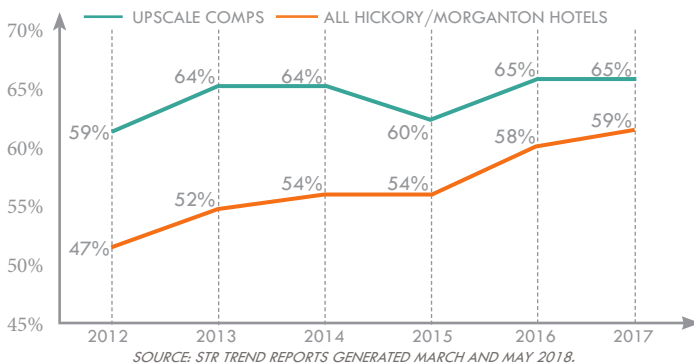
Morganton's numerous area draws result in strong and growing demand for hospitality space, which is demonstrated through growth in comparable projects' occupancy (see Graph 1, below), average daily rate (see Graph 2, below), and revenue per available room (RevPAR). A slight dip in percent occupancy in 2015 reflects the addition of 113 rooms to the upscale market with the opening of the Hilton Garden Inn in Hickory in December 2014. However, overall occupancy actually increased in this time period.⁹

Despite the growth in profitability of hospitality space, the supply of hotel rooms in Morganton and Hickory has been relatively stable over the past several years, growing by only 7% since 2012. There has been no new construction of comparable hospitality offerings in Morganton since February 1999. However, this is not due to lack of demand for upscale accommodations or hospitality space more generally. There is, in fact, evidence of increasing pressure on the current market supply. The only comparable upscale establishment in Morganton, the Hampton Inn, refurbished its location in

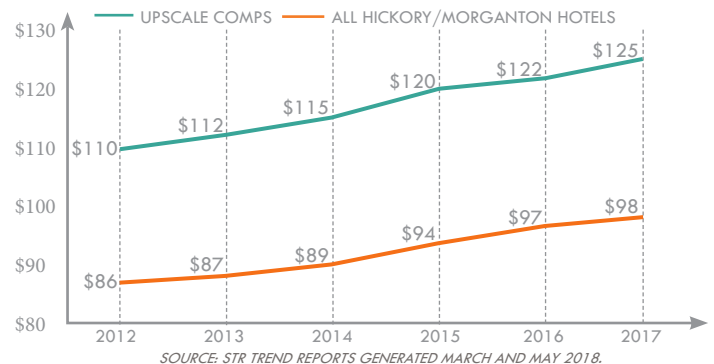
2018. Furthermore, there is evidence to suggest that a current shortage of lodging options is masking additional unmet demand. Western Piedmont Community College leadership notes that demand for 2-to-3-day continuing education courses cannot be met due to inadequate accommodations for such events.¹⁰ Similarly, in 2015, the North Carolina Main Street Conference drew enough attendees to overwhelm the supply of hospitality space in Morganton, and drive conference-goers to private residences, and nearby hospitality offerings in Catawba and McDowell Counties.

As demand for lodging grows and current stock ages, there will be opportunities to develop new hospitality offerings that capture the market pressure for upscale accommodations and amenity space that capitalize on the business and leisure draws to the region. The recent ground-breaking of an 85-key Fairfield Inn & Suites in downtown Morganton is one example of new product that targets this underserved segment.

GRAPH 1: PERCENT OCCUPANCY OF COMPARABLE PROJECTS, 2012 - 2017



GRAPH 2: AVERAGE DAILY RATE (ADR) OF COMPARABLE PROJECTS, 2012 - 2017



BLUE RIDGE PARKWAY



DOWNTOWN MORGANTON



MORGANTON RECREATION



MORGANTON HOTEL

FINANCIAL PERFORMANCE ASSUMPTIONS AND RETURN PROJECTIONS

Permanent Capital Sources				
	Percent	Per Key	Per GSF	Total
Primary Mortgage Note	65%	\$ 92,665	\$ 297	\$ 11,119,799
Equity	35%	\$ 49,897	\$ 160	\$ 5,987,584
Total Sources		\$ 142,562	\$ 456	\$ 17,107,383

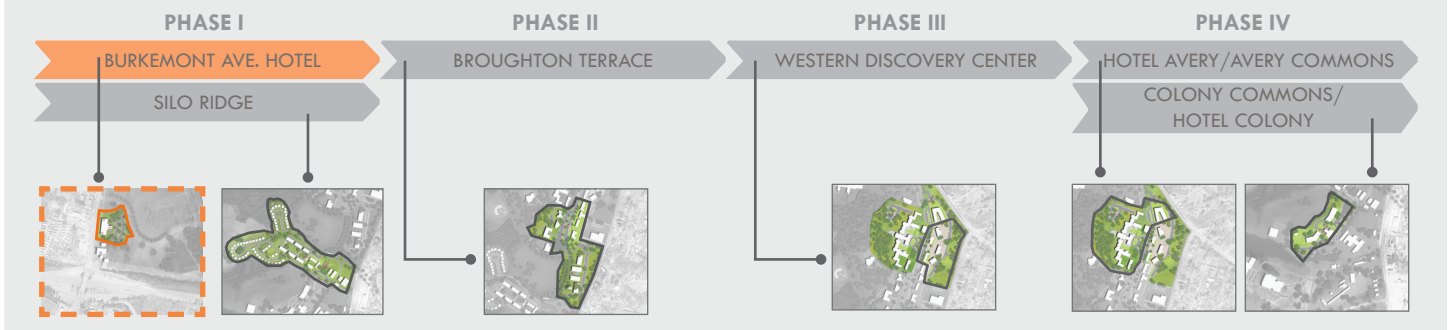
Development Budget				
	Percent	Per Key	Per GSF	Total
Acquisition	3%	\$ 4,333	\$ 14	\$ 520,000
Hard Costs & Contingency	68%	\$ 96,942	\$ 310	\$ 11,633,060
Soft Costs	9%	\$ 12,953	\$ 41	\$ 1,554,323
FF&E & Pre-Opening Costs	20%	\$ 28,333	\$ 91	\$ 3,400,000
Total Development Costs		\$ 142,562	\$ 456	\$ 17,107,383

Project Cost of Capital & Returns	
Rate	6.5%
Amortization	25
Stabilized DSCR (Year 3)	1.70
Yield on Cost (Stabilized Year 3)	9%
Cash-on-Cash (Stabilized Year 3)	11%
Exit Cap Rate	8-8.5%
Equity Multiple (5 Year Hold)	2.0 - 2.2x
Internal Rate of Return (5 Year Hold)	16% - 19%

Development Budget				
	Per Key	Per GSF	Total	
Acquisition Cost	\$ 4,333	\$ 14	\$ 520,000	
Sitework	\$ 9,792	\$ 31	\$ 1,175,000	
Building	\$ 65,000	\$ 208	\$ 7,800,000	
General Conditions	\$ 4,333	\$ 14	\$ 520,000	
Contingency	\$ 4,446	\$ 14	\$ 533,500	
Contractors Fee & Overhead	\$ 6,686	\$ 21	\$ 802,280	
A & E Fee	\$ 6,686	\$ 21	\$ 802,280	
Total Hard Costs	\$ 96,942	\$ 310	\$ 11,633,060	
Total FF&E & Pre-Opening	\$ 28,333	\$ 91	\$ 3,400,000	
Construction Period Taxes	\$ 333	\$ 1	\$ 40,000	
Legal & Accounting Fees	\$ 917	\$ 3	\$ 110,000	
Due Diligence	\$ 371	\$ 1	\$ 44,500	
Financing Cost	\$ 2,317	\$ 7	\$ 277,995	
Loan Carried Interest	\$ 3,313	\$ 11	\$ 397,533	
Developer Fee	\$ 5,702	\$ 18	\$ 684,295	
Total Soft Costs	\$ 12,953	\$ 41	\$ 1,554,323	
Total Development Costs	\$ 142,562	\$ 456	\$ 17,107,383	

Operating Cash Flow					
	Year 1	Year 2	Year 3	Year 4	Year 5
Rooms	120	120	120	120	120
Available Room Nights	43,710	43,710	43,710	43,710	43,710
Occupancy	65%	72%	75%	75%	75%
Average Daily Rate	\$ 135	\$ 140	\$ 146	\$ 152	\$ 158
ADR Rate Escalator	4%	4%	4%	4%	
INCOME STATEMENT					
Departmental Revenues	\$ 4,176,491	\$ 4,796,211	\$ 5,180,160	\$ 5,371,630	\$ 5,570,760
Departmental Expenses	\$ 1,091,002	\$ 1,249,281	\$ 1,345,520	\$ 1,391,473	\$ 1,439,264
Departmental Profit	\$ 3,085,489	\$ 3,546,930	\$ 3,834,640	\$ 3,980,158	\$ 4,131,496
Undistributed Expenses	\$ 1,371,677	\$ 1,556,808	\$ 1,670,862	\$ 1,727,336	\$ 1,786,030
G&A	\$ 313,237	\$ 359,716	\$ 388,512	\$ 402,872	\$ 417,807
Marketing & Sales	\$ 292,354	\$ 335,735	\$ 362,611	\$ 376,014	\$ 389,953
Repairs & Maintenance	\$ 120,000	\$ 123,600	\$ 127,308	\$ 131,127	\$ 135,061
Utilities	\$ 142,350	\$ 157,680	\$ 164,250	\$ 164,250	\$ 164,250
Telecomm	\$ 62,647	\$ 71,943	\$ 77,702	\$ 80,574	\$ 83,561
Franchise Fees	\$ 441,089	\$ 508,134	\$ 550,478	\$ 572,498	\$ 595,398
Gross Operating Profit	\$ 1,713,812	\$ 1,990,122	\$ 2,163,778	\$ 2,252,822	\$ 2,345,466
% of Revenues	41%	41%	42%	42%	42%
Per Occupied Room	\$ 60	\$ 63	\$ 66	\$ 69	\$ 72
Fixed Expenses	\$ 379,860	\$ 398,452	\$ 421,619	\$ 436,891	\$ 452,779
Management Fees	\$ 125,295	\$ 143,886	\$ 155,405	\$ 161,149	\$ 167,123
City of Morganton Taxes	\$ 90,669	\$ 90,669	\$ 95,709	\$ 99,831	\$ 104,120
County of Burke Taxes	\$ 118,896	\$ 118,896	\$ 125,505	\$ 130,911	\$ 136,535
Insurance	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000
FF&E Reserve	\$ 83,530	\$ 143,886	\$ 207,206	\$ 214,865	\$ 222,830
NOI (after reserve)	\$ 1,250,422	\$ 1,447,784	\$ 1,534,953	\$ 1,601,066	\$ 1,669,857
% of Revenue	30%	30%	30%	30%	30%
Per Occupied Room	\$ 44	\$ 46	\$ 47	\$ 49	\$ 51
NOI Valuation	\$ 14,710,846	\$ 17,032,756	\$ 18,058,269	\$ 18,836,070	\$ 19,645,375
Debt Service	\$ 811,884	\$ 900,980	\$ 900,980	\$ 900,980	\$ 900,980
BTCF from Operations	\$ 438,538	\$ 546,804	\$ 633,973	\$ 700,086	\$ 768,877
DSCR	1.54	1.61	1.70	1.78	1.85
Yield on Cost	7%	8%	9%	9%	10%
Cash on Cash	7%	9%	11%	12%	13%

10 - YEAR DEVELOPMENT TIMELINE



(1) NCDOT AADT Mapping Application.

(2) www.wncvitalityindex.org.

(3) National Park Service Integrated Resource Management Application (IRMA).

(4) The U.S. Travel Association.

(5) Morgantonfest.org.

(6) Comparable projects include hotels within Hickory or Morganton, NC, classified as either "Upper Midscale Class" or "Upscale Class" by STR Global. This comparable set includes the following hotels: Hampton Inn-Hickory; Hilton Garden Inn-Hickory; Courtyard-Hickory; Fairfield Inn & Suites-Hickory; and Hampton Inn-Morganton.

(7) Morganton News Herald.

(8) www.ncssm.edu; www.wpc.edu; U.S. News & World Report.

(9) STR Data indicates that despite decline in percent occupancy, overall occupancy per day actually increased by 44 rooms on average over this time period.

(10) As reported by Hotel and Club Associates of Virginia in a custom report generated 9 September 2015; Morganton News Herald.