

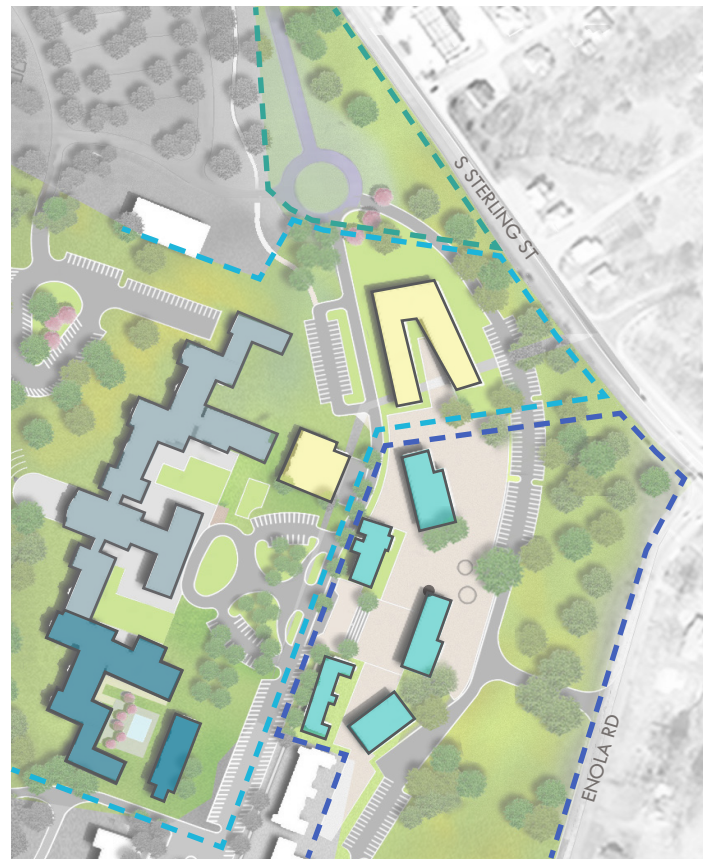


VISION STATEMENT

The Historic Broughton Campus' refurbished Avery building stands as a landmark feature in the District's northeastern corner, housing 53 condominiums and a 118-key boutique hotel adjacent to the Western North Carolina Discovery Center and a thriving restaurant. Visitors and residents alike enjoy historic architecture, striking natural beauty of the site's old-growth trees and rolling hills, and views of the Blue Ridge Mountains while taking advantage of both on-site amenities and nearby recreational draws.

VALUE PROPOSITION

The full-service boutique hotel draws visitors from across the southeast who seek upscale accommodations and a unique experience: a historic building in a bucolic setting with superior access to Morganton's nearby attractions, and corporate or educational events. The boutique hotel includes on-site amenities that meet the needs of its diverse patronage, including meeting space and dining options, which sets the property apart from "flag" hotels in the Hickory-Lenoir-Morganton metro market that demonstrates steady growth in occupancy and average daily rates with little new supply.



PROJECT SCOPE

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

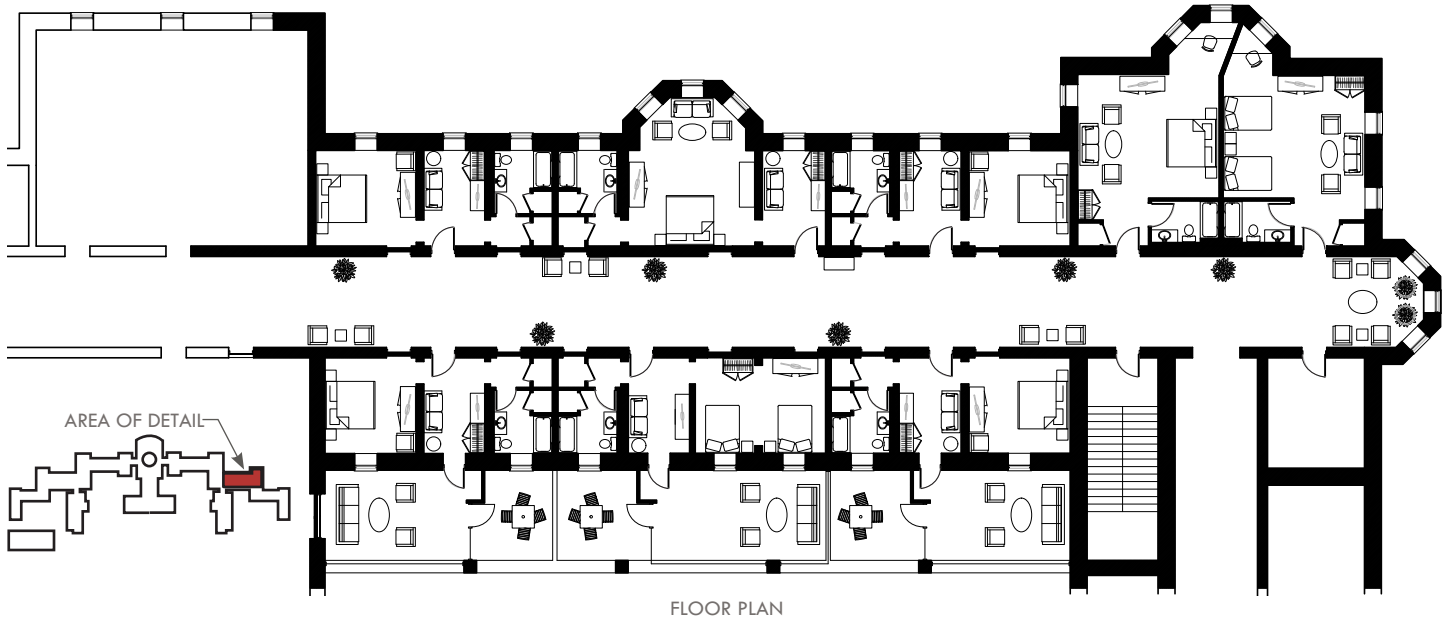


OVERALL SITE PLAN

PROGRAM	
HOTEL	118 KEYS
RESIDENTIAL	45 UNITS (SOUTH AVERY) 8 UNITS (REECE)
COMMERCIAL	40,992 SF
MUSEUM (DISCOVERY CENTER)	51,000 SF

A NEW VISION

HOTEL AVERY



HOTEL ROOM



HOTEL CORRIDOR

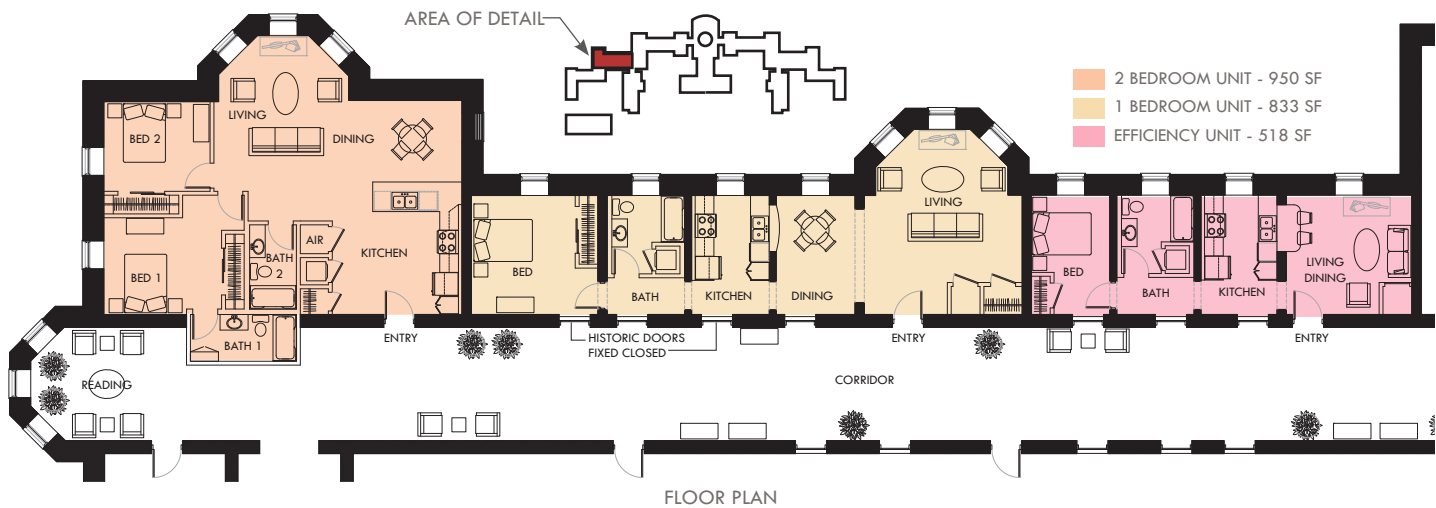
PROJECT DESCRIPTION

A typical Hotel Avery Room greets the guest with a blend of refined historic finishes and warm modern amenities. Rooms are bright and airy with tall historic plaster ceilings, bathed in natural light from tall arch-topped window openings sculpted into historic masonry and plaster walls. Floors are a blend of historic caramel pebble terrazzo and modern warm accent carpets. Baths feature clean, modern fixtures and cabinetry, solid-surface vanity tops, with tile and glass bath surrounds. Furniture is unadorned and modern, coexisting with the room's historic architectural heritage.

A Hotel Avery guest approaches the building from a manicured elliptical drop-off courtyard, entering a 1-story reception and check-in wing. The reception wing is light-filled and airy, with high ceilings and an exposed historic roof structure. Flanking the reception area is a trendy breakfast café, as well as a white tablecloth restaurant offering freshly

prepared meals with locally sourced ingredients. Following a central corridor into the hotel, guests follow a wide corridor with cherry-flecked ivory terrazzo floors and modern-patterned carpet runners. Soft lighting washes the detailed historic plaster walls. Passing secondary corridors to the north and south guestroom wings, guests find themselves in the central tower lobby, adjacent to stairs, elevator, hotel administration, and the Hotel Avery Gift Shop and Gallery. Attached to the north guestroom wing is a 2-story secondary wing containing a large conference center, spa, fitness center, and private conference rooms. For guests interested in taking a refreshing dip on a humid North Carolina summer day, a seasonal outdoor swimming pool is nestled in the landscaped courtyard between the South Wing and the Reece Building, surrounded by Hotel Avery's classical historic masonry facades. Pool-side food and beverage service is available.

AVERY RESIDENCES



Like the Hotel Avery guest rooms, Avery Residences offer a blend of refined historic finishes and warm modern materials in efficiency, 1-bedroom and 2-bedroom rental unit layouts. Kitchens and baths feature clean modern fixtures, appliances, cabinetry, solid-surface counter tops, with tile and glass bath surrounds. Each unit has a stacked washer-dryer closet. Public spaces and corridors are generous in width and ceiling height, with fine plaster walls and terrazzo floors. Sunny nooks and

social foyers in the building’s projections are regularly spaced along the corridors, naturally lit and visually connected to the outside with large window openings. Residents have the opportunity to join a club that provides access to all the hotel amenities, including the pool, spa and fitness center.

WESTERN NC DISCOVERY CENTER

The State’s Department of Natural and Cultural Resources would create a regional Discovery Center museum for the western portion of the state. This ‘Discovery Center’ will focus on the cultural and natural history of the western portion of the state as well as showcase regional fine arts, and learning labs designed as immersive educational environments around natural sciences, history and outdoor learning.

The museum buildings will be connected via a plaza that integrates hardscaping and outdoor educational spaces that complement the private uses of Hotel Avery. A 30,000 SF privately developed commercial structure is proposed in this phase that will serve as the gateway piece into the museum and Hotel Avery.

Public Investment		
USE	SF	BUILDING
Permanent Exhibits	9,000	Laundry (Existing)
Fine Arts Gallery and Learning Labs	12,000	Steam Plant (Existing)
Temporary Gallery	4,000	Machine Shop (Existing)
Classrooms	12,484	Saunders (Existing)
Auditorium	14,000	New Construction

WESTERN NC DISCOVERY CENTER EXTERIOR PERSPECTIVE

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 corporate events from a wide geographic area. The site sees 46,000 automobile trips per day on adjacent routes. The Historic Broughton Campus itself is located along South Sterling Street, a primary corridor in Morganton's downtown area, that sees an average of 22,000 automobile trips per day, ensuring visibility to the public.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 recent years, placing it behind only Buncombe County in the state.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



BLUE RIDGE PARKWAY

(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.wpcc.edu; U.S. News & World Report.

MARKET INDICATORS AND COMPS

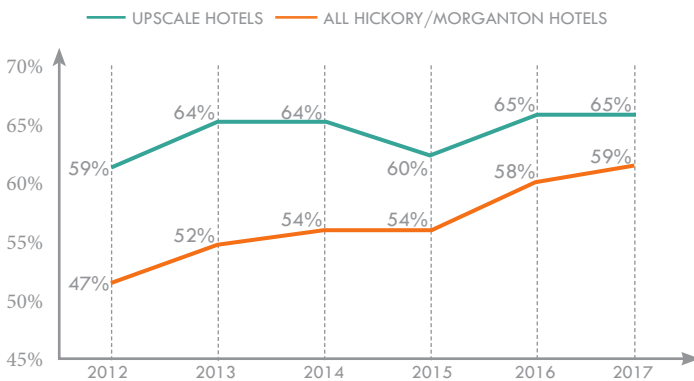
Morganton's numerous area draws result in strong and growing demand for hospitality space, which is demonstrated through growth in comparable projects' occupancy (see graph 1, below), average daily rate (see graph 2, below), and revenue per available room (RevPAR). A slight dip in percent occupancy in 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. In fact, there is evidence of increasing pressure on the supply in the market. 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.

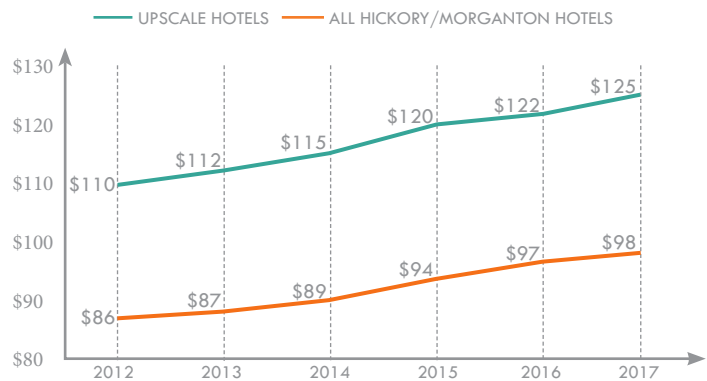
As demand for lodging grows and current stock ages, there will be opportunities to develop new hospitality offerings that capture the market for upscale accommodations and amenity space that capitalize on the business and leisure draws to the region. The recent ground-breaking of an 85-key Fairfield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

GRAPH 1: PERCENT OCCUPANCY OF LOCAL HOTELS 2012 - 2017



SOURCE: STR TREND REPORTS GENERATED MARCH AND MAY 2018.

GRAPH 2: AVERAGE DAILY RATE (ADR) OF LOCAL HOTELS 2012 - 2017



SOURCE: STR TREND REPORTS GENERATED MARCH AND MAY 2018.

CASE STUDY

HOTEL HENRY

- Location: Buffalo, NY
- Population: 259,000
- Size: 88 Rooms; the first phase of the Richardson Olmsted adaptive reuse project
- Completion Date: 2016
- Former Land Use: Buffalo Psychiatric Center
- Overview: The former Kirkbride-style Buffalo Psychiatric Hospital is repurposed as the Richardson Olmsted Campus--home to anchor tenant Hotel Henry, which features upscale accommodations, conference and event spaces, and a farm-to-table restaurant. The Lipsey Buffalo Architecture Center Museum is scheduled to move into the complex by the end of 2018.



(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.

FINANCIAL PERFORMANCE ASSUMPTIONS AND RETURN PROJECTIONS

HOTEL AVERY

Permanent Capital Sources				
	Percent	Per Key	Per GSF	Total
Historic Tax Credit Equity	18%	\$ 67,432	\$ 32	\$7,956,978
Primary Loan	57%	\$ 210,308	\$ 99	\$ 24,816,353
Equity	25%	\$ 91,724	\$ 43	\$ 10,823,442
Total Sources		\$ 369,464	\$ 174	\$ 43,596,774

Project Cost of Capital & Returns	
Rate	6.5%
Amortization	25
Stabilized DSCR (Year 3)	1.67
Yield on Cost (Stabilized Year 3)	7.8%
Cash-on-Cash (Stabilized Year 3)	11.2%
Exit Cap Rate	8 - 8.5%
Equity Multiple (6 Year Hold)	2.7 - 2.9x
Internal Rate of Return (6 Year Hold)	20% - 22%

Development Budget				
	Per Key	Per GSF	Total	
Acquisition Cost	\$ 13,642	\$ 6	\$ 1,609,697	
Sitework	\$ 17,088	\$ 8	\$ 2,016,369	
Building Renovations & TI	\$ 193,768	\$ 129	\$ 22,864,600	
General Conditions	\$ 9,113	\$ 4	\$ 1,234,759	
Contingency	\$ 10,631	\$ 5	\$ 1,453,670	
A & E Fee			\$ 1,990,478	
Contractors Fee and Overhead	\$ 14,896	\$ 7	\$ 1,996,804	
Total Hard Costs	\$ 225,895	\$ 106	\$ 31,556,680	
Total FF&E and Pre-Opening	\$ 50,890	\$ 24	\$ 6,305,000	
Construction Period Taxes	\$ 84	\$ 0	\$ 9,859	
Legal & Accounting Fees	\$ 932	\$ 0	\$ 110,000	
Due Diligence	\$ 377	\$ 0	\$ 44,500	
Financing Cost	\$ 4,732	\$ 2	\$ 558,368	
Loan Carried Interest	\$ 7,519	\$ 4	\$ 887,185	
Bridge Loan Carried Interest	\$ 5,191	\$ 2	\$ 612,518	
Bridge Loan Origination Fee	\$ 1,348	\$ 1	\$ 159,096	
Developer Fee	\$ 12,942	\$ 6	\$ 1,743,871	
Total Soft Costs	\$ 33,124	\$ 16	\$ 4,125,396	
Total Development Costs	\$ 323,551	\$ 152	\$ 43,596,774	

Operating Cash Flow						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Rooms	118	118	118	118	118	118
Occupancy	65%	72%	75%	75%	75%	75%
Average Daily Rate	\$ 225	\$ 234	\$ 243	\$ 253	\$ 263	\$ 274
ADR Rate Escalator	4%	4%	4%	4%	4%	

INCOME STATEMENT

Departmental Revenues	\$ 8,740,922	\$ 9,937,098	\$ 10,643,713	\$ 10,957,513	\$ 11,283,864	\$ 11,623,269
Rooms	\$ 6,286,044	\$ 7,241,523	\$ 7,844,983	\$ 8,158,783	\$ 8,485,134	\$ 8,824,539
Spa	\$ 698,449	\$ 773,667	\$ 805,903	\$ 805,903	\$ 805,903	\$ 805,903
Food and Beverage	\$ 1,536,589	\$ 1,702,067	\$ 1,772,987	\$ 1,772,987	\$ 1,772,987	\$ 1,772,987
Marsh Restaurant Rent	\$ 219,840	\$ 219,840	\$ 219,840	\$ 219,840	\$ 219,840	\$ 219,840
Departmental Expenses	\$ 3,116,893	\$ 3,518,457	\$ 3,737,108	\$ 3,812,420	\$ 3,890,744	\$ 3,972,201
Departmental Profit	\$ 5,624,029	\$ 6,418,641	\$ 6,906,606	\$ 7,145,093	\$ 7,393,120	\$ 7,651,068
Undistributed Expenses	\$ 2,801,398	\$ 2,312,040	\$ 2,450,379	\$ 2,513,318	\$ 2,578,647	\$ 2,646,458
Gross Operating Profit	\$ 2,822,631	\$ 4,106,601	\$ 4,456,226	\$ 4,631,775	\$ 4,814,473	\$ 5,004,610
% of Revenues	32%	41%	42%	42%	43%	43%
Per Occupied Room	\$ 101	\$ 133	\$ 138	\$ 144	\$ 149	\$ 155
Fixed Expenses	\$ 571,572	\$ 607,457	\$ 628,655	\$ 638,069	\$ 647,860	\$ 658,042
Management Fees	\$ 262,228	\$ 298,113	\$ 319,311	\$ 328,725	\$ 338,516	\$ 348,698
City of Morganton Taxes	\$ 87,891	\$ 87,891	\$ 87,891	\$ 87,891	\$ 87,891	\$ 87,891
Burke County Taxes	\$ 115,253	\$ 115,253	\$ 115,253	\$ 115,253	\$ 115,253	\$ 115,253
Insurance	\$ 106,200	\$ 106,200	\$ 106,200	\$ 106,200	\$ 106,200	\$ 106,200
FF&E Reserve	\$ 174,818	\$ 298,113	\$ 425,749	\$ 438,301	\$ 451,355	\$ 464,931
NOI	\$ 2,076,241	\$ 3,201,031	\$ 3,401,822	\$ 3,555,405	\$ 3,715,259	\$ 3,881,638
% of Revenue	24%	32%	32%	32%	33%	33%
Per Occupied Room	\$ 74	\$ 103	\$ 106	\$ 110	\$ 115	\$ 120
NOI Valuation	\$ 24,426,367	\$ 37,659,193	\$ 40,021,441	\$ 41,828,298	\$ 43,708,927	\$ 45,666,324
Total Ownership Expenses	\$ (1,729,523)	\$ (1,772,203)	\$ (2,193,621)	\$ (2,193,621)	\$ (2,193,621)	\$ (2,193,621)
BTCF from Operations	\$ 346,718	\$ 1,428,829	\$ 1,208,202	\$ 1,361,784	\$ 1,521,638	\$ 1,688,017
DSCR	1.29	1.98	1.67	1.75	1.83	1.91
Yield on Cost	5%	7%	8%	8%	9%	9%
Cash on Cash	3%	13%	11%	13%	14%	16%

AVERY RESIDENCES

Permanent Capital Sources				
	Percent	Per Unit	Per GSF	Total
Historic Tax Credit Equity	24%	\$ 69,152	\$ 30	\$ 3,665,052
Primary Loan	55%	\$ 161,038	\$ 69	\$ 8,535,004
Equity	21%	\$ 62,272	\$ 27	\$ 3,300,390
Total Sources		\$ 292,461	\$ 126	\$ 15,500,445

Development Budget				
	Per Unit	Per GSF	Total	
Acquisition	\$ 8,139	\$ 4	\$ 431,393	
Hard Costs & Contingency	\$ 251,354	\$ 108	\$ 13,321,750	
Soft Costs	\$ 32,968	\$ 14	\$ 1,747,303	
TOTAL DEVELOPMENT COSTS	\$ 292,461	\$ 126	\$ 15,500,445	

Rent Roll			
Unit Type	Unit Count	Mix	Avg. Unit \$/Month
Efficiency	3	6%	\$ 850
1 bedroom	20	38%	\$ 1,250
2 bedroom	30	57%	\$ 1,600
	53		\$1,425 weighted avg.

TOTAL PROJECT RETURNS

Master Development Cash Flows							
Project Year	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Hotel							
Equity Contributed	\$(10,823,442)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Before Tax Cash Flow from Sale - T\$	\$ -	\$ 346,718	\$ 1,428,829	\$ 1,208,202	\$ 1,361,784	\$ 1,521,638	\$ 1,688,017
Before Tax Cash Flow from Sale - S\$	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,399,188
Total Cash Flows	\$(10,823,442)	\$ 346,718	\$ 1,428,829	\$ 1,208,202	\$ 1,361,784	\$ 1,521,638	\$ 23,087,205
Residential							
Equity Contributed	\$ (3,300,390)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Before Tax Cash Flow from Operati	\$ -	\$ 128,025	\$ 109,466	\$ 80,673	\$ 100,346	\$ 127,740	\$ 155,970
Before Tax Cash Flow from Sale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,171,824
Total Cash Flows	\$ (3,300,390)	\$ 128,025	\$ 109,466	\$ 80,673	\$ 100,346	\$ 127,740	\$ 4,327,793
Master Development Cash Flows	\$ (14,123,833)	\$ 474,743	\$ 1,538,295	\$ 1,288,874	\$ 1,462,130	\$ 1,649,378	\$ 27,414,998

IRR	18%
Equity Multiple	2.4

10 - YEAR DEVELOPMENT TIMELINE

