



### VISION STATEMENT

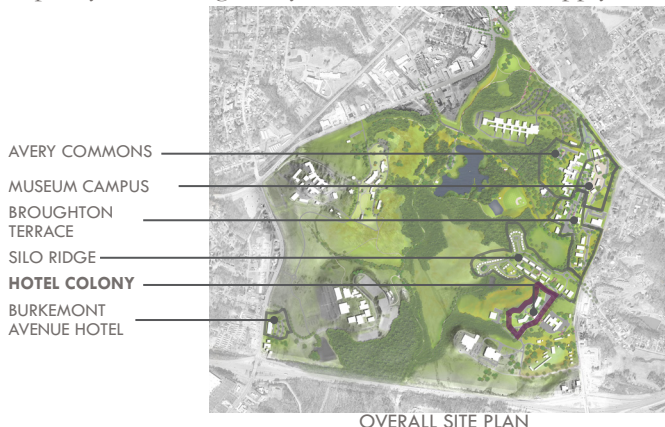
The refurbished Colony building houses a charming boutique hotel in the southeastern corner of the Broughton District, adjacent to a thriving mixed-use community with single-family residential and adaptive commercial development just a short walk away. Visitors enjoy the site's historic architecture, striking natural beauty of the District'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



PROGRAM	
NEW CONSTRUCTION	120 KEYS
RECEPTION AND AMENITY (COLONY BUILDING)	19,040 SF
SPA (ABATTOIR)	2,080 SF



## PROJECT DESCRIPTION

The Hotel Colony is a 120-key hotel anchored between the historic Colony Building and Abattoir. Located behind and flanking the Colony Building, two newly constructed 3-story hotel blocks provide modern interior environments to guests with pastoral views across the District.

Hotel check-in and amenities are housed in the Colony Building, which is connected to the guest room buildings through a first-floor glass walkway into the main lobby of the Colony Building. The Colony Building also provides the concierge, gift shop, breakfast room, and the white tablecloth Colony Grill, a farm-to-table fine dining restaurant. Exterior porches provide patrons with seasonal idyllic views of the rolling hills below. Historic interior finishes are showcased throughout the Colony Building, including pressed tin ceilings, plaster walls, refinished historic wood plank floors, wood wainscoting, and fluted columns. Large double-hung historic wood windows and high ceilings provide ample daylight throughout all of the spaces, while an open-air porch and balcony on the front of the building welcomes guests weary from travel. A paved walking path passes the swimming pool and lush Event Lawn, connecting the hotel blocks to the historic brick and concrete Abattoir Building, where residents can exercise in a state of the art fitness center, or relax in the Colony Spa, a compact facility offering steam room, sauna, and massages by appointment.

## 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. 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.<sup>1</sup>

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.<sup>2</sup> Last year, the Blue Ridge Parkway alone generated nearly 16.1 million visitors, 152,000 overnight stays, and 50,000 overnight stays in hotels.<sup>3</sup>

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.<sup>4</sup> Burke County hosts numerous recreational and cultural opportunities such as: the Annual Historic Morganton Festival, which draws 40,000 attendees;<sup>5</sup> 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.<sup>6</sup>

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.<sup>7</sup>

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.<sup>8</sup> 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.



NCSSM FAMILY DAY



MORGANTON PARKS



TRAILS



HISTORIC MORGANTON FESTIVAL



## MARKET INDICATORS AND COMPS

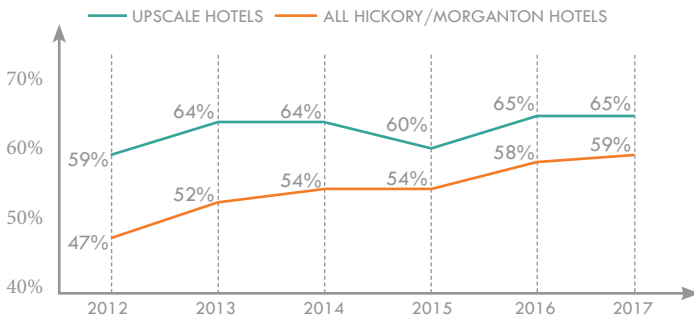
Morganton's numerous area draws result in strong and growing demand for hospitality space, which is demonstrated through growth in comparable projects' occupancy (see graph 1, below), average daily rate (see Graph 2, below), and revenue per available room (RevPAR). A slight dip in percent occupancy in 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.<sup>9</sup>

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

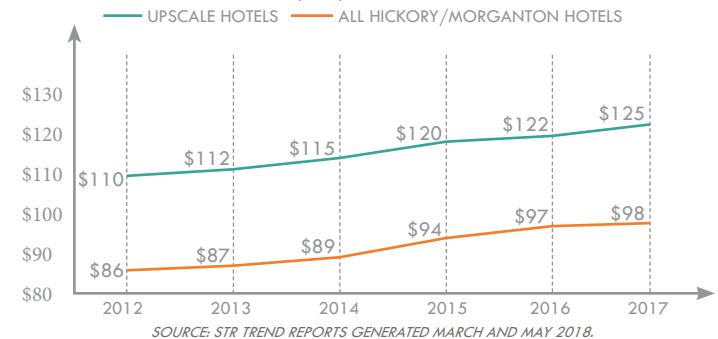
in Morganton, the Hampton Inn, refurbished its location in 2018. Furthermore, there is evidence to suggest that a current shortage of lodging options is masking additional unmet demand. Western Piedmont Community College leadership notes that demand for 2-to-3-day continuing education courses cannot be met due to inadequate accommodations for such events.<sup>10</sup> 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



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



BLUE RIDGE PARKWAY



DOWNTOWN MORGANTON

## CASE STUDY

### BLACKBERRY FARM

- Location: Walland, TN
- Population: 200
- Program: 68 upscale accommodations
- Completion Date: 1976
- Overview: Blackberry Farm offers high-end rooms, suites and cottages on a resort adjacent to the scenic Great Smoky Mountains. Blackberry Farm offers nationally-renowned restaurants, locally-made artisan crafts as well as luxury amenities, including a spa and wellness center, a craft brewery, and a rustic picnic shelter that doubles as a performance venue and events space. Single family homes have been recently developed surrounding the farm.



## FINANCIAL PERFORMANCE ASSUMPTIONS AND RETURN PROJECTIONS

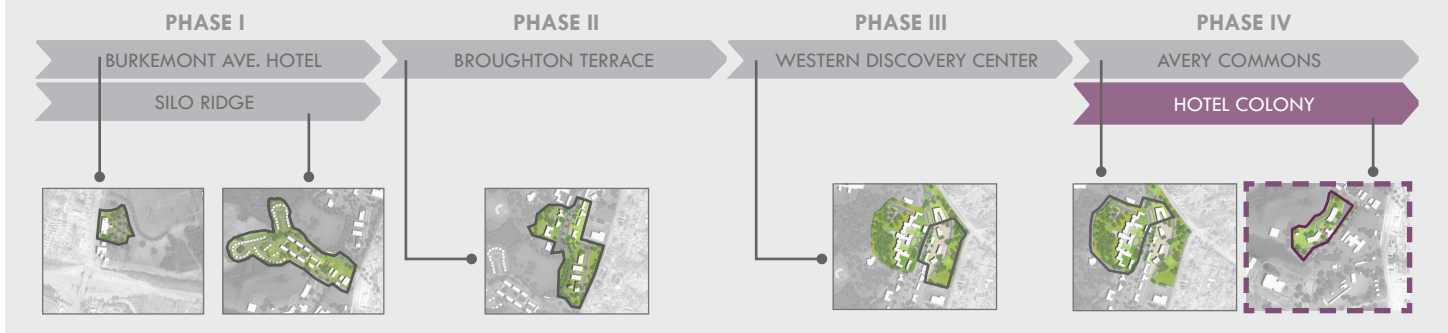
Permanent Capital Sources				
	Percent.	Per Key	Per GSF	Total
Historic Tax Credit Equity	6%	\$ 16,144	\$ 26	\$1,937,318
Primary Loan	65%	\$ 170,956	\$ 273	\$ 20,514,753
Equity	29%	\$ 75,909	\$ 121	\$ 9,109,087
<b>Total Sources</b>		<b>\$ 263,010</b>	<b>\$ 420</b>	<b>\$ 31,561,158</b>

Project Cost of Capital & Returns	
Rate	6.5%
Amortization	25
Stabilized DSCR (Year 3)	1.64
Yield on Cost (Stabilized Year 3)	8.7%
Cash-on-Cash (Stabilized Year 3)	11%
Exit Cap Rate	8 - 8.5%
Equity Multiple (6 Year Hold)	2.6 - 2.9x
Internal Rate of Return (6 Year Hold)	20% - 22%

Development Budget				
	Per Key	Per GSF		Total
<b>Acquisition Cost</b>	<b>\$ 11,050</b>	<b>\$ 18</b>		<b>\$ 1,326,000</b>
Sitework	\$ 22,977	\$ 37	\$	2,757,250
Building Renovations & Construction	\$ 119,167	\$ 190	\$	14,300,000
General Conditions	\$ 9,749	\$ 16	\$	1,169,850
Contingency	\$ 7,632	\$ 12	\$	915,855
Contractors Fee and Overhead	\$ 12,822	\$ 20	\$	1,538,636
A & E Fee	\$ 11,372	\$ 18	\$	1,364,580
<b>Total Hard Costs</b>	<b>\$ 183,718</b>	<b>\$ 293</b>		<b>\$ 22,046,171</b>
<b>Total FF&amp;E and Pre-Opening</b>	<b>\$ 44,775</b>	<b>\$ 72</b>		<b>\$ 5,373,000</b>
Construction Period Taxes	\$ 135	\$ 0	\$	16,244
Legal & Accounting Fees	\$ 917	\$ 1	\$	110,000
Due Diligence	\$ 371	\$ 1	\$	44,500
Financing Cost	\$ 3,847	\$ 6	\$	461,582
Loan Carried Interest	\$ 6,112	\$ 10	\$	733,402
Bridge Loan Carried Interest	\$ 1,242	\$ 2	\$	149,089
Bridge Loan Origination Fee	\$ 323	\$ 1	\$	38,724
Developer Fee	\$ 10,520	\$ 17	\$	1,262,446
<b>Total Soft Costs</b>	<b>\$ 23,467</b>	<b>\$ 37</b>		<b>\$ 2,815,987</b>
<b>Total Development Costs</b>	<b>\$ 263,010</b>	<b>\$ 420</b>		<b>\$ 31,561,158</b>

Operating Cash Flow						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Rooms	120	120	120	120	120	120
Available Room Nights	43,710	43,710	43,710	43,710	43,710	43,710
Occupancy	65%	72%	75%	75%	75%	75%
Average Daily Rate	\$ 200	\$ 208	\$ 216	\$ 225	\$ 234	\$ 243
ADR Rate Escalator	4%	4%	4%	4%	4%	
<b>INCOME STATEMENT</b>						
Departmental Revenues	\$ 7,955,220	\$ 9,063,706	\$ 9,714,110	\$ 9,997,771	\$ 10,292,778	\$ 10,599,585
Departmental Expenses	\$ 2,990,310	\$ 3,372,769	\$ 3,578,761	\$ 3,646,839	\$ 3,717,641	\$ 3,791,274
<b>Departmental Profit</b>	<b>\$ 4,964,910</b>	<b>\$ 5,690,937</b>	<b>\$ 6,135,350</b>	<b>\$ 6,350,932</b>	<b>\$ 6,575,137</b>	<b>\$ 6,808,310</b>
<b>Undistributed Expenses</b>	<b>\$ 2,611,000</b>	<b>\$ 2,177,553</b>	<b>\$ 2,307,118</b>	<b>\$ 2,365,234</b>	<b>\$ 2,425,548</b>	<b>\$ 2,488,143</b>
G&A	\$ 596,642	\$ 679,778	\$ 728,558	\$ 749,833	\$ 771,958	\$ 794,969
Marketing & Sales	\$ 556,865	\$ 634,459	\$ 679,988	\$ 699,844	\$ 720,494	\$ 741,971
Repairs & Maintenance	\$ 400,000	\$ 412,000	\$ 424,360	\$ 437,091	\$ 450,204	\$ 463,710
Utilities	\$ 284,700	\$ 315,360	\$ 328,500	\$ 328,500	\$ 328,500	\$ 328,500
Telecomm	\$ 119,328	\$ 135,956	\$ 145,712	\$ 149,967	\$ 154,392	\$ 158,994
Franchise Fees	\$ 653,465	\$ 752,791	\$ 815,524	\$ 848,145	\$ 882,070	\$ 917,353
<b>Gross Operating Profit</b>	<b>\$ 2,353,910</b>	<b>\$ 3,513,384</b>	<b>\$ 3,828,232</b>	<b>\$ 3,985,698</b>	<b>\$ 4,149,589</b>	<b>\$ 4,320,167</b>
% of Revenues	30%	39%	39%	40%	40%	41%
Per Occupied Room	\$ 83	\$ 112	\$ 117	\$ 122	\$ 127	\$ 132
<b>Fixed Expenses</b>	<b>\$ 632,966</b>	<b>\$ 666,220</b>	<b>\$ 685,732</b>	<b>\$ 694,242</b>	<b>\$ 703,092</b>	<b>\$ 712,297</b>
Management Fees	\$ 238,657	\$ 271,911	\$ 291,423	\$ 299,933	\$ 308,783	\$ 317,988
City of Morganton Taxes	\$ 123,873	\$ 123,873	\$ 123,873	\$ 123,873	\$ 123,873	\$ 123,873
Burke County Taxes	\$ 162,437	\$ 162,437	\$ 162,437	\$ 162,437	\$ 162,437	\$ 162,437
Insurance	\$ 108,000	\$ 108,000	\$ 108,000	\$ 108,000	\$ 108,000	\$ 108,000
FF&E Reserve	\$ 159,104	\$ 271,911	\$ 388,564	\$ 399,911	\$ 411,711	\$ 423,983
<b>NOI</b>	<b>\$ 1,561,840</b>	<b>\$ 2,575,253</b>	<b>\$ 2,753,935</b>	<b>\$ 2,891,545</b>	<b>\$ 3,034,785</b>	<b>\$ 3,183,887</b>
% of Revenue	20%	28%	28%	29%	29%	30%
Per Occupied Room	\$ 55	\$ 82	\$ 84	\$ 88	\$ 93	\$ 97
NOI Valuation	\$ 18,374,586	\$ 30,297,091	\$ 32,399,239	\$ 34,018,171	\$ 35,703,358	\$ 37,457,495
<b>Total Ownership Expenses</b>	<b>\$ (1,359,978)</b>	<b>\$ (1,372,205)</b>	<b>\$ (1,720,576)</b>	<b>\$ (1,720,576)</b>	<b>\$ (1,720,576)</b>	<b>\$ (1,720,576)</b>
BTCF from Operations	\$ 201,862	\$ 1,203,047	\$ 1,033,359	\$ 1,170,968	\$ 1,314,209	\$ 1,463,311
DSCR	1.17	1.93	1.64	1.72	1.80	1.89
Yield on Cost	5%	8%	9%	9%	10%	10%
Cash on Cash	2%	13%	11%	13%	14%	16%

## 10 - YEAR DEVELOPMENT TIMELINE



(1) NCDOT AADT Mapping Application.

(2) www.nvitalityindex.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.wgcc.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.