

Case Summary – 2014 LEAD PARCEL: 107-51-2620

SUBJECT PROPERTY Site Address: 1631 South Hwy 92

Description: Quality Inn

Case Summary:

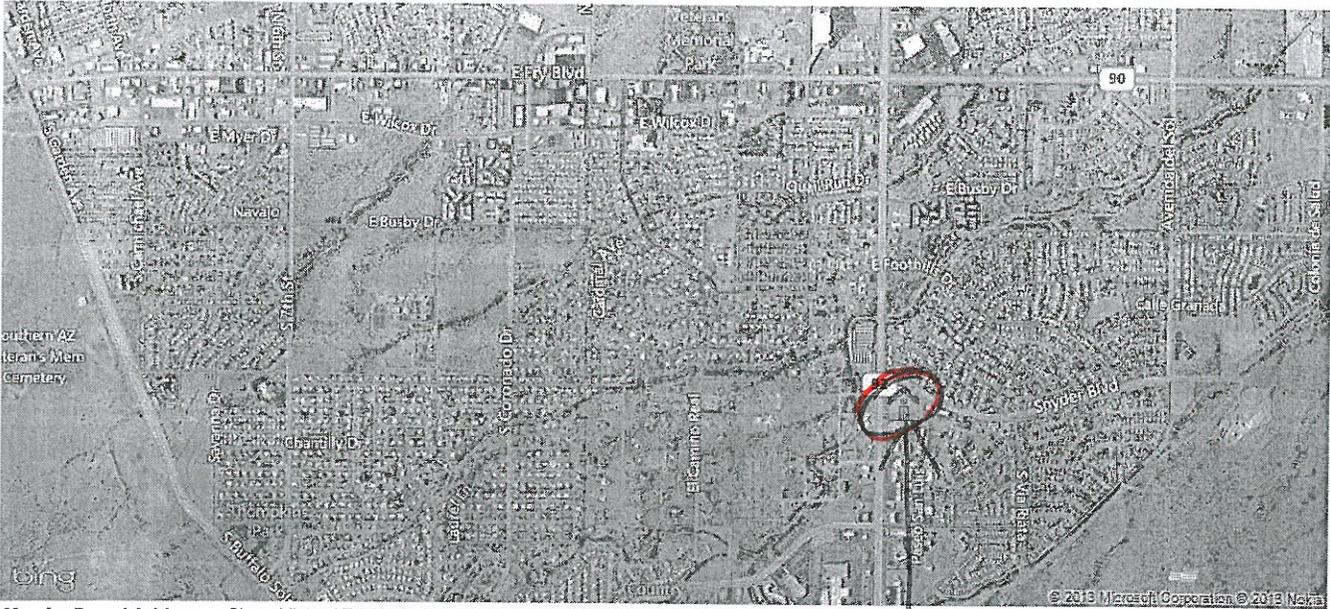
Subject property is a 104 unit motel, currently a Quality Inn. Subject is one of the older motels in the area, dating from 1973. 2012 was financial nightmare as competing units were built at the Fort. Owner was able to obtain a Letter of Intent to purchase at \$775,000. However, the bank would not consider financing at that price. Subsequently, owner has obtained another Letter of Intent at \$600,000, which he has agreed to in principal if financing can be obtained by buyer.

Assessor FCV \$1,389,385

Petitioner Requested FCV \$790,640



CRS Bing™ Map



Map for Parcel Address: Sierra Vista, AZ 85635, Parcel ID: 107-51-262D

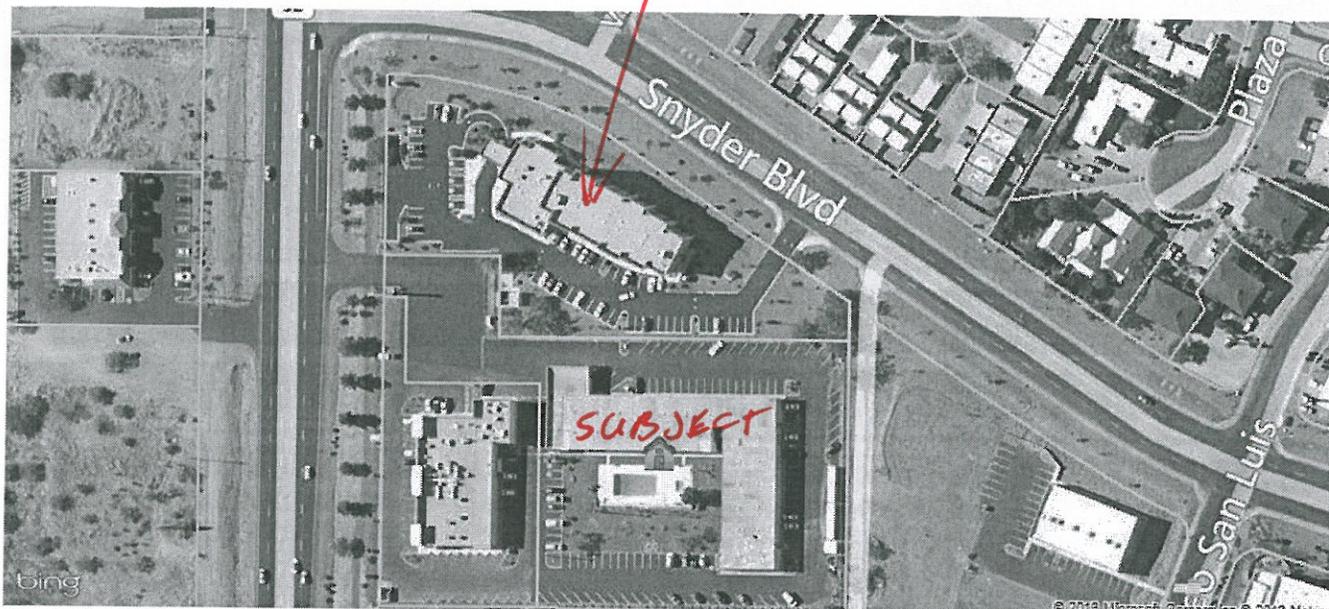
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Information Deemed Reliable But Not Guaranteed.
Contact Us at (800) 374-7488 ext 3 for Help.

SUBJECT



HAMPTON INN
2006

CRS Bing™ Map



Map for Parcel Address: Sierra Vista, AZ 85635, Parcel ID: 107-51-262D

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**INCOME AND EXPENSE STATEMENT
AND AFFIDAVIT**

CHECK PROPERTY TYPE:

- APARTMENT
- OFFICE / RETAIL STORE
- HOTEL / MOTEL / RESORT
- SHOPPING CENTER
- MOBILE HOME / RV PARK
- MINI-STORAGE WAREHOUSE
- IND. MFG / WHSE / MULTI-PURPOSE

Pursuant to A.R.S. §§ 42-16052 and 42-16107: A petition that is filed with the Assessor based on the income approach to value shall include income and expense data relating to the property for the three most recent consecutive fiscal years of the petitioner ending on or before September 30 of the previous year. If the income and expense data are not available to the petitioner, the petitioner shall file with the petition such income and expense data as are available. **The evidence permitted in an appeal relating to a petition based on the income approach to value is limited to the income and expense data filed with the petition, the testimony of the petitioner and any witnesses presented on the petitioner's behalf, and evidence presented by the Assessor and the Arizona Department of Revenue.**

INSTRUCTIONS: THIS FORM AND THE APPROPRIATE INCOME AND EXPENSE REPORTING FORM MUST ACCOMPANY THE PETITION FOR REVIEW FILED WITH THE COUNTY ASSESSOR.

NOTE: The information submitted is confidential and is to be utilized only by the Valuation Authorities. Valuation Authorities include, but are not limited to, the County Assessor and the Arizona Department of Revenue. This form must be completed and filed with the original appeal form. Information submitted on the reporting forms must be only actual income and expenses for the property under appeal. Other data used to justify the owners opinion of value, including a profit and loss statement, a property pro-forma statement or any similar evidence may be submitted on a separate sheet(s) as supplemental data. The County Assessor may also request additional information to verify the data submitted with the appeal. Contact the County Assessor if you have any questions on the use of this statement or the reporting forms.

- Retain a copy of this form and any supplemental data submitted.
- Complete the market approach and / or cost approach information sections below only if the property has been purchased or constructed within the past three years.
- Complete the income and expense reporting form information as applicable for the type of property under appeal and sign the Affidavit section below.
- The Affidavit section below must be signed by the property owner, an official of the firm authorized by the owner or a property tax agent designated by the owner to act on his behalf.

PRINT OR TYPE: DATE: 04/28/13 COUNTY 12 BOOK 109 MAP 16 PARCEL 026

OWNER'S NAME Oro Capital Group OWNER'S ADDRESS 1631 S Hwy 92
CITY Sierra Vista STATE AZ ZIP 85635 TELEPHONE _____

PROPERTY ADDRESS / SITUS _____

IS THIS A MULTI-PARCEL APPEAL? YES NO IF YES, ATTACH A LIST OF THE OTHER PARCELS (DOR FORM 82131).

PRIOR YEAR PROPERTY TAXES \$ _____ (IF A MULTIPLE PARCEL APPEAL, THE TOTAL TAXES FOR ALL PARCELS.)

	MARKET DATA SALES	DATE OF PURCHASE	COST APPROACH DATA	DATE OF PURCHASE
PURCHASE AMOUNT	\$ _____	_____	LAND COST	\$ _____
LESS PERSONAL PROPERTY	_____		IMPROVEMENT(S)	_____
REAL PROPERTY AMOUNT	\$ _____		TOTAL COST	\$ _____

Explain any unusual circumstances regarding the acquisition of the property below, or attach supplemental data:

AFFIDAVIT (Pursuant to A.R.S. § 42-16052)

I (type or print name) Alain Hartmann hereby affirm under penalty of perjury that I have reviewed the information contained in this document and any supplemental documents attached and that it is true and correct to the best of my knowledge. The source documents used to compile the information are located at:

7459 E Broadway Blvd
Tucson, AZ 85710

and I agree they may be inspected by the County Assessor or the Arizona Department of Revenue in order to verify data submitted herein.

Alain Hartmann
SIGNATURE

DOR 82300 (Rev. 03/10)

SUBSCRIBED AND SWORN TO BEFORE ME

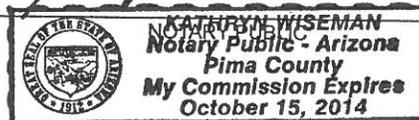
THIS 28 DAY OF April YEAR: 2013

MY COMMISSION EXPIRES ON

THE 15 DAY OF October YEAR: 2014

(SEAL)

Kathryn Wiseman



HOTELS, MOTELS AND RESORTS EXPENSE DATA
PROVIDE THREE YEAR HISTORY

NOTE: FOR PROPER ANALYSIS, ALL EXPENSES REPORTED SHOULD BE THE **ACTUAL** AMOUNT INCURRED EACH YEAR.

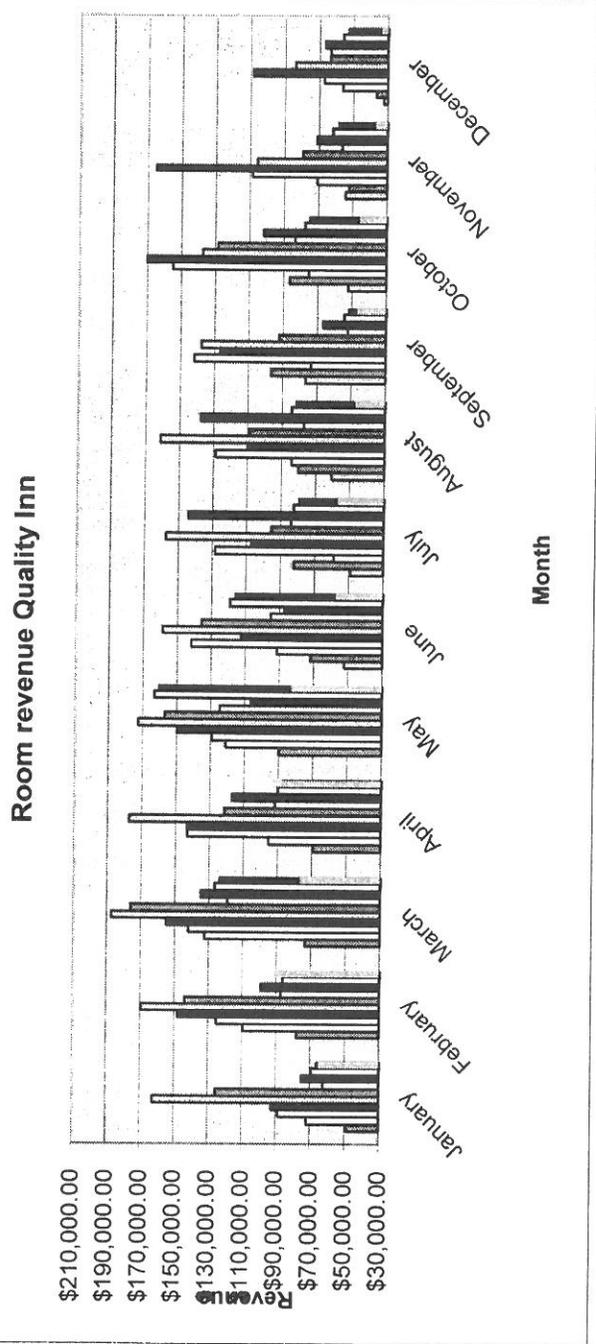
DISALLOWED EXPENSES: DEPRECIATION, MORTGAGE DEBT SERVICE and PROPERTY TAX (effective tax rate will be added to the capitalization rate).

	Last Year Year <u>2012</u>	Two Years Ago Year: <u>2011</u>	Three Years Ago Year: <u>2010</u>
<u>DEPARTMENTAL EXPENSES</u>			
ROOM EXPENSES	\$ <u>206</u>	\$ <u>305</u>	\$ <u>4,672</u>
FOOD AND BEVERAGE EXPENSES	<u>46,560</u>	<u>59,948</u>	<u>55,556</u>
TELEPHONE EXPENSES	<u>333</u>	<u>518</u>	<u> </u>
OTHER (DESCRIBE: _____)	<u> </u>	<u> </u>	<u> </u>
<u>ADMINISTRATIVE EXPENSES</u>			
MANAGEMENT FEES	<u> </u>	<u> </u>	<u> </u>
FRANCHISE FEES	<u> </u>	<u> </u>	<u> </u>
ADVERTISING / PROMOTION	<u>18,000</u>	<u>7,123</u>	<u>2,339</u>
ADMINISTRATIVE / SALARIES	<u>280,654</u>	<u>345,913</u>	<u>380,865</u>
<u>PROPERTY OPERATING EXPENSES</u>			
UTILITIES	<u>74,813</u>	<u>81,109</u>	<u>88,510</u>
INSURANCE	<u>3,707</u>	<u>8,132</u>	<u>7,389</u>
BLDG. MAINTENANCE AND REPAIRS	<u>24,421</u>	<u>30,531</u>	<u>21,520</u>
PARKING LOT AND COMMON AREA	<u> </u>	<u> </u>	<u> </u>
SERVICE CONTRACTS	<u>21,404</u>	<u>16,535</u>	<u>17,069</u>
JANITORIAL	<u>103</u>	<u> </u>	<u> </u>
SUPPLIES	<u>44,130</u>	<u>59,261</u>	<u>59,314</u>
OTHER (DESCRIBE: <u>Miscellaneous</u>)	<u>115,462</u>	<u>143,834</u>	<u>164,636</u>
<u>MAJOR REPLACEMENTS / REPAIRS</u> (From Pg. 3)			
TOTAL OF ALL EXPENSES =	\$ <u>613,293</u>	\$ <u>748,209</u>	\$ <u>801,870</u>

NOTE: Any additional information or documents that support the filed income and expense data may be submitted with this form.

Quality Inn Sierra Vista Room Revenue Report

Month	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
January	\$ 48,879.66	\$ 72,212.63	\$ 88,732.46	\$ 92,712.55	\$ 162,735.67	\$ 125,692.16	\$ 62,649.98	\$ 75,083.5	\$ 69,552.5	\$ 65,597.00	
February	\$ 78,126.00	\$ 109,524.33	\$ 125,248.97	\$ 148,153.79	\$ 169,576.17	\$ 144,040.67	\$ 87,303.76	\$ 99,244.0	\$ 86,193.1	\$ 91,005.18	
March	\$ 73,752.50	\$ 132,567.19	\$ 142,062.00	\$ 154,973.27	\$ 187,350.84	\$ 176,125.10	\$ 119,102.17	\$ 134,816.4	\$ 126,695.9	\$ 76,965.5	
April	\$ 69,482.70	\$ 95,368.93	\$ 143,163.79	\$ 143,338.75	\$ 177,370.64	\$ 121,370.90	\$ 91,727.97	\$ 117,071.9	\$ 90,167.2	\$ 93,928.5	
May	\$ 90,047.99	\$ 121,057.00	\$ 129,444.36	\$ 149,843.17	\$ 172,668.68	\$ 157,070.17	\$ 124,661.81	\$ 106,492.5	\$ 119,264.2	\$ 83,069.3	
June	\$ 52,363.88	\$ 71,932.91	\$ 91,248.00	\$ 141,835.00	\$ 112,646.00	\$ 158,773.23	\$ 135,842.07	\$ 95,099.00	\$ 87,229.1	\$ 57,607.5	
July	\$ 49,140.66	\$ 82,256.05	\$ 59,067.52	\$ 128,393.14	\$ 106,986.05	\$ 157,393.28	\$ 95,473.64	\$ 83,982.70	\$ 144,441.4	\$ 82,507.0	
August	\$ 61,020.96	\$ 80,170.75	\$ 84,179.34	\$ 128,770.99	\$ 109,893.38	\$ 161,429.81	\$ 108,957.27	\$ 77,291.33	\$ 137,847.2	\$ 84,229.9	
September	\$ 76,674.80	\$ 96,789.91	\$ 73,646.50	\$ 142,079.73	\$ 126,799.18	\$ 138,056.01	\$ 92,270.09	\$ 52,374.41	\$ 67,008.5	\$ 54,565.5	
October	\$ 52,411.35	\$ 86,452.22	\$ 75,464.18	\$ 155,007.15	\$ 170,210.37	\$ 137,607.99	\$ 128,428.45	\$ 83,521.13	\$ 101,998.2	\$ 77,651.1	
November	\$ 54,480.57	\$ 52,173.77	\$ 70,816.00	\$ 108,597.00	\$ 165,356.42	\$ 105,942.50	\$ 79,541.78	\$ 56,394.04	\$ 71,297.5	\$ 61,882.9	
December	\$ 32,512.58	\$ 36,532.20	\$ 56,523.00	\$ 67,401.29	\$ 108,468.86	\$ 83,969.03	\$ 63,778.52	\$ 63,592.39	\$ 66,671.9	\$ 56,144.2	
Total	\$378,604.80	\$866,596.66	\$1,041,674.62	\$1,500,735.88	\$1,589,381.79	\$1,812,873.85	\$1,428,590.82	\$997,700.69	\$ 1,209,202.03	\$ 1,072,055.72	\$ 737,111.72
Average	\$ 54,086.40	\$ 72,216.39	\$ 86,806.22	\$ 125,061.32	\$ 132,448.48	\$ 151,072.82	\$ 119,049.24	\$ 83,141.72	\$ 100,766.84	\$ 89,337.98	\$ 61,425.98



CHANDLER HOTEL GROUP

September 9, 2013

Transmitted via Facsimile

**Re.: Letter of Intent to Purchase
Quality Inn Sierra Vista
1631 State Hwy 92
Sierra Vista, AZ 85635 ("Property")**

This Letter of Intent sets forth a summary of terms and conditions under Hiten Patel and /or Assignee ("Buyer"), would be willing to purchase the above referenced property. Upon acknowledgement of this letter by you, the parties will commence good faith negotiations, with the objective to enter into a definitive Purchase Agreement ("Purchase Agreement") as soon as possible.

Conditions to Letter of Intent

- A. Buyer has the technical knowledge or available consultants to properly evaluate the physical and operational aspects of the property; and
- B. Buyer has initiated, but not yet completed its evaluation of this investment opportunity including the physical, operational, market, zoning, regulatory and title issues which are pertinent to the property. Seller agrees that, after mutual agreement on the terms of a transaction, Buyer may enter onto the property at reasonable times and with proper notice to conduct further inspections, surveys and studies.

Key Terms of Transaction

If the above-mentioned representations are made by the Buyer, as evidenced by Buyer's signature hereon, the following terms will be drafted into any resulting Purchase Agreement:

1. **Purchase Price:** \$500,000
2. **Terms:** All cash to seller
3. **Deposit:** \$35,000 Refundable deposit upon signing a Purchase and Sale Agreement. Said deposit shall be provided along with the purchase agreement or wired to escrow within 2 business days from signing of Purchase Agreement..
4. **Deposit Application:** Deposit will be held in escrow until the close of escrow and will be allocated towards the down payment amount.
5. **Close of Escrow:** 30 days from opening of escrow or sooner depending on Title Company.

9/9/2013

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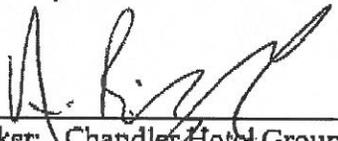
6. **Escrow Holder:** Fidelity National Title Escrow Division, Patti Graham, Sr. VP.
7. **Proration and Closing Costs:** Taxes will be prorated at the close of escrow. Escrow fees shall be divided equally between Seller and Buyer, documentary transfer taxes shall be paid by Seller, and all other costs shall be paid pursuant to the customs of Cochise County as determined by Escrow Holder.
8. **Buyer's Title Policy:** Seller shall purchase for Buyer a standard buyer's ALTA policy of title insurance, which shall be issued through Fidelity National Title Insurance Company.
9. **Buyer's Contingency:** Buyer shall have ³¹15 Days from the opening date of escrow in which to complete its (1) physical/economic feasibility evaluation.
10. **Brokerage Commission:** To be paid to Chandler Hotel Group by seller per separate agreement.
11. **Expiration of Letter of Intent:** Upon execution of a Purchase and Sale Agreement.



Buyer: Hiten Patel and /or assignee

9/09/13

Date



Broker: Chandler Hotel Group
By: Alexandre Rizk, Vice President

09/11/2013

Date

Agreed & Accepted

Seller:

Date

PMA[®] Wells Fargo[®] PMA Package

Questions? Please contact us:

Wells Fargo Premier Banking Team SM

Available 24 hours a day, 7 days a week

Phone: 1-800-742-4932 , TTY: 1-800-600-4833

Spanish: 1-877-727-2932

Chinese: 1-800-288-2288

Online: wells Fargo.com

Write: Wells Fargo Bank, N.A.

P.O. Box 6995

Portland, OR 97228-6995

HITEN K PATEL

August 31, 2013

Total assets:	\$209,872.26
Last month:	\$207,726.99
Change in \$:	\$2,145.27
Change in %:	1.03%

Total liabilities:	\$0.00
Last month:	\$0.00
Change in \$:	\$0.00
Change in %:	0.00%

Qualifying Balance : **\$209,872.26**

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Savings and Retirement Savings (3)	5

PMA[®] Wells Fargo[®] PMA Package

Questions? Please contact us:

Wells Fargo Premier Banking Team SM
Available 24 hours a day, 7 days a week
Phone: 1-800-742-4932 , *TTY:* 1-800-600-4833
Spanish: 1-877-727-2932
Chinese: 1-800-288-2288

Online: wells Fargo.com

Write: Wells Fargo Bank, N.A.
Post Office Box 286000
Dallas, TX 75326

THE PATEL-K FAMILY TRUST
KANUBHAI B PATEL TTE
PURNIMA PATEL TTE

August 31, 2013

Total assets:	\$352,118.58
Last month:	\$352,073.74
Change in \$:	\$44.84
Change in %:	0.01%

Total liabilities:	\$0.00
Last month:	\$0.00
Change in \$:	\$0.00
Change in %:	0.00%

Qualifying Balance : **\$352,118.58**

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CHANDLER HOTEL GROUP

September 9, 2013

Transmitted via Facsimile

Re.: Letter of Intent to Purchase
Quality Inn Sierra Vista
1631 State Hwy 92
Sierra Vista, AZ 85635 ("Property")

This Letter of Intent sets forth a summary of terms and conditions under Bruce T. Lee and /or Assignee ("Buyer"), would be willing to purchase the above referenced property. Upon acknowledgement of this letter by you, the parties will commence good faith negotiations, with the objective to enter into a definitive Purchase Agreement ("Purchase Agreement") as soon as possible.

Conditions to Letter of Intent

- A. Buyer has the technical knowledge or available consultants to properly evaluate the physical and operational aspects of the property; and
- B. Buyer has initiated, but not yet completed its evaluation of this investment opportunity including the physical, operational, market, zoning, regulatory and title issues which are pertinent to the property. Seller agrees that, after mutual agreement on the terms of a transaction, Buyer may enter onto the property at reasonable times and with proper notice to conduct further inspections, surveys and studies.

Key Terms of Transaction

If the above-mentioned representations are made by the Buyer, as evidenced by Buyer's signature hereon, the following terms will be drafted into any resulting Purchase Agreement:

1. **Purchase Price:** \$600,000
2. **Terms:** All cash to seller
3. **Deposit:** \$35,000 Refundable deposit upon signing a Purchase and Sale Agreement. Said deposit shall be provided along with the purchase agreement or wired to escrow within 2 business days from signing of Purchase Agreement. Deposit will become NON-REFUNDABLE after the 15th day of due diligence.
4. **Deposit Application:** Deposit will be held in escrow until the close of escrow and will be allocated towards the down payment amount.
5. **Close of Escrow:** 45 days from opening of escrow or sooner depending on Title Company.

6. **Escrow Holder:** Fidelity National Title Escrow Division, Patti Graham, Sr. VP.
7. **Proration and Closing Costs:** Taxes will be prorated at the close of escrow. Escrow fees shall be divided equally between Seller and Buyer, documentary transfer taxes shall be paid by Seller, and all other costs shall be paid pursuant to the customs of Cochise County as determined by Escrow Holder.
8. **Buyer's Title Policy:** Seller shall purchase for Buyer a standard buyer's ALTA policy of title insurance, which shall be issued through Fidelity National Title Insurance Company.
9. **Buyer's Contingency:** Buyer shall have 15 Days from the opening date of escrow in which to complete its (1) physical/economic feasibility evaluation and (2) financing evaluation of the property.
10. **Brokerage Commission:** To be paid by seller to Chandler Hotel Group. A buyer referral fee will be paid to Trustus Realty.
11. **Expiration of Letter of Intent:** Upon execution of a Purchase and Sale Agreement.

Bruce Lee
Buyer: _____ and /or assignee

9/10/13
Date



Broker: Chandler Hotel Group
By: Alexandre Rizk, Vice President

9-10-2013
Date

Agreed & Accepted

Seller:

Date

CHANDLER HOTEL GROUP

July 15, 2013

Transmitted via Facsimile

Re.: Letter of Intent to Purchase Quality Inn Sierra Vista 1631 State Hwy 92 Sierra Vista, AZ 85635 ("Property")

This Letter of Intent is a non binding agreement between the parties and sets forth a summary of terms and conditions under which **Jay Patel** and / or Assignee ("Buyer"), would be willing to purchase the above referenced property. Upon acknowledgement of this letter by you, the parties will commence good faith negotiations, with the objective to enter into a definitive Purchase Agreement ("Purchase Agreement") as soon as possible.

Conditions to Letter of Intent

- A. Buyer has the technical knowledge or available consultants to properly evaluate the physical and operational aspects of the property; and
- B. Buyer has initiated, but not yet completed its evaluation of this investment opportunity including the physical, operational, market, zoning, regulatory and title issues which are pertinent to the property. Seller agrees that, after mutual agreement on the terms of a transaction, Buyer may enter onto the property at reasonable times and with proper notice to conduct further inspections, surveys and studies.

Key Terms of Transaction

If the above-mentioned representations are made by the Buyer, as evidenced by Buyer's signature hereon, the following terms will be drafted into any resulting Purchase Agreement:

1. **Purchase Price:** \$775,000
2. **Terms:** Current lender to approve short sale and provide new financing for \$475,000. Buyer will put down \$350,000.
3. **Deposit:** \$35,000 Refundable deposit upon signing a Purchase and Sale Agreement. Said deposit shall be provided along with the purchase agreement or wired to escrow within 2 business days from signing of Purchase Agreement.
4. **Deposit Application:** Deposit will be held in escrow until the close of escrow and will be allocated towards the down payment amount.
5. **Close of Escrow:** 60 days from opening of escrow or sooner depending on Title Company.



6. **Escrow Holder:** Fidelity National Title Escrow Division, Patti Graham, Sr. VP.
7. **Proration and Closing Costs:** Taxes will be prorated at the close of escrow. Escrow fees shall be divided equally between Seller and Buyer, documentary transfer taxes shall be paid by Seller, and all other costs shall be paid pursuant to the customs of Cochise County as determined by Escrow Holder.
8. **Buyer's Title Policy:** Seller shall purchase for Buyer a standard buyer's ALTA policy of title insurance, which shall be issued through Fidelity National Title Insurance Company.
9. **Buyer's Contingency:** Buyer shall have **45 Days** from the opening date of escrow in which to complete its (1) physical/economic feasibility evaluation and (2) financing evaluation of the property (3) buyer will receive all due diligence (STR Reports, Financial documents, PLs and all other pertinent) information within 5 days from signing this letter of intent.
10. **Brokerage Commission:** To be paid by Seller at close of escrow to Chandler Hotel Group per separate agreement.
11. **Expiration of Letter of Intent:** Upon execution of a Purchase and Sale Agreement.

Buyer: Jay Patel and /or assignee
(Jamesh Patel)
Broker: Chandler Hotel Group



Date: July-15-2013

By: Alexandre Rizk, Vice President



Date: 07-15-2013

Agreed & Accepted

Seller: _____ Date: _____

6. **Escrow Holder:** Fidelity National Title Escrow Division, Patti Graham, Sr. VP.
7. **Proration and Closing Costs:** Taxes will be prorated at the close of escrow. Escrow fees shall be divided equally between Seller and Buyer, documentary transfer taxes shall be paid by Seller, and all other costs shall be paid pursuant to the customs of Cochise County as determined by Escrow Holder.
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10. **Brokerage Commission:** To be paid by Seller at close of escrow to Chandler Hotel Group per separate agreement.
11. **Expiration of Letter of Intent:** Upon execution of a Purchase and Sale Agreement.

Buyer: Jay Patel and /or assignee
(Jamesh Patel)
Broker: Chandler Hotel Group



Date: July-15-2013

By: Alexandre Rizk, Vice President



Date: 07-15-2013

Agreed & Accepted

Seller: _____ Date: _____

To begin with, I will go back to 2011. I begin there because I believe it is a good reference point and can serve as an illustration of what the 'norm' was prior to the subsequent events detailed below. First a brief overview of the market. Sierra Vista is a town largely centered around Ft Huachuca, one of the primary Army intelligence bases in the United States, as evidenced by the fact that roughly 32% of the population of the city are Army personnel or relatives. While there are a few recreational draws for this area, such as bird watching and underground caverns, most of the lodging in Sierra Vista is related to the fort. In addition to Army personnel undergoing training, there are the associated contractors and civilian employees of government service providers. The business mix at our Hampton in Sierra Vista for 2011 was 62% business, 38% leisure, and those numbers are relatively the same through the 5 1/2 years we have been open there. In 2011 we ran at 82% occupancy, and achieved a \$76.43 RevPAR. Both of these numbers represented growth from the previous year. The comp set was at 72% occupancy and a \$70.44.

Moving in to 2012, we of course all had information regarding the drawn down in overseas forces associated with the war, and the potential subsequent effect this could have on the mission of military installation within the US. While the specific effect that this could have on the Sierra Vista market were unknown and widely debated, ultimately it was believed that these would be minimal based on the other continuing missions of the fort. Even in to 2013, the overall changes in Ft Huachuca's mission and force size (and associated collateral need for contractors, etc) has remained fairly level. A recent reference for this is

http://www.bensonnews-sun.com/news/article_66c278c4-e36d-11e2-9978-0019bb2963f4.html

I provide this background as it can be easy to generalize that the changes in the Sierra Vista market are attributable to the draw down from the war, rather than the actual changes described below. Late in 2011 / Early in 2012 two important programs were in the process of implementation.

1) IHG was becoming much more intimately involved in the Army's Privatization of Army Lodging (PAL) program, which turned over control of lodging facilities formerly run by the Army to them. This had followed LendLease's 50 year lease obtained on federal land, and subsequently sub-contracted to IHG. Some background information for that change is available via this link:

<http://www.army.mil/article/64197>

In Sierra Vista, this specifically entailed IHG managing what had formerly been the transient lodging facility on Ft Huachuca, formerly run through the Army MWR service. While the initial steps in this process only involved IHG taking over the management of that facility, plans were put in place to build a Holiday Inn Express and Candlewood Suites on the fort. These new facilities are projected to add up to 250

rooms to the market. Although that sizable addition to an already saturated market was certainly not welcome by other hotel owners, the next part of the implementation of this program was far more distressing. Prior to this agreement being in place between IHG and the Army, those persons who needed lodging in the Sierra Vista area for training and service at Ft Huachuca were free to select a hotel from those available in the city. Additionally, it was not a requirement that personnel stay on the fort - if they wished to stay in town they were free to do so. This is no longer the case. Now, persons must stay at the IHG facility if room is available. If not, they may stay in Sierra Vista, however if room becomes available on the fort, they must then move back into that lodging facility. Not only did this greatly effect the general consumption of per diem room nights at hotels in the city, it eroded the 'long term' per diem stays which had formed a base of occupancy over previous years.

These rooms that IHG was selling on the fort were being offered below the market per diem of \$83. This can be seen checked via the IHG Army lodging site:

<http://www.ihg.com/armyhotels/hotels/us/en/reservation>

It has been speculated (although I do not believe proven) that this sub per diem rate offering was part of the agreement to get LendLease / IHG the contract with the Army.

The PAL program has been sparking debate since its inception, some of which can be noted here

<http://www.prnewswire.com/news-releases/pal-exposed-reveals-no-bid-defense-contract-that-wastes-billions-in-tax-dollars-to-benefit-foreign-corporations-182809371.html>

There are certainly troubling undertones to the PAL program and Lend Lease's / IHG agreements with the Army in regard to this program.

2) The Army began the process of putting out RFP's for any anticipated lodging shortages on the fort, first requiring all interested hotels to go through a lengthy certification process for eligibility to bid. It is somewhat unclear what direct affiliation this has with the IHG contract, as the RFP's are run through army civilian email accounts. The awarding of these contracts does not even guarantee that you will receive the room nights - merely that you will get them if there is a lodging shortage at the fort. I can tell you that the process (whether intentionally or not) results directly in these contracts being awarded to the lowest bidder, often at rates substantially below per diem. As the available per diem room nights have been consumed by the IHG facility on the fort, and the market has suffered a significant downturn, those hoteliers in the most financial distress have taken to bidding very low to secure whatever room nights they can. In addition to the revenue loss (as compared to being paid the \$83 per diem) to the hotels, and the financial loss to the market in general, this trend of selling

below per diem sets in motion a very serious consequence for the future. Per diem rates are set by GSA utilizing a formula which factors in the ADR of a specific market (or markets), and as the overall ADR declines (especially when combined with the large set of sub per diem rooms being sold by IHG on the fort), this will certainly result in a lowering of the market per diem in the future. By the end of 2012 alone, our comp sets ADR was down 2%, and is down 4% YTD in 2013. As an example of what 'bidding at per diem' on these RFP's can get you - we do bid in this way and are usually ranked #15 or below for potential awarding of the contract (out of about 20 bidders).

The effect of the above steps on the Sierra Vista market have been very negative. This major impact began roughly in July of 2012, when both programs above were up and running completely. If you look at a May 2012 - May 2013 twelve month running window, our property (which is one of the strongest performers in the market) is down 10% in RevPAR, and the comp set is down almost 13%. Occupancy percentages for both us and the comp set are down 10 - 12% over these same 12 months. As noted above, properties in financial distress are cutting rates to secure rooms, and not just in per diem related situations. The Suburban Extended Stay in Sierra Vista has rates around \$48 per night, and is offering monthly packages below \$1000. From a revenue impact standpoint, a good illustration is a Quality Inn we have in Sierra Vista, which in previous years was pulling in close to \$1,000,000 and this year is on track to be around \$350,000. Other properties of similar caliber (and below) in the city are all experiencing this same type of significant revenue loss, and at least one property is set to go up for auction later this month. Although specific financial details of other properties close to the edge are of course not readily available, we do have some fairly good sources telling us that 4 - 6 properties are close to shutting down or being taken by the bank.

The community has tried to react to these changes as much as possible, although when you are dealing with an entity such as the Army information can be hard to come by. Even though the persons in charge on Ft Huachuca maintain a good relationship with the city, most of the decisions in this matter are being made in Washington, and getting answers there can be very difficult. Our city councilman Tom Reardon has led the charge to try to get these answers and effect changes that can help both the hoteliers and the larger business community in Sierra Vista. Some recent events in regard to this community reaction are detailed here

<https://www.svherald.com/content/news/2013/04/14/351321>

We believe that action is warranted to protect all the business interests, not just in our market, but in any market effected by the PAL program or the RFP program. We do not believe it is proper that IHG can operate hotels on Army installations under 'occupancy guarantee' contracts that preclude fair competition with other hotels in those markets, nor should market tactics such as under-cutting established per diem be part of any such agreements. The potential negative financial impact to Hilton family hotels in these markets could be quite significant and sets a troubling precedent for what could happen to other 'exclusive' agreements the Army may reach with private entities in regard to other products and services. Like any government undertaking, the longer

this program exists, the more difficult it will be to untangle and get halted, so we ask that prompt action be taken by Hilton to address this situation.

Best Regards,

Joe Patel
Ownership Partner - Landmark Hospitality
Landmark Hospitality