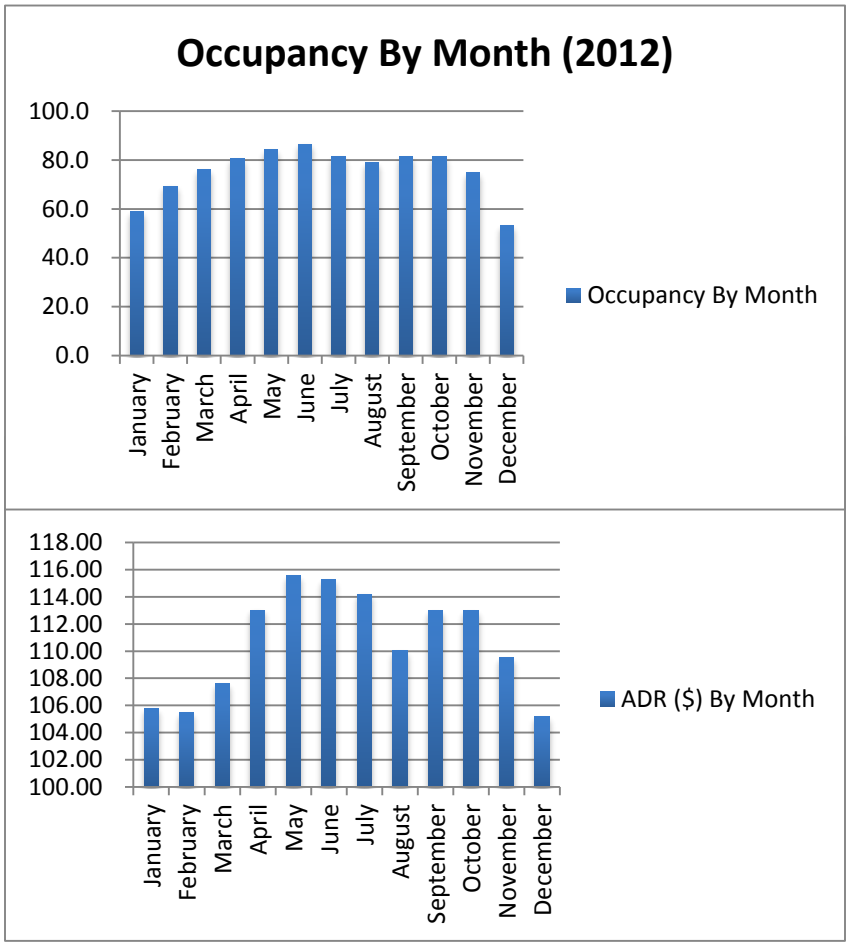
The proposed Full Service Hotel and Conference Center by Plamondon is expected to open across Carroll Creek Park in early 2017. We have projected that a year gap between openings will be sufficient for both hotels to prosper. May has specifically been targeted as an optimal month to open because the trends in occupancy and daily rates are at their highest at the beginning of the summer. The charts below depict occupancy and ADR for 2012 and are representative of the trends over the past six years of data collection.



Smith Travel Research Report; April 2013

To finance the construction activities, a loan will be secured for $29,875,748 at 5.75 percent. This loan will be interest only, which is typical for this type of development. This will cover necessary site work to prepare the existing structures in addition to base building, interiors and FF&E. A 15 percent contingency fee has been included for any unforeseen costs and escalations during the construction process.

Marketing and Management

Once the acquisition process is complete and ownership of the parcels secured, we will begin to publicize the project within the community and market the available spaces. During entitlements, we plan to set up informational sessions about the development and attend neighborhood meetings to engage the local community in approvals.

Before construction begins on the site, we will hire a web development team to build a marketing website for the entire development and utilize social media outlets to remain connected and transparent with the community, potential tenants and visitors throughout the construction process. The website will have links to each of the respective managing and leasing companies' websites. Uniting with the Downtown Frederick Partnership, we will embrace their Main Street program, which is "…a preservation-based, downtown revitalization project. The goal of the Main Street Program is to strengthen the vitality of traditional main streets and neighborhoods."[1] We will work with them to organize tables at community events to distribute brochures and other informational media. The Downtown Frederick Partnership works closely with local artists. We intend to utilize these existing relationships to foster communication with the artist community. Once the construction fence is placed on the site, we will work with our in-house marketing team to place a large sign on the outside of the development to display what the new uses will be.

The process has already begun for bringing a hotel operator onto the team. We will draft a request for proposal (RFP) to gauge interest in running the hotel portion of the development site. We will be looking for a team that is a leader in the industry and shares a passionate pursuit for excellence, efficiency and added value. We will look to this team to provide and manage a sophisticated and technologically integrated website for the hotel so that the guests' experiences are seamless and enjoyable. The hotel operator will also manage the restaurant, as it will be a part of the hotel offerings. Upon substantial completion of the construction, we will work with the hotel operator to build out a space within the hotel envelope for an office. The hotel will require approximately 10-15 employees depending on the season and demand.

For the grocery market, we will utilize a commercial real estate broker to sign the appropriate grocery tenant to fit the site's vision. We would expect the broker to use print ads, networking organizations and the Frederick Economic Development Office as leasing tools. We will hire a property management company to manage the day-to-day needs of the space.

We intend to follow the successful model of the Bromo Seltzer Arts Tower in downtown Baltimore for marketing and leasing the artist studios. The Baltimore Office of Promotion and the Arts (BOPA) is a non-profit organization that produces events and art programs, as well as manages several facilities, including the Bromo Seltzer Arts Tower. BOPA is launching a new arm of its organization to support markets such as Frederick. We will work with them to ensure the success of the artist studios, looking to their experience to lease and manage the artist spaces. For the 15 studio spaces at Bromo Seltzer Arts Tower, BOPA has four staff members. As our development will have 30 spaces, we expect that the staff requirement will be doubled to eight members.

[1] About Us: Downtown Frederick Partnership. http://www.downtownfrederick.org/about-us

MARKET ANALYSIS

NATIONAL ECONOMY

According to *Kiplinger*, economic growth improved in 2014, averaging 2.3 percent for the year.[2] Lower gas prices and increased consumer spending will aide continued economic growth into 2015. The third quarter of 2014 saw a 14-year-high in job openings, which is expected to increase, along with an increase in residential construction and the prediction of only modest interest rate hikes in 2015.[3]

LOCAL ECONOMY

According to the ESRI 2010 Census Report, The City of Frederick had a population of 62,539.[4] This is expected to increase at a rate of 0.81 percent, which is higher than the state projection of 0.68 percent and the national projection of 0.71 percent. By 2018, the population is projected to increase to 69,029. The City of Frederick experienced the largest percentage of decennial population growth in the following periods: 1850-1860 (35 percent), 1920-1930 (30 percent), 1980-1990 (43 percent) and 1990-2000 (31 percent). The City of Frederick only had one period of decline, between 1880 and 1890, when the City's population dropped by five percent.

Forty-seven percent of the City's population growth occurred after 1980. This unprecedented growth is related to the addition of Fort Detrick as a U.S. Army Medical Command installation as well as the increasing price of real estate. Beginning in the 1990s, due to the rising cost of housing in the Washington DC and Baltimore metropolitan areas, The City of Frederick became a viable option for commuting distance to these two large employment areas.

The City of Frederick remains under growth pressure due to its location, and the City's population growth trend is expected to continue. Typically, the City's population has represented about twenty-five percent of Frederick County's population, which is expected to continue. The ratios of the City's population to County population for the 10-year periods between 1980 and 2030 are shown in Table-1.

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[2] Kiplinger's Economic Outlooks January 2015 - http://www.kiplinger.com/tool/business/T019-S000-kiplinger-s-economic-outlooks/#VL3GrsbFp757YtAU.99

[3] Kiplinger's Economic Outlooks January 2015 - http://www.kiplinger.com/tool/business/T019-S000-kiplinger-s-economic-outlooks/#VL3GrsbFp757YtAU.99

[4] 2010 Census Profile: Frederick City, MD. ESRI. May 5,2014.

LU Table 1

Percentage of City Population: 1980-2008			
Year	Frederick City	Frederick County	Percentage of City
1980	28,086 (4)	114,792 (4)	24.60%
1990	40,186 (4)	150,208 (4)	26.70%
2000	52,767 (4)	195,277 (4)	27.00%
2008	61,668 (1)	231,948	26.60%
2010	62,995 (3)	243,200 (2)	26.00%
2020	74,854 (3)	287,900 (2)	26.00%
2030	85,039 (3)	339,700 (2)	26.00%

(1) Frederick County Estimates

(2) Maryland Department of Planning

(3) Assumption Based on Historical Data

(4) U.S. Census

Households

Between 2000 and 2010, the City of Frederick increased in households from 21,659 to 25,352 (a 1.59 percent increase). A majority of these (69.3 percent) are households with two or more people and generally husband-wife families. The average household size of 2.5 is expected to remain stagnant through 2018. Approximately 50 percent of householders are between the ages of 15 and 44.[5]

Unemployment

The unemployment rate in Frederick County has been consistently lower than both state and national levels since 2000. While the county's unemployment rate has some similarities with state and national trends, the annual fluctuations have been much less pronounced. The county's unemployment rate remained at or below 3.5 percent from 2000 to 2008, reaching a low point of 2.7 percent in 2000. From 2008 to 2009, the county saw a vast increase in unemployment rate, 3.6 percent to 6.6 percent. Frederick County's labor force increased in 2011 compared to a national increase and a state decrease, yet the county's rate of unemployment decreased and remained below both. Through 2013, the unemployment rate in Frederick County decreased to 5.6 percent and remained below state (6.7 percent) and national (6.0 percent) levels.[6]

[5] US Census Bureau, 2007-2011 American Community Survey

[6] Maryland Dept. of Labor Licensing and Regulation 2013

Business	Number of Employees	Industry Sector
Fort Detrick Campus	11,000	Military, bioscience,communications
Frederick County Public Schools	5,700*	Public Education
Frederick Memorial Healthcare	2,696	Comprehensive Health Care
Frederick County Government	2,072	County Government
Wells Fargo Home Mortgage	1,881	Mortgage Loans and Service Center
Frederick Community College	939	Two-year College
State Farm Insurance Corporation	839	Regional Headquarters - Insurance
United Health Care	832	Health Insurance Provider
City of Frederick Government	831	Municipal Government
YMCA of Frederick County	442	Non-profit, full service fitness & health facility
Wegman's	430	Retail Supermarket
Hood College	419	Four-year College
Stulz Air Technology Systems	375	Manufacturer of precision A/C equipment
Home Depot	330	Home Improvement Retail Store
Homewood Retirement Center	300	Retirement Community
Maryland School for the Deaf	266	Educational Institution for the Hearing Impaired
PNC Bank	260	Banking Headquarters and Regional Branches
Fountain Rock Management Services	250	Restaurant Management
MedImmune	246	Biotech Manufacturing
Morgan Keller	158	General Contractors

*These are Fulltime Equivalent Positions that are in the City of Frederick as well as Frederick County

Fort Detrick is the largest employer in Frederick with 11,000 employees. The increase in jobs and people in the Frederick market has had a positive impact on the tourism and business travel industry.

MARKET

OFFICE MARKET

National Office Trends

With a stabilizing economy and increasingly better jobs reports in recent months, the U.S. office market continues to improve. Overall employment only improved 1.4 percent but office-using employment grew at 2.6 percent in 2013. Dallas/Ft. Worth, Chicago and Los Angeles were among the fastest growing markets in the U.S. and primarily driven by the technology sector. Vacancy rates dropped 50 basis points in 2013 to lowest their lowest level since 2009, with positive net absorption of 15 million square feet. Office development continued to rise, with 18.6 million square feet of new in 2013, nearly double 2012's tally of 9.9 million square feet. Asking rates increased nearly 5% over the year.

Frederick Office Trends

Leasing continued to decline in the third quarter of 2014 as activity dropped by 37.8 percent

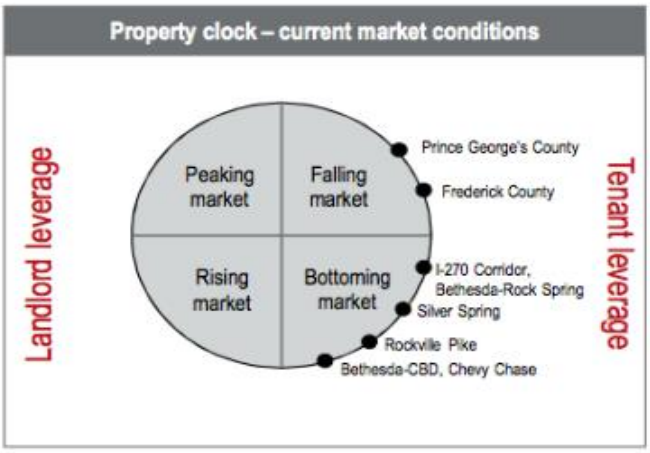
from 12 months ago. A major relocation took place within the county as American Association for Laboratory Accreditation moved 17,930 square feet from 5301 Buckeystown Pike to 5202 Presidents Court. In addition, year-to-date net absorption remained negative with a total of 12,197 square feet.

In the second quarter of 2014, as in the past, discrepancy continued to be apparent between different classes of space. Class B rental rates reached a rate of $18.75 per square foot; however, Class A rates were averaging $27.27. Vacancy rates also displayed a similar contrast between Class A and Class B space. Direct vacancy in the Frederick County Class A sector was 9.1 percent, compared to the Class B rate of 29.6 percent – more than three times higher. The combined overall office vacancy is near 17 percent.

The county has not added new supply to the office market since the second quarter of 2010. The single project under construction in the county is the 119,530-square-foot Social Security Administration (SSA) building on Bennett Creek Avenue. The property will be fully occupied by the SSA and the building is expected to deliver in the first quarter of 2015.

The environment of federal uncertainty has put a hindrance on overall growth. While there have been a few signs of strengthening, Frederick's appeal will likely be limited to all but the largest or most cost-conscious users for the rest of 2014.

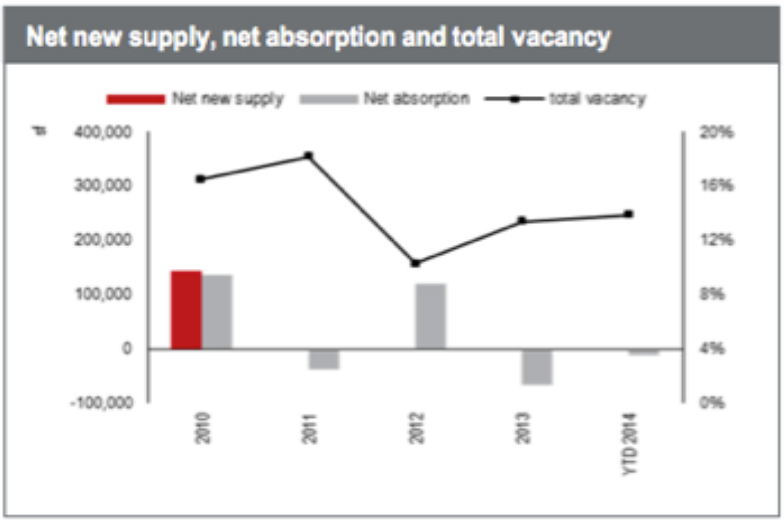
The lack of new GSA leasing activity or large-block corporate demand to serve as a catalyst suggests that market fundamentals in Frederick County could lag over the short term, compared to other local submarkets. Given the lack of positive catalysts, the market should remain tenant-favorable throughout the rest of 2014 for users looking to take advantage of low rents in an outside-the-Beltway market.[7] The Property Clock to the right depicts where various areas are in terms of tenant and landlord leverage. Frederick County is shown to be a "falling market" which is reinforced by the high vacancy rates.



CREDIT: JLL Americas Research. Frederick County Office Outlook Q2 2014

[7] JLL Americas Research. Frederick County Office Outlook Q2 2014

The chart below shows trends for the Frederick County market over the past few years. Net new supply has not been added to the market since 2010, when approximately 120,000 additional square feet became available. While there was a significant decrease in vacancy from 2011 to 2012, it has slowly begun to rise again. The market will become favorable again once the supply is absorbed.



CREDIT: JLL Americas Research. Frederick County Office Outlook Q2 2014

RETAIL MARKET

National Retail Trends

The retail market is finally emerging from the depths of recession. Improving retail fundamentals are the result of an economic uptick and still historically low new retail development. According to data from NCREIF[8] in 111 U.S. metropolitan areas, just 6.5 million square feet of new retail construction occurred in 2013 and 8 million square feet is expected for 2014. REIS recently reported the national vacancy rate for neighborhood and community shopping centers at 10.4 percent, a subtle 30 basis point drop from last year. Effective rents grew 1.4percent in 2013, triple the rate of growth in 2012.

Meanwhile, countless retailers remain susceptible to the increasing popularity of online retail, which has already claimed numerous victims. Brick and mortar retailers are slowly adapting to the new reality by learning how to relate to customers in a dynamic consumer landscape.

[8] NCREIF. https://www.ncreif.org/data.aspx

In today's market, it is crucial that landlords understand and adapt to the new reality by creating an appealing customer destination to facilitate their tenant's success. Ultimately, this will yield strong tenant sales which landlord's will capitalize on by way of tenant retention and consistent rent growth. According to REIS, high-end retail destinations are thriving with vacancy rates reported well below 5 percent. [9]

Frederick Retail Trends

Retailers in downtown Frederick have taken advantage of the attractions at Carroll Creek Linear Park and therefore are situated in close proximity. As discussed previously, many shops and businesses are located on the "main streets" of Patrick Street and Market Street.

Douglas Development is currently working on adding retail space to Carroll Creek Park with a $20 million in capital investment/rehabilitation of historic Union Knitting Mills building, which is located near our site. The development will include 41,500 square feet of office space, 25,000 square feet of retail space and 104 parking spaces. The design is approved and construction is pending.[10]

The retail trade industry provides 5,368 jobs in the City of Frederick. There are 15 grocery stores within the city boundaries, but none source their products locally as our proposed development will. Of those fifteen, nine are chain super markets and six are international specialty markets, representing the growing cultural and culinary diversity in Frederick. Food markets also provide 823 jobs for Frederick's residents. Additionally, there are 140 Restaurants in the City, which add 2,591 jobs to the area. [11]

RESIDENTIAL MARKET

National Residential Market

Home prices in the 20 major metro areas increased 12.4 percent during the 12 months ending March 2014, the most recent data available, according to S&P/Case-Shiller. The housing market performed well in 2013 but is still off pre-recession highs in most areas of the country. Rapidly growing metro areas continue to outpace the national growth rate of 10.3 percent. For major metropolitan areas, average home price growth has exceeded 10 percent on an annual basis for a year now. The number of U.S. home sales rose to 4.65 million (on an annualized basis) in April 2014 from 4.59 million one month earlier. The 4.65 million-unit pace is 6.8% below the 4.99 million-unit pace from the same period a year ago. Sales are slowly climbing after falling sharply during the harsh winter. However, a shallow inventory continues to lift prices across most of the nation. The average existing home sales price was $250,600 in April 2014 according to the National Association of Realtors, its highest level since 2007. Listed inventories did increase 6.5%

[9] REIS. https://www.reis.com/
[10] Douglas Development. www.douglasdevelopment.com
[11] Business and Employment Data Analysis, 2006 Frederick MD

from April 2013 to April 2014, but not enough to stall an increase in home sale prices. If the inventory remains fairly tight, prices could appreciate further. [12]

Washington Metro Area and Frederick Residential Market

The Washington metro area housing market continues to lose the momentum it has gained over the past year. Although sales typically peak in the spring, units sold declined 6.6 percent year-over-year. Average price increased over 2014 (3.2 percent), but the rate of increase has been decelerating. A gradual increase in the available inventory and the average days on market demonstrates that the regional housing market recovery is beginning to plateau.

The national economy is regaining traction and will continue to sustain the broader housing market in the period ahead. However, weak employment growth trends, slow-moving household formation, and more stringent lending standards will keep the region's housing market performance modest through the balance of 2014. [13]

The current housing stock in Frederick is 27,559 units. Of the total occupied units (92 percent), 57.6 percent—or 14,611—are owner occupied. Vacancy is fairly tight in the Frederick market at eight percent, 3.3 percent[14] of which is for rent. While it would appear that the market could use more supply, the multifamily rental and for-sale market has not bounced back from the market crash in 2008 and is still generally soft. One block to the east of the project site is a large parcel that was planned to be a mixed use development with ground floor retail and 130 luxury condominium units. The project was slated to begin construction in the fall of 2010, but the site remains untouched. Instead, it was considered as a contender for the new full service hotel and conferencing center in downtown Frederick.

HOTEL MARKET

There are currently 10 hotels in the Frederick market area, totaling 679,616 square feet. Many provide limited services and are not within walking distance of the historic central business district and "main street" attractions. The City is currently looking to add a full-service hotel and conference center in the downtown area, which will cater to a business centric clientele and provide meeting space for conferences.

[12] The National Economy Mid Year 2014. http://www.transwestern.net/Market-Research/Documents/National%20Economy%20-%20Q2%202014.pdf
[13] Mid-Year 2014 Delta Associates Washington Area Housing Outlook. http://www.transwestern.net/Market-Research/Documents/Mid-Atlantic%20-%20Washington%20Area%20Housing%20Outlook%20-%20Q2%202014.pdf
[14] 2010 Census Profile: Frederick City, MD. ESRI. May 5,2014.

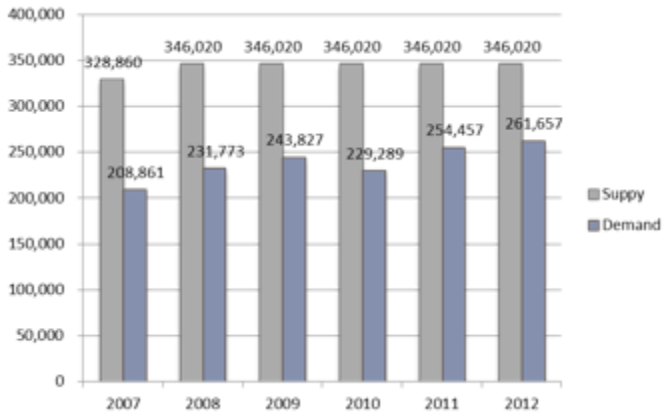
COMPETITIVE ANALYSIS

Competitive analysis is based on full- and limited-service hospitality products located within four miles of the proposed project site. All of the products have between 100 and 160 keys and average 500 gross square feet per room.

OCCUPANCY & REVPAR TRENDS

According to a report completed by Smith Travel Research in April 2013, the average combined occupancy rate for a sample of hotels in Frederick was 69.4 percent. From 2007 to 2012, rates have steadily increased from 63.5 percent to 75.5 percent. The only decline was in the second half of 2010, down six percent from the previous year. Demand, defined as the number of rooms sold, also saw an increase from 2007 to 2012. 2010 was the only year that saw a decrease in demand, down six percent from the previous year. However, because ADR (average daily rate) increased 2.4 percent for the year, RevPAR (revenue per available room) only declined 3.7 percent for that year. In general, Tuesdays and Wednesdays have seen the highest occupancy rates from April 2012 to March 2013, at 84 percent. Respectively, ADR was also highest on these days of the week averaging $115.17, compared to the Saturday average ADR of $108.89. We concluded from this information that a majority of the options available cater to business travel. The location and features of Hotel 162 will provide more leisure options for weekend travel.

Supply has not increased since 2008 when approximately 48 rooms were added to the market; however, demand continues to increase at a steady rate of 4.8 percent each year. Revenue has also seen a similar positive trend since 2008. In 2012, the combined revenue for Frederick hotels was $29,066,428, or 7.1 percent more than 2011. On average, revenue has increased 5.7 percent each year in Frederick. In 2010, revenue did see a decline of 3.7 percent, but this was regained with an 11.6 percent increase in 2011.



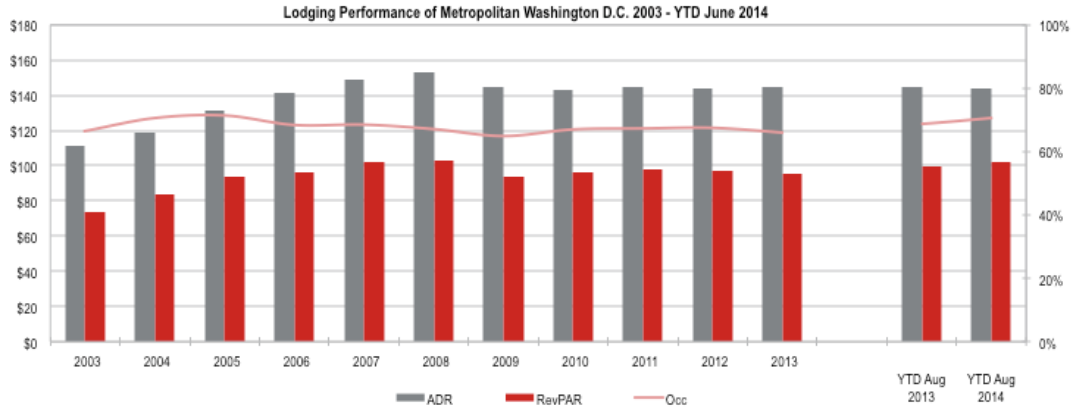
As Fort Detrick expands and Frederick's economy grows stronger, the demand for leisure and business travel will continue to see positive trends and will provide an opportunity to add to Frederick's hotel supply.

REGIONAL SUPPLY TRENDS

The regional supply consists of properties located in the District of Columbia, Maryland and Virginia area. Over the past 10 years, occupancy in the region has remained steady with an average of 67.7 percent. The year-to-date through August 2014 was 70.6 percent, according to Smith Travel Research. Seen in the table below, Average Daily Rates (ADR) jumped drastically in the region in the early 2000's. Rates have leveled off in the past few years with an average of $138.74. Because the regional data pulls from a large metropolitan area, the ADR averages shown in the chart below are generally higher than rates in Frederick. This was taken into account when pricing the rooms in our project. Industry standard for a successful project is maintaining a stabilized occupancy between 65 and 70 percent. The Washington, D.C. region is showing healthy trends for new hotel development.

Washington, DC-MD-VA Lodging Performance			
Year	Occ	ADR	RevPAR
2003	66.5%	$111.10	$73.88
2004	70.6%	$118.59	$83.73
2005	71.4%	$131.36	$93.73
2006	68.4%	$141.01	$96.42
2007	68.5%	$149.10	$102.17
2008	67.1%	$153.31	$102.83
2009	64.9%	$144.93	$94.04
2010	67.0%	$143.39	$96.12
2011	67.3%	$144.92	$97.55
2012	67.5%	$143.85	$97.10
2013	66.0%	$144.58	$95.46
YTD Aug 2013	68.6%	$144.95	$99.45
YTD Aug 2014	70.6%	$144.09	$101.73

Source: Smith Travel Research



Credit: Smith Travel Research

SALES COMPARABLES

There has not been much sales activity over the past 10 years in the Frederick market. In 2012, Best Western Historic Frederick, at 118 keys, was offered for an asking price of $7 million, at a capitalization rate of 11 percent and a Gross Room Revenue Multiplier of 4.34. The product was built in 1984 and completed a major renovation in 2007. Occupancy from 2008 to 2012 was much lower than the competitive set in Frederick, averaging 55 percent and 65 percent, respectively. The hotel is located 1.5 miles from the central business district, on a vehicular-centric street. This might be an indication of why the occupancy is much lower than the competitive set. A report by MTEL Consultants indicates that, “In spite of the property

performance, the property provides a solid cash flow and a well above return on investment. The property offers a significant upside potential to an investor."[15]

This information suggests that a new product with a well-positioned ADR that considers multi-modal transportation options will perform well in the Frederick market.

DEVELOPMENT PIPELINE

Looking to the future, the only new construction expected in Downtown Frederick is a 200 key full-service hotel and conference center with over 15,000 square feet of meeting space. The hotel is projected to begin construction in 2016 and deliver in 2017. There were two proposed sites for the new hotel as shown in the image below. The City used an extensive selection process to compare the two proposals, unanimously choosing Team Plamondon with the Marriott flagship.

Developing this hotel is a key priority of Frederick's Economic Development Partners and Major Employers (Downtown Frederick Partnership, The City of Frederick Department of Economic Development, East Frederick Rising, The Frederick County Business Development and Retention, The Frederick County Chamber of Commerce and the Tourism Council of Frederick County). Two separate feasibility studies have shown a strong demand for this new hotel product in the Frederick market and have inferred a demand for additional hotel rooms at other hotel locations.

The site of this hotel is across the Carroll Creek from the proposed Hotel 162 development; however, through strategic marketing efforts, it will target a different market than our 120 key boutique hotel. We will work with the Plamondon team to ensure that both hotel products are successful and drive Frederick's economy in a positive direction. Oversupply to the market is a concern that has been studied in our development plan and was taken into consideration in the schedule of delivery.

[15] Best Western Historic Frederick. Executive Summary. http://mtelconsultants.com/images/property/docs/2013061811113458_Best%20Western%20Executive%20Summary.pdf

FINANCIAL ANALYSIS

INTRODUCTION

Hotel 162 is a financially viable development project with strong cash flow potential. Throughout our financial calculations, we took a more conservative approach in our assumptions to demonstrate the performance strength of the project, should conditions be more favorable than anticipated.

Below are some of the assumptions used in calculating the following financials. We are pursuing a bank loan with 70-percent loan-to-value (LTV), equaling $29.5 million. This will be at a 5.75 percent interest rate for a 25-year term. We will demonstrate the proceeds from selling the project in year five with an exit cap of 8.5 percent. This is a conservative valuation given the strength of the market and the proposed product.

Debt Coverage Ratio	1.40	Construction Contingency	15.00%
LTV Ratio	70%	Developer Fee	4.00%
Term	25		
Interest Rate	5.75%	Holding Period	5 years
		CAP Rate at Sale	8.50%
Income Escalation	3.00%		
Expense Escalation	3.00%		
Occupancy Rate (Stabilized)	75.00%		

Below is a snapshot of the total development costs. The total development costs ("TDC") for Hotel 162 are $42.6 million with 16 percent toward acquisition, 68 percent towards hard costs, developers fees accounting at three percent, and soft costs and permanent financing rounding out the last 13 percent. While the project is demonstrating higher than average acquisition costs, they are directly related to our strategy, given the complexity of current ownership.

DEVELOPMENT COSTS			
Acquisition	$	6,762,704	16%
Hard Costs	$	28,889,074	68%
Soft Costs	$	3,852,810	9%
Permanent Financing	$	1,865,376	4%
Development Fees	$	1,309,675	3%
TOTAL DEVELOPMENT COSTS	**$**	**42,679,639**	100%
TDC/Square Foot	$	264.91	
TDC/Key	$	355,664	

Several parties currently own the parcels that will make up the proposed development site. We have taken the risks associated with dealing with multiple owners into consideration in our acquisition assumptions. Shown in the chart below, there are several instances where we are prepared to offer the landowner more than the parcel is valued. These assumptions were carefully decided based on when the landowner acquired the parcel. Final sale proceeds will be determined during the acquisition process. One of the things our acquisitions team will do to mitigate this risk is to negotiate strategically and early with the owners so they do not render the development plan unfeasible.

As shown in the chart below, we are anticipating almost $6.7 million in acquisition costs, not including closing costs. Compared to the assessed values of the properties, this is $2 million more than what the properties are considered to be worth. Site C-2 is currently owned by the City of Frederick. Assuming that the City will transfer ownership of this site to the development team at no cost, we anticipate that the final sale prices will be well below our conservative numbers.

ACQUISITIONS ASSUMPTIONS			
Acquisition of Parcels	Assessed Value	Assumed Sale Pric	Notes
C-2	$ 360,100.00	$ -	*Assume given to developer by City; tax exempt*
41	$ 956,400.00	$ 956,400.00	*sold in 2006 for $1.425M*
45	$ 581,200.00	$ 950,000.00	*sold in 2012 for $950K*
47	$ 1,246,800.00	$ 1,246,800.00	*sold in 2005 for $2.125M*
43-45	$ 410,133.00	$ 1,000,000.00	*sold in 2011 for $1M*
49	$ 289,167.00	$ 1,000,000.00	*sold in 2011 for $1M*
53	$ 232,133.00	$ 1,000,000.00	*sold in 2011 for $1M*
55-57	$ 349,400.00	$ 349,400.00	
59	$ 186,400.00	$ 186,400.00	
Total	$ 4,611,733.00	$ 6,689,000.00	
	delta	$ 2,077,267.00	

Our development group has offered to put $800,000 back into the project. The remainder of the equity for the project will be obtained through an investor partner and creative financing. The development project qualifies for almost two million dollars in state and federal historic tax credits. Crowd sourcing funds raised through Fundrise will provide $1,000,000 towards the rehabilitation of the artist studios. This investment solution will be an opportunity to engage the community and allow them to contribute to the success of the project and the enhancement of downtown Frederick.

SOURCES			
Equity			
Equity - Developer	$	800,000	1.87%
Equity - Fundrise for Art Spaces	$	1,000,000	2.34%
Historic Tax Credits	$	1,827,921	4.28%
Debt			
Conventional Mortgage	$	29,875,748	70.00%
Financing	**$**	**33,503,669**	78.50%
Gap (Equity Investor Request)	$	9,175,971	21.50%
Total Financing	**$**	**42,679,639**	

Although a small percentage, 8.35 percent, of the development will be historic renovation, the costs to rehabilitate the existing structures will total $5.5 million. The chart below summarizes our assumption that the syndication of the credits will be valued at $0.95 and $0.70 for federal and state taxes, respectively. The total equity we anticipate from historic tax credits is $1.8 million.

Tax Credit Calculation

Federal Tax Credit	**Historic**
Qualified Basis	$5,539,155
Tax Credit %	20%
Tax Credit Available	$1,107,831
Purchase Value/$	$0.95
Total Federal Equity Payment	**$1,052,439**

State Tax Credit	**Historic**
Qualified Basis	$5,539,155
Tax Credit %	20%
Tax Credit Available	$1,107,831
Purchase Value/$	$0.70
Total State Equity Payment	**$ 775,482**

Total Tax Credit Equity	**$ 1,827,921**

INCOME ANALYSIS

The total project will be approximately 138,000 square feet of development. Of this, 102,000 square feet will be new construction and the remaining 36,000 square feet will be historic renovation. A majority of the new construction will be the 120-key hotel (96,000 gross square feet).

Existing

Propose

Historic/New Construction Breakdown

Total GSF **138,358**	Historic		New Construction	
	Total SF	% of total SF	Total SF	% of Total SF
Grocery Market	4,556	3.29%	5,444	3.93%
Restaurant	6,993	5.05%	1,007	0.73%
Hotel	-	0.00%	96,000	69.39%
Artist Studios	24,358	17.61%	-	0.00%
	35,907	8.35%	102,451	74.05%
		% of total Dev		% of total Dev

The following assumptions were used in calculating the operations of the project. We expect the hotel to operate at a healthy 75 percent occupancy once stabilized in the market. Income and expense escalations are both expected to be three percent each year.

Assumptions	
Escalation	
Revenue	3%
Operating Expense	3%
Hotel Opening Occupancy	60%
Hotel Stabelized Occupancy	75%
Studio Occupancy	95%

Income					
Product	Total Area	Leasable SF	$	Basis	Year 1 Income
Hotel	96,000	91,200	115.00	ADR	$ 3,777,750.00
Retail	18,000	17,100	30.00	$/SF	$ 513,000.00
Artist Studios	24,358	23,358	9.50	$/SF	$ 584,704.10
Total	138,358	131,658			**$ 4,875,454.10**

Expenses					
Product	Total Area	Leasable SF	$	Basis	Year 1 Expenses
Hotel	96,000	91,200	16.43	$/SF	$ 1,498,096.35
Retail	18,000	17,100	4.55	$/SF	$ 77,805.00
Artist Studios	24,358	23,358	6.53	$/SF	$ 152,517.06
Total	138,358	131,658			**$ 1,728,418.41**

Demonstrated in the above calculations, the hotel will generate a majority of the rental income, at nearly $3.8 million in the first year of operation. Similarly, the hotel will incur the most expenses for the project at almost $1.5 million in the first year. Overall, the project will generate a strong net operating income (NOI) of $3.1 million in the first year and is projected to increase to $4.7 million by year ten.

EXIT STRATEGY

Generally the initial owner holds hotel developments for three to five years. We have calculated a sale at year five, given the financially viable nature of this project. At a capitalization rate of eight and a half percent, the project will be valued at $48 million. The net proceeds we anticipate from the sale will be approximately $5.3 million. In terms of the equity investor, the project should yield an annualized cash-on-cash return of 22 percent for $12.3 million.

INVESTOR CASH FLOW & RETURNS

		Year 1	Year 2	Year 3	Year 4	Year 5
Cash Flow From Operations		891,633	986,044	1,083,287	1,675,406	1,793,331
		0	0	0	0	0
TOTAL AVAILABLE CASH:		891,633	986,044	1,083,287	1,675,406	1,793,331
Preferred Investor Return	8%	734,078	734,078	734,078	734,078	734,078
Remaining Cash Flow		157,555	251,966	349,210	941,329	1,059,253
Added Investor Return(90% of remaining)		141,800	226,770	314,289	847,196	953,328
TOTAL INVESTOR RETURN:		**875,877**	**960,847**	**1,048,366**	**1,581,273**	**1,687,405**
Annual Cash-on-Cash-INVESTORS		10%	10%	11%	17%	18%
Developer cash Flow (10% of Remaining)		15,756	25,197	34,921	94,133	105,925

Sale Proceeds (@ Yr.5):		Cap @		
N.O.I.@ Sale:	$ 4,048,733	8.50%	= Value:	$ 47,632,159
			Return of Equity	$ 12,803,892
			Pay-off (1st)	$ 26,770,354
			Trans.Costs	$ 1,190,804
			Net Proceeds:	**$ 6,867,109**

Total 5 Year Return Projection **			
	90/10		
	Cash Flow	Residual Ret.	TOTAL
Investor Cumulative	$ 6,153,770	$ 6,180,398	**$ 12,334,168**
Cumulative Cash-on-Cash =	67%	67%	134%
Annualized Cash-on-Cash=	11%	11%	**22%**

*** Return is based on equity life of 6 yrs. against cash flow from 5 yr. hold.*

RISK ASSESSMENT (SWOT ANALYSIS)

INTERNAL FACTORS

Strengths

We are creating enough critical mass for successful development with multiple complementary uses. This site is one of the last undeveloped and underutilized along the Carroll Creek revitalization project. Our development plan capitalizes on the opportunity created by structures already on site. We are able to use historic tax credits, since we are maintaining and rehabilitating the existing contributing historic structures.

Weaknesses

Existing structures propose a design limitation and are not placed ideally on the site. The development plan is not as efficient as it would be if the site were razed.

Artist studios do not bring in as much revenue as other product types. In order to justify adding them, we will have to use historic tax credits and locate them in the existing structures where renovation will not be as expensive as new construction.

EXTERNAL FACTORS

Opportunities

If the full service hotel and conferencing center delivers as planned, we will be able to combine marketing efforts. We also have an opportunity to team up with the local Frederick farms to provide products for our proposed grocery market.

Threats

Several private landowners own the parcels adjacent to site C-2, which is owned by The City of Frederick. There is a possibility that the landowners will hold out for more money than anticipated in our acquisition assumptions or will not want to sell. In the event that the acquisition plan becomes infeasible, we will reevaluate the design to accommodate. Since the hotel portion is located on a city-owned parcel, that portion of the development would still be viable.

Since the market is still recovering from a recession, it is difficult to predict the future trends. If expected occupancy levels are not met, we would have to reevaluate the viability of the plan. Because our development is not expected to deliver for three years, the market could change unfavorably.