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Re: Feasibility for a proposed national chain hotel to be located in Nephi, Utah.

Pursuant to a request from Mr. Matthew Godfrey of Better City, our firm has engaged in a preliminary analysis relative to the feasibility of a proposed national chain hotel to be located in Nephi, Utah. This letter is to serve as a summary of our initial findings

After analyzing pertinent market data in order to form opinions of occupancy, average daily rate, room revenue and overall feasibility. Our investigation and analysis resulted in the estimates that are summarized below.

PROJECTED SUBJECT OCCUPANCY - 80 ROOMS
MARKET DEMAND AS IS

	Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*
Occupancy	54%	56%	60%	63%	67%
ADR	$95.00	$97.85	$100.79	$103.81	$106.92
Room Revenue	$1,497,960	$1,600,043	$1,759,909	$1,909,672	$2,091,848

The estimates of occupancy, average daily rate, and room revenue are subject to the assumptions and limiting conditions as stated in the following summary analysis. The reader should note that the conclusions are based on the assumption that no significant additional supply of rooms will be added to the market in the near future other than those discussed in the market supply analysis.

This is a summary letter provided on a basic review of demand generators in the overall Nephi, Utah market and is performed to address feasibility considerations. It does not constitute an appraisal in terms of establishing opinions of value.

Your attention is invited to the following information, which outlines the data collected and the methods used in the analysis.

Demand Growth Indicators:

In analyzing the Nephi market for a potential new lodging development, our firm reviewed various demand growth indicators such as gross taxable sales for Nephi City, gross taxable lodging sales for Juab County, population growth for both Nephi City and Juab County and average annual daily traffic at key interchanges along Interstate 15. A summary of the demand indicators is found in the following table. Please note that when possible, we also include gross taxable lodging sales for the specific city in which we are analyzing however when the sales are less than an aggregate amount of $2,000,000 in a specific city the Utah State Tax Commission does not report those figures on a city wide basis. It should be further noted however that as of year-end 2013, the gross taxable sales for Nephi specifically make up nearly 71% of the total gross taxable sales for the entire Juab County. Given the influence that Nephi has on the overall Juab County market, our firm is of the opinion that the vast majority of gross taxable lodgings sales represented in Juab County are specific to the community of Nephi and therefore are a good indication of growth of lodging demand within Nephi specifically.

Please refer to the growth rates found in table below:

DEMAND GROWTH INDICATORS						
GROSS TAXABLE SALES						
	2009	***2010***	***2011***	***2012***	***2013***	***% Chg. Inf. Adj.***
Nephi City	$54,196,513	$54,802,342	$59,274,129	$70,244,312	$62,868,041	1.58%*
Juab County	$80,514,696	$86,380,775	$100,396,779	$111,083,131	$89,241,362	0.40%*
Juab County Lodging	$1,656,040	$1,839,064	$2,106,856	$2,213,761	$2,138,851	4.40%*
POPULATION GROWTH						
Nephi Population	5,518	5,394	5,440	5,440	5,466	-0.24%
Juab County Population	10,244	10,261	10,342	10,342	10,348	0.25%
AVERAGE ANNUAL DAILY TRAFFIC						
AADT I-15 at SR 132 (North Interchange)	19,700	20,115	19,450	20,615	19,935	0.30%
AADT I-15 at SR 28 (South Interchange)	15,815	16,150	16,075	15,610	16,085	0.42%

**Inflation Adjusted*

The demand growth rates range from 0.24% to 4.40%, with an average of 1.02%.

Room Night Demand Quantification:

PRIMARY COMPETITION

BEST WESTERN NEPHI, UT	
ADDRESS	1025 South Main Street Nephi, Utah 84648
TYPE OF MOTEL	Mid-range, limited-service
ROOM #	42
YEAR BUILT	1996 (Approximately)
DESIGN	Two -story, wood frame, exterior corridors
ROOM FEATURES	All guest rooms include: AM/FM alarm clock, cable television, voicemail, free high-speed internet
AMENITIES	Indoor Pool, hot tub, continental breakfast
OCCUPANCY	73% estimated
ADR	$87 estimated
REMARKS	The property is located approximately 1 mile to the northeast of the I-15-SR 28 Interchange near the southern end of the community of Nephi

Franchise Analysis:

It is the opinion of the consultants that the facility should be associated with a nationally recognized franchise affiliation to assist in providing market awareness to seasonal travelers visiting the area. The proper selection of a franchise affiliation is paramount the overall success of a lodging development. In selecting a franchise it must be noted that there are distinguishing differences between all franchises. Still available in the community are affiliation opportunities with Hilton Hotels Group, Marriott International, and Intercontinental Hotels. Each of these three groups should be strongly considered for development to the area as they represent some of the most widely recognized hospitality brands in the industry. Respective highlights for the various franchise selections within Hilton, Marriott and Intercontinental are presented below and are discussed in greater detail. .

Hampton Inn and Suites:

Originally started as a division of Holiday Inn, Hampton Inn was acquired as a brand by Hilton Hotels in 1999 and has quickly become one of the largest and most recognized lodging brands in the industry with nearly 2,000 hotels worldwide. Hampton has won consecutive Entrepreneurial Awards in 2010 and 2011, and 2013 as the best Franchise available. The Hampton Inn is considered a limited service facility geared toward a value conscious consumer with typical standard amenities with limited options on upgrades or services.

Fairfield Inn and Suites by Marriott:

Fairfield Inn and Suites by Marriott is designed for the value-conscious, guest for a typical stay of 1 to 2 nights. The brand delivers a standard hotel room with some limited options on upgrades and services. According to Marriott the typical Fairfield Inn and Suites Guest is looking for the following:

- Simple, basic, no-frills experience
- Positive experience in a travel world that is unpredictable, inconsistent, stressful and lonely.
- Highly focused and not looking for the hotel to provide services attainable in the community

Holiday Inn Express and Suites:

Holiday Inn Express is a mid-priced hotel chain within the Intercontinental Hotels Group family of brands. As an "express" hotel, their focus is on offering limited services and a reasonable price. Standard amenities lean toward the convenient and practical, which cater to business travelers and short-term stays. The brand was first launched in the U.S. in 1991, with its first European location in Scotland in 1996, presently there are nearly 2,300 Holiday Inn Express hotels worldwide

Year-end 2013 brand average comparisons for all three franchises are presented in the following table.

BRAND COMPARISON – YEAR END 2013

Brand	*Occ.*	*ADR*	*RevPAR*	*# of Hotels*	*# of Rooms*	*Channel Contribution*
Hampton Inn & Suites	68.0%	$104.57	$72.23	1,877	193,331	54.0%
Fairfield Inn & Suites	67.7%	$98.62	$66.76	715	65,580	57.6%
Holiday Inn Express	69.5%	$94.87	$68.79	2,317	223,023	52.0%

As noted above, each of the respective brands fall within a similar range of Occupancy and Rate with the only major difference in the quantity of hotels associated with Fairfield Inn & Suites as compared to the larger brands of Holiday Inn Express and Hampton Inn. According to information provided it would appear that Holiday Inn Express has the highest overall occupancy rate at 69.5% however it also has the lowest ADR of the comparable properties at $94.87. Often RevPAR (Revenue Per Available Room) is the best way to compare properties to properties and brands to brands. Using RevPAR as the basis for comparison it would appear that Hampton Inn & Suites could be the best option available. This brand is further strengthened by a channel contribution, or rooms being booked through franchise reservation channels, of 54.0%. A general rule of thumb is that the franchise is doing a fair job if it is contributing 25% of rooms being sold. Each of the above referenced brands has stronger than average channel contributions

Market Occupancy:

Although the Best Western is considered the primary competition to a new development in Nephi, there are a number of other properties that are also located in the community including a Super 8, Economy Inn & Suites, National 9, and Motel 6. These properties would not be considered either primary or secondary competition to a proposed new development however in order to accurately portray the complete market demand for lodging facilities in Nephi it is our that a portion of the other of facilities should also be included in the analysis to give a more accurate representation of overall demand to the subject market. A portion of these rooms has been identified in this analysis as "Nephi Other".

MARKET OCCUPANCY SUMMARY					
Property	***Room #***	***Estimated Occupancy***	***Room Supply***	***Room Demand***	***Weight***
Best Western	42	73.0%	15,330	11,191	100%
Nephi Other	75	65.0%	27,375	17,794	80%
Total	117	67.9%	42,705	28,985	--
Weighted Occupancy		**68.3%**			

Market Share:

Fair market share is the ratio of the hotel's room supply to the market's total room supply. Actual share is the ratio the respective hotel is in fact getting in the market.

MARKET SHARE ANALYSIS					
Property	***# of units***	***Occupancy***	***Fair Share***	***Actual Share***	***% Difference***
Best Western	42	73.0%	35.9%	38.6%	107.6%
Nephi Other	75	65.0%	64.1%	61.4%	95.8%
Total	**117**	**67.9%**	**100.0%**	**100.0%**	

Of the categories shown above it is interesting to note that the Best Western is achieving greater than 100% of "fair share" as shown in the actual share and percent difference columns. This is understandable given the fact that Best Western is the most widely recognized brand affiliation in the market.

Demand Growth:

Based upon the prior Demand Growth Indicators with particular emphasis on the Gross Taxable Lodging Sales growth rate for Juab County, the projected growth in room demand is depicted below.

ROOM NIGHT DEMAND GROWTH		
Year	***Growth Rate***	***Room Nights***
2016	3.50%	29,999
2017	3.75%	31,124
2018	4.00%	32,369
2019	4.00%	33,664
2020	4.00%	35,011

Potential New Lodging Units:

In projecting future occupancy rates for a hotel, prospective additions to the current lodging supply must be considered. The following table summarizes the projects that are proposed or under construction for the subject area in the near future. A weight is applied to each, and those projects that 1) will not compete directly with the subject or that 2) have a lower probability of being built were given weights less than 100 percent. This is done to buffer the impact of new supply coming on line to more realistic levels. In that there are currently no other future additions scheduled or planned the only property listed here is the proposed development

PLANNED NEW SUPPLY					
Project	**Location**	**Date of Completion**	**# Units**	**Weight**	**Weighted Units**
Newly Constructed Franchise Hotel	Nephi	3Q16	80	100%	80
Total Units			**80**		**80**

Projections developed in this analysis could be negatively impacted if in fact additional supply above and beyond these additions occurred. The timing of the additional units is estimated, and is shown in the following table.

TIMING OF PLANNED NEW SUPPLY							
Project	**Total Units**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Newly Constructed Franchise Hotel	80	--	40	40	--	--	--
Total Additions	**80**	**0**	**40**	**40**	**0**	**0**	**0**
Total Competitive Units	**117**	**117**	**157**	**197**	**197**	**197**	**197**
New Supply as % of Total		**0.0%**	**34.2%**	**25.5%**	**0.0%**	**0.0%**	**0.0%**
Average Annual Competitive Growth Rate:			**11.0%**				

The impact of potential subject project coming to the market was spread over two years. This is done to account for the fact that most projects coming on line do so during the course of a given year. In effect, the impact of the new rooms is not felt for a full year unless they open as of January 1st.

Our best estimate for future supply growth in the following years is based on the addition of the subject property. Future supply growth will depend on future demand patterns. It is anticipated that over the long run, supply and demand will increase or decline such that market occupancy ranges from 60 percent to 70 percent for the general market in a given year. Any time occupancy exceeds 70 or 75 percent in the subject market there is a strong incentive for existing properties to expand or for new properties to enter the market.

The projected supply growth is summarized in the table below.

GROWTH IN ROOM SUPPLY			
Year	*Planned Units*	*Annual Growth Rate*	*Competitive Market*
2015	0		42,705
2016	40	34.2%	57,305
2017	40	25.5%	71,905
2018	0	0.0%	71,905
2019	0	0.0%	71,905
2020	0	0.0%	71,905

Correlation of Supply and Demand

By correlating current supply and demand in the lodging market, market occupancy can be quantified. The preceding analysis discussed supply and demand in the subject's lodging market. Various parameters of competition were investigated, including the primary and secondary markets. The projected growth in supply and demand over the next five years was outlined, and is summarized in the table below. Also summarized below is the actual number of hotel rooms pertaining to supply and demand.

SUMMARY OF SUPPLY & DEMAND (Growth Rates & Actual # of Hotel Rooms)				
	Growth Rates		**# of Hotel Rooms**	
Year	**Demand**	**Supply**	**Demand**	**Supply**
2015	0.0%	0.0%	28,985	42,705
2016	3.5%	34.2%	29,999	57,305
2017	3.8%	25.5%	31,124	71,905
2018	4.0%	0.0%	32,369	71,905
2019	4.0%	0.0%	33,664	71,905
2020	4.0%	0.0%	35,011	71,905

Occupancy Estimate

Occupancy is determined by correlating current supply and demand. Future growth rates are then applied to each of the base figures to arrive at future levels of supply and demand. The following table summarizes the analysis and presents the occupancy estimates for the subject market over the next five years based on supply and demand trends.

MARKET OCCUPANCY PROJECTIONS			
Year	***Supply***	***Demand***	***Occupancy***
2015	42,705	28,985	67.87%
2016	57,305	29,999	52.35%
2017	71,905	31,124	43.28%
2018	71,905	32,369	45.02%
2019	71,905	33,664	46.82%
2020	71,905	35,011	48.69%

The market occupancy projections given above may have a wider range than what will actually occur because of variables associated with forecasting. Nevertheless, the data above gives a range of occupancy from which the subject's performance can be projected. Because of the newness of the facility, it is believed that the subject property will develop competitive market penetration during its second year of operation. Typically, new lodging facilities reach a stabilized occupancy in the third to fifth year of operation. It is estimated that the subject property will have an occupancy rate, at stabilization that is slightly higher than the market average because of its newness, location and strong national brand affiliation.

It is estimated that the proposed subject property will achieve a premium overall penetration rate relative to the competition. Furthermore, it is estimated "at stabilization" that the subject property will achieve occupancy levels slightly higher than the market average. A strong franchise affiliation, location near a key I-15 interchanges in the community with plenty of visibility and an overall perceived quality superior to anything else currently available in the market is projected to generate superior perception and appeal among travelers. All considered the percent of fair share for the subject has been estimated at 100% for the first year, 120% for the second year, and 125% for the remainder of the projection period. The lower occupancy figures in the first and second years are a reflection of a typical market exposure period. The following table indicates the estimated projected occupancy for the subject hotel.

PROJECTED SUBJECT OCCUPANCY					
Year	***Market Occupancy***	***Subject's Fair Share***	***Subject's Projected Share***	***Percent of Fair Share***	***Subject Occupancy***
2015	67.87%	--	--	--	**--**
2016	52.35%	51.0%	51.0%	100%	**52%**
2017	43.28%	40.6%	48.7%	120%	**53%**
2018	45.02%	40.6%	50.8%	125%	**56%**
2019	46.82%	40.6%	50.8%	125%	**59%**
2020	48.69%	40.6%	50.8%	125%	**61%**

Average Daily Rate Estimate

The estimated ADR figures from the Best Western are next presented, as well as adjustments to the rates for the differences in condition, amenities, and quality.

Property	Number of Rooms	ADR	Adjustments			Adjusted ADR
			Amen.	Cond.	Qual.	
Best Western	42	$87.00	3.0%	5.0%	5.0%	$98.31
Weighted Avg.	42	$87.00				$98.31

A summary of occupancy and average daily rate estimates for the subject are shown in the table below.

PROJECTED SUBJECT OCCUPANCY - 80 ROOMS					
	Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*
Occupancy	52%	52%	56%	59%	61%
ADR	$98.00	$100.94	$103.97	$107.09	$110.30
Room Revenue	$1,498,039	$1,530,960	$1,708,298	$1,829,942	$1,960,258

Conclusion:

Based upon the above forecasts of Occupancy, ADR and Room Revenue, the consultants are of the opinion that the proposed project is on the borderline of feasibility. It should be understood that a potential developer would anticipate that there would be a market penetration period of the first 2 years of operation where the property could potentially function at a slight operational loss. Once the property reaches a stabilized period in years 3 through 5 a potential developer could anticipate levels of profitability. This conclusion is based upon typical loan to value ratios, costs of construction of limited service mid-range to upper mid-range lodging properties in the intermountain area, and present market interest rates and assumes competent and able management. These losses could be substantially mitigated were the developer to obtain an attractive development package incentive from either Nephi City, Juab County or combination of both.

Regards,

Ensign Hospitality Management