



APPRAISAL REPORT OF

DOUBLETREE BY HILTON - SANTAN, GILBERT

A 121-Room, Full-Service Hotel Property
Located At 1800 South San Tan Village Parkway
Gilbert, Arizona 85295

CVG Assignment: SP.220512.057

DATE OF REPORT

June 3, 2022

EFFECTIVE DATE OF VALUE

May 13, 2022

PREPARED FOR

Mr. Nick Voss
Western State Bank– West Fargo, ND
755 13th Avenue E
West Fargo, North Dakota 58078

PREPARED BY

Core Valuation Group, LLC
70 South Val Vista Drive, A3-337
Gilbert, Arizona 85296

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Western State Bank– West Fargo, ND
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CVG Assignment: *SP.220512.057*

Dear Mr. Voss:

At your request, an Appraisal Report of the above referenced property has been prepared. The purpose of this appraisal is to develop an opinion of the “as is” market value of the fee simple interest in the subject property. The subject property was inspected on May 13, 2022, which represents the effective date of the “as is” value. The intended use of this report is to assist the intended user, in making a lending decision regarding the subject property. The intended user of the appraisal report is Western State Bank– West Fargo, ND. The client of this report is Western State Bank– West Fargo, ND.

This report has been prepared in compliance with: the Uniform Standards of Professional Appraisal Practice (effective date January 1, 2020); Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989; and the appraisal requirements of Western State Bank– West Fargo, ND.

In completing this assignment, an analysis of the physical and economic characteristics of the subject has been conducted, as well as a summary market analysis of the supply and demand characteristics of the competing macro and micro market areas. In addition, this analysis also involved the collection and analysis of comparable sales, listings, leases and interviews with real estate agent/brokers in the competing area. The sources of data include Maricopa County records, Costar Group, Inc., Loopnet, ARMLS, buyers/sellers/brokers and CVG’s internal database.



An Appraisal Report is intended to comply with the reporting requirements set forth under Standards Rule 2-2(a). The approaches utilized in this assignment are described in the scope of the assignment section of the appraisal report.

After considering all facts available, subject to the underlying assumptions and limiting conditions included, it is concluded that the opinion of the “going concern” based on the fee simple interest in the subject property, is:

CONCLUSION OF MARKET VALUE			
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Valuation Basis	Interest Appraised	Effective DOV	Value Conclusion
"As Is" - Going Concern	Fee Simple	May 13, 2022	\$25,900,000

Core Valuation Group, LLC

The appraiser has not performed valuation services for the subject property within the past three-year period.

The estimated exposure period for the subject has been based on the actual exposure periods of the improved sales employed in the Sales Comparison Approach, PwC investor survey for the 1st Quarter 2022, and discussions with several real estate brokers and market participants active in the Gilbert (and surrounding area) lodging/hospitality market. The preceding opinion of market value is predicated upon an exposure period of 12 months, or less, and assumes the subject property is adequately and professionally marketed for sale at a price commensurate with the concluded opinion of market value.

Sincerely,

Kevin P. Walsh
State of Arizona Certified General
Real Estate Appraiser #31529

TABLE OF CONTENTS

COVER PAGE.....	I
LETTER OF TRANSMITTAL	II
SUBJECT PHOTOGRAPHS AND IMAGES.....	1
EXECUTIVE SUMMARY	4
SUBJECT IDENTIFICATION	5
SCOPE OF WORK.....	8
AREA ANALYSIS	11
NEIGHBORHOOD DATA	29
SITE DESCRIPTION	37
IMPROVEMENT DESCRIPTION	42
MARKET ANALYSIS	47
HIGHEST AND BEST USE	54
APPRAISAL PROCESS	56
SALES COMPARISON APPROACH - GOING CONCERN	57
INCOME APPROACH - GOING CONCERN	68
RECONCILIATION	91
ASSET VALUE ALLOCATION	92
UNDERLYING ASSUMPTIONS AND LIMITING CONDITIONS	95
CERTIFICATION.....	97

ADDENDA

DEFINITIONS

LEGAL DESCRIPTION

ENGAGEMENT LETTER

APPRAISERS QUALIFICATIONS/CERTIFICATIONS

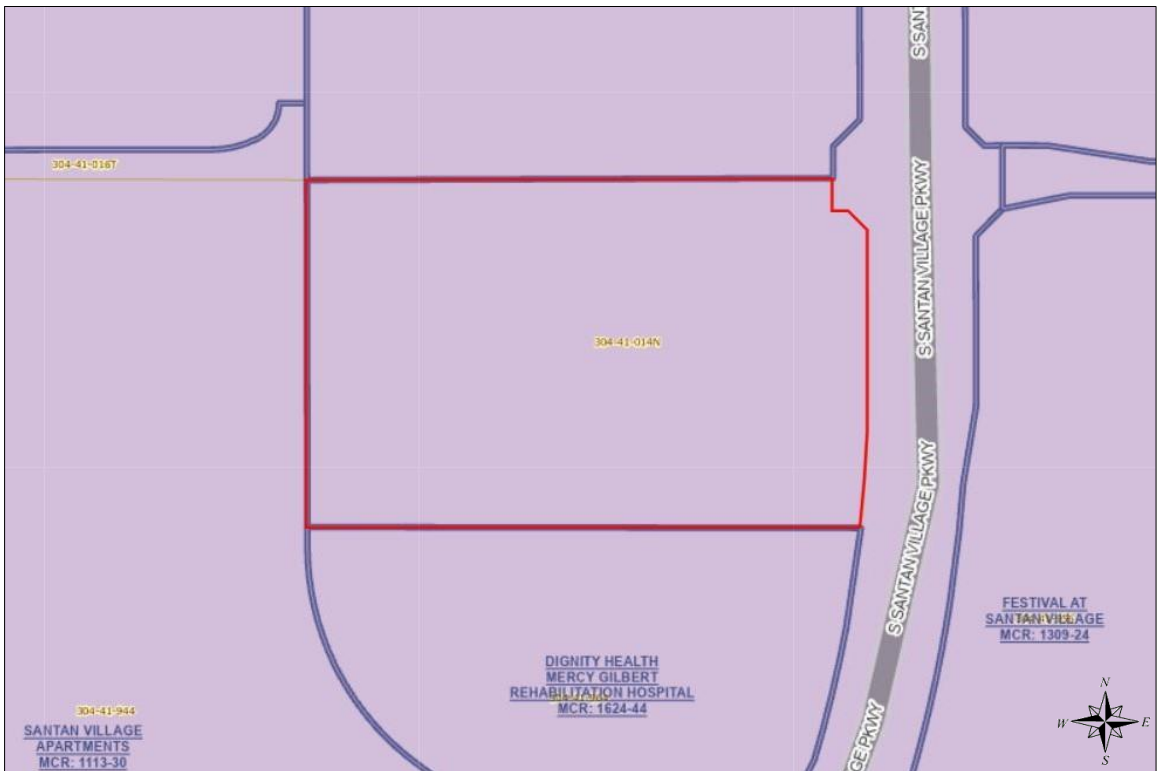
SUBJECT PHOTOGRAPHS



SUBJECT PHOTOGRAPHS



AERIAL PHOTOGRAPH/PARCEL MAP



EXECUTIVE SUMMARY AND CONCLUSIONS

EXECUTIVE SUMMARY AND CONCLUSIONS

Property Type: Lodging/Hospitality
Property Use: Full-Service Hotel
Property Name: DoubleTree by Hilton - SanTan, Gilbert
Location: 1800 South San Tan Village Parkway, Gilbert, Arizona 85295

Gross Building Area: 89,888
No. of Buildings: 2
No. of Stories: 4
No. of Units: 121

Year Built: 2009
Last PIP: 2021

APN #: 304-41-014N
Site Size (Ac): 5.552
Site Square Feet: 241,861
Zoning: RC, Regional Commercial
Zoning Authority: Town of Gilbert

Flood Zone: Zone X
FEMA Map/Panel: 04013C2753M

Sale History: See Sale History Section
Pending Sale: See Sale History Section

Effective Date of Value:
"As Is": May 13, 2022
Date of Report: June 3, 2022

Marketing Period: 12 Months or less
Exposure Time: 12 Months or less

Value Conclusions

Going Concern "As Is": \$25,900,000



SUBJECT IDENTIFICATION AND HISTORY

SUBJECT IDENTIFICATION

The property under study involves a DoubleTree by Hilton branded, 121-Room, full-service hotel property located at 1800 South San Tan Village Parkway in Gilbert, Arizona. The improvements include one (1) four-story guest building with 121 total rentable units and one (1) convention center building with seven (7) ballrooms. The main four-story guest building is ±71,041 square feet and the convention center building is ±18,847 square feet.

The improvements were originally constructed in 2009 and in good condition for the age with the recent (September 2021) property improvement plan (PIP). The subject also includes a front service desk, managers offices, guest laundry services, storage areas, two (2) commercial kitchens, one (1) lobby bar, restrooms, lobbies and seating areas, fitness center, outdoor patios, two (2) pools and two (2) heated spas. Site improvements include open asphalt-paved parking lot with 221 open parking spaces (1.83 spaces per room), concrete sidewalks, curbs and mature landscaping in the courtyard. The improvements are situated upon one parcel of land totaling ±241,861 square feet (±5.55 acres), and is identified by Maricopa County Assessor's Parcel Number 304-41-041N.

SUBJECT HISTORY

According to Maricopa County records, the subject property is vested San Tan Center LLC. The most recent transfer of the subject property was on November 17, 2011, the details of the transaction were not available via public records. The second most recent transfer of the subject property was on December 18, 2008, when Power Hotels LLC purchased the property for \$3,636,585, for the vacant land, from Parks/Martin Development Co Inc, via special warranty deed as recorded by document number 2008-1069574.

Of note, the subject property is currently under contract to be purchased for a total consideration of \$25,750,000, or approximately \$212,810 per room. According to the PSA, the buyer is identified as Pacific Orchid Holdings, LLC. The buyer and seller signed the letter of intent to purchase on April 27, 2022. It appears to be an arm's length transaction. A copy of the purchase and sales agreement (PSA) is shown in the addenda of this report.

The concluded value of \$25,900,000 is within 1% of the pending sale price, suggesting that the contract price is generally at market.

PROPERTY IMPROVEMENT PLAN (PIP)

The most recent PIP was completed in September 2021.

SUBJECT PROFILE

DoubleTree by Hilton is an American hotel chain and a part of Hilton Worldwide. Most DoubleTree hotels are independently owned and operated by franchisees, but some are managed by Hilton Worldwide. DoubleTree has been the fastest growing Hilton brand by number of properties since 2007, and by number of rooms from 2007–2015, until in 2016 Hilton Garden Inn opened more rooms. As of December 31, 2019, it has 587 properties with 135,745 rooms in 47 countries and territories, including 122 that are managed with 35,122 rooms and 465 that are franchised with 100,623 rooms.

The first DoubleTree hotel opened in Scottsdale, Arizona, in 1969. It was located on the grounds of Scottsdale Fashion Square and was built by Sam Kitchell. The Doubletree Corporation merged with Promus Hotel Corporation in December 1997, bringing together the Doubletree, Red Lion, Hampton Inn, and Embassy Suites brands. In December 1999, Hilton Hotels Corporation acquired Promus Hotel Corporation which brought Doubletree Hotels and other Promus hotel brands under the umbrella of the newly renamed Hilton Worldwide.

According to data from macro trends.net, Hilton Worldwide Holdings 2020 annual EBITDA was \$-0.041B, a 102% decline from 2019. Hilton Worldwide Holdings annual revenue for 2020 was \$4.307B, a 54.43% decline from 2019. Hilton Worldwide Holdings annual gross profit for 2020 was \$3.687B, a 55.03% decline from 2019. The all-time high Hilton Worldwide Holdings stock closing price was 128.05 on April 16, 2021; The average Hilton Worldwide Holdings stock price for the last 52 weeks is 96.33. Hilton Worldwide Holdings total number of employees in 2020 was 141,000, a 18.5% decline from 2019.

POSITIVE AND NEGATIVE CHARACTERISTICS

The subject property has the following positive attributes:

- The subject property located within the San Tan Mall area, less than a quarter mile west of the Loop 202 Freeway, with good traffic counts for the area, good ingress/egress from one (1) major roadway and two (2) collector streets,
- Area consists of mixed land uses, including: residential and commercial (retail),
- The property “as is” was in good condition for its age, and has a functional layout, design and appeal,
- A recent (September 2021) PIP was completed,
- The subject is affiliated with Hilton Worldwide, one of the largest hotel chains in the world,
- The subject is located in a major market (Phoenix MSA, Gilbert).

The subject property has the following negative attributes:

- There are over 10 existing similar full service-hotels properties within the five-mile radius of the subject,
- The overall hospitality market, and non-essential services, are being challenged by the current pandemic.

EXTRAORDINARY ASSUMPTIONS/HYPOTHETICAL CONDITIONS

It should be noted, this report is compiled with information based on facts thought to be credible with a limited number of assumptions and/or limitations. However, the report is based on the following Extraordinary Assumptions and Hypothetical Conditions. ***Notably, the use of an Extraordinary Assumptions and-or Hypothetical Conditions might have affected the assignment results.***

- No analysis of outstanding debt or property liens are considered in this assignment,
- We assume the utilities to site are in good working order with no damage that would require additional funds,
- We assume the existing building is in good working condition with no major deferred maintenance,
- We have relied on information provided by the operator and assume the information is accurate,

- A sample of subject units were inspected, and photographed, and this appraisal assumes that the remaining subject units not inspected are similar in overall condition, quality, design, interior build-out, and functionality,
- It is an extraordinary assumption that the remaining items to cure were completed to meet the franchise standards and there are no adverse effects to the franchise agreement,
- The marketing period assumes that a capable real estate broker/agent professionally markets the property at a price commensurate with the value concluded herein,
- As part of the Contingent and Limiting Conditions, the value conclusion is subject to completion of an American with Disabilities Act (ADA) compliance survey of the property. It is possible that a compliance survey with a detailed analysis of the provisions associated with ADA could reveal that the property is not in compliance with one or more stipulations. If so, this fact could influence the value of the property. Since we have no direct evidence relating to the issue, we did not consider possible noncompliance with the requirements of ADA in estimating the value of the property,
- The appraiser was not provided with a copy of an environmental survey. If toxic waste and/or contaminants are detected on the subject property, the value estimate appearing in this report is null and void. If a re-appraisal is required, it will be made at an additional charge and upon receipt of any additional information requested (i.e., what the toxic waste and/or contaminate is and the cost of removal) by the appraiser. No nuisances or hazards were recognized during the on-site inspection of the subject property,
- The Coronavirus (COVID-19) threat may be having an impact on market conditions. There are disconcerting factors in the market, such as, mandatory closures of non-essential service businesses, volatility in the capital markets, increasing unemployment rates, etc. The extent of the impact, if any, on conditions in the subject's market, has not materialized to the extent that atypical adjustments are necessary for market conditions,
- The condition of the property and value is based on the "as is" premise at the time of the inspection and we are not responsible for property conditions changes and/or future economic conditions that may affect property values,
- There are no known hypothetical conditions noted.

SCOPE OF WORK

The scope of work for this appraisal report involves collection, confirmation, research and analysis of market data, for developing an opinion of the market value of the subject property. Additional documentation is retained in the appraisers' file and is available to the client if required.

This appraisal assignment utilized a variety of data sources including:

- U.S. Department of Commerce
- Arizona Department of Economic Security
- W.P. School of Business (ASU)
- Federal Emergency Management Agency
- Hanley Wood Market Intelligence
- CoStar Group, Inc./RealQuest/Loopnet
- Arizona Regional Multiple Listing Service
- Maricopa County Treasurer/Assessor's Office
- U.S. Department of Labor
- Arizona Department of Administration
- University of Arizona
- Metropolitan Phoenix Housing Study
- The Arizona Republic
- Town of Gilbert
- Various Market Reports
- Local brokers and market participants

These sources provided pertinent information pertaining to demographic, economic, governmental, and environmental characteristics of the subject neighborhood and Maricopa County. Additionally, these sources provided relevant information regarding historical and projected supply and demand trends affecting the town of Gilbert.

The description of the subject property is based on the appraiser's inspection, a review of public records, and documents provided during the course of this assignment. During inspection of the property, efforts were made to become familiar with the subject's neighborhood and any future planned uses or developments which could influence the subject property and area.

market data and information relating to the lodging market was gathered via examination of public records, as well as interviews with market participants, including buyers, sellers, and agents/brokers. Additionally, these sources provided relevant information regarding historical and projected supply and demand trends affecting the subject property.

In the valuation of the subject, the Sales Comparison Approach, Income Approach and Cost Approach were considered to estimate value. The Sales Comparison Approach and Income Approach to value were developed and utilized in the analysis of the Going Concern valuation. The Cost Approach was not included within the valuation due to the actual age of the subject property, and is not typically weighted by market participants. An allocation of the components is illustrated in the reconciliation section of this report.

PURPOSE OF THE APPRAISAL AND PROPERTY RIGHTS APPRAISED

The purpose of this appraisal is to develop an opinion of the "as is" market value of the fee simple interest in the subject property. The subject property was inspected on May 13, 2022, which represents the effective date of the "as is" value. The intended use of this report is to assist the intended user, in making a lending decision regarding the subject property. The intended user of the appraisal report is Western State Bank– West Fargo, ND. The client of this report is Western State Bank– West Fargo, ND.

- *Fee simple estate means absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.*¹
- *Market value “as is” on appraisal date means an estimate of the market value of a property in the condition observed upon inspection and as it physically and legally exists without hypothetical conditions, assumptions, or qualifications as of the date the appraisal is prepared.*²
- *Market value of the going concern is defined as:*
 1. *The market value of all the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate; more accurately termed the market value of the going concern.*
 2. *The value of an operating business enterprise. Goodwill may be separately measured but is an integral component of going-concern value when it exists and is recognizable.*
- *Discounted Cash Flow (DCF) Analysis is the procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams and the quantity and timing of the reversion, and discounts each to its present value at a specified yield rate.*³
- *Intangible Property (Intangible Assets) are non-physical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment.”*⁴

This report has been prepared in compliance with: the Uniform Standards of Professional Appraisal Practice (effective date January 1, 2020); Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989; and, the appraisal requirements of Western State Bank– West Fargo, ND.

¹ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed

² Appraisal Policies and Practices of Insured Institutions and Service Corporations, Federal Home Loan Bank Board, “Final Rule,” 12 CFR Parts 563 and 571, December 21, 1973, renovated in 2014

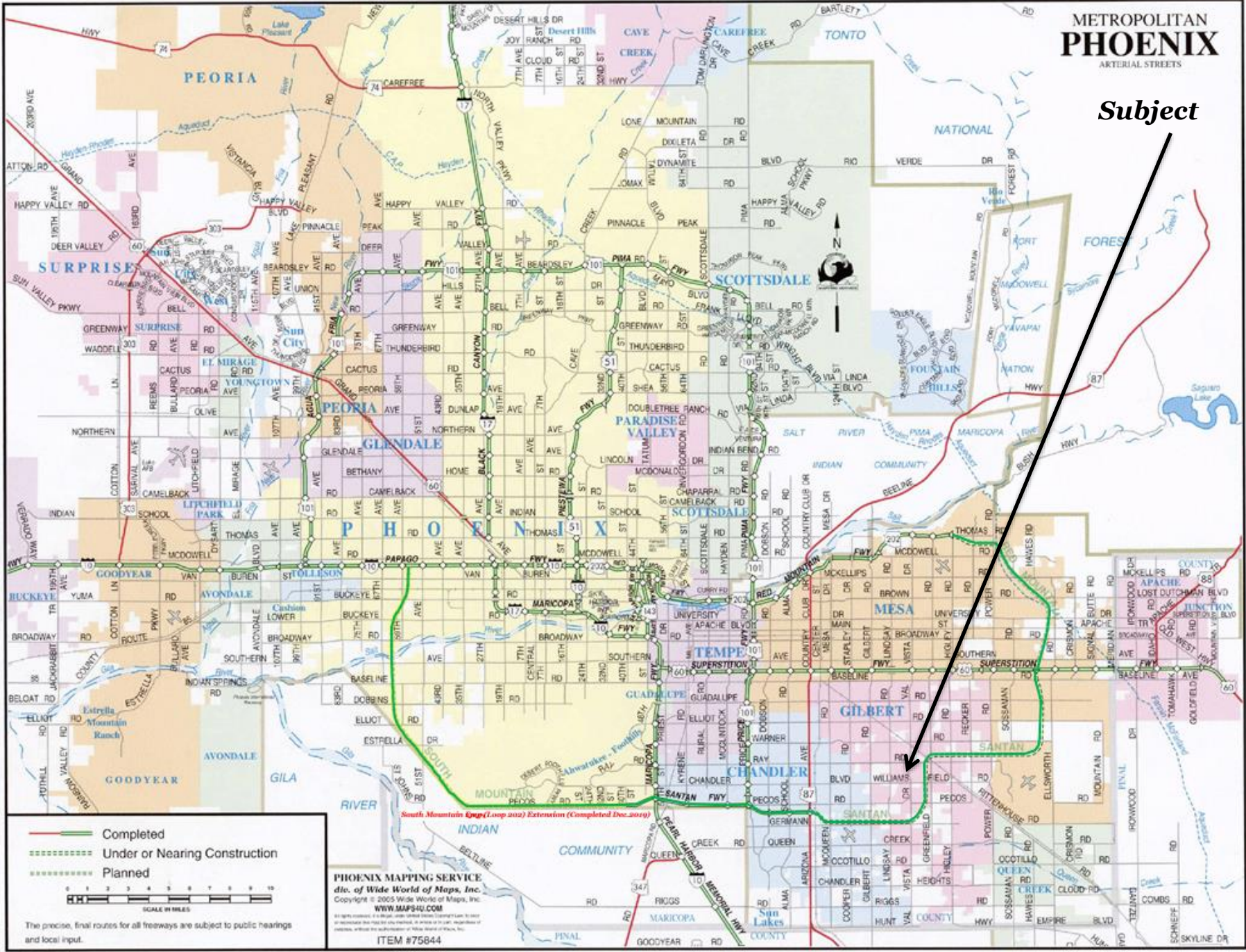
³ Appraisal Policies and Practices of Insured Institutions and Service Corporations, Federal Home Loan Bank Board, “Final Rule,” 12 CFR Parts 563 and 571, December 21, 1987

⁴ Appraisal Institute Course “Fundamentals Of Separating Real Property, Personal Property, And Intangible Business Assets”

METROPOLITAN PHOENIX

ARTERIAL STREETS

Subject



South Mountain Express (Loop 202) Extension (Completed Dec 2019)

PHOENIX MAPPING SERVICE
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 WWW.MAPS4U.COM

The precise, final routes for all freeways are subject to public hearings and local input.

ITEM #75844

AREA ANALYSIS

The subject property is located within the Phoenix Metropolitan Statistical Area (MSA). As of the U.S. census 2021 July estimate, the population for the two-county (Maricopa – Pinal) metropolitan area was 4,946,547, the 12th largest metro area in the United States. Maricopa County had a population of 4,507,419, which was the most populous county in the state, fourth among the nation's counties and greater in population than 21 states. Maricopa County is the largest county in the United States to contain a capital city. The county seat is located in the city of Phoenix. A map identifying the location of the subject property is located on the previous page.

According to data compiled by the U.S. Census Bureau, population estimates from July 1, 2021 in Maricopa County was estimated at 4,507,419, based on the 2011 Census (3,843,370), reflecting an increase in population from April 1, 2011 to July 1, 2021 of 1.73% annually; slightly higher than the 1.32% annual increase reported for the state over the identical period of time.

According to the U.S. Census Bureau and 2020 census, more than half of the state's population resides in Maricopa County. By comparison, Maricopa County has a population density of 414.9 persons per square mile, whereas the State of Arizona has a density of 56.3 persons per square mile and the United States has a density of 82 persons per square mile.

Like the rest of the nation, Maricopa County's population is aging. The U.S. Census Bureau reports the median age of Maricopa County's residents in 2019 is 36.9 years, an increase from 34.6 years in 2010 census. A common misconception about Arizona is that the population has an unusually high number of senior citizens, but the population in Maricopa County and the state of Arizona, are both younger than the national average. The largest age group of individuals at 14% of the population, has been from the ages of 10 to 39 years old.

According to the latest Census five-year estimates covering the 2015-2019 period, Arizona drew 266,648 migrants (incoming) from other U.S. states each year. The Phoenix MSA (Maricopa and Pinal counties) drew 171,706 migrants. Arizona drew the most migrants from states in the West Census region, which sent 137,054 people (51.4%) to the state. The Midwest and South sent 55,754 (20.9%) and 55,627 (20.9%), respectively. The Northeast sent 18,213 migrants or 6.8% of total movers. Phoenix also drew the most migrants from states in the West Census region, which sent 83,129 people to the metropolitan area (48.4%). The Midwest sent the next largest number (23.9%), followed by the South (20.4%) and Northeast (7.3%).



POPULATION HISTORY

	2011	2012	2013	2014	2015	2016**	2017	2018	2019***	2020	2021 July Estimate
Arizona***	6,438,178	6,498,569	6,581,054	6,662,486	6,758,251	6,866,195	6,965,897	7,076,199	7,189,020	7,294,587	7,285,370
Maricopa County Total	3,843,370	3,884,705	3,944,859	4,008,651	4,076,438	4,155,302	4,221,684	4,294,460	4,367,835	4,439,220	4,507,419
Apache Junction*	294	296	298	300	303	307	311	317	322	328	399
Avondale	76,392	76,870	77,511	78,090	78,885	80,569	81,621	82,605	84,595	85,108	90,755
Buckeye	52,334	54,102	56,460	58,795	61,173	65,850	69,947	76,145	81,624	87,480	101,987
Carefree	3,367	3,388	3,424	3,453	3,525	3,628	3,669	3,722	3,771	3,794	3,708
Cave Creek	5,055	5,110	5,228	5,354	5,429	5,615	5,676	5,760	5,834	5,940	5,021
Chandler	238,381	241,214	246,197	249,423	255,073	251,350	257,948	262,322	266,804	272,011	280,189
El Mirage	31,862	32,067	32,472	32,857	33,339	33,999	34,174	34,292	34,359	34,857	36,101
Fountain Hills	22,554	22,695	22,893	23,090	23,346	23,712	23,862	24,029	24,225	24,812	23,906
Gila Bend	1,922	1,932	1,948	1,960	1,977	2,005	2,010	2,014	2,019	2,025	1,893
Gilbert	213,519	219,666	227,603	235,493	242,857	240,269	246,423	253,036	259,386	263,461	273,796
Glendale	227,446	229,008	231,109	232,680	234,766	238,322	239,858	241,844	243,262	244,733	250,585
Goodyear	67,337	69,018	72,275	74,743	77,776	78,694	81,447	84,659	88,870	92,865	101,662
Guadalupe	5,895	5,943	6,019	6,084	6,135	6,151	6,332	6,342	6,373	6,400	5,329
Litchfield Park	5,523	5,621	5,759	5,893	6,019	6,294	6,452	6,689	6,811	6,942	6,957
Mesa	441,160	444,856	450,310	455,567	460,950	473,789	481,275	488,925	497,439	504,410	510,792
Paradise Valley	12,972	13,106	13,282	13,457	13,673	13,808	13,913	14,011	14,134	14,258	12,707
Peoria	155,754	157,653	160,545	163,832	167,540	166,955	171,580	176,118	180,161	184,469	195,585
Phoenix	1,451,966	1,464,727	1,485,751	1,506,439	1,527,509	1,559,998	1,579,253	1,597,738	1,617,344	1,634,061	1,630,195
Queen Creek*	26,764	27,249	29,048	31,308	33,492	35,901	39,714	43,189	46,271	50,224	56,321
Scottsdale	217,965	219,713	222,213	225,698	231,204	239,547	242,540	245,417	247,944	250,903	243,528
Surprise	118,349	119,530	121,629	123,797	125,621	128,434	130,129	132,852	136,194	141,486	149,710
Tempe	162,503	164,659	165,158	169,529	172,021	179,015	179,794	185,301	188,616	192,008	181,548
Tolleson	6,541	6,579	6,632	6,777	6,837	6,958	6,992	7,017	7,085	7,227	7,309
Wickenburg	6,379	6,458	6,493	6,584	6,643	6,802	6,903	6,946	6,988	7,039	6,687
Youngtown	6,156	6,188	6,236	6,415	6,467	6,553	6,575	6,590	6,599	6,615	7,060
Unincorporated Balance of County	284,980	287,057	288,366	291,033	293,878	300,777	303,286	306,580	310,805	315,764	323,689
Pinal Total	384,231	389,192	393,813	396,237	406,468	415,040	427,603	440,591	455,210	467,932	439,128

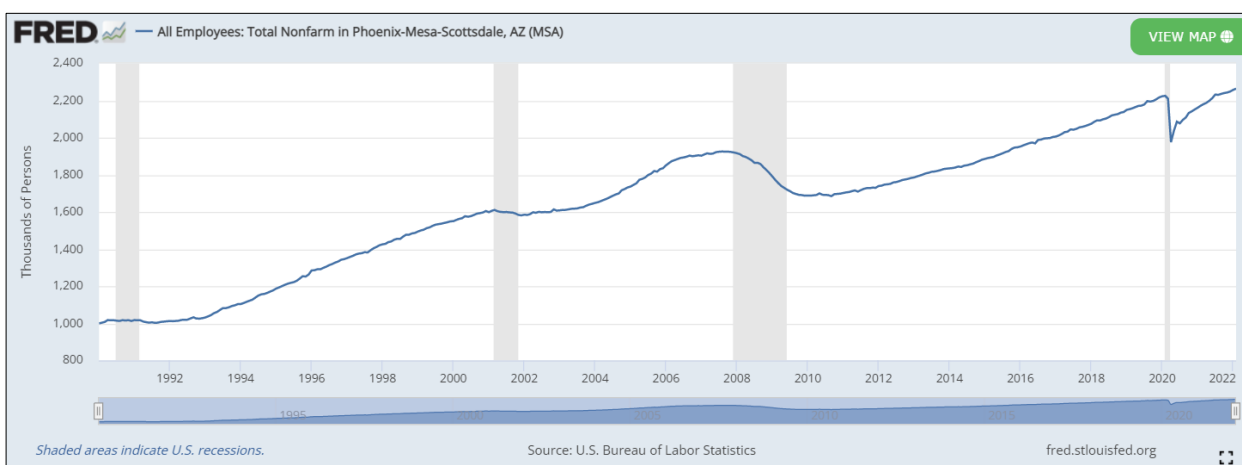
* Incorporated place located in more than one county

** 2016 population has been revised from the original published numbers

*** 2019 Population of the City of Sierra Vista, Cochise County, and the State of Arizona were revised due to a challenge by the City of Sierra Vista (resolved 3/10/2020)

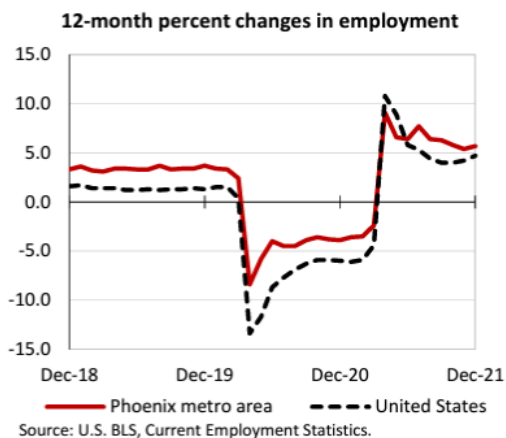
EMPLOYMENT

The non-farm employment categories identified in the follow chart, include the followings subcategories: **Construction** includes Construction of Buildings, Heavy and Civil Engineering and Specialty Trade Contractors; **Manufacturing** includes Durable Goods and Non-Durable Goods; **Trade/Transportation/Utilities** includes Wholesale and Retail Trade; **Information** includes Telecommunications; **Financial Activities** includes Finance and Insurance and Real Estate, Rental and Leasing; **Professional and Business Services** includes Professional and Tech. Services, Management of Companies and Administrative and Waste Services; **Educational and Health Services** includes Educational Services and Health Care and Social Assistance; **Leisure and Hospitality** includes Arts, Entertainment and Recreation and Accommodation and Food Services; and **Government** includes the subcategories of Federal, State and Local employment branches.



The primary nonfarm employment sectors are as follows: Trade, Transportation, and Utilities; Professional and Business Services; Educational and Health Services; Government; then, Leisure and Hospitality. In terms of employment, the total civilian labor force has ranged from ±1,000,000 (1992) to ±2,547,632 (2020), according to the U.S. Department of Labor and the Bureau of Labor Statistics. **As of February 2022 (updated March 26, 2022), total non-farm civilian labor force for the Phoenix MSA was ±2,263,900.**

Over-the-year changes in employment on nonfarm payrolls and employment by major industry sector



Phoenix metro area employment (number in thousands)	Dec. 2021	Change from Dec. 2020 to Dec. 2021	
		Number	Percent
Total nonfarm	2,291.3	122.7	5.7
Mining and logging	2.8	0.0	0.0
Construction	137.4	3.9	2.9
Manufacturing	137.9	4.0	3.0
Trade, transportation, and utilities	466.4	25.6	5.8
Information	36.9	0.2	0.5
Financial activities	208.2	2.3	1.1
Professional and business services	395.5	30.6	8.4
Education and health services	366.8	20.5	5.9
Leisure and hospitality	223.2	29.1	15.0
Other services	70.1	3.1	4.6
Government	246.1	3.4	1.4

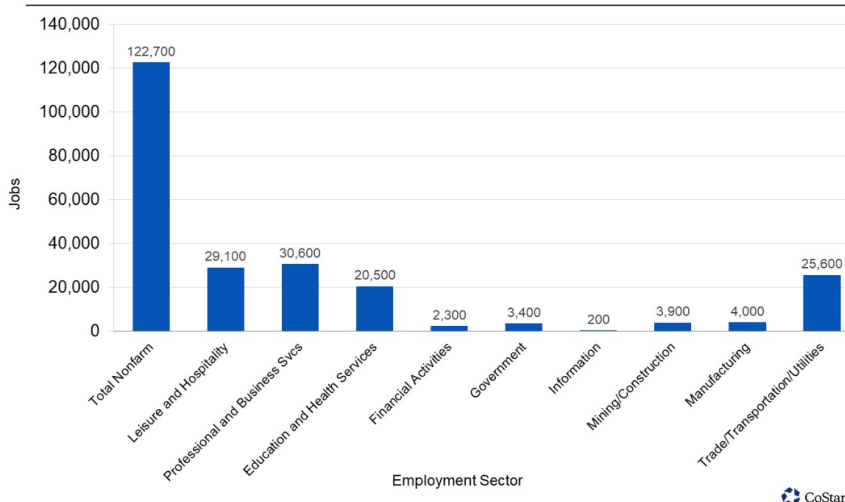
Source: U.S. BLS, Current Employment Statistics.

As shown in the previous graphs, the February 24, 2022 update report on Phoenix Area Economic Summary published by BLS indicates a $\pm 5.7\%$ increase in total non-farm employment number from December 2020 to December 2021.

According to an article from Phoenix Business Journal published on July 10, 2020, the top ten employers by number of employees in Arizona are Banner Health ($\pm 47,000$), State of Arizona ($\pm 41,847$), Arizona State University ($\pm 35,730$), Walmart Inc. ($\pm 33,460$), Fry’s Food Stores ($\pm 21,738$), University of Arizona ($\pm 20,462$), Wells Fargo & Co. ($\pm 17,217$), City of Phoenix ($\pm 14,858$), Maricopa County ($\pm 13,933$) and Intel Corp. ($\pm 12,190$). The rankings are based on total number of employees working in Arizona (full-time and par-time) and are not delineated by county in Arizona.

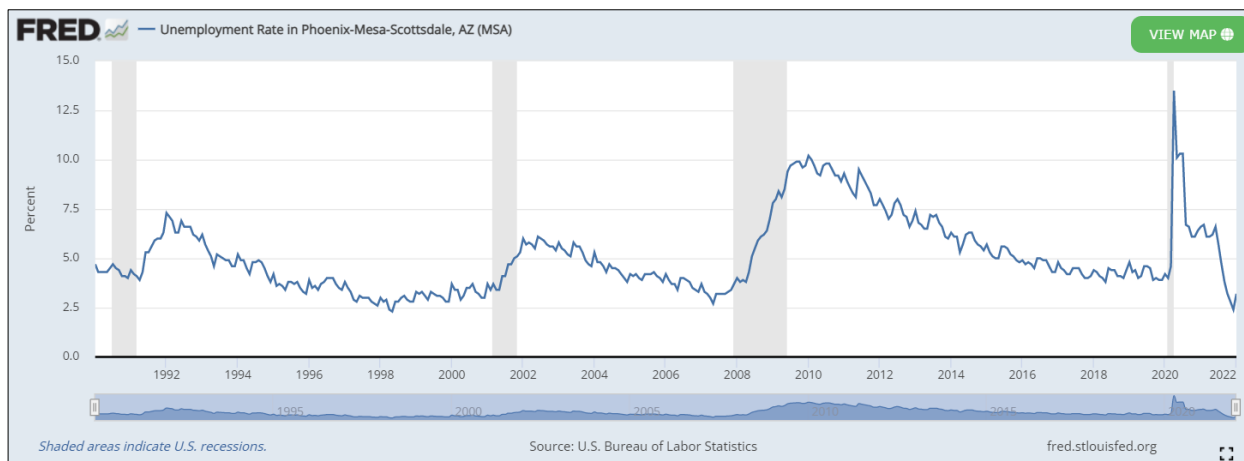
According to Costar In sighted published on February 10, 2022 by Mike Petrivelli, Phoenix added 122,700 jobs over the course of 2021, according to the most recent data from the Bureau of Labor Statistics. Professional and business services was the largest contributor, with the sector growing by more than 30,000 jobs. As travel and tourism began to rebound last spring, the hard-hit leisure and hospitality sector reclaimed about 29,000 jobs. Overall employment only declined by 6% at the worst of the downturn, compared to about 12% nationally. Job losses were not only shallower, but the subsequent recovery was much quicker. At the end of December, Phoenix had about 35,000 more jobs than it did two years ago.

Phoenix Annual Employment Change by Sector



UNEMPLOYMENT

According to the Arizona Office of Economic Opportunity, Phoenix metro’s unemployment rate in November decreased 330 basis points YOY to a low 2.8%. This is compared to the state’s rate of 4.7% and national rate of 4.2%. The Phoenix local economy has been one of the most resilient during the pandemic and is among the best-performing markets for job growth. Phoenix lost over 200,000 jobs in the start of the pandemic, but the sharp job losses were temporary. By September 2021, the market fully recovered those job losses and total employment surpassed the pre-pandemic level. According to a report from the Arizona Office of Economic Opportunity, the state added 27,300 jobs in November, which drops the unemployment rate from 5.2% to 4.7% and ties a 10-year low reached in 2019. The last time Arizona’s unemployment rate dipped below 4.7% was March 2008, according to the state office.



Unemployment rates for the Phoenix MSA have outperformed the state, every year, over the past 10-year period. According to the Bureau of Labor Statistics, average annual unemployment rates for the Phoenix MSA have ranged from 2.4% (1998) to a high of 12.8% (April 2020). Over the past 12-month period, unemployment rates in the Phoenix MSA ranged from 4.2% (August 2021) to a high of 6.6% (August 2020, January 2021, February 2021). ***As of January 2022 (updated March 18, 2022), the unemployment rate for the Phoenix MSA was 3.2%.***

Metro Phoenix gained about 90,000 jobs over the past year as the unemployment rate continued to dip, according to a new report from the Arizona Office of Economic Opportunity. The hires happened over the 12-month span that ended in February. As a result, Phoenix's unemployment rate dropped to 3.1%, down 3.6% from February 2021 and a tenth of a percent since January. Increased tourism as the city continued to recover from the COVID-19 pandemic, seasonal hiring and new restaurants aided in the food and beverage industry having the most new jobs. The sector added 21,000 positions, followed by the retail industry with 15,000 jobs.

COMMERCIAL REAL ESTATE

The following statistical data was extracted from The CoStar Group 1st Quarter 2022 Phoenix retail, industrial, office and multi-Family markets. Costar Group is considered the industry leader of commercial real estate databases. CoStar Group's national database includes over 129 billion square feet of coverage and six (6) million commercial properties. The following is a summary of four commercial product types in the Phoenix MSA.

Retail

The Phoenix Retail Market is made up of 11 designated geographically defined markets and 31 submarkets with just over 237 million square feet within 15,962 retail buildings; reflecting an 6.3% vacancy rate as of the 1st Quarter 2022. Over the past four quarters, the vacancy rate of the overall Phoenix retail market, has ranged from 6.3% (1st Quarter) to 7.7% (1st Quarter). Since 2013, 1st Quarter vacancy rates have ranged from 6.3% (2022) to 10.9% (2013). At the end of the 1st Quarter 2022, net absorption was 1,524,589 square feet, deliveries were 783,534 square feet and there were 949,379 square feet under construction. From 2013 to 2022, 1st Quarter rental rates have ranged from a low of \$13.70 (2015) to the high point of \$16.73 (2022). Over the past 12 months, rental rates have increased slightly ranging from \$15.89 (3rd Quarter) to the high of \$16.73 (1st Quarter).

Quarter	Inventory Bldgs	Inventory SF	Vacant SF Total	Vacant Percent % Total	Net Absorption SF Total	Deliveries Bldgs	Deliveries SF	Under Construction Bldgs	Under Construction SF	NNN Rent Overall
2022 Q1	15,962	237,125,290	14,863,510	6.3%	1,524,589	34	783,534	90	949,379	\$16.73
2021 Q4	15,934	236,375,850	15,638,659	6.6%	1,070,158	21	346,151	104	1,528,479	\$16.35
2021 Q3	15,918	236,061,075	16,394,042	6.9%	918,988	31	224,415	113	1,698,781	\$15.89
2021 Q2	15,904	236,902,805	18,148,051	7.7%	(209,268)	33	420,039	87	1,465,373	\$15.94
2021 Q1	15,877	236,590,912	17,626,890	7.5%	454,393	34	377,197	90	1,581,668	\$15.77
2020 Q1	15,776	235,506,405	16,487,369	7.0%	222,794	60	588,585	95	1,354,354	\$15.86
2019 Q1	15,627	234,015,695	16,428,079	7.0%	50,606	45	367,737	101	1,310,577	\$15.63
2018 Q1	15,478	232,744,966	16,539,818	7.1%	981,689	41	427,555	127	1,270,146	\$14.83
2017 Q1	15,310	230,603,535	19,021,952	8.2%	451,111	61	757,268	135	1,888,293	\$14.48
2016 Q1	15,153	228,133,392	19,232,688	8.4%	760,156	30	374,465	107	2,066,418	\$14.31
2015 Q1	15,064	227,280,983	21,330,030	9.4%	374,281	27	425,759	63	950,449	\$13.70
2014 Q1	15,018	226,707,056	23,599,466	10.4%	(341,220)	23	236,466	44	682,975	\$13.84
2013 Q1	14,954	225,846,999	24,651,905	10.9%	674,000	21	323,534	50	811,001	\$14.11

Industrial

The Phoenix Industrial Market is made up of 11 designated geographically defined markets and 31 submarkets, just over 361 million square feet within 10,057 industrial buildings and reflected an 4.2% vacancy rate as of the end of the 1st Quarter 2022. Since 2013, 1st Quarter vacancy rates have ranged from a low of 4.2% (2022) to a high point of 10.7% (2014). During the past 12 months, the vacancy rates have ranged from a low of 4.2% (1st Quarter) to a high of 5.7% (2nd Quarter). At the end of the 1st Quarter 2022, net absorption was 6,189,694 square feet, deliveries were 4,924,889 square feet and there were 38,243,246 square feet under construction. Average rental rates over the past four quarters have ranged from \$7.49 (2nd Quarter) to \$8.23 (1st Quarter) per square foot.

Quarter	Inventory Bldgs	Inventory SF	Vacant SF Total	Vacant Percent % Total	Net Absorption SF Total	Deliveries Bldgs	Deliveries SF	Under Construction Bldgs	Under Construction SF	NNN Rent Overall
2022 Q1	10,057	361,018,257	15,019,860	4.2%	6,189,694	30	4,924,889	141	38,243,246	\$8.23
2021 Q4	10,040	356,387,781	16,579,078	4.7%	4,818,561	17	4,068,059	130	32,083,038	\$7.73
2021 Q3	10,024	352,340,271	17,350,129	4.9%	6,538,821	23	4,171,775	115	27,643,309	\$7.76
2021 Q2	10,002	348,197,480	19,746,159	5.7%	5,983,811	20	4,035,121	98	24,157,933	\$7.49
2021 Q1	9,982	344,162,359	21,694,849	6.3%	4,633,675	15	2,127,315	83	19,724,923	\$7.20
2020 Q1	9,903	326,262,161	23,407,658	7.2%	1,409,082	16	1,840,686	81	18,182,297	\$6.86
2019 Q1	9,850	317,909,347	20,602,663	6.5%	401,170	7	549,695	56	7,495,948	\$6.40
2018 Q1	9,819	310,794,900	19,958,979	6.4%	1,776,957	18	1,374,147	37	7,218,616	\$6.09
2017 Q1	9,760	305,026,048	23,716,363	7.8%	3,045,309	13	2,098,189	34	4,037,729	\$5.94
2016 Q1	9,739	300,165,875	26,936,905	9.0%	1,158,575	15	1,855,800	21	3,556,118	\$5.71
2015 Q1	9,698	295,900,171	28,819,567	9.7%	2,107,092	11	2,081,893	29	3,127,784	\$5.38
2014 Q1	9,664	290,029,523	31,033,879	10.7%	3,572,475	5	2,901,715	28	3,915,489	\$5.22
2013 Q1	9,650	281,444,290	28,714,241	10.2%	1,405,174	4	484,599	25	9,085,820	\$5.19

Office

The Phoenix Office Market is made up of 11 designated geographically defined markets and 31 submarkets with just over 193 million square feet within 9,030 office buildings and reflected a 14.3% vacancy rate as of 1st Quarter 2022. Since 2013, 1st Quarter vacancy rates ranged from 12.1% (2019 and 2020) to 18.5% (2013). During the past 12 months, the vacancy rates have ranged from 14.0% (4th Quarter) to 14.3% (1st and 3rd Quarters). Net absorption was positive at 803,121 square feet, first positive absorption since 4th Quarter 2019, and deliveries were negative at 307,300 square feet, in the 1st Quarter 2022. Average rental rates over the past four quarters have ranged from \$25.23 (2nd Quarter) to \$25.79 (1st Quarter) per square foot.

Quarter	Inventory Bldgs	Inventory SF	Vacant SF Total	Vacant Percent % Total	Net Absorption SF Total	Deliveries Bldgs	Deliveries SF	Under Construction Bldgs	Under Construction SF	NNN Rent Overall
2022 Q1	9,030	193,434,684	27,716,616	14.3%	(803,121)	0	0	23	1,599,913	\$25.79
2021 Q4	9,037	193,576,914	27,055,725	14.0%	870,675	5	307,300	22	1,571,899	\$25.53
2021 Q3	9,033	193,326,614	27,692,100	14.3%	(233,200)	9	435,653	22	1,620,145	\$25.32
2021 Q2	9,031	193,038,004	27,172,190	14.1%	(547,039)	9	272,638	24	1,888,823	\$25.23
2021 Q1	9,026	192,905,117	26,492,264	13.7%	(708,669)	11	1,535,932	29	1,860,307	\$25.00
2020 Q1	8,994	190,147,838	22,936,803	12.1%	(163,681)	11	1,142,487	47	3,529,970	\$24.73
2019 Q1	8,969	187,151,963	22,668,703	12.1%	1,087,953	15	805,818	40	3,842,175	\$23.31
2018 Q1	8,945	185,740,121	25,587,268	13.8%	350,859	5	327,522	41	3,243,486	\$22.44
2017 Q1	8,925	184,279,264	27,166,562	14.7%	225,148	11	1,162,871	31	1,746,169	\$21.30
2016 Q1	8,896	181,798,581	28,110,761	15.5%	732,996	11	1,035,541	38	2,431,138	\$20.35
2015 Q1	8,875	178,077,215	29,555,792	16.6%	(152,220)	5	333,132	33	4,541,217	\$19.73
2014 Q1	8,868	176,887,837	29,789,574	16.8%	931,260	2	145,821	21	2,969,392	\$18.82
2013 Q1	8,889	177,371,875	32,883,906	18.5%	163,229	3	16,271	7	398,871	\$18.37

Multifamily

The Phoenix Multi-Family Market is made up of 11 designated geographically defined markets and 31 submarkets, with 460,814 units within 6,408 multi-family buildings, and reflected an 5.9% vacancy rate as of 1st Quarter 2022. Since 2013, 1st Quarter vacancy rates ranged from 5.2% (2021) to 7.9% (2013). During the past 12 months, the vacancy rates have ranged from 4.8% (3rd Quarter) to 5.9% (1st Quarter). At the end of the 1st Quarter 2022, net absorption was a positive 1,573 units, deliveries were a positive 4117 units, and there were 31,379 units under construction. The average asking rental rate per unit, all classes, over the past four quarters has ranged from \$1425 (2nd Quarter) to \$1,547 (1st Quarter) per unit.

Quarter	Inventory Bldgs	Inventory Units	Inventory Avg SF	Asking Rent Per Unit	Vacancy Percent	Absorption Units	Under Construction Bldgs	Under Construction Units	Deliveries Bldgs	Deliveries Units
2022 Q1	6,408	460,814	847	\$1,547	5.9%	1,573	141	31,379	19	4,117
2021 Q4	6,387	456,681	847	\$1,526	5.4%	332	154	32,929	15	2,891
2021 Q3	6,372	453,790	847	\$1,501	4.8%	2,763	149	31,815	14	2,665
2021 Q2	6,359	451,132	847	\$1,425	4.9%	5,211	135	27,970	20	4,284
2021 Q1	6,339	446,848	846	\$1,318	5.2%	5,555	133	27,685	19	2,817
2020 Q1	6,280	437,694	844	\$1,209	6.5%	2,072	106	20,354	21	2,779
2019 Q1	6,211	426,189	839	\$1,155	5.9%	2,444	98	17,638	8	1,179
2018 Q1	6,169	419,019	837	\$1,080	6.5%	3,833	84	15,823	21	2,918
2017 Q1	6,124	409,715	834	\$1,033	6.4%	3,340	69	12,230	6	732
2016 Q1	6,091	404,383	831	\$990	7.0%	1,312	51	9,368	7	1,065
2015 Q1	6,070	398,393	829	\$936	6.8%	4,244	42	8,932	6	1,441
2014 Q1	6,048	391,826	825	\$897	7.5%	2,616	31	7,837	6	1,417
2013 Q1	6,030	387,336	822	\$875	7.9%	2,014	32	7,316	3	206

RESIDENTIAL REAL ESTATE - UPDATE

The following charts were extracted from the 4th Quarter 2021 Housing Summary (latest available), which reflect residential market trends for Maricopa and Pinal Counties. Key metrics include; median sales price, average sales price, percent of list price received, days on market, closed sales, homes for sale, and months' supply.

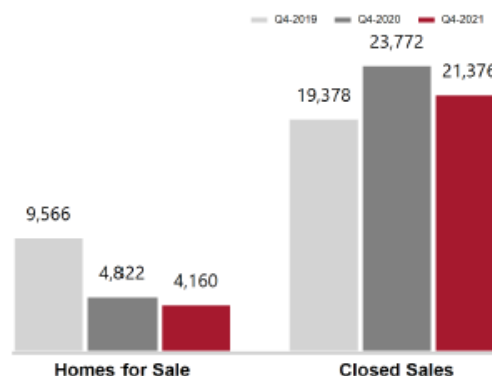
This week mortgage rates hit a new 13-year high. Freddie Mac reported that the 30-year fixed-rate mortgages trended upward this week, averaging 5.27%, up from 5.10%. One year ago, the 30-year fixed-rate mortgage was 2.96%. Joel Berner, Senior Economic Research Analyst, stated, "With much higher monthly payments, buyers who don't have savings for a large down payment risk being priced out of the market. Unfortunately, this is occurring just as nationwide rents reach an all-time high, making saving more difficult for those looking to buy their first home." As reported by ARMLS, the average sale price was up 19.9% and the median sales price 25.3% year

over year. The average sales price as of May 1st stood at \$591,000, with the median sales price coming in at \$470,000. Higher home prices and higher rents have translated into higher inflation. Recently released numbers from the Bureau of Labor Statistics show Phoenix leading the nation with prices 11% higher this April compared to April 2021. When you combine rising interest rates, record prices, and add in record inflation, homebuyer faces a triple-edged sword.

Maricopa County

Key Metrics	Q4-2021	1-Yr Chg
Median Sales Price	\$439,900	27.0%
Average Sales Price	\$543,179	21.9%
Pct. of List Price Received	99.9%	0.8%
Days on Market	33	-19.5%
Closed Sales	21,376	-10.1%
Homes for Sale	4,160	-13.7%
Months Supply	0.6	-3.5%

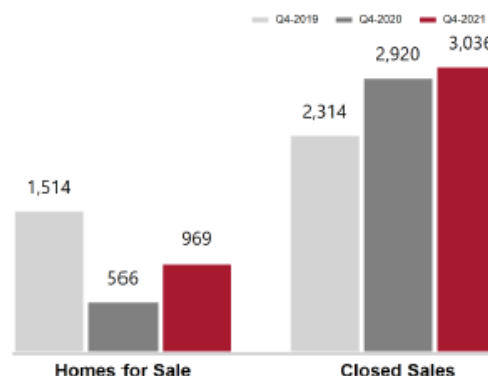
Market Activity



Pinal County

Key Metrics	Q4-2021	1-Yr Chg
Median Sales Price	\$370,000	37.0%
Average Sales Price	\$380,658	33.0%
Pct. of List Price Received	99.8%	0.1%
Days on Market	32	-20.0%
Closed Sales	3,036	4.0%
Homes for Sale	969	71.2%
Months Supply	0.9	63.5%

Market Activity



Last month STAT’s mathematical model projected the median sales price for March at \$469,500. The actual number was \$470,000. Looking ahead to May, the ARMLS Pending Price Index is projecting median sales price of \$475,000. If April’s median sales price projection is correct, we will see a year-over-year gain of 22%. Our estimates have been slightly lower than the actual median in the last few months. I suspect this might very well be the case again when May’s data is reported. There are very early indications the median sales price will reach \$480,000 in early June and then begin to wobble.

We began May with 6,801 “pending” contracts, 3,214 UCB listings and 363 CCBS, giving us a total of 10,278 residential listings practically under contract. This compares to 11,863 of the same type of listings one year ago. At the beginning of May, the “pending” contracts are 13.34% lower than last year. There were 20 business days in May of 2021 and 21 this year. ARMLS reported 9,127 sales in May of 2021. The highest sales volume ever in May occurred in 2019 with 10,341. With “pending” contracts 13.34% lower this May than May last year, May’s sales volume will be around 8,000.- Commentary from Tom Ruff, ARMLS STAT.

EDUCATION

Metropolitan Phoenix is well served by many educational facilities from elementary through doctoral degree programs. The Phoenix region is served by two four-year universities including Arizona State University (ASU), which has three campus locations, and Grand Canyon University. The ASU Main Campus is located in the city of Tempe and has an annual enrollment of ±51,869, making it one of the largest universities in the nation. In fall 1989, ASU West Campus opened in the northwest valley, and has a current enrollment of near ±6,000 students; the university is projected to serve 20,000 students when the institution is fully built-out. Grand Canyon University located in west Phoenix with an estimated enrollment of 18,410 full-time students.

Arizona State University has completed construction on their newest dormitory and educational building, **ASU Residence Hall and Entrepreneurship Center**, in downtown Phoenix. The Downtown Phoenix Residence Hall and Entrepreneurship Center provides a vibrant new space for innovative programs on the campus, along with additional housing for upper division and graduate students. The first three floors of this 16-story, 283,000-square-foot building is dedicated to academic programs including the following: student entrepreneur projects and presentations, maker labs, fashion design studios, and ensemble and individual music practice rooms. A fully equipped, state-of-the-art recording studio will be installed for the Herberger Institute for Design and the Arts' new popular music program. A food-service area, which opens onto a street-level park, provides a venue for student performances. A 13-story tower above provides university-managed housing for 532 residents in a mix of four-bedroom, two-bedroom, and studio apartments.

HEALTH CARE

There are adequate medical facilities represented by several regional hospitals, and a myriad of private practices throughout the entire region. The rate of healthcare building has been steady in the last few years, with several new facilities coming online each year.

RECENT MAJOR HEALTHCARE PROJECTS IN THE VALLEY INCLUDE:

The \$243 million expansion of **Banner Gateway Medical Center in Gilbert** hit a construction milestone this month, while being on time and on budget, according to the hospital's CEO. The final beam of the five-story expansion tower of the Gilbert hospital, located at 1900 N. Higley Road, was put into place earlier this month. Banner is adding a new 198,000-square-foot patient tower to the existing tower at the hospital. Once completed, it will increase capacity by 190 total beds. The project also includes a three-level, 112,000-square-foot expansion to the existing Diagnostics and Treatment building. This expansion will impact the emergency, surgery, imaging, cardiopulmonary and endoscopy departments. The next and final phase of the construction is two new surface parking lots, that will add approximately 492 new parking spaces for visitor and staff use. There is also 40,000 square-feet of renovation work planned within the existing medical center. Construction on the project started in February 2021 and is expected to be completed in the first quarter of 2023. The renovation work should be completed in 2024. Once completed, Banner said it would add more than 600 new jobs in the new facility.

Banner Boswell Medical Center in Sun City is part of a \$106 million expansion project that also includes a new patient tower which opened for patients on October 6, 2021. It is 40,000 square feet in size and the largest renovation that the medical facility has undergone in 30 years. The new emergency department increases capacity from 42 to 56 beds, allowing the department to care for up to 60,000 ED patients annually, representing a 25-percent increase. The project was completed in late 2020, when Banner Boswell opened its new 40,000 square-foot emergency department, with 56 treatment bays and ultrasound facilities in the heart of the department.

Mayo Clinic and Arizona State University officials have been talking about building a **biotechnology corridor** in north Phoenix since at least 2013, and the project is now closer to fruition. Mayo Clinic was the winning bidder in an Arizona State Land Department public auction, paying \$139 million for a 228-acre parcel next to its Phoenix campus on Dec. 15, 2021. Currently dubbed Discovery Oasis, this biotechnology corridor has been a long time coming.

FUTURE MAJOR HEALTHCARE DEVELOPMENTS INCLUDE:

Abrazo Health has purchased a 27-acre parcel in Buckeye with plans to build a new medical campus. That parcel, which is on the southwest corner of Interstate 10 and Verrado Way, is about 10 miles from its Abrazo West Campus, which includes a 216-bed Level 1 Trauma and Stroke Center. Plans call for breaking ground this year for a campus that will include a medical office building, ambulatory services and an acute care hospital. Company officials say it is too soon to determine total development costs of the project and how many people it will employ.

Abrazo Health, which is owned and operated by Dallas-based Tenet Healthcare Corp. (NYSE: THC), has been busy building micro hospitals in metro Phoenix. With a total development cost of about \$15 million each, Abrazo has opened three scaled down hospitals with 13 emergency department exam rooms, eight inpatient beds, a surgical suite and a 3-bed post-anesthesia care unit. Its newest facility at Carefree Highway and 53rd Street in Cave Creek opened in July 2021, while its Arizona Mesa Hospital opened in October 2019 and its Abrazo Surprise Hospital opened in October 2020. To serve the growing the West Valley, Abrazo also operates a freestanding emergency center at I-10 and Watson Road. The company recently completed a 16-bed expansion at its Abrazo West Campus, as well as other capital investments at four other hospital campuses in the Valley.

Further, the Mayo Clinic purchased 228 acres of land adjacent to its north Phoenix campus at an Arizona State land Department auction in December 2021 in a deal that clinic leadership said has been years in the making.

TRANSPORTATION

Maricopa County is positioned for access through a very well-structured road system and ample air traffic facilities. The County has three Interstate Highways (I-10, I-8, and I-17) and many major highways that connect Phoenix to all other major metropolitan areas. In addition, freeway loops (101, 202, and 303) also circle the metropolitan area, providing improved access within the metropolitan area.

The Arizona Department of Transportation, in conjunction with the Federal Highway Administration, has begun construction of the Interim Phase II section of State Route 24 (SR 24) also referred to as Gateway Freeway. This section will include approximately five miles of new freeway extending from Ellsworth Road in Maricopa County to Ironwood Drive in Pinal County.

Loop 202 (South Mountain Freeway) Extension

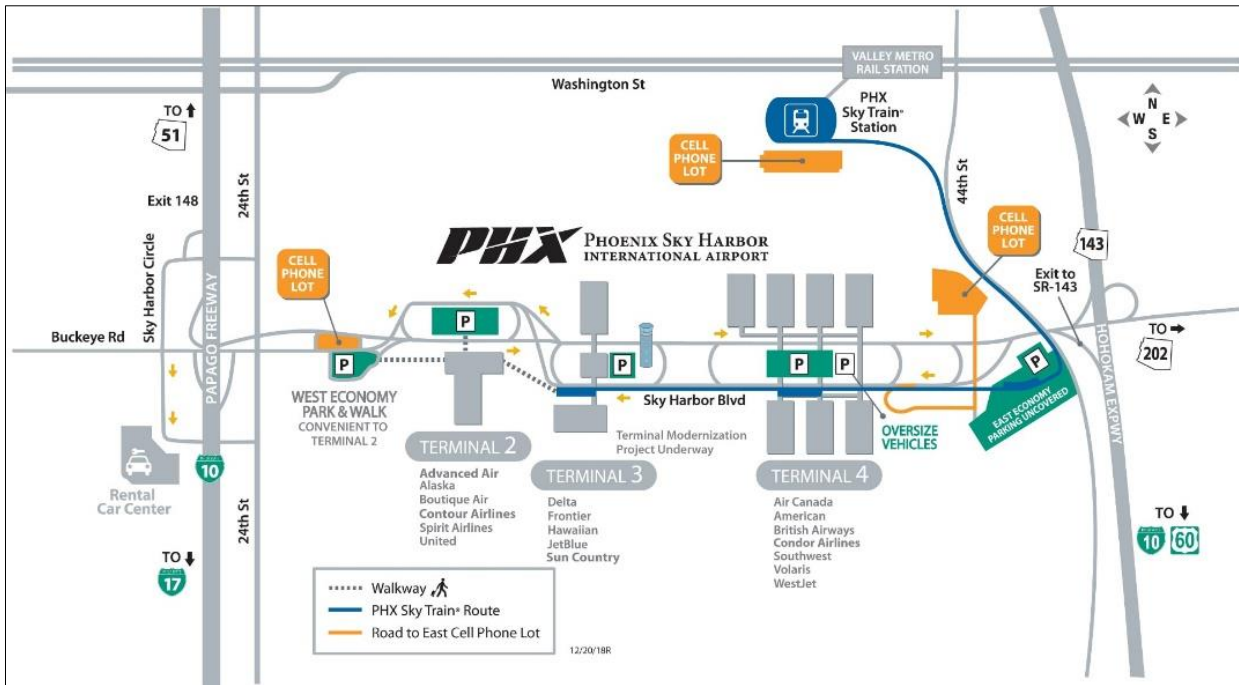
On December 22, 2019, the Loop 202 – South Mountain Freeway project officially opened to public traffic. This project has added 22 miles to the metropolitan area’s existing transportation system, and it runs south from Interstate 10 along the alignment of 59th Avenue. This segment of the project is known as the I-10 Papago Segment, and includes 4.5 miles of widening and improvements to I-10, three interchanges plus a system interchange at I-10, frontage roads along 59th Avenue, and HOV ramps to I-10 East. Construction of the freeway project began in September 2016. The route, officially dubbed South Mountain Freeway but also named in honor

of Arizona Congressman Ed Pastor, has proved to be a huge draw for commercial development as land sales bordering it have spiked during the past two years. With the freeway extension now completed, the freeway now provides residents an alternate route for travel between the East and West valleys. Approximately 117,000 to 190,000 vehicles daily have been forecasted to use the freeway by the year 2035.



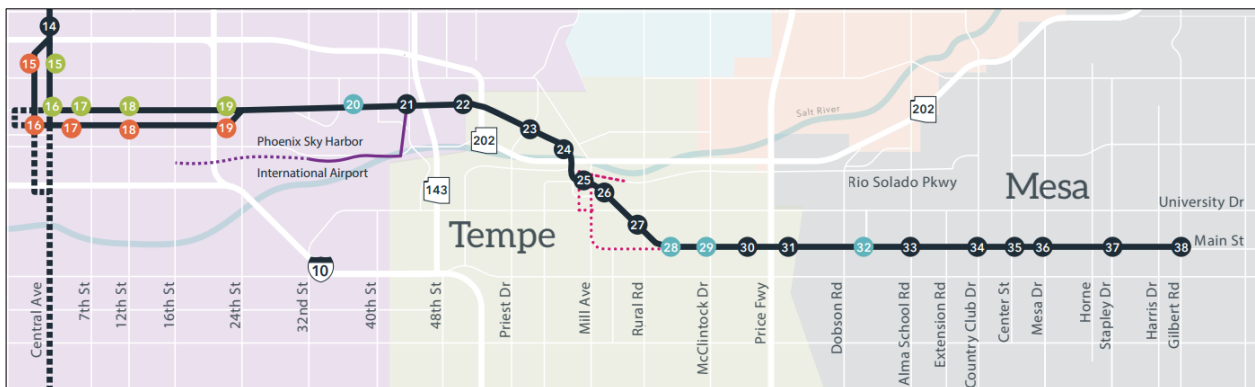
The Phoenix Sky Harbor International Airport (PHX) is one of the top eight busiest airports in the nation with access to all major domestic destinations and both direct and indirect access to every major international destination. The Phoenix-Mesa Gateway Airport (AZA) is currently being developed as a support airport to Sky harbor, and currently is home to many flight trainings schools, major shipping providers, ASU Polytechnic Campus and also has regular passenger flights to several destinations.

Sky Harbor expansion: There are always multiple projects underway at Phoenix Sky Harbor International Airport, but two major ones are expected to be delivered in 2022. A new eight-gate concourse is being built in Terminal 4 for Southwest Airlines. McCarthy Building Companies Inc. is the general contractor for the \$310 million project, which will add 130,000 square feet to this final concourse in Terminal 4. Sky Harbor will also be completing a \$745 million extension of the PHX Sky Train this year. The project will extend the train line more than two miles to the rental car center. Sky Harbor received more than \$19 million from the federal Infrastructure Investment and Jobs Act in December and will continue to get grants from that legislation for the next five years, meaning a lot more construction will be arriving soon.

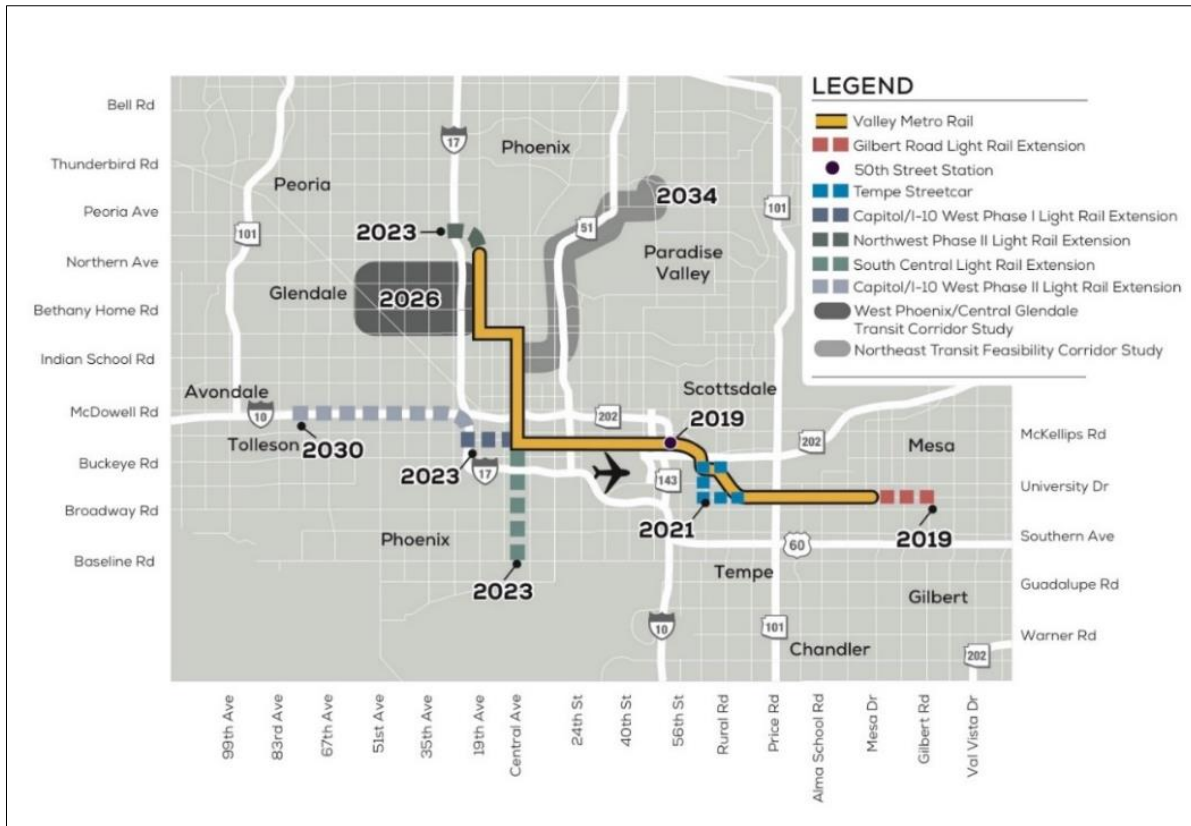


Valley Metro RPTA is also responsible for construction, implementation and maintenance of the METRO light rail services connecting Mesa, Tempe and Phoenix with a 20-mile route which opened for service on December 27, 1980. Currently, there are several extensions to the existing Light Rail Line that are planned for completion in 2020 and beyond.

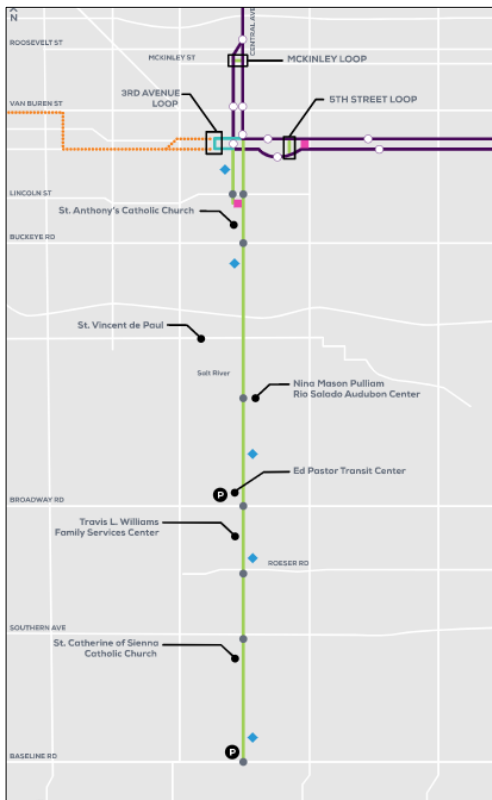
Valley Metro Rail



Valley Metro underwent an extension project, adding two more stations on Main Street at Stapley Drive and Gilbert Road, providing significant transit connections and the ability to serve the growing transit demand in the East Valley. This extension attracts new riders and increase development opportunities in the Central Mesa area. The Gilbert Road Extension opened to the public on May 18th, 2019.



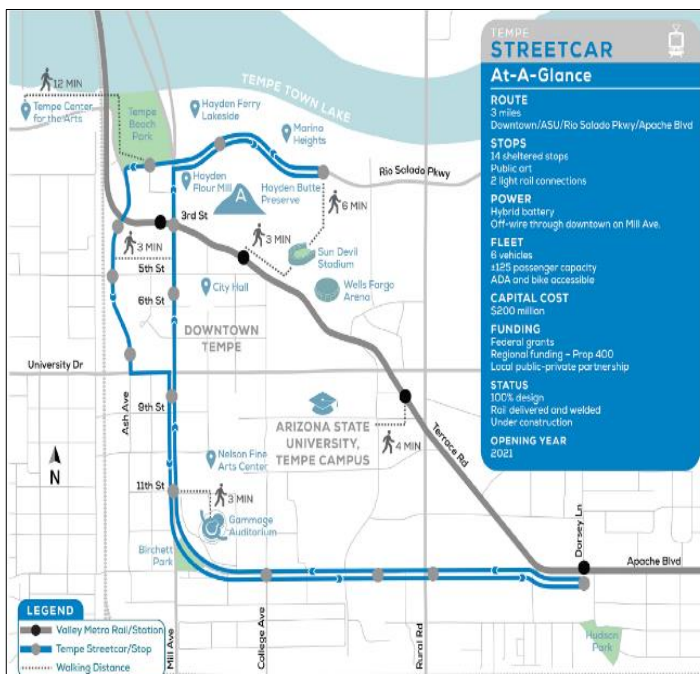
Currently, the Valley Metro is actively working on the following projects:



South Central Extension/Downtown Hub is a 5.5-mile extension will connect South Phoenix to the regional light rail system, operating from downtown Phoenix to Baseline Road. The project also includes a hub in downtown Phoenix, new stations and public art. The South-Central Extension/Downtown Hub light rail project will begin at McKinley Street between 1st Avenue and Central Avenue creating a loop to the existing Valley Metro Rail. It will continue south on Central Avenue to Baseline Road. In addition, the new light rail extension will add a Downtown Hub between Washington Street and Jefferson Street. The 3rd Avenue loop will connect to the future Capitol/I-10 West Light Rail Extension Project. This extension will connect to places like: St. Anthony's Catholic Church, St. Vincent de Paul, Nina Mason Pulliam Rio Salado Audubon Center, Ed Pastor Transit Center, Travis L. Williams Family Services Center and St. Catherine of Sienna Catholic Church. Light rail construction on the South-Central Extension/Downtown Hub project continues downtown and begins soon along Central Avenue. At the end of June, construction began along Central Avenue south of Lincoln Street. The project is currently under construction and is expected to open to public in 2024.

Tempe Streetcar is the first modern streetcar line in the Valley. It will serve one of the highest transit ridership centers in the region and connect riders to neighborhoods, major business centers, and regional events and destinations.

On Monday, March 22, 2021, Valley Metro celebrated the arrival of its first vehicle in the Tempe Streetcar fleet. The new streetcar is manufactured by Brookville Equipment Corporation and can transport up to 120 passengers. This vehicle is the first of six that will ultimately make up Valley Metro’s streetcar fleet. Unlike light rail, streetcar is a hybrid and can travel off-wire using reserve power stored in its lithium-ion battery. In the next few months, streetcars will undergo vehicle and system testing.



The first three streetcars have been delivered to the Valley Metro Operations and Maintenance Center. The next streetcar delivery is anticipated in Fall 2021. Tempe Streetcar passenger service will begin in spring 2022.

In 2022, Valley Metro will add an additional mode to its multi-modal system. The Tempe Streetcar line is planned to go into passenger service in spring 2022. Due to it being a new mode in the regional system, Valley Metro is proposing a new fare structure for streetcar allowing streetcar-only trips to occur at a rate of \$1.00 for Full Fare and \$.50 for Reduced Fare.

The **Northwest Extension Phase II** project will extend light rail west on Dunlap Avenue from 19th Avenue, then north on 25th Avenue and across I-17 at Mountain View Road, ending on the west side of the freeway near the former Metrocenter Mall. The project also includes new stations, including the system’s first elevated station, and public art. Representatives from the city of Phoenix are nearing completion of the real estate acquisition process. The first phase of construction work, utility relocations and roadway widening continues in various locations along the route. Bridge construction continues with work on both the east and west sides of the I-17 light rail bridges, as well as on the Arizona Canal Bridge. Two-way traffic currently on the south side of Dunlap Avenue will move to the north side in late 2021. I-17 and canal bridges construction will continue through 2022. Construction is expected to complete in 2024.

The **Capitol/I-10 West Light Rail Extension** project is a 10-mile Capitol/I-10 West light rail extension will connect with the existing Valley Metro Rail system in downtown Phoenix, to the 79th Avenue Park-and-Ride. The project team is also beginning preparations for the federally-required Environmental Assessment in 2022. Phase I (from downtown Phoenix to the Capitol area) is anticipated to be complete in 2024 as part of the first wave of extensions in the Transportation 2050 (T2050) program, setting the stage and momentum to complete Phase II by 2030.

CULTURAL AND RECREATIONAL AMENITIES

The cultural and recreational amenities offered in Maricopa County are multilayered utilizing the moderate climate and geographic regions. The valley is home to many artistic performing groups such as the Phoenix Symphony and Arizona Ballet, as well as historical and art museums including the Phoenix Art Museum, Arizona Science Center, Musical Instrument Museum and Heard Museum. Numerous convention centers and auditorium facilities carry national and international performances, ranging from the Broadway Series musicals to contemporary rock concerts to world-class orchestras. Nationally recognized theatres such as the Orpheum, Comerica, Herberger and several publicly owned theatres provide high-quality entertainment.

Outdoor recreation involves hundreds of miles of horse-back riding trails, hiking trails, biking trails for road and mountain bikes, rock climbing facilities, regional and municipal parks, and National Forests and Monuments. Numerous reservoirs are easily accessible for fishing, boating, kayaking, sailing, and swimming activities. The Salt River cuts directly through the metropolitan area providing additional water activities including river floating through the Tonto National Forest and water activities such as rowing and kayaking along Tempe Town Lake. For botanists and wildlife lovers, the Phoenix Zoo and Desert Botanical Gardens provide a close-up view of many local and foreign species of flora and animal life. Maricopa County operates one of the most extensive regional park systems in the United States at over 120,000 acres.

The Valley is also full of other special events and specialty entertainment venues, including movie theatres, theme parks, fairs, horse shows, car shows, luxury auctions, holiday events, cultural festivals, many special interest conventions and numerous professional sports venues. Professional sports teams include the Arizona Cardinals (National Football League); Arizona Diamondbacks (Major League Baseball); the Phoenix Coyotes (National Hockey League); the Phoenix Mercury (Women's National Basketball Association); the Phoenix Rising Football Club (Professional Soccer Team); and, the Phoenix Suns (National Basketball Association).

Maricopa County is home to many other professional sports and events including thoroughbred horse and greyhound racing, golf, car and boat racing, and minor league baseball. Several spring training baseball parks are located within the boundaries of Maricopa County, providing facilities for the Major League spring training games for Arizona's Cactus League and housing minor league training facilities for nine Major League teams. The City of Glendale is home to the new University of Phoenix Football Stadium, which opened in 2006 and was home to Super Bowl XLII. The area is world famous for golfing and golf tournaments such as the Waste Management Open. NASCAR racing is conducted at Phoenix International Raceway and speed boating is conducted at Firebird raceway. Sports fans can also enjoy a variety of intercollegiate athletics on ASU's Tempe campus, at many local private colleges, and community colleges.

Major recreational/entertainment include casinos in Arizona. The list of Arizona casinos and the respective opening date include the following: Apache Cold Casino, San Carlos (1994); Apache Sky Casino, Dudleyville (2017); BlueWater Resort and Casino, Parker (1999), Bucky's Casino, Prescott (1995); Casino Arizona, Scottsdale (1998); Casino Del Sol, Tucson (2011); Casino of the Sun, Tucson (1994); Cliff Castle Casino, Camp Verde (1995); Cocopah Resort Casino, Somerton (1993); Desert Diamond Casino, Why (1999); Desert Diamond Casino, Sahuarita, Sahuarita (2001); Desert Diamond Hotel & Casino, Tucson (1993); Fort McDowell Casino, Fountain Hills (1992); Harrah's Ak-Chin Casino, Maricopa (1994); Hon-Dah Resort Casino, Pinetop-Lakeside (1993); Lon Butte Casino, Chandler (1994); Mazatzal Casino, Payson (1993); Paradise Casino, Yuma (1996); Spirit Mountain Casino, Mohave Valley (1995); Talking Stick Resort, Scottsdale (2010); Twin Arrows Casino Resort, Flagstaff (2013); Vee Quiva Hotel & Casino, Laveen (1997); Wild Horse Pass Hotel & Casino, Chandler (1995); and, Yavapai Casino, Prescott (1992).

MAJOR PROPOSED DEVELOPMENTS/REDEVELOPMENTS:

Taiwan Semiconductor Manufacturing Co. - Arizona's largest foreign direct investment in history began construction in 2021 and will continue through all of 2022. The shell of the building is expected to be complete in the middle of 2022, and then the process of "conditioning" the fab, meaning establishing clean rooms and removing all contaminants will begin. That process is expected to take another 12 months, city of Phoenix officials said. The plant is being built on 1,128 acres of land near Loop 303 and the 43rd Avenue alignment in north Phoenix and has already begun to create a ripple effect in the area. Mack Real Estate Group bought land in the Deer Valley area designated as a supplier site for TSMC, and will begin constructing the Mack Innovation Park in 2022, which will eventually include 4 million square feet of buildings, including manufacturing and other industrial space. Sunlit Chemical, a Taiwan-based chemical manufacturer, bought a parcel from Mack and will begin construction on its facility in early 2022.

Sunlit Chemical, a company based in Taiwan that makes hydrofluoric acid and other chemicals necessary for the production of microchips, broke ground on a 900,000-square-foot factory at Seventh Avenue and Alameda Road in Phoenix that it expects will supply factories across the United States operated by Intel Corp., the world's largest semiconductor chip manufacturer by revenue, and in Phoenix by Taiwan Semiconductor Manufacturing Co., the largest chip maker by volume. The 900,000-square-foot development underscores the potential of massive investments by the semiconductor industry to drive real estate development and economic growth.

Construction has started on **Adobe 17 Logistics**, a 133,125-square-foot industrial property at 22305 Black Canyon Highway in Phoenix. The property is being developed by Baker Development Corp. Adobe 17 is being constructed on a speculative basis with the entire property currently available for lease. Construction on the new building is slated to be complete in December 2022.

Developer Lincoln Property Co. broke ground on the next phase of **Park303**, a few months after the first building at the industrial park in Phoenix's Glendale suburb sold for the highest price in Arizona history. LPC Desert West, a subsidiary of Dallas-based Lincoln Property, started construction of buildings sized at 1.3 million square feet, 630,000 square feet and 483,000 square feet across more than 140 acres fronting Loop 303, the developer said in a statement. The two smaller buildings are designed to be converted into one larger, 1.2 million-square-foot facility to accommodate a single large tenant.

Amazon.com is planning to hire an additional 550 people in Tempe and has already expanded its office footprint in a brand-new office tower there. The e-commerce giant expanded its lease in 100 Mill, the office tower in Tempe being developed by Cousins Properties and Hines and is set to complete construction in the first quarter of 2022. Amazon had previously pre-leased 95,000 square feet in the building, and announced Tuesday it had expanded by 63,000. The company plans to occupy the initial 95,000 square feet in the first half of 2022 and the expanded space in the second half of the year.

Intel expansion: Intel Corp. has been one of the largest employers in the Valley for decades, but the California company is growing its presence with two new semiconductor chip factories in Chandler. Altogether, the project is expected to cost \$20 billion and will employ 3,000 more people once completed. It is also expected to create 3,000 construction jobs while the fabrication facilities are being built. In 2021, Intel created a new foundry business, which it will manufacture chips designed by other companies. The new fabs in Chandler will be the first in Intel's system with dedicated capacity just for the foundry business. The city of Chandler has already committed to spending up to \$30 million on water and road infrastructure for the new Intel site. Intel started construction on the new factories in September 2021. They are expected to be operational by 2024.

PHYSICAL/ENVIRONMENTAL FACTORS

According to the Phoenix, Yuma & El Centro 2021 Climate Year in Review (latest available) published by National Weather Service, the year 2021 ended up being tied for the 10th warmest year recorded in the history of Phoenix, Arizona, 8th warmest at El Centro, CA, and tied for 8th warmest in Yuma. Records for Phoenix began in 1896, first taken in downtown and since moved to Sky Harbor airport in the 1950s. The dry regime continues into spring 2021, however temperatures warmed beyond the usual thresholds this year. April 2021 ended up the 5th hottest on record in Phoenix while June 2021 was the hottest June ever recorded in Phoenix. Monsoon thunderstorm activity shut down quickly in the beginning of September as the weather pattern shifted into an autumn pattern. Fall 2021 also resulted in a reemergence of La Nina conditions into the Pacific and a dry trend for the Southwest. Despite an extended period of drier weather during the fall and early winter, 2021 ended up as a rather wet note with several beneficial weather systems.

The Colorado River Basin continues to experience drought and the impacts of hotter and drier conditions. Based on the Jan. 1, 2021 projected level of Lake Mead at 1,065.85 feet above sea level, the U.S. Secretary of the Interior has declared the first-ever Tier 1 shortage for Colorado River operations in 2022. This Tier 1 shortage will result in a substantial cut to Arizona's share of the Colorado River — about 30% of Central Arizona Project's normal supply; nearly 18% of Arizona's total Colorado River supply; and less than 8% of Arizona's total water use. Nearly all the reductions within Arizona will be borne by Central Arizona Project (CAP) water users. In August 2021, the U.S. Secretary of the Interior declared the first-ever Tier 1 shortage for Colorado River operations. The shortage, which will begin in 2022, will result in a substantial cut to Arizona's share of the Colorado River. These Arizona reductions will be borne by Central Arizona Project (CAP) water users.

GOVERNMENT

Real estate tax rates in the metropolitan Phoenix area are reasonable in comparison to other areas and provide incentive for relocation. Liberal zoning requirements have not created any unusual detriments to development; however, development plans for large, in-fill parcels have been met with strong opposition from neighborhood groups. The zoning requirements have promoted the development of compatible land uses, which has contributed to enhancing property values. Adequate utilities, police and fire protection are provided within the region.

SUMMARY

The United States, Arizona and the Phoenix metro area have all bounced back from the steep but short economic recession induced by the pandemic, and the economic outlook remains strong, according to Arizona State University's economic forecaster. Arizona lost more than 331,000 jobs in March and April of 2020 – more than the entire Great Recession that extended over several years. The Phoenix metro area added 77,000 new jobs in 2021, and ranks third nationwide in job growth for transportation/warehousing and professional/technical. More than 80% of new jobs came from food service, transportation and warehousing, retail, the professional and technology fields and health care.

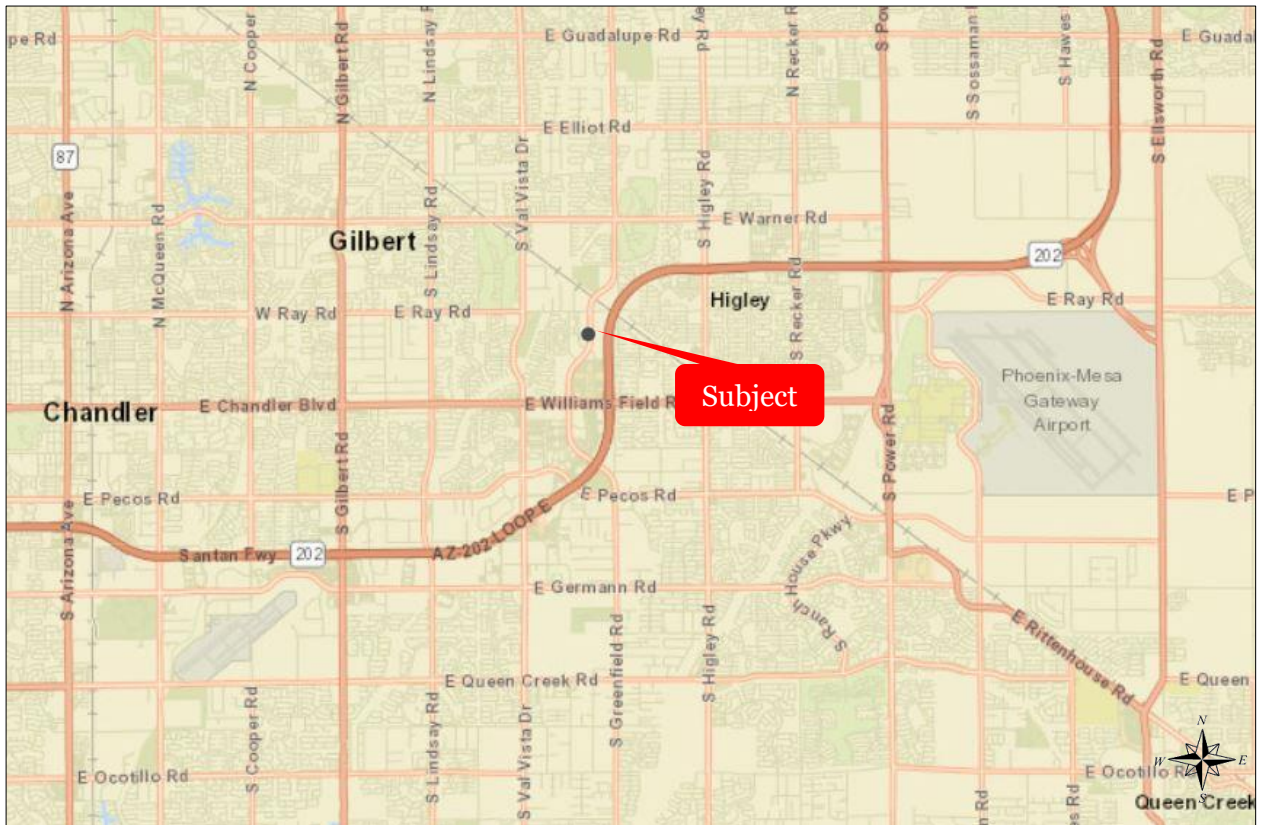
More than 34 million square feet of industrial construction is underway across Greater Phoenix, with approximately 14 million square feet completed in 2021. And more than 32,000 new multifamily units are under construction in 4th quarter 2021. While the brokers, developers and builders remain bullish on the Phoenix market heading into 2022, one of the top concerns is supply chain delays. Manufacturers are still not at full capacity and product delays could continue well into 2023.

According to a news article published by Phoenix Business Journal on February 16, 2022, Phoenix had the sixth highest total investment volume in the country with close to \$30 billion just behind Atlanta, the San Francisco Bay area, Dallas-Fort Worth, greater New York and greater Los Angeles in 2021, according to the latest CBRE Group Inc. report from Q4 2021. This was a 137% increase from the previous year for the Phoenix area, which made up nearly 4% of the record \$746 billion in overall investment in U.S. commercial real estate.

Factors favoring Arizona's continued economic expansion include a pro-business climate, available warehouse and industrial space, a strong local workforce and new infrastructure projects. Threats include COVID-19 risks, lingering supply chain bottlenecks and decreasing housing affordability. Overall, the long-term outlook for Phoenix-Mesa-Scottsdale MSA is positive.

NEIGHBORHOOD

The property under study is located within the town of Gilbert. The subject is less than four (4) miles west of the Phoenix – Mesa Gateway Airport. The neighborhood boundaries are defined as Warner Road to the north, Queen Creek Road to the south, Ellsworth Road to the east and Val Vista Road to the west. A map illustrating the neighborhood boundaries is presented following.



TOWN OF GILBERT

The subject is located within the town of Gilbert. Gilbert is a town in Maricopa County, Arizona, United States, located southeast of Phoenix within the city's metropolitan area. Once known as the "Hay Shipping Capital of the World", it is the sixth-largest municipality in Arizona, and the fifth-largest in the Phoenix metro area. It covers an area of nearly 69 square miles. Gilbert has made a rapid transformation from an agriculture-based community to an economically diverse suburban center located in the southeast valley of the Greater Phoenix area. It has grown at an extremely high rate over the last three decades, increasing in population from 5,717 in 1980 to 208,453 as of the 2010 census. The town grew at an average annual rate of nearly 13% during this 30-year period. In 2019, the town's population was estimated to be 254,114.

RETAIL DEVELOPMENT

SanTan Village, a Westcor Development located at the southwest corner of the Santan Freeway and Williams Field Road, includes 1.2 million square feet of gross leasable area, and is planned for over 3 million square feet of retail, office, and other uses within a 500-acre site. Phase I of the power center, includes the new Super Wal-Mart, Sam's Club, Costco, Joann's, Office Max and other numerous retail stores.

Gilbert Gateway Towne Center is a central part of an over 600-acre assemblage by Circle G around the intersection of Power and Ray that also includes master planned residential, business park, and medical. The shopping center was developed as a joint venture with Vestar, the premiere power center developer in the Phoenix metro region. It is an 80-acre retail development with approximately 800,000 square feet of leasable space. The project is strategically located at the southwest corner of the Loop 202 Freeway and Power Road adjacent to the Phoenix Mesa Gateway Airport and Arizona State University East. The shopping center consists of two phases. Phase I is anchored by a Super Target on 50 acres at the northwest corner of Power Road and Ray Road. Other tenants include Ross, Michaels, Pier 1 Imports, PetSmart, Famous Footwear, Cost Plus and Bank of America. Phase II is anchored by Wal-Mart Supercenter, Staples, and additional retailers situated on 30 acres at the southwest corner of Power Road and Ray Road.

Other retail developments include: *Gateway Airport Crossing*, located at the southeast corner of Ray Road and Power Road, includes retail tenants such as Jack in the Box, Cogburn's Big Wings, Jimmy John's, Comercia Bank, McDonald's and SaDec Bistro. *Superstition Springs Center*, a shopping mall located at the northwest corner of Power Road and US 60 (Superstition Freeway), is anchored by Dillard's, JCPenney, and Macy's. The mall also has Picture Show as a junior anchor and a freestanding Cheesecake Factory. *Power Marketplace*, a retail center anchored by LA Fitness, is located at the northeast corner of Germann and Power Roads; a Home Depot is situated at the southeast corner of Germann and Power roads; *Crossroads Towne Center Phase I*, a 433,132 square foot regional power center anchored by SuperTarget, Barnes & Noble, Ross, Michaels, Staples, and Pier 1 Imports, is located at the southeast corner of the Santan Freeway and Gilbert Road in Gilbert. *Crossroads Towne Center Phase II*, a 680,000 square foot regional power center is located at the southwest corner of the Santan Freeway and Gilbert Road in Chandler. Tenants include Walmart Supercenter, PetSmart, Staples, and a movie theater; *Crossroads Towne Center Phase III* is a 187,333 square foot regional power center located at the southeast corner of Gilbert Road and Germann Road.

RESIDENTIAL COMMUNITIES

San Tan Ranch is a 523 acre master planned community located south and east of the intersection of Pecos and Higley roads, which is planned for development of 1,803 single-family lots on 446 acres; *Power Ranch* is a 2,054 acre master planned community located at the alignment of Rittenhouse Road and the Roosevelt Water Conservation District (RWCD) canal to the north; Power Road on the east; the alignment of Ocotillo Road on the south; and the RWCD canal, and the general alignment of Recker Road on the east; *Coronado Ranch* is a 374 net acre master planned community generally bounded by the Roosevelt Water Conservation District (RWCD) canal to the northwest and north, Higley Road to the west, Queen Creek Road to the south, and the alignment of Recker Road to the east.

Eastmark

Eastmark, located four miles east of the property, adjacent to Mesa's Elliott Road Tech Corridor, is a 3,200-acre master-planned mixed-use community currently under active construction. It has

a blend of residential housing, education, retail, commerce and recreation. It is close in proximity to major highways, Phoenix-Mesa Gateway Airport, various school districts and businesses.

In 2018, Eastmark has added a learning center preschool, 12 residential neighborhoods, a 2-acre commercial farm and a 180,000 square foot data center (EdgeCore) as part of Mesa's Elliott Road Tech Corridor; It is on track of adding a 60-acre high school, expansion of the biggest local park, a 14-acre retail plaza, over 8 new neighborhoods along with more high end apartments and townhomes in 2019.

Agritopia

Agritopia is a new, mixed-use community located at the northwest corner of Ray and Higley Roads, about three miles west of the subject. The community is comprised of 450 residential lots and includes commercial, agricultural, and open space tracts. The layout of the single-family homes in Agritopia is unique as many of the houses are set back against large, landscaped common areas. To its immediate north, there is a proposed mixed-use project named EpiCenter currently under construction. EpiCenter features ±55,000 square foot of high-end retail and restaurant spaces, situated below 275 luxury apartments (Liv Agritopia).

Future multifamily developments in the subject's immediate neighborhood include: Edge at Lyon's Gate (under construction, 360 units), The Crossings at Cooley Station (proposed, 408 units), Acero Cooley Station (under construction, 184 units), Quintana at Verde (proposed, 197 units) and Springs at Cooley Station (proposed, 276 units).

INDUSTRIAL/OFFICE DEVELOPMENT

Industrial development in the subject neighborhood has been limited within recent years, with previous construction activity dominated by owner/user projects within industrial/business parks. Industrial/business parks in the subject area include: Gateway Pointe Industrial Park (proposed), 40 acres of flex office/industrial proposed on the north side of Ray Road just to the west of Gateway Towne Center Phase I (Super Target Center); Mesa Industrial Park (proposed), 30 acres zoned M-1 and 50 acres zoned M-2 (Heavy Industrial) in the City of Mesa at the southeast corner of Sossaman and Pecos; Hawes & Mesquite (proposed), 40 acres with office, flex, back office, warehouse, distribution, manufacturing, and industrial potential in unincorporated Maricopa County at the southeast corner of Hawes & Mesquite; Gateway Business Park, is nearly 100 acres of office, medical, flex, and industrial property in Gilbert. This location is enhanced by existing development and infrastructure already completed by Circle G including the Gateway Towne Center shopping center, Blue Jay Commercial flex office building, Gateway Storage Solutions, Gilbert Hospital, and nearby master planned residential.

There is a number of high-tech facilities and data centers located in reasonably close proximity to the defined neighborhood (mostly to the north and west). Some of the more notable companies represented in the general area (just outside the neighborhood) include Hamilton/Avnet Electronics, Speedfam, Microchip Technology, Hexel, Motorola (Aerospace Center), Amkor, Charles Schwab Data Center, Orbital Science, Intel, TRW Safety Systems, and Olin, Inc. Some older industrial oriented uses are located along sections of Arizona Avenue and Riggs Road, and include outdoor storage yards, equipment sales/service centers and light manufacturing-oriented uses. There are several large office projects in the far southeast valley, all of which have been completed in recent years, including Rocky Mountain Financial Center (102,700 square feet), Chandler Office Center (107,000 square feet), Chandler Commons Office Park (150,000 square feet). Additionally, the Medical Plaza At Spectrum Condominium project, and the first phase of the Mercy Point Medical Center Condominium project, have been constructed southeast and south of, and proximate to the Mercy Gilbert Medical Center.

OTHER RESIDENTIAL SUPPORT FACILITIES

Phoenix-Mesa Gateway Airport

Phoenix-Mesa Gateway Airport, formerly Williams Field Air Force Base, is located east of Power Road between Ray and Pecos roads. The Base was closed in 1993 and was converted into Williams Gateway Airport, a commercial and industrial aviation and education facility, in 1994. In 2008, the airport's name was changed to Phoenix-Mesa Gateway Airport. The airport has attracted several tenants including 44 employers and 1,145 jobs, a flight school, and airplane maintenance services. It serves 38 cities with non-stop service and continuing service to many more destinations, and contributes \$685 million per year to Arizona's economy. Phoenix-Mesa Gateway is utilized by Allegiant, Frontier, and Spirit Airlines, and U.S. Airways for training activities, and by Sky Harbor International Airport as a reliever airport. Gateway has been designated a Foreign Trade Zone (#221) and Military Reuse Zone, which offers aviation and related company's additional incentives in the marketplace.

Medical Facilities

Existing medical facilities near the neighborhood include: Mercy Gilbert Hospital opened in June 2006, with additional development to include an assisted living center, and medical offices which will include physical therapy and research complexes. Banner Baywood Hospital, a 172-bed facility located at the northwest corner of Baywood Avenue and Power Road; Chandler Regional Hospital, a 120 bed facility, located one-half mile south of the southeast corner of Chandler Boulevard and Dobson Road; Catholic Healthcare West is a 120 bed hospital on a 62-acre site located along the southeast corner of Val Vista Drive and the Santan Freeway.

Schools

The subject property is less than one-mile northwest to the Arizona State University Polytechnic campus, which is one of four campuses of Arizona State University. Founded as ASU East, the campus opened in fall 1996 on the former Williams Air Force Base in southeast Mesa, Arizona. The campus opened with nearly 1,000 students enrolled in one of the eight degrees offered. The campus started with two schools – the School of Technology and the School of Management and Agribusiness. East College was added in 1997 as an incubator for new professional programs.

The subject property is located within the Higley Unified School District. Gateway Pointe Elementary School is located to the southwest of the subject, it has 723 students enrolled from pre-k to 8th grade.

TRANSPORTATION

Primary north/south access within the neighborhood is provided by the section line arterials of Val Vista Drive, Greenfield, Higley, Recker, Power and Ellsworth roads. East/west arterials include Ray, Williams Field, Germann, Pecos, and Queen Creek roads. A major transportation linkage for the neighborhood is provided by the Superstition Freeway. The major transportation linkage for the neighborhood is the Santan Freeway (Loop 202).

This freeway is that portion of the metropolitan Phoenix freeway system designed to increase access throughout the southeast valley. The Santan Freeway connects with the Red Mountain Freeway, at the Superstition Freeway, and connects the Price Freeway, before continuing west to Interstate 10. The Santan Freeway, between the Loop 101 and the Superstition Freeway, was completed in May 2006. Full diamond interchanges are located at Williams Field, Higley, and

Power roads and Val Vista Drive. Currently, the initial phase of State Route 24 is under construction, which includes a one-mile stretch beginning at Loop 202 (Santan Freeway) near the Phoenix-Mesa Gateway Airport and ending at Ellsworth Road. This segment will provide enhanced access from southeast Maricopa County to north east Pinal County, and provides additional access into and out of Phoenix-Mesa Gateway Airport and surrounding areas.

DEMOGRAPHICS

According to the following chart, all three areas of measure indicate positive growth patterns for 2022 estimate and 2027 projection, with reference to the 2010 census. Growth within a 1-mile radius is expected at a rate of 2.80% from 2022-2027; the highest rate among the three areas of study. The average household income is below the 3- and 5-mile radius; the average per capita income is the lowest of the areas of study. The largest and second largest income bases are \$75,000 to \$100,000, then \$50,000 to \$75,000, respectively, for the 1-mile radius surrounding the subject.

Neighborhood Demographics	1 Mile	3 Mile	5 Mile
Population:			
2010 Census	9,920	90,380	234,867
2022 Estimate	14,107	116,102	288,344
2027 Projection	16,115	131,264	324,363
Growth 2010-2022	3.50%	2.40%	1.90%
Growth 2022-2027	2.80%	2.60%	2.50%
2022 Avg Household Income	\$111,432	\$123,151	\$117,702
2022 Med Household Income	\$88,645	\$103,409	\$99,074
2022 Households by Household Inc:			
Income Less than \$25,000	252	1,902	6,311
Income \$25,000 - \$50,000	649	4,257	12,480
Income \$50,000 - \$75,000	1,095	6,299	15,757
Income \$75,000 - \$100,000	840	6,233	15,086
Income \$100,000 - \$125,000	545	6,174	14,822
Income \$125,000 - \$150,000	502	4,281	10,351
Income \$150,000 - \$200,000	518	4,992	12,165
Income \$200,000+	508	4,928	11,179
<i>Costar Group, Inc</i>			

SUMMARY

In summary, the subject is situated in a southeast valley neighborhood which has experienced significant growth in the residential and commercial sectors over the past decade. The area offers several large master planned communities with moderate to higher-priced housing with common area amenities including man-made lakes, community golf courses, open space and parks. As a result of the increase in the residential population base, significant growth has also occurred in the retail and office sectors. The neighborhood's transportation linkage to other sections of the metropolitan area is good. Anticipated growth in households and commercial support facilities will likely encourage additional development in the foreseeable future.

Future development including the retail pads within The Post at Cooley Station, as well as a mixed-use project located on the southwest corner of Ellsworth Road and Ray Road, to the northeast of Phoenix-Mesa Gateway Airport, which includes various industrial, commercial and residential uses.

The neighborhood is expected to remain favorable for long-term growth and the subject site is considered a marketable asset.

SITE DESCRIPTION

The description of the subject’s site is based on an appraisal inspection, discussions with the property owner, and a review of public records.

SITE DESCRIPTION

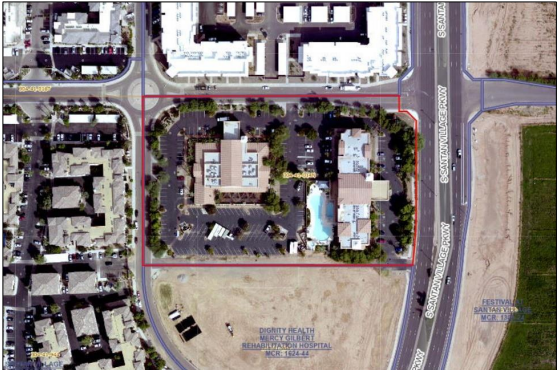
Type: Commercial Zone Site (RC)
Location: 1800 S. San Tan Village Pkwy., Gilbert, AZ

Total Site Size (SF): 241,861
Total Site Size (AC): 5.55

Frontage:
Santan Village Parkway: +/-353'
East Private Street: +/-589'
South Private Street: +/-388'

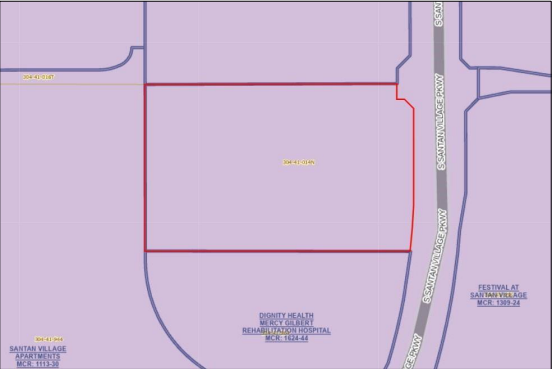
Ingress/Egress: Three curb cuts along west line of Santan Village Parkway, north line of East Private Street, and east line of South Private Street

Parking: Open surface parking lots; adequate



Easements:
Utility Easement: Typical of product type
Cross-Easement: None noted

Configuration: Almost Rectangular - Functional for current use
Topography: Generally level
Soil: No known adverse soil conditions
Environmental: No known adverse environmental conditions
Utilities & Services: All to site
Electricity: APS (Arizona Public Service)
Water: Town of Gilbert
Sewer: Town of Gilbert
Trash: Town of Gilbert
Fire Protection: Town of Gilbert
Police Protection: Town of Gilbert
Flood Zone: Zone X
Fema Panel #: 04013C2753M
Map Revised Date: November 4, 2015
Zoning: RC, Regional Commercial
Legally Conforming: Legally conforming regarding zoning



Assessor Parcel #: 304-41-014N

Real Estate Taxes:

Tax Year:	2020	2021	2022
Full Cash Value:	\$15,533,900	\$15,682,300	\$15,860,000
Annual Taxes Due:	\$216,655	\$219,929	N/A

Tax Standing: All taxes are current; no delinquent taxes noted.
Comment: Actual tax rate is within the range of similar properties

Adjacent Uses:
North: East Private Street; Multi-Family Properties; Ray Road
South: Vacant Land (Future Dignity Health Mercy Gilbert Rehab Hospital)
East: Santan Village Parkway; Vacant Land; Loop 202 Freeway
West: South Private Street; Multi-Family Property

REAL ESTATE TAXES:

Proposition 117 passed in 2012 by a majority of Arizona voters, Proposition 117 works as a mechanism to control the large valuation swings that did so much damage to, not only property owners, but to government budgets, during the recession.

Proposition 117 acts as a mandatory cap on valuation increases to the LPV, upon which both primary and secondary tax rates will now be based. So even though FCV may rise dramatically (as it is not limited and is based on market conditions), Proposition 117 caps increases in the LPV to 5% annually. It should be noted, this cap does not apply to new construction, additions, or deletions to your property.

Proposition 117 does not change statutory formulas used for calculating the amount of money which can be collected by taxing jurisdictions. Proposition 117 provides a stable and dependable value for LPV's, and, in theory, a stable tax base for taxing jurisdictions dependent on property taxes. Proposition 117 went into effect for Tax Year 2015.

The Maricopa County Assessor's Office assesses the subject. Full Cash Value (FCV) has no relationship to market value as defined in this report. Full cash value is set by State law and is for tax assessment purposes only. It does not consider the future potential use of the property and is not always current with market transactions. Limited Property Value (LPV) is set by the State of Arizona and, by statute, cannot exceed full cash value.

Of note, all taxes are current; no delinquent taxes noted. The subject's in-place taxes are in-line with similar product type in the area. The real estate taxes appear reasonable in the current market.

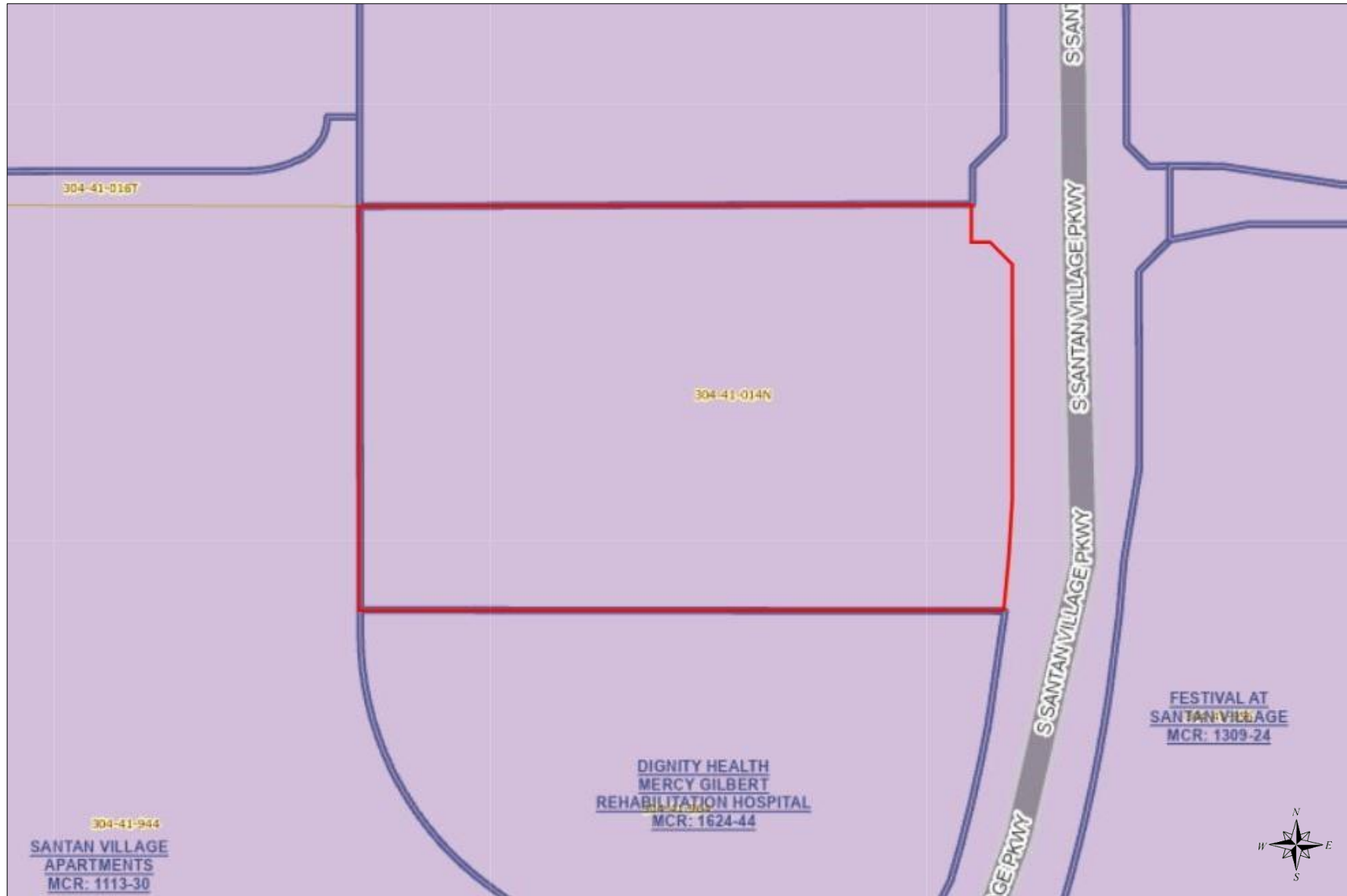
ZONING:

The purpose of zoning is to provide for orderly growth and harmonious development. Zoning is intended to provide a common ground of understanding and a sound and equitable working relationship between public and private interests to the end that both independent and mutual objectives can be achieved.

The subject property has an RC, Regional Commercial, by the town of Gilbert. This district permits large-scale regional retail, commercial, office, recreation and entertainment, and cultural uses, developed under a unified plan.

We are not experts in the interpretation of zoning ordinances. An appropriately qualified land use attorney should be engaged if a determination of compliance is required.

PARCEL MAP



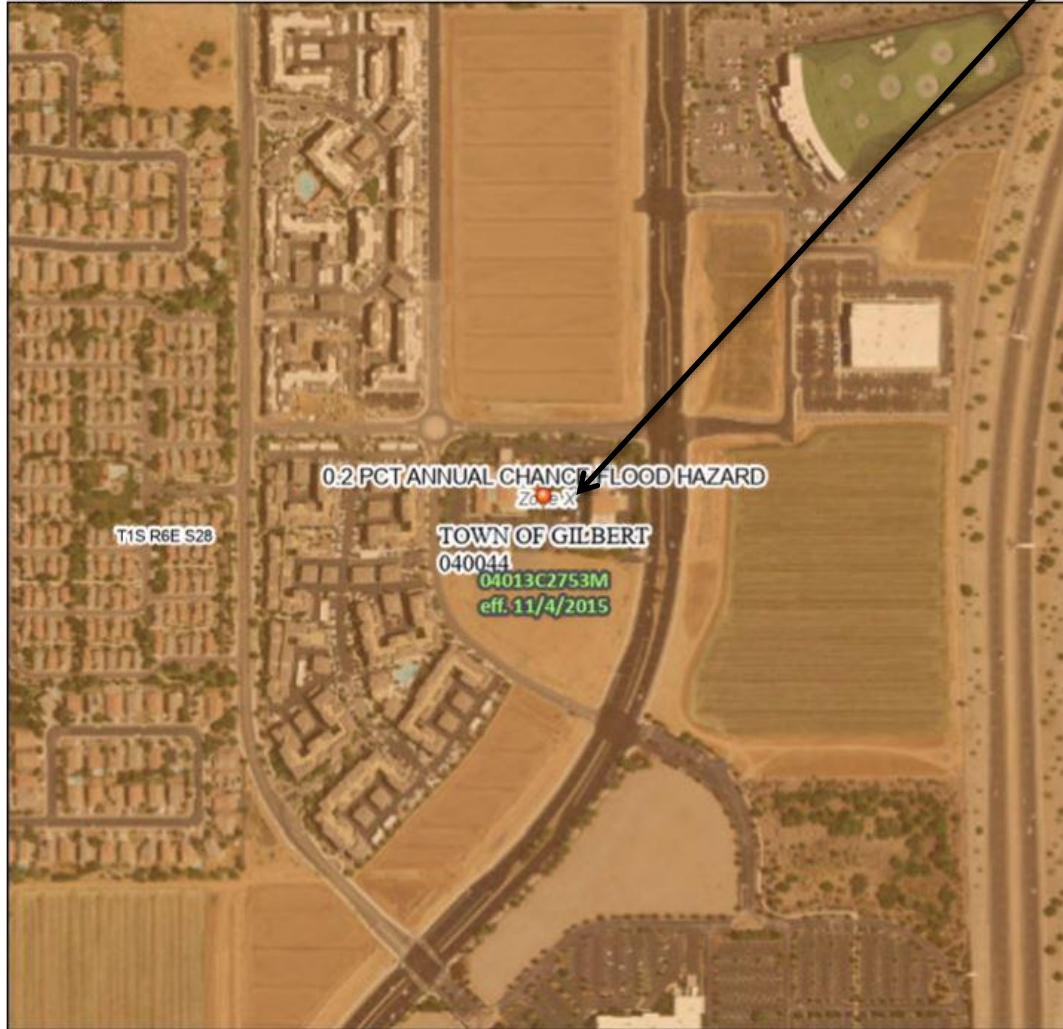
FLOOD MAP

Subject

National Flood Hazard Layer FIRMette



111°44'57"W 33°19'16"N



Legend

SEE FIS REPORT FOR DETAILED LEGEND AND INDEX MAP FOR FIRM PANEL LAYOUT

- SPECIAL FLOOD HAZARD AREAS**
 - Without Base Flood Elevation (BFE) Zone A, V, A99
 - With BFE or Depth Zone AE, AO, AH, VE, AR
 - Regulatory Floodway

- OTHER AREAS OF FLOOD HAZARD**
 - 0.2% Annual Chance Flood Hazard, Areas of 1% annual chance flood with average depth less than one foot or with drainage areas of less than one square mile Zone X
 - Future Conditions 1% Annual Chance Flood Hazard Zone X
 - Area with Reduced Flood Risk due to Levee, See Notes. Zone X
 - Area with Flood Risk due to Levee Zone D

- OTHER AREAS**
 - NO SCREEN Area of Minimal Flood Hazard Zone X
 - Effective LOMRs
 - Area of Undetermined Flood Hazard Zone D

- GENERAL STRUCTURES**
 - Channel, Culvert, or Storm Sewer
 - Levee, Dike, or Floodwall

- OTHER FEATURES**
 - Cross Sections with 1% Annual Chance Water Surface Elevation
 - Coastal Transect
 - Base Flood Elevation Line (BFE)
 - Limit of Study
 - Jurisdiction Boundary
 - Coastal Transect Baseline
 - Profile Baseline
 - Hydrographic Feature

- MAP PANELS**
 - Digital Data Available
 - No Digital Data Available
 - Unmapped



The pin displayed on the map is an approximate point selected by the user and does not represent an authoritative property location.

This map complies with FEMA's standards for the use of digital flood maps if it is not void as described below. The basemap shown complies with FEMA's basemap accuracy standards.

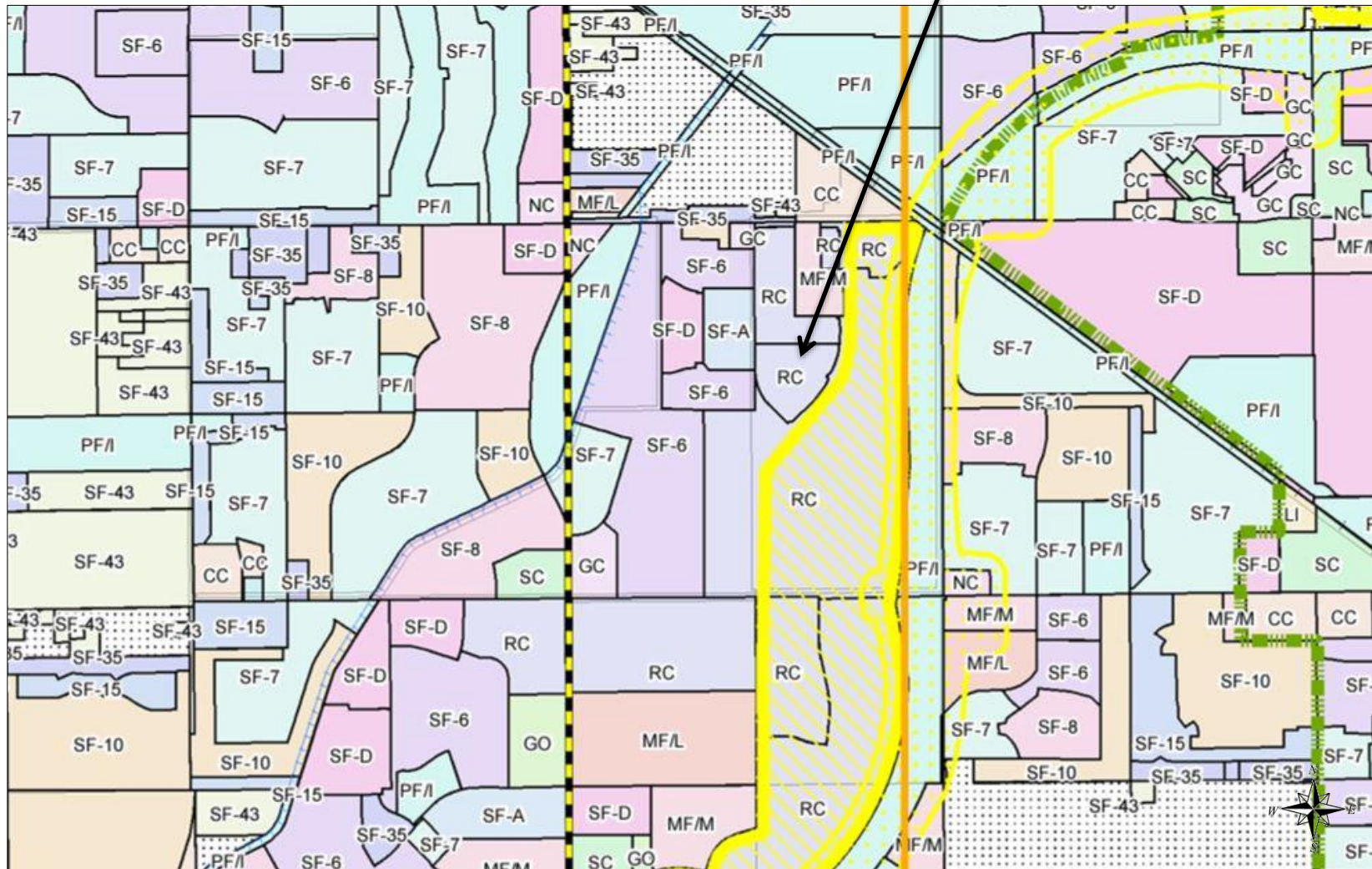
The flood hazard information is derived directly from the authoritative NFHL web services provided by FEMA. This map was exported on 5/23/2022 at 6:26 PM and does not reflect changes or amendments subsequent to this date and time. The NFHL and effective information may change or become superseded by new data over time.

This map image is void if the one or more of the following map elements do not appear: basemap imagery, flood zone labels, legend, scale bar, map creation date, community identifiers, FIRM panel number, and FIRM effective date. Map images for unmapped and unmodernized areas cannot be used for regulatory purposes.



ZONING MAP

Subject



IMPROVEMENT DESCRIPTION

The description of the subject improvements is based on an appraisal inspection, discussions with the property owner, and a review of public records.

IMPROVEMENT DESCRIPTION

Type: Full-Service Hotel

Gross Building Area (SF): ±89,888

No. of Stories: 4

No. of Building: 2

No. of Rooms: 121

Foundation: Reinforced concrete foundations over aggregate base

Exterior Walls: Reinforced concrete exterior walls; painted stucco finish

Elevators/Stairways: Multiple Elevators and stairways, assumed adequate.

Floor Coverings: Mix of commercial carpet, ceramic tile and laminate wood flooring; typical

Windows: Tinted dual pane glass in aluminum frames

Roof: Combination of pitched and flat. Pitched roofs have concrete tiles and flat portions are built up. Assumed adequate with no differed maintenance noted.

Ceilings: Mix of finished/painted drywall and suspended grid ceiling with panels.

Lighting: Mix of suspended, flush mounted and decorative lighting.

Insulation: Assumed adequate for the use

Doors: Glass entry doors in aluminum frames, aluminum exterior doors; rooms have solid wood interior doors with electronic key locks; assumed adequate.

Heating/Cooling: Combination of boiler system and roof mounted HVAC units. Assumed adequate for the use.

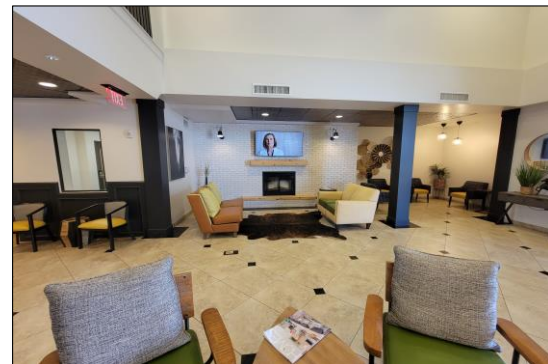
Plumbing: Typical restrooms and plumbing. Subject also has two (2) kitchens and one (1) bar area, all with typical plumbing.

Interior Walls/Layout: Painted drywall; units have a functional layout and design. The improvements include one (1) four-story guest building with 121 total rentable units and one (1) convention center building with seven (7) ballrooms. The subject also includes a front service desk, managers offices, guest laundry services, storage areas, two (2) commercial kitchens, one (1) lobby bar, restrooms, lobbies and seating areas, fitness center, outdoor patios, two (2) pools and two (2) heated spas. The main four-story guest building is ±71,041 square feet and the convention center building is ±18,847 square feet.

Site Improvements/Parking: Site improvements include open asphalt parking lot with 221 open parking spaces (1.83 spaces per room), concrete sidewalks, curbs and desert/lush landscaping throughout.

Accrued Depreciation: The subject is in good condition for its age. The last PIP was completed in September 2021. The subject was constructed in 2009, has an actual age of 13 years, effective age of 10 years, and a remaining economic life of 40 years based on a total economic life expectancy of 50 years. The building is functionally adequate for its use. The subject does not suffer from functional obsolescence or external obsolescence.

Summary: The subject property has an minor corner site location, with adequate ingress/egress from a major road within the town of Gilbert. There are no known or reported restrictions to the subject that may limit the potential use under the zoning requirements. The site does not appear to be adversely impacted by any easements, restrictions, conditions or covenants. Overall, the marketability of the subject is considered above average to good.



PROPERTY IMPROVEMENT PLAN (PIP)

As noted, the operator completed an improvement plan (PIP) to complete the required extensive capital improvements under the brand-mandated PIP. According to limited report, the property the improvements/renovations to the property include: replacement of public areas and guestroom soft goods, public area case goods, digital key, thermostat, mattress/box springs, software, cyber security, cleanliness, ADA, flooring, bathrooms, bedroom FF&E's.

Areas of deduction included some design concepts, tv's, collateral and identity, information and data security, repairs and maintenance. ***It is an extraordinary assumption that the remaining items to cure were completed to meet the franchise standards and there are no adverse effects to the franchise agreement.***

TANGIBLE PERSONAL PROPERTY/FURNITURE, FIXTURES, & EQUIPMENT

This report includes a value for tangible personal property, i.e., furniture, fixtures and equipment associated with operation of the subject facility.

Typical FF&E's include the following:

- Office furniture and equipment, operating supplies;
- Point of sale (POS) equipment, software, computers;
- Guestroom furniture, beds, artwork, window treatments, TV's, appliances;
- Laundry machines, vending machines;
- Supplies & equipment (housekeeping & maintenance supplies);
- Signage (monument and small interior signage).

As illustrated by the cost comparables summarized in the chart following, actual FF&E expenses for hotel/motel properties, throughout the state of Arizona, range from \$1,354 to \$6,1039 per room, with the low end of the range represented by full-service properties and the upper end of the range associated with full-service hotels. The subject is classified as a full-service hotel and includes standard (good) room finishes in good condition. An estimate toward the upper end of the comparable range would be reasonable.

Cost Comparable/Location	Year Built	Total Costs/Room	Project Features	FF&E Cost Per Room
Sleep Inn/Phoenix, Arizona	1998	\$34,180	61 rooms; 4-story; no restaurant; swimming pool/spa	\$5,917
Hawthorn Suites LTD/Tempe, Arizona	1999	\$42,578	69 rooms; 3-story; hotel (breakfast) kitchen; kitchen suites; swimming pool/spa	\$6,103
Fray Marcos Hotel (Expansion)/Williams, Arizona	1999	\$51,228	107 rooms; 4-story; swimming pool/spa; exercise room	\$4,847
Value Place Hotel/Phoenix, Arizona	2007	\$36,084	121 rooms; 4-story; kitchen suites; no restaurant	\$2,703
Value Place Hotel/Phoenix, Arizona	2007	\$35,507	121 rooms; 4-story; kitchen suites; no restaurant	\$3,500
Legacy Suites, Casa Grande, Arizona	2007/2008	N/A	480 rooms; 3-story; kitchen suites; no restaurant	\$1,354

Overall, an FF&E cost of \$6,000 per room, or **\$726,000** (new) has been estimated for the 121-Room property. The age and condition of the individual components of the FF&E within the subject property is unknown, a reasonable depreciation allowance of 10% has been applied (with the recent PIP), resulting in a depreciated cost estimate of **\$653,400 or \$650,000 (ROUNDED)**. This figure includes salvage value.

Notably, the buyer's allocation of equipment and furnishings is projected to be \$700,000.

HOTEL MARKET ANALYSIS

The subject property involves a 121-Room, full-service hotel property doing business as DoubleTree by Hilton, and located at 1800 South San Tan Village Parkway, Gilbert, Arizona. Based on the current use, zoning and current development, the subject's most logical use is for lodging oriented uses. The following analysis will review the current status of the lodging industry within United States, Arizona, subject region, and submarket. The analysis will focus on the impact of supply and demand factors on the subject facility, and will address the overall competitive market position of the subject hotel.

NATIONAL LODGING MARKET

According to AHLA's State of the Hotel Industry 2022 report published by American Hotel & Lodging Association (AHLA) on January 5, 2022, all indications are that the hotel industry will continue moving toward recovery in 2022, but that full recovery is still several years away. According to an analysis for AHLA by Oxford Economics, hotel room night demand and room revenue are projected to nearly return to 2019 levels in 2022. Room revenues are projected to reach \$168 billion, within 1% of 2019 figures and an increase of 19% compared to 2021. Occupancy is projected to hit 63.4%, nearing the 66.0% rate achieved in 2019 and far above the 44% and 57.6% reached in 2020 and 2021, respectively.

The return of room revenue is certainly welcome news for hoteliers, yet it does not tell the whole story. Even with a return to pre-pandemic room revenue performance, these figures do not account for the additional estimated more than \$48 billion⁵ in pre-pandemic spending on food and beverage, meeting space, and other ancillary services—a revenue source expected to lag significantly in its return. Industry experts project that only a little over half of meetings and events will return in 2022, with the negative impacts of the Omicron variant still to be determined.

Additionally, hotels across the country are continuing to dig out from a two-year period where they lost a collective \$111.8 billion in room revenue alone. A partial recovery in 2022 will not be enough to allow hotels to completely pay back lenders, fully rehire staff, invest in delayed property improvements, and refill business cash reserves.

There remain strong headwinds and potential disruptors for a full recovery. While leisure travel will likely return fully in 2022, business travel is projected to remain significantly below pre-pandemic levels. The severity of the short-term effects of Omicron on the hotel industry are still unclear.

Moreover, future variants will create volatility in both the return of leisure and business travel, and tens of billions of dollars connected to meetings and events spending. According to Cvent's November 2021 Group Business Insights Report, one quarter of meetings being sourced are hybrid, and 72% of surveyed meeting planners are sourcing events with an in-person component.

Hotels will continue to struggle with staffing shortages, reducing their ability to maximize revenue from potential travelers. Inflationary pressure means that though a nominal recovery may occur earlier, true adjusted recovery for the industry will take until 2025, according to STR and Tourism Economics.

While a true recovery to pre-pandemic levels is still several years away, the more that hotels understand, prepare for, and respond to the needs of the “new” traveler, the brighter the future looks for an industry that is vital to the American economy.

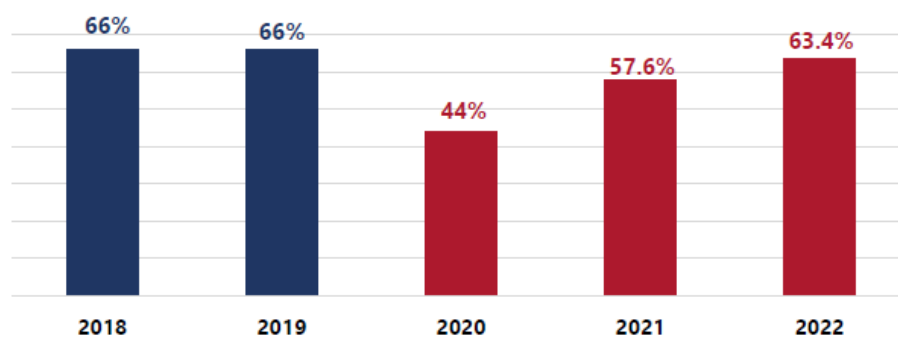
Key findings are:

1. The travel outlook for 2022 is trending positively, but continuing volatility is expected, with full recovery years away. Occupancy rates and room revenue are projected to approach 2019 levels in 2022, but the outlook for ancillary revenue is less optimistic. Business travel is expected to remain down more than 20% for much of the year, only 58% of meetings and events are expected to return, and the full negative effects of Omicron are not yet known. Labor headwinds will mean employment levels at year end will be down 7% compared to 2019.
2. “New” travelers expect different things from hotel brands. Consumers’ motivations, behaviors, and expectations all shifted during the pandemic—profoundly changing how hotels operate to satisfy their guests, who are increasingly likely to be leisure or bleisure travelers or digital nomads. As a result, technology will be even more critical in a property’s success.
3. Retaining and attracting top talent means showcasing career paths, not just jobs. Hotels can build a workforce for the future by communicating the breadth of career opportunities that are available in the industry to current and prospective employees.
4. Sustainability initiatives will play an increasingly important role for the industry. Hotels that make commitments to sustainability goals and programs are not just satisfying guests’ expectations, they are making changes that are good for the business as well.
5. Loyalty programs will evolve in response to the new travel landscape. With high-volume business travel down, traditional loyalty programs no longer make sense. The most effective loyalty programs will offer more personalized rewards that meet the needs of occasional business travelers and leisure travelers as well.

Occupancy

Hotel occupancy is expected to continue trending upward from the historic lows of 2020, averaging 63.4% for the year, according to STR and Tourism Economics.

Figure 1 – Hotel Room Occupancy by Year

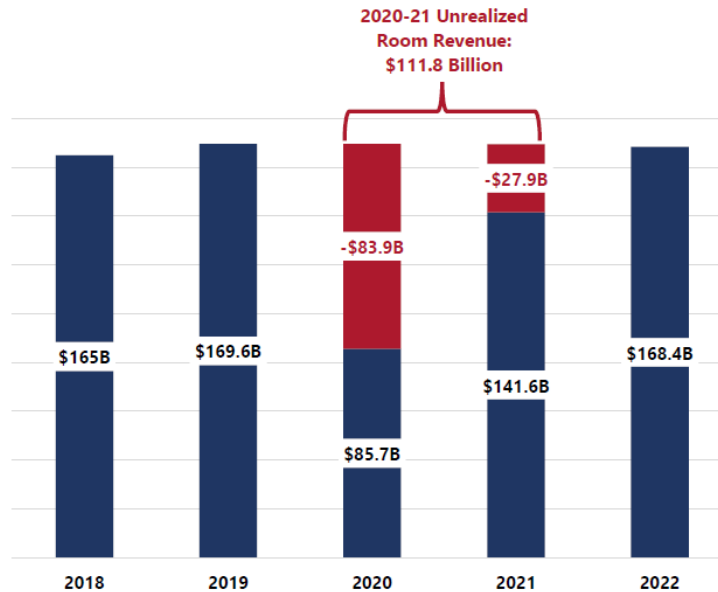


Source: Oxford Economics + STR, © 2022 CoStar Group

Room Revenue

After falling by almost 50% in 2020, hotel room revenue will nearly return to 2019 levels this year. Non-room ancillary spending will continue to lag behind.

Figure 2 – Hotel Room Revenue by Year

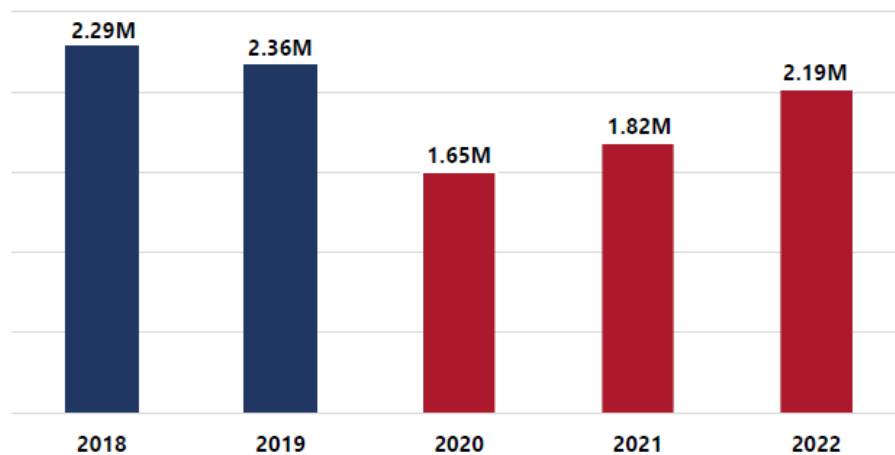


Source: Oxford Economics + STR, © 2022 CoStar Group

Employment

By the end of 2022, hotels are expected to employ 2.19 million people—93% of their pre-pandemic levels.

Figure 3 – Employment by Year



Source: Oxford Economics

ARIZONA LODGING MARKET

According to March 2022 data from the market research firm Smith Travel Research, in February 2021, Arizona’s hotel industry experienced dips similar to the U.S. average in several areas, including occupancy, average daily rate, and revenue per available room (RevPAR). Each county in Arizona experienced declines in RevPAR (the metric used by the hotel industry to measure financial performance).

Statewide Lodging Performance										
Market	Current Month-March					March Year-to-Date				
	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply
State of Arizona 2022	78.4%	\$195.93	\$153.55	2,973,326	3,793,935	69.7%	\$174.54	\$121.63	7,661,502	10,994,174
% Ch March 2022 vs. 2021	14.3%	42.4%	62.7%	16.5%	2.0%	21.7%	47.0%	79.0%	24.5%	2.3%

The Arizona Office of Tourism’s monthly lodging report shows occupancy levels in 1st quarter 2022 are up to 69.7% for the State of Arizona, 73.7% for Metro Phoenix, 71.9% for Metro Tucson, 65.9% for Flagstaff and 61.7% for Non-metro areas. ADR in 1st quarter was \$174.34 for the State of Arizona; RevPAR was \$121.55 in 1st quarter, 78.5% higher than the identical quarter a year ago. Supply ranged from 3.5% (Metro Phoenix) to -3.0% (Flagstaff), and demand ranged from 40.6% (Metro Tucson) to -1.8% (Flagstaff).

Statewide Lodging Performance First Quarter 2022 (January, February, March)					
Market Year	Occupancy	ADR	RevPAR	Demand	Supply
United States					
2021	46.2%	\$99.76	\$46.10	219,868,539	475,748,629
2022	56.2%	\$136.96	\$76.99	278,040,221	494,617,274
% change Q1	21.6%	37.3%	67.0%	26.5%	4.0%
Mountain Region					
2021	48.3%	\$106.15	\$51.22	27,128,314	56,222,205
2022	59.7%	\$149.05	\$88.97	34,232,151	57,349,269
% change Q1	23.7%	40.4%	73.7%	26.2%	2.0%
State of Arizona					
2021	57.3%	\$118.86	\$68.11	6,155,083	10,741,290
2022	69.7%	\$174.34	\$121.55	7,660,902	10,988,769
% change Q1	21.7%	46.7%	78.5%	24.5%	2.3%
Metro Phoenix					
2021	59.2%	\$127.29	\$75.34	3,588,499	6,062,652
2022	73.7%	\$197.66	\$145.76	4,627,193	6,274,755
% change Q1	24.6%	55.3%	93.5%	28.9%	3.5%
Metro Tucson					
2021	52.5%	\$106.55	\$55.97	745,173	1,418,771
2022	71.9%	\$160.73	\$115.56	1,047,861	1,457,478
% change Q1	36.9%	50.8%	106.5%	40.6%	2.7%
Flagstaff AZ					
2021	65.1%	\$104.27	\$67.86	315,079	484,110
2022	65.9%	\$114.69	\$75.61	309,413	469,350
% change Q1	1.3%	10.0%	11.4%	-1.8%	-3.0%
Non-metro AZ					
2021	55.9%	\$108.60	\$60.75	1,747,230	3,123,427
2022	61.7%	\$129.05	\$79.59	1,922,062	3,116,527
% change Q1	10.2%	18.8%	31.0%	10.0%	-0.2%

Local lodging indicators were provided by the Arizona Office Of Tourism, and the Arizona Lodging March 2022 and 1st Quarter 2022 Report prepared by Smith Travel Research, and is displayed in the above table. As shown, occupancy for the U.S. overall has increased from 46.2% to 56.2% in 2021 and 2022.

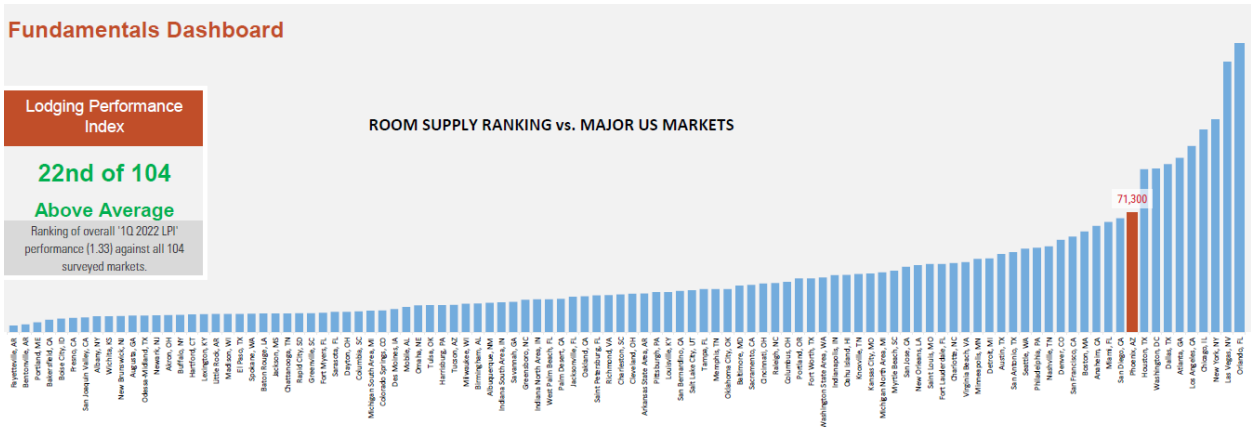
Statewide Lodging Performance by County First Quarter 2022 (January, February, March)										
County	Occupancy		ADR (\$)		RevPAR (\$)		Demand		Supply	
	2022	% Ch Q1 2022 vs 2021	2022	% Ch Q1 2022 vs 2021	2022	% Ch Q1 2022 vs 2021	2022	% Ch Q1 2022 vs 2021	2022	% Ch Q1 2022 vs 2021
Apache	47.3%	-3.0%	90.81	15.8%	42.93	12.2%	43,648	-2.7%	92,340	0.0%
Cochise	63.3%	15.5%	93.84	15.1%	59.39	33.2%	154,423	9.8%	243,990	-4.6%
Coconino	54.4%	8.2%	134.06	11.6%	72.94	20.8%	626,816	7.0%	1,152,070	-1.0%
Gila	60.4%	5.9%	113.96	17.3%	68.88	24.3%	69,019	3.9%	114,182	0.1%
Graham	62.0%	31.6%	103.06	18.4%	63.90	55.7%	32,702	30.3%	52,740	0.0%
Greenlee	N/A		N/A		N/A		N/A		N/A	
La Paz	80.8%	17.0%	101.48	14.7%	82.03	34.2%	52,670	16.7%	65,160	0.0%
Maricopa	73.5%	26.2%	200.65	57.8%	147.46	99.5%	4,451,816	29.3%	6,057,495	3.4%
Mohave	67.8%	8.8%	95.83	19.3%	64.96	29.9%	255,945	9.5%	377,609	1.0%
Navajo	52.3%	-0.1%	83.01	20.5%	43.39	20.4%	155,525	0.3%	297,556	0.7%
Pima	71.9%	38.5%	160.73	52.6%	115.56	111.9%	1,047,861	40.6%	1,457,478	2.7%
Pinal	80.7%	14.0%	121.90	44.3%	98.40	64.4%	175,377	21.6%	217,260	7.0%
Santa Cruz	57.7%	8.4%	93.38	11.2%	53.92	20.6%	48,070	7.3%	83,250	0.0%
Yavapai	63.9%	9.0%	212.27	28.2%	135.70	39.7%	289,775	9.2%	453,289	0.9%
Yuma	79.7%	17.3%	117.19	19.7%	93.36	40.3%	253,376	20.1%	318,050	3.2%

Local lodging indicators were provided by the Arizona Office Of Tourism, and the Arizona Lodging March 2022, 1st Quarter 2022 Report prepared by Smith Travel Research, and is displayed in the above table.

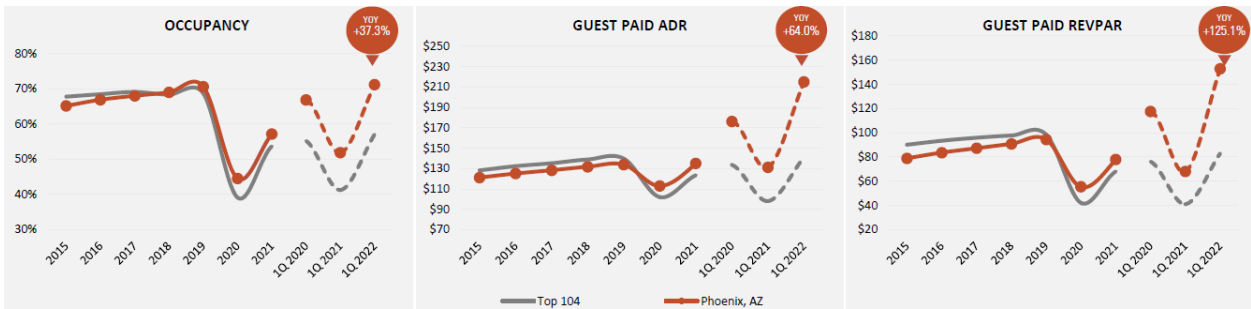
PHOENIX LODGING MARKET

According to the 1Q 2022 Hotel Market Insight Report published by Newmark Valuation & Advisory, the Phoenix, AZ market is currently in the 'Expansion' stage of the performance cycle. In this stage, hotels generally perform adequately and in an economy with resilience and higher confidence the economy will recover from the COVID-19 crisis. Barriers to entry are low, displacement demand is high, and the market typically experiences an expansion of both hotel supply and general economic conditions. Example markets in this stage include Anaheim, CA; Austin, TX; and Fort Lauderdale, FL.

Lodging performance index is showing above average for the Phoenix hotel market.



Occupancy, guest paid ADR and guest paid RevPar in the Phoenix hotel market are all trending upwards compared to the previous year.



SUBJECT SUBMARKET/COMPETITIVE SET

In order to project average daily room and occupancy rates, and determine future room revenues, a survey was conducted of competing facilities in the subject area. As discussed in the Market Analysis section, the appraiser identified four (4) properties in the subject vicinity considered as the “competitive set”, all of which are located nearby the subject. The four (4) primary competitive hotel facilities are summarized in the chart on subsequent pages; a map of the comparables, and photographs, are included on the following pages.

SUMMARY OF COMPARABLES

Lease No.	Project Name / Location	No. of Rooms	Average ADR	Amenities	Occupancy
1	Holiday Inn & Suites Phoenix Mesa Chandler / 1600 S Country Club Dr, Mesa, AZ	165	\$110 - \$160	On-Site Business Center, Heated Outdoor Pool, Jacuzzi, Cocktail Lounge, 24-Hour Fitness Center, Complimentary Coffee	60% - 80%
2	Doubletree by Hilton Phoenix Mesa / 1011 W Holmes Ave, Mesa, AZ	266	\$120 - \$150	24-Hour Business Center, Heated Swimming Pool, 24-Hour Fitness Center, Conference Center (25,000 SF)	60% - 70%
3	Hyatt Place Phoenix Gilbert / 3275 S Market St, Gilbert, AZ	127	\$115 - \$179	Business Center, Heated Outdoor Pool, Jacuzzi, Fitness Center, Free Breakfast, Bar, On-Site Restaurant, All-Day Dining	60% - 80%
4	Courtyard Phoenix Mesa Gateway Airport / 6907 E Ray Rd, Mesa, AZ	99	\$110 - \$160	Heated Outdoor Pool, Jacuzzi, Fitness Center, Meeting Space, Restaurant, Fitness Center	60% - 80%
—	DoubleTree by Hilton - SanTan, Gilbert / 1800 South San Tan Village Parkway, Gilbert, Arizona 85295	121	\$120 - \$170	Business Center, Heated Outdoor Pool, Jacuzzi, On-Site Restaurant, Fitness Center, Conference/Banquet Center	50% - 80%

As summarized, four (4) competitive facilities located within a five-mile radius of the subject property were surveyed, and reflect average daily room rates ranging from \$110.00 to \$179.00. Based on information gathered from managers, agents and market participants, and a STAR report, reported occupancy levels range anywhere from 60% to 80%.

SUMMARY:

The Phoenix market struggled initially to overcome the effects of the Great Recession and negative press pertaining to a boycott over the SB 1070 immigration law in 2010, which contributed to RevPAR fluctuations through 2012. Operating performance in Phoenix realized strong year-over-year growth in 2013 and 2014, as a limited supply pipeline and improving local economy bolstered overall hotel performance in the region. The Phoenix lodging market recorded positive trends following the Super Bowl in 2015, with overall RevPAR reaching a historical high in 2019, despite continued supply growth. Increases in commercial activity throughout Phoenix, including the resurgence of Downtown Phoenix and the expansion of Class-A office development in the outlying submarkets of Mesa, Gilbert, Chandler, and North Scottsdale, boosted demand during that period. While the state government, higher education (Arizona State University), and the construction industry have long been economic stalwarts in Phoenix, significant economic diversification efforts successfully attracted major employers in the medical research, technology, financial services, and insurance industries over the past several years.

While the Phoenix market began 2020 strong, the outbreak of COVID-19 and its impact on travel caused a significant RevPAR decline in 2020. Many events were postponed or canceled, particularly affecting hotels near the Phoenix Convention Center (PCC), as well as the area resorts. Demand began to rebound in the summer, and although RevPAR remained suppressed, declines through the remainder of the year were less severe than those of other top 25 metro markets. Transient demand from areas with stricter COVID-19 restrictions bolstered occupancy in the market. While group demand was minimal in the first half of 2021, demand strengthened in the second half of the year, and the PCC and area resorts reported a significant number of re-bookings for future years. Although demand and ADR registered low levels in early 2021, robust demand beginning in March 2021 supported the 2021 rebound. In May 2021, occupancy, ADR, and RevPAR exceeded 2019 levels during select periods, such as Memorial Day. The outlook is optimistic given the dynamics of this market, the successful rollout of vaccines in the U.S., the removal of COVID-related restrictions, the recent increase in travel, and the continued strengthening of international tourism, commercial demand, and meeting/group events.

HIGHEST AND BEST USE

Highest and best use is defined as that reasonable and probable use that will support the highest present value, as defined, as of the effective date of the appraisal. Alternatively, that use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible and which results in the highest land value.

Four criteria are examined in order to determine the highest and best use of the subject property. The criteria and their applicability to the subject, “as vacant” are as follows:

Legally Permissible: a legally permissible use is determined primarily by current zoning regulations. However, other considerations such as long-term leases, deed restrictions, and environmental regulations may preclude some possible highest and best use.

Physically Possible: the size, shape and topography affect the uses to which land maybe developed. The utility of a parcel is dependent on its frontage and depth. Sites with irregular shapes may be more expensive to develop, and topography or subsoil conditions may make utilization too costly or restrictive. Highest and best use as improved also depends on physical characteristics such as condition and utility.

Financially Feasible: the use of the property is analyzed to make a determination as to the likelihood that the property is capable of producing a return which is greater than the combined income needed to satisfy operation expenses, debt service, and capital amortization. Any use that is expected to produce a positive return is classified as financially feasible.

Maximally Productive: the use that provides the highest rate of return among financially feasible uses is the highest and best use. The use of the land must yield a profitable net return, and the quantity of land devoted to any specific use must be limited to that quantity which will yield a maximum return to each owner.

AS VACANT

As discussed, the subject property is zoned RC (Regional Commercial), by the town of Gilbert. This district permits large-scale regional retail, commercial, office, recreation and entertainment, and cultural uses, developed under a unified plan.

The subject has a minor corner site orientation with adequate ingress/egress from two (2) collector streets (East and South Private Street) and a major roadway (Santan Village Parkway), and includes a total of ±241,861 square feet (±5.55 acre) of land area. All necessary utilities and services are available to the property, and the site does not appear to be adversely impacted by any encroachments, restrictions, covenants or conditions. No adverse soil conditions, environmental contamination or hazardous waste storage were observed, or are known to exist.

The site is typical in terms of its size, configuration, topography, and availability of utilities, which is generally conducive to a variety of commercial development types. Land uses in the subject’s immediate vicinity consist mainly of single family and multifamily uses in the ensuing neighborhoods, with commercial uses found along arterial roadways and at major intersections.

Given the site's physical and locational characteristics, commercial-oriented uses appear most logical, if such development is financially feasible and maximally productive. Therefore, the highest and best use for the site, as if vacant, is to hold as a land investment with the potential for commercial-oriented development, as demand warrants.

AS IMPROVED

The subject is zoned RC (Regional Commercial), by the town of Gilbert and appears to be legally conforming in regards zoning. As mentioned, there do not appear to be any easements, encroachments, restrictions, covenants, conditions, or inclusions within a flood hazard area, which may have an adverse effect on the utility of the improvements or site.

The subject property currently operates as a full-service, DoubleTree by Hilton-branded hotel. Currently the hotel is operating with 121 rooms available for occupancy. Upon appraisal inspection, the subject was in good condition for the age, with signs of continual maintenance to the property. The property was constructed in 2009, and in good condition for its age. The last PIP was completed in September 2021. It has an actual age of 13 years and an estimated effective age of 10 years; thus, resulting in 40 years of remaining economic life, based on a total economic life of 50 years. The subject does not suffer from functional obsolescence. At the time of the inspection, the property was operating at full capacity with all 121 rooms available for occupancy.

In determining the highest and best use of a property, primary consideration is given to whether or not the existing improvements add value above and beyond the underlying land value. As mentioned, the hotel is projecting positive net income for the upcoming year. As discussed in the Income Approach, the current use as a full-service hotel reveals a value indicator above the underlying land value; thus, the highest and best use of the property as improved is for continued use as a hotel property which competes favorably with the area's full-service hotels.

Overall, it is concluded the subject improvements significantly add to the value of the land, and the value of the property substantially exceeds the value of the land, less demolition costs. Therefore, demolition of the improvements is not a financially feasible alternative, since it would not produce a higher value. ***Therefore, the highest and best use of the subject property, as improved, is for continued use of the property as a hotel property. The most probable buyer of the subject property is a hotel investor/operator.***

APPRAISAL PROCESS

The appraisal process considers three approaches to value: Cost Approach, Income Approach, and the Sales Comparison Approach. In appraisal practice, an approach to value is included or omitted based on its applicability to the property type being valued and the quality and quantity of information available. The reliability of each approach is based upon the availability and comparability of the market data, in addition to the motivations and behaviors of buyers/sellers within the marketplace. A brief explanation of each approach follows:

The *Cost Approach* developed by finding comparable land sites and analyzing them in comparison to the subject site as if vacant. Then, the reproduction or replacement cost of the improvements as if new is determined by using comparable market cost figures. In the next step, depreciation is determined and deducted from the cost of the improvements as if new to arrive at a present value. The present value of the improvements is added to the site value resulting in a Cost Approach to value indicator.

The *Income Approach* is based on the assumption that value is created based on a future benefit and what a competent investor would pay for to receive an income stream over a period of time plus the reversion. These benefits can be converted into value by capitalizing 1) a single year's income by the direct capitalization approach or, 2) a period of income over a selected period of time; the discounted cash flow analysis. Capitalization rates are extracted from comparable sales and listings in the market and the rate is determined based on risk in comparison to the subject.

The *Sales Comparison Approach* involves the comparison of similar properties that have recently sold or similar properties that are currently offered for sale, with the subject property. Adjustments are made for notable differences in the comparable properties to indicate a value range for the property being appraised. This value range, as indicated by the adjusted comparable properties, is then correlated into a final indicated value for the subject property by this approach.

In the valuation of the subject property, the Sales Comparison Approach, Income Approach and Cost Approach were considered to estimate value. The Sales Comparison Approach and Income Approach to value were developed and utilized in the analysis of the Going Concern valuation. The Cost Approach was not included within the Valuation Analysis due to the actual age of the subject property and is not typically weighted by market participants. An allocation of the components is illustrated in the reconciliation section of this report.

SALES COMPARISON APPROACH

The *Sales Comparison* Approach involves the comparison of similar properties that have recently sold or similar properties that are currently offered for sale, with the subject property. Adjustments are made for notable differences in the comparable properties to indicate a value range for the property being appraised. This value range, as indicated by the adjusted comparable properties, is then correlated into a final indicated value for the subject property by this approach.

This Sales Comparison Approach relies heavily upon the principle of substitution. The reliability of the Approach depends, to a large extent, upon the degree of comparability between the sales and the subject. The strengths of this approach include the reflection of actual market transactions and the fact that common denominators are fairly easily determined. The potential weaknesses arise from the use of historical data and truly relevant Comparables are usually difficult to obtain. Sales of similar multifamily properties were located and analyzed in the report.

Each of the comparable properties utilized were compared to the subject in terms of the factors listed below.

- Property Rights Conveyed
- Financing Terms
- Conditions of Sale
- Market Conditions
- Location
- Physical Characteristics
- Economic Characteristics

The comparable sales are compared to the subject property on the unit basis of **price per rentable room**. This unit of comparison is typical of the market and offers the most consistent unit value indicator for the subject property.

Summarized following are details regarding the sales considered most comparable and pertinent in developing an opinion of market value for the subject property, as of the date of valuation. Following the comparable sales details and map is a summary table of the comparable sales used, followed by an adjustment table summary.

IMPROVED COMPARABLE #1

Project Name: Courtyard Phoenix Mesa Gateway Airport
Property Type: Hospitality
Location: 6907 E Ray Rd, Mesa, AZ 85212

Population (3 Mile): 65,258
Median H.H. (3 Mile): 98,760
AVG OCC Submarket: 68.4%
AVG ADR Submarket: \$112
AVG REVPAR Submarket: \$77

Gross Rentable Area: 52,692
No. of Rooms: 99
Year Built: 2015
Capitalization Rate: NA
Average Daily Rate: \$150.00
Average Occupancy: NA

APN #: 304-37-030C
Site Size (SF): 116,685
Site Orientation: Corner
Parking: Adequate
Access: Adequate

Sales Price: \$19,000,000
Price Per/SF: \$360.59
Price Per/Unit: \$191,919

Date of Sale: August-21
Days On Mkt: NA

Sale History: None in past year

Grantor: Gateway Hospitality Group LLC
Grantee: 6907 East Ray Road Owner LP
Interest: Leased Fee
Document #: 22-0932171
Instrument Type: Special Warranty Deed
Sale Condition: Conventional; cash equivalent

Property Use: Investment
Zoning: LC, Mesa

Financing: New loan; cash equivalent

Confirmation
Source: Seller; CoStar; Public Records; Affidavit
Contact: Paul Welker of Sunridge Properties, Seller
Contact No.: (480) 854-1414



Comments: This property represents a Courtyard Phoenix Mesa Gateway Airport in Mesa, AZ. The property was comprised of 99 rooms. The property was built in 2015. The property sold for \$19,000,000 or \$360.59 per square foot. Please note that \$2,850,000 of the \$19,000,000 sale price was accounted for in FF&E. The ADR for this property was \$150/day. The average occupancy at the time of sale was not available. There were no brokers on this transaction. Paul Welker of Sunridge Properties, Seller confirmed information.

IMPROVED COMPARABLE #2

Project Name: Home2 Suites
Property Type: Hospitality
Location: 7200 S Price Rd, Tempe, AZ 85283

Population (3 Mile): 136,086
Median H.H. (3 Mile): 85,354
AVG OCC Submarket: 66.4%
AVG ADR Submarket: \$125
AVG REVPAR Submarket: \$83

Gross Rentable Area: 64,850
No. of Rooms: 108
Year Built: 2017
Capitalization Rate: NA
Average Daily Rate: \$66.00
Average Occupancy: 100%

APN #: 301-49-825
Site Size (SF): 98,960
Site Orientation: Mid-block
Parking: Adequate
Access: Adequate

Sales Price: \$21,020,658
Price Per/SF: \$324.14
Price Per/Room: \$194,636

Date of Sale: January-22
Days On Mkt: NA
Sale History: None in the past 3 years

Grantor: RB-WW Tempe LLC
Grantee: PDOF Tempe, LLC
Interest: Fee Simple
Document #: 22-0075594
Instrument Type: NA
Sale Condition: Arm's Length

Property Use: Investment
Zoning: HC,CC, Flagstaff

Financing: Conventional; cash equivalent

Confirmation
Source: Seller; CoStar; Public Records; Affidavit
Contact: Rockbridge Capital seller
Contact No.: (614) 246-2400

Comments: This property represents a Home2 Suites in Tempe, AZ. This property was comprised of 108 rooms and was built in 2017. The average occupancy at the time of sale was 100%. The property sold for \$21,020,658 or \$324.14 per square foot. The information was confirmed by Rockbridge Capital, seller. He did not have a cap rate to share on this transaction. There were no brokers on this transaction.



IMPROVED COMPARABLE #3

Project Name: The Saguaro Scottsdale
Property Type: Hospitality
Location: 7353 E Indian School Rd, Scottsdale, AZ 85251



Population (3 Mile): 110,140
Median H.H. (3 Mile): 74,999
AVG OCC Submarket: 61.0%
AVG ADR Submarket: \$239
AVG REVPAR Submarket: \$146

Gross Rentable Area: 96,875
No. of Rooms: 194
Year Built: 1975/2012
Capitalization Rate: 6.00%
Average Daily Rate: \$304.00
Average Occupancy: 100%

APN #: 130-23-206
Site Size (SF): 267,598
Site Orientation: Corner Lot
Parking: Adequate
Access: Adequate

Sales Price: \$40,000,000
Price Per/SF: \$412.90
Price Per/Unit: \$206,186

Date of Sale: March-22
Days On Mkt: NA
Sale History: None in the past year

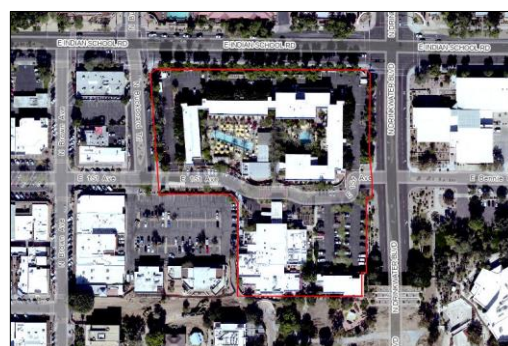
Grantor: Sydell Scottsdale, LLC
Grantee: Old Town Hospitality LLC
Interest: Leased Fee
Document #: 22-0217483
Instrument Type: Special Warranty Deed
Sale Condition: Arm's Length

Property Use: Investment
Zoning: C-2, Scottsdale

Financing: New loan; cash equivalent

Confirmation

Source: CoStar; Public Records; Affidavit
Contact: Keith Mishkin of Hospitality Capital Partners, LLC, Buyer
Contact No.: (602) 469-6600



Comments: This property represents a The Saguaro Scottsdale in Scottsdale, AZ. The property was comprised of 194 rooms. The property sold for \$40,000,000 or \$412.90 per square foot. The ADR for this property was \$304/day. The average occupancy at the time of sale was 100%. The property is within an opportunity zone. There were no brokers on this transaction.

IMPROVED COMPARABLE #4

Project Name: Hyatt Place North Scottsdale
Property Type: Hospitality
Location: 18513 N Scottsdale Rd, Scottsdale, AZ



Population (3 Mile): 60,957
Median H.H. (3 Mile): 106,232
AVG OCC Submarket: 61.0%
AVG ADR Submarket: \$239
AVG REVPAR Submarket: \$146

Gross Rentable Area: 176,585
No. of Rooms: 136
Year Built: 2021
Capitalization Rate: NA
Average Daily Rate: \$239.00
Average Occupancy: 61%

APN #: 215-07-398
Site Size (SF): 106,439
Site Orientation: Corner Lot
Parking: Adequate
Access: Adequate

Sales Price: \$32,367,300
Price Per/SF: \$183.30
Price Per/Unit: \$237,995

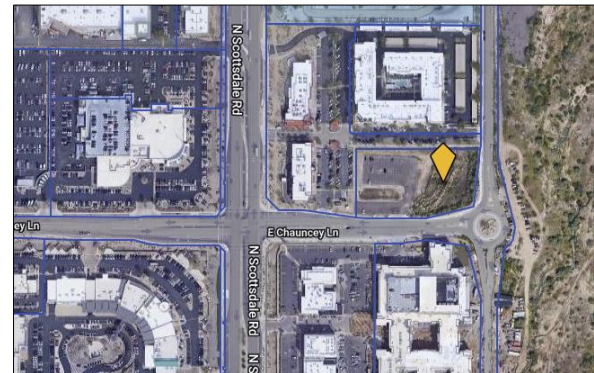
Date of Sale: March-22
Days On Mkt: NA
Sale History: None in the past year

Grantor: North Scottsdale Hospitality, LLC
Grantee: KRE HIP HPHH Scottsdale Owner, LLC
Interest: Fee Simple
Document #: 22-0218122
Instrument Type: Special Warranty Deed
Sale Condition: Arm's Length

Property Use: Investment
Zoning: C, Scottsdale

Financing: New loan; cash equivalent

Confirmation Source: CoStar; Public Records; Affidavit
Contact: Riller Capital
Contact No.: (203) 918-3522



Comments: This property represents a Hyatt Place North Scottsdale in Scottsdale, AZ. The property is comprised of 136 rooms. The property sold for \$32,367,300 or \$239.00 per square foot. It was purchased as part of a two-property portfolio. The ADR for this property was \$239/day, and the average occupancy at the time of sale was 61%.

IMPROVED COMPARABLE #5

Project Name: Holiday Inn Express & Suites Casa Grande
Property Type: Hospitality
Location: 805 N Cacheris Ct, Casa Grande, AZ 85122

Population (3 Mile): 32,761
Median H.H. (3 Mile): 60,231
AVG OCC Submarket: 69.7%
AVG ADR Submarket: \$125
AVG REVPAR Submarket: \$87

Gross Rentable Area: 53,178
No. of Rooms: 77
Year Built: 2010
Capitalization Rate: 8.00%
Average Daily Rate: \$210.00
Average Occupancy: NA

APN #: 505-23-004E
Site Size (SF): 58,142
Site Orientation: Corner Lot
Parking: Adequate
Access: Adequate

Sales Price: \$12,500,000
Price Per/SF: \$235.06
Price Per/Unit: \$162,338

Date of Sale: April-22
Days On Mkt: 242 days
Sale History: None in the past year

Grantor: Lqcg Inc
Grantee: Klrt Utah Properties LLC
Interest: Leased Fee
Document #: 22-051717
Instrument Type: Special Warranty Deed
Sale Condition: Arm's Length

Property Use: Investment
Zoning: C-1, Casa Grande

Financing: New loan; cash equivalent

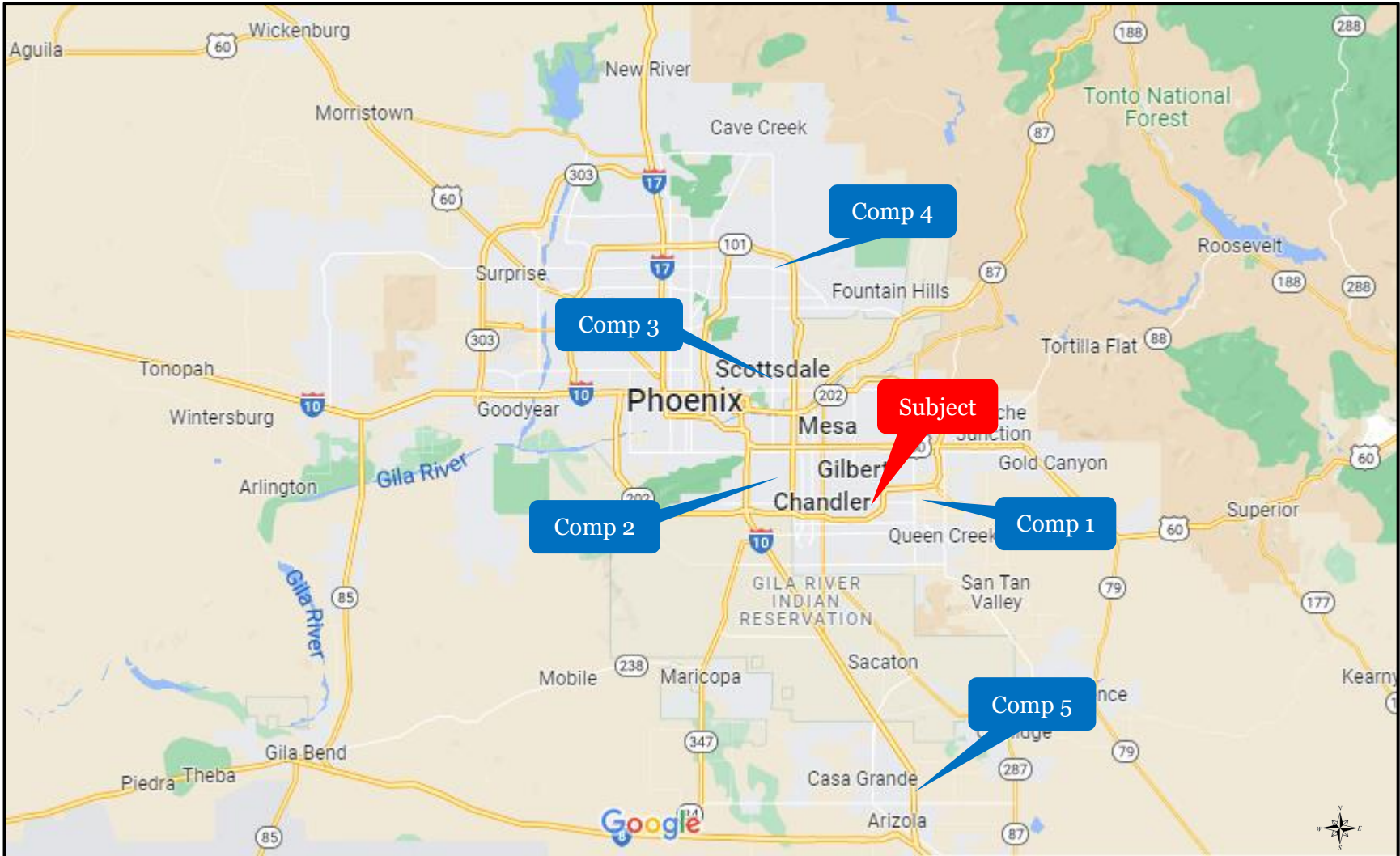
Confirmation

Source: Broker; CoStar; Public Records; Affidavit
Contact: Jigar Desai of NewGen Advisory
Contact No.: (520) 664-4091

Comments: This property represents a Holiday Inn Express in Casa Grande, AZ. The property was comprised of 77 rooms. The property sold for \$12,500,000 or \$235.06 per square foot. The ADR for this property was \$210/day. The average occupancy at the time of sale was not available. Jigar Desai of NewGen Advisory confirmed information.



COMPARABLE SALES MAP



IMPROVED COMPARABLES ANALYSIS

SUMMARY OF COMPARABLES

Sale No.	Project Name	Property Location	Contract Type	Contract Date	Bldg Size (SF)	No. Of Rooms	Year Built	Sale Price	Price Per SF GLA	Price Per Room
1	Courtyard Phoenix Mesa Gateway Airport	6907 E Ray Rd, Mesa, AZ 85212	Sale	Aug-21	52,692	99	2015	\$19,000,000	\$360.59	\$191,919
2	Home2 Suites	7200 S Price Rd, Tempe, AZ 85283	Sale	Jan-22	64,850	108	2017	\$21,020,658	\$324.14	\$194,636
3	The Saguaro Scottsdale	7353 E Indian School Rd, Scottsdale, AZ 85251	Sale	Mar-22	96,875	194	1975/2012	\$40,000,000	\$412.90	\$206,186
4	Hyatt Place North Scottsdale	18513 N Scottsdale Rd, Scottsdale, AZ	Sale	Mar-22	176,585	136	2021	\$32,367,300	\$183.30	\$237,995
5	Holiday Inn Express & Suites Casa Grande	805 N Cacheris Ct, Casa Grande, AZ 85122	Sale	Apr-22	53,178	77	2010	\$12,500,000	\$235.06	\$162,338
---	Subject	1800 S San Tan Pkwy, Gilbert, AZ	Escrow	Current	89,888	121	2009	\$25,750,000	\$286.47	\$212,810

ELEMENTS OF COMPARISON

The characteristics or attributes of properties and transactions that cause the prices of real property to vary; include real property rights conveyed, financing terms, conditions of sale, market conditions, location, physical characteristics, and other characteristics. The following is a discussion of the various elements of comparison.

Real Property Rights Conveyed

The real property rights conveyed in each of the comparable sales involves a legal interest conveyed in the transaction. The subject property, when occupied, is encumbered by short-term rentals (fee simple interest); all the comparable properties are analyzed based on the fee simple interest; thus, no adjustments for real property rights conveyed are necessary.

Financing Terms

The opinion of market value for the subject site is based on cash, or financing terms considered equivalent to cash. Cash equivalency adjustments are required to sales involving favorable financing terms. The Comparables involved all cash or its equivalent, thus no adjustments for financing terms are necessary.

Conditions Of Sale

A condition of sale adjustment is used to compare the motivations of buyers and sellers in transactions that sales prices are affected due to the following: duress, special relationships or unusual circumstances. The Comparables all represent closed sales and no adjustments are warranted.

Market Conditions

The subject is being appraised as of a specific date; therefore, adjustments to the Comparables must be recognized for changes in market conditions between the sale dates of the Comparables and the subject's date of value. The adjustment for market conditions is not always related to time; changes in market conditions may be caused by inflation, deflation, fluctuations in supply and demand, or other factors.

The Coronavirus (COVID-19) threat may be having an impact on market conditions. There are disconcerting factors in the market, such as, mandatory closures of non-essential service businesses, volatility in the capital markets, increasing unemployment rates, etc.

Based on the impact that COVID-19 has had on the lodging market, along with the related effects on the economy, we conclude that the current downturn will have a significant impact, in the interim, on hotel values. While some hotels will experience value declines during this slower period of growth, others will continue to appreciate due to favorable asset/market characteristics and smart ownership and management investment decisions.

More specifically, the subject is a full-service hotel located in a larger metropolitan city. Despite the negative impact on the lodging sector from COVID-19, the strong chain brands are more likely to use resources to off-set market hardship.

Based on the preceding information and considering the market information within the Market Analysis section of this report, a significant upward adjustment for market conditions is required to the subject's sale price.

Comparables are all considered to represent current market conditions and no adjustments appear warranted.

Location

The subject property is located within a commercial district that is positively impacted by its proximity to Interstate 10. Differences in location are difficult to quantify. However, location can have an impact on the Average Daily Rate. A summary of the locational characteristics of the subject and Comparables is displayed below:

LOCATIONAL COMPARISON GRID						
Comparable Number	Subject	1	2	3	4	5
Location	Gilbert, AZ	Mesa, AZ	Tempe, AZ	Scottsdale, AZ	Scottsdale, AZ	Casa Grande, AZ
Population (3 Mile):	116,102	65,258	136,086	110,140	60,957	32,761
Median H.H. (3 Mile):	\$123,151	98,760	85,354	74,999	106,232	60,231
AVG OCC Submarket:	67.4%	68.4%	66.4%	61.0%	61.0%	69.7%
AVG ADR Submarket:	\$11,031	\$112	\$125	\$239	\$239	\$125
AVG REVPAR Submarket:	\$74	\$77	\$83	\$146	\$146	\$87

As indicated, Comparables 1 through 4 (which are all located within the Phoenix metropolitan area) reflect relatively similar development densities (3-mile population). Comparables 2, 3 and 5 reflect inferior median household incomes. However, this does not necessarily mean lower sale price points (as evidenced by the sale price of Comparable 3). No adjustments are warranted.

However, Comparable 5 is located within the smaller submarket of Casa Grande (which is reflected in the lower sale price) and is considered inferior (despite the higher ADR) and an upward adjustment is warranted.

Note that Comparables 3 and 4 are located within the highly desirable city of Scottsdale. However, this area is highly competitive, which dilutes market share. Additionally, higher fixed costs such as real estate taxes impact the overall EBITDA. ADRs are just slightly higher than the subject's, and overall no adjustment will be applied.

Note that Comparable 2 has freeway frontage (Loop 101 Price Freeway). However, access is somewhat difficult, as there is no direct freeway off-ramp. Potential consumers are required to

off-ramp the freeway at Elliot Road to the South or Guadalupe Road to the north and “backtrack” to the property. Price Road at this location is 1-way south. Overall, it is the appraiser’s opinion that this impacted the sale price and an upward adjustment will be applied.

Visibility/Frontage

This was accounted for in the Location Adjustment.

Physical Characteristics

Adjustments for physical characteristics are necessary when the physical characteristics of a comparable property are different from those of the subject. Primary factors analyzed include project size, age/condition, quality of construction/design, amenities, and economic characteristics.

PROJECT SIZE/ROOM COUNT

Typically, on price per unit basis, as the number of units increase, the per unit price decreases, which is primarily due to economies of scale. The subject property encompasses 121 total rooms.

The Comparables range from 77 to 194 total rooms, with no identifiable differentials in pricing based solely upon size. No adjustments are warranted.

AGE/CONDITION

The subject property was constructed in 2009 and has recently been renovated (Property Improvement Plan – PIP). The subject is considered to be in above average to good condition.

Comparables 2 and 3 were constructed in 2017 and 2021, respectively and warrant downward adjustments.

QUALITY OF CONSTRUCTION/DESIGN

The quality of construction and design of the subject is considered average, reflective of the date of construction. No quantifiable differentials could be isolated for this characteristic.

PROJECT/ROOM AMENITIES

As noted earlier in the report, the subject has good overall amenities, including on-site food service and a banquet/meeting room area. Comparables 1, 2, 3 and 4 are similarly full-service hotels with food service. Although not having large conference/meeting/banquet centers, these Comparables are generally similar. However, Comparable 5 is a limited-service hotel and an upward adjustment is warranted.

NON-REALTY COMPONENTS

The subject and most of the Comparables have similar flags, as such, no adjustments are necessary. No adjustments are warranted.

ECONOMIC CHARACTERISTICS

The subject and Comparables are considered similar in economic characteristics.

Summary Of The Elements Of Comparison

Presented in the following table is a summary of the adjustments concluded for each comparable.

COMPARABLES SALES ADJUSTMENT GRID						
	<i>Subject</i>	1	2	3	4	5
Contract Type	<i>Escrow</i>	Sale	Sale	Sale	Sale	Sale
Contract Date	<i>Current</i>	Aug-21	Jan-22	Mar-22	Mar-22	Apr-22
No. of Units	<i>121</i>	99	108	194	136	77
Year Built:	<i>2009</i>	2015	2017	1975/2012	2021	2010
Sale Price	<i>\$25,750,000</i>	\$19,000,000	\$21,020,658	\$40,000,000	\$32,367,300	\$12,500,000
Price Per (Room)	<i>\$212,810</i>	\$191,919	\$194,636	\$206,186	\$237,995	\$162,338
Price Per (Room)	<i>\$212,810</i>	\$191,919	\$194,636	\$206,186	\$237,995	\$162,338
Property Rights Conveyed	<i>0%</i>	0%	0%	0%	0%	0%
Financing Terms	<i>0%</i>	0%	0%	0%	0%	0%
Conditions of Sale	<i>0%</i>	0%	0%	0%	0%	0%
Market Conditions	<i>0%</i>	0%	0%	0%	0%	0%
Subtotal	<i>\$212,810</i>	\$191,919	\$194,636	\$206,186	\$237,995	\$162,338
QUANTITATIVE ADJUSTMENTS						
Location		0%	10%	0%	0%	20%
Visibility/Frontage		0%	0%	0%	0%	0%
Project Size/Room Count		0%	0%	0%	0%	0%
Age/Condition		0%	-5%	0%	-10%	0%
Quality/Design		0%	0%	0%	0%	0%
Amenities		0%	0%	0%	0%	10%
Non-Realty Components		0%	0%	0%	0%	0%
Economics		0%	0%	0%	0%	0%
Net Percentage Adjustments		0%	5%	0%	-10%	30%
Adjusted Sale Prices/Room		\$191,919	\$204,368	\$206,186	\$214,195	\$211,039

After adjustments, the Comparables reveal unit prices ranging from \$191,919 to \$214,195 per room, with a mean unit indication of approximately \$205,541 per room. However, three (3) of the Comparables (Central Tendency) reflect adjusted prices from \$206,186 to \$214,195 per unit, which generally brackets the subject's pending sale price.

CONCLUSION

Based on the preceding analyses, the locational and physical characteristics of the subject, and in consideration of the current market conditions, a unit value indication of \$210,000 per room is concluded as reasonable and appropriate for the subject.

CONCLUSION OF VALUE					
\$ Per Room	x	No. of Rooms	=	Concluded	
\$210,000	x	121	=	\$25,410,000	
Concluded Value				\$25,410,000	

INCOME APPROACH

The Income Approach is based on the assumption that value is created based on a future benefit and what a competent investor would pay for to receive an income stream over a period of time plus the reversion. These benefits can be converted into value by capitalizing 1) a single year's income by the direct capitalization approach or, 2) a period of income over a selected period of time, the discounted cash flow analysis.

While analyzing the subject's income or what the market would indicate, a collection of similar rentals are attained and compared to the subject. Each comparable is identified in terms of the factors listed below.

- *Date of Lease*
- *Term of Lease*
- *Rental Rate*
- *Size of Space*
- *Unit of Comparison*
- *Lease Conditions*

In valuing the subject based on its highest and best use, limited-service hotels similar to the subject were located. Like the majority of the Hospitality Industry, the subject experienced a significant underperformance in 2020 due to COVID-19 "lockdowns" and other travel restrictions. However, the ADR's and Occupancy levels have increased in 2021, but the property still appears to be slightly underperforming the market (based upon competitive limited-service hotel properties within the immediate trade area).

Property Improvement Plan (PIP)

As noted, the last PIP was completed in September 2021.

The recent renovation/PIP would be considered a "value add" to the subject, as a potential buyer would not have to budget for the next PIP in the near term.

ESTIMATED MARKET RENT (RATE) FOR HOTEL

The first step in the Income Approach is to estimate market rent (room rates), or an appropriate average annual daily room rate for the subject hotel. Market rent is defined as "the most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the lease agreement, including permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs)." ⁵

The subject is a considered a **full-service** facility, due to nominal food and beverage facilities, and limited amenities.

⁵ Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed.

“Full-service hotel refers to a hotel that offers a wide variety of different services to please its guests and it could be mid-price, upscale or luxury hotels. A simple differentiation between full and limited-service hotels is the food and beverage component.”⁶

The subject includes a large conference room/banquet that provided ancillary income.

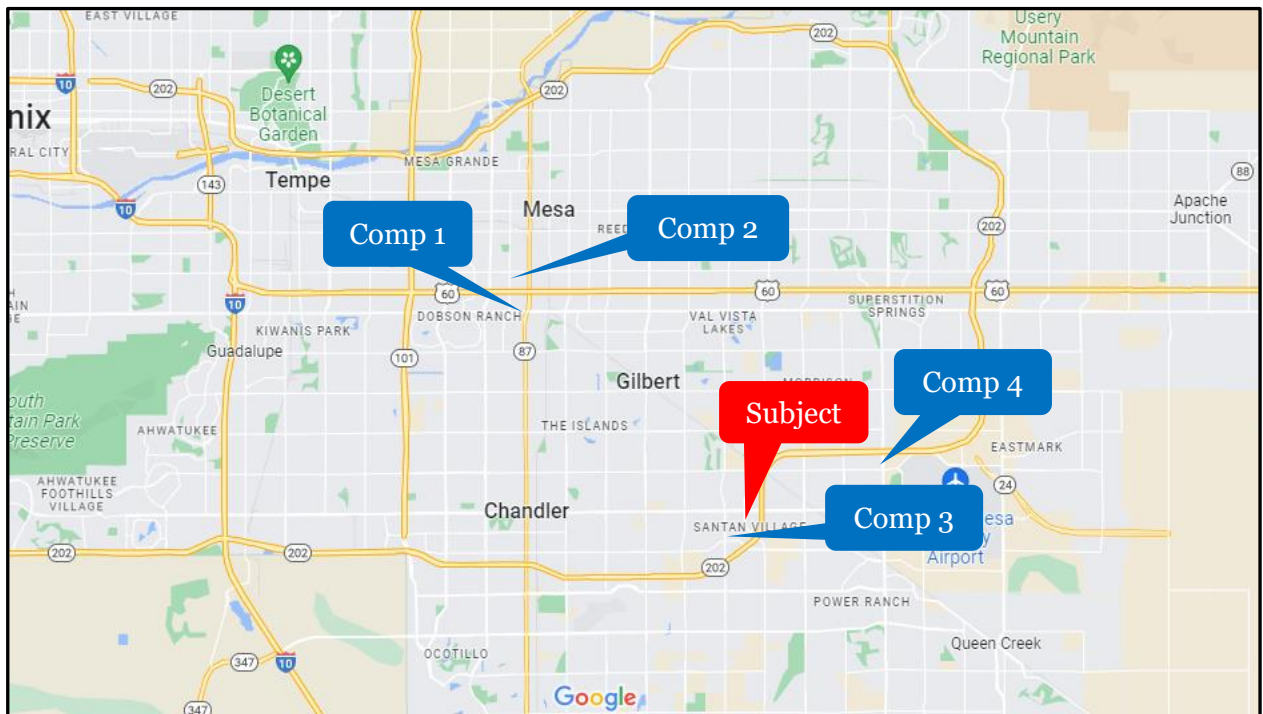


Competitive Set

In order to project average daily room and occupancy rates, and determine future room revenues, a survey was conducted of competing facilities in the subject area. As discussed in the Market Analysis section, the appraiser identified four (4) properties in the subject vicinity considered as the “competitive set”, all of which are located nearby the subject, and in the town of Gilbert, Arizona. These four (4) primary competitive hotel facilities are summarized in the chart on subsequent pages; a map of the Comparables, and photographs, are included on the following pages.

As summarized, there are four (4) competitive facilities, all located within similar overall locations to the subject property.

RENTAL COMPARABLE MAP



⁶Smith Travel Research, The Host Study, 2011

SUMMARY OF COMPARABLES

Lease No.	Project Name / Location	No. of Rooms	Average ADR	Amenities	Occupancy
1	Holiday Inn & Suites Phoenix Mesa Chandler / 1600 S Country Club Dr, Mesa, AZ	165	\$110 - \$160	On-Site Business Center, Heated Outdoor Pool, Jacuzzi, Cocktail Lounge, 24-Hour Fitness Center, Complimentary Coffee	60% - 80%
2	Doubletree by Hilton Phoenix Mesa / 1011 W Holmes Ave, Mesa, AZ	266	\$120 - \$150	24-Hour Business Center, Heated Swimming Pool, 24-Hour Fitness Center, Conference Center (25,000 SF)	60% - 70%
3	Hyatt Place Phoenix Gilbert / 3275 S Market St, Gilbert, AZ	127	\$115 - \$179	Business Center, Heated Outdoor Pool, Jacuzzi, Fitness Center, Free Breakfast, Bar, On-Site Restaurant, All-Day Dining	60% - 80%
4	Courtyard Phoenix Mesa Gateway Airport / 6907 E Ray Rd, Mesa, AZ	99	\$110 - \$160	Heated Outdoor Pool, Jacuzzi, Fitness Center, Meeting Space, Restaurant, Fitness Center	60% - 80%
--	DoubleTree by Hilton - SanTan, Gilbert / 1800 South San Tan Village Parkway, Gilbert, Arizona 85295	121	\$120 - \$170	Business Center, Heated Outdoor Pool, Jacuzzi, On-Site Restaurant, Fitness Center, Conference/Banquet Center	50% - 80%

Note that the reported ADRs were based upon a current survey. However, rates within the summer months decrease significantly, which brings the overall average annual ADR down. Respondents of our survey declined to opine the summer rates. Thus, the appraiser reviewed the STAR Report, which outlines the overall average of the Comparables.

A STAR report presented below illustrates Occupancy %, ADR's and RevPar for the subject property and competitive set averages (note that differs slightly, but within reason from the reconstructed operating histories).

HISTORIC OPERATING METRICS			
SUBJECT	2019	2020	2021
ADR	\$123.9	\$120.9	\$124.3
OCCUPANCY	79.3%	52.0%	67.4%
REVPAR	\$98.2	\$62.8	\$83.7
COMPETITORS	2019	2020	2021
ADR	\$117.7	\$116.1	\$115.8
OCCUPANCY	63.6%	41.3%	58.2%
REVPAR	\$74.8	\$47.9	\$67.4

Source: STR STAR Report dated December 2021.

Note that the averages indicated for the Competitive Set includes a total of 7 competitive properties, rather than solely the 4 deemed the most competitive to the appraiser.

The Year-End 2021 occupancy for the competitive set is slightly lower than the subject's at 58% (the subject reflected 67%).

The subject outperformed the competition in the Year-End 2021 statistics with an ADR of \$124, versus the competitive set at \$116.

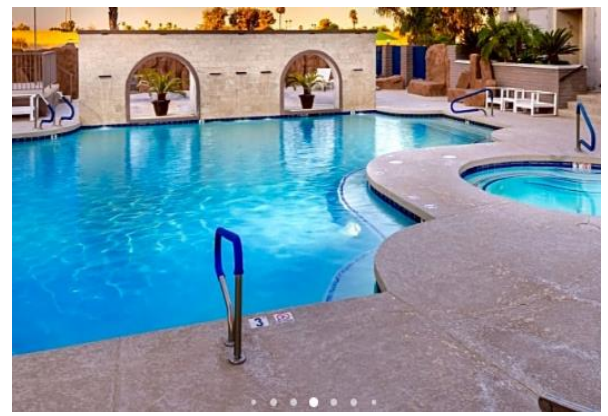
As indicated, the occupancy and ADR metrics indicate significant increases over the Year-End 2020 performance, which is largely being discounted as an anomaly period by market participants. **The majority of market participants are earmarking 2019 (prior to the COVID-19 pandemic) as the baseline for performance metrics.**

Photos of the Competitors is detailed on the following pages.

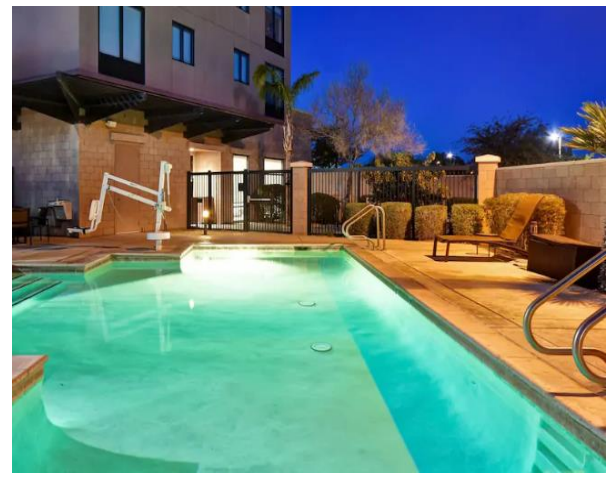
HOLIDAY INN PHOENIX MESA CHANDLER



DOUBLETREE BY HILTON PHOENIX MESA



HYATT PLACE PHOENIX GILBERT



COURTYARD PHOENIX MESA GATEWAY AIRPORT



REVENUE PROJECTIONS

A summary of the subject's reconstructed operating history is detailed below:

OPERATING HISTORY					
	2019	2020	2021	T-12	2022 Budget
Total Rooms	121	121	121	121	121
Potential Rental Days (Yr.)	365	365	365	365	365
Potential Rooms Available (Yr.)	44,165	44,165	44,165	44,165	44,165
Total Occupied Rooms (Yr.)	22,971	22,966	29,767	34,890	35,332
Average Occupancy	79.3%	52.0%	67.40%	79.00%	80.00%
Average Room Rate (ADR)	\$123.83	\$144.33	\$124.84	\$134.76	\$132.46
RevPAR	\$98.20	\$63.07	\$84.14	\$106.46	\$105.97
Revenue	\$	\$	\$	\$	\$
Room Revenue	\$4,336,961	\$2,785,666	\$3,716,080	\$4,701,997	\$4,680,210
Other Income	\$1,512,872	\$528,973	\$803,258	\$1,055,015	\$2,027,907
Total Revenue	\$5,849,833	\$3,314,639	\$4,519,338	\$5,757,012	\$6,708,117

Source: Owner's P & L's and Budget

Note that the ADR and RevPAR figures differ somewhat from that indicated by the STR STAR Report. However, the above statistics/projections are based upon the STR Occupancy Rates and the ACTUAL Rooms Revenue (from which the ADR and RevPAR is calculated).

As indicated, 2020 was an anomaly period that was negatively impacted by COVID-19 and the corresponding travel restrictions as a result of "social distancing".

Thus, the operating history is reflecting an upward trend in revenue since Year-End 2020. The average occupancy is up significantly from 52% to 67%.

Overall, the 2022 budget is considerably higher than the Year-End 2021 figures. However, the projected occupancy is fairly consistent with the Year-End 2019 figures (which are considered to represent the lower baseline, rather than Year-End 2020).

Also note that the subject's operating statistics do not reflect the subject's completion of a major renovation (Property Improvement Plan, or "PIP"). A PIP is generally required to bring a hotel into compliance with brand standards. Additionally, from a strategic standpoint, the PIP is intended to improve guest satisfaction and enhance competitiveness. According to hospitality investors, these improvements are intended to increase market share and drive both occupancy and average daily rates. The PIP can also be considered "value add" in that once completed, it defers the next capital investment for another 10 years or more. Some hotel brands require a PIP when there is an ownership change.

Hotel Operating Statistics report, prepared by Smith Travel Research, and other market reports were compared to the subject. Trend reports were previously discussed and exhibited within the Market Analysis section. The Smith Travel reports are based on surveys of hotel/motel properties throughout the United States, and within Arizona; and, categorized by affiliation, location, price category, and property size.

Revenue projections for the subject property have been based on the subject's history, an analysis of industry standards for full-service hotels, and the competitive set which are branded hotels.

Rooms (Rental Income)

According to Smith Travel Research, room revenues “revenues derived from the rental of sleeping rooms at the hotel, net of any rebates and discounts.” Seasonal occupancy is apparent in the subject submarket, with peak levels observed for the subject during winter and spring months.

The National Hotel Operating Statistics report indicates the industry averages for occupancy rates to increase to 61.7% in 2022, up from 55.9% in 2021, 44% in 2020. Statewide Lodging Performance, year-to-date through August 2021 indicates average occupancy is up to 57.6%.

The operator budgets 2022 average occupancy of 78%. Note that this does considers the potential “lift” that should be incurred by the completion of the Property Improvement Plan.

Considering the 2021 average occupancy of 75% (as well as the YE-2019 average of 80%) and the Competitive Set average occupancy of 73%, an average occupancy rate of 75% appears reasonable and would most likely be underwritten by market participants. Further, this rate is supported by the upward trend exhibited by national and state figures, as well as the subject and Comparables.

Based on a review of the national report, statewide report, competition in the area, and historical occupancy at the subject facility, with the subject’s occupancy expected to grow with the market. An average annual occupancy rate at the average of the range of **78.0%** has been projected in this analysis. This is lower than the 2019 and 2022 budget, but higher than 2020 and 2021 figures. The direct capitalization will reflect a snapshot of stabilized income within this analysis.

Considering the history of the property, competitive set, the budgeted average daily rate of **\$135.00** appears reasonable for the subject property. This lies below the 2022 budget, but reflects the upward trend.

Annual room revenue is forecasted to be **\$4,650,575** ($\$135.00 \times 34,449 = \$4,650,615$) for the subject is forecasted. This is fairly consistent with the actual trailing-12 rooms revenue and the owner’s projected 2022 budget (as well as the Year-End 2019 figures).

Other Operated Departments

“Other operated” departments revenues is based on revenues generated from the following:

- Food Services
- Lounge Beverage
- Gift Shop
- Banquet Food
- Meeting Room Rental
- AV Equipment
- Service Charges

Historically, other income from \$528,972 (2020) to \$1,512,872 was reported over the past 3 fiscal periods. However, a significantly higher amount of \$2,027,907 is budgeted for 2022. We would expect market participants to underwrite to an amount lower than the budget, but similar to the 2019 and trailing-12 figures. As such, **\$1,300,000** is forecasted.

Total Revenues

Total revenues, as forecasted in the direct capitalization total **\$5,950,575**, or equivalent to \$49,178 per room.

OPERATING EXPENSE				
		2019	2020	2021
Gratuity	Rooms	91,140.59	23,592.67	41,757.34
Franchise Fee:Main		-	-	-
Franchise Fee	Franchise Fee	216,905.92	140,433.57	189,504.92
Computer Maintenance	Administrative & General	21,378.36	20,941.79	17,394.48
Brand Training	Administrative & General	8,311.36	-	-
Brand Travel Expenses	Administrative & General	619.95	244.75	-
Public Relations Programs	Administrative & General	17,663.67	6,598.56	8,435.45
Frequent Guest Amenities	Administrative & General	4,550.55	1,898.37	1,726.51
Frequent Guest Redemption	Administrative & General	145,634.53	87,186.79	116,819.35
Brand Co-op Marketing	Administrative & General	176,260.73	112,755.62	151,424.74
Brand TMC Consortium	Administrative & General	8,596.57	3,394.23	7,213.45
Reservations Expense	Administrative & General	12,506.16	5,176.62	6,501.24
SEO Paid Search Program	Administrative & General	26,739.38	19,706.54	27,208.00
Email Maintenance	Administrative & General	1,395.44	1,270.82	693.14
Newspapers	Administrative & General	1,544.94	1,463.04	1,353.60
Front Office Manager	Rooms	28,847.82	31,483.54	-
Front Desk Clerk	Rooms	57,624.96	39,576.77	66,156.82
Night Auditor	Rooms	38,432.12	45,169.41	48,595.43
Driver-Bellman	Rooms	59,107.84	22,051.36	9,265.75
Incentives	Rooms	110.00	-	-
Benefits - Front Office	Rooms	6,140.91	3,847.34	3,214.61
Taxes	Rooms	14,644.49	11,232.04	10,321.92
Cable Television	Telecom	23,032.18	26,083.29	22,718.12
Revenue Management	Rooms	26,880.00	21,880.80	27,540.00
Guest Relations	Rooms	7,061.37	1,792.20	7,914.63
Shuttle Transportation	Rooms	8,642.92	1,603.08	297.41
Miscellaneous - Front Office	Rooms	181.76	1,861.94	82.22
Music	Administrative & General	1,233.84	2,071.24	1,299.82
Office Supplies	Administrative & General	2,194.41	1,230.69	3,726.89
Over-Short	Administrative & General	(20.44)	28.44	(850.97)
Postage	Administrative & General	654.22	288.50	(27.49)
Printing and Stationary	Administrative & General	1,211.49	1,514.70	269.39
TA Commissions Brand	Administrative & General	76,178.84	43,789.75	68,410.07
TA Commissions Group	Administrative & General	10,585.65	11,479.51	15,505.90
Uniforms	Rooms	438.93	451.75	336.79
Housekeeping Manager	Rooms	40,264.90	7,755.50	-
Inspector-Supervisor	Rooms	60,602.42	58,877.23	47,231.21
Room Attendant	Rooms	184,445.56	108,980.36	185,966.73
Houseman-Lobby-Public	Rooms	555.60	-	-
Incentives	Rooms	548.60	368.51	2,658.35
Benefits - Housekeeping	Rooms	16,668.99	7,643.31	5,786.15
Taxes	Rooms	21,189.36	13,983.43	18,740.20
Carpet Cleaning	Property Operations & Maintenance	6,588.37	7,838.00	5,585.00
Cleaning Supplies - Hskg	Property Operations & Maintenance	15,330.78	17,914.09	17,358.94
Cleaning Supplies - Restaurant	Property Operations & Maintenance	39.86	215.08	451.42
Guest Amenities	Administrative & General	14,150.99	13,019.49	9,347.10
Laundry Service - Guest Rooms	Administrative & General	217,514.40	227,501.07	270,337.35
Miscellaneous - Hskg	Administrative & General	492.88	558.43	521.89
Miscellaneous - Restr	Administrative & General	194.13	185.02	-
Paper Supplies	Administrative & General	5,874.79	4,828.84	9,069.94

VALUATION

Room Supplies	Administrative & General	22,335.50	9,733.44	11,774.44
Uniforms	Food & Beverage Expense	374.49	602.00	667.52
Restaurant Server	Food & Beverage Expense	56,107.40	27,917.35	29,952.39
Restaurant Bartender	Food & Beverage Expense	7,640.75	19,106.58	23,772.46
Restaurant Cook	Food & Beverage Expense	90,435.76	36,643.56	41,566.54
Benefits - Restaurant	Food & Beverage Expense	5,592.60	5,308.47	4,480.43
Taxes	Food & Beverage Expense	19,293.14	10,100.01	10,996.27
Kitchen Supplies	Food & Beverage Expense	52.32	201.11	906.03
Linen and Chefs Coats	Food & Beverage Expense	16,975.58	14,846.01	-
Office Supplies	Administrative & General	253.56	-	-
Paper Supplies	Administrative & General	9,376.63	6,247.62	10,314.13
Restaurant Supplies	Food & Beverage Expense	648.64	996.51	794.40
Sub-contract Service	Food & Beverage Expense	611.12	318.61	1,640.19
Uniforms	Food & Beverage Expense	58.68	-	-
Long Distance	Administrative & General	7,471.83	6,697.11	9,798.18
Repair and Equipment	Property Operations & Maintenance	1,123.69	900.00	900.00
Internet support	Telecom	35,073.81	32,849.97	30,910.38
Electric	Utilities	86,087.71	81,810.05	84,856.59
Gas	Utilities	17,930.71	11,997.29	24,775.38
Water	Utilities	10,141.34	9,156.05	8,908.58
Waste Removal	Utilities	7,244.59	6,027.78	6,889.31
Dry Cleaning	Administrative & General	1,076.12	219.70	325.96
General Manager	Rooms	70,474.06	59,754.19	68,729.29
Incentives	Rooms	20.13	-	-
Benefits - A&G	Rooms	1,522.07	2,133.10	830.96
Taxes	Rooms	5,371.36	7,816.47	5,050.42
Associate Relations	Rooms	524.76	1,851.46	-
Recruitment	Rooms	540.00	2,015.34	480.15
HR Fees	Rooms	11,036.67	10,461.77	10,986.19
Charge backs	Administrative & General	11,510.35	5,884.48	15,452.61
Bank Charges	Administrative & General	4,132.26	30,687.40	40,570.56
Copier-Fax	Administrative & General	1,334.30	1,116.39	1,045.14
Credit Card Commission	Administrative & General	161,900.68	89,811.97	123,195.80
Donations	Administrative & General	500.00	750.00	-
Dues and Association	Administrative & General	6,122.44	4,979.71	6,330.76
Licenses	Administrative & General	6,290.55	7,319.75	8,221.96
Miscellaneous - A&G	Administrative & General	4,930.92	126.65	616.81
Office Expense	Administrative & General	1,982.21	947.72	78.08
Security	Rooms	-	654.08	-
Insurance	Insurance	99,269.79	93,851.51	113,995.15
Accounting	Administrative & General	7,295.00	3,909.17	7,761.25
IT	Rooms	22,546.89	22,355.60	21,919.17
Legal	Administrative & General	6,438.00	21,856.00	19,840.42
Real Property Tax	Taxes - Real Estate	277,308.34	243,366.95	248,260.36
Bad Debt	Other	600.71	56.51	-
Credit Cards - Gateway	Administrative & General	2,858.80	1,949.50	3,124.74
Personal Property Tax	Administrative & General	14,495.47	14,360.08	-
Management Fees	Management Fee	620,000.00	83,569.96	118,654.15
Sales Managers	Rooms	199,608.15	82,667.97	70,879.18
Bonuses - Sales & Mktg	Rooms	5,500.00	-	-
Benefits - Sales & Mktg	Rooms	5,437.04	6,923.08	2,743.78
Taxes	Rooms	16,276.49	7,173.20	5,846.32
Advertising - Magazine	Marketing	8,966.60	8,800.00	9,600.00
Advertising - Newspaper	Marketing	992.10	-	-
Advertising - Online	Marketing	5,782.75	-	-
Dues and Subscription	Marketing	9,866.28	5,647.34	3,544.83
E-commerce	Marketing	337.00	-	-
Miscellaneous - Sales & Mktg	Marketing	5,058.46	501.07	68.06
Office Supplies	Marketing	1,595.87	262.28	62.04
Promotion Entertainment	Marketing	12,970.84	4,676.12	416.39
Public Relations and Networking	Marketing	1,982.20	189.27	-
Software Maintenance	Marketing	6,572.65	6,599.29	7,405.34
Software Maintenance	Marketing	8,099.22	8,332.32	(3,311.37)

VALUATION

Training	Marketing	1,761.75	-	-
Travel	Marketing	443.21	-	-
A&P for Doubletree	Marketing	2,261.51	3,124.44	2,238.57
Sponsorship Costs	Marketing	2,216.00	-	-
Operations Manager	Rooms	45,233.49	40,761.50	51,142.86
Guest Room Maintenance	Rooms	5,385.01	3,709.55	27,192.45
Benefits - Maint	Rooms	30.60	30.60	1,593.94
Taxes	Rooms	4,083.26	3,691.34	3,929.90
Equipment Rental	Property Operations & Maintenance	466.78	-	-
Ground Landscaping	Property Operations & Maintenance	24,603.81	28,751.78	30,280.57
Life Safety	Property Operations & Maintenance	8,865.90	14,181.63	11,485.93
Light Bulbs	Property Operations & Maintenance	2,501.78	4,525.14	1,799.49
Miscellaneous - Maint	Property Operations & Maintenance	3,045.23	1,251.57	5,589.71
Painting and Refinishing	Property Operations & Maintenance	860.05	211.65	1,109.55
Pest Control	Property Operations & Maintenance	5,700.00	8,213.00	4,269.98
R and M - Building	Property Operations & Maintenance	1,253.06	24,141.10	1,718.56
R and M - Doors	Property Operations & Maintenance	2,495.58	502.20	158.96
R and M - Electrical	Property Operations & Maintenance	15,806.92	5,077.94	-
R and M - Elevators	Property Operations & Maintenance	10,370.40	13,228.49	24,182.89
R and M - Equipment	Property Operations & Maintenance	3,020.24	-	359.86
R and M - Floors	Property Operations & Maintenance	2,295.00	1,660.00	350.00
R and M - HVAC	Property Operations & Maintenance	7,695.86	4,220.88	15,140.98
R and M - Kitchen	Property Operations & Maintenance	3,448.57	5,793.81	4,257.84
R and M - Parking lot	Property Operations & Maintenance	750.85	277.64	-
R and M - Plumbing	Property Operations & Maintenance	5,825.90	2,719.82	6,932.47
Small Tools	Property Operations & Maintenance	719.28	105.99	33.91
Sub-Contract Services	Property Operations & Maintenance	1,785.00	2,806.72	4,461.04
Supplies	Property Operations & Maintenance	1,257.83	2,280.57	6,017.67
Swimming Pool	Property Operations & Maintenance	18,523.26	18,955.69	27,217.24
Temp Labor	Property Operations & Maintenance	-	-	1,000.00
Banquet Setup-Operations Manager	Food & Beverage Expense	103,049.41	81,497.63	89,743.45
Banquet Server	Food & Beverage Expense	36,012.01	7,940.97	14,047.39
Banquet Bartender	Food & Beverage Expense	3,828.50	761.00	2,360.04
Banquet Cook	Food & Beverage Expense	49,437.44	37,500.06	57,156.63
Dishwasher	Food & Beverage Expense	13,257.54	(10.22)	-
Benefits - Banquets	Food & Beverage Expense	979.58	6,660.21	4,879.60
Taxes	Food & Beverage Expense	21,865.12	11,239.19	15,666.09
Advertising Sales	Food & Beverage Expense	1,300.10	75.00	-
Banquet Supplies	Food & Beverage Expense	5,557.15	2,188.45	3,184.17
Dishwasher Chemicals - Conf Ctr	Food & Beverage Expense	8,642.39	6,235.43	6,097.26
Linen Laundry Service	Food & Beverage Expense	17,764.91	4,692.47	1,496.42
Kitchen Supplies	Food & Beverage Expense	2,273.19	606.50	448.22
Licenses	Food & Beverage Expense	1,030.00	1,030.00	-
Office Supplies	Food & Beverage Expense	266.45	-	24.31
Replace-Silver and Flat	Food & Beverage Expense	80.96	-	-
Equipment Rental	Food & Beverage Expense	1,923.53	807.91	-
A/V Expense	Food & Beverage Expense	47,431.33	9,485.35	28,839.00
Sub-Contract Services	Food & Beverage Expense	5,633.00	360.00	1,012.00
Electric	Utilities	36,884.85	27,805.97	29,436.99
Gas	Utilities	-	-	55.00
Water	Utilities	9,391.62	8,408.03	8,997.84
PTO - Front Office	Rooms	2,321.33	2,120.27	1,633.20
PTO - Hskg	Rooms	8,038.23	3,196.56	2,903.23
PTO - Restr	Rooms	131.54	917.25	1,526.45
PTO - Admin	Rooms	2,750.00	280.77	346.15
PTO - Sales	Rooms	6,830.80	807.69	1,250.00
PTO - Maint	Rooms	1,484.24	-	-
PTO - Conf Ctr	Rooms	930.01	-	-

Operating History Notes

- Amortization, depreciation, interest payments, mortgage payments are not part of the criteria for net operating income;
- Finally, no reserves were reported but will be utilized when forecasting.

REVENUE & EXPENSE COMPARABLES

EXPENSE COMPS						
Comp	Red Lion		Best Western		Independent	
	2019	% Total Revenue	2018	% Total Revenue	2017	% Total Revenue
Year of Operation	2019	---	2018	---	2017	---
Number of Rooms	118	---	79	---	130	---
Occupancy	54.4%	---	67.0%	---	88.7%	---
Occupied Room Nights	23,430	---	19,319	---	42,088	---
ADR (Calculated)	\$90.57	---	\$155.01	---	\$77.51	---
RevPAR	\$49.27	---	\$103.86	---	\$68.75	---
Revenue	\$ Amount		\$ Amount		\$ Amount	
Rooms Revenue	\$2,122,146	98.0%	\$2,994,756	82.8%	\$3,262,151	97.9%
Food & Beverage Revenue	\$0	0.0%	\$547,714	15.1%	\$0	0.0%
Other Operated Dept Revenue	\$44,132	2.0%	\$74,381	2.1%	\$0	0.0%
Rebates	\$0	0.0%	\$0	0.0%	\$69,021	2.1%
Total Revenue	\$2,166,278	100.0%	\$3,616,851	100.0%	\$3,331,172	100.0%
Expenses	\$ Amount		\$ Amount		\$ Amount	
Rooms Expense	\$968,460	44.7%	\$1,541,958	42.6%	\$1,056,688	31.7%
Food & Beverage Expense	\$0	0.0%	\$398,723	11.0%	\$0	0.0%
Costs of Goods Sold	\$0	0.0%	\$57,519	1.6%	\$0	0.0%
Telecom Expense	\$84,714	3.9%	\$48,700	1.3%	\$25,752	0.8%
Other Operated Dept Expense	\$28,785	1.3%	\$201,048	5.6%	\$0	0.0%
Total Departmental Expenses	\$1,081,959	49.9%	\$2,247,948	62.2%	\$1,082,440	32.5%
Departmental Profit	\$1,084,319	50.1%	\$1,368,903	37.8%	\$2,248,732	67.5%
Administrative & General	\$170,950	7.9%	\$201,254	5.6%	\$49,810	1.5%
Marketing	\$166,858	7.7%	\$122,587	3.4%	\$4,306	0.1%
Franchise Fees	\$54,712	2.5%	\$155,534	4.3%	\$0	0.0%
Property Operation & Maintenance	\$184,164	8.5%	\$215,112	5.9%	\$94,525	2.8%
Utility Expense	\$118,335	5.5%	\$220,205	6.1%	\$145,543	4.4%
Other Undistributed Expenses	\$27,113	1.3%	\$10,296	0.3%	\$4,997	0.2%
Total Undistributed Expenses	\$722,132	33.3%	\$924,988	25.6%	\$299,181	9.0%
Gross Operating Profit	\$362,187	16.7%	\$443,915	12.3%	\$1,949,551	58.5%
Management Fee	\$64,988	3.0%	\$0	0.0%	\$0	0.0%
Real Estate Taxes	\$107,527	5.0%	\$59,968	1.7%	\$48,547	1.5%
Property Insurance	\$42,672	2.0%	\$28,404	0.8%	\$23,689	0.7%
Total Fixed Expenses	\$215,187	9.9%	\$88,372	2.4%	\$72,236	2.2%
Reserve for Replacement	\$86,651	4.0%	\$78,630	2.2%	\$133,247	4.0%
Net Operating Income	\$60,349	2.8%	\$276,913	7.7%	\$1,744,068	52.4%

DEPARTMENTAL EXPENSES

For purposes of this analysis the appraiser has categorized each subject line item, according to categories consistent with the hospitality industry and as defined by Smith Travel Research.

Rooms

Room departmental expenses include labor costs such as salaries and wages for front desk, housekeeping, reservations, bell staff, and laundry, plus employee benefits. Other operating expenses in the rooms department include linen, cleaning supplies, guest supplies, uniforms, central or franchise reservation fees, equipment leases, and travel agent commissions.

Historical operating expenses (excluding the budget) for rooms range from 20% to 24% of rooms revenues. Arizona expense Comparables show a range of 31.7% to 44.7% of room revenue.

The Budget reflects a Rooms expense of 18% of rooms revenues.

Based on historical expenses, in-place operations plan, Arizona expense Comparables, a room expense of **24.0%** of room revenues has been projected within this analysis.

Other Operated Department

Other operated department and rental expenses comprise those expenses (labor and other) which offset the revenue generated by other operated departments, namely the food services components. These include Cost of Sales, Food and Beverage and Telecom (includes costs of calls, cost of internet service and other related expenses, but excludes capital lease payments).

Food and Beverage Expenses

The historical operating expenses for Food and Beverage range from 7.5% to 8.9% of total income. Overall, this expense has been projected at **8.0%** of total revenues.

Cost of Sales

The historical operating expenses for Cost of Sale range from 3.2% to 5.1% of total income. Overall, this expense has been projected at **5.0%** of total revenues.

Telecom

Overall, Telecom expense has been projected at **1.0%** of total revenues. This lies within the subject's actual range of 1.0% to 1.8%.

UNDISTRIBUTED EXPENSES

Administrative And General

Administrative and general expenses can be defined to include: payroll and related expenses for the general manager, human resources and training, security, clerical staff, controller, and accounting staff. Other A&G expenses include office supplies, computer services, accounting and legal fees, cash overages and shortages, bad debt expenses, travel insurance, credit card commissions, transportation (non-guest), and travel and entertainment.

The Administrative and General was \$1,025,771 (17.5% of revenue) in 2019, \$773,760 (23.3% of revenue) in 2020 and \$974,831 (21.6% of revenue) in 2021. The Arizona expense Comparables indicate a range of 1.5% to 7.9% of revenue, which are lower, but do not have the administrative

burden of the subject's multiple revenue sources. It should be noted that expense items often covered in marketing and-or operations and management, often spill into the administration and general expense line item.

Therefore, the estimate is based on historical expenses, thus an administrative and general expense of **18.0%** of total revenue has been projected.

Franchise Fee

A franchise fee includes all fees charged by franchise companies, including royalty fees. Additionally, fees are paid to utilize a national "reservation" system.

The franchise fee was \$216,906 (3.7% of total revenue) in 2019, \$140,434 (4.2% of total revenue) in 2020 and \$189,505 (4.2% of revenue) in 2021. The budget anticipates an expense of \$234,011 for 2022, based on 3.5% of revenues. Based on discussions with the operator and historical statements, the franchise fee will be projected to be **3.5%** of total revenue.

Sales & Marketing

This category includes costs for payroll and related expenses for the sales and marketing staff, direct sales expenses, advertising and promotion, travel expenses for the sales staff, and civic and community projects.

This item is obviously wrapped up in a different category. Giving consideration to historical data, a marketing expense of **1.2%** of total revenue has been employed throughout the analysis.

Property Operations & Maintenance

This category can be described as the cost for payroll and related expenses for maintenance personnel, cost of maintenance supplies, cost of repairs and maintenance of the building, furniture and equipment, the grounds, and removal of waste matter.

Property Operations & Maintenance was \$144,374 (2.5% of revenue) in 2019, \$165,773 (5.0% of revenue) in 2020 and \$170,662 (3.8% of revenue) in 2021. Of note, capital improvement costs are not included in the operating history or the forecast. The Hotel Operating Statistics study reports industry averages, for property operations and maintenance expenses, of 4.1% of total revenue for "chain-affiliated" limited-service facilities, and 4.6% of total revenue for "independent" properties. Further, the Arizona expense Comparables indicate a range of 2.8% to 8.5% of income. It should be noted that expense items covered in property operation and maintenance can spill into administration and general expense line item.

Note that the budget projects this expense at 1.6% of revenues and reflects the lower maintenance as a result of the recently completed PIP. Based on the above information, a property operations and maintenance expense more "in-line" with the market of **2.5%** of total revenue has been employed in this analysis.

Utility Costs

Utility expenses typically include electricity, fuel (gas) and water/ trash. The subject energy expenses will vary with occupancy and have therefore been based on a percentage of total revenue.

Utility costs were \$167,681 (2.9% of revenue) in 2019, \$145,205 (4.4% of revenue) in 2020 and \$163,920 (3.6% of revenue) in 2021. The budget projects this expense at 2.5% of revenue. The industry averages for utility costs are 2.9% of total revenue for "chain-affiliated" limited-service

facilities, and 3.0% of total revenue for “independent” hotels. Further, the Arizona expense Comparables indicate a range of 4.4% to 6.1% of income. Giving consideration to historical data, a utility expense of **3.0%** of total revenue has been estimated for the subject.

The total Undistributed Expenses equals **28.2%** of total revenue.

FIXED EXPENSES

Management Fee

Overall, based upon the operating history, we opine that market participants would anticipate a management fee of **3.5%** of Revenue of total revenue.

Property Taxes

Property taxes typically include taxes on real estate. Overall, an estimated tax levy of 1.05 times the 2021 taxes, which equates to **\$230,925**.

Insurance

This expense includes the cost to insure the hotel building and contents against fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, or other perils.

Based on the operating history information, **2.5%** of total income (between the histories and the budget), has been employed within the analysis.

Reserves

A reserve line-item is typically allocated for the on-going replacement of short-lived items, including furniture, fixtures, and equipment.

According to the HOST report, this expense will typically range from 1.4% to 2.5% of total revenue. Further, the Arizona expense Comparables indicate a range of 2.2% to 4.0% of income. Taking into consideration the condition of the property and lower level of maintenance in upcoming years due to the recent renovation (PIP), a reserve allowance of **1.0%** of total revenue has been employed.

CAPITALIZATION

Improved Sales

Of the comparable sales utilized in the Sales Comparison Approach, only two revealed capitalization rates in the range of 6.00% to 8.00%. Therefore, we researched Overall Rates that were reported in other sale transactions. The results are detailed below:

OVERALL CAPITALIZATION RATE COMPARABLES

Sale No.	Project Name	Property Location	Contract Type	Contract Date	No. Of Rooms	Year Built	Sale Price	Overall Rate
1	Element Chandler	44 S Chandler Village Dr., Chandler, AZ	Sale	Dec-19	107	2016	\$16,600,000	6.00%
2	La Posada Lodge	5900 N Oracle Rd, Tucson, AZ	Sale	Dec-21	72	1959	\$8,650,000	7.57%
3	Days Inn Flagstaff	1000 W Route 66, Flagstaff, AZ	Sale	Jan-20	96	1971	\$3,875,000	9.50%
4	Quality Inn Casa Grande	665 N Vie Del Cielo Rd, Casa Grande, AZ	Sale	Mar-17	165	1967	\$5,000,000	6.50%

Overall, these supplemental property sold with reported cap rates of 6.0% to 9.50%, with an average of 7.39%.

Investor Surveys

Capitalization rates provided by PwC Real Estate Investor Survey (1st Quarter 2022) is illustrated next:

Table 34
NATIONAL FULL-SERVICE LODGING SEGMENT
First Quarter 2022

	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
DISCOUNT RATE (IRR)^a					
Range	8.00% – 11.25%	8.75% – 11.25%	8.75% – 11.30%	8.00% – 11.00%	8.00% – 13.00%
Average	10.05%	10.15%	10.06%	9.70%	10.19%
Change (Basis Points)		- 10	- 1	+ 35	- 14
OVERALL GAP RATE (OAR)^a					
Range	5.50% – 9.00%	5.50% – 9.00%	6.00% – 10.00%	6.00% – 9.00%	6.00% – 10.00%
Average	7.35%	7.35%	8.05%	7.43%	7.90%
Change (Basis Points)		0	- 70	- 8	- 55
RESIDUAL CAP RATE					
Range	5.50% – 10.00%	5.50% – 10.00%	7.50% – 10.00%	7.00% – 10.00%	7.00% – 10.00%
Average	8.20%	8.20%	8.65%	8.25%	8.40%
Change (Basis Points)		0	- 45	- 5	- 20
AVERAGE DAILY RATE^b					
Range	(16.00%) – 30.00%	0.00% – 20.00%	0.00% – 5.00%	(2.00%) – 7.00%	(2.00%) – 7.00%
Average	5.30%	6.50%	1.80%	2.70%	2.83%
Change (Basis Points)		- 120	+ 350	+ 260	+ 247
OPERATING EXPENSE^b					
Range	0.00% – 5.00%	0.00% – 5.00%	0.00% – 10.00%	0.00% – 4.00%	1.00% – 4.00%
Average	2.80%	3.00%	3.40%	2.80%	2.92%
Change (Basis Points)		- 20	- 60	0	- 12
MARKETING TIME^c					
Range	1 – 12	1 – 12	1 – 12	3 – 9	3 – 9
Average	6.8	6.8	6.9	6.0	6.3
Change (▼, ▲, =)		=	▼	▲	▲

a. Rate on unleveraged, all-cash transactions b. Initial rate of change c. In months

The latest investor survey supports a range of OARs from 5.50% to 9.00%, with an average of 7.35%. The rate range is reflective of the national full-service lodging segment for the 1st Quarter, 2022. Due to the subject's age, and the risk associated with the location, we believe an OAR in the lower portion of the range is appropriate.

Broker Input

Discussions with market participants and brokers that specialize in hotel properties were contacted in an attempt to retrieve current market data. Brokers in contact include Spencer Scott of Berkadia, Amar Chollera of Amber Hotel Company, Gordon Allred of Marcus & Millichap, Kishan Gohel and Dan Rama of NewGen Advisory, among others.

The general opinions of brokers are that good operating full-service hotels generally range from 6.0% to 8.0%. The full service has been one of the most affected of the hotel groups. We have considered this in our conclusion.

DIRECT CAPITALIZATION SUMMARY

A summary chart of the Direct Capitalization method at market follows.

DIRECT CAPITALIZATION METHOD

Component	Details	
Occupancy		78.0%
No. Rooms		121
Occupied Room Nights		34,449
ADR		\$135.00
RevPAR		\$105.30
Department Revenue	% of Revenue	
Room Revenue	78.2%	\$4,650,575
Other Operated Dept Revenue	21.8%	\$1,300,000
Total Revenue	100.0%	\$5,950,575
Department Expenses	% of Revenue	
Rooms	24.0%	\$1,116,138
Food & Beverage Expense	8.0%	\$476,046
Cost of Goods Sold	5.0%	\$297,529
Telecom Expense	1.0%	\$59,506
Total Department Expenses	25.0%	\$1,949,218
Undistributed Expenses	% of Revenue	
Administrative & General	18.0%	\$1,071,103
Franchise Fee	3.5%	\$208,270
Sales & Marketing	1.2%	\$71,407
Property Operations & Maintenance	2.5%	\$148,764
Utilities	3.0%	\$178,517
Total Undistributed Expenses	28.2%	\$1,678,062
Gross Operating Profit		\$2,323,294
Fixed Expenses	% of Revenue	
Management Fee	3.5%	\$208,270
Property Taxes	3.9%	\$230,925
Insurance	2.5%	\$148,764
Total Fixed Expenses	9.9%	\$587,959
Reserves for Replacement	1.0%	\$59,506
NET OPERATING INCOME		\$1,675,829

Capitalization Rate Summary

In recognition of the locational, physical, and income characteristics of the appraised property, **AS WELL AS THE RECENTLY COMPLETE PIP**, an overall capitalization rate between the range of 6.0% to 7.0% is considered reasonable for the subject property.

Direct Capitalization

Low End	6.00%	\$27,930,483	\$230,830
Upper End	7.00%	\$23,940,414	\$197,855

"As Is" Value		\$25,940,000	\$214,380
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DISCOUNTED CASH FLOW ANALYSIS

The discounted cash flow assumptions are presented in the following chart.

Discounted Cash Flow Assumptions

Holding Period	10 Years
Projection Period (Includes Reversion)	11 Years
Start Date	June 1, 2022

Growth Rates

Market Rate	2% Yrs 2-3, 3% 4-10
Expense Rate	3.0%

Market Leasing Assumptions

Stabilized Occupancy	78.0%
Total Rooms	121
Occupied Room Nights	34,449
Average Daily Rate	\$135.00
RevPAR	\$105.30

Financial Rates

Discount Rate	8.00% - 9.00%
Terminal Capitalization Rate	7.00%
Cost of Sale	3.00%

General & Growth Rate Assumptions

The cash flow assumes a start date of June 1, 2022 and a 10-year holding period. Market rent is estimated to grow at 2.0% for the first two years, then 3% thereafter. Market expenses are estimated to grow at 3.0% through the holding period. The cash flow assumes inflation and growth rates utilized are based on typical expectations of buyers and sellers in the marketplace.

Discount Rate Analysis

The discount rates in the subject's class are presented next.

Table 34

NATIONAL FULL-SERVICE LODGING SEGMENT

First Quarter 2022

	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
DISCOUNT RATE (IRR)*					
Range	8.00% – 11.25%	8.75% – 11.25%	8.75% – 11.30%	8.00% – 11.00%	8.00% – 13.00%
Average	10.05%	10.15%	10.06%	9.70%	10.19%
Change (Basis Points)		- 10	- 1	+ 35	- 14
OVERALL GAP RATE (OAR)*					
Range	5.50% – 9.00%	5.50% – 9.00%	6.00% – 10.00%	6.00% – 9.00%	6.00% – 10.00%
Average	7.35%	7.35%	8.05%	7.43%	7.90%
Change (Basis Points)		0	- 70	- 8	- 55
RESIDUAL CAP RATE					
Range	5.50% – 10.00%	5.50% – 10.00%	7.50% – 10.00%	7.00% – 10.00%	7.00% – 10.00%
Average	8.20%	8.20%	8.65%	8.25%	8.40%
Change (Basis Points)		0	- 45	- 5	- 20

As indicated above, the PWC Investor Survey, Discount Rates for full-service hotels range from 8.00% - 11.25%, and average 10.05%. Further, with the industry uncertainty and comments from market participants, we have concluded to an **8.00%** discount rate to account for the lower risk in the property due to the flag affiliation and recently completed renovation.

Terminal Capitalization Rate

The reversionary value of the subject property is based on an assumed sale at the end of the holding period, or year 10 net operating income at a terminal capitalization rate. It is typical for properties to be modeled at the going in capitalization rate, or within 25 to 100 basis points above the going in capitalization rate (OAR). However, we estimate the risk association more near term and being worked out over time. We have concluded to a **7.00%** terminal capitalization rate.

Discounted Cash Flow Conclusion

The DCF schedules and value conclusions are illustrated on the following pages.

DISCOUNTED CASH FLOW ANALYSIS

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Potential Gross Revenue											
Room Revenue	\$4,650,575	\$4,743,586	\$4,838,458	\$4,983,611	\$5,133,120	\$5,287,113	\$5,445,727	\$5,609,099	\$5,777,372	\$5,950,693	\$6,129,213
Other Income	\$1,300,000	\$1,326,000	\$1,352,520	\$1,393,096	\$1,434,888	\$1,477,935	\$1,522,273	\$1,567,941	\$1,614,980	\$1,663,429	\$1,713,332
Total Revenue	\$5,950,575	\$6,069,586	\$5,950,575	\$6,376,707	\$6,568,008	\$6,765,048	\$6,968,000	\$7,177,040	\$7,392,351	\$7,614,122	\$7,842,545
Departmental Expenses											
Rooms	\$1,116,138	\$1,149,622	\$1,184,111	\$1,219,634	\$1,256,223	\$1,293,910	\$1,332,727	\$1,372,709	\$1,413,890	\$1,456,307	\$1,499,996
Other	\$833,080	\$858,073	\$883,815	\$910,329	\$937,639	\$965,769	\$994,742	\$1,024,584	\$1,055,321	\$1,086,981	\$1,119,590
Total Departmental Expenses	\$1,949,218	\$2,007,695	\$1,175,644	\$2,129,963	\$2,193,862	\$2,259,678	\$2,327,469	\$2,397,293	\$2,469,211	\$2,543,288	\$2,619,586
Undistributed Operating Expenses											
Administrative & General	\$1,071,103	\$1,103,237	\$1,136,334	\$1,170,424	\$1,205,536	\$1,241,702	\$1,278,953	\$1,317,322	\$1,356,842	\$1,397,547	\$1,439,473
Franchise Fee	\$208,270	214,518	220,954	227,582	234,410	241,442	248,685	256,146	263,830	271,745	279,898
Sales & Marketing	\$71,407	73,549	75,756	78,028	80,369	82,780	85,264	87,821	90,456	93,170	95,965
Property Operations & Maintenance	\$148,764	153,227	157,824	162,559	167,436	172,459	177,632	182,961	188,450	194,104	199,927
Utilities	\$178,517	183,873	189,389	195,071	200,923	206,950	213,159	219,554	226,140	232,925	239,912
Total Undistributed Operating Expenses	\$1,678,062	\$1,728,404	\$1,678,062	\$1,833,664	\$1,888,674	\$1,945,334	\$2,003,694	\$2,063,805	\$2,125,719	\$2,189,490	\$2,255,175
Gross Operating Profit	\$2,323,294	\$2,323,294	\$2,323,294	\$2,413,080	\$2,485,472	\$2,560,036	\$2,636,838	\$2,715,943	\$2,797,421	\$2,881,344	\$2,967,784
Fixed Expenses											
Management Fee	\$208,270	214,518	220,954	227,582	234,410	241,442	248,685	256,146	263,830	271,745	279,898
Property Taxes	\$230,925	\$237,853	\$244,988	\$252,338	\$259,908	\$267,705	\$275,737	\$284,009	\$292,529	\$301,305	\$310,344
Insurance	\$148,764	\$153,227	\$157,824	\$162,559	\$167,436	\$172,459	\$177,632	\$182,961	\$188,450	\$194,104	\$199,927
Reserves	\$59,506	\$61,291	\$63,130	\$65,024	\$66,974	\$68,983	\$71,053	\$73,185	\$75,380	\$77,642	\$79,971
Total Fixed Expenses	\$647,465	\$666,889	\$647,465	\$707,503	\$728,728	\$750,590	\$773,107	\$796,301	\$820,190	\$844,795	\$870,139
Net Operating Income (EBIDITAR)	\$1,675,829	\$1,656,405	\$1,675,829	\$1,705,577	\$1,756,744	\$1,809,447	\$1,863,730	\$1,919,642	\$1,977,231	\$2,036,548	\$2,097,645

DISCOUNTED CASH FLOW ANALYSIS

Discounted Cash Flow Analysis - "As Is" Valuation Matrix

Analysis Period	Year Ending	P.V. of Cash Flow @ 7.0%	P.V. of Cash Flow @ 8.00%	P.V. of Cash Flow @ 9.00%
Year 1	Feb-23	\$1,566,195	\$1,551,693	\$1,537,458
Year 2	Feb-24	\$1,446,768	\$1,420,100	\$1,394,163
Year 3	Feb-25	\$1,367,976	\$1,330,327	\$1,294,047
Year 4	Feb-26	\$1,301,177	\$1,253,650	\$1,208,274
Year 5	Feb-27	\$1,252,535	\$1,195,611	\$1,141,763
Year 6	Feb-28	\$1,205,711	\$1,140,258	\$1,078,914
Year 7	Feb-29	\$1,160,638	\$1,087,469	\$1,019,524
Year 8	Feb-30	\$1,117,249	\$1,037,123	\$963,404
Year 9	Feb-31	\$1,075,483	\$989,108	\$910,372
Year 10	Feb-32	\$1,035,278	\$943,316	\$860,260
Total Cash Flow		\$12,529,009	\$11,948,656	\$11,408,180
Property Resale @ 7.0% Cap		\$14,236,799	\$12,852,056	\$11,612,947
Total Property Present Value		\$26,765,808	\$24,800,711	\$23,021,126
Rounded		\$26,770,000	\$24,800,000	\$23,020,000
Per/Unit		\$191,214	\$177,143	\$164,429

Income Approach Reconciliation

The value indicated by the direct capitalization method and discounted cash flow analysis method, revealed the following conclusions.

INCOME APPROACH RECONCILIATION	
Valuation Method	As Is
Direct Capitalization Method	\$25,940,000
Discounted Cash Flow Analysis Method	\$24,800,000
Reconciled Value	\$25,900,000

Overall, market participants generally rely upon the Direct Capitalization approach for stabilized projects. The DCF is utilized as a secondary approach, only.

Notably, the value indication for the subject improvements includes tangible personal property (furniture, fixtures, and equipment) and intangible assets (business value) associated with operation of the subject hotel.

RECONCILIATION AND FINAL VALUE CONCLUSION

The Income Approach and Sales Comparison Approach reveal the following market indicators for the subject property.

RECONCILIATION - GOING CONCERN

	<u>Market Value</u>
Income Approach	\$25,900,000
Sale Comparison Approach	\$25,410,000

The Income Approach has been developed for the “going concern” value and reliable when good operating history is provided, and market data is plentiful. In this analysis, the income approach is considered a credible approach and given considerable weight when reconciling for the “going concern” value. The Sales Comparison Approach is most reliable when market data is plentiful. In valuing the “going concern”, the Sale Comparison approach to value is determined a credible approach and given reasonable consideration when reconciling value. The Income Approach was given the primary (significant) weight when reconciling the value conclusion.

MARKET VALUE CONCLUSIONS

After considering all facts available, subject to the underlying assumptions and limiting conditions included, the concluded the “as is” market value of the “going concern” fee simple interest in the subject property, as follows:

CONCLUSION OF MARKET VALUE			
Valuation Basis	Interest Appraised	Effective DOV	Value Conclusion
"As Is" - Going Concern	Fee Simple	May 13, 2022	\$25,900,000

Core Valuation Group, LLC

EXPOSURE/MARKETING PERIODS

The estimated marketing period for the subject has been based on the actual exposure periods of the improved sales employed in the Sales Comparison Approach, PwC investor survey for the 1st Quarter 2022, and discussions with real estate brokers and market participants active in the Sierra Vista (and surrounding area) lodging/hospitality market.

Table 34

NATIONAL FULL-SERVICE LODGING SEGMENT

First Quarter 2022

	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
MARKETING TIME-					
Range	1 – 12	1 – 12	1 – 12	3 – 9	3 – 9
Average	6.8	6.8	6.9	6.0	6.3
Change (▼, ▲, =)		=	▼	▲	▲

The preceding opinion of market value is predicated upon an exposure period of 12 months, or less, and assumes the subject property is adequately and professionally marketed for sale at a price commensurate with the concluded opinion of market value.

ASSET VALUE ALLOCATION

According to Uniform Standards of Professional Appraisal Practice, it is necessary to identify any personal property, trade fixtures or intangible items that are not real property but are included in the appraisal. Business value or “intangible assets” is generally created when a property such as the subject has achieved stabilized operations. A limited-service hotel is a unique property because it contains elements of all three types of value indicators. It is often very difficult to separate the going concern business value from the real estate value, for example, because neither can exist without the other. However, we have attempted to allocate the relative contribution values of the real property, personal property and intangible assets of the going concern.

TANGIBLE PERSONAL PROPERTY/FURNITURE, FIXTURES, & EQUIPMENT

The subject includes a value for tangible personal property, i.e., furniture, fixtures and equipment associated with operation of the subject facility. Typical FF&E’s include the following:

- Office furniture and equipment, operating supplies;
- Point of sale (POS) equipment, software, computers;
- Guestroom furniture, beds, artwork, window treatments, TV’s, appliances;
- Laundry machines, vending machines;
- Supplies & equipment (housekeeping & maintenance supplies);
- Signage (monument and small interior signage).

As illustrated by the cost comparables summarized in the chart following, actual FF&E expenses for hotel/motel properties, throughout the state of Arizona, range from \$2,703 to \$5,917 per room, with the low end of the range represented by limited-service properties and the upper end of the range associated with full-service hotels. The subject is classified as a limited-service hotel and includes standard (average) room finishes in average condition. An estimate toward the lower end of the comparable range would be assumed.

Overall, an FF&E cost of \$6,000 per room, or **\$726,000** (new) has been estimated for the 121-room property. The age and condition of the individual components of the FF&E within the subject property is considered fairly new (based upon the recent PIP), a reasonable depreciated figure of 90% has been applied (10% deduction), resulting in a depreciated cost estimate of **\$653,400, or \$650,000 (ROUNDED)**. This figure includes salvage value.

INTANGIBLE PERSONAL PROPERTY

The estimate of value for the business interest component of the going concern value is considerably more subjective than the personal property value estimate. This is due to the intangible nature of the business interest.

Under the current theory, the primary method of valuing the business interest in a property is to capitalize the management and/or franchise fees in excess of what is required for the physical operation of the property.

In order to value the business interest aspects of a hotel/motel, the components of this value must be identified. These components consist of:

- Organization, coordination and marketing
- Working Capital
- Inventories
- Liquor License
- Initiation fees, royalties, reservation fees
- Goodwill

Capitalization of Excess Management & Ownership Fees Method

The various fees directly attributed to ownership and management of a lodging property are broken down into the following categories:

Management Fees	Franchise Fees
<ul style="list-style-type: none"> • Base Management Fee • Incentive Management Fees • Owner System-Reimbursable Expenses 	<ul style="list-style-type: none"> • Initiation Fee • Royalty Fee • Reservation Fee • Base and Per Occupied Room • Marketing Fee

Of all the fees listed previously, only a portion can be directly related to the business value of a going concern property. The business value component of a going concern above and beyond the real estate can be estimated by capitalizing the management fees in excess of those that contribute directly to the operational performance. In a hotel, these costs would be all of the fees listed below with some exceptions.

Fees capitalized for business value are:

- **Base management** fee if it exceeds the industry standard of 1.5%. The portion which reflects industry standard is typical of all real estate and reflected in purchase prices and yield and capitalization rates. If the management fee is higher than industry standards, it represents surplus management fee or exceptional management contribution and business value.
- Any **incentive management** fee should be considered if it is being received or has the potential to be received by the management company due to performance. The management contract should be analyzed for the criterion of the incentive fee and if the fee is being attained or accrued under the required criterion, it should be capitalized as part of the business value. If it is subordinate to debt service and unlikely to be achieved due to the weakness of the market and/or operations, it should be ignored.
- **Owner system reimbursable** expenses are the corporate charge backs for travel and services provided by the management company's corporate staff for the subject property.
- The entire package of **franchise fees** represents quantifiable operational expenses to achieve profit. With the exception of the initiation fee that is amortized with the pre-opening expenses, the combined amount of these fees should be capitalized as part of business value.

The valuation of the business value is shown below. The expenses that contribute to the business value are capitalized at an appropriate rate. The selection of the capitalization rate starts with the implied stabilized capitalization rate for the property. Typically, management contract valuations have higher yield requirements than real estate properties. The

capitalization rate for estimating the business value should reflect the higher yield expectations.

ESTIMATED BUSINESS VALUE		
Business Interest	% of Room Revenue	Nominal
Management Fees		
Base Management (>Industry Standard)	0.00%	\$0
Incentive Management	0.00%	\$0
Corporate Charge-Back	0.00%	\$0
Management (Franchise) Fees		
Royalty	0.25%	\$11,626
Reservation	0.25%	\$11,626
Marketing Contribution	0.25%	\$11,626
Total Management Contribution	0.75%	\$34,879
Capitalization Rate (3XCap)		33.8%
Total Business Value		\$103,346
ROUNDED		\$100,000

The DoubleTree by Hilton is a full-service affiliation in the subject's class, and the reservation system and name recognition associated with Hilton is an intangible asset for the subject. The conclusion roughly corresponds with six months of franchise fees.

CONCLUSION

The components of going concern value, real property, personal property and business value are rarely quantified individually. Typically, a purchaser of a going concern property relies on the Income Approach, which addresses the components in a unified model. The division of the value into parts becomes a theoretical exercise rather than an actual reflection of the market. However, certain distinct value components can be identified and arguably quantified.

ASSET VALUE ALLOCATIONS	
Going Concern Value	\$25,900,000
ALLOCATIONS	
Less: Tangible Personal Property	\$650,000
Less: Intangible Personal Property	\$100,000
Real Property	\$25,250,000
ROUNDED	\$25,250,000

UNDERLYING ASSUMPTIONS AND LIMITING CONDITIONS

The appraiser, Core Valuation Group, LLC and this report are contingent of the following limiting conditions.

- Title to the property is assumed to be marketable and free from defect and legally acceptable by a potential buyer. Marketable title does not assume that absolute absence of defect, but rather a title that a prudent, educated buyer in the reasonable course of business would accept.
- No liability is assumed on account of inaccuracy or errors of any information provided by others contacted for information relied on in this report.
- Any measurements provided by the appraiser(s) can be assumed to be done diligently; however, the appraiser(s) are not surveyors and cannot be held responsible for errors.
- No right is given to publish this report or any part thereof without the written consent of the writers of this report.
- The legal description relied on in this report is assumed to be correct.
- Competent management and responsible ownership is assumed in this report.
- The valuation opinion contained herein applies as of the effective date of value only.
- The appraisers cannot be used required to provide court testimony on behalf of this report unless discussed prior to the production of this report.
- The distribution of value among land and building applies only under the current program of utilization and does not apply under any other premise. Separate allocations of value for land and building must not be used in conjunction with any other appraisal and are invalid if so used.
- We do not authorize quoting or reprinting of this appraisal report. Further, neither all nor any part of this appraisal report shall be published to the general public by way of advertising, news, electronic fulfillment or other media outlets without the written consent of the appraisers signing this report.
- The appraisers are unaware of any hidden conditions of the property outside of what is reported within this report. Undisclosed subsoil, hydrology, chemical contamination at the time of inspection, are not the responsibility of the appraisers.
- Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraisers. The appraisers, however, are not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraisers suggesting the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. The presence, if any, of potentially hazardous materials may affect the value of the property. The value is predicated on the assumption there is no such material on or in the property which would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.

The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.

Should the client have concerns over the existence of hazardous waste substances on the property, we consider it imperative to retain the services of a qualified, independent professional to determine the existence and extent of any hazardous materials, as well as the cost associated with any required or desirable treatment/remediation thereof.

- Full compliance with all applicable federal, state, and local environmental regulations and laws, and with all applicable zoning and use regulations, is assumed unless non-compliance or non-conformity is stated, defined, and considered in the appraisal report.
- The owner of the subject property may be subject to additional financial expenditures in accordance with the Americans With Disabilities Act (ADA), a federal law codified at 42 USC Section 11921 ET SEQ. While numerous requirements of the ADA could affect the subject property, Title III of ADA requires owners and tenants of public accommodations to remove barriers to access by disabled persons and provide auxiliary aids and services for hearing, vision or speech impaired persons by January 26, 1992. The regulations under Title III of ADA are codified at 28 CFR Part 36. The appraisers, however, are not qualified experts as to the subject's compliance or noncompliance under ADA. In recognition of this laws recent enactment, some of the requirements may be subject to interpretation by the legal system. The client/reader is strongly urged to retain the services of a qualified independent expert and, if necessary, receive legal assistance in understanding its contents and in determining the subject's compliance. The opinions of value reported herein are subject to revision should it be determined additional expenditures are required for conformance to ADA.

CERTIFICATION

The appraiser hereby certifies, to the best of his knowledge:

- The statements of fact contained in this appraisal report are true and correct.
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and our personal, impartial, and unbiased professional analyses, opinions and conclusions.
- The appraiser has no present or prospective interest in the property which is the subject of this report, and we have no personal interest, or bias with respect to the parties or property involved. Notably, the appraisers have not performed services associated with the subject property, including an appraisal of the property in the prior three year period.
- The appraiser's engagement in this assignment was not contingent upon developing or reporting predetermined results.
- The appraisal assignment was not based on a requested minimum valuation, specific valuation, or the approval of a loan. Additionally, our compensation is not contingent upon the development or reporting of predetermined values or direction in value favoring the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- This report has been prepared in compliance with the Uniform Standards of Professional Appraisal Practice (effective date January 1, 2020); Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989.
- Kevin P. Walsh made a personal inspection of the subject property.
- No one provided significant professional assistance to the persons signing this report.
- Kevin P. Walsh has the appropriate knowledge, education and experience to complete this appraisal assignment in a competent manner and have appraised properties of similar type. The reader is referred to the appraiser's Qualifications in the Addenda.



Kevin P. Walsh
State of Arizona Certified General
Real Estate Appraiser #31529

ADDENDA

EXHIBIT A

APPRAISAL

The act or process of developing an opinion of value; an opinion of value.¹

APPRAISER

“One who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective.”²

CLIENT

“The party or parties who engage, by employment or contract, an appraiser in a specific assignment.”³

EXPOSURE TIME

“Estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.”³

EXTRAORDINARY ASSUMPTION

“An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser’s opinions or conclusions.”⁴

LEASED FEE ESTATE

Leased fee estate means “a freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease).”⁵

1 USPAP, 2020-2021 Edition, Definitions section, effective January 1, 2020
2 USPAP, 2020-2021 Edition, Definitions section, effective January 1, 2020
3 USPAP, 2020-2021 Edition, Definitions section, effective January 1, 2020
4 USPAP, 2020-2021 Edition, Definitions section, effective January 1, 2020
5 Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed.

HYPOTHETICAL CONDITION

“A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.”⁶

INTENDED USE

“The use or uses of an appraiser’s reported appraisal, appraisal review, or appraisal consulting assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment.”⁷

INTENDED USER

“The client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at the time of the assignment.”⁸

MARKET VALUE – USPAP

Market value is described in the Uniform Standards of Professional Appraisal Practice (USPAP) as follows: A type of value, stated as an opinion, that presumes the transfer of property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal. (USPAP, 2016-2017 ed.) USPAP also requires that certain items should be included in every appraisal report. Among these items, the following are directly related to the definition of market value:

1. Identification of the specific property rights to be appraised.
2. Statement of the effective date of the value opinion.
3. Specification as to whether cash, terms equivalent to cash, or other precisely described financing terms are assumed as the basis of the appraisal.

If the appraisal is conditioned upon financing or other terms, specification as to whether the financing or terms are at, below, or above the market interest rates and/or contain the unusual conditions or incentives. The terms of above- or below- market interest rates and/or other special incentives must be clearly set forth; their contribution to, or negative influence on, value must be described and estimated; and the market data supporting the opinion of value must be described and explained.⁹

⁶ USPAP, 2020-2021 Edition, Definitions section, effective January 1, 2020

⁷ USPAP, 2020-2021 Edition, Definitions section, effective January 1, 2020

⁸ USPAP, 2020-2021 Edition, Definitions section, effective January 1, 2020

⁹ USPAP, 2020-2021 Edition, Definitions section, effective January 1, 2020

MARKET VALUE

Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (1) *Buyer and seller are typically motivated;*
- (2) *Both parties are well informed or well advised, and acting in what they consider their own best interests;*
- (3) *A reasonable time is allowed for exposure in the open market;*
- (4) *Payment is made in terms of cash in U.S. Dollars or in terms of financial arrangements comparable thereto; and*
- (5) *The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.¹⁰*

MARKET VALUE “AS IS”

Market value “as is” on appraisal date means an estimate of the market value of a property in the condition observed upon inspection and as it physically and legally exists without hypothetical conditions, assumptions, or qualifications as of the date the appraisal is prepared.¹¹

REAL ESTATE

“An identified parcel or tract of land, including improvements, if any.”¹²

REAL PROPERTY

“The interests, benefits, and rights inherent in the ownership of real estate.”¹³

¹⁰ *Federal Register, Volume 55, No. 165, p. 34228.9, Friday, August 24, 1990, Rules and Regulations, 12 CFR Part 34.42(g)*

¹¹ *Appraisal Policies and Practices of Insured Institutions and Service Corporations, Federal Home Loan Bank Board, “Final Rule”,*

¹² *CFR Parts 563 and 571, December 21, 1987*

¹² *USPAP, 2020-2021 Edition, Definitions section, effective January 1, 2020*

¹³ *USPAP, 2020-2021 Edition, Definitions section, effective January 1, 2020*

SALES COMPARISON APPROACH

“The process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison.”¹⁴

SCOPE OF WORK

“The type and extent of research and analyses in an assignment.”¹⁵

APPRAISAL REPORT

An appraisal report is a written report prepared under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice (2016-2017 ed.).

¹⁴ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed.

¹⁵ USPAP, 2020-2021 Edition, Definitions section, effective January 1, 2020

EXHIBIT B

LEGAL DESCRIPTION (SUMMARY)

☆ 1800 S San Tan Village Pkwy, Gilbert, AZ 85295-6245

Maricopa Assessor Parcel # 304-41-014-N
[Report a Tax Error](#)

0 of 0

[Tax](#)
[MLS](#)
[Comp](#)
[Email](#)

[Options](#)
 Current Screen
 [Print](#)

[Parcel Dimensions](#)
[Download Map](#)

Status Legend
 Sold Pending Off Market
 Active Cancelled Foreclosure
 UCB Expired Coming Soon

Sold within last: 3 M 6 M 1 Y

Property Information	
Property Owner	SAN TAN CENTER LLC
Property Address	1800 S San Tan Village Pkwy Gilbert, AZ 85295-6245 Maricopa County
Tax Mailing Address	San Tan Center LLC 1635 N Greenfield Rd Ste 106 Mesa, AZ 85205-4010
Property Type	(0411) HOTEL, 2-4 STY
Legal Class	(01-12) COMML/REAL & IMPS NOT IN OTHER CLASSES
Lot/Block/Tract	---

Area Information	
Subdivision	
Section/Town/Range	28/1S/6E
Census Tract	814600
Census Block	2003
Latitude	33.3171021690861
Longitude	-111.744079349997
Tax Area	410609
Tax Municipality	Gilbert
School Districts	Gilbert Unified District #41

Legal Description	
Abbr. Legal Description	N/A
Full Legal Description	POR NE4 SEC 28 DAF COM N4 COR SD SEC TH E 1252.04F TH S 1376.39F TH W 53.47F POB TH S 171.59F TO BEG CUR RAD 1446.42F TH SLY ALG SD CUR 160.53F TH W 621.49F TH N 388F TH E 589.33F TH S 35.25F TH E 19. 92F TH S 45D 12M E 29.82F TO POB

EXHIBIT C



May 12, 2022

Core Valuation Group
Attn: Kevin Walsh

Dear Mr. Walsh,

Western State Bank would like to engage you to perform appraisals of a hotel property located in Gilbert, AZ. The purpose of this appraisal will be to provide a valuation for use in a loan decision and related underwriting on the part of Western State Bank. The details of the proposed appraisal are as follows:

Address: 1800 S San Tan Fillage Pky, Gilbert, AZ 85295
Legal Description: 304-41-014N
Property Name: N/A
Type of Property: Hotel
Property Owner / Borrower: Pacific Orchard Holdings

Contact Person: Peter Sun
Phone Number: 858-345-5577

Bank Contact: Nick Voss
Phone Number: 701-499-6361
Email: WSBAppraisalManagement@westernbanks.com

Appraisal Due Date: May 26, 2022
Appraisal Fee: [REDACTED]
Final Report: Bank to receive (1) PDF

The appraisals are expected to fully demonstrate and support in narrative form, via the three generally accepted approaches to estimating Market Value (as defined by the Uniform Standards of Professional Appraisal Practices, the Code of Professional Appraisal Ethics and nationally recognized professional appraisal organizations), all of the assumptions you employ in reaching your own final estimate of Market Value for the subject property in its assumed completed condition. "Market Value" is defined in the attached Exhibit I.

In compiling your data, please adhere to the provisions of attached Exhibit II, entitled "Minimum Required Appraisal Standards," which must be reflected in your final report. In addition to the minimum standards, the following are offered to assist you in the completion of this assignment.

- (1) The report should contain a properly supported declaration of Highest and Best Use for the property in either as is or projected condition.
- (2) The report should identify the property rights appraised.
- (3) The report should list all material assumptions and limiting conditions observed in reaching the final market value estimate.
- (4) A stated "Purpose of Appraisal" and the effective date of the final market value estimate should be reflected. *The final market value estimate should not include any value associated with special assessments, if applicable.*
- (5) The report must reflect all certifications, licenses and other professional designations addressing your qualifications for carrying out this assignment.

The bank reserves the right at its option or in accordance with state and federal law to provide a copy of or to disclose information contained in the appraisal to the borrower or other persons.

Thank you for your cooperation in this matter. Please call the undersigned at (701) 499-6361 if you have any questions or require additional information.

Sincerely,

WESTERN STATE BANK



Nick Voss
Credit Review Officer

AGREED AND ACCEPTED

Approaches to Value to be Completed:

Sales Comparison Approach: _____ Income Approach: _____ Cost Approach: _____

If the terms of this agreement are acceptable, sign and return the agreement to me within three (3) business days from the date of receipt. If the terms of this agreement need to be adjusted, please contact Western State Bank by telephone and in writing to receive written authorization.

We hereby acknowledge the acceptance of the terms of this agreement and the receipt of all attachments shown above.

Core Valuation Group

By:  Title: Certified General Appraiser Date: 5-12-22

Exhibit I

DEFINITION OF MARKET VALUE

Market value as utilized in the appraisal report must conform to the following definition:

The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently and knowledgeably, and for self-interest and assuming that neither is under undue duress.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated.
2. Both parties are well informed or well advised, and each is acting in what they consider to be their own best interest.
3. A reasonable time is allowed for exposure in the open market.
4. Payment is made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Exhibit II

MINIMUM REQUIRED APPRAISAL STANDARDS

1. Conformance to generally accepted appraisal standards as evidenced by the Uniform Standards of Professional Appraisal Practice (USPAP) promulgated by the Appraisal Standards Board (ASB) of the Appraisal Foundation.
2. The report must be based upon "Market Value" as defined in the accompanying Exhibit I. There must be sufficient documentation to support the appraiser's logic, reasoning, judgment and analysis to enable the client to determine the reasonableness of the final Market Value estimate.
3. The report must be written and in narrative format descriptive enough to lead the client to a determination of estimated "Market Value" and an understanding of the basis upon which such an estimate is made and detailed adequately to reflect the complexity of the appraisal.
4. Analyze and report appropriate deductions and discounts for any proposed construction, any completed properties that are partially leased or leased at other than market rents as of the date of the appraisal, or any tract developments with unsold units.

EXHIBIT D



PROFESSIONAL QUALIFICATIONS

Kevin P. Walsh
Core Valuation Group, LLC
70 S. Val Vista Dr. Suite A3-337
Gilbert, AZ 85296

Work 888.774.7942
Cell 480.593.3747
Fax 877.847.3687
walsh@cvgaz.com

Experience:

Mr. Walsh entered real estate valuation and advisory services in 2003. Over his career, he has worked as a full-time fee appraiser with national real estate companies including Cushman & Wakefield and CB Richard Ellis. In addition to joining companies on a national platform, he worked with local area companies such as Appraisal Technology, Inc. and Viewpoint Group, Inc. Mr. Walsh founded Core Valuation Group, LLC in 2012. He has completed numerous valuation assignments, of various product types, in residential, commercial, government.

Mr. Walsh has worked on individual and portfolio assignments for most of the largest lenders in banking. He has completed assignments of single family residential, residential subdivision analysis, multi-family complexes, professional & medical office buildings, condominium units and complexes, retail power centers, retail neighborhood centers, strip retail centers, light and heavy industrial buildings, flex buildings, bank branches, restaurants, automobile dealerships, land development, ground leases, government buildings and various special use/purpose properties. Per SBA, over the past 36 months, Mr. Walsh has completed more than 25 special use/purpose, going concern appraisals.

Education:

Mr. Walsh graduated from Western Illinois University with a Bachelor of Arts Degree with an emphasis in Business Management. He retains a Certified General Appraiser appraisal license with the state of Arizona. He has completed assignments in New Mexico, Nevada and California; and, in the Arizona counties of Apache, Cochise, Coconino, Gila, Graham, Greenlee, Maricopa, Mohave, Navajo, Pima, Pinal, Yavapai and Yuma.

Mr. Walsh accomplished the following classes in real estate: Appraisal Institute-Business Practice and Ethics, What Commercial Clients Would Like Appraisers to Know, Analyzing Distressed Real Estate, Rates and Ratios: Making sense of GIMs, OARs, and DCF, General Appraiser Report Writing and Case Studies, Advanced Income Capitalization, Advanced Market Analysis and Highest & Best Use; Arizona School of Real Estate-Real Estate Licensing Program (90 hours), Certified General Appraiser Criteria (180 hours), USPAP, Commercial Leasing Issues, Business Valuation Approaches & Methods, Arizona Property Tax, and Fundamentals of RE Exchange, Appraisers Guide to Expert Witness Assignments, and Green in Residences and Appraisals.

Department of Insurance and Financial Institutions

State of Arizona

CGA - 31529

KEVIN P. WALSH

This document is evidence that:

has complied with the provisions of

Arizona Revised Statutes, relating to the establishment and operation of a:

Certified General Real Estate Appraiser

and that the Superintendent of Financial Institutions of the State of Arizona has granted this license to transact the business of a:

Certified General Real Estate Appraiser

KEVIN P. WALSH

This license is subject to the laws of Arizona and will remain in full force and effect until surrendered, revoked or suspended as provided by law.

Expiration Date : **April 30, 2023**