Hotel Realty NW

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Kennedy & Mohn, P.S.
Brokerage, Consulting, & Appraisal

Phase I Market Feasibility Proposed Hotel Development in Lebanon, Oregon

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Prepared for
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925 South Main Street
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April 29, 2019

Mr. Walt Wendolowski
Community Development Manager
City of Lebanon
925 South Main Street
Lebanon, OR 97355

Transmitted by email: wwendolowski@ci.lebanon.or.us

Dear Mr. Wendolowski:

As requested, we have completed our research and analysis of the competitive lodging market in Lebanon, Oregon for the purpose of evaluating the potential for lodging development on an as yet unspecified site in the city of Lebanon. Per our engagement letter dated January 7, 2019, this letter report summarizes our findings and conclusions for Phase I of our hotel market feasibility study. Our report and analyses are presented subject to the attached assumptions and limiting conditions. The effective date of our analyses is March 8, 2019, the completion date of our fieldwork in the local market. Our market feasibility study included the following scope of work:

- Orientation meeting with you at the outset of the assignment to review the local market and potential sites being considered, and to discuss your preliminary vision for this project, perceptions of opportunities and challenges in the local market, and initial timing estimates for entitlements and development of the proposed project.

- We evaluated the location of Lebanon within the context of the broader competitive lodging market which also included the nearby markets of Albany and Corvallis. We considered such factors as access and visibility relative to key transportation routes in the area, surrounding neighborhood influences, proximity to primary demand generators and ancillary amenities, current zoning, and the advantages and disadvantages of a Lebanon location as compared to those of competing hotels in the market.

- Interviews with state and local officials regarding economic conditions, development trends, tourism patterns, group and convention demand patterns, and the need for additional lodging in the competitive market.

- We identified hotels that would be considered most directly competitive with a new hotel if built in Lebanon and conducted interviews with hotel operators, franchise representatives, and others in the local market regarding hotel market conditions. Based on these interviews and data drawn from an STR Trends report, we compiled a summary of the historical operating performance within the competitive market in recent years.

- We analyzed historical levels of growth in the local economy and identified new hotels currently proposed for development in the area, for the purpose of developing a projection of future market supply and demand conditions and the resulting occupancy rates within the competitive market through a five-year forecast period.

Based on the underlying research and projected conditions within the competitive lodging market in future years, we concluded that market conditions are not sufficient to support development of additional lodging facilities in Lebanon at the present time. Within the balance of this report we provide a detailed discussion of our observations, analysis, and recommendations regarding potential hotel development within the market.

We trust that you will find the commentary and counsel provided herein to be of value to the planning and timing of potential future development of a new hotel in Lebanon. Should you have any questions or require clarification of any of the items discussed in the following report, please feel free to call me at: 425.485.7925.

Sincerely,

Hotel Realty NW
By: Michael J. Mohn, MAI

INTRODUCTION

Hotel Realty NW was engaged by the City of Lebanon in January 2019 to conduct a hotel market feasibility study of the Lebanon area. The purpose of this study was to assist in evaluating supply and demand factors and historical performance of the lodging market in and around Lebanon to determine whether there is sufficient demand to support new lodging development in the area. If market support is indicated, we were to provide preliminary recommendations regarding the type and quality level of hotel that would be best suited to the market, the number and mix of hotel rooms, banquet and meeting rooms, and other amenities that would potentially enhance the performance of the hotel within the competitive market. Per your instructions, this study was conducted from a market-specific, but not a site-specific perspective. While we reviewed several potential sites during the course of our fieldwork in the local market, no specific siting recommendations are provided at this time.

Area

Lebanon, Oregon is a small rural community located in Linn County, in the central portion of Oregon's renowned Willamette Valley. Lebanon is located approximately eight miles east of Interstate-5 (I-5), which serves as the primary transportation corridor through the western part of the state. Lebanon is located approximately 80-miles south of Portland, 35-miles south of Salem, and 45-miles north of Eugene/Springfield. The larger cities located nearest to Lebanon include Albany and Corvallis. Albany is approximately 12-miles to the northwest of Lebanon and it benefits from its location along the I-5 corridor. Corvallis is approximately 18-miles due west of Lebanon, and while similarly off-set from the I-5 corridor, it is home to Oregon State University (OSU), the largest university in the state. In contrast, Lebanon is home to the College of Osteopathic Medicine of the Pacific, Northwest (COMP NW) and a regional distribution center for Lowes.

Lebanon is the second largest city in Linn County, which boasts a population of 110,865, making it the 8th largest county in the state. Linn County is bounded on the west by Benton County (Corvallis MSA), on the south by Lane County (Eugene/Springfield), and on the north by Polk and Marion counties. Linn County is situated near the center of the Willamette Valley, with the Willamette River serving as its western boundary and the Cascade Mountains serving as its eastern boundary.

The climate and soil conditions found here provide one of Oregon's most diversified agricultural areas, allowing a wide variety of specialty crops; leading the nation in the production of common and perennial ryegrass. Linn County is also home to major producers of rare and primary metals, processed food, manufactured homes and motor homes as well as a remnant of the traditional logging and wood products industries which fueled the local economy in earlier generations. A list of major employers and recent entrants to the Lebanon employment base are shown in the table below.

Major Employers - Lebanon - 2019		
Company/Organization	Full-Time Employees	Description of Services
Samaritan Lebanon Hospital	790	Healthcare
Lowes Distribution Center	700	Transportation
Lebanon School District	550	Education
ENTEK Manufacturing	410	Manufacture
Wal-Mart	250	Retail
Source: Economic Development - City of Lebanon		

Primary Economic Growth Indicators

The table on the following page provides a summary of key economic growth indicators reviewed during the course of our engagement.

Population growth in Lebanon has been comparatively strong over the long term, averaging 1.5% annually since 2000, outpacing population growth for the state and in the nearby communities of Albany and Corvallis. While population growth rates have moderated somewhat in recent years, Lebanon has maintained a solid growth trend.

The demand for hotel rooms in the local area can often be linked indirectly to employment patterns within the surrounding area. Employment growth within Linn county has outperformed the statewide averages over the long-term, averaging 1.8% annually compared to the statewide employment growth averaging only 1.0%. During the post recessionary period from 2010 to 2018, employment growth in Linn County averaged 2.1% annually, representing nearly 7,000 new jobs. Job growth during this period was only nominally below the statewide average of 2.2%. Job growth in Linn County in recent years has been concentrated within four key sectors including, Construction, Manufacturing, Trade Transportation & Utilities, and Education & Health. Collectively, these four sectors have been responsible for 95% of the new jobs added in the county. Unemployment rates in Linn County are currently at 4.6%, only moderately above the statewide average unemployment rate of 4.0%.

Historically, Linn County has tended toward a more blue-collar orientation while Benton County has had a more white-collar orientation, largely attributed to the presence of the university and tech employers. Per capita income data bears this out, showing greater affluence to the west of I-5 than to the east, with Linn County placing roundly 20% below the state average while Benton County places roundly 4% above the state average.

Economic Indicator Summary

						CAAGR	
	2000	**2010**	**2016**	**2017**	**2018**	**2000-2018**	**2010-2018**
Population							
Lebanon	13,010	15,525	16,435	16,720	16,920	1.5%	1.1%
Albany	41,145	50,325	52,540	52,710	53,145	1.4%	0.7%
Corvallis	49,440	54,460	58,240	58,735	59,280	1.0%	1.1%
Linn County (Albany MSA)	103,350	116,840	122,315	124,010	125,575	1.1%	0.9%
State of Oregon	3,436,750	3,837,300	4,076,350	4,141,100	4,195,300	1.1%	1.1%
			Albany, OR MSA (Linn County)				
Employment	**2001**	**2010**	**2016**	**2017**	**2018**	**2001-2018**	**2010-2018**
Ntl. Resource / Mining	580	400	420	420	450	-1.5%	1.5%
Construction	2,220	1,770	2,600	2,840	3,090	2.0%	7.2%
Manufacturing	8,830	6,570	7,640	7,940	8,320	-0.3%	3.0%
Trade/Transp./Utilities	2,260	8,510	9,590	9,900	10,210	9.3%	2.3%
Information	670	410	370	420	440	n/a	0.9%
Financial Activities	1,490	1,310	1,470	1,550	1,590	0.4%	2.5%
Prof. & Business Services	3,240	3,160	3,140	3,050	2,950	-0.6%	-0.9%
Education & Health	3,830	4,740	5,610	5,680	6,640	3.3%	4.3%
Leisure & Hospitality	2,450	3,090	3,640	3,670	3,830	2.7%	2.7%
Other Services	1,410	1,360	1,440	1,450	1,490	n/a	1.1%
Government	7,220	7,780	7,630	7,680	7,080	-0.1%	-1.2%
Total Non-Farm	34,200	39,100	43,550	44,600	46,090	1.8%	2.1%
Oregon	1,605,200	1,601,700	1,833,600	1,875,300	1,909,500	1.0%	2.2%
Unemployment Rate							
Linn County (Albany MSA)	6.6%	12.8%	5.7%	4.8%	4.6%		
Oregon	5.1%	10.6%	4.8%	4.1%	4.0%		
Lodging Taxes	**2006**	**2010**	**2015**	**2016**	**2017**	**2006-2017**	**2010-2017**
Lebanon	34,000	34,000	70,000	204,000	260,000	20.3%	33.7%
Albany	595,000	595,000	941,000	1,041,000	1,085,000	5.6%	9.0%
Corvallis	1,080,000	1,080,000	1,604,000	1,754,000	1,754,000	4.5%	7.2%
Per Capita Income	**2006**	**2010**	**2015**	**2016**	**2017**	**2006-2017**	**2010-2017**
Linn County (Albany)	$25,286	$22,869	$23,849	$27,481	$25,416	0.0%	1.5%
Benton County (Corvallis)	$30,424	$28,508	$32,715	$31,172	$33,185	0.8%	2.2%
Oregon	$29,760	$27,890	$30,127	$31,485	$31,950	0.6%	2.0%
Portland International Airpo	**2000**	**2010**	**2016**	**2017**	**2018**	**2000-2018**	**2010-2018**
Passenger Volume	13,790,115	13,192,857	18,352,767	19,080,494	19,882,788	2.1%	5.3%
Eugene Airport (Mahlon-Sweet)		**2011**	**2016**	**2017**	**2018**		**2011-2018**
Passenger Volume		1,198,256	1,478,636	1,620,095	1,753,750		5.6%
Consumer Price Index							
United States	172.2	218.1	240.0	245.1	251.1	2.1%	1.8%
U.S. West (B/C)	107.8	133.8	145.4	148.8	153.1	2.0%	1.7%
Portland/Salem	178.0	218.3	249.4	259.8		2.3%	2.5%
Highway Traffic Counts		**2000**	**2015**	**2016**	**2017**		
I-5 @ SR-34 (MP 227.69)		38,800	42,800	44,300	43,100		1.5%
SR-34 W of I-5 (MP 9.74)		27,900	21,700	18,500	18,800		-5.5%
SR-34 E of I-5 (MP 10.24)		17,100	14,700	16,600	17,400		0.2%

Sources: State Depts. of Revenue, Employment, & Transportation; BLS, Census Bureau, Linn County, Dean Runyan, Port of Portland, PSU Research Center

CAAGR = Compound Average Annual Growth Rate for years shown

Growth in room tax collections reflects the combined influence of growth in supply (new rooms) and growth in room rates. Room tax collections in Corvallis and Albany over the 2006 to 2017 period have averaged a healthy 4.5% to 5.6% respectively. In contrast, room tax growth in Lebanon during this period averaged a remarkable 20.3%, reflecting the opening of the first new hotel in this market in over 30 years.

Hotel demand can also be influenced by transportation patterns within and through the local area. Direct commercial air service is not available to the local area but is available at Portland International Airport (PDX), 92-miles north or at Eugene Airport (EUG), located 52-miles to the south. Historical growth in passenger volumes at these two supporting airports has averaged 5.3 and 5.6% annually in recent years. Highway traffic volumes along I-5 in the immediate area have posted a softer growth in recent years, averaging only 1.5% annually whereas traffic growth along SR-34 have been flat to negative during recent years.

Recent and Proposed Development Activity

A brief summary of recent and proposed development activity in the Lebanon area is provided in the following paragraphs. While several of these projects go back a decade or more and others represent near-term or long-term growth prospects, collectively they provide an overview of the placement and orientation of major capital investments that have, and will continue to influence growth in the Lebanon area.

- Lowe's Distribution Center opened in Lebanon in 2007, providing centralized distribution to 80 Lowe's stores located in WA, OR, ID, MT, AK, and northern CA. This $100M project is located on a 205-acre site, with 1.276M SF or approximately 33-acres of warehouse space under-roof. This facility employs approximately 750 people in the community, although based on our interviews, it is not a significant generator of lodging demand.

- Samaritan Health Sciences (SHS) Campus is a 52-acre project located due west of Samaritan Lebanon Community Hospital. Planning and pre-development work on this project began in 2004, culminating in the announcement in 2008 that Western University of Health Sciences would anchor the SHS campus by establishing the first new medical school to be built in Oregon in over 100-years. The College of Osteopathic Medicine of the Pacific-Northwest (COMP-NW) opened in August 2011, inducting its initial class of 107 medical students. COMP-NW operates from a 54,000 SF building which was built by Samaritan and leased to COMP-NW.

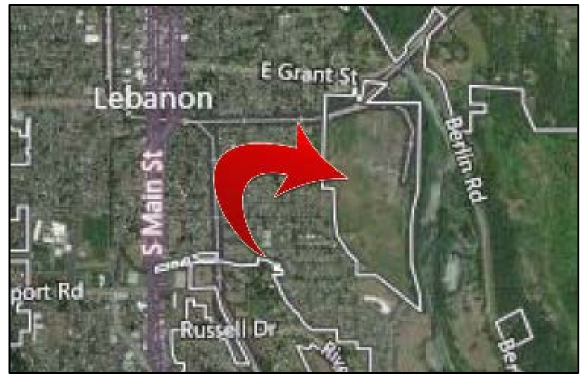
Subsequent development on the SHS campus has also included the $40M, Lebanon VA Home; The Lodges, a 120-unit apartment project; a new Best Western Premier hotel and Boulder Falls Conference Center; a 42,000 SF building for Linn-Benton Community College for nursing education, and several other office and clinic buildings for Samaritan Health. Each of the newer buildings on the campus are high-quality, institutional-grade assets.

Three large parcels within the SHS campus still remain vacant and available for development. One of these parcels is expected to see construction soon of a new 60,000 SF building that will house Western University's Physical Therapy / Occupational Therapy College. According to representatives at Western University, this building is projected to open for classes beginning in 2022. Despite numerous inquiries with Samaritan, we were not able to identify planned or proposed uses for the remaining sites within the SHS campus.

- Samaritan is also preparing to build a new 16-bed drug and alcohol treatment and recovery center on a site at the corner of Highways 20 & 34 in Lebanon. Samaritan acquired this site in 2016 and planned to begin construction in 2017 but was delayed due to passage of HB-2391 which increased taxes on the healthcare industry and resulted in material cutbacks in capital spending by these organizations. We understand this project is now expected to begin construction in mid-2019.

- A local businessman, Larry Spires, owns a 50-acre parcel of land located immediately north of the SHS campus. This site is proposed for development of mixed-use project that will be built in three phases. As currently envisioned, the project will include a 20-unit gated residential community, 125 apartment units, a grocery store, gas-station, and multiple restaurants and small commercial uses, all surrounding a four-acre lake. A mini-storage complex with 260 units is currently under construction on the rear portion of the site.

- In late-2018, Western University, in conjunction with Jeff Heatherington, acquired a 150-acre former mill site along the South Santiam River in east-central Lebanon. Based on our interviews with administrators at Western University, this site is intended for future development of a primary college campus to include academic buildings for multiple colleges, dormitories, apartments and other uses. While still in the preliminary planning stages, this project could include programs for nurse practitioners, physician assistants, mental health, and masters level programs. With the osteopathic medical school already outgrowing its existing facilities on the SHS campus, COMP NW facilities could potentially be expanded or relocated to the new campus, allowing for further growth. This project is in the early planning stages and is expected to take 5 to 10 years to come to fruition.



Conclusion

Overall, Lebanon has achieved a remarkable level of growth over the last 10 to 15 years, the bulk of which can be attributed to several large projects. As a result, Lebanon has developed a small but growing niche in healthcare, medical education, and distribution. These industries augment and compliment the agricultural underpinnings common to the Willamette Valley and they provide continued growth opportunities in the future. Recent development patterns have shown a distinct concentration of capital investments in the north Lebanon area, along the primary transportation corridors. While current projects appear to be reinforcing this development pattern, future projects could provide the impetus for alternative development nodes elsewhere in the city.

HOTEL MARKET ANALYSIS

Historically, hotel development in the broader area including Lebanon, Corvallis, and Albany has been concentrated along the primary transportation corridors or in proximity to the larger demand generators. As a result, most of the lodging alternatives in the area were developed in Corvallis and Albany. Other than a few small, independent properties, Lebanon was largely overlooked by hotel developers until the Samaritan Health Science Campus provided the impetus and support for new lodging development. The SHS campus opened in 2011 and was anchored by COMP Northwest, a new conference center, and an award-winning veterans home. The presence of these new facilites helped usher in the development of Lebanon's first new hotel in over 25 years with the opening of the 84-room Best Western Boulder Falls Inn in 2015. As a result of these historical development patterns, our hotel market analysis considers a representative sample of the better-quality, nationally-branded lodging alternatives available within each of these areas.

Competitve Lodging Market Definition

For the purpose of our analysis, the competitive set for this study is defined to include seven hotels with a total of 773 available guestrooms, as shown in the following table. The hotels in the competitive set range in size from 71 rooms to 176 rooms. Within this competitive set, the hotels have an average age of 14 years, including two newer hotels in the range of one to four years old, and five older hotels ranging from 16 to 21 years old. The competitive hotels each carry a three-diamond rating by AAA and typically a 4.0 to 5.0 rating by Trip Advisor. Qualitatively, the hotels in the competitive set as defined represent the best quality lodging alternatives currently available in the area and these hotels would represent the primary competiton for a new hotel if built in the Lebanon area.

Competitive Hotel Market - Lebanon/Corvallis/Albany

		Ratings		Published Rates - 2019		Meeting Space (SF		
	Rooms	AAA / Trip Advisor	Year Opened	Peak / Off-Peak	AAA	Total / Largest	Per Room	Amenities
Lebanon								
BW+ Boulder Falls Inn	84	◆◆◆	May-15	$134-$162	$104-$137	7,900	94	A B C D E F
		5.0 ⦿		$102-$126		7,900		
Corvallis								
Courtyard	176	◆◆◆	Dec-17	$183-$229	$135-$169	3,914	22	A B D E F
		5.0 ⦿		$146-$189		2,000		
Hilton Garden Inn	153	◆◆◆	Aug-03	$165-$236	$147-$165	1,300	8	A B D E F
		4.5 ⦿		$147-$216		1,000		
Holiday Inn Express	93	◆◆◆	Jul-01	$142-$169	$142-$144	725	8	A B C E F
		4.5 ⦿		$142-$169		725		
Comfort Suites	110	◆◆◆	Sep-98	$143-$199	$107-$152	1,116	10	A B C E F
		4.0 ⦿		$101-$139		768		
Albany								
Holiday Inn Express	71	◆◆◆	Jun-01	$122-$154	$119-$122	1,900	27	A B C E F
		4.5 ⦿		$107-$134		1,750		
Comfort Suites	86	◆◆◆	Jun-00	$113-$129	-	2,660	31	A B C E F
		4.5 ⦿		$113-$129		2,016		
Total Competitive Market	773							

Amenities:				
	A	Pool/Spa	D	Restr/Bar
	B	Business Center	E	Gst. Ldry/Valet
	C	Compl. Bfst.	F	Exercise Rm

Source: Hotel Realty NW, AAA, individual web-sites

Historical Lodging Market Performance

The following table summarizes the historical performance of the competitive lodging market between 2013 and 2018, for the YTD January 2019 period compared to prior year, and for the trailing-12-month (TTM) period ended January 2019.

Between 2013 and 2018, the available room supply in the competitive market increased by a remarkable 55%, representing the May 2015 opening of the 84-room Best Western Premier - Boulder Falls Inn, the December 2017 opening of the 176-room Marriott Courtyard in Corvallis, and a modest 15-room expansion of the Comfort Suites in Corvallis. Over the 2013 to 2018 period, supply growth in the competitive market averaged 9.2% compounded annually, representing 275 new rooms added to the market.

Growth in demand during the 2013 to 2018 period averaged a somewhat less remarkable 7.1% compounded annually, which was notably below the 9.2% level of supply growth occurring in the market. This imbalance between supply and demand growth resulted in downward pressure on occupancies in the market which declined from roundly 68% to 61% between 2013 and 2018. It is important to recognize that greatest impact from new supply is typically born by the older, existing hotels in the market. While the newer hotels in our competitive set exhibit an upward trend in occupancy in recent years, the remaining hotels in the market have each experienced declining demand and occupancies in recent years.

Competitive Hotels - Lebanon/Albany/Corvallis
Historical Performance

	2013	2014	2015	2016	2017	2018	CAAGR 2013-2018	YTD 2019	YTD 2018	TTM Jan-19
Available Rooms										
Competitive Hotels	498	498	554	582	598	773		773	773	773
% chg.		0.0%	11.3%	5.0%	2.8%	29.2%		0.0%		
Available Room Nights										
Competitive Hotels	181,770	181,770	202,350	212,430	218,351	282,145	9.2%	23,963	23,963	282,145
% chg.		0.0%	11.3%	5.0%	2.8%	29.2%		0.0%		
Occupied Room Nights										
Competitive Hotels	122,806	127,553	141,349	151,276	150,395	172,762	7.1%	12,430	11,596	173,596
% chg.		3.9%	10.8%	7.0%	-0.6%	14.9%		7.2%		
Market Occupancy										
Competitive Hotels	67.6%	70.2%	69.9%	71.2%	68.9%	61.2%		51.9%	48.4%	61.5%
Market Average Room Rate										
Competitive Hotels	$118.17	$123.69	$127.44	$133.25	$138.85	$136.25	2.9%	$117.18	$120.52	$135.93
% chg.		4.7%	3.0%	4.6%	4.2%	-1.9%		-2.8%		
Market Average RevPAR										
Competitive Hotels	$79.83	$86.79	$89.02	$94.89	$95.64	$83.43	0.9%	$60.78	$58.32	$83.64
% chg.		8.7%	2.6%	6.6%	0.8%	-12.8%		4.2%		

Notes: YTD figures are through Jan 31st; TTM = Trailing 12-month period
Source: HRNW and Smith Travel research

When the Best Western opened in Lebanon in May 2015, its impact on market occupancies was negligible, which we attribute to its more modest size and its location in Lebanon. Conversely, when the Courtyard by Marriott opened in December 2017 in Corvallis, with 176 rooms, its impact on the market was much more significant, causing occupancies to fall by roundly 10 points. The greater impact from this property reflects its materially larger size and its more competitive location in Corvallis. In our opinion, it will likely take several more years before this new hotel is absorbed in the market and occupancies return to a more normalized level.

The market average room rate for hotels in the competitive set in 2018 was roundly $136, up $18, or 15% since 2013. Rate growth in the competitive market has averaged 2.9% annually since 2013, slightly greater than the underlying rate of inflation. While rate growth of 3% to 4% annually was common during the early years of the 2013-2018 period, rate growth quickly turned negative following the opening of the Courtyard, as competing hotels discounted more aggressively in an unsuccessful attempt to retain demand. This erosion in ADR's was experienced by all properties in the competitive market, some more significantly than others.

As a result of the combined influence of recent decreases in both occupancy and average room rates within the competitive set, growth in RevPAR (Revenue per Available Room) over the 2013 to 2018 period averaged only 0.9% compounded annually, which is well below the underlying rate of inflation.

The historical performance data paints a clear picture that the competitive market has been shocked, at least temporarily, by the opening of the Courtyard and the large influx of new rooms it has brought to the market. This influence has rippled through the market, impacting both occupancy and rate for all properties, largely irrespective of brand, quality, or location. For those properties that were operating at a pre-stabilized level prior to this expansion, their path to stabilization will be more drawn out and for the older properties in the market, the recent impacts to performance could take several years to recoup.

Segmentation and Seasonal Influences

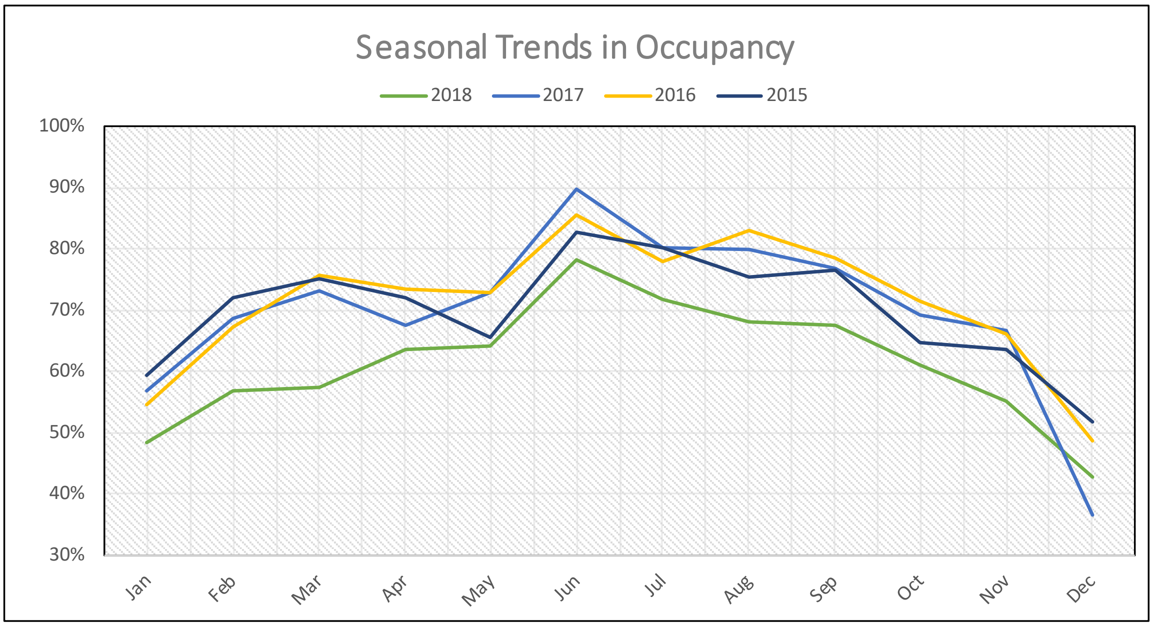
As shown in the table at right, we estimate the mix of demand within the competitive set, categorizing demand into three primary segments including: corporate and government demand (business travelers), groups (meetings, conventions, and sports), and leisure demand (tourists and VFR- visiting friends and relatives). Leisure demand represents the largest share of demand in the competitive market at roundly 40%, fueled by I-5 travel, colleges, fairgrounds, and similar demand generators. Commercial demand follows closely at 37%, supported by institutional demand from healthcare, colleges, and the larger employers in the broader area. Group demand tends to lag the other segments, due in part to limited group

Estimated Mix of Demand-2018

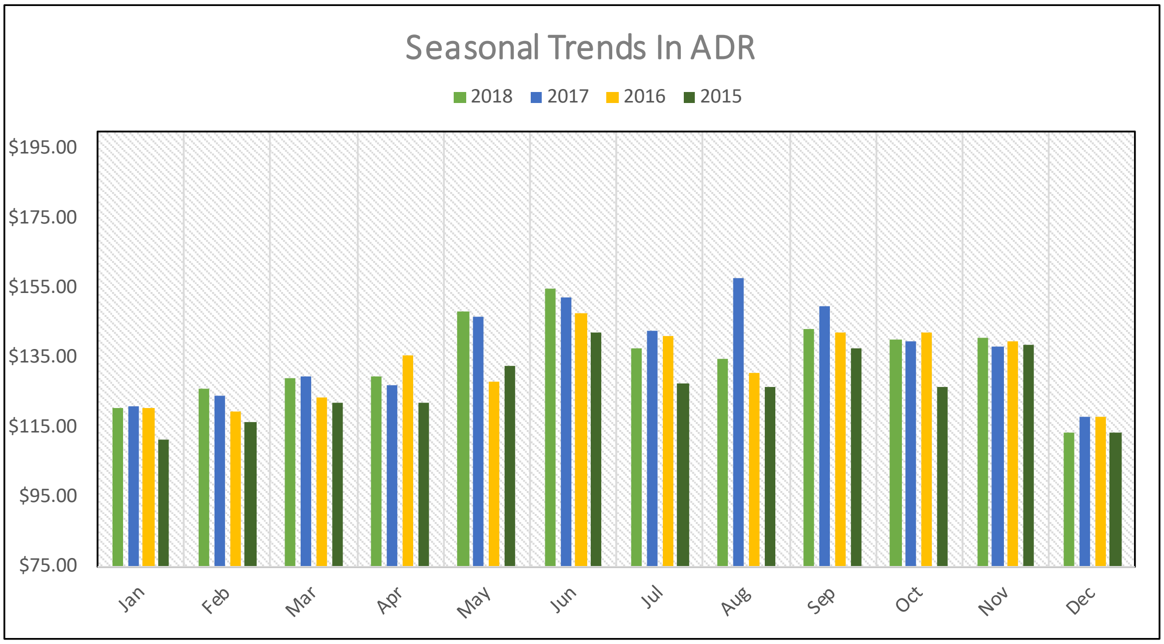
Demand Segment	Occupied Rooms	Market Mix
Commercial/Government	63,600	37%
Group	39,500	23%
Leisure	69,700	40%
Total Demand	172,800	100%

Note: totals may not sum due to rounding facilities at several of the hotels in the competitive market. Group demand is comprised of a mix of meeting and conferences, social groups, and sports team. With the larger conference center facilities available adjacent to the Hilton Garden Inn and the Best Western, these hotels typically capture a larger share of group demand.

The graphs presented below and on the following page provide an overview of seasonal changes in occupancy rates and average room rates within the competitive market during recent years. Monthly trends consistently show that occupancies are lowest during the months of December and January, typically hovering in the 45% to 55% range, whereas during the months of June through September typical occupancies are in the range of 75% to 85% with the remaining months typically in the range of 65% to 70%.



Average room rates demonstrate similar, although somewhat less volatile, seasonal patterns with average room rates generally peaking at $140 to $160 during June through August, falling to the $120 to $140 range during the remaining months of the year. August 2017 data reflects the influence of the lunar eclipse which caused a temporary spike in rate.



Weekly patterns of demand in recent years also show demand levels remaining consistently strong over weekend periods, with occupancies averaging in the mid-70% range whereas mid-week periods tend to average in the high-60% range. Sundays are consistently the slowest day of the week with occupancies averaging in the mid-40% range. Weekly patterns show average room rates also peaking during weekend periods at roundly $150 while averaging in the $125 to $130 range during the balance of the week.

Prospective Supply Changes

Based on our research, we identified only one new hotel currently proposed for development in the broader Lebanon/Albany/Corvallis area. Kaylan Hospitality, a Virginia based development and management company bought a 1.4-acre site in 2017 and is proposing development of a 127-room Hampton Inn & Suites.

Proposed Hotel Development Projects - Lebanon/Albany/Corvallis					
Project	**Number Rooms**	**Location**	**Area**	**Developer**	**Estimated Opening**
Hampton Inn & Suites	127	4-Acre Place	Corvallis	Kalyan Hospitality	Jan-21
Subtotal	127				
HRNW - Mar-2019					

While this project appeared to be idle for a while, according to staff at the Corvallis planning department this project is slowly working through the permitting process and could have all necessary approvals within the next month or so. Based on this input, we have included this hotel in our projections of new supply with a construction start in late 2019 and opening estimated in approximately January 2021. The site for this project is located in a suburban/retail area in north Corvallis and this location would be considered generally competitive with hotels in Corvallis and Albany.

We also note that the Best Western Premier-Boulder Falls Inn in Lebanon was designed to accommodate a future expansion to approximately 120 rooms. Our discussions with management of the Best Western indicate that expansion of this hotel is not being considered at this time due to the as yet pre-stabilized performance of the hotel. In the event that market conditions improve in the future, this option could potentially be reconsidered.

For the purpose of our analysis, we include 127 rooms of potential new supply entering the competitive market in 2021. This level of supply growth equates to a 16% increase in the available rooms supply which comes on the heels of a 29% supply increase in 2018. Based on our projections, we estimate that the initial shock and subsequent rebalancing of the market following the opening of the 176-room Courtyard, it will take three to four years for the market to re-stabilize and absorb this project. With the proposed Hampton Inn & Suites expected to open within this period, stabilization of the market is projected to be delayed even further.

Projected Lodging Market Conditions

There are generally three key components to an analysis of demand for new hotels in any market, which we refer to as follows: (1) Underlying Growth in demand, (2) Unsatisfied Demand, and (3) Induced Demand. A brief explanation of the general nature of each of these three components is as follows:

1. ***Underlying Growth:*** Underlying growth is that component based on the strength of local and regional economic indicators such as growth in population, employment, domestic and foreign air passenger volume, and convention room nights. The appropriate economic indicators might vary slightly according to the market being studied.

2. ***Unsatisfied Demand:*** Unsatisfied demand refers to individuals who are unable to secure accommodations in the market because local hotels are filled, forcing travelers to defer or cancel their trips, or find less desirable accommodations. If additional lodging facilities enter the market, these guests will be able to secure hotel rooms in the market, thereby allowing the market to capture previously unsatisfied demand. As new hotels are added to the market the volume of unsatisfied demand in the market tends to diminish.

3. ***Induced Demand:*** Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, the addition of a new hotel with a distinct chain affiliation or unique facilities, or the addition of a hotel to a market with no hotels present.

In arriving at our estimates of future demand growth, consideration was given to the mix of demand by segment and seasonal patterns of demand within the competitive market. Key factors in our analysis are summarized in the following paragraphs.

- We estimate underlying growth in demand based on historical changes in key economic indicators, as presented previously, tempered with anticipated changes over the near term. The economic data provides support for long-term growth rates generally in the range of 1%-2% annually, supported by population growth, employment growth, and per capita income growth. Alternatively, growth in air passenger volumes tend to support higher growth rates although this data is less directly relevant in our market. Room taxes and lodging demand in the competitive market generally support growth rates of 5% to 9% annually in recent years, although the room tax data reflects the combined influence of growth in demand and room rates, which would tend to overstate growth in demand only.

  Our projections include underlying growth of 3.0% annually within the commercial demand segment, 2.5% annually within the leisure demand segment, and 2.0% annually within the group segment. Gradual reductions in growth rates are applied in the later years of the forecast period. Over the six-year forecast period, 2018-2024, our projection includes underlying growth equal to 2.2% annually which is generally well-supported by the available data.

- Unsatisfied demand is projected based on estimates from managers of competing hotels and from data derived from the opening of new hotels in the competitive market in recent years. Our interviews within the competitive market suggest an average of roundly 35 to 40 fill-nights annually in 2018, while recognizing that this was an aberrant year due to the opening of the Courtyard which impacted all properties. We estimate that during a more normalized year, the market would experience between 70 and 80 fill-nights annually. Clearly, the number of fill nights experienced by any given hotel can vary widely depending on property size, location, brand, and other factors. Fill-nights typically occur during peak summer months, market -specific events such as graduation, sporting events, etc., and to a lesser extent during mid-week and weekends in the shoulder months when atypically high levels of commercial or leisure demand coincide with group activities in the market. Summer season peaks are generally considered less likely to be compromised by increases in supply.

  Accordingly, within our projections we include unsatisfied demand based on 92 nights during peak summer periods during which the new hotels would be expected to fill approximately 75% of their available rooms from demand that would otherwise be turned away or accommodated outside of the competitive market. Similarly, during shoulder and off-peak periods we project unsatisfied demand based on 5% occupancy during the remainder of the year for the new properties opening in the competitive market. In aggregate this produces an average of roundly 82 fill-nights annually.

  In our projection, with 127 new rooms expected to open in the competitive market and 191 rooms (Courtyard and Comfort Suites expansion) only partially absorbed in the market, our estimate of unsatisfied demand in future years adds roundly 26,000 room nights of new demand to the market, representing an average utilization of 23% of the new available room supply. To allow the new hotels to become known in the market, we allocate this new demand to the market during the first two years of operation for each new hotel. Accordingly, of the 26,000 total room nights, we estimate that roundly 11,000 room nights were already captured in the market during the first year of operation for the recent hotel openings, leaving only 15,000 room nights accruing during our forecast period.

- We estimate that the opening of the Courtyard by Marriott in a market that previously had no Marriott-branded hotels, has resulting in additional demand being induced into the market. Based on our interviews, management indicated that guests who previously stayed at Marriott-branded hotels in Eugene or Salem are now electing to stay in Corvallis due solely to the presence of a Marriott-branded hotel in the market. Our projections include approximately 4,000 room nights of additional induced demand entering the market in 2019. Given the presence of alternative Hilton brands in the market, we do not include a similar inducement for the opening of the Hampton Inn & Suites later in the forecast period.

Over the 2018 to 2024 forecast period, our projection incorporates roundly 19,000 room nights of new demand being attracted to the competitive market from unsatisfied and induced demand, which is 67% of the volume of new demand expected to be produced by underlying growth in the market during the same period. Overall demand growth at this level equates to a growth rate of 4.1% compounded annually. This level of growth is below the historical growth rate of 7.1% achieved in the 2013-2018 period which included the initial impact from the opening of the Courtyard. If we measure historical growth for the more normalized period from 2013 -2017, the historical growth in demand is 4.1% which is highly supportive of our growth projections during the forecast period. Based on our research and analysis of the competitive market, we consider this to be a reasonable expectation of changes in supply and demand over the near to mid-term. The table on the following page summarizes our forecast of future lodging market conditions within the competitive market, showing historical results for 2018 and our five-year projection from 2019 through 2024.

Projected Changes in Market Occupancy Rates Competitive Market								
		Calendar Years - Projected						2018-24
MARKET SUPPLY:	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**CAAGR**
Courtyard	176	176	176	176	176	176	176	
Hilton Garden Inn	153	153	153	153	153	153	153	
Holiday Express-Corvallis	93	93	93	93	93	93	93	
Hoiday Express-Albany	71	71	71	71	71	71	71	
Comfort Suites-Corvallis	110	110	110	110	110	110	110	
Comfort Suites-Albany	86	86	86	86	86	86	86	
BW -Lebanon	84	84	84	84	84	84	84	
Proposed Hotels:								
Hampton Inn-Corvallis				127	127	127	127	
Average Daily Rooms	773	773	773	900	900	900	900	
Annual Room Nights	282,145	282,145	282,145	328,500	328,500	328,500	328,500	2.6%
Percentage Change	29.2%	0.0%	0.0%	16.4%	0.0%	0.0%	0.0%	
MARKET DEMAND:								
Corporate/Gvt. Demand	63,600	70,300	72,400	77,100	81,100	83,100	85,200	5.0%
Underlying Change		3.0%	3.0%	3.0%	3.0%	2.5%	2.5%	
Induced/Unsatisfied		4,839	0	2,520	1,680	0	0	
Group/Meeting Demand	39,500	40,800	41,600	43,700	45,400	46,100	46,800	2.9%
Underlying Change		2.0%	2.0%	2.0%	2.0%	1.5%	1.5%	
Induced/Unsatisfied		471	0	1,260	840	0	0	
Tourist/Leisure Demand	69,700	74,400	76,300	80,700	84,400	86,100	87,800	3.9%
Underlying Change		2.5%	2.5%	2.5%	2.5%	2.0%	2.0%	
Induced/Unsatisfied		3,000	0	2,520	1,680	0	0	
Total Demand	172,800	185,500	190,300	201,500	210,900	215,300	219,800	4.1%
Total % Change	14.9%	7.3%	2.6%	5.9%	4.7%	2.1%	2.1%	
Total Induced/Unsatisfied	0	8,310	0	6,300	4,200	0	0	
MARKET OCCUPANCY:	**61%**	**66%**	**67%**	**61%**	**64%**	**66%**	**67%**	

Note: This table is presented subject to the comments contained in the attached report.

CONCLUSION AND RECCOMENDATIONS

Recent expansions in the broader market have negatively impacted the performance of all properties in the competitive market and have further delayed the stabilization of Lebanon's only significant hotel, the Best Western Premier - Boulder Falls Inn. With additional new supply already in the pipeline and expected to open in the next several years, this could be expected to further delay stabilization. In our opinion, the primary existing hotel in Lebanon is still performing below fair-share and has not yet reached a stabilized level of operation in the market. If there were sufficient demand to support another hotel in Lebanon, it would be evidenced by materially stronger performance at the Best Western including, higher occupancies, stronger average room rates, stronger rate growth, and considerably greater frequency of capacity constraints. While the Best Western is a very good quality hotel, comparable in most respects to the Courtyard or Hilton Garden Inn, it is priced much more similar to the mid-market properties, which further under-scores the pre-stabilized state of this asset.

Based on our analysis, we project that occupancies within the competitive market will likley remain in the mid-60% range for the next three to five years as recent and proposed supply changes are gradually absorbed within the market. Given the competitive positioning of Lebanon within the broader competitive market, we do not find adequate market support for development of another hotel in Lebanon at the present time. In our opinion, adding new rooms to the Lebanon market at this time would not be prudent and would likely be counter-productive, potentially impacting the economic viability of the existing hotel and the new hotel.

Lebanon should instead focus its efforts on growing demand before seeking to grow supply, don't get the cart before the horse. Growing demand in the local market should address all sectors of demand, commercial, leisure, and group. Hotels in Lebanon are most competitive for demand that is Lebanon-centric, demand that has a distinct affinity and purpose to be in Lebanon. For much of the other demand, Lebanon is competitively positioned behind Corvallis and Albany due to transportation factors, more limited ancillary or diversionary activities available to guests, more limited dining and shopping options, and other factors. While some of these are curable, others are not. Focus on growing from your already established strengths, seek to grow the niche areas of health care and education, support conferencing and other activities that play to your strengths and can be more readily directed to shoulder and off-peak periods. Continued development and build-out within the Samaritan Health Science Campus should be encouraged and this build-out should be symbiotic with other existing users and not simply commercial-infill. Potential development of additional colleges within a new campus in south Lebanon could also be beneficial, further expanding the educational role of the community, provided it does not result in an abrupt exodus from the existing facilities. Growth of festivals and events unique to your market should be supported and nurtured, while being timed to avoid any overlap with existing events or capacity periods. We recommend that you reevaluate the performance of the local lodging market in another three to five years, once the recent and current pipeline of new supply has been more fully absorbed within the market and when the potential impact of Western University's proposed new campus can be evaluated with greater certainty and visibility.

In our opinion, the most appropriate and viable addition to the rooms supply in Lebanon, in the near-term, would come from exercising the expansion potential of the existing Best Western. This alternative would likely be financially viable long before the addition of a new and competing hotel to the market. While we understand that expansion is not being considered at this time, due to current performance concerns, depending on timing of stabilization and other development within the campus, this alternative could be open to further discussion in the future.

ADDENDUM

ASSUMPTIONS AND LIMITING CONDITIONS

This feasibility study report has been prepared by Hotel Realty NW (HRNW) subject to the following assumptions and limiting conditions:

1. The subject property is assumed to be free and clear of any or all liens or encumbrances unless otherwise stated. No responsibility is assumed for the legal description or for matters including legal or title considerations. Title to the property is assumed to be clear and marketable with no recorded or unrecorded exceptions to title or deed restrictions that would adversely affect the utility of the site. It is assumed that the utilization of the land and improvements is or will be contained within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.

2. Responsible ownership and competent property management are assumed. Specifically, any user of this report should be aware the hotel business is very management and marketing intensive. The scope of our analysis did not include an evaluation of management capabilities.

3. Information provided by others and used in, or relied upon in the preparation of this report, is presumed to be reliable. However, no warranty, either express or implied, is given by HRNW for the accuracy of such information.

4. All plans, plats, surveys, maps, and other exhibits contained within this report are for illustrative purposes and are included only to assist the reader in visualizing the property and these materials are to be used for no other purposes. All design and engineering is assumed to be correct.

5. It is assumed there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less useful. Full compliance with all applicable federal, state, and local building codes and environmental regulations and laws is assumed. Compliance with all applicable zoning and land use regulations and restrictions is assumed, unless nonconformity has been stated, defined, and considered in the report. No representation is made regarding the applicability, need, or availability of flood insurance.

6. Unless otherwise stated, it is assumed there are no subsurface rights of material value relating to minerals, water, gas, oil, or other elements, nor relating to the exploration for, or extraction of, said elements. We have further assumed that there are no air rights or transferrable development rights that would materially affect the utility of the property.

7. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained and/or renewed for any use proposed in this report.

8. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be duplicated, reproduced, or transmitted, in whole or in part, without the prior written permission of HRNW. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of HRNW, and in any event only with proper written qualification and only in its entirety. HRNW is not required to give further consultation, testimony, or

be in attendance in court with reference to this report unless appropriate arrangements have been previously made.

9. Projections of future economic conditions, revenue, expenses, net operating income, mortgage debt service, capital outlays, cash flow, or inflation represent our judgment of the assumptions likely to be used by informed persons in the marketplace. These estimates are intended solely for analytical purposes and are not intended to accurately predict future results or events. Actual performance will differ from these projections, and these differences may be significant.

10. Estimates of project cost and operating performance are based on building plans and specifications provided by the client during the course of the study. Cost figures are intended as approximations only, and should be verified by competent architectural and engineering firms. In addition, to the extent that the eventual design and construction of the project vary from the plans and specifications provided, the actual development costs and operating performance of the project may differ from the estimates presented herein.

11. The Americans with Disabilities Act (ADA) of 1990 and its subsequent amendments imposes strict requirements on operators of public facilities including hotels. Unless otherwise stated in this report, it is assumed that the property and any proposed improvements will be in full compliance with the requirements of the ADA.

12. Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the appraiser become aware of such during the appraiser's inspection. The appraiser has no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraiser, however, is not qualified to test or necessarily detect such substances or conditions. The presence of substances such as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions, may affect the value of the property. The value estimated is predicated on the assumption there is no such condition on or in the property or in such proximity thereto that would cause a loss in value. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them.

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