

HOMEGATE HOSPITALITY, INC.
BUSINESS PLAN

A Thesis
Presented to
The Faculty of the Graduate School
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Master of Business Administration

by
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To my family, especially my sister Sylvia, for all the love, prayers, patience, and understanding.

And to Marty. Thank you, sugar, for all your words of encouragement. I couldn't have done it without you.

Austin, Texas

August, 1998

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SECTION I

BACKGROUND TO THE STUDY

Introduction

Homegate Hospitality, Inc. is a national hotel chain of midprice extended-stay hotels under the HomeGate Studios & Suites brand name. It capitalizes on what management believes is a large and underserved market of guests who desire extended-stay accommodations. This market includes business travelers, professionals on temporary work assignments, and individuals between housing situations such as persons relocating or in the process of purchasing a home.

Homegate is considering the possibility of locating one of its hotels in Hillsboro, Oregon, which is approximately twenty minutes from Portland, the state's largest city. The cost to construct a HomeGate in this target market, according to John C. Kratzer, Chief Operating Officer for the Company, is estimated at \$5.6 million. The Company, lacking the capital to move ahead on constructing a hotel facility in this area, is pursuing the possibility of obtaining a construction loan from a major bank or other lending institution.

Objective of the Study

There were two objectives of this study. The first objective was to develop a business plan for Homegate Hospitality, Inc. (hereafter called the Company). The Company, being in business for only two years, has not yet prepared a strategic plan of action. The Company now realizes that a business plan is needed, especially as they approach new lenders for funding purposes. The second objective of this study was to determine the Company's profit potential in Hillsboro, Oregon.

Significance of the Study

This study will benefit Homegate by providing valuable information on the hotel industry and the Hillsboro market. Research was obtained from credible sources well known in the hotel industry. The information, therefore, would allow Homegate to make important business decisions based on the findings of the research. The company could additionally utilize the format and information type presented in this study as a model when preparing future business plans.

Limitations of the Study

One of the limitations of this study was the number of data sources used in the data gathering process. However, the sources are well-known national and international marketing research firms that provide most of the nation's hotel industry research. Because of the limited number of available data sources, no cross-analysis was conducted to determine the validity of these published data. The research data was assumed to be valid based on the credibility of the reporting firms.

A second limitation is the time period of the secondary data. The reported data did cover ten years of activity. However, because of reporting lag time, the last full year of data used was 1996. For instance, market information on the City of Hillsboro was collected in 1997 based on full year reports for 1995 and 1996. Thus, for the purposes of this study, the most current national reports (1995 & 1996) on hotel industry economics was considered to be sufficient.

Finally, the thirteen months required to develop and construct a hotel facility limits the validity of this study. The projected five-year financial situation (2000-2004) for a HomeGate in Hillsboro, Oregon, can only be compared to the Company's current financial operating situation (1996-1997).

Organization of the Study

Section II will provide the methodology used to prepare this business plan.

Section III will give an overview of the data collected, including a brief definition of the Company and description of their product, research on the hotel industry, and information regarding the market of Hillsboro. Section IV will summarize the data, provide estimated operating projections, compare the projections with the Company's actual performance, and include a recommendation.

SECTION II

METHODOLOGY

The two objectives for this study (a strategic plan of action and a market analysis of the Hillsboro, Oregon, hotel market) were accomplished by using the following methodology:

1. A review of the most current hotel industry performance data.
2. A review of the hotel demand and supply data in the target market of Hillsboro, Oregon.
3. A review of the Company's goals, objectives, and financial data.

Industry Performance Data

Most of the performance data reported in this study were derived from three main sources: Bear, Stearns & Co., Inc.; Smith Travel Research; and Coopers & Lybrand. All of these sources are well known in the hotel industry and provide much of the information that is presently available to the public.

Bear, Stearns is a leading worldwide investment banking and securities trading and brokerage firm that provides many services to its clients, including marketing research. According to their web site, *www.bearstearns.com*, the Company keeps a close watch on both domestic and international markets by identifying changes and trends in a variety of industries. In regard to the hotel industry, the Company has published their yearly report, entitled *U.S. Lodging Almanac*, since the late 1980s. The report published in 1997, which covers the activity in the hotel industry during the period 1987-1996, was used to develop this study.

Bear, Stearns credits Smith Travel Research and Coopers & Lybrand for providing hotel information found in their 1997 issue of *U.S. Lodging Almanac*. Smith Travel Research is the recognized leader in providing accurate, actionable information and analysis to the lodging industry. According to their web site, *www.str-online.com*, the Company operates on the key principles of integrity, confidentiality, and customer service. Smith Travel Research (STR) provides information and analysis to all major U.S. hotel chains. Individual hotels, management companies, appraisers, consultants, investors, lenders, and other lodging industry analysts also rely on STR data for the accuracy they require.

With the most comprehensive database of hotel performance information ever compiled, STR offers a variety of products and services to meet the needs of industry leaders. The *Lodging Outlook*, a monthly newsletter regarding the U.S. hotel industry, provides data on current trends and includes periodic analysis of various market segments and observations regarding industry performance.

Coopers & Lybrand, according to their web site (www.pwcglobal.com), serves a variety of sectors including the lodging industry. They provide their clients with industry expertise, technical skills and incisive research data. Coopers & Lybrand claims to be the only professional services firm with a hospitality research team composed of individuals with doctorates and advanced degrees in economics and statistics. One of their many publications include the yearly report entitled *Hospitality Review*.

Market Supply and Demand Data

The major sources used for obtaining information on the hotel activity in the Hillsboro, Oregon, area was Smith Travel Research and Coopers & Lybrand. As previously stated, these sources are among the few firms that provide much of the information on the hotel industry which is presently available to the public.

In addition to conducting research on the entire hotel industry, Smith Travel Research also produces customized reports of occupancy, room rates, revenue per available room, and supply and demand for a variety of markets and segments. Coopers & Lybrand provides assessments and projections for clients who are considering moving into new markets.

Woods & Poole Economics, Inc. provided economic and demographic data for the Hillsboro, Oregon, area in Bear, Stearns' yearly publication entitled *U.S. Lodging Almanac*. According to the web site *www.marketingpower.com*, the Woods & Poole database contains more than 550 economic and demographic variables for every state, region, county, and Metropolitan Statistical Area in the U.S. This comprehensive database includes population detailed by age, sex, and race; employment and earnings by industry; personal income and income per capita; households by income bracket; and data on the size and income of households.

Company Goals, Objectives, and Financial Data

Face-to-face interviews were conducted with the Chief Executive Officer and the Chief Operating Officer of Homegate Hospitality, Inc. to gather company data. The interview with Robert A. Faith, Chief Executive Officer, took place in the offices of Homegate on May 12, 1998. Questions asked of Mr. Faith focused on the Company's history, product offerings, and marketing strategy.

The interview with John C. Kratzer, Chief Operating Officer, was conducted on May 27, 1998 in the offices of Homegate Hospitality, Inc. Questions asked of Mr. Kratzer focused on the Company's status of operations and future plans for development.

SECTION III

FINDINGS

The purpose of this Section is to present information on Homegate, the U.S. lodging industry, and the hotel activity in the Hillsboro, Oregon, area.

Firm Identification

Homegate Hospitality, Inc. is a national hotel chain of midprice extended-stay hotels under the HomeGate Studios & Suites brand name. It capitalizes on what management believes is a large and underserved market of guests who desire extended-stay accommodations. This market includes business travelers, professionals on temporary work assignments, and individuals between housing situations such as persons relocating or in the process of purchasing a home.

According to Robert A. Faith, Chief Executive Officer of Homegate Hospitality, Inc., the Company was founded in February 1996 by management and affiliates of the following three entities: Trammell Crow Residential Company, one of the nation's leading developers of multi-family housing units; Greystar Capital

Partners, L.P., a private investment company with substantial multi-family housing development and construction expertise; and Crow Investment Trust, the real estate investment arm of the Crow Family. With Trammell Crow Residential, Greystar, and Crow, the Company brings together extensive experience in developing, constructing, and managing properties on a national scale and in structuring, financing, and executing national real estate investment programs.

Product/Services

Homegate's product strategy is to develop a well-recognized national brand under the HomeGate Studios & Suites name. This strategy will be accomplished by offering high quality extended-stay accommodations with the value of limited-service hotels and the added features and comfort of apartment living. Mr. Faith stated that the Company has carefully integrated its product, management team, and marketing programs to communicate the value offered by HomeGate extended-stay facilities to the following types of potential guests:

1. guests who ordinarily patronize either higher-priced/comparable quality or comparably price/lower quality extended-stay hotels as well as those who patronize traditional hotel chains in markets in which Homegate competes, and
2. extended-stay guests who have typically stayed in traditional hotels.

The properties presently operating under the Company's emerging chain are located in well-traveled areas that are easily visible and accessible from major roads. Each property is set up as an apartment-type building complex, consisting of three 2- or 3-story buildings. A HomeGate property typically has 120 to 145 units. There are three functional room configurations offered to guests - studios, deluxes, and one-bedrooms. The size of the rooms range from 295 to 545 square feet. The average weekly room rates range from \$280 to \$500, which equates to \$56 to \$100 per day.

Each of the hotel's guest rooms include:

- Fully-equipped kitchen with full-size refrigerator, cooktop range, microwave oven, toaster, coffeemaker, and kitchen utensils.
- Spacious vanity and bath with wall-size mirror.
- An oversize work desk with a direct-dial dataport phone with voice mail.
- King-size bed with sleeper sofa or two double beds plus a bedside AM/FM clock radio/alarm.
- Remote-control color television with expanded channels and in-room movies.
- Free local telephone calls.

The hotel complex offers amenities such as:

- Courtyard swimming pool.
- Upscale exercise facility.
- Business center.
- Weekly housekeeping and towel service.
- 24-hour guest laundry facilities.
- Same day dry-cleaning service.

Development Program

The Company has outlined a comprehensive strategy for the rapid development of its brands while maintaining control of the development process. According to John C. Kratzer, Chief Operating Officer of Homegate Hospitality, Inc., the Company is in the midst of an aggressive development program to have forty-five extended-stay hotels open or under construction by year-end 1998. As of the writing of this business plan (May 31, 1998), Homegate had twenty-six hotels under operation, thirteen under construction, and eleven under development. Mr. Kratzer strongly believed that the eleven sites under development would start construction by the end of the year. Table 1 provides the status of the development program as of May 31, 1998.

Table 1. Status of Development Program (as of May 31, 1998)

Location	Number of Hotels	Number of Rooms
Hotels Under Operation:		
El Paso, Texas	1	125
Dallas, Texas	4	502
San Antonio, Texas	2	242
Amarillo, Texas	1	125
Austin, Texas	4	508
Phoenix, Arizona	3	405
Denver, Colorado	1	143
Houston, Texas	4	434
Kansas City, Missouri	2	250
Orlando, Florida	1	134
Indianapolis, Indiana	1	121
Miami, Florida	1	130
Columbus, Ohio	<u>1</u>	<u>83</u>
	26	3202
Hotels Under Construction:		
Indianapolis, Indiana	1	139
Denver, Colorado	1	136
Phoenix, Arizona	1	129
Tampa, Florida	1	133
Raleigh, North Carolina	1	139
Albuquerque, New Mexico	1	106
Las Vegas, Nevada	1	125
Atlanta, Georgia	2	239
Orlando, Florida	1	139
Columbus, Ohio	1	136
Memphis, Tennessee	1	125
Dallas, Texas	<u>1</u>	<u>124</u>
	13	1670
Hotels Under Development:		
Columbia, Maryland	2	257
Miami, Florida	1	121
Atlanta, Georgia	1	90
Tucson, Arizona	2	243
Huntsville, Alabama	1	129
Houston, Texas	1	111
Memphis, Tennessee	1	126
Albuquerque, New Mexico	1	119
Orlando, Florida	<u>1</u>	<u>127</u>
	11	1323

Source: Homegate Hospitality, Inc. (1998)

Site Selection

The Company undertakes an extensive review process in selecting sites for new hotels. Sites are initially identified with the assistance of a nationwide network of brokers. Once identified, the Company assesses the feasibility of the sites, which includes extensive review by operations and sales staff members as well as independent consultants. Key factors in the selection of sites include close proximity to large businesses that may have a need for extended-stay accommodations (also referred to as “demand generators”), superior visibility from major thoroughfares, ease of access, and nearby guest amenities such as shopping and restaurants. The entire process, from site selection to completion of construction and opening, takes approximately thirteen months.

Mr. Kratzer stated that suburban markets offer a number of features which permit the rapid expansion of its brands. As opposed to central business districts, suburban markets offer ample land to construct new hotels. More importantly, the Company believes that suburban locations appeal to large businesses needing extended-stay housing for employees.

The Company has expanded into new regions by developing hotels in certain cities within that region. This strategy has permitted the Company to quickly build brand recognition in a particular region. Key cities where

HomeGates are open or under construction include Dallas, Houston, Austin, Miami, Denver, and Phoenix. A key city is determined mostly by its population, economic character, demand for extended-stay facilities, competition, and economic outlook.

Marketing Strategy

Mr. Faith believes that direct sales is one of Homegate's primary marketing tools and utilizes the popular "push-pull" approach to marketing.

- The "push" refers to national marketing efforts which include, among other things, calling programs of frequent travelers and national corporate travel departments, and marketing major travel agencies.
- The "pull" refers to property-specific marketing efforts both before and after the facility has opened. Prior to opening, Homegate's regional salesperson conducts a marketing program to establish relationships with likely users of the facility, such as human resource personnel or travel executives at local corporations, local realtors, and other lodging-demand generators. After the grand opening, the manager of each hotel is responsible for maintaining these relationships and generating new prospects.

In addition to direct sales, Homegate utilizes the Internet and local advertising to reach potential guests. Homegate's web page contains pictures, city maps, floor plans, hotel amenities, and room rates for each of their properties. An e-mail address and toll-free telephone number are also provided for those guests who need to make reservations or simply have questions about a property.

Half-page advertisements can normally be found every month in local *Apartment Guide* magazines. This advertising media, although typically used by apartment-type housing providers, is appropriate as a medium to reach people wanting extended-stay accommodations with very little obligation relative to security deposits and long-term leases.

Industry Analysis

For the purposes of this business plan, the U.S. lodging industry was analyzed based on Bear, Stearns & Co.'s (BSC) brand segment,¹ which splits the industry into three sectors: full-service, limited-service, and extended-stay. Hotels in the full-service sector generally offer full food and beverage facilities, meeting

¹Bear, Stearns & Co. is a national market research company which, in 1992, began presenting research on the hotel industry based on three sectors: full-service, limited-service, and extended-stay. This type of methodology differs from research presented by other marketing firms (i.e., Meinrad LP, The Danter Company, and InterBank Brener Hospitality) as it separates the newest sector - extended-stay - from the other two sectors.

facilities, and more extensive guest services and amenities. Hotels in the limited-service sector offer no (or very limited) food and beverage facilities and fewer guest services and amenities. Hotels in the extended-stay sector are geared toward guests who stay five or more nights. These hotels typically offer rooms with separate sleeping and living areas, and kitchens or kitchenettes.

According to Bear, Stearns (BS), the full-service sector accounted for 59.2 percent of the total rooms in the U.S. lodging industry in 1996. The limited-service sector made up 38.8 percent of the total number of rooms and the extended-stay sector made up 2.0 percent.

The full-service sector is subdivided into four segments: deluxe, luxury, upscale, and midscale with food and beverage.² The limited-service sector is subdivided into three segments: midscale without food and beverage, economy, and budget. Finally, the extended-stay sector is subdivided into two segments: upper-tier and lower-tier.

²Casinos and resorts are excluded from the midscale with food and beverage segment because the economics that drive the casino and resort industry are different from those that drive the traditional hotel market.

Since the extended-stay sector was most relevant to this research study, the majority of the information presented at this time will be on the lower-tier and upper-tier segments. However, Appendix A provides the findings of an extensive review conducted on all hotel segments during 1987-1996. Additional information on the full-service and limited-service sectors can be found in Appendix A.

Full-Service Sector

Deluxe

This segment includes brands of the highest quality, such as Four Seasons, Ritz Carlton, and Fairmont. This segment also includes independent properties that have more than 100 rooms and are located in urban markets. The deluxe segment accounted for 2.1 percent of the total supply of rooms in 1996 (Bear, Stearns 1997). Table 2 identifies the brand names of the hotels within the deluxe segment of the full-service sector.

Table 2. Deluxe Segment

Brand	Property Count	Room Count	Average Size
Preferred	61	13,424	220
Ritz-Carlton	24	8,080	337
Four Seasons	18	5,627	313
Fairmont	7	4,291	613
Independent	68	15,417	227
Segment Totals:	178	46,839	263

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997)

Luxury

This segment consists of brands that reflect slightly lower service levels, less extensive amenities, and lower room rates than the deluxe segment. These chains typically cater to business travelers and convention and meeting groups. Many of these chains now offer amenities that focus on providing a more productive work environment for the business traveler through the introduction of in-room fax machines and modem lines. As shown in Table 3, Marriott, Sheraton, Hyatt, and Hilton dominate the luxury segment of the full-service sector. The luxury segment accounted for 15.4 percent of the total supply of rooms in 1996 (Bear, Stearns 1997).

Table 3. Luxury Segment

Brand	Property Count	Room Count	Average Size
Marriott	228	96,278	422
Sheraton	151	58,763	389
Hyatt	101	52,237	517
Hilton	76	53,677	706
Westin	44	24,160	549
Omni	37	14,176	383
Renaissance	31	13,515	436
Wyndham	20	7,787	389
Loews	9	3,387	376
Inter-Continental	8	4,116	515
Meridien	7	2,609	373
Doral	7	2,171	310
Hotel Sofitel	7	1,979	283
Nikko	5	2,642	528
Helmsley	5	2,042	408
Vista International	2	813	407
Raphael Hotel	2	295	148
Segment Totals:	740	340,647	460

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997)

Upscale

In addition to basic, traditional full-service hotels, this segment includes all-suite brands such as Embassy Suites and Doubletree Guest Suites. Radisson, Hilton Inns, Embassy Suites, and Clarion are the largest chains in the upscale segment. This segment made up nearly 10 percent of the total supply of rooms in 1996 (Bear, Stearns 1997). Table 4 identifies the brand names and property sizes of the hotels within the upscale segment of the full-service sector.

Table 4. Upscale Segment

Brand	Property Count	Room Count	Average Size
Radisson	213	51,151	240
Hilton Inn	153	39,199	256
Embassy Suites	132	31,584	239
Clarion	81	13,492	167
Red Lion	56	14,863	265
Doubletree	51	16,119	316
Crowne Plaza	46	16,462	358
Wyndham Garden	40	7,313	183
Doubletree Guest Suites	37	7,933	214
Adam's Mark	16	7,473	467
Westcoast	16	2,890	181
Westmark	12	1,648	137
Regal	11	4,377	398
Hotel Novotel	3	875	292
Segment Totals:	867	215,379	248

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997)

Midscale with Food and Beverage

The midscale with food and beverage (F&B) segment is the largest of all the segments. Best Western, Holiday Inn, and Ramada are the largest chains in this segment. The segment accounted for 31.7 percent of the total supply of rooms in 1996 (Bear, Stearns 1997). Table 5 identifies the brand names and sizes of the hotels within the midscale with food and beverage segment of the full-service sector.

Table 5. Midscale with Food & Beverage Segment

Brand	Property Count	Room Count	Average Size
Best Western	1,993	182,304	91
Holiday Inn	1,191	224,672	189
Ramada	658	102,212	155
Howard Johnson	396	44,550	113
Quality Inn	394	48,900	124
Courtyard	287	40,689	142
Park Inn	49	5,939	121
Holiday Inn Select	47	12,787	272
Four Points	39	7,112	182
Sheraton Inn	31	6,657	215
Outrigger	25	9,037	361
Doubletree Club	14	2,814	201
Harley Hotel	14	2,509	179
Harvey Hotel	13	4,098	315
Little America	6	2,278	380
Cavanaugh's	6	1,280	213
Garden Plaza	4	691	173
Wingate Inn	4	407	102
Segment Totals:	5,171	698,936	135

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997)

Limited-Service Sector

Midscale without Food and Beverage

This segment is the fastest-growing segment. In 1996, this segment represented 12.3 percent of the total supply of rooms while in 1987 it was only 5 percent of all rooms (Bear, Stearns 1997). As presented in Table 6, Comfort Inn, Hampton Inn, and Holiday Inn Express were the largest chains in the midscale without food and beverage segment of the limited-service sector.

Table 6. Midscale w/o Food & Beverage Segment

Brand	Property Count	Room Count	Average Size
Comfort Inn	1,213	100,271	83
Hampton Inn	619	67,390	109
Holiday Inn Express	504	41,741	83
La Quinta	242	31,289	129
Country Lodging Inn	73	5,425	74
Dury Inn	56	6,714	120
Shilo Inn	45	5,024	112
Amerihost	39	2,505	64
AmeriSuites	32	3,922	123
Wellesley Inn	29	2,912	100
Signature Inn	23	2,747	119
Heartland	21	1,660	79
Lee's Inn of America	18	1,374	76
Clubhouse Inns	16	2,314	145
Hampton Inn & Suites	16	1,844	115
Master Hosts Inn	10	1,323	132
Conley Inn	7	487	70
Cabot Lodge	6	1,076	179
Hilton Garden Inn	5	739	148
Westar Suites	5	622	124
Cypress Inn	3	138	46
Segment Totals:	2,982	281,517	94

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997)

Economy

This segment made up 13.5 percent of the total number of rooms in 1996 (Bear, Stearns 1997). According to the information presented in Table 7, the economy segment of the limited-service sector is dominated by Days Inn, whose 1,659 properties were nearly four times as many as the next largest chain, Travelodge (393 properties).

Table 7. Economy Segment

Brand	Property Count	Room Count	Average Size
Days Inn	1,659	151,741	91
Travelodge	393	31,227	79
Fairfield Inn	281	26,813	95
Red Roof Inn	245	27,790	113
Rodeway Inn	195	12,338	63
Ramada Limited	186	14,524	78
Budgetel	134	14,032	105
Shoney's Inn	89	9,109	102
AmericInn	58	2,582	45
Vagabond Inn	49	3,418	70
Susse Chalet	33	3,657	111
Jameson Inns	31	1,368	44
Best Inns of America	30	2,868	96
Innkeeper	22	1,892	86
Nendels	18	1,211	67
Country Hearth Inn	18	1,197	67
McIntosh Motor Inn	12	1,410	118
Key West Inn	10	429	43
L-K Motel	8	377	47
Segment Totals:	3,471	307,983	89

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997)

Budget

The budget segment in the limited-service sector has the largest number of chains (37) and accounted for 13 percent of the total number of rooms in 1996 (Bear, Stearns 1997). Super 8 is the dominant chain in this segment with 1,454 properties, around twice the number of properties as the next ranking brands: Motel 6 (742 properties) and Econo Lodge (687 properties). The brands in the budget segment of the limited-service sector are identified in Table 8.

Table 8. Budget Segment

Brand	Property Count	Room Count	Average Size
Super 8	1,454	88,863	61
Motel 6	742	83,971	113
Econo Lodge	687	45,723	67
Knights Inn	178	15,901	89
Budget Host Inn	176	6,882	39
Scottish Inn	144	7,588	53
Red Carpet Inn	122	7,375	60
Sleep Inn	114	8,325	73
Hojo Inn	102	6,837	67
National 9	54	2,009	37
Thriftlodge	38	1,951	51
Travelers Inn	35	4,256	122
Masters Inn	29	3,613	125
E-Z 8	29	2,872	99
Exel Inn	28	3,131	112
Microtel	28	2,747	98
Family Inns	26	2,291	88
Cross Country Inn	25	3,009	120
Economy Inns	25	2,823	113
Friendship Inn	23	910	40
Wilson Inn	16	2,485	155
Motel Orleans	15	973	65
Interstate Inn	15	863	58
Good Nite Inn	14	1,692	121
Select Inn	14	1,364	97
Passport Inn	13	620	48
Admiral Benbow	10	1,165	117
Cricket Inn	8	1,100	138
Sixpence Inn	8	860	108
Budget Inn	8	662	83
Ha'Penny	7	705	101
Roadstar Inn	7	576	82
Hometown Inn	5	332	66
Travel Inn	4	204	51
Wynfield	3	578	193
Thrifty Inn	3	227	76
Segment Totals:	4,216	315,806	75

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997)

Extended-Stay Sector

Upper-Tier Extended-Stay

Hotels in this segment accounted for 1.7 percent of the total rooms in the industry in 1996, up from 0.8 percent in 1987 (Bear, Stearns 1997). Residence Inn dominated this upper-tier segment, with 222 properties, or 80 percent of the entire segment. Table 9 identifies the brand names within the upper-tier segment of the extended-stay sector.

Table 9. Upper-Tier Extended-Stay Segment

Brand	Property Count	Room Count	Average Size
Residence Inn	222	26,311	119
Summerfield Suites	24	3,086	129
Hawthorne Suites	19	2,417	127
Woodfin Suites	6	739	123
Homewood Suites	5	332	66
Segment Totals:	276	32,885	119

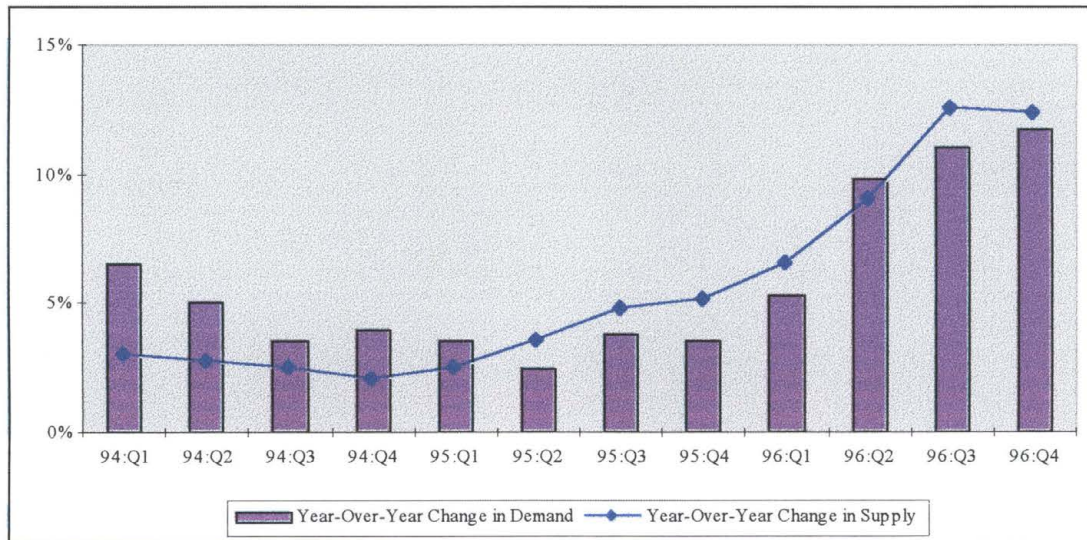
Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997)

According to information obtained from Smith Travel Research (STR),³ the five upper-tier extended-stay chains achieved an average daily rate (ADR) of \$88.95 in 1996. Residence Inn reported an ADR of \$88.76, while Homewood Suites reported an ADR of \$89.39, both of which are very close to the segment average.

³Smith Travel Research is a national marketing research firm that specializes in the U.S. hotel industry. The information presented in Smith Travel Research's quarterly reports, titled *Lodging Outlook*, was used by Bear, Stearns to provide a 1994-1996 overview using the BSC brand segment.

Figure 1 illustrates the year-over-year change in supply and demand in the upper-tier extended-stay segment from 1994 to 1996. Growth in supply increased by 1.6 percent in 1994, 5.3 percent in 1995, and 13.1 percent in 1996. Growth in demand increased by 4.7 in 1994, 3.0 percent in 1995, and 9.6 percent in 1996 (Bear, Stearns 1997). As shown in Figure 1, supply growth exceeded demand growth in all but two of the eight quarters.

Figure 1. Year-Over-Year Change in Supply and Demand in Upper-Tier Extended-Stay Segment (1Q94-4Q96)



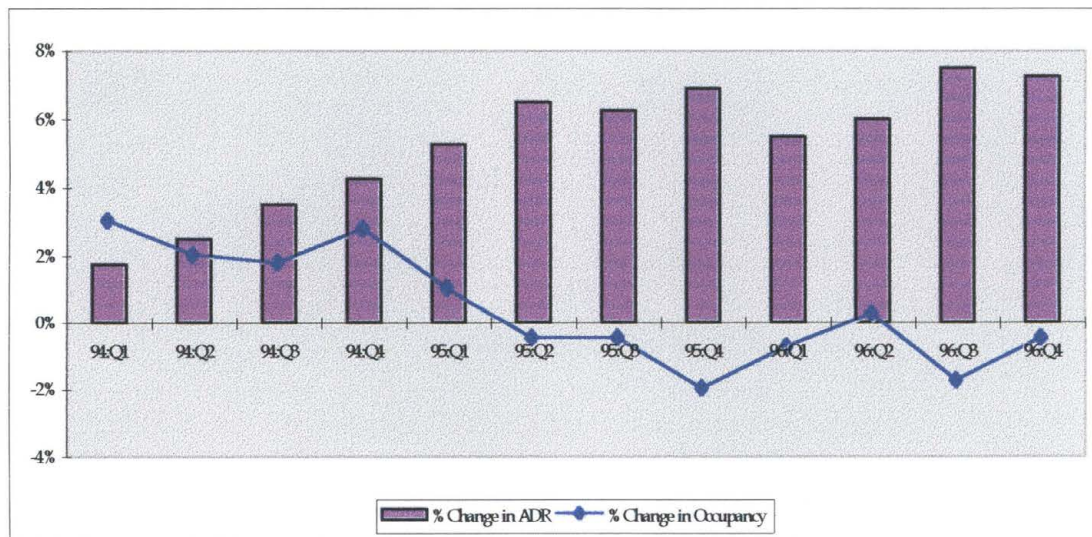
Source: Bear, Stearns & Co., Inc. (1997); Coopers & Lybrand L.L.P. (1997); Smith Travel Research (1997)

Upper-tier extended-stay hotels achieved occupancy of 81.5 percent in 1996, by far the highest occupancy rate achieved by any segment in the industry (Smith Travel Research 1997). Despite this high accomplishment, segment-wide occupancy rates slipped in 1996 by 1.2 percent from their high of 82.5 percent in

1994. However, occupancy rates during 1992-1996 remained 6.0 percent higher than the segment's ten-year (1987-1996) average rate of 75.5 percent.

According to Coopers & Lybrand,⁴ the segment's drop in occupancy, which began in early 1995 (see Figure 2), was the result of supply growth exceeding demand growth during most of the three-year study period. Although occupancies declined only slightly between 1994 and 1996 (at a rate of less than 1.0 percent), occupancy rates experienced by upper-tier extended-stay hotels were higher than in any other segment in 1996.

Figure 2. Year-Over-Year Change in ADR and Occupancy in Upper-Tier Extended-Stay Segment (1Q94-4Q96)



Source: Bear, Stearns & Co., Inc. (1997); Coopers & Lybrand L.L.P. (1997); Smith Travel Research (1997)

⁴Coopers & Lybrand is an accounting firm that also has a marketing research department which conducts studies in many industries, including the lodging industry. The information presented in Coopers & Lybrand's report titled *Hospitality Review* (1997) was used by Bear, Stearns to provide a 1994-1996 overview using the BSC brand segment.

The average daily rates (ADRs) within the upper-tier segment experienced steady growth during the most recent three-year period: 3.0 percent in 1994, 6.0 percent in 1995, and 6.5 percent in 1996 (refer back to Figure 2). Segment-wide ADR was reported at \$78.81 in 1994, \$83.50 in 1995, and \$88.95 in 1996 (Smith Travel Research 1997).

Lower-Tier Extended-Stay

This category is actually a combination of two distinct price categories of extended-stay properties: mid-priced (between \$250 and \$500 per week) and lower priced (under \$250 per week). Homegate, with its average weekly rates of \$280 to \$500, falls within the mid-priced category of the lower-tier segment. Other hotels within the lower-tier segment of the extended-stay sector are identified in Table 10.

Table 10. Lower-Tier Extended-Stay Segment

Brand	Property Count	Room Count	Average Size
Villager Lodge	36	2,818	78
Studio Plus	35	2,410	69
Homestead Village	31	4,276	138
Extended Stay America	27	3,551	132
Suburban Lodge	19	2,490	131
Lexington Hotel Suites	10	1,944	194
Inn Suites	4	575	144
Segment Totals:	162	18,064	112

Source: Bear Stearns & Co., Inc. (1997); Smith Travel Research (1997)

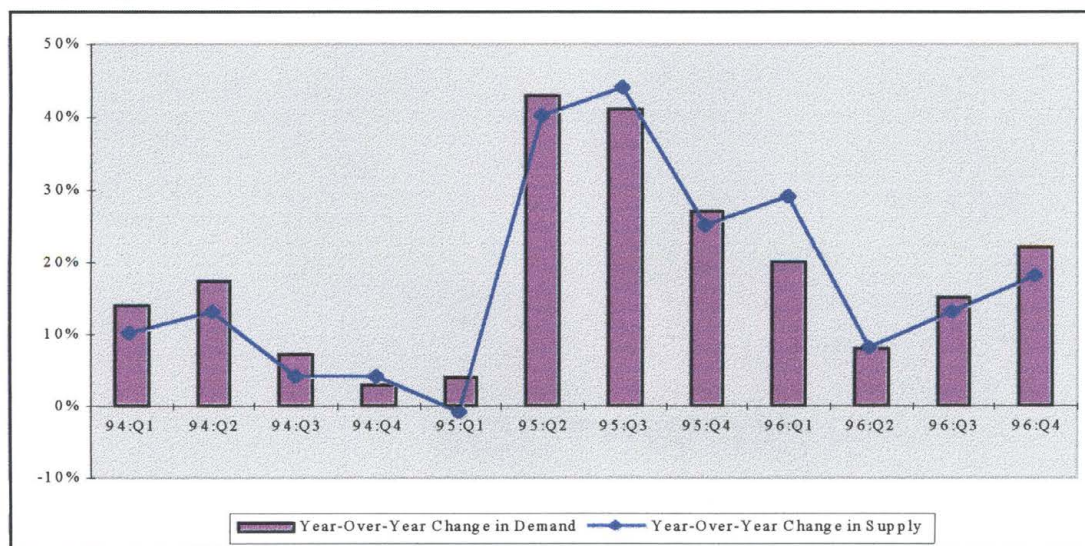
The ADR for the lower-tier extended-stay segment was \$34.81 in 1996.

According to STR, Suburban Lodge reported the segment's lowest ADR of \$21.18.

Extended Stay America reported an ADR of \$ 33.28 while Studio Plus reported the segment's highest ADR of \$40.59. (Homegate reported an ADR of \$52.46 in 1997.)

The lower tier of the extended-stay sector is in its very early stages of development and constitutes the smallest data group of all the hotel segments. Until 1995, there were only a handful of "brands" in this segment. As illustrated in Figure 3, growth in both supply and demand were most significant in 1995. Supply grew at a rate of 3.1 percent in 1994, 25.0 percent in 1995, and 17.8 percent in 1996. Demand grew at a rate of 9.7 percent in 1994, 29.0 percent in 1995, and 15.4 percent in 1996 (Bear, Stearns 1997).

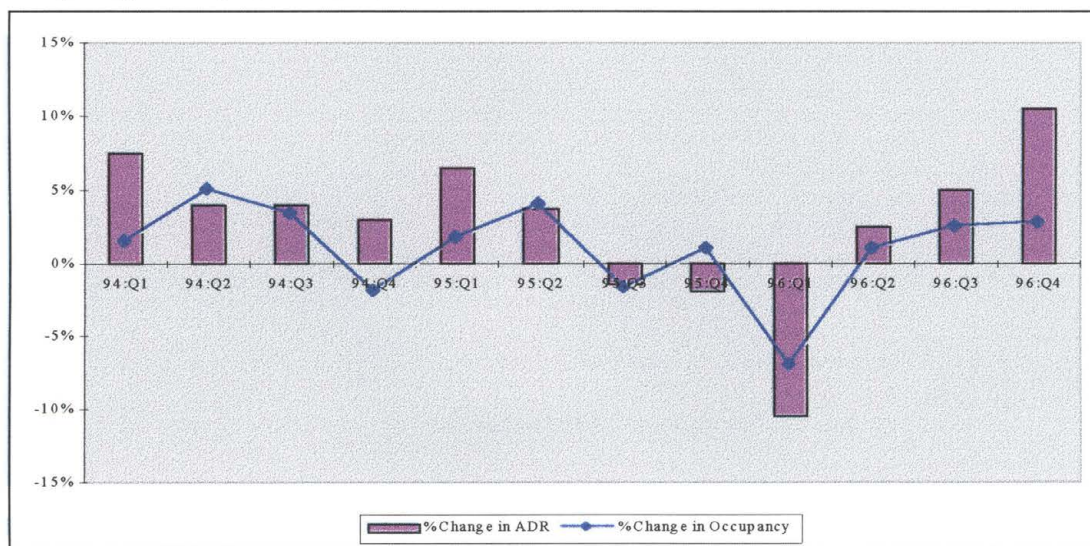
Figure 3. Year-Over-Year Change in Supply and Demand in Lower-Tier Extended-Stay Segment (1Q94-4Q96)



Source: Bear, Stearns & Co., Inc. (1997); Coopers & Lybrand L.L.P. (1997); Smith Travel Research (1997)

As shown in Figure 4, occupancy within the lower-tier segment took a slight decline in 1996. Occupancy rates were reported at 72.0 percent in 1994, 72.9 percent in 1995, and 72.6 percent in 1996 (Smith Travel Research 1997). (Homegate recorded an occupancy rate of 71.0 percent in 1997). Growth in ADR also took a slight decline in 1996. A 4.9 percent growth rate was reported for 1994, 1.8 percent in 1995, and 1.3 percent 1996. Actual ADRs, according to STR, were recorded as being \$33.77 in 1994, \$34.37 in 1995, and \$34.81 in 1996. (Homegate recorded an ADR of \$52.46 in 1997.)

Figure 4. Year-Over-Year Change in ADR and Occupancy in Lower-Tier Extended-Stay Segment (1Q94-4Q96)



Source: Bear, Stearns & Co., Inc. (1997); Coopers & Lybrand L.L.P. (1997); Smith Travel Research (1997)

Because this segment is small and new, it is recommended that observers be cautious in formulating positions based on the limited published results relative to this lower-tier extended-stay segment.

Segment Comparison

As previously mentioned, Appendix A provides the findings of an extensive ten-year review of each segment within the three sectors. The data have been broken down into five categories: change in supply, change in demand, occupancy, average daily rates (ADRs), and revenue per available room (RevPAR).⁵ In order to compare the extended-stay market with the other sectors in the hotel industry, compounded annual growth rates⁶ for supply, demand, occupancy, ADR, and RevPAR were calculated for each segment. The calculated results will now be discussed.

Table 11 identifies the compounded annual growth rate (CAGR) in supply achieved by each of the segments in the hotel industry.

⁵Revenue per Available Room (RevPAR) is a measure of room revenue yield. It is calculated by multiplying hotel occupancy by ADR.

⁶The compounded annual growth rates were calculated by using the year-over-year change in supply, demand, occupancy, average daily rates, and revenue per available room found in Appendix A.

Table 11. Supply Growth (1987-96)

Segment	Available Rooms		CAGR*
	1987	1996	
Deluxe	39,498	46,607	2.1%
Luxury	281,170	337,199	2.0
Upscale	140,371	216,776	4.9
Midscale with F&B	658,076	696,377	0.6
Midscale w/ out F&B	80,515	270,322	14.4
Economy	179,344	295,880	5.7
Budget	174,150	283,998	5.6
Upper-Tier Extended-Stay	13,191	36,229	11.9
Lower-Tier Extended-Stay	3,955	10,034	14.2
	1,570,270	2,193,422	3.8

* CAGR = Compounded annual growth rate.

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997)

As shown on Table 11, the midscale without food and beverage (F&B) segment more than quadrupled in size between 1987 and 1996. This strong growth resulted from Comfort Inn, Hampton Inn, La Quinta, and Holiday Inn Express servicing the limited-service sector (Smith Travel Research 1997). The extended-stay sector also blossomed between 1987-1996, with the upper-tier segment growing at a compound annual rate of 11.9 percent and the lower-tier segment growing at a rate of 14.2 percent. Strong growth in the Residence Inn chain drove the upper-tier, while the lower-tier was virtually invented during this time period with the introduction of Homestead Village and Suburban Lodge in 1989 (Smith, Travel Research 1997).

By far, the weakest-performing segment over the 1987-1996 period was midscale with F&B. This segment is comprised of most of the major brands that are experiencing minimal growth due to lack of demand. Much of this segment consists of older motel-style properties with exterior corridors and low-quality restaurants or coffee shops. According to Smith Travel Research, these types of properties proliferated throughout the country during the 1960s and 1970s, but today represent most of the lodging industry's stock of obsolete and under-performing hotels. Unlike grand old hotels that can be renovated to celebrate their former splendor, little can be done to alter the appearance or functionality of these roadside landmarks of a bygone era.

Other slow-growing segments in the industry during the period were deluxe and luxury. Although these deluxe and luxury hotels remained popular with travelers, they fell out of favor with lenders and developers (Coopers & Lybrand 1997). Burned by countless bad hotel loans in 1991, development capital for this part of the industry was completely shut off. To date, investment capital for deluxe and luxury hotels still has not returned to any significant level, although estimates from Coopers & Lybrand predict continued modest supply growth in the top two full-service segments.

When comparing the compounded annual growth rate in supply to the growth rate of demand, it was discovered that demand growth had been stronger than supply growth in all but the economy segment (see Table 12). The gap between demand growth rates and supply growth rates was the highest in the upscale, midscale without F&B, and upper-tier extended-stay segments in the period 1987 to 1996. When comparing sectors, the extended-stay sector achieved the highest gap.

Table 12. Change in Demand Versus Change in Supply by Segment

Segment	CAGR 1987-96*		Difference
	Demand	Supply	
Deluxe	3.6%	2.1%	1.5 percent
Luxury	3.1	2.0	1.1
Upscale	6.8	4.9	1.9
Midscale with F&B	1.2	0.6	0.6
Midscale w/o F&B	16.2	14.4	1.8
Economy	5.6	5.7	(0.1)
Budget	6.6	5.6	1.0
Upper-Tier Extended-Stay	13.7	11.9	1.8
Lower-Tier Extended-Stay	15.5	14.2	1.3

* CAGRs are from 1989-96 for lower-tier extended-stay segment.

Source: Bear, Stearns & Co. (1997); Smith Travel Research (1997)

As illustrated in Table 13, occupancy rates improved in all segments but economy. The strongest performance in occupancy were experienced by the upscale and upper-tier extended-stay segments. On average, the occupancy rates in the upper-tier segment had increased annually by 1.40 percent over the ten-year period.

Table 13. Improvement in Occupancy by Segment (1987 & 1996)

Segment	Occupancy		Difference
	1987*	1996	
Deluxe	65.4%	72.2%	6.8 percent
Luxury	69.1	74.1	5.0
Upscale	59.7	69.7	10.0
Midscale with F&B	61.2	63.7	2.5
Midscale w/o F&B	62.1	68.5	6.4
Economy	62.2	60.7	(1.5)
Budget	61.3	62.9	1.6
Upper-Tier Extended-Stay	71.9	81.5	9.6
Lower-Tier Extended Stay	66.3	72.6	6.3

* Occupancy rates are from 1989 for lower-tier extended-stay segment.

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997)

According to Bear, Stearns (BS), the ten-year period of 1987-1996 included one of the worst periods in the history of the lodging industry. Between 1987 and 1992, industry average daily rates (ADRs) were growing more slowly than inflation rates. And, even though occupancy rates typically recover quickly from a downturn, recouping lost growth in ADR generally takes longer. Since 1993, however, ADR growth has been surpassing inflation. BS reported that the Consumer Price Index grew at a 3.7 percent CAGR during the 1987-1996 comparison period. Table 14 shows that only the deluxe and midscale without F&B segments were able to achieve longer-term growth rates at any significant level above inflation.

Table 14. Growth in Average Daily Rate by Segment (1987-96)

Segment	Average Daily Rate		CAGR
	1987*	1996	
Deluxe	\$ 116.33	\$ 170.44	4.9%
Luxury	87.64	118.12	3.4
Upscale	62.17	86.89	3.8
Midscale with F&B	47.28	61.91	3.0
Midscale w/o F&B	37.99	56.67	4.5
Economy	37.97	46.95	2.4
Budget	29.28	38.06	3.0
Upper-Tier Extended-Stay	64.35	88.95	3.7
Lower-Tier Extended-Stay	45.50	34.81	(3.8)
* Average daily rates are from 1989 for lower-tier extended-stay segment.			

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997)

The combination of strong occupancy growth and strong ADR growth allowed the deluxe, upscale, midscale without F&B, and upper-tier extended-stay segments to post compounded annual revenue per available room (RevPAR) growth rates in excess of 5.0 percent between 1987 and 1996 (see Table 15). The only segment to post negative RevPAR growth was lower-tier extended-stay. This does not indicate any problems in the segment, but merely represents the strong growth in the number of properties at the lower end of this segment's range of average rates (Bear, Stearns 1997).

Table 15. Growth in Revenue per Available Room by Segment (1987-96)

Segment	RevPAR		CAGR
	1987*	1996	
Deluxe	\$ 76.06	\$ 123.02	6.2%
Luxury	60.53	87.53	4.2
Upscale	37.10	60.55	5.6
Midscale with F&B	28.95	39.46	3.5
Midscale w/o F&B	23.58	38.80	5.7
Economy	23.61	28.51	2.1
Budget	17.95	23.93	3.2
Upper-Tier Extended-Stay	46.25	72.50	5.1
Lower-Tier Extended Stay	30.17	25.29	(2.5)

* RevPAR is from 1989 for lower-tier extended-stay segment.

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997)

Based on the information just presented, it appears that the extended-stay sector performed extremely well over the 1987-1996 period. A summary of the upper-tier and lower-tier's performance, in relation to the performance of the other segments, is provided in Section IV.

Market Analysis

According to John C. Kratzer, Chief Operating Officer for Homegate Hospitality, Inc., any potential market for a HomeGate property is required to possess several important characteristics. It is the Company's practice to reject markets that do not offer such characteristics. For example,

- The market must have a large, and growing, population.
- Income per capita must be growing, comparable to that of the U.S.
- There must be low unemployment rates, comparable to the national rate.
- There must be a demand for the extended-stay product, typically from large corporations who utilize this type of facility.
- The possibility of competing successfully within the market must be feasible.
- The outlook of the market is predicted to be positive.

Based on these requirements, Homegate believes that the City of Hillsboro possesses the characteristics needed to be a successful market. A review of these characteristics, as well as the market's conditions, trends, and competition, will be presented at this time.

General Market Characteristics

The City of Hillsboro is located in the County of Washington, State of Oregon, and lies within the Portland MSA (Metropolitan Statistical Area). Economic and demographic data for the Hillsboro area and the U.S. can be found in Appendix B.

Based on market data reported by Woods & Poole Economics⁷ (see Appendix B), the following observations were noted:

- The population of Washington County, the Portland MSA, and the State of Oregon, experienced moderate increases in growth during the ten-year period from 1986 to 1996, with respective annual growths of 3.4 percent, 2.2 percent, and 1.7 percent. During this same period, the U.S. experienced average annual increases of 1.0 percent. The future population of the County is estimated to increase at slightly slower rates. From 1996 to 2005, a 3.2 percent, 1.7 percent, and 1.3 percent increase is expected for Washington County, the Portland MSA, and the State of Oregon, respectively. Overall, the historical data and future population trends of Hillsboro are reflective of an expanding resident population.
- Personal income for Washington County from 1986 to 1996 grew at an average annual rate of 4.8 percent, a rate higher than the 2.2 percent recorded for the nation. Future estimates of personal income for the County indicate a 3.9 percent growth rate for the period of 1996 to 2005, higher than the rate for the Portland MSA (2.8 percent), the State of Oregon (2.5 percent), and U.S. (2.0 percent).

⁷Wood & Poole Economics, Inc. is an international research firm that collects demographics and economic information on various areas throughout the United States.

- Income per capita during 1986, 1991, and 1996 was higher in Washington County and the Portland MSA than it was in the U.S. The average annual growth rates in the County (1.3 percent), MSA (1.5 percent), and State (1.5 percent) from 1986 to 1996 exceeded the rate of 1.2 percent in the U.S.
- Total retail sales in Washington County showed an average annual increase of 4.2 percent from 1986 to 1996, which is significantly higher than the 1.4 percent experienced by the U.S. during the same period. From 1991 and 1996, the County, MSA, and State showed increases of 5.2 percent, 4.2 percent, and 4.0 percent respectively, while the U.S. experienced a 2.9 percent growth rate. Future estimates for the County, MSA, and State for 1996 to 2005 of 3.6 percent, 2.2 percent, and 1.8 percent, respectively, are higher than the 1.3 percent growth estimated for the U.S. Such future growth estimates for the MSA indicate expanding economic conditions, with respect to retail sales.
- Currently, Portland's unemployment rate hovers around 4.0 percent, a level widely considered full employment. According to Coopers & Lybrand (1997), job growth is double the national average, and the labor force is expanding rapidly with new migrants to the area.

- In 1996, the low unemployment levels in the Portland MSA, combined with the high per capita income, created one of the hottest corporate markets in the nation (Coopers & Lybrand 1997). Two of the major projects for 1998 and early 1999 are the Liberty Centre and the ODS Morrison Tower, totaling over 500,000 square feet of office space. The vacancy rates have continued a steep decline to a 1996 figure of 5.9 percent, which is down from 8.5 percent in 1995.
- As one of the most diverse industrial structures of the west coast, Portland's economic base includes a mix of high-tech industries, manufacturing, transportation, trade, and business services (Coopers & Lybrand 1997). Other factors that make Portland an advantageous area to conduct business include low-cost electric power, clean water, low business costs, and high quality of labor force.

General Market Conditions

The City of Hillsboro is commonly referred to as the Silicon Forest, characterizing the high concentration of high-tech manufacturing. Research conducted during the first quarter of 1997 by Coopers & Lybrand (C&L) indicates that the city has undergone a tremendous amount of growth over the past several years in commercial and residential sectors. Notably, Cornell Oaks Corporate Center was undergoing construction of new office buildings. A 75,000 square-foot

office building was under construction with completion scheduled for the end of 1998. According to C&L, the management company for the Cornell Oaks Corporate Center had disclosed that 80 percent of the space was already leased to companies in high-tech engineering and manufacturing support.

Two more office buildings, totaling 187,000 square feet, were in the planning stages (Coopers & Lybrand 1997). Timberline Software Company was planning on purchasing and building a 100,000 square-foot headquarters office building in Cornell Oaks. The current tenants in this office park included many companies in the high-tech industry such as Intel and Texas Instruments. C&L reported that owners of other office parks were planning on constructing new office buildings within the next three years.

The commercial demand for lodging is generated by large corporations such as Intel, Nike, Tektronix, Fujitsu, and a number of smaller companies in the high-tech and transportation industries. The majority of the smaller companies are located in the corporate office parks situated throughout the area. According to C&L, management at the local Residence Inn, Candlewood, and Phoenix Inn have stated that the Cornell Oaks Corporate Center, which is located approximately ten miles west of downtown Portland, generates a significant amount of commercial demand.

C&L reported that the lodging demand base for the City of Hillsboro appeared to be stable given the presence of numerous companies in the high-tech industry. The area is desirable for commercial development because of low-cost electric power, clean water, and low business costs. Intel, Tektronix, Wacker Siltronic, Fujitsu, LSI Logic, and Komatsu combined are predicted to generate approximately 2,000 new jobs through 1999. Also, Nike, Inc. was expanding its facilities and is expected to increase its workforce by 2,600 employees. These expansions should have a positive impact on lodging demand in Hillsboro, Oregon.

Market Trends

The leading source for hotel and motel operating data is Smith Travel Research (STR). STR tracks hotel occupancy and average daily rates (ADRs) for most major hotel chains and many independent hotels which participate in their monthly survey. Although all of a market's lodging facilities may not be represented in STR's survey, the collected data are nationally recognized to be reflective of a market as a whole in terms of occupancy trends, demand patterns, and room rate levels.

Table 16 illustrates a composite of occupancy, average daily rates (ADR), and revenue per available room (RevPAR) collected by STR as of their May 1997

trend report. RevPAR is calculated by multiplying hotel occupancy by ADR and is a measure of room revenue yield.

Table 16. Market Trend Data -- Portland, Oregon

Year	Rooms Supply	Percent Change	Rooms Demand	Percent Change	Occupancy	Percent Change	ADR	Percent Change	RevPAR	Percent Change
1991	929,655	-	659,175	-	70.9%	-	\$65.99	-	\$46.79	-
1992	929,655	0.0%	612,641	-7.1%	65.9%	-7.1%	\$63.97	-3.1%	\$42.16	-9.9%
1993	929,655	0.0%	616,136	0.6%	66.3%	0.6%	\$65.31	2.1%	\$43.28	2.7%
1994	958,366	3.1%	653,118	6.0%	68.2%	2.9%	\$68.83	5.4%	\$46.92	8.4%
1995	989,150	3.2%	716,783	9.7%	72.5%	6.3%	\$74.61	8.4%	\$54.07	15.2%
1996	989,780	0.0%	697,915	-2.6%	70.6%	-2.6%	\$78.70	5.5%	\$55.53	2.7%
Compound Annual Percent Change:										
(1992-1996)		1.2%		1.1%		-0.1%		3.6%		3.5%

Source: Smith Travel Research (1997)

According to the data presented in Table 16, a few observations can be made:

- The Portland market is characterized by a slight increase in supply and a similar increase in demand levels. From 1991 to 1996, the market experienced a compound annual increase in room supply of 1.2 percent while room demand increased at a rate of 1.1 percent for the same period, suggesting the market's ability to absorb new rooms.
- Average daily rate had strong increases every year from 1991 to 1996, with an average annual increase of 3.6 percent.
- The increase in ADR and relatively stable occupancy from 1991 to 1996 resulted in a solid RevPAR increase of 3.5 percent for the same period.

These observations indicate that the trend in hotel supply, demand, occupancy, ADR, and RevPAR within the Portland area has been moving in the right direction over the past six years. STR predicts that the hotel industry should have a positive future in the Hillsboro area.

Market Competition

HomeGate will compete for lodging demand with other hotel facilities operating in the local area of Hillsboro, Oregon. Those properties, which will compete either directly or indirectly with a potential HomeGate extended-stay hotel, are summarized in Table 17.

Table 17. Local Competitive Lodging Facilities

Property Name:	Residence Inn	Hampton Inn	Candlewood	Courtyard by Marriott	Studio Plus
Number of Rooms:	122	90	126	155	98
<u>Market Mix Percentage (1996):</u>					
Individual Commercial	25%	10%	90%	70%	70%
Group	0%	0%	0%	20%	20%
Individual Leisure	15%	0%	0%	10%	10%
Extended-Stay	60%	90%	10%	0%	0%
<u>Occupancy:</u>					
1995	85% to 89%	85% to 89%	53% to 57%	59% to 63%	50% to 54%
1996	85% to 89%	85% to 89%	56% to 60%	65% to 69%	60% to 64%
<u>Average Daily Occupied</u>					
Rooms (1996):	104 to 109	77 to 80	71 to 76	101 to 107	59 to 63
<u>ADR:</u>					
1995	\$90 to \$94	\$85 to \$89	\$32 to \$36	\$90 to \$94	\$32 to \$35
1996	\$90 to \$94	\$85 to \$89	\$32 to \$36	\$90 to \$94	\$32 to \$35

Source: Smith Travel Research (1997)

The general competition, which includes all segments of the lodging industry, achieved an average occupancy rate of 70.3 percent during the 1995-1996 study period (Smith Travel Research 1997). The average occupancy rate among the three extended-stay properties (Residence Inn, Candlewood, and Studio Plus) was 66.8 percent during this same two-year period.

STR reported that, from 1995 to 1996, the average daily rates (ADRs) among the local competition ranged from \$32 to \$94. On average, an ADR of \$67 was achieved by the market as a whole; the extended-stay properties achieved an ADR of \$53.

In addition to the hotels which were operating during 1995 and 1996, STR found other lodging facilities that had recently opened, were under construction, or proposed to be built in the City of Hillsboro.

- The 82-unit Candlewood, a lower-tier extended-stay hotel, opened on June 1, 1997. It is situated within the Dawson Creek Corporate Park. According to management, the majority of their initial demand has been commercial transient based with stays less than five nights (Coopers & Lybrand 1997).
- The 105-unit Fairfield Inn, an economy hotel, recently opened on July 19, 1997. It is located in the Cornell Oaks Corporate Center and has excellent visibility for motorists traveling east and west on US-26.

- The 143-unit Homestead Village, another lower-tier extended-stay hotel, was under construction with an anticipated opening date of September 7, 1998.
- The 120-unit Homewood Suites, an upper-tier extended-stay hotel, was undergoing preliminary site preparation and is to be located adjacent to the Fairfield Inn in Cornell Oaks. It will also have visibility for motorists traveling east and west on US-26.
- The 80-unit Wingate Inn, a midscale hotel, was proposed for the Hillsboro area and is expected to be located next to Intel Corporation.
- The 140-unit Extended Stay America, a lower-tier extended-stay hotel, was being proposed for the Hillsboro area in late 1999.
- The Hampton Inn & Suites, a midscale hotel, was rumored to be developed in the City of Hillsboro. It is expected that 50 percent of this proposed property's guest units will offer facilities that cater to the extended-stay traveler in this market.

As indicated from the above list, Homegate is not the only hotel chain that is pursuing the Hillsboro market. In fact, Robert A. Faith, Chief Executive Officer of Homegate Hospitality, Inc., is fully aware that they will be competing directly with at least six other extended-stay facilities within the area. However, he is confident

that HomeGate's higher level of quality, coupled with lower prices, will push them well ahead of the competition. (Refer to Section III for information regarding Homegate's product/services.)

At the conclusion of Smith Travel Research's two-year review of the Hillsboro market, Coopers & Lybrand developed an assessment comparing the characteristics of the proposed HomeGate to current, under construction, and proposed competitors. The market climate and potential areas of risk were also considered. A summary of that assessment is provided in Table 18.

Table 18. Property and Market Assessment Summary (1997)

HomeGate Characteristics Ratings Relative to the General Competition:			
	Inferior	Comparable	Superior
Property's Look and Appeal Upon Completion		X	
Age		X	
Room Size			X
Room Furnishings		X	
Amenities	X		
Services	X		
Overall Property		X	
Rate Structure			X
Chain Affiliation	X		
Reputation		X	
Market Characteristics:			
	Negative	Stable	Positive
Current Local Economic Character			X
Future Local Economic Character			X
Current Lodging Demand		X	
Future Lodging Demand Potential		X	
Hotel Room Supply		X	
Risk Potential:			
	High	Medium	Low
Economic Decline			X
Negative External Factors			X
New Competition	X		
Subject's Ability to Remain Competitive		X	
Acute Seasonality Patterns		X	

Source: Coopers & Lybrand L.L.P. (1997)

As Table 18 indicates, the low rates and large room sizes proposed by HomeGate will be superior to that of the competition. The look of the property, its appeal, age, furnishings, and reputation are all expected to be comparable to the other hotels in the area. Since the competing full-service and limited-service hotels provide extra amenities and services not found in extended-stay properties (i.e., bar

lounges, coffee shops/restaurants, room service, continental-style breakfast), Coopers & Lybrand ranked HomeGate's amenities and services as being inferior to the competition. The Company's chain affiliation was also considered to be inferior due to their recent entry into the market.

Although the market's growth in demand and supply for hotel facilities was reported as being stable, the economic character of the market is dynamic. The risk of an economic decline or the presence of negative external factors is not likely to occur in the City of Hillsboro within the next few years (Coopers & Lybrand 1997). HomeGate will have to encounter the high risk of competing with the other facilities, but their ability to remain competitive looks encouraging.

SECTION IV

SUMMARY, CONCLUSIONS, AND RECOMMENDATION

Summary

The research compiled by Bear, Stearns & Co., Inc., Smith Travel Research, and Coopers & Lybrand, L.L.P., and presented in Section III of this study, is summarized as follows.

Summary of the Extended-Stay Hotel Market

With the exception of the midscale with food and beverage (F&B) segment, the extended-stay sector had the highest supply growth rate in the hotel industry during 1987-1996. The lower-tier segment of the extended-stay sector experienced a 14.2 percent compounded annual growth rate (CAGR), the second highest in the hotel industry. The upper-tier segment ranked number three in the industry with a CAGR of 11.9 percent.

A comparison of the extended-stay's CAGR in supply and CAGR in demand indicated that growth in demand exceeded growth in supply during 1987-

1996. The upper-tier segment reported a CAGR of 13.7 percent in demand, resulting in a variance of 1.8 percentage points. The lower-tier segment reported a CAGR of 15.5 percent in demand. The variance between supply and demand within this segment was 1.3 percentage points. The upper-tier's variance of 1.8 percentage points ranked second in the industry while the variance of 1.3 percentage points in the lower-tier segment ranked fourth.

The extended-stay segment also outperformed the majority of the other segments in regard to occupancy. In fact, the 81.5 percent occupancy achieved by the upper-tier segment in 1996 was by far the highest rate in the industry. From 1987 to 1996 the occupancy in the upper-tier segment jumped by 9.6 percentage points (from 71.9 percent to 81.5 percent), the second highest increase in the industry. The lower-tier experienced a 6.3-point jump (from 66.3 percent to 72.6 percent), ranking it fourth.

The average daily rates (ADRs) in the extended-stay sector were not as strong as those in the other sectors. The upper-tier segment had a CAGR of 3.7 percent while the deluxe, midscale without food and beverage, and upscale segments reported CAGRs of 4.9 percent, 4.5 percent, and 3.8 percent, respectively. ADR in the lower-tier segment actually took a downturn, reporting a negative 3.8 percent CAGR. This decline, however, does not indicate any problems in the

segment; it merely represents the strong growth in the number of properties at the lower end of this segment's range of average rates.

Summary of the Market of Hillsboro, Oregon

The City of Hillsboro is commonly referred to as the silicon forest, characterizing the high concentration of high-tech manufacturing. It is businesses in industries such as this that generate the most demand for the extended-stay market. Although Hillsboro has experienced little growth in hotel supply and demand during the 1991-1996 period, the market is expected to improve due to the growing number of businesses entering the city (Coopers & Lybrand 1997).

Coopers & Lybrand conducted research on five hotel facilities in the City of Hillsboro which were operating during 1995 and 1996. It was reported that these five properties, which included both extended-stay and non-extended-stay hotels, achieved an average occupancy rate of 70.3 percent during the 1995-1996 period. The average occupancy rate among the three extended-stay properties was 66.8 percent. The average daily rates (ADRs) among the local competitors ranged from \$32 to \$94. On average, an ADR of \$67 was achieved by the market as a whole. The extended-stay properties achieved an ADR of \$53.

Based on the research conducted on the City of Hillsboro, Coopers & Lybrand (C&L) developed a market assessment for Homegate. Robert A. Faith, Chief Executive Officer of the Company, found the results to be very satisfying. According to C&L, the rates and room sizes offered by a HomeGate property would be superior to that of the local competition. Mr. Faith considered these two features as being very important to potential guests seeking extended-stay accommodations. The fact that guests require living arrangements that are affordable and comfortable will keep Homegate on top of the competition (Faith 1998).

Conclusions

Due to Homegate's strong interest in the Hillsboro market, a five-year business forecast has been developed by Coopers & Lybrand (C&L). The projections include occupancy, average daily rates, and cash flows. (An estimate of a monthly payment for a construction loan is also included.) Since Mr. Faith anticipates a project completion date of December 31, 1999,⁸ the projections reflect a hotel opening date of January 1, 2000.

⁸It is Homegate's objective to obtain funding necessary for constructing an extended-stay hotel in the City of Hillsboro by October 1, 1998. If funding is acquired at this time, then the project shall have an anticipated completion date no later than December 31, 1999.

Estimated Future Occupancy

Based on Homegate's competitive strengths, weaknesses, and the anticipated market conditions, it is estimated that Homegate could achieve an occupancy rate of 60 percent during the first year of operation. Coopers & Lybrand considers the 60 percent rate reasonable during the property's first year of operation.

The occupancy rate is then projected to increase from 60 percent to 70 percent during years 2001-2004. This rate is more in line with the Company's actual average occupancy rate of 71 percent that is currently being achieved by existing HomeGate properties. The projected occupancy rate of 70 percent is actually higher than the 66.8 percent rate that was reported by the extended-stay hotels operating in Hillsboro during 1995-1996.

Estimated Average Daily Rate

When estimating a property's future operating performance, it is important to clarify the relationship between a property's occupancy and ADR. These two statistics are highly correlated and, in reality, one cannot estimate future occupancy without making specific assumptions regarding ADR.

ADR must be adjusted over time for growth originating from two sources:

- Underlying inflation
- Real room rate growth or decline

C&L estimated the underlying inflation for operating revenues and expenses at 3.0 percent annually throughout the periods of analysis. A property's ability to command increased room rates, or suffer room rate declines, is affected by a number of factors, including:

- Supply and demand relationships
- Improving the competitive standard
- Property-specific improvements
- Changing market segmentation

Based on the analysis of the anticipated market conditions and Homegate's product, it is expected that the Company could achieve an ADR of \$58.50 in 2000, \$60.25 in 2001, \$62.00 in 2002, \$64.00 in 2003, and \$65.75 in 2004. Although these rates are higher than the Company's average ADR of \$52.46 reported from its existing properties in 1997, they are comparable to the estimated rates anticipated by other HomeGate properties over the next two years (Kratzer 1998). The projected ADRs are also higher than the \$53 rate reported by the extended-stay hotels operating in Hillsboro during 1995-1996.

Estimate of Future Cash Flow

The future benefits of income-producing properties, such as hotels and motels, are cash flow and any anticipated reversionary proceeds from a sale (Coopers & Lybrand 1997). These future benefits can be converted into an indication of market value through a capitalization calculation and/or discounted cash flow analysis. C&L has selected this approach as the preferred valuation method for income-producing properties, particularly lodging facilities, because it most closely reflects the investment considerations of knowledgeable buyers.

Because the proposed HomeGate is not an existing hotel, it does not have an established operating performance. In order to estimate future performance levels, C&L analyzed year-to-date through September 1997 financial statements for other HomeGate properties as well as comparable operating statistics on other mid-market extended-stay hotels.

The estimate of future cash flow assumes the following:

- The proposed HomeGate will be operated in a professional and competent manner throughout the analysis period.
- There will be continued operation of the property as a HomeGate throughout the period of analysis.
- A management fee of 5 percent of total revenues is assumed throughout the period of analysis.

- A reserve for replacement of 5 percent of total revenues per year has been assumed in Coopers & Lybrand's cash flow estimates.
- Homegate will construct a 136-room hotel.

Based on lodging market conditions in the Hillsboro area, and Homegate's anticipated competitive posture in the local hotel market, a five-year estimate of income and expense has been developed. The estimate reflects fiscal years commencing January 1, 2000. Income and expense in each fiscal year has been presented in current value dollars for the respective year.

The following estimate of cash flow before debt service, depreciation, and income taxes, shown as Table 19, reflects the property's anticipated performance over an initial five-year period, beginning January 1, 2000.

Table 19. Estimate of HomeGate's Cash Flow Before Debt Service, Depreciation, and Income Taxes (in thousands)

	2000	2001	2002	2003	2004
Revenues	\$ 1,785	\$ 2,144	\$ 2,211	\$ 2,278	\$ 2,340
Operating department expenses	290	328	338	348	359
Undistributed operating expenses	561	616	635	653	673
Fixed charges	119	122	125	131	134
Reserve for replacement of fixed assets	<u>89</u>	<u>108</u>	<u>111</u>	<u>114</u>	<u>118</u>
Total expenses	1,059	1,174	1,209	1,246	1,284
Cash flow from operations before debt service, depreciation, and income taxes	<u>\$ 726</u>	<u>\$ 970</u>	<u>\$ 1,002</u>	<u>\$ 1,032</u>	<u>\$ 1,056</u>
Assumptions:					
Occupancy percentage	60%	70%	70%	70%	70%
Occupied rooms	29,784	34,748	34,843	34,748	34,748
Average daily rate	\$58.50	\$60.25	\$62.00	\$64.00	\$65.75

Source: Coopers & Lybrand L.L.P. (1997)

Assuming the Hillsboro property achieves the projected occupancy rate of 60 percent and ADR of \$58.50 in 2000, revenues can be estimated at \$1,785,000 during the first year of operation. According to John C. Kratzer, Chief Operating Officer at Homegate Hospitality, Inc., an average hotel generates revenues at a rate of \$1.6 million/year during the first year of operation. The projected expenses of \$1,059,000 are also comparable to those at other operating HomeGate properties (Kratzer 1998), therefore the estimated cash flow of \$726,000 is reasonable for a new property.

Table 20 provides a one-year comparison between Hillsboro's estimated operating projections in 2000 and Homegate's actual operating performance in 1997. Since the Company was established in early 1996, the first HomeGate properties were not open for business until 1997. Therefore, only the first year of operations, projected and actual, will be presented at this time.

Table 20. Projected Operating Performance Versus Actual Performance

	Projected operating performance in Year 1 (2000)	Homegate's actual performance (1997)
Revenues	\$1,785,000	\$1,600,000
Expenses	\$1,059,000	\$1,000,000
Cash Flow	\$ 726,000	\$ 600,000
Occupancy	60%	71%
Average Daily Rate	\$58.50	\$52.46

Although only a one-year comparison is presented in this study, the Hillsboro projections from the second to fifth years of operation are consistent with future estimates projected for other HomeGate properties of similar size (Kratzer 1998).

Estimate of Loan Payments

According to Rich (1996), author of *Business Plans that Win \$\$*, a company seeking capital to finance a new business venture must prove to the lender that the proposed venture will succeed well enough to generate cash for loan repayment. Based on a principal amount of \$5.6 million, a 15-year term, and an interest rate of 7.0% compounded annually,⁹ the monthly payments for this loan is estimated at \$49,663. This equates to an expense of \$595,963/year. (Appendix C provides the first five years of an amortization schedule for the repayment of this loan.) The cash flows projected for the Hillsboro project during 2000-2004, which range from \$726,000 to \$1,056,000, will be high enough to cover this yearly expense.

⁹The terms stated here are comparable to the terms of the Company's existing construction loans (i.e., loans are based on a 15-year amortization schedule with an interest rate of prime plus .5%, compounded annually). The prime rate was reported at 6.5% on July 30, 1998.

Current Financial Leverage

Homegate's balance sheet, which can be found in Appendix D, indicates a substantial increase in debt from 1996 to 1997. The Company's financial leverage of 1.37 in 1996 jumped to 2.01 in 1997. Although the 2.01 leverage is high, it is still within an acceptable level (Jevons 1997). A financial leverage of 2.5 or higher is considered risky due to the possibility of a company defaulting on a loan. Some lenders will either charge a higher interest rate or refuse to lend money to businesses with a financial leverage of 2.5 or higher. According to Kratzer, the Company took on more debt in 1997 because they believe they have an exceptional product and are moving forward to quickly expand into key cities throughout the U.S.

Recommendation

The data supplied in this study indicate the following:

- Homegate offers a high-quality, midpriced hotel that caters to guests seeking extended-stay accommodations.
- The extended-stay sector is one of the most rapidly growing sectors in the U.S. lodging industry.
- The demand for extended-stay accommodations is growing in Hillsboro, Oregon, due to the large number of businesses entering the market.
- Five-year projections indicate that a HomeGate property in Hillsboro, Oregon, has the potential of being profitable to the Company.

Based on these observations, it is recommended that Homegate Hospitality, Inc. move forward with the development and construction of a HomeGate Studios & Suites in Hillsboro, Oregon.

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APPENDICES

APPENDIX A

**Change in Supply, Change in Demand, Occupancy, Average Daily Rates,
and Revenue per Available Room by Segment**

Appendix A (page 1 of 5)

Change in Supply, Change in Demand, Occupancy, ADR, and RevPAR by Segment: 1987-96

% Change in Supply:		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Full-Service	Deluxe	-	n/a	3.1%	3.9%	5.0%	2.3%	1.2%	0.0%	0.3%	1.1%
	Luxury	-	2.0%	5.0%	3.0%	2.9%	0.2%	-0.3%	0.2%	4.4%	1.2%
	Upscale	-	8.2%	8.3%	8.3%	-0.8%	2.9%	2.2%	3.0%	5.9%	6.9%
	Midscale w/ F&B	-	1.6%	1.5%	1.3%	1.2%	0.1%	0.3%	0.8%	-1.0%	0.0%
Limited-Service	Midscale w/o F&B	-	25.6%	17.9%	15.3%	12.8%	9.0%	9.6%	11.3%	13.9%	15.0%
	Economy	-	11.7%	12.4%	9.0%	0.2%	2.0%	2.2%	3.5%	7.6%	3.6%
	Budget	-	15.2%	9.7%	10.2%	7.5%	4.3%	3.1%	3.0%	0.5%	-2.0%
Extended-Stay	Upper-tier	-	24.9%	16.7%	25.3%	12.6%	2.3%	7.9%	1.6%	5.3%	13.1%
	Lower-tier	-	-	-	-16.8%	-2.6%	60.0%	28.9%	3.1%	25.0%	17.8%

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997); Coopers & Lybrand L.L.P. (1997)

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% Change in Demand:		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Full-Service	Deluxe	-	n/a	n/a	5.6%	2.2%	6.6%	6.0%	3.2%	1.4%	3.3%
	Luxury	-	3.5%	4.7%	2.6%	0.3%	3.7%	2.1%	3.0%	4.1%	4.0%
	Upscale	-	10.4%	11.4%	6.4%	1.3%	7.3%	5.9%	6.9%	4.4%	7.8%
	Midscale w/ F&B	-	2.9%	2.7%	0.3%	-1.4%	2.6%	1.8%	2.5%	-0.1%	-0.4%
Limited-Service	Midscale w/o F&B	-	31.0%	27.5%	14.6%	12.1%	12.4%	11.2%	14.1%	12.1%	12.5%
	Economy	-	10.0%	11.1%	7.9%	2.6%	2.5%	3.8%	2.9%	6.2%	3.9%
	Budget	-	16.6%	12.3%	10.3%	4.0%	3.5%	7.6%	4.6%	2.4%	-0.9%
Extended-Stay	Upper-tier	-	30.9%	24.7%	17.3%	17.1%	8.8%	10.4%	4.7%	3.0%	9.6%
	Lower-tier	-	-	-	-17.0%	-0.5%	3.6%	96.1%	9.7%	29.0%	15.4%

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997); Coopers & Lybrand L.L.P. (1997)

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Occupancy:		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Full-Service	Deluxe	n/a	65.4%	62.9%	64.2%	62.7%	65.2%	67.5%	69.5%	70.3%	72.2%
	% change	-	-	-2.5	1.3	-1.5	2.5	2.3	2	0.8	1.9
	Luxury	69.1%	69.1%	69.2%	68.5%	66.5%	68.0%	69.9%	72.2%	72.7%	74.1%
	% change	-	0	0.1	-0.7	-1.9	1.4	1.9	2.3	0.5	1.4
	Upscale	59.7%	61.1%	63.0%	62.9%	62.5%	64.7%	66.3%	69.1%	69.2%	69.7%
	% change	-	1.4	1.9	0	-0.4	2.2	1.6	2.8	0.1	0.5
Limited-Service	Midscale w/ F&B	61.2%	61.5%	62.2%	61.8%	60.1%	61.3%	62.2%	63.3%	63.7%	63.7%
	% change	-	0.2	0.7	-0.4	-1.8	1.2	0.9	1.1	0.4	0
	Midscale w/o F&B	62.1%	65.0%	66.5%	66.2%	65.7%	67.0%	68.3%	70.0%	69.9%	68.5%
	% change	-	2.9	1.5	-0.3	-0.5	1.3	1.3	1.8	-0.2	-1.4
	Economy	62.2%	61.7%	61.6%	60.2%	59.7%	60.6%	61.3%	61.4%	61.4%	60.7%
	% change	-	-0.5	-0.1	-1.4	-0.5	0.9	0.8	0	0.1	-0.7
Extended-Stay	Budget	61.3%	63.1%	62.7%	63.0%	59.8%	58.6%	61.2%	62.0%	63.0%	62.9%
	% change	-	1.8	-0.4	0.3	-3.2	-1.2	2.6	0.8	1	-0.1
	Upper-tier	71.9%	73.8%	77.7%	74.6%	74.6%	77.7%	80.7%	82.5%	82.1%	81.5%
	% change	-	1.9	3.9	-3.1	0	3.1	2.9	1.9	-0.5	-0.6
	Lower-tier	n/a	n/a	66.3%	66.0%	62.7%	62.9%	70.4%	72.0%	72.9%	72.6%
	% change	-	-	-	-0.3	-3.3	0.2	7.5	1.6	0.9	-0.3

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997); Coopers & Lybrand L.L.P. (1997)

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Average Daily Rate:		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Full-Service	Deluxe	n/a	\$116.33	\$115.14	\$130.21	\$131.80	\$134.15	\$142.42	\$151.99	\$158.93	\$170.44
	% change	-	-	-1.0%	13.1%	1.2%	1.8%	6.2%	6.7%	4.6%	7.2%
	Luxury	\$87.64	\$90.95	\$94.08	\$97.31	\$97.09	\$97.93	\$99.08	\$103.48	\$109.76	\$118.12
	% change	-	3.8%	3.4%	3.4%	-0.2%	0.9%	1.2%	4.4%	6.1%	7.6%
	Upscale	\$62.17	\$63.45	\$66.73	\$71.03	\$71.89	\$72.86	\$74.38	\$77.57	\$81.08	\$86.89
	% change	-	2.1%	5.2%	6.5%	1.2%	1.3%	2.1%	4.3%	4.5%	7.2%
	Midscale w/ F&B	\$47.28	\$48.88	\$50.36	\$52.28	\$52.76	\$53.21	\$54.26	\$55.98	\$58.58	\$61.91
	% change	-	3.4%	3.0%	3.8%	0.9%	0.9%	2.0%	3.2%	4.6%	5.7%
Limited-Service	Midscale w/o F&B	\$37.99	\$39.57	\$41.72	\$43.69	\$45.14	\$46.19	\$47.83	\$49.85	\$53.13	\$56.67
	% change	-	4.2%	5.4%	4.7%	3.3%	2.3%	3.6%	4.2%	6.6%	6.7%
	Economy	\$37.97	\$38.62	\$39.89	\$41.01	\$40.63	\$40.52	\$41.20	\$42.72	\$44.69	\$46.95
	% change	-	1.7%	3.3%	2.8%	-0.9%	-0.3%	1.7%	3.7%	4.6%	5.0%
	Budget	\$29.28	\$30.66	\$31.09	\$31.84	\$32.08	\$32.73	\$33.54	\$34.75	\$36.04	\$38.06
	% change	-	4.7%	1.4%	2.4%	0.7%	2.0%	2.5%	3.6%	3.7%	5.6%
Extended-Stay	Upper-tier	\$64.35	\$68.79	\$71.46	\$74.29	\$74.01	\$74.91	\$76.53	\$78.81	\$83.50	\$88.95
	% change	-	6.9%	3.9%	4.0%	-0.4%	1.2%	2.2%	3.0%	6.0%	6.5%
	Lower-tier	n/a	n/a	\$45.50	\$46.38	\$47.12	\$39.78	\$32.19	\$33.77	\$34.37	\$34.81
	% change	-	-	-	1.9%	1.6%	-15.6%	-19.1%	4.9%	1.8%	1.3%

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997); Coopers & Lybrand L.L.P. (1997)

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RevPAR:		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Full-Service	Deluxe	n/a	\$76.06	\$72.44	\$83.62	\$82.64	\$87.47	\$96.19	\$105.63	\$111.67	\$123.02
	% change	-	-	-4.8%	15.4%	-1.2%	5.8%	10.0%	9.8%	5.7%	10.2%
	Luxury	\$60.53	\$62.82	\$65.08	\$66.62	\$64.61	\$66.56	\$69.23	\$74.72	\$79.80	\$87.53
	% change	-	3.8%	3.6%	2.4%	-3.0%	3.0%	4.0%	7.9%	6.8%	9.7%
	Upscale	\$37.10	\$38.77	\$42.01	\$44.70	\$44.94	\$47.14	\$49.33	\$53.59	\$56.11	\$60.55
	% change	-	4.5%	8.4%	6.4%	0.5%	4.9%	4.6%	8.6%	4.7%	7.9%
Limited-Service	Midscale w/ F&B	\$28.95	\$30.05	\$31.33	\$32.32	\$31.69	\$32.60	\$33.75	\$35.46	\$37.33	\$39.46
	% change	-	3.8%	4.3%	3.1%	-1.9%	2.9%	3.5%	5.0%	5.3%	5.7%
	Midscale w/o F&B	\$23.58	\$25.73	\$27.73	\$28.90	\$29.65	\$30.96	\$32.66	\$34.91	\$37.11	\$38.80
	% change	-	9.1%	7.8%	4.2%	2.6%	4.4%	5.5%	6.9%	6.3%	4.6%
	Economy	\$23.61	\$23.81	\$24.57	\$24.71	\$24.26	\$24.54	\$25.27	\$26.22	\$27.46	\$28.51
	% change	-	0.9%	3.2%	0.5%	-1.8%	1.2%	3.0%	3.7%	4.7%	3.8%
Extended-Stay	Budget	\$17.95	\$19.35	\$19.49	\$20.05	\$19.17	\$19.17	\$20.52	\$21.54	\$22.70	\$23.93
	% change	-	7.8%	0.7%	2.9%	-4.4%	0.0%	7.0%	5.0%	5.4%	5.4%
	Upper-tier	\$46.25	\$50.79	\$55.53	\$55.42	\$55.22	\$58.23	\$61.72	\$65.03	\$68.52	\$72.50
	% change	-	9.8%	9.3%	-0.2%	-0.4%	5.4%	6.0%	5.4%	5.4%	5.8%
	Lower-tier	n/a	n/a	\$30.17	\$30.60	\$29.55	\$25.02	\$22.67	\$24.32	\$25.05	\$25.29
	% change	-	-	-	1.4%	-3.4%	-15.3%	-9.4%	7.3%	3.0%	0.9%

Source: Bear, Stearns & Co., Inc. (1997); Smith Travel Research (1997); Coopers & Lybrand L.L.P. (1997)

APPENDIX B

**Economic and Demographic Data:
County of Washington, State of Oregon, and U.S.**

Appendix B (page 1 of 3)

Economic and Demographic Data: County of Washington, State of Oregon, and U.S.

Data Category						Average Annual Compounded Change			
	1986	1991	1996	2000	2005	1986-96	1991-96	1996-00	1996-05
Total Population (in thousands)									
County of Washington, OR	275.2	327.6	384.6	441.2	510.5	3.4%	3.3%	3.5%	3.2%
Portland-Vancouver, OR-WA MSA	1,402.0	1,570.7	1,744.3	1,876.1	2,037.4	2.2%	2.1%	1.8%	1.7%
State of Oregon	2,683.5	2,919.3	3,187.4	3,366.4	3,585.1	1.7%	1.8%	1.4%	1.3%
United States	240,133.9	252,137.9	265,225.5	274,581.0	285,913.0	1.0%	1.0%	0.9%	0.8%
Personal Income (in millions)									
County of Washington, OR	5,533.8	6,864.5	8,843.0	10,388.5	12,470.5	4.8%	5.2%	4.1%	3.9%
Portland-Vancouver, OR-WA MSA	27,040.5	32,146.3	39,225.2	43,882.6	50,099.0	3.8%	4.1%	2.8%	2.8%
State of Oregon	46,610.2	53,588.9	64,318.2	71,191.5	80,407.2	3.3%	3.7%	2.6%	2.5%
United States	4,589,465.3	5,001,113.5	5,687,220.1	6,172,122.3	6,824,423.6	2.2%	2.6%	2.1%	2.0%
Income per Capita									
County of Washington, OR	20,105.0	20,951.0	22,990.0	23,547.0	24,430.0	1.3%	1.9%	0.6%	0.7%
Portland-Vancouver, OR-WA MSA	19,287.0	20,466.0	22,488.0	23,390.0	24,590.0	1.5%	1.9%	1.0%	1.0%
State of Oregon	17,369.0	18,357.0	20,179.0	21,148.0	22,428.0	1.5%	1.9%	1.2%	1.2%
United States	19,112.0	19,835.0	21,443.0	22,478.0	23,869.0	1.2%	1.6%	1.2%	1.2%
Woods & Poole Wealth Index (U.S. = 100)									
County of Washington, OR	109.0	109.2	111.8	109.5	107.2				
Portland-Vancouver, OR-WA MSA	101.6	103.8	106.1	105.4	104.5				
State of Oregon	92.8	94.2	96.2	96.2	96.1				
United States	100.0	100.0	100.0	100.0	100.0				
Number of Households (in thousands)									
County of Washington, OR	103.3	124.2	146.3	169.4	198.1	3.5%	3.3%	3.7%	3.4%
Portland-Vancouver, OR-WA MSA	544.5	607.6	675.7	731.6	800.5	2.2%	2.1%	2.0%	1.9%
State of Oregon	1,031.1	1,130.0	1,237.1	1,316.3	1,413.5	1.8%	1.8%	1.6%	1.5%
United States	87,742.5	93,179.5	98,161.0	102,398.6	107,525.9	1.1%	1.0%	1.1%	1.0%

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Data Category	1986	1991	1996	2000	2005	Average Annual Compounded Change			
						1986-96	1991-96	1996-00	1996-05
Persons per Household (in people)									
County of Washington, OR	2.63	2.61	2.61	2.58	2.56	-0.1%	0.0%	-0.3%	-0.2%
Portland-Vancouver, OR-WA MSA	2.53	2.54	2.54	2.53	2.51	0.0%	0.0%	-0.1%	-0.1%
State of Oregon	2.55	2.53	2.52	2.51	2.48	-0.1%	-0.1%	-0.1%	-0.2%
United States	2.67	2.63	2.63	2.61	2.59	-0.2%	0.0%	-0.2%	-0.2%
Mean Household Income									
County of Washington, OR	53,074.0	54,815.0	59,993.0	60,916.0	62,574.0	1.2%	1.8%	0.4%	0.5%
Portland-Vancouver, OR-WA MSA	49,011.0	52,188.0	57,348.0	59,273.0	61,846.0	1.6%	1.9%	0.8%	0.8%
State of Oregon	44,406.0	46,573.0	51,137.0	53,207.0	55,956.0	1.4%	1.9%	1.0%	1.0%
United States	51,210.0	52,525.0	56,755.0	59,023.0	62,097.0	1.0%	1.6%	1.0%	1.0%
Total Retail Sales (in millions)									
County of Washington, OR	2,858.0	3,333.9	4,299.3	4,951.6	5,895.90	4.2%	5.2%	3.6%	3.6%
Portland-Vancouver, OR-WA MSA	11,519.7	12,941.7	15,888.0	17,190.4	19,249.80	3.3%	4.2%	2.0%	2.2%
State of Oregon	21,007.5	23,192.0	28,152.2	29,982.6	33,011.30	3.0%	4.0%	1.6%	1.8%
United States	1,859,759.1	1,860,837.0	2,143,737.6	2,239,888.5	2,413,634.80	1.4%	2.9%	1.1%	1.3%
Employment Data - County (in thousand of jobs)									
Total Employment	141.2	186.0	224.9	249.1	279.0	4.8%	3.9%	2.6%	2.4%
Construction Employment	7.1	10.7	13.8	14.9	16.0	6.8%	5.3%	1.9%	1.6%
Manufacturing Employment	30.4	36.6	42.1	44.9	48.0	3.3%	2.8%	1.7%	1.5%
Transportation, Communications & Public Utility	3.9	5.7	6.9	7.8	8.7	5.8%	3.8%	3.0%	2.7%
Wholesale Trade Employment	10.3	14.7	18.0	20.7	23.8	5.8%	4.2%	3.5%	3.1%
Retail Trade Employment	25.0	32.7	39.3	42.8	47.0	4.6%	3.8%	2.1%	2.0%
Finance, Insurance & Real Estate Employment	10.8	13.3	16.3	18.2	20.6	4.2%	4.1%	2.8%	2.7%
Services Employment	36.1	51.9	66.1	76.2	90.0	6.2%	4.9%	3.6%	3.5%
Federal Civilian Government Employment	0.7	0.7	0.9	1.0	1.1	2.8%	4.1%	2.9%	2.5%
Federal Military Government Employment	1.4	1.6	1.4	1.4	1.4	0.3%	-1.7%	0.1%	0.0%
State & Local Government Employment	9.7	11.2	12.4	13.1	13.6	2.5%	2.0%	1.3%	1.0%

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	Average Annual Compounded Change								
Data Category	1986	1991	1996	2000	2005	1986-96	1991-96	1996-00	1996-05
Employment Data - MSA (in thousands of jobs)									
Total Employment	775.3	926.2	1,059.5	1,129.2	1,216.4	3.2%	2.7%	1.6%	1.5%
Construction Employment	34.2	50.0	61.7	66.1	71.1	6.1%	4.3%	1.7%	1.6%
Manufacturing Employment	113.6	129.4	142.4	148.5	155.0	2.3%	1.9%	1.1%	0.9%
Transportation, Communications & Public Utility	41.9	49.6	56.2	59.8	63.9	3.0%	2.5%	1.6%	1.4%
Wholesale Trade Employment	52.7	62.6	73.5	77.6	82.5	3.4%	3.3%	1.4%	1.3%
Retail Trade Employment	129.2	153.9	175.1	185.6	199.3	3.1%	2.6%	1.5%	1.4%
Finance, Insurance & Real Estate Employment	67.2	74.3	83.9	88.2	93.8	2.2%	2.5%	1.2%	1.2%
Services Employment	211.0	265.0	313.6	342.2	381.0	4.0%	3.4%	2.2%	2.2%
Federal Civilian Government Employment	17.2	18.3	18.9	19.5	20.0	0.9%	0.6%	0.9%	0.7%
Federal Military Government Employment	8.3	8.5	7.5	7.5	7.5	-1.0%	-2.4%	0.1%	0.0%
State & Local Government Employment	74.0	85.9	95.4	101.3	107.9	2.6%	2.1%	1.5%	1.4%

Source: Woods & Poole Economics (1997)

APPENDIX C

Amortization Schedule for \$5.6 Million Loan

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**Amortization Schedule based on \$5.6 million loan amount, 15-year term,
7.0% interest rate compounded annually (first five years only)**

	Period	Payment	Principal	Interest	Balance
	1	49,663.59	18,000.38	31,663.21	5,581,999.62
	2	49,663.59	18,102.15	31,561.44	5,563,897.47
	3	49,663.59	18,204.50	31,459.09	5,545,692.97
	4	49,663.59	18,307.44	31,356.15	5,527,385.53
	5	49,663.59	18,410.95	31,252.64	5,508,974.58
	6	49,663.59	18,515.05	31,148.54	5,490,459.53
	7	49,663.59	18,619.73	31,043.86	5,471,839.80
	8	49,663.59	18,725.01	30,938.58	5,453,114.79
	9	49,663.59	18,830.89	30,832.70	5,434,283.90
	10	49,663.59	18,937.36	30,726.23	5,415,346.54
	11	49,663.59	19,044.43	30,619.16	5,396,302.11
	12	49,663.59	19,152.11	30,511.48	5,377,150.00
Totals for Year 1:		595,963.08	222,850.00	373,113.08	
	13	49,663.59	19,260.40	30,403.19	5,357,889.60
	14	49,663.59	19,369.30	30,294.29	5,338,520.30
	15	49,663.59	19,478.82	30,184.77	5,319,041.48
	16	49,663.59	19,588.96	30,074.63	5,299,452.52
	17	49,663.59	19,699.71	29,963.88	5,279,752.81
	18	49,663.59	19,811.10	29,852.49	5,259,941.71
	19	49,663.59	19,923.11	29,740.48	5,240,018.60
	20	49,663.59	20,035.76	29,627.83	5,219,982.84
	21	49,663.59	20,149.05	29,514.54	5,199,833.79
	22	49,663.59	20,262.97	29,400.62	5,179,570.82
	23	49,663.59	20,377.54	29,286.05	5,159,193.28
	24	49,663.59	20,492.76	29,170.83	5,138,700.52
Totals for Year 2:		595,963.08	238,449.48	357,513.60	
	25	49,663.59	20,608.63	29,054.96	5,118,091.89
	26	49,663.59	20,725.15	28,938.44	5,097,366.74
	27	49,663.59	20,842.34	28,821.25	5,076,524.40
	28	49,663.59	20,960.18	28,703.41	5,055,564.22
	29	49,663.59	21,078.69	28,584.90	5,034,485.53
	30	49,663.59	21,197.88	28,465.71	5,013,287.65
	31	49,663.59	21,317.73	28,345.86	4,991,969.92
	32	49,663.59	21,438.27	28,225.32	4,970,531.65
	33	49,663.59	21,559.48	28,104.11	4,948,972.17
	34	49,663.59	21,681.38	27,982.21	4,927,290.79
	35	49,663.59	21,803.97	27,859.62	4,905,486.82
	36	49,663.59	21,927.25	27,736.34	4,883,559.57
Totals for Year 3:		595,963.08	255,140.95	340,822.13	

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	Period	Payment	Principal	Interest	Balance
	37	49,663.59	22,051.23	27,612.36	4,861,508.34
	38	49,663.59	22,175.92	27,487.67	4,839,332.42
	39	49,663.59	22,301.30	27,362.29	4,817,031.12
	40	49,663.59	22,427.40	27,236.19	4,794,603.72
	41	49,663.59	22,554.20	27,109.39	4,772,049.52
	42	49,663.59	22,681.73	26,981.86	4,749,367.79
	43	49,663.59	22,809.97	26,853.62	4,726,557.82
	44	49,663.59	22,938.94	26,724.65	4,703,618.88
	45	49,663.59	23,068.65	26,594.94	4,680,550.23
	46	49,663.59	23,199.08	26,464.51	4,657,351.15
	47	49,663.59	23,330.25	26,333.34	4,634,020.90
	48	49,663.59	23,462.16	26,201.43	4,610,558.74
Totals for Year 4:		595,963.08	273,000.83	322,962.25	
	49	49,663.59	23,594.82	26,068.77	4,586,963.92
	50	49,663.59	23,728.23	25,935.36	4,563,235.69
	51	49,663.59	23,862.39	25,801.20	4,539,373.30
	52	49,663.59	23,997.31	25,666.28	4,515,375.99
	53	49,663.59	24,133.00	25,530.59	4,491,242.99
	54	49,663.59	24,269.45	25,394.14	4,466,973.54
	55	49,663.59	24,406.67	25,256.92	4,442,566.87
	56	49,663.59	24,544.67	25,118.92	4,418,022.20
	57	49,663.59	24,683.45	24,980.14	4,393,338.75
	58	49,663.59	24,823.01	24,840.58	4,368,515.74
	59	49,663.59	24,963.37	24,700.22	4,343,552.37
	60	49,663.59	25,104.51	24,559.08	4,318,447.86
Totals for Year 5:		595,963.08	292,110.88	303,852.20	

APPENDIX D

Financial Statements for Homegate Hospitality, Inc.

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Homegate Hospitality, Inc.
Annual Balance Sheets
for the Periods 1996 through 1997

	1996	1997
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,475,679	\$ 1,534,752
Restricted cash	959,198	680,747
Accounts receivable:		
Hotel	241,403	288,727
Other	256,939	156,125
Interest	208,411	-
Earnest money deposits	-	490,000
Prepaid insurance	552,054	461,680
Total current assets	33,693,684	3,612,031
Property and equipment, net (Note 1)	51,106,541	121,428,027
Loans receivable (Note 2)	1,900,500	-
Deferred loan costs, net	335,547	1,027,155
Other assets, net	1,497,136	641,523
TOTAL ASSETS	<u>\$ 88,533,408</u>	<u>\$ 126,708,736</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,101,225	\$ 1,069,305
Accrued expenses	224,694	704,464
Payables to affiliates (Note 3)	1,132,274	1,703,447
Note payable (Note 4)	-	23,894,000
Current maturities of mortgage and other notes payable	425,738	720,214
Total current liabilities	2,883,931	28,091,430
Mortgage and other notes payable (Note 5)	20,961,009	35,662,582
Stockholders' equity: (Note 6)		
Preferred stock, \$.01 par value; \$5,000,000 shares authorized; none issued	-	-
Common stock, \$.01 par value; 20,000,000 shares authorized; 10,725,000 shares issued and outstanding	107,250	107,250
Additional paid in capital	65,447,625	65,447,625
Retained earnings (deficit)	(866,407)	(2,600,151)
Total stockholders' equity	64,688,468	62,954,724
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 88,533,408</u>	<u>\$ 126,708,736</u>

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Homegate Hospitality, Inc.
Annual Statement of Operations
for the Periods 1996 through 1997

	<u>1996</u>	<u>1997</u>
REVENUES:		
Room revenue	\$ 2,240,161	\$ 2,606,105
Other revenue	-	65,512
Interest income	<u>450,536</u>	<u>32,225</u>
Total revenues	2,690,697	2,703,842
COSTS AND EXPENSES:		
Property operating expenses	1,675,936	1,797,166
Corporate operating expenses	951,261	866,865
Depreciation and amortization	344,459	428,097
Interest	<u>585,448</u>	<u>444,920</u>
Total costs and expenses	3,557,104	3,537,048
Net loss	<u>\$ (866,407)</u>	<u>\$ (833,206)</u>
Proforma net loss per share	\$ (0.08)	\$ (0.08)
Proforma weighted average number of shares outstanding	10,725,000	10,725,000

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Homegate Hospitality, Inc.
Annual Statement of Cash Flows
for the Periods 1996 through 1997

	1996	1997
OPERATING ACTIVITIES:		
Net loss	\$ (866,407)	\$ (833,206)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	344,459	1,053,262
Amortization of loan costs	16,113	25,519
Accrued interest added to mortgage note payable	70,000	155,459
Changes in operating assets and liabilities:		
Restricted cash	(959,198)	278,452
Accounts receivable	(706,753)	261,900
Prepaid expenses	-	90,374
Property taxes payable	-	315,121
Prepaid insurance, net of financing	(67,368)	-
Other current liabilities	-	14,089
Accounts payable	1,101,225	(203,671)
Accrued expenses	224,694	479,771
Payables to affiliates	126,623	(33,089)
Net cash used in operating activities	(716,612)	1,603,981
INVESTING ACTIVITIES:		
Acquisition of hotel facilities, net of debt assumed	(19,501,988)	(2,773,410)
Acquisition of land	(8,835,000)	(21,895,896)
Construction in progress, net of payables to affiliates	-	(29,262,382)
Additions to property and equipment, net of development costs payable	(4,037,851)	(14,585,900)
Additions to earnest money deposits	-	(420,000)
Additions to development costs	-	(262,255)
Advances under loans receivable	(1,900,500)	-
Additions to other assets	(1,533,061)	(266,611)
Net cash used in investing activities	(35,808,400)	(69,426,454)
FINANCING ACTIVITIES:		
Proceeds from mortgage note payable	2,893,092	39,127,752
Principal payments on mortgage and other notes payable	(62,955)	(393,162)
Payment of deferred loan costs	(384,322)	(853,044)
Capital contribution from ESLP partners	20,000,000	-
Payment of initial public offering costs	(861,997)	-
Proceeds from issuance of common stock	46,416,873	-
Net cash provided by financing activities	68,000,691	37,881,546
Net increase in cash and cash equivalents	31,475,679	(29,940,927)
Cash and cash equivalents at beginning of period	=	31,475,679
Cash and cash equivalents at end of period	<u>\$ 31,475,679</u>	<u>\$ 1,534,752</u>

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Notes to Financial Statements

1. PROPERTY AND EQUIPMENT, NET

At December 31, 1996 and December 31, 1997, property and equipment consisted of the following:

	December 31, 1996	December 31, 1997
Land	\$16,473,296	\$41,565,767
Buildings and improvements	28,300,127	42,308,785
Construction in progress	4,623,153	32,780,024
Furniture, fixtures, equipment	<u>1,985,837</u>	<u>6,036,495</u>
	51,382,413	122,691,071
Less accumulated depreciation	<u>275,872</u>	<u>1,263,044</u>
	\$51,106,541	\$121,428,027

During the last quarter of 1997, the Company acquired two land parcels in Memphis, Tennessee and one in Las Vegas, Nevada. Additionally, the Company acquired one land parcel in each of the following cities: Albuquerque, New Mexico; Tucson, Arizona; Columbia, Maryland; and Huntsville, Alabama for future development of hotel facilities.

On November 12, 1997, the Company purchased an existing corporate housing project in Charlotte, North Carolina. The Company is intending to convert this project to an extended-stay hotel in late 1998. The Company must first obtain the proper zoning for this conversion to occur.

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As of December 31, 1997, the Company had entered into agreements, letters of intent, contracts, or other arrangements for the future purchase of seven additional land parcels.

2. LOANS RECEIVABLE

During 1996, the Company advanced \$1,900,500 under two promissory notes to an unrelated party for the purchase of two parcels of land in Orlando, Florida, on which extended-stay hotel facilities will be developed. These notes accrue interest at 10% and mature on the sooner of November 2000 or five business days after demand. Monthly interest payments of \$15,838 began on February 1, 1997. The Company has a letter agreement to purchase the hotels upon completion for a total price equal to the lesser of \$14.1 million or actual costs.

3. RELATED PARTY TRANSACTIONS

Wyndham is entitled to receive a management fee equal to 3% of gross revenues, as defined, for the management and marketing of the Company's hotels. Payables to affiliates includes management fees of \$79,265 in 1996 and \$159,235 in 1997.

Trammell Crow Residential (TCR), an affiliate of Crow, and Greystar Realty Services (GRS), an affiliate of Greystar, have collectively agreed to develop up to forty-five hotels for the Company, under an agreement that

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expires at the earlier of the completion of the forty-fifth hotel or December 31, 1998. Development fees paid to TCR and GRS in 1996 were \$460,175 and \$50,000, respectively, and \$711,044 and \$227,347, respectively, in 1997. Payables to affiliates includes \$403,113 and \$135,708 to TCR and Greystar, respectively, at December 31, 1996, for reimbursement of construction costs and out-of-pocket expenditures incurred in conjunction with the pursuit and acquisition of land and property. Payables to affiliates includes \$443,115 and \$147,705 to TCR and Greystar, respectively, at December 31, 1997, for reimbursement of construction costs and out-of-pocket expenditures incurred in conjunction with the pursuit and acquisition of land and property.

4. NOTE PAYABLE – PRIME HOSPITALITY

During the first quarter of 1997, the Company and Prime Hospitality Corp. executed a loan agreement pursuant to which Prime provided a \$65 million interim secured construction term loan facility (“Construction Term Loan Facility”) to the Company. The Construction Term Loan Facility is to be used for the acquisition and development of specific sites. The Construction Term Loan Facility matures and all amounts outstanding thereunder are due at the earlier of (a) December 1, 1998 or (b) the date on which the Company enters into any agreement with respect to any alternative proposal or otherwise relating to the sale of substantially all of the assets of the Company. The Company paid a loan fee of 1% of the aggregate principal amount of the Construction Term Loan Facility. Monthly interest payments commenced June 15, 1997. The

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interest accrues monthly at a rate of the one month LIBOR plus 3.5%. The loan is secured by a first priority perfected security interest in specified sites. The outstanding balance at December 31, 1997 was \$23,894,000.

5. MORTGAGE AND OTHER NOTES PAYABLE

The Company has entered into a Master Loan Agreement (the "Note") with Bank One, Arizona ("BOA"). The Note provides up to \$30 million in construction/mini-perm mortgage loans for the acquisition and development of land and hotel facilities for up to five years. As of December 31, 1997, six loans have been committed under the Note with aggregate note amounts equaling \$24,611,067.

- ° On May 31, 1996, a loan, in the amount of \$3,448,250, was committed under the Note in connection with the acquisition of the hotel in Grand Prairie, Texas. This loan, secured by the hotel in Grand Prairie, accrues interest at prime plus .5%, and requires interest payments for the first ten months of the loan, followed by principal and interest payments based upon a fifteen- year amortization. The outstanding balance at December 31, 1997 was \$2,861,194.

- ° On August 15, 1996, a loan, in the amount of \$3,509,885, was committed under the Note in connection with the construction of the hotel in Phoenix, Arizona. This loan, secured by the hotel on Oak Street, accrues interest at prime plus .5% and requires interest payments for the first

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twelve months of the loan, followed by principal and interest payments based upon a fifteen-year amortization. The outstanding balance at December 31, 1997 was \$3,168,839.

° On February 4, 1997, a loan, in the amount of \$5,070,000, was committed under the Note, secured by an Austin hotel facility. The funding of this loan by BOA occurred on May 12, 1997. This loan accrues interest at prime plus .5%, and requires principal and interest payments based upon a fifteen-year amortization. The outstanding balance at December 31, 1997, was \$4,859,006.

° On July 21, 1997, a loan, in the amount of \$3,961,379, was committed under the Note in connection with the construction of the hotel in Denver, Colorado. This loan, secured by the hotel at Denver Tech Center, accrues interest at prime plus .5%, and requires interest payments based upon a fifteen-year amortization. The outstanding balance at December 31 was \$2,477,954.

° On August 6, 1997, a loan, in the amount of \$4,294,828, was committed under the Note in connection with the construction of a hotel in Phoenix, Arizona. This loan, secured by the hotel at Interstate 10 & Chandler, accrues interest at prime plus .5% based on the election of the first twelve months of the loan, followed by principal and interest payments based

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upon a fifteen-year amortization. The outstanding balance at December 31, 1997 was \$1,858,231.

° On August 18, 1997, a loan, in the amount of \$4,326,725 was committed under the Note in connection with the construction of a hotel in Dallas, Texas. This loan, secured by the hotel at Dallas Park Central, accrues interest at prime plus .5%, followed by principal and interest payments based upon a fifteen-year amortization. The outstanding balance at December 31, 1997 was \$1,084,082.

In connection with the acquisition of the corporate housing project in Charlotte, North Carolina, the Company entered into a \$1,900,000 mortgage note due to Morgan Guaranty Trust Company of New York, with interest at 7.97% through September 1, 2007. The note is due in monthly installments of \$14,626.77, including interest, from October 1997 through September 2007, and is secured by the North Carolina property and improvements. The outstanding balance at December 31, 1997 was \$1,897,992.