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IN FOCUS:

HOTEL MARKET REPORT ASHEVILLE, NC

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CONTENTS

3	Executive Summary
4	Introduction
5	Hotel Market Performance & Forecast
7	Existing Supply Breakdown
7	New Supply Pipeline
9	Hotel Value Trends
10	Recent Hotel Transactions
11	Key Economic Indicators
17	Closing Remarks

Addenda



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Executive Summary

Asheville's appeal and economic diversity have grown in the past decade. Hotel demand is expected to continue its upward trend in the near future.

2014

Occupancy

↑ 4.0% at 69%

Average Daily Rate

↑ 5.6% at \$129



Rate of Change between 2014 - 2017

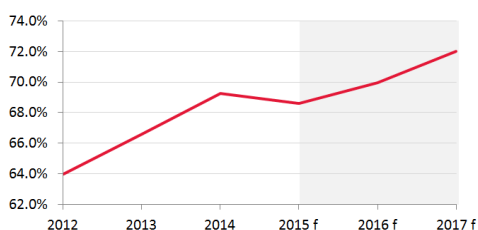
Occupancy

↑ Δ3.9% at 72%

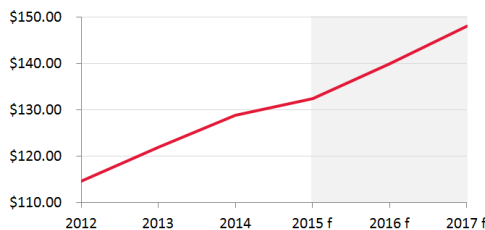
Average Daily Rate

↑ Δ14.8% at \$148

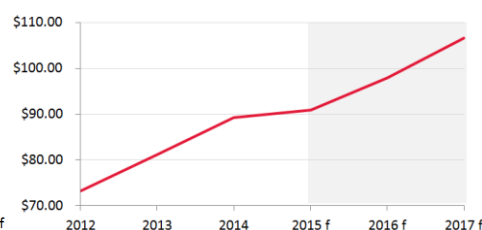
Occupancy Expected to Rise after 2015



ADR to Experience Growth through 2017



RevPAR will Sustain Increases into 2017



Source: HVS & STR

Hotel Market Performance

Economic growth in Asheville, along with rising tourism numbers and the absence of new supply, resulted in a market-wide **occupancy** upswing above **69% in 2014**. average rates had realized healthy growth since 2003, and rates have continued to rise in the years since their short-lived fall.

Hotel Value Forecast

- Demand is expected to once again outpace supply in **2016**; approximately **589 new rooms are anticipated to open in 2015**.
- The introduction of high-quality new supply through the forecast period should help average rate improve as new supply continues to ramp up toward stabilization.
- Positive market indicators mentioned above have a bearing on hotel values, which are anticipated to rise in Asheville in the near term.

Recent Transactions

The **historic Grove Park Inn** was the only Asheville-area hotel sale in the past three years. The hotel was sold to KSL Capital Partners in May of 2012, and then sold again to Omni Hotels & Resorts in **July of 2013 for approximately \$250 million or \$487,000 per key**. Omni has invested approximately \$25 million in property renovations and expansions.

Existing Supply

Economy and upper-midscale hotels account for **25%** of Asheville's room supply, with over 1,800 rooms per tier. Luxury hotels account for 308 rooms—just 4% of the city's room supply.

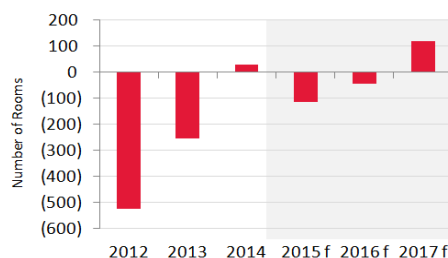
New Supply

The supply race in Asheville is gearing up, with many **new hotels set to open in 2015 and 2016**.

If all of the listed hotels were constructed as planned, the new hotels would add approximately 1,308 new rooms to the existing supply of 7,201 rooms in the city, representing a 15% increase in supply.

Most hoteliers believe the new hotels will have a positive impact on the market.

The following chart illustrates the number of additional hotel rooms, beyond our projected growth in supply that the market can sustain while maintaining the current 69% occupancy level.



Source: HVS & STR

Key Economic Indicators

Average annual compounded growth rate for Asheville's MSA resident population has been 10% higher than that of the nation in recent years.



Average annual compounded growth rate of per-capita personal income for the MSA was about 30% higher than the nation's in 2010-2014.



- Local employment is concentrated in travel and tourism, health care, manufacturing, and retail.
- In **2014**, the **pace of employment growth** in the MSA was **1.3%**; it is expected to rise to 1.4% into 2020, less than 10% higher than the national average.
- **Unemployment** in Asheville has been **declining since 2011**.
- Following a sharp drop in attendance in 2012, the U.S. Cellular Center realized an enormous rise in attendees in 2013.
- **Passenger traffic** through Asheville Regional Airport **rose 11.6% from 2013 to 2014**.



Introduction

One of the crown jewels of the Carolinas, **Asheville is booming as a tourism destination**. According to a recent study commissioned by the Asheville Convention and Visitors Bureau, some 9.1 million people traveled to Buncombe County in 2012, and a third stayed overnight—a strong indication of healthy hotel demand. These visitors spent \$1.5 billion, generating \$2.3 billion in economic impact and supporting 22,924 jobs.¹

As Asheville's allure has grown, so has its economic diversity. In the past decade, the **city's economic drivers have branched out into health care, advanced manufacturing, retail trade, and a wide variety of professional services**. New Belgium has had a new brewery in the works in the city since 2013 and plans to open shop later this year, just one of many new developments in another cottage industry in Asheville. Healthcare companies have been making major expansions as well. The following In Focus report details factors relevant to the near-term vitality of Asheville's hotel industry.

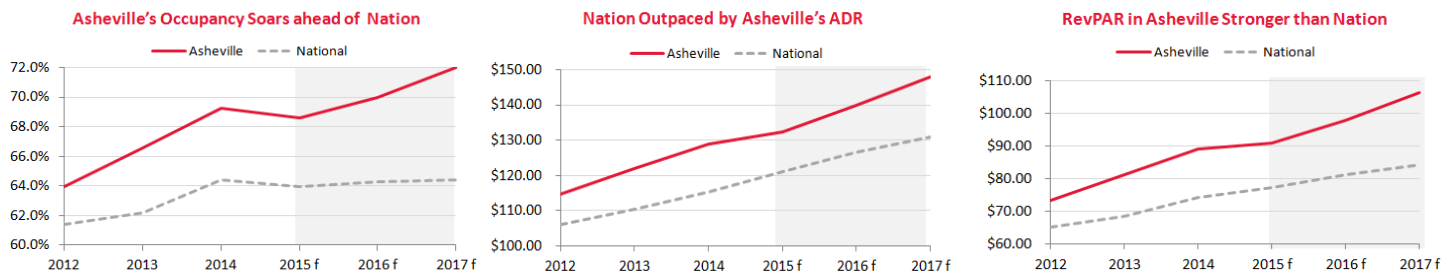
¹ Economic Impact of Tourism. Asheville, NC Convention and Visitors Bureau. Retrieved March 5, 2015. <http://www.ashevillecvb.com/economic-impact-2/>

Asheville's hotel industry thrives on tourism, though other demand segments have been making headway. A rise in occupancy and average rate over the past several years is expected to continue, driving hotel development in the city's downtown.

Hotel Market Performance and Forecast

The following charts illustrate trends in hotel supply, demand, occupancy, and average rate for Asheville hotels from 2012 through 2014, with forecasts through 2019.

Growing Hotel Market since 2009



Source: HVS & STR

Hotel supply in Asheville fluctuated only modestly in the middle of the past decade, before increasing in 2008/09, coinciding with the onset of the recession. Demand fell in 2007 and more significantly in 2008, though the decline tapered off in 2009. Nevertheless, given the increase in supply, overall occupancy in the market had trouble gaining ground. Consecutive years of economic growth in Asheville, along with rising tourism numbers and the absence of new supply, resulted in a market-wide occupancy upswing above 69% in 2014. Demand declines, the recession, and new supply converged to bring down average rates in Asheville in 2008/09; average rates had realized healthy growth since 2003, and rates have continued to rise in the years since their short-lived fall.

Asheville's thriving economy, particularly its tourism element, has brought a rise in hotel demand, a trend HVS expects to continue in the near term. Historically, **demand growth has outpaced new hotel supply in the market**; in fact, occupancy in the market has increased in years of new supply

(with the exception of 2009, at the height of the national recession).

Given the relatively large number of new rooms expected to enter Asheville in 2015, HVS expects supply growth to initially outpace demand. Nevertheless, as the new hotels are promoted and become established, they are likely to help attract and accommodate more demand in the market. Demand should again outpace the expected supply increases over the next several years, which would result in record high occupancy levels.

Most of the new hotels are expected to command high average rates given their branding and scope of service. **A market-wide rise in average rate is anticipated in 2015**, though the increase is expected to be modest given the volume of new hotel openings in the market this year. As these hotels continue to ramp up toward stabilization, rate gains in line with historic averages for the market should return.

Occupancy Low Experienced in 2009;
ADR Bottomed in 2004

Occ
2009
58%

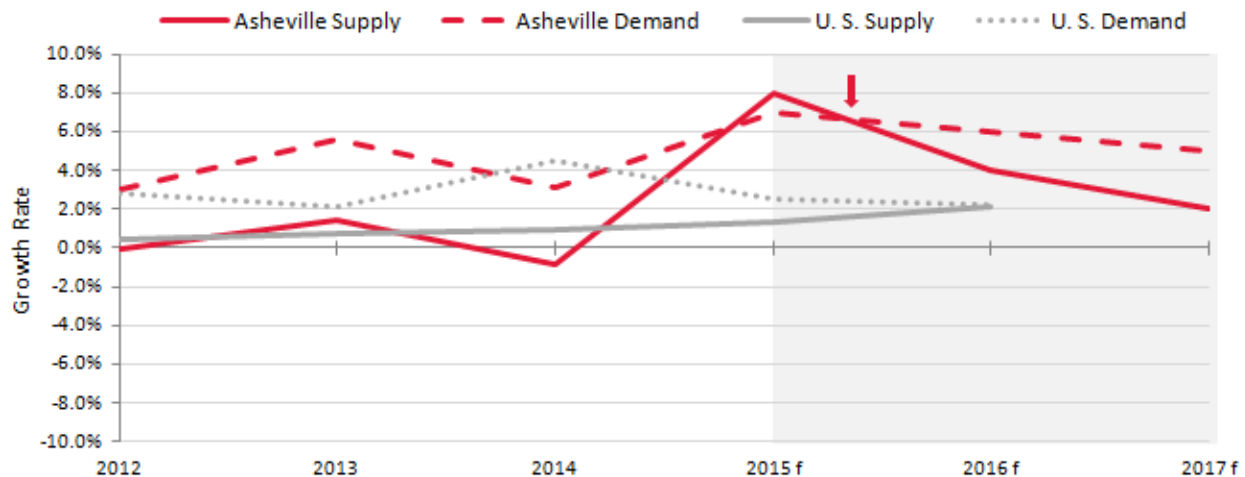
ADR
2004
\$81

Occupancy and Average Daily Rate Reached
Record High in 2014

Occ
69%

ADR
\$129

Asheville Demand Expected to Outpace Supply after 2015



2017 forecast for U. S. supply and demand unavailable
Source: HVS, STR, Deutsche Bank

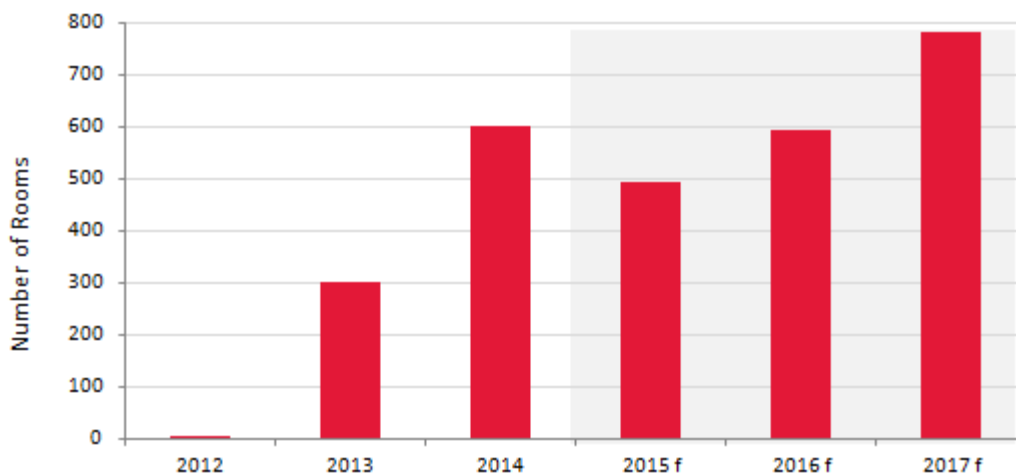
Overall **occupancy in the Asheville market has averaged 64% over the last ten-year cycle**. To figure the number of additional rooms the market could bear, while maintaining this average occupancy level, HVS calculated the difference between the average occupancy rate over this ten-year period and the actual occupancy percentages for each year. We then multiplied the difference by the number of new rooms for each year to arrive at the variance between total occupied room nights and average occupancy.

The number of rooms for each year was determined by dividing the number of occupied room nights in excess of

average occupancy by the number of days in a year, and multiplying this quotient by the ten-year average occupancy percentage.

We note that the total occupied room nights exhibits a positive variance with average occupancy as Asheville recovered from the impacts of a nationwide recession. Therefore, additional rooms could be added, with the market still able to maintain the ten-year average occupancy level; a positive variance is expected in the near term.

Asheville's Hotel Supply Has Room to Grow while Maintaining 64% Market-Wide Occupancy



Source: HVS & STR

It is important to note that market dynamics are constantly changing. The adjacent chart does not take into consideration latent demand. Furthermore, readers should take into consideration the number of proposed hotels included in the new supply pipeline that may or may not exceed the number of new hotel rooms, as described in the following section.

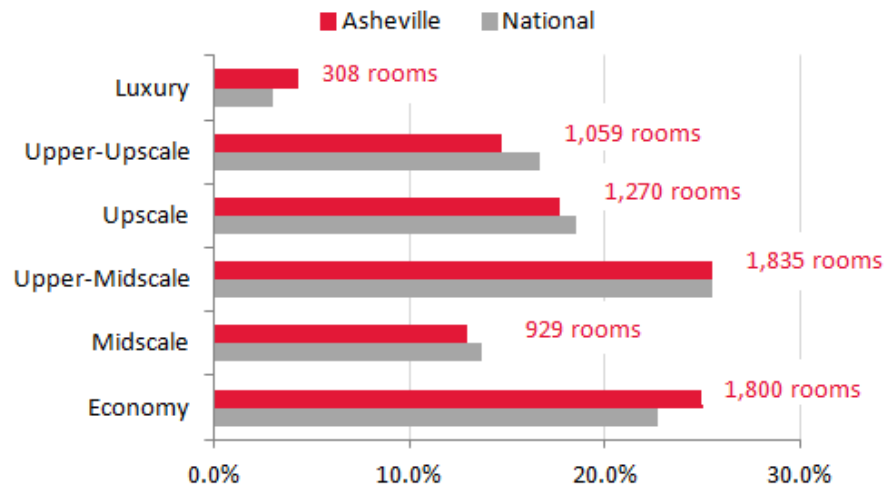
Existing Supply Breakdown

Asheville's hotels are primarily clustered near Interstate 40 and Smoky Park Highway on the west side of the city, near the former Biltmore Square Mall, in and around Downtown Asheville, at Interstate 40 near the exit to the Biltmore Estate,

near Asheville Mall and Tunnel Road on the east side of the city, and near the Asheville Regional Airport to the south. **The city's highest-performing hotels are those closest to the Biltmore Estate and Downtown Asheville.**

Economy and upper-midscale hotels account for 25% of Asheville's room supply, with over 1,800 rooms per tier. Luxury hotels account for 308 rooms—just 4% of the city's room supply.

Largest Portion of Rooms in Asheville, and the Nation, are Upper-Midscale Class



Source: STR

New Supply Pipeline

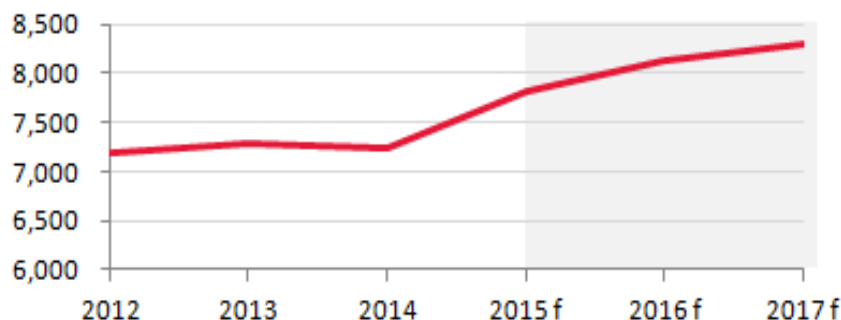
Eleven new hotels are currently in the pipeline for Asheville, as illustrated in the following table.

Asheville Market Could Welcome 1,300+ Rooms

No.	Hotel	Status	Opening Year	Rooms	Class	Location / Intersection	Entered Pipeline
1	Hyatt Place Downtown	Construction	2015	140	Midscale	Haywood Street and Montford Avenue	8/19/2013
2	Village Hotel on Biltmore Estate	Construction	2015	209	Midscale	Biltmore Estate	8/4/2014
3	Hilton Garden Inn	Construction	2015	151	Midscale	311 College Street	2/26/2014
4	Cambria Suites	Groundbreaking	2016	141+8 living units	Midscale	Battery Avenue and Page Avenue	1/30/2008
5	Hotel/Retail Development	Groundbreaking	2016	72	TBD	Asheville Airport	1/29/2010
6	AC Hotels by Marriott	Construction	2016	120	Upscale	16 Broadway	4/2/2014
7	The Foundry Inn	Starts in 4-12 months	2017	90	Midscale	39 Elm Street	03/03/2015
8	Proposed BB*T Building Mixed-Use Redevelopment	Starts in 4-12 months	2017	150	Luxury	1 North Pack Square	8/13/2013
9	Westgate Country Inn & Suites	Planning	N/A	94	Economy	40 Westgate Parkway	8/4/2014
10	Holiday Inn or Holiday Inn Express & Suites	Planning	N/A	100	Midscale	329 Rockwood Road	10/30/2013
11	TownePlace Suites	Planning	N/A	104	Midscale	39 Elm Street	12/18/2014

Source: HVS and BuildCentral.com

Lodging Supply Expected to Increase 2015–2017



Source: HVS & STR

The introduction of high-quality new supply is anticipated to somewhat hinder rate growth at area hotels in 2015, but rates should improve again the following year as the new supply continues to ramp up toward stabilization

Hotel Value Trends – Asheville, North Carolina

Asheville hotel demand has continued an upward swing in recent years. Rooms revenue increased by more than 11% in 2014, and leisure and hospitality employment grew by 6%. Air traffic to Asheville, another indicator of the city's hotel demand, also rose by 11.6% last year. If, as expected, demand continues to rise, local hoteliers should be able to increase average rates, resulting in higher RevPAR. These positive market indicators have a bearing on hotel values in Asheville, which are anticipated to rise in the near term.

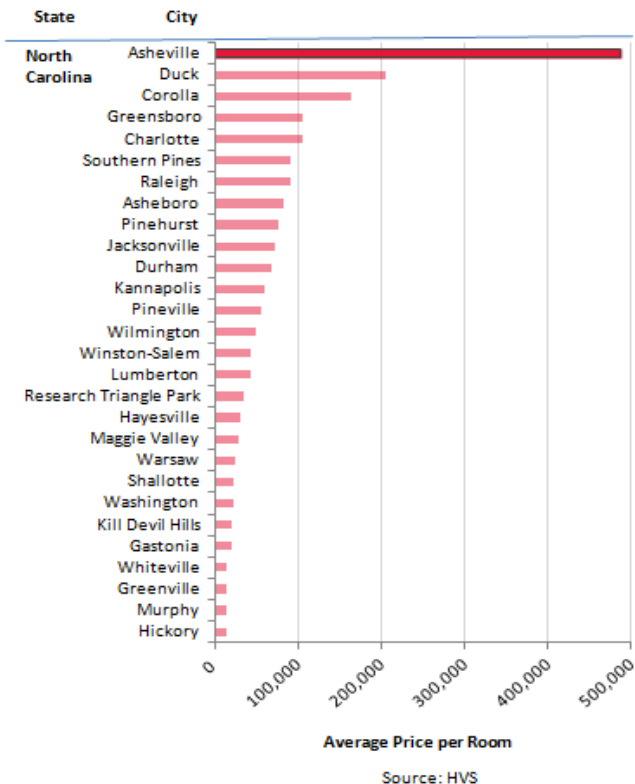
At the same time, high demand has brought more interest in hotel development, and **room supply in Asheville is expected to grow substantially—particularly in the city's downtown.** Recent years have seen the closure of various aging hotels in the market, as well as the opening of the Aloft hotel in 2012 and the Windsor boutique hotel in 2014. The supply changes will make the hotel environment more competitive, though the exact impact on average rates and overall occupancy remains to be seen. **HVS anticipates modest average rate growth in 2015**, as the new supply will offer discounted rates initially and existing hotels may hold back on increasing rates in the near term. As the new hotels quickly ramp up, area hotels should be able to increase average rates in line with historical levels. It is important to note that existing hotels will need to maintain a quality product by completing regular maintenance and brand-mandated property improvement plans in order to stay competitive in the market. Those that do will win out by being able to command higher average rates while capturing increasing demand. This anticipated increase in average rate in the market, coupled with the anticipated increases in demand through 2019, should result in improving levels of revenue, which would in turn lead to higher hotel values.

The anticipated increase in average rate in the market, coupled with the anticipated increases in demand through 2019, should result in improving levels of revenue, which would in turn lead to higher hotel values.

Recent Hotel Transactions

The following charts represent the hotel transactions in North Carolina from January 2012 through December 2014.

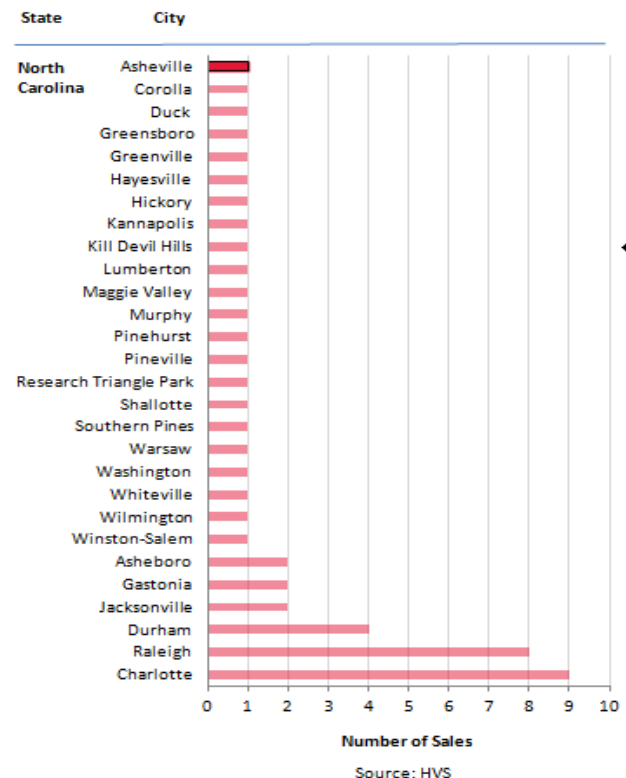
Historic Grove Park Inn Represents the Sole Asheville Hotel Sale from 2012-2014



With the exception of the Omni Grove Park Inn Hotel discussed below, hotel sales across North Carolina over the past three years have ranged from \$253,449 per key down to \$11,000, with pricing highly dependent on historical operations, location, product type, and if the property was under financial distress. In general, the better branded hotels in the state's larger metropolitan cities have commanded the highest values on a per-room basis.

The two largest transactions in recent years were city-center Marriotts in Raleigh and Charlotte, benefiting from their offerings of meeting space and restaurants, as well as their locations relative to major commercial and leisure demand generators. Charlotte and Raleigh had the most hotel sales, and the highest per-key prices, since 2012. The transactions with the lowest prices generally represent unbranded or economy hotels; most were distressed at the time of sale, needed significant renovations, or were REO transactions.

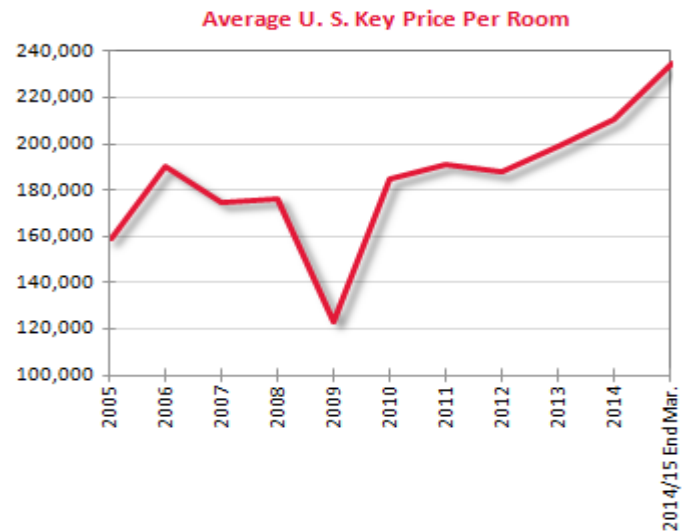
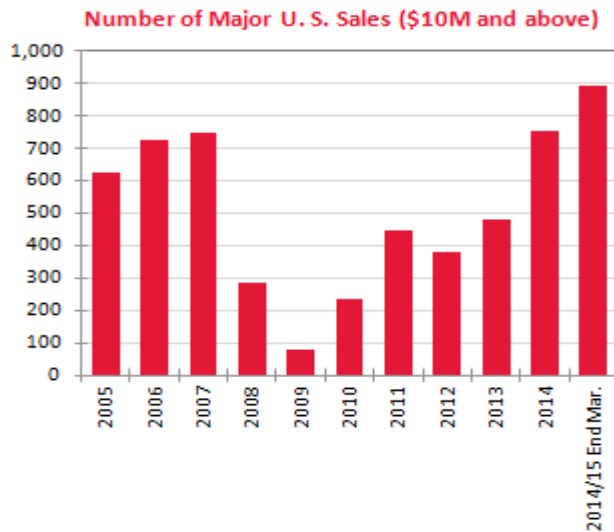
The Grove Park Inn Commanded the Highest Price per Room, Highest Total Price of all North Carolina Hotel Sales from 2012-2014



The historic Grove Park Inn was the only Asheville-area hotel sale in the past three years. The hotel had been owned by the Sammons family since the mid-1900s and was sold to KSL Capital Partners in May of 2012. The property was then sold to Omni Hotels & Resorts in July of 2013; since the sale, Omni has invested approximately \$25 million in property renovations and expansions.

Across the nation, according to Real Capital Analytics, the lowest confirmed hotel sale for the preceding three years was the Hotel Seagate in the Toledo, Ohio CBD at \$2,830 per key. The next two lowest sales occurred in Chicago and Atlanta. The highest confirmed sale, at \$1.85 million per key, was the purchase of the Park Hyatt Hotel in the Manhattan Midtown West neighborhood. The next runner up was the Hollywood Saint Louis in Missouri at \$1.22 million.

Average Price per Key in the U.S. Echoes Hotel Transaction Market Strength



Source: RCA

Key Economic Indicators

ECONOMIC AND DEMOGRAPHIC REVIEW

The adjacent charts reflect key economic data from Woods & Poole, Inc. on Asheville-Brevard's combined statistical area (CSA), the Asheville metropolitan statistical area (MSA), Buncombe County, the state of North Carolina, and the nation.

In recent years, the average annual compounded growth rate of the resident population of Asheville's MSA has been 10% higher than that of the nation. This small lead is expected to continue for the next five years. Conversely, the 2010–2014 average annual compounded growth rate of per-capita personal income for the MSA was about 30% lower than the nation's, though the MSA's growth rate is rising and anticipated to close that gap. Moving forward into 2020, the MSA should only trail the national average of 1.3% by about 10%. With a 0% growth pattern, the national wealth indexes remained flat from 2000 to 2014; these wealth indexes are projected to remain flat into 2020. The Asheville MSA, showing only nominal improvements, is moving slightly downward.

Food and beverage sales in the Asheville MSA totaled \$748 million in 2014, versus \$682 million in 2010, reflecting a 2.3% average annual compounded change. Through 2020, the pace of growth is expected to moderate to 1.9%, equal to the national rate. The retail sales sector showed a 2.7% growth surge from 2010 to 2014, but like food and beverage sales, this is expected to level off to 2.0% through 2020, again equaling the national rate.

Asheville Population Growth Outpaces Nation

Asheville's MSA average annual compounded growth rate of resident population has been 10% higher than that of the nation.



Average annual compounded growth rate of per-capita personal income for the MSA was about 30% lower than the nation's in 2010-2014.

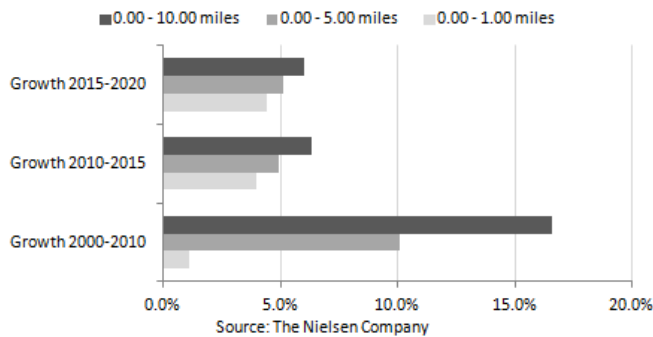


RADIAL DEMOGRAPHIC INDICATORS

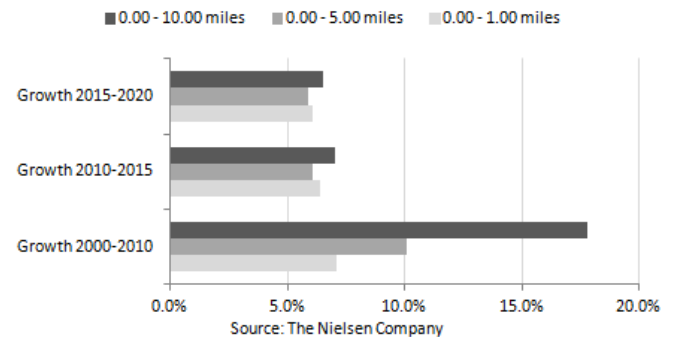
The following table reflects radial demographic trends for the Asheville market area measured by three points of distance from the center of Downtown Asheville.

Demographics by Radius from the Center of Town

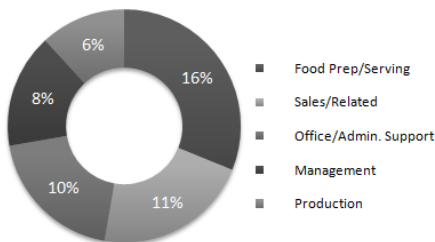
**Population Growth to Increase within the One Mile Radius
2015 - 2020**



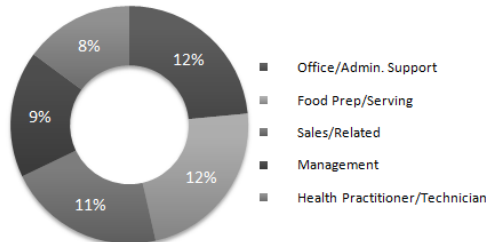
**Overall Household Growth to Decline
2015 - 2020**



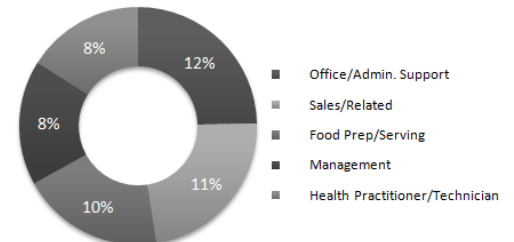
Top Five Occupations within One Mile Radius - 2015



Top Five Occupations within Five Mile Radius - 2015



Top Five Occupations within Ten Mile Radius - 2015



Source: The Nielsen Company

Population growth within one mile from the center of downtown was limited from 2000 to 2010, whereas the greater area experienced significant growth, over 16%, during this same period. Although the overall growth rate slowed

significantly from 2010 to 2015, projected growth is anticipated to continue at about 6.0% per year. Households are expected to grow at a rate of 6.5% per year into 2020 as well.



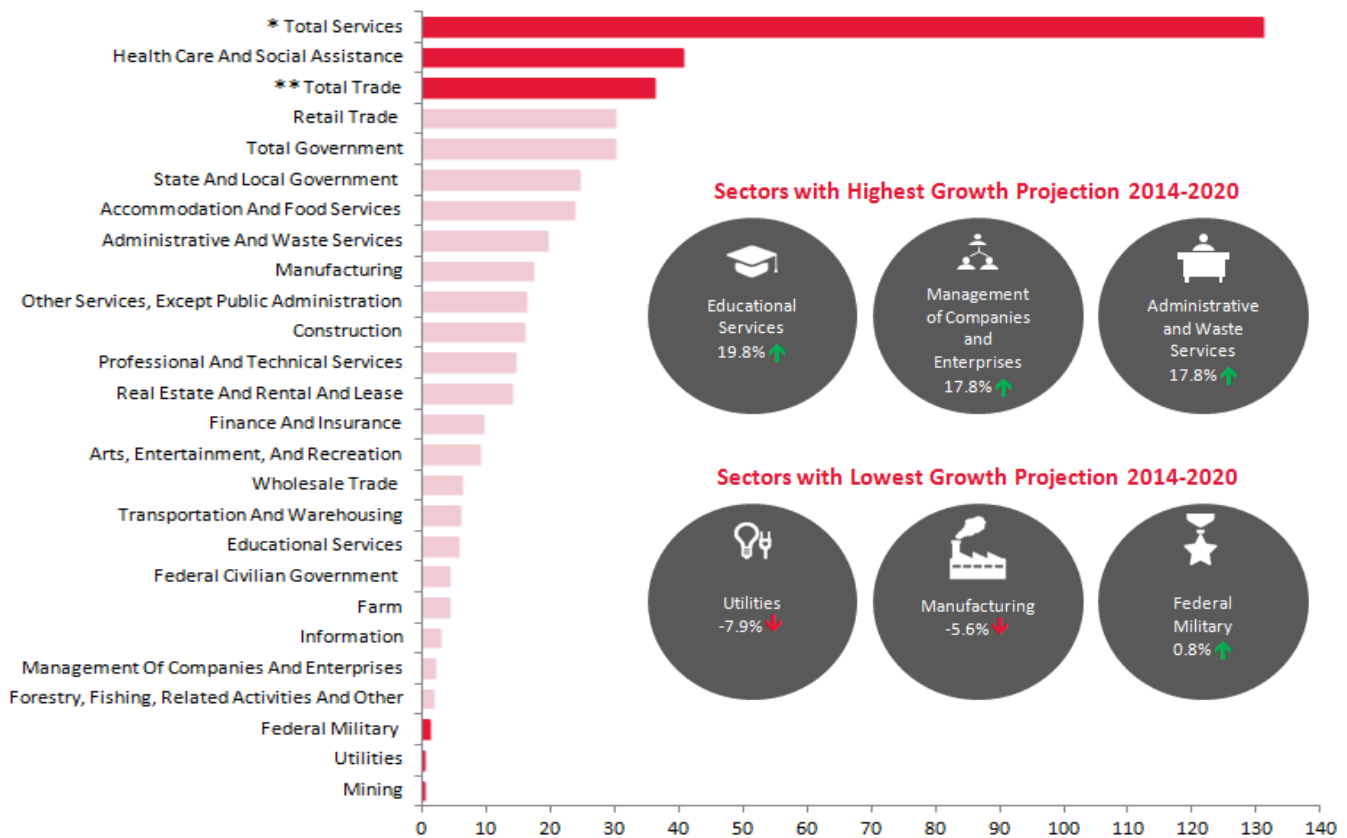
WORKFORCE CHARACTERISTICS

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate [FIRE]; wholesale trade; and services produce a considerable number of visitors who are not particularly rate-sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities [TCPU] employers can also be important, depending on the company type.

The following chart illustrates the three highest and lowest projected employment numbers by business sector in 2020 for the Asheville MSA's workforce distribution.

Employment sectors belonging to Total Services and Total Trade (as detailed below) are anticipated to experience the most growth in Asheville's MSA. Educational Services, Management of Companies and Enterprises, and Administrative and Waste Services are projected to achieve the highest rates of growth through 2020. Utilities and manufacturing are expected to decline.

Employment Projections through 2020 Show Impressive Growth in Total Services



Source: Woods & Poole Economics, Inc.

* Total Services include: Professional and Technical Services; Management of Companies and Enterprises; Administrative and Waste Services; Educational Services; Healthcare and Social Assistance; Arts, Entertainment, and Recreation; Accommodation and Food Services; and Other Services, except Public Administration.

** Total Trade includes Wholesale Trade and Retail Trade.

EMPLOYMENT

As noted previously, local employment is largely centered on travel and tourism, healthcare, manufacturing, and retail. Total employment has increased at a greater pace than the change in population. For the Asheville market, of the roughly 180,000 persons employed in 2014, 26% are categorized as office employees, while 18% are categorized as industrial employees. Total employment increased by 2.3% from 2013 to 2014. By comparison, office employment expanded by

2.9% from 2013 to 2014. The number of households in this market in 2014 totaled 186,310, an increase of 0.3% from the level registered in 2013. Population expanded during this same time frame at a rate of 0.8%. Household average income grew by 3.7% in 2014, ending the year at roughly \$91,000.

The following table illustrates historical employment, population, and income data for the overall Asheville market.

Historical Employment, Households, Population, and Household Income Statistics

Year	Total Employment	% Chg	Office Employment	% Chg	Industrial Employment	% Chg	Households	% Chg	Population	% Chg	Household Avg. Income	% Chg
2012	171,700	—	43,713	—	25,788	—	184,250	—	434,650	—	\$88,978	—
2013	176,200	2.6 %	44,928	2.8 %	25,917	0.5 %	185,790	0.8 %	439,060	1.0 %	88,097	(1.0) %
2014	180,220	2.3	46,226	2.9	26,613	2.7	186,310	0.3	442,560	0.8	91,389	3.7

Source: REIS Report, 4th Quarter, 2014

TOP INDUSTRIES IN ASHEVILLE

The adjacent table lists the major employers in the Asheville market.

The Biltmore Company and the Omni Grove Park Inn highlight one of Asheville's major economic drivers—tourism. Visitor spending in Buncombe County, an indicator of the health of the local leisure and hospitality industries, increased by more than 8.0% in 2013, the largest percentage increase of any county in the state. The county's hotel and motel sales increased by more than 7.0% in 2012, more than 13.0% in 2013, and more than 11.0% to \$7.39 million through the third quarter of 2014. Total hotel sales for the county also topped \$72 million in the third quarter of 2014, a record high compared with the same quarter during the six previous years. Asheville was named to *Frommer's* list of "Best Places to Go in 2015," a distinction that should help drive additional tourist and leisure travel to the area.

The health services industry is the largest employment sector in Asheville. An influx of baby-boomers and retirees in the area has made health care a major concern for local residents, and Asheville also draws visitors from the greater Western North Carolina area who rely on the city's specialized care facilities and technologies. Mission Health System generates approximately \$963 million in economic activity for the Buncombe County and Madison County

Top 10 Employers in Asheville by Number of Employees

Rank	Firm	Number of Employees
1	Mission Health System and Hospital	3,000+
2	Buncombe County Public Schools	3,000+
3	Ingles Market, Inc.	1,000-2,999
4	Buncombe County Government	1,000-2,999
5	The Biltmore Company	1,000-2,999
6	VA Medical Center - Asheville	1,000-2,999
7	The Omni Grove Park Inn	1,000-2,999
8	City of Asheville	1,000-2,999
9	Asheville Buncombe Community College	1,000-2,999
10	Eaton Corporation - Electrical Division	750-999

Source: Asheville Chamber of Commerce, 2014

economies. The company's expansions include the opening of an administrative office in Biltmore Park Town Square and the Mission Pardee Health Campus in 2013, as well as the Mission My Care Plus - Biltmore Park facility in 2014. Park Ridge Health also opened a new campus in southern Asheville in late 2014.

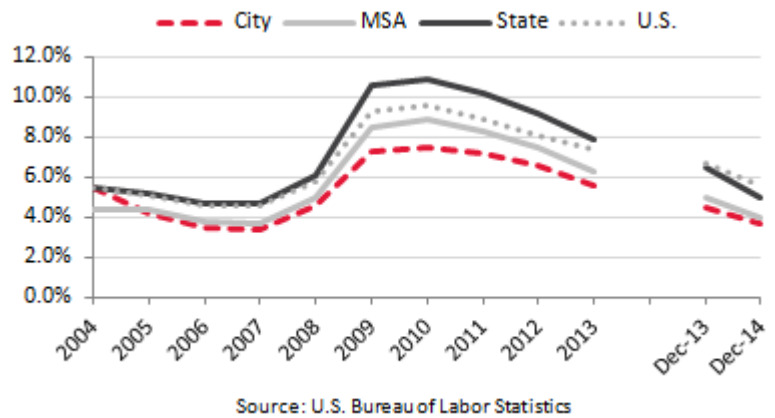
The area's manufacturing industry has been transformed into a high-skilled advanced sector, with companies such as Eaton Corporation and BorgWarner representing some of the largest employers. In 2014, Linamar Corporation, a supplier of internal engine components, announced plans to add an additional 150 jobs and \$115 million in new facilities and equipment over the next several years. In late 2014, GE Aviation celebrated the grand opening of its expanded production facilities in Asheville. The expansion will add 52 jobs by 2018 and represents a \$126-million capital investment.

The brewing industry has been expanding in Asheville in recent years as well. Beer production in Asheville has grown from a handful of small microbreweries to numerous large-scale manufacturers. Oskar Blues opened in Brevard in 2012, and Sierra Nevada opened a brewery near the Asheville Regional Airport in 2013. New Belgium's East Coast brewery will begin brewing operations in Asheville's River Arts District in late 2015. The number of smaller breweries continues to increase as well, with Asheville's South Slope neighborhood just southwest of downtown becoming unofficially known as the city's Brewery District.

UNEMPLOYMENT

The adjacent chart details unemployment statistics in the city of Asheville since 2004.

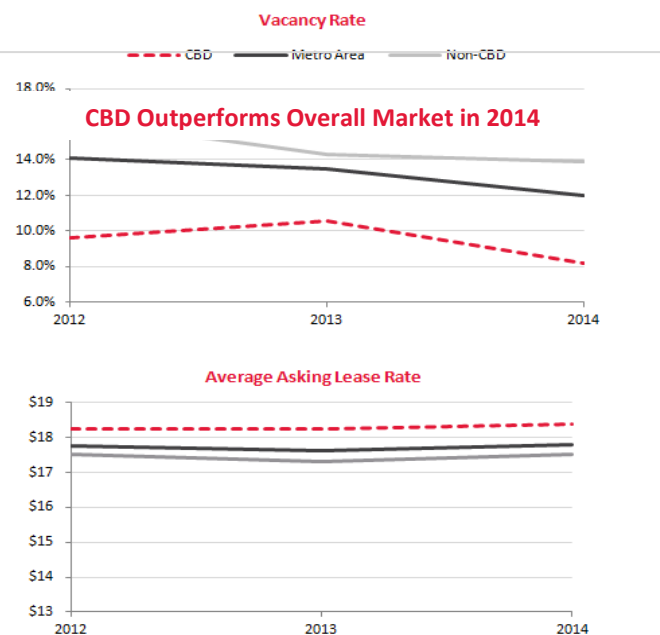
Unemployment in Asheville has been on the decline since 2011, and employment remains strong within the healthcare sector and the manufacturing and tourism industries, including healthy employment levels at major employers such as Mission Health System, Eaton Corporation, and local hospitality and retail entities. The drop in unemployment in the latest comparable month of December is especially encouraging, edging out unemployment rates for the MSA, the state, and the nation.



OFFICE SPACE

Trends in occupied office space are typically among the most reliable indicators of lodging demand, as firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Thus, trends that cause changes in vacancy rates or in the amount of occupied office space may have a proportional impact on commercial lodging demand and a less direct effect on meeting demand. The following table details office space statistics in Asheville.

In the greater Asheville market, REIS reported a vacancy rate of 12.0% and an average asking rent of \$17.80 for 2014. The CBD submarket's vacancy rate of 8.2% is below the overall market average, and the average asking lease rate of \$18.25 is above the average for the broader market.

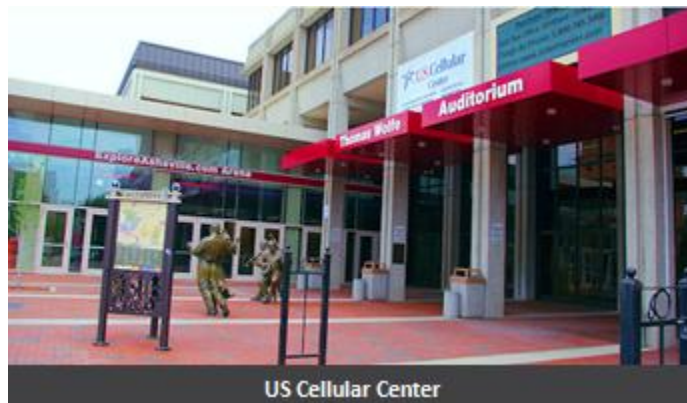


CONVENTION ACTIVITY

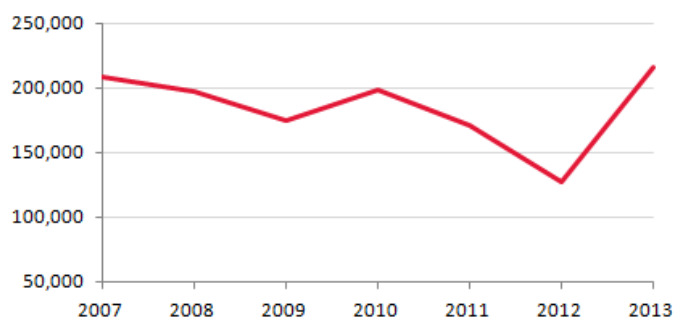
A city's convention activity helps gauge meeting and group visitation and demand for nearby hotels. Typically, hotels within three miles of a convention center benefit the most from this demand, and headquarter hotels can command premium rates. Very large conventions also drive demand to peripheral hotels, which can benefit from compression within the city as a whole.

The U.S. Cellular Center Asheville comprises the Thomas Wolfe Auditorium, a 45,000-square-foot arena, a 25,148-square-foot exhibit hall, and a 5,159-square-foot banquet hall. The recently renovated facility remains one of the busiest civic centers in the region.

The graph to the right details convention statistics at the U.S. Cellular Center from 2007 through 2013. Nearly 216,000 delegates attended events at the U.S. Cellular Center in 2013, the last year for which data were available. This represents an enormous rise from the previous year, which had the lowest number of attendees since 2007. The center has more than a dozen events booked for 2015, ranging from author and spoken-word presentations to children's events to pop and orchestral musical performances.



US Cellular Center Breaks Attendance Record in 2013



Source: US Cellular Center

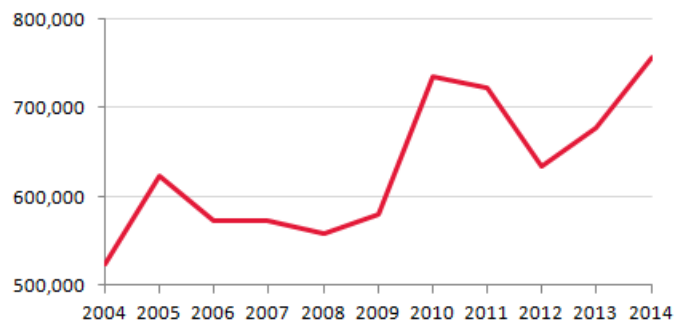
AIRPORT TRAFFIC

Airport passenger counts are important indicators of lodging demand. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

Asheville Regional Airport, located approximately 15 miles south of Downtown Asheville, serves the greater western North Carolina area with daily flights on Delta, Allegiant, United, and US Airways. The adjacent table illustrates recent operating statistics for the airport.

Passenger traffic through the airport rose 11.6% from 2013 to 2014; the average annual change during the prior decade was 3.7%. Several factors contributed to the major increase last year, including new routes and flights. Allegiant added two new nonstop flights to Florida in 2013, while other airlines increased the number of available seats on existing flights during the peak travel seasons. In addition, residents have chosen to fly local more often, rather than traveling through nearby Greenville or Charlotte.

Airport Passenger Traffic Peaks in 2014

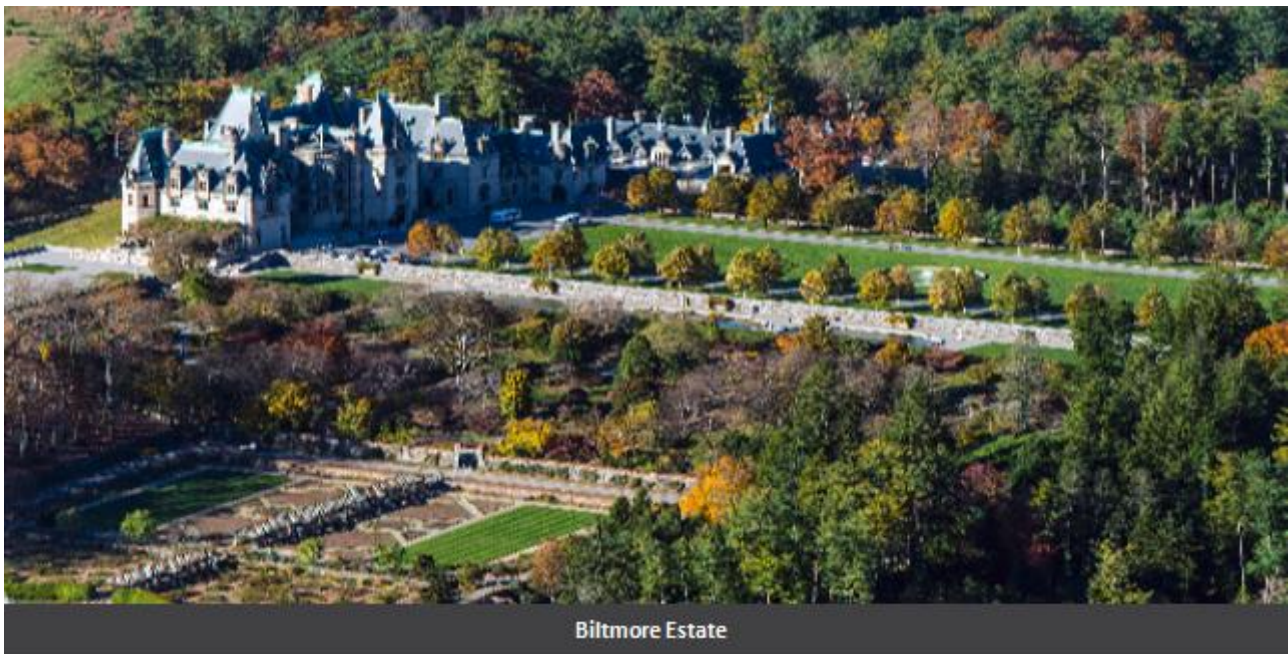


Source: Asheville Regional Airport

Tourist Attractions

Many attractions support Asheville's vibrant tourism industry, which has its peak season in April through December.

- The Biltmore Estate, built more than a century ago by billionaire George Vanderbilt, originally served as the family's country retreat in North Carolina's Blue Ridge Mountains. Today, the Biltmore House remains the largest private home in the United States. A second hotel on the estate is expected to open by November of 2015.
- Downtown Asheville houses more than 100 restaurants and a variety of local retail, gift, and specialty shops. Pack Square Park, which was completely revitalized in 2010, encompasses fountains, walkways, and terraces, as well as a natural amphitheater that hosts outdoor festivals and concerts throughout the year.
- The Blue Ridge Parkway is the most visited unit in the National Park System. The recreational motor road was created as a link between the Shenandoah and Great Smoky Mountains National Parks. The Parkway extends through Asheville and provides access to outdoor activities such as hiking, mountain biking, canoeing, and camping.
- The city's arts and crafts community is renowned worldwide. Downtown Asheville features several galleries that showcase the work of local artists. The Southern Highland Craft Guild, with two shops in Asheville, is one of the strongest craft organizations in the country, representing over 900 artists in nine southeastern states.



Biltmore Estate

Closing Remarks

Asheville's hotel performance since 2009 speaks volumes about the market's ability to recover from economic adversity. Both occupancy and RevPAR have risen consistently in recent years, aided by the fact that supply has largely been kept in check. With strong fundamentals and increasing demand, especially in the form of tourism, developers have shown increased interest in bringing new supply to the market. Nevertheless, the upcoming projects, while posing a challenge in the near term, should positively influence the market in the long run, as existing hotels that have undergone renovations should be able to keep pace with average rates and occupancy penetration increases. Overall, prospects for Asheville's hotel market remain promising.



About HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. www.hvs.com

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About Janet Snyder



A Senior Vice President with HVS Atlanta, Janet Snyder works out of Asheville, North Carolina, conducting hotel valuation assignments in markets throughout the Carolinas, the South, and the Mid-Atlantic. Her detailed

approach, re-adapted to fit each individual hotel assignment, translates into clear, comprehensive conclusions about a hotel's feasibility or value. Janet's previous hospitality experience includes four years at Hilton Worldwide.

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ADDENDA

Ashville Supply vs. Demand (Pages 3 and 6)

	2012	2013	2014	2015 f	2016 f	2017 f
Supply	2,625,593	2,663,608	2,641,641	2,852,972	2,967,091	3,026,433
% Change in Supply	-0.1%	1.4%	-0.8%	8.0%	4.0%	2.0%
Demand	1,679,829	1,774,005	1,829,721	1,939,504	2,036,479	2,117,939
% Change in Demand	3.0%	5.6%	3.1%	6.0%	5.0%	4.0%
Occupancy	64.0%	66.6%	69.3%	68.0%	68.6%	70.0%
% Change in Occupancy	3.1%	4.1%	4.0%	-1.9%	1.0%	2.0%
Supply Change	(2,531)	38,015	(21,967)	211,331	114,119	59,342
Demand Change	49,067	94,176	55,716	109,783	96,975	81,459
Supply Less Demand	945,764	889,603	811,920	913,468	930,612	908,494
Year-over-year Change	(51,598)	(56,161)	(77,683)	101,548	17,144	(22,117)

69.0% 2014 Occupancy

These calculations support new supply chart on page 3

Demand in excess of stabilized occupancy	(131,830)	(63,885)	6,989	(29,047)	(10,813)	29,700
Number of rooms that can be added to maintain stabilized occupancy	(523)	(254)	28	(115)	(43)	118

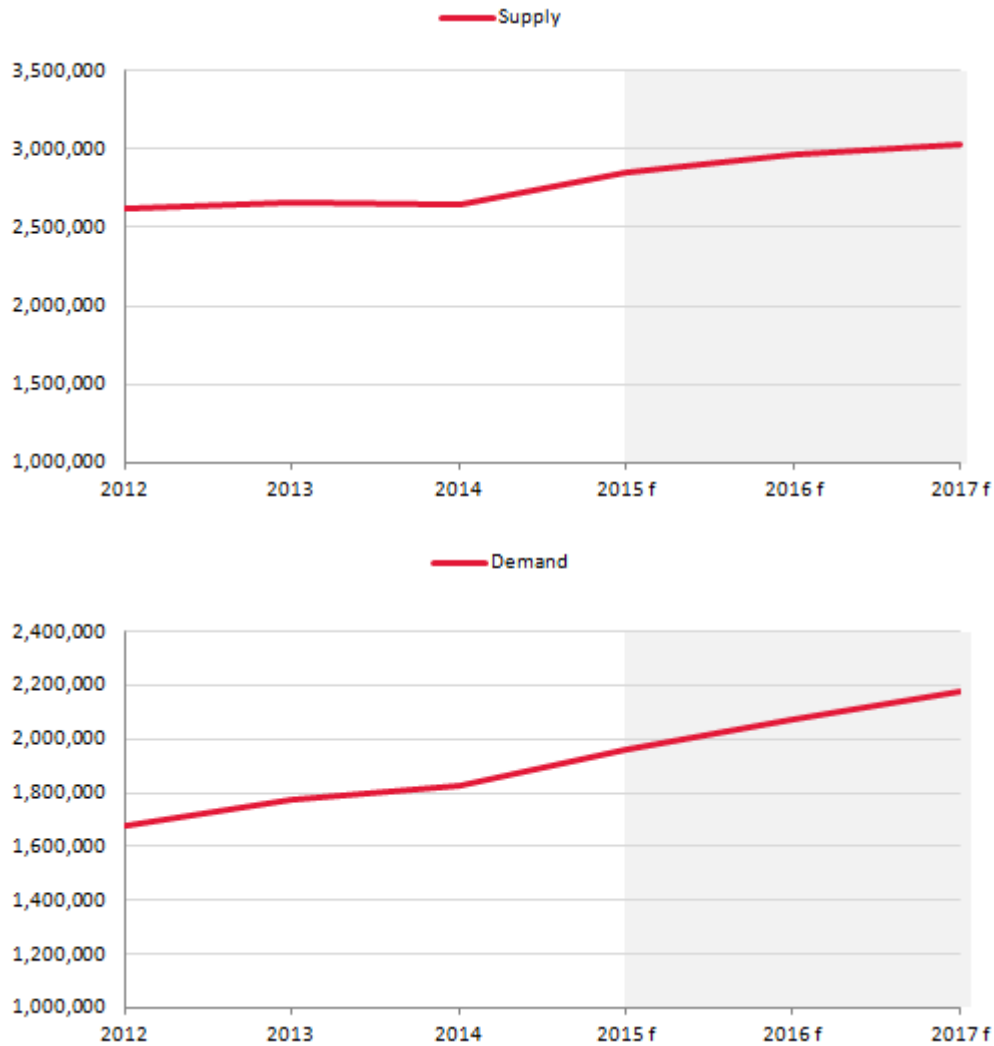
64.0% Average Ten-Year Occupancy

These calculations support room supply chart on page 6

Demand in excess of stabilized occupancy	611	70,474	140,239	114,864	138,854	182,360
Number of rooms that can be added to maintain stabilized occupancy	3	302	601	492	595	781

Source: HVS & STR

Hotel Market Performance (Page 5)



Source: HVS & STR

Existing Supply Breakdown by Class (Page 7)

Class	Rooms	Percentage
Economy	1,800	25%
Midscale	929	13%
Upper-Midscale	1,835	25%
Upscale	1,270	18%
Upper-Upscale	1,059	15%
Luxury	308	4%

Source: STR

Recent Hotel Transactions in North Carolina (Page 10)

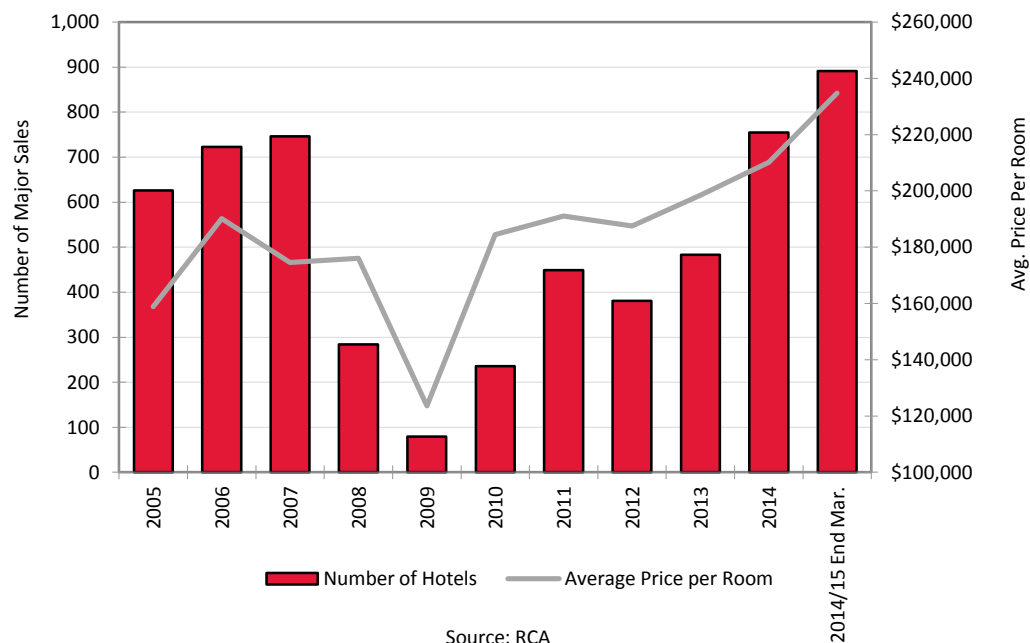
Property	Location	Sale Date	Price	Rooms	Price/Room	Cap Rate
Hyatt Place Raleigh North	Raleigh	Dec-14	\$10,000,000	127	\$78,740	—
Hyatt Place	Greensboro	Dec-14	\$13,000,000	124	\$104,839	—
Value Place Charlotte Gastonia	Gastonia	Oct-14	\$3,475,000	121	\$28,719	—
Fairfield Inn & Suites by Marriott Asheboro	Asheboro	Jul-14	\$6,650,000	87	\$76,437	—
SpringHill Suites by Marriott Pinehurst Southern Pines	Pinehurst	Jul-14	\$8,200,000	107	\$76,636	—
Hampton Inn Asheboro	Asheboro	Jul-14	\$9,850,000	111	\$88,739	—
Residence Inn by Marriott Winston Salem	Winston - Salem	Apr-14	\$5,900,000	88	\$67,045	—
DoubleTree Suites by Hilton Charlotte SouthPark	Charlotte	Apr-14	\$37,000,000	208	\$177,885	—
Budget Inn Gastonia	Gastonia	Apr-14	\$825,000	75	\$11,000	—
Hyatt House Charlotte Center City	Charlotte	Mar-14	\$32,496,000	163	\$199,362	—
Radisson Research Triangle Park	Research Triangle Park	Dec-13	\$6,750,000	198	\$34,091	—
Homewood Suites by Hilton Charlotte Airport Coliseum	Charlotte	Nov-13	\$10,700,000	102	\$104,902	8.8%
Holiday Inn Express Hotel & Suites Concord	Kannapolis	Oct-13	\$4,850,000	81	\$59,877	—
Marriott Charlotte City Center	Charlotte	Oct-15	\$111,010,500	438	\$253,449	0.0%
Southpoint Hotel Durham	Durham	Sep-13	\$7,250,000	98	\$73,980	—
Courtyard by Marriott Raleigh North Triangle Town Center	Raleigh	Sep-13	\$14,800,000	109	\$135,780	8.2%
Marriott Raleigh Crabtree Valley	Raleigh	Sep-13	\$26,150,000	375	\$69,733	—
Marriott Raleigh City Center	Raleigh	Aug-13	\$83,000,000	400	\$207,500	7.3%
Omni Grove Park Inn	Asheville	Jul-13	\$250,000,000	513	\$487,000	—
Days Inn Murphy	Murphy	Jul-13	\$725,000	56	\$12,946	—
Hampton Inn & Suites Outer Banks Corolla	Corolla	May-13	\$20,000,000	123	\$162,602	—
Five Star Inn	Maggie Valley	Apr-13	\$700,000	25	\$28,000	—
Holiday Inn Winston Salem University Parkway	Winston - Salem	Apr-13	\$3,097,500	150	\$20,650	—
Hampton Inn Raleigh Capital Boulevard North	Raleigh	Apr-13	\$9,555,000	131	\$72,939	—
Homewood Suites Durham Chapel Hill Interstate 40	Durham	Mar-13	\$8,300,000	96	\$86,458	—
Baymont Inn & Suites Camp LeJeune	Jacksonville	Feb-13	\$3,500,000	118	\$29,661	—
Arlington Suites Charlotte	Charlotte	Feb-13	\$2,450,000	197	\$12,437	12.1%
Morehead Inn	Charlotte	Feb-13	\$1,650,000	12	\$137,500	—
Comfort Suites University Area	Charlotte	Feb-13	\$2,975,000	120	\$24,792	—
Rodeway Inn Charlotte	Charlotte	Jan-13	\$1,440,000	115	\$12,522	—
Holiday Inn Express Wilmington	Wilmington	Jan-13	\$6,470,000	131	\$49,389	—
Quality Inn Warsaw	Warsaw	Dec-12	\$1,500,000	61	\$24,590	—
Econo Lodge Whiteville	Whiteville	Dec-12	\$1,268,000	90	\$14,089	10.5%
Comfort Suites Raleigh Durham Airport RTP	Durham	Nov-12	\$5,600,000	125	\$44,800	—
Sheraton Raleigh	Raleigh	Sep-12	\$28,700,000	353	\$81,303	8.7%
Clarion Hotel State Capital Raleigh	Raleigh	Aug-12	\$9,350,000	202	\$46,287	—
Fairfield Inn by Marriott Lumberton	Lumberton	Aug-12	\$4,400,000	104	\$42,308	—
Days Inn Washington	Washington	Aug-12	\$1,550,000	72	\$21,528	—
Residence Inn by Marriott Pinehurst Southern Pines	Southern Pines	Aug-12	\$7,275,000	80	\$90,938	—
Rodway Inn & Suites Greenville	Greenville	May-12	\$1,400,000	108	\$12,963	5.1%
Deerfield Inn	Hayesville	May-12	\$590,000	20	\$29,500	—
Regency Suites Raleigh	Raleigh	May-12	\$3,225,000	114	\$28,289	3.1%
Sanderling Resort and Spa	Duck	May-12	\$18,000,000	88	\$204,545	10.6%
Home2 Suites by Hilton Jacksonville	Jacksonville	May-12	\$12,000,000	105	\$114,286	—
DoubleTree Raleigh Durham Airport at Research Triangle Park	Durham	Mar-12	\$16,500,000	249	\$66,265	—
Quality Suites Hickory	Hickory	Feb-12	\$1,500,000	116	\$12,931	—
Holiday Inn Express Pineville	Pineville	Feb-12	\$5,339,000	95	\$56,200	—
Outer Banks Inn	Kill Devil Hills	Feb-12	\$800,000	40	\$20,000	—
Holiday Inn Charlotte University	Charlotte	Feb-12	\$3,600,000	174	\$20,690	—
Days Inn Shallotte	Shallotte	Jan-12	\$1,350,000	61	\$22,131	14.1%

Source: HVS

Major Hotel Transactions in the United States - \$10M and Above (Page 11)

Year	Number of Hotels	Number of Rooms	Average Price per Room
2005	626	141,995	158,881
2006	723	143,886	190,159
2007	746	158,687	174,569
2008	284	48,921	176,057
2009	79	17,046	123,613
2010	236	49,062	184,408
2011	449	91,252	191,031
2012	381	76,143	187,499
2013	483	107,758	198,426
2014	755	126,642	210,172
2014/15 End Mar.	891	141,621	234,788

Source: RCA



Key Economic Indicators (Page 11)

	2000	2010	2014	2020	Average Annual Compounded Change		
					2000-10	2010-14	2014-20
Resident Population (Thousands)							
Buncombe County	207.2	238.8	250.1	268.1	1.4 %	1.2 %	1.2 %
Asheville, NC MSA	370.6	425.6	443.0	471.8	1.4	1.0	1.1
Asheville-Brevard, NC CSA	400.0	458.6	476.8	507.8	1.4	1.0	1.1
State of North Carolina	8,081.6	9,560.2	10,068.3	10,940.3	1.7	1.3	1.4
United States	282,162.4	309,330.2	320,976.9	340,554.3	0.9	0.9	1.0
Per-Capita Personal Income*							
Buncombe County	\$33,187	\$32,808	\$33,707	\$36,087	(0.1)	0.7	1.1
Asheville, NC MSA	32,354	32,392	33,470	35,915	0.0	0.8	1.2
Asheville-Brevard, NC CSA	32,345	32,152	33,272	35,702	(0.1)	0.9	1.2
State of North Carolina	33,570	34,041	35,554	38,312	0.1	1.1	1.3
United States	36,473	39,144	41,079	44,387	0.7	1.2	1.3
W&P Wealth Index							
Buncombe County	94.1	88.1	86.6	86.0	(0.7)	(0.4)	(0.1)
Asheville, NC MSA	91.7	86.4	85.4	84.9	(0.6)	(0.3)	(0.1)
Asheville-Brevard, NC CSA	91.8	86.2	85.3	84.8	(0.6)	(0.3)	(0.1)
State of North Carolina	93.0	87.5	87.2	87.0	(0.6)	(0.1)	(0.0)
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
Buncombe County	\$331	\$473	\$521	\$586	3.6	2.5	2.0
Asheville, NC MSA	503	682	748	838	3.1	2.3	1.9
Asheville-Brevard, NC CSA	529	719	789	883	3.1	2.3	1.9
State of North Carolina	10,180	13,609	15,129	17,338	2.9	2.7	2.3
United States	368,842	447,396	490,340	548,160	1.9	2.3	1.9
Total Retail Sales (Millions)*							
Buncombe County	\$3,437	\$3,879	\$4,337	\$4,899	1.2	2.8	2.1
Asheville, NC MSA	5,831	6,340	7,056	7,929	0.8	2.7	2.0
Asheville-Brevard, NC CSA	6,106	6,629	7,372	8,283	0.8	2.7	2.0
State of North Carolina	113,700	123,980	139,969	160,934	0.9	3.1	2.4
United States	3,902,969	4,149,070	4,617,326	5,187,469	0.6	2.7	2.0

* Inflation Adjusted

Source: Woods & Poole Economics, Inc

Radial Demographic Indicators (Page 12)

	0.00 - 1.00 miles	0.00 - 5.00 miles	0.00 - 10.00 miles
Population			
2020 Projection	9,853	100,654	213,276
2015 Estimate	9,441	95,792	201,168
2010 Census	9,078	91,354	189,327
2000 Census	8,976	82,967	162,347
Growth 2015-2020	4.4%	5.1%	6.0%
Growth 2010-2015	4.0%	4.9%	6.3%
Growth 2000-2010	1.1%	10.1%	16.6%
Households			
2020 Projection	4,982	44,774	91,702
2015 Estimate	4,695	42,275	86,071
2010 Census	4,410	39,860	80,462
2000 Census	4,118	36,216	68,287
Growth 2015-2020	6.1%	5.9%	6.5%
Growth 2010-2015	6.4%	6.1%	7.0%
Growth 2000-2010	7.1%	10.1%	17.8%
Income			
2015 Est. Average Household Income	\$44,532	\$58,049	\$62,070
2015 Est. Median Household Income	27,207	41,589	45,365
2015 Est. Civ. Employed Pop 16+ by Occupation			
Architect/Engineer	67	464	1,158
Arts/Entertainment/Sports	191	1,682	2,770
Building Grounds Maintenance	272	2,055	4,178
Business/Financial Operations	167	2,124	4,420
Community/Social Services	148	1,425	2,721
Computer/Mathematical	119	896	1,902
Construction/Extraction	185	2,166	4,948
Education/Training/Library	220	2,800	6,025
Farming/Fishing/Forestry	8	104	197
Food Prep/Serving	754	5,474	9,365
Health Practitioner/Technician	263	3,554	7,724
Healthcare Support	52	1,103	2,690
Maintenance Repair	115	1,121	2,578
Legal	31	490	927
Life/Physical/Social Science	76	583	855
Management	384	4,106	8,179
Office/Admin. Support	474	5,600	11,866
Production	287	2,396	4,961
Protective Services	41	653	1,223
Sales/Related	522	5,111	10,999
Personal Care/Service	130	1,649	3,009
Transportation/Moving	168	1,644	3,821

Source: The Nielsen Company

Workforce Characteristics (Page 13)

Industry	2000	Percent of Total	2010	Percent of Total	2014	Percent of Total	2020	Percent of Total	Average Annual Compounded Change		
									2000-2010	2010-2014	2014-2020
Farm	5.0	2.3 %	4.0	1.7 %	4.2	1.7 %	4.3	1.6 %	(2.1) %	0.9 %	0.4 %
Forestry, Fishing, Related Activities And Other	1.0	0.5	1.2	0.5	1.5	0.6	1.6	0.6	2.1	5.5	1.0
Mining	0.2	0.1	0.3	0.1	0.3	0.1	0.3	0.1	3.0	2.2	0.6
Utilities	0.6	0.3	0.5	0.2	0.5	0.2	0.4	0.2	(0.7)	(3.8)	(1.4)
Construction	17.6	8.2	15.8	6.7	15.3	6.2	15.9	5.9	(1.0)	(0.8)	0.6
Manufacturing	28.8	13.4	18.5	7.9	18.2	7.4	17.2	6.4	(4.3)	(0.4)	(1.0)
Total Trade	33.6	15.6	33.3	14.2	34.3	13.8	36.2	13.5	(0.1)	0.7	0.9
Wholesale Trade	6.5	3.0	6.0	2.5	6.0	2.4	6.1	2.3	(0.9)	0.2	0.2
Retail Trade	27.1	12.6	27.4	11.6	28.3	11.4	30.2	11.2	0.1	0.8	1.1
Transportation And Warehousing	6.5	3.0	5.6	2.4	5.6	2.3	5.8	2.2	(1.5)	0.2	0.6
Information	3.2	1.5	2.8	1.2	2.9	1.2	2.9	1.1	(1.2)	0.3	0.4
Finance And Insurance	5.6	2.6	7.7	3.3	8.4	3.4	9.6	3.6	3.3	2.3	2.2
Real Estate And Rental And Lease	7.2	3.4	12.0	5.1	12.7	5.1	13.8	5.1	5.2	1.5	1.4
Total Services	80.1	37.2	104.5	44.4	114.5	46.3	130.9	48.7	2.7	2.3	2.3
Professional And Technical Services	7.9	3.7	11.7	5.0	12.7	5.1	14.5	5.4	4.0	2.0	2.2
Management Of Companies And Enterprises	1.0	0.5	1.4	0.6	1.6	0.7	1.9	0.7	2.9	4.0	2.8
Administrative And Waste Services	11.3	5.3	14.3	6.1	16.6	6.7	19.5	7.2	2.3	3.7	2.8
Educational Services	2.5	1.1	4.2	1.8	4.7	1.9	5.6	2.1	5.4	3.2	3.1
Health Care And Social Assistance	23.3	10.8	31.2	13.2	34.7	14.0	40.6	15.1	3.0	2.7	2.7
Arts, Entertainment, And Recreation	5.3	2.4	7.0	3.0	7.6	3.1	8.8	3.3	3.0	1.8	2.6
Accommodation And Food Services	16.7	7.7	20.7	8.8	21.8	8.8	23.7	8.8	2.2	1.2	1.4
Other Services, Except Public Administration	12.1	5.6	14.0	5.9	14.9	6.0	16.3	6.1	1.4	1.6	1.5
Total Government	26.0	12.1	29.0	12.3	29.1	11.8	30.0	11.2	1.1	0.1	0.5
Federal Civilian Government	3.2	1.5	4.0	1.7	4.0	1.6	4.3	1.6	2.3	(0.1)	1.4
Federal Military	1.1	0.5	1.1	0.5	1.2	0.5	1.2	0.4	0.0	1.6	0.1
State And Local Government	21.8	10.1	23.9	10.2	24.0	9.7	24.5	9.1	1.0	0.1	0.4
TOTAL	215.3	100.0 %	235.3	100.0 %	247.5	100.0 %	269.0	100.0 %	0.9 %	1.3 %	1.4 %
MSA	215.3	—	235.3	—	247.5	—	269.0	—	0.9 %	1.3 %	1.4 %
U.S.	165,371.0	—	173,626.7	—	183,038.2	—	198,343.5	—	0.7	1.3	1.3

Source: Woods & Poole Economics, Inc.

Unemployment (Page 15)

Year	City	MSA	State	U.S.
2004	5.5%	4.4%	5.5%	5.5%
2005	4.2%	4.4%	5.2%	5.1%
2006	3.5%	3.8%	4.7%	4.6%
2007	3.4%	3.7%	4.7%	4.6%
2008	4.6%	5.0%	6.1%	5.8%
2009	7.3%	8.5%	10.6%	9.3%
2010	7.5%	8.9%	10.9%	9.6%
2011	7.2%	8.3%	10.2%	8.9%
2012	6.6%	7.5%	9.2%	8.1%
2013	5.6%	6.3%	7.9%	7.4%
Dec-13	4.5%	5.0%	6.5%	6.7%
Dec-14	3.7%	4.0%	5.0%	5.6%

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Source: U.S. Bureau of Labor Statistics

Office Statistics (Page 15)

Submarket	Year	Vacancy Rate	Average Asking Lease Rate
Metro Area	2012	14.1 %	\$17.75
	2013	13.5	17.61
	2014	12.0	17.80
CBD	2012	9.6 %	\$18.25
	2013	10.6	18.23
	2014	8.2	18.38
Non-CBD	2012	16.3 %	\$17.51
	2013	14.3	17.31
	2014	13.9	17.52

Source: REIS Report, 4th Quarter, 2014

Convention Statistics (Page 16)

Year	Number of Delegates	Percent Change
2007	208,076	—
2008	197,455	(5.1) %
2009	174,089	(11.8)
2010	198,547	14.0
2011	170,714	(14.0)
2012	127,128	(25.5)
2013	215,984	69.9

Source: US Cellular Center

Airport Statistics (Page 16)

Year	Passenger Traffic	Percent Change*	Percent Change**
2004	523,662	—	—
2005	624,037	19.2 %	19.2 %
2006	572,228	(8.3)	4.5
2007	572,315	0.0	3.0
2008	557,927	(2.5)	1.6
2009	579,443	3.9	2.0
2010	735,760	27.0	5.8
2011	721,677	(1.9)	4.7
2012	633,848	(12.2)	2.4
2013	678,023	7.0	2.9
2014	756,425	11.6	3.7

*Annual average compounded percentage change from the previous year

**Annual average compounded percentage change from first year of data

Source: Asheville Regional Airport