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MARKET ANALYSIS OF HOTEL DEVELOPMENT OPPORTUNITIES CITY OF BEAVERTON, OREGON



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I. INTRODUCTION

City of Beaverton has retained JOHNSON ECONOMICS to develop a preliminary evaluation of potential for hotel development within three submarkets located within the City of Beaverton. This market study follows recent interest by community stakeholders who have expressed the need for a potential hotel and/or conference space development. In this analysis, JOHNSON ECONOMICS assessed market conditions to determine the market potential for new lodging facilities against the backdrop of the competitive landscape. This analysis will evaluate and make program recommendations with respect to the feasibility and likely market position of a hotel development in each of the three submarkets.

II. EXECUTIVE SUMMARY

- Hotel development opportunities within the City of Beaverton vary widely by submarket. The City has two transportation corridor submarkets, along Highways 26 and 217, as well as the downtown submarket. Each submarket has specific characteristics that will shape its potential hotel solutions. While all three have the ability to draw upon a similar regional customer base, each submarket's location and amenities make its offer mix distinctive and of varying appeal to specific target markets.
- The national and local economy has been steadily improving, although at a modest rate vis-à-vis previous recoveries. Washington County has been a major regional driver of growth during the current expansion, accounting for most of the region's net employment growth since 2006. The area is also home to many of the metro area's largest employers, which are considered major drivers of overnight lodging demand.
- The City of Beaverton occupies a central location within Washington County, and is proximate to a number of significant employers and employment concentrations. The 217 Corridor runs through the City, and includes a diverse number of firms. The Nike and Tektronix campuses are adjacent to the City, as is Washington Square, the region's largest shopping center. Additionally, the Sunset Corridor, which represents the largest technology concentration in the State of Oregon, begins at Highway 26 and Cedar Hills Boulevard in Beaverton and continues west to the City of Hillsboro.
- Washington County's hospitality market has reported strong growth since 2011, with occupancy averaging over 70 percent during the last year and reaching nearly 90 during the summer months. This is indicative of a strong summertime tourism draw and an equally steady demand from corporate travelers during the fall and spring. Revenue per Available Room (RevPAR) has grown at double digit rates for the last three years in the Beaverton/Hillsboro market. Average daily rates have steadily increased as well by nine to eleven percent since 2011.
- We have seen little new hotel supply Washington County, but an expected 390 rooms will enter the market over the next year with more likely to follow in 2016 and 2017. Two hotel developments are currently under construction in the Tanasbourne area of Hillsboro: an Embassy Suites full service hotel and a Hampton Inn business service hotel. In February of this year, a joint venture group acquired a site along Brookwood Parkway in the Dawson Creek Business Park in Hillsboro with plans to build a Residence Inn by Marriott.

- Beaverton currently does not have any new developments in the pipeline, although there are reports of hotel developers shopping the area. Reportedly, a hotel chain is interested in an extended stay hotel development at Highway 217 and Canyon Road, in Downtown Beaverton.
- JOHNSON ECONOMICS surveyed hotel properties within each submarket as well as any relevant property located directly outside its boundary to characterize the competitive landscape. Beaverton has 10 hotels with a total of 1,051 guestrooms, averaging 105 rooms per property. These hotels vary in age, market orientation and quality, ranging from motels to select service business hotels. The bulk of Beaverton’s hotel supply is clustered along Highway 26 near Cornell Road and 158th Avenue with four hotels and 477 rooms targeting business travelers and in downtown Beaverton along Canyon Road with three hotels and 207 rooms targeting budget travelers.
- Average room rates in Beaverton are relatively modest, with the lowest rates currently in Downtown Beaverton. This reflects that downtown hotels are older and of lower quality than the hotels along Highways 217 and 26. Weekday rates are generally higher than weekend rates, indicating a high percentage of business travelers in these markets. Downtown appears to have the highest percentage of leisure travelers, while the corridor markets are more dominated by business traffic.
- Roughly half of the existing hotels in the Beaverton study area are business service hotels. The other half are motels and limited service hotels. Economy and midscale lodging comprises 60 percent of Beaverton’s existing hotel supply. Beaverton has four upscale lodging choices comprising 33 percent of supply. Nearly all high quality meeting space is located along Highway 26 at Cornell Road and 158th Avenue. A survey of independent meeting space in Beaverton indicates a very limited supply.
- The following table summarizes our recommendations with respect to short-term achievable development programs within the City of Beaverton.

SUBMARKET COMPARISON OF RECOMMENDED PROGRAM OF DEVELOPMENT

	Submarket 1 Hwy 217	Submarket 2 Downtown Beaverton	Submarket 3 Sunset Corridor
Proposed Development			
Facility Type	Extended Stay or Limited Service	Limited Service or Boutique	Limited Service
Market Position	Upper Midscale	Upscale	Upper Midscale
Regional Market	Beaverton and South	Beaverton	Beaverton and West
Within Employment Core?	Outskirts	Central	Outside
Target Market	Business/Tourism	Business	Business/Tourism
Estimated Share	12% - 15%	80%	10%
Support Needed	Development Needed	Planned Improvements	Development Needed
Restaurant	Within walking distance	Upgrade connection	Within walking distance
Convenience/Retail	Within walking distance	Upgrade connection	Within walking distance
Gym Facilities	Within walking distance	Exists	Within walking distance
Number Rooms	85-110	85-125	100-125
Meeting Space Possible	0-3 rooms, max capacity 100-200	3-5 rooms, max capacity 100-300	0-3 rooms, max capacity 80

Multiple programs are not expected to be viable concurrently, as the market has a limited ability to absorb new supply. However, we regard these programs to be the best options to meet the expected demand profiles and market needs of each of the submarkets.

- While we see a number of prospective lodging opportunities within the City of Beaverton, public policy efforts should focus on development types that have substantial anticipated public benefits that are unlikely to be realized without some level of public intervention. Our expectation is that the downtown Beaverton opportunity is the most difficult to realize, as it will require significant public investment in developing the downtown area, while also representing a development form that is missing from the City and least likely to be provided by the private sector without inducement.

III. SUBMARKET ANALYSIS

For the purposes of this study, JOHNSON ECONOMICS analyzed three submarket areas located within the City of Beaverton to assess market conditions, existing hotel supply and sources and depth of demand for a hotel. Also included within the submarket analysis are an inventory of existing meeting and/or conference space and an assessment of demand for these facilities. The submarkets were chosen for their potential ability to take advantage of the City's employment centers, transportation network, transit connections and nearby off-site hotel amenities. The submarket boundary delineations are as follows:

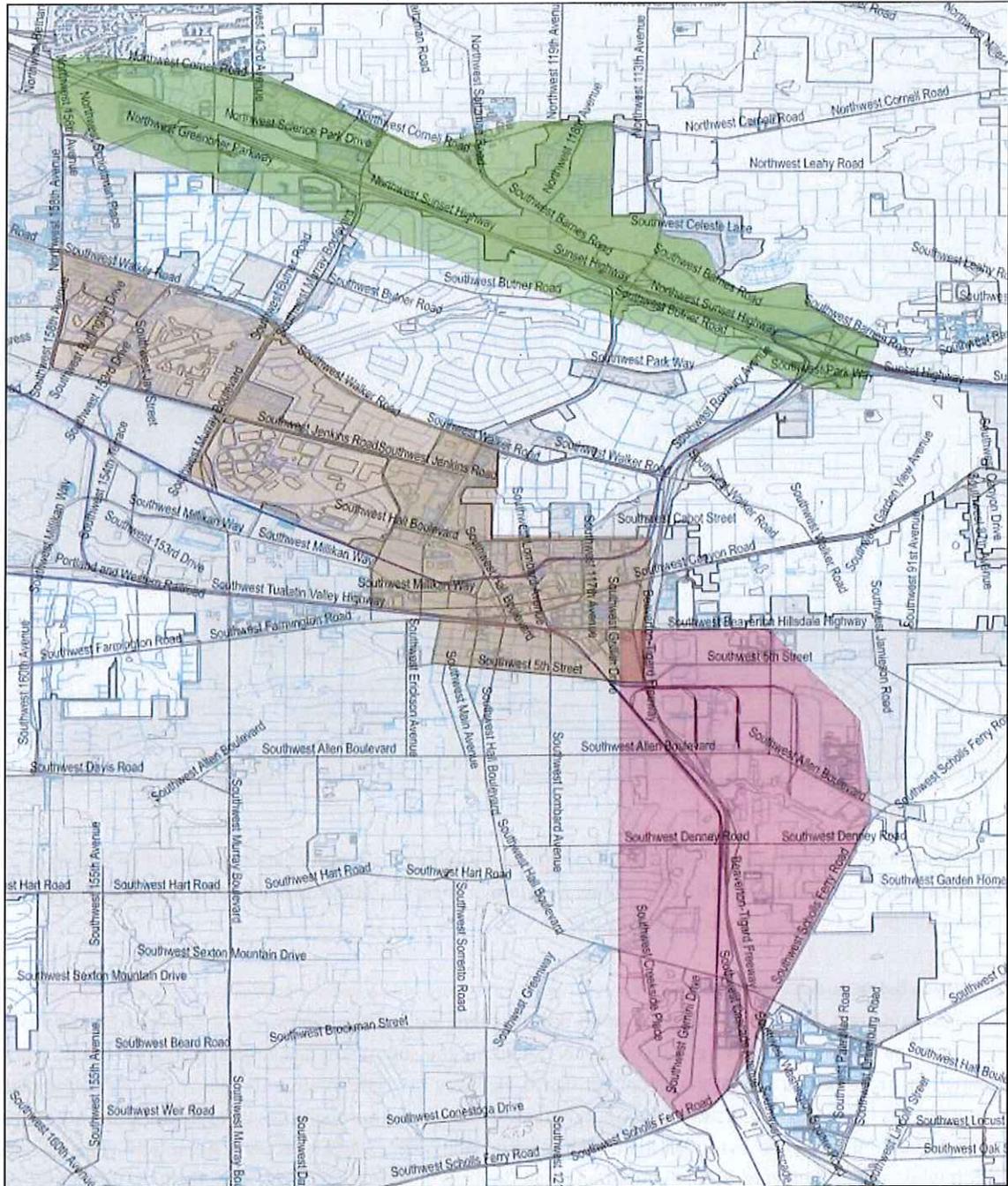
SUBMARKET 1 - Highway 217 Corridor: The area is bounded to the north by the Beaverton-Hillsdale Highway and to the south and east by Scholls Ferry Boulevard. The boundary to the west is Greenway Park. Given existing land use and the availability of developable land, development of a hotel would most likely occur at Allen Boulevard east of Highway 217 or along Beaverton-Hillsdale east of Highway 217.

SUBMARKET 2 - Downtown Beaverton: The submarket is bounded to the north by SW Walker Rd and the south by SW 5th Street. The area is bounded to the east by Highway 217 and to the west by 158th Avenue. Current land conditions indicate that development of a hotel would likely occur north of Canyon Road and west of Highway 217.

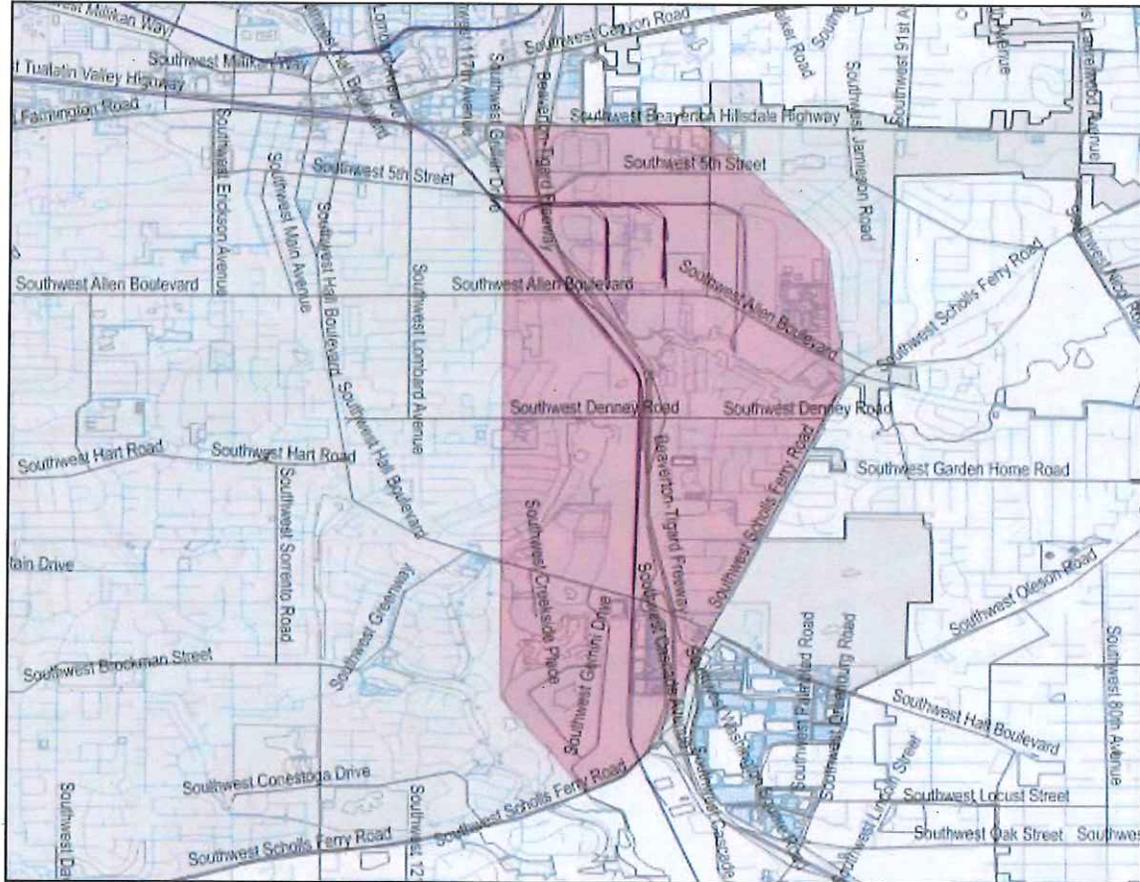
SUBMARKET 3 - Sunset Corridor: The area is bounded to the north by NW Cornell Rd, extending south of Highway 26 past Murray Boulevard. The area is bounded to the east by St. Vincent Medical Center and to the west by 158th Avenue. Development of a hotel would most likely occur north of Highway 26 and west of the Highway 217 interchange.

A map of the submarkets is displayed on the following page.

FIGURE 1: SUBMARKET DELINEATIONS



SUBMARKET 1: HIGHWAY 217 OFFICE/INDUSTRIAL CORRIDOR



VISIBILITY

If located along the east side of Highway 217, highway visibility of a prospective hotel would be excellent. A location along the Beaverton-Hillsdale Highway, a major arterial, would likewise offer good visibility and potentially maintain visibility from Highway 217.

REGIONAL & LOCAL ACCESSIBILITY

Local and regional access is suitable for hotel development. Regionally, Highway 217 can be accessed from the north via Highway 26 or from the south via I-5. Locally, the submarket has strong and varied access from nearly all surrounding areas of Beaverton and Tigard. Highway 217 is the main arterial through the submarket and itself has five access points within the submarket. Other major thoroughfares offering excellent access to the submarket include Beaverton-Hillsdale Highway from the north, SW Scholls Ferry Road from the east and south while Allen Boulevard, Denney Road and Hall Boulevard offer access traversing through the center of the submarket. The area is accessed via rail by the WES Commuter Rail, which has one stop within the submarket at Hall Boulevard and Nimbus Avenue. The area is well served by TriMet bus lines with direct connections to Beaverton Transit Center, Tualatin, Lake Oswego and downtown Portland.

SURROUNDING USES

The nature of development in the primary submarket area is largely office and industrial. This area includes a limited number of commercial and retail establishments within its boundaries, however it benefits from excellent retail and commercial services on its north at Beaverton Town Center and south at Washington Square. The area is bordered on the west by Greenway Park and Fanno Creek Trail which tracks between Scholls Ferry Boulevard and Denney Road and beyond with low-density residential development between Denney Road and Farmington Road. The eastern boundary is surrounded by primarily low and medium density residential development.

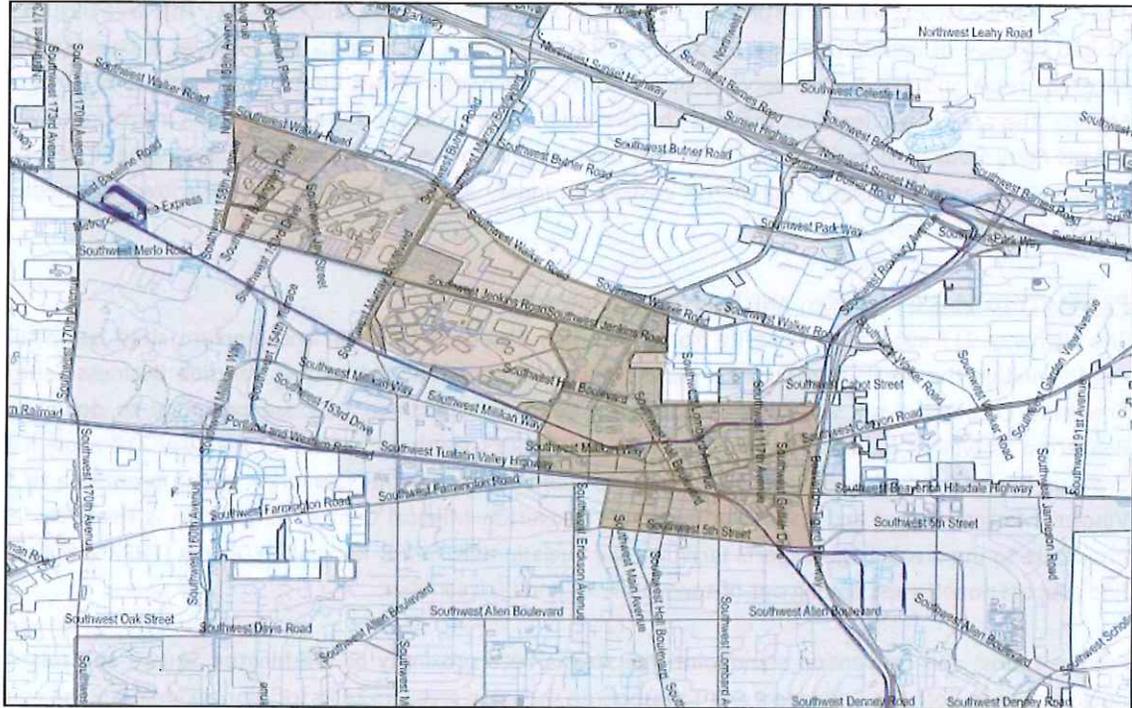
PROXIMITY TO MARKET SUPPORT AND SUPPORTING AMENITIES

The Highway 217 submarket benefits from a location absorbed by small and medium sized companies residing within the area's four business parks (Allen/Western/Arctic Drive Area, Parkside Business Center, Creekside Corporate Park and Nimbus Corporate Center). In addition its close proximity to downtown Beaverton as well as industrial business parks along Tigard's southern portion of Highway 217 allow it to draw on business travelers beyond the immediate submarket area. The submarket is also proximate to St. Vincent Medical Center and Kaiser Permanente's Beaverton Medical Center. Its location is relatively less proximate to the area's largest sports facilities, like Tualatin Hills Park & Recreation District (THPRD) but may find support nonetheless among out-of-town athletes and their families.

From a tourist and convention standpoint, the submarket's proximity to Washington Square and relative equidistance to both the Bridgeport and Tanasbourne shopping areas make its location an ideal landing point for large shopping groups bussed in from Canada, Washington and California, who may be interested in the State's tax free shopping. In addition it shares a border with Red Tail Golf Course and allows easy access to the prominent Pumpkin Ridge and Reserve golf courses. For travelers who come to purchase automobiles, it allows close proximity to the many automobile dealerships along Canyon Road. In addition, just outside the submarket is the study area's largest conference space at the Embassy Suites near Washington Square.

The Highway 217 submarket is largely office and industrial in character and in most cases does not benefit from restaurant and retail amenities sought by hotel customers within walkable distances. The WES Commuter Rail has one stop in the submarket located at Hall Boulevard and Nimbus Avenue.

SUBMARKET 2: DOWNTOWN BEAVERTON



VISIBILITY

A potential hotel development's visibility from Highway 217 is dependent on its proposed location within the downtown submarket. If located along the eastern borders of the submarket, it would be visible from Highway 217 as well as from the major thoroughfares of Canyon Road and the Beaverton-Hillsdale Highway. If located in the western part of the submarket, visibility may be possible from either Canyon Road or Walker Road and potentially from either Hall Boulevard or Murray Boulevard.

REGIONAL & LOCAL ACCESSIBILITY

Regionally, the submarket can be accessed via Highway 217 from either the Beaverton-Hillsdale Highway/Canyon Road exit or from the Walker Road exit. The submarket can also be access from Highway 26 via three access points: from the Cedar Hills Boulevard exit, from the Murray Boulevard exit or from the Cornell Road exit. Although the submarket's central location in Beaverton lends to excellent local access from many main thoroughfares, the area frequently suffers from traffic congestion, an issue which will likely be alleviated by improvements to Canyon Road and downtown Beaverton, currently in the planning stages.

The area is accessed from Highway 217 along its eastern border, Walker Road on its northern border and 158th on its western border. Important access is also gained via Beaverton-Hillsdale Highway, Canyon Road, Hall Boulevard and Murray Boulevard, which traverse directly through the submarket.

The submarket offers five service stops on the MAX red and blue lines, two stops in the downtown core, and three among the office industrial employers on the west side of the submarket. In addition, the submarket is

home to the Beaverton Transit Center with connections to TriMet's extensive metro area bus line network, the Wes Commuter Rail with stops connecting Beaverton and Wilsonville as well as access to the South Metro Area Regional Transit (SMART) system, which serves the Wilsonville area and offers transit service to Salem.

SURROUNDING USES

Development in the core of the downtown submarket is a mix of retail and commercial services and increasingly, medium and high-density residential development. Additionally, the area west of Cedar Hills Boulevard and north of Canyon Road is marked by office and industrial development and home to the City of Beaverton's largest employers, notably Nike and Tektronix. Development bordering the submarket is primarily low and medium-density residential uses.

PROXIMITY TO MARKET SUPPORT AND SUPPORTING AMENITIES

The downtown submarket benefits from the mix of development typical of a suburban downtown core. It is a high traffic area and has a regional draw. Downtown Beaverton's proximity to major employers such as Nike, Tektronix and Maxim Integrated with national and international customer connections presents a substantial potential customer base for a new hotel development in the area. In addition, the area hosts a large community of small and medium companies within the three business parks (Beaverton Creek, Woodside Corporate Center and Cornell Oaks Business Park) either inside the submarket boundary or just outside.

The area's proximity to Tualatin Hills Parks and Recreation District's Athletic & Aquatics Center in Beaverton, and the Gordon Faber Recreation Complex directly off Highway 26 in Hillsboro make it a prime location to draw upon overnight stays by athletes visiting the area. The submarket is also proximate to St. Vincent Medical Center and Kaiser Permanente's Beaverton Medical Center.

The downtown submarket benefits from an excellent selection of restaurant and retail options, many within a walkable distance. The MAX red and blue lines service five stops located within the submarket. In addition, civic improvements currently in planning stages will drastically increase the amenity offerings in the area. Plans include improvements to the Creekside District north of Canyon Rd between Hall Boulevard and Cedar Hills Boulevard, downtown Beaverton and Canyon Road.

PROXIMITY TO MARKET SUPPORT AND SUPPORTING AMENITIES

The submarket's location along Highway 26 allows its reach to extend beyond its submarket borders. Highway 26 offers an excellent regional connection to the west, east and south. Its proximity to Hillsboro and downtown Beaverton positions it to tap visitors to regional companies. Its ease of access to Tualatin Hills Athletic & Aquatics Center in Beaverton, and the Gordon Faber Recreation Complex south of Highway 26 in Hillsboro make it a prime location to draw upon overnight stays by athletes visiting the area. The submarket is also likely to capture a share of medical visitors due to its proximity to St. Vincent Medical Center and Kaiser Permanente's Beaverton Medical Center and new Westside Medical Center.

From a tourist and convention standpoint, the submarket is likely to draw leisure travelers visiting regional shopping and/or golf courses. A location along Highway 26 allows easy access to the prominent Pumpkin Ridge and Reserve golf courses as well as the more local Red Tail Golf Course. For travelers who come to purchase automobiles, it allows close proximity to the many automobile dealerships along Canyon Road.

Amenities important to hotel customers, such as restaurants and retail within walking distance are lacking within the potential development area of a proposed hotel. The current developments at Timberland north of Saltzman Road and 118th Avenue and the Peterkort Master Development Plan currently under review may drastically increase amenity offerings. The Peterkort Master Development Plan calls for several mixed use development areas including mid-rise apartment buildings, office space, two hotels, a fitness facility and retail and restaurant services.

One of the greatest advantages of the sunset corridor submarket is its proximity to Sunset Transit Center, which allows travelers access to downtown Portland, Beaverton and Hillsboro by both bus and light-rail (MAX) with relative ease and speed.

IV. SOCIOECONOMIC TRENDS AND CONDITIONS

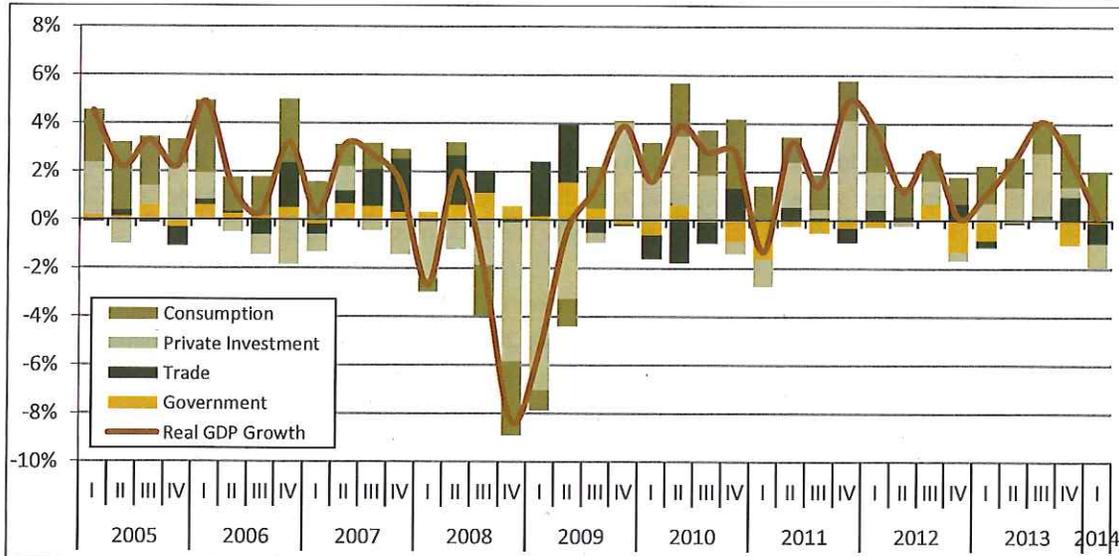
This section describes current economic trends and the future economic outlook at the national and local level. The analysis relies heavily on data from third party sources, specifically the Congressional Budget Office (CBO), the Bureau of Economic Analysis (BEA), and the Oregon Employment Department (OED).

NATIONAL TRENDS

GROSS DOMESTIC PRODUCT

The national economy appears to be gaining steam, although weather conditions reduced the pace of economic growth in the first quarter of 2014 to 0.1% (real growth, annualized), according to the BEA (Figure 2). This came after healthy growth of 3.4% in the second half of 2013. Private consumption has been the primary driver of growth since the recession, with particularly strong demand for durable goods. Over the last two years, significant contributions have also come from private investment, both in the form of home purchases and corporate investments. The weakness seen in these sectors in the most recent quarter can largely be blamed on the weather. Exports were also impacted by the weather, though part of the decline in the first quarter must be attributed to soft global demand.

FIGURE 2: CONTRIBUTIONS TO CHANGE IN REAL GROSS DOMESTIC PRODUCT, ANNUALIZED (2005 - 2013)



SOURCE: Bureau of Economic Analysis

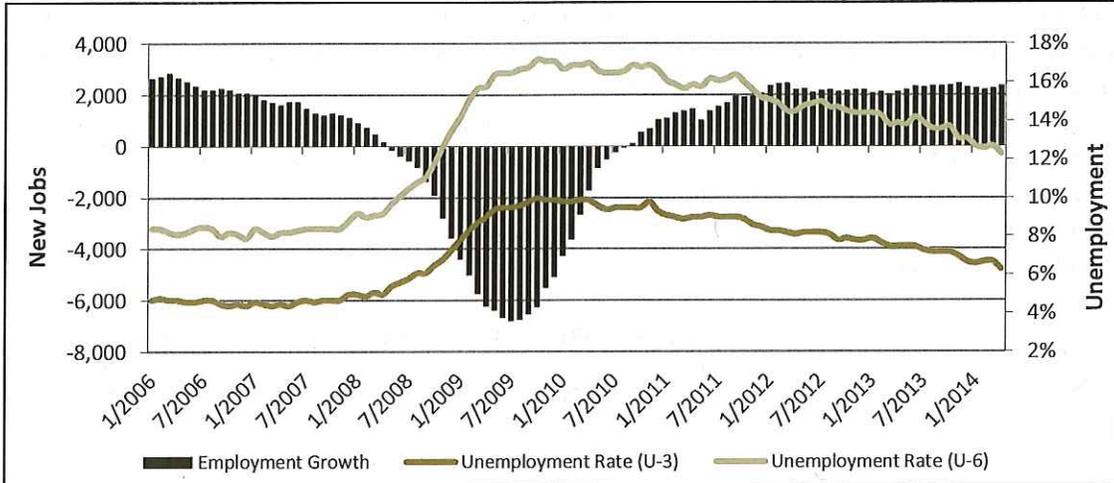
Though there are signs of strength, the economy faces several headwinds beyond the temporary challenges posed by the weather. Domestic demand is still tempered by a post-recession caution, both among households and firms, and the government is cutting spending to ensure that it can handle the fiscal challenge represented by aging baby boomers. Further, continued weakness in Europe, Asia and South America means low global demand for U.S. goods. All these factors lead to weak employment growth, which in turn restrains consumer spending. This is particularly evident in the service sector, which has expanded by only one percent in each of the last two years.

Over the near term, growth is expected to be driven primarily by domestic consumers and firms. U.S. firms showed optimism by boosting their inventory levels in the second half of 2013, and more recently by an increase in borrowing. If this optimism persists, hiring and corporate investment might be stronger in the coming year. Most predictions for 2014 GDP growth currently range between 2.5% and 3%, while 2015 is expected to see growth exceeding 3%. In the long run, annual economic growth is expected to fluctuate around 2%.

EMPLOYMENT AND LABOR FORCE

The “Great Recession” eliminated over 8.7 million jobs in the U.S., pushing up the unemployment rate to 10% at its peak. It has taken nearly five years to recover these jobs and bring the unemployment rate – currently at 6.3% – down toward its historical average (6.2%). However, the U-6 unemployment rate, which also takes into account workers who are underemployed or who have left the labor market in discouragement, is still high at 12.7% (Figure 3).

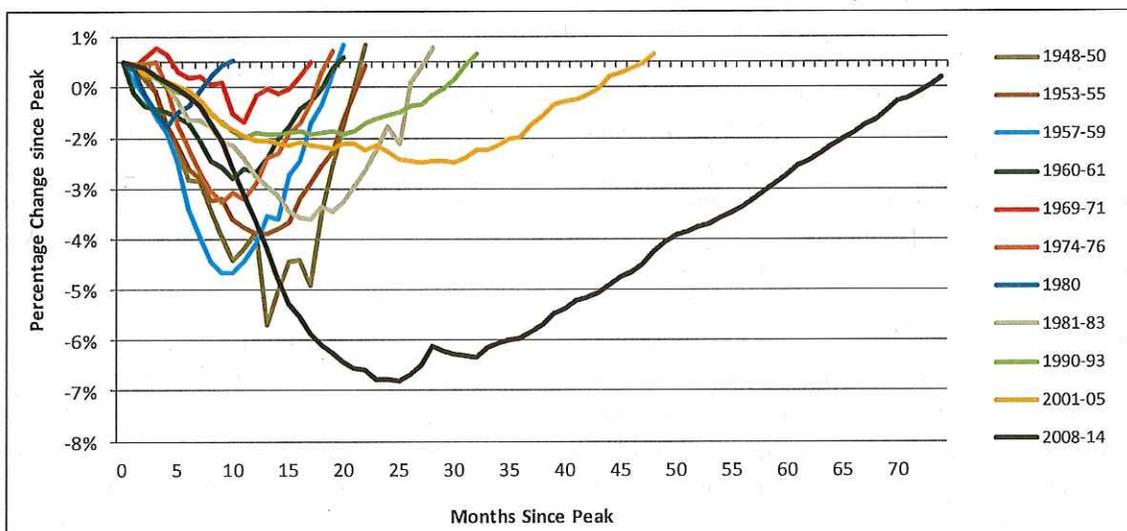
FIGURE 3: U.S. EMPLOYMENT GROWTH (Y/Y) AND UNEMPLOYMENT RATES, SEASONALLY ADJUSTED



SOURCE: U.S. Bureau of Labor Statistics

In 2012 and 2013, the economy added about 180,000 jobs per month on average – just barely enough to keep up with population growth, and not enough to reduce unemployment. The declines seen in the unemployment rate over the past two years have thus come from workers leaving the workforce. The weak job recovery is unusual in a historical perspective, but falls into a 30-year trend of increasing unemployment persistence following recessions (figure 4). Economists debate what the normal unemployment level is and when it will be reached. We are already near the 30-year average (6.2%), but future structural unemployment will likely be lower, due to baby boomers exiting the work force. The CBO projects a gradual decline over the coming ten years to 5.5%.

FIGURE 4: PERCENT JOB LOSSES FOLLOWING POST-WWII RECESSIONS, UNITED STATES

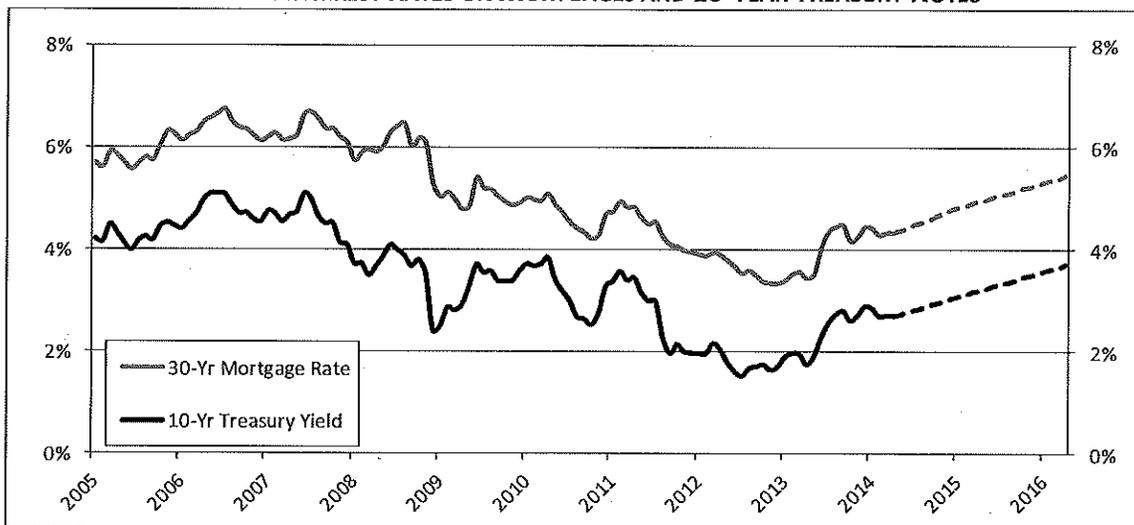


SOURCE: U.S. Bureau of Labor Statistics

INFLATION, MONETARY POLICY, AND INTEREST RATES

Inflation has remained subdued since the recession, well below the Federal Reserve's 2% target. It is likely to continue that way in the near future, given the slack in the domestic labor market and the weak global demand for commodities. Consequently, the Fed is expected to continue its zero-interest-rate policy through most of 2015. The Fed's bond buying program, which has pushed down interest rates on Treasury bonds and mortgages over the past years, is currently being wound down, with an expected end late this year. The announcement of this tapering caused interest rates to climb more than one percentage point last year. Economists expect a more gradual climb from here on, typically in the range of 50 basis points in each of the next two years (Figure 5).

FIGURE 5: INTEREST RATES ON MORTGAGES AND 10-YEAR TREASURY NOTES



SOURCE: Federal Reserve Bank of Philadelphia, Freddie Mac, Bloomberg News

RISKS OF A NEW RECESSION

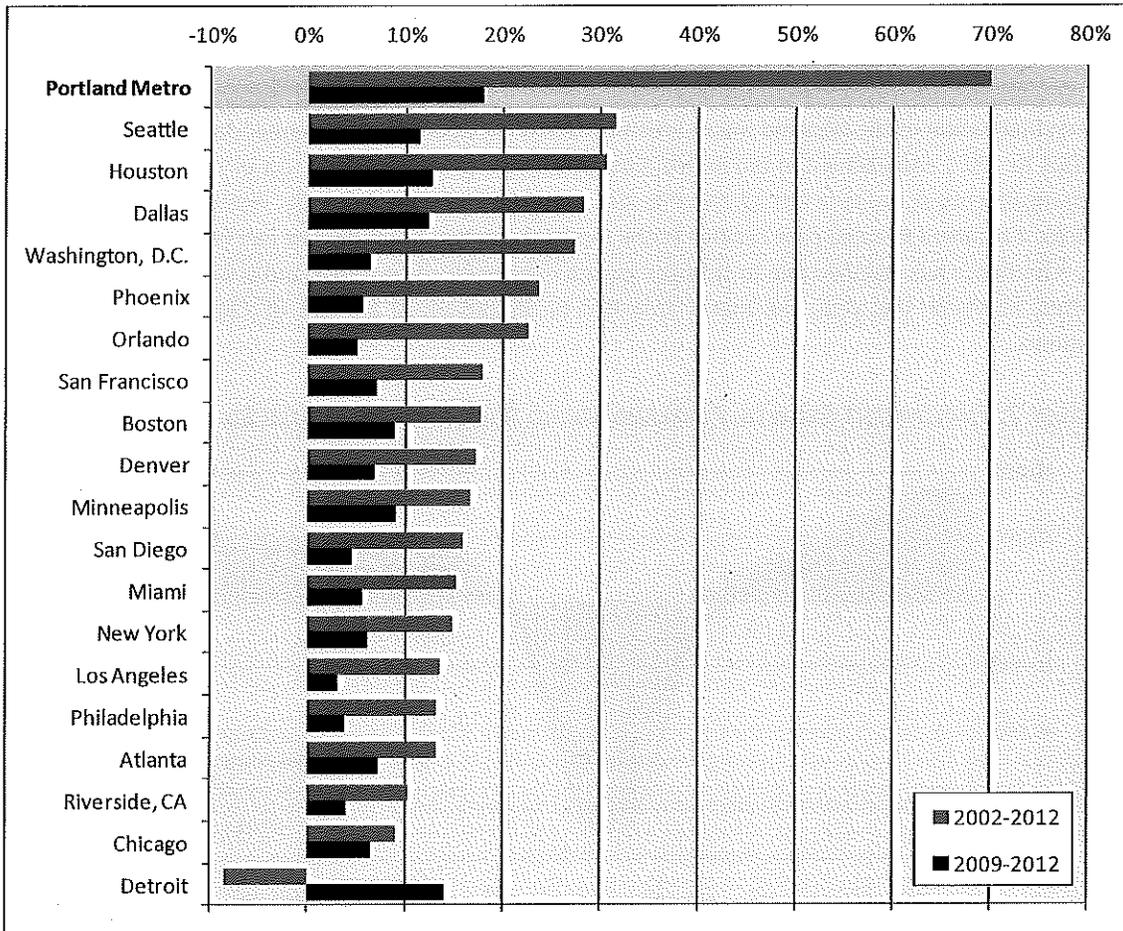
Historically, business cycles last about eight years on average, from peak to peak. In terms of GDP growth, the last peak was reached in 2004, and the bottom was hit in 2009. One might therefore think that we should be due for another downturn in the very near future. However, this cycle has been anomalous in many ways, not the least in terms of job recovery. And so far, there are few signs that the economy is getting ahead of itself with over-investment and inflated asset prices. Further, the nation's total debt level (public and private) continues to decline when measured relative to GDP.

There are, however, threats to the U.S. economy from overseas. China, in particular, is a cause of some concern due to its high debt levels and risky investments. Due to its scale, China has the potential to trigger a global recession. However, it also has the resources and political will to postpone a crisis for several years. The risks of a new downturn in the U.S. are therefore quite low in the near term. That said, recessions are notoriously difficult to predict, and an unforeseen event may set off a contraction before familiar warning signs appear.

LOCAL TRENDS – THE PORTLAND METRO AREA

The Portland metro area, which includes Multnomah, Washington and Clackamas counties, has one of the most rapidly growing economies in the U.S. Between 2002 and 2012, the region grew its economic output at twice the rate of the Seattle metro area, which had the second highest growth rate among the 20 most populous U.S. metropolitan areas. The Portland area’s growth has also outperformed the other large metro areas in the years since the recession (Figure 6). In 2012, the metro area’s growth was the third highest, after San Francisco and Houston. Much of this growth can be attributed to capital investments made by high-tech manufacturers, which make up a large share of the area’s economic base.

FIGURE 6: CUMULATIVE CHANGE IN GROSS METROPOLITAN PRODUCT, MAJOR METRO AREAS (2002-12)



SOURCE: Bureau of Economic Analysis

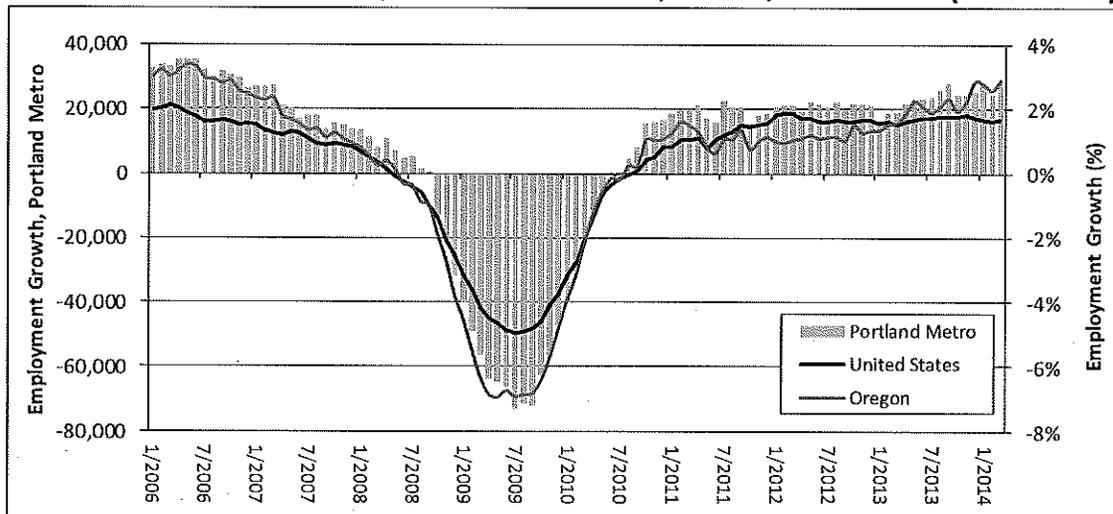
Gross economic output is not necessarily the best indicator of regional economic health. Employment growth is a more important measure, as employment has stronger ripple effects on the rest of the local economy. Unfortunately, capital investments in the manufacturing industry are not always followed by new hiring (new equipment sometimes replaces workers), and the Portland metro area’s employment growth has been near the average for these metropolitan areas during the mentioned periods.

EMPLOYMENT

In terms of employment growth, the Portland metro area's economy exhibits stronger cyclical swings than the rest of the nation. This is first of all because the important high-tech manufacturing industry services a global market with fluctuating demand. The same is true for the region's sports apparel cluster, led by Nike, Adidas, and Columbia Sportswear. In recent times, the local business cycle impacts have been amplified by in-migration, particularly from Northern California. The Portland metro area offers a culture similar to San Francisco's, but with lower tax rates and less expensive housing. This has attracted many retirees and young workers to the area, which in turn has benefitted the construction industry. Many companies reliant on a young workforce have followed these workers to the Portland metro area. This has led to an expansion of the metro area's high-tech manufacturing cluster to include related industries like software development and IT management. Because in-migration is highly dependent on employment growth and the migrant's ability to sell and buy a home, it tends to fluctuate with the general economy.

The cyclical nature of the Portland metro area's economy is evident in employment data. In the boom years of 2003 to 2007, employment in the metro area grew twice as fast as in the rest of the nation. During the following downturn, the area lost 12.7% of its jobs, compared to 6.3% nationally. When job growth returned in 2010, it resumed its rapid pace relative to the rest of the nation. Over the last two years, the metro area's outperformance has widened due to stronger growth in manufacturing, retail, and professional and business services. In March this year, the metro area had finally recovered the last of 130,000 jobs lost in the downturn.

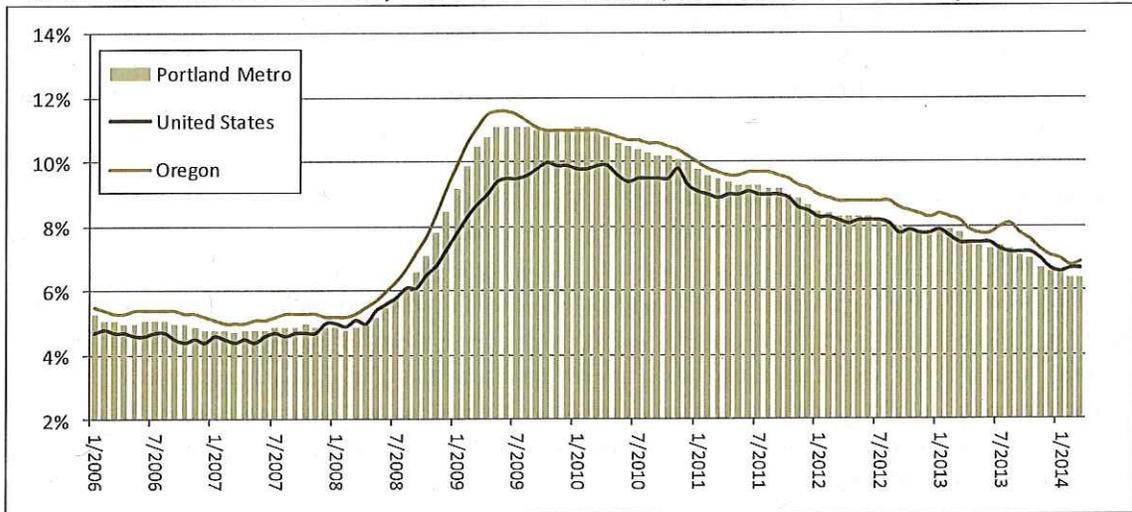
FIGURE 7: EMPLOYMENT GROWTH, PORTLAND METRO AREA, OREGON, UNITED STATES (2006 – 2013)



SOURCE: Oregon Employment Department

The Portland metro area came out of the recession with one of the highest metro-area unemployment rates in the nation, exceeding 11%. However, since then, its job growth has subsequently helped reduce unemployment at a faster pace than in the rest of the nation, and the rate currently sits at 6.4% (Figure 8).

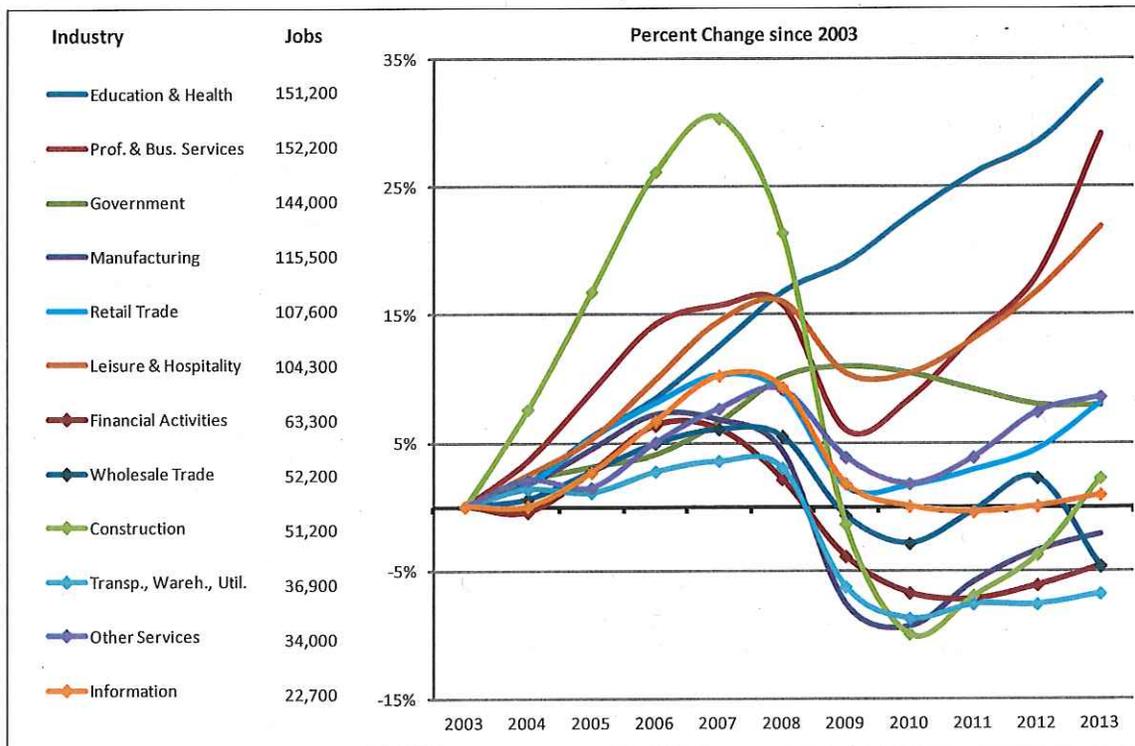
FIGURE 8: UNEMPLOYMENT RATE, PORTLAND METRO AREA, OREGON, UNITED STATES (2006 - 2013)



SOURCE: Oregon Employment Department

The industries that have seen the strongest job growth in the Portland metro area over the past ten years are the three largest: education and health, professional and business services, and leisure and hospitality (Figure 9). In the past three years, all industries except for government have expanded. The strongest momentum is currently in construction, leisure and hospitality, and professional and business services.

FIGURE 9: EMPLOYMENT BY INDUSTRY, PORTLAND METRO AREA



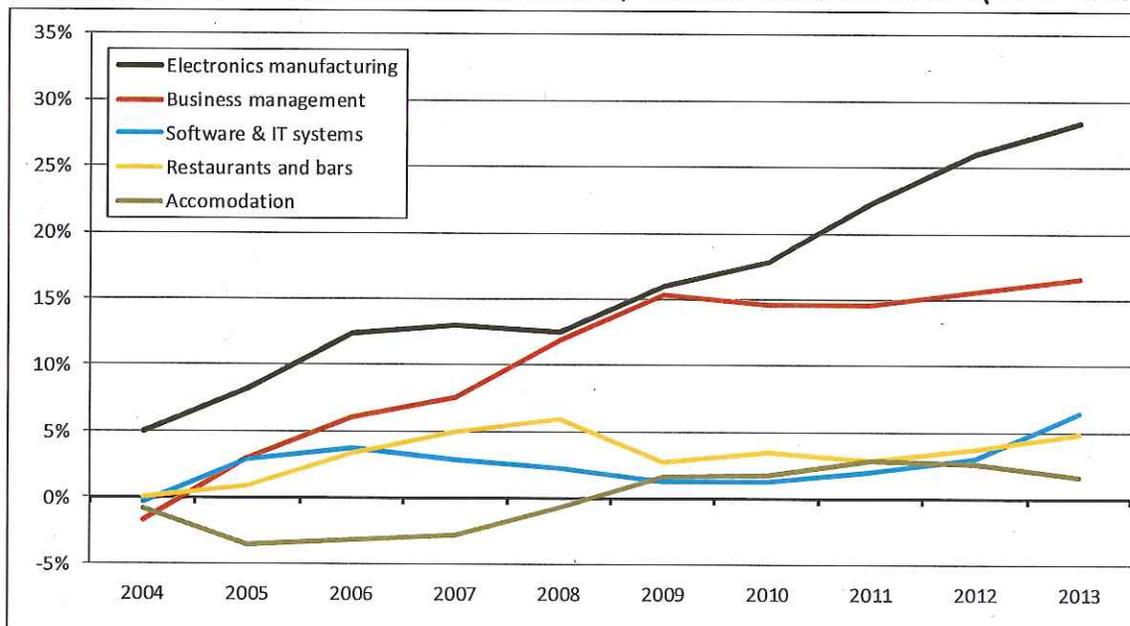
SOURCE: Oregon Employment Department

The local growth seen in the three largest industries has largely followed national trends. This is particularly true of education and health. The growth in education is expected to taper off as an improving economy reduces enrollment at higher education institutions, while the health care sector will likely continue to expand, due to demand from baby boomers and additional people becoming insured under the Affordable Care Act.

For the other two of the three largest industries, the growth has significantly exceeded national averages. The gains in professional and business services stems from growth among IT services firms and expansions at locally headquartered sports apparel producers. This industry is expected to continue to grow rapidly over the long term. The Portland metro area's strong performance in the leisure and hospitality industry reflects that the city is becoming a food and beer destination after previously having relatively small accommodation and restaurant sectors. Over the past 10 years, employment at restaurants and bars has grown at an average annual rate of 3.1% in Multnomah County, compared to 1.9% nationally. The greatest outperformance over this period, however, has come in electronics manufacturing. While the nation as a whole lost 21% of its jobs in this sector, the Portland metro area gained 2%.

The following chart shows cumulative outperformance over the past 10 years for some of the metro area's key growth sectors, relative to national growth rates (Figure 10). The outperformance represents a shift in share of employment to the metro area, which serves to widen the area's economic base and thus prepares the ground for continued growth also in other sectors. With the exception of accommodation, all these sectors are currently on a trend of continued positive share-shift.

FIGURE 10: KEY SECTOR CUMULATIVE OUTPERFORMANCE, PORTLAND METRO VS. THE U.S. (2004 - 2013)



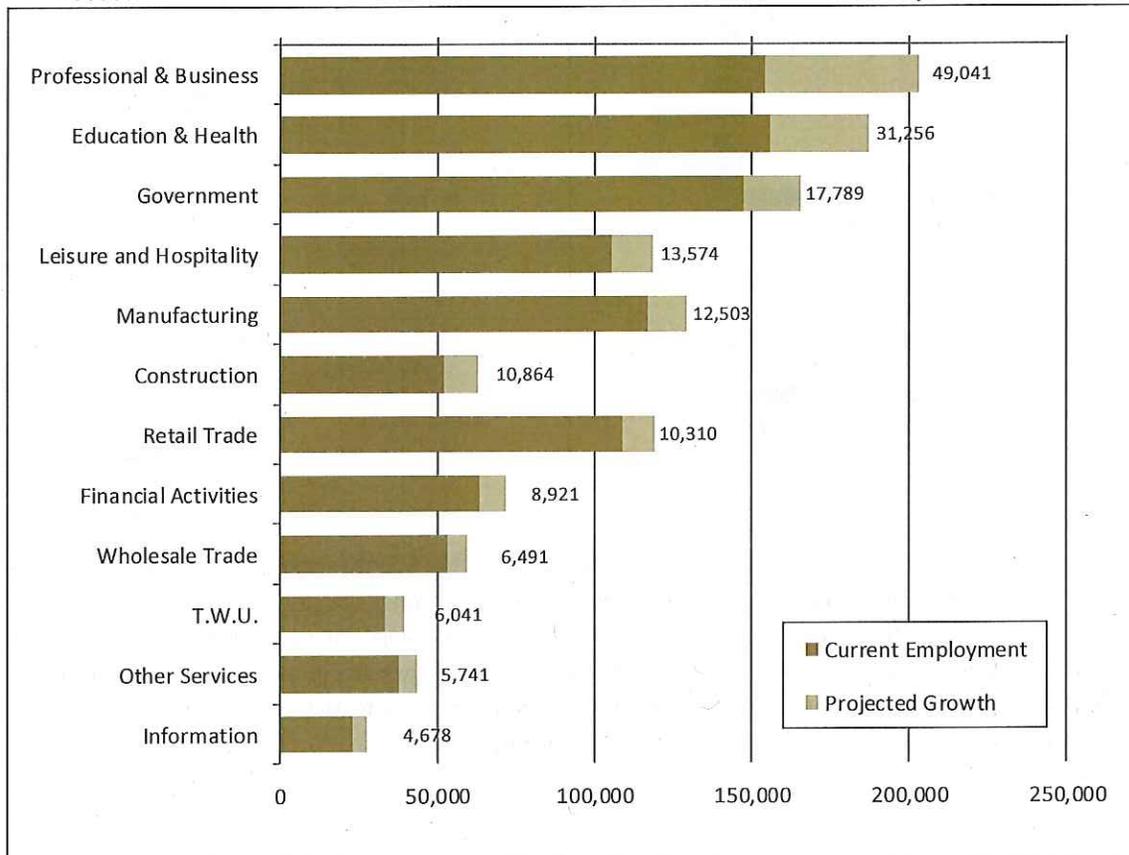
SOURCE: U.S. Bureau of Labor Statistics, Oregon Employment Department

The Oregon Employment Department notes that the Portland metro area's economy is typically more volatile than the nation's, experiencing higher rates of job losses during recessions and gains during recoveries. The current cycle reflects this, with the area's job growth rate exceeding the national average by roughly one percentage point during the current recovery.

The Portland metro area is currently experiencing the expansion of some of its largest employers including Nike and Intel. These high-wage employers are both undergoing physical expansions planned to house thousands of new jobs. Daimler Trucks North America, a major local manufacturing employer is consolidating operations in North Portland, bringing as many as 400 permanent white collar and manufacturing jobs to Swan Island. These expansions also support thousands of construction and related jobs during development.

Projections: The latest projections made by the Oregon Employment Department are for the period of 2014 to 2024. Over this 10-year period, nearly 180,000 new jobs are projected for the tri-county Portland metro area. Professional and business services, education and health care, and the tourism and hospitality industries are expected to continue to lead in total number of new jobs created (Figure 11).

FIGURE 11: CURRENT PORTLAND MSA EMPLOYMENT AND PROJECTED GROWTH, 2014 - 2024



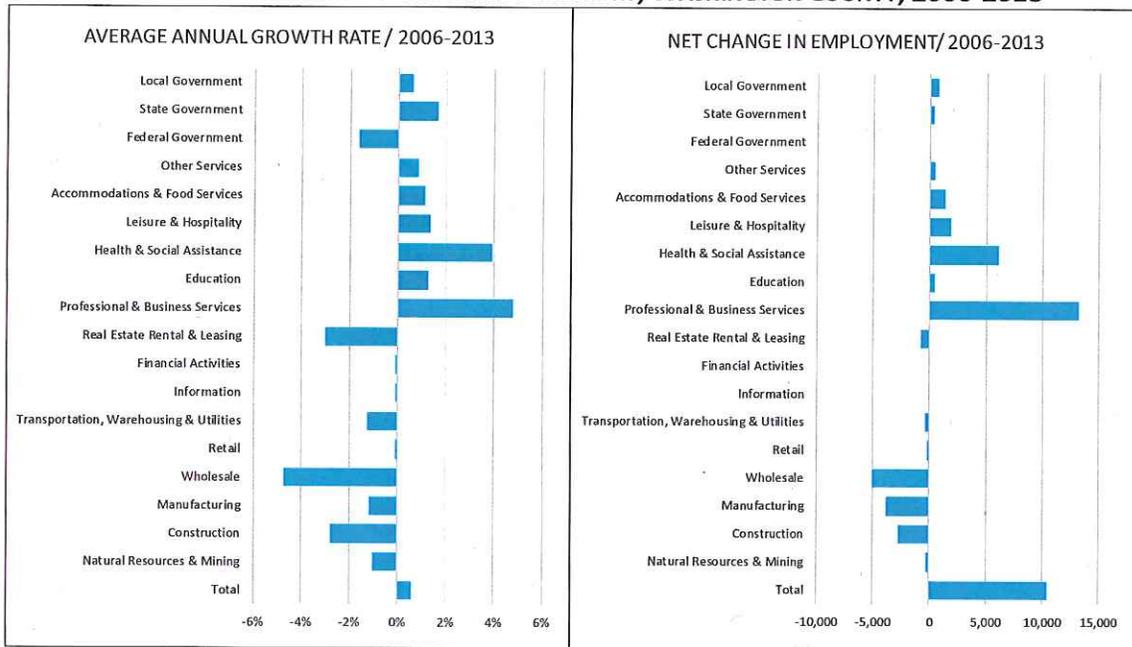
SOURCE: Oregon Employment Department, Oregon Office of Economic Analysis

THE LOCAL ECONOMY

Beaverton is reportedly on a similar upward trajectory experienced in the Portland metro area. Business activity and employment began to increase in early 2012 and continues to show signs of recovery. Currently, office and industrial space availability within Beaverton’s business parks is running at a five percent or less vacancy rate. Growth in construction activity has been strong since 2012, reaching 2004 levels in just over two years. Revenue growth and employment appear to be strong in most industries with the exception of the electronic instrument manufacturing sector which is showing signs of stagnation or decline.

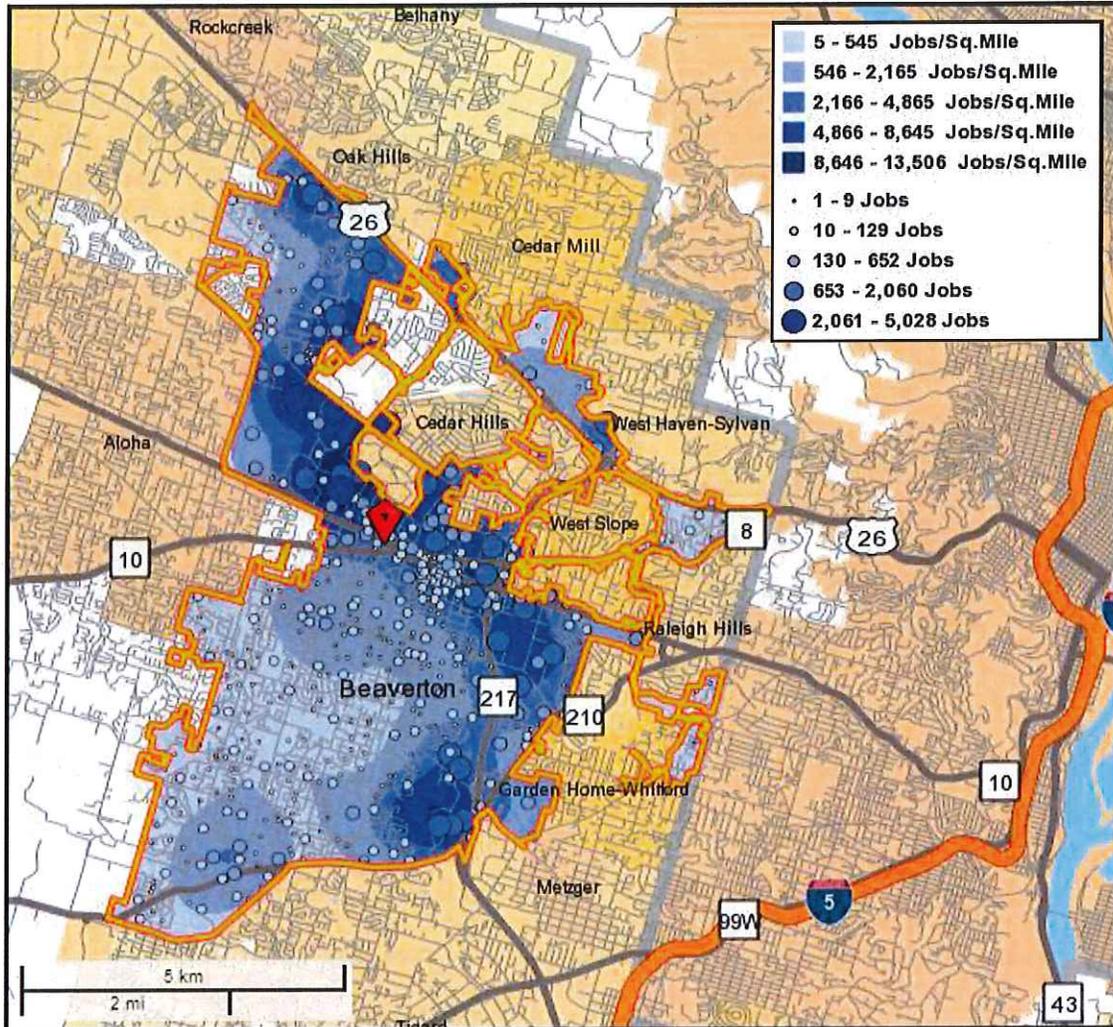
From 2006 through 2013, Washington County added 10,600 jobs on its own, while the broader Portland metro area added only 10,800 jobs during the same period. Employment has been robust in a range of industries, led by professional services as well as health and social assistance (Figure 12).

FIGURE 12: EMPLOYMENT GROWTH BY INDUSTRY, WASHINGTON COUNTY, 2006-2013



The City of Beaverton occupies a central location within Washington County, and is proximate to a number of significant employers and employment concentrations. The 217 Corridor runs through the City, and includes a diverse number of firms. The Nike and Tektronix campuses are adjacent to the City, as is Washington Square. The Sunset Corridor, which represents the largest technology concentration in the State of Oregon, begins at Cedar Hills Boulevard and Highway 26 and continues west to Hillsboro. Figure 13 shows the geographic distribution of employment density within the City of Beaverton.

FIGURE 13: EMPLOYMENT DENSITY, CITY OF BEAVERTON, 2011



Source: US Census Bureau

Within the city limits, employment is concentrated in the downtown core, along the 217 Corridor and northwards towards the Highway 26 Corridor. As outlined in the City's 2010 Economic Opportunities Analysis, an estimated 104,000 jobs were located within the City's Urban Services Boundary (USB) in 2008. The City's employment profile is dominated by retail trade (14 percent of in-city employment), and accommodations and food services (14 percent). Education and manufacturing were the next largest in-city industrial concentrations. Local wage levels were at 92 percent of the Portland metro average.

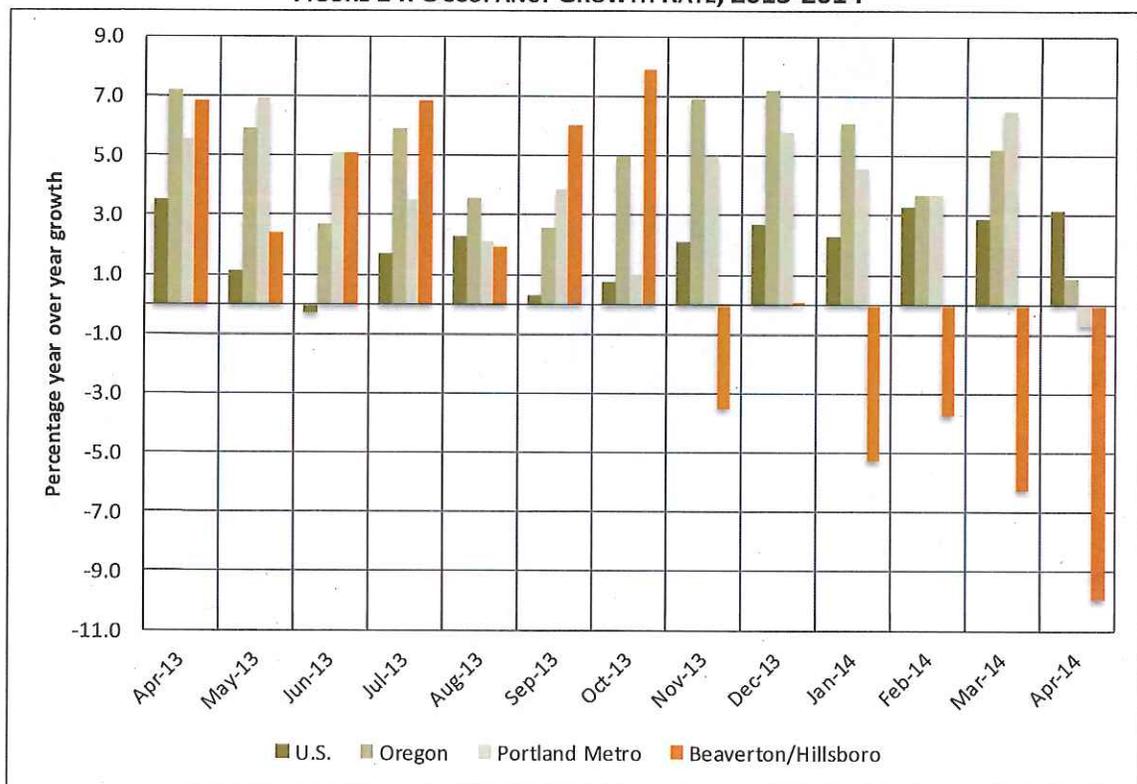
If the same analysis is extended over Washington County, it shows the major proximate employment concentrations south on Highway 217 and northwest along the Highway 26 corridor.

V. HOTEL DEVELOPMENT MARKET CONDITIONS

U.S. MARKET CONDITIONS

Hotels operators in the U.S. have undergone four years of consecutive growth. Demand driven by corporate and leisure travel is up four percent in April from a year ago, and is at an all-time high. Occupancy levels have reached pre-recession peaks and averaged 65.7 percent in April, up 3.2 percent from April 2013 (Figure 14). For markets similar to the Portland metropolitan area, hospitality markets are typically considered to be stabilized at a 65% average occupancy rates.

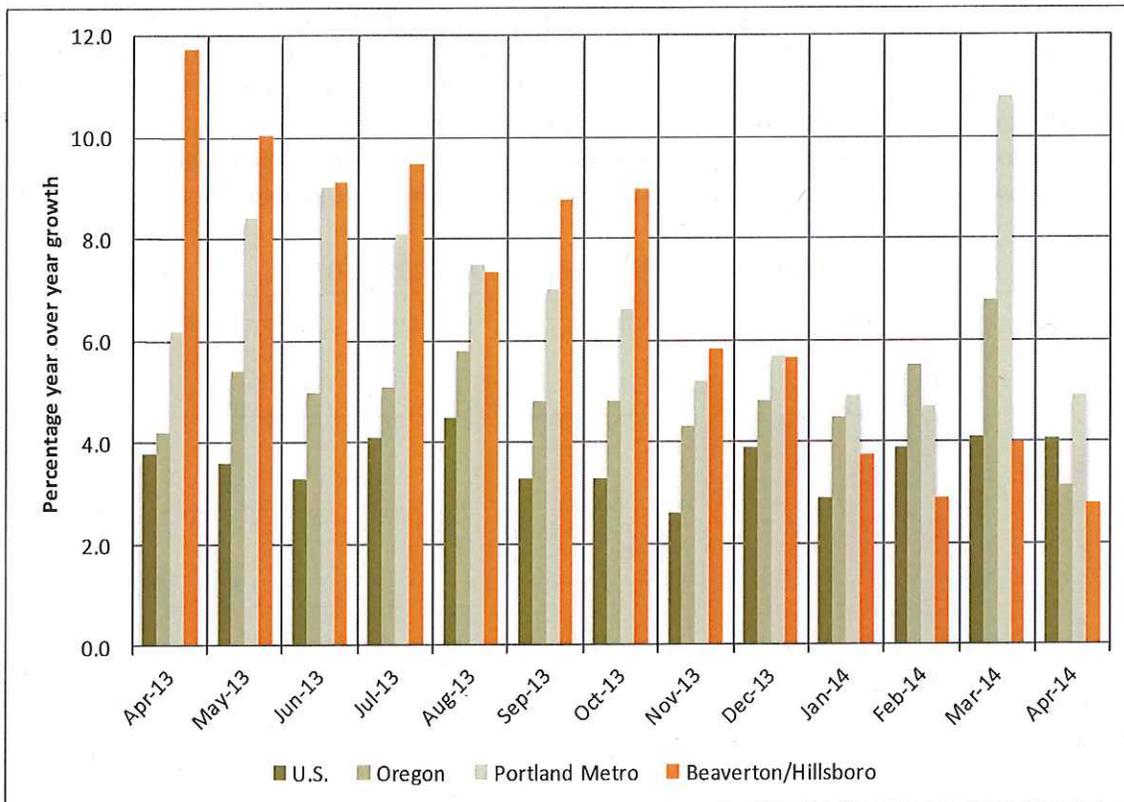
FIGURE 14: OCCUPANCY GROWTH RATE, 2013-2014



Source: Smith Travel Research and Dean Runyan Associates, Inc.

Average daily rates (ADR) were at \$114.67 in April, up four percent from April 2013 (Figure 15). Revenue per available room (RevPAR) was at \$75.30 in April, up 7.4 percent (Figure 16). RevPAR is above pre-recession levels in most markets and is expected to increase another five to six percent in 2014.

FIGURE 15: ADR GROWTH RATE, 2013-2014



Source: Smith Travel Research and Dean Runyan Associates, Inc.

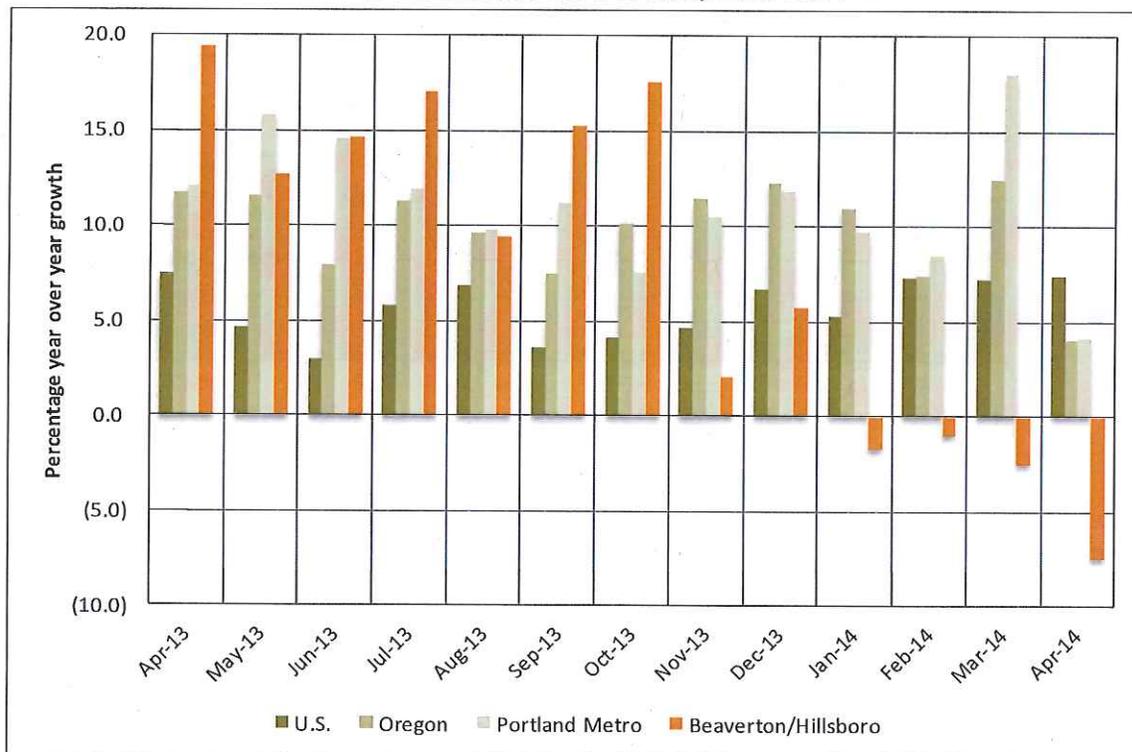
Hotel markets are seeing investors increasingly focused on secondary markets such as Seattle, Denver and Portland, a trend that is expected to continue in 2014. Supply has been increasing at an average rate of 0.8 percent during the last year. New supply is expected to continue to increase but still at a lower rate than the long term average. The trend in new developments is expected to continue to focus primarily on select service and full service hotels.

OREGON & PORTLAND METROPOLITAN AREA MARKET CONDITIONS

Statewide lodging trends have been increasing steadily since 2011. Growth rates in Oregon – in particular in the Portland metro area – are eclipsing national growth rates in occupancy, ADR and RevPAR. Supply, on the other hand, has shown little to no growth recently. In certain parts of the State, including Washington County, there has actually been a decline in supply. State employment in the leisure and hospitality sector has been averaging three to four percent year over year growth since January 2011. Year over year growth of domestic air visits has been positive since 2010, with 2012 growing 6.2 percent and 2013 growing 4.9 percent.

The Portland metro area's hospitality market has shown steady growth over the last few years in all categories with the exception of supply. Occupancy rates during the summer months in the Portland metro area were well over 80 percent in 2012 and 2013 while averaging about 66 percent during non-summer months since January 2012 (Figure 14). Occupancy averaged over 70 percent during 2013, well above what would be considered a stabilized rate of 65%. Year over year growth of ADR in the Portland metro area is averaging a minimum of four percent to as high as nearly eleven percent every month with year over year RevPAR growth over ten percent most months with March 2014 seeing an 18 percent year over year growth.

FIGURE 16: REVPAR GROWTH RATE, 2013-2014



Source: Smith Travel Research and Dean Runyan Associates, Inc.

The Beaverton/Hillsboro area outperformed the State and metro area through 2013, but has been weaker in 2014 top-date. With negligible growth in supply until recently and the Portland metro area's steady economic growth, the metro area's hotel market has a positive outlook. PFK Hospitality Research estimates hotel profits in the Portland metro area will to continue double digit growth in 2014 and 2015. For the first time since 2008, downtown Portland has rooms in its hotel supply pipeline (Figure 17).

FIGURE 17: DOWNTOWN PORTLAND HOTEL DEVELOPMENT PIPELINE

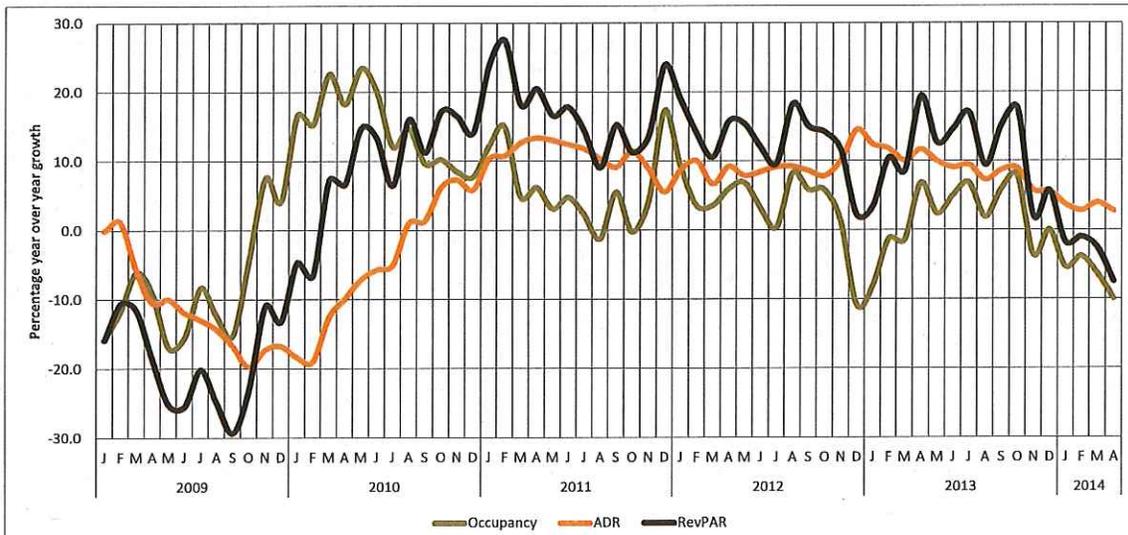
Hotel	Location	Status	Rooms
Residence Inn Marriott	Pearl District	Opened April 11, 2014	225 rooms
Hampton Inn & Suites	Pearl District	Site acquired in late 2013	220 rooms
RiverPlace Hyatt	South Waterfront	Planning	205 rooms
Grove Hotel	Old Town	Proposed lifestyle hotel	52 rooms
Hyatt Regency Hotel	Convention Center	Proposed	600 rooms

WASHINGTON COUNTY AND LOCAL MARKET CONDITIONS

Washington County’s hospitality market has mirrored the Portland metro area’s strong growth since 2011. Occupancy averaged over 70 percent during the last year and reached the upper 80 percent range during the summer months indicating a strong tourism draw during the summer months and an equally steady demand from corporate travelers during September through November and January through May.

The Beaverton/Hillsboro hotel market has grown since 2010 after two years of steep decline in 2008-2009 (Figure 18). Occupancy is averaging above 70 percent and RevPAR has grown at double digit rates for the last three years. Average daily rates have steadily increased as well by nine to eleven percent since 2011. While the local market remains strong, it should be noted that since November of last year, area hotels appear to be experiencing a decline in year over year growth in occupancy and RevPAR. This change could be explained by a possible carry over from the “fiscal cliff” late in 2013 or more likely, could be a reflection of struggle in the electronic instrument manufacturing industry, in which employment in the Washington County has declined over the last year. While the decline in occupancy could be purely seasonal, it is a departure from the positive growth rates experienced during the same periods during the last two to three years.

FIGURE 18: BEAVERTON/HILLSBORO OCCUPANCY, ADR AND REVPAR GROWTH



Source: Smith Travel Research

FIGURE 19: BEAVERTON/HILLSBORO HOTEL MARKET TRENDS

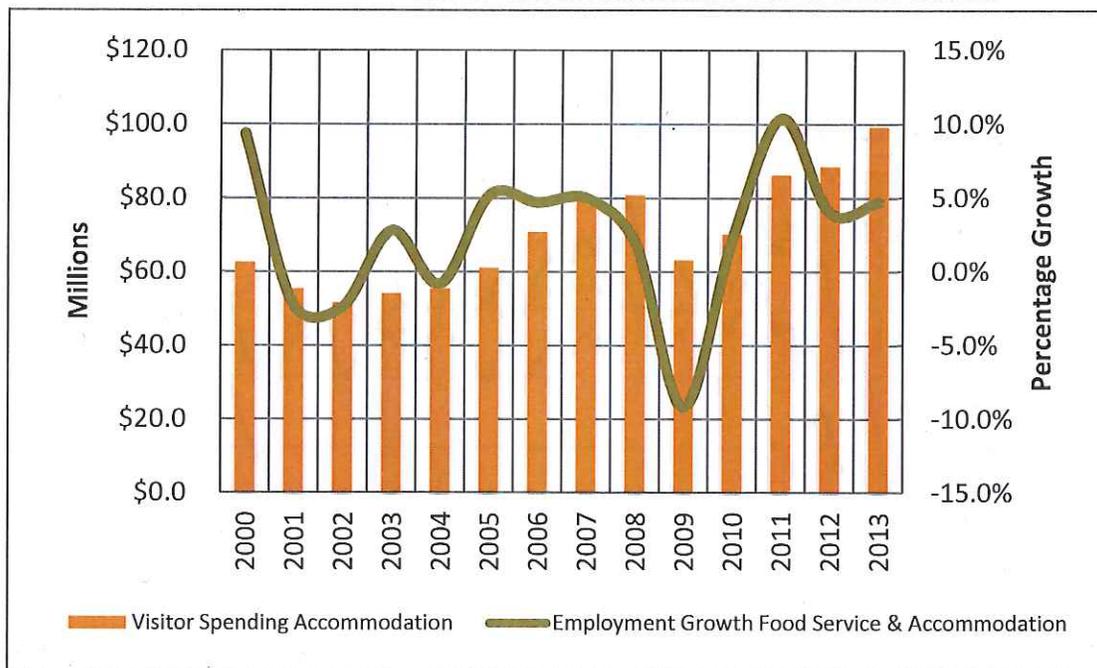
Year	Occupancy	% Chg	ADR	% Chg	RevPAR	% Chg	Supply (Rooms)	% Chg
2008	63.3		90.57		57.37		1,092,445	
2009	57.4	-9.3	79.80	-11.9	45.84	-20.1	1,092,445	0.0
2010	66.0	14.9	76.13	-4.6	50.25	9.6	1,091,220	-0.1
2011	69.6	5.5	84.34	10.8	58.72	16.9	1,086,030	-0.5
2012	72.2	3.7	92.09	9.2	66.50	13.3	1,085,635	-0.0
2013	73.8	2.2	100.69	9.3	74.30	11.7	1,085,875	0.0
Avg/CAGR	67.1	2.6%	87.27	1.8%	58.83	4.4%	1,088,942	-0.1%

Source: Smith Travel Research

Washington County hotel rates are experiencing growth with Beaverton and Hillsboro hotels indicating year over year growth in rates in the range of three to over ten percent during the last year. Similarly, RevPAR growth averaged in the double digits last year peaking at over 19 percent in April 2013.

Washington County's employment level in leisure and hospitality has been steadily increasing since August of 2010 and averaged about three percent annual growth in 2011 through 2013. Growth so far in 2014 has averaged closer to two percent. Employment in accommodations and food service grew at 10.4 percent in 2011, followed by 4 percent in 2012 and 4.7 percent in 2013. Likewise, visitor spending on accommodations in Washington County increased 11 percent in 2010 to just over \$70 million followed by a 22.6 percent increase in 2011, a three percent increase in 2012 and a 12.1 percent increase in 2013 ending at about \$99 million (Figure 20).

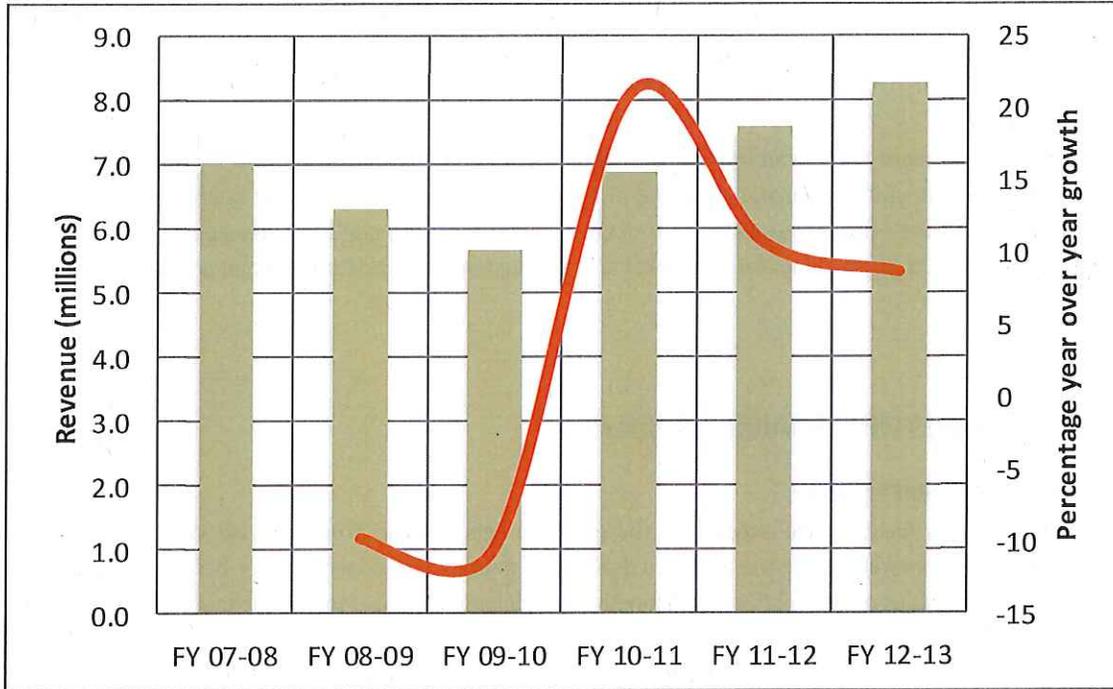
FIGURE 20: WASHINGTON COUNTY VISITOR SPENDING AND EMPLOYMENT IMPACTS



Source: Dean Runyan Associates, Inc.

Transient lodging tax revenue, which is a tax collected from lodging guests in the county has been increasing since 2010 after declines in 2008 and 2009. Fiscal year 2010 saw a 21.1 percent increase in tax revenue followed by 10.7 percent in 2011 and 8.7 percent in 2012 (Figure 21). The transient lodging tax is currently a nine percent tax collected by lodging operators. Of the nine percent tax, five percent is returned to the lodging operator. The remaining four percent is split five ways: 28 percent to the General Fund of Washington County, 11 percent to the Washington County Fair Grounds, 28 percent split among the cities within Washington County, 11 percent to Washington County Visitors Association and the remaining 22 percent to fund tourism.

FIGURE 21: TRANSIENT LODGING TAX REVENUE GROWTH



Source: Washington County Transient Lodging Program, Washington County, Oregon

Hotel supply in Washington County has remained stagnant for some time but recent activity indicates 390 rooms will enter the market over the next year with more likely to follow in 2016 and 2017. Two hotel developments are currently under construction in the Tanasbourne area in Hillsboro: an Embassy Suites full service hotel and a Hampton Inn business service hotel. In February of this year, a joint venture group acquired a site along Brookwood Parkway in the Dawson Creek Business Park in Hillsboro with plans to build a Residence Inn by Marriott. In addition, between one and three developments are rumored to be in the shopping stage along the Highway 26 corridor toward Hillsboro. In addition, the Embassy Suites Tigard was recently acquired and plans are underway for a major upgrade totaling \$11 million.

FIGURE 22: WASHINGTON COUNTY HOTEL DEVELOPMENT PIPELINE

Hotel	Location	Status	Rooms
Hampton Inn & Suites	Tanasbourne, Hillsboro	Open September 2014	225 rooms
Embassy Suites Hillsboro	Tanasbourne, Hillsboro	Open February 2015	165 rooms
Residence Inn by Marriott	Dawson Creek Business Park, Hillsboro	Site acquired 2/2014	140 rooms
Home2 Suites by Hilton (unconfirmed)	Tanasbourne, Hillsboro	Possibly shopping for site	est. 80-115 rooms
Holiday Inn Express (unconfirmed)	Amberglen Business Center, Hillsboro	Possibly shopping for site	est. 80-100 rooms
Midrange hotel (unconfirmed)	Cornelius Pass Rd/Shute Rd	Possibly shopping for site	est. 125-150 rooms
Extended stay (unconfirmed)	Hwy 217 and Canyon Rd	Possibly shopping for site	est. 125-150 rooms
Total			940-1,045 rooms

At this time, Beaverton does not have any new developments in the pipeline, although there are reports of hotel developers shopping the area. Reportedly, a hotel chain is interested in an extended stay hotel development at Highway 217 and Canyon Road.

CONCLUSION

Impacts to area vacancy rates and RevPAR should be considered relative to Hillsboro's hotel pipeline for any new hotel development particularly if located in the downtown or sunset corridor submarkets. Beaverton's hotel supply has been flat and at periods, in decline, since 1999. The city's last developments were built in 1997 through 1999 for a business target market and are clustered around Cornell Road and 158th Avenue.

VI. COMPETITIVE MARKET ANALYSIS

COMPETITIVE MARKET SURVEY

Given Beaverton's location, we expect the three submarkets to draw from a broad Westside geography. While all three submarkets have the ability to draw upon a similar regional customer base, each submarket's location and amenities make its offer mix distinctive and of varying appeal to specific target markets.

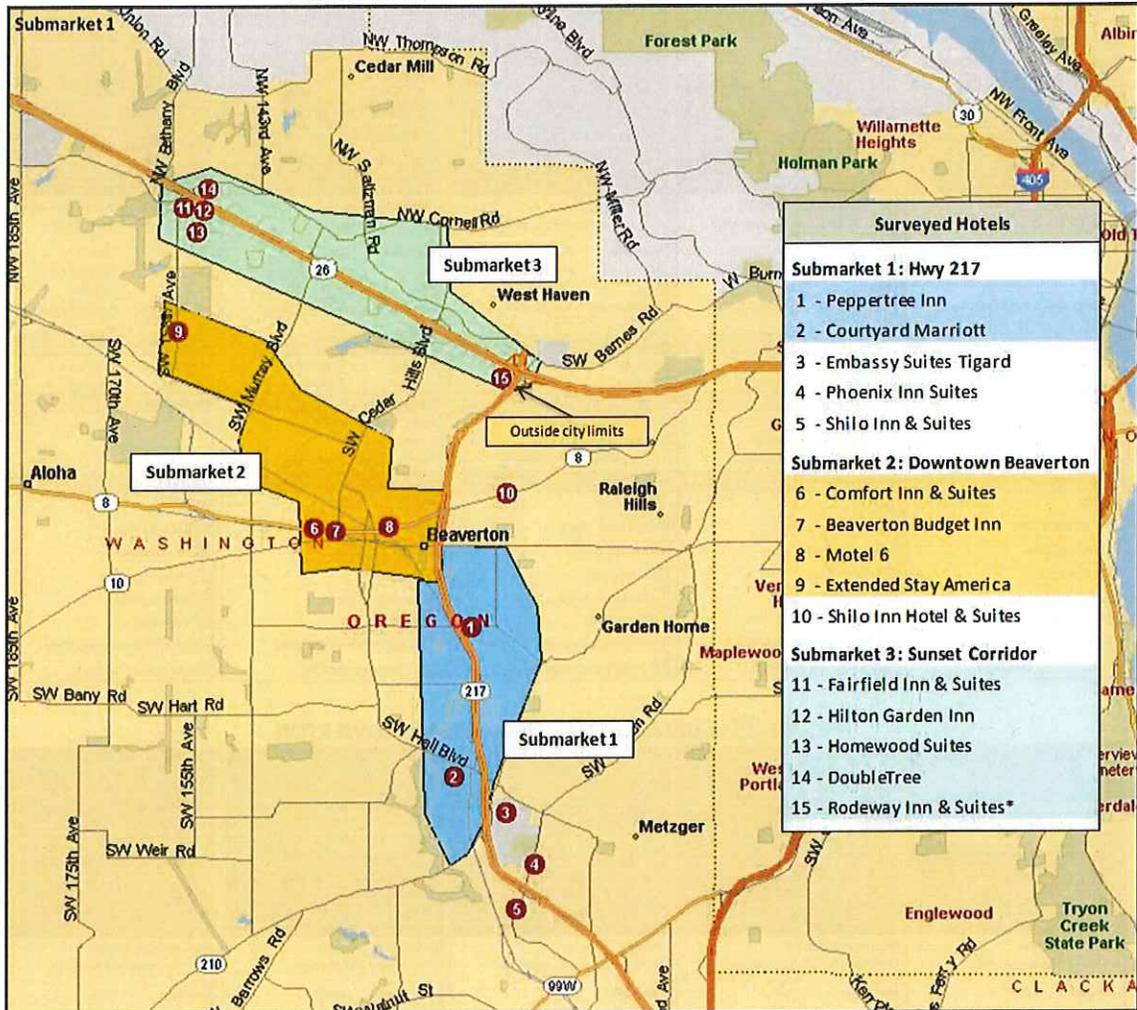
JOHNSON ECONOMICS surveyed hotel properties within each submarket as well as any relevant property located directly outside its boundary to characterize the competitive landscape. Ten of the surveyed hotels are located within Beaverton city limits; one is located outside the city but within the delineated submarkets; and four are located directly outside the submarkets. This inventory includes properties we expect to be positioned both above and below any potential development. What follows is a detailed profile of each project individually, followed by summary of conditions across the survey.

Together, Beaverton has 10 hotels with a total of 1,051 guestrooms, averaging 105 rooms per property. With the other surveyed properties included, the market has 15 hotels with a total of 1,777 rooms. These hotels vary in age, market orientation and quality, ranging from motels to select service business hotels. The bulk of Beaverton's hotel supply is clustered along Highway 26 around Cornell Road and 158th Avenue, with four hotels and 477 rooms targeting business travelers, and in downtown Beaverton along Canyon Road, with three hotels and 207 rooms targeting budget travelers.

The hotel facilities within the delineated submarkets have a total of 8,067 square feet of meeting space. The facilities able to accommodate the largest groups are the Hilton Garden Inn and DoubleTree located along Highway 26, which each has meeting space with a maximum capacity of 100 people. Just east of downtown Beaverton, the Shilo Inn Hotel & Suites on Canyon Road holds the largest available meeting space within the study area with a maximum capacity of 140 people. However, the Shilo Inn is located outside the designated submarkets and its location is disconnected from employment centers in Beaverton.

In the following, we present a map of competitive hotel properties and a profile of each hotel, organized by submarket.

FIGURE 23: MAP OF COMPETITIVE HOTEL PROPERTIES



* Outside city limits

FIGURE 24: SUBMARKET 1 - HIGHWAY 217

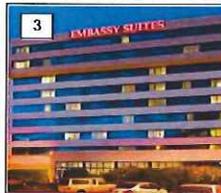
 <p>1</p> <p>Peppertree Inn 10720 SW Allen Blvd, Beaverton</p> <p>Year Open 1979 Tier Motel Class Midscale Customer Base Budget Traveler Rooms 73</p> <p>Standard Rates Weekday \$59/night Weekend \$69/night</p> <p>Meeting Space None</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input checked="" type="checkbox"/> Business Center <input checked="" type="checkbox"/> Fitness Center <input type="checkbox"/> Indoor Pool <input checked="" type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>	 <p>2</p> <p>Marriot Courtyard Beaverton 8500 SW Nimbus Avenue, Beaverton</p> <p>Year Open 1989 Tier Business Service Class Upscale Customer Base Business/Tourist Rooms 149</p> <p>Standard Rates Weekday \$149/night Weekend \$109/night</p> <p>Meeting Space Total: 1,274 square feet 2 rooms of 637 square feet Maximum Capacity: 40 people</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input checked="" type="checkbox"/> Business Center <input checked="" type="checkbox"/> Fitness Center <input checked="" type="checkbox"/> Indoor Pool <input checked="" type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input checked="" type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>	 <p>3</p> <p>Embassy Suites Tigard 9000 SW Washington Square Rd, Tigard</p> <p>Year Open 1987 Tier Full Service Class Upper Upscale Customer Base Business/Tourist Rooms 356</p> <p>Standard Rates Weekday \$169/night Weekend \$139/night</p> <p>Meeting Space Total: 24,000 square feet 18 rooms, varying sizes Maximum Capacity: 800 people</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input checked="" type="checkbox"/> Business Center <input checked="" type="checkbox"/> Fitness Center <input checked="" type="checkbox"/> Indoor Pool <input type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input checked="" type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>	 <p>4</p> <p>Phoenix Inn Suites Tigard 9575 SW Locust St, Tigard</p> <p>Year Open 1994 Tier Limited Service Class Upper Midscale Customer Base Business/Tourist Rooms 101</p> <p>Standard Rates Weekday \$123/night Weekend \$104/night</p> <p>Meeting Space Total: ~1,500 square feet 2 rooms Maximum Capacity: 90 people</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input checked="" type="checkbox"/> Business Center <input checked="" type="checkbox"/> Fitness Center <input checked="" type="checkbox"/> Indoor Pool <input checked="" type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input type="checkbox"/> Sundry/Convenience Shop <input type="checkbox"/> Laundry/Dry Cleaning</p>	 <p>5</p> <p>Shilo Inn & Suites, Washington Square 10830 SW Greenburg Rd, Tigard</p> <p>Year Open 1984 Tier Limited Service Class Midscale Customer Base Budget Traveler Rooms 77</p> <p>Standard Rates Weekday \$109/night Weekend \$99/night</p> <p>Meeting Space None</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input checked="" type="checkbox"/> Business Center <input checked="" type="checkbox"/> Fitness Center <input type="checkbox"/> Indoor Pool <input checked="" type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>
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FIGURE 25: SUBMARKET 2 - DOWNTOWN BEAVERTON

 <p>6</p> <p>Comfort Inn & Suites 13455 SW TV Hwy, Beaverton</p> <p>Year Open 1977 Tier Limited Service Class Midscale Customer Base Budget Traveler Rooms 103</p> <p>Standard Rates Weekday \$82/night Weekend \$97/night</p> <p>Meeting Space Total: 728 square feet 1 room Maximum Capacity: 103 people</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input checked="" type="checkbox"/> Business Center <input checked="" type="checkbox"/> Fitness Center <input type="checkbox"/> Indoor Pool <input checked="" type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>	 <p>7</p> <p>Beaverton Budget Inn 13295 SW Canyon Rd, Beaverton</p> <p>Year Open 1980 Tier Motel Class Economy Customer Base Budget Traveler Rooms 48</p> <p>Standard Rates Weekday \$66/night Weekend \$66/night</p> <p>Meeting Space None</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input type="checkbox"/> Business Center <input type="checkbox"/> Fitness Center <input type="checkbox"/> Indoor Pool <input type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input type="checkbox"/> Sundry/Convenience Shop <input type="checkbox"/> Laundry/Dry Cleaning</p>	 <p>8</p> <p>Motel 6 12255 SW Canyon Rd, Beaverton</p> <p>Year Open Tier Motel Class Economy Customer Base Budget Traveler Rooms 56</p> <p>Standard Rates Weekday \$49/night Weekend \$49/night</p> <p>Meeting Space None</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input type="checkbox"/> Business Center <input type="checkbox"/> Fitness Center <input type="checkbox"/> Indoor Pool <input type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>	 <p>9</p> <p>Extended Stay America 875 SW 158th Ave, Beaverton</p> <p>Year Open 1997 Tier Extended Stay Class Economy Customer Base Business/Tourist Rooms 143</p> <p>Standard Rates Weekday \$79/night Weekend \$71/night</p> <p>Meeting Space None</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input type="checkbox"/> Business Center <input type="checkbox"/> Fitness Center <input type="checkbox"/> Indoor Pool <input checked="" type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>	 <p>10</p> <p>Shilo Inn Hotel & Suites 9900 SW Canyon Rd, Beaverton</p> <p>Year Open 1938 Tier Economy Service Class Midscale Customer Base Budget Traveler Rooms 142</p> <p>Standard Rates Weekday \$69/night Weekend \$79/night</p> <p>Meeting Space Total: 2,400+ square feet Multiple Maximum Capacity: 140 people</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input type="checkbox"/> Business Center <input checked="" type="checkbox"/> Fitness Center <input checked="" type="checkbox"/> Indoor Pool <input checked="" type="checkbox"/> Breakfast/Bistro <input checked="" type="checkbox"/> Restaurant <input type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>
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FIGURE 26: SUBMARKET 3 - SUNSET CORRIDOR

<p>11</p>  <p>Fairfield Inn & Suites 15583 NW Gateway Court</p> <p>Year Open 1997 Tier Business Service Class Upper Midscale Customer Base Business/Tourist Rooms 106</p> <p>Standard Rates Weekday \$149/night Weekend \$109/night</p> <p>Meeting Space Total: 625 square feet 1 room Maximum capacity: 40 people</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input type="checkbox"/> Business Center <input type="checkbox"/> Fitness Center <input type="checkbox"/> Indoor Pool <input checked="" type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>	<p>12</p>  <p>Hilton Garden Inn 15520 NW Gateway Court</p> <p>Year Open 1999 Tier Business Service Class Upscale Customer Base Business/Tourist Rooms 150</p> <p>Standard Rates Weekday \$169/night Weekend \$119/night</p> <p>Meeting Space Total: 2,070 square feet 4 rooms, varying sizes Maximum Capacity: 100 people</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input checked="" type="checkbox"/> Business Center <input checked="" type="checkbox"/> Fitness Center <input checked="" type="checkbox"/> Indoor Pool <input type="checkbox"/> Breakfast/Bistro <input checked="" type="checkbox"/> Restaurant <input checked="" type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>	<p>13</p>  <p>Homewood Suites 15525 NW Gateway Court</p> <p>Year Open 1998 Tier Business Service Class Upscale Customer Base Business/Tourist Rooms 123</p> <p>Standard Rates Weekday \$149/night Weekend \$119/night</p> <p>Meeting Space Total: 1,150 square feet 2 rooms, varying sizes Maximum Capacity: 75 people</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input checked="" type="checkbox"/> Business Center <input checked="" type="checkbox"/> Fitness Center <input type="checkbox"/> Indoor Pool <input checked="" type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input checked="" type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>	<p>14</p>  <p>DoubleTree 15402 NW Cornell Rd</p> <p>Year Open 1997 Tier Business Service Class Upscale Customer Base Business/Tourist Rooms 98</p> <p>Standard Rates Weekday \$129/night Weekend \$99/night</p> <p>Meeting Space Total: 2,220 square feet 2 rooms, varying sizes Maximum capacity: 110 people</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input checked="" type="checkbox"/> Business Center <input checked="" type="checkbox"/> Fitness Center <input checked="" type="checkbox"/> Indoor Pool <input checked="" type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>	<p>15</p>  <p>Rodeway Inn & Suites 10207 SW Park Way</p> <p>Year Open 1969 Tier Business Service Class Economy Customer Base Budget Traveler Rooms 52</p> <p>Standard Rates Weekday \$55/night Weekend \$55/night</p> <p>Meeting Space None</p> <p>On-site Amenities <input checked="" type="checkbox"/> Wifi <input checked="" type="checkbox"/> Business Center <input type="checkbox"/> Fitness Center <input type="checkbox"/> Indoor Pool <input checked="" type="checkbox"/> Breakfast/Bistro <input type="checkbox"/> Restaurant <input type="checkbox"/> Sundry/Convenience Shop <input checked="" type="checkbox"/> Laundry/Dry Cleaning</p>
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The following is a summary of the hotel supply in Hillsboro. The current supply in Hillsboro as well as any future supply either under construction or planned will have varying impacts on a potential hotel development in each of the three submarkets.

FIGURE 27: HILLSBORO SUMMARY OF SUPPLY

Hotel	Address	Year Open	Tier	Class	Customer Base	Rooms	Standard Rates*		Meeting Space			
							Weekday	Weekend	Total sf	Rooms	Max. Capacity	
Extended Stay America	19311 NW Cornell Road	1998	Extended Stay	Economy	Business/Tourist	136	\$109/night	\$66/night	None			
Extended Stay America	18665 NW Elder Court	1998	Extended Stay	Economy	Business/Tourist	122	\$79/night	\$71/night	None			
Hampton Inn & Suites	19999 NW Tanasbourne Drive	2014	Business Service	Upper Midscale	Business/Tourist	106	\$177/night**	\$101/night**	600 sf	1 room	60 people	
TownePlace Suites	6550 NE Brighton Street	1999	Limited Service	Upper Midscale	Business/Tourist	136	\$152/night	\$99/night	265 sf	1 room	14 people	
Holiday Inn Express	5900 NE Ray Circle	2000	Limited Service	Upper Midscale	Budget Traveler	86	\$123/night	\$133/night	889 sf	2 rooms	40 people	
Comfort Inn	3500 NE Cornell Rd	1985	Limited Service	Upper Midscale	Budget Traveler	118	\$129/night	\$99/night	None			
Courtyard Marriott	3050 NW Stucki Place	1996	Business Service	Upscale	Business/Tourist	155	\$189/night	\$109/night	1,248 sf	1 room	85 people	
SpringHill Suites	7351 NW Butler St	2004	Business Service	Upscale	Business/Tourist	106	\$199/night	\$119/night	None			
Residence Inn	18855 NW Tanasbourne Drive	1994	Extended Stay	Upscale	Business/Tourist	122	\$259/night	\$159/night	1,200 sf	2 rooms	60 people	
Residence Inn (proposed)	3000 NE Brookwood Parkway	2015e	Extended Stay	Upscale	Business/Tourist	140	n/a	n/a	Unavailable			
Embassy Suites	20001 NW Tanasbourne Drive	2015	Full Service	Upper Upscale	Business/Tourist	165	\$229/night**	\$149/night**	7,539 sf	7 rooms	350 people	
Total/Avg							1,392	\$162.40	\$111.36	11,741 sf		

*Standard rates were obtained on 5/23/2014 from a survey of rates listed on hotel websites for weekday and weekend nights, respectively.
**Rates for under construction hotels were obtained on 5/23/2014, for the same period in 2015.

SUMMARY OF THE COMPETITIVE MARKET

The following is a summary of our survey observations. Unless otherwise noted, totals and averages are based on all the surveyed properties, including those located outside the delineated submarkets.

Average Rates: The average room rate for Beaverton is between \$103 and \$123. Downtown Beaverton rates average between \$72 and \$76, significantly lower than other parts of the city due to its aging and low-end economy and midscale hotels. Average rates for the Highway 217 and Sunset Corridor submarkets are

comparable, ranging from \$107 to \$142. Also notable and indicative of the business versus tourist demand segments in each submarket is the range between weekday and weekend rates (Figure 28). Weekday rates for the period surveyed in the Highway 217 area are 21 percent higher than weekend rates indicating a much higher percentage of business travelers, while in downtown Beaverton weekend rates are 5 percent higher than weekday rates indicating a higher rate of leisure travelers. The Sunset Corridor is experiencing the widest variation at 32 percent higher weekday rates.

FIGURE 28: SUMMARY OF COMPETITIVE PRICING

Hotel Name	Address	Year Open	Tier	Class	Rooms	Standard Rates*		Meeting Space	
						Weekday	Weekend	Total sf	Max. Capacity
Submarket 1: Hwy 217									
1 - Peppertree Inn	10720 SW Allen Blvd, Beaverton	1979	Motel	Midscale	73	\$59/night	\$69/night	None	
2 - Marriott Courtyard	8500 SW Nimbus Avenue, Beaverton	1989	Business Service	Upscale	149	\$149/night	\$109/night	1,274 sf	40 people
3 - Embassy Suites Tigard	9000 SW Washington Square Rd, Tigard	1987	Full Service	Upper Upscale	356	\$169/night	\$139/night	24,000 sf	800 people
4 - Phoenix Inn Suites	9575 SW Locust St, Tigard	1994	Limited Service	Upper Midscale	101	\$123/night	\$104/night	~1,500 sf	90 people
5 - Shilo Inn & Suites	10830 SW Greenburg Rd, Tigard	1984	Economy Service	Midscale	77	\$109/night	\$99/night	None	
					Total/Avg 756	\$142.18	\$117.58	26,774 sf	
Submarket 2: Downtown Beaverton									
6 - Comfort Inn & Suites	13455 SW TV Hwy, Beaverton	1977	Limited Service	Midscale	103	\$82/night	\$97/night	728 sf	103 people
7 - Beaverton Budget Inn	13295 SW Canyon Rd, Beaverton	1980	Motel	Economy	48	\$66/night	\$66/night	None	
8 - Motel 6	12255 SW Canyon Rd, Beaverton	na	Motel	Economy	56	\$49/night	\$49/night	None	
9 - Extended Stay America	875 SW 158th Ave, Beaverton	1997	Extended Stay	Economy	143	\$79/night	\$71/night	None	
10 - Shilo Inn Hotel & Suites	9900 SW Canyon Rd, Portland	1938	Economy Service	Midscale	142	\$69/night	\$79/night	2,400+ sf	140 people
					Total/Avg 492	\$72.06	\$75.76	3,128 sf	
Submarket 3: Sunset Corridor									
11 - Fairfield Inn & Suites	15583 NW Gateway Court	1997	Business Service	Upper Midscale	106	\$149/night	\$109/night	625 sf	40 people
12 - Hilton Garden Inn	15520 NW Gateway Court	1999	Business Service	Upscale	150	\$169/night	\$119/night	2,070 sf	100 people
13 - Homewood Suites	15525 NW Gateway Court	1998	Business Service	Upscale	123	\$149/night	\$119/night	1,150 sf	75 people
14 - DoubleTree	15402 NW Cornell Rd	1997	Business Service	Upscale	98	\$129/night	\$99/night	2,220 sf	110 people
15 - Rodeway Inn & Suites*	10207 SW Park Way, Portland	1969	Economy Service	Economy	52	\$55/night	\$55/night	None	
					Total/Avg 529	\$141.73	\$107.00	6,065 sf	
					Total/Avg 1,777	\$122.63	\$102.85	35,967 sf	

* Outside city limits

Tier: Fifty percent of existing hotels in the Beaverton study area are business service hotels. The other fifty percent are motels and economy or limited service hotels (Please see Section IX Terms and Definitions for a full description of hotel types and tiers).

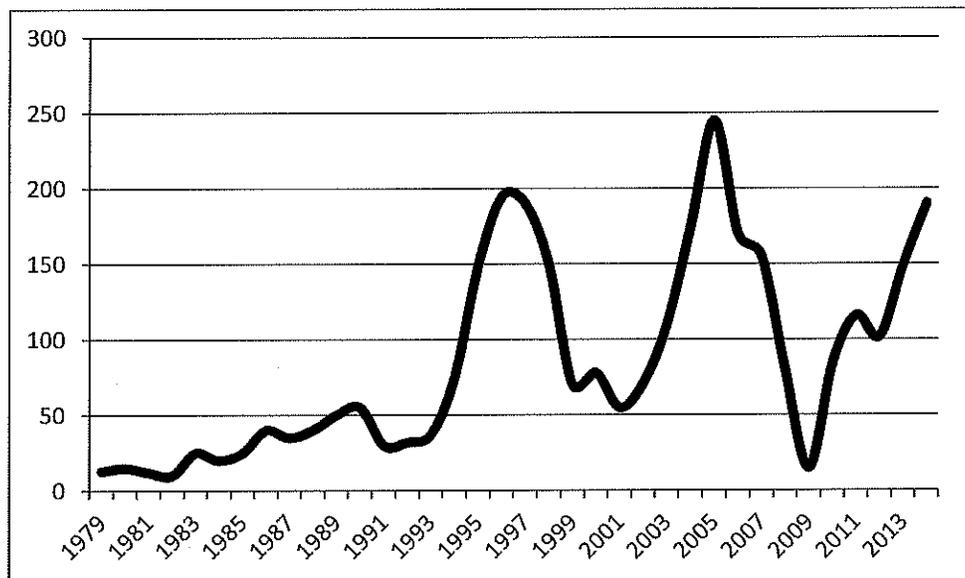
Class: Economy and midscale lodging comprises 60 percent of Beaverton existing hotel supply. Supply is concentrated in downtown Beaverton or along Highway 217. Beaverton has four upscale lodging choices comprising 33 percent of supply. The three upscale hotels are located along Highway 26 and the fourth hotel is located along Highway 217 at Hall Boulevard.

Meeting Space: High quality meeting space located at lodging facilities in Beaverton are nearly all located along Highway 26 at Cornell Road and 158th Avenue. There are currently two rooms with a maximum capacity of 100 people with additional rooms able to accommodate smaller meeting groups. A survey of independent meeting space in Beaverton indicates a very limited supply. The only space about which information was readily available and about which local business owners are aware is the meeting space available at the Beaverton Round Executive Suites. The largest space available can accommodate a maximum of 117 people with four additional rooms to accommodate smaller meeting groups.

VII. MARKET DEPTH ANALYSIS

JOHNSON ECONOMICS analyzed sources of demand for a potential hotel development. Our demand assessment and forecast is based on a thorough investigation of local market conditions and interviews with nine local businesses, five developers, two property managers and five community organizations whose activities are likely to have an impact on the level of demand for new hotel rooms in the area. Overall, growth in the leisure and hospitality market is expected to continue its upward growth path albeit at a slower rate. As shown in Figure 29, hospitality has been on a steep upward curve, which is expected to steady as the U.S. economy balances increased stability with still apparent uncertainty. The exceptional growth experienced in hospitality since 2010 has been driven primarily by corporate and leisure travelers. As discussed below, given business and leisure activity in Beaverton and regionally in Washington County, we can expect that trend to continue for the foreseeable future.

FIGURE 29: HISTORICAL GROWTH TREND IN HOSPITALITY



Source: HVS and Jones Lang LaSalle

The sources of demand for hotel rooms in Beaverton are local businesses, travelers visiting friends and relatives, tourism, sporting groups, and group and corporate events. Following is a discussion of each of these groups and their potential to generate demand for a potential hotel development.

BUSINESS TRAVELERS

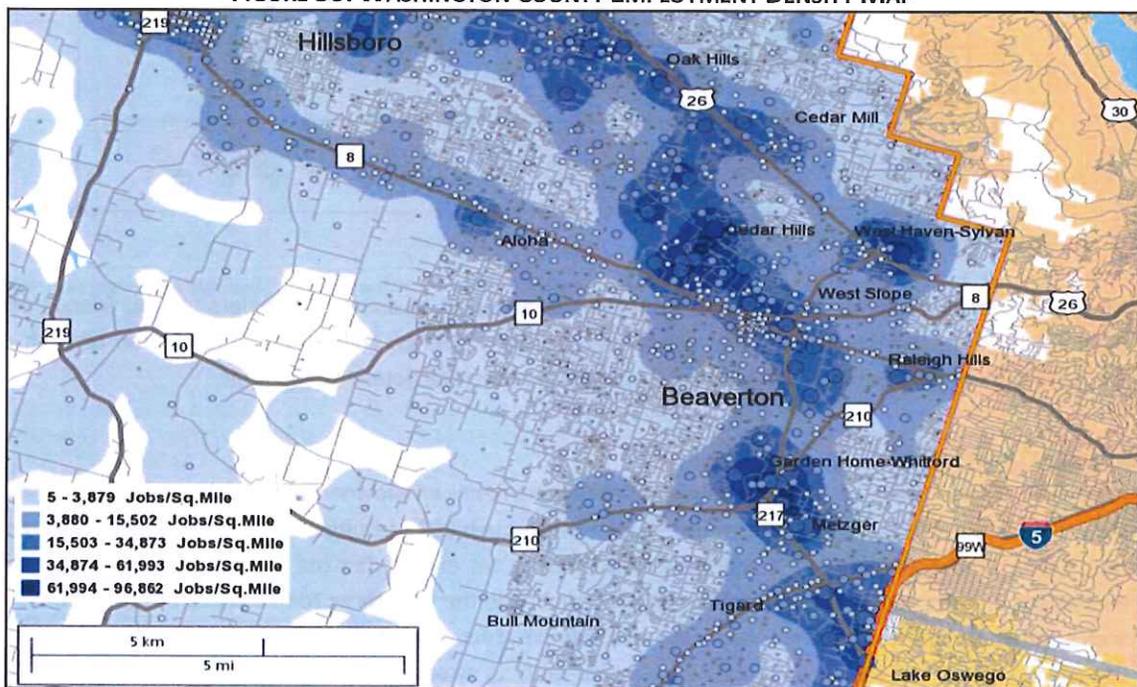
According to the State of Oregon Employment department, employment in Washington County and Multnomah County is projected to increase 16 percent through 2022 resulting in 1.5 percent annual growth rate. Given the composition of Beaverton's employment, we expect demand from the area's electronics instrument industry sector to remain flat or decline slightly in the next three to five years. Demand from the area's sports apparel companies is expected to continue at its current steady growth rate. It appears that Beaverton's small and medium companies, coupled with its strong sports apparel sector, are leading the City's recovery.

We find, from conversations with local small and medium employers, that there is a sense of not only recovery from recession but the beginning of a vibrant period of growth. One indicator of the City's current growth trend is the exceptionally low level of vacancy rates of five percent or less in the City's business parks. Given the sports apparel industry and electronic instrument manufacturing sector within Beaverton as well as growth trends in small and medium business, we see a latent demand for hotel space located in Beaverton's core. Small and medium companies make up a small share of hotel demand now, but we expect that demand to increase substantially over the next five years. Of the six small and medium companies with whom we spoke, all of them expect to expand their business within the next year or two.

We expect business travel to continue to drive growth in room demand in Beaverton over the next five years, particularly from September to May. Business travelers tend to stay at upper mid-scale and upscale hotels, such as the Courtyard Marriott located along Hwy 217 and the cluster of hotels located along the Sunset Corridor (DoubleTree, Hilton Garden Inn, Homewood Suites, and Fairfield Inn & Suites). Demand from this segment has contributed to the ten percent premium for weekday rates at these hotels.

Figure 30 represents employment densities in the City of Beaverton and surrounding Washington County. The largest concentration of employment is found in downtown, which currently has land available for hotel development in its central parts. The Highway 217 submarket comprises a concentration in the southern part. However, some of this employment is connected to Tigard, and developable land is found on the outskirts of the employment core. The eastern part of the Sunset Corridor submarket comprises an employment cluster, but it is largely associated with health care and not a significant driver of hotel room demand. The western part of the submarket contains a mix of companies, including small and medium software and manufacturing companies as well as larger companies such as Nike, Sage Software and Arris.

FIGURE 30: WASHINGTON COUNTY EMPLOYMENT DENSITY MAP



Source: U.S. Census Bureau

TOURISM AND LEISURE TRAVELERS

Tourism and leisure encompasses travelers who visit the area for varied purposes. Included in this category are travelers visiting friends and relatives, sporting groups and group and corporate events. This category has increased at an annualized rate of about 2.8 percent since 2008 with exceptionally strong growth since 2010. Marketing activities by the Washington County Visitors Association (WCVA), meant to increase tourism and leisure travel to the area, will likely have an impact on future hotel development. Fueled by growing tax revenue, WCVA has ambitious plans to increase the area's visibility and visitors. Notably, in addition to the traditional corporate and leisure travelers the County attracts, WCVA is targeting wine enthusiasts, golfers and nature enthusiasts and birders and outdoor recreationalists as well as an increased focus on group events such as corporate meetings, sporting groups, weddings and group tour events. Research on behalf of the WCVA estimates that around 57 percent of overnight visitors to Washington County stay in hotel/motels, with around a quarter of those staying in Portland. While the rate of population growth will drive sectors of this category, we expect an overall rate of growth in leisure to also be influenced by business growth in the area.

INSTITUTIONAL DEMAND

Included in institutional demand are travelers visiting for medical purposes, certain sporting events and group events. The representation of institutional demand in market share is insignificant and the growth rate is not expected to increase within the next five years. According to the Providence Guest Housing program (associated with the St. Vincent Medical Center), the bulk of their visitors are housed within Providence facilities. Guest Housing estimates that they refer an average of three inquiries a month to three nearby hotels with whom the hospital has negotiated rates: Homewood Suites, Embassy Suites and DoubleTree. Similarly, according to Beaverton School District sporting events hosted by area schools generate only a negligible demand for hotel rooms. If overnight stay is needed, students are typically lodged at school facilities. Sporting events can generate a nominal number of hotel nights by parents and grandparents. We expect this category to grow at the rate of population growth.

FORECAST OF MARKET DEPTH

Following is a review, by submarket, of key considerations for a potential hotel development. Figure 31 offers a brief comparison of the existing conditions in each submarket. As shown, all three submarkets have estimated 2014 occupancy rates well above an industry stabilized norm of 65% for this type of market.

FIGURE 31: SUBMARKET COMPARISON OF EXISTING MARKET CONDITIONS

	Submarket 1 Hwy 217	Submarket 2 Downtown Beaverton	Submarket 3 Sunset Corridor
Existing Supply			
Rooms	756	492	529
Estimated 2014 Occupancy	69.6%	70.1%	71.1%
Average Age	26 years	41 years	22 years
Average Weekday Rate	\$142.18	\$72.06	\$141.73
Average Weekend Rate	\$117.58	\$75.76	\$107.00
Hotel Class			
Economy	0%	60%	33%
Midrange	60%	40%	17%
Upscale	40%	0%	50%
Primary Demand Driver	Employment/Leisure	Leisure/VFR	Employment
Current Market Share			
Employment	60%	15%	75%
Tourism/VFR/Convention	35%	80%	15%
Institutional	5%	5%	10%
Amenity Mix			
Highway Visibility	Best	Fair	Fair
Regional Access via Major Hwy	Good	Fair	Best
Local Access Network	Best	Fair	Fair
Transit Connection	Good	Best	Best
Walkability			
Transit	Poor	Best	Fair
Gym	Fair	Best	Good
Restaurants	Fair	Best	Poor
Retail	Fair	Best	Fair
Proximity			
Employment	Best	Best	Good
Convention Space	Best	Fair	Fair
Golf Courses	Good	Fair	Best
Shopping Centers	Best	Good	Good
Sports Centers	Good	Good	Best
Hospital/Medical	Good	Fair	Best
Meeting Space			
Number of Facilities	Good	Fair	Fair
Maximum Capacity	3	2	4
	800	140	110

SUBMARKET 1: HIGHWAY 217 CORRIDOR

The Highway 217 submarket includes a substantial employment concentration and in turn appeals to a significant proportion of tourism and leisure travelers. The Embassy Suites, which is the study area's only full service hotel with large conference space drives significant group events which spill over to the submarket's other hotels. As such, the area captures the highest average rates, driven by Embassy Suites. Likewise, its location near Washington Square (the region's largest shopping center) and proximity to Bridgeport Village (another upscale shopping center located just south of Highway 217 and I-5) appeals to shopping groups and leisure travelers.

The submarket's amenity mix includes the potential for highway visibility and good transportation connections. In addition, the area benefits from extensive public transit connections including rail. Walkability in general is not good and the area will need development of hotel amenities such as nearby restaurants, gym facilities and retail. The six companies located within the submarket within whom we spoke for this study indicated that current hotel supply is sufficient except on rare occasions and they have not experienced need for additional hotel rooms. The only hotel type for which one business needed to travel outside the submarket is an extended stay hotel.

SUBMARKET 2: DOWNTOWN BEAVERTON

The downtown submarket is host to Beaverton's highest concentration of employment. The submarket also attracts visitors of the tourism and leisure category, including those visiting friends and relatives as well as general leisure travelers. The submarket captures a small amount of institutional demand from sporting groups and medical visitors.

The downtown amenity mix includes excellent transit connection and walkability to restaurants, retail and gym facilities. Several City initiatives currently in the planning phase will only serve to increase the area's appeal and amenity mix. The submarket is notable for its aging and mismatched existing room supply, particularly given its substantial employment base. Businesses located in the submarket expressed interest in and need for upscale lodging options. It is likely downtown Beaverton has substantial latent demand for upscale hotel rooms located within walking distance to transit options yet central to the area's business core.

SUBMARKET 3: SUNSET CORRIDOR

The Sunset Corridor offers an excellent location along Highway 26 between Portland and Hillsboro and is able to appeal to a more regional target market. In addition, it is a strategic location to visit Beaverton companies, but would just as likely attract travelers visiting Hillsboro companies who want to enjoy close proximity to Portland. In addition, the submarket could attract leisure travelers who are interested in experiencing regional attractions, such as golf courses and wineries to the west, shopping and wineries to the south and Portland to the east.

The amenity mix in the submarket includes regional and transit access but is underdeveloped in terms of its walkability, restaurant and retail options. A hotel development in this submarket will have more competition. The submarket's hotel supply is not constrained and indeed a new hotel would compete with both Hillsboro and Portland hotels. The Hillsboro hotel market is expected to add a minimum of 530 hotel rooms (and possibly as much as 1,000 rooms) within the next two years.

RECOMMENDED PROGRAM OF DEVELOPMENT

From a development perspective, the important consideration in determining where and what to build is maximizing the risk adjusted rate of return. The development types outlined in this section represent what we would consider to be the most likely to succeed in light of our findings. This should not be read to imply that projects of this type should be completed in each of these submarkets over the next five years. It does represent our recommendations with respect to an appropriate and viable program for each of these markets.

SUBMARKET 1: HIGHWAY 217 CORRIDOR

Given existing market conditions and discussions with employers and tourism experts as well as the Highway 217 submarket's appeal to a relatively larger component of leisure travel, JOHNSON ECONOMICS recommends one of two development types. The first is an upper midscale extended stay option. As noted, the submarket lacks this important option and it would likely have widespread appeal to area business whose visitors must currently travel outside the submarket for this option. We recommend 85 to 110 rooms, and expect it to capture a 12 percent share of the market. Significant meeting space is not likely to be viable in a development of this type.

A second development type that will likely find support in the submarket is an upper midscale limited service hotel appealing to leisure travelers. This hotel type is currently unavailable in the submarket and would likely capture a greater number of leisure travelers who are likely to look elsewhere for lodging currently. We recommend 85 to 110 rooms and expect a 15 percent share of the market. A hotel of this development type would be most successful if located within the Washington Square area. In addition, larger and more varied meeting space would be possible and likely successful if well appointed, flexible and priced significantly lower than levels achieved by Embassy Suites.

SUBMARKET 2: DOWNTOWN BEAVERTON

The development type recommended for downtown Beaverton is either an upscale limited service hotel or an upscale boutique hotel. As previously noted, currently there is no upscale lodging option available in the downtown Beaverton submarket. Given the likely latent demand among Beaverton's employers, a hotel of either type is expected to maintain high occupancy rates and a substantial premium over room rates currently achieved in the submarket.

Success of an upscale boutique hotel development is likely to be dependent upon the City of Beaverton's planned improvements to its downtown core, Canyon Road and the Creekside district. Without an improved pedestrian environment, the area will have limited appeal vis-à-vis alternative locations with better access and visibility. Additionally, a boutique hotel development would likely need to include dining service. Large meeting space accommodating a capacity in the range of 250 to 300 is recommended for a boutique hotel development, which would serve to increase the property's appeal to a larger target market. An upscale limited service hotel is likely to support a meeting space with a maximum capacity of 100 to 200 people. We recommend 85 to 125 rooms for either development type and expect the development to capture an 80 percent share of the market.

SUBMARKET 3: SUNSET CORRIDOR

In the Sunset Corridor submarket, we recommend an upper midscale limited service hotel. Currently, the submarket lacks this type of development and it would be positioned to capture business travelers desiring to be near the MAX line, tourists seeking a central location but lower rates than those offered by full service hotels in Tigard and Hillsboro Embassy Suites, sporting groups seeking to be near the Tualatin Hills Athletic Center and the Gordon Faber Recreation Complex as well as visitors to area medical centers. We recommend 100 to 125 rooms and expect the development to capture 10 percent of the market share. We recommend meeting space to accommodate a maximum of 80 people.

FIGURE 32: SUBMARKET COMPARISON OF RECOMMENDED PROGRAM OF DEVELOPMENT

	Submarket 1 Hwy 217	Submarket 2 Downtown Beaverton	Submarket 3 Sunset Corridor
Proposed Development			
Facility Type	Extended Stay or Limited Service	Limited Service or Boutique	Limited Service
Market Position	Upper Midscale	Upscale	Upper Midscale
Regional Market	Beaverton and South	Beaverton	Beaverton and West
Within Employment Core?	Outskirts	Central	Outside
Target Market	Business/Tourism	Business	Business/Tourism
Estimated Share	12% - 15%	80%	10%
Support Needed	Development Needed	Planned Improvements	Development Needed
Restaurant	Within walking distance	Upgrade connection	Within walking distance
Convenience/Retail	Within walking distance	Upgrade connection	Within walking distance
Gym Facilities	Within walking distance	Exists	Within walking distance
Number Rooms	85-110	85-125	100-125
Meeting Space Possible	0-3 rooms, max capacity 100-200	3-5 rooms, max capacity 100-300	0-3 rooms, max capacity 80

While we see a number of prospective lodging opportunities within the City of Beaverton, public policy efforts should focus on development types that have substantial anticipated public benefits that are unlikely to be realized without some level of public intervention. Our expectation is that the downtown Beaverton opportunity is the most difficult to realize, as it will require significant public investment in developing the downtown area, while also representing a development form that is missing from the City and least likely to be provided by the private sector without inducement. The two alternative programs in the Sunset Corridor submarket represent viable short term opportunities that would require limited intervention outside of appropriate entitlements to realize. The Highway 217 submarket is somewhat less attractive from a development perspective, but necessary interventions would probably be limited to assuring that an adequate site was available and entitled.

OVERNIGHT LODGING DEMAND

As noted previously in this analysis, the primary drivers of overnight lodging demand are business travelers, meetings/group demand and tourism/leisure demand.

The availability of well-located and quality overnight lodging options, as well as meeting rooms, provides an important amenity for many local employers and is supportive of economic development efforts. This segment of the market would likely include a component of contracted rates by major employers, as well as a significant component of extended stay. The extended stay market is primarily business-related, and

includes corporate projects and large-scale construction projects. The business demand market is strongest Monday through Thursday nights and is not typically considered to be seasonal.

The meeting and group segment includes seminars, conventions, trade association shows and other gatherings. The typical industry breakout includes corporate groups, associations and SMERFE (social, military, ethnic, religious, fraternal and educations) groups. Meeting and group demand also generates significant revenue from food and beverage. Business related activity tends to be more lucrative and mid-week, while the SMERFE groups are price sensitive and will meet on weekends and off seasons. This segment of the market is substantial, but can be quite volatile. Appealing to this market typically requires a significant investment in meeting spaces, and/or proximity to a convention or conference center.

Tourism/leisure demand provides an important component of support, and is particularly important for weekends. This demand is typically associated with convenience to major travel corridors or attractors (such as Tualatin Hills Athletic Center). Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and summer months, with is roughly the inverse of business related demand. As a result, this demand segment stabilizes the overall occupancy and is often a critical component of a successful project. The tourism/leisure market is seen as somewhat riskier than the business market by the investment community. This market niche tends to be price sensitive, and increasingly finds rooms using online booking services such as hotel.com.

The industry has seen new booking options associated with technology, such as AirBNB, which expand the supply of available lodging units. While these services can compete for portions of the tourism/leisure market, they are not typically well received or appropriate for business and group needs. While hotel operators have expressed displeasure with services such as AirBNB, data available to-date indicates that it does not compete with upscale options or for business travelers.

In Figure 33 we have forecasted occupancy, room rates and RevPAR for each respective development type in each of the three submarkets. We expect occupancy rates to remain strong during the five-year period. In the next two to three years, we expect to see varied rates of slowdown in occupancy rates as the Hillsboro hotel room supply increases in 2015 and 2016, this will be most pronounced in the Sunset Corridor submarket, which will experience the greatest impact from the increase as reflected in the supply scenarios.

In estimating demand through 2019, JOHNSON ECONOMICS applied a static growth rate for hotel demand accounting for expected changes in hotel room supply. The growth rate for hotel demand is based on the projected rate of employment growth of 1.5 percent and a project rate of growth in tourism of 0.79 percent, which is based on the both the projected rate of population growth (0.18 percent) and the annualized historical growth in leisure travel of 2.8 percent.

A healthy hotel market will experience occupancy rates averaging 60 to 70 percent. In the last three years, Beaverton and Hillsboro hotels have averaged above 80 percent during the summer months with August 2013 reaching nearly 90 percent occupancy. On the other hand, occupancy in December has averaged 54 percent in the last two years. Average annual occupancy in the last three years has been around 72 percent.

In Figure 33, Supply scenario one assumes an increase of 530 rooms from the three developments either under constructions or in planning. Supply scenario two, applied in the case of the Sunset Corridor submarket, assumes the possible infusion of an additional 410 to 515 rooms through 2017. We assume supply scenario one for both the Highway 217 and downtown Beaverton.

FIGURE 33: SUBMARKET COMPARISON OF PROJECTED DEMAND (2014 \$s)

	2014	2015	2016	2017	2018	2019
Submarket 1 Hwy 217						
Occupancy	73.1%	69.5%	69.2%	69.8%	71.6%	73.4%
Room Rates						
Extended Stay	\$75.93	\$72.32	\$72.02	\$72.57	\$74.41	\$76.30
Limited Service	\$101.24	\$96.43	\$96.03	\$96.77	\$99.22	\$101.73
RevPAR						
Extended Stay	\$66.04	\$58.22	\$56.30	\$55.87	\$57.29	\$58.74
Limited Service	\$73.38	\$64.69	\$62.56	\$62.08	\$63.65	\$65.27
Submarket 2 Downtown Beaverton						
Occupancy	73.1%	69.5%	69.2%	69.8%	71.6%	73.4%
Room Rates						
Limited Service	\$101.25	\$96.44	\$96.04	\$96.79	\$99.24	\$101.77
Boutique	\$121.50	\$115.72	\$115.25	\$116.14	\$119.09	\$122.12
RevPAR						
Limited Service	\$73.38	\$64.70	\$62.57	\$62.09	\$63.67	\$65.29
Boutique	\$91.73	\$80.87	\$78.21	\$77.62	\$79.59	\$81.61
Submarket 3 Sunset Highway						
Occupancy						
Supply Scenario 1	73.0%	69.4%	69.1%	69.6%	71.4%	73.1%
Supply Scenario 2	73.0%	69.4%	68.7%	64.8%	66.4%	68.0%
Room Rates						
Supply Scenario 1	\$101.20	\$96.32	\$95.86	\$96.53	\$98.91	\$101.34
Supply Scenario 2	\$101.20	\$96.32	\$95.31	\$89.87	\$92.09	\$94.36
RevPAR						
Supply Scenario 1	\$73.35	\$64.62	\$62.44	\$61.92	\$63.45	\$65.01
Supply Scenario 2	\$73.35	\$64.62	\$61.89	\$53.62	\$54.95	\$56.30

As summarized, we expect each of the submarkets to experience modest softening, with a return close to current occupancy levels by 2019. The current occupancy rate is considered to be relatively high, with non-destination lodging projects typically underwritten assuming occupancy of 65% to 68%. This indicates a current under-supply of rooms in general. The analysis shows a modest reduction in overall room rates as the new supply is brought into the market, with the market recovering quickly.

IMPLICATIONS FOR BROADER DEVELOPMENT

While a hotel can provide a valuable amenity for businesses and residents of a jurisdiction, it is not typically viewed as a driver of economic development. The operation of such a facility can provide a substantial benefit to a local commercial district, as well as local businesses. Overnight stays in a hotel facility are typically linked with significant local expenditures, most often for food and entertainment. Offsite expenditures vary by type of traveler. The following is a brief summary of amenities desired by different broad traveler types:

Business Travelers	Business travelers are a prized consumer group in the hotel industry because of their willingness (or, their company's willingness) to pay higher room prices. This group prizes fast Internet access, access to electronic devices like fax machines, printers and scanners and access to lounges. They also have a tendency to remain in their room most of the time, thus requiring hotels to provide attention to detail regarding quality of bedding, room service offerings and furnishing, such as desks with Internet access hookup.
Solo Travelers	Solo travelers typically desire to spend more time exploring the city than spending time at the hotel. As such, they prize low prices over amenities and services. The hotel industry accommodates this group of travelers by offering bare bones accommodations in exchange for per-night prices at a fraction of higher end hotels. Because this group often craves socializing with other travelers as part of the experience, hotels often create common lounges as part of the property.
Couples	Couples are another demographic of the hotel industry, who generally seek quiet premises, restaurants and high-quality bedding. Though couples may go offsite to enjoy surrounding attractions, a premium is placed on room interior and hotel conditions. Childless couples have more disposable income than families, thereby requesting luxury goods more frequently.
Families	Families require kid-friendly and inexpensive restaurants, on-site play areas, entertainment and ideally, discounts for additional rooms in which their kids can stay. Couples with babies require additional amenities, such as booster chairs, wide stroller-friendly paths and changing stations. Open air spaces are also desirable for parents with loud, raucous children.

Within the City of Beaverton, any of the new hotel types is expected to draw support at some level from all of these traveler types. If the hotel was a boutique hotel in downtown Beaverton, we would expect supporting uses to be oriented towards full service restaurants and entertainment options. This would also likely be the area of most significant impact for a mid-scale hotel catering to business travelers. A more family targeted hotel along the Highway 26 corridor would be expected to also support restaurants and entertainment, but more price sensitive and family oriented.

**FULL SERVICE HOTEL
W/RESTAURANT AND MEETING ROOMS
STABILIZED REVENUES AND EXPENSES**

15-Jul-14

PHYSICAL CHARACTERISTICS			
	UNITS		
Rooms			115
Average Room Night Rate/Stabilized			\$145
Average Nightly Revenue			\$228
Average Stabilized Occupancy			70.0%
Daily REVPAR			\$159.34
Annual REVPAR			\$58,159
Annual Stabilized Income			\$6,688,324
REVENUES			
	AMOUNT	PER ROOM	RATIO
Rooms	\$4,260,463	\$37,048	63.7%
Meeting Rooms, Food & Beverage	\$1,946,302	\$16,924	29.1%
Telecommunications	\$33,442	\$291	0.5%
Other Operated Departments	\$300,975	\$2,617	4.5%
Rental & Other Income	\$133,766	\$1,163	2.0%
Cancellation Fee	\$13,377	\$116	0.2%
TOTAL	\$6,688,324	\$58,159	100.0%
EXPENSES			
	AMOUNT	PER ROOM	%/REV
DEPARTMENTAL			
Rooms	\$1,201,450	\$10,447	18.0%
Meeting Rooms, Food & Beverage	\$1,362,412	\$11,847	20.4%
Telecommunications	\$45,748	\$398	0.7%
Other Operated Departments	\$15,684	\$136	0.2%
TOTAL DEPARTMENTAL EXPENSES	\$2,625,294	\$22,829	39.3%
DEPARTMENTAL PROFIT	\$4,063,030	\$35,331	60.7%
UNDISTRIBUTED EXPENSES			
Administrative & General	\$601,949	\$5,234	9.0%
Marketing	\$434,741	\$3,780	6.5%
Franchise Fees	\$60,195	\$523	0.9%
Property Operation & Maintenance	\$334,416	\$2,908	5.0%
Utility Costs	\$294,286	\$2,559	4.4%
TOTAL UNDISTRIBUTED EXPENSES	\$1,725,588	\$15,005	25.8%
GROSS OPERATING PROFIT	\$2,337,442	\$20,326	34.9%
FIXED EXPENSES			
Property Taxes	\$300,975	\$2,617	4.5%
Insurance	\$46,818	\$407	0.7%
TOTAL FIXED EXPENSES	\$347,793	\$3,024	5.2%
NET OPERATING INCOME	\$1,989,649	\$17,301	29.7%
FF&E RESERVE	\$267,533	\$2,326	4.0%
NET OPERATING INCOME AFTER RESERVE	\$1,722,116	\$14,975	25.7%

**FULL SERVICE HOTEL
W/RESTAURANT AND MEETING ROOMS
TEN-YEAR CASH FLOW (\$000s of Nominal)**

	Stabilized YEAR									
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS INCOME										
Average Occupancy	58.0%	62.0%	66.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Rooms	\$3,530	\$3,887	\$4,262	\$4,656	\$4,795	\$4,939	\$5,087	\$5,240	\$5,397	\$5,559
Meeting Rooms, Food & Beverage	\$1,613	\$1,776	\$1,947	\$2,127	\$2,191	\$2,256	\$2,324	\$2,394	\$2,466	\$2,539
Telecommunications	\$28	\$31	\$33	\$37	\$38	\$39	\$40	\$41	\$42	\$44
Other Operated Departments	\$249	\$275	\$301	\$329	\$339	\$349	\$359	\$370	\$381	\$393
Rental & Other Income	\$111	\$122	\$134	\$146	\$151	\$155	\$160	\$165	\$169	\$175
Commercial Space	\$11	\$12	\$13	\$15	\$15	\$16	\$16	\$16	\$17	\$17
EFFECTIVE GROSS INCOME	\$5,542	\$6,102	\$6,690	\$7,309	\$7,528	\$7,754	\$7,986	\$8,226	\$8,473	\$8,727
(-) Operating Expenses - Departmental	(\$2,175)	(\$2,395)	(\$2,626)	(2,869)	(2,955)	(3,043)	(3,135)	(3,229)	(3,326)	(3,425)
(-) Operating Expenses - Undistributed	(\$1,430)	(\$1,574)	(\$1,726)	(1,886)	(1,942)	(2,000)	(2,060)	(2,122)	(2,186)	(2,252)
(-) Operating Expenses - Fixed	(\$348)	(\$358.23)	(\$369)	(\$380)	(\$391)	(\$403)	(\$415)	(\$428)	(\$441)	(\$454)
(-) FF&E Reserve	\$22	\$24	\$27	\$29	\$30	\$31	\$32	\$33	\$34	\$35
NET OPERATING INCOME	\$1,611	\$1,799	\$1,996	\$2,203	\$2,269	\$2,338	\$2,408	\$2,480	\$2,554	\$2,631
(-) Annual Debt Service	(1,095)	(1,095)	(1,095)	(1,522)	(1,522)	(1,522)	(1,522)	(1,522)	(1,522)	(1,522)
Present Value	\$20,139	\$22,482	\$24,948	\$27,542	\$28,368	\$29,220	\$30,096	\$30,999	\$31,929	\$32,887
Cap Rate	8.00%									
Primary Debt Coverage Ratio		1.64	1.45	1.45	1.49	1.54	1.58	1.63	1.68	1.73
Total Debt Coverage Ratio		1.64	1.82	1.45	1.49	1.54	1.58	1.63	1.68	1.73
Assumed Rent and Cost Escalator	3.0%									

IX. TERMS AND DEFINITIONS

ADR (Average Daily Rate): Room revenue divided by rooms sold, displayed as the average rental rate for a single room.

Demand (Rooms Sold): The number of rooms sold (excludes complimentary rooms).

Occupancy: Rooms sold divided by rooms available. Occupancy is always displayed as a percentage of rooms occupied. For markets such as the Portland metropolitan area, projects are typically underwritten at an assumed stabilized rate of 65%.

Percent Change: Amount of growth, up, flat, or down from the same period last year (month, ytd, three months, and twelve months).

Revenue (Room Revenue): Total room revenue generated from the sale or rental of rooms.

RevPAR (Revenue per Available Room): Room revenue divided by rooms available

Supply (Rooms Available): The number of rooms times the number of days in the period.

Hotel Tiers

Full service hotels often contain upscale full-service facilities with a large volume of full service accommodations, on-site full service restaurant(s), and a variety of on-site amenities such as swimming pools, a health club, children's activities, ballrooms, on-site conference facilities, and other amenities.

Boutique hotels are smaller independent non-branded hotels that often contain upscale facilities of varying size in unique or intimate settings with full service accommodations.

Business service hotels are small to medium-sized hotel establishments that offer a limited amount of on-site amenities that only cater and market to a specific demographic of travelers, such as the single business traveler. Many may still offer full service accommodations but may lack leisure amenities such as an on-site restaurant or a swimming pool.

Economy and limited service hotels are small to medium-sized hotel establishments that offer a very limited amount of on-site amenities and often only offer basic accommodations with little to no services, these facilities normally only cater and market to a specific demographic of travelers, such as the budget-minded traveler seeking a "no frills" accommodation. Limited service hotels often lack an on-site restaurant but in return may offer a limited complimentary food and beverage amenity such as on-site continental breakfast service.

Extended stay hotels are small to medium-sized hotels that offer longer-term full service accommodations compared to a traditional hotel. Extended stay hotels may offer non-traditional pricing methods such as a weekly rate that cater towards travelers in need of short-term accommodations for an extended period of time. Similar to limited and select service hotels, on-site amenities are normally limited and most extended stay hotels lack on an on-site restaurant.

A *motel* is a small-sized low-rise lodging establishment similar to that of a limited service hotel, but with direct access to individual rooms from the car park. Motels are often considered the "lowest classification" type of a lodging accommodation and operate with minimal staffing levels.