



April 13, 2017

Mr. Richard Martini  
The Fallon Company  
ONE Marina Park Drive  
Boston, MA 02210

RE: Proposed Dual Branded Hotel – Brookline, MA

Dear Mr. Martini,

Pursuant to your request, Pinnacle Advisory Group (“Pinnacle”) has completed our market research for a proposed dual branded hotel (“Proposed Hotel”) to be located in Brookline, Massachusetts at the site of the existing Holiday Inn. You have specifically requested that we assume that the Proposed Hotel will contain 390-guestrooms, approximately 6,500 square feet of meeting space, and other prototypical amenities of a select service brand. You have requested that we assume an opening of March 1, 2021. The findings contained herein were prepared for your internal use and guidance in determining the viability for this hotel development and are based on research conducted during the month of March 2017.

During the course of our work, we

- examined the subject site;
- reviewed general economic conditions in the overall Boston market area;
- analyzed the lodging supply and demand characteristics in the competitive market area, considering such issues as seasonality of demand, the range of supply in terms of quality and pricing and the location of the subject site relative to the competitive supply;
- interviewed those familiar with the lodging market in the area; and,
- identified new supply in the competitive market; and
- prepared a five-year estimate of occupancy and rate performance for the Proposed.

As in all studies of this type, the estimated annual performance levels for the Proposed Hotel are based on the assumption of competent and efficient management and presume no significant changes in the competitive dynamics in the market other than those specifically set forth in this report. Projections herein are based upon estimates and assumptions, which are subject to uncertainty and variation. Accordingly, we do not represent them as results that will actually be achieved; however, they have been conscientiously prepared on the basis of information furnished to us, and on our extensive experience in the lodging industry. We have no obligation, unless subsequently so engaged, to update this study because of events occurring subsequent to the completion of this study. Additional assumptions and limiting conditions are presented at the end of this brief letter.

Thank you once again for the opportunity to be of service to you.

Respectfully submitted,

Pinnacle Advisory Group

## Brookline, MA - Area Analysis

The continued success and expansion of the Longwood Medical Center will drive growth and development to the local market area. The presence of the large institutions (hospitals, college and universities) provides a degree of stability during economy downturns and still provides some growth potential during strong economic times. Both Boston College and Boston University generate substantial demand for lodging for the local market area. With prospective student, visiting parents, guest lectures, seminars and conference, sporting events and all-campus events such as homecoming and graduation, these institutions will continue to drive demand in the market. The location relative to downtown Boston, with easy accessibility, will always afford the competitive market an opportunity to be an alternative to downtown lodging. The subject market experiences compression from Boston convention and meetings during large citywide events. The amount of new supply anticipated in the market over the next three to five years will limit the market occupancy potential.

## Site Analysis

The Town of Brookline is a well-developed and densely populated suburb approximately five miles west of downtown Boston. Located at 1200 Beacon Street in Brookline, Massachusetts, the site is currently improved with the 226-room Holiday Inn Boston Brookline. The immediate neighborhood is a mix of residential and services including various independent and chain restaurant and retail.

We evaluated the positive and negative attributes of the location of the subject site relative to the competitive hotels in the local lodging market, as well as the site's locational attributes as it relates to the primary demand generators in the area. It is our understanding that the site would be redeveloped to include the Proposed Hotel with a leased restaurant space of approximately 3,500 to 4,000 square feet, 155 units of residential, and another 13,500 square feet of retail space.

Given the site's proximity to demand generators, its visibility and its ease of access, the site is considered very good for hotel development. Our projections are directly related to this site and its attributes.

## Summary of the Lodging Market

In order to evaluate the current and prospective status of the lodging industry in the Brookline area, we have defined a competitive supply of hotels. This does not infer that these selected hotels are the only ones catering to demand that is potentially available in the area. The defined supply is intended to represent the grouping of hotels for which performance metrics and the general character of the market can be assessed when evaluating the potential future demand in the area and was selected based on input from the operators of the lodging facilities in the area, as well as our knowledge and observations of the local lodging market. Relevant factors considered in determining the defined competitive set included location, market mix, demand generators, rate structure and quality of facilities. The following table depicts the defined competitive set.

### Defined Competitive Set

Property	City, State	Rooms	Open Date	Meeting Space	Distance from Subj.
Holiday Inn Boston Brookline	Brookline, MA	226	Jun 1952	6,500	N/A
Courtyard Boston Brookline	Brookline, MA	188	Apr 2003	1,000	0.4
The Inn @ Longwood Medical	Boston, MA	155	Aug 1968	5,000	0.7
Residence Inn Boston Back Bay Fenway	Boston, MA	175	Jul 2013	1,900	1.0
Boston Hotel Buckminster	Boston, MA	132	Jun 1971	700	1.0
Homewood Suites Boston Brookline	Brookline, MA	130	Aug 2016	400	1.1
THE VERB	Boston, MA	93	Jul 2014	N/A	1.2

Compiled by Pinnacle Advisory Group

The defined competitive set includes seven hotels, three of which are located in Brookline. We believe these seven hotels compete for demand stemming from Longwood and Fenway neighborhoods and the local universities. Additionally, due to the product types and price positioning, the competitive set is a lower price alternative for downtown Boston. The Holiday Inn Brookline has been included within the competitive set in order to present historic performance for the local lodging market. We have removed this property from the competitive supply in March 2019.

During the course of our fieldwork, we obtained operating statistics for these seven lodging properties. Based upon this information, combined with data from Smith Travel Research, we have estimated the historical performance of the overall market in terms of lodging supply, demand for accommodations, occupancy and average daily room rate. The following table depicts the historical performance of the defined competitive set.

Historical Market - Summary			Proposed Hotel Comm Ave - Brookline, MA							
Market Supply			Market Demand		Market Statistics					
Total			Total							
Year	Roomnights	% Change	Roomnights	% Change	Occupancy	Pts.	Average Rate	% Change	RevPAR	% Change
2012	250,025		195,298		78.1%		\$176.92		\$138.20	
2013	285,856	14.3%	222,561	14.0%	77.9%	-0.3%	\$171.19	-3.2%	\$133.29	-3.6%
2014	336,713	17.8%	281,979	26.7%	83.7%	5.9%	\$198.77	16.1%	\$166.46	24.9%
2015	353,685	5.0%	289,394	2.6%	81.8%	-1.9%	\$216.47	8.9%	\$177.12	6.4%
2016	373,456	5.6%	294,354	1.7%	78.8%	-3.0%	\$215.42	-0.5%	\$169.79	-4.1%
CAGR: 2012-16		10.6%	10.8%					5.0%	5.3%	

Source: STR

Supply in the competitive market has increased considerably in recent years. In 2013 the 175-room Residence Inn opened, the following year the Verb Hotel opened in July, and most recently the 130-room Homewood Suites opened in August 2016. These changes to supply reflect a compound average growth of 10.6% from 2012 to 2016.

Despite these increases to supply, demand outpaced supply increasing 10.8% on a compound annual basis through the same period, maintaining occupancy levels in the high 70s and low 80s. Given the market's high occupancies, seasonality and sell outs over the course of the year, the new supply induced new demand into the market, helping to absorb the new rooms. Given supply increases, annual occupancies have declined from a high of 84% in 2014 to 79% in 2016.

ADR in the competitive set increased 5.0% on a compound annual basis between 2012 and 2016 with its largest increases experienced in 2014 as a result of the Residence Inn ramping up and the Verb opening. In 2016, the market's ADR was approximately \$215, a 0.5% decline from the year prior.

Given the growth in both demand and ADR, the competitive set's RevPAR has increased 5.3% compounded annually between 2012 and 2016, despite a 50% increase to supply during the same period.

### Changes to Supply

During the course of our fieldwork, we contacted local developers, corporate franchise contacts, and planning representatives from the communities within which the competitive hotels operate to ascertain the status of any on-going or proposed hotel developments. These interviews were further augmented by our interviews with management of the competitive properties. The proposed hotels which we have considered in our analysis are those which were either confirmed or highly likely to move forward and which would compete for demand with the Proposed Hotel.

- A 160-room AC Hotel by Marriott is being developed in the Cleveland Circle neighborhood of Boston. National Development has demolished the Circle Cinema to make way for the hotel, a senior housing apartment building, and a restaurant. The AC Hotel will be located approximately

1.8 miles from the Proposed Hotel and is expected to be completed and opened in the spring of 2018.

- Claremont Hotel Group, developers of the Homewood Suites in Brookline, have proposed a 168-room Hilton Garden Inn for a site on Washington Street in Brookline, approximately 1.1 miles from the Proposed Hotel. According to the Town, the site is currently going through the design approval process and will then begin its rezoning. Developers have estimated the hotel to open mid-2019.
- As described previously, the 226-room Holiday Inn in Brookline will close to make way for the proposed mixed-use development and Proposed Hotel. Per your direction, we've assumed this hotel would close in March 2019, two years prior to the Proposed Hotel's opening.

There are other hotels proposed for Brookline and the Fenway neighborhood. Since these hotels cannot be confirmed as moving forward at this time, we have not considered them as new supply.

### General Facility Assumptions

You have provided us with the facility assumptions and indicated that the Proposed Hotel would be a 390-room, dual branded with a national hotel company, select service hotel. Given the estimated mix of demand in the competitive set we believe that that it would be important to select a brand that is appropriate and desirable with both corporate and leisure travelers alike. The power of strong distribution and loyalty program benefits both the corporate and leisure segments, while a lower priced product with complimentary breakfast and other amenities is likely to appeal to the leisure traveler. Again, per your direction, we have assumed that the Proposed Hotel would offer two upscale, select service brands; one being a transient oriented hotel, while the other an extended stay product. Examples of such dual branded hotels include, but are not limited to, Aloft/Element (Marriott), Hyatt House/Hyatt Place (Hyatt), Indigo or EVEN/Staybridge (IHG). Presented below are the facility assumptions provided by you.

<b>Proposed Dual Branded Hotel</b>	
<b>Brookline, MA</b>	
<b>Guestrooms</b>	390
<i>Transient Hotel (est)</i>	234
<i>Ext Sty Hotel (est)</i>	156
<b>Prototypical Brand Restaurant</b>	
Seats	225
Square Feet	5,000
<b>Meeting Space</b>	
Square Feet	6,500
<b>Fitness Center (hotel guests only)</b>	
Square Feet	3,000

*All of the above facilities will be hotel operated.*

*Provided by client.*

The hotel's food and beverage department will operate the hotel's restaurant and meeting space. Given the product types we've assumed, we believe the select service, transient oriented hotel would offer breakfast, dinner and an evening bar while the extended stay hotel would offer its guests complimentary breakfast. The hotel will benefit operationally by having shared public areas, such as fitness center, lobby, front desk, etc.

In addition to the above facilities the hotel is assumed to have adequate parking for hotel guests. Additionally, as we understand it the hotel will be part of a mixed-use development which will include a leased restaurant space of approximately 3,500 to 4,000 square feet, 155 units of residential, and another 13,500 square feet of retail space.

### Projection of Market Performance

Based upon our assessment of the current state of the market, the anticipated changes to the lodging supply, including the closing of the Holiday Inn and the opening of the Proposed Hotel, combined with the anticipated changes in demand within the market area, we have estimated the future performance of the defined competitive set. The following table presents these estimates.

<b>Projected Supply and Demand</b>						
Year	Annual Supply	% Change	Annual Demand	% Change	Occupancy	
2016	Historical	373,456		294,350		78.8%
2018		401,135	7.4%	317,410	7.8%	79%
2019		459,535	14.6%	343,963	8.4%	75%
2020		423,035	- 7.9%	333,772	- 3.0%	79%
2021		438,365	3.6%	344,517	3.2%	79%
2022		580,715	32.5%	407,445	18.3%	70%
2023		580,715	-	422,017	3.6%	73%
2024		580,715	-	422,017	-	73%
2025		580,715	-	422,017	-	73%
2026		580,715	-	422,017	-	73%
CAGR 2016 to 2026			4.5%		3.7%	

*Projection years represent fiscal years from March to April.*

*Changes to supply include the 130-room Homewood Suites opening August 2016, the 160-room AC Hotel in Cleveland Circle opening March 2018, the closing of the 226-room Holiday Inn Brookline, the opening of the 168-room Hilton Garden Inn Brookline opening July 2019 and lastly the opening of the 390-room Proposed Hotel in March 2021.*

*Source: Pinnacle Advisory Group*

As noted in the table above, we have accounted for the new supply entering the market which includes the ramping up of the Homewood Suites (August 2016), the 160-room AC Hotel in Cleveland Circle (March 2018), the closing of the 226-room Holiday Inn Brookline (March 2019), the opening of the 168-room Hilton Garden Inn Brookline, and 390-room Proposed Hotel (March 2021). The 390-room Proposed Hotel represents an additional 164 new rooms to the market given its current roomcount of 226 as a Holiday Inn. In total, the changes to supply combine for 568 new rooms from 2016, a 55% increase. While not directly competitive, we have also accounted for the increases to supply proposed for Boston which will have a secondary impact to the subject market.

While supply is expected to outpace demand, we project that the market will accommodate an additional 127,000 annual roomnights allowing market occupancy to stabilize at 73%. There will be years when good seasonal weather and a strong economy pushes market occupancy above our stabilized occupancy level of 73%, and there will be years when poor weather conditions and a struggling economy will force market occupancy below this level.

### Projection of Subject’s Operating Performance

As described previously, we have assumed that the Proposed Hotel would offer two upscale, select service brands; one being a transient oriented hotel, while the other an extended stay product. Our projections are subject to change once the facilities and brands are more clearly defined however we believe our occupancy and ADR projections capture the performance of a “generic select service dual branded hotel.”

Given the anticipated positioning of the Proposed Hotel as a 390-room, dual branded select service hotel, we have estimated its performance for the first five years of operation following its opening in March 2021 (fiscal year 2022). The following table presents these estimates.

<b>Projection of Occupancy, ADR, and RevPAR</b>					
Year	Occupancy	ADR	% Change	RevPAR	% Change
2022	69%	\$273.48		\$189.12	
2023	72%	\$281.85	3.1%	\$203.31	7.5%
2024	73%	\$289.68	2.8%	\$212.43	4.5%
2025	73%	\$298.37	3.0%	\$218.81	3.0%
2026	73%	\$307.32	3.0%	\$225.37	3.0%

*Projection years represent fiscal years from March to April.*

*Assumes Proposed Hotel opens March 2021 as a 390-dual branded select service hotel.*

*Projections are subject to change once facilities and brands are more clearly defined.*

*Source: Pinnacle Advisory Group*

### **Assumptions and Limiting Conditions**

1. Our conclusions are explicitly based upon the assumptions that the Proposed Hotel is built as a 390-room dual branded, upscale select service hotel opening on March 1, 2021. Our analysis reflects a “generic select service dual branded hotel” and is subject to change once the facilities and brands are more clearly defined. It is expressly understood that the conclusions of this analysis could change upon any deviation from this assumptions. The changes that might arise could be material.
2. This document is for internal use only, and it may be used in whole and not in part.
3. As in all studies of this type, the estimated results are based on the assumption of competent and efficient management and presume no significant change in the competitive position of the lodging industry, other than those specifically discussed within this report.
4. Estimated results are based on an evaluation of the present general economy of the area and do not take into account, or make provisions for, the effect of any sharp rise or decline in local or general economic conditions that may occur. There usually will be a difference between the estimated results and those actually achieved, as events and circumstances often deviate from expectations. Those differences may be material.
5. It is expressly understood that the scope of our study and resulting report does not include the possible impact of zoning or environmental regulations, licensing requirements or other such restrictions concerning the project except where such matters have been brought to our attention and are disclosed herein.
6. We have no obligation to update our findings regarding changes to the scope of the proposed development or changes in the market conditions subsequent to the completion of our fieldwork.
7. The information gathered during the course of the fieldwork and used in this analysis is assumed to be accurate.
8. No liability is assumed for matters legal in nature. Pinnacle Advisory Group cannot be held liable in any cause of action concerning this assignment for any compensatory dollar amount over and above the total fees collected from this engagement.
9. Any and all legal expenses incurred in the defense or representation of Pinnacle Advisory Group, its principals, and its employees will be the responsibility of the client.
10. We are not required to give testimony or attendance in court by reason of this assignment, with reference to the property in question, unless prior arrangements have been made and agreed to in writing.

