Economics Research Associates

Project Report

Falls Church Hotel Market Study

Prepared for

City of Falls Church
Falls Church, VA

Submitted by

Economics Research Associates

2/05/08

ERA Project No. 17626

1101 Connecticut Avenue, NW Suite 750
Washington, DC 20036
202.496.9870 FAX 202.496.9877 www.econres.com
Los Angeles San Francisco San Diego
Chicago Washington DC London New York

ERA

Table of Contents

Index of Tables/Figures

General & Limiting Conditions

Every reasonable effort has been made to ensure that the data contained in this report are accurate as of the date of this study; however, factors exist that are outside the control of Economics Research Associates and that may affect the estimates and/or projections noted herein. This study is based on estimates, assumptions and other information developed by Economics Research Associates from its independent research effort, general knowledge of the industry, and information provided by and consultations with the client and the client's representatives. No responsibility is assumed for inaccuracies in reporting by the client, the client's agent and representatives, or any other data source used in preparing or presenting this study.

This report is based on information that was current as of January, 2008 and Economics Research Associates has not undertaken any update of its research effort since such date.

Because future events and circumstances, many of which are not known as of the date of this study, may affect the estimates contained therein, no warranty or representation is made by Economics Research Associates that any of the projected values or results contained in this study will actually be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Economics Research Associates" in any manner without first obtaining the prior written consent of Economics Research Associates. No abstracting, excerpting or summarization of this study may be made without first obtaining the prior written consent of Economics Research Associates. This report is not to be used in conjunction with any public or private offering of securities, debt, equity, or other similar purpose where it may be relied upon to any degree by any person other than the client, nor is any third party entitled to rely upon this report, without first obtaining the prior written consent of Economics Research Associates. This study may not be used for purposes other than that for which it is prepared or for which prior written consent has first been obtained from Economics Research Associates.

This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.

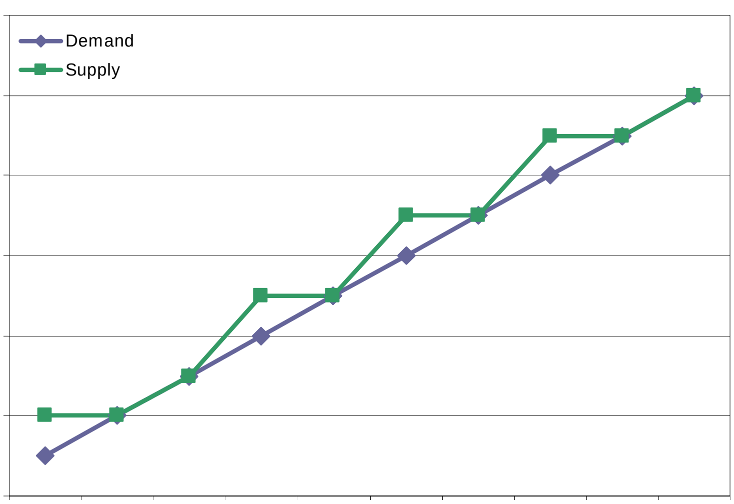
I. Summary Findings

The City of Falls Church enlisted ERA to assist in its evaluation of hotel property proposals for the City Center project. ERA focused on evaluating the regional and local lodging market to determine market demand, positioning, and potential success factors in developing a a full-service property. The City specifically sought guidance on the feasibility of developing a property that would include amenities such as a ground floor restaurant, 4,000 SF of meeting space, and other amenities to meet the needs of the local market, members of the community, and enhance the City Center Development.

As a result of this analysis, ERA has determined that an upscale extended-stay property will best capitalize on regional market demand drivers and is best suited to provide adequate levels of occupancy and amenities to work as a vibrant component to the City Center development. ERA believes that this product type can both satisfy the city's desired level of amenities and provide quality experience consistent with downtown developments in the City of Falls Church. Amenities to be included in this property type include: a full-service restaurant, fitness center, business center, lobby space with gathering areas, free metro shuttle, ample parking and moderately sized meeting space.

Room night demand in Falls Church is calculated as a function of the City's share of Northern Virginia room nights which are estimated at 5.99 million in 2007 and expected to increase to 7.22 million by 2017. Tourist preferences including household incomes were utilized to estimate sub-market demand. Room night demand and existing supply levels indicate the market is well supplied, however, it is clear that supply quality is mismatched with demand quality preferences thus creating demand for upscale hotel rooms.

Figure 1: Future Hotel Supply and Demand, City of Falls Church

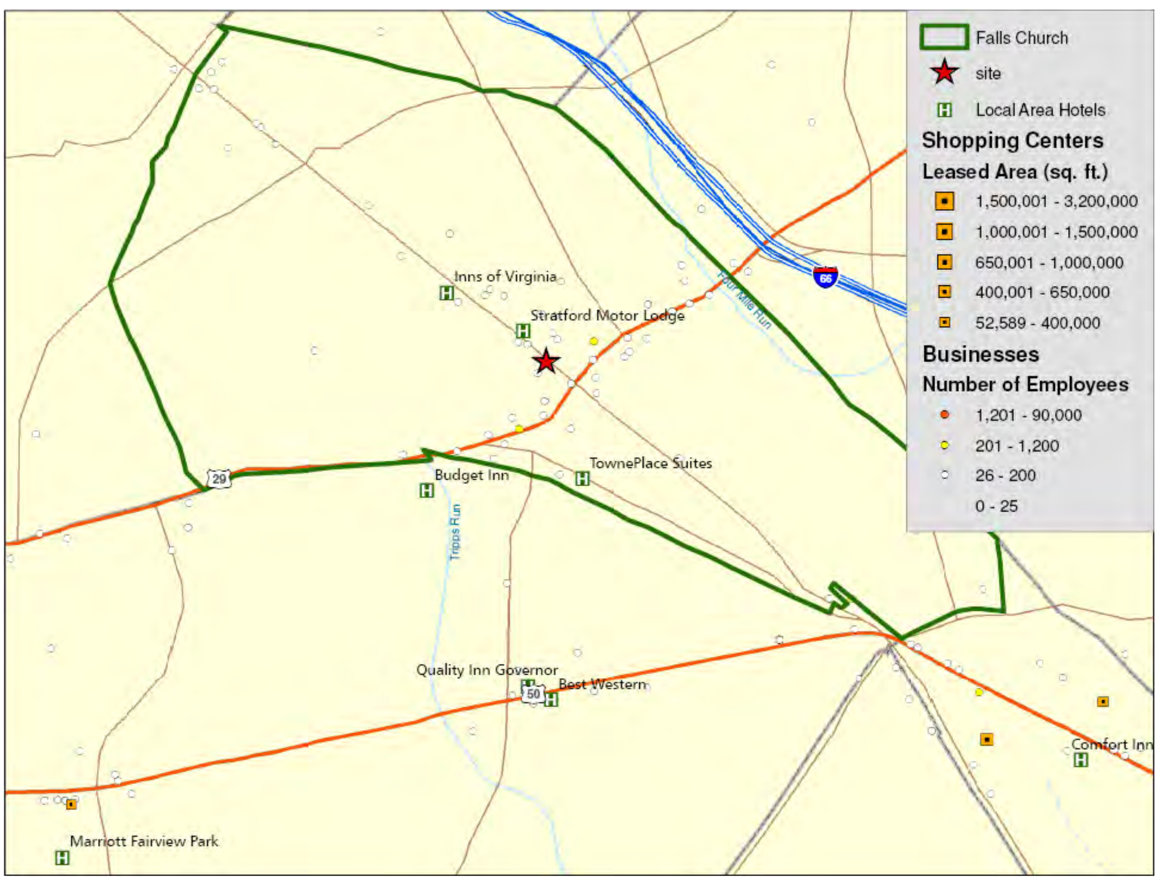


II. Site Analysis

The subject site is located in the planned City Center project, at the corner of Maple and Broad Streets in the City of Falls Church. The City Center project is expected to be the focal point of commercial activity as the City continues to grow. Current plans for the project include 90,000 SF of office space, a 134-unit active adult community, 50,000 SF of retail space, a 58,000 SF Harris Teeter, 410 apartments, 16 townhouses, Bowl America, and a full-service hotel.

Located between Fairfax and Arlington County, the City of Falls Church is in the center of Northern Virginia, one of the fastest growing areas in the country. Many corporations and government organizations are located in the area, and the City of Falls Church is situated ideally between two metro stops and adjacent to Interstate 66, the main roadway artery to Washington, DC. The City Center project is also located directly off Route 29, a major regional roadway providing highway visibility to the proposed hotel property.

Figure 2: Site Map



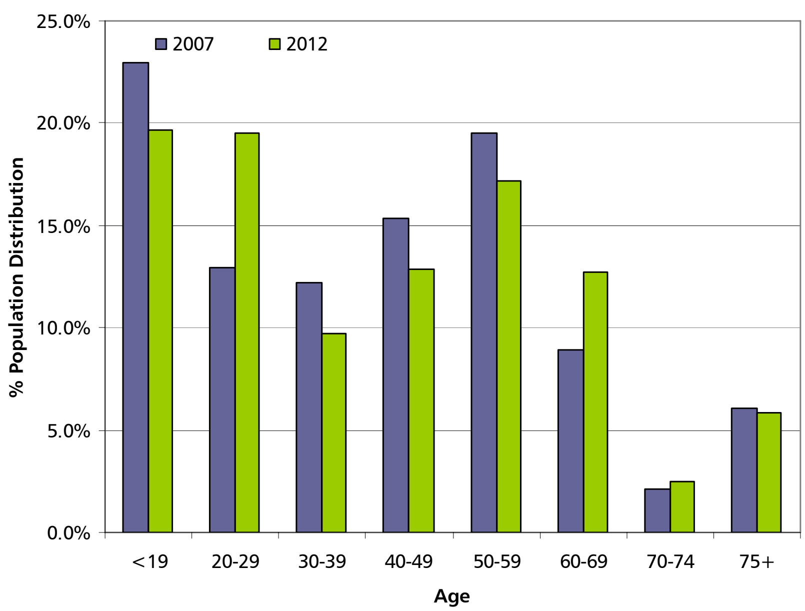
ERA

III. Demographic and Economic Conditions

Population

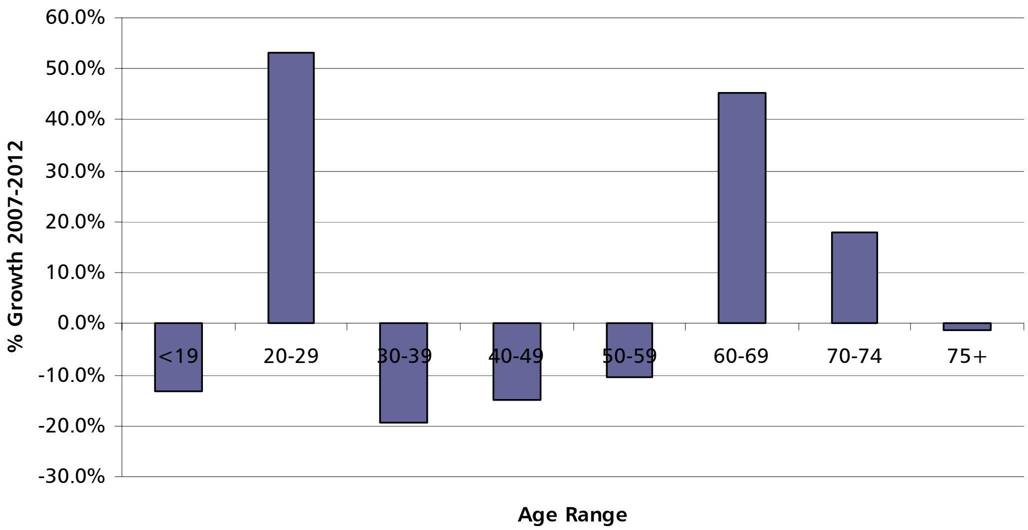
There are approximately 10,700 people in the City of Falls Church. The city's population is expected to increase an average 1.4 percent annually between 2007 and 2012 to 10,800 people, faster than the national population growth rate. While the population is currently relatively evenly distributed, growth is expected to be strongest amongst the 20-29 and 60-69 cohorts representing both young professionals and baby-boomer retirees.

Figure 3: Population by Age, City of Falls Church, 2007-2012



The median age is expected to decrease slightly from 41.3 to 41.1. Despite significant growth in the 60-69 age cohort, those between 50 and 59 will continue to comprise the second largest cohort to those between 20 and 29. Figure 4 illustrates the concentration of population growth within the young professional and retiree cohorts.

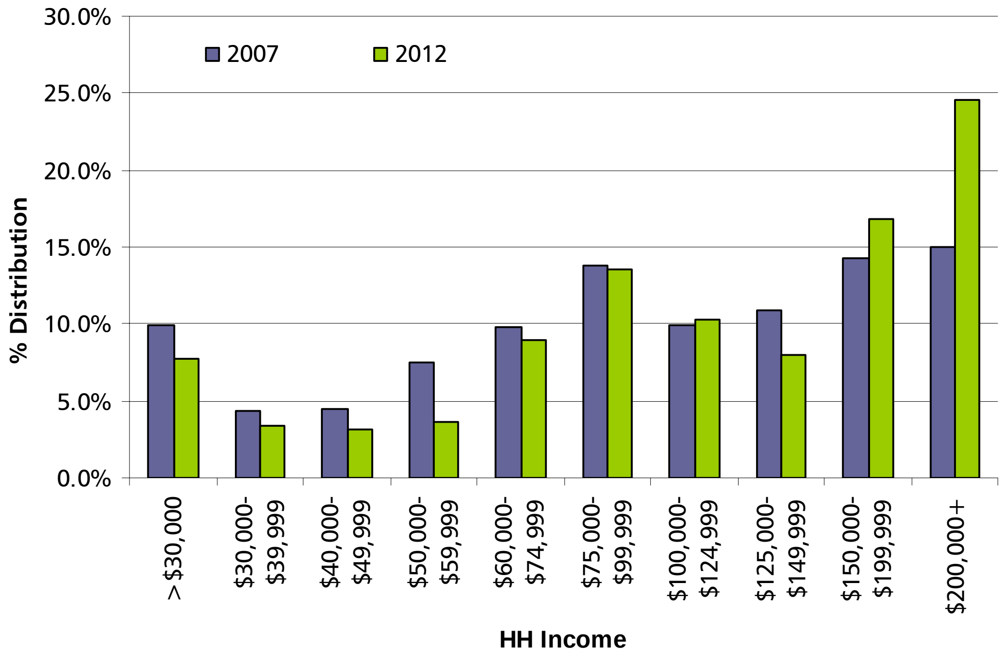
Figure 4: Population Growth by Age, City of Falls Church, 2007-2012



Household Income

Median household income in the City of Falls Church is well above the national average at $100,400; in fact, the City ranks eighth in median household income in the country and third in the State of Virginia. Household income is expected to increase an average 4.1 percent annually to $123,000 by 2012. The population of the City of Falls Church is wealthy in general with just over 50 percent of households earning more than $100,000 annually and nearly 2/3 earning more than $75,000 annually. Additionally, household growth is expected to be concentrated in households with incomes above $150,000 annually. Households with incomes between $150,000 and $200,000 are expected to increase by 126 households or 19.3 percent. Households with incomes above $200,000 are expected to increase by 449 households, or 65.4 percent. Other income categories are expected to decrease between 2007 and 2012 with total households increasing by only 56 homes or 0.2 percent annually. Figure 5 illustrates the distribution of households by household income in the City of Falls Church.

Figure 5: Households by Household Income, City of Falls Church, 2007-2012



Employment

Northern Virginia has a strong labor force, primarily concentrated in Fairfax County. The City of Falls Church comprises a small percentage of the region's employment with a labor force of just 6,600. Unemployment in the area has been low and decreased steadily between 2002 and 2006. The unemployment rate is highest in the City of Falls Church at 2.8 percent as opposed to 2.2 percent in Fairfax County and 1.9 percent in Arlington County. The unemployment rate in the region is well below the national average and represents a healthy economy.

The lack of employment in the City of Falls Church is further illustrated by the location of only two businesses with more than 200 employees in the area. The primary employers in the area are boutique offices and retail establishments. Without corporate headquarters or a large concentration of employers, it is difficult to generate business-oriented hotel demand. At-place employment in Falls Church is expected to continue the trend of mild increases through 2030, reaching 10,000 employees in 2010 and 10,700 employees by 2030.

ERA

Table 1: Labor Market Changes, City of Falls Church, 2001-2006

Labor Force	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Falls Church	6,196	6,233	6,158	6,243	6,469	6,634
Fairfax County	553,881	555,580	554,785	562,022	571,984	587,520
Arlington County	118,714	121,721	121,982	123,701	124,162	127,546
Employment	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Falls Church	6,030	6,023	5,959	6,041	6,256	6,449
Fairfax County	539,893	536,850	537,743	546,917	557,649	574,868
Arlington County	115,860	118,105	118,722	120,737	121,339	125,085
Unemployment	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Falls Church	166	210	199	202	213	185
Fairfax County	13,988	18,730	17,042	15,105	14,335	12,652
Arlington County	2,854	3,616	3,260	2,964	2,823	2,461
Unemployment Rate	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Falls Church	2.7	3.4	3.2	3.2	3.3	2.8
Fairfax County	2.5	3.4	3.1	2.7	2.5	2.2
Arlington County	2.4	3.0	2.7	2.4	2.3	1.9

Source: Bureau of Labor Statistics, Economics Research Associates, 2008

Major Employers

There are two large employers in the City of Falls Church: Kaiser Permanente and Atlantic Marble & Granite. Other employers in the area are primarily boutique offices with fewer than 250 employees. Of the two major employers, Kaiser Permanente is likely to generate overnight business in Falls Church, while Atlantic Marble & Granite’s overnight business travel generation is minimal. While there are many major corporate headquarters and government contractors located in Northern Virginia and within a five mile radius of Falls Church, especially in the Tyson’s Corner area and the Fairview Park office park, most of these firms already have agreements in place with more local lodging operators to provide overnight accommodation to their business travelers.

Planned Developments

In addition to the planned City Center project, there are four mixed-use developments that are either planned or under construction in the City of Falls Church and could impact hotel demand. These projects are: The Spectrum, Read Building, Northgate, and Pearson Square and they provide a combined total of 985,350 SF of newly built residential, retail and office space in the surrounding area. Included in these four projects is 121,900 SF of class-A office space.

Implications

To estimate lodging market demand it is important to understand the demographic and market characteristics of the surrounding area. In addition to limited potential room nights generated from those visiting friends and relatives, markets with quickly growing residential and office markets will generate new lodging demand. Additional demand generators include retail/entertainment venues, retail destinations, stadiums, natural attractions and other entertainment/amusement man-made attractions. While these demand generators may not seem attached to local population, venues containing these facilities often follow population and office market growth.

The City of Falls Church is a high-income suburb, well-situated in the center of Northern Virginia, a fast-growing area in Metropolitan Washington DC. Although residents represent an affluent demographic, the City of Falls Church is a suburban area without significant office development or direct metro access, thus limiting significant area hotel demand.

Although there is new office space emerging in the City if Falls Church, it is likely that this space will be occupied by small boutique firms rather than headquarters. As a result, it is unlikely that this new development will generate significant hotel demand; however there may be a small increment of induced demand as new offices are occupied. Should new large offices open in the area in the near term, it is possible that the potential property could capitalize on this business by obtaining a contract agreement.

Despite the lack of office space in the City of Falls Church, the area is situated three miles from Tyson's Corner, a major employment and entertainment hub, and minutes from many corporate headquarters within a five mile radius along the I-66 corridor, including the nearby Fairview Park office park which has a short-term upscale hotel to accommodate short stays but no associated extended stay property.

IV.Tourism Market

Visitation

There were 15.1 million visitors to Washington, DC in 2006, 8.6 million of whom are overnight visitors. The Washington Metro area is the eighth most visited city in the U.S., representing a very significant tourist market of which Northern Virginia plays a major part. Visitation to the Washington Metro area has remained relatively steady since 2004, decreasing only slightly between 2005 and 2006. Visitation is expected to maintain visitation at 14.9 million visitors in 2008 and 2009 but is not expected to expand in the near term due to the expected sluggish economy, slowing of personal income growth, and recent increased travel costs (i.e. gas, ADR).

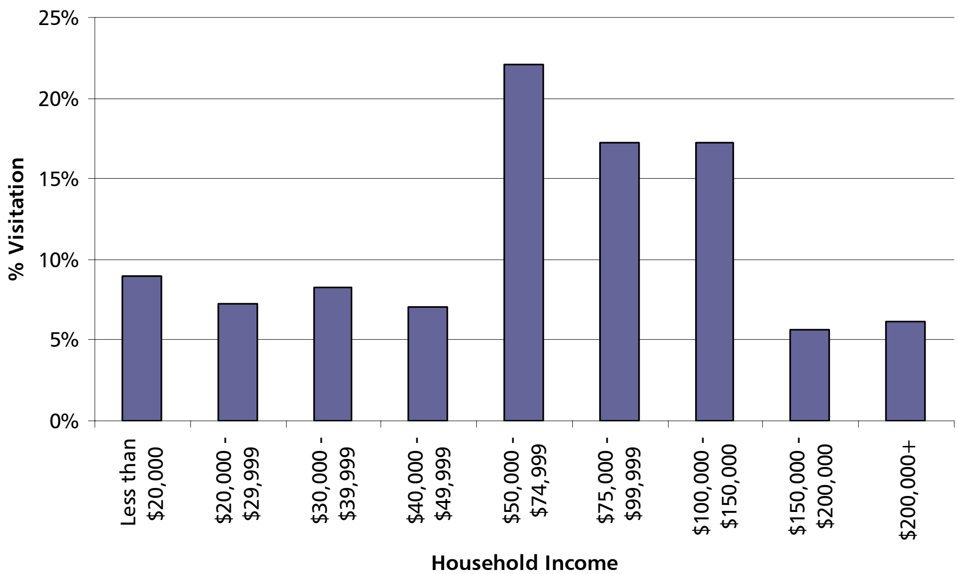
In addition to gleaning overnight visitors from DC visitation, Northern Virginia attracts visitors that may not be counted as Washington tourists. Visitation to the state of Virginia reached 54.8 million in 2005, reflecting a 1.2 percent increase; there were 28.5 million overnight visitors to the state in 2005, representing a 2.1 percent increase from the previous year. Northern Virginia accounts for 16 percent of total visitation to the state, accounting for 8.76 million total visitors and 4.56 million overnight visitors in 2005.

Visitor Characteristics

For the purpose of evaluating visitor characteristics to the Falls Church area, ERA utilized a profile of visitors to the Northern Virginia region completed by the Virginia Tourism Corporation which includes visits to Fairfax, Arlington and Alexandria. Visitors to this area comprise 16 percent of total Virginia visitation. The average party size for area visitors is 2.7 people with an average length of stay of 2.9 days for all visitors and 4.2 days for overnight visitors. Average spending per person trip $205 and average daily spending per person is $54.

Area tourists are primarily middle and upper middle class, highlighted by the prevalence of household incomes between $50,000 and $150,000. Tourists with household incomes in this range account for 57 percent of annual visitation while upper and lower incomes are far less representative. This distribution of household incomes highlights the demand for affordable upscale options that can accommodate travelers seeking comfortable but affordable accommodations. Households with incomes in this range are typically seeking hotel rack rates between $120 and $200 a night.

Figure 6: Northern Virginia Visitor Household Income Distribution



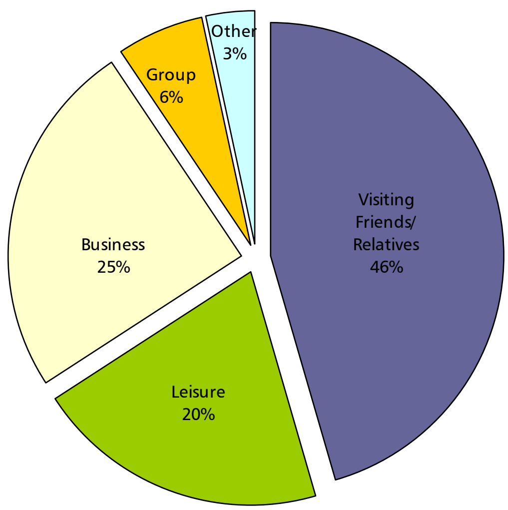
Visitor Origin

Northern Virginia tourists are largely regional visitors, illustrated by the Washington Metro area's prevalence in visitor origin, accounting for 21 percent of visitation. Other top designated metropolitan areas (DMA) include: New York City, Roanoke-Lynchburg, Baltimore, Philadelphia, Raleigh-Durham, Charlotte, Richmond, Los Angeles, and Chicago. Each of these DMA's accounts for between five and eight percent of visitation. Further highlighting the regional nature of visitation to Northern Virginia is the use of driving as the primary mode of transportation, accounting for 68 percent of visitation, while air travel accounted for only 23 percent of visitation.

Purpose of Visit

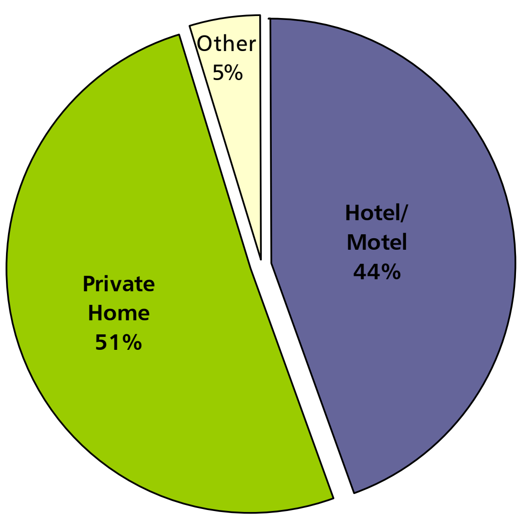
As illustrated in Figure 7, the majority of visitors to Northern Virginia, totaling 46%, are leisure oriented and are primarily visiting friends and relatives. This segment has less affect hotel market performance since most of visitors of this type stay in private homes. Business and leisure travel typically accounts for the majority of hotel night stays and are the primary segments driving hotel demand. In the northern Virginia market, business travel accounts for a significant portion of area tourism, accounting for 31 percent of visits.

Figure 7: Northern Virginia Tourist Purpose of Visit



Because so many Northern Virginia tourists are visiting friends and relatives, the utilization of paid accommodations accounts for slightly less than half of overnight stays. Figure 8 illustrates lodging preferences for Northern Virginia tourists in 2007.

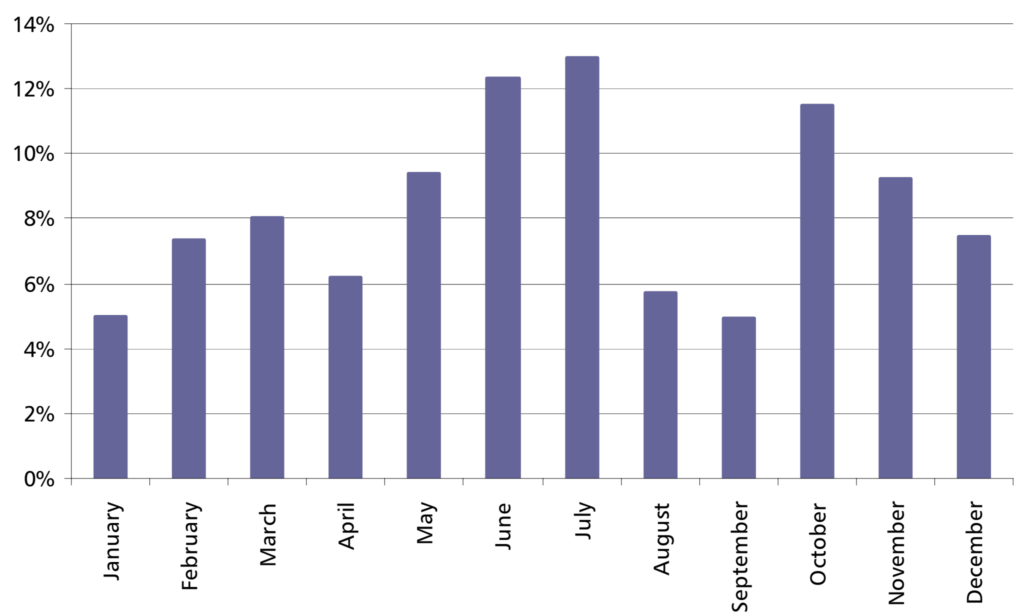
Figure 8: Lodging Preference, Northern Virginia, 2007



Seasonality

Seasonality of visitation in Northern Virginia is heavily dependent on both the government schedule and traditional tourism season. As a result, summer months excluding August comprise the largest portion of visitation. Additionally, October and November are strong months for visitation as group meetings and business travel are traditionally heavy during this time. Winter months drop off significantly as leisure tourism is nearly non-existent. This high degree of seasonality limits maximum achievable average annual occupancy as it is unlikely to achieve a sold out night during off-season months. The likely maximum average occupancy in a market with such varied seasonality patterns is likely 80 percent. As operators and investors are aware of these market dynamics, rate and occupancy expectations may be slightly lower than in areas without strong seasonality patterns.

Figure 9: Seasonality of Visitation, Northern Virginia, 2007



Hotel Market Performance

Hotel performance is strong across the Northern Virginia region with average daily rates increasing between five and ten percent annually and occupancy remaining fairly steady and increasing slightly. The strongest rate and occupancy in the region is in Arlington, which is likely a result of both the concentration of corporate headquarters in the area and the proximity to the metro and tourist attractions in Washington DC.

The Fairfax/Tyson's Corner area experienced the most significant rate increase in the area with an average 10.4 percent annually. Suburban Virginia, of which the City of Falls Church is a part, represents the weakest lodging submarket in the region, exhibiting mediocre performance. However, strong improvement in the submarket is evident as occupancy has experienced the highest average annual increase at 2.6 percent between 2003 and 2006. Additionally, rate has increased an average 6.7 percent annually between 2003 and 2006. This may represent spill-over from other submarkets like Arlington and Fairfax/Tyson's Corner as rates have increased beyond the spending capacity of budget conscious travelers and business travelers seeking affordable accommodations near the City.

Table 2: Regional Hotel Market Performance, 2003-2006

Average Daily Rate	2003	2004	2005	2006	CAGR
Virginia	$80.26	$84.86	$90.00	$95.31	5.9%
Washington DC	$110.85	$118.51	$131.51	$141.01	8.4%
Arlington	$121.52	$127.05	$140.26	$155.18	8.5%
Alexandria	$100.27	$105.36	$113.97	$124.73	7.5%
Fairfax/Tysons Corner	$103.34	$111.60	$127.05	$139.05	10.4%
Suburban VA Area	$78.20	$82.29	$89.31	$94.92	6.7%
I-95 Fredricksburg	$60.83	$63.50	$67.19	$70.80	5.2%
Dulles Airport	$100.35	$109.10	$126.23	$134.29	10.2%
Occupancy	**2003**	**2004**	**2005**	**2006**	**CAGR**
Virginia	61.1%	62.2%	62.7%	62.1%	0.5%
Washington DC	66.4%	70.6%	71.3%	68.4%	1.0%
Arlington	68.0%	73.1%	74.5%	73.1%	2.4%
Alexandria	63.3%	70.0%	72.9%	67.7%	2.3%
Fairfax/Tysons Corner	69.0%	75.4%	75.6%	68.6%	-0.2%
Suburban VA Area	55.7%	60.5%	61.2%	60.1%	2.6%
I-95 Fredricksburg	67.0%	67.4%	67.1%	65.3%	-0.9%
Dulles Airport	71.1%	78.0%	74.3%	73.0%	0.9%

Source: Virginia Tourism Corporation, Economics Research Associates, 2008

Comparable/Competitive Projects

ERA surveyed local area lodging properties to understand demand generators, visitor characteristics, and operating performance in Falls Church. Hotels within a five mile radius of the subject site were considered in the market analysis. This measure is consistent with visitor preferences as it has been noted that within the Northern Virginia metro area, guests prefer to stay within a five-mile range of their primary destination. A selection of extended-stay, limited service, midscale and upscale properties were surveyed to understand the nuances of each segment of the lodging market. The following findings are anecdotal responses from general managers at properties in the surrounding area.

It was noted by all managers that the City of Falls Church draws a regional source market, comprised primarily of business travelers. Leisure travel is prevalent during summer months and on certain weekends when hotels in DC and nearby metro areas are overwhelmed with tourist visitation. Overflow from these areas will spill into Falls Church as tourists seek a more affordable or available option. Demand generators are most notably mid-level business travelers to the Tyson's Corner area and nearby office parks.

At the only full-service upscale property in the market, group business comprises a strong 25 percent of total business with local and social catering contributing significantly to the bottom line. The property offers a 10,000 square foot ballroom and outdoor lake and landscaping to provide an appealing destination for both social and business-oriented gatherings.

Close proximity to office space and the metro were noted as very important to the success of the property as travelers will not travel more than three to five miles to their destination and lodging options are wide in the Northern Virginia market. In addition to metro access and close proximity to a guest's destination, managers noted proximity to the highway, ample parking, and an abundance of restaurants within walking distance as pivotal hotel amenities.

In general, occupancy was noted to be strong, ranging from 68 to 78 percent with a weighted average of 71.5 percent. Average daily rate is healthy as well, ranging from $95 to $170 varying by segment, with a weighted average of $150 across properties. Despite strong performance over the past several years, managers noted a decline in occupancy between 2006 and 2007 and expressed concerns that the projected economic downturn and stagnant visitation to the DC metro area in addition to recent and planned additions to supply would lead to stagnant performance in the near future.

Seasonality is a major factor in hotel performance across segments. Winter months are significantly slower as leisure travel drops off nearly completely leaving properties to rely on business travel. During summer months, occupancy is near 95 percent with rates increasing 20 to 30 percent during high season as leisure travelers are pushed out of DC toward the outskirts of the metro area.

The most successful lodging segment in the City of Falls Church is the extended stay market. Extended stay properties including Homewood Suites and TownePlace Suites reported the highest average annual occupancy and rate performances in the market, reaching average annual occupancy between 75 and 78 percent and ADR between $160 and $180. Even the upscale Marriott located in Fairview office park does not outperform extended stay properties as its average annual occupancy is well below this segment and ADR is on par, comprising a lower revenue per available room (RevPAR) measure. Table 3 demonstrates the operating performance of a sampling of surveyed properties in the Falls Church Area.

Table 3: Comparable and Competitive Properties Performance

Lodging Name	Rooms	Meeting Space	Quality	Occupancy	Rate	Segmentation
Best Western	105	yes	midscale	78.0%	$110-$125	10% leisure, 60% group, 30% business
Quality Inn Governor	121	950-1,000 SF (holds 80)	midscale	73.0%	$95-$120	60% business, 30% group, 10% leisure
Marriott Fairview Park	388	15,000 SF	upper upscale	68.0%	$170	65% business, 25% group, 10% leisure
Homewood Suites Falls Church	107	620 SF	upscale extended stay	76.0%	$160-$180	56% extended stay, 80% business, 20% group/leisure

Source: Individual Properties, Economics Research Associates, 2008

Planned/Future Supply

A 110-room Hilton Garden Inn has been proposed six blocks from the subject site. The facility will be an upscale limited service property without food and beverage service or conference space. The property will serve budget-conscious tourists and mid-level business travelers.

Implications

Both existing demand and market performance indicate the strength of affordable properties geared toward mid-level business travelers. Given that most tourists to the area are middle to upper middle class and upscale hotels are unable to achieve rates above their extended stay and more affordable counterparts, it is clear that the most desirable product type in the Falls Church area is an affordable upscale property that caters to mid-level business travelers willing to stay a bit further from the Tyson's Corner area in order to obtain more affordable rates.

It should be noted the prevalence of government contracting in the area increases the importance of government per-diem rates in setting ADR targets for properties. The current per-diem allowance for the DC metro area is $160-$180 per night, unsurprisingly similar to annual ADR at many upscale properties in the area.

Because of these market indicators, it is likely that an extended-stay property would be the best fit for the Falls Church City Center project.

V. Falls Church Market Demand Analysis

ERA evaluated supportable room inventory to test whether the current and near term underlying demand would support continuation of a healthy hotel economy in Falls Church. In this evaluation of demand, existing supply, current market performance, projected performance, and customer preferences are taken into account in determining both demand on a broad market basis and specific quality-oriented demand.

ERA's demand estimates are based on recent and anticipated future growth trends in visitation to Northern Virginia and continuation of the Falls Church market's multiple occupancy, average lengths-of-stay, and market share characteristics. More specifically, these factors are:

- Overnight tourism will increase at a rate of 2.1 percent annually over the next several years
- 44 percent of visitors stay in a commercial lodging facility
- 5.4 percent of Northern Virginia visitors stay in Falls Church, consistent with its current market share
- Average party size is 2.7 persons
- Average overnight visitor length of stay is 4.2 nights
- Market supply will increase by 110 rooms in 2009 with the addition of the Hilton Garden Inn
- Supply will increase at a rate of 0.5 percent annually after 2009
- The market is sustained at an average annual occupancy of 72 percent

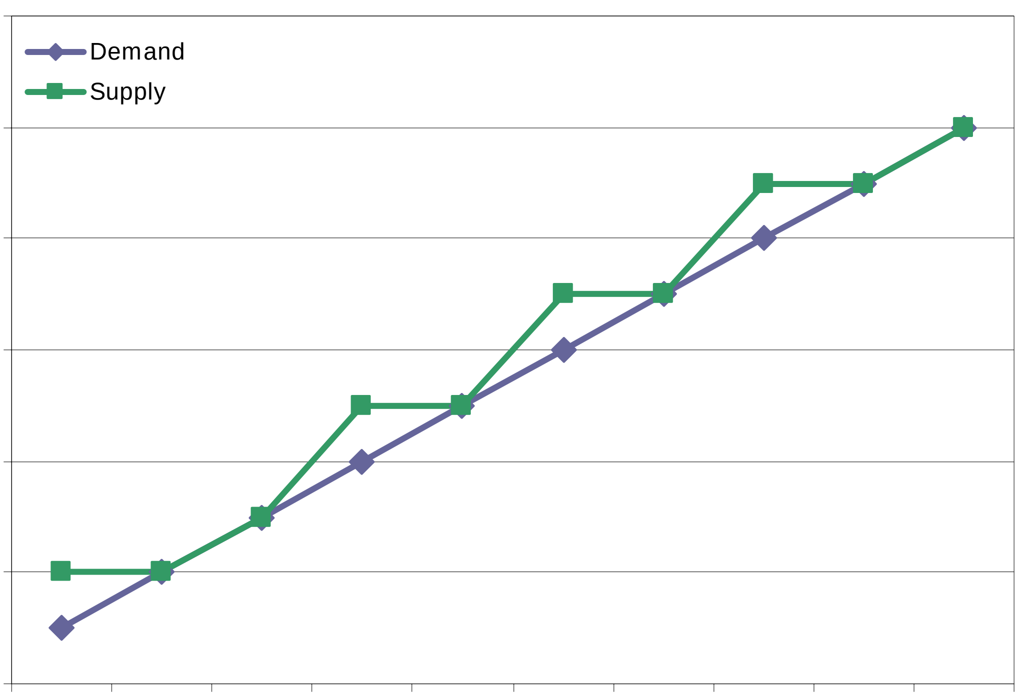
Detailed in Table 4, room night demand in Falls Church is calculated as a function of visitation, which has increased at an annual average rate of just over two percent over the past several years. Extrapolating that data, ERA estimates the Northern Virginia visitor market will increase from 8.76 million annual visitors in 2008 to 10.56 million visitors by 2016. Utilizing lodging type preferences, current average party size and average lengths of stay, the market's room night total is anticipated to increase from 5.99 million to 7.22 million during this same time frame.

Assuming that Falls Church's maintains a market share of 5.4 percent, hotel demand will increase from 326,000 annual room nights to nearly 450,000 room nights.

At a sustainable market occupancy level of 72 percent, this quantity of demand suggests that the market as a whole is well supplied to accommodate demand growth over the next several years. However, in addition to evaluating room night demand on a market-wide basis, ERA evaluated room night demand as relates to market preferences based on average household incomes of visitors to Northern Virginia. Household income is a strong measure in estimating both leisure and business travel preferences as the household income of those traveling for business often reflects the size and flexibility of expense accounts in addition to the quality preference of the traveler. An additional issue at play in Northern Virginia is government per-diem rates. However, this rate is quite generous in the DC metro area, allowing $200/night for lodging accommodations.

In the Falls Church area, it is clear that supply quality is mismatched with demand quality preferences thus creating demand for upscale hotel rooms in the near term and over the next several years. It is likely that a new upscale product will be successful in the area, even potentially increasing Falls Church's market share of Northern Virginia overnight visitors. Additionally, it is likely that outdated economy properties will struggle to compete with new supply better matched to customer preferences. Although demand does not indicate the necessity for a full hotel property until approximately 2014, new hotel properties are known to cannibalize demand from the existing local market, especially when existing properties are outdated and mismatched as is the case in the City of Falls Church.

Figure 10: Future Hotel Supply and Demand, City of Falls Church



ERA

Table 4: Projected Future Hotel Demand, City of Falls Church, 2008-2017

Local Unaccommodated Demand	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Northern Virginia annual visitation	8,761,000	8,944,981	9,132,826	9,324,615	9,520,432	9,720,361	9,924,489	10,132,903	10,345,694	10,562,953
Northern Virginia overnight visitation	3,854,840	3,935,792	4,018,443	4,102,831	4,188,990	4,276,959	4,366,775	4,458,477	4,552,105	4,647,699
Average Party Size	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Average Length of Stay	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Northern Virginia hotel stays	5,996,418	6,122,343	6,250,912	6,382,181	6,516,207	6,653,047	6,792,761	6,935,409	7,081,053	7,229,755
Falls Church market share	5.4%	5.5%	5.6%	5.7%	5.8%	5.9%	6.0%	6.0%	6.1%	6.2%
Falls Church hotel stays	326,310	338,160	350,440	363,166	376,355	390,022	404,186	418,864	434,075	449,838
Days in a year	365	365	365	365	365	365	365	365	365	365
Total Roomnight demand	**894**	**926**	**960**	**995**	**1,031**	**1,069**	**1,107**	**1,148**	**1,189**	**1,232**
Existing Supply	1,192	1,192	1,192	1,192	1,192	1,192	1,192	1,192	1,192	1,192
Hilton Garden Inn		110								
Total Existing and planned room supply	1,192	1,302	1,302	1,302	1,302	1,302	1,309	1,315	1,322	1,328
Total unaccommodated demand	**-298**	**-376**	**-342**	**-307**	**-271**	**-233**	**-201**	**-167**	**-132**	**-96**
Total Demand Potential										
Projected occupancy	71.5%	71.8%	72.1%	72.4%	72.7%	72.9%	73.2%	73.5%	73.8%	74.1%
Total Room Demand	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Quality-Specific Demand Potential										
Quality Preference										
Limited service	145	150	156	161	167	173	180	186	193	200
Midscale	236	245	254	263	273	283	293	304	315	326
Upscale	513	531	551	570	591	613	635	658	682	707
Existing and planned room supply										
Limited service	413	415	417	419	421	423	426	428	430	432
Midscale	232	521	524	526	529	532	534	537	540	542
Upscale	547	550	552	555	558	561	564	566	569	572
100% Occupancy Room Demand										
Limited service	-268	-265	-261	-258	-254	-250	-246	-242	-237	-232
Midscale	4	-276	-270	-263	-256	-249	-241	-233	-225	-216
Upscale	-34	-19	-2	15	33	52	71	92	113	135
Total Demand Potential										
Limited service										
Projected Occupancy	73.0%	73.3%	73.6%	73.9%	74.2%	74.5%	74.8%	75.1%	75.4%	75.7%
Limited service demand	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Midscale										
Projected Occupancy	76.0%	76.3%	76.6%	76.9%	77.2%	77.5%	77.8%	78.2%	78.5%	78.8%
Midscale demand	**6**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Upscale										
Projected Occupancy	68.0%	68.3%	68.5%	68.8%	69.1%	69.4%	69.6%	69.9%	70.2%	70.5%
Upscale demand	**0**	**0**	**0**	**20**	**43**	**68**	**93**	**119**	**146**	**174**
Total Demand	**6**	**0**	**0**	**20**	**43**	**68**	**93**	**119**	**146**	**174**

Source: Smith Travel Research, Virginia Tourism Corporation, Economics Research Associates, 2008

VI.Positioning Recommendations

As a result of both market analysis and demand estimates, ERA believes an upscale extended stay product to be the best option for a hotel property for inclusion in the Falls Church City Center development. Not only will this property type capitalize on the most successful lodging sub-market in the surrounding area, it will meet the desires of potential overnight guests, and the quality needs and product desires of the City of Falls Church.

While desires for an upscale boutique property to add a sense of urban chic have been noted for the City Center project, it is ERA's belief that the prominent customer base for a hotel development at City Center is the conservative business traveler. These customers seek a recognized brand with a strong loyalty program, amenities geared toward business travel (i.e. in-room workspace, wi-fi access, business center) and are willing to sacrifice innovative and cutting edge design for comfort and practicality.

Given the success of group bookings involving both local and overnight participation at properties in the area with substantial meeting space, ERA believes the inclusion of meeting space to accommodate groups of 300 or more to be an appropriate amenity within the proposed hotel. Additional amenities should include: a full service restaurant, business center, fitness center, lobby space with gathering areas, free metro shuttle, and ample parking.

City Center Hotel Market Analysis

ERA

Hotel market and demand analysis for the Falls Church City Center development

5 February 2008

Tonight's Agenda

- ERA Introduction
- Understanding Hotel Markets
  - Key Terminology
  - Quality Preference
  - Hotel Demand Drivers
- The Regional Hotel Market
  - National and Regional Trends
  - Local Demographics
  - City of Falls Church Existing Market Supply and Conditions
- Hotel Demand at City Center
- Q & A

A Few Terms for Our Discussion

Terminology	Definition
Occupancy	The percentage of available rooms occupied by guests. This may be measured daily, weekly, monthly, or annually
Rack Rate	Advertised undiscounted room rates
Average Daily Rate ***(ADR)***	The average achieved rate across occupied rooms. This is measured daily but is often aggregated monthly or annually
Revenue Per Available Room ***(RevPar)***	Rooms revenue achieved across available rooms. This is calculated by multiplying Occupancy by ADR. This is the most utilized measure of economic success

Hotel Industry "Product" Types

Quality Level	ADR Range	Amenities	Brand Examples
Economy	\$50-\$90	n/a	➢Super 8, ➢Quality Inn, Comfort Inn ➢Budget Inn
Midscale	\$75-\$125	Limited food & beverage, fitness center	➢Hampton Inn ➢Best Western
Upscale	\$100-\$175	Restaurant, fitness center, business center, pool, room service	➢Courtyard Marriott ➢Hilton Garden Inn ➢Four Points ➢Hyatt Place
Upper Upscale	\$150-\$250	Multiple Restaurants, fitness center, business center, pool, spa, meeting space, room service	➢The Westin ➢Hyatt Regency ➢Hilton ➢Marriott
Luxury	\$250+	Multiple Restaurants, fitness center, business center, pool, spa, meeting space, room service	➢The Ritz Carlton ➢The Four Seasons ➢Fairmont
Extended Stay	varies	Kitchenette, breakfast bar, bar/lounge area, restaurant, business center, fitness center	➢Residence Inn ➢Homewood Suites ➢Element ➢Fairfield Suites

How Do Hotel Rooms Get Built …and Filled?

How Are Hotel Sites Selected?

- Strong economic and demographic indicators
  - Increasing population
  - Strong employment characteristics
    - Large nearby employers
    - Varied employment by industry
    - Growth in overall area employment
- Strong existing market conditions (positive ADR, Occupancy)
- Highway access/visibility
- Proximity to local demand drivers
- Proximity to outside amenities (restaurants, entertainment)

Tonight's Agenda

- ERA Introduction
- Understanding Hotel Markets
  - Key Terminology
  - Quality Preference
  - Hotel Demand Drivers
- The Regional Hotel Market
  - National and Regional Trends
  - Local Demographics
  - City of Falls Church Existing Market Supply and Conditions
- Hotel Demand at City Center
- Q & A

Strong National Hotel Growth

➢ 5-years of Rapid Growth Is Now Slowing

- Supply is finally catching up with Demand
- Strong increases caught up to flatten growth in 2007
- Business travel, a pillar of demand, may slacken in a recession
- RevPAR growth is still expected to increase 5% in 2008
- Long-term Outlook remains positive

➢ Extended-Stay properties are vastly *undersupplied*

- 40% of lodging industry demand is extended-stay
- Only 5.2% of industry supply is extended-stay hotel product

A Steady and Strong Regional Market

- 8.76 million total visitors to Northern Virginia in 2005
- 4.56 million overnight visitors
  - 25% for business
  - 44% stay in paid accommodations
- Strong occupancy levels – 2.6% annual increases
  - Tyson’s Corner: 68.6%
  - Arlington: 73.1%
  - Alexandria: 67.7%
- Strong ADR – 6.7% annual growth
  - Tyson’s Corner: $140
  - Arlington: $155
  - Alexandria: $125

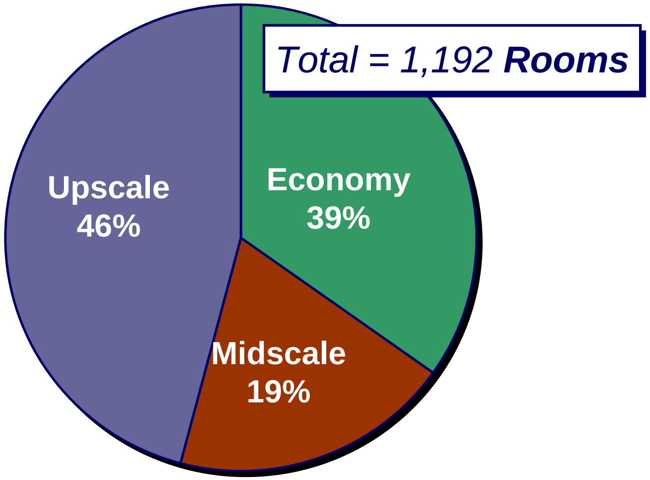
Regional Demographics & Market Assets

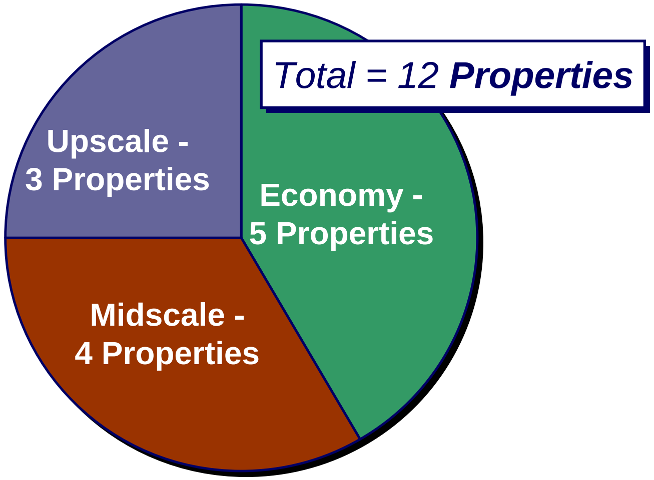
- The Northern Virginia area is one of the fastest growing areas in the country
- I-66 & Tyson's Corner – a significant economic engine
  - Many Corporate headquarters exist along the I-66 corridor and in Tyson's Corner
- Falls Church sits in the middle of a large market
  - There are two companies with more than 200 employees in the City of Falls Church
  - The Falls Church labor market is 6,600 persons
  - The larger area around Falls Church reaches into Arlington and out to Tyson's – major hubs of employment

Falls Church is Secondary Hotel Market

- Falls Church is currently a budget and extended stay market
  - Serving construction workers
  - Budget conscious business & group travelers
  - Limited leisure travelers
- Average daily rate: $150
- Occupancy: 72%
- Existing properties – primarily economy and midscale
- Business travelers drive demand
  - Travelers are often government-associated
  - Tourists are a secondary market that boosts rate and occupancy during summer months

Falls Church Existing Lodging Supply, 2007





Tonight's Agenda

- ERA Introduction
- Understanding Hotel Markets
  - Key Terminology
  - Quality Preference
  - Hotel Demand Drivers
- The Regional Hotel Market
  - National and Regional Trends
  - Local Demographics
  - City of Falls Church Existing Market Supply and Conditions
- Hotel Demand at City Center
- Q & A

Market Potential at City Center

- Existing supply is mismatched with market demand
  - Supply = economy and midscale
  - Demand = business-oriented upscale
- 3-miles from Tyson's Corner – well situated as an affordable secondary business market
  - Government per-diem restrictions ($200/night) drive rate limits
- The primary business market segment desires a conservative lodging option
  - Seeking a recognizable major brand with a strong loyalty program
  - Must provide basic amenities geared toward business travel
    - Wi-Fi access, In-room work station, Cable LCD TV, Full-Service Restaurant, Fitness Center, Comfortable bed, Affordable rate, Metro accessible, Ample Parking
  - Design should be sophisticated but practical and comfortable

Estimating Hotel Demand Opportunity

1 **Primary Market Visitation**

2 **Primary Market Hotel Stays**

3 **Secondary Market Capture & Market Share**

Estimated Demand

4 **Hotel Quality Preference**

Hotel Preference

Tourism is projected based on past and estimated future trends in primary market area

Tourists are segmented into hotel stays according to visitor characteristics.

Secondary market share accounts for the proportion of primary market visitors that stay in the area.

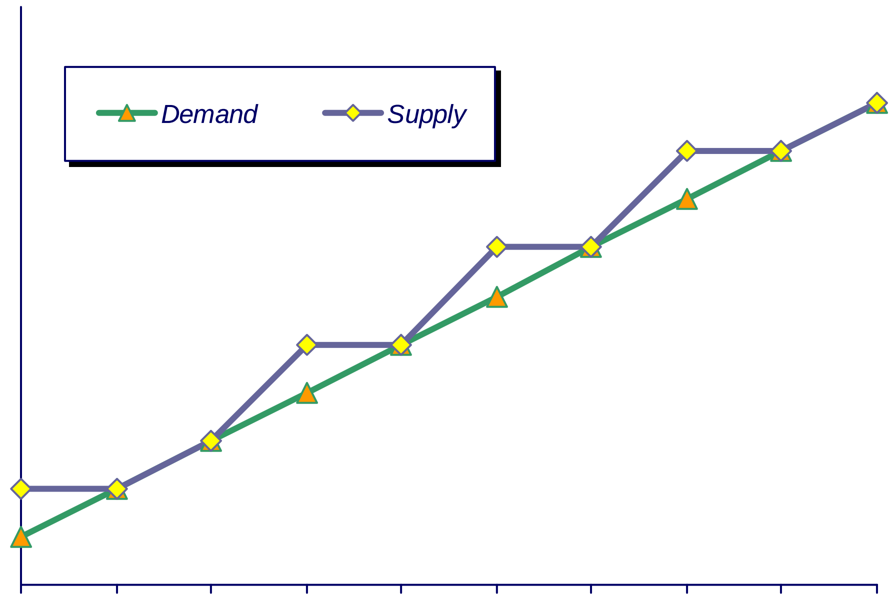
If unavailable, number of hotel rooms located in the secondary area serves as a proxy.

Hotel quality preference is segmented into three levels: limited service, upscale and luxury. Quality preference is estimated utilizing household income characteristics of area tourists. A higher household income yields a higher quality preference.

Falls Church Hotel Demand

- Demand – ***175 hotel rooms*** in an upscale property
- Near-term demand is mismatched with supply
  - Market Supply - Economy
  - Market Demand – Upscale
- A new upscale property will also draw demand from some existing economy properties
  - High current occupancy can support an increase in supply

The Hotel Supply/Demand Equation



ERA

An Upscale Extended Stay Product

- Upscale extended-stay property
- 150-180 rooms
- Amenities to include:
  - 4,000 SF meeting space
  - Full-service restaurant
  - Lobby with gathering spaces
  - Fitness Center
  - Business center

Extended Stay Exterior

Extended-Stay Interiors

Extended-Stay Public Spaces

Key Considerations for the City

- A strong precedent exists for public subsidies of town center hotel development
  - **Example:** The Embassy Suites Hotel at 1000 K St NW in Washington DC –
    - $10.0 MM TIF subsidy
  - **Example:** Sheraton Hotel Cuyahoga Falls, Ohio
    - City bonds for development
    - Contributed the underlying real estate
- Town Center densities necessitate stacked parking
  - Stacked parking not typically included in the hotel investment equation
  - Public subsidy supports hotel & surrounding development with sufficient parking
- Hotel break-even horizon is typically 3-yrs
- The influx of visitors can increase activity in support of the surrounding businesses

Questions & Answers

ERA

Aaron Smith

1101 Connecticut Ave, NW Suite 750
Washington, DC 20036

202.496.9870 FAX: 202.496.9877
E-mail: Aaron.Smith@econres.com

www.econres.com

Economics Research Associates

ERA

Rachel Lubin

1101 Connecticut Ave, NW Suite 750
Washington, DC 20036

202.496.9870 FAX: 202.496.9877
E-mail: Rachel.Lubin@econres.com

www.econres.com

Economics Research Associates

Hotel Development:

How are Lodging Industry Decisions Made and What are the Prospects for Falls Church City in the Marketplace?

The City of Falls Church Economic Development Authority Presents:

Developers Forum
Tuesday, February 5, 2008
6:30 p.m.

WHO: Economics Research Associates (ERA), established in 1958, is a national consulting firm with offices in Washington, DC. ERA conducts research and analysis for real estate development and specializes in the lodging industry.

WHAT: The City of Falls Church is the potential location of two new hotels. Both City Center and the 800 block of West Broad Street are proposed sites for popular hotel brands.

The City has engaged ERA to provide a detailed examination of the local hotel market with a focus on the feasibility of a full-service hotel product. The consultants have examined the competitive hotel market for the area surrounding Falls Church to best inform their recommendations for hotel product positioning, size, amenities, event space and other opportunities.

This will be an educational presentation by ERA that will include an overview of lodging industry practices and guidelines for site selection, market demand findings for Falls Church, and recommended market niches for the City. There will be an opportunity for questions and answers.

WHEN: Tuesday, February 5, 2008, 6:30 – 8 p.m.

WHERE: Falls Church Community Center (Teen Center Room on the upper level).

PLEASE DO NOT REMOVE THIS NOTICE
POSTED: 01/25/2008

The City of Falls Church is committed to the letter and spirit of the Americans with Disabilities Act. To request a reasonable accommodation for any type of disability call (703) 248-5491, (TTY 711).