Final Agenda
Public Hearing
Special City Council Meeting
December 28, 2004

A Special meeting of the Fayetteville City Council will be held on December 28, 2004 at 5:30 p.m. in Room 219 of the City Administration Building located at 113 West Mountain Street, Fayetteville, Arkansas.

Call to Order
Roll Call
Pledge of Allegiance

A. <u>Public Hearing:</u>

1. **Highway 71 East Square Redevelopment District #1 Creation:** A Public Hearing to allow all members of the public and representatives of taxing entities to present their views on forming the Highway 71 East Square Redevelopment District Number One.

B. <u>New Business:</u>

1. **Highway 71 East Square Redevelopment District #1 Adoption:** An ordinance forming the Highway 71 East Square Redevelopment District Number One pursuant to Amendment 78 of the Arkansas Constitution, authorizing the preparation of a Project Plan, repealing Ordinance No. 4608 and declaring an emergency.

   PASSED AND SHALL BE RECORDED AS ORDINANCE NO. 4662.

C. <u>Public Hearing:</u>

1. **Highway 71 East Square Redevelopment District Proposed Project Plan:** A Public Hearing to allow all members of the public and representatives of taxing entities to present their views on the Proposed Project Plan for the Highway 71 East Square Redevelopment District Number One.

D. <u>New Business:</u>

1. **Highway 71 East Square Redevelopment District Project Plan Adoption:** An ordinance adopting the Project Plan for the Highway 71 East Square Redevelopment District, finding the Plan is economically feasible, repealing Ordinance 4646 and declaring an emergency.

   PASSED AND SHALL BE RECORDED AS ORDINANCE NO. 4663.

City Council Meeting December 28, 2004

Adjourn 7:15 PM.

Subject:	Roll				
Motion To:					
Motion By:					
Seconded:					
Cook	✓				
Marr	✓				
Rhoads	✓				
Odom	✓				
Lucas	✓				
Jordan	✓				
Reynolds	✓				
Thiel	✓				
Mayor Coody	✓				

Subject:	A - Public Hearing			Highway 71 East Square Redevelopment District #1 Creation
Motion To:				
Motion By:				
Seconded:				
Cook				
Marr				
Rhoads				
Odom				
Lucas				
Jordan				
Reynolds				
Thiel				
Mayor Coody				

A.1.

City Council Meeting December 28, 2004

Subject:		Highway 71 East Square			Adoption
Motion To:		2nd read	3rd read	Pass	of Creation.
Motion By:		Rhoads	Rhoads		
Seconded:		Reynolds	Marr		
	Cook	✓	✓	✓	
	Marr	✓	✓	✓	
	Rhoads	✓	✓	✓	
	Odom	✓	✓	✓	
	Lucas	✓	✓	✓	
	Jordan	✓	✓	✓	
	Reynolds	✓	✓	✓	
	Thiel	✓	✓	✓	
	Mayor Coody				

A. 2. (B. 1)

Passed

4667

Subject:		Highway 71 East Square			
Motion To:		Marr		Emergency Clause	
Motion By:		Reynolds			
Seconded:					
	Cook	✓			
	Marr	✓			
	Rhoads	✓			
	Odom	✓			
	Lucas	✓			
	Jordan	✓			
	Reynolds	✓			
	Thiel	✓			
	Mayor Coody				

A. 2. Emergency Clause Passed

City Council Meeting December 28, 2004

Public Hearing.

Subject:	Highway 71 East Square Project			
Motion To:				Plan.
Motion By:				
Seconded:				
Cook				
Marr				
Rhoads				
Odom				
Lucas				
Jordan				
Reynolds				
Thiel				
Mayor Coody				

A.3.

Subject:	Highway 71 East Square Project			
Motion To:	2nd read	3rd read		Plan
Motion By:	Rhoads	Rhoads		Adoption
Seconded:		Marr		
Cook	✓	✓	✓	
Marr	✓	✓	✓	
Rhoads	✓	✓	✓	
Odom	✓	✓	✓	
Lucas	✓	✓	✓	
Jordan	✓	✓	✓	
Reynolds	✓	✓	✓	
Thiel	✓	✓	✓	
Mayor Coody				

A.4. (P.1)

4663

City Council Meeting December 28, 2004

Subject:	Highway East Square Plan				
Motion To:					adopt as
Motion By:		Jordan			
Seconded:		Reynolds			
	Cook	✓			
Emergency Clause	**Marr**	✓			
	Rhoads	✓			
	Odom	✓			
	Lucas	✓			
	Jordan	✓			
	Reynolds	✓			
	Thiel	✓			
	Mayor Coody				

Subject:					
Motion To:					
Motion By:					
Seconded:					
	Cook				
	Marr				
	Rhoads				
	Odom				
	Lucas				
	Jordan				
	Reynolds				
	Thiel				
	Mayor Coody				

Final Agenda
Public Hearing
Special City Council Meeting
December 28, 2004

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Call to Order
Roll Call
Pledge of Allegiance

A. Public Hearing:

1. **Highway 71 East Square Redevelopment District #1 Creation:** A Public Hearing to allow all members of the public and representatives of taxing entities to present their views on forming the Highway 71 East Square Redevelopment District Number One.

B. New Business:

1. **Highway 71 East Square Redevelopment District #1 Adoption:** An ordinance forming the Highway 71 East Square Redevelopment District Number One pursuant to Amendment 78 of the Arkansas Constitution, authorizing the preparation of a Project Plan, repealing Ordinance No. 4608 and declaring an emergency.

C. Public Hearing:

1. **Highway 71 East Square Redevelopment District Proposed Project Plan:** A Public Hearing to allow all members of the public and representatives of taxing entities to present their views on the Proposed Project Plan for the Highway 71 East Square Redevelopment District Number One.

D. New Business:

1. **Highway 71 East Square Redevelopment District Project Plan Adoption:** An ordinance adopting the Project Plan for the Highway 71 East Square Redevelopment District, finding the Plan is economically feasible, repealing Ordinance 4646 and declaring an emergency.

Final Agenda
Public Hearing
Special City Council Meeting
December 28, 2004

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Call to Order

Roll Call

Pledge of Allegiance

A. **Public Hearing:**

1. **Highway 71 East Square Redevelopment District Project Plan:** A Public Hearing to allow all members of the public and representatives of taxing entities to present their views on forming the Highway 71 East Square Redevelopment District Number One and the Proposed Project Plan for same.

B. **New Business:**

1. **Highway 71 East Square Redevelopment District #1 Creation:** An ordinance forming the Highway 71 East Square Redevelopment District Number One pursuant to Amendment 78 of the Arkansas Constitution, authorizing the preparation of a Project Plan, repealing Ordinance No. 4608 and declaring an emergency.

2. **Highway 71 East Square Redevelopment District Project Plan Adoption:** An ordinance adopting the Project Plan for the Highway 71 East Square Redevelopment District, finding the Plan is economically feasible, repealing Ordinance 4646 and declaring an emergency.

Arkansas Times

12/9/04

p18

MIKE GAULDIN

More TIF madness

■ Fayetteville is on the verge of approving another tax increment finance district. It is the best of the TIF projects I've heard about and it's still a loser for the state.

Fayetteville will likely put a one-mile strip of land from Maple Street across the UA campus to Highway 62 in a TIF district. It will be six to nine blocks wide.

The first goal is to float a $3.5 million bond issue so the city can buy and raze the derelict Mountain Inn and adjacent property for a new hotel and parking deck. The city would resell the land to private developers for $219,000. The deal is, in other words, a $3.3 million loser for the city from the get-go. But that's not all.

It will take millions in interest to pay off a $3.5 million 25-year bond issue. Where would the money come from? It would come from the difference in the property tax on the property before the construction and after the construction of a new building. The city will capture the difference to pay off the bonds, instead of the Fayetteville School District, the normal recipient.

Why don't the schools care? Kit Williams, Fayetteville city attorney, explains. "The schools say it's great. Their bond millage is protected. The state treasury is going to make up the loss." That is the awful truth about TIFs. Under the new school finance law, school districts are guaranteed certain levels of per pupil support. They can reduce their local tax effort by allowing city government to plunder their millage, approved by voters specifically for schools and only for schools, for other projects. They know the state will subsidize them. TIFs are possible only in the most prosperous areas, making the subsidy doubly cruel for the people in the Delta and elsewhere paying the cost of a better Fayetteville.

Williams says the Mountain Inn project comes closer than any he's seen to meeting the TIF ideal of revitalizing blighted areas. He says he's less certain about projects in the works to create such districts on I-540 in Fayetteville (to match a giant TIF corridor Rogers has created) and a couple of other TIFs under discussion near the university.

The theory is that TIF districts increase sales tax revenue and produce jobs, but it would take eons for local sales taxes to offset the millions necessary to subsidize the Mountain Inn alone. Little sales tax revenue reaches local schools.

If Williams were a lawyer in private practice, he said he'd be inclined to look at the legality of some of the TIFs being completed in a rush because of an expectation that the legislature might tighten up the law. Rogers, for example, might have a hard time proving that some parts of its TIF subsidy is creating jobs, as the statute requires. It plans to capture increased tax revenue on property where construction was underway before a TIF district was formed.

Williams wonder if any state legislator realized "how much money this was going to cost the state treasury." In the beginning years, the amount will be relatively small. But as new projects come on line in the big TIF districts in booming Northwest Arkansas, the local property tax lost to the schools will increase dramatically, all to be made up by the state in future years. "It's going to be phenomenal," Williams said.

Fax Sheet

City of Fayetteville
City Clerk's Office
113 West Mountain
Fayetteville, AR 72703
(479)575-8323
cclerk@ci.fayetteville.ar.us

Date: 12/30/2004

# of Pages 6

To: Charles Howard

521-5453 FAX

443-0919

From: Sondra E. Smith

City Clerk

City of Fayetteville

Reference:

Highway 71 East Square Redevelopment

Ordinance

Phone: (479) 575-8323

Fax: (479) 718-7695

Message: Attached is a copy of the unsigned ordinances that you requested. Per our telephone conversation Mayor Coody will not be available to sign the ordinances until Monday. If you need a signed copy please let me know.

Have a Great Day!

Sondra Smith

City Clerk

FAYETTEVILLE

THE CITY OF FAYETTEVILLE, ARKANSAS

KIT WILLIAMS, CITY ATTORNEY
DAVID WHITAKER, ASST. CITY ATTORNEY

LEGAL DEPARTMENT

DEPARTMENTAL CORRESPONDENCE

TO: **Dan Coody**, Mayor
City Council

FROM: **Kit Williams**, City Attorney

DATE: **December 16, 2004**

RE: **Ordinance Creating and Naming the East Square Highway 71 Redevelopment District**

The borders and name for the East Square Highway 71 Redevelopment District has not changed since you passed Ordinance No. 4608 on August 17, 2004. Because of a minor technical notification problem, I recommend you readopt the ordinance creating the Redevelopment District and naming it the East Square Highway 71 Redevelopment District.

Because the unanticipated notification problem has delayed the final adoption of the ordinance for at least three months, the City Council can rely upon the Arkansas Attorney General's Opinion No. 2000-250 when he stated:

> "It is my opinion that in order to justify the inclusion of an emergency clause in a municipal ordinance, the city council must rely on facts that show 'some sudden or unexpected happening that creates a need for action.'" (citing Burroughs v. Ingram, 319 Ark. 530, 535, 893 S.W. 2d 319, 321 (1995).

Since time-sensitive funding could be jeopardized unless the ordinance is immediately effective, the entire Project Plan could be jeopardized without the emergency clause. Because the existing, blighted Mountain Inn constitutes a danger to public safety, peace and health, and the establishment of the Redevelopment District and adoption of the Project Plan are necessary to remove this peril and replace it with a beneficial development, the City Council has sufficient facts to rely upon to pass an Emergency Clause.

ORDINANCE NO. _____

AN ORDINANCE FORMING THE HIGHWAY 71 EAST SQUARE REDEVELOPMENT DISTRICT NUMBER ONE PURSUANT TO AMENDMENT 78 OF THE ARKANSAS CONSTITUTION, AUTHORIZING THE PREPARATION OF A PROJECT PLAN, REPEALING ORDINANCE NO. 4608 AND DECLARING AN EMERGENCY

WHEREAS, the City Council after 15 day published notice has held a public hearing at which all interested parties were given the opportunity to express their views on the proposed creation of the Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas and its proposed boundaries; and

WHEREAS, prior to publication, a copy of said notice was sent by first-class mail to the chief executive officer of all local governmental and taxing entities having the power to levy taxes on property located within the proposed Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas, and to the school board of any school district which includes property located within the proposed Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas; and

WHEREAS, the City Council has designated the boundaries of the proposed Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF FAYETTEVILLE, ARKANSAS:

Section 1: That the City Council of the City of Fayetteville, Arkansas hereby establishes the boundaries of the Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas as set forth on the map attached hereto as Exhibit "A" and incorporated herein.

Section 2: That the City Council of the City of Fayetteville, Arkansas hereby names the District the following name for identification purposes: Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas.

Section 3: That the City Council of the City of Fayetteville, Arkansas hereby creates the Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas as of December 28, 2004.

Section 4: That the City Council hereby finds that the real property within the Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas, will be benefited by the redevelopment project by eliminating or preventing the

development or spread of blighted, deteriorated, or deteriorating areas, or discouraging the loss of commerce, or employment, or increasing employment, or any combination thereof.

Section 5: That the City Council of the City of Fayetteville, Arkansas hereby creates a separate and special fund into which shall be deposited all tax increment revenues, and all other revenues designated by the City for the benefit of the Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas. All project costs shall be paid from this fund. This fund shall be known as the Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas.

Section 6: That the City Council of the City of Fayetteville, Arkansas hereby authorizes the preparation of a Redevelopment Project.

Section 7: That upon the effective date of this ordinance, Ordinance No. 4608 originally creating this Redevelopment District is hereby repealed.

Section 8: Emergency Clause. If this ordinance is not immediately effective, the goal of the Redevelopment District and its Project Plan to remove a dangerous, dilapidated firetrap could fail due to lack of time-sensitive funding. The City Council, therefore, determines and declares an emergency exists which would imperil the public peace, health or safety, and consequently this ordinance shall be in full force and effect from the date of its passage and approval.

PASSED and **APPROVED** this 28th day of December, 2004.

APPROVED:

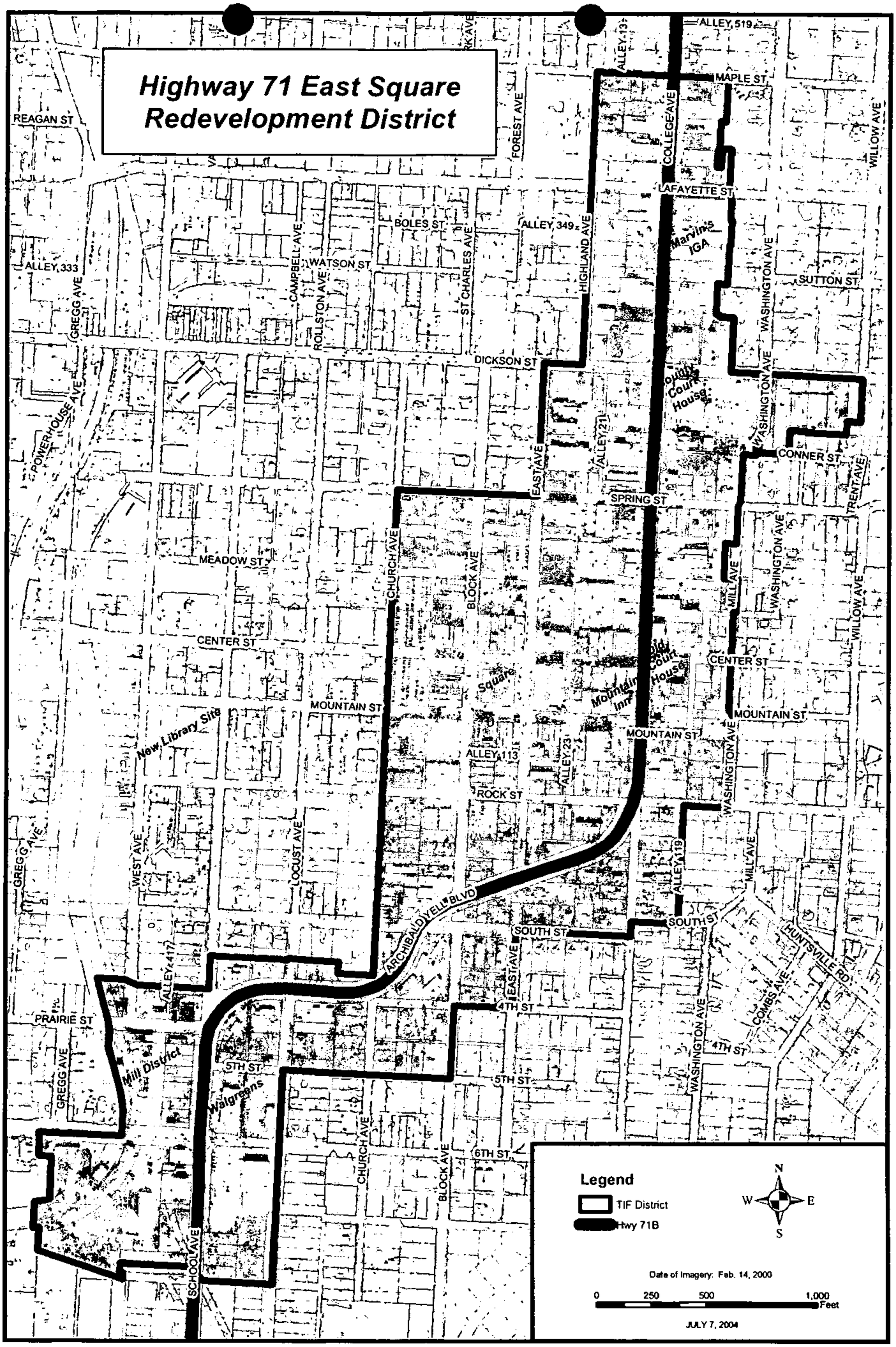
DRAFT

By: _____
DAN COODY, Mayor

ATTEST:

By: _____
SONDRA SMITH, City Clerk

Highway 71 East Square Redevelopment District



CITY ATTORNEY AGENDA REQUEST FORM

FOR: COUNCIL MEETING OF DECEMBER 28, 2004

FROM:
KIT WILLIAMS, CITY ATTORNEY

ORDINANCE OR RESOLUTION TITLE AND SUBJECT:

An Ordinance Forming The Highway 71 East Square Redevelopment District Number One Pursuant To Amendment 78 Of The Arkansas Constitution;, Authorizing The Preparation Of A Project Plan, Repealing Ordinance No. 4608 And Declaring An Emergency

APPROVED FOR AGENDA:

City Attorney — Dec 16, 04
Date

Tim Conklin — 12-17-04
Date

Mayor — 12/17/04
Date

FAYETTEVILLE

THE CITY OF FAYETTEVILLE, ARKANSAS

KIT WILLIAMS, CITY ATTORNEY
DAVID WHITAKER, ASST. CITY ATTORNEY

LEGAL DEPARTMENT

DEPARTMENTAL CORRESPONDENCE

TO: **Dan Coody**, Mayor
City Council

FROM: **Kit Williams**, City Attorney

DATE: **December 16, 2004**

RE: **East Square Highway 71 Redevelopment Project Plan Ordinance**

The Project Plan for the East Square Mountain Inn TIF has not changed since you determined it was economically feasible and adopted the Project Plan by Ordinance No. 4646 on December 7, 2004. Because of a minor technical notification problem, I recommend you readopt the Project Plan by the ordinance attached to this memo.

The Project Plan remains as adopted by you on December 7, 2004 (although its financial feasibility might even be enhanced by the possible inclusion into the tax increment computations of the anticipated increased property values for the Hotel Complex replacing the blighted Mountain Inn, the Terminella project, and former city library buildings on Dickson Street).

Because the unanticipated notification problem has delayed the final adoption of the ordinances for at least three weeks, the City Council can rely upon the Arkansas Attorney General's Opinion No. 2000-250 when he stated:

> "It is my opinion that in order to justify the inclusion of an emergency clause in a municipal ordinance, the city council must rely on facts that show 'some sudden or unexpected happening that creates a need for action.'" (citing Burroughs v. Ingram, 319 Ark. 530, 535, 893 S.W. 2d 319, 321 (1995).

Since time-sensitive funding could be jeopardized unless the ordinance is immediately effective, the entire Project Plan could be jeopardized without the emergency clause. Because the existing, blighted Mountain Inn constitutes a danger to public safety, peace and health, and the Project Plan is necessary to remove this peril and replace it with a beneficial development, the City Council has sufficient facts to rely upon to pass an Emergency Clause.

ORDINANCE NO. _____

AN ORDINANCE ADOPTING THE PROJECT PLAN FOR THE HIGHWAY 71 EAST SQUARE REDEVELOPMENT DISTRICT, FINDING THE PLAN IS ECONOMICALLY FEASIBLE, REPEALING ORDINANCE 4646 AND DECLARING AN EMERGENCY

WHEREAS, on July 27, 2004, the Fayetteville City Council held a Public Hearing concerning the creation of the Highway 71 East Square Redevelopment District; and

WHEREAS, on August 17, 2004, the City Council passed Ordinance No. 4608 creating the Highway 71 East Square Redevelopment District and authorized preparation of a Redevelopment Project Plan; and

WHEREAS, the City with input from the proposed redevelopers of a Twenty-Two Million Dollar hotel project to be constructed after removal of the blighted Mountain Inn has prepared a proposed Project Plan attached as Exhibit "A"; and

WHEREAS, on November 30, 2004, the City held a Public Hearing on the Project Plan proposed for the Redevelopment District; and

WHEREAS, on December 7, 2004, the City had a further public hearing on the Project Plan and passed Ordinance 4646 adopting the Project Plan; and

WHEREAS, because of a minor, technical notification discrepancy, the City determined the need to renotify all statutorily required officials and republish notice of the public hearings for the Redevelopment District.

WHEREAS, the City Council after 15 day published notice has held another public hearing at which all interested parties were given the opportunity to express their views on the proposed adoption of the Project Plan for the Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas; and

WHEREAS, prior to publication, a copy of said notice was sent by first-class mail to the chief executive officer of all local governmental and taxing entities having the power to levy taxes on property located within the proposed Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas, and to the school board of any school district which includes property located within the proposed Highway 71 East Square Redevelopment District Number One of Fayetteville, Arkansas; and

WHEREAS, the Project Plan includes:

(a) The kind, number and location of all public works or improvements within the district including the acquisition

of real property, demolition of blighted/vacant buildings, and sale of the cleared land to the redevelopers;

(b) an economic feasibility study;

(c) a detailed list of estimated project costs;

(d) a description of financing including tax increment bonds;

(e) a certification of the county tax assessor of the base value, ad valorem rate, debt service ad valorem rate, and ad valorem rate for the redevelopment district;

(f) no other funds are expected to be deposited into the special funds;

(g) a map showing existing uses and conditions of real property in the district;

(h) a map of proposed improvements and uses in the district;

(i) no zoning changes are anticipated;

(j) reference to the Downtown Master Plan;

(k) non-project costs include financial advice, bond costs, economic forecasting;

(l) no persons are anticipated to be displaced;

(m) the amount of TIF indebtedness;

(n) the amount of tax increment estimated to be generated by the project;

(o) no other revenues are anticipated to be used to secure the tax increment financing.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF FAYETTEVILLE, ARKANSAS:

Section 1: That the City Council of the City of Fayetteville, Arkansas hereby finds that the Project Plan for the Highway 71 East Square Redevelopment District (attached as Exhibit A) is economically feasible.

Section 2: That the City Council of the City of Fayetteville, Arkansas hereby adopts the Project Plan for the Highway 71 East Square Redevelopment District and determines it has complied with all requirements set forth in A.C.A. §14-168-306.

Section 3: That upon the effective date of this ordinance, Ordinance No. 4646 originally adopting the Project Plan for this Redevelopment District is hereby repealed.

Section 4: Emergency Clause. If this ordinance is not immediately effective, the goal of the Redevelopment District and its Project Plan to remove a dangerous, dilapidated firetrap could fail due to lack of time-sensitive funding. The City Council, therefore, determines and declares an emergency exists which would imperil the public peace, health or safety, and consequently this ordinance shall be in full force and effect from the date of its passage and approval.

PASSED and **APPROVED** this 28th day of December, 2004.

APPROVED:

By: _____
DAN COODY, Mayor

ATTEST:

By: _____
SONDRA SMITH, City Clerk

CITY ATTORNEY AGENDA REQUEST FORM

FOR: COUNCIL MEETING OF DECEMBER 28, 2004

FROM:
KIT WILLIAMS, CITY ATTORNEY

ORDINANCE OR RESOLUTION TITLE AND SUBJECT:

An Ordinance Adopting The Project Plan For The Highway 71 East Square Redevelopment District, Finding The Plan Is Economically Feasible, Repealing Ordinance 4646 And Declaring An Emergency

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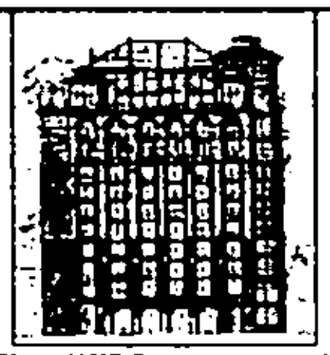
APPROVED FOR AGENDA:

City Attorney — Date: Dec 16, 04

Mayor — Date: 12/19/04



EAST SQUARE REDEVELOPMENT

"The Mountain Inn Reborn"

TO: STEPHEN DAVIS, FINANCE & INTERNAL SERVICES DIRECTOR

DATE: DECEMBER 21, 2004

SUBJECT: HIGHWAY 71 EAST SQUARE REDEVELOPMENT DISTRICT

PER YOUR REQUEST PLEASE FIND ENCLOSED:

1. FEASIBILITY STUDY PREPARED BY INTERNATIONAL HOSPITALITY ADVISORS, INC. AND SUBSEQUENT UPDATE LETTERS FOR THE DEVELOPMENT OF THE HOTEL PROJECT AT THE CURRENT MOUNTAIN INN SITE.

2. HEARTLAND RENAISSANCE COMMITMENT LETTER OUTLINING $8,000,000 NEW MARKET TAX CREDIT ALLOCATION FOR THE HOTEL PORTION OF THE PROJECT TO THE BANK OF FAYETTEVILLE.

3. ANALYSIS OF POTENTIAL TAXES GENERATED BY THE DEVELOPMENT OF THE MOUNTAIN INN PROJECT.

AS WE DISCUSSED IN OUR MEETING THIS MORNING THE BANK OF FAYETTEVILLE WILL ACTUALLY FUND THE PROJECT BY FIRST FUNDING HEARTLAND RENAISSANCE FUND SUB II, LLC – QUALIFIED EQUITY INVESTMENT. IT IS THIS CDE (COMMUNITY DEVELOPMENT ENTERPRISE) THAT ACTS AS THE CONDUIT FOR THE FINANCING FOR THE HOTEL PORTION OF THE PROJECT.

ALSO, PURSUANT TO THEIR COMMITMENT TO HRF, BOF IS REQUIRED TO FUND $4 MILLION OF THE NEW MARKET TAX CREDIT ALLOCATION PRIOR TO DECEMBER 31, 2004 OR THE PROJECT WILL LOSE THE SAID TAX CREDIT ALLOCATION. AS A PRACTICAL MATTER ANY DELAY IN RE-PASSAGE OF THE PROJECT PLAN PAST DECEMBER 28TH WILL SERIOUSLY JEPARDIZE THE FUNDING FOR THE PROJECT.

DEVELOPERS ALSO HAVE PRELIMINARY FINANCING COMMITMENTS FROM TWO AREA BANKS FOR THE CONDOMINIUMS, PARKING DECK AND MEETING/CONVENTION PORTIONS OF THE PROJECT. THESE COMMITMENTS ARE SPECIFICALLY SUBJECT TO THE PASSAGE OF THE HIGHWAY 71 EAST SQUARE REDEVELOPMENT DISTRICT PROJECT PLAN, THE ISSUANCE OF BONDS AS OUTLINED IN THE PROJECT PLAN AND THE SALE OF THE SUBJECT PROPERTY BACK TO THE DEVELOPERS. ADDITIONALLY, DEVELOPERS HAVE THE NECESSARY CASH EQUITY FOR ANY REMAINING PORTION OF THE FINANCING FROM QUALIFIED EQUITY INVESTORS.

PURSUANT WITH OUR MEETING WITH THE CITY ATTORNEY IT WAS THE DEVELOPER'S UNDERSTANDING THAT SUBSEQUENT TO THE PROJECT PLAN , THE CITY AND THE DEVELOPERS WOULD ENTER INTO AN AGREEMENT WHEREBY THE CITY WOULD SELL THE SBJECT PROPERTY TO THE DEVELOPERS AT AN AGREED PRICE AND THAT AT THE TIME OF THE SALE AND AS A CONDITION OF ANY SALE, THE DEVELOPERS WOULD DEMONSTRATE TO THE CITY IN A FORM SATISFACTORY TO THE CITY THAT THE DEVELOPERS WILL BE ABLE TO COMMENCE AND COMPLETE THE PROJECT AS OUTLINED IN THE PROJECT PLAN.

IT IS IMPORTANT TO NOTE THAT THE PROJECT PLAN AS PREVIOUSLY PASSED SPECIFICALLY DID NOT RELY ON ANY INCREMENTAL GROWTH IN TAX COLLECTIONS FROM THE MOUNTAIN INN REDEVELOPMENT PROJECT OR ANY OTHER KNOWN DEVELOPMENT PROJECTS PLANNED IN THE DISTRICT. HOWEVER, THE ATTACHED ANALYSIS OF POTENTIAL TAXES GENERATED LISTS A RETURN TO TAXPAYERS OF OVER $35 MILLION DOLLARS. IF WE MAY PROVIDE ADDITIONAL INFORMATION PLEASE DO NOT HESITATE TO REQUEST IT.

SINCERELY,

THE DEVELOPERS

Developers

Richard Alexander
Phone: 479-521-9188

John Nock
Phone: 479-530-6799

HEARTLAND
RENAISSANCE FUND

November 16, 2004

Mr. Fred Shefte
Bank of Fayetteville
Fayetteville, AR

Re: Heartland Renaissance Fund Sub II, LLC - Qualified Equity Investment

Dear Fred:

We are pleased to inform you that, subject to the terms and conditions set forth in this letter of interest, the Governing Board of Heartland Renaissance Fund, LLC, ("HRF") has approved Bank of Fayetteville ("BOF") to acquire an ownership interest in Heartland Renaissance Fund Sub II, LLC ("Sub II"), a subsidiary allocatee of HRF, up to but not more than $8,000,000 ("QEI"). This ownership interest will be deemed a Qualified Equity Investment if all requirements are met in accordance with Section 45D of the Internal Revenue Code ("Code").

HRF has received a $15 million allocation of New Markets Tax Credits ("NMTC") from the Community Development Financial Institutions Fund ("CDFI Fund") pursuant to an Allocation Agreement between HRF and CDFI Fund. Sub II has been certified as a "Subsidiary Allocatee" of HRF by the CDFI Fund. Pursuant to the terms and conditions proposed herein, HRF would agree to suballocate up to $8,000,000 of its allocation of New Markets Tax Credit ("NMTC") to Sub II in accordance with the Allocation Agreement.

This letter is based on certain assumptions and information that is material to and has been relied upon by HRF in connection with the issuance of this letter of interest. The suballocation is conditioned upon final approval of this letter of interest by the Governing Board, satisfactory conclusion of HRF's due diligence review process and successful documentation and closing of the transaction. At closing, HRF Management, LLC, an affiliate of HRF, will enter into the Sub II Operating Agreement and related agreements that will incorporate the terms and conditions set forth below and include other customary or necessary terms, subject to HRF's review and approval.

Material Assumptions:

Membership Interests

Heartland Renaissance Fund Sub II, LLC
HRF Management, LLC — 00.01% Managing Member
Bank of Fayetteville — 99.99% Non-Managing Member

Heartland Renaissance Fund, LLC (CDE)
HRF Management, LLC — 1% Managing Member
Arkansas Capital Corporation — 99% Non-Managing Member

Estimated Qualified Equity Investment

The total Qualified Equity Investment for NMTC purposes is estimated to be $8,000,000 ("QEI"). This QEI is projected to generate $3,120,000 of NMTC. HRF makes no representations concerning the ability of BOF to use the NMTC. BOF should consult with its legal and/or tax counsel to determine the qualification of the investment for NMTC and its ability to benefit from the NMTC. The final suballocation amount is subject to determination by HRF upon a review of the investment proposal to be provided by BOF.

Equity Contributions to Heartland Renaissance Fund Sub II, LLC

Subject to final approval by HRF, Sub II will be capitalized with an equity contribution of up to $8,000,000 from BOF with a closing to occur on or before December 15, 2004. Due to NMTC requirements that the investments in the project are made within 12 months of issuance of the QEI, it may be determined by HRF that BOF's contribution will be made in two installments with approximately $3 million contributed at closing on or before December 15, 2004 for acquisition costs, and up to $5 million at the commencement of construction. The timing of the QEI(s) will be determined upon review by HRF of the investment proposal. Subject to compliance with NMTC requirements, the equity contributions will be designated as one or more QEIs. The equity contributions will be made under terms and conditions acceptable to HRF and in compliance with Section 45D of the Internal Revenue Code. BOF would commit pursuant to the Sub II Operating Agreement to make the full amount of the QEIs within six (6) months of closing.

Prior to disbursement to the project, the QEIs shall be held at an account in the name of Sub II. Interest earned thereon until disbursement of the QLICI shall be used as a credit towards Sub II's reasonable operating expenses.

Qualified Low-Income Community Investment

Proceeds of the equity contribution will be used to make a loan to and/or an equity investment in East Square Redevelopment Project ("ESRP") located in downtown Fayetteville, Arkansas, and to pay fees to HRF Management, LLC as described below. ESRP must meet the requirements to be defined as a Qualified Low-Income Community Investment ("QLICB") under Section 45D of the Code. The expected proposed general terms of the loan and/or investment shall be presented by BOF to HRF within fourteen (14) days of the execution of this Letter of Interest and shall be subject to HRF's

approval in its sole discretion and must constitute a Qualified Low-Income Community Investment ("QLICI") as defined under Section 45D of the Code. Such proposal shall include a statement of the proposed sources and uses of the project, the terms of the proposed QLICIs (equity and/or debt), commitment letters from other financing sources, a construction schedule, and projected cash flows from the project during the 7-year NMTC recapture period. The documentation of the actual loan and/or investment shall also be subject to HRF's review and approval in its sole discretion. The party responsible for documentation of the QLICIs shall be determined, provided that the reasonable legal costs incurred may be funded out of the QEI, and the documents shall include such provisions as HRF shall require in order to comply with the NMTC program.

The terms of the loan and/or investment shall include flexible, non-conventional or nonconforming terms with reference to standard practice in the applicable market as required by HRF's Allocation Agreement. The loan and/or investment must meet the requirement of being located in one of the target areas listed in Section 3.2(h) of HRF's Allocation Agreement. The terms of the loan and/or investment shall also require ESRP to provide such information as is reasonably required by HRF for purposes of compliance with HRF's NMTC reporting requirements and to monitor performance. A cash penalty may be imposed by HRF upon ESRP for failure to provide information in a timely and satisfactory manner.

BOF acknowledges that pursuant to Section 45D of the Code, the QLICIs have to be issued within 12 months of the issuance of the QEI(s) for BOF to be eligible to claim the NMTC. BOF represents to HRF that it is reasonably anticipated that the QLICI with respect to acquisition costs shall be made within two (2) months of issuance of the QEI of approximately $3 million. Contingent upon HRF's review of the investment proposal, HRF may determine that approximately $5 million of the estimated $8 million to be contributed shall be funded pursuant to the Sub II Operating Agreement at the commencement of construction, with disbursement to occur pursuant to construction draws during a 12-month period. BOF agrees that any portion of the construction QLICI not disbursed within 12 months of issuance of the QEI may be placed in a reserve in the borrower's name and withdrawn subject to approval by BOF and HRF. HRF anticipates that BOF will exercise construction oversight, inspection and disbursement responsibilities.

The second installment of up to $5 million may be subject to certain conditions relating to the feasibility of the project at the time of commencement of construction. If the second installment of the QEI is not made, BOF and HRF may negotiate the right to withdraw the initial investment from the project, provided the parties agree to reinvest in a qualified investment in the appropriate time period to avoid NMTC recapture. These terms are subject to HRF review of the investment proposal and its due diligence investigation.

BOF agrees to facilitate issuance of the QLICIs within 12 months of the applicable QEI to the project or to another qualified project within the applicable time period to prevent a recapture of NMTC. BOF accepts full responsibility for the timely closing of the QLICIs and any recapture of NMTC that occurs as a result of a delay in closing the QLICIs unless caused by the gross negligence, willful misconduct or fraud of HRF. HRF agrees to cooperate with BOF to facilitate timely closings of the QLICI.

BOF shall not expect HRF to perform any due diligence investigation of the QLICI and shall not rely on any due diligence investigation conducted by HRF. HRF's role shall be limited to providing a suballocation of NMTC and performing management and NMTC compliance responsibilities. HRF is

not responsible for and will not make any representations regarding the operational results, commercial viability or financial performance of the QLICI and BOF shall have no recourse against HRF or its affiliates for any failure by the QLICI to achieve projections or provide any investment return.

The QLICI documents shall provide that HRF shall have a role in the administration of the QLICI including compliance with the NMTC program and the exercise of remedies in the event of default, workout or foreclosure.

HRF Fees

HRF shall be entitled to the fees set forth below as compensation for its role in the QEI and its provision of services in support of the transaction:

Closing Fee: Concurrent with the closing of the QEI in Sub II, HRF shall be entitled to a closing fee equal to 5% of the QEI to be funded by the QEI.

Administration and Compliance Fee: On or prior to the first day of each calendar quarter following the closing of the QEI, an administration and compliance fee equal to .1071% of the QEI ($8,571) shall be payable to HRF in consideration for NMTC administration and compliance services to be rendered by HRF. This fee shall be funded by cash flow from the project and shall accrue to the extent unpaid.

HRF shall perform such services as may be required to maintain compliance with the NMTC requirements. HRF shall be responsible for maintaining the status of HRF and Sub II as Community Development Entities, including maintaining accountability to residents of low-income communities and the submission of certifications, notices and reports to the CDFI Fund. HRF shall provide BOF with copies of all such submissions. HRF shall provide to BOF a semi-annual calculation regarding satisfaction of the requirement that substantially all of the QEI remains invested in the QLICI. BOF agrees to cooperate with HRF to assure ongoing compliance with this requirement. Based upon recommendations provided by HRF, HRF and BOF shall reach a mutual agreement regarding permissible distributions by Sub II to BOF as may be required to comply with the NMTC program.

Termination Fee: A termination fee shall be payable to HRF in cash equal to 2.0% of the QEI upon the withdrawal of BOF from Sub II which shall occur as soon as it is feasible after the seven-year anniversary of the closing of the QEI. ESRP shall guarantee payment of this fee.

In addition, Sub II's audit and accounting expenses, as well as expenses incurred in connection with extraordinary events, including the pursuit of remedies relating to the QLICI, shall be recoverable. The terms of the QLICI will be structured to cover Sub II's reasonable annual operating expenses, including third party audit, compliance and accounting expenses. These fees are estimated at $13,500-$15,000/year. BOF shall agree to reimburse Sub II for its reasonable expenses incurred in connection with extraordinary events, including the exercise of remedies with respect to the QLICI and legal action taken by Sub II at the request of BOF.

Requirements:

- BOF agrees to comply with HRF's Allocation Agreement with the CDFI Fund by signing this Letter of Interest
- Execution of the Sub II Operating Agreement in a form satisfactory to HRF and issuance of QEI in an amount of up to $8,000,000 by December 15, 2004
- Receipt of an investment proposal from BOF within fourteen (14) days of the date hereof.
- Satisfactory due diligence is conducted by HRF of the proposed QLICI. HRF shall have fourteen (14) days to review the proposed terms of the QLICI and underlying due diligence documents provided by BOF to HRF regarding the proposed QLICI.

If the foregoing requirements are not met, HRF shall have the right to terminate this letter of interest, or to request modifications. Termination shall be deemed effective three (3) business days after mailing of written notice by first class mail, the first day following placement with an overnight delivery service, or the day of facsimile transmission by HRF.

NMTC Recapture

HRF shall have no liability to BOF with respect to any NMTC recapture event attributable to the actions or inactions of BOF or ESRP. Pursuant to the Sub II Operating Agreement, BOF will have approval rights regarding distributions from Sub II and reinvestment of any principal payments received from the QLICI in order to minimize risk of potential recapture events. HRF and BOF will reasonably cooperate to reinvest the proceeds in a manner that will not result in NMTC recapture in the event of a default or foreclosure.

The QLICI loan/investment documents shall include an obligation of ESRP to maintain compliance with the QLICI requirements and if required by BOF, an obligation to indemnify BOF for any recapture of NMTC, with interest, that results from the actions or inactions of ESRP.

Distributions

Distributions, if any, shall be made by Sub II to BOF on a monthly or quarterly basis, after payment of Sub II's reasonable operating expenses and any fees due to HRF, in amounts to be determined based upon the investment proposal.

Exit

For a twelve (12) month period after the 7th anniversary of the QEI, BOF shall have the right to put its interest in Sub II to HRF for a nominal amount. After expiration of the put period, HRF shall have a call option for a period of twelve (12) months to purchase BOF's interest in Sub II for an amount equal to the fair market value of its interest.

Removal of Managing Member of Sub II

The Sub II Operating Agreement shall provide BOF with the right to remove the managing member of Sub II for gross negligence or willful misconduct likely to have a material adverse effect on BOF; provided that if such removal would result in a violation of the Allocation Agreement or a NMTC

recapture event, BOF shall not have a removal right, but shall have the right to appoint a second manager to cure the default.

HRF shall have thirty (30) days within which to cure a default, provided that if such default is incapable of cure during that period, HRF shall have such longer period as may be required provided that HRF is diligently pursuing a cure. Any fees earned prior to removal shall be paid as a result of the removal.

Legal and Consulting Fees

BOF shall be responsible for payment of its own legal and consulting fees and out-of-pocket expenses incurred in connection with the closing of the QEI and each separate QLICI; provided that such fees up to a fixed amount may be paid out of the QEIs subject to HRF review of the investment proposal.

In the event that BOF accepts the terms set forth herein and HRF is prepared to suballocate NMTC to Sub II, if BOF chooses not to proceed or fails to close with HRF by December 15, 2004, BOF shall be responsible for HRF's actual out-of-pocket third party fees and expenses, including but not limited to attorneys' and consultants' fees and expenses, incurred in connection with evaluating and closing the QEI; provided however such reimbursement shall not exceed $15,000 in the aggregate.

Tax Opinion

Garvey Schubert Barer, counsel to HRF shall provide the tax opinion to BOF satisfactory to BOF which shall be delivered at closing. Tax opinion fees shall be paid at closing of the QEI, to be funded by BOF.

Reporting Requirements

HRF shall provide such reports as BOF and HRF mutually agree which shall include provision on an annual basis of all necessary tax reporting information; copies of Sub II's tax returns, audited financial statements and reports submitted to the CDFI Fund.

In addition to the above, BOF and HRF acknowledge that the transactions will be structured to comply with the NMTC program and all related rules and regulations. Furthermore, BOF reserves its rights to monitor ongoing compliance and reporting with respect to the NMTC Program.

You agree and understand that HRF has spent substantial time on the proposed investment from BOF. Accordingly, you agree that with respect to the specific investment in ESRP as submitted to HRF for review, BOF shall not make such investment directly to ESRP without HRF's consent for a period of ninety (90) days from the date of your acceptance of this Letter of Interest unless we mutually agree to discontinue our efforts to complete the investment.

You acknowledge that this letter of interest contains confidential information and agree not to disclose either orally or in writing its contents to any third party other than your accountant(s) and/or attorney(s), without the express written consent of HRF and you further agree to advise your

representative that such representatives shall not disclose either orally or in writing the contents of this letter of interest.

If the terms and conditions outlined herein are agreeable, please countersign this letter where indicated below. We look forward to working you. This offer is valid for ten (10) days from the date or this letter.

Sincerely,

Todd Brogdon

Todd Brogdon
Chief Operating Officer

ANALYSIS OF POTENTIAL TAXES GENERATED

BY THE REDEVELOPMENT PROJECT

Year	Total Room Taxes	Food & Beverage Taxes	Property Tax Increases (Hotel)	Property Tax Increases (Courts Building)	Property Tax Increases Parking Deck	Total New Tax Collections
1	x	x	x	x	x	
2	x	x	x	x	x	
3	$ 410,882.00	$ 218,554.00	$ 194,000.00	$ 35,000.00	$ 27,500.00	$ 885,936.00
4	$ 436,360.00	$ 226,193.00	$ 212,430.00	$ 38,325.00	$ 30,112.50	$ 943,420.50
5	$ 475,221.00	$ 234,110.00	$ 232,610.85	$ 41,965.88	$ 32,973.19	$ 1,016,880.91
6	$ 489,656.00	$ 242,303.00	$ 254,708.88	$ 45,952.63	$ 36,105.64	$ 1,068,726.15
7	$ 504,090.00	$ 250,784.00	$ 278,906.22	$ 50,318.13	$ 39,535.68	$ 1,123,634.03
8	$ 518,524.00	$ 258,266.00	$ 305,402.32	$ 55,098.36	$ 43,291.57	$ 1,180,582.24
9	$ 534,069.00	$ 265,996.00	$ 334,415.54	$ 60,332.70	$ 47,404.26	$ 1,242,217.50
10	$ 554,724.00	$ 273,984.00	$ 366,185.01	$ 66,064.31	$ 51,907.67	$ 1,312,864.99
11	$ 567,379.00	$ 282,239.00	$ 400,972.59	$ 72,340.42	$ 56,838.90	$ 1,379,769.90
12	$ 584,034.00	$ 290,768.00	$ 439,064.98	$ 79,212.75	$ 62,238.59	$ 1,455,318.33
13	$ 598,634.85	$ 298,037.20	$ 480,776.16	$ 86,737.97	$ 68,151.26	$ 1,532,337.43
14	$ 613,600.72	$ 305,488.13	$ 526,449.89	$ 94,978.07	$ 74,625.63	$ 1,615,142.45
15	$ 628,940.74	$ 313,125.33	$ 576,462.63	$ 104,000.99	$ 81,715.06	$ 1,704,244.76
16	$ 644,664.26	$ 320,953.47	$ 631,226.58	$ 113,881.08	$ 89,477.99	$ 1,800,203.39
17	$ 660,780.86	$ 328,977.30	$ 691,193.11	$ 124,699.79	$ 97,978.40	$ 1,903,629.47
18	$ 677,300.39	$ 337,201.74	$ 756,856.45	$ 136,546.27	$ 107,286.35	$ 2,015,191.19
19	$ 694,232.90	$ 345,631.78	$ 828,757.82	$ 149,518.16	$ 117,478.56	$ 2,135,619.21
20	$ 711,588.72	$ 354,272.57	$ 907,489.81	$ 163,722.39	$ 128,639.02	$ 2,265,712.51
21	$ 729,378.44	$ 363,129.39	$ 993,701.34	$ 179,276.01	$ 140,859.73	$ 2,406,344.90
22	$ 747,612.90	$ 372,207.62	$ 1,088,102.97	$ 196,307.24	$ 154,241.40	$ 2,558,472.12
23	$ 766,303.22	$ 381,512.81	$ 1,191,472.75	$ 214,956.42	$ 168,894.33	$ 2,723,139.54
24	$ 785,460.80	$ 391,050.63	$ 1,304,662.66	$ 235,377.28	$ 184,939.29	$ 2,901,490.67
25	$ 805,097.32	$ 400,826.90	$ 1,428,605.61	$ 257,738.13	$ 202,508.53	$ 3,094,776.48
	$ 14,138,535.10	$ 7,055,611.88	$ 14,424,454.16	$ 2,602,349.98	$ 2,044,703.55	$ 40,265,654.67

TIF Proceeds	Land Appraised Value	Proposed Purchase	Return to Taxpayers
$ 3,500,000.00	$ 213,000.00	$ 300,000.00	$ 37,065,654.67

Note: All numbers are preliminary and based upon assumptions that may or may not actually occur

Via Facsimile Transmission

March 7, 2002

Mr. Stephen L. Goodman
RiskPRO
4695 Chabot, Suite 114
Pleasanton, CA 94588

Re: Proposed 125-Room Crowne Plaza Hotel - Fayetteville, Arkansas

Dear Mr. Goodman:

In accordance with the terms of our proposal agreement and subsequent conversations, this letter provides you with the findings of our primary market research conducted during the week of February 11, 2002, in connection with the abovementioned project.

The purpose of the update was to determine if current market conditions had changed materially since the completion of our "Study of Potential Market Demand and Statements of Estimated Operating Results for the Re-Development of the Closed Mountain Inn Located in Fayetteville, Arkansas to an 105-Unit Crowne Plaza-Affiliated Boutique Hotel" that was issued in August 2000. In addition, given the increase in room inventory to 125 units we have prepared revised statements of estimated annual operating results. This letter should be read in conjunction with our August 2000 report.

As per your request, we further prepared a valuation of the proposed hotel based on current market factors, the revised estimates of potential operating results and an income approach to value analysis.

Salient Observations

Following are our observations that are salient to the overall market and the proposed project based on our primary research.

- The proposed site and its conditions as described in our market study remain unchanged.

- Opened in November of 1998, Northwest Arkansas Regional Airport (NWARA) is the principal commercial airport in the region. The airport is served by American Eagle, Atlantic Southeast Airlines (Delta Connection), TransWorld Express, Northwest Airlines and US Airways Express. Plans call for the expansion of the terminal building in early 2003 with should increase the number of carriers servicing the airport. In 2001, passenger enplanements and deplanements totaled 735,822 as compared to 702,568 representing a growth of 4.7 percent despite a significant decrease in September 2001.

- Established in 1871, the University of Arkansas is situated in downtown Fayetteville approximately two miles from the subject site. Of particular significance to the lodging market dynamics is the recent renovation completed in 2001 of the football stadium. With an investment of $200.0 million, the stadium's capacity has been increased from 62,000 to 78,000 spectators. As a result, many of the university's home football games for the year 2002 and onward have been relocated from Little Rock to the Fayetteville stadium. Five home games are slated to be played in Fayetteville in 2002, which should generate additional lodging demand during those respective weekends.

- In July 2001, the new, "state-of-the-art" Town Center convention facility was opened and is located approximately two blocks from the subject site. The facility offers 14,000 square feet of column-free space on one level, 10,000 square feet of show offices, and extensive pre-function and support services. The facility should be an important generator of additional hotel room nights for hotels in the downtown Fayetteville area. In 2001, the facility hosted 89 events with a total of 22,800 attendees. Based on conversations with management, these events typically last for two days, thus generating one room night. In 2002, the facility already has 89 scheduled events with a goal of 180 for the entire year. Examples of such events include a Coaches' Clinic (three nights) for 2,000 persons in June and a Gospel Choir Show in July for 8,000 visitors (Wednesday through Saturday).

- Fayetteville is slated to be the site of the Arkansas Business and Technology Park. The first phase of this project is scheduled for 2003 and will cost approximately $5.8 million and generate 1,500 jobs.

- In April 2002, a new scenic highway (71/I540) is slated to commence construction. This highway will link the surrounding counties with Fayetteville further improving overall road networks and access.

- Business travel to the area is largely fueled by the presence of the headquarters of Walmart in Bentonville, Tyson Foods in Springdale and J.B. Hunt in Lowell, all of which are located in close proximity to NWARA.

- There are three primary competitors to the proposed Crowne Plaza: the Radisson Hotel (formerly Hilton Hotel), the Ramada and the Clarion. In 2000, these properties achieved an aggregate occupancy of 51.0 percent at an average daily room rate of $72.00 for a Revenue per Available Room (RevPAR) of $37.00. The Hilton (now the Radisson) was the front-runner with an occupancy of 55.0 percent at an average daily rate of $89.00.

  In 2001, as with most hotel markets due to the terrorist incidents of September which resulted in a severe cutback of business travelers and related hotel occupancies during the last four months of the year, the Fayetteville market was negatively affected. However, the effects were not as dramatic as in other parts of the nation with the three hotels finishing the year at an aggregate occupancy level of 47.0 percent at an average daily rate of $66.00.

  Based on our interviews with the hotels, it appears that the market is recovering quickly with forecasts for 2002 to match the results achieved in 2000.

- As with most lodging markets, hotels in Fayetteville are subject to seasonal fluctuations in demand. The off-season corresponds to the months of January and December when students at the University of Arkansas are away on break and most business travelers are also on vacation. Differences between weekday and weekend demand tends to be less pronounced for hotels in Fayetteville due to positive impact of major sporting events at the University which are usually held on weekends. This is particularly true during the football and basketball season. In addition, with the addition of the convention facility, the city is now a host to many events held over off-season and weekend periods.

Conclusion

Based on our research and an evaluation of the primary lodging competition, it appears that Fayetteville is recovering more rapidly from the September 11, 2001 incidents as compared to other destinations throughout the country. In addition, the contribution of room nights to be derived from the expansion of the football stadium and resulting home games and the opening of the convention facility will be extremely beneficial to the downtown Fayetteville hotels due to their proximate locations to both facilities.

As reflected in the aggregate occupancies and average daily room rates forecasted for 2002, the market should return to previous levels of growth starting in 2003. As such, the effect of September 11, 2001 is expected to be short-term in nature with growth being fully restored to pre-2001 levels in 2004, the first full year of operations for the subject hotel.

As such, we are of the opinion that the market findings presented in our original market study remain valid and the resulting estimates of occupancy and rate are still achievable.

However, due to the increase in inventory to 125-keys, an adjustment has been made to the overall occupancy curve to reflect a stabilized occupancy at 65 percent.

Projected Operating Performance

Based on our evaluation of the local lodging market, the envisioned project concept as recommended and local market dynamics, we have estimated the following patterns of occupancy and average daily room rates for the subject hotel over the defined projection period.

Estimated Performance
Proposed 125-unit Crowne Plaza Hotel
Downtown Fayetteville, Arkansas

Year	Estimated Occupancy	Uninflated Average Room Rate	Cumulative Inflation Factor	Inflated Average Room Rate
2004*	58%	$80.00	1.061	$84.75
2005	62	90.00	1.093	98.25
2006	65	95.00	1.126	107.00
2007	65	95.00	1.159	110.25
2008	65	95.00	1.194	113.50
2009	65	95.00	1.230	116.75
2010	65	95.00	1.267	120.25
2011	65	95.00	1.305	124.00
2012	65	95.00	1.344	127.75
2013	65	95.00	1.384	131.50

* First full year of operations

Source: International Hospitality Advisors

Estimated Operating Results

We have utilized the same parameters for other departmental revenues and overall expenses as indicated in our original market study. The revised 10-year estimates of potential operating results are attached.

Income Approach to Value

As requested, we have further prepared a valuation of the hotel based on an income approach to value as is typical for hotel operations given the fact that they are "going concerns". Our valuation methodology utilizes the discounted cash flow and reversion analysis approach to value. The discounted cash flow analysis is based on our revised ten-year projection of operating results.

Current Capitalization Rates

The capitalization rate is a mathematical relationship which exists between the net income derived by a property and the value or price which an investor would pay for the right to receive that net income stream. Influences most affecting value are quality, quantity and probable duration of the net income expectancy.

Based on a recent survey (Winter 2001/2002 USRC Hotel Investment Survey) of 29 major investors who are active in the lodging industry throughout the country, capitalization and discount rates for full-service hotels have increased since 2000. The increase has occurred despite the decline in interest rates and the prime rate. The increases are due to the higher risk associated with hotel investments particularly since the September 11, 2001 attacks which have caused a short-term decline in travel and related hotel usage.

The survey indicated that investors are utilizing a direct capitalization rate for full-service hotels of 11.6 percent which is 90 basis points higher than the average for 2000/2001 survey of 10.7 percent. The capitalization rate has two components: equity and debt. With interest rates declining, and the overall rates showing an increase for full service properties, this indicates that the equity capitalization rates have risen strongly.

Weighing the subject hotel's proposed location and market niche, orientation and positioning and overall room inventory, an overall capitalization rate of 11.5 percent would be appropriate. Due to the increase in risk associated with the passing of time, forecasting a reversionary capitalization rate usually requires a premium of 50 to 100 basis points over overall rates. In determining a terminal capitalization rate for the proposed hotel, a 50 basis point spread over the overall rate is considered appropriate. This equates to a terminal capitalization rate of 12.0 percent.

Discount Rates

The discount rate reflects the overall rate of return expected by an investor, weighing the relative risk of the investment in relation to other investment vehicles and the perceived risk of each component in the operation of the facility. The projected net operating income for each of the subsequent ten years needs to be discounted to reflect the risk inherent in receiving future cash flows. The deferred return of the initial investment (reversion) when the property is estimated to be sold ten years in the future is also discounted.

According to recent investor surveys, discount rates currently range between 9.0 and 20.0 percent with an average of approximately 14.6 percent. This suggests that a spread of 100 to 250 basis points between the terminal capitalization and discount rate is appropriate. Thus, due to the factors discussed previously, a discount rate of 14.0 percent was deemed appropriate for the subject property.

Discounted Cash Flow and Reversion Analysis

The Discounted Cash Flow and Reversion Analysis takes into account the array of market factors and external variables that influence the proposed property. This technique converts the annual cash flow and sale proceeds over a typical holding period into a value estimate using current market-derived yield rates.

Taking into consideration the revised 10-year estimates and the following assumptions, a discounted cash flow analysis has been prepared including the calculation of the hypothetical sale at the end of the ten-year holding period and the discounting procedure used to estimate the opinion of value for the subject hotel.

Assumptions:

First Year of Operation:	2004
Estimated Stabilized Occupancy:	65.0%
Average Daily Room Rate (2002) Dollars:	$95.00
Inflation:	3.0%
Terminal Capitalization Rate:	12.0%
Sales Cost:	2.0%
Discount Rate:	14.0%

A table showing the Discounted Cash Flow and Reversion Analysis is included after the revised ten-year estimates of potential operating results.

Opinion of Value Conclusion

Based on the assumptions detailed previously and the future positioning of the subject hotel, it is our opinion that the value of the 125-room Crowne Plaza hotel would be:

$12,682,000
(Twelve Million six hundred eighty two thousand U.S. dollars).

We thank you for the cooperation extended to us during the overall assignment. Should you have any questions or comments, please do not hesitate to contact us.

Sincerely,

Desmond Pinto
Director

attachments

Sincerely,

Derek J. Pinto
Managing Director

February 1, 2002 *(Via Electronic Mail)*

Ms. Shanna Moline
RiskPRO
4695 Chabot , Suite 114
Pleasanton, CA 94588

Re: Update and Assessement of Capitalization Rate and Valuation of the Proposed 105-unit Crowne Plaza Hotel – Fayetteville, Arkansas

Dear Ms. Moline:

As per our telephone conversation, the following confirms the scope of work in connection with the abovementioned project. The scope of our work will entail an update of the "Study of Market Demand and Statements of Estimated Annual Operating Results for the Re-Development of the Closed Mountain Inn Located in Fayeteville, Arkansas to a 105-Unit Crowne Plaza-Affiliated Boutique Hotel".

Scope of Work

The purpose of the update is to determine if current market conditions have changed materially since the completion of the study dated August 2000 and whether the projections contained in the report are still valid and achievable.

In addition, based on current investment and valuation parameters, we will provide you with an indication of capitalization rates that are typically used in the assessment of value of assets such as the type under consideration.

Our findings will be presented in a brief letter report that should be read in conjunction with the original market study.

International Hospitality Advisors • 2625 Ponce de Leon Boulevard • Suite 280 • Coral Gables, FL 33134
Telephone: 305.444.4491 • Facsimile: 305.444.4510 • Email: dpinto@ihaglobal.com

Limitations of the Engagement

Our reports would be subject to the following standard limitations:

1. We are not obligated to update our findings regarding changes in market conditions which occur subsequent to the completion of our primary research.

2. Our report and the material submitted may not be including as part of a prospectus or in printed material or advertising used in connection with the sale of securities or participation interest to the public.

3. Drafts or preliminary information communicated to you during the course of the assignment are for your internal management use only and may no be disclosed to outside parties without our prior written consent.

4. The report will be based on estimates, assumptions and other data developed from our knowledge of the industry and information provided by others. The sources of the information and the bases of our findings will be stated within the reports. All information provided by others will be accepted without audit or verification and will be assumed to be correct.

5. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved will vary from the analyses, and the variations may be material.

6. We cannot be held liable in any cause of action resulting in litigation for any dollar amount which exceeds the total fees collected from this individual engagement. Any legal expenses incurred in defending or representing ourselves concerning this assignment will be the responsibility of the client.

Engagement Timing and Professional Fees

Based on our schedule, we would commence primary research within one week of receiving authorization to proceed. We would plan to issue the letter report approximately one week after the completion of our primary research.

Our professional fees for the assignment described herein would be $10,000.

In addition to our professional fees, we would be reimbursed for any out-of-pocket expenses incurred by our professionals during the course of the assignment such as airfare, meals and lodging, communication costs, postage and report production.

As is typical in assignments of this nature, we require a retainer of $6,000 prior to scheduling the engagement. Final payment will be due at the time we issue the letter report.

Engagement Acceptance

If the proposal correctly states the nature of the work to be done at this time and if the arrangements are satisfactory, please sign below and return an copy to us along with the requested retainer as our authorization to proceed. If you have any questions or require revisions to this proposal, please call us. We appreciate the opportunity to submit this proposal and look forward to working with you.

Sincerely,

Derek J. Pinto
Managing Director

DJP/mnc

APPROVED AND ACCEPTED:

SIGNATURE: _____

NAME: Stephen L. Goodman

DATE: 2-1-02

COMPANY: RHUPRO, LLC

International Hospitality Advisors • 2625 Ponce de Leon Boulevard • Suite 280 • Coral Gables, FL 33134
Telephone: 305.444.4491 • Facsimile: 305.444.4510 • Email: dpinto@ihaglobal.com

INTERNATIONAL HOSPITALITY ADVISORS

STUDY OF POTENTIAL MARKET DEMAND AND STATEMENT OF ESTIMATED ANNUAL OPERATING RESULTS FOR THE RE-DEVELOPMENT OF THE CLOSED MOUNTAIN INN LOCATED IN FAYETTEVILLE, ARKANSAS TO AN 105-UNIT CROWNE PLAZA-AFFILIATED BOUTIQUE HOTEL

Prepared by:

International Hospitality Advisors, Inc.
8390 Northwest 53rd Street, Suite 312
Miami, Florida 33166

AUGUST 2000

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STELLA BELLA PLAZA, LLC
FAYETTEVILLE, ARKANSAS

SECTION I

INTRODUCTION

AUGUST 2000

SCOPE OF THE STUDY

International Hospitality Advisors, Inc. (IHA) has been engaged by Stella Bella Plaza, LLC of Fayetteville, Arkansas, to assess potential market demand for the redevelopment and repositioning of the closed Mountain Inn Hotel located in downtown Fayetteville to a 105-unit, Crowne Plaza-affiliated boutique hotel. The engagement objectives were to determine current and potential future demand for the development based on our current knowledge of existing and potentially competitive facilities; to evaluate the market share that could reasonably be attained by the subject development; and to make recommendations regarding the extent and type of facilities which we believe would be most appropriate within the context of the current project concept and plans. The engagement further called for the preparation of statements of estimated annual operating results for the redeveloped hotel over the first ten years of operation.

PROJECT CONCEPT

Built in the 1920's and later expanded with a new hotel section in 1968, the seven-story Mountain Inn Hotel has remained closed for several years. The hotel was recently purchased by Ms. Stella Moga, the project developer, with the intention of redeveloping it as a downtown hotel property. As envisioned, the redeveloped hotel is to be positioned as a full-service, boutique-oriented, Crowne Plaza-affiliated hotel targeted at the upper end of the corporate and leisure segment currently visiting Fayetteville. When completed, the redeveloped hotel will contain the following elements:

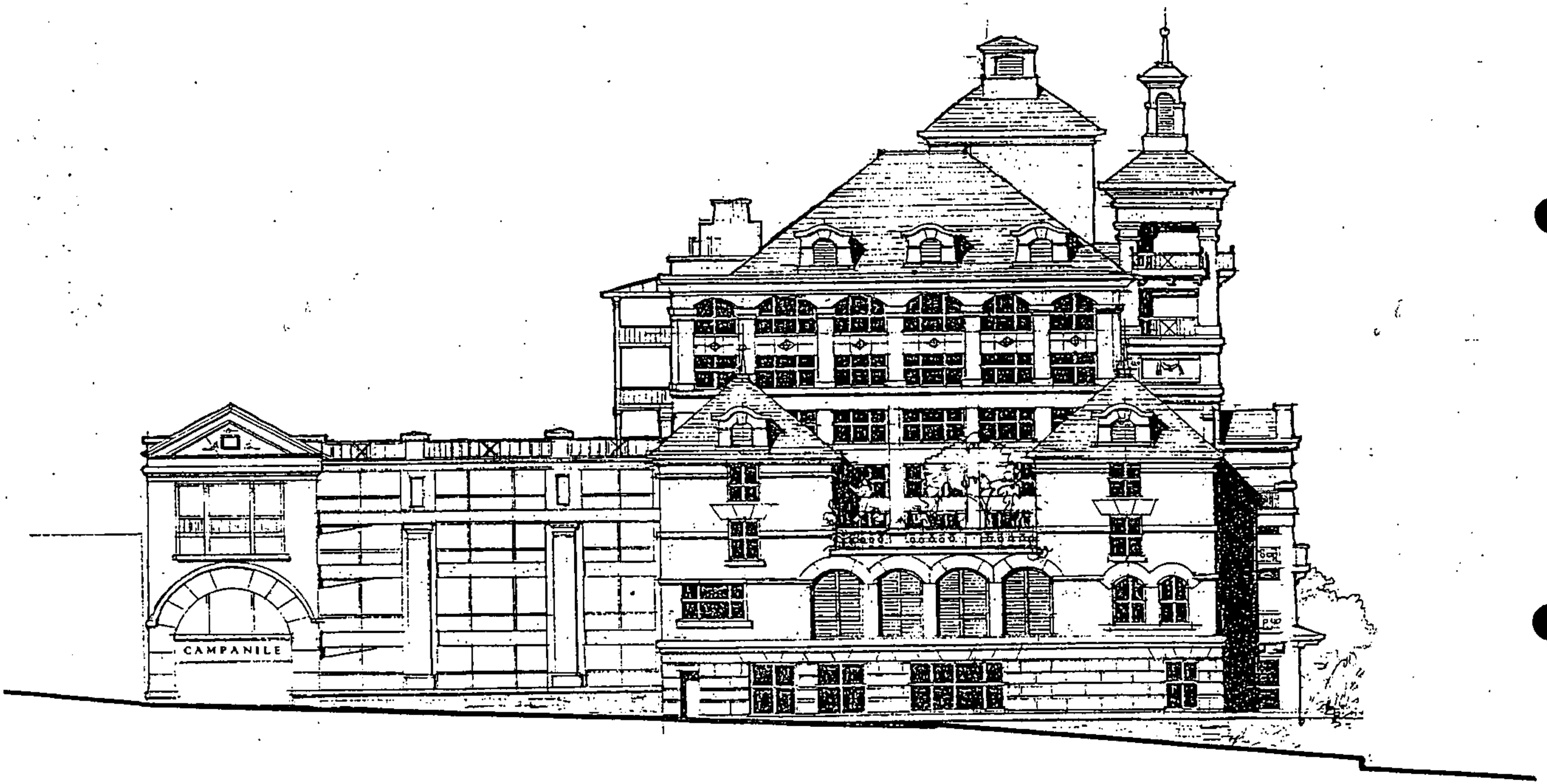
- 105 well-appointed guestrooms and suites;
- Approximately 15 one-, two- and three-bedroom condominium units ranging in size between 1,400 to 1,800 square feet that will sold or leased to the public. Unit owners would have access to the hotel's facilities and services;
- A multi-purpose restaurant containing approximately 75 seats. This room could also be utilized for banquets or meetings, as needed;
- A lobby area lounge containing approximately 40 seats;
- Flexible meeting space totaling 4,500 square feet. It should be noted that a former lounge located in the basement, could be used for additional banquet and meeting space;
- A well-equipped fitness center totaling approximately 1,200 square feet;

- A well-equipped business center;
- A swimming pool on the third level of the building;
- Selected retail outlets with direct public access totaling approximately 13,000 square feet;
- A six-story parking structure with parking for 98 cars. Two additional levels of parking could be added bringing the total parking capacity to 141 spaces.

STUDY APPROACH AND METHODOLOGY

Our approach to the engagement was as follows:

- **A review of the project concept and discussions with the developer;**
- **A physical evaluation of the subject site and an economic evaluation of Fayetteville and Northwest Arkansas.** The potential for the project was evaluated on the basis of accessibility, convenience to major demand generators and area attractions. The relative economic stability and growth of the area was evaluated by compiling and analyzing economic indicators for the region, and by analyzing pertinent statistical data and by interviewing local officials;
- **Research of the primary market**. Information on potential markets was obtained by inspections and evaluation of competitive operations, conversations with industry representatives, and discussions about the current market situation with individuals familiar with the area's lodging and tourism industry;
- **Preparation of supply and demand estimates**. Demand estimates were prepared on the basis of the foregoing research and analysis of historical growth trends in demand sources. Estimates of performance were based on the experience of comparable facilities, as well as, the configuration attributes unique to the subject development;
- **Project recommendations**. Based on the project concept and prevailing market conditions we developed opinions regarding the subject development and provided recommendations concerning services and amenities which we believe best meet market demand;
- **Preparation of estimated annual operating results for the first ten year's of operation**. These statements were prepared for each defined component based on the operating experience of comparable level facilities in the United States, resulting in a "bottom line" of income before depreciation, amortization, interest on debt financing and taxes.



CAMPANILE SQUARE

Stella Isabella Building

Fayetteville, Arkansas's Downtown Hotel

PRELIMINARY MOUNTAIN STREET FACADE 1/8" = 1'-0"

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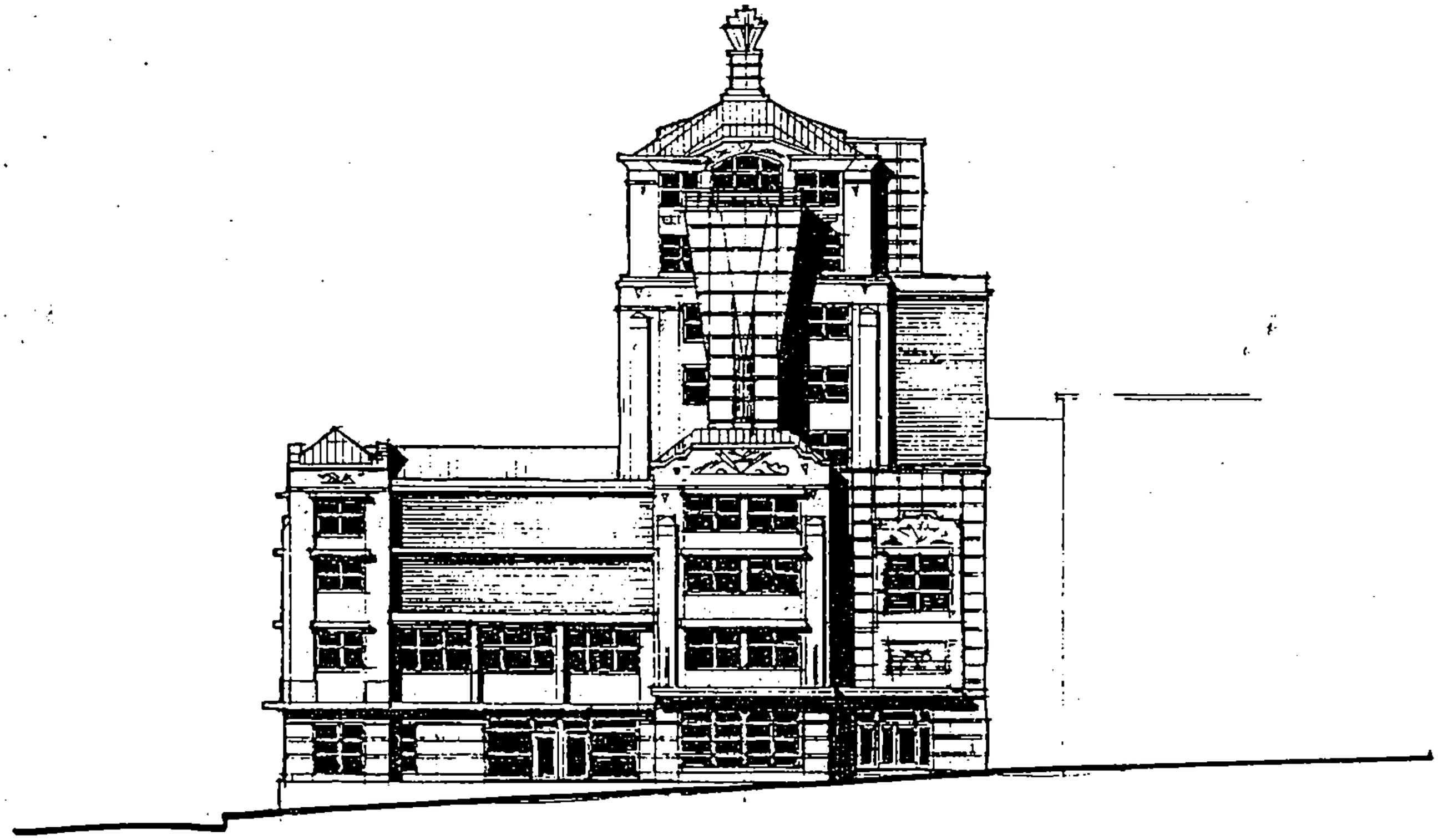

STELLA BELLA PLAZA

Fayetteville, Arkansas's Downtown Hotel

PRELIMINARY COLLEGE AVENUE FACADE 1/8" = 1'-0"

© Robert Sharp, ARCHITECT, Inc

CAMPANILE SQUARE

Stella Isabella Building

Fayetteville, Arkansas's Downtown Hotel

PRELIMINARY COLLEGE AVENUE FACADE 1/8" = 1'-0"

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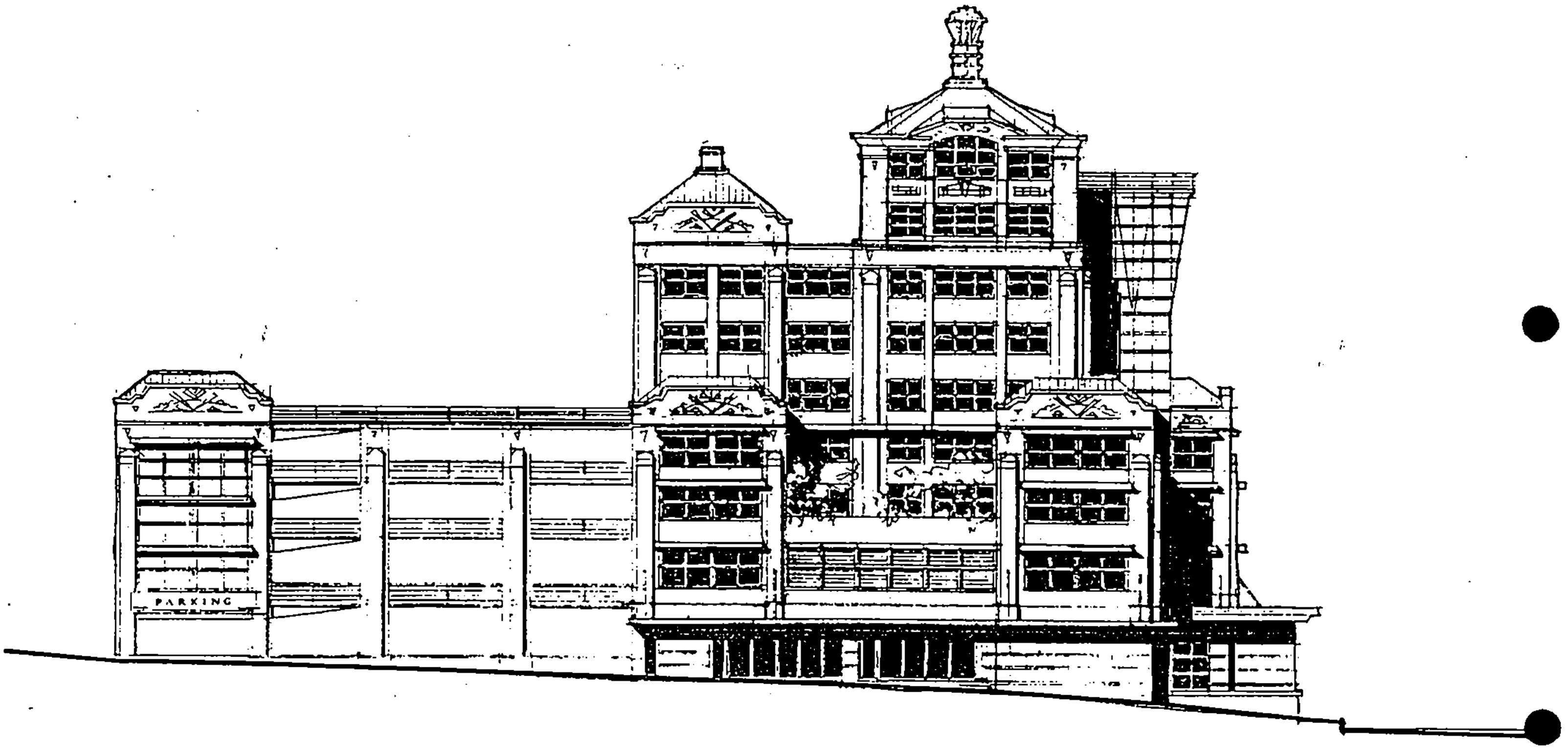

STELLA BELLA PLAZA

Fayetteville, Arkansas's Downtown Hotel

PRELIMINARY MOUNTAIN STREET FACADE 1/8" = 1'-0"

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STELLA BELLA PLAZA, LLC
FAYETTEVILLE, ARKANSAS

SECTION II

EXECUTIVE SUMMARY

AUGUST 2000

MARKET FEASIBILITY

Our analysis of potential market demand and estimates of operating results indicate that the development of an 105-unit, Crowne Plaza-affiliated, boutique hotel that ideally combines reasonable room rates, high-quality accommodations, focused services and excellent value is feasible from a marketability standpoint. In the following paragraphs, we present the major conclusions of the study.

SUMMARY OF CONCLUSIONS

Site Location

- The subject seven-story property is located at the intersection of College Avenue and Mountain Street in Downtown Fayetteville, Arkansas overlooking the landmark Old Courthouse Building and the John Paul Hammerschmidt Federal Building. The site is rectangular shaped with approximately 102.6 feet of frontage on College Avenue and 200 feet of frontage on Mountain Street.

- Location in the heart of historic downtown Fayetteville, which is undergoing a major renaissance characterized by the renovation and re-development of numerous buildings, road improvements and significant investment in retail, dining, residential condominiums and recreational facilities;

- Proximity to the University of Arkansas campus, the principal demand generator for hotel accommodations in Fayetteville. The University is situated less than two miles from the subject site;

- Proximity to Dickson Street, the premier dining and entertainment thoroughfare in Fayetteville and the surrounding two-county area. Dickson Street, located within walking distance of the subject property is part of a major redevelopment effort designed to make the street more pedestrian-friendly and entertainment-oriented;

- Excellent frontage on both College Avenue and Mountain Street, two principal streets in downtown Fayetteville;

- Easy access to all points within the city and to the Interstate highway system;

- Excellent visibility from College Avenue, Mountain Street and Center Street providing for maximum exposure to the public;

- Within walking distance of the 14,000-square foot Town Center convention facility which is currently under construction and scheduled for completion in mid-2001. The Center is expected to serve as a catalyst for new room night demand into the downtown Fayetteville lodging market;

- Proximity to other area demand generators including the Federal Building, the County Courthouse and area companies;

- Availability of all utilities to the site including water, electricity, sewerage and telephone hook-up;

- Adequate parking in a six-story parking garage facility located adjacent to the hotel;

Area Review

- Northwest Arkansas is one of the wealthiest regions of state with a stable, diversified, economy and low unemployment. The region's economic stability is fueled by the presence of the University of Arkansas, the headquarters of several major companies including WalMart, Tyson Foods and J.B. Hunt, as well as, thriving manufacturing and retail sectors;

- The recent opening of the Northwest Arkansas Regional Airport and Interstate-540 through the area is expected to serve as a further catalyst to the economic development of the region;

- The seat of Washington County, Fayetteville is nestled against the Boston Mountains (foothills to the Ozark Mountains) in northwest Arkansas approximately 25 miles from the Missouri state line and 15 miles from Oklahoma;

- Fayetteville is the largest city within the two-county Metropolitan Statistical Area (MSA) which comprises Washington and neighboring Benton county. The city's population has increased from 42,099 persons in 1990 to an estimated 58,200 persons in 1999, representing a compound annual growth rate of 3.6 percent. By comparison, the population for the MSA has increased from 210,908 persons in 1990 to an estimated 275,300 persons in 1999 representing an annual increase of 3.0 percent;

- The MSA enjoys the lowest unemployment of any region in the State of Arkansas. In May 2000, the unemployment rate in the MSA stood at 2.0 percent.

Lodging Supply in the Fayetteville Area

- The total lodging supply in two-county area comprising Washington and Benton counties at the end of June 2000, consisted of 55 lodging facilities with a total of approximately 4,154 available rooms. Fayetteville accounts for approximately 1,522 of the available rooms or 37 percent of the total.

- The vast majority of the local lodging market is comprised of chain-affiliated, or non-affiliated limited-service properties of less than 100 rooms. Most of these hotels are located at major intersections along Interstate-540;

- Hotel chains currently represented in market include Baymont Inns, Best Western, Comfort Inn, Clarion Inn, Courtyard by Marriott, Days Inn. Econolodge, Fairfield Inn & Suites, Hampton Inn, Hilton, Hilton Garden Inn, Holiday Inn, Holiday Inn Express, Motel 6, Park Inn, Quality Inn, Ramada Inn, Red Roof Inns, Scottish Inns, Sleep Inn, SpringHill Suites and Super 8;

- Prior to the opening of the Northwest Arkansas regional Airport (NWARA) in late 1998, Drake Field located south of Fayetteville served as the principal commercial airport in the region. Following the opening of the new airport in Benton County, there has been a marked increase in the number of new hotels. Much of this new hotel development has occurred in the cities Bentonville and Rogers both of which are located in Benton County;

- Despite a reasonably well-developed critical mass of lodging inventory in the area, there is a distinct lack of high-quality hotel accommodations in Downtown Fayetteville of the caliber envisioned for the subject hotel. The most closely comparable property to the envisioned subject hotel is the 235-unit Hilton Hotel which appears dated despite recent renovations.

Demand for Lodging Accommodations

- Business travelers and demand generated through the various programs at the University of Arkansas, account for the majority of lodging demand. The remaining demand is comprised of leisure travel, SMERF demand, convention groups and airline crews;

- Business travel to the area is largely fueled by the presence of the headquarters of WalMart in Bentonville, Tyson Foods in Springdale and J.B. Hunt in Lowell, all of which are located in close proximity to NWARA. Following the opening of NWARA, there was a marked shift in corporate demand away from hotels in Fayetteville in preference for hotels located in Springdale or Bentonville. As such, many hotels in Fayetteville experienced significant declines in corporate demand for much of 1999;

- The University of Arkansas through its various academic and athletic programs is a major generator of lodging demand for the hotels in Fayetteville and the surrounding area. The University's football and basketball programs are important sources of weekend demand particularly during the fall and spring months;

- Overall citywide hotel occupancy levels for Fayetteville averaged 49.2 percent in 1999 down from 53.1 percent in 1998. Average room rates for the market reached $58.61 in 1999, up from $54.64 the previous year. RevPar in 1999 reached $28.84, down from $29.00 in 1998, or a decline of 0.6 percent. Year-to-date through May, occupancy levels reached 51.9 percent, up 7.0 percent over the same period last year while average daily room rates reached $62.82, up 11.0 percent over the same period in 1999.

- As with most lodging markets, hotels in Fayetteville are subject to seasonal fluctuations in demand. The off-season corresponds to the months of December and January when students at the University of Arkansas are away on break and most business travelers are also at home. Differences between weekday and weekend demand tends to be less pronounced for hotels in Fayetteville due to positive impact of major sporting events at the University which are usually held on weekends. This is particularly true during the football and basketball season. In contrast, hotels in Bentonville are much more likely to experience significant variations in demand between weekdays and weekends.

Subject Property Performance

- On the basis of our evaluation and analysis of existing and potential demand in the local lodging market, the subject hotel's location, concept and orientation, we have estimated the following patterns of occupancy for the subject hotel's first ten years of operation as presented in the following table.

Estimated Occupancy
Proposed 105-unit Crowne Plaza Hotel
Downtown Fayetteville, Arkansas

Year	Occupancy %
2002	60%
2003	64
2004	68
2005	68
2006-2011	68

Source: International Hospitality Advisors

- The foregoing occupancy levels were estimated based on the assumption that the subject hotel will generate its demand from the following demand segments during a representative year as follows.

Market Segmentation – Representative Year
Proposed 105-unit Crowne Plaza Hotel
Downtown Fayetteville, Arkansas

Market Segment	Ratio to Total
Individual Corporate Demand	65.0%
Leisure Demand	25.0
Group/Other Demand	10.0
Total	100.0%

Source: International Hospitality Advisors

- We have estimated an annual average daily room rate of U.S. $95.00 in current value 2000 dollars. Assuming 2002 to be the first full year of operations and applying inflation and appropriate discounting, we believe this would equate to U.S.$95.50 for that year, increasing to U.S.$131.50 in 2011, the tenth year of operation.

Estimated Operating Results

- Our estimates of income and expenses for the first ten years of operation, considering inflation and other market factors, reflect a profit before other deductions such as depreciation, amortization, income taxes and interest as detailed in the following table.

Estimated Operating Results
Redeveloped 105-unit Crowne Plaza Hotel
Downtown Fayetteville, Arkansas

			Income Before Other Deductions*		
Year	Estimated Occupancy	Average Daily Rate	Total ($000)	Ratio to Total Revenues	Per Available Room $
2002	60%	$ 95.50	$ 761,000	30.0%	$ 7,248
2003	64	103.75	987,000	33.9	9,400
2004	68	107.00	1,095,000	34.5	10,429
2005	68	110.25	1,105,000	33.8	10,524
2006	68	113.50	1,137,000	33.8	10,829
2007	68	116.75	1,170,000	33.8	11,143
2008	68	120.25	1,205,000	33.8	11,476
2009	68	124.00	1,245,000	33.8	11,857
2010	68	127.75	1,282,000	33.8	12,210
2011	68	131.50	1,318,000	33.8	12,552

* Other deductions include interest, depreciation, amortization, and income taxes.

Source: International Hospitality Advisors

Recommendations

On the basis of our analysis of existing comparable properties, we submit the following recommendations and comments for consideration in order to assist the subject property in establishing a quality reputation within the indicated markets.

- **Guests Rooms** - The subject hotel will offer 105 well-appointed guest rooms and suites that meet Crowne Plaza Hotels' size requirements. In consideration of the anticipated demand mix for the subject hotel, we recommend a room mix as follows:

Guest Room Mix Proposed 105-unit Crowne Plaza Hotel Downtown Fayetteville, Arkansas		
Unit Type	**Room Mix**	**Percent**
King	55	52.0%
Double/Double	20	19.0
Junior Suites	30	29.0
Total	105	100.0%
International Hospitality Advisors		

In addition to meeting Crowne Plaza Hotels' room amenity requirements, the following should be considered for all guest rooms and suites:

- Electronic card door locking system;
- High-quality toiletries such as shampoos, conditioners and moisturizers;
- Wall-mounted hair dryer;
- In-room hospitality center featuring a microwave, mini refrigerator and coffee maker;
- Bottled mineral water;
- Remote-controlled cable television;
- Oversized towels and choice of pillows;
- Full-length mirrors, make-up mirrors and a selection of hangars;
- In-room safes for guest valuables;
- Seating area offering an easy chair and ottoman;
- Direct-dial telephones, two per guest room (workdesk and bedside) with voice mail, dual line, speaker phone capabilities and data ports;
- A spacious, efficient work desk with ergonomic chair, desk-level electrical outlets, adjustable halogen desk light and computer-ready layout;
- Utility saving devices.
- Non-smoking rooms should also be provided within each room type.

- **Recommended Room Rates** - Given the quality of facilities and services proposed (and recommended) at the subject property, we recommend published room rate ranges be established as follows in 2000 dollars:

Recommended Published Room Rates
Proposed 105-unit Crowne Plaza Hotel
Downtown Fayetteville, Arkansas

Room Type	Published Rates	Discount Rates
King	$105.00	$ 75.00 - $ 95.00
Double/Double	$115.00	$ 80.00 - $110.00
Junior Suites	$115.00	$ 80.00 - $110.00

Source: International Hospitality Advisors

- **Food and Beverage Facilities** - We recommend the following food and beverage outlets.
  - A casual multi-purpose restaurant containing approximately 75 seats;
  - A comfortable spill-over lounge containing approximately 40 seats;
  - A poolside bar and grill with seating for approximately 25 persons;

It should be noted that two restaurants (Hoffbrau and A Taste of Thai) located on Center Street are part of a building that is owned by the developer and can be accessed directly from the hotel.

- **Meeting and Banquet Space** - The following meeting and banquet space is recommended for the subject hotel:
  - A main ballroom of 2,000 square feet divisible into two sections and capable of accommodating 100 persons banquet-style;
  - Several smaller breakout rooms totaling approximately 2,000 square feet;
  - A well-equipped boardroom of approximately 500 square feet;
  - A former lounge located in the basement of the hotel could provide additional space for banquets and meetings, as required.

- **Other Guest Services and Amenities** - Other facilities and services recommended for the redeveloped hotel include:

  - A well-equipped, 1,200 square foot fitness center and spa offering an exercise room, a sauna, massage facilities and beauty salon;
  - A state-of-the-art business center;
  - A swimming pool on the third level of the building;
  - Selected retail with direct public access totaling approximately 13,000 square feet;
  - A six-story parking structure with parking for 98 cars. As mentioned previously, two additional levels could be added bringing the total parking inventory to 141 spaces;
  - 18-hour room service;
  - In-house valet/laundry facilities;

Management and Marketing

To adequately establish a reputation as a first-class, boutique hotel, it will be necessary for the subject property in addition to providing quality facilities and services, to maintain aggressive, on-going advertising and promotional programs aimed at the key demand sources. Fundamental to the projections presented in this report is the assumption that the subject hotel will be affiliated and managed by a well-recognized international hotel company such as Crowne Plaza that offers access to a worldwide reservation and marketing network. Furthermore, we have assumed a strong and aggressive management team that is experienced in the operation and marketing of downtown, commercially-oriented hotels.

Condominium Sales

Given the strength of the local real estate market, we recommend the inclusion of approximately 15 one-, two- and three-bedroom condominium units ranging in size between 1,400 and 1,800 square feet. Based on an analysis of the local condominium market, it is our opinion that these units could be sold for between $180.00 - $185.00 per square foot or between $252,000 to $324,000 per unit. The following table presents our recommendations of unit mix and pricing for the condominium component.

Condominium Component
Proposed Crowne Plaza Hotel
Downtown Fayetteville, Arkansas

Unit Type	Unit Mix	Unit Size	Sales Price
One-Bedroom	3	1,400	$252,000
Two-Bedroom	10	1,600	296,000
Three-Bedroom	2	1,800	324,000
	15		

Source: International Hospitality Advisors

STELLA BELLA PLAZA, LLC
FAYETTEVILLE, ARKANSAS

SECTION III

SITE EVALUATION

AUGUST 2000

PROPERTY LOCATION AND DESCRIPTION

The subject seven-story property is located at the intersection of College Avenue and Mountain Street in Downtown Fayetteville, Arkansas overlooking the landmark Old Courthouse Building and the John Paul Hammerschmidt Federal Building. The site is rectangular shaped with approximately 102.6 feet of frontage on College Avenue and 200 feet of frontage on Mountain Street.

The property is bordered to the east by College Avenue and the Old Courthouse Building, to the south by Mountain Street and the John Paul Hammerschmidt Federal Building, to the north by Center Street and to the west by East Avenue. Access to site is considered excellent. The hotel can be easily accessed via College Avenue, Mountain Street and Center Street. Visibility along these thoroughfares is also considered excellent. Photographs of the subject property and a site location map are presented at the end of this section.

SALIENT CHARACTERISTICS OF THE SITE

Site Advantages

The subject site benefits from several significant advantages:

- Location in the heart of historic downtown Fayetteville, which is undergoing a major renaissance characterized by the renovation and re-development of numerous buildings, road improvements and significant investment in retail, dining, residential condominiums and recreational facilities;

- Proximity to the University of Arkansas campus, the principal demand generator for hotel accommodations in Fayetteville. The University is situated less than two miles from the subject site;

- Proximity to Dickson Street, the premier dining and entertainment thoroughfare in Fayetteville and the surrounding two-county area. Dickson Street, located within walking distance of the subject property is part of a major redevelopment effort designed to make the street more pedestrian-friendly and entertainment-oriented;

- Excellent frontage on both College Avenue and Mountain Street, two principal streets in downtown Fayetteville;

- Easy access to all points within the city and to the Interstate highway system;

- Excellent visibility from College Avenue, Mountain Street and Center Street providing for maximum exposure to the public;

- Within walking distance of the 14,000-square foot Town Center convention facility which is currently under construction and scheduled for completion in mid-2001. The Center is expected to serve as a catalyst for new room night demand for hotels in downtown Fayetteville;

- Proximity to other area demand generators including the Federal Building, the County Courthouse and area companies;

- Availability of all utilities to the site including water, electricity, sewerage and telephone hook-up;

- Adequate parking in a five-story parking garage facility located adjacent to the hotel;

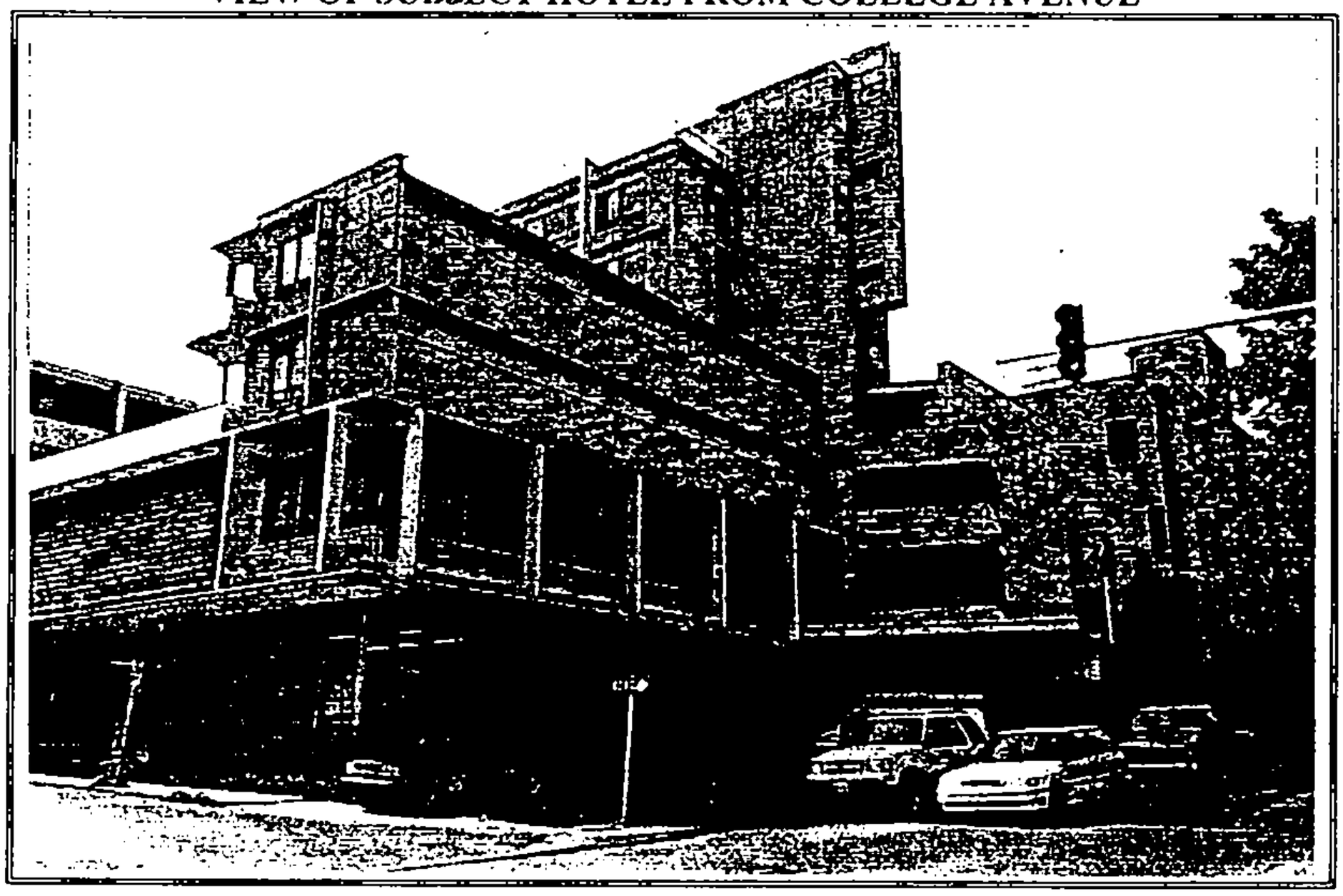
Site Disadvantages

In our opinion, the site suffers from no material disadvantages.

CONCLUSION

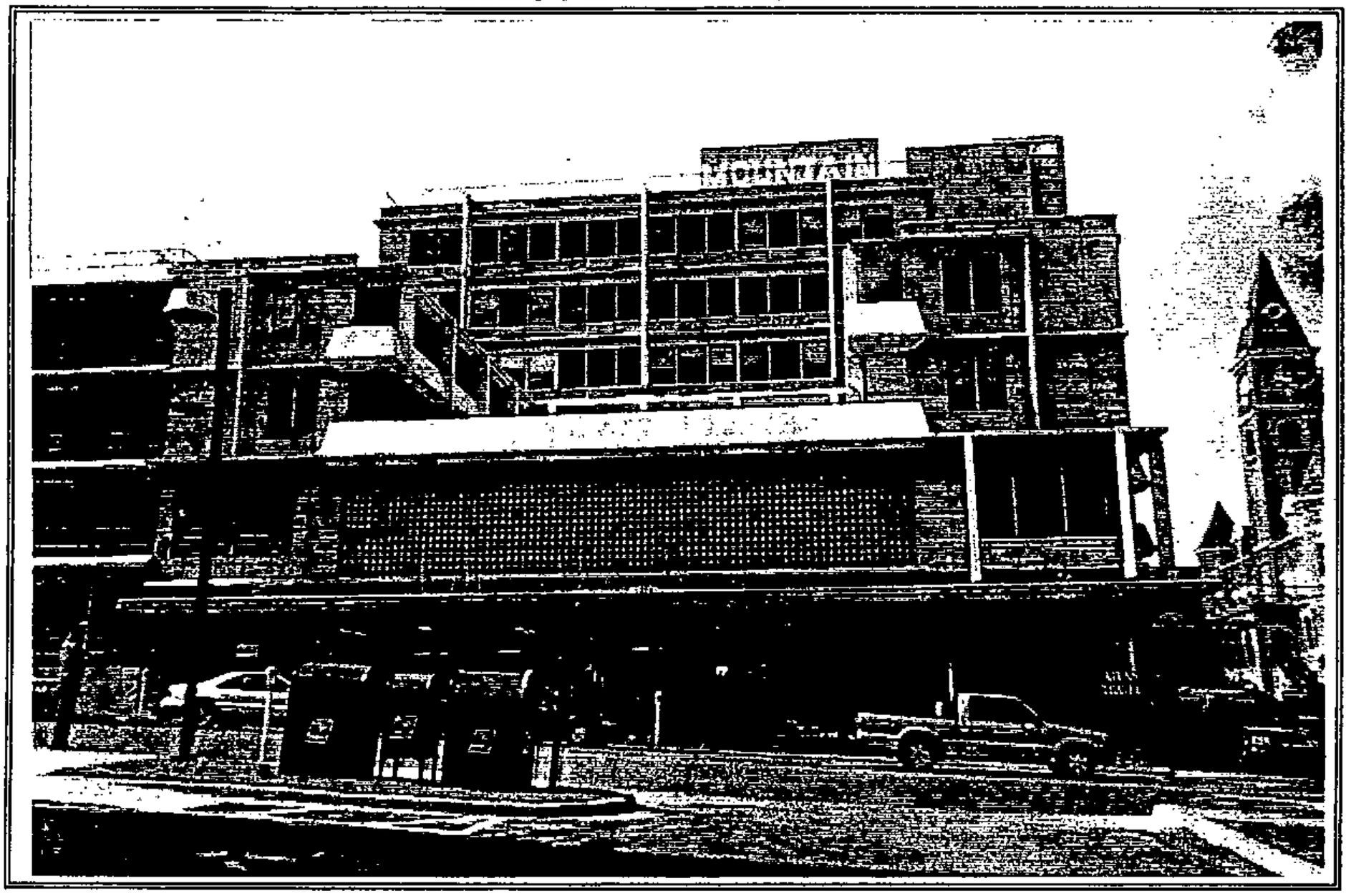
It is our opinion that the location and physical attributes of the existing property are well-suited for redevelopment as a chain-affiliated, boutique hotel as envisioned and recommended.

VIEW OF SUBJECT HOTEL FROM COLLEGE AVENUE

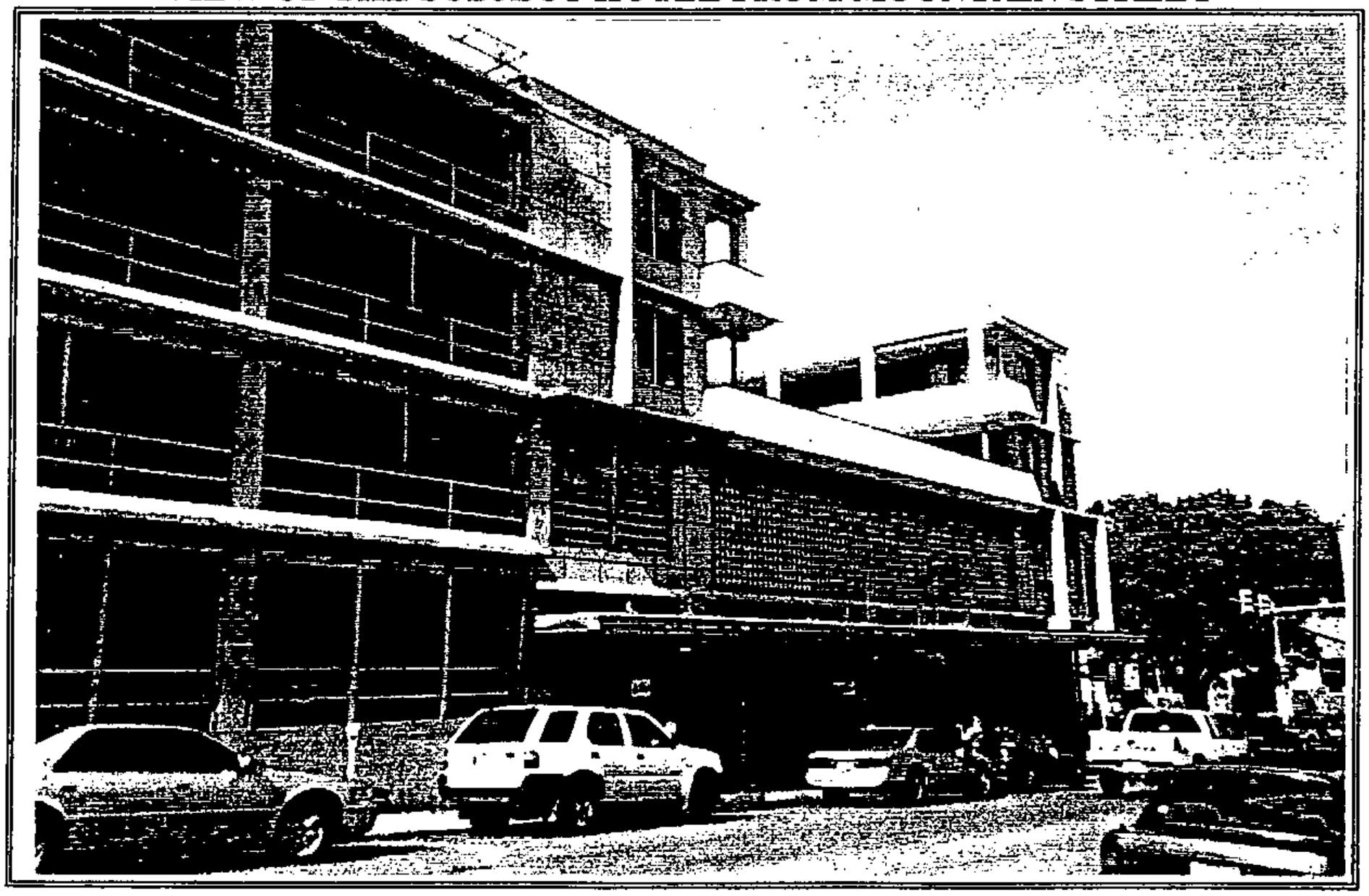


VIEW OF THE SUBJECT HOTEL FROM CENTER STREET

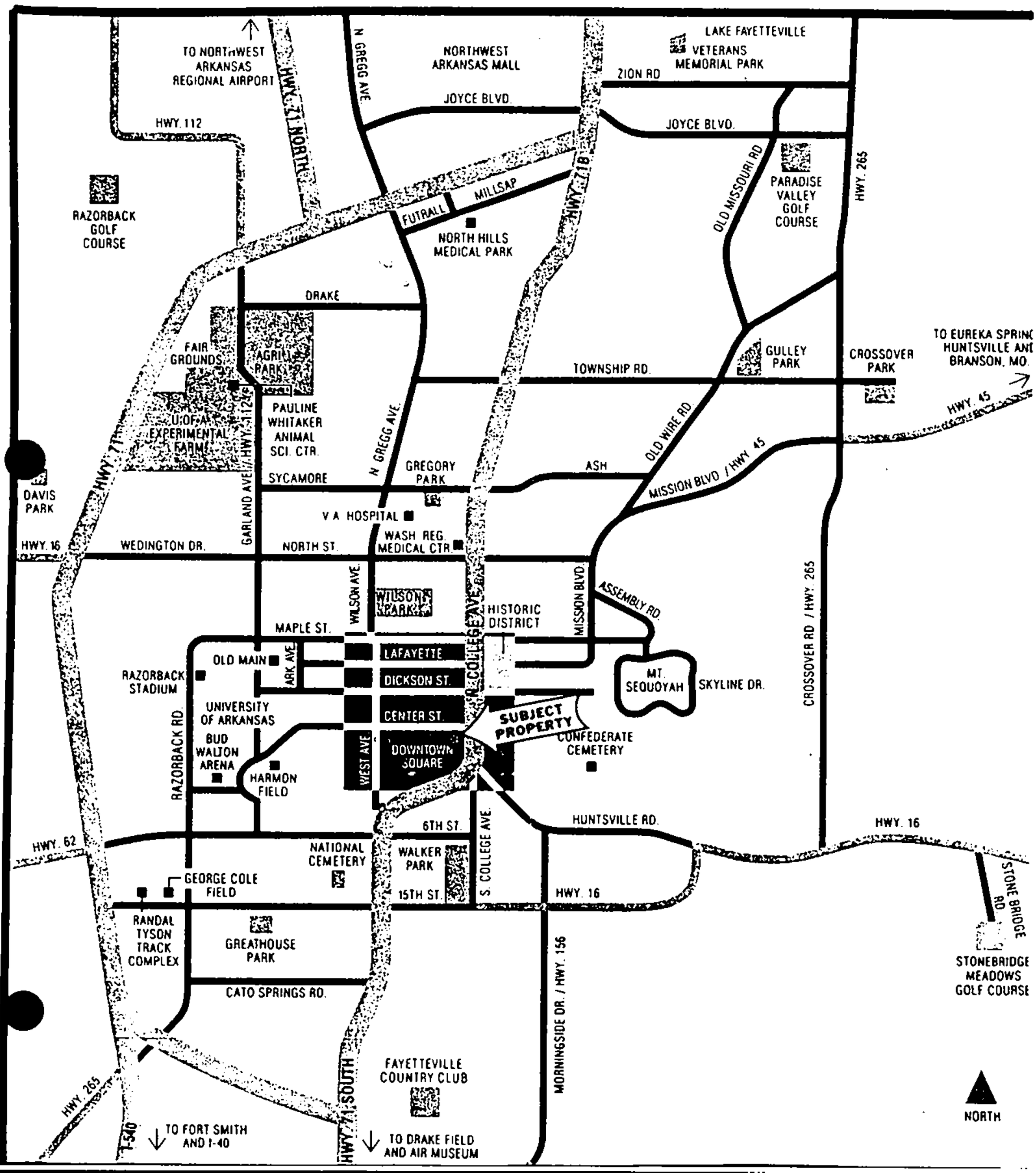
VIEW OF THE SUBJECT HOTEL FROM MOUNTAIN STREET



VIEW OF THE SUBJECT HOTEL FROM MOUNTAIN STREET



Site Location



STELLA BELLA PLAZA, LLC
FAYETTEVILLE, ARKANSAS

SECTION IV

AREA OVERVIEW OF FAYETTEVILLE

AUGUST 2000

INTRODUCTION

The seat of Washington County, Fayetteville is nestled against the Boston Mountains (foothills to the Ozark Mountains) in northwest Arkansas approximately 25 miles from the Missouri state line and 15 miles from Oklahoma. Fayetteville is the largest city within the two-county Metropolitan Statistical Area (MSA) which comprises Washington and neighboring Benton counties.

Northwest Arkansas is one of the wealthiest regions of the state with a stable, diversified, economy and low unemployment. The region's economic stability is fueled by the presence of the University of Arkansas, the headquarters of several major companies including WalMart, Tyson Foods and J. B. Hunt, as well as, thriving manufacturing and retail sectors.

POPULATION

The Fayetteville-Springdale-Rogers Metropolitan Statistical Area (MSA) includes both Washington and Benton Counties and is currently ranked the eighth fastest growing MSA in the country. The population of the MSA has increased from 246,300 persons in 1995 to 275,300 persons in 1999, representing a compound annual growth rate of 2.8 percent. By comparison, the population for the State of Arkansas has increased from 2,466,300 persons in 1995 to 2,552,100 persons in 1999, representing a compound annual growth rate of 0.86 percent. The population of the city of Fayetteville has grown from 53,900 persons in 1997 to 58,200 persons in 1999, representing a compound annual growth of 3.9 percent. The MSA's population is projected to increase to 305,600 persons by 2004, a growth rate of 2.1 percent.

EMPLOYMENT

The strength of an area's economic character is partly reflected in the distribution of its employment base by industry sector. Total non-agricultural employment for the MSA has increased from 110,475 persons in 1990 to 139,900 persons in 1999, representing a compound annual growth rate of 2.7 percent. As evidenced in the following table, retail trade, manufacturing and services represent the largest sectors of the local economy.

The following two tables present a breakdown of non-farm employment in the MSA for May 2000 and a list of major employers.

Non-Farm Employment by Industry Sector –May 2000
Fayetteville-Springdale-Rogers MSA
Arkansas

Sector	Employed	Percent
Construction	6,500	4.2%
Manufacturing	35,900	23.2
Transportation & Public Utilities	10,600	6.9
Wholesale Trade	5,700	3.7
Retail Trade	38,200	24.7
Finance, Insurance & Real Estate	5,700	3.7
Services	31,300	20.3
Government	20,600	13.3
Total	154,500	100.0%

Source: Fayetteville Chamber of Commerce

Major Area Employers
Northwest Arkansas

Company	Location	Product	Employees
Wal-Mart Stores	Bentonville	Corporate Headquarters	5,000 +
University of Arkansas	Fayetteville	Education	2,500 +
George's, Inc.	Springdale	Poultry Processing	2,500 +
Tyson's – Three Plants	Rogers	Poultry Processing	1,800 +
First Brands	Rogers	Glad Bags	1,000 +
Simmons Corp.	Siloam Springs	Poultry Products	1,000 +
Superior Industries	Fayetteville	Cast Aluminum Wheels	1,000 +
Danaher Tool Group	Springdale	Small Hand Tools	900
Emerson Electric	Rogers	Motors	850
Vlassic Foods	Fayetteville	Frozen Foods	800

Source: Fayetteville Chamber of Commerce

The unemployment rate for the MSA has declined from 4.0 percent in 1990 to 2.4 percent in 1999. Year-to-date though May 2000, the unemployment rate stood at 2.0 percent. The following table presents historical trends in unemployment for the period 1990 through 1999.

Historical Unemployment Trends Fayetteville-Springdale-Rogers MSA Arkansas	
Year	**Rate**
1990	4.0%
1991	3.9
1992	3.7
1993	3.0
1994	2.7
1995	2.6
1996	2.6
1997	3.2
1998	3.4
1999	2.4
Source: Fayetteville Chamber of Commerce	

UNIVERSITY OF ARKANSAS

Established in 1871, the University of Arkansas situated in downtown Fayetteville offers more than 230 undergraduate and graduate degrees in more than 150 fields of study. In the Fall 1999, enrollment totaled 15,226 students. Demand generated through academic and athletic events at the University account for the largest source of room nights for hotels in the Fayetteville area.

ARKANSAS RESEARCH AND TECHNOLOGY PARK

Fayetteville is the site of the first new high-tech "fiberpark" installed by Southwestern Bell Telephone Company in Arkansas. The first of several projects throughout the state, it is designed to make Northwest Arkansas more attractive to new industry.

TOWN CENTER CONVENTION FACILITY

Currently under construction on Fayetteville's downtown square is the new state-of-the-art Town Center convention facility scheduled for completion by mid-2001. The facility offers 14,000 square feet of column-free space all on one level; 10,000 square feet of show offices, pre-function and kitchen area and extensive support services. When completed, the facility is expected to serve as an important source of new room night demand for hotels in the downtown Fayetteville area.

INFRASTRUCTURE

Highways

The Fayetteville area is well served by federal, state, county and city roadways. Major highways in the area include Interstate-540 and Highway 71B. The newly completed Interstate-540, connects the cities of Bentonville, Rogers, Springdale and Fayetteville with Interstate-40 to the south while Highway 71B (College Avenue) serves as the principal business corridor through Fayetteville, Springdale and Rogers.

Airports

Opened in November 1998, Northwest Arkansas Regional Airport (NWARA) is the principal commercial airport in the region. The airport, built at a cost of $107 million, is served by American Eagle, Atlantic Southeast Airlines/Delta Connection, TransWorld Express, Northwest Airlink and US Airways Express. These carriers provide convenient daily connections to Dallas, Chicago, Atlanta, St. Louis, Memphis and Kansas City. In 1999, passenger enplanements and deplanements totaled 653,000 persons. Year-to-date through June 2000, passenger volumes have increased 24 percent over the same period in the previous year. The new airport is expected to serve as a major catalyst for new investment and development throughout the MSA.

CONCLUSION

Overall, the Fayetteville-Springdale-Rogers MSA has grown significantly over the past five years. The area growth is attributable to several factors which include the continued expansion of the University of Arkansas, the presence of major corporations such as Wal-Mart and Tyson Foods and the opening of the new Northwest Arkansas Regional Airport. This growth is expected to continue at a strong pace as new development occurs throughout the MSA.

STELLA BELLA PLAZA, LLC
FAYETTEVILLE, ARKANSAS

SECTION V

HOTEL MARKET SUPPLY AND DEMAND

AUGUST 2000

INTRODUCTION

The total lodging supply in the two-county area comprising Washington and Benton Counties at the end of June 2000, consisted of 55 lodging facilities with a total of approximately 4,154 available rooms. Fayetteville accounts for approximately 1,522 of the available room supply or 37 percent of the total.

A vast majority of the local lodging market is comprised of chain-affiliated, or non-affiliated limited service properties of less than 100 rooms, most of which are located at major intersections along Interstate-540. Hotel chains currently represented in the market include Baymont Inns, Best Western, Comfort Inn, Clarion Inn, Courtyard by Marriott, Days Inn, Econolodge, Fairfield Inn & Suites, Hampton Inn, Hilton, Hilton Garden Inn, Holiday Inn, Holiday Inn Express, Motel 6, Park Inn, Quality Inn, Ramada Inn, Red Roof Inns, Scottish Inns, SpringHill Suites, Sleep Inn and Super 8.

Following the opening in late 1998 of the new Northwest Arkansas Regional Airport in Benton County, seven new hotels totaling 586 rooms have been added to the local lodging market. All of this new hotel development has occurred in the cities of Bentonville and Rogers both of which are located in Benton County. Specifically, new hotels that have opened within the last two years include a Clarion Inn, Holiday Inn Express & Suites, Sleep Inn, SpringHill Suites, Superior Inn, Hilton Garden Inn and a Hampton Inn.

COMPARABLE LODGING SUPPLY

As mentioned previously, a vast majority of the local lodging inventory in both Washington and Benton counties is comprised of chain-affiliated, limited-service properties located along Interstate-540. Furthermore, with the exception of the 235-room Hilton Hotel, there are presently no high-quality, full-service hotels located in the downtown Fayetteville area.

As such, given the current lack of existing hotels in the two-county area that would be truly competitive and comparable to the proposed Crowne Plaza Hotel, we believe that a strictly textbook analysis of the marketability of the subject property would not provide a clear indication of the project's potential. In a typical situation, we would compare within a narrowly

defined geographic market, the growth in the supply and demand for competitive hotel rooms. Through the application of market penetration factors, which indicate our opinion of the proposed hotel's ability to penetrate the various demand segments being captured in the area, we would then derive estimates of occupancy levels that we believe could be achieved by the proposed hotel.

Since there is no adequate set of comparable hotels in the two-county area, it would be impossible to form a realistic conclusion regarding the potential marketability of the subject hotel based on these standard and normally accepted analytical techniques. As such, we have evaluated the subject hotel project based on the following methodology:

- Selected chain-affiliated hotels within the local lodging market were grouped together to provide indications of the potential performance of the proposed hotel;

- We then identified specific properties within the local lodging market that would compete directly with the subject hotel for some or all of the demand segments; or would be comparable to the subject hotel in terms of scope of operations but might not compete directly for the same set of potential guests. We used the operational characteristics of these hotels to measure the propensity of the targeted demand segments to seek accommodations in the individual sub-markets, rather than as a away to catalogue actual demonstrated demand captured within the sub-market. Though these hotels are not directly comparable to the subject in every aspect, each property's performance and ability to capture the desired demand segments, is indicative of the potential success of the proposed hotel. As such, the performance of these hotels, were used primarily as benchmarks for the rates and occupancy levels expected to be achieved by the subject, rather than points of direct comparison;

- Based on the aforementioned analysis, we estimated occupancy levels that we believe the proposed hotel could achieve in its first ten years of operation, beginning in the year 2002. Our analysis was based on such specific factors as:

  - Proposed management, chain-affiliation, location and envisioned product offering of the subject hotel;

  - The current and future economic environment for Northwest Arkansas;

  - Access from principal feeder markets;

  - The diversity of the area's lodging base;

- The quality, orientation and product offering of existing hotels;
- Historical trends in market occupancy, average daily room rate and REVPAR;
- The achieved occupancy and average daily room rates of selected local hotels;
- The potential impact of additional comparable hotels that could be developed during the projection period;
- The potential impact of the Northwest Arkansas Regional Airport on area development and the location of new lodging additions to the marketplace.

- Once we identified the market segmentation the subject hotel could achieve during a representative year of operation, we estimated the average daily room rate in current value 2000 dollars. The average daily room rate was based on the net room rates achieved by selected hotels in the local area, modified to reflect characteristics unique to the subject hotel that would influence rates such as location, size of property, quality level, orientation, affiliation and facilities offered.

Fayetteville Lodging Market

Based on our fieldwork, the selected chain-affiliated hotel supply in Fayetteville includes a mix of nine full-service and limited-service hotels with a total of 1,053 available rooms. The selected lodging market has experienced a significant increase in hotel room supply over the last several years. Specifically, room supply has increased from 296,380 available rooms in 1994 to 384,345 rooms in 1999, representing a compound annual growth rate of 5.3 percent. Much of the lodging additions in Fayetteville occurred during the latter half of 1995, with smaller additions in 1997.

Market demand has however, not kept pace with supply, increasing from 178,336 room nights in 1994 to 203,982 room nights in 1998 and declining to 188,959 room nights in 1999, representing a compound annual growth rate of only 1.1 percent. The decline in room night demand in 1999, can be directly attributed to the significant increase of new hotel rooms in the Bentonville area following the opening of the Northwest Arkansas Regional Airport. The following table lists the selected chain-affiliated hotels in Fayetteville and their respective number of rooms.

LODGING DEMAND ANALYSIS

Introduction

In this portion of the report, we evaluate the level of demand for lodging accommodations in Fayetteville and the characteristics of that demand. The results are based on specific primary research conducted for this project, as well as, our in-house database.

Historical Lodging Market Performance

As discussed previously in the section, total occupied room nights for the selected chain-affiliated hotel in Fayetteville increased from 178,336 room nights in 1994 to 188,959 room nights in 1999, representing a compound annual growth rate of only 1.1 percent. Market occupancy also declined from 60.2 percent in 1994 to 49.2 percent in 1999, reflecting the negative impact of significant new room supply in the neighboring Bentonville area following the opening of the new regional airport. It should be noted however, that this trend appears to be reversing itself as the new supply is absorbed by the market and existing hotels reposition themselves. For the first five months of 2000, room night demand has increase 6.9 percent over the same period in the previous year, while occupancy levels increased 7.0 percent over the previous year.

Despite significant declines in occupancy levels the average daily room rate for the selected market increased from $49.57 in 1994 to $58.61 in 1999, representing a compound annual growth rate of 3.4 percent. Year-to-date through May 2000, average daily room rates reached $62.82, up 10.9 percent over the same period in the previous year. Over the medium term, we estimate a modest increase in average daily room rates as a moderate amount of new hotel supply is added to the market and existing new supply is absorbed by the marketplace.

RevPar (Revenue per Available Room) achieved by the selected market decreased from $29.83 in 1994 to $28.82 in 1999, representing a decline of 0.68 percent. The decline is attributable to the significant increase in new room supply over the past two years. Year-to-date through May 2000, RevPar for the selected market reached $32.60, up to 18.9 percent over the same period in 1999. The following table presents the historical trend in occupancy, average daily room rate, occupied room nights and RevPar for the selected market.

Historical Performance – Selected Market
Fayetteville, Arkansas

Year	Occupancy	Occupied Room Nights	Average Daily Room Rate	RevPar
1994	60.2%	178,336	$49.57	$29.83
1995	57.3	184,832	$51.84	$29.73
1996	50.2	192,064	$51.79	$26.00
1997	52.7	202,436	$52.05	$27.42
1998	53.1	203,982	$54.64	$29.00
1999	49.2	188,959	$58.61	$28.82
CAG[1] 1994-99	(3.9%)	1.1%	3.4%	(0.68%)
YTD May 1999	48.5%	77,165	$56.62	$27.46
YTD May 2000	51.9%	82,465	$62.82	$32.60
Growth %	7.0%	6.9%	10.9%	18.7%

[1] Compound Annual Growth
Source: International Hospitality Advisors

Market Segmentation

Through interviews with management at the hotels listed previously in this section, we have determined that demand for local lodging accommodations currently emanates from the following sources:

- **Corporate Demand:** This segment represents the largest overall source of demand for the selected hotels in Fayetteville, as well as, the neighboring cities of Springdale, Rogers and Bentonville. Demand from this segment is comprised of business professionals, sales personnel and technical persons visiting the corporate headquarters of major corporations such as WalMart, Tyson Foods and J. B. Hunt, as well as, other manufacturing and retail establishments in the area. The University of Arkansas, through its various academic programs is also a major generator of corporate lodging demand for hotels in the area. The following points define the salient characteristics of corporate travelers to Fayetteville and the neighboring communities:

- Preference for hotels within close proximity to the respective place of business;
- Corporate demand is largely comprised of individual travelers, which translates into a low double occupancy factor;
- Typical length of stay is two to three nights with the highest demand occurring from Monday through Thursday nights;
- Preference for accommodations that provide for a strong sense of security in addition to typical business and recreational facilities.

- **Leisure Demand:** Demand from this segment is largely derived through the various athletic programs at the University of Arkansas. In particular, the University's football and basketball programs are important sources of weekend demand particularly during the fall and spring months. Area hotels are usually sold out well in advance and command premium rates during these events. Several regional recreational events such as the War Eagle Crafts Fair (held in May and October) are also important sources of leisure demand for area hotels.

- **Group/Other Demand:** Included in this segment is demand originating from corporate groups, state association conventions, airline crews and other non-specified demand. Based on conversations with local hoteliers and meeting coordinators, the months of April and October are the preferred months for meeting and convention activity. The scheduled opening of the Town Center convention facility in downtown Fayetteville in mid-2001 is expected to serve as a major catalyst for attracting more regional conventions to the benefit of hotels in Fayetteville, particularly those located in the downtown area.

Seasonality and Timing of Demand

Conversations with hotel operators and tourism officials in Fayetteville indicate that the local lodging market is impacted by seasonality of demand considerations. Generally speaking, the months of December and January represent the slowest periods of the year. For the rest of the year, demand remains relatively consistent. Furthermore, given the predominantly commercial orientation of the market, there are marked variations in occupancy levels between mid-week and weekend nights. Differences between weekday and weekend demand however, tends to be less pronounced for hotels in Fayetteville due to the positive impact of major sporting events at the University which are usually held on weekends. This is particularly true during the football and basketball season. In contrast, hotels in the Bentonville are much more likely to experience significant variations in demand between weekday and weekends. The following table presents a breakdown of market seasonality by month.

Selected Hotels Seasonality of Demand Fayetteville, Arkansas	
Month	**Days**
Peak Season	
April	30
May	31
June	30
October	31
Sub-Total	122
Shoulder Season	
February	28
March	31
July	31
August	31
November	30
Sub-Total	151
Low Season	
January	31
December	31
Sub-Total	62
Total	365
Source: International Hospitality Advisors	

CONCLUSION

Our review of the local lodging market indicates sufficient existing and potential demand to support the operation of a 105-unit, Crowne Plaza-affiliated boutique hotel as recommended. Area hotels, particularly in Fayetteville, have been negatively impacted by a significant increase in new lodging supply over in neighboring Bentonville and Rogers over the past two years following the opening of the Northwest Arkansas Regional Airport. Nevertheless, market trends suggest that the new supply is being absorbed by the marketplace and only a limited amount of new additions are scheduled for development over the medium term. Continued economic strength and growth of traditional source markets, coupled with the emergence of new demand segments and aggressive marketing efforts by local civic leaders should bode well for continued growth in lodging demand for Fayetteville.

STELLA BELLA PLAZA, LLC
FAYETTEVILLE, ARKANSAS

SECTION VI

ESTIMATED MARKET POSITION

AUGUST 2000

MARKET POSITION

In a typical market study, the projected occupancy of a proposed hotel would be estimated based on our opinion of its ability to penetrate the competitive lodging environment and capture its share of demand. This penetration analysis would result in a penetration ratio defined as the percentage of room nights captured relative to the property's fair share. A property's fair share, in turn, is determined by dividing the subject property's number of guestrooms by the total number of guestrooms in the competitive supply (including the subject property).

Market penetration is based on the attributes of a hotel relative to the competitive marketplace and is defined as the percentage of demand allocated to a given property on the basis of such competitive characteristics as location, appearance, rate structure, age, affiliation, reputation, facilities, services and amenities. The higher the penetration, the higher the occupancy. Factors indicating a hotel would have competitive advantages suggest market penetration in excess of 100 percent, while competitive weaknesses are reflected in penetration ratios of less than 100 percent. Given the nature of the comparable/competitive market we are addressing in this engagement, we believe such an evaluation would not present a clear representation of the proposed hotel's potential marketability. Therefore, in lieu of a traditional penetration analysis, we present here a list of factors that, taken as a whole, we believe demonstrates the potential marketability of the proposed 85-unit, Crowne Plaza-affiliated boutique hotel at the levels projected.

Contributing Factors

- **Site:** The location and configuration of the subject property is most conducive to a small, mixed-use development of the type proposed and recommended;

- **Downtown Fayetteville:** The downtown Fayetteville area is undergoing a major renaissance with the redevelopment of many historic buildings and the creation of an entertainment core along Dickson Street. As such, downtown Fayetteville has evolved into the preferred entertainment and recreation destination in the Northwest Arkansas region. A testimony to the success of these redevelopment efforts is the strength of the retail market and a growing trend by residents to purchase apartments in the downtown core at premium prices;

- **Product Offering:** A vast majority of the existing and recently opened lodging supply in the competitive market is comprised of chain-affiliated, limited-service properties that are all very similar in product offering, orientation and location. A notable exception is the highly successful, 49-unit *Inn at the Mill* located in nearby Johnson. The Clarion Carriage House-affiliated property offers a unique product offering (incorporated into a historic mill with

eight one-of-a-kind fantasy suites), a signature restaurant and excellent service. As a result, the property enjoys a loyal, corporate clientele during the week and local leisure clientele on weekends. The property is projected to achieve an annual occupancy in the low 70 percent range with an average daily room rate of between $85.00 to $90.00. In our opinion, given the location, history and configuration of the subject property, an excellent opportunity exists to provide a unique product offering and lodging experience that caters to a select niche market;

- **Local Lodging Environment:** As detailed previously in this report, following the opening of the Northwest Arkansas Regional Airport (NWARA) several new hotels were opened primarily in Bentonville. As a consequence, hotels in Fayetteville experienced a significant (albeit temporary) decline in demand particularly with respect to the corporate segment. As such, a mixed-use development that combines a small hotel with condominium and retail components significantly helps to mitigate the development and market risk associated with the project while enhancing the overall economics and funding potential for the development;

- **Lack of Direct Competition:** The 235-unit Hilton Hotel is the most closely comparable lodging property to the subject in downtown Fayetteville. The Hilton is projected to achieve an annual occupancy in the mid-50 percent range with an average daily room rate between $85.00 and $90.00 in 2000. Despite recent renovations, however, the property appears dated and unattractive. In our opinion, an excellent opportunity exists for the subject hotel to capture a portion of the demand that currently patronizes the Hilton and become the preferred lodging choice in Downtown Fayetteville;

- **Management and Chain-Affiliation**: The subject hotel is to be managed and affiliated with Crowne Plaza Hotels, a well-recognized international hotel company with extensive experience in operating first-class, commercially oriented hotels throughout the world. The affiliation with Crowne Plaza also provides access to a well-developed global reservation and marketing network. In our opinion, the ability to offer a well-recognized hotel brand coupled with consistent service, a unique product offering and access to a well-developed reservation network will provide a needed marketing edge for the subject hotel to compete effectively in the local lodging market;

It should be noted that there are limiting factors associated with the marketability of the subject property:

- **Seasonality and Timing of Demand:** The subject hotel will be influenced by seasonal and timing fluctuations in demand. Management's success in attracting a more diversified base will be instrumental in reducing overall seasonality of demand;

- **Supply Additions**: As evidenced, previous supply additions have negatively impacted overall occupancy and demand levels for hotels in Fayetteville. As such, the ability to provide a truly unique hotel product and lodging experience will be critical in helping to distinguish the subject hotel and mitigating the impact of future supply additions.

SUBJECT PROPERTY PERFORMANCE

Estimated Occupancy

As discussed previously, the subject hotel would be impacted by seasonality and timing of demand considerations. In the following table we present our estimates of occupancy by market demand segment for a representative year considering the impact of seasonality and timing of demand.

Occupancy and Market Mix by Season
Proposed 105-unit Crowne Plaza Hotel
Downtown Fayetteville, Arkansas

Segment	Peak	Shoulder	Other	Total
Corporate Demand				
% of Demand	69%	62%	65%	65%
Room Nights Captured	6,776	8,470	1,694	16,940
Leisure Demand				
% of Demand	20%	29%	25%	25%
Room Nights Captured	1,955	3,909	652	6,515
Group/Other Demand				
% of Demand	11%	10%	10%	10%
Room Nights Captured	1,042	1,303	261	2,606
Total Occupied Room Nights	9,773	13,682	2,606	26,061
Estimated Occupancy	76%	72%	40%	68%

Source: International Hospitality Advisors

Based on the factors presented previously, we believe that the redeveloped 105-unit Crowne Plaza–affiliated hotel could achieve a stabilized occupancy of 68.0 percent over its economic life. (We define economic life as the cycle of business activity of the property affected by such factors as demand, competition, obsolescence and inflation). Using the 68.0 percent stabilized ratio as a benchmark, we have projected occupancy levels for the proposed hotel's first ten years of operation as presented in the following table.

Estimated Occupancy
Proposed 105-unit Crowne Plaza Hotel
Downtown Fayetteville, Arkansas

Year	Estimated Occupancy
2002	60.0%
2003	64.0
2004	68.0
2005 - 2011	68.0

Source: International Hospitality Advisors

AVERAGE DAILY ROOM RATE

Methodology

Our estimate of the subject property's average daily room rate, expressed in current value 2000 dollars, is based on an analysis of published and achieved room rates at comparable/competitive properties, the anticipated mix of business at the subject hotel, seasonality of demand, double occupancy and market conditions discussed.

Average Room Rate Derivation

We estimate the subject property could achieve an average daily room rate of U.S.$95.00 in a stabilized year based on current value 2000 dollars. Derivation of this average rate estimate for a representative year (68.0 percent occupancy) is presented in the following table.

Average Daily Room Rate Derivation
Proposed 105-unit Crowne Plaza Hotel
Downtown Fayetteville, Arkansas

Segments	Peak	Shoulder	Off	Total
Corporate Demand				
Revenues	$689,500	$800,400	$151,600	$1,641,500
Room Nights	6,776	8,470	1,694	16,940
Average Rate[1]	$101.75	$94.50	$89.50	$97.00
Leisure Demand				
Revenues	$201,400	$363,500	$57,400	$622,300
Rooms Nights	1,955	3,909	652	6,516
Average Rate[1]	$103.00	$93.00	$88.00	$95.50
Group/Other Demand				
Revenues	$91,200	$110,800	$20,200	$222,200
Rooms Nights	1,042	1,303	261	2,606
Average Rate[1]	$87.50	$85.00	$77.50	$85.25
Total Revenues	$982,100	$1,274,700	$229,200	$2,486,000
Total Room Nights	9,773	13,682	2,606	26,061
Average Rate[1]	$100.50	$93.25	$88.00	$95.00

[1] Numbers are rounded.

Source: International Hospitality Advisors

Applying inflationary factors and first year discounting yields the following estimated average daily room rates for the property's first ten years of operation.

Estimated Average Daily Room Rate Projections
Proposed 105-unit Crowne Plaza Hotel
Downtown Fayetteville, Arkansas

Year	Average Room Rate in 2000 U.S. Dollars	Cumulative Inflation Factor[1]	Inflated Average Room Rate
2002	$90.00	1.0609	$95.50
2003	95.00	1.0927	103.75
2004	95.00	1.1255	107.00
2005	95.00	1.1593	110.25
2006	95.00	1.1941	113.50
2007	95.00	1.2299	116.75
2008	95.00	1.2668	120.25
2009	95.00	1.3048	124.00
2010	95.00	1.3439	127.75
2011	95.00	1.3842	131.50

[1] Our assumption of an annual 3.0 percent inflation factor is intended only to portray the effect of a long-term inflationary trend (over the projected period) rather than an actual forecast of price movements.

Source: International Hospitality Advisors

CONCLUSION

We have estimated the potential market position of the proposed 105-unit, Crowne Plaza-affiliated Hotel relative to demand generators and the level of patronage that can be reasonably attracted to the subject property. It is our opinion that the subject property should achieve a representative occupancy of 68.0 percent. We further estimate an average daily room rate of U.S. $95.00 in current value 2000 dollars.

STELLA BELLA PLAZA, LLC
FAYETTEVILLE, ARKANSAS

SECTION VII

ESTIMATED OPERATING RESULTS

AUGUST 2000

INTRODUCTION

On the basis of our evaluation of the market findings relative to the potential demand for the proposed project, we have prepared a ten-year statement of estimated annual operating results which we believe can be generated by the operation of a facility of the type and quality described in our market demand report.

As is the case in estimates of this sort, we are not in a position to guarantee the results nor is warranty intended that they may be achieved. The estimates of revenues, costs and expenses are based on the size and quality of the facilities recommended, and the operational characteristics thereof. We have further applied, where applicable, the operating ratios of selected similar size and type facilities, adjusted in our best judgment to reflect the circumstances outlined in our study of the market and the application of sound management and control over costs and expenses.

Since these estimates are based on circumstances and events that have not yet transpired, they are subject to variations which may arise as the future operations and related factors actually occur. Accordingly, we cannot provide assurances that the estimates will be representative of the results that will actually be achieved during the first ten years of operation.

METHODOLOGY

The **Uniform Systems of Accounts for Hotels,** recommended by the **American Hotel and Motel Association** and in general use throughout the industry, has been used in the classification of income and expenses in this report. In conformity with this system of classification, only direct expenses are charged to operating departments of the hotel. The general overhead items which are applicable to the operations as a whole are classified as deductions from income and include administrative and general expenses, marketing, energy costs, and property operations and maintenance.

INFLATION

While we are unable to provide a definitive estimate of future inflationary trends, we do believe that the inflation rate will continue to be a significant factor in the ongoing performance of a hotel operation. In general, hotels tend to adapt more easily to inflation than other major investments,

since the rates can be easily adjusted in response to changes in costs. For the purpose of this analyses, we have applied a dollar-based inflation rate of 3.0 percent over the projection period.

INCOME AND EXPENSE PROJECTIONS

On the basis of our estimate of the future occupancies and average daily room rates achievable at the subject Hotel, together with our analysis of operating data from comparable operations throughout the United States, we have prepared a statement of annual operating results for the subject hotel in inflated U.S. dollars. The projections are based on a ten-year estimate beginning January 1, 2002.

Departmental Revenues and Expenses

Rooms Revenue: There are two major factors in the computation of the rooms revenue figure: the average daily room rate and the projection of an occupancy curve for the subject hotel. Based on our analysis presented in the Estimated Market Position section of this report, the estimated rooms revenue over the projection period is as follows:

Estimated Rooms Revenue[1]
Proposed 105-unit Crowne Plaza Hotel
Downtown Fayetteville, Arkansas

Year	Estimated Occupancy	Average Daily Room Rate (Rounded)	Occupied Room Nights (Rounded)	Estimated Rooms Revenue ($000s)
2002	60%	$ 95.50	23,000	$2,196
2003	64	103.75	24,500	2,545
2004	68	107.00	26,100	2,789
2005	68	110.25	26,100	2,873
2006	68	113.50	26,100	2,958
2007	68	116.75	26,100	3,043
2008	68	120.25	26,100	3,134
2009	68	124.00	26,100	3,232
2010	68	127.75	26,100	3,329
2011	68	131.50	26,100	3,427

(1) Stated in inflated U.S. Dollars
Source: International Hospitality Advisors

Rooms Expense: We have estimated rooms expense to be 24.0 percent of rooms revenue in a stabilized year. This equates to an expense of U.S.$22.80 per occupied room in the representative year.

Rooms departmental expenses include salaries, wages and employee benefits for employees in the front office, housekeeping, laundry, and front service (bellmen, etc.) departments. Expenses also include guest room supplies such as linen, towels, glasses, ashtrays, shampoo, soap, cleaning supplies, uniforms for service personnel, and commissions paid to travel agents, as well as, other expenses as outlined by the "Uniform System of Accounts."

Food and Beverage Revenue: It is our understanding that the food and beverage facilities at the subject property are to be leased out to independent operators. The income to be derived has been included under Real and Other Income.

Telephone Revenue: Telephone revenues, generated by both local and long distance calls were estimated at approximately U.S.$2.25 per occupied room in the representative year.

Telephone Expenses: Telephone expenses have been estimated at 70.0 percent of total telephone revenues in the representative year or U.S.$1.55 per occupied room. Such an expense level assumes that the purchase of the telephone equipment will be capitalized rather than leased.

Other Operated Departments: The income and expenses in Other Operated Departments is based on the planned configurations of the property and the operating results of comparable properties. Nevertheless, the actual income and expenses in this area are dependent upon the extent of facilities provided, the emphasis placed on them by management, as well as, whether they are operated as separate entities, as concessions or extensions of the hotel facility. Revenues for the subject property were estimated at U.S.$52,500 or U.S.$2.00 per occupied room for the representative year.

Other Operated Department Expenses: This department's expenses have been estimated at 70.0 percent of revenues in the representative year.

Rentals and Other Income: Revenues from this category include lease revenue from the retail space, restaurant and bar, parking, vending machines, currency exchange and other miscellaneous income. We estimate rentals and other income (net) to be approximately U.S.$235,000 or U.S.$9.00 per occupied room.

Building and Contents Insurance: Building and contents insurance premiums were estimated at U.S.$250 per available room based on the experience of similar hotels in Fayetteville.

Reserve for Replacement: We have deducted a reserve for replacement of furniture, fixtures and equipment as well as other short-lived items such as roof coverings and interior finishes based on the following: 2.0 percent of total revenues in 2002, 3.0 percent in 2003, 3.5 percent in 2004 and 4.0 percent thereafter.

Condominium Sales Analysis: Our estimates of the sales absorption and pricing of the proposed 15 condominium units are based on the actual performance of selected projects in downtown Fayetteville, adjusted to reflect circumstances unique to the subject development. Based on our market research, we estimate a two-year sell-out period with unit prices ranging between $180.00 - $185.00 per square foot. From the gross sales price, we have deducted appropriate expenses associated with the construction, marketing, administrative and sales of the units.

The following tables present our estimates of potential annual operating results for the subject hotel and income from the sale of the condominium units over the defined projection period.

PROPOSED 105-UNIT CROWNE PLAZA HOTEL
FAYETTEVILLE, ARKANSAS

STATEMENT OF POTENTIAL ANNUAL OPERATING RESULTS
FOR A REPRESENTATIVE YEAR OF OPERATION IN CURRENT VALUE (2000) DOLLARS

PERCENTAGE OF OCCUPANCY	68%	AT	$95.00	
AVERAGE DAILY ROOM RATE				
	AMOUNT	RATIO	AMOUNT/ ROOM	PER OCCUPIED
REVENUES:				
ROOMS	$2,476,000	87.7%	$23,581	$95.01
FOOD	0	0.0%	0	0.00
BEVERAGE	0	0.0%	0	0.00
TELEPHONE	59,000	2.1%	562	2.26
OTHER OPERATED	52,000	1.8%	495	2.00
RENTALS & OTHER INCOME	235,000	8.3%	2,238	9.02
TOTAL REVENUE	2,822,000	100.0%	26,876	108.28
DEPARTMENTAL EXPENSES (1)				
ROOMS	594,000	24.0%	5,657	22.79
FOOD & BEVERAGE	0	#DIV/0!	0	0.00
TELEPHONE	41,000	69.5%	390	1.57
OTHER OPERATED	39,000	75.0%	371	1.50
TOTAL DEPARTMENTAL EXPENSES	674,000	23.9%	6,419	25.86
TOTAL OPERATED INCOME	2,148,000	76.1%	$20,457	82.42
UNDISTRIBUTED EXPENSES:				
ADMINISTRATIVE & GENERAL	263,000	9.3%	2,505	10.09
MANAGEMENT FEE (2)	85,000	3.0%	810	3.26
MARKETING (3)	168,000	6.0%	1,600	6.45
CHAIN SERVICES FEES	198,000	7.0%	1,886	7.60
PROPERTY OPERATION & MAINT.	126,000	4.5%	1,200	4.83
ENERGY	116,000	4.1%	1,105	4.45
TOTAL UNDISTRIBUTED EXPENSES	956,000	33.9%	9,105	36.68
INCOME BEFORE FIXED CHARGES	1,192,000	42.2%	11,352	45.74
FIXED CHARGES:				
REAL ESTATE & PROPERTY TAXES	101,000	3.6%	962	3.88
BUILDING & CONTENTS INSURANCE	26,000	0.9%	248	1.00
INCENTIVE MANAGEMENT FEE	0	0.0%	0	0.00
RENT	0	0.0%	0	0.00
TOTAL FIXED CHARGES	127,000	4.5%	1,210	4.87
INCOME BEFORE RESERVE	1,065,000	37.7%	10,143	40.87
RESERVE FOR REPLACEMENT	113,000	4.0%	1,076	4.34
INCOME BEFORE OTHER DEDUCTIONS (4)	952,000	33.7%	9,067	36.53

NOTES:
(1). Departmental expenses are presented as a percentage of departmental revenues;
(2). A base management fee of 3.0 percent of total revenues has been deducted.
(3). A chain services fee of 8.0 percent of rooms revenues has been deducted based on Crowne Plaza requirements;
(4). Income before other deductions such as interest, depreciation, amortization and taxes on income.

SOURCE: INTERNATIONAL HOSPITALITY ADVISORS

PROPOSED CROWNE PLAZA HOTEL
FAYETTEVILLE, ARKANSAS

STATEMENTS OF POTENTIAL OPERATING RESULTS BASED ON
105 AVAILABLE KEYS ALLOWING FOR INFLATION AND OTHER MARKET FACTORS

PERCENTAGE OF OCCUPANCY AND AVERAGE DAILY ROOM RATE	2002 60% at $95.50			2003 64% at $103.75			2004 68% at $107.00			2005 68% at $110.25			2006 68% at $113.50		
	AMOUNT	RATIO	AMOUNT/ AVAILABLE ROOM	AMOUNT	RATIO	AMOUNT/ AVAILABLE ROOM	AMOUNT	RATIO	AMOUNT/ AVAILABLE ROOM	AMOUNT	RATIO	AMOUNT/ AVAILABLE ROOM	AMOUNT	RATIO	AMOUNT/ AVAILABLE ROOM
REVENUES															
Rooms	$2,196,000	86.6%	$20,914	$2,545,000	87.5%	$24,238	$2,789,000	87.8%	$26,562	$2,873,000	87.8%	$27,362	$2,958,000	87.7%	$28,171
Food	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	$0
Beverage	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0
Telephone	55,000	2.2%	524	60,000	2.1%	571	66,000	2.1%	629	68,000	2.1%	648	70,000	2.1%	667
Other Operated Departments	51,000	2.0%	486	55,000	1.9%	524	59,000	1.9%	562	60,000	1.8%	571	62,000	1.8%	590
Rental & Other Income	234,000	9.2%	2,229	249,000	8.6%	2,371	264,000	8.3%	2,514	272,000	8.3%	2,590	281,000	8.3%	2,676
Total Revenues	2,536,000	100.0%	24,152	2,909,000	100.0%	27,705	3,178,000	100.0%	30,267	3,273,000	100.0%	31,171	3,371,000	100.0%	32,105
DEPARTMENTAL EXPENSES (1)															
Rooms	568,000	25.9%	5,410	616,000	24.2%	5,867	669,000	24.0%	6,371	689,000	24.0%	6,562	709,000	24.0%	6,752
Food & Beverage	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	0
Telephone	38,000	69.1%	362	42,000	70.0%	400	46,000	69.7%	438	48,000	70.6%	457	49,000	70.0%	467
Other Operated Departments	38,000	74.5%	362	40,000	72.7%	381	44,000	74.6%	419	45,000	75.0%	429	47,000	75.8%	448
Total Departmental Expenses	644,000	25.4%	6,133	696,000	24.0%	6,648	759,000	23.9%	7,229	782,000	23.9%	7,449	805,000	23.9%	7,667
TOTAL OPERATED INCOME	1,892,000	74.6%	18,019	2,211,000	76.0%	21,057	2,419,000	76.1%	23,038	2,491,000	76.1%	23,724	2,566,000	76.1%	24,438
UNDISTRIBUTED EXPENSES															
Administrative & General	283,000	11.2%	2,695	280,000	9.6%	2,667	296,000	9.3%	2,819	305,000	9.3%	2,905	314,000	9.3%	2,990
Management Fee (2)	76,000	3.0%	724	87,000	3.0%	829	95,000	3.0%	905	98,000	3.0%	933	101,000	3.0%	962
Marketing (3)	178,000	7.0%	1,695	180,000	6.2%	1,714	189,000	5.9%	1,800	195,000	6.0%	1,857	201,000	6.0%	1,914
Chain Services Fees	176,000	6.9%	1,676	204,000	7.0%	1,943	223,000	7.0%	2,124	230,000	7.0%	2,190	237,000	7.0%	2,257
Property Operation & Maintenance	115,000	4.5%	1,095	125,000	4.3%	1,190	136,000	4.3%	1,295	146,000	4.5%	1,390	150,000	4.4%	1,429
Energy	117,000	4.6%	1,114	123,000	4.2%	1,171	131,000	4.1%	1,248	134,000	4.1%	1,276	139,000	4.1%	1,324
Total Undistributed Expenses	945,000	37.3%	9,000	999,000	34.3%	9,514	1,070,000	33.7%	10,190	1,108,000	33.9%	10,552	1,142,000	33.9%	10,876
INCOME BEFORE FIXED CHARGES	947,000	37.3%	9,019	1,212,000	41.7%	11,543	1,349,000	42.4%	12,848	1,383,000	42.3%	13,171	1,424,000	42.2%	13,562
FIXED CHARGES															
Real Estate & Property Taxes	107,000	4.2%	1,019	110,000	3.8%	1,048	114,000	3.6%	1,086	117,000	3.6%	1,114	121,000	3.6%	1,152
Building and Contents Insurance	28,000	1.1%	267	28,000	1.0%	267	29,000	0.9%	276	30,000	0.9%	286	31,000	0.9%	295
Incentive Management Fee	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0
Rent	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0
Total Fixed Charges	135,000	5.3%	1,286	138,000	4.7%	1,314	143,000	4.5%	1,362	147,000	4.5%	1,400	152,000	4.5%	1,448
INCOME BEFORE RESERVE	812,000	32.0%	7,733	1,074,000	36.9%	10,229	1,206,000	37.9%	11,486	1,236,000	37.8%	11,771	1,272,000	37.7%	12,114
RESERVE FOR REPLACEMENT	51,000	2.0%	486	87,000	3.0%	829	111,000	3.5%	1,057	131,000	4.0%	1,248	135,000	4.0%	1,285
INCOME BEFORE OTHER DEDUCTIONS (4)	761,000	30.0%	7,248	987,000	33.9%	9,400	1,095,000	34.5%	10,429	1,105,000	33.8%	10,524	1,137,000	33.7%	10,829

NOTES:
(1) Departmental expenses are presented as a percentage of departmental revenues.
(2) A base management fee of 3.0 percent of total revenues has been deducted.
(3) A chain services fee of 6.0 percent of rooms revenues has been deducted based on Crowne Plaza requirements.
(4) Income before other deductions such as interest, depreciation, amortization and taxes on income.

SOURCE: INTERNATIONAL HOSPITALITY ADVISORS

PROPOSED CROWNE PLAZA HOTEL
FAYETTEVILLE, ARKANSAS

STATEMENTS OF POTENTIAL OPERATING RESULTS BASED ON
105 AVAILABLE KEYS ALLOWING FOR INFLATION AND OTHER MARKET FACTORS

PERCENTAGE OF OCCUPANCY AND AVERAGE DAILY ROOM RATE	2007 68% at $116.75			2008 68% at $120.25			2009 68% at $124.00			2010 68% at $127.75			2011 68% at $131.50		
	AMOUNT	RATIO	AMOUNT/ AVAILABLE ROOM	AMOUNT	RATIO	AMOUNT/ AVAILABLE ROOM	AMOUNT	RATIO	AMOUNT/ AVAILABLE ROOM	AMOUNT	RATIO	AMOUNT/ AVAILABLE ROOM	AMOUNT	RATIO	AMOUNT/ AVAILABLE ROOM
REVENUES															
Rooms	$3,043,000	87.7%	$28,981	$3,134,000	87.7%	$29,848	$3,232,000	87.7%	$30,781	$3,329,000	87.7%	$31,705	$3,427,000	87.7%	$32,638
Food	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0
Beverage	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0
Telephone	73,000	2.1%	695	75,000	2.1%	714	77,000	2.1%	733	79,000	2.1%	752	82,000	2.1%	781
Other Operated Departments	64,000	1.8%	610	66,000	1.8%	629	68,000	1.8%	648	70,000	1.8%	667	72,000	1.8%	686
Rental & Other Income	289,000	8.3%	2,752	298,000	8.3%	2,838	307,000	8.3%	2,924	316,000	8.3%	3,010	325,000	8.3%	3,095
Total Revenues	3,469,000	100.0%	33,038	3,573,000	100.0%	34,029	3,684,000	100.0%	35,088	3,794,000	100.0%	36,133	3,906,000	100.0%	37,200
DEPARTMENTAL EXPENSES (1)															
Rooms	731,000	24.0%	6,962	752,000	24.0%	7,162	775,000	24.0%	7,381	798,000	24.0%	7,600	822,000	24.0%	7,829
Food & Beverage	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	0
Telephone	50,000	68.5%	476	52,000	69.3%	495	53,000	68.8%	505	55,000	69.6%	524	57,000	69.5%	543
Other Operated Departments	48,000	75.0%	457	49,000	74.2%	467	51,000	75.0%	486	52,000	74.3%	495	54,000	75.0%	514
Total Departmental Expenses	829,000	23.9%	7,895	853,000	23.9%	8,124	879,000	23.9%	8,371	905,000	23.9%	8,619	933,000	23.9%	8,886
TOTAL OPERATED INCOME	2,640,000	76.1%	25,143	2,720,000	76.1%	25,905	2,805,000	76.1%	26,714	2,889,000	76.1%	27,514	2,973,000	76.1%	28,314
UNDISTRIBUTED EXPENSES															
Administrative & General	323,000	9.3%	3,076	333,000	9.3%	3,171	343,000	9.3%	3,267	353,000	9.3%	3,362	364,000	9.3%	3,467
Management Fee (2)	104,000	3.0%	990	107,000	3.0%	1,019	111,000	3.0%	1,057	114,000	3.0%	1,086	117,000	3.0%	1,114
Marketing (3)	207,000	6.0%	1,971	213,000	6.0%	2,029	219,000	5.9%	2,086	226,000	6.0%	2,152	233,000	6.0%	2,219
Chain Services Fees	243,000	7.0%	2,314	251,000	7.0%	2,390	259,000	7.0%	2,467	266,000	7.0%	2,533	274,000	7.0%	2,610
Property Operation & Maintenance	155,000	4.5%	1,476	160,000	4.5%	1,524	164,000	4.5%	1,562	169,000	4.5%	1,610	174,000	4.5%	1,657
Energy	143,000	4.1%	1,362	147,000	4.1%	1,400	151,000	4.1%	1,438	156,000	4.1%	1,486	161,000	4.1%	1,533
Total Undistributed Expenses	1,175,000	33.9%	11,190	1,211,000	33.9%	11,533	1,247,000	33.8%	11,876	1,284,000	33.8%	12,229	1,323,000	33.9%	12,600
INCOME BEFORE FIXED CHARGES	1,465,000	42.2%	13,952	1,509,000	42.2%	14,371	1,558,000	42.3%	14,838	1,605,000	42.3%	15,288	1,650,000	42.2%	15,714
FIXED CHARGES															
Real Estate & Property Taxes	124,000	3.6%	1,181	128,000	3.6%	1,219	132,000	3.6%	1,257	136,000	3.6%	1,295	140,000	3.6%	1,333
Building and Contents Insurance	32,000	0.9%	305	33,000	0.9%	314	34,000	0.9%	324	35,000	0.9%	333	36,000	0.9%	343
Incentive Management Fee	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0
Rent	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%	0
Total Fixed Charges	156,000	4.5%	1,486	161,000	4.5%	1,533	166,000	4.5%	1,581	171,000	4.5%	1,629	176,000	4.5%	1,676
INCOME BEFORE RESERVE	1,309,000	37.7%	12,467	1,348,000	37.7%	12,838	1,392,000	37.8%	13,257	1,434,000	37.8%	13,657	1,474,000	37.7%	14,038
RESERVE FOR REPLACEMENT	139,000	4.0%	1,324	143,000	4.0%	1,362	147,000	4.0%	1,400	152,000	4.0%	1,448	156,000	4.0%	1,486
INCOME BEFORE OTHER DEDUCTIONS (4)	1,170,000	33.7%	11,143	1,205,000	33.7%	11,476	1,245,000	33.8%	11,857	1,282,000	33.8%	12,210	1,318,000	33.7%	12,552

NOTES:
(1). Departmental expenses are presented as a percentage of departmental revenues;
(2). A base management fee of 3.0 percent of total revenues has been deducted.
(3). A chain services fee of 8.0 percent of rooms revenues has been deducted based on Crowne Plaza requirements;
(4). Income before other deductions such as interest, depreciation, amortization and taxes on income.

SOURCE: INTERNATIONAL HOSPITALITY ADVISORS

CONDOMINIUM SALES ANALYSIS
PROPOSED 105-UNIT CROWNE PLAZA HOTEL
FAYETTEVILLE, ARKANSAS

Base Year	2000
Inflation Rate	3.0%

Unit Type	# of Units	Size	Fees/Month	Price/Sq foot	Fees/Year	Price/Unit
One-Bedroom	3	1,400	$300.00	$180.00	$11,000	$252,000
Two-Bedroom	10	1,600	$350.00	$185.00	$42,000	$296,000
Three-Bedroom	2	1,800	$400.00	$180.00	$10,000	$324,000
Total	15					

Marketing Expenses	3.0%
Sales Commissions	5.0%
A&G Expenses	3.0%

	YEAR 1 2002	YEAR 2 2003	YEAR 3 2004	YEAR 4 2005	YEAR 5 2006	YEAR 6 2007	YEAR 7 2008	YEAR 8 2009	YEAR 9 2010	YEAR 10 2011
Number of Condominiums	15	15	15	15	15	15	15	15	15	15
Condominium Sales										
One-Bedroom Units	2	1	0	0	0	0	0	0	0	0
Two-Bedroom Units	6	4	0	0	0	0	0	0	0	0
Three-Bedroom Units	1	1	0	0	0	0	0	0	0	0
Annual Condominium Sales	9	6	0	0	0	0	0	0	0	0
Cumulative Condominium Sales										
One-Bedroom Units	2	3	3	3	3	3	3	3	3	3
Two-Bedroom Units	6	10	10	10	10	10	10	10	10	10
Three-Bedroom Units	1	2	2	2	2	2	2	2	2	2
Total	9	15	15	15	15	15	15	15	15	15
Remaining Condominiums	6	0	0	0	0	0	0	0	0	0
Cumulative Inflation	1.061	1.093	1.126	1.159	1.194	1.230	1.267	1.305	1.344	1.384
Condominium Sales Revenues										
One-Bedroom Units	$535,000	$275,000	$0	$0	$0	$0	$0	$0	$0	$0
Two-Bedroom Units	$1,884,000	$1,294,000	$0	$0	$0	$0	$0	$0	$0	$0
Three-Bedroom Units	$344,000	$354,000	$0	$0	$0	$0	$0	$0	$0	$0
Total Gross Sales Revenues	$2,763,000	$1,923,000	$0	$0	$0	$0	$0	$0	$0	$0
Condominium Fees										
One-Bedroom Units	$8,000	$12,000	$12,000	$13,000	$13,000	$13,000	$14,000	$14,000	$15,000	$15,000
Two-Bedroom Units	$27,000	$46,000	$47,000	$49,000	$50,000	$52,000	$53,000	$55,000	$56,000	$58,000
Three-Bedroom Units	$5,000	$10,000	$11,000	$11,000	$11,000	$12,000	$12,000	$13,000	$13,000	$13,000
Total Condominium Fees	$40,000	$68,000	$70,000	$73,000	$74,000	$77,000	$79,000	$82,000	$84,000	$86,000
Expenses										
Marketing Expenses	$82,900	$57,700	$0	$0	$0	$0	$0	$0	$0	$0
Sales Commissions	$138,200	$96,200	$0	$0	$0	$0	$0	$0	$0	$0
Administrative & General Expenses	$82,900	$57,700	$0	$0	$0	$0	$0	$0	$0	$0
Total Expenses	$304,000	$212,000	$0	$0	$0	$0	$0	$0	$0	$0
Net Income	$2,499,000	$1,779,000	$70,000	$73,000	$74,000	$77,000	$79,000	$82,000	$84,000	$86,000

Source: International Hospitality Advisors

FAYETTEVILLE

THE CITY OF FAYETTEVILLE, ARKANSAS

KIT WILLIAMS, CITY ATTORNEY
DAVID WHITAKER, ASST. CITY ATTORNEY

LEGAL DEPARTMENT

DEPARTMENTAL CORRESPONDENCE

TO: **Dan Coody**, Mayor

THRU: **Sondra Smith**, City Clerk

FROM: **Kit Williams**, City Attorney

DATE: **December 29, 2004**

RE: **Passed Resolutions and Ordinances from the Special City Council meeting of December 28, 2004**

The following Ordinances were passed at last night's special City Council meeting and are ready for the mayor's signature.

Enclosed are:

1. **Hwy. 71 East Square Redevelopment District #1 Adoption:** Ordinance forming Hwy. 71 East Square Redevelopment District Number One pursuant to Amendment 78 of Arkansas Constitution, authorizing preparation of a Project Plan, repealing Ordinance No. 4608 and declaring an emergency;

2. **Hwy. 71 East Square Redevelopment District Project Plan Adoption:** Ordinance adopting Project Plan for Hwy. 71 East Square Redevelopment District Number One, finding the Plan is economically feasible, repealing Ordinance 4646 and declaring an emergency.

NORTHWEST ARKANSAS EDITION
Arkansas Democrat Gazette

AFFIDAVIT OF PUBLICATION

I, Lori Britton, do solemnly swear that I am Legal Clerk of the Arkansas Democrat-Gazette/Northwest Arkansas Times newspaper, printed and published in Lowell, Arkansas, and that from my own personal knowledge and reference to the files of said publication, that advertisement of:

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Subscribed and sworn to before me this

27 day of December, 2004.

Sharlene D. Williams
Notary Public

My Commission Expires:

Sharlene D. Williams
Notary Public
State of Arkansas
My Commission Expires
October 18, 2014

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Final Agenda
Public Hearing
Special City Council Meeting
December 28, 2004

Fayetteville ARKANSAS

A Special meeting of the Fayetteville City Council will be held on December 28, 2004 at 5:30 p.m. in Room 219 of the City Administration Building located at 113 West Mountain Street, Fayetteville, Arkansas.

Call to Order
Roll Call
Pledge of Allegiance

A. Public Hearing:
1. Highway 71 East Square Redevelopment District #1 Creation: A Public Hearing to allow all members of the public and representatives of taxing entities to present their views on forming the Highway 71 East Square Redevelopment District Number One.

B. New Business:
1. Highway 71 East Square Redevelopment District #1 Adoption: An ordinance forming the Highway 71 East Square Redevelopment District Number One pursuant to Amendment 78 of the Arkansas Constitution, authorizing the preparation of a Project Plan, repealing Ordinance No. 4608 and declaring an emergency.

C. Public Hearing:
1. Highway 71 East Square Redevelopment District Proposed Project Plan: A Public Hearing to allow all members of the public and representatives of taxing entities to present their views on the Proposed Project Plan for the Highway 71 East Square Redevelopment District Number One.

D. New Business:
1. Highway 71 East Square Redevelopment District Project Plan Adoption: An ordinance adopting the Project Plan for the Highway 71 East Square Redevelopment District, finding the Plan is economically feasible, repealing Ordinance 4646 and declaring an emergency.