



MARKET AND ECONOMIC FEASIBILITY STUDY

---

# Proposed Hotel Development Phase II, Addis Ababa

ADDIS ABABA, ETHIOPIA



**SUBMITTED TO:**

Ethiopian Airlines  
Addis Ababa  
Ethiopia

**PREPARED BY:**

HVS – Beijing Office  
1038 10/F Kerry Center-South Tower  
No.1 Guanghua Road  
Chaoyang District, Beijing, China

Tel: +86 010 5661 7266

July 09 2019

Ethiopian Airlines  
Addis Ababa  
Ethiopia

**Re: Proposed Hotel Development Phase II,  
Addis Ababa**

In accordance with your request, we herewith submit our Market and Economic Feasibility Study pertaining to the above property. We have inspected the site and the facilities and have analysed hotel market conditions in the Addis Ababa area.

We hereby certify that we have no undisclosed interest in the proposed property, and that our employment and compensation are not contingent upon our findings. This entire report is subject to the comments made throughout and to all assumptions and limiting conditions set out herein.

This entire report is subject to the comments made throughout and to all assumptions and limiting conditions set forth herein.

Yours sincerely,  
HVS – BEIJING OFFICE

---

FAN YANG  
Associate Manager

---

STEVEN ZHU  
Vice President

HVS No: 2019450008

# Table of Contents

SECTION	TITLE	PAGE
1.	Executive Summary	2
2.	Nature of the Assignment	4
3.	Market Area Analysis	8
4.	Description of the Facilities	24
5.	Supply and Demand	29
6.	Projection of Occupancy and Average Rate	40
7.	Projection of Income and Expense	47
8.	Return on Investment Analysis	69
	Addenda	
	Addendum 1 – Statement of Assumptions and Limiting Conditions	i

# 1. Executive Summary

## NATURE OF ASSIGNMENT

The subject of the Market and Feasibility Study is the Proposed Hotel Development Phase II Project located at Bole Road in Addis Ababa, Ethiopia (the 'Property').

The objective of the assignment is to conduct a market and economic feasibility study for the purpose of evaluating hotel demand, to recommend the Property's facilities and market positioning, analysing the economics and projecting income and expense for the proposed Property. The projected income from the Property operation, together with the envisaged construction- and land acquisition costs, form the bases for the return on investment analysis.

## USE OF FEASIBILITY STUDY

This Market and Economic Feasibility Study has been prepared for Ethiopian Airlines (the 'Client'). The information presented in this report should not be disseminated to the public or third parties without the express written consent of HVS, consent which will not be unreasonably withheld.

## SCOPE OF FEASIBILITY STUDY

All information was collected and analysed by the staff of HVS. Information such as site plans, floor plans, and so forth was supplied by the Client. We have assumed that this information is accurate, and we have therefore relied upon it without undertaking any independent verification. Unless otherwise noted, we have inspected the competitor hotels mentioned in Section 5, *Supply and Demand Analysis*. Our financial conclusions have been based on this investigation and analysis.

## PROJECT OVERVIEW

Ethiopian Airlines intends to develop phase II project of its hotel development on the site at Addis Ababa Bole International Airport, opposite to the phase I hotel—Ethiopian Skylight Hotel, which was opened in January 2019 with a total of 337 rooms. The new hotel development is expected to cater to the demand generated by the activities of the airport, particularly the transit passengers requiring overnight accommodations, as well as the business, MICE and leisure segments in the city.

The total gross floor area of the proposed phase II property is 80,675 square metres including a 12,000 square metre parking lot. We have been informed by the Client to assume the opening date of 1 January 2022 for the proposed Property.

## RECOMMENDED FACILITIES

The following table summarises the proposed facilities further to the facility recommendations by HVS.

**PROJECTION OF  
INCOME AND  
EXPENSES**

The following table illustrates our financial projections for the proposed Property based on the assumption that the proposed Property will be operated by a reputable and internationally renowned hotel operator. Our cash flow projections are in calendar years, starting as of 1 January 2022.

DRAFT

**TABLE 1-2 TEN-YEAR FORECAST OF INCOME AND EXPENSE – PROPOSED PROPERTY, 2022-2031(US\$,000)**

	2022		2023		2024		2025		2026		2027		2028		2029		2030		2031	
<b>Number of Rooms:</b>	<b>637</b>		<b>637</b>		<b>637</b>		<b>637</b>		<b>637</b>		<b>637</b>		<b>637</b>		<b>637</b>		<b>637</b>		<b>637</b>	
<b>Occupied Rooms:</b>	<b>72,077</b>		<b>88,352</b>		<b>111,602</b>		<b>127,878</b>		<b>127,878</b>		<b>127,878</b>		<b>127,878</b>		<b>127,878</b>		<b>127,878</b>		<b>127,878</b>	
<b>Occupancy:</b>	<b>31%</b>		<b>38%</b>		<b>48%</b>		<b>55%</b>		<b>55%</b>		<b>55%</b>		<b>55%</b>		<b>55%</b>		<b>55%</b>		<b>55%</b>	
<b>Average Rate:</b>	<b>160.41</b>	<b>% of</b>	<b>172.23</b>	<b>% of</b>	<b>177.39</b>	<b>% of</b>	<b>182.72</b>	<b>% of</b>	<b>186.37</b>	<b>% of</b>	<b>190.10</b>	<b>% of</b>	<b>193.90</b>	<b>% of</b>	<b>197.78</b>	<b>% of</b>	<b>201.73</b>	<b>% of</b>	<b>205.77</b>	<b>% of</b>
<b>RevPAR:</b>	<b>49.73</b>	<b>Gross</b>	<b>65.45</b>	<b>Gross</b>	<b>85.15</b>	<b>Gross</b>	<b>100.49</b>	<b>Gross</b>	<b>102.50</b>	<b>Gross</b>	<b>104.55</b>	<b>Gross</b>	<b>106.64</b>	<b>Gross</b>	<b>108.78</b>	<b>Gross</b>	<b>110.95</b>	<b>Gross</b>	<b>113.17</b>	<b>Gross</b>
<b>REVENUE</b>																				
Rooms	11,562	69.9 %	15,217	68.5 %	19,798	67.4 %	23,365	67.4 %	23,833	67.4 %	24,309	67.4 %	24,795	67.4 %	25,291	67.4 %	25,797	67.4 %	26,313	67.4 %
Food and Beverage	3,780	22.8	5,704	25.7	8,182	27.9	9,855	28.4	10,052	28.4	10,253	28.4	10,459	28.4	10,668	28.4	10,881	28.4	11,099	28.4
Other Income	1,203	7.3	1,281	5.8	1,385	4.7	1,469	4.2	1,498	4.2	1,528	4.2	1,559	4.2	1,590	4.2	1,622	4.2	1,654	4.2
Total	16,545	100.0	22,202	100.0	29,365	100.0	34,689	100.0	35,384	100.0	36,091	100.0	36,812	100.0	37,549	100.0	38,300	100.0	39,066	100.0
<b>DEPARTMENTAL EXPENSES*</b>																				
Rooms	1,817	15.7	1,968	12.9	2,174	11.0	2,337	10.0	2,383	10.0	2,431	10.0	2,480	10.0	2,529	10.0	2,580	10.0	2,631	10.0
Food and Beverage	2,492	65.9	3,325	58.3	4,155	50.8	4,731	48.0	4,825	48.0	4,922	48.0	5,020	48.0	5,120	48.0	5,223	48.0	5,327	48.0
Other Expenses	399	33.2	412	32.1	427	30.8	441	30.0	449	30.0	458	30.0	468	30.0	477	30.0	487	30.0	496	30.0
Total	4,708	28.5	5,705	25.7	6,756	23.0	7,508	21.6	7,658	21.6	7,811	21.6	7,967	21.6	8,127	21.6	8,289	21.6	8,455	21.6
<b>DEPARTMENTAL INCOME</b>	<b>11,837</b>	<b>71.5</b>	<b>16,497</b>	<b>74.3</b>	<b>22,608</b>	<b>77.0</b>	<b>27,181</b>	<b>78.4</b>	<b>27,726</b>	<b>78.4</b>	<b>28,280</b>	<b>78.4</b>	<b>28,845</b>	<b>78.4</b>	<b>29,422</b>	<b>78.4</b>	<b>30,011</b>	<b>78.4</b>	<b>30,611</b>	<b>78.4</b>
<b>UNDISTRIBUTED OPERATING EXPENSES</b>																				
Administrative & General	2,523	15.2	2,674	12.0	2,853	9.7	3,000	8.6	3,060	8.6	3,121	8.6	3,184	8.6	3,247	8.6	3,312	8.6	3,379	8.6
Marketing	1,354	8.2	1,435	6.5	1,531	5.2	1,610	4.6	1,642	4.6	1,675	4.6	1,708	4.6	1,742	4.6	1,777	4.6	1,813	4.6
Prop. Operations & Maint.	760	4.6	848	3.8	904	3.1	951	2.7	970	2.7	990	2.7	1,009	2.7	1,030	2.7	1,050	2.7	1,071	2.7
Utilities	892	5.4	946	4.3	1,009	3.4	1,061	3.1	1,082	3.1	1,104	3.1	1,126	3.1	1,148	3.1	1,171	3.1	1,195	3.1
Total	5,529	33.4	5,903	26.6	6,296	21.4	6,622	19.0	6,754	19.0	6,890	19.0	7,027	19.0	7,168	19.0	7,311	19.0	7,457	19.0
<b>GROSS OPERATING PROFIT (GOP)</b>	<b>6,308</b>	<b>38.1</b>	<b>10,594</b>	<b>47.7</b>	<b>16,312</b>	<b>55.6</b>	<b>20,559</b>	<b>59.4</b>	<b>20,971</b>	<b>59.4</b>	<b>21,390</b>	<b>59.4</b>	<b>21,818</b>	<b>59.4</b>	<b>22,254</b>	<b>59.4</b>	<b>22,699</b>	<b>59.4</b>	<b>23,154</b>	<b>59.4</b>
Management Fee	331	2.0	444	2.0	587	2.0	694	2.0	708	2.0	722	2.0	736	2.0	751	2.0	766	2.0	781	2.0
<b>GOP AFTER MANAGEMENT FEES</b>	<b>5,977</b>	<b>36.1</b>	<b>10,150</b>	<b>45.7</b>	<b>15,725</b>	<b>53.6</b>	<b>19,866</b>	<b>57.4</b>	<b>20,264</b>	<b>57.4</b>	<b>20,668</b>	<b>57.4</b>	<b>21,082</b>	<b>57.4</b>	<b>21,503</b>	<b>57.4</b>	<b>21,933</b>	<b>57.4</b>	<b>22,372</b>	<b>57.4</b>
<b>FIXED EXPENSES</b>																				
Property Taxes	1,278	7.7	1,304	5.9	1,330	4.5	1,357	3.9	1,384	3.9	1,411	3.9	1,440	3.9	1,468	3.9	1,498	3.9	1,528	3.9
Insurance	117	0.7	119	0.5	122	0.4	124	0.4	127	0.4	129	0.4	132	0.4	134	0.4	137	0.4	140	0.4
Incentive Management Fee	442	2.7	742	3.3	1,142	3.9	1,439	4.1	1,468	4.1	1,497	4.1	1,527	4.1	1,558	4.1	1,589	4.1	1,621	4.1
Reserve for Replacement	331	2.0	666	3.0	1,175	4.0	1,388	4.0	1,415	4.0	1,444	4.0	1,472	4.0	1,502	4.0	1,532	4.0	1,563	4.0
Total	2,168	13.1	2,831	12.7	3,768	12.8	4,308	12.4	4,394	12.4	4,482	12.4	4,571	12.4	4,663	12.4	4,756	12.4	4,851	12.4
<b>Net Operating Income</b>	<b>3,809</b>	<b>23.0 %</b>	<b>7,319</b>	<b>33.0 %</b>	<b>11,957</b>	<b>40.8 %</b>	<b>15,558</b>	<b>45.0 %</b>	<b>15,870</b>	<b>45.0 %</b>	<b>16,187</b>	<b>45.0 %</b>	<b>16,510</b>	<b>45.0 %</b>	<b>16,841</b>	<b>45.0 %</b>	<b>17,178</b>	<b>45.0 %</b>	<b>17,521</b>	<b>45.0 %</b>

\* Departmental expenses are expressed as a percentage of departmental revenues.

The following table sets out our indicative analysis on the payback period for the proposed Property.

**TABLE 1-5 ESIMTATED PAYBACK PERIOD – PROPOSED PROPERTY (US\$)**

Estimated Total Development Cost			140,600,000
	Year	Cashflow	Balance
1	2022	3,809,000	136,791,000
2	2023	7,319,000	129,472,000
3	2024	11,957,000	117,515,000
4	2025	15,558,000	101,957,000
5	2026	15,869,160	86,087,840
6	2027	16,186,543	69,901,297
7	2028	16,510,274	53,391,023
8	2029	16,840,480	36,550,543
9	2030	17,177,289	19,373,254
10	2031	17,520,835	1,852,419
11	2032	18,046,460	-16,194,041
Estimated Payback Period			10 Years and 2 Months

## CONCLUSION

Based on indicative development cost estimates, our analysis indicates that the project internal rate of return (IRR) and payback period for the total (unleveraged) investment in the proposed Property is likely to be as follows:

- Overall Project IRR: 9.6%; and
- Payback Period: 10 Years and 2 Months

## 2. Nature of the Assignment

### NATURE OF THE FEASIBILITY STUDY

The subject of the Feasibility Study is the Hotel Development Phase II Project located on Bole Road, Addis Ababa, Ethiopia (the “Property”).

The objective of the assignment is to conduct a market and economic feasibility study for the purpose of evaluating hotel demand, to recommend the Property’s facilities and market positioning, analysing the economics and projecting income and expense for the proposed Property. The projected income from the Property operation, together with the envisaged construction- and land acquisition costs, form the bases for the return on investment analysis.

### OWNERSHIP AND MANAGEMENT ASSUMPTION

The proposed hotel is being developed by Ethiopian Airlines and is expected to open in 2022.

According to the Client, we understand that the proposed Property is expected to be subjected to a management agreement with a reputed international/regional brand. Given this condition, we have assumed a management fee of 2% and an incentive fee of 7%. Should these assumptions be incorrect, we reserve a right to amend our assessment.

### USE OF FEASIBILITY STUDY

This Feasibility Study has been prepared for Ethiopian Airlines (the ‘Client’). The information presented in this report should not be disseminated to the public or third parties without the express written consent of HVS, consent which will not be unreasonably withheld.

### SCOPE OF FEASIBILITY STUDY

All information was collected and analysed by the staff of HVS. Information such as site plans, floor plans, and so forth was supplied by Put appropriate name here. We have assumed that this information is accurate, and we have therefore relied upon it without undertaking any independent verification. Unless otherwise noted, we have inspected the competitor hotels mentioned in Section 5, *Supply and Demand Analysis*. Our financial conclusions have been based on this investigation and analysis.

### OTHER STATUTORY CONSENTS

We have assumed that the proposed Property will have a valid fire certificate, comply with environmental health legislation and hold all other necessary licences for the purpose of its operation. Furthermore, we have assumed that there will be no outstanding issues in respect of such consents and licences.

We have not inspected any of the licences, approvals, consents, permits or certificates relating to the property and we recommend that your lawyers verify their existence.



conditions is a very problematic exercise which at best should be regarded as an indicative assessment of possibilities rather than absolute certainties.

DRAFT

### 3. Market Area Analysis

The macroeconomic climate in which a hotel operates is an important consideration in forecasting hotel demand and income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which the demand for hotel accommodation can be projected.

The purpose of the market area analysis is to review available economic and demographic data to determine whether the defined market area will undergo economic growth, stability or decline. In addition to a prediction of the direction of the economy, the rate of change must be quantified. These trends are then correlated based on their propensity to reflect variations in hotel demand with the objective of forecasting the amount of growth or decline in transient visitation for the Addis Ababa area.

#### COUNTRY OVERVIEW – ETHIOPIA

Ethiopia, officially the Federal Democratic Republic of Ethiopia, is a country situated in the Horn of Africa. It is bordered by Eritrea and Djibouti to the north, Somalia to the east, Sudan and South Sudan to the west, and Kenya to the south. The great diversity of terrain determines wide variations in climate, soils, natural vegetation, and settlement patterns.

Ethiopia's population has grown from 33.5 million in 1983 to 108 million in 2018. Currently, the population growth rate is among the top ten countries in the world. The population is forecast to grow to over 210 million by 2060, which would be an increase from 2011 estimates by a factor of about 2.5. The country's population is highly diverse, containing over 80 different ethnic groups.

The following table summarises the key characteristics of the Federal Democratic Republic of Ethiopia.

**TABLE 3-1 COUNTRY PROFILE – ETHIOPIA**

<b>Country</b>	federal Democratic Republic of Ethiopia
<b>Government Type</b>	federal parliamentary republic
<b>Capital</b>	Addis Ababa
<b>Population</b>	108,386,391 (July 2018 est.)
<b>Currency</b>	Ethiopian Birr
<b>Climate</b>	tropical monsoon with wide topographic-induced variation
<b>Terrain</b>	high plateau with central mountain range divided by Great Rift Valley
<b>Total Country Area</b>	total: 1,104,300 sq km land: 1,096,570 sq km water: 7,730 sq km
<b>Age Structure:</b>	
<b>0-14 years</b>	43.21%
<b>14-64 years</b>	53.83%
<b>65 years and older</b>	2.97% (2018 est.)
<b>Ethnic Groups</b>	Oromo 34.4%, Amhara (Amara) 27%, Somali (Somalie) 6.2%, Tigray (Tigrinya) 6.1%, Sidama 4%, Gurage 2.5%, Welaita 2.3%, Hadiya 1.7%, Afar (Affar) 1.7%, Gamo 1.5%, Gedeo 1.3%, Silte 1.3%, Kefficho 1.2%, other 8.8% (2007 est.)
<b>Religion</b>	Ethiopian Orthodox 43.5%, Muslim 33.9%, Protestant 18.5%, traditional 2.7%, Catholic 0.7%, other 0.6% (2007 est.)

Source: CIA World FactBook, June 2019

## MAP OF ETHIOPIA



## Political Background

Ethiopia is a federal parliamentary republic with the Prime Minister head of government. General elections are held every five years, with the 547 members of the House of Peoples' Representatives elected in a single constituency first past the post system. The last general election was held on 24 May 2015 with the ruling EPRDF led by Hailemariam Desalegn winning 500 of the 547 seats.

The country has experienced an unexpected political unrest since 2018 which has impacted the economic situation and administrative efficiency. The Prime Minister, Hailemariam Desalegn resigned and was replaced by Abiy Ahmed, a member of the Oromo ethnic group. The Government declared a state of emergency for 6 months in February upon the abrupt resignation of the former PM following sustained anti-government protests across the country. The protestors are demanding political reform, release of political prisoners and end to state corruption.

## National Economic Overview

The overall economic condition of an area is reflected by the propensity of individuals to travel there. Key indicators of future hotel demand are those trends that reflect the relative health of the economy and the spending power of individuals. This section of the report presents a discussion of the primary domestic economic factors that are likely to have the greatest influence on hotel demand in Ethiopia.

The following table summarises the historical and forecast economic indicators for Ethiopia.

**TABLE 3-2 KEY ECONOMIC INDICATORS – ETHIOPIA**

	Actual						Forecast			
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP Growth (%)	9.9	10.3	10.4	8.0	10.1	7.7	7.7	7.5	7.0	7.0
Consumer Price Inflation (av %)	8.1	7.4	9.6	6.6	10.7	13.8	9.3	8.0	8.0	8.0
Population (million)	87.0	88.4	89.8	91.2	92.7	94.1	95.6	97.2	98.7	100.3
Current Account Balance (% of GDP)	(6.1)	(6.6)	(10.4)	(9.3)	(8.6)	(6.5)	(6.0)	(5.4)	(4.6)	(3.6)
Exchange Rate RMB:US\$ ETB	18.20	19.10	20.20	21.50	22.70	27.90	0.00	0.00	0.00	0.00
Short-term Interest Rate (av %)	11.9	11.9	11.9	12.75	12.75					

Source: International Monetary Fund, NBE, June 2019

Ethiopia's economy experienced strong, broad-based growth averaging 10.3% a year from 2007 to 2017, compared to a regional average of 5.4%. Real GDP growth slowed in 2017/18, due partly to civil unrest, political uncertainty, and policy adjustments that involved fiscal consolidation to stabilize the public debt. On the supply side, GDP growth was driven by services (8.8% growth) and industry (12.2%), facilitated by the development of energy, industrial parks, and transport infrastructure. Agriculture accounted for 35% of the economy in 2018, industry 22 % and services 43%. On the demand side, private consumption and investment continued to drive growth, along with the

government's stable spending on public infrastructure and strong foreign direct investment inflows.

According to the International Monetary Fund, the economy is forecast to continue real growth in the region of 7-8% annually for the next five years. We have used these national estimates as the starting point in our evaluation of the potential growth in demand for hotel accommodation by market segment in the market area, although we have specifically taken into account the state of, and prospects for, the immediate local area economy.

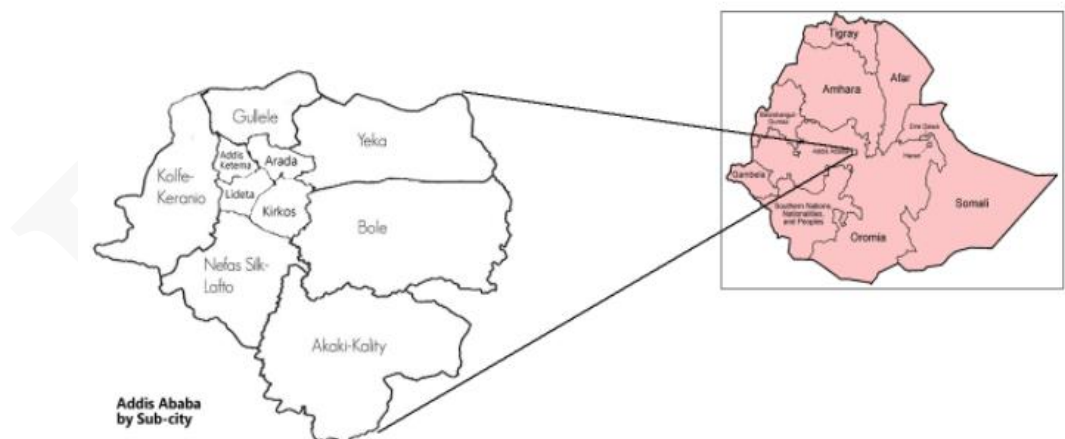
The IMF has estimated consumer price inflation for Ethiopia of 9.3% in 2019, 8.0% in 2020 and 2020. The Ministry of Finance and Economic Development (MOFED) targets consistent single-digit inflation in the medium term. We have used these estimates as the starting point in our evaluation of the potential growth in achievable average rate by market segment in the market area, and to determine the likely change in operating costs over time, although we have specifically taken into account local hotel market conditions.

Our assumptions about and our projections of hotel demand growth and average rate growth are explained in Section 5, Supply and Demand, and Section 6, Projection of Occupancy and Average Rate.

## CITY OVERVIEW – ADDIS ABABA

Addis Ababa is the capital and largest city of Ethiopia with a population of more than 3.5 million. The city is divided into ten subcities and 99 wards.

### MAP OF ADDIS ABABA



### Economic Activities

- Addis Ababa is the main commercial, financial, industrial and service provision centre in the country having an employment structure quite distinct from the rest of Ethiopia. Services followed by trade and the manufacturing industry are the dominant sectors in terms of employment opportunities.

- According to MOFED 2015 statistics, 23% of the people in the city were engaged in trade and commerce, 22% in manufacturing and industry, 15% in construction, 13% in civil administration, 10% in transports and communication, 8% in health, education and social services, 6% in hotel and catering services and only 3% in agriculture.

### **Administrative Centre & Diplomatic Hub of Africa**

As the capital city, Addis Ababa is home to variety of headquarters, ministries and embassies, which generates a significant level of demand for the local upscale hotel market.

It hosts the headquarters of the United Nations Economic Commission for Africa (UNECA) and the African Union (AU) and it houses offices of multilateral funding organizations such as the World Bank office in Africa and others. Apart from this, the city also hosts 103 embassies and over 300 non-governmental organizations (NGOs).

### **Convention Activity**

Addis Ababa has three primary conference venues that induce and drive the growth of meeting, incentive, conference and exhibition (MICE) demand in the city. They are the AU Conference Centre, the United Nations Conference Centre and the Millennium Hall.

The AU Conference Centre offers a conference hall that can seat 2,500 people and a sub-conference building with 32 meeting rooms.

the UN Conference Centre has two main conference halls offering a combined space of 2,000 sqm with a total capacity of 1,300 people. There are also twelve small meeting rooms that can seat 20-60 people.

The Millennium Hall is a major event venue located few blocks from the Bole International Airport. It provides two alternate areas/spaces for exhibitions: the main hall with a gross area of 6,000 sqm and a separate hall with an area of 2,800 sqm. In addition, it provides three meeting rooms for 250-700 participants on the ground floor.

The newly opened Skylight Hotel offers the biggest hotel ballroom in the city of 2,200 sqm, holding several largescale conferences and events since its open in January 2019.

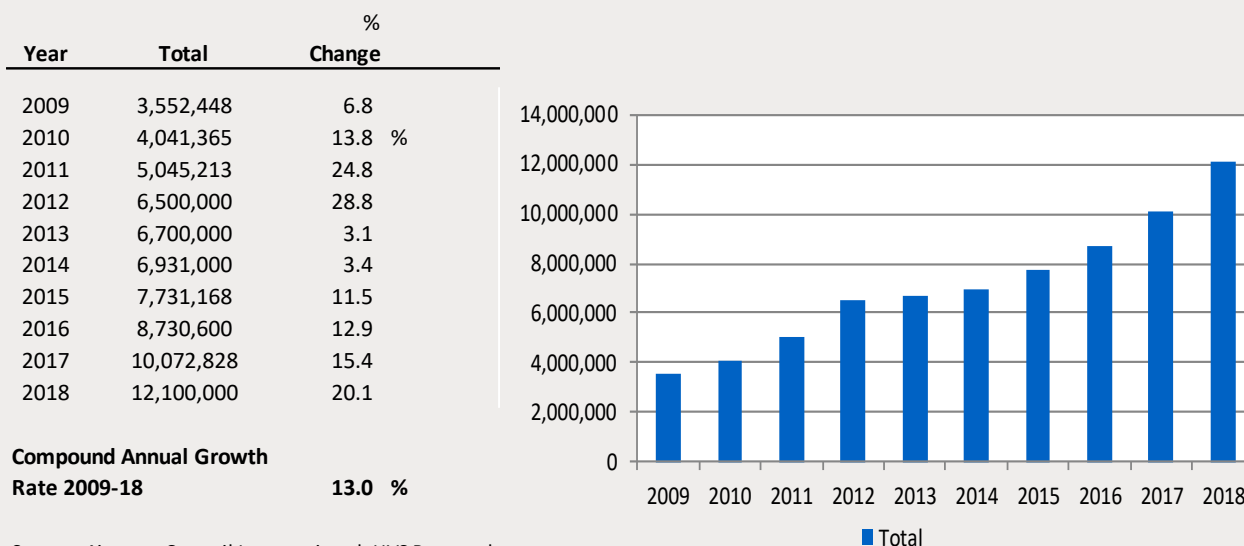
Conferencing is expected to grow in the city as new hotels continue to be developed, the continued presence of the large diplomatic community prevails, and rapid economic growth is sustained.

### **Airport Statistics**

Airport passenger counts are important indicators of transient hotel demand. A sizeable percentage of arriving passengers may need hotel accommodation, depending upon the type and location of a particular airport. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of an area.

The following table summarises the passenger movement of Bole International Airport from 2009 to 2018.

**TABLE 3-3 PASSENGER MOVEMENT – BOLE INTERNATIONAL AIRPORT, ADDIS ABABA**



Addis Ababa Bole International Airport is located in the Bole area, six kilometres southeast from the city centre. It is the main hub of Ethiopian Airlines, the national airline that serves destinations in Ethiopia and throughout the African continent, as well as non-stop services to Asian, Europe, North America and South America. The airport also welcomes fifteen other airlines.

The passenger movements (arrivals and departures) has increased at a Compound Annual Growth Rate of 13% from 2009 to 2018 and is forecasted to continue the double-digit growth in the following years.

The airport expansion project was completed and the new terminal was opened in January 2019, increasing the airport's annual passenger handling capacity from the current 7 million to 22 million.

From our market research, we also noted that a new airport project 40 kilometres away from Bole International Airport is being planned. It may allow for more aircrafts landing and more passengers flying to Ethiopia, thus benefits the overall tourism industry.

## Tourism Overview

Ethiopia has much to offer to tourists. It has a unique historical and cultural heritage, magnificent scenery, a surprisingly cool climate, rich flora and fauna, important archaeological sites and hospitable people. The country is strategically located in the Horn of Africa and therefore, many international meetings and conferences are held here, which creates a huge demand for

accommodation at an international standard. An increase in such demand is expected in the future because the importance of Ethiopia in Africa has been growing and as a result, many international organizations have been continuously strengthening their institutions and augmenting their personnel in Ethiopia.

### Visitor Arrivals

The following table summarises the historic growth in visitor arrivals to Ethiopia for the period of 2008 to 2017.

**TABLE 3-4 VISITOR ARRIVALS – ETHIOPIA**

Year	Total	% Change
2008	330,157	—
2009	427,256	29.4 %
2010	468,305	9.6
2011	523,438	11.8
2012	596,342	13.9
2013	681,249	14.2
2014	770,428	13.1
2015	863,742	12.1
2016	870,597	0.8
2017	933,000	7.2
<b>Compound Annual Growth Rate 2008-17</b>		<b>12.235 %</b>

Source: HVS Research, The Ministry of Culture and Tourism, Ethiopia 2018

- The total number of international tourists arriving in Ethiopia is steadily increasing at a compound annual growth rate of 12.2%. This is a result of constant growth of the leisure, business and MICE travel to the country.
- As the gateway of all international inbound, outbound and transit tourists/ passengers, Addis Ababa has been hosting over 85% of the total international tourist arrivals in the Country.

### Purpose of Visit

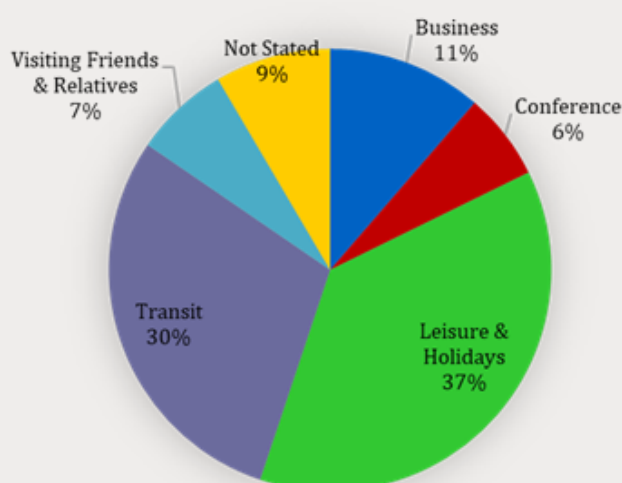
The following table outlines the international arrivals to Ethiopia by purpose of visit.



**TABLE 3-3 PURPOSE OF VISIT – TOURIST ARRIVALS ETHIOPIA 2016**

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	Percentage
Business	43,179	18.5 %	39,937	20.2 %	9,115	3.9 %	6,558	3.2 %	<b>98,789</b>	<b>11.3 %</b>
Conference	32,967	14.1	15,241	7.7	4,264	1.8	3,178	1.5	<b>55,650</b>	<b>6.4</b>
Leisure & Holidays	69,493	29.8	67,794	34.2	101,049	43.4	87,165	42.3	<b>325,501</b>	<b>37.4</b>
Transit	33,468	14.3	29,390	14.8	98,681	42.3	94,711	45.9	<b>256,250</b>	<b>29.4</b>
Visiting Friends & Relatives	21,182	9.1	16,927	8.5	13,140	5.6	9,503	4.6	<b>60,752</b>	<b>7.0</b>
Not Stated	32,962	14.1	28,728	14.5	6,783	2.9	5,182	2.5	<b>73,655</b>	<b>8.5</b>
<b>Total</b>	<b>233,251</b>		<b>198,017</b>		<b>233,032</b>		<b>206,297</b>		<b>870,597</b>	<b>100.0 %</b>
<b>Percentage</b>	<b>26.8%</b>		<b>22.7%</b>		<b>26.8%</b>		<b>23.7%</b>		<b>100.0%</b>	

Source: HVS Research, The Ministry of Culture and Tourism, Ethiopia 2018



- Leisure and Holiday accounts for over 37% of international arrivals followed by business and conference purposes at over 17% of arrivals. Another important arrival segment of travel is returning diaspora who are visiting friends and family. However, we note that leisure visitation might be relatively inflated given a substantial amount of business and MICE travellers applying for a tourist visa upon arrival for time-saving purpose.
- From a quarterly outlook, most of the business and conference visitation arrived in the first two quarters, while the 3<sup>rd</sup> and 4<sup>th</sup> quarter saw more leisure and holiday visitation.

#### International Feeder Market

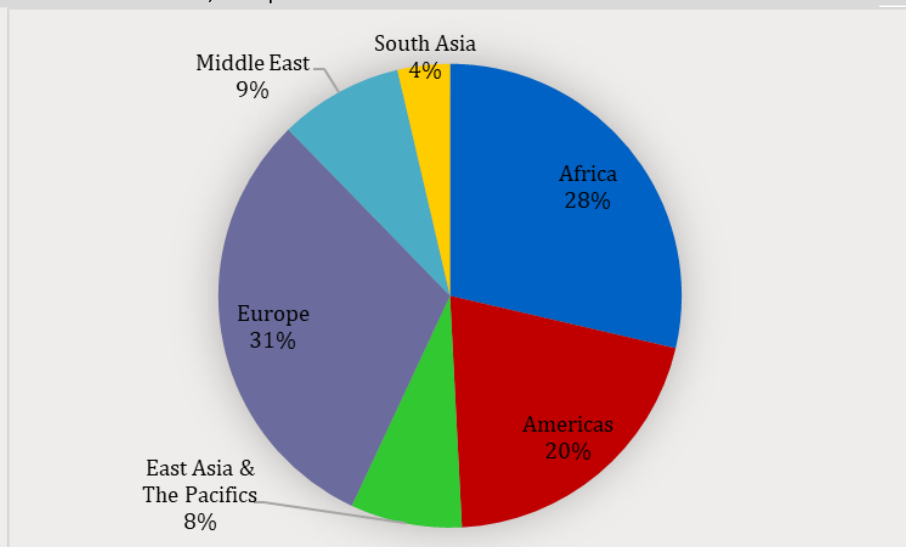
Table 3-6 summarises the international arrivals to Ethiopia by continent of origin between 2012 to 2016.

Table 3-7 shows visitation to Ethiopia from the top 10 source countries.

**TABLE 3-6 CONTINENT OF ORIGIN – TOURIST ARRIVALS ETHIOPIA 2016**

Continent	2012	% of Total	2016	% of Total	Compound Annual Growth Rate 2012-16
Africa	168,909	28.3 %	248,647	28.6 %	10.1 %
Americas	121,210	20.3	175,241	20.1	9.7
East Asia & The Pacifics	45,946	7.7	67,836	7.8	10.2
Europe	181,309	30.4	272,404	31.3	10.7
Middle East	50,982	8.5	77,053	8.9	10.9
South Asia	21,539	3.6	29,416	3.4	8.1
<b>Total</b>	<b>596,341</b>	<b>100 %</b>	<b>870,597</b>	<b>100 %</b>	<b>9.9 %</b>

Source: The Ministry of Culture and Tourism, Ethiopia 2018



- Our research shows, Europe and Africa generate the highest number of travelers of 31.3% and 28.6%, respectively.
- The percentages of visitation from each continent remain stable compared to 2012.
- The primary source countries for visitation to Ethiopia are the USA, the UK, Germany and China. In Africa the top market is Kenya.

**TABLE 3-7 TOP 10 SOURCE COUNTRIES –ETHIOPIA 2016**

Country	Visitation	% of Total Visitation
USA	145,445	16.7 %
UK	48,573	5.6
Germany	41,904	4.8
China	42,577	4.9
Italy	33,425	3.8
France	29,734	3.4
Kenya	29,629	3.4
Saudi Arabia	27,424	3.2
India	27,356	3.1
Suden	26,064	3.0
<b>Total</b>	<b>452,131</b>	<b>51.9 %</b>

Source: HVS Research, The Ministry of Culture and Tourism, Ethiopia 2018

## CONCLUSION

Addis Ababa is a key player in the Ethiopian and Sub-Saharan African market, especially in regard to its attractive to the Corporate and MICE segments, owing to the presence of various headquarters, embassies and NGOs. During holiday seasons, the city also attracts diaspora that come to visit their family and friends, but also adventurous leisure tourists that transit through Addis Ababa before going to other regions in Africa.

The city appears set to continue to grow thanks to the fast-growing economy of the country, the development of transportation services, and the general expansion and construction taking place in the city.

The continued growth of Ethiopian Airlines has turned the city into a hub for travel across the continent and to other destinations throughout the Europe, Middle East and Africa region. The Ethiopian Ministry of Culture and Tourism aims to target to annual foreign visitors in the country to more than 2.5 million by 2020, making Ethiopia one of Africa's top five tourist destinations by 2020. Several development and marketing strategies are underway so as to meet the target set. The demand for quality and internationally branded upscale accommodation is high.

## 4. Site Description

### SITE DESCRIPTION

A hotel and its location within a specific neighbourhood can have a direct impact upon its performance relative to a competitive market. The following paragraphs describe the location of the proposed Property in relation to its immediate surroundings and market area, as described in Section 3, *Market Area Analysis*. The proposed Property's recommended physical facilities will be described in detail in Section 6, *Proposed Property Concept and Facility Recommendation*.

Furthermore, the suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property and its ultimate feasibility. Factors such as size, location, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site.

### Location

The Subject site is located 400 metres away from the Bole International Airport and 6 kilometres from the Addis Ababa city centre.

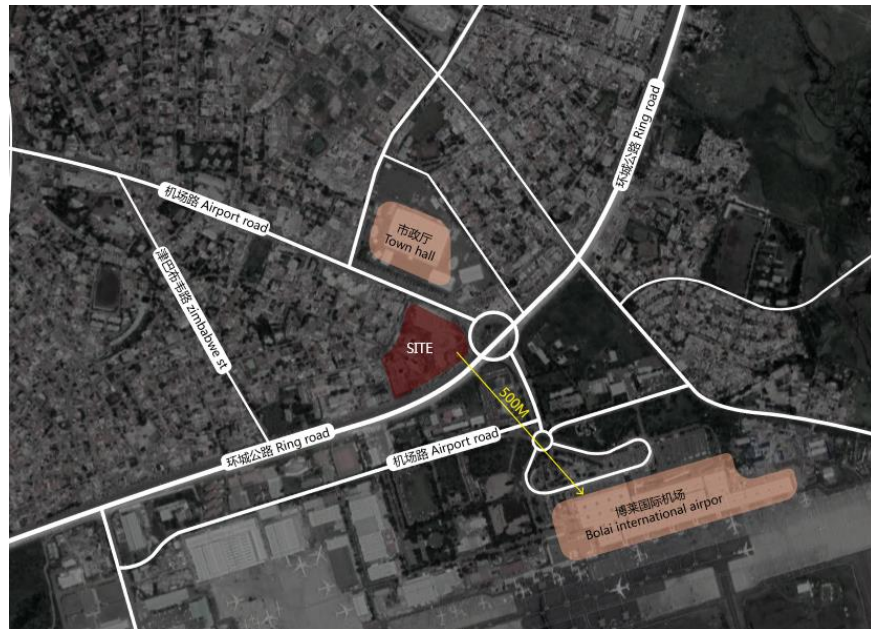
### LOCATION MAP



## Area and Topography

According to the information provided by the Client, the subject Site measures approximately 17,139 square metres with a total gross floor area of 80,675 square metres (including 12,000 sqm parking lot). The subject Site is in irregular shape with the flat topography.

## SUBJECT SITE



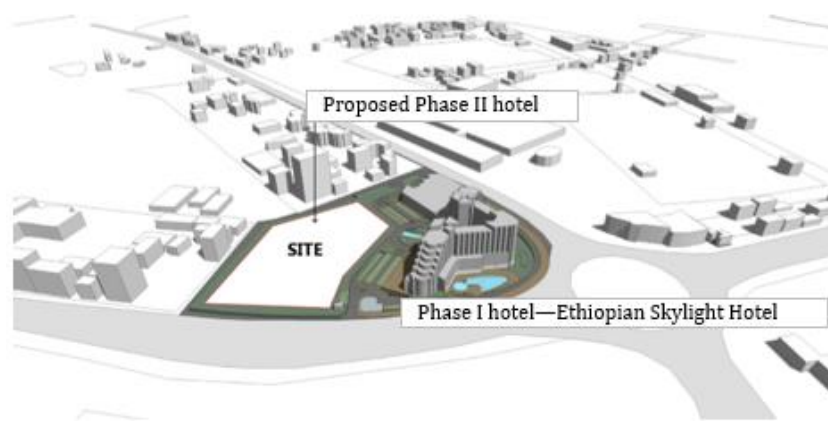
## PROJECT OVERVIEW

Ethiopian Airlines intends to develop the phase II project of its hotel development on the site at Addis Ababa Bole International Airport, next to the phase I hotel—Ethiopian Skylight Hotel, which was opened in January 2019 with a total of 337 rooms. The new hotel development is expected to cater to the demand generated by the activities of the airport, particularly the transit passengers requiring overnight accommodations, as well as the business, MICE and leisure segments in the city.

The total gross floor area of the proposed phase II property is 80,675 square metres including a 12,000 square metre parking lot. We have been informed by the Client to assume the opening date of 1 January 2022 for the proposed Property.

The following table shows the layout of the phase I hotel and the proposed phase II hotel.

## LAYOUT OF PHASE I HOTEL & PHASE II HOTEL



**TABLE 4-1 FACILITY SUMMARY FOR PHASE I HOTEL**

Guestrooms	Keys	% of Total	Net Area/sqm
Standard Room	310	92%	32
Suite	27	8%	65
<b>Total</b>	<b>337</b>		
<b>F&amp;B Outlets</b>			
All Day Dining Restaurant			1
Chinese Restaurant (6 private dining room)			1
Ethiopian Restaurant (Not open yet)			1
Lobby Lounge			1
Night Club (Not open yet)			1
<b>Total</b>			<b>5</b>
<b>Meeting Space</b>			<b>sqm</b>
Ballroom 1			314
Ballroom 2			314
Ballroom 3			314
Ballroom 4			342
Ballroom 5			678
Ballroom Total			2,200
Meeting Room 1			108
Meeting Room 2			104
Meeting Room 3			99
Meeting Room 4			89
Meeting Room 5			46
<b>Total</b>			<b>2,646</b>
<b>Other Public Areas</b>			
Lobby			1
Gym			1
SPA (5 treatment rooms, Not open yet)			1
Outdoor Pool			1
Gift Shop			1
Bank			1
Ticket Office			1
Exhibite Hall			1

### Accessibility and Visibility

The Subject Site enjoyed excellent accessibility within five-minute walk from the Bole International Airport. It is also easily accessible by road as it is situated at the intersection of Ring Road and Airport Road, which leads to the city centre in about 15-20 minutes.

The visibility of the Subject Site is excellent from the airport in the south and Airport Road in the north. East of the Subject Site is the phase one hotel which blocks the visibility from the intersection point.

### Neighbourhood and Surrounding Land Use

The neighbourhood surrounding a lodging facility often has an impact on a hotel's status, image, class, style of operation, and sometimes its ability to attract and properly serve a particular market segment.

The immediate neighbourhood of the proposed Property include the Bole International Airport to the south and the Bole Road commercial area to the north, which comprises landmarks such as the Millennium Hall, the Friendship Shopping Centre, and several midscale and budget hotels and restaurants. west of the Subject Site is mainly residential and commercial land that houses

### Proximity to Demand Generators

Proximity and ease of access to primary generators of demand is vital for the successful operation of a hotel. The following outlines the proposed Property's location in relation to its principal demand generators.

The Subject Site is located within walking distance to the airport, one of the major demand generators in the city for business, conference, leisure and transit demand.

City centre is 6 kilometres north of the Subject Site where other major demand generators are located, such as the African Union and the United Nation agencies.

### SWOT Analysis – Subject Site and Proposed Property

We present the following SWOT analysis of the subject Site and the proposed Property.

#### **Strength**

- Proximity to Bole International Airport, one of the major demand generators for business, conference, leisure and transit segments for the local hotel market;
- Excellent accessibility by road;
- Market knowledge and operating experience gained by the phase I hotel;
- Once completed, there will be near 1,000 rooms in total for phase I and phase II hotel, being the major player in the airport hotel market.



### **Weaknesses**

- Compared to the hotels in the city centre, the location might hinder the proposed Property to capture the high-end business demand which is generated by international organizations located in the city centre.
- Compared to the city centre, the surrounding area is less developed, and the ecological environment is less attractive.

### **Opportunities**

- Sustained economic growth in the country;
- Increasing tourist visitation and the government's strategy to promote Ethiopia as a top tourism destination in Africa;
- Bole airport expansion and the continued growth of Ethiopian Airlines;
- Lack of internationally branded hotels in the immediate surroundings;
- Envisaged affiliation with a competent international hotel operator;
- Various infrastructure improvements by government in the city.

### **Threats**

- Numerous new supply is expected to enter the market between 2019-2022, causing increasing competition in the market, which is likely to drive down the marketwide occupancy level and put pressure on average rate.

## **CONCLUSION**

We have analysed the issues of location, accessibility, visibility, neighbourhood of the proposed property. From this analysis, we consider the site to be adequately suited for a five-star hotel development, with perfect accessibility, visibility, and topography for an effective operation.

We consider the proposed Property to be adequately located to capture demands from the different demand sources, especially demand driven by Bole International Airport.



## 5. Supply and Demand

In this section we investigate the supply and demand dynamics of the relevant hotel market in Addis Ababa in an attempt to identify whether opportunities exist for developing the proposed Property.

The purpose of this section is to investigate current supply and demand trends as indicated by the current competitive market and set forth a basis for the projection of future supply and demand growth.

An integral component of a market area's supply and demand relationship that has a direct impact on performance is the current and anticipated supply of competitive hotel facilities. To evaluate an area's competitive environment, the following steps should be taken:

- Identify the area's hotel facilities and determine which are directly and indirectly competitive with the proposed boutique Property;
- Determine whether additional hotel rooms (net of attrition) will enter the market in the foreseeable future;
- Quantify the number of existing and proposed hotel rooms available in the market; and
- Review the rate structure, occupancy, market orientation, facilities and amenities of each competitor.

### **HOTEL MARKET OVERVIEW – ADDIS ABABA**

Hotel supply in Ethiopia is largely concentrated in the three-star and below classification. The hotels are entirely independent and often do not meet the international standard. As the biggest hotel market in the country, Addis Ababa has been experiencing notable annual growth of hotel supply. By the end of 2012, there were 128 hotels with around 6,000 rooms in the city, today the figure increased to more than 10,000 hotel rooms, of which less than 1,500 are international chain affiliated.

Addis Ababa has the largest pipeline of any city on the continent, with 3,000 to 4,000 guestrooms in development, including brands under the umbrella of Marriott, Accor, Hyatt, Wyndham, Movenpick, Best Western and Sarovar are under various stages of construction. The large influx of supply is expected to drive down the occupancy in 2019 and 2020.

### **THE COMPETITIVE HOTEL MARKET**

From an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation and quality of the area's hotels, we have identified 3 properties that are considered to be primary competitors of the proposed Property with a total room count of 855.

**TABLE 5-1 ESTIMATED SEGMENTATION OF COMPETITIVE MARKET**

Primary Competitor	Number of Rooms	Estimated Segmentation				Total Comp Level	2018 Weighted Annual Room Count
		Commercial	MICE	Leisure	Airline		
Sheraton Hotel Addis Aaba	295	60 %	20 %	15 %	3 %	100 %	295
Hilton Addis Ababa	356	62	20	13	5	100	356
Radison Blu Addis Ababa	204	55	25	15	5	100	204
<b>Subtotals/Averages</b>	<b>855</b>	<b>60 %</b>	<b>21 %</b>	<b>14 %</b>	<b>4 %</b>	<b>100 %</b>	<b>855</b>
Secondary Competitor	Number of Rooms	Estimated Segmentation				Total Comp Level	2018 Weighted Annual Room Count
		Commercial	MICE	Leisure	Airline		
Golden Tulip	90	67 %	8 %	10 %	15 %	50 %	45
Marriott Executive Apartment	108	80	5	15	0	25	27
Ramada Addis Ababa	136	60	15	10	15	25	34
Best Western Plus Addis Ababa	160	60	10	10	20	25	40
<b>Subtotals/Averages</b>	<b>494</b>	<b>66 %</b>	<b>10 %</b>	<b>11 %</b>	<b>13 %</b>	<b>30 %</b>	<b>146</b>
<b>Totals/Averages</b>	<b>1,349</b>	<b>61 %</b>	<b>20 %</b>	<b>14 %</b>	<b>6 %</b>	<b>74 %</b>	<b>1,001</b>

**TABLE 5-2 ESTIMATED SEGMENTATION OF COMPETITIVE MARKET**

Primary Competitor	2018 Weighted Annual Room Count	Estimated 2016			Estimated 2017			Estimated 2018		
		Occ	Average Rate	RevPAR	Occ	Average Rate	RevPAR	Occ	Average Rate	RevPAR
<b>Primary Competitors</b>	<b>855</b>	<b>58 %</b>	<b>224</b>	<b>131</b>	<b>59.3 %</b>	<b>219</b>	<b>130</b>	<b>62.4 %</b>	<b>218</b>	<b>136</b>
Secondary Competitors	146	41 %	106	43	49 %	103	50	60 %	104	62
<b>Totals/Averages</b>	<b>1,001</b>	<b>56 %</b>	<b>215</b>	<b>121</b>	<b>57.8 %</b>	<b>204</b>	<b>118</b>	<b>62.1 %</b>	<b>202</b>	<b>126</b>

We make the following comments regarding the performance of the competitive market as illustrated in the preceding table:

- Given two new hotels opening in the market in 2016, the occupancy rate dropped down from 60% to 56%. With limited supply and increasing demand in the following two years, occupancy level has recovered and demonstrated a strong growth in 2018.

- The market wide average rate was decreasing in the last three years. On the one hand, some four-star properties entering the market, resulting in a relatively lower overall average rate. On the other hand, with more competition in the market, hotels chose to adopt pricing strategies to boost the occupancy level.

A brief description of each existing competitor hotel is provided as follows.

#### Primary Competitor

- Opened in 1998, **Sheraton Addis, a Luxury Collection Hotel** is the city's most luxurious hotel. It offers 295 guest rooms including 33 suites and 2 villas. The hotel also features four restaurants, four bars, a nightclub and more than 1500 sqm meeting space. Other facilities in the hotel include a modern gym, a spa, sauna and steam baths, outdoor pool and a business centre.

The hotel has the highest average rate in the market since its open and is in great condition at the time of our inspection.

- Opened in 1969, **Hilton Addis Ababa** was the first international hotel in the city. It is located near the ECA Convention Centre in the city centre, offering 356 guestrooms including 32 apartments. The hotel also features five Food and Beverage Outlets and 11 meeting rooms accommodating up to 900 delegates. Compared to other hotels in the market, Hilton offers extensive leisure facilities, such as 18-hole mini golf course, 4 floodlit tennis courts, squash court & geothermal pool and several shops.
- **Radisson Blu Hotel Addis Ababa** is a five-star property with 204 rooms, a restaurant, a coffee shop, a bar, 585 sqm meeting space, a gym, a spa, a shop and a business centre. It opened in 2012 and is the third international brand in the city.

#### Secondary Competitor

- **Golden Tulip Hotel Addis Ababa** is an international five-star hotel under the umbrella of Louvre. The property is set in Bole district in Addis Ababa and about 6 km away from the centre of Addis Ababa. It opened in 2015 and offer 90 guestrooms alongside dining, meeting and leisure facilities.
- **Marriott Executive Apartment Addis Ababa** is a five-star service apartment under Marriot. It opened in 2015, ideal for short and extended business trips, relocations and family holidays. The property offers 108 apartments, and the size of the one-bedroom apartment is 60 sqm. Other facilities include restaurant, gym, steam room, outdoor swimming pool and fitness centre. During our site visit, we have learned that extended/long stay guest accounts for 50% of the total demand.

## Facilities of Competitive Hotels

- **Ramada Addis Ababa** is a four-star hotel under the umbrella of Wyndham. It is located on Bole Road African Avenue within proximity to the subject Property. Opened in 2016, the hotel features 136 guestrooms, 2 restaurant, a bar, 3 meeting rooms, a spa and a business centre.
- **Best Western Plus Addis Ababa** is a four-star property affiliated with Best Western Hotels & Resort. The hotel is located 1km away from the Bole International Airport, offering 160 rooms alongside with meeting rooms, restaurant, lobby bar and sports bar.

We note that the range of facilities varies among the competitive hotels. The hotels in the secondary competitive set are mainly four-star hotels and Marriott Executive Apartment is a five-star service apartment, which are not discussed in detail as their facilities are not comparable to the five-star positioning of the subject Property.

The following observations are made with regard to the facilities of the five-star competitive hotels:

- The average room count of those competitors illustrated ranges from 90 guestrooms at the Golden Tulip Hotel to 356 guestrooms at Hilton Addis Ababa;
- The primary competitors offer a wide range of food and beverage outlets. This would usually include an all-day dining restaurant, a lobby lounge and a bar. Some of them have a special restaurant, a pool grill and a pool bar;
- The total meeting space offered by the competitors ranges from 316 to 1750 square metres. The largest ballroom offered within the current competitive set is found at the Sheraton Addis Ababa which features approximately 978 square metres; and
- All the hotels within the competitive set provide extensive leisure facilities. These typically include a spa, a fitness centre and a swimming pool. Some of the hotels provide a nightclub or a tennis court.

The following table sets out the key physical characteristics of all the five-star hotels in the competitive set.

**TABLE5-3 FACILITIES OF PRIMARY AND SECONDARY COMPETITORS**

	Sheraton Addis Hotel	Hilton Addis Ababa	Radisson Blu Hotel Addis Ababa	Hyatt Regency Addis Ababa	Golden Tulip Addis Ababa
<b>Submarket District</b>					
<b>City</b>	Addis Ababa	Addis Ababa	Addis Ababa	Addis Ababa	Addis Ababa
<b>Ownership</b>					
<b>Management Company</b>	Marriott	Hilton	Carlson	Hyatt	Louvre
<b>Hotel Grading</b>	5 Star	5 Star	5 Star	5 Star	5 Star
<b>Year Opened</b>	1998	1969	2012	2019	2015
<b>Last Renovation</b>					
<b>Type of Renovation</b>					
<b>Guestroom Configuration</b>					
Standard Rooms	260	312	188	174	85
Suites	33	11	15	12	5
Presidential Suites/Villa	2	1	1	2	0
Apartment	0	32	0	0	0
Total Keys	295	356	204	188	90
Total Suites	35	44	16	14	5
Suite Ratio	11.9%	12.4%	7.8%	7.4%	5.6%
<b>Guestroom Size (m<sup>2</sup>)</b>					
Standard Rooms	30	33	30	25	35
Suites	46-63	46-74	60	50	85
Presidential Suites	175	146	85	125-450	-
<b>Meeting Space</b>					
Total Meeting Space (m <sup>2</sup> )	1,500	1,750	585	760	316
Largest Meeting Room (m <sup>2</sup> )	978	600	96	468	144
Theatre-Seating (Capacity)	1,200	600	75	500	150
Total No. of Meeting Rooms	9	11	7	5	4
Meeting Space per Guestroom	5.1	4.9	2.9	4.0	3.5

Source: HVS Research

**TABLE 5-3 FACILITIES OF THE PRIMARY AND SECONDARY COMPETITORS (CON'T)**

	Sheraton Addis Hotel	Hilton Addis Ababa	Radisson Blu Hotel Addis Ababa	Hyatt Regency Addis Ababa	Golden Tulip Addis Ababa
<b>Food and Beverage Outlets</b>					
Restaurant Concept 1	All Day Dining	All Day Dining	All Day Dining	All Day Dining	All Day Dining
No. of seats	180	82	123	177	70
Meal Periods	B/L/D	B/L/D	B/L/D	B/L/D	B/L/D
Restaurant Concept 2	Italian	Pool Grill		Asian & BBQ	Sports Bar & Grill
No. of seats	60	150		100	50
Meal Periods	L/D	L/D		L/D	L/D
Restaurant Concept 3	India	Pizzarie			
No. of seats	50	40			
Meal Periods	L/D	L/D			
Restaurant Concept 4	Pool Grill				
No. of seats					
Meal Periods	L				
Lobby Lounge	Yes	Yes	Yes	Yes	Grab and Go
No. of Seats	40	80	30	50	
Bar 1 Concept	2 Bars	Bar	Bar	Coffee & Cocktail	Bar
No. of seats	80	50	60	50	30
Bar 2 Concept	Poolside Bar			Pool Bar	
No. of seats					
Bar 3 Concept	Night Club			Metro Bar	
No. of seats				60	
Room Service	Yes	Yes	Yes	Yes	Yes
<b>Health Club &amp; Spa</b>					
Fitness Centre/Gym	Y	Y	Y	Y	Y
Spa/Sauna	Y	Y	Y	Y	N
Indoor Swimming Pool	N	N	N	N	N
Outdoor Swimming Pool	Y	Y	N	Y	N
<b>Other Facilities</b>					
Business Centre	Y	Y	Y	Y	Y
Retails	Y	Y	Y	Y	Y
Tennis	N	Y	N	N	N

## Additions to Supply

Besides analysing the existing supply of competitive hotel facilities, it is important to consider any new hotel projects that may have an impact on the future operating performance of the planned resort and, more specifically, the proposed Property. During our fieldwork in the market, and from our analysis of relevant market reports, we learnt of a significant number of upper upscale and upscale hotel projects (approved and speculative) which are expected to open in Addis Ababa in the foreseeable future.

**TABLE 5-4 PROPOSED ADDITIONS TO SUPPLY**

Proposed Property	Number of Rooms	Total Competitive Level	Estimated Opening Date
Proposed Hotel Development Phase 2	637	100 %	1 January 2022
Hyatt Regency Addis Ababa	188	75	7 January 2019
Ethiopian Skylight Hotel	337	50	27 January 2019
Courtyard by Marriott	215	50	1 January 2020
Movenpick Hotel Addis Ababa	450	75	1 June 2020
Doubletree by Hilton Addis Ababa	106	50	1 January 2020
Four Points by Sheraton Addis Ababa	252	25	1 January 2021
Pullman Addis Ababa	330	50	1 January 2020
M Gallery by Sofitel	218	25	1 January 2021
Wyndham Addis Ababa Bole Road	161	75	1 January 2021
<b>Total</b>	<b>2,894</b>		

As illustrated in the preceding table, Hyatt Regency Addis Ababa and Ethiopian Skylight Hotel entered the competitive hotel market in January 2019. Another 2,369 new hotel rooms are expected to be introduced in the years leading up to 2022.

We make the following comments on the preceding table:

- Considering the brand affiliation, envisaged facilities, rate positioning, target market and the location, we input different competitive level to each of the new hotels to reflect the degree to which it competes with the proposed Property;
- Considering the proximate location, rate positioning and target market, we think the Ethiopian Skylight Hotel would compete with the proposed Property on some level. We therefore have included it in our analysis and gave it a 50% in terms of competitiveness.
- During our research, we noticed that most of the new hotel projects are declared to open in 2020. Given the fact that many hotel developments in the city was postponed or put on hold due to financing reasons, we have assumed that not all the new hotels would enter the market in 2020. Therefore, for our analysis, we have adjusted the estimated opening date of some new hotels to 2021.

We have taken all the necessary steps to investigate pending hotel projects and their location. However, due to the special nature of real estate development, there is a certain degree of difficulty to provide specific details of each project, their choice of market entry strategies and their specific market impact. Should there be any changes to the amount of new supply entering the market in the future, we reserve the right to amend our projections.

## DEMAND ANALYSIS

The analysis of demand by the use of individual market segments is important because each market segment often exhibits unique characteristics relating to factors such as growth potential, seasonality of demand, average length of stay, double occupancy, facility requirements, price sensitivity, and so forth. By quantifying the overall room night demand by market segment and defining the individual characteristics of each segment, the future potential for each market segment can be projected.

### Accommodated Room Night Demand

Demand for transient accommodation in the defined market area is generated primarily by the following 4 market segments.

Segment 1	Commercial
Segment 2	MICE
Segment 3	Leisure
Segment 4	Airline-related

Based on our fieldwork, area analysis and knowledge of the local hotel market, we estimate that, in 2018, the distribution of accommodated hotel room night demand for those hotels that we consider to constitute the competitive market for the proposed Property is shown in the following table.

**TABLE 5-5 ACCOMMODATED ROOM NIGHT DEMAND – COMPETITIVE MARKET, 2018**

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Commercial	137,249	61 %
MICE	44,381	20
Leisure	31,178	14
Airline	12,632	6
<b>Total</b>	<b>225,440</b>	<b>100 %</b>

As indicated above, the distribution of room night demand in the competitive market is dominated by Commercial demand at 61% and MICE at 20%. In addition, Leisure and Airline-related segments account for 14% and 6%, respectively.



### Commercial Segment

Commercial demand is strongest on Monday to Thursday night and declines significantly on Fridays and Saturdays. This demand in the market area is relatively constant throughout the year and the average length of stay is three nights. This segment includes both corporate accounts and individual business travellers.

Addis Ababa is the diplomatic hub in Eastern Africa with the presence of the African Union, United Nation agencies and up to 100 embassies. These organizations have been the primary drivers of business in this segment for years, generating majority of the room nights in this segment based on a corporate discount rate. We also found that corporate travellers also make frequent use of the hotels' food and beverage outlets.

Ethiopia has recorded a fast-growing economic growth and total visitation growth. In addition, the airport expansion and the continued development of Ethiopian Airlines will also impact the growth of this segment as the city will be accessible from more international destinations, thus attracting more corporations and business travellers. For the purpose of our analysis, we have applied a growth rate of 8.0% in 2019, 10.0% in 2020, 12.0% in 2021 and 14.0% in 2022 to 2025 to this segment.

### MICE Segment

The international organizations and embassies are the main generators for this segment. The African Union Conference Centre, the United Nations Conference Centre and the Millennium Hall are the main venues that attract the MICE segments. They also use the hotel meeting facilities to hold meetings, training, incentives and conferences. Similar to the corporate segment, the average length of stay is three nights and require accommodations from Monday to Thursday.

Similar to the commercial segment, the future growth of this segment is largely impacted by the sustained economic growth and the improving infrastructure that will improve the attractiveness of Addis Ababa as a regional and international MICE destination. Future demand is as such closely related to the growth expected in the commercial segment as most meetings and conferences have either a direct or indirect purpose. For the purpose of our analysis, we have applied a growth rate of 8.0% in 2019, 10.0% in 2020, 12.0% in 2021 and 14.0% in 2022 to 2025 to this segment.

### Leisure Segment

The leisure segment comprises both international and domestic travellers. It includes individuals who book directly with or through travel agencies, groups organized by tour operators, as well as individual leisure travellers who book directly with the hotel. The reason for travel includes holidays, visiting friends and families. Leisure demand is usually strong on weekends with average length of stay of one to three nights.

Addis Ababa is the start and ending point for many tourist circuits across the country's tourist attractions. Currently the tourism market in Ethiopia is relatively small, resulting in limited hotel demand from this segment.

**Airline-related  
Segment**

Addis Ababa will continue to be the transit point for leisure travellers. Improving infrastructure, accessibility and high-quality hotel supply are inducing more tourists to the country. The effectiveness of the government and key industry players' in marketing and promoting the country's tourist attractions is a key factor to boost the future demand in this segment. For the purpose of our analysis, we have applied a growth rate of 7.0% in 2019, 8.0% in 2020, 10.0% in 2021 to 2025 to this segment.

Airline-related demand is primarily generated by transit passengers, delayed passengers and aircrew.

Transit and delayed passengers who require overnight accommodations tend to stay at hotels near the airport. During our market study, we have found that transit passengers account for 15%-25% of overall demand in hotels near the Bole International Airport.

Airlines typically contract rooms in nearby hotel facilities for extended periods to ensure the availability of accommodations and the room rates are heavily discounted. As demand continue to grow, less emphasis is placed on aircrew segment and contracts are negotiated at higher rate, causing demand to decline in upscale hotels.

The expansion of the Bole International airport will further boost the total passenger movements to the city, as well as attract more carriers. This will encourage demand growth in transit segment and aircrew segment especially for the hotels within proximity to the airport.

## 6. Proposed Property Concept and Facilities

In arriving at our facility recommendation for the hotel component of the proposed development, we have given due consideration to the following factors: location, site configuration, hotel positioning, the hotel market dynamics in Addis Ababa, including demand and supply, pricing of hotel accommodation, quality and service standards, as well as the positioning of products currently available within the market. It is important to note that our recommendations for the facility take into consideration the developer's objective and balance this against our opinion of what would be well received from a market demand perspective.

### PROPERTY CONCEPT AND FACILITIES RECOMMENDATION

Located within proximity to the Bole International Airport, the proposed Property is the phase two project of Ethiopian Airline's hotel development. The phase one project--Ethiopian Skylight Hotel already opened in January 2019 with 337 guestrooms. Upon the completion of the proposed Property, there will be a total of nearly 1000 rooms in the whole hotel development.

### Positioning of Proposed Property

The Ethiopia Skylight hotel phase I is positioned as an entry-level five-star hotel. To differentiate the market positioning and target market of the two properties, as well as considering the location and local hotel market dynamics, we suggest the proposed Property to be positioned as a premium five-star hotel, a positioning higher than the Ethiopian Skylight Hotel phase I but lower than the market leaders.

### Brand Assumption

In order to derive our recommendation on proposed Property's facilities, we have assumed that the proposed Property will be managed under an reputable international five-star hotel brand.

### Gross Floor Area

According to the Client, we understand that the gross floor area allocated to the proposed Property will be 80,675 square metres, of which 12,000 square metres are parking lot.

### PROPOSED HOTEL FACILITIES

In order to recommend the most appropriate layout for the proposed facilities, we have analysed the physical characteristics of the competitive hotels in Addis Ababa, as well as the Ethiopian Skylight Hotel.

In order to support the aforementioned positioning and create the unique experience, the proposed Property should be designed to encapsulate the following elements:

- A sense of modern amenities and conveniences;
- Well-designed landscaping incorporating well surrounding environment;

- A sense of upscale and comfort derived from the furnishings and fittings of the Property;
- Flexible meeting spaces in order to accommodate different sizes of groups; and
- Attractive spa and leisure facilities; and
- A blend of local culture together with modern-day contemporary technology incorporating upscale standard hotel facilities. Proposed Hotel Facilities

In order to recommend the most appropriate layout for the proposed facilities, we have analysed the physical characteristics of the five-star competitive properties in the market.

#### Room Count and Room Mix

The following table summarizes the overview of room count and room mix of the five-star competitive properties.

**TABLE 6-1 COMPETITIVE PROPERTIES-GUEST ROOMS**

Competitive Properties	Location	Number of Rooms	Number Of Suites	Suite Ratio	Average Size Standard Guestroom (m <sup>2</sup> )
Sheraton Addis Hotel	Addis Ababa	295	35	12%	30
Hilton Addis Ababa	Addis Ababa	356	44	12%	33
Radisson Blu Hotel Addis Ababa	Addis Ababa	204	16	8%	30
Hyatt Regency Addis Ababa	Addis Ababa	188	14	7%	25
Golden Tulip Addis Ababa	Addis Ababa	90	5	6%	35
<b>Average</b>		<b>227</b>	<b>23</b>	<b>10%</b>	<b>31</b>

The average number of guestroom in the competitive hotel market is 227 with around 10% of suite ratio. The average size of standard room is 31 sqm.

Considering the location, envisaged target market and considerable level of new hotels in next 3years in Addis Ababa, we are of the opinion that 637-key proposed Hotel will be appropriate in order to maximize the property's utilization.

In order to enhance the upscale positioning of the proposed Hotel and competitiveness in the market, we consider the proposed Hotel to feature an entry-level guestroom of 35 square metres.

In addition to the guestrooms, we recommend the proposed Hotel to feature 36 apartments, ranging from two-bedroom to three-bedroom, in order to attract extended-stay and long-stay guests and family guests.

The following table summarises our room breakdown. These sizes do not include the balcony.

**TABLE6-2 GUESTROOMS – PROPOSED PROPERTY**

<u>Proposed Property</u>			
	No. of Rooms	No. of Suites	Sutie Ratio
Recommended Number of Rooms	637	62	10%
Guestrooms	Keys	Area/sqm	Sqm
Standard Room	500	35	17,500
Deluxe Room	75	35	2,625
Suite	25	55	1,375
Presidential Suite	1	175	175
Two-bedroom Apartment	26	105	2,730
Three-bedroom Apartment	10	140	1,400
<b>Total</b>	<b>637</b>		<b>25,805</b>
Source: HVS Recommendations			

### ***In-Room Features and Amenities***

In addition to other standard amenities and facilities, we recommend that the proposed Property's guestrooms and bathrooms be equipped and furnished with the following facilities as a minimum standard:

#### **Bedroom**

- Consistent design and layout;
- Outdoor balcony in rooms and salas/daybeds in suites;
- Large windows unobstructed by columns and beams;
- Good quality bed or beds of upscale standard;
- Two telephones (desk and bed) with two telephone lines;
- A couch/sitting area with a reading light;
- A large flat-screen or plasma television with information channels, satellite channels and in-house movies;
- Individually controllable heating and air conditioning;
- High-quality linen and pillows of various sizes;
- High-quality curtains and blackout curtain;
- Huge closets and cupboards with drawers;

- Well stocked mini bar; and
- Wired and wireless high-speed Internet connection.

### **Bathroom**

- Three to Four fixtures with separate showers, bathtubs, toilet and washbasin;
- A handheld shower in the bath;
- A telephone extension; and
- High-quality towels and bathrobes.

We also recommend generous-sized bathrooms with separate showers and bathtubs as they are now almost an international standard feature in hotels. One reason for generous bathroom sizes is the trend in offering enhanced spa-like features such as whirlpool baths and multi-head/rain showers. Bathrooms are also becoming more integrated with the guestrooms, physically and visually, with privacy being provided by glass partitions or sliding panels, allowing more natural light. Such design also tends to visually enhance the size of the room. However, for this project, we do not recommend the Client to over emphasise large room sizes in consideration of incremental revenue and development cost resulting in investment return.

### ***Executive Lounge***

We propose the establishment of specialized club-style services, facilities and products in executive floors. A complimentary executive lounge should be provided for return guests and guests accommodated on the Property's executive floor. This facility should include the following:

- Registration and check-in/check-out desk;
- Smoking and non-smoking areas;
- Convenient food service, particularly for breakfast;
- A service pantry to serve all-day complimentary snacks and beverages;
- A library with a relaxing reading area;
- Quiet and private atmosphere and with a small meeting room;
- High/low working desk, meeting areas with access to power plugs/dataports; and
- High-speed wireless access.

## Food and Beverage Outlets

The following table outlines the number of food and beverage outlets at the competitors and comparable hotels.

**TABLE 6-3 COMPETITIVE PROPERTIES**

Competitive Properties	Location	Number of Rooms	Approximate Number of Seats	Ratio Seats Capacity/Room
Sheraton Addis Hotel	Addis Ababa	295	410	1.39
Hilton Addis Ababa	Addis Ababa	356	402	1.13
Radisson Blu Hotel Addis Ababa	Addis Ababa	204	213	1.04
Hyatt Regency Addis Ababa	Addis Ababa	188	437	2.32
Golden Tulip Addis Ababa	Addis Ababa	90	150	1.67
<b>Average</b>		<b>227</b>	<b>322</b>	<b>1.42</b>

As indicated in the preceding table, the average ratio of seat capacity per room for the five-star competitive hotels in the market is 1.4. Hyatt Regency hotels offer the higher ratio of seat capacity per room at 2.3.

We have considered the following factors in order to derive our recommendation on food and beverage outlets for the proposed Property:

- Location and surrounding area;
- Spending pattern on food and beverage outlet in the competitive hotel market;
- Envisaged positioning of the proposed Property;
- The proximity of Ethiopian Skylight Hotel and the proposed Property and the possibility to share hotel facilities; and
- Other hotel developments in the surrounding area.

The following table shows the proposed Property food and beverage outlets recommendations.

**TABLE 6-4 FOOD AND BEVERAGE OUTLET – PROPOSED PROPERTY****Proposed Property**

Number of Guestrooms	637
Total Seat Capacity	660
Ratio Seat Capacity/Room	1.0

<b>Food and Beverage Outlets</b>	<b>Approximate Area in m<sup>2</sup></b>	<b>Approximate Number of Seats</b>	<b>Approximate Area per Seat (m<sup>2</sup>)</b>
All Day Dining Restaurant	1,050	350	3.0
Special Restaurant	420	120	3.5
Lobby Lounge	240	80	3.0
Cocktail Bar	175	50	3.5
Rooftop Bar	210	60	3.5
<b>Total</b>	<b>2,095</b>	<b>660</b>	

Source: HVS Recommendations

We recommend the proposed Property to offer add total No. of five high-quality and distinctive food and beverage outlets in line with the overall positioning of the proposed Property as well as adapting the local element. In particular, we recommend the following:

**All-day Dining Restaurant**

- A seating capacity of 350 seats persons is considered to be sufficient to cater to the breakfast demand during peak hours, as some of the hotel guests are expected to dine in the club lounge; and
- In addition, we also recommend that the design of the restaurant take into consideration dinner demands, making it convenient for guests to have a la carte or buffet service. A display kitchen is considered conducive in creating a lively dining experience.

**Specialty Restaurants**

- The menu offers add cuisine type, which is generally popular among local diners; and
- Given the size of the proposed Property, we recommend 120 seats for the specialty restaurant.

**Lobby Lounge**

- We recommend the lobby lounge to have a total number of 80 seats;



- The outlet provides all-day cocktails, afternoon tea, evening bar services and takeaway counter;
- In addition to alcohol beverages, snacks should also be provided on a full-day basis;
- The lounge should also offer a select of newspapers, magazines and other readings; and
- In term of layout and design, we recommend that the bar and lounge should be place in the same area with the all-day dining restaurant to enhance each other's operational efficiency.

#### **Cocktail Bar/Rooftop Bar**

- We recommend the Cocktail bar to have a total number of 50 seats, offering evening bar services and live performance during select evening;
- We recommend the Rooftop bar to have a total number of 80 seats with extra outdoor/terrace seats, offering afternoon tea and evening bar services and live performance during select evening.

#### **Meeting Facilities**

Our recommendation on meeting facilities for the proposed Property is based on the following factors:

- The size and range of function facilities available at existing hotels in the city;
- Client's intension on the development of the proposed Property;
- Envisaged target market;
- Meeting demand growth potential;
- The proximity of Ethiopian Skylight Hotel and the proposed Property and the possibility to share hotel facilities.

The size and number of meeting facilities at hotels currently available within the area are detailed in the following table.

**TABLE 6-1 MEETING FACILITIES – COMPETITIVE PROPERTIES VS. PROPOSED PROPERTY**

Competitive Properties	Location	Number of Rooms	Meeting Space m <sup>2</sup>	Meeting Space/Guestroom
Sheraton Addis Hotel	Addis Ababa	295	1,500	5.1
Hilton Addis Ababa	Addis Ababa	356	1,750	4.9
Radisson Blu Hotel Addis Ababa	Addis Ababa	204	585	2.9
Hyatt Regency Addis Ababa	Addis Ababa	188	760	4.0
Golden Tulip Addis Ababa	Addis Ababa	90	316	3.5
<b>Average</b>		<b>227</b>	<b>982</b>	<b>4.3</b>

**MEETING FACILITIES – COMPETITIVE PROPERTIES VS. PROPOSED PROPERTY**
**Proposed Property**

Number of Rooms	637
Ratio	2.8
Total Recommended Meeting Space m <sup>2</sup>	1,800

**Proposed Meeting Space**

Proposed Meeting Rooms	Number of Rooms	Approximate Area in m <sup>2</sup>	Maximum Capacity	m <sup>2</sup> /Seat	Assumed Layout
Ballroom (can be separated into 3 parts)	1	1,200	1,200	1.0	Theatre
Function Room 1	1	180	120	1.5	Theatre
Function Room 2	1	120	80	1.5	Theatre
Meeting Room 3	1	100	70	1.5	Theatre
Meeting Room 4	1	80	50	1.5	Theatre
VIP Room	1	60	20	3.0	U Shape
Board Room	1	60	20	4.0	U Shape
<b>Total</b>	<b>7</b>	<b>1,800</b>	<b>1,560</b>		

Source: HVS Recommendations

Given the fact that the proposed Property could share the existing meeting facilities of the Ethiopian Skylight Hotel phase I in the future, we recommend the proposed Property to feature total meeting space of 1,800 sqm. The meeting rooms are recommended to consist of one ballroom, two function rooms, two meeting rooms, a boardroom and VIP room. We further recommend the construction of the ballroom should be a high-ceiling and pillar-less type in order to accommodate various events.

All meeting/function rooms and ballrooms are recommended to have windows for daylight as well as blackout curtains or screens to better control lighting and acoustics. All rooms should also have separate variable temperature and

light controls. High quality soundproof airwalls should be used to ensure more effective meetings.

Teleconferencing and video conference facilities should be available. Most meeting rooms should have facilities to support ceiling-mounted video projectors and dual screens. Furniture, flooring and furnishings should be designed for supporting equipment with, for example, ducts for cabling and data ports.

#### Other Facilities and Public Area

In addition to guestrooms, food and beverage outlets and meeting space, we recommend the proposed Property to offer variety of upscale leisure facilities to fulfill the needs of business, MICE and leisure travelers.

**TABLE 6-2 OTHER FACILITIES – PROPOSED PROPERTY**

Other Facilities	Approximate Area/m <sup>2</sup>
Gym	200
SPA	500
Swimming Pool	350
Business Center	70
Front Desk/Lobby Area	800
Executive Lounge	175
Gift Shop	100
Ticket Office	50
Bank	70
Aviation Museum	2000
Other Rental Space	3715
<b>Total</b>	<b>7,830</b>

Source: HVS Recommendations

#### SUMMARY OF PROPOSED AND RECOMMENDED FACILITIES – PROPOSED PROPERTY

Our report assumes that the building will be fully open and operational on the assumed opening date and that it will meet all local building codes. We further assume that the proposed Property will be constructed, furnished and fitted to meet the typical standards of its future operator. We expect that the proposed Hotel staff will be adequately trained to allow for a successful opening and that pre-marketing efforts will have introduced the product to major wholesalers and local meeting accounts at least six months in advance of the opening date.

The following table sets out a summary of the recommended facilities for the proposed Property. The indicative Gross Floor Area is 68,675 sqm (excluding the 12,000 sqm parking lot). All financial projections presented in this report have been based on these facility assumptions and recommendations.

**TABLE 6-3 SUMMARY OF RECOMMENDED FACILITIES – PROPOSED PROPERTY**

<b>Guestrooms</b>	<b>Keys</b>	<b>% of Total</b>	<b>Net Area/sqm</b>	<b>sqm</b>
Standard Room	500	78%	35	17,500
Deluxe Room	75	12%	35	2,625
Suite	25	4%	55	1,375
Presidential Suite	1	0%	175	175
Two-bedroom Apartment	26	4%	105	2,730
Three-bedroom Apartment	10	2%	140	1,400
Support and Back-of-the-House			5%	1,290
<b>Total</b>	<b>637</b>			<b>27,095</b>
<b>F&amp;B Outlets</b>	<b>Seats</b>		<b>Net Area/sqm</b>	<b>sqm</b>
All Day Dining Restaurant	350		3.0	1,050
Special Restaurant	120		3.5	420
Lobby Lounge	80		3.0	240
Cocktail Bar	50		3.5	175
Rooftop Bar	60		3.5	210
Support and Back-of-the-House			60%	1,257
<b>Total</b>	<b>470</b>			<b>3,352</b>
<b>Meeting Space</b>	<b>Maximum</b>		<b>sqm/Seat</b>	<b>sqm</b>
Ballroom (can be separated into 3 parts)	1,200		1.0	1,200
Function Room 1	120		1.5	180
Function Room 2	80		1.5	120
Meeting Room 3	70		1.5	100
Meeting Room 4	50		1.5	80
VIP Room	20		3.0	60
Board Room	20		4.0	60
Foyer / Pre-function Area				450
Support and Back-of-the-House			50%	1,125
<b>Total</b>	<b>1,560</b>			<b>3,375</b>
<b>Other Public Areas</b>				<b>sqm</b>
Gym				200
SPA				500
Swimming Pool				350
Business Center				70
Front Desk/Lobby Area				800
Executive Lounge				175
Gift Shop				100
Ticket Office				50
Bank				70
Aviation Museum				2,000
Other Rental Space				3,715
Support and Back-of-the-House			10%	803
<b>Total</b>				<b>8,833</b>
<b>Back-of-the-House</b>			15%	<b>6,398</b>
<b>Indicative Net Area</b>				<b>49,054</b>
<b>Estimated Net Floor Area/Gross Floor Area Ratio</b>				<b>1.40</b>
<b>Indicative Gross Floor Area</b>				<b>68,675</b>

Note: The above calculations are indicative only. It is advisable for the Client to engage the services of a qualified architect to advise whether or not the proposed facilities and area computation can be accommodated within the physical site prior to making any legal or financial commitment.

Source: HVS Recommendations

## 7. Projection of Demand, Occupancy and Average Rate

This section sets out the projection of demand, occupancy and average rate for the proposed Property and its competitive hotel market, based on our recommended facilities, as described in Section 6, *Proposed Property Concept and Facility Recommendation*.

In order to project the proposed Property's occupancy, we have used a fair share approach based upon an analysis of existing hotel market activity, owing to the sufficient of comparable properties in the immediate area.

We note that the selected stabilised performance for the proposed Property excludes from consideration any abnormal relationship between supply and demand and non-recurring conditions that may result in unusually high or low occupancies. Although the market and the proposed Property may operate at occupancies above the stabilised level, we consider it equally possible for new competition and temporary economic downturns to force occupancy below the selected points of stability.

As mentioned in Section 6, *Proposed Property Concept and Facilities*, we have assumed that the proposed Property will be managed by an international five-star hotel brand. Given this condition, we have adopted the brand assumption of an international five-star hotel brand for the proposed Property. Should this assumption not materialise, it is possible that our projections could substantially change.

### CALCULATION OF HISTORICAL ACCOMMODATED DEMAND

From our fieldwork, we have estimated the year-end 2018 occupancy of the proposed Property's competitors and thereby the total number of occupied rooms in the competitive market.

A weighted average of the market mix of each competitive property has then been calculated to determine the overall market segmentation of the proposed Property's market. The 2018 areawide estimate of room night demand, by market segment, forms the historical base demand. The result of these calculations for the proposed Property's competitive market area is shown in the following table.

**TABLE 7-1 ACCOMMODATED ROOM NIGHT DEMAND – COMPETITIVE HOTEL MARKET, 2018**

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Commercial	137,249	61 %
MICE	44,381	20
Leisure	31,178	14
Airline	12,632	6
<b>Total</b>	<b>225,440</b>	<b>100 %</b>

**Base Demand Growth**

In Section 5, *Supply and Demand Analysis*, we set out our assumptions regarding the prospects for demand growth, by market segment, for the competitive market. These demand growth rates are applied in our analysis to the base level of accommodated demand, which has been estimated in Table 7-1.

**TABLE 7-2 PROJECTION OF MARKETWIDE BASE DEMAND**

Market Segment	Annual Growth Rate										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Commercial	7.6 %	8.0 %	10.0 %	12.0 %	14.0 %	14.0 %	14.0 %	14.0 %	14.0 %	14.0 %	14.0 %
MICE	6.2	8.0	10.0	12.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Leisure	7.0	7.0	8.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Airline	10.2	10.0	11.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
<b>Base Demand Growth</b>	<b>7.4 %</b>	<b>8.0 %</b>	<b>9.8 %</b>	<b>11.7 %</b>	<b>13.4 %</b>	<b>13.4 %</b>	<b>13.4 %</b>	<b>13.4 %</b>	<b>13.4 %</b>	<b>13.4 %</b>	<b>13.5 %</b>

**Latent Demand**

Table 7-1 illustrates the accommodated room night demand in the proposed Property's competitive market. Latent demand accounts for guests who could not be accommodated by the existing competitive supply for a variety of reasons. Latent demand can be divided into unaccommodated demand and induced demand.

**Unaccommodated Demand**

Unaccommodated demand refers to individuals who are unable to secure accommodation in the market because all of the competitive hotels are full. These visitors must defer their trips, settle for less desirable accommodation, or stay in hotels located outside the market area. Because this demand did not yield occupied room nights within the competitive set, it is not included in the historical accommodated room night demand estimate.

Unaccommodated demand is often a form of excess demand resulting from the cyclical nature of the hotel business. For example, in Commercial markets where demand is not equally spaced throughout the week, hotels often exhibit peaks and troughs in their daily occupancies. In general, Commercial hotels enjoy strong occupancies from Monday to Thursday, when business travel is

most frequent, and lower occupancies on Friday and Saturday. When hotels operating under these market conditions realise occupancies greater than 70% to 75%, or when weekly demand patterns fill area hotels to capacity on one or more nights per week, it can generally be assumed that excess weekday demand exists, and a certain amount of patronage must be turned away. If it is expected that additional hotels will be entering the market, it is reasonable to assume that this unaccommodated demand will be accommodated and thus an estimate of the amount of unaccommodated demand should be made. Unaccommodated demand is generally estimated as a percentage of accommodated demand.

Considering our market research, we have not considered unaccommodated demand in the competitive market.

### Induced Demand

Induced demand represents the additional room nights that will be attracted to a market area as a result of the introduction of a new demand generator. Situations where induced demand can be created include the opening of a new business park, the expansion of a convention centre or the addition of a new hotel bringing a different chain affiliation or unique facilities.

We expect the Bole International Airport expansion in 2019 to support the further growth of hotel demand, resulting in the induced demand in the competitive hotel market.

The following table shows the total amount of induced demand we estimated for the competitive hotel market. The demand induced by new hotels is considered to continue and is included in demand estimate for future years.

**TABLE 7-3 PROJECTION OF MARKETWIDE INDUCED DEMAND**

Market Segment	Induced Room Nights						
	2019	2020	2021	2022	2023	2024	2025
Commercial	4,320	7,200	7,200	7,200	7,200	7,200	7,200
MICE	2,880	4,800	4,800	4,800	4,800	4,800	4,800
Leisure	1,440	2,400	2,400	2,400	2,400	2,400	2,400
Airline	1,440	2,400	2,400	2,400	2,400	2,400	2,400
<b>Total</b>	<b>10,080</b>	<b>16,800</b>	<b>16,800</b>	<b>16,800</b>	<b>16,800</b>	<b>16,800</b>	<b>16,800</b>

### Accommodated Demand and Market wide Occupancy

Based upon a review of the market dynamics in the proposed Property's competitive environment, we have forecast growth rates for each market segment. Using the calculated potential demand for the market, we have determined marketwide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area.

The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.

**TABLE 7-4 ACCOMMODATED DEMAND – COMPETITIVE HOTEL MARKET**

	2018	2019	2020	2021	2022	2023	2024	2025
<b>Commercial</b>								
Occupied Room Nights	137,249	152,549	170,252	189,819	215,385	244,531	277,758	315,636
Residual Demand	0	0	0	0	0	0	0	0
Accommodated Demand Growth	—	11.1 %	11.6 %	11.5 %	13.5 %	13.5 %	13.6 %	13.6 %
<b>MICE</b>								
Occupied Room Nights	44,381	50,811	57,524	63,851	72,118	81,543	92,287	104,535
Residual Demand	0	0	0	0	0	0	0	0
Accommodated Demand Growth	—	14.5 %	13.2 %	11.0 %	12.9 %	13.1 %	13.2 %	13.3 %
<b>Leisure</b>								
Occupied Room Nights	31,178	34,801	38,430	42,033	45,996	50,355	55,151	60,426
Residual Demand	0	0	0	0	0	0	0	0
Accommodated Demand Growth	—	11.6 %	10.4 %	9.4 %	9.4 %	9.5 %	9.5 %	9.6 %
<b>Airline</b>								
Occupied Room Nights	12,632	15,335	17,824	19,675	21,748	24,069	26,670	29,582
Residual Demand	0	0	0	0	0	0	0	0
Accommodated Demand Growth	—	21.4 %	16.2 %	10.4 %	10.5 %	10.7 %	10.8 %	10.9 %
<b>Totals</b>								
Occupied Room Nights	225,440	253,497	284,030	315,377	355,247	400,499	451,865	510,179
Residual Demand	0	0	0	0	0	0	0	0
Accommodated Demand Growth	—	12.4 %	12.0 %	11.0 %	12.6 %	12.7 %	12.8 %	12.9 %
Available Rooms per Night	1,001	1,338	1,834	2,212	2,849	2,849	2,849	2,849
Available Room Nights per Year	365,365	488,423	669,365	807,289	1,039,794	1,039,794	1,039,794	1,039,794
Available Room Night Growth	—	33.7 %	37.0 %	20.6 %	28.8 %	0.0 %	0.0 %	0.0 %
<b>Marketwide Occupancy</b>	<b>62 %</b>	<b>52 %</b>	<b>42 %</b>	<b>39 %</b>	<b>34 %</b>	<b>39 %</b>	<b>43 %</b>	<b>49 %</b>

## PENETRATION FACTOR ANALYSIS

The proposed Property's forecast market share and occupancy have been based on its anticipated competitive position within the market, as quantified by its penetration factor.

The forecast market share of the proposed Property is based upon a penetration factor analysis. The penetration factor is the ratio of a property's market share to its fair share. If a property with a fair share of 5% is capturing 5% of the market in a given year, then its occupancy will equal the marketwide occupancy, and its penetration factor will equal 100% ( $5\%/5\% = 100\%$ ). If the same property achieves a market share in excess of its fair share, then its occupancy will be greater than the marketwide occupancy, and its penetration factor will be greater than 100%. Penetration factors can be calculated for each market segment of a property, and for the property as a whole.

Because the supply and demand balance for the competitive market is dynamic, particularly in relation to proposed new hotel supply entering the competitive market, there is a circular relationship between the penetration factors of each hotel in the market. The performance of individual new hotels has a direct effect upon the aggregate performance of the market and consequently upon the calculated penetration factor for each hotel in each market segment. The same is true when the performance of existing hotels changes, either positively (following a refurbishment, for example) or negatively (when an undermaintained or poorly marketed hotel loses market share).



A hotel's penetration factor is calculated as its achieved market share of demand divided by its fair share of demand. Thus, if one hotel's penetration performance increases, thereby increasing its achieved market share, this leaves less demand available in the market for the other hotels to capture and the penetration performance of one or more of those other hotels consequently declines (other things remaining equal). This type of market share adjustment takes place every time there is a change in supply, or a change in the relative penetration performance of one or more hotels in the competitive market.

Our projections of penetration, demand capture and occupancy performance for the proposed Property take into account these types of adjustment to market share within the defined competitive market. Consequently, the actual penetration factors applicable to the proposed Property for each market segment in each projection year (the output penetration factors) vary somewhat from the input penetration factors.

The following table sets out the projected input penetration rates for the proposed Property by market segmentation.

**TABLE 7-5 MARKET SEGMENTATION FORECAST – INPUT PENETRATION RATE – PROPOSED PROPERTY**

Market Segment	2022	2023	2024	2025	2026	2027	2028
Commercial	80.0 %	90.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
MICE	90.0	100.0	130.0	130.0	130.0	130.0	130.0
Leisure	80.0	90.0	100.0	105.0	105.0	105.0	105.0
Airline	100.0	130.0	160.0	180.0	180.0	180.0	180.0

## CONCLUSION – OCCUPANCY

We expect the proposed Property to reach a stabilised level of penetration (occupancy performance relative to its competitive market) in 2025. By this time we expect the proposed Property to achieve an overall penetration of 110%. The stabilised occupancy is intended to reflect the anticipated results of the property over its remaining economic life given any and all changes in the life cycle of the proposed Property.

These positioned segment penetration rates result in the following market segmentation forecast.

**TABLE 7-6 MARKET SEGMENTATION FORECAST – PROPOSED PROPERTY**

	2022	2023	2024	2025	2026	2027	2028
Commercial	58 %	59 %	57 %	57 %	57 %	58 %	58 %
MICE	22	22	24	23	23	24	24
Leisure	12	12	11	11	11	11	10
Airline	7	8	8	8	8	8	8
<b>Total</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

The proposed Property's occupancy forecast is set forth as follows, with the adjusted projected penetration rates used as a basis for calculating the amount of captured market demand.

**TABLE 7-7 OCCUPANCY PROJECTION – PROPOSED PROPERTY**

Market Segment	2022	2023	2024	2025
<b>Commercial</b>				
Demand	215,385	244,531	277,758	315,636
Market Share	19.5 %	21.2 %	23.0 %	23.0 %
Capture	41,951	51,756	63,820	72,523
Penetration	87 %	95 %	103 %	103 %
<b>MICE</b>				
Demand	72,118	81,543	92,287	104,535
Market Share	21.7 %	23.4 %	28.4 %	28.4 %
Capture	15,668	19,050	26,193	29,669
Penetration	97 %	104 %	127 %	127 %
<b>Leisure</b>				
Demand	45,996	50,355	55,151	60,426
Market Share	19.3 %	21.0 %	22.9 %	23.7 %
Capture	8,870	10,599	12,604	14,336
Penetration	86 %	94 %	102 %	106 %
<b>Airline</b>				
Demand	21,748	24,069	26,670	29,582
Market Share	24.2 %	28.6 %	33.1 %	35.7 %
Capture	5,263	6,893	8,817	10,566
Penetration	108 %	128 %	148 %	160 %
<b>Total Room Nights Captured</b>	<b>71,753</b>	<b>88,298</b>	<b>111,433</b>	<b>127,094</b>
Available Room Nights	232,504	232,505	232,505	232,505
<b>Subject Occupancy</b>	<b>31 %</b>	<b>38 %</b>	<b>48 %</b>	<b>55 %</b>
Marketwide Available Room Nights	1,039,794	1,039,794	1,039,794	1,039,794
<b>Fair Share</b>	<b>22 %</b>	<b>22 %</b>	<b>22 %</b>	<b>22 %</b>
Marketwide Occupied Room Nights	355,247	400,499	451,865	510,179
<b>Market Share</b>	<b>20 %</b>	<b>22 %</b>	<b>25 %</b>	<b>25 %</b>
<b>Marketwide Occupancy</b>	<b>34 %</b>	<b>39 %</b>	<b>43 %</b>	<b>49 %</b>
<b>Total Penetration</b>	<b>90 %</b>	<b>99 %</b>	<b>110 %</b>	<b>111 %</b>

## FORECAST OF AVERAGE RATE

One of the most important considerations in estimating the value of a lodging facility is a supportable forecast of its attainable average rate, which is more formally defined as the average rate per occupied room. Average rate can be calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which in turn provides the basis for estimating most other income and expense categories.

### Concept of Average Rate

A hotel's average room rate is the weighted average of the various amounts charged to different market segments, such as rack rates, published rates, commercial rates and contract rates. The average rate also takes into account differentials during peak and off-peak periods, including various seasons of the year, holidays and weekends. Different types of rooms may also command varying rates, and thus have an impact on the overall average rate.

We can use the operating history of the proposed Property's competitors as a starting point and project average rate based on market conditions and the proposed Property's relative degree of competitiveness. The process is outlined as follows.

1. The average rates of competitive properties are considered when determining the proposed Property's average rate position.
2. Factors that may have an impact on future average rate increases are analysed, and future growth rates are estimated.
3. The proposed Property's average rate is projected based on the growth estimates.

### Competitive Positioning

The proposed Property's average rate will be projected using a competitive positioning method. This technique begins with an analysis of the average rates achieved by the proposed Property's competitors. These rates establish a range that reflects certain characteristics of the specific market, such as price sensitivity, demand orientation, and occupancy. The proposed Property's average rate is then positioned based on that of the hotels to which the proposed Property is most similar in terms of size, quality, facilities, amenities, market orientation, location, management, image and affiliation. Adjustments are made to reflect any relevant differences.

Although the average rate analysis presented here follows the occupancy projections, these two statistics are strongly correlated; in reality, one cannot project occupancy without making specific assumptions regarding average rate. This relationship is best illustrated by rooms revenue per available room (RevPAR), which reflects a property's ability to maximise rooms revenue.

The following table sets out the summary of the competitive hotel market's average rate in 2018

**TABLE 7-8 AVERAGE RATE – COMPETITIVE HOTEL MARKET, 2018**

	Estimated 2018		
	Occ	Average Rate	RevPAR
<b>Primary Competitors</b>	<b>62.4 %</b>	<b>218</b>	<b>136</b>
Secondary Competitors	60 %	104	62
<b>Totals/Averages</b>	<b>62.1 %</b>	<b>202</b>	<b>126</b>

Average rate for the competitive hotel market recorded around \$202 in 2018, of which the primary competitors achieved an average rate of \$218 while the secondary competitors recorded around \$104.

Based on our understanding of the market and the demonstrated rate performance of the other competitors, as well as the understanding of the concept of the proposed Property, we have positioned the proposed Property's average rate at around \$175 in calendar year 2018 values, which is approximately 20% lower than the primary competitors in terms of average rate.

- This average rate is justified by the following factors:
- Location;
- Envisaged target market;
- Positioning for the proposed Property;
- Envisaged facilities; and
- The size of the proposed Property.

#### Average Rate Changes

Any increase in room rates of hotels does not necessarily conform to the underlying monetary inflation rate, because hotel facilities are influenced by market conditions such as the relationship between supply and demand. A hotel development's ability to raise room rates is also affected by a number of factors, including the following:

- Supply and Demand Relationships – The relationship between supply and demand is one of the factors that determine hotel occupancy and average rate. Strong markets, where hotel demand is increasing faster than supply, are often characterised by rate growth that exceeds inflation. Markets that are overbuilt or suffering from declining demand are unlikely to exhibit any significant increases in average rates;

- **Inflationary Pressures** – Price increases caused by inflation affect hotel room rates by eroding profit margins and encouraging operators to raise prices. This strategy is effective only in markets that are characterised by a healthy supply and demand relationship;
- **Improving the Competitive Standard** – When a new hotel development enters a mature market, its rates may be set higher than the marketwide average in an effort to justify the development costs. This temporary condition may allow other competitors to achieve corresponding gains by effectively raising the amount the market will bear. However, if the addition to supply has a severe impact on the occupancy of other hotels, price competition may ensue; and
- **Property-Specific Improvements** – Changes that make a hotel more or less attractive to guests can have an impact on average rate. An expansion, renovation, upgrade or the introduction of additional facilities and amenities may enable greater-than-inflationary room rate increases. Likewise, deferred maintenance may make a hotel less competitive, causing room rates to decline.

In projecting average rates, changes that occur prior to occupancy stabilisation are generally attributable to factors that are specific to the hotel and the market. After a hotel achieves a stabilised occupancy, room rates are generally expected to continue to increase at the underlying inflation rate throughout the remainder of the projection period.

In projecting average rate growth for the hotel market in the competitive area, we have considered the historical hotel data gathered through interviews, market research and from our in-house database.

In the view of supply and demand condition in the market, the competitive hotel market is expected to maintain moderate average rate growth in 2019. Starting 2020, with large amount of new supply entering the competitive market each year, the increasing competitiveness is anticipated to cause the marketwide average rate decreasing in the next few years.

Based on these considerations, the following table illustrates the projected average rates and the growth rates that have been applied up to the stabilised year (2025).

**TABLE 7-9 AVERAGE RATE FORECAST (US\$)**

Year	Areawide (Calendar Year)			Subject Property (Calendar Year)			
	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	62.1 %	—	202.22	#VALUE!	%	—	175.00 86.5 %
2019	51.9	1.5 %	205.26	#VALUE!	1.5 %	177.63	86.5
2020	42.4	(2.0)	201.15	#VALUE!	(2.0)	174.07	86.5
2021	39.1	(3.0)	195.12	#VALUE!	(3.0)	168.85	86.5
2022	34.2	(2.0)	191.21	31.0	0.0	168.85	88.3
2023	38.5	(1.0)	189.30	38.0	2.0	172.23	91.0
2024	43.5	0.0	189.30	48.0	3.0	177.39	93.7
2025	49.1	1.0	191.19	55.0	3.0	182.72	95.6

We note that the average rate penetration of the proposed Property appears a slightly lower, as the competitive set includes several higher-rated competitors.

A new hotel must establish its reputation and a client base in the market after opening; as such, the proposed Property's average rates in the initial operating period have been discounted to reflect this likelihood. We forecast a 5% discount in the opening year.

**TABLE 7-10 FORECAST OF OCCUPANCY AND AVERAGE RATE – PROPOSED PROPERTY (US\$)**

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount	RevPAR	Average Rate After Discount in 2018 Prices
2022	31	169	5	160	50	148
2023	38	172	0	172	65	156
2024	48	177	0	177	85	158
2025	55	183	0	183	100	159

## 8. Projection of Income and Expense

In this chapter of our report, we have compiled a forecast of income and expense for the proposed Property. This forecast is based on the facilities program set forth in Section 6, Proposed Hotel Concept and Facility Recommendation, as well as the occupancy and average rate forecast discussed previously.

Based on our preceding projection of occupancy and average rate, and on our knowledge of comparable hotels' financial operating profiles, we have developed a ten-year forecast of income and expense commencing on or around 1 January 2022. We have selected an annual inflation rate of 2.0%.

The forecast of income and expense is expressed in inflated US Dollars (USD) as at the date of each projection year. The stabilised year is intended to reflect the anticipated operating results of the proposed Property over its economic life, given any or all applicable stages of build-up, plateau and decline in the life cycle of the proposed Property. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any non-recurring conditions that may result in unusual revenues or expenses.

### FIXED AND VARIABLE COMPONENT ANALYSIS

HVS uses a fixed and variable component model to project a lodging facility's revenue and expense levels. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then increased in tandem with the underlying rate of inflation, while the variable component is adjusted for a specific measure of volume such as total revenue.

Our fixed and variable projection model is based upon variables that we input for each revenue and expense item for a "base year," which in this case is the year 2018. The base-year forecast sets forth the ratios to revenue, amounts per available room, or amounts per occupied room, which we believe can be achieved at the stated base-year average rate and occupancy. Our input variables are derived from the comparable hotel statements.

The actual forecast is derived by adjusting each year's revenue and expense by the amount fixed (the fixed expense multiplied by the inflated base-year amount) plus the variable amount (the variable expense multiplied by the inflated base-year amount) multiplied by the ratio of the projection year's occupancy to the base-year occupancy (in the case of departmental revenue and expense) or the ratio of the projection year's revenue to the base-year's revenue (in the case of undistributed operating expenses). Fixed expenses remain fixed, increasing only with inflation. Our discussion of the revenue and

expense forecast in this report is based upon the output derived from the fixed and variable model. This forecast of revenue and expense is accomplished through a step-by-step approach, following the format of the Uniform System of Accounts for the Lodging Industry. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

## **FORECAST OF INCOME AND EXPENSE**

Based on the market for hotel accommodation in Addis Ababa, as well as the proposed Property's anticipated future market position, we have developed a forecast of income and expense. We anticipate that it will take four years for the proposed Property to reach a stabilized level of operation.

## **REVENUES**

Because the proposed Property is a new property, the income and expense projections have been based on discussions with local hotel managers of comparable properties, pertaining to the current operational performance of these properties.

### **Rooms Revenue**

Rooms' revenue is determined by two variables, occupancy and average rate, as discussed in Section 7, *Projection of Hotel Demand, Occupancy and Average Rate*.

### **Food and Beverage Revenues**

The Uniform System of Accounts for Hotels defines food revenue as revenue derived from the sale of food, including coffee, milk, tea and soft drinks. Food sales do not include staff meals. Food revenue also includes meeting room hire, cover charges, service charges and miscellaneous banqueting revenue. Beverage revenue is generated from the sale of alcoholic beverages in restaurants and banqueting rooms and the sale of alcoholic and non-alcoholic beverages in a hotel's bars and lounges.

As described in Section 6, *Proposed Property Concept and Facility Recommendation*, we have assumed that the proposed Property will offer five food and beverage outlets. Food and beverage revenue at the proposed Property will be generated by these outlets as well as the proposed Property's banqueting and catering operations.

We have taken the following steps in forecasting the proposed Property's food and beverage demand.

1. Based on our analysis in the previous section, the total potential house count has been projected.
2. The demand from each Property guest for each food and beverage (F&B) outlet and for each meal period has been based on a projected percentage of guests.
3. Out-of-house demand has been projected by outlet and by meal. These projections are based on HVS's assumptions, which are in turn based on general market trends and the performance of comparable resorts' F&B outlets in the city.



4. The average F&B spend and income has been projected for each outlet and meal time. An analysis of the food and beverage pricing structure of comparable resort properties served as a starting point for these projections.

The following tables summarise our forecast of revenues from the proposed five food and beverage outlets and 1,800-square-metre meeting facilities.

**TABLE 8-1 FORECAST OF FOOD AND BEVERAGE REVENUE – PROPOSED PROPERTY (US\$)**

	2022	2023	2024	2025
Outlets	2,620,871	3,452,440	4,670,590	5,393,350
Banquets & Catering	2,998,662	3,972,924	4,374,465	4,461,955
<b>Total Food &amp; Beverage Revenue</b>	<b>5,619,533</b>	<b>7,425,364</b>	<b>9,045,055</b>	<b>9,855,305</b>
<i>Change</i>	—	32.1%	21.8%	9.0%
<i>POR</i>	78	84	81	77
<i>POR (Base Year Values)</i>	72	76	72	67
Total Food	2,033,396	2,660,125	3,584,249	4,141,353
Total Beverage	587,475	792,315	1,086,341	1,251,996
Total Room Hire	278,618	378,921	386,499	394,229
Total Catering	2,720,044	3,594,004	3,987,966	4,067,726

In the stabilised year (2025), food and beverage revenue is projected at approximately \$77 per occupied room (POR), or 28.4% of total revenue in the stabilised year (2025).

### Other Income

The content of other income varies considerably between hotels, making a comparison of this department with other hotels invalid. Other income for the proposed Property is composed primarily of income from rental space, income of a spa and fitness centre, guests' laundry, telephone, airport pick-ups, commissions on foreign currency exchange and income from the business centre. Other income is projected to stabilise at approximately \$11.5 POR in the stabilised year (2025). In projecting the sources of other income, we considered in our forecast the proposed Property's total number of occupied rooms by market segment, because the nature of Property guests' usage of the aforementioned facilities is likely to differ from segment to segment.

### Rooms Expense

Rooms' expense consists of items relating to the sale and upkeep of guest rooms and public space. Salaries, wages and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy, because managers can schedule room-cleaning staff, portage personnel and house cleaners to work when occupancy requires, much of a hotel's payroll is fixed. Other rooms' department expenses include the cost of cleaning materials, commissions payable to travel agents and reservations costs. Commissions and reservations are usually based on room sales, and thus are highly sensitive to changes in occupancy and average rate. While guest

supplies vary 100% with occupancy, linen, and other operating expenses are only slightly affected by volume.

We have forecast rooms' expense for the proposed Property to be in line with that of other upscale hotels of this type. We have forecast rooms' expense of \$18.3 POR in the stabilised year (2025), or 10% of rooms' revenue. Changes in this expense item over the projection period result from the application of the underlying inflation rate and projected changes in occupancy.

#### **Food and Beverage Expense**

Food and beverage expense consist of items necessary for the operation of a hotel's food, beverage and banquet facilities. The costs associated with food sales and payroll are moderately to highly correlated to food revenues. Items such as china, linen and uniforms are less dependent on volume. Although the other expense items are basically fixed, they represent a relatively insignificant factor. Beverage expenses consist of items necessary for the operation of a hotel's lounge and bar areas. The costs associated with beverage sales and payroll are moderately to highly correlated to beverage revenues.

Food and beverage expense is projected to stabilise at \$36.7 POR in the stabilised year (2025) or approximately 48% of food and beverage revenue.

#### **Other Expense**

Other expense consists of costs associated with the generation of other income and is dependent on the nature of the revenue. Other expenses are projected to stabilise at 30% of other income.

#### **Administrative and General Expense**

Administrative and general expense includes the salaries of all administrative personnel and those not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category. Most administrative and general expenses are fixed. The exceptions are cash surpluses and shortages, commissions on credit card charges and provisions for bad debts.

In recent years, several new items such as human resources administration costs and security expenses have been added to the administrative and general expense category. Also included in this expense category is general insurance, including premiums for public liability, theft and business interruption insurance. Fire and extended coverage insurance on the building and contents is a separate insurance expense category included under fixed expenses.

Administrative and general expense is projected to stabilise at approximately \$4,710 per available room (PAR) in the stabilised year (2025), or approximately 8.6% of the total revenue in the stabilised year.

#### **Marketing Expense**

Marketing expense consists of all costs associated with advertising, sales and promotion; these activities are intended to attract new customers and retain existing ones. Marketing can be used to create an image, develop customer awareness and stimulate patronage of a property's various facilities.

### Property Operations and Maintenance Expense

The marketing category is unique in that all expense items, with the exception of fees and commissions, are totally controllable by management. Most hotel operators establish an annual marketing budget that sets forth all planned expenditures. If the budget is followed, total marketing expenses can be forecast accurately.

Marketing expenses are projected to stabilise at approximately \$2,527 per available room (PAR) in the stabilised year (2025), or approximately 4.6% of the total revenue in the stabilised year.

Property operations and maintenance expense is another expense category that is largely controllable by management. Except for repairs necessary to keep the facility open and prevent damage (to plumbing, heating and electrical systems, and so forth), most maintenance items can be deferred for varying lengths of time.

Maintenance is an accumulating expense. If management elects to postpone a required repair, they have not eliminated or saved the expenditure; they have only deferred payment until a later date. A hotel that has operated with a lower than normal maintenance budget is likely to have accumulated a considerable amount of deferred maintenance.

The age of a hotel greatly influences the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. However, as a hotel grows older, maintenance expenses escalate. A well-organised preventive maintenance system often helps to delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of what the occupancy trend may be.

We have forecast property operations and maintenance expense for the proposed Hotel to be in line with that of other hotels of this type. We forecast that the Hotel's property operations and maintenance expense will stabilise at approximately \$1,493 PAR in the stabilised year (2025), or approximately 2.7% of total revenue.

We have discounted this expense in the first year of operation by 5% to reflect the reduced maintenance required for a new hotel facility.

### Utilities Expense

A large portion of a hotel's energy consumption is relatively fixed and varies little with changes in occupancy. Other than bedrooms and meeting space, most areas of a hotel must be continually lit and heated or air conditioned, regardless of occupancy. The marginal energy cost of an additional occupied room is minimal.

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement

their utility requirements with less expensive sources, such as gas and oil, for heating and cooking.

We have forecast annual energy expenses to stabilise at around \$1,666 per available room (PAR) in the stabilised year (2025), or approximately 3.1% of the total revenue in the stabilised year.

#### **Management Fee and Incentive Fee**

Management fee expense consists of the basic fee paid to the hotel management company that is anticipated to be operating the proposed Hotel. Some companies provide management services alone, while others offer both management services and a brand name affiliation. When a management company has no brand identification, the property owner can often acquire a franchise that provides the necessary image and recognition. Although most hotel management companies employ a fee schedule that includes a basic fee (usually a percentage of total revenue) and an incentive fee (usually a percentage of defined profit), the incentive portion is often subordinated to debt service and does not appear in a forecast of net operating income before debt service. Although in such circumstances the incentive fee does not decrease the cashflow available for debt service, it does reduce the potential cashflow to equity, and must be accounted for in the feasibility study.

Given the assumption that the proposed Property will be managed by in international five-star hotel brand, we have applied a management fee of 2.0% of gross revenue and an incentive fee of 7.0% of gross operating profit after management fees.

#### **Insurance Expense**

The insurance expense category consists of the cost of insuring the proposed Hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to theft coverage. It does not include liability coverage, which is a component of administrative and general expense. Insurance costs are estimated to be approximately 0.5% of the total revenue in the stabilised year.

#### **Reserve for Replacement Expense**

Furniture, fixtures and equipment (FF&E) are essential to the operation of a hotel, and their quality often influences the standard or grading of a property. Included in this category are all non-real-estate items that are typically capitalised rather than expensed. The FF&E of a hotel are often exposed to heavy use and must be replaced at regular intervals.

Periodic replacement of FF&E is essential to maintain the quality, image and income potential of a hotel. Because capitalised expenditures are not included in the operating statement, but nevertheless affect an owner's cash flow, a valuation should reflect these expenses by deducting an appropriate reserve for replacement.

Our industry experience indicates that a reserve for replacement of 4.0% of total revenue generally is sufficient to provide for the timely replacement of FF&E. Therefore, based on typical agreements between management

companies and hotel investors, we have assumed a reserve for replacement of FF&E for the proposed Property of 2% for the first year of operation, 3% for the second and 4% thereafter.

**FORECAST OF INCOME  
AND EXPENSE**

The following table illustrates our ten-year projection of income and expense for the operation of the proposed Property.

DRAFT

**TABLE 8-2 DETAILED FORECAST OF INCOME AND EXPENSE – PROPOSED PROPERTY (US\$ 000s)**

	2022				2023				2024				Stabilised			
Number of Rooms:	637				637				637				637			
Days Open:	365				365				365				365			
Occupied Rooms:	72,077				88,352				111,602				127,878			
Occupancy:	31%				38%				48%				55%			
Average Rate:	160.41				172.23				177.39				182.72			
RevPAR:	49.73	% Gross	PAR	POR	65.45	% Gross	PAR	POR	85.15	% Gross	PAR	POR	100.49	% Gross	PAR	POR
<b>REVENUE</b>																
Rooms	11,562	69.9 %	18,151	160.41	15,217	68.5 %	23,889	172.23	19,798	67.4 %	31,080	177.40	23,365	67.4 %	36,680	182.71
Food and Beverage	3,780	22.8	5,935	52.45	5,704	25.7	8,955	64.56	8,182	27.9	12,844	73.31	9,855	28.4	15,471	77.07
Other Income	1,203	7.3	1,889	16.69	1,281	5.8	2,011	14.50	1,385	4.7	2,174	12.41	1,469	4.2	2,306	11.49
Total Revenues	16,545	100.0	25,974	229.55	22,202	100.0	34,854	251.29	29,365	100.0	46,099	263.12	34,689	100.0	54,457	271.27
<b>DEPARTMENTAL EXPENSES *</b>																
Rooms	1,817	15.7	2,853	25.22	1,968	12.9	3,090	22.28	2,174	11.0	3,413	19.48	2,337	10.0	3,668	18.27
Food and Beverage	2,492	65.9	3,912	34.57	3,325	58.3	5,220	37.64	4,155	50.8	6,523	37.23	4,731	48.0	7,426	36.99
Other Expenses	399	33.2	626	5.54	412	32.1	646	4.66	427	30.8	670	3.83	441	30.0	692	3.45
Total	4,708	28.5	7,391	65.32	5,705	25.7	8,957	64.57	6,756	23.0	10,606	60.54	7,508	21.6	11,786	58.71
<b>DEPARTMENTAL INCOME</b>	11,837	71.5	18,583	164.23	16,497	74.3	25,897	186.72	22,608	77.0	35,492	202.58	27,181	78.4	42,671	212.56
<b>UNDISTRIBUTED OPERATING EXPENSES</b>																
Administrative & General	2,523	15.2	3,961	35.01	2,674	12.0	4,198	30.27	2,853	9.7	4,478	25.56	3,000	8.6	4,710	23.46
Marketing	1,354	8.2	2,125	18.78	1,435	6.5	2,253	16.24	1,531	5.2	2,403	13.71	1,610	4.6	2,527	12.59
Franchise Fee	0	0.0	0	0.00	0	0.0	0	0.00	0	0.0	0	0.00	0	0.0	0	0.00
Prop. Operations & Maint.	760	4.6	1,193	10.54	848	3.8	1,331	9.60	904	3.1	1,420	8.10	951	2.7	1,493	7.44
Utilities	892	5.4	1,401	12.38	946	4.3	1,485	10.70	1,009	3.4	1,584	9.04	1,061	3.1	1,666	8.30
Total	5,529	33.4	8,680	76.72	5,903	26.6	9,266	66.81	6,296	21.4	9,884	56.42	6,622	19.0	10,396	51.78
<b>GROSS OPERATING PROFIT (GOP)</b>	6,308	38.1	9,902	87.51	10,594	47.7	16,631	119.91	16,312	55.6	25,608	146.16	20,559	59.4	32,275	160.77
Management Fee	331	2.0	519	4.59	444	2.0	697	5.03	587	2.0	922	5.26	694	2.0	1,089	5.43
<b>GOP AFTER MANAGEMENT FEES</b>	5,977	36.1	9,383	82.92	10,150	45.7	15,934	114.88	15,725	53.6	24,686	140.90	19,866	57.4	31,186	155.35
<b>FIXED EXPENSES</b>																
Property Taxes	0	0.0	0	0.00	0	0.0	0	0.00	0	0.0	0	0.00	0	0.0	0	0.00
Insurance	117	0.7	184	1.62	119	0.5	187	1.35	122	0.4	191	1.09	124	0.4	195	0.97
Incentive Management Fee	442	2.7	693	6.13	742	3.3	1,164	8.39	1,142	3.9	1,793	10.23	1,439	4.1	2,259	11.25
Reserve for Replacement	331	2.0	519	4.59	666	3.0	1,046	7.54	1,175	4.0	1,844	10.52	1,388	4.0	2,178	10.85
Total	889	5.4	1,396	12.34	1,527	6.8	2,397	17.28	2,438	8.3	3,828	21.85	2,951	8.5	4,633	23.08
<b>Net Operating Income</b>	5,087	30.7 %	7,986	70.58	8,623	38.9 %	13,537	97.60	13,287	45.3 %	20,858	119.05	16,915	48.9 %	26,554	132.27

\* Departmental expenses are expressed as a percentage of departmental revenues.

**TABLE 8-3 TEN-YEAR FORECAST OF INCOME AND EXPENSE – PROPOSED PROPERTY 2022-2031 (US\$000)**

	2022		2023		2024		2025		2026		2027		2028		2029		2030		2031	
Number of Rooms:	637		637		637		637		637		637		637		637		637		637	
Occupied Rooms:	72,077		88,352		111,602		127,878		127,878		127,878		127,878		127,878		127,878		127,878	
Occupancy:	31%		38%		48%		55%		55%		55%		55%		55%		55%		55%	
Average Rate:	160.41	% of	172.23	% of	177.39	% of	182.72	% of	186.37	% of	190.10	% of	193.90	% of	197.78	% of	201.73	% of	205.77	% of
RevPAR:	49.73	Gross	65.45	Gross	85.15	Gross	100.49	Gross	102.50	Gross	104.55	Gross	106.64	Gross	108.78	Gross	110.95	Gross	113.17	Gross
<b>REVENUE</b>																				
Rooms	11,562	69.9 %	15,217	68.5 %	19,798	67.4 %	23,365	67.4 %	23,833	67.4 %	24,309	67.4 %	24,795	67.4 %	25,291	67.4 %	25,797	67.4 %	26,313	67.4 %
Food and Beverage	3,780	22.8	5,704	25.7	8,182	27.9	9,855	28.4	10,052	28.4	10,253	28.4	10,459	28.4	10,668	28.4	10,881	28.4	11,099	28.4
Other Income	1,203	7.3	1,281	5.8	1,385	4.7	1,469	4.2	1,498	4.2	1,528	4.2	1,559	4.2	1,590	4.2	1,622	4.2	1,654	4.2
Total	16,545	100.0	22,202	100.0	29,365	100.0	34,689	100.0	35,384	100.0	36,091	100.0	36,812	100.0	37,549	100.0	38,300	100.0	39,066	100.0
<b>DEPARTMENTAL EXPENSES*</b>																				
Rooms	1,817	15.7	1,968	12.9	2,174	11.0	2,337	10.0	2,383	10.0	2,431	10.0	2,480	10.0	2,529	10.0	2,580	10.0	2,631	10.0
Food and Beverage	2,492	65.9	3,325	58.3	4,155	50.8	4,731	48.0	4,825	48.0	4,922	48.0	5,020	48.0	5,120	48.0	5,223	48.0	5,327	48.0
Other Expenses	399	33.2	412	32.1	427	30.8	441	30.0	449	30.0	458	30.0	468	30.0	477	30.0	487	30.0	496	30.0
Total	4,708	28.5	5,705	25.7	6,756	23.0	7,508	21.6	7,658	21.6	7,811	21.6	7,967	21.6	8,127	21.6	8,289	21.6	8,455	21.6
<b>DEPARTMENTAL INCOME</b>	11,837	71.5	16,497	74.3	22,608	77.0	27,181	78.4	27,726	78.4	28,280	78.4	28,845	78.4	29,422	78.4	30,011	78.4	30,611	78.4
<b>UNDISTRIBUTED OPERATING EXPENSES</b>																				
Administrative & General	2,523	15.2	2,674	12.0	2,853	9.7	3,000	8.6	3,060	8.6	3,121	8.6	3,184	8.6	3,247	8.6	3,312	8.6	3,379	8.6
Marketing	1,354	8.2	1,435	6.5	1,531	5.2	1,610	4.6	1,642	4.6	1,675	4.6	1,708	4.6	1,742	4.6	1,777	4.6	1,813	4.6
Prop. Operations & Maint.	760	4.6	848	3.8	904	3.1	951	2.7	970	2.7	990	2.7	1,009	2.7	1,030	2.7	1,050	2.7	1,071	2.7
Utilities	892	5.4	946	4.3	1,009	3.4	1,061	3.1	1,082	3.1	1,104	3.1	1,126	3.1	1,148	3.1	1,171	3.1	1,195	3.1
Total	5,529	33.4	5,903	26.6	6,296	21.4	6,622	19.0	6,754	19.0	6,890	19.0	7,027	19.0	7,168	19.0	7,311	19.0	7,457	19.0
<b>GROSS OPERATING PROFIT (GOP)</b>	6,308	38.1	10,594	47.7	16,312	55.6	20,559	59.4	20,971	59.4	21,390	59.4	21,818	59.4	22,254	59.4	22,699	59.4	23,154	59.4
Management Fee	331	2.0	444	2.0	587	2.0	694	2.0	708	2.0	722	2.0	736	2.0	751	2.0	766	2.0	781	2.0
<b>GOP AFTER MANAGEMENT FEES</b>	5,977	36.1	10,150	45.7	15,725	53.6	19,866	57.4	20,264	57.4	20,668	57.4	21,082	57.4	21,503	57.4	21,933	57.4	22,372	57.4
<b>FIXED EXPENSES</b>																				
Property Taxes	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Insurance	117	0.7	119	0.5	122	0.4	124	0.4	127	0.4	129	0.4	132	0.4	134	0.4	137	0.4	140	0.4
Incentive Management Fee	442	2.7	742	3.3	1,142	3.9	1,439	4.1	1,468	4.1	1,497	4.1	1,527	4.1	1,558	4.1	1,589	4.1	1,621	4.1
Reserve for Replacement	331	2.0	666	3.0	1,175	4.0	1,388	4.0	1,415	4.0	1,444	4.0	1,472	4.0	1,502	4.0	1,532	4.0	1,563	4.0
Total	889	5.4	1,527	6.8	2,438	8.3	2,951	8.5	3,010	8.5	3,070	8.5	3,132	8.5	3,194	8.5	3,258	8.5	3,323	8.5
<b>Net Operating Income</b>	5,087	30.7 %	8,623	38.9 %	13,287	45.3 %	16,915	48.9 %	17,254	48.9 %	17,598	48.9 %	17,950	48.9 %	18,309	48.9 %	18,675	48.9 %	19,049	48.9 %

\* Departmental expenses are expressed as a percentage of departmental revenues.

## 9. Return on Investment Analysis

In order to determine the financial returns of the proposed 637-room Property, we have estimated the following financial ratios:

- Development Cost: and
- Return on Investment Analysis
- Payback analysis

### RETURN ON INVESTMENT ANALYSIS

As requested by the Client, we have made a return on investment analysis for the project. We note that our return on investment analysis is indicative only and should not be relied on when making investment decisions.

We have used the net operating income forecast in the ten-year projection of income and expense as the basis for an analysis of cash flow and return on investment. In addition to net operating income, the key components of this analysis are the development cost estimates and HVS's estimates of the proposed finance structure to be adopted for the project.

In the following two tables, we illustrate the development cost estimates, the proposed financial structure and the anticipated phasing of the capital injection in the total development, as assumed by HVS.

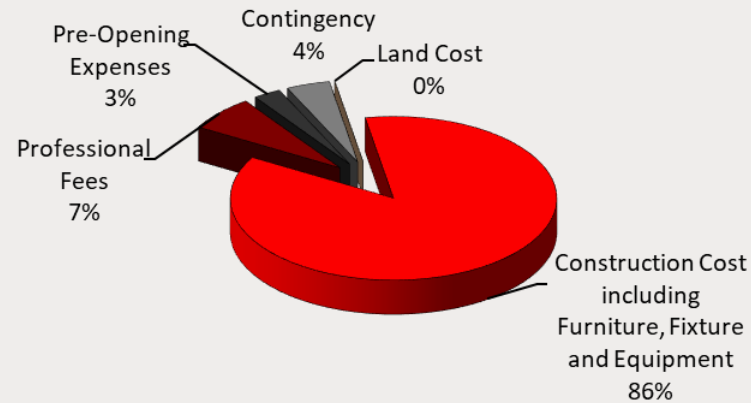


**TABLE 8-1 INDICATIVE DEVELOPMENT COST – PROPOSED HOTEL DEVELOPMENT PHASE TWO (US\$)**

Number of Rooms 637  
 Expected Build-up Area 80,675 m<sup>2</sup>

	Amount	Amount per Room	Amount per m <sup>2</sup>	% of Total
Land Cost	—	—		%
Construction Cost including Furniture, Fixture and Equipment	121,012,500	189,973	1,500	86
Professional Fees	9,681,000	15,198	120	7
Pre-Opening Expenses	3,822,000	6,000	47	3
Contingency	6,051,000	9,000	75	4
<b>Total Rounded Cost</b>	<b>140,600,000</b>	<b>221,000</b>	<b>1,742</b>	<b>100 %</b>

Source: HVS Estimates



**TABLE 8-2 PROPOSED FINANCIAL STRUCTURE AND CAPITAL INJECTION – PROPOSED HOTEL DEVELOPMENT PHASE TWO (US\$)**

<b>Proposed Financial Structure</b>	<b>Amount</b>	<b>Percentage of Total</b>	
Total Cost	140,566,500	100%	
Debt	112,453,200	80%	
Equity	28,113,300	20%	
Land Cost			
Development Equity	28,113,300		

<b>Construction Phasing</b>	<b>Construction Period</b>				<b>Total</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022 #####</b>	
Equity Injection	50%	30%	20%		<b>100%</b>
Debt Injection	50%	30%	20%		
Cost Excluding Land Cost	70,283,250	42,169,950	28,113,300		

<b>Proposed Capital Injection</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
Equity Injection	14,056,650	8,433,990	5,622,660	<b>28,113,300</b>
Debt Injection	56,226,600	33,735,960	22,490,640	<b>112,453,200</b>
<b>总计</b>	<b>70,283,250</b>	<b>42,169,950</b>	<b>28,113,300</b>	<b>140,566,500</b>

The following two tables detail our debt assumptions. We expect Proposed Hotel Development Phase Two to be able to obtain a short-term construction loan at an interest rate of 6.3%. The loan size will be 80% of the development cost.

**TABLE 8-1 DEBT ASSUMPTIONS – LOAN TERMS**

	<b>Loan 1</b>	<b>Loan 2</b>	<b>Loan 3</b>
Drawdown Date	2019	2020	2021
Loan Level @ 2019	56,227	—	—
Loan Level @ 2020	—	33,736	—
Loan Level @ 2021	—	—	22,491
Interest	6.3%	6.3%	6.3%
Term (in years)	10	10	10
Amortisation (in years)	10	10	10
Annual Payment	7,730	4,638	3,092

<sup>1</sup> The outstanding balance of principal will be paid for with Loan 2

**TABLE 8-2 DEBT ASSUMPTIONS – DEBT SERVICE**

<b>Loan 1</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
Principal Outstanding	56,227	52,011	47,531	42,772	37,715	32,342	26,633	20,568	14,123	7,275		
Interest	3,514	3,251	2,971	2,673	2,357	2,021	1,665	1,285	883	455		
Principal Repaid	4,216	4,479	4,759	5,057	5,373	5,709	6,066	6,445	6,847	7,275		
Total Payment	7,730	7,730	7,730	7,730	7,730	7,730	7,730	7,730	7,730	7,730		
<b>Balance of Principal <sup>1</sup></b>	<b>52,011</b>	<b>47,531</b>	<b>42,772</b>	<b>37,715</b>	<b>32,342</b>	<b>26,633</b>	<b>20,568</b>	<b>14,123</b>	<b>7,275</b>	<b>0</b>		
<b>LOAN 2</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>
Principal Outstanding	33,736	31,206	28,519	25,663	22,629	19,405	15,980	12,341	8,474	4,365		
Interest	2,108	1,950	1,782	1,604	1,414	1,213	999	771	530	273		
Principal Repaid	2,530	2,688	2,856	3,034	3,224	3,425	3,639	3,867	4,108	4,365		
Total Payment	4,638	4,638	4,638	4,638	4,638	4,638	4,638	4,638	4,638	4,638		
<b>Balance of Principal</b>	<b>31,206</b>	<b>28,519</b>	<b>25,663</b>	<b>22,629</b>	<b>19,405</b>	<b>15,980</b>	<b>12,341</b>	<b>8,474</b>	<b>4,365</b>			
<b>LOAN 3</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>	<b>2032</b>
Principal Outstanding	22,491	20,804	19,012	17,109	15,086	12,937	10,653	8,227	5,649	2,910		
Interest	1,406	1,300	1,188	1,069	943	809	666	514	353	182		
Principal Repaid	1,686	1,792	1,904	2,023	2,149	2,284	2,426	2,578	2,739	2,910		
Total Payment	3,092	3,092	3,092	3,092	3,092	3,092	3,092	3,092	3,092	3,092		
<b>Balance of Principal</b>	<b>20,804</b>	<b>19,012</b>	<b>17,109</b>	<b>15,086</b>	<b>12,937</b>	<b>10,653</b>	<b>8,227</b>	<b>5,649</b>	<b>2,910</b>	<b>0</b>		
<b>CONSOLIDATED LOANS</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
Principal Outstanding	56,227	85,747	101,228	92,095	82,390	72,079	61,124	49,484	37,117	23,976	10,014	2,910
Interest	3,514	5,359	6,327	5,756	5,149	4,505	3,820	3,093	2,320	1,499	626	182
Principal Repaid	4,216	7,009	9,134	9,704	10,311	10,955	11,640	12,368	13,140	13,962	7,104	2,910
<b>Total Debt Service</b>	<b>7,730</b>	<b>12,368</b>	<b>15,460</b>	<b>15,460</b>	<b>15,460</b>	<b>15,460</b>	<b>15,460</b>	<b>15,460</b>	<b>15,460</b>	<b>15,460</b>	<b>7,730</b>	<b>3,092</b>
<b>Balance of Principal</b>	<b>52,011</b>	<b>78,738</b>	<b>92,095</b>	<b>82,390</b>	<b>72,079</b>	<b>61,124</b>	<b>49,484</b>	<b>37,117</b>	<b>23,976</b>	<b>10,014</b>	<b>2,910</b>	<b>0</b>

<sup>1</sup> The outstanding balance of principal will be paid for with Loan 2

The following table illustrates our residual value methodology.

**TABLE 8-3 RESIDUAL VALUE (2031) PROPOSED HOTEL DEVELOPMENT PHASE TWO**

Terminal Capitalisation Rate in 2032	9.0%
11th Year's Net Operating Income	17,872,000
Sales Price	198,573,000
Brokerage Commissions & Legal @ 1.5%	2,979,000
Net Sales Price	195,595,000
Less: Repayment of Outstanding Principal	-11,225,000
<b>Total Equity on Sale</b>	<b>206,820,000</b>

The following table shows our return on investment analysis for the development.

**TABLE 8-4 RETURN ON INVESTMENT ANALYSIS – PROPOSED HOTEL DEVELOPMENT PHASE TWO (US\$ 000s)**

Proposed Capital Injection	2019	2020	2021	2022	2023	Total
Equity	14,057	8,434	5,623			<b>28,113</b>
Debt	56,227	33,736	22,491			<b>112,453</b>
<b>Total Construction Cost</b>	<b>70,283</b>	<b>42,170</b>	<b>28,113</b>			<b>140,567</b>

Net Income and Debt Payments				2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Net Income				3,809	7,319	11,957	15,558	15,870	16,187	16,510	16,841	17,178	17,521
Debt Service	7,730	12,368	15,460	15,460	15,460	15,460	15,460	15,460	15,460	15,460	7,730	3,092	
Net Income after Debt Service	-7,730	-12,368	-15,460	-11,651	-8,141	-3,503	98	410	727	1,050	9,111	14,086	17,521

OVERALL IRR	IRR	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Net Income					3,809	7,319	11,957	15,558	15,870	16,187	16,510	16,841	17,178	213,116
Total Investment		70,283	42,170	28,113										
Net Project Cash Flow	<b>9.6%</b>	-70,283	-42,170	-28,113	3,809	7,319	11,957	15,558	15,870	16,187	16,510	16,841	17,178	213,116

LEVERAGED IRR	IRR	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Net Income after Debt Service		-7,730	-12,368	-15,460	-11,651	-8,141	-3,503	98	410	727	1,050	9,111	14,086	224,341
Equity Investment		14,057	8,434	5,623										
Net Cash Flow to Equity	<b>10.9%</b>	-21,787	-20,802	-21,083	-11,651	-8,141	-3,503	98	410	727	1,050	9,111	14,086	224,341

These projections are provided for indicative purposes only and should not be used to influence any investment decision.

## Payback Analysis

In order to determine the investment return for the Proposed Hotel Development Phase Two, we have utilised a payback analysis. Our indicative analysis is shown the following table.

**TABLE 8-5 ESTIMATED PAYCAK PERIOD (US\$)**

Estimated Total Development Cost			140,600,000
	Year	Cashflow	Balance
1	2022	3,809,000	136,791,000
2	2023	7,319,000	129,472,000
3	2024	11,957,000	117,515,000
4	2025	15,558,000	101,957,000
5	2026	15,869,160	86,087,840
6	2027	16,186,543	69,901,297
7	2028	16,510,274	53,391,023
8	2029	16,840,480	36,550,543
9	2030	17,177,289	19,373,254
10	2031	17,520,835	1,852,419
11	2032	18,046,460	-16,194,041
Estimated Payback Period			10 Years and 2 Months

## Conclusion

Our analysis indicates that the project internal rate of return (IRR) for the total (unleveraged) investment and equity investment (leveraged) is likely to be as follows.

- Overall Project IRR: 9.6%;
- Leveraged Project IRR: 10.9%.
- Payback Period: 10 Years and 2 Months

It is crucial to note that investment decisions should be made once the total financing structure is in place. Furthermore, as the investment returns are highly dependent on the development cost of the project, the development costs should be closely monitored since they have risen sharply in the last few years.

## Risk Analysis

It is our opinion that the main micro-risk components for this investment are the following.

- **Sales and marketing risk and pricing.** These risks are inherent in the requirement to package and sell the property to the international markets over the assumed period of operation. We therefore consider such a risk to be high;
- **Development cost risk.** As the construction work is likely to be conducted by an experienced developer, we consider this risk to be

significantly reduced. However, our development cost estimates are indicative and may change materially;

- **Operational risk.** Typically reflects the likelihood that the proposed Property will underperform and therefore experience periods of financial distress. However, as we expect the Property to be managed by an internationally renowned operator this risk is considerably decreased;
- **Legal risk.** We are unable to comment on any legislative issues that could affect the position of the proposed scenarios in respect of these developments. We therefore recommend that an experienced legal team be consulted both before and throughout the development process.

This return on investment analysis is subject to all assumptions and limiting conditions set out in this report.

From our analysis, we consider the proposed development to be operationally and financially viable.

## Addendum 1 – Statement of Assumptions and Limiting Conditions

1. We have relied on information given by the Client and its representatives and have accepted advice given to us on such matters as land titles, easements, tenure, planning approvals, statutory notices, tenancy schedule, site and floor plans, building plans, floor areas, building design, building costs, operating and income statements and all other relevant matters. We have assumed the information given to us to be correct and have not conducted independent checks to verify them, and no responsibility is assumed or implied by us. Interested parties are advised to seek further due diligence of qualified solicitors, engineers and other professionals as appropriate prior to making any legal, financial or other commitments. Should it be revealed that any information provided is inaccurate or misleading so that its use would affect the valuation, we seek to be informed of such discrepancies and accordingly reserve the right to amend our assessment.
2. The properties including their land titles, use rights and improvements are assumed to be transferable, marketable and free of any deed restrictions, easements, encumbrances or other impediments of an onerous nature that would affect the value of the properties. We have not conducted independent checks to verify and likewise advise interested parties to engage a qualified solicitor to perform such checks and verifications as appropriate.
3. We have not considered the existence of potentially hazardous materials used in the construction or maintenance of the proposed Property, such as asbestos, urea formaldehyde foam insulation, or PCBs. We have not investigated whether the site is or has been in the past contaminated and are therefore unable to warrant that the proposed property may be free from any defect or risk in this respect. Our report is therefore based on the assumption that the land is not contaminated and any specialist investigation would not disclose the presence of any adverse conditions on the site.
4. Sketches, pictures, maps and other exhibits are included to assist the reader in visualising the property. It is assumed that the use of the land and premises is within the boundaries of the property described and that there is no encroachment or trespass unless noted.
5. This Market and Economic Feasibility Study is not a structural survey and we therefore make our projections on the assumption that the property will be of sound design and construction, and free from any inherent defect.



6. All information (including financial operating statements, estimates, and opinions) obtained from parties not employed by HVS is assumed to be true and correct. No liability resulting from misinformation can be assumed by HVS.
7. Unless noted, it is assumed that there are no encroachments or planning and building violations encumbering the proposed Property.
8. It is assumed that the proposed property will be in full compliance with all applicable city, local and private codes, laws, consents, licences and regulations (including an alcohol licence where appropriate) and that all licences, permits, certificates, franchises and so forth can be freely renewed and/or transferred to a purchaser.
9. This report may not be reproduced in whole or in part without the permission of HVS, nor shall the report be distributed to the public through advertising, public relations, news, sales, or other media without our prior written consent.
10. We are not required to give testimony or attendance in court by reason of this study without previous arrangements and only when our standard per diem fees and travel costs are paid prior to the appearance.
11. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material contained in this report it is recommended that the reader contact HVS.
12. We take no responsibility for any events, conditions or circumstances affecting the proposed property's financial forecasts that take place subsequent to the date of our field inspection.
13. The quality of a hotel facility's on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this study assume both responsible ownership and competent management. Any variance from this assumption may have a significant impact on the forecast operating results.
14. The estimated operating results presented in this report are based on an evaluation of the current overall economy of the area and neither take into account nor make provision for the effect of any sharp rise or decline in local or economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, it is expected that the prices of rooms, food, beverages and services will be adjusted to at least offset these advances. We do not warrant that the estimates will be attained, but they have been prepared on the basis of information obtained during the course of this study and are intended to reflect the expectations of typical investors.
15. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based upon numbers carried out to three or more decimal places. In the interest of simplicity most numbers presented in this report have been rounded to

the nearest tenth. Thus, these figures may be subject to small rounding errors in some cases.

16. The relationship between US Dollars and other major world currencies remains constant as of the date of our field work.
17. While the information contained herein is believed to be correct it is subject to change. Nothing contained herein is to be construed as a representation or warranty of any kind.
18. We have made no allowance for the repayment of any grants, which might arise in the event of development or disposal, deemed or otherwise.
19. Our projections are based on the market conditions prevailing at the time of our analysis. We reserve the right to amend our projections should any abnormal conditions subsequently arise.
20. The projections of occupancy, average room rate and indicative cashflow are based on our knowledge and understanding of the market and experience of the operating performance of properties of similar type and standard. The assumptions in respect of future events are our best estimates at the date of preparing the report. To the extent that any of the assumptions noted in our report are not realised, the indicative cashflow projections may be materially affected. Our assessment is based on the current as well as expected future conditions as perceived by the market. We do stress that the estimation of future market conditions is a very problematic exercise which at best should be regarded as an indicative assessment of possibilities rather than absolute certainties.
21. The process of making forward projections involves assumptions regarding a considerable number of variables which are acutely sensitive to changing conditions. To rely upon our findings therefore, the reader must be satisfied as to the rationale behind these future estimates.
22. Throughout this report, 'HVS' refers to the trading name of Beijing Haoweisheng Hotel Management Consulting Pte Ltd.