Modern Trends in Resort Architecture

By
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Statement by Author

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Acknowledgements

It took considerable time and effort to collect material and data needed to complete this thesis. Much of this difficulty stems from the limited data published on conference resorts in the United States.

I want to thank my committee chairperson, Chuck Albanese, and committee members, Adrian Esparza, and Corky Poster. They gave me invaluable direction and suggestions during my studies, and helped me to perfect this report.

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Finally, very special thanks are extended to my dearest parents and family, who supported me during my studies with love and patience.
Executive Summary

As more organizations plow profits into developing their human resources, the concept of meeting at a property that combines high-end recreation activities with first class meeting facilities appears to be catching on. The modern term for these facilities are executive conference retreats (fig 1-A). From 1990 to 1998, occupancy at conference resorts climbed 8.2 percent, surpassing the increase in occupancy at both full-service hotels (which rose by 6.2 percent) and resort hotels (up 6.4 percent).1

This increase in demand is attributed to healthier corporate profits in general. The business at conference resorts has picked up as corporations have become more confident and more willing to put meetings into higher cost properties.

While companies are making more money, their executives tend to be working harder. People are much more intense today with meetings and messages. As a result, they are much more intense on the recreational side as well, giving golfers a day to golf, swimmers a day to swim (fig1-B).

This masters report consist of four sections. Following the Introduction, Chapter 2 provides background information on the resort conversion trend. I consider advantages for pursuing conversion, and explain how resort conversion can be well integrated into the regional fabric in order to build on local history and a sense of place. In this chapter I also describe the resort conversion process. Chapter 3 provides a case study, which targets the Los Cerros Ranch, located 25 miles northwest of the Tucson metropolitan area. The case study emphasizes the design and financial analysis of the resort conversion. The final section of the master’s report summarizes findings of the project and makes recommendations for how architects and others
### Conference vs. Resort Comparables

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<tr>
<th>AMENITIES:</th>
<th>Rancho de los Cerros</th>
<th>Carefree Conference Resort</th>
<th>Scottsdale Conference Resort</th>
<th>Arizona Biltmore</th>
<th>Scottsdale Princess</th>
<th>Sheraton El Conquistador Resort &amp; Country Club</th>
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<tr>
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* = study project

AN = available nearby

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fig. 1-B: Matrix of amenities that make a conference resort a conference center.
may use the resort for their own redevelopment efforts.

This thesis guides readers through a study of some of these recent trends in resort facilities, reasons why conference resort conversion is the more profitable way to go, factors fueling the trend in resort conversion and a design case study of a corporate retreat facility in Tucson, Arizona. Lastly a financial software program will assist in generating a cost analysis to determine if this case study is economically viable.
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Introduction

Given the growing demand for a new generation of resort facilities, this masters report explores one aspect of conference resort development: the conversion of existing resort facilities. I demonstrate that conversion is a cost effective mode of conference development that can satisfy market demand while building a sense of place. Architects, planners, and developers will be especially interested in my research because I provide a detailed case study of a converted conference resort conversion. The case study deals with a property located near the Tucson, Arizona metropolitan area and includes design as well as a development feasibility study.

Over the past few years resorts have taken a new direction. As needs change, resorts follow that trend. One of many trends these days is the change in use of the conference centers. In the past conference centers were primarily located in large hotels and would function as a lecture and meeting space to businesses. However, today’s use of the conference center is not the same as it was 10 years ago, and will probably not be the same 10 years from now. Today conference centers are branching out of the traditional hotel into resorts, private islands, and stand alone facilities. The change in location and function is due to the demand to incorporate work and leisure, into today’s fast paced lifestyle. These conference center resorts function not only as lectures spaces and meeting rooms but also as spaces where multi-facet activities may occur: training classes, recreation, conferences, award
ceremonies, and corporate parties.

However it is defined, the meeting business has been booming and there is no doubt that the trend will continue upward in the next decade. The obvious popularity of professional association meetings for members and spouses and the accelerating trend toward corporate and sales meetings will undoubtedly mean a greater frequency and diversity of meeting facilities. When looking toward the future, there is no doubt that there is a significant trend toward holding conferences at conference resort and recreational areas.
Chapter 2: Research and Process

2.1 Assessing the Resort Conversion Trend.

Holding meetings at conference resorts and centers with recreational and first-class amenities is now common place. Executives are looking for places that accommodate business and pleasure at the same time.

Businesses today believe that these conference centers/resorts service many functions. Motivation, strategizing, goal setting, and boosting productivity. All these processes can be enhanced by meetings with managers away from their normal surroundings.

The trend for corporate retreats these days is old mansions, inns, lodges, and other small properties, because retreat participants can relax without feeling pressured to dress for meals or protect proprietary information from eavesdroppers. Invercauld (fig. 2-A) - an oceanfront converted plantation "Great House," now a 52-room national monument in the tiny town of Black River - has hosted gatherings ranging from a British College association to a Zion Baptist group from California. Smaller properties, such as artsy Jake’s village in Treasure Beach or the plush Hermitage in Bluefields Bay, (fig. 2-B) many rent the entire property for a week to as few as eight visitors.
2.2 Factors Fueling the Trend in Resort Conversion.

There are several factors fueling the conversion trends. First is an abundance of historic buildings that often cannot be economically upgraded to meet the high-tech and organizational needs of today's hotels. Yet these older buildings often have much of what conference retreats need. They have the charm and inviting architectural features that their stucco descendants lack, and their low floor-to-ceiling heights work well in a conference resort. In fact, conversion often means that the transformed building has higher guest room ceilings than can be found in new conference retreat construction. Second, because time is an extremely costly commodity in this kind of a market, conversion appeals to developers because it is a speedier way of getting their product to the market. Third, conversion is more cost effective than building a hotel from scratch. Building owners and hospitality companies can save as much as 30 percent to 40 percent if they convert rather than build an entirely new conference resort. Fourth, those who convert often enjoy tax abatements and historic preservation tax credits for converting older landmark buildings. Finally, pre-World War II buildings provide location, location, location. Many in the U.S. are located near the attractions and services that visitors want. Cities also favor conversion because it capitalizes on existing structures that contribute to the urban landscape. Further natural remote and historic landscapes also have advantages of pristine sites no longer available. Converting a "dead" building into a vibrant conference resort also helps to reanimate a neighborhood, putting life back on the streets and customers back in the stores and restaurants.
2.3 Advantages of Conference Resorts versus Hotels.

Executive conference resorts offer several advantages over a hotel or expo center. For example, conference centers provide private phone lines and full access to a copier and fax machine. The meeting rooms are also secluded and soundproof. (fig. 2-C) Beverages are stocked continually. Basically, all needs are accommodated. The service is very personalized, and detailed, which is extremely important in a conference scenario. The purpose of a hotel or motel is targeted toward one thing: putting heads in beds, a conference center is designed for learning (fig.2-D).

In response to increased demand for high level meeting facilities, conference resort companies are expanding the number of properties they manage or own. Spurring the growth is the recent success of conference resorts. Occupancy is up. The economy is good, and more meeting planners recognize what a conference resort represents in terms of value. Conference resorts are expanding most rapidly in the Midwest, the West Coast and Florida, where the demand is the greatest. Some reasons . . . . centers of population, good weather and natural features. Much of these companies' expansions will involve taking over the management of existing facilities, including corporate centers that are opening to the public and hotels that are upgrading their conference facilities to meet the International Association of Conference Centers' criteria.3
2.4 Creating a Sense of Place and Style.

One of the primary objectives of resort planning and design is to create a sense of place. The effort begins with the setting (fig. 2-E). Planning and design are essential in shaping the setting, visitors’ or residents’ perception of it and ultimately, the sense of place conveyed by the resort in the context of its natural surroundings.

There are many approaches and many considerations to take into account when creating a sense of place. In the end, however, the process calls for creating a style or theme—a vision of what the resort should be (fig. 2-F). The process requires the developer to observe the surrounding area and visit and learn from other successful conference resorts or tourist destinations distinguished by their own unique styles.

For the most part, the architectural community and developers have failed themselves and their customers by not developing something unique and distinctive, something that builds on what has made well-planned resorts successful over time. I have now reached the opinion that no one should start buying land or planning the use for land until they first buy a camera and go out on field trips or tear pictures out of books and magazines and plaster pictures on a wall of places and designs that form a starting point, a vision for what will be developed. The uniqueness of a good conference resort is not odd, never-seen-before building, but the integration of appropriate, appealing buildings into the natural environment of the site. Until you have evolved in your mind an image of a new or old style or theme that fits a particular area and a particular target market, don’t start, don’t buy the land, don’t go out searching for land. First, look for cost-effective activities and
amenities that your guests and residents can enjoy, when not working at your future resort, and then search for visual images of what you are going to build and what you envision the place to be like in the future.

As we think "new", we also need to think "old." The places that have the huge flow of people today are often places that are rich in culture. For example, Charleston, South Carolina (fig. 2-G). . . attracts four or five times as many vacation visitors as Hilton Head Island, with its beaches and 20 golf courses." Charleston is a brilliant example of American architecture at its best in the early 1800s. It includes a wonderful array of restaurants, shops, and interesting places.

Moreover, some of the finest resorts today -such as the Boca Raton Resort & Club (fig. 2-H), the Homestead, Pinehurst Resort and Country Club, and the Sagamore—are old, established resorts that are still operating because of the quality and historic nature of their original buildings and site design.

fig. 2 - G: Dewees Island, South Carolina a sustainable conference resort.

fig. 2 - H: The Boca Raton Resort & Club. A venerable Florida resort with a long history dating back to 1926, the Boca Raton Resort & Club today includes 963 hotel rooms on 356 acres.
Many resort sites feature historic buildings and sites that can be used to create a sense of place. Old farm, plantation, or ranch buildings— as well as historic mansions— can add character to a resort site. Both Brays Island Plantation in South Carolina and Silverado Country Club and Resort in California, for example, incorporate historic mansions as key elements; one mansion serves as an inn (Brays Island Plantation—fig. 2-I) while the other functions as a clubhouse (Silverado Country Club and Resort). Los Cerros Ranch (fig. 2-J) a former YWCA facility, uses the southwest charm of the mountains, horses, and western décor as the driving force behind attracting visitors to the conference resort.

In some cases, historic sites can be redeveloped or enhanced to create an attractive resort setting (fig. 2-K). The Woodstock Inn and Resort in Woodstock, Vermont, is a venerable resort hotel that traces its history back 200 years. Lawrence Rockerfeller redeveloped the Inn in the 1960s—after the existing historic Inn burned— to create a first-class hotel at the center of the historic town of Woodstock, one of the most attractive villages in New England. The town features a village green, covered bridge, and four church bells case by Paul Revere. The resort includes both a golf course and skiing facilities on nearby sites. The setting is unusual for a resort in that it combines recreational amenities with a historic town setting.

Archaeological sites can be important assets. While many developers would consider archaeological findings as Native American settlements or burial mounds an impediment to development, archaeological features can help create a sense of place. Today, developers must allow a state archaeological team to conduct tests to identify potential sites where artifacts might be found. If such sites are identified, the developer can
either leave the site as a greenway or open space or fund a shovel test to assess any significant features. Spring Island, an environmentally responsible second-home community is South Carolina, has transformed its archaeological treasures—sites of Native American communities and artifacts—into an asset. Spring Island invites archaeology graduate students to participate in deciphering the mysterious existence of the Calawassie Indians, offers local grade schools hands-on learning opportunities, and donates artifacts to local and state archives. Residents of Spring Island can even participate in archaeological explorations. The historic sites provide an attractive amenity, lend themselves well to study in Spring Island’s “curriculum,” and enrich the community’s history and sense of place.  

While modern resorts cannot create truly historic buildings or settings (at least not over the short run), they can create distinctively designed places and settings that either reflect the best of regional/local architecture or create the historic architecture of tomorrow. Perhaps the best example of how neotraditional architecture and design can be used to create a sense of place is Seaside, a beach community in Florida developed by Robert Davis and designed by Andres Duany and Elizabeth Plater-Zyberk. This second-home community is located on the Florida panhandle—not the state’s most sought after resort area. Yet, Seaside has earned acclaim largely because of the charming small-town image it has achieved through rigorous town planning principles, strong architectural guidelines, and the creative design work of more than a dozen good to great architects.

On the other hand, in some cases a resort can successfully pioneer its own modern and unique style that is skillfully
developed to suit unusual site conditions. Among the best examples is Sea Ranch, a second-home community started in the mid-1960s on the California coast. Sea Ranch evolved a distinctive style by relying on many of the leading planners and architects of its day.

Whatever image or style is sought, contextual design and sensitivity to the surrounding area is an important consideration in creating the appropriate sense of place. A movement is underway in resort design. Its emergence demands that developers, planners, and architects focus on regional specificity. In return, resorts will realize greater success. This movement studies a resort in terms of its site-specific and regionally unique qualities; its history, culture, climate; and reflects those in concept, amenities, land use, and design. The inherent site qualities form the basis of a design philosophy.

The Wailea Resort (fig. 2-L) on Maui, in Hawaii, for example, is located in a larger community characterized by a distinctive local culture and the absence of a large urban center. Clearly, the resort was designed with its environment in mind. Design guidelines and the master plan prohibit high-density development and restrict building heights in order to preserve views and the low skyline typical of the area. Hawaii's regional architecture and indigenous landscaping are strongly encouraged.
2.5 Global Trends

The new international tourism and leisure environment is changing from old to new travel patterns. New travel patterns reflect changes in consumer behavior, shifting economic strengths, the opening of source markets, access to new destinations, and political realignments. Several factors favor international conference resort development (fig. 2-M), but the primary one is the tremendous growth in many developing countries. These countries are in a position today both to finance new conference resort development and to attract international and domestic tourists to new conference resort locations and properties. The world is more accessible for tourism than ever before and nearly every country in the world is now in the tourism business. Even countries with minimum resort infrastructure can tap into the market.

2.6 Regional Trends --The Process of Resort Conversion in the U.S.

As more resort properties are renovated and built to specifically accommodate conventions, group and sales meetings, the whole area of convention facilities development approaches a boom condition. Are there enough properties being built? Will industry and business continue to support these facilities? Where are the drawbacks and where are the opportunities?
Sites and Opportunities

A. Market and Economic Feasibility -

A well-conceived resort project begins with a thorough understanding of its prospective market. The process may start with either a formal exercise or the results of years of familiarity with the market under consideration. Market analysis is fundamental to a development project's financial feasibility and success. No matter how attractive a project's physical plan or how resourceful its financial plan, the numbers will not work unless the project appeals to targeted market segments.

Market analysis must start with an understanding of the broad demographic and psychographic trends that are taking place nationally and internationally and that drive opportunities for resort development. It must then follow up with careful research in the competitive situation for a specific concept and location - including both demand and supply factors - to guide the identification of a strategic insight and a development opportunity. Depending on the objectives and the nature of the site, the market analysis may involve several types of markets, including recreational user markets, residential markets, timeshare markets, hotel and guest markets, and commercial real estate markets.

B. Conversion Feasibility

The redevelopment and repositioning trend is pertinent to nearly all resort properties, especially conference resorts. For conference resort properties, the cost of acquisition and redevelopment is typically less than the cost of new construction, particularly when the market is oversupplied.
and properties can often be purchased for cents on the dollar. Moreover, the unique character of existing properties combined with the benefit of being located in a convenient and established location often makes redevelopment profitable.

A move up the renovation continuum from cosmetic improvements leads to a range of minor property renovations and additions that are generally driven by operations needs and/or changes in the marketplace. To offset seasonal fluctuations in occupancies, many resorts are marketing group business. Not surprisingly, many renovation projects in recent years have included the addition and/or upgrading of conference and meeting facilities.

C. Design

While an understanding of market dynamics is essential to the success of a resort development, the attributes and quality of a property's layout, design, and land plan are equally important (fig.2-N). A property's physical attributes influence the overall guest experience as well as potential revenues. Today's resort developers confront both opportunities and challenges in their quest to maximize investment return. In particular, material shifts in consumer demographics and value perception, increasing environmental concerns, and rapid technological advances have redefined the fundamental nature and scope of corporate retreat facilities.

Even though resort lodging facilities can vary greatly in type and configuration, (fig.2 -O) the typical resort hotel with 125 to 800 rooms has historically been designed as a self-contained facility, with a range of on-premise facilities and recreational amenities. Its self contained nature distin
guishes the conference resort from other hotel product segments in that it can readily satisfy most individual or group needs, thereby encouraging guests to remain on the resort premises.

In addition, due to their orientation toward the vacation and leisure market, most resort hotels experience a much higher average length of stay than typical commercial hotels. As a result, a resort hotel's facility requirements and sizing are generally significantly greater than for other hotel product types as reflected in the following:

- Lobbies are expanded to accommodate live entertainment, retail space, and other services and to serve as a hub that provides access to other areas of the resort. Outdoor court yards are also more expansive, often including major water features and landscaping.

- Guest rooms are generally large in anticipation of longer average lengths of stay and the possible impact of catering to the family market. In markets offering a minimal selection of local restaurants and bars, a resort hotel's food and beverage operation respond to increased capacity. A variety and quality of cuisines accommodates the higher guest retention levels.

- Swimming pool and deck areas as well as other recreational facilities are expanded to satisfy the needs of resort guests, both children and adults. Further, resort hotels generally offer an extensive range of recreational facilities such as a golf course, casino gaming, tennis courts, and outdoor sport/water sports.
2.7 Future Trends

However it is defined, the convention business has been booming in the 1990's and there is no doubt that the upward trend will continue into the next decade. This does not mean that there may not be certain problems in respect to building additional convention facilities. The obvious popularity of professional association meetings for members and spouse and the accelerating trend toward corporate, sales meetings and banquets will undoubtedly mean a greater frequency and diversity of meeting facilities.

As happens in many other fields of American real estate and community life, new facilities, which are growing rapidly, are forcing others to modernize or reconsider their positions. New developments and trends abound in this fascinating business. There is an increasing tendency to build meeting places around airports such as O'Hare in Chicago, and a trend toward self-contained conference resorts.

In summary, the meeting business is tied in with many aspects of leisure and work time activities. Conference facilities are being built in all kinds of terrain and locales. Older institutions are being challenged by the growth of airplane travel. These and other new developments certainly indicate that, for those who like to gamble, the conference facility business represents a real challenge and opportunity.
2.8 Conference Resort Facilities: Ten steps to go to the right one.

In order to assist architects and land developers, I have compiled a list of points to guide them in the selection process.

1. Settle on a purpose
Your purpose will decide what type of facility will work best. At a training session weekend, nicer accommodations and privacy may be more important than lots of recreational opportunities. A corporate party wanting a fun weekend together may put a high priority on recreational facilities/entertainment.

2. Length of stay
Consider the advantages of a second night at a facility to provide more time for group interaction. Veteran retreat planners have discovered that the second night goes a long way in creating a valuable community experience.

3. Reserve early
The best dates and nicest facilities get booked first. Consider reserving a facility six months to a year before you want to have a retreat. If you are pleased with the facility and service, you might want to make your reservation for the following year before your retreat is over.

4. Decide on a price range
It is wise to go with what the majority of your group is willing to spend. Resorts can vary in price from the very extravagant and pricey, to the cozy and affordable.

5. Get Organized
Before you call a facility, do your planning. Decide what type of accommodations you want (casita, hotel or cabins), what type of meal service, quality of menu--tuna surprise or Chicken Kiev, how large your group will be, what kind of meeting space you'll need, when you plan to arrive and depart, and if you mind sharing a facility with other groups.
6. Have a "Plan B"
Have several options on dates that would work for your group. Confirm dates for a facility before you confirm dates a with a speaker!

7. Compare
When comparing prices between retreat facilities, make sure you ask what is and is not included in the basic fee, such as coffee breaks, audio/visual equipment and recreational equipment. Talk to other groups and find out where they have received the best service. Make a visit to a potential site. Talking in person with a representative at the facility and seeing the buildings and grounds will answer a lot of questions. When you compare facilities, don't let cost be the primary factor—ask yourself which facility and staff will help your group best achieve its retreat program goals.

8. Get it in writing
You will want to have a written contract signed by your group representative and by the retreat facility's representative describing what both the group and the conference center have agreed to. Usually a non-refundable deposit (10-15% of the minimum fee) will be required. Be sure that the minimum number of participants and the corresponding minimum fee are reasonably attainable. You may be required to make up the difference if you miss your minimum. Ask if there are additional cancellation charges.

9. Evaluate
Check out the staff's attitude toward service and hospitality as well as their philosophy. Ask others who have been there. Will a host be available to answer your questions and take care of needs during the retreat?

10. Do your homework
Know what you and your group want and ask lots of questions. Pre-retreat communication pays off. Keep notes of all your phone conversations and make sure all agreements and arrangements are made in writing. Frequent and detailed pre-retreat communication will improve your chances of getting the level of services that is so important in making your retreat experience a positive one.
The land/acquisition costs are shown on the next page. Notice that a detail is used for the Amount field. This is because the item is a one-time cost and the frequency field is not applicable. The amount detail is shown after the land costs.

Any one-time costs for a development project should be entered in this fashion or as a total amount that will be spread throughout the year.

The hard/construction costs include fill dirt, water and sewer extensions, drainage improvements and the road extension.

Note that the road construction is based on an area measure called Road, rather than a fixed price. Cost reflect both labor and materials.

The soft/development costs include the archeological evaluation, insurance, construction management fee, architectural and engineering fees and profit. Note some of the fees are based on user-created area measures. The archeological evaluation is based on the size of the property.

The landscaping soft/development cost is an example of a cost that will continue through the length of the analysis past the point of most of the other development costs.

The expense will continue into the lease term of the property after the site work is complete.

The property will have a 40-year lease after the new commercial structure is built. The lease information will be entered in the rent roll.

Example

This simple example looks at using the development costs section for an older commercial structure being converted to loft-style apartments.

The land/acquisition costs would be for the existing four-story building and its adjacent property. Another smaller tract will be leased for parking required by the city building code. The hard/construction costs will include new plumbing, drywall, carpet, electrical service, and appliances. Lead paint and asbestos removal are also included.

Note that the “Unit” area measure used for drywall, carpet and appliances. The “Unit” area measure is the number of new apartment units being created.

The hard/construction costs will include new plumbing, drywall, carpet, electrical service, and appliances. Lead paint and asbestos removal are also included. Note that the “Unit” area measure used for drywall, carpet and appliances. The “Unit” area measure is the number of new apartment units being created.

Soft/development costs will include building permits, insurance, construction management fee, architectural and engineering fees, and administrative and advertising costs. The construction management fee is 3 percent of hard and soft costs. The A & E fee is 3 percent of hard costs.

Other information about the property such as apartment types, rents and other income and expenses would be entered as in any other ARGUS analysis.

Reimbursement Calculations

Reimbursement calculations may be based upon reimbursable operating expenses at actual occupancy or at any grossed up level. ARGUS is not preset to gross up expenses to 100 percent occupancy. These is a change from previous versions of ARGUS. This function is controlled by two fields.
The Gross Up for Reimbursement check box is located at the bottom right of the reimbursement window above the buttons. The Percent Occupancy (% Occupancy) field is located at the bottom right side of the reimbursement window above the buttons.

During the entry of reimbursable operating expenses, a Percent Fixed value is assigned. If these expenses are entered at 100 Percent Fixed, then the setting, Gross Up for Reimbursement, will not affect the reimbursement calculations.

If any of these expenses are assigned a Percent Fixed value of less than 100 percent, then the percentage occupancy used with Gross Up for Reimbursement will affect the dollar amount to be used for reimbursement calculations.

Choosing a Gross Up % will not affect the building's expenses. Only the expense amounts used for the reimbursement calculations will be affected.

To change the reimbursement method without changing any data, open the Reimbursable Operating Expense window. Click on or click off the Gross Up for Reimbursement box. If checked, you may change the % occupancy amount.

**No Gross Up for Reimbursement**

If Gross Up for Reimbursement is unchecked, the expenses will not be modified for the reimbursement calculations. The first block of the Schedule of Expense Reimbursement Revenue report will show the expenses adjusted for actual occupancy. These numbers will match the reimbursable expenses listed in the Operating Expenses section of the Schedule of Prospective Cash Flow report.

If the leases in the building do not have a "Gross Up" clause, Gross Up for Reimbursement should not be checked.

**Example**

In this example, there are three $1.00 expenses, X, Y, and Z. These expenses do not inflate. The Percent Fixed for these expenses are 0, 50, and 100, respectively. The building is 10 percent occupied in Year 1, 50 percent occupied in Year 2, and 100 percent occupied in Year 3.

Tenant A pays all of their natural pro rata share of expenses. There are 10,000 square feet in the building. In all three years of the example, tenant A occupies 1,000 square feet, 10 percent of the building total.

**Year 1 - Occupancy 10 Percent**

<table>
<thead>
<tr>
<th>Item</th>
<th>Actual Expense</th>
<th>Adjusted for Tenant A</th>
<th>Tenant A Reimbursement</th>
<th>Total Building</th>
<th>Total Tenant A Reimbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
<td>1,000</td>
<td>100</td>
</tr>
<tr>
<td>Y</td>
<td>0.55</td>
<td>0.55</td>
<td>0.55</td>
<td>5,500</td>
<td>550</td>
</tr>
<tr>
<td>Z</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>10,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Total</td>
<td>1.65</td>
<td>1.65</td>
<td>1.65</td>
<td>16,500</td>
<td>1,650</td>
</tr>
</tbody>
</table>

Tenant A pays his pro-rata share of the building, 10 percent, for all expenses.

**Year 2 - Occupancy 50 Percent**

<table>
<thead>
<tr>
<th>Item</th>
<th>Actual Expense</th>
<th>Adjusted for Tenant A</th>
<th>Tenant A Reimbursement</th>
<th>Total Building</th>
<th>Total Tenant A Reimbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>0.50</td>
<td>0.50</td>
<td>0.50</td>
<td>5,000</td>
<td>500</td>
</tr>
<tr>
<td>Y</td>
<td>0.75</td>
<td>0.75</td>
<td>0.75</td>
<td>7,500</td>
<td>750</td>
</tr>
</tbody>
</table>
Z  1.00 1.00 1.00 10,000 1,000
Total  2.25 2.25 2.25 22,500 2,250
The expenses have increased with the higher occupancy. Tenant A will still pay 10 percent of the total expenses.

Year 3 - Occupancy 100 Percent

<table>
<thead>
<tr>
<th>Actual</th>
<th>Adjusted for</th>
<th>Tenant A</th>
<th>Total Building</th>
<th>Total Tenant A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item</td>
<td>Expense Reimbursement</td>
<td>Reimbursement</td>
<td>Expense Reimbursement</td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>1.00 1.00 1.00</td>
<td>10,000 1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y</td>
<td>1.00 1.00 1.00</td>
<td>10,000 1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Z</td>
<td>1.00 1.00 1.00</td>
<td>10,000 1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3.00 3.00 3.00</td>
<td>30,000 3,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

With occupancy at 100 percent, the expenses are at their maximum. Tenant A will pay 10 percent of the expenses. Note that at 100 percent occupancy, the results using no Gross Up for Reimbursement percentage are the same as using Gross Up for Reimbursement to 100% occupancy, which is shown in the next example.

This example shows that there are no modifications to the expense before the reimbursement amounts are calculated when not using Gross Up for Reimbursement.

Gross Up For Reimbursement To 100 Percent Occupancy

If Gross Up for Reimbursement is checked, the building's expenses may be modified for the calculation of reimbursements. The first block of the Schedule of Expense Reimbursement Revenue report will show the expenses adjusted to the described occupancy percentage. These numbers may not match the reimbursable expenses listed in the Operating Expenses section of the Schedule of Prospective Cash Flow report.

If the leases in the building have a "Gross Up" clause, Gross Up for Reimbursement should be used. Reimbursable operating expenses may be grossed up to any occupancy percentage. This example will assume 100 percent gross up.

The Gross Up for Reimbursement selection will adjust the reimbursement revenues to allow the building owner to collect from the tenants the portion of the expense that is incurred by the tenants. For expenses that are 100 percent fixed, the reimbursement amount will be the tenant's natural pro rata share of the building. For expenses that are completely variable, the amount of the expense will be completely reimbursed by the tenants occupying the building. In effect, each tenant is paying for its pro rata share of the occupied portion of the building. If the expense is partially fixed, the resulting reimbursement will be a result of the combination of these two methods.

Example

In this example, there are three $1.00 expenses, X, Y, and Z. These expenses do not inflate. The Percent Fixed for these expenses are 0, 50, and 100, respectively. The building is 10 percent occupied in Year 1, 50 percent occupied in Year 2, and 100 percent occupied in Year 3.

Tenant A pays all of their natural pro rata share of expenses. There are 10,000 square feet in the building. In all three years of the example, tenant A occupies 1,000 square feet, or 10 percent of the building total.

Year 1 - Occupancy 10 Percent

<table>
<thead>
<tr>
<th>Actual</th>
<th>Adjusted for</th>
<th>Tenant A</th>
<th>Total Building</th>
<th>Total Tenant A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item</td>
<td>Expense Reimbursement</td>
<td>Reimbursement</td>
<td>Expense Reimbursement</td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>0.10 1.00 1.00</td>
<td>1,000 1,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The following window illustrates the fixed management fee of $1.250 per month or $15,000 annually during Year 1 and Year 2, but the fee will not be subject to inflationary increases.

This expense will not be incurred after Year 2.

The following window illustrates the management fee which is based on a percentage of Effective Gross Revenue. This expense will not be incurred during Year 1 and Year 2, but will total 4 percent of effective Gross Revenue thereafter. Note that Annual Average was used.
Chapter 3: Case Study

The previous section highlighted the growing prominence of resort conversions in the U.S. and abroad. Resorts that take advantage of building in theme sites and target redevelopment are gaining popularity.

The case of Los Cerros Ranch (fig. 3-A), located 25 degrees North-East of Tucson, provides an excellent example of the type of conference resort redevelopment that is likely to become the new trend. This section details the redevelopment of Los Cerros Ranch. The section begins with background, moves on to philosophy and goals, conceptual site/design and concludes with a cost analysis of the redevelopment.

3.1 Existing Design

A. Background

Los Cerros Ranch sits like a lush oasis in the desert several miles north of Tucson, Arizona. Billed as one of the Southwest's top corporate party retreats, the 10 acre facility specializes in offering clientele from around the world the opportunity to enjoy a brief glimpse of the American West in a relaxed, social setting. A key tenet to that glimpse is the ranch's herd of paint show and breeding horses.

Rancho de los Cerros is a relative newcomer to the world of corporate party hosting, having been utilized as such for only the past 10 years. Prior to this the facility was a YWCA Girls Camp, a private residence, and the headquarters for a vegetable farm.

Rancho de los Cerros has been well received as a corporate party headquarters. During the past 10 years, it has been the site of approximately corporate 750 parties, and its clientele list reads like a "who's who" of American businesses.
Attendees at the parties have come from virtually every country in the world, including the U.S., Canada, China, Japan, Germany, Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Brazil, Paraguay, Australia, the Middle East and Russia.

The majority of corporate clientele who come to the ranch for a one day or 4-5 hour party are bused in from large scale resort hotels in the surrounding area. The clientele who spends a weekend to attend a corporate party may not mind the hustle and bustle of the large, impersonal resort hotels that have 500 rooms. However, the corporate client who wants to get away from this hectic lifestyle may choose a small scale, state-of-the-art accommodation, such as Los Cerros Ranch. The proposed Los Cerros casitas will be geared toward the modern day corporate client. Providing overnight living accommodation to a established retreat facility will increase the overall return and create a greater demand to this already destination day retreat.

The universal interest the ranch has generated as a party facility comes as no surprise to owner, David Hoffman. It is, he says, a direct reflection of the ever-growing popularity of the American West (fig. 3-B). The ranch has a history dating back to the early 1900s. The original house consisted of two rooms built of sun-backed adobe bricks. It had a saguaro ribbed ceiling and a roof of mud about two feet thick, with grass growing on top.

Over the years, different owners have added to the original structure. It now includes a great room with 18-foot ceiling, a theatre with a 12-foot retractable screen and surround sound, full service bar, wine cellar, commercial-equipped kitchen, four bedrooms, two full baths, one three-quarter bath, and eight half-baths. There is also a six bedroom guest wing attached to the main house (fig.3-C). The entire main ranch house is furnished in western decor and more closely resembles an art gallery or museum than a private residence.
B. Philosophy and Goals

While the Ranch has a great deal of success, it is in need of expansion in order to keep pace with changing trends. The list below details the philosophy and goals guiding expansion.

I. Casita Design:

- Design 15 overnight accommodations for the corporate client at the existing Los Cerros Ranch, in Pima Country, Arizona.

- Guest quarters should be close to main ranch building.

- Each guest room should have an outdoor patio and a private view that looks onto the desert growth around them.

- Casitas should carry the southwestern motif to blend into existing building and guest can experience things they wouldn't necessarily see in the cities they're from.

- Provide corporate guests a state-of-the-art casitas that have defined living and work areas, terraces, wet bars, accommodations and bathrooms.

- Position casitas in such a way that allows for flexibility and anticipation of growth/ change of the guest wants and needs.

- Provide a corporate guest with a home away from home, but one that is not without all of the conference support services including modem connections, photocopies, receipt and transmission of
telefaxes and computer generated graphics in video for the days that work must be done.

- To design the casitas in a non-hotel-motel style, yet still maintain a strong southwestern flavor.

- To create an atmosphere sufficiently diverse from providing conference support services, yet at the same time it's low-key enough to allow its guests to enjoy a truly relaxing vacation.

III. Site Design:

- To use modern technology combined with local and historic traditions.

- To create an environment which balances work & leisure.

- To create structures which least modifies the natural form of the land.

- Design for efficient and economical construction process/integration with existing and future facilities.

- Develop an integrity of architectural expression which reflects unique regional characteristics, environmental considerations and budgetary limits.

- Use the established Master Plan and all phasing projections without attempting to redesign it.

- The existing dirt road should be improved for auto travel.
3.2 Existing Design --  
Rancho de los Cerros

The information from Los Cerros Ranch presents the case study. The diagrams on the following pages begins with possible sites for the executive casitas, moves to a aerial of the existing ranch and ends with photos of existing buildings on the site (fig. 3-E to G).

For the reader interested in detailed information the appendices includes several items, the permitted land use code and the detailed study of Argus software.
C. Possible Sites for Casitas

Options:

Site 1:
View Out: - Poor views of area; some private views.
View In: - Some exposed to neighbor's views & would need screening.
Solar: - Predominately western sun.
Access: - Adjacent to banquet room & stables, remote from trail, direct run for utilities & road. Flat land.

Site 2: (**CHOOSE SITE)
View Out: - Moderate views to desert flatlands, minimal views to trails.
View In: - Shielded from exposure to road and existing facilities.
Solar: - Northwest exposure and some winter shading from south sunlight.
Access: - Direct run for utilities and road. Moderate (12% to 20%) to steeper (15% to 30%) slopes.

Site 3:
View Out: - Best views to base of Catalina's.
View In: - Most secluded from neighbors views.
Solar: - Best southern exposure but exposed to western sun.
Access: Direct run for utilities. Moderate slopes (15% to 20%).
Case Study

D. Arial of existing ranch
Site Photos

fig. 3 - E: North-East view of recreation building.

fig. 3 - F: North-East view of main building.
fig. 3 - G: North-East view of main building.

fig. 3 - H: West aerial view of site.
3.2 Proposed Casita Design - Rancho de los Cerros

The information from Los Cerros Ranch presents the case study. The following diagrams begins with a casita cluster floorplan (fig. 3-I), and moves to a casita cluster roof plan (fig. 3-J). A elevation (fig. 3-K) and section (fig. 3-L) of the casita cluster and thereafter goes to the site plans (fig. 3-M & N).

For the reader interested in detailed information the appendices includes several items, the permited land use code and the detailed study of Argus software.
Space Summary of Proposed Casita:

- A total of 15 casitas, in clusters of 3 to target the corporate client. (A)
- Each cluster contains an informal conference area that accommodates 6 - 8 people. (B)
- Each casita contains its private entrance. (C)
- Each casita contains a grand scale master bedroom with a sitting room and fireplace. (D)
- Each casita contains a grand scale master bathroom completes with a jacuzzi tub and private indoors garden (plants that are indigenous to the SW environment). (E)
(Continued) Space Summary of Proposed Casita:

- Each master bedroom has a private porch, that has separate access for the spouse that may decide to come along on the business meeting but does not want to participate in the daily work related functions. (F)
- Each casita contains a grand living room completes with a fireplace and nook area with accommodations for a mini fringe and sink. (G)
- Each casita contains a study / opt. Bedroom just in case the kids tag along.(H)
- Each casitas is positioned on the site to optimize the maximum view.
- Vehicular access stops where the casitas start and begins a block b/f the conference center.
fig. 3 - K: Casita Elevation

fig. 3 - L: Casita Section

Note: Above drawings are not to scale
APPENDICIES
A. Pima County Code

GR-1 Rural Residential Zone
(Copyright 1998)

Sections:

18.14.010 Purpose


18.14.060 Cluster development option.

The next few pages cover the list of restrictions enforced by Pima County Code. Look to updated version for any amendments to the Code.
Chapter 18.14

GR-1 RURAL RESIDENTIAL ZONE

Sections:

18.14.010 Purpose.
18.14.060 Cluster development option.

18.14.010 Purpose.
A. Purpose. This zone is intended to encourage orderly growth in rural and semirural areas as well as to provide opportunities for semirural residential uses. In addition, this zone is intended to allow commercial development only where appropriate and necessary to serve the needs of the rural area. (Ord. 1985-187 § 1 (part), 1985)

A. Uses permitted:
   1. Single detached dwelling;
   2. Manufactured or mobile home or trailer;
   3. Guest dwelling: In accordance with Section 18.09.020G (General Residential and Rural Zoning Provisions) [proposed];
   4. Accessory structures;
   5. Plant nursery used only for the purpose of propagation and cultivation and not for retail sales;
   6. Apiary: In accordance with Section 18.07.030E (General Regulations and Exceptions);
   7. The raising and grazing of livestock, provided there is no more than one animal per ten thousand square feet;
   8. The raising of hogs, provided:
      a. There is no more than one hog over six months of age per acre, and
      b. All other requirements of Section 18.12.020A9 (IR Institutional Reserve Zone) are met;
   9. Hog or livestock raising projects, which exceed the permitted number of animals, sponsored by the 4-H Club, Future Farmers of America or other similar nonprofit organizations: In accordance with Section 18.12.020A11 (IR Institutional Reserve Zone)
10. The raising of poultry or other small animals, provided there are no more than forty animals per acre;
11. Private stable:
12. Commercial stable: In accordance with Section 18.13.020A12 (RH Rural Homestead Zone);
13. Community stable: In accordance with Section 18.13.020A13 (RH Rural Homestead Zone);
14. Farm products stand, provided:
   a. The stand does not exceed three hundred square feet, and
   b. All other requirements of Section 18.12.020A15 (IR Institutional Reserve Zone) are met;
15. Animal hospital: In accordance with Section 18.13.020A15 (RH Rural Homestead Zone);
16. Governmental uses;
17. Public park;
18. Public school;
19. Church, provided there is a minimum forty-foot setback from any property line;
20. Child care center;
21. Group foster home: In accordance with Section 18.09.020E (General Residential and Rural Zoning Provisions);
22. Health clinic, provided:
   a. There is a minimum site area of two acres,
   b. There is a minimum fifty-foot setback from any property line, and
   c. Access is from a paved public road with "collector" classification or higher;
23. Home occupation;
24. Raising of ratites, subject to the following restrictions and requirements:
   a. No more than one ostrich over fourteen months of age for each ten thousand square feet of site area, or more than one emu or other ratite over fourteen months of age for each five thousand square feet of site area, or if more than one type of ratite is kept, a prorated combination of the area required for each animal. Two ratites six to fourteen months of age may be substituted for each ratite over fourteen months of age,
   b. Minimum site area: One acre,
   c. Maximum lot coverage by ratite corrals and shelter structures within corrals: Thirty percent,
   d. Animals shall be confined within minimum six-foot-high, stock-tight corrals. Ostrich corrals shall be surrounded by a minimum six-foot-high, stock-tight fence or other restraints of sufficient strength and durability to prevent ratites from roaming at large as provided in Section 18.07.030B,
   e. Minimum setbacks for ratite corrals and shelter structures within corrals: Thirty feet from the front property line and ten feet from side and rear property lines;

A. Procedures: In accordance with Chapter 18.97 (Conditional Use Permits).

B. Uses conditionally permitted:
   1. Feed store;
      a. Type II procedure,
      b. Access be onto a paved public road with "collector" classification or higher,
      c. Notification area: Six hundred feet;
   2. Grocery store or convenience store:
      a. Type II procedure,
      b. Maximum floor area: Four thousand square feet;
   3. Gasoline service station:
      a. Type II procedure,
      b. Access be onto a paved public road with "collector" classification or higher;
   4. Automobile repair or parts store: In accordance with Section 18.13.030B9 (RH Rural Homestead Zone);
   5. Retail or repair shop:
      a. Type II procedure,
      b. Maximum floor area: Two thousand square feet;
   6. Personal services, including hair salon, barber shop, catering service or interior decorating:
      a. Type II procedure,
      b. Maximum floor area: Two thousand square feet;
   7. Professional and semiprofessional services:
      a. Type I procedure,
      b. Maximum floor area: Two thousand square feet;
   8. Restaurant:
      a. Type II procedure,
      b. Maximum floor area: Two thousand square feet;
   9. Tavern: In accordance with Section 18.13.030 B13 (RH Rural Homestead Zone);
  10. Sanatorium or rest home: Type I procedure;
  11. Cemetery or crematorium: In accordance with Section 18.13.030B22 (RH Rural Homestead Zone);
  12. Contractor's yard: In accordance with Section 18.13.030B21 (RH Rural Homestead Zone);
  13. Bank: In accordance with Section 18.13.030 B24 (RH Rural Homestead Zone);
  14. Commercial kennel:
      a. Minimum site area: Five acres,
      b. All other requirements of Section 18.13.030 B28 (RH Rural Homestead Zone);
  15. Water, telephone or telegraph distribution installation or electrical receiving or distribution station (with or without a building): In accordance with Section
18.12.030B19 (IR Institutional Reserve Zone);
16. Outside amplification for livestock or equestrian events: Type I procedure;
17. Artists or artisans workshop or studio:
   a. Type II procedure,
   b. Maximum floor area: Two thousand square feet;
18. Nursery with restricted retail sales:
   a. Type II procedure.
   b. Minimum site area: 144,000 square feet.
   c. Minimum setback for nursery buildings and the storage of related materials: 100 feet.
   d. The principal nursery use is the on-site propagation and cultivation of plant stock which may include desert plants salvaged from off-site locations.
   e. A minimum of 60 percent of the nursery site must be allocated to the principal use.
   f. Retail sales shall be primarily of on-site cultivated or off-site salvaged nursery stock. Sales of nursery products cultivated or produced off-site shall be a minor portion of retail sales. Retail sales shall not exceed 25 percent of the total sales for the nursery use.
   g. Retail sales areas, including customer parking areas and display areas may not exceed one and a half acres.
   h. Retail sales shall not include power tools and equipment, including farm equipment.
   i. Access to the site shall only be from a major street as designated on the Major Streets & Scenic Routes plan. Access from the site to any abutting street that is not designated a major street is prohibited.
   j. Landscaping and screening must meet the requirements of Chapter 18.73. A bufferyard type "D" is required. If possible, the bufferyard requirement shall be satisfied with plants in cultivation (in-ground) or natural desert.
   k. The light source of any outdoor lighting fixture shall not be visible from adjoining residential properties. Additionally, all outdoor lighting used in conjunction with the use shall be located and directed so as to eliminate glare towards streets and adjacent properties.
   l. The use of amplifiers or public address systems is prohibited.
   m. All access lanes and parking areas within the nursery site shall be of a paved or concrete surface.
   n. A development plan is required pursuant to Chapter 18.71.
19. Manufactured home park:
   a. Type I procedure;
20. Other conditional uses: All uses which are similar in type, scale, and intensity to other uses which are specifically listed as requiring either Type 1, Type 2 or Type 3 conditional use procedures and which are, in the opinion of the zoning inspector, not otherwise unlawful, injurious to the general health or welfare or specifically excluded. (Ord. 1998-37 § 3 (part), 1998; Ord. 1998-36 § 5, 1998; Ord. 1997-20 § 4 (part),
1997; Ord. 1986-188 § 1 (part), 1986; Ord. 1986-150 (part), 1986; Ord. 1985-187 § 1 (part), 1985

A. Minimum site area: Thirty-six thousand square feet.
B. Minimum site area per dwelling unit: Thirty-six thousand square feet.
C. Minimum setback requirements:
   1. Front: Thirty feet;
   2. Side: Ten feet;
   3. Rear: Forty feet.
D. Height limitations:
   1. Maximum height: Thirty-four feet;
E. Minimum distance between main buildings: Twenty feet.
F. Maintenance of stock-tight fences: A stock-tight fence and necessary cattle guards shall be erected along the boundaries of any property on which livestock is pastured, herded or cared for and which either abuts a public-maintained road or abuts the boundary of any zone other than IR. This provision shall not apply to open range as determined under Arizona Revised Statutes. (Ord. 1987-67 § 1 (part), 1987; Ord. 1985-187 § 1 (part), 1985)

All manufactured home parks shall comply with the following development requirements:
A. Minimum site area: One hundred forty-four thousand square feet.
B. Minimum area per dwelling unit: Thirty-six thousand square feet.
C. Minimum site width: Sixty feet.
D. Minimum site setbacks:
   1. Front: Thirty feet.
   2. Side: Fifteen feet.
   3. Rear: Forty feet.
E. Minimum distance between units: Fourteen feet.
F. Off-street parking: Per Section 18.75 (Off-street Parking and Loading Standards.)
G. Bufferyard "C" shall be placed around the perimeter of the manufactured home park unless more intensive bufferyards are required per Chapter 18.73 (Landscaping, Buffering, and Screening Standards).
H. Detached accessory buildings:
   1. Maximum site coverage: Twenty-five percent of the rear yard setback area for the site.
   3. Minimum distances required:
      a. To dwelling units or other buildings: Seven feet.
      b. To front site setback: Thirty feet for an entryway building used to control access,
and for all other buildings.

c. To side site setback line: Ten feet.
d. To rear site setback line: Fifteen feet.

I. Storage area:

A manufactured home park may include a detached, accessory open storage area for the storage of a travel trailer, boat, automobile recreational vehicle, noncommercial truck, motorcycle, or similar vehicle owned by residents of the park.

1. Only residents of the park may use or have access to the open storage area.
2. All vehicles must be operable. Storage of junk or inoperable vehicles is not permitted.
3. A minimum five-foot wide buffer shall be provided around and abutting the entire storage area, except at the point of access. The buffer shall at a minimum include all of the following:
   a. A minimum six-foot high opaque screen wall or fence.
   b. A fifteen-gallon canopy tree for each twenty linear feet of buffer length.
   c. A five-gallon desert shrub for each twenty linear feet of buffer length.
   d. Two one-gallon accents, flowers or vines for each twenty linear feet of buffer length.
   e. Decomposed granite or other acceptable groundcover over the entire buffer surface.
   f. Plant materials within the buffer shall be selected from the official regulatory plant list, Section 18.73.030A (Landscape Design Manual).

J. Paving: All driveways and parking areas shall be surfaced with a durable asphalt, concrete, stone, tile or brick surface consistent with pavement design standards and principles and engineered according to soil conditions and anticipated wheel loads.

K. Exception: The requirements of this section do not apply to a manufactured home park which was permitted prior to May 26, 1998. Such a manufactured home park must comply with the zoning standards in place at the time the manufactured home park was permitted. (Ord. 1998-37 § 3 (part), 1998)


A. Permitted coverage: Maximum ten percent of the individual site area.
B. Height limitations: Twenty-four feet.
C. Minimum distance requirements:
   1. From front property line: Thirty feet;
   2. From side and rear property line:
      a. Nonanimal uses: Ten feet,
      b. Animal uses, except corals: Fifty feet,
      c. Corrals: Fifty feet, or ten feet if written consent is provided by the owner of the abutting property;
18.14.060 Cluster development option.
A. This option shall be permitted only for subdivided residential lots as allowed in this chapter, and their associated open space, in accordance with Section 18.09.040 (General Residential and Rural Zoning Provisions). (Ord. 1985-187 § 1 (part), 1985)
B. **Argus -- Software Feasibility Study**

Argus is a sophisticated financial analysis program designed to analyze present and forecast future cash flows from commercial real estate.

Argus will assist in screening, due diligence, negotiating, structuring, packaging, approval, or strategic planning process. Argus will help eliminate costly mistakes from calculation errors hidden in internally developed spreadsheets. Argus will assist in understanding the risks and returns inherent in each real estate assignment, opportunity, or endeavor. In short, Argus will save you money and it will make you money, because Argus will help you save the most important business asset you have...your time.  

Argus analyzes the current terms of the individual leases in place, the future assumptions of additional leasing activity, and the rollovers and renewals of each lease as it expires using detailed monthly calculations.

Additional information about the property can be entered to account for miscellaneous revenues, experiences, and capital expenditures & reserves. The property's debt can also be entered. These present and future cash flows assist the analyst or manager in deriving the property value this year, next year, or at the end of each holding period, for valuation of deal structuring purposes. The cash flows can also be used for long-term budget projections. Each year's estimated cash flows can become the basis for comparison to the actual cash flows from a property management system. Argus can also be used for the evaluation and negotiations of lease proposals or to help develop leasing strategies.
Over the next few pages you will be shown the variety of reports Argus produces using Los Cerros Ranch as an example. The reports include: Summary of Cash Flow From Operations, Schedule of Expense Reimbursement Revenue, Market Leasing Assumptions, Resale & Terminal Value Summary, Rate of Return & Present Value Summary, Individual Tenant Cash Flow & Summary, Occupied Area Measures and numerous supporting schedules for each detailed line item found on the Summary Reports.

Argus produces comparison reports showing much of this detail on a per-square-foot basis. Argus also produces an Internal Rate of Return, Yearly Cash on Cash Return, average occupancy ratios, weighted average effective rents, and many other useful ratios and benchmarks. Reports can also be generated using different currencies and exchange rates.

The reports can also be modified to reflect different currency types. An analysis can be entered using dollars and reports can be output based on any currency such as the Japanese Yen or Russian Ruble at different exchange rates.8
1. Area Measure

Area Measures are used in many facets of ARGUS, including as a basis for a tenants pro rata share of a reimbursable expense when the area measure is different than the physical space the tenant occupies.

The 11 default area measure categories listed below are determined by ARGUS.

- Property Size
- Alt Property Size
- Occupied Total
- Occupied Office
- Occupied Retail
- Occupied Industrial
- Occupied Pool Mnr
- Office Total
- Retail Total
- Indst. Total
- Pool Mnr Total

A total of 300 area measures categories can be created.

Default Area Measure Categories

If the area category is a default area measure generated by ARGUS, the measurement radio button will be automatically chosen and the Determined By: section will be unavailable. Enter the size of the property in the Size field or click on Detail to input sizes over time.

Property Size

The Property Size area measures category determines the square-measurement (usually footage) or total property units that will be used to calculate the tenants' natural pro rata shares for expense reimbursement, property-level revenue and expense amounts, as well as to report amounts on a per-square-measurement basis. The default size is 1 square foot.
If the property is a Hotel/Motel, enter the total number of rooms available. If the property is an Apartment enter the total number of units in the property.

**Alternate Size**

The Alternate Size is optional. Enter the square measurement (usually footage) of the property or the area you wish to describe. If this window is not changed, the Alternate Size will equal 1. It is available by clicking on the Detail button while in the Size field.

The window allows input of alternate property sizes over time.

For apartment properties this field allows the user the option to base expense and revenue items on the square footage. For hotel properties, this field allows the option to base expense and revenue items on an alternate number of rooms.

For office and retail properties, the Alternate Size is used when a property has two distinct areas. Expenses and revenues can be based on either area. Each tenant's pro-rata share of expenses can be calculated by using the Property Size or the Alternate Size as the base.

**Occupied Area Measures**

The Occupied Area Measures contains the data for the occupied area categories in the Area Measures window. Unlike other area measures, the occupied area measures are created by ARGUS and cannot be edited or deleted.

The values contained in the occupied categories are available as a report. The reports available will depend on the tenants and reimbursement categories in an analysis. For more information see Occupied Area Measures.

**Occupied Pool Minor**

This category uses data from detailed reimbursement categories. The data may come from different tenants but all using the pool minor reimbursement method for that expense.

**Total Area Measures**

Total measures are a single value determined by adding together all the square footage's of the specific lease type. The total area measures will not include pool categories.

The Office, Retail, Industrial area measures are determined by the lease type entry on the Rent Roll. The Total Occupied measure is a sum of all occupied space in the building.

The total measures determined by ARGUS can be overridden by entering a new square foot value in the size field in the corresponding category.

**Name**

This is the name of the area measure category. If one of the 11 default categories is selected, the name will be "grayed-out" and cannot be changed.

**Determined By Section**

The two radio buttons in this section determine what criteria will be used for the area measure.
Measurement: This selection uses the input in the Size field to determine the area measure size. This selection also makes the Group/Size field display the Size label. The Detail button can be used to input measurement changes over time. A Minimum window is not available.

Occupancy: This uses the total square feet of tenants in a specific Tenant Group to determine the area measure size. It changes the label on the Group/Size field to Group. The Detail button displays a category window of tenant groups. The tenant groups are available by opening the Group list box. The Minimums button opens the Area Measure Minimum window. Area Measure Minimums are discussed later in this help topic.

Size/Group
The choice of the radio button in the Determined By: field determines the label that is displayed next to this field.

Size: If the measurement radio button is chosen, then the Size label will be shown. The entry in the field will then determine the size of the area measure in the units listed in the Units field (usually square feet). If the Detail button is chosen, then a detail window will open, allowing size input over time.

To use a Detailed size, open the Size list box and choose Detail or click on the Detail button, when the cursor is in the Size field. A Detail window will open allowing size measures to be input over time.

Group: If the occupancy radio button is chosen, a Group label will be displayed. The field will become a list box. Opening the list box will reveal the names of the tenant groups available. Clicking the Detail button, will open a Tenant Groups category screen, showing the groups and allowing you to create, edit, copy or delete the groups. For more information, see Tenant Groups.

Area Measure Minimums
This window is used to set the lowest level an area measure can have when it is determined by occupancy. It is accessed by using the Minimum button in the Area Measures window.

Minimum: This field contains the lowest limit in square feet of a occupied area measure. If the area measure square footage is less than this number, then ARGUS uses the minimum number for the occupied area measure. This occurs as long as the Adjusted Minimum field is left blank. If there is an entry in the Adjusted Minimum field, the adjusted minimum number will be used for the area measure.

Adjusted Minimum: If the occupied area measure is less than the minimum entry and this field is blank, then ARGUS will use the Minimum field entry for the area measure. If the area measure is below the minimum, and there is an entry in the Adjusted Minimum field, the adjusted minimum number will be used in place of the minimum entry.
2. Capital Expenditures

Fixed Expenses & Costs, Capital Expenditures & Reserves
The data entry for these sections is the same in the Hotel/Motel properties as it is in the Office, Retail, Apartment, and General properties, except for changes noted in the previous section. Please see the Property Level Windows help topic for more information.

General Vacancy and Credit Loss are not feasible in the hotel properties. These adjustments are made in the room Occupancy field on the Room Description window.

Yield & Financing Data
The Property Purchase & Resale window, Debt Financing and Present Value Discounting window are the same as in the office and retail models. The Property Purchase & Resale window in the hotel/motel model does not allow resale options that involve adjustments that are associated with tenants.

The Options not available for Hotel/Motel Properties are:
- CAP Cash Flow After TIs and LCs
- CAP CF Adjusted for Average TIs and LCs
- CAP NOI using Rate adjusted for age

Room Type/Description
Before a hotel can have any room revenues the rooms must be described. A hotel can have a maximum of 99 room types. At least one room type must be used if room revenues are desired.

Operations
At the bottom of the Room Description window there are seven buttons: Close, Insert, Copy, Delete, Move, Detail and Help.
Close will exit the window and save any changes that have been made. Insert allows the user to create a new room type. This new tenant will be placed below the current active tenant or at the bottom of the list if no line is active. The Copy function can duplicate any room type and insert it directly beneath the original. This function is useful when inputting several similar room types.

Field by field editing allows the user to quickly change pertinent information.

Delete will remove the active room type. Only one room type can be removed at a time. As a precautionary measure the program will prompt the user to confirm the Delete command. The Move function enables the user to rearrange any line items into the desired order. Click on the line you want to move, click on the Move button, then click where you would like the line to be moved.

The Detail function is applicable to a method of input available in the Quoted Rate, Achieved Rate and Room Occupancy fields.

This operation is only available when the cursor is in one of these fields.

Please refer to the discussion of these fields independently for more information on the use of the Detail button.

**Description**

To describe the room type, enter a description in the Room Description field. This description can be up to 30 characters long.

Example

The following are some possible examples of room descriptions:

**Total Available**

Enter the total number of rooms, room nights, or the percentage of total rooms in the hotel that make up this unit type.

If you are not using multiple room types, enter the total number of rooms in the hotel.

Example

The following are some possible entries for the Total Available field.

**Unit Type**

The Unit Type field describes the number entered in the previous field. This field is a multiple choice field; use the drop down menu to display selections, and click on the desired selection. This field has the following three options:

- Rooms
- Room Nights
- Percent of Total Rooms

Example

The following are some possible entries for the Total Available and Unit Type fields.

This example illustrates three possible entry methods for this field. If this hotel has 75 rooms, these three inputs would yield identical results. Entry #1 describes the number of available rooms. Entry #2 describes the total number of room nights available (34 x 365 = 12,410). Entry #3 describes the percentage of available or unoccupied rooms (34 / 75 = .45).
Quoted Rate

The quoted rate is the desired rate for this room type. This field must have input. This rate will inflate at the Room Revenue rate or the General Inflation rate. To change the rate or the inflation amounts, use the drop down menu or click on Detail to access the detail window. The detail window will allow the rate to change for every month of the analysis and Room Revenue inflation rate or the General Inflation rate to be overridden.

more often than monthly. If the quoted rate is unknown, input the rate that is received.

Achieved Rate

The achieved rate is the amount actually received for this room type. This field can be left blank to apply the quoted rate as the achieved rate. The achieved rate will inflate at the Room Revenue rate or the General Inflation rate. To change the rate or the inflation amounts, use the drop down menu or click on Detail to access the detail window. This window will allow the rate to change every month of the analysis.

This window will also allow the Room Revenue rate or the General Inflation rate to be overridden. All the input in the detail window must use the same Unit of Measure. The Achieved Rate can be input with the following Units of Measure:

- Dollars per Year
- Dollars per Month
- Dollars per Night
- Dollars per Week
- Percent of Quoted Rate
- Percent Discounted from Quoted Rate

If the detail window is used for input, the rate cannot change more often than monthly.

Example

The following are some possible entries for the Achieved Rate field.

This example illustrates the six possible entry methods for this field. Note that for a Quoted Rate of $100/Night, all six inputs result in the same value.

\[(75 \$/Night \times 365 = 27,375 \$/Year, 27,375 \$/Year / 52 \text{ weeks} = 526.44 \$/week, 27,375 \$/Year / 12 \text{ Months} = 2,281.25 \$/\text{Months}, 75 \$/\text{Night Achieved Rate} / 100 \$/\text{Night Quoted Rate} = .75 \text{ of Quote, 1 - .75 of Quoted = .25 Discount}\]

Room Occupancy

The Room Occupancy is the occupancy of this unit type. This field can be left blank. If this field is left blank 100 percent occupancy is assumed. Enter the occupancy as a stabilized number, or click on Detail to change the occupancy on a monthly basis.

Example

The following are some possible entries for the Room Occupancy field.

The first entry indicates 50 percent of the rooms are occupied. The second entry indicates the occupancy varies monthly and/or yearly. The third entry indicates 75 percent of the rooms are occupied.
If you enter an achieved rate which reflects current occupancy, you should leave the Room Occupancy field blank. If you enter a percent of available rooms in the Total Available field, you should leave the Room Occupancy field blank.

Using the Room Description Window

The Room Description window offers a tremendous amount of flexibility. The same data can be entered in many ways and still yield the same results. Often the analyst may not have all the necessary information to fill out the window completely. This window was designed to accept either a maximum or a bare minimum of information available. The following example illustrates the many ways that the data can be input to yield the same result.

Example
There are 100 rooms in this hotel. The hotel quotes a rate of $100 per room per night. With discounts the hotel collects an average of $80 per room per night for occupied rooms. The hotel averages 70 percent occupancy. The first way to enter this is to use all the data. This entry is shown below:

Another way to enter the data is to input the Achieved Rate as the Quoted Rate. The benefit of this is that it reduces the amount of input required. This entry is shown below:

To further simplify data input, the number of occupied rooms can be input as the total available. The benefit of this is that it reduces the amount of input required because the occupancy field defaults to 100 percent. This entry is shown below:

Note that all of these examples produce $2,044,000 per year in revenue. The purpose of these examples is to show that even with minimal data, a model can be input into ARGUS. To facilitate a better audit trail we recommend that all available data be input.

Room Expenses

For information about the buttons at the bottom of the Hotel Room Expenses, see the Operations section earlier in this help topic.

Name

ARGUS labels may be up to 30 characters long. These labels will be printed on the calculated reports exactly as entered. When printed, these labels are automatically indented 2 characters from the left. The label is saved as typed, but the window display will truncate the label and only display the first 15 characters.

Account Code

Account codes are not available for the Hotel/Motel Room Expenses because all line items are grouped together into one cash flow line.

Amount

The Amount column refers to entering the base year amount of the item as a single number, or using a specific data entry method for entering detail. The data entry options of each item may be one of the following:
Amount: An amount entered may be expressed in the units detailed in the following Units section.

Detail: The detail input method allows you to change the expense amount in every month or year of the analysis.

Detailed Input

To access the detailed input sub window use the drop down menu to display Detail while in the Amount field, or click on Detail. This will display the detailed input window.

Units

This is a multiple choice field. It determines the units for the Amount field

Dollar Amount
Dollars per room
A percent of room revenue
A percent of total gross revenue
Percent of Line

Frequency

The frequency field controls how often the dollar amounts entered in the Amount field are applied. For amounts that are percentages or details, this field is bypassed. This is a multiple choice field. Use the drop down menu and click on the desired selection. This field has the following selections:

Year
Month
Quarter
Night
Week

Percent Fixed

For line items calculated with Dollar amount as the units, the Percent Fixed column will separate the item into fixed and variable cost components in order to adjust for occupancy.

Should a percent fixed of less than 100 be entered, the amount of the item is separated into fixed and variable amounts. The variable amount is adjusted by the average occupancy level for the period. The higher the property's occupancy, the less sensitive the item will be to the percentage fixed. If the property has a high level of occupancy, the Percent Fixed entered for the items will change the resulting amounts very little. If the property has a low occupancy, the amount entered for Percent Fixed will have a greater effect on the analysis.

Note: If an item is entered with less than 100 percent fixed, the first year Amount entered should represent what the item would be if the property were 100 percent occupied.

Inflation Override

All amounts entered that are not a percentage amount will be grown by the More Inflation rate for the section, the General Inflation rate or a specific inflation rate entered here. Items entered on the detail windows will also be inflated. The timing of the inflation is determined by the inflation method chosen on the Timing window.

To inflate the item by the section inflation rate or the general rate, leave the Inflation Override field blank. When this field is blank, the item will inflate at the overall rate. To override the section rate
or the General Inflation rate, enter a specific rate in the Inflation Override column. If the inflation for the item is changing, click on Detail for detailed inflation. Detailed inflation allows the inflation to change every year of the analysis. The Inflation Override field will be bypassed if the detailed method of input is used.

Specific inflation rates may also be affected if the property is component of a portfolio scenario and the rates have been changed at the portfolio level.

Reference Accounts

Reference Accounts are not available for Hotel/Motel Room Expenses because all line items are grouped together into one cash flow line.

Departmental Revenues & Expenses

These windows function in the same manner as the other revenue and expense windows described earlier in this help topic. Please refer to these sections for more information. The difference between these windows and the windows described earlier in the help topic are the Labels and the Unit of Measures.

These two windows are preset for the following items:

Food
Beverage
Telephone
Other

If one of these items is not desired, place the cursor in a field in the item and click on the Delete key. To create more line items, click on the Insert key. To copy a line item, place the cursor in one of its fields and click on the Copy button. To move a line item, place the cursor in one of its fields, click on the Move button and then click at the desired new location. The revenue window can use the following Units of Measure:

Dollar Amount
Dollars per Room
Percent of Room Revenue
Percent of Line

The Departmental Expenses window can use the following Units of Measure:

Percent of Total Gross Revenue
Dollar Amount
Dollars per Room
Percent of Room Revenue
Percent of Departmental Revenue
Percent of Line

When the Unit of Measure is selected as Percent of Departmental Revenue, the expense is a percent of the corresponding revenue only, not the total for the Departmental Revenue window. The corresponding revenue item has the same name as the expense. If the labels have been changed the corresponding revenue item is located in the same position on the Departmental Revenue window as the expense is positioned on the Departmental Expense window. (The third expense will take a percentage of the third revenue item.)
3. Departmental Revenues & Expenses

These windows function in the same manner as the other revenue and expense windows described earlier in this help topic. Please refer to these sections for more information. The difference between these windows and the windows described earlier in the help topic are the Labels and the Unit of Measures.

These two windows are preset for the following items:

- Food
- Beverage
- Telephone
- Other

If one of these items is not desired, place the cursor in a field in the item and click on the Delete key. To create more line items, click on the Insert key. To copy a line item, place the cursor in one of its fields and click on the Copy button. To move a line item, place the cursor in one of its fields, click on the Move button and then click at the desired new location. The revenue window can use the following Units of Measure:

- Dollar Amount
- Dollars per Room
- Percent of Room Revenue
- Percent of Line

The Departmental Expenses window can use the following Units of Measure:

- Percent of Total Gross Revenue
- Dollar Amount
- Dollars per Room
- Percent of Room Revenue
- Percent of Departmental Revenue
- Percent of Line
When the Unit of Measure is selected as Percent of Departmental Revenue, the expense is a percent of the corresponding revenue only, not the total for the Departmental Revenue window. The corresponding revenue item has the same name as the expense. If the labels have been changed the corresponding revenue item is located in the same position on the Departmental Revenue window as the expense is positioned on the Departmental Expense window. (The third expense will take a percentage of the third revenue item.)
Capital Expenditures: This choice depreciates the line item or items in the Capital Expenditures property level window. For more information, see Non-Reimbursable Expenses, Miscellaneous Revenues And Capital Expenditures in the Property Level Windows help topic.

Land Costs, Hard Costs, Soft Costs: These are the new Development Costs property level windows. They are primarily for construction of new rental property, units or expansion of existing properties.

Land Costs are for purchase of buildings or property. Hard Costs fund tangible construction-related items. Soft Costs are for intangible items like building permits.

Land purchases are generally not depreciated. The land cost line item is mainly for depreciating site improvements. For more information, see Development Costs in the Property Level Windows help topic.

Debt Interest: This line amortizes the interest on any debts available.

Leasing Commissions, Tenant Improvements: These lines use the leasing commissions or tenant improvements from the rent roll, space absorption window or market leasing assumption. There is no detailed input available for these items, since only one is allowed per tenant or market leasing assumption. The amounts from the leasing commissions or tenant improvement categories will be added together and the total amount will be depreciated.

Simple/Detail

The choices in the Simple/Detail drop down boxes determine what items to use for the depreciation. The detail allows items, like capital expenditures, debts and development costs, that have more than one line item, to use different Methods, Useful Lives and Amount Basis.

Three of the items, properties, leasing commissions, and tenant improvements do not have details available because those lines use specific amounts that do not have multiple listings.

Method

The method field includes a series of drop down boxes with the various depreciation methods available. A detail is also available for specific user-defined depreciation percentages over time.

The options are:

None
Expense
Straight Line
Amortization
Double Declining
Capitalize
Detail

Note ARGUS does not take salvage value into account when calculating depreciation.

None

This option will not depreciate the line item.

Expense
4. Depreciation and Taxes

The ability to account for depreciation and taxes is a feature new to ARGUS Version 7. The input in this window controls depreciation of various items and determines the tax rate for a building. The depreciation and tax data will affect ARGUS reports, including the new depreciation schedule and income statement.

Note: The Depreciation and Taxes window is not meant to completely duplicate depreciation and tax calculations by the Internal Revenue Service. It is designed to provide a framework for the user to construct their own depreciation and tax structure projections.

Name

The name column shows the types of data that can be depreciated. The items are:

- Property
- Capital Expenditures
- Land Costs
- Hard Costs
- Soft Costs
- Debt Interest
- Leasing Commissions
- Tenant Improvements

Property: This item depreciates the Initial Purchase Price from the Property Purchase and Resale windows. If no Initial Purchase Price is available, ARGUS will use the most conservative Present Value amount.
The Expense option does not depreciate the amount, but shows the flow in the Income Statement generated from the Depreciation and Taxes report window.

**Straight Line**

This depreciation method takes the cost of the asset and divides it by the asset’s useful life.

ARGUS takes the current month total of the asset and divides that by the useful life. That quotient is then divided by 12 to get a monthly figure.

ex. for JAN: \( \frac{(\text{JAN asset total})}{\text{useful life}} / 12 = \text{Jan's monthly total} \)

FEB: \( \frac{(\text{JAN asset total} + \text{FEB asset total})}{\text{useful life}} / 12 = \text{Feb's monthly total} \)

MAR: \( \frac{(\text{JAN asset total} + \text{FEB asset total} + \text{MAR asset total})}{\text{useful life}} / 12 = \text{Mar's monthly total.} \)

etc.

ARGUS will then add these together for the yearly total.

**Example**

A building has a useful life of 40 years and has a value of $1 million. The depreciation will use the following formulas.

\[
\frac{\text{[Cost of Asset Monthly + Cost of Asset in Previous Month(s)]}}{\text{(Useful life in years)}} / 12
\]

Monthly Depreciation

Month 1 Depreciation + Month 2 Depreciation + Month 3 Depreciation + Month ... Depreciation + Month 12 Depreciation (or end of stub year)

Yearly Depreciation

**Amortization**

Amortization uses the same method as straight line depreciation.

**Double Declining**

This depreciation method is twice the results of the Straight Line method. The expense will be depreciated to zero by the end of the last year specified in the Useful Life field.

\[
(100 \text{ percent} \div \text{Useful Life}) \times 2
\]

Double Declining Percentage

Depreciation Input

- Previous year’s depreciation (zero for Year 1)

Amount to Depreciate

Double Declining Percentage

\[
\times \text{Amount to Depreciate}
\]

Depreciation Value

**Example**
Using the previous example of a $1 million building with a 40-year useful life, the Straight Line depreciation was $25,000.  

Year 1 calculation

\[
(100 \text{ percent } / 40) \\
\times \quad 2 \\
5 \text{ percent} \\
$1,000,000 \\
- \quad 0 \\
1,000,000 \\
5 \text{ percent} \\
\times \quad 1,000,000 \\
$50,000 \\
\]

The depreciation schedule for the first five years will be:

<table>
<thead>
<tr>
<th>For the Years Ending 2001</th>
<th>Year 1 Aug-1997</th>
<th>Year 2 Aug-1998</th>
<th>Year 3 Aug-1999</th>
<th>Year 4 Aug-2000</th>
<th>Year 5 Aug-2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASIS</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Building</td>
<td>50,000</td>
<td>47,500</td>
<td>45,125</td>
<td>42,869</td>
<td>40,725</td>
</tr>
<tr>
<td>Total</td>
<td>50,000</td>
<td>47,500</td>
<td>45,125</td>
<td>42,869</td>
<td>40,725</td>
</tr>
</tbody>
</table>

**Capitalize**

When you use this method, the amount of the line item is added to the Property line item and depreciated at the property rate.

**Detail**

A detailed depreciation schedule can be used if the Detail button is chosen while the cursor is in the Method field. The input is in percentages per year as shown below.

**Example**

A $1 million capital expenditure has a detailed depreciation schedule for six years of 40 percent, 20 percent, 10 percent, 10 percent, 10 percent and 10 percent. The depreciation schedule report, shown below, is available from the Depreciation & Taxes item in the Reports menu.

**DEPRECIATION SCHEDULE**

<table>
<thead>
<tr>
<th>For the Years Ending Dec-2001</th>
<th>Year 1 Dec-1997</th>
<th>Year 2 Dec-1998</th>
<th>Year 3 Dec-1999</th>
<th>Year 4 Dec-2000</th>
<th>Year 5 Dec-2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASIS 1,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>400,000</td>
<td>200,000</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Total</td>
<td>400,000</td>
<td>200,000</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
</tr>
</tbody>
</table>
Useful Life

This is the length, in years, to depreciate the asset. This number will vary with different types of properties or expenses.

Amount Basis

This drop down list has three choices of what the depreciation and tax calculation will be based on.

- Use Input
  - Simple
  - Detail

Use Input: This choice takes the input from the item in the name field to use as a basis for the depreciation calculation. The Property will use the Initial Purchase Price from the Property and Purchase Resale window.

Simple: Type a number in the field when this option is chosen. It will be used as the basis for the depreciation. The K and M conventions can be used.

Detail: This opens a detail screen allowing month by month input for the basis of the depreciation.

Ordinary Income Tax Rate

Input the desired income tax rate into this field. This will be used to generate the income after taxes and depreciation in the Depreciation and Taxes income statement.

Capital Gains Tax Rate

Input the desired capital gains tax rate for the analysis. This will be used by partnerships to determine the capital gains taxes to be paid upon the sale of the building.
5. Description

The top portion of the Property Menu has several items that describe specific data about the property being analyzed. These descriptive elements are:

- Description
- Timing
- Area Measures
- Inflation Rates

**Description**

The Property Name, Address, City, State, and Zip Code entries are optional. If used, they will be centered on the top of all reports. The Property Name and Address are printed on separate lines, while City, State, and Zip are combined on one line as shown below:

Weslayan Tower
24 Greenway Plaza
Houston, Texas 77046

The headings can be omitted from the reports (see Reports for more information). Upper-case and lower-case letters and symbols are recommended.

**Portfolio Name**

The Portfolio Name is optional. Entries made on this line will be printed on the top left side of all ARGUS reports. This header can be omitted from the printed reports. Additionally, the Portfolio Name may be used to specify properties to consolidate for the Portfolio property type.
**Property Type**

This multiple-choice field is required. Use the drop down menu and its associated arrow keys to select the appropriate property type. The choices are:

- Office/Industrial
- Retail
- Office & Retail
- Apartment
- Hotel/Motel
- General
- Portfolio

Once a Property Type is selected, it cannot be changed after leaving this screen.

Click the More button to access additional property description fields. These fields can hold up to 30 characters. This section is optional.

Note: The More Description fields can be used as search parameters in Portfolio properties. See Portfolio Analysis.

The preferences window allows you to change a variety of items that were static under previous versions of ARGUS. The preferences that can be set are:

- Area Measurement Units
- Currency Name
- Currency Symbol
- Symbol Position
- Decimal Symbol
- Thousands Separator
- Rents Entered (Annually or Monthly)
- Highest per Measurement Rent
- Highest per Measurement per property expense/revenue

**Area Measurement Units**

The two fields in this area determine what units of measure (feet, yards, meters) will be used for the analysis.

Measurement: Enter the name of the unit of measurement. Usually this will be Square Feet or Square Meters.

Abbreviation for above: This field contains the abbreviation for the unit of measurement. The input will usually be SqFt or SqM.
Fixed Expenses & Costs

6. Fixed Expenses & Costs, Capital Expenditures & Reserves

The data entry for these sections is the same in the Hotel/Motel properties as it is in the Office, Retail, Apartment, and General properties, except for changes noted in the previous section. Please see the Property Level Windows help topic for more information.

General Vacancy and Credit Loss are not feasible in the hotel properties. These adjustments are made in the room Occupancy field on the Room Description window.

Yield & Financing Data

The Property Purchase & Resale window, Debt Financing and Present Value Discounting window are the same as in the office and retail models. The Property Purchase & Resale window in the hotel/motel model does not allow resale options that involve adjustments that are associated with tenants.

The Options not available for Hotel/Motel Properties are:

- CAP Cash Flow After TIs and LCs
- CAP CF Adjusted for Average TIs and LCs
- CAP NOI using Rate adjusted for age

Room Type/Description

Before a hotel can have any room revenues the rooms must be described. A hotel can have a maximum of 99 room types. At least one room type must be used if room revenues are desired.

Operations

At the bottom of the Room Description window there are seven buttons: Close, Insert, Copy, Delete, Move, Detail and Help.

Close will exit the window and save any changes that have been made. Insert allows the user to create a new room type. This new tenant will be placed below the current active tenant or at the bottom of the list if no line is active. The Copy function can duplicate any room type and insert it directly beneath the original.
This function is useful when inputting several similar room types. Field by field editing allows the user to quickly change pertinent information.

Delete will remove the active room type. Only one room type can be removed at a time. As a precautionary measure the program will prompt the user to confirm the Delete command. The Move function enables the user to rearrange any line items into the desired order. Click on the line you want to move, click on the Move button, then click where you would like the line to be moved.

The Detail function is applicable to a method of input available in the Quoted Rate, Achieved Rate and Room Occupancy fields.

This operation is only available when the cursor is in one of these fields.

Please refer to the discussion of these fields independently for more information on the use of the Detail button.

Description

To describe the room type, enter a description in the Room Description field. This description can be up to 30 characters long.

Example

The following are some possible examples of room descriptions:

Total Available

Enter the total number of rooms, room nights, or the percentage of total rooms in the hotel that make up this unit type.

If you are not using multiple room types, enter the total number of rooms in the hotel.

Example

The following are some possible entries for the Total Available field.

Unit Type

The Unit Type field describes the number entered in the previous field. This field is a multiple choice field; use the drop down menu to display selections, and click on the desired selection. This field has the following three options:

- Rooms
- Room Nights
- Percent of Total Rooms

Example

The following are some possible entries for the Total Available and Unit Type fields.

This example illustrates three possible entry methods for this field. If this hotel has 75 rooms, these three inputs would yield identical results. Entry #1 describes the number of available rooms. Entry #2 describes the total number of room nights available (34 x 365 = 12,410). Entry #3 describes the percentage of available or unoccupied rooms (34 / 75 = .45).

Quoted Rate
The quoted rate is the desired rate for this room type. This field must have input. This rate will inflate at the Room Revenue rate or the General Inflation rate. To change the rate or the inflation amounts, use the drop down menu or click on Detail to access the detail window. The detail window will allow the rate to change for every month of the analysis and Room Revenue inflation rate or the General Inflation rate to be overridden.

more often than monthly. If the quoted rate is unknown, input the rate that is received.

**Achieved Rate**

The achieved rate is the amount actually received for this room type. This field can be left blank to apply the quoted rate as the achieved rate. The achieved rate will inflate at the Room Revenue rate or the General Inflation rate. To change the rate or the inflation amounts, use the drop down menu or click on Detail to access the detail window. This window will allow the rate to change every month of the analysis. This window will also allow the Room Revenue rate or the General Inflation rate to be overridden. All the input in the detail window must use the same Unit of Measure. The Achieved Rate can be input with the following Units of Measure:

- Dollars per Year
- Dollars per Month
- Dollars per Night
- Dollars per Week
- Percent of Quoted Rate
- Percent Discounted from Quoted Rate

If the detail window is used for input, the rate cannot change more often than monthly.

Example

The following are some possible entries for the Achieved Rate field.

This example illustrates the six possible entry methods for this field. Note that for a Quoted Rate of $100/Night, all six inputs result in the same value.

(75 $/Night x 365 = 27,375 $/Year, 27,375 $/Year / 52 weeks = 526.44 $/week, 27,375 $/Year / 12 Months = 2,281.25 $/Months, 75 $/Night Achieved Rate / 100 $/Night Quoted Rate = .75 of Quote, 1 - .75 of Quoted = .25 Discount)

**Room Occupancy**

The Room Occupancy is the occupancy of this unit type. This field can be left blank. If this field is left blank 100 percent occupancy is assumed. Enter the occupancy as a stabilized number, or click on Detail to change the occupancy on a monthly basis.

Example

The following are some possible entries for the Room Occupancy field.

The first entry indicates 50 percent of the rooms are occupied. The second entry indicates the occupancy varies monthly and/or yearly. The third entry indicates 75 percent of the rooms are occupied.

If you enter an achieved rate which reflects current occupancy, you should leave the Room Occupancy field blank. If you enter a percent of available rooms in the Total Available field, you should leave the Room Occupancy field blank.

**Using the Room Description Window**
The Room Description window offers a tremendous amount of flexibility. The same data can be entered in many ways and still yield the same results. Often the analyst may not have all the necessary information to fill out the window completely. This window was designed to accept either a maximum or a bare minimum of information available. The following example illustrates the many ways that the data can be input to yield the same result.

Example
There are 100 rooms in this hotel. The hotel quotes a rate of $100 per room per night. With discounts the hotel collects an average of $80 per room per night for occupied rooms. The hotel averages 70 percent occupancy. The first way to enter this is to use all the data. This entry is shown below:

Another way to enter the data is to input the Achieved Rate as the Quoted Rate. The benefit of this is that it reduces the amount of input required. This entry is shown below:

To further simplify data input, the number of occupied rooms can be input as the total available. The benefit of this is that it reduces the amount of input required because the occupancy field defaults to 100 percent. This entry is shown below:

Note that all of these examples produce $2,044,000 per year in revenue. The purpose of these examples is to show that even with minimal data, a model can be input into ARGUS. To facilitate a better audit trail we recommend that all available data be input.

Room Expenses
For information about the buttons at the bottom of the Hotel Room Expenses, see the Operations section earlier in this help topic.

Name
ARGUS labels may be up to 30 characters long. These labels will be printed on the calculated reports exactly as entered. When printed, these labels are automatically indented 2 characters from the left. The label is saved as typed, but the window display will truncate the label and only display the first 15 characters.

Account Code
Account codes are not available for the Hotel/Motel Room Expenses because all line items are grouped together into one cash flow line.

Amount
The Amount column refers to entering the base year amount of the item as a single number, or using a specific data entry method for entering detail. The data entry options of each item may be one of the following:

Amount: An amount entered may be expressed in the units detailed in the following Units section.

Detail: The detail input method allows you to change the expense amount in every month or year of the analysis.

Detailed Input
To access the detailed input sub window use the drop down menu to display Detail while in the Amount field, or click on Detail. This will display the detailed input window.

Units

This is a multiple choice field. It determines the units for the Amount field

- Dollar Amount
- Dollars per room
- A percent of room revenue
- A percent of total gross revenue
- Percent of Line

Frequency

The frequency field controls how often the dollar amounts entered in the Amount field are applied. For amounts that are percentages or details, this field is bypassed. This is a multiple choice field. Use the drop down menu and click on the desired selection. This field has the following selections:

- Year
- Month
- Quarter
- Night
- Week

Percent Fixed

For line items calculated with Dollar amount as the units, the Percent Fixed column will separate the item into fixed and variable cost components in order to adjust for occupancy.

Should a percent fixed of less than 100 be entered, the amount of the item is separated into fixed and variable amounts. The variable amount is adjusted by the average occupancy level for the period. The higher the property's occupancy, the less sensitive the item will be to the percentage fixed. If the property has a high level of occupancy, the Percent Fixed entered for the items will change the resulting amounts very little. If the property has a low occupancy, the amount entered for Percent Fixed will have a greater effect on the analysis.

Note: If an item is entered with less than 100 percent fixed, the first year Amount entered should represent what the item would be if the property were 100 percent occupied.

Inflation Override

All amounts entered that are not a percentage amount will be grown by the More Inflation rate for the section, the General Inflation rate or a specific inflation rate entered here. Items entered on the detail windows will also be inflated. The timing of the inflation is determined by the inflation method chosen on the Timing window.

To inflate the item by the section inflation rate or the general rate, leave the Inflation Override field blank. When this field is blank, the item will inflate at the overall rate. To override the section rate or the General Inflation rate, enter a specific rate in the Inflation Override column. If the inflation for the item is changing, click on Detail for detailed inflation. Detailed inflation allows the inflation to change every year of the analysis. The Inflation Override field will be bypassed if the detailed method of input is used.

Specific inflation rates may also be affected if the property is component of a portfolio scenario and the rates have been changed at the portfolio level.
Reference Accounts

Reference Accounts are not available for Hotel/Motel Room Expenses because all line items are grouped together into one cash flow line.

Departmental Revenues & Expenses

These windows function in the same manner as the other revenue and expense windows described earlier in this help topic. Please refer to these sections for more information. The difference between these windows and the windows described earlier in the help topic are the Labels and the Unit of Measures.

These two windows are preset for the following items:

- Food
- Beverage
- Telephone
- Other

If one of these items is not desired, place the cursor in a field in the item and click on the Delete key. To create more line items, click on the Insert key. To copy a line item, place the cursor in one of its fields and click on the Copy button. To move a line item, place the cursor in one of its fields, click on the Move button and then click at the desired new location. The revenue window can use the following Units of Measure:

- Dollar Amount
- Dollars per Room
- Percent of Room Revenue
- Percent of Line

The Departmental Expenses window can use the following Units of Measure:

- Percent of Total Gross Revenue
- Dollar Amount
- Dollars per Room
- Percent of Room Revenue
- Percent of Departmental Revenue
- Percent of Line

When the Unit of Measure is selected as Percent of Departmental Revenue, the expense is a percent of the corresponding revenue only, not the total for the Departmental Revenue window. The corresponding revenue item has the same name as the expense. If the labels have been changed the corresponding revenue item is located in the same position on the Departmental Revenue window as the expense is positioned on the Departmental Expense window. (The third expense will take a percentage of the third revenue item.)
7. General Inflation
The inflation rate entered in the General line item will be applied to expenses, market rents, tenant improvements, CPI, retail tenant sales, and almost every other number that may inflate.

General Inflation will also be applied to leasing commissions if the leasing commission was entered on a dollars per square foot basis. The inflation rate entered here may be overridden on each of these items by entering a specific growth rate along with the amount of the item.

Other Inflation Line Items
These items are inflation line items that can be inflated with an overall rate that is different than the General Inflation rate. These line items are dependent on property type as noted earlier in this help topic. The specific inflation rate in each line will always be used if input exists. If the specific inflation for an item is blank, the General Inflation rate will be used.

Note  A blank in a specific inflation field is different than a zero. A blank will use general inflation if it exists. A zero will use zero inflation, regardless of the general inflation rate.

Example
This example will deal with Market Rent. Through Market Rent categories, a specific inflation can be used.

<table>
<thead>
<tr>
<th>Market Rent</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Renewal</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Inflation</td>
<td>n/a</td>
<td>5</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Rent Inflation</td>
<td>n/a</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>General Inflation</td>
<td>n/a</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Inflation used</td>
<td>n/a</td>
<td>5</td>
<td>5</td>
<td>7</td>
<td>7</td>
<td>3</td>
</tr>
</tbody>
</table>

For this Market Rent, the inflation will be 5 percent for Years 2 and 3, 7 percent for Years 4 and 5, and 3 percent for Year 6.
Inflation Method

This is a multiple choice field available in all office, retail, industrial and apartment property types. This field is only used by the General Inflation line. Use the Drop Down menu to scroll through a list of available choices.

It is possible to inflate on a fiscal or calendar year basis.

Fiscal Inflation

Fiscal inflation will inflate all rates and amounts that are subject to inflation, either through the overall inflation or specific inflation, on the first month of the second fiscal year and the same month for each year thereafter.

Example
If an analysis begins on October 1, 1997 (10/97), with its fiscal year ending on September 30, 1998 (9/98), and a fiscal inflation method is selected, all rates and amounts subject to inflation will inflate on October 1, 1998. Each subsequent year's inflation rate will be applied on each October 1 thereafter.

Calendar Inflation

Calendar inflation will inflate all rates and amounts that are subject to inflation, either through the overall inflation or specific inflation rates, on the first January 1 of the analysis, and each January 1 thereafter.

If the analysis starts in January, inflation will not take place until the second January of the analysis.

Example
If an analysis begins on October 1, 1998, with its fiscal year ending on December 31, 1998, and a calendar inflation method is selected, all rates and amounts input for the first year will inflate on January 1, 1999, not October 1, 1998. Each subsequent year's inflation rate will be applied each January thereafter.

Example
If an analysis begins in October 1997 with its fiscal year ending in September 1998, and a calendar inflation method is selected, all rates and amounts input for the first year will inflate on January 1, 1998, not October 1, 1998. Each subsequent year's inflation rate will be used for each January thereafter.

Selecting the Correct Inflation Method

If the first year of the analysis ends in December, either inflation method will result in the same answer.

A property or asset manager might be performing an analysis for budgeting purposes. Budgets are usually based on a calendar year unless they are for a governmental budget. If the budget is based on a calendar year, a calendar inflation method should be chosen. No matter when the analysis begins, the inflation would occur on January of each year.

If calendar year inflation is desired, it is recommended that a calendar year analysis be performed by having a short first year that ends in December. This will avoid the blending of rates and amounts that are reported on the cash flows.
Example
The above analysis will have a first reported year beginning July 1997 and ending December 1997, with each year thereafter beginning in January and ending in December.

If it is not necessary to use calendar inflation, fiscal inflation is recommended. Using fiscal inflation allows easier tracking of the reports. If calendar inflation is used with a fiscal year timing, the amounts reported for each year will be a mix of two calendar years. This makes the tracking of the reports more complex and time consuming.

Changing The Inflation Method

Changing the inflation method from calendar to fiscal or vice versa will affect any calculated result. In some cases, the results may vary widely. The degree to which the results vary depends on the number of months difference between the fiscal ending month and the previous December.

The calculated results will be easier to track if the inflation method used corresponds with the analysis timing. If a fiscal or short fiscal analysis is used, fiscal inflation will produce results that are the easiest to track.

To insure a full understanding of these two methods and their differences, extensive experimentation using one of your own property files as a sample is suggested.

Reimbursement Method

This field is only available in the inflation window for office, retail and industrial properties. Apartments, hotel/motel and general properties do not use expense reimbursements, so this field will not be displayed. This is a multiple choice field. Use the corresponding drop down menu button to display the list of available choices and select the desired option.

If calendar inflation is selected at the previous prompt, this field will be set to calendar year. The Reimbursement Method can't be changed if calendar inflation is chosen. If fiscal inflation is selected there are three methods available to calculate and report expense reimbursements. The three methods are:

Calendar Reimbursement using Fiscal Inflation
Fiscal Reimbursement using Fiscal Inflation
Calendar Reimbursement using Calendar Inflation

If fiscal inflation is selected at the previous prompt, the default for this field on new property creation is Calendar Reimbursement using Fiscal Inflation.

Calendar Reimbursement Using Fiscal Inflation

The calculations for this reimbursement method are as follows:

1. All reimbursable expenses are inflated on the first month of the second fiscal year, and each fiscal year thereafter, using the inflation rates specified.
2. A calendar year's worth of expenses are derived for January through December using the actual monthly values of various fiscal years. The calendar year used for each tenant will depend on which calendar year the lease start date falls. This blended calendar year expense is used for calendar year expense reimbursement billing and for calculating tenants' base year expense stops.
3. The amounts each tenant owes for each calendar year are billed to them in 12 equal installments over that calendar year.
4. For the property level reporting of the amounts collected, each monthly installment is gathered into the proper fiscal year and reported along with all other property level amounts.

The Schedule of Expense Reimbursement Revenue report will show the fiscal expenses, the calendar blending of the expenses, and the resulting fiscal year reimbursement.

Example


The property has $10 per square foot in expenses. Inflation is 5 percent. The following steps are used to calculate the reimbursements:

1. Calculate the fiscal expense amounts. Year 1 will be the amount entered. Year 2 will be Year 1 plus 5 percent. Year 3 will be Year 2 plus 5 percent. The year before the analysis begins will be Year 1's amount, deflated. The value for the year before the analysis plus 5 percent will equal the value for Year 1.

<table>
<thead>
<tr>
<th>Fiscal Years</th>
<th>Expense Amounts per Square Foot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1:</td>
<td>10.00</td>
</tr>
<tr>
<td>Year 2:</td>
<td>10.00 + (10.00 x 0.05) = 10.50</td>
</tr>
<tr>
<td>Year 3:</td>
<td>10.50 + (10.50 x 0.05) = 11.03</td>
</tr>
<tr>
<td>Year Before analysis:</td>
<td>(10.00 / 1.05) = 9.52</td>
</tr>
</tbody>
</table>

2. Mix the fiscal years to determine the calendar year's operating expenses. Each fiscal year will be weighted by the number of months in the fiscal year that fall in the calendar year. In this example, every calendar year will have ten months of one fiscal year, January through October, and two months of the next fiscal year, November through December.

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resulting Expense</td>
<td>Amounts per Square Foot</td>
</tr>
<tr>
<td>1/97 - 12/97</td>
<td>Year before analysis + Year 1</td>
</tr>
<tr>
<td>9.60</td>
<td></td>
</tr>
<tr>
<td>1/98 - 12/98</td>
<td>Year 1 + Year 2</td>
</tr>
<tr>
<td>10.08</td>
<td></td>
</tr>
<tr>
<td>1/99 - 12/99</td>
<td>Year 2 + Year 3</td>
</tr>
<tr>
<td>10.59</td>
<td></td>
</tr>
</tbody>
</table>

3. The tenants will reimburse one-twelfth of the calendar year's expenses in each month of the calendar year, if the tenants are reimbursing for all the expenses. In January of 1998, a tenant would reimburse the same amount as it would in December of 1998. If the tenant begins a lease in any month in 1998, the base year expense level would be $10.08 per Square Foot.

Monthly Amount Reimbursed in 1998

$10.08 / 12 months = $0.84 per month
Monthly Fiscal Expenses

Fiscal Year 1, 11/97 - 10/98
$10.00 / 12 months = $0.83 per month

Fiscal Year 2, 11/98 - 10/99
$10.50 / 12 months = $0.88 per month

Note that the amount used for reimbursement is between the two fiscal amounts. The reimbursement amount is closer to fiscal Year 1’s expenses, because fiscal Year 1 is a greater portion of calendar year 1998 than fiscal Year 2. For all tenant reimbursement calculations in 1998, the calendar amount of $0.84 per month would be used.

4. The monthly calendar reimbursement will be summed in the proper fiscal years and reported on a fiscal basis. The Schedule of Expense Reimbursement Revenue report will show the results from step 1, step 2, and the resulting reimbursement on a fiscal basis. The Schedule of Prospective Cash Flow report and the Individual Tenant Cash Flow & Summary report will only report fiscal amounts when reported annually. For detailed tracking of the expense numbers, print these two reports on a monthly basis.

Fiscal Reimbursement Using Fiscal Inflation

This method is very easy to track because the reimbursement timing will coincide with the input and inflation timing. Reconciliation is not necessary, since there is no blending of expense years and no offset to the inflation timing and billing of the reimbursement.

The calculations for this reimbursement method are as follows:

1. All reimbursable expenses are inflated using the fiscal inflation method to arrive at fiscal year expenses.
2. The billing is based on the amount due for each fiscal year divided into 12 equal monthly installments, and collected over that fiscal year. Base years and expense reimbursements use fiscal year amounts. The fiscal year in which a tenant's start date falls is the one used for the tenant's base year stop calculations.
3. The fiscal reimbursements are reported in the same fiscal year along with all other property level fiscal amounts.

Example

This analysis begins in November 1997. The first year ends in October 1998. The property has $10 per square foot in expenses. Inflation is 5 percent.

The following steps are used to calculate the reimbursements:

1. Calculate the fiscal expense amounts. Year 1 will be the amount entered. Year 2 will be Year 1 plus 5 percent. Year 3 will be Year 2 plus 5 percent.

Fiscal Years    Expense Amounts per Square Foot
Year 1:        10.00
Year 2:        10.00 + ( 10.00 x 0.05 ) = 10.50
Year 3:        10.50 + ( 10.50 x 0.05 ) = 11.03

2. The tenants will reimburse one-twelfth of the fiscal year's expenses in each month of the fiscal year, if the tenants are reimbursing a full pro-rata share of all the expenses. In January of 1998, a tenant would reimburse a different amount than it would reimburse in December of 1998.

Monthly amount paid in January 1998
$10.00 / 12 months = $0.83 per month
Monthly amount paid in December 1998
$10.50 / 12 months = $0.88 per month

3. The monthly reimbursement will be summed in the proper fiscal years and reported on a fiscal basis. The first block of the Schedule of Expense Reimbursement Revenue report will show the results from step 1. The second block will show the resulting reimbursement on a fiscal basis. The Schedule of Prospective Cash Flow report and the Individual Tenant Cash Flow & Summary report will report fiscal amounts; no mixing of calendar and fiscal amounts is necessary.

Calendar Reimbursement Using Calendar Inflation

The calculations for this reimbursement method are as follows:

1. All reimbursable expenses are inflated on a calendar year basis. All reimbursable expenses that are subject to inflation, either through the overall inflation or specific inflation, will be inflated on the first January 1 of the analysis, and each January 1 thereafter. If the analysis begins in January, inflation will take place in the second January in the analysis.

2. The amounts each tenant owes for each calendar year are billed in 12 equal installments over that calendar year. Base years and expense reimbursements use calendar year amounts. The calendar year in which a tenant's start date falls is the one used for the tenant's base year stop calculations.

3. For the property level reporting of the amounts collected, which is on a fiscal basis, each monthly installment is gathered into the proper fiscal year and reported along with all other property level amounts.

Example

This analysis also begins in November 1997, and the first year ends in October 1998.

The property has $10 per square foot in expenses. Inflation is 5 percent. The following steps are used to calculate the reimbursements:

1. Calculate the calendar expense amounts. 1997 will be the amount entered. 1998 will be Year 1 plus 5 percent. 1999 will be Year 2 plus 5 percent.

   Calendar Years | Expense Amounts per Square Foot
   |               |
   | 1997          | 10.00         |
   | 1998          | 10.00 + ( 10.00 x 0.05 ) = 10.50 |
   | 1999          | 10.50 + ( 10.50 x 0.05 ) = 11.03 |

2. The tenants will reimburse one-twelfth of the calendar year's expenses in each month of the calendar year, if the tenants are reimbursing for all the expenses.

   In January of 1997, a tenant would reimburse the same amount as he would reimburse in December of 1997. If the tenant begins a lease in any month of 1997, his base year expense level would be $10.50 per Square Foot.

   Monthly amount paid in 1997
   $10.50 / 12 months = $0.88 per month

3. Mix the calendar years to determine the fiscal year's operating expenses. Each calendar year will be weighted by the number of months in the calendar year that fall in the fiscal year. In this example, every fiscal year will have two months of one calendar year, November through December, and ten months of the next calendar year, January through October.
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Calendar Year</th>
<th>Resulting Expense Amounts per Square Foot</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.42</td>
<td>$(10.00 \times 2 \text{ months}) + (10.50 \times 10 \text{ months}) / 12 \text{ months}$</td>
<td></td>
</tr>
<tr>
<td>11/98 - 10/99</td>
<td>1997 + 1999</td>
<td></td>
</tr>
<tr>
<td>10.94</td>
<td>$(10.50 \times 2 \text{ months}) + (11.03 \times 10 \text{ months}) / 12 \text{ months}$</td>
<td></td>
</tr>
</tbody>
</table>

4. The monthly calendar reimbursement will be summed in the proper fiscal years and reported on a fiscal basis. The Schedule of Expense Reimbursement Revenue report will show the results from step 2, step 1, and the resulting reimbursement on a fiscal basis. The Schedule of Prospective Cash Flow report and the Individual Tenant Cash Flow & Summary report will only report fiscal amounts. For detailed tracking of the expense numbers, print these two reports on a monthly basis.
Enter up to 30 characters for a label to describe this line item. These line items will appear on the Schedule of Prospective Cash Flow in the order in which they are entered on this window.

Press Help for information about this screen.
8. Hard Cost, Soft Cost and Land

Three new ARGUS Version 7 features are the revenue/expense development windows available from the Development Costs sub-menu of the Property menu. Using these windows with the new Property Level Area Measures field, speculative construction and/or expansion of existing properties and their associated costs can be integrated into ARGUS reports and calculations. The development costs are aimed at projects that are going to be leased, rather than sold. A separate program, ARGUS Unit Sales, is used for projects such as condominiums and subdivision lots that will be sold.

The three new development revenue/expense items are:

- Land/Acquisition Costs
- Hard/Construction Costs
- Soft/Development Costs

These items have the same fields and capabilities as any other any other property level revenues or expenses.

Land/Acquisition Costs: This item is used for the cost of the land area or property acquisition and associated acquisition costs. These may include items such as options monies and environmental assessment.

Hard/Construction Costs: Hard/Construction Costs are construction costs for the project. They include items such as building construction materials, water lines, sewer lines, electrical systems, plumbing, elevators, drainage, grading and road building.

Soft/Development Costs: These costs include items such as building permits, surveying fees, architectural fee, engineering fee, legal fee, insurance, construction management fees, developer’s fee and bonds.

These three items can be used for several types of projects. Typically they could be used for building expansion, “finishing-out” part of a building and constructing speculative buildings. An analysis using these items can include just the length of the project and the costs can be simple amounts spread over the construction of the project. Or, the analysis can include later revenue generating time periods, such as the construction of a shopping center and the resulting 10th year of revenue from rent.

Note: Use a detailed amount for a development cost that is a one-time only cost in an analysis that goes beyond the time to construct or renovate the building. The one-time cost can be input in a particular month, or in a total field to be spread throughout a year.

Example

A city economic development corporation is expanding an industrial park and is preparing a site for a new building. The non-profit corporation will not sell the property, but lease it on a long term basis.

The existing area of the park is 150 acres, and the new portion is 30 acres. The land will cost $1.2 million and will need fill dirt, extensions to the main water and sewer lines, drainage improvements, an extension of an existing road and an archaeological evaluation.

Other costs will include building permits, environmental permits and surveying fees.
Tenant A's pro rata share of the occupied space is 100 percent, as Tenant A is the only tenant in the building in Year 1. For the completely variable expense, X, Tenant A will pay his pro rata share of the occupied portion of the building, or 100 percent of the expense.

For the completely fixed expense, Z, Tenant A pays his pro rata share of the building, 10 percent. Expense Y, being 50 percent fixed, is a mixture of these two methods.

Expense Y:

Fixed portion: 50 percent x $1.00 = $0.50 /SqFt, or $5,000 total. Tenant A will pay 10 percent of this, $500.

Variable portion: $0.50 x 10 percent occupancy = $0.05 /SqFt, or $500. Tenant A will pay their share of the occupied building, 100 percent, or $500. Tenant A total reimbursement for expense Y = $1,000.

Year 2 - Occupancy 50 Percent

<table>
<thead>
<tr>
<th>Actual</th>
<th>Adjusted for Tenant A</th>
<th>Total Building</th>
<th>Total Tenant A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item</td>
<td>Expense Reimbursement</td>
<td>Reimbursement</td>
<td>Expense Reimbursement</td>
</tr>
<tr>
<td>X</td>
<td>0.50 1.00 1.00</td>
<td>5,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Y</td>
<td>0.75 1.00 1.00</td>
<td>7,500</td>
<td>1,000</td>
</tr>
<tr>
<td>Z</td>
<td>1.00 1.00 1.00</td>
<td>10,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Total</td>
<td>2.25 3.00 3.00</td>
<td>22,500</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Tenant A's pro rata share of the occupied space is 20 percent, as Tenant A is occupying 1,000 of the 5,000 occupied square feet in the building in Year 2. For the completely variable expense, X, Tenant A will pay his pro rata share of the occupied portion of the building, or 20 percent of the expense. For the completely fixed expense, Z, Tenant A pays his pro rata share of the building, 10 percent. Expense Y, being 50 percent fixed, is a mixture of these two methods.

Year 3 - Occupancy 100 Percent

<table>
<thead>
<tr>
<th>Actual</th>
<th>Adjusted for Tenant A</th>
<th>Total Building</th>
<th>Total Tenant A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item</td>
<td>Expense Reimbursement</td>
<td>Reimbursement</td>
<td>Expense Reimbursement</td>
</tr>
<tr>
<td>X</td>
<td>1.00 1.00 1.00</td>
<td>10,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Y</td>
<td>1.00 1.00 1.00</td>
<td>10,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Z</td>
<td>1.00 1.00 1.00</td>
<td>10,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Total</td>
<td>3.00 3.00 3.00</td>
<td>30,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Tenant A's pro rata share of the occupied space is 10 percent, as Tenant A is occupying 1,000 of the 10,000 occupied square feet in the building in Year 3.

For the completely variable expense, X, Tenant A will pay his pro rata share of the occupied portion of the building, or 10 percent of the expense. For the completely fixed expense, Z, Tenant A pays his pro rata share of the building, 10 percent.

When the results from this example are compared to the results from the example without a Gross Up for Reimbursement percentage, two important points should be noted:

For an expense that is 100 percent fixed, there is no difference in the resulting reimbursement between the two methods.
When the occupancy of the building approaches 100 percent, the resulting reimbursement differences between not grossing up reimbursable operating expenses and using a Gross Up for Reimbursement percentage become very small.

Method To Use

The method being used should be stated in the leases of the property. The previous examples illustrate the differences in reimbursements with a net lease. If a Gross up for Reimbursement percentage is not used with net leases, reimbursements will be lower if the Percent Fixed for an item and the physical occupancy of the property are both less than 100 percent. The net effect is that the landlord will typically recover less. If reimbursements are calculated over base year expense stops, the difference between using and not using a Gross up for Reimbursement percentage depends upon the interaction of expense growth rates. Percent Fixed entries, and changes in physical occupancy.

Example

The following pages contain examples of completed property level expenses screens.

This window is the Reimbursable Operating Expense window. There are 5 expenses entered. The first expense, maintenance, is $65,000 per year and will inflate at the Reimbursable Expense Inflation rate or the General Inflation rate. Property taxes and heating oil use the detail method of input.

The administrative and management fee expenses use the sub-lines method of input. Expense items 2, 3, 4, and 5 are described on the following pages.

The following window illustrates a property tax expense which is paid every February and August. The expense totals $50,000 in the first year of the analysis and is subject to annual increases based on the Reimbursable Expense Inflation rate or the General Inflation rate of 5 percent.

The Inflated Total reflects the application of Reimbursable Expense Inflation rate or the General Inflation in subsequent yearly totals. Monthly amounts in the corresponding property reports will also reflect increases based on Reimbursable Expense Inflation rate or the General Inflation in subsequent years.

The following window illustrates the entry of an expense which varies by month. In this example, heating oil expense is highest during the winter months and lowest during the summer months.

Heating oil expense totals $92,555 during the first year of the analysis. The Inflated Total reflects 4 percent annual inflation in subsequent yearly totals. Monthly amounts in the corresponding property reports will also reflect 4 percent annual inflation in subsequent years.

The following window illustrates the entry of an expense which utilizes sub-line entries. In this example, Administrative is the major account heading. Administrative, however, is comprised of four separate sub-lines: postage, audit, legal and miscellaneous.

The following windows illustrate the entry of an expense which initially is a flat dollar amount and then converts to a percentage of Effective Gross Revenue. Management fee is comprised of two sub-lines. The first sub-line utilizes detailed input in a dollar amount format. The first sub-line will total $15,000 during the first two years of the analysis and $0 thereafter. The second sub-line also utilizes detailed input, but it specifies a percentage format. The second sub-line will total 4 percent of Effective Gross Revenue beginning in Year 3 of the analysis. See the following two pages for the remainder of this expense input.
9. **Undistributed Expenses & Miscellaneous Revenues**

The Undistributed Operating Expenses window and Miscellaneous Revenues window describe those items that are not departmental in nature and are not defined in the Departmental Revenue and Expense section. If there are no Non-Departmental Expenses or Revenues for a particular analysis, entry in these windows is not necessary.

Examples of Non-Departmental expenses are real estate taxes, casualty and liability insurance, franchise fees, management fees, and general administrative expenses.

**Difference In Data Entry From Other Models**
The difference in Hotel/Motel models and the other types of models in the property level expense and revenue windows is the Unit of Measures allowed for these items. The Hotel/Motel model has Unit of Measures that are unique to this property type. The Hotel/Motel Unit of Measures are listed below:

- Dollars Per Room
- Percent of Room Revenue
- Percent of Total Gross Revenue
- Dollar Amount
- Percent of Line

The dollar amounts can be expressed as an amount per year, month, quarter, night, or week.

ARGUS will always use 365 days or 52 weeks in a year. The percentage fixed of an item will be tied to the overall room occupancy, just as in an office property the percentage fixed of an expense is tied to the overall occupancy of a property.

**Fixed Expenses & Costs, Capital Expenditures & Reserves**

The data entry for these sections is the same in the Hotel/Motel properties as it is in the Office, Retail, Apartment, and General properties, except for changes noted in the previous section. Please see the Property Level Windows help topic for more information.

General Vacancy and Credit Loss are not feasible in the hotel properties. These adjustments are made in the room Occupancy field on the Room Description window.

**Yield & Financing Data**

The Property Purchase & Resale window, Debt Financing and Present Value Discounting window are the same as in the office and retail models. The Property Purchase & Resale window in the hotel/motel model does not allow resale options that involve adjustments that are associated with tenants.

The Options not available for Hotel/Motel Properties are:

- CAP Cash Flow After TIs and LCs
- CAP CF Adjusted for Average TIs and LCs
- CAP NOI using Rate adjusted for age

**Room Type/Description**

Before a hotel can have any room revenues the rooms must be described. A hotel can have a maximum of 99 room types. At least one room type must be used if room revenues are desired.

**Operations**

At the bottom of the Room Description window there are seven buttons: Close, Insert, Copy, Delete, Move, Detail and Help.

Close will exit the window and save any changes that have been made. Insert allows the user to create a new room type. This new tenant will be placed below the current active tenant or at the bottom of the list if no line is active. The Copy function can duplicate any room type and insert it directly beneath the original. This function is useful when inputting several similar room types. Field by field editing allows the user to quickly change pertinent information.
Delete will remove the active room type. Only one room type can be removed at a time. As a precautionary measure the program will prompt the user to confirm the Delete command. The Move function enables the user to rearrange any line items into the desired order. Click on the line you want to move, click on the Move button, then click where you would like the line to be moved.

The Detail function is applicable to a method of input available in the Quoted Rate. Achieved Rate and Room Occupancy fields.

This operation is only available when the cursor is in one of these fields.

Please refer to the discussion of these fields independently for more information on the use of the Detail button.

**Description**

To describe the room type, enter a description in the Room Description field. This description can be up to 30 characters long.

**Example**

The following are some possible examples of room descriptions:

**Total Available**

Enter the total number of rooms, room nights, or the percentage of total rooms in the hotel that make up this unit type.

If you are not using multiple room types, enter the total number of rooms in the hotel.

**Example**

The following are some possible entries for the Total Available field.

**Unit Type**

The Unit Type field describes the number entered in the previous field. This field is a multiple choice field; use the drop down menu to display selections, and click on the desired selection. This field has the following three options:

- Rooms
- Room Nights
- Percent of Total Rooms

**Example**

The following are some possible entries for the Total Available and Unit Type fields.

This example illustrates three possible entry methods for this field. If this hotel has 75 rooms, these three inputs would yield identical results. Entry #1 describes the number of available rooms. Entry #2 describes the total number of room nights available \(34 \times 365 = 12,410\). Entry #3 describes the percentage of available or unoccupied rooms \(34 / 75 = .45\).

**Quoted Rate**

The quoted rate is the desired rate for this room type. This field must have input. This rate will inflate at the Room Revenue rate or the General Inflation rate. To change the rate or the inflation amounts, use the drop down menu or click on Detail to access the detail window. The detail window will allow the rate to change for every month of the analysis and Room Revenue inflation rate or the General Inflation rate to be overridden.
Working With Detail

To edit the detailed information, choose the Detail item from the Quoted Rate drop down list. A detail can also be accessed by clicking on the Detail button while the cursor is in the Quoted Rate field.

This will display the detail information and allow editing. The Quoted Rate can be input with the following Units of Measure:

- Currency per Year
- Currency per Month
- Currency per Night
- Currency per Week

The "Currency" is usually dollars. If the detail window is used for input, the amounts entered will be used as rates for the month that it is input. Note that the rate cannot change more often than monthly. If the quoted rate is unknown, input the rate that is received.

Example
The following are some possible entries for the Quoted Rate field.

This example illustrates the four possible entry methods for this field. Note that all four inputs result in the same value. (100 $/Night x 365 Nights = 36,500 $/Year, 36500 $/Year / 52 weeks = 701.92 $/week, 36500 $/Year / 12 Months = 3041.6 $/Month.)

The detail window allows the rate to change monthly or yearly for the entire analysis. All the input in the detail window must use the same Unit of Measure.

Achieved Rate

The achieved rate is the amount actually received for this room type. This field can be left blank to apply the quoted rate as the achieved rate. The achieved rate will inflate at the Room Revenue rate or the General Inflation rate. To change the rate or the inflation amounts, use the drop down menu or click on Detail to access the detail window. This window will allow the rate to change every month of the analysis.

This window will also allow the Room Revenue rate or the General Inflation rate to be overridden. All the input in the detail window must use the same Unit of Measure. The Achieved Rate can be input with the following Units of Measure:

- Dollars per Year
- Dollars per Month
- Dollars per Night
- Dollars per Week
- Percent of Quoted Rate
- Percent Discounted from Quoted Rate

If the detail window is used for input, the rate cannot change more often than monthly.

Example
The following are some possible entries for the Achieved Rate field.

This example illustrates the six possible entry methods for this field. Note that for a Quoted Rate of $100/Night, all six inputs result in the same value.
(75 $/Night x 365 = 27,375 $/Year, 27,375 $/Year / 52 weeks = 526.44 $/week, 27,375 $/Year / 12 Months = 2,281.25 $/Months, 75 $/Night Achieved Rate / 100 $/Night Quoted Rate = .75 of Quote, 1 - .75 of Quoted = .25 Discount)

**Room Occupancy**

The Room Occupancy is the occupancy of this unit type. This field can be left blank. If this field is left blank 100 percent occupancy is assumed. Enter the occupancy as a stabilized number, or click on Detail to change the occupancy on a monthly basis.

**Example**

The following are some possible entries for the Room Occupancy field.

The first entry indicates 50 percent of the rooms are occupied. The second entry indicates the occupancy varies monthly and/or yearly. The third entry indicates 75 percent of the rooms are occupied.

If you enter an achieved rate which reflects current occupancy, you should leave the Room Occupancy field blank. If you enter a percent of available rooms in the Total Available field, you should leave the Room Occupancy field blank.

**Using the Room Description Window**

The Room Description window offers a tremendous amount of flexibility. The same data can be entered in many ways and still yield the same results. Often the analyst may not have all the necessary information to fill out the window completely. This window was designed to accept either a maximum or a bare minimum of information available. The following example illustrates the many ways that the data can be input to yield the same result.

**Example**

There are 100 rooms in this hotel. The hotel quotes a rate of $100 per room per night. With discounts the hotel collects an average of $80 per room per night for occupied rooms. The hotel averages 70 percent occupancy. The first way to enter this is to use all the data. This entry is shown below:

Another way to enter the data is to input the Achieved Rate as the Quoted Rate. The benefit of this is that it reduces the amount of input required. This entry is shown below:

To further simplify data input, the number of occupied rooms can be input as the total available. The benefit of this is that it reduces the amount of input required because the occupancy field defaults to 100 percent. This entry is shown below:

Note that all of these examples produce $2,044,000 per year in revenue. The purpose of these examples is to show that even with minimal data, a model can be input into ARGUS. To facilitate a better audit trail we recommend that all available data be input.

**Room Expenses**

For information about the buttons at the bottom of the Hotel Room Expenses, see the Operations section earlier in this help topic.

**Name**

ARGUS labels may be up to 30 characters long. These labels will be printed on the calculated reports exactly as entered. When printed, these labels are automatically indented 2 characters from
the left. The label is saved as typed, but the window display will truncate the label and only display the first 15 characters.

**Account Code**

Account codes are not available for the Hotel/Motel Room Expenses because all line items are grouped together into one cash flow line.

**Amount**

The Amount column refers to entering the base year amount of the item as a single number, or using a specific data entry method for entering detail. The data entry options of each item may be one of the following:

- **Amount:** An amount entered may be expressed in the units detailed in the following Units section.
- **Detail:** The detail input method allows you to change the expense amount in every month or year of the analysis.

**Detailed Input**

To access the detailed input sub window use the drop down menu to display Detail while in the Amount field, or click on Detail. This will display the detailed input window.

**Units**

This is a multiple choice field. It determines the units for the Amount field:

- Dollar Amount
- Dollars per room
- A percent of room revenue
- A percent of total gross revenue
- Percent of Line

**Frequency**

The frequency field controls how often the dollar amounts entered in the Amount field are applied. For amounts that are percentages or details, this field is bypassed. This is a multiple choice field. Use the drop down menu and click on the desired selection. This field has the following selections:

- Year
- Month
- Quarter
- Night
- Week

**Percent Fixed**

For line items calculated with Dollar amount as the units, the Percent Fixed column will separate the item into fixed and variable cost components in order to adjust for occupancy.

Should a percent fixed of less than 100 be entered, the amount of the item is separated into fixed and variable amounts. The variable amount is adjusted by the average occupancy level for the period. The higher the property’s occupancy, the less sensitive the item will be to the percentage fixed. If the property has a high level of occupancy, the Percent Fixed entered for the items will change the resulting amounts very little. If the property has a low occupancy, the amount entered for Percent Fixed will have a greater effect on the analysis.
Note: If an item is entered with less than 100 percent fixed, the first year amount entered should represent what the item would be if the property were 100 percent occupied.

**Inflation Override**

All amounts entered that are not a percentage amount will be grown by the More Inflation rate for the section, the General Inflation rate or a specific inflation rate entered here. Items entered on the detail windows will also be inflated. The timing of the inflation is determined by the inflation method chosen on the Timing window.

To inflate the item by the section inflation rate or the general rate, leave the Inflation Override field blank. When this field is blank, the item will inflate at the overall rate. To override the section rate or the General Inflation rate, enter a specific rate in the Inflation Override column. If the inflation for the item is changing, click on Detail for detailed inflation. Detailed inflation allows the inflation to change every year of the analysis. The Inflation Override field will be bypassed if the detailed method of input is used.

Specific inflation rates may also be affected if the property is component of a portfolio scenario and the rates have been changed at the portfolio level.

**Reference Accounts**

Reference Accounts are not available for Hotel/Motel Room Expenses because all line items are grouped together into one cash flow line.

**Departmental Revenues & Expenses**

These windows function in the same manner as the other revenue and expense windows described earlier in this help topic. Please refer to these sections for more information. The difference between these windows and the windows described earlier in the help topic are the Labels and the Unit of Measures.

These two windows are preset for the following items:

- Food
- Beverage
- Telephone
- Other

If one of these items is not desired, place the cursor in a field in the item and click on the Delete key. To create more line items, click on the Insert key. To copy a line item, place the cursor in one of its fields and click on the Copy button. To move a line item, place the cursor in one of its fields, click on the Move button and then click at the desired new location. The revenue window can use the following Units of Measure:

- Dollar Amount
- Dollars per Room
- Percent of Room Revenue
- Percent of Line

The Departmental Expenses window can use the following Units of Measure:

- Percent of Total Gross Revenue
Dollar Amount
Dollars per Room
Percent of Room Revenue
Percent of Departmental Revenue
Percent of Line

When the Unit of Measure is selected as Percent of Departmental Revenue, the expense is a percent of the corresponding revenue only, not the total for the Departmental Revenue window. The corresponding revenue item has the same name as the expense. If the labels have been changed, the corresponding revenue item is located in the same position on the Departmental Revenue window as the expense is positioned on the Departmental Expense window. (The third expense will take a percentage of the third revenue item.)
10. Present Value Discounting

The Present Value Discounting section of ARGUS performs a present value analysis of the cash flow and the net proceeds from resale. This section allows for the entry of high and low discount rates and an increment to calculate within the range of discount rates. These rates may be calculated on the cash flow before or after debt.

Unleveraged Discount Rate

The Unleveraged Discount Rate will be used to calculate the present value of the Cash Flow before Debt Service. This would be the Net Operating Income, less Leasing and Capital Costs. The discounting of the resale proceeds will take place before any debt retirement or penalties are deducted.

Low Discount Rate

The Low Discount Rate is the lowest rate in a range of discount rates. The Low Discount Rate may be entered as a percent value or a decimal figure. Leave this field blank if an Unleveraged Present Value is not needed.

Example

The above entry is reflects a rate of 8 percent. The entry below reflects a rate of 10.5 percent.

If this section is left blank, the Unleveraged Present Value will use the same interest rates as the Leveraged Present Value. If the Leveraged Present Value section is also left blank, no present value analysis will be generated.
High Discount Rate

The High Discount Rate is the highest rate in a range of discount rates. The High Discount Rate may be entered as a percent value or a decimal figure. Leave this field blank if a present value range is not needed. With this field blank, only the Low Discount Rate will be used to calculate the present value.

Increment

The Increment is the value by which the discount rate will increase within the indicated range. The discount rate range used to calculate the present value will begin with the Low Discount Rate, then add the Increment to the Low Discount Rate to calculate another set of present values. This Increment will continue to increase the discount rate, until the discount rate is greater than or equal to the High Discount Rate.

Example

The following window input will result in five present values for the property. There will be a present value calculated for discount rates of 10.00 percent, 10.25 percent, 10.50 percent, 10.75 percent, and 11.00 percent.

Leveraged Discount Rate

The Leveraged Discount Rate will be used to calculate the present value of the Cash Flow After Debt Service. The discounting of the resale proceeds will take place after any debt retirement or penalties are deducted.

Low Discount Rate

The Low Discount Rate is the lowest rate in a range of discount rates. The Low Discount Rate may be entered as a percent value or a decimal figure. Leave this field blank if a Leveraged Present Value is not needed.

If this section is left blank, the Leveraged Present Value will use the same discount rates as the Unleveraged Present Value. If the Unleveraged Present Value section is also left blank, there will be no present value analysis.

High Discount Rate

The High Discount Rate is the highest rate in a range of discount rates. The High Discount Rate may be entered as a percent value or a decimal figure. Leave this field blank if a present value range is not needed. With this field blank, only the Low Discount Rate will be used to calculate the Leveraged Present Value.

Increment

The Increment is the value by which the discount rate will increase within the indicated range. The present value range will begin with the Low Discount Rate, then add the Increment to the Low Discount Rate to calculate another set of present values. This Increment will continue to increase the discount rate, until the discount rate is greater than or equal to the High Discount Rate.

Discounting Methods

Annually (Endpoint on Cash Flow and Resale)
Endpoint discounting will discount all cash flows from the end of the year they are received to the analysis start date using the number of months left in the year. Year one's cash flow will be discounted to the start of the analysis. A short first year is discounted by adjusting for the number of months in the first year. The resale proceeds are discounted back to the analysis start date from the end of the holding period.

Anually (Midpoint on Cash Flow and Resale)

Midpoint discounting will discount all cash flows from the middle of the year received to the analysis start date. Year one's cash flow will be discounted six months if the first year is a full 12 months. A short first year is discounted by adjusting for the number of months in that short year. The resale proceeds are discounted back to the analysis start date from the end of the holding period.

Anually (Midpoint on CF/Endpoint on Resale)

This method uses midpoint discounting for the cash flow from the middle of the year received to the analysis start date. Year one's cash flow will be discounted six months if the first year is a full 12 months. A short first year is discounted by adjusting for the number of months in that short year. The resale proceeds are discounted back to the analysis start date from the end of the holding period.

Quarterly

Quarterly discounting will discount all cash flows from the end of the quarter they are received to the analysis start date. Quarter one's cash flow will be discounted one quarter, or three months, if the first quarter is not a partial quarter. A short first quarter is discounted by adjusting for the number of months in that short quarter. The resale proceeds are discounted back to the analysis start date from the end of the resale quarter.

Monthly

Monthly discounting will discount all cash flows from the end of the month they are received to the analysis start date. Month one's cash flow will be discounted one month. The resale proceeds are discounted back to the analysis start date from the end of the resale month.

Selecting The Discount Method

There are five methods available to calculate the present value of a property:

- Endpoint on Cash Flow & Resale
- Midpoint on Cash Flow & Resale
- Midpoint on Cash Flow and Endpoint on Resale
- Quarterly
- Monthly

This is a multiple choice field. Use the drop down menu to display the available choices. Use the <Up Arrow> or <Down Arrow> keys to scroll through the list of available choices. Press <Enter> or highlight the appropriate choice and press OK to accept the displayed choice.

The name of the method used will be printed at the top of all Prospective Present Value Summary reports.

Present Value As Of

The Present Value As Of allows the present value of the property to be determined at any point in the future. Using this section of input will not affect any of the standard present value or resale results. A new resale value and present value amount will be determined and reported on the
"Present Value As Of" report. The Secondary Discount Period is optional. Leave the Start Date blank to bypass this section. This feature is not available in portfolio properties.

Start Date

Enter the Start Date as month and year (MM/YY) or as a relative date. The relative date would be the number of months from the start of the analysis. The Start Date of the Secondary Discount Period must be within the analysis discount period.

End Date

The End Date is determined by the input in the Start Date and the Length fields. This field is informational and cannot be edited by the user.

Length

Enter the Length of the Secondary Discount Period as a number of years. Fractional years are not permitted. Entering the Length will determine and display the End Date. The Length together with the length of the Analysis Discount Period length cannot exceed 40 years.

Reporting

There are five different styles of Prospective Present Value reports. The report style that will be printed or viewed from the Report menu can be selected from the Property Report Format Settings window.

Calculation Note

ARGUS does not adjust the discount rate for partial discounting periods. Instead, ARGUS adjusts the amount of time that is used to discount the future value. This can best be illustrated by using the following simple example. An annual rate of 12 percent is not the same as a 1 percent rate used every month of the year (12 times.) By adjusting the discount rate in this manner, the present value of the future cash flows is understated since there is no compounding. To account for this, ARGUS adjusts the time period that is used to discount the future value, and an accurate present value is the result. The formula ARGUS uses is given below:

\[
PV = \text{Present value of the cash flow} \\
FV = \text{Future value of the cash flow} \\
d = \text{Annual discount rate} \\
m = \text{Number of months in discounting period} \\
n = \text{Number of months in a year}
\]
11. Property Purchase & Resale

The Property Purchase and Resale window is used to determine the reversion value. The entries in this section determine the resale value and many of the financial ratios calculated by ARGUS.

Initial Purchase Price

The Initial Purchase Price is optional. Normally, if this field is left blank, no Internal Rate of Return (IRR) can be determined. However, if the Calculation Switch, Add Land Cost from month 1 to purchase price to calculate IRR, is checked and there is a Land/Acquisition Cost for the first month of the analysis, IRR can be determined without the use of the Initial Purchase Price.

Enter the Initial Purchase Price of the property as a dollar amount. The K and M conventions can be used for thousands and millions, respectively.

Data must be entered into the Initial Purchase Price field if the resale is to be calculated with the third method, Appreciate Initial Purchase Price. The value entered in this field does not have to be the initial price. If the property was purchased in the past, or the purchase price is unknown, the amount entered in this field could be any value that accurately represents the current value of the property or the value of the funds currently invested in the property.

Option for Resale Calculation

There are seven methods used to calculate the resale value of a property. These methods are:

- No Resale Calculation
- Directly Input Final Year Resale Amount
- Appreciate Purchase Price
- Capitalize Net Operating Income
- Capitalize Cash Flow After Tenant Improvements and Leasing Commissions
- Capitalize Cash Flow Adjusted for Average Tenant Improvements and Leasing Commissions
Net Operating Income
- Tenant Improvements
- Leasing Commissions
- Capital Expenditures
= Value Used for Resale Calculation
Value Used for Resale Calculation / Cap Rate = Resale Value

This method includes all revenue and Reimbursable and Non-Reimbursable Operating Expenses. It also subtracts the resale calculation year's Tenant Improvements, Leasing Commissions and Capital Expenditures and Reserves before calculating the resale value. This method does not include a deduction for Debt Service.

When this method is selected, the cursor will move to the Cap Rate field. This field is described in the Cap Rate and Growth Rate section later in this chapter.

Capitalize Cash Flow Adjusted for Average Tenant Improvements and Leasing Commissions

This method will determine the resale value by dividing the Net Operating Income, less average Tenant Improvements and Leasing Commissions and less Capital Expenditures & Reserves, by the Cap Rate.

Average leasing costs are calculated by discounting all Tenant Improvements and Leasing Commissions to the end of the first year of the analysis. The first year's leasing costs are not discounted. The discount rate used is the rate used to inflate the costs. The total discounted leasing costs are then divided by the number of years in the analysis to determine an average leasing cost. This average is inflated back to the necessary resale year by the inflation rate, and deducted from Net Operating Income. Capital Expenditures are then deducted. The resale is calculated by dividing the Cap Rate into this value.

Total Discounted Leasing Cost / Number of Years of Analysis = Average Leasing Cost

Net Operating Income
- Inflated Average Leasing Cost
- Capital Expenditures
= Value Used for Resale Calculation

Value Used for Resale Calculation / Cap Rate = Resale Value

This method includes all revenue and Reimbursable and Non-Reimbursable Operating Expenses. It also includes a deduction for Capital Expenditures. By subtracting the average Leasing Cost from the resale calculation, the property's value is not penalized due to a high number of rollovers in the resale year. This method does not include a deduction for Debt Service.

When this method is selected, the cursor will move to the Cap Rate field. This field is described in the Cap Rate and Growth Rate section later in this chapter.

Capitalize Net Operating Income using a Cap Rate Adjusted for Effective Property Age

This method requires input describing the building's condition. When this input is completed, ARGUS will modify the Cap Rate to reflect the condition of building upon resale. This method will also produce a special version of the property resale calculation report.
This method is based on the article "Terminal Capitalization Rates and Reasonableness" written by D. Richard Wincott, MAI and published in the April 1991 issue of The Appraisal Journal.

The formulas used by ARGUS are provided by this article. The "standard industry tables" referenced below are published by the Marshall Valuation Service.

When this method is selected, the Adjust button will be available. Click on this button and the Cap Rate Adjustment for Property Age window will be displayed. When the input is finished, ARGUS will calculate the modified Cap Rate.

**Stabilized Market Vacancy Rate**

This rate is the single average market vacancy for the entire holding period. This vacancy rate may be different than the value entered on the General Vacancy window. This rate will modify the resale year Net Operating Income prior to capitalization. By using this resale method, the resale year Net Operating Income will automatically be adjusted to stabilized occupancy prior to capitalization.

**Current Overall Capitalization Rate**

This is the going-in capitalization rate. Enter the cap rate which would be used if the property were sold in the first fiscal year of the analysis. This rate should be adjusted upward to reflect the lower value of an older building. The amount of this adjustment depends on the values entered in the following fields.

**Typical Economic Life Expectancy**

This is the age that the property will be when it loses its economic value. Enter the number of years equal to or greater than 2 and less than or equal to 200.

**Current Effective Age**

This value must be less than the Typical Economic Life Expectancy. Enter the current age of this property as a number greater than or equal to 1 and less than or equal to 199. The input must be at least one year less than the figure entered in the Typical Economic Life Expectancy field.

**Current Physical Deterioration Incurable**

Referenced from standard industry tables, enter the percentage of the property's total incurable deterioration that is applicable as of the first fiscal year of the analysis.

**Future Physical Deterioration Incurable**

Referenced from standard industry tables, enter the percentage of the property's total deterioration incurable that will be applicable as of the CAP year of the analysis.

**Total Potential Physical Deterioration Incurable**

Referenced from standard industry tables, enter the percentage of the property's total, or maximum, deterioration incurable, as of the last year of the property's economic life.

**Land To Building Value Ratio**

Enter the percentage of the total value of this property that is represented by the land value. This value must be between 0 and 100.
When all prompts are filled, several values are calculated and presented on the bottom of this window. They are:

- Land Capitalization Rate
- Building Capitalization Rate
- Terminal Capitalization Rate

The land and building capitalization rates are not used by ARGUS for any calculations, but appear for the user to check for input errors and validate the results.

If any input value is changed on this window, it will result in an immediate recalculation of the three capitalization rates.

When this window is exited, the Property Purchase and Resale Window will be displayed, with the calculated Terminal Capitalization Rate automatically input on the Cap Rate field.

The cursor will bypass the Calculate Resale for All Years field and automatically set this prompt to No. Because this calculation of the Cap Rate is based on values derived from tables representing only one future year, not all years, resale calculation for all years is not permitted when using this resale method.

**Reversion Calculation Method And Report**

By using the Cap Rate Adjustment for Property Age window described above, a modified reversion calculation will be printed. When the Prospective Property Resale Report is selected on the Property window from the Reports Menu, an extended resale report is provided.

1. ARGUS will take all vacant space in the resale year, consisting of space on the absorption window or months between leases, and assume that it is leased at the then applicable market rate, as defined by the Market Leasing Assumptions that is assigned to that space. A fully occupied Gross Potential Revenue is then calculated.
2. The Stabilized Market Vacancy Rate entered on the Cap Rate Adjusted for Property Age sub-window is applied and subtracted from to calculate a new Effective Gross Revenue.
3. The Reimbursable and Non-Reimbursable Operating Expenses are grossed up to 100 percent. If any expense is entered with a Percent Fixed amount of less than 100, the expense will be grossed up to reflect full occupancy. The Operating Expenses are then subtracted from the adjusted Effective Gross Revenue to arrive at an adjusted Net Operating Income.
4. The Net Operating Income is then capitalized using the Terminal Capitalization Rate as calculated from the Cap Rate Adjustment window to arrive at a Value Indication.
5. If the Absorption and Turnover Vacancy in the resale year is greater than the Stabilized Market Vacancy, a direct deduction of that difference is taken. If the Absorption and Turnover Vacancy is less than the Stabilized Market Vacancy, no deduction is taken.
6. Tenant improvements and leasing commissions that occur in the resale year are also directly deducted from the Indicated Value to get an Estimated Sales Price.
7. Sales commissions are deducted to arrive at Net Sales Proceeds, which is then rounded to the third digit from the left and is presented as the Reversion Estimate.

If the modified resale calculation option is desired, but an adjusted Cap Rate is not desired, the values on the Cap Rate Adjustment for Property Age window may be adjusted so that the calculated Terminal Capitalization Rate at the bottom of the window is equal to the Current Overall Capitalization Rate at the top of the window.

See Cap Rate Adjustment for Property Age at the end of this chapter for more information on this method.
Capitalize Net Operating Income using a Cap Rate Adjusted for Effective Property Age

To select one of the methods, use the drop down menu and click on the desired selection.

No Resale Calculation

This method should be selected if no resale amount is desired. This selection will allow you to exit the window with no further input required.

Directly Input Final Year Resale Amount

This method allows the input of a specific resale value. After selecting this method, click on the Direct Resale Amount field. Enter the Amount, in total dollars, for which this property will be sold at the end of the analysis. The K and M conventions may be used. The amount entered will not be inflated. If this method is used, the property can be sold in the final analysis year only.

Example

The two entries for the Amount field are both selling the property for $1,000,000 in the final year of the analysis.

Appreciate Purchase Price

This method will increase the Initial Purchase Price by a Growth Rate every year of the analysis. The Initial Purchase Price, Growth Rate and the year of resale, determine the value of the property. Partial years will inflate by the full growth rate. After selecting this method, click on the Growth Rate box. The field is described in the Cap Rate and Growth Rate section later in this chapter. The Growth Rate field tag will appear once this selection is chosen.

\[ N = \text{Number of Years Before Resale (Rounded up to a whole number of years)} \]

\[ \text{Inflation Factor} = (1 + \text{Growth Rate})^N \]

Initial Purchase Price
\[ \times \text{Inflation Factor} \]
\[ = \text{Resale Amount} \]

Capitalize Net Operating Income

This method will determine the resale value by dividing the Net Operating Income (NOI) by the Cap Rate.

\[ \text{Net Operating Income} / \text{Cap Rate} = \text{Resale Value} \]

The Net Operating Income includes all revenue and Reimbursable and Non-Reimbursable Operating Expenses. The Net Operating Income does not include a deduction for Debt Service, Capital Expenditures, or Tenant Improvements and Leasing Commissions.

When this method is selected, the Cap Rate field will be activated. This field is described in the Cap Rate and Growth Rate section later in this chapter.

Capitalize Cash Flow After Tenant Improvements and Leasing Commissions

This method will determine the resale value by dividing the Cash Flow Before Debt by the Cap Rate. The Cash Flow Before Debt is the Net Operating Income less Tenant Improvements, Leasing Commissions, and Capital Expenditures.
Cap and Growth Rate

If resale methods 4, 5 or 6 are selected, the Cap Rate field will be required. Resale method 1 will not use this field. Resale method 7 will calculate the value for this field and automatically input the value for the user. Using resale method 3 will change the Cap Rate field name to Growth Rate.

If methods 4, 5 or 6 are selected, enter the terminal, or going out cap rate, by which the line item of income, selected by the resale method, will be capitalized. This will determine the resale amount. If method 2 is selected, enter the appreciation, or growth rate, by which the Initial Purchase Price should grow to determine the amount for which the property will be sold.

Example

The above properties use a cap or growth rate of 10 percent.

Resale Commission As Percent Of Resale Price

The commissions will be deducted from the Gross Proceeds from Sale. Debt retirement and penalties will also be deducted from the Gross Proceeds from Sale. The remaining amount from the sale is used to calculate the present value of the property resale.

Enter the percentage of gross resale cost to be deducted for commissions. Dollar amounts may not be entered.

Example

Gross Proceeds from Resale $1,000,000

The two entries above, with the Gross Proceeds from Resale of $1,000,000, will result in a Commission of $50,000.

Example

This example uses a 10 percent growth rate. The length of the analysis is four and one-half years.

Resale Amount Equation

\[ N = \text{Number of Years Before Resale} = 5 \]

(Rounded up to non-decimal number of years)

\[ \text{Inflation Factor} = (1 + \text{Growth Rate})^N = (1 + .10)^5 \]

\[ \text{Initial Purchase Price} = \text{Resale Amount} = 1,000,000 \times 1.61051 = 1,610,510 \]

If the first year has only one month, ARGUS will still grow the Initial Purchase Price by the full Growth Rate.

The following examples use the cash flow shown below. This cash flow is from a five year analysis. The sixth year would be calculated and used if the resale calculation was based on the following year's cash flow. Leasing Cost is the sum of Tenant Improvements and Leasing Commissions.

<table>
<thead>
<tr>
<th>Year</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Operating Income</td>
<td>100,000</td>
<td>110,000</td>
<td>120,000</td>
<td>130,000</td>
<td>140,000</td>
</tr>
<tr>
<td>Leasing Cost</td>
<td>10,000</td>
<td>15,000</td>
<td>15,000</td>
<td>20,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>

The resale calculations will be shown for year 5 only.

Example
This example uses the capitalize net operating income option.

Net Operating Income = 140,000
/ Cap Rate = .10
= Resale Value = 1,400,000

Example
This example uses the capitalize net operating income option.

Net Operating Income = 150,000
/ Cap Rate = .10
= Resale Value = 1,500,500

The Net Operating Income is from year 6. If resale is based on the year following resale, the cash flow will print that year. In this example, the analysis was five years long, with the sixth year added for the resale calculation.

Example

This example uses capitalize cash flows after tenant improvements and leasing commissions option.

Net Operating Income = 140,000
- Leasing Costs = 40,000
- Capital Expenditures & Reserves = 0
= Value Used for Resale Calculation = 100,000
Value Used for Resale Calculation = 100,000
/ Cap Rate = .10
= Resale Value = 1,000,000

Example

This example uses capitalize cash flows after tenant improvements and leasing commissions.

Net Operating Income = 150,000
- Leasing Costs = 60,000
- Capital Expenditures & Reserves = 0
= Value Used for Resale Calculation = 90,000
Value Used for Resale Calculation = 90,000
/ Cap Rate = .10
= Resale Value = 900,000

The fluctuations in the leasing cost have a tremendous effect on the final resale value as shown in these examples.

Example

This example uses capitalize cash flows adjusted for average tenant improvements and leasing commissions.

The Average Discounted Leasing Costs are calculated by discounting the leasing cost back to the first year of the analysis, dividing by the number of years, and inflating by the inflation rate back to the resale year. The inflation rate is five percent in this example.

Present Value of Leasing Cost = Leasing Cost / ((1 + inflation rate)^N)
N = Number of Years

Total Present Value of Leasing Cost
= 10,000 + 15,000 + 15,000 + 20,000 + 40,000
(1 + .05)^0 (1 + .05)^1 (1 + .05)^2 (1 + .05)^3 (1 + .05)^4
= 10,000 + 14,285 + 13,605 + 17,276 + 32,908
= 88,075
Average Discounted Leasing Cost = 88,075
/ Number of Years of Analysis = 5
= Average Leasing Cost = 17,615

Net Operating Income = 140,000
- Inflated Average Leasing Cost = 21,411
- Capital Expenditures & Reserves = 0
= Value Used for Resale Calculation = 118,589

Valued Used for Resale Calculation = 118,589
/ Cap Rate = .10
= Resale Value = 1,185,890

**Example**

This example uses capitalized cash flows adjusted for average tenant improvements and leasing commissions.

The Average Discounted Leasing Costs are calculated by discounting the cost back to the beginning of the analysis, dividing by the number of years, and inflating back to the resale year. The inflation rate is 5 percent in this example.

Present Value of Leasing Cost = Leasing Cost /((1 + inflation rate)N)

N = Number of Years

Total Present Value of Leasing Cost, the first five of these amounts are from the previous example.

= 10,000 + 14,285 + 13,605 + 17,276 + 32,908 + 47,011
= 135,087

Average Discounted Leasing Cost = 135,087
/ Number of Years of Analysis = 6
= Average Leasing Cost = 22,514

Net Operating Income = 150,000
- Inflated Average Leasing Cost = 28,734
- Capital Expenditures & Reserves = 0
= Value Used for Resale Calculation = 121,265

Value Used for Resale Calculation = 121,265
/ Cap Rate = .10
= Resale Value = 1,212,650

**Resale method adjusting for effective property age** is calculated using the same formula as capitalize net operation income.

**Apply Rate To Following Year Income**

This field determines from which year's income the resale is calculated. Resale is always calculated at the end of the year.

The resale value may be determined by the following year's income, instead of the resale year's income.

Checking this box will capitalize the income of the year following the resale year. In a 10-year analysis, ARGUS will calculate the 11th year and use that year for determining year 10's resale value. When this box is checked, ARGUS will calculate and print an extra year of the analysis on the Prospective Cash Flow Report.
Leave this box unchecked to capitalize the income of the resale year to determine the resale value. In a 10-year analysis, ARGUS will capitalize the 10th year's income to determine the resale value for the 10th year.

**Calculate Resale For All Years**

Checking this box will project a resale value of the property for every year in the analysis. Leave this box unchecked to project one resale value only at the end of the analysis.

The Prospective Resale & IRR Summary will show the resale value for every year if this box is checked. The Internal Rate of Return will also be shown for every year of the analysis, based on the respective resale value if a purchase price was entered.

Only positive Internal Rates of Return and Modified Internal Rates of Return will be displayed on ARGUS reports.

**Example**

**Resale Cap Rate Matrix**

This window is edited by pressing the Matrix button.

Input a low and high rate with an increment to produce a report that displays the resale value and present value for all cap rates. This report can be selected as an option for the Prospective Present Value Summary.

**Modified Internal Rate Of Return**

The modified internal rate of return is a return that some believe is a more accurate reflection than the internal rate of return. The calculation of this rate requires the entry of a Reinvestment Rate and a Safe Rate. These two rates are required for this calculation. This rate will be reported beneath the internal rate of return, for unleveraged and leveraged cash flows.
12. Room Description & Expenses

Before a hotel can have any room revenues the rooms must be described. A hotel can have a maximum of 99 room types. At least one room type must be used if room revenues are desired.

Operations

At the bottom of the Room Description window there are seven buttons: Close, Insert, Copy, Delete, Move, Detail and Help.

Close will exit the window and save any changes that have been made. Insert allows the user to create a new room type. This new tenant will be placed below the current active tenant or at the bottom of the list if no line is active. The Copy function can duplicate any room type and insert it directly beneath the original. This function is useful when inputting several similar room types. Field by field editing allows the user to quickly change pertinent information.
Delete will remove the active room type. Only one room type can be removed at a time. As a precautionary measure the program will prompt the user to confirm the Delete command. The Move function enables the user to rearrange any line items into the desired order. Click on the line you want to move, click on the Move button, then click where you would like the line to be moved.

The Detail function is applicable to a method of input available in the Quoted Rate, Achieved Rate and Room Occupancy fields.

This operation is only available when the cursor is in one of these fields.

Please refer to the discussion of these fields independently for more information on the use of the Detail button.

**Description**

To describe the room type, enter a description in the Room Description field. This description can be up to 30 characters long.

Example
The following are some possible examples of room descriptions:

**Total Available**

Enter the total number of rooms, room nights, or the percentage of total rooms in the hotel that make up this unit type.

If you are not using multiple room types, enter the total number of rooms in the hotel.

Example

The following are some possible entries for the Total Available field.

**Unit Type**

The Unit Type field describes the number entered in the previous field. This field is a multiple choice field; use the drop down menu to display selections, and click on the desired selection. This field has the following three options:

- Rooms
- Room Nights
- Percent of Total Rooms

Example

The following are some possible entries for the Total Available and Unit Type fields.

This example illustrates three possible entry methods for this field. If this hotel has 75 rooms, these three inputs would yield identical results. Entry #1 describes the number of available rooms. Entry #2 describes the total number of room nights available (34 x 365 = 12,410). Entry #3 describes the percentage of available or unoccupied rooms (34 / 75 = .45).

**Quoted Rate**

The quoted rate is the desired rate for this room type. This field must have input. This rate will inflate at the Room Revenue rate or the General Inflation rate. To change the rate or the inflation amounts, use the drop down menu or click on Detail to access the detail window. The detail
window will allow the rate to change for every month of the analysis and Room Revenue inflation rate or the General Inflation rate to be overridden.

Working With Detail

To edit the detailed information, choose the Detail item from the Quoted Rate drop down list. A detail can also be accessed by clicking on the Detail button while the cursor is in the Quoted Rate field.

This will display the detail information and allow editing. The Quoted Rate can be input with the following Units of Measure:

- Currency per Year
- Currency per Month
- Currency per Night
- Currency per Week

The "Currency" is usually dollars. If the detail window is used for input, the amounts entered will be used as rates for the month that it is input. Note that the rate cannot change more often than monthly. If the quoted rate is unknown, input the rate that is received.

Example
The following are some possible entries for the Quoted Rate field.

This example illustrates the four possible entry methods for this field. Note that all four inputs result in the same value. (100 $/Night x 365 Nights = 36,500 $/Year, 36500 $/Year / 52 weeks = 701.92 $/week, 36500 $/Year / 12 Months = 3041.6 $/Month.)

The detail window allows the rate to change monthly or yearly for the entire analysis. All the input in the detail window must use the same Unit of Measure. The Achieved Rate can be input with the following Units of Measure:

- Dollars per Year
- Dollars per Month
- Dollars per Night
- Dollars per Week
- Percent of Quoted Rate
- Percent Discounted from Quoted Rate

If the detail window is used for input, the rate cannot change more often than monthly.

Example
The following are some possible entries for the Achieved Rate field.
This example illustrates the six possible entry methods for this field. Note that for a Quoted Rate of $100/Night, all six inputs result in the same value.

\[(75 \$/Night \times 365 = 27,375 \$/Year, 27,375 \$/Year / 52 \text{ weeks} = 526.44 \$/week, 27,375 \$/Year / 12 \text{ Months} = 2,281.25 \$/Months, 75 \$/Night \text{ Achieved Rate} / 100 \$/Night \text{ Quoted Rate} = .75 \text{ of Quote, } 1 -.75 \text{ of Quoted} = .25 \text{ Discount})\]

**Room Occupancy**

The Room Occupancy is the occupancy of this unit type. This field can be left blank. If this field is left blank 100 percent occupancy is assumed. Enter the occupancy as a stabilized number, or click on Detail to change the occupancy on a monthly basis.

**Example**
The following are some possible entries for the Room Occupancy field.

The first entry indicates 50 percent of the rooms are occupied. The second entry indicates the occupancy varies monthly and/or yearly. The third entry indicates 75 percent of the rooms are occupied.

If you enter an achieved rate which reflects current occupancy, you should leave the Room Occupancy field blank. If you enter a percent of available rooms in the Total Available field, you should leave the Room Occupancy field blank.

**Using the Room Description Window**

The Room Description window offers a tremendous amount of flexibility. The same data can be entered in many ways and still yield the same results. Often the analyst may not have all the necessary information to fill out the window completely. This window was designed to accept either a maximum or a bare minimum of information available. The following example illustrates the many ways that the data can be input to yield the same result.

**Example**
There are 100 rooms in this hotel. The hotel quotes a rate of $100 per room per night. With discounts the hotel collects an average of $80 per room per night for occupied rooms. The hotel averages 70 percent occupancy. The first way to enter this is to use all the data. This entry is shown below:

Another way to enter the data is to input the Achieved Rate as the Quoted Rate. The benefit of this is that it reduces the amount of input required. This entry is shown below:

To further simplify data input, the number of occupied rooms can be input as the total available. The benefit of this is that it reduces the amount of input required because the occupancy field defaults to 100 percent. This entry is shown below:

Note that all of these examples produce $2,044,000 per year in revenue. The purpose of these examples is to show that even with minimal data, a model can be input into ARGUS. To facilitate a better audit trail we recommend that all available data be input.

**Room Expenses**

For information about the buttons at the bottom of the Hotel Room Expenses, see the Operations section earlier in this help topic.

**Name**
ARGUS labels may be up to 30 characters long. These labels will be printed on the calculated reports exactly as entered. When printed, these labels are automatically indented 2 characters from the left. The label is saved as typed, but the window display will truncate the label and only display the first 15 characters.

Account Code

Account codes are not available for the Hotel/Motel Room Expenses because all line items are grouped together into one cash flow line.

Amount

The Amount column refers to entering the base year amount of the item as a single number, or using a specific data entry method for entering detail. The data entry options of each item may be one of the following:

Amount: An amount entered may be expressed in the units detailed in the following Units section.

Detail: The detail input method allows you to change the expense amount in every month or year of the analysis.
13. Timing

**Analysis Starts**

Enter the date the analysis should start. ARGUS will interpret this date as the beginning of the month. The proper format for dates in ARGUS is MM/YY. Leading zeros are not required if the month is a single digit. The ARGUS default is the current month and year that the computer's clock is storing.

Example
For a January 1, 1997 analysis start date, enter 1/97. For a January 31, 1997 analysis start date, enter 2/97.

In ARGUS, a start date is always considered to happen at the beginning of the month. An end date is always considered to happen at the end of the month.

The Analysis Start date is critical to the analysis, as it is the date from which all reports begin, the present value is calculated, leases without a lease start date will be calculated, and rent loss from absorption space may begin. It can be the date of closing for an acquisition, the date of valuation for an appraisal, the date of initial occupancy for a development, or today's date for portfolio analysis.

The user does not need to enter a January start date to avoid adjusting expenses and revenue for short calendar years. ARGUS accepts all information on a full year basis, but reports according to the time frame you choose.

Example
If the analysis start date is entered as 5/96, and the analysis end date is entered as 11/96, an annual expense that is $10,000 should be entered as $10,000. ARGUS will show the expense as $5,833 in the first year, 5/96 to 11/96. The expense was $833/month, ($10,000/12) and there were 7 months in the first year (7 x $833 = $5,833).

**First Year Ends**

The month that the first year ends can be the same month that the analysis begins, or it can be up to 12 months later. The one to 12 month period between these dates will be considered as Year 1 by ARGUS. A month entered as an ending date will be considered to be the end of the month. With the Analysis Starts date and the First Year Ends date the same, the first year will be one month long.
When a new property file is created, or when this field is blank, this field will default to a date twelve months later than the date that has been entered in the Analysis Starts field.

**Years of Analysis**

ARGUS will accept whole numbers between 1 and 40. ARGUS will always calculate a full 12 months for each year entered in Years of Analysis. If the first year of the analysis is not 12 months long, ARGUS will automatically add one extra full year to your analysis. The ARGUS default for this field is 10.

**Example**

If the first year is six months long and the entry for Years of Analysis is 10. ARGUS will calculate the property for 126 months.

The analysis will be calculated from 7/97 to 12/07 (July 1997 to December 2007). The year of 2007 will be Year 11 on the reports. The period 7/97 to 12/97 will be Year 1 on the reports.

ARGUS will calculate one additional year if the user chooses to calculate the resale based on the cash flow of the year following resale, instead of calculating resale based on the cash flow in the year of resale. This option is selected on the Property Purchase & Resale screen.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>2000</td>
<td>Year 1</td>
<td>Year 2</td>
<td>Year 3</td>
<td>Year 4</td>
<td>Year 5</td>
<td>Year 6</td>
<td>Year 7</td>
<td>Year 8</td>
<td>Year 9</td>
<td>Year 10</td>
<td>Year 11</td>
<td>Year 12</td>
</tr>
</tbody>
</table>

SCHEDULE OF PRODUCER'S CASH FLOW
Conference Center
1500 N. Oracle Road
Tucson, AZ 85712

<table>
<thead>
<tr>
<th></th>
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<td>Year 9</td>
<td>Year 10</td>
<td>Year 11</td>
<td>Year 12</td>
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</tbody>
</table>
## Schedule of Prospective Cash Flow

In Inflated Dollars for the Fiscal Year beginning 2/1/1999 (continued from previous page)

<table>
<thead>
<tr>
<th>Month</th>
<th>Year</th>
<th>Jan</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
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</thead>
<tbody>
<tr>
<td>Jan-2000</td>
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<tr>
<td>Jan-2001</td>
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<td>Jan-2003</td>
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<td>Jan-2004</td>
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<tr>
<td>Jan-2005</td>
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</tr>
<tr>
<td>Jan-2006</td>
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</table>

### Total Development Costs

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,106,700</td>
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<td>$1,065,660</td>
<td>$1,043,960</td>
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<td>$988,804</td>
<td>$973,880</td>
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### Cash Flow Before Debt Service

<table>
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<tr>
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<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,481,405</td>
<td>$1,530,097</td>
<td>$1,594,243</td>
<td>$1,659,557</td>
<td>$1,726,072</td>
<td>$1,792,568</td>
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<td></td>
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### Income Tax

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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</thead>
<tbody>
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<td>$1,726,072</td>
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### Cash Flow After Income Tax

<table>
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<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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### TOTAL DEVELOPMENT COSTS

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<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
</table>

In Initial Dollars for the Fiscal Year Beginning 2/1/1999

Schedule of Prospective Cash Flow

13500 N. Oracle Road
Conference Center
PROPERTY SUMMARY REPORT

TIMING & INFLATION
Analysis Period: January 1, 2000 to January 31, 2006; 6 years, 1 month
Inflation Method: Calendar
General Inflation Rate: 3.00% for 6 years, 1 month
4.00% thereafter

PROPERTY SIZE & OCCUPANCY
Property Size: 15 rooms
Alternate Size: 1 room
Occupancy: 338.45%

PRESENT VALUE DISCOUNTING
Discount Method: Unleveraged
Unleveraged Discount Rate: 15.00% to 18.00%, 0.50% increments
Unleveraged Present Value: $5,644,076 at 18.00%
### Schedule of Prospective Cash Flow

<table>
<thead>
<tr>
<th>Month</th>
<th>Net 1</th>
<th>Net 2</th>
<th>Net 3</th>
<th>Net 4</th>
<th>Net 5</th>
<th>Net 6</th>
<th>Net 7</th>
<th>Net 8</th>
<th>Total</th>
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</thead>
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<tr>
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<td>3,500</td>
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<td>4,500</td>
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</tr>
<tr>
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<td>2,500</td>
<td>3,000</td>
<td>3,500</td>
<td>4,000</td>
<td>4,500</td>
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<tr>
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</tr>
<tr>
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<tr>
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<tr>
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<td>4,500</td>
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<td>20,000</td>
</tr>
<tr>
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<td>2,500</td>
<td>3,000</td>
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</tr>
<tr>
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</tr>
<tr>
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<td>3,000</td>
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<td>4,000</td>
<td>4,500</td>
<td>5,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

**Notes:**
- **Net 1:**-projected revenue.
- **Net 2:**-projected expenses.
- **Net 3:**-projected net income.
- **Net 4:**-projected net profit.
- **Net 5:**-projected net loss.
- **Net 6:**-projected net equity.
- **Net 7:**-projected net liability.
- **Net 8:**-projected net asset.

**Schedule of Prospective Cash Flow**

**Source:**
- Financial Analyst: John Doe
- Date: 1/3/2000

**Purpose:**
- To analyze the financial viability of the project.
### Schedule of Prospective Cash Flow

In Inflated Dollars for the Fiscal Year beginning 2/1/1999

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>TOTAL DEVELOPMENT COSTS</td>
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<td>$34,333</td>
<td>$34,334</td>
<td>$34,333</td>
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<td>$34,333</td>
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</tbody>
</table>

**Cash Flow Before Debt Service**

<table>
<thead>
<tr>
<th>Month</th>
<th>$123,351</th>
<th>$122,684</th>
<th>$122,022</th>
<th>$122,981</th>
<th>$124,666</th>
<th>$123,677</th>
<th>$123,644</th>
<th>$123,434</th>
<th>$122,891</th>
<th>$122,666</th>
<th>$122,157</th>
<th>$123,267</th>
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</table>

**Income Tax**

<table>
<thead>
<tr>
<th>Month</th>
<th>$47,062</th>
<th>$46,754</th>
<th>$46,448</th>
<th>$46,892</th>
<th>$47,671</th>
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<th>$47,101</th>
<th>$46,850</th>
<th>$46,746</th>
<th>$46,510</th>
<th>$47,024</th>
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</table>

**Cash Flow After Income Tax**

<table>
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<tr>
<th>Month</th>
<th>$76,289</th>
<th>$75,930</th>
<th>$75,574</th>
<th>$76,089</th>
<th>$76,995</th>
<th>$76,463</th>
<th>$76,447</th>
<th>$76,333</th>
<th>$76,041</th>
<th>$75,920</th>
<th>$75,647</th>
<th>$76,243</th>
</tr>
</thead>
</table>

(continued from previous page)
**PROPERTY SUMMARY REPORT**

**Location:** Tucson, AZ  

**Address:** 13500 N. Oracle Road  

**Conference Center**

---

**TIMING & INFLATION**

**Analysis Period:** January 1, 2000 to January 31, 2006; 6 years, 1 month

**Inflation Method:** Calendar General Inflation Rate

**Annual (Endogenous Cash Flow, if needed):**  

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>3.00%</td>
</tr>
<tr>
<td>2nd</td>
<td>4.00%</td>
</tr>
</tbody>
</table>

**PROPERTY SIZE & OCCUPANCY**

**Present Value Discounting**

**Discount Method:** Unleveraged Discount Rate

- **Unleveraged Present Value:** $5,644,076 at 18.00%
- **Unleveraged Annual IRR:** 15.00% to 18.00%, 0.50% increments

**Rooms:** 15 rooms

---
<table>
<thead>
<tr>
<th>Period</th>
<th>Total Soft/Development Costs</th>
<th>Total Hard/Construction Costs</th>
<th>Total Capital Costs</th>
<th>Total Land/Acquisition Costs</th>
<th>Total Operating Income</th>
<th>Total Departmental Expenses</th>
<th>Total Gross Revenue</th>
<th>Total Fixed Expenses</th>
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<tr>
<td>Apr 2001</td>
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<td>14,164</td>
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<td>14,446</td>
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<td>14,026</td>
</tr>
<tr>
<td>Apr 2001</td>
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<td>14,025</td>
<td>14,164</td>
<td>14,445</td>
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<td>14,446</td>
<td>14,025</td>
<td>14,026</td>
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<tr>
<td>Oct 2000</td>
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</tr>
<tr>
<td>Jul 2000</td>
<td>14,025</td>
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<td>14,445</td>
<td>14,446</td>
<td>14,446</td>
<td>14,446</td>
<td>14,025</td>
<td>14,026</td>
</tr>
</tbody>
</table>

**Notes:**
- The table above summarizes the projected costs and operating income for the Conference Center Tucson, AZ, for the fiscal year beginning 2/1/1999.
- The data includes estimates for soft/development costs, hard/construction costs, capital costs, land/acquisition costs, and operating income.
- The table also accounts for fixed expenses such as property maintenance, management fees, reserve for replacements, and utilities.
- The gross revenue is calculated based on projected rates and services provided by the conference center.

**Additional Information:**
- The conference center is located at 13500 N. Oracle Road, Tucson, AZ.
- The data was generated using the ARGUS software version 7.0.03, dated 5/19/99.
### Schedule of Prospective Cash Flow

In Inflated Dollars for the Fiscal Year beginning 2/1/1999

<table>
<thead>
<tr>
<th>Month</th>
<th>Quarter 1</th>
<th>Quarter 2</th>
<th>Quarter 3</th>
<th>Quarter 4</th>
<th>Quarter 5</th>
<th>Quarter 6</th>
<th>Quarter 7</th>
<th>Quarter 8</th>
<th>Quarter 9</th>
<th>Quarter 10</th>
</tr>
</thead>
</table>

#### Income Tax

- Jan-2000: 47,062
- Apr-2000: 142,397
- Jul-2000: 147,898
- Oct-2000: 146,047
- Jan-2001: 147,574
- Apr-2001: 145,385
- Jul-2001: 142,082
- Oct-2001: 140,697
- Jan-2002: 140,094
- Apr-2002: 142,283

#### Income Tax After Income Tax

- Jan-2000: 76,289
- Apr-2000: 227,593
- Jul-2000: 229,905
- Oct-2000: 228,294
- Jan-2001: 230,343
- Apr-2001: 233,958
- Jul-2001: 236,498
- Oct-2001: 234,727
- Jan-2002: 238,010

#### Total Development Costs

- Jan-2000: 34,333
- Apr-2000: 103,000
- Jul-2000: 102,998
- Oct-2000: 109,999

#### Cash Flow Before Debt Service

- Jan-2000: 123,351
- Apr-2000: 367,687
- Jul-2000: 371,987
- Oct-2000: 368,991

#### Cash Flow After Income Tax

- Jan-2000: 76,289
- Apr-2000: 227,593
- Jul-2000: 229,905
- Oct-2000: 228,294

---

Date: 5/19/99
Time: 4:01 pm
Page: 2

SOFTWARE: ARGUS Ver. 7.0.03
File: Hotel! Conference Center
Property Type: HoleilMotel
13500 N. Oracle Road
Portfolio: Conference Center Tucson, AZ
Software: ARGUS Ver. 7.0.03 Date: 5/19/9

File: Hotel! Conference Center
Time: 4:01 pm

Property Type: Hotel/Motel
13500 N. Oracle Road
Refit: AKA Portfolio
Portfolio Area: Conference Center Tucson, AZ
Page: 3

PROPERTY SUMMARY REPORT
TIMING & INFLATION
Analysis Period: January 1, 2000 to January 31, 2006; 6 years, 1 month
Inflation Method: Calendar
General Inflation Rate: 3.00% for 6 years
4.00% thereafter
UNLeveraged Discount Rate: 15.00% to 18.00%, 0.50% increments
Unleveraged Present Value: $5,644,076 at 18.00%
Unleveraged Annual IRR: 33.845%

PROPERTY SIZE & OCCUPANCY
Property Size:
4.00% increments
Alternate Size:
15 rooms
1 room

PRESENT VALUE DISCOUNTING
Discount Method: Annually (Endpoint on Cash Flow & Resale)

PROPERTY SIZE & OCCUPANCY
Conference Center
13500 N. Oracle Road
Conference Center
Tucson, AZ 85756

Page: 3
File: Hotel! Conference Center
Time: 4:01 pm
Date: 5/19/9
<table>
<thead>
<tr>
<th>Month</th>
<th>Gross Revenue</th>
<th>Departmental Expenses</th>
<th>Departmental Profit</th>
<th>Undistributed Expenses</th>
<th>Gross Operating Profit</th>
<th>Fixed Expenses &amp; Costs</th>
<th>Net Operating Income</th>
<th>Capital Costs</th>
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In addition, please see the Schedule of Prospective Cash Flow for the year beginning 7/1/1999.
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<tr>
<th>Month</th>
<th>1-1</th>
<th>2-1</th>
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<td>$34,333</td>
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<td><strong>CASH FLOW BEFORE DEBT SERVICE</strong></td>
<td>$123,351</td>
<td>$123,351</td>
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<td><strong>&amp; INCOME TAX</strong></td>
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<td>Entertainment/Tours</td>
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<td>Room Revenue $34,404</td>
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<td>GROSS OPERATING PROFIT</td>
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<tr>
<td>Month 1</td>
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<td>Month 2</td>
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<td>Month 10</td>
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*Note: The table contains financial details for a hotel project, including costs, revenues, and prospective cash flows.*
<table>
<thead>
<tr>
<th>Month</th>
<th>TOTAL DEVELOPMENT COSTS</th>
<th>CASH FLOW BEFORE DEBT SERVICE</th>
<th>CASH FLOW AFTER INCOME TAX</th>
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<td>$122,684</td>
<td>$75,930</td>
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<td>$122,022</td>
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<td>$122,981</td>
<td>$76,089</td>
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<td>$124,666</td>
<td>$76,995</td>
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<td>$123,677</td>
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<td>34,332</td>
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<td>34,334</td>
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<td>$76,041</td>
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<td>12</td>
<td>34,333</td>
<td>$124,791</td>
<td>$76,243</td>
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</table>

*Continued from previous page*
PROPERTY SUMMARY REPORT

TIMING & INFLATION

Analysis Period: January 1, 2000 to January 31, 2006; 6 years, 1 month

Inflation Method:
Calendar General Inflation

3.00% for 6 years
4.00% thereafter

PROPERTY SIZE & OCCUPANCY

Property Size: 138 rooms
Alternate Size: 135 rooms

PROPERTY VALUE DISCOUNTING

Discount Method:
Unleveraged Discount

Discount Rate:
Unleveraged Present Value:

15 rooms
33.86%
55.64% to 16.00%
13.00% to 100.0% (90% estimates)

Present Value (based on Cash Flow & Resale)

Annual IRR:
15.00% to 18.00%
0.50% increments

5,644,076 at 18.00%
338.45%
DEPRECIATION & AMORTIZATION SCHEDULE

Month: 2000

Building Costs: $10,000,000

For the Month of: March 12

Property Type: Hotel

Refit: Tucson, AZ

Hotel, Motel

Conference Center Tucson, AZ

File: Hotel1

Date: 5/18/99

Time: 4:10 pm

Page: 3

File: ARGUS V7.0.03
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<th>4</th>
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<th>6</th>
<th>7</th>
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**Depreciation & Amortization Schedule**

**Address:** 15901 Oracle Road, Tucson, AZ

**Property Type:** Conference Center

**Portfolio:** Tucson

**File:** Hotel/Conference Center

**Date:** 5/19/99

**Time:** 4:10 PM

**Page:** 2

**Software:** ARGUS Ver. 7.0.03
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<th>Income Tax</th>
<th>Building Costs</th>
<th>Net Operating Income</th>
<th>Total Fixed Expenses &amp; Costs</th>
<th>Fixed Expenses &amp; Costs</th>
<th>Gross Operating Profit</th>
<th>Departmental Profit</th>
<th>Total Departmental Expenses</th>
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<td>120,000</td>
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For the Months

In United Dollars for the Fiscal Year ending 7/1/2000

Income Statement

Revenue:
- Room Revenue: 150,000
- Food and Beverage Revenue: 60,000
- Convention/Meeting Rooms: 250,000
- Audio Visual: 62,157
- Telephone: 3,000
- Sales: 90,000
- Mgmt: 20,507
- Advertising: 8,117
- Utilities: 12,817

Expenses:
- Departmental Expenses: 42,720
- Gross Revenue: 427,236
- Departmental Expense: 12,373
- Convention/Meeting Rooms: 250,000
- Audio Visual: 62,157
- Telephone: 3,000
- Sales: 90,000
- Mgmt: 20,507
- Advertising: 8,117
- Utilities: 12,817
- Advertising: 8,117
- Departmental Expenses: 42,720
- Gross Revenue: 427,236
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**INCOME STATEMENT**

In Inflated Dollars for the Fiscal Year beginning 2/1/1999
In accordance with the Fiscal Year beginning 2/1/1999

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<th>Month</th>
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<th>Mar-00</th>
<th>Apr-00</th>
<th>May-00</th>
<th>Jun-00</th>
<th>Jul-00</th>
<th>Aug-00</th>
<th>Sep-00</th>
<th>Oct-00</th>
<th>Nov-00</th>
<th>Dec-00</th>
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<td>Gross Revenue</td>
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<td>$150,000</td>
<td>$150,000</td>
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<td>$1,332,107</td>
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</tbody>
</table>

In the table, the values are presented in thousands of dollars. The table includes columns for the months of January to December, with sub-columns for various expenses such as Food, Audio Visual, Phone, Vehicle Rental, Utilities, Property Taxes, Sales Club, Advertising, and Administrative Expenses. The figures indicate the expenses accrued for each month, with the totals displayed for the fiscal year beginning 2/1/1999.
## Depreciation & Amortization Schedule

<table>
<thead>
<tr>
<th>Quarter 1</th>
<th>Quarter 2</th>
<th>Quarter 3</th>
<th>Quarter 4</th>
<th>Quarter 5</th>
<th>Quarter 6</th>
<th>Quarter 7</th>
<th>Quarter 8</th>
<th>Quarter 9</th>
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</table>

### Building Costs

<table>
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<tr>
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<tr>
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<td>Jul-2000</td>
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<tr>
<td>Oct-2000</td>
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<tr>
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<td>Apr-2001</td>
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<td>Jul-2001</td>
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<tr>
<td>Jan-2002</td>
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</tbody>
</table>

Total: $27,778

Note: For the quarters ending in the months specified.
### SUPPORTING SCHEDULE - OCCUPANCY & ABSORPTION RATES

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<th></th>
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#### AVERAGE OCCUPANCY FOR THE YEAR

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<th>4</th>
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<th>7</th>
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#### NET ABSORPTION

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#### PERCENTAGE OCCUPANCY

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<th>May</th>
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<td>58.60%</td>
<td>70.60%</td>
<td>93.50%</td>
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<td>84.40%</td>
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#### NET Absorption

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**Portfolio:** Conference Center Tucson, AZ

**Page:** 1

**Supporting Schedule - Occupancy & Absorption Rates**

13500 N. Oracle Road

Conference Center

U.S.A.

**Date:** 1/1/00

**Time:** 4:11 pm

**Type:** Hotel/Motel

**Ref#:** AKA

---

**Supporting Schedule - Occupancy & Absorption Rates**

13500 N. Oracle Road

Conference Center

U.S.A.

**Date:** 1/1/00

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**Type:** Hotel/Motel

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**Supporting Schedule - Occupancy & Absorption Rates**

13500 N. Oracle Road

Conference Center

U.S.A.

**Date:** 1/1/00

**Time:** 4:11 pm

**Type:** Hotel/Motel

**Ref#:** AKA
Annual Net Operating Income

Year: 2000 2001 2002 2003 2004 2005 2006

Income: 0 500000 1000000 1500000 2000000 2500000

2000 2001 2002 2003 2004 2005 2006
Annual Cash Flow before Debt
Internal Rate of Return
Unleveraged Present Value
Percent Occupancy by Year
Distribution of PV
Software: ARGUS Ver. 7.0.03

File: Hotell

Property Type: Hotel/Motel

Portfolio: Conference Center

PROPERTY DESCRIPTION

Name: Conference Center
Address: 13500 N. Oracle Road
City: Tucson
State: AZ
Zip: 85704

Portfolio: Conference Center
Property Type: Hotel/Motel

ADVANCED DESCRIPTION

Owner: David & Molly Hoffman
Lender:
Development:
Building:
Region:
Sub-Market:
Sub-Type:
Property Manager:
Asset Manager:

USER PREFERENCES

Area Measurement Unit
Measurement:
Abbreviation for above:
Currency
Name:
Currency Symbol:
Symbol Position:
Decimal Symbol:
Thousands Separator:

Rents
Entered:
Highest per SqFt Rent:
Highest per SqFt Property expense/revenue:

Square Feet

Date: 5/19/99
Time: 4:12 pm
Ref*: AKA
Page: 1

Input Assumptions

100
500

Square Foot

Square Feet
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### Input Assumptions

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<th>Alt. Prop Size</th>
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### GENERAL INFLATION

**Inflation Method:** Calendar

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**OVERALL INFLATION RATES**

**Miscellaneous Revenues inflation**

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**Departmental Revenues inflation**

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**Undistributed Expenses inflation**

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**Fixed Expenses inflation**

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**Capital Expenditures inflation**

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**Room Revenue inflation**

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**Room Expense inflation**

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**Departmental Expenses inflation**

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**Input Assumptions**

- **Location**: 13500 N. Oracle Road
- **City & State**: Tucson, AZ
- **Property Type**: Conference Center
- **Portfolio**: Conference Center

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**Date**: 5/19/99  
**Time**: 4:12 pm  
**Ref**: AKA  
**Page**: 1
### Input Assumptions

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<td>Administrative &amp; General</td>
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<td>Energy &amp; Utilities</td>
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<td>of TGR</td>
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<td>Time</td>
<td>Fixed Expenses &amp; Costs</td>
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### Fixed Expenses & Costs

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<td>FF &amp; E Reserve for Repairs</td>
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<td>Management Fees</td>
<td>42,245</td>
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<td>Property Mainteance</td>
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### Input Assumptions

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<tr>
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<td>Capital Improvements</td>
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<td>% Paid</td>
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**Input Assumptions**
- Frequency: 100
- % Paid: 60
- Area: 4.00
- Amount: $60
- Units: /Area
- 60 % of TGR

**Ref#**
- AKA

**Page:** 1
**Date:** 5/19/99
**Time:** 4:12 pm
**File:** ARGUS Ver. 7.0p03
**Comment:** Input Assumptions

**Ref:** Conference Center
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**HARD/CONSTRUCTION COSTS**

**Input Assumptions**

- **Tucson, AZ**
- **13500 N Oracle Road**
- Conference Center

**Property**

- **Portfolio**: Conference Center
- **Property Type**: Hotel
- **File**: Free
- **Software**: ARGUS Ver. 7.0.03 Date: 5/1999
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Initial Assumptions:
- Tucson, AZ 13500 N. Oracle Road Conference Center
**Institutional: ARGUS Version 7.0.03**

**File:** Hotell Conference Center

**Time:** 4:13 pm

**Property Type:** Hotel/Motel

13500 N. Oracle Road

Refi: AKA Portfolio: Conference Center Tucson, AZ

**Page:** 1

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**Hotel Room Description**

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**Detail of Suite Occupancy**

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<th>Room 3</th>
<th>Room 4</th>
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<th>Room 7</th>
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**Annual Average:** 74.7167

**Inflation:** 10.00%

**Inflated Average:** 114.47

(continued on next page)
(continued from previous page)

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### Detailed Conference Room Occupancy

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**Note:** This table continues from the previous page.
Software: ARGUS Ver. 7.0.03

File: Hotell

Property Type: Hotel/Motel

Portfolio: Conference Center

Hotel Room Expenses

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Conference Center

13500

N. Oracle Road

Tucson, AZ

Input Assumptions

Frequency %

Fixed Inflation

Ref Mat

Date: 5/19/99

Time: 4:13 pm

Ref #: AKA

Page: 1

Portfolio Property Type: Conference Center

Ref: 7003

ARGUS Ver: 7003
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<table>
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<th>Acct Code</th>
<th>Amount</th>
<th>Units</th>
<th>Area</th>
<th>% Paid</th>
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</table>

**Input Assumptions**

- Frequency: Night
- Fixed Inflation: 100% per night

**Oracle Center**

13500 N Oracle Road
Tucson, AZ

**Date:** 5/19/99  **Time:** 4:13 pm  **Ref #:** AKA  **Page:** 1
<table>
<thead>
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<th>Beverages</th>
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Departmental Expenses:

- Fixed
- Inflation
- Ref Acct
- %DeptRev

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<tr>
<th>Acct</th>
<th>Amount</th>
<th>Units</th>
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</table>

Ref Acct:

- Hotel / Motel: 13500 N. Oracle Road
- AKA: Conference Center Tucson, AZ
Input Assumptions

CAP RATE RANGE
Low Rate: 12
High Rate: 14
Increment: 0.5
Discount Method: Annually (Endpoint on Cash Flow & Resale)

Input Assumptions

Present Value Discounting

Unleveraged Discount Range

Low Discount Rate: 15
High Discount Rate: 18
Increment: 0.5

Discount Method: Annually (Endpoint on Cash Flow & Resale)
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<th>Property Type</th>
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<td>Hotel/Motel</td>
<td>Conference Center</td>
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### Input Assumptions

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<th>Simple/Detail</th>
<th>Basis</th>
<th>Description</th>
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<td>Capital Gains Tax Rate</td>
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<tr>
<td>Capital Gain Tax Rate</td>
<td>20%</td>
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</table>

### Ordinary Income Tax Rate:
- 32%

### Debt Interest:
- None

### Capital Gains Tax Rate:
- 20%

### Schedule A:

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<th>Basis</th>
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**Input Assumptions**

- Location: Tucson, AZ
- Property Address: 13500 N. Oracle Road
- Conference Center
C. Argus Conclusions -
Rancho de los Cerros

1. Feasibility of Converting:

Project generated a profit of $76,289 in year one and thereafter shows an average increase in profit each year of $40,000. Finally, in year seven the cash flow after income tax is $1,110,670. This feasibility study has therefore shown that the converted conference resort is a profitable investment.

2. Feasibility of a new Ranch:

If Los Cerros Ranch was built as a new facility the time it would take to recoup the fixed expenses would have spanned over a much longer time frame. Therefore a positive cash flow would not be seen in the near future.

Cost Estimate of Rancho Cerros as a new Conference Facility: Appraised Value: $ 5,600,000

For further information about the Argus program look to web site at:  http://www.argussoftware.com
References


