ERNST & YOUNG LLP

Two Commerce Square
2001 Market Street, Suite 4000
Philadelphia, PA 19103

Phone: (215) 448-5000

July 19, 1999

Mr. Thomas T. Baldrige
Executive Director
The Lancaster Campaign
100 North Queen Street
PO Box 1764
Lancaster, Pennsylvania 17608-1764

Dear Mr. Baldrige:

The accompanying report, containing the market study, cash flow estimates and economic impact analysis for a proposed hotel and conference/convention center (the "Project") to be located in downtown Lancaster, Pennsylvania, has been prepared pursuant to the engagement letter dated February 22, 1999.

The scope of our work, described in the attached report, includes a physical inspection of the Site; an analysis of local and regional economic and demographic information; discussions with local area and regional hotel/conference center operators; discussions with regional convention center operators; gathering and compiling data from national convention industry research firms and publications; and discussions with representatives of national hotel and conference center management companies. Also, the scope included discussions with various local and county officials, potential local and regional sources of demand, an analysis of the defined competitive and comparable properties, and an analysis of demand for these facilities in the defined competitive area.

The analyses are based on estimates, assumptions and other information developed from our research of the market, knowledge of the industry, and information obtained about the Project. The sources of information and bases of the estimates and assumptions are stated herein. While we believe that the sources of information are reasonably reliable, Ernst & Young LLP has not, as part of its scope of work, performed an audit or review of any of the financial information used and, therefore, does not express an opinion or any other form of assurance on the accuracy of such information.

The financial analyses contained in this report are not considered to be a "financial forecast" or a "financial projection" as technically defined by the American Institute of Certified Public Accountants ("AICPA"). The use of the words "forecast," "project" or "projection" used alone within this report relates to broad expectations of future events or market conditions and the quantification of the potential results of operations under those conditions. Since the analyses are based on estimates and assumptions that are inherently subject to uncertainty and variation depending on evolving events, we do not represent them as results that will be achieved. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the estimates.

This report does not constitute an appraisal under Uniform Standards of Professional Appraisal Practice ("USPAP") guidelines or an audit or review of a compilation of historical information or offering memorandum under AICPA standards.

In accordance with our engagement letter, we did not ascertain the legal, engineering and regulatory requirements applicable to the Project, including zoning and other state and local government regulations, permits and licenses. Further, no effort has been made to determine the possible effect on the Project of present or future federal, state or local legislation, including any environmental or ecological matters, compliance with the Americans with Disabilities Act ("ADA") or interpretations thereof. With respect to the market demand analysis, the cash flow estimates, and the economic impact analysis, our work did not include an analysis of the potential impact of any sharp rise or decline in local or general economic conditions.

The terms of our engagement did not provide for reporting on events and transactions that occurred subsequent to the date of completion of our fieldwork.

Our report and financial analyses were prepared solely for internal use by the Lancaster Campaign and High Associates. Neither the report nor its contents may be referred to or quoted in any registration statement, prospectus, loan or other agreement or document.

Sincerely,

Ernst + Young LLP

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- The Lancaster Campaign engaged Ernst & Young ("E&Y") to gather data and conduct local and regional market analyses for a proposed hotel conference/convention center complex; to provide an understanding of the underlying demand for alternative configurations of the proposed Project; and to identify preliminary facilities profiles for further consideration and analysis.

- Additional phases of this engagement included cash flow analysis, financial structuring of the selected Scenario, and economic impact and elasticity analyses.

- This report outlines E&Y's findings regarding the market support for a hotel and conference/convention center, recommended facilities scenarios for further consideration and amenities for each Scenario, based on current available market data and information; cash flow estimates for the Project; and an economic impact analysis for the Project.

Market Analysis

- In estimating levels of performance for each Scenario, analyses of demand, supply, and macro industry trends were conducted; this included:

  - Identifying local and regional competitive supply and comparable convention centers throughout the eastern United States.

  - Identifying and interviewing sources of demand.

  - Identifying and characterizing samples of potential users of convention facilities in Pennsylvania and neighboring states.

  - Interviewing and gathering relevant data from various government entities in Pennsylvania, and national research firms and publications.

  - Analyzing the Project relative to its defined competition with respect to factors critical to the success of a project of this type.

- Inherent in the estimates are the assumptions that the proposed Project will be competently and efficiently managed; be affiliated with a nationally recognized hotel chain or conference/convention center operator; will benefit from product development and a major marketing effort to promote and improve the image of Lancaster as a destination for tourism/conventions; and will benefit from implementation of the economic development strategy to increase investment in improving the downtown area.

- E&Y has analyzed the potential market support for the following four Scenarios:
  - ◊ ***Scenario I*** – An upscale, full-service, chain-affiliated Hotel with 169 guest rooms and 13,200 square feet of meeting space.
  - ◊ ***Scenario II*** – An upscale, full-service, chain-affiliated Hotel with 281 guest rooms and an attached, newly constructed 31,000-square-foot Conference Center.
  - ◊ ***Scenario III*** – An upscale, full-service Hotel with 393 guest rooms and an attached, newly constructed 61,000-square-foot Conference/Convention Center, consisting of the 31,000 square feet of space recommended in Scenario II and a 30,000-square foot exhibition space as proposed by Ehrenkrantz Eckstut & Kuhn Architects ("EEK").
  - ◊ ***Scenario IV*** – An upscale, full-service Hotel with 281 guest rooms and a newly constructed 61,000-square-foot Convention Center as described in Scenario III.
- With respect to ***Scenario I***, interviews with representatives of the primary competitive supply as well as local sources of demand (primarily corporate) indicate that there is a potential market in Lancaster for an upscale, chain-affiliated Hotel.
  - ◊ Primary research indicates that a limited segment of demand for accommodations in Lancaster is not price-sensitive and is willing to pay higher rates for better-quality facilities.
  - ◊ The exhibited seasonality and rate-sensitivity of the majority of the demand for lodging accommodations in Lancaster, indicates that the size of the Hotel should be kept to a minimum, in this case the 169 rooms proposed by the architects, EEK.
- With respect to ***Scenario II***, a broader, more regional demand base was identified and quantified based on interviews with potential demand sources and competitive conference centers throughout the region.
  - ◊ Assuming the property will be vigorously marketed throughout the region by a nationally recognized management company, the Hotel and Conference Center could not only attract local demand sources, but also large-volume, overnight meetings, conferences and conventions from surrounding areas such as Harrisburg, Philadelphia, Reading, and Baltimore.

- ➢ ***Scenario III*** assumes the maximum number of rooms (according to the parameters specified by EEK), based on the anticipated average guest room requirement per night for trade/consumer shows utilizing the exhibit hall.

  - ◊ The addition of the 30,000-square-foot exhibit hall could result in significantly increased attendance levels for the facility based on the additional capture of large overnight trade/consumer shows and incremental day meetings/banquets business.

  - ◊ Typically, trade/consumer shows generate limited requirements for overnight accommodations relative to attendance levels, and prefer to house guests generated by the show within walking distance of the venue.

  - ◊ Although the existence of the attached 393-room hotel would provide optimal marketability of the exhibit hall to regional event planners, the limited frequency and room requirements of the trade/consumer shows would result in prolonged periods of low occupancy for the attached Hotel. This is due to an oversupply of guest rooms relative to demand levels during non-show periods.

- ➢ ***Scenario IV*** assumes 281 rooms for the Hotel to support the 61,000-square-foot Conference/Convention Center; the estimates of performance levels for this Scenario assume that overnight event demand that cannot be accommodated by the Hotel due to its decrease in size from Scenario III, would be accommodated by the other hotels within the area.

  - ◊ Unaccommodated guest room demand for the attached Hotel generated by large events is anticipated to be absorbed by surrounding hotels; it is assumed that surrounding hotels that benefit from this demand will provide complimentary transportation to and from the venue; and that this complimentary transportation will be included in the strategy to market the venue to event planners.

  - ◊ In this Scenario, the Hotel is estimated to achieve a premium in occupancy rate over Scenarios II and III due to an increase in demand for guest rooms based on the addition of the exhibit hall.

- The following factors can be compared and analyzed in order to rank the above Scenarios, based on the market analysis:
  - ◊ Estimated attendance levels generated by meetings, banquets, conferences, conventions, and consumer/trade shows
  - ◊ RevPAR for the Hotel (Rooms Revenue per Available Room = occupancy rate x average daily room rate)
  - ◊ Occupied room nights captured by the Hotel
  - ◊ Rooms revenue generated by the Hotel
  - ◊ Associated revenues generated by the Conference/Convention Center including Complete Meeting Package ("CMP") revenue, space rental revenue, and day group revenue.
- Analyzed within the context of Lancaster Campaign's overall goals and objectives, the above factors indicate that Scenario IV is the most appropriate of the development Scenarios to investigate further, based on the market information gathered to date. **It is important to note that this does not take into account the estimated costs associated with the development of each Scenario, the financial feasibility or the anticipated returns.**

➢ The following charts present a preliminary comparison of estimated performance levels (occupancy, ADR, RevPAR and occupied room nights) and revenues (room revenue, CMP revenue, day group revenue, and exhibit hall rental revenue) for each of the development Scenarios:

Scenario Comparison

Scenario I
169-Room Full-Service Hotel

Year	Occupancy	ADR	RevPAR	Estimated Annual Occupied Room Nights	Rooms Revenue (000's)	CMP* Revenue (000's)	Day Group Revenue
2001	59.4%	$113.75	$67.56	36,641	$4,167	–	$186,580
2002	66.3%	$124.36	$82.42	40,897	$5,086	–	$206,910
2003	73.1%	$129.11	$94.39	45,091	$5,822	–	$227,672
2004	73.1%	$133.67	$97.71	45,091	$6,027	–	$235,641
2005	73.1%	$138.37	$101.15	45,091	$6,239	–	$243,888

* CMP Revenue less rooms allocation; all revenue inflated by 3.5% annually; ADR discounted by 5% in initial year to reflect discounting policies to enhance competitive position; Day Group Revenue reflects utilization of the conference/meeting space without overnight lodging requirements.

Scenario II
281-Room Conference Center

Year	Occupancy	ADR	RevPAR	Estimated Annual Occupied Room Nights	Rooms Revenue (000's)	CMP* Revenue (000's)	Day Group Revenue
2001	55%	$109.22	$60.07	56,411	$6,161	$4,228	$317,470
2002	61%	$118.99	$72.58	62,565	$7,445	$5,106	$356,251
2003	69%	$123.15	$84.97	70,770	$8,715	$5,967	$392,961
2004	69%	$127.46	$87.95	70,770	$9,020	$6,209	$406,714
2005	69%	$131.92	$91.02	70,770	$9,336	$6,461	$420,949

* CMP Revenue less rooms allocation; all revenue inflated by 3.5% annually; ADR discounted by 5% in initial year to reflect discounting policies to enhance competitive position; Day Group Revenue reflects utilization of the conference/meeting space without overnight lodging requirements.

Scenario III
393-Room Convention Center

Year	Occupancy	ADR	RevPAR	Estimated Annual Occupied Room Nights	Rooms Revenue (000's)	CMP* Revenue (000's)	Day Group Revenue	Exhibit Hall Rental Revenue
2001	42%	$107.07	$45.19	60,247	$6,482	$4,228	$405,238	$372,530
2002	49%	$116.65	$57.59	70,288	$8,261	$5,106	$447,091	$771,197
2003	58%	$120.73	$69.98	83,198	$10,039	$5,967	$493,677	$1,197,189
2004	58%	$124.96	$72.43	83,198	$10,390	$6,209	$510,955	$1,239,091
2005	58%	$129.33	$74.97	83,198	$10,754	$6,461	$528,839	$1,282,456

* CMP Revenue less rooms allocation; all revenue inflated by 3.5% annually; ADR discounted by 5% in initial year to reflect discounting policies to enhance competitive position; Day Group Revenue reflects utilization of the conference/meeting space without overnight lodging requirements.

Scenario IV
281-Room Convention Center

Year	Occupancy	ADR	RevPAR	Estimated Annual Occupied Room Nights	Rooms Revenue (000's)	CMP* Revenue (000's)	Day Group Revenue	Exhibit Hall Rental Revenue
2001	57%	$107.84	$61.64	58,624	$6,322	$4,228	$405,238	$278,698
2002	65%	$117.48	$76.74	66,991	$7,870	$5,106	$447,091	$578,351
2003	72%	$121.60	$91.77	74,332	$9,039	$5,603	$493,677	$897,890
2004	72%	$125.85	$94.98	74,332	$9,355	$5,832	$510,955	$929,317
2005	72%	$130.26	$98.31	74,332	$9,682	$6,071	$528,839	$961,842

* CMP Revenue less rooms allocation; all revenue inflated by 3.5% annually; ADR discounted by 5% in initial year to reflect discounting policies to enhance competitive position; Day Group Revenue reflects utilization of the conference/meeting space without overnight lodging requirements.

Source: Ernst & Young LLP

Cash Flow Estimates

- Industry statistics from comparable lodging and conference/convention center facilities, the Project's anticipated facilities, and the performance and revenue estimates presented in the previous market analysis component, provide the basis for income and expense estimates incorporated into the five-year cash flow estimates for the Proposed Hotel and Conference/Convention Center.

281-Room Proposed Hotel

- 1997 data from the Smith Travel Research Host Report provided comparable income and expense estimates for properties based on rate positioning, market orientation, facilities, location, and size of property. The Host Report is a compilation of financial data from contributing hotels. Operating statements from E&Y's internal database for similar upscale, chain-affiliated lodging facilities located in Pennsylvania and New Jersey were also obtained and analyzed (1998 data).

- Specific revenue and expense estimates are explained in detail cash flow estimates and analysis section of this report. In terms of Gross Operating Profit, the Hotel's estimated stabilized ratio of 33.0 percent falls within the range of comparable operating data (27.5 to 43.5 percent, with the Host compilation at 30.1 percent). The Hotel's estimated stabilized Net Operating Income ("NOI") before debt service, income taxes, depreciation and amortization of 23.5 percent is also within the range of comparable operating data (15.2 to 37.7 percent, with the Host compilation at 24.5 percent).

- The following table presents estimated NOI (in inflated dollars) by total dollar amount and on a ratio basis, for the period under analysis:

Year	NOI Amount	Ratio
2001	$2,121,000	15.9%
2002	$3,455,000	21.4%
2003	$4,383,000	23.5%
2004	$4,536,000	23.5%
2005	$4,695,000	23.5%

61,000-Square-Foot Conference/Convention Center

- Operating statements for similarly sized convention and conference centers were obtained and analyzed. Additionally, historical expense ratios for conference centers operated by nationally recognized conference center management companies, and compiled and presented in the International Association of Conference Centers' ("IACC") *Trends* publication, were utilized in this analysis.

- Specific revenue and expense estimates are explained in detail in the cash flow estimates and analysis section of this report. The Conference/Convention Center's estimated stabilized Net Operating Deficit before debt service, income taxes, depreciation and amortization of -$8.77 per square foot in 1998 dollars is within the range of comparable operating data (-$7.73 to -$26.64 per square foot, with the average at -$14.37 per square foot). This estimated Net Operating Deficit is below the average and at the lower end of the comparable properties based primarily on higher gross revenues estimated for the Conference/Convention Center (due primarily to the capture of conference services revenue).

- The above estimated deficit on a square foot basis results in the following deficits in inflated dollars throughout the period under analysis:

Year	NOI Amount	Ratio
2001	$ (1,301,192)	-56%
2002	$ (950,347)	-32%
2003	$ (634,779)	-18%
2004	$ (656,996)	-18%
2005	$ (679,992)	-18%

- It is important to note that publicly owned convention centers typically operate at a deficit (as seen in the comparable operating data and based on discussions with industry sources), due primarily to limited annual utilization coupled with fixed expenses. This deficit is typically offset by revenues generated by a hotel occupancy tax or other public subsidies, and is regarded as justifiable by the owner of the facility (a government entity) based on the positive economic impact the convention center has on the surrounding community.

Economic Impact and Elasticity Analysis

- In addition to the market analysis and estimates of cash flow, the Lancaster Campaign engaged E&Y to provide an analysis of the potential economic impact from the development of the Lancaster Hotel and Conference/Convention Center Project. As part of this analysis, E&Y evaluated the potential effect of the imposition of a hotel tax on hotel revenues generated by existing properties in Lancaster County.

- The economic impact analysis is based on Scenario IV identified in the market analysis, which focuses on the development of a 281-room hotel and an attached 61,000 square foot conference/convention center.

- The construction of the Penn Square Hotel Conference/Convention Center is part of a larger economic development plan to rejuvenate downtown Lancaster. In conducting this analysis, it must be noted that the hotel and conference/convention center were considered to be mutually dependent. By focusing on the development of the conference/convention facility, the Lancaster Campaign recognizes the potential to attract tourists whose spending will infuse new money into the economy and create new jobs, increased sales, and more tax revenues.[1]

- The total amount of the bed tax to be imposed had not been determined at the time of this study. The estimated amount of revenues that could be generated from a one percent tax on hotel sales revenue in Lancaster County would be $728,321. This estimate is based on 1997-1998 fiscal year hotel sales revenue as derived from the Pennsylvania Department of Revenue. This estimated hotel tax revenue is based on historical sales and does not consider future increases or decreases in hotel sales revenue or the addition of hotels to the market.

- The elasticity data analyzes the potential impact of this proposed tax on hotel properties in Lancaster. The elasticity data suggest that the imposition of a hotel tax does not have a significant impact on the hotel industry in terms of room revenues. In fact, in all four counties analyzed, room revenue continued to grow, though at varying levels. The specific elasticity data is presented in this report.

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[1] This concept is discussed in Petersen, David C., 1996. *Sports, Convention, and Entertainment Facilities*. Washington, DC: ULI - Urban Land Institute.

- The economic impact analysis suggests that the construction of the new Penn Square Center, based on project cost estimates as of April 1999, could help generate 1,242 full-time jobs, $7,825,837 in sales and income taxes, an additional $41,288,182 in personal income, and an additional $109,985,476 in goods and services produced in Lancaster County (all amounts in 1998 dollars). During a stabilized year, the new Penn Square Center could generate 577 additional full-time jobs, $2,211,465 in additional sales and income tax revenues, an additional $11,149,897 in personal income, and an additional $30,708,543 in goods and services produced. These estimated impacts are based on the estimated project cost totaling $91 million, as provided by the developer as of April 1999. As the project design is refined, it is recognized that these project costs may decrease, therefore affecting the total economic impact. These impacts are discussed in detail in the economic impact section of this report.[2]

[2] Because the only significant tax found applicable to Lancaster county was a County income tax of one percent, tax benefits generated on a statewide level were also considered. The inclusion of state tax income was deemed appropriate as some of this statewide tax is assumed to flow back to Lancaster County.

- Consistent with the mission and goal of Lancaster Campaign, the public and private sectors are seeking to improve downtown Lancaster through the conversion and reuse of the historic Watt and Shand Building to a hotel, and the construction of an adjacent conference/convention facility; the proposed project is known as Penn Square Center (the "Project").

- The Lancaster Campaign engaged Ernst & Young LLP (E&Y) to evaluate the potential market support for a hotel and conference/convention center. Four scenarios were analyzed and included: ***Scenario I*** – An upscale (three to four star), full-service, chain-affiliated hotel (the "Hotel") with banquet and meeting facilities deriving demand primarily from the local area and leisure travelers visiting Lancaster; ***Scenario II*** – An upscale (three to four star) hotel with conference center (the "Conference Center") deriving demand from regional as well as local sources; ***Scenario III*** – A 393-room upscale hotel with conference/convention center (the "Center"), consisting of meeting space and an exhibit hall deriving demand from regional and local sources; or ***Scenario IV*** – A 281-room upscale hotel with conference/convention center (the "Center"), consisting of meeting space and an exhibit hall deriving demand from regional and local sources.

- E&Y gathered data, conducted local and regional market supply and demand analyses, recommended a preliminary facilities profile, and provided an understanding of the underlying demand for the Project under each Scenario.

- This report outlines E&Y's activities to date, identifies recommended facilities and amenities for each Scenario, and provides estimates of occupancy, average daily room rate ("ADR"), and associated revenues for each Scenario.

- In developing these estimates, macro trends as provided by national industry sources were identified and analyzed, and local and regional trends were also investigated to provide a micro-perspective of the specific markets relevant to the Project.

- Inherent in the estimates contained herein is the assumption that the Project will be competently and efficiently managed and be affiliated with a nationally recognized hotel chain or conference/convention center operator.

- At present, Lancaster County's hotel supply consists primarily of low- to mid-end full and limited service lodging facilities (according to the Pennsylvania Dutch Convention and Visitors Bureau, county-wide occupancy was approximately 65 percent in 1998, at an average daily room rate of $65); as such, a goal of the Project is to bring a high-quality lodging facility to the County to service both local demand (day meetings, banquets, restaurant patrons, etc.) and provide an upscale experience for visitors (business and leisure travelers, overnight groups using meeting/banquet facilities, conventions, trade shows and tour groups).

- Additionally, the Project is anticipated to serve as an impetus for the economic development of the downtown area, servicing both the local community by providing an attractive hub for commercial and social activity, and attracting visitors to downtown Lancaster.

- The immediate neighborhood surrounding the Site consists of local bank headquarters and branch offices, attorney and professional office buildings, boutiques and retail shops, restaurants, County government buildings, as well as historic and cultural attractions, including the Heritage Museum and Central Market; these surrounding real estate uses would provide support amenities for an upscale lodging facility and conference/convention center.

- Met with representatives of Lancaster Campaign, High Associates, and Ehrenkrantz Eckstut & Kuhn Architects to gain a preliminary understanding of the proposed project concept and the anticipated alternative uses of the Watt and Shand Building (once renovated) and adjacent developable land.
- Read the Conceptual Program Summary provided by Ehrenkrantz Eckstut & Kuhn Architects.
- Read background data provided by Lancaster Campaign and High Associates.
- Toured project Site and surrounding area.
- Interviewed representatives from government agencies including the Pennsylvania Dutch Convention and Visitors Bureau, the Lancaster Chamber of Commerce and Industry, the Lancaster County Tax Assessor's Office, and the Economic Development Corporation of Lancaster County.
- Collected economic and demographic data on Lancaster County and Pennsylvania from national research firms including CACI Marketing Systems, Inc., and Woods & Poole Economics, Inc.

For Scenario I

- Identified primary and secondary competitive sets consisting of chain-affiliated hotels located within a 10-mile radius of the Site.
- Visited and interviewed representatives from the hotels within the primary and secondary competitive sets.
- Interviewed corporate personnel from hotel chains represented in both competitive sets.
- Conducted telephone interviews with potential local area sources of lodging demand for the Project (consisted of demand interviews with corporations, associations, and other entities in Lancaster County).

- Developed a preliminary facilities profile for the Hotel based on the attributes of the most successful properties within the competitive set, as well as on requirements of demand (as derived through the demand interviews), including preferred facilities and amenities, annual room night contribution, travel patterns, rate requirements, and group characteristics (i.e., sizes, length of stay, purpose, etc.).

- Prepared five-year estimates of occupancy for the total competitive market (combined primary and secondary) based on anticipated levels of growth in demand and supply.

- Prepared estimates of occupancy and ADR for the Hotel based on the recommended facilities, the Hotel's perceived competitive advantages and disadvantages relative to the competitive set, and assumed national chain affiliation and competent and efficient management; the estimates assume an opening date of January 2001.

For Scenario II

- Identified a regional competitive set consisting of local conference-oriented facilities and dedicated conference centers located throughout the region.

- Visited and interviewed representatives from the properties within the competitive set – properties were located in Lancaster, Hershey, Lafayette Hill, King of Prussia, and Princeton (New Jersey).

- Interviewed corporate personnel from nationally recognized conference center management companies.

- Conducted primary interviews with potential regional users of the Project (consisted of demand interviews with corporations, regional associations, and meeting planners dedicated to one or more associations/corporations – primarily from the Harrisburg, Philadelphia, Reading, and Baltimore areas).

- Developed a preliminary facilities profile for the Conference Center based on the attributes of the most successful properties within the competitive set, as well as on requirements of demand (as derived through the demand interviews), including preferred facilities and amenities, annual room night contribution, travel patterns, rate requirements, and group characteristics (i.e., sizes, length of stay, purpose, etc.).

- Prepared five-year estimates of occupancy and ADR for the Conference Center based on the recommended facilities, the Conference Center's perceived competitive advantages and disadvantages relative to the competitive set, and the results of demand interviews; the estimates assume an opening date of January 2001.

For Scenarios III and IV

- Identified a set of comparable convention facilities located throughout the eastern United States; interviewed representatives from each of these facilities to obtain relevant data for benchmarking purposes.
- Identified samples of users of exhibition space in Pennsylvania, Maryland and New Jersey; defined groups of users within each sample by their size requirements (i.e., identified users requiring facilities of a similar size to that of the Center).
- Interviewed a sample of the above users (consisting of event planners and associations) to further understand the attributes of demand for a facility such as the Center.
- Interviewed representatives and gathered data from national publications and research organizations including *Tradeshow Week Magazine*, the Center for Exhibition Industry Research, and the Pioneer Institute for Public Policy Research.
- Conducted interviews with regional and local venues (including the Hershey Resort & Convention Center, the Lancaster Host Resort, the Best Western Eden Resort, and the Willow Valley Inn) to better understand the attributes of local demand for exhibition facilities, and to quantify turnaway event demand from the local area.
- Interviewed representatives from the Allegheny Mountains Convention & Visitors Bureau (regarding a proposed convention center in Blair County), the Pennsylvania Dutch Convention & Visitors Bureau, and the Lancaster Chamber of Commerce and Industry to better understand existing and potential future demand for convention/exhibition facilities in Lancaster.
- Identified factors critical to the success of convention centers based on research related to meeting planner preferences for conventions, trade shows, and consumer shows. Each of the Critical Success Factors ("CSFs") were assessed in terms of potential strengths, weaknesses or developmental needs based on the combined results of interviews with competitive properties within the region, comparable convention centers, and potential demand generators.

- Estimated the future performance of the Center under Scenario III (with an attached hotel containing 393 rooms) and Scenario IV (with an attached hotel containing 281 rooms) based on an analysis of comparable convention/exhibition facilities in the eastern region of the U.S.; extrapolated data from samples of users of similar facilities in Pennsylvania, and the adjacent states of New Jersey and Maryland; interviews with potential sources of demand for the Center; and Critical Success Factors typically associated with facilities of the type proposed.

- Estimated future performance levels including estimates of the number of annual trade/consumer shows, attendance levels by type of event, hotel occupancy, average room rate, and associated revenues.

Scenario I: Upscale Full-Service Hotel with Meeting/Banquet Facilities

- Initial findings with respect to an Upscale Full-Service Hotel with Meeting/Banquet Facilities on the Site (Scenario I) are described below; the recommended sizing for Scenario I would be approximately 169 rooms with 13,200 square feet of meeting/banquet space; recommendations regarding facilities are described in detail later in this section.

- For Scenario I, estimates of future performance for the Hotel were based on an analysis of the Hotel's defined competitive supply, as well as interviews with potential sources of demand for the Hotel.

Supply Analysis

- Properties in the Lancaster area were defined as primary or secondary competitors based on a combination of the following factors: location, market orientation, rate positioning, chain affiliation, size, and quality of facilities and amenities.

- The Hotel's primary competitive set includes the Best Western Eden Resort Inn and Conference Center, the Lancaster Host Resort, the Willow Valley Inn, and the Lancaster Hilton Garden Inn (see charts on the following pages).

- The Hotel's secondary competitive set is comprised of the Comfort Inn Sherwood, the Holiday Inn East – Visitor's Center, the Holiday Inn North – Historic District, the Hampton Inn, the Quality Inn & Suites, the Ramada Inn, and the Brunswick Hotel.

- According to primary research, estimated aggregate market occupancy and Average Daily Rate (ADR) for the primary competitive supply was 71.8 percent and $86 in 1998; estimated market segmentation was 32 percent Commercial Transient, 37 percent Group, 22 percent Leisure Transient, and 9 percent Bus Tour.

- Estimated occupancy and ADR for the secondary supply was 65.8 percent and $65 in 1998; estimated market segmentation was 24 percent Commercial Transient, 22 percent Group, 33 percent Leisure Transient, and 21 percent Bus Tour.

- Combined market occupancy and ADR for the total competitive set was 68.8 percent and $76 in 1998; market segmentation was 28 percent Commercial Transient, 30 percent Group, 28 percent Leisure Transient, and 14 percent Bus Tour.

- The market leader in the primary competitive set in terms of RevPAR in 1998 was the Hilton Garden Inn (156 rooms), with an estimated occupancy ranging from 70 to 74 percent, and an ADR from $90 to $94; the Hilton is the market leader in capturing Commercial Transient demand, comprising approximately 80 percent of its total demand segmentation.

- The market leader in the secondary competitive set in terms of RevPAR in 1998 was the Hampton Inn (129 rooms), with an estimated occupancy ranging from 75 to 79 percent, and an ADR from $75 to $79; the Hampton Inn is the market leader in capturing Commercial Transient demand, comprising approximately 55 percent of its total demand segmentation.

- On a supply-side basis, the above data indicates a demand propensity toward newer, higher-quality facilities, especially regarding Commercial Transient demand; additionally, there is an apparent propensity toward the higher-quality full-service hotels in the primary competitive set versus the lower-quality properties in the secondary set; as the Hilton Garden Inn and the remaining primary competitors are the highest-rated properties in the overall set, this indicates a willingness on the part of Commercial Transient demand to pay higher rates for higher-quality facilities.

Scenario I: Upscale Full-Service Hotel with Meeting/Banquet Facilities

Primary Competitive Supply

Facilities Profile

Property	Number of Guest Rooms	Year Opened	Meeting Space (SF)	Meeting Space Per Guest Room (SF)	Published Rates	Food & Beverage Outlets
Best Western Eden Resort Inn 222 Eden Road, Lancaster	274	1973	21,652	79.0	$149	2 Restaurants, Lounge, Nightclub
Lancaster Host Resort & Conference Center 2300 Lincoln Highway, Lancaster	330	1966	77,775	236.0	$99 - $159	2 Restaurants, Lounge
Willow Valley Inn 2416 Willow Street Pike, Lancaster	352	1966	17,600	50,0	$69 - $119	2 Restaurants
Lancaster Hilton Garden Inn 101 Granite Run Drive, Lancaster	156	1990	1,300	8.4	NA	Restaurant, Lobby Bar

Property	Concierge	In Room Coffee-Maker	In-Room Fax	Complimentary Newspaper	Fitness Center	Business Center	On-Site Spa/Pool	Tennis Or Golf
Best Western Eden Resort	–	✓	–	✓	✓	✓	✓	✓
Lancaster Host Resort & Conference	–	✓	–	–	✓	✓	✓	✓
Willow Valley Inn Resort	–	–	–	✓	✓	–	✓	✓
Lancaster Hilton Garden Inn	–	✓	–	✓	✓	✓	✓	–

✓ denotes availability at the indicated property

NA: Not Available

Source: Interviews with competitive hotels

Estimated Market Mix, Occupancy, Average Rate and RevPAR* - Primary Competitors

Hotel	Number of Rooms	1998 Market Segmentation				Estimated 1998			Estimated 1997		
		Commercial	Leisure	Bus Tour	Group	Occupancy	ADR	RevPAR*	Occupancy	ADR	RevPAR
Best Western Eden Resort	274	30%	20%	10%	40%	80-84%	$75-79	$60-64	80-84%	$75-79	$60-64
Lancaster Host Resort & Conference	330	15%	20%	10%	55%	60-64%	$85-89	$55-59	60-64%	$80-84	$50-54
Willow Valley Inn Resort	352	25%	30%	10%	35%	70-74%	$90-94	$65-69	65-69%	$90-94	$60-64
Lancaster Hilton Garden Inn	156	80%	15%	0%	5%	70-74%	$90-94	$65-69	75-79%	$85-89	$60-64
Totals and Averages	**1,112**	**32%**	**22%**	**9%**	**37%**	**71.8%**	**$86**	**$62**	**71%**	**$83**	**$59**
STR Trend Report[1]	**1,112**	**NAP**	**NAP**	**NAP**	**NAP**	70.4%	$87	$61	69%	$84	$58

Source: Ernst & Young LLP and Smith Travel Research

NAP = Not applicable

* Revenue Per Available Room

[1] Smith Travel Report includes: Best Western Eden Resort, Lancaster Host Resort & Conference, Willow Valley Inn Resort, Lancaster Garden Inn.

Estimated Market Mix, Occupancy, Average Rate and RevPAR - Secondary Competitors

Hotel	Number of Rooms	1998 Market Segmentation				Estimated 1998			Estimated 1997		
		Commercial	Leisure	Bus Tour	Group	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Comfort Inn Sherwood Knoll	166	40%	20%	20%	20%	70-74%	$70-74	$45-49	65-69%	$65-69	$45-49
Hampton Inn	129	55%	40%	0%	5%	75-79%	$75-79	$60-64	75-79%	$70-74	$55-59
Holiday Inn East	189	20%	30%	40%	10%	55-59%	$70-74	$40-44	55-59%	$60-64	$30-34
Quality Inn & Suites	82	30%	40%	10%	20%	65-69%	$60-64	$40-44	65-69%	$60-64	$40-44
Ramada Inn	166	10%	30%	30%	30%	70-74%	$50-54	$35-39	65-69%	$50-54	$30-34
Holiday Inn North	160	20%	50%	20%	10%	55-59%	$60-64	$35-39	55-59%	$60-64	$30-34
Brunswick Hotel	222	3%	31%	20%	47%	60-64%	$55-59	$30-34	70-74%	$45-49	$30-34
Total/Average	**1,114**	**24%**	**33%**	**21%**	**22%**	**65.8%**	**$65**	**$42**	**65%**	**$60**	**$39**
STR Trend Report(1)	1,114	NAP	NAP	NAP	NAP	63.2%	$66	$42	63%	$62	$39

Source: Ernst & Young LLP and Smith Travel Research

NAP = Not applicable

(1) Smith Travel Report includes: Comfort Inn Sherwood Knoll, Hampton Inn, Holiday Inn East, Quality Inn & Suites, Ramada Inn, Holiday Inn North, Brunswick Hotel

Demand Analysis

- The supply-side findings described above are supported by the results of completed demand interviews with Lancaster corporations/associations; 7 of 9 respondents (78 percent) indicated that they would consider paying higher rates for a new upscale, full-service hotel than those currently negotiated for existing facilities, while 10 of 13 respondents (77 percent) indicated that they would consider using the Hotel as described for Transient visitors and/or Group business; the chart on the following page presents a summary of interviews conducted with Lancaster corporations, associations, and other entities.

- For six respondents, negotiated rates currently paid at Lancaster hotels ranged from \$48 to \$99 for Transient visitors, with the range more narrow for 5 of the 6 respondents (\$65 to \$99); 9 of 9 respondents (100 percent) indicated that all or a portion of their visitors are not rate sensitive, with six respondents indicating potential rate ceilings ranging from the high \$90s to \$160 (with the majority ranging from \$120 to \$125).

- In terms of properties most utilized by the demand sources interviewed, 6 of 9 respondents (67 percent) indicated that the Hilton Garden Inn was their primary choice (with negotiated rates for the Hilton ranging from \$68 to \$99 for Transient visitors).

- Of the 13 respondents to the demand interviews, all generate Transient demand for area lodging accommodations; the three largest demand generators in the sample (as reported by the respondents) are Franklin & Marshall College (approximately 12,000 room nights annually), Armstrong World Industries (approximately 8,800 to 10,000 room nights annually), and Bulova Technologies (approximately 6,000 room nights annually); each of these demand generators indicated that they would consider utilizing the Hotel for both Transient visitors and Group business.

Penn Square Center Interview Summary

Lancaster Demand Generators

Name	Contact Person	Type	Estimated Annual Room Nights Generated	Would Potentially Use Proposed Hotel/Conference Center?
Armstrong World Industries	Steven Piquet	Company	8,800 - 10,000	Yes
Bank of Lancaster County	Christine Schneider	Company	NA	Yes
Bulova Technologies	Craig Schnee	Company	6,000	Yes
Burnham Boiler Corporation	Linda Roschel	Company	198	Yes
Ecklin Group	Rob Ecklin	Company	6	Yes
Franklin & Marshall College	Debbie Warner	University	12,000	Yes
Fulton Bank	Vicky Kuntz	Company	60	Yes
Grinnell Corporation	Diane Cardkadden	Company	NA	No
Irex Corporation	Kirk Liddell	Company	24	Yes
Kalas Manufacturing	Rich Witwer	Company	330	No
New Holland North America	Dean Morrell	Company	455	Yes
Tyson Foods	Todd Shultz	Company	240	No
Wilbur Chocolate	Louise Brown	Company	180	Yes

NA: Not Available

Source: Individual respondents

- Two of the three largest local demand generators (Armstrong and Bulova) generate limited overnight Group demand in Lancaster as most of their overnight Group events are held away from Lancaster in warmer locations; Franklin & Marshall, however, reportedly generates five Board of Trustees meetings annually (comprised of approximately 100 attendees for a duration of one night) and 5 to 8 educational retreats annually (comprised of approximately 50 to 80 attendees for a duration of one night).

- Of the 13 respondents to the demand interviews, 12 generate overnight and/or day Group demand for area lodging accommodations; for 5 respondents, smaller overnight groups typically range in size from 10 to 60 attendees, with larger groups ranging in size from 100 to 600 attendees; for 6 respondents, day group meetings typically range in size from 10 to 60 attendees for smaller groups, and 100 to 350 attendees for larger groups; for 2 respondents, overnight Group room rates range from $90 to $100.

- For 8 respondents, the most utilized local properties for overnight Group business are the Best Western Eden Resort and the Host Resort; other properties utilized to a lesser degree include the Willow Valley Inn, the Hilton Garden Inn, and the Comfort Inn; for larger overnight groups, 2 of the 8 respondents stated that they utilize the Hershey Lodge and Conference Center in Hershey (approximately 40 minutes driving distance from Lancaster) based on capacity and quality issues.

- In terms of day Group demand, 10 of 12 respondents (83 percent) generate day meetings for local lodging facilities in Lancaster; the most utilized properties include the Willow Valley Inn, the Brunswick Hotel, and the Best Western Eden Resort.

Preliminary Project Concept

- The following facilities profile (including only front-of-the-house facilities) has been recommended for the Hotel based on industry standards for properties of this type, facilities at competitive hotels, and requirements of demand as derived from the demand interviews. The profile consists of preliminary recommendations of facilities appropriate for the defined market, and is assumed integral to the Hotel achieving the performance estimates set forth in this report. The facilities profile presented below was not developed with the assistance of architects or like professionals, and as such, may be limited with respect to structural considerations.

Scenario I: Upscale Full-Service Hotel with Meeting/Banquet Facilities

- On a supply-side basis, the properties in the primary competitive set were considered most comparable to the Hotel (and thus relevant to developing a facilities profile) in terms of facilities and amenities offered, and market orientation; these properties include the Best Western Eden Resort Inn and Conference Center, the Lancaster Host Resort, the Willow Valley Inn, and the Lancaster Hilton Garden Inn.

- In estimating occupancy for the Hotel, three sizing scenarios were analyzed: 169 rooms, 281 rooms, and 393 rooms; these sizes were chosen based on the preliminary Conceptual Program Summary provided by the architects and are meant to provide **approximations** of potential sizing scenarios for the Hotel.

- Based on the analysis described in the following section, estimated stabilized occupancy levels and ADRs (in constant 1998 dollars) for the three sizing scenarios are as follows:

Hotel Size		Stabilized	
Scenario	**Number of Rooms**	**Occupancy**	**ADR (in constant 1998 dollars)**
A	169	73%	$109
B	281	71%	$103
C	393	69%	$99

- Given the above estimates, **the recommended sizing scenario for the Hotel is approximately 169 rooms**; this is based on a combination of the following factors:

  - ◊ Demand interviews and supply factors indicate that there is a desire on the part of local businesses and associations to utilize a higher-quality full-service facility such as the Hotel, and a willingness to pay a premium over existing market room rates for this increase in quality (in general, would pay up to $120 – $130, as opposed to current rates of up to $100).

- ◊ The primary set reported an aggregate occupancy of 72 percent and an ADR of $86 in 1998; as the Hotel's estimated ADR exceeds the current market level, Scenario A is anticipated to enable the Hotel to capture a larger proportion of higher-rated demand segments (Commercial Individual and Group) than lower-rated segments (Bus Tour and Leisure) in its overall market mix than under the larger scenarios.

- ◊ Although no competitive additions to supply are planned during the period under analysis, several hotels, including the nearby Brunswick Hotel, are undergoing substantial renovations, potentially increasing their degree of competitiveness with the Hotel.

- ◊ As Lancaster is a seasonal market, with peak-season occurring from August to October due to increased leisure demand, the smaller Hotel is anticipated to maintain higher occupancy levels during the off-season when there is intense competition for a limited demand base, resulting in deep rate discounts throughout the supply.

➢ In estimating meeting space square footage for the Hotel, the properties in the primary set were analyzed utilizing a penetration analysis (i.e., measuring each hotel's available meeting space against overnight and day Group demand captured at each property): this analysis indicated that on a per-square-foot basis, the Willow Valley Inn and the Best Western Eden Resort are the market leaders in capturing Group business.

➢ The range of meeting space per guest room at each of these properties is 50 to 79 square feet, respectively, with an average of approximately 65 square feet per guest room; based on an estimated optimal range of 75 to 80 square feet per guest room (assuming day Group usage and some overflow of larger overnight groups to nearby hotels), **the recommended total square footage of meeting space for the Hotel at 169 rooms is approximately 13,200.**

➢ The recommended configuration for the meeting space is as follows (based on penetration of utilized space at competitive properties and the results of demand interviews):

- ◊ 9,000-square-foot ballroom divisible into three 3,000-square-foot sections (does not include ballroom foyer)

- ◊ One 2,100-square-foot meeting room divisible into three 700-square-foot sections

- ◊ Four 400-square-foot meeting rooms (1,600 square feet)

- ◊ Two 250-square-foot meeting rooms (500 square feet).

- Based on competitive facilities and typical requirements of demand obtained through demand interviews, **recommended food and beverage outlets include a 120-seat three-meal restaurant (approximately 2,300 square feet) and a 40-seat lobby lounge (approximately 800 square feet)**.

- Additionally, it is recommended that the Hotel contain **a business center (approximately 400 square feet), a fitness center (approximately 800 square feet), an indoor pool and whirlpool (approximately 900 square feet, not including deck), and a gift shop (approximately 600 square feet).**

- It is also recommended that the Hotel offer the following amenities:

  - 24-hour room service;

  - In-room amenities including cable/satellite television with movies/video games available for rental, dataport, coffee makers, irons and ironing boards, hairdryers, etc.;

  - Complimentary newspaper delivered to guest rooms.

Estimates of Occupancy, Average Daily Room Rate, and Day Group Revenues

➢ As stated above, the recommended sizing for Scenario I is approximately 169 rooms; assuming the Hotel will open in 2001 with 169 rooms, the following table presents estimated market occupancy from 1998 through 2005, as well as the Hotel's estimated occupancy and ADR from 2001 through 2005 (the Hotel's occupancy is anticipated to stabilize in its third year of operation):

Estimated Market Occupancy, and Hotel Occupancy, ADR, and RevPAR

Year	Market Occupancy	Hotel Occupancy	Hotel ADR* (in inflated $'s)	Hotel RevPAR
1998 (Historic)	68.8%	–	–	–
1999	70.1%	–	–	–
2000	71.1%	–	–	–
2001	67.6%	59.4%	$113.75	$67.56
2002	69.3%	66.3%	$124.36	$82.42
2003	70.6%	73.1%	$129.11	$94.39
2004	70.6%	73.1%	$133.67	$97.71
2005	70.6%	73.1%	$138.37	$101.15

* ADR is inflated by an annual rate of 3.5 percent and has been discounted by 5 percent in 2001 to reflect the property's assumed initial-year discounting policies.

➢ Market segmentation for the Hotel in a stabilized year of operation (2003) is estimated at 40 percent Commercial Transient, 28 percent Group, 22 percent Leisure Transient, and 10 percent Bus Tour, at an occupancy of 73.1 percent.

- Based on the supply and demand analysis summarized above, this market mix assumes the Hotel will compete at a competitive advantage in capturing the higher-rated demand segments (Commercial Transient and Group) based primarily on its quality of facilities and amenities, and upscale market orientation; the Hotel is anticipated to compete at a competitive disadvantage in capturing the price-sensitive segments (Leisure Transient and Bus Tour) based on its rate positioning and yield-management strategies (which will proactively limit lower-rated demand to accommodate higher-rated segments).

- Average daily room rate per segment at the Hotel in a stabilized year of operation (2003) in constant 1998 dollars is estimated to be $125 for Commercial Transient, $105 for Group, $95 for Leisure Transient, and $85 for Bus Tour; based on the Hotel's estimated stabilized market mix presented above, the overall weighted ADR for the Hotel is estimated at $109 in constant dollars in a stabilized year of operation.

- The estimated ADR assumes that the Hotel will achieve a premium in rate over its competitors due to its anticipated level of services and facilities, and capture of the highest-rated components of each demand segment.

- Based on primary research, day Group attendees range from 10 to 40 percent of total Group attendees at Lancaster's three group-oriented hotels (the Best Western Eden Resort, the Lancaster Host Resort, and the Willow Valley Inn), with the average day Group component at approximately 25 percent of total attendees.

- Multiple occupancy at the three above-mentioned properties is reported to be approximately 1.5 overnight group attendees per guest room.

- As stated above, overnight Group demand is estimated to be 28 percent of total demand, or 12,529 occupied room nights, at the Hotel in a stabilized year of operation (2003); assuming a multiple occupancy factor of 1.5 for overnight groups staying at the Hotel, and a day Group percentage of 25 percent of total Group attendees, estimated day Group attendees at the Hotel in a stabilized year of operation is 6,390 attendees:

  12,529 Group room nights x 1.5 (multiple occupancy factor) = 18,794 overnight Group attendees
  If 18,794 overnight attendees = 75% of total attendees, then total attendees (100%) = 25,183
  25,183 total attendees – 18,794 overnight attendees (75%) = 6,390 day Group attendees (25%)

- According to the International Association of Conference Centers (IACC), median day packages at conference centers (including primarily meeting room rental charge, basic conference planning, audio visual, coffee breaks, lunch and other miscellaneous charges) range from \$58 to \$74 per attendee, varying according to the type and market orientation of the center; based on day package rates reported by demand generators and competitive hotels (ranging from \$15 to \$20), the results of demand interviews (which indicated a price-sensitivity in the day Group market), and the anticipated upscale facilities at the Hotel, the day Group package rate for the Hotel is estimated at \$30 in constant 1998 dollars.

- Applying this amount to the estimated day Group attendees presented above (6,390 attendees) results in estimated day Group revenues of \$191,700 (in constant 1998 dollars) in a stabilized year of operation (2003).

➢ Initial findings with respect to a Conference Center on the Site (Scenario II) are described below; the recommended sizing for Scenario II would be approximately 281 rooms with 31,000 square feet of conference space; recommendations regarding facilities are described in detail later in this section.

➢ For Scenario II, estimates of future performance for the Conference Center were based on an analysis of macro-trends reported by industry sources, an analysis of the Conference Center's defined competitive supply, and supported by interviews with potential sources of demand for the Conference Center.

Supply Analysis

➢ The Conference Center's competitors were selected based on a combination of the following factors: location, market orientation, rate positioning, chain affiliation, size, and quality of facilities and amenities.

➢ The Conference Center's local competitive set includes the Best Western Eden Resort Inn and Conference Center, the Lancaster Host Resort, and the Willow Valley Inn.

➢ The Hotel's regional competitive set is comprised of the Eagle Lodge in Lafayette Hill, the Park Ridge Valley Forge in King of Prussia, the Hotel Hershey and the Hershey Lodge and Convention Center in Hershey, and the Forrestal Conference Center in Princeton, New Jersey (see charts on the following pages).

➢ According to primary research, estimated aggregate market occupancy and ADR for the local competitive supply was 71.6 percent and $86 in 1998; estimated market segmentation was 24 percent Commercial Transient, 43 percent Group, 24 percent Leisure Transient, and 10 percent Tour Bus.

➢ Estimated occupancy and ADR for the regional supply was 70.1 percent and $138 in 1998; estimated market segmentation was 72 percent Group and 28 percent Leisure/Other Transient.

Competitive Lodging/Conference Center Supply
Facilities Profile

Property	Address	Year Opened	Number Of Guest Rooms	Meeting Space (SF)	Meeting Space Per Guest Room (SF)	Number Of Ballrooms	Number Of Restaurants/ Dining Rooms	Number Of Seats	Number Of Bars/ Lounges	Number Of Seats
Lancaster Host Resort	2300 Lincoln Highway East, Lancaster, PA 17602	1966	330	77,775	235.7	3	2	225/85	1	50
Best Western Eden Resort	222 Eden Road, Lancaster, PA 17601	1973	274	21,652	79.0	2	2	170/150	1	125
Willow Valley Resort	2416 Willow Street Pike, Lancaster, PA 17602	1966	353	17,600	49.9	4	2	500/250	0	NAP
Eagle Lodge Conference Center	Ridge Pike & Manor Road, Lafayette Hill, PA 19444	1980	120	15,963	133.0	1	3	NAV	2	40/40
Park Ridge Valley Forge	480 North Gulph Road, King of Prussia, PA 19406	1973	265	21,640	81.7	2	1	160	1	50
Hotel Hershey	Hotel Road, Hershey, PA 17033	1933	235	23,500	100.0	3	2	200/80	1	45
Hershey Lodge & Convention Center	West Chocolate Avenue & University Drive, Hershey, PA 17033	1967	665	100,000	150.4	3	3	230/110/110	3	50
Forrestal Conference Center	100 College Road East, Princeton, NJ 08540	1981	290	35,000	120.7	2	2	250/190	1	50
Range	–	**1966-1981**	**120-665**	**15,963-100,000**	**49.9-235.7**	**1-4**	**1-3**	**80-500**	**0-3**	**40-125**

NAV: Not Available

NAP: Not Applicable

Source: Interviews with Competitive Facilities

Competitive Lodging/Conference Center Supply
Facilities Profile

Property	Concierge	Business Center	Fitness Center	Outdoor Pool(s)	Indoor Pool(s)	Tennis	Golf	Game Room
Lancaster Host Resort	✓	✓	✓	✓	✓	✓	✓	✓
Best Western Eden Resort	✓	✓	✓	✓	✓	✓	–	✓
Willow Valley Resort	✓	✓	✓	✓	✓	✓	✓	–
Eagle Lodge Conference Center	✓	✓	✓	–	✓	✓	✓	✓
Park Ridge Valley Forge	✓	✓	✓	✓	–	✓	–	–
Hotel Hershey	✓	✓	✓	✓	✓	✓	✓	✓
Hershey Lodge & Convention Center	✓	✓	✓	✓	✓	✓	✓	✓
Forrestal Conference Center	✓	✓	✓	–	✓	✓	✓	✓

✓ Denotes availability at the indicated property

Source: Interviews with Competitive Facilities

Estimated Market Mix, Occupancy, Average Rate and RevPAR–Competitive Lodging Supply

Hotel	Number of Rooms	1998 Market Segmentation: Commercial	Group	Leisure	Bus Tour	Estimated 1998: Occupancy	ADR	RevPAR
Lancaster Host Resort	330	15%	55%	20%	10%	60%-64%	$85-$89	$55-$59
Best Western Eden Resort	274	30%	40%	20%	10%	80%-84%	$75-$79	$60-$64
Willow Valley Resort	353	25%	35%	30%	10%	70%-74%	$90-$94	$65-$69
Totals and Averages	**957**	**24%**	**43%**	**24%**	**10%**	**71.6%**	**$86**	**$61**
Eagle Lodge Conference Center	120	–	95%	5%	–	70%-74%	$115-$119	$80-$84
Park Ridge Valley Forge	265	–	75%	25%	–	75%-79%	$100-$104	$75-$79
Forrestal Conference Center	290	–	80%	20%	–	65%-69%	$140-$144	$95-$99
Hotel Hershey/Hershey Lodge & Conference Center	235/665	–	65%	35%	–	65%-69%	$150-$154	$100-$104
Totals and Averages	**1,575**	–	**72%**	**28%**	–	**70.1%**	**$138**	**$97**
All Competitive Lodging Supply Totals and Averages	**2,532**	**11%**	**57%**	**28%**	**5%**	**70.7%**	**$117.73**	**$83.21**
STR Trend Report [1]	2,532	NAP	NAP	NAP	NAP	70.8%	$115.89	$82.04

Source: Competitive hotel interviews and Smith Travel Research

[1] Note: Smith Travel Trend Report includes: Lancaster Host Resort, Best Western Eden Resort, Willow Valley Resort, Eagle Lodge Conference Center, Park Ridge Valley Forge, Forrestal Conference Center, Hotel Hershey, and Hershey Lodge and Convention Center.

NAP: Not Applicable

- Combined market occupancy and ADR for the total competitive set was 70.7 percent and $117.73 in 1998; market segmentation was 11 percent Commercial Transient, 57 percent Group, 28 percent Leisure/Other Transient, and 5 percent Bus Tour.

- The market leader in the local competitive set in terms of RevPAR in 1998 was the Willow Valley Inn (353 rooms), with an estimated occupancy ranging from 70 to 74 percent, and an ADR from $90 to $94; the Willow Valley Inn is the market leader in capturing Leisure Transient demand, comprising approximately 30 percent of its total demand segmentation, and captures the least amount of Group demand as a percentage of its total market mix (35 percent) relative to the competition.

- The market leader in the regional competitive set in terms of RevPAR in 1998 was the combined Hershey properties (900 rooms), with an estimated occupancy ranging from 65 to 69 percent, and an ADR from $150 to $154; the combined Hershey properties are the market leader in capturing Leisure Transient demand, comprising approximately 35 percent of their total demand segmentation, and capture the least amount of Group demand as a percentage of their total market mix (65 percent) relative to the competition.

- The Hershey properties are the highest-rated in the regional competitive set, and combined have the most extensive conference and exhibition facilities; as Hershey is a well-known destination for leisure travel in the northeast, and the Hershey properties offer upscale resort facilities and amenities, the properties are effective in targeting high-end Leisure Transient demand and overnight Groups.

- With respect to macro-trends, according to the IACC, aggregate occupancy for dedicated conference centers in 1997 was 66.5 percent at an ADR of $125; for conference centers with 250 rooms or more, occupancy and ADR were 67.3 percent and $136; for centers with 100 to 249 rooms, ADR and occupancy were 68.9 percent and $97; and for centers with less than 100 rooms, occupancy and ADR were 51.1 percent and $81.

- As the above data indicates, RevPAR is the highest for conference centers with 250 rooms or more ($91.52); this indicates that an optimal threshold capacity (in terms of guest rooms and conference space) is necessary to sustain marketability to groups of various sizes, thus enabling a center to maximize rate through successful yield management strategies; this is supported by the occupancy and ADR levels at conference centers with less than 100 rooms, which are significantly below the other size categories.

Demand Analysis

- The supply-side findings described above are supported by the results of completed demand interviews with regional corporations, associations, and meeting planners; 19 of 20 respondents (95 percent) indicated that they hold overnight meetings in locations other than the city in which they are located, while 16 of 20 respondents (80 percent) indicated that they would consider using the Conference Center as described for overnight Group business; 8 of 12 respondents (67 percent) indicated that they would not consider using the property if it were a full-service hotel with meeting/banquet space (rather than a conference center).

- The chart on the following page presents a summary of demand interviews conducted with regional corporations, associations, and meeting planners.

- For all 20 respondents, negotiated rates currently paid at conference centers and/or hotels ranged from $40 to $175 for overnight Group demand, with the range more narrow for 14 (70 percent) of the respondents ($70 to $120); only 3 of 20 respondents (15 percent) indicated that rate was their first priority when choosing a conference center, while location was the first priority of 15 of 20 respondents (75 percent); respondents cited that the factors most relevant to location include proximity to a major airport, local attractions, a major city, and/or the hosting corporation/association.

Penn Square Center Interview Summary

Regional Demand Generators

Name	Contact Person	Location	Type	Annual Overnight Meetings/Attendees	Would Potentially Use Proposed Conference Center?
ABWE	Dr. H.E. Haskell	Harrisburg, PA	Association	4/30-800	Yes
AME Zion Church	Rev. Kathryn G. Brown	Baltimore, MD	Association	5/200-1,500	Yes
Aramark	Fay Kazanjian	Philadelphia, PA	Company	1/Up to 180	No
Armstrong World Industries	Sue Andersen	Lancaster, PA	Company	5-10/20-150	Yes
Beamer & Associates	Barbara Collins	Mechanicsburg, PA	Meeting Planner	15/10-900	Yes
Carpenter Technology Corp.	Jeanne Freeman	Reading, PA	Company	8/6-500	No
CNA Insurance	Karen Woolworth	Reading, PA	Company	2-3/Up to 50	Yes
League of American Bicyclists	Maureen Becker	Washington, DC	Meeting Planner	3/300-1,000	Yes
MAC Events	Cindy Napp	Spring Lake, NJ	Meeting Planner	2/Up to 500+	Yes
McNeil Consumer Products	Carol Blythe	Ft. Washington, PA	Meeting Planner	12/20-200	Yes
Meetings, Etc.	Darlene Hutchinson	Middleton, DE	Meeting Planner	15/25-200	Yes
National Association of Service & Conservation Corps	Casey Chandler	Washington, DC	Meeting Planner	10/50-200	Yes
National Quilting Association	Gayle Sternheim	Baltimore, MD	Association	2/Up to 15	Yes
National Shoe Retailers Association	Jeannie Williams	Baltimore, MD	Association	20/40-600	Yes
Pennsylvania Association of Medical Suppliers	Claire Turner	Harrisburg, PA	Association	6-8/50-150	Yes
Pennsylvania Optometric Association	Ilene Sauertieg	Harrisburg, PA	Association	6-8/25-500	Yes
Professional Insurance Agents Association	Denise Halaska	Harrisburg, PA	Association	6/50-135	Yes
Sylvan Learning Systems	Wanda Leach	Baltimore, MD	Company	1/30-100	No
Wyeth-Ayerst Laboratories	Amy Hamilton	St. Davids, PA	Meeting Planner	20/20-2,200	Yes
YMCA of Reading & Berks County	Kim Corbit	Reading, PA	Association	2/50-100	No

Source: Individual respondents

- With respect to conferences, all 20 respondents indicated that they generate from 1 to 20 conferences on an annual basis, with 10 respondents (50 percent) indicating a more narrow range of frequency (5 to 15 conferences per year).

- For all 20 respondents, the range of conference sizes was 6 to 2,200 attendees; 17 of the 20 respondents (85 percent) reported minimum meeting sizes of 50 attendees or less, while 9 of 20 (45 percent) reported maximum meeting sizes of 500 attendees or greater; 9 of the 20 respondents (45 percent) reported maximum meeting sizes of 100 to 200 attendees.

- Meeting types reported include board meetings, training seminars, sales rallies, industry conferences, corporate retreats, religious retreats, departmental/division meetings, recreational rallies, high-level executive meetings, and consumer shows.

- Of the 20 respondents to the demand interviews, 10 (50 percent) generate overnight conferences only during the weekdays (Monday through Friday), while the remaining 10 respondents generate conferences on both weekdays and weekends.

- Of the 7 meeting planners interviewed, 2 (29 percent) indicated that they book conferences year-round, 2 (29 percent) indicated that they book conferences primarily during the summer months (June through August), and the remaining 3 (42 percent) indicated they book conferences primarily in the fall (September through November) and summer months.

- For the 20 respondents, the average length of stay ("ALOS") for a typical conference ranged from 1 to 7 nights, with 10 (50 percent) of the respondents indicating an ALOS of 3 nights or less, 8 (40 percent) indicating an ALOS of 5 nights or less, and 2 (10 percent) indicating an ALOS of 7 nights or less.

- For 18 respondents, double-occupancy guest rooms ranged from 0 to 100 percent of total guest rooms booked; for 8 of the 18 respondents (44 percent), only single-occupancy guest rooms are typically required; for 5 of the 18 respondents (28 percent), 50 percent or more of the guest rooms required are typically double occupancy; for the remaining 5 respondents (28 percent), 1 to 49 percent of the guest rooms required are typically double occupancy.

- It is important to note that the demand interviews completed represent a sample of the potential users of the facilities. These interviews were completed to obtain an indication of the potential demand for the proposed facility.

Preliminary Project Concept

- The following facilities profile (including only front-of-the-house facilities) has been recommended for the Conference Center based on industry standards for properties of this type, facilities at competitive conference centers, and requirements of demand (as derived from the demand interviews). The profile consists of preliminary recommendations of facilities appropriate for the defined market, and is assumed integral to the Conference Center achieving the performance estimates set forth in this report. The facilities profile presented below was not developed with the assistance of architects or like professionals, and as such, may be limited with respect to structural considerations.

- On a supply-side basis, the properties in the Conference Center's competitive set were divided into two groups: full-service hotels in Lancaster with significant conference facilities (including the Best Western Eden Resort Inn and Conference Center, the Lancaster Host Resort, and the Willow Valley Inn), and dedicated conference centers located throughout the region (including the Eagle Lodge in Lafayette Hill, the Park Ridge Valley Forge in King of Prussia, the Hotel Hershey and the Hershey Lodge and Conference Center in Hershey, and the Forrestal Conference Center in Princeton, New Jersey).

- Although all of the above properties were considered in the facilities analysis, the dedicated regional conference centers were considered most comparable to the Conference Center (and thus relevant to developing a facilities profile) in terms of facilities and amenities offered, and market orientation.

- In estimating occupancy for the Conference Center, three sizing scenarios were analyzed: 169 rooms, 281 rooms, and 393 rooms; these sizes were chosen based on the preliminary Conceptual Program Summary provided by the architects and are meant to provide approximations of appropriate sizing scenarios for the Conference Center.

➢ Based on the analysis described in the following section, estimated stabilized occupancy levels and ADRs (in constant 1998 dollars) for the three sizing scenarios are as follows:

Hotel Size		**Stabilized**	
Scenario	**Number of Rooms**	**Occupancy**	**ADR (in constant 1998 dollars)**
A	169	71%	$106
B	281	69%	$104
C	393	67%	$100

➢ Given the above estimates, **the recommended sizing scenario for the Hotel is approximately 281 rooms**; this is based on a combination of the following factors:

◊ The set of five regional conference centers achieved an overall occupancy of 70 percent in 1998, with an associated ADR of $138; of this set of properties, the Park Ridge Valley Forge (265 rooms) achieved the highest occupancy at an ADR ($100 – $104) similar to that estimated for the Conference Center, significantly above the occupancy levels of the Eagle Lodge (120 rooms), the Hershey properties (900 rooms combined), and Forrestal (290 rooms).

◊ Five of the seven meeting planners interviewed (71 percent) indicated typical sizes for large blocks of guest rooms range from 100 to 600 rooms; this indicates that in order for the Conference Center to accommodate more than one large group simultaneously, as well as capture other segments of demand, it will require more rooms than that contained in the minimum sizing scenario.

◊ An estimated 72 percent of total demand for the five conference centers is comprised of overnight Group business, the remaining 28 percent consisting of a mixture of Leisure Transient business and other demand (Commercial Transient and Bus Tour): in order for the Conference Center to maintain a mix similar to this, and retain its capture of other demand segments occurring at the same times as Group demand (i.e., Commercial Transient demand), it is estimated that the minimum sizing scenario would be insufficient.

◊ Although no competitive additions to supply are planned during the period under analysis, the nearby Brunswick Hotel is reportedly undergoing substantial renovations and may be considering an affiliation with Scanticon (a national conference center management company), potentially increasing its degree of competitiveness with the Conference Center (the largest sizing scenario, with the most rooms to fill, would potentially be the most vulnerable to increases in the competitive supply).

◊ Additionally, the seasonality of the Lancaster market (and its impact on Leisure and Tour Group demand), the Site's distance from a major international airport and urban center, and a lack of surrounding outdoor acreage necessary for amenities such as golf and outdoor jogging, are anticipated to limit the Conference Center's marketability to national and international markets; this potential lack of demand from locations other than the immediate region and the local Lancaster area, indicates a higher degree of risk with respect to the successful operation of the 393-room sizing scenario than the 281-room scenario.

◊ In terms of macro-trends, according to the IACC, on average, conference centers with 250 rooms or more achieved an ADR of $136 in 1997, while those with 100 to 249 rooms achieved an ADR of $97.

◊ Additionally, the IACC reported that conference centers with 100 to 249 rooms, and with 250 rooms or more, achieved similar occupancies in 1997, of 68.9 percent and 67.3 percent, respectively; this combined with the above-stated ADRs yields Rooms Revenue per Available Room ("RevPAR") that is significantly higher for conference centers with 250 rooms or more, than for conference centers with 100 to 249 rooms.

➢ In recommending the amount of conference space for the Conference Center, the properties in the regional set were analyzed utilizing a penetration analysis (i.e., measuring each conference center's available conference space against overnight and day Group demand captured at each property): this analysis indicated that on a per-square-foot basis, the Eagle Lodge, the Park Ridge Conference Center, and the Forrestal Conference Center are the market leaders in capturing Group business.

- The range of meeting space per guest room at each of these properties is 82 to 150 square feet, respectively, with an average of approximately 117 square feet per guest room; based on an estimated optimal range of 105 to 115 square feet per guest room (assuming day Group usage and some overflow of larger overnight groups to nearby hotels), **the recommended total square footage of meeting space for the Hotel at 281 rooms is approximately 31,000**.

- According to discussions with nationally recognized conference center management companies, the optimal range of conference space per guest room at a dedicated conference center is approximately 110 to 130 square feet, with a guest room to meeting/banquet room ratio of approximately 9 guest rooms per meeting room; according to the IACC, the average number of meeting/banquet rooms in a dedicated conference center was 28 in 1997.

- **The recommended configuration (28 meeting rooms)** for the conference space is as follows, based on penetration of utilized space at competitive properties, the results of demand interviews, industry standards as provided by IACC, and typical development parameters provided by nationally recognized conference center management companies:

  - 13,500-square-foot ballroom divisible into three 4,500-square-foot sections
  - One 7,500-square-foot junior ballroom divisible into three 2,500-square-foot sections
  - One 1,200-square-foot meeting room divisible into two 600-square-foot sections
  - Five 750-square-foot meeting rooms (3,750 square feet)
  - Five 450-square-foot meeting rooms (2,250 square feet)
  - Four 325-square-foot meeting rooms (1,300 square feet)
  - Six 225-square-foot meeting rooms (1,350 square feet).

- Based on competitive facilities, typical requirements of demand (derived through demand interviews), industry standards as provided by IACC, and typical development parameters provided by nationally recognized conference center management companies, **recommended food and beverage outlets include two restaurants – a 120-seat three-meal restaurant (approximately 2,300 square feet), and a 250-seat main dining room (approximately 5,000 square feet); a 75-seat lobby lounge (approximately 1,500 square feet); and an entertainment lounge, with a capacity of 150 people (approximately 2,300 square feet).**

- It is also recommended that the Conference Center **contain a business center (approximately 700 square feet), a fitness center (approximately 2,000 square feet), an indoor pool and whirlpool (approximately 1,100 square feet, not including deck), and a gift shop (approximately 800 square feet).**

- Additionally, it is recommended that the Conference Center offer the following facilities and amenities:

  - 24-hour room service;
  - In-room amenities including cable/satellite television with movies/video games available for rental, dataport, coffee makers, irons and ironing boards, hairdryers, etc.;
  - Complimentary newspaper delivered to guest rooms;
  - Tennis court(s) and/or racquetball court(s);
  - Preferred tee-times at nearby golf course(s);
  - State-of-the-art audio-visual equipment for conferences (flip charts, slide projectors, dataports for computer-generated presentations, microphones, overhead projectors, etc.).

- According to the IACC, a fitness club, swimming pool, and tennis courts are the most common recreational facilities offered at conference centers: on-site golf was offered at only 33 percent of dedicated conference centers in 1997; 2 (10 percent) of the 20 regional demand interview respondents (corporations, associations, and meeting planners) indicated that on-site golf was a mandatory requirement for their groups.

Estimates of Occupancy, Average Daily Room Rate, CMP ("Complete Meeting Package") Revenues, and Day Group Revenues

➢ As stated above, the recommended sizing for Scenario II is approximately 281 rooms; assuming the Conference Center will open in 2001 with 281 rooms, the following table presents estimated market occupancy from 1998 through 2005, as well as the Conference Center's estimated occupancy and ADR from 2001 through 2005 (the Conference Center's occupancy is anticipated to stabilize in its third year of operation):

Estimated Market Occupancy, and Hotel Occupancy, ADR, and RevPAR

Year	Market Occupancy	Hotel Occupancy	Hotel ADR* (in inflated $'s)	Hotel RevPAR
1998 (Historic)	71%	–	–	–
1999	72%	–	–	–
2000	73%	–	–	–
2001	68%	55%	$109.22	$60.07
2002	69%	61%	$118.99	$72.58
2003	70%	69%	$123.15	$84.97
2004	70%	69%	$127.46	$87.95
2005	70%	69%	$131.92	$91.02

* ADR is inflated by an annual rate of 3.5 percent and has been discounted by 5 percent in 2001 to reflect the property's assumed initial-year discounting policies.

➢ Market segmentation for the Conference Center in a stabilized year of operation (2003) is estimated at 71 percent Group, 13 percent Leisure Transient, 10 percent Commercial Transient, and 6 percent Bus Tour.

- Given the supply and demand analysis summarized above, this market mix assumes the Hotel will attract both local and regional overnight Groups based on its quality of facilities, rate positioning, and location; the estimated percentage of demand generated by segments other than Group is less than that of Scenario I (Full-Service Hotel), due primarily to displacement of these segments during the weekdays and weekends by overnight Group demand (large blocks of rooms taken for multiple nights).

- The estimated ADR assumes that the Hotel will achieve a premium in rate over its local competitors due to its anticipated level of services and facilities, but will discount rate to compete effectively against its regional competitors (which have superior locations near major airports, urban centers, and/or regional tourist attractions).

- Additionally, estimates of ADR assume that a percentage of Group demand will consist of guests paying a CMP ("Complete Meeting Package") rate, including primarily guest room charges, food charges, and conference services; based on data from comparable conference center operations in the mid-Atlantic region, and provided by nationally known conference center management companies as well as the competitive properties, it is estimated that approximately 70 percent of overnight Group guests will pay a CMP rate (approximately 50 percent of total occupied room nights).

- Multiple occupancy at the Eagle Lodge, the Park Ridge Conference Center, the Hotel Hershey and the Hershey Lodge combined, and the Forrestal Conference Center ranged from 1.1 to 1.5 conference attendees per guest room (with an average multiple occupancy of 1.3 attendees per guest room).

- Based on the above supply data, and the Conference Center's anticipated market mix and rate positioning, it is estimated that the Conference Center will have a multiple occupancy factor of 1.4 attendees per occupied room, resulting in total overnight Group attendees in a stabilized year of operation (2003) of 69,950 attendees:

  50,481 total Group occupied room nights (71% total demand) x 1.4 attendees per occupied room
  = 69,950 overnight group attendees

- The CMP rate for the Conference Center at 281 guest rooms is estimated at $180 per guest; this estimate is based on the results of demand interviews (which indicated CMP rates per attendee ranging from $150 to $300); CMP rates reported at the competitive regional properties (which ranged from $170 to $279 for single occupancy); and the range of median CMP rates provided by the IACC for dedicated conference centers in 1997 (from $160 to $265 per attendee, varying according to the type and market orientation of the conference center); CMP revenue in a stabilized year in constant (1998) value dollars is calculated as follows:

  48,965 CMP attendees (70% total overnight group attendees) x $180 per attendee = $8,813,700

- Further, CMP rates are typically allocated primarily among guest room charges, food and beverage charges, and conference services; the allocation for the Conference Center has been estimated based on data from comparable conference center operations throughout the mid-Atlantic region, and information provided by the IACC:

Total CMP Rate = $180
Allocation to Guest Room = 43% = $77
Allocation to Food and Beverage = 37% = $67
Allocation to Conference Services = 20% = $36

- Based on the estimated multiple occupancy factor of 1.4 attendees per guest room, the average CMP rate per occupied guest room is approximately $252 in constant (1998) dollars, with a guest room allocation of approximately $108 per occupied room:

$180 (CMP rate per attendee) x 1.4 attendees per occupied guest room = $252 (CMP rate per occupied room)
$252 x 43% (allocation to guest room) = $108 (guest room allocation per occupied room)

- Average daily room rate per segment at the Conference Center in a stabilized year of operation (2003) in constant dollars is estimated to be $108 for CMP Group, $100 for Non-CMP Group, $120 for Commercial Transient, $90 for Leisure Transient, and $80 for Bus Tour; based on the Conference Center's estimated stabilized market mix of 50 percent CMP Group, 21 percent Non-CMP Group, 10 percent Commercial Transient, 13 percent Leisure Transient, and 6 percent Bus Tour, the overall weighted ADR for the Conference Center is estimated at $104 in constant dollars in a stabilized year of operation.

- It is estimated that day Group demand for the Conference Center will be generated only by local Lancaster sources, rather than by regional demand generators, due to locational proximity; overnight Group demand generated by local Lancaster sources is estimated to represent approximately 43 percent of total overnight Group demand, or 21,625 occupied room nights, at the Conference Center in a stabilized year of operation (2003); this is based on the Conference Center's estimated penetration of the local overnight Group market versus its local competitors.

- Assuming a multiple occupancy factor of 1.5 for overnight groups generated by local sources (based on reported multiple occupancy at the local group-oriented hotels), and a day Group percentage of 25 percent of local overnight Group attendees, estimated day Group attendees at the Conference Center in a stabilized year of operation is 11,029 attendees:

21,625 local Group room nights x 1.5 (multiple occupancy factor) = 32,438 local overnight Group attendees
If 32,438 local overnight attendees = 75% of total local attendees, then total local attendees (100%) = 43,466
43,466 total local attendees – 32,438 local overnight attendees (75%) = 11,029 day Group attendees (25%)

- According to the IACC, median day packages at conference centers (including primarily meeting room rental charge, basic conference planning, audio-visual, coffee breaks, lunch and other miscellaneous charges) range from $58 to $74 per attendee, varying according to the type and market orientation of the center; based on day package rates reported by local demand generators and competitive hotels (ranging from $15 to $20), the results of demand interviews (which indicated a price-sensitivity in the day Group market), and the anticipated upscale facilities at the Conference Center, the day Group package rate for the Conference Center is estimated at $30 in constant (1998) dollars.
- Applying this amount to the estimated day Group attendees presented above (11,029 attendees) results in estimated day Group revenues of $330,870 (in constant dollars) in a stabilized year of operation (2003).

- Initial findings with respect to a Convention Center (the "Center") on the Site (Scenario III) are described below; the assumed sizing for Scenario III would be an approximate 393-room Hotel with 61,000 square feet of conference, convention and exhibit space; it is assumed that the first floor of the Center would consist of the space configuration recommended in Scenario II, and that the second floor would consist of 30,000 square feet of contiguous space as proposed by Ehrenkrantz Eckstut & Kuhn Architects (to be utilized primarily for large trade and consumer shows). Scenario IV will be the same as Scenario III, except with a small hotel of 281 rooms.

- A second analysis, Scenario IV, of the Convention Center was completed with a small hotel of 281 rooms and a 61,000 square foot conference, convention, exhibit space.

- For Scenarios III and IV, estimates of future performance for the Center were based on an analysis of comparable convention/exhibition facilities in the eastern region of the U.S.; extrapolated data from samples of users of similar facilities in Pennsylvania, and the adjacent states of New Jersey and Maryland; interviews with a sample of potential sources of demand for the Center; and Critical Success Factors typically associated with facilities of the type proposed.

Comparable Convention/Exhibition Facilities

- Comparable facilities were selected based on a combination of the following factors: size, location, space configuration, price positioning, and quality of facilities.

- The comparable set includes the Ocean City Convention Center in Ocean City, MD; the Monroe Dome Center in Rochester, NY; the Hickory Metrotrade Center in Hickory, NC; the Springfield Civic Center & Arena in Springfield, MA; and the Garden State Convention & Exhibit Center in Somerset, NJ (see chart on the following page).

- Total exhibition/meeting space at the above-mentioned properties ranges from 50,300 square feet to 180,000 square feet, with the majority ranging from 50,300 to 62,100 square feet.

Comparable Convention/Exhibition Centers

Facilities Profile

Property	Location	Total Gross SF	Total Gross SF Exhibit Hall	Total Annual Events (1998)	Trade Shows Consumer Shows Conventions/Conferences Day Meetings/Banquets	Average Attendance Per Event/ Event Days	Rental Rate Per SF (Gross)	Hotel Attached/ w/in Walking
Ocean City Convention Center	Ocean City, MD	180,000	67,000	178	10 / 6% Trade 54 / 30% Consumer 91 / 51% Conv/Conf 23 / 13% Meet/Banquet	NA / 200 (not incl. Move in/out)	$0.40	No/Yes
Monroe Dome Center	Rochester, NY	62,100	23,000/25,000	91	23 / 25% Trade 50 / 55% Consumer 9 / 10 % Conv/Conf. 9 / 10% Meet/Banquet	3,846 / NA	$0.10	No/NA
Hickory Metrotrade Center	Hickory, NC	52,000	40,000	159	9 / 6% Trade 9 / 6% Consumer 49 / 31% Conv/Conf. 92 / 57% Meet/Banquet	NA / 256	$0.87*	No/Yes
Springfield Civic Center	Springfield, MA	50,300	40,000	18 Private Events	9 / 50% Trade 9 / 50% Consumer	NA / NA	$0.11	No/Yes
Garden State Convention & Exhibit Center	Somerset, NJ	72,500	62,000	67	17 / 25% Trade 5 / 8% Consumer 37 / 55 % Conv/Conf. 8 / 12% Meet/Banquet	NA / NA	$0.24	Yes/Yes
Range	–	**50,300 – 180,000**	**23,000 – 67,000**	**18 – 178**	**3 – 23 / 6 – 50% 5 – 54 / 6 – 55% 9 – 91 / 10 – 55% 8 – 92 / 10 – 57%**	**3,846 / 200 – 256**	**$0.10 – $0.87**	–

NA: Not Available
* Includes associated services such as electricity, security, audio/visual, etc.
Source: Individual respondents

- Exhibition halls (contiguous space) at the comparable properties range in size from 23,000 to 67,000 square feet, with the majority ranging from 23,000 to 40,000 square feet.

- According to primary research, the estimated number of trade shows for these centers ranged from 3 to 23 shows in 1998; the estimated number of consumer shows ranged from 5 to 54; trade shows and consumer shows are driven by local demographic and local business profiles.

- As a percentage of total events, trade shows ranged from 6 percent to 50 percent of total events; consumer shows ranged from 6 percent to 55 percent of total events.

- As a percentage of total events, the Garden State Convention & Exhibit Center captured the highest percentage of conventions/conferences in the set, with the Ocean City Convention Center capturing the second highest; based on the data collected, these facilities have the largest availability of hotel rooms within walking distance, with the Garden State Center the only facility with an attached hotel.

- Total events ranged from 18 to 178 events, with the smallest center capturing the least events and the largest center capturing the most events; total event days (days of the year the center is utilized) for two respondents ranged from 200 to 256 days.

- Rental rates charged per gross square foot ranged from $0.10 to $0.87, with the lower end of the range comprised of rates charged for space only (not inclusive of associated services including electricity, security, audio/visual, etc.); net square footage is comprised of space utilized only for exhibit booths, while gross square footage is comprised of total space utilized (including for exhibit booths, aisles between rows of booths, registration, concessionaires, break-out meetings, and meals); typically, trade and consumer shows do not require specific space for meals, with attendees responsible for their own meals.

- Peak season for events at the comparable facilities typically occurs in the spring and fall, primarily during the months of March through May, and September through November.

- Trade shows at the comparable facilities typically occur during the weekdays (Monday through Friday) and consumer shows typically occur from Thursday through Sunday, with most shows requiring move-in and move-out time in the beginning and end of the period; overnight conventions and conferences (consisting of sales meetings, seminars, industry conferences, retreats, board meetings, etc. – described as overnight group demand in Scenarios I and II) typically occur from Monday through Thursday; banquets and local events such as proms, weddings, and private parties typically occur on weekends.

- According to representatives of the comparable facilities, the following attributes of their facilities are the most important to show planners: ample on-site parking, free parking, sufficient hotel rooms within walking distance, proximity to airport, proximity to restaurants, and ease of access from major highways.

- According to respondents, trade shows typically require parking capacity based on a ratio of one car per 2.3 to 2.5 attendees; for consumer shows, the parking requirement is based on a ratio of one car per 4.5 to 4.7 attendees.

Demand Analysis

- The supply-side findings described above are supported by data from samples of users of similar facilities in Pennsylvania, New Jersey, and Maryland, as well as interviews with potential sources of demand for the Center.

- The following chart presents data from 67 trade shows ("Total Sample") which have taken place or are scheduled to take place in Pennsylvania during the period September 1996 through May 2000 (with all except one occurring from January 1998 through May 2000), and of 23 of these shows ("Defined Sample") which have gross space requirements of 60,000 square feet or less (assumed most relevant to the Center).

- It is important to note that these samples do not represent actual totals for Pennsylvania, but are relevant to presenting the attributes of shows that take place in Pennsylvania (particularly those seeking space similar to that of the Center), and to establishing the existence of demand for facilities similar to the Center in Pennsylvania.

Trade Show Samples – Pennsylvania

Category	Total Sample	Defined Sample – Shows Requiring 60,000 SF (Gross) and Less	Defined Sample Variance with Total Sample
Number of Shows	67	23	- 66%
Average Length of Show (Days)	3.2	3.2	–%
Average Net Square Footage per Show Day	61,867	19,474	- 69%
Average Gross Square Footage per Show Day	123,734	38,948	- 69%
Average Number of Exhibit Booths per Show Day	339	145	- 57%
Average Attendance per Show Day	5,770	2,921	- 49%

Source: Ernst & Young LLP; *Tradeshow Week Magazine*

- The data presented above indicates that one-third of the total Pennsylvania trade show market (based on the Total Sample) would potentially be available to the Center due to the Center's inability to accommodate shows requiring more than 60,000 square feet of gross space.

- During the approximate year-long period from December 1998 through November 1999 (a consecutive twelve-month period extrapolated from the longer period represented above), 14 of the 23 shows in the Defined Sample occurred or are scheduled to occur; these shows were captured by the following venues:

Capture of Shows by Venue during One-Year Period

Venue	Shows Captured	Percent of Total Shows Captured
Pittsburgh Convention Center	4	29%
Pennsylvania Convention Center	3	22%
Pittsburgh ExpoMart	2	14%
Hershey Lodge and Convention Center	2	14%
Philadelphia Marriott	2	14%
Valley Forge Convention Center	1	7%
Total Shows	*14*	*100%*

Source: Ernst & Young LLP; *Tradeshow Week Magazine*

- Based on the Defined Sample, the average annual capture rate per show for the stated period was approximately 2.3 trade shows per venue, with each venue capturing from 1 to 4 shows over the year-long period; as the 14 shows do not represent the total number of shows taking place during this period, it can be assumed that the average annual capture rate per venue is actually higher than the 2.3 trade shows derived from the Defined Sample.

➢ The following chart presents data from 72 trade shows ("Total Sample – Adjacent States") which have taken place or are scheduled to take place in New Jersey and Maryland during the period January 1998 through January 2000, and of 30 of these shows ("Defined Sample – Adjacent States") which have gross space requirements of 60,000 square feet or less; it is important to note that these samples do not represent actual totals for New Jersey and Maryland, but are relevant to presenting the attributes of shows that take place in these neighboring states (particularly those seeking space similar to that of the Center), and to establishing the existence of demand for facilities similar to the Center within the region (Delaware was not included within the sample based on its limited number of venues).

Trade Show Samples – New Jersey and Maryland

Category	Total Sample – Adjacent States	Defined Sample – Adjacent States: Shows Requiring 60,000 SF (Gross) and Less	Defined Sample – Adjacent States Variance with Total Sample
Number of Shows	72	30	- 58%
Average Length of Show (Days)	3.0	3.1	2%
Average Net Square Footage per Show Day	46,029	15,462	- 66%
Average Gross Square Footage per Show Day	92,058	30,924	- 66%
Average Number of Exhibit Booths per Show Day	281	179	- 36%
Average Attendance per Show Day	5,589	2,913	- 48%

Source: Ernst & Young LLP; *Tradeshow Week Magazine*

➢ The data presented above indicates that 42 percent of the total New Jersey and Maryland trade show market (based on the Total Sample – Adjacent States) would potentially be available to the Center due to the Center's inability to accommodate shows requiring more than 60,000 square feet of gross space; this ratio is higher than that of Pennsylvania, indicating a greater need for smaller venues in the adjacent states than in Pennsylvania.

- During the approximate year-long period from February 1999 through January 2000 (a consecutive twelve-month period extrapolated from the longer period represented above), 19 of the 30 shows in the Defined Sample – Adjacent States occurred or are scheduled to occur; these shows were captured by the following venues:

Capture of Shows by Venue during One-Year Period

Venue	Shows Captured	Percent of Total Shows Captured
New Jersey		
Atlantic City Convention Center	3	16%
Trump Taj Mahal – Atlantic City	2	11%
Tropicana Hotel and Casino – Atlantic City	1	5%
Ocean Place Hotel – Long Branch	1	5%
East Brunswick Hilton – East Brunswick	1	5%
Subtotal – New Jersey	*8*	*42%*
Maryland		
Baltimore Convention Center	8	42%
Ocean City Convention Center	2	11%
Baltimore Marriott	1	5%
Subtotal – Maryland	*11*	*58%*
Total Shows	*19*	*100%*

Source: Ernst & Young LLP; *Tradeshow Week Magazine*

- Based on the Defined Sample – Adjacent States, the average annual capture rate per show for the stated period was approximately 2.4 trade shows per venue, with each venue capturing from 1 to 8 shows over the year-long period; as the 19 shows do not represent the total number of shows taking place during this period, it can be assumed that the average annual capture rate per venue is actually higher than the 2.4 trade shows derived from the Defined Sample.

➢ The following chart presents the results of demand interviews completed with meeting planners and associations that represent shows in the Defined Samples (occurring in Pennsylvania and Maryland).

Demand Interviews - Representative Trade Shows

Show	Venue	Number of Attendees Per Day	Hotel Rooms Needed Per Day	Hotel Rooms Per Attendee Per Day	Length of Overnight Stay (Nights)	Total Room Nights Generated
Unite Expo	Valley Forge Convention Center	300	300	1.0	3	900
Groom Expo	Hershey Convention Center	2,000	425	0.21	4	1,700
Pittsburgh/Phil. Plant Engineers	Pittsburgh/Phil. Convention Center	3,000	150	0.05	3	450
Custom and Toll Manufacturers	Baltimore Convention Center	900	250	0.28	3	750
PA School Board Association	Hershey Convention Center	1,100	575	0.52	4	2,300
League of American Cyclists	This year in Louisville, KY, Saratoga Springs, NY, Sonoma County, CA; Looking for PA location for 2000	2,000	950	0.48	4	3,800
International Creative Events Trade Show	Baltimore Convention Center	2,000	100	0.05	4	400
Three Rivers Dental Association	Pittsburgh Convention Center	2,000	90	0.05	3	270
Average	–	*1,663*	*355*	*0.21*	*3.5*	*1,321*

Source: Individual respondents

Demand Interviews – Representative Trade Shows (Continued)

Show	Hotel Room Rate (Room Only)	Hotel Rooms Revenue Per Show	Gross Space Rented (SF) Per Day	Price Per SF (Gross)	Space Rental Revenue Generated Per Day	Space Rental Revenue Per Show	Would Consider Using Center?
Unite Expo	$100	$90,000	40,750	0.96	$39,120	$117,360	Yes
Groom Expo	$118	$200,600	55,000	0.36	$19,800	$79,200	Yes
Pittsburgh/Phil. Plant Engineers	$90	$40,500	51,500	0.59	$30,385	$91,155	No
Custom and Toll Manufacturers	$91	$68,250	30,000	0.67	$20,000	$60,000	No
PA School Board Association	$91	$209,300	20,000	0.59	$11,800	$47,200	Yes
League of American Cyclists	$70	$266,000	30,000	0.58	$17,400	$69,600	Yes
International Creative Events Trade/Consumer Show	$125	$50,000	65,000	0.38	$24,700	$98,800	No
Three Rivers Dental Association	$90	$24,300	22,000	0.95	$21,000	$63,000	Yes (for PA House of Delegates Mtgs. – 370 people)
Average	*$90*	*$118,619*	*39,281*	*0.59*	*$23,026*	*$80,590*	*63% Yes/37% No*

Source: Individual respondents

- The respondents listed above reported the following priorities in choosing a venue: the area's critical industry concentration (i.e., there must be a sufficient demand base), demographics of the area, population of the area, venue rental price, size and configuration of space, availability of proximate hotel accommodations (typically within a 2-mile radius of the venue), adequate parking, proximity to an airport, accessibility from major highways, ease of move-in/out for exhibitors, adequate sound system, design attributes of the facility (e.g., restroom location, carpeted versus concrete exhibit hall floor, flexibility of space, etc.), availability of non-union labor, and locational amenities and attractions.

- A first priority for several of the respondents was the area's industry concentration; according to show organizers, if the location does not meet certain criteria with respect to the concentration of businesses targeted by a particular trade show, the likelihood of achieving successful attendance levels is limited.

- The second most important factor for several of the respondents was population base; for example, the organizers of the Pittsburgh Plant Engineers Show indicated that they will not consider a city with a population of less than 250,000, or an area with a population of less than 1 million within a 75-mile radius of the venue.

- Consumer shows seek higher-income growth areas with locations having adequate parking and accessibility.

- Typically, the shows listed above occur annually or bi-annually, in the spring and fall months, and take place during the weekdays (Monday through Thursday).

- Of the 8 respondents to the demand interviews, 5 (63 percent) indicated they would potentially utilize the Center as proposed (assuming other criteria, such as price, are satisfied); the show planners who would not consider utilizing the proposed facility cited Lancaster's lack of industry concentration (with respect to the show's target market) and/or insufficient population base/demographics, and distance from a major airport as the primary disqualifying factors.

- Factors cited as favorable by show organizers regarding the Center included Lancaster's central location, proximity to Harrisburg, and proximity to Harrisburg Airport; availability of attached headquarters hotel; availability and configuration of break-out/meeting space; locational amenities including scenic countryside; dissatisfaction with facilities currently used due to inadequate design and dated facilities; and the Center's new facilities (although it would be necessary for the Center to overcome planner loyalty to facilities currently used, and a reluctance to separate shows from venues that have become a component of the show's identity).

- The above trend also indicates that significant marketing efforts would be necessary for the Center to potentially capture a portion of existing shows from regional competitors, as well as create new trade and consumer shows.

National Trends

- According to the Center for Exhibition Industry Research in Chicago, square footage leased for exhibitions in the United States has grown by approximately 6 to 7 percent annually over the past several years; according to *Tradeshow Week Magazine*, combined hotel and convention space grew at an annual rate of approximately 5.3 percent from 1990 through 1997.

- Although the above statistics indicate recent growth in demand has outpaced growth in supply, the national total of meetings and shows has remained largely unchanged in recent years (according to the Pioneer Institute for Public Policy Research in Boston); this indicates that growth in square footage leased for exhibitions has resulted primarily from increases in the size of existing events, rather than the creation of new events.

- According to the Center for Exhibition Industry Research, there are currently approximately 200 trade shows per year in the United States that occupy space of 55,000 square feet or less, and that rotate cities from year to year (this is considered the Center's potential "national" market of trade shows); according to *Tradeshow Week Magazine's* Major Exhibit Hall Directory 1998, there are 218 venues in the U.S. that can accommodate shows requiring 55,000 square feet or less.

- The above macro-trend is supported by information gathered in demand interviews with the regional associations and event planners listed above; respondents indicated concern that the Center would potentially be too small for their events in the near future due to anticipated growth in attendance levels.

- It is anticipated that significant marketing efforts would be necessary for the Center to potentially capture a portion of the national market of shows (described above) from the 218 venues currently accommodating this market.

Regional Projects Proposed or Under Construction

- According to the Blair County (Pennsylvania) Convention Center & Sports Facility Authority ("CCSFA"), construction of a 90,000-square-foot convention center in Altoona (approximately a 2.5-hour drive west of Lancaster) is anticipated to begin in January 2000; the center is anticipated to have a 500-car indoor parking garage plus outdoor parking, 65,000 square feet of exhibit space, the capacity for the addition of an attached hotel, and a maximum sit-down event capacity of approximately 2,500 people; the center is anticipated to be completed in late summer 2001.

- According to the Allegheny Mountains Convention & Visitors Bureau ("AMCVB"), who are responsible for administration of the new center, more than fifty groups have already made commitments to hold events at the convention center over the next six years; the AMCVB is targeting multiple-day events that require use of the entire facility, and reports that the events which have already been booked are a mixture of new business and recaptured events which had been lost (primarily to venues in Pittsburgh and Harrisburg) as they outgrew Altoona's existing facilities (primarily hotel meeting facilities).

- The information reported by the AMCVB regarding pre-opening bookings indicates the existence of demand for a new 90,000-square-foot convention center in central Pennsylvania; the proposed Blair County Convention Center is anticipated to compete directly with the proposed Center in Lancaster.

Estimates of Events, Attendance, Hotel Occupancy and Average Room Rate, and Associated Revenues

- As stated earlier, the recommended sizing for the Hotel in Scenario III is approximately 393 rooms to support the proposed 61,000 square feet of conference, convention and exhibit space; it is assumed that the first floor of the Center would consist of the space configuration recommended in Scenario II (slightly larger than the original 24,000 square feet of space proposed by Ehrenkrantz, Eckstut & Kuhn), and that the second floor would consist of 30,000 square feet of contiguous space (to be utilized primarily for large trade and consumer shows).

- The maximum number of hotel rooms (according to the Conceptual Program Summary) is recommended in this Scenario based on the number of rooms anticipated to be required during large events (as indicated from the results of demand interviews), and on the lack of hotel rooms (other than the Proposed Hotel and the Brunswick Hotel) within walking distance of the Center.

Scenario III: Convention Center With 393-Room Attached Hotel

- Based on the analysis of critical success factors (discussed later in this report) in conjunction with a benchmarking analysis of comparable convention facilities located in the eastern United States, the following performance assumptions have been estimated for the Center:

Assumptions for Center

Estimated Attendance per Show Day:	2,000 attendees and exhibitors
Estimated Guest Rooms Required per Attendee:	0.20
Estimated Occupied Rooms per Show Day:	400 (2,000 attendees x 0.20)
Estimated Center Capture of Rooms per Show Day:	75% of available rooms (393 available rooms x 75% = 295 occupied rooms)
Average Length of Stay ("ALOS"):	3.5 nights
Occupied Room Nights per Show:	1,400 (3.5 nights x 400 occupied rooms)
Estimated Center Capture of room nights per show:	1,033 (3.5 nights x 295 occupied rooms)
Estimated Room Rate (1998$) for Guest Room Only (Sgl. or Dbl.):	$90.00
Estimated Rooms Revenue Per Show:	$92,925 (1,033 room nights x $90)
Estimated Gross Space Rental per Show Day:	40,000 square feet
Estimated Average Rental Rate (1998$) per Square Foot (inclusive of services):	$0.60
Estimated Exhibit Hall Rental Revenue per Show Day:	$24,000 (40,000 square feet x $0.60)
Estimated Exhibit Hall Rental Revenue per Show:	$84,000 ($24,000 x 3.5 day ALOS)
Estimated Number of Shows Year 1:	4 (2 Trade, 2 Consumer)
Estimated Number of Shows Year 2:	8 (3 Trade, 5 Consumer)
Estimated Number of Shows Year 3 (Stabilized):	12 (5 Trade, 7 Consumer)
Estimated Number of Large Day Groups per year Due to Incremental Space:	1
Estimated Attendance for Large Day Groups:	2,000
Estimated Rate per Attendee (1998$):	$40
Estimated Additional Day Group Revenue Due to Incremental Space (1998$):	$80,000

Scenario III: Convention Center With 393-Room Attached Hotel

- In the preceding assumptions, an additional 2,000 attendees have been added to total day group attendees derived in Scenario II, due to the anticipated capture of one large day group per year by the Center's incremental space.
- It is important to note that estimated occupied room night per show for the Center assumes a maximum occupancy contribution per show of 75 percent of available rooms, due to the existence of additional hotels within the market, as well as yield management, which would require that not all guest rooms be blocked for show attendees.
- The following chart presents the estimated demand build-up for the Center from 2001 through 2003 (assumed stabilized year of operation):

Estimated Demand Build-Up – Lancaster Convention Center

	2001	2002	2003	Percent of Total
Trade Shows	2	3	5	42%
Consumer Shows	2	5	7	58%
Total Shows	*4*	*8*	*12*	*100%*
Occupied Room Nights due to Shows	*4,127*	*8,253*	*12,380*	--
Trade Show Attendance	14,000	21,000	35,000	21%
Consumer Show Attendance	14,000	35,000	49,000	29%
Overnight Conference/Convention Attendance (Overnight Group Attendance from Scenario II)	53,091	61,959	69,950	42%
Day Group – Local Meeting/Banquet Attendance (from Scenario II plus 2,000 due to one large day group)	11,545	12,348	13,029	8%
Total Attendance	*92,635*	*130,308*	*166,979*	*100%*

Source: Ernst & Young, LLP

- With respect to the attached Hotel, market segmentation of demand (occupied room nights) in a stabilized year of operation (2003) is estimated at 42 percent CMP Conference/Convention, 18 percent Non-CMP Conference/Convention, 15 percent Trade/Consumer Show, 11 percent Leisure Transient, 9 percent Commercial Transient, and 5 percent Bus Tour.
- Occupancy for the Hotel is estimated at 58 percent in a stabilized year of operation based on a room count of 393 units and the incremental overnight demand (occupied room nights) over Scenario II generated by the 30,000-square-foot exhibit hall.
- Average daily room rate per segment at the Center in a stabilized year of operation (2003) in constant (1998) dollars is estimated to be $108 for CMP Group, $100 for Non-CMP Group, $90 for Trade/Consumer Show, $120 for Commercial Transient, $90 for Leisure Transient, and $80 for Bus Tour; based on the Center's estimated stabilized market mix, the overall weighted ADR for the Conference Center is estimated at $102 in constant dollars in a stabilized year of operation.

- Initial findings with respect to a Convention Center (the "Center") on the Site (Scenario IV) are described below; the assumed sizing for Scenario IV would be an approximate 281-room Hotel with 61,000 square feet of conference, convention and exhibit space; it is assumed that the first floor of the Center would consist of the space configuration recommended in Scenario II, and that the second floor would consist of 30,000 square feet of contiguous space as proposed by Ehrenkrantz Eckstut & Kuhn Architects (to be utilized primarily for large trade and consumer shows).

Estimates of Events, Attendance, Hotel Occupancy and Average Room Rate, and Associated Revenues

- Scenario IV assumes the same development parameters with respect to the Conference/Convention Center discussed in Scenario III, other than the attached Hotel. The Hotel in this scenario is assumed to be 281 rooms.
- The smaller room count in this Scenario versus Scenario III results in higher stabilized occupancy level for the Hotel in 2003 of 72 percent versus 58 percent in Scenario III.
- Additionally, the smaller room count in this scenario results in a decrease in available rooms within walking distance of the Center. Although this results in diminished marketability for the Center, thus a lower number of large shows captured per year versus Scenario III, it yields an increased capture of room nights generated by the Center for surrounding hotels, due to greater spillover of room nights from the Hotel in this scenario versus Scenario III.
- Due to seasonality, capacity constraints at the Hotel during peak periods of demand, and market demand segments that occur simultaneously, it is estimated that large shows captured at the Center will result in additional unaccommodated demand (non-show demand) as other market segments are displaced by larger shows, approximately 3,077 room nights in 2003 and thereafter; this unaccommodated demand is anticipated to be absorbed by surrounding hotels.

Scenario IV: Convention Center With 281-Room Attached Hotel

➢ Based on the analysis of critical success factors, in conjunction with a benchmarking analysis of comparable convention facilities located in the eastern United States, the following performance assumptions have been estimated for the Center under Scenario IV:

Assumptions for Center

Estimated Attendance per Show Day:	2,000 attendees and exhibitors
Estimated Guest Rooms Required per Attendee:	0.20
Estimated Occupied Rooms per Show Day:	400 (2,000 attendees x 0.20)
Estimated Center Capture of Rooms per Show Day:	75% of available rooms (281 available rooms x 75% = 211 occupied rooms)
Average Length of Stay ("ALOS"):	3.5 nights
Occupied Room Nights per Show:	1,400 (3.5 nights x 400 occupied rooms)
Estimated Center Capture of room nights per show:	739 (3.5 nights x 211 occupied rooms)
Estimated Room Rate (1998$) for Guest Room Only (Sgl. or Dbl.):	$90.00
Estimated Rooms Revenue Per Show:	$66,510 (739 room nights x $90)
Estimated Gross Space Rental per Show Day:	40,000 square feet
Estimated Average Rental Rate (1998$) per Square Foot (inclusive of services):	$0.60
Estimated Exhibit Hall Rental Revenue per Show Day:	$24,000 (40,000 square feet x $0.60)
Estimated Exhibit Hall Rental Revenue per Show:	$84,000 ($24,000 x 3.5 day ALOS)
Estimated Number of Shows Year 1:	3 (1 Trade, 2 Consumer)
Estimated Number of Shows Year 2:	6 (2 Trade, 4 Consumer)
Estimated Number of Shows Year 3 (Stabilized):	9 (3 Trade, 6 Consumer)
Estimated Number of Large Day Groups per year Due to Incremental Space:	1
Estimated Attendance for Large Day Groups:	2,000
Estimated Rate per Attendee (1998$):	$40
Estimated Additional Day Group Revenue Due to Incremental Space (1998$):	$80,000

➢ The following chart presents the estimated demand build-up for the Center from 2001 through 2003 (assumed stabilized year of operation):

Estimated Demand Build-Up – Lancaster Convention Center

	2001	2002	2003	Percent of Total
Trade Shows	1	2	3	33%
Consumer Shows	2	4	6	67%
Total Shows	*3*	*6*	*9*	*100%*
Occupied Room Nights due to Shows	*2,213*	*4,426*	*6,639*	--
Trade Show Attendance	7,000	14,000	21,000	14%
Consumer Show Attendance	14,000	28,000	42,000	29%
Overnight Conference/Convention Attendance (Overnight Group Attendance from Scenario II)	53,091	61,959	69,950	48%
Day Group – Local Meeting/Banquet Attendance (from Scenario II plus 2,000 due to one large day group)	11,545	12,348	13,029	9%
Total Attendance	*85,635*	*116,308*	*145,979*	*100%*

Source: Ernst & Young LLP

➢ With respect to the attached Hotel, market segmentation of demand (occupied room nights) in a stabilized year of operation (2003) is estimated at 45 percent CMP Conference/Convention, 19 percent Non-CMP Conference/Convention, 9 percent Trade/Consumer Show, 12 percent Leisure Transient, 10 percent Commercial Transient, and 5 percent Bus Tour.

Scenario IV: Convention Center With 281-Room Attached Hotel

- Occupancy for the Hotel is estimated at 72 percent in a stabilized year of operation based on a room count of 281 units and the incremental overnight demand (occupied room nights) over Scenario II generated by the 30,000-square-foot exhibit hall.

- Average daily room rate per segment at the Center in a stabilized year of operation (2003) in constant (1998) dollars is estimated to be $108 for CMP Group, $100 for Non-CMP Group, $90 for Trade/Consumer Show, $120 for Commercial Transient, $90 for Leisure Transient, and $80 for Bus Tour; based on the Center's estimated stabilized market mix, the overall weighted ADR for the Conference Center is estimated at $102 in constant dollars in a stabilized year of operation.

➢ In analyzing demand for the Center, the potential market was analyzed based on 23 leading Critical Success Factors ("CSFs") governing utilization, attendance, competitive and financial performance of convention centers. These factors were identified based on research related to meeting planner preferences for conventions, trade shows, and consumer shows. For the purposes of this analysis, each of the CSFs has been assessed in terms of potential strengths, weaknesses or developmental needs based on the combined results of interviews with competitive properties within the region, comparable convention centers, and potential demand generators. The list of 23 leading CSFs includes the following:

- ◊ Proposed convention facilities
- ◊ Road access from major feeder markets
- ◊ Air access
- ◊ Cultural, arts and entertainment attractions
- ◊ Tourist attractions
- ◊ Surface transportation
- ◊ Perceived costs to attendees
- ◊ Climate conditions
- ◊ Population
- ◊ Industry concentration
- ◊ Organizational infrastructure (for conventions, trade and consumer shows, and tourism)
- ◊ Market image for meetings/conventions/trade and consumer shows
- ◊ Seasonality factors influencing demand
- ◊ Historical demand for lodging/meeting facilities
- ◊ Accommodations/hotel room supply
- ◊ Quality services (convention/hospitality related)
- ◊ Support services
- ◊ Perceived event costs
- ◊ Area infrastructure
- ◊ Scheduling flexibility
- ◊ Marketing infrastructure
- ◊ Public safety
- ◊ Other quality-of-life issues

➢ From the list of 23 factors identified as critical to the success of convention/events market performance, Lancaster's potential competitive strengths and weaknesses (relative to its regional competition) as a destination for large events have been rated as follows:

Factors Assessed as Competitive Strengths

◊ Perceived costs to attendees

◊ Perceived event costs

◊ Road access from major feeder markets

Factors Assessed as Neutral (neither a strength nor a weakness)

◊ Proposed convention facilities

◊ Tourist attractions

◊ Surface transportation

◊ Climate conditions

◊ Organizational infrastructure (for conventions, trade and consumer shows, and tourism)

◊ Seasonality factors influencing demand

◊ Accommodations/hotel room supply

◊ Quality services (convention/hospitality related)

◊ Support services

◊ Area infrastructure

◊ Scheduling flexibility

◊ Marketing infrastructure

◊ Public safety

Factors Assessed as Competitive Weaknesses

◊ Air access

◊ Cultural, arts and entertainment attractions

◊ Population

◊ Industry concentration

◊ Historical demand for lodging/meeting facilities

◊ Market image for meetings/conventions/trade and consumer shows

◊ Other quality-of-life issues

➢ The following points present rationale for the CSF groupings listed above:

Competitive Strengths

◊ Focus primarily on perceived cost savings associated with booking and attending an event in Lancaster versus other locations in Pennsylvania (including Philadelphia, Pittsburgh, and Hershey).

◊ The Center's location in central Pennsylvania provides it with a potential competitive advantage in terms of ease of access by road from several major population centers (i.e., Philadelphia, Harrisburg, and Baltimore), versus only a single population center.

Neutral Factors

◊ While the Center is anticipated to possess competitive advantages due to its new, well-designed facilities, its anticipated size significantly limits its potential market (based on the percentage of shows in Pennsylvania and neighboring states requiring venues with more than 61,000 square feet of gross space).

◊ The Center's advantage with respect to including an attached, upscale full-service hotel (estimated to be of sufficient size to capture a portion of lodging demand generated by large shows and conventions), is offset by a lack of hotels within walking distance of the Center (other than the Brunswick Hotel) to capture spillover demand.

Competitive Weaknesses

◊ The Center's distance from a major airport and urban center (with associated cultural, arts and entertainment attractions) limits its marketability to national shows and conventions, as well as to a portion of the regional market.

◊ A limited population base relative to competitive locations such as Philadelphia and Pittsburgh (population is indicative of a venue's ability to attract consumer/trade show attendees).

◊ A limited industry concentration relative to Pennsylvania's major urban centers (industry concentration is indicative of a location's attractiveness to trade show organizers).

◊ Exhibited seasonality and rate-sensitivity of demand for lodging facilities in Lancaster.

◊ A lack of exhibited turnaway demand (lost business) in the Lancaster market based on discussions with representatives of the Pennsylvania Dutch Convention & Visitors Bureau and several of Lancaster's group-oriented hotels (the Lancaster Host reported an annual utilization of its 29,540-square-foot exhibit hall of 35 – 40 percent, and the Best Western Eden Resort and Conference Center reported that it does not receive inquiries for contiguous space of 30,000 square feet – its maximum capacity is approximately 700 people, and it typically captures 10 events annually ranging in size from 300 – 700 people).

◊ A lack of market image for conventions, trade shows, and consumer shows relative to locations and venues that are well-established.

◊ The Center's location in downtown Lancaster, which is characterized in part by urban deterioration.

➢ In addition to the Center's potential strengths and weakness, an analysis of identified opportunities and threats that might affect future performance was conducted:

Opportunities

◊ Based on discussions with representatives of the Lancaster Chamber of Commerce and Industry, the Chamber estimates that it would sponsor approximately five to six large events per year (primarily shows lasting up to three days plus a two-day move-in/out period) within three to four years after the Center opens.

◊ According to the Chamber, the historic appeal of the area would enhance the Center's ability to capture sufficient attendees for consumer shows, including antique shows, craft shows, etc.

◊ According to the Chamber and representatives of the Willow Valley Inn, some of the religious events typically hosted at the Willow Valley Inn are outgrowing the capacity there and are seeking a larger venue.

◊ Larger events (over 900 attendees) cited by the Chamber as currently generated by local Lancaster sources that would potentially utilize the Center include: The Lancaster Chamber Annual Dinner (ranges in size from 1,000 to 2,000 people, currently accommodated at the Hershey Lodge and Convention Center, duration is one night); The Business Expo (requires 50,000 square feet of exhibit and break-out space, currently accommodated at Franklin & Marshall College, duration is two days); and the Quilt Show (approximately 100,000 attendees during a one-week period, requires 50 – 60 hotel rooms, previously accommodated at the Host but is currently seeking new venue).

◊ The Lancaster Host captures approximately 10 – 12 large events per year (primarily trade/consumer shows and conventions, with capacities of over 1,000 people).

◊ Assuming aggressive marketing and promotional strategies are employed by the Conference/Convention Center, Pennsylvania Dutch Convention and Visitors Bureau and the Lancaster Chamber of Commerce and Industry, as well as other local entities, the Center would potentially have the ability to attract regional event planners, and thus capture a portion of the large trade shows represented earlier in this section; additionally, the Center's proximity to dense population centers and accessible location in central Pennsylvania may enable it to capture the attendance levels critical for successful consumer and trade shows.

◊ The Center's new, well-designed facilities and attached upscale Hotel would potentially provide it with competitive advantages against some of its regional competitors.

◊ Current proposals for downtown redevelopment including retail revitalization, evening entertainment, improvements to traffic flow and signage, and increased parking could revive the image of downtown Lancaster as a destination.

Threats

◊ According to representatives from the Lancaster Host, state association/convention business has decreased in recent years, with many groups combining to form a single annual event (and thus requiring larger venues).

◊ National trends corroborate the above observation, with the number of large events remaining constant, but attendance at the events increasing.

◊ This indicates that with the addition of the new convention center supply to the region (i.e., the Altoona Convention Center as well as the Lancaster Center), a decreasing demand base of events seeking smaller venues (such as the Center) will be diluted among the supply; the Center would compete for these events primarily with well-established facilities with superior locations, and existing client relationships.

◊ Although the development of the largest hotel scenario is considered essential to capturing large overnight events, the limited frequency of these events may result in prolonged periods of low occupancy for the Hotel; therefore, the 281-room scenario may be more economically viable.

◊ According to local market participants, Hershey's recent expansion (200 guest rooms and 32,000-square feet of exhibition space added in the summer of 1998) has not resulted in an increased capture of national groups for the property (as anticipated) but an enhanced marketability to state and regional associations and events; increasing its competitiveness with Lancaster's group-oriented properties.

◊ Additionally, the addition of a 90,000-square foot convention center in Altoona is anticipated to dilute the demand base for regional events seeking space similar to that offered by the Center; the Altoona facility is anticipated to be directly competitive with the Center.

◊ According to the Pennsylvania Dutch Convention & Visitors Bureau, the following threats exist with respect to the development of the Center:

- ☞ Due to seasonality, the majority of the hotels in Lancaster are at or near capacity during peak-season; this would result in a lack of hotel rooms for Center attendees from late-spring until fall.

- ☞ The disparity in quality level between the Proposed Hotel and the other Lancaster facilities would be significant and adversely affect large events seeking to place attendees in similar accommodations.

- ☞ Meeting planners are not familiar with Lancaster as an event destination.

- ☞ There are currently insufficient amenities (restaurants, retail, recreation, etc.) and parking in downtown Lancaster to support the development of a 61,000-square-foot convention center (i.e., to service the needs of large numbers of attendees).

- The following factors can be combined and analyzed in order to rank the above Scenarios, based on the market analysis:
  - Estimated attendance levels generated by meetings, banquets, conferences, conventions, and consumer/trade shows
  - RevPAR for the Hotel (Rooms Revenue per Available Room = occupancy rate x average daily room rate)
  - Occupied room nights captured by the Hotel
  - Rooms revenue generated by the Hotel
  - Associated revenues generated by the Conference/Convention Center including Complete Meeting Package ("CMP") revenue, space rental revenue, and day group revenue.
- Analyzed within the context of Lancaster Campaign's overall goals and objective, the above factors indicate that Scenario IV is the most appropriate of the development Scenarios to investigate further, based on the market information gathered to date. **It is important to note that this does not take into account the estimated costs associated with the development of each Scenario, the financial feasibility or the anticipated returns.**
- Future phases of this engagement would include cash flow analysis and financial modeling of the selected Scenario and an economic impact analysis.
- As part of Phase II, it will be necessary to analyze the potential financial gap for both the Hotel and Conference/Convention Center facilities to determine the extent to which a public/private partnership will be required.

- The tables on the following pages present estimates of future performance for Scenario I (Full-Service Hotel), Scenario II (Conference Center), Scenario III (Convention Center with 393-room hotel), and Scenario IV (Convention Center with 281 room hotel); it is important to note that additional revenues such as those generated by the Hotel's food and beverage outlets and other operated departments, and by retail leases have not been included in these tables.

- It is important to note that although RevPAR is estimated to be lower for the Conference/Convention Center scenarios than for Scenario I (Full-Service Hotel), the potential for additional revenues for the Conference/Convention Center scenarios due to CMP business is significant; according to nationally recognized conference center management companies, this "captive revenue" due to CMP business ("locked in" due to the CMP rate, as opposed to "discretionary" at typical full-service hotels) supports development of this type of highly specialized lodging product (requiring management expertise and sophisticated marketing strategies).

- Additionally, although the estimated occupancy rate is less for Scenario II (Hotel and Conference Center) than Scenario I (Full-Service Hotel), Scenario II is estimated to capture significantly more occupied room nights as a result of its larger size and ability to capture large groups simultaneously.

- The incremental room night demand captured in Scenario III above Scenario II is limited based on the limited anticipated impact of trade/consumer shows on Hotel occupancy; additionally, incremental rooms revenue for Scenario III over Scenario II is also limited based on the limited gain in occupied rooms and an anticipated decrease in ADR (due to the capture of low-rated Consumer/Trade Show business); the occupancy rate under Scenario III decreases due to the limited increase in occupied rooms relative to the increase in the size of the Hotel.

Scenario Comparison

Scenario I 169-Room Full-Service Hotel							
Year	Occupancy	ADR	RevPAR	Estimated Annual Occupied Room Nights	Rooms Revenue (000's)	CMP* Revenue (000's)	Day Group Revenue
2001	59.4%	$113.75	$67.56	36,641	$4,167	-	$186,580
2002	66.3%	$124.36	$82.42	40,897	$5,086	-	$206,910
2003	73.1%	$129.11	$94.39	45,091	$5,822	-	$227,672
2004	73.1%	$133.67	$97.71	45,091	$6,027	-	$235,641
2005	73.1%	$138.37	$101.15	45,091	$6,239	-	$243,888

* CMP Revenue less rooms allocation; all revenue inflated by 3.5% annually; ADR discounted by 5% in initial year to reflect discounting policies to enhance competitive position.

Scenario II 281-Room Conference Center							
Year	Occupancy	ADR	RevPAR	Estimated Annual Occupied Room Nights	Rooms Revenue (000's)	CMP* Revenue (000's)	Day Group Revenue
2001	55%	$109.22	$60.07	56,411	$6,161	$4,228	$317,470
2002	61%	$118.99	$72.58	62,565	$7,445	$5,106	$356,251
2003	69%	$123.15	$84.97	70,770	$8,715	$5,967	$392,961
2004	69%	$127.46	$87.95	70,770	$9,020	$6,209	$406,714
2005	69%	$131.92	$91.02	70,770	$9,336	$6,461	$420,949

* CMP Revenue less rooms allocation; all revenue inflated by 3.5% annually; ADR discounted by 5% in initial year to reflect discounting policies to enhance competitive position; Day Group Revenue reflects utilization of the conference/meeting space without overnight lodging requirements.

Scenario III
393-Room Convention Center

Year	Occupancy	ADR	RevPAR	Estimated Annual Occupied Room Nights	Rooms Revenue (000's)	CMP* Revenue (000's)	Day Group Revenue	Exhibit Hall Rental Revenue
2001	42%	$107.07	$45.19	60,247	$6,482	$4,228	$405,238	$372,530
2002	49%	$116.65	$57.59	70,288	$8,261	$5,106	$447,091	$771,197
2003	58%	$120.73	$69.98	83,198	$10,039	$5,967	$493,677	$1,197,189
2004	58%	$124.96	$72.43	83,198	$10,390	$6,209	$510,955	$1,239,091
2005	58%	$129.33	$74.97	83,198	$10,754	$6,461	$528,839	$1,282,456

* CMP Revenue less rooms allocation; all revenue inflated by 3.5% annually; ADR discounted by 5% in initial year to reflect discounting policies to enhance competitive position; Day Group Revenue reflects utilization of the conference/meeting space without overnight lodging requirements.

Scenario IV
281-Room Convention Center

Year	Occupancy	ADR	RevPAR	Estimated Annual Occupied Room Nights	Rooms Revenue (000's)	CMP* Revenue (000's)	Day Group Revenue	Exhibit Hall Rental Revenue
2001	57%	$107.84	$61.64	58,624	$6,322	$4,228	$405,238	$278,698
2002	65%	$117.48	$76.74	66,991	$7,870	$5,106	$447,091	$578,351
2003	72%	$121.60	$91.77	74,332	$9,039	$5,603	$493,677	$897,890
2004	72%	$125.85	$94.98	74,332	$9,355	$5,832	$510,955	$929,317
2005	72%	$130.26	$98.31	74,332	$9,682	$6,071	$528,839	$961,842

* CMP Revenue less rooms allocation; all revenue inflated by 3.5% annually; ADR discounted by 5% in initial year to reflect discounting policies to enhance competitive position; Day Group Revenue reflects utilization of the conference/meeting space without overnight lodging requirements.

Source: Ernst & Young LLP

Industry statistics from comparable lodging and conference/convention center facilities, the Project's anticipated facilities, and the performance and revenue estimates presented in the previous market analysis component, provide the basis for income and expense estimates incorporated into the five-year cash flow estimates for the Proposed Hotel and Conference/Convention Center.

281-Room Proposed Hotel

- 1997 data from the Smith Travel Research Host Report provided comparable income and expense estimates for properties based on rate positioning, market orientation, facilities, location, and size of property. These properties are all located in Pennsylvania, and range in size from 223 to 286 rooms, and in 1998 published room rates from $107 to $170. They include the Embassy Suites Pittsburgh International Airport, the Hotel Hershey, the Marriott Philadelphia West, and the Radisson Penn Harris Hotel in Harrisburg.

- Operating statements for similar upscale, chain-affiliated lodging facilities located in Pennsylvania and New Jersey were also obtained and analyzed (1998 data); these facilities are not the same hotels included in the Host Report compilation mentioned above. The income and expense relationships displayed by these various sources are summarized in Exhibit I of this section.

- The assumptions utilized in developing estimates of cash flow for the Hotel are presented in Exhibit II; five-year inflated cash flow estimates for the Hotel are presented in Exhibit III (inflation is estimated to occur at an annual rate of 3.5 percent for all associated revenues and expenses throughout the five-year period).

- Certain line items in the five-year estimate of cash flow require further description due to their unique nature as defined by the Project.

- Rooms revenue is based on occupancy and ADR estimates presented in the previous market analysis component; occupancy and ADR are estimated to be 72 percent and $102 (in 1998 dollars) in a stabilized year of operation, resulting in annual room revenue of approximately $7.5 million.

- Food and beverage revenues range from $28 to $89 per occupied room within the comparable data, with properties at the higher end recording revenue from several food and beverage facilities on site. The Proposed Hotel's anticipated revenues will be derived from the facilities outlined in the development program for Scenario IV (a 120-seat three-meal restaurant, a 250-seat main dining room, a 75-seat lobby lounge, and an entertainment lounge), and be generated by overnight guests, local residents, and day visitors to Lancaster (including attendees of large trade and consumer shows). Additionally, estimates of food and beverage revenue are based on the assumed component of the CMP room rate that is allocated to food and beverage revenue; the Proposed Hotel's anticipated mix of non-CMP group demand and restaurant clientele; and the comparable operating data. This results in a stabilized estimate of $96 per occupied room in 1998 dollars, with associated expenses of 70 percent of departmental revenue.

- Other operated departments revenue is anticipated to be comprised primarily of revenue derived from a business center, gift shop operation, fitness center, valet parking, dry cleaning, in-room movies and other miscellaneous sources. These property-specific factors, as well as data from comparable properties, have been accounted for in the stabilized estimate of departmental revenue of $4.50 per occupied room, with associated expenses of 75 percent of departmental revenue.

- Rental income (net) is based on an estimated rental price per square foot of $12 (as provided by High Associates) in 1998 dollars. Assuming 18,850 square feet (15,350 retail, 3,500 restaurant) of retail space are leased triple-net (based on the development program provided by High Associates), total annual rental income in 1998 dollars is estimated to be approximately $226,000 in a stabilized year of operation.

- Both administrative and general, and marketing expenses have been estimated based on the Proposed Hotel's location, anticipated level of facilities, and designation as an Upscale Hotel with Conference/Convention Center (which is substantially dependent upon aggressive marketing efforts with a regional focus). It is estimated that stabilized levels of $3,700 per available room for administrative and general expenses, and $3,200 per available room for marketing will be necessary for the Hotel to achieve the levels of occupancy and rate outlined in this report. Also, the Hotel and Conference/Convention Center is anticipated to engage in extensive pre-opening marketing efforts to gain exposure prior to opening its new facilities, and thus achieve the performance levels estimated herein.

- Real estate taxes are estimated to be $1,000 per available room in 1998 dollars, calculated from an estimated assessment of $40,000 per available room and a tax rate of $2.64 per $100 of assessment. This estimate is based on the tax assessments of comparable hotels within the Lancaster area and the City of Lancaster's tax rate. The comparable hotel assessments were the Brunswick Hotel ($40,876 per available room), Hilton Garden Inn, ($41,984 per available room), Eden Resort ($32,518 per available room) and the Lancaster Host ($49,696 per available room).

- In terms of Gross Operating Profit, the Hotel's estimated stabilized ratio of 33.0 percent falls between the range of comparable operating data (27.5 to 43.5 percent, with the Host compilation at 30.1 percent).

- The Hotel's estimated stabilized Net Operating Income ("NOI") before debt service, income taxes, depreciation and amortization of 23.5 percent is also within the range of comparable operating data (15.2 to 37.7 percent, with the Host compilation at 24.5 percent). It is important to note that Comparables 1 and 2 do not include a reserve for replacement in their financial statements, and the reserve for the Host compilation is negligible (if the reserves were included in full for these properties, their NOI ratios would decrease).

61,000-Square Foot Conference/Convention Center

- Operating statements for similarly sized convention and conference centers were obtained and analyzed. Additionally, historical expense ratios for conference centers operated by nationally recognized conference center management companies, and compiled and presented in the International Association of Conference Center's ("IACC") *Trends* publication, were utilized in this analysis. The income and expense relationships displayed by these various sources are summarized in Exhibit IV of this section.

- The assumptions utilized in developing estimates of cash flow for the Conference/Convention Center are also presented in Exhibit IV (in the Rationale column); five-year inflated cash flow estimates for the Conference/Convention Center are presented in Exhibit V (inflation is estimated to occur at an annual rate of 3.5 percent for all associated revenues and expenses throughout the five-year period).

- Certain line items in the five-year estimate of cash flow require further description due to their unique nature as defined by the Project.

- Rent and conference services revenue ($12.39 and $27.34 per square foot, respectively, in 1998 dollars) represent the two largest revenue components and are based on amounts estimated in the previous market analysis component. Rent consists of revenue generated due to the rental of the 31,000-square-foot exhibit hall to large trade and consumer shows. Conference services revenue is generated by conferences, meetings, and conventions, and consists of all services associated with these events (including audio-visual and other equipment, meeting setup, business center services, and meeting room rental). These revenue items are based on estimates presented in the previous market analysis component, with conference services revenue based on the assumed component of CMP room rates that is allocated to conference services.

- Food and beverage revenue ($6.81 per square foot in 1998 dollars) is based on estimates of day group revenue presented in the previous market analysis component.

- Expenses associated with conference services and food and beverage revenue are estimated at 55 and 70 percent of departmental revenues, respectively. These estimates are based on ratios achieved at comparable conference centers operated by nationally recognized management companies, as well as on ratios compiled by the IACC.

- Marketing expenses are estimated at $1.00 per square foot in 1998 dollars, and assume that the majority of marketing costs will be allocated to the Hotel operation (based on its capture of overnight CMP business).

- The Conference/Convention Center's estimated stabilized Net Operating Deficit before debt service, income taxes, depreciation and amortization of -$8.77 per square foot in 1998 dollars is within the range of comparable operating data (-$7.73 to -$26.64 per square foot, with the average at -$14.37 per square foot). The estimated Net Operating Deficit is below the average and at the lower end of the comparable properties based primarily on higher gross revenues estimated for the Conference/Convention Center (due primarily to the capture of conference services revenue). If a reserve for replacement for the Conference/Convention Center were not included (as is the case with the comparable properties), the resulting deficit per square foot of $7.31 falls slightly below the range of comparable properties.

- It is important to note that publicly owned convention centers typically operate at a deficit (as seen in the comparable operating data and based on discussions with industry sources), due primarily to limited annual utilization coupled with fixed expenses. This deficit is typically offset by revenues generated by a hotel occupancy tax or other public subsidies, and is regarded as justifiable by the owner of the facility (a government entity) based on the positive economic impact the convention center has on the surrounding community.

Exhibit I: Comparable Operating Statistics

Proposed Hotel

Comparable Operating Statistics

	Comparable #1			Comparable #2			Comparable #3			Comparable #4			Host Report		
ROOMS AVAILABLE		229			286			192			253			1,000	
OCCUPIED ROOMS		64,910			83,438			55,300			75,252			264,625	
OCCUPANCY		77.66%			79.93%			78.91%			81.49%			72.50%	
AVERAGE RATE		$140.16			$147.37			$92.96			$109.27			$120.95	
REVPAR		$108.84			$117.79			$73.35			$89.04			$87.69	
	% GROSS	PAR	POR	% GROSS	PAR	POR	% GROSS	PAR	POR	% GROSS	PAR	POR	% GROSS	PAR	POR
REVENUES															
Rooms	71.7%	$39,728	$140.16	61.1%	$42,994	$147.37	73.3%	$27,712	$96.21	69.0%	$33,639	$113.09	55.2%	$31,985	$120.95
Food & Beverage	24.0%	13,268	46.81	34.0%	23,948	82.09	21.4%	8,095	28.11	27.5%	13,391	45.02	40.5%	23,539	89.02
Telephone	2.8%	1,554	5.48	2.3%	1,624	5.57	4.3%	1,614	5.61	2.1%	1,035	3.48	1.9%	1,095	4.14
Other	1.5%	832	2.94	2.6%	1,855	6.36	1.0%	395	1.37	1.4%	671	2.26	1.8%	1,019	3.85
Rentals & Other Income	0.0%	-	-	0.0%	-	-	0.0%	-	-	0.0%	-	-	0.7%	394	1.49
TOTAL REVENUES	100%	55,383	195.39	100%	70,421	241.38	100%	37,816	131.30	100%	48,735	163.85	100%	58,032	$219.45
DEPARTMENTAL EXPENSES															
Rooms	20.3%	8,082	28.51	20.1%	8,641	29.62	25.4%	7,031	24.41	29.5%	9,922	33.36	25.5%	8,145	30.80
Food & Beverage	72.1%	9,565	33.75	65.2%	15,620	53.54	90.1%	7,297	25.33	85.2%	11,402	38.34	73.9%	17,384	65.74
Telephone	45.8%	712	2.51	40.8%	662	2.27	40.2%	649	2.25	83.3%	862	2.90	43.4%	475	1.80
Other Operated Departments	37.9%	316	1.11	54.6%	1,012	3.47	16.2%	64	0.22	19.0%	128	0.43	82.1%	837	3.16
TOTAL DEPARTMENTAL EXPENSES	33.7%	18,675	65.89	36.8%	25,936	88.90	39.8%	15,041	52.22	45.8%	22,314	75.02	46.3%	26,841	101.50
GROSS OPERATING INCOME	66.3%	36,708	129.50	63.2%	44,485	152.48	60.2%	22,775	79.07	54.2%	26,421	88.83	53.7%	31,191	$117.95
UNDISTRIBUTED OPERATING EXPENSES															
Administrative and General	7.1%	3,916	13.81	6.4%	4,510	15.46	8.7%	3,273	11.37	11.0%	5,347	17.98	6.6%	3,821	14.45
Marketing	5.4%	3,008	10.61	4.9%	3,431	11.76	8.0%	3,042	10.56	3.6%	1,777	5.97	5.6%	3,234	12.23
Franchise Fee	4.1%	2,262	7.98	4.5%	3,136	10.75	1.8%	698	2.42	3.5%	1,685	5.66	2.5%	1,435	5.42
Repairs & Maintenance	3.1%	1,700	6.00	3.1%	2,211	7.58	4.1%	1,538	5.34	5.0%	2,457	8.26	4.7%	2,728	10.31
Energy	3.2%	1,753	6.18	3.6%	2,550	8.74	4.3%	1,631	5.66	3.6%	1,760	5.92	4.2%	2,414	9.13
TOTAL UNDIST. OPER. EXPENSES	22.8%	12,640	44.59	22.5%	15,838	54.29	26.9%	10,183	35.35	26.7%	13,026	43.79	23.6%	13,632	51.54
GROSS OPERATING PROFIT	43.5%	24,068	84.91	40.7%	28,647	98.19	33.3%	12,593	43.72	27.5%	13,395	45.04	30.1%	17,559	$66.41
Management Fee	2.8%	1,551	5.47	3.0%	2,113	7.24	2.8%	1,059	3.68	3.3%	1,595	5.36	2.7%	1,557	5.89
FIXED EXPENSES															
Real Estate Taxes	2.4%	1,304	4.60	1.6%	1,123	3.85	3.9%	1,486	5.16	-0.5%	(249)	(0.84)	1.8%	1,022	3.87
Insurance	0.5%	259	0.92	0.7%	525	1.80	1.1%	433	1.50	0.6%	275	0.92	0.7%	433	1.64
Rent and Other	0.2%	97	0.34	0.2%	150	0.51	5.2%	1,963	6.82	3.0%	1,453	4.88		-	-
Reserve for Replacement	0.0%	-	-	0.0%	-	-	5.0%	1,891	7	4.2%	2,047	7	0.6%	320	1.21
TOTAL FIXED EXPENSES	3.0%	1,660	5.86	2.6%	1,799	6.16	15.3%	5,773	20.04	7.2%	3,525	11.85	3.1%	1,775	6.72
Tax Incentive														-	-
NET OPERATING INCOME ("CASH FLOW")	37.7%	$20,857	$73.58	35.1%	$24,735	$84.79	15.2%	$5,760	$20.00	17.0%	$8,275	$27.82	24.5%	14,227	$53.80

Source: Smith Travel Research, and Ernst & Young LLC
Host report compilation consist of Embassy Suites Pittsburgh International Airport, Radisson Penn Harris Hotel, The Hotel Hershey, and Marriott Philadelphia West.
Comparable hotels are four distinct hotels not included in the Host report compilation.

Exhibit II: Rationale for Cash Flow Estimates

Hotel with 281 rooms

Assumptions	Basis	2001	2002	2003	2004	2005	RATIONALE
Available Rooms	AMOUNT	281	281	281	281	281	Actual
Occupied Room Nights	AMOUNT	58,624	66,991	74,332	74,332	74,332	Calculated
Occupancy	%	57%	65%	72%	72%	72%	Based on market conditions and property performance
Average Daily Rate (constant $)	$POR	$97	$102	$102	$102	$102	Calculated
Average Daily Rate growth (constant)	%	-	5.26%	0.01%	0.00%	0.00%	Based on market conditions and property performance
REVENUE							
Food & Beverage	$POR	$94.0	$95.0	$96.0	$96.0	$96.0	Based on comparable hotels and anticipated CMP Revs + $99/occ. rm for non-CMP business
Telephone	$POR	$5.0	$5.0	$5.0	$5.0	$5.0	Based on comparable hotels
Other Revenues*	$POR	$4.5	$4.5	$4.5	$4.5	$4.5	Based on comparable hotels and anticipated facilities
Rental Income (net)	AMOUNT (000'S)	$226	$226	$226	$226	$226	Based on proposed facilities and anticipated rental rates provided by client
DEPARTMENTAL EXPENSES							
Rooms	% ROOM REVENUE	27.0%	26.0%	25.0%	25.0%	25.0%	Based on comparable hotels
Food & Beverage	% F&B REVENUE	72.0%	71.0%	70.0%	70.0%	70.0%	Based on comparable hotels
Telephone	% TEL. REVENUE	43.0%	43.0%	43.0%	43.0%	43.0%	Based on comparable hotels
Other Revenues	% OTHER REVENUE	77.0%	76.0%	75.0%	75.0%	75.0%	Based on comparable hotels
UNDISTRIBUTED EXPENSES							
Administrative & General	$PAR	$3,700	$3,700	$3,700	$3,700	$3,700	Based on comparable hotels
Marketing	$PAR	$3,400	$3,300	$3,200	$3,200	$3,200	Based on comparable hotels
Repair and Maintenance	$PAR	$2,100	$2,200	$2,300	$2,300	$2,300	Based on comparable hotels
Energy	$PAR	$2,000	$2,100	$2,200	$2,200	$2,200	Based on comparable hotels
FIXED CHARGES & RESERVES							
Management Fees	% TOTAL REVENUE	3.0%	3.0%	3.0%	3.0%	3.0%	Based on industry standards
Real Estate Taxes	$PAR	$1,000	$1,000	$1,000	$1,000	$1,000	Based on comparable hotels
Insurance	$PAR	$350	$350	$350	$350	$350	Based on comparable hotels
Reserve for Replacement	% TOTAL REVENUE	3.0%	3.0%	4.0%	4.0%	4.0%	Based on industry standards

$ POR = Dollar Per Occupied Room
$ PAR= Dollar Per Available Room
$ AMT (000's)= Dollar amount in Thousands
* Includes revenue derived from the business center, gift-shop operation, fitness center, valet parking, dry cleaning, and miscellaneous sources.
Source: Ernst & Young LLP

Exhibit III: Inflated Cash Flow Estimates

Hotel with 281 rooms

Cash Flow Before Income Taxes, Depreciation and Amortization

2001 -- 2005

(Expressed In Thousands of Inflated Dollars)

	2001		2002		2003		2004		2005	
Statistics										
Available Rooms	281		281		281		281		281	
Occupied Rooms	58,624		66,991		74,332		74,332		74,332	
Occupancy	57 2%		65 3%		72 5%		72 5%		72 5%	
Average Daily Rate	$108		$117		$122		$126		$130	
RevPAR	$62		$77		$88		$91		$94	
RevPAR % Change			24 5%		14.8%		3 5%		3 5%	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Revenue										
Rooms	6,322	47.5 %	7,870	48.7 %	9,039	48 5 %	9,355	48 5 %	9,682	48.5
Food & Beverage	6,110	45.9	7,303	45.2	8,475	45 5	8,772	45 5	9,079	45.5
Telephone	325	2.4	384	2 4	441	2 4	457	2 4	473	2 4
Other Revenues	292	2.2	346	2.1	397	2.1	411	2.1	426	2.1
Rental Income (net)	251	1.9	260	1 6	269	1 4	278	1 4	288	1 4
Total Revenue	13,300	100.0	16,163	100 0	18,621	100 0	19,273	100 0	19,948	100.0
Departmental Expenses										
Rooms	1,707	27 0	2,046	26.0	2,260	25 0	2,339	25.0	2,421	25.0
Food & Beverage	4,399	72.0	5,185	71.0	5,933	70.0	6,140	70 0	6,355	70.0
Telephone	140	43 0	165	43 0	190	43 0	196	43 0	203	43 0
Other Revenues	225	77 0	263	76 0	298	75.0	308	75.0	319	75.0
Total Departmental Expenses	6,471	48.7	7,660	47.4	8,680	46 6	8,984	46 6	9,298	46.6
Gross Operating Income	6,829	51.3	8,503	52.6	9,941	53.4	10,289	53.4	10,649	53.4
Undistributed Expenses										
Administrative & General	1,153	8 7	1,193	7.4	1,235	6 6	1,278	6 6	1,323	6 6
Marketing	1,059	8 0	1,064	6.6	1,068	5.7	1,105	5 7	1,144	5 7
Repair and Maintenance	654	4.9	709	4 4	768	4.1	794	4.1	822	4.1
Energy	623	4.7	677	4 2	734	3.9	760	3 9	787	3 9
Total Undistributed Expenses	3,489	26.2	3,644	22.5	3,805	20.4	3,938	20 4	4,076	20 4
Gross Operating Profit	3,340	25.1	4,860	30.1	6,137	33.0	6,351	33.0	6,574	33.0
Management Fees	399	3.0	485	3.0	559	3 0	578	3.0	598	3 0
Real Estate Taxes	312	2 3	322	2.0	334	1 8	345	1 8	358	1 8
Reserve for Replacement	399	3.0	485	3 0	745	4.0	771	4 0	798	4 0
Total Fixed Charges	1,219	9.2	1,405	8 7	1,754	9.4	1,815	9.4	1,879	9 4
Net Operating Income	$2,121	15.9 %	$3,455	21.4 %	$4,383	23.5 %	$4,536	23.5 %	$4,695	23.5

NOTES:

Percentages of departmental expenses are to departmental revenues.

Inflation assumed at 3.5% per annum.

Cash flow estimates are presented on a calender year basis starting January1, 2001

The comments and assumptions contained in the Market Study are an integral part of these cash flow estimates.

Totals may not add due to rounding.

Source: Ernst & Young LLP

Exhibit IV: Convention Center Comparable Financial Information

Convention Center Comparable Financial Information

	Comparable #1 Total	Comparable #1 Per Sq. Ft.	Comparable #2 Total	Comparable #2 Per Sq. Ft.	Comparable #3 Total	Comparable #3 Per Sq. Ft.	Comparable #4 Total	Comparable #4 Per Sq. Ft.	Averages* Per Sq. Ft.	Proposed Lancaster Conference & Convention Center (1998$) Per Sq. Ft.	Rationale
Total Prime Exhibit Space	47,000		19,600		36,484		21,600				
Maximum in Single Hall	47,000		19,600		24,472		21,600				
Total Meeting & Ballroom space	39,000		23,000		34,253		33,403				
Total	86,000		42,600		70,737		55,003		63,585	61,000	
Direct Operating Income											
Rent	$554,359	$6.45	$388,051	$9.11	$760,361	$10.75	$513,336	$9.33	$8.91	$12.39	Based on market analysis
Conference Services	-	-	-	-	-	-	-	-	NAP	27.24	Based on market analysis
Food/Beverage	54,327	0.63	77,610	1.82	-	-	55,436	1.01	1.15	6.81	Based on market analysis - day groups
Catering	388,051	4.51	-	-	482,357	6.82	654,144	11.89	7.74	NAP	See Food and Beverage
Parking	-	-	-	-	169,728	2.40	-	-	2.40	NAP	Separate Facility
Restaurant/Clubs	-	-	-	-	-	-	11,087	0.20	0.20	NAP	Hotel
Labor Charges to Tenant	-	-	16,631	0.39	-	-	-	-	0.39	NAP	Inclusive Rental Rate
Supply Charges to Tenant	-	-	133,046	3.12	-	-	110,872	2.02	2.57	NAP	Inclusive Rental Rate
Phone/Fax/etc. Charges	-	-	33,262	0.78	-	-	5,654	0.10	0.44	0.45	Based on comparables
Office Space Lease	-	-	-	-	73,175	1.03	-	-	1.03	NAP	Based on planned facility
Misc. Other Sources	222,852	2.59	28,827	0.68	110,925	1.57	110,373	2.01	1.71	1.75	Based on comparables
Total Direct Income	1,219,590	14.18	677,427	15.90	1,596,546	22.57	1,460,902	26.56	19.80	48.64	
Non Direct Income	-	-	-	-	948,592	13.41	-	-	3.35	NAP	
Direct Operating Expenses											
Salaries	850,930	9.89	597,599	14.03	1,140,871	16.13	744,052	13.53	13.39	13.50	Based on comparables - non food & bev, and conf. services
Conference Services	-	-	-	-	-	-	-	-		14.98	Based on comparable conference center ratios - 55% of associated revenue
Food & Beverage	-	-	-	-	-	-	-	-		4.77	Based on comparable conference center ratios - 70% of associated revenue
Fringe Benefits	231,944	2.70	210,102	4.93	225,640	3.19	190,921	3.47	3.57	4.00	Based on comparables
Repairs & Maintenance	110,484	1.28	96,458	2.26	63,722	0.90	-	-	1.48	1.75	Based on comparables
Concessions	-	-	-	-	-	-	166,308	3.02	3.02	NAP	Operate facility
Utilities	308,279	3.58	194,026	4.55	442,288	6.25	277,179	5.01	4.86	5.00	Based on comparables
Trash Removal	17,739	0.21	-	-	18,848	0.27	-	-	0.24	NAP	Included in Contractual Services
Insurance	41,910	0.49	44,349	1.04	113,556	1.61	-	-	1.04	1.20	Based on comparables
Materials & Supplies	73,508	0.85	26,609	0.62	130,415	1.84	396,921	7.22	2.63	4.50	Based on comparables and anticipated facility
Marketing & Advertising	55,791	0.65	388,051	9.11	53,210	0.75	-	-	3.50	1.00	Based on comparables and assumed majority of costs allocated to Hotel
Equipment (non capital)	13,360	0.16	-	-	-	-	55,436	1.01	0.58	NAP	Included in Materials and Supplies
Contractual Services	183,715	2.14	156,329	3.67	301,909	4.27	55,436	1.01	2.77	3.50	Based on comparables
Charges by Other Agencies	143,601	1.67	98,676	2.32	60,760	0.86	-	-	1.62	1.75	Based on comparables
Misc. Other Expenses	16,631	0.19	-	-	-	-	-	-	0.19	NAP	Not Applicable
Total Direct Operating Expenses	2,047,891	23.81	1,812,199	42.54	2,551,219	36.07	1,886,253	34.29	34.18	55.95	
Management Fee	-	-	-	-	-	-	-	-	-	1.46	3% revenues
Net Operating Income (Deficit)	-$828,301	-$9.63	-$1,134,773	-$26.64	-$954,673	-$13.50	-$125,351	-$7.73	-$14.37	-$8.77	
Est. Extraordinary Expenditures	133,046	1.55	N/A		2,882,666	40.75	N/A		21.15		

* Averages based on available data per line item.

NAP = Not Applicable

Source: Individual Properties, Ernst & Young, LLP

Exhibit V: Convention/Conference Center Estimated Cash Flow

Convention/Conference Center Estimated Cash Flow

Proposed Lancaster Conference & Convention Center

	Stabilized in 1998 dollars/ SF		2001		2002		2003		2004		2005	
Growth Rate 3.50%												
Total Square Feet 61,000	Per SF	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Direct Operating Income												
Rentals	$ 12.39	25.5%	$ 278,698	12.0%	$ 578,351	19.5%	$ 897,890	25.5%	$ 929,317	25.5%	$ 961,842	25.5%
Conference Services	27.24	56.0%	1,483,337	64.0%	1,791,716	60.3%	1,973,852	56.0%	2,042,937	56.0%	2,114,439	56.0%
Food/Beverage (Day Groups)	6.81	14.0%	405,238	17.5%	447,091	15.0%	493,677	14.0%	510,955	14.0%	528,839	14.0%
Phone, Fax, etc.	0.45	0.9%	30,434	1.3%	31,500	1.1%	32,602	0.9%	33,743	0.9%	34,924	0.9%
Misc. Other Sources	1.75	3.6%	118,356	5.1%	122,498	4.1%	126,786	3.6%	131,223	3.6%	135,816	3.6%
Total Direct Income	$ 48.65	100.0%	2,316,063	100.0%	2,971,156	100.0%	3,524,806	100.0%	3,648,175	100.0%	3,775,860	100.0%
Direct Operating Expenses												
Conference Services	$ 14.98	30.8%	$ 815,835	35.2%	$ 985,444	33.2%	$ 1,085,619	30.8%	$ 1,123,615	30.8%	$ 1,162,942	30.8%
Food/Beverage	4.77	9.8%	283,667	12.2%	312,964	10.5%	345,574	9.8%	357,669	9.8%	370,187	9.8%
Salaries (non-f&b/conf. services)	13.50	27.7%	913,029	39.4%	944,985	31.8%	978,060	27.7%	1,012,292	27.7%	1,047,722	27.7%
Fringe Benefits	4.00	8.2%	270,527	11.7%	279,996	9.4%	289,795	8.2%	299,938	8.2%	310,436	8.2%
Repairs & Maintenance	1.75	3.6%	118,356	5.1%	122,498	4.1%	126,786	3.6%	131,223	3.6%	135,816	3.6%
Utilities	5.00	10.3%	338,159	14.6%	349,995	11.8%	362,244	10.3%	374,923	10.3%	388,045	10.3%
Insurance	1.20	2.5%	81,158	3.5%	83,999	2.8%	86,939	2.5%	89,981	2.5%	93,131	2.5%
Materials, Supplies & Equipment (non-capital)	4.50	9.2%	304,343	13.1%	314,995	10.6%	326,020	9.2%	337,431	9.2%	349,241	9.2%
Marketing & Advertising	1.00	2.1%	67,632	2.9%	69,999	2.4%	72,449	2.1%	74,985	2.1%	77,609	2.1%
Contractual Services	3.50	7.2%	236,711	10.2%	244,996	8.2%	253,571	7.2%	262,446	7.2%	271,632	7.2%
Management Fee	1.46	3.0%	69,482	3.0%	89,135	3.0%	105,744	3.0%	109,445	3.0%	113,276	3.0%
Charges by Other Agencies	1.75	3.6%	118,356	5.1%	122,498	4.1%	126,786	3.6%	131,223	3.6%	135,816	3.6%
Total Direct Operating Expenses	$ 57.41	118.0%	$ 3,617,255	156.2%	$ 3,921,502	132.0%	$ 4,159,586	118.0%	$ 4,305,171	118.0%	$ 4,455,852	118.0%
Net Operating Income (Deficit)	--		$ (1,301,192)		$ (950,347)		$ (634,779)		$ (656,996)		$ (679,992)	
per SF	$ (8.77)		$ (21.33)		$ (15.58)		$ (10.41)		$ (10.77)		$ (11.15)	
	-18%		-56%		-32%		-18%		-18%		-18%	

Overview

- The Lancaster Campaign has also engaged E&Y to provide an analysis of the potential economic impact from the development of the Lancaster Hotel and Conference/Convention Center Project. As part of this analysis, E&Y evaluated the potential effect of the imposition of a hotel tax on hotel revenues generated by existing properties in Lancaster County. In conducting this analysis, it must be noted that the hotel and conference/convention center were considered to be mutually dependent. By focusing on the development of the conference/convention facility, the Lancaster Campaign recognizes the potential to attract tourists whose spending will infuse new money into the economy and create new jobs, increased sales, and more tax revenues.[3]

- The development of a proposed hotel/conference center would require a public private partnership between High Associates, the Lancaster Campaign, the City of Lancaster, Lancaster County, and the Commonwealth of Pennsylvania. The partnership would save a vacated department store from demolition and construct a regional conference/convention center. The Lancaster Campaign recognizes the value in maintaining the structure and repositioning its use to preserve the historic fabric of the downtown and contribute to the economic vitality of the City through the conversion of the property and the adjacent land to a hotel and conference/convention center.

- The proposed construction of the Project includes a privately owned, upscale, full-service 281 guest room hotel in the Watt & Shand Building at Penn Square in downtown Lancaster, Pennsylvania and an adjoining 61,000-square foot publicly owned conference/convention center. Both facilities, although owned by different entities, are anticipated to be operated by a single management company with significant expertise in operating these types of properties, and will be affiliated with a nationally recognized hotel conference/convention center brand. It is anticipated that this development will generate economic benefits to the community in jobs and tax revenue, as well as create a cornerstone for future private investment downtown.

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[3] This concept is discussed in Petersen, David C., 1996. *Sports, Convention, and Entertainment Facilities*. Washington, DC: ULI - Urban Land Institute.

PROJECT OVERVIEW	
LOCATION:	The Watt & Shand Property and various adjacent properties in downtown Lancaster, Pennsylvania
ESTIMATED SIZE:	281 guest room hotel with 61,000-square foot conference/convention center
PROPOSED OPENING:	Completion of Project planned for January, 2001, with stabilized year beginning January 2003.
ESTIMATED PROJECT COST:	$91.0 Million[4]

[4] Dollar values in 1998 dollars. As per Proforma Cost Analysis Report provided by High Real Estate Company printed 4/28/99.

Objectives and Methodology

A. Objectives

The objectives of this section of the report are two-fold:

- Perform an *Elasticity Analysis* to provide the Lancaster Campaign with an analysis of the potential impact of a hotel tax on hotel performance in Lancaster County. The components of the analysis outlined below were evaluated relative to similar projects initiated in the past, including:
  - Identification of comparable counties based primarily on publicly available information;
  - An analysis of how comparable counties' hotel industries have reacted after a hotel tax was enacted;
  - Estimation of revenue generated from an additional 1% hotel tax

- Perform an *Economic Impact Analysis* to provide the Lancaster Campaign with an estimate of the potential economic impact from the development of the proposed Lancaster Hotel and Conference/Convention Center. In addition, this analysis highlights the estimated potential impact of the Lancaster development project on the hotel, restaurant and entertainment industries in Lancaster County. In particular, economic variables such as employment, personal income, output and tax revenues associated with the Lancaster development project were modeled. This analysis quantified the estimated economic impact of the development of the project by addressing the following:
  - The economic benefit in terms of jobs, personal incomes, taxes and output generated by the hotel, restaurant and entertainment industries;
  - The tax revenues which should accrue to state and local authorities with the development of the new center;

Emphasis was placed on estimating: (a) new job creation, both construction and permanent jobs; (b) new direct tax revenues; and (c) indirect tax benefits.

B. Methodology

This analysis concentrated on the economic impacts that could be generated within Lancaster County. These impacts include the economic activity directly generated by the proposed Project as well as indirect benefits generated by new spending brought to Lancaster due to the new Penn Square Center Project. New spending occurs as dollars are spent in the immediate neighborhood surrounding the site.

Elasticity Analysis

E&Y analyzed data from four counties which have imposed hotel taxes, (three in Pennsylvania and one in North Carolina), to determine the potential impact of a new hotel tax on hotels in Lancaster County. Counties chosen had recently imposed a hotel tax related to a convention center or arena. The county in North Carolina was included due to its demographic similarities, its proximity to a major metropolitan area and a convention center similar in size. The data obtained for this analysis was provided by Smith Travel Research reports and included aggregate county occupancy rates, room rates and room revenue from January 1993 to March 1999 (monthly and annually).

The four counties analyzed included:

◊ *Berks County, Pennsylvania* - Berks imposed a 5% tax in March, 1998 - 20% of the tax is allocated to the visitors bureau for marketing, 80% is allocated to support the county civic center/arena;
◊ *Luzerne County, Pennsylvania* - Luzerne imposed a 5% tax in July, 1997 - 20% is allocated to the visitors bureau for marketing, 80% allocated to retire the bond for the arena/civic center scheduled to open in late 1999;
◊ *Philadelphia County, Pennsylvania* - Philadelphia imposed a 6% tax in May, 1994 - approximately 67% is allocated to the convention center for debt retirement, 33% is allocated to general funds and the budget of the convention and visitors bureau; and
◊ *Catawba County, North Carolina* - Catawba imposed a 5% tax in September, 1995 - the tax is allocated to support the operations and marketing of the three-year old convention center.

Data considered in the analysis included available room nights, occupied room nights, daily occupancy, average room rates, and room revenue, before and after the imposition of the tax.

Economic Impact Analysis

Economic impact refers to the measurement of potential economic activity associated with the development and operation of the new hotel and conference/convention center. This impact is measured using an input-output model, which, analyzes the relationship of production linkages among industries operating within Lancaster County.[5] The model estimates the extent to which these linkages lead to more, or less, regional income for each unit of final sales of goods and services produced in Lancaster County.[6]

The direct spending analysis utilized to measure economic impacts is defined as the total spending generated by commercial activity. For purposes of this report, direct spending is defined as all expenditures associated with the construction phase, and all revenues generated during the operational phase.

As this direct spending and revenue occurs in Lancaster County, further spending by individuals and businesses supporting this direct activity create further indirect economic benefits. The effect of this second round of spending is often referred to as the "multiplier" effect.

The impacts of the redevelopment of Penn Square Center were measured using the following variables:

◊ Output - value of total production of industries affected

◊ Employment - number of jobs produced for each industry affected

[5]This analysis utilized the IMPLAN (IMpact Analysis for PLANing) input-output model. IMPLAN is a nationally accepted model used to estimate economic impact or input-output generated by a proposed commercial development. Since its initial development, the IMPLAN input-output model has become well-known by those in government and the private sector who conduct input-output modeling.
[6] For a discussion of the mechanics of this process, see Bendavid-Val, Avrom, 1991. Regional and Local Economic Analysis for Practitioners. Westport, CT: Praeger Publishers.

- ◊ Personal income - income from all sources, including employment and transfer payments

- ◊ Sales and income taxes - all sales and income taxes found to be applicable for Lancaster County and the Commonwealth of Pennsylvania.[7]

The estimated economic benefits to the County reflect two phases of development: the construction phase of the proposed project; and the operational phase upon stabilization of the hotel and conference/convention center. Construction benefits are calculated from project expenditures spread over the pre-construction and construction periods (FY 1999 through FY 2001). Hotel conference/convention center operational benefits are calculated based on a typical year of stabilized operation - assumed to be 2003 for the purposes of this report. In the "Summary of Economic Impact" section, the gross construction impacts would be spread out over the course of construction. Operational phase impacts are reported for a typical year - 2003 - during the operational phase.

It is important to note that this economic impact analysis does not take into consideration the cost impacts associated with the development, the financial feasibility, or the anticipated returns. Cost impacts typically associated with the development of public facilities can include traffic congestion, road accidents, vandalism, police and fire protection, environmental degradation, garbage collection, increased prices to local residents in retail and restaurant establishments, loss of access, and disruption of residents' lifestyles.[8]

In preparing this analysis, an attempt was made to minimize any potential economic impact generated by displaced spending. However, a detailed analysis of displaced spending was beyond the scope of this study. Our analysis sought to estimate the portion of estimated expenditures for the construction phase of the project, and estimated revenues for the operation phase of the project, which are solely attributable to the new hotel and conference/convention center. Therefore, an attempt was made to exclude all expenditures and revenues that would have occurred had the project not been undertaken. In making this estimate, reliance was placed upon certain assumptions provided by the Lancaster Campaign and certain assumptions built into the IMPLAN model. Assumptions are discussed in detail later in this section of the report.

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[7] Sales and income taxes were calculated using a proprietary E&Y model which utilizes results generated by IMPLAN.
[8] Crompton, John L., 1995. Economic Impact analysis of Sports Facilities and Events: Eleven Sources of Misapplication. Journal of Sport Management, 33.

Realistically, there could be more leakage outside the County to the expenditure and revenue components than assumed. Therefore, it would be conservative to assume that this analysis estimates the maximum potential economic impact of the development on Lancaster County.

C. Tasks Completed

To achieve the objectives discussed above, E&Y undertook the following:

◊ Estimated performance levels of existing hotel & conference center facilities (number of visitors, occupied hotel room nights, and/or revenues generated)

◊ Estimated future demand for the proposed hotel & conference/convention center facilities in terms of number of events for the new center, visitors, and occupied hotel room nights

◊ Reviewed specifications of the proposed development project, including:

a) Development program
b) Use of space
c) Project budget - core costs
d) Construction project cost and components
e) Timing of project
f) Estimated increase in tourism and its impact on revenue generation

◊ Conducted additional research to estimate revenues for competitive hotels

◊ Researched services provided by local tourist bureaus

- ◊ Estimated non-displaced sources of revenue attributable to the new Penn Square Center
- ◊ Conducted research on parking facilities in Lancaster County and at facilities comparable to the proposed hotel and conference/convention center
- ◊ Compiled data on spending patterns of convention, leisure and business visitors
- ◊ Researched relevant taxes applicable to the study area
- ◊ Generated employment, output and personal income multipliers by conducting an input-output analysis using IMPLAN software. Utilizing information provided by the Lancaster Campaign and High Associates on construction phase costs as of April 1999 and operating expenses estimated for the operation phase of the Project, this analysis estimated the potential economic benefits of the development of the proposed Penn Square Center project.

Summary of Elasticity Analysis

The purpose of this analysis was to gain a better understanding of the impact of hotel and bed taxes on the Lancaster County lodging industry. Specifically, this analysis attempted to illustrate how hotel room demand in Lancaster County could be impacted by the imposition of a hotel tax within the County. It is important to mention that this analysis did not control for additions to room supply in each comparable market analyzed, or for any other supply and demand dynamics which might impact lodging market performance. Given the small sample set and the scope of this Project, no econometric analysis was undertaken to adjust for more specific differences in local market conditions between the sample counties.

Additionally, it has not been determined whether increases in room revenue in each market were impacted by a "flow through" of the enacted occupancy tax to the consumer (which would result in an increase in room rates).

The analysis also estimated the potential revenue which a hotel tax could generate in Lancaster County.

The following is intended to illustrate the impact of the hotel tax on the previously mentioned counties' lodging industries. This analysis considers five variables for each of the four comparable counties - available room nights, occupied room nights, daily occupancy, average room rates, and room revenue, before and after the tax. The results are summarized on the following page.

Results

◊ ***Berks County, PA*** - After Berks imposed its occupancy tax, occupancy levels and daily room rates increased at, or greater than historical levels. Room revenue also continued to grow. Therefore, it appears that the occupancy tax enacted in early 1998 did not have a negative impact on hotel industry performance.

◊ ***Luzerne County, PA*** - Since the imposition of the hotel tax in Luzerne County, daily occupancy has decreased slightly while room revenues have increased. It is important to note that at the time of the tax, Luzerne's civic center/arena was not yet operational. Therefore, it appears that the occupancy tax enacted in early 1997 did not have a significant negative impact on hotel industry performance.

◊ ***Philadelphia County, PA*** - After Philadelphia County imposed an increase in its hotel tax, occupancy levels and daily room rates increased at significant levels. Therefore, it appears that the occupancy tax enacted in early 1994 did not have a significant negative impact on the hotel industry's performance.

◊ ***Catawba County, NC*** - Among the comparable counties, Catawba has experienced the largest increase in available room nights. The data demonstrate that even with additions to the supply of hotel rooms, room revenues have continued to grow. These results would suggest that the occupancy tax enacted in early 1995 did not have a negative impact on hotel industry performance.

Berks County, Pennsylvania

Year	Available Room Nights	Percent Change	Occupied Room Nights	Percent Change	Daily Occupancy	Percent Change	Average Room Rate	Percent Change	Room Revenue	Percent Change
1993	623,420		385,942		61.91%		$53.42		$20,616,680	
1994	623,420	0.0%	399,943	3.6%	64.15%	3.6%	$55.76	4.4%	$22,301,301	8.2%
1995	623,420	0.0%	383,352	-4.2%	61.49%	-4.2%	$57.61	3.3%	$22,085,396	-1.0%
1996	660,650	6.0%	397,557	3.7%	60.18%	-2.2%	$59.33	3.0%	$23,587,966	6.8%
1997	680,450	3.0%	407,176	2.4%	59.84%	-0.6%	$62.37	5.1%	$25,395,621	7.7%
1998[9]	686,930	0.9%	432,050	6.1%	62.90%	5.1%	$66.61	6.8%	$28,777,882	13.3%

Source: Smith Travel Research

- ◊ As seen above, daily occupancy levels and room rates increased in 1998 at rates similar to historic levels.
- ◊ Additionally, an increase in occupied rooms and room rates correspond with a growth in room revenue which exceeded historical rates.
- ◊ As occupancy levels and daily room rates increased at, or greater than historical levels, it can be inferred that the occupancy tax enacted in early 1998 did not have a negative impact on hotel industry performance. It is also important to note that Berks has imposed its tax to support a civic center/arena, which, compared to convention centers, typically does not draw significant numbers of overnight visitors.

[9] Tax was imposed March 1998.

Luzerne County, Pennsylvania

Year	Available Room Nights	Percent Change	Occupied Room Nights	Percent Change	Daily Occupancy	Percent Change	Average Room Rate	Percent Change	Room Revenue	Percent Change
1993	1,068,965		662,604		61.99%		$47.24		$31,303,592	
1994	1,080,035	1.1%	667,888	0.8%	61.84%	-0.2%	$50.83	7.6%	$33,951,674	8.5%
1995	1,082,475	0.2%	668,315	0.1%	61.74%	-0 2%	$51.74	1.8%	$34,580,236	1.9%
1996	1,054,663	-2.6%	645,689	-3.4%	61.22%	-0.8%	$53.47	3.3%	$34,521,905	-0.2%
1997[10]	1,017,255	-3.6%	613,420	-5.0%	60.30%	-1.5%	$55.20	3.3%	$33,861,411	-1.9%
1998	1,031,593	1.4%	616,727	0.5%	59.78%	-0.9%	$56.63	2.6%	$34,922,638	3.1%

Source: Smith Travel Research

- As seen above, daily occupancy levels decreased slightly in 1997 while room rates increased.
- A decrease in daily occupancy and an increase in room rates in 1997 correspond with a slight room revenue decrease in 1997, which was corrected in 1998 as room revenue increased.
- Although daily occupancy has decreased slightly since the imposition of the hotel tax, room revenues have been increasing. It is important to note that at the time of the tax, Luzerne's convention center was not yet operational. Therefore, it can be inferred that the occupancy tax enacted in early 1997 did not have a significant negative impact on hotel industry performance.

[10] Tax was imposed July 1997

Philadelphia County, Pennsylvania

Year	Available Room Nights	Percent Change	Occupied Room Nights	Percent Change	Daily Occupancy	Percent Change	Average Room Rate	Percent Change	Room Revenue	Percent Change
1993	3,420,950		2,239,106		65.45%		$85.82		$192,159,175	
1994[11]	3,393,638	-0.8%	2,335,701	4.3%	68.83%	5.2%	$91.05	6.1%	$212,673,731	10.7%
1995	3,754,429	10.6%	2,586,754	10.8%	68.90%	0.1%	$97.62	7.2%	$252,518,903	18.7%
1996	3,919,005	4.4%	2,833,959	9.6%	72.31%	5.0%	$107.73	10.4%	$305,304,810	20.9%
1997	3,895,641	-0.6%	2,832,133	-0.1%	72.70%	0.5%	$116.59	8.2%	$330,205,078	8.2%
1998	4,024,945	3.3%	2,914,911	2.9%	72.42%	-0.4%	$123.63	6.0%	$360,364,099	9.1%

Source: Smith Travel Research

- ◊ After the tax, daily occupancy levels increased in all years except 1998, which experienced a slight decrease. Room rates and room revenue increased after 1994.
- ◊ Additionally, the increase in room rate and occupancy levels correspond with a significant growth in room revenue in 1994 and thereafter.
- ◊ As occupancy levels and daily room rates increased at significant levels subsequent to enactment of the occupancy tax, it can be inferred that the occupancy tax enacted in early 1994 did not have a significant negative impact on the hotel industry's performance.

[11] Tax increase of one percent was imposed May 1994.

Catawba County, North Carolina

Year	Available Room Nights	Percent Change	Occupied Room Nights	Percent Change	Daily Occupancy	Percent Change	Average Daily Rate	Percent Change	Room Revenue	Percent Change
1993	525,600		307,157		58.44%		$44.26		$13,593,486	
1994	512,668	-2.5%	315,980	2.9%	61.63%	5.5%	$47.31	6.9%	$14,947,921	10.0%
1995[12]	497,122	-3.3%	323,459	2.4%	65.07%	5.6%	$51.65	9.2%	$16,706,320	11.8%
1996	580,080	16.7%	321,816	-0.5%	55.48%	-14.7%	$56.36	9.1%	$18,138,127	8.6%
1997	594,585	2.5%	330,521	2.7%	55.59%	0.2%	$58.68	4.1%	$19,394,516	6.9%
1998	626,325	5.3%	332,231	0.5%	53.04%	-4.6%	$60.98	3.9%	$20,260,557	4.5%

Source: Smith Travel Research

- ◊ As seen above, daily occupancy levels increased in 1995, subsequent to enactment of the occupancy tax, but decreased significantly in 1996 (potentially due more to a substantial increase in supply than the occupancy tax).
- ◊ Additionally, the decrease in daily occupancy and increase in room rates corresponded with room revenue growth which peaked in 1995 and continued to grow, though at a slower rate, through 1998.
- ◊ It is important to note that among the comparable counties, Catawba has experienced the largest increase in supply of available room nights. As room revenues have continued to grow, it is estimated that the occupancy tax enacted in early 1995 did not significantly impact hotel industry performance.

[12] Tax was imposed for September 1995

Potential Revenue from Hotel Tax

- The total amount of the bed tax to be imposed had not been determined at the time of this study. The following table illustrates the estimated amount of revenues that could be generated per one percent of tax imposed based on hotel sales revenue in Lancaster County. This estimate is based on 1997-1998 fiscal year hotel sales revenue as derived from the Pennsylvania Department of Revenue. This estimated revenue is based on historical sales and does not consider future increases or decreases in revenue or the addition of hotels to the market.

As per the Pennsylvania Department of Revenue, Hotel Sales revenue in Lancaster County for fiscal year 1997-1998 was	$72,832,083
One Percent of Tax	1%
One Percent Tax Revenue	$ 728,321

Summary of Economic Impact

The study area for this analysis was defined as the County of Lancaster. Based upon our modeling efforts, the new hotel and conference/convention center is estimated to create a total of 1,242 direct and indirect jobs in Lancaster during the construction phase, and 577 direct and indirect jobs in Lancaster County during a typical operational year.[13] The Project is estimated to generate $7,825,837 in sales and income tax revenues for the City and State from the construction phase and $2,211,465 annually from a typical year of stabilized operation. Total personal income is estimated to increase by $41,288,182 in Lancaster County during the construction phase and $11,149,897 annually during the operational phase. Increases in output, or the total value of goods and services produced, total $109,985,476 during the construction phase and $30,708,543 annually during a typical stabilized year.[14]

Direct, Indirect & Induced Effects

To calculate the total impact in a given study area, it is necessary to examine three different types of effects: direct, indirect and induced effects during the construction and operational phases of the project.

◊ A *direct effect* represents the impact generated by a change in final demand for a given industry in the study area. For example, the direct effect of the construction phase in this study would be the initial expenditure on construction materials and fees paid to architectural and engineering and construction companies.

◊ An *indirect effect* represents the impact on all local industries caused by the iteration of industries purchasing from one another subsequent to the direct effect. Again, for the construction phase, this would be represented by the architectural and engineering and construction companies purchasing materials within the local economy needed to complete the project. Subsequent indirect effects are produced as other companies purchase materials and supplies that are provided to construction, architectural and engineering companies.

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[13] "A typical year of stabilized operation" is assumed to be 2003 for purposes of this analysis. This method is consistent with prior phases of this project.
[14] All dollar values in 1998 dollars.

◊ *Induced effect* represents the response by all local industries caused by the expenditures of new household income generated by the direct and indirect effects of final demand for a given industry. Again, during the construction phase, this effect is represented by individuals working within industries which are impacted by the direct and indirect effects. These individuals will spend their wages within the study area, thereby generating further economic impact.

◊ *Total effect:* The total effect is the sum of these three effects. [15]

[15] These impacts are discussed in Olsen, Doug and Scott Lindall, 1996. *IMPLAN Professional Software, Analysis, and Data Guide*. Minnesota IMPLAN Group, Inc., 1940 South Greeley Street, Suite 101, Stillwater, MN 55082, www.implan.com.

A. New Job Creation

Table 1 indicates that the estimated total full-time jobs created in Lancaster County resulting from the construction phase of the proposed Project are 1,242. Total estimated permanent jobs created during the operational phase of the project are 577.

Table 1
Summary of New Job Creation

	Direct (A)	**Indirect (B)**	**Induced (C)**	**Total (A+B+C)**
Construction	635	277	330	1,242
Operation	403	85	89	577

Note on table:

- Represents full-time jobs.

Table 2 examines total impact on employment for the following specific industries. These industries represent only a portion of the total new jobs created, as illustrated on Table 1.

Table 2
Summary of New Job Creation by Industry

Employment	Amusement, recreation services and motion picture industries	Hotel and lodging industry	Eating and drinking industry
Construction	8	9	41
Operation	6	330	46

Note on table:

- Represents full-time jobs.

B. New Tax Revenues

Tax benefits from the construction and operational phases are summarized in *Tables 3 & 4* below.

TABLE 3
Summary of New Direct Tax Revenues Due to Construction
(Constant 1998 Dollars)

	Benefits
Lancaster	
Construction	
County income tax[16]	$322,818
Subtotal	**$322,818**
Pennsylvania	
Construction	
State sales tax[17]	$6,599,429
State income tax	$903,891
Subtotal	**$7,503,320**
CONSTRUCTION BENEFIT (County & State)	$7,826,138

[16] For the County Income Tax, 50% is allocated to the City of Lancaster and 50% is allocated to the School District of Lancaster.

[17] Sales taxes are calculated by multiplying IMPLAN total value of goods and services produced (output) by tax rate. It is important to note that not all goods and services will be sold in a given year. Therefore this calculation is a best-case scenario.

TABLE 4
Summary of Tax Revenues Due to Operation
(Constant 1998 Dollars)

	Benefits
Lancaster	
***Operation** (annual)*	
County income tax[18]	$97,093
Subtotal	**$97,093**
Pennsylvania	
Operation	
State sales tax[19]	$1,842,513
State income tax	$271,859
Subtotal	**$2,114,372**
OPERATION BENEFIT (County & State)	**$2,211,465**

[18] For the County Income Tax, 50% is allocated to the City of Lancaster and 50% is allocated to the School District of Lancaster.
[19] Sales taxes are calculated by multiplying IMPLAN total value of goods & services produced (output) by tax rate. It is important to note that not all goods and services will be sold in a given year. Therefore this calculation is a best-case scenario.

C. Increases in Personal Income

As shown in *Table 5*, the estimated increase in personal income in Lancaster County due to the construction phase of the proposed project is $41,288,181. The estimated total annual increase in personal income due to the operational phase of the proposed Project is $11,149,897 in Lancaster County.

Table 5
Estimated Increases in Personal Income
(Constant 1998 Dollars)

	Direct (A)	**Indirect (B)**	**Induced (C)**	**Total (A+B+C)**
Construction	$24,693,518	$8,162,062	$8,432,602	$41,288,182
Operation	$ 6,539,094	$2,334,806	$2,275,997	$11,149,897

Table 6 examines total impact on personal income for the following specific industries. These industries represent only a portion of the increases in personal income as illustrated on Table 5.

Table 6
Estimated Increases in Personal Income
(Constant 1998 Dollars)

	Amusement, recreation services and motion picture industries	Hotel and lodging industry	Eating and drinking industry
Construction	$96,690	$132,784	$518,279
Operation	$86,714	$5,134,684	$583,575

D. Increases in Total Value of Goods and Services Produced (Output)

Table 7 estimates the increase in output, or the total value of goods and services produced in the study area, due to the construction and operation phases of the redevelopment project. The estimated increase in output in Lancaster County due to the construction phase of the Project is $109,985,476. The projected annual increase in output due to the operational phase of the Project totals $30,708,543 in Lancaster County.

Table 7
Estimated Increases in Output
(Constant 1998 Dollars)

	Direct (A)	Indirect (B)	Induced (C)	Total (A+B+C)
Construction	$67,442,570	$19,738,520	$22,804,386	$109,985,476
Operation	$18,340,563	$ 6,212,974	$ 6,155,006	$ 30,708,543

Table 8 examines total annual increases in output for the following specific industries. These industries represent only a portion of the increases in total value of goods and services produced (output), as illustrated on Table 7.

Table 8
Estimated Increases in Output
(Constant 1998 Dollars)

	Amusement, recreation services and motion picture industries	Hotel and lodging industry	Eating and drinking industry
Construction	$326,704	$392,299	$1,428,980
Operation	$301,292	$15,170,013	$1,609,013

Assumptions

The following three sections describe detailed assumptions for the construction and operational phases of the project and for the input-output model utilized.

A. General Assumptions

- This analysis is based on Scenario IV which assumes construction of 281 rooms for the Hotel and a 61,000-square foot conference/convention center; the estimates of performance levels for this Scenario assume that a portion of overnight event demand (particularly that generated by large trade and consumer shows) that cannot be accommodated by the hotel size constraints, would be accommodated by the other hotels within the area. It is also. assumed that surrounding hotels that benefit from this demand will provide complimentary transportation to and from the venue; and that this complimentary transportation will be included in the strategy to market the venue to event planners.

- The analysis assumes the property will be vigorously marketed throughout the region by a nationally recognized management company, and that the hotel and conference center would not only attract local demand sources, but also large-volume, overnight meetings, conferences, conventions, and shows from surrounding areas such as Harrisburg, Philadelphia, Reading, and Baltimore.

B. Construction Phase

Expenditure Assumptions

- Impacts are reported on a gross level, spread over the construction period. All values are assumed to be in 1998 dollars.

- Construction phase impacts are generated from approximately $91 million in project expenditures. These expenditures were are outlined in the Proforma Cost Analysis Report from Penn Square Center's *Project Proposal for the Department of Community and Economic Development, April 28, 1999*. Components include:
    - ◊ Hard costs (for hotel, conference center, furniture, fixtures and equipment ("FF&E"), parking garage expansion, etc.)
    - ◊ Architecture/Engineering costs (architect/engineering fees, tenant plans, site design, etc.)
    - ◊ Miscellaneous costs/fees (municipal fees, legal fees, environmental remediation, demolition costs)
    - ◊ Allocated costs (interim financing, marketing fees, commissions, pre-opening expenses, developer's fees)
    - ◊ Land and building (original acquisition/additional acquisition costs)

- We have applied a local purchase coefficient to the construction component of the total construction expenditure. This allows us to determine the amount of expenditure which may leak from the study area during the construction phase. This analysis assumes that 75 percent of all construction costs will be spent within Lancaster County and that 25 percent of the expenditure will leak from Lancaster County.[20]

Tax Assumptions

- The following are applicable tax assumptions from the construction phase:
    - ◊ Lancaster County: 1.0 percent income tax
    - ◊ Pennsylvania: 6.0 percent sales & use tax; 2.80% income tax

[20] 75 percent figure provided by client.

C. Operational Phase

General Assumptions

- The impacts reflect a typical stabilized year of the operational phase which is assumed to be 2003. All values are assumed to be in 1998 dollars.

- Sources of direct revenue relevant for the operational stage will necessarily be less than the cash flow figures for the hotel conference/convention center. This is primarily due to the fact that the economic impact analysis cannot take into account "displaced" or "switched" spending, that is, spending that originally occurred in Lancaster County that was simply "switched" from other hotels and conference venues to the new Penn Square Center. Therefore, approximately $17 million of direct impact from the operational phase were generated from seven main sources:

  - *Regional Group Hotel & Conference Center Revenues* - This calculation includes regional groups visiting the conference center and paying the Complete Meeting Package (CMP) rate. Because these visitors pay the CMP rate, it has been assumed that they do not generate further spending outside the hotel and conference/convention center to them. Five percent of these attendees are estimated to be generated by local sources and accounts for demand that had been leaving Lancaster County for conference center venues in places such as Hershey, Pennsylvania.

  - *Convention/Show Hotel Room Revenues* - This calculation includes all convention center attendees (trade/consumer show attendees) staying overnight, either at Penn Square or at other hotels. Convention center attendees staying at Penn Square are assumed not to pay the CMP rate. Additional spending is attributed to this group and is factored into "Convention Attendee & Transient Spending Outside of Hotel."

  - *Convention Space Rental Revenues* - This calculation includes revenues earned from renting the convention center's exhibit hall. It does not include revenue from day groups, which would have rented space at facilities in Lancaster County regardless of the new Penn Square Center.

- *Transient Room Revenues* - This calculation includes revenues attributable to transient visitors (commercial, tour bus, and leisure) staying overnight in Lancaster County. It assumes that only 10 percent of this segment will be induced into the market due to the new Penn Square Center, and therefore includes only 10 percent of the revenue generated by the group. It does not include regional group visitors, which were already accounted for in the Regional Group Hotel and Conference Center Revenues calculation. Additional spending is attributable to this group in the Convention Attendee and Transient Spending calculation.

- *Conference/Convention Attendee and Transient Spending Outside of Hotel* - This calculation includes the spending of all non-CMP conference attendees, convention attendees, trade and consumer show attendees and transient visitors outside of the new Penn Square Center at restaurants, theaters, for rental cars, gasoline, etc. Spending pattern data from the International Convention and Visitors Board and the Pennsylvania Dutch Tourist Bureau was utilized for this calculation.

- *Parking* - This calculation captures non-displaced revenue which is attributable to parking spaces demanded due to the new Penn Square Center. Parking demand was applied to a parking rate provided by the Parking Authority of the City of Lancaster.

- *Cash Flow Generated by the Hotel* - This calculation includes extra food and beverage, telephone, and other spending inside the hotel which was not accounted for by CMP revenue and room revenue. Convention Attendee and Transient Spending Outside of Hotel was adjusted to avoid double-counting these types of revenue sources.

➢ To be consistent with standard input-output modeling, for conversion of retail inputs to producer price inputs, estimated retail revenues need to be margined. This entailed multiplying estimated retail revenues, by the Bureau of Economic Analysis's estimated margin, of 31.6% for retailers for 1996 (the most current data available).[21]

[21] Annual Benchmark Report for Retail Trade: January 1988 through December 1997. Washington, DC: US Department of Commerce, Census Bureau.

D. IMPLAN Model Assumptions

➢ This analysis utilizes the IMPLAN input-output model which creates custom impact analyses using a process modeled on the Bureau of Economic Analysis's Benchmark Input-Output Study. The model operates under certain standard assumptions, described below:

◊ No supply constraints - means that an industry's supplies are not limited; it has unlimited access to raw materials and its output is limited only by the demand for its products.

◊ Fixed commodity input structure - means that price changes will not cause a firm to buy substitute goods. Changes in the economy will affect the industry's output but not the mix of commodities and services it requires to make its products.

◊ Homogeneous sector output - means that the proportions of all the commodities produced by that industry remain the same, regardless of total output.

◊ Similarity of industry technology - means that an industry has a primary product and all other products are byproducts of the primary product.

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Economic, Demographic and Regional Overview

General Market Characteristics

- The Proposed Hotel and Conference/Convention Center will be located the City of Lancaster, Lancaster County, Pennsylvania.
- Lancaster is located within 500 miles of 40% of the U.S. population and within half of all U.S. personal buying power.
- Major east coast cities are located within less than five hours driving time.

City	Distance	Driving Time
Baltimore, MD	70 miles	1.4 hours
New York, NY	160 miles	3.2 hours
Philadelphia, PA	65 miles	1.3 hours
Pittsburgh, PA	240 miles	4.8 hours
Richmond, VA	212 miles	4.5 hours
Washington, DC	112 miles	2.3 hours

Population and Income

- Moderate population and income growth for Lancaster County and the Commonwealth of Pennsylvania are anticipated to continue through early 2000s as various geographic, economic, and demographic factors point to stable, but continued growth, in the City of Lancaster.
- According to CACI Marketing Systems, Inc. ("CACI"), a national marketing research firm, the population for the City of Lancaster exhibited a slight decline from 1990 to 1998 at a compound annual rate of -0.43 percent. Population growth is anticipated to remain relatively unchanged for the City of Lancaster.

City of Lancaster, Lancaster County and Pennsylvania Economic & Demographic Data

	1990	1998	Compounded Annual Growth 1990-1998	2003	Compounded Annual Growth 1998-2003
Population					
City of Lancaster	55,551	53,664	-0.43%	54,038	0.14%
Lancaster County	422,822	457,879	1.00%	478,462	0.88%
Pennsylvania	11,881,643	12,017,882	0.14%	12,089,044	0.12%
Number of Households					
City of Lancaster	21,189	20,749	-0.26%	21,081	0.32%
Lancaster County	150,956	165,745	1.18%	174,693	1.06%
Pennsylvania	4,495,966	4,602,871	0.29%	4,669,673	0.29%
Average Household Income					
City of Lancaster	27,293	40,144	4.94%	50,968	4.89%
Lancaster County	39,238	54,591	4.21%	68,110	4.52%
Pennsylvania	36,684	48,216	3.48%	56,984	3.40%

Source: CACI Marketing Systems, Inc. 1998

- Both the Lancaster County and the Commonwealth of Pennsylvania exhibited relatively moderate economic and demographic trends between 1990 and 1998. Growth is anticipated to continue at this moderate rate through 2003 for both Lancaster County and the Commonwealth of Pennsylvania.

- The number of households in Lancaster County is anticipated to increase at an annual compounded rate of 1.06 percent between 1998 and 2003, decreasing slightly from the growth rate of 1.18 percent achieved between 1990 and 1998.

- Similarly, the number of households in City of Lancaster is anticipated to increase at an annual compounded rate of 0.32 percent between 1998 and 2003, increasing from the growth rate of -0.26 percent achieved between 1990 and 1998.

- Average household income for City of Lancaster and Lancaster County between 1990 and 1998 increased at an overall compounded growth rate of 4.94 and 4.21 percent, respectively, slightly higher than that of the Commonwealth of Pennsylvania. For both markets, compounded annual growth rates are anticipated to increase at similar rates from 1998 to 2003.

Employment Data

- The employment base of Lancaster County is diversified between the services, trade and government sectors

- According to Woods & Poole Economics, between 2000 and 2005, total employment in Lancaster C anticipated to increase from 275,180,000 to 283,000,000, representing an annual compound growth of 0.56 percent.

- Total employment in Lancaster County increased at an average annual compound rate of .89 percent between 1990 and 1998, while total employment for the Commonwealth of Pennsylvania increased at an average annual compound rate of 0.52 percent, during the same time period. Employment growth between 1998 and 2005 in the County and Commonwealth is estimated to continue at the same pace.

- Lancaster County provides well-diversified employment base with significant concentrations in manufacturing, service and retail.

Employment by Industry Sectors		
Manufacturing	56,426	30%
Service	51,074	27%
Retail	40,833	21%
Wholesale	13,051	7%
Construction	12,399	7%
Fire	8,320	4%
Transportation	6,507	3%
Other	1,692	1%

Source: Economic Development Company of Lancaster County

- According to Pennsylvania Department of Labor & Industry, Lancaster County seasonally adjusted unemployment rate decreased slightly from 2.8 percent in January 1998 to 2.6 percent in January 1999. While the Commonwealth of Pennsylvania follows the same trend, its seasonally adjusted unemployment rates are higher at 4.8 percent in January 1998 and 4.4 percent in January 1999.

- Top employers in Lancaster County are diversified and include manufacturing, health care, printing, government and other firms.

1998 Top Ten Employers	
Armstrong World Industries	3,523
Lancaster General Hospital	3,350
R.R. Donnelley & Sons Company, Inc.	3,100
County of Lancaster	1,998
New Holland North America, Inc.	1,763
High Industries, Inc.	1,510
First Union Bank	1,500
School District of Lancaster	1,239
Grinnell Corporation	1,200
Tyson Foods	1,086

Source: Economic Development Company of Lancaster County

Office Market Data

- Lancaster's real estate market appears to be currently oversupplied, with an overall vacancy rate of 16.4 percent, increasing from 13.6 percent the pervious year. This trend is expected to continue with the repositioning of buildings and the development of new corporate headquarters and the placing of their old space on the market.

- According to High Associates, the Lancaster office market encompasses investor-owned Class A space of approximately 760,000 square feet, Class B space of 1.4 million square feet, and Business Center space of approximately 720,000 square feet.

- Asking rental rates for Lancaster office market is dependent on the type of property. However, rates have been stagnant recently and are expected to remain so over the next few years.

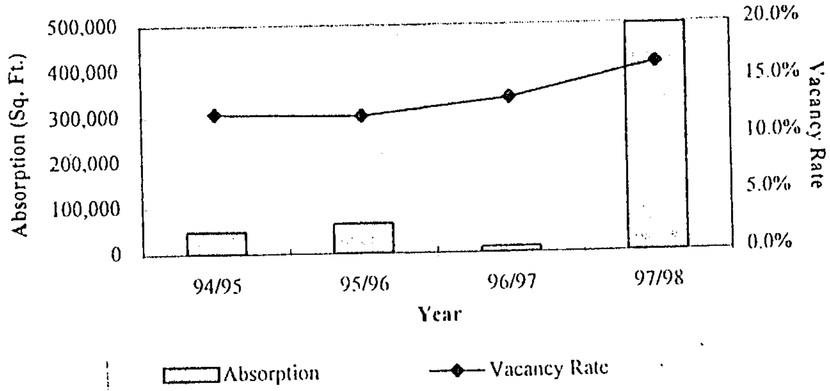
- From 1994 to 1998, the overall vacancy rate increased from 12.3 percent to 16.5 percent; with a net absorption of 496,978 square feet in 1998. This increase can be attributed to corporations such as Armstrong, constructing and relocating into new facilities, while placing their original location into the market for leasing.

Lancaster Office Market

	94/95	*95/96*	*96/97*	*97/98*
Absorption	48,757	65,507	12,225	496,978
Vacancy Rate	12.3%	12.1%	13.6%	16.5%

Source: High Associates, 1998

Submarket Office Market



Source: High Associates, 1998

- Most new construction in Lancaster has been owner-user. However, several new buildings were developed in 1998. One building was constructed in the Granite Run Corporate Center and consists of 40,000 square feet, of which almost 60 percent is still available.

- Additionally, the repositioning of several buildings has been planned for the downtown Lancaster area. They include the repositioning of an industrial building on North Prince Street into office and condos, and Excelsior Place on East Kings Street into new office and retail space.

- Business expansion and relocation have been the trends for the Lancaster area with the new Armstrong Campus recently completed and another corporate headquarters under construction.

- Fulton Bank, at One Penn Square, across from the Proposed Hotel Site, recently submitted final plans to the county planners for a $17.4 million expansion, that would add 100,000 square feet of space. It is anticipated that the addition would be completed by year end 2000.

Transportation

- Lancaster is accessible by all modes of transportation, air, train, bus, and car. Major highways in the County include Interstate Route 76, the Pennsylvania Turnpike, which traverses the entire southern portion of the state. US Routes 30, 222, and 322 are also available as well as Pennsylvania Route 283.

- Lancaster Airport provides direct air access to Lancaster County. It is conveniently located 4 miles north of City of Lancaster on Route 501. Over 55,000 passengers were served in 1997. Passenger service is available to Philadelphia and Pittsburgh through US Airways Express; these flights connect to over 150 destinations worldwide. Charter service is provided by Henry Weber Aircraft Distributors and VentureJets, Inc. There are over 175 corporate and general aviation aircrafts based at Lancaster Airport. The Airport Layout and Development Plan is specially designed to accommodate future corporate hanger growth.

- Harrisburg International Airport (HIA) is the provider of primary air service to Lancaster. It is located 30 miles northwest of the City of Lancaster, with a travel time of approximately 35 minutes. HIA is the largest commercial airport in south-central Pennsylvania, serving one and a half million passengers in 1997. Major airlines with daily service include American, Delta, Northwest, United, and US Airways.

- Philadelphia International Airport and Baltimore/Washington International Airport are 95 minutes and 90 minutes travel time away, respectively. Philadelphia International Airport, located 64 miles east of the County, provides passenger service on 25 airlines, with direct flights to more than 100 national and international destinations. Baltimore/Washington International Airport, located 75 miles south of the County, provides passenger service on 17 airlines.

- Rail service is provided through Amtrak. Amtrak operates passenger service between Philadelphia and Harrisburg by way of the Keystone Corridor. Amtrak's Chicago to New York City service also passes through Lancaster. Greyhound and Capitol Trailways provide bus service from Lancaster to the rest of the United States.

Tourism

- The Pennsylvania Dutch Convention and Visitors Bureau (PDCVB) estimates that 5.6 million visitors came to Lancaster County in 1997, and visitation is anticipated to increase to approximately 5.9 million in 1999.

- According to a survey conducted by Horizon East Marketing Services in 1997, when asked the most important reason for visiting Lancaster County, 23 percent of the respondents said to see the Amish. However, when asked to name 3 things they did while visiting Lancaster, only 13 percent mentioned Amish attractions, 27 percent said they shopped, 12 percent went sightseeing or on tours, 9 percent went to an amusement park, and 9 percent said they ate.

- According to the PDCVB, while not including shopping, these visitors spent approximately $400 million in 1996, compared to $371 million in 1995, a 7.8 percent increase. Approximately another $200 million is spent while shopping in Lancaster. It is expected that visitors' spending will continue to increase, with current economic conditions.

- The area attracts 35 percent of its visitors from New York, while only 23 percent are directly from the Commonwealth of Pennsylvania. Maryland, Connecticut, Virginia and Ohio contribute another 14 percent, with the other 28 percent coming from other points around the United States.