

**MARKET FEASIBILITY STUDY**

**PROPOSED  
HOTEL/CONVENTION CENTER FACILITY**

**LANCASTER, PA**

**PREPARED FOR:  
MR. DICK SHELLENBERGER, CHAIRMAN  
BOARD OF COMMISSIONERS  
LANCASTER COUNTY**

**PREPARED BY:  
PKF CONSULTING**

**MAY 2006**



8 Penn Center Plaza  
19<sup>th</sup> Floor  
Philadelphia, PA 19103  
Phone: 215-563-5300  
Fax: 215-563-1977

May 12, 2006

Mr. Dick Shellenberger, Chairman  
Board of Commissioners  
Lancaster County  
50 North Duke Street  
Lancaster, Pennsylvania 17608-3480

Dear Mr. Shellenberger:

In accordance with your request we have completed our market feasibility study associated with the proposed development of a Hotel/Convention Center to be located in Downtown Lancaster, Pennsylvania.

The entire study and conclusions reached are based upon our present knowledge and information with respect to the status and demand characteristics of the subject project's competitive lodging and meetings markets.

As in all studies of this type, the estimated results are based upon competent and efficient management and presume no significant change in the competitive position of the lodging and meetings industries in the immediate area from that as set forth in this report. They are also based on our evaluation of the present economy of the region and do not take into account or make provision for the effect of any sharp rise or decline in economic conditions not presently foreseeable. To the extent that wages and other operating expenses may advance over the economic life of the subject project, we expect that prices of rooms and other services will be adjusted, at least to offset such advances. The terms of our engagement are such that we have no obligation to revise this report or the estimated annual operating results to reflect events or conditions which occur subsequent to the date of the completion of our fieldwork. However, we are available to discuss the necessity for the revision in view of changes in the economic or market factors affecting the proposed project.

Please do not hesitate to call should you have any comments or questions.

Sincerely,

A handwritten signature in cursive script that reads 'PKF Consulting'.

PKF Consulting

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***SECTION I***  
***INTRODUCTION***

**INTRODUCTION**

PKF Consulting was engaged by the Board of Commissioners of Lancaster County (Pennsylvania) to conduct a feasibility study of market demand and operating performance associated with the proposed development of a Hotel/Convention Center to be located in Downtown Lancaster.

Assumptions for the proposed development include the following:

- The Hotel component of the proposed development will be branded as a full-service Marriott property and will contain 300 guestrooms, a full-service restaurant, a 9,621 square-foot ballroom, and a 7,541 square-foot fitness facility to include an exercise room, indoor pool, and whirlpool.
- The Convention Center component of subject project will contain a 47,842 square-foot exhibit hall, 27,551 square feet of prefunction space, a 9,200 square-foot ballroom, three 764 square-foot boardrooms, and 7,662 square feet of meeting room space.

**SCOPE OF THE STUDY**

The scope of our study included the following:

- Site analysis.
- Analysis of economic trends.
- Analysis of historical, current, and future supply of and demand for hotel rooms and convention center facilities in the respective competitive markets.
- Development of estimates of utilization levels that might be obtained at the proposed Hotel/Convention Center facility.
- Development of statements of estimated annual operating results for both the Hotel and Convention Center components of the proposed project, as well as for the combined operation.

***SECTION II***  
***EXECUTIVE SUMMARY***

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## **Section II: Executive Summary**

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### **SUMMARY**

Based upon information collected during the fieldwork phase of our study, and subsequent analyses, following is a summary of our findings and conclusions relating to the proposed Hotel/Convention Center to be located in Downtown Lancaster.

- The Hotel component of the proposed development will be branded as a full-service Marriott property and will contain 300 guestrooms, a full-service restaurant, a 9,621 square-foot ballroom, and a 7,541 square-foot fitness facility to include an exercise room, indoor pool, and whirlpool.
- The Convention Center component of subject project will contain a 47,842 square-foot exhibit hall, 27,551 square feet of prefunction space, a 9,200 square-foot ballroom, three 764 square-foot boardrooms, and 7,662 square feet of meeting room space.
- The proposed project site fronts on historic Penn Square in Downtown Lancaster, and contains the former Watt & Shand Department Store Building as its centerpiece. The Hotel component is to be developed within the historic Watt & Shand Department Store Building and in a new tower to be constructed over the existing building at its southeast corner, while the Convention Center component is to be constructed on a vacant parcel to the south of the Watt & Shand Department Store Building. Specifically, the total project site is located to the north of East Vine Street, to the south of East King Street, to the east of South Queen Street, and to the west of Duke Street.

### **FINDINGS**

- Economic indicators for the subject market area project a positive outlook for economic growth in the region.
- Feedback from trade/consumer show organizers indicated that the demographic profile of the subject market area, specifically the population and household income levels, would support mid-level shows such as those revolving around antiques and art. Generally speaking, the local market area would not support high-level (large attendance) shows such as auto or boat shows.
- Our research revealed that, depending on the source of the information, national trends in the convention center industry can be deemed either positive or negative. It is more relevant to analyze more localized areas when determining trends, particularly since reported national trends tend to overlook secondary or tertiary convention destinations such as Lancaster. However, one trend that appears to be generally consistent is that overall supply growth in the meetings industry has been outpacing overall demand growth in recent years, creating a more fiercely competitive environment. For example, functions that previously would have been held at secondary or

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tertiary convention destinations are now being accommodated at primary destinations, as the larger facilities in major markets have the ability to host numerous smaller events concurrently. However, there is a renewed interest on the part of many convention groups to consider second-tier cities in their evaluation of destinations, primarily for pricing reasons. Although it is reasonable to expect that third-tier cities will benefit from this trend, the options open to groups at this level are extensive. Similarly, Pennsylvania associations which operate on a rotational basis for site selection now have a venue available in several geographic and city locations, reducing the visit frequency for each location.

- While the overall Lancaster County hotel market is stable and viable, the market is highly seasonal, price sensitive and tourist-oriented.
- The growth of commercial demand along the Route 30 bypass is being absorbed by new hotel property additions.
- The downtown commercial hotel market has shrunk considerably in recent years. This has contributed to the decline of the Hotel Brunswick. Although the Marriott brand is extremely strong in this segment, the availability of Marriott products along Route 30 will limit this advantage.
- The responses to our surveys resulted in a relatively low projected level of usage as compared to other surveys of this type. This indicates that a substantial marketing effort will be required to both counter negative perceptions and to then create competitive advantages versus other regional convention destinations. For example, the downtown historic attractions could be packaged to provide a reason for conventions and tour and travel groups to both come to downtown and to stay overnight.
- The price sensitivity of the primary markets available to the project will require the hotel to make rate concessions to generate activity. Our occupancy/utilization projections have taken this into account as to what we believe the best balance point of price and volume would be.
- Franklin & Marshall's new Lancaster Arts Hotel is expected to accommodate most routine demand generated by the College. Peak-period demand will still be available to the proposed Downtown Hotel.
- Although not evaluated by us in a professional sense, the parking and access issues related to the site are expected to be problematic and a competitive disadvantage for the complex.
- Air access to Lancaster and even Harrisburg is such, i.e. frequency, price and type of aircraft, that convention and conference demand will likely emanate



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almost exclusively from Pennsylvania association and corporate groups who can drive to the site.

- Our research indicates the following competitive positioning for this project:

### **Strengths**

- Positive, wholesome image of Lancaster County
- Extensive tourism base for exposure
- Strong hotel brand and management
- Historic attractions in Downtown
- Large public sector incentive agreements limiting risk
- Tourist attractions in Lancaster County
- Central location within Pennsylvania

### **Weaknesses**

- Constricted site resulting in parking and traffic issues
- Downtown location perceived as less desirable
- Poor air access
- Limited markets available to the hotel other than self/PDCCVB-generated meetings and shows
- Demographics not adequate for larger consumer/trade shows
- Markets available are price sensitive
- No other acceptable downtown hotel supply available for larger groups, unless Hotel Brunswick is extensively renovated
- Lancaster's perceived image is not what many conventioners are looking for.

- For the Hotel component of the project, we are of the opinion that there are two separate competitive markets: the overall hotel market in Lancaster County (Hotel Competitive Market 1), and the group oriented properties in the subject market (Hotel Competitive Market 2). The properties in the latter group include the following: Best Western Eden Resort Inn & Suites, Hotel Brunswick, Lancaster Host Resort and Conference Center, and Willow Valley Resort and Conference Center.

- The following table illustrates annual performance characteristics for the properties in Hotel Competitive Market 1 from 2003 through 2005. As the data indicates, total occupied rooms have increased at an annual rate of 4.1 percent during this period, exceeding annual supply growth of 0.9 percent. Despite the relatively low aggregate market occupancies (ranging from 53.1 percent in 2003 to 56.5 percent in 2005), the growth in occupied rooms is a positive indicator as it demonstrates that demand within the local lodging market is increasing. Combined with annual growth in average daily rate (ADR) of 2.8 percent, the occupancy increases resulted in revenue per

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available room (RevPAR) growth of 6.1 percent annually. Although these properties are certainly not alike, they collectively cater to a wide variety of types of groups.

| <b>Estimated Performance<br/>Hotel Competitive Market 1</b>   |                        |                       |                  |            |               |
|---|------------------------|-----------------------|------------------|------------|---------------|
| <b>Year</b>   | <b>Available Rooms</b> | <b>Occupied Rooms</b> | <b>Occupancy</b> | <b>ADR</b> | <b>RevPAR</b> |
| 2003  | 2,331,255              | 1,237,896             | 53.1%            | \$57.49    | \$30.53       |
| 2004  | 2,331,255              | 1,256,546             | 53.9%            | \$58.84    | \$31.71       |
| 2005  | 2,374,325              | 1,341,494             | 56.5%            | \$60.78    | \$34.34       |
| CAGR <sup>(1)</sup>   | 0.9%                   | 4.1%                  | -                | 2.8%       | 6.1%          |
| Note: (1) Compound annual growth rate for years 2003-2005<br>Source: PKF Consulting, Smith Travel Research, Individual Properties |                        |                       |                  |            |               |

- The following table illustrates annual performance characteristics for the properties in Hotel Competitive Market 2 from 2003 through 2005. As the data indicates, total occupied rooms have increased at an annual rate of 2.8 percent during this period. While this annual growth rate is lower than that exhibited by the broader competitive market (Hotel Competitive Market 1), both occupancy and average daily rate levels exhibited by the properties in Hotel Competitive Market 2 were notably higher than those of the broader hotel set. Combined with annual growth in average daily rate (ADR) of 3.2 percent, the occupancy increases resulted in revenue per available room (RevPAR) growth of 5.9 percent annually.

| <b>Estimated Performance<br/>Hotel Competitive Market 2</b>   |                        |                       |                  |            |               |
|---|------------------------|-----------------------|------------------|------------|---------------|
| <b>Year</b>   | <b>Available Rooms</b> | <b>Occupied Rooms</b> | <b>Occupancy</b> | <b>ADR</b> | <b>RevPAR</b> |
| 2003  | 415,735                | 237,800               | 57.2%            | \$93.63    | \$53.56       |
| 2004  | 415,735                | 250,688               | 60.3%            | \$96.24    | \$58.03       |
| 2005  | 415,735                | 251,104               | 60.4%            | \$99.44    | \$60.06       |
| CAGR <sup>(1)</sup>   | 0.0%                   | 2.8%                  | -                | 3.1%       | 5.9%          |
| Note: (1) Compound annual growth rate for years 2003-2005<br>Source: PKF Consulting, Smith Travel Research, Individual Properties |                        |                       |                  |            |               |

- Our research revealed that there are four future additions to supply in the subject market area, all of which are anticipated to compete with the proposed Hotel in the Competitive Category 1 group. These include: the 63-unit Lancaster Arts Hotel currently under construction a few blocks from the campus of Franklin & Marshall College on the corner of North Mulberry Street and Harrisburg Pike that is scheduled to open late Summer 2006; a 60-unit Comfort Inn; a 150-unit Homewood Suites; and a 150-unit Residence Inn. The locations of the latter three additions to supply are scattered along US-30.

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- The following table presents our projections of market demand by market segment through 2014 for Hotel Competitive Market 1. Of note is that we have assumed that the proposed Hotel opens January 1, 2009.

| <b>Projected Competitive Set Demand by Market Segment<br/>Hotel Competitive Market 1</b> |                              |                        |              |                                    |              |
|--|------------------------------|------------------------|--------------|------------------------------------|--------------|
| <b>Year</b>  | <b>Commercial Individual</b> | <b>Tour and Travel</b> | <b>Group</b> | <b>Government, Military, Other</b> | <b>Total</b> |
| 2005   | 134,100                      | 872,000                | 268,300      | 67,100                             | 1,341,500    |
| 2006   | 134,800                      | 924,300                | 273,700      | 67,100                             | 1,399,900    |
| 2007   | 135,500                      | 961,300                | 279,100      | 67,100                             | 1,443,000    |
| 2008   | 136,200                      | 1,009,300              | 287,500      | 67,100                             | 1,500,100    |
| 2009   | 137,500                      | 1,049,700              | 301,900      | 67,100                             | 1,556,200    |
| 2010   | 138,200                      | 1,081,200              | 314,000      | 67,100                             | 1,600,500    |
| 2011   | 138,200                      | 1,102,800              | 320,200      | 67,100                             | 1,628,300    |
| 2012   | 138,200                      | 1,102,800              | 320,200      | 67,100                             | 1,628,300    |
| 2013   | 138,200                      | 1,102,800              | 320,200      | 67,100                             | 1,628,300    |
| 2014   | 138,200                      | 1,102,800              | 320,200      | 67,100                             | 1,628,300    |
| CAGR <sup>(1)</sup>  | 0.5%                         | 4.0%                   | 3.0%         | 0.0%                               | 3.3%         |

Note: (1) Compound annual growth rate for years 2005 through 2011 (at which time demand is projected to stabilize)  
Source: PKF Consulting

- For the Convention Center component of the project, we are of the opinion that there are two separate competitive markets: regional convention center facilities (Convention Center Competitive Market 1), and hotels with significant meeting space in Southeastern Pennsylvania (Convention Center Competitive Market 2). Following is a description of each of these groups.
  - Convention Center Competitive Market 1 includes the Pennsylvania Expo Center at Lehigh Valley – Allentown, Blair County Convention Center – Altoona, Bayfront Convention Center – Erie, Hershey Lodge & Convention Center – Hershey, and Valley Forge Convention Center – King of Prussia.
    - The above facilities indicated the average performance characteristics detailed in the following table.

| <b>Average Performance Characteristics<br/>Convention Center Competitive Market 1</b> |                             |                                |                     |              |
|---|-----------------------------|--------------------------------|---------------------|--------------|
| <b>Category</b>   | <b>Trade/Consumer Shows</b> | <b>Conventions/Conferences</b> | <b>Other Events</b> | <b>Total</b> |
| Number of Annual Events   | 30                          | 25                             | 90                  | 145          |
| Average Attendance per Event  | 2,800                       | 600                            | 250                 | N/A          |
| Total Annual Attendance   | 84,000                      | 15,000                         | 22,500              | 121,500      |
| Annual Room Nights Generated  | 12,600                      | 12,000                         | 13,500              | 38,100       |

Source: PKF Consulting, Individual Facilities

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- For Convention Center Competitive Market 2, we inventoried facilities and collected data on more than 50 properties, ultimately limiting the analysis to those properties with more than 5,000 square feet of meeting space. We excluded properties in Center City Philadelphia, as downtown Lancaster is not competing with Center City Philadelphia for group functions, and we did not include resort-oriented properties. The hotels in this set were concentrated in Allentown, Cherry Hill, Harrisburg, King of Prussia, Reading, and York.
- The above facilities indicated the average performance characteristics detailed in the following table.

| <b>Average Performance Characteristics<br/>Convention Center Competitive Market 2</b> |                             |                                     |                     |              |
|---|-----------------------------|-------------------------------------|---------------------|--------------|
| <b>Category</b>   | <b>Trade/Consumer Shows</b> | <b>Conventions/<br/>Conferences</b> | <b>Other Events</b> | <b>Total</b> |
| Number of Annual Events   | 15                          | 20                                  | 250                 | 285          |
| Average Attendance per Event  | 700                         | 300                                 | 50                  | N/A          |
| Total Annual Attendance   | 10,500                      | 6,000                               | 12,500              | 29,000       |
| Annual Room Nights Generated  | 1,050                       | 5,400                               | 2,500               | 8,950        |
| Source: PKF Consulting, Individual Facilities   |                             |                                     |                     |              |

- PKF conducted survey research of potential demand from both association and corporate meeting planners. Following are summaries of the results of these surveys.
  - A mail survey was sent to 500 associations in the regional market area – located throughout the mid-Atlantic region. We received completed mail surveys from or conducted phone surveys with 45 association representatives, indicating a response rate of approximately 9.0 percent.
    - 19 of the 45 respondents indicated a willingness to utilize the proposed facility in Downtown Lancaster.
    - The following table summarizes projected annual usage data based on the results of the survey.

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| <b>Projected Annual Usage Data<br/>Associations</b>                        |              |
|--|--------------|
| <b>Category</b>  | <b>Total</b> |
| Number of Annual Events  | 18.5         |
| Average Attendance per Event   | 206          |
| Total Annual Attendance  | 3,811        |
| Annual Room Nights Generated   | 2,054        |
| Average Length of Events (Days)  | 3            |
| Average Convention Center Revenue per Attendee per Event (Excluding Hotel) | \$50.00      |
| Source: PKF Consulting   |              |

- As the previous table indicates, the responding associations indicated a total of slightly more than 2,000 room-nights of demand for 18.5 events. We are of the opinion that this number could conservatively be tripled in quantity, to account for non-respondents, invigorated marketing efforts and potential operator (Interstate)-induced referrals. This would result in more than 6,000 occupied room-nights attributable to associations, or approximately 6.0 occupancy points based on an annual available room inventory of 109,500 (300 guestrooms X 365 days annually). The primary reason for our projected increase is there were associations who indicated varying potential levels of usage of the subject Convention Center that either did not respond or indicated varying levels of room-nights required without quantifying that amount. Furthermore, our survey queried a finite number of associations, while through future marketing efforts, the Pennsylvania Dutch Country CVB could reach out to a broader population of associations.
  
- When asked to rate the level of importance of various factors in selecting a meeting venue, critical factors included air traffic accessibility, free (or low cost) parking, and availability of restaurant/nightlife options. As with many convention center facilities in downtown locations, availability and cost of parking is a significant factor with event coordinators and their constituents, and Downtown Lancaster must be proactive in addressing this issue so that it does not become a competitive disadvantage when marketing the proposed facility to potential demand sources.
  
- A mail survey was sent to 308 corporate meeting planners in the regional market area – primarily concentrated in Pennsylvania and New Jersey. We received completed mail surveys from or conducted phone surveys with 35 corporate meeting planners, indicating a response rate of approximately 11.4 percent.

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- 10 of the 35 respondents indicated a willingness to utilize the proposed facility in Downtown Lancaster.
  - The following table summarizes projected annual usage data based on the results of the survey.

| <b>Projected Annual Usage Data<br/>Corporate Meeting Planners</b>          |         |
|--|---------|
| Category   | Total   |
| Number of Annual Events  | 18      |
| Average Attendance per Event   | 289     |
| Total Annual Attendance  | 5,195   |
| Annual Room-Nights Generated   | 2,365   |
| Average Length of Events (Days)  | 2.5     |
| Average Convention Center Revenue per Attendee per Event (Excluding Hotel) | \$60.00 |
| Source: PKF Consulting   |         |

- As the previous table indicates, the responding corporate planners indicated a total of more than 2,300 room-nights of demand for 18 events. We are of the opinion that this number could conservatively be tripled in quantity. This would result in more than 6,900 occupied room-nights attributable to corporate meeting planners, or approximately 6.0 occupancy points based on an annual available room inventory of 109,500 (300 guestrooms X 365 days annually). The primary reason for our projected increase is there were corporate meeting planners who indicated varying levels of potential usage of the subject Convention Center that either did not respond or indicated varying levels of room nights required without quantifying that amount.
- When asked to rate the level of importance of various factors in selecting a meeting venue, critical factors included location in a major market, air traffic accessibility, and availability of restaurant/nightlife options.
- We estimate that the subject 300-unit Hotel should be able to achieve a stabilized occupancy level of 53.0 percent. Overall market penetration (percentage of fair share) in the stabilized year (the fourth year of operation) is estimated to be 89 percent. Approximately 5 percent of total demand for the subject hotel is estimated to originate from the commercial individual segment, 27 percent from the tour and travel segment, 65 percent from the group segment, and 3 percent from the government, military, and other segment. We further project that the subject Hotel should be able to achieve an average daily room rate of \$105.00 (in 2006-value dollars) in a representative year of operation. A representative year of operation is a year in which the subject property is

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projected to have reached a stabilized level of performance. Our projections of occupancy and average daily rate assume that the subject Hotel will have to discount rates heavily, particularly during non-peak demand periods, in order to achieve the projected level of demand. As such, the annual average daily rate level may be well above or below the average rate level at any point in time during the course of the year.

- The following table presents our utilization projections for the subject Convention Center.

| <b>Projected Performance Characteristics<br/>Proposed Convention Center</b> |                             |                                     |                     |              |
|---|-----------------------------|-------------------------------------|---------------------|--------------|
| <b>Category</b>   | <b>Trade/Consumer Shows</b> | <b>Conventions/<br/>Conferences</b> | <b>Other Events</b> | <b>Total</b> |
| Number of Annual Events   | 25                          | 40                                  | 80                  | 145          |
| Average Attendance per Event  | 2,000                       | 250                                 | 50                  | N/A          |
| Total Annual Attendance   | 50,000                      | 10,000                              | 4,000               | 64,000       |
| Annual Room Nights Generated  | 5,000                       | 6,000                               | 2,000               | 13,000       |
| Average Revenue per Attendee per Event (Excluding Travel)                   | \$7.50                      | \$50.00                             | \$55.00             | N/A          |
| Total Revenue per Event   | \$15,000                    | \$12,500                            | \$2,750             | N/A          |
| Total Revenue   | \$375,000                   | \$500,000                           | \$220,000           | \$1,095,000  |

Source: PKF Consulting, Individual Facilities

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- The following statement provides the estimated results for a representative operating year for the proposed Hotel. As stated previously, our stabilized year projection assumes an annual occupancy rate of 53.0 percent at an average daily rate of \$105.00 (in current value dollars).

| <b>Proposed Marriott Convention Center Hotel</b>       |                   |               |               |                |
|--|-------------------|---------------|---------------|----------------|
| Representative Year of Operation                       |                   |               |               |                |
|  | Stated in         | 2006          | Dollars       |                |
| Number of Units:                                       |                   | 300           |               |                |
| Number of Annual Rooms Available:                      |                   | 109,500       |               |                |
| Number of Rooms Occupied:                              |                   | 58,035        |               |                |
| Annual Occupancy:                                      |                   | 53.0%         |               |                |
| Average Daily Rate:                                    |                   | \$105.00      |               |                |
| Revenue Per Available Room:                            |                   | \$55.65       |               |                |
| <b>Revenues</b>  | Amount            | Ratio         | Per Room      | P.O.R.         |
| Rooms  | \$ 6,094,000      | 54.1%         | \$ 20,313     | \$ 105.01      |
| Food & Beverage  | 4,527,000         | 40.2%         | 15,090        | 78.00          |
| Telecommunications                                     | 58,000            | 0.5%          | 193           | 1.00           |
| Other Operated Departments                             | 580,000           | 5.2%          | 1,933         | 9.99           |
| <b>Total Revenues</b>                                  | <b>11,259,000</b> | <b>100.0%</b> | <b>37,530</b> | <b>194.00</b>  |
| <b>Departmental Expenses</b>                           |                   |               |               |                |
| Rooms  | 1,584,000         | 26.0%         | 5,280         | 27.29          |
| Food & Beverage  | 3,486,000         | 77.0%         | 11,620        | 60.07          |
| Telecommunications                                     | 58,000            | 100.0%        | 193           | 1.00           |
| Other Operated Departments                             | 377,000           | 65.0%         | 1,257         | 6.50           |
| <b>Total Departmental Expenses</b>                     | <b>5,505,000</b>  | <b>48.9%</b>  | <b>18,350</b> | <b>94.86</b>   |
| <b>Departmental Profit</b>                             | <b>5,754,000</b>  | <b>51.1%</b>  | <b>19,180</b> | <b>99.15</b>   |
| <b>Undistributed Expenses</b>                          |                   |               |               |                |
| Administrative & General                               | 1,500,000         | 13.3%         | 5,000         | 25.85          |
| Marketing  | 1,110,000         | 9.9%          | 3,700         | 19.13          |
| Franchise Fees   | 762,000           | 6.8%          | 2,540         | 13.13          |
| Property Operation and Maintenance                     | 660,000           | 5.9%          | 2,200         | 11.37          |
| Utility Costs  | 690,000           | 6.1%          | 2,300         | 11.89          |
| <b>Total Undistributed Operating Expenses</b>          | <b>4,722,000</b>  | <b>41.9%</b>  | <b>15,740</b> | <b>81.36</b>   |
| <b>Gross Operating Profit</b>                          | <b>1,032,000</b>  | <b>9.2%</b>   | <b>3,440</b>  | <b>17.78</b>   |
| <b>Base Management Fee</b>                             | <b>338,000</b>    | <b>3.0%</b>   | <b>1,127</b>  | <b>5.82</b>    |
| <b>Fixed Expenses</b>                                  |                   |               |               |                |
| Insurance  | 120,000           | 1.1%          | 400           | 2.07           |
| <b>Total Fixed Expenses</b>                            | <b>120,000</b>    | <b>1.1%</b>   | <b>400</b>    | <b>2.07</b>    |
| <b>Net Operating Income</b>                            | <b>574,000</b>    | <b>5.1%</b>   | <b>1,913</b>  | <b>9.89</b>    |
| <b>FF&amp;E Reserve</b>                                | <b>450,000</b>    | <b>4.0%</b>   | <b>1,500</b>  | <b>7.75</b>    |
| <b>Net Operating Income After Reserve <sup>1</sup></b> | <b>\$ 124,000</b> | <b>1.1%</b>   | <b>\$ 413</b> | <b>\$ 2.14</b> |
| <b>Source: PKF Consulting</b>                          |                   |               |               |                |
| <sup>1</sup> Before property taxes and debt service    |                   |               |               |                |



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- The following statement provides the estimated results for a representative operating year for the proposed Convention Center. As stated previously, our stabilized year projection assumes 145 annual events.

| <b>Proposed Convention Center</b>                      |  | <b>2006 Dollars</b>   |                |                   |                   |
|--|--|-----------------------|----------------|-------------------|-------------------|
| Representative Year of Operation                       |  |                       |                |                   |                   |
| Number of Square Feet of Meeting & Exhibit Space:      |  | 94,547                |                |                   |                   |
| Attendance:  |  | 64,000                |                |                   |                   |
|  |  | Amount                | Ratio          | P.S.F.            | Per Attendee      |
| <b>Revenues</b>  |  |                       |                |                   |                   |
| Food & Beverage  |  | \$ 274,000            | 25.0%          | \$ 2.90           | \$ 4.28           |
| Rentals and Other Income                               |  | 821,000               | 75.0%          | 8.68              | 12.83             |
| <b>Total Revenues</b>                                  |  | <b>1,095,000</b>      | <b>100.0%</b>  | <b>11.58</b>      | <b>17.11</b>      |
| <b>Departmental Expenses</b>                           |  |                       |                |                   |                   |
| Food & Beverage  |  | 192,000               | 70.1%          | 2.03              | 3.00              |
| <b>Total Departmental Expenses</b>                     |  | <b>192,000</b>        | <b>17.5%</b>   | <b>2.03</b>       | <b>3.00</b>       |
| <b>Departmental Profit</b>                             |  | <b>903,000</b>        | <b>82.5%</b>   | <b>9.55</b>       | <b>14.11</b>      |
| <b>Undistributed Expenses</b>                          |  |                       |                |                   |                   |
| Administrative & General                               |  | 144,000               | 13.2%          | 1.52              | 2.25              |
| Marketing  |  | 191,000               | 17.4%          | 2.02              | 2.98              |
| Property Operation and Maintenance                     |  | 263,000               | 24.0%          | 2.78              | 4.11              |
| Utility Costs  |  | 335,000               | 30.6%          | 3.54              | 5.23              |
| Other Undistributed Expenses                           |  | 1,095,000             | 100.0%         | 11.58             | 17.11             |
| <b>Total Undistributed Operating Expenses</b>          |  | <b>2,028,000</b>      | <b>185.2%</b>  | <b>21.45</b>      | <b>31.69</b>      |
| <b>Gross Operating Profit</b>                          |  | <b>(1,125,000)</b>    | <b>-102.7%</b> | <b>(11.90)</b>    | <b>(17.58)</b>    |
| <b>Fixed Expenses</b>                                  |  |                       |                |                   |                   |
| Insurance  |  | 96,000                | 8.8%           | 1.02              | 1.50              |
| Other Fixed Expense                                    |  | 140,000               | 12.8%          | 1.48              | 2.19              |
| <b>Total Fixed Expenses</b>                            |  | <b>236,000</b>        | <b>21.6%</b>   | <b>2.50</b>       | <b>3.69</b>       |
| <b>Net Operating Income</b>                            |  | <b>(1,361,000)</b>    | <b>-124.3%</b> | <b>(14.39)</b>    | <b>(21.27)</b>    |
| <b>FF&amp;E Reserve</b>                                |  | <b>44,000</b>         | <b>4.0%</b>    | <b>0.47</b>       | <b>0.69</b>       |
| <b>Net Operating Income After Reserve <sup>1</sup></b> |  | <b>\$ (1,405,000)</b> | <b>-128.3%</b> | <b>\$ (14.86)</b> | <b>\$ (21.95)</b> |
| <b>Source: PKF Consulting</b>                          |  |                       |                |                   |                   |
| <sup>1</sup> Before property taxes and debt service    |  |                       |                |                   |                   |

## Section II: Executive Summary

- The following statement provides the estimated results for a representative operating year for the consolidated operations of the proposed Hotel and Convention Center.

| <b>Proposed Convention Center &amp; Marriott Convention Center Hotel</b> |                       |               |                   |                   |
|--|-----------------------|---------------|-------------------|-------------------|
| Representative Year of Operation   |                       |               |                   |                   |
|  | Stated in             | 2006          | Dollars           |                   |
| Number of Units:   |                       | 300           |                   |                   |
| Number of Annual Rooms Available:  |                       | 109,500       |                   |                   |
| Number of Rooms Occupied:  |                       | 58,035        |                   |                   |
| Annual Occupancy:  |                       | 53.0%         |                   |                   |
| Average Daily Rate:  |                       | \$105.00      |                   |                   |
| Revenue Per Available Room:  |                       | \$55.65       |                   |                   |
|  | Amount                | Ratio         | Per Room          | P.O.R.            |
| <b>Revenues</b>  |                       |               |                   |                   |
| Rooms  | \$ 6,094,000          | 49.3%         | \$ 20,313         | \$ 105.01         |
| Food & Beverage  | 4,801,000             | 38.9%         | 16,003            | 82.73             |
| Telecommunications   | 58,000                | 0.5%          | 193               | 1.00              |
| Other Operated Departments   | 580,000               | 4.7%          | 1,933             | 9.99              |
| Rentals and Other Income   | 821,000               | 6.6%          | 2,737             | 14.15             |
| <b>Total Revenues</b>  | <b>12,354,000</b>     | <b>100.0%</b> | <b>41,180</b>     | <b>212.87</b>     |
| <b>Departmental Expenses</b>   |                       |               |                   |                   |
| Rooms  | 1,584,000             | 26.0%         | 5,280             | 27.29             |
| Food & Beverage  | 3,678,000             | 76.6%         | 12,260            | 63.38             |
| Telecommunications   | 58,000                | 100.0%        | 193               | 1.00              |
| Other Operated Departments   | 377,000               | 65.0%         | 1,257             | 6.50              |
| <b>Total Departmental Expenses</b>                                       | <b>5,697,000</b>      | <b>46.1%</b>  | <b>18,990</b>     | <b>98.16</b>      |
| <b>Departmental Profit</b>   | <b>6,657,000</b>      | <b>53.9%</b>  | <b>22,190</b>     | <b>114.71</b>     |
| <b>Undistributed Expenses</b>  |                       |               |                   |                   |
| Administrative & General   | 1,644,000             | 13.3%         | 5,480             | 28.33             |
| Marketing  | 1,301,000             | 10.5%         | 4,337             | 22.42             |
| Franchise Fees   | 762,000               | 6.2%          | 2,540             | 13.13             |
| Property Operation and Maintenance                                       | 923,000               | 7.5%          | 3,077             | 15.90             |
| Utility Costs  | 1,025,000             | 8.3%          | 3,417             | 17.66             |
| Other Undistributed Expenses   | 1,095,000             | 8.9%          | 3,650             | 18.87             |
| <b>Total Undistributed Operating Expenses</b>                            | <b>6,750,000</b>      | <b>54.6%</b>  | <b>22,500</b>     | <b>116.31</b>     |
| <b>Gross Operating Profit</b>  | <b>(93,000)</b>       | <b>-0.8%</b>  | <b>(310)</b>      | <b>(1.60)</b>     |
| <b>Base Management Fee</b>   | <b>338,000</b>        | <b>2.7%</b>   | <b>1,127</b>      | <b>5.82</b>       |
| <b>Fixed Expenses</b>  |                       |               |                   |                   |
| Insurance  | 216,000               | 1.7%          | 720               | 3.72              |
| Other Fixed Expense  | 140,000               | 1.1%          | 467               | 2.41              |
| <b>Total Fixed Expenses</b>  | <b>356,000</b>        | <b>2.9%</b>   | <b>1,187</b>      | <b>6.13</b>       |
| <b>Net Operating Income</b>  | <b>(787,000)</b>      | <b>-6.4%</b>  | <b>(2,623)</b>    | <b>(13.56)</b>    |
| <b>FF&amp;E Reserve</b>  | <b>494,000</b>        | <b>4.0%</b>   | <b>1,647</b>      | <b>8.51</b>       |
| <b>Net Operating Income After Reserve <sup>1</sup></b>                   | <b>\$ (1,281,000)</b> | <b>-10.4%</b> | <b>\$ (4,270)</b> | <b>\$ (22.07)</b> |
| <b>Source: PKF Consulting</b>  |                       |               |                   |                   |
| <sup>1</sup> Before property taxes and debt service                      |                       |               |                   |                   |

**CONCLUSIONS**

- The Lancaster County economy is growing, diversified and should continue on this path for the foreseeable future. The vast majority of this growth is outside the downtown area.
- The projected annual operating deficit of the combined entities is \$1,281,000 (2006 value dollars) in a representative year. Although losses are expected with most facilities of this type and these deficits are offset to some extent by attendee spending within the community, there is great controversy as to the degree to which this offset occurs. In the case of Lancaster, much of the spending would occur outside of the City, where the bulk of the shopping, hotels and restaurants are located. Since travel would be required to accomplish this, the spending by attendees and delegates would likely be less than in a normal urban situation.
- Our surveys indicate that a relatively limited amount of demand will be readily attracted to this facility without extensive marketing efforts and concessions on price. To the extent this is not successful, and depending on how these marketing efforts are funded, the downside economic risk is substantial.
- Based on our demand research for the Convention Center, it appears that the probable number of attendees per event will be lower than that exhibited by the facilities in Convention Center Competitive Market 1 and will be closer to the exhibited attendance by the facilities in Convention Center Competitive Market 2. While the average number of attendees per event is projected to be lower, we anticipate that the proposed Convention Center will be able to capture the average number of annual events that the facilities in Convention Center Competitive Market 1 demonstrated.
- The hotel component of this project will face two basic challenges in filling the “dark” days when no events are being held at the Convention Center: (1) the lack of a strong downtown commercial demand base; and (2) its lack of appeal to the area’s dominant leisure market due to its downtown location and comparatively high room rate structure.
- The lack of parking, even with the proposed garage, and traffic-flow logistics, appear to be significant and should be expected to affect overall marketability for larger events.
- Although we are not thoroughly familiar with the background of this project, and we have not performed an economic impact analysis, our findings lead us to conclude that the potential economic benefits are not likely to be sufficient to justify the risks involved, including the potential need to raise the hotel tax to fund operating deficits after several years should the reserves become depleted. We therefore recommend that, prior to proceeding further with this project, the parties involved consider exploring a downsizing of the project or an alternate use for the site.

***SECTION III***  
***SITE REVIEW***

**OVERVIEW OF THE AREA**

The City of Lancaster is located in Lancaster County, Pennsylvania, and is included in the Lancaster, Pennsylvania Metropolitan Statistical Area (MSA). Lancaster is located approximately 30 miles south of the Commonwealth of Pennsylvania's capital city (Harrisburg), 60 miles west of Philadelphia (PA) and 55 miles north of Baltimore (MD).

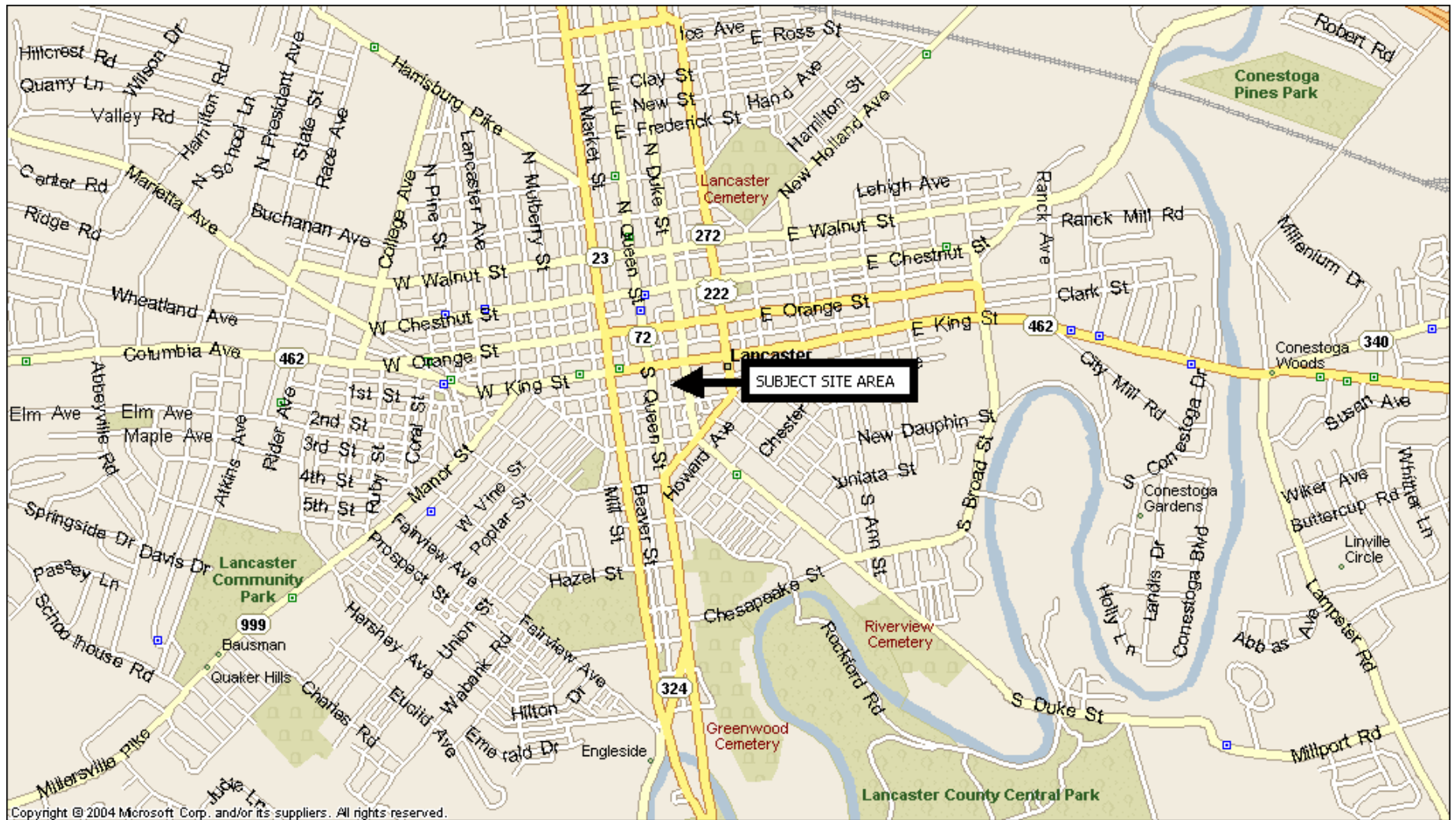
**SITE LOCATION**

The proposed project site fronts on historic Penn Square in Downtown Lancaster, and contains the former Watt & Shand Department Store Building as its centerpiece. The Hotel component is to be developed within the historic Watt & Shand Department Store Building and in a new tower to be constructed over the existing building at its southeast corner, while the Convention Center component is to be constructed on a vacant parcel to the south of the Watt & Shand Department Store Building. Specifically, the total project site is located to the north of East Vine Street, to the south of East King Street, to the east of South Queen Street, and to the west of Duke Street.

The site is in the heart of downtown Lancaster within walking distance of several historic attractions. The number of restaurants and entertainment venues is quite limited, but could be expected to grow should the project be developed.

The map on the following page provides an illustration of the site in relation to the immediate area.

Section III: Site Review



**ACCESS**

Major roadways and highways that connect Lancaster County to other points throughout the local region include State Route 283 (SR-283), US Route 30 (US-30), US Route 222 (US-222) Interstate 76 (I-76), and Interstate 83 (I-83). SR-283 connects the County to Harrisburg and Western Pennsylvania; US-30 to York to the west and Philadelphia to the east; US-222 to Allentown and Northeastern Pennsylvania; and I-76 and I-81 are respectively the major east-west and north-south interstate highways in the subject market area.

With regard to the specific location of the proposed project, the constricted nature of the site could potentially result in parking and traffic issues. Although not evaluated by us in a professional sense, the parking and access issues related to the site are expected to be problematic and a competitive disadvantage for the complex.

Air access to Lancaster and even Harrisburg is such, i.e. frequency, price and type of aircraft, that convention and conference demand will likely emanate almost exclusively from Pennsylvania association and corporate groups who can drive to the site.

Rail service to Lancaster is via Amtrak's Philadelphia to Harrisburg service with connections to major east coast cities. Train service may prove to be the preferred option for knowledgeable attendees who are uncomfortable with the parking options associated with larger events.

***SECTION IV***  
***AREA REVIEW***



**Section IV: Area Review**

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**ECONOMIC AND DEMOGRAPHIC INDICATORS**

Historical trends provide a positive outlook for the economic environment in the subject market area. A review of market area economic and demographic trends offers an indication of the relative health of the subject market area.

**Population**

The current population of the Lancaster County Metropolitan Statistical Area (MSA) is estimated to be approximately 488,700. This represents a 0.6 percent compound annual increase since 2000, as compared to a growth rate of 0.8 percent experienced in the United States during the same time period. The growing population base in the subject market area is a positive indicator for the subject development, as there is potential for additional room night and meeting demand generated from the resident population. The following table summarizes population figures for the Lancaster, PA MSA and the United States.

| <b>Population<br/>Lancaster, PA MSA &amp; United States</b>         |                          |                             |                                  |                          |                             |                                  |
|---|--------------------------|-----------------------------|----------------------------------|--------------------------|-----------------------------|----------------------------------|
| <b>Year</b>   | <b>Lancaster, PA MSA</b> |                             |                                  | <b>United States</b>     |                             |                                  |
|   | <b>Persons<br/>(000)</b> | <b>Households<br/>(000)</b> | <b>Persons per<br/>Household</b> | <b>Persons<br/>(000)</b> | <b>Households<br/>(000)</b> | <b>Persons per<br/>Household</b> |
| 2000  | 474.2                    | 172.9                       | 2.7                              | 283,876.4                | 106,206.0                   | 2.7                              |
| 2005 <sup>(1)</sup>   | 488.7                    | 180.7                       | 2.7                              | 295,140.1                | 110,420.1                   | 2.7                              |
| 2010 <sup>(2)</sup>   | 508.2                    | 188.9                       | 2.7                              | 311,573.0                | 116,568.1                   | 2.7                              |
| CAGR <sup>(3)</sup>   | 0.6%                     | 1.8%                        | -                                | 0.8%                     | 0.8%                        | -                                |
| Notes: (1) Estimated  |                          |                             |                                  |                          |                             |                                  |
| (2) Projected   |                          |                             |                                  |                          |                             |                                  |
| (3) Compound annual growth rate for years 2000-2005                 |                          |                             |                                  |                          |                             |                                  |
| Source: Sales & Marketing Management, <i>Survey of Buying Power</i> |                          |                             |                                  |                          |                             |                                  |

**Effective Buying Income**

Effective buying income (EBI) is defined as personal income less personal taxes, non-tax payments such as fines, fees, penalties and personal contributions to social insurance. Residents of the Lancaster, PA MSA are in general more affluent than the national average. The Lancaster, PA MSA median household effective buying income is estimated to be \$41,374, approximately 5.2 percent above the United States average of \$39,324 in 2005. The following table summarizes income figures for the Lancaster MSA and the United States.

**Section IV: Area Review**

| <b>Effective Buying Income<br/>Lancaster, PA MSA &amp; United States</b> |  |  |
|--|--|--|
| <u>Year</u>  | <u>Lancaster, PA MSA</u>                       | <u>United States</u>                           |
|  | Median<br>Household Effective<br>Buying Income | Median<br>Household Effective<br>Buying Income |
| 2000   | \$45,431                                       | \$39,129                                       |
| 2005 <sup>(1)</sup>  | \$41,374                                       | \$39,324                                       |
| CAGR <sup>(2)</sup>  | 3.9%   | 3.8%   |
| Notes: (1) Estimated   |  |  |
| (2) Compound annual growth rate for years 2000-2005                      |  |  |
| Source: Sales & Marketing Management, <i>Survey of Buying Power</i>      |  |  |

**Retail Sales and Eating and Drinking Place Sales**

From 2000 through 2005, retail sales in the Lancaster, PA MSA grew at an annual rate of 2.7 percent, primarily due to the plethora of outlet shopping facilities located in the area. The increase in retail sales is a positive indication that the economy in the MSA is growing. Increased spending on retail items indicates that disposable income levels are increasing and that individuals have more disposable income for leisure pursuits.

In addition to retail sales, a review of eating and drinking sales offers an indication of the economic health of the selected market areas. Eating and drinking place sales are considered to be a good reflection of the amount of discretionary income available to the population within a market area, and consequently, a true indication of economic well-being. During the 2000 through 2005 period, eating and drinking place sales in the Lancaster, PA MSA increased at a compound annual growth rate of 4.4 percent.

Retail sales and eating and drinking place sales data are summarized in the following table.

| <b>Retail Sales and Eating and Drinking Place Sales<br/>Lancaster, PA MSA &amp; United States</b> |                                |  |                                |  |
|---|--------------------------------|--|--------------------------------|--|
| <u>Year</u>   | <u>Lancaster, PA MSA</u>       |  | <u>United States</u>           |  |
|   | Retail Sales<br>(in thousands) | Eating and Drinking<br>Place Sales<br>(in thousands) | Retail Sales<br>(in thousands) | Eating and Drinking<br>Place Sales<br>(in thousands) |
| 2000  | \$6,506,658                    | \$514,172  | \$3,658,748,622                | \$333,791,641  |
| 2005  | \$7,417,818                    | \$637,721  | \$4,206,052,995                | \$413,361,000  |
| CAGR <sup>(1)</sup>   | 2.7%                           | 4.4%   | 2.8%                           | 4.4%   |
| Note: (1) Compound annual growth rates for years 2000-2005.                                       |                                |  |                                |  |
| Source: Sales & Marketing Management, <i>Survey of Buying Power</i>                               |                                |  |                                |  |

**Employment**

Employment continues to remain strong in the Lancaster, PA MSA. As the following table indicates, the unemployment rate in the MSA has consistently been well below the national rate of unemployment.

**Section IV: Area Review**

| <b>Employment<br/>Lancaster, PA MSA &amp; United States</b> |                           |                             |             |                           |                             |             |
|---|---------------------------|-----------------------------|-------------|---------------------------|-----------------------------|-------------|
| <u>Year</u>   | <u>Lancaster, PA MSA</u>  |                             |             | <u>United States</u>      |                             |             |
|   | <u>Employed<br/>(000)</u> | <u>Unemployed<br/>(000)</u> | <u>Rate</u> | <u>Employed<br/>(000)</u> | <u>Unemployed<br/>(000)</u> | <u>Rate</u> |
| 1996  | 231,356                   | 8,027                       | 3.4%        | 126,708.0                 | 7,236.0                     | 5.4%        |
| 1997  | 239,358                   | 7,251                       | 2.9%        | 129,558.0                 | 6,739.0                     | 4.9%        |
| 1998  | 239,959                   | 7,120                       | 2.9%        | 131,463.0                 | 6,210.0                     | 4.5%        |
| 1999  | 241,205                   | 6,747                       | 2.7%        | 133,488.0                 | 5,880.0                     | 4.2%        |
| 2000  | 243,459                   | 7,103                       | 2.8%        | 136,891.0                 | 5,692.0                     | 4.0%        |
| 2001  | 246,195                   | 8,670                       | 3.4%        | 136,933.0                 | 6,801.0                     | 4.7%        |
| 2002  | 251,327                   | 10,282                      | 3.9%        | 136,485.0                 | 8,378.0                     | 5.8%        |
| 2003  | 247,795                   | 10,695                      | 4.1%        | 137,736.0                 | 8,774.0                     | 6.0%        |
| 2004  | 256,189                   | 10,560                      | 4.0%        | 139,252.0                 | 8,149.0                     | 5.5%        |
| 2005  | 260,552                   | 9,833                       | 3.6%        | 142,779.0                 | 7,375.0                     | 4.9%        |
| CAGR <sup>(1)</sup>   | 1.3%                      | 2.1%                        |             | 1.2%                      | 0.2%                        |             |

Note: (1) Compound annual growth rate for years 1996-2005  
Source: U.S. Bureau of Labor Statistics.

**TRANSPORTATION**

The following summarizes transportation characteristics of the subject market area.

**Highway**

Major roadways and highways that connect Lancaster County to other points throughout the local region include State Route 283 (SR-283), US Route 30 (US-30), US Route 222 (US-222) Interstate 76 (I-76), and Interstate 83 (I-83). SR-283 connects the County to Harrisburg and Western Pennsylvania; US-30 to York to the west and Philadelphia to the east; US-222 to Allentown and Northeastern Pennsylvania; and I-76 and I-81 are respectively the major east-west and north-south interstate highways in the subject market area.

**Air Transportation**

The region is served by one major airport, Harrisburg International Airport (MDT). HIA is located in Harrisburg, approximately 33 miles northwest of the subject site. HIA is served by seven airlines, offering non-stop daily service to 13 domestic and one international destination. In total, there are approximately 120 daily flights into and out of HIA. In 2005, there were an estimated 1.3 million passengers traveling to/from HIA, representing a decline of approximately 10.0 percent from 2003 levels. This can be partly attributable to the limited flight schedule out of this airport, causing fares to be typically high (typically ranging between 15 and 30 percent higher than flights to the same destination out of both Philadelphia International Airport and Baltimore Washington International Airport), and thus presenting a competitive disadvantage for the proposed project.

Additionally, the area is served by the Lancaster Airport, which had only 13,000 passengers in 2005. This airport is served by one airline, which offers only 18 flights weekly.

**Rail Transportation**

Regional rail transportation is provided by AMTRAK, which has a station less than two miles to the north of the subject site. There are two lines that go through the Lancaster station: the Keystone line runs from New York City to Harrisburg, and the Pennsylvanian line runs from New York City to Pittsburgh.

**TOURISM**

According to the Pennsylvania Dutch County CVB, nearly five million people visit Lancaster each year to visit its numerous attractions. There are 207 listings in Lancaster County that are on the National Register of Historic places. Following is a brief description of the top attractions in the area:

- **Fulton Opera House:** Located in Downtown Lancaster, this house is the largest performance arts theater in Lancaster County. It features theatrical, opera, dance, and orchestra performances.
- **Central Market:** This farmers' market is located in Penn Square in Downtown Lancaster, and is the nation's oldest publicly owned farmers' market. It features more than 80 vendors offering foods from a variety of cultures.
- **Sight & Sound® Millennium Theatre® and Living Waters Theatre:** Sight & Sound® attempts to relay Christianity through live performances. The Millennium Theatre® is a 2,000 seat facility and the Living Waters Theatre has 643 seats – combined, the two facilities host an estimated 800,000 visitors annually.
- **Dutch Wonderland Family Amusement Park:** This amusement park, owned and operated by Hershey Entertainment & Resorts, is renowned as one of the top children's parks in the world.
- **Lancaster Quilt & Textile Museum:** This museum exhibits Amish quilts and textiles
- **Amish Attractions:** There are numerous Amish related attractions that educate visitors on the Amish lifestyle.
- **Stevens-Smith Historic Site Interpretive Center:** This facility is planned to open in 2009 and would adjoin the proposed Convention Center. It would complement and integrate the Thaddeus Stevens law firm and residence, the Lydia Smith Boarding House, and the Kleiss Saloon into its development. The Center would serve to educate the public about Lancaster's rich contribution to our nation's founding principles of liberty, freedom, and equality. Preliminary estimates indicate that the Center would host 30,000 visitors annually as a stand-alone facility.

**CONCLUSION**

Economic indicators for the subject market area project a positive outlook for economic growth in the region and the historical tourism attractions, given proper packaging and marketing, could provide a sufficient attraction for higher level tour and travel groups and certain association meetings to be attracted to the property.

***SECTION V***  
***SUPPLY AND DEMAND***

**COMPETITIVE MARKET – HOTEL**

For the Hotel component of the project, we are of the opinion that there are two separate competitive markets: the overall hotel market in Lancaster County (Hotel Competitive Market 1), and the group-oriented properties in the subject market (Hotel Competitive Market 2). The properties in the latter group include the following: Best Western Eden Resort Inn & Suites, Hotel Brunswick, Lancaster Host Resort and Conference Center, and Willow Valley Resort and Conference Center.

**Hotel Competitive Market 1**

This competitive set consists of 94 properties located in Lancaster County, many of which are clustered along US Route 30 (US-30). Historically, this set has consisted primarily of smaller properties catering to the budget and lower-tier limited service markets; while this is still the case, in recent years there have been an increasing number of traditionally strong limited/select service hotels that have opened. These include the following:

- 72-unit Hampton Inn and Suites Ephrata – September 2005.
- 69-unit Holiday Inn Express Hotel and Suites Lititz – December 2005.
- 50-room Sleep Inn and Suites Ronk – August 2005.
- 133-room Courtyard Lancaster – July 2005.

**Historical Performance**

The following table illustrates annual performance characteristics for the properties in Hotel Competitive Market 1 from 2003 through 2005. As the data indicates, total occupied rooms have increased at an annual rate of 4.1 percent during this period, exceeding annual supply growth of 0.9 percent. Despite the relatively low aggregate market occupancies (ranging from 53.1 percent in 2003 to 56.5 percent in 2005), the growth in occupied rooms is a positive indicator as it demonstrates that demand within the local lodging market is increasing. Combined with annual growth in average daily rate (ADR) of 2.8 percent, the occupancy increases resulted in revenue per available room (RevPAR) growth of 6.1 percent annually. Although these properties are certainly not alike, they collectively cater to a wide variety of types of groups.

**Section V: Supply and Demand**

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| <b>Estimated Performance<br/>Hotel Competitive Market 1</b>   |                        |                       |                  |            |               |
|---|------------------------|-----------------------|------------------|------------|---------------|
| <b>Year</b>   | <b>Available Rooms</b> | <b>Occupied Rooms</b> | <b>Occupancy</b> | <b>ADR</b> | <b>RevPAR</b> |
| 2003  | 2,331,255              | 1,237,896             | 53.1%            | \$57.49    | \$30.53       |
| 2004  | 2,331,255              | 1,256,546             | 53.9%            | \$58.84    | \$31.71       |
| 2005  | 2,374,325              | 1,341,494             | 56.5%            | \$60.78    | \$34.34       |
| CAGR <sup>(1)</sup>   | 0.9%                   | 4.1%                  | -                | 2.8%       | 6.1%          |
| Note: (1) Compound annual growth rate for years 2003-2005<br>Source: PKF Consulting, Smith Travel Research, Individual Properties |                        |                       |                  |            |               |

Following are some observations regarding the hotel market in the subject market area.

- While the overall Lancaster County hotel market is stable and viable, the market is highly seasonal, price sensitive, and tourist-oriented. Overall occupancies and rates do not indicate a market which, in general, allows for sufficient profitability for the on-going refurbishment of existing hotels. The newer hotels are performing above the market average, as would be expected.
- The growth of commercial demand along the Route 30 bypass is being absorbed by new hotel property additions.
- The downtown commercial hotel market has shrunk considerably in recent years. This has contributed to the decline of the Hotel Brunswick. Although the Marriott brand is extremely strong in this segment, the availability of Marriott products along Route 30 will limit this advantage.

**Market Segmentation**

The following table indicates the estimated year-end 2005 market segmentation for the properties in Hotel Competitive Market 1. We have presented demand in four segments that are traditionally tracked in the subject market area. Each segment may be broken down further into subsegments, but we believe that, presented as four segments, the following present an accurate representation of demand within the competitive set.

| <b>Estimated Market Segmentation<br/>Hotel Competitive Market 1</b> |            |              |            |              |
|---|------------|--------------|------------|--------------|
| <b>C/I</b>  | <b>T/T</b> | <b>Group</b> | <b>GMO</b> | <b>Total</b> |
| 10%   | 65%        | 20%          | 5%         | 100%         |
| Source: PKF Consulting  |            |              |            |              |

**Hotel Competitive Market 2**

This competitive set consists of group oriented properties in the subject market (Hotel Competitive Market 2). As mentioned previously, the properties in this group include the following: Best Western Eden Resort Inn & Suites, Hotel Brunswick, Lancaster Host Resort and Conference Center, and Willow Valley Resort and Conference Center.



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| <b>Hotel Competitive Market 2</b>           |              |                   |
|---|--------------|-------------------|
| <b>Property</b>                             | <b>Units</b> | <b>Rack Rates</b> |
| Best Western Eden Resort Inn & Suites       | 276          | \$109 - \$179     |
| Hotel Brunswick                             | 221          | \$79 - \$159      |
| Lancaster Host Resort and Conference Center | 300          | \$89 - \$149      |
| Willow Valley Resort and Conference Center  | 342          | \$99 - \$159      |

### **Property Descriptions**

#### **Best Western Eden Resort Inn & Suites**

This property contains 276 units and is located at 222 Eden Road, approximately 2.5 miles north of the subject site. The property features two restaurants, cocktail lounge, three swimming pools (one indoor, one outdoor, and a children's pool), fitness center with women's and men's saunas and whirlpool, lighted tennis courts, basketball, shuffleboard, and game room. Meeting facilities include approximately 23,000 square feet of flexible meeting space, highlighted by the 11,020 square foot Eden Courtyard and a 4,350 square foot ballroom. This property has undergone numerous renovation projects over the years, and is considered the highest quality (and best performing) product currently available in the subject market area.

#### **Hotel Brunswick**

This property contains 221 units and is located at 151 North Queen Street, within a few blocks of the subject site. The Hotel Brunswick is the only property currently located in Downtown Lancaster. The property features one restaurant, cocktail lounge, one indoor swimming pool, and fitness room. Meeting facilities include more than 30,000 square feet of flexible meeting space, of which approximately 50 percent is currently not in use. Generally speaking, this property is in need of significant renovations, as its current condition has caused it to under-perform relative to the market.

#### **Lancaster Host Resort and Conference Center**

This property contains 300 units and is located at 2300 Lincoln Highway East, approximately 5.0 miles east of the subject site. The property features two restaurants, three cafes, cocktail lounge, 18-hole golf course, indoor/outdoor swimming pools, tennis courts, basketball, volleyball, and fitness room. Meeting facilities include more than 80,000 square feet of flexible meeting space, highlighted by the 23,450 square foot Expo Center. Current ownership is planning for significant renovations to the Host.

#### **Willow Valley Resort and Conference Center**

This property contains 342 units and is located at 2416 Willow Street Pike, approximately 3.5 miles south of the subject site. The property features two restaurants, one cafe, 9-hole golf course, indoor/outdoor swimming pools, Indoor Water Playground, fitness center with saunas and whirlpools, tennis courts, basketball, and Wedding and Prayer Chapel. Meeting facilities include more than 18,000 square feet of flexible meeting space, highlighted by the 5,460 square foot Palm Court (part of the Atrium Building). In keeping with it's market, the property does not have a liquor license.

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**Historical Performance**

The following table illustrates annual performance characteristics for the properties in Hotel Competitive Market 2 from 2003 through 2005. As the data indicates, total occupied rooms have increased at an annual rate of 2.8 percent during this period. While this annual growth rate is lower than that exhibited by the broader competitive market (Hotel Competitive Market 1), both occupancy and average daily rate levels exhibited by the properties in Hotel Competitive Market 2 were notably higher than those of the broader hotel set. Combined with annual growth in average daily rate (ADR) of 3.2 percent, the occupancy increases resulted in revenue per available room (RevPAR) growth of 5.9 percent annually.

| <b>Estimated Performance<br/>Hotel Competitive Market 2</b>   |                        |                       |                  |            |               |
|---|------------------------|-----------------------|------------------|------------|---------------|
| <b>Year</b>   | <b>Available Rooms</b> | <b>Occupied Rooms</b> | <b>Occupancy</b> | <b>ADR</b> | <b>RevPAR</b> |
| 2003  | 415,735                | 237,800               | 57.2%            | \$93.63    | \$53.56       |
| 2004  | 415,735                | 250,688               | 60.3%            | \$96.24    | \$58.03       |
| 2005  | 415,735                | 251,104               | 60.4%            | \$99.44    | \$60.06       |
| CAGR <sup>(1)</sup>   | 0.0%                   | 2.8%                  | -                | 3.1%       | 5.9%          |
| Note: (1) Compound annual growth rate for years 2003-2005<br>Source: PKF Consulting, Smith Travel Research, Individual Properties |                        |                       |                  |            |               |

**Market Segmentation**

The following table indicates the estimated year-end 2005 market segmentation for the properties in Hotel Competitive Market 2. We have presented demand in four segments that are traditionally tracked in the subject market area. Each segment may be broken down further into subsegments, but we believe that, presented as four segments, the following present an accurate representation of demand within the competitive set.

| <b>Estimated Market Segmentation<br/>Hotel Competitive Market 2</b> |            |              |            |              |
|---|------------|--------------|------------|--------------|
| <b>C/I</b>  | <b>T/T</b> | <b>Group</b> | <b>GMO</b> | <b>Total</b> |
| 5%  | 35%        | 55%          | 5%         | 100%         |
| Source: PKF Consulting  |            |              |            |              |

**ADDITIONS TO SUPPLY**

Our research revealed that there are four future additions to supply in the subject market area, all of which are anticipated to compete with the proposed Hotel in the Competitive Category 1 group. These include: the 63-unit Lancaster Arts Hotel currently under construction a few blocks from the campus of Franklin & Marshall College on the corner of North Mulberry Street and Harrisburg Pike that is scheduled to open late Summer 2006; a 60-unit Comfort Inn; a 150-unit Homewood Suites; and a 150-unit Residence Inn. The locations of the latter three additions to supply are scattered along US-30.

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Franklin & Marshall's new Lancaster Arts Hotel is expected to accommodate most routine demand generated by the College. Peak-period demand will still be available to the proposed Downtown Hotel.

The above additions to supply have been incorporated into our projections of supply and demand for the competitive set.

### **ESTIMATES OF FUTURE SUPPLY AND DEMAND**

The following table presents our projections of market demand by market segment through 2014 for Hotel Competitive Market 1. Of note is that we have assumed that the proposed Hotel opens January 1, 2009.

| <b>Projected Competitive Set Demand by Market Segment<br/>Hotel Competitive Market 1</b> |                              |                        |              |                                    |              |
|--|------------------------------|------------------------|--------------|------------------------------------|--------------|
| <b>Year</b>  | <b>Commercial Individual</b> | <b>Tour and Travel</b> | <b>Group</b> | <b>Government, Military, Other</b> | <b>Total</b> |
| 2005   | 134,100                      | 872,000                | 268,300      | 67,100                             | 1,341,500    |
| 2006   | 134,800                      | 924,300                | 273,700      | 67,100                             | 1,399,900    |
| 2007   | 135,500                      | 961,300                | 279,100      | 67,100                             | 1,443,000    |
| 2008   | 136,200                      | 1,009,300              | 287,500      | 67,100                             | 1,500,100    |
| 2009   | 137,500                      | 1,049,700              | 301,900      | 67,100                             | 1,556,200    |
| 2010   | 138,200                      | 1,081,200              | 314,000      | 67,100                             | 1,600,500    |
| 2011   | 138,200                      | 1,102,800              | 320,200      | 67,100                             | 1,628,300    |
| 2012   | 138,200                      | 1,102,800              | 320,200      | 67,100                             | 1,628,300    |
| 2013   | 138,200                      | 1,102,800              | 320,200      | 67,100                             | 1,628,300    |
| 2014   | 138,200                      | 1,102,800              | 320,200      | 67,100                             | 1,628,300    |
| CAGR <sup>(1)</sup>  | 0.5%                         | 4.0%                   | 3.0%         | 0.0%                               | 3.3%         |

Note: (1) Compound annual growth rate for years 2005 through 2011 (at which time demand is projected to stabilize)  
Source: PKF Consulting

### **Commercial Individual Demand Segment**

The commercial individual demand segment is estimated to have accounted for approximately 10 percent of the competitive set market room night demand in 2005. Corporate individual demand is generated by business people traveling to or through the area to complete some facet of business. When choosing accommodations, the corporate traveler characteristically places emphasis on a hotel's location, room rates, quality of service, variety of amenities offered, and proximity to transportation arteries. A major criterion of individual corporate travelers is the proximity of accommodations to the companies that they are visiting and convenience of access thereto. Demand for the corporate traveler primarily occurs Monday through Thursday, with an average length of stay of one to three days. This group typically is the least price sensitive of the demand segments in that they are usually reimbursed for their expenses. They include business representatives, corporate trainees, interviewees, sales representatives, and any other business associated traveler. It is anticipated that demand from this market segment will grow steadily as commercial growth continues.

Much of the corporate demand for lodging in the subject market area is concentrated around US-30, as commercial density in Downtown Lancaster is somewhat limited.

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Rather, many of the area's companies are located on the outskirts, and are situated along US-30.

Based on the aforementioned, we have estimated commercial individual demand within the defined competitive set to increase at a compound annual rate of 0.5 percent from 2005 to 2011, at which time demand is projected to stabilize. The resulting annual room nights in this segment are estimated to increase from 134,100 in 2005 to 138,200 in 2011.

### **Tour and Travel Demand Segment**

The tour and travel demand segment is estimated to have accounted for approximately 65 percent of the competitive set market room night demand in 2005. Leisure demand consists of families, couples, social groups, and individuals who are seeking a weekend "get-away", or an experience that is different and unique when compared to their normal routine. Typically associated with vacationing, leisure demand can encompass anything from someone visiting friends/relatives overnight to the extended vacationer. According to research conducted by the Travel Industry Association, approximately 76 percent of all travel is leisure-related. The study also found that Americans aged 25-34 take more pleasure trips than any other age group.

The continuing growth in the mature market as the baby boomer generation ages, will expand the market for leisure individual travelers. The majority of leisure travel occurs on the weekends and during the summer months. However, leisure demand is likely to remain strong into the spring and fall shoulder months on the weekends.

Based on the aforementioned, we have estimated tour and travel demand within the defined competitive set to increase at a compound annual rate of 4.0 percent from 2005 to 2011, at which time demand is projected to stabilize. The resulting annual room nights in this segment are estimated to increase from 872,000 in 2005 to 1,102,800 in 2011. Although the bulk of this market is too price sensitive for the proposed hotel, there is an upper end segment which would respond well to a higher quality hotel near Lancaster's historical attractions.

### **Group Demand Segment**

The group demand segment is estimated to have accounted for approximately 20 percent of the competitive set market room night demand in 2005. Similar to the commercial segment, the level of commercial group meeting demand is attributed to the growth in commercial and industrial development in the area and the likely occurrence of weekly, quarterly, and annual meetings and training sessions as a natural result of the expanding commercial base. Group demand is generally more rate sensitive than the commercial segment, with a willingness to book more rooms for a lower rate. This segment is also more likely to stay in double occupancy than the commercial individual segment.

The following tables show the characteristics of corporate and association meetings within the United States market.

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| <b>Characteristics of Corporate Meetings</b> |                   |                        |                    |
|--|-------------------|------------------------|--------------------|
| <b>Type of Meeting</b>                       | <b>% of Total</b> | <b>Avg. Attendance</b> | <b>Avg. # Days</b> |
| Training Seminars                            | 27%               | 53                     | 2.7                |
| Management Meetings                          | 22%               | 36                     | 2.4                |
| Professional/Technical Meetings              | 10%               | 68                     | 2.7                |
| Sales-related Regional & National Meetings   | 22%               | 61                     | 2.6                |
| Sales-related Incentive Trips                | 11%               | 95                     | 3.9                |
| New Product Introductions                    | 4%                | 95                     | 2.3                |
| Stockholder Meetings                         | 2%                | 33                     | 1.7                |
| Other Meetings                               | 7%                | 87                     | 3.2                |
| <b>Total/Average</b>                         | <b>100%</b>       | <b>62</b>              | <b>2.8</b>         |

Source: The Meetings Market, Reed Travel Group, and PKF Consulting

| <b>Characteristics of Association Meetings</b> |                   |                        |                    |
|--|-------------------|------------------------|--------------------|
| <b>Type of Meeting</b>                         | <b>% of Total</b> | <b>Avg. Attendance</b> | <b>Avg. # Days</b> |
| Education Seminars                             | 38%               | 100                    | 1.9                |
| Professional/Technical Meetings                | 17%               | 106                    | 2.2                |
| Board Meetings                                 | 24%               | 33                     | 1.9                |
| Regional/Local Chapter Meetings                | 14%               | 96                     | 1.8                |
| All Other Meetings                             | 7%                | 127                    | 2.3                |
| <b>Total/Average</b>                           | <b>100%</b>       | <b>96</b>              | <b>2.0</b>         |

Source: The Meetings Market, Reed Travel Group, and PKF Consulting

The commercial portion of this market segment includes executive meetings, sales meetings, training sessions, conferences, seminars, and other business meetings. Similar to commercial individual demand, commercial group demand is concentrated during the weekdays.

The non-commercial portion of this market segment consists of participants and attendees of association conventions, exhibits, trade shows, concerts, sporting events, and similar activities. This portion of demand tends to be concentrated between Sunday and Thursday evenings.

PKF expects that demand from the group segment will increase with the proposed development of the Convention Center in Downtown Lancaster. It is anticipated that the proposed Convention Center will create additional compression of demand generated by the availability of meeting space and cause demand to spill over into surrounding hotels, although due to the lack of Downtown hotels, this is not likely to be a significant number of room nights.

Based on the aforementioned, we have estimated group demand within the defined competitive set to increase at a compound annual rate of 3.0 percent from 2005 to 2011, at which time demand is projected to stabilize. The resulting annual room nights in this segment are estimated to increase from 268,300 in 2005 to 320,200 in 2011.

**Government, Military, Other Demand Segment**

The government, military, other demand segment is estimated to have accounted for approximately 5 percent of the competitive set market room night demand in 2005. Similar to the commercial segment, the level of government and military demand is attributed to the location of primary government agencies in the local area. At the time of this study, the government per diem was \$78.00.

Based on the aforementioned, we have estimated government, military, other demand within the defined competitive set to remain flat throughout the projection period at 67,100 annual room nights.

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**COMPETITIVE MARKET – CONVENTION CENTER**

For the Convention Center component of the project, we are of the opinion that there are two separate competitive markets: regional convention center facilities (Convention Center Competitive Market 1), and hotels with significant meeting space in Southeastern Pennsylvania (Convention Center Competitive Market 2). Following is a description of each of these groups.

**Convention Center Competitive Market 1**

Convention Center Competitive Market 1 includes the Pennsylvania Expo Center at Lehigh Valley – Allentown, Blair County Convention Center – Altoona, Bayfront Convention Center – Erie, Hershey Lodge & Convention Center – Hershey, and Valley Forge Convention Center – King of Prussia.

**Property Descriptions**

**Pennsylvania Expo Center at Lehigh Valley**

This property is located in Allentown, approximately 62.5 miles northeast of the subject site. It features 95,000 square feet of contiguous exhibition space. The facility has the capacity to set up 550 10'x10' booths for trade shows, and can accommodate up to 3,500 persons. Interviews indicated that the facility hosts between 40 and 60 annual events, the majority of which are trade/consumer shows. Events are typically concentrated on weekends, with attendance averaging between 3,000 and 3,200. Approximately 90 percent of attendees live within a three hour drive, with an estimated 5.0 percent of event attendees requiring overnight accommodations.

**Blair County Convention Center**

This property is located in Altoona, approximately 115.0 miles northwest of the subject site. It features 47,445 square feet of meeting and exhibition space including a 15,100 square foot ballroom and 24,150 square foot exhibit hall. The facility has the capacity to set up 377 10'x10' booths for trade shows. The ballroom can accommodate up to 2,000 persons, while the exhibit hall can fit up to 4,000. Following are details on these various event types at the Blair County Convention Center:

| <b>Average Performance Characteristics<br/>Blair County Convention Center</b> |                             |                                |                     |              |
|---|-----------------------------|--------------------------------|---------------------|--------------|
| <b>Category</b>   | <b>Trade/Consumer Shows</b> | <b>Conventions/Conferences</b> | <b>Other Events</b> | <b>Total</b> |
| Number of Annual Events   | 25                          | 25                             | 85                  | 135          |
| Average Attendance per Event  | 2,500                       | 500                            | 200                 | N/A          |
| Total Annual Attendance   | 62,500                      | 12,500                         | 17,000              | 92,000       |
| Source: PKF Consulting, Individual Facility                                   |                             |                                |                     |              |

**Bayfront Convention Center**

The Bayfront Convention Center is projected to open in Summer 2007. This property is located in Erie, approximately 250.0 miles northwest of the subject site. It features 56,326 square feet of meeting and exhibition space including a 13,500 square foot ballroom and 28,800 square foot exhibit hall. The facility has the capacity to set up 331

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10'x10' booths for trade shows. The ballroom can accommodate up to 1,929 persons, while the exhibit hall can fit up to 4,114. Following are details on these various event types at the Bayfront Convention Center:

| <b>Average Performance Characteristics<br/>Bayfront Convention Center</b> |                      |                         |              |         |
|---|----------------------|-------------------------|--------------|---------|
| Category  | Trade/Consumer Shows | Conventions/Conferences | Other Events | Total   |
| Number of Annual Events   | 35                   | 35                      | 100          | 170     |
| Average Attendance per Event  | 3,000                | 650                     | 300          | N/A     |
| Total Annual Attendance   | 105,000              | 22,750                  | 30,000       | 157,750 |
| Source: PKF Consulting, Individual Facility                               |                      |                         |              |         |

**Hershey Lodge & Convention Center**

This property is located in Hershey, approximately 28.0 miles northwest of the subject site. The facility is part of a resort that includes 665 guestrooms, 45-hole golf course, full-service spa, and six food and beverage outlets. It features 100,000 square feet of meeting and exhibition space including three ballrooms (a 15,100 square foot ballroom and 32,004 square foot exhibit hall). The facility has the capacity to set up 260 10'x10' booths for trade shows. The ballroom can accommodate up to 2,500 persons, while the exhibit hall can fit up to 4,000. Following are details on these various event types at the Hershey Lodge & Convention Center:

| <b>Average Performance Characteristics<br/>Hershey Lodge &amp; Convention Center</b> |                      |                         |              |         |
|--|----------------------|-------------------------|--------------|---------|
| Category   | Trade/Consumer Shows | Conventions/Conferences | Other Events | Total   |
| Number of Annual Events  | 15                   | 45                      | 175          | 235     |
| Average Attendance per Event   | 3,000                | 850                     | 275          | N/A     |
| Total Annual Attendance  | 45,000               | 38,250                  | 48,125       | 131,375 |
| Source: PKF Consulting, Individual Facility  |                      |                         |              |         |

Hershey is the premier venue in the market and would therefore be the most direct competition for the proposed project's convention center.

**Valley Forge Convention Center**

This property is located in Valley Forge/King of Prussia, approximately 47.5 miles east of the subject site. It features 130,000 square feet of meeting and exhibition space. Following are details on these various event types at the Valley Forge Convention Center:

| <b>Average Performance Characteristics<br/>Valley Forge Convention Center</b> |                      |                         |              |        |
|---|----------------------|-------------------------|--------------|--------|
| Category  | Trade/Consumer Shows | Conventions/Conferences | Other Events | Total  |
| Number of Annual Events   | 25                   | 20                      | 90           | 135    |
| Average Attendance per Event  | 2,500                | 400                     | 200          | N/A    |
| Total Annual Attendance   | 62,500               | 8,000                   | 18,000       | 88,500 |
| Source: PKF Consulting, Individual Facility                                   |                      |                         |              |        |



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The Fort Washington Expo Center, which centers largely to consumer and trade shows, located north of Philadelphia, will soon be ceasing operations at that location due to a sale for office space use. An alternate location is being pursued by ownership, but is unknown at this time.

**Historical Performance**

The above facilities in Convention Center Competitive Market 1 indicated the average performance characteristics detailed in the following table.

| <b>Average Performance Characteristics<br/>Convention Center Competitive Market 1</b> |                             |                                     |                     |              |
|---|-----------------------------|-------------------------------------|---------------------|--------------|
| <b>Category</b>   | <b>Trade/Consumer Shows</b> | <b>Conventions/<br/>Conferences</b> | <b>Other Events</b> | <b>Total</b> |
| Number of Annual Events   | 30                          | 25                                  | 90                  | 145          |
| Average Attendance per Event  | 2,800                       | 600                                 | 250                 | N/A          |
| Total Annual Attendance   | 84,000                      | 15,000                              | 22,500              | 121,500      |
| Annual Room Nights Generated  | 12,600                      | 12,000                              | 13,500              | 38,100       |
| Source: PKF Consulting, Individual Facilities   |                             |                                     |                     |              |

**Convention Center Competitive Market 2**

Convention Center Competitive Market 1 includes hotels with significant meeting space in Southeastern Pennsylvania, excluding those in Center-City Philadelphia, as downtown Lancaster is not competing with Center City Philadelphia for group functions, and we did not include resort-oriented properties. The hotels in this set were concentrated in Allentown, Cherry Hill, Harrisburg, King of Prussia, Reading, and York. These properties included those listed in the following table.

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| <b>Competitive Market - Hotels</b>                         |                   |
|--|-------------------|
| <b>Name of Facility</b>                                    | <b>Location</b>   |
| Crowne Plaza Allentown                                     | Allentown         |
| Days Inn Conference Center                                 | Allentown         |
| Four Points Sheraton Hotel & Suites                        | Allentown         |
| Holiday Inn Philadelphia Northeast                         | Bensalem          |
| Best Western Lehigh Valley Hotel & Conference Center       | Bethlehem         |
| Holiday Inn Conference Center                              | Breinigsville     |
| Radisson Penn Harris Hotel & Convention Center             | Camp Hill         |
| Hotel Carlisle & Embers Convention Center                  | Carlisle          |
| Clarion Hotel & Conference Center                          | Cherry Hill       |
| Hilton Philadelphia Cherry Hill                            | Cherry Hill       |
| Holiday Inn Cherry Hill                                    | Cherry Hill       |
| Holiday Inn Express Hotel & Suites Easton                  | Easton            |
| The Inn at Chester Spring Hotel & Conference Center        | Exton             |
| Holiday Inn Fort Washington                                | Fort Washington   |
| Holiday Inn Harrisburg/Hershey Area                        | Grantville        |
| Crowne Plaza Harrisburg/Hershey                            | Harrisburg        |
| Four Points by Sheraton Harrisburg                         | Harrisburg        |
| Harrisburg Hershey Marriott                                | Harrisburg        |
| Harrisburg Hilton & Towers                                 | Harrisburg        |
| Wyndam Hotel Harrisburg/Hershey                            | Harrisburg        |
| Crowne Plaza Valley Forge                                  | King of Prussia   |
| Hilton Valley Forge  | King of Prussia   |
| Radisson Hotel Valley Forge                                | King of Prussia   |
| Scanticon Hotel & Conference Center                        | King of Prussia   |
| Sheraton Park Ridge Hotel & Conference Center Valley Forge | King of Prussia   |
| Sheraton Bucks County Hotel                                | Langhorne         |
| Holiday Inn Harrisburg West                                | Mechanicsburg     |
| Harrisburg Holiday Inn & Conference Center                 | New Cumberland    |
| Ramada Inn & Conference Center                             | Reading           |
| Sheraton Reading Hotel                                     | Reading           |
| Wyndham Reading Hotel                                      | Reading           |
| The Radnor Hotel   | St. Davids        |
| Holiday Inn Select Bridgeport                              | Swedesboro        |
| Holiday Inn Select Bucks County                            | Treose            |
| Radisson Hotel Philadelphia Northeast                      | Treose            |
| The Warrington   | Warrington        |
| Westchester Holiday Inn                                    | West Chester      |
| Philadelphia Marriott West                                 | West Conshohocken |
| Inn at Reading Hotel                                       | Wyomissing        |
| Holiday Inn Holidome & Conference Center                   | York              |
| Four Points by Sheraton York                               | York              |
| Source: PKF Consulting                                     |                   |

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The above facilities in Convention Center Competitive Market 2 indicated the average performance characteristics detailed in the following table.

| <b>Average Performance Characteristics<br/>Convention Center Competitive Market 2</b> |                             |                                     |                     |              |
|---|-----------------------------|-------------------------------------|---------------------|--------------|
| <b>Category</b>   | <b>Trade/Consumer Shows</b> | <b>Conventions/<br/>Conferences</b> | <b>Other Events</b> | <b>Total</b> |
| Number of Annual Events   | 15                          | 20                                  | 250                 | 285          |
| Average Attendance per Event  | 700                         | 300                                 | 50                  | N/A          |
| Total Annual Attendance   | 10,500                      | 6,000                               | 12,500              | 29,000       |
| Annual Room Nights Generated  | 1,050                       | 5,400                               | 2,500               | 8,950        |
| Source: PKF Consulting, Individual Facilities   |                             |                                     |                     |              |

**Demand Research**

PKF conducted survey research of potential demand for the proposed project from both association and corporate meeting planners. Additionally, we conducted interviews with trade/consumer show organizers in order to determine the types of events that would be attracted to the proposed project in Downtown Lancaster.

In general, the responses to our surveys resulted in a relatively low projected level of usage as compared to other surveys of this type. This indicates that a substantial marketing effort will be required to both counter negative perceptions and to then create competitive advantages versus other regional convention destinations. For example, the downtown historic attractions could be packaged to provide a reason for conventions and tour and travel groups to both come to downtown and to stay overnight.

Following are summaries of the results of these surveys.

**Associations**

A mail survey was sent to 500 associations in the regional market area – located throughout the mid-Atlantic region. A copy of the survey instrument can be found in the appendix to this report. We received completed mail surveys from or conducted phone surveys with 45 association representatives, indicating a response rate of approximately 9.0 percent.

Forty of the 45 association representatives indicated that their organization had used a hotel/convention/conference facility within the past five years for their meeting needs, primarily for trade shows and annual conventions. Of those 40 associations, only eight indicated that they had used a hotel/convention/conference facility located in Pennsylvania. The facilities they indicated using (both within and outside of Pennsylvania) were generally located in large metropolitan markets. Further, many of the destinations cited are located in warm weather areas to the south and west of the subject market area.

Based on the survey feedback, peak periods of demand for convention center utilization occurs between September and November, as evidenced by nearly 80 percent of the respondents indicating that their events occur within this time frame.

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The following table details the average rating indicated by respondents to various factors as they relate to their selection of a Hotel/Convention/Conference facility. The range of rating levels was between zero (not important) and five (extremely important). As the data indicates, critical factors included air traffic accessibility, free (or low cost) parking, and availability of restaurant/nightlife options. As with many convention center facilities in downtown locations, availability and cost of parking is a significant factor with event coordinators and their constituents, and Downtown Lancaster must be proactive in addressing this issue so that it does not become a competitive disadvantage when marketing the proposed facility to potential demand sources.

| <b>Average Rating of Factors in Selecting a Hotel/Convention/Conference Facility</b> |                             |
|--|-----------------------------|
| <b>Factor</b>  | <b>Rating<sup>(1)</sup></b> |
| Air Travel Accessibility   | 4.3                         |
| Roadway Travel Accessibility   | 3.2                         |
| Major Market (i.e. Philadelphia)   | 3.5                         |
| Free (or low cost) Parking   | 4.0                         |
| Adjacent Hotel   | 2.7                         |
| Local Culture  | 2.8                         |
| Tourism Infrastructure   | 2.8                         |
| Restaurants  | 3.3                         |
| Nightlife – Bars/Clubs   | 3.9                         |
| Anticipated Cost per Attendee  | 3.0                         |
| Note: 0 = Not Important, 5 = Extremely Important                                     |                             |
| Source: PKF Consulting   |                             |

Nineteen of the 45 respondents indicated a willingness to utilize the proposed facility in Downtown Lancaster. The following table summarizes projected annual usage data based on the results of the survey.

| <b>Projected Annual Usage Data Associations</b>                            |              |
|--|--------------|
| <b>Category</b>  | <b>Total</b> |
| Number of Annual Events  | 18.5         |
| Average Attendance per Event   | 206          |
| Total Annual Attendance  | 3,811        |
| Annual Room Nights Generated   | 2,054        |
| Average Length of Events (Days)  | 3            |
| Average Convention Center Revenue per Attendee per Event (Excluding Hotel) | \$50.00      |
| Source: PKF Consulting   |              |

As the previous table indicates, the responding associations indicated a total of slightly more than 2,000 room-nights of demand for 18.5 events. We are of the opinion that this number could conservatively be tripled in quantity, to account for non-respondents, invigorated marketing efforts and potential operator (Interstate)-induced referrals. This would result in more than 6,000 occupied room-nights attributable to associations, or approximately 6.0 occupancy points based on an annual available room inventory of 109,500 (300 guestrooms X 365 days annually). The primary reason for our projected

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## **Section V: Supply and Demand**

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increase is there were associations who indicated varying potential levels of usage of the subject Convention Center that either did not respond or indicated varying levels of room-nights required without quantifying that amount. Furthermore, our survey queried a finite number of associations, while through future marketing efforts, the Pennsylvania Dutch Country CVB could reach out to a broader population of associations.

Following is a summary of additional feedback with regard to the proposed facility in Downtown Lancaster:

- A resort atmosphere is necessary to attract many of the associations surveyed. The lack of resort elements (i.e. golf course, spa) in the proposed project are a competitive disadvantage, particularly with the presence of the Hershey Lodge and Convention Center in the region.
- Many respondents indicated that there is a perception that Lancaster is an overly religious area, and this is a deterrent to potential attendees.
- The lack of clustered hotels in the Downtown area is a competitive disadvantage, as it provides potential attendees with fewer lodging options. This is particularly important since the rates at the proposed Hotel are projected to be at the high end of the market.
- The relative lack of flight accessibility (flight schedules and price) to and from Lancaster is a competitive disadvantage.

### **Corporate Meeting Planners**

A mail survey was sent to 308 corporate meeting planners in the regional market area – primarily concentrated in Pennsylvania and New Jersey. A copy of the survey instrument can be found in the appendix to this report. We received completed mail surveys from or conducted phone surveys with 35 corporate meeting planners, indicating a response rate of approximately 11.4 percent.

Twelve of the 35 meeting planners indicated that their organization had used a Hotel/Convention/Conference facility within the past year for their meeting needs, primarily for annual conventions, corporate conferences, and sales and incentive meetings. Of those 12 meeting planners, seven indicated that they had used a Hotel/Convention/Conference facility located in Pennsylvania. The facilities they indicated using (both within and outside of Pennsylvania) were generally located in large metropolitan markets. Further, the events were typically held at hotels, rather than at convention centers.

Based on the survey feedback, peak periods of demand for Convention Center utilization occurs between March and May, as evidenced by 75 percent of the respondents indicating that their events occur within this time frame.

**Section V: Supply and Demand**

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The following table details the average rating indicated by respondents to various factors as they relate to their selection of a Hotel/Convention/Conference facility. The range of rating levels was between zero (not important) and five (extremely important). As the data indicates, critical factors included major market, air traffic accessibility, and availability of restaurant/nightlife options.

| <b>Average Rating of Factors in Selecting a Hotel/Convention/Conference Facility</b> |                             |
|--|-----------------------------|
| <b>Factor</b>  | <b>Rating<sup>(1)</sup></b> |
| Air Travel Accessibility   | 4.2                         |
| Roadway Travel Accessibility   | 2.5                         |
| Major Market (i.e. Philadelphia)   | 4.5                         |
| Free (or low cost) Parking   | 2.7                         |
| Adjacent Hotel   | 3.0                         |
| Local Culture  | 2.1                         |
| Tourism Infrastructure   | 2.0                         |
| Restaurants  | 3.9                         |
| Nightlife – Bars/Clubs   | 4.2                         |
| Anticipated Cost per Attendee  | 2.4                         |
| Note: 0 = Not Important, 5 = Extremely Important                                     |                             |
| Source: PKF Consulting   |                             |

Ten of the 35 respondents indicated a willingness to utilize the proposed facility in Downtown Lancaster. The following table summarizes projected annual usage data based on the results of the survey.

| <b>Projected Annual Usage Data<br/>Corporate Meeting Planners</b>          |              |
|--|--------------|
| <b>Category</b>  | <b>Total</b> |
| Number of Annual Events  | 18           |
| Average Attendance per Event   | 289          |
| Total Annual Attendance  | 5,195        |
| Annual Room-Nights Generated   | 2,365        |
| Average Length of Events (Days)  | 2.5          |
| Average Convention Center Revenue per Attendee per Event (Excluding Hotel) | \$60.00      |
| Source: PKF Consulting   |              |

As the previous table indicates, the responding corporate planners indicated a total of more than 2,300 room-nights of demand for 18 events. We are of the opinion that this number could conservatively be tripled in quantity. This would result in more than 6,900 occupied room-nights attributable to corporate meeting planners, or approximately 6.0 occupancy points based on an annual available room inventory of 109,500 (300 guestrooms X 365 days annually). The primary reason for our projected increase is there were corporate meeting planners who indicated varying levels of potential usage of the subject Convention Center that either did not respond or indicated varying levels of room nights required without quantifying that amount.

## **Section V: Supply and Demand**

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Following is a summary of additional feedback with regard to the proposed facility in Downtown Lancaster:

- A resort atmosphere is necessary to attract many of the associations surveyed. The lack of resort elements (i.e. golf course, spa) in the proposed project are a competitive disadvantage, particularly with the presence of the Hershey Lodge and Convention Center in the region.
- The relative lack of flight accessibility (flight schedules and price) to and from Lancaster is a competitive disadvantage.
- The location in a major market, and the resulting presence of abundant options for dining and entertainment, is a major need to attract corporate groups.
- Non-responsiveness by the CVB to some inquiries caused a lack of follow-up interest.

### **Trade Show Organizers**

Feedback from trade/consumer show organizers indicated that the demographic profile of the subject market area, specifically the population and household income levels, would support mid-level shows such those revolving around antiques and art. Generally speaking, the local market area would not support high-level (large attendance) shows such as auto or boat shows.

Specifically, the Lancaster, MSA's population of nearly 500,000 satisfies the requirement of between 250,000 and 750,000 for mid-level shows. For high-level shows, the base population requirement is typically in the neighborhood of 1,000,000.

The Lancaster, MSA's median household income level (\$41,374) is lower than the desired \$50,000 minimum for mid-level shows, but when combined with the population estimates could be mitigated. High-level shows typically look for a median household income level of \$70,000 or more.

However, the Lancaster, MSA's positive trends in both retail sales and eating and drinking place sales are positive selling points to show promoters. As mentioned in Section IV, increased spending on retail items indicates that disposable income levels are increasing and that individuals have more disposable income for leisure pursuits. Furthermore, eating and drinking place sales are considered to be a good reflection of the amount of discretionary income available to the population within a market area.

### **Convention Center Trends**

Our research revealed that, depending on the source of the information, national trends in the convention center industry can be deemed either positive or negative. It is more relevant to analyze more localized areas when determining trends, particularly since reported national trends tend to overlook secondary or tertiary convention destinations such as Lancaster. However, one trend that appears to be generally consistent is that

## ***Section V: Supply and Demand***

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overall supply growth in the meetings industry has been outpacing overall demand growth in recent years, creating a more fiercely competitive environment. For example, functions that previously would have been held at secondary or tertiary convention destinations are now being accommodated at primary destinations, as the larger facilities in major markets have the ability to host numerous smaller events concurrently. However, there is a renewed interest on the part of many convention groups to consider second-tier cities in their evaluation of destinations, primarily for pricing reasons. Although it is reasonable to expect that third-tier cities will benefit from this trend, the options open to groups at this level are extensive. Similarly, Pennsylvania associations which operate on a rotational basis for site selection now have a venue available in several geographic and city locations, reducing the visit frequency for each location.



***SECTION VI***

***PROJECTED PERFORMANCE***

**Section VI: Projected Performance**

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**HOTEL MARKET PENETRATION AND ESTIMATES OF OCCUPANCY**

Market penetration is based upon our evaluation of the attributes of the subject 300-unit Hotel and the subject site relative to the competitive lodging market. Market penetration achieved by a hotel is correlated to the proportion of the total hotel room supply in the subject market represented by the property. In the case of the subject hotel, its available rooms will represent 4.0 percent of the rooms in the competitive set upon stabilization. Factors indicating that a hotel would possess competitive advantages suggest a market penetration index (MPI) in excess of 100 percent of fair market share, whereas competitive disadvantages are reflected in MPI's of less than 100 percent of fair market share.

We have based our estimates of future market penetration for the subject Hotel on the location, targeted market segments, effective marketing, professional management, and levels of services and amenities offered at the subject property. We have assumed that the Hotel component of the proposed development will be branded as a full-service Marriott property and will contain 300 guestrooms, a full-service restaurant, a 9,621 square-foot ballroom, and a 7,541 square-foot fitness facility to include an exercise room, indoor pool, and whirlpool.

We estimate that the subject 300-unit Hotel should be able to achieve a stabilized occupancy level of 53.0 percent. Overall market penetration (percentage of fair share) in the stabilized year (the fourth year of operation) is estimated to be 89 percent. Approximately 5 percent of total demand for the subject hotel is estimated to originate from the commercial individual segment, 27 percent from the tour and travel segment, 65 percent from the group segment, and 3 percent from the government, military, and other segment.

Our estimates of future penetration rates and occupancy levels for the subject 300-unit Hotel for the five-year period beginning January 1, 2009 are summarized in the following table.

| <b>Estimated Market Performance</b> |                         |                                |                         |
|-------------------------------------|-------------------------|--------------------------------|-------------------------|
| <b>Year</b>                         | <b>Market Occupancy</b> | <b>Subject Hotel Occupancy</b> | <b>Penetration Rate</b> |
| 2009                                | 57%                     | 47%                            | 82%                     |
| 2010                                | 59%                     | 50%                            | 85%                     |
| 2011                                | 60%                     | 52%                            | 87%                     |
| 2012                                | 60%                     | 53%                            | 89%                     |
| 2013                                | 60%                     | 53%                            | 89%                     |

Source: PKF Consulting, Inc.

As the previous table illustrates, we expect the property to gradually increase its occupancy rate until 2012, at which time we anticipate occupancy at the subject property to stabilize at 53.0 percent.

**SUPPLY/DEMAND/PENETRATION SUMMARY**

The following paragraphs indicate the estimated penetration rates within each market segment.

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## **Section VI: Projected Performance**

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### **Commercial Individual**

This segment is expected to account for approximately 5.0 percent of the subject Hotel's total demand in the representative year (the fourth year of operation or 2012). We estimate penetration to be 45 percent in the first year of operation, increasing to 50 percent by 2012.

### **Tour and Travel**

This segment is estimated to account for approximately 27.0 percent of the subject Hotel's total demand in the stabilized year. Penetration is expected to be 30 percent in the first year of operation, increasing to 35 percent by 2012.

### **Group**

This segment is estimated to account for approximately 65.0 percent of the subject Hotel's total demand in a stabilized year. We estimate that the penetration rate will be 285 percent in the first year of operation, increasing to 295 percent by 2012. Due to the subject property's affiliation with the proposed Convention Center, the group demand segment is expected to be a prime demand source.

### **Government, Military, Other**

This segment is estimated to account for approximately 3.0 percent of the subject Hotel's demand in a stabilized year. We estimate penetration to be 65 in the first year of operation, decreasing to 75 percent by 2012. As of the date of this report, the government per diem rate is \$78.00.

### **AVERAGE ROOM RATE ANALYSIS**

We have based the average room rate analysis for the subject Hotel on the estimated average room rates achieved by properties in the competitive market, price points of properties with similar product, and the pricing and discounting policies within the market area. Other factors considered in estimating the average daily room rates were the anticipated market mix of the proposed Hotel and the estimated percentage receiving a discount within each market segment.

We estimate that the subject property should be able to achieve an average daily room rate of \$105.00 (in 2006 value dollars) in a representative year of operation. A representative year of operation is a year in which the subject property is projected to have reached a stabilized level of performance. Our projections of occupancy and average daily rate assume that the subject Hotel will have to discount rates heavily, particularly during non-peak demand periods, in order to achieve the projected level of demand. As such, the annual average daily rate level may be well above or below the average rate level at any point in time during the course of the year.

The following table illustrates our projected average daily room rates for the subject property for the representative year and the operating period from January 1, 2009 through December 31, 2013.

**Section VI: Projected Performance**

| <b>Projected Average Daily Room Rates in Future Value Dollars</b>   |   |
|---|---|
| <b>Year</b>   | <b>Subject Projected Rate<sup>(1)</sup></b> |
| <i>Representative Year<br/>(in 2006 value dollars)</i>  | \$105.00                                    |
| 2009  | \$114.75                                    |
| 2010  | \$118.25                                    |
| 2011  | \$121.75                                    |
| 2012 <sup>(2)</sup>   | \$125.50                                    |
| 2013  | \$129.25                                    |
| Note: (1) Rounded to the nearest 25 cents<br>(2) Representative year of operation<br>Source: PKF Consulting, Inc. |   |

**CONVENTION CENTER PROJECTIONS**

We have assumed that the Convention Center component of subject project will contain a 47,842 square-foot exhibit hall, 27,551 square feet of prefunction space, a 9,200 square-foot ballroom, three 764 square-foot boardrooms, and 7,662 square feet of meeting room space.

We estimate that the subject Convention Center should be able to achieve a stabilized annual event level of 145, with annual attendance projected to be 64,000. In order to develop this projected utilization level, we looked at the number of annual events by type (trade/consumer shows, conventions/conferences, and other events), average attendance per event by type, and annual room nights generated by event type hosted at the facilities in the two competitive sets discussed in Section V. This data is presented in the following tables.

| <b>Average Performance Characteristics<br/>Convention Center Competitive Market 1</b> |                             |                                |                     |              |
|---|-----------------------------|--------------------------------|---------------------|--------------|
| <b>Category</b>   | <b>Trade/Consumer Shows</b> | <b>Conventions/Conferences</b> | <b>Other Events</b> | <b>Total</b> |
| Number of Annual Events   | 30                          | 25                             | 90                  | 145          |
| Average Attendance per Event  | 2,800                       | 600                            | 250                 | N/A          |
| Total Annual Attendance   | 84,000                      | 15,000                         | 22,500              | 121,500      |
| Annual Room Nights Generated  | 12,600                      | 12,000                         | 13,500              | 38,100       |
| Source: PKF Consulting, Individual Facilities   |                             |                                |                     |              |

| <b>Average Performance Characteristics<br/>Convention Center Competitive Market 2</b> |                             |                                |                     |              |
|---|-----------------------------|--------------------------------|---------------------|--------------|
| <b>Category</b>   | <b>Trade/Consumer Shows</b> | <b>Conventions/Conferences</b> | <b>Other Events</b> | <b>Total</b> |
| Number of Annual Events   | 15                          | 20                             | 250                 | 285          |
| Average Attendance per Event  | 700                         | 300                            | 50                  | N/A          |
| Total Annual Attendance   | 10,500                      | 6,000                          | 12,500              | 29,000       |
| Annual Room Nights Generated  | 1,050                       | 5,400                          | 2,500               | 8,950        |
| Source: PKF Consulting, Individual Facilities   |                             |                                |                     |              |

## ***Section VI: Projected Performance***

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Based on the performance indicators detailed in the previous two tables, it is our professional opinion that the proposed Convention Center in Downtown Lancaster can capture its fair share of annual events relative to the convention center competitive market 1. Following is a summary of events by type:

- **Trade/Consumer Shows:** We have projected that the proposed Convention Center will capture 25 events annually, averaging 2,000 persons per event. Measured against the averages of the facilities in Convention Center Competitive Market 1, these projections indicate respective penetration rates of 83 percent and 71 percent. If you exclude the Pennsylvania Expo Center at Lehigh Valley, which hosts trade/consumer shows exclusively, our projections are in line with the rest of the set.
- **Conventions/Conferences:** We have projected that the proposed Convention Center will capture 40 events annually, averaging 250 persons per event. Measured against the averages of the facilities in Convention Center Competitive Market 1, these projections indicate respective penetration rates of 160 percent and 42 percent. We are of the opinion that the proposed Convention Center should focus on generating demand from the smaller conventions/conferences that are currently going to the hotel facilities in Convention Center Competitive Market 2, thereby not competing head to head with more established facilities such as the Hershey Lodge and Convention Center for larger groups. Further, with the limited supply of hotel rooms in Downtown Lancaster (the proposed Hotel and the assumed renovated Hotel Brunswick), larger conventions/conferences would not be attracted to the subject facility.
- **Other Events:** We have projected that the proposed Convention Center will capture 80 events annually, averaging 50 persons per event. This category includes events such as banquets, social gatherings, seminars, and corporate meetings. Measured against the averages of the facilities in Convention Center Competitive Market 1, these projections indicate respective penetration rates of 89 percent and 20 percent.

The following table presents our utilization projections for the subject Convention Center. We have based these projections on the performance trends of the facilities in the competitive market, as well as on data indicated through our survey research.

**Section VI: Projected Performance**

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| <b>Projected Performance Characteristics<br/>Proposed Convention Center</b> |                             |                                |                     |              |
|---|-----------------------------|--------------------------------|---------------------|--------------|
| <b>Category</b>   | <b>Trade/Consumer Shows</b> | <b>Conventions/Conferences</b> | <b>Other Events</b> | <b>Total</b> |
| Number of Annual Events   | 25                          | 40                             | 80                  | 145          |
| Average Attendance per Event  | 2,000                       | 250                            | 50                  | N/A          |
| Total Annual Attendance   | 50,000                      | 10,000                         | 4,000               | 64,000       |
| Annual Room Nights Generated  | 5,000                       | 6,000                          | 2,000               | 13,000       |
| Average Revenue per Attendee per Event (Excluding Travel)                   | \$7.50                      | \$50.00                        | \$55.00             | N/A          |
| Total Revenue per Event   | \$15,000                    | \$12,500                       | \$2,750             | N/A          |
| Total Revenue   | \$375,000                   | \$500,000                      | \$220,000           | \$1,095,000  |
| Source: PKF Consulting, Individual Facilities                               |                             |                                |                     |              |

***SECTION VII***

***STATEMENTS OF ESTIMATED ANNUAL OPERATING RESULTS***

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## ***Section VII: Statements of Estimated Annual Operating Results***

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### **INTRODUCTION AND BASIS OF ASSUMPTIONS - HOTEL**

On the basis of our evaluation of the proposed Hotel, and our findings relative to the indicated market demand for accommodations such as those proposed, we have prepared statements of estimated annual operating results for the project.

To develop financial estimates for the first five years of operation, an estimate was first made of annual operating results that could be achieved with competent management in a representative or stabilized year in 2006 value dollars. From this basis, assumptions regarding inflation, start-up periods, and rates of demand capture were made to derive the statement for period January 1, 2009 through December 31, 2013.

Our estimates were, in part, based on analyses of the actual operating results of hotels of a similar size and type operating at occupancy and average room rate levels similar to those projected for the subject property.

Our representative year estimates, which are intended to reflect average performance over the economic life of the property, indicate an occupancy rate of 53.0 percent at an average daily room rate of approximately \$105.00 (expressed in 2006 dollars). The representative year statement is presented on page VII-2 and the five-year statement in inflated dollars is presented on page VII-3. The underlying rationale and assumptions used in preparing these estimates are presented in the paragraphs that follow.



## Section VII: Statements of Estimated Annual Operating Results

| <b>Proposed Marriott Convention Center Hotel</b>       |                   |               |                 |                |
|--|-------------------|---------------|-----------------|----------------|
| Representative Year of Operation                       |                   |               |                 |                |
|  | <b>Stated in</b>  | <b>2006</b>   | <b>Dollars</b>  |                |
| Number of Units:                                       |                   | 300           |                 |                |
| Number of Annual Rooms Available:                      |                   | 109,500       |                 |                |
| Number of Rooms Occupied:                              |                   | 58,035        |                 |                |
| Annual Occupancy:                                      |                   | 53.0%         |                 |                |
| Average Daily Rate:                                    |                   | \$105.00      |                 |                |
| Revenue Per Available Room:                            |                   | \$55.65       |                 |                |
| <b>Revenues</b>  | <b>Amount</b>     | <b>Ratio</b>  | <b>Per Room</b> | <b>P.O.R.</b>  |
| Rooms  | \$ 6,094,000      | 54.1%         | \$ 20,313       | \$ 105.01      |
| Food & Beverage  | 4,527,000         | 40.2%         | 15,090          | 78.00          |
| Telecommunications                                     | 58,000            | 0.5%          | 193             | 1.00           |
| Other Operated Departments                             | 580,000           | 5.2%          | 1,933           | 9.99           |
| <b>Total Revenues</b>                                  | <b>11,259,000</b> | <b>100.0%</b> | <b>37,530</b>   | <b>194.00</b>  |
| <b>Departmental Expenses</b>                           |                   |               |                 |                |
| Rooms  | 1,584,000         | 26.0%         | 5,280           | 27.29          |
| Food & Beverage  | 3,486,000         | 77.0%         | 11,620          | 60.07          |
| Telecommunications                                     | 58,000            | 100.0%        | 193             | 1.00           |
| Other Operated Departments                             | 377,000           | 65.0%         | 1,257           | 6.50           |
| <b>Total Departmental Expenses</b>                     | <b>5,505,000</b>  | <b>48.9%</b>  | <b>18,350</b>   | <b>94.86</b>   |
| <b>Departmental Profit</b>                             | <b>5,754,000</b>  | <b>51.1%</b>  | <b>19,180</b>   | <b>99.15</b>   |
| <b>Undistributed Expenses</b>                          |                   |               |                 |                |
| Administrative & General                               | 1,500,000         | 13.3%         | 5,000           | 25.85          |
| Marketing  | 1,110,000         | 9.9%          | 3,700           | 19.13          |
| Franchise Fees   | 762,000           | 6.8%          | 2,540           | 13.13          |
| Property Operation and Maintenance                     | 660,000           | 5.9%          | 2,200           | 11.37          |
| Utility Costs  | 690,000           | 6.1%          | 2,300           | 11.89          |
| <b>Total Undistributed Operating Expenses</b>          | <b>4,722,000</b>  | <b>41.9%</b>  | <b>15,740</b>   | <b>81.36</b>   |
| <b>Gross Operating Profit</b>                          | <b>1,032,000</b>  | <b>9.2%</b>   | <b>3,440</b>    | <b>17.78</b>   |
| <b>Base Management Fee</b>                             | <b>338,000</b>    | <b>3.0%</b>   | <b>1,127</b>    | <b>5.82</b>    |
| <b>Fixed Expenses</b>                                  |                   |               |                 |                |
| Insurance  | 120,000           | 1.1%          | 400             | 2.07           |
| <b>Total Fixed Expenses</b>                            | <b>120,000</b>    | <b>1.1%</b>   | <b>400</b>      | <b>2.07</b>    |
| <b>Net Operating Income</b>                            | <b>574,000</b>    | <b>5.1%</b>   | <b>1,913</b>    | <b>9.89</b>    |
| <b>FF&amp;E Reserve</b>                                | <b>450,000</b>    | <b>4.0%</b>   | <b>1,500</b>    | <b>7.75</b>    |
| <b>Net Operating Income After Reserve <sup>1</sup></b> | <b>\$ 124,000</b> | <b>1.1%</b>   | <b>\$ 413</b>   | <b>\$ 2.14</b> |
| Source: <i>PKF Consulting</i>                          |                   |               |                 |                |
| <sup>1</sup> Before property taxes and debt service    |                   |               |                 |                |

## Section VII: Statements of Estimated Annual Operating Results

| <b>Proposed Marriott Convention Center Hotel</b> |                               |               |                    |               |                   |               |                   |               |                   |               |                   |               |
|--|-------------------------------|---------------|--------------------|---------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| Projected Operating Results                      |                               |               |                    |               |                   |               |                   |               |                   |               |                   |               |
| Calendar Years                                   |                               |               |                    |               |                   |               |                   |               |                   |               |                   |               |
| <b>2009</b>                                      |                               |               |                    |               |                   |               |                   |               |                   |               |                   |               |
| <b>2010</b>                                      |                               |               |                    |               |                   |               |                   |               |                   |               |                   |               |
| <b>2011</b>                                      |                               |               |                    |               |                   |               |                   |               |                   |               |                   |               |
| <b>2012</b>                                      |                               |               |                    |               |                   |               |                   |               |                   |               |                   |               |
| <b>2013</b>                                      |                               |               |                    |               |                   |               |                   |               |                   |               |                   |               |
| Number of Units:                                 | 300                           |               | 300                |               | 300               |               | 300               |               | 300               |               | 300               |               |
| Number of Annual Rooms Available:                | 109,500                       |               | 109,500            |               | 109,500           |               | 109,500           |               | 109,500           |               | 109,500           |               |
| Number of Rooms Occupied:                        | 51,470                        |               | 54,750             |               | 56,940            |               | 58,040            |               | 58,040            |               | 58,040            |               |
| Annual Occupancy:                                | 47.0%                         |               | 50.0%              |               | 52.0%             |               | 53.0%             |               | 53.0%             |               | 53.0%             |               |
| Average Daily Rate:                              | \$114.75                      |               | \$118.25           |               | \$121.75          |               | \$125.50          |               | \$125.50          |               | \$129.25          |               |
| Revenue Per Available Room:                      | \$53.93                       |               | \$59.13            |               | \$63.31           |               | \$66.52           |               | \$66.52           |               | \$68.50           |               |
|  | Amount                        | Ratio         | Amount             | Ratio         | Amount            | Ratio         | Amount            | Ratio         | Amount            | Ratio         | Amount            | Ratio         |
| <b>Revenues</b>                                  |                               |               |                    |               |                   |               |                   |               |                   |               |                   |               |
| Rooms  | \$5,906,000                   | 54.1%         | \$6,474,000        | 54.1%         | \$6,932,000       | 54.1%         | \$7,284,000       | 54.1%         | \$7,502,000       | 54.1%         | \$7,502,000       | 54.1%         |
| Food & Beverage                                  | 4,387,000                     | 40.2%         | 4,806,000          | 40.2%         | 5,149,000         | 40.2%         | 5,406,000         | 40.2%         | 5,568,000         | 40.2%         | 5,568,000         | 40.2%         |
| Telecommunications                               | 56,000                        | 0.5%          | 62,000             | 0.5%          | 66,000            | 0.5%          | 69,000            | 0.5%          | 71,000            | 0.5%          | 71,000            | 0.5%          |
| Other Operated Departments                       | 562,000                       | 5.2%          | 616,000            | 5.2%          | 660,000           | 5.2%          | 693,000           | 5.2%          | 714,000           | 5.2%          | 714,000           | 5.2%          |
| <b>Total Revenues</b>                            | <b>10,911,000</b>             | <b>100.0%</b> | <b>11,958,000</b>  | <b>100.0%</b> | <b>12,807,000</b> | <b>100.0%</b> | <b>13,452,000</b> | <b>100.0%</b> | <b>13,855,000</b> | <b>100.0%</b> | <b>13,855,000</b> | <b>100.0%</b> |
| <b>Departmental Expenses</b>                     |                               |               |                    |               |                   |               |                   |               |                   |               |                   |               |
| Rooms  | 1,633,000                     | 27.6%         | 1,733,000          | 26.8%         | 1,820,000         | 26.3%         | 1,893,000         | 26.0%         | 1,949,000         | 26.0%         | 1,949,000         | 26.0%         |
| Food & Beverage                                  | 3,550,000                     | 80.9%         | 3,790,000          | 78.9%         | 3,995,000         | 77.6%         | 4,162,000         | 77.0%         | 4,287,000         | 77.0%         | 4,287,000         | 77.0%         |
| Telecommunications                               | 56,000                        | 100.0%        | 62,000             | 100.0%        | 66,000            | 100.0%        | 69,000            | 100.0%        | 71,000            | 100.0%        | 71,000            | 100.0%        |
| Other Operated Departments                       | 366,000                       | 65.1%         | 401,000            | 65.1%         | 429,000           | 65.0%         | 450,000           | 64.9%         | 464,000           | 65.0%         | 464,000           | 65.0%         |
| <b>Total Departmental Expenses</b>               | <b>5,605,000</b>              | <b>51.4%</b>  | <b>5,986,000</b>   | <b>50.1%</b>  | <b>6,310,000</b>  | <b>49.3%</b>  | <b>6,574,000</b>  | <b>48.9%</b>  | <b>6,771,000</b>  | <b>48.9%</b>  | <b>6,771,000</b>  | <b>48.9%</b>  |
| <b>Departmental Profit</b>                       | <b>5,306,000</b>              | <b>48.6%</b>  | <b>5,972,000</b>   | <b>49.9%</b>  | <b>6,497,000</b>  | <b>50.7%</b>  | <b>6,878,000</b>  | <b>51.1%</b>  | <b>7,084,000</b>  | <b>51.1%</b>  | <b>7,084,000</b>  | <b>51.1%</b>  |
| <b>Undistributed Expenses</b>                    |                               |               |                    |               |                   |               |                   |               |                   |               |                   |               |
| Administrative & General                         | 1,639,000                     | 15.0%         | 1,688,000          | 14.1%         | 1,739,000         | 13.6%         | 1,791,000         | 13.3%         | 1,845,000         | 13.3%         | 1,845,000         | 13.3%         |
| Marketing  | 1,213,000                     | 11.1%         | 1,249,000          | 10.4%         | 1,287,000         | 10.0%         | 1,325,000         | 9.8%          | 1,365,000         | 9.9%          | 1,365,000         | 9.9%          |
| Franchise Fees                                   | 738,000                       | 6.8%          | 809,000            | 6.8%          | 867,000           | 6.8%          | 911,000           | 6.8%          | 938,000           | 6.8%          | 938,000           | 6.8%          |
| Property Operation and Maintenance               | 721,000                       | 6.6%          | 743,000            | 6.2%          | 765,000           | 6.0%          | 788,000           | 5.9%          | 812,000           | 5.9%          | 812,000           | 5.9%          |
| Utility Costs                                    | 754,000                       | 6.9%          | 777,000            | 6.5%          | 800,000           | 6.2%          | 824,000           | 6.1%          | 849,000           | 6.1%          | 849,000           | 6.1%          |
| <b>Total Undistributed Operating Expenses</b>    | <b>5,065,000</b>              | <b>46.4%</b>  | <b>5,266,000</b>   | <b>44.0%</b>  | <b>5,458,000</b>  | <b>42.6%</b>  | <b>5,639,000</b>  | <b>41.9%</b>  | <b>5,809,000</b>  | <b>41.9%</b>  | <b>5,809,000</b>  | <b>41.9%</b>  |
| <b>Gross Operating Profit</b>                    | <b>241,000</b>                | <b>2.2%</b>   | <b>706,000</b>     | <b>5.9%</b>   | <b>1,039,000</b>  | <b>8.1%</b>   | <b>1,239,000</b>  | <b>9.2%</b>   | <b>1,275,000</b>  | <b>9.2%</b>   | <b>1,275,000</b>  | <b>9.2%</b>   |
| <b>Base Management Fee</b>                       | <b>327,000</b>                | <b>3.0%</b>   | <b>359,000</b>     | <b>3.0%</b>   | <b>384,000</b>    | <b>3.0%</b>   | <b>404,000</b>    | <b>3.0%</b>   | <b>416,000</b>    | <b>3.0%</b>   | <b>416,000</b>    | <b>3.0%</b>   |
| <b>Fixed Expenses</b>                            |                               |               |                    |               |                   |               |                   |               |                   |               |                   |               |
| Insurance  | 131,000                       | 1.2%          | 135,000            | 1.1%          | 139,000           | 1.1%          | 143,000           | 1.1%          | 148,000           | 1.1%          | 148,000           | 1.1%          |
| <b>Total Fixed Expenses</b>                      | <b>131,000</b>                | <b>1.2%</b>   | <b>135,000</b>     | <b>1.1%</b>   | <b>139,000</b>    | <b>1.1%</b>   | <b>143,000</b>    | <b>1.1%</b>   | <b>148,000</b>    | <b>1.1%</b>   | <b>148,000</b>    | <b>1.1%</b>   |
| <b>Net Operating Income</b>                      | <b>(217,000)</b>              | <b>-2.0%</b>  | <b>212,000</b>     | <b>1.8%</b>   | <b>516,000</b>    | <b>4.0%</b>   | <b>692,000</b>    | <b>5.1%</b>   | <b>711,000</b>    | <b>5.1%</b>   | <b>711,000</b>    | <b>5.1%</b>   |
| <b>FF&amp;E Reserve</b>                          | <b>218,000</b>                | <b>2.0%</b>   | <b>359,000</b>     | <b>3.0%</b>   | <b>512,000</b>    | <b>4.0%</b>   | <b>538,000</b>    | <b>4.0%</b>   | <b>554,000</b>    | <b>4.0%</b>   | <b>554,000</b>    | <b>4.0%</b>   |
| <b>Net Operating Income After Reserve</b>        | <b>(\$435,000)</b>            | <b>-4.0%</b>  | <b>(\$147,000)</b> | <b>-1.2%</b>  | <b>\$4,000</b>    | <b>0.0%</b>   | <b>\$154,000</b>  | <b>1.1%</b>   | <b>\$157,000</b>  | <b>1.1%</b>   | <b>\$157,000</b>  | <b>1.1%</b>   |
| <b>Source: PKF Consulting</b>                    | <b>Full Year of Operation</b> |               |                    |               |                   |               |                   |               |                   |               |                   |               |

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## **Section VII: Statements of Estimated Annual Operating Results**

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### **CLASSIFICATION OF REVENUES AND EXPENSES**

All revenues and expenses have been classified as recommended by the American Hotel and Motel Association using the Uniform System of Accounts for Hotels. In conformity with this system of account classification, only direct operating expenses are charged to operating departments of the hotel. Overhead items applicable to the entire operation are classified as "Undistributed Operating Expenses" and include such expenses as administrative and general expenses, management fees, marketing, property operation and maintenance, and energy costs.

Revenue and expense estimates have been prepared, where appropriate, by means of comparison with actual operating results of other group oriented hotels. Where necessary, estimates were further revised to reflect the unique characteristics of the market and the project under consideration.

Since these estimates are based upon assumptions regarding circumstances and events that have not yet occurred, they are subject to potential variation. Accordingly, we cannot provide any assurances that the estimates will be representative of the results that will actually be achieved during the projection period.

### **Management and Marketing**

We have assumed that management understands the importance of effective marketing and would therefore commit the necessary funds and personnel to successfully penetrate the market. The marketing would include a strong pre-opening sales effort and an aggressive, flexible continuing program that could adjust rapidly to market fluctuations and cycles, and effectively tap the sources of demand relevant to the subject market area.

### **Inflation**

To portray price level changes, we have assumed a three percent annual inflation rate over the entire projection period. This rate reflects the current long-term outlook for the future movement of prices. Historical national inflation rates as measured by the Consumer Price Index (CPI) are as detailed in the following table.

| <b>Consumer Price Index</b> |                     |
|-----------------------------|---------------------|
| <b>Year</b>                 | <b>CPI Increase</b> |
| 1996                        | 3.0%                |
| 1997                        | 2.3%                |
| 1998                        | 1.6%                |
| 1999                        | 2.2%                |
| 2000                        | 3.4%                |
| 2001                        | 1.6%                |
| 2002                        | 2.4%                |
| 2003                        | 2.1%                |
| 2004                        | 2.6%                |
| 2005                        | 3.4%                |

Source: US Bureau of Labor Statistics

## **Section VII: Statements of Estimated Annual Operating Results**

Based on the forecasts of leading banks in major U.S. cities, our assumption of an annual three percent inflation factor is intended only to portray an expected average long-term trend in cost increases over the projection period rather than a single point in time.

It should be noted that inflation is caused by many factors, and that unanticipated events and circumstances may affect the forecasted rates. Therefore, the operating results computed over the projection period may vary from those actually achieved.

### **DEPARTMENTAL REVENUES AND EXPENSES**

#### **Rooms**

Our market analysis indicates that the proposed 300-unit Hotel would be capable of attaining an occupancy rate of 53.0 percent (on average) over its economic life. Our estimates of annual room occupancy for each of the first five years of operation are summarized in the following exhibit.

| <b>Estimated Annual Occupancy</b> |                        |
|-----------------------------------|------------------------|
| <b>Year</b>                       | <b>Hotel Occupancy</b> |
| Rep Year                          | 53.0%                  |
| 2009                              | 47.0%                  |
| 2010                              | 50.0%                  |
| 2011                              | 52.0%                  |
| 2012                              | 53.0%                  |
| 2013                              | 53.0%                  |
| Source: PKF Consulting            |                        |

In calculating the annual average daily room rate per occupied room attainable during the first five years of operation, we assumed that the market segmentation of accommodated room night demand would not vary enough to substantially affect the rate of any one year over the period of our estimates. Inflated annual average daily room rates for the proposed hotel are presented in the following table.

| <b>Projected Average Daily Room Rates in Future Value Dollars</b>                 |   |
|---|---|
| <b>Year</b>   | <b>Subject Projected Rate<sup>(1)</sup></b> |
| <i>Representative Year<br/>(in 2006 value dollars)</i>                            | \$105.00                                    |
| 2009  | \$114.75                                    |
| 2010  | \$118.25                                    |
| 2011  | \$121.75                                    |
| 2012 <sup>(2)</sup>   | \$125.50                                    |
| 2013  | \$129.25                                    |
| Note: (1) Rounded to the nearest 25 cents<br>(2) Representative year of operation |   |
| Source: PKF Consulting, Inc.  |   |

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## **Section VII: Statements of Estimated Annual Operating Results**

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In accordance with the format of the Uniform System of Accounts for Hotels, and on the basis of comparable operating statistics of other group oriented hotels in the region, we have estimated rooms departmental expenses for the representative year of operation at 26.0 percent of rooms revenue, and for the estimated five-year operation period, as presented in the following table.

### **Food and Beverage**

Our estimates of food and beverage revenues were prepared on the basis of historical operating results of similar hotel properties with a comparable mix of facilities and demand, and the particular operating characteristics that we expect the hotel's food and beverage operation to exhibit.

We have estimated food and beverage revenue to account for approximately 40.2 percent of total revenue in a representative year. Food and beverage revenue has been estimated at \$78.00 per occupied room.

Food and beverage expenses are estimated to be 77.0 percent of food and beverage sales for the representative year. This includes the cost of food and beverages consumed, and other expenses incurred in the food and beverage operation, including salaries and wages, associated employee benefits, china, glassware, tableware, and uniforms. In addition, it includes directly allocable expenses such as laundry and operating supplies for the food and beverage operation. As a result of fixed costs, departmental expense ratios are higher during the initial years of our projection, when occupancy levels are lower.

### **Telephone**

Telephone revenue is estimated at approximately \$1.00 per occupied room in 2006 dollars for a representative year. This estimate is based on achieved revenue at hotels with a comparable mix of business.

Telephone departmental expenses are estimated at 100.0 percent of telephone revenue in a representative year of operation, based on the operating results of comparable properties.

### **Other Operated Departments**

Other operated departments revenue is estimated at approximately \$10.00 per occupied room in 2006 dollars for a representative year of operation. Income included in this category is derived from such sources as guest valet and in-room movies.

Other operated departments expenses are estimated at 65.0 percent of departmental revenue in a representative year of operation, based on the operating results of comparable properties.

### **UNDISTRIBUTED OPERATING EXPENSES**

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses, in accordance with the Uniform System

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## **Section VII: Statements of Estimated Annual Operating Results**

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of Accounts for Hotels. These expenses were based on the operating results of comparable hotels.

### **Administrative and General**

Administrative and general expenses presented are based on operating results of comparable hotel properties. This expense category includes the salary and wages of the general manager's office staff, the accounting office staff, cash overages and shortages, credit card commissions, bad debt expenses, data processing, executive office expenses, general and liability insurance, professional fees, and travel. An amount of \$5,000 per room, or \$1,500,000 (2006 value dollars) in a representative year is deemed sufficient to cover administrative and general expenses.

### **Marketing**

PKF Consulting recommends a relatively aggressive marketing campaign for the proposed hotel in its initial years to attempt to penetrate the market and generate new (induced) business. We have estimated a marketing expense at \$3,700 per available room in a representative year (2006 value dollars), equal to 9.9 percent of total revenues.

### **Franchise Fees**

Overall fees representing 12.5 percent of gross rooms revenue have been deducted in anticipation of a full-service brand affiliation with Marriott, including royalty, marketing contributions, frequent traveler programs and franchise fees.

### **Property Operation and Maintenance**

Property operation and maintenance expenses have been estimated on the basis of actual operating expenses (2006 value dollars) incurred by hotels of similar size and quality. We estimate a current value cost of \$2,200 per available room, or 5.9 percent of total revenue, in a representative year of operation.

### **Energy**

The energy costs to operate the proposed Hotel have been estimated on the basis of the proposed facilities and current expenditures by similar hotel properties. For a representative year at 53.0 percent occupancy, energy costs are estimated to be \$2,300 per available room (in 2006 dollars), resulting in a 6.1 percent ratio to total revenue.

## **FIXED CHARGES**

### **Management Fees**

A base management fee equal to 3.0 percent of total revenue has been deducted each year. Subject to a specific agreement that may accompany management by Interstate Hotels and Resorts, this amount is subject to variation.

### **Real Estate and Property Taxes**

No real estate taxes have been assumed for this property as it is anticipated that the proposed Hotel will be exempt.

## ***Section VII: Statements of Estimated Annual Operating Results***

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### **Building and Contents Insurance**

The cost of insuring the proposed Hotel against damage or destruction by fire, weather, or other causes is estimated to be approximately 1.1 percent of total revenues each year.

### **Reserve for Replacement**

In a representative year of operation, a reserve for replacement of furniture, fixtures, and equipment has been estimated at 4.0 percent of gross revenue, which amounts to approximately \$450,000. In prior years, reserves equal to 2.0 and 3.0 percents of total revenues were deducted.

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***Section VII: Statements of Estimated Annual Operating Results***

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**INTRODUCTION AND BASES OF ASSUMPTIONS – CONVENTION CENTER**

On the basis of our evaluation of the proposed Convention Center, and our findings relative to the indicated market demand for the Center, we have prepared statements of estimated annual operating results for the project.

To develop financial estimates for the first five years of operation, an estimate was first made of annual operating results that could be achieved with competent management in a representative or stabilized year in 2006 value dollars. From this basis, assumptions regarding inflation, start-up periods, and rates of demand capture were made to derive the statement for period January 1, 2009 through December 31, 2013.

Our estimates were, in part, based on analyses of the actual operating results of operating convention centers.

The representative year statement is presented on page VII-10 and the five-year statement in inflated dollars is presented on page VII-11. The underlying rationale and assumptions used in preparing these estimates are presented in the paragraphs that follow.



**Section VII: Statements of Estimated Annual Operating Results**

**Proposed Convention Center**

Representative Year of Operation

|  | Stated in 2006 Dollars |                |                   |                   |
|--|------------------------|----------------|-------------------|-------------------|
|  | Amount                 | Ratio          | P.S.F.            | Per Attendee      |
| Number of Square Feet of Meeting & Exhibit Space:      | 94,547                 |                |                   |                   |
| Attendance:  | 64,000                 |                |                   |                   |
| <b>Revenues</b>  |                        |                |                   |                   |
| Food & Beverage  | \$ 274,000             | 25.0%          | \$ 2.90           | \$ 4.28           |
| Rentals and Other Income                               | 821,000                | 75.0%          | 8.68              | 12.83             |
| <b>Total Revenues</b>                                  | <b>1,095,000</b>       | <b>100.0%</b>  | <b>11.58</b>      | <b>17.11</b>      |
| <b>Departmental Expenses</b>                           |                        |                |                   |                   |
| Food & Beverage  | 192,000                | 70.1%          | 2.03              | 3.00              |
| <b>Total Departmental Expenses</b>                     | <b>192,000</b>         | <b>17.5%</b>   | <b>2.03</b>       | <b>3.00</b>       |
| <b>Departmental Profit</b>                             | <b>903,000</b>         | <b>82.5%</b>   | <b>9.55</b>       | <b>14.11</b>      |
| <b>Undistributed Expenses</b>                          |                        |                |                   |                   |
| Administrative & General                               | 144,000                | 13.2%          | 1.52              | 2.25              |
| Marketing  | 191,000                | 17.4%          | 2.02              | 2.98              |
| Property Operation and Maintenance                     | 263,000                | 24.0%          | 2.78              | 4.11              |
| Utility Costs  | 335,000                | 30.6%          | 3.54              | 5.23              |
| Other Undistributed Expenses                           | 1,095,000              | 100.0%         | 11.58             | 17.11             |
| <b>Total Undistributed Operating Expenses</b>          | <b>2,028,000</b>       | <b>185.2%</b>  | <b>21.45</b>      | <b>31.69</b>      |
| <b>Gross Operating Profit</b>                          | <b>(1,125,000)</b>     | <b>-102.7%</b> | <b>(11.90)</b>    | <b>(17.58)</b>    |
| <b>Fixed Expenses</b>                                  |                        |                |                   |                   |
| Insurance  | 96,000                 | 8.8%           | 1.02              | 1.50              |
| Other Fixed Expense                                    | 140,000                | 12.8%          | 1.48              | 2.19              |
| <b>Total Fixed Expenses</b>                            | <b>236,000</b>         | <b>21.6%</b>   | <b>2.50</b>       | <b>3.69</b>       |
| <b>Net Operating Income</b>                            | <b>(1,361,000)</b>     | <b>-124.3%</b> | <b>(14.39)</b>    | <b>(21.27)</b>    |
| <b>FF&amp;E Reserve</b>                                | <b>44,000</b>          | <b>4.0%</b>    | <b>0.47</b>       | <b>0.69</b>       |
| <b>Net Operating Income After Reserve <sup>1</sup></b> | <b>\$ (1,405,000)</b>  | <b>-128.3%</b> | <b>\$ (14.86)</b> | <b>\$ (21.95)</b> |

Source: *PKF Consulting*

<sup>1</sup> Before property taxes and debt service

## Section VII: Statements of Estimated Annual Operating Results

| <b>Proposed Convention Center</b>                 |                        |                |                      |                |                      |                |                      |                |                      |                |
|---|------------------------|----------------|----------------------|----------------|----------------------|----------------|----------------------|----------------|----------------------|----------------|
| Projected Operating Results                       |                        |                |                      |                |                      |                |                      |                |                      |                |
| Calendar Years                                    |                        |                |                      |                |                      |                |                      |                |                      |                |
|   | <b>2009</b>            |                | <b>2010</b>          |                | <b>2011</b>          |                | <b>2012</b>          |                | <b>2013</b>          |                |
| Number of Square Feet of Meeting & Exhibit Space: | 94,547                 |                | 94,547               |                | 94,547               |                | 94,547               |                | 94,547               |                |
| Attendance:                                       | 51,200                 |                | 57,600               |                | 60,800               |                | 64,000               |                | 64,000               |                |
|   | Amount                 | Ratio          | Amount               | Ratio          | Amount               | Ratio          | Amount               | Ratio          | Amount               | Ratio          |
| <b>Revenues</b>                                   |                        |                |                      |                |                      |                |                      |                |                      |                |
| Food & Beverage                                   | 238,000                | 25.0%          | 279,000              | 25.0%          | 304,000              | 25.0%          | 331,000              | 25.0%          | 341,000              | 25.0%          |
| Rentals and Other Income                          | 713,000                | 75.0%          | 835,000              | 75.0%          | 913,000              | 75.0%          | 994,000              | 75.0%          | 1,024,000            | 75.0%          |
| <b>Total Revenues</b>                             | <b>951,000</b>         | <b>100.0%</b>  | <b>1,114,000</b>     | <b>100.0%</b>  | <b>1,217,000</b>     | <b>100.0%</b>  | <b>1,325,000</b>     | <b>100.0%</b>  | <b>1,365,000</b>     | <b>100.0%</b>  |
| <b>Departmental Expenses</b>                      |                        |                |                      |                |                      |                |                      |                |                      |                |
| Food & Beverage                                   | 184,000                | 77.3%          | 203,000              | 72.8%          | 217,000              | 71.4%          | 231,000              | 69.8%          | 238,000              | 69.8%          |
| <b>Total Departmental Expenses</b>                | <b>184,000</b>         | <b>19.3%</b>   | <b>203,000</b>       | <b>18.2%</b>   | <b>217,000</b>       | <b>17.8%</b>   | <b>231,000</b>       | <b>17.4%</b>   | <b>238,000</b>       | <b>17.4%</b>   |
| <b>Departmental Profit</b>                        | <b>767,000</b>         | <b>80.7%</b>   | <b>911,000</b>       | <b>81.8%</b>   | <b>1,000,000</b>     | <b>82.2%</b>   | <b>1,094,000</b>     | <b>82.6%</b>   | <b>1,127,000</b>     | <b>82.6%</b>   |
| <b>Undistributed Expenses</b>                     |                        |                |                      |                |                      |                |                      |                |                      |                |
| Administrative & General                          | 157,000                | 16.5%          | 162,000              | 14.5%          | 167,000              | 13.7%          | 172,000              | 13.0%          | 177,000              | 13.0%          |
| Marketing   | 209,000                | 22.0%          | 215,000              | 19.3%          | 221,000              | 18.2%          | 228,000              | 17.2%          | 235,000              | 17.2%          |
| Property Operation and Maintenance                | 287,000                | 30.2%          | 296,000              | 26.6%          | 305,000              | 25.1%          | 314,000              | 23.7%          | 323,000              | 23.7%          |
| Utility Costs                                     | 366,000                | 38.5%          | 377,000              | 33.8%          | 388,000              | 31.9%          | 400,000              | 30.2%          | 412,000              | 30.2%          |
| Other Undistributed Expenses                      | 1,197,000              | 125.9%         | 1,232,000            | 110.6%         | 1,269,000            | 104.3%         | 1,307,000            | 98.6%          | 1,347,000            | 98.7%          |
| <b>Total Undistributed Operating Expenses</b>     | <b>2,216,000</b>       | <b>233.0%</b>  | <b>2,282,000</b>     | <b>204.8%</b>  | <b>2,350,000</b>     | <b>193.1%</b>  | <b>2,421,000</b>     | <b>182.7%</b>  | <b>2,494,000</b>     | <b>182.7%</b>  |
| <b>Gross Operating Profit</b>                     | <b>(1,449,000)</b>     | <b>-152.4%</b> | <b>(1,371,000)</b>   | <b>-123.1%</b> | <b>(1,350,000)</b>   | <b>-110.9%</b> | <b>(1,327,000)</b>   | <b>-100.2%</b> | <b>(1,367,000)</b>   | <b>-100.1%</b> |
| <b>Fixed Expenses</b>                             |                        |                |                      |                |                      |                |                      |                |                      |                |
| Insurance   | 105,000                | 11.0%          | 108,000              | 9.7%           | 111,000              | 9.1%           | 115,000              | 8.7%           | 118,000              | 8.6%           |
| Other Fixed Expense                               | 153,000                | 16.1%          | 158,000              | 14.2%          | 162,000              | 13.3%          | 167,000              | 12.6%          | 172,000              | 12.6%          |
| <b>Total Fixed Expenses</b>                       | <b>258,000</b>         | <b>27.1%</b>   | <b>266,000</b>       | <b>23.9%</b>   | <b>273,000</b>       | <b>22.4%</b>   | <b>282,000</b>       | <b>21.3%</b>   | <b>290,000</b>       | <b>21.2%</b>   |
| <b>Net Operating Income</b>                       | <b>(1,707,000)</b>     | <b>-179.5%</b> | <b>(1,637,000)</b>   | <b>-146.9%</b> | <b>(1,623,000)</b>   | <b>-133.4%</b> | <b>(1,609,000)</b>   | <b>-121.4%</b> | <b>(1,657,000)</b>   | <b>-121.4%</b> |
| <b>FF&amp;E Reserve</b>                           | <b>19,000</b>          | <b>2.0%</b>    | <b>33,000</b>        | <b>3.0%</b>    | <b>49,000</b>        | <b>4.0%</b>    | <b>53,000</b>        | <b>4.0%</b>    | <b>55,000</b>        | <b>4.0%</b>    |
| <b>Net Operating Income After Reserve</b>         | <b>(\$1,726,000)</b>   | <b>-181.5%</b> | <b>(\$1,670,000)</b> | <b>-149.9%</b> | <b>(\$1,672,000)</b> | <b>-137.4%</b> | <b>(\$1,662,000)</b> | <b>-125.4%</b> | <b>(\$1,712,000)</b> | <b>-125.4%</b> |
| Source: <i>PKF Consulting</i>                     | Full Year of Operation |                |                      |                |                      |                |                      |                |                      |                |

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## **Section VII: Statements of Estimated Annual Operating Results**

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### **CLASSIFICATION OF REVENUES AND EXPENSES**

Revenue and expense projections have been prepared, where appropriate, by means of comparison with actual operating results of other convention centers to reflect the economies of scale that will be achieved in certain operating departments. Where necessary, estimates were further revised to reflect the unique characteristics of the market and project under consideration.

Since these estimates are based upon assumptions regarding circumstances and events that have not yet occurred, they are subject to potential variation. Accordingly, we cannot provide any assurances that the estimates will be representative of the results that will actually be achieved during the projection period.

### **Management and Marketing**

We have assumed that management understands the importance of effective marketing and would therefore commit the necessary funds and personnel to successfully penetrate the market for the proposed center. The marketing would include a strong pre-opening sales effort and an aggressive, flexible continuing program that could adjust rapidly to market fluctuations and cycles, and effectively tap the sources of demand relevant to the subject market area.

### **Inflation**

To portray price level changes, we have assumed a three percent annual inflation rate over the entire projection period. This rate reflects the current long-term outlook for the future movement of prices. Historical national inflation rates as measured by the Consumer Price Index (CPI) are as detailed in the following table.

| <b>Consumer Price Index</b> |                     |
|-----------------------------|---------------------|
| <b>Year</b>                 | <b>CPI Increase</b> |
| 1996                        | 3.0%                |
| 1997                        | 2.3%                |
| 1998                        | 1.6%                |
| 1999                        | 2.2%                |
| 2000                        | 3.4%                |
| 2001                        | 1.6%                |
| 2002                        | 2.4%                |
| 2003                        | 2.1%                |
| 2004                        | 2.6%                |
| 2005                        | 3.4%                |

Source: US Bureau of Labor Statistics

Based on the forecasts of leading banks in major U.S. cities, our assumption of an annual three percent inflation factor is intended only to portray an expected average long-term trend in cost increases over the projection period rather than a single point in time.

It should be noted that inflation is caused by many factors, and that unanticipated events and circumstances may affect the forecasted rates. Therefore, the operating results computed over the projection period may vary from those actually achieved.

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## ***Section VII: Statements of Estimated Annual Operating Results***

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### **DEPARTMENTAL REVENUES AND EXPENSES**

#### **Food and Beverage**

We have estimated food and beverage revenue to account for approximately 25.0 percent of total revenue in a representative year. Food and beverage revenue has been estimated at \$4.28 per attendee.

Food and beverage expenses are estimated to be 70.1 percent of food and beverage sales for the representative year. These include the cost of food and beverages consumed, salaries and wages, associated employee benefits, china, glassware, tableware, and uniforms. In addition, it includes directly allocable expenses such as laundry and operating supplies for the food and beverage operation. As a result of fixed costs, departmental expense ratios are higher during the initial years of our projection, when utilization levels are lower.

#### **Rentals and Other Income**

Revenue projections have been made by combining projected utilization with average rental charges. Revenues are generated from the exhibit hall, ballroom, and meeting rooms. We anticipate that association groups will be an important market segment for this project and as they have a not-for-profit status, will be charged reduced rates. Trade/consumer show facility rental revenues will be collected either as a flat fee from the show promoter or as a percentage of the admission fees. This line item also includes event service revenues which are generated from facility assessments for services provided, to include equipment, telecommunications, audio-visual, electric, and event labor services that are charged back to the client. Total rentals and other income is projected to be \$821,000 in a representative year of operation, or \$12.83 per attendee.

### **UNDISTRIBUTED OPERATING EXPENSES**

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses.

#### **Administrative and General**

Administrative and general expenses presented are based on operating results of comparable properties. This expense category includes cash overages and shortages, credit card commissions, bad debt expenses, data processing, executive office expenses, general and liability insurance, professional fees, and travel. The sum of \$1.52 per square foot of meeting and exhibit space, or \$144,000 (2006 value dollars) in a representative year is deemed sufficient to cover administrative and general expenses.

#### **Marketing**

PKF Consulting recommends a relatively aggressive marketing campaign for the proposed Convention Center in its initial years to effectively penetrate the market. We have estimated a marketing expense at \$2.02 per square foot of meeting and exhibit

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## **Section VII: Statements of Estimated Annual Operating Results**

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space in a representative year (2006 value dollars). This is equal to 17.4 percent of total revenues in a representative year.

### **Property Operation and Maintenance**

Property operation and maintenance expenses have been estimated on the basis of actual operating expenses (2006 value dollars) incurred by convention centers of similar size and quality. We estimate a current value cost of \$2.78 per square foot of meeting and exhibit space, or 24.0 percent of total revenue in a representative year of operation.

### **Energy**

The energy costs to operate the proposed Convention Center have been estimated on the basis of the proposed facilities and current expenditures by similar properties. For a representative year, energy costs are estimated to be \$3.54 per square foot of meeting and exhibit space (in 2006 dollars), resulting in a 30.6 percent ratio to total revenue.

### **Other Undistributed Expenses**

This line item includes expenses for wages, salaries, and employee benefits of the proposed Convention Center's staff to include the general manager's office staff and the accounting office staff and a management fee. Analysis of comparable financials reveals that the total personnel cost is typically at or near the level of total revenues. We estimate other undistributed expenses to be \$11.58 per square foot of meeting and exhibit space (in 2006 dollars), resulting in a 100.0 percent ratio to total revenue.

## **FIXED CHARGES**

### **Real Estate and Property Taxes**

No real estate taxes have been assumed for this property as it is anticipated that the proposed Convention Center will be exempt from real estate taxes.

### **Building and Contents Insurance**

The cost of insuring the proposed Convention Center against damage or destruction by fire, weather, or other causes is estimated to be approximately 8.8 percent of total revenues each year.

### **Other Fixed Expenses**

This line item includes expenses for equipment rental, contractual services, laundry service, and other miscellaneous charges associated with the operation of a convention center. Additionally, we have incorporated a base management fee of 3.5 percent of gross revenues into other fixed expenses. In a representative year, this line item is estimated to be approximately 12.8 percent of total revenues.

### **Reserve for Replacement**

In a representative year of operation, a reserve for replacement of furniture, fixtures, and equipment has been estimated at 4.0 percent of gross revenue, which amounts to approximately \$44,000.

***Section VII: Statements of Estimated Annual Operating Results***

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**CONSOLIDATED STATEMENTS OF ESTIMATED ANNUAL OPERATING RESULTS**

The representative year statement for the consolidated Hotel and Convention Center operation is presented on page VII-16 and the five-year statement in inflated dollars is presented on page VII-17.

## Section VII: Statements of Estimated Annual Operating Results

### Proposed Convention Center & Marriott Convention Center Hotel Representative Year of Operation

|   | 2006 Dollars   |        |            |            |
|---|----------------|--------|------------|------------|
| Number of Units:                                | 300            |        |            |            |
| Number of Annual Rooms Available:               | 109,500        |        |            |            |
| Number of Rooms Occupied:                       | 58,035         |        |            |            |
| Annual Occupancy:                               | 53.0%          |        |            |            |
| Average Daily Rate:                             | \$105.00       |        |            |            |
| Revenue Per Available Room:                     | \$55.65        |        |            |            |
| Revenues  |                |        |            |            |
| Rooms   | \$ 6,094,000   | 49.3%  | \$ 20,313  | \$ 105.01  |
| Food & Beverage                                 | 4,801,000      | 38.9%  | 16,003     | 82.73      |
| Telecommunications                              | 58,000         | 0.5%   | 193        | 1.00       |
| Other Operated Departments                      | 580,000        | 4.7%   | 1,933      | 9.99       |
| Rentals and Other Income                        | 821,000        | 6.6%   | 2,737      | 14.15      |
| Total Revenues                                  | 12,354,000     | 100.0% | 41,180     | 212.87     |
| Departmental Expenses                           |                |        |            |            |
| Rooms   | 1,584,000      | 26.0%  | 5,280      | 27.29      |
| Food & Beverage                                 | 3,678,000      | 76.6%  | 12,260     | 63.38      |
| Telecommunications                              | 58,000         | 100.0% | 193        | 1.00       |
| Other Operated Departments                      | 377,000        | 65.0%  | 1,257      | 6.50       |
| Total Departmental Expenses                     | 5,697,000      | 46.1%  | 18,990     | 98.16      |
| Departmental Profit                             |                |        |            |            |
|   | 6,657,000      | 53.9%  | 22,190     | 114.71     |
| Undistributed Expenses                          |                |        |            |            |
| Administrative & General                        | 1,644,000      | 13.3%  | 5,480      | 28.33      |
| Marketing                                       | 1,301,000      | 10.5%  | 4,337      | 22.42      |
| Franchise Fees                                  | 762,000        | 6.2%   | 2,540      | 13.13      |
| Property Operation and Maintenance              | 923,000        | 7.5%   | 3,077      | 15.90      |
| Utility Costs                                   | 1,025,000      | 8.3%   | 3,417      | 17.66      |
| Other Undistributed Expenses                    | 1,095,000      | 8.9%   | 3,650      | 18.87      |
| Total Undistributed Operating Expenses          | 6,750,000      | 54.6%  | 22,500     | 116.31     |
| Gross Operating Profit                          |                |        |            |            |
|   | (93,000)       | -0.8%  | (310)      | (1.60)     |
| Base Management Fee                             |                |        |            |            |
|   | 338,000        | 2.7%   | 1,127      | 5.82       |
| Fixed Expenses                                  |                |        |            |            |
| Insurance                                       | 216,000        | 1.7%   | 720        | 3.72       |
| Other Fixed Expense                             | 140,000        | 1.1%   | 467        | 2.41       |
| Total Fixed Expenses                            | 356,000        | 2.9%   | 1,187      | 6.13       |
| Net Operating Income                            |                |        |            |            |
|   | (787,000)      | -6.4%  | (2,623)    | (13.56)    |
| FF&E Reserve                                    |                |        |            |            |
|   | 494,000        | 4.0%   | 1,647      | 8.51       |
| Net Operating Income After Reserve <sup>1</sup> |                |        |            |            |
|   | \$ (1,281,000) | -10.4% | \$ (4,270) | \$ (22.07) |
| Source: <i>PKF Consulting</i>                   |                |        |            |            |

<sup>1</sup> Before property taxes and debt service

## Section VII: Statements of Estimated Annual Operating Results

### Proposed Convention Center & Marriott Convention Center Hotel Projected Operating Results Calendar Years

|   | 2009                   |               | 2010                 |               | 2011                 |               | 2012                 |               | 2013                 |               |
|---|------------------------|---------------|----------------------|---------------|----------------------|---------------|----------------------|---------------|----------------------|---------------|
| Number of Units:                              | 300                    |               | 300                  |               | 300                  |               | 300                  |               | 300                  |               |
| Number of Annual Rooms Available:             | 109,500                |               | 109,500              |               | 109,500              |               | 109,500              |               | 109,500              |               |
| Number of Rooms Occupied:                     | 51,470                 |               | 54,750               |               | 56,940               |               | 58,040               |               | 58,040               |               |
| Annual Occupancy:                             | 47.0%                  |               | 50.0%                |               | 52.0%                |               | 53.0%                |               | 53.0%                |               |
| Average Daily Rate:                           | \$114.75               |               | \$118.25             |               | \$121.75             |               | \$125.50             |               | \$129.25             |               |
| Revenue Per Available Room:                   | \$53.93                |               | \$59.13              |               | \$63.31              |               | \$66.52              |               | \$68.50              |               |
|   | Amount                 | Ratio         | Amount               | Ratio         | Amount               | Ratio         | Amount               | Ratio         | Amount               | Ratio         |
| <b>Revenues</b>                               |                        |               |                      |               |                      |               |                      |               |                      |               |
| Rooms   | \$5,906,000            | 49.8%         | \$6,474,000          | 49.5%         | \$6,932,000          | 49.4%         | \$7,284,000          | 49.3%         | \$7,502,000          | 49.3%         |
| Food & Beverage                               | 4,625,000              | 39.0%         | 5,085,000            | 38.9%         | 5,453,000            | 38.9%         | 5,737,000            | 38.8%         | 5,909,000            | 38.8%         |
| Telecommunications                            | 56,000                 | 0.5%          | 62,000               | 0.5%          | 66,000               | 0.5%          | 69,000               | 0.5%          | 71,000               | 0.5%          |
| Other Operated Departments                    | 562,000                | 4.7%          | 616,000              | 4.7%          | 660,000              | 4.7%          | 693,000              | 4.7%          | 714,000              | 4.7%          |
| Rentals and Other Income                      | 713,000                | 6.0%          | 835,000              | 6.4%          | 913,000              | 6.5%          | 994,000              | 6.7%          | 1,024,000            | 6.7%          |
| <b>Total Revenues</b>                         | <b>11,862,000</b>      | <b>100.0%</b> | <b>13,072,000</b>    | <b>100.0%</b> | <b>14,024,000</b>    | <b>100.0%</b> | <b>14,777,000</b>    | <b>100.0%</b> | <b>15,220,000</b>    | <b>100.0%</b> |
| <b>Departmental Expenses</b>                  |                        |               |                      |               |                      |               |                      |               |                      |               |
| Rooms   | 1,633,000              | 27.6%         | 1,733,000            | 26.8%         | 1,820,000            | 26.3%         | 1,893,000            | 26.0%         | 1,949,000            | 26.0%         |
| Food & Beverage                               | 3,734,000              | 80.7%         | 3,993,000            | 78.5%         | 4,212,000            | 77.2%         | 4,393,000            | 76.6%         | 4,525,000            | 76.6%         |
| Telecommunications                            | 56,000                 | 100.0%        | 62,000               | 100.0%        | 66,000               | 100.0%        | 69,000               | 100.0%        | 71,000               | 100.0%        |
| Other Operated Departments                    | 366,000                | 65.1%         | 401,000              | 65.1%         | 429,000              | 65.0%         | 450,000              | 64.9%         | 464,000              | 65.0%         |
| <b>Total Departmental Expenses</b>            | <b>5,789,000</b>       | <b>48.8%</b>  | <b>6,189,000</b>     | <b>47.3%</b>  | <b>6,527,000</b>     | <b>46.5%</b>  | <b>6,805,000</b>     | <b>46.1%</b>  | <b>7,009,000</b>     | <b>46.1%</b>  |
| <b>Departmental Profit</b>                    | <b>6,073,000</b>       | <b>51.2%</b>  | <b>6,883,000</b>     | <b>52.7%</b>  | <b>7,497,000</b>     | <b>53.5%</b>  | <b>7,972,000</b>     | <b>53.9%</b>  | <b>8,211,000</b>     | <b>53.9%</b>  |
| <b>Undistributed Expenses</b>                 |                        |               |                      |               |                      |               |                      |               |                      |               |
| Administrative & General                      | 1,796,000              | 15.1%         | 1,850,000            | 14.2%         | 1,906,000            | 13.6%         | 1,963,000            | 13.3%         | 2,022,000            | 13.3%         |
| Marketing                                     | 1,422,000              | 12.0%         | 1,464,000            | 11.2%         | 1,508,000            | 10.8%         | 1,553,000            | 10.5%         | 1,600,000            | 10.5%         |
| Franchise Fees                                | 738,000                | 6.2%          | 809,000              | 6.2%          | 867,000              | 6.2%          | 911,000              | 6.2%          | 938,000              | 6.2%          |
| Property Operation and Maintenance            | 1,008,000              | 8.5%          | 1,039,000            | 7.9%          | 1,070,000            | 7.6%          | 1,102,000            | 7.5%          | 1,135,000            | 7.5%          |
| Utility Costs                                 | 1,120,000              | 9.4%          | 1,154,000            | 8.8%          | 1,188,000            | 8.5%          | 1,224,000            | 8.3%          | 1,261,000            | 8.3%          |
| Other Undistributed Expenses                  | 1,197,000              | 10.1%         | 1,232,000            | 9.4%          | 1,269,000            | 9.0%          | 1,307,000            | 8.8%          | 1,347,000            | 8.9%          |
| <b>Total Undistributed Operating Expenses</b> | <b>7,281,000</b>       | <b>61.4%</b>  | <b>7,548,000</b>     | <b>57.7%</b>  | <b>7,808,000</b>     | <b>55.7%</b>  | <b>8,060,000</b>     | <b>54.5%</b>  | <b>8,303,000</b>     | <b>54.6%</b>  |
| <b>Gross Operating Profit</b>                 | <b>(1,208,000)</b>     | <b>-10.2%</b> | <b>(665,000)</b>     | <b>-5.1%</b>  | <b>(311,000)</b>     | <b>-2.2%</b>  | <b>(88,000)</b>      | <b>-0.6%</b>  | <b>(92,000)</b>      | <b>-0.6%</b>  |
| <b>Base Management Fee</b>                    | <b>327,000</b>         | <b>2.8%</b>   | <b>359,000</b>       | <b>2.7%</b>   | <b>384,000</b>       | <b>2.7%</b>   | <b>404,000</b>       | <b>2.7%</b>   | <b>416,000</b>       | <b>2.7%</b>   |
| <b>Fixed Expenses</b>                         |                        |               |                      |               |                      |               |                      |               |                      |               |
| Insurance                                     | 236,000                | 2.0%          | 243,000              | 1.9%          | 250,000              | 1.8%          | 258,000              | 1.7%          | 266,000              | 1.7%          |
| Other Fixed Expense                           | 153,000                | 1.3%          | 158,000              | 1.2%          | 162,000              | 1.2%          | 167,000              | 1.1%          | 172,000              | 1.1%          |
| <b>Total Fixed Expenses</b>                   | <b>389,000</b>         | <b>3.3%</b>   | <b>401,000</b>       | <b>3.1%</b>   | <b>412,000</b>       | <b>2.9%</b>   | <b>425,000</b>       | <b>2.9%</b>   | <b>438,000</b>       | <b>2.9%</b>   |
| <b>Net Operating Income</b>                   | <b>(1,924,000)</b>     | <b>-16.2%</b> | <b>(1,425,000)</b>   | <b>-10.9%</b> | <b>(1,107,000)</b>   | <b>-7.9%</b>  | <b>(917,000)</b>     | <b>-6.2%</b>  | <b>(946,000)</b>     | <b>-6.2%</b>  |
| <b>FF&amp;E Reserve</b>                       | <b>237,000</b>         | <b>2.0%</b>   | <b>392,000</b>       | <b>3.0%</b>   | <b>561,000</b>       | <b>4.0%</b>   | <b>591,000</b>       | <b>4.0%</b>   | <b>609,000</b>       | <b>4.0%</b>   |
| <b>Net Operating Income After Reserve</b>     | <b>(\$2,161,000)</b>   | <b>-18.2%</b> | <b>(\$1,817,000)</b> | <b>-13.9%</b> | <b>(\$1,668,000)</b> | <b>-11.9%</b> | <b>(\$1,508,000)</b> | <b>-10.2%</b> | <b>(\$1,555,000)</b> | <b>-10.2%</b> |
| Source: <i>PKF Consulting</i>                 | Full Year of Operation |               |                      |               |                      |               |                      |               |                      |               |



## ***APPENDIX***

**Appendix A: Corporate Meeting Planner Survey**

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PKF Consulting is in the process of conducting a feasibility study for a proposed Hotel/Convention Center facility to be built in Downtown Lancaster, Pennsylvania, to include a 300-unit full-service Marriott hotel to be located adjacent to the proposed Convention Center. As part of our market research to evaluate the market and financial viability of the proposed Hotel/Convention Center facility, we are conducting a survey of meeting planners throughout the region to assess the potential future level of demand. We would appreciate your time in completing the following brief survey, and returning it to us in the enclosed pre-paid envelope by March 24, 2006. Thank you in advance for your participation in this survey.

Name of Survey Respondent: \_\_\_\_\_

Organization: \_\_\_\_\_

Phone Number / E-mail Address: \_\_\_\_\_

1. Have you booked a Hotel/Convention/Conference facility within the past year?

Yes \_\_\_\_\_ No \_\_\_\_\_

If "Yes", please proceed to Question 2. If "No", please stop now and return the survey as detailed above.

2. How many total events have you scheduled at Hotel/Convention/Conference facilities in the past year?

1-10 \_\_\_\_\_ 11-20 \_\_\_\_\_ 21-30 \_\_\_\_\_ 30+ \_\_\_\_\_

3. What type of events have you booked at Hotel/Convention/Conference facilities in the past five year? (please check all that apply)

- Sales and Incentive Meetings \_\_\_\_\_
- Trade Shows \_\_\_\_\_
- Annual Conventions \_\_\_\_\_
- Symposiums/Seminars \_\_\_\_\_
- Educational Meetings \_\_\_\_\_
- Corporate Conferences \_\_\_\_\_
- Other (please describe) \_\_\_\_\_

**Appendix A: Corporate Meeting Planner Survey**

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Other Detail: \_\_\_\_\_

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4. What is the average number of attendees per event that you schedule in a Hotel/Convention/Conference facility within the past five year?

Less than 100 \_\_\_\_\_ 100-199 \_\_\_\_\_ 200-499 \_\_\_\_\_ 500-999 \_\_\_\_\_ 1,000+ \_\_\_\_\_

5. What is the average duration (in number of days) of events held at Hotel/Convention/Conference facilities that you have booked in the past five year?

1-2 \_\_\_\_\_ 3-4 \_\_\_\_\_ 5+ \_\_\_\_\_

6. What is the average total cost per attendee per day that your clients have paid to Hotel/Convention/Conference facilities during the past five year?

Less than \$100.00 \_\_\_\_\_ \$100.00-\$149.99 \_\_\_\_\_ \$150.00-\$199.99 \_\_\_\_\_ \$200.00-\$249.99 \_\_\_\_\_  
\$250.00-\$299.99 \_\_\_\_\_ \$300.00+ \_\_\_\_\_

7. What hotel room rates (per night) are expected by your clients?

Less than \$50.00 \_\_\_\_\_ \$50.00-\$99.99 \_\_\_\_\_ \$100.00-\$149.99 \_\_\_\_\_  
\$150.00-\$199.99 \_\_\_\_\_ \$200.00+ \_\_\_\_\_

8. What time of year have you typically booked events at Hotel/Convention/Conference facilities during the past year?

December-February \_\_\_\_\_ March-May \_\_\_\_\_ June-August \_\_\_\_\_ September-November \_\_\_\_\_

**Appendix A: Corporate Meeting Planner Survey**

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9. Please list the top five Hotel/Convention/Conference facilities that you have booked in the past five year, along with a rating for each of your satisfaction level with the facilities. Please rate the facilities on a 0 to 5 point scale (0=Lowest Satisfaction, 5=Highest Satisfaction).

| Facility Name | Satisfaction Level |
|---------------|--------------------|
|               |                    |
|               |                    |
|               |                    |
|               |                    |
|               |                    |

10. Please rate the following factors on a 0 to 5 point scale (0=Not Important, 5=Extremely Important), as they relate to your selection of a Hotel/Convention/Conference facility for your clients:

- Air Travel Accessibility \_\_\_\_\_
- Roadway Travel Accessibility \_\_\_\_\_
- Major Market (i.e. Philadelphia) \_\_\_\_\_
- Free (or low cost) Parking \_\_\_\_\_
- Adjacent Hotel \_\_\_\_\_
- Local Culture \_\_\_\_\_
- Tourism Infrastructure \_\_\_\_\_
- Restaurants \_\_\_\_\_
- Nightlife - Bars/Clubs \_\_\_\_\_
- Anticipated Cost per Attendee \_\_\_\_\_



**Appendix A: Corporate Meeting Planner Survey**

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12. Please provide any other feedback you may have regarding the proposed Hotel/Convention Center in Downtown Lancaster, or any other issues discussed in this survey.

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**Thank you for your participation in completing this brief survey.  
As stated previously, please return it to us in the enclosed pre-paid envelope.**

## Association Survey

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PKF Consulting is in the process of conducting a feasibility study for a proposed Hotel/Convention Center facility to be built in Downtown Lancaster, Pennsylvania, to include a 300-unit full-service Marriott hotel to be located adjacent to the proposed Convention Center. As part of our market research to evaluate the market and financial viability of the proposed Hotel/Convention Center facility, we are conducting a survey of associations throughout the region to assess the potential future level of demand. We would appreciate your time in completing the following brief survey, and returning it to us in the enclosed pre-paid envelope by March 31, 2006. Thank you in advance for your participation in this survey.

Name of Survey Respondent: \_\_\_\_\_

Association: \_\_\_\_\_

Phone Number / E-mail Address: \_\_\_\_\_

13. Has your organization used a Hotel/Convention/Conference facility within the past five years?

Yes \_\_\_\_\_ No \_\_\_\_\_

If "Yes", please proceed to Question 2. If "No", please stop now and return the survey as detailed above.

14. How many events has your association held at a Hotel/Convention/Conference facility in the past five years?

1-3 \_\_\_\_\_ 4-6 \_\_\_\_\_ 6-9 \_\_\_\_\_ 10+ \_\_\_\_\_

15. What type of events has your association held at Hotel/Convention/Conference facilities in the past five years?  
(please check all that apply)

|                              |       |
|------------------------------|-------|
| Sales and Incentive Meetings | _____ |
| Trade Shows                  | _____ |
| Annual Conventions           | _____ |
| Symposiums/Seminars          | _____ |
| Educational Meetings         | _____ |
| Corporate Conferences        | _____ |
| Other (please describe)      | _____ |

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Other Detail:

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16. What is the average number of attendees per event held by your association in a Hotel/Convention/Conference facility within the past five years?

Less than 50 \_\_\_\_\_ 50-99 \_\_\_\_\_ 100-199 \_\_\_\_\_ 200-499 \_\_\_\_\_ 500+ \_\_\_\_\_

17. What is the average duration (in number of days) of your association's events held at Hotel/Convention/Conference facilities during the past five years?

1-2 \_\_\_\_\_ 3-4 \_\_\_\_\_ 5+ \_\_\_\_\_

18. What is the average total cost per attendee per day that your association has paid to Hotel/Convention/Conference facilities during the past five years?

Less than \$100.00 \_\_\_\_\_ \$100.00-\$149.99 \_\_\_\_\_ \$150.00-\$199.99 \_\_\_\_\_ \$200.00-\$249.99 \_\_\_\_\_  
\$250.00-\$299.99 \_\_\_\_\_ \$300.00+ \_\_\_\_\_

19. What hotel room rates (per night) are expected by your attendees?

Less than \$50.00 \_\_\_\_\_ \$50.00-\$99.99 \_\_\_\_\_ \$100.00-\$149.99 \_\_\_\_\_  
\$150.00-\$199.99 \_\_\_\_\_ \$200.00+ \_\_\_\_\_

20. What time of year has your association typically held events at Hotel/Convention/Conference facilities during the past five years?

December-February \_\_\_\_\_ March-May \_\_\_\_\_ June-August \_\_\_\_\_ September-November \_\_\_\_\_



## Association Survey

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21. Please list the top five Hotel/Convention/Conference facilities that your association has utilized in the past five years, along with a rating for each of your satisfaction level with the facilities. Please rate the facilities on a 0 to 5 point scale (0=Lowest Satisfaction, 5=Highest Satisfaction).

| Facility Name | Satisfaction Level |
|---------------|--------------------|
|               |                    |
|               |                    |
|               |                    |
|               |                    |
|               |                    |

22. Please rate the following factors on a 0 to 5 point scale (0=Not Important, 5=Extremely Important), as they relate to your association's selection of a Hotel/Convention/Conference facility:

- Air Travel Accessibility \_\_\_\_\_
- Roadway Travel Accessibility \_\_\_\_\_
- Major Market (i.e. Philadelphia) \_\_\_\_\_
- Free (or low cost) Parking \_\_\_\_\_
- Adjacent Hotel \_\_\_\_\_
- Local Culture \_\_\_\_\_
- Tourism Infrastructure \_\_\_\_\_
- Restaurants \_\_\_\_\_
- Nightlife - Bars/Clubs \_\_\_\_\_
- Anticipated Cost per Attendee \_\_\_\_\_



**Association Survey**

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24. Please provide any other feedback you may have regarding the proposed Hotel/Convention Center in Downtown Lancaster, or any other issues discussed in this survey.

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**Thank you for your participation in completing this brief survey.  
As stated previously, please return it to us in the enclosed pre-paid envelope.**