

MARKET AND FINANCIAL FEASIBILITY

for  
Mid-Priced Branded Lodging  
Located in  
Abilene, Kansas

Prepared  
by

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Etc.

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**METHODS AND DEFINITIONS**  
**Section B1**

## RESEARCH METHODS USED

Business Plans Etc. used the most current knowledge available in the preparation of this report. All information which was obtained from the area Chamber of Commerce, area businesses, Realtors, vendors, competitors, developers, and professional sources is assumed to be true. When in doubt, an attempt was made to verify information through several sources.

### State and National Research

State sources of research on tourism, economics, population trends and business patterns were contacted for information. Lodging specific sources were also contacted and information obtained and used for this report.

National sources such as reports, papers and profiles were purchased and used. Sources include the American Hotel and Lodging Association, federal sources of statistics on tourism and the sources listed below.

- State Tourism Trends - Kansas DOC Tourism Division  
1,000 S Jackson St, Suite 100  
Topeka, Kansas 66612-1354  
785-296-2009  
[www.TravelKS.com](http://www.TravelKS.com)
  
- Area Information - Abilene CVB  
201 N.W. 2nd  
Box 146  
Abilene, Kansas 67410  
800-569-5915
  
- Robert Morris & Assoc. - Annual Statement Studies
- Pricewaterhouse Coopers - Industry Forecasts
- Standard & Poor's - Lodging Industry Survey

### Direct Questioning

For the lodging business, other properties were used for points of comparison and as market comparables. To establish comparables, lodging properties may have been used at sites of a similar nature. Additionally, comp sites may have been taken from other areas with a similar market condition.

Business Plans Etc. conducted conversations and interviews with select persons. Contacts typically include businesses, infrastructure providers, lodging establishments and quality destination sites in the area. Questions typically focused on visitor and travel patterns, economic development, economic growth and future plans.

## Project Contacts

City of Abilene  
Abilene Convention and Visitor's Bureau  
Abilene Chamber of Commerce  
Woods & Poole  
Claritas  
Area lodging establishments  
Area Businesses  
Area Attractions  
Other Contacts

## Lodging Market Niche Delineation

Even for a chain lodging establishment, the niche to be occupied may vary depending on location, stage of market development and quality of the competition. To identify an open niche and therefore opportunity, existing competitive niches were studied. Gaps in service or product offerings were noted and used to prepare the recommendations contained herein.

The basic level of demand is assumed to be the existing level of need (based on a variety of factors), plus reasonable 800 referral, existing visitation and tourism estimates. The potential demand includes business to be created through community based marketing, direct marketing and collaborative visitation and tourism promotion for the site and area.

To estimate existing market potential, Business Plans Etc. used nationally recognized data bases, state, city and possibly industry sources. To insure consistency between projects completed by Business Plans Etc., the same data base and data formats are used. This approach also provides the ability to make comparisons between states and communities. A comparison between communities and states is not usually possible when only local and state data bases are used. Data in different formats, missing or contaminated data may be large sources of error in such situations.

## Demographic Vendors

Claritas  
US Census of Business  
BLS Consumer Expenditure Survey Data

A consistent method of collecting and displaying data allows BPE to make comparisons between communities. Common size comparisons can be made after establishing market factors. The market factors allow comparisons to be made between similar communities throughout a region.

## Lodging Market Potential Determinations

Market potential for lodging has been estimated using factor analysis, a method of determining market potential which is generally acceptable as evidence of potential, particularly in market development situations.

Regardless of the franchise, it should be noted that the potential for a single unit within a system differs from unit potential within a market or overall market potential. Even within the same market, where potential is constant, different systems will perform at different levels. The franchise system, nature of the competitive environment, quality of management, marketing and operations will dictate actual results, regardless of market potential.

Despite limitations, factor techniques provide the most reliable and quantitative methods for estimating market potential, site strength and potential for a single unit or a single unit within a system.

If available, regression techniques can be used. These techniques require disclosure of occupancy and revenue data for at least 5 sites over a three year period (starting with opening day). Regression techniques are especially valuable for lodging forecasts where potential sales are often determined by a number of factors, including population, competition, business generators, overall level of employment and existing visitation or tourism.

A review of community profiles, employers and a list of potential business generators is useless unless there is a quantitative link from them to market potential. The difference is simply the difference between gut feel or casual observation and fact. Using consumption factors, business, population and tourism inputs and possibly regression, the market potential calculated is represented as reasonable for the market area. No guarantees of results or representations about earnings are made or implied.

## Research Warranty

Business Plans Etc. warrants the method of research which was used to prepare this document to provide a reasonable estimate of current market strength and near term, future market potential. Estimates presented are mean estimates and reality will usually be within 3 standard deviations of the mean. The estimates presented therefore, assume variation exists and actual performance can then be expected to be above and below the estimates provided.

### Assumptions

All assumptions used in the preparation of this document are listed in the section titled Assumptions or expressed in numerical terms in the section titled Budgets and Pro-Formas. All information provided by the Chamber of Commerce, regional and other sources is assumed to be true. All input received from experts in the field and other business owners is assumed to be true.

### Representations Made by Others

Representations made by state, regional or local contacts, and persons interviewed are assumed to be true and there is no liability assumed by Business Plans Etc. for missing, false or misleading information provided as input for this document. When possible, information was verified through several sources. The possibility still remains that significant information may have been withheld or simply not available at the time of writing.

### Certification

I, Craig Schowalter, principal of Business Plans Etc., to the best of my knowledge and belief, certify the following;

- The reported analysis, opinions and conclusions are made without bias and based on assumptions, facts and conditions which are assumed to be true.
- I have no present or prospective interest in the project and have no personal interest or bias with respect to the parties involved.
- Compensation was not in any way contingent or affected by the time constraints, findings, recommendations or conclusions as presented in this report.
- This analysis was performed at "arms length" and provides a true independent, third party opinion.

## Interpretation Risks

The interpretation of the opinions presented in this report can only be that they are reasonable opinions, based on the information available and used at the time of writing.

All risk associated with a decision made by a user of this document is assumed by the user. These types of documents are intended to serve as a third party opinion whenever one is required. Typical uses involve acquisition of financing from banks, leasing companies, a specialized lender or the solicitation of equity funds from investors.

To properly solicit equity funds from investors, it is advisable to have a formal Prospectus prepared which includes the feasibility study (third party opinion), business plan (management, financing and operations) and the text required by law for the type of business entity (LLC, stock corporation or other).

All recommendations made in this report are based on assumptions, budgets and the facts known or believed to be true at the time of writing. Business Plans Etc. will answer any questions relating to the preparation of this document, assumptions made and reliability of various sources used to provide input for the study.

Use of this document for any purpose assumes acknowledgment of any risk associated with interpretation and action based on content.

This document presents the findings of research related to a single investment at the site chosen. Whether an investment will make money depends on many factors, the majority of which is management, the system and execution of a marketing plan which is designed to get and keep customers.

This study is not, nor is it intended to be an investment prospectus. The potential franchisee remains solely responsible for performance of investment due diligence and performance of the franchise within the system offered by the franchisor.

## DEFINITIONS

The definitions which are included in this section are provided to insure understanding by equity partners, lenders and government funding sources.

Market Value - Refers to the most likely price of the business and assets, based on the sales value of similar businesses.

Full Time Employment - FTE The job involves a 40 hour, 5 day week. Exceptions exist when workers work less than 40 hours, yet are generally considered full time in terms of benefits and employment status. An FTE is considered to be a job equivalent created for every 2,080 hours of employment.

Jobs Created - Jobs which have been created and maintained for at least one year. These jobs cannot be previously held, cancelled or suspended by previous management action.

Equity - Money invested, collateral, work value or the fair market value of real property which can be pledged.

Permanent Working Capital - Money which can be used to provide funding for seasonal or random variations in business and costs. The value of the capital remains constant over time and the funds are not depleted without replacement.

Net Cash Flow - The amount of cash which is available after payment of all direct and indirect expenses, interest, principal repayments and taxes. The amount does not include depreciation or payments to owners in terms of dividends.

ADC (average daily traffic count) - The average flow of traffic which is the estimated cumulative total, divided by the number of days in the sample. In order to be most accurate the sample time should include busy and slow times.

ADR (average daily rate) - The weighted average price per room sold, considering room rate variation by room type, discounts, complimentary room and accumulated over a 1 year period to remove seasonal variation.

RevPAR (revenue per available room) - The total revenue collected divided by the rooms available for sale (net rooms available = total - comp rooms - rooms used by employees)

Participant - A person engaging in any outdoor activity, recreational or cultural activity at least 1 time per year.

Tourist - Any person travelling more than 50 miles to come to the site, whether for business, personal or pleasure reasons.

**Economic Impact** - A caused increase in economic wealth due to the impact of the project on the community. There are often three levels of economic impact possible.

- a) **Direct Impact** - Direct purchase of programs, retail goods, food and beverage.
- b) **Indirect Impact** - Purchases from infrastructure providers such as restaurants, hotels, specialty and gift stores, fuel, entertainment and other transportation costs.
- c) **Induced Impact** - The "income effect" from employees re-spending of earned income within the community. Employees can be from direct or indirect sources.

**Economically Self Sustaining** - A situation where operating surplus is sufficient to cover all direct and indirect cost, including depreciation and replacement set aside.

**Feasibility Study** - A study prepared by a third party (not financially involved in the project) to provide information on and prepare opinions related to the feasibility of a project. The study should be based on verifiable data, measurements, analysis, market comparables and other inputs so that a determination can be made as to the likely levels of revenue, cost and cash flow. Risks and critical success factors should be identified.

**Economic Feasibility** - Refers to the ability of a project to meet defined investment objectives after paying all expenses. The consideration of economic feasibility may also include information on and opinions related to the development, site, staffing plan, available utilities, required infrastructure and overall economic impact.

**Market Feasibility** - Information on and opinions relating to market size, structure, segments, competition, open niches, customers and demographics, marketing management and sales.

**Financial Feasibility** - Information on and opinions relating to the reliability of cost estimates, revenue projections and cash flow generation. Includes an assessment of the availability of capital (debt and equity), operating supplies and required infrastructure.

**Management Feasibility** - Information on and opinions relating to the quality of management and support.

**Technical Feasibility** Information on and opinions relating to facility design and operation of facilities or processes materially similar to the project under consideration. Input is usually required from engineers, architects, builders, environmental testing and other technical experts.

**CONTACT CONFIDENTIALITY AGREEMENT**

Use the Contact Confidentiality Agreement to insure that proprietary information and market findings are not to be released for public information or use by a competitor.

This agreement is made and entered into \_\_\_\_\_, 19 \_\_\_\_, between \_\_\_\_\_ and \_\_\_\_\_. The former will be referred to as "contact" and the later as the "company".

The Contact should sign and return this agreement in consideration for disclosure of a feasibility study, business plan or private placement memorandum and any Trade Secrets or location factors which are material and relevant for the project described in the feasibility study.

The Contact agrees not to divert, directly or indirectly, any business information, resource or activities to a potential competitor or other outside party.

The Contact agrees not to directly or indirectly, for himself or through , on behalf of or in conjunction with any person, partnership or corporation, own, maintain, operate, engage in or have any financial or beneficial interest in any business which is materially the same as or similar to that of the Company. Such an exclusion applies only to the region within the trade area a defined in the feasibility study. If undefined, the trade area is assumed to be a minimum of 100 miles.

The Contact agrees that in the event of breach of this Agreement, the Company would be irreparably injured and that the full remedy allowed by law will be sought. The Contact agrees to pay all expenses including court costs and reasonable legal fees incurred by the Company in enforcement of this agreement.

Any failure of the Company to object or take action with respect to breach of this agreement by the Contact shall not operate or be construed as a waiver of or consent to that breach or any subsequent breach by the Contact.

Contact

Company

\_\_\_\_\_  
(authorized signature)

\_\_\_\_\_  
(authorized signature)

\_\_\_\_\_  
19 \_\_\_\_\_

\_\_\_\_\_  
19 \_\_\_\_\_

**DESCRIPTION OF BUSINESS**

**Section BP2**

## DESCRIPTION OF THE BUSINESS

The business under consideration is a franchised, mid-scale, limited service, lodging establishment. (rural community, highway cluster location)

## MISSION STATEMENT

The mission of the lodging establishment should be to provide a modern mid-priced lodging option to the general public in the lower mid-scale, limited service market segment. The new construction of the facility should serve to differentiate it from older lodging options and provide a "trade up" from the economy and independent lodging options.

For a market area such as Abilene, a mid-scale lodging establishment needs to function as part of the business and visitor infrastructure. While the lodging can serve business transients, area visitors and the residential community, some specialization in design and separation in use is usually necessary.

The Abilene primary market area has a smaller population and serves nearly 12,000 residents within a 10 mile radius. The level of employment is above average and yet the household income remains below average. Abilene is an emerging rural convenience center which has destination tourism and access to an interstate highway. The community is located 20 miles east of Salina and 20 miles west of Junction City. Due to travel time and fuel cost, Abilene will increasingly serve the population within a 10 mile radius.

In order to optimize economic growth, Abilene needs to plan for further economic diversification and attract developments which can increase market pull and improve revenue capture. New projects should be "market appropriate developments" and be sized appropriately for the market.

## POSITIONING STATEMENT

The market position of the lodging should be to satisfy needs for mid-priced transient lodging, to serve as an access point for area businesses and provide lodging for those visiting area destinations, friends and relatives, attending meetings or special events, weddings, funerals, re-unions or special business functions. The new lodging should provide upper end economy and lower end mid-priced room options. To be most successful, lodging should be located in a walkable cluster with supporting retail and services.

A mid-scale lodging establishment should be positioned as a broad spectrum service provider. To optimize room nights sold, the lodging establishment should service business and industry needs, visitors to local destinations or event participants and special event needs of area residents. Careful positioning will be required to optimize revenue from a fixed amount of demand. To fail to establish a defensible position early, may lead to a blurred image which could be costly at a later date.

### Recommended Position Elements

#### Easy access to I-70

highway services (travel center, c-store with fuel)  
visitor information kiosk or desk  
convenience retail cluster  
lodging and foodservice options  
conference and special event space  
serves transients, visitors and commuters

#### Convenient access to downtown and CBD

foodservice, retail and entertainment  
business service options  
historical and cultural sites

#### Visitor and group support services

CVB and destination management services (for groups)

In order for optimum performance of a lodging development at the proposed site, a "critical mass" needs to be planned for or already be in place. The lodging establishment should be positioned and advertised as part of a full serve highway and transient service cluster.

### Critical Success Factor

If lodging is built without support of special event and conference space, nearby restaurants, business services and retail, performance may be 10-15% lower than the market potential estimates.

The strength of the lodging brand should come from a well known, quality brand, attractive site development and a strong service orientation which includes a focus on special event participants, transients, business and industry customers, tourists, seniors and those visiting friends and relatives. Community based marketing should be used to create awareness and provide strong ties with residents within the 5-10 mile service area.

## Community Based Marketing to Gain Community Support

The lodging establishment should be positioned as part of the business, tourist, visitor, industry and economic development infrastructure. Effective local marketing will make sure that the property adds a desired component to the market area and it's position is understood by area residents and businesses. As a lodging establishment, the best financial results will likely come from the best market fit. A significant portion of future lodging business will come directly from residents, visitor services and business relationships.

The need for additional lodging in Abilene is tied to the reasons to be in the market area. The answer to the question "Why stop at or come to Abilene and why stay in Abilene? must be clear and well communicated.

Abilene has high quality sites, historical buildings and cultural attractions. There is an attractive Visitor Guide, yet the lodging section lacks detail on property amenities, size, room types and costs. A chart showing lodging by type, number of rooms, amenities and price range is recommended.

The community has an attractive logo yet could use an effective tag line to help position the brand among market alternatives within the region and state. The logo and tag line should be used together to establish sustainable points of difference.

## Unit Positioning to Gain Market Share

The position of the lodging establishment among franchised and mid-scale lodging within the region will need to be established.

The I-70 corridor should be well signed to help create awareness of the highway service cluster, amenities and lodging options. If possible, the signs should be large to improve impact, emphasizing services available, retail and accommodations.

Well designed, full service highway service clusters with lodging and a "critical mass" of retail are known to increase the pull from a highway corridor. If cross promotion is used, the highway cluster could be used to feed visitors to the downtown district.

## Critical Success Factor

The overall cluster promotion goal should be to attract people to the cluster. Economic impact is increased as consumers spend more time in Abilene.

### Other Brands as Potential Competitors

Currently, there are three branded competitors (the Days Inn closed in 2006 with 80 rooms). There are two competitors in the limited service, mid-scale lodging price tier and one in the economy tier. As the market grows, additional lodging development may be possible. A list of common possible competitive brands is provided below.

### Mid-Price with Food and Beverage

- Ramada Inn
- \* Best Western (re-flagged to America's Best Value/budget)
- Holiday Inn
- Quality Inn

### Mid-Price w/o Food and Beverage

- AmericInn
- Hampton Inn
- Country Inn and Suites
- Fairfield Inn
- \* Holiday Inn Express
- Comfort Inn
- La Quinta
- AmeriSuites
- Sleep Inn
- Days Inn (closed 2006)
- Rodeway Inn
- Howard Johnson
- Red Roof Inn

### Economy/Budget

- Budget Host Inns - A referral chain
- Travelodge
- Baymont
- \* Super 8
- Econo Lodge
- Howard Johnson Express
- Friendship Inn
- Motel 6
- Microtel (in development)

### Property Attributes

The lodging establishment should provide a product from the mid-price, limited service segment of the lodging industry. Rooms should be standard size with amenity and decor costs kept to moderate levels. Specific product attributes are listed on the next page.

### Lodging Property Attributes

- a) A moderate sized, functional lobby, which is "visitor friendly" with a space saving front desk design. Cost savings should be sought without loss of function.
- b) pool, whirlpool and sauna
- c) reception room (50 to 60 person)
- d) special event and conference space  
3,400 square feet (2,400 sq ft rentable)
  - Partitioned rooms
    - 1-1,000 sq ft space
    - 1-1,400 sq ft space
    - 2,400 sq ft fully open (200 capacity)
- e) business oriented amenities
- f) construction design and materials to create a quality guest experience
- g) room mix which is appropriate for tourists, business transients and extended stays

### Recommended Room Mix

Singles	6
Doubles	
Queen	20
King	28
King Suites	
Whirlpool	3
Business/Extended Stay	3
<u>Total Rooms</u>	<u>60</u>

note: for this market, business amenities, the special function space and reception room can be important factors in capture of room nights.

### Business Services

For a community such as Abilene, the new lodging should be designed to provide a needed piece of business and visitor infrastructure. Business amenities, conference, meeting and special function space should be supported by investment in meeting and hospitality support equipment. Prior to design of the space, a design team should survey users to determine space and equipment requirements. The special event space should be designed to be most appropriate for the intended uses. (meeting, conference, board meeting, staff training or customer seminars, special function or party).

Business services can include self service copies, fax, modem and computer hook ups in guest rooms, meeting room and lobby. Equipment rental and catering should be available.

### Establishing Brand Strength

The lodging industry is increasingly driven by brands. The strength of any location is highly correlated with the strength, recognition and positioning of the brand within the market.

The strength of the brand can be measured through 800# referrals, direct reservations by brand name and travel agent bookings by brand name. The ultimate measure of a brand's strength is advance bookings and customer loyalty.

### Establishing an Economically Sustainable Niche

The lodging establishment will add a new mid-scale branded lodging component to Dickinson County and the Abilene market area. The value of the niche will likely increase with time, drawing attention, upgrading of existing facilities and possibly additional lodging development at some point.

The value of a long term investment is more than the sum of the asset values, if a market is developed in such a way that an economically sustainable niche is created and exploited. In order to sustain earnings in the long run, the brand needs to be positioned uniquely and the position should be **defensible**. Thus, an early understanding of the desired niche is critical to earnings stability at a later date.

The customers most likely to be happy with the new lodging in Abilene will be those with a low frustration tolerance for older branded and independent motel options and those willing to pay more for higher quality accommodations. In markets such as Abilene, modern mid-scale lodging can provide many of the products and services which would normally be supplied by a small hotel.

Positioning is measured in the minds of consumers and the lodging property will need to be positioned in such a way as to provide the highest degree of fit with the needs of visitors, travellers, area businesses, and area residents.

Consumer perceptions should be regularly measured and used to modify the market strategy for the property to improve the degree of market fit. To measure positioning dimensions, guest satisfaction indexes should be used.

### Focus on Non-Price Dimensions

Although price is important, it should not be allowed to become a primary patronage motive or the foundation of brand strength. It is always best to build brand strength and margin at the same time. After all, no margin, no mission.

To attract less price sensitive customers, the promotion and advertising for the lodging property should emphasize the value proposition, modern design and amenities offered. Key selling points include location, access to the downtown and market, business services, visitor information, pool, sauna, whirlpool and rooms designed for each market segment served.

### Local Positioning Determines Performance

For franchised lodging operations, the difference between the top and bottom performing properties is often explained more by ownership and management's ability to establish a unique position locally and become accepted within the business community, than it is by brand strength. Because of this, unit performances may vary 25-50%.

Establishing a new mid-scale lodging brand in the Abilene market will require consumers to be educated in terms of the brand's benefits, value and position. Early on, establishing the position will cost the franchisor and franchisee extra money, yet provide increasing benefits as a function of time.

The position of the lodging establishment is defensible to the extent it is communicated and understood by the target consumers. The property will obviously not meet the needs of all consumers, nor should it be intended to. With strong community based marketing and proper positioning, the lodging property should enjoy an extended period of market segment dominance within the market area.

It can be expected that franchisees who use community based marketing to communicate and strengthen their position will be above average performers and those who don't will be below average performers.

### Critical Success Factor

Building brand in a competitive market takes a marketing manager, not a glorified front desk clerk. The brand provides an initial distinction, but the management and staff provide the impact to create return patronage.

To optimize performance of the mid-scale lodging in Abilene the manager should be strong in group, meeting, event and business sales. The manager should also be capable of collaborating with market partners to improve tourism pull and increase revenue capture.

### Study as a Single Investment

This study of lodging in Abilene looks at the project as a single investment. It should be noted that the franchisor's track record elsewhere does not automatically assume success in this market. Although, the franchisor has a good track record and the proposed facility is attractive, it needs to be studied as a single investment and compared to existing properties in other similar markets.

**OPERATION AND MANAGEMENT**  
**Section BP3**

## OPERATION AND MANAGEMENT SYSTEM

The recommended organizational structure is provided in this section. Educational recommendations are made for management staff, over and above that which is provided by the franchisor, and include community based marketing, group sales techniques, visitor promotion and activity package assembly.

### Management Advisory Group

The Management Advisory Group can include stockholders, management advisors and consultants. In this case, persons experienced in lodging, tourism, finance, marketing and management may be helpful. The designated property General Manager should be included in all advisory meetings.

Positions can be paid or non-paid and meetings should be held as needed. All members should be stake holders or stock holders, except for consultants. All members should execute a "Confidential Disclosure" which protects trade secrets of the establishment. Good advisory group members include business, community organization or tourism representatives with a vested interest in economic development, community visitation and quality lodging.

It should be noted that this group has an advisory function only and is not a decision making group. The responsibility of the advisory group is to provide input to help management implement a business and marketing plan. Additionally, when revising the business or marketing plan, input from this group may be very helpful.

The advisory group can also help prescribe community based market promotions in which the new lodging establishment can collaborate with area businesses to achieve a specific goal.

Based on the quality of information obtained and creative input, the General Partner or Board of Directors needs to make the required decisions and empower the General Manager to carry out the decisions or assign tasks to other individuals.

### The General Partner or Management Contract

A general partner or management contract can be used to provide support for the property General Manager. Optimum property performance usually occurs when the General Manager reports to a person or management group which has the responsibility, operating experience and authority to plan and market forecasts and meet budgets.

## Board of Directors

The Board of Directors should include elected partners or stockholders, but can also include non-voting advisors. The board should meet as needed and minutes be kept by a corporate Secretary as to all decisions which may have material impact of the success of the business. The board should include any officers, and at minimum, a President, Treasurer and Secretary.

Under no circumstances should management and strategic market planning be performed solely by a manager and board members who lack lodging industry experience. To do so, greatly increases project risk. In such cases, earned revenue may be lower and operating costs higher than average.

## Critical Success Factor

Use of a management contract or General Partner can significantly improve property performance while reducing risk.

The diversity of a Board of Directors is a strength so long as the group does not "micro-manage" the business. The board should focus on strategic planning as it relates to the business, annual budget and operating performance reviews. In these functions, an advisory board can perform an important support function. Diverse boards are a source of strength so long as an experienced Management Contractor or Partner is used to provide market planning, annual budgeting and operating logistic support for the General Manager.

Keeping minutes and recording all decisions can greatly reduce the personal liability in cases where management negligence, failure to mitigate losses or criminal proceedings may arise with respect to revenue or equity dollar management, state blue sky laws or non-payment of debt to lenders (institutional, public or private).

The major function of the Board of Directors is to provide capital, insure assets are protected, are well used and to optimize returns to shareholders, stakeholders, employees and community constituents.

To reduce financial risk, the Board should review cost variances on planned vs actual revenues and costs on at least a quarterly basis. All significant variances (cost or revenue) should be ranked and prioritized for action. Such review is a board, general partner and management function and should not be left solely to the accountant's year end analysis. The Board of Directors should review operating budgets, approve them and review and approve all capital, one time and unusual expenses.

Any large one-time expenses should be capitalized to provide more accurate profit and loss statements at year end. Failure to do this will reduce cash flow, cause lender concern about debt coverage and reduce the sale value of the business by reducing net cash flow.

The Board is responsible (liable) for the success or failure of the business and failure to identify unfavorable variances and/or act on unfavorable variances are a primary reason for small business failure. As a result, a "reasonable effort" must be made to correct any material change in the financial position of the venture which poses a threat to equity, cash flow or long term goals.

A recent national seminar on hotel investment called for operators to "get serious or get out" of the industry. There is more to operating a good lodging operation than building it and staffing it with minimum wage help. In terms of staffing, you always get what you pay for, never more. Good property performance requires well paid, trained and motivated workers, including the General Manager. As a general rule, good, long term, financial performance is always the result of skillful leadership, diligent management, daily operational discipline and focused marketing.

### Critical Success Factor

In the long run, those obtaining the best returns on assets are usually the best at finance, cost control and marketing (internal and external).

The assumed role of management needs to be "market maker" rather than "profit taker". While making a market takes more time, energy and money in the short run, long run earnings growth and stability provided by this method are superior to those obtained by passive profit taking.

### The Staffing Plan

The staffing plan includes generic titles and shows the number of positions or jobs which will be created. A full time equivalent (FTE) is assumed to be 2,080 hours and a job created to mean a position which lasts more than one year.

The functions which need to be filled for a property of this size are listed below. In cases where there is not sufficient work or money for a full time position, job design can be used to combine positions and functions into a full time position.

STAFFING PLAN  
Mid-Price Lodging

<u>Position</u>	<u>Initial</u> <u>FTE</u>	<u>Mature</u> <u>FTE</u>
General Manager	1.00	1.00
Asst Mgr/Mtkg & Sales	1.00	1.00
Front Desk	4.20	5.00
Housekeeping	3.00	4.10
Maintenance	0.30	0.50
<u>FTE Creation</u>	<u>9.50</u>	<u>11.60</u>

note: Total employment can be greater than the number of FTE's shown. This is due to part time employees.

The assumed role of management needs to be "market maker" rather than "profit taker". While making a market takes more time, energy and money in the short run, long run earnings growth and stability provided by this method are superior.

Critical Success Factor

As a general rule, good, long term, financial performance is always the result of skillful leadership, diligent management, daily operational discipline and focused marketing.

The General Manager is a highly skilled position, and the person is assumed to be able to oversee all marketing and sales functions, generate and execute the marketing plan (advertising, public relations and promotion), oversee the operations, perform all cost control management, training and administrative functions.

It is assumed that a qualified General Manager will be used for the property. Qualified should be taken to mean experienced in lodging operations, staff training and having significant and marketing or sales experience.

The manager should be very familiar with the market area, visitor patterns and area businesses. Additionally, the manager should become highly involved in the promotion of the region, outdoor activities, other destinations and nearby attractions.

The General Manager's job includes management and marketing functions. These functions are sophisticated and require knowledge, experience and expertise. A successful General Manager must be skilled at marketing, human relations and destination service operations.

The General Manager is a key person. Quality of management is a key determinant of success. Poor property performance is usually due to a lack of leadership, missing skills and a lack of motivation or discipline in accomplishing daily management and marketing tasks. The quality of management is a key determinant of success.

### Critical Success Factor

The manager's compensation package should include base salary plus bonus based on property performance relative to goals which are identified by the Board of Directors. It is reasonable for the manager to earn 10-25% of the annual salary as a bonus. Without adequate compensation, quality management will be difficult to maintain.

The Assistant Manager should be able to run the lodging property on a day to day basis. The person should be able to perform all operational functions including group booking. The Assistant Manager should be used to free the General Manager from day to day operations.

Management contracts can be used in the case where a weak General Manager is used and additional guidance is sought to help insure the property performs the best possible. In many cases, the management fee is money well spent. In a case where a very strong General Manager is used, a management contract may not offer incremental revenue or profits. Also, some smaller markets may not be able to carry the cost of a General Manager plus a management contract. It is important to ascertain the cost and benefit of a management contract, and the appropriateness of use in a particular setting.

note: Regardless of whether a management contract is used, the franchisor will need to support the franchise with systems and training.

The Maintenance person would make general repairs, insure the pool, whirlpool and sauna systems are well maintained, HVAC system repair, lighting replacement, energy management and other needed repair functions. A single maintenance person should be able to service up to 100 rooms (source: American Lodging Association).

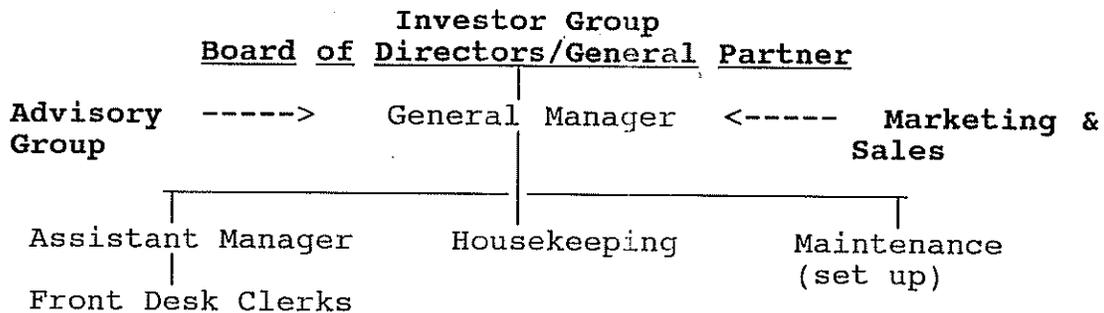
The Housekeeping function assumes that the average amount of time spent cleaning a room is 35 minutes (0.58 hour). At 48% occupancy, for a 60 room property, this would require 16.0 to 17.0 hours per day. At 62% occupancy, this would require 21.0 to 22.0 hours per day. An estimate of 3.0 FTE was used in the initial year's projections.

## Job Functions and Skills

The management and marketing functions are sophisticated and require knowledge, experience and expertise. Some will be obtained from the franchisor's training, yet the majority of the responsibility for a successful effort will fall on the General Manager and includes local area marketing, human relations skills and the daily discipline of operations.

The General Manager is a key person. Most franchise disputes and litigation involves the inability of management to obtain desired financial results and often times this is due to a lack of leadership, missing skills or lack of motivation or lack of discipline in accomplishing daily management and marketing tasks. For this project, the quality of management is a key determinant of success.

### Lodging Organization Chart Abilene, Kansas



All other job functions are semi-skilled or unskilled. One exception would be maintenance, which provides large opportunities for cost savings, especially if the person is well trained in all areas of lodging maintenance, including preventive and systems maintenance.

## Marketing Management

The marketing management responsibilities must be performed by the General Manager. The management of the marketing effort along with related cost control is the largest single determinant of success or failure. This study assumes that the marketing management effort will be guided, disciplined and focused.

The goal of the marketing management should be to establish an economically sustainable position within the local economy, which is defensible in the long term and creates wealth for all stake holders including owners, employees and the community.

Specific marketing goals include creation of unique market position, a favorable top of mind awareness for the brand and to stimulate trial by target groups during the first years. The marketing effort should focus on market creation, expectation and psychographic segmentation, not simply mass marketing.

Reality is perception based. The belief of product quality and increased customer loyalty usually follows a marketing effort which is focused on establishment of a favorable image and a unique, defensible market position.

Efforts to control the expectations of target customers will increase the level of satisfaction on site. Advertising and promotion should tell the customer what to expect and provide measurable points for evaluation of degree of fit. In general, customers are pleased when the offerings and service exceed their expectations. Good advice is to practice giving people more than they expect and make it part of the philosophy of management.

The party room and pool area should not be used to host private parties which disturb other guests. Also, a party room serves a much different function from a meeting room and the same room will not function well in both capacities. Proper design of spaces, separation of groups and enforcement of management policies can avoid potential loss of customers due to noise.

### Professionalism

Professionalism is perceived. Simple things like helping, guiding, providing alternatives and in general, solving the problems of the customer, all increase perceived level of professionalism. The chain affiliation, standard appearance, uniforms and extensive use of logos will increase the perception of professionalism.

Professionalism requires constant sampling for the sources of satisfaction and causes of dissatisfaction. Performing periodic source analysis and even customer callbacks shows a high degree of professionalism.

When complaints arise, many budget and mid-priced motels lack trained staff to successfully resolve them. All this does is to frustrate an already frustrated customer and reinforce a lack of quality and value. Flexibility, sincerity and a genuine desire to please the customer are the best ways to resolve complaints. When operating policies which were established for other markets, prevent satisfying customers in the local market, the consumers become predictably angered.

## Financial Management

The management of the new venture should keep a close watch on sales and costs. Any material change in the level of permanent working capital should be investigated and treated as a potential risk to the project.

For a developing market, it is important for sufficient equity to be used to minimize start up losses. Additionally, close watch should be kept on revenue and cost trends to avoid a surprise "cash call".

For the purposes of control, the franchisor will have systems. As a standard part of our report, we use a simplified cost categorization scheme based on the Uniform System of Accounts which was developed for motels. The system uses key indicators and is based on a standard categorization of costs. A description of the system is provided in the financial section and categories are used for all pro-formas.

Management by key indicators works like paint by the numbers and significant variances suggest an area for management concern. Key indicators can be used to manage any businesses, minimizing the skill and effort required.

## RMA Operating Summary

Robert Morris and Associates produces an operating statistic summary for motels and hotels earning under \$1 million in revenue. Overall, the ratio of net sales to total asset value for this class of lodging properties runs 60%. The ratio of sales to fixed assets ranges from 40% to 130%.

<u>RMA Summary</u>	
<u>Motel (SIC 7011) \$1-3 mill</u>	
sample n = 325	
	<u>Ave</u>
Operating Expenses	83.5
Operating Profit	16.5
Other Expense	9.0
<u>Profit Before Tax</u>	<u>7.5</u>

note: Operating expense includes royalties, management and depreciation. Other expense includes interest expense.

**MARKET IDENTIFICATION AND TRENDS**  
**Section BP4**

## THE LODGING MARKET AND TRENDS

The 2008 year is expected to bring slower growth after the period of 2003 through 2007 where unprecedented growth and profits were common. Despite reduced growth, occupancy and average daily rates are expected to hold strong. The credit crunch which began in the housing sector may soon impact the lodging industry, yet analysts are not yet predicting a large downturn for lodging. Given a general economic slowdown, full recovery may not begin until 2010. A recession remains a possibility if the slowdown continues to grow.

Key operating costs such as energy, real estate taxes and insurance will continue to increase, placing new pressure on profits. According to the National Hotel Forecast Summary from Smith Travel Research and PKF, occupancy for 2008 is forecasted at 63.4%, ADR at \$107.31 and RevPar at \$68.05. The increase in profitability is forecast at 5.1%.

During the economic slowdown of 2001-2003, lodging industry operators had to embrace the basics to maintain revenue, margin and earnings. During this time, a distinction was made between those in the business of developing hotels and those in the hotel business. Today, the distinction between brands is blurring and brand loyalty is becoming an increasingly fragile and expensive market reality. Internet searches and rate comparisons are forcing hotels to differentiate their product using real product and service dimensions.

The overall market for lodging will be reviewed in terms of national trends, industry profile, demographic shifts, state, county, market trends and local competition. The county, primary and secondary market areas will be studied in terms of population characteristics, household earnings, retail spending and employment. Market demand will be broken into segments which include residents, those visiting friends and relatives, business and leisure transients, special events, education visitors and tourism.

The market for lodging in any community needs to be studied within the context of the county, region, state and part of the country in which it is located. The primary market area for a particular lodging site can be impacted by any or all of the possible levels of influence.

### World Economic Outlook

While potential terrorism and war are factors, the world is a place where business remains business. The global marketplace has impacted manufacturing and yet growth of international business travel has prompted many airlines to add routes and place orders for more planes.

## Overall U.S. Economic Outlook

The economy has been impacted by global markets, record fuel prices and most recently, the credit crunch in the real estate market. Domestic leisure travel has been impacted by economic factors and fuel cost. The demand for lodging from meeting and convention attendees is growing faster than the demand from business travellers. This is despite increased use of technology for communication.

The loss of jobs to offshore companies now extends from low to high skill. Many manufacturers within the US are becoming supply chain integration points for components and products made throughout the world. The remaining manufacturing is re-engineering itself using robotics, technology and advanced production techniques to remain cost competitive.

To facilitate growth and integration into the global market, the U.S. will need to respond to many challenges, including upgrading ports to handle more container ships, improving the efficiency of warehousing and distribution and integration of foreign products into the U.S. supply chain.

Good opportunities exist in knowledge based industry, value added agricultural products, bio-technology, marketing, component assembly and distribution networks.

## Tourism and Lodging Industry Trends

Tourism is the world's largest industry, and in the U.S. it is the third largest retail industry behind automotive and food stores. As of 2005, the industry generated \$600 billion in sales. Tourism directly or indirectly now employs 1 out of every 8 workers in the United States.

The U.S. receives a larger share of world tourism receipts than any other country. The U.S. market share is about 12%, down from 16% in 1998. A major component of the tourism industry is the lodging industry, which broke all growth and profit records from 1990 to 2000 and again from 2003 through 2007. After a slowdown in 2001, by 2004, the U.S. saw double digit growth in terms of international visitation. The top points of origination include China, Ireland, Australia, India and Sweden.

In late 1999, room supply growth moderated while room demand continued to increase. Total room night sales reached a peak of 970 million room nights in 2000, fell to 937 million in 2001 and rebounded, reaching a new peak of 998 million room nights in 2004. Room nights sold in 2005 were 1,039 million. (Smith Travel and PricewaterhouseCoopers 2006).

The slowdown of 2001 had been predicted for years and was accentuated by the events of 9/11 in New York City. A positive side of the slowdown was that room construction also slowed and allowed demand to catch up and surpass supply by 2003. As a result, occupancy grew through 2006. It was not until 2006 that the number of rooms added to the supply surpassed demand again, triggering forecasts for an occupancy decline in 2007 and 2008 (PKF 2006).

The supply pipeline will likely provide new rooms faster than they can be absorbed in 2008. Lodging Econometrics has stated that 100,000 new lodging rooms were completed in 2007 and another 136,000 will be completed in 2008. Surprisingly, a large portion of the new rooms are from established brands.

When demand growth slows before supply growth, occupancy may stall out or even fall. As of early 2008, it is clear that occupancy is flattening out and is predicted to decrease slightly for most segments. The economy is softening, there are changes in business travel patterns and fuel cost has impacted the disposable income of the middle class.

Despite flat occupancy, room rates are forecasted to grow. While rates had dropped in 2001/02 and remained flat in 2003, annual growth of 2.9% to 3.5% is forecast for the near term. The ADR for 2008 is forecasted to be \$107.31 up from the \$90 to \$99 range from the 2005/06/07 period.

The average daily rate growth will produce stable revenue and good profits. PricewaterhouseCoopers has forecasted lodging industry profits at \$29.6 billion for 2008 and stated a new record of \$32.5 billion can be expected in 2009.

US Lodging Industry Trends  
Smith Travel, PricewaterhouseCoopers

<u>Year</u>	<u>Occupancy</u>	<u>ADR</u>	<u>RevPAR</u>
2000	63.3%	\$85.24	\$54.13
2001	59.7	84.22	51.29
2002	58.9	83.03	49.96
2003	59.2	83.14	50.17
2004	60.8	85.64	52.64
2005	63.0	90.67	57.17
2006	64.3	96.69	61.06
2007	63.4	102.98	65.30
2008 (proj)	63.2	107.31	68.05
2009 (proj)	62.9	111.06	70.15

note: Actual industry performance measurements differ by source and the most conservative numbers are shown.

Recorded ADR's are highly region specific. The highest ADRs recorded in the nation are for the Middle Atlantic region, followed by the West. While the ADR in dollars will vary by year, the relative price spread between regions will remain relatively constant. Economic diversification can support an increase in a region's ADR structure.

**Aggregate Lodging Industry Profit Trend**

	<u>Profit Billion Dollars</u>	<u>Consumer Price Inflation</u>	<u>Personal Expenditure Index (CPI)</u>
2000	23.5	2.6	106.9
2001	16.2	2.2	109.1
2002	14.2	1.6	110.7
2003	12.8	2.1	112.8
2004	16.7	2.9	115.7
2005	20.8	3.2	118.9
2006	25.2	3.5	122.4
2007	28.1	3.5	125.9
2008 (proj)	29.6	3.6	129.5
2009 (proj)	32.5	3.8	133.3

sources: Pricewaterhouse Coopers, Smith Travel, Macro Economic Advisor's Outlook, Woods & Poole

**Market Segment Trends**

There is a natural succession of lodging options as a market matures. In emerging markets, economy and budget motels are most likely to be built. In these markets, economy and budget motels enjoy rapid growth until the market begins to mature. Recently, mid-priced, economy and budget motels have shown the highest supply growth, sometimes outstripping demand. As a market matures, lodging variety is increased and upscale, suite, extended stay, boutique and luxury lodging products appear.

Cheaper is clearly not always better and price is relative to the value received. The highest occupancy is earned by the lodging properties which charge the most for a room and the lowest occupancy rates are earned by budget brands. In 2007, luxury lodging properties earned occupancy of 72.3%, upscale 70.3%, mid-scale w/f&b 58.5%, mid-scale w/o f&b 65.8% and economy earned 56.7%. Boutique hotels earned an occupancy of 77.8% and have cut across several price tiers. Lifestyle hotels are also beginning to create an impact. (sources: Smith Travel Research, Pricewaterhouse Coopers)

The lines which define luxury, upper upscale and upscale are increasingly blurred. ADR grew faster than the industry average for this type of lodging. Luxury ADR is \$292.78, upper upscale ADR is \$160.55 and upscale ADR was \$118.69. (source: PricewaterhouseCoopers:Smith Travel 2007)

Mid-scale properties without food and beverage continue to outperform those with food and beverage. These properties typically have strong ADR growth and in 2007 enjoyed RevPar growth of 6.1% which is on par with upscale properties.

Economy properties experienced only a 2.5% gain in ADR with an average 56.7% occupancy and lagged behind all other segments in 2007. Economy ADR of \$53.74 makes it hard to meet rising consumer expectations for amenities.

Based on market data, other than upper upscale and luxury lodging, the largest increase in ADR was earned by mid-priced properties without food and beverage. Generally, increases in ADR are expected to continue to outpace inflation. Average daily rates have grown at the fastest pace for upscale and luxury properties and at the slowest pace for economy and budget properties.

The best economy and mid-priced markets appear to be those which are unserved, underserved or newly growing. Existing properties which are outdated is a favorable factor.

Midscale W/O Food and Beverage  
source: Pricewaterhouse Coopers 2006  
Smith Travel Research 2006

<u>Year</u>	<u>Occupancy</u>	<u>ADR</u>	<u>RevPar</u>	<u>Chg % Demand</u>	<u>Chg % Supply</u>
1998	66.5%	\$61.54	\$40.93	13.4%	14.0%
1999	65.6	64.00	41.95	11.2	12.0
2000	64.6	66.49	42.93	9.9	11.2
2001	62.2	68.47	42.60	8.3	9.9
2002	61.9	68.22	42.23	1.2	0.9
2003	60.8	68.00	42.37	3.1	4.7
2004	63.9	70.00	44.83	7.4	3.5
2005	65.8	72.34	47.60	6.0	4.3
2006	66.9	75.29	54.01	4.4	3.0
2007	65.7	87.47	57.47	4.0	3.6

Underserved lodging needs, a diversified economy and existing destination tourism are positive factors, supporting mid-priced lodging development. As markets mature and supply exceeds demand, the focus needs to shift from construction to operations, differentiation, efficiency and profitability. Markets which resist over building are typically those with physical or economic lodging development constraints.

**Lodging Performance Index**

Occupancy and ADR (Midscale w/o f&b = 1.00)  
source: Smith Travel Research, BPE index. (2004)

<u>Segment</u>	<u>Occupancy</u>	<u>ADR</u>
Luxury	1.09	3.33
Upscale	1.10	1.39
Midscale, wo/f&b	1.00	1.00
Midscale, w/f&b	0.89	1.05
Economy	0.92	0.84
Budget	0.84	0.67

The Consulting Firm of DK Shifflet & Associates stated that about 50% of the groups sized 3 or more people will choose mid-scale lodging establishments. The average length of stay for mid-scale is 2.3 days. The majority (75%) of visitors travel by car and advanced reservations are used by over 85% those purchasing room nights of mid-scale properties.

The economy segment experiences a lower level of advanced reservations, yet 36% of all room nights involve a stay of 5 or more days (D.K. Shifflet). Economy lodging providers are upgrading rooms to service clientele desiring an extended stay experience.

The Microtel brand has been aggressive and successful in the budget segment which largely consists of outdated branded and independent properties. The Microtel brand marketing uses a "parasitic" market tactic, providing low cost "trade down" lodging options in markets with older economy lodging and in those markets without quality budget lodging options.

Choice Hotels developed the Sleep Inn brand as a budget and economy alternative. Hampton developed the Hometown for use as an economy or rural mid-scale option. For new budget and economy brands, the cost per key is kept to a moderate level by reducing the size of common areas and keeping amenities basic, yet functional.

**Lodging Performance (All Segments)**  
PricewaterhouseCoopers 2007

<u>Year</u>	<u>Occupancy %</u>	<u>ADR \$</u>
2001	59.7%	\$ 84.22
2002	58.9	83.03
2003	59.2	83.14
2004	60.8	85.64
2005	61.7	88.20
2006	64.3	96.69
2007	63.4	102.98

Lodging Performance  
By Industry Segment

source: Smith Travel: PriceWaterhouseCoopers 2007

<u>Segment</u>	<u>Occupancy</u>	<u>ADR</u>
Luxury	71.3%	\$292.78
Upper Upscale	72.3	160.55
Upscale	70.3	118.69
Midscale w/f&b	58.8	85.61
Midscale wo/f&b	65.8	81.53
Economy	56.7	53.75
Budget	53.2	47.00

Lodging Performance vs Location

Lodging performance in terms of occupancy and average daily rate varies by location of the property within the community. Generally urban or downtown lodging properties and resort properties will earn the highest occupancy rates and ADR's in a given market. Highway locations usually earn the lowest levels of occupancy, yet fill a definite need for transients.

The majority of lodging properties (81.6%) are suburban (35.3%) or highway (46.3%) and 67.7% of them have less than 75 rooms. Room rates vary widely and recent market segmenting is making price a less important dimension than other factors which may affect a consumer's choice such as amenities, meeting rooms, food and beverage, room-size, business guest services or convenience of location.

Lodging Performance Index

Occupancy and ADR (Highway = 1.00)

source: Adapted from Smith Travel Research (2002)

<u>Location</u>	<u>Occupancy</u>	<u>ADR</u>
Urban	1.14	1.89
Suburban	1.09	1.26
Highway	1.00	1.00
Resort	1.15	2.31

Lodging Performance vs Day of Week

Occupancy trends by month and weekday vary greatly depending on the type of property and it's location. However, aggregate statistics can be useful. Based on aggregate data collected and compiled by Smith Travel Research, weekend occupancy is generally higher than during the week, except for Tuesdays and Wednesdays.

Average Daily Occupancy  
Smith Travel Research, 1999

<u>Day</u>	<u>Occupancy</u>
Sunday	47.8%
Monday	62.4
Tuesday	67.7
Wednesday	68.3
Thursday	65.3
Friday	66.5
Saturday	70.1

According to Smith Travel Research, on the average, there are 29 days with occupancies over 80%, all between Memorial Day and Labor Day, except three days in October and Valentine's Day. There are also eleven days with occupancy under 40% which include winter Sunday's, Memorial Day, Labor Day and Christmas week. The split between weekday and weekend business suggests a marketing strategy which focuses on each part of the business.

Lodging Development Trends

There is a long term trend of a decrease in the proportion of independent lodging establishments (expressed as a percent of total properties). The chart below provides a measure of change in market segment proportions observed during the last decade.

The trend in building rooms has switched from independents to branded, franchised chain properties. The trend in property size has been down, with the average size of the property being reduced by 50% during the last two decades. Another trend is toward building in rural, secondary and tertiary markets.

Room Supply Trends by Type  
source: Smith Travel Research 2005

	<u>1993</u>	<u>2000</u>	<u>2005</u>
Independent	36%	30.2%	33.9%
Economy	17	19.8	17.3
Midscale wo/f&b	6.5	11.4	13.9
Midscale w/f&b	20.9	17.8	13.1
Upscale	6.9	8.5	8.3
Upper Upscale	12.7	12.3	11.8
Luxury			1.7

**Lodging Project Attrition Rates**  
**By Construction Phase**  
**source: Smith Travel Research 2003**

Pre-planning	74.2%
Planning	53.7
Final Planning	21.9
Construction	5.3

note: Final planning includes architectural design and permitting.

note: The attrition rate for projects in final planning (permitting) can be 20% or higher.

Many industry professionals feel that there are too many brands being introduced with too few real differences. Overbuilding the rate of demand growth by a large margin can lead to occupancy and ADR declines in isolated markets. In cases where there is sustained population growth, a diversified employment base and growing tourism, the market will be most resilient.

If over building occurs, the importance of proper leverage, unit economics and operating fundamentals will increase. Customer service is a key factor in market share retention and growth. During a downturn, the importance of quality front desk staff is usually re-emphasized.

Quality management and an operations focus allows economies of scale to be reached as it is more efficient to retain existing customers, or entice a repeat purchase than to try to attract a new customer. Management should focus on the most cost effective means to build and sustain business. Marketing costs to attract an existing customer are only 17% of that required to attract a new customer. Heavy users will outspend other customers by up to a 5:1 ratio. In summary, a 5% increase in repeat customer usage can increase profits by up to 25% (source: Guest Information Network).

note: Good management will bring more stable, long term profitability, increased average daily rates, increased occupancy and longer or more frequent guest stays.

Because of the factors listed above, yield analysis, database management, direct marketing and internet direct booking techniques will be increasingly important to optimize unit performance. While direct marketing techniques are widely used in retail, they are only minimally used in lodging. While yield analysis may be used for revenue, margin (\$) is rarely a consideration, yet it should be.

### Demographic Impacts on Lodging Demand

Lodging demand will naturally increase as younger generations mature. The generations which follow the traditionalists (born 1922 to 1946) all have a higher propensity to travel and purchase lodging. The baby boomers are entering their peak years in terms of disposable income and they have an increased propensity to travel and purchase lodging rooms. In fact, the group aged 45-54 years is more than twice as likely to travel as the current group aged 65+ years and 23% more likely to travel than the group aged 55-64 years.

#### Age Related Propensity to Travel

source: American Hotel and Lodging Assoc.

<u>Age Group</u>	<u>Travel Index</u>
65+ years	55
55-64 years	92
45-54 years	113
35-44 years	119

### Major Market Segments

In order to optimize success of any project, the market segments to be served must be studied. The design goal is to either elect a single group or adopt a market mix which can maximize appeal to several or all groups.

Seniors and traditionalists were born before 1945 and represent the fastest growing market segment. The growth is due to a combination of living longer, living better and maintaining better health. These seniors will have more disposable income, increased savings and many will remain active and employed. About 40 million persons will be aged over 65 years by 2010, 50 million by 2015 and 65 million by 2030 (20% of US).

The baby boom generation has altered America at each point of aging. Born between 1946 and 1964 and now in mid-life, these people are making new demands on the tourism, recreation and entertainment industries. As they age, baby boomers are more interested in health, wellness and exercise as they try to slow the aging process. As desire meets disposable income the boomers are driving sales of many retail products, personal services and travel.

Generation X consists of those born between 1965 and 1976 and unlike the Boomers, this generation has grown up with the knowledge of the experiences of the boomers. Some of the institutions most trusted by the boomers have become least trusted by Generation X.

Generation X is following the baby boomers in terms of interest in recreation, outdoor activity, health and wellness. The most striking difference is that they are starting these activities earlier in life. Additionally, Generation X will probably not place as much emphasis on career progression and more likely allow time for recreation, family and activities which can promise physical, mental and spiritual renewal.

Generation Y (Millennials) represent a distinct switch from the "anti-establishment" folks and rebellion ethic of the baby boomers. The millennials were born between 1977 and 1994. In general, they appear more oriented to groups and the community than the baby boomers or Generation X. (Applied Research and Consulting 2003).

The teen population (next gen) consists of kids born between 1995 and today and represents a group which is growing at over twice the rate of the overall population. Teens have more disposable income than ever before. In 2008, there will be 30 million teens. The teen market is an economic force which will impact the design of products and facilities. They know what they want and have the money to pay for it.

The cutting edge retail, entertainment and recreation design trends will involve grouped products and services to optimize segment appeal and create market pull. Within each market segment, needs are being realized which are based on the values and beliefs of the group. As a result, "value based retail concepts" are leading to new environments which are more effective in meeting the needs of each specific group. These stores may be offered in "value clusters" which will offer highly compatible product and service offerings to increase pull, convenience, capture and economic impact.

#### Generations and Size

<u>Generation</u>	<u>Birth Dates</u>	<u>Number</u>	<u>Ages</u>
Traditionalists	1922-1945	44.2 million	57-81
Baby Boomers	1946-1964	76.8 million	39-56
Generation X	1965-1976	52.4 million	25-38
Millennials/Echo	1977-1994	77.6 million	12-24
Teens (Next Gen)	1995-present		

#### The Internet Effect

The internet is not an "end all", but rather a connectivity tool and marketing tool. The most effective internet booking sites will likely be those owned by lodging companies due to the control of inventory and improved logistics. While third party auction sites can clear inventory, they heighten price sensitivity, reduce customer loyalty and de-value a brand.

It should be noted that branded web sites can provide the same convenience without losing control of the inventory, undermining brand integrity or the value proposition.

Properly used, the internet will provide incremental revenue. Improperly used, the internet can train consumers to focus on discounts, eroding overall margin. Yield analysis should be used to determine effectiveness of all on-line programs.

While the speed, convenience and ease of booking on the internet are of value to consumers, third party costs and erosion of margin have driven many brands to develop their own on-line booking. For example, Cendant created a full service travel portal which is designed to compete with Travelocity and Expedia.

The internet is being increasingly used to help manage large corporate accounts. Providing user flexibility, handling custom and difficult itineraries remain the weaknesses of internet booking. Also, group contract prices can be undermined by internet price specials on third party sites.

#### Trends in Equity

Overall, equity provides 25-40% of the project dollars for new construction (PKF Consulting and Hospitality Research Group 2003). The appropriate equity level may range from 20% to over 50%, depending on property type, location and market served. Many developers have favored less equity, sometimes as low as 10%. While highly leveraged properties can provide better returns on invested funds, they are more vulnerable to economic downturns because of higher break even points.

After 2001, the amount of equity increased from the norm of 20% to 25-40% equity depending on the location, type of lodging, brand affiliation, experience and financial strength of the developer. According to Cendant's Brand Manager, Keith Pierce, after the slowdown of 2002, the "get in" percentage for midscale lodging was 35%. As the industry performance improved, 25% equity became more common again.

#### Lodging Project Leverage Mortgage Loan to Value Ratios

<u>Property Type</u>	<u>Low</u>	<u>High</u>
Full Service	60%	68%
Limited Service	67.5	70

Highly leveraged projects should have contingency plans in place for possible cash calls. Lenders may require an initial cash set aside to mitigate risk.

The amount of debt a property can support can be estimated by using net present value of cash flows at a high and low level of expected sales. The amount of equity needed should be set only after consideration of this range and in an effort to meet the minimum debt coverage ratio of 1.3. The industry average debt coverage ratio is 1.47 (PKF Consulting, Hospitality Investment Survey 2002).

**Trends in Break Even Point**

While many older properties required 60-64% occupancy to break even, newer properties are being designed and funded to break even at 50% occupancy and sometimes lower. As of 2002, the break even occupancy reached the lowest point in lodging history (48.8%). Debt leverage for hotels has decreased from over 100% in 1980 to 50-60% by 2000. Property size and financing leverage are critical success factors in terms of recession resistance. Smaller properties with less leverage are better able to withstand possible downturns in demand.

**Break-Even Point vs Occupancy**  
**Trend by Year**

	<u>Break Even</u> (%)	<u>Ave Occupancy</u> (%)
1989	65.5	64.5
1992	62.5	62.7
1995	60	65
1997	54.5	64.5
2001	55	62.5
2002	48.8	59.3
2003	47.4	59.2

source: PricewaterhouseCoopers, Ntl Bureau of Economic Research 2004

note: Reduced break even points are the result of added equity, lower interest rates, higher margins on room revenues and operating cost reductions.

BPE predicts that between 2007 and 2020, equity levels will remain in the 20-40% range to make properties more recession resistant. While short term return on equity may decline, the reduced risk, earnings stability and long term return on equity will justify the investment up front. In some cases, equity funds and local or regional equity markets will be favored over debt markets for development funds.

## Market Trend Toward Branding

Increasingly, the lodging markets are being driven by branded products. Although the staying power depends on the amount of money invested to create brand strength and a favorable consumer image. Branded properties tend to have higher occupancy rates than unbranded properties in the same market. Chain properties have the advantages of pooled resources, operational expertise, cost control programs, financing arrangements and a proven success formula. Branded franchised properties earn an average pre-tax profit of 21%, although actual earnings differ greatly between chains and within chains because of the site quality, local market strength and management ability. Prior lodging experience and an emphasis on sales are the good predictors of property performance.

## Lodging Consumer Segments and Research

The national breakdown for lodging customer segments suggest that the business market (business and conference) creates the majority of room nights. The meeting, conference and convention segments are growing faster than general business. According to the American Hotel and Lodging Association, 50% of all lodging customers are travelling for leisure. Tourism is often defined as any non-business visitor who travels more than 50 miles to a site.

### LODGING CUSTOMERS

#### Proportion of Total Customers

Tourist and Pleasure	32.2%
Business and Transient	37.4
Meeting or Conference	12.7
Local Meeting or Event	12.4
Other, Family, Personal	5.2

Nationwide, the U.S. Travel Data Center forecasts growth of 3-5% in domestic per person trips annually.

## Pleasure and Leisure Consumers

It should be noted that the average pleasure customer is older than the average customer and 75% of them make advanced reservations. Of leisure travelers staying in a hotel, 45% spend one night, 28% spend two nights and 37% spend three or more nights (American H&L Assoc 2006). Pre-booking level is based on brand strength, central reservations and internet or GDS bookings. The level of pre-booking can be used as an indirect measure of brand and property market pull.

### Tourist Age Profile

<u>Age</u>	<u>Percent</u>
under 30	17
31-40 yrs	25
41-50 yrs	38
51-60 yrs	12
over 60 yrs	11

Despite the promise of the computer age for a shorter work week, it seems that any extra moments are quickly absorbed by increased pace. In a 2006 Gallup May survey results showed that 43% of respondents had no summer vacation plans. The Bureau of Labor Statistics estimates that about 25% of the private sector workers do not get any paid vacation. Despite the difficulty in getting away for a vacation, there is a trend toward more frequent, short getaways. Those going on a vacation are part of a trend where vacations are becoming less frequent yet longer.

Despite the promises of the computer age for a shorter work week, any savings has been re-applied to increase speed and quantity of work. Cell phones and e mail make it increasingly difficult to disconnect from the workplace. Companies have been required to run lean to stay competitive in the global market place. These and other cultural factors have left the American working public more time starved than ever.

As the need to escape urban life escalates, the reality is that 83% of the American workforce lives in urban centers and will need to periodically restore and recharge themselves. As a result, despite declines in vacations, the need to escape and the trend to get away or retreat will maintain strong demand for getaway hotels and destination resorts. As the baby boomers enter their years of peak disposable income, short, more frequent getaways and longer, expensive vacations can be expected to continue to increase.

According to Smith Travel Research, demand growth during the weekend is more than four times greater than growth during the week. Increasing use of weekends for family getaways will lead to lodging room availability pressure for shorter stays and many tourist areas are experiencing room shortages on weekends and during holiday seasons. By 2005, 56% of all vacations were taken on weekends as a getaway.

Generally, as the length of the trip increases, the vacation characteristics and expenditures will change. The greater the length of trip, the longer the stay and the more money is spent. Most state tourism studies have found that long distance travellers spend more than double the amount spent by those travelling 300 miles or less.

## Business and Transient Consumers

Among business travellers, it is often difficult to achieve revenue gains because of a fixed number of trips and fixed length stays. While domestic business travel is flat or down, travel to meetings, conferences and conventions is up. While recessions cause a trade down from upscale lodging, during a growth period, upscale lodging will record the highest ADR and occupancy of all hotel lodging sectors.

Revenue gains can be obtained through direct billing accounts and travel contracts with travel managers, which function to control cost and eliminate choice. Travel cost containment and ease of record keeping are key factors in negotiation with travel managers and key attractions for on-line systems.

It is estimated that 35% of the business travellers take more than 10 trips per year, 44% make their own reservations and 34.6% ask to be booked at a specific property. A 2002 study by Business Travel News (n=766) of corporate travelers found the average number of room nights purchased in the last year was 51.5. Of the room nights purchased, 47% were at upscale lodging options, 28.7% at midpriced options and 24.3% were purchased at economy/budget/other. For all hotel stays, 39% spend one night, 24% spend two nights and 37% spend three or more nights (American H&L Assoc. 2006).

The average age of the business traveller is changing and the group now includes a majority (86%) from the baby boomer, Generation X or Millennial segments. Hotel design, amenities and operations are changing to reflect the preferences for technology, improved bedding and bathrooms and simplified guest check in.

### Age Distribution of Business Travellers National Business Travel Monitor 2006 (YPB&R)

<u>Generation</u>	<u>% Population</u>	<u>% Business Travellers</u>
Baby Boomers	35%	51%
Generation X	26	26
Traditionalist	22	14
Millennials	17	9

As of 2005, the typical business customer is 35-54 (52%), works in a professional or managerial position (50%) and has a household income of \$81,100. The vast majority make advance reservations (89%), stay in their room (73%) and pay an average of \$96 per room night. Source: American Hotel and Lodging Association 2006

**Trip Characteristics**  
**Business vs Pleasure Trips**  
(sample from population = 249,464,680)

	<u>Business</u>	<u>Leisure</u>
Total Trips mil	182.8	361.1
Factor Trips/Per Capita #	0.73	1.45
Persons on Trip	1.2	1.8
(1) Nights per Trip	3.7	4.4
(2) Ave Miles Per Trip	1,020.0	867.0
% Staying in Lodging	71%	37%
% Male	71%	49%
% Female	29%	51%

notes: (1) includes day trips  
(2) domestic travel only

source: Statistical Abstract, Travel Industry Assoc of America, National Travel Survey 1998

International travel is an increasingly important part of tourism for the world and the United States. By 2002, direct expenditures by international travellers were estimated at \$90.6 billion. In 2001 there was a dramatic decline and by 2004 total expenditures were 5.1% down \$85.9 (World Travel Industry Assoc)

**U.S. Visitors by Source**  
International Trade Administration 2006  
numbers in millions

Canada	13.8
Mexico	11.9
United Kingdom	4.3
Japan	3.7
Germany	1.3
France	0.8
South Korea	0.6
Australia	0.5
Italy	0.5
Netherlands	0.4

**Friends and Family Consumers**

The proportion of travellers paying for lodging, instead of staying with friends and relatives, is increasing. A major portion of all pleasure travelers stay with friends and relatives. Therefore, persons staying with friends and relatives are a major source of potential room sales. The conversion of these room nights to hotel stays is one of the package and rate frontiers for the lodging industry.

### Activity Oriented Travel and Tourism

In this case, the lodging demand is driven by the activity which can be indoors or outdoors. The activity is destination specific and limited by the natural or man-made amenities sought. All inclusive resorts may not be driven by a single activity, yet the number, type and quality of the activities typically is correlated with trip satisfaction.

The interest in wellness and exercise is growing in all age categories and fitness hiking/walking is now America's most popular exercise. Hotels need to offer a fitness room or at least collaborate with a fitness center to offer an amenity. Resorts need a wellness facility as a standard amenity and many offer spa treatments.

### Activity and Tour Group Business

Specialty tours often are possible, using area activities, outdoor recreation, food and lodging to create an attractive package. While some locations will not work as a destination, many can be packaged for an overnight stay or step on tours. With step on tours, the initial goal is to keep tourists in the area longer. The longer they stay, the more they spend and the ultimate goal is to increase spending and earned revenue.

### Cultural and Heritage Tourism

Heritage and cultural tourism is a means by which economic gain can be realized from historic or cultural assets. Over the last decade, cultural and heritage tourism are some of the fastest growing segments in the tourism industry. Over 90% of all travelling families include a cultural site or festival when travelling. Unique cultural and historic amenities differentiate the tourism product, improve the market pull and increase revenue capture for the lodging industry.

According to the National Trust for Historic Preservation, Heritage Tourism is travelling to experience places and activities that authentically represent the stories and people of the past.

### Cultural and Historical Tourism

#### Possible Components

history	architecture	unique culture
food	music	arts
economics	performances	sculpture

Heritage and cultural tourists spend more and stay longer. While the average tourist spends \$425 per trip, the heritage tourist spends an average of \$688 and the top 17% spend more than \$1,000 per trip. The average traveller stays 3.3 nights and the heritage and cultural tourist stays 5.2 nights. The heritage tourist also is more likely to shop.

source: 1997 Travel Industry Assoc. of America

Initially, a community should complete an inventory of sites and cultural aspects which have potential. In many cases, there may be little physical evidence left. The value of a site or cultural aspect lies in creative restoration and interpretation.

A part of cultural tourism is movie related. Movie tourism is big business. In Wabasha, Minnesota where Grumpy Old Men was filmed, two new lodging properties are being leveraged with an upgraded waterfront and improved downtown to increase tourism earnings. Similar examples include Liberal, Kansas home of the Wizard of Oz's Dorothy, Wayside, Kansas where Little House on the Prairie was filmed, Fort Hays, Dodge City and Dyserville, Iowa where the Field of Dreams was filmed.

If a site is preserved or created and marketed as an attraction, it can generate tourist dollars, create jobs, help revitalize the downtown and create revenue for retail businesses.

In Germany, many old industrial sites are being recycled into sites which have or support cultural and heritage tourism activities. One example is a large performing arts theater in an old steel plant. Cologne, Germany assembled the Popkom Festival, a 4 day popular music festival with hundreds of bands performing in an old industrial site.

In order to have economic development benefits, historic preservation needs to create new businesses, private investment must be made and new jobs created.

To attract younger groups and keep them in the area, cultural and heritage sites need to be supported by good specialty shops, quality foodservice, good accommodations, quality entertainment and possibly night life.

#### Tools for Heritage Tourism

#### Typical Program Components

Guidebooks and Maps  
Cassettes and CD's  
Tours and soft adventure packages

sources: Caldwell, "Heritage Tourism": A Tool for Economic Development

### Increasing Economic Impact

Increasing the economic impact of existing visitors means using stimulus and response principles which are the basis of convenience and major retail store design and operation. The goal is to attract or pull the consumer, engage them and capture the maximum amount of revenue.

The level of economic impact from tourists and visitors is dependent on the type of market (offerings), type of visitor and whether the visitor stayed with friends or relatives, purchased lodging (hotel, motel or resort), camped or was a day tripper. Regardless of lodging type, all expenditures increase with the length of stay.

Daily economic impacts (1999 dollars) from tourists and visitors range from over \$450 (Phoenix) in luxury Sunbelt destinations, or \$423 for a stay in a resort destination such as Montana, to \$197 (Lansing) for urban locations and \$279 (Wisconsin) for tourist and family resort or vacation areas. (spending excludes air fares)

In upscale, Sunbelt markets such as Sun City or Phoenix, Arizona and destination resort markets such as Big Sky, Montana, large daily expenditures are recorded. While the amount spent in this type of market is high, the percent of total expenditure is comparable to more moderately priced markets.

BPE has collected studies from Montana, Arizona, Wisconsin, Iowa and Michigan. Based on findings, a range of daily and even hourly economic impact estimates are possible. Using a market strength factor and an estimate of the total overnight person visits, economic impact can be estimated for any market. In some cases, only total visitor counts are available and the proportion of overnight stays can be estimated at 20-30%.

#### Visitor Expenditure Profile

Dollars Per Day and Per Hour (12 hr period)  
source: Sun Valley/Phoenix CVB (1995 dollars)

<u>Expenditure</u>	<u>Dollars</u>	<u>\$/Hr</u>	<u>Percent</u>
Lodging	\$105.97		21.5%
Food/Bev	140.97	\$11.75	28.5
Transportation	98.58	8.23	20.0
Rec/Entertain	44.36	3.70	9.0
Retail	73.94	6.16	15.0
Other	29.08	2.42	6.0
	<u>\$492.90</u>	<u>\$32.26</u>	<u>100.0</u>

The Lansing, Michigan study suggested that overnight guests staying at hotels/motels or B&B's create 46% of all tourist spending. The average expenditure per party, per night was \$197. Tourists staying with friends and relatives spend \$70 per person, per day.

Expenditures, Per Party, Per Day  
In 1999 Dollars and Indexed  
source: Lansing Tourism Study 2000

<u>Tourist Type by Stay</u>	<u>Average Expenditure Per Party Per Day</u>	<u>Spending Index</u>
Hotel, motel B&B	\$196.66	280
Stay w/friends and family	68.73	98
Camping	76.67	109
Day trip only	70.18	100

note: Day trip spending = 100

The Wisconsin data was collected by Davidson, Peterson and Associates and suggests that the average group spends \$306 per overnight stay. It is important to note that this level of expenditure is 68% higher than the level reported for visitors staying with friends and relatives. (2006 study)

Regardless of the study, and actual level of expenditure, for every visitor purchasing lodging, 60% or more revenue may be captured by spending on other goods and services. This potential means that an additional 20-65% revenue may be available from visitors and tourists if they purchase lodging and stay overnight.

Viewing a lodging development as an "anchor", acting much like a major department store in a mall, other sales can be generated. Such revenue generation requires collaborative marketing efforts which can be readily accomplished. Service, value and entertainment clusters are known to increase retail capture from a known visitor level.

Economic impact can be leveraged when a lodging establishment provides referrals to other businesses, sells packages which include other businesses or can increase revenue capture by simply keeping visitors in town longer.

A lodging property can also be used to distribute area "What is there to do?" information. When information is sought, the typical questions include what is there to do, see or visit. Where are the good restaurants and what about entertainment? Staff should be trained to provide printed information and to answer guest questions or give directions.

## Lodging Decision Factors

Franchised lodging traditionally drove patronage decisions through brand strength and customer loyalty programs. Now with recent proliferation of brands, few real differences and commodity orientation facilitated by the internet, consumers have been trained and sensitized to price and amenity level.

Boutique, lifestyle and luxury lodging properties have defied trends by creating real differences which are highly valued by distinct, economically viable market segments. As a result, their ADR, RevPar and occupancy lead the industry.

Internationally, the fundamentals of hospitality drive the return patronage through customer satisfaction and a high level of value for the price paid. Factors supporting the ADR and occupancy include quality of hospitality, personalized service and value for the price paid. The quality of hotel design, furniture, equipment and amenities are important yet "how it feels" to stay at a property is inseparable from the property itself.

## Customer Sourcing

Chain affiliated lodging can provide incremental revenue for a market if new consumers are attracted to the market and stay overnight because of the brand and location. In this case, there is incremental demand.

New lodging in a market without incremental demand created will compete for existing room nights. As brands enter the market, the proportion of total room nights captured by the independent lodging usually decreases. Differentiated lodging can survive and actually prosper with added brand pressure. In these cases, the independent operator must focus on the amenities, service quality and value points which brands cannot provide.

### Customer Sourcing

source: DKS & A Directions

Walk in	21%
800 Number	33
Direct Dial	30
Corp/Travel Agent	8
Other	8

Franchises provide national marketing and brand recognition. Independent properties must create their own brand, build relationships to create tied demand effects, use direct marketing techniques, employ highway signage and rely on customer loyalty to create traffic and capture revenue.

### Seasonal Business Trends

National aggregate demand statistics show business patterns and leisure demand by season. Aggregate statistics don't accurately reflect the seasonal shift usually experienced by properties in tourism areas. This is particularly true for locations which lack year round population and have few business generators. The extreme seasonality of a resort market usually means that over 50% of the yearly customers are serviced during the peak season.

### Seasonality of Travelers Expected Variation By Season

	<u>percent</u>
December-April (winter)	29.9%
May-August (summer)	49.2
September-Nov (fall)	20.9

Basic seasonal trends may be reduced by strong business and industry activity, year round special event programs, health care, education, arts and cultural destinations or activity.

### Demand by Season and Segment

	<u>Business</u>	<u>Leisure</u>
Spring	15%	10%
Summer	15	17
Fall	14	10
Winter	11	8

source: Smith Travel Research 1999

A typical visitor profile is estimated for the market area. The expected profile can be modified by aggressive marketing techniques which include conferences, special events and friends and family packages.

### Trip Purpose Average and Expected for Abilene, Kansas

	<u>Ave</u>	<u>Abilene</u>
Tourist or Leisure	32.3%	35%
Business or Transient	37.4	35
Meeting or Conference	12.7	10
Local Meeting or Event	12.4	10
Other or Personal	5.2	10

## REGIONAL AND LOCAL MARKET TRENDS

The location of the Abilene within Dickinson County, and of the county within the state of Kansas will greatly affect the future of the city. Abilene had population declines, yet has been growing slowly since 1990. The comprehensive plan calls for coordinated growth and development to make efficient use of limited resources. Economic development efforts should focus on expansion of the retail and service infrastructure to increase market pull and improve revenue capture. Existing tourism and access to the I-70 corridor should be leveraged to stimulate enhancement of the built environment.

Economic diversification should be used to increase overall market yield, provide new employment and grow tax base. To attract and retain quality jobs and well educated workers, the recreation and community amenities need to be enhanced. Growth of business and industry can provide the needed tax base to support enhancements.

### Great Plains Overview (Woods & Poole, Washington D.C.)

The Great Plains consists of Iowa, Kansas, Minnesota, Missouri, Nebraska, South Dakota and North Dakota. According to Woods & Poole, Washington D.C. 2007, the region can expect population and employment growth below the national average.

### Growth Projections

Population growth	0.77% per year
Employment growth	1.29% per year

The net growth of population hides the fact that of the 416 counties within the Plains, excluding Minnesota and Missouri, only six counties in North and South Dakota are expected to have population growth of over 10,000 between through 2030.

Many of the counties within the Great Plains have steadily lost population for over 50 years. Most of the counties experiencing the greatest losses have been and will be rural, and are agriculturally oriented. Overall, farm employment on the Great Plains decreased 31.4% from 1970 to 2005. By the year 2030 the total decline is projected to reach 34% with a total loss of over 266,000 jobs.

Throughout the Plains, total farm employment is expected to continue to decline. While farm employment is declining, farm output and productivity are increasing. Advances in farming methods and technology will provide more production from fewer workers. The growth of the metro areas of the Great Plains will depend on farm output, not farms.

Farming is an "export industry" for the regional economy and because of this fact, farm income creates demand for local retail products and services. A drop in farm employment can create declines in demand for retail, services and finance. As a result, economic strategic plans should call for offset of farm job loss with other export industries.

Counties which have experienced farm employment declines are projected to continue to experience declines through 2030. Opportunities exist for "value added" product manufacture and some communities can become processing centers for farm output or a distribution center. Manufacturing employment, including food processing is projected to increase 10.7% from 2002 to 2030. During this period, good economic development opportunities will exist in all areas of food processing (primary, secondary and derivatives).

Most of the MSA's and immediately adjacent counties within the Plains are projected to grow through 2030. Firms are moving into the MSA's due to available land and skilled labor. Most MSAs have diversified economies and are regional economic centers. Agricultural product processing, transport, distribution and logistics are viable activities. These economic centers can be further strengthened by enhancement of the retail and service industry infrastructure, cultural, recreation, entertainment and education amenities.

### State Market Trends

Kansas is the heart of the heartland and has experienced large cultural, economic and demographic shifts. The state has a history of colliding cultures and dramatic economic change. The instability came from rural economies defined by agriculture and related employment. Boom times were often followed by a bust.

Today, the MSAs in Kansas are diverse, thriving regional economic centers while many of the rural communities within the state continue to struggle. For many, tourism and the rich history of the state provide a readily accessible and powerful economic stimulus package. Earned revenues can be leveraged with community funds and financial incentives to stimulate the investment required to create a more diverse and stable rural economy.

While often not taken seriously in rural economic development plans, tourism is one of the state's most valuable assets. In the emerging world market, the plains adventure and settling of the west are as unique as the medieval castles of Europe. Kansas represents a truly "American experience". As China continues to become a driving force in world tourism, the cowboy culture is likely to thrive. Kansas has much of the history of the American Wild West.

While the west shares the cowboys, cattle drives, rodeos, stagecoaches, ranches and prairies, Kansas is inseparable from this uniquely American adventure. Kansas is the home of the cowboy boot and the source of the Chisholm and Sante Fe Trails. Books such as "Cowboys and Kansas; Stories from the Tallgrass Prairie", tell about farming, ranching, and the cow towns depicted in countless movies.

The natural geography of Kansas presents a beauty which is unique and incomparable. The tallgrass prairies, the Flint Hills and fossil laden plains present sustainable points of difference which are becoming more valuable with time.

Kansas is also a good home for wildlife, with ample rural habitat. The state is one of the top 3 for pheasants and also has quality deer and antelope populations. There are several recreational lakes and reservoirs which are well used. The communities next to these recreational sites need to prepare infrastructure for recreation and tourism based economies. For all tourism areas, the easiest way to grow revenue is to grow frequency of visitation and increase the length of stay.

Rural Kansas will be increasingly popular for persons in high pressure jobs and those experiencing hurry sickness from the ever increasing pace of life in urban centers. In rural areas, the blend of adventure and new opportunity which was historically part of the rural experience remains.

In many ways, the small business economy is more prevalent in rural areas. As a result, strategies for rural economic development are different than those used for urban centers. Collaboration and partnering replace direct competition and duplication. Bottom up economic development methods are more effective than top down methods. Assets to leverage include the rural lifestyle, natural beauty and safety.

Knowledge based industrial development will allow many to live in a rural environment while exporting products and services throughout the state, region, country and world. Economic development strategies should recognize and build on this opportunity.

### Dickinson County

Dickinson County has experienced past population decline yet is now experiencing slow, steady growth. Continued employment growth will likely drive population increases in the future.

The jobs factor which compares the strength of the county to the average U.S. county of the same size (based on jobs per 1,000 population). For Dickinson County, it grew from 1.41 in 1985 to 1.55 in 2007. The rate of growth is accelerating and the factor is projected to be 1.60 by 2010.

The jobs factor depicts the relative strength of employment within the market. Dickinson County has 55% more total employment than the average county of it's size (based on a common size comparison per thousand population).

According to Woods & Poole (Washington D.C. 2007), Dickinson County can be expected to experience an average annual population growth of +0.05% through 2015. The average annual growth for all of the U.S. is 0.98%. The predicted growth follows declines experienced in the 1980s and 1990s.

Employment in Dickinson County is projected to grow at a rate which is +0.66% through 2015. The average annual employment growth for all of the U.S. is 1.40%. (Woods & Poole, 2007)

Dickinson County Growth Projections  
2000-2030

Population growth	+0.13% per year
Employment growth	+0.85% per year

County Population Trend

1980	20,130
1990	18,930
2000	19,370
2010	19,400
2020	19,670

Dickinson County

	<u>1980-00</u>	<u>2000-2015</u>
Population Growth	-0.19%	+0.05%
Employment Growth	+0.26%	+0.66%

The employment trend profile below shows declines in farm employment and six other categories. Growth is forecasted for most categories by 2010. The highest employment growth rate has been recorded for retail, services and government.

Employment can be a cause and effect of population growth. Jobs can cause relocation to the market. Increased population in turn can drive employment. Growth in retail and service jobs is often correlated with growth of total employment, population, visitation and tourism. Continued employment growth can provide the basis for increased retail spending. Transient, tourist and visitor spending can accelerate the basic growth rate, increasing overall market yield.

**Total Employment Trend**  
**Dickinson County**  
 Numbers as Thousands of Jobs  
 County Employment 19,380 (2007)

	<u>1985</u>	<u>1995</u>	<u>2007</u>	<u>2010</u>	<u>Trend</u>
Total Population	19.09	19.57	19.38	19.40	+
Total Employment	9.09	10.02	10.14	10.51	+
Jobs Factor	1.41	1.51	1.55	1.60	+
Farm Employment	1.35	1.09	1.03	1.01	-
Non-Farm Ag Service	0.13	0.21	0.37	0.39	+
Mining	0.13	0.08	0.06	0.06	-
Construction	0.47	0.42	0.42	0.44	+
Manufacturing	0.53	1.14	1.61	1.69	+
Trans, Com, Utility	0.52	0.46	0.34	0.34	-
Wholesale	0.38	0.53	0.37	0.39	-
Retail	1.31	1.98	1.89	1.97	-
Finance/Ins/Real Est	0.48	0.40	0.36	0.38	-
Services	2.42	2.06	1.79	1.82	-
Government	1.37	1.65	1.90	2.02	+

source: Woods & Poole, Washington D.C. 2008

The economic trends can also be studied in dollars instead of jobs. A study in dollars, by category can help identify strengths or weaknesses and suggest areas for development. The figures presented in the chart are expressed in 2004 dollars. The use of constant dollars negates the inflation effect and allows true growth to be studied.

Overall, inflation adjusted retail sales have increased 52.1% from 1985 to 2007. The inflation adjusted annual growth from 2007 through 2010 is projected at 0.97% and 2.90% overall. The strongest growth has been in food stores and eating and drinking places.

The retail sales pattern for Dickinson County reflects steady growth of the economy. Retail sales are most often driven by population growth, increased employment and the improved strength of the county in terms of retail and service pull and revenue capture. Categories with little or no growth suggest opportunities for development.

Dickinson County has gained retail sales, largely due to population growth, improved market pull and increased revenue capture. Economic development planning in the county should continue to focus on improvement of the retail and service infrastructure and removal of development impediments by providing facilitated financing and other incentives.

**County Retail Sales Patterns**

**Dickinson County**

Millions 2004 Dollars

source: Woods & Poole, Washington D.C., 2008

	<u>1985</u>	<u>1995</u>	<u>2007</u>	<u>2010</u>	<u>\$ Chg</u>
	<u>\$ mil</u>	<u>\$ mil</u>	<u>\$ mil</u>	<u>\$ mil</u>	<u>85 - 07</u>
Total Retail	109.68	137.10	166.85	171.76	+ 57.2
Bldg Materials	7.50	5.80	9.10	9.40	+ 1.6
Gen Merchandise	8.33	9.16	8.40	8.78	+ 0.1
Food Stores	28.60	26.74	30.01	30.26	+ 1.4
Auto Dealers	18.57	54.00	62.41	64.19	+ 43.8
Gas & Service	21.30	16.68	23.72	24.62	+ 2.4
Apparel	2.79	0.78	0.54	0.55	- 2.3
Home Furnishings	1.82	2.22	2.76	2.82	+ 0.9
Eating & Drink	10.12	11.59	14.68	15.28	+ 4.6
Drug Stores	4.14	4.14	6.66	6.99	+ 2.5
Misc Retail	6.50	6.00	8.56	8.86	+ 2.1

note: All figures are presented as 2004 dollars or "constant dollars", representing true growth. \$ Chg may be a rounded figure.

The retail sales in constant dollars are measures of the efficiency of the market to attract and capture revenue. The overall totals are a function of resident spending, business transient and tourism spending. Growth of household income and number of households are the drivers for resident retail spending.

**Mean Household Income**

**Trend In Constant Dollars**

	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>\$ Chg</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>90 -10</u>
Mean Hshld Income (constant \$ = 2004)	49,090	60,442	67,125	+ 18,035

**Retail Sales Per Household**

**Trend In Constant Dollars**

	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>\$ Chg</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>90 -10</u>
Retail \$/Hshld (constant \$ = 2004)	15,233	19,686	20,822	+ 5,589

**Constant Dollar Analysis** - Based on constant dollar analysis, Dickinson County is growing in terms of household income and is growing slowly in terms of retail purchases.

The constant dollar analysis can identify the degree to which inflation adjusted sales have increased. The observed growth can be partly explained by employment growth, an increase in total households, increased household income, market pull and improved retail capture.

note: The retail sales per household increased 29.2% and household income has increased 23.1% during the period from 1990 to 2000.

**Growth by Category Analysis** - Overall, retail sales have been increasing since 1985 and growth is likely to continue. As retail stores expand and new stores open, the critical mass increases and will support increased market pull and improved market capture. Categories showing growth will likely continue to grow and the rate of growth may be accelerated by greater variety and depth of offerings, increased service industry development, tourism, visitation, improved market pull and increased population growth.

note: While the resident population will limit the basic demand for retail, improved attraction and capture of transient and visitor revenue can continue to provide economic growth.

### **Abilene Market Area**

Abilene (pop 6,543 2000 Census) is the county seat and is an emerging rural convenience center. The market area extends 5-10 miles or more, depending on direction. Market pull is limited to the west by Salina (pop 45,956) and to the east by Junction City (pop 16,402). Abilene has a transitional economy and good opportunities to serve the convenience retail and service needs of residents, business transients and tourists.

Abilene is located on the I-70 corridor which affords it unique opportunity to meet the needs of business and leisure transients. A growing cluster located on the corridor has helped improve pull from it.

Abilene has quality tourist destinations and recently has experienced growth of retail and service infrastructure. While the impact of employment at Fort Ripley is a positive factor, in order to assure economic sustainability, continued emphasis needs to be placed on achievement of a more diverse economy. Economic diversification and grass roots economic development are the best strategies to improve resiliency of a rural market area.

The primary market for Abilene is determined to be 5 miles and the secondary market 10 miles. Despite the smaller population, Abilene serves a rural trade area of more than 12,000 residents. In order to improve revenue capture, the retail and service infrastructure needs to be continually expanded and upgraded. Retail pull depends on the number of retail providers and optimum revenue capture requires the right mix of stores to be clustered. Retail slippage has been documented in other studies.

The local market economy is not well diversified and the existing strength comes from retail and services. Employment is below average in four categories including manufacturing and wholesale.

The 5 mile market area has a moderate population (8,323) which grew 4.16% from 1990 to 2000. The rate of population growth was 5.02% within the 10 mile secondary market area. The primary market has a average household income of \$49,789 which is about average for a rural community yet below the average for the U.S..

note: Due to past population trends a decline in population is projected on the Claritas report. This may not actually occur if employment growth continues.

In order to optimize economic growth, Abilene needs to increase market pull by use of coordinated tourism promotion and community based marketing to improve revenue capture. Local and regional pull can be improved through market appropriate development of retail and service infrastructure.

Basic demand from area residents is limited by the number of households, disposable income and shopping patterns. Total market yield can be improved by increasing the total number of transients or visitors coming to or stopping in Abilene and increasing the length of time they stay. Also, market yield can be improved by providing an increased range and depth of high quality retail items for residents, leisure and business transients and retirees. Total retail and service revenue will increase in proportion to each variable.

### Infrastructure Importance

Economic growth and stability are limited when infrastructure is lacking. Overall, the ability of a market to continue to grow and sustain itself can be accurately predicted from the level of infrastructure to support such growth.

note: While basic community infrastructure includes sewer, water and streets, visitor infrastructure includes retail and service businesses, recreation, entertainment and access to transportation.

The Abilene 5 mile market area has an above average total employment level (based on employment per thousand population). There are 18 manufacturing locations (SIC 20-39) with 321 employees and annual revenues of \$35.2 million. There are 113 retail locations (SIC 52-59) with 1,825 employees and estimated annual revenues of \$178.9 million.

The downtown district and highway service cluster should be continually developed to improve market pull and increase revenue capture. Lodging, foodservice, special events, retail and services can be important components of a market strategy for growth. Arts, culture and entertainment are valuable when trying to revitalize downtown and build a more vibrant and economically sustainable community.

### Critical Success Factor

Efforts should be made to organize, support and market compatible businesses which can improve market pull and increase retail and service dollar capture.

### Possible Highway Service Cluster Components (components can be in the cluster or nearby) (some already exist)

Lodging	- all price tiers available
Foodservice options	- bistro, casual and fine dining
Retail	- foods and beverages
Special events	- business, group or family weddings, re-unions, events
Visitor services	- travel center w/c-store, visitor info center/kiosks
Travel Center	- located on I-70 corridor

For lodging adjacent to I-70 is important to improve revenue capture. For transients and commuters, time savings and convenience will keep most transients close to the corridor. However, overnight guests will often gravitate toward the downtown after check in.

### Economic Development Goal

#### Leverage Visitor, Transient and Tourist Dollars

Project unique community image and positioning  
Enhance and promote Abilene as a "destination"  
Leverage cultural and historical amenities  
Leverage I-70 lodging to increase overnight stays  
Increase total time spent in Abilene  
Become "self referring" to improve revenue capture  
Promote the downtown as a walkable destination  
Use coordinated market promotion to increase pull

note: It may take years to complete the infrastructure needed for optimum market pull and revenue capture.

For optimum impact, the downtown district should be designed to attract and retain area residents, transients, visitors and tourists.

### Critical Success Factor

Additional lodging development needs to be supported by destination marketing and a strategy to increase demand from visitors, tourists, area residents and businesses.

### Chamber of Commerce Recommendations

Many communities do not have a fully functional Chamber of Commerce. A functional Chamber of Commerce and an Economic Development Commission (EDC) are the basics required for growth. Abilene has an active Chamber of Commerce and Tourism Council.

note: A Visitor Guide is published which is very well written, informative and with lots of pictures. The lodging portion of the guide should be expanded to include number of rooms, amenities and price range.

The Visitor Guide should be available at the Chamber of Commerce, all lodging establishments, restaurants, c-stores and at an I-70 travel center. Kiosks can be used for 24 hour access.

Abilene needs to position itself uniquely within the county and region using local attractions, history, culture and natural resource amenities. Other destination developments and marketing should be used to complete the retail and service infrastructure and revitalize the downtown district.

As Abilene grows, a critical part of infrastructure required for growth is a well structured Chamber of Commerce with functional committees to drive and support economic development.

Fully functional chambers can be established for communities as small as 600 persons, yet are often lacking in communities of up to 100,000 in population. In terms of the Chamber of Commerce, the difference between small communities and larger ones is not the number of tasks, but rather the number of people to accomplish those tasks.

To best facilitate growth, the Chamber of Commerce should use specialty areas within the chamber to work on specific areas of service and development. Each area should have

funding sources, distinct areas of expertise and functional areas of responsibility. While the director may be full time, many other positions can be part time or even volunteer.

In markets such as Abilene, separate groups should be used to handle the functions of business support services, economic development, tourism and community event planning. Each functional area should be staffed by those volunteers who have interest in and can best benefit from progress and the possible positive outcomes.

#### Recommended Chamber of Commerce Specialty Areas

- Economic development council (EDC or EDA)
- Business development center (BDC or SBDC)
- Tourism and visitor promotion (CVB)
- Special event committees
- Micro-business Alliance (MBA)
- Downtown development alliance (DDA) or (DDC)
- Main street alliance (Main Street USA)
- Retail network (RNET)
- Manufacturer's network (MNET)
- Home business alliance (HBA)
- Education services for members
- Community beautification

The Executive Director of the Chamber of Commerce should act as a coordinator, however, most of the work and funding should come from those who participate, out of self interest or the desire to see the market area continue to improve. Tourism and community visitation need to be embraced as an important part of the economic and strategic development plan.

The Chamber of Commerce activities, success and support are critical to the performance of lodging in Abilene. The keys to market and economic growth are continued efforts to increase market pull, improve capture, coordinated market promotion, special event management and group sales.

#### Critical Success Factor

To properly yield the Abilene market area, the Chamber of Commerce should track, analyze and utilize visitor information. Inquiries, conversion rates and expenditure or impact data should be used to prepare an annual market yield study.

The future of the market area likely holds continued growth and change as the retail and service infrastructure continues to develop. Despite past population decline and slow growth, continued population growth should be planned for.

A strategy will be needed to facilitate sustainable economic development without loss of a small town feel. Comprehensive planning, Smart Growth initiatives and master plans should be used to guide re-development, development and enhancements.

### Area Attractions, Activities and Events

The Abilene market area has historical sites, cultural diversity, unique geography, sports activities and recreation options.

#### Area Attractions and Destinations

##### Local and Nearby Sites

(list is not exhaustive)

##### Abilene

- Eisenhower Center (presidential library and museum)
- Abilene & Smoky Valley Railroad Association
- Dickinson County Heritage Museums
  - C.W. Parker Carousel (National Landmark)
  - Museum of Independent Telephony
- Greyhound Hall of Fame
- Historic homes
  - Seelye Mansion 1904
    - patent medicine museum and gardens
  - Lebold Mansion
  - 100+ early 1900s homes
- Great Plains Theater Festival (Tietjens Center)
  - year round professional performances
- Fashion Museum (clothing trends)
- American Indian Art Center (100% native American art)
- Historic Post Office Block
- Old Abilene Town and Museum
- Russell Stover Factory and Outlet (industrial tourism)
- Bow Studio and Gallery
- Antique shops
- Specialty and gift stores

##### Area Events

(list not exhaustive)

- CKS Fair
- Wild Bill Hickok PRCA Rodeo
- Western Heritage Festival
- Community Events

note: Events shown are some of those deemed capable of generating destination tourist traffic. Other events exist.

The Primary Market

For new lodging in Abilene, the primary market area is determined to include a 5 mile radius and the secondary market a 10 mile radius, more or less in some directions. Abilene is an emerging rural convenience center, access point to the county and potential site for commercial, industrial, historical and cultural development.

Within the primary market area, population is 8,323 and in the secondary market the population is 12,002. Between 1990 and 2000, the population within the 5 mile primary market grew 4.16% and within the 10 mile secondary market 5.02%.

The pattern in the number of households in the primary market area also reflects a growth trend. Between 1990 and 2000 the number of households in the 5-mile market increased +7.66% to 3,560 and within the 10 mile market increased 7.82% to 4,956. The more rapid growth of households than population indicates a change in household size.

Population Trend

	<u>1990</u>	<u>2000</u>	<u>2008 (est)</u>
<u>Abilene</u>	8,030	8,364	8,323
<u>5 mile market</u>			

source: US Census, Updates and Projections, Claritas

Average household income in the market area is currently \$49,789 and the median is \$42,756. The household income level is average for a market area of this type and is 57.8% of the U.S. average.

Market Area Employment Profile

The Abilene market area (5 mile) has above average total employment for it's size, yet is below average in four of the categories. Currently, the business and industry profile is strongest in services and retail.

Employment Profile

n= 526 businesses (5 mile radius)  
4,968 employees

EMPLOYMENT PROFILE COMPARISON TO U.S. AVERAGE

employment.wks

Abilene, Kansas

Market Area (5 miles)

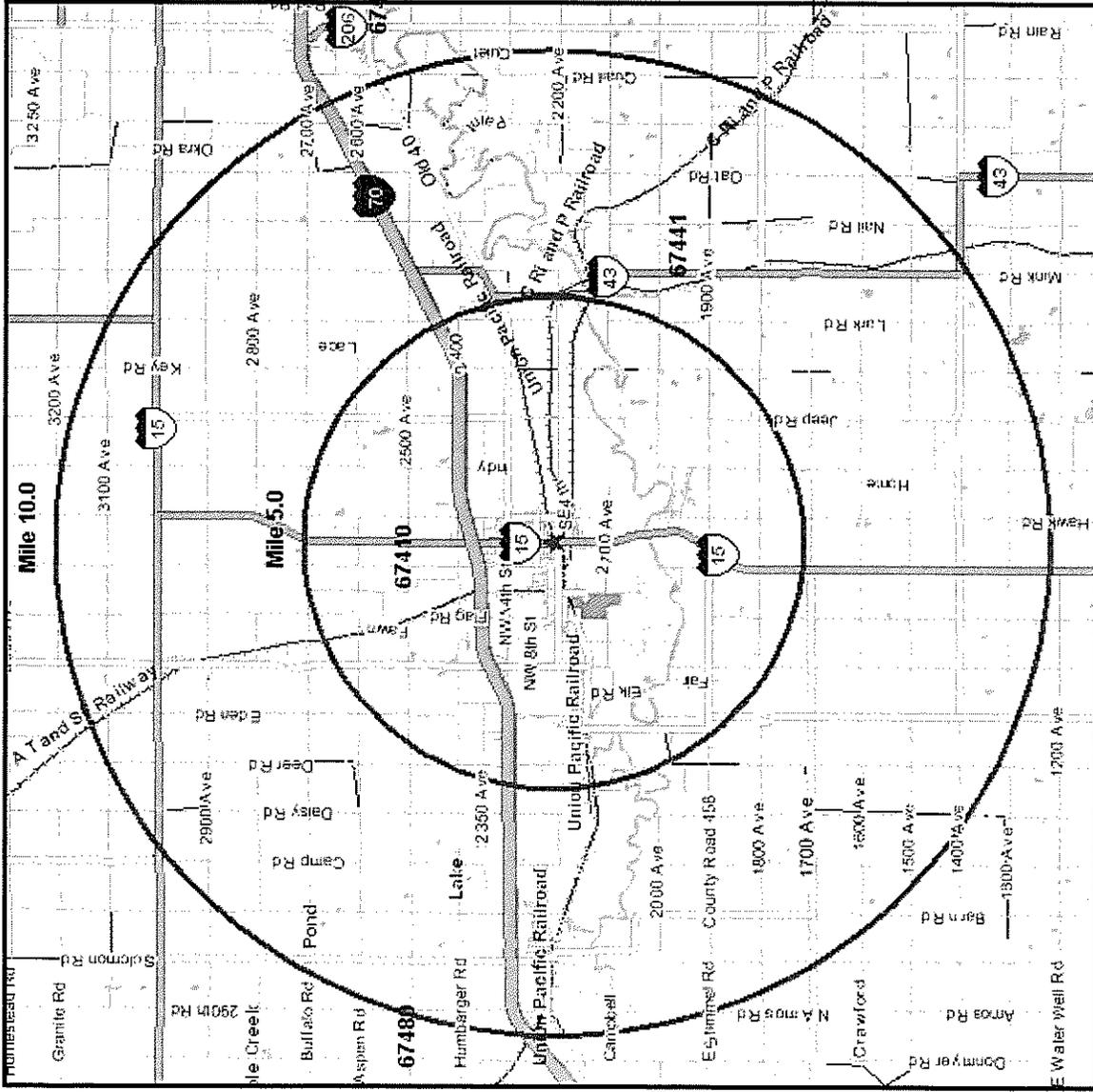
=====				
	<u>Population Factor</u>			
-----				
<u>Inputs</u>	8,364	8.364		
-----				
	<u>Jobs Per</u> <u>1,000 Pop</u>	<u>Potential</u> <u>Jobs</u>	<u>Actual</u> <u>Jobs</u>	<u>Variance</u>
-----				
RETAIL	72	602	1,696	1094
FINANCE/INS/REAL ESTATE	31	259	191	-68
SERVICES	76	636	1,737	1101
AGRICULTURE	12	100	103	3
MINING	3	25	0	-25
CONSTRUCTION	18	151	185	34
MANUFACTURING	67	560	261	-299
TRANS, COMMUN, UTILITY	21	176	277	101
WHOLESALE	23	192	113	-79
GOVERNMENT	15	125	405	280
-----				
Totals		2827	4,968	
Jobs Factor		1.76		
=====				

source: US Census of Business and custom Claritas profile

# Area Map

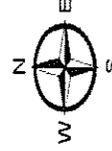
Prepared For: Business Plans Etc.  
 Project Code: 3506693

Order #: 967160692  
 Site: 01



CENTER OF ABILENE  
 ABILENE, KS  
 Coord: 38.916460, -97.213910  
 Radius - Sec Appendix for Details

★	Point
▬	Interstate Highways
▬	US Highways
▬	State Highways
▬	Major Highways
▬	Major Roads
▬	Roads
▬	Railroads
▬	Landmarks
▬	Parks
▬	Hydrography
▬	Airports
▬	Zip Code
▬	State
▬	Ocean



## Pop-Facts: Demographic Quick Facts Report

Radius 1: CENTER OF ABILENE, ABILENE, KS, aggregate

Radius 2: CENTER OF ABILENE, ABILENE, KS, aggregate

Description	0.00 - 5.00 miles		0.00 - 10.00 miles	
	Radius 1	%	Radius 2	%
<b>Population</b>				
2013 Projection	8,301		12,073	
2008 Estimate	8,323		12,002	
2000 Census	8,364		11,971	
1990 Census	8,030		11,399	
Growth 1990 - 2000	4.16%		5.02%	
<b>Households</b>				
2013 Projection	3,576		5,012	
2008 Estimate	3,560		4,956	
2000 Census	3,527		4,883	
1990 Census	3,276		4,529	
Growth 1990 - 2000	7.66%		7.82%	
<b>2008 Est. Population by Single Classification Race</b>				
White Alone	7,860	94.44	11,405	95.03
Black or African American Alone	118	1.42	121	1.01
American Indian and Alaska Native Alone	59	0.71	78	0.65
Asian Alone	34	0.41	42	0.35
Native Hawaiian and Other Pacific Islander Alone	0	0.00	0	0.00
Some Other Race Alone	89	1.07	129	1.07
Two or More Races	164	1.97	226	1.88
<b>2008 Est. Population Hispanic or Latino</b>				
Hispanic or Latino	299	3.59	380	3.17
Not Hispanic or Latino	8,024	96.41	11,622	96.83
<b>2008 Tenure of Occupied Housing Units</b>				
Owner Occupied	2,583	72.56	3,692	74.50
Renter Occupied	977	27.44	1,264	25.50
<b>2008 Average Household Size</b>				
	2.30		2.38	



## Pop-Facts: Demographic Quick Facts Report

Radius 1: CENTER OF ABILENE, ABILENE, KS, aggregate

Radius 2: CENTER OF ABILENE, ABILENE, KS, aggregate

Description	0.00 - 5.00 miles		0.00 - 10.00 miles	
	Radius 1	%	Radius 2	%
<b>2008 Est. Households by Household Income</b>	3,560		4,956	
Income Less than \$15,000	502	14.10	653	13.18
Income \$15,000 - \$24,999	487	13.68	618	12.47
Income \$25,000 - \$34,999	428	12.02	583	11.76
Income \$35,000 - \$49,999	703	19.75	960	19.37
Income \$50,000 - \$74,999	826	23.20	1,215	24.52
Income \$75,000 - \$99,999	353	9.92	526	10.61
Income \$100,000 - \$149,999	201	5.65	312	6.30
Income \$150,000 - \$249,999	46	1.29	60	1.21
Income \$250,000 - \$499,999	11	0.31	23	0.46
Income \$500,000 and over	4	0.11	6	0.12
<b>2008 Est. Average Household Income</b>	\$49,789		\$51,885	
<b>2008 Est. Median Household Income</b>	\$42,756		\$44,748	
<b>2008 Est. Per Capita Income</b>	\$21,687		\$21,750	



## Business-Facts: WorkPlace and Employment Summary 2008

Radius 1: CENTER OF ABILENE, ABILENE, KS, 0.00 - 5.00 Miles, Total

Business Description	Total Establishment	Total Employees	Employees Per Establishment
<b>Industries (All)</b>	526	4,968	9
Industries (Private Sector)	392	3,837	10
Industries (Government and Non-Profit)*	134	1,131	8
<b>Agriculture (All)</b>	17	103	6
<b>Mining (All)</b>	0	0	0
<b>Construction (All)</b>	35	185	5
<b>Manufacturing (All)</b>	14	261	19
<b>Transportation, Communications/Public Utilities</b>	32	277	9
<b>Wholesale Trade (All)</b>	14	113	8
<b>Retail (All Retail)</b>	99	1,696	17
Building Matls and Garden Supply	4	100	25
General Merchandise Stores	6	842	140
Food Stores	10	160	16
Auto Dealers and Gas Stations	15	119	8
Apparel and Accessory Stores	5	11	2
Home Furniture, Furnishings and Equipment	7	25	4
Eating and Drinking Places	23	338	15
Miscellaneous Retail Stores	29	101	4
<b>Finance (All)</b>	48	191	4
Bank, Savings and Lending Institutions	11	92	8
Security and Commodity Brokers	7	27	4
Insurance Carriers and Agencies	10	25	3
Real Estate	20	47	2
Trusts, Holdings and Other Investments	0	0	0



## Business-Facts: WorkPlace and Employment Summary 2008

Radius 1: CENTER OF ABILENE, ABILENE, KS, 0.00 - 5.00 Miles, Total

Business Description	Total Establishment	Total Employees	Employees Per Establishment
<b>Service (All)</b>	208	1,737	8
Hotel and Other Lodging	7	47	7
Personal Services	52	162	3
Business Services	29	112	4
Motion Picture and Amusement	13	87	7
Health Services	24	568	24
Legal Services	6	24	4
Educational Services	14	359	26
Social Services	23	220	10
Misc, Membership Orgs and Nonclassified	40	158	4
<b>Public Administration (All)</b>	59	405	7
CY Population	8,323		
CY Residential Pop per Business	16		
CY Households	3,560		
CY HHs per Businesses	7		



## Business-Facts: 2 Digit SIC Summary 2008

### Radius 1: CENTER OF ABILENE, ABILENE, KS, 0.00 - 5.00 Miles, Total

SIC Code	Business Description	Total Establishment	Total Employees	Sales (in Millions)	Establishments 20+ Employees
TOT	All Industries	526	4,968	497.3	45
MAN	All Manufacturing (SIC 20-39)	14	261	30.6	4
RET	All Retailing (SIC 52-59)	99	1,696	155.5	14
ADM	Public Administration (SIC 90-97)	59	405	0	2
01	Agricultural Production - Crops	1	3	.2	0
02	Agricultural Production - Livestock	2	16	2.6	0
07	Agricultural Services	14	84	3.6	1
08	Forestry	0	0	0	0
09	Fishing, Hunting and Trapping	0	0	0	0
10	Metal Mining	0	0	0	0
12	Coal Mining	0	0	0	0
13	Oil and Gas Extraction	0	0	0	0
14	Mining NonMetalics, Except Fuels	0	0	0	0
15	Building Construction and General Contractors	10	44	14.4	0
16	Heavy Construction, Except SIC 15	5	73	9.3	1
17	Construction-Special Trade Contractors	20	68	12.5	0
20	Food and Kindred Products	3	54	10.9	2
21	Tobacco Manufacturers	0	0	0	0
22	Textile Mill Products	0	0	0	0
23	Apparel and Other Fabric Products	1	1	.1	0
24	Lumber and Wood Products, Except Furniture	1	14	2.2	0
25	Furniture and Fixtures	0	0	0	0
26	Paper and Allied Products	0	0	0	0
27	Printing, Publishing and Allied Industries	3	29	1.4	1
28	Chemicals and Allied Products	0	0	0	0
29	Petroleum Refining and Related Industries	0	0	0	0
30	Rubber and Miscellaneous Plastics Products	0	0	0	0
31	Leather and Leather Products	0	0	0	0
32	Stone, Clay, Glass and Concrete Products	1	7	.9	0
33	Primary Metal Industries	0	0	0	0
34	Fabricated Metal Products	0	0	0	0
35	Industry and Commercial Machinery and Computers	3	150	14.6	1
36	Electrical and Electronic Equipment(Ex. Computers)	0	0	0	0
37	Transportation Equipment	0	0	0	0
38	Measuring and Analyzing Instruments	0	0	0	0
39	Miscellaneous Manufacturing Industries	2	6	.5	0
40	Railroad Transportation	2	2	.2	0
41	Local, Suburban and Interurban Transportation	2	42	1.7	1
42	Motor Freight Transportation and Warehouse	10	85	9.7	0



## Business-Facts: 2 Digit SIC Summary 2008

### Radius 1: CENTER OF ABILENE, ABILENE, KS, 0.00 - 5.00 Miles, Total

SIC Code	Business Description	Total Establishment	Total Employees	Sales (in Millions)	Establishments 20+ Employees
43	U.S. Postal Service	1	25	.1	1
44	Water Transportation	0	0	0	0
45	Transportation by Air	1	2	.2	0
46	Pipe Lines, Except Natural Gas	2	3	.6	0
47	Transportation Services	1	4	1.3	0
48	Communication	8	63	4.6	1
49	Electric, Gas and Sanitary Services	5	51	6.0	1
50	Wholesale Trade-Durable Goods	9	85	17.5	1
51	Wholesale Trade-NonDurable Goods	5	28	7.5	0
52	Building Materials, Garden Supply and Mobile Homes	4	100	17.2	1
53	General Merchandise Stores	6	842	54.1	4
54	Food Stores	10	160	22.3	1
55	Automobile Dealers and Gas Service Stations	15	119	31.9	2
56	Apparel and Accessory Stores	5	11	.7	0
57	Home Furniture, Furnishings and Equipment	7	25	3.7	0
58	Eating and Drinking Places	23	338	16.3	6
59	Miscellaneous Retail	29	101	9.3	0
60	Depository Institutions	8	87	24.4	2
61	NonDepository Credit Institutions	3	5	1.4	0
62	Security and Commodity Brokers and Service	7	27	4.3	0
63	Insurance Carriers	1	4	1.0	0
64	Insurance Agents, Brokers and Service	9	21	5.0	0
65	Real Estate	20	47	6.8	0
67	Holding and Other Investment Offices	0	0	0	0
70	Hotels and Other Lodging Places	7	47	2.0	1
72	Personal Services	30	84	4.3	0
73	Business Services	19	77	9.8	1
75	Automobile Repair, Services and Parking	18	70	4.1	0
76	Miscellaneous Repair Services	4	8	.8	0
78	Motion Pictures	1	6	.5	0
79	Amusement and Recreational Service (Ex. Movies)	12	81	6.3	0
80	Health Services	24	568	55.9	2
81	Legal Services	6	24	4.4	0
82	Educational Services	14	359	61.0	8
83	Social Services	23	220	13.4	4
84	Museums, Art Galleries, Zoos, Etc.	8	32	1.1	0
86	Membership Organizations	30	115	9.1	0
87	Eng, Acct, Research and Mgmt Related Services	10	35	3.4	0
89	Miscellaneous Services	1	3	.2	0



## Business-Facts: 2 Digit SIC Summary 2008

Radius 1: CENTER OF ABILENE, ABILENE, KS, 0.00 - 5.00 Miles, Total

SIC Code	Business Description	Total Establishment	Total Employees	Sales (in Millions)	Establishments 20+ Employees
91	Exec., Leg. and Gen. Govt. (Except Finance)	26	135	0	0
92	Justice, Public Order and Safety	14	152	0	2
93	Public Finance, Taxation and Monetary Policy	1	8	0	0
94	Administration Of Human Resource Programs	4	22	0	0
95	Admin. Of Environ. Quality and Housing Programs	7	35	0	0
96	Administration Of Economic Programs	5	42	0	0
97	National Security and International Affairs	2	11	0	0
99	NonClassifiable Establishments	1	8	0	0



## Business-Facts: WorkPlace and Employment Summary 2008

Radius 2: CENTER OF ABILENE, ABILENE, KS, 0.00 - 10.00 Miles, Total

Business Description	Total Establishment	Total Employees	Employees Per Establishment
<b>Industries (All)</b>	634	6,168	10
Industries (Private Sector)	464	4,745	10
Industries (Government and Non-Profit)*	170	1,423	8
<b>Agriculture (All)</b>	21	116	6
<b>Mining (All)</b>	1	1	1
<b>Construction (All)</b>	43	214	5
<b>Manufacturing (All)</b>	18	321	18
<b>Transportation, Communications/Public Utilities</b>	41	323	8
<b>Wholesale Trade (All)</b>	21	583	28
<b>Retail (All Retail)</b>	113	1,825	16
Building Matls and Garden Supply	4	100	25
General Merchandise Stores	6	842	140
Food Stores	11	175	16
Auto Dealers and Gas Stations	22	172	8
Apparel and Accessory Stores	5	11	2
Home Furniture, Furnishings and Equipment	9	41	5
Eating and Drinking Places	26	381	15
Miscellaneous Retail Stores	30	103	3
<b>Finance (All)</b>	60	234	4
Bank, Savings and Lending Institutions	15	118	8
Security and Commodity Brokers	8	28	4
Insurance Carriers and Agencies	11	33	3
Real Estate	26	55	2
Trusts, Holdings and Other Investments	0	0	0



## Business-Facts: WorkPlace and Employment Summary 2008

Radius 2: CENTER OF ABILENE, ABILENE, KS, 0.00 - 10.00 Miles, Total

Business Description	Total Establishment	Total Employees	Employees Per Establishment
<b>Service (All)</b>	250	2,053	8
Hotel and Other Lodging	8	58	7
Personal Services	60	175	3
Business Services	30	141	5
Motion Picture and Amusement	15	96	6
Health Services	25	623	25
Legal Services	6	24	4
Educational Services	27	502	19
Social Services	27	253	9
Misc, Membership Orgs and Nonclassified	52	181	4
<b>Public Administration (All)</b>	66	498	8
CY Population	12,002		
CY Residential Pop per Business	19		
CY Households	4,956		
CY HHs per Businesses	8		

Prepared from Claritas Business-Facts which includes data from infoUSA.

\* Industries (Government & Non-Profit), or the Public Sector, includes Public Administration , Museums, Educational, and Social Services. All the rest of the Industries are the Private Sector.



## DEMAND LEVEL AND COMPETITION

The Abilene 5 mile market area has a smaller population yet the 10 mile trade area includes nearly 12,000 residents. The level of employment is above average and yet the household income remains below average. Abilene is an emerging rural convenience center and the proximity to I-70 provides easy access for residents and transient. Destination tourism has created lasting positive economic impacts.

note: While the level of basic demand in the primary 5 mile market area is limited by the population and constrained by income levels, the destination retail, transient, tourist and visitor demand is not.

### US Population Growth will Drive Lodging Demand

Population growth will drive travel, room night sales and lodging development. Drive destinations, vacation areas and resorts will continue to create isolated pockets of demand within a 300 mile distance of major population centers.

By 2000, America's population exceeded 281 million. By 2050, the population is projected to increase 47%. Per capita consumption of many goods and services is increasing as a result of a fundamental change in the type of consumer. In many areas, travel, tourism, recreation and activity oriented tourism will continue to drive lodging sales.

Lodging demand is driven by population growth. The propensity to travel is influenced by age and income. Educational status and occupation tend to influence the type of trip, distance travelled and total trip expenditures. A variety of lodging options are needed along with mixed use developments. There is growing popularity of time share purchases for active and mobile, young professionals. Baby boomers and Generation X now represent the majority of business travellers and expectations reflect changed values and some new priorities.

#### US Population Projection (numbers in 1,000's)

	<u>2000</u>	<u>2010</u>	<u>2015</u>
Population	282,798	299,862	312,268
Median Age	36.3	37.2	37.3

## Market Development Stage

The 5 mile primary market area around Abilene may be drawn to town due to convenience of consumer retail, a need for services, recreation, entertainment or special events. The community will also draw from under-served areas outside the primary market ring. The community is a long standing tourism destination and has significant historical, cultural and general interest sites.

### Average Household Income Comparison

source: Woods & Poole Economics, Washington D.C.

	<u>U.S. Ave</u>	<u>Plains</u>	<u>5 mile Mkt</u>
Ave Hshld Income	\$86,081	\$79,660	\$49,789

The 5 mile market population has grown through the 2000 Census and growth of employment will likely continue to drive growth of households.

## Abilene Strengths and Weaknesses

### Strengths

- Employment growth and number of jobs  
government, retail, service
- Unique historical and cultural amenities
- Emerging rural convenience center
- Some specialty and destination retail
- Retail and service employment
- Downtown re-development planned

### Weaknesses

- Slow population growth
- Below average income
- Low manufacturing employment
- Lack of meeting and conference space
- History of sub-standard lodging options

### Upside Potential

- Only 40% of tourism lodging potential captured
- Continue efforts to diversify the economy
- Fuel prices will favor local retail purchases
- Fuel prices will favor regional destinations

### Challenges

- Fuel impact on tourism (short term)
- Business and manufacturing recruitment
- Destination marketing needs  
special events, tourism, business and industry
- Economic slowdown and possible recession 2009/10
- Market has history of below average ADR

### The Lodging Situation

Currently, the Abilene market has 295 hotel/motel lodging rooms with 68% branded. The market has 305 rooms total (includes B&B). For mid-priced lodging, the competitive set consists of the Holiday Inn Express. The Best Western has been converted to a budget brand (America's Best Value). A lodging gap is calculated by price tier.

### Absorption Rate for New Rooms

The absorption rate for new rooms depends on market slippage, growth in population, employment growth, trends in community visitation, highway transient traffic capture and tourism pull. Based on current population and employment trends, the lodging gap was calculated for 2007 and estimated through 2022. The gap determination is based on a 5 mile market area and population of 8,364 with existing visitation and tourism could reasonably support 279 (low) to 418 (high) rooms.

#### Lodging Gap Estimate

#### Total Lodging Rooms Justified

#### Abilene 5 mile Radius

Current # Hotel/Motel Lodging Rooms = 295

	<u>2007</u>	<u>2012</u>	<u>2017</u>	<u>2022</u>
<u>Base Population</u>	8,364	8,531	8,702	8,920
Annual Growth	+0.40%	+0.40%	+0.50%	+0.50%
Rms Factor Current	28	28	28	28
Rms Factor Low	30	30	30	30
Rms Factor High	20	20	20	20
<u>Base Employment</u>	4,968	5,117	5,271	5,445
Annual Growth	+0.60%	+0.60%	+0.66%	+0.66%
Rms Factor Current	17	17	18	18
<u>Rooms Demand</u>				
High Estimate	418	427	435	446
Low Estimate	279	284	290	297
<u>Rooms Supply</u>				
Total Rooms	295	355	355	355
<u>Rooms Gap</u>				
High Estimate	123	72	80	91
Low Estimate	( 16)	( 71)	( 65)	( 58)

note: Mid-priced rooms (60) shown added in 2009/10

note: High estimate based on best case (includes resident, business and capture of destination demand for the Abilene market area). Low estimate is based on

## Room Rates, Fluctuations and Market Comparables

Room rates were studied in the area by direct calls made to lodging properties. Standard rates were sampled, seasonal price fluctuations estimated and guest service for phone inquiry was tested. Business census, tax return totals and tax collections may have been used to estimate the total room nights sold (based on a weighted average daily rate) and market revenue capture.

The market comparables suggest that the rates observed are favorable for branded lodging in Abilene. New mid-scale lodging would need to create a niche among established mid-scale comparables. A value proposition needs to be created by careful positioning, quality construction and valued amenities. An attached conference and special event center would provide a sustainable point of difference.

Seasonal price fluctuations occur in summer and prices for 4 summer months (June through September) are usually higher and those for the 3 winter months (January through March) are usually lower than the shoulder seasons. With fall colors and hunting, the rates for June through October are usually 15-25% higher than for the shoulder seasons. Discounts come into play for mid-week (10-15%) and business rates (10%).

Discounts need to be used carefully and an annual yield analysis should be completed to optimize lodging property performance. Overly aggressive discounting (20-50%) may lead to increased occupancy, yet can also lead to decreased market yield and reduced lodging profit.

Quality management tries to avoid direct price competition. The design of the property, amenities, services and other factors need to be employed to make it unique. Direct price competition would indicate a failure to differentiate and properly market a new lodging establishment.

### Abilene Motel Options

Prices are for Double Occupancy (December)

#### Competitive Set

Holiday Inn Express	72 units	785-263-4049
\$78-\$82 winter/\$92 summer		

#### Economy/Budget

Super 8	65 units	785-263-4545
\$65 winter/\$77 summer		

Americas Best Value	65 units	785-263-2050
\$56 winter/\$66 summer		

Note: Impulse roadside motels (2) 93 units

## Room Rates, and Average Daily Rates (ADR)

Room rates vary by price tier, season and discounts affect the average room rate. The average daily rate (ADR) and revenue per available room (RevPar) are key indicators of marketing effectiveness.

The weighted average rate for the competitive set is \$78-\$82. The overall ADR is estimated at \$63.41 and the total room nights sold at 48,000 to 55,000 (all motels and hotels).

### MARKET SEGMENT PROFILE

segment.wks

#### Mid-Scale Branded Lodging

Abilene, Kansas

run date 11/17/08

#### Sample Statistics

WTD Rate	\$64.00	Room Count	295
Occ Rate	54.00%	Sample Size	100.00%

<u>SEGMENT</u>	<u>Occupancy (%)</u>	<u>Low ADR (\$)</u>	<u>Mid ADR (\$)</u>	<u>High ADR (\$)</u>
Luxury	63.98%	\$228.34	\$253.71	\$279.09
Upscale	64.57%	\$95.31	\$105.90	\$116.50
Midprice w/o f&b	58.70%	\$71.14	\$79.04	\$86.94
Economy	54.00%	\$57.60	\$64.00	\$70.40
Budget	49.30%	\$45.94	\$51.05	\$56.15

note: Sample is based on economy rates and indexed to other tiers.

### Basic Rate Assumptions

The average daily rate for the proposed property is adjusted for market maturity, discounts and complimentary stays. The discount structure is taken from actual property samples, yet the actual discount level and proportion of total sales (PSTS) may vary by property and with management's discretion.

Through the calculations and market comparables, there is a reasonable expectation that with good marketing and management, an average daily rate of \$72.00 to \$79.00 is possible for the first year of operation.

Efforts should be made to increase the ADR to \$86.00 within the first 5 years. The weighted room rate assumes a mix of 6 singles, 20 Double Queens, 28 Double Kings, 6 King Suites (3 oriented to business or extended stay and 3 with whirlpools).

**ROOM TYPES AND PRICE TIERS BY SEASON**  
 Determination of Weighted Average Rate  
 Mid-Scale Lodging, Abilene, Kansas  
 run date 11/17/08

rmmix.wks

<u>Room Type</u>	<u>Room Count</u>	<u>Off Rate</u>	<u>Off Season Months</u>	<u>On Rate</u>	<u>On Season Months</u>
Single Queen	6	\$62	7	\$76	5
Double Queen/King	48	\$72	7	\$79	5
King Suite	6	\$86	7	\$119	5

<u>Occupancy Rates</u>	<u>Off Season Occupancy</u>	<u>Off Season Months</u>	<u>On Season Occupancy</u>	<u>On Season Months</u>
Single Queen	45.00%	7	64.00%	5
Double Queen/King	45.00%	7	68.00%	5
King Suite	40.00%	7	58.00%	5

<u>Occupancy Rm Nts</u>	<u>Off Season Potential</u>	<u>Off Season Actual</u>	<u>On Season Potential</u>	<u>On Season Actual</u>
Single Queen	1,278	575	913	584
Double Queen/King	10,220	4,599	7,300	4,964
King Suite	1,278	511	913	529
<b>Totals</b>	<b>12,775</b>	<b>5,685</b>	<b>9,125</b>	<b>6,077</b>

<u>Room Night Summary</u>	<u>Annual Actual</u>	<u>Annual Potential</u>	<u>Annual Occupancy</u>	<u>Annual RevPAR</u>
Single Queen	1,159	2,190	52.92%	\$36.54
Double Queen/King	9,563	17,520	54.58%	\$41.28
King Suite	1,040	2,190	47.50%	\$48.83
<b>Totals</b>	<b>11,762</b>	<b>21,900</b>	<b>53.71%</b>	<b>\$41.56</b>

<u>Revenue Summary</u>	<u>Off Season Revenue</u>	<u>On Season Revenue</u>	<u>Annual Revenue</u>	<u>Annual ADR</u>
Single Queen	\$35,642	\$44,384	\$80,026	\$69
Double Queen/King	\$331,128	\$392,156	\$723,284	\$76
King Suite	\$43,946	\$62,981	\$106,927	\$103
<b>Totals</b>	<b>\$410,716</b>	<b>\$499,521</b>	<b>\$910,237</b>	<b>\$77.39</b>

**Discounting Room Rates**

The level of discounting can be expected to vary from 10-50%. Overall, it is assumed that the standard corporate, group or senior discounts will average 10% of rack rates.

ROOM DISCOUNT MODEL rmpricel.wks  
Mid-Priced Lodging, Abilene, Kansas  
 run date 11/10/08

BASIC RATE MIX

Rack Rate ADR \$83.80

	<u>YIELD</u>	<u>ACTUAL</u>	<u>PROFILE</u>		<u>WEIGHTED</u>
	<u>RATE</u>	<u>DISCOUNT</u>	<u>RATES</u>	<u>PSTS</u>	<u>RATES</u>
RACK	1	0.00%	\$83.80	0.35	\$29.33
AARP	0.95	5.00%	\$79.61	0.06	\$4.78
AAA	0.97	3.00%	\$81.29	0.06	\$4.88
WALK-IN	0.98	2.00%	\$82.12	0.08	\$6.57
CORP/THIRD PARTY	0.9	10.00%	\$75.42	0.3	\$22.63
STATE RATE	0.8	20.00%	\$67.04	0.03	\$2.01
FED RATE	0.8	20.00%	\$67.04	0.04	\$2.68
MILITARY RATE	0.8	20.00%	\$67.04	0.002	\$0.13
EDUCATION	0.9	10.00%	\$75.42	0.005	\$0.38
FAMILY EVENTS	0.95	5.00%	\$79.61	0.003	\$0.24
GROUP RATE	0.9	10.00%	\$75.42	0.05	\$3.77
HOUSE COMPS	0	100.00%	\$0.00	0.02	\$0.00
<u>TOTAL WEIGHTED ADR</u>				100.00%	\$77.39

**The Market Demand for Rooms**

The market demand for rooms can be estimated a number of ways. Like real estate appraisals, estimates often differ by method, yet each can provide useful information.

For a feasibility study, it is most useful to determine whether it is "reasonable" for a market to support the proposed lodging development. For a determination of what is reasonable, national samples, factors and proprietary research may be useful. Market strength or retardation needs to be considered (see comparison of US average to site under consideration).

**Method #1 Aggregate Factor Prediction (5 mile market)**

Based on a national sample taken by Cooper's & Lybrand in 2005, there were 1,039 million room nights sold which equates to 2,847,000 room nights sold per day. Based on a sample population of 297,153,340, it can be concluded that on the average a room night is sold for every 104 persons (resident population). This factor estimation assumes that average income and business levels exist (see comparison of US average to site under consideration).

note: Based on a 1996 sample, this factor was 121 which suggests that the population's propensity to consume rooms is increasing (as predicted).

<u>Year</u>	<u>Rooms Sold/Day</u>	<u>Total Rooms Sold/Year</u>	<u>Resident Population</u>	<u>Population Per/Rm Nt</u>
2005	2,847,000	1,039,155,000	297,153,340	104.4
2004	2,734,000	997,910,000	294,197,260	107.6
2003	2,616,000	954,840,000	291,237,363	111.3
2002	2,578,000	940,970,000	288,277,467	111.8
2001	2,568,000	937,320,000	285,317,570	111.1
2000	2,658,000	970,170,000	282,224,370	106.2

sources: Smith Travel Research, Pricewaterhousecoopers

For the Abilene market area (5 mile), a population of 8,364 could reasonably generate demand of 80 room nights per day and 29,200 room nights per year. Recorded sales above this level are due to business, employment, event, transient and tourism effects.

Based on the same sample and a US total employment level of 160,198,700, it can be concluded that on the average a room night is sold for every 68 employees.

For the Abilene market area (5 mile), and total employment of 4,968 a reasonable demand estimate would be 73 room nights per day and 26,645 room nights per year.

**Method #2 Aggregate Factor Prediction (county)**

For Dickinson County, a population of 19,390 could reasonably generate 186 room nights per day or 67,890 room nights per year. Recorded sales above this level are due to business, employment and tourism effects.

### Method #3 Business Census and Tax Returns

In some cases, business census counts and sales by SIC code can yield useful information. In the case of Abilene (5 mile radius), SIC #70 includes 7 businesses earning \$2.0 million and within the 10 mile secondary market there are 8 businesses listed in SIC #70 earning \$2.3 million in revenue. SIC #70 includes hotels, all lodging, campgrounds and membership organizations (even if not open to the public).

note: SIC #70 can also include food and beverage sales made in a lodging establishment.

<u>Market Area</u>	<u>Lodging Businesses</u>	<u>Revenue (\$ Mill)</u>
Primary 5 mile	7	\$ 2.0
Secondary 10 mile	8	2.3

note: All of the hotel/motel lodging listed in this report are assumed included in the 5 mile radius.

### Method #4 Per Capita Factor Prediction (5 mile market)

Based on a per capita consumption factor of 3.4 roomnights, the total lodging demand can be estimated from the market area population (PricewaterhouseCoopers, BLS, Smith Travel 2004). For a market area population of 8,364 the room night forecast is 28,438 (business and leisure).

### Method #5 Travel Purchase Behavior

Hotel and Resort Industry research suggests that factors can be used to predict travel by age group and total travel based on population (daytime and nighttime). Travel Intensity Factors can provide an estimate for room night demand, based on population (daytime and nighttime). The factors represent a mean response to known population and employment levels.

#### Travel Intensity Factors

business utilization	134 trips/1000 workers
friends & relatives utilization	96 trips/1000 residents
weekend getaway utilization	101 trips/1000 residents

Business Effect - Occurs when a business in the market area uses the facility for incoming customers, vendors, service persons or others. In some cases, industrial or commercial tourism is also possible.

Visiting Friends and Relatives Effect - Occurs when residents are visited by friends and relatives.

Getaway Effect - Occurs when residents near the market area use the lodging for a getaway night or weekend. Requires pool, whirlpool, quality foodservice, special events and entertainment options.

Roomnights Basic Demand  
Based on Travel Factors  
 assumed ave length of stay 2.3 days  
Market Area 5 mile Radius  
 Pop = 8,364 and Employees = 4,968

<u>Generator Type</u>	<u>Low</u>	<u>High</u>
business estimate	1,531	2,297
friends & relatives est	1,847	2,770
getaway estimate	1,943	2,914
<u>Basic Demand</u>	<u>5,321</u>	<u>7,981</u>

**Method #6 Room Tax Method**

There is a room tax for lodging establishments within the city of Abilene. The tax was 5.0% and will increase to 6% in 2009. Based on a weighted average daily rate of \$60 and 12% exempt sales, it is estimated that occupancy is 45-50%. The room night generation is estimated to range from 42,000 to 50,000. The actual occupancy could be higher due to non-compliance and under-reporting. source: Abilene CVB

<u>Year</u>	<u>Transient Tax</u>	<u>Revenue</u>	<u>% Chng</u>
2001	\$ 101,830	\$ 2,314,318	
2002	109,361	2,485,477	+ 7.4%
2003	111,432	2,532,545	+ 1.9%
2004	108,739	2,471,341	- 2.4%
2005	109,319	2,484,523	+ 0.5%
2006	118,826	2,700,590	+ 8.7%
2007	121,008	2,750,182	+ 1.8%

**Method #7 Aggregate Statistical Data**

Based on the U.S. Statistical Abstract, the National Travel Survey (1998) and information from the Travel Industry Association of America, a per capita (employee) business trip estimate is 0.73 and a per household unit (2.4 person ave) pleasure trip estimate is 1.45.

**Total Trip Potential**  
Based on Aggregate Market Data (5 mile radius)  
 Households = 3,560 and Employees = 4,968

<u>Trip Type</u>	<u>Factor</u>	<u>Estimate</u>
Business trips	0.73	3,627
Pleasure trips	1.45	5,162
<u>Trip Potential</u>		<u>8,789</u>

note: Business estimate includes inbound transient, staff meetings and sales.

**Method #8 Estimate from Tourism Expenditures**

Based on a study by Randall Marketing (2006), the total impact generated by overnight visitors was \$7.6 million. Of the total, 50% was estimated to be spent on lodging. With an adjustment for GED (12%), the lodging revenue is estimated at \$3,344,656. At a \$65 ADR, this equates to 51,456 room nights. The sampling method used was not disclosed.

**Motel/Hotel Room Night Estimates**  
Dickinson County (2006 visitor sample)

<u>Type</u>	<u>Lodging Revenue (\$)</u>	<u>ADR (\$)</u>	<u>Nights (#)</u>
Motel/Hotel/B&B	\$ 3,344,656	\$ 65.00	51,456

**Method #9 Estimate of Family Events**

For most communities, a significant source of room nights can be obtained from events such as weddings and funerals. While large arenas and conference centers are appropriate for business events, personal, family events are best handled in smaller, more intimate spaces.

**Annual Family Event Potentials**  
Abilene 5 mile market and Dickinson County

	<u>Marriage Estimate</u>	<u>Death Estimate</u>	<u>Local Funeral Estimate</u>
Dickinson County	150	169	110
Abilene (5 mile)	65	73	47

The wedding banquets have an estimated average attendance of 150 per event, with a range of 12 to 350+. For the 5 mile market area, the potential is 9,750 participants annually. Assuming 25% out of town guests, 80% couples and 20% singles and an average of 1.6 nights the room night impact is estimated to be 2,340.

Using national wedding statistics, a wedding is booked in a banquet center, hotel or other site for every 120 residents. For the 5 mile primary market the weddings are estimated at 70 and based on an average wedding cost of \$20,000, the total wedding event potential is \$1,400,000 (includes room, food, beverage and direct expenses).

The local funerals have an estimated average attendance of 25 per event, with a range of 5 to 100+. For the 5 mile market area, the potential is 950 participants annually. Assuming 35% out of town guests, 80% couples and 20% singles and an average of 1.6 nights the room night impact is estimated to be 614 room nights.

note: The potentials calculated are based on local demand and do not include demand possible from creation of destination weddings or funerals.

#### **Method #10 Estimate of Meeting Revenues**

With 202 branded lodging rooms for the 5 mile market, total conference space needs are estimated at 6,060 to 8,080 square feet (factors 30-40 sq ft/room). Based on the total room count of 295, space needs range from 8,850 to 11,800. A larger community event center for special events and smaller conference and banquet center can be used to optimize market pull and revenue capture.

Based on the State of the Industry Survey 2005 published in Successful Meetings Magazine, the meeting revenue for the U.S. is \$10.6 billion. With 176,104,300 employees in the country a meeting factor is estimated at \$60.19 per employee. Basic meeting revenue includes meeting space fees, food and beverages.

note: Total meeting expenses are \$40.4 billion or \$229.41 per employee. Total expenses include travel, AV, technology, exhibits and services, lodging, speakers or trainers, on site staff, ground transportation and other expenses.

Meeting Revenue Estimate  
Abilene, Kansas

	<u>Employees</u>	<u>Meeting (\$)</u>	<u>Total (\$)</u>
5 mile market	4,968	\$ 299,024	\$1,139,709
10 mile market	6,168	\$ 371,252	\$1,415,000

note: The potentials calculated are based on local demand and do not include destination event demand.

Based on an average meeting of 50 persons at \$20 each, the weighted average event is estimated at \$1,000. With a meeting potential of \$299,024, the market estimate is 299 events and 14,950 attendees. Assuming 30% non-local, 20% couples and 80% singles, annual room night generation is estimated at 4,305 from the primary market area and an increment of 1,040 from the secondary market.

Method #11 Turndowns from Other Locations

A turndown occurs when a guest tries to book at a lodging establishment and there are no rooms available. Based on aggregate data released by Smith Travel Inc., there are 29 days per year where occupancy exceeds 80%. In most markets the range is 20 to 30 days. For Abilene, overflow may occur from anywhere in the county or even adjacent markets.

With a county potential for room nights of 67,890 and an overflow estimated at 1-3%, the room nights which may be available for Abilene are estimated to range from 679 to 2,037. For new mid-priced lodging, overflow may range from 170 to 509 room nights or more.

Method #12 Special Event Summaries

Some special events can create a significant economic impact when roomnights are purchased. Based on a sample of visitors, the average overnight motel or hotel guest spends \$303 on trip expenses, including travel and event fees. (source: samples taken from Montana, Arizona, Wisconsin and Michigan).

Major Destination Site Attendance  
(multiple visits may be included)

Eisenhower Center	64,395
Heritage Center	11,454
Greyhound Hall of Fame	17,514
Great Plains Theatre	16,659
<u>Total Major Sites</u>	<u>110,022</u>

Room night generation from major site attendance is estimated at 31,686 which assumes 30% capture of out of town visitors, 80% couples and an average stay of 1.6 nights.

note: There is upside potential in conversion of day trippers to overnight stays.

**Significant Special Event Attendance**  
(average group 1.8 persons, average stay 2.3 days)

<u>Event Location/Group</u> (city where located)	<u>Lodging</u>		<u>Person</u>
	<u>Persons</u> (A)	<u>Percent</u> (B)	<u>Trips</u> (C)
Destination Sites	110,022	.30	33,007
Special Events	10,000	.10	1,000
Community Events	1,500	.05	75
All Other Events/Holidays	2,000	.10	200
<u>Total Persons</u> (A)*(B)/1.8			(C) = 19,046
<u>Room Night Estimate</u> (C)*2.3			43,805

The potential economic value of the overnights guests is \$13.27 million based on an average group size of 1.8 persons, an average stay of 2.3 nights and an average estimated total trip expenditures (\$303.00 per person trip).

note: Based on research by Randall Marketing 2006, the actual capture is \$130 which is 43% of the potential.

**Other Factors**

The traffic counts on I-70 range from 15,500 ADC on the west to 14,875 ADC on the east. Traffic counts on KS 15 to the south of I-70 are 7,580 ADC. These counts are moderately favorable for retail, foodservice and lodging. Resident and commuter traffic are included in the daily counts.

note: Seasonal peak counts may be significantly higher than reported average daily counts (ADC). Peak counts and counts within the city limits are higher and reflect residential and commuter traffic.

**Estimating Total Demand**

From industry experience, including BPE files, total demand for a mature property often approximates the profile shown below. While the direct dial business needs to be developed by on-site managers, the franchise 800 number referrals and walk-ins can be expected to provide the base for customer traffic the first year.

Based on several methods of calculation, it is reasonable for the Abilene market to generate 60,000 to 75,000 room nights per year. This estimate includes inbound business transient, business use, conferences, special events, tourism and other sources of room night sales such as turn downs.

**Basic Demand Profile**  
**Mature Property w/Marketing Management**

Franchise 800 referrals	30%
Walk-in	21
Direct dial	30
Corp/Travel referral	5
Chamber/CVB	10
GDS/third party	4

The total demand for rooms is based on consideration of the basic level of demand from the resident population, level of employment, business activity, level of visitation toll free number referrals, plus an estimate of chamber of commerce referrals.

**Lodging Occupancy Forecast Report**  
**Abilene Market Area**  
**(room nights per year)**

	<u>Total</u> <u>Potential</u>	<u>Market</u> <u>Share</u>	<u>Site</u> <u>Potential</u>
Basic Demand 5 mile	12,000	0.20	2,400
Business Demand 5 mile	14,000	0.20	2,800
Tourism 5 mile (1)	32,000	0.20	6,400
Special Events 5 mile	1,375	0.30	413
Meetings 5 mile	4,300	0.40	1,720
Wedding/Funeral 5 mile	2,900	0.35	1,015
GDS bookings	800	0.20	160
Brand referrals	600	1.00	600
Other/Turndowns	350	0.20	70
<b><u>Market Share Potential</u></b>	<b>68,325</b>		<b>15,578</b>

note: The market area is currently capturing an estimated 48,000 - 55,000 room nights (70-80% of total potential)

Based on the information available and assumed to be true, it appears demand for room nights in a new mid-priced lodging establishment could possibly range from 10,000 to 14,000 room nights per year, for a site located adjacent to I-70. the site.

The new mid-scale lodging in Abilene should be priced within the mid-price tier calculated and be priced significantly above the Super 8 and Americas Best Value Inn. The Holiday Inn Express is a full comparable.

note: A failure to properly position and price the property could lead to reduced earnings and a negative cash flow.

### Critical Success Factor

Poor pricing policy, over-use of discounts and a lack of effective marketing could suppress the market potential below the calculated level. Aggressive price cutting and direct competition are symptoms of improper market development.

### Room Demand vs Supply

For the Abilene market (5 mile), total potential room demand is the sum of the demand based on population, plus the demand created by business generators, visitors and tourism.

To calculate the basic room capacity of an area, factors are often helpful. The basic per capita consumption factor (based on population, without tourism consideration) is estimated to be 0.0077 or 1 room for every 130 persons in the market area. Market factors vary from 10 or less to 200 or more and can be used to determine the degree to which a market is leveraged in terms of lodging rooms inventory.

Business, industry and visitation or tourism will often allow a community to support more rooms than would be possible by population alone. Strong tourism could support a visitor factor of 0.0333 or 1 room for every 30 residents. Weaker tourism markets or markets lacking business and industry have ratios which are 1 room for 100 or more residents.

Based on the market factors and the residential population in the market area (5 mile radius) it would be reasonable for the market to support 279 to 418 rooms. At the current level of 295 motel/hotel lodging rooms, leverage can be considered to be moderate.

The level of business utilization, transient visitation, special event attendance and tourism may require that additional rooms are needed for peak periods. Lodging development which is over the suggested level should use facilitated financing models or additional equity. Any new lodging should be supported by an organized and well funded destination tourism promotion effort.

### Number of Rooms for Property

The basic level of demand should be used to size the new property. Given the basic level of demand, the property should be sized so that a 40-45% minimum occupancy level to be a possible goal for the first year. Please note that additional marketing effort and money should be applied to exceed this occupancy level as soon as possible.

### Market Demand Potential Relevant Range of Room Nights

low	10,000
mid	12,000
high	14,000

### Property Size Recommendation

$$\# \text{ rooms to build} = \frac{\text{demand estimate}}{(365 * 0.45)} = \frac{11,500}{164} = 70$$

reasonable range 60 to 77 rooms  
client choice property size = 60 rooms  
(with conference center 3,400 sq ft minimum)

Once the property matures, the actual level of room nights earned may exceed the high level, making expansion possible. Given the current stage of market development, the lodging project should use enough equity to reduce the break even point to less than 50%. If this is not done, the money may be needed to be available anyway to cover possible start-up operating losses.

### Lodging Gap Analysis

By Location

Abilene Market Area

Capacity = 418 rooms

<u>Lodging Location</u>	<u>Room Inventory</u> (%)	<u>Rooms Suggested</u> (#)
<u>Downtown/City Center</u>	19	79
<u>Suburban/Fringe</u>	36	150
<u>Highway</u>	45	189

### Critical Success Factor

Tourism and transient use will likely account for 50-65% or more of the room nights captured by the new mid-priced lodging.

### Lodging Gap Analysis By Type of Room Abilene 5 mile Market Area Capacity = 418 rooms

<u>Market Segment</u>	<u>Room Inventory</u> (%)	<u>Room Supply</u> (#)	<u>Estimated Demand</u> (#)	<u>Rooms Gap</u> (#)
<u>Upper Tier</u>				
Luxury	1	0	4	4
Upper Upscale	7	0	29	29
Upscale	10	0	42	42
<u>Mid-Price Tier</u>				
Mid-Price wo/f&b	26	72	109	37
Mid-Price w/f&b	12	0	50	50
<u>Low Price Tier</u>				
Economy	10	130	42	(88)
Budget	5	0	21	21
<u>Extended Stay</u>	6	0	25	25
<u>Independent</u>	20	93	84	( 9)
<u>Other</u>	3	10	12	2
<u>Total Rooms</u>	100%	305	418	(113)

source of factors: Compilation of lodging inventory and current building trends. Base data sources Smith Travel Research, Lodging Econometrics and BPE site files.

note: Other includes B&B lodging. The total count with B&B units is 305.

### Estimation of Occupancy

Based on information collected it appears reasonable to assume that an occupancy of 10,000 to 14,000 room nights is possible for a mid-priced, limited service lodging property located in Abilene, Kansas. The level of demand assumes amenities as specified and a highway cluster location.

The site development, quality of management and marketing has been identified as a primary factor causing expected occupancy to vary by +/-30%. Over-use of discounts and a lack of local area marketing can suppress the average daily rate below the potentials calculated.

**Expected Occupancy By Year**

The growth is based on the standard product adoption curve and reflects additional growth or shrinkage due to local market conditions. The Standard Deviation (SD) is estimated based on a sample of comparable properties and actual occupancy levels earned.

A mature property can be expected to perform at least as well as the average in the chain (for this type of market), and the average within the market area.

**Expected Occupancy Report**  
**Abilene, Kansas**

<u>Year</u>	<u>Occupancy Range</u>	<u>Expected Value</u>	<u>Estimated Std Deviation</u>
Year 1	40% to 50%	EV 46%	SD 2.0
Year 2	50% to 60%	EV 55%	SD 2.2
Year 3	55% to 65%	EV 64%	SD 2.4

To optimize lodging performance, the development will need to capture existing overflow room nights, satisfy unmet needs for branded mid-priced transient lodging in the market, plus management will need to generate new sources of room nights.

**Economic Impact On Community**

The impact of a lodging establishment is a multiple of dollars spent of lodging. The total economic impact include the direct revenue effect, plus the indirect effect of spending power of employees and those employed providing services or products which are related to lodging and the degree to which total trip expenses are spent in the community where lodging is purchased.

**Revenue Impact**

- a) Ave Revenue \* (2.252) = \$2,702,400 per year  
mature property revenue = \$1,200,000

**Wage Benefit**

- b) Ave Annual Wages \* (1.77) = \$385,860 per year  
base wages paid = \$218,000

**Real Estate Tax Benefit (\*)**

- a) \$ 40,000 - \$60,000

**Potential Community Benefit**

$$\begin{array}{rclcl}
 \text{Revenue} & + & \text{Wage} & + & \text{Real Estate Tax} & = & \text{Community} \\
 \text{Benefit} & & \text{Benefit} & & \text{Benefit/Capacity} & & \text{Benefit} \\
 & & & & (*) & & \\
 \$2,702,400 & + & \$385,860 & + & \$ 45,000 & = & \underline{\$3,133,260}
 \end{array}$$

(\*) Does not include up front abatements or tax credits

**Direct Effects**

The American Lodging and Resort Association has developed multipliers to estimate the base impact for a lodging project. The revenue multiplier for Abilene, Kansas is estimated to be 2.252 and the wage multiplier is 1.77.

Impact0.wks

**TIED DEMAND EFFECT IMPACT ESTIMATE**  
Mid-Priced Lodging, Abilene, Kansas  
run date 11/10/08

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<u>DEMAND INPUTS</u>		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Room Nights Sold		10,000	12,000	14,000

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<u>DEMAND POTENTIAL</u>	<u>Spending</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
	<u>Per</u>	<u>Revenue</u>	<u>Revenue</u>	<u>Revenue</u>
	<u>Room Night</u>	<u>Potential</u>	<u>Potential</u>	<u>Potential</u>
	<u>(\$)</u>	<u>(\$)</u>	<u>(\$)</u>	<u>(\$)</u>
Food	\$72.11	\$721,100	\$865,320	\$1,009,540
Transportation, grnd	\$19.31	\$193,100	\$231,720	\$270,340
Shopping General	\$94.77	\$947,700	\$1,137,240	\$1,326,780
Liquor	\$9.54	\$95,400	\$114,480	\$133,560
Historic Fees	\$3.63	\$36,300	\$43,560	\$50,820
Sightseeing	\$5.67	\$56,700	\$68,040	\$79,380
Event or Sport Fees	\$24.85	\$248,500	\$298,200	\$347,900
Cultural Event Fees	\$2.19	\$21,900	\$26,280	\$30,660
Entertainment	\$7.42	\$74,200	\$89,040	\$103,880
Gaming	\$18.04	\$180,400	\$216,480	\$252,560
Licenses	\$2.31	\$23,100	\$27,720	\$32,340
Other Expense	\$5.01	\$50,100	\$60,120	\$70,140
<b><u>Totals</u></b>	<b>\$264.85</b>	<b>\$2,648,500</b>	<b>\$3,178,200</b>	<b>\$3,707,900</b>

=====

note: Expense shown per capita based on room nights sold (2004 survey)

The direct revenue impact occurs when employees of the establishment purchase goods and services in the community, the property purchases goods and services directly from the businesses within a community.

Indirect impacts on the economy are possible through indirect revenue impacts and indirect employment impacts. Indirect employment impacts occur when services or products are purchased by the hotel.

The total direct effect of having the new franchised mid-scale lodging development in Abilene market area is estimated to be \$3,133,260 per year. This number represents the direct impact of the lodging on the market area economy.

### Tied Demand Effects

Tied demand revenue effects occur when lodging is part of a highway, visitor service or retail cluster. The amount of additional revenue impact depends on the availability and type of other goods or services which are presented. A complete cluster development can capture significant tied demand effect revenue. The level of impact can range from \$0 to \$6 for every \$1 spent on lodging.

### Site Considerations

Many potential sites were considered in Abilene. While there is an existing opportunity to build lodging in or adjacent to the downtown, the greatest economic gains are possible from a lodging site adjacent to I-70. Increased pull from the travel corridor will indirectly benefit the downtown. Branded lodging will have the greatest pull from the I-70 corridor if it is positioned directly adjacent to it. Eventually, upscale boutique style or extended stay lodging can be added to the downtown district.

Abilene is a rural convenience center which has significant tourism and transient traffic. Downtown re-development and continued economic diversification will increase market pull and improve revenue capture. A conference and special event center built into the new lodging can provide incremental revenue.

The traffic counts on I-70 range from 15,500 ADC on the west to 14,875 ADC on the east. Traffic counts on KS 15 to the south of I-70 are 7,580 ADC. These counts are moderately favorable for retail, foodservice and lodging. Resident and commuter traffic are included in the daily counts.

note: Seasonal peak counts may be significantly higher than reported average daily counts (ADC). Peak counts and counts within the city limits are higher and reflect residential and commuter traffic.

### Factors Favoring Feasibility

- Existing tourism and low room night capture
- Established destination sites and attractions
- Existing transient traffic on I-70
- Downtown with upgrades in planning
- Visitor information and CVB
- Large amount of dated motel lodging

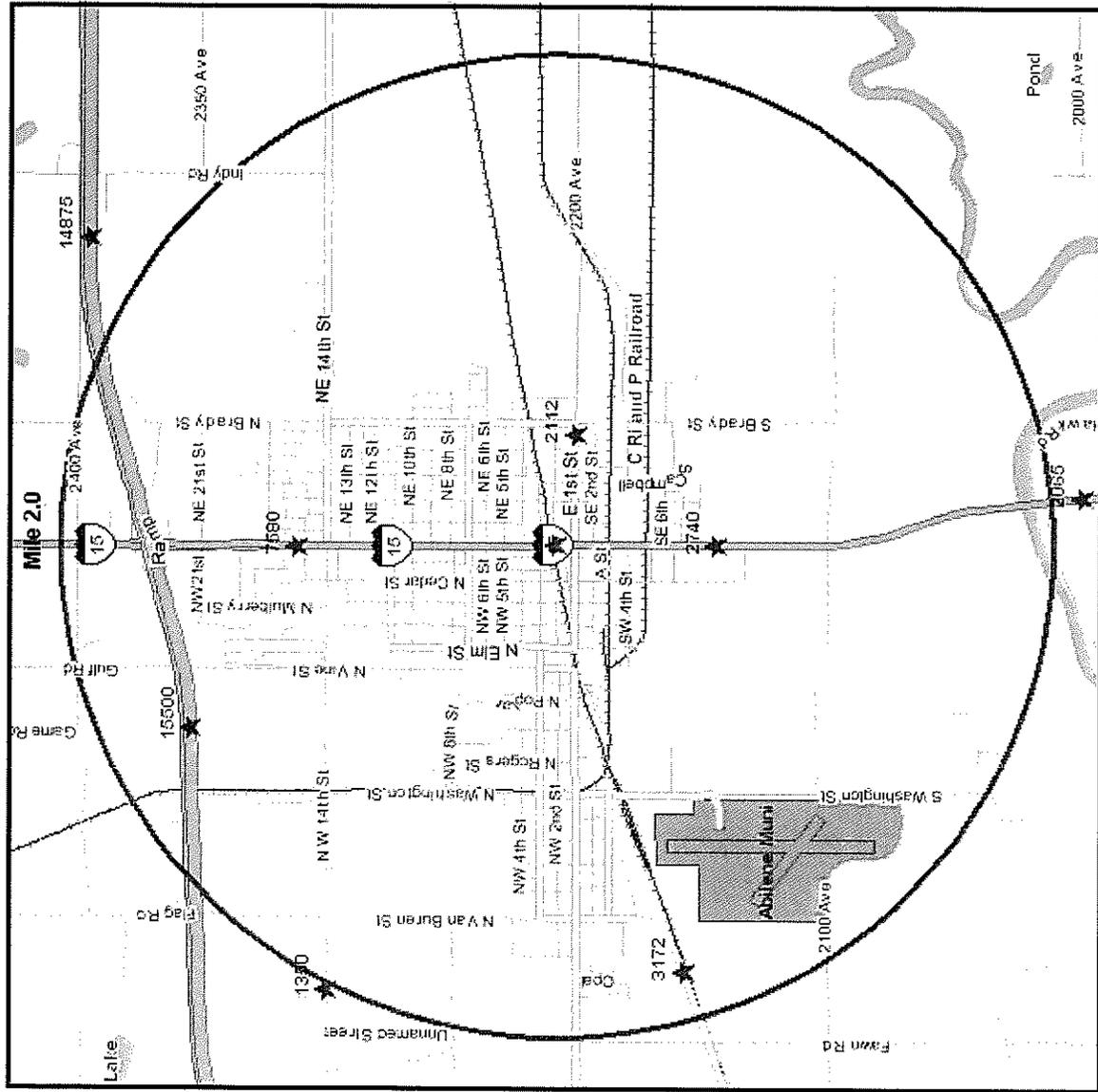
note: While there is a Civic Center, Abilene is currently under-served in terms of intimate spaces for conferences and small to medium sized family events (up to 200 persons). Room night generation from banquets, meetings and special events is critical to the performance of additional mid-scale lodging.

### Recommended Highway Service Cluster Components

Multiple lodging options  
Conference and event center (200 person minimum)  
Visitor Services and Information  
Foodservice options within walking distance  
Nearby retail and business services  
Nearby Travel Center with highway services

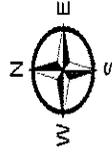
A franchise has not yet been chosen for the site. If chosen, the franchisor needs to approve the site in terms of location, layout, ingress, egress and signage visibility. Zoning, permits, suitability for building, availability of utilities and ground contamination need to be investigated by others. No site approval is expressed or implied in this feasibility study which focuses primarily on market potential and debt carrying capacity of the project, given likely development costs.

# Traffic Volumes With Map 2008



★	Point
★	Traffic Counts
—	Interstate Highways
—	US Highways
—	State Highways
—	Major Highways
—	Major Roads
—	Roads
—	Railroads
—	Landmarks
—	Parks
—	Hydrography
—	Airports
—	DIMA

0 miles 0.44 0.88



# Traffic Volumes With Map 2008

Radius 1: CENTER OF ABILENE, ABILENE, KS, 0.00 - 2.00 Miles

Street	Cross Street	Traffic Count	Type of Count	Count Year	Cross Street Dist/Dir	Area Dist/Dir
S Buckeye Ave	SW 10th St	2740	AADT	2001	.12/S	1.000/ S
Old Hwy 40	Fawn Rd	3172	AADT	1999	.3/W	2.000/ W
E 1st St	N Brown St	2112	AADT	1999	.06/W	0.000/ E
N Buckeye Ave	NE 15th St	7580	AADT	2001	.03/S	1.000/ N
I-70	N Buckeye Ave	15500	AADT	2001	.75/E	2.000/NW

**Total Traffic Volumes Reported: 5**

Traffic Volume and Traffic Counts are proprietary to Nielsen and are derived from TrafficMetrix® which contains proprietary and confidential property of Market Planning Solutions Inc (MPSI), a Third Party Licensor, Copyright 2008. Unauthorized use, including copying for other than testing and standard backup procedures is expressly prohibited.



Prepared On: Thurs Oct 30, 2008  
 Project Code: 3506693  
 Prepared For: Business Plans Etc.



## BANQUETS AND MEETINGS

Small banquet and event centers rent 400-600 sq ft spaces more than any other and more than half of the meetings held are small to moderate in size. Smaller spaces are popular for business groups, families, organizations and training. Weddings and banquets usually require the most space (sq ft).

In order to be most effective, the sales and marketing person should be able to answer questions and book a simple meeting or function without time delays or frustrating call backs. An initial summary of event packages can be provided by fax or e-mail. If a call back is required, it should be made within hours, not days or weeks. A one page quote should be made within 24 hours of any request.

In order to obtain special event bookings, the employees of the facility need to be market driven and trained. Staff must be able to provide excellent service and should be educated to quickly and effectively help those inquiring learn how to "use the facility for special events, meetings and group functions".

While there are large event centers and halls which can handle banquets, most are in the space rental business, not the special event business. As a result, most employees of these facilities do a poor job identifying and servicing the highly personal needs of smaller to medium sized groups (25-350 persons). This suggests an opportunity, especially because most meetings and special events are small. In fact, meetings of fewer than 35 people are attended by more people than all other meetings combined.

### Expected Growth In Meetings

Meetings Today Survey (n=213 planners)

#### Meeting Type      Growth Expected

Training Meetings	48.8%
Sales Meetings	38.2
Board/Exec Meetings	27.2
Conventions/Conference	21.7
Incentive Trips	19.3
Other	2.4

### Weddings and Family Events

Weddings are increasingly involving professionally managed special event centers which are well designed and staffed to handle the exacting demands during planning and execution.

By 2002, the nation was experiencing 2.4 million weddings at an average cost of \$19,000 and \$23,000 (2006 Hotel Business). the average price has grown 55% over the past 15 years. Prices for wedding packages range from \$1,000 to \$950,000.

The average age of the bride is 27 years, with an average household income of \$52,000. An overall trend is evident toward smaller weddings (100-150 person). Most couples desire Saturday weddings, with Friday being next most popular. Some second and third time brides favor destination weddings which represent 15% of all weddings and tend to be smaller (average 50 people).

The profile of the age when married is provided below (US Statistical Abstract 2003)

#### Age When Married

15 to 19 years	1.90%
20 to 24 years	14.00
25 to 29 years	27.40
30 to 43 years	18.70
35 to 39 years	5.30

The wedding market is an important potential source of business for special event centers and for foodservice establishments which have catering abilities.

#### Wedding Recommendations

- \* Be pro-active in marketing to attract local, regional and destination weddings.
- \* Make contact with all area wedding vendors, including those providing cakes, catering, photography, formal wear and entertainment.
- \* Provide "seamless" service and a "one stop shop" for wedding events. Offer life simplification by preparing complete packages. Have a sales person with experience available to assist with wedding planning.
- \* Offer on-site weddings including indoor and outdoor options. Consider space needs for rehearsal and post wedding gatherings.

The actual number of weddings for a county or market area is a function of the age profile of it's residents. The number of weddings which actually occur can be higher or lower than the potential due to migration in or out of the market area or county for the actual wedding (destination weddings).

## Banquets, Catering and Special Events

The on and off-premise banquet and catering market is estimated at \$8 billion. This includes demand captured at special event centers and restaurants, excluding full service hotels. According to CaterSource, net profit can range from 6-11% or more.

Facilities designed and operated to facilitate food and beverage service are preferred. "Bare bones" space rentals are used for "fill in" if other bookings are not available. Vinny T's of Boston offers 5 space options with the largest seating up to 200 persons. Lunch prices start at \$14 and dinners start at \$20. Family menu choices are priced from \$19.95 to \$25.95 and banquet style service mandates an upcharge.

### Common Functions for Special Event Centers (functions with and without food and beverage sales)

#### Family Banquets/Events

- Weddings
- Anniversaries
- Family Re-unions

#### Community/Organization Events

- Class re-unions
- Organization re-unions
- Other re-unions

#### Business Events

- Award/Incentive Functions
- Training and Development
- Sales and Customer Seminars

#### Exhibits/Demonstrations

- Small indoor shows
- Indoor Art Exhibits
- Demonstrations

#### Performing Arts

- Music or Visual

## Designs for Banquet Functions

In order to achieve significant banquet and party business, functional spaces should be designed to meet the needs of special functions. A multi-purpose room may be effective in terms of cost savings, yet may not function well to meet the needs of highly specialized functions such as wedding receptions, dinner meetings and other special events which may include entertainment. To be most effective, the space, the acoustics, the furniture, fixtures and equipment need to be selected with the customer and use in mind.

## Banquet and Party Room Sizes

Room sizes and maximum seating will vary depending on room set up, level of service (buffet, banquet or table service) and the nature of the event. General guidelines are provided below.

### Meeting Room Sizes by square footage

	<u>Room Size</u> <u>(sq ft)</u>	<u>Capacity</u> <u>(+/- 10%)</u>
Board Room	400 sq ft	15 people
Conference Room	825	50
Special Function	1,000	70

### General Guide for Seating square feet by type of seating

Spacious seating	14-16 sq ft/person
Cafe or restaurant	12-14 sq ft/person
Banquet	8-10 sq ft/person

### Banquet Room Sizes by set up

<u>Room Size</u> <u>(sq ft)</u>	<u>Theater</u> <u>(seats)</u>	<u>Classroom</u> <u>(seats)</u>	<u>Reception</u> <u>(seats)</u>	<u>Banquet</u> <u>(seats)</u>
2,200	280	124	150	120
1,400	100	75	100	90
400	70	35	60	40
200	35	25	30	20

**SOURCES AND USES OF FUNDS**  
**Section BP5**

**SOURCES AND USES OF CAPITAL**  
**60 Unit Mid-Priced Branded Lodging**  
(w/conference and special event room 3,400 sq ft)

All figures listed are only estimates and do not reflect actual construction bids. Actual costs may differ by +/- 10% or more. The cost estimates are used to establish debt service capacity and cash flow estimates. If costs are higher, equity will need to be increased to obtain the same net cash flow.

<u>Sources of Funds</u>		<u>Uses of Funds</u>	
		<b><u>BUILDING</u></b>	
Lender 6.5%	\$ 2,795,800	Building Materials (1)	\$1,436,000
20 years (5)		FF&E (rooms)	320,000
		Equipment (3)	20,000
Equity (30%)	1,238,200	Specialties/Spec Const	115,000
Land		Mechanical/HVAC	400,000
Cash		Electrical	200,000
TIF		Utilities/Water/Sewer/Fees	25,000
Other		General Conditions	150,000
		Conference Ctr 3,400 s.f.	340,000
		Equipment	85,000
		Elevator	50,000
		Contractor OH/Profit	130,000
		Contingency	50,000
<b><u>Sources Total</u></b>	<b><u>\$4,034,000</u></b>		
	=====		
		<u>Sub Total</u>	<u>\$3,321,000</u>
		<b><u>LAND AND SITE PREP</u></b>	
		Land Allowance (3)	90,000
		Parking Lot	36,000
		Landscaping/Sidewalks	25,000
		Sitework/Excavating	95,000
		Soil Test/Survey	6,500
		Environmental Audit	3,500
		Misc.	2,000
cost/room w/o land		<u>Sub Total</u>	<u>\$ 258,000</u>
\$55,350			
		<b><u>OTHER COSTS</u></b>	
cost/room w/land		Franchise Fees (4)	40,000
\$59,650		Arch/Engineering	50,000
		Development Fee	50,000
cost/room turnkey		Permits/Insurance	30,000
\$67,233		Insurance	20,000
		Closing Costs (2)	120,000
		Opening Inv/Linens	25,000
		Working Capital	120,000
		<u>Sub Total</u>	<u>\$455,000</u>
		<b><u>Uses Total</u></b>	<b><u>\$4,034,000</u></b>
			=====

## Notes to Sources and Uses

note: Construction costs are taken from estimates provided by current contractor/developer projects. Cost assumes wood structure with wood trusses, pool and spa. It is assumed that the quotes include items as specified in the description of business.

- (1) Building material cost assumed to include concrete, masonry, metals, wood/plastic/roof, insulation, doors/windows and finishes
- (2) Closing cost assumed to include legal fees, title insurance, appraisal, loan fees, interim interest and other costs
- (3) Equipment includes laundry, phone, computer, reservation system, high speed internet, meeting room and basic equipment for exercise room and signage.
- (4) Franchise fees will vary depending on the franchise chosen.
- (5) Interest rate may vary due to economic conditions in 2008/09.

**EXECUTIVE SUMMARY**

**Section BP6**

## EXECUTIVE SUMMARY

The best lodging markets for development are underserved or growing markets where existing properties are nonexistent or outdated. Additionally, stable markets which will resist over building are attractive. They include those with physical, economic or geographic constraints which will limit the number of rooms which are likely to be built. Underserved lodging needs, a diversified economy and existing destination tourism are all positive factors for lodging development.

The material inputs used as givens for the feasibility study are listed below;

### Project Material Inputs

Land Budget	\$ 80,000-\$90,000
Equity Investment	\$ 25%
Brand	None selected (mid-scale)
Property Size	60 units
Amenities	Pool and spa Conference Center (200 person)

Abilene is the county seat and is a rural convenience center. The market area extends 5-10 miles or more, depending on direction. Market pull is limited to the west by Salina (pop 45,956) and to the east by Junction City (pop 16,402). Abilene has a transitional economy and good opportunities to serve the convenience retail and service needs of residents, business transients and tourists.

Abilene is located on the I-70 corridor which affords it unique opportunity to meet the needs of business and leisure transients. A growing cluster located on the corridor has helped improve pull from it. At this time, the best place for new mid-scale lodging with a conference center is at the cluster on I-70 (sites #1, 2, 3 or 4 with #2 recommended).

The Abilene 5 mile market area has a smaller population yet the 10 mile trade area includes nearly 12,000 residents. The level of employment is above average and yet the household income remains below average. Abilene is an emerging rural convenience center and the proximity to I-70 provides easy access for residents and transient. Destination tourism has created opportunities and lasting positive economic impacts.

Currently, the Abilene market has 295 hotel/motel lodging rooms with 68% branded. The market has 305 rooms total (includes B&B). For mid-priced lodging, the competitive set consists of the Holiday Inn Express. The Best Western has been converted to a budget brand (America's Best Value). A lodging gap is calculated by price tier.

Based on the information available and assumed to be true, it appears that demand potential for Abilene is 48,000 to 55,000 room nights annually and current capture is 70-80%. The demand for a new mid-scale branded lodging property could reasonably range from 10,000 to 14,000 room nights per year. The potential to reach the higher end of the range becomes more likely if a conference center is well marketed and used for catered events such as weddings.

It is assumed that a new mid-scale property would be able to earn an average daily rate of \$72-\$79 (double occupancy) and achieve an occupancy of 40% to 50% during the first year. The construction of the 60 unit mid-scale lodging with wood frame and joists (60 units) is projected to cost \$4,034,000 (+/-10%), with land and site prep at \$258,000. The cost per room w/o land is \$55,350 and w/land is \$59,650.

Within the relevant range of sales, the amount of debt which is feasible and reasonable for the project to carry ranges from \$1.8 to \$2.9 million, with levels below \$2.3 million providing reduced risk and improved project performance. A new 60 room mid-scale branded, limited service lodging establishment with amenities (35+% equity) breaks even at \$859,968 (47% occ). It is recommended that the break even point be kept to less than 50%.

note: A level of 25% equity was tested and found not to be feasible due to low ADR history in Abilene, history of below average market yield and the uncertain economic and local competitive conditions.

As budgeted, the property can earn 0-25% pre-tax profit on sales within the relevant range of sales, however, the first year may produce a loss, break even or small profit.

Debt service coverage analysis suggests an equity investment of at least 30%, and more is better because it lowers the break even point, increases cash flow and improves investment performance.

Working capital amount of at least \$120,000 is recommended. the property reaches 47% or more occupancy at an overall weighted ADR over \$77, cash flow will accumulate as a profit.

The total economic benefit (direct and in-direct) of having the franchised lodging development in the community is estimated to be \$3.1 million per year, and the tied demand effects are estimated to be \$2.7-\$3.7 million depending on the type of adjacent developments.

The new mid-scale branded lodging should be priced equitably with the Holiday Inn Express and well above the Super 8 and old Best Western (America's Best Value). Value packages and discounting should be used carefully to entice new customers.

The ability of management to attract and book conferences, weddings and meetings is critical to the performance of the lodging. The ability to book rooms in advance, establish and maintain brand strength, perform community based marketing and the ability of the franchisor to support this site are critical in reaching full potential during the first three years.

This study is intended to be used as one of many inputs considered during the pre-planning phase or after opening as a "benchmarking tool". No investment recommendations or earnings claims are made or implied. Each investor assumes the responsibility for due diligence prior to any investment. All business investments include risk. This report is a third party opinion relating to market potential. Actual operating results may be different.

No endorsement of the site made. All sites need to be approved by the franchisor. There is no endorsement of the management made or implied.

### Feasibility Statement

The mid-scale lodging is feasible subject to the limitations and contingencies presented in this report. Critical success factors are conference center, equity level, regional marketing, tourism promotion and maintaining a favorable ADR (at or above the forecasted level). Debt should be kept near the mid-point of the range specified as feasible. This report includes many recommendations to improve project performance and reduce risk.

### Critical Success Factors

Break even point  $\leq$  50% (lower is better)  
ADR \$77.39 (weighted average)  
Signage on I-70  
Downtown re-development complete  
Conference center (200 person minimum)

note: Plans should be made for expansion of the event center to 400-500 per capacity after revenue and occupancy benchmarks are met.

note: The room rate history of the market provides a challenge for quality lodging development.

**SUMMARY STATISTICS**

	<u>YR 1</u>	<u>YR 2</u>	<u>YR 3</u>
Operating Income	\$ 354,921	\$ 517,839	\$ 689,610
Profit Before Tax	( 22,141)	120,575	271,310
Cash Balance (\$120,000 initial)	85,752	189,499	438,945
(A) Net Cash Flow	(\$ 34,248)	\$103,747	\$249,446
(B) Annual Debt (P+I)	250,137	250,137	250,137
(C) Cash Flow Before Debt	(B+A) 215,889	353,884	499,583
(D) Debt Service Ratio (C/B)	0.86	1.41	2.00

Notes: To reduce risk and improve financial feasibility, the following recommendations are made.

1. Work with the CVB/Chamber of Commerce to improve the room night capture and average daily spending of visitors and tourists in Abilene.
2. Work to maintain favorable market yield, improving conversion of visits to overnight stays. Increase the average daily spending by visitors.
3. Work to attract local or destination weddings, meetings, regional group functions and special events.

**Specific Recommendations**

1. Direct mail all market area businesses and residents to create early awareness of the completed lodging project, event center and amenities.
2. Work with the community, CVB and area Chamber of Commerce to promote economic development, tourism and create visitation, special event, group, friends and family packages to increase market pull and revenue capture.
3. Promote over night and weekend stays to visitors, destination activity participants, transients, groups and getaway packages for area residents.
4. Complete the property and lobby using finishes and an interior decor package appropriate for the community.

**BREAK EVEN POINT REPORT**  
**(Break even at \$859,968 or 47% occupancy)**

The breakeven point is: 859,968

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**PART 2: PROFIT ANALYSIS**

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Enter starting sales: 650,000  
 Enter sales increment: 75,000

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Net sales	Fixed expenses	Variable expenses	Total expenses	Profit or loss	Profit margin
650,000	372,861	368,176	741,037	-91,037	-14%
725,000	372,861	410,658	783,519	-58,519	-8%
800,000	372,861	453,140	826,000	-26,000	-3%
875,000	372,861	495,621	868,482	6,518	1%
950,000	372,861	538,103	910,964	39,036	4%
1,025,000	372,861	580,585	953,446	71,554	7%
1,100,000	372,861	623,067	995,928	104,072	9%
1,175,000	372,861	665,549	1,038,410	136,590	12%
1,250,000	372,861	708,031	1,080,892	169,108	14%
1,325,000	372,861	750,512	1,123,373	201,627	15%
1,400,000	372,861	792,994	1,165,855	234,145	17%

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**ASSUMPTIONS USED**  
**Section BP7**

## ASSUMPTIONS USED

All assumptions which were used to create the three year pro-forma statements are listed in this section or included in the numerical budgets which follow. Comparable market situations were used to estimate sales potential based on household count, income level, visitation patterns and traffic counts.

It is assumed that this feasibility study is used to determine whether or not the proposed project makes sense, and if it does, under what conditions development should proceed. Every effort was made to assess whether the project can be "economically self sustaining".

### This Feasibility Determination

Market Feasibility - research relating to market trends, size, industry structure, segments, competition, open niches, customers and demographics, marketing management and sales.

Financial Feasibility - research relating to cost estimates, revenue projections and cash flow generation.

### Feasibility Study Exclusions

This feasibility study is designed to address the market and financial feasibility of a branded lodging establishment. No attempt was made to assess the technical, economic or management feasibility of the project. As a result of the design of this study, no opinion is provided or implied about the project relative to the exclusions.

### Study Exclusions

Technical Feasibility - to be determined as part of engineering, design and architectural professional services.

Economic Feasibility - refers to the infrastructure requirements such as sewer, water, utilities, environmental impact and other infrastructure components.

Management Feasibility - refers to initial commissioning of the facility and training of staff. Also refers to an assessment of management quality.

**Market Potential Assumptions**

Numerical assumptions are presented in budgets for capital expenditures, operating expenses and debt amortizations. The revenue assumptions assume growth which follows the normal distribution of product adoption, up to the market potential for the project.

<u>LOGGING ASSUMPTIONS</u>		occ.wks		
<u>Mid-Priced Lodging</u>				
run date 11/17/08				
60	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	
POT ROOM NIGHTS	21900	21900	21900	
OCC %	46%	55%	64%	
<u>ROOM NIGHT FORECASTS</u>				
HIGH ROOM NIGHTS	11000	13200	15400	
EV ROOM NIGHTS	10000	12000	14000	
LOW ROOM NIGHTS	8000	9600	11200	
ADR \$	\$77.39	\$80.00	\$82.50	
<u>REVENUE FORECASTS</u>				
HIGH REVENUE	\$851,290	\$1,056,000	\$1,270,500	
EV REVENUE	\$773,900	\$960,000	\$1,155,000	
LOW REVENUE	\$619,120	\$768,000	\$924,000	
<u>REVPAR EV</u>	\$35.34	\$43.84	\$52.74	

Nationwide occupancy rates for 2006 were 64.3% (Smith Travel Research). The average daily rate was \$96.69 and the RevPar \$61.06. For 2007, the estimated occupancy was 63.4% and the ADR \$102.98 (for all price segments). For this feasibility study, operating statistics and system parameters for a mid-scale lodging establishment were used as input assumptions.

note: mid-scale lodging can earn a wide range of ADR and occupancy rates depending on the market, property age and amenities.

Franchises differ in terms of Central Reservations System (CRS) and referral rates can range from 10% to 30+%. Most of the brands also offer a property management system which can provide a two way interface with the franchisor.

**Sales Potential Summary for First Three Years**  
mid-scale lodging, Abilene, Kansas

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<u>Room Revenue</u>	\$ 773,900	\$ 960,000	\$1,155,000
<u>Retail/Vending/Other</u>			
Retail/Vending	8,455	10,146	11,837
Other Income	27,279	32,735	38,191
<u>Conf Ctr/Party Rm/Fees</u>			
Reception Fees	6,445	7,734	9,023
Banquet/Conf Rental	15,184	18,257	21,352
 <u>Revenue Potential</u>	 \$ 831,263	 \$1,028,872	 \$1,235,403
High Sales (+10%)	\$ 914,389	\$1,131,759	\$1,358,943
Low Sales (-10%)	\$ 748,137	\$ 925,985	\$1,111,863

note: See Demand Section for market potential calculations

**General Assumptions**

It is assumed that the market area trends which have been established for 5 or more years will continue. These trends include population and employment trends and tourism.

note: The military traffic is a plus, yet long term stability requires diversification to other market segments which may be less likely affected by changes in political priority.

It is assumed that additional visitors, tourists, transients and travellers can be attracted to stay in Abilene. Capture of room nights is currently below calculated potential. The conference center should be used as a tool to increase market pull and improve room night capture.

It is assumed that ownership approaches local government, businesses, industry and the Chamber of Commerce as "partners in market development".

It is assumed that the property will be active in the CVB and Chamber of Commerce to help improve effectiveness in terms of tourism, group sales and room night capture.

It is assumed that unit management will participate in regional tourism efforts and help to insure that available funds are leveraged for the greatest lodging impact.

It is assumed that management can create and sell packages which contain lodging, special events and activities.

It is assumed that a reception/party room or area is available in the hotel separate from the special event center. The room should be easily accessed from the pool area and be available to hotel guests even when an event is being held in the conference center.

SUNDRY REVENUE MODEL

sundrev.wks

Mid-Priced Branded Lodging

run date 11/15/08

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	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<u>Room Nights</u>	10,000	12,000	14,000

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	<u>Revenue</u>	<u>Revenue</u>	<u>Revenue</u>
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>

VENDING & FOOD

Vending Snacks	\$6,533	\$7,840	\$9,146
Vending Beverages	\$1,922	\$2,306	\$2,690

Total Vending & Food      \$8,455      \$10,146      \$11,837

OTHER REVENUE

LD Phone Charges	\$11,529	\$13,835	\$16,141
Pool Use Fees	\$8,639	\$10,367	\$12,095
Games/Arcade	\$4,227	\$5,073	\$5,918
Video Rental	\$17	\$20	\$24
Fax Charges	\$100	\$120	\$140
Gift Certificates	\$288	\$346	\$404
Coin Op Laundry	\$573	\$687	\$802
Other	\$332	\$398	\$465
Clothing	\$683	\$819	\$956
Dry Cleaning	\$231	\$277	\$323
Pet Charge	\$164	\$196	\$229
Film/Camera	\$135	\$161	\$188
Post Cards	\$333	\$399	\$466
Rollaway/Crib	\$22	\$27	\$31
VCR Rental	\$8	\$9	\$11

Total Other      \$27,279      \$32,735      \$38,191

RECEPTION/PARTY RM

Reception/Party Rm	\$5,215	\$6,258	\$7,301
Catering Fees	\$845	\$1,015	\$1,184
Meeting Equipment	\$384	\$461	\$538

Total Meeting/Receptio      \$6,445      \$7,734      \$9,023

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TOTAL SUNDRY REVENUE      \$42,179      \$50,615      \$59,050  
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It is assumed that the franchise Central Reservation Office can supply 10-30% of all bookings for property and that the GDS can produce 2-5% (sell excess room inventory).

It is assumed that the business community, transients and residential population find the new property an attractive alternative (based on price/value) to dated lodging options in the community.

Based on the brand selected, it is assumed that the brand strength and unit management maintain a position of value and enough differentiation to maintain market share if additional competitors are attracted to the market area.

note: As the market grows, new budget, economy and extended stay lodging development will be likely.

It is assumed that the management of the property is provided with management systems, techniques and support (money and time) to be able to succeed.

It is assumed that the management will be capable of using direct marketing techniques. The techniques include, but are not limited to personal contact, phone solicitation, e-mail, placing blocks of rooms on the GDS, use of third party reservation agents, mail and personal presentations.

It is also assumed that management performs well enough to achieve at least average operating results for the type of property, state, region and market area.

It is assumed that the management of the property is capable of establishing tight budgets and operating by them. It is assumed that the ownership group will commit the resources to insure the new lodging establishment will have the staying power to develop the market. This includes additional cash injections, if required.

It is assumed that a staging kitchen is built into the conference center so that caterers have a place to make coffee, plate food and properly support table service.

It is assumed that there is storage allowed for tables and chairs and a lobby is provided with restrooms. For a 3,400 square foot conference center, only 2,400 square feet should be planned on for rental space.

Equipment rental and any extra room set up charges are not included in rental rates for the conference rooms. All extra fees are billed directly to the client or party.

The, basic room set up includes choice of room layout (classroom, banquet or theater) and ice water.

**Room Night Generation from Events**

Based on group size and proportion of "non-local" attendees, the room night generation from special events is forecasted. Actual room night generation will vary by function type.

**ROOM NIGHT GENERATION FROM SPECIAL EVENTS** mtgocc2.wks  
Mid-priced Lodging w/Special Event Center  
run date 11/15/08

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<u>Room Description</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<u>Small Room 1,000 sq ft (1 ea)</u>			
Rental Events	30	32	35
Ave Number Attendees Per Event	45	45	45
<b>Total Attendees</b>	<b>1,350</b>	<b>1,440</b>	<b>1,575</b>
<u>Mid-Sized Room 1,400 sq ft (1 ea)</u>			
Rental Events	35	37	38
Ave Number Attendees Per Event	100	100	100
<b>Total Attendees</b>	<b>3,500</b>	<b>3,700</b>	<b>3,800</b>
<u>Combined Rooms 2,400 sq ft (1 ea)</u>			
Rental Events	25	32	35
Ave Number Attendees Per Event	150	150	150
<b>Total Attendees</b>	<b>3,750</b>	<b>4,800</b>	<b>5,250</b>
<b>Total Attendees</b>	<b>8,600</b>	<b>9,940</b>	<b>10,625</b>
<b>Room Night Generation (25%)</b>	<b>2,150</b>	<b>2,485</b>	<b>2,656</b>

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**Event and Conference Center Assumptions (up to 200 person)**

1. It is assumed that the marketing and sales person uses the special event center in a way which optimizes room nights for the hotel. It is assumed that a bonus structure is used to provide adequate earnings to maintain a quality person.

note: Due to conference center size and the market condition, the assistant manager should initially be used 0.5 FTE for marketing and sales. As bookings grow, a full time marketing and sales person can be hired (recommended by year 5).

2. While not included in the pro-forma statements, a food and beverage commission can be charged and built into caterer prices. Initially, free access should be provided to build event sales.

**Room Rental by Group Size**

The potential special events, family events and meeting or conferences was used to forecast room rental by group size. With a limited population and employment base, the weddings, anniversaries and special events will most utilization.

**ROOM RENTAL ASSUMPTIONS**

mtgocc.wks

Mid-Priced Lodging w/Special Event Center

Total Sq Ft = 3,400 sq ft with rentable space = 2,400 sq ft

run date 11/15/08

<u>Room Description</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<b><u>Smaller Room 1,000 sq ft (70-90 person)</u></b>			
Number of Rooms	1	1	1
Potential Rentals	365	365	365
Occupancy	8.00%	9.00%	10.00%
Rental Events	29	33	37
Ave Events Per Week	0.56	0.63	0.70
Ave Rental Rate per Event	\$70.00	\$72.45	\$74.99
<b>Room Rental Revenue</b>	<b>\$2,044</b>	<b>\$2,380</b>	<b>\$2,737</b>
<b><u>Mid-Sized Room 1,400 sq ft (100-125 person)</u></b>			
Number of Rooms	1	1	1
Potential Rentals	365	365	365
Occupancy	10.00%	11.00%	12.00%
Rental Events	37	40	44
Ave Events Per Week	0.70	0.77	0.84
Ave Rental Rate per Event	\$150	\$150	\$150
<b>Room Rental Revenue</b>	<b>\$5,475</b>	<b>\$6,023</b>	<b>\$6,570</b>
<b><u>Combined Rooms 2,400 sq ft (130-210 person)</u></b>			
Number of Rooms	1	1	1
Potential Rentals	365	365	365
Occupancy	7.00%	9.00%	11.00%
Rental Events	26	33	40
Ave Events Per Week	0.49	0.63	0.77
Ave Rental Rate per Event	\$300	\$300	\$300
<b>Room Rental Revenue</b>	<b>\$7,665</b>	<b>\$9,855</b>	<b>\$12,045</b>
<b><u>Total Rental Revenue</u></b>	<b>\$15,184</b>	<b>\$18,257</b>	<b>\$21,352</b>

note: Rental period shown is per use and some days may include more than one function in a room. Food & beverage sales extra. assumes: 9-15 sq ft per person

## Banquet Food and Beverage Forecast

The banquet food and beverage is forecast by group function and size. If commissions are charged, they can be used for staff bonuses or paid to the hotel as a site use fee.

### FOOD AND BEVERAGE SALES/COMMISSIONS

mtgoccl.wks

Mid-Priced Lodging w/Special Event Center

run date 11/16/08

<u>Room Description</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<u>Small Room 1,000 sq ft (1 ea)</u>			
Rental Events	29	33	37
Ave Number Attendees Per Event	45	45	45
Ave Food/Beverage (\$) Per Person	\$3.50	\$3.62	\$3.75
Ave Bar (\$) Per Person	\$0.00	\$0.00	\$0.00
<b>Foodservice Revenue</b>	<b>\$4,568</b>	<b>\$5,379</b>	<b>\$6,243</b>
Commission 5%	\$228	\$269	\$312
<b>Bar Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Commission 10%	\$0	\$0	\$0
<u>Mid-Sized Room 1,400 sq ft (1 ea)</u>			
Rental Events	37	40	44
Ave Number Attendees Per Event	100	100	100
Ave Food/Beverage (\$) Per Person	\$12.00	\$12.42	\$12.85
Ave Bar (\$) Per Person	\$4.00	\$4.14	\$4.28
<b>Foodservice Revenue</b>	<b>\$44,400</b>	<b>\$49,680</b>	<b>\$56,561</b>
Commission 5%	\$2,220	\$2,484	\$2,828
<b>Bar Revenue</b>	<b>\$14,800</b>	<b>\$16,560</b>	<b>\$18,854</b>
Commission 10%	\$1,480	\$1,656	\$1,885
<u>Combined Rooms 2,400 sq ft (1 ea)</u>			
Rental Events	26	33	40
Ave Number Attendees Per Event	150	150	150
Ave Food/Beverage (\$) Per Person	\$20.00	\$20.70	\$21.42
Ave Bar (\$) Per Person	\$8.00	\$8.28	\$8.57
<b>Foodservice Revenue</b>	<b>\$78,000</b>	<b>\$102,465</b>	<b>\$128,547</b>
Commission 5%	\$3,900	\$5,123	\$6,427
<b>Bar Revenue</b>	<b>\$31,200</b>	<b>\$40,986</b>	<b>\$51,419</b>
Commission 10%	\$3,120	\$4,099	\$5,142
<b>Total Food/Bev Sales (Banquet)</b>	<b>\$126,968</b>	<b>\$157,524</b>	<b>\$191,350</b>
<b>Total Bar Sales (Banquet)</b>	<b>\$46,000</b>	<b>\$57,546</b>	<b>\$70,272</b>
<b>Total Commission/Bonuses</b>	<b>\$10,948</b>	<b>\$13,631</b>	<b>\$16,595</b>

note: If space is leased, commission is paid to the hotel. If the hotel owns and operates the banquet center, the funds may be used as bonuses for staff.

Maximum seating capacity of the banquet center is based on banquet style seating. The range for capacity is based on the difference between banquet seating (8-10 sq ft per person) and spacious fine dining (14-16 sq ft per person). (Maximum capacity subject to fire/safety codes)

Seating Options and Capacity Impacts

<u>Spacious Seating</u>	range (14-16 sq ft)	ave 15 sq ft
<u>Cafe Seating</u>	range (12-14 sq ft)	ave 13 sq ft
<u>Banquet Seating</u>	range ( 8-10 sq ft)	ave 9 sq ft

The costs of operating the conference center are included in the operating budgets for the hotel. A conference center will not "cash flow" and can only be justified by an increase in the room nights sold and the value of pre-booked business.

Banquet and Conference Room Costs  
(3 space options)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<u>Operating Expenses</u>			
Conf Ctr Insurance	2,200	2,310	2,426
Conf Utilities	3,500	3,675	3,859
Conf Direct Op	1,000	1,050	1,103
Conf Maintenance	1,200	1,260	1,323
Conf Marketing	10,000	10,500	11,025
Conf Staffing	3,000	3,150	3,308
Marketing/Sales	10,400	10,920	11,466
Maintenance	1,450	1,523	1,599
<u>Sub Total</u>	<u>\$32,750</u>	<u>\$34,388</u>	<u>\$36,109</u>

Property Operation Assumptions

1. It is assumed that the continental breakfast cost averages \$4.00 to \$5.00 per occupied room.
2. It is assumed that a cleaning program is designed and maintained to protect asset value and insure a quality environment. The costs in the maintenance budget reflect programed cleaning costs.
3. It is assumed that the cost to re-stock a room is \$1.40 to \$1.90 (room, paper, cleaning and linen supplies).
4. It is assumed that water/sewer use per occupied room is valued at \$0.80 to \$1.30 per room night.

5. It is assumed that at least a 50% residual value is used for depreciation of building (39 year) and equipment (10 year).

6. Booking fees are assumed controlled by contract. Third party fee cost creep must be managed carefully to optimize property yield. There is a cost advantage to direct dial bookings or Central Reservation System bookings over third party bookings.

It is assumed that room inventory and price structure provided to third parties is carefully managed to avoid a reduction in overall operating margin.

GDS Fees	\$ 4-5	per room night
Third Party Fees (15-20%)	\$10-\$12	per room night
Agency Fees (10%)	\$ 5-\$ 7	per room night

7. It is assumed that credit card fees average \$1.86 per occupied room or 2.2% of room sales. Credit card use for banquets is included in the Admin budget for the banquet center.

8. It is assumed that are specialty suite, studio suite and extended stay features are built into the property. The room type mix recommended in this report is critical to achievement of ADR benchmarks.

9. It is assumed that management will use community based marketing techniques to gain support of area businesses and market area residents.

10. It is assumed that long distance charges are \$0.70 per occupied room. It is assumed that guests pay a 30% margin on the cost of direct dialed long distance.

#### Other Income Components

- LD phone charges
- Pool use fees
- Video rental
- VCR rental
- Fax charges
- Gift certificates
- Games/Video Arcade
- Coin op laundry
- Dry cleaning
- Pet charge
- Film/camera
- Post cards
- Rollaway/crib
- Other

11. It is assumed that management is capable of achieving an ADR of \$74-\$79 and occupancy of 40-50% during the first year of operation.

12. It is assumed that the time to clean and re-stock a room is 35 minutes.

13. It is assumed that ownership and management will be aggressive promoters of special events, tourism, recreation and area visitation.

14. It is assumed that direct labor direct expenses increase a minimum of 3% per year. During the ramp up years, the increase in cost reflects added hours and wage increases.

15. Management company fees (4%) have been included.

16. It is assumed that quality management is recruited with a compensation package which includes wages, an annual increase plus bonus considerations.

17. It is assumed that real estate tax capacity for the completed property will be \$40,000 - \$60,000 without credits. Extra amounts may be needed for special assessments.

18. It is assumed that the mid-scale lodging in Abilene is priced equitably considering the Holiday Inn Express, economy and budget lodging in the region.

19. It is assumed that water, sewer and utilities are provided to the site. Any additional access charges will need to be added to the amount of equity of paid for with TIF funds (if possible).

20. The site prep allowance includes money for basic site prep. The amounts may be more or less depending on site design, city requirements and developer or franchisor preferences.

21. Recession resistance can be assumed by use of more equity in the project which will decrease the break even point. High fuel prices may curtail short term travel until the market and earnings are adjusted. A low break even point and operating basics are the best defenses in an economic downturn.

22. Staffing is assumed to be about average for a mid-priced property of this size and conference center for 200 guests. By year 5, staffing needs to be increased to include a full time assistant manager and marketing and sales person

STAFFING AND WAGE RATE ASSUMPTIONS

staffbud.wks

Mid-Priced Lodging

run date 11/16/08

	<u>Initial</u>	<u>Total</u>	<u>Ave</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
	<u>FTE</u>	<u>Hours</u>	<u>Hourly</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>
			<u>Wage</u>	<u>Labor</u>	<u>Labor</u>	<u>Labor</u>
General Manager	1	2080	\$19.23	\$40,000	\$44,000	\$48,400
Asst Mgr/Mktg	1	2080	\$10.00	\$20,800	\$21,424	\$22,067
Front Desk	4.2	8736	\$8.00	\$69,888	\$71,985	\$74,144
Housekeeping	3	6240	\$7.75	\$48,360	\$58,032	\$66,737
Maintenance	0.3	624	\$7.75	\$4,836	\$4,981	\$5,131
	<u>FTE</u>	<u>Hrs</u>				
<u>Total Direct Labor</u>	7.5	15,600	\$7.89	\$123,084	\$134,998	\$146,011
<u>Total Labor w/Mgt</u>	9.5	19,760	\$9.31	\$183,884	\$200,422	\$216,478

**MARKET TREND AND POTENTIAL IMPACT OF NEW ROOMS**

trend.wks

Mid-Priced Lodging, Abilene, Kansas

run date 11/17/08

**ASSUMPTIONS**

Taxable Revenue	\$2,500,000	Market Room Night Est	52,000
Demand Growth Rate	3.50%	Tourism Factor	0.47
Added Rooms	60	Basic Demand Estimate	12,000
New RmNt Capture	3,500	Site RmNt Estimate	14,000
Average Rate	\$64.00	Site New Capture %	25.00%
Lodging Tax Rate	5.00%		
Sales Tax Rate	6.35%		

	<u>Current</u> <u>Proportion</u>	<u>Growth</u> <u>Year 1</u>	<u>Growth</u> <u>Year 2</u>	<u>Growth</u> <u>Year 3</u>	<u>Growth</u> <u>Year 4</u>
<b>SEGMENT</b>					
Basic Demand	11.45%	2.00%	2.50%	3.00%	3.00%
Business Transient	18.54%	5.00%	6.00%	7.00%	7.00%
Tourism	46.89%	2.00%	2.00%	2.00%	3.00%
Special Events	7.52%	3.00%	3.00%	3.00%	3.00%
Meeting & Conferences	9.81%	2.00%	2.00%	2.00%	2.00%
Family Events	2.29%	1.50%	1.50%	1.50%	1.50%
Other Referrals	3.50%	3.00%	3.00%	3.00%	3.00%
Total Segments	100%				
<u>Average Annual Growth</u>		2.64%	2.86%	3.07%	3.21%
<u>Weighted Annual Growth</u>		2.65%	2.65%	2.65%	2.65%

**ROOM NIGHT FORECAST**

Basic Demand	5,954	6,073	6,225	6,412	6,604
Business Transient	9,641	10,123	10,730	11,481	12,285
Tourism	24,383	24,870	25,368	25,875	26,651
Special Events	3,910	4,028	4,149	4,273	4,401
Meeting & Conferences	5,101	5,203	5,307	5,413	5,522
Family Events	1,191	1,209	1,227	1,245	1,264
Other Referrals	1,820	1,875	1,931	1,989	2,048
Increased Capture		3,500	3,623	3,749	3,881
<u>Total Room Nights</u>	<u>52,000</u>	<u>56,881</u>	<u>58,559</u>	<u>60,438</u>	<u>62,656</u>

**HOTEL/MOTEL**

New Rooms	0	60	0	0	0
Total Rooms	295	355	355	355	355
Pot Room Nights	107,675	129,575	129,575	129,575	129,575
<u>Market Occupancy %</u>	<u>48.29%</u>	<u>43.90%</u>	<u>45.19%</u>	<u>46.64%</u>	<u>48.36%</u>

**MARKET EARNINGS SUMMARY**

Lodging Revenue	\$2,625,000	\$3,640,357	\$3,747,772	\$3,868,024	\$4,009,997
Room Tax	\$125,000	\$172,917	\$178,019	\$183,731	\$190,475
Sales Tax	\$158,750	\$219,605	\$226,084	\$233,339	\$241,903

note: Lodging revenue, room and sales tax assume 5% exempt sales

note: Other Referrals - brand referrals, GDS, booking or other

BUDGETS AND PRO-FORMAS  
Section BP8

## MANAGERIAL ACCOUNTING

Managerial accounting is intended to help management see the relationship between cash in and cash out for any period of time. The usual periods of interest are months and planned vs actual comparisons provide a useful measure of progress.

**GOAL:** To produce a cash flow statement which lists inflows and outflows by ACCOUNT for a period and year to date.

### INCOME ACCOUNTS

Cash in is categorized and tagged for each profit source. A minimum list of accounts is shown. The total of a day's entries should equal the deposit made at the bank or charge card batch settlement total.

#### Revenue Accounts

Room Sales  
Retail/Vending  
Meeting/Reception/Fees  
Other Revenue  
Cash Paid In  
Loan/L.O.C. Proceeds  
Taxes Collected

### EXPENSE ACCOUNTS

The expense accounts described below should be used for each profit center.

#### Expense Accounts

Cost of Retail/Vending  
Cost of Meeting/Reception  
Cost of Other Revenue  
Admin and General  
Direct Operating  
Utility and Energy  
Fixed Expenses and Occupancy Cost  
Marketing and Advertising  
Repairs and Maintenance  
Total Labor  
Payroll Taxes and Benefits  
Other-Taxes

**1. Administration and General Expense (fixed)**

Definition: Expenses which are incurred in order to operate a business. The expenses are fixed and do not vary much regardless of sales.

- Officer Salaries (if any)
- Credit Card Fees/Discounts
- General Insurance
- Life Insurance
- Bad Debts
- Professional Fees
- Education
- Delivery and Freight
- Dues and Subscriptions
- Office Expenses and Postage
- Business Meals
- Bank Charges
- Travel
- Other purely administrative expenses

**2. Direct Operation Expense**

Definition: Expenses which are incurred as a direct result of the sales effort. Direct expenses include all supplies which are consumed while servicing a customer. No expenses which are a part of the Cost of Goods Sold should be used in this account.

- Laundry expense and linen replacement
- Consumable services
- Music or Entertainment
- Small equipment (less than \$10,000 per year)
- Vehicle Expense and mileage
- Telephone (customer servicing)
- Gardening
- Consumable supplies
- Paper products
- Use or Activity Fees
- Cleaning Supplies
- Miscellaneous

**3. Utility and Energy Charges**

Definition: The energy charges which are associated with the operation of equipment.

- Gas
- Electric
- Water and Sewer
- Other Energy related charges

#### 4. Fixed Expenses and Occupancy Costs

Definition: The charges which are associated with occupying a property. Occupancy charges are largely fixed and are not usually considered to vary with sales.

- Real Estate Taxes
- Fees and Licenses
- Equipment Leases
- Personal Property Taxes
- Interest
- Depreciation
- Amortization or Note Principal
- Rent
- Other Occupancy costs

#### 5. Marketing and Advertising

Definition: The cost associated with promoting the business. The cost can include promotional printing, phone use and other charges used in overall marketing efforts.

- Advertising
- Contributions and Donations
- Printing used for advertising
- Direct mail pieces and postage
- Phone charges
- Professional fees
- Magazine ads
- Direct marketing

#### 6. Repairs and Maintenance

Definition: The cost which is to be expected with a planned maintenance program for all equipment, fixtures and other fixed assets. It usually includes trash or recycling charges.

- Repairs and maintenance
- Preventative maintenance
- Recycling and refuse charge

## 7. Total Labor

Definition: This account includes management, all hourly and salaried workers who are part of production or involved directly in customer service. Contract services and management contract fees are NOT included in this account.

Management Labor  
Hourly Labor

## 8. Payroll Taxes and Benefits

Definition: This account consists of mandatory payroll taxes and any employee benefits offered.

Worker's Compensation Insurance  
FUTA (federal unemployment)  
SUTA (state unemployment)  
FICA (social security) employee/employer  
Federal Withholding 941  
Medicare employee/employer  
Health insurance (optional)  
Vacation (optional)  
State Withholding WT-6

## 9. Cost of Goods Sold

Definition: The actual cost of a good sold. The cost can be the accumulated total of purchases during the year, and be adjusted by the final inventory level at year end.

### LIABILITY ACCOUNTS

The liability accounts are updated during the year, however are not used except at year end to provide the accountant with enough information to produce the corporate income taxes, plus a profit and loss statement with balance sheet.

Accounts Payable  
Mortgages  
Loans  
Capital Leases  
Notes  
Payroll Taxes  
Real Estate Taxes  
Personal Property Tax  
Advance Deposits  
Federal Income Tax  
State Income Tax

### ASSET ACCOUNTS

The asset accounts are updated during the year, however are not used except at year end to provide the accountant with enough information to produce the corporate income taxes, plus a profit and loss statement with balance sheet.

Inventory  
Real Estate  
Equipment (FF&E)  
Accounts Receivable  
Savings  
Investments

### EQUITY ACCOUNTS

Paid In Capital  
Retained Earnings (from last balance sheet)

LOAN AMORTIZATION ANALYSIS

MORTGAGE

```

=====
Amount Financed          $2,795,800.00 Interest Year 1      179,651.71
Annual Interest (%)           6.50 Interest Year 2      174,931.19
Term in Years                20 Interest Year 3      169,894.53
Monthly Loan Payment        $20,844.73 Gross Loan Profit    $2,206,936.09
Annual Loan Payment         $250,136.80 Interest Year 4      164,520.56
Total Loan Payment          $5,002,736.09 Interest Year 5      158,786.68
=====
    
```

End of Month	Interest Paid	Principal Paid	Principal Remaining
1	15,143.92	5,700.82	2,790,099.18
2	15,113.04	5,731.70	2,784,367.49
3	15,081.99	5,762.74	2,778,604.74
4	15,050.78	5,793.96	2,772,810.79
5	15,019.39	5,825.34	2,766,985.44
6	14,987.84	5,856.90	2,761,128.55
7	14,956.11	5,888.62	2,755,239.93
8	14,924.22	5,920.52	2,749,319.41
9	14,892.15	5,952.59	2,743,366.82
10	14,859.90	5,984.83	2,737,381.99
11	14,827.49	6,017.25	2,731,364.74
12	14,794.89	6,049.84	2,725,314.90
13	14,762.12	6,082.61	2,719,232.29
14	14,729.17	6,115.56	2,713,116.73
15	14,696.05	6,148.68	2,706,968.05
16	14,662.74	6,181.99	2,700,786.06
17	14,629.26	6,215.48	2,694,570.58
18	14,595.59	6,249.14	2,688,321.44
19	14,561.74	6,282.99	2,682,038.45
20	14,527.71	6,317.03	2,675,721.42
21	14,493.49	6,351.24	2,669,370.18
22	14,459.09	6,385.65	2,662,984.53
23	14,424.50	6,420.23	2,656,564.30
24	14,389.72	6,455.01	2,650,109.29
25	14,354.76	6,489.98	2,643,619.31
26	14,319.60	6,525.13	2,637,094.18
27	14,284.26	6,560.47	2,630,533.71
28	14,248.72	6,596.01	2,623,937.70
29	14,213.00	6,631.74	2,617,305.96
30	14,177.07	6,667.66	2,610,638.30
31	14,140.96	6,703.78	2,603,934.53
32	14,104.65	6,740.09	2,597,194.44
33	14,068.14	6,776.60	2,590,417.84
34	14,031.43	6,813.30	2,583,604.54
35	13,994.52	6,850.21	2,576,754.33
36	13,957.42	6,887.31	2,569,867.01
37	13,920.11	6,924.62	2,562,942.39
38	13,882.60	6,962.13	2,555,980.26
39	13,844.89	6,999.84	2,548,980.42
40	13,806.98	7,037.76	2,541,942.67
41	13,768.86	7,075.88	2,534,866.79
42	13,730.53	7,114.21	2,527,752.58
43	13,691.99	7,152.74	2,520,599.84













PRO FORMA INCOME STATEMENT  
 Mid-Priced Lodging, Abilene, KS  
 FIRST YEAR

Line items:	Month:	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total	% of net sales
ROOMS		54,018	41,094	46,821	51,542	15,710	37,534	109,352	130,944	131,718	97,279	36,915	20,973	773,900	93.10%
VENDING/RETAIL		590	449	512	563	172	410	1,195	1,431	1,439	1,063	403	229	8,455	1.02%
CONFERENCE/RECEP RM FEES		1,510	1,148	1,309	1,440	439	1,049	3,056	3,660	3,561	2,719	1,032	586	21,629	2.60%
OTHER REVENUE		1,904	1,449	1,650	1,817	554	1,323	3,855	4,616	4,643	3,429	1,301	739	27,279	3.28%
COMP SALES		0	0	0	0	0	0	0	0	0	0	0	0	0	0.00%
Net sales		58,022	44,140	50,291	55,362	16,875	40,316	117,457	140,650	141,481	104,490	39,651	22,527	831,263	100.00%
[COST OF GOODS SOLD]															
ROOMS		0	0	0	0	0	0	0	0	0	0	0	0	0	0.00%
VENDING/RETAIL		384	292	332	366	112	267	777	930	935	691	262	149	5,496	65.00%
CONFERENCE/RECEP RM FEES		75	57	65	72	22	52	153	183	184	136	52	29	1,081	5.00%
OTHER REVENUE		666	507	578	636	194	463	1,349	1,615	1,625	1,200	455	259	9,548	35.00%
Total cost of goods sold		1,126	856	976	1,074	327	782	2,278	2,728	2,744	2,027	769	437	16,125	1.94%
Gross profit		56,897	43,284	49,316	54,288	16,547	39,534	115,179	137,921	138,737	102,463	38,882	22,090	815,138	98.06%
[OPERATING EXPENSES]															
Administration Expense		3,788	3,788	3,788	3,788	3,788	3,788	3,788	3,788	3,788	3,788	3,788	3,788	45,450	5.47%
Total Labor		12,835	9,764	11,125	12,247	3,733	8,918	25,983	31,113	31,297	23,114	8,771	4,983	183,884	22.12%
Payroll Tax/Benefits		1,925	1,455	1,669	1,837	560	1,338	3,897	4,667	4,695	3,467	1,316	747	27,583	3.32%
Repairs and Maintenance		935	935	935	935	935	935	1,892	2,266	2,279	1,683	935	935	15,600	1.88%
Advertising		3,913	3,913	3,913	3,913	3,913	3,913	3,913	3,913	3,913	3,913	3,913	3,913	46,950	5.65%
Direct Operating		6,941	6,941	6,941	6,941	6,941	6,941	7,368	7,535	7,541	7,275	6,941	6,941	85,250	10.26%
Utilities		4,519	4,519	4,519	4,519	4,519	4,519	4,737	4,905	4,909	4,736	4,519	4,519	55,500	6.68%
Operating expenses		34,856	31,324	32,899	34,179	24,388	30,332	51,638	58,186	58,421	47,976	30,182	25,826	460,217	55.36%
Operating income/Loss		22,041	11,960	16,427	20,109	-7,841	9,183	63,541	79,735	80,316	54,487	8,700	-3,736	354,921	42.70%
Royalty/Ad Fee		4,592	3,493	3,980	4,381	1,335	3,190	9,295	11,130	11,196	8,269	3,138	1,783	65,782	7.91%
Management Fee		2,321	1,766	2,012	2,214	675	1,613	4,698	5,626	5,659	4,180	1,586	901	33,251	4.00%
Fixed Occupancy Costs		8,198	8,198	8,198	8,198	8,198	8,198	8,198	8,198	8,198	8,198	8,198	8,198	98,378	11.83%
Net Operating Income		6,930	-1,497	2,237	5,315	-18,049	-3,819	41,350	54,781	55,282	33,840	-4,222	-14,618	157,511	18.95%
Interest		14,971	14,971	14,971	14,971	14,971	14,971	14,971	14,971	14,971	14,971	14,971	14,971	179,652	21.61%
Profit Before Tax		-8,041	-16,468	-12,734	-9,656	-33,020	-18,790	26,379	39,810	40,291	18,869	-19,193	-29,589	-22,141	-2.66%

PRO FORHA CASH FLOW REPORT  
 Mid-Priced Lodging, Abilene, KS  
 FIRST YEAR

Line items:	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
[CASH RECEIPTS]													
ROOMS	54,018	41,094	46,821	51,542	15,710	37,534	109,352	130,944	131,718	97,279	36,915	20,973	773,900
VENDING/RETAIL	590	449	512	563	172	410	1,195	1,431	1,439	1,063	403	229	8,455
CONFERENCE/RECEP RM FEES	1,510	1,148	1,309	1,440	439	1,049	3,056	3,660	3,681	2,719	1,032	586	21,629
OTHER REVENUE	1,904	1,449	1,650	1,817	554	1,323	3,855	4,616	4,643	3,429	1,301	739	27,279
													0
Gross Sales	58,022	44,140	50,291	55,362	16,875	40,316	117,457	140,650	141,481	104,490	39,651	22,527	831,263
Discounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Sales	58,022	44,140	50,291	55,362	16,875	40,316	117,457	140,650	141,481	104,490	39,651	22,527	831,263
[CASH DISBURSEMENTS]													
COST OF VEND/RETAIL	384	292	332	366	112	267	777	930	935	691	262	149	5,496
COST OF CONF/RECEP RM	75	57	65	72	22	52	153	183	184	136	52	29	1,081
COST OF OTHER	666	507	578	636	194	463	1,349	1,615	1,625	1,200	455	259	9,548
ADMINISTRATIVE EXPENSE	3,788	3,788	3,788	3,788	3,788	3,788	3,788	3,788	3,788	3,788	3,788	3,788	45,450
TOTAL LABOR	12,835	9,764	11,125	12,247	3,733	8,918	25,983	31,113	31,297	23,114	8,771	4,983	183,884
BENEFITS	1,925	1,465	1,669	1,837	560	1,338	3,897	4,667	4,695	3,467	1,316	747	27,583
REPAIRS & MAINTENANCE	935	935	935	935	935	935	1,892	2,266	2,279	1,683	935	935	15,600
MARKETING	3,913	3,913	3,913	3,913	3,913	3,913	3,913	3,913	3,913	3,913	3,913	3,913	46,950
DIRECT OPERATING	6,941	6,941	6,941	6,941	6,941	6,941	7,368	7,535	7,541	7,275	6,941	6,941	85,250
UTILITIES	4,519	4,519	4,519	4,519	4,519	4,519	4,797	4,905	4,909	4,736	4,519	4,519	55,500
TOTAL FIXED OCCUPANCY COST	29,043	29,043	29,043	29,043	29,043	29,043	29,043	29,043	29,043	29,043	29,043	29,043	348,515
LESS DEPRECIATION	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-58,378
MANAGEMENT FEE	2,321	1,766	2,012	2,214	675	1,613	4,698	5,626	5,659	4,180	1,586	901	33,251
ROYALTY/AD FUND/COOP	4,592	3,493	3,980	4,381	1,335	3,190	9,295	11,130	11,196	8,269	3,138	1,783	65,782
Total cash disbursements	67,072	61,617	64,034	66,027	50,904	60,115	92,087	101,849	102,199	86,629	59,853	53,125	865,511
Opening cash balance	120,000	110,950	93,473	79,730	69,066	35,037	15,238	40,608	79,409	118,692	136,552	116,350	-34,248
Net Cash Flow	-9,050	-17,477	-13,743	-10,664	-34,029	-19,798	25,370	38,801	39,282	17,860	-20,202	-30,598	-34,248
Closing cash balance	110,950	93,473	79,730	69,066	35,037	15,238	40,608	79,409	118,692	136,552	116,350	85,752	0
Loans (cash injections)													
Cash Bal after Loans/Losses	110,950	93,473	79,730	69,066	35,037	15,238	40,608	79,409	118,692	136,552	116,350	85,752	85,752
Interest on Cash Balance	555	467	399	345	175	76	203	397	593	683	582	429	4,904

PRO FORMA INCOME STATEMENT  
 Mid-Priced Lodging, Abilene, KS  
 SECOND YEAR

Line items:	Month:	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total	% of net sales
ROOMS		67,008	50,976	58,080	63,936	19,488	46,560	135,648	162,432	163,392	120,672	45,792	26,016	960,000	93.31%
VENDING/RETAIL		708	539	614	676	206	492	1,434	1,717	1,727	1,275	484	275	10,146	0.99%
CONFERENCE/RECEP RM FEES		1,814	1,380	1,572	1,731	528	1,261	3,673	4,398	4,424	3,267	1,240	704	25,991	2.53%
OTHER REVENUE		2,285	1,738	1,980	2,180	665	1,588	4,625	5,539	5,571	4,115	1,561	887	32,735	3.18%
COMP SALES		0	0	0	0	0	0	0	0	0	0	0	0	0	0.00%
Net sales		71,815	54,633	62,247	68,523	20,886	49,900	145,380	174,085	175,114	129,329	49,077	27,882	1,028,872	100.00%
[COST OF GOODS SOLD]															
ROOMS		0	0	0	0	0	0	0	0	0	0	0	0	0	0.00%
VENDING/RETAIL		460	350	399	439	134	320	932	1,116	1,122	829	315	179	6,595	65.00%
CONFERENCE/RECEP RM FEES		91	69	79	87	26	63	184	220	221	163	62	35	1,300	5.00%
OTHER REVENUE		800	608	693	763	233	556	1,619	1,939	1,950	1,440	547	310	11,457	35.00%
Total cost of goods sold		1,351	1,028	1,171	1,289	393	939	2,734	3,274	3,294	2,433	923	524	19,352	1.88%
Gross profit		70,465	53,606	61,076	67,234	20,493	48,962	142,645	170,811	171,820	126,897	48,154	27,358	1,009,520	98.12%
[OPERATING EXPENSES]															
Administration Expense		3,978	3,978	3,978	3,978	3,978	3,978	3,978	3,978	3,978	3,978	3,978	3,978	47,730	4.64%
Total Labor		13,989	10,642	12,126	13,348	4,069	9,720	28,320	33,911	34,112	25,193	9,560	5,431	200,422	19.48%
Payroll Tax/Benefits		2,098	1,596	1,819	2,002	610	1,458	4,248	5,087	5,117	3,779	1,434	815	30,063	2.92%
Repairs and Maintenance		982	982	982	982	982	982	1,987	2,379	2,393	1,768	982	982	16,380	1.59%
Advertising		4,108	4,108	4,108	4,108	4,108	4,108	4,108	4,108	4,108	4,108	4,108	4,108	49,298	4.79%
Direct Operating		7,289	7,289	7,289	7,289	7,289	7,289	7,737	7,911	7,918	7,639	7,289	7,289	89,513	8.70%
Utilities		4,745	4,745	4,745	4,745	4,745	4,745	5,037	5,150	5,155	4,973	4,745	4,745	58,275	5.66%
Operating expenses		37,189	33,340	35,045	36,451	25,780	32,279	55,413	62,525	62,780	51,437	32,095	27,347	491,681	47.79%
Operating income/loss		33,276	20,266	26,031	30,783	-5,286	16,682	87,232	108,286	109,040	75,460	16,059	11	517,839	50.33%
Royalty/Ad Fee		5,696	4,333	4,937	5,435	1,656	3,958	11,530	13,807	13,888	10,257	3,892	2,211	81,600	7.93%
Management Fee		2,873	2,185	2,490	2,741	835	1,996	5,815	6,963	7,005	5,173	1,963	1,115	41,155	4.00%
Fixed Occupancy Costs		8,298	8,298	8,298	8,298	8,298	8,298	8,298	8,298	8,298	8,298	8,298	8,298	99,578	9.68%
Net Operating Income		16,409	5,449	10,306	14,309	-16,077	2,431	61,588	79,218	79,849	51,731	1,906	-11,614	295,506	28.72%
Interest		14,578	14,578	14,578	14,578	14,578	14,578	14,578	14,578	14,578	14,578	14,578	14,578	174,931	17.00%
Profit Before Tax		1,832	-9,128	-4,272	-268	-30,654	-12,147	47,011	64,640	65,272	37,153	-12,672	-26,191	120,575	11.72%



PRO FORMA INCOME STATEMENT  
Mid-Priced Lodging, Abilene, KS  
THIRD YEAR

Line items:	Month:	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total	% of net sales
ROOMS		80,619	61,331	69,878	76,923	23,447	56,018	163,202	195,426	196,581	145,184	55,094	31,301	1,155,000	93.49%
VENDING/RETAIL		826	629	716	788	240	574	1,673	2,003	2,015	1,488	565	321	11,837	0.96%
CONFERENCE/RECEP RM FEES		2,120	1,613	1,838	2,023	617	1,473	4,292	5,139	5,170	3,818	1,449	823	30,375	2.46%
OTHER REVENUE		2,666	2,028	2,311	2,544	775	1,852	5,396	6,462	6,500	4,801	1,822	1,035	38,191	3.09%
COMP SALES		0	0	0	0	0	0	0	0	0	0	0	0	0	0.00%
Net sales		86,231	65,600	74,742	82,278	25,079	59,917	174,562	209,030	210,266	155,290	58,929	33,479	1,235,403	100.00%
[COST OF GOODS SOLD]															
ROOMS		0	0	0	0	0	0	0	0	0	0	0	0	0	0.00%
VENDING/RETAIL		537	409	465	512	156	373	1,087	1,302	1,310	967	367	209	7,694	65.00%
CONFERENCE/RECEP RM FEES		106	81	92	101	31	74	215	257	258	191	72	41	1,519	5.00%
OTHER REVENUE		933	710	809	890	271	648	1,889	2,262	2,275	1,680	638	362	13,367	35.00%
Total cost of goods sold		1,576	1,199	1,366	1,504	458	1,095	3,191	3,820	3,843	2,838	1,077	612	22,580	1.83%
Gross profit		84,655	64,401	73,376	80,774	24,620	58,822	171,372	205,210	206,423	152,452	57,852	32,868	1,212,823	98.17%
[OPERATING EXPENSES]															
Administration Expense		4,177	4,177	4,177	4,177	4,177	4,177	4,177	4,177	4,177	4,177	4,177	4,177	50,125	4.06%
Total labor		15,110	11,495	13,097	14,417	4,395	10,499	30,588	36,628	36,845	27,211	10,326	5,867	216,478	17.52%
Payroll Tax/Benefits		2,267	1,724	1,965	2,163	659	1,575	4,588	5,494	5,527	4,082	1,549	880	32,472	2.63%
Repairs and Maintenance		1,031	1,031	1,031	1,031	1,031	1,031	2,086	2,498	2,513	1,856	1,031	1,031	17,199	1.39%
Advertising		4,314	4,314	4,314	4,314	4,314	4,314	4,314	4,314	4,314	4,314	4,314	4,314	51,762	4.19%
Direct Operating		7,653	7,653	7,653	7,653	7,653	7,653	8,123	8,307	8,313	8,021	7,653	7,653	93,988	7.61%
Utilities		4,982	4,982	4,982	4,982	4,982	4,982	5,299	5,408	5,412	5,222	4,982	4,982	61,189	4.95%
Operating expenses		39,533	35,376	37,218	38,737	27,210	34,231	59,165	66,826	67,101	54,882	34,031	28,903	523,213	42.35%
Operating income/loss		45,122	29,025	36,158	42,037	-2,590	24,591	112,207	138,384	139,322	97,570	23,820	3,964	689,610	55.82%
Royalty/Ad Fee		6,853	5,213	5,940	6,538	1,993	4,761	13,872	16,611	16,709	12,341	4,683	2,661	98,175	7.95%
Management Fee		3,449	2,624	2,990	3,291	1,003	2,397	6,982	8,361	8,411	6,212	2,357	1,339	49,416	4.00%
Fixed Occupancy Costs		8,401	8,401	8,401	8,401	8,401	8,401	8,401	8,401	8,401	8,401	8,401	8,401	100,814	8.16%
Net Operating Income		25,419	12,787	18,827	23,807	-13,987	9,032	82,951	105,010	105,891	70,616	8,379	-8,436	441,205	35.71%
Interest		14,158	14,158	14,158	14,158	14,158	14,158	14,158	14,158	14,158	14,158	14,158	14,158	169,895	13.75%
Profit Before Tax		12,261	-1,371	4,669	9,649	-28,145	-5,126	68,793	90,852	91,643	56,459	-5,779	-22,594	271,310	21.96%

PRO FORMA CASH FLOW REPORT  
 Mid-Priced Lodging, Abilene, KS  
 THIRD YEAR

Line items:	Month:	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
[CASH RECEIPTS]														
ROOMS		80,619	61,331	69,878	76,923	23,447	56,018	163,202	195,426	196,581	145,184	55,094	31,301	1,155,000
VENDING/RETAIL		826	629	716	788	240	574	1,673	2,003	2,015	1,488	565	321	11,837
CONFERENCE/RECEP RM FEES		2,120	1,613	1,838	2,023	617	1,473	4,292	5,139	5,170	3,818	1,449	823	30,375
OTHER REVENUE		2,666	2,028	2,311	2,544	775	1,852	5,396	6,462	6,500	4,801	1,822	1,035	38,191
														0
Gross Sales		86,231	65,600	74,742	82,278	25,079	59,917	174,562	209,030	210,266	155,290	58,929	33,479	1,235,403
Discounts		0	0	0	0	0	0	0	0	0	0	0	0	0
Net Sales		86,231	65,600	74,742	82,278	25,079	59,917	174,562	209,030	210,266	155,290	58,929	33,479	1,235,403
[CASH DISBURSEMENTS]														
COST OF VEND/RETAIL		537	409	465	512	156	373	1,087	1,302	1,310	967	367	209	7,694
COST OF CONF/RECEP RM		106	81	92	101	31	74	215	257	258	191	72	41	1,519
COST OF OTHER		933	710	809	890	271	648	1,889	2,262	2,275	1,680	638	362	13,367
ADMINISTRATIVE EXPENSE		4,177	4,177	4,177	4,177	4,177	4,177	4,177	4,177	4,177	4,177	4,177	4,177	50,125
TOTAL LABOR		15,110	11,495	13,097	14,417	4,395	10,499	30,588	36,628	36,845	27,211	10,326	5,867	216,478
BENEFITS		2,267	1,724	1,965	2,163	659	1,575	4,588	5,494	5,527	4,082	1,549	880	32,472
REPAIRS & MAINTENANCE		1,031	1,031	1,031	1,031	1,031	1,031	2,086	2,498	2,513	1,856	1,031	1,031	17,199
MARKETING		4,314	4,314	4,314	4,314	4,314	4,314	4,314	4,314	4,314	4,314	4,314	4,314	51,762
DIRECT OPERATING		7,653	7,653	7,653	7,653	7,653	7,653	8,123	8,307	8,313	8,021	7,653	7,653	93,988
UTILITIES		4,982	4,982	4,982	4,982	4,982	4,982	5,289	5,408	5,412	5,222	4,982	4,982	61,189
TOTAL FIXED OCCUPANCY COST		29,246	29,246	29,246	29,246	29,246	29,246	29,246	29,246	29,246	29,246	29,246	29,246	350,951
LESS DEPRECIATION		-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-4,865	-58,378
MANAGEMENT FEE		3,449	2,624	2,990	3,291	1,003	2,397	6,982	8,361	8,411	6,212	2,357	1,339	49,416
ROYALTY/AD FUND/COOP		6,853	5,213	5,940	6,538	1,993	4,761	13,872	16,611	16,709	12,341	4,683	2,661	98,175
Total cash disbursements		75,792	68,793	71,894	74,451	55,046	66,865	107,592	120,000	120,445	100,654	66,530	57,896	985,937
Opening cash balance		189,499	199,938	196,745	199,592	207,419	177,452	170,504	237,475	326,505	416,326	470,962	463,362	249,446
Net Cash Flow		10,439	-3,193	2,947	7,827	-29,967	-6,948	66,971	89,030	89,821	54,637	-7,601	-24,416	249,446
Closing cash balance		199,938	196,745	199,592	207,419	177,452	170,504	237,475	326,505	416,326	470,962	463,362	438,945	0
Loans (cash injections)														
Cash Bal after Loans/Losses		199,938	196,745	199,592	207,419	177,452	170,504	237,475	326,505	416,326	470,962	463,362	438,945	438,945
Interest on Cash Balance		1,000	984	998	1,037	887	853	1,187	1,633	2,082	2,355	2,317	2,195	17,526

STATEMENT OF FINANCIAL FEASIBILITY  
Section BP9

## DETERMINATION OF FINANCIAL FEASIBILITY

The determination of the financial feasibility for the project will be based on select present value calculations. The effect of interest rate, loan size and level of payment is weighed against the project's ability to meet the financing terms, based on the budgets and sales forecasts assembled for the first year of operation. The main consideration is the level of maintainable cash flow which is most likely from the project.

Usually, a range of debt is possible depending largely on the level of expense which is required to complete the project and the sales forecast assumptions which are made. In this case, reasonable costs have been considered and midpoint estimates of sales used.

The project will be judged to be financially feasible when the financing terms are satisfactorily met, after all other obligations are met. If the plans are determined not to be feasible, changes in budgets can re-establish financial feasibility, but at a reduced level of capital expenditure and borrowing.

Present value methods are preferred due to the importance of cash flows which will occur over the term of the loan and can affect the ability to service the debt to maturity. The most critical portion of the project is repayment ability during the first two years of operation. Costs usually will exceed projected levels and actual sales may be below forecasts. Cash shortfalls will need to be made up from permanent working capital or other sources of income.

The Uniform Series (present value) Cash Flow Tables used for the calculations are provided in most financial management texts. The formula used to determine  $V_0$ , the maximum feasible size of a loan is;

### Feasibility of a Single Investment

$V_0$  = Maximum Loan Size

$$V_0 = A [USPV \ i, N] \text{ where,}$$

A = annual cash flow available to service debt (annual payments)

i = interest rate per year

N = number of years in term of loan

Once established, the formula can also be used to determine the maximum interest rate which is feasible for the project. The data for the project under consideration is provided below;

(before Occ)	Projected Operating Income	\$ 354,921
	<u>(first year level)</u>	
subtract	Minus non-debt Occupancy (Total Occ - Annual Debt Pymts - Deprec)	40,000
subtract	Royalty/Ad Fee/Mgt Fee	99,033
equals		
divide	<u>Projected Available Cash Flow</u>	215,888
	Factor	1.30
equals		
	<u>Adjusted Cash Flow to Service</u>	<u>\$166,068</u>
	<u>Annual Debt</u> (30% excess capacity)	

Estimates

Mid-Price Branded Lodging, Abilene, Kansas

	<u>Low Estimate</u>	<u>High Estimate</u>
Sales	\$ 830,000	\$1,466,000
	A = \$166,068	A = \$271,268
	i = 6.5%	i = 6.5%
	N = 20 years	N = 20 years
	$V_0 = \$166,068(10.594)$	$= \$271,268(10.594)$
<u>Debt Capacity</u>	<u>= \$1,759,324</u>	<u>= \$2,873,813</u>
<u>Range</u>		

A safety factor of 30% excess debt carrying capacity was used.

Should the project exceed the high end sales projections, additional debt service could be supported or the added capacity allowed to produce profit which can be accumulated for later use.

Should the lower level of sales not be reached, additional cash injections would be required in order to continue. At that time, the efficiency of management should be studied and changes be considered in order to maintain feasibility of the project. The project becomes insolvent when the safety factor is \$0 and current obligations require cash injection.

**Debt Service Coverage**

The previous page suggests the level of debt which can be handled reasonably and the cash ratio of debt coverage indicates the ability of the project to satisfy it's debts from cash flow. This ratio is very useful in predicting a bankruptcy or insolvency.

$$\text{Debt Service Ratio} = \frac{\text{Cash Flow}}{\text{Total Long Term Debt}}$$

**Cash Flow** = Operating Income - (non debt) Occupancy Expenses - Royalty/Ad/Mgt Fee + Depreciation

	<u>YR 1</u>	<u>YR 2</u>	<u>YR 3</u>
(A) Net Cash Flow	(\$ 34,248)	\$103,747	\$249,446
(B) Annual Debt (P+I)	250,137	250,137	250,137
(C) Cash Flow (B+A) Before Debt	215,889	353,884	499,583
(D) Debt Service (C/B) Ratio	0.86	1.41	2.00

Notes: To reduce risk and improve financial feasibility, the following recommendations are made.

1. Work with the CVB/Chamber of Commerce to improve the room night capture and average daily spending of visitors and tourists in Abilene.
2. Work to maintain favorable market yield, improving conversion of visits to overnight stays. Increase the average daily spending by visitors.
3. Work to attract destination weddings, meetings, regional group functions and special events.

**Feasibility Statement**

The mid-scale branded lodging is feasible subject to the limitations and contingencies presented in this report. Critical success factors are conference center, equity level, regional marketing, tourism promotion and maintaining a favorable ADR (at or above the forecasted level). Debt should be kept near the mid-point of the range specified as feasible. This report includes many recommendations to improve project performance and reduce risk.

APPENDIX  
Section BP10

## APPENDIX

A feasibility study is a third party opinion relating to a project, based on consideration of the market and the level of investment. A feasibility study is intended to be used as a "pre-planning" document. The purpose of a feasibility study is to determine whether or not to proceed with a project and if so, under what conditions. Based on input obtained from a feasibility study, a developer may often modify the size, scope, market strategy or cost a project.

A feasibility study will provide development recommendations, identify market constraints and suggest limitations. Debt carrying capacity is identified in a statement of financial feasibility which suggests the range of debt, within which the project is feasible.

A feasibility study provides the basis for project planning. After equipment, construction, site development and other quotes are received, a business and funding plan can be prepared. A business plan is a compilation of actual quotes, financial commitments and decisions which are used in lender and equity investment representations.

While a feasibility study can provide a project planning tool and a "basis" for investment or lending, it is not intended to replace a loan proposal, business plan or an investment prospectus.

### Items to Include with Loan Proposal

1. Independent, third party Feasibility Study
2. Franchise documentation (for franchise purchase)
3. Loan request or business plan
  - Land and site development costs
  - Construction quotes
  - Quotes for professional services  
architect, engineer, environment testing
  - Other negotiated capital or costs  
TIF, tax abatement, public funds, grants
  - Sewer or water access fees & special assessments
  - Resume for all key persons
  - Current appraisal  
appraisal upon completion  
last real estate tax statement (existing prop)
  - Collateral available for each source of debt
  - Business entity and structure (Corp, LLC or other)  
equity participations  
guarantees and related fees  
management company or agreement
4. Personal financial statement w/balance sheet  
(all guarantors)