



Hospitality Marketers  
International, Inc.

## COMMUNITY OVERVIEW MARKET STUDY

MARION, IOWA  
NOVEMBER, 2015

Management

Research

Marketing

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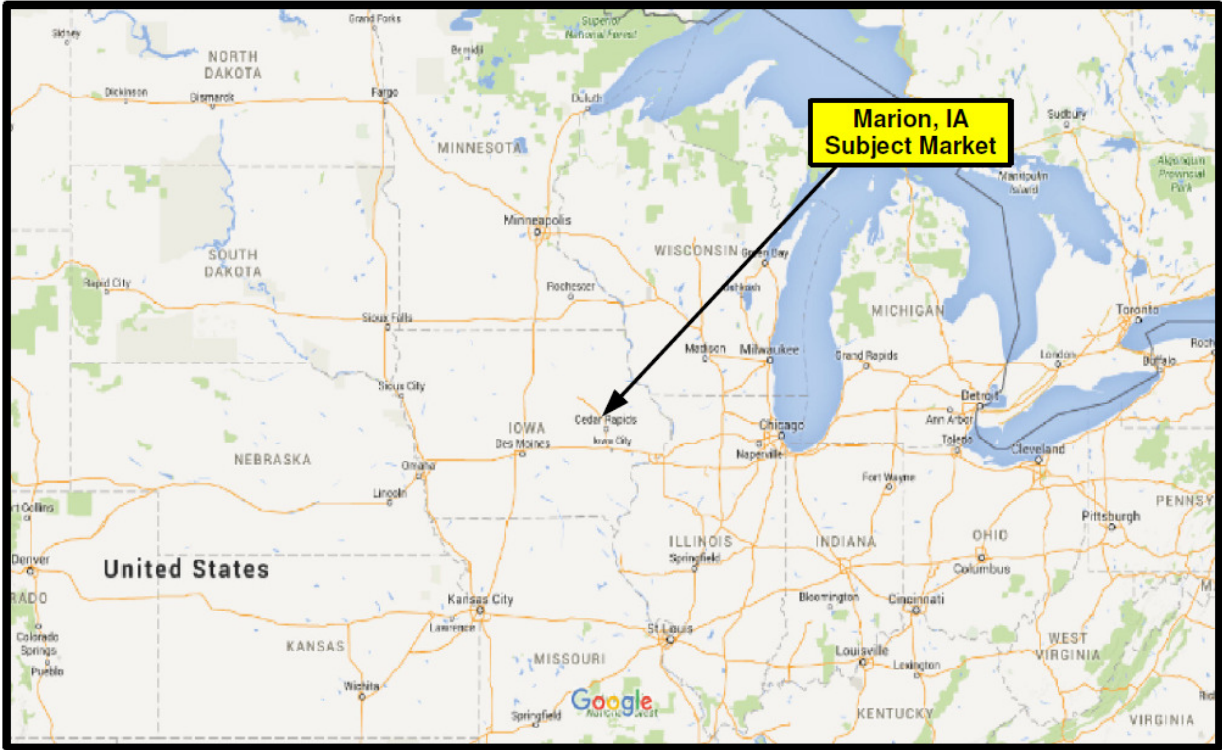
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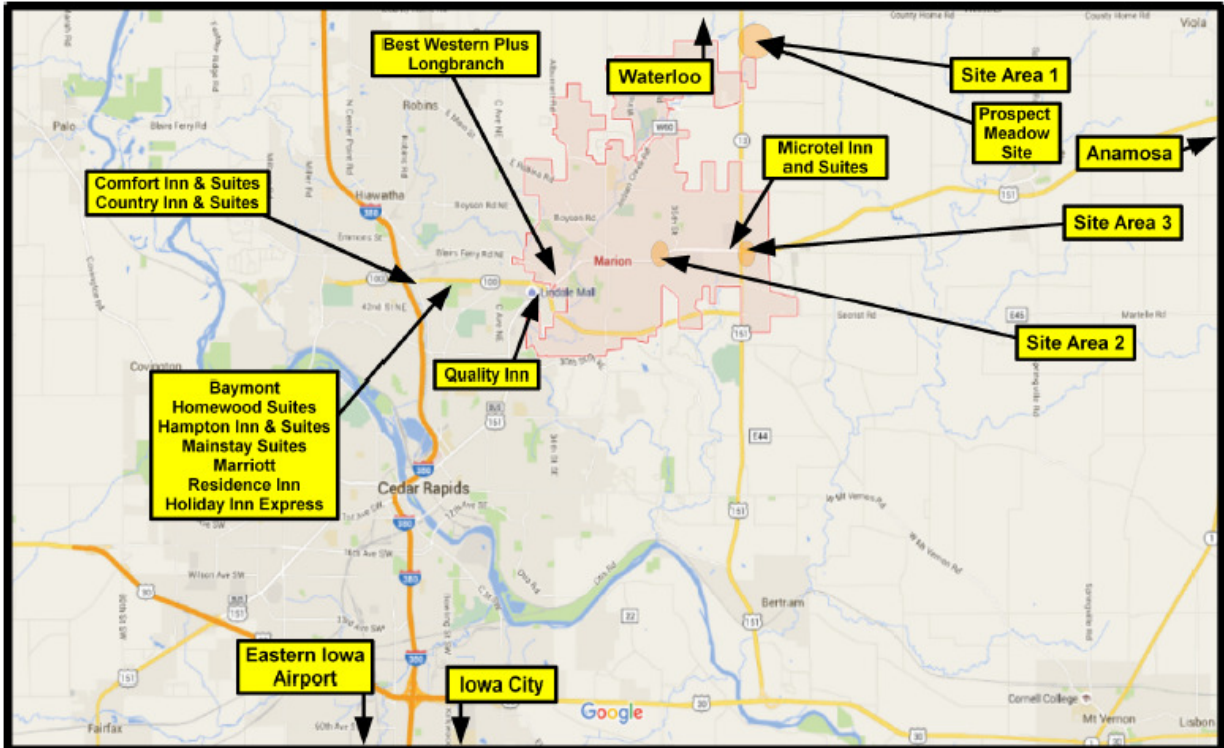
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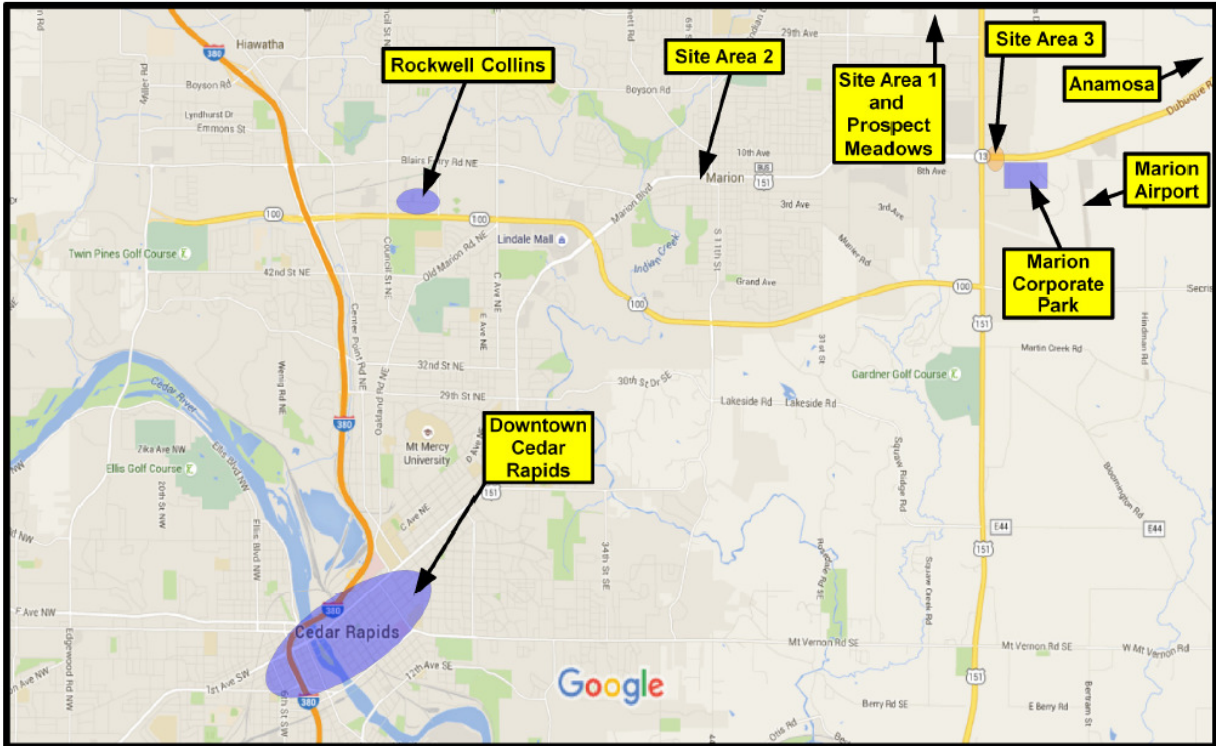
**Exhibit 1 - Geographic Relationship of the Subject Market to the Central United States**



**Exhibit 2 - Geographic Relationship of the Subject Market to the Upper Midwest Including the States of Wisconsin, Minnesota, Iowa and Illinois**



**Exhibit 3 - Greater Marion and Cedar Rapids Market Area Including the Location of the Competitive Hotels in the Subject Market Along with the Location of the Three General Subject Site Areas**



**Exhibit 4 - Location of the Three General Subject Site Areas Along with the Location of the Major Demand Generators in the Greater City of Marion/Cedar Rapids Market Area**





**Exhibit 5 - The Two-, Four- and Eight-Mile Radii Around the Subject Site Utilized in the Economic Analysis and the Data from the Claritas/Nielsen Statistical Report**

## **INTRODUCTION/OBJECTIVE**

Hospitality Marketers International, Inc., (HMI) has been engaged to prepare a Community Overview Hotel Market Study to address the following per the RFQ dated June 9, 2015:

- Evaluate and project the current and near term demand for hotel services in the City of Marion under existing conditions including conference facilities.
- Evaluate and project the additional demand that the completion of the sports tourism facility (commonly known as Prospect Meadows) will have on the local market as related to hotel room demand.
- Examine the impact the construction of the proposed subject facility will have on the local and state economy including:
  - Employment at the proposed subject hotel facility
  - Tourism Tax
  - Property taxes

Thus, per the first two previous bullet points, this report will first evaluate the Marion market area in general and in regards to the existing Lodging Demand conditions. These include recommendations for a possible new hotel development including size and style as well as projections for occupancy, average daily rate and revenues. Changes, if any, to these recommendations and projections will be re-evaluated and presented based on the development of the Prospect Meadows sports park project.

While the pricing category has not yet been decided, discussion with the city officials indicated that it most likely will be an upper midscale range. HMI was engaged by the City of Marion, Iowa to perform this market research. This report is the exclusive property of the City of Marion, Iowa.

Discussions during the research phase of this project indicated that there are three potential site areas that have been identified and will be reviewed in a subsequent section of this report. The research included in this report supports the preliminary conclusions presented later in this report regarding the style and size of the proposed hotel. This Community Overview Hotel Market Study provides an overview of the information concerning the greater City of Marion, the Cedar Rapids MSA and Linn County in Iowa and the market factors that would affect the possible development of the proposed hotel facility.

In this report, the focus is on development of an upper midscale hotel with potentially 2,500 – 5,000 square feet of conference space, i.e. a select service style hotel. This report provides recommendations regarding the subject market's ability to support this style of hotel as well as recommendations for branding of the proposed facility and a suggested number of sleeping rooms to be included.

Preliminary research was performed and reviewed regarding the subject market's economic indicators, competitive Lodging Supply, and Lodging Demand generators. HMI conducted field research to determine the relationship between this market and the proposed hotel's Lodging Supply competitors and Lodging Demand generators. Economic indicators were reviewed to determine the stability and future growth of the subject market.

The stabilized-year of Occupancy, Average Daily Room Rate, and Sales Revenue projections for the proposed hotel were based on a preliminary detailed review of the field research data. Preliminary facility recommendations as to product type, size, brand affiliation and amenities were based upon the market demand research for the proposed hotel. The research that was conducted focused on macro-and micro-market analyses of the City of Marion, the greater Cedar Rapids MSA and the Linn County market to determine the preliminary viability of this market to support the proposed hotel.

This Community Overview Hotel Market Study report is typically used internally to determine if additional research will need to be performed. It may or may not be acceptable for external lending and investment purposes. This report could be expanded into a Comprehensive Hotel Market Study for a specific hotel to be developed in Marion. If, at any time, there are questions regarding this research, or if this report needs to provide specific information regarding this hotel development, HMI will be available to address the required information.

Mr. Lon Pluckhahn, City Manager with the City of Marion, Iowa has engaged HMI to perform this Community Overview Hotel Market Study. This report is the property of the City of Marion and any distribution, use, or other application of this Community Overview Hotel Market Study must have the prior approval of Mr. Lon Pluckhahn or other responsible representatives of the City of Marion.

## **GENERAL MARKET DESCRIPTION**

The general market for this hotel is the greater Marion, Iowa market area which includes the north and northwest side of Cedar Rapids and the east/northeast side of Linn County, Iowa. Listed below is a preliminary description of this market area.

## **GEOGRAPHIC LOCATION**

- The City of Marion is located in east central Iowa and is a northeast suburb of Cedar Rapids, Iowa. It is situated approximately 35 miles north via I-380 from Iowa City, approximately 65 miles southwest of Dubuque Iowa via US Route 151 and approximately 80 miles northwest of the Quad Cities via US Route 30 and I-80. See Exhibits 2 and 3 of this report for further details.
- Marion is centrally located between six of the Midwest's major metropolitan areas ranging from 226 miles to 325 miles from Chicago, Kansas City, Milwaukee, Minneapolis/St. Paul, Omaha and St. Louis.
- The City of Marion is situated approximately five miles east of I-380 via Collins Road and Marion Boulevard/7<sup>th</sup> Avenue. I-380 is a primary connector in this part of Iowa connecting to the north to Waterloo, Iowa and US Route 20 and south to the Iowa City/Coralville area and I-80. Collins Road is a primary east/west connector on the north side of Cedar Rapids while Marion Boulevard becomes 1<sup>st</sup> Avenue connecting southwest to downtown Cedar Rapids. See Exhibits 3 and 4 of this report for further details of this market's location.
- The City of Marion is an adjacent northeast suburb of the Cedar Rapids MSA proximate to the City of Cedar Rapids which is located approximately thirty miles north of Iowa City, the home of the University of Iowa.

## **GENERAL MARKET CHARACTERISTICS**

- The City of Marion, located on the northeast side of Cedar Rapids in Linn County is considered part of the Cedar Rapids MSA. This consists of Benton, Linn and Jones Counties as defined by the US Census Bureau. The City of Marion, with a 2010 Census population of 34,768, is the second largest city in the Cedar Rapids MSA after Cedar Rapids.
- Manufacturing, retail trade and health and social assistance have historically been the primary economic generators for the greater Cedar Rapids MSA market area.
- Per the US Census data, in 2013 the City of Marion's primary economic generators were retail trade followed by educational services and health & social assistance.

- There are three separate site areas under consideration for the proposed subject hotel. The immediate areas surrounding the three different sites (see the following Site Analysis section of this report as well as Exhibit 4 of this report for further details) under consideration for the proposed hotel have mixed surroundings. Site Area 1 is primarily in a rural area surrounded by farm land while Site Area 2 has retail, commercial/industrial and residential areas surrounding it and Site Area 3 has retail, commercial and residential areas surrounding it.
- The 2010 Census indicated that the population in the City of Marion was 34,768. This is a 32.2% increase from the 2000 Census amount of 26,294 with a racial mix of 93.7% Caucasian, 2.0% African American, Asian 1.6% and 2.7% other races.
- The estimated 2014 City of Marion population of 36,774 makes it the fourteenth largest city in Iowa. The 2010 Census population of 34,768 indicates that the City of Marion is the second largest city in Linn County behind Cedar Rapids at 126,326. .
- The population estimate in 2015 within a two-mile radius of the intersection of US Route 151 and State Route 13 (central to the three possible subject sites and the location of Site Area 2) was estimated at 16,188 a 7.5%. This is an increase from the 2010 Census number of 15,057. However, this changes slightly when increasing to an eight-mile radius of the subject site with an estimated 2015 population of 40,262. This is a 5.3% increase over the 2000 Census figure of 38,240.

## EXHIBITS

The following exhibits describe the geographic location of this market and three possible subject sites.

- Exhibit 1 of this report shows the geographic relationship of the subject market to the central United States.
- Exhibit 2 of this report depicts the geographic relationship of the subject market to the upper Midwest including the states of Wisconsin, Minnesota, Iowa and Illinois.
- Exhibit 3 of this report shows the greater Marion and Cedar Rapids market area. This includes the location of the competitive hotels in the subject market for the proposed hotel along with the location of the three general subject site areas.
- Exhibit 4 of this report presents the location of the three general subject site areas along with the location of major demand generators in the greater City of Marion/Cedar Rapids market area.
- Exhibit 5 of this report presents the two, four and eight mile radii around the subject site utilized in the economic analysis and the data from the Claritas/Nielsen statistical report.

**SITE ANALYSIS**

This section of the report presents preliminary geographic highlights of the three general site areas being considered for the proposed hotel based upon field research and discussions with local officials. See Exhibit 4 of this report for their exact location in relation to the greater Marion market area. This Site Analysis will be reviewed in more detail in a Comprehensive Hotel Market Study.

The following chart summarizes the three general subject site areas listed in no particular order of preference:

- Site Area 1 – Is located in the southeast quadrant of County Home Road and Iowa Route 13.
- Site Area 2 – Is located on the south side of 7<sup>th</sup> Avenue at approximately 2825 7<sup>th</sup> Avenue.
- Site Area 3 – Is located on the west side of Hennessy Parkway at the intersection of Business Route 151 and State Route 13 in either the northeast or the southeast quadrants.

See Exhibits 3 and 4 of this report for further details.

<b>SUBJECT SITE EVALUATION</b>			
<b>CATEGORY</b>	<b>RATING</b>		
	<b>Site Area 1</b>	<b>Site Area 2</b>	<b>Site Area 3</b>
Visibility	Good	Excellent	Excellent
Accessibility	Very Good	Excellent	Excellent
Land Prep	Good	Good	Very Good
Environmental	Investigate	Investigate	Investigate
Major Utilities	Excellent	Excellent	Excellent
Zoning	Excellent	Excellent	Excellent
Architectural Controls	Excellent	Excellent	Excellent
Area Support Services	Good	Very Good	Very Good
Competitive Position	Good	Excellent	Very Good
<b>Overall</b>	<b>Good</b>	<b>Very Good</b>	<b>Very Good</b>
<i>Source: HMI</i>			

A review of the above chart indicates that the three general site areas are rated either Good or Very Good overall. Sections of the chart above that require further investigation by the developer are given a 2.5 out of 5 rating until additional specific information is known. More information regarding these areas could result improving each overall site rating toward Very Good and/or Excellent.

As noted in the above chart, the strengths (ratings of Very Good or Excellent) of each subject site area as well as any site concerns are in the following:

#### SITE AREA 1

- **ACCESSIBILITY:** This subject site's location in the southeast quadrant of County Home Road and Iowa Route 13 provides Very Good Access to it. Route 13 is a four lane divided road providing convenient access to 7<sup>th</sup> Avenue/ Business Route US 151 and the US 151 bypass route around the southeast side of the greater Cedar Rapids market. County Home Road is a two lane road providing direct access to I-380 approximately eight miles west. Thus, the Very good rating was chosen here.
- **MAJOR UTILITIES, ARCHITECTURAL CONTROLS & ZONING:** Based on the previous development of parts of this site, including a mental health group home, and on discussions with local officials, it appears that all necessary utilities and zoning should be in place resulting in a rating of Excellent.
- **SITE CONCERNS-** At this time, this preliminary analysis of this site did not raise any particular concerns, except that it is the farthest site from the major employers/potential business Lodging Demand located on Collins Road, approximately ten miles southeast. Environmental elements are not within the scope of this hotel market study. It is recommended that the developer have a professional, independent environmental review completed along with a soil integrity test and any other testing that may be required.

#### SITE AREA 2

- **VISIBILITY & ACCESSIBILITY:** This subject site's location on 7<sup>th</sup> Avenue, part of Business Route 151 through the greater Cedar Rapids market area, will provide excellent visibility to travelers as they approach the location from either direction. Also, 7<sup>th</sup> Avenue connects to Collins Road providing easy access for business travelers in the area calling on major employers approximately five miles east, including Rockwell. Therefore this subject site area is rated as Excellent in these two areas.
- **MAJOR UTILITIES , ARCHITECTURAL CONTROLS & ZONING:** Due to the subject site's location in the City of Marion and its proximity to both commercial and residential units, it appears that all necessary utilities and zoning should be in place resulting in a rating of Excellent.
- **AREA SUPPORT SERVICES:** This subject sites location on 7<sup>th</sup> Avenue gives it convenient access to many area restaurants and retail east and west of the subject site area.



- **COMPETITIVE POSITION:** This site area is situated approximately mid-way between the major employers along Collins Road to the east and the proposed Prospect Meadows sports park area. It is also the closest site to the downtown Cedar Rapids market area. This results in an Excellent rating in this category.
- **SITE CONCERNS-** Discussions with city officials indicated that any environmental issues resulting from the site's prior usage by Prince Agri Products and a railroad right of way at the rear of the subject site will be addressed by the city. There is still considerable concrete covering the subject site as well as trees at the rear of the site near the railroad right of way that may require removal. Environmental elements are not within the scope of this hotel market study. It is recommended that the developer have a professional, independent environmental review completed along with a soil integrity test and any other testing that may be required.

### SITE AREA 3

- **VISIBILITY & ACCESSIBILITY:** This subject site's location at the intersection of State Route 13 and US 151 in either the northeast or southeast quadrant's of this intersection should provide it with excellent visibility and accessibility to travelers. Also, it would be the closest location to the City of Marion Industrial Park as well as the City of Marion Airport that is being improved to attract private corporate business aircraft/jets. Therefore this subject site is rated as Excellent in these two areas.
- **MAJOR UTILITIES, ARCHITECTURAL CONTROLS & ZONING:** Due the subject site's location in the City of Marion and its proximity to both commercial and residential units, it appears that all necessary utilities and zoning should be in place resulting in a rating of Excellent.
- **LAND PREP:** This site area includes both the north and south side of US Route 151 which turns west at the intersection of State Route 13. The north side site is currently vacant, relatively flat but slopes slightly upward going east from Route 13. It was previously utilized as a driving range. The south side site is also vacant, adjacent to the Marion Industrial Park and rises up heading south from US 151. This will require some leveling/grading. The apparent need for grading at either part of this general site area results in a Very Good rating.
- **MAJOR UTILITIES & ZONING:** Due the subject site's location in the City of Marion and its proximity to both commercial and residential units, it appears that all necessary utilities and zoning should be in place resulting in a rating of Excellent.

- **AREA SUPPORT SERVICES:** This subject site's location at the intersection of Route 13, 7<sup>th</sup> Avenue/Business Route 151 and US 151 gives it easy access to many area restaurants and retail both east and west of the subject site area.
- **COMPETITIVE POSITION:** This site is situated adjacent to the City of Marion Industrial Park. It is the closest site to the Marion Airport and the second closest to the proposed Prospect Meadows sports park area. This results in the Very Good rating in this category.
- **SITE CONCERNS-** At this time, this preliminary analysis of this site did not raise any particular concerns. However, environmental elements are not within the scope of this hotel market study. It is recommended that the developer have a professional, independent environmental review completed along with a soil integrity test and any other testing that may be required.

At this time, a preliminary recommendation of Site Area 2 as the preferred site was made. This was based on its location right on 7<sup>th</sup> Avenue; its being the most proximate site area to the Rockwell Collins facility; and its location midway between other demand generators located in Marion. This Site Analysis will be reviewed in more detail in a Comprehensive Hotel Market Study.

## **ECONOMIC OVERVIEW**

This section of the report provides a preliminary overview of the economic environment in which the proposed hotel would operate. This preliminary economic analysis does not conclusively determine how successful the proposed facility will be in the Marion market area, however, it offers valuable insight into the economic stability and growth potential of the market. It will directly affect the Conclusions formulated later in this report.

*The economic health of this market can be important to the success of the hotel. PKF Hospitality estimates that 80% of a hotel's operating performance is strongly influenced by the local market conditions. (Hotel Management- July 15, 2013- PKF- Budgeting for a Local Affair, So Understand Your Market- Article). Therefore, this section highlights several key components of the Marion market area.*

The proposed hotel will draw Lodging Demand from the local area around the subject site in the City of Marion as well as the greater Cedar Rapids and Linn County market areas. This resulted in a review of certain data based on two, four and eight mile radii of the intersection of US Route 151 and Iowa Route 13, which is a central location for the three subject sites under consideration and happens to be proximate to Site Area 2. This area will assist in understanding the economic stability of the market.

## **GENERAL DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS**

Two, four and eight mile radii around the intersection of Routes 151 and 13, which is centrally located between the three site areas and proximate to Site Area 2 were reviewed regarding their preliminary *General Demographics*. *Key Population Demographics* and *Household Income* characteristics were used to study the economic stability of the greater subject market. The data reviewed was from the Nielsen/Claritas *Household Trend 2015 Report*. This information will be enhanced with more details in a Comprehensive Hotel Market Study.

It should be noted here that the two mile radius covers the western half of the City of Marion including retail, residential, commercial and some rural area. The four mile radius covers a broader area including all of the City of Marion, a small portion of the northeastern side of the City of Cedar Rapids, and a more rural area. The largest eight mile radius encompasses a greater portion of the City of Cedar Rapids west and southwest of the City of Marion. This includes the industrial/commercial area along Collins Road west as well as downtown Cedar Rapids and the eastern half of Cedar Rapids. Also included is a greater amount of rural land north and east of the City of Marion. See Exhibit 4 of this report for further details.

#### Two Mile Radius

- The data for the two mile radius indicated that for the period 2010 – 2015, the population was projected to have increased by 7.5% and households increased by 6.0%.
- Also, 2000 Census data through 2015 indicated that the Average Household Income increased by 27.5%, the Median Household Income increased by 27.0%, and the Average Per Capita Income increased by 27.2%.
- Projections of this data through 2020 indicated similar results with all areas projected to increase but at similar to slightly lower annual amounts.

#### Four Mile Radius

- The data for the four mile radius indicated that for the period 2010 – 2015, the population was projected to have increased by 5.3% and households increased by 5.0%.
- Also, the 2000 Census through 2015 data indicated that the Average Household Income increased by 27.5%, the Median Household Income increased by 27.0%, and the Average Per Capita Income increased by 27.2%.
- Projections of this data through 2020 indicated similar results with all areas projected to increase but at similar to slightly lower annual amounts.

#### Eight Mile Radius

- The data for the eight mile radius indicated that for the period 2010 – 2015, population was projected to have increased by 2.2% and households increased by 2.8%.
- Also, the 2000 Census through 2015 data indicated that the Average Household Income increased by 34.6%, the Median Household Income increased by 27.9%, and the Average Per Capita Income increased by 35.5%.
- Projections of this data through 2020 indicated similar results with all areas projected to increase but at similar to slightly lower annual amounts.

#### POPULATION AND NUMBER OF HOUSEHOLDS – OVERALL OBSERVATIONS

- The *Population* and *Households* in the immediate subject market area (two and four mile radii of the most central site area (Site Area 2) was comprised primarily of the City of Marion's data with minimal impact from the City of Cedar Rapids and the rural areas. This data reflected solid increases for the period 2010 - 2015. In contrast, the eight mile radius encompasses a broader area including all of Cedar Rapids east of I-380 including downtown Cedar Rapids and a greater amount of rural land. This data reflected increases that were half of the two smaller radii.
- Projections for *Population* and *Households* followed the historic trend with positive Population projections for all three radii, but decreases as the radius increases. Most likely a result of the increased inclusion of both more rural areas and the city of Cedar Rapids.

#### HOUSEHOLD AND PER CAPITA INCOMES – OVERALL OBSERVATIONS

- The historic (2000 – 2015) annual changes in Average and Median *Household Incomes* and *Per Capita Incomes* were in a relatively narrow range of 24.4% - 35.5% for all three categories.
- Looking forward, the *Average* and *Median Household* and *Per Capita Incomes* are projected to be in a relatively narrow range of 4.6% to 10.6% over the next five-years through 2020. The smaller amount is in the smallest radii and the largest amount is in the largest radii.

#### WORKFORCE CHARACTERISTICS

- At 10,173, the 2013 employment base in the City of Marion is 7.16% of the total employment base for the Cedar Rapids MSA which was 142,092 in 2013. It appears reasonable use data for the Cedar Rapids MSA when reviewing the *Workforce Characteristics* in this section for the following reasons:
  - Marion being an adjacent community to the City of Cedar Rapids.
  - Two of the three sites being situated where there is potential for them to attract business Lodging Demand from the major employers located along Collins Road on the north side of Cedar Rapids.
  - The locations of the potential subject sites in the City of Marion position the proposed hotel to attract Lodging Demand from eastern Linn County and Jones County to the east.

Data from the US Census was reviewed to determine the distribution of the labor force within the subject market area. This will assist in analyzing the diversity of this market by its employment base.

- The top three industry sectors in the Cedar Rapids MSA (Manufacturing, Health & Social Assistance and Retail Trade at 15.5%, 12.1% and 12.0% respectively) totaled 39.6% of the total employment base in 2013. In 2008, the top three industry sectors were in slightly different order: Manufacturing, Retail Trade and Health & Social Assistance respectively at 17.0%, 11.8% and 11.4%. These totaled 40.2% of the employment base. Ideally, the top three industries should represent less than 50% of the total employment to show good diversity. In this market, the top three industries were well below this mark in both 2008 and 2013. This indicates very good diversity of employment and that the subject greater Cedar Rapids MSA market does not rely solely on these three industries to support its economy.
- This trend of employment diversity continues with a comparison of the top four industry sectors: 49.0% in 2013 vs. 48.8% in 2008 (less than a 60.0% rate which indicates good diversity for the top four industry groups). There is very good diversity in this market in the top five industry sectors with totals of 55.7% in 2013 vs. 55.4% in 2008 (less than the 65.0% - 70.0% range which indicates good diversity for the top five industry groups).
- Overall, the subject market has shown an increase of 3.1% in employment from 2008 to 2013. It should be noted that the period from 2006 to 2011 encompassed the recent national recession. During this time, the Unemployment Rates hit a high of 4.9% in the City of Marion in 2013 and a high of 6.2% in the Cedar Rapids MSA in 2009. Unemployment has since improved to 3.8 and 4.6% respectively in the City of Marion and in the Cedar Rapids MSA for calendar 2014.

This information will be enhanced with more detail in a Comprehensive Hotel Market Study.

#### UNEMPLOYMENT RATES

- The 2014 annual *Unemployment Rate* for the City of Marion, Linn County and the Cedar Rapids MSA were 3.8%, 4.6% and 4.6%, respectively.
- Over the past ten years, *Unemployment Rates* have averaged 3.9%, 4.8% and 4.9% respectively, for the same areas.
- The 2014 year end rates are all within the range of 3.8% - 4.6%, which indicates potential full employment.

This information will be enhanced with more detail in a Comprehensive Market Study.

### LABOR SUPPLY and WAGES

- Local officials did not indicate any Labor Supply problems in any employment sector. The proposed hotel's location in Marion in east central Iowa should make it possible to draw employment from this entire area.
- Local officials did not indicate any wage pressures at this time. However, with the current and historic Unemployment Rates in the subject market area being below maximum employment levels of 4% - 5%, indicates the potential for some pressures and Service related employment in the future.

### TRANSPORTATION

- There are several *Transportation* opportunities in the City of Marion. They include:
  - Highway:
    - I-380 which traverses the market area north/south approximately six miles west of downtown Marion. It connects to Waterloo, Iowa to the north, and to Iowa City/Coralville to the south, and Interstate I-80 which crosses the US east/west.
    - US Route 151 crosses the greater Cedar Rapids MSA from its southwest side in close proximity to Site Area 2. It runs through Anamosa, to Dubuque, Iowa, and then into Madison, Wisconsin. Business Route 151 passes through downtown Cedar Rapids and on through Marion, where it is also known as 7<sup>th</sup> Avenue, providing a convenient four lane connector for Site Areas 2 and 3 from their location in Marion to downtown Cedar Rapids.
    - 7<sup>th</sup> Avenue, along which Site Areas 2 and 3 are located, connects with Collins Road. This is where the Rockwell Collins facility is located. It is the largest single employer in the Cedar Rapids MSA, approximately 3.5 miles and 4.5 miles west of Site Areas 2 and 3 respectively.
    - See Exhibits 2, 3 and 4 of this report for further details of the subject market's location and its connecting routes.
  - Air Service is provided at the Eastern Iowa Airport on the southwest side of Cedar Rapids. It is served by five carriers, including, Delta, American, Allegiant, United and Frontier with connections to Minneapolis, Detroit, Chicago, Dallas/Fort Worth and Denver.

This information will be enhanced with more detail in a Comprehensive Market Study.

**LODGING DEMAND**

This section of the report identifies preliminary Lodging Demand sources for the proposed hotel facility. Exhibit 3 of this report identifies the primary subject market that will be serviced by the proposed hotel on a year-round basis. This research supports the recommendations provided in the *Conclusions* for the development of a limited-service hotel.

**MARKET SEGMENTATION**

The first area to be identified in describing the Lodging Demand Potential for the subject market area is the preliminary *Market Segmentation* that exists in that area. The following chart highlights the preliminary Market Segmentation projections for the proposed hotel. This estimate of Market Segmentation supports the recommendations provided in the *Conclusions* section for the development of a limited service hotel.

It would be further verified in a more Comprehensive Hotel Market Study.

<b>MARKET SEGMENTATION - Pre Prospect Meadows</b>					
	SUBJECT MARKET PROBABLE PERCENT OF MARKET	RANGE	PROPOSED PROPERTY PROBABLE MARKET	MARKET PENET.	RANGE
Individual Travel Markets	40.0%	37.5%-42.5%	75.0%	187.5%	73.5%-79.5%
Corporate/ Commercial	30.0%	27% - 33%	55.0%	183.3%	52% - 58%
Social/ Leisure	10.0%	7% - 13%	20.0%	200.0%	12% - 18%
Group Markets	60.0%	57.5%-62.5%	25.0%	41.7%	22.5%-27.5%
Business Related	40.0%	37% - 43%	7.0%	17.5%	5% - 10%
Social/ Leisure Related	20.0%	17% - 23%	18.0%	90.0%	15% - 21%
TOTAL	100.0%		100.0%		
<i>Source: HMI</i>					

The preliminary *Market Segmentation* for the proposed hotel shown in the chart above will be modestly different from the Market Segmentation for the greater Marion/Cedar Rapids MSA market. Its primary focus will be on the northeast side of the Cedar Rapids MSA generated Lodging Demand (where it would be located.) The projected Marion/Cedar Rapids MSA Lodging Demand is based on discussions with the CEO of the Cedar Rapids Area Convention & Visitors Bureau, whose focus is on attracting city wide events that will fully utilize the 80,000 square foot convention center in downtown Cedar Rapids.



The proposed hotel, which will be located at one of the three sites previously reviewed in this report, will therefore be situated in the City of Marion, northeast of Cedar Rapids, Iowa. It will therefore be competitive first in the greater City of Marion market area including the north and east side of Cedar Rapids as well as the eastern part of the greater Cedar Rapids MSA. This includes eastern Linn County and all of Jones County. At this time, it is estimated that the proposed hotel will have different market segmentation from the overall Cedar Rapids MSA market area. This is because:

- The proposed hotel will have a modest amount of meeting/conference space (2,500 – 5,000 square feet), versus the larger hotels with meeting space ranging from 20,000-80,000 square feet. These hotels include the Doubletree in downtown Cedar Rapids and the Marriott Hotel on the north side of Cedar Rapids.
- The proposed hotel is not anticipated to capture much if any highway demand generated by travelers on I-380, either Corporate/Commercial or Leisure. This is due to its distance of at least nine miles from the interstate depending on the site area selected.
- Depending on the site area chosen, the proposed hotel will be at least four miles from Rockwell Collins, the major employer in the market area. It is surrounded by a significant cluster of hotels which comprise most of the competitive hotel set discussed later in this report

The individual travel market in the greater Marion market is comprised of several Lodging Demand generators. These include I-380 travelers (both Corporate/Commercial and Social/Leisure) related vendors; dealers and dealer technicians; equipment servicemen and professionals calling on area businesses; medical professionals; patients and their families; construction workers; tourists and vacationers who are attracted to the area's outdoor recreational activities which include boating and cycling; semi pro sports teams, overflow from the University of Iowa events in Iowa City; high school sports team tournaments year round and family and friends visiting for weddings, reunions and other special occasions.

## MARKET SEGMENTATION PROFILES

To further define the preliminary Market Segmentation of the area, preliminary profiles for each Market Segment were defined. The following outline provides *Market Segmentation Profiles* that correspond with the proposed hotel's projected Market Segmentation. Again, these preliminary Market Segmentation Profiles will support the development of a select service style hotel that is recommended in the *Conclusions* section of this report. More specific and extensive Lodging Demand research would need to be conducted in the form of a Comprehensive Lodging Demand Analysis to further quantify the volume of Lodging Demand Potential that could be expected. In the following chart, the rating of Social/Leisure demand at Very Good versus the Good rating of Corporate/ Commercial demand on the surface indicates modest diversity of Lodging Demand in the identified market area. However, in no way does it indicate the volume of Lodging Demand that could be generated by these segments.

This would be further verified in a more Comprehensive Hotel Market Study for a specific hotel development.

<b>MARKET SEGMENTATION PROFILES - Pre Prospective Meadows</b>		
	<b>Demand Potential</b>	
	<b>Transient = I Extended = E Group = G</b>	<b>Subject Property Potential</b>
<b>Social/Leisure Markets</b>		
Visiting Friends & Relatives	T, E	Very Good
Area Sites & General Tourism		
Tuma Soccer Complex	T, G	Good
Area Events		
Overflow from University of Iowa events in Iowa City	T	Good
City wide college/high school sports tournaments	T, G	Very Good
Area Recreation (Boating, Hiking, Biking, Hunting, Fishing, etc.)	T	Good
Perfect Game Events (baseball clinics/showcases)	T, G	Very Good
Social Related Groups		
Weddings	T, G	Excellent
Reunions	G	Good
Other	G	Good
Amateur Youth Sports	T, G	Good
	<b>Potential</b>	<b>Very Good</b>
<b>Corporate/Commercial Markets</b>		
Agriculture	T	N/A
Mining, Quarrying & Oil and Gas Exploration	T, E, G	N/A
Utilities	T, E, G	Good
Construction	T, E	Very Good
Manufacturing	T, E	Very Good
Wholesale Trade	T	Good
Retail Trade	T	Good
Transportation and Warehousing	T	N/A
Information	T	Good
Finance, Insurance and Real Estate	T	Good
Real Estate, Rental & Leasing	T	N/A
Services		
Professional, Scientific & Technical	T, E	Good
Management of Companies and Enterprises	T	N/A
Administrative, Support, Waste Management and Remediation	T	Fair
Educational	T, E	Good
Health and Social Assistance	T, E	Good
Arts, Entertainment & Recreation	G	N/A
Accommodation & Food Services	T	Good
Other	T, E	Good
Public Administration	T	Fair
	<b>Potential</b>	<b>Good</b>
	<b>Overall Potential</b>	<b>Good</b>

Source: HMI

As indicated above, this subject market currently appears to have some modest diversification with Very Good demand being generated by the Social/Leisure Market Segments and Good demand being generated by the Corporate/Commercial Market Segments. Local officials in Marion indicated a lack of adequate banquet/meeting space for social functions such as weddings and Marion-based organizations with annual dinners resulting in the Excellent rating in this segment. Three Social/Leisure segments and two Corporate/Commercial segments were rated Very Good.

The above chart indicates a preliminary list of Lodging Demand sources identified during the research phase of this report that are believed to be currently generating Fair to Excellent Lodging Demand. These demand sources relate to the overall subject market. The proposed hotel will have the potential to develop demand from all of these sources. Some will be more productive than others for the proposed hotel.

The Lodging Demand for the proposed select-service hotel will come from multiple sources. A basic outline of this anticipated Lodging Demand follows:

1. Social Leisure Lodging Demand-Individual and Group

- Visitors come to this market for various Social/Leisure activities.
  - The greater Cedar Rapids market area, of which Marion is a suburb, is host to many “city wide” collegiate and high school athletic tournaments: basketball, baseball, softball NCAA roller hockey and tennis.
  - There are numerous festivals, both ethnic and otherwise, throughout the year.
- Perfect Game USA is devoted to furthering the development and careers of talented high school baseball players. It is headquartered in Marion and currently showcases players year round in Marion on weekends. An estimated 100 players participate on weekends along with coaches and scouts at their new indoor facility
- Visiting families and friends of local residents in both Marion and the greater Cedar Rapids market area return for reunions, weddings, funerals, other special occasions, and local area events.

2. Corporate/Commercial Lodging Demand- Both Individual and Group

- Due to the design of the proposed hotel with smaller meeting space, one would anticipate the Lodging Demand from this Market Segment to be primarily Individual demand with smaller groups of individuals associated with a particular company or industry. These travelers could include dealers, dealer technicians, equipment service technicians, sales staff, corporate office personnel and suppliers.
- Vendors and suppliers call on the businesses in the greater Marion and Cedar Rapids MSA market area including the Anamosa area, less than twenty miles east of the three possible subject site areas. Technicians working on equipment at local businesses are also included in this segment.
- The proposed site areas will position the new hotel as the closest property to the Marion airport. This is a general aviation airport with planned improvements that will position it to be the “executive “airport in eastern Iowa including: lengthened runways, adding an east/west runway and expanded maintenance facilities. This would indicate a need for housing of crews and passengers.
- To further understand the Corporate/Commercial market, the following chart highlights the primary employers in the greater Cedar Rapids market area.

MAJOR EMPLOYERS Cedar Rapids, Iowa Metro Area			
COMPANY	SERVICE OR PRODUCT	CEDAR RAPIDS MSA LOCATIONS	TOTAL EMPLOYEES
Rockwell Collins	Electronic Equipment & Design	Cedar Rapids, IA	8,700
Transamerica	Insurance / Financial	Cedar Rapids, IA	3,800
St. Luke's Hospital	Healthcare	Cedar Rapids, IA	2,979
Cedar Rapids Community School District	Education	Cedar Rapids, IA	2,879
Nordstrom Direct	Logistics / Distribution	Cedar Rapids, IA	2,150
Mercy Medical Center	Healthcare	Cedar Rapids, IA	2,140
City of Cedar Rapids	Government	Cedar Rapids, IA	1,309
Four Oaks	Non-Profit	Cedar Rapids, IA	1,100
Linn-Mar Community School District	Education	Marion IA	987
Quaker Food & Snacks	Food Processing	Cedar Rapids, IA	920
College Community School District	Education	Cedar Rapids, IA	850
Alliant Energy - Interstate Power/Light	Utility	Cedar Rapids, IA	845
Kirkwood Community College	Education	Cedar Rapids, IA	810
Linn County Board of Supervisors	Government	Cedar Rapids, IA	762
Hibu	Customer Service	Cedar Rapids, IA	723
General Mills, Inc.	Food Processing	Cedar Rapids, IA	650
Toyota Financial Services	Insurance / Financial	Cedar Rapids, IA	600
NextEra Energy Duane Arnold	Utility	Palo, IA	592
Ruffalo Noel Levitz	Information Services	Cedar Rapids, IA	575
CRST	Logistics / Distribution	Cedar Rapids, IA	564

Source: Cedar Rapids Metro Economic Alliance

- A review of the above chart demonstrates both the dominance of one employer (Rockwell with 25.6% of the total employees of the top twenty employers) in the greater Cedar Rapids market area. It also shows the diversity of employers beyond the first employer, with the next three having between 8.5% and 11.2% of the total employees in the top twenty employers, for a total of 28.5%. This is supported by the fact that the top six employers (after the top employer) total 41.1% of the total employment. This is well over one third of the total employees at the major employers in this market area.
- One of the proposed potential site areas, Site Area 2, will be the closest to the location of the Rockwell Collins facility. This will enable a proposed hotel at this site to be a viable alternative location to satisfy Lodging Demand being generated by Rockwell
- This review of the market's Lodging Demand will be enhanced with more details in a Comprehensive Hotel Market Study

**SEASONALITY OF LODGING DEMAND**

Preliminary *Seasonality of Lodging Demand* was reviewed for the subject market area. For this report, the seasonality analysis was based upon the members of the competitive hotel set that report to Smith Travel Research. This will be defined in the Lodging Supply section later in this report. These properties are either located on Collins Road proximate to the Rockwell Collins plant or slightly farther west on Marion Road or on 7<sup>th</sup> Avenue. This analysis depicts the subject market's potential to attract Lodging Demand during various seasons. It will help determine this market's strengths and weaknesses during the operational year for the proposed hotel property.

The following chart shows the most current deviation from total Lodging Demand for the primary competitive hotel set identified for the proposed hotel. This will be discussed in greater detail later in this report.

<b>SEASONALITY OF LODGING DEMAND</b>			
<b>Deviation From Average Monthly Demand</b>			
MONTH	DEMAND	ADR	REVPAR
January	79.4%	99.5%	77.6%
February	84.7%	100.7%	92.9%
March	95.9%	100.0%	94.3%
April	101.4%	101.3%	<b>104.3%</b>
May	106.1%	99.9%	<i>104.2%</i>
June	113.3%	101.1%	<b>116.4%</b>
July	108.3%	98.9%	<i>105.3%</i>
August	110.7%	100.8%	<i>108.4%</i>
September	108.3%	101.7%	<b>110.7%</b>
October	123.2%	102.5%	<i>122.8%</i>
November	98.6%	101.3%	<i>100.3%</i>
December	73.0%	96.0%	68.2%
<i>ITALICS = RevPAR Exceeds at Least One Factor</i>			
<b>BOLD = RevPAR Exceeds Both Factors</b>			
<i>Source: Smith Travel Research and HMI</i>			

- The strongest Lodging Demand deviations from the average monthly demand are 123.2% in October, 113.3% in June, 110.7% in August, 108.3% in both July and September, 106.1% in May and 101.4% in April. This indicates that seven months exceed the average monthly demand for the subject market area and are above average.
- The next strongest months of deviation from average monthly demand are November at 98.6% and March at 95.9%.

- The previous chart also demonstrates the seasonal strength of this subject market since in three months, the deviation of Revenue Per Available Room (RevPAR) exceeds the monthly deviation of both Lodging Demand and Average Daily Rate (ADR). In an additional six months the deviation in RevPAR exceeds either Lodging Demand or ADR.
- A review of the competitive hotel set's performance from September, 2014 through August, 2015 indicated Occupancy was highest midweek with Tuesday and Wednesday achieving 77.8% and 78.7% respectively followed by Mondays at 69.7%. Midweek is traditionally Corporate/Commercial business. The weekends, typically Social/Leisure business, achieved Occupancies of 63.2% and 69.9% respectively on Fridays and Saturdays. Sundays had the lowest average Occupancy during this twelve-month period, at 44.2%. The daily Occupancies for the competitive set during this period are presented in the following chart prepared by Smith Travel Research: The color coding will be explained in the Unaccommodated Lodging Demand section of this report.

Occupancy (%)								Total Month
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	
Sep - 14	50.9	71.4	85.0	84.0	69.5	74.6	82.5	74.3
Oct - 14	62.8	90.9	97.6	95.4	86.9	88.8	92.8	88.1
Nov - 14	45.7	70.6	77.0	80.6	73.8	71.5	74.4	69.8
Dec - 14	30.9	50.8	54.3	56.2	45.6	42.5	48.9	47.7
Jan - 15	33.2	60.2	68.2	67.8	46.5	41.3	44.8	51.0
Feb - 15	39.9	63.6	73.7	77.6	61.7	49.1	58.1	60.5
Mar - 15	41.1	69.7	75.9	74.9	57.2	55.5	68.0	63.1
Apr - 15	40.1	76.3	81.9	78.9	62.0	59.6	71.2	67.3
May - 15	45.4	64.2	77.4	79.4	62.7	64.5	76.8	66.7
Jun - 15	45.6	72.4	78.7	84.2	69.6	73.3	84.6	72.8
Jul - 15	50.2	75.8	84.5	79.9	70.6	73.6	68.6	72.2
Aug - 15	45.1	73.4	84.1	86.2	69.4	60.4	71.8	69.4
<b>Total Year</b>	<b>44.2</b>	<b>69.7</b>	<b>77.8</b>	<b>78.7</b>	<b>64.8</b>	<b>63.2</b>	<b>69.9</b>	<b>66.9</b>

Source: Smith Travel Research

- During the past twelve months, there was a modest difference between the average ADR's achieved on Weekdays (Mondays, Tuesdays, Wednesdays and Thursdays) at \$97.11 vs. the Weekend average ADR's (Fridays, Saturdays and Sundays) at \$88.55. ADR hit a high monthly average of \$95.67 for the month of June, 2015 closely followed by \$95.54 in October 2014. The twelve-month period of September, 2014 through August, 2015 had a rate range from \$90.73 in December, 2014 to \$95.67 in June, 2015. A daily account of ADR's over this period is presented in the following chart prepared by Smith Travel Research.

ADR								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Sep - 14	89.07	97.35	99.25	98.37	92.95	91.24	92.23	94.99
Oct - 14	91.57	97.87	99.51	97.87	95.26	91.98	93.37	95.54
Nov - 14	87.93	95.52	99.28	98.99	94.40	88.71	89.33	93.59
Dec - 14	84.08	93.55	95.51	97.81	90.34	81.51	82.82	90.73
Jan - 15	87.53	95.57	98.67	97.42	90.89	82.39	83.24	91.59
Feb - 15	86.55	97.60	100.93	99.94	92.91	85.76	86.70	94.02
Mar - 15	88.39	97.43	99.30	98.23	91.47	83.19	86.55	93.14
Apr - 15	87.28	98.99	99.98	98.23	91.59	88.22	90.08	94.41
May - 15	87.95	97.39	100.90	99.84	93.06	87.92	88.82	93.66
Jun - 15	89.33	97.14	99.54	100.91	94.45	91.37	92.51	95.67
Jul - 15	90.14	97.28	100.31	98.00	95.62	90.30	88.19	94.70
Aug - 15	89.28	97.67	99.73	98.22	93.55	86.22	87.41	93.67
<b>Total Year</b>	<b>88.54</b>	<b>97.05</b>	<b>99.46</b>	<b>98.63</b>	<b>93.32</b>	<b>88.18</b>	<b>88.93</b>	<b>94.00</b>

Source: Smith Travel Research

- The above data shows that the average Weekday (Mondays - Thursdays) ADR at \$97.11 is higher than the average Weekend (Fridays - Sundays) ADR at \$88.55. This indicates that the Corporate/Commercial Lodging Demand, which typically occurs Midweek, is generating a higher ADR (approximately 9.7% higher) than the Social/Leisure Lodging Demand which is typically Weekend business. This also indicates a higher level of rate sensitivity in the Social Leisure segment than in the Corporate/Commercial segment.
- This review of the market's Seasonality of Lodging Demand, ADR, and RevPAR will be enhanced with more details in a Comprehensive Hotel Market Study. See Exhibits 2 and 3 of this report for greater details.

#### LODGING DEMAND POTENTIAL INDEX

The preliminary Lodging Demand Potential for the proposed hotel was also analyzed via the *Lodging Demand Potential Index*. This relates Lodging Demand Potential to the Market Segmentation previously projected for the proposed hotel and the industry distribution in the subject market area. More specific and extensive Lodging Demand research would need to be conducted to further quantify the volume of Lodging Demand Potential expected for the proposed hotel. The ratings in the chart below indicate the likelihood of Lodging Demand originating from the various market segments, but in no way indicate the volume of Lodging Demand that will be generated by these segments. The rating is based on a scale of 0 to 5, with 5 indicating excellent Lodging Demand Potential and 2.5 indicating average Lodging Demand Potential. The following are the results of this analysis.

This analysis would be reviewed in more detail in a Comprehensive Hotel Market Study for a specific hotel development.



LODGING DEMAND POTENTIAL INDEX-Pre Prospect Meadows		
MARKET SEGMENTATION	PERCENT OF MARKET	LODGING DEMAND POTENTIAL INDEX
Individual Travel Markets		
- Corporate/Commercial Markets	55.0%	2.8
- Social/Leisure Markets	20.0%	3.0
Group Markets		
- Business Related	7.0%	2.5
- Social Leisure Related	18.0%	3.5
<b>TOTAL</b>	<b>100.0%</b>	<b>2.9</b>
INDUSTRY DISTRIBUTION	PERCENT OF MARKET	LODGING DEMAND POTENTIAL INDEX
Agriculture, Forestry, Fishing & Hunting	0.3%	2.5
Mining, Quarrying, & Oil and Gas Extraction	0.1%	N/A
Utilities	1.1%	2.5
Construction	4.6%	2.8
Manufacturing	15.5%	3.0
Wholesale Trade	4.0%	2.5
Retail Trade	12.0%	2.5
Transportation and Warehousing	5.6%	2.5
Information	3.4%	2.5
Finance, Insurance, and Real Estate	5.9%	2.5
Real Estate, Rental & Leasing	1.6%	2.5
Services	45.9%	
- Professional, Scientific & Technical Services	3.3%	2.5
- Management of Companies and Enterprises	9.4%	2.5
- Administrative and Support and Waste Management and Remediation Services	6.0%	2.5
- Educational Services	9.4%	2.5
- Health and Social Assistance	12.1%	2.5
- Arts, Entertainment & Recreation	1.2%	2.5
- Accommodation & Food Services	6.7%	2.5
- Other Services	3.0%	2.5
- Public Administration	3.5%	2.5
<b>Total:</b>	<b>100.0%</b>	<b>2.8</b>

Source: HMI, Inc.

- As indicated above, the subject market appears to have very good diversification in Lodging Demand generated by both the Corporate/Commercial and Social/Leisure Market Segments.
- The chart also indicates the extensive number of Lodging Demand sources identified during the research phase of this report that are believed to be currently generating good or better Lodging Demand. These Lodging Demand sources relate to the overall subject market. The proposed hotel will have the potential to develop Lodging Demand from all of these sources. Some will be more productive than others for the proposed hotel.

- It was estimated that the current Lodging Demand Potential is 2.9 or above the average of 2.5. The yield is 116.0% to average.
  - The primary reasons generating this above average rating are the locations of the subject site areas combined with the age of the only other hotel with banquet/meeting space being 47 years old versus the proposed hotel being brand new, i.e. a modern up to date facility.
  - Site Area 2 is located approximately three miles east of the Rockwell Collins location, proximate enough to be an attractive lodging alternative on a main street.
  - Site Areas 2 and 3 are situated on the east side of the Cedar Rapids MSA on major traffic arteries, making them attractive to the portion of Cedar Rapids MSA in Jones County for all types of social functions.
  - See Exhibit 3 of this report for further details.

This information will be enhanced with more details in a Comprehensive Hotel Market Study

**RATE SENSITIVITY FACTOR ANALYSIS**

Similar to the Lodging Demand Potential Index, a preliminary *Rate Sensitivity* analysis was also performed. This ranks the Market Segmentation planned for the proposed property with the anticipated Rate Sensitivity of each Market Segment. It utilizes a 5-point scale, with 5 indicating extreme Rate Sensitivity and 2.5 being average. The following are the results of this analysis.

<b>RATE SENSITIVITY FACTOR</b>		
Market Segmentation	% of Market	Rate Sensitivity Factor
Individual Travel Markets		
- Corporate/Commercial	58.0%	2.2
- Social/Leisure	19.0%	2.7
Group Markets		
- Business Related	8.0%	2.2
- Social/Leisure Related	15.0%	2.7
<b>TOTAL</b>	<b>100.0%</b>	<b>2.4</b>
<i>Source: HMI</i>		

- This review of Rate Sensitivity in the subject market is based first on the presumption that the proposed hotel, designed as an upper midscale select service style hotel, will compete primarily with a range of hotels including midscale to upscale, limited-service and full service style hotels in the subject market area.
- In order to balance this market with average Rate Sensitivity, the Corporate/Commercial and Social/Leisure segments were analyzed to determine each of their Rate Sensitivity levels.
  - The above chart indicates that there will be an overall slightly below average amount of Rate Sensitivity in this market place.
  - However, the Corporate/Commercial market sector appears to have less Rate Sensitivity than the Social/Leisure market sector.
  - The Social/Leisure market sector is slightly above average in Rate Sensitivity.

This review of the subject market's Rate Sensitivity will be enhanced with more details in a Comprehensive Hotel Market Study

#### FEEDER MARKETS

- *Feeder Markets* for the Corporate/Commercial segment will be mixed based on these Lodging Demand generators: dealers, dealer technicians, suppliers/vendors, professional services, medical services, and local government. Discussions indicated that this would first be regionally (Iowa and the surrounding states of Minnesota, Wisconsin and Illinois) and then nationally driven.
- Discussions with the Convention and Visitors Bureau indicated that leisure demand comes from the Twin Cities of Minneapolis/St. Paul, Chicago, Omaha, and the surrounding states of Minnesota, Wisconsin, Illinois, Missouri and Nebraska.

## UNACCOMMODATED LODGING DEMAND

*Unaccommodated Lodging Demand* is described in two ways. The first is Lodging Demand that prefers to stay in the market area but currently is staying in other areas due to the lack of adequate accommodations either in condition or number of available rooms. The second definition is Lodging Demand staying in the market area but actually desiring accommodations in other market areas.

- The competitive set is comprised of hotels ranging from economy to upper upscale limited-service, full service and extended stay hotels. It consists of twelve properties with 1,085 total rooms. These hotels were selected because they report to Smith Travel Research and they are located along Collins Road and on 7<sup>th</sup> Avenue, from the Rockwell facility to the intersection of US Route 151 and State Route 13.
- The following chart shows a preliminary review of the competitive set's performance in the most recent twelve-month period, September 2014 through August 2015. It reveals that a total of 174.25 days (47.7%) from February through November (late winter through fall) achieved Occupancies of 70.0% or greater. This is considered very strong for this region, indicating a very positive market area. This is considered an Occupancy performance level at which newer and better hotels are reaching maximized Occupancy.
- During this same period, there were 29.75 additional nights with Occupancies at 67.5% to 69.9%. Assuming that the economic recovery continues from the recent recession, these nights have the potential of achieving 70.0% or better Occupancy. They represent another 8.2% of the year and would raise the total nights during this twelve-month period when Occupancy is being maximized to 55.9% or over half of the entire year.

Occupancy (%)								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Sep - 14	50.9	71.4	85.0	84.0	69.5	74.6	82.5	74.3
Oct - 14	62.8	90.9	97.6	95.4	86.9	88.8	92.8	88.1
Nov - 14	45.7	70.6	77.0	80.6	73.8	71.5	74.4	69.8
Dec - 14	30.9	50.8	54.3	56.2	45.6	42.5	48.9	47.7
Jan - 15	33.2	60.2	68.2	67.8	46.5	41.3	44.8	51.0
Feb - 15	39.9	63.6	73.7	77.6	61.7	49.1	58.1	60.5
Mar - 15	41.1	69.7	75.9	74.9	57.2	55.5	68.0	63.1
Apr - 15	40.1	76.3	81.9	78.9	62.0	59.6	71.2	67.3
May - 15	45.4	64.2	77.4	79.4	62.7	64.5	76.8	66.7
Jun - 15	45.6	72.4	78.7	84.2	69.6	73.3	84.6	72.8
Jul - 15	50.2	75.8	84.5	79.9	70.6	73.6	68.6	72.2
Aug - 15	45.1	73.4	84.1	86.2	69.4	60.4	71.8	69.4
<b>Total Year</b>	<b>44.2</b>	<b>69.7</b>	<b>77.8</b>	<b>78.7</b>	<b>64.8</b>	<b>63.2</b>	<b>69.9</b>	<b>66.9</b>

Source: Smith Travel Research

While there was no indication of the second definition of Unaccommodated Lodging Demand occurring in the Marion market area, the market area would potentially be an alternative place to seek lodging when the cluster of hotels surrounding the Rockwell Clinton facility are filled. Additional details on Unaccommodated Lodging Demand would be provided in a Comprehensive Hotel Market Study.

## **LODGING SUPPLY**

This section of the report describes the preliminary competitive Lodging Supply that will affect the proposed hotel, particularly for hotel room demand usage. Comments regarding the competitive hotel set are presented below. This information will be enhanced with more details in a Comprehensive Hotel Market Study

- According to Smith Travel Research, there are sixteen hotels and motels within a six and a half mile radius of the intersection of US Route 151 and State Route 13. This radius includes the City of Marion and a portion of the downtown Cedar Rapids area for a total of 1,519 rooms.
- Twelve of these hotels (1,085 rooms) were deemed to be competitors of the proposed hotel and comprise the competitive set. The competitive set hotels were selected because of their location along Collins Road where it intersects I-380 approximately seven miles east, to the intersection of US Route 151 and State Route 13. This includes portions of Marion Road and portions of 7<sup>th</sup> Avenue. It does not include the downtown Cedar Rapids market area.
- Also, they are economy to upper upscale in nature and are either limited service or full service, and have or do not have limited meeting space.
- Exhibit 4 of this report shows the geographic location of these competitive properties in relation to the proposed hotel. The breakdown of these rooms is included in the following chart.

PRIMARY COMPETITIVE HOTELS				
Number of Hotels:		12		
Number of Hotel Rooms:		1,085		
Chain Related:	Hotels:	12	%Overall Marke	100.0%
	Rooms:	1,085	%Overall Marke	100.0%
Non-Chain Related:	Hotels:	0	%Overall Marke	0.0%
	Rooms:	0	%Overall Marke	0.0%
PRODUCT DIFFERENTIATION ANALYSIS				
CATEGORY	NUMBER OF HOTELS	PERCENT OF MARKET	NUMBER OF ROOMS	PERCENT OF MARKET
Budget	0	0.0%	0	0.0%
Economy <i>Marion: Microtel Inn &amp; Suites - 59 rms.</i>	1	8.3%	59	5.4%
Midscale - Limited Service <i>Cedar Rapids: Baymont - 85 rms., Quality Inn North - 49 rms.</i>	2	16.7%	134	12.4%
Midscale Extended Stay <i>Cedar Rapids: Mainstay Suites - 75 rms.</i>	1	8.3%	75	6.9%
Upper Midscale - Limited Service <i>Cedar Rapids: Country Inn &amp; Suites - 82 rms., Hampton Inn Suites - 103 rms., Comfort Inn &amp; Suites: 62 rms., Holiday Inn Express - 83 rms.</i>	4	33.3%	330	30.4%
Upper Midcale - Extended Stay	0	0.0%	0	0.0%
Upper Midscale - Full Service <i>Marion: BW Plus Longbanch Hotel &amp; Conference Center - 106 rms.</i>	1	8.3%	106	9.8%
Upscale - Extended Stay <i>Cedar Rapids: Homewood Suites - 95 rms., Residence Inns - 66 rms.</i>	2	16.7%	161	14.8%
Upper Upscale - Full Service <i>Cedar Rapids: Marriott Hotel - 220 rms.</i>	1	8.3%	220	20.3%
Upscale Extended Stay	0	0.0%	0	0.0%
<b>TOTALS</b>	<b>12</b>	<b>100.0%</b>	<b>1,085</b>	<b>100.0%</b>
<b>Average Room Size:</b>			<b>90.4</b>	
<i>Source: HMI</i>				

- The preliminary selection of the competitive set hotels was first based on their location along the route from the intersection of Collins Road and I-380 east to Marion Boulevard, and 7<sup>th</sup> Avenue to the intersection of US Route 151 and State Route 13. Next, all midscale to upper upscale hotels along this route were included. An economy property was also included due to its location at the intersection of US Route 151 and State Route 13 and because it is the only hotel in Marion east of Marion Boulevard and Blairs Ferry Road.
- These hotels all report to Smith Travel Research (STR). They were selected to create a sufficient sample for analysis in a Smith Travel Trend report.
- There are several “motels” and other budget properties that do not report to Smith Travel Research but they are located in this market. They were not considered to be competitors of the proposed hotel due to their age, location and/or quality.

- The competitive hotels serving this market are heavily oriented (30.4%) toward the upper midscale limited-service category.
- It should also be noted that three properties with 21.7% of the total rooms in the competitive set are extended stay style rooms.
- These hotels are well positioned to serve the Rate Sensitivity of the subject market and the diversity of the Lodging Demand researched.
- The average size of the hotels that make up the competitive set is 90.4 rooms. Excluding the 220-room, full service Marriott lowers the average size of these hotels to 78.6 rooms. The current anticipated size of the proposed hotel is in the 100-room range. This would be the minimum size to support a select-service hotel. It would also be similar in size to the overall average size of the entire competitive set with a Fair Share Size Adjustment factor of 90.42%.
- All of the hotels in the competitive set are nationally branded. A strong regional brand or national brand affiliation is recommended for the proposed hotel. This would assist in positioning the proposed hotel in the subject market and would assist in competing in the broader market.

**PROJECTED OCCUPANCY AND AVERAGE DAILY RATE**

The following chart highlights advertised competitive hotel rates, anticipated Occupancy performance, and the projected ADR rates for members of the *Competitive Set* that report to STR.

COMPETITIVE HOTEL OCCUPANCY & RATES				
PROPERTY	Occ. Perform.	RATE ANALYSIS		PROJECTED ADR
		WINTER	SUMMER	
<u>Cedar Rapids, Iowa</u>				
Baymont	Below	\$76-\$94	\$76-\$94	\$73.91
Best Western Plus Longbranch	Average	\$108-\$130	\$108-\$130	\$89.25
Comfort Inn & Suites	Average	\$95-\$110	\$94-\$120	\$91.57
Country Inn & Suites	Average	\$101-\$122	\$105-\$122	\$98.03
Hampton Inn & Suites North	Above	\$84-\$134	\$84-\$134	\$101.37
Holiday Inn Express	Above	\$86-\$122	\$86-\$114	\$94.40
Homewood Suites North	Above	\$93-\$127	\$93-\$127	\$99.00
Mainstay Suites	Average	\$89-\$94	\$64-\$119	\$79.56
Marriott	Above	\$99-\$139	\$119-\$139	\$103.47
Quality Inn North	Below	\$78-\$98	\$89-\$108	\$82.22
Residence Inn	Above	\$109-\$159	\$109-\$199	\$125.75
<u>Marion, Iowa</u>				
Microtel Inn & Suites	Below	\$61-\$87	\$61-\$87	\$64.34
<b>Competitive Market Average Daily Room Rate (ADR):</b>				<b>\$94.00</b>
* Rates shown reflect the low single to high double for each season.				
** Where seasonal rate range was not available, similar available rate range was used.				
Source: HMI				

- The chart above includes the preliminary Competitive Hotel Set previously discussed in this report. A review of the Occupancy performance for the competitive hotels in the subject market indicated that they are all believed to be performing at below average to above average levels.
- It is believed that the three extended stay hotels (the Homewood Suites, the Mainstay Suites and the Residence Inn) can be excluded from a listing of the most competitive hotels as the proposed hotel is not anticipated to have extended stay style rooms. This results in the revised chart below: Also, the Baymont, with the second lowest ADR in the competitive set and not being in close proximity to any of the three subject site areas, was excluded. This was due to its location and the belief that it would have minimal to no impact on the proposed upper midscale select service style hotel. The Microtel, with the lowest ADR in the competitive set was not excluded due to its location in Marion adjacent to Site Area 3. Therefore it would potentially have some impact on the proposed hotel.



PRIMARY COMPETITIVE HOTEL OCCUPANCY & RATES				
PROPERTY	Occ. Perform.	RATE ANALYSIS		PROJECTED ADR
		WINTER	SUMMER	
<u>Cedar Rapids, Iowa</u>				
Comfort Inn & Suites	Average	\$95-\$110	\$94-\$120	\$91.57
Country Inn & Suites	Average	\$101-\$122	\$105-\$122	\$98.03
Hampton Inn & Suites North	Above	\$84-\$134	\$84-\$134	\$101.37
Holiday Inn Express	Above	\$86-\$122	\$86-\$114	\$94.40
Marriott	Above	\$99-\$139	\$119-\$139	\$103.47
Quality Inn North	Below	\$78-\$98	\$89-\$108	\$82.22
<u>Marion, Iowa</u>				
Best Western Plus Longbranch	Average	\$108-\$130	\$108-\$130	\$89.25
Microtel Inn & Suites	Below	\$61-\$87	\$61-\$87	\$64.34
<b>Competitive Market Average Daily Room Rate (ADR):</b>				<b>\$94.29</b>
<i>Source: HMI</i>				

- In this preliminary review of the subject market's rates, there appears to be three rate tiers within the primary competitive set.
- The first rate tier has the highest rates and includes the Country Inn & Suites, the Hampton Inn & Suites North, the Holiday Inn Express, and the Marriott with projected 2015 ADR's of \$98.03, \$101.37, \$94.40 and \$103.47 respectively. These four properties yield an average projected 2015 ADR of \$99.32. A projected average ADR of \$99.32 achieves a Yield to the projected 2015 average ADR of \$94.29 or 105.3% of the primary competitive set's projected 2015 ADR.
- The second rate tier includes the Best Western Longbranch, the Comfort Inn & Suites and the Quality Inn North with projected 2015 ADR's of \$89.25, \$91.57 and \$82.22 respectively. They yield an average projected 2015 ADR of \$91.01. The projected 2015 average ADR of \$91.01 achieves a yield to the projected 2015 average ADR for the primary competitive set of \$94.29 or 96.5% for this rate tier.
- The third rate tier includes the Microtel Inn & Suites with projected 2015 ADR of \$64.34. This projected 2015 average ADR of \$664.34 achieves a yield to the projected 2015 average ADR of \$94.29, for a yield of 68.2% to the entire primary competitive set.
- Historically, the competitive hotel set achieved an average annual ADR growth rate of 0.4% from 2009 through 2014.
  - Year-to-date through June, 2015, the ADR rate of growth has been 3.90%. Comparing this to the average annual growth rate over the prior three years indicates a projected 2015 annual ADR growth rate of 3.11%. This percentage will be applied for growth projection purposes in 2015.

- The six-year projected average annual growth rate through 2015 is 0.83%, which will be applied for projection purposes in this report in 2016. In 2017 and all future years, a growth rate of 1.18% will be utilized. This is the four year historical average for the period 2011 – 2014 (i.e. taking the five year historical average 2010 – 2014, excluding 2010 at the peak of the recession and the one year in the past five with a decreased rate).

This information will be enhanced with more detail in a Comprehensive Hotel Market Study.

#### Rate Positioning

- The suggested preliminary rate positioning for the proposed hotel, currently planned as an upper midscale, select service style hotel, would be to compete in the middle of the top rate tier.
- This would mean achieving a yield to the primary competitive set's average ADR of \$94.29 of 105.3%. This would position the proposed hotel at a rate between the Country Inn & Suites and the Hampton Inn & Suites North. This would equate to a projected rate in today's dollars of \$99.35. This equates to a 105.4% yield to the projected ADR for the entire competitive set of \$94.29.
- However, due to the proposed hotel being new versus the 15.7 year average age of the current top rate tier hotels and increasing to over 18 years when the proposed hotel opens, the proposed hotel is estimated to achieve a 5.0% premium to this average. This results in a 110.4% yield to the competitive set by the proposed hotel's stabilized third year of operation.
- Rate positioning the proposed hotel in the \$95 - \$98 range is recommended when it opens in 2018. This would give it a 99.6% yield to the projected average ADR of the competitive set. The proposed hotel is projected to achieve a yield to the competitive set's average ADR of 110.4% once it is stabilized in its third full year of operation. This would position it in the middle of the top rate tier, as previously discussed in this report.
  - However, this 110.4% yield was reduced during the first two full years (i.e. 99.6% in 2018 and 104.9% in 2019) that the proposed hotel is open. This would allow for any discounting that occurs with introductory rates.
  - The new upper midscale hotel's affiliation with a national or strong regional brand would support this rate positioning.

This information will be enhanced with more detail in a Comprehensive Hotel Market Study.

**COMPETITIVE FACTOR ANALYSIS**

A preliminary *Competitive Factor Analysis* was also performed for the primary competitive hotels. This analysis is based upon a scale of 0 to 5, with 5 indicating strong competitive factors and 2.5 being average. The following chart highlights the analysis of the primary hotels in the categories of *Rate, Facility, Brand, Location* and *Market Segmentation*. It also indicates the overall competitive factor for each hotel and the subject market area. This report provides an overview of the respective competitive position each hotel occupies within the subject market.

The following chart shows the competitive factor analysis of the *Competitive Set*.

COMPETITIVE FACTOR ANALYSIS									
PROPERTY NAME	AGE (Yrs.)	# OF ROOMS	AAA RATING	RATE	FACILITY	BRAND	LOCAT.	MKT. SEG.	COMP. FACTOR
<u>Cedar Rapids, Iowa</u>									
Baymont	15.5	85	2.0	3.2	2.0	2.0	3.0	1.5	2.3
Best Western Plus Longbranch	47.3	106	3.0	2.6	3.5	3.5	4.0	4.5	3.6
Comfort Inn & Suites	17.8	62	2.0	2.6	3.0	3.5	3.0	3.0	3.0
Country Inn & Suites	14.3	82	N/A	2.4	2.5	3.0	3.0	3.0	2.8
Hampton Inn & Suites North	6.8	103	3.0	2.3	3.0	4.5	3.0	3.0	3.2
Holiday Inn Express	19.5	83	3.0	2.5	3.0	4.5	3.0	3.0	3.2
Homewood Suites North	5.3	95	3.0	2.4	3.0	4.5	3.0	2.5	3.1
Mainstay Suites	13.3	75	2.0	3.0	2.5	3.5	3.0	2.5	2.9
Marriott	27.3	220	3.0	2.3	4.0	4.5	3.0	3.5	3.5
Quality Inn North	58.3	49	2.0	2.9	1.5	3.0	3.0	1.5	2.4
Residence Inn	18.3	66	3.0	1.9	3.5	4.5	3.0	3.0	3.2
<u>Marion, Iowa</u>									
Microtel Inn & Suites	15.8	59	N/A	3.7	2.0	3.0	5.0	2.5	3.2
<b>COMBINED RATING</b>	<b>21.6</b>		<b>2.6</b>	<b>2.6</b>	<b>2.8</b>	<b>3.7</b>	<b>3.3</b>	<b>2.8</b>	<b>3.0</b>
<i>Source: HMI</i>									

In the chart above, this market indicates an Above Average Competitive Factor in all six categories.

- The average *Age* of the competitive hotels is 21.6 years with a range of 5.3 years to 47.3 years.
- The above chart indicates that the Microtel, the Baymont and the Mainstay Suites will be the most competitive with the proposed hotel *Rate* wise.
- Most of the national *Brands* are well represented in the competitive set of hotels.

- The *Facilities* of the competitive hotels vary widely. They range, in ratings by Smith Travel Research, from one economy to one upper upscale hotel. Three properties (19.3% of the total rooms) are midscale, five properties (50.2% of the total rooms) are upper midscale and three properties are upscale or upper upscale (35.1% of the total rooms). Also, three of the previously mentioned properties (21.7% of the total rooms) are true extended stay style and two properties (30.1% of the total rooms) are considered full service.
- Regarding *Location*, all but two of the members of the competitive set are located in Cedar Rapids, not in Marion, but in close proximity to the Rockwell Collins facility. This results in the rating of “3”. The Microtel is located in Marion at the same intersection as subject Site Area 3 resulting in its rating of 5. The Best Western is located in Marion on Marion Boulevard approximately midway between Site Area 2 and the Rockwell Collins facility.

This information will be enhanced with more details in a Comprehensive Hotel Market Study

#### PRIMARY COMPETITIVE LODGING PERFORMANCE

The following section reviews the Competitive Lodging Performance for the subject market area. This lodging performance is based upon data for the competitive hotels identified in this report from January, 2009 through August, 2015. The Competitive Lodging Performance of Occupancy, Lodging Demand Growth, Lodging Supply Growth, Average Daily Room Rate, and Revenue Per Available Room (RevPAR) was analyzed.

- *Lodging Demand Growth* displayed positive and negative results for the period 2010 – 2014.
  - Only 2013 reflected a decrease in *Lodging Demand* of (7.0%). The balance of the years reflected increases ranging from 3.6% to 12.2%.
  - The average annual rate of increase for this five-year period was 4.2%.
  - A review of the results from the prior three years through August, 2015 and their year-end results indicates an annual growth rate or decline in 2015 of -4.10%. This will be utilized in this report for projection purposes in 2015.
  - The projected annual average growth rate from 2010 through 2015 (including -4.10%) results in a projected six-year average annual rate of growth of 2.81%. This shall be applied in 2016 for projection purposes and all future years.

- There was one addition to the *Lodging Supply Growth* in this market during the five-year period covered. This occurred in August, 2010 with the opening of the 95-room Homewood Suites in Cedar Rapids.
  - Discussions did not indicate any other new hotels anticipated for this part of the greater Cedar Rapids market area.
- The addition of the proposed hotel's 100 rooms would be a 9.2% increase in the *Lodging Supply* including the expected additions discussed above. Based on the actual historic growth in *Lodging Demand*, preliminary indications show that it should be absorbed in just under two years based on the historic annual demand growth rate of 4.2%.
- *Occupancy* data shows that the competitive hotel set was at its highest annual rate in 2014 at 68.4%. The lowest *Occupancy* rate during this period was in 2009, in the midst of the recent national recession, with a low of 61.4%. *Occupancy* reflected similar results as the *Lodging Demand* changes discussed previously over the past three years.
  - Results for the first eight months of 2015 indicate that *Occupancy* has decreased at a rate of -3.3% compared to the same period last year. Based on the review of *Lodging Demand* discussed previously, *Occupancy* is projected to decrease slightly in 2015 to a projected 2015 annual *Occupancy* of 65.6%, or a -4.10% decrease.
  - This projected decrease in 2015 appears to indicate a decrease in *Occupancy* every other year of varying amounts since there were also decreases in *Occupancy* of 1.3% and 7.0% respectively in 2011 and 2013. However this may not be the case since the decrease in 2011 of -1.35% was most likely due to the market working through the absorption of the 9.5% increase in supply in August, 2010.
- *Average Daily Rate (ADR)* displayed mixed results, experiencing a decrease in 2010 of 2.8% and increases ranging from 0.2% - 2.3% in each year after from 2011 – 2014.
  - Year-to-date through August, 2015, the \$93.95 ADR increased by 3.9% over the year-to-date 2014 ADR of \$90.42. When compared to the average of the results for the prior three years, it indicates an annual increase in 2015 of 3.11% which will be used for projection purposes in this report for 2015. This results in a projected ADR of \$94.52 for calendar 2015 for the competitive set.

- The six-year projected average annual growth rate through 2015 is 0.83%. It will be applied for projection purposes in this report in 2016. In 2017 and all future years, a growth rate of 1.18%, the four year historical average of the historic annual rate of increase for the period 2011 - 2014 (i.e. excluding the peak recession year of 2010), will be applied.
- *Revenue Per Available Room (RevPAR)* trends showed that the competitive set grew at an average annual rate of 2.7% over the five-year period of 2010 – 2014 from \$55.31 to \$62.70.
  - Annual changes were mixed with increases and decreases, caused by changes in both ADR and in Lodging Demand.
  - The projected 2015 decreasing rate of growth of -1.04% is primarily a result of the projected -4.1% decrease in Lodging Demand in 2015 combined with the 3.11% projected growth rate in ADR. This would yield a RevPAR for 2015 of \$62.04 or a decrease of 1.04% for the competitive set.

This review of the *Competitive Lodging Performance* would be discussed in greater detail in a Comprehensive Hotel Market Study.

**FUNCTION SPACE – MEETINGS and BANQUETS**

This section of the report is an analysis of the *Function Space* for the proposed hotel. While no specific brand has been identified for the proposed hotel, it is currently planned to be a select service style hotel with meeting space in the range of 2,500 – 5,000 square feet of flexible banquet/meeting space. Therefore this analysis will review industry standards for function space at a select service style hotel. These standards will depend upon this market’s function space needs. The types of events that could be held at the proposed hotel will fine-tune the function space requirements.

**INDUSTRY STANDARDS**

Function space research was performed by members of the International Society of Hospitality Consultants (ISHC). This consultant is a long-standing member of this organization. Individuals within the ISHC who are familiar with function space requirements indicated the following:

- The range of function space at a typical select service style hotel is 2,500 to 5,000 square-feet with an average that appears to be 3,750 square-feet but is dependent on the market’s specific demand generators.
- The range in function space is 25 square-feet to 41.7 square-feet per available room.
- The average square-footage per available room is 31.8 square-feet.

**GREATER MARION FUNCTION SPACE**

A select service hotel located at one of the three subject Site Areas in the City of Marion is anticipated to primarily compete with facilities on the north/northeast side of the greater Cedar Rapids market area. Therefore, this market area is the focus of this review. The following chart highlights the function space at hotels currently located in this previously defined market area:

GREATER MARION IOWA EVENT SPACE							
Hotel Name	Location	Miles From Site - Driving	# of Sleeping Rooms	# of Meeting Rooms	Total Sq. Footage of Meeting Space	Meeting Room Size (Range of Sq. Ft.)	Sq. Ft. of Meeting Space Per Avail. Rms.
Best Western Plus Longbranch Hotel & Convention Center	Marion	4	106	11	9,900	198 - 3711	93.40
Cedar Rapids Marriott	Cedar Rapids	7	220	11	17,175	650 - 11,250	78.07
<b>AVERAGES</b>			163		13,538		85.73

- The chart above lists competitive set hotels with significant meeting space in the greater Marion and north Cedar Rapids market area. There are six other members of the competitive set with a meeting/board room and listed capacities ranging from 12 – 40 people. It does not include the Doubletree Hotel (267 rooms) and adjacent Cedar Rapids Convention Center with a reported 80,000 square feet of meeting and exhibit space. This was because due to its size, its focus was reported to be on very large gatherings and therefore was not considered competitive with the proposed select service style hotel
- It should be noted that the largest meeting room size listed for the hotels in the previous chart are comprised of from three to seven rooms indicating the flexibility to accommodate both smaller and larger groups. The Marriott in the chart above, while within the subject market area of the proposed hotel, is not believed to be a primary competitor of the proposed hotel due to its number of sleeping rooms and significant amount of function space.

#### FUNCTION SPACE RECOMMENDATIONS

A review of the previous information shows that there are just two hotels with more than a “boardroom” for meeting space in this greater Cedar Rapids market area that includes the City of Marion. Also, it indicates that the range of square feet of banquet/meeting space per available room at 78 – 93 square feet (average of 85.5) is well above the previously discussed industry average for a select service style hotel average of 31.8 square feet. Because the Marriott is not believed to be a primary competitor of the proposed hotel, it appears that the Best Wester Plus could be a primary competitor due to its location, available sleeping rooms and maximum single meeting room size of 3,711 square feet. Therefore it is recommended that the proposed hotel have meeting space in the range of 4,500 – 5,000 square feet of flexible space including one divisible room of 3,800 – 4,000 square feet plus a few smaller rooms. This size would enable the proposed hotel to service both meeting and banquet phases of conferences with up to 200 attendees and it could also host social functions of 300 – 350 attendees.

Discussions with local officials indicated a need for meeting space to host smaller state association meetings of 75 – 150 attendees. To host groups of this size that will hold large general meetings as well as meal functions, it will require space of at least 4,000 square-feet. This is within the previously recommended meeting space range. This space should be flexible so that it is sub-dividable into smaller spaces and should include a boardroom or two, which would suggest the larger end of the range depending on how it is designed. Also, the proposed hotel will be new versus the age of the Best Western Plus at 47 years and even with its recent renovation will most likely be a second choice for social and business functions when compared to the proposed new hotel.



## **FOOD AND BEVERAGE**

This section provides a preliminary overview of the Food and Beverage operation planned for the proposed hotel. The planned select service style typically includes a restaurant and lounge that features a limited variety of food and beverage. The following is a recap of typical planned food and beverage service that might be expected at a typical select service style hotel which has been utilized to project the preliminary Food and Beverage Revenues from these facilities. Once the food and beverage facilities are finalized for the proposed hotel, these projections could be fine-tuned.

### **OVERVIEW OF FOOD AND BEVERAGE FACILITIES**

The typical scope of the food and beverage amenities at an upper midscale, select service style hotel include the following:

- A retail food and beverage space typically located adjacent to the front desk that is open 24 hours a day, seven days per week. Healthy snacks, sweet treats, cold beverages and microwave meals to cook in the guest room are available for sale as well as many convenience items meeting the travelers' needs.
- A cook-to-order restaurant serving breakfast, lunch and dinner. The menu typically has a limited variety of items compared to the typical restaurant in a full service hotel. Room service is also usually available in the evening.
- Located in/adjacent to the lobby area, beverages are served in a casual location designed for conversation.
- Flexible banquet/meeting space that is expected to hold 300 to 350 people banquet style and be able to meet and feed groups in the range of 75 to 150 people. There should be a pre-function area for the main function room and additional conference/board rooms.

### **FOOD AND BEVERAGE DEMAND**

This section highlights preliminary elements of the demand for Food and Beverage venues associated with the proposed upper midscale select service style hotel.

#### **Restaurant Demand**

- As previously stated, the restaurant will support the proposed hotel's guests with breakfast, lunch and dinner. It is also possible that this facility will attract residents and business patrons, especially for lunch and dinner if there is a limited number of eating options in the immediate market area, as is the case now. However, the restaurant at the proposed select service hotel may not be open at lunch, which depends on the market.

- The characteristics of the restaurant's clientele will match those of the proposed hotel's guests: upper midscale in nature. The restaurant should be an ideal location to attract the business executive for lunch or dinner.

#### Beverage Demand

- Again, the bar/lounge area will primarily support the hotel's guests. It is typically designed to provide a relaxed atmosphere in the lobby area for guests of the hotel to enjoy a glass of wine or other beverage.
- The lounge area may attract some non-hotel clientele waiting to be seated in the restaurant.
- Once again, there are currently limited bar/lounge opportunities available in the immediate site area.

#### Conference and Banquet Facilities

The following chart highlights the projected characteristics of the demand that could be expected at the proposed upper midscale select service style hotel's conference and banquet facilities. These are preliminary estimates and could be enhanced in a Comprehensive Hotel Market Study when the design of these facilities is finalized. In the chart below under each category, there is a profile of the types of groups that might be attracted to these conference and banquet facilities. These sales revenue estimates and sleeping room generated estimates are for the stabilized year of operation. Also highlighted are the preliminary estimates for Food and Beverage Revenue and potential sleeping room usage by these groups. Various Group Demand characteristics are highlighted below.

PROJECTED MEETING/BANQUET AND SLEEPING ROOM USAGE - Select-Service Hotel							
MARKET	# OF FUNCTIONS	% OF BUSINESS	TOTAL # OF ATTENDEES	% OF BUSINESS	PROJ. F & B REV.	# OF SLEEPING ROOMS	% OF BUSINESS
<u>Business Markets</u>							
<i>Corporate</i>	68	27.5%	1,700	11.4%	\$127,500	1,275	23.3%
(Average = 25 people for 1.5 days at \$50/person/day F&B, 50% require rooms for 1.5 nights)							
- Strategic Planning							<b>Breaks \$15.00/Meals-\$20.00/Beverage-\$5.00/Other-\$10.00</b>
- Sales/Marketing							
- Training							
- Administrative/Board Meetings							
<i>Government Meetings</i>	5	2.0%	75	0.5%	\$2,625	30	0.5%
(Average = 25 people for 1.0 days at \$35/person/day F&B, 40% require rooms for 1.0 nights)							
- Regional Conferences/Seminars							<b>Breaks-\$10.00/Meals-\$15.00/Beverage-\$5.00/Other-\$5.00</b>
<i>Association Markets</i>	24	9.7%	480	3.2%	\$19,200	192	3.5%
(Average = 20 people for 1.0 days at \$40/person/day F&B, Rooms - 40% require rooms for 1.0 nights)							
- Regional Conference/Seminars							<b>Breaks \$10.00/Meals-\$20.00/Beverage-\$5.00/Other-\$5.00</b>
<i>Other</i>	20	8.1%	500	3.3%	\$17,500	250	4.6%
(Average = 25 people for 1.0 days at \$35/person/day F&B, Rooms - .50% require rooms for 1.0 nights)							
- Seminars							<b>Breaks \$15.00/Meals-\$20.00/Beverage-\$5.00/Other-\$5.00</b>
- Conferences							
<b>SUB TOTAL</b>	<b>117</b>	<b>47.4%</b>	<b>2,755</b>	<b>18.4%</b>	<b>\$149,325</b>	<b>1,747</b>	<b>32.0%</b>
<u>Social/Leisure Markets</u>							
<i>Weddings@ Hotel</i>	40	16.2%	9,600	64.2%	\$672,000	1,920	35.1%
(Average = 240 people per wedding, 30% require rooms for 1.5 nights @ 2.25 people/room)							
<b>\$70 per person, F&amp;B)</b>							
							<b>Meals-\$40.00/Beverage-\$20.00/Other-\$10.00</b>
<i>Weddings In Area</i>	20	15.4%	1,200	9.8%	\$0	800	21.5%
(Average = 200 people per wedding- 30% require rooms for 1.5 nights @ 2.25 people/room)							
							<b>Meals- \$0/ Beverage-\$0</b>
							(Number of Teams Hosted/Year)
<i>Youth/Amateur Sports</i>	20	8.1%	400	2.7%	\$8,000	800	14.6%
(Average = 20 people/Team for 2.0 days- 100% require rooms for 2.0 nights @ 1.0 people/room, \$20 per person, F&B)							
							<b>Meals- \$15.00/Beverage-\$5.00</b>
<i>Other Functions</i>	50	20.2%	1,000	6.7%	\$30,000	200	3.7%
(Average = 20 people for function at \$40/person F&B, Rooms - 10.0% require rooms for 2.0 nights)							
- Charity Events							<b>Meals- \$20.00/Beverage- \$10.00</b>
- Religious Events							
- Rehearsal Dinners							
- Family Reunions							
- Retirement Parties							
- Holiday Season Events							
- Social/Leisure Events- Showers, Birthdays, Anniversaries							
<b>SUB TOTAL</b>	<b>130</b>	<b>52.6%</b>	<b>12,200</b>	<b>81.6%</b>	<b>\$710,000</b>	<b>3,720</b>	<b>68.0%</b>
<b>TOTALS</b>	<b>247</b>	<b>100.0%</b>	<b>14,955</b>	<b>100.0%</b>	<b>\$859,325</b>	<b>5,467</b>	<b>100.0%</b>

Source: HMI

- The data in the chart above indicates that there will be a total of 227 estimated events at the proposed hotel during the year. This is less than one (0.62) per day. In fact, when counting breakfast, lunch and dinner or morning, afternoon and evening, the total comes to 312 Corporate/Commercial (day part) events. That is 312 (day part) events out of a possible 1,095 events or a 28.5% usage factor
- As indicated in the above chart, the Corporate/Commercial market segment is estimated to generate 117 events representing 47.4% of all events; 18.4% of the Group Food and Beverage Revenue; and 32.0% of the Group Room Nights sold. This segment will be led by the Corporate Group Market followed by the Association Group Market. A sample listing of larger business-related group meetings/conferences as well as a more detailed description of the types business was provided in the previous Lodging Demand section of this report.
- The Social/Leisure Market will generate an estimated 130 events representing 52.6% of all events; 81.6% of the Group Food and Beverage Revenue; and 68.0% of the Group Room Nights generated at the hotel. This segment includes weddings, which will generate the highest number of Group Room Nights from in-house and area weddings.
  - Weddings will also be the main source of Group food and beverage revenue in this segment. The proposed select service style hotel will have the potential to be one of the premier wedding facilities in the greater Cedar Rapids MSA market area, not just the City of Marion. This means attracting weddings from Jones County just east of the City of Marion. The following chart indicates the Population potential for this market. It should be noted that the Cedar Rapids MSA data includes Benton, Linn and Jones Counties.
- In the Cedar Rapids MSA market area, the percent of the Population that is female was estimated at 49.1% in the 2010 Census. The following chart highlights the potential wedding market for the Cedar Rapids MSA market area.

- It was estimated that the proposed hotel could host approximately 1.47%, (or 40 weddings), of the potential wedding market in the greater Cedar Rapids MSA. This is based on the popularity of certain days of the week and the availability of space at the proposed hotel. This indicates that an average of 40 weddings would be marketed at the hotel facility each year. This figure could increase if more “off-season” weddings are booked as described below and if the proposed hotel can consistently sell/handle more than one wedding per weekend.
- It was estimated that there would be an average of about thirty weddings per year during the prime wedding months of June to September. During this seventeen-week period, it was estimated that there would be an average of 1.50 weddings generated on the weekends. If it is popular to host weddings on Saturday and Sunday in this market, then this number could go higher. Some of this is already anticipated in the estimate of twenty-five weddings during this period.
- During the spring/fall shoulder months of April, May and October, it was estimated that an average of ten additional weddings could be generated. This is during a thirteen-week period.
- It was estimated that an additional ten weddings would be generated during the balance of the year, the slow winter months.
- Each wedding is estimated to bring in an average of 240 people or 75% of 320 attendees. This is the number of attendees that the recommended space of 4,000 square feet could comfortably accommodate based on allowing 12.5 square feet per person. It should be noted that this number is significantly less than the average number of attendees that was mentioned during discussions with local officials of 450 – 600 attendees. For the 40 weddings estimated, there will be 9,600 estimated attendees. The guest room usage was estimated at 30% for 1.5 nights. This translates into about 100.0 rooms per wedding per night based on double Occupancy, or 2,920 room nights per year from this market.

**PROJECTED FOOD AND BEVERAGE REVENUE**

The following chart highlights the projections for food and beverage revenues. These are based on the operational projections estimated for the proposed upper midscale select service style hotel.

PROJECTED FOOD & BEVERAGE REVENUE						
YEAR	PERCENT OF HOTEL SALES	PROBABLE F&B YIELD	TOTAL FOOD & BEVERAGE	FOOD	BEVERAGE	OTHER
2018	35.1%	119.8%	\$1,180,480	\$804,761	\$213,284	\$162,435
2019	33.5%	114.5%	\$1,270,019	\$868,783	\$230,251	\$170,985
2020	32.1%	109.7%	\$1,374,417	\$944,196	\$250,238	\$179,984
* Projected performance is +/- 5 percentage points and will be affected by changes in Projected Occupancy or Projected ADR.						
Source: HMI						

The Food and Beverage sector is expected to generate 35.1% of the proposed hotel's total revenue in the first full year and 32.1% of the hotel's total revenue in the third full year. The industry average for full service hotels is 28.12%. It appears that the proposed upper midscale select service style hotel is projected to perform at a rate slightly greater than the industry average for full service hotels. This is primarily due to the focus on wedding business at the proposed hotel. The very low level of projected external food and beverage revenues is due to the limited amount of anticipated "foot traffic" or walk-in in business at any of the three proposed site locations. This data is not available for Select Service style hotels. Should the market demand for Corporate/Commercial Group business be greater than projected, the share of Food and Beverage Revenues will most likely increase.

- The in-house guest food and beverage revenue was estimated.
  - This involved an estimated average of per night checks from in-house guests. Breakfast was estimated at \$10.63, lunch at \$15.00, dinner at \$22.50, and beverage at \$12.50.
  - Usage factors were estimated for each meal period with 50% for breakfast, 5% for lunch, 40% for dinner and 50% for beverage.
  - Based upon these estimated usage factors, the average per night food and beverage revenue was estimated at \$21.31.
  - An inflation factor of 2.0% was applied to food and beverage prices.
- Group food and beverage is projected to generate 73.3% of total food and beverage revenue in the first year, decreasing to 40.3% by the third year of operation.

## **ISSUES AND RISKS**

The following section of the report deals with topics that should be addressed when undertaking a hotel development project such as the one studied in this report. Many of these topics are common to hotel development and are addressed here as a matter of due diligence in evaluating the subject market and subject site for the proposed hotel. Also highlighted in this section are any concerns which have arisen during the research portion of this report that would directly affect the hotel development. This may require additional research by the developer when pursuing the development of the proposed hotel.

### **COMPETITIVE PRICING PRESSURES**

Regarding *Competitive Pricing Pressures*, this market and a new upper midscale, select service style hotel will need to be sensitive to the pricing strategies established in the greater Cedar Rapids MSA market. As discussed previously in this report, the potential Rate Sensitivity in the Corporate/Commercial and Social/Leisure markets will impact the potential for rate increases.

It is recommended that the proposed hotel have the capability of increasing rates during peak demand periods and the ability to offer solid price/value at lower rates during slower demand periods. A well-positioned upper midscale hotel product is recommended for this subject market.

Rate positioning was discussed previously in this report. Rate positioning in the \$95 - \$99 range is recommended when it opens in 2018. This would give it a 99.6% yield to the projected average ADR of the competitive set. The proposed hotel is projected to achieve a yield to the competitive set's average ADR of 110.4% once it is stabilized in its third full year of operation.

This would position it in the middle of the top rate tier of competitive set of hotels as previously discussed in this report.

These Competitive Pricing Issues would be discussed in greater detail in a Comprehensive Hotel Market Study.

### GROWTH IN LODGING DEMAND

The *Lodging Demand Growth* displayed positive and negative results for the period 2010 – 2014. Only 2013 reflected a decrease in *Lodging Demand* of -.7%. The balance of the years reflected increases ranging from 3.6% to 12.2%. The average annual rate of increase for this five-year period was 4.2%. A review of the results from the prior three years through August, 2015 and how those year-end results ended up indicates an annual growth rate or decline in 2015 of -4.10%. This will be utilized in this report for projection purposes in 2015. The projected annual average growth rate from 2010 through 2015 (including this -4.10%) results in a projected six-year average annual rate of growth of 2.81%. This shall be applied in 2016 for projection purposes and all future years. Lodging Demand Growth issues will be discussed in greater detail in a Comprehensive Hotel Market Study.

### GROWTH IN LODGING SUPPLY

There was one addition to the *Lodging Supply Growth* in this market during the five-year period covered. This occurred in August, 2010 with the opening of the 95-room Homewood Suites in Cedar Rapids. Discussions did not indicate any other new hotels that are anticipated in this part of the greater Cedar Rapids market area. The addition of the proposed hotel's 100 rooms would be a 9.2% increase in the *Lodging Supply* including the expected additions discussed above. Based on the actual historic growth in *Lodging Demand*, preliminary indications are that it should be absorbed in just under two years based on the historic annual demand growth rate of 4.2%.

Due to this being a “regional market”, growth should be monitored closely for impact on hotel operations in the region.

### PROPERTY TAXES

A detailed analysis of the *Property Tax* structure in the City of Marion was not within the scope of this report. The developer should analyze the property tax structure within the City of Marion and Linn County, whichever is appropriate.

### POLITICAL CLIMATE

The *Political Climate* in the subject market was reported to be supportive of development in the City of Marion and Linn County market area.



### ENVIRONMENTAL CONCERNS

No unusual *Environmental Concerns* were noted in the three subject site areas for the proposed hotel. A detailed Environmental Impact study was not within the scope of this preliminary report. Toxic waste issues were not directly addressed within the scope of this study. However, the developer should conduct necessary environmental impact testing to make sure that the proposed hotel is in compliance with local ordinances and environmental regulations for the area. The developer should be aware of this and possibly investigate further. Additionally, this should include a review of previous use, soil integrity, water drainage, water seepage, flood plain, toxic waste issues, etc.

### ZONING AND ARCHITECTURAL CONCERNS

Local officials indicated that zoning is either in place for all three site areas being considered or it could be to support this proposed hotel project. Also, they did not mention any special architectural/design issues. However, this should be confirmed by the developer.

### LABOR MARKET, SUPPLY AND WAGES

The *Labor Market* in the subject market was reported as being adequate to support hotel development. However, while no *Wage Pressures* were reported, the relatively low rate of *Unemployment of 3.8%* for 2014 could indicate this becoming an issue in the future.

### AREA OF FRANCHISE PROTECTION

It is recommended that an *Area of Franchise Protection* be established to ensure that there is no encroachment by a similar brand hotel on the subject market area. This includes at least a ten mile radius around the selected subject site area which would include downtown Cedar Rapids for a minimum of five years until the proposed hotel stabilizes. This will require negotiating with the proposed franchise brand to ensure adequate protection. Areas of Franchise Protection should be established to cover the primary market area, i.e. the greater Cedar Rapids area, especially east of I-380 and downtown north.

## **CONCLUSIONS**

Based upon the preliminary research conducted, the recommended size and type of hotel product for the proposed property is a 100-room, upper midscale select service style hotel with a mix of traditional rooms and a few suites as well as meeting/banquet space of approximately 4,000 - 5,000 square feet. This style of hotel will have a variety of rooms to satisfy the Lodging Demand in the subject market area as well as the ability to host weddings, smaller corporate and association meetings and local social/charity events. These projections are based upon the subject market's performance at the time of this report and the timely completion of the project discussed herein (based upon this report's presentation). Effects of preliminary Occupancy, Average Daily Room Rate, Sale Revenue, Preliminary Operational Performance, and Benchmark Development Costs will be reported accordingly along with recommendations for the proposed hotel.

This information would be enhanced with more details in a Comprehensive Hotel Market Study.

Additional details regarding the proposed hotel type and size are presented in the preliminary *Property Recommendations* section of this report. Other support amenities, which would be discussed in more detail in a Comprehensive Hotel Market Study, should be considered part of this hotel development as well.

In this projected scenario, the proposed hotel is scheduled to open in late 2017 or early 2018 with 2018 being considered its first full year of operation. The opening schedule for the proposed hotel is discussed later in this section.

**PRELIMINARY PROJECTED PROPERTY PERFORMANCE**

The following chart shows the proposed hotel’s projected preliminary performance in Occupancy, Average Daily Rate and Projected Revenue in its third year of operation, 2020. The projected performance estimates included in this section would be reviewed in greater detail in a Comprehensive Hotel Market Study for a specific hotel development project. The specific type, style and brand of hotel to be developed could affect these estimates and projections.

<b>PROJECTED PERFORMANCE FOR A 100-ROOM UPPER MIDSCALE SELECT SERVICE PROPERTY</b>			
	<b>PROJECTED MARKET PERFORMANCE <i>PRESENT MARKET</i></b>	<b>PROJECTED MARKET PENETRATION</b>	<b>PROJECTED HOTEL PERFORMANCE <i>100 ROOMS</i></b>
<b>OCCUPANCY</b>			
Probable	69.5%	105.0%	73.0%
<b>ADR</b>			
Probable	\$98.73	110.4%	\$109.00
<b>RevPAR</b>			
Probable	\$68.60	115.9%	\$79.52
<b>ROOM REVENUE</b>			
Probable	NA	NA	\$2,902,348
<b>FOOD &amp; BEVERAGE REVENUE</b>			
Probable	NA	NA	\$1,374,417
<b>TOTAL REVENUE</b>			
Probable	NA	NA	\$4,276,765
<p><i>*Projected performance is +/- 5 percentage points and will be affected by changes in Lodging Supply and Demand growth levels used to formulate these projections.</i></p>			
<p><i>Source: HMI</i></p>			

**Preliminary Occupancy**

- At 100 rooms, the proposed hotel will have a Fair Share Yield to the Competitive Set’s projected Occupancy commencing at 94.8% in its first full year of operation. This is currently estimated to be 2018, and growing to 105.0% of the Competitive Set’s projected Occupancy in its third full year of operation, 2020.
- An impact factor of 59.5% for the proposed hotel or 59 rooms was utilized for projection purposes in this preliminary report.

This information would be enhanced with more details in a Comprehensive Hotel Market Study

#### Preliminary Average Daily Room Rate

- Modest growth in ADR is anticipated. Year-to-date through June, 2015, ADR increased by 3.9%. When compared to the average of the results for the prior three years, it indicates an annual increase in 2015 of 3.11% which will be used for projection purposes in this report for 2015. This results in a projected ADR of \$94.53 for calendar 2015 for the competitive set.
  - The six-year projected average annual growth rate through 2015 is 0.83%, which will be applied for projection purposes in this report in 2016. In 2017 and all future years, a growth rate of 1.18%, the four year historical average of the historic annual rate of increase for the period 2011 - 2014 (i.e. excluding the peak recession year of 2010) will be applied in this report.
- To attain these preliminary ADR projections, the proposed hotel must be properly rate positioned as established in this report. This also includes facility, product, amenities and services offered by the proposed hotel, as described by the developers and as recommended in this report. Also, the rates established for the proposed hotel must be competitive with the overall market's rate structure and competitive positioning.

This information would be enhanced with more details in a Comprehensive Hotel Market Study

#### Preliminary Projected Room Revenue

- Given the preliminary projected Occupancy and ADR levels, the proposed hotel should achieve RevPAR levels significantly greater than the competitive set by its third year of operation.

This information would be enhanced with more details in a Comprehensive Hotel Market Study

PRELIMINARY OPERATIONAL PROFORMA

The following Preliminary Operational Proforma chart depicts the Projected Performance of the proposed upper midscale select service style hotel based on the Occupancy and Average Daily Room Rates established in this report.

<b>PRELIMINARY OPERATIONAL PROFORMA</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Revenue</b>	\$3,530,978	\$3,967,553	\$4,470,991
<b>Departmental Expenses</b>	\$1,161,692	\$1,305,325	\$1,470,956
<b>Undistributed Operating Expenses</b>	\$900,694	\$1,012,057	\$1,140,475
<b>Gross Profit</b>	<b>\$1,476,831</b>	<b>\$1,659,429</b>	<b>\$1,869,992</b>
<i>*Note: GOP is before Fixed Costs of P&amp;I, Real Estate Tax, Insurance, Management Fees, Franchise Fees &amp; Reserve for Replacement.</i>			
<i>Source: HMI</i>			

- The expense amounts and Gross Operating Profits (GOP) in the chart above were calculated by applying the performance results of the average of upper midscale full service and limited service hotel segments reported in the Smith Travel Research *Host Report – 2014* on the US Lodging Market. This average was used due to there being no data on the performance of just the select service style hotel.
- In a full Operational Proforma and Investment Analysis, the results in the above chart would be expanded to show greater detail and would forecast cash flow after debt service.

**PROJECTED ECONOMIC IMPACT RESULTS**

One part of this engagement is to provide the following Economic Impact Results prior to Prospect Meadows opening up. These results are presented in the chart below. The tax rates utilized are those provided by City of Marion personnel.

<b>ECONOMIC IMPACT RESULTS</b>			
<b>100-ROOM, UPPER MID-SCALE, SELECT-SERVICE PROPERTY</b>			
<b>Tax Rate</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>TOTAL HOTEL REVENUES</b>			
	\$3,365,140	\$3,788,082	\$4,276,765
<b>CITY ROOM TAX</b>			
7.00%	\$235,560	\$265,166	\$299,374
<b>PROPERTY TAXES</b>			
13.60%	\$1,698	\$1,698	\$1,698
<b>PROJECTED NUMBER OF JOBS CREATED</b>			
Estimated Number of Efte's	50	55	60
<i>Projected tax revenues are based upon tax rates provided by City of Marion personnel.</i>			
<i>Source: HMI</i>			

The Property Taxes in the chart above were calculated based on the following information and assumptions:

- Discussions with city officials indicated that the starting point for calculating the property taxes generated by a new business is the cost of the project. Therefore, since the cost of the proposed hotel project is dependent on the final design of the facility as well as the brand of the hotel, it was decided in discussions with city officials to utilize the Benchmark Development Cost discussed in the following section of this report. Also, the city property tax rate is projected at \$13.60/\$1,000 of taxable value.
- The estimated number of jobs created by the proposed project is based on the estimated number of Effective Full Time Employees required to operate the style of hotel described in this report. The final actual number of jobs created will depend on the operator/management company of the hotel and that company's style/methods of operating the developed subject hotel.
- No growth rate has been applied to the taxes calculated for future years. This is due to uncertainty of what the value of the proposed hotel will be. This is because various methods will be used to arrive at the future value of the hotel based on how it is performing.

**PRELIMINARY BENCHMARK DEVELOPMENT COST FACTOR**

Based on preliminary Occupancy and Average Daily Room Rate projections, Benchmark Development Costs for the proposed hotel were calculated. These provide a preliminary indication of the viability of developing the proposed hotel. More comprehensive feasibility research should be performed to obtain anticipated operational expenses and fixed cost structuring such as debt service, property taxes, insurance, and depreciation. It would also assist in formulating a more thorough analysis of the financial viability of this hotel project. Land cost is another factor that would have significant impact on Benchmark Development Costs.

Benchmark Development Costs include all costs associated with the proposed hotel's development up to its stabilized year of operation: land costs; land preparation costs; development costs; construction/renovation costs; furniture, fixtures and equipment (FF&E); pre-opening operational and marketing expenses; and cash flow shortages to a stabilized year of operation. Any other associated development costs would also be part of this calculation. A developmental Occupancy factor of 62.5% was used for this proposed upper mid-priced, limited-service hotel.

A factor of \$1.45 of Average Daily Room Rate per thousand dollars of development cost was also utilized for this proposed mid-priced, limited-service hotel. Deviations from the developmental Occupancy and Average Daily Room Rate Factors were calculated based upon Occupancy and Average Daily Room Rate Projections established previously in this report.

With that in mind, the following preliminary Benchmark Development Costs were calculated.

<b>BENCHMARK DEVELOPMENT COSTS</b>		
	<b>ALLOWABLE PER ROOM*</b>	<b>ALLOWABLE TOTAL PROJECT COST*</b>
<b>100 Rooms</b>	<b>\$124,822</b>	<b>\$12,482,182</b>
<i>*These projections will be affected by changes in Projected Occupancy or Projected ADR.</i>		
<i>Source: HMI</i>		

Ideally, as the developer calculates development costs for the proposed hotel, their total should not surpass these preliminary break-even Benchmark Development Costs. Exceeding these Benchmark Development Costs may indicate that the proposed hotel is not financially feasible to pursue. However, projected development costs below these Benchmark Development Costs may indicate that additional research should be performed by the developer to determine the overall economic feasibility of developing this hotel.

The Benchmark Development Cost calculations and the return calculations listed above are only a few of many benchmarks the developer should utilize in determining the feasibility of this proposed hotel project. These calculations do not take into account any present value calculations. They would be projected in an actual Operational Proforma or in an Analysis of Cash Flow and Return on Investment. The actual Return on Investment should include returns on both the projected Sales Value and the Cash Flow analysis for the proposed hotel.



## **PRELIMINARY PROPERTY RECOMMENDATIONS**

The following Property Recommendations were based upon the research conducted for this report.

### **PROPERTY TYPE**

- This report provides preliminary recommendations and focuses on developing an upper mid-scale, select service style hotel in the Marion, Iowa market.
- The preliminary projections in this report reflect this type of hotel positioning as well. It is anticipated that the required support elements of a select service, upper midscale hotel would be provided at the proposed hotel. This includes the appropriate product offerings and guest services such as a health/fitness center, indoor pool and a limited service/menu restaurant with a small lounge. These latter two items would be located off an extension of the lobby.
- The Market Segmentation outlined in this report reflects support for this type of hotel product. Developing an upper mid-scale, select service hotel with national/regional brand recognition fills a niche in this market.

### **PROPERTY SIZE**

- For this report, the proposed hotel's Property Size was calculated at 100 rooms.
- This is 10.6% larger than the average sized hotel. This size hotel, given the preliminary projections, will produce an approximate 70% - 75% Occupancy level when stabilized.
- A larger hotel would under-perform this Occupancy level, and appropriately a smaller hotel could exceed these Occupancy levels.
- The primary reason that this size hotel, 100 rooms, was recommended is that this will permit the hotel to provide enough sleeping rooms to fill the needs of the Social/Leisure groups that are projected to fill the meeting/banquet space, typically on the weekends.
- Developing more than or fewer than 100 rooms would modify the projected levels of performance.

The preliminary projections in this report would be enhanced in a Comprehensive Market Study including reviewing the projected size of the proposed hotel.

## PROPERTY AMENITIES

Recommended Property Amenities should be compatible with the product type and national/regional brand affiliation selected for the proposed hotel. Additional property amenities and services which may be required are as follows:

- The proposed hotel should include internal recreational guest amenities such as:
  - A health fitness facility/exercise room.
  - An indoor pool with a whirlpool could also be considered. Most members of the competitive hotel set have an indoor pool. If the proposed hotel does not have an indoor pool area, this would provide the competitive hotel set with a potential competitive advantage when targeting certain demand generators, especially the Social/Leisure segment. This type of amenity would assist the proposed hotel in servicing the Social/Leisure market: youth sports teams, family tourists, weddings, and reunions. Although it would incur additional development and operational costs, it could add some support with slightly higher ADR from the Social/Leisure markets in the initial years of operation.
  - Offering a whirlpool in the swimming pool area is suggested. Several whirlpool suites that could be called honeymoon suites should also be considered to attract Social/Leisure travelers.
  - Since almost all of the proposed hotel's competitive set is either mid-scale or upper mid-scale in design (59.5% of the total rooms in the previously described competitive set), the sleeping rooms should provide the typical amenities currently required by mid-scale and upper mid-scale hotel chains. These include a large working desk, wireless internet access, a microwave and a mini-refrigerator in each room, and a small kiosk/convenience store facility in the lobby area. These amenities have come to be expected by Corporate/Commercial guests in these price categories.
  - Including a small kiosk/convenience store facility will assist the proposed hotel in competing with upper midscale to upscale limited-service hotels in the Competitive Set with these amenities.

### SLEEPING ROOM CONFIGURATION

The Sleeping Room Configuration should be based on the Market Segmentation Profiles.

- Since the proposed hotel is projected to have a greater number of Corporate/Commercial guests (75%), king-beds in the sleeping rooms may be the preferred room type. However, since double-queen rooms provide greater flexibility for all market segments, it is recommended that up to two thirds (66.7%) of the rooms be of this type. The balance of the rooms should be king-bedded rooms for Corporate/Commercial travelers with several sleeper sofas in the “living areas” for Social/Leisure and family travelers.
- Developing one or two whirlpool suites is suggested. This would service weddings and special getaway weekends as well as differentiate the proposed hotel from the other members of the primary competitive set.

### BRAND AFFILIATION

City of Marion officials did not indicate that a specific hotel brand had been identified at this time. Brand Affiliation in this market is recommended to be competitive.

- This affiliation will in some part dictate the design of the proposed hotel, the amenities offered, and its rate positioning.
- A branded property would assist in positioning this hotel to best capture the Corporate/Commercial and Social/ Leisure markets.
- Since all members of the primary competitive set have good national or regional brand affiliation, it is strongly suggested that the proposed hotel be affiliated with at least a regional or national brand.
- HMI can assist in identifying upper mid-scale brands that would be appropriate for this proposed hotel if so desired.

### RATE STRATEGY

The Room Rate Strategy for the proposed hotel should be compatible with the Average Daily Room Rate projections indicated in this report.

- Seasonality of Room Rates is also a consideration for this hotel.
- Given the Average Daily Room Rate research performed and the projections set forth in this report, it appears that the proposed hotel could compete in the middle of the top rate tier.

- This rate structure should be compatible with the traditional rate structure of this market's overall competitive set. It should also be appropriate for the upper-mid-scale hotel proposed in this report. To achieve this, the proposed hotel must match the quality of other hotel products in this market with similar rate positioning.

#### OPENING DATE

The Opening Date for the proposed hotel should be selected based upon the seasonality of the subject market.

- Ideally, opening the proposed hotel in late winter or early spring would capture the maximum revenue prior to the softer season beginning in November. This would indicate a potential opening in late 2017 or early 2018.

## **POST PROSPECT MEADOWS OPENING**

This section of the report identifies the impact that the opening of the Prospect Meadows complex is anticipated to have on the proposed upper mid-scale select service style hotel previously described in this report. To accomplish this, it is important to provide a brief description of the Prospect Meadows complex:

- Perfect Game, “the world’s largest baseball scouting service” is based in Marion, Iowa. It is reported that 80% of Major League Baseball recruits play in Perfect Game USA tournaments.
- Prospect Meadows is being developed as a world class tournament destination to complement other tournament facilities already located in Georgia, Florida and Arizona. It will be comprised of at least eight fields, four with lights for the 2017 season. Plans are for it to include up to sixteen teams including a “Miracle” field for handicap play.
- While Prospect Meadows will be available for all youth team tournaments, a focus will be on hosting Perfect Game tournaments. These latter tournaments were reported to include:
  - 64 teams, attracting more than 120,000 attendees including players, parents, coaches and scouts from professional teams and an estimated 60,000 out of town visitors. However, the summer season is the primary Iowa high school baseball season, so these players would not be eligible to play. This indicates a greater number of players/teams will come from outside of Iowa.
  - A proposed potential schedule includes ten weekends that would typically attract guests for a reported four to five days, not just Saturday and Sunday. There is a reported 2.2 attendees per player at the larger tournaments.
  - While the primary usage of the fields with tournaments will be June through September, it was reported that usage of the fields could run from March through October, eight months of the year.

The changes in Lodging Demand due to the opening of Prospect Meadows will primarily be a shift to a greater potential amount of Group Social/Leisure business as shown in the Post Prospect Meadows Market Segmentation Chart below.

MARKET SEGMENTATION - Prospect Meadows Open					
	SUBJECT MARKET PROBABLE PERCENT OF MARKET	RANGE	PROPOSED PROPERTY PROBABLE MARKET	MARKET PENET.	RANGE
Individual Travel Markets	50.0%	47.5%-52.5%	45.0%	90.0%	42.5%-47.5%
Corporate/ Commercial	35.0%	31% - 38%	30.0%	85.7%	27% - 33%
Social/ Leisure	15.0%	12% - 18%	15.0%	100.0%	12% - 18%
Group Markets	50.0%	47.5%-52.5%	55.0%	110.0%	52.5%-57.5%
Business Related	30.0%	27% - 33%	15.0%	50.0%	12% - 18%
Social/ Leisure Related	20.0%	17% - 23%	40.0%	200.0%	37% - 43%
<b>TOTAL</b>	<b>100.0%</b>		<b>100.0%</b>		

Source: HMI

The major change in the market segmentation is the increased Social/Leisure Group demand and the corresponding decrease in Corporate/Commercial demand. This is due to the significant demand anticipated to be generated by the teams coming to compete at the Prospect Meadows complex during the March – October period. The addition of these tournaments results in the Revised Market Segmentation Profiles Chart below.

MARKET SEGMENTATION PROFILES - Post Prospective Meadows		
	Demand Potential	
	Transient = T Extended= E Group= G	Subject Property Potential
Social/Leisure Markets		
Visiting Friends & Relatives	T, E	Very Good
Area Sites & General Tourism		
Tuma Soccer Complex	T, G	Good
Area Events		
Overflow from University of Iowa events in Iowa City	T	Good
Perfect Game events (baseball clinics/showcases)	T, G	Very Good
Perfect Game tournaments at Prospect Meadows	T, G	Excellent
City wide college/high school sports tournaments	T, G	Very Good
Area Recreation- (Boating, Hiking, Biking, Hunting, Fishing, etc.)	T	Good
Social Related Groups		
Weddings	T, G	Excellent
Reunions	G	Good
Other	G	Good
Amateur Youth Sports	T, G	Good
	<b>Potential</b>	<b>Very Good</b>
Corporate/Commercial Markets		
Agriculture	T	N/A
Mining, Quarrying & Oil and Gas Exploration	T, E, G	N/A
Utilities	T, E, G	Good
Construction	T, E	Very Good
Manufacturing	T, E	Very Good
Wholesale Trade	T	Good
Retail Trade	T	Good
Transportation and Warehousing	T	N/A
Information	T	Good
Finance, Insurance and Real Estate	T	Good
Real Estate, Rental & Leasing	T	N/A
Services		
Professional, Scientific & Technical	T, E	Good
Management of Companies and Enterprises	T	N/A
Administrative, Support, Waste Management and Remediation	T	Fair
Educational	T, E	Good
Health and Social Assistance	T, E	Good
Arts, Entertainment & Recreation	G	N/A
Accommodation & Food Services	T	Good
Other	T, E	Good
Public Administration	T	Fair
	<b>Potential</b>	<b>Good</b>
	<b>Overall Potential</b>	<b>Good</b>

Source: HMI

The result is a stronger Very Good rating for the Social/Leisure business in this market area.

The projected Occupancy due to the presence of Prospect Meadows is reflected in the following chart. The Projected Occupancy has been capped at 80.0% since this is considered to be a rate at which the hotel is approaching sold out status.

PROJECTED OCCUPANCY							
YEAR	PROJECTED MARKET OCCUPANCY			PROJ. MKT. PENET.	PROJECTED HOTEL OCCUPANCY		
	Low	Probable	High		Low	Probable	High
2018	62.4%	<b>65.7%</b>	69.0%	<b>104.0%</b>	64.9%	<b>68.3%</b>	71.8%
2019	64.2%	<b>67.6%</b>	71.0%	<b>109.4%</b>	70.3%	<b>74.0%</b>	77.7%
2020	66.0%	<b>69.5%</b>	73.0%	<b>115.2%</b>	76.0%	<b>80.0%</b>	84.0%
*Projected performance is +/- 5 percentage points and will be affected by changes in Lodging Supply and Demand growth levels used to formulate these projections.							
Source: HMI							

At this time, there are no anticipated changes to the projected ADR in the market area. Even if no new hotels are developed in the greater Marion market area, the increase in demand for rooms due to the development of Prospect Meadows could result in an increase in ADR's. Also, it is not known what type of increased usage in banquet/meeting space such as team meals, etc. will/could be generated by these teams. Therefore there have been no projected increases in the banquet/meeting space Food & Beverage revenues. Thus, the next chart reflects the overall increase in revenues to the hotel as a result of the opening of Prospect Meadows.

PROJECTED TOTAL REVENUE - Prospect Meadows Opened					
YEAR	PROBABLE ROOM REVENUE	TOTAL FOOD & BEVERAGE	TOTAL REVENUE	NET ADR	NET RevPAR
2018	\$2,396,884	\$1,219,440	\$3,616,324	\$144.98	\$99.08
2019	\$2,762,675	\$1,313,295	\$4,075,971	\$150.99	\$111.67
2020	\$3,184,290	\$1,422,785	\$4,607,076	\$157.70	\$126.22
* Projected performance is +/- 5 percentage points and will be affected by changes in Projected Occupancy or Projected ADR.					
Source: HMI					

This results in the revised Benchmark Development Cost for the proposed hotel as a result of Prospect Meadows opening.

<b>BENCHMARK DEVELOPMENT COSTS</b>		
	ALLOWABLE PER ROOM*	ALLOWABLE TOTAL PROJECT COST*
<b>100 Rooms</b>	<b>\$134,462</b>	<b>\$13,446,227</b>
<i>*These projections will be affected by changes in Projected Occupancy or Projected ADR.</i>		
<i>Source: HMI</i>		



**PROJECTED ECONOMIC IMPACT RESULTS**

One part of this engagement is to provide the following Economic Impact Results once Prospect Meadows opens. These results are presented in the chart below. The tax rates utilized are those provided by City of Marion personnel.

<b>ECONOMIC IMPACT RESULTS</b>			
<b>100-ROOM, UPPER MID-SCALE, SELECT-SERVICE PROPERTY</b>			
<b>Tax Rate</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>TOTAL HOTEL REVENUES</b>			
	\$3,616,324	\$4,075,971	\$4,607,076
<b>CITY ROOM TAX</b>			
7.00%	\$253,143	\$285,318	\$322,495
<b>PROPERTY TAXES</b>			
13.60%	\$1,829	\$1,829	\$1,829
<b>PROJECTED NUMBER OF JOBS CREATED</b>			
Estimated Number of EFTE's	50	55	60
<i>Projected tax revenues are based upon tax rates provided by City of Marion personnel.</i>			
<i>Source: HMI</i>			

The Property Taxes in the chart above were calculated based on the following information and assumptions:

- Discussions with city officials indicated that the starting point for calculating the property taxes generated by a new business is the cost of the project. Therefore, since the cost of the proposed hotel project is dependent on the final design of the facility as well as the rand of the hotel, it was decided in discussions with city officials to utilize the Benchmark Development Cost discussed in the following section of this report. Also, the city property tax rate is projected at \$13.60/\$1,000 of taxable value.
- The estimated number of jobs created by the proposed hotel project is based on the estimated number of Effective Full Time Employees required to operate the style of hotel described in this report. The final actual number of jobs created will depend on the operator of the hotel and that company's style/methods of operating the proposed hotel.
- No growth rate has been applied to the taxes calculated for future years due to uncertainty of what the proposed hotel's value will be. This is because various methods will be used to arrive at the future value of the hotel based on how it is performing.



Hospitality Marketers International, Inc.

**DISCLAIMER**

The decisions presented herein were based upon the information available and received at the time this report was compiled. Hospitality Marketers International, Inc., (HMI) has taken every possible precaution to evaluate this information for its completeness, accuracy and reliability. To the best of its knowledge, HMI feels the information and decisions presented herein are sound and reliable.

At the present time of this report, the United States and world economies are in the midst of a recovery from a major recessionary period that ran from 2008 - 2010. This recovery appears to be continuing according to current news reports with most economic indicators indicating growth since 2011.

HMI is not responsible for effects that occur from future political, economic or social events that ultimately alter these projections. These events should be monitored accordingly and potentially the results of this report may require updating to respond to future events.

Also, it should be understood that normal economic and marketplace conditions change constantly. HMI assumes no responsibility for information that becomes outdated once this report is written; nor is it responsible for keeping this information current after November, 2015.

It should be understood that the results presented in this report are the professional opinion of HMI and are based upon the information available at this time. These opinions infer proper and professional management of the business operation. The opinions also infer that market conditions do not change the information received upon which those opinions have been based. HMI assumes no responsibility for changes in the marketplace.

Furthermore, it is presumed that those reading this report completely understand its contents and recommendations. If the reader is unclear of the understanding of the contents, clarification should be received from its writer, HMI.

Lastly, HMI assumes that those who receive this report act in accordance with its recommendations. Any deviation from these recommendations is solely the responsibility of those receiving this report.

Further questions concerning this report should be directed to HMI.

Sincerely,  
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