
**Market Analysis and Positioning
Strategy – Nourse Auto Mall
Chester County, SC**

August 30, 2011

Prepared for

Ms. Karlisa Parker
Director, Chester County Economic Development
525 College Place, Suite A
Chester, SC 29706
(803) 377-1216

Prepared by



RKG Associates, Inc.
Economic, Planning and Real Estate Consultants
300 Montgomery Street, Suite 203
Alexandria, Virginia 22314
Tel: (703) 739-0965

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1 INTRODUCTION

The administration of Chester County, South Carolina is in the process of redefining one of its major gateways coming from Charlotte along Interstate 77. At the center of this effort is the potential repurposing of the former Nourse Auto Mall located in the northeast quadrant of Interchange 65 along Interstate 77. The Nourse Auto Mall was built in 2005 and closed in December 2009 soon after the facility lost its General Motors Dealership.¹ The site consists of 14.6-acres and currently has two buildings totaling approximately 28,500 square feet with ample parking surrounding the buildings.

In response to the closure, the County administration became actively involved in the revitalization of the site. First, the administration leased the property in December 2010 to accommodate several key municipal functions (including the County's economic development operations) with the hope of guiding the site's redevelopment. In early 2011, the Chester Healthcare Foundation purchased the site for \$1.45 million. The Foundation is holding the property until the County finalizes its strategy on how to redevelop the site.² One of the administration's goals is for the site to serve as a formal gateway to Chester County, establishing it as a focal point for tourism and business development efforts.

As part of the planning process, Chester County Economic Development (CCED) retained the services of RKG Associates, Inc. to study the feasibility of using a portion of the existing structures as an event center and part of the land for a limited-service business-class hotel and a sit-down dining venue. RKG Associates performed a detailed market analysis for the site, focusing on each component of the proposed reuse of the vacant buildings. The analysis inventoried the strengths and weaknesses of the site to accommodate the proposed development plan, focusing on the potential to capture current opportunities related to event, hotel and dining demand, as well as hold economic development events and recruitment visits. Once the market analysis was completed, RKG Associates analyzed the financial feasibility of operating these facilities based on the potential revenue capture and requisite operational costs. The following report provides a detailed assessment of the findings.

The market analysis includes an inventory of the existing conference and event centers in Chester County and York County, and takes stock of the existing hotels in Chester County and the limited-service business-class hotels in York County. The report then looks at the financial feasibility of these two uses, and outlines the steps necessary to achieve success. The chapters included in this report are as follows:

- Chapter 1: Introduction
- Chapter 2: Executive Summary
- Chapter 3: Event Center Market Analysis
- Chapter 4: Regional Hotel Market Analysis
- Chapter 5: Event Center Financial Analysis
- Chapter 6: Hotel Financial Analysis

¹ Elkins, Ken. "Chester Co. Takes Failed Auto Dealership for a Spin" *Charlotte Business Journal*. January 11, 2011.

² *Ibid*.

2 EXECUTIVE SUMMARY

The analysis for each potential use was conducted independently to establish an understanding for each component individually. As a result, the findings are presented by use type: [1] the market analysis and the financial feasibility of the proposed event center; and [2] the market analysis and financial market analysis of the limited-service business-class hotel. The Consultant's efforts indicate that both the proposed event center and the limited-service business-class hotel are feasible at Interchange 65 in Chester County. Optimally, development of these two facilities should occur concurrently, but based on the results of the analyses both components of these projects are feasible as standalone projects. If the two facilities are developed separately, certain advantages are lost. For example, without a hotel multiday events will be more difficult to attract to the event center. Furthermore, without the events center, the hotel would lose the opportunity to capture overnight stays from event attendees and would be more isolated. Developing the two uses concurrently will yield the greatest opportunity for success, but the market strength for an event center and hotel is sufficient to support each facility independently.

The market analysis and the financial market analysis are based on current market conditions and a series of assumptions.¹ The report assumes that the revenues from the event center will cover operating expenses and contributions to the annual capital maintenance fund. Based on input from the steering committee, the financial analysis does not consider capital costs related to purchasing the property, rehabilitating the property or completing the facility design, improvements, and finish-out (FFE) of the building. The Consultant did look at the possibility of the revenues from the event center covering the FFE costs, but this was deemed not financially feasible. The main hotel assumption is that the land will be provided to the developer by the County at no cost in the form of a long-term land lease. Hotel revenues will cover all of the other costs associated with the hotel. The analyses are reflective of these assumptions and any changes in the assumptions would alter the conclusions reached in this report.

A. EVENT CENTER

The market analysis considers the demand for space at the new event center from both existing and new events. It is assumed that the new event center would mainly be competing for events with the Chester County War Memorial, the Great Falls War Memorial, and Leroy Springs in Chester County and seven additional conference/event centers in York County. The event demand is divided into six separate categories including Celebratory Events, Meetings, Training Classes and Other Corporate Events, Special Interest Events, Social Gatherings, Seminar/Conference Events and Destination Events. From the market analysis, the Consultant estimates the new event center can capture between 120 and 200 events per year. The Consultant considered market performance data from competitive venues and interviews with community members, potential users and local/regional event professionals.

The financial analysis looks at the resulting relationship between revenues and expenditures if 160 events were held annually at the event center, and about 50 events were held at the Chester County War Memorial. This estimate is the midpoint of the range of events projected in the market analysis. The financial analysis was completed two separate ways: [1] expenditures include both the event

¹ Feasibility was determined utilizing a series of assumptions. A more detailed discussion of these assumptions is included in the following chapters.

center's operations and the cost of the debt service on the FFE and [2] expenditures include only the event center's operations and the debt service on the FFE are covered separately by Chester County. The total FFE costs are estimated at between \$750,000 and \$1,250,000 dollars. The results of the financial analysis, including expenditures for operating costs and debt service on the FFE (option 1), show that revenues are not high enough to cover both the event center operations and the debt service costs on the FFE. When the financial analysis was run not including FFE costs (option 2), the analysis indicated that the event center revenues covered the operating costs with 160 events at the new event center.

The financial analysis included in this report adhered to the second option discussed above and assumed that the County remains true to their initial discussion and covers the cost of the FFE separately. The results of the analysis indicate that this level of patronage yields a net operating income (NOI) that is approximately 113% in year one. The NOI but will fall to 103% by year five due to increases in expenses outpacing increases in revenue generation. (This is after accounting for a annual deposit of \$25,000 into a capital maintenance fund.) Simply put, the revenues from the new event center and the Chester County War Memorial at the given level of events will cover expenses and allow for an annual contribution to the capital maintenance fund. The "break even threshold" of the facility occurs when the number of events reaches 137. In addition to hosting events, the event center could also serve as the signature facility for the County's economic development effort. The Chester County Economic Development (CCED) could hold events and recruitment visits that could assist in bringing additional businesses to the County.

The first step towards the long-term success of the new event center is the design. The design should incorporate space from the two existing structures at the Nourse Auto Mall. The northernmost building (currently being considered for the event center) has the potential to accommodate social and large-scale events. It must be of higher quality than other event and conference spaces in the area with amenities such as high-end audio-visual components and permanent high-back chairs instead of folding or stackable chairs.

For the purposes of this analysis, this component is referred to as the ballroom building. The essential components of the ballroom building include a single, large-scale space that can easily accommodate large-scale events of up to (or in excess of) 500 people, but also has the capacity to be subdivided into spaces for groups as small as 50 to 100 people to use the facility simultaneously. This flexibility in partitioning would allow for events of a variety of sizes to utilize simultaneously use the space. The other key attributes of the ballroom would be a food preparation area, a fit-out and décor that is higher-end than other event centers in the market, parking on site, and pleasant landscaping surrounding the building to allow events to spill outside on pleasant days/evenings.

The southernmost building (where the County's economic development entity currently resides) has a large open space in the rear of the building that was an auto repair facility. It is the recommendation of the Consultant to subdivide this space vertically into two floors in order to accommodate both the business incubator concept on the upper level (outside the scope of this analysis) and conference/education facilities on the lower level. For the purposes of this effort, this portion of the facility is called the meeting/breakout room.

The main purpose of the meeting/breakout room would be to hold small and mid-size conferences, board of directors meetings, and other types of small business events. The second floor incubator would be designed as office space for new companies just starting out in Chester County. It is essential for this building to be equipped with state of the art telecommunications capabilities. The second building needs to be designed for versatility so that if the incubator is successful, it could expand into the bottom floor. Conversely, if the meeting/breakout rooms are in high demand, they could occupy both floors. The flexible design of the second building would be an efficient use of County resources because it would position the County to be able to respond to the needs of the business community.

The control and management of the event center could be the difference between establishing a strong financial footing and having to supplement the operating costs of the event center. It is the Consultant's recommendation that the event center operations be positioned under the control of Chester County Economic Development (CCED). The Consultant recommends that the CCED hire full-time professional staff that will be solely responsible for the operation and maintenance of the event center. The event center staff should include an event manager, a part-time assistant manager, a staff member in charge of customer relations and bookings, and two part-time custodians. It is important that either the event manager or the part-time assistant manager have core competencies with running and maintaining IT equipment. Having the administration of the events center under Chester County Economic Development provides distinct advantages to contracting these responsibilities outside the County. Most notably, having the staff operate under the CCED would ensure that economic development events receive top priority in booking the facility. Furthermore, the County would benefit from reducing operating costs, as contracting entities charge fees above salary levels to cover overhead costs. In contrast, hiring an outside vendor to run the event center is not recommended because it reduces the level of accountability for the on-site operator, potentially leading to management disputes that must be resolved with a decision-making entity outside the region.

Assuming the County approves the event center, a marketing campaign needs to start immediately and intensify once it is complete. A combined marketing effort for the Chester County War Memorial Building, Great Falls War Memorial, and the new event center is crucial to building upon the existing success of the War Memorials and establishing the event center in the region. In addition, there should be cross marketing efforts with other groups in the County and the region. In order to attract all potential users, the campaign needs to utilize the following mediums:

- Local marketing (digital sign outside of the events center, newspapers, radio, digital media)
- Through traffic marketing (banners, electronic signs)
- Regional marketing (faith-based groups, businesses, special interest groups)
- State marketing (state agencies, membership organizations)
- National marketing (membership organizations, local ambassadors)

B. LIMITED-SERVICE BUSINESS-CLASS HOTEL

The hotel market analysis considered the current operating conditions at the existing hotels at Interchange 65 in Chester County and at potentially competitive limited-service business-class hotels in York County. The analysis revealed that although the current conditions at the hotels at Interchange-65 did not warrant a new hotel in Chester County, the success of limited-service business-class hotels at the Fort Mill and Rock Hill interchanges suggested that a similar hotel could be feasible in Chester County. The Consultant estimates that there is demand for between 14,242 and 20,002 room nights per year for a new limited-service business-class hotel. The majority of the customers would be those who are currently staying at other hotels at Interchange 65 in Chester County, and those staying further north in limited-service business-class hotels in Rock Hill and Fort Mill. The Consultant estimates that the new event center will host approximately four-multiday business-related events per year, which would have a positive, but limited impact on the overall financial health of the hotel. However, the potential to support weddings in the ballroom and visibility to I-77 would generate much of the demand for room nights.

The financial market analysis reveals that an 85-room hotel generating 15,513 room nights in year one (50% occupancy) and reaching a high of 18,615 room nights per year in year three (60% occupancy) would be financially feasible on this site in Chester. This performance level is consistent with findings from the market analysis and generates an internal rate of return (IRR) above the 15% to 25% threshold typically sought for new commercial development.

It should be noted that the actual size (in terms of room number) of the hotel should be established at the time of development. Chester County Economic Development should focus on getting a hotel built as opposed to potentially having to make a greater investment to achieve a larger number of rooms. For example, an investor may decide that a 75-room hotel is more feasible at this location. This would still fit within the vision of the site and potentially require less (or no) County investment in the project.

The first step is to work with a developer to get a hotel built adjacent to the event center. The market and financial analyses reveal that there should be interest from the development community to pursue a limited-service business-class hotel at the Nourse Auto Mall site. If the County provides the land to the developer in a long-term, no-cost lease, this will likely accelerate the potential to attract an investor to build the hotel.

The long-term strategy is for Chester County to work to generate more room nights at the hotel. Chester County Economic Development will need to work with the hotelier to help demand reach the aggressive demand estimate calculated in this analysis. This can happen by holding more multiday functions and weddings at the event center, placing advertisements along I-77 encouraging travelers in both directions to stay in Chester County, and working with local businesses to direct their visitors to stay in Chester County as opposed to further north in either Fort Mill or Rock Hill. These new sources of demand will make the hotel financially viable, increase the accommodation tax generated in the County, and make Chester County a more convenient place to do business. In an effort to reduce risk for the hotelier, the County may consider a profit sharing arrangement in tandem with a low-cost or no-cost land lease. This arrangement protects the hotelier from financial challenges if demand falls below estimate levels, but rewards the County if revenue generation exceeds expectations.

C. FULL-SERVICE RESTAURANT

Based on the results of a market scan performed by the Consultant, a full-service restaurant is not feasible on this site at this time. In sum, the preliminary market analysis revealed that the current demand within a 15-minute drive of the site at Interchange 65 was \$8.1 million for dining facilities. Meanwhile, the current capture of sales dollars from dining facilities within a 15-minute drive of the site was \$9.0 million. This means that the dining facilities in the designated area attract sales dollars from customers outside the region and therefore have a net surplus of sales dollars of approximately 10%. Future market projections show the supply of dining facilities growing faster than the demand. This indicates that the area is currently well served by dining facilities, and future demand does not warrant a new restaurant. If a full-service restaurant were to open at the Nourse Auto Mall site, it would become direct competition for existing restaurants and potentially displace these facilities.

The Consultant recommends that the County work with an existing restaurateur to relocate to the site rather than pursue a new operation. Simply put, the local market is not strong enough to support an additional venue and the existing facilities are landmarks for Chester County. It is important to note that the inclusion of alcohol sales is a critical component of creating a more viable development at the Nourse Auto Mall site. Both the success of the restaurant as well as the market potential of the hotel improve if alcohol is available at the restaurant.

3 EVENT CENTER MARKET ANALYSIS

A. INTRODUCTION

The County administration recognizes that Chester County currently lacks a large, high-quality event center to hold local and regional events. However, the depth of this market has not been measured prior to this effort. This market analysis compares current and potential market demand to the existing local event centers to determine if there is demand for a new facility. The information presented in this Chapter will be used in Chapter 5 to estimate the market capture of a new event center and the potential revenue generated from this demand.

B. MARKET AREA IDENTIFICATION

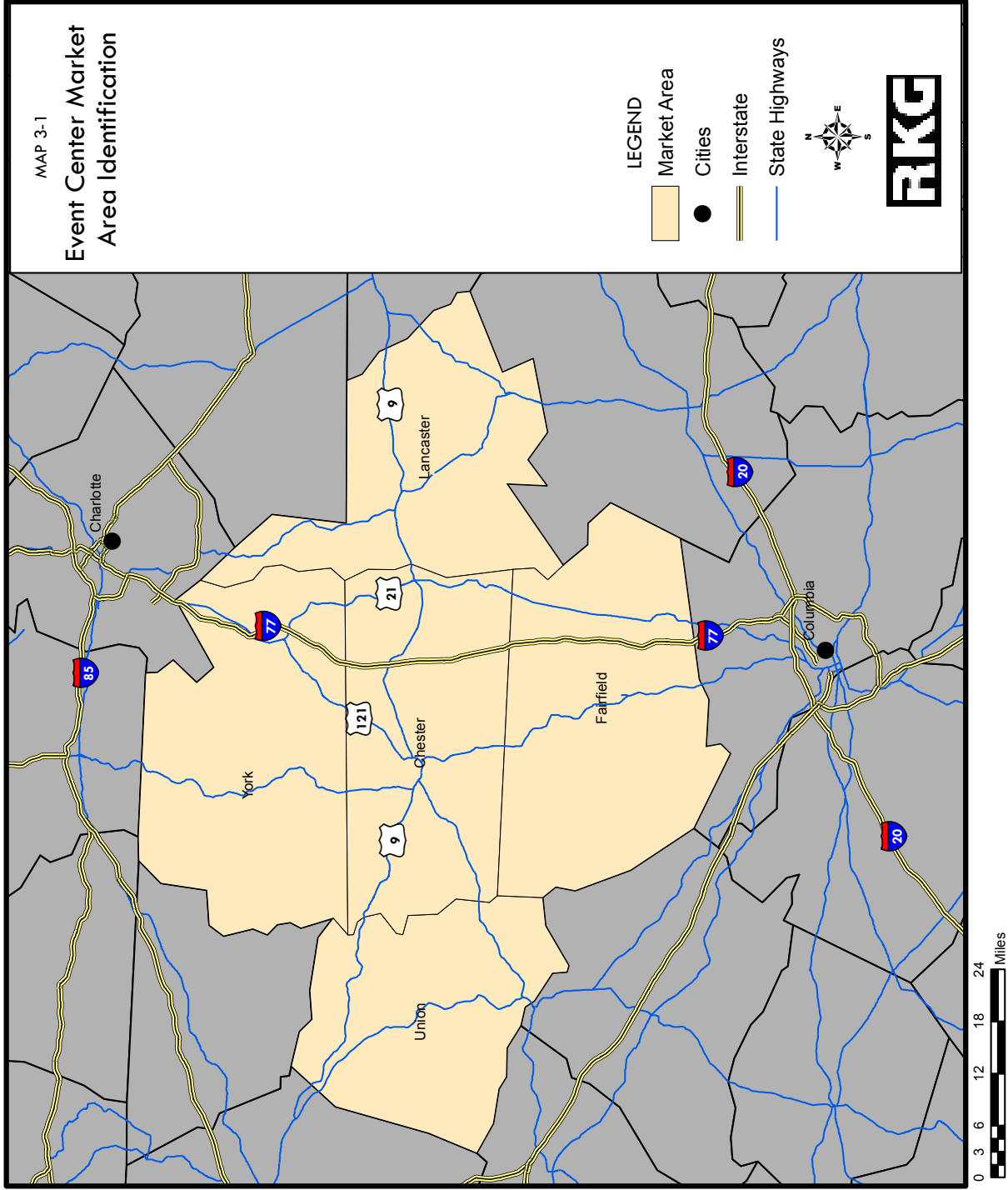
A new event center in Chester County will be limited in its ability to attract large-scale events (events hosting more than 500 to 1,000 attendees). This is due to market limitations surrounding Chester County and physical limitations of the Nourse Auto Mall. At a base level, the existing buildings are not large enough to accommodate such large groups. From a market perspective, Chester County does not offer the amenities or the access to larger facilities as those located in the regional centers of Charlotte, NC and Columbia, SC. To this end, the market area defined for this effort focuses on attracting small and mid-level events from a more regional market area. Based on the initial findings, the defined market area for an event center in Chester County includes York County, Chester County, Union County, Fairfield County and Lancaster County (Map 3-1). While the Consultant researched the potential to draw other opportunities from a larger market area, these counties provide the greatest opportunity for a consistent market base.

C. METHODOLOGY

This Chapter compares the current and potential demand for event space within the Chester County region, with the consideration of existing event space in the region. The demand for existing and new events in Chester County was measured through a detailed assessment of known market demand combined with a series of interviews with businesses and residents of Chester County. The businesses and residents shared their needs for additional event and convention space in the County. Meanwhile, information on the supply of event space was gathered from local governments in Chester County and the surrounding jurisdictions. This chapter concludes with a comparison between demand and supply and an assessment of the potential for a new event center in Chester County.

D. CURRENT MARKET DEMAND

The Consultant's research and interviews with businesses and residents in Chester County revealed that there is existing unmet demand for many types of events in Chester County. This section divides the demand for events into six separate categories and estimates the number of events that could take place in each category.



1. Celebratory Events

The greatest opportunity to capture unmet market demand within the study region is from celebratory events. Most notably, there is a substantial market for weddings within the Chester County region. Interviews with existing event facilities revealed two primary market opportunities. First, there is not enough venues within the region that can support a wedding larger than 250 to 300 guests. Couples seeking to hold this large of an event either have to plan an outdoor event or must travel to Charlotte or Columbia, providing an instant market opportunity for the proposed facility. Second, it was reported that the demand for smaller weddings (under 250 persons) is greater than the existing facilities can accommodate. It was reported that most facilities have to refuse business due to the excessive demand, particularly in the peak wedding season (April through September). As a result, a new event facility that can accommodate more celebratory events would complement the War Memorial Facilities. Its location at an interchange along I-77 makes it an attractive alternative for users considering competitive facilities. The potential for an adjoining hotel would increase the desirability of this facility, as it was reported that there are no sizeable event facilities with adequate hospitality facilities in the study region.

In addition to weddings, a new event center could serve other celebratory event niches. It was reported that the family reunion market is a well-established market segment in Chester County. The proms at the three local high schools, Chester County High School, Great Falls High School, and Lewisville High School are all held at the Baxter Hood Center, and a new event center would allow these proms to be held within Chester County.

2. Meetings, Training Classes and Other Corporate Events

Based on the research conducted for this effort, the predominant demand from local businesses would be for holiday parties and small events (less than 80 people). For example, there was an expressed interest in the space for small company functions for employees and/or quarterly and annual sales meetings. Other local businesses identified the potential for using the new event center space for training courses for small groups on a regular basis. In sum, current market demand from local businesses potentially translates into small 1-day events occurring once or twice a week. It is important to note that not all businesses will have an immediate plan to use the facility. Some respondents indicated they will continue to hold larger events in Rock Hill because there are more amenities in close proximity to the facilities located in there. However, there is potential for demand to expand once the facility is operational and more businesses recognize the benefits of using the event center.

There may be additional demand from people coming to visit businesses within Chester County. Local businesses, like the Insurance Institute for Business and Home Safety (IBHS), do not hold events. However, they host visitors who participate in meetings while visiting the facility and also attend (and plan) larger conferences. From October 2010 to present, 750 visitors in groups ranging from one person to 120 people have come to the IBHS facility as part of larger conference events. It was reported that these visitors (often from insurance companies and other organizations) hold conferences in the Charlotte region and then travel by bus to tour the IBHS for half a day. Therefore, while facilities such as IBHS may not have any direct use for the new event center, they may make their visitors aware of the convenience of the new event center and attract new events to the County.

3. Special Interest Events

Many different community organizations currently hold annual and semiannual events throughout the County and would hold larger events if there was available space. The demand for special interest events will come from organizations such as the Chester County Chamber of Commerce, the Arts Council, Ducks Unlimited, and other community organizations in Chester. The Chamber of Commerce, for example, has to cap attendance at their annual banquet at 236 people (the maximum capacity at

the War Memorial Building). However, it is believed that sufficient demand exists to expand the event if suitable space were available. Another potential user would be the Arts Council, which holds large fundraising and awareness events approximately once a month. Last year, three of the Arts Council's monthly events sold out, including the February Oyster Roast, a May concert, and the inaugural Evening in Greece event. The final example of a community organization needing additional space is Ducks Unlimited. Ducks Unlimited holds their annual membership meetings at the Armory. Last year attendance at this event exceeded 320 people, leading event organizers to consider finding a more accommodating venue. In addition, Ducks Unlimited has a local spring fundraising event, but given the size of local facilities, they do limited marketing for the event so as not to exceed the capacity of the facility they utilize. The limited space available at the Armory and the War Memorial curtails the size of events, while a new event center would allow for larger events.

The presence of a local, high quality, competitively priced event facility could prompt community organizations to stage new events and/or expand existing ones. Other opportunities mentioned include the potential for local organizations to host entertainment events as fundraisers or more formal local art/cultural/trade shows. Some respondents also mentioned the potential to host larger, more regional events with sister organizations if there was a conveniently located, well adorned facility that could accommodate larger gatherings.

4. Social Gatherings

Chester County is a very active community that hosts many social events for the community to enjoy. For example, the Rotary Club of Chester, the Chester Cotillion Club and the Assembly Club all host dances throughout the year. Rotary dances are popular events in the County, but the number of people that can attend a dinner dance is limited to 150 people at the War Memorial because of the space needed for the dance floor. The Chester Cotillion Club and the Assembly Club currently use the War Memorial for their annual debutant dances, but this venue is not optimal because the space is not well laid out to accommodate dances. The Assembly Club also normally hosts a second dance each year in addition to their debutant dance that is smaller and held at Leroy Springs.

Fundraisers are another popular social event in Chester County. For example, the YMCA holds a fundraising campaign and celebration event every year to finalize their fundraising effort. Last year's attendance at the YMCA fundraiser was approximately 150 people, and it was held in the gymnasium of a local church. A large, high quality event center may enable bigger fundraising events, and hence larger pools of potential donors could attend.

These examples reflect the potential to expand existing social events and draw additional events to the community. Simply put, the existing facilities in Chester County are not conducive to host the larger events and constrain the potential for local organizations to expand their event calendar. Therefore, there is potential that local organizers would create new demand for event space if the space was flexible enough to accommodate a range of layouts. The new event center offers the opportunity to deliver a facility that enables local groups to expand existing events, create new events with the potential to expand and customize their respective event calendars based on the greater flexibility of the three local venues.

5. Seminar/Conference Events

There is limited demand for seminar/conference events from existing organizations in Chester County. The Chester County EMS is one of the few organizations that could potentially host regional seminars locally. Currently, the EMS holds a large training seminar and at least one vendor training session for their 70 employees. In the future, the Chester County EMS could host one or two training seminars per year for themselves and other local EMS departments. Last year Chester County EMS attended a methamphetamine lab awareness event in Lancaster County since there was no place in Chester

County to hold such an event. If there was a more facility in Chester County, the EMS and possibly other organizations in the County could hold seminars in the County.

Beyond the local market, there is an opportunity to attract smaller regional events to a new event center, including the many annual and semi-annual events held by state entities. The South Carolina state conference circuit holds events that change locations each year. These events include the South Carolina Department of Commerce Economic Development Institute, the South Carolina Rural Summit, the South Carolina Municipal Association, and the South Carolina County Association. These state entities and associations hold events in all parts of the state to expose members to different parts of the state and to more equitably distribute the travel burden. Currently, there is no space to hold these types of events in Chester County. An event center at this location in Chester County with the appropriate amenities (i.e. audio-visual aids) and size (to host a larger group) could become one of the “stops” for these events. Respondents indicated that the potential for seminar/corporate events will increase if a business-class hotel is developed as part of the site.

6. Destination Events

The existing Evening in Greece event is a good example of a destination event. The inaugural Evening in Greece event was held last year, and it is expected to be held again. Last year’s event attracted visitors from Chester County as well as from the greater Chester region and as far away as Columbia and Charlotte. Given the County’s ideal location directly between these two cities, there are opportunities to develop additional destination events. The Nourse Auto Mall site is flanked by several acres of undeveloped land. If the County could negotiate the use of this land, the potential for larger regional destination events would increase. Some ideas mentioned through this effort include a regional farmers market/sustainable agriculture event and outdoor music festivals/events. The proposed event center would serve as the hosting facility and headquarters for the administration and operation of these events. While this opportunity is more speculative than the other demand segments, there is no existing location or facility that can accommodate these uses in the County. The ideal location along I-77 also increases the potential for these events, given their visual connection for interstate travelers.

E. CURRENT SUPPLY SIDE ANALYSIS

The new proposed event center will have to compete for event bookings with many other facilities in Chester County, York County and the surrounding region. The facilities in Chester County are significantly smaller than the new proposed 21,000 square foot event center. In contrast, York County has a far greater supply of larger conference and event center space than Chester County. There are already two facilities in York County of comparable size, and one facility that is larger (at 40,000 square feet). The main competition for the new event center for large scale events is spaces in York County.

1. Chester County

The main Chester County facilities that will be competing with the proposed new event center for customers are the Chester County War Memorial building (here and after called the “War Memorial”) and Leroy Springs. There is also a local National Guard Armory and the Great Falls War Memorial building, but it was reported that these facilities are not positioned to compete with an upscale, modern event center. The Great Falls War Memorial, for example, only hosted seven events in the past year. Both the War Memorial and Leroy Springs are much smaller than the new proposed event center and are meant for smaller events. The War Memorial has a capacity of 236 people, while the meeting room at Leroy Springs can accommodate up to 200 people for certain events. Chester County Economic Development provided detailed data on the types of events held in both 2009 and

2010 at the War Memorial (Table 3-1). However, detailed information on the Leroy Springs meeting room is not available.

At the War Memorial there were a total of 42 events in 2009 and 47 events in 2010. The types of functions held in the facility were relatively consistent from 2009 to 2010 (Figure 3-1). The two-year average indicated that about 33% of the events were Wedding Reception/ Anniversary parties, followed by 17% ‘other’ events and 13% birthday parties.¹ Dance and reunion events each comprised another 11% of the events, and the remaining categories each totaled less than 10% of the events. There were only a few employee events each year. Overall, events at the War Memorial are private parties and community social gatherings and a limited number of business events.

For each event at the War Memorial, there is a requirement that the user hire two off-duty commissioned officers. The user can make arrangements through the Chester County Sheriffs’ Office or the City of Chester Police Department to hire officers. This became a rental requirement after security issues arose at several events held at the War Memorial.

**Table 3-1
War Memorial
Chester County, 2009 and 2010**

Type of Function	Number of Events		Total Attendees [1]	
	2009	2010	2009	2010
Banquet	6	3	995	626
Birthday Party	4	8	520	880
Employee Events	2	1	90	0
Dance	4	6	675	1,040
Reunion	5	5	725	290
Wedding Reception/Anniversary	15	14	2,988	2,425
Political Convention	0	1	0	400
Other	6	9	899	985
TOTAL	42	47	6,892	6,646

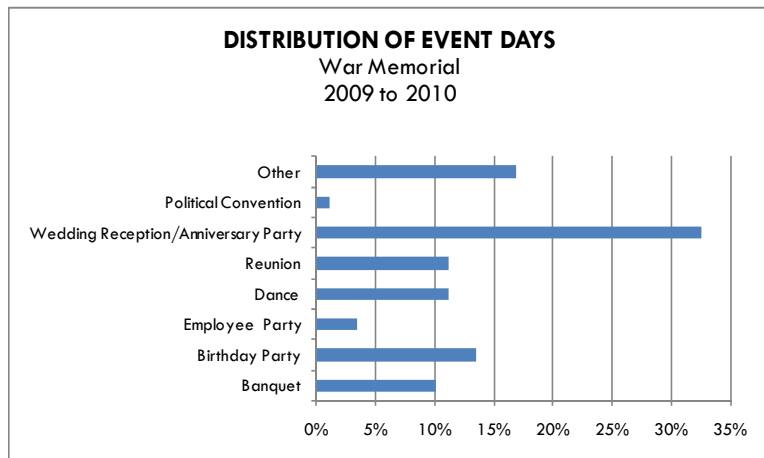
Source: Chester County Economic Development and RKG Associates, Inc., 2011
[1] For events with attendance estimates

Once of the reasons that the County is interested in turning the former Nourse Auto Mall into an event center is that the space at the War Memorial is not optimal for all types of events. The multi-level layout and the limited elevator space make it hard to move people and supplies between the two floors. The War Memorial is also too small for some of the events that local groups would like to hold.

2. York County

In York County there are numerous event facilities. This analysis focuses on seven event facilities located in Rock Hill, Fort Mill and Tega Cay that can be considered the most competitive with the new event center

FIGURE 3-1



Source: Chester County Economic Development and RKG Associates, Inc., 2011

¹ The other events category includes unique events that did not fit into the other categories. Examples include a Speakers Bureau for the Arts Council, the Chester County Historical Society Annual Meeting, and a public party.

concept. Table 3-2 provides information related to the square footage, capacity, parking, number of break out rooms and other amenities at each of these event facilities. Some of these event spaces are designed mainly to hold business meetings like the Baxter Hood Center at York Technical College, while the design of other facilities favors social gatherings like the Anne Springs Close Greenway Dairy Barn and Hightower Hall.

One of the best facilities for business meetings and events in York County is the Baxter Hood Center at York Technical College. This facility contains approximately 40,000 square feet of space, with the largest room being 8,500 square feet. This room can hold between 500 and 1,000 people depending on the setup of the room. There is onsite parking available and the Center has all of the basic amenities including breakout rooms, telecom, catering and medical/security services. The only amenity that the Center does not have is an onsite hotel, which limits the number of multiday events. The Center holds both internal events for York Technical College and external events when the space is available. The Center held 1,900 total events last year and regularly turns away approximately 1,000 events each year due to scheduling conflicts.

Two of the prime spots for social gatherings in York County are the Anne Springs Close Greenway Dairy Barn and Hightower Hall. The Dairy Barn is a renovated 6,400 square foot dairy barn in Fort Mill. The Dairy Barn has two meeting rooms and can accommodate events for up to 400 people. The other preferred place for social gatherings is Hightower Hall, an old mansion that has been renovated. Hightower Hall is a 4,000 square foot facility in Rock Hill that can hold up to 350 people. A veranda and beautiful grounds surround the mansion. On good weather days, weddings and other social events can spill outside. The Dairy Barn and Hightower Hall are well-designed spaces for social gatherings, each with their own style.

York County has a range of events spaces to meet many of the needs of York County residents and customers coming from Charlotte. There are small meeting spaces in local hotels, spaces for large business meetings with a high level of amenities, and spaces for beautiful weddings and fundraising events. A new event center in Chester County would draw limited demand from York County, mainly events from places like the Baxter Hood Center where customers are turned away because the space is already filled, and from customers looking for a more competitive price point.

3. Pipeline Development

There is one possible new multi-use events center that may be built in York County. The York County Council has formed a committee and performed an initial feasibility study for a proposed multi-use event facility. This event facility is proposed to be an agro-tourism center built to serve events such as equine/livestock competitions, concerts/festivals, consumer/tradeshows, and community events.² The County would like to locate this multi-use events center on a site in the middle of York County between Fort Mill and Rock Hill, but York County has yet to purchase a site. The new event center in Chester County, as it is conceived, would only complete with the proposed York County agro-tourism center for concerts/festivals and community events. Events such as the equine/livestock competitions and the types of agricultural consumer/tradeshows that could possibly be held in York County are not consistent with the potential layout and vision for the proposed Chester County event center. Therefore, it is likely the new agro-tourism center in York County would have a limited impact on the demand for rentals at the proposed Chester County event center.

² Market/Financial Analysis for a Proposed New Multi-Use Event Center for York County, South Carolina. August, 2009. <http://www.yorkcountygov.com/LinkClick.aspx?fileticket=gwZdsB3h83k%3d&tabid=188&mid=1751>
Accessed June 15, 2011.

**Table 3-2
Event Facilities
Chester and York County, South Carolina**

Name	City	Description	Square Footage	Capacity (people)	Parking	Breakout Rooms	Hotel Rooms, On-Site	Telecom	Catering	Security Services	Medical/	Additional Amenities
CHESTER COUNTY												
War Memorial Building	Chester	Banquet Hall	3,360	236	No dedicated parking	N/A	N/A	unknown	No	No	No	
Leroy Springs	Chester	Meeting Room	unknown	Up to 200	Yes	N/A	N/A	unknown	Yes	unknown		Golf Course
Great Fall War Memorial Building	Great Falls	Banquet Hall	2,675	168	Yes	N/A	N/A	No	No	No		
YORK COUNTY												
Baxter M. Hood Center	Rock Hill	Technical College Event Center	40,000	600 to 1,000+	400 vehicles	10	N/A	Yes	Yes	Yes		
Hightower Hall	Rock Hill	Renovated Mansion	4,000	100 to 350	Yes	unknown	N/A	unknown	Yes	No		Veranda and grounds
Anne Springs Close Greenway Diary Barn	Fort Mill	Renovated Diary Barn	6,400	20 to 400	Yes	1	N/A	No	Yes	No		Theater
Museum of York County	Rock Hill	Auditorium, Elephant Hall, Classroom, and African Hall	6,700+	varies, max 225	Yes	N/A	N/A	unknown	Limited Kitchen Access	Yes		
Tega Cay Golf Conference Center	Tega Cay	Conf. Center by golf course	23,000	500	Unknown	3	N/A	unknown	Yes	unknown		
The Pointe	Fort Mill	Christian Conf. Center	27,000	5,000	Yes	5	N/A		unknown	unknown		Stadium seating
Hilton Garden Inn	Rock Hill	Hotel with meeting space	3,500	240-402	On-site	3	127	Yes	No	unknown		Patio

Source: York County, Chester County Economic Development, RKG Associates, Inc., 2011

There is also a long-term plan for another conference/event center in the Town of Fort Mill. The Town of Fort Mill has signed a development agreement to annex at least 3,000 acres to the Town for new development. The plan is for the annexed land to be built out over 20 years, with the option to renew for another 20 years. The plan for the site calls for one or two hotels and a convention/event center along with other development. To date, no development has occurred on the site. As reported by the Town of Fort Mill Planning and Zoning Department, the timing of the build out of this site is dependent upon the site receiving a “Certificate of Need” for a hospital. If the State of South Carolina allows a hospital on the site, development on the site will start soon. Otherwise, development will take longer to occur. Simply put, an event center/conference center on this site in Fort Mill probably will not occur for at least another ten years. Therefore, it will not compete with the Chester County event center in the near term.

Within the near future, there are no other planned or proposed event centers in Chester County, York County or the City of Rock Hill.

F. MARKET IMPLICATIONS

The analysis indicates that there is unmet market demand for a new event center in Chester County. Most notably, a new event center has the opportunity to capture celebratory events in each of the demand categories including celebratory events, meetings, training classes and other corporate events, special interest events, social gatherings, seminar/conference events, and destination events. Estimates of the annual number of events in each category include 40 to 60 celebratory events such as weddings, family reunions and proms. This level of demand will be generated from weddings currently held outside of Chester County, weddings and family reunions currently held at the War Memorial that would prefer a larger venue, and three annual proms. An additional 20 to 40 full-day and 40 to 60 half-day Meetings, Training Classes and Other Corporate events could be held at the new event center. The demand for these full-day and half-day corporate events will come from small company functions for employees and/or quarterly and annual sales meetings. The last major source of demand is for 10 to 20 Special Interest events like those held by the Chester County Chamber of Commerce, the Arts Council, Ducks Unlimited, and other community organizations in Chester. The remaining demand for small events is as follows:

- Social Gatherings – 5 to 15 events
- Seminar/Conference Events – 3 to 5 events
- Destination Events – 2 to 3 events

With the War Memorial Building and the new event center under the same management, the management can direct prospective customers toward the space that will best suit their needs. Other users including the South Carolina state conference circuit will consider relocating events typically held outside of Chester County to the new event center. The market for Seminar/Conference and Destination events is very limited in the short-term, but could expand as large events are successfully staged at the new event center and its’ reputation grows. The financial feasibility of a new event center will be analyzed in Chapter 5.

4 REGIONAL HOTEL MARKET ANALYSIS

A. INTRODUCTION

Hotel market trends and projections for the area influence the market potential for a new limited-service business-class hotel in Chester County. This section includes information on the existing conditions and planned and proposed hotels for two competitive markets, the local competitive market and the regional competitive market. The local competitive market includes all of the hotels at Interchange 65 along I-77 in Chester County, and the regional competitive market encompasses the limited-service business-class hotels in the City of Rock Hill in York County at Interchange 79 along I-77 (Map 4-1). The current viability of the hotels in the local and regional competitive markets provides insight into whether a new hotel in Chester County could be successful.

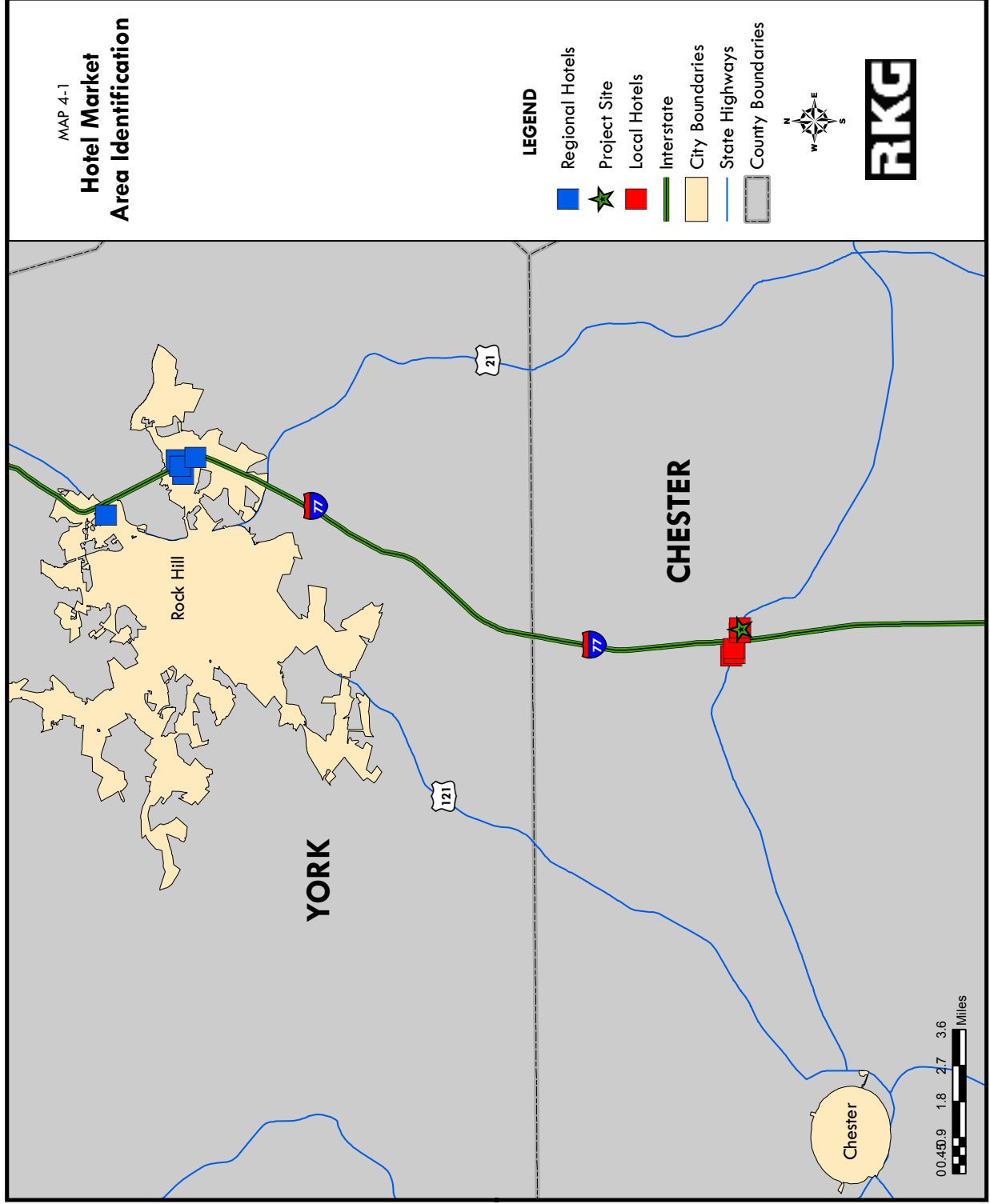
A limited-service business-class hotel is a hotel that does not provide formal dining service, but is designed to serve the needs of business travelers. To cater to business travelers, this style of hotel offers a range of amenities such as complimentary high-speed internet, self-serve breakfast, laundry services and an exercise room. The exact features present in the proposed new hotel will depend upon the selected 'flag' and operator preference. A limited-service business-class hotel is appropriate for Chester County because it aligns with an unmet segment of the local market demand, serving the needs of event center users and business travelers better than the existing economy class hotels. Limited-service business-class hotels also tend to operate more efficiently, mitigate risks and generate higher revenues by avoiding the high overhead costs of operating a full kitchen.

B. MARKET AREA IDENTIFICATION

The market area of the limited-service business-class hotel is different from the market area identified for the event center. A new limited-service business-class hotel at Interchange 65 along I-77 will draw its potential customers from four distinct markets: [1] the existing demand patronizing Chester County hotels; [2] the existing business-class hotels in Rock Hill and Fort Mill; [3] growth of traffic along I-77; and [4] new demand generated by local businesses and events within Chester County. The potential to capture some of this customer base will determine the feasibility of a new limited-service business-class hotel.

C. EXISTING MARKET CONDITIONS

Understanding the existing hotel market in Chester County will help to determine the potential for an additional hotel. Important data points that determine the market viability of hotels include occupancy rates, average daily rates, and trends in revenue per available room (RevPAR). The existing conditions data comes from Smith Travel Research (STR), a leading provider of hotel data. The data helps to determine whether the current supply of hotel rooms meets the demand, or if there is an opportunity for additional hotel rooms in the market.



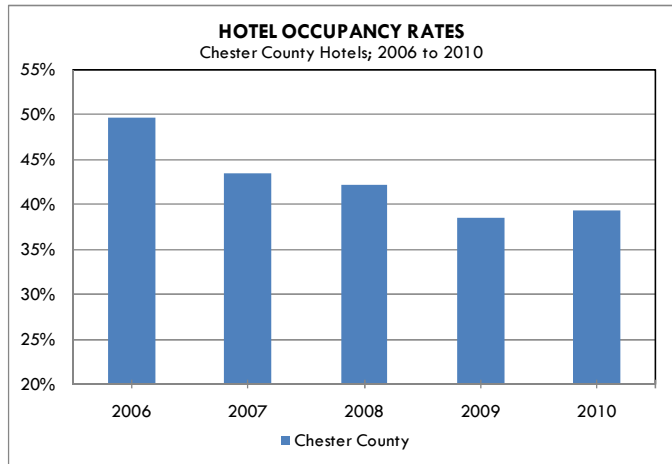
1. Local Competitive Properties

There are five hotels at Interchange 65 along I-77 that currently serve Chester County and will compete with the new proposed hotel for customers. The existing hotels are economy class or midscale class without food and beverage service hotels and include the Econo Lodge, Motel 6, Days Inn, Super 8 and the Comfort Inn. Combined, these hotels contain 303 rooms. The new proposed hotel is envisioned to be a higher-class hotel and would be an alternative for customers seeking an upgraded hotel experience similar to offerings in Rock Hill.

a.) Annual Occupancy Trends

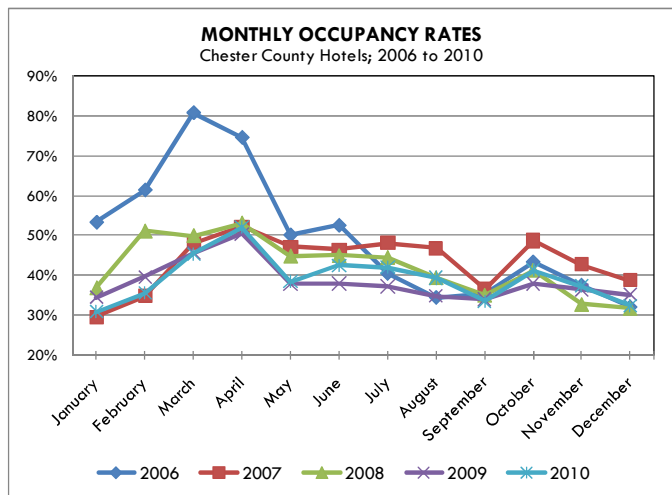
Occupancy at these Chester County hotels varies by month and day of week. Industry standards dictate that occupancy at existing hotels typically needs to exceed 60 percent before investors will consider developing a new hotel in the market. The annual occupancy rate for this hotel cluster was highest in 2006 at 49.6% before falling in 2009 to 38.4%. The annual occupancy rate rose slightly in 2010 to 39.2% (Figure 4-1). The decrease in occupancy is probably the result of the overall national economic decline as well as the addition of the new limited-service business-class hotels that opened in Rock Hill in 2008 and 2009 (detailed later in this chapter). At a base level, this data indicates that there is not a need for a new hotel. However, these existing hotels are of a lower class than the proposed limited-service business-class hotel. More budget-minded facilities can operate at a lower occupancy level due to their reduced overhead and limited offerings of amenities. Furthermore, the performance of the existing local hotels is not indicative of the market potential for a new, higher-end hotel. For example, drive-by traffic on I-77 may bypass Chester County, opting to stay in Rock Hill at one of the several hotels in this class.

FIGURE 4-1



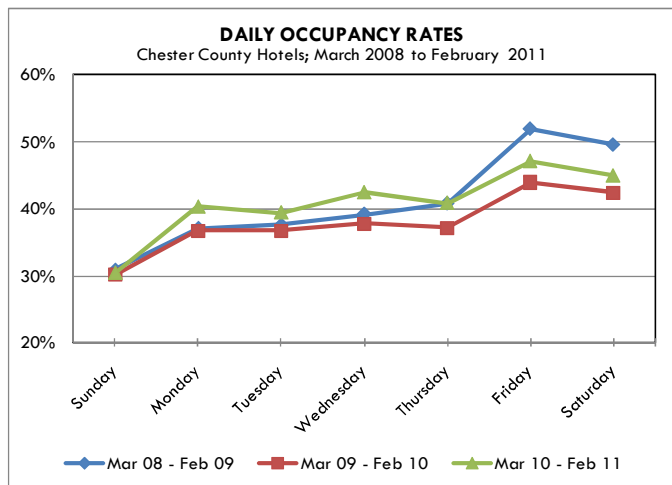
Source: STR and RKG Associates Inc., 2011

FIGURE 4-2



Source: STR and RKG Associates Inc., 2011

FIGURE 4-3



Source: STR and RKG Associates Inc., 2011

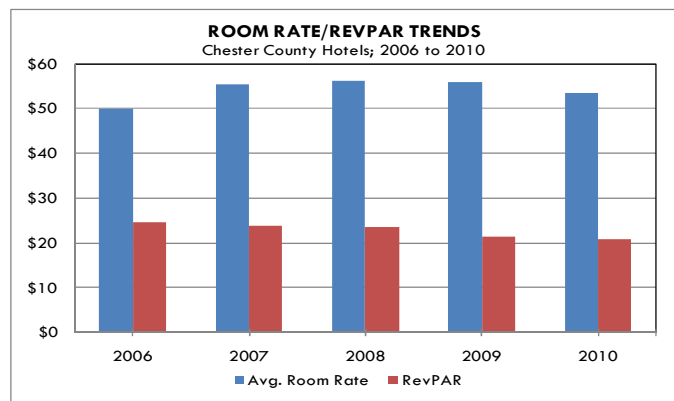
b.) Monthly/Daily Occupancy Trends

The monthly occupancy rate for this cluster of hotels was lower in 2009 and 2010 than in the prior three years, with the exception of the months of November and December (Figure 4-2). Occupancy over the last five years has been highest between March and April and lowest in December and January. Since 2007, the occupancy rate has not risen above 54.0% for any given month.

These Chester County hotels are more crowded on the weekend than during the week. The daily occupancy data shows that occupancy is lowest on Sunday night and then rises to a consistent rate between Monday and Thursday before peaking on Friday and Saturday (Figure 4-3). This pattern shows that the customers are mainly leisure travelers who are either driving along I-77 on the weekends or are seeking tourist activities in Chester County and surrounding region with a smaller, but steady weekday demand (e.g. road construction crews).

c.) Room Rate Trends

The room rate reflects a hotel's competitive position and quality. The selected hotels at Interchange 65 in Chester County all have a limited number of amenities in the individual rooms and throughout the hotel. The average room rate is low, ranging from \$50.18 in 2006 to a high of \$56.50 in 2008 (Figure 4-4). The modest room rate trends for Chester County hotels are consistent with the quality and amenities offered both on-site at the hotel and off-site at Interchange 65. Simply put, customers are only willing to pay a certain amount for budget-level hotels that do not have a substantial level of support services close by. The reported rent levels are reflective of the quality of the hotels.



Source: STR and RKG Associates Inc., 2011

d.) RevPAR Trends

RevPAR stands for revenues per available room and is calculated by dividing the total revenue from the hotel by the hotels total capacity. RevPAR is a measure of a hotel's efficiency. For example, a 100-room hotel has 36,500 annual room-nights (100 rooms times 365 days per year). If the hotel has an occupancy rate of 50% (18,250 room-nights) and gross revenue of \$1.825 million for a given year, then its average annual room rate would be \$100 and its average annual RevPAR would be \$50. The RevPAR measure goes beyond the average room rate and takes into consideration the revenue lost when room is left unoccupied.

The RevPAR was highest in 2006 at \$24.89, decreasing each year to \$21.06 in 2010. The decline in RevPAR, coupled with the increasing room rates, suggests that the market is sensitive to price changes for the budget-level hotels. This finding is consistent with earlier assessments that the economic downturn coupled with the growth in competition from limited-service business-class hotels in Rock Hill has adversely affected the hotels at Interchange 65. The combination of decreased efficiency and increased competition is a testament to the financial structure of the existing hotels. However, it does not necessarily indicate there is no potential for a new limited-service business-class hotel at the Nourse Auto Mall site. Rather, the relatively strong market performance of similar hotels in Rock Hill (discussed later in this chapter) is a testament to the growing market demand for higher-end supply.

e.) Development Trends and Pipeline Projects

There has been no activity in lodging development near Nourse Auto Mall. The last hotel to open in the local study area was in May 1999. This 62-room hotel was renovated and became a Motel 6 in July

2010. Chester County’s Building and Zoning Department has not received plans or issued permits for any hotel projects. Therefore, a new hotel at the proposed site would not have additional competition beyond the existing facilities. This finding is consistent with the market data that indicates that occupancy rates are low in Chester County, and that occupancy fell from 2006 to 2009.

2. Regional Competitive Properties

The reason for including data on regional, limited-service business-class hotels is that the proposed new hotel would be in the same class, and hence would compete more directly with existing regional hotels for business customers than with the economy class hotels at Interchange 65. In addition, because the hotels are only a short distance away along I-77, potential customers driving along I-77 have a choice in location. The six regional hotels included in the analysis are the Holiday Inn, Towne Place Suites, Wingate by Wyndam, Hilton Garden Inn, Country Inn and Suites and Hampton Inn. The Holiday Inn and Towne Place Suites did not open until September 2009 and July 2009, respectively, so data for these two hotels is only available from July 2009 to February 2011. Smith Travel Research (STR) the data provider would not provide earlier data for the smaller subset of hotels due to confidentiality concerns, as a result the analysis focuses on the past two years.¹

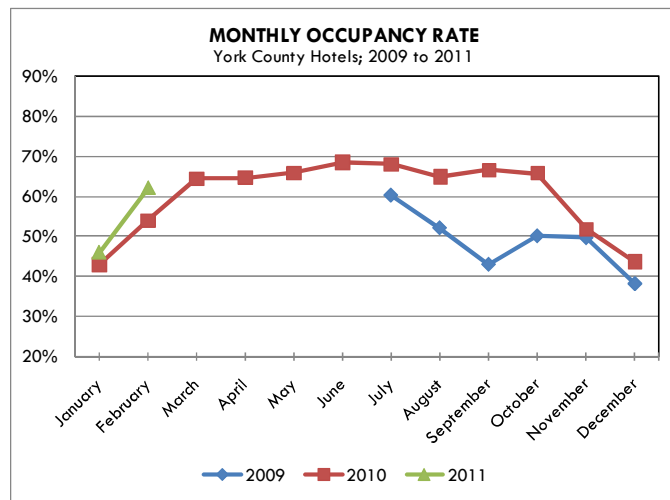
a.) Annual Occupancy Trends

The annual occupancy rate for the selected hotels was 60.2% for the year 2010, the only full year for which data was available. Through February of 2011, the occupancy rate for these hotels is 53.6%. Although it is lower than the annual average for 2010, it actually reflects a full 5.4% increase over the year-to-date for 2010 of these hotels (48.2%). Assuming no unexpected economic shifts occur during the rest of 2011, occupancy of these hotels should reach or exceed 65%. This finding indicates that market demand is strong among travelers seeking a more amenity-rich hotel experience than currently exists at Interchange 65 in Chester County. As a result, a single limited-service business-class hotel at the Nourse Auto Mall site likely will capture some of this market, including capturing business away from the Rock Hill properties. This facility will be a particularly attractive if it can be priced competitively to the Rock Hill facilities.

b.) Monthly/ Daily Occupancy Trends

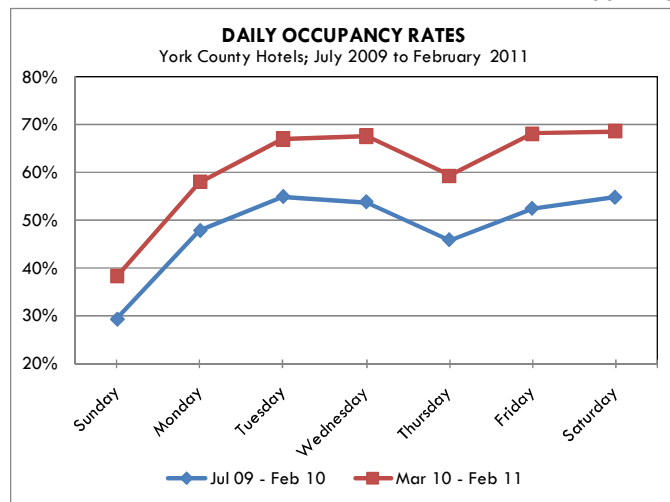
The Rock Hill study area is a “three season” market. Hotel occupancy is lower in the winter than in any other season. The monthly occupancy data for

FIGURE 4-5



Source: STR and RKG Associates Inc., 2011

FIGURE 4-6



Source: STR and RKG Associates Inc., 2011

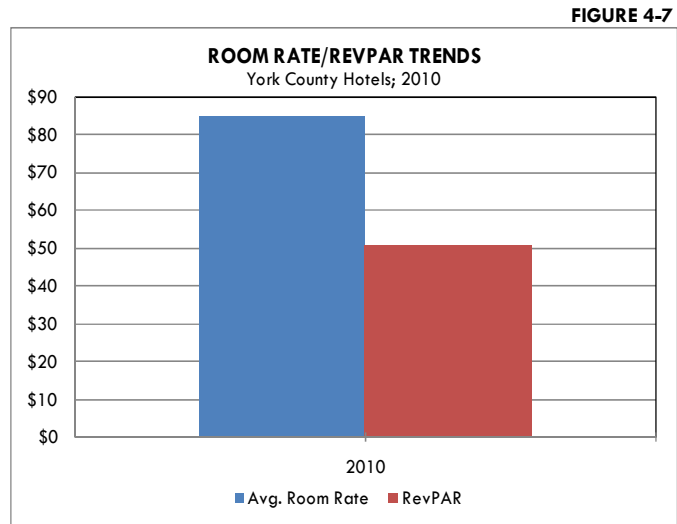
¹ STR sets limits on the lowest number of hotels for which it will provide data so that the data for an individual hotel or hotel chain cannot be distinguished.

2009-2010 shows that occupancy was lowest in November, December, January and February and relatively high from March through October (Figure 4-5). The occupancy in 2009-2010 was lower than in 2010-2011 across all of the recorded months. The lower 2009 occupancy levels likely resulted from the delivery of the two new hotels that came online in July and September 2009. The addition of these facilities temporarily lowered occupancy rates among these selected York County hotels.

The daily occupancy data indicates the Rock Hill market caters to both leisure and business travelers peaking on Tuesdays and Saturdays (Figure 4-6). Occupancy remains high both midweek and on the weekends, demand falls off on Sundays and Mondays as leisure travelers leave and before business travelers arrive. This finding indicates an opportunity for the Nourse Auto Mall facility, with the potential to draw local business travelers back out of Rock Hill.

c.) Room Rate/RevPAR Trends

As mentioned, the available trends data is limited due to the disclosure policies of STR. As a result, data is only available for the competitive hotels for 2010. The average room rate in 2010 was approximately \$85, while the RevPAR was slightly above \$50 (Figure 4-7). These room rates are significantly higher than at the local hotel in Chester County, and the RevPAR is nearly twice that of local Chester County hotels. As mentioned, the relative strength of the limited-service business-class hotels in the region is a good indicator that a similar hotel at the Nourse Auto Mall site would fare better than the more budget-class facilities that already exist in the vicinity.



Source: STR and RKG Associates Inc., 2011

d.) Development Trends and Pipeline Projects

New hotels have been built within the market area over the last five years and this trend is expected to continue. The most notable hotels completed in the last five years are concentrated in Rock Hill and consist of the new Holiday Inn, Towne Place Suites, and Americas Best Value Inn. The two new planned hotels, however, are proposed for Fort Mill and not Rock Hill. There is continued discussion about the possible redevelopment of the old abandoned hotel at the Heritage USA Christian Theme Park in Fort Mill, although there are no definitive plans for the site.² The two planned hotels in Fort Mill on Carolina Place at Interchange 88 along Highway 77 according to the Fort Mill Planning Department.³ The first hotel on Carolina Place broke ground, but construction has been delayed due to financing. The second hotel along Carolina Place is expected to be approved in the next two weeks. The Fort Mill Planning Department did not provide room counts for either of these two new hotels. The new hotels at Fort Mill could be completed prior to the completion of a new hotel in Chester creating additional competition. This situation is particularly true for the customer base generated by I-77 traffic. However, because Fort Mill is about 30 miles north of Chester, and north of Rock Hill, customers coming specifically to Chester County will not see the new hotels in Fort Mill as a viable alternative to staying in Chester.

There are no new hotels planned in the immediate future in unincorporated York County, Chester County or within the City of Rock Hill.

² Interview. York County Development Coordinating Center. April 11, 2011.

³ Interview, Fort Mill Planning Department. June 16, 2011.

D. GROWTH IN DEMAND

The Consultant calculated both a conservative and an aggressive estimate of the total hotel room demand at this site in Chester County (Table 4-1). Both estimates contain the same categories of demand. In total, the hotel room night demand amounts to between 14,242 nights to 20,002 nights for a conservative and aggressive estimate, respectively.

1. Local Capture

The category local capture refers to the demand for rooms that the new proposed limited-service business-class hotel will capture from the existing market Interchange 65 on I-77. Based on past performance of local hotels and the growth occurring in the Rock Hill market, it is reasonable to project that a new limited-service business-class hotel would be successful at attracting some of the existing demand in the market. The new hotel will be able to capture some of the existing demand because it will offer a higher quality hotel experience as a reasonable price. The Consultant's experience indicates that a new facility will capture 15% (conservative) to 20% (aggressive) of existing local demand. To this end, a conservative capture estimate of 15% of the demand that currently stay in hotels at the Chester interchange will stay at the new hotel (6,498 room nights) a more aggressive estimate increases the capture rate to 20% (8,664 room nights).

2. Rock Hill and Fort Mill Capture

The second category, the Rock Hill and Fort Mill capture, is in reference to the demand for limited-service business-class hotels in Rock Hill and Fort Mill that will be redirected to the proposed new business-class hotel in Chester County. The Consultant estimates that the new hotel will need to be competitively priced to attract business away from Rock Hill. However, this is achievable

Table 4-1
Hotel Room Night Demand

	Conservative	Aggressive
Local Capture	6,498	8,664
Rock Hill and Fort Mill Capture	6,972	10,457
New Events		
Events Center	375	425
Weddings	340	340
I-77 Traffic	58	116
Total	14,242	20,002

Source: South Carolina Department of Transportation, STR, RKG Associates, Inc., 2011

given the average room rate for the competitive properties are exceeding \$85 per night. Based on the assumption that the new hotel at the Nourse Auto Mall will be priced competitively, the Consultant estimates the new hotel can capture between 5% (6,972 room nights) and 7.5% (10,457 room nights) of the demand currently being captured at the competitive facilities in York County.

3. I-77 Commuter Traffic

According to the South Carolina Department of Transportation, the traffic along I-77, at S.C. 9 and S.C. 901 has increased by 10.7% over the last five years, from 2006 to 2010. The Consultant assumes that the traffic will continue to increase at a similar rate and estimates that about 5% of the new travelers will need to rent a hotel room. In the experience of the Consultant, a new hotel can capture a significant portion of new traffic demand. The capture rate can range from between 25% (conservative) and 50% (aggressive). The conservative estimate shows the proposed new hotel in Chester County capturing 25% of the new hotel room demand, or 58 room nights, and the aggressive estimate indicates that the proposed new hotel in Chester County will capture 50% of the room nights, or 116 room nights.

4. New Events

Finally, the new events category includes the demand for hotel rooms from the multiday events and weddings that there also will be held at the new event center. As shown later in Chapter 5, it is estimated there will be one, three-day event, and three, two-day events at the event center annually. The conservative estimate shows that these events will occupy 75 hotel rooms each night (375 room night for multiday events), and the aggressive estimate shows all 85-hotel room nights being occupied for each event (425 room nights for multiday events).

There will also be additional weddings at the new event center. Chapter 5 estimates the number of full-day events on Fridays and Saturdays in the ballroom at the new events center. The Consultant assumes that about 30% of the full-day events on Fridays and Saturdays are weddings, the same percent of total events that were weddings at the War Memorial Building in 2010. Next, the Consultant estimates that each wedding will result in 30 hotel stays. Thus, there will be about 340 room nights each year generated by weddings held in the new ballroom.

In addition to the demand included in the Table, there will be few supplementary demand generated from the Insurance Institute for Business and Homes Safety (IBHS). The IBHS has only been open in Chester since October 2010, so the amount of demand and the type of demand is unknown at this time. The information available indicates that the main source of demand for room nights in Chester County would be from both academics and government officials who travel to IBHS to conduct research or learn about new technologies. These two groups would probably value a new, quality hotel in Chester County because they are often on strict budgets and would want to be close to the IBHS. The other visitors to the IBHS, including the IBHS Board of Directors, reinsurance representatives and insurance representatives, would probably not utilize a new hotel in Chester County. It was noted that visitors often times would prefer to stay closer to downtown Charlotte or are forced to stay at a particular hotel chain due to existing corporate partnerships. Simply put, the IBHS will generate some demand for hotel rooms in Chester, but there is insufficient data to estimate the precise number of room nights generated.

E. MARKET IMPLICATIONS

The relatively modest performance of hotels currently operating at Interchange 65 in Chester County is not indicative of the market potential for a new limited-service business-class hotel. Although the market performance of the existing local hotels does not justify the need for a new hotel at the Nourse Auto Mall site, so the difference in type of the existing hotels from what is being proposed makes a direct comparison impractical. As mentioned, the market data for the limited-service business-class hotels in Rock Hill suggests that consumers are opting to bypass Chester County in favor of more upscale facilities. Interviews with local business leaders confirmed this finding, as many Chester County businesses use Rock Hill hotels to accommodate their hospitality needs for visiting executives and short-term workers. A new limited-service business-class hotel in Chester County at the Nourse Auto Mall site likely will capture a portion of the existing demand from both local hotels as well as the similar facilities in Rock Hill. The extent of this capture will be determined by the price competitiveness of the new hotel. Furthermore, the Consultant's analysis of growth in local demand due to traffic and new events being held at the propose event center could add between 773 and 881 more room-nights of demand in Chester. Given the new hotel will be adjacent to the event center, almost all of this demand likely will be captured at the new hotel based on convenience alone.

5 EVENT CENTER FINANCIAL ANALYSIS

A. INTRODUCTION

An operational assessment was performed to appraise the programs, services, and activities presumed to be offered at the event center. This assessment was conducted to illustrate the results of facility operations based on informed, pro-active decisions intended to generate sufficient operational revenue to offset operational costs. The analysis includes detailed information on the revenue from the proposed event center ballroom, meeting/breakout rooms, and the existing Chester County War Memorial building. The Great Falls War Memorial building is not included in the financial analysis because of the minimal number of reported events held there each year. If the rental activity at the Great Falls War Memorial were to rise in the future, the money collected from these additional rentals would increase the amount of revenue transferred to Chester County.

B. METHODOLOGY

This operational summary and accompanying financial impact analysis is based on a balanced approach emphasizing an entrepreneurial style of management and progressive activation of the facility via sound business practices. Although adhering to outcome based business practices in which cost avoidance can equate to revenue generation at the bottom line, revenue generation through innovative, market-based strategies is deemed a more viable option than severe cost cutting, and is more consistent with the local vision of a high-quality, high-end facility.

It is important to understand that the event center feasibility analysis does not include the approximately \$1.8 million that the County would have to pay for the property if it is purchased in 2012 or the rehabilitation and facility design, improvements, and finish-out (FFE) costs of the facility. The analysis covers only the revenues, operating expenses and contributions to the annual capital maintenance fund. Simply, put, the analysis focuses on the day-to-day operations of the event center, and assumes that the purchase and renovation of the Nourse Auto Mall are sunk costs.

C. OPERATIONS SUMMARY

1. Financial Impact

The operational analysis encompasses the event center's overall assumed performance and the comparison to the established baseline of break-even operations. Operating in a competitive market requires flexibility and an entrepreneurial approach by management and staff in regards to the activation of the event center. Major operating guidelines and assumptions that were utilized in analyzing the financial impact of the event center, and must be met in their entirety for the projections to be representative of the actual operations, include:

- Management and Staffing Assumptions
 - The staff hired to manage and operate the events center will be direct employees of Chester County Economic Development (CCED).

- The existing CCED staff will not be responsible for the management and operations of the event center, but rather additional staff will be hired within the department to handle the event center.
- The event center will be developed independently of a limited-service business-class hotel located adjacent to the Center.
- Event center staffing will consist of a Center manager, assistant manager, and staff; existing CCED personnel (the Director and/or Manager of Business Retention and Expansion Program) is assumed to have negligible impact from assist in event center management/program administration.
- Center staffing is based on “lean management” practices where all positions/human resources expended for any goal other than the creation of value for the customer base are nonessential.

If the staff hired to operate the events center are employees of Chester County, Chester County will have direct control over the event center. This arrangement is better than hiring a private vendor to manage the event center because a private vendor may charge a higher hourly consulting rate to run the facility, and could potentially only be concerned with the profitability of the event center as opposed to the overall economic development mission of the event center.

- Activation and Service Assumptions
 - The support facility currently housing CCED offices will be remodeled to include meeting/break-out rooms directly supporting the main event center facility and leasable “virtual offices.”
 - Main event center hall/ballroom and War Memorial Building will have a minimum rental duration of four (4) hours; subsequent rental blocks can be purchased in block of 2-hour increments for Monday through Thursday bookings; Friday, Saturday, and Sunday bookings are for 8-hour and 4-hour blocks only.
 - Rental period includes any time necessary for customer-specific decoration set-up and/or take-down.
 - The event center staff will be responsible for set-up and take-down of standard equipment (i.e. tables, chairs, etc.).
 - Breakout/meeting rooms will have a minimum rental duration of two hours; subsequent rental blocks can be purchased in block of two-hour increments.
 - All event center bookings will be subject to a cleaning surcharge; surcharge is non-negotiable and only covers normal waste/debris; excessive clean-up, if determined necessary at the sole discretion of the event center staff, will be subject to an additional charge in the form of the CCED retaining the rental deposit.
 - War Memorial building events have the option self-cleaning the facility after use or purchasing cleaning as add-on service; excessive and/or additional clean-up, if determined necessary at the sole discretion of the event center staff, will be subject to an additional charge in the form of the CCED retaining the \$300 rental deposit.
 - War Memorial building events will still be required to hire two police officers for the duration of the event.
 - Food and beverage service will be provided by caterers.
 - Pricing is value based, meaning that pricing was determined based on typical market rates based on the assumed level of service received.
 - Center utilities are estimated at \$3.25 per square foot; final projection will be confirmed by the architectural team selected to design the facility.

- Financial Assumptions
 - Capital investment necessary to remodel/renovate the existing facility is not mandated for recovery through revenues generated via operations.
 - FFE costs are assumed to be separate from determining revenues generated via operations.
 - The FFE costs are estimated to total approximately \$750,000 to \$1,250,000, and make expenditures higher than revenues.
 - The FFE needs to be of high quality and needs to be significantly nicer than any other facility in Chester County
 - The specifics of the design of the FFE are not part of the scope of this project and should be undertaken by an interior design firm at the start of construction.
 - Expenses are projected to be 100% of projected costs beginning in the modeled year “Operating Year 1”; annual increases of a set percent per year each year thereafter as based on Expenditure and Revenue Growth Inputs.
 - Revenues are projected to be 100% of projected revenue capacity beginning in the modeled year “Operating Year 1”; annual increases of a set percent per year each year thereafter as based on Expenditure and Revenue Growth Inputs.
 - Annual Capital Maintenance Fund is presented in the cost recovery ratio; capital maintenance fund is intended to be utilized as a capital renewal and replacement fund which is dedicated to the regeneration and modernization of the event center as the facility ages and trends in the marketplace shift.
 - Percentage of cost recovery is based on the assumed market participation and value/market based pricing.
 - Operating and growth inputs are based on average increases per expenditure and revenue category; due to the volatility of the health care and energy sectors, higher growth rates were utilized for employee benefits and utilities.
 - If a higher percentage of cost recovery is needed, operating expenses and pricing will be analyzed for potential adjustments.
 - Pro forma assumptions beginning in “Operating Year 1” are based on management and staff performing extensive lead-in/pre-opening marketing, promotions, and programming tailored to the customer base.
 - Pro forma/financial plan is based on 2011 dollar values.

To achieve operational sustainability, a balance must be met. Although many variables ultimately produce sustainable outcomes, for the purpose of this report, the emphasis is placed on the ability to align the offering a diverse product with tiered pricing (i.e. revenues) with the level of service provided (expenditures).

a.) Revenue Sources

To ensure long term sustainability, a pricing policy must be established to promote a diverse revenue stream among all rental types, thus, reducing the impact that one rental category has on the success of the entire event center – diversification. Due to the overwhelming advantage of wedding rental potential – a 24- to 36-week season that spans most of spring and summer and into the fall – and the associated revenue generation – these events historically command the greatest revenue to hours-rented, Diversifying facility activation will require an aggressive approach to non-traditional programming.

The revenue projections depicted by event type are a result of a preliminary pricing plan. As the event center nears operational status, it is recommended that the CCED complete a comprehensive review of the pricing plan for relevance in the market place. Pricing strategies should be designed to establish and maintain rate integrity with a simplified pricing structure. Tactics should include tiered

options that include the War Memorial buildings and the event center building so that all rental revenues can be maximized; additional capacities will allow the CCED to avoid displacing profitable customer segments while providing viable rental options to the local and regional community regardless of price point.

For the purpose of this analysis, only major revenues generated from the core services offered (i.e. bookings of rentable space for events) were analyzed in depth. In addition, catering and table and chair rentals were explored at a high level. As the concept begins to take shape and the final design is implemented it is recommended that the services depicted in this plan as well as the associated price point be evaluated against similar providers to ensure validity.

Based on the understanding of the market and the event center concept, annual revenue generation by major service area is estimated to be:

- Event center – Ballroom bookings:
 - Weekday (Monday – Thursday) – 30 total bookings / \$46,400 estimated revenues
 - Friday – 20 total bookings / \$54,900 estimated revenues
 - Saturday – 23 total bookings / \$77,500 estimated revenues
 - Sunday – Eight total bookings / \$14,800 estimated revenues
- Event center – Meeting/Breakout Room(s) bookings:
 - Weekday (Monday – Thursday) – 58 total bookings / \$28,800 estimated revenues
 - Friday – 21 total bookings / \$16,200 estimated revenues
 - Saturday – Zero total bookings / \$0 estimated revenues
 - Sunday – Zero total bookings / \$0 estimated revenues
- War Memorial – Ballroom bookings:
 - Weekday (Monday – Thursday) – 18 total bookings / \$9,800 estimated revenues
 - Friday – 12 total bookings / \$8,300 estimated revenues
 - Saturday – 16 total bookings / \$12,000 estimated revenues
 - Sunday – Five total bookings / \$2,900 estimated revenues

In addition to revenues to be generated via bookings of the facility space, annual revenue estimates for major ancillary services (Table 5-1).

b.) Expenditures

Typically, personnel costs account for the greatest single line-item expense in a business's budget. Having been mandated by CCED

**Table 5-1
Ancillary Services, All Facilities
Annual Revenues**

	Annual Revenues
Ancillary Services:	
Table Rental [1]	\$43,478
Chair Rental [2]	\$44,984
Preferred Caterer/Caterer Fee [3]	\$37,575
Meeting Accompaniments [4]	\$8,888
Total Ancillary Services	\$134,924

Source: RKG Associates, Inc., 2011

[1] Based on average cost of \$22 per table; estimated 80% of ballroom events require tables; 8 persons per table; 150 person per event estimate

[2] Based on average cost of \$1.15 per chair; estimated 90% of ballroom events require chairs; 150 person per event estimate

[3] Based on 15% of Gross Receipts; total of 55 events catered in the Event Center Ballroom and 20 events catered in the War Memorial Ballroom

[4] Provided by CCED as premium service; 30% markup of COGS

management to be a sustainable, breakeven endeavor, staffing has been restricted to essential personnel only; this includes:

- One full-time event center manager
- One part-time event center assistant manager
- One full-time event center customer relations/bookings specialist
- Two part-time custodial staff

Either the full-time event manager or the part-time assistant manager must have strong IT skills. It is assumed that only in extenuating circumstances will the CCED management will assist event center staff. Due to the volatility of the utility market, these costs have been estimated utilizing industry standards; however, it will be imperative that the utility cost estimate be confirmed by the architect during the design phase.

c.) Financial Summary of Assumed Operations

Based on estimated operational costs, a preliminary pricing strategy dictated on a break-even mandate, and resulting revenues, a five-year financial plan was developed. Based on the assumptions and recommendations derived within this report, and excluding any unforeseen circumstances, it is projected that the event center and Chester War Memorial building will recover all operational costs associated with the facility (Table 5-2).

Table 5-2
Event Center Operations Analysis
Five Year Pro-forma

CCED Rental Facilities	Operating Year 1	Operating Year 2	Operating Year 3	Operating Year 4	Operating Year 5
REVENUES					
Event Center - Ballroom; Weekday (Mon-Thu) Bookings	\$46,400	\$47,792	\$49,226	\$50,703	\$52,224
Event Center - Ballroom; Weekend (Fri-Sun) Bookings	\$147,200	\$151,616	\$156,164	\$160,849	\$165,675
Event Center - Meeting/Breakout; Weekday (Mon-Thu) Bookings	\$28,790	\$29,654	\$30,543	\$31,460	\$32,403
Event Center - Meeting/Breakout; Weekend (Fri-Sun) Bookings	\$16,200	\$16,686	\$17,187	\$17,702	\$18,233
War Memorial - Ballroom; Weekday (Mon-Thu) Bookings	\$9,750	\$10,043	\$10,344	\$10,654	\$10,974
War Memorial - Ballroom; Weekend (Fri-Sun) Bookings	\$23,170	\$23,865	\$24,581	\$25,318	\$26,078
Ancillary Services	\$134,924	\$138,971	\$143,141	\$147,435	\$151,858
Total Estimated Revenue Generation	\$406,434	\$418,627	\$431,185	\$444,121	\$457,445
OPERATING EXPENSES					
Personnel	\$156,100	\$161,551	\$167,212	\$173,091	\$179,198
Contractuals	\$172,260	\$182,898	\$211,361	\$220,886	\$230,919
Commodities	\$6,200	\$6,417	\$6,610	\$6,808	\$7,012
Total Estimated Operating Expenses	\$334,560	\$350,866	\$385,182	\$400,785	\$417,130
Total Revenues Less Total Operating Expenses	\$71,874	\$67,760	\$46,003	\$43,336	\$40,315
<i>Percentage of Operating Costs Recovered</i>	121%	119%	112%	111%	110%
Total Annual Capital Maintenance Fund	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Annual Debt Service	\$0	\$0	\$0	\$0	\$0
Total Net Revenues Over (Under) Expenditures	\$46,874	\$42,760	\$21,003	\$18,336	\$15,315
<i>Percentage of Total Costs Recovered</i>	113%	111%	105%	104%	103%

Source: RKG Associates, Inc., 2011

2. Managing to Outcomes

A market-based approach to business operations focuses on the fluid interrelationship of consumers, competitors, and internal requisites essential to delivery of product and services in a sustainable manner. Often, after the initial comprehensive planning effort, businesses shun the continued analysis of external market factors and instead turn the attention to internal factors. A market-based approach involves a continuous review of the functional marketplace and the impact, or lack of thereof, on operations. This includes demographic analysis, competitor analysis, customer analysis, cost and revenue analysis, and pricing analysis.

The ability to be keenly aware of all facets of operations will allow for management and staff to have a process driven approach to decision making that sets clear expectations and monitors performance – accountability. Key elements that will assist Chester County Economic Development in managing to outcomes include:

- Subscribe to sound business practices that include, but is not limited to:
 - Clear lines of communication internally and externally as the event center becomes regional a fixture in the event/hospitality rental market.
 - Defined responsibilities, roles, and outcome expectations aligned to the event center's mission.
- Implement performance measurements/key indicators that are directly tied to the outcome expectations.
 - Focus in on becoming an outcome based operation; shifts to a process based level of accountability in which decisions are made based on a formulaic approach that is a originates with the mission and values of the event center.

Key indicators should focus on the two key areas of which all rental facilities operate – financial and capacity management; all indicators are subsequently a subset of these two key areas:

- Financial assessment – why you do what you do; identify the right price for the service; identify investment (subsidy) made in user group/community.
- Capacity management – identify all spaces/rooms managed and what levels of use assets/amenities operate at; habitually identify and track like service provider offerings, pricing, and bookings to understand where the event center fits within the market place.
- Examples of key indicators to consider implementing into daily operations of the event center programs and services include, but are not limited to:
 - Cost per experience (all services)
 - Customer satisfaction (all services)
 - System restoration – investment in preventative maintenance in an effort to protect and preserve assets (all services)
 - Revenue to expense, program level (program can include – wedding, social, meeting, fundraiser, classes, etc.)
 - Cost recovery (all services)

In addition, informational and promotional methods in the form of interactive website, video blogs, email blasts, additional press releases, community/business flyers etc. should be initiated. User

feedback should include pre- and post-event feedback, trailer calls, and return questionnaire with mailings to obtain the maximum possible feedback.

D. MARKET IMPLICATIONS

The Chester County event center has the opportunity to fill a defined void in the market place, primarily within the social arena. However, the extent of the assumed success is dependent upon the initiative and drive – the entrepreneurial spirit – of the management and staff. Operational recommendations spanning functional facility design, activation, and operations are presented in the subsequent bullets.

a.) Functional Facility Design

- Long-term profitability of the event center will be determined by ability to provide quality experience through optimized functionality via architectural design.
 - Adequate offering of small and medium group settings (i.e. 400 to 800 square feet) to complement large ballroom space.
 - Linkage of the two facilities providing for small/medium meeting rooms, convention/conference breakout, and/or general overflow.
 - Audio/video capabilities should be offered in all rooms; to include, but not limited to, complete Wi-Fi coverage, amplification, playback assistive listening system, motorized projection, permanent video-conferencing (in small/medium rooms), backdrops suitable for “broadcast-ready” recordings (i.e. YouTube videos and webinars), etc.
 - Lighting controls and acoustical solutions suitable for all events ranging from presentations to performances.
 - Enhanced (i.e. higher end finish out) bride and groom facilities to support positioning as a premium wedding facility.
 - Addition of courtyard between the two structures to provide an outdoor respite as well as potential for ancillary outdoor program space; will necessitate the inclusion of visual/sound buffers due to close proximity to interstate highway.
 - Enhance back-of-house preparation space to meet caterer needs of delivery/prep/serving as well as functional storage for various table designs (i.e. round and rectangular) and seating for various usages (i.e. banquets, spectator events, lectures, etc.).
 - Incorporate large floor to ceiling windows into design to take advantage of natural lighting.
 - Invest in portable wooden dance/activity floor.
- Facility design, improvements, and finish-out (FFE) should reflect the wants and needs of the target market.
- Create energy through functional design, presentation, management, and administration of services to generate sufficient revenues to offset associated operational costs.

b) Event Center Activation

- Expand the traditional market – weddings and corporate meetings – to include similar, recurring events; market event center to:
 - Local and regional small/medium business community for training/retreats/meetings/functions.
 - School events; including dances/proms and home school and private school classes/events. Local high school proms are currently held at the Baxter Hood Center. Outside Chester County.
 - Social, Military, Educational, Religious, and Fraternal (SMERF) groups
 - Trade/consumer shows
 - Spectator sporting events; potential to include secondary spectator sport market of billiards, Ping-Pong, strength/power-lifting competitions, volleyball tournaments, wrestling meets, gymnastics meets, dog shows, etc.
 - Ready-to-use office rental space

c.) Center Operations

- Due to unbalanced ratio of staffing costs to total operational costs of most similar facilities (i.e. personnel accounts for 60% to 75% of total operational costs), it will be imperative that the Chester County event center operate with an optimal ratio of essential personnel and contractors to reduce fixed costs.
- Wide array of customer usages will require management to utilize flex scheduling to accommodate user groups day/time needs.
 - Staffing resources to accommodate increased capacities at non-traditional business times (i.e. evenings and weekends).
- Define key indicators by which all staff can operate from and will be held accountable to.
- Implement aspects of yield management through a pricing schedule that offers tiered options regarding the facility (Veterans Memorial versus event center), seasonality (Spring and Summer versus Fall and Winter), time of week (Monday through Thursday versus Friday, Saturday, and Saturday; each weekend day priced according to market demand), and time of day (mid-morning, afternoon, and evening).
 - Implement paid upgrade option when unsold inventory allows for a shift of venue/room upgrade and variable costs are negligible.
- Define mutually beneficial room block agreements with hotel operator to allow for control of room inventory for future bookings.
- A comprehensive list of premium services for events should be developed to allow for market differentiation and the potential to up-sell (i.e. parking attendants, event coordinator, over-/extra-time, etc.).
- Explore potential of Chester County Economic Development to apply for appropriate licenses to allow for bar/alcohol service.

6 HOTEL FINANCIAL ANALYSIS

A. INTRODUCTION

Part of the redevelopment strategy is the inclusion of a limited-service business-class hotel. In Chapter 4, the Consultants identified there is a market opportunity to support this quality hotel at the Nourse Auto Mall site. However, market feasibility is only one component of the viability of the concept. RKG Associates also analyzed the financial feasibility of a new limited-service business-class hotel on site. This chapter focuses on assessing whether there would be interest from a private investor to build this type of hotel on site.

B. METHODOLOGY

Simply put, the financial viability of a development project is based on whether an investor (or group of investors) will be able to achieve their desired level of return on the investment necessary to build the project. To this end, it is imperative that the analysis consider whether a new limited-service business-class hotel would be able to provide such a return. This financial analysis takes into account the demand for hotel rooms generated in Chapter 4, the potential revenue generated from that demand, the cost of constructing and operating the hotel, and other additional costs to determine the financial viability of a proposed limited-service business-class hotel. To complete this analysis, the Consultant made the following assumptions:

- The County will enter into a long-term, no-cost land lease with the developer to incentivize the development of the hotel.
- The hotel will operate similar to other limited-service business-class hotels, with similar construction and operational cost structures at these types of facilities.
- The new hotel will capture the potential demand identified in Chapter 4.
- The hotel will be financed utilizing current lending rates and terms, including loan-to-value requirements, current commercial loan rates and financing principles.
- The event center will be operated independently from the hotel operations.
- The analysis assumes an 85-room facility with standard on-site amenities for a limited-service business-class hotel (i.e. high-speed internet, wake-up calls, laundry services and an exercise room).
- The pro forma assumes a 10-year hold period, with the property being sold by the investor at the end of the period.

C. ANALYSIS

The Consultant completed a comprehensive pro forma analysis to determine whether a new hotel project would be financially feasible given the construction and operating assumptions detailed in Table 6-1. The proposed limited-service business-class hotel is estimated to include 85 rooms spread over two stories. The cost to construct the hotel (including site preparation) is estimated at \$114 per

Table 6-1**Inputs**

Basic Hotel Assumptions		Revenue and Expense Assumptions		Financial Assumptions	
Number of Room	85	Revenue Sources		Interest Rate	5.5%
Number of Stories	2	Rooms	97%	Loan-to-Value Ratio	70%
Occupancy Rate		Food and Beverage	0%	Term (Years)	15
Year 1	50%	Other	3%	CAP Rate	8%
Year 2	55%			Holding Period	15
Full Occupancy	60%			Discount Rate	15%
		Expenses		Commercial Cost of Sale	2%
Average Daily Room Rate	\$80	Insurance	3%		
Inflation Rate	2%	Departmental Expenses (Ratio to Revenues)			
Total Square Footage	32,045	Rooms	26%		
Square Footage per Room	290	Food & Beverage	82%		
Construction & Site Preparation Co:	\$114	Other Operated Departments	50%		
Land Size (acreage)	1	Undistributed Operating Expenses (Ratio to Revenues)			
Land Acquisition Costs	\$0	Administrative & General	10%		
Efficiency Rate	70%	Sales and Marketing	10%		
Start Construction	2011	Property Operation & Maintenance	5%		
		Utilities	5%		

Source: Marshall and Swift Valuation Services, STR, and RKG Associates Inc., 2011

square foot. This rate reflects no cost for land acquisition and is consistent with construction cost estimates for similar class hotels in Rock Hill, as estimated by Marshall and Swift¹.

Based on the demand data collected in Chapter 4, the new hotel is projected to reach stabilization by the third full year of operation, reaching an occupancy rate of 60%. This occupancy rate is comparable with the current occupancy rate of selected limited-service business-class hotels in Rock Hill, and assumes market conditions resume pre-downturn growth levels. A 60% occupancy rate equates to 18,615 room-nights per year. The main source of revenues is room rentals and this rate is projected to be slightly below the rates of similar properties in Rock Hill at \$80 per night. The Consultant based these assumptions upon current market conditions, and may vary due to unforeseen changes in the local market climate depending on when the hotel is completed.

The assumptions shown above are the basis for the financial analysis (Table 6-2). The analysis projects the revenue and operating expenses over the next ten year to determine the before tax cash flow, net present value (NPV) and the Internal Rate of Return (IRR) of the proposed hotel.

1. Revenues and Operating Expenses

This section shows the comparison between the revenues and the operating expenses. The revenues generated from the new hotel will come mainly from room rates, with a small portion from other operated departments like vending machines, pay per view movies, cot rentals etc. There will not be revenue from food and beverages because the hotel is not assumed to have a restaurant/permanent dining component. The effective gross income, after accounting for room night vacancy amounts to \$1.28 million in 2012, and rises each year thereafter as the hotel moves towards stabilization. With this revenue comes a host of expenses. The expenses, such as the maintenance of the rooms, administration, sales and marketing, etc., amount to \$764,047 in 2012. The model reveals these costs will continue to rise into the future due to increased demand for services and inflation. The revenues generated from the new hotel exceed the operating expenses, and this is essential considering the revenues have to be high enough to also cover the costs associated with building the hotel.

¹ Marshall and Swift is a nationally renowned data vendor that collects and provides comprehensive construction cost estimates for various real estate product types and locations.

Table 6-2
Proforma

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Avg Daily Rate	\$0.00	\$80.00	\$81.57	\$83.17	\$84.80	\$86.47	\$88.16	\$89.90	\$91.66	\$93.46	\$95.29
REVENUES											
Potential Gross Income											
Rooms	\$0	\$2,482,000	\$2,530,712	\$2,580,381	\$2,631,024	\$2,682,661	\$2,735,312	\$2,788,995	\$2,843,733	\$2,899,545	\$2,956,452
Food & Beverage	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Operated Departments	\$0	\$76,763	\$78,269	\$79,806	\$81,372	\$82,969	\$84,597	\$86,258	\$87,951	\$89,677	\$91,437
Potential Gross Income (PGI)	\$0	\$2,558,763	\$2,608,982	\$2,660,186	\$2,712,396	\$2,765,630	\$2,819,909	\$2,875,253	\$2,931,683	\$2,989,221	\$3,047,889
Minus Vacancy Rate	\$0	\$1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Rooms	\$0	\$1,241,000	\$1,138,821	\$1,032,152	\$1,052,410	\$1,073,064	\$1,094,125	\$1,115,598	\$1,137,493	\$1,159,818	\$1,182,581
Food & Beverage	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Operated Departments	\$0	\$38,381	\$35,221	\$31,922	\$32,549	\$33,188	\$33,839	\$34,503	\$35,180	\$35,871	\$36,575
Effective Gross Income (EGI)	\$0	\$1,279,381	\$1,434,940	\$1,596,112	\$1,627,437	\$1,659,378	\$1,691,945	\$1,725,152	\$1,759,010	\$1,793,533	\$1,828,733
OPERATING EXPENSES (RATIO TO EGI)											
Rooms	\$0	\$322,660	\$361,892	\$402,539	\$410,440	\$418,495	\$426,709	\$435,083	\$443,622	\$452,329	\$461,207
Food & Beverage	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Operated Departments	\$0	\$19,191	\$21,524	\$23,942	\$24,412	\$24,891	\$25,379	\$25,877	\$26,385	\$26,903	\$27,431
Administrative & General	\$0	\$127,938	\$143,494	\$159,611	\$162,744	\$165,938	\$169,195	\$172,515	\$175,901	\$179,353	\$182,873
Sales and Marketing	\$0	\$127,938	\$143,494	\$159,611	\$162,744	\$165,938	\$169,195	\$172,515	\$175,901	\$179,353	\$182,873
Property Operation & Maintenance	\$0	\$63,969	\$71,747	\$79,806	\$81,372	\$82,969	\$84,597	\$86,258	\$87,951	\$89,677	\$91,437
Utilities	\$0	\$63,969	\$71,747	\$79,806	\$81,372	\$82,969	\$84,597	\$86,258	\$87,951	\$89,677	\$91,437
Insurance	\$0	\$38,381	\$43,048	\$47,883	\$48,823	\$49,781	\$50,758	\$51,755	\$52,770	\$53,806	\$54,862
Total Operating Expenses	\$0	\$764,047	\$813,898	\$905,315	\$923,083	\$941,199	\$959,671	\$978,506	\$997,711	\$1,017,292	\$1,037,257
Net Operating Income	\$0	\$515,335	\$621,042	\$690,797	\$704,355	\$718,179	\$732,274	\$746,646	\$761,300	\$776,241	\$791,476
Initial Equity	\$1,096,738	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service	\$0	\$241,656	\$241,656	\$241,656	\$241,656	\$241,656	\$241,656	\$241,656	\$241,656	\$241,656	\$241,656
Before Tax Cash Flow (excluding equity)		\$273,679	\$379,386	\$449,141	\$462,699	\$476,522	\$490,618	\$504,989	\$519,643	\$534,585	\$549,819
Before Tax Cash Flow	(\$1,096,738)	\$273,679	\$379,386	\$449,141	\$462,699	\$476,522	\$490,618	\$504,989	\$519,643	\$534,585	\$549,819
NPV	(\$1,096,738)	(\$858,757)	(\$571,886)	(\$276,569)	(\$12,020)	\$224,896	\$437,004	\$626,848	\$796,720	\$948,683	\$2,897,758
IRR	N/A	N/A	-27.4%	0.2%	14.5%	22.6%	27.5%	30.5%	32.6%	33.9%	42.8%

Source: Marshal and Swift Valuation Services, STR, and RKG Associates Inc., 2011

2. Cash Flow

Net operating income is a measure of profitability solely based on operations. The calculation of Before Tax Cash Flow (BTCF) subtracts the initial equity and the debt service from the NOI. Based on the assumptions used for the model, the proposed hotel returns a positive cash flow beginning in year one of operation. This indicates this project has a strong fundamental base. Given the initial outlay to cover the cost of construction, however, the project will not have a positive net present value until year five when the initial outlay is paid off.

3. Financial Feasibility

There are two main measures of the financial feasibility of the hotel, the net present value (NPV) and the internal rate of return (IRR). The NPV tests the cash flow against a discount rate of 15% to determine whether the return on this investment exceeds the return on other investments. The IRR is a measure of the efficiency of the investment and the higher the IRR, the greater the efficiency of the investment. Most commercial developers seek an IRR between 15% and 25% depending on the risk of the project. Given that this will be a more speculative project and due to the pioneering nature of this facility, it is reasonable for a developer/investor to seek a return closer to the higher-end of the spectrum.

Based on the analysis performed, the proposed hotel will exceed the investment requirement for the project before the end of the 10-year hold period. This indicates that providing the land as an incentive is not necessary, but could be a recruitment point to make the hotel development occur more quickly. In any case, the analysis reflects (based on the assumptions utilized to perform the analysis) that the property would not need to meet the occupancy (60%) and room rate requirements (\$80 per night) to hit the IRR threshold likely to be sought by an investor. As a result, it is the Consultant's opinion that the potential to develop a limited-service business-class hotel is both market feasible and financially feasible.