



Mountain Lakes

Hotel and Conference Center Feasibility Study

September 2010

Strategic Advisory Group
Strategic

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Mr. Sloan:

We have completed our engagement to prepare the feasibility study for a proposed hotel and conference center located in Oconee County.

The data included in this report has been extracted from information supplied to us during discussions with project representatives and various other primary and secondary sources. We have utilized sources that are deemed to be reliable but cannot guarantee their accuracy. Moreover, estimates and analyses regarding the project are based on trends and assumptions and, therefore, there will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

We have enjoyed working on this project and our relationship with the project team. If you have any questions, please do not hesitate to contact Jeff Sachs at (678) 584-0705 or Tom Reifert at (678) 584-0272.

Strategic Advisory Group

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INTRODUCTION

Oconee County is situated in the northwestern corner of South Carolina and located in the foothills of the Appalachian Mountains. With the offering of three lakes, Hartwell, Keowee and Jocassee, Oconee provides a wide variety of recreational opportunities, including boating, fishing, water skiing, and sailing. The County is part of one of the nation's fastest growing areas, the I-85 corridor. The towns of Oconee County are also located on the South Carolina National Heritage Corridor that extends from the Upstate to Charleston.

To understand the short- and long-term viability of expanding area tourism by developing a conference center and/or hotels located within the county, the Oconee County Council, the Oconee Alliance and the Mountain Lakes CVB engaged Strategic Advisory Group to complete a market and financial feasibility assessment.

COMPARABLE COMMUNITY ANALYSIS

Many comparably sized communities in South Carolina, North Carolina, and Georgia offer either hotels with substantial meeting space or other event space, such as civic centers, banquet halls or other community centers.

From a hotel perspective, several of the communities offered more hotel rooms than Oconee County. However, those offering the most hotel rooms were typically located on a major interstate, a significant demand driver for transient overnight guests.

From a meeting space perspective, the analysis revealed that although several of the communities offer sizable meeting venues, the majority are civic related and cater to the local community. Interviews with several of the larger meeting venues in the comparable communities suggested that they host anywhere from 50 to 250 events annually, generate few annual room nights at the area hotels and generally operate at a loss and are publically subsidized.

The community analysis revealed that Oconee County appears to be underserved from both a hotel and meeting space perspective; however, the civic-type of facilities the majority of the communities offer do not meet the goal of generating room nights in the community.

SOUTHEAST CONFERENCE CENTER ANALYSIS

Several communities in the Southeast offer conference centers. Conference centers can be defined as a full service hotel with a restaurant and catering services that offer substantial meeting space. Additionally, conference centers typically offer some other amenity to assist in attracting demand, such as an on-site golf course.

A sampling of 25 conference centers located in South Carolina, North Carolina, Georgia and Tennessee were analyzed to understand how many hotel rooms they offer, how much meeting space they offer, and what additional amenities they offer that might assist in their success of attracting demand. The analysis revealed that the majority of the centers offered over 100 hotel rooms, over 10,000 square feet of meeting space and over 90% of the centers offer on-site golf, have a university

in the community or offer some other unique asset, such as a theme park, location in a major city or location on a major interstate.

Conference centers typically cater to the corporate segment of the meetings industry. To understand which of the 25 conference centers might be most comparable to the Oconee County area in terms of the corporate market they might target for business, a sampling of the total employment base within 75 miles of each facility was obtained. The Oconee County area has approximately 1.3 million employees within a 75-mile ring of Walhalla/Seneca. The highest density of these employees is in and around the Greenville area. Analysis of the 15 most comparable conference centers in terms of employment base revealed that the majority offer 100+ hotel rooms and 100 to 200 square feet of meeting space per hotel room. For example, a 100-room hotel might offer between 10,000 and 20,000 square feet of meeting space. In addition, all of the conference centers offer on-site golf, have a university in the community or offer some other unique quality, such as a

theme park, game hunting, interstate location, etc. These amenities assist the centers in attracting events.

Comparable Community and SE Conference Center Summary

- Most comparably sized communities offer stand-alone facilities that typically cater to the local community and generate few room nights.
- A stand-alone facility does not meet the goal of generating room nights in the County.
- Most conference centers researched in the Southeast offer 100+ hotel rooms.
- Over 90% of the conference centers offer golf, have a university in the community or offer some other unique asset, such as a theme park, location in a major city or location on a major interstate.
- The most comparable conference centers offer 100 to 200 square feet of meeting space per hotel room.
- Golf appears to be a key component to a conference center.

SURVEY OF AREA CORPORATIONS

To understand the level of interest in utilizing a new hotel conference center or a new stand-alone hotel located in Oconee County, Oconee and Pickens County corporations who employ 50 or more people were contacted. The Mountain Lakes Convention and Visitors Bureau assembled the list of corporations.

Likelihood of Using a Facility in Oconee County

Ninety three percent (93%) of respondents indicated they were interested in utilizing a new hotel and/or a conference facility if located within Oconee County. Of these positive respondents, 83% require meeting space and may or may not generate hotel room nights for their events. The remaining 17% do not require any meeting space but generate hotel overnight stays.

Respondents Generating Conference Center Demand

Attendance

Average attendance for those respondents requiring meeting space range from fewer

than 25 to 400 attendees. The majority of the events average 50 attendees or fewer.

Banquet Needs

The majority of the respondents require banquet seating ranging from 12 to 400. A 4,500 square foot ballroom would accommodate the majority of the events.

General Session Needs

General sessions can be defined as one-time or daily kick off events. These events are typically held in the ballroom. Eight of the respondents host a general session and require from 75 to 400 seats.

A 4,000 square foot ballroom would accommodate the needs of all of the events.

Breakout Meeting Room Needs

The majority of the respondents require one to two breakout meeting rooms encompassing 1,000 square feet or less. A total of four breakout rooms could accommodate the needs of the respondents and provide for hosting simultaneous events.

Hotel Room Needs

Nearly half of the respondents do not require hotel rooms for their events, meaning they are local meetings and events. All but one event requires less than 50 hotel rooms on the events peak night and all but one event generate 100 rooms or fewer in total over the length of the event. In total, respondents generate approximately 1,400 hotel room nights per year. (Note - This number excludes one event that generates over 1,000 room nights for their event. This event requires substantially more event space than is being contemplated.)

Respondents stated they typically pay between \$75 and \$100 for a room in the area and would expect the same at a new hotel in the county.

Respondents Generating Hotel Room Demand

Some of the area corporations generate hotel room nights but require no meeting space. These corporations generate from as few as two hotel rooms annually to approximately 600 annually. Some of the corporations utilize hotels located in

Oconee County but the majority utilize Clemson-area hotels due to brand preference, proximity, amenities available in the area and because the hotels are viewed as nicer than those in Oconee County. In total, respondents generate approximately 1,500 room nights per year.

Respondents stated they typically pay between \$70 and \$100 for a room in the area and would expect the same at a new hotel in the county.

Room Night Support

The majority of the large corporations in the area responded to the survey. These respondents generate approximately 3,000 hotel room nights annually. To put this in perspective, a 100-room hotel with 65% occupancy consumes 23,700 room nights annually. While the local area corporations are interested in utilizing a new hotel and conference center in the county, the room nights they generate will not support the development of a new hotel.

Site Preference

The respondents were asked to rank three potential areas for the location of the hotel

or hotel and conference center. The site areas included:

- I-85/Lake Hartwell area
- City of Seneca
- Keowee River area

Respondents viewed all three site locations fairly equally.

Respondents were also asked if any other potential site areas were preferred. Only one respondent gave an opinion on another area and mentioned a site in Westminster was preferred.

User Survey Summary

- Local employment base surveyed indicates positive support for utilizing a facility in Oconee County; however employment base is limited in size.
- Local employment base surveyed generates approximately 3,000 annual room nights of the 23,700 needed to support a 100-room hotel.
- A 100-room hotel with 4,500 square feet of meeting space accommodates the needs of the majority of those surveyed.

AREA LODGING MARKET ANALYSIS

The area lodging market was analyzed in three segments, including:

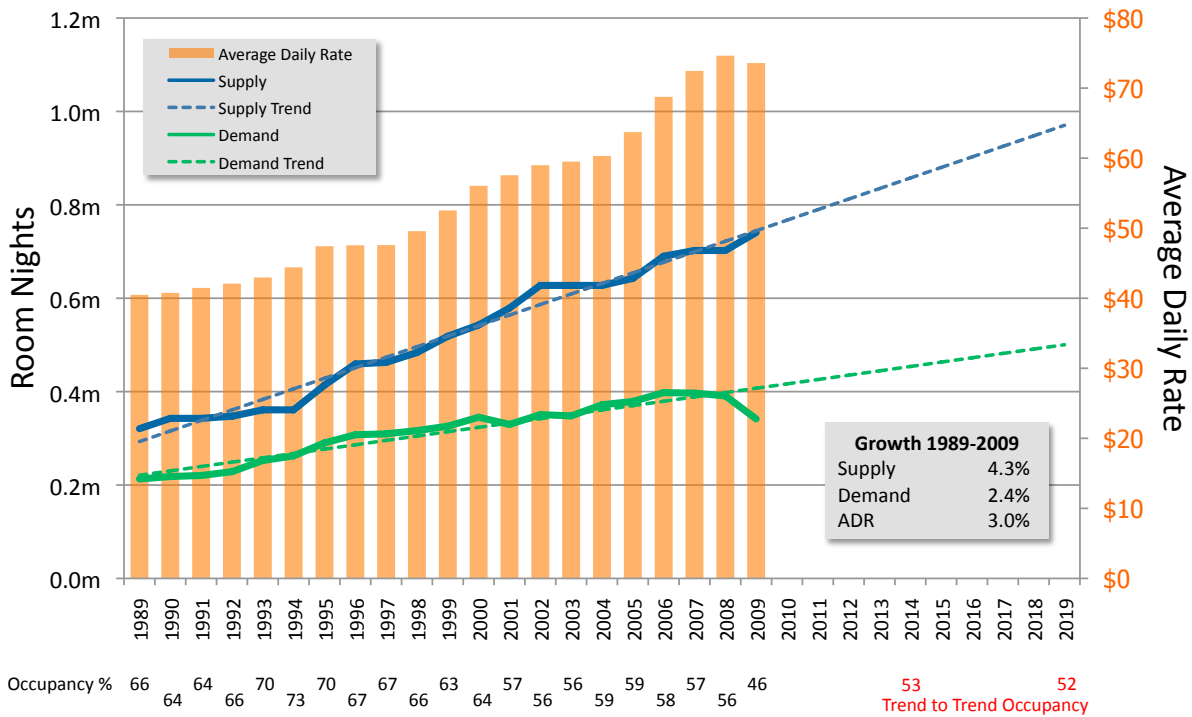
- Hotels within the immediate market
- Hotels within a 50-mile radius
- Full service hotels within a 50-mile radius

Hotel data was provided by Smith Travel Research (“STR”), the leading provider of hotel industry data, and is relied upon within the industry for thorough and objective data.

Hotels Within the Immediate Market

The local lodging market includes those hotels that submit operating performance data to STR and are located in Oconee County or the cities of Anderson, Clemson or Easley.

STR tracks occupancy and average daily rate for nearly 2,200 hotel rooms in this area. Over the past 20 years, the total supply of available hotel room nights has increased from just over 320,000 in 1989 to over 740,000 in 2009. This equates to a compound annual growth rate of 4.3%.



Source: Smith Travel Research.

Demand grew at a CAGR of 2.4% from 1989 to 2009. Supply growth (4.3%) outpacing demand growth (2.4%) has led to declining occupancy and to an oversupply situation in the local lodging market.

Occupancy is calculated by dividing the occupied room nights (demand) by the number of available hotel rooms (supply). From 1989 to 2000, the market hotels experienced occupancy in the mid-60% range. A peak occupancy level of 73% occurred in 1994. Since 2000, occupancy levels have decreased to the mid- to upper-50% range. The 2009 level of 46% was the lowest occupancy level over the timeframe analyzed. While demand grew over the past two decades, supply grew at a faster pace. This has led to occupancy levels that are lower than required to operate a profitable hotel.

Average daily rate (“ADR”) grew generally with inflation at a CAGR of 3.0% from 1989 to 2009. Over the past three years, ADR has been in the mid-\$70 range.

Hotels within 50 Miles

This segment includes those hotels that submit operating performance data to STR

and includes both full service and select service hotels. The segment includes 131 hotels representing 12,300 rooms.

This market generally mirrors the Hotels Within the Immediate Market. Over the past 20 years, the supply of available hotel room nights has increased from just over 1.7 million in 1989 to over 4.2 million in 2009. This equates to a compound annual growth rate of 4.5%.

Demand grew at a CAGR of 2.8% from 1989 to 2009. As with the Hotels Within the Immediate Market, supply growth outpacing demand growth has led to a low occupancy, oversupply situation.

From 1989 to 2000, the hotels experienced occupancy in the low- to mid-60% range. Since 2000, occupancy levels have decreased to the mid-50% to low-60% range. The 2009 level of 47% was the lowest occupancy level over the timeframe analyzed.

ADR grew at a CAGR of 2.7% from 1989 to 2009. Over the past three years, ADR has been in the mid- to upper-\$70 range.

Similar to the Hotels Within the Immediate Market, supply growth of 4.5% has

outpaced demand growth of 2.8% leading to low occupancy levels. Occupancy is lower than that required to operate a profitable hotel.

Full-Service Hotels within 50 Miles

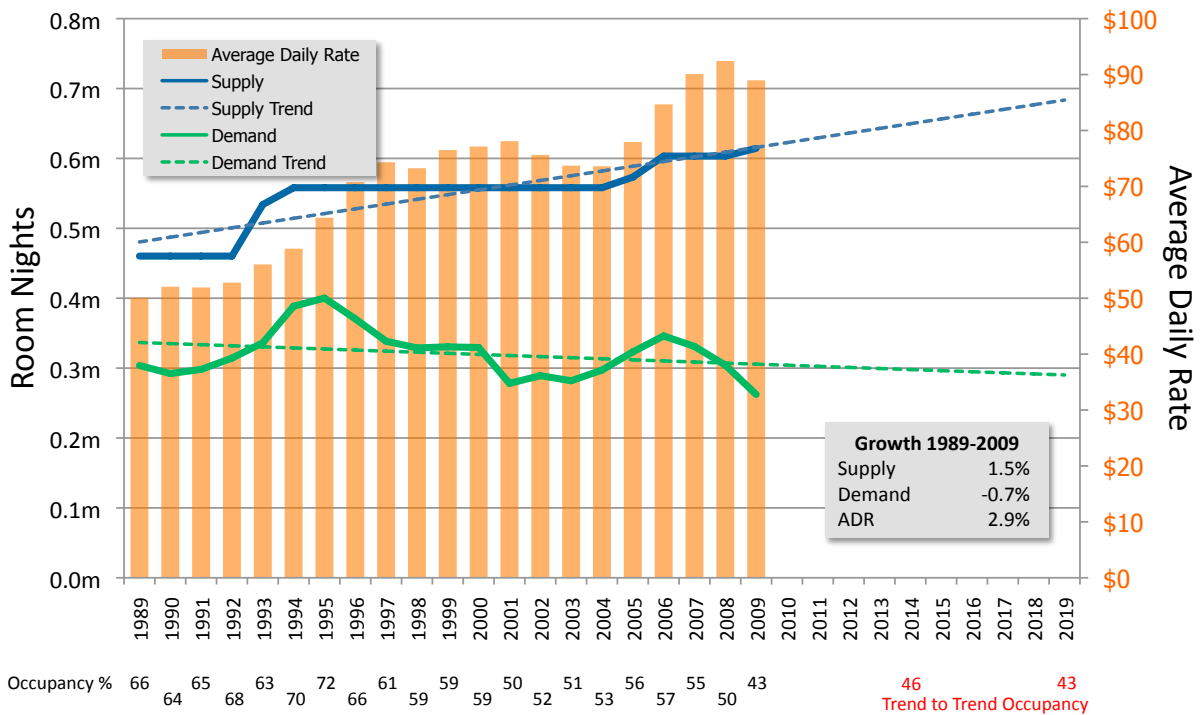
To understand the supply and demand characteristics of the regional conference center market, data was analyzed for all full service hotels and conference centers in a 50-mile radius, excluding Greenville’s downtown full service hotels. The segment includes 11 hotels representing over 1,700 rooms.

Supply in this market has grown slower

than the overall market. Over the past 20 years, supply of available hotel room nights has increased from just over 460,000 in 1989 to over 614,000 in 2009. This equates to a compound annual growth rate of 1.5%. From 1994 through 2004 there was no supply growth in this segment.

Demand has been decreasing in this segment. Demand declined at a CAGR of 0.7% from 1989 to 2009.

Occupancy in the early 90s ranged from the mid-60% range to 72% in 1995. Since the peak in 1995, occupancy levels have decreased to the mid-50% range. The



Source: Smith Travel Research.

2009 level of 43% was the lowest occupancy level over the timeframe analyzed.

ADR grew with inflation at a CAGR of 2.9% from 1989 to 2009. Over the past few years, ADR has been in the low-\$90 range.

Lodging Market Summary

- Supply has outpaced demand in the immediate and regional market leading to occupancy in the low- to mid-50% range.
- The regional conference center/full service hotel market is fragile. Historically, supply has grown while demand has declined. If a hotel were developed, it would compete in a market with occupancy in the mid 50% range and ADR around \$90.

CONFERENCE CENTER/HOTEL DEVELOPMENT ECONOMICS

It is believed that the supply and demand in the market place will need to improve to entice investment into a conference center or full service hotel. To understand the economics of developing such a project, a program, development budget, cash flow and financing analysis was prepared. Based on the analysis of comparable projects in the region, it was assumed that the building program would include 100 hotel rooms and 10,000 square feet of net meeting space.

PROTOTYPICAL HOTEL DEVELOPMENT COSTS

Prototypical development budgets provided by the brands for Aloft (Starwood), Hilton Garden Inn and Hyatt Place brands were utilized to estimate order-of-magnitude development costs.

Based upon the prototypical budgets, it is estimated that a 100-room similarly branded hotel in Oconee County would cost approximately \$11.4 million or \$114,000 per room, excluding land. The hotel would encompass approximately 62,500 gross square feet, require approximately 125

parking spaces and encompass approximately 2.5 acres. These estimates should be considered preliminary and order-of-magnitude.

Land	<i>Not Included</i>	<i>Not Included</i>
Hard Costs		
Construction	\$7,883,000	\$78,800
Soft Costs		
FF&E, OS&E, IT	1,759,000	17,600
Arch., Eng., Testing	315,300	3,200
Permitting and Legal	204,000	2,000
Project Management	118,200	1,200
Pre-Opening	223,000	2,200
Working Capital	100,000	1,000
Escalation	262,600	2,600
Contingency	525,100	5,300
Total Development Costs	<u>\$11,390,200</u>	<u>\$113,900</u>
Gross Square Feet	62,500 +/-	
Parking Spaces	125 +/-	
Site Area (acres)	2.5 +/-	

PROTOTYPICAL CONFERENCE CENTER DEVELOPMENT COSTS

Industry professionals active in conference center planning and cost estimating were contacted to understand the assumptions utilized for estimating gross building square feet and prototypical development costs of the conference center in Oconee County.

Developing a 10,000 net square foot conference center requires, on average, an additional 10,000 square feet of support space. Support space includes lobbies,

hallways, public restrooms, storage, catering kitchen, etc.

Building SF	Square Feet
Ballroom/Meeting	10,000
Support	10,000
Gross	<u>20,000</u>
Parking Spaces	150 - 250
Site Area (acres)	3.5 - 4.5

The facility would require from 150 to 250 parking spaces. The lower end of the range could be used if adjacent parking can provide for high occupancy situations. This building would require approximately 3.5 to 4.5 acres of land depending on the parking situation.

It is estimated that the facility could cost approximately \$5.4 million to develop, excluding land.

Land	<i>Not included Assumptions:</i>	
Hard Costs		
Construction	\$3,700,000	<i>\$185 psf</i>
Soft Costs		
Design, Engineering	250,000	<i>6.75%</i>
FF&E	400,000	<i>\$20 psf</i>
Sound, Video, Data	300,000	<i>\$15 psf</i>
Testing, Inspection, Permits	74,000	<i>2.00%</i>
Escalation	236,000	<i>5.00%</i>
Contingency	472,000	<i>10.00%</i>
Subtotal	<u>1,732,000</u>	
Total Development Cost	<u>\$5,432,000</u>	

Total development cost of the hotel and conference center would be approximately \$16.8 million.

WARRANTED PRIVATE INVESTMENT

Investment into the type of hotel being considered requires certain operating characteristics in order to make it financially viable to the investor. Typically, a hotel of this magnitude requires approximately \$130 in average daily rate, 75% occupancy and 25% in overall profitability to support debt and a targeted return on investment of 15% to 20%+.

The current economic conditions in the Oconee County area full service hotel market indicate that full service hotels are achieving average daily rates in the \$90 range and occupancies in the mid-50% range (43% in 2009). Additionally, hotel operational data supplied by Smith Travel Research indicate that regional comparable hotels and conference centers overall profitability is in the 9% to 11% range. These depressed market conditions and cash flows support 23% to 27% of the \$16.8 million targeted investment from the private sector. The remaining 73% to 77% would need to be publically financed.

Development of a hotel only, without the conference center component, would warrant similar investment from the private sector. Cash flows from a hotel without a conference center component support 18% to 22% of the \$11.4 million hotel-only project cost.

RECOMMENDATION

Although the analysis revealed positive support from local area corporations for the development of a hotel and conference center, the current market conditions make it challenging to support either a hotel conference center or a stand-alone hotel. Moreover, development of a hotel could further depress the market resulting in lower hotel occupancies and challenge economic realities for the area's existing hotels.

It is recommended the development of a hotel conference center or stand-alone hotel not be pursued at this time. Rather, the County may consider setting aside funding and planning for development at some point in the future when market conditions improve.

To assist with the overall success of the project, a site could be selected that is conveniently accessible to the majority of the corporate base and adjacent to golf course. Once market conditions improve, County ownership of the appropriate site will greatly assist with enticing private investment.