



Downtown Goshen Boutique Hotel Demand and Feasibility Study

Submitted to:

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Mark Brinson
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Dear Mr. Huber and Mr. Brinson,

The Elkhart County Convention and Visitors Bureau (ECCVB) engaged Hunden Strategic Partners (HSP) to conduct a market and feasibility study for the potential development of a hotel in downtown Goshen. The analysis includes a comprehensive study to determine room night generation and the likelihood that market participants would steer some of their corporate, group, and leisure businesses to a new downtown boutique hotel, based on research conducted by HSP. The attached is our report focused on the recommended 45-room property.

This deliverable has been prepared under the following general assumptions and limiting conditions:

- The findings presented herein reflect analysis of primary and secondary sources of information that are assumed to be correct. HSP utilized sources deemed to be reliable, but cannot guarantee their accuracy.
- No responsibility is taken for changes in market conditions after the date of this report and no obligation is assumed to revise this report to reflect events or conditions occurring after the date of this report.
- HSP has no control over construction costs or timing of construction and opening.
- Macroeconomic events affecting travel and the economy cannot be predicted and may impact the development and performance of the project.

We have enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely yours,

Hunden Strategic Partners

TABLE OF CONTENTS

-----	Executive Summary
Chapter 1	Economic and Demographic Profile of Goshen
Chapter 2	Hotel Industry, Trends and Local Market Analysis
Chapter 3	Comparable Hotel Developments
Chapter 4	Recommendations
Chapter 5	Demand and Financial Projections

INTRODUCTION

Hunden Strategic Partners was retained by the Elkhart County CVB to study the hotel market in the Goshen area, and the feasibility of an upscale boutique hotel development in downtown Goshen. Hunden Strategic Partners conducted a series of interviews of local employers, hoteliers, attractions, entertainment venues, restaurants, and business owners. HSP also profiled a variety of small hotel properties in small city downtown areas to understand how those fare.

HSP found that there are many local businesses and small community groups that regularly use meeting rooms, and others that are looking for opportunities to enhance the unique Goshen culture. Occasionally there is a need for large spaces to accommodate 25 to 40 people, either for social (particularly banquets and weddings) or business reasons. Unique and higher quality lodging and meeting spaces, however, are not available in the immediate local market.

The community is recovering from the economic recession and is prospecting and working to leverage its strengths to establish a creative class and promote its easy access to larger metros, cultural and artistic opportunities as well as celebrate the authenticity of its preserved historic downtown architecture. To do that, a hotel with amenities and function space is critical. Downtown has come very far and has a number of shops and restaurants that make it attractive. However, the downtown hotel market is nonexistent. There are six local hotels within the corporate limits of Goshen and they are severely lacking in providing a range of quality of rooms, total number of rooms, convenience and growth probabilities. The market ranges in chain scale and quality from upper midscale to economy, suggesting that Goshen's hotels are within the lower portion of the quality supply available. There are simply no options for someone wanting a better experience than a select service hotel. Yet the downtown environment is much richer than the existing quality, so replicating a midscale experience downtown is not sensible. The hotel downtown must at least match and hopefully elevate downtown's quality.

The need for meeting and event space for local businesses for the purposes of off-site meetings and special events like wedding receptions is increasing. Therefore, as corporations and events look to downtown Goshen as a destination, a hotel and event space with a unique setting and services will be an opportunity missed if the city foregoes the chance to meet this demand. The city looks to recapture the lost hotel stays and guest spending that takes place in nearby cities like Elkhart and South Bend.

As a result of the analysis and research, Hunden Strategic Partners is recommending for Goshen is a 45 to 50-room hotel with approximately 450 to 1,000 square feet of function space. A smaller hotel is harder to make economically efficient, as there are too few rooms to support fixed costs.

It is also advised that a small kitchen space be constructed for use to support catering plus a full-service restaurant that can offer three meals to accommodate the needs of guests and groups. In the meantime, there are several well-established and qualified restaurants in Goshen that already offer catering services and a variety of menus and cuisines, if the costs of an in-house kitchen are too great.

Goshen leaders realize that a subsidy (upfront or over time) may be required help the hotel project, as the scope of the project may initially be too expensive for the current market. However it will almost certainly see a growing business as the city continues to grow its culture of entrepreneurialism and reputation as a community with a strong quality of life for businesses, visitors and residents. The project should be viewed as an economic development project that will benefit all downtown businesses and help put Goshen on the map as a place to live, work, stay and play. The upfront incentive should mitigate upfront renovation and building costs and ramp-up operations, which are often slow at first. Excellent and experienced management is assumed. This project will not likely succeed without experience management of similar properties, even if subsidized.

SUMMARY OF CONCLUSIONS FROM CHAPTERS

Local Demographics and Economy

The City of Goshen and surrounding communities are rebounding after being hit hard by high unemployment during the recession. As the economy has recovered, Goshen's unemployment has sharply declined to below the national average. The downtown has become revitalized with a unique and growing mix of retail and restaurants, which has come as a result of small business owner's investing in redevelopment. The revitalization downtown has spurred a surge of entrepreneurship and a growing Millennial population. This has helped create a charming, homegrown appeal about Goshen, making the city a place people want to return to live as well as visit for a getaway. These trends should serve as a positive backdrop for the development of lodging downtown.

The city of Goshen features a charming, historic downtown with a mix of several unique shops and restaurants. There is a growing ethnic mix of restaurants, including, Mexican, Indian, Thai and Italian. South Main Street runs through the heart of the downtown and has been revitalized after the recession through redevelopment investment primarily from small business owners. Goshen is also experiencing a surge of entrepreneurship as people are returning to Goshen after college. The city has a lot of civic pride and continues to develop the homegrown Goshen experience. Downtown is fairly quiet at night, but looking to improve its nightlife through the renovations of The Goshen Theatre.

Hotel Market Analysis

HSP chose the relevant hotels that impact the market to profile and analyze within the Goshen hotel market area. The primary factors considered were location, function space, quality, amenities, size, brand and market demand mix. The local lodging market is characterized by a few limited-service and select-service, smaller hotel properties.

The following table lists the hotel properties in the market by number of rooms.

Table 1

City of Goshen Local Hotel Properties			
Property Name	Number of Rooms	Chain Scale	Open Date
Quality Inn & Suites Goshen	91	Midscale	Aug-89
Holiday Inn Express & Suites Goshen	76	Upper Midscale	May-09
Comfort Inn Goshen	74	Upper Midscale	Jan-11
Best Western Inn Goshen	72	Midscale	Jun-77
Hampton Inn Goshen	66	Upper Midscale	Jul-08
Super 8 Goshen	52	Economy	Jan-02
Total/ Average	431	--	Aug-99

Source: Smith Travel Research, Hunden Strategic Partners

There are a total of six lodging establishments in Goshen, totaling 431 rooms. The average open date of the set is 1999. The three upper midscale hotels have opened within the past six years, while the three lower chain scale hotels are over 12 years old. This suggests there will likely be a flight to quality in the Goshen market. The three most recent hotel developments are upper midscale and are the highest quality hotels available in the market.

The following map shows the location of the lodging establishments in the local market.

Figure 1



As shown these facilities are located in Goshen, but there are no options downtown. The six hotel properties are located along US 33, which is not walkable to downtown. The hotels within Goshen offer no or limited services and are not full-service. Some offer limited meeting space with only one or two meeting rooms.

The next table summarizes the properties by market class, average size, average opening date and number of hotels by class.

Table 2

Lodging Summary: Goshen					
Market Class	Rooms	% of Total Rooms	Hotels	Rooms per Hotel	Avg. Opening Year
Luxury	--	--	0	--	--
Upper Upscale	--	--	0	--	--
Upscale	--	--	0	--	--
Upper Midscale	216	50%	3	72	2009
Midscale	163	38%	2	82	1983
Independent	--	--	0	--	--
Economy	52	12%	1	52	2002
Total/ Average	431	100%	6	206	1998

Source: Smith Travel Research, Hunden Strategic Partners

As shown, there are no hotel options available above upper midscale and there are no independent hotels in the local Goshen market. The three upper midscale hotels are the most recent hotels to open and account for 50 percent of the total rooms available. The two midscale hotels account for 38 percent of the rooms, while the only economy hotel accounts for 12 percent of the rooms.

HSP used Smith Travel Research data to analyze the local set of hotels. The following table shows the performance data for the Goshen area competitive set of hotels from 2007 through October of 2013.

Table 3

Historical Supply, Demand, Occupancy, ADR, and RevPar for Goshen Hotels											
Year	Annual Avg. Available Rooms	Available Room Nights	% Change	Room Nights Sold	% Change	% Occ.	% Change	ADR	% Change	RevPar	% Change
2008	532	194,279	--	79,471	--	40.9	--	\$76.06	--	\$31.11	--
2009	616	224,845	15.7%	75,347	-5.2%	33.5	-18.1%	\$76.33	0.4%	\$25.58	-17.8%
2010	641	233,965	4.1%	99,819	32.5%	42.7	27.3%	\$70.23	-8.0%	\$29.96	17.1%
2011	466	170,257	-27.2%	87,124	-12.7%	51.2	19.9%	\$71.53	1.9%	\$36.60	22.2%
2012	431	157,315	-7.6%	91,046	4.5%	57.9	13.1%	\$72.96	2.0%	\$42.23	15.4%
2013	431	157,315	0.0%	93,535	2.7%	59.5	2.7%	\$75.70	3.8%	\$45.01	6.6%
2014 YTD (May)	431	65,081	0.0%	35,021	-5.2%	53.8	-5.2%	\$75.23	6.3%	\$40.48	0.7%
Projected 2014	431	157,315	0.0%	93,535	0.0%	59.5	0.0%	\$80.99	7.0%	\$48.16	7.0%
CAGR* (2008-2013)	-3.8%	-3.8%	--	3.5%	--	9.1%	--	-0.1%	--	8.9%	--

*Compound Annual Growth Rate
Sources: Smith Travel Research, Hunden Strategic Partners

Demand for room nights in the local set has been generally increasing over the past six years, although peaked in 2010 when supply was highest. The decrease in room night demand since then is largely attributed a supply decrease in 2011 and 2012 as the 207-room Goshen Inn and Conference Center closed. Room night supply increased in 2009 and 2010 when the 76-room Holiday Inn Express and 66-room Hampton Inn opened. Although the closing of the Goshen Inn took a third of the Goshen rooms out of the market, the property was old and dilapidated,

negatively impacting the attractiveness of the Goshen hotel market. As a result of the closure and new openings, the quality of the market improved, although it appears there still may be some unaccommodated demand staying in Elkhart that previously stayed in Goshen. Occupancy has increased from a low of 33.5 percent in 2009 to nearly 60 percent in 2013. This is an enormous turnaround for the market.

The average daily rate peaked at \$76.33 in 2009. After decreasing eight percent in 2010, the rate has increased each of the past three years and is expected to surpass the pre-recession peak in 2014. While the estimated advertised rates for each of the local hotels were determined to be higher, these do not take into consideration the corporate negotiated discounted rates for the major local employers in the Goshen area or the reduced military rate. The rate consistency, even with the loss of the lesser quality hotel, suggests that it was not accommodating much demand.

RevPAR, revenue per available room, is the product of occupancy and rate. The RevPAR in the local set has increased every year since 2010, with the most dramatic increase of 22.2 percent occurring in 2011. Even with inconsistent demand, the increasing average daily rate has helped to offset times of poor occupancy, leading to consistent increases in RevPAR. The RevPAR projected for 2014 is expected to increase due to rate increases more than changes in occupancy.

The hotel managers in the local set stated that approximately 70 to 80 percent of hotel occupancy is attributed to corporate transient business. According to the local hotels, the RV industry accounts for the majority of the corporate transient segmentation. Most local hotels stated that approximately 10 to 15 percent of hotel occupancy is attributed to groups, which consist of weddings, tour buses and some sports groups. The leisure market accounts for approximately ten to 15 percent of hotel occupancy.

The following table shows the occupancy by day of week per month for the twelve months following June 2013. Days of the week with occupancy between 75 and 80 percent are shown in yellow, suggesting mild displacement and unaccommodated demand, while orange shows days with 80 to 90 percent occupancy, suggesting very likely displacement. Days in red are for times when occupancy was beyond 90 percent for the set, suggesting near certain displacement.

Table 4

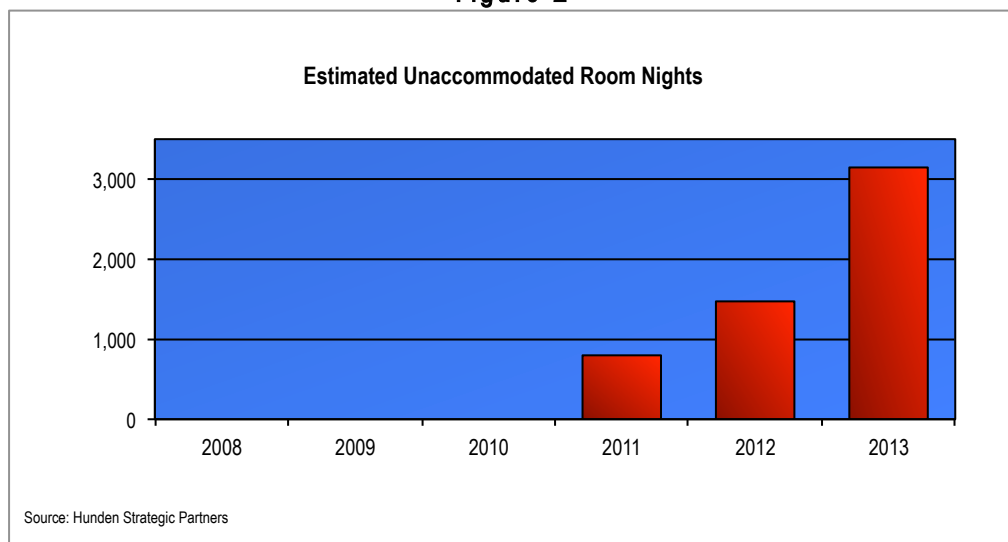
Occupancy Percent by Day of Week by Month - June 2013 - May 2014								
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Average
Jun - 13	48.7%	79.1%	89.6%	87.9%	70.9%	76.8%	75.1%	75.4%
Jul - 13	48.2%	77.8%	82.1%	78.1%	72.9%	75.0%	72.9%	72.4%
Aug - 13	49.8%	76.4%	80.4%	77.6%	77.4%	72.3%	73.3%	72.4%
Sep - 13	39.8%	57.1%	67.0%	66.7%	58.5%	67.7%	65.0%	60.3%
Oct - 13	35.6%	56.9%	67.1%	58.6%	51.2%	60.2%	60.9%	55.8%
Nov - 13	38.5%	56.1%	62.1%	58.1%	50.9%	59.7%	54.4%	54.2%
Dec - 13	26.3%	40.0%	48.6%	53.2%	48.4%	31.4%	28.8%	39.5%
Jan - 14	35.1%	53.0%	57.7%	50.8%	46.5%	34.4%	28.6%	43.7%
Feb - 14	36.5%	52.9%	59.7%	60.7%	51.9%	47.3%	44.4%	50.5%
Mar - 14	38.7%	58.6%	64.2%	67.9%	61.6%	51.4%	47.9%	55.8%
Apr - 14	36.2%	57.7%	63.7%	61.8%	51.1%	53.4%	52.0%	53.7%
May - 14	51.6%	66.4%	74.2%	74.9%	65.8%	60.4%	64.1%	65.3%
Average	40.4%	61.0%	68.0%	66.4%	58.9%	57.5%	55.6%	

Source: Smith Travel Research, Hunden Strategic Partners

As shown, occupancy is strong during the summer, but weak throughout the rest of the year. Looking at the local sets average occupancy, there does not appear to be enough demand to support an additional average quality hotel of 70 or more rooms, although if current trends hold (increasing demand), that could quickly change. When speaking with the upper midscale hotels such as the Holiday Inn Express and Hampton Inn, their occupancies are much higher than the averages in the set. This suggests a flight to quality and that there may be room in the market for another high quality hotel option.

The following figure shows the estimate of unaccommodated room nights over the past several years.

Figure 2



An unaccommodated room night is when a traveler seeking accommodations within the market must either cancel their stay or settle for accommodations of lesser quality because the desired facilities have no vacancies. The number of estimated unaccommodated room nights is determined in any month when occupancy is higher than 66 percent. Based on the prior table, there are sellouts at many hotels during the spring, summer and fall months, and even multiple days in the winter months. However, when rooms sell out or nearly do so, rates can be increased and the viability of new hotels is more likely.

The Goshen hotel market is concentrated along U.S. 33, or Lincolnway East, with no hotel options downtown. Despite having more than 200 rooms removed from the market, the loss of the low quality Goshen Inn has improved the overall attractiveness of the Goshen hotel package, but has left many unaccommodated visitors. The most recent hotels to open in the market have been upper midscale and have quickly become the top performers. This suggests the flight to quality in the market. Several key employers and key stakeholders in Goshen supported this evidence and expressed interest in a downtown boutique hotel.

Occupancy in the market has been inconsistent, while average daily rates have continued to increase. This has resulted in an increase in RevPAR as increases in average daily rate offset fluctuating demand. While corporate transient travelers drive high occupancy, leisure travelers, especially for Notre Dame football and graduation, are also driving higher rates because of the limited number of available rooms. For a downtown boutique hotel to be successful, it will be important to appeal to both types of travelers through marketing and available amenities.

Comparable Boutique Hotels

HSP analyzed six boutique hotels in the U.S. The hotels were located in markets that had estimated 2013 population totals between approximately 400 and 17,500 people. Most hotels are in the Midwest with the exception of two that are located in Pennsylvania. HSP focused on boutique hotels located in the downtown of the community in markets with few, if any, major attractions in the area. A key factor beyond market size is hotel room count. With fewer rooms, it is more difficult to generate the revenue needed to support a full-time staff. As room count increases, there is more revenue to cover fixed costs. HSP was interested to learn how smaller hotels fared in terms of overall performance and what that could mean for Goshen.

The following table shows a list of the boutique hotels profiled.

Table 5

Comparable Boutique Hotels								
Hotel	Location	2013 Est. Population	No. of Rooms	Low Rate	High Rate	Est. Avg.	Total Meeting Space	Restaurant
Jane Fargo Hotel	Sycamore, IL	17,534	39	\$68	\$160	\$105	4,953	Y
Hotel Winneshiek	Decorah, IA	8,089	34	\$119	\$239	\$159	2,021	Y
Charley Creek Inn	Wabash, IN	10,491	30	\$145	\$329	\$189	5,574	Y
Warwick Inn & Suites	Lititz, PA	9,388	26	\$65	\$165	\$88	--	N
Village Inn & Suites	Bird in Hand, PA	402	24	\$169	\$229	\$190	--	N
The Inn at Versailles	Versailles, OH	2,687	22	\$99	\$199	\$129	--	Y
Average	--	8,099	29	\$111	\$220	\$143	4,183	--

Source: Various Facilities, Hunden Strategic Partners

The boutique hotels profiled averaged approximately 29 rooms and are in markets with an average estimated 2013 population of 8,100 residents. Each one of these cities and towns are smaller than Goshen and may have smaller corporate markets. On average, rates for rooms with a single king-sized bed are \$159 during peak season and \$121 in the offseason and overall rates ranged from \$65 to \$329, with an estimated average of \$143. The three with the most rooms in the set offered meeting space, which help attract group business such as weddings and other special occasions. Four of the six profiled hotels featured an on-site restaurant.

Each of the towns in the comparable set are smaller than Goshen and have a wide range of tourist traffic and appeal. What is evident from the examples is that boutique hotels are not likely to be able to stand on their own without accompanying attractions and meeting facilities. Goshen has a small college campus with some ability to draw events or meetings, the restored Old Bag Factory shops, and a significant and sizable, active downtown, with a large number of historic buildings on Main Street and Lincoln Avenue near the courthouse. Goshen’s downtown lacks the charming walkable feel, number of tourist-oriented shops and consistent historic architecture of smaller villages that are so appealing to tourists, however. Highway 4, 15 and 33 all bring high volumes of traffic and trucks through the middle of the downtown. And yet, that traffic is the lifeblood of the retail core of downtown Goshen, despite efforts to route heavy traffic around Main Street onto 3rd Street.

The ability of Goshen to fill rooms in a boutique hotel will rely heavily on outside factors such as continued success of the Amish Country’s Heritage Trail, quilt tours related Amish tourism, fairgrounds and Goshen college. Placement of a hotel in a renovated historic structure such as the Hawks Building adds to the authenticity of the guest feeling as though they are having a unique experience that relates to local history. Further enhancements to the downtown area’s uniqueness and ability to attract more restaurants, boutiques shops, arts spaces and a variety of nightlife will greatly affect the success of a downtown boutique hotel.

As implied from the examples, the quality, location and uniqueness of the boutique hotel, as well as its amenities (restaurant and function space) all impact its ability to drive higher room rates. Those facilities outside of downtown or without historic charm have a harder time generated rates that are much higher than the typical hotel, while those with a full compliment of amenities and

history are able to generate average rates from \$130 - \$200. To support high rates, the owners and managers of a Goshen project will want to lock in higher weekday corporate rates with those executives or higher level business travelers coming through Goshen for work. This will allow it to compress rates for the remaining rooms that leisure travelers looking for an authentic experience will pay during the week. On weekends, it will be critical to create packages with area attractions, including arts and entertainment events.

SWOT Analysis

Strengths

- **Access.** Being located in downtown Goshen provides travelers easy access to the hotel. U.S. 33 brings most travelers to and from Goshen and passes through the heart of downtown. A downtown hotel would be minutes off of U.S. 33 providing easy access to visitors.
- **Civic Pride.** The City of Goshen and the residents have demonstrated a strong sense of pride in redeveloping the downtown. The community supports new projects in an effort to continually improve Goshen in a sustainable manor. There is a focus on having projects that do not cannibalize market share from other local businesses, which contributes to the collaborative atmosphere in the community. Residents want to see the city and downtown continue to grow, while maintaining the homegrown Goshen culture.
- **Committed Community Leadership.** The City of Goshen's leadership has demonstrated a commitment to stimulating redevelopment and reinvestment in the city, especially the downtown area. In addition, these commitments may take the form of financial contributions and ongoing support that could allow for better facilities geared toward a longer-term growth trajectory.
- **Downtown Redevelopment.** Downtown Goshen has seen improvement based on private investment and public leadership. A vibrant downtown consists of popular restaurants, shops and entertainment, providing a more visible face to the city and drawing more visitors from the surrounding areas. This helps the community as a whole and proves to visitors that it is serious about a vision for itself.
- **Strong Existing Quality Hotel Demand.** Perhaps one of the most encouraging signs for a project is the strong demand for quality hotel rooms in Goshen. Three upper midscale hotels have been opened in the past six years and are the highest quality hotels currently in the market. As part of the three, the Holiday Inn Express and the Hampton Inn are the top performers in the local market in terms of both occupancy and average daily rate. Interviews with local corporations and other organizations show that there is a desire for upscale, downtown accommodations. While not sizeable, it is enough demand to suggest room for a small upscale hotel project.
- **Walkable.** A downtown boutique hotel would be the only hotel available that would be walkable to downtown restaurants, retail and entertainment. Travelers would be

able to stroll the streets of downtown to visit shops, restaurants and entertainment without having to get into their car.

Weaknesses

- **Fewer Rooms.** Smaller hotels have difficulty generating enough revenue to cover fixed expenses, so the higher the room count, the better. Operating at the highest efficiency will be critical because the hotel will not be able to leverage economies of scale with fewer rooms. HSP recommends at least 45 rooms.
- **Smaller Market.** The population of Goshen and the business community is small in comparison to larger cities, which offer more attractions. As a result, there is not a critical mass of hotel demand from traditional local sources like corporate campuses, colleges, hospital campuses and other key group and corporate demand generators.
- **Visibility.** The hotel downtown would lack the clear visibility that the other hotels in the market benefit from. With all the other local hotels located on U.S 33, they have clear street visibility passing through Goshen. This is vital to groups and leisure travelers, who aside from possible wayfinding signage would be unaware of a new quality hotel development within Goshen. This will put additional pressure on the CVB and hotel to market itself effectively across the state and region.

Opportunities

- **Flight to Quality.** There is a flight to quality that occurs when new, well-located hotels open with the services and amenities customers expect. This then draws business from the existing hotels outside of Goshen (Elkhart, South Bend) back to Goshen where they intended to be anyway, but had no lodging options.
- **Lack of Boutique Hotel Experience.** The current market in Goshen does not offer a boutique hotel experience. There is a trend towards demand for boutique hotels, which Goshen has the opportunity to capture. Goshen already offers a small town with charming storefronts and restaurants, which would compliment a boutique hotel experience well. This is especially true when the boutique hotel is walkable to the downtown.
- **Lack of an Existing Upscale Hotel.** There is no direct competitor for an upscale hotel in the market, suggesting it would own its place in the market and should not displace much existing demand as current local hotels. Based on the limited number of existing quality hotels, a new upscale hotel should continue to improve the reputation of Goshen and attract a higher-income clientele.
- **Limited Available Function Space.** The hotels and other facilities in Goshen only offer a limited amount of function space. Several conversations with employers and key stakeholders suggested there is a need for more meeting space, especially if it has the ability to offer catering. Function space can also act as a draw for groups who are looking for a hotel.

- **Growing High-Income Market Base.** As the Goshen market has been rebounding and improving, it has been attracting a higher-income market to the city. The higher-income market includes visitors spending the night for Notre Dame football games or graduation, visiting professors to Goshen College, visiting doctors, corporate executives and emerging music artists to name a few. Additionally, special occasion venues in Goshen, who cater to many weddings, are also looking to target higher-income groups by raising rents and renovating facilities. These indicators of Goshen's improving market suggest an opportunity for a higher-quality hotel with above market rates.
- **Economic, Fiscal and Employment Benefits.** The downtown boutique hotel will entice visitors to visit Goshen businesses, restaurants and entertainment facilities. These visits result in increased downtown spending, and in turn, an improved local business environment, additional tax collections and an increased number of employment opportunities. The visibility that visitors will have of the downtown from the new hotel will show off the community to a new population that may consider visiting again or even moving to the community.
- **Strong Relationships with Local Businesses.** Being in the supportive Goshen community, a downtown boutique hotel would have the opportunity to utilize local businesses to contract out certain amenity services, such spa and massage packages. Additionally, certain demand generators suggested the possibility of co-promoting the hotel, along with their venue. These would help the hotel manage operating costs, while optimizing visitor experience in Goshen.

Threats

- **Above Market Rate.** Setting rates at the top of the market could pose a threat to the occupancy in the hotel. Managing room rates will be a challenge for a new hotel as it tries to establish higher rates that will be deemed a value proposition to guests.
- **Competition.** The downtown boutique hotel may experience a decline in occupancy should another boutique hotel be developed in downtown Goshen, or a higher quality branded product is developed. The city has stressed the importance of sustainable developments that do not cannibalize market share from other businesses, which should help limit this potential threat.
- **Operating Cost.** The profit margin on hotels is low for full-service properties, especially those with fewer rooms. With few rooms, the hotel will need to produce a high occupancy rate and high average daily rate in order to cover operating costs. The operating cost that will pose the biggest threat to the success of the hotel is managing staff salary expenses. Being able to employ enough staff to ensure a high quality experience for guests with less than 40 rooms to generate revenue will be a challenge for the hotel.
- **U.S. Economy and Weaker Demand.** The U.S. economy has been inconsistent, but slowly recovering. Any long-term economic malaise will be a headwind to

success. This especially poses a threat to a new real estate development in a market that relies heavily on one industry, manufacturing.

The following figure shows a proposed hotel site in relation to downtown.

Figure 3



A potential downtown boutique hotel site sits along the millrace, approximately one block east of downtown. The identified site is in close proximity to some of the demand generators downtown. The potential site is approximately 0.2 miles east of The Goshen Theater, 0.3 miles east of the Ignition Music Garage, 0.4 miles southeast of Venturi Pizza and walkable to several downtown shops. Additionally, the site is approximately 0.7 miles from Toy Barn, 1.2 miles from Bread and Chocolate, 1.4 miles north of the Red Tail Farm and 1.7 miles southwest of the Old Bag Factory.

Recommendations

Based on the current and expected conditions, HSP provides the following recommendations for the Goshen market.

- **Room Count.** An upscale downtown boutique hotel with 45 to 50 rooms is recommended. The more rooms available will make operating the hotel more efficient and will also allow for more group usage.
- **Expert Management.** Having the experience of a general manager or management company that knows how to excel at customer service while keeping costs to an absolute minimum is an art and science that takes several years of experience to perfect. Any proposed hotel should have absolutely experienced management.
- **Restaurant.** The hotel is recommended to offer a unique restaurant, which compliments the boutique atmosphere. The restaurant should feature three meals a day and offer complimentary continental breakfast to overnight guests. The restaurant needs to offer style and cuisine that cannot be found at other local restaurants to help attract both visitors and locals. To help with efficiency, the restaurant is advised to have the capacity to provide room service for the hotel as well.
- **Function Space.** HSP recommends the hotel offer meeting space to accommodate at least 30 to 50 guests, which would be 450 to 1,000 square feet. It is suggested that the space be equipped with the necessary technology to give local businesses the ability to host meetings at the facility. The restaurant should be able to provide catering needs for the space. This will enable the hotel to appeal to local businesses for lunch meetings. The space will need to be promoted in the community as an ideal location for an off-site meeting location.
- **Exceptional Service and Amenities.** Amenity services for the hotel, such as spa experiences, should be outsourced to local businesses in order to keep operating costs low. The hotel will need to find the best quality local businesses for the services to ensure the services match the quality of the hotel.
- **Rates.** The hotel room rates are recommended to start between \$129 and \$199, except for special event weekends like Notre Dame game weekends, when rates could be as high as \$299. This will need to be continually monitored based on market conditions, but many hotels make the mistake of underpricing their quality offerings. As the hotel penetrates the market and increases market share, rates may be raised. Rates should also fluctuate with day of the week, as corporate demand will be highest on Tuesdays and Wednesdays, while leisure demand is highest on weekends. Rates also must be seasonal.
- **Parking.** To appeal to a larger market, HSP recommends the hotel offer parking space for tour buses and music artist's trucks. Tour bus groups passing through Goshen, especially visiting the Amish Country, like staying at unique, boutique hotels. Parking to attract those groups would be ideal for the hotel. Additionally, music artists performing at Ignition Music Garage are often looking for a nearby hotel to stay. With

no other downtown option, the hotel could capitalize on this market by providing parking for their trucks, which carry the music equipment.

- **Marketing.** To help keep marketing costs low and promote the entire Goshen experience, it is recommended to co-promote with other local businesses. Some suggested businesses include, Ignition Music Garage, Red Tail Farm, Bread & Chocolate as well as any local companies that would provide the hotel's amenity services.

By enacting these recommendations, HSP believes the hotel will be a long-term success in Goshen. However, to get through the first several years, the hotel will likely need public support in the form of development financing assistance, as will be discussed in the following chapter.

Projection of Performance

The next table shows the expected level of performance of the modeled hotel.

Table 6

Performance Projection				
Year	Average Daily Rate	Occupancy	Revenue per Available Room	Annual Increase
2016	\$140	50%	\$71	--
2017	\$144	56%	\$81	15.0%
2018	\$149	66%	\$98	21.4%
2019	\$153	66%	\$101	3.0%
2020	\$158	66%	\$104	3.0%
2021	\$163	66%	\$108	3.0%
2022	\$168	66%	\$111	3.0%
2023	\$173	66%	\$114	3.0%
2024	\$178	66%	\$118	3.0%
2025	\$183	66%	\$121	3.0%

Source: Hunden Strategic Partners

The hotel is expected to penetration the market at a high level for both occupancy and average daily rate, with a stabilized occupancy of 66 percent and an average daily rate of \$149 (Year 3), assuming the hotel is of high quality, has the amenities and services assumed and is part of a unique and high quality project.

Understanding how the hotel will perform internally is as important to the feasibility as the external occupancy and rate projections. The next table shows the performance of the proposed hotel based on a number of assumptions about the property.

The figures are shown as earned (cash basis) and in nominal amounts, not discounted. PAR stands for “per available room” and are shown on an annual basis and POR stands for “per occupied room” and are shown on a per night basis.

Table 7

Projection of Income & Expense (in \$000, inflated)										
	Year 1				Year 2	Year 3	Year 4	Year 5		Year 10
	\$	%	PAR	POR	\$	\$	\$	\$	%	
Room Count	45				45	45	45	45		45
Available Room Nights	16,425				16,425	16,425	16,425	16,425		16,425
Occupancy Rates	50%				56%	66%	66%	66%		66%
Occupied Room Nights	8,270				9,249	10,864	10,864	10,864		10,864
Average Daily Rate	\$140				\$144	\$149	\$153	\$158		\$183
RevPAR	\$71				\$81	\$98	\$101	\$104		\$121
Percent of Change from Prior Year	--				15.0%	21.4%	3.0%	3.0%		3.0%
REVENUE										
Rooms	\$1,158	72.7%	\$25,738	\$140	\$1,332	\$1,617	\$1,666	\$1,716	72.5%	\$1,989
Hotel Food and Beverage	317	19.9%	\$7,042	\$38	366	445	460	473	20.0%	549
Telephone	2	0.1%	\$35	\$0	2	2	2	2	0.1%	3
Other Operated Departments	79	5.0%	\$1,760	\$10	91	111	115	118	5.0%	137
Parking & Transportation	2	0.1%	\$35	\$0	2	2	2	2	0.1%	3
Rentals and Other Income	36	2.3%	\$810	\$4	42	51	53	54	2.3%	131
Total Revenue	\$1,594	100.0%	\$35,421	\$193	\$1,835	\$2,229	\$2,298	\$2,367	100.0%	\$2,812
DEPARTMENTAL EXPENSES										
Rooms	335	28.9%	\$7,438	\$40	\$358	\$421	\$433	\$446	26.0%	\$517
Hotel Food and Beverage	260	82.0%	\$5,774	\$31	296	360	368	379	80.0%	439
Telephone	11	700.0%	\$246	\$1	13	16	16	17	700.0%	19
Other Operated Departments	13	16.0%	\$282	\$2	14	17	17	18	15.0%	21
Parking & Transportation	5	302.0%	\$109	\$1	6	7	7	7	300.0%	8
Rent and Other Income	1	2.0%	\$16	\$0	0	1	1	3	5.0%	7
Total Departmental Expenses	\$624	39.1%	\$13,866	\$75	\$687	\$820	\$842	\$869	36.7%	\$1,011
Gross Operating Income	\$970	61.5%	\$21,555	\$117	\$1,148	\$1,409	\$1,456	\$1,498	63.3%	\$1,801
UNDISTRIBUTED OPERATING EXPENSES										
Administrative and General	\$177	11.1%	\$3,932	\$21	\$194	\$225	\$230	\$237	10.0%	\$281
Marketing	\$110	6.9%	\$2,444	\$13	\$117	\$136	\$138	\$142	6.0%	\$169
Utility Costs	\$89	5.6%	\$1,984	\$11	\$94	\$107	\$110	\$114	4.8%	\$135
Property Operations and Maintenance	\$92	5.8%	\$2,054	\$11	\$97	\$111	\$115	\$118	5.0%	\$141
Total Undistributed Expenses	\$469	29.4%	\$10,414	\$57	\$503	\$580	\$593	\$611	25.8%	\$725
Gross Operating Profit	\$501	31.5%	\$11,141	\$61	\$645	\$829	\$863	\$887	37.5%	\$1,076
Franchise Fees	\$0	0.0%	\$0	\$0	\$0	\$0	\$0	\$0	0.0%	\$0
FIXED EXPENSES										
Property Taxes	\$22	1.4%	\$489	\$3	67	81	106	107	4.5%	131
Insurance	22	1.4%	\$496	\$3	24	27	28	28	1.2%	34
Management Fee	56	3.5%	\$1,240	\$7	64	78	80	83	3.5%	98
Reserve for Replacement	\$16	1.0%	\$354	\$2	\$28	\$45	\$69	\$71	3.0%	\$84
Total Fixed Expenses	\$116	7.3%	\$2,579	\$14	\$183	\$231	\$283	\$289	12.2%	\$348
Cash Flow from Operations	\$385	24.2%	\$8,563	\$47	\$463	\$599	\$581	\$598	25.3%	\$728

Source: Hunden Strategic Partners

The property is projected to generate a total of nearly \$1.6 million in gross revenue in the first year, increasing to nearly \$2.8 million in the tenth year. Approximately \$385,000 is estimated to be available to satisfy debt and equity requirements in the first year (24.2 percent of gross revenue), increasing to \$728,000 in the tenth year.

Report Layout

- Executive Summary
- Chapter 1 Economic and Demographic Analysis of Goshen
- Chapter 2 Hotel Industry, Trends and Local Market Analysis
- Chapter 3 Comparable Hotel Developments
- Chapter 4 Recommendations
- Chapter 5 Demand and Financial Projections

About Hunden Strategic Partners

Hunden Strategic Partners is a full service real estate development advisory practice specializing in destination assets. With professionals in Chicago, Minneapolis and Indiana, Hunden Strategic Partners provides a variety of services for all stages of destination development in the following primary areas:

- Real estate market and financial feasibility and financial consulting
- Owner's representation and operating consulting
- Strategy and master planning
- Public incentive analysis
- Economic, fiscal, and employment impact analysis (cost/benefit)
- Economic and tourism policy/legislation consulting
- Organizational development
- Research and statistical analysis
- Developer solicitation and selection; Private management company solicitation and selection

Hunden Strategic Partners professionals have provided all of the above services for hundreds of client projects worldwide for the public, non-profit and private sectors. In addition, our professionals have prior professional career experience in municipal and state government, economic and real estate development, real estate law, hotel operations and non-profit management. Over 70 percent of our clients are public entities, such as municipalities, counties, states, convention bureaus, authorities and other quasi-government entities empowered to conduct real estate, economic development and tourism activities.

Limiting Conditions

HSP relied on primary and secondary sources of information for the assumptions made in this report and assumes these sources to be accurate. Assumptions created for the analysis were based on the data available to HSP during the study period as well as professional judgment.

The Project is assumed to be owned and operated in a first-class manner by the parties who have operated similar facilities.

No responsibility is taken for unforeseen events occurring after the date of the analysis, including war and terror attacks, natural disasters and major economic recessions.

This report is intended to be used as a tool for decision-making by the contracting parties related to this Project and for no other purpose.

TABLE OF CONTENTS

----- Executive Summary

Chapter 1	Economic and Demographic Profile of Goshen
------------------	---

Chapter 2 Hotel Industry, Trends and Local Market Analysis

Chapter 3 Comparable Hotel Developments

Chapter 4 Recommendations

Chapter 5 Demand and Financial Projections

ECONOMIC & DEMOGRAPHIC ANALYSIS

Local market area characteristics such as population, a diversified economy, education, accessibility and tourist attractions influence the potential demand for a downtown boutique hotel. This section profiles the city of Goshen and the surrounding Elkhart County area, including an overview of the economic characteristics of the market.

Overview

The city of Goshen, located in Elkhart County, is a part of the Elkhart-Goshen Metropolitan Statistical Area (MSA) in northern Indiana, near the Michigan border. In 2010, the city's population was approximately 31,719 while the Elkhart-Goshen MSA, which includes all of Elkhart County, had a 2010 population of approximately 197,559. Goshen is also part of the larger South Bend-Elkhart-Mishawaka Combined Metropolitan Area including St. Joseph, Elkhart and Marshall Counties in Indiana, and Cass and Benton Counties in Michigan. The total population of this five-county region is 721,296, and is the state's second largest metropolitan area that lies primarily in Indiana.

Goshen is situated in the central region of Elkhart County, ten miles southeast of Elkhart. It is a smaller city within the South Bend-Elkhart-Mishawaka Combined Metropolitan Area, but has access to nearby metro areas such as:

- Fort Wayne, Indiana (55 miles to the southeast)
- Chicago, Illinois (123 miles to the west)
- Toledo, Ohio (140 miles to the east)
- Indianapolis Indiana (135 miles to the south)
- Detroit, Michigan (194 miles to the northeast)
- Kalamazoo, Michigan (56 miles to the north)
- Grand Rapids, Michigan (102 Miles to the north)

The following figure shows a map of Goshen and the surrounding Midwest region.

Figure 1-1



As shown, Goshen is within close proximity to the major cities of the Indiana, Michigan, Ohio and Illinois region.

Airport Access

Goshen Municipal Airport (GSH) is the closest airport, located three miles southeast of the central business district of Goshen. The airport is for public use and does not offer any commercial flights. The South Bend Airport (SBN) is the primary airport serving Goshen’s commercial travel, while Chicago’s Midway and O’Hare Airports are the primary airports by volume nearby for connectivity to numerous domestic and international travelers, although many will use SBN locally to then

connect through Chicago or other hub cities. SBN airport is located 36 miles northeast of Goshen and serves approximately 550,000 passengers per year. Three carriers currently serve SBN with regular service: Allegiant Air, Delta Airlines and United Airlines, flying to nine non-stop destinations. Destinations served from SBN are Atlanta, Chicago-O'Hare, Detroit, Las Vegas, Phoenix-Mesa, Minneapolis, Orlando/Sanford, Punta Gorda/Fort Myers, and Tampa Bay/St. Petersburg.

SBN's new \$11.8 million, 45,000-square foot airport building addition in Concourse A expanded the capacity for jets and passengers with five new jet bridges (bringing the total to nine), and also added amenities such as a dining room and concessions/lounge area, gift shops, a children's play area and a business center. The airport is one of the few multi-modal airports in that it serves as an interstate bus station, airport and interstate train station (for the South Shore commuter train west-bound to Michigan City, Gary, and Chicago) all in one building.

Highway Access

U.S. 33 begins in the southeast at U.S. 6 near Syracuse, Indiana, and routes northwest through Goshen until reaching U.S. 20 at the southeast corner of Elkhart. This is the main access road for travelers to connect to other highways. The road passes through downtown Goshen, and to the south, has the six hotels in the local set alongside it. Taking U.S. 33 northwest to U.S. 20, and continuing northwest on U.S. 20, connects Goshen to the Indiana Toll Road (Interstates 80/90). The toll road connects travelers to multiple cities in the region such as Chicago and Toledo and is one of the country's most traveled highways.

Population

A large population base is important to the success and demand of a downtown boutique hotel because the primary support for demand generators around the hotel will need to come from local and regional residents.

The table below shows the population characteristics of the state, MSA and City.

Table 1-1

	Population and Growth Rates				
	Population				Percent Change 2000 - 2010
	1990	2000	2010	2013 Estimate	
United States	248,709,873	281,421,906	308,745,538	316,148,990	9.7%
State of Indiana	5,544,159	6,080,485	6,483,802	6,570,902	6.6%
South Bend-Elkhart CSA	656,287	707,063	720,647	--	1.9%
Elkhart-Goshen MSA	156,198	182,791	197,559	200,563	8.1%
City of Goshen	29,383	30,053	31,719	32,219	5.5%
City Pop. As % of MSA	18.8%	16.4%	16.1%	16.1%	

Source: U.S. Census Bureau

The Goshen city population growth rate has been increasing and is within an even faster-growing MSA. Some growth in Goshen is coming from Millennials who are choosing to return to Goshen or stay after college due to new developments, low cost of living, positive downtown environment, start-up companies and nearby employment opportunities. Elkhart County has seen growth from 182,791 in 2000 to approximately 200,000 in 2013, while Goshen has grown from approximately 30,000 to more than 32,000, or seven percent, during the same span of time. This has occurred despite a wrenching series of boom and bust cycles within their major industries, especially manufactured housing and recreational vehicle production. The South Bend-Elkhart combined statistical area is experiencing a slower growth rate, but still has increased to more than 720,000 residents by 2010 from 707,000 in 2000.

The Elkhart and Goshen areas were highlighted by the national media and the White House during the latest economic recession, dubbed the Great Recession by many in the media, due to its severity and length. The Elkhart-Goshen region was hit especially hard, as its economy is cyclical in general and was hardest hit by high gasoline prices and the recession, combining to cause the expensive/luxury and gasoline-intensive RV industry to contract. This led to some of the nation's highest unemployment rates, as will be discussed. However, the region, as has been the case in every recession since these areas were developed, has bounced back with retooled and revitalized companies that are now generating substantial profit, growth and the commercial hotel demand that accompanies such reinvestment and growth.

Diversified Economy

A healthy and diversified economy provides not only employment and disposable income for a market's residents, but it also helps to insulate an area from economic downturns. Markets that have historically relied on one sector have often had difficulty recovering from market shifts to other sectors, which lead to an overall loss of local income and employment.

The following figure shows the 2012 levels of income by sector for Elkhart County.

Table 1-2

Elkhart County Income by Category - 2012		
Description	Income	Percent of Total
Earnings by place of work	\$6,520,056	100%
By Industry		
Farm employment	\$52,962	1%
Nonfarm employment	\$6,467,094	99%
Private earnings	\$6,007,132	92.1%
Manufacturing	\$3,149,599	48.3%
Health care and social assistance	\$562,370	8.6%
Wholesale trade	\$402,581	6.2%
Retail trade	\$309,491	4.7%
Construction	\$249,769	3.8%
Transportation and warehousing	\$233,469	3.6%
Other services, except public administration	\$203,701	3.1%
Management of companies and enterprises	\$171,235	2.6%
Professional, scientific, and technical services	\$158,765	2.4%
Administrative and waste management services	\$156,723	2.4%
Finance and insurance	\$131,079	2.0%
Accommodation and food services	\$111,955	1.7%
Real estate and rental and leasing	\$49,389	0.8%
Educational services	\$42,823	0.7%
Information	\$33,494	0.5%
Utilities	\$18,794	0.3%
Arts, entertainment, and recreation	\$11,477	0.2%
Forestry, fishing, and related activities	\$7,522	0.1%
Mining	\$2,896	0.0%
Government and government enterprises	\$459,962	7.1%
State and local	\$417,214	6.4%
State government	\$11,615	0.2%
Local government	\$405,599	6.2%
Federal, civilian	\$21,521	0.3%
Military	\$21,227	0.3%

Source: Bureau of Economic Analysis

As shown, employment in Elkhart County is dominated by the manufacturing sector, with nearly half of all earnings, which has caused the area to experience severe shocks relative to other areas during periods of economic contraction. The manufacturing sector accounts for approximately 48 percent, followed by health care and social assistance, then wholesale trade with 8.6 percent and 6.2 percent of the total income in the county, respectively. Employment through government enterprises comprises 7.1 percent of total earnings in the county.

Elkhart, Indiana is most known for the two industries of recreational vehicles and musical instruments. Elkhart is known as the "RV Capital of the World" as more than half of all RVs in the U.S. are constructed in Elkhart County. The number one selling manufacturer of motorhomes in North America is Thor Motor Coach, the result of a merger of Damon Motor Coach and Four Winds International. Several manufacturers of musical instruments and accessories, most of which have been absorbed into the Conn-Selmer conglomerate, have a long history in the city. Other notable industries in Elkhart include pharmaceuticals, electronic components, manufactured housing and mobile homes.

This heavy reliance on one industry in particular can be a positive in that being the center of an entire industry draws associated industries to the city, which can fuel rapid growth. Hence, in the previous thirty years, the county added hundreds of new jobs in this field during economic expansion, spurring associated growth in housing and related industries.

However, this same employment structure can be very precarious for the local economy. The severe worldwide economic downturn that began in October, 2008 was magnified in Elkhart as the world marketplace stopped buying RVs, mobile homes and boats, effectively eroding Elkhart's employment and total income. ABC-TV's World News Tonight featured Elkhart's struggles with rampant unemployment, and one of President Obama's first speeches as president addressed Elkhart while visiting the city during the recession. A steadily growing industry for decades in Elkhart had nearly ground to a halt all at once. After a few years of negative or near-zero growth, the industry has begun to grow again (although not to pre-2008 levels) thanks in part to new cable television shows that feature RV creations and renovations that are spawning a new generation of motor vehicle touring enthusiasts. As leisure time and discretionary income become steadily more available for travel and tourism, the Elkhart RV business is, building momentum.

According to a report on in September of 2014 in the Elkhart Truth, "The Recreation Vehicle Industry Association says combined shipments of towable RVs and motorhomes rose by nearly six percent in August from the same month last year. RV shipments for the first eight months of 2014 have reached about 246,000 units, a gain of nine percent from 2013. The RV association said that puts the industry on pace to ship about 350,000 units, which would be the most since 2007. Shipments dropped to about 165,000 in 2009. The association said factories in northern Indiana's Elkhart County were responsible for more than 80 percent of the country's 2012 RV production. Several RV companies have recently announced Elkhart County expansions."

Another subtler economic force that keeps the area competitive and helps it serve as an area for new company development is the presence of the Amish community. This community and culture contribute a knowledgeable workforce, especially in certain crafts and trades related to building vehicles, construction, tool making and general manufacturing. This reliable workforce has an excellent work ethic and is committed to the area, making it and the area a much more rich and home to a vibrant labor force.

Although still heavily reliant on the manufacturing industry, Goshen has recently been able to draw young, entrepreneurial companies to the downtown. The entrepreneurial companies are helping to spur new developments and continue to improve the community. Some of these firms include, The Red Post, Eyedart Creative Studio, Venturi and Janus Motorcycles. Continuing to attract a more

diverse employment base will enable Goshen to be able to better weather economic downturns in the manufacturing industry.

Income and Housing

The number of employed people and their income levels create a market for real estate developments. Indicators of a market’s overall wealth and growth can include trends in its income and employment.

The following table provides data on home ownership, income and retail sales based on the latest data from the US Census Bureau.

Table 1-3

Income, Spending and Other Demographic Data				
Category	United States	Indiana	Elkhart County	Goshen
Homeownership rate, 2008-2012	65.5%	70.6%	72.1%	62.7%
Median value of owner-occupied housing units, 2008-2012	\$181,400	\$123,400	\$125,900	\$108,100
Persons per household, 2008-2012	2.61	2.54	2.77	2.61
Median household income 2008-2012	\$53,046	\$48,374	\$46,712	\$41,214
Persons below poverty level, percent, 2008-2012	14.9%	14.7%	16.5%	21.2%
Private nonfarm employment, percent change, 2010-2011	1.3%	1.7%	8.3%	---
Retail sales per capita, 2007	\$12,990	\$12,408	\$12,182	\$23,042

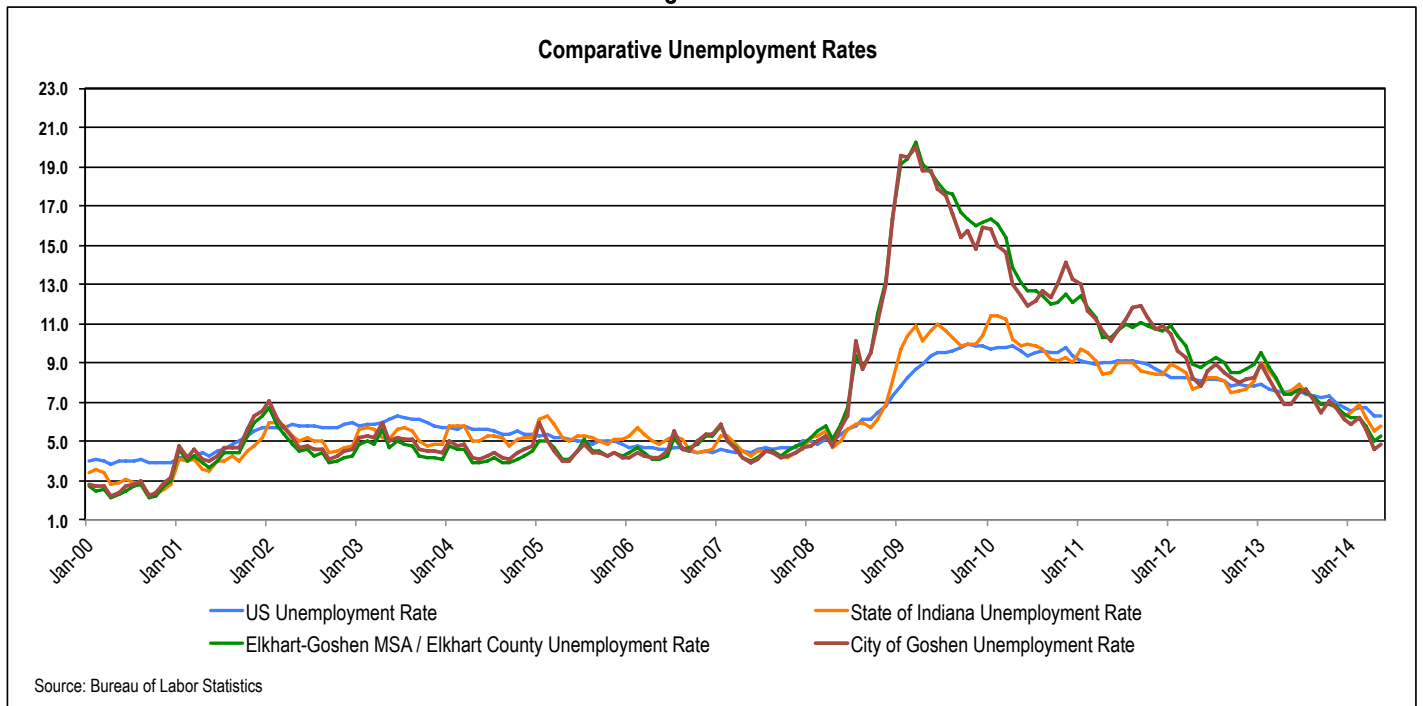
Source: US Census Bureau

The homeownership rate in Goshen is lower than that of Elkhart County, Indiana and the United States. The median value of owner-occupied housing and median household income tell a similar story, as both are lower in Goshen than compared to the county, state and the nation as a whole. Real estate values are determined by a combination of factors including density, quality of schools, and income levels. Since the median home values are comparatively lower, this helps to offset the lower median household income as a dollar goes further. The poverty level in Goshen is relatively high at 21.2 percent, which is more than six percentage points higher than the national average. However, the retail sales per capita in 2007 were substantially higher than county, state and national averages by nearly \$11,000, suggesting that Goshen is a destination for retail for those in the area around it

Unemployment

The following figure shows the unemployment rate in the MSA and county (green line), Indiana (orange line), the city (red) and the U.S. (blue line) from 2000 through May 2014.

Figure 1-2



During the recession, unemployment rates drastically increased for Goshen and the Elkhart-Goshen MSA. At the beginning of 2009, unemployment for Goshen was nearly double the national average as it increased to 20 percent (or one in five members of the labor force), due to Goshen’s reliance on manufacturing. As the economy has improved and manufacturing has picked up, the unemployment rate has quickly dropped and now is below the national average. This variability results from an economy that primarily relies on one industry. Interestingly, this same type of change did not occur during the prior recession of 2000-2001, primarily because gas prices were low and the attacks of 9/11 inspired people to travel domestically (using campers and RV’s) less than traveling abroad. Also, the housing market in general was not part of that particular boom/bust cycle.

Corporate Presence

In general, corporations provide stability to a market and generally consistent employment. They also provide demand for various real estate developments, such as a hotel. The following table shows the largest employers in Elkhart County by number of employees.

Table 1-4

Elkhart Area Top Employers		
Company Name	Industry	Number of Employees
Atwood Mobile Products Inc	Transportation Equipment Manufacturing	2,750
CTS Corp	Computer and Electronic Product Manufacturing	541
Gunite Corp	Transportation Equipment Manufacturing	410
Carpenter Co	Plastics and Rubber Products Manufacturing	400
Conn-Selmer Inc	Miscellaneous Manufacturing	350
Damon Corp	Merchant Wholesalers, Durable Goods	350
Truck Accessories Group LLC	Transportation Equipment Manufacturing	350
Elkhart Products Corp	Fabricated Metal Product Manufacturing	300
Nibco Inc	Fabricated Metal Product Manufacturing	291
Gunite EMI Corp	Primary Metal Manufacturing	285
Four Winds International Corp	Transportation Equipment Manufacturing	275
Forest River Inc	Transportation Equipment Manufacturing	250
Plumrose USA Inc	Food Manufacturing	250
Gc Bus Acquisition, Corp	Computer and Electronic Product Manufacturing	230
Sjc Industries Corp	Transportation Equipment Manufacturing	215
Norco Industries Inc	Furniture and Related Product Manufacturing	210
Continental Industries Inc	Fabricated Metal Product Manufacturing	200
Creation Group Holdings Inc	Merchant Wholesalers, Durable Goods	200
Forest River Inc	Transportation Equipment Manufacturing	200

Source: Elkhart County Economic Development Corporation

As shown, the largest private employer in the Elkhart area is Atwood Mobile Products, with approximately 2,750 employees. Manufacturing makes up the majority of local employers, most of which provide products and services for the transportation industry. Other manufacturing includes durable goods, computer and electronic products that support a large part of the local economy.

Elkhart and Goshen rely heavily on the recreational vehicle industry, including boat and conversion van manufacturers. Companies such as Thor Motor Coach, Bennington Marine, Forest River Inc., Heartland RVs, Hy-Line, Keystone, Monaco, Skyline, Sun Valley and Travel Supreme have a presence in Elkhart. Other RV makers in the county are Dutchean, Sulf Stream, and Jayco. There are numerous companies in the RV supply chain that provide manufacturers with parts and equipment that are also located in Elkhart County.

Miles Medical Company was started in 1884 in Elkhart, and produced Alka-Seltzer and Flintstones Vitamins before being purchased by Bayer, Inc. By 1995, all manufacturing related to the Miles Medical Company had been relocated to other cities. Most of the facilities have been demolished, while the few remaining sit unused. Elkhart is also home to NIBCO (Northern Indiana Brass Company), manufacturer of market flow control products such as piping systems, valves and fittings. Elkhart Brass Manufacturing, creator of fire-fighting equipment, is also a long-time

cornerstone of Elkhart industry. The city is also home to the Robert Young Rail Yards, which are the second-largest freight classification (freight car separation) yards in the world.

In addition, the Elkhart County region has a long storied history as a global hub for musical instrument manufacturing. By the late 19th century and early 20th century, musical instrument factories, Miles Medical Company, and numerous mills set up shop and became the base of the economy. Elkhart was once home to 60 instrument manufacturers. But the musical instrument industry has changed drastically as a result imports, consolidations and reduced school budgets for music. Over the years Elkhart has lost several instrument makers and its status as the band instrument capital of the world is questionable. Overseas competition, particularly from China, has crippled domestic manufacturing of trumpets, clarinets, flutes and all other types of horns.

Numerous manufacturers of musical instruments and accessories, of which most of the surviving companies have been absorbed into the Conn-Selmer conglomerate, have a long history in the city. Today, only three major companies remain in Elkhart County: Conn-Selmer, E.K. Blessing and Gemeinhardt Flutes. Conn-Selmer makes more than 50,000 instruments a year. At the Elkhart plants, workers turn flat sheets of brass into a trumpet bell, pull the holes up in the metal for flutes and build a variety of other instruments.

The following table shows a list of some of Goshen's largest employers.

Table 1-5

Largest Goshen Employers		
Company Name	Industry	Number of Employees
Keystone RV Company	Manufacturing	3,335
Dutchmen Manufacturing, Inc.	Manufacturing	1,400
IU Health Goshen	Healthcare	935
Oaklawn Psychiatric Center, Inc	Healthcare	700
MasterBrand Cabinetry	Manufacturing	700
Supreme Corporation	Manufacturing	633
CTB, Inc.	Manufacturing	600
ADEC - Resources for Independence	Human Services	350
Greencroft Goshen, Inc.	Healthcare	335
Wal-Mart Supercenter #1378	Retail	305
Benteler Automotive Corp.	Manufacturing	283
Goshen College	Education	250
City of Goshen	Government	210
Everence Financial	Financial Services	197
Essenhaus, Inc.	Restaurant	193
Troyer Foods, Inc.	Food Distribution	180
Interra Credit Union	Financial Services	151
Wieland Designs, Inc.	Manufacturing	150
Triangle Rubber & Plastics	Manufacturing	150

Source: Goshen Chamber of Commerce

Similar to the overall Elkhart employers, manufacturing is the primary employment source. Many of the manufacturing companies produce parts and components that go into the production of RVs. Healthcare is another large employment sector in Goshen, with IU Health Goshen employing more than 900 people.

Educational Attainment

The level of education in a community is generally linked to income potential and hence, disposable income and long-term growth. Highly educated people have more choices in terms of employment and where to locate themselves and their families. The higher the education level, the stronger the labor market and the more disposable income that is available to spend on recreational activities, such as dining out, attending cultural events and sports activities.

The following table shows the education attainment levels in the area.

Table 1-6

2010 Highest Education Level Attained (Population Age 25+)			
Population Age 25+	Goshen	Indiana	United States
Did Not Complete High School	19.7%	13.4%	15.4%
Completed High School	37.1%	37.6%	29.2%
Some College	16.9%	19.2%	20.6%
Completed Associate Degree	4.7%	7.0%	7.5%
Completed Bachelors Degree	13.7%	14.4%	17.5%
Completed Graduate Degree	7.9%	8.4%	9.8%

Source: CLR Search Demographics Summary

Goshen’s adult population ranks below the national averages by approximately 3.8 percentage points in terms of bachelor degree attainment and nearly two percentage points lower in terms of graduate degree attainment. The percentage of adults who have not completed high school is approximately 19.7 percent, which is higher than both the state and national averages. Goshen has nearly the same percentage of its adult population complete high school as the state, which is approximately eight percent higher than the national average. Overall, the educational attainment level of Goshen residents is lower than that of Indiana and the nation as a whole.

Higher Education

The presence of colleges, universities, and educational institutions can serve as a demand base for meetings and events, such as graduations, receptions and speaker series. Also, the student base in the Goshen area can significantly contribute to the local economy.

The following table shows colleges and universities in the Goshen area.

Table 1-7

Goshen Area Colleges & Universities				
Institution	Location	Distance from 46526	Highest Degree Offered	Enrollment
Goshen College	Goshen	0 miles	Masters	922
Anabaptist Mennonite Biblical Seminary	Elkhart	7.9 miles	Masters	98
Bethel College-Indiana	Mishawaka	17.9 miles	Masters	1,963
Brown Mackie College-South Bend	South Bend	21miles	Bachelors	652
ITT Technical Institute-South Bend	South Bend	21 miles	Bachelors	422
Indiana University-South Bend	South Bend	21.9 miles	Masters	8,490
Holy Cross College	South Bend	22 miles	Bachelors	450
Saint Mary's College	South Bend	22 miles	Bachelors	1,469
University of Notre Dame	South Bend	22 miles	Doctorate	12,126
<i>Grand Total:</i>				26,592
Source: National Center for Education Statistics				

The only educational institution in Goshen is Goshen College. The college enrolls approximately 922 students, offering as high as a masters level education. The largest institution in the region is the University of Notre Dame, with approximately 12,100 students, followed by Indiana University-South Bend, with nearly 8,500 students. These institutions are a major driver of economic activity in and around northern Indiana.

In addition to providing opportunities for higher education to both area residents and non-locals, the area’s colleges and universities offer attractive employment opportunities that provide stable demand generators in the market. The schools within the 25 miles of Goshen enroll more than 26,500 students, providing economic activity for the community.

Downtown

The city of Goshen features a charming, historic downtown with a mix of several unique shops and restaurants. There is a growing ethnic mix of restaurants, including Mexican, Indian, Thai and Italian. South Main Street runs through the heart of the downtown and has been revitalized after the recession through redevelopment-focused investment, primarily from small business owners. Goshen is also experiencing a surge of entrepreneurship as people are returning to Goshen after college. The town has visible civic pride and continues to develop the homegrown Goshen experience. Downtown is fairly quiet at night, but looking to improve its nightlife through the renovations of the Goshen Theatre as well as the addition of a hotel, which is the subject of this study. Fundraising for the Goshen Theatre’s renovations has just begun and are expected to cost \$9.5 million.

Tourism

Tourist attractions provide visitors with activities and if compelling enough, induce visitation. The more tourist attractions, the better the community can attract meetings, events and tournaments.

The following profiles describe the tourist attractions that generate demand for lodging accommodations and additional opportunities for the success of local businesses and visitors to further explore and revive the area.

- **Ignition Music Garage** - The venue hosts, on average, two to three concerts per month. The marketing radius for the shows is approximately 120 miles, which helps to draw in out of town visitors to spend the night. The venue targets emerging acts, focused on the area within 75 miles of Goshen. The artists also generate room nights in the community. In addition to the concert venue, Ignition Music Garage has a music shop with various music-related merchandise.
- **Bread & Chocolate** - Recently opening their second location at the Old Bag Factory, the event planning company has two locations in Goshen. The company caters to the needs of various occasions and events. Almost every weekend from April through December the company books both their locations with weddings, which generate the most room night demand. Their venues can accommodate different sized groups with one's capacity being about 150 guests, while the other can accommodate as many as 400 guests. The venue stated each wedding varies in terms of the number of room nights generated, but, on average, is around 50 room nights.
- **Red Tail Farm** – This is an Historic English three-bay threshing barn surrounded by forest and pastureland, parks and trails, a community garden, and recently restored wetlands. The property provides a setting for weddings, receptions, art exhibitions and other special events. The farm is a few minute drive from Goshen's downtown, as well as Goshen College and IU Health Goshen Hospital.
- **Goshen Theater** - The Theater has stood in downtown Goshen's entertainment and shopping district for over 80 years. The venue is one of the most significant pieces to the revitalization of downtown. As of mid-June, the not-for-profit group Goshen Theater officially signed legal documents to obtain possession of the theater. The group is now entering the fundraising stage in order to completely renovate the theater. The group estimates renovation costs of \$9.5 million and hopes to be able to re-open the theater within the next couple years.
- **First Fridays** - The free downtown event is held on the first Friday of each month with different themes and entertainment every month. Some examples of themes include: Homecoming in October, Goshen Arts Tour in November and Hometown Holidays in December. The event attracts thousands of people each month, who are mostly local.
- **Notre Dame Football/Graduation** - Goshen is approximately a 40-minute drive southeast of Notre Dame. Due to the close proximity, Notre Dame events such as football games and graduation are room night demand generators in Goshen.

- **Elkhart County 4-H Fairgrounds** - The Elkhart County 4-H Fair is one of the largest 4-H fairs in the country. During the 2013 Fair, more than 280,000 people attended the fair. The fair generates a number of room nights, but only for a limited time period of ten days.
- **Amish Heritage Trail Driving Tour** – Beginning at the Elkhart Convention and Visitor Bureau’s Visitor Center, the audio guided tour takes visitors on a 90-mile heritage trail through two counties and the surrounding Amish communities. The route connects historic places, towns, bridges, mills, schoolhouses, shops, and attractions. The tour offers seasonal themes and variations of the tour based on the visitor’s interests. There is a Quilt Gardens flower trail and hundreds of unique family businesses and attractions along the route, and depending on the viewer, the tour can take two hours to a few days of sightseeing and experiencing. The Amish are famous for their home-style cooking, particularly pies, jarred fruit preserves, pastries, loaves of bread, chicken, pot roast, potato dishes and vegetables served in family portions. This tour is the core of the “neat-as-a-whistle” red-barn Amish Country attractions, connecting every important historic and tourist location in the area, and nearly every town that is a center of Amish life. Visitors are routed back to Elkhart by the end of the tour.
- **Old Bag Factory** – Located in Goshen along the Heritage Trail, the former Cosmo Buttermilk Soap Company opened in 1896 with 80,000 square feet. In 1910, the plant was purchased by the Chicago–Detroit Bag Company and renovated. It produced a range of papers from Hershey’s wrappers to burlap sacks. By 1982, the once-successful factory ceased operations and closed. In 1984, the building was purchased and renovated as a facility to create handcrafted furniture. During this time, other artists began to occupy the building and associated nearby structures as places from which to conduct business. A resilient, artistic atmosphere of old brick and new ideas have made the building a popular spot for artists selling their unique crafts to visitors. Today, it is one of the region’s most popular craft and artisan shopping experiences.
- **Amish Acres and Round Barn Theater** – The 80-acre restored Amish farm is listed on the National Register of Historic Places. It offers food, lodging, and entertainment in 18 restored historic buildings, plus buggy rides, wine tasting and the professional Round Barn Theater. It features a large arts and crafts festival each summer in early August. This is one of the premier attractions in Amish Country.
- **Menno-Hof and Shipshewana Flea Market of Shipshewana** – The Amish and Mennonite history museum along with the very popular Shipshewana Flea Market is a site of merchants selling authentic items from antiques to livestock and includes Friday horse auctions. It is the nation’s largest flea market. Attractions include Yoder’s department store, over 100 specialty stores in the downtown area, Davis Mercantile, Hostetler’s Hudson Museum and at least six annual major festivals. More than 1.2 million guests visit this area every year, making this destination as visited as a theme park. The town is the only Indiana location on the list in the book *1,000 Places to See Before You Die*.

- **Das Dutchman Essenhaus** – This is Indiana’s largest restaurant with over 1,000 seats. On a busy Saturday, the restaurant may serve more than 7,000 people by 9pm. The menu options include chicken and noodles, breaded pork tenderloin, biscuits and chicken gravy, garden salad and several types of fresh pies. A gift shop allows visitors to take their favorite dishes, breads, pies and custards home. The stores are also noted for selling their own unique food products. In addition, the site features an inn with 89 rooms, a 4,000-square foot conference center, a golf course, six unique gift shops, a historic-inspired set of Amish farm buildings with more shopping inside and occasional events. The Classic Car Cruise-In is a weekly Thursday-night event in the summer featuring classic autos. This is one of the busiest attractions in Amish Country.

Implications

The City of Goshen and surrounding communities are rebounding after being hit hard by high unemployment during the recession. As the economy has recovered, Goshen’s unemployment has sharply declined to below the national average. The downtown has become revitalized with a unique and growing mix of retail and restaurants, which has come as a result of small business owner’s investing in redevelopment. The revitalization downtown has spurred a surge of entrepreneurship and a growing Millennial population. This has helped create a charming, homegrown appeal about Goshen, making the city a place people want to return to live as well as visit for a getaway. These trends should serve as a positive backdrop for the development of lodging downtown.

TABLE OF CONTENTS

-----	Executive Summary
Chapter 1	Economic and Demographic Profile of Goshen
Chapter 2	Hotel Industry, Trends and Local Market Analysis
Chapter 3	Comparable Hotel Developments
Chapter 4	Recommendations
Chapter 5	Demand and Financial Projections

GOSHEN HOTEL MARKET AND TRENDS ANALYSIS

This chapter includes a review of national hotel trends as well as an in-depth analysis of the local set of hotels that would compete with a new hotel in downtown Goshen.

National Hotel Market Trends

National hotel market trends are important to the development prospects of any hotel project, whether it involves macro supply and demand issues, amenity trends, financing or other trends impacting the industry.

The following table shows selected characteristics of the U.S. lodging industry from 1992 through November of 2013.

Table 2-1

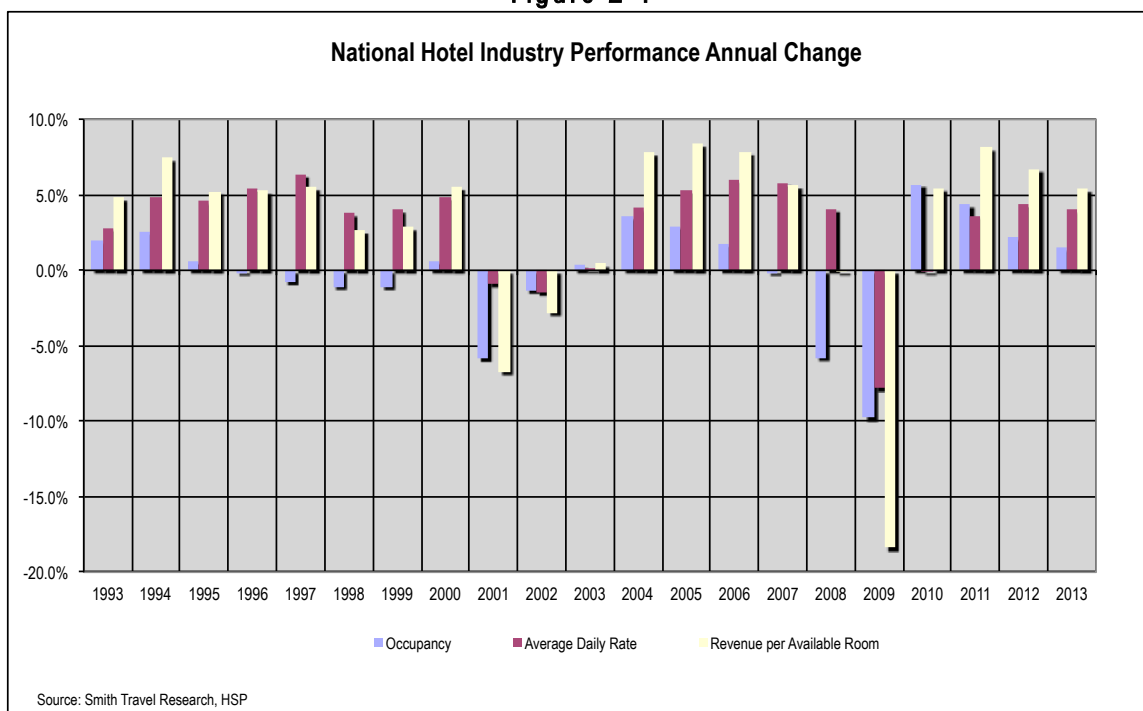
National Lodging Industry Annual Summary						
Year	Occupancy	Change	Average Daily Rate	Change	Revenue per Available Room	Change
1992	61.9%	--	\$59.62	--	\$36.90	--
1993	63.1%	1.9%	\$61.30	2.8%	\$38.68	4.8%
1994	64.7%	2.5%	\$64.24	4.8%	\$41.56	7.4%
1995	65.1%	0.6%	\$67.17	4.6%	\$43.73	5.2%
1996	65.0%	-0.2%	\$70.81	5.4%	\$46.03	5.3%
1997	64.5%	-0.8%	\$75.31	6.4%	\$48.57	5.5%
1998	63.8%	-1.1%	\$78.15	3.8%	\$49.86	2.7%
1999	63.1%	-1.1%	\$81.29	4.0%	\$51.29	2.9%
2000	63.5%	0.6%	\$85.24	4.9%	\$54.13	5.5%
2001	59.8%	-5.8%	\$84.45	-0.9%	\$50.50	-6.7%
2002	59.0%	-1.3%	\$83.20	-1.5%	\$49.09	-2.8%
2003	59.2%	0.3%	\$83.28	0.1%	\$49.30	0.4%
2004	61.3%	3.5%	\$86.70	4.1%	\$53.15	7.8%
2005	63.1%	2.9%	\$91.29	5.3%	\$57.61	8.4%
2006	64.2%	1.7%	\$96.77	6.0%	\$62.13	7.8%
2007	64.1%	-0.2%	\$102.38	5.8%	\$65.63	5.6%
2008	60.4%	-5.8%	\$106.55	4.1%	\$65.61	0.0%
2009	54.5%	-9.8%	\$98.20	-7.8%	\$53.55	-18.4%
2010	57.6%	5.7%	\$98.08	-0.1%	\$56.47	5.5%
2011	60.1%	4.3%	\$101.64	3.6%	\$61.06	8.1%
2012	61.4%	2.2%	\$106.10	4.4%	\$65.17	6.7%
2013	62.3%	1.5%	\$110.35	4.0%	\$68.69	5.4%
Avg. Annual Growth Rate		0.09%		3.03%		3.20%

Source: Smith Travel Research, HSP

Occupancy peaked at an all-time high of 65.1 percent in 1995, then steadily decreased to 59.0 percent following 9/11 and then rose again to peak at 64.2 percent in 2006. The latest recession is the most severe recorded in the hotel industry post-depression. Occupancy decreased to 54.5 percent, a 15 percent (nearly ten percentage point) decline. Average daily rate peaked at \$106.55 in 2008 and bottomed out in 2010 at slightly more than \$98. Occupancy increased in 2011 and rates began to increase as well. 2012 performance showed continued improvement, with occupancy at 61.4 percent, a 2.2 percent increase from 2011 and a \$106.10 average daily rate, four percent higher than 2011. 2013 data shows continued improvement of the average daily rate over the 2012 figure.

The figure below shows the above data in graph form, highlighting the annual change in performance.

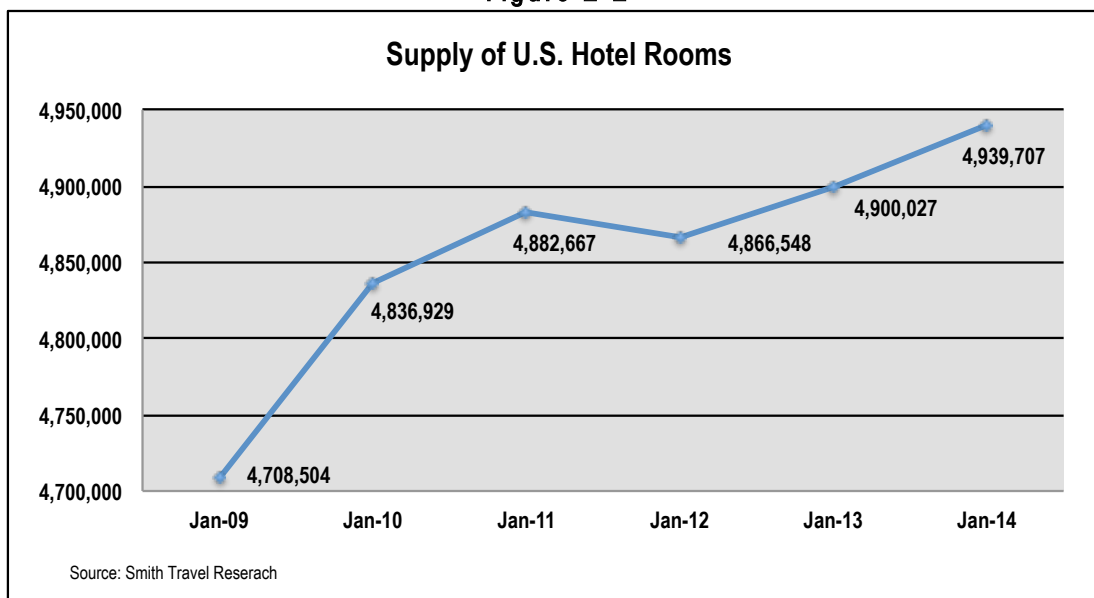
Figure 2-1



Performance in 2013 was much improved from the drastic decline in 2009. As the above graph indicates, from 1996 through 1999, 2007 and 2008 even when occupancy declines, average daily rates can increase. This speaks to the concept of maximum practical occupancy. At a certain average occupancy, there are enough “sold-out” dates and demand pressure to raise prices.

The following chart shows the trend of the U.S. hotel room supply between January of 2009 through January of 2014.

Figure 2-2



As demonstrated, the U.S. supply of hotel rooms has increased from approximately 4.7 million rooms in January of 2009 to more than 4.9 million rooms in January of 2014. Of the six years shown, the only decrease in hotel rooms in the U.S. hotel market was between 2011 and 2012. This growth rate was less than one percent per year, which was outpaced by demand growth, which is why occupancy has increased and rates have followed.

The following table shows the number of existing hotel rooms, rooms under construction and rooms in the active pipeline as of January 2014 sorted by chain scale.

Table 2-2

Chain Scale	Preliminary Existing Supply	Year Over Year Percent Change	Rooms Under Construction	Year Over Year Percent Change	Total Active Pipeline	Year Over Year Percent Change
Luxury	107,666	0.1%	4,577	-3.3%	7,367	-7.2%
Upper Upscale	563,809	2.3%	8,048	13.6%	24,358	58.8%
Upscale	609,801	3.5%	35,721	38.6%	96,348	17.0%
Upper Midscale	866,673	-0.3%	28,906	46.4%	99,280	12.6%
Midscale	484,836	1.5%	5,100	51.1%	21,130	7.8%
Economy	773,093	-0.2%	1,167	20.9%	4,179	4.4%
Unaffiliated	1,533,829	0.1%	13,329	21.8%	105,107	16.9%
Total	4,939,707	0.8%	96,848	33.4%	357,769	16.4%

Source: Smith Travel Research

Between January 2013 and January 2014, the hotel industry increased its total supply for the third consecutive year, this time by nearly one percent (more than 39,200 rooms). Among the chain scale segments, the upscale segment expanded the most during 2013, growing by 3.5 percent over the previous year. As of the end of January 2014 there are more than 96,800 hotel rooms under construction and nearly 357,800 rooms in the active development pipeline of 2,925 projects.

The total active pipeline data includes projects in planning, final planning and under construction but not those in the pre-planning stage. The ‘in planning’ stage is defined as projects where an architect or engineer have been selected, and plans are in process where initial approvals have typically been granted. ‘Final planning’ is defined as the stage where the project has gone out for bids or construction is expected to begin with four months. ‘Pre-planning’ is defined as the period before an architect has been selected.

The following table shows the existing supply of rooms, rooms under construction and the year over year percent change of the top ten hotel markets.

Table 2-3

Top Ten U.S. Markets by Hotel Rooms in the Construction Phase As of January 2014			
Market	Existing Supply	Rooms Under Construction	Year Over Year Percent Change
New York, New York	108,712	11,189	12.2%
Washington D.C.	105,573	2,819	-9.6%
Los Angeles-Long Beach, California	97,416	2,523	225.5%
Orlando, Florida	118,706	2,358	-16.9%
Miami-Hialeah, Florida	48,592	1,975	66.7%
Houston, Texas	74,849	1,930	229.4%
Denver, Colorado	41,417	1,913	45.6%
Chicago, Illinois	109,044	1,892	-18.3%
Seattle, Washington	40,729	1,242	345.2%
Dallas, Texas	78,384	1,196	367.2%

Source: Smith Travel Research

New York City reported the largest number of rooms under construction as of January 2014, while Orlando reported the largest existing supply. The Washington, D.C., Los Angeles-Long Beach and Orlando markets all reported more than 2,000 rooms under construction. Dallas experienced the largest percentage increase in rooms under construction, with a year-over-year percent change of nearly 370 percent.

Development and Financing

The hotel development pipeline had been robust until 2008, when the credit crisis hit and real estate in all sectors declined. This has made credit more expensive and the combination of lack of funds and poor market performance essentially stopped new developments in 2009.

Since then, credit has loosened for hotels and more and more loans were being made in 2012 and 2013 for hotels. Demand outpaced supply for so many years during the recession that banks could not ignore the opportunity, nor could developers.

The loan-to-value ratio (LTV) is an important measure of the amount of risk banks are willing to take on real estate investments. Historically, hotels have exhibited a higher risk level in the eyes of lenders and have required a substantial equity investment. However, cookie-cutter branded prototype projects at interstate intersections – very predictable to bankers in terms of safety and profitability – have achieved loan-to-value rates of up to 90 percent.

As the performance of hotels improved, bankers felt more comfortable approving higher loan amounts relative to the value of the project. As its peak in 2005, the LTV was nearly 70.6 percent on average. It decreased to 60 percent in 2008 and has been slowly recovering since that time, reaching closer to 70 percent in 2013.

Transactions

Capitalization rates (cap rates) are a measure of risk and reward. The higher the cap rate, the riskier the market expects an investment to be and the higher the possible reward expected. To determine value, appraisers, buyers and sellers use net operating income divided by the cap rate. A hotel with \$1 million in net operating income and a ten percent cap rate would have a value of \$10 million. However, using a five percent cap rate would give a value of \$20 million. During the height of the hotel buying frenzy in 2005 and 2006, some hotels were sold at effective cap rates lower than five percent, leading to extraordinary values.

Cap rates for hotels have historically been in the 8 to 12 percent range for most markets, except in places like New York, San Francisco, Boston and Hawaii. The rate was below ten percent in 2005 and 2007 and below nine percent in 2006, leading to record sales prices and intense transaction activity. Some transactions included cap rates as low as three percent during the height of the hotel financing and construction boom of 2005 to 2007. The rates then increased substantially during the recession, lowering valuations and the ability to get loans. The higher the cap rate, the lower the valuation of the hotel and with the market-wide increase in cap rates, hotel transaction activity ceased for about three years, with the exception of foreclosed hotels. Between 2009 and 2011, overall cap rates for full service hotels decreased from 8.95 percent to 7.5 percent. While from 2011 to 2012, rates increased from nearly seven percent to over eight percent.

According to a 2013 Hospitality Investment Survey by PKF, capitalization rates for recent transactions in high barrier-to-entry markets have sunk as low as five percent and two to three percent in major transactions, demonstrating investor expectations and trust of improved market

and decreased risk levels. Overall investment parameters have been flat for two years at 7.9 percent, down from 8.1 percent in January 2011.

The following table shows historical capitalization rates by chain scale.

Table 2-4

Property Type	Capitalization Rates From Sales Transactions							
	2013		2012		2011		2010	
	Average	Range	Average	Range	Average	Range	Average	Range
Full Service Including Luxury	6.2%	2.9% - 7.9%	5.8%	1.5% - 11.7%	6.1%	0.05% - 10.9%	5.3%	1.7% - 8.0%
Select Service and Extended Stay	7.4%	2.5% - 14.2%	7.4%	4.0% - 11.7%	7.7%	3.2% - 12.6%	7.8%	3.1% - 12.4%
Limited Service	9.2%	5.4% - 12.9%	9.3%	3.7% - 12.2%	9.5%	0.03% - 30.0%	8.5%	1.3% - 16.3%

Source: HVS, Hunden Strategic Partners

The above capitalization rates are based on historical net income at the time of sale divided by the sales price. In riskier markets, cap rates are higher. For Goshen, the cap rate would be dependent upon the quality of the hotel product being built, the brand, the existing market conditions and the cap rates of similar projects.

Development Costs

The next table shows the hotel development costs for the various quality segments of hotels for 2013/14. These figures are critical when considering which type of hotel to develop. Because the data is sorted and averaged by HVS prior to appearing in the table, the totals do not match the medians and averages for each type of property.

Table 2-5

2013/2014 Hotel Development Cost Survey Per-Room Averages						
	Land	Building and Site Improvements	Soft Costs	FF&E	Pre-Opening & Working Capital	Total
Budget/Economy Hotels						
Average from Budgets	\$12,300	\$58,700	\$5,800	\$8,300	\$3,200	\$77,400
Median	\$18,200	\$53,300	\$2,900	\$8,300	\$3,000	\$71,200
Allocation	14%	66%	10%	11%	4%	
Midscale Hotels w/o F&B						
Average from Budgets	\$15,400	\$77,200	\$11,700	\$10,300	\$4,200	\$109,100
Median	\$14,100	\$68,300	\$8,500	\$10,000	\$4,000	\$93,100
Allocation	12%	68%	9%	11%	2%	
Extended Stay Hotels						
Average from Budgets	\$12,800	\$83,800	\$11,600	\$13,400	\$3,700	\$141,000
Median	\$11,400	\$75,000	\$10,200	\$13,800	\$3,500	\$121,900
Allocation	10%	68%	9%	13%	1%	
Midscale Hotels W/ F&B						
Average from Budgets	\$14,600	\$83,100	\$13,600	\$13,900	\$3,900	\$129,400
Median	\$11,000	\$68,500	\$10,700	\$13,000	\$3,700	\$110,900
Allocation	16%	63%	11%	11%	1%	
Full-Service Hotels						
Average from Budgets	\$36,300	\$154,900	\$17,200	\$25,400	\$17,200	\$267,900
Median	\$35,000	\$140,600	\$14,400	\$24,700	\$16,000	\$214,800
Allocation	14%	65%	10%	11%	4%	
Luxury and Resorts						
Average from Budgets	\$93,600	\$373,900	\$81,900	\$56,800	\$20,800	\$641,000
Median	91,300	\$324,200	\$90,400	\$60,700	\$18,700	\$576,500
Allocation	18%	58%	14%	10%	4%	

Source: HVS

Costs per room vary drastically depending on the chain scale, from a median of \$53,300 for economy properties up to \$324,200 for luxury properties. For most developments, the question is whether or not the average daily rate is greater than the cost per room to build.

A good rule of the thumb in the industry is that the average daily rate multiplied by 1,000 will give a developer a sense of what cost of hotel the market will support. So for example, a hotel expected to perform at \$125 per night on average could be developed for \$125,000 per room.

Largest Hotel Brands

One of the continuing trends of the past decade has been the growth of hotel companies to create and expand brands into every conceivable niche, including extended stay (discussed below), boutiques, fractional, etc. These companies typically do not own their hotels, but brand them and provide the support, advertising, group sales and other services for the hotel owners for a fee.

The table below shows the top 15 hotel brands in the world, by number of rooms.

Table 2-6

Top Fifteen Global Hotel Brands by Room Count - As of January 2013					
Rank	Brand	Company	Hotels	Rooms	Rooms/Hotel
1	Holiday Inn and Holiday Inn Express	InterContinental Hotels Group	3,392	424,612	125
2	Best Western	Best Western	4,024	311,611	77
3	Marriott Hotels & Resorts	Marriott International	558	204,917	367
4	Comfort Inns & Suites	Choice Hotels International	2,509	194,262	77
5	Hilton Hotels & Resorts	Hilton Worldwide	551	191,199	347
6	Hampton Inn	Hilton Worldwide	1,880	184,765	98
7	Ibis (Megabrand)	Accor	1,667	182,496	109
8	Home Inns	Home Inns	1,438	164,325	114
9	Sheraton Hotels & Resorts	Starwood Hotels & Resorts	427	149,784	351
10	Days Inn	Wyndham Hotels Group	1,826	147,808	81
11	Super 8 Motels	Wyndham Hotels Group	2,314	147,512	64
12	Courtyard	Marriott International	929	136,553	147
13	Quality Inn	Choice Hotels International	1,479	133,515	90
14	Ramada Worldwide	Wyndham Hotels Group	850	115,811	136
15	Crowne Plaza Hotels & Resorts	InterContinental Hotels Group	392	108,307	276
Total		--	24,236	2,797,477	164

Source: MKG Hospitality

As shown, the Holiday Inn and Holiday Inn Express are the world’s largest combined brands, with nearly 3,400 hotels and nearly 425,000 rooms. The Best Western brand is the world’s largest single brand, with more than 4,000 hotels and nearly 312,000 rooms.

Other Trends of Note

Several other trends have been occurring in the industry over the past several years. These include:

- **Amenity Creep.** The major brands, led by Starwood, began introducing a higher quality of amenities in their hotels. This began with the “Heavenly Bed” for Westin and now all major brands have their own premium-bedding product. It continued with bathroom products, flat screen televisions, wireless internet, customizable sound and lighting systems, branded gym/spa experiences and other amenities now expected that previously were considered to be luxuries. These have even crept into the limited service brands. Overall, this has increased the initial and ongoing costs of hotels, although customers have been loyal to those that have implemented the improvements.
- **Brands Multiply.** Worldwide, the expansion of brands continues to change the face of the competitive environment. Eager to show earnings and market share for Wall Street, major brands compete fiercely. Using multiple brand products clustered in the same corporate structure, proprietary reservation systems and corporate programs work in tandem to drive business. Comparing profit potential of a brand to one without a brand is becoming a serious exercise for hotel owners. At the same time, the

proliferation of brands means fewer independents that struggle for fair share using price as the preferred strategy. With all traditional niches covered, for example, Marriott has now entered the boutique market with the Autograph Collection. Hilton and others are attempting to do the same.

- **Global Travel and the Impact of Energy Prices and Economic Conditions.** The large fluctuations in oil and fuel costs have a continual impact on travel and will continue to be a major factor in the coming years.
- **Green Policies.** Requirements, by law and the guests, on businesses enforcing green practices are becoming tougher to comply and even become a demand driver. Eco-consciousness is a popular trend among new generations and, suddenly, energy systems, insulation, produce origin and even amenities become differentiation factors. Hotels can capitalize on the environmentally sensitive customers by adapting sustainability practices such as Element by Starwood.
- **Distribution.** The increase in booking travel via the Internet has been a major trend in the industry for more than a decade, with approximately 30 to 40 percent of booking research done online and one-third of revenue booked online in 2010. While in 2012, 85 percent of leisure travelers rely in the Internet to plan and book travel. An additional estimated 30 to 40 percent of bookings were researched online. This has brought transparency and increased competition to the market and all players with a solid Internet and distribution strategy are able to compete effectively. As third party websites, smartphones and available applications are rapidly becoming a key factor in every travel stage by easing access to planning and booking tools that ease the customers' experience. Travelers expect a more informed and collaborative travel experience, especially driven by the evolving smartphone functionality. Hotel companies are creating property-specific websites to differentiate each property and reach given markets and traveler segments than the cookie-cutter website
- **Technology.** The rapid advance of technology means hotels have to continually keep up with the expectations of their guests. With multiple wireless devices, guests expect a high-speed wireless network throughout the hotel that will allow them to use their smartphones, tablets (led by the iPad) and laptops without connectivity issues. In-room movies via Lodgenet can now be controlled via an application on a guest's smartphone. Many hotels have begun to introduce in-room iPads that allow concierge services, room service, check out, entertainment and other items to be taken care of directly from the device.
- **Social Media, Crowd-Rating and Mobile Connectivity.** The rise of social media and user-based ratings has had a direct impact on hotel decision-making. Sites like Trip Advisor allow users to rate and castigate hotels directly on the website, which allows potential customers to determine if they will choose that hotel. Hotels have to be incredibly proactive and reactive to comments posted on Twitter, Facebook and such ratings sites including OTA's. Approximately one in three business travelers' have rated an establishment. Mobile connectivity, as mentioned above, has become a crucial factor in a travelers' experience. Mobile-friendly websites and mobile applications are

the most used mean for corporate travelers, 70 percent, to check in to flights and/or hotels, while one in four hotel queries come from a mobile device.

- **Demographics.** Two major demographic shifts marked the beginning of positive growth in the hotel business. The first is both baby boomers and millennials being the target market for their luxury consumption. The baby boomer generation became a target audience due to the amount of disposable income and nest egg capital allowing them to travel in large numbers for the next decade. Millennials are the second demographic group tapped as an up-and-coming luxury consumer group affecting the industry and being targeted by the industry itself with different marketing strategies than its preceding groups. Millennials are drawn to entertainment, technology and accessibility. Secondly, the BRIC economies, (Brazil, Russia, India and China) have exploded in their economic power over the past several years. This has led to a massive increase in the middle classes in these nations and these populations are traveling in increasing numbers.
- **Boutique Brands.** This seemingly incongruous phrase is a trend occurring in the industry. The largest brands have run out of market segments to fill, so they are seeking the last bastion of the industry: independent boutique hotels. By creating a boutique “collection” that can benefit from (and provide distribution to) the primary brand family, both the hotel and brands can prosper. For example, with all traditional niches covered, Marriott has now entered the boutique market with the Autograph Collection. These hotels are not owned or operated by Marriott and do not even carry a Marriott brand, per se, but use the Marriott reservation system to route travelers to these formerly independent hotels. Guests get their Marriott points and some expectation of high quality. Hilton, Starwood and others are attempting to do the same.

GOSHEN HOTEL MARKET ANALYSIS

HSP chose the relevant hotels that impact the market to profile and analyze within the City of Goshen market area. The primary factors considered were location, function space, quality, amenities, size, brand and market demand mix. The local lodging market is characterized by a few limited-service and select-service, smaller hotel properties.

The following table lists the hotel properties in the market by number of rooms.

Table 2-7

City of Goshen Local Hotel Properties			
Property Name	Number of Rooms	Chain Scale	Open Date
Quality Inn & Suites Goshen	91	Midscale	Aug-89
Holiday Inn Express & Suites Goshen	76	Upper Midscale	May-09
Comfort Inn Goshen	74	Upper Midscale	Jan-11
Best Western Inn Goshen	72	Midscale	Jun-77
Hampton Inn Goshen	66	Upper Midscale	Jul-08
Super 8 Goshen	52	Economy	Jan-02
Total/ Average	431	--	Aug-99

Source: Smith Travel Research, Hunden Strategic Partners

There are a total of six lodging establishments in Goshen, totaling 431 rooms. The average open date of the set is 1999, or about 15 years old. The three upper midscale hotels have opened within the past six years, while the Best Western at nearly 40 years old skews the average age higher.

The largest hotels are the Quality Inn & Suites, built in 1989 with 91 guestrooms, followed by the 76-room Holiday Inn Express & Suites and the 74-room Comfort Inn. The most recent hotels to open in the market are the 74-room Comfort Inn, 76-room Holiday Inn Express & Suites and the 66-room Hampton Inn, which opened in 2011, 2009 and 2008, respectively. All of the three most recent hotels are upper midscale and are the highest quality hotels available in the market. The smaller size of the prototypical hotels suggests a generally lower overall demand, but still of high enough quality and rate to attract upper midscale brands. The Super 8, while newer, is only an economy offering and so represents the lower end of the scale.

The following map shows the location of the lodging establishments in the local market.

Figure 2-3



As shown these facilities are located in Goshen, but there are no options downtown.

The City of Goshen has six lodging establishments. All the hotels are off US 33, which is not walkable to downtown. The hotels within Goshen offer the basic and select services, such as limited, if any, food options. Some offer limited meeting space with only one or two meeting rooms.

The next table summarizes the properties by market class, average size, average opening date and number of hotels by class.

Table 2-8

Lodging Summary: Goshen					
Market Class	Rooms	% of Total Rooms	Hotels	Rooms per Hotel	Avg. Opening Year
Luxury	--	--	0	--	--
Upper Upscale	--	--	0	--	--
Upscale	--	--	0	--	--
Upper Midscale	216	50%	3	72	2009
Midscale	163	38%	2	82	1983
Independent	--	--	0	--	--
Economy	52	12%	1	52	2002
Total/ Average	431	100%	6	206	1998

Source: Smith Travel Research, Hunden Strategic Partners

As shown, there are no hotel options available above upper midscale and there are no independent hotels in the local Goshen market. The three upper midscale hotels are the most recent hotels to open and account for 50 percent of the total rooms available. The two midscale hotels account for 38 percent of the rooms, while the only economy hotel accounts for 12 percent of the rooms.

The following are profiles of each hotel in the local set.

Quality Inn & Suites Goshen

The Quality Inn & Suites Goshen is located at 1930 Lincolnway East, or U.S. 33. The hotel opened in 1989 and is the largest hotel in the set, offering 91 rooms. Amenities available at the hotel include a seasonal outdoor pool, a fitness center, heated indoor pool, bus and truck parking, a free hot breakfast and meeting space. The meeting space consists of two rooms that total 1,056 square feet, which can be combined to accommodate up to 60 guests.

The following figure shows the property's exterior.

Figure 2-4



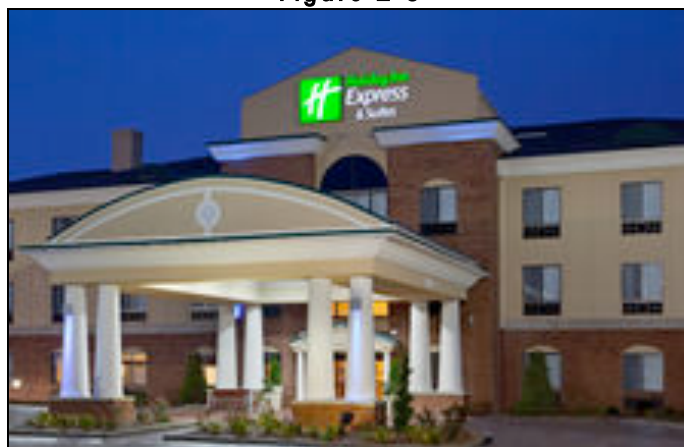
Approximately 60 percent of guests are corporate transient. The rest are mostly leisure travelers, although the hotel occasionally welcomes sports groups. Rates range from \$49 to \$89, depending on day of week and time of year. Rates can double during Notre Dame weekends, as with most area hotels.

Holiday Inn Express & Suites Goshen

The Holiday Inn Express & Suites Goshen is located at 1415 Lincolnway East. The hotel is one of three upper midscale hotels in the local area and is one of the best performers. The hotel opened in 2009 and offers 76 rooms, along with 625 square feet of meeting space. Amenities available include a business center, fitness center and indoor pool. Rates range from \$84 to \$109, depending on day of week and time of year. Rates can double during Notre Dame weekends, as with most area hotels.

The following figure shows the property's exterior.

Figure 2-5



The hotel's demand consists of approximately 75 percent corporate transient, 15 percent group and 10 percent leisure. The group business is generated from weddings and tour buses on weekends and corporate during the week.

Comfort Inn Goshen

The Comfort Inn Goshen, located at 2309 Lincolnway East, is an upscale hotel that opened in 2011. The hotel is the most recent one to open and offers 74 rooms. Amenities include an exercise room, an indoor pool, truck parking, free hot breakfast and 400 square feet of meeting space.

The following figure shows the property's exterior.

Figure 2-6



Approximately 80 percent of the hotel's business comes from corporate transient guests, while the remaining 20 percent is evenly split between group and leisure travelers. Most guests are associated with the RV industry. Rates range from \$64 to \$104, depending on day of week and time of year. Rates can double during Notre Dame weekends, as with most area hotels.

Best Western Inn Goshen

The Best Western Inn, located at 900 Lincolnway East, opened in 1977 and is the oldest hotel in the local set. The hotel is currently undergoing both interior and exterior renovations. Their business mostly comes from a blue-collar market and the renovations are intended to draw more white-collar business to the hotel. The hotel offers 72 rooms, but has no meeting space. Amenities include complimentary breakfast, truck/RV parking and a business center.

The following figure shows the property's exterior.

Figure 2-7



Demand consists of approximately 70 percent corporate transient travelers, five percent from group demand and 25 percent from leisure travelers. Group business is mostly from weddings. The hotel does not attract tour bus business due to their breakfast area not being large enough to accommodate groups. Rates range from \$49 to \$99, depending on day of week and time of year. Rates can double during Notre Dame weekends, as with most area hotels.

Hampton Inn Goshen

The Hampton Inn Goshen, located at 1968 Lincolnway East, was the first upper midscale hotel to open in Goshen. The hotel opened in 2008 and offers 66 rooms with 468 square feet of meeting space. The Hampton Inn is one of the best performing hotels in the set. The local corporate travelers typically prefer to stay in hotels where they can benefit from rewards or loyalty programs. Amenities include a business center, fitness center, a pool and complimentary breakfast.

The following image shows the exterior of the hotel.

Figure 2-8



Business at the hotel is generated from approximately 70 percent corporate transient, 15 percent group and 15 percent leisure travelers. The group business is mostly weddings, but the hotel does see some tour buses and sports groups. Rates range from \$84 to \$119, depending on day of week and time of year. Rates can double during Notre Dame weekends, as with most area hotels.

Super 8 Goshen

The Super 8 Goshen, located at 2628 Lincolnway East, is the only economy scale hotel in the local market. The hotel opened in 2002 and is the smallest hotel in the local set. The hotel offers 52 rooms and does not feature any meeting space. Amenities at the hotel include a business center, truck/bus/RV parking and free breakfast.

The following figure shows the exterior of the hotel.

Figure 2-9



It is estimated that business comes from 75 percent corporate transient, 10 percent group and 15 percent leisure travelers. Rates range from \$49 - \$74, depending on day of week and season.

Demand Generators

HSP had conversations with several key stakeholders and key employers to understand the hotel demand generators and their needs. Conversations discussed whether or not there was demand for a boutique hotel downtown as well as discuss the types of amenities that the demand generators would like to see in such a hotel. The following summarizes each of our conversations.

- **IU Health/Goshen** - The hospital on average generates between 20 and 30 room nights per month. Demand for room nights comes from people visiting family members in the hospital and visiting doctors. The hospital prefers to house visitors in the best hotels available, which currently are the Holiday Inn Express & Suites and the Hampton Inn. The hospital expressed that it would like to see meeting space, which it could use for physician education.
- **Supreme Corporation** - The amount of room nights that the corporation generates on a monthly basis fluctuates. Some months generate as few as four to five room nights a month, while other months during hiring periods or customer appreciation day may generate as many as 35 room nights in a month. Management expressed interest in a boutique hotel downtown priced between \$100 and \$150 per night. Management would also like to see meeting space, such as a conference room, and a restaurant suitable for lunch meetings as well as a free continental breakfast.
- **Lippert Components** - The company's visitors prefer to stay in a branded hotel that offer reward or loyalty programs and would likely not be interested in a boutique hotel downtown. Lippert Component's offices have meeting space to accommodate their needs and, therefore, would not be a regular user of function space the proposed boutique hotel.
- **Forest River** - The number of room nights the company generates fluctuates each month. Important factors that impact the company's hotel selection for visitors are accessibility, rates under \$100 and a continental breakfast included in the stay. The company does not have a need for additional meeting space. The conversation suggested a boutique hotel downtown would be good for the community, but not ideal to accommodate Forest River clientele.
- **Goshen Chamber** - The Chamber specifically does not generate any room nights. The conversation suggested a boutique hotel downtown would rate high among visitors and act as a high pull factor or opportunity to attract and keep visitors in the city. Meeting space at the hotel would be helpful to the community.
- **Goshen Mayor** - The city is experiencing several improvements, which involve a variety of solutions to drive new developments. Spending from business owners is driving the redevelopment in the community. This is leading to a good mix of retail and new businesses downtown, which are attracting a young, diverse population. The downtown also has a growing mix of ethnic restaurants, including, Mexican, Thai, Indian and Italian. Overall, the city is rebounding, resulting in a decrease in unemployment to five percent and where people are returning to live in Goshen.

- **The Red Post/Venturi Restaurant** - Both The Red Post and Venturi have the same owner. The Red Post is a growing, young entrepreneurial firm that will be looking to expand its staff. The prospective new hires would likely use a new boutique hotel downtown, as The Red Post would like to attract top talent. The company has few out-of-town visitors on a regular basis, but those that do are typically high-income earners and expense travel costs to their company. The owner believes this clientele would be interested in a boutique hotel downtown. The company also could potentially utilize meeting space, if it can accommodate more than ten people. Venturi is a popular Italian restaurant and pizzeria that attracts diners from out of town. The owner suggested rates for the hotel to be sub-\$200, possibly around \$180.
- **Lofty Ideas** - The owner would like to see the hotel appeal to locals as well as offer a unique restaurant that would not cannibalize market share from existing restaurants. From talking with other community members, the owner suggested there would demand for a downtown boutique hotel from visiting doctors and professors. During Notre Dame football games, current hotels fill-up quickly, suggesting that overflow would also utilize a downtown boutique hotel.
- **Ignition Music Garage** - The music venue and shop is a consistent demand generator for visitors looking to spend a night in Goshen. The music garage puts on two to three concerts a month, which average 90 attendees. The owner conservatively estimates concerts could generate three to four rooms per show. Ignition Music Garage has a following list of approximately 2,400 as well as 800 followers on Facebook. The marketing radius for the venue extends approximately 120 miles from Goshen. The owner expressed interest of cross promoting together with the hotel. One important feature of the hotel that would help attract business from the venue would be available parking for artists' tour bus or trucks. The owner suggested a starting room rate of \$100 to \$139, and then raising rates as occupancy increases. There are also plans of starting a music festival across the street from the hotel site as early as next summer, which provides an opportunity to be a large room night generator for the proposed hotel.
- **Chocolate & Bread** - The catering and event company has two venues, the newest one being in the Old Bag Factory, which are usually completely booked on weekends April through December. The majority of events booking the venues are weddings. On weekdays, the venues will mostly hold local corporate events. The two venues have available space for approximately 150 guests and 350 to 400 guests. The company will host as many as four weddings over a weekend, one at each venue on Saturday and Sunday. The venues are higher quality and attract an upscale clientele. Currently, the company recommends the Holiday Inn Express & Suites, but would like to have the option of recommending a higher quality hotel. Some guests who prefer higher quality hotels after the wedding will go to Elkhart or South Bend for the night. Chocolate & Bread conservatively estimated they would, on average, generate 50 room nights per weekend night. The company likes the idea of the Brewpub at the proposed hotel. The Chocolate and Bread policies only allow alcohol to be served for five hours. Several wedding groups would like to keep celebrating afterwards, but there are limited options in town. A venue where guests could not only keep celebrating, but also spend the

night would be ideal. Additionally, Chocolate & Bread suggested a shuttle service to and from their venue would help attract wedding guests to stay at the downtown boutique hotel.

- **Red Tail Farm** - A historic English three-bay threshing barn that hosts weddings, receptions, art exhibitions and other special events. Currently, the facility can host up to 200 guests, but have renovation plans to expand the capacity of the facility within the next two years to be able to accommodate 250 guests. It is estimated the facility generates between 20 and 25 room nights per weekend. Budgets for guest's hotel rooms vary, but many like the Holiday Inn Express. The barn plans to appeal to a higher-income market by raising rates, which would likely be interested in a boutique hotel experience. Management suggested that a shuttle service would act as a big draw for guests when looking to book hotel rooms, especially a shuttle to the South Bend Airport.

Accommodated Demand and Local Set Performance

HSP used Smith Travel Research data to analyze the local set of hotels. The following table shows the performance data for the Goshen area competitive set of hotels from 2007 through October of 2013.

Table 2-9

Historical Supply, Demand, Occupancy, ADR, and RevPar for Goshen Hotels											
Year	Annual Avg. Available Rooms	Available Room Nights	% Change	Room Nights Sold	% Change	% Occ.	% Change	ADR	% Change	RevPar	% Change
2008	532	194,279	--	79,471	--	40.9	--	\$76.06	--	\$31.11	--
2009	616	224,845	15.7%	75,347	-5.2%	33.5	-18.1%	\$76.33	0.4%	\$25.58	-17.8%
2010	641	233,965	4.1%	99,819	32.5%	42.7	27.3%	\$70.23	-8.0%	\$29.96	17.1%
2011	466	170,257	-27.2%	87,124	-12.7%	51.2	19.9%	\$71.53	1.9%	\$36.60	22.2%
2012	431	157,315	-7.6%	91,046	4.5%	57.9	13.1%	\$72.96	2.0%	\$42.23	15.4%
2013	431	157,315	0.0%	93,535	2.7%	59.5	2.7%	\$75.70	3.8%	\$45.01	6.6%
2014 YTD (May)	431	65,081	0.0%	35,021	-5.2%	53.8	-5.2%	\$75.23	6.3%	\$40.48	0.7%
Projected 2014	431	157,315	0.0%	93,535	0.0%	59.5	0.0%	\$80.99	7.0%	\$48.16	7.0%
CAGR* (2008-2013)	-3.8%	-3.8%	--	3.5%	--	9.1%	--	-0.1%	--	8.9%	--

*Compound Annual Growth Rate
Sources: Smith Travel Research, Hunden Strategic Partners

Demand for room nights in the local set has been generally increasing over the past six years, although peaked in 2010 when supply was highest. The decrease in room night demand since then is largely attributed a supply decrease in 2011 and 2012 as the 207-room Goshen Inn and Conference Center closed. Room night supply increased in 2009 and 2010 when the 76-room Holiday Inn Express and 66-room Hampton Inn opened. Although the closing of the Goshen Inn took a third of the Goshen rooms out of the market, the property was old and dilapidated, negatively impacting the attractiveness of the Goshen hotel market. As a result of the closure and new openings, the quality of the market improved, although it appears there still may be some unaccommodated demand staying in Elkhart that previously stayed in Goshen. Occupancy has increased from a low of 33.5 percent in 2009 to nearly 60 percent in 2013. This is an enormous turnaround for the market.

The average daily rate peaked at \$76.33 in 2009. After decreasing eight percent in 2010, the rate has increased each of the past three years and is expected to surpass the pre-recession peak in 2014. While the estimated advertised rates for each of the local hotels were determined to be higher, these do not take into consideration the corporate negotiated discounted rates for the major local employers in the Goshen area or the reduced military rate. The rate consistency, even with the loss of the lesser quality hotel, suggests that it was not accommodating much demand.

RevPAR, revenue per available room, is the product of occupancy and rate. The RevPAR in the local set has increased every year since 2010, with the most dramatic increase of 22.2 percent occurring in 2011. Even with inconsistent demand, the increasing average daily rate has helped to offset times of poor occupancy, leading to consistent increases in RevPAR. The RevPAR projected for 2014 is expected to increase due to rate increases more than changes in occupancy.

The hotel managers in the local set stated that approximately 70 to 80 percent of hotel occupancy is attributed to corporate transient business. According to the local hotels, the RV industry accounts for the majority of the corporate transient segmentation. Most local hotels stated that approximately 10 to 15 percent of hotel occupancy is attributed to groups, which consist of weddings, tour buses and some sports groups. The leisure market accounts for approximately ten to 15 percent of hotel occupancy.

The next table shows an estimate of the individual performance of Goshen hotels, including their estimated average daily rate, occupancy and market segmentation.

Table 2-10

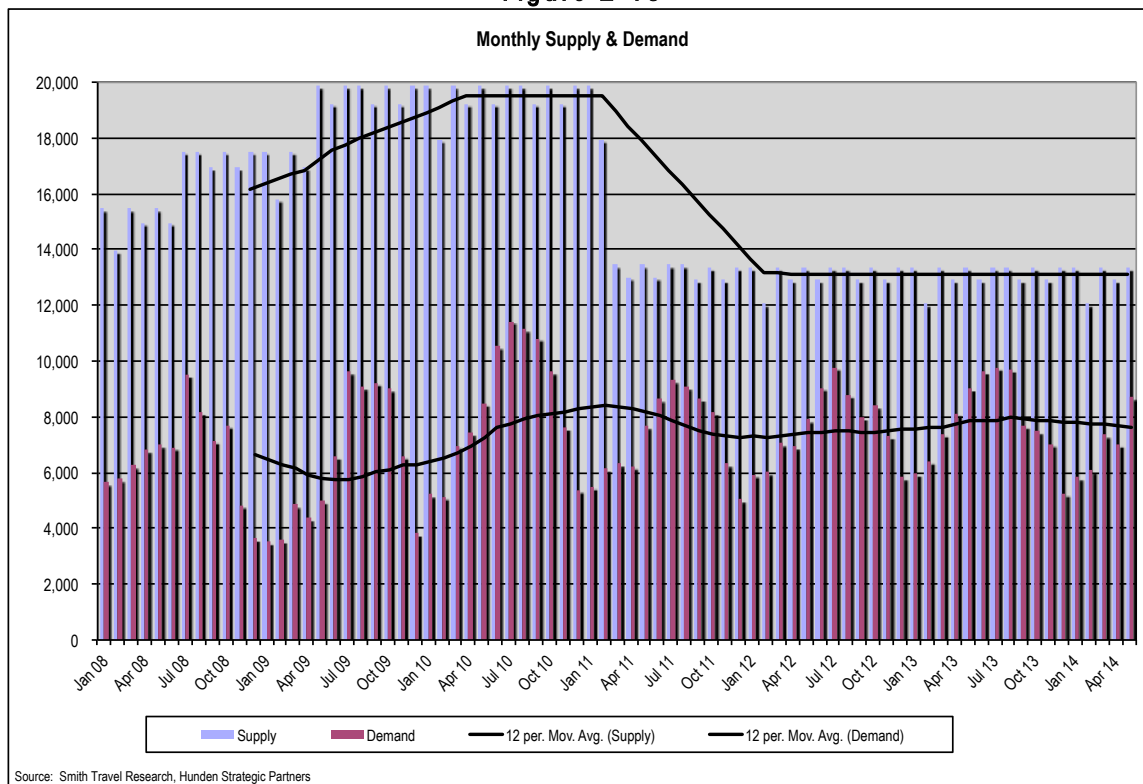
Estimated Competitive Set Hotels Occupancy, Rate & Market Segmentation for 2013								
Hotel	Rooms	Occupancy	Avg. Daily Rate	RevPAR	RevPAR Yield	Market Segmentation		
						Corp. Transient	Group	Leisure
Quality Inn & Suites Goshen	91	54%	\$68	\$37	83%	60%	0%	40%
Holiday Inn Express & Suites Goshen	76	71%	\$89	\$63	143%	65%	15%	15%
Comfort Inn Goshen	74	58%	\$74	\$43	97%	75%	10%	15%
Best Western Inn Goshen	72	50%	\$55	\$28	63%	70%	5%	25%
Hampton Inn Goshen	66	72%	\$92	\$67	151%	70%	15%	15%
Super 8 Goshen	52	48%	\$54	\$26	58%	65%	10%	25%
Total/Weighted Averages	431	58.5%	\$75.66	\$44.24	100%	68.1%	9.5%	22.5%

Source: Hunden Strategic Partners

As shown and based on interviews and other research, HSP estimates that the top performing hotels are the newest and highest quality hotels: the Holiday Inn Express and the Hampton Inn, each with approximately 140-150 percent RevPAR yield. RevPAR is the product of occupancy and rate and a 100 percent index or yield would match the average for the set. The other properties have much lower rates and occupancy levels, suggesting there is a flight to quality, which is good for the proposed boutique hotel. Market segmentation is approximately 68 percent corporate transient, 22.5 percent leisure and 9.5 percent group.

The following figure shows the supply and demand trends for the competitive set.

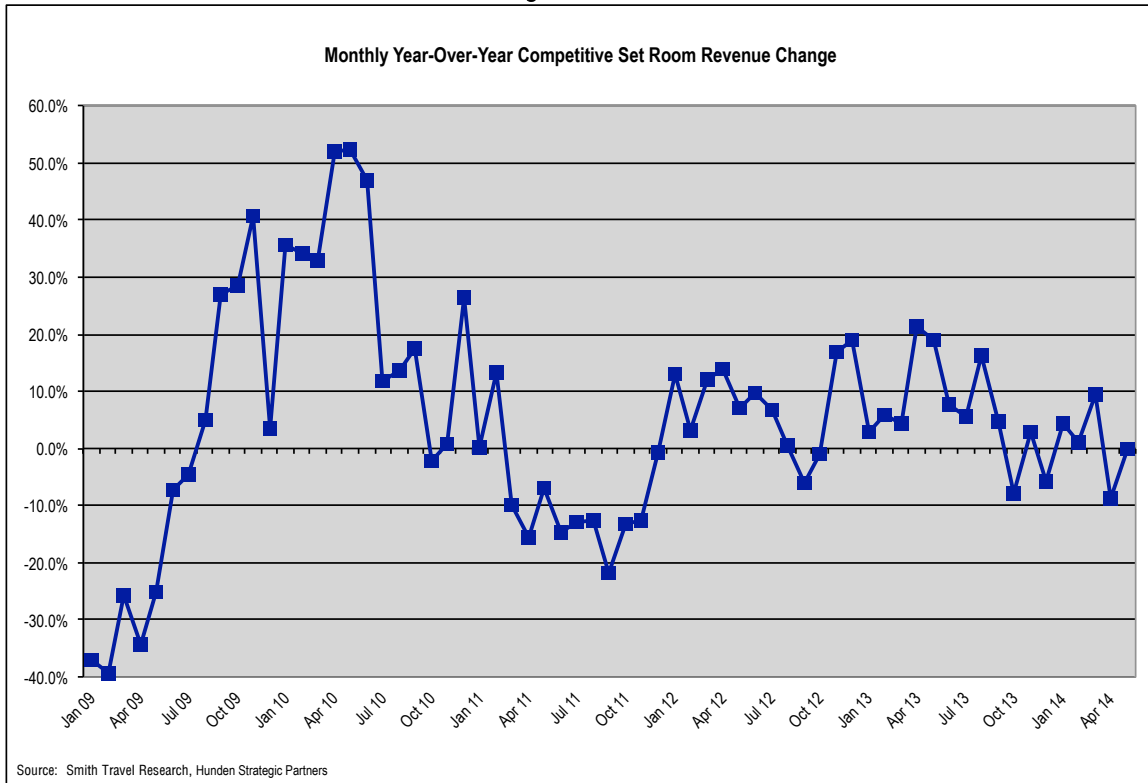
Figure 2-10



The local set has a consistent seasonality trend, which will be discussed later in this chapter. The average monthly room night demand has remained fairly constant, on average, over the last three years. Room supply varied greatly from the end of 2008 through the beginning of 2012. This is attributed to the opening of two new upper midscale hotels and the closing of the largest hotel in the market, the 207-room Goshen Inn. Since the beginning of 2012, room night supply has remained constant with no hotels opening or closing.

The following figure shows the room revenue changes by month (year-over-year).

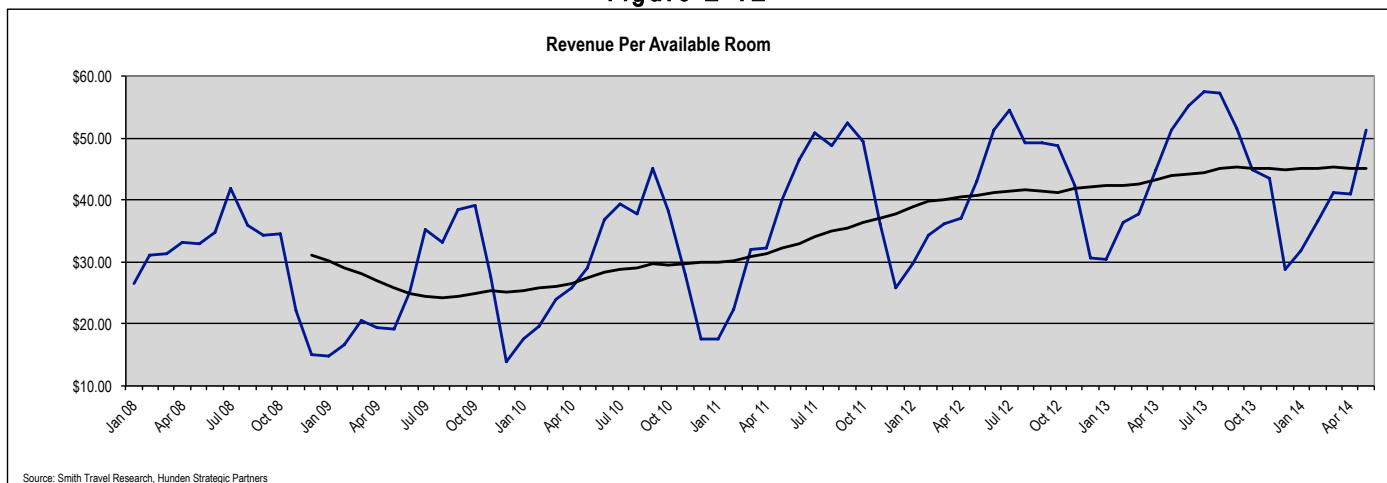
Figure 2-11



Any data point greater than zero is positive and is a positive indicator for the competitive set. As shown, the local set's room revenue, beginning in 2009, was already negative. By April 2009, room revenue started to experience a growth period that surpassed 50 percent in 2010. Since a decrease in 2011, the set's room revenue has fluctuated between 20 percent and negative ten percent.

The following figure shows the Revenue Per Available Room (RevPAR), which is the product of occupancy and rate.

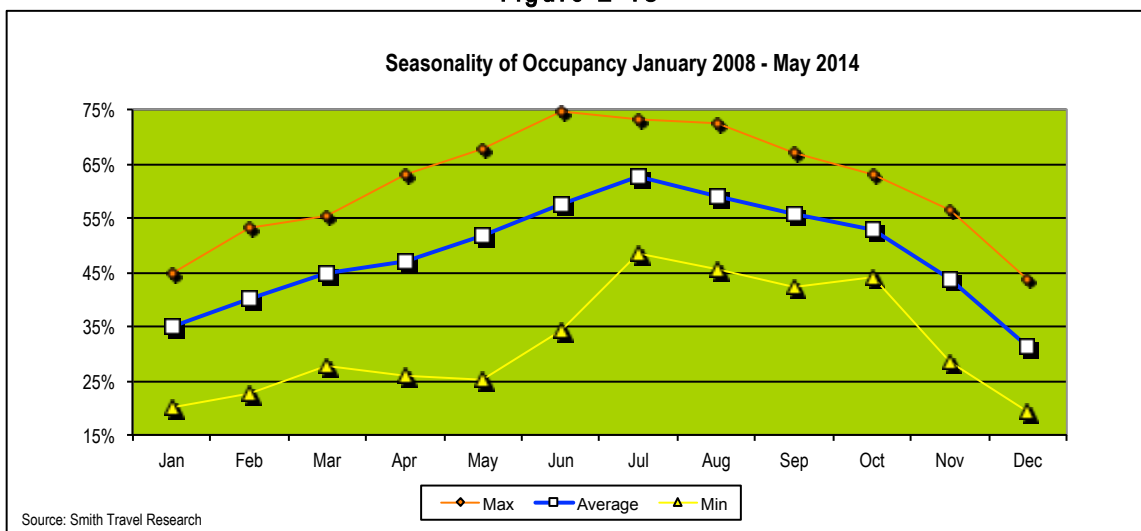
Figure 2-12



The smooth line above shows the 12-month moving average. After the moving average reached a low of approximately \$25 during the third quarter of 2009, it has been consistently increasing. RevPAR over the past two years has ranged from approximately \$30 to \$57.

The following figure displays the seasonality of occupancy during the last six years.

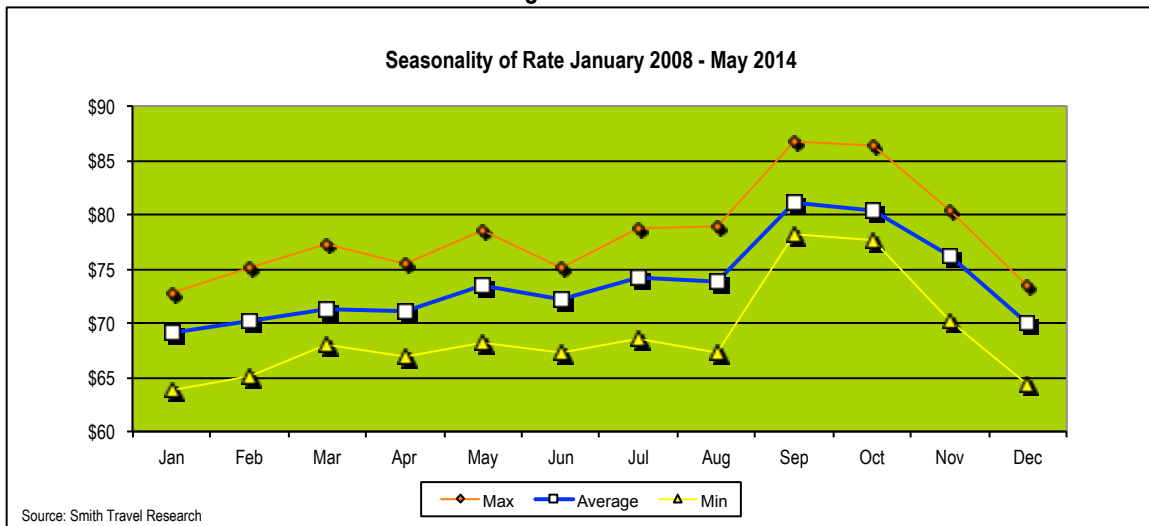
Figure 2-13



In terms of occupancy, June through September are the busiest months. These months average between 55 and 63 percent occupancy. On average, July has the highest occupancy at 63 percent. December and January are the slowest months, which is typical for cities with four seasons.

The following figure shows the seasonality of rate.

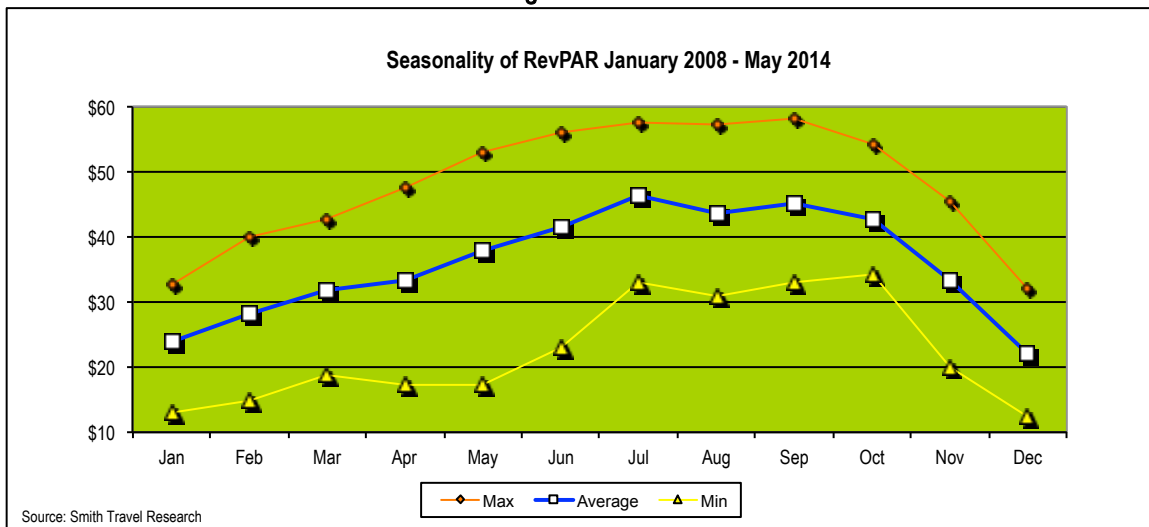
Figure 2-14



The average daily rate, on average, ranges from \$69 in January to \$81 in September. Although occupancy is highest during the summer months, rates are highest during the fall due the demand for rooms during Notre Dame football games weekends.

The following figure shows the seasonality of RevPAR, which is the product of rate and occupancy and suggests overall revenue.

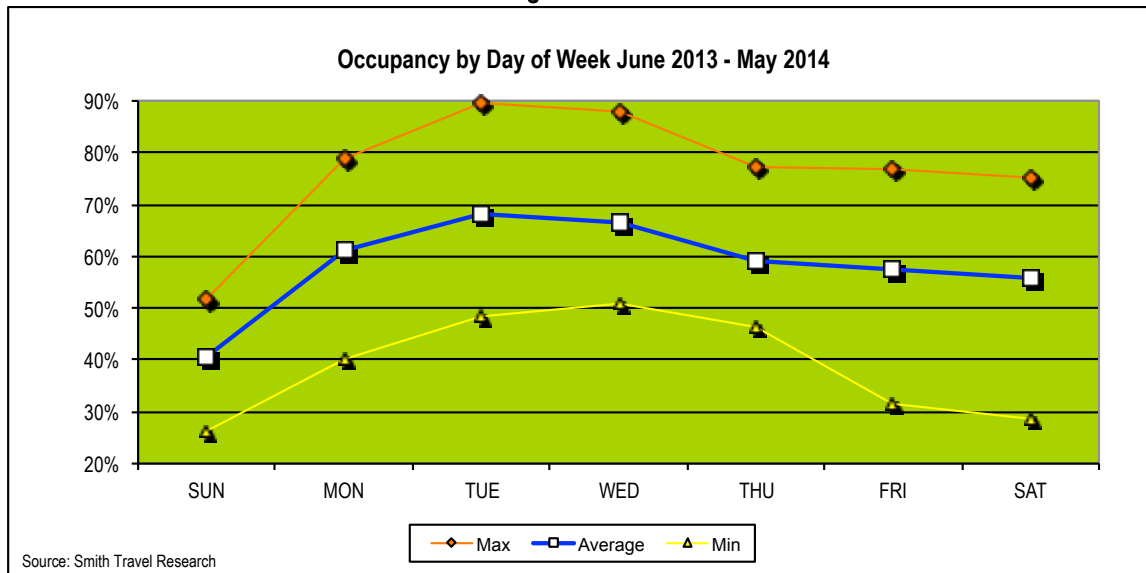
Figure 2-15



RevPAR tells the story of the combined occupancy and average daily rate data. RevPar remains fairly flat from June through October. This occurs because from June through August occupancy is at its highest, while the average daily rate is at its highest during September and October.

The following figure shows the occupancy by day of week during the 12 months ending October 2013.

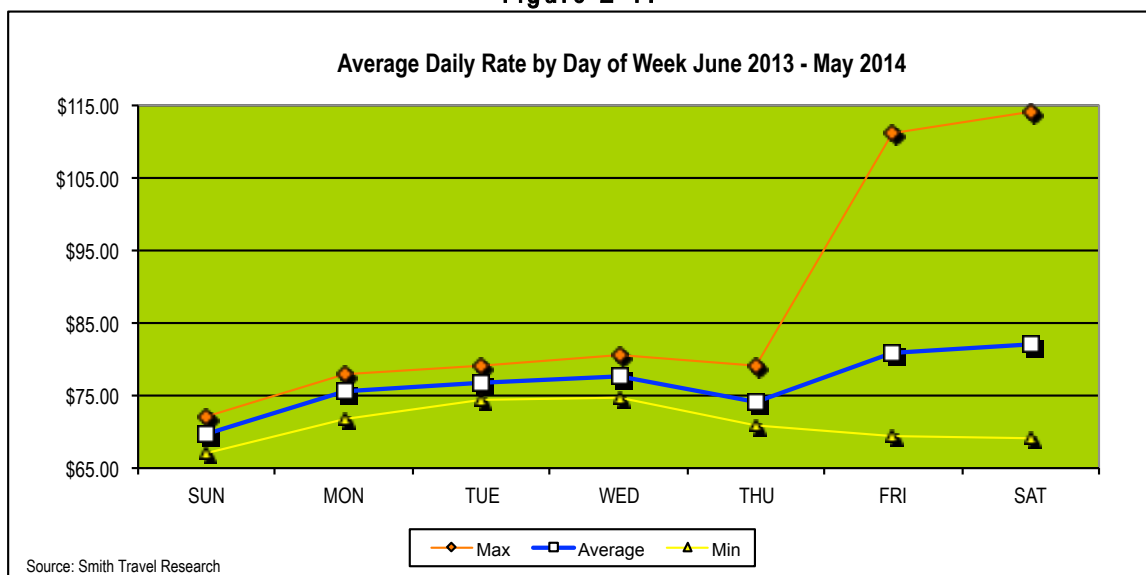
Figure 2-16



Occupancy is highest on Tuesday and Wednesday, suggesting a strong corporate market, while lower on Friday, Saturday and Sunday. Occupancy is lowest on Sunday nights, which is typical for the majority of markets.

The following figure shows the average daily rate by day of week.

Figure 2-17



The average daily rate by day of week is skewed on weekends due to the Notre Dame football games. The highest rates during those weekends are nearly \$40 higher per night than the average during Tuesdays and Wednesdays, which typically have the highest occupancy. Again, this is unique to see in a market.

Unaccommodated Demand

Unaccommodated demand is defined as demand that would have been captured by the market but for a lack of available rooms. This demand is therefore deferred to later dates, accepts lesser accommodations, moves just outside the competitive set, moves its business to another area, or cancels plans altogether. As new properties are added to the market, it is expected that this demand will be accommodated in the new supply, suggesting that when new hotels are added, they do not cannibalize all of their demand, but accommodate previously unaccommodated demand.

The following table shows the occupancy by day of week per month for the twelve months following June 2013. Days of the week with occupancy between 75 and 80 percent are shown in yellow, suggesting mild displacement and unaccommodated demand, while orange shows days with 80 to 90 percent occupancy, suggesting very likely displacement. Days in red are for times when occupancy was beyond 90 percent for the set, suggesting near certain displacement.

Table 2-11

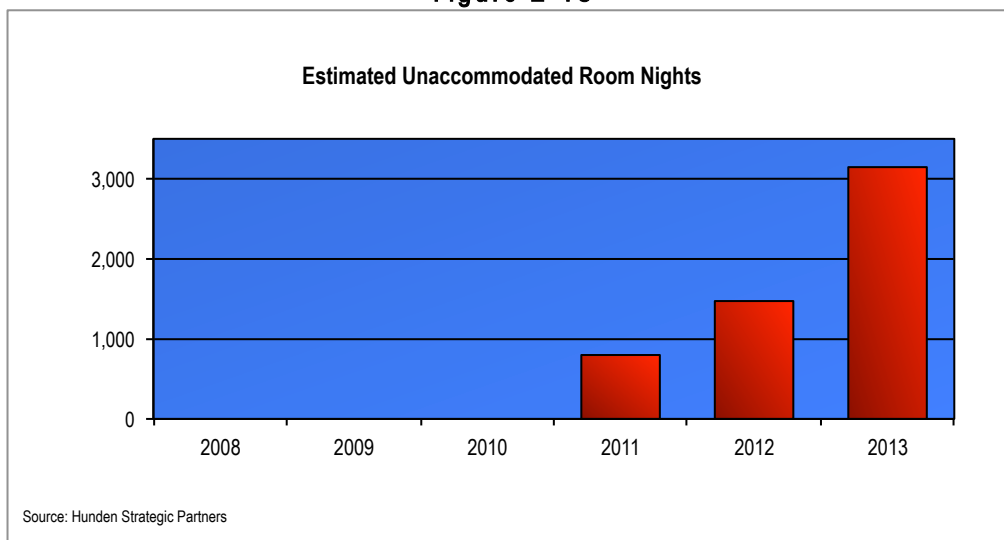
Occupancy Percent by Day of Week by Month - June 2013 - May 2014								
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Average
Jun - 13	48.7%	79.1%	89.6%	87.9%	70.9%	76.8%	75.1%	75.4%
Jul - 13	48.2%	77.8%	82.1%	78.1%	72.9%	75.0%	72.9%	72.4%
Aug - 13	49.8%	76.4%	80.4%	77.6%	77.4%	72.3%	73.3%	72.4%
Sep - 13	39.8%	57.1%	67.0%	66.7%	58.5%	67.7%	65.0%	60.3%
Oct - 13	35.6%	56.9%	67.1%	58.6%	51.2%	60.2%	60.9%	55.8%
Nov - 13	38.5%	56.1%	62.1%	58.1%	50.9%	59.7%	54.4%	54.2%
Dec - 13	26.3%	40.0%	48.6%	53.2%	48.4%	31.4%	28.8%	39.5%
Jan - 14	35.1%	53.0%	57.7%	50.8%	46.5%	34.4%	28.6%	43.7%
Feb - 14	36.5%	52.9%	59.7%	60.7%	51.9%	47.3%	44.4%	50.5%
Mar - 14	38.7%	58.6%	64.2%	67.9%	61.6%	51.4%	47.9%	55.8%
Apr - 14	36.2%	57.7%	63.7%	61.8%	51.1%	53.4%	52.0%	53.7%
May - 14	51.6%	66.4%	74.2%	74.9%	65.8%	60.4%	64.1%	65.3%
Average	40.4%	61.0%	68.0%	66.4%	58.9%	57.5%	55.6%	

Source: Smith Travel Research, Hunden Strategic Partners

As shown, occupancy is strong during the summer, but weak throughout the rest of the year. Looking at the local sets average occupancy, there does not appear to be enough demand to support an additional average quality hotel of 70 or more rooms, although if current trends hold (increasing demand), that could quickly change. When speaking with the upper midscale hotels such as the Holiday Inn Express and Hampton Inn, their occupancies are much higher than the averages in the set. This suggests a flight to quality and that there may be room in the market for another high quality hotel option.

The following figure shows the estimate of unaccommodated room nights over the past several years.

Figure 2-18



An unaccommodated room night is when a traveler seeking accommodations within the market must either cancel their stay or settle for accommodations of lesser quality because the desired facilities have no vacancies. The number of estimated unaccommodated room nights is determined in any month when occupancy is higher than 66 percent. Based on the prior table, there are sellouts at many hotels during the spring, summer and fall months, and even multiple days in the winter months. However, when rooms sell out or nearly do so, rates can be increased and the viability of new hotels is more likely.

Based on HSP estimates, unaccommodated room night demand for the local set is low, but increasing. The quality hotels are generating most of the unaccommodated demand, forcing travelers looking for higher quality to stay in other cities such as Elkhart and South Bend.

Conclusion

The Goshen hotel market is concentrated along U.S. 33, or Lincolnway East, with no hotel options downtown. Despite having more than 200 rooms removed from the market, the loss of the low quality Goshen Inn has improved the overall attractiveness of the Goshen hotel package, but has left many unaccommodated visitors. The most recent hotels to open in the market have been upper midscale and have quickly become the top performers. This suggests the flight to quality in the market. Several key employers and key stakeholders in Goshen supported this evidence and expressed interest in a downtown boutique hotel.

Occupancy in the market has been inconsistent, while average daily rates have continued to increase. This has resulted in an increase in RevPAR as increases in average daily rate offset fluctuating demand. While corporate transient travelers drive high occupancy, leisure travelers,

especially for Notre Dame football and graduation, are also driving higher rates because of the limited number of available rooms. For a downtown boutique hotel to be successful, it will be important to appeal to both types of travelers through marketing and available amenities.

TABLE OF CONTENTS

-----	Executive Summary
Chapter 1	Economic and Demographic Profile of Goshen
Chapter 2	Hotel Industry, Trends and Local Market Analysis
Chapter 3	Comparable Hotel Developments
Chapter 4	Recommendations
Chapter 5	Demand and Financial Projections

COMPARABLE BOUTIQUE HOTELS

HSP analyzed six boutique hotels, ranging in size from 20 to 40 rooms. The hotels were located in markets that had estimated 2013 population totals between approximately 400 and 17,500 people. Most hotels are in the Midwest with the exception of two that are located in Pennsylvania. HSP focused on boutique hotels located in the downtown of the community in markets with few, if any, major attractions in the area. A key factor beyond market size is hotel room count. With fewer rooms, it is more difficult to generate the revenue needed to support a full-time staff. As room count increases, there is more revenue to cover fixed costs. HSP was interested to learn how smaller hotels fared in terms of overall performance and what that could mean for Goshen.

The following table shows a list of the boutique hotels profiled.

Table 3-1

Comparable Boutique Hotels								
Hotel	Location	2013 Est. Population	No. of Rooms	Low Rate	High Rate	Est. Avg.	Total Meeting Space	Restaurant
Jane Fargo Hotel	Sycamore, IL	17,534	39	\$68	\$160	\$105	4,953	Y
Hotel Winneshiek	Decorah, IA	8,089	34	\$119	\$239	\$159	2,021	Y
Charley Creek Inn	Wabash, IN	10,491	30	\$145	\$329	\$189	5,574	Y
Warwick Inn & Suites	Lititz, PA	9,388	26	\$65	\$165	\$88	--	N
Village Inn & Suites	Bird in Hand, PA	402	24	\$169	\$229	\$190	--	N
The Inn at Versailles	Versailles, OH	2,687	22	\$99	\$199	\$129	--	Y
Average	--	8,099	29	\$111	\$220	\$143	4,183	--

Source: Various Facilities, Hunden Strategic Partners

The boutique hotels profiled averaged approximately 29 rooms and are in markets with an average estimated 2013 population of 8,100 residents. Each one of these cities and towns are smaller than Goshen and may have smaller corporate markets. On average, rates for rooms with a single king-sized bed are \$159 during peak season and \$121 in the offseason and overall rates ranged from \$65 to \$329, with an estimated average of \$143. The three with the most rooms in the set offered meeting space, which help attract group business such as weddings and other special occasions. Four of the six profiled hotels featured an on-site restaurant.

The following are profiles of each hotel.

Jane Fargo Hotel – Sycamore, Illinois

The Jane Fargo Hotel is a historic boutique hotel located in downtown Sycamore, Illinois at 355 W State Street. The estimated 2013 population for Sycamore was 17,534. The property was built in 1882 as the Elwood Mansion, and later connected to the hotel in 1934. The hotel offers 39 guest rooms, including two master suites, a full-service restaurant and banquet and meeting facilities. Rates range from \$68 to \$160, depending on the room type and time of year or day of week booked. The average daily rate for the hotel is estimated to range from \$100 to \$110.

The following table shows a summary of the hotel's function space.

Table 3-2

Jane Fargo Hotel Function Space			
Facilities	Total (SF)	By Division (SF)	Divisions
Ballroom Facilities			
Jane Adams Upper Ballroom	2,110		1
Jane Adams Lower Ballroom	1,420		1
	3,530		2
Meeting Room Facilities			
Jane Austen Dining Room	600		1
Chamber Room	560		1
Fireside Room	263		1
	1,423		3
Hotel Rooms	39		
Total Ballroom Space	3,530	/Guest Room	90.5
Total Meeting Space	1,423		36.5
Total Function Space	4,953		127.0
Ballroom Divisions	2	/ 100 Guest Rooms	5.1
Meeting Room Divisions	3		7.7
Total Divisions (including Ballroom)	5		12.8

Source: Jane Fargo Hotel, Hunden Strategic Partners

The hotel features two ballrooms that can combine into one for larger groups. There are three meeting rooms, which total 4,953 square feet. The highest quality room, the Hepburn Suite, features a double whirlpool tub.

The following figure shows the Jane Fargo Hotel.

Figure 3-1



Sycamore and neighboring DeKalb are in a similar situation as Goshen and Elkhart. Both pairs of cities have independent classic Midwestern downtowns that lie several miles apart, are growing with new suburban developments, are not far from much larger population bases, and are home or very close to significant colleges and universities. Sycamore is the county seat just as is Goshen, and the shops of Main Street surround the courthouse. Downtown Sycamore offers several bars, shops and restaurants for visitors to enjoy. Additionally, visitors can choose to hike, bike, camp, golf, fish, canoe or sled. Seasonal activities in the area include, Concerts in the Park during the summer, apple and pumpkin picking in the fall as well as one of Sycamore's oldest traditions, Pumpkin Fest, in late October.

While occupancy for the property was not available, the fairly static rate suggests that ownership may not be utilizing yield management (also referred to as revenue management) techniques to the degree that they could, where rates are higher during peak times and lower during other times.

The following figure shows the exterior of the historic boutique hotel.

Hotel Winneshiek – Decorah, Iowa

Hotel Winneshiek is a historic boutique hotel in the heart of downtown Decorah, Iowa at 104 E Water Street. Decorah had an estimated 2013 population of 8,089. The hotel was built in 1905 and restored in 2000, with still the original marble walls, terrazzo floors, cherry pillars and three-storied stained glass atrium in the lobby. There are 34 guest rooms and suites available as well as an on-site casual dining option and Tap Room Cocktail Bar.

The following figure shows the exterior of the boutique hotel.

Figure 3-2



Rates for a single king room at the hotel range from a high of \$199 per night in August to a low of \$119 in January. Rates for the Presidential Suite can be as high as \$239 per night in peak season and features a double whirlpool tub. Estimated average daily rate is \$159.

The following table shows a summary of the hotel's function space.

Table 3-3

Hotel Winneshiek Function Space			
Facilities	Total (SF)	By Division (SF)	Divisions
Ballroom Facilities			
Winneshiek Ballroom	2,021		2
Ballroom A		902	1
Ballroom B		861	1
	2,021		2
Other Facilities			
Steyer Opera House	2,794		1
	2,794		1
Hotel Rooms	34		
Total Ballroom Space	2,021	/Guest Room	59.4
Total Meeting Space	0		0.0
Other Space	2,794		82.2
Total Function Space	4,815		141.6
Ballroom Divisions	2	/ 100 Guest Rooms	5.9
Meeting Room Divisions	0		0.0
Total Divisions (including Ballroom)	2		5.9

Source: Hotel Winneshiek, Hunden Strategic Partners

The hotel features a 2,021-square foot ballroom, which can be split into two separate rooms. Across the street from the hotel, the Steyer Opera House offers an additional 2,794 square feet of meeting space. The opera house can accommodate up to 300 people in a theater configuration or 250 in a banquet setup.

One of the main drawing cards for Hotel Winneshiek is its location in a vibrant college town that is one of (if not the top) Norwegian-American cultural center in the country, as Norwegians began settling the area around 1850. The city is also located in a bucolic hilly town in a valley with steep rocky walls, waterfalls, caves and forests. Luther College, its liberal arts-centered student body of 2,600, and a mile-long main street of vibrant shops, boutiques, bars and restaurants is also the largest commercial center for over 40 miles in any direction. The town has several art galleries, The Vesterheim Museum, a residential historic district, parks, festivals and cultural events. All of these attributes contribute to the attractiveness of a historic boutique hotel in an otherwise rather small, isolated Midwestern city.

Charley Creek Inn – Wabash, Indiana

Charley Creek Inn is a historic boutique hotel in downtown Wabash located at 111 West Market Street. Wabash had an estimated 2013 population of 10,491. Wabash is located one hour southwest of Fort Wayne and less than two hours from Indianapolis and South Bend. The original hotel was built in the 1920s and stood as The Red Apple Inn from 1946 to 2006 under the owners, the Dekau family. During 2007, the hotel underwent a complete refurbishment and opened in 2010 as the Charley Creek Inn.

The following figure shows the exterior of the hotel.

Figure 3-3



The property offers 23 guest rooms and seven suites. Rates for a single king room are available for \$145 per night. The Romantic Suite goes for as high as \$329 per night. The hotel features a Honeymoon Suite, which offers a large jetted Jacuzzi. Located nearby by are other dining options, museums and parks.

The following figure provides a breakout of the hotel's function space.

Table 3-4

Charley Creek Inn Function Space			
Facilities	Total (SF)	By Division (SF)	Divisions
Ballroom Facilities			
Ballroom	3,903		
Big Four Ballroom		1775	1
Wabash Cannonball Ballroom		2128	1
	3,903		2
Meeting Room Facilities			
Richard E. Ford Dining Room	425		1
Gatsby Room	400		1
Ridenour Conference Room	360		2
Room A		180	1
Room B		180	1
Cloud Club	486		1
	1,671		5
Hotel Rooms	30		
Total Ballroom Space	3,903	/Guest Room	130.1
Total Meeting Space	1,671		55.7
Total Function Space	5,574		185.8
Ballroom Divisions	2	/ 100 Guest Rooms	6.7
Meeting Room Divisions	5		16.7
Total Divisions (including Ballroom)	7		23.3

Source: Charley Creek Inn, Hunden Strategic Partners

The Charley Creek Inn offers a mix of meeting and event spaces that include a ballroom, dining room, conference room and a private party room. The property has a total of 5,575 square feet of meeting space that can be divided into seven different spaces. The Charley Creek Inn caters to various organizations looking to conduct board meetings, executive retreats, and planning and training sessions. The Charley Creek Inn also caters to preservation gatherings, summits and conferences.

Wabash, Indiana is a small city in north central Indiana that is home to the Honeywell Center, including a rebuilt modern 1,500-seat performing arts theater called Ford Theater that books a solid calendar of national touring acts, comedians, musicals, plays, as well as local group performances. These performances bring visitors to Wabash, many of whom spend the night and fill local hotel rooms. The historic Charley Creek Inn and Honeywell Center both feed off of each other's presence. They nurture the downtown area that is home to boutiques, a museum, a handful of restaurants and bars, and a Vaudeville-turned-movie and comedy theater called the Eagles Theater, which is directly across the street from the hotel. Like the previous two comparable hotels, this example is also in a traditional Midwestern county seat with an impressive hilltop courthouse.

One of the reasons for the hotel's success beyond pairing with local entertainment, arts and corporate demand is its recent renovation. The quality of the product and amenities available allow it to differentiate itself from the rest of the market. The estimated average daily rate for the hotel is \$189.

Warwick Inn & Suites – Lititz, Pennsylvania

Warwick Inn & Suites is located in historic Lititz, Pennsylvania at 613 Furnace Hills Pike. Lititz had an estimated 2013 population of 9,388. The 26-room hotel is in Amish Country, in Lancaster County, about ten miles north of downtown Lancaster. The hotel has a small exercise room, but no restaurant or meeting space on-site. Rates for a room with a king bed range from \$80 during the summer peak season to a low of \$65 in the winter months. The Deluxe Suite rates are as high as \$160 during the end of August. The average rate for the hotel is estimated to range from \$85 to \$90.

The following figure shows the exterior of the hotel, which suggests it does not have the historic or other charm of the other properties. This has a direct impact on its ability to generate higher rates, as it has a harder time differentiating itself from the rest of the market.

Figure 3-4



Lititz offers visitors nearly 50 unique shops, 20 restaurants, museums and shopping outlets in a downtown that has a 300-year history and many brick colonial-style buildings. Among the attractions are the Wilbur Chocolate Company's Candy Museum and the oldest pretzel bakery in the country. The restaurants and pubs have a historic or retro vibe that attracts foodies. The town takes pride in attracting tourists without having a touristy feel, and instead is a pleasant working city with a historic downtown and narrow, quaint walkable streets. Brick accents the sidewalks in the historic areas, making the downtown district feel cohesive and welcoming to foot traffic. The surrounding area also features nearby attractions, including Hershey Park, Dutch Wonderland, and hundreds of other Amish stores and farms. Lancaster County, in general, is a very popular weekend vacation destination for the population from New York, Philadelphia, New Jersey, Baltimore and Washington DC. Although the hotel is not in downtown, the quaint village Main Street is accessible easily by car about one mile away.

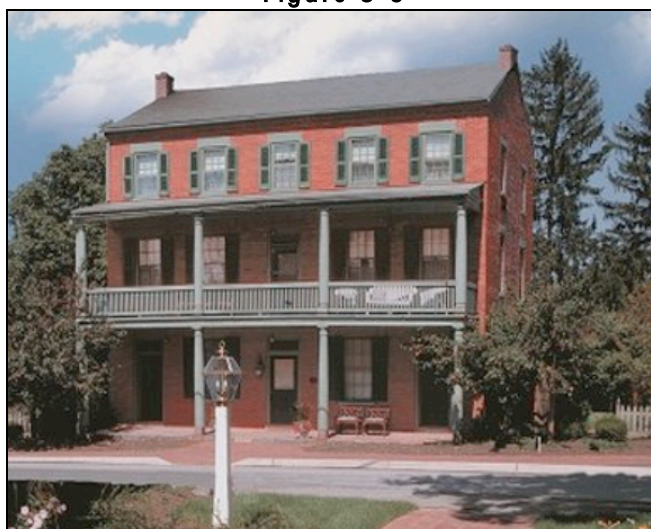
Overall, the property offers a contrast to the other facilities compared, as it is not in the downtown and does not have a historic or unique feel to it.

Village Inn & Suites – Bird-in-Hand, Pennsylvania

Bird-In-Hand Village Inn & Suites is located in the Village of Bird-In-Hand, Pennsylvania at 2695 Old Philadelphia Pike, which is in Lancaster County, not far from the Warwick Inn & Suites. Bird-In-Hand is an unincorporated town with an estimated 2013 population of 402 and is amid the popular Amish Country. The 26-room boutique hotel is part of four preserved, historic buildings. The Inn first opened in 1734 as a rest stop for men traveling along the trade route. In 1988, the Inn opened as the Bird-In-Hand Village Inn and in 2004 expanded the number of rooms available by adding three historic homes.

The following figure shows the exterior of the Inn.

Figure 3-5



The Inn offers a complimentary continental breakfast, but does not have an on-site restaurant. Most rooms at the Inn offer a king size bed with whirlpool baths and a fireplace. The accommodations range in price from \$169 to \$225, with an average estimated rate of \$190. Approximately two blocks from the Inn is the Bird-In-Hand Family Restaurant & Smorgasbord, which offers function space.

The draw to the Village Inn & Suites is its historic presence in the countryside as a roadside inn that has a 280-year history and its preserved old-world charm in the heart of Amish country. Bird-In-Hand is approximately one mile in length, however, shops and villages both east and west of town make for one lengthy Amish retail strip, separated by a few farms and historic townhomes and farm houses. Several family restaurants that serve traditional Amish and rural American fare, a farmers market, a range of tiny shops to large retail pole barns that sell fabrics,

quilts, and other handcrafted items line the sides of the original carriage and buggy route between Philadelphia and Lancaster.

The Inn at Versailles – Versailles, Ohio

The Inn at Versailles is located in downtown Versailles, Ohio, an agricultural town of 2,687, at 21 W Main Street. The Inn opened in 1993, offering 22 rooms. When booking rooms, the Inn uses ResNexus instead of a booking agent such as Expedia. ResNexus allows guests to easily book online, which the Inn feels provides them a big advantage over other independent hotels.

The following figure shows the exterior of the hotel.

Figure 3-6



The Inn employs three full-time and six to eight part-time employees. On-site is the restaurant Michael Anthony's at the Inn, featuring authentic, old world style European cuisine as well as some American classics. The Inn has no meeting space; however, there is space for live musical entertainment. Each room is unique. The rooms with king sized bed range in price from \$99 to \$159 per night. The average daily rate is estimated to be \$129.

The Inn is owned by a local major corporation, which subsidizes the Inn to keep it operational. Most of the subsidy is used for building maintenance and repair, varying month to month. This situation is similar to 45-room Alluvian Hotel in Greenwood, Mississippi, which is subsidized by Viking Range, LLC.

Main street has had a full streetscaping treatment that unifies the look of the town, with historic-style green street lamps, trees, planters and shop fronts. Other attractions include The Winery at Versailles, lights along the retail district in downtown during the winter holidays, the annual Poultry Days festival, celebrating the chicken, and particularly, Michael Anthony's at The Inn restaurant, which receives celebratory reviews. The combination of the hotel's rooms, bar and

restaurant, often including live music, in a modestly-scaled historic town create the demand for their rooms and weekend visitors.

Conclusion

Each of the towns in the comparable set are smaller than Goshen and have a wide range of tourist traffic and appeal. What is evident from the examples is that boutique hotels are not likely to be able to stand on their own without accompanying attractions and meeting facilities. Goshen has a small college campus with some ability to draw events or meetings, the restored Old Bag Factory shops, and a significant and sizable, active downtown, with a large number of historic buildings on Main Street and Lincoln Avenue near the courthouse. Goshen's downtown lacks the charming walkable feel, number of tourist-oriented shops and consistent historic architecture of smaller villages that are so appealing to tourists, however. Highway 4, 15 and 33 all bring high volumes of traffic and trucks through the middle of the downtown. And yet, that traffic is the lifeblood of the retail core of downtown Goshen, despite efforts to route heavy traffic around Main Street onto 3rd Street.

The ability of Goshen to fill rooms in a boutique hotel will rely heavily on outside factors such as continued success of the Amish Country's Heritage Trail, quilt tours related Amish tourism, fairgrounds and Goshen college. Placement of a hotel in a renovated historic structure such as the Hawks Building adds to the authenticity of the guest feeling as though they are having a unique experience that relates to local history. Further enhancements to the downtown area's uniqueness and ability to attract more restaurants, boutiques shops, arts spaces and a variety of nightlife will greatly affect the success of a downtown boutique hotel.

As implied from the examples, the quality, location and uniqueness of the boutique hotel, as well as its amenities (restaurant and function space) all impact its ability to drive higher room rates. Those facilities outside of downtown or without historic charm have a harder time generated rates that are much higher than the typical hotel, while those with a full compliment of amenities and history are able to generate average rates from \$130 - \$200. To support high rates, the owners and managers of a Goshen project will want to lock in higher weekday corporate rates with those executives or higher level business travelers coming through Goshen for work. This will allow it to compress rates for the remaining rooms that leisure travelers looking for an authentic experience will pay during the week. On weekends, it will be critical to create packages with area attractions, including arts and entertainment events.

TABLE OF CONTENTS

-----	Executive Summary
Chapter 1	Economic and Demographic Profile of Goshen
Chapter 2	Hotel Industry, Trends and Local Market Analysis
Chapter 3	Comparable Hotel Developments
Chapter 4	Recommendations
Chapter 5	Demand and Financial Projections

SWOT ANALYSIS & RECOMMENDATIONS

This chapter presents HSP's analysis of the downtown boutique hotel situation and presents a recommendation for Goshen.

A SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis was conducted leading up to these recommendations. A SWOT analysis identifies critical factors that will impact the Project's overall performance. It also suggests implications for the sizing and quality of the project given the current environment. Strengths and weaknesses are currently factors impacting the potential project as well as items inherent in the project or market, while opportunities and threats are potential and external factors impacting the success of the Project.

This section provides recommendations on the size and quality of the Project based on HSP's review of the market, the Project, and other factors. In addition, HSP's experience with similar projects and how they have performed played a role in the recommendations and projections.

SWOT Analysis

Strengths

- **Access.** Being located in downtown Goshen provides travelers easy access to the hotel. U.S. 33 brings most travelers to and from Goshen and passes through the heart of downtown. A downtown hotel would be minutes off of U.S. 33 providing easy access to visitors.
- **Civic Pride.** The City of Goshen and the residents have demonstrated a strong sense of pride in redeveloping the downtown. The community supports new projects in an effort to continually improve Goshen in a sustainable manor. There is a focus on having projects that do not cannibalize market share from other local businesses, which contributes to the collaborative atmosphere in the community. Residents want to see the city and downtown continue to grow, while maintaining the homegrown Goshen culture.
- **Committed Community Leadership.** The City of Goshen's leadership has demonstrated a commitment to stimulating redevelopment and reinvestment in the city, especially the downtown area. In addition, these commitments may take the form of financial contributions and ongoing support that could allow for better facilities geared toward a longer-term growth trajectory.
- **Downtown Redevelopment.** Downtown Goshen has seen improvement based on private investment and public leadership. A vibrant downtown consists of popular restaurants, shops and entertainment, providing a more visible face to the city and drawing more visitors from the surrounding areas. This helps the community as a whole and proves to visitors that it is serious about a vision for itself.
- **Strong Existing Quality Hotel Demand.** Perhaps one of the most encouraging signs for a project is the strong demand for quality hotel rooms in Goshen. Three

upper midscale hotels have been opened in the past six years and are the highest quality hotels currently in the market. As part of the three, the Holiday Inn Express and the Hampton Inn are the top performers in the local market in terms of both occupancy and average daily rate. Interviews with local corporations and other organizations show that there is a desire for upscale, downtown accommodations. While not sizeable, it is enough demand to suggest room for a small upscale hotel project.

- **Walkable.** A downtown boutique hotel would be the only hotel available that would be walkable to downtown restaurants, retail and entertainment. Travelers would be able to stroll the streets of downtown to visit shops, restaurants and entertainment without having to get into their car.

Weaknesses

- **Fewer Rooms.** Smaller hotels have difficulty generating enough revenue to cover fixed expenses, so the higher the room count, the better. Operating at the highest efficiency will be critical because the hotel will not be able to leverage economies of scale with fewer rooms. HSP recommends at least 45 rooms.
- **Smaller Market.** The population of Goshen and the business community is small in comparison to larger cities, which offer more attractions. As a result, there is not a critical mass of hotel demand from traditional local sources like corporate campuses, colleges, hospital campuses and other key group and corporate demand generators.
- **Visibility.** The hotel downtown would lack the clear visibility that the other hotels in the market benefit from. With all the other local hotels located on U.S 33, they have clear street visibility passing through Goshen. This is vital to groups and leisure travelers, who aside from possible wayfinding signage would be unaware of a new quality hotel development within Goshen. This will put additional pressure on the CVB and hotel to market itself effectively across the state and region.

Opportunities

- **Flight to Quality.** There is a flight to quality that occurs when new, well-located hotels open with the services and amenities customers expect. This then draws business from the existing hotels outside of Goshen (Elkhart, South Bend) back to Goshen where they intended to be anyway, but had no lodging options.
- **Lack of Boutique Hotel Experience.** The current market in Goshen does not offer a boutique hotel experience. There is a trend towards demand for boutique hotels, which Goshen has the opportunity to capture. Goshen already offers a small town with charming storefronts and restaurants, which would compliment a boutique hotel experience well. This is especially true when the boutique hotel is walkable to the downtown.
- **Lack of an Existing Upscale Hotel.** There is no direct competitor for an upscale hotel in the market, suggesting it would own its place in the market and should not displace much existing demand as current local hotels. Based on the limited number

of existing quality hotels, a new upscale hotel should continue to improve the reputation of Goshen and attract a higher-income clientele.

- **Limited Available Function Space.** The hotels and other facilities in Goshen only offer a limited amount of function space. Several conversations with employers and key stakeholders suggested there is a need for more meeting space, especially if it has the ability to offer catering. Function space can also act as a draw for groups who are looking for a hotel.
- **Growing High-Income Market Base.** As the Goshen market has been rebounding and improving, it has been attracting a higher-income market to the city. The higher-income market includes visitors spending the night for Notre Dame football games or graduation, visiting professors to Goshen College, visiting doctors, corporate executives and emerging music artists to name a few. Additionally, special occasion venues in Goshen, who cater to many weddings, are also looking to target higher-income groups by raising rents and renovating facilities. These indicators of Goshen's improving market suggest an opportunity for a higher-quality hotel with above market rates.
- **Economic, Fiscal and Employment Benefits.** The downtown boutique hotel will entice visitors to visit Goshen businesses, restaurants and entertainment facilities. These visits result in increased downtown spending, and in turn, an improved local business environment, additional tax collections and an increased number of employment opportunities. The visibility that visitors will have of the downtown from the new hotel will show off the community to a new population that may consider visiting again or even moving to the community.
- **Strong Relationships with Local Businesses.** Being in the supportive Goshen community, a downtown boutique hotel would have the opportunity to utilize local businesses to contract out certain amenity services, such as spa and massage packages. Additionally, certain demand generators suggested the possibility of co-promoting the hotel, along with their venue. These would help the hotel manage operating costs, while optimizing visitor experience in Goshen.

Threats

- **Above Market Rate.** Setting rates at the top of the market could pose a threat to the occupancy in the hotel. Managing room rates will be a challenge for a new hotel as it tries to establish higher rates that will be deemed a value proposition to guests.
- **Competition.** The downtown boutique hotel may experience a decline in occupancy should another boutique hotel be developed in downtown Goshen, or a higher quality branded product is developed. The city has stressed the importance of sustainable developments that do not cannibalize market share from other businesses, which should help limit this potential threat.
- **Operating Cost.** The profit margin on hotels is low for full-service properties, especially those with fewer rooms. With few rooms, the hotel will need to produce a high occupancy rate and high average daily rate in order to cover operating costs. The

operating cost that will pose the biggest threat to the success of the hotel is managing staff salary expenses. Being able to employ enough staff to ensure a high quality experience for guests with less than 40 rooms to generate revenue will be a challenge for the hotel.

- **U.S. Economy and Weaker Demand.** The U.S. economy has been inconsistent, but slowly recovering. Any long-term economic malaise will be a headwind to success. This especially poses a threat to a new real estate development in a market that relies heavily on one industry, manufacturing.

The following figure shows a proposed hotel site in relation to downtown.

Figure 4-1



A potential downtown boutique hotel site sits along the millrace, approximately one block east of downtown. The identified site is in close proximity to some of the demand generators downtown. The potential site is approximately 0.2 miles east of The Goshen Theater, 0.3 miles east of the Ignition Music Garage, 0.4 miles southeast of Venturi Pizza and walkable to several downtown shops. Additionally, the site is approximately 1.4 miles north of the Red Tail Farm and 1.7 miles southwest of the Old Bag Factory.

Recommendations

Based on the current and expected conditions, HSP provides the following recommendations for the Goshen market.

- **Room Count.** An upscale downtown boutique hotel with 45 to 50 rooms is recommended. The more rooms available will make operating the hotel more efficient and will also allow for more group usage.
- **Expert Management.** Having the experience of a general manager or management company that knows how to excel at customer service while keeping costs to an absolute minimum is an art and science that takes several years of experience to perfect. Any proposed hotel should have absolutely experienced management.
- **Restaurant.** The hotel is recommended to offer a unique restaurant, which compliments the boutique atmosphere. The restaurant should feature three meals a day and offer complimentary continental breakfast to overnight guests. The restaurant needs to offer style and cuisine that cannot be found at other local restaurants to help attract both visitors and locals. To help with efficiency, the restaurant is advised to have the capacity to provide room service for the hotel as well.
- **Function Space.** HSP recommends the hotel offer meeting space to accommodate at least 30 to 50 guests, which would be 450 to 1,000 square feet. It is suggested that the space be equipped with the necessary technology to give local businesses the ability to host meetings at the facility. The restaurant should be able to provide catering needs for the space. This will enable the hotel to appeal to local businesses for lunch meetings. The space will need to be promoted in the community as an ideal location for an off-site meeting location.
- **Exceptional Service and Amenities.** Amenity services for the hotel, such as spa experiences, should be outsourced to local businesses in order to keep operating costs low. The hotel will need to find the best quality local businesses for the services to ensure the services match the quality of the hotel.
- **Rates.** The hotel room rates are recommended to start between \$129 and \$199, except for special event weekends like Notre Dame game weekends, when rates could be as high as \$299. This will need to be continually monitored based on market conditions, but many hotels make the mistake of underpricing their quality offerings. As the hotel penetrates the market and increases market share, rates may be raised. Rates should also fluctuate with day of the week, as corporate demand will be highest

on Tuesdays and Wednesdays, while leisure demand is highest on weekends. Rates also must be seasonal.

- **Parking.** To appeal to a larger market, HSP recommends the hotel offer parking space for tour buses and music artist's trucks. Tour bus groups passing through Goshen, especially visiting the Amish Country, like staying at unique, boutique hotels. Parking to attract those groups would be ideal for the hotel. Additionally, music artists performing at Ignition Music Garage are often looking for a nearby hotel to stay. With no other downtown option, the hotel could capitalize on this market by providing parking for their trucks, which carry the music equipment.
- **Marketing.** To help keep marketing costs low and promote the entire Goshen experience, it is recommended to co-promote with other local businesses. Some suggested businesses include, Ignition Music Garage, Red Tail Farm, Bread & Chocolate as well as any local companies that would provide the hotel's amenity services.

By enacting these recommendations, HSP believes the hotel will be a long-term success in Goshen. However, to get through the first several years, the hotel will likely need public support in the form of development financing assistance, as will be discussed in the following chapter.

TABLE OF CONTENTS

-----	Executive Summary
Chapter 1	Economic and Demographic Profile of Goshen
Chapter 2	Hotel Industry, Trends and Local Market Analysis
Chapter 3	Comparable Hotel Developments
Chapter 4	Recommendations

Chapter 5	Demand and Financial Projections
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DEMAND AND FINANCIAL PROJECTIONS

In this chapter, HSP estimates the performance for a 45-room downtown Goshen boutique hotel. The quality is expected to be the highest in the market and it is assumed to include a restaurant and at least 1,000 square feet of function space. A penetration and performance analysis is shown for this scenario.

Demand Analysis

The following table shows the estimated growth of each market segment from 2014 through 2018 (the stabilized year) for the competitive set, assuming the proposed hotel opens January of 2016.

Table 5-1

Estimated Competitive Set Demand Growth by Segment												
Year	Corporate Transient	% Change	Group	% Change	Leisure	% Change	Total Demand	% Change	Total Supply	% Change	Total Rooms	Occupancy
2014	63,685	--	8,850	--	21,001	--	93,535	26.3%	157,315	--	431	59.5%
2015	65,595	3.0%	8,938	1.0%	21,526	2.5%	96,059	2.7%	157,315	0.0%	431	61.1%
2016	67,891	3.5%	9,117	2.0%	22,710	5.5%	99,718	3.8%	173,740	10.4%	476	57.4%
2017	69,249	2.0%	9,391	3.0%	23,845	5.0%	102,484	2.8%	173,740	0.0%	476	59.0%
2018	69,941	1.0%	9,625	2.5%	24,680	3.5%	104,246	1.7%	173,740	0.0%	476	60.0%
2019	69,941	0.0%	9,625	0.0%	24,680	0.0%	104,246	0.0%	173,740	0.0%	476	60.0%

Source: Hunden Strategic Partners

The proposed Project will be the newest hotel development since the 74-room Comfort Inn opened in 2011. While the hotel would not substantially increase the the supply of available rooms, it would represent the only hotel rooms downtown.

Occupancy in 2014 is estimated to be 59.5 percent, a level that is typically below a healthy occupancy rate for the market to fully support additional hotel rooms. With no additional hotel rooms imminent for the market, supply will slightly increase in the competitive set with a new hotel, leading to a decrease in occupancy briefly. Demand in all segments is expected to increase in the coming years, ending at 60 percent in 2018 and 2019.

The following table shows the estimated occupancy of the proposed hotel, based on how the hotel will penetrate various market segments.

Table 5-2

Estimated Market Penetration for Proposed Hotel						
Year	Corporate Transient	Group	Leisure	Total Penetration	Projected Set Occupancy	Subject Occupancy
2016	90%	90%	80%	88%	57%	50%
2017	95%	100%	95%	95%	59%	56%
2018	103%	125%	125%	110%	60%	66%
2019	103%	125%	125%	110%	60%	66%
2020	103%	125%	125%	110%	60%	66%
2021	103%	125%	125%	110%	60%	66%
2022	103%	125%	125%	110%	60%	66%
2023	103%	125%	125%	110%	60%	66%
2024	103%	125%	125%	110%	60%	66%
2025	103%	125%	125%	110%	60%	66%

Source: Hunden Strategic Partners

The hotel is expected to cater to the built in corporate market that is already in Goshen area for business, but it will primarily induce leisure travelers looking for a higher quality and unique experience. As the newest hotel with the highest quality and newest function space, it is expected to penetrate the corporate transient market at approximately 103 percent, although if the hotel were affiliated with a brand or point system, that penetration would be higher. It is also expected to do well with the wedding and special event group market since it will have function space and much more than most hotels in the area. In addition, the hotel will penetrate the leisure market at approximately 125 percent since it will likely be one of the highest-priced hotels in the area and will attract travelers seeking a unique experience and within walkable distance of downtown attractions. Overall, the hotel should have a 109 percent penetration rate by stabilization, leading to a stabilized occupancy of nearly 66 percent.

The following table shows the estimated demand, by segment, for the proposed hotel based on the penetration rates established above.

Table 5-3

Projected Demand for Proposed 28-Room Hotel												
Year	Corporate Transient	% Change	Group	% Change	Leisure	% Change	Total Demand	% Change	Total Supply	% Change	Total Rooms	Occupancy
2016	5,776	--	776	--	1,718	--	8,270	--	16,425	--	45	50.3%
2017	6,219	7.7%	888	14.4%	2,142	24.7%	9,249	--	16,425	--	45	56.3%
2018	6,810	9.5%	1,137	28.1%	2,916	36.2%	10,864	17.5%	16,425	0.0%	45	66.1%
2019	6,810	0.0%	1,137	0.0%	2,916	0.0%	10,864	0.0%	16,425	0.0%	45	66.1%
2020	6,810	0.0%	1,137	0.0%	2,916	0.0%	10,864	0.0%	16,425	0.0%	45	66.1%
2021	6,810	0.0%	1,137	0.0%	2,916	0.0%	10,864	0.0%	16,425	0.0%	45	66.1%
2022	6,810	0.0%	1,137	0.0%	2,916	0.0%	10,864	0.0%	16,425	0.0%	45	66.1%
2023	6,810	0.0%	1,137	0.0%	2,916	0.0%	10,864	0.0%	16,425	0.0%	45	66.1%
2024	6,810	0.0%	1,137	0.0%	2,916	0.0%	10,864	0.0%	16,425	0.0%	45	66.1%
2025	6,810	0.0%	1,137	0.0%	2,916	0.0%	10,864	0.0%	16,425	0.0%	45	66.1%

Source: Hunden Strategic Partners

As shown, the majority of business is expected to come from corporate transient guests, followed by the leisure segment.

The table below shows the estimated market segmentation for the proposed hotel versus the competitive set.

Table 5-4

Projected Hotel Stabilized Demand Mix vs. Comp Set		
Segment	Hotel at Stabilization	Comp Set
Corporate	63%	67%
Group	10%	9%
Leisure	27%	24%
Total	100%	100%

Source: Hunden Strategic Partners

The 45-room hotel is expected to have a similar market mix as the competitive set, yet with higher leisure and group segments and a slightly lower corporate segment.

The next table shows the average daily room rate projections for the proposed hotel.

Table 5-5

Average Daily Room Rate Projections					
Year	Comp. Set ADR	Annual Increase	Hotel Rate Penetration	Projected Hotel Rate	Annual Increase
2008	\$76	--	--	--	--
2009	\$76	0.4%	--	--	--
2010	\$70	-8.0%	--	--	--
2011	\$72	1.9%	--	--	--
2012	\$73	2.0%	--	--	--
2013	\$76	3.8%	--	--	--
2014	\$81	7.0%	--	--	--
2015	\$83	3.0%	--	--	--
2016	\$86	2.5%	164%	\$140	--
2017	\$88	2.5%	164%	\$144	2.8%
2018	\$90	3.0%	165%	\$149	3.3%
2019	\$93	3.0%	165%	\$153	3.0%
2020	\$96	3.0%	165%	\$158	3.0%
2021	\$99	3.0%	165%	\$163	3.0%
2022	\$102	3.0%	165%	\$167	3.0%
2023	\$105	3.0%	165%	\$172	3.0%
2024	\$108	3.0%	165%	\$178	3.0%
2025	\$111	3.0%	165%	\$183	3.0%

Source: Hunden Strategic Partners

As shown, rates in the competitive set have fluctuated between \$70 and \$76 since 2008. HSP expects those rates to increase slowly over the coming years and reach \$90 by 2018, with three percent average growth thereafter. ADR growth nationally has generally averaged out to increase at the same level as inflation, although with much variability as shown from the recent past. The new hotel’s penetration rate is expected to be 165 percent, leading to an ADR beginning at \$140.

Understanding how the hotel will perform internally is as important to the feasibility as the external occupancy and rate projections. The next table shows the performance of the proposed hotel based on a number of assumptions about the property.

The figures are shown as earned (cash basis) and in nominal amounts, not discounted. PAR stands for “per available room” and are shown on an annual basis and POR stands for “per occupied room” and are shown on a per night basis.

Table 5-6

Projection of Income & Expense (in \$000, inflated)										
	Year 1				Year 2	Year 3	Year 4	Year 5		Year 10
	\$	%	PAR	POR	\$	\$	\$	\$	%	
Room Count	45				45	45	45	45		45
Available Room Nights	16,425				16,425	16,425	16,425	16,425		16,425
Occupancy Rates	50%				56%	66%	66%	66%		66%
Occupied Room Nights	8,270				9,249	10,864	10,864	10,864		10,864
Average Daily Rate	\$140				\$144	\$149	\$153	\$158		\$183
RevPAR	\$71				\$81	\$98	\$101	\$104		\$121
Percent of Change from Prior Year	--				15.0%	21.4%	3.0%	3.0%		3.0%
REVENUE										
Rooms	\$1,158	72.7%	\$25,738	\$140	\$1,332	\$1,617	\$1,666	\$1,716	72.5%	\$1,989
Hotel Food and Beverage	317	19.9%	\$7,042	\$38	366	445	460	473	20.0%	549
Telephone	2	0.1%	\$35	\$0	2	2	2	2	0.1%	3
Other Operated Departments	79	5.0%	\$1,760	\$10	91	111	115	118	5.0%	137
Parking & Transportation	2	0.1%	\$35	\$0	2	2	2	2	0.1%	3
Rentals and Other Income	36	2.3%	\$810	\$4	42	51	53	54	2.3%	131
Total Revenue	\$1,594	100.0%	\$35,421	\$193	\$1,835	\$2,229	\$2,298	\$2,367	100.0%	\$2,812
DEPARTMENTAL EXPENSES										
Rooms	335	28.9%	\$7,438	\$40	\$358	\$421	\$433	\$446	26.0%	\$517
Hotel Food and Beverage	260	82.0%	\$5,774	\$31	296	360	368	379	80.0%	439
Telephone	11	700.0%	\$246	\$1	13	16	16	17	700.0%	19
Other Operated Departments	13	16.0%	\$282	\$2	14	17	17	18	15.0%	21
Parking & Transportation	5	302.0%	\$109	\$1	6	7	7	7	300.0%	8
Rent and Other Income	1	2.0%	\$16	\$0	0	1	1	3	5.0%	7
Total Departmental Expenses	\$624	39.1%	\$13,866	\$75	\$687	\$820	\$842	\$869	36.7%	\$1,011
Gross Operating Income	\$970	61.5%	\$21,555	\$117	\$1,148	\$1,409	\$1,456	\$1,498	63.3%	\$1,801
UNDISTRIBUTED OPERATING EXPENSES										
Administrative and General	\$177	11.1%	\$3,932	\$21	\$194	\$225	\$230	\$237	10.0%	\$281
Marketing	\$110	6.9%	\$2,444	\$13	\$117	\$136	\$138	\$142	6.0%	\$169
Utility Costs	\$89	5.6%	\$1,984	\$11	\$94	\$107	\$110	\$114	4.8%	\$135
Property Operations and Maintenance	\$92	5.8%	\$2,054	\$11	\$97	\$111	\$115	\$118	5.0%	\$141
Total Undistributed Expenses	\$469	29.4%	\$10,414	\$57	\$503	\$580	\$593	\$611	25.8%	\$725
Gross Operating Profit	\$501	31.5%	\$11,141	\$61	\$645	\$829	\$863	\$887	37.5%	\$1,076
Franchise Fees	\$0	0.0%	\$0	\$0	\$0	\$0	\$0	\$0	0.0%	\$0
FIXED EXPENSES										
Property Taxes	\$22	1.4%	\$489	\$3	67	81	106	107	4.5%	131
Insurance	22	1.4%	\$496	\$3	24	27	28	28	1.2%	34
Management Fee	56	3.5%	\$1,240	\$7	64	78	80	83	3.5%	98
Reserve for Replacement	\$16	1.0%	\$354	\$2	\$28	\$45	\$69	\$71	3.0%	\$84
Total Fixed Expenses	\$116	7.3%	\$2,579	\$14	\$183	\$231	\$283	\$289	12.2%	\$348
Cash Flow from Operations	\$385	24.2%	\$8,563	\$47	\$463	\$599	\$581	\$598	25.3%	\$728

Source: Hunden Strategic Partners

The property is projected to generate a total of nearly \$1.6 million in gross revenue in the first year, increasing to nearly \$2.8 million in the tenth year. Approximately \$385,000 is estimated to be available to satisfy debt and equity requirements in the first year (24.2 percent of gross revenue), increasing to \$728,000 in the tenth year.

Explanation of Income and Expense Items

The estimates of income and expense statements are based on the results of operations of comparable select service hotels. The income for each of these years is estimated based on the expected impact that the change in occupancy and average daily room rates is expected to have on income and expenses. Expense estimates are assumed to have both fixed and variable components, and vary based on projected occupancy levels.

Departmental Revenues and Expenses

Distributed Departmental Revenues and Expenses

Rooms Department: Room revenue is estimated by multiplying the occupancy rate by the average daily rate (ADR) projected in this analysis.

Rooms department expenses include payroll and related costs associated with the front desk and housekeeping, operating supplies, laundry linens, cable television, and other items necessary to maintain guest rooms.

Food and Beverage: Food and Beverage is comprised of ala carte food options available. Food and beverage expenses are among the highest in a hotel's departments (outside of telecommunications). Hotels with significant food and beverage business tend to have lower net profit ratios, however catering expenses are often lower than expenses in restaurants. Because the exact restaurant and catering situation is unknown for the hotel that would ultimately be built, this model assumes an average amount for gross and net food and beverage revenue. Expenses are very high in this department, so it is often a loss leader or minimal contributor to net revenue, however it does help generate room night demand.

Telephone Department: Estimated telephone revenue is based on the experience of the similar hotel properties. The increasing use of cellular phones and expectation of free high-speed internet access has cut the gross and net revenue figures in this department across the industry in the last few years where now for every dollar spent, the hotel spends nearly eight dollars. Some hotel chains charge a flat \$10 per night fee for high-speed internet access, while others provide it gratis in select-service brands. It is assumed that internet would be provided for free in this hotel and that costs would therefore be higher than revenue for telephone and internet.

Other Operated Departments: This income category is typically comprised of smaller departments that generate income from activities such as valet laundry, business services, and similar others. It is figured based on a percentage of total revenue and the experiences of other limited-service properties.

Rentals and Other Income: This income category is typically comprised of interest, commissions on vending machine sales, movies, and other miscellaneous income. This income category is typically highly dependent on occupancy and has a very low expense ratio.

Parking/Transportation: Parking and transportation was included as more of an expense line item that is suggested as an amenity. Boutique hotels often provide short-distance car service as part of their “experience” and that can cost the hotel money, but is made up often in higher room rates and ratings. Charges for parking or transportation would only be acceptable for special events.

Undistributed Operating Expenses

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses in accordance with the Uniform System of Accounts for hotels. These expenses are discussed in the following paragraphs.

Administrative and General: This category covers expenses such as salaries and wages for management staff, bookkeeping, data processing charges, corporate office charges, office supplies, legal, accounting, allowance for bad debts, travel expenses, and similar items. General insurance (liability, business risk, etc.) is included in the Administrative and General (A&G) category. It is assumed that this expense begins as a higher percentage of gross revenue, then stabilizes by the fourth year.

Marketing Expenses: Marketing expenses include local advertising, marketing costs, the cost of printing brochures, and other related items. It is possible these figures could increase, depending upon the brand of hotel. It is assumed that this expense begins as a higher percentage of gross revenue, then stabilizes by the fourth year.

Utilities: This includes all utility expenses in the property, including electricity, gas and water. It is assumed that this expense begins as a higher percentage of gross revenue, then stabilizes by the fourth year.

Property Operations and Maintenance: Property operations and maintenance expenses include salaries and wages, employee benefits, other payroll costs, normal maintenance of the building and electrical and mechanical equipment. It is assumed that this expense begins as a higher percentage of gross revenue, then stabilizes by the fourth year.

Fixed Charges

Property Taxes are estimated based on similar hotels in the area and the cost/quality of the proposed development, which is about double that of a select service hotel (which ranges from about \$800 - \$1,000 per room). As a result, HSP has estimated that this higher end product would begin at these rates and eventually be taxed at approximately \$2,500 per room, including all of the onsite amenities like restaurant and meeting space. The state sets a limit of 3.0 percent of assessed value for commercial properties, which can be lower in Goshen and Elkhart County based on their mil rates. However, the most important factor is how the local assessor assesses the value of the building.

Insurance: This insurance category covers only the cost of building and contents insurance and no liability insurance. The liability insurance is found in the A&G expense.

Management Fees: This fee is generally more complex and is figured based on a base fee as well as an incentive fee for bottom line performance. In this model, the fee is assumed to be 3.5 percent of total revenue.

Reserve for Replacement: As is standard for income-producing properties, a reserve for replacement for furniture, fixtures, and equipment, as well as other capital items has been included in this analysis. Recent studies have indicated that, over the long-term, a minimum of four percent is required to properly maintain hotel facilities and actual costs could be higher. HSP projects a reserve level that increases as the property ages, beginning at one percent and stabilizing at three percent.