HVS

Raleigh Downtown Hotel Market Study
Final Results
Raleigh, North Carolina
August 17-18, 2015

HVS Convention Sports and Entertainment Consulting

Agenda

- Description of the existing hotel market
- Event planner survey results
- Market outlook
  - Anticipate new hotel supply
  - Baseline
- Hotel development scenarios
- Impact on the RCC and Downtown Raleigh
- Conclusions
- Q&A

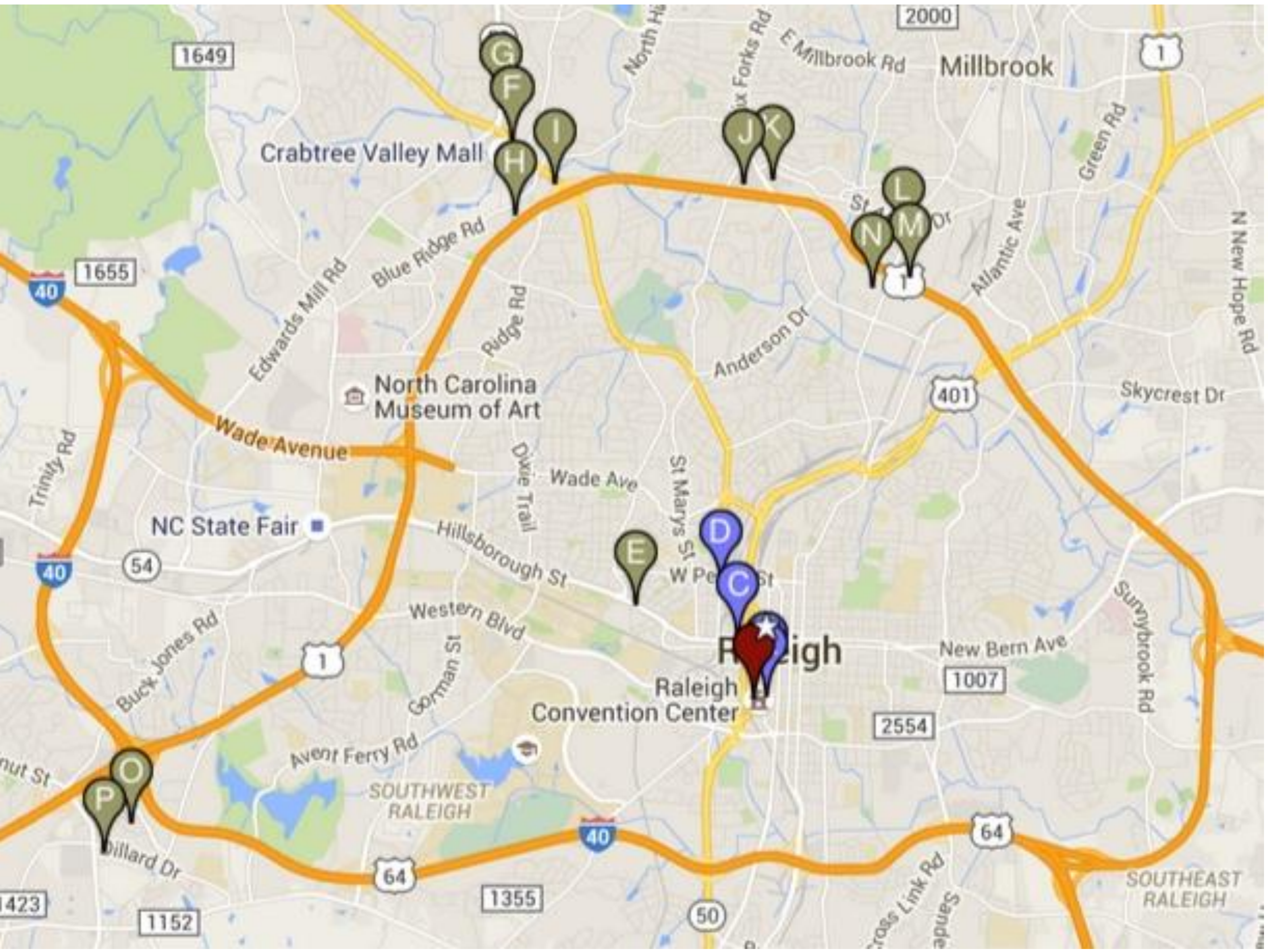
Description of the Existing Hotel Market

Existing Hotel Market
Key Findings

- The Raleigh hotel market has experienced strong growth in rate and occupancy reaching record highs in 2015
  - $135 average daily room rates in downtown and adjacent hotels
  - Occupancy rates are approaching 73%
- Business travel is the primary driver of demand growth, which makes up nearly 46% of room night demand.
- Business travel drives strong mid-week hotel occupancies.
- The Marriott Raleigh City Center is the market leader with revenue per available room of approximately $108
- The Hampton Inn and Suites Raleigh Downtown has the highest occupancy, which reflects its high penetration of business travel demand.

Existing Hotel Supply

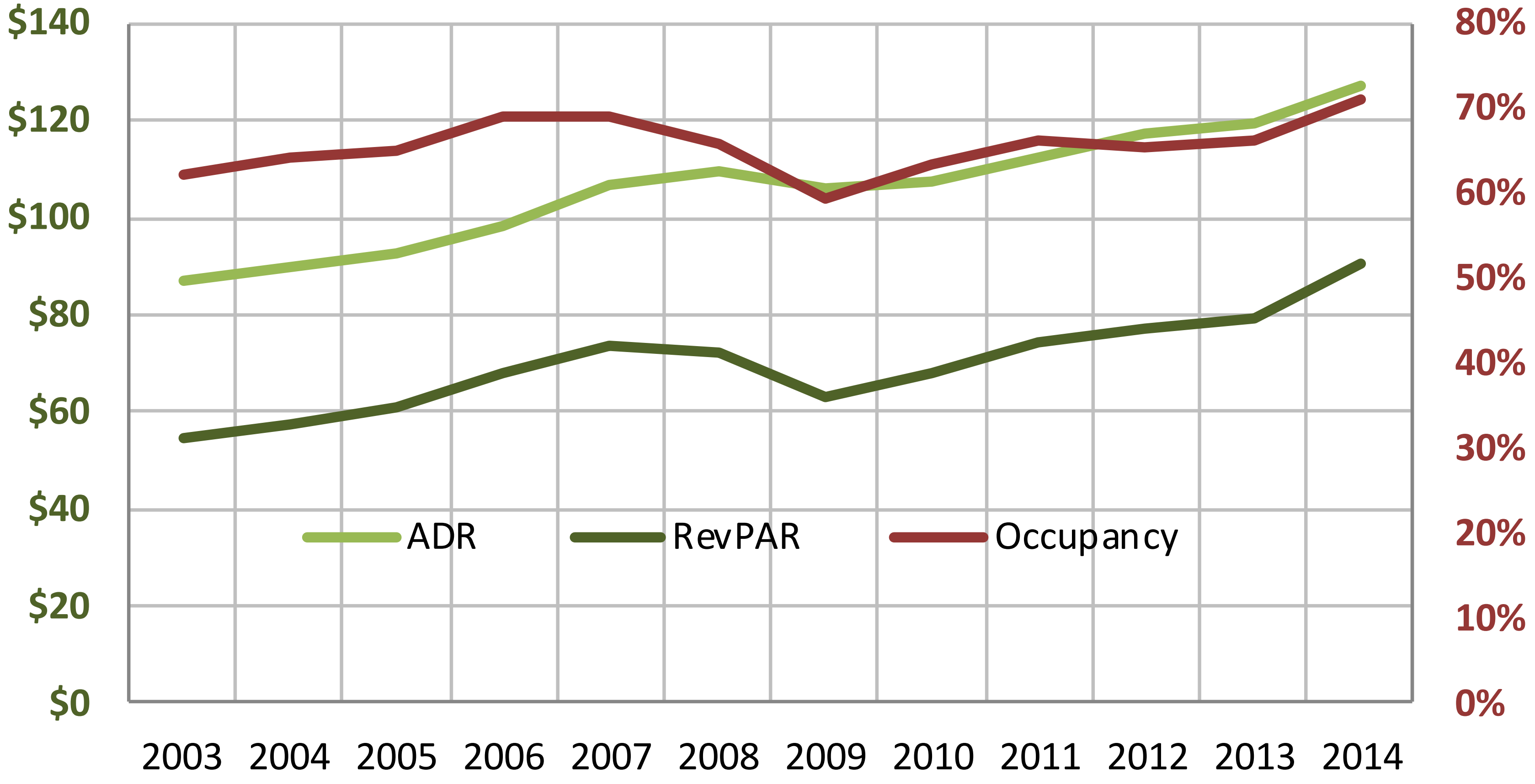
In addition to the four hotels located in Downtown Raleigh, we have identified 12 hotels that compete for downtown business and benefit from convention center demand.



- Potential new hotel supply
- A Marriott Raleigh City Center
- B Sheraton Raleigh
- C Holiday Inn Raleigh Downtown
- D Hampton Inn & Suites Raleigh Downtown
- E DoubleTree by Hilton Raleigh Brownstone
- F Marriott Raleigh Crabtree Valley
- G Embassy Suites Raleigh Crabtree
- H Courtyard by Marriott Raleigh Crabtree
- I Hampton Inn & Suites Raleigh Crabtree
- J Renaissance Raleigh North Hills
- K Hyatt House Raleigh North Hills
- L Hilton North Raleigh Midtown
- M Hyatt Place Raleigh North
- N Courtyard by Marriott North Raleigh
- O DoubleTree by Hilton Raleigh Cary
- P Hilton Garden Inn Raleigh Cary

Trends

After strong growth in the earlier part of the last decade, the Great Recession stalled demand growth and caused average daily room rates (ADR) to stagnate. Since 2009, occupancy recovered to pre-recession levels. ADRs have grown faster than inflation. Revenue per available room (RevPAR), a combined measure of rate and occupancy, is at an all-time high.



Recent Market Movements

Since 2012, hotel room night demand growth has exceeded supply growth and occupancies are now in excess of 70%. ADR has also strengthened.

Competitive Set Recent Market Performance

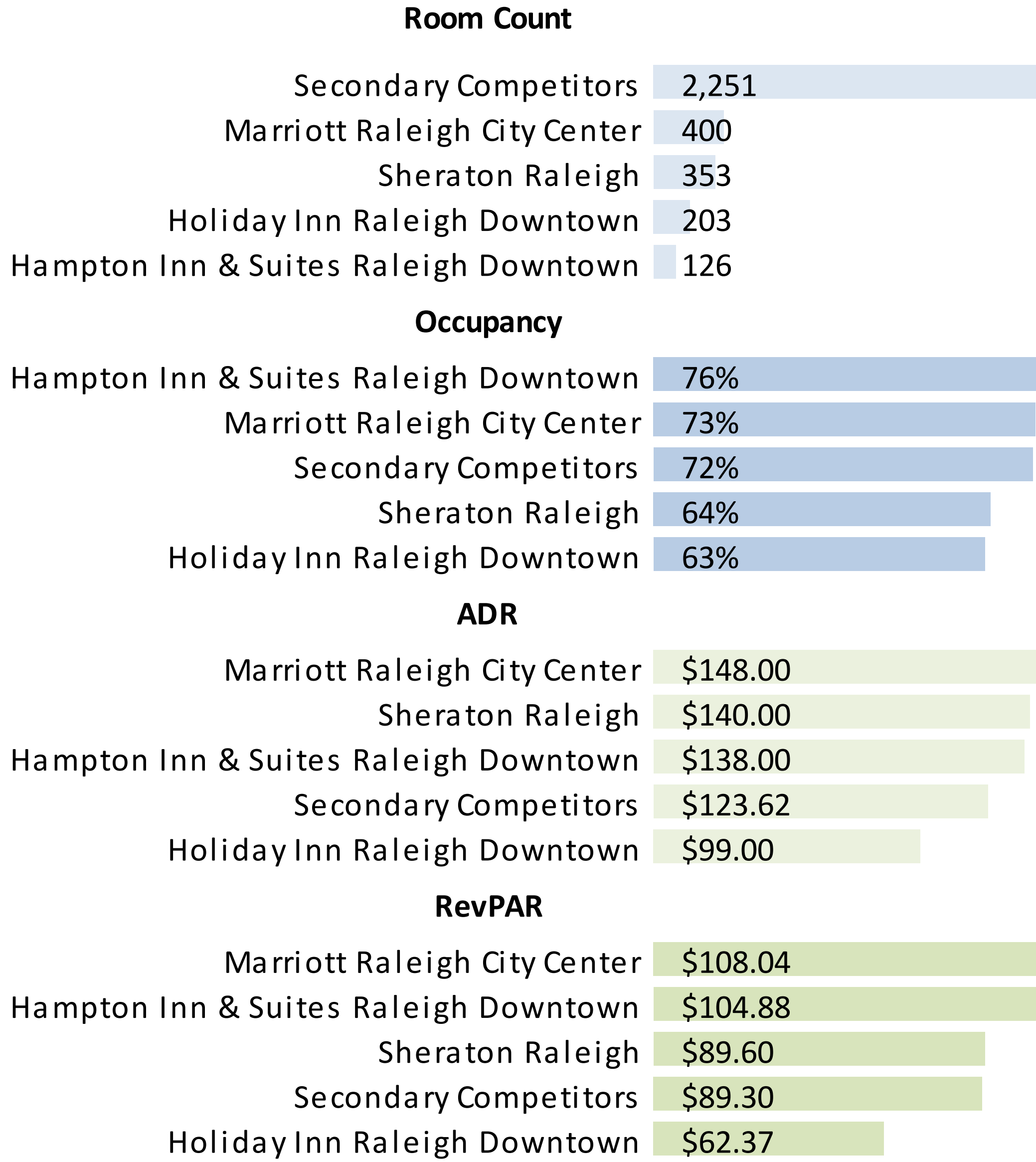
Year	Accommodated Room Nights	Room Nights Available	Market Occupancy	Market ADR	Market RevPAR
Amount					
2012	645,000	984,000	65.5%	$117.86	$77.26
2013	716,000	1,086,000	65.9%	$120.27	$79.30
2014	785,000	1,106,000	71.0%	$127.83	$90.73
Pecent Change					
2013	11.0%	10.4%	0.6%	2.0%	2.6%
2014	9.6%	1.8%	7.7%	6.3%	14.4%

Year-to-Date Through April

	2014	2015	Percent Change
Occupancy	71.5%	72.5%	1.4%
ADR	$127.12	$133.41	4.9%
Demand	286,023	289,826	1.3%

Individual Property Performance in 2014

- The Hampton Inn & Suites has the strongest occupancy in the downtown market.
- Marriott Raleigh City Center generates the highest room rates, which is to be expected of a full-service property, and leads the market in RevPAR.
- The Sheraton performs at a similar level to the aggregated secondary competitors outside of downtown.
- While the Holiday Inn is the weakest performer in the market. Its conversion from the Clarion in 2014 should improve its performance.
- The Marriott, Sheraton and to a lesser extent the Hampton, are the only hotels that provide adequate support to the Convention Center.



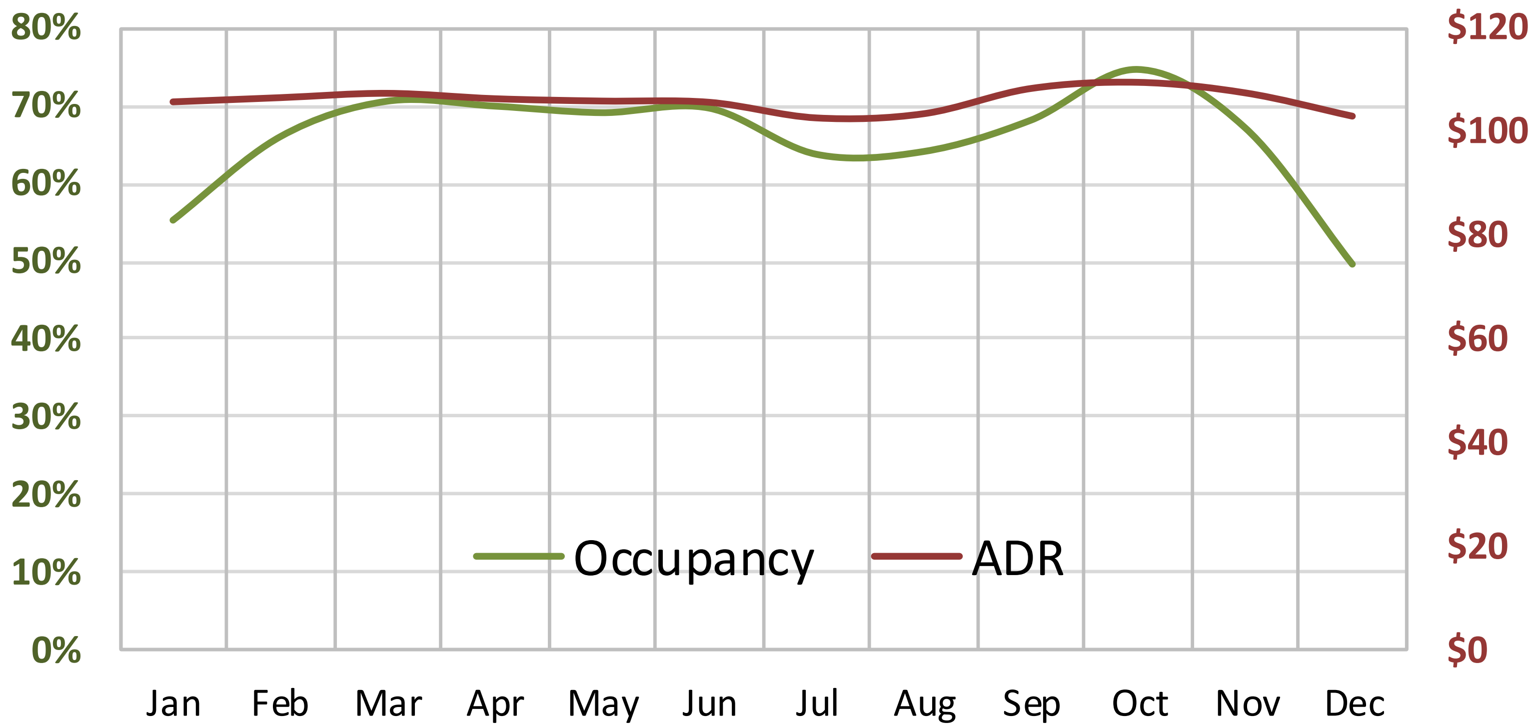
Market Segmentation

The market benefits from a healthy mix of demand sources. Commercial travelers make up nearly half of all room night demand. Local businesses such as Citrix, Red Hat and PNC Bank drive much of this demand. The Raleigh Convention Center and hotels with function space attract meeting and group business, which makes up nearly one-third of occupied room nights. Leisure demand drives business on weekends and holidays.

Market Segment	Occupied RN	Percent of Total
Commercial	363,402	46%
Meeting and Group	252,475	32%
Leisure	168,682	22%
Total	**784,558**	**100%**

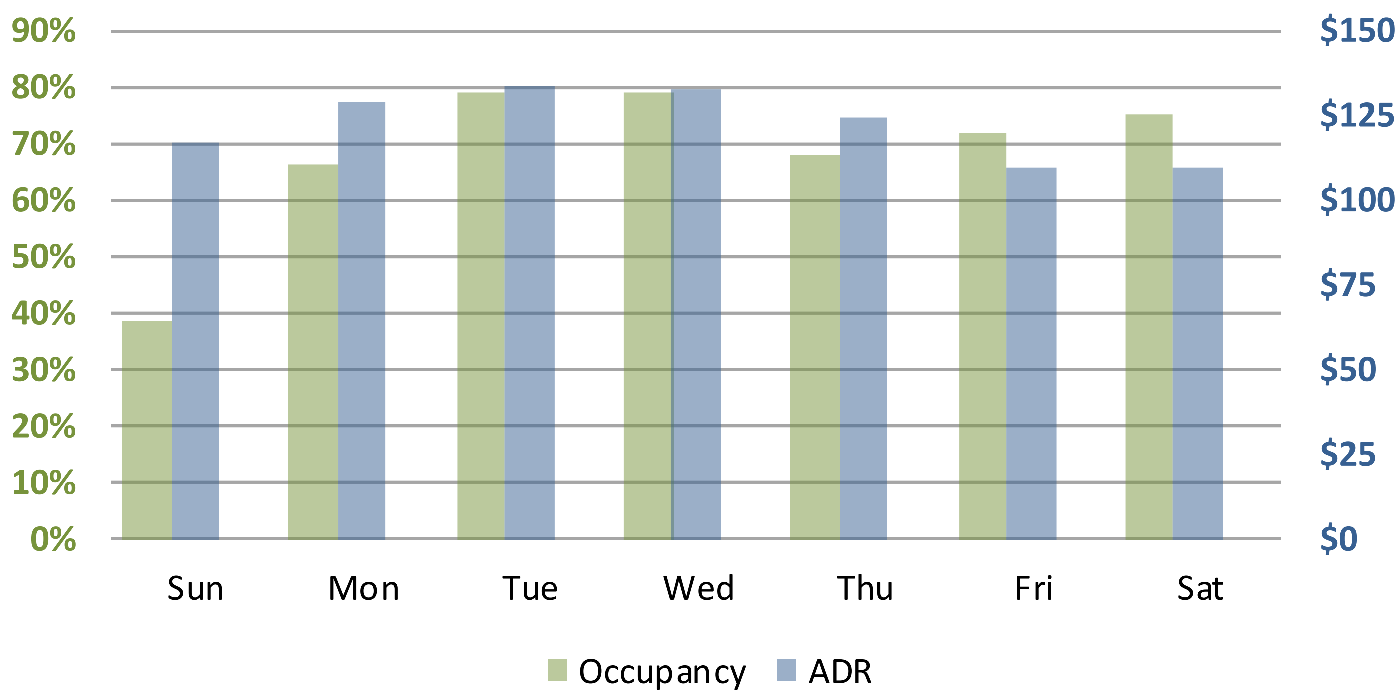
Seasonal Patterns of Demand

Demand peaks in the spring and fall when commercial travelers and meetings and groups are at their peak. Occupancy lags in the summer and is lowest in December and January. ADRs show less seasonal variation than occupancies.



Weekly Patterns of Demand

Commercial travelers cause hotel demand to peak on Tuesdays and Wednesdays. Strong leisure travel support occupancies in excess of 70% on the weekends albeit at lower rates than during the week since leisure travelers are more price sensitive. Thursday and Fridays are “shoulder” days and Sunday is the low point of weekly occupancy.



Event Planner Survey

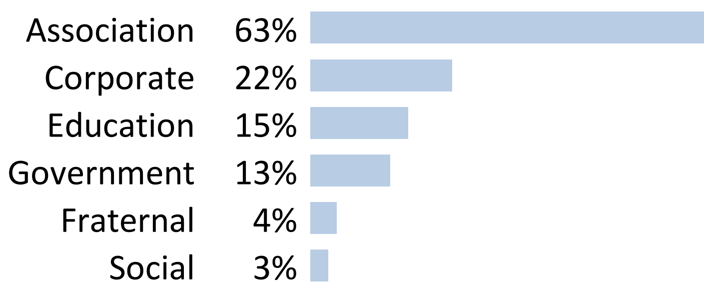
Event Planner Survey Key Results

- An inadequate hotel package is the greatest obstacle to attracting convention events.
- Specifically, planners note the lack of hotels within walking distance to the RCC.
- Event planners have a favorable view of Raleigh as an event destination. They like downtown dining and retail amenities and natural beauty.
- The majority of planners prefer to host an event in downtown Raleigh in a full-service property with an upscale or upper-midscale brand.
- Booking hotel rooms within walking distance to the RCC is important to event planners.

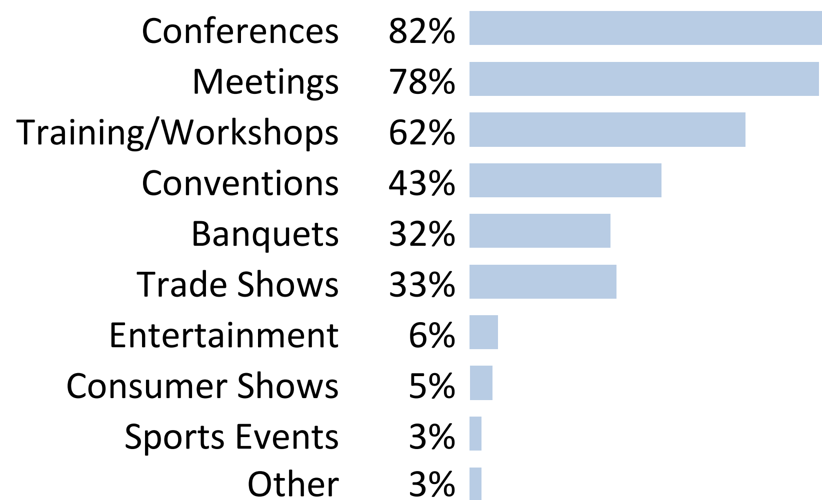
Who Responded

116 survey respondents are association, corporate, and other meeting planners representing 24 states. Approximately one-third of the respondents are from North Carolina and over half have held an event in Raleigh in the past 5 years.

RESPONDING ORGANIZATIONS BY TYPE



TYPES OF EVENTS PLANNED



Strengths and Weaknesses

In answers to open ended questions, event planners identified strengths and weakness of Raleigh as a group meetings destination. HVS categorized these responses as shown below.

DESTINATION STRENGTHS

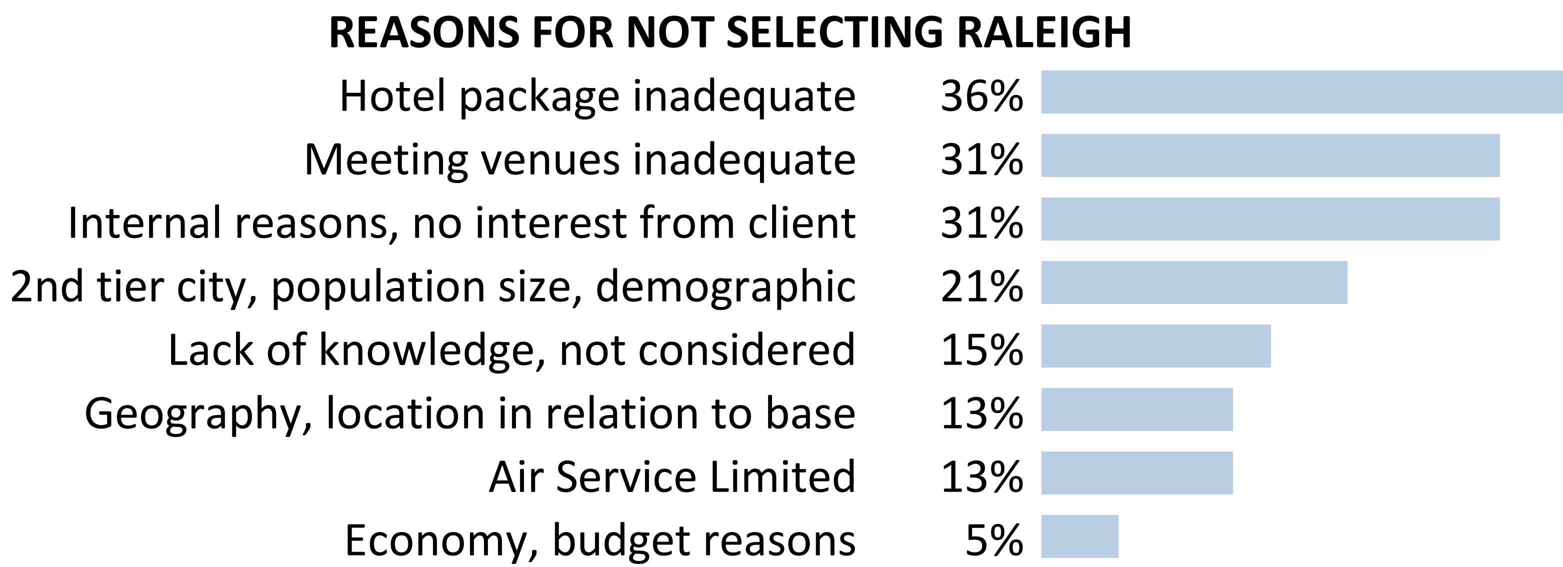
Destination amenities, downtown	44%
Ease of access	38%
Geographic location, prximity to base	25%
Variety of meeting venues, convention center	22%
Beauty, good weather	17%
Hotels	16%
Low cost, good value	14%
Customer service, friendly people	14%

DESTINATION WEAKNESSES

Inadequate hotel package	51%
Limited air service	29%
Limited destination activities, dining, shopping	27%
Traffic congestion, lack of parking	24%
Location of hotels too spread out	20%
High cost for 2nd tier city	18%
Meeting venues inadequate	18%
Geographic location, market size	12%
Lack of support for events	6%
Lack of knowledge about destination	4%

Why Event Planners Don't Come to Raleigh

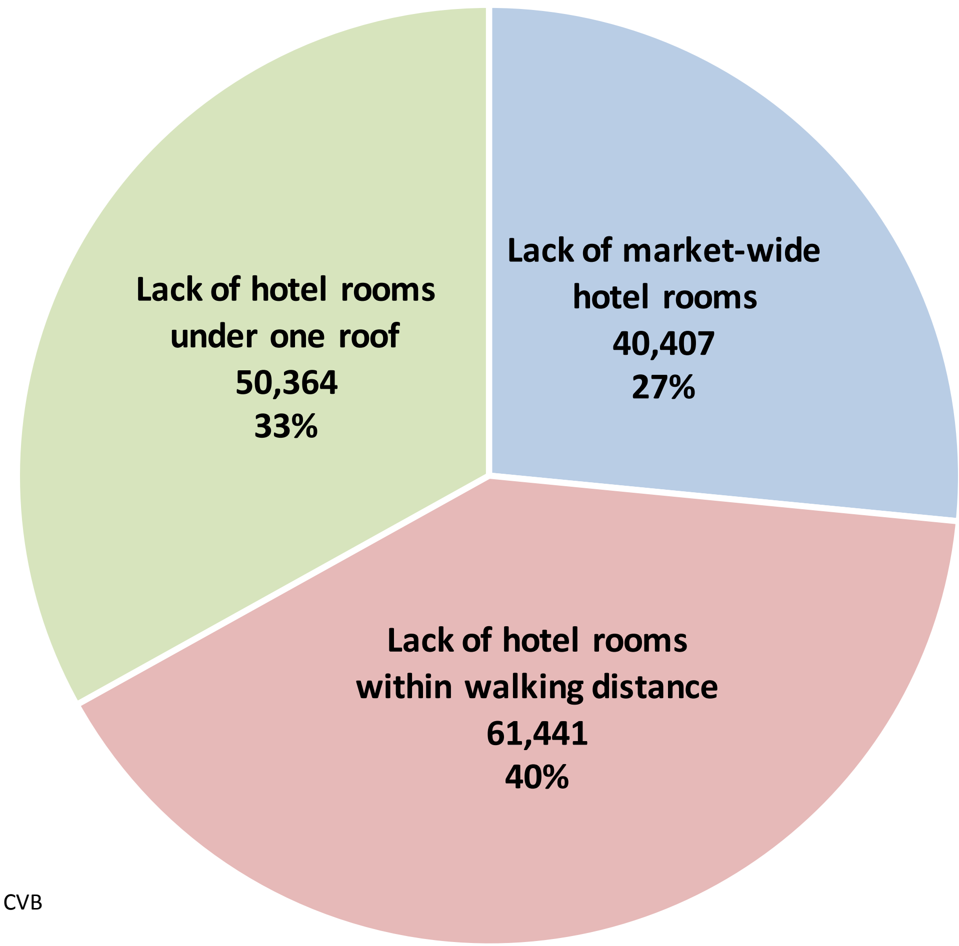
Survey respondents cite a lack of hotel room capacity and inadequate venue size most often as the primary reasons for not booking an event in Raleigh. Over half of the planners consider Raleigh's hotel package a primary weakness as an event destination.



Raleigh is viewed as a second-tier city by many event planners. This indicates that expanding into the national market will take time and depend in part on the rate of economic growth.

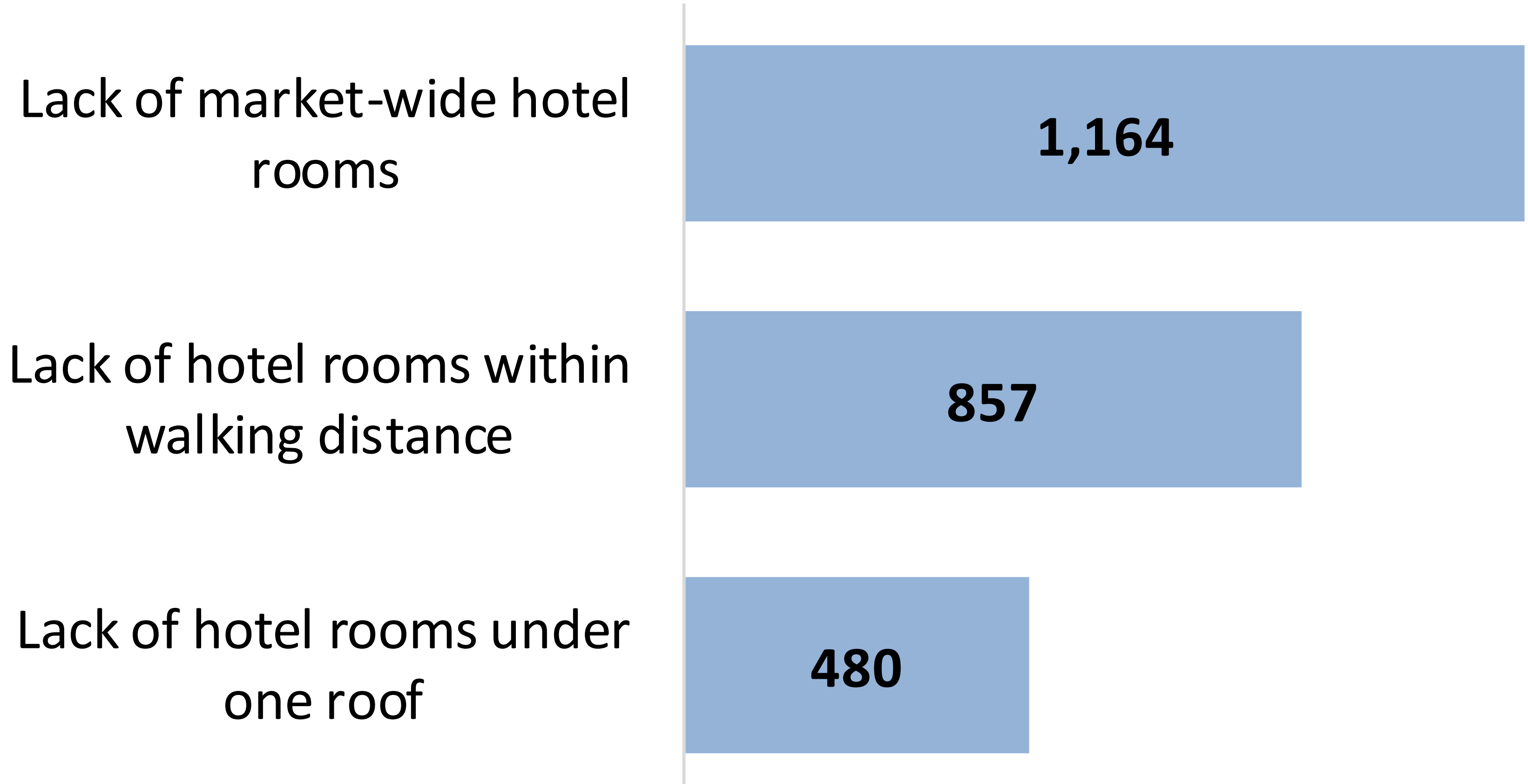
Total Lost Room Nights 2010-2015

Greater Raleigh CVB reports that from 2010-2015, 73% of rooms nights were lost due to insufficient rooms under one roof or within walking distance to the Raleigh Convention Center.



Source: Greater Raleigh CVB

Average Peak Room Nights for Lost Business (2010-2015)

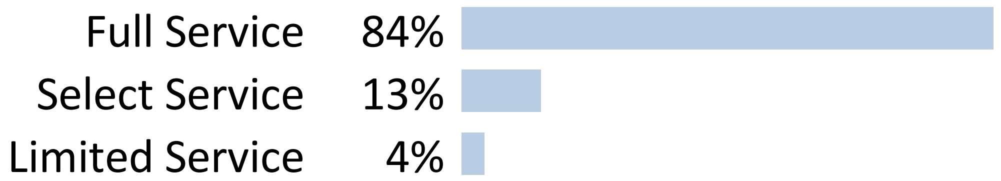


Source: Visit Raleigh

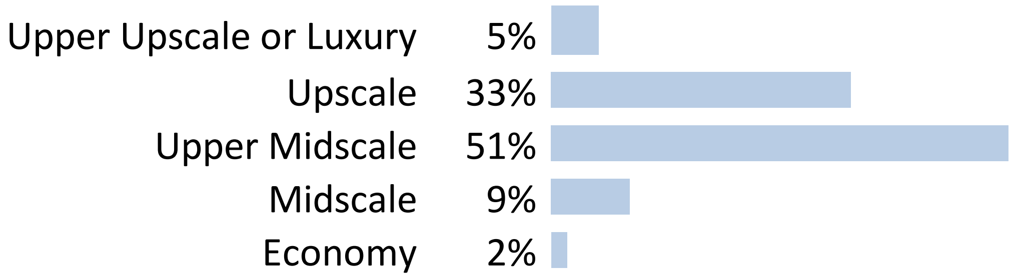
Scale and Quality of Hotels

Over 80% of planners prefer upscale or upper-midscale full-service properties.

HOTEL SERVICE LEVEL PREFERRED



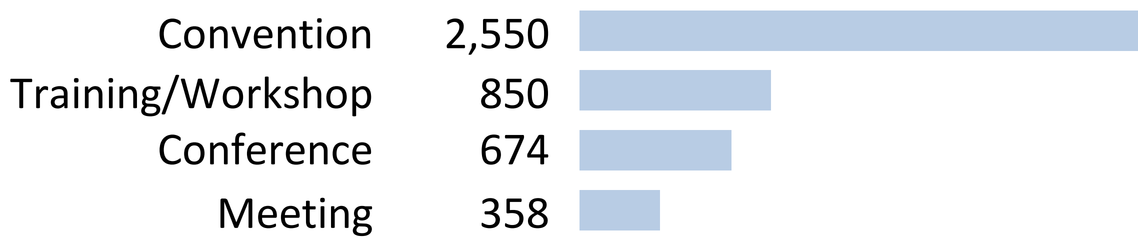
HOTEL CHAIN SCALE PREFERRED



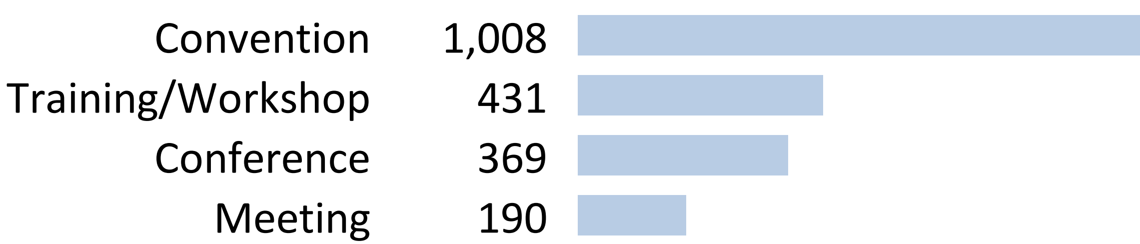
Room Night Demand

Event attendees and peak room night requirements vary by type of event.

AVERAGE EVENT ATTENDANCE BY TYPE OF EVENT



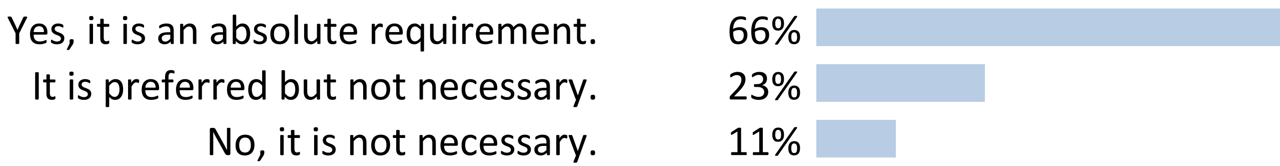
AVERAGE PEAK ROOM NIGHTS BY TYPE OF EVENT



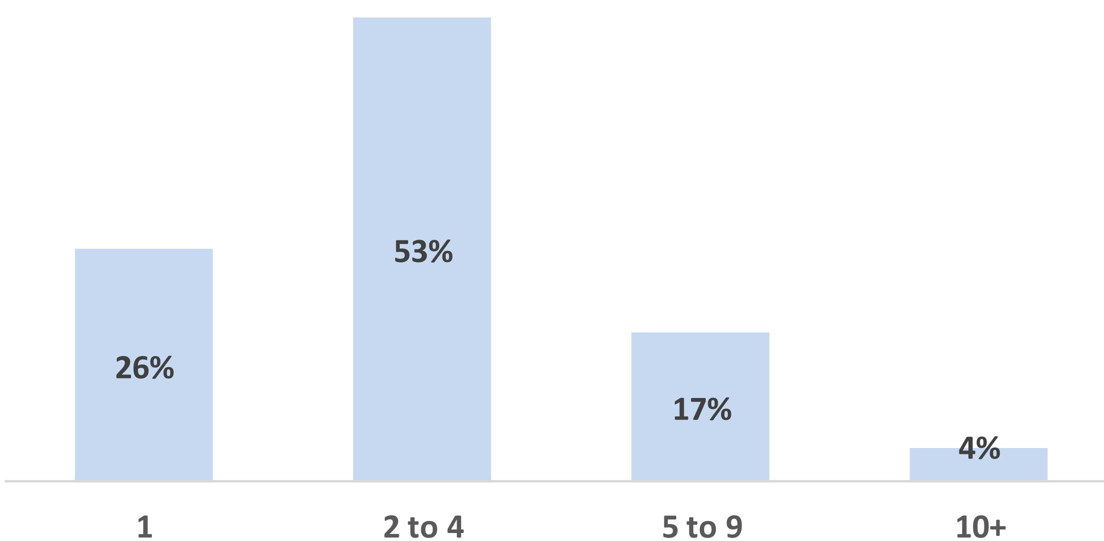
Importance of Hotel Proximity

66% of planners indicate that hotel rooms within walking distance to the event venue is an absolute requirement, while 26% will not book an event with a room block in more than one hotel.

IMPORTANCE OF HOTELS WITHIN WALKING DISTANCE

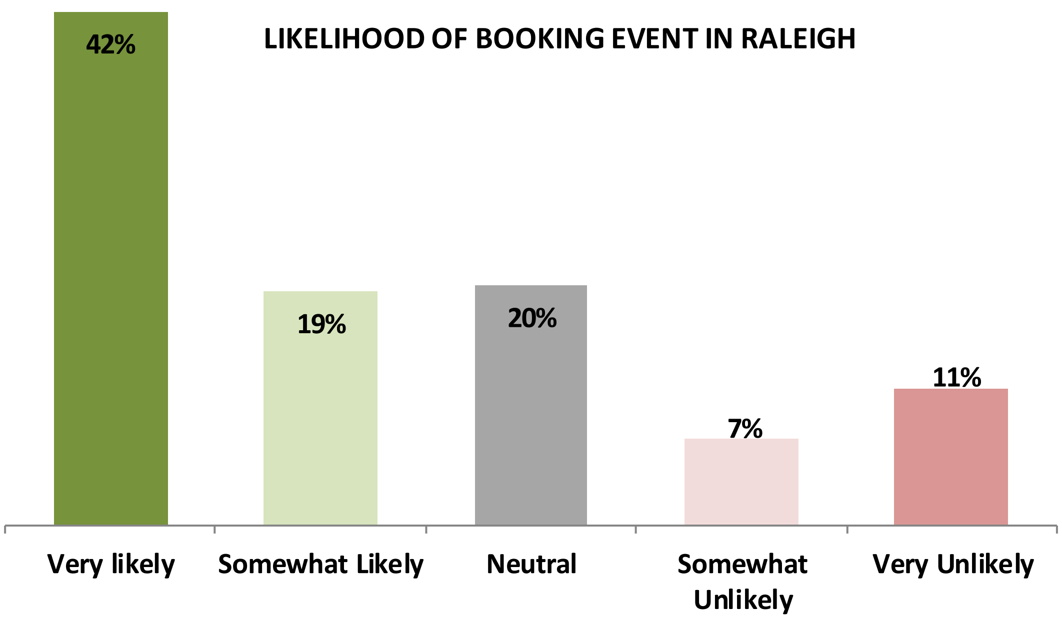


MAXIMUM NUMBER OF HOTEL PROPERTIES IN ROOM BLOCK



Who Wants to Come?

Around 61% of the meeting planners said they would be "very likely" or "likely" to book an event in Raleigh if the venue and hotel package met their event's needs. These events include conventions, conferences, meetings, and workshops.

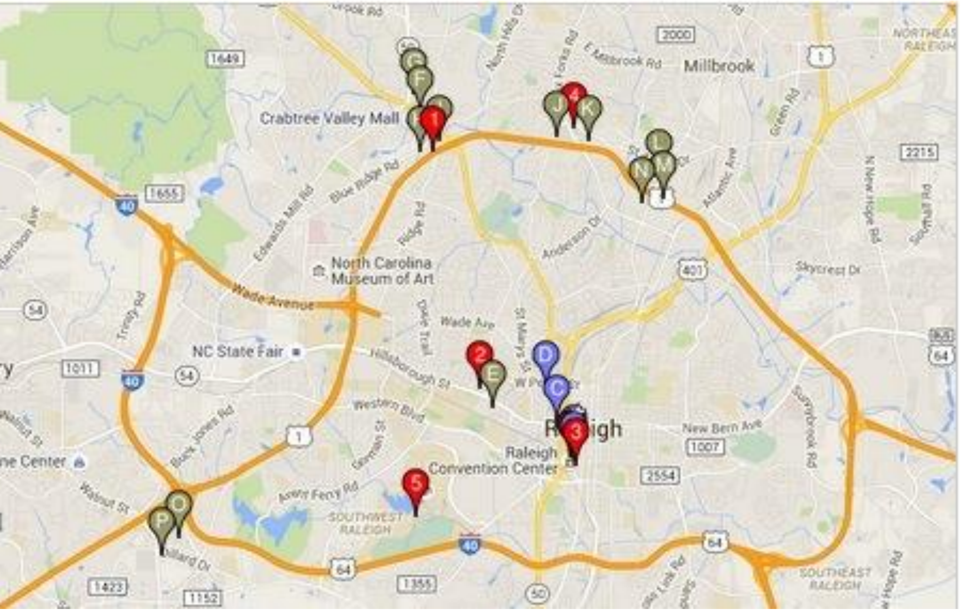


Market Outlook

Market Outlook Key Findings

- 750 new hotel rooms in five new hotels are expected to open by 2018.
- Additional new supply is likely after 2018 as other new projects are in the planning stages. Recent announcements include two hotels near the convention center:
    - Narsi Properties, 12-story hotel at South Wilmington and East Lenoir streets (General Baptist State Convention)
    - Winwood Hospitality Group, at least a 175-room full-service hotel at McDowell Street and Cabarrus Street (Enterprise Rent-A-Car site)
- Market sources indicate continued strong growth in demand in and room rate in 2015 and 2016.
- None-the-less, occupancies are expected to decline as supply grows faster than demand.

New Supply



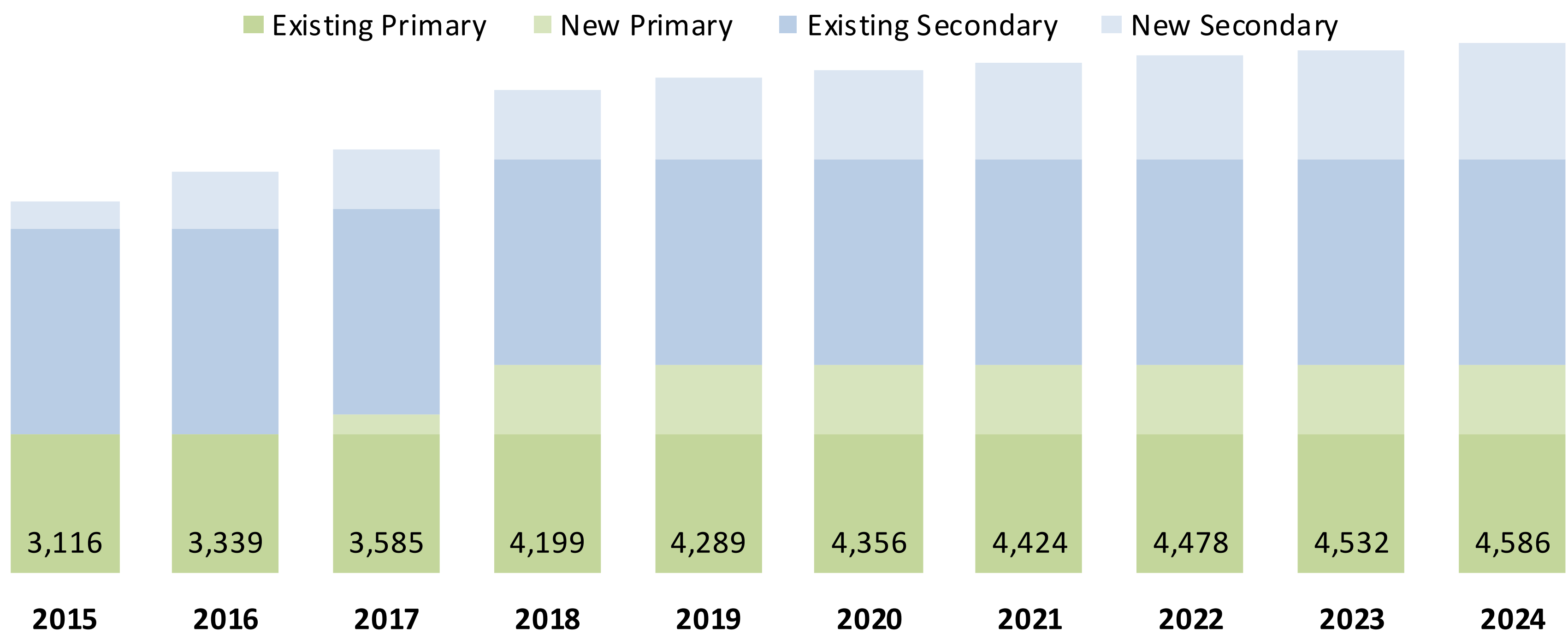
HVS investigated new supply and identified five hotel projects with projected opening dates in 2015 and 2016. These projects are likely to happen and would add over 750 rooms to the market. HVS weighted the competitiveness of these hotels with existing downtown properties and estimates a new competitive room count of approximately 650 rooms.

Map Key	Year	Proposed Property	Competitive Weight	Proposed Rooms	Weighted Room Count	Cumulative New Weighted Room Count
1	2015	Hilton Garden Inn Raleigh Crabtree Valley	80%	149	119	119
2	2015	Aloft Hotel	80%	135	108	227
4	2016	AC Hotel North Hills	80%	133	106	334
3	2016	StateView Hotel, Autograph Collection	90%	164	148	481
5	2017	Residence Inn by Marriott	100%	175	175	656

Hotels within Walking Distance of RCC

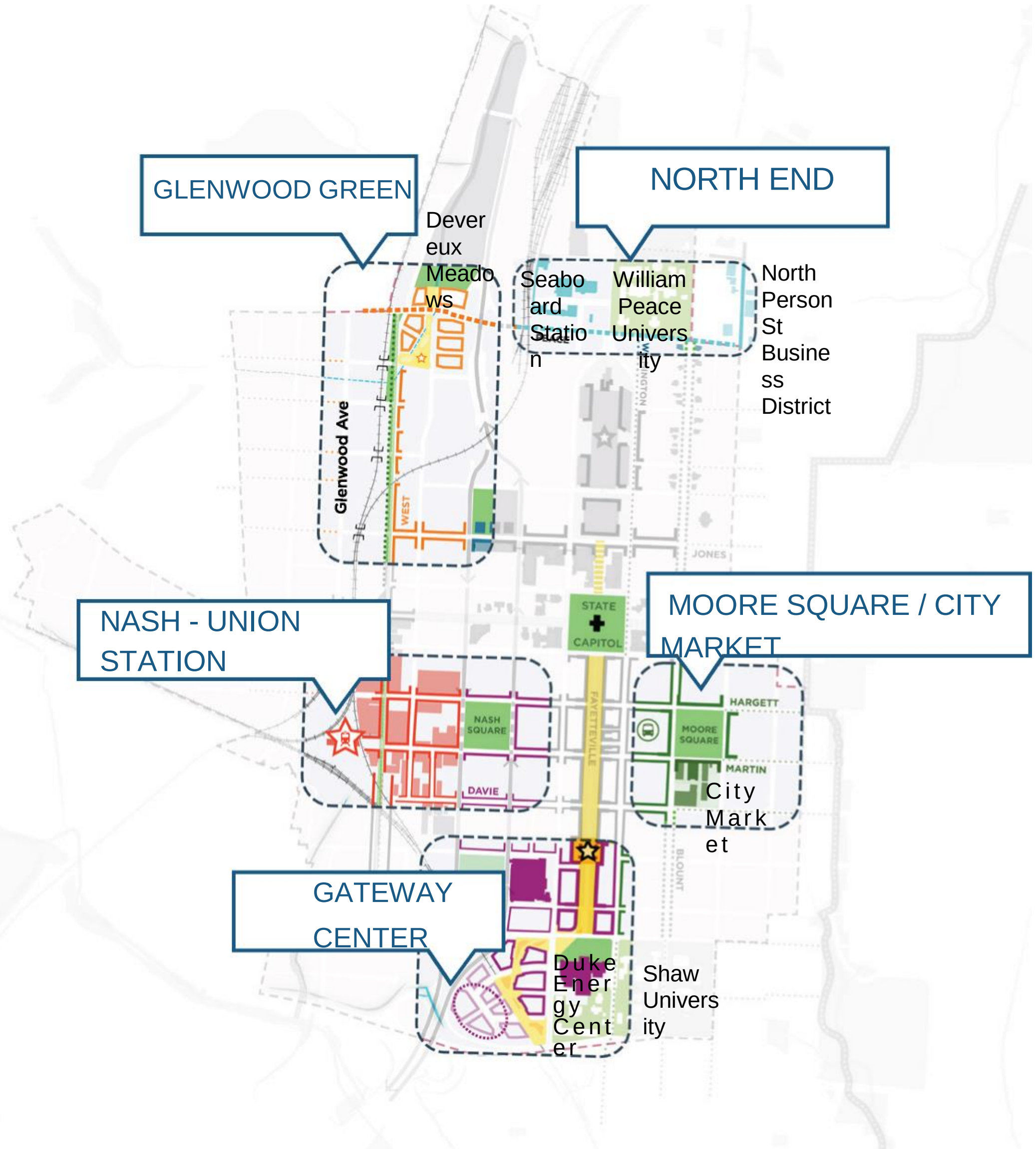
Projected Growth in the Number of Hotel Rooms

Since occupancy rates are in excess of 70% and ADRs are growing, new hotel development is likely to continue after 2016 and the known new supply is added to the market. The figure below shows our estimate of new supply under a baseline scenario in which efforts are taken to incentivize new hotel development. Most of the new development is likely to be boutique and limited-service products that are secondary competitors to downtown full-service hotels.

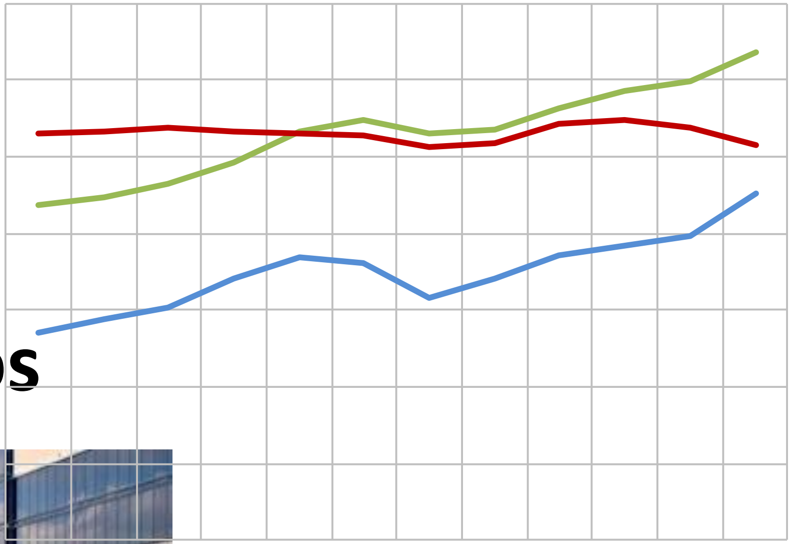


Downtown Hotel Development Areas

- The Downtown Experience Plan focuses on five "catalytic project areas."
- The plan anticipates hotel development in the three development areas closest to the RCC.
- Hotel development should be encouraged in all project areas.
- Gateway Center plan does not preserve the amphitheater site for convention center expansion.
- Expansion site designated in plan is not large enough.



Source: Downtown Experience Plan



Hotel Development Scenarios

Baseline Scenario -- Hotel Market Assumptions

Key Assumptions:

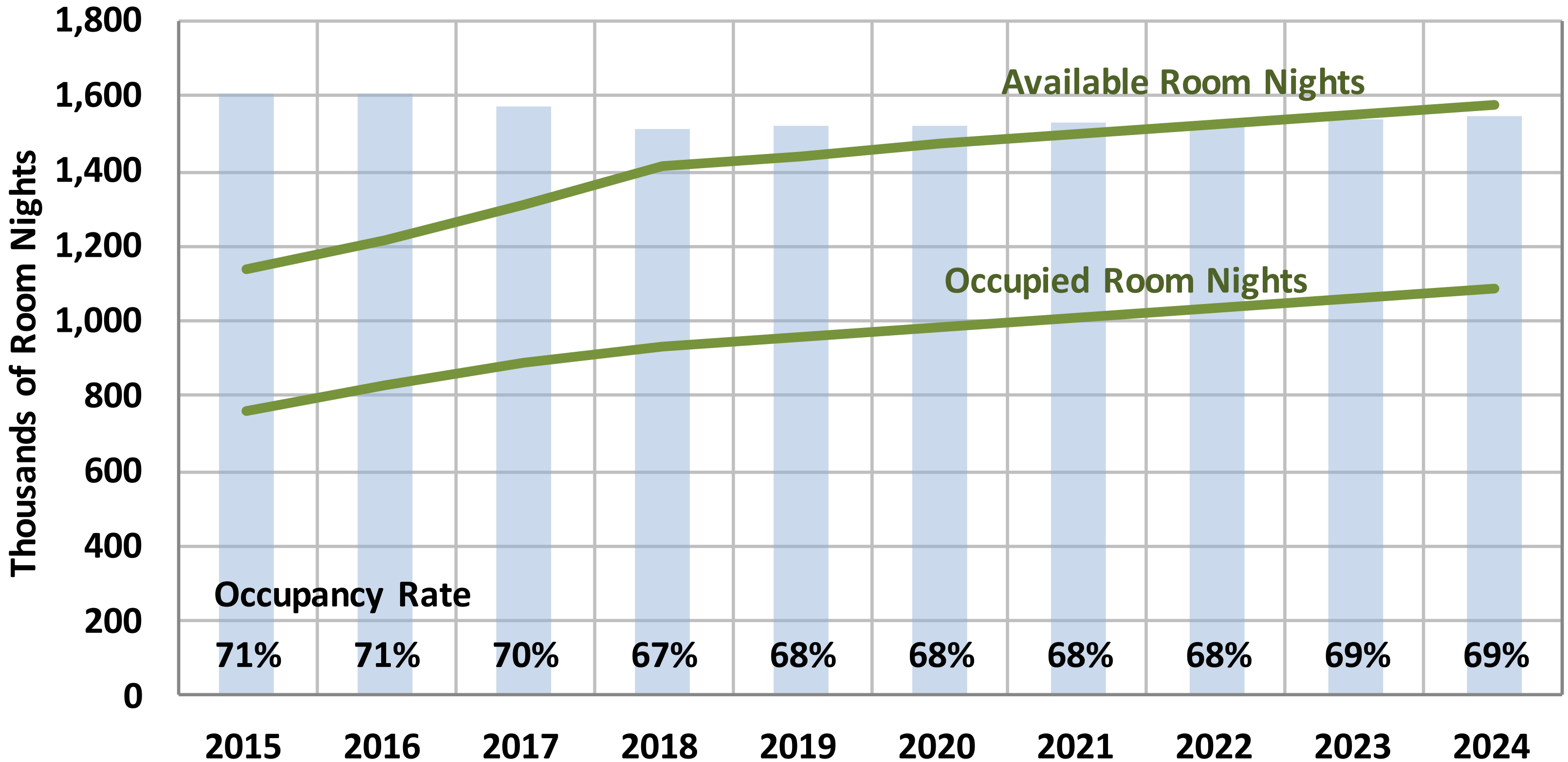
- All known new hotel room supply will be on line in 2015 through 2018.
- We assume available room nights will continue to grow: 7% in 2017 (due to new supply introduced in 2016), 5% in 2018, and roughly 2% in 2019 and thereafter.
- Baseline demand growth by market segment:

Segment	2015	2016	2017	2018	2019	2020
Commercial	5.0%	6.0%	4.0%	2.5%	2.5%	2.0%
Meeting and Group	4.0%	5.0%	3.0%	2.0%	2.0%	1.5%
Leisure	3.0%	4.0%	2.0%	2.0%	2.0%	1.5%
Weighted Overall Change	4.2%	5.3%	3.3%	2.2%	2.2%	1.7%

- Demand that is currently unaccommodated in the downtown market will be absorbed by the new supply causing occupied room nights to grow faster than the baseline rates.

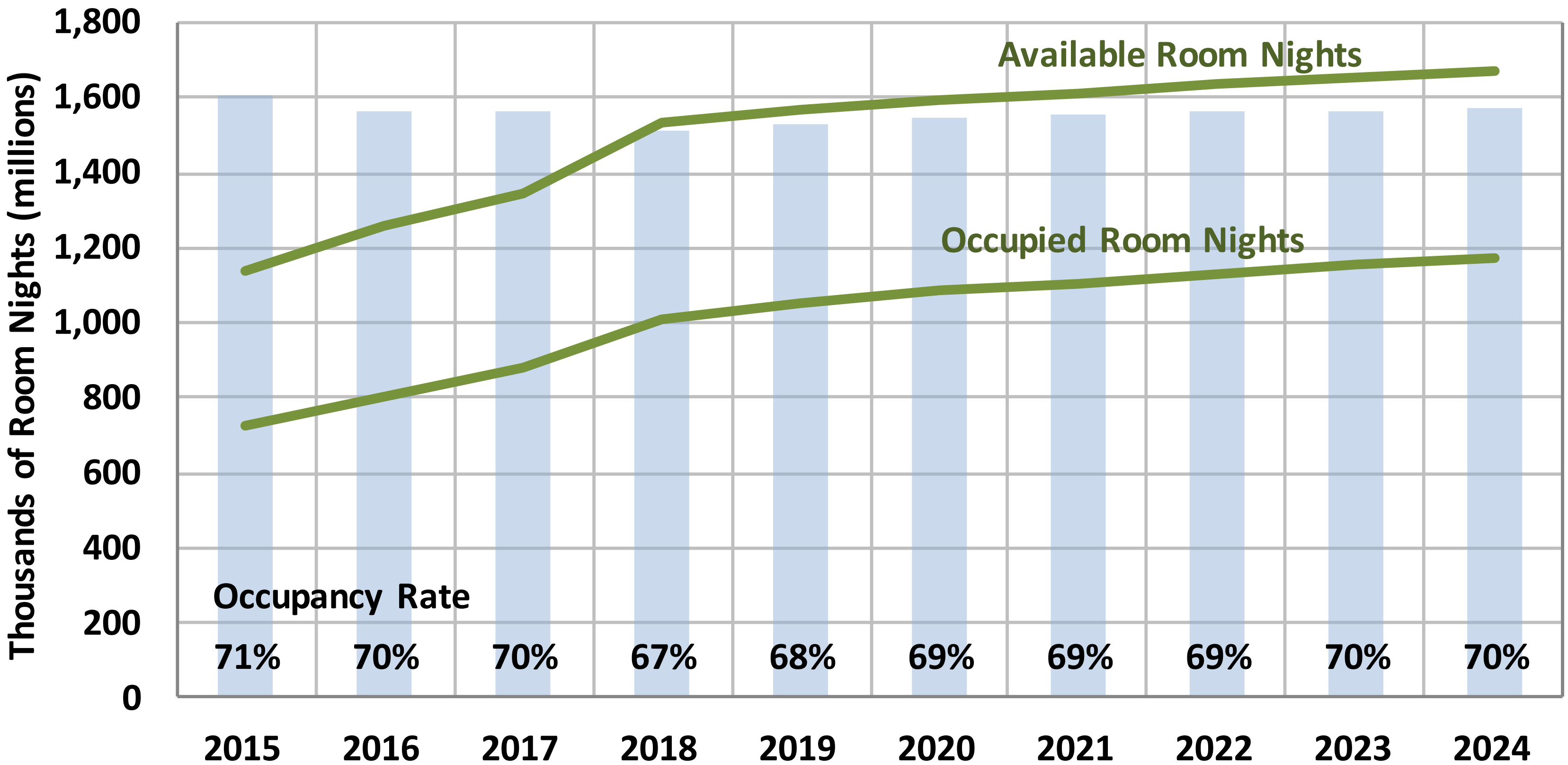
Baseline Hotel Market Projections

Applying the previously described assumptions for supply and demand growth, HVS projected the future performance of the Downtown Raleigh hotel market. We assume that it would stabilize at approximately 69% occupancy. Under the assumptions in the model, occupied room nights could grow from 750,000 in 2015 to 1.1 million in 2024.



Hotel Development Scenario Projections

The addition of a 400-room hotel would have a small and temporary effect on market occupancy rates because: 1) it is likely to displace some new hotel development that would otherwise occur and 2) it would induce new room night demand into the market.



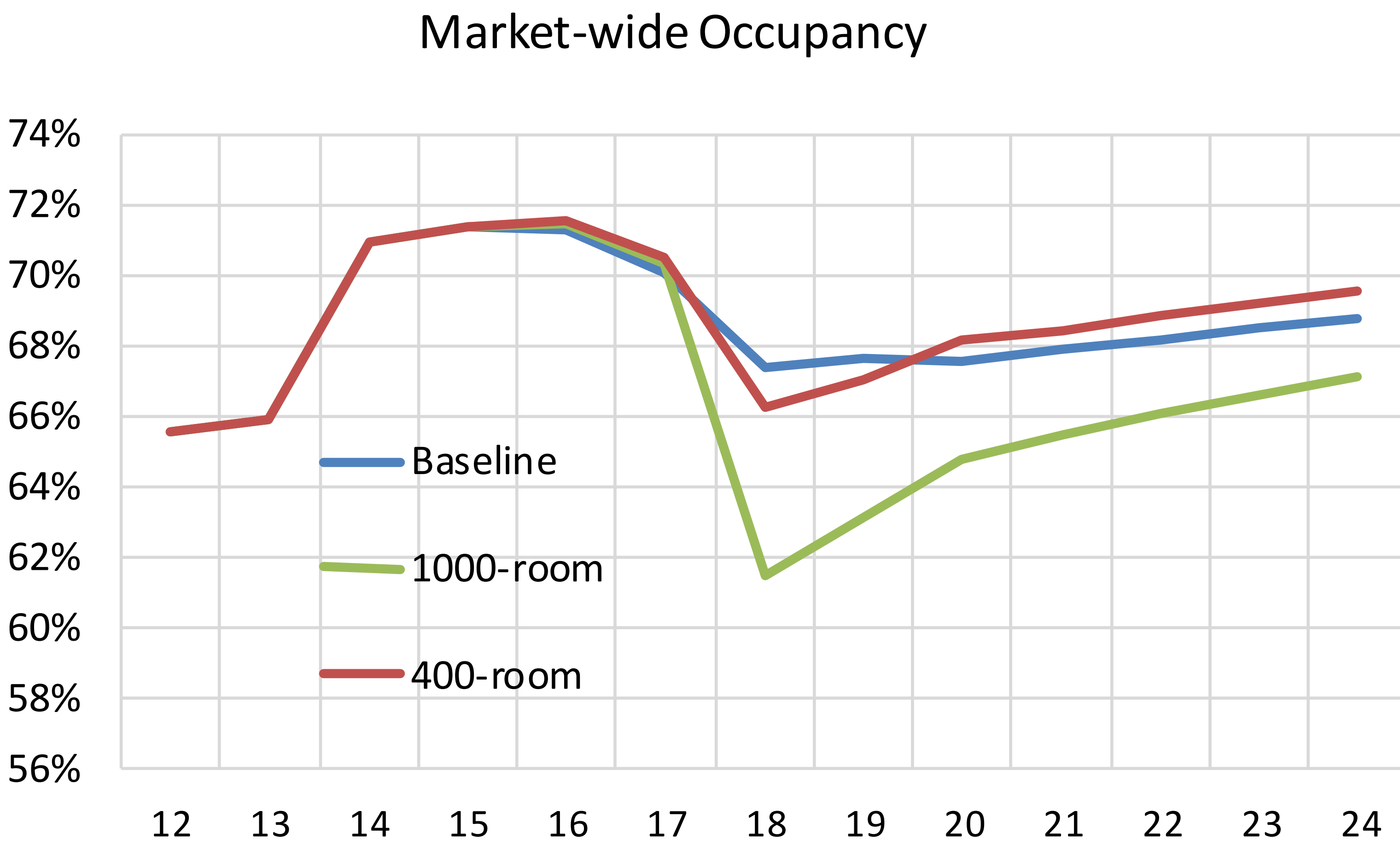
Preliminary Estimates of Feasibility

- HVS ran a preliminary assessment of the feasibility of a 400-room full service hotel.
- We assumed investment parameters that reflect current credit market conditions
- We separately valued the mortgage and equity components of the project using a discounted cash flow analysis.
- A 400-room hotel could generate between $8 and $9 million in net operating income in a stabilized year of operation.
- Without some form of incentive, such a project is unlikely to be feasible. Funding gap could range from $27 to $67 million.

Assumptions	
Loan-To-Value Ratio	70.0%
Interest Rate	5.0%
Debt Service Constant	7.0%
Equity Yield	17.0%
Transaction Costs	2.0%
Terminal Capitalization Rate	9.0%
Value	
Mortgage Component	$64,792,000
Equity Component	$27,769,000
Total	$92,561,000
Value Per Key	$231,000
Range of Costs	
$300 thousand per key	$120,000,000
$350 thousand per key	$140,000,000
$400 thousand per key	$160,000,000
Possible Funding Gap	
$300 thousand per key	$27,439,000
$350 thousand per key	$47,439,000
$400 thousand per key	$67,439,000

Comparison of Three Scenarios

HVS compared the likely market occupancy rates under three development scenarios : 1) the baseline in which no new supply opens, 2) the City successfully attracts a 400-room full-service hotel adjacent to the RCC, 3) a 1,000-room hotel is developed adjacent to the RCC'

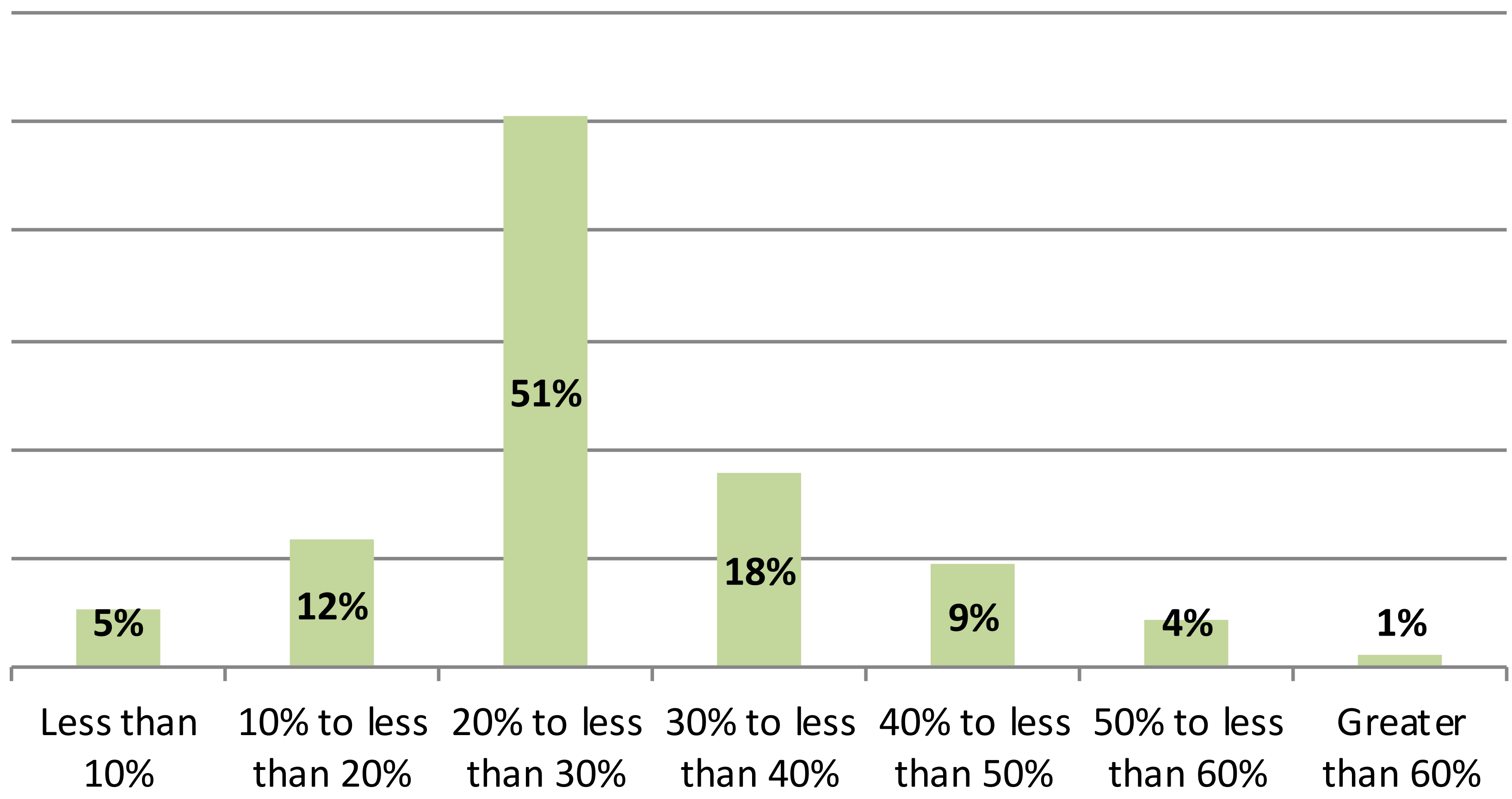


Forms of Public Incentives

- Tax incentives
  - TIF
  - Property tax forgiveness
  - Turn back of property generated lodging and sales taxes
- Federal Programs
  - EB5
  - New Market Tax Credits
- Related infrastructure investment
  - Streets and utility improvements and neighborhood improvements
  - Parking
- Land assembly and acquisition
- Construction of function space
- Cash contributions

Public Incentives for Hotels in US

Based on analysis of a sample of 95 public/private partnership, HVS estimated the level of public participation. The average public investment was 26% of total project costs.



Public Incentives Provided by Durham

- 21C Museum – 125 rooms, $48-million project, $5.7m incentive from the city and $2m from the county.
- The Durham Hotel – 54 rooms, $11-million project, $1.2m incentive from the City and County.
- Residence Inn by Marriot – 143 rooms, $29.5-million project, $1.3m incentive from the city, $400k incentive from the county.
- Jack Tar Hotel – 74 rooms included in the City Center development project, $85-million project, $3.9m incentive from the city and county (incentives are for the project as a whole, not just the hotel).

Impact on Raleigh Convention Center and Hotel Market

Impact of 400-room Hotel on the RCC

- The total available room block for RCC events will grow to approximately 1,100 rooms in five properties.

- Total available room nights in the downtown market will grow : 10% in 2016, 7% in 2017, 14% in 2018, roughly 2% in 2019, and 1.5% thereafter.

- The addition of a convention hotel would induce approximately 31,000 new room nights into the market each year.

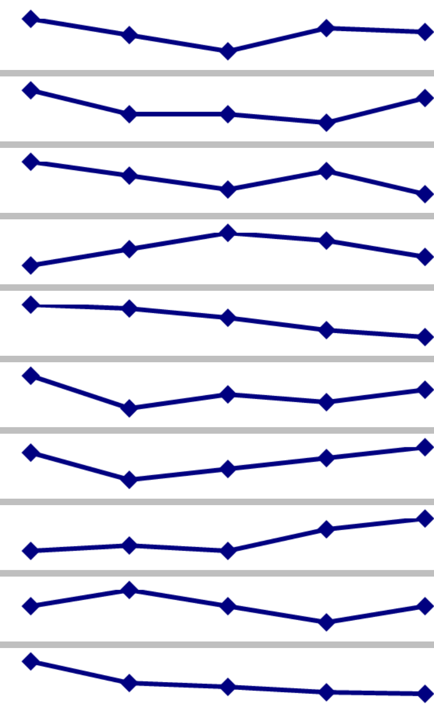
- A branded 400-room hotel could induce 15,000 room nights form “in-house” group business generated by its national sales force.

RCC Demand

After its initial success, over the past 5 years, the RCC has hosted a slowly declining number of events.

Number of Historical Events

Event Type	2011		2015
Conventions	20		16
Tradeshows	9		8
Consumer Shows	16		9
Conferences	29		31
Meetings	125		81
Banquets	68		58
Assemblies	8		9
Competitions	12		18
Other	1		1
TOTAL	288		231



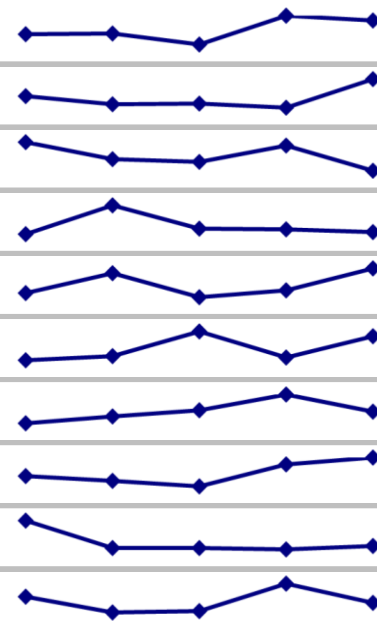
Source: RCC

RCC Attendance

2014 attendance was nearly 500,000 and will fall below 400,000 by 2015. Since attendance varies greatly from year to year depending on the booking patterns of a few large events, no discernible pattern of growth or decline is evident in the attendance data.

Historical Attendance

Event Type	2011		2015
Conventions	34,200		49,900
Tradeshows	13,500		20,600
Consumer Shows	139,000		64,900
Conferences	34,400		34,800
Meetings	18,900		24,500
Banquets	24,200		35,000
Assemblies	15,400		74,000
Competitions	45,600		67,600
Other	95,500		12,000
TOTAL	420,700		383,300



Source: RCC

Adjacent or Attached Hotels in Competitive Cities

State Competitors

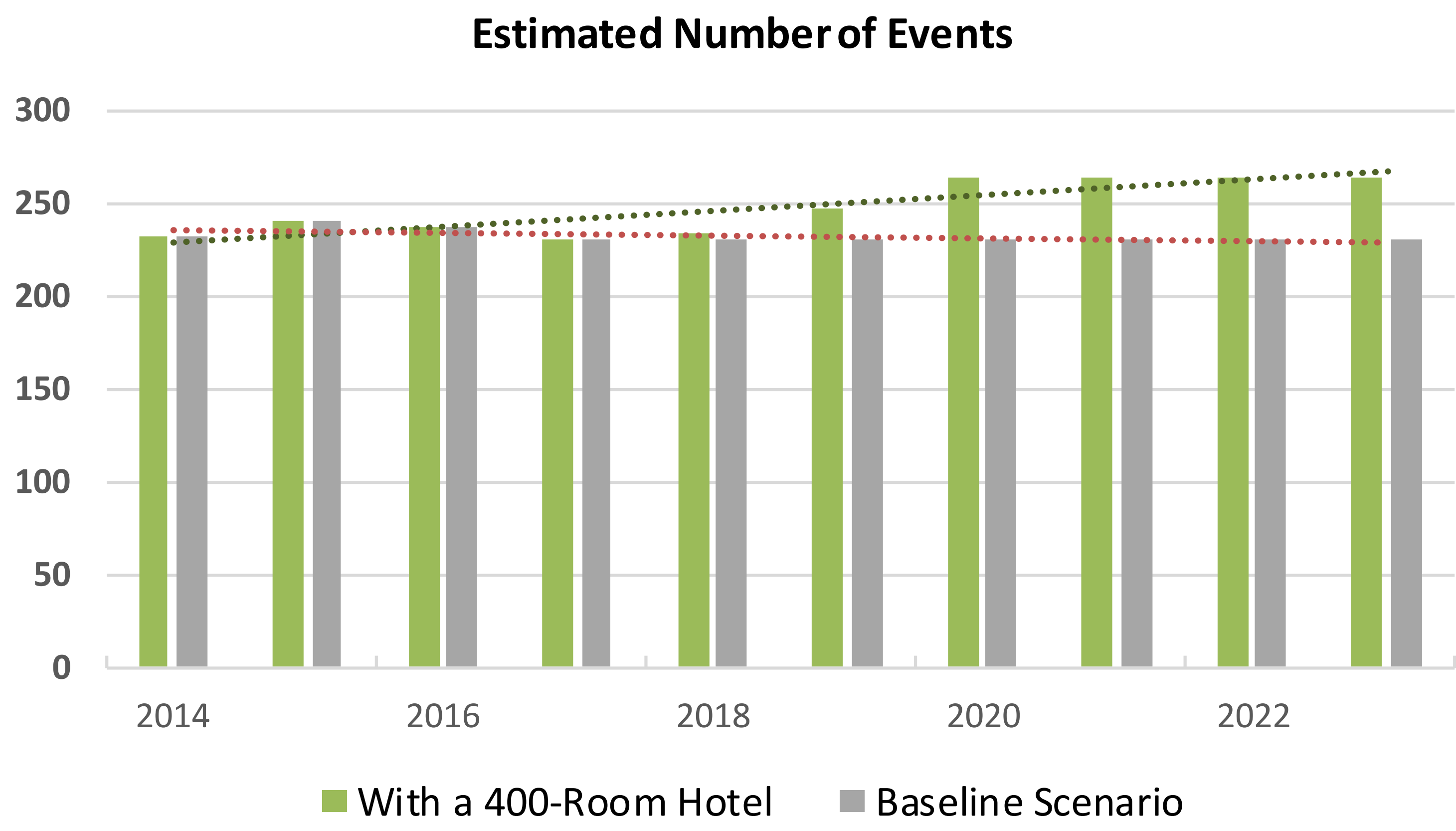
Joseph F. Koury Convention Center	Greensboro	990
Charlotte Convention Center	Charlotte	700
Benton Convention Center	Winston-Salem	461
Raleigh Convention Center	**Raleigh**	**400**
Durham Convention Center	Durham	187
Wilmington Convention Center	Wilmington	0
	Average	548

National Competitors

Walter E. Washington Convention Center	Washington	1,175
Baltimore Convention Center	Baltimore	1,094
Tampa Convention Center	Tampa	1,079
Music City Center	Nashville	800
Charlotte Convention Center	Charlotte	700
David L. Lawrence Convention Center	Pittsburgh	616
Rhode Island Convention Center	Providence	564
Savannah International Trade & Convention Center	Savannah	403
Myrtle Beach Convention Center	Myrtle Beach	402
Raleigh Convention Center	**Raleigh**	**400**
Charleston Area Convention Center	North Charleston	255
	Average	681

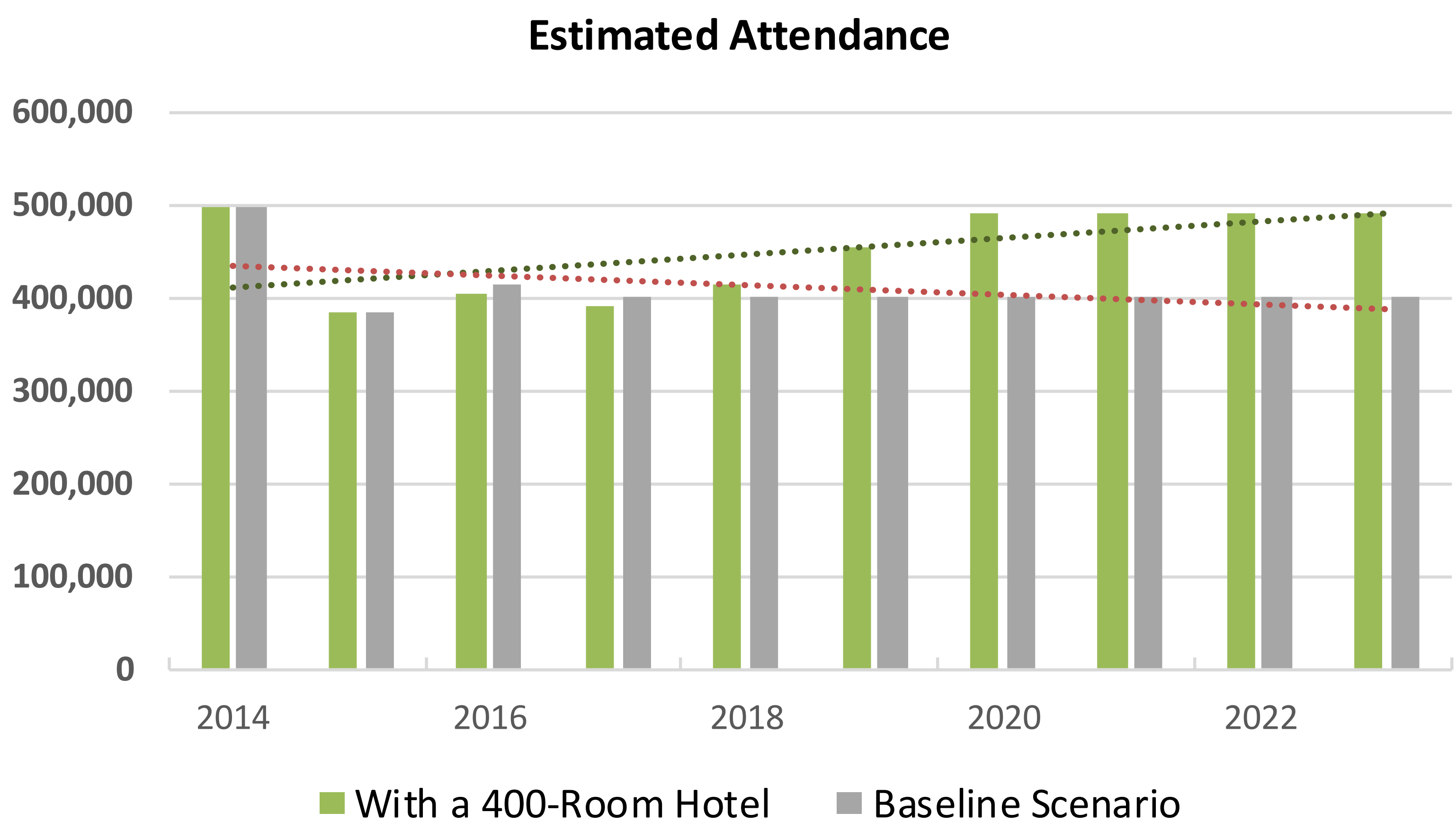
Impact on RCC Events

Given the proposed hotel development, HVS projects that the RCC would host over 30 additional events.



Impact RCC Attendance

HVS projects that the RCC annual attendance levels would reach 490,000 and create approximately 31,000 new room nights in the Raleigh market in a stabilized year.



Impact on RCC

- Growth in the number of conventions and conferences would have the greatest room night impact.
- Assemblies would grow assuming that local area corporations would convene regional or national meetings in Raleigh that required large amounts of assembly space.

	Baseline Scenario	With a 400-Room Hotel	Change
Events			
Conventions	17	22	5
Tradeshows	6	6	0
Consumer Shows	14	14	0
Conferences	31	45	14
Meetings	90	105	15
Banquets	49	49	0
Assemblies	7	7	0
Competitions	16	16	0
Other	1	1	0
Total	231	265	34
Total Attendance			
Conventions	55,000	81,900	26,900
Tradeshows	12,200	12,200	-
Consumer Shows	130,100	130,100	-
Conferences	31,400	52,300	20,900
Meetings	19,600	22,900	3,300
Banquets	25,400	25,400	-
Assemblies	82,400	82,400	-
Competitions	59,900	59,900	-
Other	5,000	5,000	-
Total	421,000	472,100	51,100

Room Night Impact

- New business at the RCC and in-house groups in a 400-room hotel could induce 46,000 room nights to the market 2020, a stabilized year of demand.
- More demand growth would come from baseline growth and the capture of demand that is currently being turned away from the market (unaccommodated demand).

Annual Room Night Demand By Source

Source	2015	2016	2017	2018	2019	2020
Base Accommodated	818,000	861,000	889,000	909,000	929,000	945,000
Previously Unaccommodated	5,000	26,000	43,000	78,000	86,000	92,000
Induced	0	0	0	28,000	34,000	46,000
Total Available Demand	823,000	887,000	932,000	1,015,000	1,049,000	1,083,000
(Less Residual Demand)	(99,000)	(87,000)	(68,000)	(26,000)	(20,000)	(17,000
Total Accommodated Demand	724,000	800,000	864,000	989,000	1,029,000	1,066,000
Accommodated Demand Change	3.5%	7.4%	5.8%	9.9%	3.5%	3.2%
Available Room Night Change	2.8%	7.2%	7.4%	17.1%	2.1%	1.6%
Marketwide Occupancy	71%	72%	71%	66%	67%	68%

Conclusions

- Growing businesses in downtown (Citrix, Red Hat, PNC, et. al.) drive lodging demand. New downtown residential, retail, and entertainment development will also support the lodging market.
- HVS forecasts continued growth in rooms demand and supply in the absence of any extraordinary governmental incentives. But, this growth is likely to be in small boutique and select service properties between 100 and 200 rooms Much of it may not occur in the downtown core and will be not be supportive of the RCC.
- RCC demand cannot grow because of lack of a supportive hotel room supply as demonstrated by event planner surveys, lost business, and comparisons to competitors.
- The RCC will struggle to maintain existing levels of events and attendance unless appropriate hotel development occurs.
- The primary barriers to development of full-service hotels are land assembly, overall development costs, and relatively weak average daily room rates for a downtown market.
- Lack of hotel supply is currently a barrier to business expansion in downtown Raleigh.

Conclusions

- The need for structured parking in a downtown hotel development increases costs and places downtown sites at disadvantage relative to suburban locations. The City should consider revision to its parking ordinance to allow for fewer spaces per room in downtown hotels.
- A 400-room hotel would support the RCC well and not cause significant disruption in the hotel market.
- Credit market conditions are favorable for hotel financing in the foreseeable future.
- None-the-less, significant incentives will be necessary to induce new full-service hotel development.

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