



Downtown Raleigh Hotel Development Strategy

RALEIGH, NORTH CAROLINA



SUBMITTED TO:

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Re: Raleigh, North Carolina

Dear Mr. Krupa:

Attached you will find our Downtown Raleigh Hotel Development Strategy.

It has been a pleasure working with you. Please let us know if we can provide any additional services.

Sincerely,
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Dubai
Hong Kong
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1. Introduction and Executive Summary

Nature of the Assignment

The City of Raleigh engaged HVS Convention, Sports & Entertainment Facilities Consulting (“HVS”) to assess the future role of the lodging industry in downtown Raleigh, North Carolina. The rapid growth of downtown Raleigh over the past decade has created new challenges and opportunities for hotel development. All signs point to continued growth in commercial, residential, and retail development. HVS projected lodging market performance and analyzed the impact of hotels on business development and the Raleigh Convention Center (“RCC”). We recommend strategies that the public sector could pursue to maximize the economic benefit of hotel industry growth.

Scope of Services

Our scope of services included the following tasks.

- **Stakeholder Interviews** – HVS conducted interviews with hotel developers and operators, economic development officials, and business leaders. We obtained information about the current state of the hotel market and their views on future real estate development in downtown Raleigh.
- **Hotel Demand Assessment** – We defined the downtown lodging market by identifying a set of hotels that compete for guests who want to stay in downtown Raleigh. For this set of hotels, we analyzed trends in business, leisure, and meeting and group demand. We formulated projections of market growth.
- **Assessment of Hotel Supply** – HVS gathered information on existing and potential new hotel room supply. We projected future supply.
- **Event Planner Survey** – We surveyed event organizers who have planned events or would consider holding their events in Raleigh. The survey results reveal their attitudes about Raleigh as an event destination and profiles their lodging needs.
- **Competitive Convention Markets** – Comparisons of Raleigh with cities and venues that compete for national and regional convention business provide a perspective on Raleigh’s competitive position.
- **RCC Demand Analysis** – HVS reviewed historical event demand for the RCC. Using lost business reports and event planner survey results, we

evaluated how well the current lodging supply supports RCC events. We projected future RCC demand under various hotel development scenarios.

- **Downtown Development Plans** – We reviewed City downtown planning efforts and assessed opportunities for new hotel development.
- **Hotel Development Recommendations** – HVS recommended the amount and types of new hotel development that would support the growing needs of downtown businesses and the RCC.
- **Public-Private Partnership Best Practices** – We gathered information on public-private efforts to finance hotel development in other U.S. cities. This analysis provides a menu of options for incentivizing hotel development in downtown Raleigh.

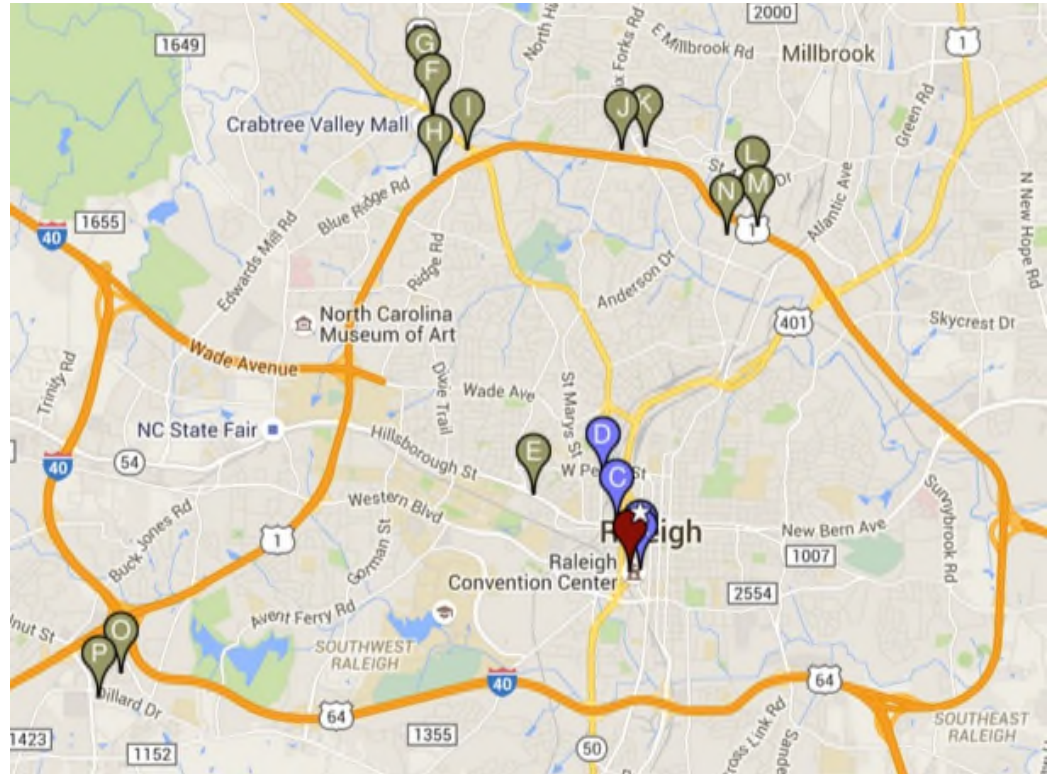
Description of the Hotel Market


















Economic trends in Raleigh indicate a positive outlook for the growth of the downtown hotel market. The population of the City is growing faster than the nation as a whole. Income and employment trends are positive. State government and university presence throughout the Research Triangle Area provide a stable source of employment and produce a highly educated workforce. Business expansion in the technology and banking sectors will directly affect the downtown lodging market. The supply of office space began to grow after a lull during the Great Recession. Airport passenger enplanement growth is the only lagging indicator of growth in lodging demand.

The downtown lodging 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 RCC 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.

HVS analyzed the performance of a set of hotels in and around downtown Raleigh that would compete for business, leisure, and group demand. The following map illustrates the locations of the primary and secondary competitors.

MAP OF COMPETITION



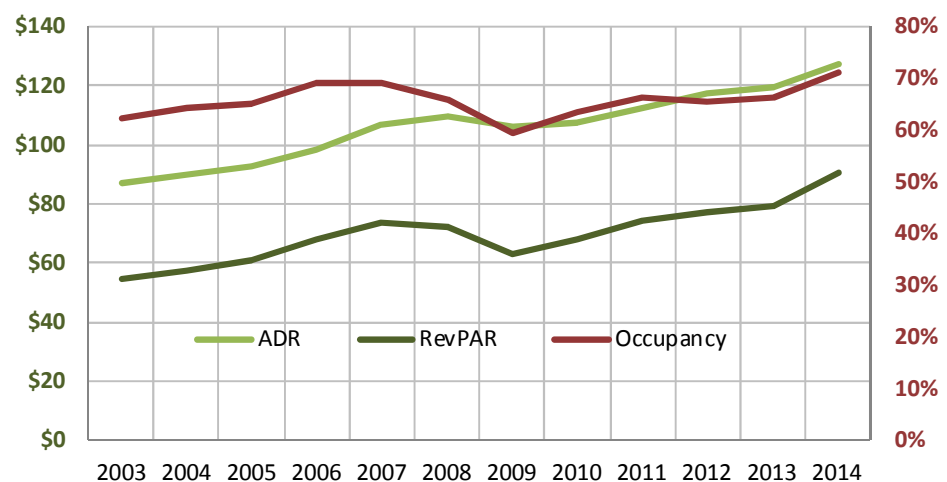
- | | |
|--|--|
|  Proposed Hotel |  Hampton Inn & Suites Raleigh Crabtree Valley (Secondary) |
|  Marriott Raleigh City Center (Primary) |  Renaissance Raleigh North Hills (Secondary) |
|  Sheraton Raleigh (Primary) |  Hyatt House Raleigh North Hills (Secondary) |
|  Holiday Inn Raleigh Downtown (Primary) |  Hilton North Raleigh Midtown (Secondary) |
|  Hampton Inn & Suites Raleigh Downtown (Primary) |  Hyatt Place Raleigh North (Secondary) |
|  DoubleTree by Hilton Raleigh Brownstone University (Secondary) |  Courtyard by Marriott North Raleigh (Secondary) |
|  Marriott Raleigh Crabtree Valley (Secondary) |  DoubleTree by Hilton Raleigh Cary (Secondary) |
|  Embassy Suites Raleigh Crabtree (Secondary) |  Hilton Garden Inn Raleigh Cary (Secondary) |
|  Courtyard by Marriott Raleigh Crabtree Valley (Secondary) | |

Historical Trends

This set of hotels in the market has experienced strong growth in rate and occupancy. We expect occupancy to reach record highs of 71% in 2015. With the support of high occupancy, we project continued growth in the average daily room rate (“ADR”) to over \$130 in 2015. Business travel provides the primary source of

demand growth and makes up 46% of room night demand. The figure below illustrates historical trends in occupancy, rate, and revenue per available room ("RevPAR"), which is a combined measure of rate and occupancy.

FIGURE 1-1
HISTORICAL ROOM NIGHT DEMAND, ADR, AND REVPAR



Source: STR Global

The economic downturn of 2008 through 2010 resulted in lower demand and occupancy rates in the market. Occupancy increased in 2012 but fell slightly in 2013. Growth resumed in 2014, and year-to-date 2015 data indicate strong growth in ADR and RevPAR.

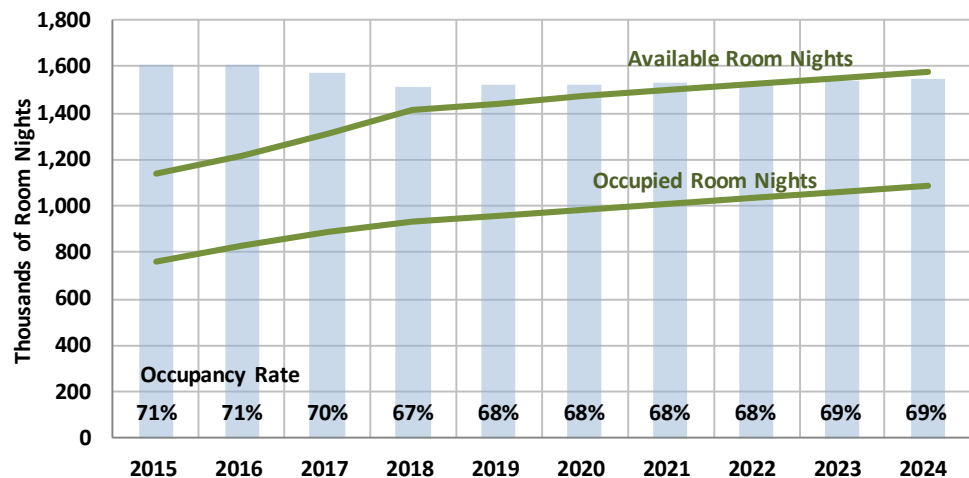
The Marriott Raleigh City Center leads the market with revenue per available room of approximately \$108. The Hampton Inn and Suites Raleigh Downtown generates the highest occupancy, which reflects its high penetration of business travel demand.

New Hotel Supply

HVS identified new hotel supply in the downtown market. By 2018, the market is likely to absorb 750 new hotel rooms in five new hotels. Other new projects in the planning stages could open after 2018.

Based on our understanding of market trends, HVS created a forecast of room-night supply and demand. We refer to this as the baseline scenario in which no extraordinary public incentives affect the supply of rooms. The figure below shows our forecast.

FIGURE 1-2
MARKET FORECAST -- BASELINE SCENARIO



Market sources indicate continued strong growth in demand and room rates in 2015 and 2016. By 2018, the growth of available rooms will outpace demand and occupancy growth rate will decline. We expect the market to stabilize at an occupancy rate of roughly 69%.

Event Planner Surveys

HVS surveyed 171 event planners to provide a basis for assessing the potential demand at the RCC and the need for new hotel development in downtown Raleigh. The respondents represented a cross-section of industry professionals who plan a variety of types of convention and meeting events. The survey results provide information on event needs, event destination preferences, and attitudes toward Raleigh.

- Event planners have a favorable view of Raleigh as an event destination. They like downtown dining, retail amenities, and the City's natural beauty.
- Fifty-one percent of event planners said the lack of hotel availability was a primary weakness of Raleigh as an event destination.
- Thirty-four percent of event planners who considered placing an event in Raleigh did not select the city because of the inadequacy of the hotel package.
- Planners want hotels within walking distance to the RCC.

- The majority of planners prefer to host an event in downtown Raleigh in a full-service property with an upscale or upper-midscale brand.

Competitive Destination Rankings

HVS ranked Raleigh among in-state and national competitors on the destination selection criteria discussed in this report, with one being the highest rank in each category. The figures below show how Raleigh and its competitive markets rank on each criterion and the overall rank.

FIGURE 1-3
RANKING OF COMPETITIVE IN STATE MARKETS

Destination	Total Function Space	Adjacent Hotel Capacity	Hotel Rooms Within Walking Distance	City-wide Hotel Rooms	Airport Passengers	MSA Population	MSA Median HH Income	Number of Businesses	Corporate Travel Index (\$)	CVB Budget (\$mil)	Overall Rank
Charlotte	1	2	1	1	1	1	2	1	6	1	1
Raleigh	2	4	3	2	2	2	1	2	5	2	2
Greensboro	3	1	2	3	4	3	6	3	4	3	3
Winston-Salem	4	3	4	6	6	4	5	4	1	5	4
Durham	6	5	6	4	3	5	3	5	3	4	5
Wilmington	5	6	5	5	5	6	4	6	2	6	6

Compared to five other markets in North Carolina, Raleigh has the second highest overall rank, suggesting the greater potential to generate meeting and convention demand than most markets in the state.

FIGURE 1-4
RANKING OF COMPETITIVE NATIONAL MARKETS

Destination	Total Function Space	Adjacent Hotel Capacity	Hotel Rooms Within Walking Distance	City-wide Hotel Rooms	Airport Passengers	MSA Population	MSA Median HH Income	Number of Businesses	Corporate Travel Index (\$)	CVB Budget (\$mil)	TOTAL Rank
Washington	1	1	1	1	3	1	1	1	11	2	1
Baltimore	4	2	2	8	2	3	2	3	10	3	2
Charlotte	5	5	3	4	1	4	5	5	7	4	3
Tampa	6	3	5	5	4	2	10	2	3	5	4
Nashville	2	4	4	3	5	6	6	6	6	7	5
Pittsburgh	3	6	7	6	7	5	7	4	9	6	6
Raleigh	7	10	8	10	6	8	3	8	4	9	7
Providence	9	7	6	11	8	7	4	7	5	10	8
Myrtle Beach	10	9	11	2	11	10	11	10	1	1	9
Savannah	8	8	10	9	10	11	9	11	2	8	10
North Charleston	11	11	9	7	9	9	8	9	8	11	11

Compared to ten national markets, Raleigh ranks at or below average for all destination criteria resulting in an overall rank of seventh. Raleigh is noticeably low in all three hotel-related criteria.

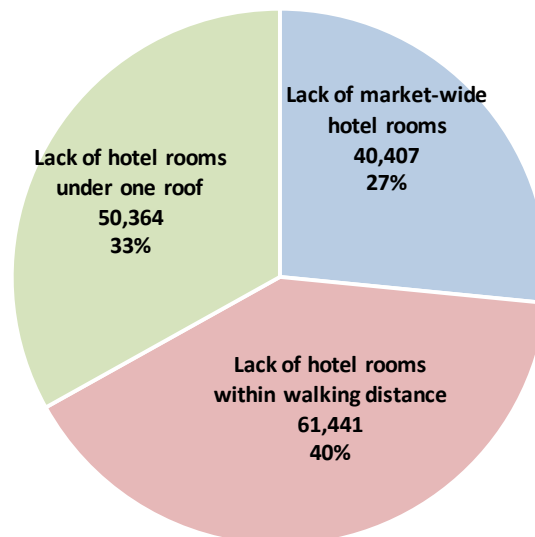
On the state level, Raleigh is a strong competitor for association and local corporate group business. Charlotte remains the strongest competitor, while other state markets, such as Greensboro, have made significant efforts to improve their event infrastructure and overall competitiveness. Without improvement, Raleigh may begin to lose market share to these smaller markets in North Carolina.

Raleigh's overall market size, demographics, and group event infrastructure reflect a mid-sized market with a slightly below average demand potential compared to the national markets with which it competes for group meetings business.

Lost Business

HVS reviewed the Greater Raleigh Convention and Visitors Bureau's data on lost business. Approximately half of the events and 60% of the room nights were lost due to insufficient hotel rooms. The following figures summarize these lost events and room nights into the reasons Raleigh hotels were inadequate.

FIGURE 1-5
TOTAL LOST ROOM NIGHTS (2010-2015)



Source: Greater Raleigh Convention and Visitors Bureau

The growth of downtown has positioned Raleigh to expand its market reach beyond the state and the region. Lack of an adequate hotel supply appears to be the primary barrier to achieving this goal.

**Raleigh Convention
Center Demand
Demand Projections**

To project RCC event demand, we assumed the development of a 400-room full-service property adjacent to the RCC. For the purposes of this analysis, HVS assumes that the 400-room hotel would open by 2018. As a comparison, HVS also projected a baseline or “do-nothing” scenario without the proposed 400-room property. The following figure presents an estimate of room nights generated by the RCC prior to and following hotel development in a stabilized year of demand.

**FIGURE 1-6
ROOM NIGHT FORECAST**

Type	Historical (2014 Base)	After Development	Change
Conventions	36,300	54,100	17,800
Tradeshows	3,500	4,800	1,300
Consumer Shows	6,900	6,900	0
Conferences	18,700	27,600	8,900
Meetings	3,900	4,600	700
Banquets	1,200	1,200	0
Assemblies	3,300	5,500	2,200
Competitions	20,500	20,500	0
Total	94,300	125,200	30,900

HVS projects that the proposed hotel development would induce approximately 31,000 room nights annually due to increased activity at the RCC.

In addition to increased activity at the RCC, HVS projects that the 400-room hotel would induce 15,000 additional room nights into the market from “in-house” group business generated by its national sales force. By a stabilized year of demand, the new 400-room hotel could generate 46,000 new room nights in the downtown market each year.

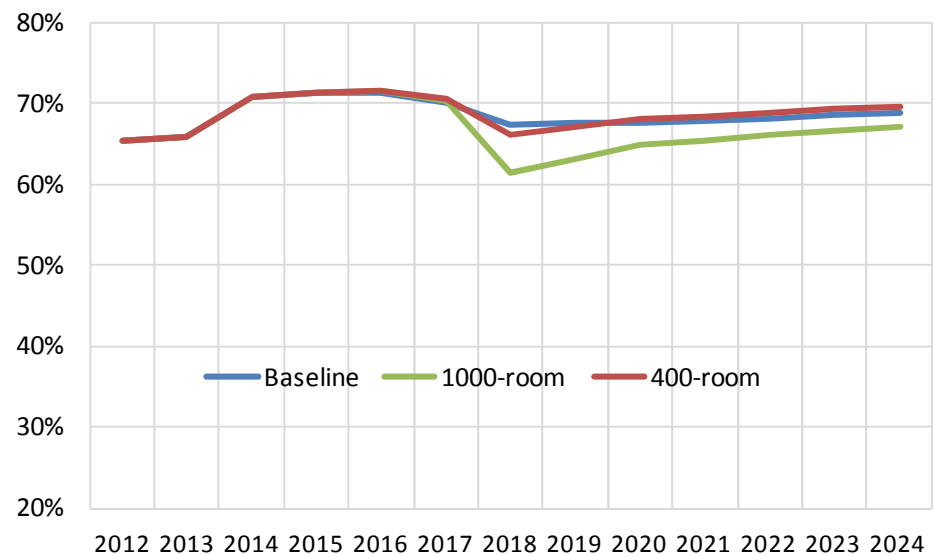
**Hotel Development
Strategies**

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 the development may not occur in the downtown core and will 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 data, and comparisons to competitors.

A 400-room hotel located adjacent the RCC would expand the available room block for the RCC without causing significant disruption to the hotel market. We estimated market occupancy for a scenario in which a 400-room hotel enters the market. We compared this scenario to the market occupancy in the baseline scenario presented in Section 2 of this report. We also tested a third scenario in

which a 1,000-room property would be developed rather than the recommended 400-room hotel. The figure below compares market occupancy in these three scenarios.

FIGURE 1-7
ESTIMATED MARKET OCCUPANCY FOR THREE DEVELOPMENT SCENARIOS



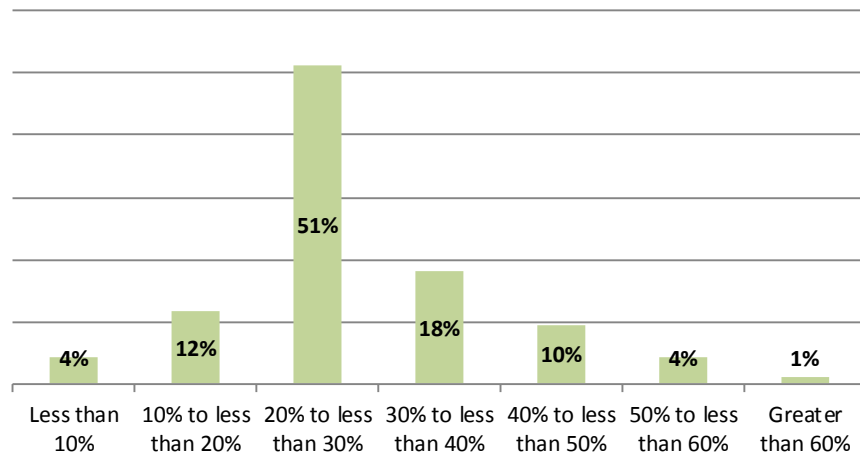
Historical occupancy in the downtown Raleigh hotel market ranges from 65% to 71%. In the baseline scenario, we project 67% occupancy in 2018, which would grow to a stabilized level of 68% by 2022. In the 400-room scenario, occupancy would dip to 66% but recover to a stabilized rate of 69% by 2022. In the 1000-room scenario, occupancy falls to 61% in 2018 and only recovers to 67% during the projection period.

Credit market conditions are favorable for hotel financing in the foreseeable future. None-the-less, significant incentives would be necessary to induce new full-service hotel development. Our analysis of the feasibility of a 400-room full-service hotel indicates that it would have a value of approximately \$93 million or \$232,000 per key. Development costs could range from \$300,000 to \$400,000 per key. Consequently, the funding gap could range from \$27 million to \$67 million.

This range of potential incentives is well within the norms of other national, historical public-private partnerships deals. We have gathered data on public-private partnerships that have occurred over the past three decades and estimated the public share of project costs. The figure below presents a distribution of the

estimated percentage of public participation in hotel public-private partnerships (“PPPs”).

FIGURE 1-8
DISTRIBUTION OF PUBLIC PARTICIPATION IN 96 PPPS



Approximately half of the PPPs received incentives ranging from 20% to 30%.

Forms of Public Participation

State law often dictates the forms of allowable public participation except in cities with home rule governments that have broad taxing powers. In North Carolina, state law does not allow public ownership and financing of hotels. But, a wide range of methods remains available to incentivize hotel development.

Local tax incentives include:

- abatement or subordination of property taxes,
- abatement of hotel lodging taxes,
- a pledge of city-wide or special district lodging taxes,
- use of project generated food and beverage taxes, and
- use of general sales taxes or sales taxes from a special district.

Some Federal programs are also available for hotel development including:

- the Employment-Based Fifth Preference (“EB-5”),

- New Market Tax Credits, and
- Historic Tax Credits.

Other sources of subsidy include:

- Direct public investment in related infrastructures such as parking and street improvements,
- Public investment in attached hotel function spaces (which are in turn leased back to the hotel operation at less than market rates, and
- Land assembly and transfer to a private hotel developer through a sale or a long-term lease at less than market rates.

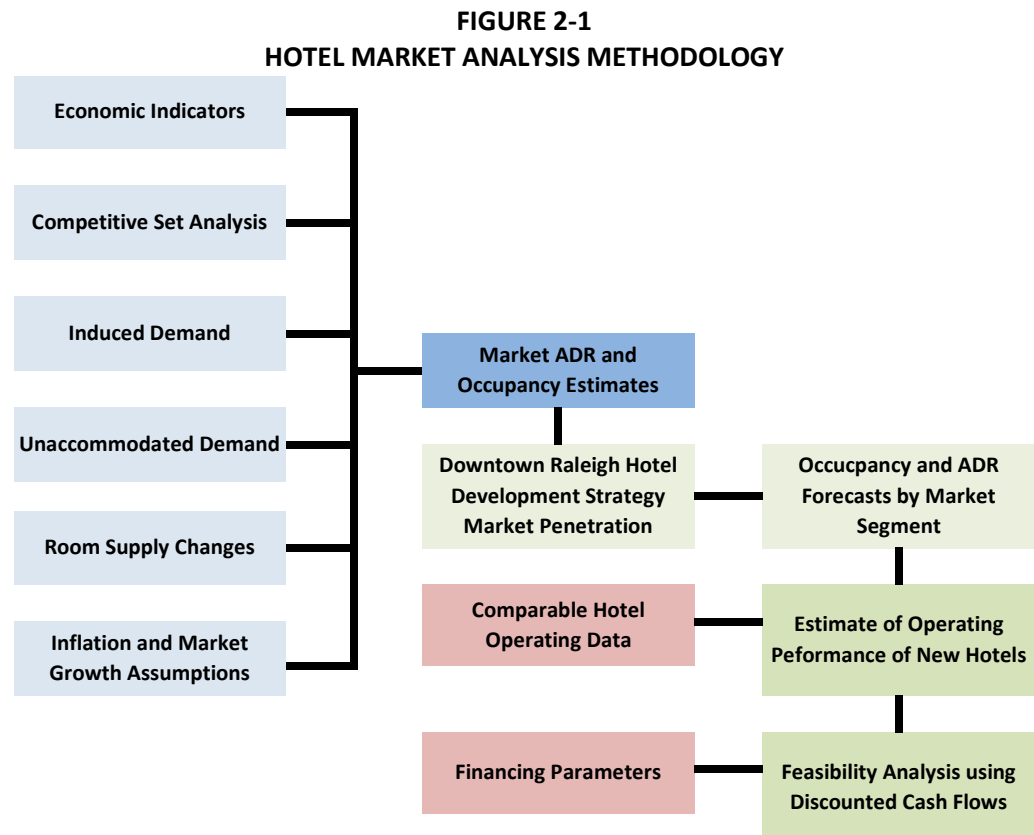
Downtown Raleigh needs hotel investment, and new supply is poised to enter the market. But, private investors are not likely to develop large hotels needed to support the RCC and downtown businesses. Public incentives would be necessary to attract a large, full-service hotel in a location that is within walking distance of the RCC. The Marriott Raleigh City Center provides an example of successful public participation in hotel development. A similar effort could allow the RCC to compete for business that is currently out of reach and downtown business would benefit. Current credit market conditions are favorable for hotel investment. Efforts to incentivize new hotel development should be made while these conditions last.

2. Hotel Market Overview

This section of the report provides a description of the downtown Raleigh lodging market. We analyzed hotel room supply and demand for a competitive set of hotels in and around the downtown area. This analysis provides an understanding of historical market performance and the key factors that affect lodging supply and demand. Using this analysis, we established a baseline of hotel market performance that can inform strategies for new development.

Methodology

This study employs the methodology illustrated in the figure below.



HVS 1) analyzed the historical performance of a competitive set of hotels, 2) estimated the amounts of induced and unaccommodated demand in the market, and 3) researched potential changes in room supply. Based on hotel market trends

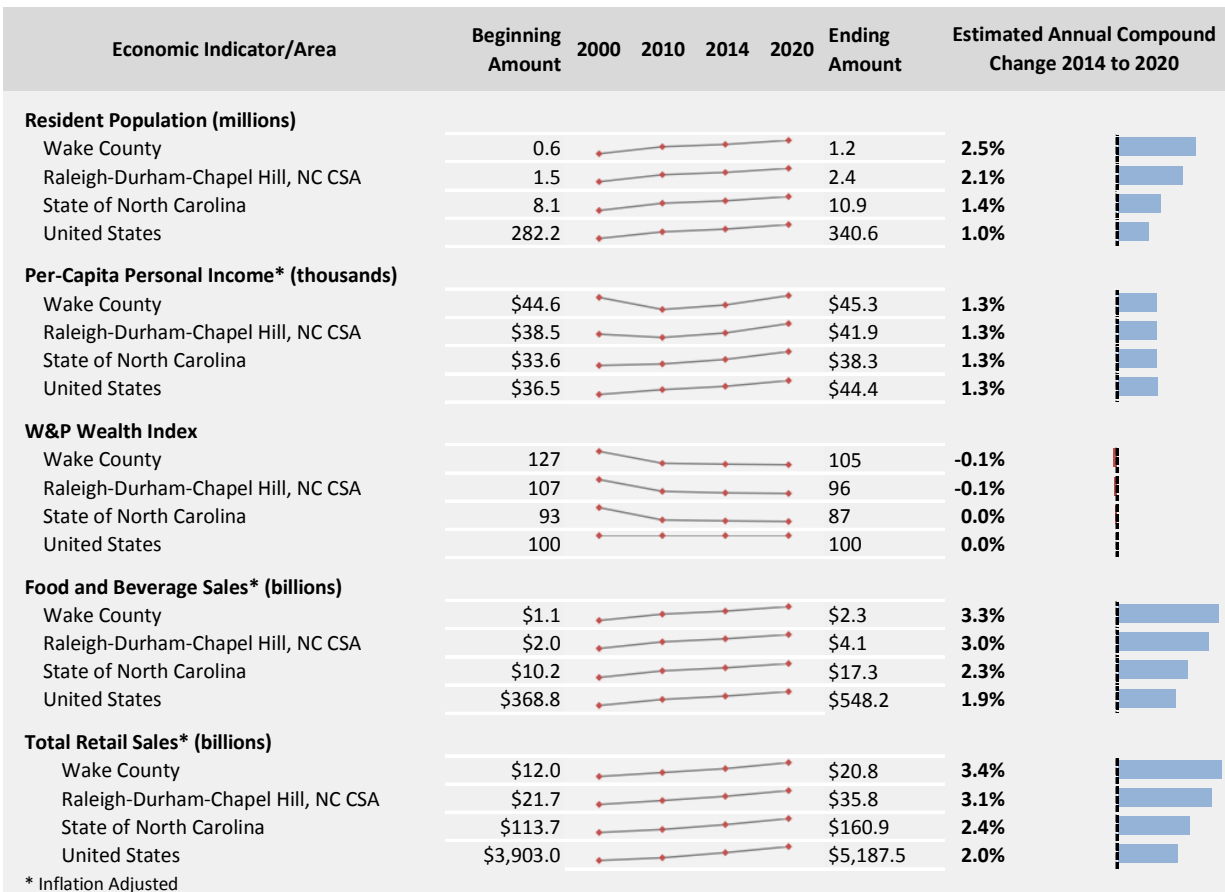
Analysis of Demand Generators

and economic and demographic indicators of future changes in hotel demand, HVS projected the future performance of the competitive set. This projection is referred to herein as the “Baseline Scenario.”

HVS explored economic and demographic factors that affect the level of lodging demand in the downtown Raleigh market. The factors include population, income, employment, retail sales, business presence, major tourist attractions, transportation access, and convention center activity. We relied on third party data sources to review historical trends and provide forecasts of the rate of growth or decline of the local economy. We also assessed whether existing and future downtown development would support the new hotels.

HVS used the *Complete Economic and Demographic Data Source* published by Woods & Poole Economics, Inc., a well-regarded forecasting service based in Washington, D.C. as a source of economic and demographic data. Using a database containing more than 900 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Historical information relies on census data and information published by the Bureau of Economic Analysis. Woods & Poole formulated projections, and all dollar amounts have been adjusted for inflation, thus reflecting real change. The following table summarizes these data.

FIGURE 2-2
ECONOMIC AND DEMOGRAPHIC DATA SUMMARY



Source: Woods & Poole Economics, Inc.

Woods & Poole projects that Wake County and the Raleigh metropolitan area will grow faster than the State of North Carolina and the nation as a whole. Compound average annual population growth of 2.5% compares with only 1.0% for the U.S. This population growth will be the primary driver of overall economic growth as per capita income would grow at the same pace as the rest of the country. Since underlying economic growth supports new hotel development, Raleigh's hotel supply should grow at a faster rate than the national average.

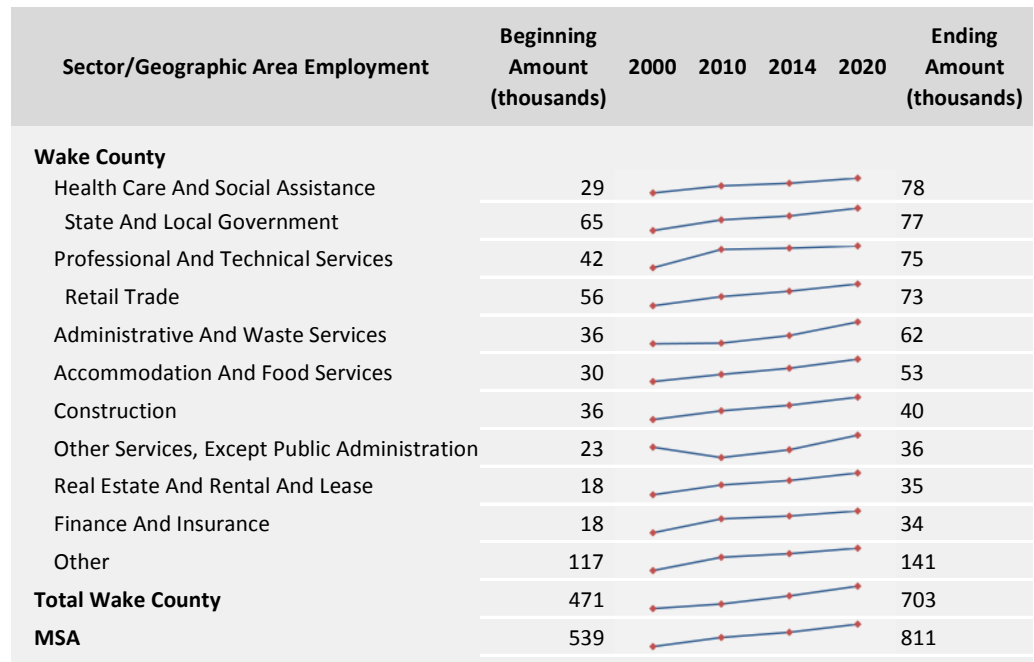
Workforce Characteristics

The characteristics of Raleigh's workforce indicate the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE); wholesale trade; and services produce a considerable number of visitors who are not particularly rate-sensitive. The government sector often generates transient room nights, but per-diem

reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities (TCPU) employers can also be important, depending on the company type.

The following figure shows the estimated change in employment in the top ten sectors in the county workforce distribution by the business sector in 2000, 2010, and 2014, and a forecast for 2020.

FIGURE 2-3
TOP TEN EMPLOYMENTS SECTORS IN THE COUNTY



Source: Woods & Poole Economics, Inc.

Growth in the healthcare, government, and professional and technical services sectors should drive of new lodging demand.

Unemployment Statistics

The following table presents historical unemployment rates for the proposed subject hotel's market area.

**FIGURE 2-4
UNEMPLOYMENT STATISTICS**

Year	County	MSA	State
2005	4.1 %	4.2 %	5.2 %
2006	3.6	3.7	4.7
2007	3.5	3.6	4.7
2008	4.6	4.8	6.1
2009	8.3	8.6	10.6
2010	8.3	8.6	10.9
2011	7.9	8.2	10.2
2012	7.1	7.4	9.2
2013	6	6.2	7.9
2014	4.8	4.9	6.1
Recent Month - Jun			
2014	5.0 %	5.2 %	6.4 %
2015	5.0	5.1	6.1

Source: U.S. Bureau of Labor Statistics

County and MSA unemployment rates spiked in 2009 as a result of the recession and remained at historically high levels through 2011. In subsequent periods, the economy has rebounded, and unemployment rates have declined.

Major Business and Industry

Major businesses include regional industry centers and fast growing start-up technology companies. The following table lists the top ten employers in Raleigh.

**FIGURE 2-5
MAJOR RALEIGH AREA EMPLOYERS**

Rank	Employer	Number of Employees
1	State of North Carolina	24,083
2	Wake County Public School System	18,554
3	IBM Corporation	10,000
4	WakeMed Health & Hospitals	8,422
5	North Carolina State University	7,876
6	Cisco Systems, Inc.	5,500
7	Rex Healthcare	5,300
8	SAS Institute, Inc.	5,232
9	GlaxoSmithKline	4,950
10	N.C. DHHS	3,800

Source: Wake County Economic Development, 2014

One of the largest employers, IBM maintains a strong presence in Research Triangle Park (RTP). IBM is the world's largest information technology company, and its RTP campus is one of the company's largest U.S. development and manufacturing sites. High-tech training courses are also taught at the campus, bringing in students from around the region for classes. In October of 2014, Lenovo acquired IBM's x86-server business. Lenovo is expected to relocate the unit's local employees to the former corporate campus of Sony Ericsson in RTP and build an additional 30,000 square feet of office space. Approximately 7,500 IBM employees are expected to shift to Lenovo through 2015 as part of the \$2.1-billion acquisition. Furthermore, in June of 2014, Cisco announced plans to expand its RTP campus, despite worldwide layoffs, and add 550 jobs at this location over the next four years. The company is also eligible to receive up to \$12.9 million in state incentives if it meets its job-creation milestones.

Duke Energy Progress, located in the heart of downtown, is the only Fortune 500 headquarters located in the greater Raleigh-Durham area. In July of 2012, Duke Energy completed a \$32-billion merger with Progress Energy, making Duke Energy Progress the nation's largest regulated utility. While the company has reported plans to maintain a presence in the Raleigh market, it has significantly reduced its footprint in the area by leasing its office building in Downtown Raleigh to Red Hat.

Raleigh-Durham is home to three major universities: North Carolina State University (NCSU), the University of North Carolina at Chapel Hill, and Duke University. These schools positively influence the area's economy by providing faculty, administrative, and operational jobs to residents throughout the area. Approximately 15,000 students graduate from area universities each year, many of whom stay in Raleigh-Durham to continue their careers. These universities support the local economy and feature some of the region's leading research facilities, such as NCSU's Centennial Campus. Duke University's system also includes the Duke University Medical Center, making it the largest employer in the adjacent Durham market.

Office Space Statistics

Since business travel is a primary driver of lodging demand, the amount of office space in the market serves as an indicator of lodging demand. The figure below shows the change in the amounts of office space in the Raleigh-Durham Market from 2002 through 2014 and forecast of demand from 2015 through 2019.

FIGURE 2-6
OFFICE SPACE IN THE RALEIGH-DURHAM MARKET

Year	Available SF (millions)		Occupied SF (millions)		Vacancy Rate	Asking Lease Rate	
	SF	% Change	SF	% Change		\$	% Change
2002	31.5		24.7		21.5%	\$18.35	
2003	31.7	0.7%	25.2	1.8%	20.6%	\$18.08	-1.5%
2004	33.0	4.2%	26.8	6.4%	19.0%	\$18.09	0.1%
2005	33.5	1.4%	28.4	6.1%	15.2%	\$18.44	1.9%
2006	33.8	0.8%	29.0	2.1%	14.1%	\$19.01	3.1%
2007	35.2	4.4%	31.0	7.0%	12.0%	\$19.64	3.3%
2008	36.8	4.4%	31.7	2.3%	13.7%	\$19.98	1.7%
2009	37.2	1.0%	31.0	-2.2%	16.5%	\$20.08	0.5%
2010	37.3	0.3%	30.9	-0.4%	17.0%	\$19.89	-0.9%
2011	37.3	0.0%	31.4	1.6%	15.7%	\$20.07	0.9%
2012	37.5	0.7%	31.6	0.7%	15.7%	\$20.30	1.1%
2013	37.6	0.3%	31.9	0.9%	15.1%	\$20.46	0.8%
2014	38.5	2.4%	32.6	2.2%	15.3%	\$20.81	1.7%
Forecasts							
2015	39.6	2.7%	33.6	2.9%	15.1%	\$21.26	2.2%
2016	40.2	1.6%	34.3	2.1%	14.6%	\$21.86	2.8%
2017	40.8	1.7%	35.1	2.4%	14.0%	\$22.52	3.0%
2018	41.7	2.0%	36.1	2.8%	13.3%	\$23.35	3.7%
2019	42.5	1.9%	37.0	2.5%	12.8%	\$24.33	4.2%

Source: REIS Report, 1st Quarter, 2015

According to REIS, a company that provides real estate market analytics, office space demand contracted during the Great Recession in 2009 and 2010 but has since rebounded. Since 2011, the growth in available space has kept pace with occupied space and vacancy rates have remained around 15%. REIS forecasts robust growth in occupied office space and declining vacancy rates.

The figure below shows the amounts of office space by submarket.

FIGURE 2-7
OFFICE SPACE BY SUBMARKET

Rank	Submarket	Buildings	Square Feet	Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
1	RTP	123	8,350,000	6,880,400	17.6%	\$19.82
2	Cary	119	6,300,000	5,625,900	10.7%	\$20.48
3	Raleigh Central Business District	40	3,831,000	3,356,000	12.4%	\$23.12
4	Six Forks Road	72	3,392,000	2,961,200	12.7%	\$21.11
5	Central Wake County	69	3,095,000	2,720,500	12.1%	\$21.32
6	South Durham	51	2,950,000	2,383,600	19.2%	\$22.40
7	US 70/Creedmoor	60	2,681,000	2,388,800	10.9%	\$22.16
8	Falls of Neuse Road	45	2,158,000	1,758,800	18.5%	\$18.96
9	Central Durham	35	1,872,000	1,598,700	14.6%	\$22.88
10	US-1/Capitol Boulevard	35	1,872,000	1,486,400	20.6%	\$17.62
11	Chapel Hill	27	1,338,000	1,123,900	16.0%	\$22.14
12	North Durham	20	922,000	622,400	32.5%	\$20.22
	Totals and Averages	696	38,761,000	32,906,600	15.1%	\$20.93

Source: REIS Report, 1st Quarter, 2015

According to REIS, the Raleigh Central Business District submarket comprises the third-largest amount of both available and occupied office space in the Raleigh-Durham market, behind Cary and Research Triangle Park (RTP). The Raleigh CBD submarket has a below-average vacancy rate, with the highest average asking lease rate among any of the submarkets. There has been little change in available space from 2009 through 2013. In 2013, Red Hat Citrix moved into its new offices at Red Hat Tower, previously known as Two Progress Plaza. This move mitigated the vacancy created by the reduction in forces at Progress Energy following its merger with Duke Energy. Citrix opened its new office Downtown in 2014. New office space is expected to come online in 2015 and 2016, including the Charter Square Tower and Edison Office Tower. The renovation of 227 Fayetteville in 2015 should also positively affect the office market in Downtown Raleigh.

This data on office space supply and demand suggests that business demand for lodging should continue to grow at rates in the 2.05 to 3.0% rate over the next few years.

Airport Access

Trends in airport passenger volume provide an indication of overall lodging demand. The availability of convenient air access is a key factor in attracting new business and group events. Raleigh-Durham International Airport ("RDU") provides air service to the metropolitan area. It is approximately 15 miles from downtown Raleigh. The following table summarize recent passenger count statistics for these facilities.

FIGURE 2-8
AIRPORT PASSENGERS
RALEIGH-DURHAM INTERNATIONAL AIRPORT

Year	Passenger Traffic	Annual Percent Change	
2005	9,304,000		
2006	9,434,000	1.4%	
2007	10,037,000	6.4%	
2008	9,716,000	-3.2%	
2009	8,971,000	-7.7%	
2010	9,102,000	1.5%	
2011	9,161,000	0.6%	
2012	9,220,000	0.6%	
2013	9,198,000	-0.2%	
2014	9,545,000	3.8%	
YTD through Jun			
2014	4,577,000		
2015	4,679,000	2.2%	

Source : Raleigh-Durham International Airport

RDU passenger volume has not recovered from prerecession levels. Direct access to many major cities remains a barrier to attracting national and international events.

Tourist Attractions

The market benefits from a variety of tourist and leisure attractions in the area. The peak season for tourism in this area is from May to September. During other times of the year, weekend demand comprises travelers passing through en route to other destinations, people visiting friends or relatives, and other similar weekend demand generators. Local officials note that more than ten million travelers visit Wake County every year, contributing more than \$1.13 billion to the local economy. Primary attractions in the area include the following:

- The Duke Energy Center for the Performing Arts, located on the south side of Downtown Raleigh, provides four venues for live performances. These include the Memorial Auditorium, the Meymandi Concert Hall, the Fletcher Opera Theater, and the Kennedy Theater. The Center hosts a variety of popular and classical music concerts, theater productions, and dance performances.
- The PNC Arena is a 21,000-seat arena located near the North Carolina State Fairgrounds, just west of Downtown Raleigh. The venue is home to the Carolina Hurricanes of the National Hockey League and the North Carolina

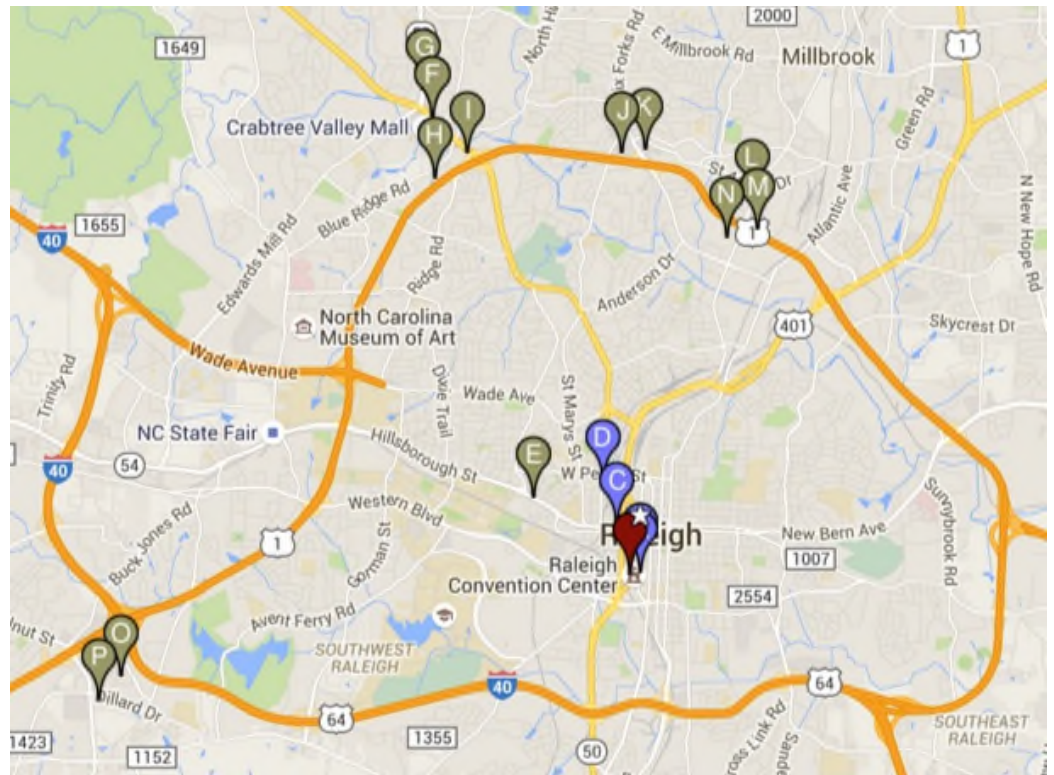
State University men's basketball team. The facility also hosts a series of concerts and various other entertainment events.

- The North Carolina Museum of History features a variety of long-term and changing exhibits. Long-term exhibits include the North Carolina Sports Hall of Fame and the "Health and Healing Experiences in North Carolina" exhibit. In 2013, the American Association State and Local History (AASLH) gave the museum a Leadership in History Award for the permanent exhibit History in Every Direction: Tar Heel Junior Historian Association Discovery Gallery.
- Red Hat Amphitheater, adjacent to the RCC in downtown Raleigh, hosts live concerts, festivals, and other events. Owned by the City and operated by Live Nation, it has a capacity of approximately 5,500 with a combination of 1,800 fixed seats, 2,700 movable seats, and lawn space for 1,000.

Supply and Demand Analysis

HVS analyzed the performance of a set of hotels in and around downtown Raleigh that would compete for business, leisure, and group demand. The primary competitors are larger, full-service hotels located in downtown. Secondary competitors are upscale hotels properties on the periphery of the downtown area and compete for some of the same customers. We weighted the room count of each secondary competitor based on its competitiveness. The following map illustrates the locations of the primary and secondary competitors.

MAP OF COMPETITION



- | | | | |
|--|--|--|--|
| | Proposed Hotel | | Hampton Inn & Suites Raleigh Crabtree Valley (Secondary) |
| | Marriott Raleigh City Center (Primary) | | Renaissance Raleigh North Hills (Secondary) |
| | Sheraton Raleigh (Primary) | | Hyatt House Raleigh North Hills (Secondary) |
| | Holiday Inn Raleigh Downtown (Primary) | | Hilton North Raleigh Midtown (Secondary) |
| | Hampton Inn & Suites Raleigh Downtown (Primary) | | Hyatt Place Raleigh North (Secondary) |
| | DoubleTree by Hilton Raleigh Brownstone University (Secondary) | | Courtyard by Marriott North Raleigh (Secondary) |
| | Marriott Raleigh Crabtree Valley (Secondary) | | DoubleTree by Hilton Raleigh Cary (Secondary) |
| | Embassy Suites Raleigh Crabtree (Secondary) | | Hilton Garden Inn Raleigh Cary (Secondary) |
| | Courtyard by Marriott Raleigh Crabtree Valley (Secondary) | | |

HVS relied on STR Global data and market research to determine the room count of each hotel. The weighted competitive set currently includes 1,082 rooms in primary competitors and 2,251 rooms in the weighted secondary competitors. We applied competitive weights to the secondary competitors, as shown in the figure below, for a weighted room count of 1,949.

FIGURE 2-9
THE WEIGHTED COMPETITIVE SET

Hotel	Number of Rooms	Competitive Level	Weighted Room Count
Primary Competitors			
Marriott Raleigh City Center	400	100%	400
Sheraton Raleigh	353	100%	353
Holiday Inn Raleigh Downtown	203	100%	203
Hampton Inn & Suites Raleigh Downtown	126	100%	126
Sub-total	1,082		1,082
Secondary Competitors			
Marriott Raleigh Crabtree Valley	375	90%	338
Hilton North Raleigh Midtown	334	90%	301
Renaissance Raleigh North Hills	229	90%	206
Embassy Suites Raleigh Crabtree	225	90%	203
DoubleTree by Hilton Raleigh Brownstone University	190	90%	171
Courtyard by Marriott North Raleigh	153	80%	122
DoubleTree by Hilton Raleigh Cary	129	90%	116
Hyatt House Raleigh North Hills	137	80%	110
Hampton Inn & Suites Raleigh Crabtree Valley	136	80%	109
Hilton Garden Inn Raleigh Cary	132	80%	106
Hyatt Place Raleigh North	127	80%	102
Courtyard by Marriott Raleigh Crabtree Valley	84	80%	67
Sub-total	2,251		1,949
Totals	3,333		3,031

Sources: STR Global and HVS

Our survey of the primary competitive hotels in the local market shows a range of lodging types and facilities. We inspected and evaluated each competitor.

Primary Competitors

The figure below presents a summary of their operating performance for the past three years of the primary competitors.

FIGURE 2-10
RECENT PERFORMANCE OF THE PRIMARY COMPETITIVE SET

Year	Accommodated Room Nights	Available Room Nights	Market Occupancy	Market RevPAR
Amount				
2012	644,718	984,131	65.5%	\$0.77
2013	716,193	1,086,477	65.9%	0.79
2014	784,558	1,106,315	70.9%	0.91
Percent Change				
2013	11.1%	10.4%	0.6%	2.7%
2014	9.5%	1.8%	7.6%	14.3%

We describe each primary competitor and provide data on its operating performance.

**Marriott Raleigh City
Center**
500 Fayetteville Street,
Raleigh, North Carolina

MARRIOTT RALEIGH CITY CENTER



FIGURE 2-11
ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Weighted Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
2012	400	72.0%	\$136	\$98	116.2	128.5
2013	400	72.0%	138	99	118.3	129.1
2014	400	73.0%	148	108	106.5	116.1

Carey Watermark Investors owns the Marriott Raleigh City Center and Interstate Hotels & Resorts operates it. The property, situated adjacent to the RCC, typically serves as the headquarters hotel for convention center events. Facilities include Starbucks, an indoor pool and whirlpool, fitness room, a business center, and approximately 15,000 square feet of meeting space. The hotel, which opened in 2008, renovated their meeting space and lobby in late 2014. In addition, they changed their main dining feature to Rye Bar & Southern Kitchen, which features a local and southern atmosphere. This hotel benefits from being the newest property in the market and its downtown location adjacent to the RCC.

Sheraton Raleigh
421 South Salisbury Street,
Raleigh, North Carolina**SHERATON RALEIGH****FIGURE 2-12**
ESTIMATED HISTORICAL OPERATING STATISTIC

Year	Weighted Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
2012	353	59.0%	\$126	\$74	95.2	97.6
2013	353	59.0%	129	\$76	96.9	98.7
2014	353	64.0%	140	\$90	93.4	96.3

The Buccini/Pollin Group owns the Sheraton Raleigh, and PM Hospitality Strategies operates the hotel. Food and beverage facilities include Jimmy V's Osteria + Bar and Café Sienna. Amenities include 17,544 square feet of meeting space, an indoor pool and whirlpool, a fitness room, the Link@Sheraton lobby work area, a market pantry, and vending areas. The hotel, which opened in 1982, was most recently renovated in 2014. Upgrades included new guestroom desk chairs on two floors and the renovation of all softgoods and furniture in the club lounge on the 17th floor. Prior renovations in 2012/13 included the relocation of the lobby from the first floor, the extensive renovation of Jimmy V's Osteria + Bar, and the creation of Café Sienna. This renovation also included updating the hotel's meeting space, upgrading of the Link@Sheraton area, and replacing of guestroom corridor carpets and wall coverings. This hotel benefits from its downtown location and extensive offering of meeting space.

**Holiday Inn Raleigh
Downtown**
320 Hillsborough Street,
Raleigh, North Carolina

HOLIDAY INN RALEIGH DOWNTOWN



FIGURE 2-13
ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Weighted Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
2012	203	49.0%	\$79	\$39	79.1	50.8
2013	203	39.0%	78	\$30	64.1	39.5
2014	203	63.0%	99	\$62	91.9	67.0

The Holiday Inn Raleigh Downtown is owned and operated by Sound Hospitality Management. Facilities and amenities include a Skye Tower Restaurant and Lounge, a fitness room, a business center, a guest laundry room, and 3,640 square feet of meeting space. The hotel, which opened as a Holiday Inn in 1969, was reflagged from a Clarion Hotel in early 2014. The current owners expended approximately \$2.5 million to completely renovate the property following its purchase in 2012. This hotel benefits from its recent renovations, but is somewhat disadvantaged by its limited amenities and meeting space compared to other hotels in the market.

**Hampton Inn & Suites
Raleigh Downtown**
600 Glenwood Avenue
Raleigh, NC

HAMPTON INN & SUITES RALEIGH DOWNTOWN



FIGURE 2-14

ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Weighted Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
2012	7	13.0%	\$132	\$17	21.0	22.5
2013	126	66.0%	127	\$84	108.4	108.7
2014	126	76.0%	138	\$105	110.9	112.7

Prime Investments and Development LLC owns the Hampton Inn & Suites Raleigh Downtown. Glenwood Hospitality Associates LLC operates it. Facilities and amenities include a breakfast dining area. The hotel serves a complimentary breakfast and manager's reception in this space. Other amenities include an indoor pool, fitness room, a business center, a market pantry, and 1,208 square feet of meeting space. The hotel has not undergone any renovations since its opening in December 2012. This hotel benefits from its status as the newest hotel in the Downtown Core and enjoys a location within walking distance to numerous entertainment and music venues.

Secondary Competitors

We also reviewed other area lodging facilities to determine whether any may compete with the proposed subject hotel on a secondary basis. The room count of each secondary competitor has been weighted based on its assumed degree of competitiveness with the proposed subject hotel.

We identified hotels that would compete with the proposed subject hotel on a secondary level. The DoubleTree by Hilton Raleigh Brownstone University is anticipated to be competitive on the basis of brand and quality; however, this hotel has a lower room count and a smaller amount of meeting space. The Marriott Raleigh Crabtree Valley is anticipated to be competitive on the basis of brand and quality; however, this hotel has lower room count, a smaller amount of meeting space, and a higher average daily room rate ("ADR").

The following table sets forth the pertinent operating characteristics of the secondary competitors

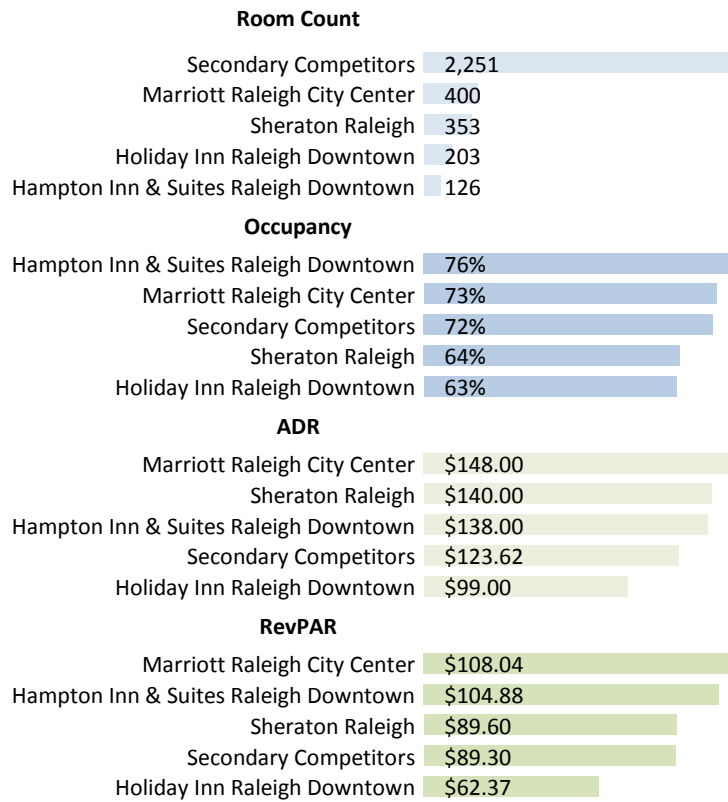
FIGURE 2-15
SECONDARY COMPETITORS ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Weighted Room Count	Occupancy	Average Rate	RevPAR
2012	1,733	67.5%	\$115	\$78
2013	1,895	68.8%	117	\$81
2014	1,949	72.2%	124	\$89

Historical Supply and Demand Data

The figures below summarize aggregate competitive set performance in the base year. Metrics include guest room count, occupancy rate, ADR, and revenue per available room, ("RevPAR"). RevPAR, a common hotel industry performance metric, is calculated by multiplying the occupancy rate by ADR and provides combined measure of rate and occupancy. Since 2014 was a complete year of available data at the time of this study, we used it as the base year of our analysis.

FIGURE 2-16
THE WEIGHTED COMPETITIVE SET PERFORMANCE



Sources: STR Global and HVS

- The Hampton Inn & Suites has the strongest occupancy in the downtown market.
- Marriott Raleigh City Center generates the highest room rates because it is a full-service property. It also leads the market in RevPAR.
- The Sheraton performs at a similar level to the aggregated secondary competitors outside of downtown.
- 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 RCC.

The figure below shows April year-to-date occupancy and average daily room rates compared to the prior year for the competitive hotels.

FIGURE 2-17
YEAR-TO-DATE THROUGH APRIL

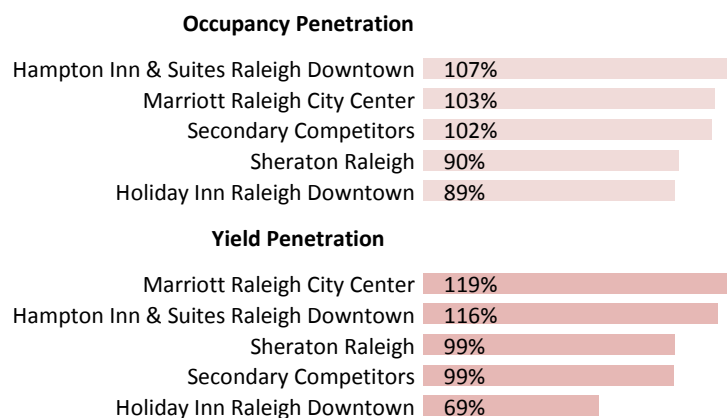
	2014	2015	Percent Change	
Occupancy	71.5%	72.5%	1.4%	
ADR	\$127.12	\$133.41	4.9%	
Demand	286,023	289,826	1.3%	

Occupancy and ADR increased over the 2014 levels. Hotel operators report that growth has been driven primarily by increases in transient hotel guests and secondarily by growth in group and meeting demand.

Market Penetration

Market penetration measures indicate how an individual hotel property performs in comparison to the market as a whole. Occupancy penetration is the occupancy of the hotel divided by the market occupancy. Yield penetration is the RevPAR of a hotel divided by the RevPAR of the market. A penetration factor greater than one indicates that a property is performing better than the market and a penetration factor less than one indicates that a property is underperforming the market. The figure below shows occupancy and yield penetrations of the hotels in the competitive set.

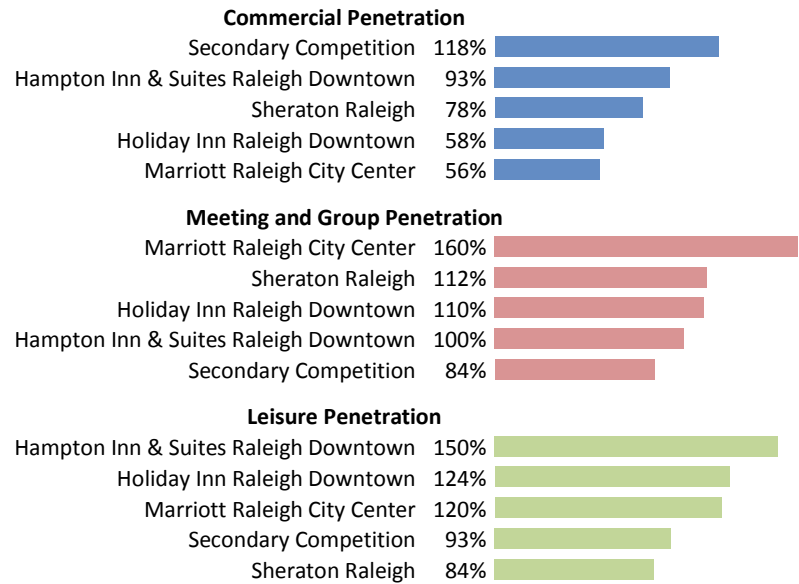
FIGURE 2-18
OCCUPANCY AND YIELD PENETRATION



Sources: STR Global and HVS

HVS analyzed the market penetration of each of the properties in the competitive set. The following figure ranks the market penetration of each hotel by market segment.

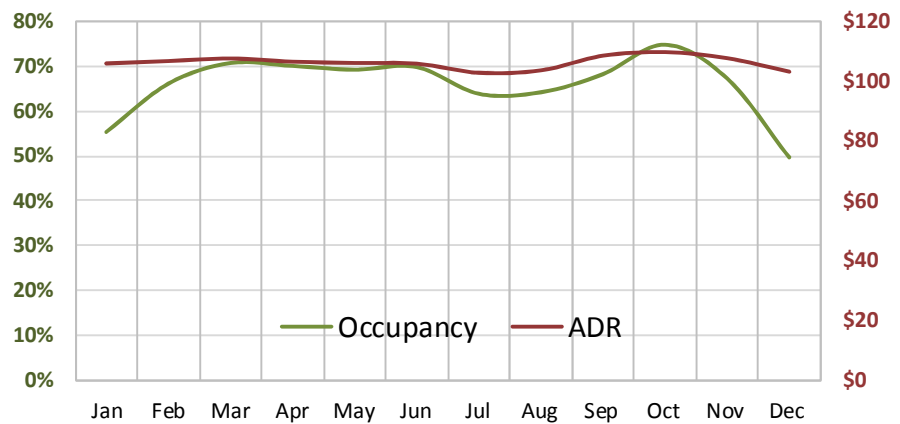
FIGURE 2-19
PENETRATION RATES



Seasonality

The hotel market shows significant seasonal variation, with summer displaying the highest average daily rates and occupancy and winter with the lowest average daily rates and occupancy.

FIGURE 2-20
SEASONALITY GRAPH OF THE WEIGHTED COMPETITIVE SET



Source: STR Global

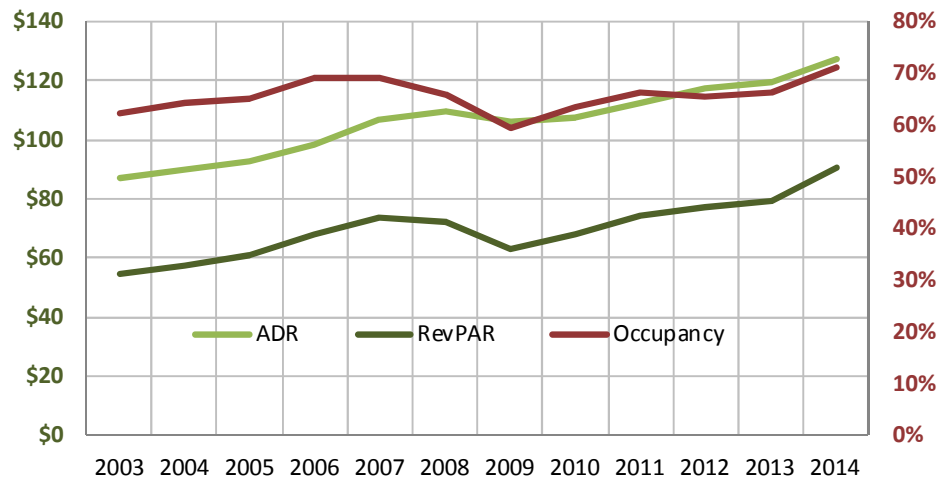
Group demand is strongest in the spring and fall months, and tourists drive transient demand to its peak in the summer months.

Historical Market Performance

STR Global data have certain limitations. Hotels are occasionally added to or removed from the sample and not every property reports data in a consistent and timely manner; these factors can influence the overall quality of the information by skewing the results. These inconsistencies may also cause the STR Global data to differ from the results of our competitive survey. Nonetheless, STR Global data provide the best indication of aggregate growth or decline in existing supply and demand; thus, these trends have been considered in our analysis.

The figure below shows the historical performance of the competitive set including the occupancy rates, average daily room rates ("ADR"), and revenue per available room (RevPAR).

FIGURE 2-21
HISTORICAL ROOM NIGHT DEMAND, ADR, AND REVPAR



Source: STR Global

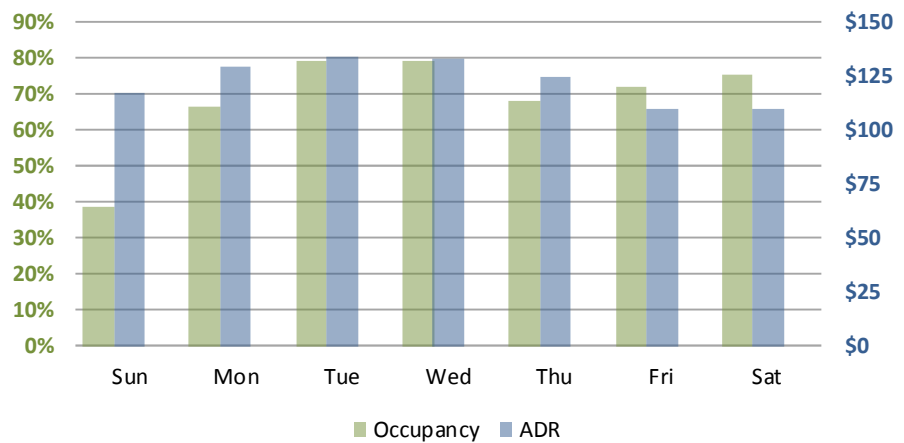
These data reflect an overall market occupancy level of 71.1% in 2014, which compares to 66.1% for 2013. The overall average occupancy level for the calendar years shown in the above figure equates to 65.5%. The economic downturn of 2008 thru 2010 resulted in lower demand and occupancy rates in the market. Occupancy increased in 2012 but fell slightly in 2013. Growth returned in 2014, and this trend is expected to continue provided the economy continues to improve.

An overall market average rate level of \$192.82 in 2013 compares to \$190.09 for 2012. The average rate across all calendar years presented for average rate equates to \$183.89 and has fluctuated over the past decade from the low-\$150s to the low \$190s, with 2008 being the strongest year. Rates have been modestly increasing from 2009 levels with stronger growth in 2011 and 2012. These occupancy and average rate trends resulted in a RevPAR level of \$90.48 in 2014.

Weekly Patterns of Lodging Demand

A review of the daily patterns of occupancy, average rate, and RevPAR provides insight into the impact that the current economic conditions have had on the competitive lodging market. The figure below shows aggregated data from the past three years.

FIGURE 2-22
OCCUPANCY AND AVERAGE RATE BY DAY OF WEEK



Source: STR Global

Leisure travelers and non-business-related groups generate high occupancy on Friday and Saturday nights and the normally strong Tuesday and Wednesday nights. Friday and Saturday nights generate peak rates, which is not typical for most hotel markets when peak rates correspond to the high midweek demand.

Supply Changes

With improved local market conditions and a more favorable hotel financing environment nationally, several new hotels that can be expected to compete in the competitive set have advanced through the development pipeline. The figure below shows anticipated changes in the weighted competitive room supply.

FIGURE 2-23
NEW SUPPLY

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

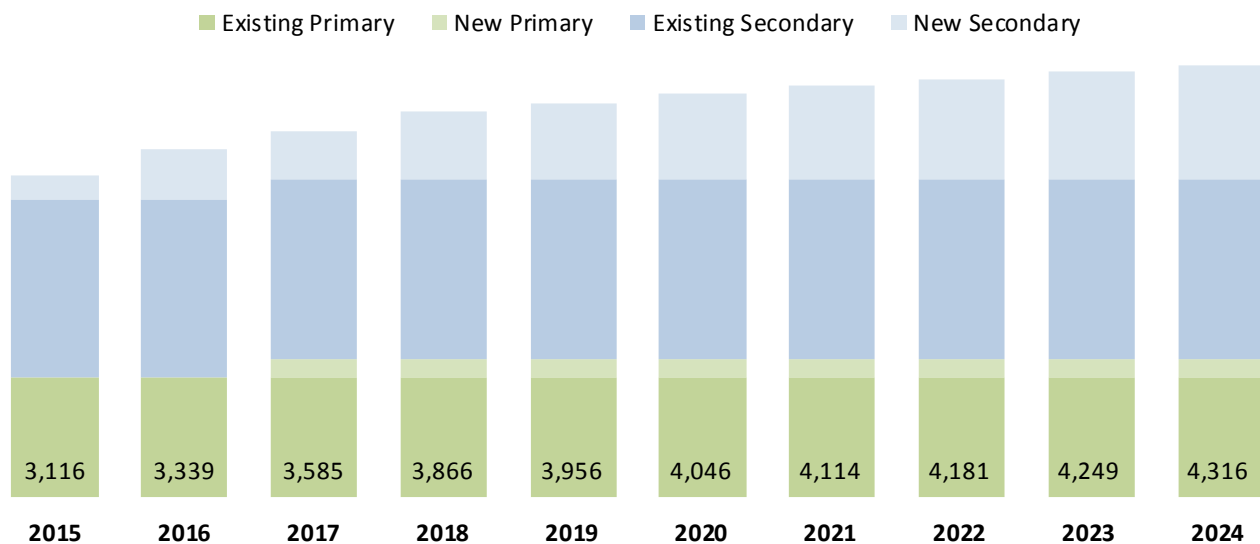
We expect 750 new hotel rooms in five new hotels to open by 2018. We weighted the competitiveness of these properties at 656 rooms. Additional new supply is likely after 2018 as other new projects are in the planning stages. Recent announcements include two hotels near the RCC:

- Narsi Properties, a 12-story hotel at South Wilmington and East Lenoir streets (General Baptist State Convention), and
- Winwood Hospitality Group, at least a 175-room full-service hotel at McDowell Street and Cabarrus Street (Enterprise Rent-A-Car site).

Future improvement in market conditions will raise the risk of increased competition.

The figure below shows projections of room supply with weighted daily room counts. We assume 237 new rooms in the secondary market would enter in 2016 and 175 new primary rooms would enter in 2017.

FIGURE 2-24
ROOM SUPPLY PROJECTIONS (WEIGHTED DAILY ROOM COUNTS)



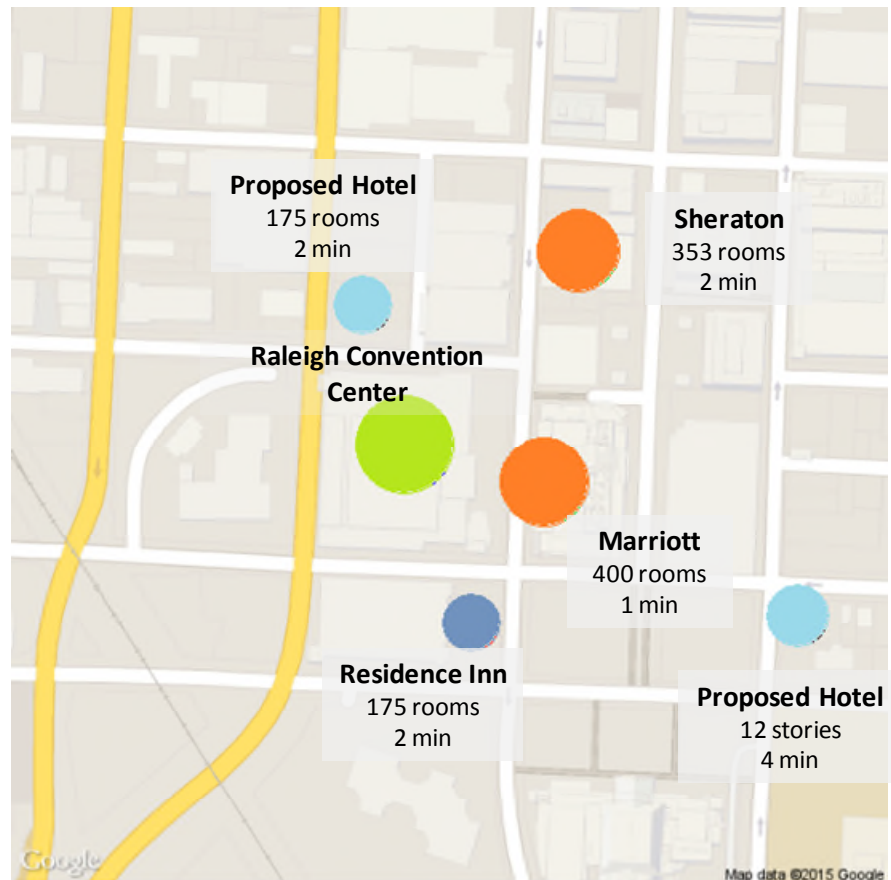
In 2015 through 2017, room supply would grow between 7% and 8% per year. After 2020, total supply would surpass 4,000 rooms and supply growth would slow down and increase 1% to 2% per year.

Hotel Proximity to RCC

The 400-room Marriott Raleigh City Center and the 353-room Sheraton Raleigh are the only two full-service hotels within walking distance of the RCC. RCC management and CVB representatives report that obtaining room blocks in these properties for convention center events has become increasingly difficult. Increased business travel demand that command higher room rates than group events have crowded out convention center-related demand. New hotel supply

could alleviate this situation. The figure below shows the proximity of existing and new hotels to the RCC.

FIGURE 2-25
HOTELS WITHIN WALKING DISTANCE OF THE RCC



The Residence Inn by Marriott, which is scheduled to open in 2017 would be immediately south of the RCC. If the previously discussed Narsi Properties and the Windwood Hospitality Group developments occur, the RCC will benefit from an additional 500 rooms within walking distance. However, without guaranteed room blocks and continued high hotel occupancies, this expanded hotel supply would only provide limited support to the RCC.

Recent Market Performance

The following figure presents data on the performance of the weighted competitive set. HVS estimated performance results and in some cases weighted data on secondary competitors. In this respect, this information differs from the previously presented STR Global data.

FIGURE 2-26**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
Percent Change					
2013	11.0%	10.4%	0.6%	2.0%	2.6%
2014	9.6%	1.8%	7.7%	6.3%	14.4%

Source: STR Global

**Demand Analysis
Using Market
Segmentation**

For the purpose of this demand analysis, we divided the market into three segments: commercial, meeting and group, and leisure. Based on our fieldwork and knowledge of the local lodging market, we estimated the 2014 distribution of accommodated room nights among these segments. See the figure below.

FIGURE 2-27**ACCOMMODATED ROOM NIGHT DEMAND IN 2014**

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%

Commercial Demand

Commercial demand (46% of total demand) is mainly individual businesspeople passing through the subject market or visiting area businesses, in addition to high-volume corporate accounts generated by local firms. Brand loyalty (particularly frequent-traveler programs), as well as location and convenience with respect to businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as “preferred” accommodations in return for more favorable rates. Corporate discounts may increase base on the number of room nights produced by a commercial client. Commercial demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. In markets where the weekday occupancy often exceeds 90%, some unaccommodated commercial demand is likely to be present. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods.

Meeting and Group Demand

The meeting and group market (32% of total demand) includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Although there are numerous classifications within the meeting and group segment, the primary categories include corporate groups, associations, and SMERFE (social, military, ethnic, religious, fraternal, and educational) groups. Corporate groups typically meet during the business week most commonly in the spring and fall months. Group demand tends to be the most profitable for hotels, as they typically pay higher rates and usually generate ancillary revenues including food, beverage, and banquet revenue. SMERFE groups are typically price-sensitive and tend to meet on weekends and during the summer months or holiday season when greater discounts are usually available. SMERFE groups generate limited ancillary revenues. The profile and revenue potential of associations varies depending on the group and the purpose of their meeting or event.

Leisure Demand

Leisure demand (22% of total demand) is from individuals and families spending time in an area or passing through en route to other destinations. Travel purposes include sightseeing, recreation, or visiting friends and relatives. Leisure demand also includes room nights booked through Internet sites such as Expedia, hotels.com, and Priceline; however, leisure may not be the purpose of the stay. This demand may also include business travelers and group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. These peak periods represent the inverse of commercial visitation trends, underscoring the stabilizing effect of capturing weekend and summer tourist travel. Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income correlate strongly with leisure travel levels.

The typical length of stay ranges from one to four days, depending on the destination and travel purpose, and the rate of double occupancy typically ranges from 1.8 to 2.5 people per room. Price sensitivity tends to vary with the product type. All-suite properties with inclusive food and beverage will tend to drive strong leisure room rates while highway properties with limited amenities typically offer more discounted leisure room rates.

Estimated Demand Growth by Market Segment

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. To estimate future demand, we applied growth rates to each demand segment. HVS based demand growth rate estimates on interviews with hotel managers, assessment of data on occupancy trends, economic and demographic data, and

identification of demand generators. The figure below shows estimated growth rates by market segment.

FIGURE 2-28
ESTIMATED ROOM NIGHT 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%

Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historically accommodated room night demand. If additional lodging facilities enter the market, guests would be able to secure hotel rooms.

Seasonal and weekday peaks can cause sell-out nights demand even in markets without high annual occupancy. The following figure presents our estimate of unaccommodated demand in the subject market.

FIGURE 2-29
UNACCOMMODATED DEMAND ESTIMATE IN A STABILIZED YEAR

Market Segment	Total Room Nights	Unaccommodated % of Total	Room Nights
Commercial	363,402	8.5%	31,040
Meeting and Group	252,475	6.9%	17,325
Leisure	168,682	4.1%	6,861
Total	784,558	7.0%	55,226

Based on an analysis of monthly and weekly peak demand and sell-out trends, we estimate that 7.0% of the base-year demand is unaccommodated.

**Accommodated
Demand and Market-
wide Occupancy**

Using historical room night demand as a starting point and applying the previously discussed assumptions, HVS estimated room night demand in the competitive set by market segment as shown in the figure below.

**FIGURE 2-30
ROOM NIGHT DEMAND BY MARKET SEGMENT**

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%

Over the projection period, room night demand is estimated to grow at a compound average annual rate of 3.7%.

The figure below shows our forecast of accommodated room night demand.

**FIGURE 2-31
ANNUAL ROOM NIGHT DEMAND BY SOURCE**

Source	2015	2016	2017	2018	2019	2020
Base Accommodated	817,900	860,900	888,900	908,800	929,100	945,300
Previously Unaccommodated	4,000	19,000	32,000	42,000	47,000	53,000
Total Available Demand	821,900	879,900	920,900	950,800	976,100	998,300
(Less Residual Demand)	(64,000)	(53,000)	(35,000)	(23,000)	(18,000)	(14,000)
Total Accommodated Demand	757,900	826,900	885,900	927,800	958,100	984,300
Accommodated Demand Change	3.5%	7.0%	5.5%	3.7%	2.7%	2.2%
Available Room Night Change	2.8%	7.2%	7.4%	7.9%	2.3%	2.3%
Marketwide Occupancy	71%	71%	70%	67%	68%	68%

These projections provide a baseline scenario for room night demand growth in the Raleigh Downtown Market. We assume strong demand growth over the next few years will taper off. We expect hotel occupancies, currently at peak levels, to decline as new room supply enters the market.

3. Event Planner Surveys

Overview

HVS designed and conducted a survey of event planners to provide a basis for assessing the potential demand at the Raleigh Convention Center (“RCC”) given new hotel development in downtown Raleigh. This survey gathered information from professional event planners about their event needs and event destination preferences.

HVS collected contact information for 638 event planners from Visit Raleigh. Via email, HVS introduced the purpose of the survey and provided a link to the web-based survey. Survey responses included 121 completed survey and 49 partial surveys in which the respondent left one or more questions blank. The overall response rate to the survey was 27 percent.

The following summary of responses highlights key results.

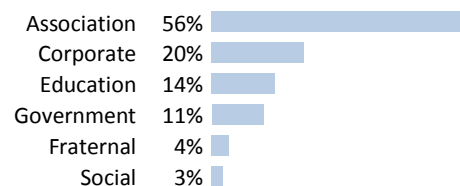
Survey Respondents

To indicate whether this group of respondents fairly represents a cross section of the meetings industry, HVS collected data on the type of organization they represent and the types of events they plan.

Survey respondents represent 25 states with majority plurality (32 percent) residing in North Carolina. Other well-represented states include Illinois and Texas, with several meeting planners residing in Washington DC.

To understand the types of organizations responding to the survey, HVS asked respondents a series of questions to describe the organizations they represent and their past use of venues in the market. Respondents may represent more than one type of organization, as shown in the figure below.

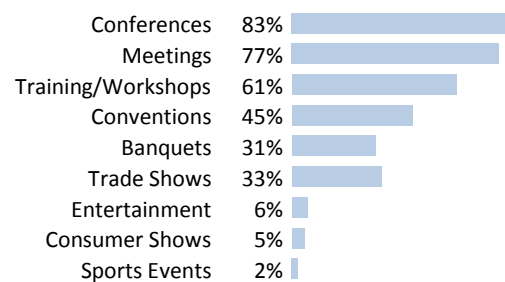
FIGURE 3-1
RESPONDING ORGANIZATIONS BY TYPE



Event planners representing associations make up 56 percent of the sample, followed by those representing corporations, educational institutions, and government groups.

HVS asked event planners to identify the types of events they plan.

FIGURE 3-2
TYPES OF EVENTS PLANNED



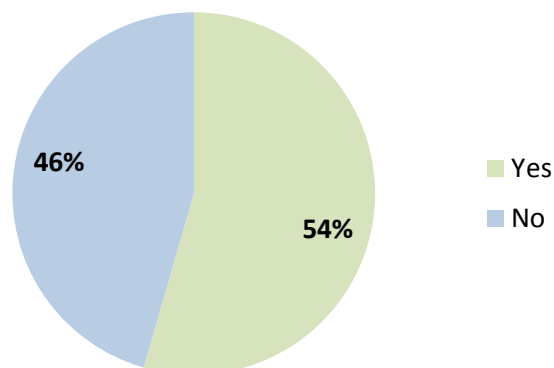
Meeting planners organize a wide variety of event types—most often conferences and meeting. Over 60 percent plan training meetings and workshops, while under half plan conventions.

The sample obtained through this survey appears to reflect a broad cross-section of event planners that are typical of the make-up of the industry as a whole.

Past Events

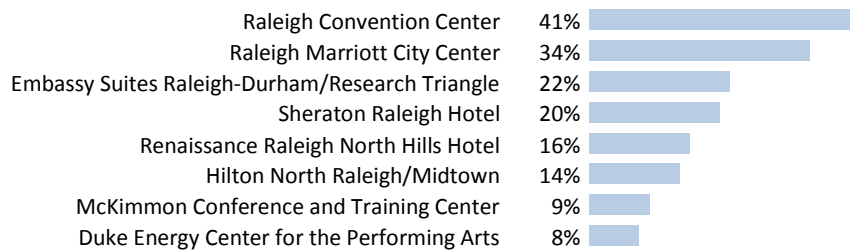
HVS asked event planners if they had planned an event in Raleigh during the past five years. See the figure below.

FIGURE 3-3
PERCENTAGE OF PLANNERS WHO HOSTED EVENT IN RALEIGH



Nearly 55 percent of the survey respondents have hosted at least one event in Raleigh during the past five years. For those planners who responded “yes” to the above question, HVS asked them to identify the Raleigh venues in which they placed their events.

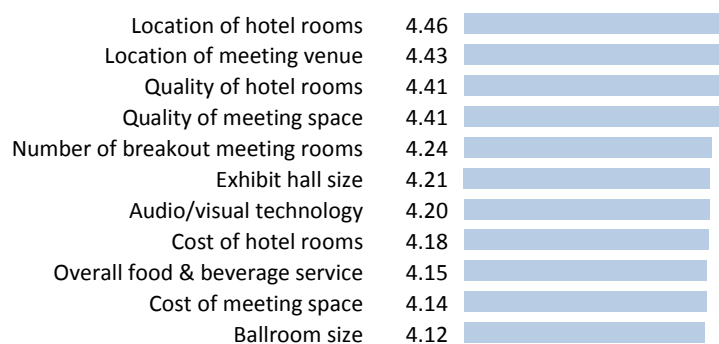
FIGURE 3-4
VENUES FOR PREVIOUSLY HELD EVENTS



The RCC was the most often mentioned venue by the respondents with approximately 40 percent having hosted an event at the venue. Other often-mentioned venues include Raleigh Marriott City Center, Embassy Suites Raleigh-Durham, and the Sheraton Raleigh Hotel

For those planners who had hosted an event in Raleigh, HVS asked them to rate their satisfaction with the city’s event infrastructure. In the following figure, a score of five indicates fully satisfied, and a score of one indicates extremely dissatisfied with their experience in Raleigh.

FIGURE 3-5
PLANNER SATISFACTION WITH RALEIGH

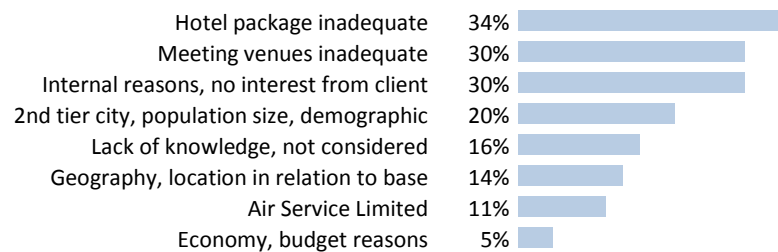


Most planners who have hosted in Raleigh have been satisfied with the location and quality of hotel rooms and meeting space. Satisfaction with the size of the Raleigh’s exhibit and meeting spaces ranks slightly lower. Planners are less satisfied with costs, and the ballrooms in Raleigh received the lowest scores.

In an unaided question, HVS asked the 43 percent of event planners who have not held an event in Raleigh to identify why. HVS classified their answers into the categories shown in the figure below.

FIGURE 3-6

REASONS FOR NOT SELECTING RALEIGH

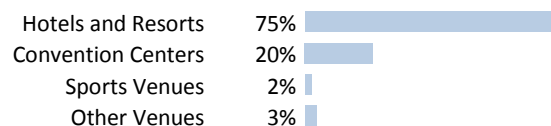


Meeting planners most often indicated the lack of sufficient hotel rooms as the primary reason for not hosting their events in Raleigh. Inadequate meeting venues received several mentions. Several planners indicated a lack of interest in Raleigh from clients and a lack of knowledge about the destination. Several planners noted that they considered Raleigh a second-tier city with limited air service and an inadequate population to attract their events.

HVS asked all event planners to identify up to five facilities outside of Raleigh in which they have recently held events. Respondents noted a variety of hotels, convention centers, convention centers, and other venues. The following figure shows the percentage of venue use by type.

FIGURE 3-7

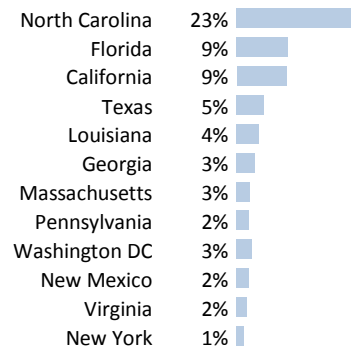
RECENTLY BOOKED EVENTS BY VENUE TYPE



Hotels and resorts make up around three-quarters of all other venues in which event planners have booked events. Convention centers make up another 20 percent. Other venues include restaurants, museums, and offices.

In total, planners reported hosting events in over 100 cities across the U.S. The following figure shows the states in which event planners most frequently place events.

FIGURE 3-8
RECENTLY BOOKED EVENTS BY STATE

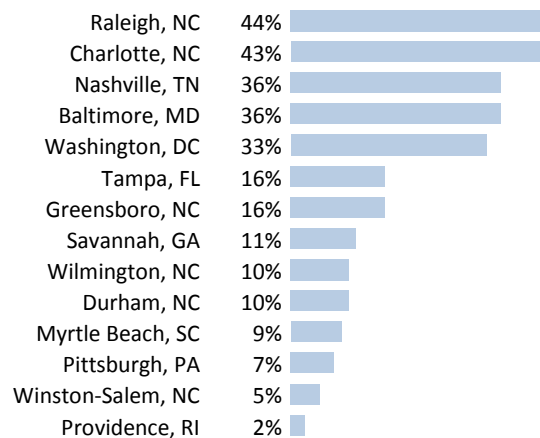


Event planners surveyed held around one-quarter of their events in North Carolina venues. Venues in Florida and California received the most mentions outside of the state.

Meeting Planner Preferences and Perceptions

HVS asked event planners to identify the three best markets for planning their events from a competitive set of cities in the eastern U.S. The following figure provides the top six destinations most often identified by event planners.

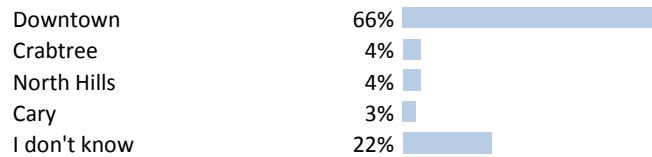
FIGURE 3-9
TOP DESTINATIONS IN THE EASTERN U.S.



Since a large portion of the survey list includes event planners that have previously held an event or expressed an interest in Raleigh, Raleigh receives the several mentions. Other top destinations include Charlotte, Washington DC, Baltimore, and Nashville.

HVS asked event planners to identify the area within Raleigh metro area that they prefer for their events.

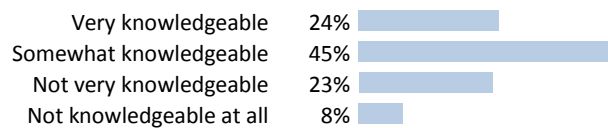
FIGURE 3-10
PREFERRED AREA FOR EVENTS



Over 60 percent of survey respondents prefer hosting an event in downtown Raleigh, and around one-quarter have no preference. Only a small portion of planners prefer the Crabtree and North Hills areas, and no planners indicated that they prefer events in Cary or near the North Carolina State University campus.

Before responding to a series of questions regarding their perception of Raleigh as a group event location, HVS asked meeting planners to identify their level of knowledge about the destination.

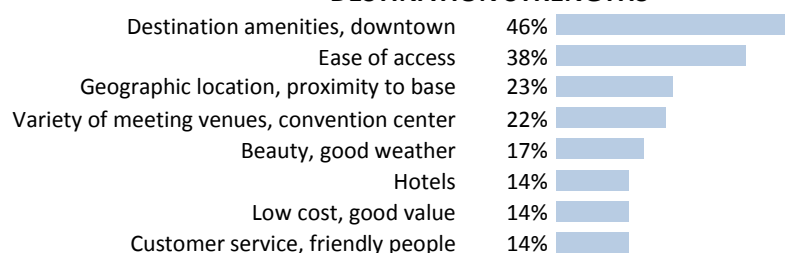
FIGURE 3-11
KNOWLEDGE LEVEL OF RALEIGH



Almost 70 percent report that they are at least somewhat knowledgeable about Raleigh. The remaining 30 percent of event planners claim to have little to no knowledge of the city as an event destination.

In an unaided, open response question, HVS asked meeting planners to state what they believe to be Raleigh's main strengths and weaknesses as a group event destination. The following figures summarize their responses.

FIGURE 3-12
DESTINATION STRENGTHS

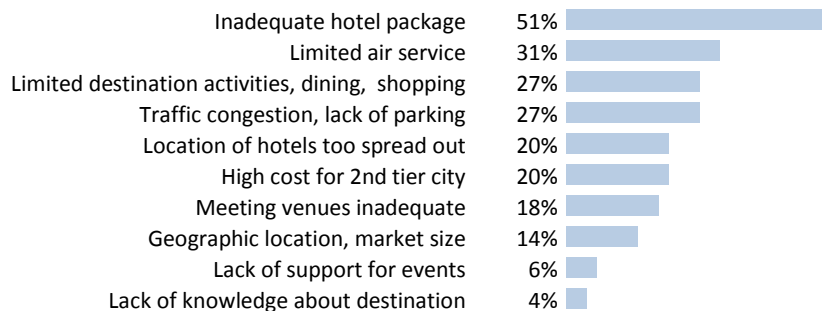


Event planners cite Raleigh's downtown and shopping and dining opportunities most often. Many planners also note the ease of access to the city and convenience

for visiting attendees. Other strengths include the variety of meeting venues, nice weather, and the beauty of the area.

FIGURE 3-13

DESTINATION WEAKNESSES

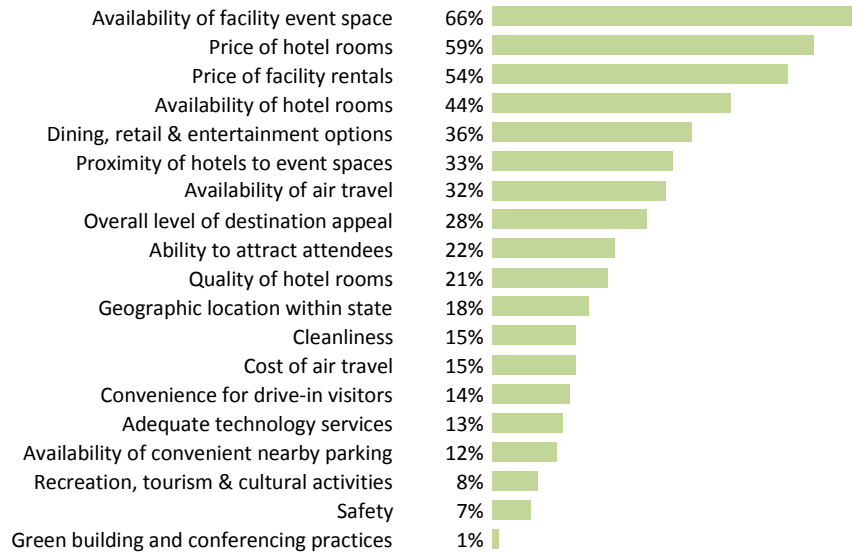


Event planners most frequently cited Raleigh's inadequate hotel package as its primary weakness as an event destination. Planners also note the City's limited air service. Many planners feel that Raleigh has limited destination amenities and suffers from traffic congestions and lack of parking. Raleigh's spread out hotel package also received several mentions from event planners.

Some destination attributes such as the availability of destination amenities appear as both strengths and weaknesses, which reflects the variety of locations, perspectives, and needs of event planners.

HVS asked survey respondents to identify their five most important criteria when selecting an event destination. The following figure presents the percentage of survey respondents who indicated which selection criteria ranked in their top five.

FIGURE 3-14
PERCENTAGE OF PLANNERS WHO CONSIDER CRITERIA MOST IMPORTANT

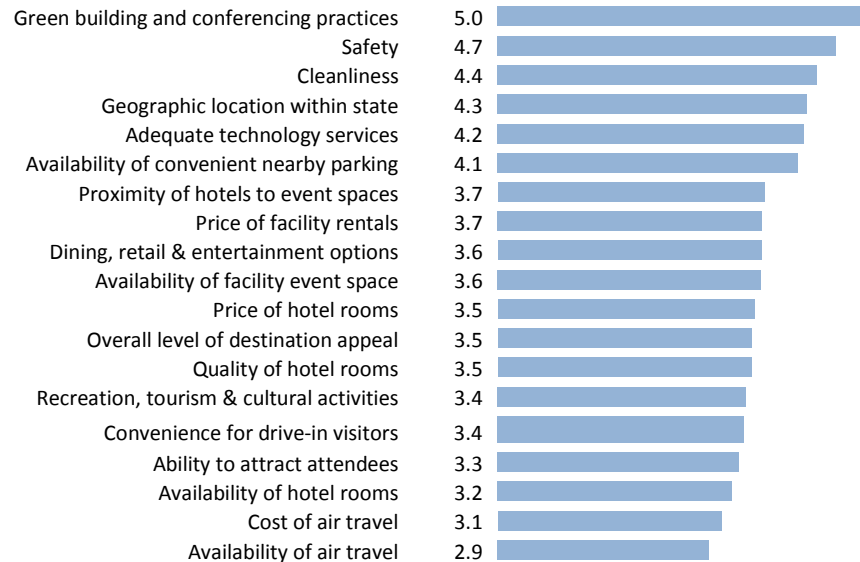


Most event planners cited the price and availability of hotel rooms and event space as the important criteria when selecting an event location. Dining, retail, and entertainment options also receive several mentions. Approximately one-third of event planners identified the proximity of hotel rooms to event space as one of their top five criteria.

HVS then asked event planners to rate Raleigh on these same criteria. In the following figure, a rating of five means excellent and a rating of one means poor.

FIGURE 3-15

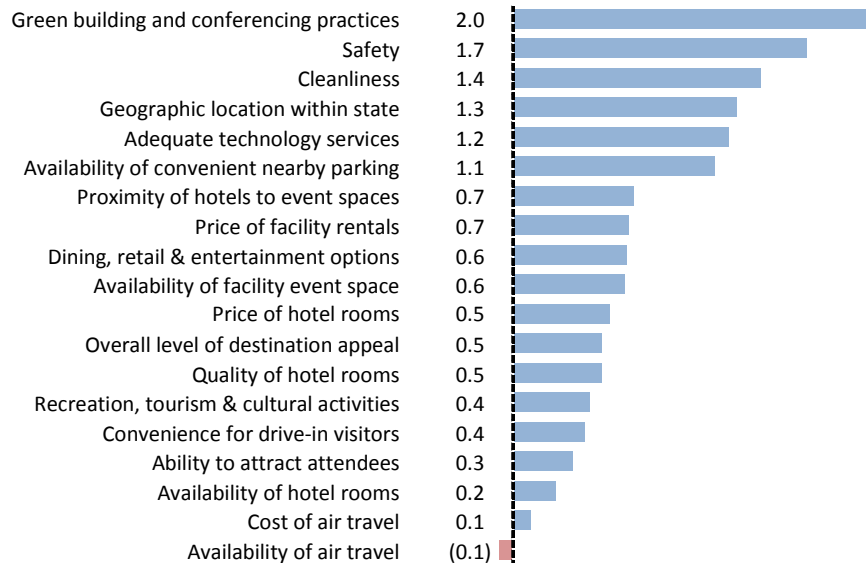
PLANNERS' SCORE OF RALEIGH ON CRITERIA



Raleigh received average ratings for the relatively important criteria of availability of event space and price of hotel rooms. It also ranks high on other criteria, such as safety and cleanliness. However, these criteria are less important to event planners, and therefore, do not create a significant advantage for the destination. Raleigh received above average ratings on geographic location and availability of parking.

To understand the relative impact of these perceptions, HVS created a net score for each criterion and weighted each net score by its importance as shown below.

FIGURE 3-16
PLANNERS' NET SCORE OF RALEIGH ON CRITERIA*



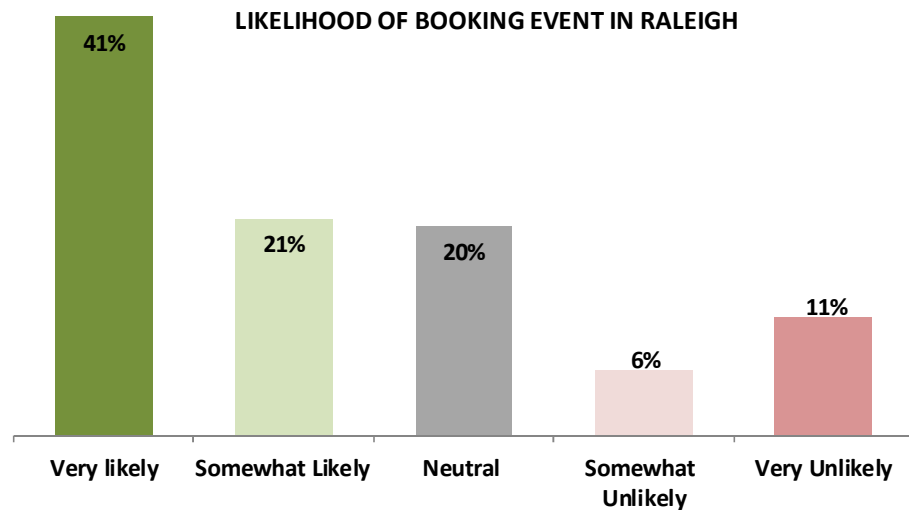
*Ranked on a scale of 1 to 5 with 3 as a neutral score. This figure shows the rank minus 3, which indicates a positive or negative average ranking on each criteria.

In interpreting these results, we assume that high and low scores make a meaningful difference in event planner decisions, and middle scores minimally affect their decisions. Net weighted scores near and below zero indicate a negative effect on demand. In the case of Raleigh, the lack of air travel has a negative effect on meeting demand potential.

Event Characteristics and Facility Requirements

HVS told event planners that Raleigh is considering downtown hotel development. Based on this information, HVS asked respondents how likely they would be to book and event in Raleigh if the City's hotel package met their event needs. The following figure presents the results of these responses.

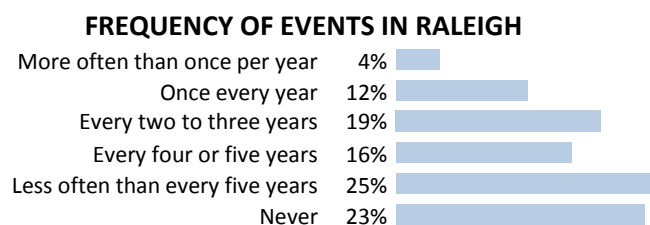
FIGURE 3-17



Well over half of the event planners (62 percent) would be very likely or somewhat likely to book an event in Raleigh. This figure compares favorably with the 54 percent who have booked events in Raleigh in the past. Around 20 percent of the planners remain neutral, suggesting that continued marketing efforts are warranted to persuade planners to bring their events to Raleigh. Over 10 percent of planners report that they would be very unlikely to host an event in Raleigh.

The figure below shows the frequency with which event planners would book events at the proposed convention center development if the venue met their function space needs.

FIGURE 3-18

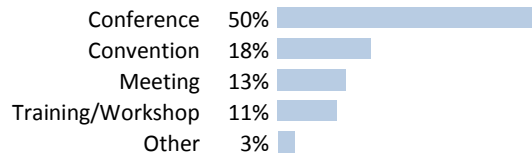


Approximately 16 percent of the respondents would host an event in Raleigh at least once per year. 35 percent would book an event every two to five years. Around 50 percent would book less often or never.

To determine preferences for events, HVS asked event planners to identify and describe their most typical or important event. This information included the name of the event, the type of event, approximate attendance, scheduling, and lodging requirements. The responses shown in the following figures aggregate only the responses of event planners that would potentially consider booking an event in Raleigh. We exclude event planners that indicated they were somewhat unlikely or very unlikely to place an event in Raleigh.

The following figure breaks down the events by type.

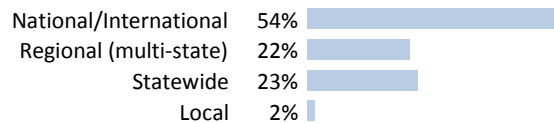
FIGURE 3-19
EVENTS BY TYPE



Conferences and conventions make up a majority (68 percent) of the events. Meetings, training, and other events make up the remaining 32 percent.

HVS asked survey participants to identify the scope (geographic origin of attendees) of their most typical event.

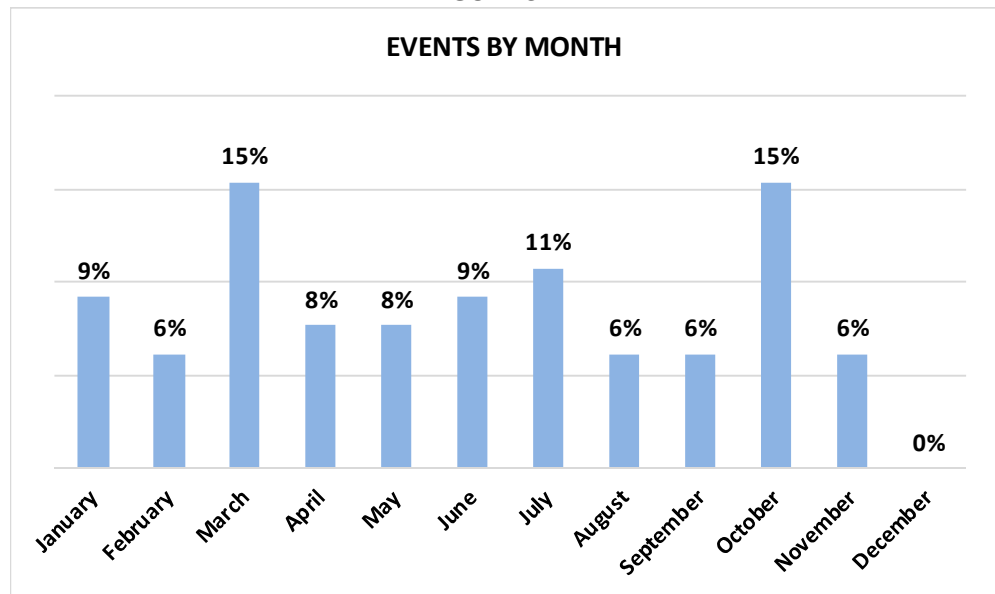
FIGURE 3-20



Three-quarters of the events described by event planners have a national or regional attendee base. Statewide events make up the next highest percentage of locally based events.

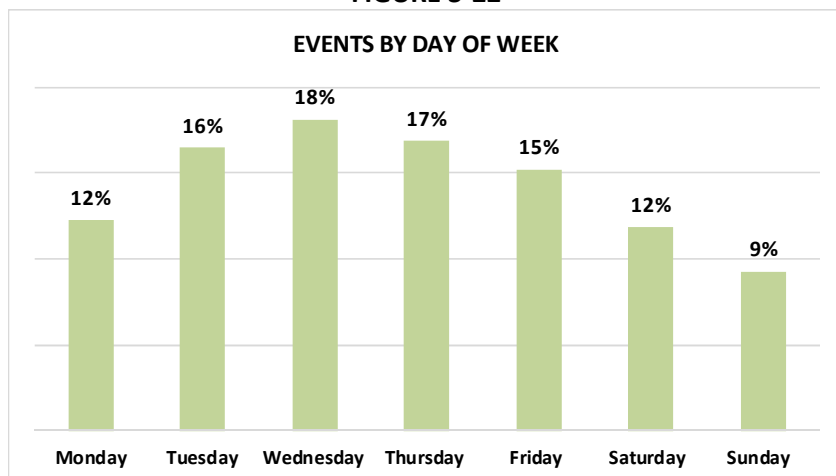
HVS asked event planners to identify the month and the days of the week in which the typical event takes place.

FIGURE 3-21



Events occur year round with March and October the most active months.

FIGURE 3-22



Events take place throughout the week with most occurring Tuesday through Friday.

HVS asked event planners to identify the hotel service level and hotel chain scale they prefer for their event attendees.

FIGURE 3-23
HOTEL SERVICE LEVEL PREFERRED

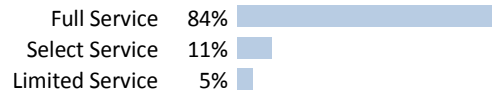
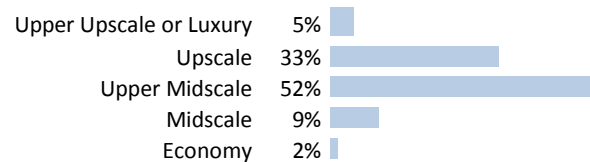


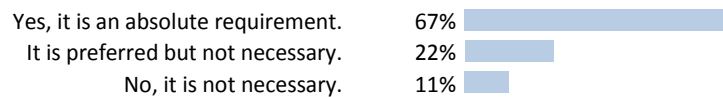
FIGURE 3-24
HOTEL CHAIN SCALE PREFERRED



A large majority of planners (84 percent) prefer a full-service hotel with much fewer preferring a select service or limited service property. Eighty-five percent of planners prefer upscale or upper midscale properties with only a small percentage upper upscale or luxury brands.

HVS asked event planners to assess the importance of hotel rooms that are within walking distance of the primary event venues.

FIGURE 3-25
IMPORTANCE OF HOTELS WITHIN WALKING DISTANCE



Almost 70 percent of planners consider hotel rooms within walking distance to be an absolute requirement.

HVS asked event planners to indicate attendance and peak room block requirements for their events. The following figures present the average attendance and peak room block requirements by type of event.

FIGURE 3-26
AVERAGE EVENT ATTENDANCE BY TYPE OF EVENT

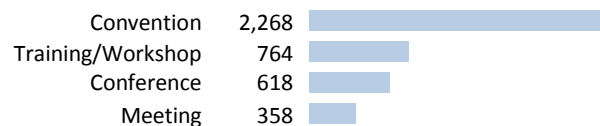
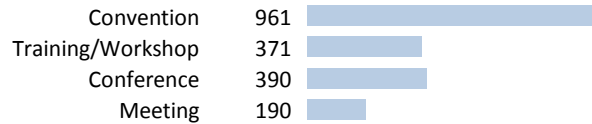


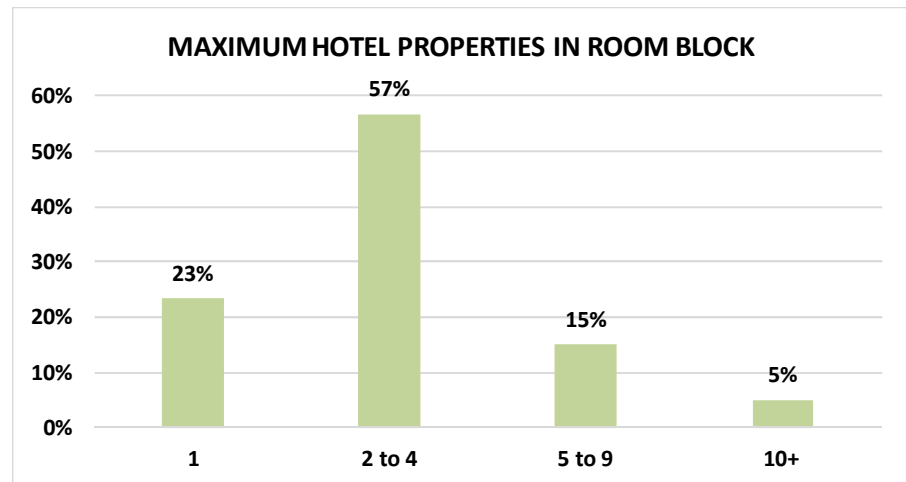
FIGURE 3-27
AVERAGE PEAK ROOM NIGHTS BY TYPE OF EVENT



The above figure shows that average attendance levels vary by event type. Conventions attract approximately 2,300 attendees while conferences and training sessions average 600 to 800 attendees. Meetings are smaller events with around 350 attendees. Peak room night requirements are consistent with average event attendance, with convention requiring a peak room block of around 1,000 rooms.

HVS asked event planners to identify their preferred and a maximum number of hotel properties necessary to accommodate their room block. The vast majority of planners (80 percent) prefer a single hotel property accommodate their entire room block. The following figure presents the maximum number of hotel properties that would be acceptable to event planners.

FIGURE 3-28



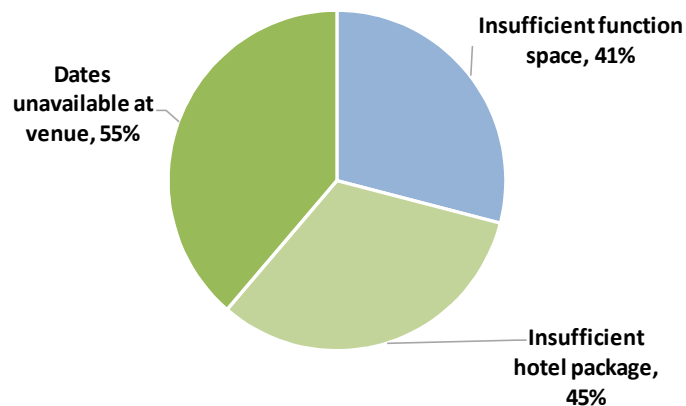
Around one-quarter of the event planners would only consider a single property, and 80 percent would only accept four or fewer hotel properties for their room block.

Event Infrastructure Needs

To further evaluate the specific meeting infrastructure needs in Raleigh, HVS asked event planners whether they had ever wanted to host an event in Raleigh but did not due to insufficient event infrastructure. Approximately 30 percent of survey respondents reported that they had been unable to host an event in Raleigh for

this reason. HVS asked them to specify the type of event infrastructure that was insufficient.

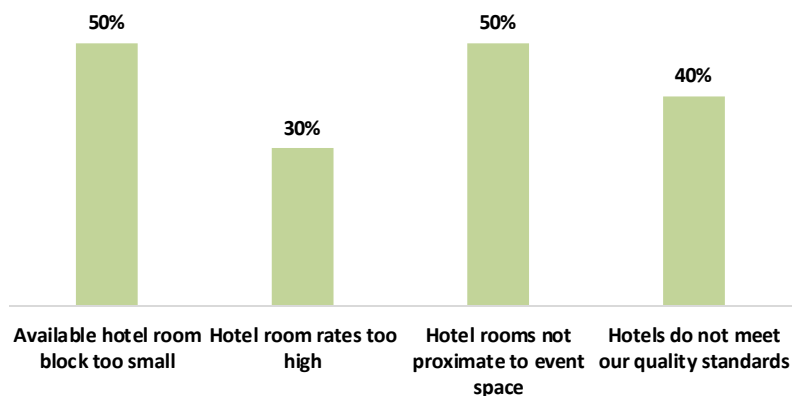
FIGURE 3-29
REASONS FOR NOT BOOKING DUE TO EVENT INFRASTRUCTURE



Unavailable dates received the most mentions from event planners while an insufficient hotel package ranked second.

For those planners who cited an insufficient hotel package as the reason for not booking an event in Raleigh, HVS asked them to identify the specific reasons. For the following analysis, respondents could give more than one answer.

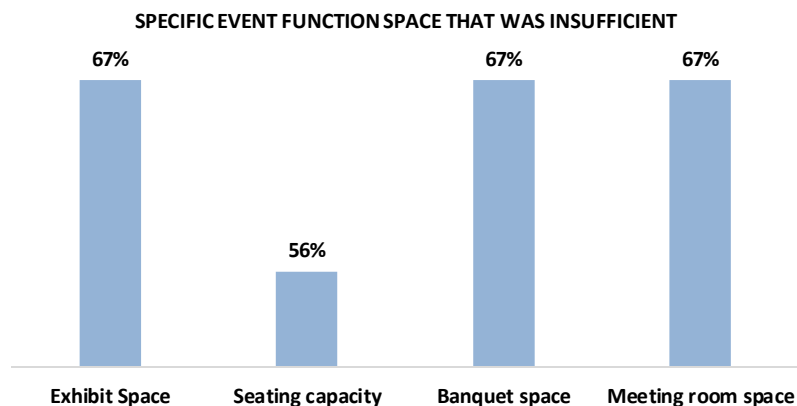
FIGURE 3-30
SPECIFIC REASON WHY HOTEL PACKAGE INSUFFICIENT



A half of event planners who have not booked in Raleigh due to hotel insufficiencies indicate that hotel room block is too small, and hotel rooms are not sufficiently proximate to event space. Hotel quality also received several mentions.

For those planners who have not been able to host in Raleigh due to insufficient function space, HVS asked them to identify the specific space that was lacking. For the following analysis, respondents could give more than one answer.

FIGURE 3-31



An equal number of respondents noted insufficient exhibit, banquet, and meeting space. A smaller percentage felt there is a lack of fixed seating capacity.

Survey Conclusions and Implications for Raleigh

Survey respondents provide a good sample representation of the target market for the events in Raleigh with the majority of planners representing associations, corporate businesses, and education groups. The event planners represent a variety of entities and plan a range of meeting and event types and sizes. Key findings and conclusions include the following:

- Based on historical bookings and event planner perceptions, Raleigh's strongest competition comes from convention centers and hotel properties in North Carolina, notably Charlotte. Top destinations outside the state include Nashville, Baltimore, and Washington DC. Planners have also booked several events in Florida and California.
- The greatest deterrents to event planners considering Raleigh for an event are its inadequate hotel package and its lack of adequate venues in which to place events. Specifically, planners identified the lack of hotel rooms within walking distance to the RCC.
- Raleigh has several strengths as a group event destination, including its downtown, dining and retail amenities, and natural beauty. Other planners note its geographic location and convenience for attendees

- Many event planners view Raleigh as a second-tier city. Consequently, expanding into the national market will take time and depend in part on the rate of economic growth.
- The majority of planners prefer to host an event in downtown Raleigh with a full-service property with an Upscale or Upper Midscale brand. Most prefer a single hotel for their room block and, at a maximum, four properties within walking distance to the event venue.
- Given a downtown hotel package that suits their needs, over 60 percent of the planners feel that they would be “likely” or “somewhat likely” to book an event in Raleigh.
- Room block requirements vary by event type. Approximately 92 percent of the events require a hotel room block of 1,000 rooms or less. Approximately 70 percent of events require a room block of fewer than 500 rooms.

4. Impact on the Raleigh Convention Center

This section of the report provides a forecast of potential event demand for the Raleigh Convention Center ("RCC"). To formulate these forecasts, we analyzed historical event demand, comparable markets and venues, and lost business data.

Historical RCC Event Demand

The RCC provided HVS with a summary of historical demand for fiscal years 2011 through 2015. The figure below shows demand for the last five years.

FIGURE 4-1
TOTAL EVENTS AND ATTENDANCE (2011-2015)
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

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

This demand data included client names, event names, use dates, attendance, room nights generated, and event descriptions. Based on this event information, HVS

Comparable and Competitive Venues

classified event types into standard event categories and restated events into calendar years. After its initial success, the RCC has hosted a slowly declining number of events.

Raleigh competes directly with other cities in the state of North Carolina for a share of the state association and corporate business. Competition for regional and national events comes from convention venues in several medium-sized markets throughout the eastern U.S. Event planners select host cities for their events based the overall package that a city may offer. Several factors determine a city's overall strength and potential in the meetings market. These factors include the attributes of the convention facilities, lodging supply, the economic and demographic profile of the community, transportation access, tourism amenities, and overall destination appeal.

HVS analyzed two sets of venues:

- Convention centers in the state of North Carolina that compete with the RCC for state and regional business, and
- Convention centers in the eastern U.S. which compete with the RCC for regional and national business.

HVS analyzed the competitive venues shown in the figure below.

**FIGURE 4-2
COMPARABLE VENUES**

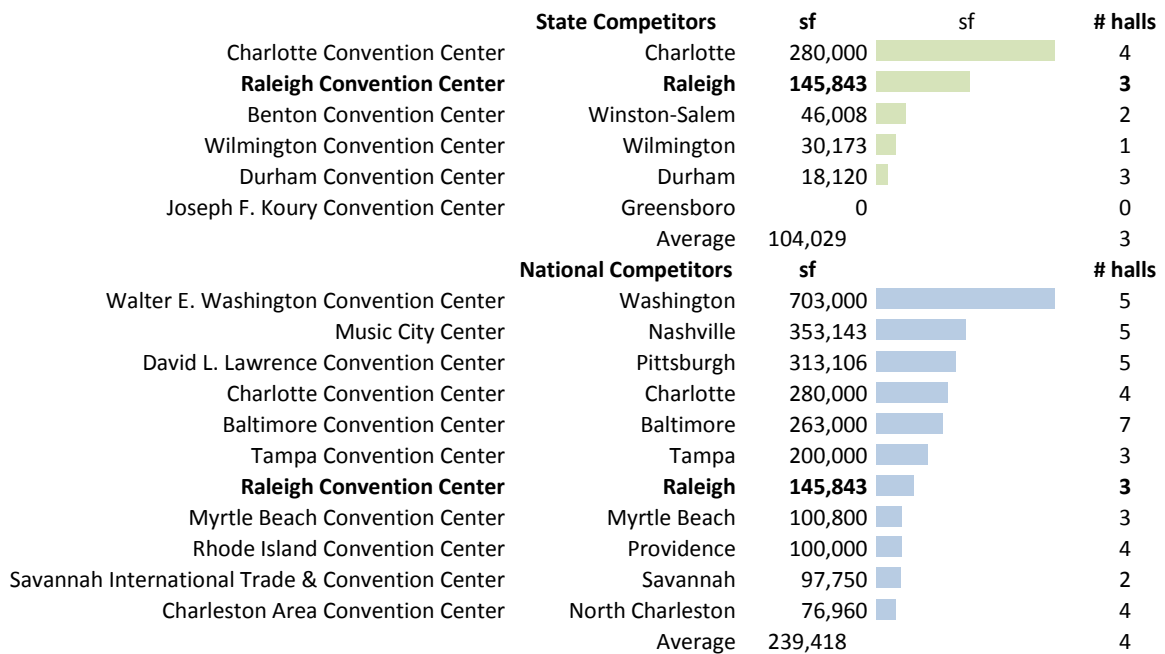
Name of Venue	Location		Total Function Space
State Competitors			
Charlotte Convention Center	Charlotte	NC	406,875
Raleigh Convention Center	Raleigh	NC	211,061
Joseph F. Koury Convention Center	Greensboro	NC	100,746
Benton Convention Center	Winston-Salem	BC	83,818
Wilmington Convention Center	Wilmington	NC	47,638
Durham Convention Center	Durham	NC	35,700
National Competitors			
Walter E. Washington Convention Center	Washington	DC	872,770
Music City Center	Nashville	TN	500,593
David L. Lawrence Convention Center	Pittsburgh	PA	423,046
Baltimore Convention Center	Baltimore	MD	407,216
Charlotte Convention Center	Charlotte	NC	406,875
Tampa Convention Center	Tampa	FL	278,767
Raleigh Convention Center	Raleigh	NC	211,061
Savannah International Trade & Convention Center	Savannah	GA	143,212
Rhode Island Convention Center	Providence	RI	138,220
Myrtle Beach Convention Center	Myrtle Beach	SC	131,931
Charleston Area Convention Center	North Charleston	SC	101,960

Sources: Respective Venues

Exhibition Space Assessment

Critical for several types of events such as conventions, tradeshow, and consumer shows, the amount and quality of exhibition space determines the size and type of events that a venue can accommodate. A comparison of the exhibition space available at each of the selected comparable facilities provides an indication of Raleigh's overall ability to host larger exhibit-based events.

FIGURE 4-3
TOTAL EXHIBITION SPACE IN COMPARABLE VENUES



Sources: Respective Venues

The 146,000 square feet of exhibit space at the RCC compares favorably with the competitive in-state venues, ranking second only to Charlotte. In-state meeting planners recognize that the RCC can accommodate their exhibit space needs. Compared to the set of national venues the RCC's exhibit hall is below average, indicating that the RCC is not able to accommodate events that many competitive cities can host.

Ballroom Space Assessment

In addition to social events (such as weddings and fundraisers) that host banquets, several other types of events, such as conventions and tradeshow, typically require food services in a ballroom setting. General assemblies at conventions and tradeshow use a ballroom with a theater or banquet set-up. As facility operators attempt to grow food service revenues at their facilities, and event planners seek a higher level of service for their attendees, the size of the ballroom often determines a venue's event size capacity. The figure below compares available banquet space in the competitive and comparable venues.

FIGURE 4-4
BALLROOM SPACE IN COMPARABLE VENUES



Sources: Respective Venues

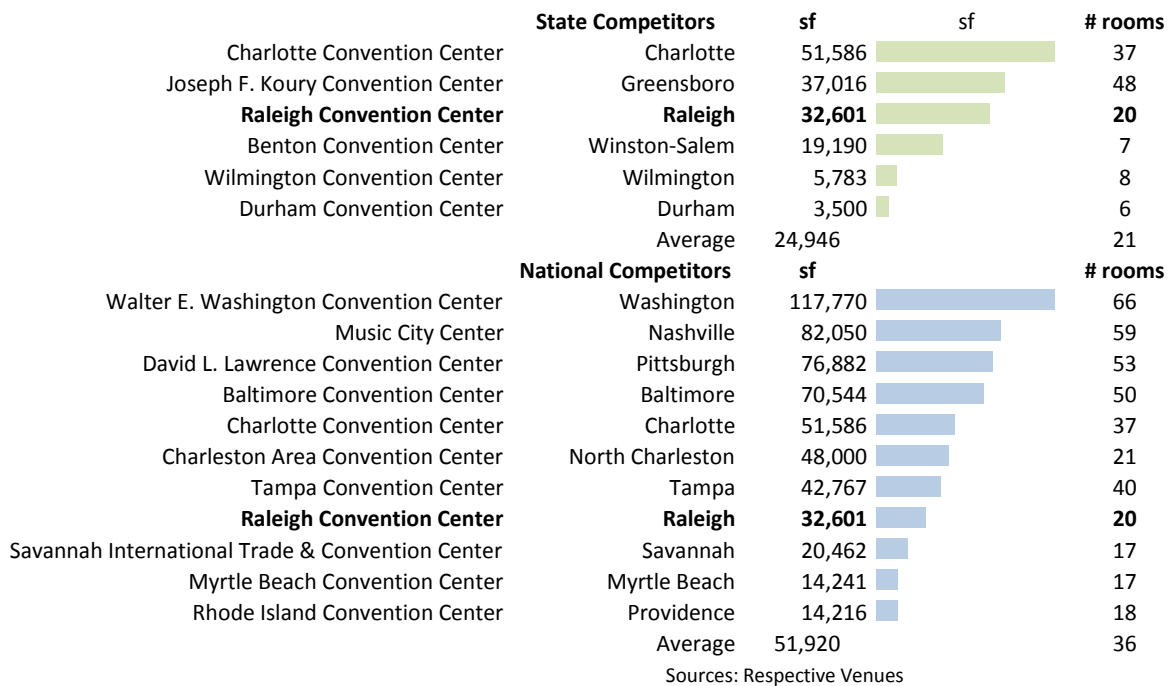
Ballroom space varies for the in-state competitive venues with the RCC housing one of the largest ballrooms in the state. Compared to the national venues, the RCC has a relatively small ballroom. Ballroom designs for newer venues, such as Nashville's Music City Center, recognize the importance of a flexible ballroom and incorporate a large number of divisions to create multiple potential room layouts.

Meeting/Break-out Room Assessment

Meeting rooms can accommodate sub-groups as they break out of larger general sessions at conventions and tradeshow. Additionally, these smaller rooms can support self-contained meetings, training sessions, seminars, classes, and a variety of small meeting needs. A facility's meeting rooms are often its most frequently used function spaces. Convention centers should offer meeting space proportionate to the amount of exhibition and ballroom space available at the facility. However, the optimum amount of meeting space can vary depending on a facility's target market.

The following figure presents a comparison of available meeting space.

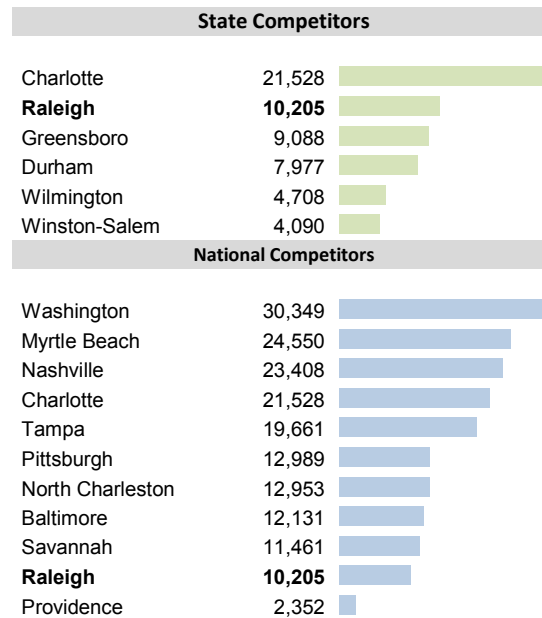
FIGURE 4-5
MEETING SPACE IN COMPARABLE VENUES



The RCC offers an above average amount of meeting room space in the state and offers less than venues in Charlotte and Greensboro. Compared to the average of comparable national venues, the RCC offers less meeting space and fewer meeting rooms. Four of the national competitors house more than twice the meeting space available at the RCC.

Hotel Capacity

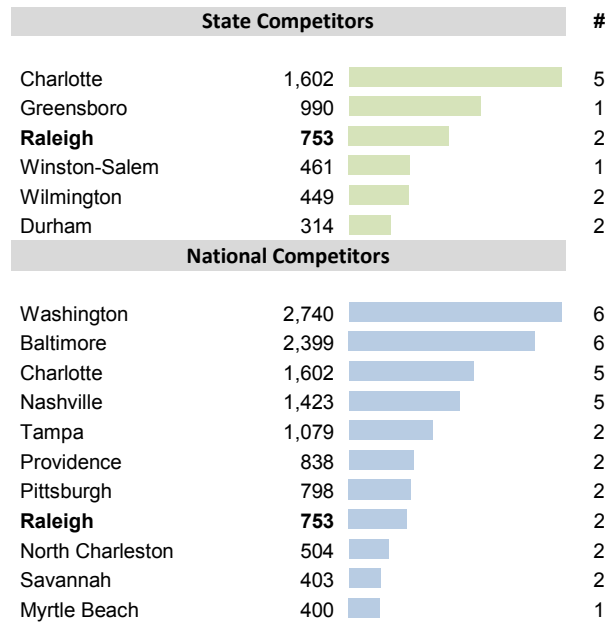
The quality and proximity of hotel supply represents one of the most important selection factors for facility users in recent years. To attract out-of-town groups, an adequate supply of hotel rooms should support the lodging needs of delegates, exhibitors, and other attendees. Event planners consider proximity and connectivity critical factors when evaluating the overall hotel packages available in competing communities. The number of rooms offered at hotels adjacent or connected to the convention center is the key point of comparison. Other important factors include hotel brands, service levels, building ages, management teams, ease of access, and availability of meeting and banquet spaces in these hotels. HVS analyzed three measures of hotel capacity. These include 1) total city-wide hotel rooms, 2) the number of hotel rooms within walking distance the convention center, and 3) the number of hotel rooms in a property adjacent and connected to the convention center. The figures below compare these factors for each competitive market.

FIGURE 4-6
CITY-WIDE HOTEL ROOMS

Sources: STR

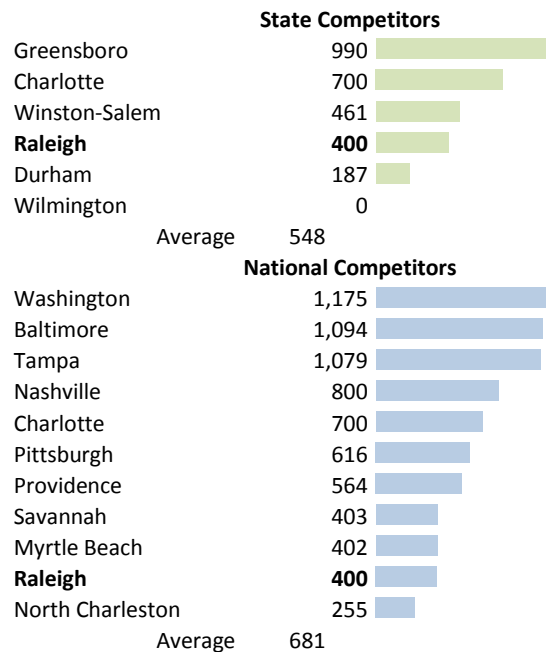
For the above analysis, HVS defined city-wide hotel rooms as those located within the city limits. The City of Raleigh contains a relatively large number of hotel rooms in the state but offers about half the rooms found in Charlotte. Compared to the national competitors, the number of Raleigh's city-wide hotel rooms is well below average.

FIGURE 4-7
HOTEL ROOMS WITHIN WALKING DISTANCE



Sources: STR, HVS

For the above analysis, HVS defined walking distance as within four city blocks of the convention center and added hotel rooms in properties that fit this criterion. Most of the above counts represent multiple properties as indicated to the right of the bar. On the state level, Raleigh falls below Charlotte and Greensboro but is favorable when compared to the other state competitors. On the national level, the majority of competitive cities offer a much greater number of rooms proximate to their convention centers.

**FIGURE 4-8
ADJACENT HOTEL ROOMS**

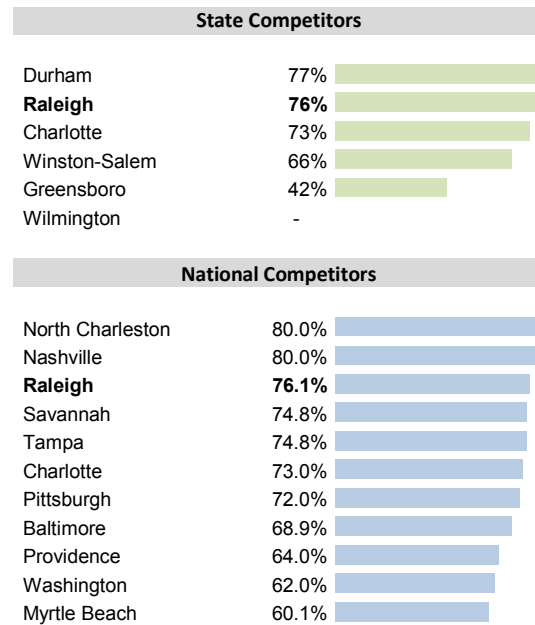
Sources: Respective Venues

Adjacent hotel rooms offer meeting planners the ability to host an event under one roof, a highly desirable feature. The 400 rooms at the Marriott Raleigh City Center create a package with far fewer hotel rooms than most national competitors and many at the state level, limiting the City's ability to book events.

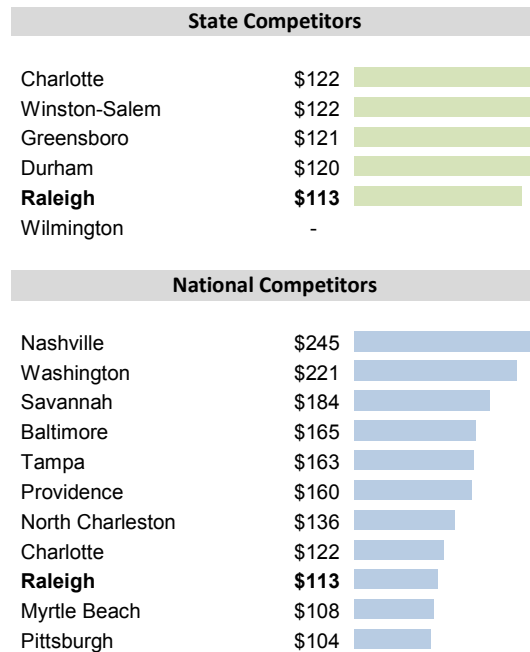
Hotel Occupancy and ADR

The following figures compare hotel occupancy and average daily rate ("ADR") for properties adjacent to respective convention centers. HVS used a blended rate and occupancy for venues that have more than one adjacent hotel property.

FIGURE 4-9
ADJACENT HOTEL OCCUPANCY



Source: HVS

FIGURE 4-10
ADJACENT HOTEL ADR

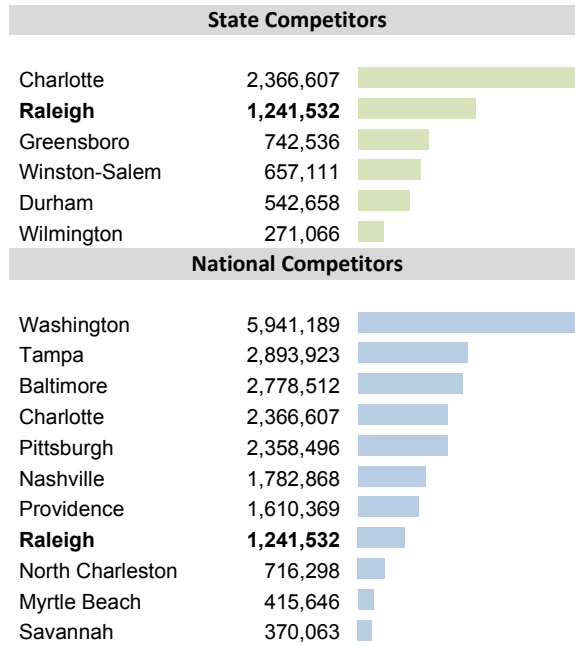
Sources: HVS

For both sets of hotels, the Marriott Raleigh City Center has one of the highest occupancy rates and lowest ADR. The Sheraton hotel attached to the Koury Convention Center in Greensboro has the lowest occupancy rate at just 42 percent. Raleigh has the lowest ADR at \$113.

Market Population and Income

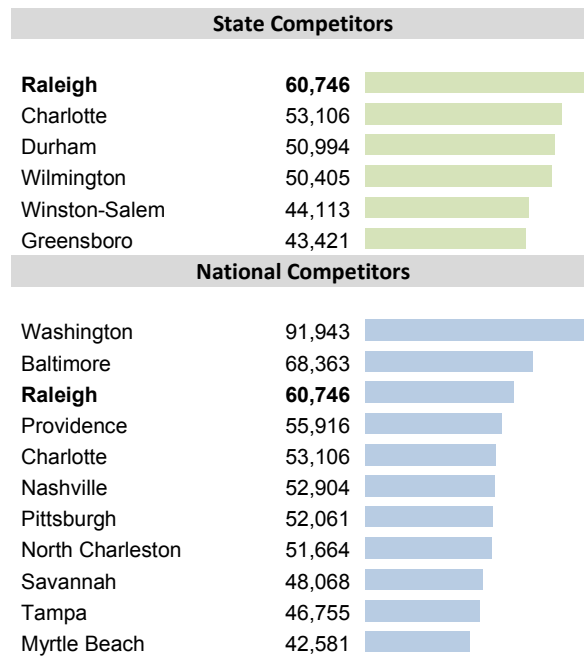
Local area population data can provide evidence of a community's overall economic size and ability to support public services and visitor amenities for convention center users. Because most convention centers primarily target out-of-town users, local area population figures rarely have a direct correlation with overall demand potential. However, population and income data can provide a basis for understanding a community's surrounding neighborhood, market, and ability to support and sustain a convention center. Additionally, the population can determine the demand potential for certain types of events such as locally-generated meetings, banquets, religious events, graduation ceremonies, and consumer shows. The following figures present metropolitan population and median household income data for the markets surrounding the two comparable venue sets.

FIGURE 4-11
METRO POPULATION OF COMPARABLE MARKETS



Sources: Esri

FIGURE 4-12
MEDIAN HOUSEHOLD INCOME OF COMPARABLE MARKETS



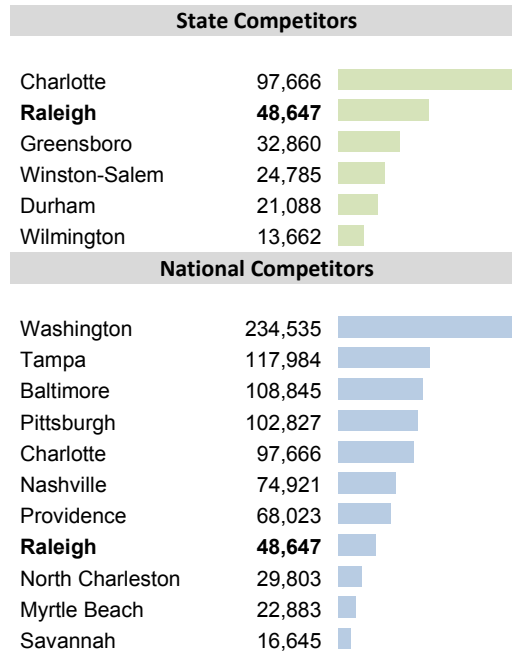
Sources: Esri

One of the largest markets for the in-state competitive set, the Raleigh metropolitan population is below average compared to the competitive national markets. Raleigh's median household income proves above average when compared to both venue sets. While an in-state leader, Raleigh's population demonstrates a more limited ability to drive demand at a convention center compared to its competitors.

Corporate Comparison

The density and breadth of a city's corporate base indicate demand potential in the meetings industry. Businesses generate demand for conventions, conferences, trainings, and other industry-specific events. The following figures demonstrate how the Raleigh metropolitan area compares with the competitive and comparable markets with respect to the total number of business establishments.

FIGURE 4-13
NUMBER OF BUSINESS ESTABLISHMENTS
IN COMPETITIVE MARKETS



Sources: Esri

Similar to market population, Raleigh has an above average number of business establishments compared to the in-state competitive set, which suggests a stronger corporate base from which to draw event demand. Most of the comparable national venues have stronger corporate bases, pushing Raleigh's number of business establishments below the average and suggesting lower ability to generate event demand.

Air Service Capacity

Transportation links, including airports, play a critical role in the success of convention centers that target regional and national user groups. As one of the best indicators of an airport's ability to enhance a convention center's draw, air service capacity, measured as total annual passenger volume, indicates the relative convenience of a destination. The following figure presents 2014 passenger traffic data for the primary airports serving the competitive sets.

FIGURE 4-14
AIR SERVICE AT PRIMARY AIRPORTS IN COMPETITIVE MARKETS

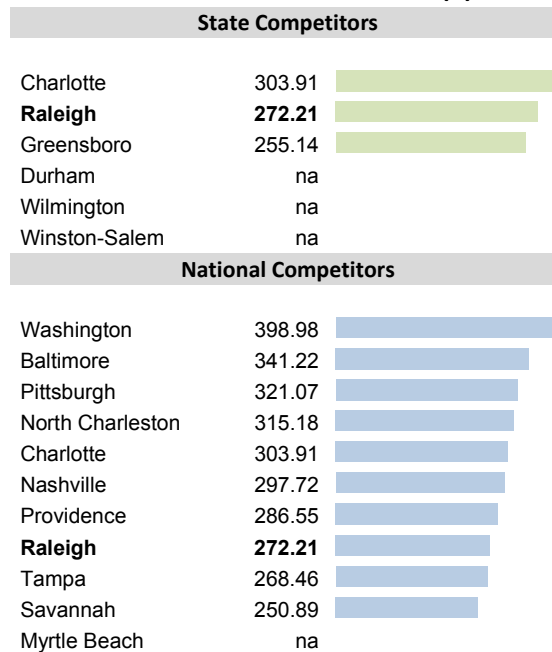


Sources: Respective Airports

The passenger counts at Raleigh-Durham International Airport, which serves the Raleigh area, indicate a moderate, but below average level of capacity for out-of-state travel. Except Charlotte and Durham, most in-state competitors would not compete with Raleigh events with a large out of state base of attendees.

Travel Cost Comparison

Travel costs associated with attending a convention center event can contribute to a facility's overall ability to attract delegates, exhibitors, and attendees. High travel costs can become a deterrent for certain types of groups in a facility's potential market whereas low travel costs can be a competitive advantage in attracting certain price-sensitive groups. The following figure compares a corporate travel index that combines the three primary travel expense categories: hotel accommodations, meals, and car rentals. Business News publishes a corporate travel index for the 100 largest U.S. markets. The report does not include some of the comparable cities in this analysis.

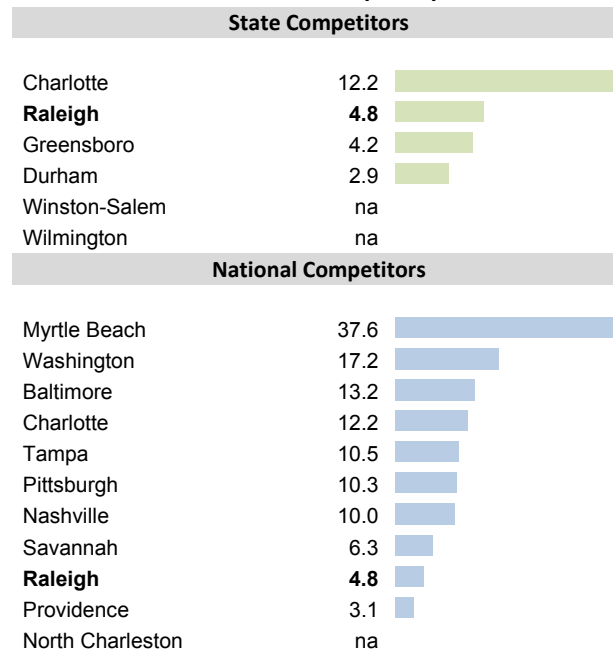
FIGURE 4-15
CORPORATE TRAVEL INDEX (\$)

Source: Business News

Business travel costs in the Raleigh area fall in the mid-range of the two competitive sets. Business Travel in Raleigh is less expensive than larger metropolitan areas, such as Washington D.C., Charlotte, and Nashville. However, several smaller markets are less expensive and would be more attractive to price-sensitive groups.

CVB Budget

HVS compared the total budget for the competitive markets' convention and visitor's bureau ("CVB"). CVB funds typically fund both tourism and group meetings sales and marketing efforts. Markets with economies that rely heavily on tourism will have higher CVB budgets than those which are not considered tourism destinations. The following figure compares available CVB budgets of the competitive markets.

FIGURE 4-16
CVB BUDGET (\$MIL)

Source: DMAI

While considerably lower than Charlotte's, Raleigh's CVB budget is higher than most state competitors. Compared to the national competitors, Raleigh's CVB has an operating budget well below the average.

Competitive Destination Rankings

HVS ranked Raleigh among in-state and national competitors on the destination selection criteria discussed in this report, with one being the highest rank in each category. The figures below show Raleigh and its competitive markets' rank on each criterion and the overall rank.

FIGURE 4-17
RANKING OF COMPETITIVE IN-STATE MARKETS

Destination	Total Function Space	Adjacent Hotel Capacity	Hotel Rooms Within Walking Distance	City-wide Hotel Rooms	Airport Passengers	MSA Population	MSA Median HH Income	Number of Businesses	Corporate Travel Index (\$)	CVB Budget (\$mil)	Overall Rank
Charlotte	1	2	1	1	1	1	2	1	6	1	1
Raleigh	2	4	3	2	2	2	1	2	5	2	2
Greensboro	3	1	2	3	4	3	6	3	4	3	3
Winston-Salem	4	3	4	6	6	4	5	4	1	5	4
Durham	6	5	6	4	3	5	3	5	3	4	5
Wilmington	5	6	5	5	5	6	4	6	2	6	6

Compared to the five other markets in North Carolina, Raleigh has the second highest overall rank, suggesting the greater potential to generate meeting and convention demand than most in state markets.

FIGURE 4-18
RANKING OF COMPETITIVE NATIONAL MARKETS

Destination	Total Function Space	Adjacent Hotel Capacity	Hotel Rooms Within Walking Distance	City-wide Hotel Rooms	Airport Passengers	MSA Population	MSA Median HH Income	Number of Businesses	Corporate Travel Index (\$)	CVB Budget (\$mil)	TOTAL Rank
Washington	1	1	1	1	3	1	1	1	11	2	1
Baltimore	4	2	2	8	2	3	2	3	10	3	2
Charlotte	5	5	3	4	1	4	5	5	7	4	3
Tampa	6	3	5	5	4	2	10	2	3	5	4
Nashville	2	4	4	3	5	6	6	6	6	7	5
Pittsburgh	3	6	7	6	7	5	7	4	9	6	6
Raleigh	7	10	8	10	6	8	3	8	4	9	7
Providence	9	7	6	11	8	7	4	7	5	10	8
Myrtle Beach	10	9	11	2	11	10	11	10	1	1	9
Savannah	8	8	10	9	10	11	9	11	2	8	10
North Charleston	11	11	9	7	9	9	8	9	8	11	11

Compared to ten national markets, Raleigh ranks at or below average for all destination criteria resulting in an overall rank of seventh. Raleigh is noticeably inferior in all three hotel-related criteria.

Conclusions and Implications for Raleigh

On the state level, Raleigh is a strong competitor for association and local corporate group business. Charlotte remains the strongest competitor, while other state markets, such as Greensboro, have made significant efforts to improve their event infrastructure and overall competitiveness. Without improvement, Raleigh may begin to lose market share to these smaller markets in North Carolina.

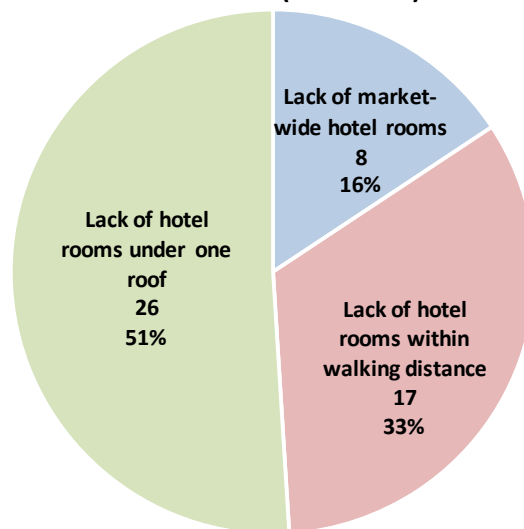
Raleigh's overall market size, demographics, and group event infrastructure reflect a mid-sized market with a slightly below average demand potential compared to the national markets with which it will compete for group meetings business.

Lost Business Analysis

Visit Raleigh is the primary sales and marketing organization dedicated to bringing conventions and other group events to the Raleigh metropolitan area. The organization works with the RCC, local hotels, and other venues to solicit business through proposals and other marketing efforts. Visit Raleigh provided HVS with a summary of several recently lost convention and trade show events. This list contains events that would have taken place from 2010 through 2015 and includes over 90 events and nearly 260,000 lost room nights. HVS reviewed this data and categorized the lost business into the primary reason for the event not hosting in Raleigh. Approximately half of the events and 60% of the room nights were lost due to insufficient hotel rooms, either city-wide or in close enough proximity to the RCC. The following figures summarize these lost events and room nights into the specific reasons Raleigh hotels were inadequate.

FIGURE 4-19

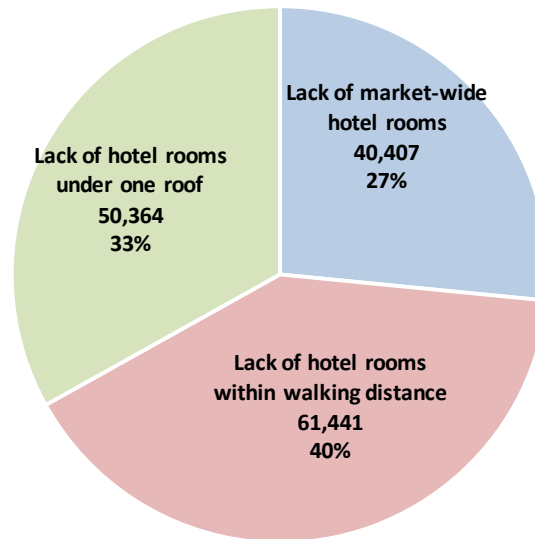
TOTAL LOST EVENTS (2010-2015)



Source: Visit Raleigh

FIGURE 4-20

TOTAL LOST ROOM NIGHTS (2010-2015)



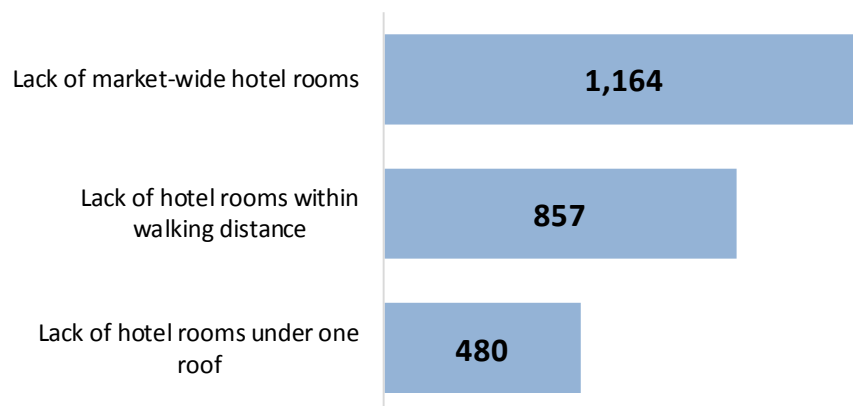
Source: Visit Raleigh

Around one-half of events and one-third of room nights were lost due to inadequate amounts of hotel rooms under one roof. The RCC lost a plurality of the room nights due to insufficient hotel rooms within walking distance of the RCC.

The following figure provides the average peak room nights by reason for the lost business tracked by Visit Raleigh.

FIGURE 5-21

AVERAGE PEAK ROOM NIGHTS FOR LOST BUSINESS (2010-2015)



The above analysis suggests that to recapture lost events, Raleigh should be able to provide at least 1,200 rooms market-wide, 900 rooms within walking distance of the RCC, and approximately 500 rooms attached to the RCC.

Demand Projections

HVS projected RCC event demand assuming the development of a 400-room full-service property adjacent to the RCC. (See Section 5 of this report for a more detailed discussion of full-service hotel development.) For the purposes of this analysis, HVS assumes that the 400-room hotel would open by 2018. By 2018, the total available room block for RCC events would grow to approximately 1,100 rooms. With a larger room block, the RCC could capture a greater number of high impact conventions and conferences and accommodate a greater number of lower impact events, such as meetings and smaller conferences. As a comparison, HVS also projected a baseline, “do-nothing” scenario if the proposed 400-room property is not built. The following figures compare the RCC event and attendance demand with and without the development.

FIGURE 4-22

Estimated Number of Events

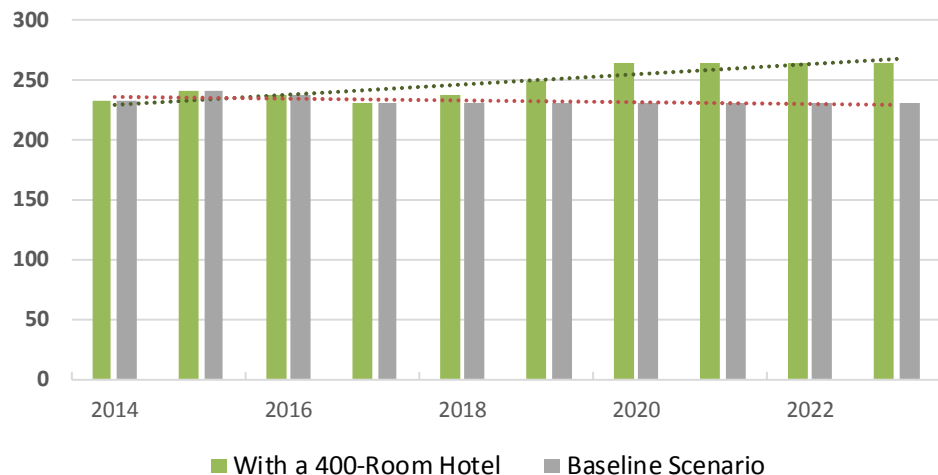
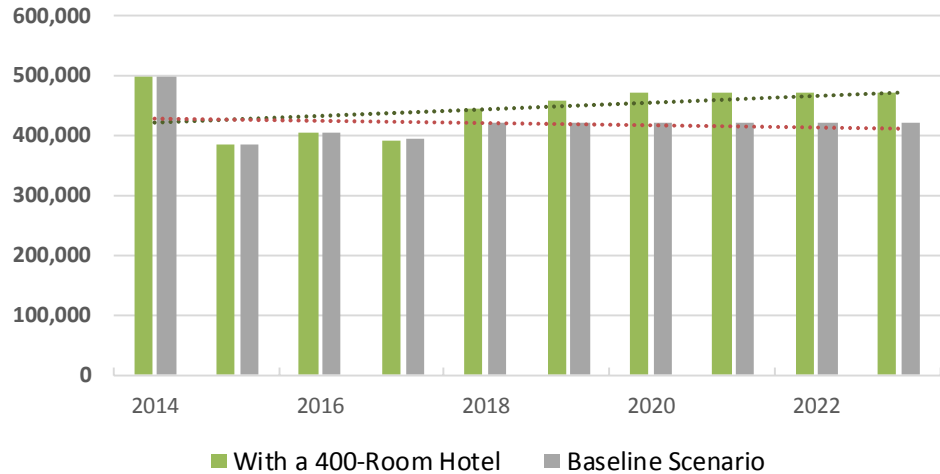


FIGURE 4-23

Estimated Attendance



The development of the 400-room hotel would increase RCC activity by 34 events attracting approximately 51,000 additional attendees.

Room Night
Projections

HVS calculated the potential generation of room nights by the increased use of the RCC. These room nights represent the total room nights generated in the Raleigh metropolitan area by the operations of the RCC. The following figure presents the assumptions used to generate room night estimates. HVS based room night assumptions on historical RCC data and information provided by Visit Raleigh.

FIGURE 4-24

ROOM NIGHT ASSUMPTIONS

Type of Event	Length of Stay	Percent Lodgers
Conventions	2.50	33%
Tradeshows	1.50	33%
Consumer Shows	1.00	8%
Conferences	2.00	33%
Meetings	1.00	25%
Banquets	1.00	7%
Assemblies	1.00	10%
Competitions	1.25	48%

The following figure presents an estimate of room nights generated by the RCC prior to and following the hotel development in a stabilized year of demand.

FIGURE 4-25
ROOM NIGHT FORECAST

Type	Historical (2014 Base)	After Development	Change
Conventions	36,300	54,100	17,800
Tradeshows	3,500	4,800	1,300
Consumer Shows	6,900	6,900	0
Conferences	18,700	27,600	8,900
Meetings	3,900	4,600	700
Banquets	1,200	1,200	0
Assemblies	3,300	5,500	2,200
Competitions	20,500	20,500	0
Total	94,300	125,200	30,900

HVS projects that the proposed hotel development would induce approximately 31,000 room nights due to increased activity at the RCC.

In addition to increased activity at the RCC, HVS projects that the 400-room hotel would induce 15,000 additional room nights into the market from “in-house” group business generated by its national sales force. By a stabilized year of demand, the total impact of the hotel would, therefore, be 46,000 annual room nights.

HVS intends demand projections to show the expected levels of event numbers, attendance, and room night generation. Projections show smooth growth over time. However, event demand and booking cycles do not always move smoothly. Business can shift due to unpredictable local and national economic factors. Event demand often runs in cycles based on rotation patterns and market conditions. HVS demand projections should be interpreted as a mid-point of a range of possible outcomes and as an average of multiple years.

5. Hotel Development Strategies

In this section, HVS explores strategies to encourage hotel development in downtown Raleigh. Section 2 of this report described a baseline scenario of hotel supply and demand that is likely to occur in the absence of any extraordinary public efforts to incentivize hotel development. Using this baseline scenario as a starting point, we tested alternative scenarios of new hotel development. We discuss approaches to incentivizing private investment in the desired hotel supply.

In the absence of public incentives for hotel development, future growth in room supply and demand is most likely to occur in smaller boutique and select-service properties between 100 and 200 rooms. Most of the new supply of rooms is likely to occur outside of downtown. This scenario would limit downtown business travel and tourism growth for the following reasons.

- Surveys of event planners, lost business reports, and comparisons to other cities demonstrate that RCC demand cannot grow due to lack of a supportive hotel room supply. The RCC will struggle to maintain existing levels of events and attendance unless appropriate hotel development occurs.
- Our interviews with business leaders revealed that the lack of hotel supply in downtown Raleigh inhibits business expansion. Existing businesses (Citrix, Red Hat, PNC, et. al.) reluctantly place group business and transient guests outside the downtown area. Businesses considering locating or expanding in downtown Raleigh desire adequate lodging supply to support their individual and group travel needs.

Downtown Raleigh faces significant barriers to the development of full-service hotels.

- Competition for residential, commercial, and retail land uses presents challenges for land assembly. Land costs are typically higher in the downtown area than in suburban locations.
- Compared to most other large cities, the average daily room rates in downtown Raleigh are low. Consequently, the net operating income generated by downtown hotels does not support the high cost of full-service hotel development.

The Downtown Experience Plan

- The need for structured parking increases construction costs and places downtown sites at a disadvantage to suburban locations that use surface parking.

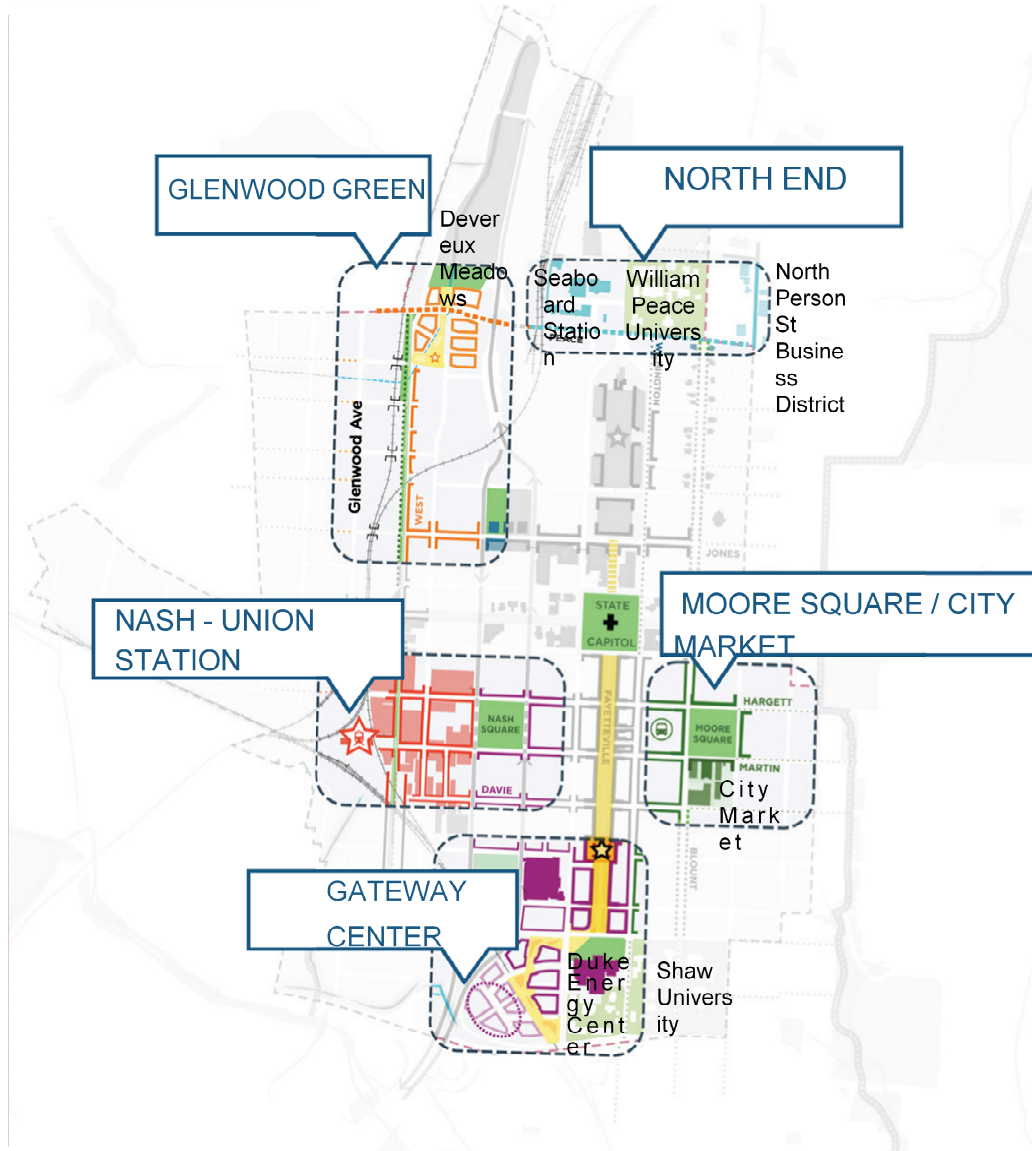
Although credit market conditions are favorable for hotel financing, barriers to development give rise to the need for incentives to induce new full-service hotel development.

Over the past decade, downtown Raleigh has experienced a remarkable renaissance. The 2003 Livable Streets Plan provided a framework for its growth. Fayetteville Street converted from a sleepy pedestrian mall to a vibrant thoroughfare. Red Hat Amphitheater and special events such as the beer festival and the marathon draw thousands of visitors to the downtown area each year. Public investment in street improvements, the RCC, the Marriott Raleigh City Center, and other infrastructure stimulated private investment in commercial, restaurant, residential, and retail development.

The success of the past decade brings new development challenges and opportunities. Interviews with downtown stakeholders reveal optimism about the prospects of future development but uncertainty about its future direction. One observer described downtown Raleigh as being in an “adolescent” phase of development. Despite rapid growth, downtown development has not reached maturity. Business growth has occurred from within Raleigh and the downtown has not attracted relocations of corporate headquarters from other cities, the region, or the Research Triangle.

To provide a framework for future development, the City of Raleigh recently completed a second ten-year master planning exercise, as documented in the “Downtown Experience Plan.” The plan provides a vision for land use development and transportation access. It identifies five catalytic project areas and suggests development priorities within each area. The figure below provides an illustration of the catalytic project areas.

**FIGURE 5-1
CATALYTIC PROJECT AREAS**



Source: City of Raleigh Downtown Experience Plan

The plan anticipates hotel development in the three development areas closest to the RCC but does not exclude hotel development in any area. The Gateway Center encompasses the RCC, the Duke Energy Center for the Performing Arts, and Red Hat Amphitheater. The planning document states that “this area is the only part of downtown capable of accommodating multiple blocks of large-footprint mixed-use development.” Proximity to the RCC and entertainment

venues makes the Gateway Center an obvious location for group meeting demand and therefore, the best opportunity for full-service hotel development.

Other catalytic project areas may lend themselves better to high-quality select service and boutique hotels that primarily serve transient demand. Adjacency to commercial and residential land uses would allow hotels in these areas accommodate the growth in business and leisure demand.

Adaptive Reuse

Downtown Raleigh offers a few opportunities for the adaptive reuse of existing buildings as lodging facilities. Conversion of the Sir Walter Raleigh from its current residential use to a luxury hotel presents the most obvious opportunity. But, relocation of current residents who receive housing subsidies raises political concerns. Overcoming this opposition to the project will most likely require engaging in a lengthy public process that allows community members to formulate an acceptable relocation plan. Given the costs associated with relocation, some form of public financial support may be necessary to incentivize this development. Redevelopment of the Sir Walter Raleigh could address the complete lack of any luxury hotel products in downtown Raleigh.

Convention Center Hotel Development

This report provides overwhelming evidence that the lack of hotel room supply is the primary barrier to growth in RCC demand. After its initial burst of success in attracting regional and state convention business, the RCC has been unable to grow its book of business. Regional and national conventions require larger room blocks than Raleigh currently offers. Furthermore, hotel occupancy growth has exacerbated the problem of room block availability, as increased transient demand has crowded out group business.

Public incentives for new full-service hotel development should strike a balance between two conflicting objectives: 1) expand the downtown Raleigh room block to support event planner needs, and 2) avoid an oversupply of rooms that would depress market occupancy and rate. Survey results presented earlier in this report indicate that convention events require an average of 1,000 rooms during a peak night. Most prefer a room block spread over no more than four hotels. And, these hotels should be within walking distance of the RCC.

A 400-room full-service hotel in the Gateway Center would support the RCC and not cause significant disruption in the hotel market. Four hundred additional rooms added to existing supply would offer over 1,350 rooms within walking distance of the RCC. This supply would include the Marriott Raleigh City Center (400 rooms), the Sheraton Raleigh (353 rooms), and another new hotel with approximately (200 rooms). Hotel operators seeking

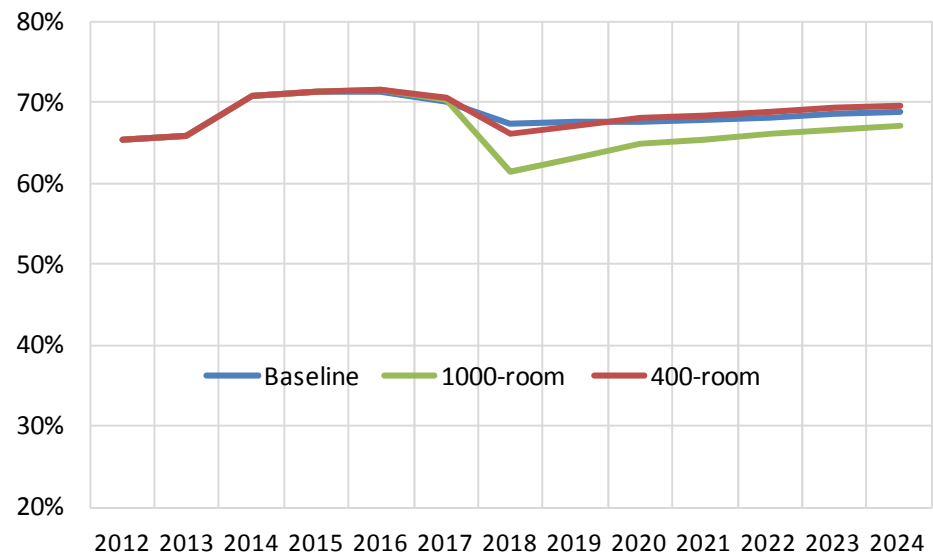
to maximize revenues and serve their loyal guests will not commit their entire room inventory to a convention event. Room block commitments of 75% of this inventory could provide an acceptable room block for most event planners.

HVS tested the impact of an additional 400-rooms on market occupancy using the following assumptions:

- All known new hotel room supply will be open in 2015 through 2018.
- We assume available room nights will continue to grow: 7.2% in 2016 and 7.5% in 2017 (due to new supply introduced in 2016).
- A 400-room convention hotel would open in 2018, which along with other new supply would cause a 17% increase in available room nights by 2018.
- Supply would grow annually at approximately 2.0% in 2019 and thereafter.
- Demand would grow as projected in the baseline scenario presented in Section 2 of this report.
- As estimated in Section 4 of this report, new RCC events and in-house groups in the proposed hotel would induce 46,000 new room nights into the market in a stabilized year of operation.

Using these assumptions, we estimated market occupancy for a scenario in which a 400-room hotel enters the market. We compared this scenario to the market occupancy in the baseline scenario presented in Section 2 of this report. We also tested a third scenario in which a 1,000-room property would be developed rather than the recommended 400-room hotel. The figure below compares market occupancy in these three scenarios.

FIGURE 5-2
ESTIMATED MARKET OCCUPANCY FOR THREE DEVELOPMENT SCENARIOS



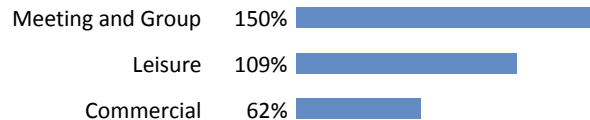
Historical occupancy in the downtown Raleigh hotel market ranges from 65% to 71%. In the baseline scenario, we project 67% occupancy in 2018, which would grow to a stabilized level of 68% by 2022. In the 400-room scenario, occupancy would dip to 66% but recover to a stabilized rate of 69% by 2022. In the 1000-room scenario, occupancy falls to 61% in 2018 and only recovers 67% during the projection period.

Feasibility Analysis

A hotel development is considered feasible if the value of the hotel equals or exceeds the amount of required capital investment. A hotel's value can be determined by estimating the present value of its net cash flows. HVS estimated the potential gap between capital cost and value of a hypothetical 400-room hotel using a discounted cash flow analysis.

As the first step, we estimated the occupancy and rate of the hotel using a market penetration analysis. The market penetration of existing hotels (as described in Section 2 of this report), particularly the Marriott Raleigh City Center, provides the best indication of how a new 400-room property would perform. The figure below shows our estimates of occupancy penetration.

**FIGURE 5-3
OCCUPANCY PENETRATION OF A
400-ROOM FULL SERVICE HOTEL**



We assume that the hotel will over penetrate the meetings and group market due to its proximity to the RCC and its ability to generate in-house group demand. Leisure penetration should also be strong because of brand loyalty and a location near entertainment venues downtown. Due to its location away from sources of commercial demand, the property would under penetrate this segment.

Based on these penetration factors, the hotel could achieve the occupancy rates shown in the figure below.

**FIGURE 5-4
ROOM NIGHT ABSORPTION AND OCCUPANCY ESTIMATES**

	2018	2019	2020	2021	2022
Available Room Nights	146,000	146,000	146,000	146,000	146,000
Absorption by Segment					
Commercial	24,000	27,000	29,000	29,000	29,000
Meeting and Group	39,000	45,000	50,000	50,000	51,000
Leisure	20,000	21,000	21,000	21,000	21,000
Total Absorption	83,000	93,000	100,000	100,000	101,000
Projected Occupancy	57%	64%	68%	68%	69%
Percent Segmentation					
Commercial	29%	29%	29%	29%	29%
Meeting and Group	47%	48%	50%	50%	50%
Leisure	24%	23%	21%	21%	21%

New hotels typically take several years to reach a stabilized occupancy, especially properties with meeting and group segments. We assume that occupancy would stabilize in the upper 60% range after four years of operation.

The figure below compares estimates of the average daily room rates of the 400-room hotel and the market.

FIGURE 5-5
ESTIMATED AVERAGE DAILY ROOM RATE



Like the Marriott Raleigh City Center, the new hotel would be a rate leader, and its ADR would exceed the average of the market as a whole.

HVS used its forecast of room night demand and average rates to calculate rooms revenue. The number of guests drives most of the other revenue sources (such as food, beverages, and telephone income).

We estimated income and expenses for a stabilized year of operation. The stabilized year reflects the anticipated operating results of the property over its remaining economic life, given any or all applicable stages of build-up, plateau, and decline in the life cycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses. The figure below shows estimated income and expenses of the 400-room hotel in a stabilized year of operation.

FIGURE 5-6
OPERATING ESTIMATE FOR A STABILIZED YEAR

STATISTICS		
Number of Rooms	400	
Occupied Room Nights	100,740	
Occupancy	69%	
Average Rate	\$207.50	
RevPAR	\$143.17	
	\$000	% of Gross
Revenue		
Rooms	20,903	66.1%
Food	7,338	23.2%
Beverage	2,001	6.3%
Other Operated Departments	1,067	3.4%
Miscellaneous Income	300	0.9%
Total Revenue	\$31,610	100%
DEPARTMENTAL EXPENSES		
Rooms	\$4,599	22.0%
Food & Beverage	5,977	64.0%
Other Operated Departments	534	50.0%
Total Expenses	\$11,110	35.1%
DEPARTMENTAL INCOME	\$20,500	64.9%
UNDISTRIBUTED OPERATING EXPENSES		
Administrative & General	\$2,384	7.5%
Marketing	1,457	4.6%
Prop. Operations & Maint.	1,060	3.4%
Utilities	954	3.0%
Total	\$8,331	26.4%
GROSS HOUSE PROFIT	\$12,169	38.5%
Management Fee	948	3.0%
INCOME BEFORE NON-OPER. INC. & EXP.	\$11,221	35.5%
NON-OPERATING INCOME AND EXPENSE		
Property Taxes	821	2.6%
Insurance	\$185	0.6%
Reserve for Replacement	1,264	4.0%
Total	\$2,271	7.2%
NET OPERATING INCOME	\$8,950	28.3%

*Departmental expense ratios are calculated as a percentage of departmental revenue.

In a stabilized year of operations, approximately \$9.0 million would be available to pay debt service and provide a return on equity. We used a discount cash flow analysis to estimate the present value hotel net operating income. This analysis separates the value of the debt and equity components of the valuations using the assumptions shown in the figure below.

FIGURE 5-7
PRELIMINARY ASSESSMENT OF FEASIBILITY

Assumptions	
Loan-To-Value Ratio	70.0%
Interest Rate	5.0%
Equity Yield	17.0%
Transaction Costs	2.0%
Terminal Capitalization Rate	9.0%
Value	
Mortgage Component	\$64,986,000
Equity Component	\$27,851,000
Total	\$92,837,000
Value Per Key	\$232,000
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	\$27,163,000
\$350 thousand per key	\$47,163,000
\$400 thousand per key	\$67,163,000

The financing assumptions reflect current credit market conditions for financing full-service hotels. HVS relied on its survey of hotel transactions to determine debt-equity splits, yield requirements, and capitalization rates.

Based on these assumptions, a 400-room hotel would have a value of approximately \$93 million or \$232,000 per key. Development costs could range from \$300,000 to \$400,000 per key. Consequently, the funding gap could range from \$27 million to \$67 million. Without knowledge of the site, brand, and quality of the proposed property and in the absence of a specific project plan, these estimates should be considered rough approximations of value and costs. None-

Public Incentives for Hotel Development

the-less, these estimates indicate that significant public incentive would be necessary to incentivize the development of the hotel.

The desire for state and local government to increase visitation and grow their economies motivates public participation in hotel projects. In many cases, local governments also seek to improve the performance of an adjacent convention center and enhance its attractiveness as a destination for conventions, tradeshow, and other events.

Limited-service hotels narrowly focus on providing room services only. Room sales generate high departmental profit margins (75% or more). Full-service properties offer food and beverage and other services, which generate lower departmental profit margins (30% or less). The combination of higher capital costs and lower overall profit margins makes financing full-service hotel more difficult than financing limited-service products.

Full-service hotels typically provide more positive economic impact to a community thereby justifying public investment. Full-service hotels bring sophisticated marketing and sales operations and capacity to induce new meeting and group demand into the local area market. A full-service hotel adjacent to the RCC would further improve the overall group meeting package and thereby, attract new convention center events. The spending of attendees, exhibitors, and event sponsors has positive impacts on local economies.

Types of Public Involvement

Public sector involvement in hotel projects is becoming increasingly common as the high cost of development and limitations on the availability of capital for new hotel investment limits the feasibility of conventional financing. Public involvement in hotel development falls into two categories:

- **Public Financing** – The sponsoring municipality issues tax-exempt debt to cover the cost of constructing and financing the hotel project, accessing the municipal bond market rather than conventional sources of hotel debt and equity. The public owner pledges the net operating income of the hotel for the repayment of the debt. Most often local governments provide some form of credit support or a pledge to repay debt if hotel revenues are not sufficient.
- **Public-Private Partnership (or “PPP”)** – In a PPP, the hotel is owned and developed by the private partner. Public involvement takes the form of a public subsidy that “bridges the gap” between the cost of constructing and financing a hotel project and the debt and equity that a private developer can secure for the project.

HVS Research

North Carolina state law does not allow for public hotel ownership, and a public-private partnership is the only acceptable form of government support.

HVS gathered data on 208 hotel projects initiated over the past three decades, and that involved a significant level of public participation. Of these projects, 176 were successfully financed through public-private partnerships. On 94 of the PPPs, we gathered enough information to estimate the level of public investment. This analysis presents information on the trends in public subsidies in the 94 projects.

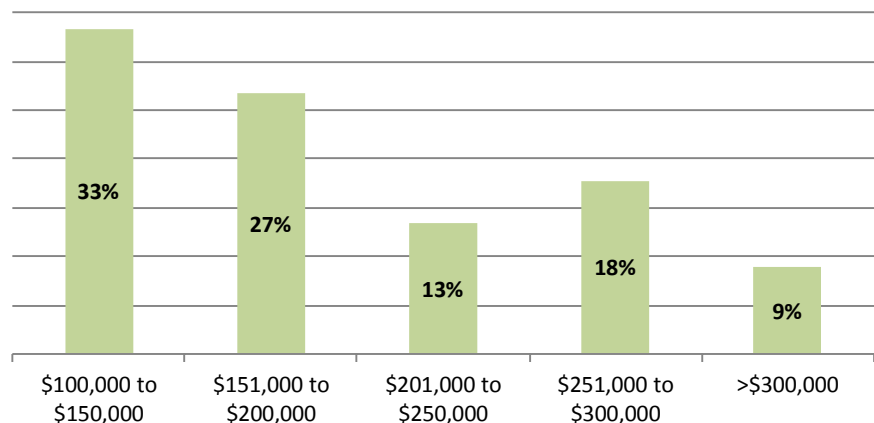
To perform our research HVS relied on the following data sources:

1. An HVS proprietary database that tracks hotel sales transactions and operating histories,
2. HVS database of prior hotel research reports that contained information on some hotel transactions that involved public financing or PPPs,
3. Publicly available offering statements and other prospectuses on hotel transactions,
4. Third party information on projects including industry and general media sources, and
5. First-hand knowledge of certain projects based on prior involvement in consulting activities related to the project.

Project Costs

The project costs average \$78 million, or roughly \$200,000 per key. But, hotel projects have a wide range of costs as shown in the figure below.

FIGURE 5-8
DISTRIBUTION OF COST PER ROOM



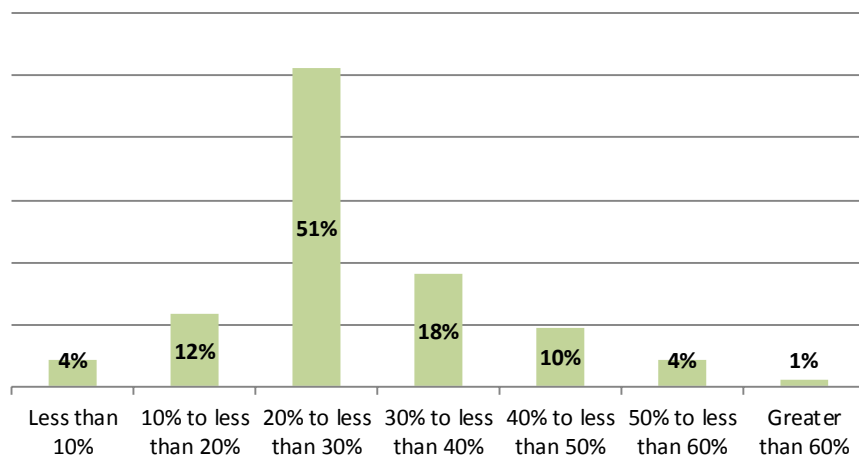
Estimates of Public Participation

Per-room project costs vary based on impacts of inflation, variance in local construction costs, and differences in the hotel quality. As indicated earlier, full-service properties have higher per-room project costs than limited service hotels.

Where sufficient information was available, HVS estimated the level of public participation as a percentage of total project costs. For some projects in which sponsoring governments provided some form of tax abatement or a cash subsidy, the estimate of public participation was straightforward. For other projects that involved loans, loan guarantees, subordinated land leases, and other forms of project support, the available information did not allow for reliable estimates of the amount of public participation.

The figure below presents a distribution of the estimated percentage of public participation in hotel public-private partnerships.

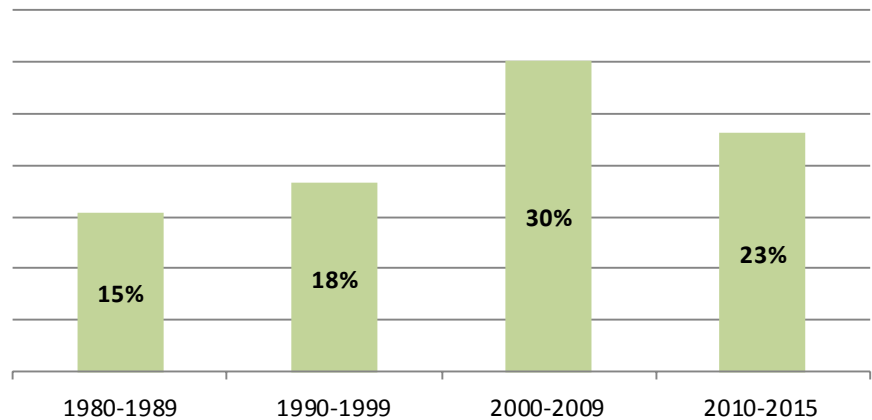
FIGURE 5-9
DISTRIBUTION OF PUBLIC PARTICIPATION IN 96 PPPS



Approximately half of the PPPs received incentives ranging from 20% to 30%. Only 5% of projects received subsidies greater than 50% of project costs.

The amount of public participation in hotel PPP projects appears to have increased in the past two decades as shown in the figure below.

FIGURE 5-10
TRENDS IN PUBLIC PARTICIPATION IN PPP HOTEL PROJECTS

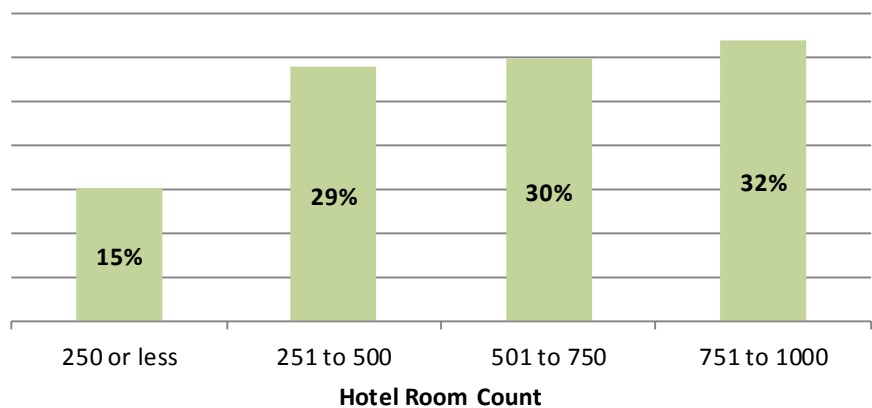


Public participation peaked at 30% in the prior decade, but the data does not show a clear trend in public participation.

**Average Public
Participation by Hotel
Size**

The share of public participation appears to be greater for larger hotels. The figure below shows the share of public participation broken down by hotel room counts.

FIGURE 5-11
SHARE OF PUBLIC PARTICIPATION BY HOTEL SIZE



Hotels with a 751 to 1,000 rooms have a higher percentage of public participation (32%) as compared to hotels with 251 to 500 rooms (29%).

Forms of Public Participation

State law often dictates the forms of allowable public participation except in cities with home rule governments that have broad taxing powers. Public entities have used a wide range of methods to incentivize hotel development.

Local Tax Incentives

Local tax incentives are the most common form of public participation. Reduction of tax burden improves bottom line performance and increases returns on private equity investment. Common forms of tax incentives include:

- Abatement of property taxes or subordination of the property taxes.
- Abatement of hotel lodging taxes collected on the property or redirection of those taxes to the project.
- A pledge of city-wide or special district lodging taxes to support a publicly-financed component of the project.
- Food and beverage tax revenues generated by the property or from a special district.
- General sales taxes or sales taxes from a special district.

Some Federal programs are also available for hotel development.

EB5 Funding

In 1990, the US Congress initiated the Employment-Based Fifth Preference (“EB-5”) program. The purpose of the program is to stimulate economic growth and job creation by attracting foreign investment. This program has been since modified and expanded. Under this program, a foreign investor must invest between \$500 thousand and \$1 million in a qualifying project for five years. A qualifying project must create at least ten full-time jobs for US workers for each investor. In exchange, the investors receive an immigrant visa or green card for themselves and family members. Congress has set aside 10,000 immigrant visas annually under this program. In hotel projects, this source of funding can provide a form of mezzanine financing that displaces equity investment. The substitution away from high-cost equity investment lowers the overall cost of capital.

New Market Tax Credits

New Markets Tax Credits (“NMTC”) enacted by the US Congress in 2000 encourage investment in low-income neighborhoods. A project must fall into a designated census tract. NMTC provides a 39% federal income tax credit for qualifying investments. Using this tax benefit, equity investors may increase the amount of their equity investment.

**Related Infrastructure
Investment**

Direct public investment in related infrastructure has occurred on many projects. These investments may include:

- Street, utility, and other infrastructure improvements,
- Neighborhood beautification,
- Parking structures, and
- Attached hotel function spaces (which are in turn leased back to the hotel operation as less than market rates).

Public investment may be funded with cash reserves or through the issuance of debt. Typically, the government repays the debt with a dedicated revenue source such as lodging taxes or some other revenue source related to the project. Governments rarely use general obligation debt to support hotel projects as this entails potential increases in real estate taxes, sales taxes, or other sources of public funds not related to the project.

Land Assembly

As in Raleigh, land assembly may be a significant barrier to development, especially in high-density downtown areas. Public acquisition of this land through market transaction or eminent domain can remove this barrier. The land may transfer to a private hotel developer through a sale or a long-term lease at less than market rates.

**Raleigh Parking
Ordinance**

The current City of Raleigh parking ordinance requires one space per hotel room. As discussed earlier in this report, the cost of building structured parking in a downtown hotel project drives up project costs. Many cities recognize that in dense urban areas, fewer people rely on cars for transportation to hotels. The actual parking demand of hotel guests in downtown Raleigh should be the subject of further study. We recommend revision to its parking ordinance to allow for fewer spaces per room in downtown hotels.

**Incentives offer in
Durham**

The neighboring city of Durham has offered incentives for hotel development. These include:

- 21C Museum – 125 rooms, \$48-million project, \$5.7 million incentive from the city and \$2 million from the county.
- The Durham Hotel – 54 rooms, \$11-million project, \$1.2 million incentive from the City and County.
- Residence Inn by Marriot – 143 rooms, \$29.5-million project, \$1.3 million incentive from the city, \$400 thousand incentive from the county.

- Jack Tar Hotel – 74 rooms included in the City Center development project, \$85-million project, \$3.9 million incentive from the city and county. (The city provided these incentives to the project as a whole and not just the hotel).

Raleigh and Durham may compete for hotel projects if developers view these two cities as competing locations for their investments.

Room Block Commitment Agreements

Cities require room block commitment agreements in exchange for their public participation in convention hotel development. These agreements establish priorities for booking convention center groups that generate large numbers of room nights for the city as a whole. Typically, the agreements give the convention center access to room blocks for long-term advanced bookings, and the hotel retains control over short-term bookings. Enforceable room block commitments must limit the price of rooms included in a room block to levels that are acceptable to event planners.

Room block commitment agreements may influence the required level of public involvement in hotel projects. Under certain market conditions, a room block commitment agreement may limit the hotel manager's ability to maximize revenue and income. For example, the advance commitment of room blocks to convention attendees may limit a hotel operator's ability to reserve room inventory for more profitable in-house groups or transient guests. Convention groups may generate lower room rates than transient guests and less food and beverage revenues than in-house groups. The operating risk for a publicly-supported hotel with a room block commitment may be higher than for a conventionally-financed property. Consequently, the amounts of private equity placed at risk may be less for a property with a room block commitment agreement.

Conclusion

Downtown Raleigh needs hotel investment, and new supply is poised to enter the market. But, private investors are not likely to develop large hotels needed to support the RCC and downtown businesses. Public incentives will be necessary to attract a large, full-service hotel in a location that is within walking distance of the RCC. The Marriott Raleigh City Center provides an example of successful public participation in a hotel development. A similar effort could allow the RCC to compete for business that is currently out of reach and downtown business would benefit. Current credit market conditions are favorable for hotel investment. Efforts to incentivize new hotel development should be made while these conditions last.

6. Statement of Assumptions and Limiting Conditions

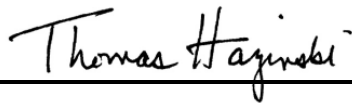
1. This report is to be used in whole and not in part.
2. All information, financial operating statements, estimates, and opinions obtained from parties not employed by HVS are assumed to be true and correct. We can assume no liability resulting from misinformation.
3. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the proposed subject property.
4. The proposed facility is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
5. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.
6. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
7. We take no responsibility for any events or circumstances that take place subsequent to the date of our report.
8. The quality of a facility's on-site management has a direct effect on a property's economic performance. The demand and financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
9. We do not warrant that our estimates will be attained, but they have been developed on the basis of information obtained during the course of our market research and are intended to reflect reasonable expectations.
10. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded. Thus, these figures may be subject to small rounding errors.

11. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
12. Although this analysis employs various mathematical calculations, the final estimates are subjective and may be influenced by our experience and other factors not specifically set forth in this report.
13. This report was prepared by HVS Convention, Sports & Entertainment Facilities Consulting. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of this organization, as employees, rather than as individuals.
14. This report is set forth as a development strategy study; this is not an appraisal report.

7. Certification

The undersigned hereby certify that, to the best of our knowledge and belief:

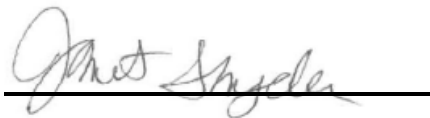
1. the statements of fact presented in this report are true and correct;
1. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
2. we have no present or prospective financial or personal interest with respect to the parties involved;
3. HVS is not a municipal advisor and is not subject to the fiduciary duty set forth in section 15B(c)(1) of the Act (15 U.S.C. 78o-4(c)(1)) with respect to the municipal financial product or issuance of municipal securities;
4. we have no bias with respect to the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined result that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report;
7. Thomas Hazinski, Catherine Sarrett, and Janet Synder personally inspected the market described in this report.



Thomas Hazinski
Managing Director



Catherine Sarrett
Senior Project Manager



Janet Synder
Senior Vice President