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Gregory R. Hanis, ISHC
President

ghanis@hospitalitymarketers.com
262-490-5063

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5415 S. Majors Drive
New Berlin, WI 53146

10014 Majestic Avenue
Fort Myers, FL 33913

800-657-0835
Fax: 239-245-8161

hmi@hospitalitymarketers.com
www.hospitalitymarketers.com

Hotel Service Network

COMMUNITY OVERVIEW MARKET STUDY REPORT

WAUCONDA, ILLINOIS OCTOBER, 2013

Prepared Exclusively For:

Village of Wauconda, Illinois

Prepared By:

Hospitality Marketers International, Inc.

**Gregory R. Hanis, ISHC
President**

**Michael R. Hool, CPA, ISHC
President, SHR
*An HMI Network Representative***

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- EXHIBIT 4 - Geographic Relationship of the Subject Site Area to the Greater Wauconda Market Area
- EXHIBIT 5 - The Two-, Four- and Six-Mile Radii Around the Subject Site Utilized in the Economic Analysis and the Data from Claritas/Nielsen

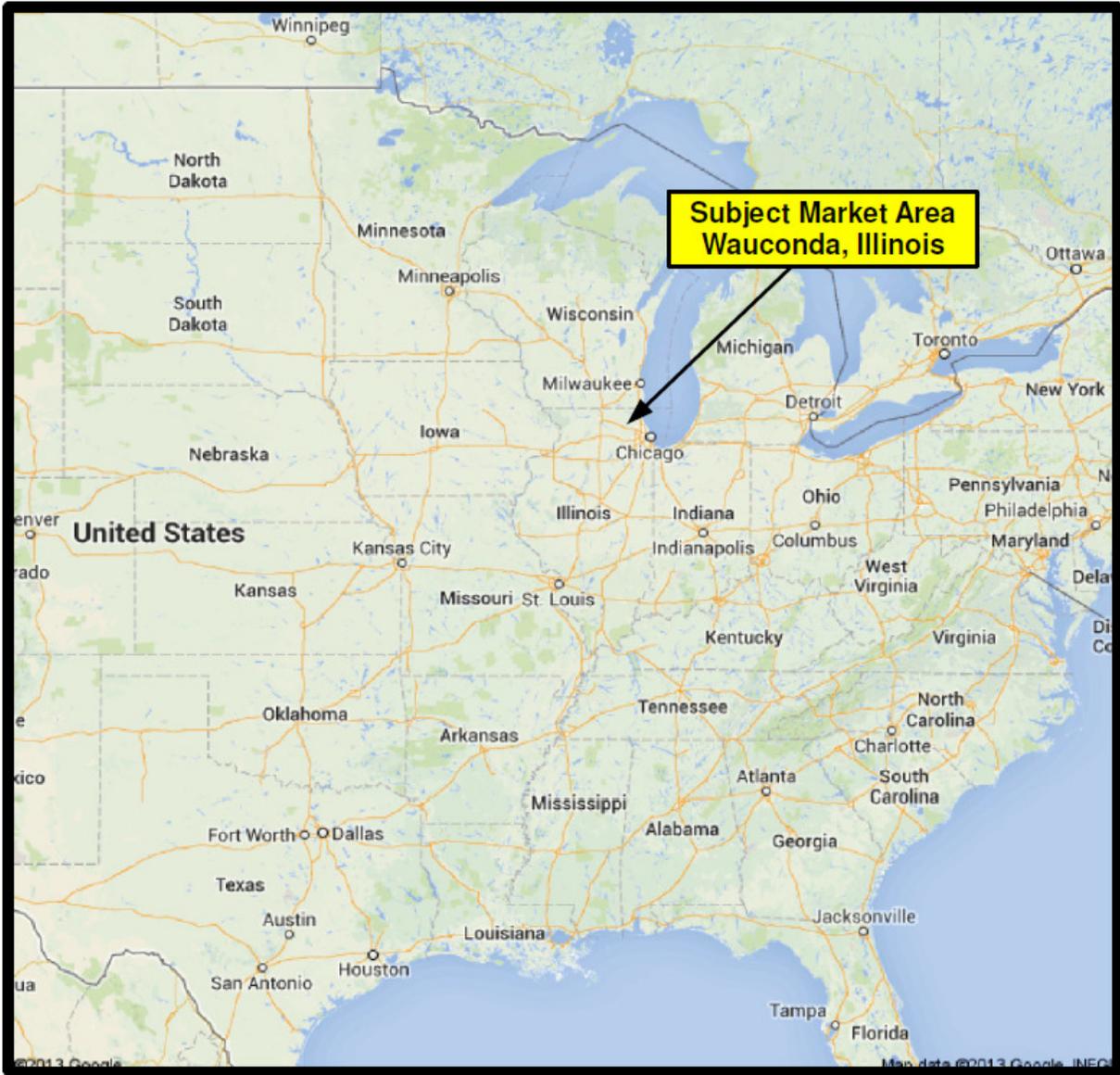


Exhibit 1 – Geographic Relationship of the Subject Market to the Central and Eastern United States

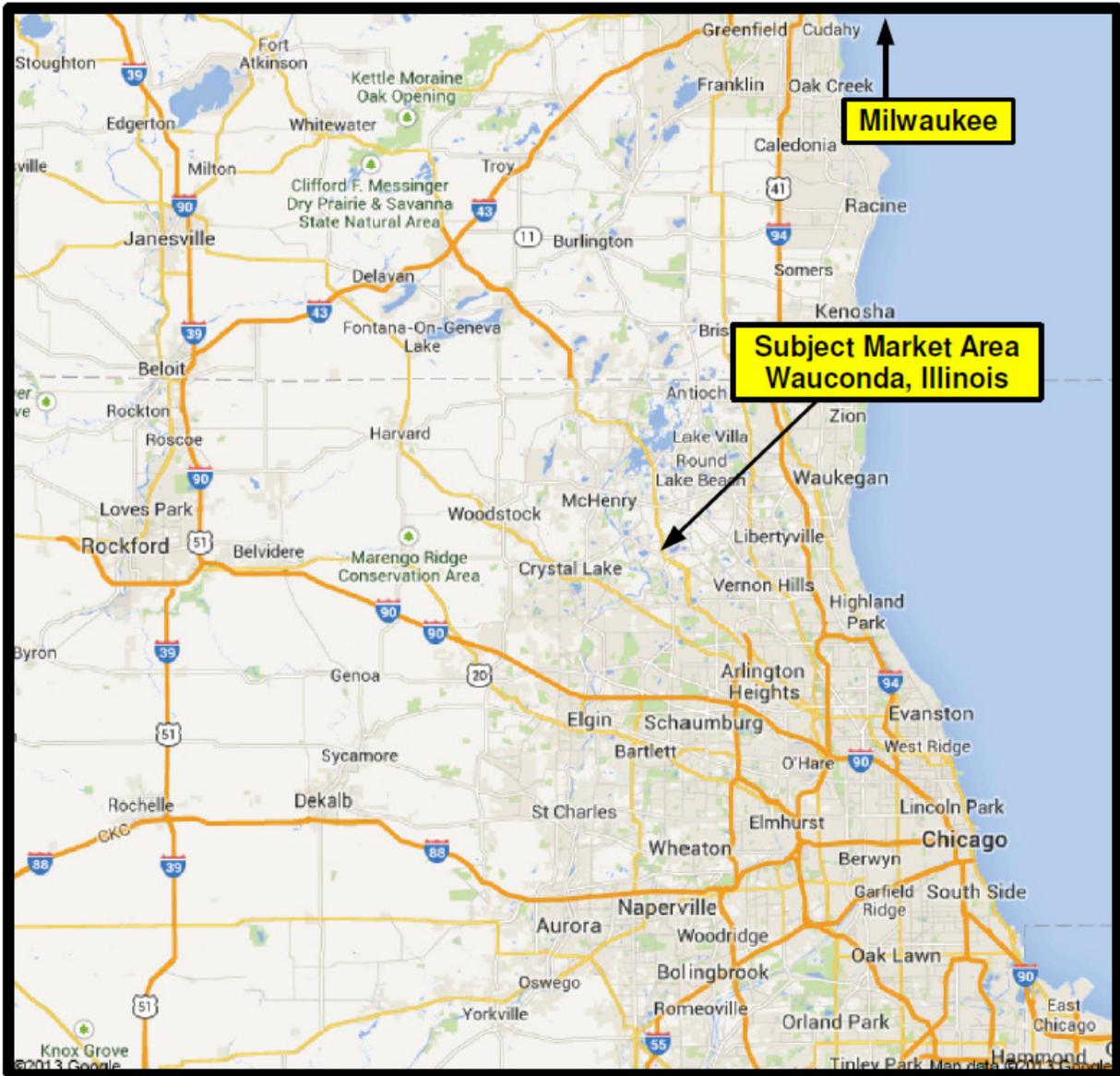


Exhibit 2 – Geographic Relationship of the Subject Market Area to the Northeast Illinois and Southeast Wisconsin Area

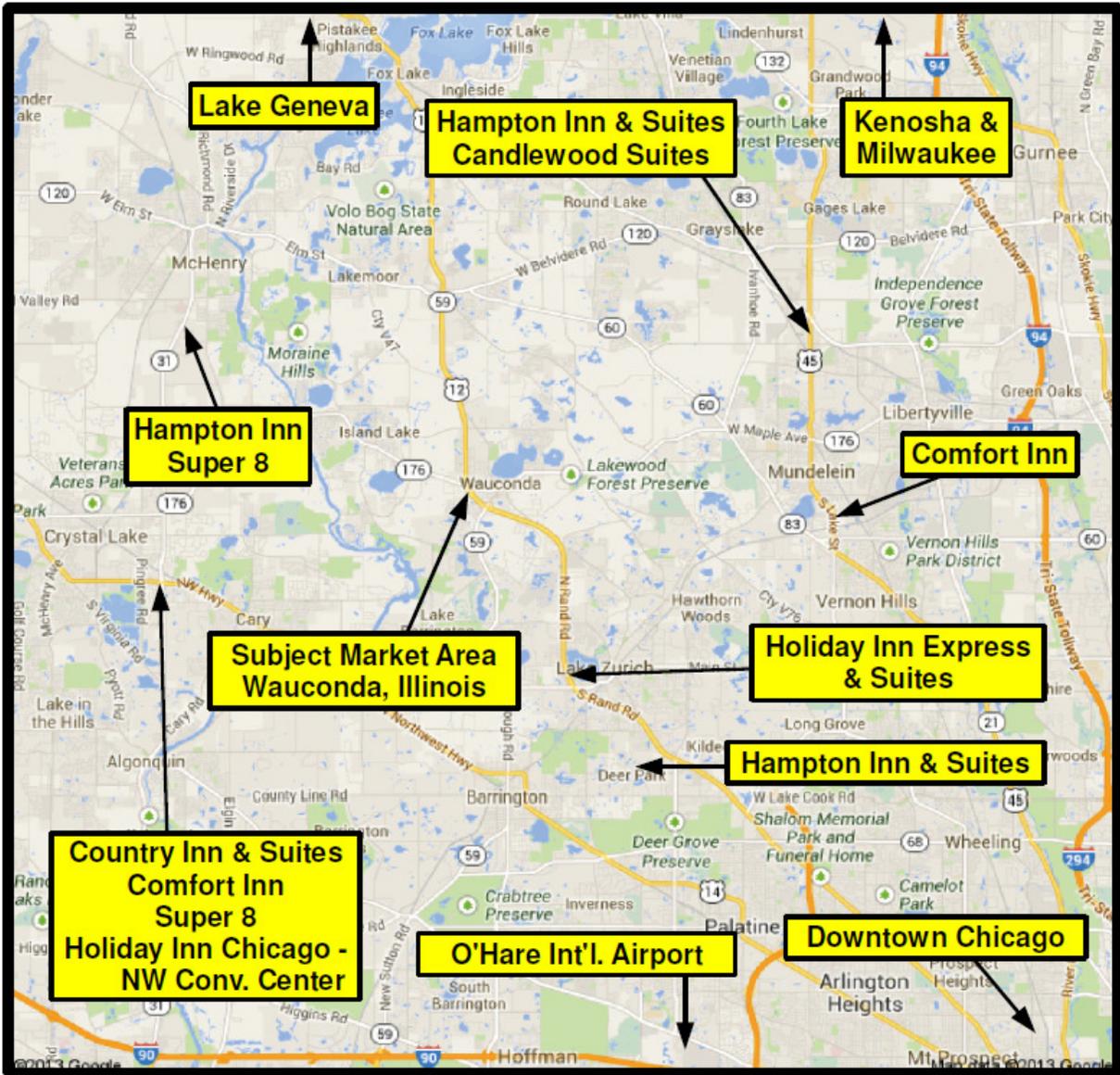


Exhibit 3 – Geographic Relationship of the Subject Market Area to Lake County and Part of Cook County as well as to the Location of the Competitive Set of Hotels

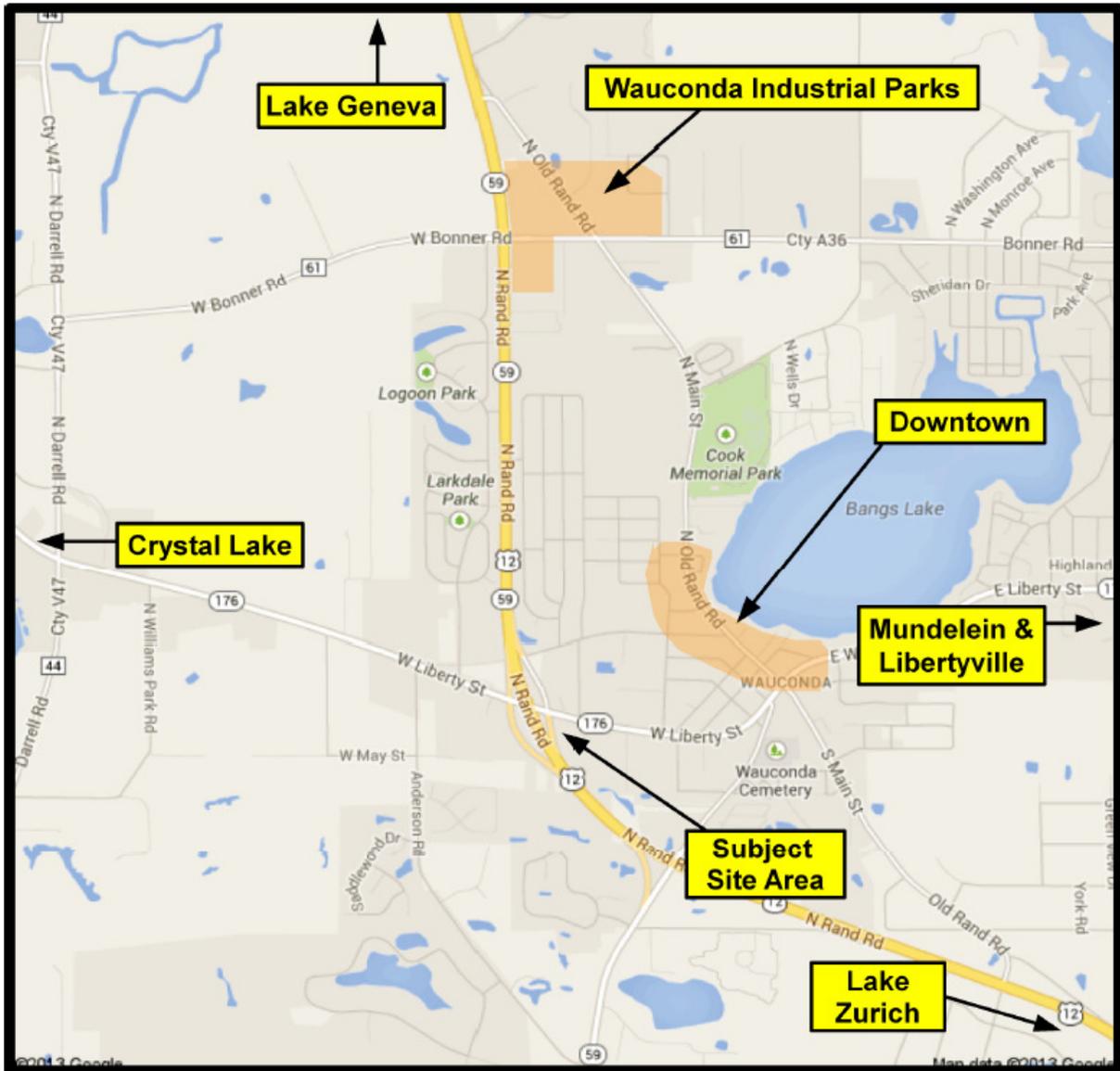


Exhibit 4 – Geographic Relationship of the Subject Site Area to the Greater Wauconda Market Area



Exhibit 5 – The Two-, Four- and Six-Mile Radii Around the Subject Site Utilized in the Economic Analysis and the Data from Claritas/Nielsen

INTRODUCTION/OBJECTIVE

Hospitality Marketers International, Inc., (HMI) has been engaged to provide this Community Overview Market Study for the potential development of a mid-scale limited-service hotel in Wauconda, Illinois. The proposed hotel could be located in the area of the intersection of US Route 12 and Illinois State Route 176, which will be evaluated in this report. The preliminary research included in this report will support the preliminary conclusions recommended regarding the style and size of the proposed hotel. This Market Study will provide preliminary information concerning the greater Wauconda and the west central Lake County market area and the market factors that would affect the possible development of this proposed limited-service hotel facility.

In this report, the focus will be on the development of a mid-scale, limited-service hotel facility. Discussions with local officials did not indicate the need to focus on any one brand. Also, the size of the proposed hotel has not been predetermined. This report will provide preliminary recommendations regarding the subject market's ability to support a limited-service style hotel. Recommendations for the product type within this hotel product range (see my notes as you read them in the report), branding of the proposed hotel, and a suggested number of hotel rooms will be included.

Preliminary research was performed and reviewed regarding the subject market's economic indicators, competitive Lodging Supply, and Lodging Demand generators. HMI conducted field research to determine the relationship between this market and the proposed facility's Lodging Supply competitors and Lodging Demand generators. Economic indicators were reviewed to determine the stability and future growth of the general market area.

The stabilized-year of lodging Occupancy, Average Daily Room Rate, and Sales Revenue projections for the proposed hotel was based on a detailed review of the field research data. Preliminary facility recommendations as to product type, size, brand affiliation and amenities were based upon the market demand research for the proposed hotel. The research that was conducted focused on macro- and micro-market analysis of the Wauconda market as well as some aspects of Lake County to determine the viability of this market to support the proposed hotel.

This market study report should be used internally to determine if additional research will need to be performed. It may or may not be acceptable for external lending and investment purposes. If, at any time, there are questions regarding this research, or this report needs to provide specific information regarding this hotel development, HMI will be available to address the required information.

Ms. Linda Krajniak, Director of Economic & Community Development for the Village of Wauconda, Illinois has engaged HMI to perform this Community Overview Hotel Market Study. This report is the property of the Village of Wauconda and any distribution, use or any other applications of the Community Overview Hotel Market Study must have prior approval of Ms. Linda Krajniak with the Village of Wauconda.

GENERAL MARKET DESCRIPTION

The general subject market for this hotel is the greater Wauconda, Illinois area which is located in west central Lake County. Listed below is a description of this market area.

GEOGRAPHIC LOCATION

- The Village of Wauconda is located in the northeast section of the State of Illinois, approximately twenty miles south of the Illinois-Wisconsin state line on US Route 12. (See Exhibit 3 of this report for further details.)
- The Village of Wauconda is located in the west central portion of Lake County, Illinois. This is approximately fifteen miles west of Interstate 94 and approximately forty-five miles northwest of downtown Chicago. Wauconda is located just west of Mundelein and Libertyville, Illinois looking east toward I-94. It is situated southwest of Grayslake and Gurnee, Illinois, which is located on I-94. (See Exhibit 3 of this report for further details of the subject market's location.)
- The primary traffic route serving the immediate Wauconda market area is US Route 12, which runs north and south through the west edge of the Village of Wauconda. To the south it connects with Lake Zurich, Des Plaines and the O'Hare International Airport area; I-294 and I-90/94; and downtown Chicago. To the north it joins Lake Geneva, Wisconsin and Madison, Wisconsin. Illinois Route 176 runs east and west through the Wauconda market area to Mundelein, Libertyville, Illinois and I-94. To the west, SR 176 travels to Crystal Lake and Rockford, Illinois. (See Exhibits 2 and 3 of this report for further details of the market's location.).

GENERAL MARKET CHARACTERISTICS

- Wauconda was founded in 1850 on the shore of what would later become known as Bangs Lake. It was on the stage coach route from Chicago to Janesville, Wisconsin.
- Historically, the 306-acre Bangs Lake, with its 6.3 miles of shoreline, and the Wauconda area surrounding it were considered a popular destination for family recreation in the Chicagoland area. This lake offers a variety of year round water sport activities including boating, fishing, water-skiing along with its community managed beaches.
- Wauconda is situated in west central Lake County, Illinois. Lake County has a highly educated workforce (41.5% of the residents have a bachelor's degree, 13% over the national average) and is the headquarters of eight Fortune 500 companies.

- In the Daily Herald's 2013 Readers' Choice Awards, Wauconda was voted the "Best City/Town to Live In" in the eight-county Chicagoland area.
- The Village of Wauconda recently undertook a multi-year "rebranding" program to re-acquaint the Chicagoland area residents with its many recreational offerings. These include its laid back "Classic Main Street" atmosphere and shopping adjacent to the great Bangs Lake views as well as the high quality year round recreation and entertainment that it has to offer.
- The 2010 Census indicated that the population of the Village of Wauconda was 13,603. The racial mix of the village was 75.9% Caucasian, 4.2% Asian, and Hispanic or Latino 17.8%.
- The population in 2013 within a four-mile radius of Wauconda was estimated at 44,085, a 25.8% increase from the 2000 census number of 35,048.

EXHIBITS

The following exhibits describe the geographic location of this subject market and subject site.

- Exhibit 1 of this report shows the geographic relationship of the subject market to the East-Central United States.
- Exhibit 2 of this report illustrates the geographic relationship of the subject market to the greater Northern Illinois and southern Wisconsin areas.
- Exhibit 3 of this report shows the geographic relationship between the subject market and northeast Illinois, primarily Lake County and a portion of Cook County as well as southeastern Wisconsin. It also relates its location to the Chicagoland market area and shows the location of the proposed hotel's competitors.
- Exhibit 4 of this report displays the greater Wauconda market including the location of the potential hotel site being considered.
- Exhibit 5 of this report presents the two, four and six-mile radii around the subject site utilized in the economic analysis and in the data from Claritas/Nielsen.

SITE ANALYSIS

This section of the report highlights the geographic location of the site area being considered for the proposed hotel. The approximate location of the identified site area is displayed in Exhibit 4 of this report.

GENERAL SITE OVERVIEW

The general subject site area is situated in the southeast quadrant of the intersection of US Route 12 and Illinois State Route 176 (also known as West Liberty Street). This site location is actually comprised of two adjoining lot/parcel areas and, depending on the size of the hotel, both may be required. Both areas are situated behind existing buildings off of West Liberty Street. This site area is on the southwest side of Wauconda, less than one mile from the downtown and lake frontage area.

LAND PREPARATION

The general subject site area is relatively flat, but appears to slope downward slightly towards US Route 12. This portion adjacent to the northbound exit ramp from US Route 12 is undeveloped land with some trees and bushes that will require removal. The slope in this area will most likely necessitate some grading. The majority of the site was a parking lot and now has overgrown blacktop that will require removal. There are no existing buildings on the subject site.

MAJOR UTILITIES

Due to the significant amount of commercial and retail space in the immediate area of the subject site area, it is believed that all utilities including water, sewer, electricity and gas are in the area adjacent to the site.

VISIBILITY

The portion of the general subject site area nearest US Route 12 is situated behind a BP convenience/gas station while the balance of the site area, the old parking lot, is situated behind an existing bank. Therefore, the proposed hotel, no matter where it is situated in this subject site area, will not have very good *Visibility* from W. Liberty Street and will require signage there. However, the section of the site behind the BP station is next to the northbound exit ramp of US Route 12. This gives this section of the subject site excellent *Visibility* to north and southbound traffic on US Route 12.

ACCESSIBILITY

As previously discussed, the general subject site area is located off of West Liberty Street behind the BP station and a bank. West Liberty Street is a three-lane traffic route including a middle left turn lane that traverses east /west through Wauconda, including downtown. Currently the general site area is accessible via a narrow lane between the bank and the BP station that officials indicated will be converted into an actual street. The developer should confirm that this will actually happen. This should provide very good *Accessibility*.

SUPPPORT SERVICES

Considering the smaller size of Wauconda, there are relatively good *Support Services* in the greater subject market area. There are several retail sites as well as fast food restaurants along W. Liberty Street including McDonald’s, KFC, Burger King, Jewel Osco, Subway, Ace Hardware and Walgreens. Additional smaller retail and “local” restaurants are located in the downtown area less than a mile east on West Liberty Street. However the subject market area has no casual dining, national chain restaurants resulting in its overall Good rating for *Support Services*.

ENVIRONMENTAL ISSUES

A review of the subject site area did not indicate the potential for any types of *Environmental Issues* including but not limited to in-ground tanks, water seepage and drainage, and flood plain issues. It was not within the scope of this report to complete any environmental testing, therefore it is recommended that the developer have a professional independent environmental review and soil integrity test as well as any other environmental testing deemed necessary or appropriate.

COMPETITIVE POSITION

The *Competitive Position* of the proposed hotel pertaining to travelers to Wauconda, be they pleasure/leisure or business oriented, should be Excellent since the members of the competitive set of hotels, as specifically defined later in this report are all located between five-ten miles from Wauconda.

The following chart summarizes the subject site where the proposed hotel will be located.

SUBJECT SITE EVALUATION	
CATEGORY	RATING
Visibility	Very Good
Accessibility	Very Good
Land Prep	Investigate
Environmental	Investigate
Major Utilities	Excellent
Zoning	Very Good
Architectural Controls	Excellent
Area Support Services	Good
Competitive Position	Excellent
Overall	Very Good
<i>Source: HMI</i>	

A review of the above chart indicates that the general subject site area has a Very Good rating.

ECONOMIC OVERVIEW

This section of the report provides a macro overview of the economic environment in which the proposed hotel would operate. This economic analysis does not conclusively determine how successful the proposed facility will be in the Wauconda market area, however, it offers valuable insight into the economic stability and growth potential of the market. It will directly affect the conclusions formulated later in this report.

The proposed hotel will draw demand from both the local area around the hotel as well as from parts of the greater Lake County. This resulted in a review of certain data based on two, four and six mile radii of Wauconda as well as, in certain circumstances, the entire Lake County market area. This section will assist in understanding the economic stability of the market.

GENERAL DEMOGRAPHIC & ECONOMIC CHARACTERISTICS

Two, four and six-mile radii of the subject site for the proposed hotel were reviewed regarding their *General Demographics*. This includes key *Population Demographics* and *Household Income* characteristics to study the economic stability of the subject market. The data reviewed was from the Nielsen/Claritas *Household Trend 2013 Report*. This information will be more detailed in a Comprehensive Hotel Market Study.

- A review of the data within the Two-Mile Radius of Wauconda and the subject site area reveals that the historic average annual change in Population over the last ten years was 1.9% and the change in number of Households was 2.0%. This subject market area currently has a Population of 15,141 with 5,713 Households. A review of other economic areas indicated positive average annual growth in Household Income, Median Household Income, and Per Capita Income of 1.1%, 1.2% and 1.1% respectively. The projections going forward through 2018 indicate that the Population and the Number of Households are both projected to increase by an average annual rate of 0.6% and 0.7% respectively. The projected changes in future average annual incomes are .04% Average Annual Household Income and .05% for Average Median Income and Annual Per Capita Income.
- A review of the data within the Four-Mile Radius of Wauconda and the subject site area reflects slight changes from the Two-Mile Radius. The historic average annual change in Population reflected a slight change to 2.0% while the Number of Households for this radius experienced the same rate of average annual increase as in the Two-Mile radius at 2.0%. This market area currently has a Population of 44,085 with 16,152 Households. The Average Household Income and the average annual change in Per Capita Income both demonstrated a slightly lower average annual increase from the Two-Mile Radius at 0.7% for each. The average annual change in the Median Household Income was slightly better at 1.1%, just below the Two-Mile Radius rate of increase. The projections for Population, Number of Households and Average Household Income going forward through 2018 are very similar to those in the Two-Mile Radius, ranging from 0.3% to 0.5%.

- A review of the data within the Six-Mile Radius of the subject site reflects somewhat similar results to the prior two radii. This market area currently has a Population of 105,363 with 37,819 Households. The historic average annual change in Population was 1.7% and the Number of Households was 2.0%. The Average Annual Household Income, Median Household Income and Per Capita Income were 1.1%, 1.3% and 1.3% respectively. The projections going forward through 2018 also reflected slight decreases from the prior two radii with projected changes ranging from 0.2% to 0.4%.

Population & Households - Overall Observations

- The *Population* in the immediate market area (Two- and Four-Mile Radii) experienced a 1.9% - 2.0% change from 2000 to 2012. While the broader Six-Mile radius which encompasses a much larger rural area, including some farmland, experienced a slight annual decrease to 1.7% in its population and no change in households. Projections going forward reflected slight to modest average annual increases in population and households within Wauconda and the neighboring parts of Lake County as seen in all three radii.

Household & Per Capita Incomes - Overall Observations

- The historic average annual changes in *Average* and *Median Household Incomes* and *Per Capita Incomes* were in a relatively narrow range of 0.7% to 1.3% for all three radii. Looking forward, each income category reflected little to slight change for all three radii with a range from 0.2% to 0.5%. The shortest Two-Mile Radius reflected the largest average annual rate of increase at 0.5%.

WORKFORCE CHARACTERISTICS

Due to the significant difference in the size of the Private Sector Workforce in 2012 between Wauconda (4,994) and Lake County (272,838), it is deemed more appropriate to review the *Workforce Characteristics* of the Wauconda market area in this section. Data in the following chart highlights the distribution of the labor force within the subject market area. This will assist in analyzing the diversity of this market by its employment base. The top three employment industries are highlighted in yellow. The additional industries highlighted in blue make up the top five industries in the subject market area. Also highlighted in blue and in red (in the far right column) are the three industries showing the greatest employment gains and losses from 2006 to 2012. The private sector job numbers were obtained from a Lake County Partners 2012 report while the public and education numbers are 2011 Census amounts.

EMPLOYMENT BY INDUSTRY					
Village of Wauconda, Illinois					
TYPE OF EMPLOYMENT	NUMBER OF PERSONS EMPLOYED	PERCENT OF PERSONS EMPLOYED	NUMBER OF PERSONS EMPLOYED	PERCENT OF PERSONS EMPLOYED	PERCENT CHANGE
	2006	2006	2012	2012	2006 - 2012
Agriculture, Forestry, Fishing & Hunting	2	0.0%	101	1.8%	4950.0%
Mining, Quarrying, & Oil and Gas Extraction	0	0.0%	0	0.0%	0.0%
Utilities	0	0.0%	0	0.0%	0.0%
Construction	1,488	22.3%	592	10.3%	-60.2%
Manufacturing	1,103	16.6%	875	15.2%	-20.7%
Wholesale Trade	933	14.0%	850	14.7%	-8.9%
Retail Trade	467	7.0%	436	7.6%	-6.6%
Transportation and Warehousing	36	0.5%	42	0.7%	16.7%
Information	50	0.8%	23	0.4%	-54.0%
Finance and Insurance	57	0.9%	53	0.9%	-7.0%
Real Estate, Rental & Leasing	41	0.6%	17	0.3%	-58.5%
Services	2,484	37.3%	2,777	48.2%	11.8%
- Professional, Scientific & Technical Services	334	5.0%	186	3.2%	-44.3%
- Management of Companies and Enterprises	0	0.0%	0	0.0%	0.0%
- Administrative and Support and Waste Management and Remediation Services	545	8.2%	725	12.6%	33.0%
- Educational Services	775	11.6%	692	12.0%	-10.7%
- Health and Social Assistance	301	4.5%	328	5.7%	9.0%
- Arts, Entertainment & Recreation	20	0.3%	6	0.1%	-70.0%
- Accommodation & Food Services	244	3.7%	438	7.6%	79.5%
- Other Services	162	2.4%	236	4.1%	45.7%
- Public Administration	103	1.5%	166	2.9%	61.2%
TOTAL	6,661	100.0%	5,766	100.0%	-13.4%

Source: U.S. Census & Lake County Partners

- In Wauconda, the leading industries in 2012 were Manufacturing (15.2%), Wholesale Trade (14.2%), Administrative & Support Services (12.6%), Educational Services (12.0%) and Construction (10.3%). There was a decrease in the Construction sector over the six-year period, most likely attributable to the recession experienced during this period. These five sectors represent 64.8% of the employment in the subject market area. They were closely followed by Accommodation & Food Services and Retail Trade, both at 7.6%. The remaining industries, although smaller, are in a relatively narrow range of 0.4% - 5.7%. No single industry sector dominates the workforce. This indicates a diversification in the workforce at this time. The sector with the largest increase in the number of workers during the six-year period was Agriculture however this is believed to be due to an error in the data in 2006. The second largest increase was in the Accommodations & Food sector while Construction reflected the largest decrease in the actual number of workers.
- The (13.4%) decrease in the overall number of employees during the six-year period for Wauconda is the opposite of the 25.8% increase in Population for the Four-Mile Radius previously discussed from 2000 - 2013. This 13.4% decrease is similar to what many markets experienced during the recession.

UNEMPLOYMENT RATES

The *Unemployment Rate* for Wauconda was not readily available, so the larger Lake County area was reviewed as previously discussed. This information will be enhanced with more detail in a Comprehensive Hotel Market Study.

- The 2012 year-end *Unemployment Rate* for the county was 8.7%, slightly lower than the state rate of 8.9% for the same period.
- Over the past ten years, *Unemployment Rates* averaged 7.2% in Lake County. That is slightly higher than the 6.8% rate for the state for the same period. These rates surpass full employment levels of 4-5% unemployment. .

LABOR SUPPLY & WAGES

- At this time, no Labor Supply problems were reported in any employment sector. The proposed hotel's location in west central Lake County should make it possible to draw employment from this entire area.
- Discussions with officials did not reveal any wage pressures at this time. The current as well as historic Unemployment Rates of the subject market area did not indicate any wage pressures in the near future.

TRANSPORTATION

The Village of Wauconda *Transportation* opportunities primarily include U.S. Route 12 on a north/south basis and Illinois State Route 176 on an east/west basis. US Route 12 travels north into Wisconsin through Lake Geneva and Madison. To the south it travels into the western Chicago suburbs, including the O'Hare International Airport area, and into Chicago via I-294 and I-90/94. State Route 176 joins eastern Lake County and I-94 for north/south travelers to Wauconda and travels west toward the Rockford, Illinois area.

O'Hare International Airport is the primary airport with regularly scheduled commercial flights serving the Wauconda market. It is approximately thirty miles south of the village. There is also Waukegan Regional Airport which has no commercial passenger flights, but is home to over 50 corporate jets located approximately twenty miles northeast of Wauconda. Public transportation to the Lake County area also includes the three Metra Commuter Rail Lines with 20 stations located in Lake County. Five of these stations are estimated to be within a five and ten mile radius surrounding Wauconda. This information will be enhanced with more detail in a Comprehensive Hotel Market Study.

Highway Traffic

- The available *Traffic Count* information on the primary route (i.e. US 12 and State Route 176) in the Wauconda area is somewhat dated with the most recent information ranging from 2007 – 2011. The data available reflected mixed results ranging from an (18.7%) decrease in vehicle counts on US 12 north of the intersection with State Route 176 to traffic counts remaining flat on State Route 176 west of the intersection with US Route 12. This information will be enhanced with more detail in a Comprehensive Hotel Market Study.

ECONOMIC CONCLUSIONS

The Population data indicates that the subject market area has steadily increased over the last ten years. This trend is anticipated to continue over the next five years with projected increases ranging from 1.8% to 3.6% for the Wauconda market area. Household and Per Capita Incomes have displayed consistent results ranging from 0.7% increases to 1.2% increases. These income trends are projected to decrease slightly over the next five years. The distribution of existing employment in Lake County is led by Manufacturing closely followed by Wholesale Trade. The labor distribution by industry sector displays good diversity in the market area. Labor Supply seems to be available even with the current relatively high levels of Unemployment (2012 at 8.7%), and a slightly lower ten-year average of 6.8%.

LODGING DEMAND

This section of the report identifies Lodging Demand sources for the proposed hotel facility. Exhibit 3 of this report identifies the primary market area that will be serviced by the proposed hotel on a year-round basis. This research supports the recommendations provided in the *Conclusions* for the development of a mid-scale, limited-service hotel.

MARKET SEGMENTATION

The first area to be identified in describing the Lodging Demand Potential for the market area is the *Market Segmentation* that exists in the area. There are no hotels in the immediate Wauconda area (i.e. four mile radius). Additionally, there is a four room bed and breakfast, the Old Victorian Farmhouse in Wauconda. The next closest hotels were reported to be from five to nine miles as the crow flies in Lake Zurich, Libertyville, Mundelein, Deer Park and Crystal Lake. The following chart highlights the preliminary Market Segmentation projections for this proposed hotel development. This estimate of Market Segmentation supports the recommendations provided in the *Conclusions* section of this report. It would be further verified in a more Comprehensive Hotel Market Study for a specific hotel development.

MARKET SEGMENTATION					
	SUBJECT MARKET PROBABLE PERCENT OF MARKET	RANGE	PROPOSED PROPERTY PROBABLE MARKET	MARKET PENET.	RANGE
Individual Travel Markets	60.0%	55.5%-63.5%	75.0%	125.0%	71.5%-77.5%
Corporate/Commercial	40.0%	36%-43%	30.0%	75.0%	26%-33%
Social/Leisure	20.0%	17%-23%	45.0%	225.0%	41%-47%
Group Markets	40.0%	36.5%-41.5%	25.0%	62.5%	22.5%-27.5%
Business Related	20.0%	17%-22%	5.0%	25.0%	2%-8%
Social/Leisure Related	20.0%	17%-23%	20.0%	100.0%	17%-23%
TOTAL	100.0%		100.0%		
<i>Source: HMI</i>					

- The preliminary *Market Segmentation* for the proposed property (shown in the chart above) will be modestly different from the Market Segmentation for the Wauconda/Lake County market where the competitive set is situated. That is the central Lake County market area west of Illinois State Route 21 that runs north/south west of Interstate I-94 and north/south between Illinois State Route 22 to the south and Illinois State Route 135 to the north. This includes neighboring communities of Lake Zurich, Barrington, Libertyville, Mundelein and Crystal Lake. The substantial amount of Corporate/Commercial Business projected for the greater market area, both group and individual, is due to the significant amount of Corporate and

Commercial facilities in the surrounding Lake County area. This is especially true in the north/south corridor from Gurnee/Grey's Lake in both directions, north and south along I-94, US Route 45, and SR 21 through Waukegan, Libertyville, Vernon Hills, Mundelein and Lincolnshire. The proposed hotel will be at least five to six miles west of this corridor, which already has hotels including many members of the competitive set. It will thus need to rely on its more local Wauconda corporate based business.

- Discussions with village officials indicated a lack of significant meeting space in the Wauconda market area that resulted in the limited amount of Corporate/Commercial Group business projected for the proposed hotel. Discussions with local business officials indicated a greater amount of Individual Business versus Group Business, supporting the projected higher rate of Corporate/Commercial Individual business.
- Discussions also indicated that a new midscale, limited-service hotel in the Wauconda market area could attract Group Social/Leisure business such as weddings, reunions, etc., currently occurring elsewhere because there is no hotel in the immediate Wauconda market area.
- Discussions with village officials indicated that the Corporate/Commercial lodging demand being generated by the major employers in the immediate Wauconda market is currently staying at the midscale and upper midscale hotels in Lake Zurich, Libertyville or Mundelein. These communities also offer a wide variety of casual national/regional chain restaurants. Both factors were reportedly very important to Corporate/Commercial guests' selection of hotel accommodations.
- The Individual travel segment in the Wauconda and immediate surrounding Lake County market area is comprised of several demand generators. These include vendors and professionals calling on area businesses, construction workers, tourists and vacationers attracted to the area by Bangs Lake and its various water sport activities, the Lake County parks/trails in the area, as well family and friends attending weddings, reunions and other special occasions.

To further define the preliminary Market Segmentation of the area, preliminary profiles for each Market Segment were defined. The following outline provides *Market Segmentation Profiles* that correspond with the proposed subject property's projected Market Segmentation. Again, these preliminary Market Segmentation Profiles will support the development of a mid-scale, limited-service style hotel that is recommended in the *Conclusions* section of this report. In the following outline, the rating of Social/Leisure demand at Very Good versus the Fair rating of Corporate/Commercial demand indicates a lack of diversity in the lodging demand in the identified market area. This would be further verified in a more Comprehensive Hotel Market Study for a specific hotel development.

MARKET SEGMENTATION PROFILES		
	Demand Potential	
	Transient = T Extended= E Group= G	Subject Property Potential
Social/Leisure Markets		
Visiting Friends & Relatives		
In General	T, E	Very Good
Wauconda Short Term Rehab-patients at new skilled unit	T,E	Good
Area Sites & General Tourism		
Car Museum - in Volo	T	Good
Bangs Lake	T,G	Excellent
Area Events		
Wauconda's Farmers Market	T	Very Good
Wauconda's IPRA Championship Rodeo	T,G	Good
Wauconda Triathlon	T,G	Very Good
Area Recreation- (Boating, Hiking, Biking, Fishing, etc.)	T	Excellent
Bangs Lake-beaches, boating, fishing, ice fishing	T ,E, G	Excellent
Social, Military, Educational, Religious, Fraternal (S.M.E.R.F.) Groups		
Weddings	G	Excellent
Reunions	G	Excellent
Funerals	G	Very Good
Other	T	Fair
Amateur Youth Sports: cheerleading ,gymnastics, soccer	T, G	Good
	Potential	Very Good
Corporate/Commercial Markets		
Agriculture	T	N/A
Utilities	T	N/A
Construction	T, E,G	Good
Manufacturing	T, E	Very Good
Wholesale Trade	T	Good
Retail Trade	T	Good
Transportation and Warehousing	T	N/A
Information	T	N/A
Finance, Insurance and Real Estate	T	N/A
Real Estate, Rental & Leasing	T,E	Fair
Services		
Professional, Scientific & Technical	T	Fair
Management of Companies and Enterprises	T	N/A
Administrative, Support, Waste Management and Remediation	T	Good
Educational	T	Fair
Health and Social Assistance	T,E	Good
Arts, Entertainment & Recreation		N/A
Accommodation & Food Services	T	Fair
Other	T	Limited
Public Administration	T	Limited
	Potential	Fair
	Overall Potential	Good
<i>Source: HMI</i>		

- As indicated above, this market currently appears to have limited diversification. Primary demand is generated by the Social/Leisure Market Segment which is rated Very Good compared to the Corporate Commercial Market Segment which just made is rated Fair. The current primary Lodging Demand generators in this market area, as indicated in the chart above, include the vacation/recreation nature of the area centered around Bangs Lake, social functions, youth sports, visiting friends and family and family visiting patients at the new-to-be-built Wauconda Health Rehab skilled unit (provides rehab for those too fragile to go home-estimated length of patient's stay was 25 days).
- The aforementioned Lodging Demand generators generating Fair to Excellent demand are currently staying outside of Wauconda since there is no hotel conveniently located within a six or more mile radius of this village. These demand sources relate to the overall market. The proposed facility will have the potential to develop demand from all of these sources. Some will be more productive than others for the proposed hotel.
- Due to the current limited amount of Corporate/Commercial Lodging Demand generators in the market area, (which shall be discussed later in this report), this segment is rated as Fair.
- The Lodging Demand for the proposed limited-service, mid-scale hotel will come from multiple sources. An outline of this anticipated Lodging Demand follows:

Social/Leisure: Individual and Group Markets

On an Individual traveler basis this could include:

- Visitors to the area -
 - The Wauconda area historically was a vacation/weekend getaway area for residents from all over the Chicagoland area. The Village of Wauconda recently commenced an effort to revitalize this pastime via a "Rebranding" effort and marketing program which emphasizes Wauconda's "small-town feel, locals' friendliness, recreational opportunities and quality area event programming".
 - A major vacationer attraction is Bangs Lake with its multiple water sport activities. These include boating, public access ramps and boats for rent, water skiing, fishing, beaches, ice fishing, great views for dining/drinking right on the lake, etc.

- Wauconda's proximity (less than a two-hour drive) to the greater Chicagoland market area in the midst of Lake County and all of its lakes makes it a great weekend getaway and vacation area.
- There are several events in Wauconda from late spring through early fall including WaucondaFest, Wauconda's IPRA Championship Rodeo and the Wauconda Triathlon.
- Wauconda is also just a 30 – 45 minute or less drive from several popular destinations making it a great base of operation during a vacation/getaway to make "day trips" to Lake Geneva, Wisconsin, Gurnee, Illinois, Six Flags, Kenosha and the outlet malls, Bristol Renaissance Fair, and the Volo Bog State Natural Area.
- Multiple youth sports competitions take place in the in the greater Wauconda market area and neighboring communities of Mundelein, Libertyville and Crystal Lake. These include high school cheerleading, gymnastics and three youth softball tournaments occurring in Wauconda as well as soccer and other youth sports competitions held in neighboring communities from which the proposed hotel could attract overflow business.
- Visiting families and friends return to Wauconda for reunions, other special occasions, and local area events.

On a Group basis, this could include (traditional-style hotel oriented):

- Local weddings and reunions. Discussions with business contacts indicated that while there are local venues to hold receptions, visitors usually stay elsewhere (primarily in Lake Zurich) due to the lack of quality lodging in Wauconda. The small meeting space at the proposed hotel could support these banquet facilities for hospitality events, gift opening parties, etc.

Corporate/Commercial: Individual and Group Markets

- With the proposed hotel's limited meeting space, one would anticipate the demand from this market segment to primarily be Individual but it may be comprised of Groups of individuals associated with a particular company and/or industry. These travelers could include equipment service technicians, corporate office personnel, suppliers, and truck drivers.

- Several of the area’s primary employers indicated that many employees live in the immediate area. Some do have out of town suppliers and international visitors, however at least for now, these are day trips and these travelers prefer to stay closer to O’Hare International Airport. These same discussions indicated that the Hampton Inn in Libertyville is receiving business due to a second facility there, but this could possibly change with a new hotel in Wauconda.
- While vendors and suppliers call on businesses in the greater Wauconda market area, they indicated that most are “day trips.” This is due to the location within the Chicagoland market area thus limiting the amount of lodging demand generated in this area.
- Discussions with local restaurant owners indicated that up to 10% of their events are business related lunches and dinners. However due to lack of quality hotel rooms in Wauconda, they are currently referring requests for lodging to the Holiday Inn Express in Lake Zurich indicating some lodging demand for corporate groups.
- On a Group basis, there is the potential for smaller group meetings and training sessions to be held at the proposed hotel since there are no quality hotels within a six-mile radius of Wauconda. A quality lodging facility is necessary to bring these groups to Wauconda. The estimated size of these potential regional group meetings is 15 – 35 people based on the size of the meeting room that would be included at the proposed hotel.
- To further understand the Corporate/Commercial market, the following chart highlights the primary employers in the Wauconda market area.

MAJOR EMPLOYERS		
Village of Wauconda, Illinois		
COMPANY	SERVICE OR PRODUCT	TOTAL EMPLOYEES
Lacosta, Inc.	Federal Government Contractor	1,000 - 4,999
Bel-Rae, Inc.	Janitor Service	500 - 999
Fidelitone Inc	Logistics	250 - 300
Stack On Products Co.	Boxes-Metal (Wholesale)	240 - 499
Acres Group	Landscape Contractor	100 - 249
Countryside Industries, Inc.	Landscape Contractor	100 - 249
Jewel Osco	Grocers - Retail	100 - 249
Wauconda Health Care & Rehab.	Nursing & Convalescent Home	100 - 249

Source: Reference USA & Village of Wauconda

- Not listed in the chart above are the numerous employers in the neighboring communities of Mundelein, Libertyville, McHenry, Port Barrington and Crystal Lake, Illinois which surround Wauconda providing it with a central location to serve all of them.

SEASONALITY OF LODGING DEMAND

Seasonality of Lodging Demand was reviewed for the subject market area. For this report, the seasonality analysis was based upon the primary competitive set. It includes eleven economy to upper midscale properties within an eight-mile radius of Wauconda including Mundelein, Libertyville, Lake Zurich, Crystal Lake, McHenry and Deer Park. All of these hotels report to Smith Travel Research. This analysis reflects this market's potential to attract Lodging Demand during various seasons. It will help determine the strengths and weaknesses during the operational year for the proposed property. This information will be enhanced with more detail in a Comprehensive Hotel Market Study.

- The market's Seasonality of Lodging Demand pattern is strong. There is modest strength during the summer months of June, July and August.
- The strongest months are July with 11.1% followed closely by June and August, both at 10.2%. The next strongest months were September at 9.3%, October at 9.2%, and May at 9.1%. The months from May through October have above-average monthly Lodging Demand as well.
- June through August is the strongest quarter with 31.5% of the annual Lodging Demand. May through October is the strongest six-month period with 59.1% of the annual Lodging Demand, which is typical for this Midwest region of the United States.
- The weakest months are January with 6.3%, February with 6.7% and December with 6.8% of the annual Lodging Demand. This is also typical for this Midwest region of the United States. This fits with the weakest quarter being December through February with 19.8% of the average annual Lodging Demand. This is typical for the region.
- The months of February, April, May, August and October have the potential to increase revenue due to the RevPAR deviation not exceeding the Lodging Demand and ADR deviations.
- Overall, this is a fairly normal seasonal pattern for this part of the Midwest United States.

- During the past twelve-month period ending in July, 2013, the highest annual average Occupancy days were Tuesdays at 61.1%, Saturdays at 60.9% and Wednesdays at 60.6%. Occupancy by day and by month is displayed in the chart below as prepared by Smith Travel Research:

Occupancy (%)								Total Month
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	
Aug - 12	43.0	60.6	65.8	66.9	57.5	67.0	79.4	63.0
Sep - 12	45.2	55.3	67.7	70.8	60.7	60.9	68.0	60.9
Oct - 12	36.2	51.6	56.7	54.9	53.5	61.9	72.7	55.3
Nov - 12	31.1	49.0	56.1	60.1	49.5	46.9	53.5	49.4
Dec - 12	27.6	45.3	50.3	46.4	42.7	34.1	40.3	40.6
Jan - 13	29.5	46.3	44.8	46.5	37.9	35.8	39.4	40.3
Feb - 13	26.8	46.3	56.4	51.7	42.1	32.1	39.6	42.1
Mar - 13	33.5	55.4	59.9	58.0	43.7	39.3	46.0	47.2
Apr - 13	35.4	57.3	65.1	63.5	47.4	46.7	57.0	53.7
May - 13	45.5	56.4	66.4	62.9	50.7	54.4	68.3	57.6
Jun - 13	43.1	66.9	76.9	75.9	61.8	70.5	82.7	67.9
Jul - 13	48.2	63.1	69.5	69.5	63.7	74.5	85.9	67.7
Total Year	37.1	54.4	61.1	60.6	50.8	52.0	60.9	53.9

Source: Smith Travel Research

- Traditionally, the higher midweek Occupancy rates indicate potentially strong Corporate/Commercial business and higher Occupancy rates on weekends indicate a potentially strong Social/Leisure demand in the market area. This data is based on the competitive set in the communities surrounding the Village of Wauconda. This could indicate the potential for the proposed hotel to attract overflow business from any one of these market areas surrounding Wauconda.
- However, the highest average daily ADR rates during the same twelve-month period occurred midweek, with \$92.30 on Tuesdays and \$92.02 on Wednesdays. These were followed closely by \$91.12 on Saturdays and are displayed in the chart below prepared by Smith Travel Research:

ADR								Total Month
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	
Aug - 12	86.90	92.19	92.01	92.85	89.81	91.27	93.23	91.47
Sep - 12	85.75	91.39	93.89	93.75	90.06	88.59	90.98	90.80
Oct - 12	85.03	89.51	92.00	91.09	87.36	88.78	93.17	90.04
Nov - 12	80.30	88.27	91.38	90.38	84.85	83.63	84.86	86.62
Dec - 12	81.87	91.09	90.28	90.36	86.75	82.74	85.28	87.42
Jan - 13	83.96	90.08	91.37	89.77	86.18	81.18	82.94	87.17
Feb - 13	82.31	90.22	91.72	90.78	86.88	81.54	86.01	87.90
Mar - 13	83.93	88.73	89.75	89.70	85.77	83.93	86.00	87.07
Apr - 13	82.85	89.94	91.99	90.86	86.75	84.60	87.63	88.56
May - 13	89.73	92.56	93.82	93.74	90.37	91.01	95.36	92.55
Jun - 13	86.53	91.75	93.68	93.14	90.79	92.81	95.19	92.42
Jul - 13	90.45	93.04	93.91	94.71	92.86	95.29	98.50	94.41
Total Year	85.43	90.84	92.30	92.02	88.48	88.30	91.12	90.12

Source: Smith Travel Research

- Typically, the highest Occupancies should occur on days when the rate can be maximized and this appears to be occurring within the competitive set. Therefore, it appears that they are attempting to maximize ADR on the higher Occupancy days.
- This information will be enhanced with more detail in a Comprehensive Hotel Market Study.

LODGING DEMAND POTENTIAL INDEX

The Lodging Demand Potential for the proposed property was also analyzed via the preliminary *Lodging Demand Potential Index*. This relates Lodging Demand Potential to the Market Segmentation previously projected for the proposed property and the industry distribution in the area. This is a rating based on a scale of 0 to 5, with 5 indicating excellent Lodging Demand Potential and 2.5 indicating average Lodging Demand Potential. The following information shows the results of this analysis. This would be reviewed in more detail in a more Comprehensive Hotel Market Study for a specific hotel development.

- The preliminary Lodging Demand Potential is rated overall at 3.0 or solidly above the average of 2.5. The yield is 132.1% to average. The reason for this modestly above average rating is because currently the only lodging in the immediate Wauconda market is a four-bedroom Bed & Breakfast. The next nearest midscale to upper-midscale lodging facility is the Holiday Inn Express & Suites in Lake Zurich, approximately five miles south on US Route 12. Next, there are several economy-to-upper-midscale hotels in a range of six to ten miles in Mundelein, Libertyville, Crystal Lake, Barrington and McHenry, Illinois.
- The Lodging Demand projected in the Wauconda area is currently driven by the Individual (or Family) Social Leisure/Tourist segment. They are attracted to this market for its wide variety of demand generators previously discussed in this report.
- The proposed hotel's strength will lie in the overall Individual market. The Lodging Demand Potential Index in these market segments is rated at 3.41, or Above-average, with a yield to average of 136.4%.
- The Social/Leisure Individual market is projected to have a Lodging Demand Potential Index of 4.0 or well above average. The Social/Leisure Group market with a Lodging Demand Potential Index of 3.8 is comprised of weddings, reunions and sports teams. The Individual market includes tourists, vacationers and fishermen as well as families and individuals coming to the area for the numerous outdoor recreation activities.
- The Corporate/Commercial sectors are split with Individual lodging demand rated at 2.3, slightly below average with a yield of 92.0%. Also, the Group sector is rated at 1.0 due to the absence of larger employers and a lack of meeting space within this market.
- This information would be enhanced with more detail in a Comprehensive Hotel Market Study.

RATE SENSITIVITY FACTOR ANALYSIS

- Based upon a scale of 0 to 5 with 5 being high Rate Sensitivity, in this preliminary analysis there is evidence of slight Rate Sensitivity in the market area with an overall rating of 2.9. It appears to be split modestly with Social/Leisure segments at 3.1 and Corporate/Commercial segments at 2.6. The Social/Leisure segment is modestly above the 2.5 average while the Corporate/Commercial segment is slightly above the average of 2.5.
- This Rate Sensitivity is based on comparing the historical weekday average ADR in the twelve-month period ending July, 2013 with the competitive set's projected ADR's for "today" and in the near future. A review indicated that rates are growing at a relatively modest rate (the five-year average annual rate is 2.87% with 2008 reflecting a decrease of (5.0%) and balance of the years from 2008 – 2012 experiencing increase ranging from 2.6% to 5.9%. Thus far through July, 2013, rates have increased 0.7% indicating that these Rate Sensitivity results are most likely realistic. Additional details on Rate Sensitivity would be provided in a Comprehensive Hotel Market Study.

FEEDER MARKETS

- The Social/Leisure *Feeder Markets* for the proposed hotel are believed to come first from the greater Chicagoland market area and then from Wisconsin and northwestern Illinois.
- Feeder Markets for the Corporate/Commercial segment will be mixed, based on Lodging Demand generators. These include supplier/vendors, professional services, medical, and local government. All other Corporate/Commercial Lodging Demand will be state and regionally driven.

UNACCOMMODATED LODGING DEMAND

- One definition of *Unaccommodated Lodging Demand* is Lodging Demand that prefers to stay in the market area but currently is staying in other areas due to the lack of adequate accommodations based either on condition or number of available rooms. Currently in the immediate Wauconda area, there is just the four-room Bed & Breakfast. Therefore, this first type of *Unaccommodated Lodging Demand* is most likely occurring on a regular basis whenever a visitor is seeking a "quality" limited-service, midscale to upper midscale hotel room. Discussions confirmed that this is occurring in the Social/Leisure sector on a wide spread basis and to a lesser degree in the Corporate/Commercial sector.

- The second definition is Lodging Demand staying in the subject market but actually desiring accommodations in other markets. This is most likely not occurring based on the lodging performance of the competitive set that reports to Smith Travel Research. These hotels are located within a nine-mile or less radius of Wauconda: Lake Zurich, Mundelein, Libertyville, Crystal Lake and McHenry. The performance of the competitive set indicated 34 nights or 9.3% of the year when Occupancy of 70.0% or higher was achieved. This is a level at which newer and better hotels may be reaching maximum Occupancy. It is a potential indication of some type of Unaccommodated Lodging Demand in the subject market area.
- Additional details on *Unaccommodated Lodging Demand* would be provided in a Comprehensive Hotel Market Study.

LODGING SUPPLY

This section of the report describes the primary competitive Lodging Supply that will affect the subject hotel, particularly for hotel room demand usage.

According to Smith Travel Research, there are twenty-six hotels and motels (1,847 rooms) within a ten-mile radius of Wauconda. This radius includes Lake Zurich, Barrington, Mundelein, Libertyville, Crystal Lake, Deer Park and McHenry, Illinois. However, five of these hotels or motels (146 rooms) do not report data to Smith Travel Research. Eleven of these hotels (1,057 rooms) were deemed direct competitors of the proposed hotel because they report to Smith Travel Research and they are located in the communities previously mentioned. All of these communities, with the exception of Crystal Lake and McHenry, are conveniently located on either US Route 12 or Illinois State Route 176. These roads provide easy access to/from Wauconda. Exhibit 3 of this report shows the geographic location of these primary competitive properties in relation to the proposed hotel. These properties are highlighted in the following chart. This competitive set may require modification when a specific hotel development is selected.

COMPETITIVE HOTELS				
Number of Hotels:		11		
Number of Hotel Rooms:		1,057		
Chain Related:	Hotels:	11	% Overall Mark	100.0%
	Rooms:	1,057	% Overall Mark	100.0%
Non-Chain Related:	Hotels:	0	% Overall Mark	0.0%
	Rooms:	0	% Overall Mark	0.0%
PRODUCT DIFFERENTIATION ANALYSIS				
CATEGORY	NUMBER OF HOTELS	PERCENT OF MARKET	NUMBER OF ROOMS	PERCENT OF MARKET
Budget	0	0.0%	0	0.0%
Economy <i>Crystal Lake: Super 8 - 57 rms.</i> <i>McHenry: Super 8 - 48 rms.</i>	2	18.2%	105	9.9%
Mid-Scale (Limited-Service)	0	0.0%	0	0.0%
Mid-Scale (Full-Service)	0	0.0%	0	0.0%
Mid-Scale Extended Stay <i>Libertyville: Candlewood Suites - 122 rms.</i>	1	9.1%	122	11.5%
Upper Mid-Scale (Limited Service) <i>Lake Zurich: Holiday Inn Express & Suites - 86 rms.</i> <i>Deer Park: Hampton Inn Suites Chicago Deer Park - 104 rms.</i> <i>Crystal Lake: Country Inn & Suites - 80 rms., Comfort Inn - 57 rms.</i> <i>Libertyville: Hampton Inn Suites - 96 rms.</i> <i>McHenry: Hampton Inn - 117 rms.</i> <i>Mundelein: Comfort Inn & Suites - 93 rms.</i>	7	63.6%	633	59.9%
Upper Mid-Scale (Full Service) <i>Crystal Lake: Holiday Inn Chicago NE Crystal Lake Conv. Ctr. - 197 rms.</i>	1	9.1%	197	18.6%
Upscale (Select-Service)	0	0.0%	0	0.0%
Upscale Suite (Full-Service)	0	0.0%	0	0.0%
Upscale Extended Stay	0	0.0%	0	0.0%
TOTALS	11	100.0%	1,057	100.0%
Average Room Size:			96.1	
<i>Source: HMI</i>				

- Selection of the primary competitive hotels was based on: 1) Economy to upper mid-scale hotels in communities within 8.5 miles or less of Wauconda; 2) they must have relatively convenient access to Wauconda; and 3) they must report data to Smith Travel Research. These hotels were selected so that a sufficient sample was available to analyze the Smith Travel Trend Report.
- Several other “motels” and economy properties that do not report to Smith Travel Research are located in this area, but they were not considered to be primary competitors of the proposed hotel due to their age, location and/or quality.
- Per Smith Travel Research, the primary competitive hotels in this market are heavily oriented toward the upper mid-scale, limited-service category. They are also located in communities surrounding Wauconda. These hotels are well positioned to serve the subject market’s Rate Sensitivity and the diversity of the Lodging Demand researched.
- The average size of the hotels in the primary competitive set is 96.16 rooms, per Smith Travel Research.
- All of the hotels in the primary competitive set are nationally branded. A strong regional or national brand affiliation is recommended for the proposed hotel. This would assist in positioning the hotel in the market and enable it to compete favorably in the broader market.

PROJECTED OCCUPANCY AND AVERAGE DAILY RATE

The following chart highlights advertised competitive hotel rates, anticipated Occupancy performance and the projected ADR rates for the Statistical *Competitive Set*.

COMPETITIVE HOTEL OCCUPANCY & RATES						
PROPERTY	Occ. Perform.	RATE ANALYSIS				PROJECTED ADR
		SINGLE	DOUBLE	WEEKEND	CORP.	
<u>Deer Park, IL</u>						
Hampton Inn Suites	Average	\$120-\$126	\$120-\$126	\$126-\$132		\$104.96
<u>Crystal Lake, IL</u>						
Comfort Inn	Average	\$104-\$114	\$104-\$114	\$104-\$114		\$87.20
Country Inn & Suites	Above	\$129-\$134	\$129-\$134	\$149-\$154		\$104.71
Holiday Inn Chicago NW	Average	\$112-\$121	\$112-\$121	\$126-\$133		\$98.40
Super 8	Below	\$68-\$78	\$68-\$78	\$68-\$78		\$58.40
<u>Lake Zurich, IL</u>						
Holiday Inn Express	Above	\$118-\$128	\$118-\$128	\$128-\$137		\$102.20
<u>Libertyville, IL</u>						
Candlewood Suites	Above	\$100-\$120	\$100-\$120	\$100-\$120		\$85.80
Hampton Inn Suites	Above	\$89-\$109	\$89-\$109	\$89-\$109		\$84.15
<u>McHenry, IL</u>						
Hampton Inn	Average	\$124-\$133	\$124-\$133	\$124-\$133		\$104.09
Super 8	Below	\$68-\$71	\$68-\$71	\$70-\$75		\$56.80
<u>Mundelein, IL</u>						
Comfort Inn & Suites	Above	\$85-\$97	\$85-\$97	\$85-\$97		\$75.53
COMPETITIVE MARKET AVERAGE DAILY ROOM RATE (ADR):						\$91.05
Source: HMI						

In a preliminary review of the subject market's rates, there are three estimated rate tiers in the competitive set.

- The first rate tier includes the Hampton Inn and Suites in Deer Park (\$104.76), the Country Inn and Suites (\$104.71), the Holiday Inn Chicago NW (\$98.40), the Holiday Inn Express (\$102.20) and the Hampton Inn in McHenry (\$104.09). The first rate tier has a 2013 projected average ADR of \$102.83 for a 112.9% yield to the projected 2013 average rate of \$91.05.
- The second rate tier includes the Comfort Inn in Crystal Lakes (\$87.20), the Candlewood Suites (\$85.80), the Hampton Inn Suites in Libertyville (\$84.15) and the Comfort Inn and Suites in Mundelein (\$75.53). This tier has a projected 2013 overall average ADR of \$83.17 for a 91.3% yield to the projected average ADR of the competitive set,.
- The third rate tier includes the two Super 8 hotels in the competitive set with projected 2013 ADR's of \$58.40 and \$56.80. This rate tier is projected to achieve a 2013 average ADR of \$57.60 with a 63.3% yield to the competitive set's projected average ADR.

RATE POSITIONING

The suggested preliminary rate positioning for the proposed hotel in the Wauconda market is in the second or middle rate tier. Depending on the specific type of hotel developed, the proposed hotel should be positioned in the upper half of the middle rate tier described above. This would be at a rate of \$87.23 with a yield of 95.8% to the competitive set's projected 2013 average ADR of \$91.05 once the proposed hotel stabilizes in its third year of operation. This positioning would be verified in a more comprehensive hotel market study when a specific brand is identified. This rate positioning will most likely result in the development of a solid mid-scale hotel.

The newness of the proposed hotel, as compared to the age of the other middle rate tier properties, could enable it to be the tier's rate leader. It could achieve an estimated ADR in 2017 of \$96.93 or, potentially, a yield of 95.8% by its third year of operation. It is recommended that positioning the proposed hotel in the \$86 - \$89 range be considered when it opens in 2015 with a 91.6% yield to the competitive set's overall average ADR. This would position the proposed hotel's rates slightly below the average of the middle rate tier upon opening. Therefore, the proposed hotel is projected to achieve a yield to the competitive set's average ADR of 93.6%-95.8% once it stabilizes in its second and third years of operation.

COMPETITIVE FACTOR ANALYSIS

A *Competitive Factor Analysis* was also performed for the primary competitive set. This analysis was based on a scale of 0 to 5, with 5 indicating strong competitive factors and 2.5 being average. The following chart is an analysis of the primary competitive set in the categories of *Rate, Facility, Brand, Location* and *Market Segmentation*. It also indicates the overall competitive factor for each property in the subject market. This report provides an overview of the respective competitive position each hotel occupies within the market. The following chart shows the competitive factor analysis of the *Primary Competitive Set*.

COMPETITIVE FACTOR ANALYSIS									
PROPERTY NAME	AGE (Yrs.)	# OF ROOMS	AAA RATING	RATE	FACILITY	BRAND	LOCAT.	MKT. SEG.	COMP. FACTOR
<u>Deer Park, IL</u> Hampton Inn Suites	4.3	104	3	2.2	4.0	4.5	2.0	3.0	3.1
<u>Crystal Lake, IL</u> Comfort Inn	12.3	57	2	2.6	2.5	3.0	2.0	2.0	2.4
Country Inn & Suites	13.0	80	3	2.2	3.0	3.5	2.0	2.5	2.6
Holiday Inn Chicago NW	25.0	197	3	2.3	2.5	4.5	2.0	2.0	2.7
Super 8	30.0	57	1	3.9	1.0	2.0	2.0	1.0	2.0
<u>Lake Zurich, IL</u> Holiday Inn Express	4.5	86	3	2.2	4.0	4.5	3.0	4.0	3.5
<u>Libertyville, IL</u> Candlewood Suites	15.3	122	2	2.7	2.5	3.5	2.5	3.5	2.9
Hampton Inn Suites	4.3	96	3	2.7	4.0	4.5	2.5	3.5	3.4
<u>McHenry, IL</u> Hampton Inn	10.5	117	3	2.2	4.0	4.5	2.0	3.0	3.1
Super 8	16.5	48	N/A	4.0	1.0	2.0	2.0	1.0	2.0
<u>Mundelein, IL</u> Comfort Inn & Suites	24.5	93	2	3.0	2.5	3.0	2.5	3.5	2.9
COMBINED RATING	12.6		2.8	2.8	2.8	3.6	2.2	2.6	3.0

Source: HMI

The overall competitive factor is 3.0, or slightly above average for the competitive set. Brief highlights of the primary competitive set include:

- Strong national and/or regional brands are well represented in the competitive set with four strong brands being present.
- Eight of the eleven hotels in the competitive set are considered upper mid-scale brands by Smith Travel Research.
- Six members of the competitive set received overall ratings of 2.9 – 3.4 driven by their facility and brand ratings.
- Only one member of the competitive set received an above average rating for location: the Holiday Inn Express in Lake Zurich. This is because it is the closest hotel to the subject market at 4.9 miles and it is located on US Route 12 which passes the proposed hotel site.
- This analysis would be enhanced with more detail in a Comprehensive Hotel Market Study.

COMPETITIVE LODGING PERFORMANCE

The following section reviews the Competitive Lodging Performance for the subject market area. This lodging performance is based upon the primary competitive hotels identified in this report with data from 2007 through July, 2013

- The operating performance information was obtained by reviewing the performance of the primary competitive set in the surrounding communities discussed previously. This data was obtained from Smith Travel Research.
- *Lodging Demand Growth* was modestly impacted by the national recession which began in mid-2008. Lodging Demand displayed mixed results with 2008, 2009 and 2012 reflecting negative growth of (9.5%), (2.9%) and (2.0%), respectively. The remaining years reflected positive growth of 26.3% and 9.7% in 2010 and 2011, respectively. Year-to-date in 2013 (i.e. July, 2013), Lodging Demand Growth was up 5.1%. When compared to the performance of the prior three years, this would indicate an annual increase of 7.5% in 2013. To be conservative, a Lodging Demand growth rate of 5.16% (the actual growth rate through July, 2013) will be applied in 2013. An annual average growth rate of 4.46% was projected over the six-year period from 2007 – 2013 while utilizing this 5.16%. This will be applied in 2014 and 2015 for projection purposes in this report. For a more conservative projection in 2016 and 2017, this rate of growth was cut in half to 2.23%. This percentage will be applied to these two years.

- There were three additions to *Lodging Supply Growth* in the subject market since 2005 and they all entered this market in 2009. They were the 104-room Hampton Inn in Deer Park, the 86-room H. It appears this market has the ability to adequately absorb additions to lodging supply within a reasonable amount of time.
- *Occupancy* data shows that the primary competitive set had at its highest annual rate in 2007 at 63.4% with a low of 43.3% in 2007. Occupancy results mirrored Lodging Demand results from 2008-2012 with similar decreases in 2008, 2009, and 2012. The recent national recession that was at its height in 2008 and 2009 is an obvious contributor to these decreases in growth. The Occupancy in 2012 was 52.3%. Through the first seven months of 2013, the Year-to-date Occupancy was 53.9%. When compared to the same period in the prior year, this indicates an annual Occupancy in 2013 of 55.0%.
- *Average Daily Rate (ADR)* trends were more positive over the period covered, with a (5.0%) decrease in just one year, 2009. Annual increases in the remaining years ranged from 2.6% to 5.9%. Year-to-date through July, 2013, ADR has increased 0.7%. When compared to the average results over the prior three years, this indicates an annual increase in 2013 of 1.46% which will be used for projection purposes in this report. The projected six-year (2007 – 2013) average annual increase of 2.67% will be used for projections in this report for all future years commencing in 2014.
- *Revenue Per Available Room (RevPAR)* statistics showed that the primary competitive set increased at an average annual rate of 0.3% over the five-year period from 2007– 2012. The rate of change ranged from (28.3%) in 2009 to 15.7% in 2011.

This review of competitive lodging performance would be discussed in greater detail in a Comprehensive Market Study.

ISSUES AND RISKS

The following section deals with topics that should be addressed when undertaking a hotel development project such as the one studied in this report. Many of these topics are common to hotel development and are addressed here as a matter of due diligence in evaluating the subject market and subject site for the proposed hotel. Also highlighted in this section are any concerns which have arisen during the research portion of this report that would directly affect the hotel development. This may require additional research by the developer when pursuing the development of the proposed hotel.

COMPETITIVE PRICING PRESSURES

- Regarding *Competitive Pricing Pressures*, the proposed mid-scale, limited-service hotel will need to be sensitive to the pricing strategies established in the greater Wauconda and west central Lake County market area. As discussed previously, the potential Rate Sensitivity in the Social/Leisure market segments as well as in the Corporate/Commercial market segments will impact the potential for rate growth.
- It is recommended that the proposed hotel have the capability of increasing rates during peak demand periods and the ability to offer solid price/value at lower rates during slower demand periods.
- A mid-scale hotel product is recommended for this subject market. Rate positioning was discussed previously in this report. Positioning the proposed hotel in the \$86-\$89 range should be considered in 2015 when this property is anticipated to open. This would render a 91.6% yield to the average projected ADR for the primary competitive set and would position the proposed hotel in the upper half of the middle rate tier as previously discussed in this report.
- The proposed hotel is anticipated to yield 93.6% to the overall market in 2016 and 95.8% in 2017, its second and third years of operation. This will be similar to what the upper half of the middle rate tier is projected to achieve. This is based on it being a new hotel versus the older age of its competitors and on its exclusive location in the Wauconda market.
- Modest growth in ADR is anticipated. At this time, a 1.46% rate of growth is projected through July, 2013 based on Smith Travel Research data. In 2014 and all future years, a projected six-year (2007 – 2013) average annual growth rate of 2.67% for the competitive set will be used for projection purposes in this report. During the prior five years, the average annual growth rate ranged from (5.0%) in 2009 to 5.9% in 2012.

GROWTH IN LODGING DEMAND

- *Lodging Demand* displayed mixed results over the five-year period from 2008–2012 with 2008, 2009 and 2012 reflecting negative growth of (9.5%), (2.9%), and (2.0%), respectively. The remaining years reflected positive growth of 26.3% and 9.7% in 2010 and 2011, respectively.
- Year-to-date in 2013 (July, 2013), Lodging Demand Growth was up 5.1%. When compared to performance over the prior three years, this would indicate an annual increase in growth of 7.5% in 2013. To be conservative, a Lodging Demand growth rate of 5.16% (the actual growth rate through July, 2013) will be applied in 2013. A projected annual average growth rate of 4.46% will be used over the six-year period (2007 – 2013) while utilizing this 5.16%. This will be applied in 2014 and 2015 for projection purposes in this report. Then in 2016 and 2017 to project conservatively, this rate of growth was cut in half to 2.23% and will be applied in these two years.

GROWTH IN LODGING SUPPLY

- Three hotels contributed to the *Lodging Supply Growth* in this market area since 2005 and they all opened in 2009. They include the 104-room Hampton Inn in Deer Park, the 86-room H.
- Since this is a “regional market”, Lodging Supply growth should be monitored closely for its impact on hotel operations at the proposed hotel and in the region.

PROPERTY TAXES

- A detailed analysis of the *Property Tax* structure in the Village of Wauconda was not within the scope of this report. The developer should analyze the property tax structure of the village as well as Lake County.

POLITICAL CLIMATE

- The *Political Climate* in the subject market was reported to be supportive of development in the Village of Wauconda and in Lake County.

ENVIRONMENTAL CONCERNS

- No unusual *Environmental Concerns* were noted at the site areas for the proposed hotel. A detailed Environmental Impact study was not within the scope of this report. Toxic waste issues were not directly addressed within this study. However, the developer should conduct necessary environmental impact testing to make sure that the proposed hotel is in compliance with local ordinances and environmental regulations for the area. Additionally, this should include a review of previous use, soil integrity, water drainage, water seepage, flood plain, toxic waste issues, etc.

ZONING AND ARCHITECTURAL CONCERNS

- Village officials indicated that zoning is either already in place or it will be to support the proposed hotel. No special architectural/design issues were reported, however these issues should be verified by the developer.

LABOR MARKET, SUPPLY AND WAGES

- *Labor Supply* in the subject market was reported to be adequate to support the proposed hotel.
- While no *Wage Issues* that would affect hotel operations were reported, wage scales would need to be competitive with other employers in the Manufacturing, Healthcare, and Retail sectors in Wauconda and Lake County.

AREA OF FRANCHISE PROTECTION

- It is recommended that an *Area of Franchise Protection* be established to ensure that there is no encroachment by a similarly branded property in the subject market. This includes a minimum radius of eight to ten miles around Wauconda for at least three to five years until the proposed hotel stabilizes. This will require negotiating with the proposed franchise brand to ensure adequate protection. Areas of Franchise Protection should be established to cover the primary subject market area identified in Exhibit 3 of this report.

CONCLUSIONS

Based upon the research conducted, the recommended size and type of hotel product for the proposed property is a 50-room, mid-scale hotel, with traditional rooms, a few suites, and a few “extended stay” style rooms. This style of property will have the variety of rooms to satisfy the Lodging Demand in the market area. These projections are based upon the subject market’s performance at the time of this report and the timely completion of the project discussed herein (based upon this report’s presentation). Effects of preliminary Occupancy, Average Daily Room Rate, Sale Revenue, Preliminary Operational Performance, and Benchmark Development Costs will be reported accordingly along with recommendations for the proposed hotel. This information would be enhanced with more details in a Comprehensive Hotel Market Study.

Additional details regarding the proposed hotel type and size are presented in the preliminary *Property Recommendations* section of this report. Other support amenities, which would be discussed in more detail in a Comprehensive Hotel Market Study, should be considered part of this hotel development as well.

In this projected scenario, the proposed hotel is scheduled to open in early 2015 with this as its first full year of operation. The opening schedule for the proposed hotel is discussed later in this section.

PRELIMINARY PROJECTED PROPERTY PERFORMANCE

The following chart shows the proposed hotel’s projected performance in Occupancy, Average Daily Rate and Projected Revenue in its third year of operation, 2017. The projected performance estimates included in this section would be reviewed in greater detail in a Comprehensive Hotel Market Study for a specific hotel development project. The specific type, style and brand of hotel to be developed could affect these estimates and projections.

PROJECTED PERFORMANCE 50-ROOM, MID-SCALE, LIMITED-SERVICE PROPERTY			
	PROJECTED MARKET PERFORMANCE <i>PRESENT</i> MARKET	PROJECTED MARKET PENETRATION	PROJECTED HOTEL PERFORMANCE 50 <i>ROOMS</i>
OCCUPANCY			
Probable	61.3%	130.5%	80.0%
ADR			
Probable	\$101.18	95.8%	\$96.93
RevPAR			
Probable	\$62.01	125.0%	\$77.52
REVENUE			
Probable	NA	NA	\$1,414,794
<i>Projected performance is +/- 5 percentage points and will be affected by changes in Lodging Supply and Demand growth levels used to formulate these projections.</i>			
<i>Source: HMI</i>			

Occupancy

- In the above calculations, performance of the primary competitive set was used to estimate the performance of the proposed limited-service, mid-scale hotel. It is believed that this hotel would represent the trends in the overall market.
- It is estimated that the proposed hotel would have a 50% impact factor on the primary competitive set hotels previously described in this report. This is due the proposed hotel being expected to attract lodging demand currently staying at the primary competitive set of hotels while also drawing demand from other hotels and motels previously referenced in this report.
- The average sized hotel in the primary competitive set is 97.0 rooms. Therefore, the proposed 50-room hotel will have a yield at 194.0 to the average sized property in the competitive set. This will enable the proposed hotel to achieve its projected Occupancy with fewer rooms. However, due to the limited number of Corporate/Commercial Lodging Demand generators in the proposed hotel's market area, a more conservative 67.3% of this 194.0% yield or 130.5% was applied for 2017, the third full year of operation. This 130.5% yield was utilized because it caps the projected Occupancy for the proposed 50-room hotel at 80.0%. Occupancy was capped at 80.0% to maintain a conservative approach to these preliminary projections.
- Lodging Demand Growth was projected to increase at an average rate of 3.71%. As previously discussed in this report, it will be 5.16% in 2013, 4.49% in 2014 and 2015, and 2.23% in all future years.

- The proposed hotel is anticipated to yield 117.8% to the market in 2015, 124.0% in 2016, and 130.5% in 2017. As previously discussed, the size adjustment being utilized could reach as high as 194.0%. However, the highest level utilized was 130.5% since the number of Corporate/Commercial Lodging Demand generators in the Wauconda market is significantly less than in primary competitive set market. Also, this caps the projected Occupancy for the proposed hotel at 80.0%. This information would be enhanced in detail in a Comprehensive Hotel Market Study.

Average Daily Room Rate

- These ADR projections were based upon comparing the proposed hotel with the primary competitive set hotels. The proposed hotel should represent the upper half of the middle rate tier's operational trends in this market.
- A 1.46% ADR growth rate was applied in 2013 and 2.67% was applied in all future years as previously discussed in this report.
- With the rate positioning in this report, ADR should achieve a 93.6% yield to the average of the overall subject market by the second year. It will increase to 95.8% in the third year of the proposed hotel's operation. This would position the proposed hotel with the rate leaders in the middle rate tier. Its first year yield of 93.6% was projected by utilizing the average of the middle rate tier to the average ADR of the primary competitive set. This progression of ADR build up would allow the proposed hotel to become stabilized in the subject market.
- To attain these ADR projections, the proposed hotel must be properly positioned per the recommendations in this report. This includes facility, product and services offered. Also, the rates established for the proposed hotel must be competitive with the overall market's rate structure and that of the primary competitive set. This information would be enhanced in a Comprehensive Hotel Market Study.

Projected Revenue

- The revenue projections in this report are based on the Occupancy and ADR projections discussed above. The build-up of Lodging Demand and ADR at the proposed hotel during its first three years will increase its RevPAR yield from 107.5% the first year to 125.0% the third year. This information would be enhanced in more detail in a Comprehensive Hotel Market Study.

PRELIMINARY OPERATIONAL PROFORMA

The following Preliminary Operational Proforma chart depicts the Projected Performance of the proposed mid-scale, limited-service hotel based on the Occupancy and Average Daily Room Rates established in this report.

PRELIMINARY OPERATIONAL PROFORMA			
	2015	2016	2017
Revenue	\$1,134,957	\$1,283,814	\$1,449,957
Departmental Expenses	\$312,551	\$353,544	\$399,298
Undistributed Operating Expenses	\$294,765	\$333,425	\$376,575
Gross Operating Profit	\$538,780	\$609,445	\$688,315
<i>*Note: GOP is before Fixed Costs of P&I, Real Estate Tax, Insurance, Management Fees, Franchise Fees & Reserve for Replacement.</i>			
<i>Source: HMI</i>			

The expense amounts and Gross Operating Profits (GOP) in the chart above were calculated by applying the performance results of the mid-priced hotel segment reported in the Smith Travel Research *Host Report – 2012* on the US Lodging Market. In a full Operational Proforma and Investment Analysis, the results in the above chart would be expanded to show greater detail and would forecast cash flow after debt service.

BENCHMARK DEVELOPMENT COST FACTOR

Based on preliminary Occupancy and Average Daily Room Rate projections, Benchmark Development Costs for the proposed hotel were calculated. These provide a preliminary indication of the viability of developing the proposed hotel. More comprehensive feasibility research should be performed to obtain anticipated operational expenses and fixed cost structuring such as debt service, property taxes, insurance, and depreciation. It would also assist in formulating a more thorough analysis of the financial viability of this hotel project. Land cost is another factor that would have significant impact on Benchmark Development Costs.

Benchmark Development Costs include all costs associated with the proposed hotel's development up to its stabilized year of operation: land costs; land preparation costs; development costs; construction/renovation costs; furniture, fixtures and equipment (FF&E); pre-opening operational and marketing expenses; and cash flow shortages to a stabilized year of operation. Any other associated development costs would also be part of this calculation. A developmental Occupancy factor of 60.0% was used for this proposed mid-priced, limited-service hotel.

A factor of \$1.35 of Average Daily Room Rate per thousand dollars of development cost was also utilized for this proposed mid-priced, limited-service hotel. Deviations from the developmental Occupancy and Average Daily Room Rate Factors were calculated based upon Occupancy and Average Daily Room Rate Projections established previously in this report.

With that in mind, the following preliminary Benchmark Development Costs were calculated.

BENCHMARK DEVELOPMENT COSTS		
	ALLOWABLE PER ROOM*	ALLOWABLE TOTAL PROJECT COST*
50 Rooms	\$88,433	\$4,421,653
<i>*These projections will be affected by changes in Projected Occupancy or Projected ADR.</i>		
<i>Source: HMI</i>		

Ideally, as the developer calculates development costs for the proposed hotel, their total should not surpass these preliminary break-even Benchmark Development Costs. Exceeding these Benchmark Development Costs may indicate that the property is not financially feasible to pursue. However, projected development costs below these Benchmark Development Costs may indicate that additional research should be performed by the developer to determine the overall economic feasibility of developing this hotel.

The Benchmark Development Cost calculations and the return calculations listed above are only a few of many benchmarks the developer should utilize in determining the feasibility of this proposed hotel project. These calculations do not take into account any present value calculations. They would be projected in an actual Operational Proforma or in an Analysis of Cash Flow and Return on Investment. The actual Return on Investment should include returns on both the projected Sales Value and the Cash Flow analysis for the proposed hotel.

PRELIMINARY PROPERTY RECOMMENDATIONS

The following Property Recommendations were based upon the research conducted for this report.

Property Type

- This report provides preliminary recommendations and focuses on developing a mid-scale, limited-service hotel in the Wauconda, Illinois market. The preliminary projections in this report reflect this type of hotel positioning as well. It is anticipated that the required support elements of a limited-service, mid-priced hotel would be provided at this hotel. This includes the appropriate product offerings and guest services such as a health/fitness center and indoor pool if cost effective.
- The Market Segmentation outlined in this report reflects support for this type of hotel product. Developing a mid-scale, limited-service hotel with national/regional brand recognition fills a niche in this market and would be necessary to be competitive.

Property Size

- For this report, the proposed hotel's Property Size was calculated at 50 rooms. This is 48.5% smaller than the average sized hotel. This size hotel, given the preliminary projections, will produce an approximate 75%-80% Occupancy level when this hotel is stabilized. A larger hotel would under-perform this Occupancy level.
- Developing more than or fewer than 50 rooms would modify the projected levels of Occupancy performance. This size property should be well absorbed into this subject market within approximately two years or less.
- The preliminary projections in this report would be enhanced in a Comprehensive Market Study including reviewing the projected size of the proposed hotel to include as many as 60 to 65 rooms.

Property Amenities

- Recommended Property Amenities should be compatible with the product type and national/regional brand affiliation selected for the proposed hotel.
- Additional property amenities and services which may be required are as follows:

- The proposed hotel should include guest amenities such as a small fitness facility/exercise room. An indoor pool with a whirlpool could also be considered and was strongly recommended by local officials. Most members of the competitive hotel set have indoor pools. This provides them with a potential competitive advantage when targeting certain lodging demand generators, especially in the Social/Leisure sector. In smaller communities, an indoor pool has been regarded as a community amenity as well. Therefore an indoor pool is recommended for the proposed hotel to be competitive.
- An enhanced indoor pool area would add marketability for the Social/Leisure markets in the subject market. It would give the proposed hotel a competitive advantage since this feature is not currently offered in this market. However the cost and benefit of this added amenity should be analyzed since it would incur additional development and operational costs. An indoor pool could add some support for slightly higher ADR from the Social/Leisure market in the initial years of operation.
- Adding a small conference room that would accommodate fifteen to thirty people could add diversity to the proposed hotel. Although group business is currently not a large market in Wauconda, a small conference room could attract smaller business groups. It should be multi-functional and sub-dividable to best accommodate diverse group demand.
- Sufficient parking should be available for oversized vehicles, especially vehicles with attached boat trailers.

Sleeping Room Configuration

- The Sleeping Room Configuration should be based on the Market Segmentation Profiles presented earlier in this report. The rooms should be able to accommodate both the Corporate/Commercial and the Social/Leisure market segments. Since the projected demand is weighted more toward the Social/Leisure vs. the Corporate/Commercial Lodging Demand (65% - 35%), it is recommended that there be slightly more double-queen rooms than king rooms, perhaps 65%-35%.
- Developing a few whirlpool suites is also suggested. At least one or two of the available rooms should be built in this configuration to assist in attracting leisure couples, be it on their wedding night or a getaway weekend.

- To accommodate the anticipated future lodging demand from the planned 60-bed skilled unit to be built by Wauconda Health and Rehab, perhaps a few “extended stay” rooms should be included in the mix. (Local officials stated that permits are being applied for regarding this new unit.) These extended stay units might also be attractive to vacationers.

Brand Affiliation

- A national or at the very least a regional *Brand Affiliation* is recommended and necessary for the proposed hotel to be competitive. This brand affiliation will dictate the design of the property, amenities offered, and rate positioning. A branded property would assist in positioning the proposed hotel to best capture the Corporate/Commercial and Social/ Leisure markets. HMI can assist in identifying mid-scale brands that would be appropriate for this hotel if so desired.
- Brand affiliation should be within the mid-scale hotel product category.
- The brand should have strong regional recognition. A national brand affiliation could also be considered. Affiliation with a national/regional brand would also improve quality assurance for potential guests.

Rate Strategy

- The Room Rate Strategy for this proposed hotel should be compatible with the Average Daily Room Rate projections indicated in this report. Seasonality of Room Rates is also a consideration for this property. Given the Average Daily Room Rate research performed and the projections set forth in this report, it appears that the proposed hotel could compete directly with the other middle rate tier, mid-scale, limited-service hotels identified in this subject market. This rate structure should be compatible with the traditional rate structure of the subject market’s primary competitive set. It should also be appropriate for the mid-scale hotel proposed in this report. To achieve this, the proposed hotel must match the quality of other hotel products in this market with similar rate positioning.

Opening Date

- The Opening Date for the proposed hotel should be selected based upon the seasonality of the market. Ideally, opening this hotel in early spring would capture the maximum revenue prior to the softer season beginning in November.

DISCLAIMER

The decisions presented herein were based upon the information available and received at the time this report was compiled. Hospitality Marketers International, Inc., (HMI) has taken every possible precaution to evaluate this information for its completeness, accuracy and reliability. To the best of its knowledge, HMI feels the information and decisions presented herein are sound and reliable.

At the present time of this report, the United States and world economies are in a major recessionary period. The results of this recession have had significant effects on the economy and social attitudes of the United States. This recession has also altered normal travel patterns by various market segments generating potential Lodging Demand. At the time of the writing of this report, the United States travel industry, and specifically the hotel industry, are still adjusting to and potentially recovering from this recession. The actual long-term results of the recession are still uncertain. There are expectations that the United States will ultimately recover from these events and their effects on the economy and society. There are further expectations that some travel patterns could be changed indefinitely. This report will look at historical trends prior to these significant events. Performance since the start of the recession to the time of this report will also be reviewed and will attempt to factor the effects of these events into the future projections and conclusions presented in this report. Given the present state of uncertainty, HMI is not responsible for effects that occur from future political, economic or social events that ultimately alter these projections. These events should be monitored accordingly and potentially the results of this report may require updating to respond to future events.

Also, it should be understood that normal economic and marketplace conditions change constantly. HMI assumes no responsibility for information that becomes outdated once this report is written; nor is it responsible for keeping this information current after October, 2013.

It should be understood that the results presented in this report are the professional opinion of HMI and are based upon the information available at this time. These opinions infer proper and professional management of the business operation. The opinions also infer that market conditions do not change the information received upon which those opinions have been based. HMI assumes no responsibility for changes in the marketplace.

Furthermore, it is presumed that those reading this report completely understand its contents and recommendations. If the reader is unclear of the understanding of the contents, clarification should be received from its writer, HMI.

Lastly, HMI assumes that those who receive this study act in accordance with its recommendations. Any deviation from these recommendations is solely the responsibility of those receiving this report.

Further questions concerning this report should be directed to HMI.

Sincerely,
HOSPITALITY MARKETERS INTERNATIONAL, INC.

Gregory R. Hanis

Gregory R. Hanis, ISHC
President

Michael R. Hool

Michael R. Hool, CPA, ISHC
President, SHR
An HMI Network Representative

Management

Research

Marketing

Gregory R. Hanis, ISHC
President

ghanis@hospitalitymarketers.com
262-490-5063

Member of



Professionally Serving the United States & Canada for Over 31 Years with Offices in Milwaukee, Wisconsin and Fort Myers, Florida

5415 S. Majors Drive
New Berlin, WI 53146

10014 Majestic Avenue
Fort Myers, FL 33913

800-657-0835
Fax: 239-245-8161

hmi@hospitalitymarketers.com
www.hospitalitymarketers.com