

# **HOSPITALITY MARKET STUDY**

**CONNELLSVILLE, PENNSYLVANIA**

**THE TRAIL TOWN PROGRAM,  
AN INITIATIVE OF  
THE PROGRESS FUND**

**August 28, 2008**

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# **INTRODUCTION**

## **Background**

The Progress Fund (the Client), is a non-profit loan fund that creates jobs and improves communities by providing entrepreneurial coaching and capital to small businesses in the travel and tourism industry. The Progress Fund serves 39 counties in Pennsylvania, Appalachian Ohio, and the entire state of West Virginia. The Progress Fund was founded in 1997 and has made 255 loans totaling more than \$23.5 million to 164 enterprises creating or preserving more than 1,816 jobs.

In 2007 The Progress Fund and the Allegheny Trail Alliance (ATA) launched an economic development initiative to capitalize on the economic benefits of the Great Allegheny Passage (GAP). This initiative, known as the Trail Town Program, envisions a corridor of revitalized trailside communities along the GAP that reap the economic benefits of trail-based tourism and recreation as part of a larger coordinated approach to regional economic development.

The 132-mile long GAP is a railroad corridor-turned-trail that connects Cumberland, Maryland with McKeesport, Pennsylvania (about 15 miles southeast of Pittsburgh) on a nearly-level surface. With the completion of the Big Savage Tunnel north of Cumberland in 2006 the GAP connected in Cumberland to the Chesapeake & Ohio Canal Towpath, thus opening the trail to Washington, DC. A segment of the Potomac Heritage National Trail, (one of eight nationally designated scenic trails), the GAP hosts 750,000 national and international visitors annually. These visitors spend millions on goods and services creating significant positive economic benefit in bordering communities.

The Trail Town Program goals are to:

1. Retain existing businesses,
2. Expand and increase revenues of existing businesses,
3. Recruit sustainable new businesses, and
4. Adopt the Trail Town vision of revitalized trailside communities along the Great Allegheny Passage and integrate its concept of a visitor-friendly environment into overall community planning.

The beneficiary communities participating in the Trail Town Program have formed cooperative marketing and development initiatives that target trail users in order to support new and existing businesses. These "Trail Towns" include West Newton in Westmoreland County, Connellsville and Ohiovale in Fayette County, Confluence, Rockwood and Meyersdale in Somerset County.

## **Situation**

The Trail Town Program goals include a focus on several business segments, one of which is lodging along the GAP. Lodging facilities ranging from campgrounds to luxury accommodations exist in several of the towns. The Client, in conjunction with the City of Connellsville, wants to learn more about hospitality market conditions in and around Connellsville, and to that end has retained Synergy Advisors Corp. (Synergy, or the Consultant) to examine and detail those conditions, with added emphasis on how the trail might influence the market.

Widewaters Development, a real estate development company based in Syracuse, New York, developed and operates a strip shopping center in Connellsville located adjacent to portions of the GAP. As part of its development agreement with the City in April 2001, Widewaters has agreed to retain a portion of its property through December 8, 2009 for the exclusive development of a lodging facility. This 2.75 acre parcel (the Subject Site) is the current preferred location for such a facility, although the Client has indicated that it would support development elsewhere in Connellsville with GAP accessibility should market conditions support that.

Widewaters retained Atlantic Hospitality Advisors in 2003 to conduct a market study specific to the demand potential for a 58-room Hampton Inn at the Subject Site. That study concluded that projections of occupancy and average room rates would not be sufficient to support development of a hotel. The study was based on an analysis of seven existing hotels in New Stanton (about 15 miles north of Connellsville) and Uniontown (about 12 miles south of Connellsville).

## **Vision**

The Client and other stakeholders that have commissioned this study envision the development of a successful lodging facility in the City of Connellsville at the Subject Site or elsewhere within the City. The facility would accommodate trail users, as well as other travelers and tourists, and fulfill the economic development goals stated above as part of the Trail Town Program.

## **Objective**

The objective of this study is to update and evaluate market conditions as they relate to the potential development of a lodging facility at the Subject Site or elsewhere in the Connellsville area, probably within close proximity to the GAP trail.

## **Market Study Methodology**

A real estate market study is a combination of a market analysis and a marketability analysis. A successful development of any kind involves building the right product (in this case a hospitality product) for the given market.

Synergy has gathered and analyzed current and relevant demographic and economic data regarding the immediate market area including tourism trends, population and income trends, employment trends, and general real estate development and occupancy trends. Examination of potential correlations between the various economic and demographic data and the demand for hotel and related facilities has been studied.

Primary market research within the competitive market, consisting of interviews with key demand generators and discussions with people who are familiar with development patterns, historical market results, and the competitive market in general has been undertaken. Among those interviewed are local and regional tourism officials, representatives of local amenities and tourist attractions, owners and/or managers of competitive and potentially competitive properties, and local economic development officials. These interviews, combined with analysis of hotel supply and demand data, have allowed us to formulate informed judgments with respect to potential demand for a hospitality facility on or near the Subject Site.

## **ASSUMPTIONS AND LIMITING CONDITIONS**

See Appendix

## **THE SUBJECT SITE**

The Subject Site of this market study is a 2.75-acre parcel located adjacent to Widewaters Commons, an 85,000 square foot strip shopping center along PA Route 201 (Vanderbilt Road) in the heart of the city about a mile from the central business district. US Route 119 and PA Route 711 meet 201 at a signalized intersection about one thousand feet from the Site. The shopping center is anchored by a 45,000 square foot Martin's Super Market and features gas pumps along with a free standing Advance Auto Parts store. The Youghiogheny River and the GAP trail lie adjacent to the center and the Site just to the north and east.

While the Subject Site enjoys relatively uncomplicated access from any of the three major roadways, visibility can be limited somewhat from busy Route 119 both north and southbound. Visibility from the GAP trail is also obscured by a large earthen embankment. The surrounding neighborhood includes dense amounts of both residential and commercial development. The Route 119 corridor is primarily retail in nature, featuring several restaurants and support facilities.

Use of the Site is restricted to a lodging facility through December 8, 2009 by way of agreement between Widewaters and the City. The City has an option to purchase the Site for \$100,000 as part of the agreement; but that option does not commence until December 31, 2010, over a year after expiration of the use restriction.

**Figure 1 – The Subject Site**



Figure 2 – The Subject Site



## MARKET UPDATE

### COMPETITIVE MARKET AREA

The area studied for this report as it relates to the potential development of a lodging facility at the Subject Site or elsewhere in Connellsville is defined primarily as the US Route 119 corridor between nearby New Stanton in Westmoreland County and Uniontown in Fayette County. The primary hospitality clusters within this region are located at transportation and employment hubs in and around New Stanton and Uniontown. Since Connellsville is situated in Fayette County, demographics for that county are presented herein with an emphasis on population and employment projections. Demographics specific to Connellsville and to the GAP are also included, since that more specific data will be of particular interest when exploring the market potential for a lodging facility. A detailed demographics report of the areas within one, three, and five miles of the Site are included as part of the Appendix to this study.

**Figure 3 – Competitive Market Area  
The US Route 119 Corridor**



## **CITY OF CONNELLSVILLE**

Connellsville is designated a third-class city, and is located in Fayette County, Pennsylvania, 57 miles southeast of Pittsburgh on the Youghiogheny River, a tributary of the Monongahela River. It is part of the Pittsburgh Metro Area. The city's population peaked at 13,608 in 1940, and was 9,146 at the 2000 Census and estimated at 8,592 in 2005.

According to the United States Census Bureau, the city has a total area of 2.4 square miles, of which 2.3 square miles is land and 0.1 square miles of it is water.

As of the census of 2000, there were 9,146 people, 3,963 households, and 2,377 families residing in the city. The population density was 4,053.5 people per square mile. There were 4,434 housing units at an average density of 1,965.2 per square mile. The racial makeup of the city was 94.54% White, 3.93% African American, 0.54% Hispanic or Latino, and less than one percent other races.

There were 3,963 households out of which 28.2% had children under the age of 18 living with them, 40.3% were married couples living together, 15.5% had a female householder with no husband present, and 40.0% were non-families. 35.9% of all households were made up of individuals and 19.0% had someone living alone who was 65 years of age or older. The average household size was 2.28 and the average family size was 2.97.

In the city the population was spread out with 24.5% under the age of 18, 7.9% from 18 to 24, 27.6% from 25 to 44, 20.7% from 45 to 64, and 19.3% who were 65 years of age or older. The median age was 38 years. For every 100 females there were 86.9 males. For every 100 females age 18 and over, there were 80.7 males.

The median income for a household in the city was \$21,070, and the median income for a family was \$28,105. Males had a median income of \$28,942 versus \$23,016 for females. The per capita income for the city was \$14,165. About 22.4% of families and 28.2% of the population were below the poverty line, including 45.5% of those under age 18 and 16.4% of those age 65 or over.

During the French and Indian War, a British army commanded by General Edward Braddock approached Fort Duquesne, crossing the Youghiogheny River at Stewart's Crossing, situated in the middle of modern Connellsville. Connellsville was officially founded as a township in 1793 by Zachariah Connell, a militia captain during the American Revolution. Connellsville became a borough in 1806 and a city in 1909 when it unified with the nearby town of New Haven. Coal mining became big business in Connellsville during the latter half of the nineteenth century, and the city became the center of the Connellsville coalfield. Heavy industry brought much wealth to the Fayette county region. However, such prosperity remained restricted to wealthy elite. Many immigrants of Italian and Slavic origins worked the coal mines and coke ovens in a state of poverty.

As the coal industry faltered in the 1950s, a wave of deindustrialization affected Connellsville, removing the sources of wealth that had sustained it in the past and resulted in a decrease in the city's population. The city remains a railroad junction, and new sources of revenue are becoming available. Recently, modern sewage systems were extended beyond the city limits, providing a draw for large businesses. The city has also promoted its location within the Laurel Highlands as a tourist attraction, including the GAP.

Connellsville is served by the Connellsville Area School District. A newspaper based in the city has been in publication for over a century. Highlands Hospital, one of three hospitals in the county, is located in Connellsville.

The main route through Connellsville is US Route 119. US 119 links Connellsville with nearby cities Uniontown and Greensburg, and provides access to many of the business on the outskirts of the city. PA Route 201 ends in Connellsville, and PA Route 711 serves as the main street through downtown before heading into the local mountains. All three routes intersect adjacent to the Subject Site. Amtrak's *Capitol Limited* provides passenger rail service to Connellsville, with service to Chicago, Pittsburgh, Washington, DC, and other points in between.

**FAYETTE COUNTY**

Fayette County was created on September 26, 1783 from part of Westmoreland County and named after the Marquis de Lafayette. Its county seat is Uniontown, located ten miles south of Connellsville and the Subject Site.

According to the U.S. Census Bureau, the county has a total area of 798 square miles. As of the census of 2000, there were 148,644 people, 59,969 households, and 41,198 families residing in the county. The population density was 188 people per square mile. There were 66,490 housing units at an average density of 84 per square mile. The racial makeup of the county was 95.30% White, 3.51% Black or African American, 0.11% Native American, 0.22% Asian, 0.01% Pacific Islander, 0.11% from other races, and 0.73% from two or more races. 0.38% of the population was Hispanic or Latino of any race. 19.8% were of German, 13.2% Italian, 11.4% Irish, 9.2% American, 8.4% Polish, 7.9% English and 6.6% Slovak ancestry.

There were 59,969 households out of which 28.7% had children under the age of 18 living with them, 51.80% were married couples living together, 12.4% had a female householder with no husband present, and 31.3% were non-families. 28% of all households were made up of individuals and 14.5% had someone living alone who was 65 years of age or older. The average household size was 2.43 and the average family size was 2.96.

In the county, the population was spread out with 22.70% under the age of 18, 7.7% from 18 to 24, 27.2% from 25 to 44, 24.20% from 45 to 64, and 18.10% who were 65 years of age or older. The median age was 40 years. For every 100 females there were 91.80 males. For every 100 females age 18 and over, there were 87.6 males

**Figure 4**

POPULATION PROJECTIONS		
	Fayette <u>County</u>	<u>Connellsville</u>
1990	149,899	9,314
2000	148,644	9,146
2005	146,142	8,920
2010	137,761	8,881
2020	134,499	9,131

Sources: US Census Bureau; Southwestern Pennsylvania Commission

**Figure 5**

<b>EMPLOYMENT PROJECTIONS</b>		
	Fayette County	Connellsville
2005	54,639	3,756
2010	55,702	3,815
2020	59,112	4,069

*Sources: US Census Bureau; Southwestern Pennsylvania Commission*

**Figure 6**

<b>FAYETTE COUNTY LARGEST EMPLOYERS 2006</b>	
<u>Employer</u>	<u>Sector</u>
The Uniontown Hospital	Health Care
Nemacolin Woodlands, Inc.	Accommodation/Food Services
Connellsville Area School District	Education
Williamhouse of Pennsylvania LLC	Manufacturing
Wal-Mart Associates, Inc.	Retail
Albert Gallatin Area School District	Education
Uniontown Area School District	Education
Teleperformance USA	Professional/Technical
Fayette County	Government
Teletech Services, Inc.	Administrative/Support

*Source: Fay-Penn Economic Development Council*

Although population in Connellsville and surrounding Fayette County has declined in recent decades, some sources predict population expansion again by 2020 as life expectancy increases and generations with more children mature. There is some evidence that the area may already be experiencing some gains in population and job growth as a result of out-migration from nearby and densely developed Allegheny County (Pittsburgh) as both businesses and residents seek lower costs and a higher quality of life. Completion of the Mon-Fayette Expressway, which will link Pittsburgh to Morgantown, West Virginia, may hasten that trend.

Much like the larger Pittsburgh region, Fayette County has seen employment expansion in certain sectors like health care, food services, retail, and tourism, mitigating job losses in the manufacturing and mining sectors.

## **THE LODGING MARKET**

### **EXISTING FACILITIES**

The following facilities are currently located within the area that has been identified as the Competitive Market Area for this study. Although numerous other facilities are also in operation in both Fayette and Westmoreland Counties, we have focused on the establishments listed in

Figure 7 given their location either within the Route 119 and/or GAP corridor. The list includes bed and breakfast establishments for which occupancy data is not available. All but three of the 15 hotel or motel facilities have supplied information to Smith Travel Research (STR) for use in tracking overall market conditions, and the three non-participants represent only 55 of the Market Area's 1,027 total rooms. STR is a recognized leader in hospitality research from which the industry generally seeks information about a given market. For this study we have selected facilities located in zip codes that would provide a reasonable depiction of market conditions that a hospitality operator would examine if considering a Connellsville location.

Figure 7

<b>COMPETITIVE MARKET LODGING FACILITIES</b>							
<b><u>FACILITY</u></b>	<b><u>ROOMS</u></b>	<b><u>SUITES</u></b>	<b><u>RATES</u></b>	<b><u>LOCATION</u></b>	<b><u>OPN</u></b>	<b><u>STR</u></b>	
<b>HOTEL/MOTEL</b>							
Budget Inn	21		\$34-\$69	New Stanton	1965	No	
Howard Johnson Express	78		\$49-\$109	New Stanton	1960	Yes	
Comfort Inn New Stanton	70		\$85-\$130	New Stanton	1996	Yes	
Days Inn New Stanton	133		\$55-\$95	New Stanton	1990	Yes	
Quality Inn New Stanton	144		\$59-\$139	New Stanton	1987	Yes	
Fairfield Inn & Suites	46	17	\$99-\$149	New Stanton	2001	Yes	
Super 8 New Stanton	59	1	\$56-\$74	New Stanton	1989	Yes	
Holiday Inn Express - Mount Pleasant	68	3	\$79-\$135	Mount Pleasant	2005	Yes	
Melody Motor Lodge	47		\$45-\$55	Connellsville	1967	Yes	
Holiday Inn Holidrome & Conf Ctr	178	1	\$135-\$169	Uniontown	1968	Yes	
Hampton Inn Uniontown	84	2	\$95-\$149	Uniontown	1997	Yes	
Super 8 Uniontown	53	8	\$71-\$150	Uniontown	2002	Yes	
Fairfield Inn by Marriott	61	8	\$69-\$130	Uniontown	1999	Yes	
Heritage Inn	19		\$49.95-\$89.95	Uniontown	1955	No	
Hopwood Motel	15		\$46-\$68	Hopwood	1956	No	
<b>BED &amp; BREAKFAST</b>							
A Bed & Breakfast at Whimsy's	4	4	\$100-\$140	Hopwood	NA	No	
Inn at Watson's Choice	11	1	\$135-\$235	Uniontown	1996	No	
The Victorian Rose	2		\$90	Leisenring	NA	No	

Sources: Smith Travel Research; Laurel Highlands Visitors Bureau

## LODGING MARKET SUPPLY AND DEMAND ANALYSIS – FAYETTE COUNTY

Figures 8 and 9 summarize aggregate market statistics for the 12 facilities that supplied information to STR for compilation of a market profile from January 2002 through June 2008. The information compiled includes actual calendar year statistics as well as year-to-date (YTD) January through June statistics for each year. Important measures of success in the industry are average daily rate (ADR), occupancy, and revenues per available room (RevPAR).

**Figure 8 - Summary Market Conditions for 13 Facilities in the Competitive Market Area by Calendar Years 2002-2007**

YEAR	OCC(%)	ADR(\$)	RevPAR(\$)	SUPPLY	DEMAND	REVENUE(\$)
2002	54.5	55.43	30.22	387,539	211,302	11,712,162
2003	54.1	58.69	31.74	393,885	213,015	12,501,213
2004	60.5	59.71	36.14	375,945	227,540	13,585,777
2005	52.8	62.43	32.95	381,416	201,318	12,567,574
2006	55.5	65.37	36.26	378,475	209,962	13,725,379
2007	57.2	67.39	38.53	374,855	214,314	14,442,572
<b>Avg</b>	55.7	61.48	34.26	382,019	212,909	13,089,113

Source: Smith Travel Research

**Figure 9 - Summary Market Conditions for 13 Facilities in the Competitive Market Area Year-to-Date January through June**

JUN YTD	OCC(%)	ADR(\$)	RevPAR(\$)	SUPPLY	DEMAND	REVENUE(\$)
2002	51.2	54.06	27.70	186,611	95,628	5,169,853
2003	51.8	57.13	29.58	197,172	102,092	5,832,837
2004	55.1	59.29	32.66	187,335	103,187	6,118,444
2005	49.3	58.86	29.00	188,768	92,988	5,473,649
2006	49.9	63.44	31.69	189,507	94,650	6,004,897
2007	51.6	66.42	34.30	185,887	95,999	6,376,400
2008	61.0	67.49	41.14	185,887	113,302	7,647,237
<b>Avg</b>	52.8	61.08	32.26	188,738	99,692	6,089,045

Source: Smith Travel Research

Unlike most markets of this size, the Competitive Market Area has actually seen a decrease in the supply of rooms of about three percent from 2002 to 2007 for a net loss of 35 rooms and a current total of 1,027 (not including suites and some specialized rooms), while demand has increased about 1.5% for the same period. Three New Stanton hotels and the Mount Vernon Inn in Uniontown were closed during this time, while only the Holiday Inn Express in Mount Pleasant and the Uniontown Super 8 were added. This has resulted in increased occupancy, ADR, and RevPAR for the market both annually and year-to-date through June. Aggregate revenues have increased a remarkable 23% during the period.

According to hotel owners and managers interviewed for this study, all establishments benefited from an increase in transient employees when Allegheny Energy, Inc. constructed new environmental control facilities at its Connellsville West Side and Masontown facilities beginning in 2001. Those projects were completed in late 2004, resulting in a significant drop in occupancy levels for 2005. The market seems to have recovered well since then, with year-to-date occupancy through June of 2008 standing at 61%, very near the national average of 61.4%. Occupancy reported by the surveyed establishments for June 2008 stood at 85.4%, a record high for the six-year survey period.

A new influx of transient employment associated with gas well drilling activities related to the Marcellus shale reserve underlying the region has resulted in increased occupancy this year, and that trend should continue over the next three years. Construction of portions of the Mon-Fayette Expressway between Uniontown and Brownsville to the west is also boosting occupancy levels. Operators interviewed all indicated that they have seen increases in tourist related business during at least the last five years, especially between the months of May and October. Some portion of this business is attributable to use of the GAP and related amenities, as detailed further herein.

Overall threats to the promise of a bright future for hotels in the region include an overall sluggish economy and rising fuel prices. A continuation of either or both over the next several months could weaken the increases seen in travel and tourism. It must be noted also, however, that these threats could actually increase interest in local tourism as fewer people travel further for vacation and recreation. Local tourism officials have indicated that this trend may already be occurring during the current peak travel season.

### **Latent Demand**

Figures 8 and 9 illustrate the accommodated demand in the Competitive Market. Because this estimate is based on historic occupancy levels, it includes only those hotel rooms that were used by guests. Latent demand considers guests who could not be accommodated by the existing competitive supply, and can be categorized by un-accommodated and induced demand.

### **Un-Accommodated Demand**

Un-accommodated demand refers to individuals unable to secure accommodations in the market because all 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 historical accommodated room night demand. Market wide occupancy in excess of 70% is widely accepted within the industry as a sign of un-accommodated demand in the market.

This is the case with the Competitive Market Area during peak summer months. Un-accommodated demand is indicated if the market is at all seasonal with a distinct high season and low season. Such seasonality indicates that while year-end occupancy may average below 70%, the market still sells out many nights during the year. Therefore yearly occupancy levels are never able to reach the 70% mark, even though there is un-accommodated demand during the summer months.

Accordingly, moderate to strong levels of un-accommodated demand exist in this marketplace, and appear to be leisure in nature since it is most apparent to the peak leisure months of June, July, and August. The areas in Figure 10 highlighted in green indicate un-accommodated demand. Note the record high occupancies reported in May and June of 2008.

**Figure 10 - Occupancy by Month and Un-accommodated Demand**

YR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL	YTD JUN
2002	37.9	44.4	51.4	53.9	54.8	64.9	70.3	69.4	58.8	58.5	45.6	42.5	54.5	51.2
2003	41.4	46.4	49.9	51.0	59.9	61.9	70.6	69.1	56.0	55.2	43.9	42.4	54.1	51.8
2004	42.7	48.6	51.5	55.2	63.6	68.8	75.1	74.8	65.6	66.8	60.4	52.5	60.5	55.1
2005	49.1	44.7	43.5	48.1	50.9	58.4	66.6	66.3	62.2	57.4	45.7	39.1	52.8	49.3
2006	37.0	42.0	45.5	51.6	56.5	67.0	72.0	73.0	64.7	62.9	52.4	40.9	55.5	49.9
2007	38.2	44.4	48.3	48.4	56.1	74.4	74.2	75.9	66.3	66.2	52.7	40.1	57.2	51.6
2008	40.5	47.9	56.3	62.1	72.8	85.6								61.0

Source: Smith Travel Research

## Induced Demand

Induced demand represents the additional room nights that are expected to be needed in the market after the introduction of a new demand generator. Typical situations that induce hotel demand include new employment, amenities, or the introduction of a distinct chain-affiliated hotel with unique facilities such as a lodge, convention center, or casino. Research for this study and interviews with existing operators as well as tourism and economic development officials indicate that induced demand for rooms exist in Connellsville and in the Competitive Market as a whole. Demand generators include employment associated with the Marcellus shale gas extraction activity, travel and tourism associated with the region's recreational and historical attractions, and expanded use of the completed GAP.

## FACTORS AFFECTING DEMAND

### TRAVEL AND TOURISM

The maturing "baby boom" population (those born between 1945 and 1964) has had a tremendous impact on the U.S. economy. As this affluent generation ages, increased interest in retirement, travel, and leisure activities have become high growth sectors. Tourism is now a

close second to agriculture as Pennsylvania's leading industry, both long ago surpassing manufacturing, the leading industry in the Commonwealth at one time.

Fayette County and the Laurel Highlands region (Fayette, Somerset, and Westmoreland Counties) have benefitted from the growth in travel and tourism. Tourist attractions like Fallingwater, Kentuck Knob, Fort Necessity, Ohiopyle State Park, Nemaquin Woodlands Resort, Seven Springs Resort, Hidden Valley Resort, and the region's vast outdoor and recreational opportunities appeal to growing numbers of baby boom and other tourist categories. Connellsville is well situated geographically to all of these attractions and is well connected to major population centers in Pittsburgh and Washington, DC by way of Interstates 70, 76, and 68, US Route 119, and the Mon-Fayette Expressway.

While rising fuel and other prices stand to threaten portions of this industry, increasing interest in outdoor recreation and natural surroundings have generally been good for areas like the Laurel Highlands. Growing use of the GAP and other attractions should be an added enhancement to the demand potential for a lodging facility in Connellsville.

Penn State University's Fayette Campus, located about five miles from the Subject Site, has added a hotel management school in response to Fayette County's enactment of a three percent hotel occupancy tax earlier this year.

## **LODGING TRENDS**

While the growth of limited service hotels such as Super 8, Comfort Inns, and EconoLodge grew at a fast pace during the 1990s, that trend has slowed during this century, especially since 2006 as financing and available sites are harder to find. Development of limited service operations (primarily those without restaurants or significant meeting facilities) represented 95% of the growth in the lodging industry in 2000. Full-service operations remain relegated to unique locations, primarily in resort areas and downtowns.

### **The Boutique Segment**

A growing trend has been the emergence of "boutique" style hotels. While no official definition exists, a boutique operation is generally considered to be fewer than 100 rooms and not associated with a national chain. These establishments typically appeal to a more specialized segment of hotel patrons and often include bed and breakfast hotels, historic inns, or specialized guest houses.

The popularity of smaller and unique establishments can be attributed in part to the emergence of a more sophisticated traveling public and the morphing of the baby boom generation. Thousands of maturing baby boomers able to purchase property and undertake quality restorations have sought boutique hotel opportunities in cities and towns far from the major markets. This same age group also seeks such places to lodge more and more as an alternative to chain establishments. While the lodging industry as a whole suffered significantly during the period following the September 11, 2001 terrorist attacks and the recession of that era, boutique operations suffered far less according to a 2003 report on the industry by the Professional Association of Innkeepers International (PAII). The overall industry has also seen a consistent decline in average daily room rates (ADR) over the last five years while the boutique segment has experienced an increase in both supply of and demand for rooms as well as ADR. The PAII report attributed this paradox to several features unique to the boutique segment:

- Orientation toward leisure travelers,
- Guest income levels,
- Guest loyalty (returning customers),
- Rural locations,
- Value of the boutique “experience,”
- Owner-operated management structure, and
- Seasonality.

These factors and the recent market trends that they stimulate bode well for trail towns like Connellsville.

## **TRANSIENT EMPLOYMENT**

Hotel operators interviewed for this study have consistently indicated that transient employment has been a significant part of their business. The 2003 study done by Atlantic Hospitality Advisors for Widewaters noted that construction new power plant facilities in Fayette County during 2002 had increased aggregate occupancy of the hotels they surveyed from about 58% in 2001 to over 66% the following year.

Hotels have seen increased occupancy this year due to increased gas well drilling activity in the Marcellus shale formation that underlies the region. This geological layer situated about 6,000 feet below the earth’s surface is home to significant natural gas reserves that have been difficult and unprofitable to remove until recent price increases and development of new technology. Steve Howard, owner of Uniontown’s Heritage Inn, estimated that the vast majority of his weeknight patrons during 2008 are workers associated with Marcellus drilling activity as well as road construction activity on the nearby Mon-Fayette Expressway. A July 20, 2008 *Pittsburgh Post-Gazette* article reports that the Marcellus drilling activity is in its beginning stages and, if successful, could last for several years. Work on portions of the Expressway is expected to continue through 2012.

While transient employment is usually temporary, it is always an important and often intangible factor that affects demand among hotels. Chain establishments like the Uniontown Holiday Inn and Super 8 have benefitted consistently from a persistent outreach to this group, even during periods when no one significant employment booster is present in the region.

## **THE GREAT ALLEGHENY PASSAGE TRAIL**

The Great Allegheny Passage is a 150-mile system of biking and hiking trails that now connects Cumberland and McKeesport. Nine miles of additional trail from McKeesport into Downtown Pittsburgh are scheduled for completion by spring 2009. The connection to the C & O Canal Towpath in Cumberland was made in 2006, creating a continuous non-motorized corridor, 318 miles long, from McKeesport, near Pittsburgh, to Washington, DC.

The economic impact of the GAP is significant. A study completed in 2007 by Campos Inc. determined that the Trail is generating \$12.5 million in revenue and pouring \$3 million in wages into trail-side communities. A 2002 user survey conducted before present-day portions of the GAP were completed estimated that 350,000 users biked, hiked, or walked some portion, and based on trail counts from various trail access areas, the Client and ATA estimate visitation at 750,000 for 2008. The Campos study included a survey of businesses along the GAP and

indicated that 32.5% of existing lodging facilities either have or plan to expand their facilities within the next year because of overall impact felt from the GAP.

The 2002 user survey estimated that 91,103 people visited the GAP by way of two trailheads located in Connellsville alone. That same survey indicated that on average, 13.3% of those users stayed overnight, likely somewhere near Connellsville, meaning that a potential estimated 12,000 trail users sought overnight accommodations in the Connellsville area in 2002. Compounded by the estimated 114% increase in use of the GAP since then, this means that as many as 25,680 trail users could be in the market for overnight accommodations in the Connellsville area annually. At an average of two individuals per room (the average size group using the GAP in 2002 was two according to the user survey), that indicates a potential demand for 12,840 room nights per year, or 35 physical hotel rooms.

The potential connection of the Subject Site to the GAP and its prominent corridor through Connellsville represent a significant factor when considering the establishment of a lodging facility in the City. The 2003 study by Atlantic Hospitality referenced herein that analyzed demand for a potential Hampton Inn at the Subject Site did not consider potential demand created by the GAP.

## **CONNELLSVILLE MAIN STREET PROGRAM**

This program is a state-sponsored initiative that encourages economic development and revitalization in traditional downtown areas by promoting heritage and eco-tourism. The Main Street Program is a five-year strategy to begin the revitalization process and the Connellsville Cultural Trust is seeking financial commitments from individuals and businesses to be able to apply to enter into this program. The Trust's goal has been to raise \$125,000 by August 1, 2008 in order to be eligible for matching funding from the state to initiate the program. The Trust has raised \$125,000 to date and is expected to seek Main Street designation by October 2008.

## **MARKET PROJECTIONS**

### **OUTLOOK ON NEW DEVELOPMENT**

Dan Mount, Assistant Professor of Hotel, Restaurant and Recreation Management at Penn State University estimates that nationally, 95% of all new hotel construction during 2000 could be classified as economy and limited service facilities, which can operate profitably at a lower occupancy percentage than full-service hotels.

Full-service hotels are defined as those including food and beverage service, meeting and conference facilities, and recreational amenities such as a pool and exercise facilities. Limited, or select service establishments often provide food and beverage service along with meeting space, but they do so on a much more limited basis.

According to Mount, the key driver for new hotel/motel development is increased business activity. Mount also asserts that new hotel/motel development in less desirable locations, in underserved markets, is catalyzed by cheaper development costs (land and financing). New development across the country in the 1990s occurred because of the decade's economic expansion and affordable development financing.

There are two indicators of an underserved market: a higher occupancy percentage than the industry average, and rising average room rates. Leveraging this knowledge about what triggers new development and utilizing local hospitality performance statistics, we can generally forecast new hotel/motel development opportunities for the Competitive Market provided we determine the market to be underserved.

When projecting development opportunities, we must visit the development cost advantages (if any) within Connellsville versus other areas within the Competitive Market. Thus, if occupancy levels are strong and average room rates are raising this indicates that there is an opportunity for developing additional product. The cost of development becomes the most significant determinant for development opportunities

According to industry professionals, it is difficult to project future hotel development over a specific time period once supply “catches up to” market demand because there is no quantitative forecasting model. While business growth and employment are the strongest indicators for projecting market opportunity for additional lodging, the industry does not rely upon a formula that inputs employment and other quantitative variables and outputs a specific number of lodging rooms. Thus, projecting future demand requires a qualitative approach.

## **DEMAND PROJECTIONS**

We build our demand projection analysis from two threshold figures: the national break-even occupancy percentage of 53% and a national occupancy rate of 61.4% as projected by the American Hotel and Lodging Association. These figures will define the forecast parameters for analyzing hotel room demand.

Applying the data, our analysis is as follows:

- Total room supply in the Competitive Market is 30,810 monthly room nights (1,027 total actual rooms times 30 days).
- The annual occupancy rate for hotel rooms ranged from 52.8% to 60.5% between June 2002 and June 2008. Using an average overall occupancy rate of 55.7% (from Figure 8), we can estimate that on average 17,161 rooms of the 30,810 room nights are occupied.
- A 53% break-even occupancy rate utilizing 17,161 occupied room nights would require a supply of 32,379 room nights. Therefore, using this measure the Competitive Market is currently undersupplied by 1,569 monthly room nights.
- A 61.4% national occupancy rate utilizing 17,161 occupied room nights would require a supply of 27,950 rooms. By this measure, therefore, the Competitive Market is oversupplied by 2,860 room nights.
- Thus, the Competitive Market could be undersupplied by as many as 1,569 or oversupplied by as many as 2,860 monthly room nights. This translates into a potential demand for up to 52 additional physical hotel rooms, or an oversupply of 95 rooms. The average size of hotels added to the Competitive Market since 2001 is 64 rooms. At this average the market might be able to support the addition of one new facility, or might be oversupplied by one facility.

## **Depletion of Supply**

Replacement life greatly affects hospitality properties due to the intensity of use they endure and the need to stay fresh and accommodating. To remain competitive, these properties require high standards of maintenance.

A building's functionality can fall victim to demand fluctuations in the dynamic, and highly competitive hospitality marketplace. For example, demand for king size bedrooms and two room suites could suddenly exceed demand for single rooms with a double bed. Desirability of fast food restaurant service versus full service dining could shift. The business market could demand extended stay rooms versus single night stays. These demand fluctuations impact a building's functionality and operation, and the result can be functional obsolescence of the building.

Another example of a force for depletion is changes in transportation infrastructure (highway, air travel, mass transit, etc.). Significant transportation projects can render an existing, successful hospitality property uncompetitive while simultaneously enhancing the desirability of a competing property virtually overnight.

Finally, in the hospitality marketplace, older hotels are often considered less desirable than newer establishments. They become victims to the new experience.

Given the forces affecting the hospitality industry, we estimate that annually, 1/15<sup>th</sup> of the marketplace's supply is always depleting. This means that in an average year, approximately 68 rooms of the 1,027 total in the current Competitive Market will be depleted and removed from competition. Consider that four facilities have been closed within the Competitive Market since 2002.

## **Demand Conclusions**

Real estate experts and hotel operators familiar with the market have cautioned that the market is sufficiently supplied with product, especially given the seasonal nature of the industry locally. Some operators did, however, indicate that Connellsville could be a niche within the market that hasn't yet been fulfilled. Most of the professionals interviewed, while knowledgeable about the Competitive Market, were less so about Connellsville specifically or about what impact use of the GAP could have on a hospitality establishment there.

The removal of four establishments from a relatively small market along with increased demand from transient employment and tourism has had positive effects, resulting in increased occupancy and revenues. The demand projections revealed indicate the potential for the successful addition of as many as 52 new rooms in the market. Projections based on use of the GAP indicate the potential demand for an additional 47 rooms. While lacking significant employment clusters like those near New Stanton and Uniontown, Connellsville enjoys GAP access that those markets lack, and currently has no competing chain affiliated operations.

Given this demand analysis as well as the demand analysis based on increased use of the GAP detailed herein, and strong evidence that the local hospitality market is improving, there may be sufficient demand for a 40 to 60 room facility in Connellsville. Tempered by the cautious remarks of some local operators, the growing occupancy and revenue numbers, when combined with the estimated depletion of up to 68 rooms per year, indicate that demand may

exist for a new facility within the Competitive Market. Connellsville could be a reasonable location for such a facility.

## PROJECTION OF OCCUPANCY

Along with average room rate, the occupancy levels achieved by a hotel are the foundation of the property's financial performance and market value. In order to make reasonable projections of occupancy and average rate, it has been assumed for purposes herein that the Subject Site (or other nearby site in Connellsville) can accommodate an approximate 60-room hotel that is associated with a known limited service chain. Since this is a limited service establishment, we are assuming that no other revenues will be generated. The 60-room size is based on both size of the Subject Site (2.75 acres) and the average size of establishments within the current Competitive Market Area (64 rooms).

### Historic Occupancy

The assumed property at the Subject Site projected occupancy is based on historical data for the entire Competitive Market, specific information obtained through interviews with hotel operators, and an understanding of the assumed establishment's position in the marketplace. A survey of the past six years in the market (Figure 11) shows a sharp spike in occupancy in 2004 followed by an even sharper decline in 2005 (the result of completion of a new facility by Allegheny Power and a subsequent end to related transient employment). Occupancy has increased between three and five percent per year each year since 2005. Interviews with hotel personnel indicate that new transient employment associated with exploration of gas reserves in the Marcellus shale formation and construction of portions of the Mon-Fayette Expressway, as well as an increase in tourism have lead to increased occupancy, especially during the peak summer season.

**Figure 11 – Historic Occupancy**

YEAR	OCC	% CHG
2003	54.1	-0.8
2004	60.5	10.5
2005	52.8	-12.8
2006	55.5	4.9
2007	57.2	3
2008Est	61.0	6.3
<b>Avg</b>	56.9	1.9

*Source: Smith Travel Research*

Considering the apparent un-accommodated demand during the peak season within this market as well as demand created from GAP users and from growing transient employment in the region, we estimate that the assumed hotel at the Subject Site should easily match the market average of nearly 57% during its first year of operation. We project an annual growth in occupancy of two percent in keeping with or slightly above the market average. Given the lack of any chain-related facility in Connellsville and the recent success of other establishments, these occupancy numbers should be achievable during the first five years of operations.

Year 1:	57.0%
Year 2:	58.1%
Year 3:	59.3%
Year 4:	60.4%
Year 5:	61.7%

### **Room Night Analysis**

Lodging demand and occupancy can be projected through a room night analysis. A room night (defined herein) is a unit of hotel demand that equals one room occupied for one night. After estimating the number of room nights that a hotel can be expected to attract during a twelve month period, one can determine occupancy by dividing the number of room nights of demand captured by the number of room nights available.

### **Penetration Factor**

The assumed establishment's forecasted market share and occupancy levels are based on its anticipated competitive posture within the market as quantified by its penetration factor. The penetration factor is the competitive ratio between a single property's market share and that of other properties in the respective marketplace. The following two ratios will be used to determine an estimate of market penetration.

Fair Share =  $\frac{\text{Single property's total number of room nights}}{\text{Market area's total number of room nights}}$

Market Share =  $\frac{\text{Single property's total room nights captured}}{\text{Market area's total room nights captured}}$

If a property with a fair share of five percent is capturing five percent of the market demand in a given year, then its occupancy will equal that of the market area, and its penetration factor will equal 100% ( $5\% / 5\% = 100\%$ ). If the same property achieves a market share in excess of its fair share, then its occupancy will be greater than the market area's occupancy, and its penetration factor will be greater than 100%. Conversely, if the same property captures less than its fair share, its occupancy will be below the market average and its penetration factor less than 100%.

Figure 12

<b>PROJECTED 60-ROOM CONNELLSVILLE HOTEL PENETRATION</b>					
	<u>YR 1</u>	<u>YR 2</u>	<u>YR 3</u>	<u>YR 4</u>	<u>YR 5</u>
Av Rm Nights	1,800	1,800	1,800	1,800	1,800
Est Occupancy	57%	58.1%	59.3%	60.4%	61.7%
<b>Rm Nights Captured</b>	<b>1,026</b>	<b>1,046</b>	<b>1,067</b>	<b>1,087</b>	<b>1,111</b>
Mkt Area Av Rm Nights	32,610	32,610	32,610	32,610	32,610
Mkt Area Occ	56.9%	58.8%	60.7%	62.6%	64.5%
<b>Occupied Rm Nights</b>	<b>18,555</b>	<b>19,175</b>	<b>19,794</b>	<b>20,414</b>	<b>21,033</b>
<b>Fair Share</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.5%</b>
<b>Market Share</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.4%</b>	<b>5.3%</b>	<b>5.3%</b>
<b>Total Penetration</b>	<b>99.8%</b>	<b>101.2%</b>	<b>102.4%</b>	<b>103.6%</b>	<b>104.5%</b>

Source: Smith Travel Research (Data compiled by Synergy)

Figure 12 indicates a growing and reasonable penetration factor for the proposed establishment. A recognized chain operation should penetrate this market with a reasonable share of the region's growing tourism and transient employment sectors. It is also reasonable to assume that added penetration could be achieved by tapping business from increasing numbers of Trail users, a segment that competing operations in the Competitive Market Area are less likely to attract without the direct access to the Trail that the Subject Site enjoys.

### PROJECTION OF AVERAGE RATE

One of the most important considerations when estimating the value of a lodging facility is a sustainable forecast of its attainable average daily room rate (ADR), which is more formally defined as the average rate per occupied room. Average rate can be calculated by dividing total room revenue achieved during a specific period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast room revenue, which in turn provides the basis for estimating most other income and expense categories.

**Figure 13 - Historical Average Rate**

<b>YEAR</b>	<b>ADR(\$)</b>	<b>% CHG</b>
<b>2003</b>	58.69	5.6
<b>2004</b>	59.71	1.7
<b>2005</b>	62.43	4.4
<b>2006</b>	65.37	4.5
<b>2007</b>	67.39	3
<b>2008</b>		
<b>Est</b>	69.95	4.7
<b>6 Yr</b>		
<b>Avg</b>	63.92	3.9

*Source: Smith Travel Research*

The ADR in the Competitive Market (Figure 13) has increased steadily over the past six years by just over 16%. This is a strong indicator as rates have increased each year even during periods when occupancy has been inconsistent. Several establishments within the marketplace charge over \$100 per room during peak periods for many rooms.

The projected ADR for the potential hotel at the Subject Site has been established based on an average of similar limited service establishments in the market with rate increases at 3.9% per year, the average increase in ADR for the market over the last six years.

Year 1:	\$65.00
Year 2:	\$67.53
Year 3:	\$70.16
Year 4:	\$72.90
Year 5:	\$75.75

### **Competitive Position**

Although the ADR analysis presented here follows the occupancy projections, these two statistics are highly correlated since, in reality, one cannot project occupancy without making specific assumptions regarding ADR. We have assumed that a hotel at the Subject Site (or nearby with similar access from Route 119 and the Trail) will achieve at least that of similar limited service products with brand affiliation. It remains that a hotel at this Site could achieve higher than average ADR during peak periods of Trail usage since no other establishments within this market have the same proximity to the Trail.

### **Average Rate Increases**

Room rate increases do not necessarily conform to the underlying monetary inflation rate because lodging facilities are influenced by market conditions like supply and demand. A hotel's ability to raise room rates is affected by a number of factors that include:

- Supply and Demand Relationships – Strong markets where lodging demand is increasing faster than supply are often characterized by rate growth that exceeds inflation. The Competitive Market Area associated with the Subject Site of this study is an example of this scenario. Conversely, markets that are overbuilt or suffering from declining demand are unlikely to exhibit any significant increases in average rates.

- Inflationary Pressures – Price increases caused by inflation affect hotel room rates by eroding profit margins and encouraging operators to raise prices. This strategy is effective only in markets that are characterized by a healthy supply and demand relationship.
- Improving the Competitive Standard – When a new lodging facility is introduced to a mature market its rates might be set higher than the market wide average in an effort to recoup development costs. This may allow competitors in the same market to achieve corresponding gains by effectively raising the amount of ADR that the market is willing to bear. However, if the additional supply has a negative impact on the occupancy levels within the given market, price competition may ensue.
- Property Specific Improvements – Changes that make a facility either more or less attractive to guests have an impact on ADR. An expansion, renovation, upgrade, or the introduction of new amenities may enable rate increases that exceed inflation. Conversely, deferred maintenance may cause a facility to be less competitive in the market and thus engender a decline in rates.

## **SUMMARY AND CONCLUSIONS**

The study detailed herein is intended to forecast demand for a potential lodging facility at or near the stated Subject Site in the City of Connellsville. The Subject Site is accessible from US Route 119 and the GAP. The impact of the GAP is significant to the potential success of a lodging facility in Connellsville and has been factored into the demand forecasts.

Demand has been determined through examination of lodging trends limited primarily to 15 facilities located in proximity to the US Route 119 corridor between New Stanton and Uniontown. These facilities are the most likely competitors to an operation in Connellsville given their respective locations, chain affiliations, and style of operation (all but one are limited service establishments). The models set forth herein have been based on a trends report supplied by Smith Travel Research (STR) for the period between January 2002 and June 2008, as well as interviews with hotel operators, economic development, and tourist officials. Projections for occupancy and rates have been based on an assumption that an approximate 60-room limited service style facility affiliated with a national chain would be constructed at the Subject Site. Development of a facility in Connellsville is by no means limited to the Site or to any particular style or size.

Key findings resulting from the study:

- Connellsville and Fayette County, despite decreasing population, have seen gains in several employment categories, and have benefitted from a significant increase in tourism and related business induced by an abundance of historic and recreational attractions.
- Business clusters and transportation hubs in New Stanton and Uniontown have induced clusters of lodging facilities in those areas; Connellsville lacks those distinctions.

- Hotel occupancy within the Competitive Market Area has averaged 55.7% over six years and has fluctuated at times; although occupancy has increased each year since 2005 to 61% as of January through June 2008 (Figures 8 and 9).
- Average daily rates and revenues per available room have increased consistently over the last six years by about four percent, averaging \$61.48 and \$34.26 respectively (Figure 8).
- Total revenues have increased by over 23% since 2002 (Figure 8).
- Room supply has decreased slightly from 1,062 rooms in 2002 to 1,027 in 2008 due to depletion and closings while demand has increased over the past three years.
- The last new facility added to the market was the Holiday Inn Express in Mount Pleasant in June 2005. Demand has increased consistently each year since then.
- Transient employment driven largely by gas exploration in the Marcellus shale reserve has induced demand for rooms throughout the year, while tourism has induced demand significantly during the summer months.
- The Market Area experiences un-accommodated demand during the summer, with average occupancies exceeding 85% in June 2008, a record for the six-year period studied; many establishments report full occupancy on most weekends during the summer.
- Estimated Trail use in 2008 could induce demand for up to 35 hotel rooms in Connellsville during the peak season.
- Demand projections based on national average break-even occupancy levels (53%) and on national average occupancy (61.4%) indicate potential demand for an additional 52 rooms in the Competitive Market Area or a potential oversupply of 95 rooms.
- As many as 68 rooms per year (1/15<sup>th</sup>) in a market the size of this one are depleted and become obsolete.
- A 60-room facility with national brand affiliation at the Subject Site given current market trends as detailed should be able to sustain 56.9% occupancy and an ADR of \$63.92 (Figure 13) over its initial five years of operations, and should experience a market penetration factor of 104.5% by year five (Figure 12).

A detailed feasibility analysis of the economics of a specific lodging operation will be essential to determine whether it makes sense at the Subject Site or anywhere else in Connellsville. It should further be noted that hospitality markets change dramatically from month to month, and an updated market analysis will be needed in order to explore financial feasibility.

Given the market trends available as of June 2008, and given the collective opinions of real estate, hospitality, and economic development professionals, there appears to be at least marginal demand for a lodging facility in Connellsville, and that demand is further enhanced when projections from use of the GAP and the current availability of a prepared site upon which to construct such a facility are considered.

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## **HOTEL DEMAND PROJECTIONS**

The basis for determining the degree to which the market is over or under-served is through an analysis of industry and local data for break-even occupancy rates, and total occupancy rates. We can then determine how many rooms can be added to the supply.

To do so, we first cite an analysis of the U.S. Hotel Industry released by Bear, Stearns Co, and PricewaterhouseCoopers, using Smith Travel Service Data, in July 2007. They analyzed break-even occupancy levels for the hotel industry. Their findings are as follows:

- The economy segment (e.g. Travel Lodge) breaks even at 41% occupancy.
- The mid-scale segment without food and beverage service (e.g. a limited-service hotel such as Hampton Inn) breaks even at 49% occupancy.
- The upper-tier extended stay segment (e.g. Residence Inn) breaks even at 60% occupancy.
- The upscale segment (e.g. a full-service Marriott Hotel) breaks even at 63% occupancy.
- The industry breaks even at 53%.

The Industry average at 53% is substantially reduced from the breakeven occupancy percentage in 1992, which was 62.6%. According to Bjorn Hanson, Ph.D., New York based

chairman of the PricewaterhouseCoopers lodging and gaming group, the favorable reduction is due to, “average daily room rates that have been increasing at greater than the rate of inflation; a redefined hotel revenue mix that emphasizes rooms revenue over revenue from low-margin food and beverage operations; and lower debt and equity costs for the industry as a whole”.

In 1992 when the breakeven percentage was 62.6%, the lodging industry began operating in the black after many years of operating at a loss. A strong economy fueled demand, which increased occupancy for products that had higher profit margins. The increased demand catalyzed new hotel development of product that operated at a lower break-even percentage. Thus, the industry average, break-even percentage decreased during the 1990's. Increased demand for the more profitable products, mid-scale without food and beverage operations (which have low structure costs and no low-margin food and beverage operations), has kept average daily room rates high. The combination of all these factors has provided a healthy lodging industry throughout the 1990's and into the 2000's – high occupancy, rising room rates, and new construction.

The PricewaterhouseCoopers analysis also produced the following industry average occupancy percentages in 1997, and generally hold true today:

Upscale Segment	69.4%
Mid-scale Segment	67.1%
Upper Tier Extended Stay Segment	79.7%
Economy	58.5%

The industry average occupancy rate in 1997 is 68.6%, using a straight-line averaging method, which is the most accurate methodology at our disposal. Yet, the PricewaterhouseCoopers lodging and gaming group reports a decreasing occupancy rate from 63.9% in 1998 to 62.5% in 2000. This is despite the greatest growth in supply in the mid-1990's occurring in the Upper-tier Extended Stay and Mid-scale without food and beverage service segments whose occupancy rates are 79.7% and 67.1% respectively. For our analysis, we will utilize PricewaterhouseCoopers' occupancy projections.

First we need to describe the applicability of the break-even occupancy percentage and the industry average occupancy to our analysis, and make distinctions between the two figures in determining gaps in supply.

A break-even percentage represents the point above which a hotel begins operating at a profit. Because there are no universally accepted, economic models to forecast hotel room demand, we need to determine what “triggers” new development. According to industry professionals the strongest indicators are raising room rates and business growth in an expanding economy. Thus, in some markets that meet these conditions, the break-even occupancy may be the threshold to trigger new development based on a strategy to capture more market share than the competition. This concept is synonymous with the office marketplace in that the market cannot be fully occupied, and typically a 10% office vacancy factor triggers new development. The validity and/or applicability of the break-even percentage as a trigger for new development may be greater in an economic market that relies heavily on hotel product such as communities near Disney World, Las Vegas, or Washington D.C.

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This report is to be used only in its entirety and no part is to be used without the whole report. The persons, whose signature appears on the report, unless indicated otherwise, prepared all conclusions and opinions concerning the analysis as set forth in the report. No change of any item in the report shall be made by anyone other than the persons signing the report. We assume no responsibility if any such unauthorized change is made.

### **Trade Secrets**

Some information was obtained from related companies and/or its individuals, or related independent contractors and consists of "trade secrets and commercial or financial information" which is privileged and confidential and exempted from disclosure under 5 U.S.C. 552 (b)(4). Notify the persons signing the report of any request to reproduce this report in whole or in part.

## **Information Used**

No responsibility is assumed for accuracy of information furnished by the work of others, the Client, his/her designate, or public records. We are not liable for such information. The comparable data relied upon in this report has been confirmed with one or more parties familiar with the transaction, or from affidavit, or other source thought reasonable. All are considered appropriate for inclusion to the best of our factual judgment and knowledge. An impractical and uneconomic expenditure of time would be required in attempting to furnish unimpeachable verification in all instances particularly as to engineering and market related information. It is suggested that the Client consider independent verification as a prerequisite to any transaction involving sale, lease, or other significant commitment of funds.

## **Testimony, Consultation, Completion of Contract for Appraisal Services**

The contract for consultation or analytical services are fulfilled and the total fee payable upon the completion of the report. The Consultant or those assisting in preparation of the report will not be asked or required to give testimony in court as a result of having made the report unless previous post arrangement is made for an additional fee. If testimony or deposition is required because of any subpoena, the Client shall be responsible for any additional time fees and charges regardless of issuing party.

## **Exhibits**

The sketches and maps attached to this report are included to assist the reader in visualizing the property and are not necessarily to scale. Various photographs, if any, are included for the same purpose. Site plans are not surveys unless identified as a separate survey.

No responsibility is assumed for matters legal in character or nature, or matters of survey, or of any architectural, mechanical, or engineering nature. No opinion is rendered as to the title, which is presumed to be good and merchantable. The property is appraised as if free and clear, unless otherwise stated in particular parts of the report.

The legal description is assumed to be correct as used in this report as furnished by the Client, his/her designee or as derived by the Consultant.

Please note that no advice is given regarding mechanical equipment or structural integrity or adequacy, nor soils and potential for settlement, drainage, and such (seek assistance from qualified architect and/or engineer) nor matters concerning liens, title status, and legal marketability (seek legal assistance), and such. The lender and owner should inspect the property before any disbursement of funds; further, it is likely that the lender or owner may wish to require mechanical or structural inspections by qualified and licensed contractor, civil or structural engineer, architect, or other expert.

We have inspected, as far as possible, by observation, the land and improvements; however, it was not possible to personally observe conditions beneath the soil or hidden structural or other components. We have not critically inspected mechanical components within the improvements and no representations are made herein as to these matters unless specifically stated and considered in the report. The conclusions assume no such conditions that would cause a loss of value. The land or the soil of the area being analyzed appears firm; however, subsidence of the area is unknown. The Consultant(s) do not warrant against this condition or occurrence of problems arising from soil conditions.

The report is based on there being no hidden, unapparent, or apparent conditions of the property site, subsoil, or structures or toxic materials that would render it more or less valuable. No responsibility is assumed for any such conditions or for any expertise or engineering to discover them. All mechanical components are assumed to be in operable condition and status standard for properties of the subject type.

Conditions of heating, cooling, and ventilating, electrical and plumbing equipment are considered to be commensurate with the condition of the balance of the improvements unless otherwise stated. We may make no judgment as to adequacy of insulation, type of insulation, or energy efficiency of the improvements or equipment that is assumed standard for subject age and type.

If we have not been supplied with a termite inspection, survey or occupancy permit, no responsibility or representation is assumed or made for any costs associated with obtaining same or for any deficiencies discovered before or after they are obtained. No representation or warranties are made concerning obtaining the above-mentioned items.

We assume no responsibility for any costs or consequences arising due to the need, or the lack of need, for flood hazard insurance. An agent for the Federal Flood Insurance Program should be contacted to determine the actual need for flood hazard insurance.

### **Legality of Use**

The report is based on the premise that there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in the report; further, that all applicable zoning, building and use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits or other legislative or administrative authority, local, state, federal and/or private entity or organization have been or can be obtained or renewed for any use considered in the value estimate.

### **Auxiliary and Related Studies**

No environmental or impact studies, special market study or analysis, highest and best use analysis study or feasibility study has been requested or made unless otherwise specified in an agreement for services or in the report.

### **Dollar Values, Purchasing Power**

The estimates, and the costs used (if any), are as of the date stated in the report. All dollar amounts are based on the purchasing power and price of the dollar as of that date.

### **Inclusions**

Furnishings and equipment, personal property or business operations except specifically indicated and typically considered as part of real estate, have been disregarded with only the real estate being considered in the estimate unless otherwise stated. In some property types, business and real estate interests and personal property are combined.

### **Proposed Improvements, Conditioned Value**

Improvements proposed, if any, or off-site, as well as any repairs required are considered, for purposes of this report, to be completed in good and in workmanlike manner according to information submitted and/or considered by the Consultant(s). In cases of proposed construction, the report is subject to change upon inspection of property after construction is completed. This estimate is as of the date shown, as proposed, as if completed and operating at levels shown and projected.

### **Value Change, Dynamic Market, Influences, and Alteration of Estimate**

The facts and conclusions, which is defined in the report, is subject to change with market changes over time; conclusions are highly related to exposure, time, promotional effort, terms, motivation, and conditions surrounding the offering. The estimate considers the productivity and relative attractiveness of the property physically.

In cases of reports involving the capitalization of income benefits, the estimate of value or investment value or value in use is a reflection of such benefits and consultant's interpretation of income yields and other factors derived from general and specific client and market information. Such estimates are as of the date of estimate value; they are thus subject to change as the market and value is naturally dynamic.

This report is not based in whole or in part upon the race, color, or national origin of the present owners or occupants of the properties in the vicinity of the property appraised. This report and estimate is subject to change if physical or legal entity or financing is different than that envisioned in this report.

### **Management of the Property**

It is assumed that the property, which is the subject of this report, will be under prudent and competent ownership and management, neither inefficient nor super-efficient.

### **Insulation and Toxic Materials**

Unless otherwise stated in this report, the Consultant(s) signing this report have no knowledge concerning the presence or absence of toxic materials and/or urea formaldehyde foam insulation in existing improvements; if such is present, the value of the property may be adversely affected and reappraisal at additional cost is necessary to estimate the effects of such.

## **Changes, Modifications**

We reserve the right to alter statements, analysis, conclusion or any estimate in the report if there becomes known to us, facts pertinent to the process, which were unknown to us when the report was finished.

The Americans with Disabilities Act (“ADA”) became effective January 26, 1992. We have not been provided with a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible non-compliance with the requirements of ADA in estimating the value of the property.