

Additional Services for the New Smyrna Beach CRA - Financial Review of Hotel Proposal on the Flagler Avenue Site in New Smyrna Beach, Florida

New Smyrna Beach CRA | April 2010

BACKGROUND, OBJECTIVES, METHODOLOGY

Report Preparation Gregg Logan, Managing Director
Adam Ducker, Managing Director
Melina Duggal, Senior Principal
Orlando, FL (407) 515-6592

Background and Objectives RCLCO was retained by the New Smyrna Beach CRA to provide advisory services relative to a proposal for a Hampton Inn and Suites to be located on CRA property by Premiere Development Group.

Methodology RCLCO has reviewed materials related to the proposal, considered the developer's financial assumptions, and analyzed hotel performance data for the area to evaluate the degree to which the developer's assumptions concerning Average Daily Rate (ADR), occupancy, and other indicators line up with market expectations. We have prepared this brief Executive Report summarizing our key findings, conclusions and recommendations under this task.

RCLCO COMPANY BACKGROUND

- ▶ 10,000 engagements since 1967
- ▶ Offices in Washington, DC, Los Angeles, Orlando, Atlanta
- ▶ Projects throughout the US, Caribbean, Latin America, Europe, the Middle East, and SE Asia
- ▶ Clients include:
 - Developers and Corporations
 - Financial Institutions
 - Hospitality and Recreation Companies
 - Public and Non Profit Organizations
 - Professional Service Firms
- ▶ RCLCO Team comprised of:
 - Developers
 - Analysts
 - Architects and Planners
 - Capital Markets Experts



RCLCO – PROPERTY TYPE AND PROJECT EXPERTISE

Residential

- ▶ Master-Planned Communities
- ▶ Apartments, Condominiums
- ▶ Single-Family, Townhomes
- ▶ Active Adult Communities
- ▶ Independent, Assisted Living, CCRC
- ▶ Second Home Communities
- ▶ Affordable/Workforce Housing
- ▶ Conservation Communities

Retail

- ▶ Lifestyle/Entertainment Centers
- ▶ Neighborhood Centers
- ▶ Regional/Super Regional Malls

Hotel, Condo-Hotel

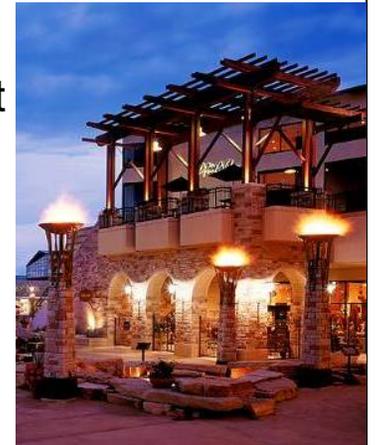
- ▶ Conference/Convention Hotel
- ▶ Beach, Mountain, Lake Resorts
- ▶ Casino, Marina

Office/Industrial/Campus

- ▶ Office Parks
- ▶ R&D/Industrial
- ▶ University/Medical Campus

Other

- ▶ Transit-Oriented Development
- ▶ Mixed-Use
- ▶ Adaptive Reuse
- ▶ Brownfield Redevelopment
- ▶ Downtown and Corridor Revitalization



RECENT HOSPITALITY ASSIGNMENTS FOR PUBLIC SECTOR /INSTITUTIONAL CLIENTS

- Armed Forces Retirement Home; development program for destination boutique hotel/spa/conference center for Crescent Resources and the District of Columbia (Washington, D.C.)
- Market and Financial Analysis for Marriott Courtyard associated with BYU Hawaii; La'ie, Hawaii
- Feasibility Analysis for Three Hotels Adjacent to the new Aquarium for the Westside TAD, Atlanta, Georgia
- Redevelopment Planning and Financial Analysis for Redevelopment of the Horizon Hotel; South Lake Tahoe, Nevada
- St. Louis Great Streets, Manchester Road Corridor
- Market and Financial Feasibility Analysis for a New Hotel within a Mixed-Use Development in Ithaca, New York
- Parque Tayrona (national park); District of Santa Marta, Colombia – detailed financial analysis for up to six hotel eco-hotel concepts within the park
- Development Opportunity and Financial Feasibility Analysis for New Hotel Development at Cap Cana; Punta Cana, Dominican Republic

NEW SMYRNA BEACH: EXECUTIVE SUMMARY

- In response to its RFP, City received proposal from Premiere Development Group for Hampton Inn and Suites to be developed on City property
 - *City asked RCLCO to analyze the likely financial performance of the proposed hotel as part of its assessment as it strives to ensure that it is a legitimate and a good use of CRA funds*
- RCLCO visited the subject property, reviewed materials related to the developer's proposal, and appraisal reports for the City owned property
 - *RCLCO reviewed the developer's financial assumptions*
- Analyzed hotel performance data for the area

MARCH 2010 HOTEL UPDATE - PROPERTIES SURVEYED:

Hotels Included in Sample	Number of Rooms
Courtyard Coca Beach	155
Hampton Inn Cocoa Beach	150
Courtyard Melbourne West	146
Holiday Inn & Suites St. Augustine Historic	121
Hampton Inn Daytona Bch Shores Oceanfront	114
Holiday Inn & Suites New Smyrna Beach	102
Hilton Garden Inn St. Augustine Beach	83
Fairfield Inn & Suites Melbourne	83
<u>Hampton Inn St. Augustine Historic District</u>	<u>53</u>
Total	1,007
Average	112

SOURCE: SMITH TRAVEL DATA

HOTELS IN NSB'S COMPETITIVE SET 2001 - 2009

Note: Separately, year to date data shows occupancy improved over 2009 to 65%; rates flat

Year	Average Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2001	779	284,335		195,338		68.7%	\$92.52		\$63.56	
2002	890	324,749	14.2%	218,556	11.9%	67.3%	\$91.93	-0.6%	\$61.85	-2.7%
2003	900	328,500	1.2%	236,849	8.4%	72.1%	\$94.69	3.0%	\$68.24	10.3%
2004	862	314,592	-4.2%	244,753	3.3%	77.8%	\$98.02	3.5%	\$76.29	11.8%
2005	912	332,916	5.8%	237,369	-3.0%	71.3%	\$108.21	10.4%	\$77.14	1.1%
2006	924	337,260	1.3%	229,337	-3.4%	68.0%	\$116.42	7.6%	\$79.16	2.6%
2007	924	337,260	0.0%	222,592	-2.9%	66.0%	\$118.30	1.6%	\$78.13	-1.3%
2008	1,000	364,982	8.2%	221,544	-0.5%	60.7%	\$111.25	-6.0%	\$67.54	-13.6%
2009	1,007	367,555	0.7%	232,295	4.9%	63.2%	\$101.37	-8.9%	\$64.06	-5.2%

SOURCE: SMITH TRAVEL DATA

MARKET AREA PERFORMANCE AND FORECAST

Year	Avg Daily Rm Count	Avail Rm Nights	Change	Occ Rm Nights	Change	Occupancy	Avg Rate	Change	RevPAR	Change	Avg Rate New Hotel
2001	779	284,335		195,338		68.7%	\$92.52		\$63.56		
2002	890	324,749	14.2%	218,556	11.9%	67.3%	\$91.93	-0.6%	\$61.85	-2.7%	
2003	900	328,500	1.2%	236,849	8.4%	72.1%	\$94.69	3.0%	\$68.24	10.3%	
2004	862	314,592	-4.2%	244,753	3.3%	77.8%	\$98.02	3.5%	\$76.29	11.8%	
2005	912	332,916	5.8%	237,369	-3.0%	71.3%	\$108.21	10.4%	\$77.14	1.1%	
2006	924	337,260	1.3%	229,337	-3.4%	68.0%	\$116.42	7.6%	\$79.16	2.6%	
2007	924	337,260	0.0%	222,592	-2.9%	66.0%	\$118.30	1.6%	\$78.13	-1.3%	
2008	1,000	364,982	8.2%	221,544	-0.5%	60.7%	\$111.25	-6.0%	\$67.54	-13.6%	
2009	1,007	367,555	0.7%	232,295	4.9%	63.2%	\$101.37	-8.9%	\$64.06	-5.2%	
2010						63.2%	\$101.00		\$63.83		\$111.10
2011						65.2%	\$103.02		\$67.17	5.2%	\$113.32
2012						67.2%	\$106.11		\$71.31	6.2%	\$117.78
2013						69.2%	\$111.42		\$77.10	8.1%	\$124.23
2014						71.2%	\$116.99		\$83.29	8.0%	\$131.03

Looking at historical trend data for the market area from Smith Travel, RCLCO has forecast where rates could be going for the next couple years (modest increase); assume in far right column that a new Hampton Inn could command rates about 10% to 12% higher than the market overall, reasonable for a new property

NEW SMYRNA BEACH: EXECUTIVE SUMMARY

- Evaluated the degree to which the developer's assumptions concerning average daily rate (ADR), occupancy, and other indicators line up with market expectations
- Prepared a financial model for a hotel like that proposed by the developer
 - ***The financial model indicates that a hotel like that proposed by Premiere in the CRA could be financially feasible under anticipated market conditions and developer's financing***
 - Developer's 504 SBA loan at 5%i has a very positive impact on potential financial returns
 - RCLCO model indicates that the hotel should be feasible based on demand for hotel rooms in the area, the cost to build and operate a hotel in New Smyrna Beach and the anticipated room rates, occupancy rates, and expenses associated with such an enterprise
 - Using generally "market rate" assumptions the financial model shows positive cash flow for the hotel
- ***Analyses indicate the likelihood of positive returns on the equity in the range typically desired by private investors (20% or more)***

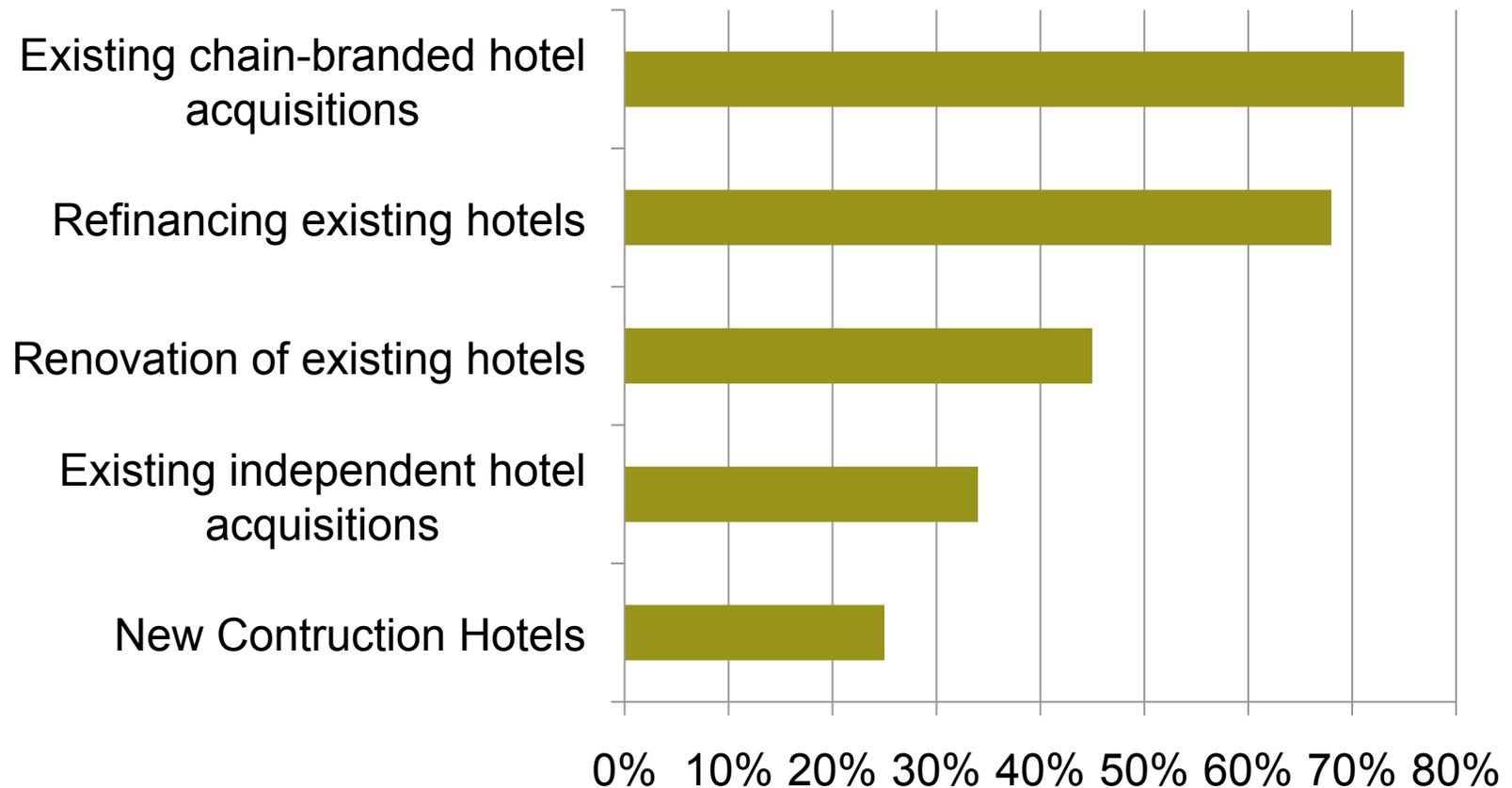


HOTEL MARKET OVERVIEW

2010 STATE OF HOTEL INDUSTRY - OVERVIEW

- Although hotels have been one of the commercial real estate segments most severely impacted by the recession, most hotel industry experts believe the lodging business has already begun a slow recovery, more so for transient business than group
- Demand fundamentals are improving, and there is not a lot of new product in the pipeline, which should facilitate the recovery
- Smith Travel Research expects that occupancies in 2010 will be flat, and that RevPAR (revenue per available room) will drop by 3.2% due to continued weakness in group business
- Smith Travel's forecasts vary by market segment, with economy class properties expected to perform the worst in the near term, with RevPAR down 6.7%; ***mid-scale properties without big food and beverage operations are projected to perform the best***
- In 2011 occupancy rates are expected to increase 2%, with RevPAR increasing 4.2%

TYPES OF HOTEL PROJECTS LIKELY TO GET FINANCING



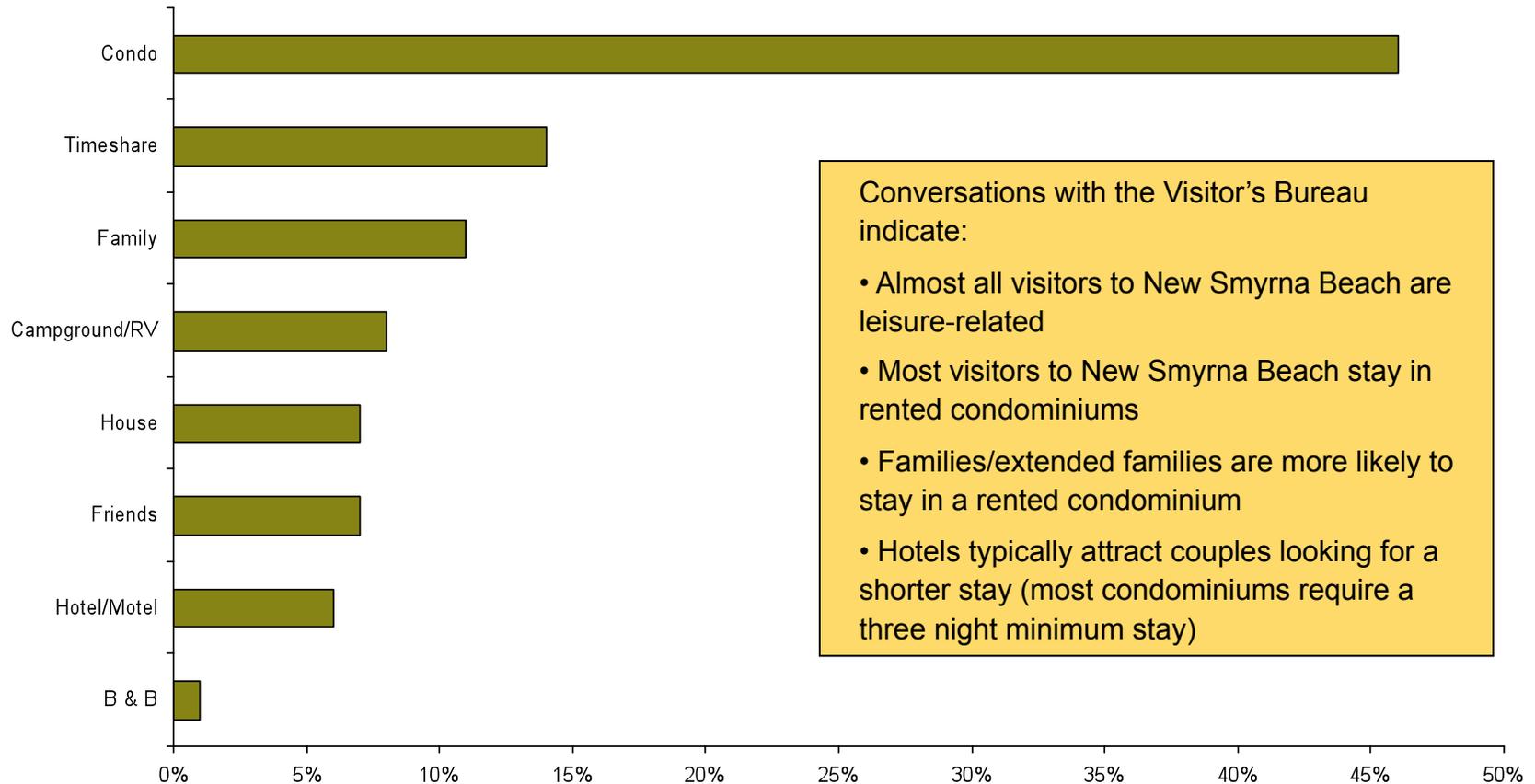
In January and February 2010, HVS conducted a survey of 800 lenders to gather their input about the current conditions of lending in the hospitality sector; 44 responded for a response rate of roughly 5.5%; of those, 25% indicated a willingness to lend to new development

HOTEL APPEARS TO BE A STRONG OPPORTUNITY IN THE CRA

- ▶ New Smyrna Beach is situated in Volusia County, which has historically benefitted from strong tourism demand due to its location on the Atlantic Coast, beach recreation, and laid back charm
 - New Smyrna Beach voted Florida's Best Beach by the readers of the Orlando Sentinel
 - Demand has fallen during the recent recession but is expected to bounce back over the next several years
- ▶ Lack of new hotel supply in the surrounding areas is positive for the development of a new hotel in CRA generally and at the subject property
- ▶ Most visitors to New Smyrna Beach stay in a condo or timeshare; probably due to the minimal hotel supply in the area
 - There is only one branded, major hotel in New Smyrna Beach (Holiday Inn)
- ▶ The Visitors Bureau reports unmet demand for hotels with event space serving both leisure and business guests
- ▶ According to statistical demand forecast up to 400 new hotel rooms are potential supportable within Volusia County in the over the 10 years – New Smyrna Beach is well-positioned to capture a share of this demand

MOST VISITORS TO NEW SMYRNA BEACH STAY IN A CONDO OR TIMESHARE

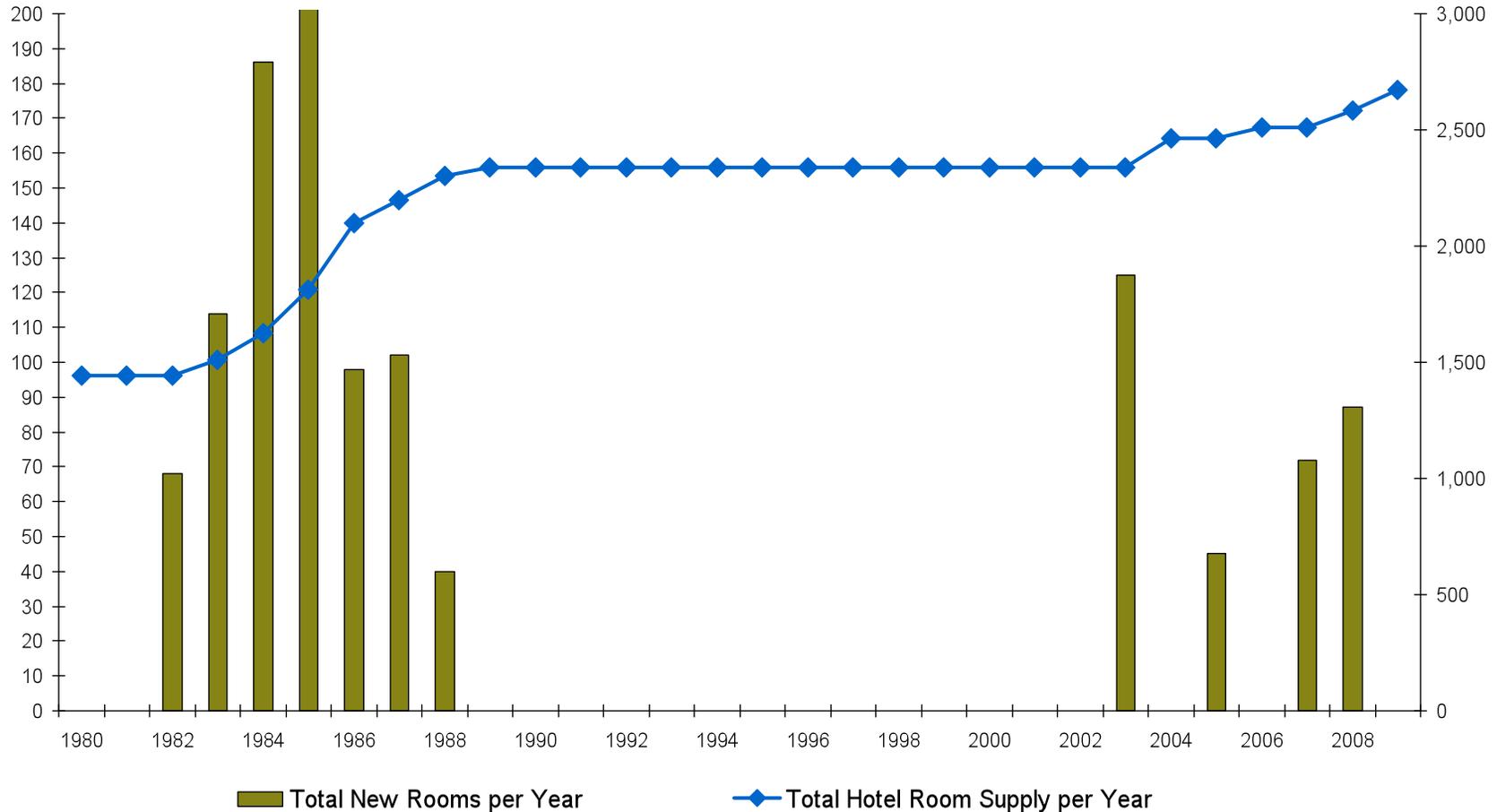
Type of Accommodation Stayed in According to Visitor Guestbook 2008



SOURCE: New Smyrna Beach Visitor's Bureau

MOST OF THE HOTEL SUPPLY IN THE AREA SURROUNDING NEW SMYRNA BEACH WAS BUILT IN THE EARLY 1980'S

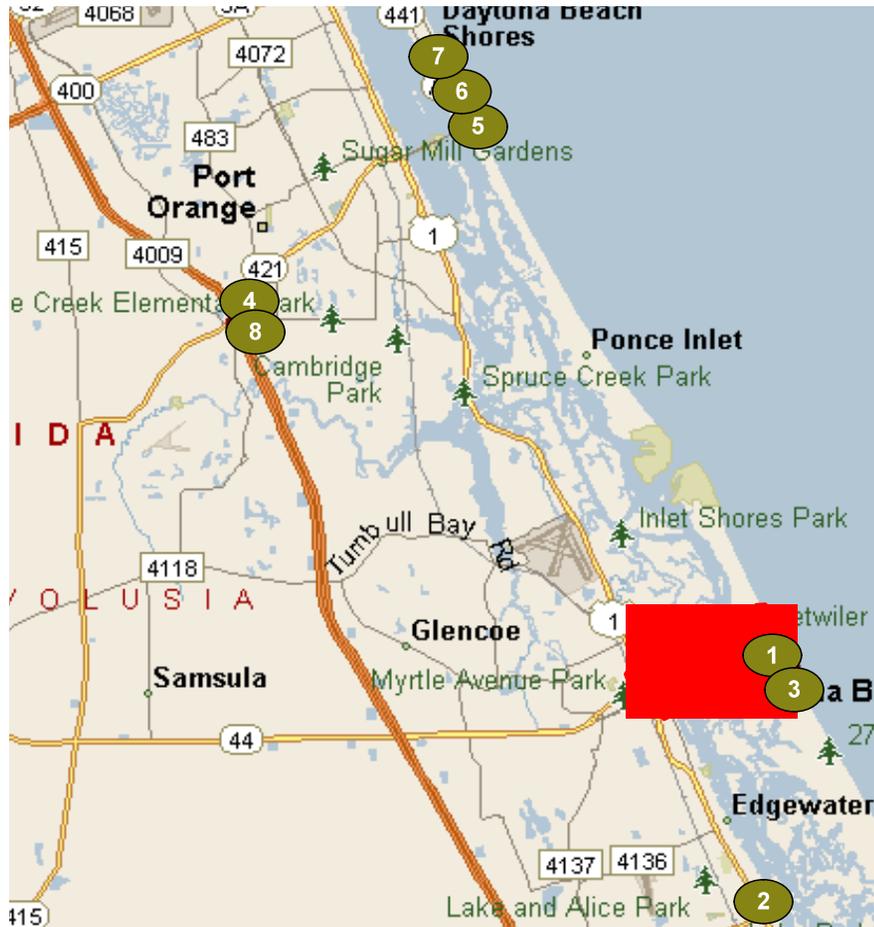
Total Hotel Rooms within a Ten Mile Radius of New Smyrna Beach 1980 to 2008



SOURCE: Volusia County Property Appraiser, RCLCO

LOW PERCENTAGE OF GUESTS STAYING IN HOTELS DUE TO THE MINIMAL HOTEL ACCOMMODATIONS IN NEW SMYRNA BEACH

Major Hotels Near the CRA



MAP KEY	HOTEL	# ROOMS	CURRENT RATES	AVG. OCC.
1	Holiday Inn & Suites New Smyrna Beach	102	\$94 to \$180	WND
2	Best Western Edgewater Inn	45	\$89 to \$134	WND
3	Islander Beach Resort	114	WND	WND
4	La Quinta Inn & Suites Port Orange	72	\$79 to \$109	40%
5	Days Inn Daytona Beach Tropical Seas	75	\$93 to \$114	80%
6	Palm Plaza Oceanfront Resort	102	WND	WND
7	Hampton Inn Daytona Bch Shores Oceanfront	114	\$110 to \$174	WND
8	Country Inn & Suites Port Orange	87	N/A	N/A

 Subject Area

WND = Would not Disclose

* According to the Visitor's Bureau, this hotel is usually close to full occupancy

SOURCE: RCLCO

LODGING RATES AND OCCUPANCY

- The Holiday Inn & Suites New Smyrna Beach is the only branded property currently in the market
- The 22 year-old property reportedly attracts 65% of its business from leisure travelers
- Its average daily rate is estimated at \$115
- HISNSB would not disclose occupancy levels; average occupancy levels in the market area are about 65%
- New Smyrna Beach Condominium rentals average daily rate is about \$105, and report over 70% occupancy
- The average daily rate in the competitive set is \$101



THE NEW SMYRNA BEACH VISITOR'S BUREAU INDICATES THERE IS STRONG DEMAND FOR HOTELS WITH EVENT SPACE



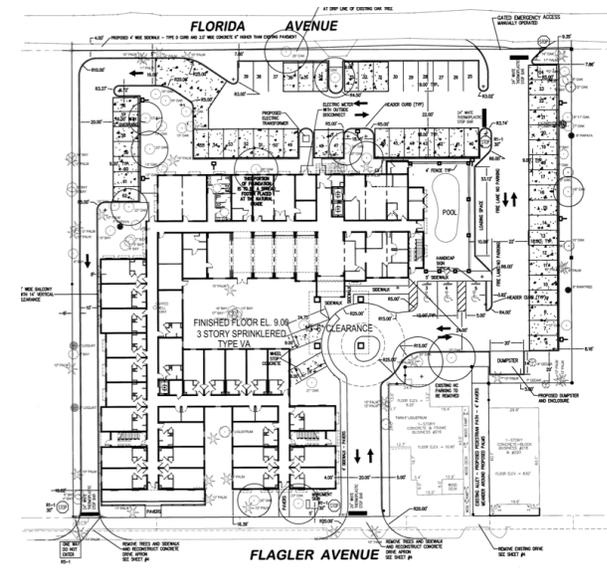
- ▶ Visitor's Bureau says strong demand for event space
 - Currently, the most popular spaces are Volusia Fairgrounds, Brannon Center (~200 people), Hidden Lakes (~250 people), and Sugar Mill (~600 people)
- ▶ Weddings are the most popular type of event
- ▶ Reports strong demand for business events however these types of events usually require the hotel to be co-located with the event space, an accommodation not currently available within New Smyrna Beach



SUBJECT PROPERTY AND PROPOSED HOTEL

PROPOSED HOTEL

- Premiere Development Group, based in Charleston, SC, proposes a limited service hotel to be affiliated with the Hampton Inn brand, comprised of 67,575 square feet of building area for 112 rooms, 1,250 square feet of meeting space, outdoor pool, exercise room, business center
- Will be the first significant new hotel development in New Smyrna Beach since 1988
- The hotel will be situated on three parcels, one purchased from a private owner for \$2,350,000, and the two subject property parcels currently owned by the City of New Smyrna Beach, a few blocks from the beach
- Assumptions include the property being managed by a professional management company at the standard 3% of revenues management fee, developer to pay Hilton Hotels Corporation a 4% of rooms revenue royalty fee plus a 4% of rooms revenue marketing assessment, along with reservations fees paid to Hilton



SUBJECT PROPERTIES – New Smyrna Beach CRA

- Two contiguous lots, 207 and 215 Florida Avenue, New Smyrna Beach, in the commercial corridor behind the Flagler Avenue historic retail district, within walking distance of restaurants, shopping and beach recreation
- Parcel 207 is approximately 18,300 square feet in size, and Parcel 215 is approximately 21,380; Pomeroy estimated market value of 207 = \$256,000, 215 = \$299,000, for total of \$555,000 as of July 2009, while Diversified Property Specialists appraised the combined properties at \$1,150,000.

SUBJECT PARCEL MAP 207 FLORIDA



SUBJECT PARCEL MAP 215 FLORIDA



SUBJECT PROPERTY AND REQUEST FOR PROPOSALS

- City of New Smyrna Beach, Florida, CRA issued an RFP for the joint use of properties located at 207 and 215 Florida Avenue in the City of New Smyrna Beach currently owned by the CR
 - “The CRA reserves the right to accept any proposals deemed to be in the best interest of the City, to waive any irregularities in any proposals, or to reject any and/or all proposals and to re-advertise for new proposals
 - City will consider the proposer’s experience, capabilities, and financial strength, the terms and conditions offered for acquisition, lease or joint use of the property, the market and economic viability of the proposed project concept and the appropriateness of the proposed development design”

SUBJECT PARCEL MAP 207 FLORIDA



