New Jersey WILDWOODS

Headquarter Hotel Market Analysis:
FINAL REPORT

Strategic Advisory Group

May 2012

StrategicAdvisoryGroup

May 1, 2012

Mr. John Siciliano
Executive Director
The Greater Wildwoods Tourism Improvement and Development Authority
c/o The Wildwoods Convention Center
4501 Boardwalk
Wildwood, NJ 08260

RE: HEADQUARTER HOTEL MARKET REPORT

Dear Mr. Siciliano:

The Strategic Advisory Group ("SAG") is pleased to present its report of the market feasibility assessment for the proposed headquarter hotel project in The Wildwoods. This report summarizes our research, analyses, conclusions and recommendations for the potential project.

On behalf of all SAG partners and staff, we truly appreciate the opportunity to continue our working relationship with The Wildwoods and other community stakeholders on this engagement. Should you have any questions or require additional information, please contact me at (678) 584-0727.

Sincerely,

Tony Peterman, Senior Partner
Strategic Advisory Group

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INTRODUCTION

The communities of the City of North Wildwood, the City of Wildwood, and the Borough of Wildwood Crest (collectively referred to as "The Wildwoods") established a priority in the mid 1990's of enhancing the economic activity in their area by growing the local meetings and convention business. As a first step, The Wildwoods, in conjunction with the New Jersey Sports and Exposition Authority, invested nearly $70 million in a larger, first-class convention center ("Center") located on the beach in Wildwood. The Center plays host to nearly 170 events held over roughly 225 days of event activity each year. Since opening in 2002, this new meetings business has helped to generate over $400 million in additional economic impact to the area.

While the Center is successfully meeting or exceeding most of its operational objectives and goals, the facility's operator, the Greater Wildwoods Tourism Improvement and Development Authority ("GWTIDA") continues to seek out opportunities for improvement. One key element considered vital to maximizing economic impact by many convention destinations is the presence of a headquarter ("HQ") hotel.

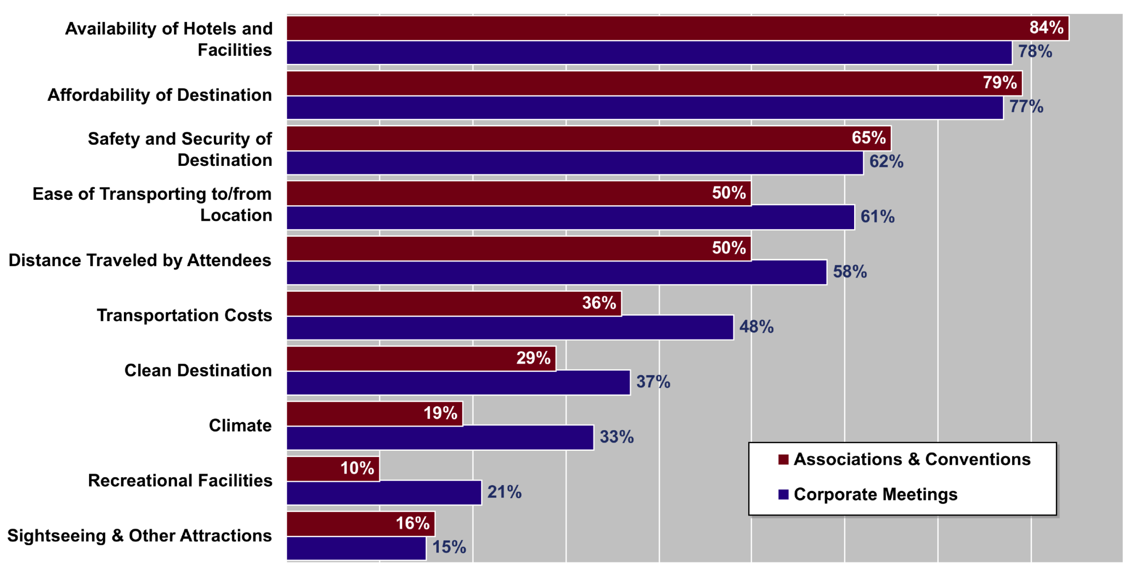
However, even in the most robust of hotel markets, new hotel development can be challenging. Therefore, to understand the prospects for such a project in The Wildwoods, GWTIDA engaged Strategic Advisory Group to assess the market and financial potential of a HQ hotel and, if potential exists, to outline a course of action that could bring the project to fruition.

WHY ARE HEADQUARTER HOTELS IMPORTANT?

Opinion data and survey research clearly and consistently indicate one fact: an attached or adjacent HQ hotel is critical in attracting conventions and group business. Most meeting planners who are charged with deciding upon a host destination for an event have a short checklist of important selection criteria. Once it is determined that the convention center or meeting facility has the function space to accommodate the group, the affordability of the destination and the availability of quality hotel rooms near the facility are the most important factors. When a convention facility does not offer an adjacent headquarter hotel, it typically loses the business or must provide rate discounts and/or other financial incentives to compete with destinations that do.

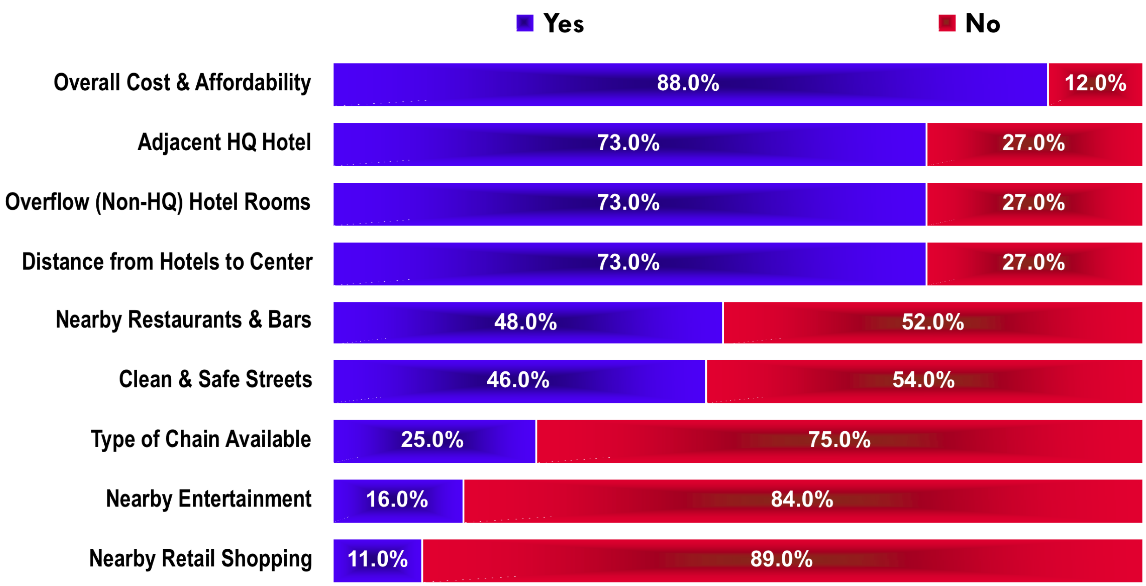
As shown in the Graphs 1.1 and 1.2 below, industry research collected by SAG and other sources demonstrates this preference. The survey below completed by *Meetings & Conventions* sought to understand those destination selection criteria that were important to both corporate meeting planners as well as those representing associations.

Graph 1.1: *National Meeting Planner Survey*
"Important Destination Selection Factors"



SAG's internal research took these issues a bit further and sought to understand which had the ability in and of itself to be a true 'deal breaker' when considering potential host destinations. The survey asked meeting planners to assume that the convention facility adequately met their function space needs, and as shown in the graph, cost and affordability issues ranked the highest (88%) among meeting planners. The next three most important issues, each with 73% respectively, all dealt with hotels. Groups not only desire an attached or adjacent headquarter property, but the quality of the other hotels and the distance of those properties from the convention facility were shown to be of equal importance.

Graph 1.2: *SAG Meeting Planner Survey*
"Deal Breakers - Destination Selection Factors"



But does a HQ hotel matter in The Wildwoods?

The Wildwoods does offer a first-class convention center located directly on the beach of the Atlantic Ocean in an established resort community; an enviable competitive advantage. However, the lost business reports from the facility's sales team support a HQ hotel's ability to generate significantly more economic activity at the Center. From those reports, below is a sampling of 100 comments received from past or potential Wildwoods clients on why they chose another community to host their events. The unordered list of names for these clients is presented in Appendix A.

- Client said our hotel rooms were not up to their standards. Client liked our facility and would consider coming back if we had a host or HQ hotel.
- Must have full service hotels.
- They chose to go elsewhere even though they were very satisfied with our pricing because they wanted the convenience of a host hotel.
- Client chose to go to Trump in AC. Client needed a host hotel.
- Would not come here until we can offer quality hotels.
- She did say they would definitely consider our facility, but also very concerned about the lack of hotels on the island.
- Would consider coming to Wildwood but needs to have a quality hotel, not a motel.
- Would consider coming to Wildwood if we have a hotel attached or a short distance from the center that could accommodate their group.
- Won't consider Wildwood until a hotel is available that can accommodate their entire group.
- Need better accommodations before they will consider coming to Wildwood.
- Client will not come here because we cannot offer upscale hotel accommodations.
- We cannot offer the kind of lodging client is accustomed to.
- Group needs a host hotel.
- Looking for an area that has chain hotels.
- Will not come to Wildwood until we have a host hotel.
- They decided not come back because there were not enough hotels and restaurants open. There is nothing for them to do.
- Client chose the Sheraton, Atlantic City. They needed a host hotel.
- No host hotel also dates are not available.
- Needs a host hotel to accommodate group.
- They felt that our hotels are too out-dated.
- Client needed a host hotel for the returning veterans.
- Client was not happy with the Wildwood hotels. They were here in 2002 and loved the building and were pleased with our employees and the treatment they received. The owner of the company has four condos on the island and really wanted to come here again. However, client will not come back until we have a host hotel.
- Client chose another facility due to the lack of choice hotel rooms.
- This group booked at Seaview Marriott. Wildwoods hotels not up to their standards. They need a host hotel.
- The group liked the building very much and the Wildwood area but could not find affordable accommodations.
- Hotels not close enough to center. Too difficult to handle travel to/from the convention center.
- The Wildwoods needs an all-inclusive hotel.
- Group is meeting in Atlantic City. Our hotel rooms are not up to their standards.
- This is the second time client expressed interest in our Center. Client came in and toured the building, but decided not to go with us. They want a host hotel.
- Client called today to cancel their event. They could not locate a hotel to accommodate them. They were given many excuses by the hoteliers and became discouraged.
- No host hotel, no event.

- They wanted a hotel next to Convention Center. We do not have the level of accommodation in Wildwood that they are accustomed to.
- Client is not satisfied with the selection of hotels.
- Transportation paying more than $7-10 for transportation to and from convention center to hotel is an issue and would be a hard sell to the client's members. Client would like to have nicer hotels in Wildwood.
- Client needs a host hotel or at least hotels within walking distance.
- This client had a big problem with our hotels.
- Didn't book because no hotels close enough to center.
- Client liked the facility but not the hotels. They would definitely consider coming here if we have better accommodations.
- This group wanted hotels with amenities that Wildwood cannot provide.
- They were looking for better accommodations than we offer, they need 150-room full service hotel.
- Hotels not up to their standards. The client booked the Sheraton in AC.
- Hotels not up to their standards.
- Client chose another location. No host hotel and they felt Wildwood was too far for their attendees to travel.
- Prefers venue with a host hotel.
- We lost business due to our hotel stock. They will go to Atlantic City.
- Client needed a host hotel for the attendees.
- Chose another location with a host hotel and more centrally located.
- They need upscale hotel.
- Would consider using our facility if we had a host hotel.
- Decided to go to Atlantic City because they need a host hotel.
- Client visited convention center and had issues with the hotels.
- Client's board chose another location. He wanted to hold the event here, but was voted down due to the quality of the Wildwood hotels.
- They wanted indoor corridor hotels. Going to Grand in Cape May.
- Hotels not up to group's standards. Please keep us posted on new or host hotel.
- Client would consider the Wildwoods, but is concerned about the hotel rooms.
- Client is not happy with the quality of the hotels. Need up-scale room for their attendees.
- Needs a quality hotel within a block or two of the convention center.
- Client found our hotels inferior.
- Wildwood hotels are not the quality they are accustomed to.
- Needs quality hotel rooms. His attendees would not want to leave AC without good accommodations.
- Not satisfied with quality of Wildwood hotels.
- Lost business to AC. They want better accommodations.
- Our hotels/motels not up to their standard.
- Concerned about the quality of the local hotels.
- Client must have an on-site hotel to consider.
- Decided to go to Atlantic City, wanted full service hotels.
- Client will not come back because of our hotels; said we need to keep them aware of a host hotel. They would return if a property were located on site. They liked our facility and it meets the needs of her group.
- Group will not stay in outdoor corridor hotels.
- They would like full service hotels.
- Client prefers a property with a host hotel.
- Client will not return to the Wildwoods until we have better accommodations; were very pleased with the convention center and our staff.
- Board does not want to travel as far as the Wildwoods. Client thinks that the Wildwood hotels would be a hard sell.
- The board did not select The Wildwoods because no hotel could accommodate entire group.
- Need a host hotel!
- Group goes to Atlantic City. Full service hotels wanted.
- They were considering Wildwood but they need a headquarters hotel and other hotels in close proximity with interior corridors.
- Client chose Borgata instead. They wanted better hotels.
- Although the client was impressed with our facility, their association will not come to Wildwood because the quality and location of our hotels are unacceptable.

- Client likes our facility, but our hotels are not suitable.
- Client needs a host hotel and VIP rooms.
- Cannot accommodate client due to lack of suitable accommodations. This is their yearly trade show.
- Client signed contract with AC Convention Center for the next few years. They still want to receive literature from us for the future when we have a host hotel.
- Quality of hotels not acceptable.
- Hotels are not up to the standard that they require. The liked the center very much, but sleeping rooms are poor.
- Group needs a host hotel.
- Client will not consider Wildwood until we have better accommodations.
- Client chose another location because our rates were too high and hotels need to have inside corridors.
- Client needs to have a hotel at the level of a Marriott.
- Our hotel rooms are not the caliber attendees are accustomed to.
- Insufficient number of quality hotel rooms available.
- Hotels not up to their standards.
- Too costly to use our facility. Also, lacks quality hotels.
- Prefers a host hotel with a restaurant on the premises.
- Chose another location. No hotel attached to convention center.
- Would choose to bring one of their smaller meetings to Wildwood if we had better hotels.
- Hotels not up to their standards.
- Client needs a host hotel.
- Client needed a host hotel attached to convention center.
- This group decided to stay in Valley Forge until 2013. They need to have a host hotel and prefer to be under one roof.
- Client needed a host hotel with deluxe accommodations and 24-hour room service. We cannot accommodate such a group with our hotels.

When considering all of the lost business for the facility, the average group size is approximately 700 attendees generating almost 1,170 room nights per event (based upon assumptions for total length of stay of 2 nights and percentage of attendees sharing a guestroom of 33%). Therefore, these 100 events could represent a lost opportunity of approximately 117,000 occupied hotel guestrooms in the local Wildwoods hotel market, a sum greater than the total number of guestrooms sold in the entire market during the months of January, February, March, April, November, and December combined.

Moreover, many beachfront communities use first-time tourist visitation as a means of economic development, via the "revisit" – "relocate" (homes and businesses) – and "retire" method. Each one of the thousands of lost convention or event attendees is a missed opportunity for The Wildwoods.

Yes, a headquarter hotel does matter in The Wildwoods. Why hasn't one been built already?

WHY HASN'T A HQ HOTEL BEEN BUILT ALREADY?

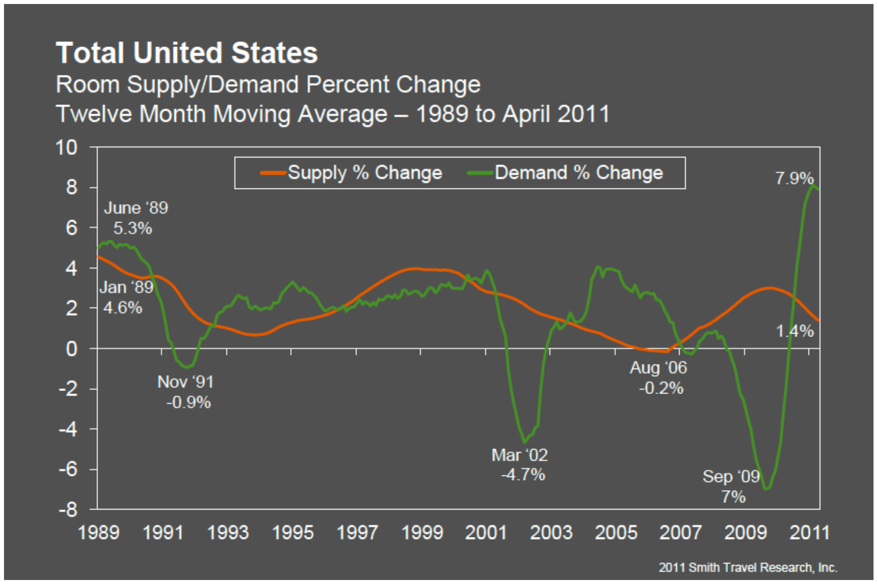
New hotels are difficult development projects to bring to fruition. There are many reasons for this, dating as far back as the Tax Reform Act of 1986 (where a financial loss in a passive investment vehicle such as a hotel could no longer be used to offset active income from other investments) to the more recent "Great Recession" dating December 2007 through July 2009 and the sluggish economy that persists (a downturn in personal and corporate spending and travel combined with a tightening of primary lending).

Another key factor is the creation and popularity of quality limited service hotels. These properties, which offer a guestroom and an overall hotel environment close to their full-service counterparts only lacking the ballroom and meeting space of a full-service hotel and without many of the services such as valet, retail shops, turn-down service, and occasionally room service. Limited service hotels cost less to build and less to operate, therefore they can charge lower room rates to attract business. This in turn restrains full-service hotels from increasing room rates at a pace consistent with the rising costs of construction and operations. Moreover, there was a general overbuilding of these limited service hotels during the economic boom of the 1990's, when corporate travel was robust and access to capital plentiful. After the economy slowed and demand decreased, overall occupancy rates decreased as a result, thereby further challenging the economics of new hotel development.

Although these are some of the contributing causes, the resulting effect is that many new full-service hotel projects in the U.S. simply do not make financial sense to pursue. The prospective risk-adjusted return on investment is insufficient to attract private sector capital. When this happens, new hotels do not get built.

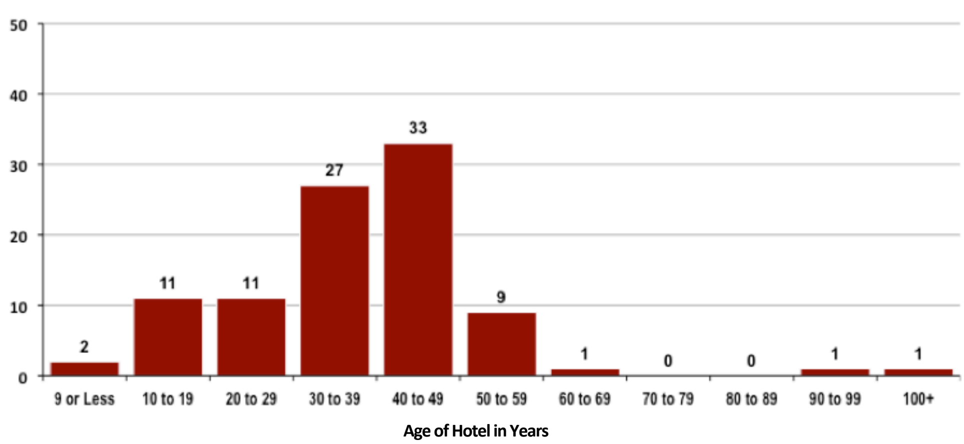
Graph 2.1 on the following page presents the percentage change in both supply of new rooms and demand for hotel rooms for the United States from 1989 through 2011. Please keep in mind that new supply is in the development pipeline during economic downturns and lags a falloff in demand.

Graph 2.1: *U.S. Percentage Change in Hotel Supply & Demand*



With that background, it should be noted that The Wildwoods did realize some new lodging development during the last 20 years, mostly during the economic boom cycle from 1990 to 2001. These were mostly smaller, independent motels. With the majority of hotels in the market being built between 30 and 60+ years ago, it is clear that the hotel supply in the area is dated, and in many cases, shows its age. For the 95 properties in the area where data was available, Graph 2.2 below presents the age in years of The Wildwoods hotel market.

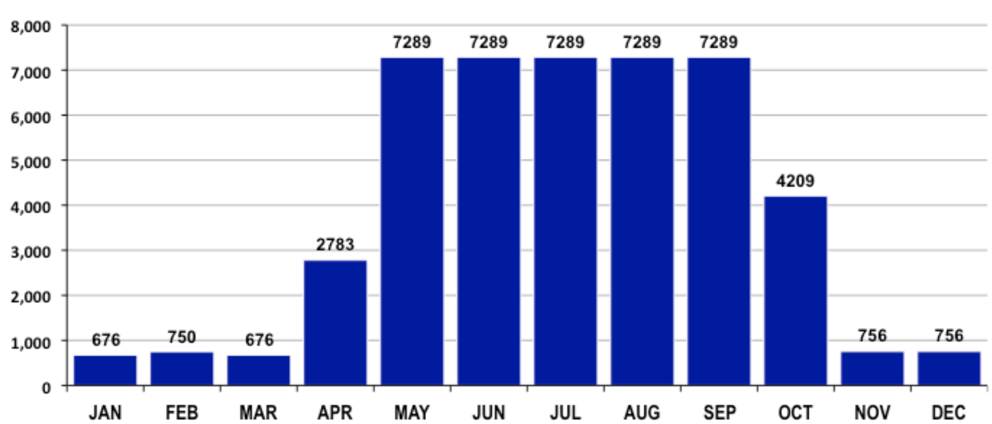
Graph 2.2: *The Aging Hotel Market of The Wildwoods*



The 79-room Days Inn opened over 20 years ago and is the only nationally branded property in The Wildwoods, albeit an economy motel. Why haven't any larger, universally recognized, convention-quality hotels come to The Wildwoods before or since then? The answer, likely, is that the investors believed that either a more attractive risk-adjusted return could be realized on a different type of project in The Wildwoods (condominiums, retail shopping strip-center, townhomes, etc.) or in an investment made outside of the area altogether. Moreover, since the events of September 11 and more recently the economic recession that began in late 2007, many hotel developers and owners have flocked to so called safe-haven markets such as primary cities that provide well-balanced and consistent hotel demand generators including major corporate headquarters, large convention centers, universities, and strong leisure activity from travel and tourism.

Further challenging The Wildwoods' ability to attract significant hotel development is its extreme seasonality and the real or perceived risks that presents. It is widely known that the hotels and motels in The Wildwoods financially substantiate their existence during the peak summer months and a few shoulder periods. As shown in the graph below, more than 90% of the total hotel/motel rooms in the market are closed for almost half of any given year. At the peak, there are approximately 165 hotels/motels and nearly 7,300 guestrooms open and operating in Wildwood, Wildwood Crest, and North Wildwood. From November through March, only about 13 of those hotels remain open. Only two of those properties open year round offer more than 100 total guestrooms.

Graph 2.2: *Available Hotel/Motel Guestrooms in The Wildwoods*
Source: SAG, individual hotels, the Wildwoods Convention Center.



Not only does the seasonality of the market impact a new hotel's ability to generate the amount of operational revenue necessary to justify its development, it also negatively impacts the type and therefore the amount of developers that might be interested in the project.

Many new hotels are built by development companies whose expertise is in *developing* hotels and not necessarily *operating* those same properties, at least not for the long term. These development companies specialize in areas that are required to build and open a new property, including: site acquisition, zoning and code approvals, securing the debt and equity required to fund the project, the planning and design process, construction management, the political approval process, general deal-making skills and others. As with all for-profit organizations, hotel development companies use these skills to seek a return-on-equity. Many do this via building and selling; not building followed by long-term owning and operating. A newly developed hotel is often operated by a management company (either an in-house, wholly-owned subsidiary of the developer or a third-party operating company) working on behalf of the development company to manage the property until the hotel's operations "stabilize." Once stabilized, typically two to four years after opening, the development company often sells the hotel to a hotel company seeking revenue growth via broadening its own portfolio of hotels. These new owners have a different expertise and use these skills of efficiently managing and maximizing hotel performance to create its own return on equity. The original development company then takes its sales proceeds to fund the next development project.

What this means for The Wildwoods is that for this process to work, most hotel developers would need to feel confident that it could sell the proposed property. With extreme seasonality, to the point of 90% of the hotels/motels in the area closing their doors for half the year, the prospect of finding a "typical" buyer for the new hotel is greatly diminished.

As a test, during the study process SAG met with five hotel development companies that would normally be likely candidates for building an upper midscale property (Hampton Inn, Holiday Inn, etc.) or an upscale property (Marriott Courtyard, Hilton Garden Inn, Sheraton Four Points, Crowne Plaza, etc.) in a secondary market like The Wildwoods. Some of these companies have experience in beach communities; all were based on the east coast or eastern US with headquarters in Pennsylvania, Virginia, North Carolina, and Georgia. In addition to years of experience developing hotels, each company had several properties that it held in its own portfolio.

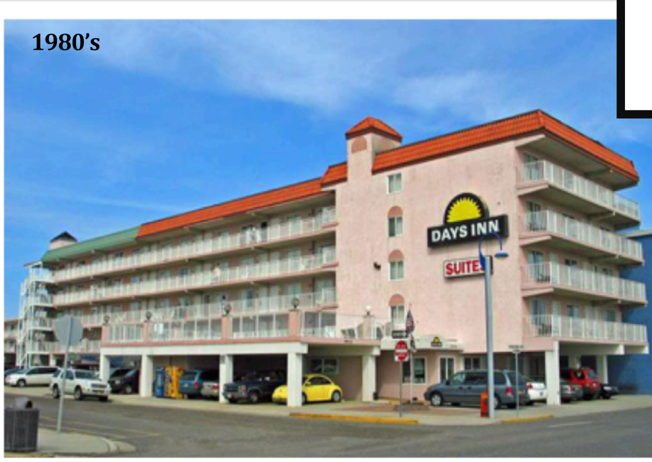
SAG prepared a "one-sheet" on the potential for the project presenting the goals of the community, facts on The Wildwoods Convention Center, a summary of the local hotel market statistics, and other pertinent information. Along with the photos below, the document discussed the potential financial incentives that could be made available to the selected developer, including: free land providing oceanfront views and direct boardwalk access, free parking, use of existing convention center meeting space, NJ state and local tax rebates and abatements, and other possible incentives. The goal was to make the project as attractive as possible to gauge the level of interest that could potentially be expected from the larger hotel development community. Although all company representatives took a second look due the attractiveness of the hotel site relative to the beach, once they understood the dynamics of the local hotel market, lack of interest was immediate. None had any interest in further exploring the project.

The sentiment, due to the likely inability to sell the property and ultimately achieve an adequate financial return, was that the proposed hotel would be an asset the company would have to continue to own and operate itself for the long term. Despite having in-house operational units or established partnerships with third-party management companies, operating a hotel in The Wildwoods with its extreme seasonality would require an expertise that it did not have nor wanted to spend the time and resources to obtain. In short, they were "not in that kind of hotel business." The *developer's* expectations of not being able to sell the property stemmed from knowing that the hotel *owners* they deal with in the industry are also not in that kind of hotel business.

So how did the hotels in The Wildwoods get built? Most of the lodging properties are smaller motels, independently owned and operated by an individual or small ownership group. Typically these hotels have had the same owner for a long period of time, sometimes handed down through several generations of family ownership. The owner-operators frequently know the market because they were raised in the market; taught how to effectively earn a living during a summer season. Managing and operating a hotel that is 100% occupied for three months of the year and often completely shut down during six months is suited primarily for an owner-operator arrangement.

As proven in the "100 Comments" above, the Center's target convention market desires a HQ hotel. The potential new event business these groups represent would significantly increase the Center's ability to achieve its goal of maximizing economic impact in the community. However, it is highly improbable the proposed HQ would get developed by those in the hotel industry who specialize in such projects. Therefore, the most plausible route for The Wildwoods to consider is attracting local interest in building and owning the proposed property. But even with local market knowledge and seasonality expertise, is the HQ hotel financially feasible?

Through the Years: *The Wildwoods Hotel Development - 1890 to 2000*



IS THE HQ HOTEL FEASIBLE?

In defining "feasible," there are two types: theoretical and practical. Under rational conditions, it takes both to get new hotels developed. Theoretical feasibility relates to determining that the projected financial return of the prospective investment, calculated on an internal rate of return ("IRR") basis, meets or exceeds the industry standards for IRR thresholds. A project that is believed to provide attractive investor returns is said to "work on paper." Practical feasibility is associated with the probability of getting a theoretically feasible hotel actually developed. For the reasons presented earlier, it was determined that even if the proposed HQ hotel could generate sufficient IRR, it would face significant challenges in attracting developer attention outside of The Wildwoods area.

Theoretically speaking, would the proposed HQ hotel generate sufficient investment return? Does it work on paper? Calculating IRR requires assessing three key areas: hotel operating pro forma, hotel development cost, and the capital structure or funding plan.

How might the HQ hotel operate?

Because of the uniqueness of the local hotel market, some of the more traditional methods of gauging hotel market performance data were unavailable. For example, almost every hotel market area in the U.S. participates in a clearing-house type of arrangement where individual hotels report performance data including occupancy and room rates on a daily basis to Smith Travel Research or "STR" (the clearing-house agent). This information is then combined and reported back to the participating hotels for use in understanding how each participating hotel is performing relative to the average of its peers in the local market and elsewhere. The aggregate information is also made available to others in the industry, such as developers, hotel companies, and consultants and is used as a reliable source of hotel market dynamics.

It is not uncommon to have a few of hotels in any given market choose not to participate in STR. However, of the 165 combined hotels or motels in North Wildwood, Wildwood, and Wildwood Crest, only one hotel participates (Days Inn & Suites), representing a 0.5% participation rate. In fact, most of the properties in the coastal communities of southern New Jersey are similar, with 0% participation rates in Avalon; Beach Haven; Sea Isle City/Stone Harbor, and Long Beach Island. Cape May appears to be the most progressive with six of its 41 hotels participating (15%). It is interesting to note that participation rates increase in a western or inland direction, with 33% participating in Somers Point, Egg Harbor Township 50%, Millville 75%, and approximately 78% in Vineland.

These low participation rates go beyond presenting a challenge in gathering accurate hotel performance information, they speak perhaps to a greater problem within coastal southern New Jersey. In its own contributory way, this lack of participation and therefore communication inhibits change, and along with it, growth. In essence, whether knowingly or not, the local hotels send a message to the outside hotel industry of potential developers, investors, and brands. Island communities for certain; but insular? Furthermore, collective business data shared and communicated properly can help those inside The Wildwoods hotel market in many ways, including to identify historical trends, see oncoming opportunities, and plan more intelligently for the future investments.

Therefore, through individual meetings, discussions and other primary research and data collection, typical occupancy rates and average daily room rates ("ADR") of comparable hotels were profiled to estimate how a new HQ hotel might perform. The comparable set of hotels includes mostly the larger, more modern properties in the area that are open on an annual basis, including: the Bolero, Congress Hall, Days Inn & Suites, Marquis de Lafayette, Montego Bay, and the Starlux; as well as two properties open on a seasonal basis, including the Oceanic and the Pan American Hotel.

As shown in Table 2.3 on the following page, room rates vary greatly by month consistent with the seasonality of the market in The Wildwoods. At peak, several properties demand room rates of approximately $400 per night with multiple night minimums. During the winter months, the rates for those same rooms decrease between 40% and 70%.

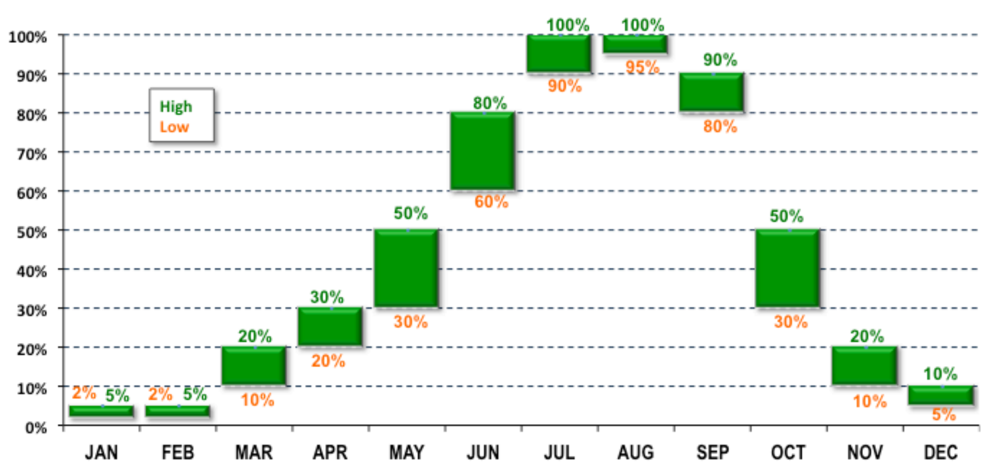
Table 2.3: *Published and/or Reported Room Rates for the Comparable Set of Hotels*
Source: Individual hotels, SAG.

	Year Round Properites						Seasonal Properties	
	Bolero	Days Inn	Starlux	Montego Bay	Congress Hall	Marquis de Lafayette	Oceanic	PanAm Hotel
January	$103	$74	$83	$114	$114	$199	-	-
February	103	75	83	114	114	199	-	-
March	103	75	89	114	119	213	-	-
April	103	104	106	114	219	213	-	-
May	103	114	106	129	224	266	$85	$145
June	129	174	158	206	259	266	150	187
July	163	241	268	304	264	432	215	313
August	180	241	245	304	399	432	188	313
September	131	119	114	138	279	296	170	245
October	110	104	83	107	199	251	-	145
November	110	75	83	107	139	251	-	-
December	110	75	83	107	139	225	-	-
Non-Weighted Average	$121	$123	$125	$155	$206	$270	$162	$225

It should be noted that the average rate presented above is a non-weighted average, given that the vast majority of the demand for each hotel is generated during the higher-rated summer months.

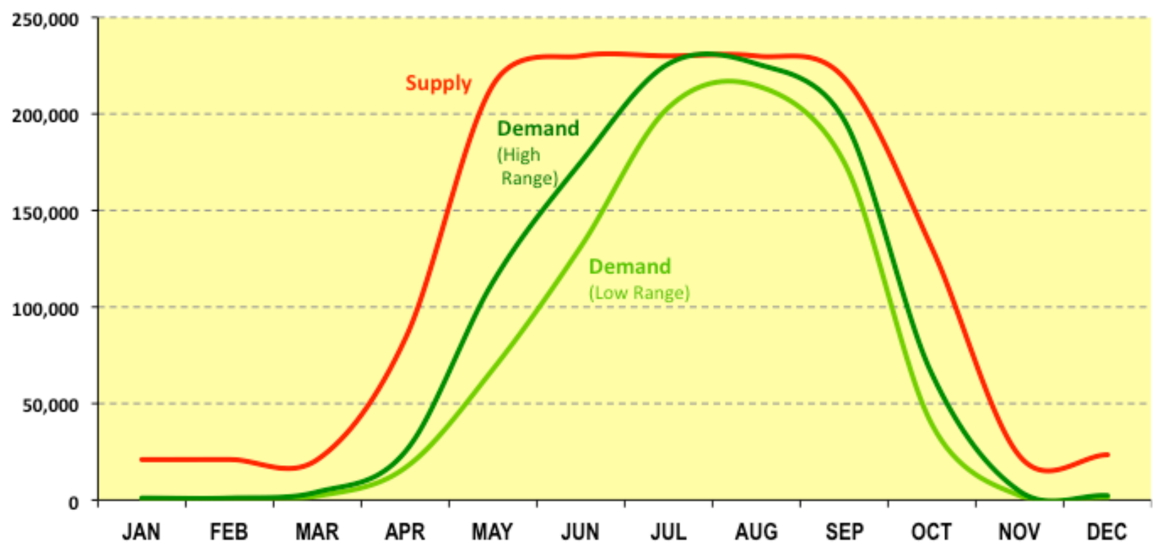
Although occupancy rates for many of the comparable set of hotels was collected on a more anecdotal basis, discussions with several hoteliers and others in the tourism industry in The Wildwoods corroborated the typical demand for hotel rooms in the market. Graph 2.4 below presents the ranges of monthly occupancy rates typically experienced by hotels in The Wildwoods, which vary year to year depending on weather and other seasonality factors, particularly during the shoulder months.

Graph 2.4: *Typical Monthly Occupancy Ranges for the Comparable Set of Hotels*
Source: Individual hotels, SAG.



Applying the reported occupancy rates to the entire supply of hotel rooms in The Wildwoods provides a look at the estimated market-wide fundamentals.

Graph 2.5: *Estimated Supply & Demand of Room Nights in The Wildwoods Hotel Market*
Source: Individual hotels; SAG.



As shown in Graph 2.5 above, it is interesting to observe how the hotel market as a whole responds to the dramatic changes in demand throughout the year. With the exception perhaps of the month of May, which presumably finds hotels opened more for ramping up and readying for the summer period than in response to actual demand, the fairly consistent spacing between the supply and demand lines suggests the self-regulating forces of the free market are at work.

Given that the majority of the hotel rooms in The Wildwoods close down for as much as half the year, the effective annualized occupancy of the market is between 59% and 72%. According to STR, the annualized occupancy rate for all U.S. hotels was approximately 64% in 1990; 63% in 2000; and roughly 59% in 2011. Remarkably, despite its extreme seasonality, the performance relative to occupancy of The Wildwoods hotel market closely resembles that of more traditional U.S. markets.

Understanding the market and assessing the collective rate and occupancy information is a critical first step in projecting how a new HQ hotel might perform and ultimately if the IRR produces a feasible project. The next step is to define, in a preliminary way, the hotel itself so as to understand its competitive strengths relative to the competition as well as estimating an appropriate development cost.

Therefore, taking into consideration the demonstrated needs of the convention and meetings market, the existing dynamics of The Wildwoods hotel market, and the practical realities of new hotel development, this study assumed that the proposed HQ hotel would include the following physical and operational components:

- 100 guestrooms and suites
- Open year round
- Nationally branded upscale or upper-midscale hotel chain*
  (*such as a Hampton Inn, Holiday Inn, or Hilton Garden Inn*)
- Located directly on the boardwalk and adjacent to the Convention Center
- Maximum height allowable by code
- Limited kitchen facilities
  (*hotel to share food service with Center*)
- Very limited meeting space
  (*hotel to share meeting space with Center*)
- Rooftop VIP area and/or swimming pool
- Access to existing Center parking spaces
- Experienced, effective sales/marketing team

With this building program, brand name recognition, increase in quality relative to the majority of the existing hotels, and ideal location, the proposed HQ hotel would immediately be among the leaders in the local hotel market. However, it is useful at this phase in the pre-development process to maintain a level of conservatism with regard to financial projections. Therefore, it was estimated that the HQ hotel would operate within the averages of those properties in the comparable set.

** Refer to Appendix B for a list of representative chain scale hotel types.*

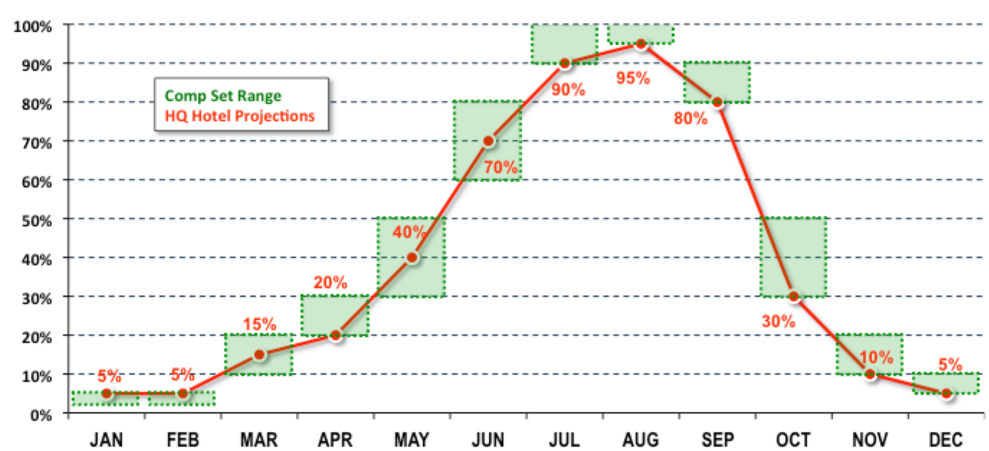
In terms of room rates, Table 2.6 below presents the monthly room rates projected for the proposed HQ hotel in 2011 dollars. It was estimated that the HQ hotel room rates would equal or be slightly greater than the average of the comparable set during the summer months; and offer highly competitive rates during the winter months in an effort to successfully attract larger group business that can benefit all hotels in The Wildwoods that remain open year-round.

Table 2.6: *Projected Monthly Room Rates for Proposed HQ Hotel*
Source: Individual hotels; SAG.

	Comp Set Range			PROJECTED
	MIN	AVG	MAX	HQ HOTEL
January	$83	$134	$199	$80
February	83	128	199	80
March	89	144	213	80
April	106	165	219	100
May	85	163	266	125
June	150	202	266	150
July	179	282	432	250
August	175	294	432	300
September	114	207	296	150
October	83	160	251	80
November	83	148	251	80
December	83	143	225	80
Non-Weighted Average	$109	$181	$271	$130

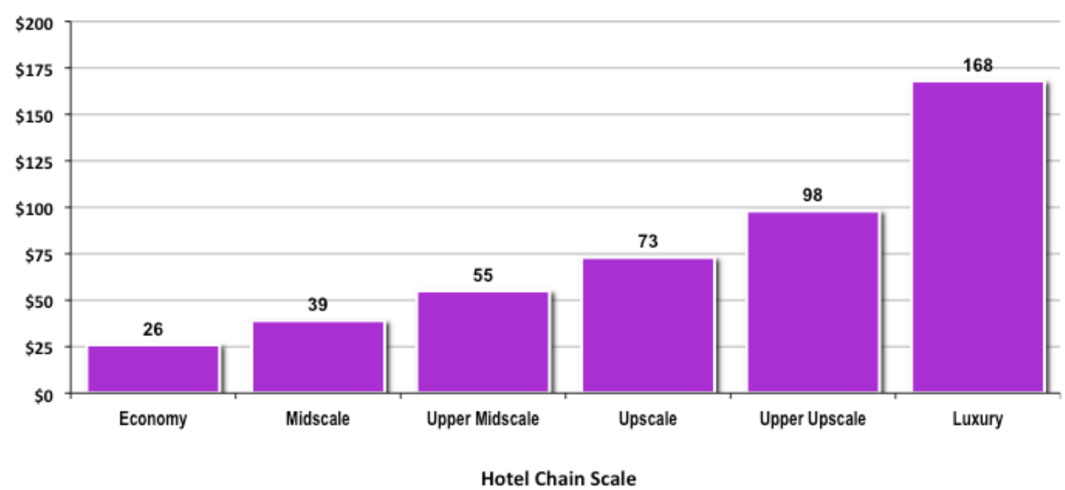
In terms of occupancy rates, it was again estimated that the proposed HQ hotel would operate within the range of the reported historical performance of the comparable set, albeit somewhat conservatively particularly in the shoulder months. Table 2.7 below presents the projections by month.

Table 2.7: *Projected Monthly Room Rates for Proposed HQ Hotel*
Source: Individual hotels; SAG.



Taken collectively, the proposed HQ hotel would operate at an annualized occupancy rate of 39% in the first year of operations with a weighted average daily rate (ADR) of $185 in 2011 dollars. The corresponding RevPAR (revenue per available room, calculated by multiplying occupancy times ADR), the predominant statistic used in the industry to gauge the combined rate and occupancy performance of a hotel, would be roughly $72 in 2011 dollars. According to STR, the RevPAR for all U.S. hotels was approximately $66 in 2011, with the following graph presenting a breakdown of average U.S. RevPAR by chain scale:

Graph 2.8: *U.S. RevPAR by Hotel Chain Scale*
Source: STR.



Once again, in spite of the occupancy fluctuation or perhaps in this case because of it, bolstered by the robust room rates charged during the peak summer months in The Wildwoods, the proposed HQ hotel is projected to perform very much in line with the U.S. average of its chain scale type (Upper Midscale to Upscale).

In summary, the table on the following page presents the annualized rate and occupancy for the proposed HQ hotel during the first five (5) years of operations. For projection purposes, it was assumed that the HQ hotel would open on January 1, 1014.

Table 2.9: *HQ Hotel Operating Projections Years 1-5*
Source: SAG.

	2014	2015	2016	2017	2018	2019
Number of Rooms	100	100	100	100	100	100
Annualized Occupancy	39%	41%	43%	45%	45%	45%
ADR (2011 dollars)	$185	$185	$185	$185	$185	$185
ADR (inflated dollars)	$194	$199	$204	$209	$214	$219
RevPAR (inflated dollars)	$76	$82	$88	$94	$96	$99

What are the projected cash flows from operations?

Using the operating projections from the previous section, and using a comparison of actual financial performance from similar individual hotels and aggregates from groups of similar hotels, assumptions can be made about the financial performance that could be reasonably expected at the proposed HQ hotel. In accordance with the Uniform System of Accounts for Hotels, the table below presents both the comparable hotel/hotel group performances along with the estimates for the proposed HQ hotel.

Table 2.10: *Operating Financials*
Source: Individual hotels; STR; SAG.

	Individual Hotels		Aggregate Hotel Groups								HQ
	Hilton		Custom	Limited Service		Full-Service					Estimate
	Garden	Hampton	HOST	Chain	Over	Mid-Price	Under 150	COMP SET			*Stabelized*
	Inn	Inn	Report[b]	Affiliated	$85 ADR	Segment	Rooms	MIN	AVG	MAX	*Year*
	Secondary Market Urban Core	*Secondary Market Waterfront*									
General Information											
Occupancy	68%	59%	55%	71%	74%	70%	73%	55%	67%	74%	45.0%
ADR	$124.37	$123.01	$117.12	$97.74	$103.33	$108.78	$119.65	$97.74	$113.43	$124.37	$185.00
RevPAR	$84.57	$72.58	$64.42	$69.40	$76.46	$76.15	$87.34	$64.42	$75.85	$87.34	$83.25
Property Size	129	150	253	130	125	225	130	125	163	253	100
Occupied Rooms	88	89	139	92	93	158	95	88	108	158	45
Occupied Room Nights	32,120	32,485	50,735	33,580	33,945	57,670	34,675	32,120	39,316	57,670	16,425
Revenues (POR)											
Rooms	$124.37	$123.01	$117.12	$97.74	$103.33	$108.78	$119.65	$97.74	$113.43	$124.37	$185.00
Food & Beverage	18.04	4.62	65.74	0.00	0.00	33.48	29.15	0.00	21.58	65.74	0.00
Telephone	0.30	0.08	0.47	0.33	0.40	3.41	3.38	0.08	1.20	3.41	0.50
Minor Operating Depts & Rental & Other	3.02	0.49	24.52	4.03	5.98	4.29	5.98	0.49	6.90	24.52	1.00
Total Revenue	$145.73	$128.20	$207.85	$102.10	$109.71	$149.96	$158.16	$102.10	$143.10	$207.85	$186.50
Departmental Expenses (% of App. Rev)											
Rooms	21.8%	25.1%	19.8%	24.5%	23.6%	26.1%	23.9%	19.8%	23.5%	26.1%	26.0%
Food and Beverage	85.0%	33.4%	60.5%	0.0%	0.0%	82.6%	84.8%	0.0%	49.5%	85.0%	0.0%
Telephone	275.0%	500.0%	385.3%	175.0%	192.0%	56.3%	45.7%	45.7%	232.8%	500.0%	200.0%
Minor Operating Depts & Rental & Other	66.0%	87.5%	10.0%	1.5%	1.8%	1.0%	2.0%	1.0%	24.3%	87.5%	50.0%
Total Departmental Expenses	28.5%	25.9%	41.1%	25.7%	24.6%	39.6%	36.7%	24.6%	31.7%	41.1%	**26.6%**
Departmental Profit	71.5%	74.1%	58.9%	74.3%	75.4%	60.4%	63.3%	58.9%	68.3%	75.4%	73.4%
Undistributed Expenses											
A & G	9.1%	7.6%	10.8%	8.8%	8.0%	9.5%	10.7%	7.6%	9.2%	10.8%	10.5%
Marketing	7.9%	5.1%	6.4%	4.6%	3.3%	5.5%	3.7%	3.3%	5.2%	7.9%	4.0%
Franchise Fees [a]	5.0%	13.1%	1.9%	1.8%	2.8%	1.6%	0.6%	0.6%	3.8%	13.1%	**4.1%**
Maintenance	3.8%	4.1%	5.6%	4.3%	4.7%	5.4%	4.8%	3.8%	4.7%	5.6%	5.5%
Utilities	4.7%	4.6%	4.9%	4.2%	4.1%	4.4%	3.9%	3.9%	4.4%	4.9%	5.5%
Total Undistributed Expenses	30.5%	34.5%	29.6%	23.7%	22.9%	26.4%	23.7%	22.9%	27.3%	34.5%	29.6%
Gross Operating Profit	41.0%	39.6%	29.3%	50.6%	52.5%	34.0%	39.6%	29.3%	40.9%	52.5%	43.8%
Fixed Charges											
Base Management Fee	3.0%	3.0%	6.3%	3.4%	3.1%	3.7%	5.6%	3.0%	4.0%	6.3%	3.0%
Property Taxes	2.1%	3.3%	2.7%	3.3%	3.4%	3.0%	2.8%	2.1%	2.9%	3.4%	3.0%
Insurance	1.0%	1.7%	1.0%	0.7%	1.3%	0.8%	0.6%	0.6%	1.0%	1.7%	2.0%
Reserve for Replacement	4.0%	4.0%	3.5%	1.5%	2.0%	1.6%	2.9%	1.5%	2.8%	4.0%	6.0%
Total Fixed Charges	10.1%	12.0%	13.5%	8.9%	9.8%	9.1%	11.9%	8.9%	10.8%	13.5%	14.0%
Net Operating Cash Flows	30.9%	27.6%	15.8%	41.7%	42.7%	24.9%	27.7%	15.8%	30.2%	42.7%	29.8%

Note: Refer to Appendix C for information on footnotes [a] and [b] from the above Table.

Using these operating characteristics, cash flow from operations for the proposed HQ hotel can be projected. As shown in the table below, the proposed hotel is projected to generate between approximately $900,000 and $1.06 million annually during the first five years of operations exclusive of established tax rebate programs.

Table 2.11: *Projected Net Operating Income for HQ Hotel*
Source: SAG.

	2014		2015		2016		2017		2018	
Operating Statistics										
Number of Rooms	100		100		100		100		100	
Occupancy	39.0%		41.0%		43.0%		45.0%		45.0%	
Occupied Room Nights	14,200		15,000		15,700		16,400		16,400	
Average Daily Rate (Constant Dollars)	$185.00		$185.00		$185.00		$185.00		$185.00	
Average Daily Rate (Inflated Dollars)	$194.37		$199.20		$204.27		$209.33		$214.57	
Revenues										
Rooms	$2,760	99.2%	$2,988	99.2%	$3,207	99.2%	$3,433	99.2%	$3,519	99.2%
Food & Beverage	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Telephone	7	0.3%	9	0.3%	9	0.3%	9	0.3%	9	0.3%
Minor Operating Depts & Rental & Other	15	0.5%	16	0.5%	18	0.6%	18	0.5%	19	0.5%
Total Revenue	2,782	100.0%	3,013	100.0%	3,234	100.1%	3,460	100.0%	3,547	100.0%
Departmental Expenses										
Rooms	718	26.0%	778	26.0%	833	26.0%	893	26.0%	915	26.0%
Food and Beverage	0	-	0	-	0	-	0	-	0	-
Telephone	15	214.3%	17	188.9%	18	200.0%	18	200.0%	19	211.1%
Minor Operating Depts & Rental & Other	8	53.3%	9	56.3%	9	50.0%	9	50.0%	9	47.4%
Total Departmental Expenses	741	26.6%	804	26.7%	860	26.6%	920	26.6%	943	26.6%
Departmental Profit	2,041	73.4%	2,209	73.3%	2,374	73.4%	2,540	73.4%	2,604	73.4%
Undistributed Expenses										
A & G	292	10.5%	317	10.5%	340	10.5%	363	10.5%	372	10.5%
Marketing	123	4.4%	121	4.0%	129	4.0%	138	4.0%	141	4.0%
Franchise Fees	81	2.9%	106	3.5%	132	4.1%	141	4.1%	145	4.1%
Maintenance	170	6.1%	166	5.5%	178	5.5%	190	5.5%	195	5.5%
Utilities	170	6.1%	166	5.5%	178	5.5%	190	5.5%	195	5.5%
Total Undistributed Expenses	836	30.1%	876	29.1%	957	29.6%	1,022	29.5%	1,048	29.5%
Gross Operating Profit	1,205	43.3%	1,333	44.2%	1,417	43.8%	1,518	43.9%	1,556	43.9%
Fixed Charges										
Base Management Fee	83	3.0%	90	3.0%	97	3.0%	104	3.0%	107	3.0%
Property Taxes	83	3.0%	90	3.0%	97	3.0%	104	3.0%	107	3.0%
Insurance	56	2.0%	60	2.0%	65	2.0%	69	2.0%	71	2.0%
Reserve for Replacement	83	3.0%	121	4.0%	161	5.0%	207	6.0%	212	6.0%
Total Fixed Charges	305	11.0%	361	12.0%	420	13.0%	484	14.0%	497	14.0%
Net Operating Cash Flows	$900	32.4%	$972	32.3%	$997	30.8%	$1,034	29.9%	$1,059	29.9%

In order to determine if the approximate $1 million annual net cash flow is sufficient to provide for attractive investor IRR, the cost of the HQ hotel project must be introduced.

How much could the HQ hotel cost to develop?

Because true costs cannot be known until actual construction bids are received (even then those costs are frequently subject to change orders), cost estimates are typically based on gross square footage taken from an architect's schematic design for the project itself which contemplates site and infrastructure constraints, local material and labor costs, costs associated with maintaining the market-wide "doo wop" theme, and other related factors. However, at this stage in the pre-development process, it is possible only to gauge the order-of-magnitude "prototypical" costs for the proposed HQ hotel in The Wildwoods.

The estimates presented are based upon cost data provided by national hotel brands that are themselves a compilation of typical development costs experienced by actual developers/franchisees across the U.S. Where appropriate, based on the building program as described on page 19 of this report and other considerations, SAG has adjusted certain cost line items to reflect where individual costs in The Wildwoods could be higher or lower than typical.

As shown in Table 2.12 on the following page, the proposed HQ hotel project could cost between $93,000 and $163,000 per room to develop. For purposes of calculating potential investor IRR's for the project, it was assumed that the proposed HQ hotel would cost $128,000 per room to develop exclusive of land acquisition and parking costs.

Table 2.12: *Estimated Development Costs in 2013 Dollars*
Source: Hilton Hotels; SAG.

Hotel Brand	**Hampton Inn**
No. of Rooms	102
Type of Expenditure	
Market Study	$20,000
Development Services Fee	31,500
Real Property	0
Phase 1 Environmental Assessment	12,600
Designer & Engineering Fees	315,000
Construction/Leasehold Improvements	9,450,000
FF&E/Incl. Telephone Systems	1,638,000
Spa Consultant Fee	0
OnQ Computer Software/Hardware Costs	71,200
Computer Hardware for HSIA	39,100
Signs	100,800
Inventory & Operating Equipment	113,400
Organizational Expense	31,500
Permits & Licenses	63,000
Insurance	0
Misc. Pre-Opening & Project Management Expenses	220,500
Contingencies	491,400
Additional Funds (Working Capital for 3mths)	428,400
Product Improvement Plan	6,300
Construction Extension Fees	0
Expenses for Required Training	18,900
Interest	0
Misc. Opening Costs	*Included in Pre-opening*
Interior Designer	*Included in D&E Fees*
Average Total	$13,051,600
Per Room Costs	
Low	$93,300
Average	$128,000
High	$162,700

What is the estimated IRR for the HQ project?

Although each hotel developer has their own desired return thresholds, historically speaking based on experience, the closer the projected return is to 25% on an internal rate of return basis, the more likely the probability of attracting bona fide development interest. However, given the slowing of the economy and some of the lowest interest rates in generations, the IRR return target has decreased for many. Therefore, for modeling purposes, it may be more appropriate to use a target IRR of 20% for the proposed HQ hotel in The Wildwoods.

It should be noted that the 20% target return is not guaranteed, but merely projected. There is risk associated with earning that return, including development cost increases, hotel performance risk, rising interest rate risk, and construction delays to name a few. There are also other risks outside of the developer's control, such as significant economic downturns, changing consumer habits, and general urban decline and the subsequent disinvestment in a specific market leading to deteriorated properties and an undesirable destination for would-be travelers and hotel guests.

There are two economic development programs for which the proposed HQ hotel would likely qualify which would assist in making the project more financially feasible. The first is sponsored by the New Jersey Economic Development Authority and is called the Economic Redevelopment and Growth ("ERG") Program. Simply stated, any qualifying project is entitled to receive an annual rebate equal to 75% of all new state sales and occupancy tax revenues generated by the project; up to a maximum of 20% of total project costs. Based on the operating projections for the proposed HQ hotel, the project would be eligible to receive an ERG rebate of approximately $211,000 in the first year of operations and escalating to $298,000 in year nine of operations. In year 10 of operations, the project's ERG rebate would equal approximately $195,000 and would be the final rebate as the cumulative total would reach 20% of total development costs.

Secondly, the state of New Jersey also permits local municipalities identified as "communities in need" to rebate 50% of real estate or property taxes for a period of five years. For IRR calculation purposes, it was assumed that The Wildwoods would invoke this rebate.

Finally, with respect to financial modeling, it was assumed that the developer would have no cost associated for either the site or the parking necessary to operate the hotel.

Using all of the above as a basis, it is now possible to estimate the potential IRR and determine if the proposed HQ hotel project is theoretically feasible. Based on these assumptions, the table below demonstrates that the proposed IRR is approximately 12.2%. This IRR is significantly below the target return of 20% and strongly suggests the proposed HQ hotel project is not feasible without additional public incentives.

Table 2.13: IRR Calculations - *Base Case*

Proposed HQ Hotel

Equity Return & Debt Service

In Current Dollars (000s omitted)

Assumptions			
Number of Rooms	100	Debt (000)	$6,400
Cost per Key (000)	$128	Equity (000)	$6,400
Total Project Cost (000)	$12,800	Debt Interest Rate	7.50%
Public Investment (000)	$0	Amortization Period (Years)	25
NET COST (000)	$12,800	Loan Term (Years)	27
% Debt	50%	Residual Cap Rate	10.0%
% Equity	50%		

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Hotel Operating Cash Flows	$0	$900	$972	$997	$1,034	$1,059	$1,083	$1,113	$1,140	$1,169	$1,199
Public Incentive Examples											
NJ EDA ERG Program Rebate	0	211	229	246	263	269	277	283	289	298	195
Property Tax Abatement (50% for 5 Yrs)	0	42	45	49	52	54	0	0	0	0	0
Subtotal: Public Incentive Examples	0	253	274	295	315	323	277	283	289	298	195
Net Cash Flow Available for Debt Service	$0	$1,153	$1,246	$1,292	$1,349	$1,382	$1,360	$1,396	$1,429	$1,467	$1,394
Debt Service											
Interest	(480)	(480)	(480)	(473)	(465)	(457)	(448)	(439)	(429)	(418)	(406)
Principal (25 year amort)	0	0	(94)	(101)	(109)	(117)	(126)	(135)	(145)	(156)	(168)
Capitalized Interest (One Year)	480	0	0	0	0	0	0	0	0	0	0
Net Debt Service	0	(480)	(574)	(574)	(574)	(574)	(574)	(574)	(574)	(574)	(574)
Cash Flows After Debt Service	$0	$673	$672	$718	$775	$808	$786	$822	$855	$893	$820
Debt Service Coverage Ratio		1.9	1.7	1.7	1.8	1.8	1.9	1.9	2.0	2.0	2.1
Equity Cash Flows											
Equity Contribution	($6,400)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cash Flows After Debt Service	0	673	672	718	775	808	786	822	855	893	820
Repayment of Debt	0	0	0	0	0	0	0	0	0	0	(5,249)
Residual*	0	0	0	0	0	0	0	0	0	0	11,990
Net Investor Cash Flows	($6,400)	$673	$672	$718	$775	$808	$786	$822	$855	$893	$7,561
Annual Cash-on-Cash Return:		**10.5%**	**10.5%**	**11.2%**	**12.1%**	**12.6%**	**12.3%**	**12.8%**	**13.4%**	**14.0%**	
Equity IRR:	**12.2%**										

For illustrative purposes, and to understand the level of other public incentives that would be required to bring the projected IRR nearer to a target of 20%, calculations were made assuming various tools frequently used in other convention communities seeking to attract their own HQ hotel development. The following table presents the value of each based on the proposed HQ project in The Wildwoods:

Table 2.14: *Estimated Value of Possible Public Incentives*
Source: SAG.

	Approximate Annual Cash Influx to HQ Hotel	IRR
BASE CASE	-	12.2%
Local Occupancy Tax Rebate Assumes that 75% of the municipal hotel tax is rebated back to project for 10 years	$115,000	+ 2.3%
Catering Revenue Sharing Assumes that a percent of the increase in Center food and beverage sales is shared with HQ hotel	$25,000	+ 0.6%
Marketing Assistance Assumes that Center provides marketing dollars to HQ hotel for purposes of attracting large groups	$200,000	+ 5.0%
POTENTIAL	$340,000	20.1%

Practically speaking, the details of any financial arrangement between the public entity(s) involved and a selected hotel developer (should one be identified) are all fully negotiable and subject to change. It may be possible for other incentives to be enabled or a modification of some of those listed that would provide the public entity(s) more comfort and flexibility yet still allow the private sector the resources to build the HQ project. In summary, the proposed HQ hotel is not feasible on a fully private, arms-length basis. However, the project would be in the ballpark of theoretical feasibility if additional incentives or subsidies were established that began to approach a value of approximately $300,000 per year, or at least for the first ten years of operations. This analysis was not to predict the future with precision, but rather to provide a reasonable expectation as to what would be required from the public sector to bring the project to fruition. The key assumptions used to generate the $300,000 estimate are themselves estimates. Therefore, what range of public sector incentives could The Wildwoods reasonably expect if it were to pursue actual private sector development interest?

Financial Sensitivity: What If?

The financial analysis in the previous sections was based on multiple variables and should be considered one potential scenario. Although this “Base Case” is useful for providing a first-look at possible financial realities, creating other scenarios using various assumptions for key variables allows the range of the project’s viability to be better understood. Therefore, as presented below, SAG performed sensitivity analysis using five key assumptions that have a large impact on financial feasibility. Specifically, the additional scenarios contemplated these assumption ranges: stabilized occupancy 45% to 50%; ADR $185 to $215; net operating income percent 25% to 30%; development cost per key $128,000 to $150,000; and equity IRR of 17% to 20%.

Table 2.15: *Sensitivity Analysis*
Source: SAG

	Base	Scenario				
	Case	**A1**	**A2**	**A3**	**A4**	**A5**
ADR	$185.00	$185.00	$185.00	$185.00	$185.00	$215.00
Occupancy	45.0%	45.0%	50.0%	50.0%	50.0%	50.0%
RevPAR	$83.25	$83.25	$92.50	$92.50	$92.50	$107.50
Change from Base Case			*11%*	*11%*	*11%*	*29%*
NOI	29.9%	29.9%	29.9%	25.0%	25.0%	25.0%
Change from Base Case			-	*-16%*	*-16%*	*-16%*
Development Cost per Key	$128,000	$128,000	$128,000	$128,000	$150,000	$150,000
Change from Base Case			-	-	*17%*	*17%*
Annual Subsidy (Yr 2017)						
Local Occupancy Tax Rebate (10 Yrs)	$115,000	$115,000	$110,000	$115,000	$115,000	$130,000
Catering Revenue (ongoing)	25,000	25,000	0	25,000	25,000	25,000
Marketing Assistance (ongoing)	200,000	115,000	0	150,000	390,000	200,000
Total Subsidy	**$340,000**	**$255,000**	**$110,000**	**$290,000**	**$530,000**	**$355,000**
Equity IRR w/ Subsidy	20.1%	17.0%	17.0%	17.0%	17.0%	17.0%

As shown in the Table 2.15 above, the new scenarios assumed a target IRR of 17%, which could be argued is more reflective of the current market. The amount of annual public subsidy required to meet the 17% IRR target was established as the dependent variable.

One of GWTIDA's primary purposes in engaging a market feasibility study was to understand what could be required from the public sector to realize a HQ hotel. Based on these scenarios, the sensitivity demonstrates that the annual public subsidy needed to make the HQ project financially feasible ranges from approximately $100,000 to $500,000 for each of the first ten years of operations and escalating annually (the subsidy requirement would decrease in Year 11 by approximately $125,000).

For The Wildwoods to anticipate a request from the private sector for public subsidy that was materially outside of this range would necessitate finding a hotel developer that believed either: (a) the hotel could be built for less and generate more revenues than estimated, or (b) the hotel would underperform and or cost more to build. In the case of the latter, albeit highly unlikely to occur, The Wildwoods should be suspect of any developer who is overly bearish on the project yet pursues its development anyway.

Ideally, a public incentive package could be structured in such a way that provides financial assistance in the amount and length of time as required, and is reduced or eliminated thereafter. Although sound in theory, such subsidy packages are challenging in practice.

ARE THESE HQ HOTEL PROJECTS DONE ELSEWHERE?

Yes. Many communities with convention centers have pursued or are in the process of pursuing the development of a HQ hotel adjacent or attached to their event facility. As stated earlier, realizing new hotel development can be challenging, and depending on the characteristics of a specific hotel market, can often take years or even up to a decade to bring to fruition. Almost always, there is a public investment component to a HQ project that helps close the funding gap and ultimately makes the project financially feasible. In some cases, the public sector had to own and develop the project itself as the private sector either could not or would not. Some HQ hotel projects never get built.

Table 3.1: *HQ Hotel Project Communities*
Source: SAG.

Private Model	Year	Public Model
Pittsburgh	1991	
Norfolk	1992	
Philadelphia	1995	
Denver Chicago	1998	Providence
Miami	1999	
Nashville Tampa	2000	
Baltimore Jacksonville North Charleston Seattle	2001	Pittsburgh Airport Sacramento
Charlotte Richardson TX St. Louis	2002	Overland Park KS Trenton NJ
San Jose	2003	Cambridge MD Myrtle Beach
	2004	Austin Houston
Shreveport	2005	Omaha
Winston-Salem Raleigh	2006	Schaumburg Denver
Columbia SC	2007	
San Antonio La Vista NE San Diego	2008	Phoenix Baltimore
	2009	San Juan PR Lancaster PA
Manhattan KS	2011	
	2012	Columbus OH
Washington DC	2014	
Charlotte Gulf Shores AL Pittsburgh Columbus GA Philadelphia Kansas City Wilmington NC Los Alamos NM	Currently Planning	Portland OR Fort Worth Fort Lauderdale Albany Dallas Nashville

Table 3.1 presents the communities that completed or are in the various planning stages of a HQ hotel project, either through a privately owned-publicly subsidized model, or a publicly owned model.

As way of example, the City of Columbus Georgia is currently in the negotiations with a private sector developer to build an upscale or upper midscale hotel attached to its riverfront convention center. The City, through its Convention Center Authority, is seeking an approximate 150-room HQ hotel for the purposes of improving its overall destination package for larger groups and to spur additional economic activity that otherwise would be difficult to attract. In exchange for developing and operating a quality hotel as well as providing an executed room block commitment that will allow the convention center to pre-sell the new hotel's rooms to large groups, the City and its public sector partners are offering a financial incentive package that essentially includes zero cost land, zero cost access to parking, and a one-time, initial financial grant of approximately $3 million.

In addition to the convention center being located along the river walk, Columbus is home to several corporate headquarters (such as AFLAC and Synovus), Columbus State University, a first-class performing arts center, an historic, revitalized downtown commercial district, and other attractions as shown below. The expected performance of the hotel is approximately 68% occupancy with an ADR of roughly $120 in 2011 dollars for a RevPAR of about $82. The hotel is projected to generate in the order of $1.5 million in net operating income annually. Hotel development costs are estimated to be approximately $135,000 per room in 2013 dollars.

It should be noted that Columbus began its planning efforts to attract HQ hotel development in the mid-2000's and issued an official solicitation for developer proposals in early 2009.

Summary and Next Steps

The Wildwoods are truly a unique destination with an uncommon hotel market. There are very few places in the world where a prospective hotel with a projected stabilized occupancy of 45% would ever have even a remote chance of getting built. Yet, this report found that with some additional financial support from the local municipalities over and above existing economic development programs, the project could conceivably come to fruition. Moreover, the amount of additional public support needed in The Wildwoods is no greater than that of other U.S. communities seeking HQ hotels in so called "normal" markets.

However, in order for the HQ hotel to be developed, it is almost certain that the owners/developers of the proposed property would be familiar with The Wildwoods, comfortable with its seasonality, and experienced in generating profits in the market. Ideally, the owners/developers would be able to use the proposed HQ hotel to increase business activity and profits at their other local business establishments. In this way, the HQ hotel's lower-than-industry-norms IRR returns could be mitigated by the increased income at existing investments, thereby effectively increasing overall returns. Finally, as there undoubtedly will be some level of civic-mindedness related to the decision to develop the proposed hotel, it could be important to seek out owners/developers who live and raise families in the area.

Going forward, should The Wildwoods, GWTIDA, and the other public bodies associated with the proposed HQ hotel decide to pursue the project further, it is recommended that a preliminary development incentive package be assembled. Once completed, an official request for proposal ("RFP") can be issued defining the desired project, the roles and responsibilities of the public sector(s) and the private sector, the room block commitment, the timeline, and other salient information. The RFP should allow the prospective owners/developers to form teams or joint ventures, both among and between local individuals/companies and those from outside the area, so as to share in the potential risks and prospective rewards of the project, and likely enhancing the project's ability of being realized.

Even if the proposed HQ hotel is eventually developed, the project is simply another step in the evolution of The Wildwoods and should not be considered the panacea for the area's challenges. The decision was made in 1999 to enter the convention business, and The Wildwoods have enjoyed greater success because of it. But like any business, it needs continual tending with an eye toward improvement. Even though the proposed hotel project blurs the line somewhat between the public and private sectors, from The Wildwood's convention customer's perspective, a desirable destination is merely one package. If that package is consistent with or superior to the competition, they will come. If it is inferior, they will not.

In most cities, a HQ hotel project is typically viewed simply as an investment in the convention business and the community's infrastructure; making the convention center work better. In this case, properly done, it could be so much more. The proposed HQ hotel project could be an opportunity. Building the first upscale, nationally branded hotel on the island would be momentous for The Wildwoods. Like its birth at the turn of the 20th century and the "modernization" it experienced post-WWII in the 1950's and 1960's, The Wildwood's could use this project as a genesis in redefining itself for the next 50 years.

Appendix A: *100 Comments - Potential & Past Client List*

Access Point Solutions Inc
Advanstar Communications
Agway
Alcoholics Anonymous of Southern Jersey
American Association of Homes & Services for the Aging
American Cancer Society - Eastern Division
American Physical Therapy Association of New Jersey
American Society of Cataract & Refractive Surgery
AmeriNet Central
Arett Sales
Association of Food Industries, Inc.
Association of Trial Lawyers of America
Baby Expo
Bergen County Medical Society
Bridgeton High School
California Tow Truck Association
Chemistry Council of New Jersey
Coastal Alliance Corporation/Jam Brands
Conference Advisors, Inc.
Deaf Expo - CSD
Defense Contract Agency
Department Of Corrections
Department Of The Army
DePasquale Salon Systems, Inc.
Double 8 Alpaca Ranch
Dream Events, Inc.
East Coast Dance Group
Episcopal Diocese of Newark
Family Wedding
Family Reunion
Fellowship Alliance Chapel
Fuel Merchants Association of New Jersey
GGI, Inc.
Gipson/Magwood Family Reunion
Gloucester County Institute of Technology
Greater NJ United Methodist Conference
HelmsBriscoe
Independent Insurance Agents of NJ
Insurance Council of NJ
International Nanny's Association
Limmud New York
Lost Business
Lost Business
Lost Business
Lost Business
Masterfoods USA
Medical Society of New Jersey
National Association of Postmasters - New Jersey Chapter
National Association of Recording Merchants
National Supreme Council of the Ancient Accepted Scottish Rite Masons
NatureServe
New Atlantic Independent Book Sellers Association
New Jersey Academy of Family Physicians
New Jersey Academy of Ophthalmology
New Jersey Asphalt Pavement Association
New Jersey Association of Public Accountants
New Jersey Association of Realtors
New Jersey Association of School Business Officials
New Jersey Broadcasters Association
New Jersey Chimney Sweep Guild
New Jersey Credit Union League
New Jersey Dental Association
New Jersey Department of Education
New Jersey Department of Transportation
New Jersey District Council Assemblies of God
New Jersey Division of Archives & Records Management
New Jersey Division of Fish and Wildlife
New Jersey Education Association
New Jersey Federation of Democratic Women
New Jersey Home Health Assembly
New Jersey League for Nursing
New Jersey Library Association
New Jersey Licensed Beverage Association
New Jersey Mental Health Institute
New Jersey Pharmacists Association
New Jersey Recreation & Park Association
New Jersey Recreation & Park Association
New Jersey Society of Association Executives
New Jersey Society of Association Executives
New Jersey State Funeral Directors Association
New Jersey State Nurses Association
New Jersey Travel Industry Association
NJ State League of Master Plumbers
Northeast Region Boy Scouts of America
Oceanview Network
Philadelphia Bar Association
Pionairs - Air Canada
Primerica - Meetings & Conventions
Research Design Specialist
Rutgers University Center for Government Services
Somerset Christian College
St. Joseph's University
Swarovski Crystal
Textile Care/Allied Trade Association
The Kappa Alpha Society
The Lowery Group
The Wildlife Society
U.S. Travel Association
University of Georgia
William Penn Cat Club

Appendix B: *Representative hotel brands from each chain scale type*

Luxury: Fairmont Hotels, Four Seasons, Grand Hyatt, InterContinental, JW Marriott, Mandarin Oriental, Ritz-Carlton, St. Regis, and Waldorf=Astoria

Upper Upscale: Embassy Suites, Hilton, Hyatt, Marriott, Omni, Renaissance, Sheraton, Westin

Upscale: Adam's Mark, aLoft, Crowne Plaza, DoubleTree, Four Points, Hilton Garden Inn, Hyatt Place, Radisson

Upper Midscale: Clarion, Comfort Suites, Doubletree Club, Drury, Hampton Inn, Holiday Inn, Holiday Inn Select, Wyndham Garden

Midscale: Baymont, Best Western, Howard Johnson, Quality Inn, Ramada, Red Lion, Shilo Inn, Wingate

Economy: America's Best Inn, Budgetel, Days Inn, Econo Lodge, Knights Inn, Motel 6, Red Roof Inn, Super 8, Travelodge

Appendix C: *Notes to Table 2.10 - Operating Financials*

[a] Some hotels account for Franchise Fees in individual line items.

[b] Custom Hotel Operating Statistical ("HOST") Report includes the following Upscale hotels with meeting space in secondary markets:

Holiday Inn - *205 rooms*
Crowne Plaza - *289 rooms*
Independent Resort Lodge (in highly seasonal location closed during winter) - *385 rooms*
Sheraton Hotel & Convention Center - *243 rooms*
Hilton Garden Inn - *135 rooms*
Embassy Suites Hotel & Conference Center - *263 rooms*