



**Confidential: for Internal Use Only**

**Evansville Downtown Convention Hotel Feasibility  
and Impact Analysis**

conducted for

Evansville Redevelopment Commission

June 2012



June 4, 2012

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Sent via Email to: ehafer@vectren.com

Dear Mr. Hafer,

The Evansville Redevelopment Commission (ERC) engaged Hunden Strategic Partners (HSP) to conduct a feasibility study and impact analysis for the development of convention hotel in downtown Evansville. The property is intended to serve as the primary hotel for both the Ford Arena and The Centre, while enhancing Evansville's downtown appeal to visitors. This report is intended to assist the ERC in its understanding of the local and competitive market and how a downtown convention hotel would perform. The resulting impact study will demonstrate the expected impact the property will have on the local Evansville economy.

The attached is our report.

This report has been prepared under the following general assumptions and limiting conditions:

- The findings presented herein reflect analysis of primary and secondary sources of information that are assumed to be correct. HSP utilized sources deemed to be reliable but cannot guarantee their accuracy.
- This report shall not be used for any other purpose other than the stated purpose.

We have enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely yours,

**HUNDEN STRATEGIC PARTNERS**

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## **EXECUTIVE SUMMARY**

The Evansville Redevelopment Commission engaged the Hunden Strategic Partners team (HSP or the HSP Team), which includes MSI/KKG (planning/design), London Witte Group (public finance) and Shiel Sexton (construction/budgeting), to determine the feasibility and impact of a new downtown hotel adjacent to the newly constructed Ford Center arena and the community's convention facility, The Centre. The City is attempting to understand the optimal size of the hotel within reasonable cost parameters in order to provide an attractive convention package to attract conventions and other large gatherings to downtown Evansville. The HSP Team also addressed other issues such as the connectivity between the hotel and the Ford Center and The Centre as well as additional parking requirements. In order to determine the best hotel for the needs and limitations of the ERC and community, the HSP Team developed ten scenarios to illustrate various room counts and levels of quality. From these, a variety of costs, impact levels and return on investment were determined.

### **Questions to be Answered**

1. What is the optimal hotel development that will generate the most benefit for The Centre, Ford Center and downtown Evansville without damaging the local hotel market and the Evansville Redevelopment Commission's financial standing?
2. How competitive is Evansville in the current local and regional convention market and how will a new downtown hotel directly impact this competitiveness?
3. Who are the major competitors on the local, state and regional level? What convention packages do these markets possess and how does Evansville compare?
4. Who are the likely customers to use both the new hotel and The Centre?
5. What is the current competitive nature of the local hotel and meeting space market? How will the new hotel impact this competitiveness and will it improve or damage the market as a whole?
6. What are the critical factors for success for a convention hotel attached to a convention center?

To answer these questions, the HSP Team conducted an analysis of the local market, local meeting facilities and hotels, convention center hotel development trends and case studies as well as a meeting planner survey. It was through this analysis that site and design concepts were developed which ultimately led to demand and financial projections, in addition to an economic, fiscal and employment impact study.

The short answers to these questions are presented below:

1. The optimal hotel development is a high quality hotel with full-service amenities of between 240 and 270 rooms. It should include meeting and ballroom space, food

and beverage options (including room service) and be connected to the convention center and arena. A similar hotel was developed in Fort Wayne recently that is a good model for this project.

2. Currently, Evansville is not competitive at all when it comes to hosting meetings, conventions and other events that might consider Evansville, primarily due to the lack of a hotel onsite. The existing two hotels downtown do not cater to or make large room blocks available to meeting planners (due to a focus on gaming guests) and the largest, the Aztar hotel, is not of the quality expected by planners.
3. The market is not competitive against the much larger and more amenity-filled cities that surround Evansville, such as Louisville, Indianapolis, St. Louis, Nashville, Bloomington and points north. Indianapolis hotels have more hotel rooms and function space in individual hotels than Evansville has in its downtown. Most state associations and Indiana groups meet in Indianapolis at hotels or the convention center. If they rotate from Indianapolis, they travel north to Fort Wayne or Merrillville, but not usually south.
4. The likely customers for the new hotel and The Centre are corporate training events and meetings from the region, smaller state associations, trade shows and other events, assuming the proper package is developed to suit their needs.
5. There is a need for quality in the local hotel and meetings marketplace. The existing full-service hotels are older, have weak brands and are of middling quality, while the newer hotels have only limited services and little function space. The development of a new downtown convention hotel will help the entire market by inducing new demand and providing a high quality, full service product that customers will be willing to pay for, although not enough to keep it from needing a subsidy. However, developing too large of a property (more than 270 rooms) will hurt the market by placing too much new supply in the market at one time. This could lead hotels to “chase rate down” in order to try to generate occupancy. This would hurt the entire market and lead to quicker cycling down of hotel properties.
6. The critical factors for success for the hotel include a top brand tied to a strong national meetings sales team, adjacency to the convention center and full-service amenities like its own ballroom and meeting space, a coffee bar and a restaurant.

## **SUMMARY OF CONCLUSIONS**

### **Local Demographics and Economy**

The City of Evansville, Vanderburgh County and The Evansville MSA have a diversified economy, yet have struggled to maintain population growth rates similar to the state and nation as a whole. Earning and employment figures remain consistently lower than the state and national average as

well. However, the City's position as a regional hub provides it with a core of educational, government and health centers that will continue to support the economy, along with a currently robust manufacturing sector. The revitalization of downtown with the Ford Center arena, Main Street and continued investments along the riverfront and casino, provide a positive trend for a new hotel downtown. These improvements help to keep downtown employers downtown and these employers generate room night activity for hotels.

### **Convention Center Hotel Development Trends**

In today's competitive convention market, the market has demanded and received top-quality hotel and convention center packages, usually connected to each other, in most major U.S. cities and now even in second and third-tier cities. For a community to be competitive in the industry, a convention center alone will not suffice. Clearly, the destination package must include a solid-quality convention hotel. However, for many smaller communities, the costs are simply too great for a true full-service convention hotel of the size necessary to assist the convention center. As a result, many of these markets, such as Erie, Fort Wayne and Owensboro have opted for hybrid hotel models that include the amenities meeting planners expect but at lower price points via a limited-service brand or a full-service brand with fewer amenities.

### **The Centre**

The Centre is a 280,000-square foot convention center and auditorium that consists of nearly 14,000 square feet of ballroom space; 38,000 square feet of exhibit space and 12 meeting rooms that total slightly more than 12,000 square feet. The facility also includes the 2,500-seat Aiken Theatre. The facility is owned by Vanderburgh County and operated by SMG, a third party management firm.

The Centre was completed in 2000 through a renovation that included the demolition of a substantial portion of the previous, smaller, meeting facilities. Only the Aiken Theatre and its related support spaces were maintained. The Centre's ballroom, exhibit hall and meeting rooms were constructed around the theatre, with the potential of exhibit hall expansion possible on the facility's northeast end.

In addition to traditional exhibits, conventions and meetings, The Centre uses the Aiken Theatre to host a Broadway series, musical performances and a number of speaker and lecture events.

The following table shows The Centre's historical event demand.

**Table 1**

<b>The Centre - Events by Type</b>						<b>Percent Change (2007 - 2011)</b>
<b>Event Type</b>	<b>2007</b>	<b>2008</b>	<b>2009*</b>	<b>2010</b>	<b>2011</b>	
Broadway	11	7	10	5	7	-36.4%
Concert	13	5	14	15	9	-30.8%
Family Show	9	17	16	14	15	66.7%
Other**	25	15	16	5	60	140.0%
Sports Event	1	1	1	1	1	0.0%
Convention	28	24	51	18	13	-53.6%
Trade Show	26	24	27	36	30	15.4%
Meeting	121	126	138	142	133	9.9%
<b>Total</b>	<b>234</b>	<b>219</b>	<b>273</b>	<b>236</b>	<b>268</b>	<b>14.5%</b>

\* The Centre hosted Executive Inn convention events after the hotel closed  
 \*\*Dinners, banquets, auctions and other non-traditional convention center events  
 Source: SMG

As shown, The Centre hosted 268 events in 2011, a nearly 15 percent increase from 2007. Other events, which include dinners, banquets, receptions, auctions amongst others, increased by 140 percent over the same period, an increase from 25 events in 2007 to 60 in 2010. Other increases include family shows (67 percent), trade shows (15 percent) and meetings (ten percent). Alternatively, several events experienced a decrease over the same period. Convention events decreased by nearly 54 percent, Broadway events decreased by more than 36 percent and concerts decreased by more than 30 percent.

Although The Centre increased the total number of events over the five-year period, these events have not necessarily generated increased demand for a new hotel. Local visitors traditionally attend the majority of events that have increased. Events that typically attract non-local visitors: conventions, and to a lesser extent Broadway and concert events, have all declined. This results in fewer attendees that would require lodging accommodations. This downward trend has been directly attributed to the loss of the now demolished Executive Inn and the current lack of a nearby hotel. It is estimated that The Centre generates only about 3,000 room nights in a given year, due to the lack of non-local events.

### **Local Hotel Market**

While the local Evansville market has a number of attractive hotel properties, only the two casino hotels, Le Merigot and the Casino Aztar Hotel are located downtown. Because these properties primarily cater to their casino gamers, little effort is made to aggressively attract business to the downtown market. The more traditional, branded, hotel properties are all located outside of the downtown core, in close proximity to either the interstate, food and beverage nodes, areas of high corporate concentration or the airport.

The next table summarizes the hotels by market class, average size, average opening date and number of hotels by class.

**Table 2**

<b>Hotel Summary - Evansville Market</b>					
<b>Market Class</b>	<b>Rooms</b>	<b>% of Total</b>	<b>Hotels</b>	<b>Rooms/ Hotel</b>	<b>Avg Opening Date</b>
Luxury	0	--	0	--	--
Upper Upscale	0	--	0	--	--
Upscale	190	5%	2	95	Apr-03
Upper Midscale	1,651	41%	14	118	Oct-94
Midscale	423	11%	6	71	Jun-93
Independent	780	20%	11	71	Sep-76
Economy	936	24%	11	85	Jul-87
<b>Total/Average</b>	<b>3,980</b>	<b>100%</b>	<b>44</b>	<b>90</b>	<b>Jul-89</b>

Source: Smith Travel Research

As shown, there are no luxury or upper upscale properties in Evansville. The Le Merigot is likely considered Upscale, however because it is independent, it is not broken out like the branded hotels. There are only two branded hotels considered to be upscale, totaling 190 rooms. These include the Hilton Garden Inn and the Residence Inn (and the aforementioned Le Merigot, an independent hotel). The average age is high due to a number of older properties that bring down the average of the market. The majority of the other hotels have been either opened or renovated within the past ten to 15 years. Just over 40 percent of rooms in the Evansville market are considered to be upper midscale, the largest of the market classes. More than half of all hotels (55 percent) are considered to be midscale or lower. On the whole, the hotel market in Evansville is generally older, of midscale quality, smaller and features limited services.

One new upscale hotel is under development now, the 120-room Courtyard by Marriott, which will be located on the east side of Evansville near the Hilton Garden Inn.

### **Competitive Set**

The following table is HSP's estimated of 2011 performance for the hotels in the competitive set. RevPAR is revenue per available room, which is the product of occupancy and rate. For example, if a property has an average daily rate of \$100 and 75 percent occupancy, its RevPAR is \$75.00. This is a measure of overall revenue. RevPAR yield is the amount above or below the average RevPAR for the group, on a percentage basis. Those with RevPAR yields over 100 percent are generating higher revenue per available room than the average for the competitive set.



**Table 3**

Competitive Set Hotels Estimated Occupancy, Rate & Market Segmentation for 2011						
Hotel	Rooms	RevPAR	RevPAR Yield	Market Segmentation		
				Corp. Transient	Group	Leisure
The Le Merigot	97	\$74	148%	50%	10%	40%
Casino Aztar Hotel	250	\$47	95%	25%	15%	60%
Clarion Inn & Conference Center Evansville	198	\$32	64%	70%	12%	18%
Holiday Inn Express Evansville West	81	\$67	135%	81%	5%	14%
Hilton Garden Inn Evansville	112	\$71	142%	78%	8%	14%
Holiday Inn Evansville Airport	199	\$40	81%	74%	12%	14%
<b>Total/Weighted Averages</b>	<b>937</b>	<b>\$50</b>	<b>100%</b>	<b>58%</b>	<b>11%</b>	<b>31%</b>

Source: HSP

As shown, the Le Merigot has the highest RevPAR yield of the competitive set. On the other end of the spectrum, the Clarion Inn is projected to have a RevPAR yield of only 64 percent. RevPAR is revenue per available room and calculated by multiplying rate by occupancy. Across the competitive set's market segmentation, 58 percent are corporate transient, 31 percent are leisure and 11 percent are group.

The following table shows performance data for the competitive set from 2011.

**Table 4**

Historical Supply, Demand, Occupancy, ADR, and RevPar for Competitive Hotels											
Year	Annual Avg. Available Rooms	Available Room Nights	% Change	Room Nights Sold	% Change	Occ.	% Change	ADR	% Change	RevPar	% Change
2006	736	268,820	--	174,532	--	64.9%	--	\$74.38	--	\$48.29	--
2007	828	302,220	12.4%	170,405	-2.4%	56.4%	-13.2%	\$86.00	15.6%	\$48.49	0.4%
2008	884	322,828	6.8%	177,586	4.2%	55.0%	-2.4%	\$87.97	2.3%	\$48.39	-0.2%
2009	940	343,100	6.3%	206,420	16.2%	60.2%	9.4%	\$83.33	-5.3%	\$50.14	3.6%
2010	940	343,100	0.0%	212,130	2.8%	61.8%	2.8%	\$85.07	2.1%	\$52.60	4.9%
2011	940	343,100	0.0%	193,122	-9.0%	56.3%	-9.0%	\$88.47	4.0%	\$49.80	-5.3%
2012 YTD (February)	940	55,460	0.0%	27,379	-5.6%	49.4%	-5.6%	\$89.90	-1.9%	\$44.38	-7.4%
Projected 2012	940	343,100	0.0%	190,225	-1.5%	55.4%	-1.5%	\$88.91	0.5%	\$49.30	-1.0%
CAGR* (2005-2011)	4.6%	4.6%	--	1.5%	--	-2.4%	--	3.3%	--	0.3%	--

\*Compound Annual Growth Rate  
Sources: STR, HSP

With the addition of the Hilton Garden Inn, total rooms increased to 940 rooms in 2011. Room night demand peaked in 2010 at more than 212,000 room nights, declined to 193,000 room nights in 2011 and is expected to further decline to 190,000 room nights in 2012. Occupancy has ranged from 55 percent in 2008 to 64.9 percent in 2006. Rate has increased from 2006 through 2008, then declined for two years before rebounding and to reach a high of \$88 in 2011. ADR is expected to reach a record high of nearly \$89 in 2012. RevPAR remained relatively stable from 2006 to 2009. In 2010, RevPAR increased, yet fell to under \$50 in 2011. 2012 forecasts estimate RevPAR to reach nearly \$50.

While the recession did not appear to hurt the Evansville hotel market in 2008, 2009 or 2010, certain businesses that consolidated, moved or closed operations hurt the market in 2011, including Whirlpool.

## Regional Competitors

The following table shows the Indiana convention facilities that compete with Evansville for convention and meeting business.

**Table 5**

Competitive Environment - Indiana Convention Centers									
Facility	City	Total Function Space	Exhibit Space	Ballroom Space	Mtg. Room Space	Miscellaneous	Walkable Hotels	Walkable Rooms	Rooms Onsite
Indiana Convention Center	Indianapolis	903,534	721,500	66,923	115,111	--	19	5,881	4,450
Century Center	South Bend	82,771	53,124	12,012	17,035	50-seat Theatre	1	298	0
Grand Wayne Center	Fort Wayne	80,150	50,000	15,975	16,175	1,680 SF Gallery	2	495	495
Bloomington Convnetion Center	Bloomington	25,124	12,285	0	12,839	--	1	285	117
<b>Average</b>	--	<b>226,604</b>	<b>172,062</b>	<b>20,538</b>	<b>34,285</b>	--	<b>5</b>	<b>1,418</b>	<b>1,012</b>
<b>Non-ICC Average</b>	--	<b>57,372</b>	<b>34,702</b>	<b>8,942</b>	<b>14,078</b>	--	<b>1</b>	<b>303</b>	<b>153</b>
<b>The Centre</b>	<b>Evansville</b>	<b>63,496</b>	<b>38,000</b>	<b>13,400</b>	<b>12,096</b>	<b>2,500-seat Theatre</b>	<b>2</b>	<b>347</b>	<b>--</b>

Source: Hunden Strategic Partners

The Centre ranks fourth in this competitive set in terms of total function space with the Indianapolis Convention Center having the largest function space and most walkable rooms, significantly more than the competitors. The Centre has about 6,000 square feet more total function space than the average competitor, excluding the Indianapolis Convention Center; it also has around 3,300 square feet more exhibit space and 4,500 square feet more ballroom space than the average non-Indianapolis Convention Center facility. Meeting space at The Centre is 2,000 square feet less than the average non-Indianapolis Convention Center.

However, the lack of hotels onsite in Evansville is a competitive disadvantage. The competitors have either one large hotel or two smaller hotels providing nearly 300 rooms.

In addition, the report shows the competitive casinos in Indiana as well as the competitive cities of Louisville, St. Louis and Nashville, including their convention centers and large hotels. In nearly every case, Evansville is at a disadvantage without a quality hotel downtown with its convention center.

## Event Planner Survey

The majority of responses to the survey came from Indiana-based event planners, primarily from central Indiana. The results of the survey indicate that these event planners host relatively small events that attract less than 500 attendees and therefore generate between 100 and 300 room

nights per event. This is reinforced by 85 percent of respondents that require less than 300 peak room blocks for their events.

In terms of Evansville, these meeting planners have indicated that the lack of proximity and connectivity of hotels to the meeting facilities is a significant negative factor. Access was also indicated as a negative factor. It is expected that the completion of I-69 will mitigate these concerns for most groups.

Nearly 40 percent of all respondents indicated that they would “likely” consider Evansville for their events in the event that a hotel was developed in close proximity to The Centre. Currently, many of these events are held in Central Indiana, in general and in Indianapolis hotels, in particular.

## Site and Design Scenarios

### *Site*

The following figure shows an overview of the site for the proposed hotel, the second amenity building and pedestrian connectors to connect both facilities to the Ford Center and The Centre.

**Figure 1**



- a) Amenity Building
- b) Pedestrian Connector
- c) Civic Plaza

The amenity building should not be considered a cost of the hotel, except perhaps the function space that the hotel will be able to market and sell as part of its hotel. Otherwise, it is primarily for use as storage, connection to the arena and convention center and for the restaurants/other uses. As shown, the site will encompass the entire city block bordered by MLK Boulevard to the northeast, Chestnut Street to the southeast, 6<sup>th</sup> Street to the southwest and Walnut to the northwest. The amenity building is located on the north side of Walnut Street, between the proposed hotel and the Ford Center. Three pedestrian connectors are proposed, all of which connect to the ancillary building, from the hotel, from the Ford Center and from The Centre to allow pedestrian access to each facility. A civic plaza is also planned on the corner of MLK Boulevard and Walnut Street, designed to mirror the existing public space of the Vanderburgh Public Library across the street.

Designs for ten scenarios were developed. The larger the hotel and more function space, the more dense and expensive the development.

### **Strengths, Weaknesses, Opportunities and Threats**

In advance of the recommendations, a SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis was conducted. A SWOT analysis identifies critical factors that will impact the recommended Project's operational and financial performance.

#### *Strengths*

- Visibility – Located at the intersection of Martin Luther King Jr. Blvd and Walnut Street, the hotel site is ideally located for visibility from local traffic visiting The Centre, Ford Arena, Evansville Vanderburgh Public Library, and The Evansville Civic Center Complex.
- The Centre – The Centre hosts approximately 250 annual events, a significant percentage of which require some level of hotel accommodations. Currently, visitors are required to either stay in the Casino Aztar hotels or are shuttled from hotels to a number of hotels miles away. The proposed Project would be connected via a sky bridge and offer additional meeting space to supplement the existing space in The Centre.
- The Ford Center – The arena is generating a significant number of room nights annually, primarily from concerts, but also for certain sporting events. These would accrue to a downtown hotel first for most attendees.
- Downtown Entertainment – In addition to the Ford Center, downtown Evansville offers a modest number of entertainment options within walking distance of the Project. These options include the Victory Theatre, Main Street (and it's numerous

restaurants), Casino Aztar and The District. Together, Evansville can market itself as a walkable downtown that does offer a number of options to non-local visitors.

- Downtown Businesses – There are a number of downtown businesses, such as banks, law firms, Vectren and City and County government that generate room nights. A new, branded hotel on the site would be likely to capture the bulk of these guests due to its location and rewards program.
- Lack of Existing High Quality Full-Service Hotel – There is no direct competitor for the Project, suggesting a flight to quality when it opens and the ability to be the highest rated hotel (in terms of rate and quality) in the market.
- Opportunity for Groups to “Own” the Community – Smaller markets can attract groups that do not like being one of many events in town. In Evansville, a group will likely “own the hotel” and downtown while in town, providing a sense of attention and pride to the group.

### *Weaknesses*

- Regional Access and Location – Currently, Evansville is not directly accessible via the interstate highway system. Although the I-69 extension is expected to alleviate this issue, Evansville is still relatively isolated from other communities and major highways, especially when compared to competitive markets and from the population centers in Indiana.
- Room Block Dependence – The proposed Project will likely enter into an agreement with The Centre for a minimum room block for convention events. These blocks, especially in a smaller property, will limit the Project’s ability to attract non-convention business and also runs the risk of occasionally alienating regular corporate transient and/or group guests due to potential availability issues.
- Hotel Market Health – The local hotel market is characterized by lower occupancy rates and relatively low average daily rates, even for the better hotels. While the best hotels command decent rates, the market as a whole is not generating enough demand at high price points to support a large, full-service hotel. The result is a feasibility gap that must be filled in order to make the project work.
- Competition – The surrounding markets to Evansville are nearly all larger and offer more in terms of hotels, function space, entertainment and accessibility than Evansville (except Owensboro and Bloomington). These markets, such as Indianapolis, St. Louis, Nashville and Louisville are able to attract business that Evansville simply cannot. Even with a new and large branded hotel, Evansville will find it difficult unless a group mandates a ‘southern rotation’ in its schedule of events. Certain times, casinos across Indiana will also be able to attract business that Evansville will seek.
- Non-Downtown Hotel Nodes – Each of Evansville’s non-casino hotels have been developed near either high traffic areas or in close proximity to room night generators, primarily near the airport and I-164. The proposed Project’s downtown

location, while in close proximity to several demand generators, will be forced to generate room nights by attracting a substantial percentage of business to its downtown location. This is especially critical on dates when The Centre is not hosting an event. During these periods, the proposed Project must attract corporate transient, group and leisure room nights.

### *Opportunities*

- Catalytic Development - The proposed Project can serve as a catalytic development to attract additional visitors to downtown Evansville and could potentially attract additional developments in the surrounding downtown core. Additional restaurants, bars and retail shops may be encouraged to open as a result, as could other types of businesses (either new or relocated).
- The Centre – The proposed Project will provide the adjacent hotel event planners have demanded since the demolition of the Executive Inn. New hotel rooms will make the Centre much more competitive for local and regional events, which will have a positive impact on the local economy.
- The Ford Center – Although the Ford Center is not expected to generate the same number of room nights as the Centre, the Project will offer spectators the option to remain in downtown Evansville after events, rather than driving home.
- Economic, Fiscal and Employment Benefits – The Project will entice visitors to visit Evansville businesses, restaurants and entertainment facilities. These visits result in increased downtown spending, and in turn, an improved local business environment, additional tax collections and an increased number of employment opportunities. The visibility that visitors will have of the downtown from the new hotel will show off the community to a new population that may consider visiting again or even moving to the community. Currently, many people outside Evansville simply are not visiting. This strategy worked for Indianapolis. 30 – 40 years ago it was not much different than Evansville. Yet with persistent investments, more and more people came to know the city as a vibrant, growing and enjoyable community. Success breeds success.
- Lack of Downtown Hotels – The Casino Aztar Hotel and Le Merigot represent the only hotels in the downtown market. Both properties are owned by the Casino Aztar and therefore primarily cater to gaming guests. Additionally, 70 percent of all guests receive either a complimentary or discounted room rate, suggesting a focus on this segment and not on group or corporate guests.

### *Threats*

- Competitive Developments – Communities such as Owensboro, Bloomington, Fort Wayne and others are either considering large urban projects or building them already. These include convention hotels in Bloomington and Owensboro, convention center improvements in Louisville and Bloomington as well as entertainment districts in multiple locations.

- Other Newly Developed Hotels – Every time another limited service hotel is developed in Evansville, it dilutes potential demand that could be going to a new, larger downtown hotel. The longer Evansville waits to develop a hotel, the more difficult the market may become.

## Recommendation

Two opposing forces suggest implications for the project. The first is the **private hotel market**. Based on its performance in terms of pent up demand and average daily rate, it suggests that the only truly feasible hotel from a private market perspective is a 120 – 150-room limited service hotel, similar to what is being developed as a Courtyard on the east side. This is not unusual for most non-major markets. Even in Indianapolis, few hotels larger and more luxurious than a 150-room limited service project can be financed without outside (public) financial participation. In fact, all of the hotels over 150 rooms in downtown Indianapolis have received some form of financial assistance to be constructed, including the 180-room Hampton Inn & Suites in the late 1990s. In addition, even with upfront financial assistance, too large a hotel in Evansville will eventually need reinvestment, that if not supported by the market, will be too expensive to justify. This would lead to a repeat of the Executive Inn downward cycle (or the South Bend Marriott to a Doubletree, etc.).

The second force at play is the **need of The Centre (as well as downtown in general)** and the competitive factors facing it. As shown, meeting planners expect large hotels that meet the needs of their groups in order to choose a facility like The Centre. Without a large hotel, The Centre will still not attract many groups beyond what it attracts today. In addition, the downtown casino hotels are primarily geared toward gamblers and not necessarily toward the needs of the corporate or meetings market. As shown, there does not appear to be much benefit to building a smaller hotel, nor a hotel larger than 300 rooms. Based on the surveys, any hotel of more than 200 rooms will service most of the needs of the planner who would consider coming to Evansville.

The optimal property to develop, therefore, is one that is large enough to attract groups to The Centre but not too large to be economically unsustainable or one that drags down the market. A smaller hotel such a 180-room hotel would not provide the positive impact needed, but would still be unfeasible privately.

The table below shows the committable rooms during the week and weekend in downtown Evansville.

**Table 6**

<b>Recommended Committable Rooms</b>			
Exhibit Space		36,252 SF	
Metric		12 /1,000 SF Ex. Space	
<b>Recommended Committable Rooms</b>		<b>435</b>	
Current Committable Rooms			
	Total Rooms	Committable	
		<b>Week</b>	<b>Weekend</b>
Aztar Hotel	250	75	25
Le Merigot	97	25	10
		<b>Week</b>	<b>Weekend</b>
Net Recommended Committable		335	400
Committable as % of Total		75%	75%
<b>Recommended Hotel Package</b>		<b>447</b>	<b>533</b>
Source: Hunden Strategic Partners			

Based on HSP’s analysis of the median number of committable rooms to have within walking distance (or downtown) of a convention center, using a metric of 12 rooms per square feet of exhibit space, the recommended number of committable rooms downtown should be 435. Currently, there are between 35 and 100 committable rooms, depending on the day of the week, since the casino hotels dedicate most of their rooms to gaming or corporate transient guests. Therefore, for an optimal hotel package, a significant number of hotel rooms are needed – more than likely can be justified by the market at this time.

***Based on the survey results, market analysis and comparable developments, the minimum room block (75 to 80 percent of total rooms) recommended is 200 rooms. This suggests a hotel of between 240 and 270 rooms.***

The table below shows how a 240-room hotel would fill the room block needs of The Centre and how future hotels could ultimately and optimally balance the needs of The Centre.



**Table 7**

<b>Proposed Hotel Development Scenario</b>				
Opening Date Stabilized	2015 2017	2018 2020	2021 2022	
Quality	Full-Service Light/ Ltd.-Service Plus	Limited Service	Boutique	
<b>Rooms</b>	<b>240</b>	<b>150</b>	<b>100</b>	<b>Total 490</b>
Committable %	80%	70%	50%	--
Committable	192	105	50	347
Existing Committable	100	292	397	--
<b>Total Committable</b>	<b>292</b>	<b>397</b>	<b>447</b>	<b>447</b>

Source: Hunden Strategic Partners

As shown, a 240-room hotel would provide a committable block of 192 rooms to add to the existing block of rooms downtown. So while total rooms downtown would then be nearly 600, only about 300 would be committable to a block. This is still more than enough to satisfy most events that would consider Evansville. In the future, as occurs in most cities, a second and third hotel with different characteristics should be developed over time to provide a variety of cost and quality options.

HSP conducted ten scenarios: five size options and two quality options for each. The scenarios conducted show the performance of ten scenarios, five full-service hotel models from 180 to 300 rooms and five limited-service plus models from 180 to 300 rooms. The limited-service plus models have less function space, lower quality finishes and fewer food and beverage options. Of course if the recommended hotel cannot be financed, then it truly is not feasible. Therefore, the scenarios were conducted to determine the economic value of each and the expected financial gap. If the public sector can determine a method for filling the gap, then the project can proceed.

The key difference between the scenarios beyond size is the level of quality and amenities. Full-service hotels and brands, as shown in the trends chapter, are quite expensive, ranging from \$150,000 to \$210,000 per room. These include a significant amount (75 square feet per room) of function space as well dining facilities, concierge services, higher cost finishes in the design and construction, etc. Limited-service plus or Full-service light hotels, such as those built in Erie, Fort Wayne and Owensboro, include all of the amenities and services needed (room service, function space), but without all of the items that add significant cost (finishes, additional staff, excess function space, etc.). These hybrid models can cost \$25,000 to \$75,000 less per room than a full service convention hotel, making them much more feasible.

The following table shows an overview of the specifications (including costs) associated with each scenario.

**Table 8**

	Evansville Hotel Recommended Components									
	180		210		240		270		300	
	Full Service	Limited Plus	Full Service	Limited Plus	Full Service	Limited Plus	Full Service	Limited Plus	Full Service	Limited Plus
<b>Guest Rooms</b>										
King Rooms	70	85	82	99	94	113	105	127	117	141
Double-Double	95	85	111	99	127	113	143	127	159	141
Conference Suites	2	1	2	1	2	1	3	1	3	2
Hospitality Suites	2	1	2	1	2	1	3	1	3	2
Junior Suites	5	4	6	4	7	5	8	5	9	6
Exec, Presidential & VIP Suites	5	5	6	6	7	7	8	8	9	9
<b>Total</b>	<b>180</b>	<b>180</b>	<b>210</b>	<b>210</b>	<b>240</b>	<b>240</b>	<b>270</b>	<b>270</b>	<b>300</b>	<b>300</b>
<b>Ballroom</b>										
Grand Ballroom	6,000	4,000	7,000	4,000	8,000	5,000	9,000	5,000	10,000	6,000
Junior Ballroom	0	0	0	0	0	0	4,000	0	4,200	0
<b>Total Ballroom</b>	<b>6,000</b>	<b>4,000</b>	<b>7,000</b>	<b>4,000</b>	<b>8,000</b>	<b>5,000</b>	<b>13,000</b>	<b>5,000</b>	<b>14,200</b>	<b>6,000</b>
<b>Meeting Rooms</b>										
Meeting Room (SF)	4,000	2,000	5,000	3,000	5,000	3,000	6,000	4,000	7,000	4,000
Meeting Rooms (#)	5	3	6	4	6	4	8	5	9	5
<b>Board Rooms</b>										
Board Room (SF)	500	500	500	500	500	500	500	500	500	500
Board Room (#)	1	1	1	1	1	1	1	1	1	1
<b>Total Function Space</b>	<b>10,500</b>	<b>6,500</b>	<b>12,500</b>	<b>7,500</b>	<b>13,500</b>	<b>8,500</b>	<b>19,500</b>	<b>9,500</b>	<b>21,700</b>	<b>10,500</b>
Function Space/Key	58	36	60	36	56	35	72	35	72	35
<b>Restaurants</b>										
Casual Bar/Restaurant (Seats)	45	45	53	53	60	60	68	68	75	75
Formal Restaurant (Seats)	None	None	None	None	None	None	22	None	24	None
Coffee Bar (Seats)	9	9	11	11	12	12	14	14	15	15
<b>Parking Spaces</b>	<b>180</b>	<b>180</b>	<b>210</b>	<b>210</b>	<b>240</b>	<b>240</b>	<b>270</b>	<b>270</b>	<b>300</b>	<b>300</b>
<b>Other Amenities</b>										
Business Center	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fitness Center	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pool	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Gift Shop	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Concierge	No	No	No	No	Yes	No	Yes	No	Yes	No
Spa	No	No	No	No	No	No	No	No	No	No

Source: Hunden Strategic Partners

As shown, the amount of function space ranges from 6,500 square feet to 21,700 square feet and restaurant seats range from 45 to 100. The amenities and expanded function space add significant cost to the project. The budget and estimated gap will be shown in the next chapter.

## DEMAND AND FINANCIAL PROJECTIONS

All of the scenarios are summarized in the table below, with stabilized occupancy, rate and revenue per available room shown.

**Table 9**

<b>Projection of Stabilized ADR and Occupancy (2018)</b>					
<b>Limited Service</b>	<b>180</b>	<b>210</b>	<b>240</b>	<b>270</b>	<b>300</b>
ADR	\$137	\$134	\$132	\$130	\$129
Occupancy	61%	61%	60%	59%	58%
RevPAR	\$84	\$81	\$79	\$77	\$75
<b>Full Service</b>	<b>180</b>	<b>210</b>	<b>240</b>	<b>270</b>	<b>300</b>
ADR	\$137	\$134	\$132	\$130	\$129
Occupancy	62%	61%	60%	60%	59%
RevPAR	\$85	\$82	\$79	\$78	\$76

Source: Hunden Strategic Partners

As shown, the larger the hotel, the lower the stabilized occupancy, with the full-service (essentially more function space) scenarios exhibiting a slightly higher occupancy as they will be able to induce more group business. Average daily rate also declines as the hotel becomes larger because in order to generate occupancy for the higher room count, lower rates will need to be offered. This is the numeric proof or example of why larger, full-service convention hotels are difficult to develop. For every additional room built over a baseline, consistent occupancy will be harder to attain, leading to lower occupancy, lower rates or both.

### **240-Room Limited-Service Plus/Full-Service Light Scenario**

The following table shows the estimated growth of each market segment from 2011 through 2018 (the stabilized year) for the competitive set, assuming the proposed hotel opens January of 2015 and the Courtyard opens in 2013.

**Table 10**

Estimated Competitive Set Demand Growth by Segment												
Year	Corporate Transient	% Change	Group	% Change	Leisure	% Change	Total Demand	% Change	Total Supply	% Change	Total Rooms	Occupancy
2012	108,428	--	28,534	--	53,263	--	190,225	-1.5%	343,100	0.0%	940	55.4%
2013	112,765	4.0%	29,040	1.8%	54,595	2.5%	196,401	3.2%	386,900	12.8%	1,060	50.8%
2014	116,712	3.5%	29,410	1.3%	55,414	1.5%	201,536	2.6%	386,900	0.0%	1,060	52.1%
2015	123,715	6.0%	35,098	19.3%	57,630	4.0%	216,444	7.4%	474,500	22.6%	1,300	45.6%
2016	128,664	4.0%	38,760	10.4%	59,359	3.0%	226,782	4.8%	474,500	0.0%	1,300	47.8%
2017	131,237	2.0%	41,917	8.1%	60,249	1.5%	233,404	2.9%	474,500	0.0%	1,300	49.2%
2018	132,549	1.0%	43,320	3.3%	60,852	1.0%	236,721	1.4%	474,500	0.0%	1,300	49.9%

Source: HSP

Occupancy in 2012 is estimated to be 55.4 percent, a fairly low occupancy rate, but one that can support smaller newer hotels. With the addition of the 120-room Courtyard in 2013, supply in the competitive set will increase by 12.8 percent, leading to a decline in occupancy, however it will also be accompanied by an increase in demand that will mitigate the impact. Demand in all segments is expected to increase in the coming years.

With the opening of the convention hotel and its ability to host meetings and conferences, as well as help the convention center and arena attract more events, group room nights are expected to increase substantially in the competitive set. The larger the hotel built, the more group room nights are expected to be induced to the market.

There will be a decrease in occupancy for the competitive set as the market absorbs the hotel, but the market should recover most of its occupancy by the time the hotel stabilizes.

The table below shows the estimated market penetration of the proposed hotel, based on how the hotel will penetrate various markets.

**Table 11**

<b>Estimated Market Penetration of Proposed Hotel</b>						
<b>Year</b>	<b>Corporate Transient</b>	<b>Group</b>	<b>Leisure</b>	<b>Total Penetration</b>	<b>Projected Set Occupancy</b>	<b>Subject Occupancy</b>
2015	113%	160%	40%	101%	45.6%	46.2%
2016	117%	180%	50%	110%	47.8%	52.7%
2017	123%	200%	60%	121%	49.2%	59.3%
2018	123%	200%	60%	121%	49.9%	60.3%
2019	123%	200%	60%	121%	49.9%	60.3%
2020	123%	200%	60%	121%	49.9%	60.3%
2021	123%	200%	60%	121%	49.9%	60.3%
2022	123%	200%	60%	121%	49.9%	60.3%
2023	123%	200%	60%	121%	49.9%	60.3%
2024	123%	200%	60%	121%	49.9%	60.3%
2025	123%	200%	60%	121%	49.9%	60.3%

Source: HSP

The hotel is expected to primarily cater to two market segments: the built in corporate market that is already in Evansville for business. As the newest and largest hotel with the highest quality and function space, it is expected to penetrate the corporate transient market well. As a meetings hotel attached to both the convention center and arena, it is expected to penetrate the group market especially well.

Overall, it's expected that the hotel will penetrate the competitive set at 121 percent at stabilization, but will start at only 101 percent. The resulting occupancy will be low for the first year of 46 percent, increasing to 60 percent by stabilization. While this is not the occupancy level one would desire for an ongoing hotel operation, it mimics the performance of the new 250-room Courtyard convention hotel in Fort Wayne, which has similar market characteristics.

The table below shows the estimated market segmentation for the proposed hotel versus the competitive set.

**Table 12**

<b>Projected Hotel Stabilized Demand Mix vs. Comp Set</b>		
<b>Segment</b>	<b>Hotel at Stabilization</b>	<b>Comp Set</b>
Corporate	57%	56%
Group	30%	18%
Leisure	13%	26%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: HSP

The proposed hotel is projected to generate 57 percent of room nights from the corporate transient market (similar to the competitive set), 30 percent from groups and 13 percent from the leisure market. Due to the casino hotels, the competitive set has a higher percentage of leisure visitors. In addition, as the highest quality hotel in the market with the highest rates, it will find it more difficult to attract price-sensitive leisure guests.

The next table shows the summary of occupancy and rate for the proposed hotel.

**Table 13**

<b>Performance Projections</b>				
<b>Year</b>	<b>Average Daily Rate</b>	<b>Occupancy</b>	<b>Revenue per Available Room</b>	<b>Annual Increase</b>
2015	\$122	46%	\$56	--
2016	\$123	53%	\$65	--
2017	\$124	59%	\$74	14.0%
2018	\$128	60%	\$77	4.6%
2019	\$132	60%	\$79	3.0%
2020	\$136	60%	\$82	3.0%
2021	\$140	60%	\$84	3.0%
2022	\$144	60%	\$87	3.0%
2023	\$148	60%	\$89	3.0%
2024	\$153	60%	\$92	3.0%
2025	\$157	60%	\$95	3.0%

Source: HSP

As shown, the average daily rate for the hotel will be similar to that found at the Le Merigot and should be slightly higher on average.

Understanding how the hotel will perform internally is as important to the feasibility as the external occupancy and rate projections. The next table shows the performance of the proposed hotel based on a number of assumptions about the property.

**Table 14**

**Projection of Income & Expense: 240-Room Hotel - (in \$000, inflated)**

	Year 1				Year 2	Year 3	Year 4	Year 5	
Room Count	240				240	240	240	240	
Available Room Nights	87,600				87,600	87,600	87,600	87,600	
Occupancy Rates	46%				53%	59%	59%	59%	
Occupied Room Nights	40,432				46,151	51,952	51,952	51,952	
Average Daily Rate	\$123				\$124	\$128	\$132	\$136	
RevPAR	\$57				\$66	\$76	\$78	\$80	
Percent of Change from Prior Year	--				15.5%	15.8%	3.0%	3.0%	
	\$	%	PAR	POR	\$	\$	\$	\$	%
<b>REVENUE</b>									
Rooms	\$4,967	75.6%	\$20,697	\$123	\$5,739	\$6,645	\$6,844	\$7,049	75.0%
Hotel Food and Beverage	1,189	18.1%	\$4,955	\$29	1,393	1,635	1,706	1,758	18.7%
Telephone	33	0.5%	\$137	\$1	38	44	46	47	0.5%
Other Operated Departments	131	2.0%	\$548	\$3	152	177	183	188	2.0%
Parking & Transportation	184	2.8%	\$769	\$5	213	247	256	263	2.8%
Rentals and Other Income	66	1.0%	\$274	\$2	76	88	91	94	1.0%
Total Revenue	\$6,571	100.0%	\$27,380	\$163	\$7,612	\$8,836	\$9,125	\$9,399	100.0%
<b>DEPARTMENTAL EXPENSES</b>									
Rooms	\$1,436	28.9%	\$5,982	\$36	\$1,544	\$1,728	\$1,779	\$1,833	26.0%
Hotel Food and Beverage	880	74.0%	\$3,667	\$22	1,017	1,193	1,229	1,266	72.0%
Telephone	36	110.0%	\$151	\$1	42	49	50	52	110.0%
Other Operated Departments	6	4.5%	\$25	\$0	5	6	6	7	3.5%
Parking & Transportation	151	77.0%	\$630	\$4	164	186	192	197	75.0%
Rent and Other Income	4	6.0%	\$16	\$0	4	4	5	5	5.0%
Total Departmental Expenses	\$2,513	38.2%	\$10,470	\$62	\$2,776	\$3,166	\$3,261	\$3,359	35.7%
<b>Gross Operating Income</b>	\$4,058	61.8%	\$16,909	\$100	\$4,836	\$5,670	\$5,865	\$6,040	64.3%
<b>UNDISTRIBUTED OPERATING EXPENSES</b>									
Administrative and General	\$578	8.8%	\$2,409	\$14	\$632	\$689	\$703	\$724	7.7%
Marketing	\$539	8.2%	\$2,245	\$13	\$586	\$654	\$666	\$686	7.3%
Utility Costs	\$329	5.0%	\$1,369	\$8	\$343	\$371	\$383	\$395	4.2%
Property Operations and Maintenance	\$335	5.1%	\$1,396	\$8	\$350	\$380	\$392	\$404	4.3%
Total Undistributed Expenses	\$1,781	27.1%	\$7,420	\$44	\$1,911	\$2,094	\$2,144	\$2,209	23.5%
<b>Gross Operating Profit</b>	\$2,277	34.7%	\$9,489	\$56	\$2,925	\$3,576	\$3,720	\$3,832	40.8%
<b>FIXED EXPENSES</b>									
Property Taxes	\$0	0.0%	\$0	\$0	478	478	478	478	5.1%
Insurance	99	1.5%	\$411	\$2	107	115	119	122	1.3%
Management Fee	230	3.5%	\$958	\$6	266	309	319	329	3.5%
Reserve for Replacement	\$66	1.0%	\$274	\$2	\$114	\$177	\$274	\$282	3.0%
Total Fixed Expenses	\$394	6.0%	\$1,643	\$10	\$965	\$1,079	\$1,190	\$1,211	12.9%
<b>Cash Flow from Operations</b>	\$1,883	28.7%	\$7,847	\$47	\$1,960	\$2,497	\$2,530	\$2,621	27.9%

Source: HSP

The property is projected to generate a total of \$6.6 million in gross revenue in the first year, increasing to \$9.4 million in the fifth year. Approximately \$1.9 million will be available to satisfy debt and equity requirements in the first year. By the fifth year the hotel is projected to generate \$2.6 million in net operating income.

## Supportable Equity & Debt Funding

The table below shows the supportable equity and debt, assuming loan rates, amortization periods, equity return requirements, debt coverage ratios and resulting supportable value per room.

The following assumptions have been made:

- Minimum senior loan coverage ratio of 1.0x by the first year of operation and 1.4x by the second year.
- Interest rate of 6.5 percent on an amortization schedule of 20 years.
- Maximum of 65 percent senior loan to value.
- Ten-year average return on equity requirement of 20 percent.
- Refinancing after third year, reducing interest rate to 6.0 percent.
- Project budget includes working capital to pay all operating expenses and debt service requirements in the first full year.

**Table 15**

Financing Assumptions - 240-Room Convention Hotel												
	Constr. Yr1	Constr. Yr2	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net Operating Income	\$0	\$0	\$1,883	\$1,960	\$2,497	\$2,530	\$2,621	\$2,898	\$2,998	\$3,101	\$3,377	\$3,053
Interest and Debt Reserve W/D	\$289	\$868	\$0	\$300	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service Payment	(\$289)	(\$868)	(\$1,615)	(\$1,615)	(\$1,615)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)
Net Income to Repay Equity	\$0	\$0	\$268	\$645	\$882	\$1,107	\$1,197	\$1,474	\$1,574	\$1,677	\$1,953	\$1,629
Princ. Amount***	\$4,450	\$13,350	\$17,800	\$17,342	\$16,853	\$16,330	\$15,886	\$15,416	\$14,917	\$14,388	\$13,828	\$13,233
Interest	\$289	\$868	\$1,157	\$1,127	\$1,095	\$980	\$953	\$925	\$895	\$863	\$830	\$794
Less Payment	(\$289)	(\$868)	(\$1,615)	(\$1,615)	(\$1,615)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)
Loan Balance	\$4,450	\$13,350	\$17,342	\$16,853	\$16,333	\$15,886	\$15,416	\$14,917	\$14,388	\$13,828	\$13,233	\$12,604
<b>Assumptions</b>												
Loan Amount (\$000's)	\$17,800											
Amortization Period (Years)	20											
Loan Interest Rate	6.5%											
Annual Debt Service Payment (\$000's)	(\$1,615)											
Equity:												
Developer's Equity (\$000's)	\$6,200	16%										
Private Debt	\$17,800	46%										
Total Private Financing	\$24,000	63%	\$100,000	per room								
Debt (Private) Coverage Ratio			1.17	1.40	1.55	1.78	1.84	2.04	2.11	2.18	2.37	2.14
Return on Private Equity*			4.3%	10.4%	14.2%	17.8%	19.3%	23.8%	25.4%	27.1%	31.5%	26.3%
Return on Assets**			4.9%	5.1%	6.5%	6.6%	6.8%	7.5%	7.8%	8.1%	8.8%	7.9%
*On developer's equity only.												
**On project cost.												
***Assumes 50% draw in Construction Year 1; 75% average during Construction Year 2												
Source: HSP												

Based on these requirements, the estimated supportable value of the project is \$24 million or \$100,000 per key. This value could adjust significantly based on a number of assumption



changes related to performance and financing requirements. As shown, when taxes are first assessed in material way (second year after opening), the net income drops and therefore cash reserves will be necessary to ensure that the coverage level of cash/income is sufficient to reach the 1.4x ratio.

Any other costs for the project will need to be borne by another entity.

The table below shows the economic value (financeable value) of the project under various scenarios, along with their performance information.

**Table 16**

<b>Projection of Stabilized ADR and Occupancy (2018)</b>					
<b>Limited Service Plus</b>	<b>180</b>	<b>210</b>	<b>240</b>	<b>270</b>	<b>300</b>
ADR	\$138	\$135	\$132	\$130	\$129
Occupancy	61%	61%	60%	59%	59%
RevPAR	\$85	\$82	\$79	\$77	\$75
Economic Value*	\$18.8	\$21.8	\$24.0	\$26.4	\$28.0
<b>Full Service</b>	<b>180</b>	<b>210</b>	<b>240</b>	<b>270</b>	<b>300</b>
ADR	\$138	\$135	\$132	\$130	\$129
Occupancy	62%	61%	61%	60%	59%
RevPAR	\$85	\$83	\$80	\$78	\$76
Economic Value*	\$19.5	\$22.4	\$24.6	\$27.1	\$28.7

\* Millions  
Source: Hunden Strategic Partners

As shown, economic value increases with the size of the project. However, value does not increase by much if the project has more function space and restaurants as the additional revenue is offset by higher property taxes.

Again, it should be noted that any increase in the cost per room of the hotel of even \$4,000 would increase the cost and subsidy by \$1 million or more.

## **COST ESTIMATES & GAP FINANCING**

In this chapter, HSP provides estimates of the cost of the various scenarios, as well as the cost of the ancillary developments necessary to complete the development package. Based on the cost

of the project versus the economic value of the project, there will be a gap that would need to be financed, potentially from new tax revenues generated by the project.

The following items are priced into the hotel tower, the component expected to be developed by the private sector:

- Hotel Rooms
- Lobby
- Pool
- Restaurant(s)
- Function space (other than that provided by the amenity/ancillary connector building)
- Support spaces, kitchen, and related.
- Connector to the amenity/ancillary building

The following items are priced into the publicly-financed components:

- Ancillary/Amenity building that includes 30,000 square feet of space on two levels, including function space for the hotel, a restaurant, leased office space and retail presence. This is not required for the hotel's development and therefore, while an expense, should not be totally counted as part of the hotel project cost.
- Connectors from the ancillary/amenity building to The Centre and the Ford Center
- Parking garage

All of the scenarios are summarized in the table below.

**Table 17**

Budget & Subsidy Estimates												
	Metric	Limited Service Plus (000s)					Metric	Full Service (000s)				
		180	210	240	270	300		180	210	240	270	300
<b>Hard Costs</b>												
Hotel	\$85	\$15,300	\$17,850	\$20,400	\$22,950	\$25,500	\$124	\$22,320	\$26,040	\$29,760	\$33,480	\$37,200
Connector to Amenity Building	\$9	\$810	\$810	\$810	\$810	\$810	\$9	\$810	\$810	\$810	\$810	\$810
FF&E	\$16	\$2,880	\$3,360	\$3,840	\$4,320	\$4,800	\$24	\$4,320	\$5,040	\$5,760	\$6,480	\$7,200
<b>Subtotal Hard Costs</b>		\$18,990	\$22,020	\$25,050	\$28,080	\$31,110		\$27,450	\$31,890	\$36,330	\$40,770	\$45,210
Per Key		\$105.50	\$104.86	\$104.38	\$104.00	\$103.70		\$152.50	\$151.86	\$151.38	\$151.00	\$150.70
<b>Soft Costs</b>												
Design/Engineering Fees	9.5%	\$1,530	\$1,773	\$2,015	\$2,257	\$2,499	9.5%	\$2,197	\$2,551	\$2,904	\$3,258	\$3,611
Developer Fee**	3.0%	\$591	\$689	\$788	\$886	\$984	3.0%	\$865	\$1,009	\$1,153	\$1,297	\$1,440
Financing Costs	3.9%	\$855	\$992	\$1,128	\$1,265	\$1,402	3.9%	\$1,232	\$1,432	\$1,631	\$1,831	\$2,030
Pre-Opening	\$4.5	\$810	\$945	\$1,080	\$1,215	\$1,350	\$6.0	\$1,080	\$1,260	\$1,440	\$1,620	\$1,800
<b>Subtotal Soft Costs</b>		\$3,787	\$4,399	\$5,011	\$5,623	\$6,235		\$5,375	\$6,251	\$7,128	\$8,005	\$8,882
Per Key		\$21.04	\$20.95	\$20.88	\$20.83	\$20.78		\$29.86	\$29.77	\$29.70	\$29.65	\$29.61
<b>Total Cost</b>		<b>\$22,777</b>	<b>\$26,419</b>	<b>\$30,061</b>	<b>\$33,703</b>	<b>\$37,345</b>		<b>\$32,825</b>	<b>\$38,141</b>	<b>\$43,458</b>	<b>\$48,775</b>	<b>\$54,092</b>
Per Key		\$126.54	\$125.80	\$125.25	\$124.83	\$124.48		\$182.36	\$181.63	\$181.08	\$180.65	\$180.31
<b>Economic Value of Hotel</b>		<b>\$18,800</b>	<b>\$21,750</b>	<b>\$24,000</b>	<b>\$26,400</b>	<b>\$28,000</b>		<b>\$19,500</b>	<b>\$22,400</b>	<b>\$24,600</b>	<b>\$27,100</b>	<b>\$28,700</b>
Per Key		\$104.44	\$103.57	\$100.00	\$97.78	\$93.33		\$119.17	\$117.33	\$112.75	\$110.41	\$105.23
<b>Value of Subsidy Needed</b>		<b>\$3,977</b>	<b>\$4,669</b>	<b>\$6,061</b>	<b>\$7,303</b>	<b>\$9,345</b>		<b>\$13,325</b>	<b>\$15,741</b>	<b>\$18,858</b>	<b>\$21,675</b>	<b>\$25,392</b>
<b>As a % of Total Cost</b>		<b>17%</b>	<b>18%</b>	<b>20%</b>	<b>22%</b>	<b>25%</b>		<b>41%</b>	<b>41%</b>	<b>43%</b>	<b>44%</b>	<b>47%</b>
<b>Public Costs</b>												
Garage		\$3,548	\$3,548	\$3,548	\$5,453	\$5,453		\$3,548	\$3,548	\$3,548	\$5,453	\$5,453
Two Connectors		\$2,286	\$2,286	\$2,286	\$2,286	\$2,286		\$2,286	\$2,286	\$2,286	\$2,286	\$2,286
Public Infrastructure/Plaza		\$1,643	\$1,643	\$1,643	\$1,643	\$1,643		\$1,643	\$1,643	\$1,643	\$1,643	\$1,643
<b>Subtotal Public Costs</b>		<b>\$7,477</b>	<b>\$7,477</b>	<b>\$7,477</b>	<b>\$9,382</b>	<b>\$9,382</b>		<b>\$7,477</b>	<b>\$7,477</b>	<b>\$7,477</b>	<b>\$9,382</b>	<b>\$9,382</b>
<b>Total of Subsidy plus Public Developments</b>		<b>\$11,453</b>	<b>\$12,146</b>	<b>\$13,538</b>	<b>\$16,685</b>	<b>\$18,727</b>		<b>\$20,801</b>	<b>\$23,218</b>	<b>\$26,335</b>	<b>\$31,057</b>	<b>\$34,774</b>
<b>Grand Total of All Projects</b>		<b>\$30,253</b>	<b>\$33,896</b>	<b>\$37,538</b>	<b>\$43,085</b>	<b>\$46,727</b>		<b>\$40,301</b>	<b>\$45,618</b>	<b>\$50,935</b>	<b>\$58,157</b>	<b>\$63,474</b>

\* All Construction-Related Fees & Costs (3% of Hard Costs) included in Hard Costs  
 \*\* Based on Hotel Tower only  
 Source: Hunden Strategic Partners

The hotel costs for the private sector tower and connector range from \$22.8 million for the 180-room limited service plus model to \$54.1 million for the full-service model with all function space. It is possible that with construction price increases that the costs could be higher. Any \$4,000 per room cost increase would result in approximately \$1 million in additional cost and subsidy.

Soft costs are generally figured as a percentage of hard costs. The pre-opening expense is the expense associated with hiring staff to market the hotel and get it ready for opening prior to the opening. Financing costs are those costs related to carried interest and other financing fees.

The 240-room “limited service plus/full-service light” model that has been the focus of this projection is \$30.1 million. With a value of \$24 million, this leaves a gap of \$6.1 million plus the cost of the garage and other connectors.

The garage is projected to cost between \$3.5 million and \$5.4 million, depending on if there are two or three levels. This is based on \$15,000 per space plus soft costs. The connectors are expected to be \$9,000 per linear foot and at over 200 feet total between the two, the costs are projected at \$2.3 million. Public infrastructure includes sidewalks, curbs, street work, utility connections, a public plaza and other street-level or underground work necessary to develop the projects. The amenity building is priced at \$200 per square foot plus soft costs.

**In total for the 240-room model, total public investment is \$13.5 million, not including the amenity building, which would add approximately \$6 to \$7 million to the overall cost. This is shown in the following table.**

**Table 18**

Budget & Subsidy Estimates												
Metric	Limited Service Plus (000s)					Metric	Full Service (000s)					
	180	210	240	270	300		180	210	240	270	300	
<b>Hard Costs</b>												
Hotel	\$85	\$15,300	\$17,850	\$20,400	\$22,950	\$25,500	\$124	\$22,320	\$26,040	\$29,760	\$33,480	\$37,200
Connector to Amenity Building	\$9	\$810	\$810	\$810	\$810	\$810	\$9	\$810	\$810	\$810	\$810	\$810
FF&E	\$16	\$2,880	\$3,360	\$3,840	\$4,320	\$4,800	\$24	\$4,320	\$5,040	\$5,760	\$6,480	\$7,200
<b>Subtotal Hard Costs</b>		<b>\$18,990</b>	<b>\$22,020</b>	<b>\$25,050</b>	<b>\$28,080</b>	<b>\$31,110</b>		<b>\$27,450</b>	<b>\$31,890</b>	<b>\$36,330</b>	<b>\$40,770</b>	<b>\$45,210</b>
<b>Per Key</b>		<b>\$105.50</b>	<b>\$104.86</b>	<b>\$104.38</b>	<b>\$104.00</b>	<b>\$103.70</b>		<b>\$152.50</b>	<b>\$151.86</b>	<b>\$151.38</b>	<b>\$151.00</b>	<b>\$150.70</b>
<b>Soft Costs</b>												
Design/Engineering Fees	9.5%	\$1,530	\$1,773	\$2,015	\$2,257	\$2,499	9.5%	\$2,197	\$2,551	\$2,904	\$3,258	\$3,611
Developer Fee**	3.0%	\$591	\$689	\$788	\$886	\$984	3.0%	\$865	\$1,009	\$1,153	\$1,297	\$1,440
Financing Costs	3.9%	\$855	\$992	\$1,128	\$1,265	\$1,402	3.9%	\$1,232	\$1,432	\$1,631	\$1,831	\$2,030
Pre-Opening	\$4.5	\$810	\$945	\$1,080	\$1,215	\$1,350	\$6.0	\$1,080	\$1,260	\$1,440	\$1,620	\$1,800
<b>Subtotal Soft Costs</b>		<b>\$3,787</b>	<b>\$4,399</b>	<b>\$5,011</b>	<b>\$5,623</b>	<b>\$6,235</b>		<b>\$5,375</b>	<b>\$6,251</b>	<b>\$7,128</b>	<b>\$8,005</b>	<b>\$8,882</b>
<b>Per Key</b>		<b>\$21.04</b>	<b>\$20.95</b>	<b>\$20.88</b>	<b>\$20.83</b>	<b>\$20.78</b>		<b>\$29.86</b>	<b>\$29.77</b>	<b>\$29.70</b>	<b>\$29.65</b>	<b>\$29.61</b>
<b>Total Cost</b>		<b>\$22,777</b>	<b>\$26,419</b>	<b>\$30,061</b>	<b>\$33,703</b>	<b>\$37,345</b>		<b>\$32,825</b>	<b>\$38,141</b>	<b>\$43,458</b>	<b>\$48,775</b>	<b>\$54,092</b>
<b>Per Key</b>		<b>\$126.54</b>	<b>\$125.80</b>	<b>\$125.25</b>	<b>\$124.83</b>	<b>\$124.48</b>		<b>\$182.36</b>	<b>\$181.63</b>	<b>\$181.08</b>	<b>\$180.65</b>	<b>\$180.31</b>
<b>Economic Value of Hotel</b>												
		<b>\$18,800</b>	<b>\$21,750</b>	<b>\$24,000</b>	<b>\$26,400</b>	<b>\$28,000</b>		<b>\$19,500</b>	<b>\$22,400</b>	<b>\$24,600</b>	<b>\$27,100</b>	<b>\$28,700</b>
<b>Per Key</b>		<b>\$104.44</b>	<b>\$103.57</b>	<b>\$100.00</b>	<b>\$97.78</b>	<b>\$93.33</b>		<b>\$119.17</b>	<b>\$117.33</b>	<b>\$112.75</b>	<b>\$110.41</b>	<b>\$105.23</b>
<b>Value of Subsidy Needed</b>												
		<b>\$3,977</b>	<b>\$4,669</b>	<b>\$6,061</b>	<b>\$7,303</b>	<b>\$9,345</b>		<b>\$13,325</b>	<b>\$15,741</b>	<b>\$18,858</b>	<b>\$21,675</b>	<b>\$25,392</b>
<b>As a % of Total Cost</b>		<b>17%</b>	<b>18%</b>	<b>20%</b>	<b>22%</b>	<b>25%</b>		<b>41%</b>	<b>41%</b>	<b>43%</b>	<b>44%</b>	<b>47%</b>
<b>Public Costs</b>												
Garage		\$3,548	\$3,548	\$3,548	\$5,453	\$5,453		\$3,548	\$3,548	\$3,548	\$5,453	\$5,453
Two Connectors		\$2,286	\$2,286	\$2,286	\$2,286	\$2,286		\$2,286	\$2,286	\$2,286	\$2,286	\$2,286
Public Infrastructure/Plaza		\$1,643	\$1,643	\$1,643	\$1,643	\$1,643		\$1,643	\$1,643	\$1,643	\$1,643	\$1,643
Amenity Building	\$200	\$6,570	\$6,570	\$6,570	\$6,570	\$6,570	\$200	\$6,570	\$6,570	\$6,570	\$6,570	\$6,570
<b>Subtotal Public Costs</b>		<b>\$14,047</b>	<b>\$14,047</b>	<b>\$14,047</b>	<b>\$15,952</b>	<b>\$15,952</b>		<b>\$14,047</b>	<b>\$14,047</b>	<b>\$14,047</b>	<b>\$15,952</b>	<b>\$15,952</b>
<b>Total of Subsidy plus Public Developments</b>		<b>\$18,023</b>	<b>\$18,716</b>	<b>\$20,108</b>	<b>\$23,255</b>	<b>\$25,297</b>		<b>\$27,371</b>	<b>\$29,788</b>	<b>\$32,905</b>	<b>\$37,627</b>	<b>\$41,344</b>
<b>Grand Total of All Projects</b>		<b>\$36,823</b>	<b>\$40,466</b>	<b>\$44,108</b>	<b>\$49,655</b>	<b>\$53,297</b>		<b>\$46,871</b>	<b>\$52,188</b>	<b>\$57,505</b>	<b>\$64,727</b>	<b>\$70,044</b>

\* All Construction-Related Fees & Costs (3% of Hard Costs) included in Hard Costs

\*\* Based on Hotel Tower only

Source: Hunden Strategic Partners

## **ECONOMIC, FISCAL & EMPLOYMENT IMPACT ANALYSIS**

In order to determine the return on public investment for a project such as the convention hotel proposed it is important to complete an economic, fiscal and employment impact model. The Project will generate net new economic activity in the City and County because it will change the attractiveness of downtown Evansville for the better and will:

- Recapture spending that was leaving Evansville to go to other cities
- Generate more room nights
- Generate significant food and beverage sales, retail sales and transportation sales
- Generate new event activity at The Center
- Create synergies with the Ford Center
- Create pedestrian and downtown activity after 5pm and on weekends
- Make downtown a more attractive place to live, work and play
- Increase community pride
- Create a better downtown environment
- Make downtown and the area more attractive to employees
- Make downtown and the area more attractive to employers

Several of these impacts are not easily measured, however the economic, fiscal and employment impacts can be estimated and they are presented here.

The detail for the 240-room limited service plus scenario will be shown and then a summary of all scenario impacts.

### **Impacts**

HSP uses the IMPLAN input-output multiplier model, which determines the level of additional activity in the Vanderburgh County economy due to additional inputs. For example, for every dollar of direct new spending in the county, the IMPLAN model provides multipliers for the indirect and induced spending that will result.

The following table shows the net new direct, indirect and induced spending from the Project. This is not the total of all onsite and offsite spending, but the total net new spending to the community from the project. Some of the spending onsite will be transferred from other existing hotels and that is considered substitute spending and not counted.

**Table 19**

Direct Net New Spending (000s)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20	Year 25	Total
<b>Direct New Spending</b>										
Food & Beverage	\$991	\$1,552	\$1,971	\$2,235	\$2,295	\$2,624	\$2,687	\$3,076	\$3,320	<b>\$66,086</b>
Lodging	\$1,946	\$3,183	\$4,139	\$4,707	\$4,849	\$5,626	\$6,526	\$7,568	\$8,775	<b>\$153,218</b>
Retail	\$148	\$241	\$314	\$357	\$368	\$426	\$494	\$573	\$664	<b>\$11,600</b>
Transportation	\$300	\$491	\$638	\$726	\$748	\$867	\$1,005	\$1,165	\$1,350	<b>\$23,591</b>
Other	\$167	\$274	\$356	\$404	\$417	\$483	\$560	\$649	\$752	<b>\$13,147</b>
<b>Total</b>	<b>\$3,552</b>	<b>\$5,741</b>	<b>\$7,417</b>	<b>\$8,429</b>	<b>\$8,677</b>	<b>\$10,026</b>	<b>\$11,271</b>	<b>\$13,031</b>	<b>\$14,861</b>	<b>\$267,642</b>

Source: Hunden Strategic Partners

The direct new spending due to the Project is projected to total nearly \$3.6 million in the first year, increasing to nearly \$15 million by the 25<sup>th</sup> year. Total new direct spending is projected to be nearly \$270 million over the period. The largest category of new spending is lodging, followed by new food and beverage spending.

The next table shows the net new direct, indirect and induced spending. Essentially these are the second and third waves of economic spending impact from the direct spending.

**Table 20**

Direct, Indirect & Induced Net New Spending (000s)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20	Year 25	Total
<b>Net New Spending</b>										
Direct	\$3,552	\$5,741	\$7,417	\$8,429	\$8,677	\$10,026	\$11,271	\$13,031	\$14,861	<b>\$267,642</b>
Indirect	\$1,201	\$1,940	\$2,506	\$2,847	\$2,931	\$3,386	\$3,802	\$4,395	\$5,010	<b>\$90,327</b>
Induced	\$1,389	\$2,245	\$2,901	\$3,296	\$3,393	\$3,921	\$4,409	\$5,098	\$5,815	<b>\$104,694</b>
<b>Total</b>	<b>\$6,142</b>	<b>\$9,926</b>	<b>\$12,823</b>	<b>\$14,573</b>	<b>\$15,001</b>	<b>\$17,334</b>	<b>\$19,482</b>	<b>\$22,524</b>	<b>\$25,686</b>	<b>\$462,663</b>

Source: Hunden Strategic Partners

The combined spending from the net new activity at the Project is more than \$6 million in the first year and increases to more than \$25 million by the 25<sup>th</sup> year, totaling more than \$460 million.

The spending shown above will generate earnings by those who work in those industries and other affected by higher general spending. The expected net new earnings are shown below.

**Table 21**

<b>Net New Earnings from Direct, Indirect &amp; Induced Spending (000s)</b>										
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 10</b>	<b>Year 15</b>	<b>Year 20</b>	<b>Year 25</b>	<b>Total</b>
<b>Net New Earnings</b>										
From Direct	\$1,119	\$1,808	\$2,336	\$2,655	\$2,733	\$3,159	\$3,553	\$4,108	\$4,686	<b>\$84,347</b>
From Indirect	\$392	\$634	\$820	\$932	\$959	\$1,108	\$1,248	\$1,443	\$1,647	<b>\$29,614</b>
From Induced	\$417	\$673	\$870	\$988	\$1,017	\$1,175	\$1,321	\$1,527	\$1,741	<b>\$31,372</b>
<i>Total</i>	<i>\$1,928</i>	<i>\$3,116</i>	<i>\$4,026</i>	<i>\$4,575</i>	<i>\$4,709</i>	<i>\$5,442</i>	<i>\$6,121</i>	<i>\$7,078</i>	<i>\$8,075</i>	<b><i>\$145,332</i></b>

Source: Hunden Strategic Partners

The new earnings from the net new spending are expected to be nearly \$2 million in the first year and increase to more than \$8 million over the period. The total new earnings are expected to total more than \$145 million over the period.

These earnings will support a number of full-time equivalent employees in a variety of industries, shown below.

**Table 22**

<b>Net New Full-Time Equivalent Jobs from Direct, Indirect &amp; Induced Earnings (000s)</b>										
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 10</b>	<b>Year 15</b>	<b>Year 20</b>	<b>Year 25</b>	
<b>Net New FTE Jobs</b>										
From Direct	19	30	37	41	41	41	41	41	41	
From Indirect	7	10	13	14	14	14	14	14	14	
From Induced	7	11	14	15	15	15	15	15	15	
<i>Total</i>	<i>33</i>	<i>51</i>	<i>64</i>	<i>71</i>	<i>71</i>	<i>71</i>	<i>71</i>	<i>71</i>	<i>71</i>	

Source: Hunden Strategic Partners

New full-time equivalent jobs in the county are projected to be 71 by stabilization. This is not necessarily the number of people who will be employed onsite. That figure could range from 100 to 300 full and part-time jobs.

The next table shows the project fiscal impact from the project, including property taxes, parking revenue to the City, local option income taxes and hotel taxes.

**Table 23**

Fiscal Impact - Tax Impacts from Net New Spending (000s)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20	Year 25	Total
<b>Taxes Collected</b>										
Property Tax (2.984%)	\$0.0	\$477.9	\$477.9	\$477.9	\$477.9	\$477.9	\$490.0	\$502.4	\$515.1	\$11,764
Parking Revenue	\$151.3	\$164.1	\$185.6	\$191.6	\$197.4	\$226.6	\$250.2	\$276.2	\$305.0	\$5,992
Food & Beverage Tax (1.0%)	\$9.9	\$15.5	\$19.7	\$22.3	\$23.0	\$26.2	\$26.9	\$30.8	\$33.2	\$661
County Lodging Tax (8.0%)	\$155.7	\$254.6	\$331.1	\$376.6	\$388.0	\$450.1	\$522.1	\$605.4	\$702.0	\$12,257
County Option Income Tax (1.0%)	\$1.9	\$3.1	\$4.0	\$4.6	\$4.7	\$5.4	\$6.1	\$7.1	\$8.1	\$145
<b>Total</b>	<b>\$318.8</b>	<b>\$915.3</b>	<b>\$1,018.3</b>	<b>\$1,073.1</b>	<b>\$1,090.9</b>	<b>\$1,186.3</b>	<b>\$1,295.2</b>	<b>\$1,421.9</b>	<b>\$1,563.3</b>	<b>\$30,820</b>

Source: Hunden Strategic Partners

Total taxes and revenues collected by city and county agencies is projected to total \$30.82 million over the period, with nearly \$12 million in property taxes, more than \$12 million in lodging taxes as well as nearly \$6 million in parking fees.

**Construction Impact Summary**

The following table shows the impact from construction for each scenario, which is a one-time activity.

**Table 24**

Construction Impact											
	Development Cost (000s)	Materials Spending (000s)				Earnings from (000s)				Local Income Tax	Employment Years
		Direct	Indirect	Induced	Total	Direct	Indirect	Indirect	Total		
<b>180 LS</b>	\$30,253	\$8,713	\$2,439	\$3,886	\$15,038	\$14,522	\$2,439	\$3,886	\$20,846	\$208.5	268
<b>180 FS</b>	\$33,896	\$9,762	\$2,732	\$4,354	\$16,848	\$16,270	\$2,732	\$4,354	\$23,356	\$233.6	300
<b>210 LS</b>	\$37,538	\$10,811	\$3,026	\$4,822	\$18,658	\$18,018	\$3,026	\$4,822	\$25,866	\$258.7	333
<b>210 FS</b>	\$43,085	\$12,408	\$3,473	\$5,534	\$21,416	\$20,681	\$3,473	\$5,534	\$29,688	\$296.9	382
<b>240 LS</b>	\$46,727	\$13,457	\$3,767	\$6,002	\$23,226	\$22,429	\$3,767	\$6,002	\$32,198	\$322.0	414
<b>240 FS</b>	\$40,301	\$11,607	\$3,249	\$5,177	\$20,032	\$19,345	\$3,249	\$5,177	\$27,770	\$277.7	357
<b>270 LS</b>	\$45,618	\$13,138	\$3,677	\$5,860	\$22,675	\$21,897	\$3,677	\$5,860	\$31,434	\$314.3	404
<b>270 FS</b>	\$50,935	\$14,669	\$4,106	\$6,542	\$25,318	\$24,449	\$4,106	\$6,542	\$35,097	\$351.0	451
<b>300 LS</b>	\$58,157	\$16,749	\$4,688	\$7,470	\$28,907	\$27,915	\$4,688	\$7,470	\$40,074	\$400.7	515
<b>300 FS</b>	\$63,474	\$18,280	\$5,117	\$8,153	\$31,550	\$30,467	\$5,117	\$8,153	\$43,737	\$437.4	562

Source: Hunden Strategic Partners

The construction impact will be greater the larger the project. For the 240-room limited service plus model, the total impact from materials spending is projected to be \$23.2 million. Earnings are projected to be more than \$32 million, leading to 414 job-years, or one job for one year.

The next table shows the summary of impacts.



**Table 25**

<b>Summary of 25-Year Impacts (millions)</b>	
<b>Net New Spending</b>	
Direct	\$268
Indirect	\$90
Induced	\$105
Total	<u>\$463</u>
<b>Net New Earnings</b>	
From Direct	\$84
From Indirect	\$30
From Induced	\$31
Total	<u>\$145</u>
<b>Net New FTE Jobs</b>	
	<b>Actual</b>
From Direct	41
From Indirect	14
From Induced	15
Total	<u>71</u>
<b>Taxes Collected</b>	
Property Tax (2.984%)	\$11.76
Parking Revenue	\$5.99
Food & Beverage Tax (1.0%)	\$0.66
County Lodging Tax (8.0%)	\$12.26
County Option Income Tax (1.0%)	\$0.15
COIT from Construction (1.0%)	\$0.32
Total	<u>\$31.14</u>

Source: Hunden Strategic Partners

As shown, total net new spending is \$464 million, new earnings are \$145 million, new FTE jobs total 71 and new local taxes are \$31.14 million.

With the economic, fiscal and employment impacts calculated, based on the expected performance the of the Project, an analysis can be made of the proposed deal as it related to the public sector's return on investment.

The following table shows the Project's proposed cost, the resulting non-public investment and the total ROI for the non-private sector, presented as net new local taxes collected as a result of the Project's development for all scenarios.

**Table 26**

<b>Summary of Cost, Value, Subsidy and Impact (millions)</b>					
<b>Limited Service Plus</b>	<b>180</b>	<b>210</b>	<b>240</b>	<b>270</b>	<b>300</b>
Cost of Private Project	\$22.8	\$26.4	\$30.1	\$33.7	\$37.3
Value of Private Project	\$18.8	\$21.8	\$24.0	\$26.4	\$28.0
<i>Subsidy Needed</i>	<i>\$4.0</i>	<i>\$4.7</i>	<i>\$6.1</i>	<i>\$7.3</i>	<i>\$9.3</i>
Public Projects*	\$7.5	\$7.5	\$7.5	\$9.4	\$9.4
<b>Total Public Participation</b>	<b>\$11.5</b>	<b>\$12.1</b>	<b>\$13.5</b>	<b>\$16.7</b>	<b>\$18.7</b>
<b>25-Year Impacts (millions)</b>					
Economic Impact	\$376.8	\$422.5	\$462.7	\$497.6	\$526.7
Jobs Impact	57	64	71	76	81
Fiscal Impact	\$24.6	\$28.0	\$31.1	\$34.1	\$36.9
Return on Public Investment	<b>\$13.2</b>	<b>\$15.8</b>	<b>\$17.6</b>	<b>\$17.4</b>	<b>\$18.2</b>
<b>Full Service</b>	<b>180</b>	<b>210</b>	<b>240</b>	<b>270</b>	<b>300</b>
Cost of Private Project	\$32.8	\$38.1	\$43.5	\$48.8	\$54.1
Value of Private Project	\$19.5	\$22.4	\$24.6	\$27.1	\$28.7
<i>Subsidy Needed</i>	<i>\$13.3</i>	<i>\$15.7</i>	<i>\$18.9</i>	<i>\$21.7</i>	<i>\$25.4</i>
Public Projects*	\$7.5	\$7.5	\$7.5	\$9.4	\$9.4
<b>Total Public Participation</b>	<b>\$20.8</b>	<b>\$23.2</b>	<b>\$26.3</b>	<b>\$31.1</b>	<b>\$34.8</b>
<b>25-Year Impacts</b>					
Economic Impact	\$397.6	\$443.5	\$475.8	\$529.2	\$561.4
Jobs Impact	60	68	73	81	86
Fiscal Impact	\$30.0	\$34.2	\$37.8	\$42.2	\$45.9
Return on Public Investment	<b>\$9.2</b>	<b>\$11.0</b>	<b>\$11.5</b>	<b>\$11.1</b>	<b>\$11.1</b>
* Garage, connectors, infrastructure. Does not include amenity building, estimated between \$6 - 7 million					
Source: Hunden Strategic Partners					

The table shows the likely public investment in the Project for each scenario and compares that with the fiscal impact over the period.

As stated previously, any increase in cost of the project will increase the subsidy needed and reduce the return on public investment.

## **Report Layout**

- Executive Summary
- Chapter 1 – Economic and Demographic Profile of Vanderburgh County
- Chapter 2 – Headquarter Convention Hotel Development Trends
- Chapter 3 – Evansville Meeting Facilities Analysis
- Chapter 4 – Evansville Hotel Analysis
- Chapter 5 – Regional Competitive Analysis
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## **About Hunden Strategic Partners**

Hunden Strategic Partners is a full service real estate development advisory practice specializing in destination assets. With professionals in Chicago and Indiana, Hunden Strategic Partners provides a variety of services for all stages of destination development in the following primary areas:

- Real estate market and financial feasibility and financial consulting
- Owner's representation and operating consulting
- Strategy and master planning
- Public incentive analysis
- Economic, fiscal, and employment impact analysis (cost/benefit)
- Economic and tourism policy/legislation consulting
- Organizational development
- Research and statistical analysis
- Developer solicitation and selection; Private management company solicitation and selection

Hunden Strategic Partners professionals have provided all of the above services for hundreds of client projects worldwide for the public, non-profit and private sectors. In addition, our professionals have prior professional career experience in municipal and state government, economic and real estate development, real estate law, hotel operations and non-profit management. Over 70 percent of our clients are public entities, such as municipalities, counties, states, convention bureaus, authorities and other quasi-government entities empowered to conduct real estate, economic development and tourism activities.

### **Limiting Conditions**

HSP relied on primary and secondary sources of information for the assumptions made in this report and assumes these sources to be accurate. Assumptions created for the analysis were based on the data available to HSP during the study period as well as professional judgment.

The Project is assumed to be owned and operated in a first-class manner by the parties who have operated similar facilities.

No responsibility is taken for unforeseen events occurring after the date of the analysis, including war and terror attacks, natural disasters and major economic recessions.

This report is intended to be used as a tool for decision-making by the contracting parties related to this Project and for no other purpose.

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## ECONOMIC AND DEMOGRAPHIC PROFILE

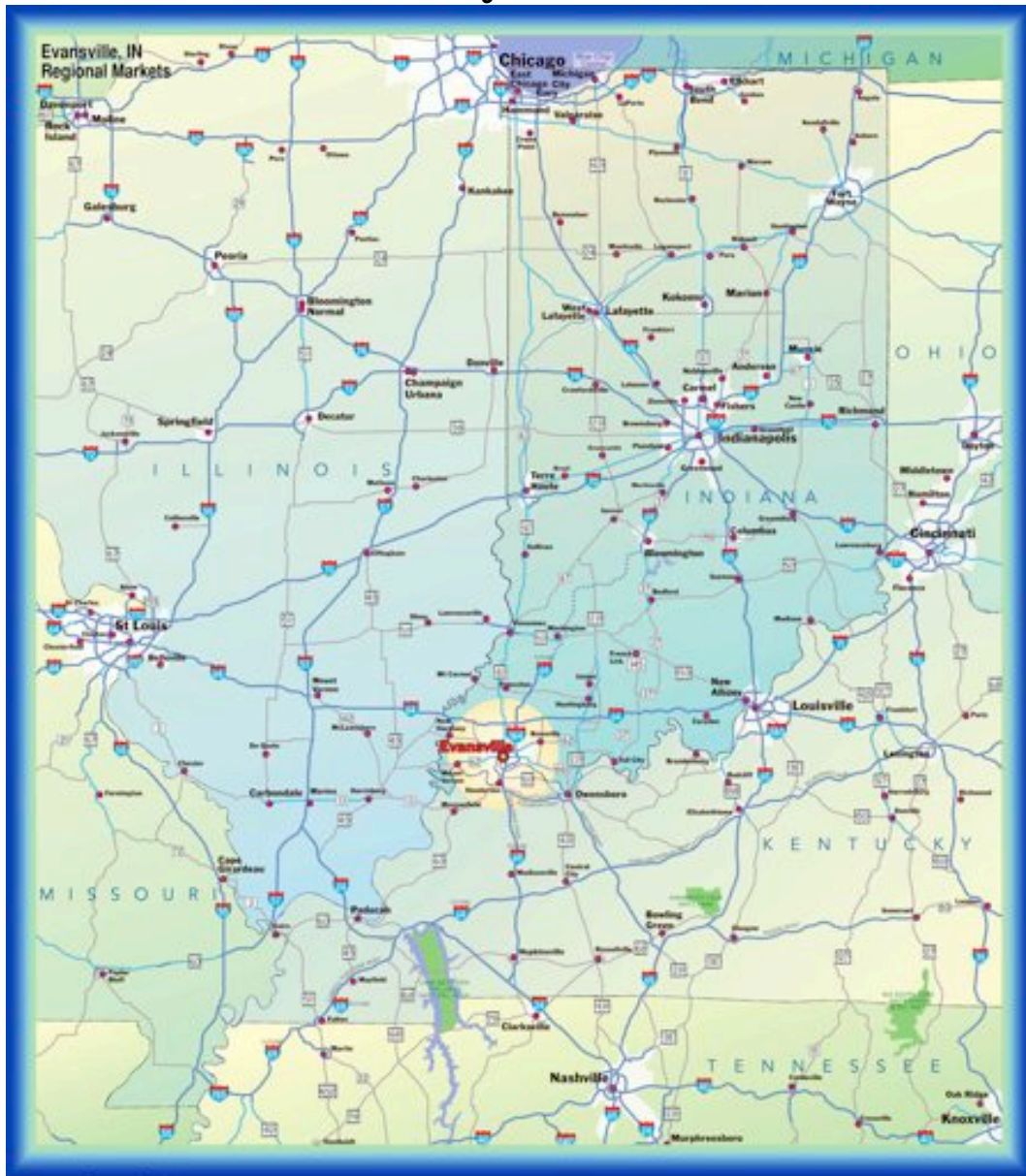
This chapter profiles the City of Evansville, Indiana and analyzes characteristics of the community that will affect the proposed Project. Specifically, this chapter will provide a brief overview of the economic characteristics of the market as well as identify and detail several Evansville attractions that would form synergistic relationships with the Project.

### Overview

The City of Evansville is Indiana's third largest city. Located in Vanderburgh County in southern Indiana, the community serves as the principle city in the Evansville, IN-KY Metropolitan Statistical Area (MSA). In 2010, the city's population was approximately 117,500 while the MSA's population was 358,600 residents. Evansville serves as the county seat of Vanderburgh County and as the regional hub for the Illinois-Indiana-Kentucky Tri-State Area.

The figure below shows a regional map of Evansville in relation to other surrounding communities.

Figure 1-1



As shown, Evansville is located nearly equidistant from St. Louis, Indianapolis, Nashville and Louisville. In terms of drive times, accessibility and influence, St. Louis and Nashville are the two most influential and accessible major cities, followed by Indianapolis and Louisville. Because Indianapolis is the state capital, there is a significant business and political relationship, but access is difficult. Access will improve with the completion of I-69 over the next several years, which will connect the two cities for the first time via interstate.

## **Regional Access**

Access will play a significant role in the performance of the proposed Project. As a convention hotel, the Project will cater to a number of non-local visitors that visit downtown Evansville for sporting events, meetings, conferences conventions and other special events. Highway and air access to the local market is critical to attracting these individuals.

### *Highway Access*

Currently, Evansville does not have direct access to the Interstate Highway system, although the City does have access to I-164, an extension from I-64, a major connector between St. Louis and Louisville. I-164 runs along the eastern border of Evansville. The primary highway connector to the City is provided via US 41, a north-south highway that runs from Florida to Michigan. Other highways include include three state routes: IN 57, IN 62, and IN 66.

Construction began in 2008 on an extension of I-69, which will connect Evansville to Indianapolis and Fort Wayne as well as communities south of the City. I-69 is planned to serve as a major international trade route between Canada and Mexico. This extension is expected to dramatically improve highway access to the Evansville, which should improve business opportunities locally as well as tourism from Indianapolis and points north.

The following figure shows Evansville's metro area, which includes surrounding communities and major highways.



Figure 1-2



### *Airport Access*

The Evansville Regional Airport (EVV) is located approximately three miles north of downtown Evansville. EVV provides nearly 30 daily flights to and from national hub-airports locations throughout the United States, which include Atlanta, Chicago, Dallas/Fort Worth and Detroit. Service to these hubs is offered by two airlines, American Eagle and Delta Connection. American Eagle offers connecting flights to Chicago-O'Hare and Dallas/Fort Worth, while Delta Connection, operated by Comair, ExpressJet and Pinnacle Airlines, offers service to Detroit and Atlanta.

## Economic and Demographic Overview

The following section summarizes important characteristics of the local market, as defined by various geographic regions, such as the City of Evansville, Vanderburgh County and the Evansville MSA. These characteristics help to define the strength of the market and will support the demand projections developed later in this report.

### Population

Although the proposed Project will rely primarily on non-local visitors, an analysis of the local population and trends will offer insight into Evansville’s size and growth in relation to state and national trends.

The table below shows population changes in the United States, the State of Indiana, the Evansville MSA, Vanderburgh County and City of Evansville.

**Table 1-1**

<b>Population and Growth Rates</b>				
	<b>Population</b>			<b>Percent Change</b>
	<b>1990</b>	<b>2000</b>	<b>2010</b>	<b>2000-2010</b>
United States	248,709,873	281,421,906	308,745,538	8.8%
State of Indiana	5,544,159	6,080,485	6,483,802	6.2%
Evansville MSA	324,858	342,815	358,676	4.4%
Vanderburgh County	165,058	171,922	179,703	4.3%
<b>Evansville</b>	<b>126,272</b>	<b>121,582</b>	<b>117,429</b>	-3.5%
Evansville Population As % of MSA	38.9%	35.5%	32.7%	

Source: U.S. Census Bureau, HSP

As shown, the Evansville MSA’s population increased by 4.4 percent from 2000 to 2010, while the City of Evansville’s population decreased by 3.5 percent over the same period. Vanderburgh County experienced a population increase of 4.3 percent over the ten-year period. Although a positive trend, the MSA’s population change was less than that of both the state of Indiana (more than six percent) and the United States (nearly nine percent).

Evansville’s population as a percentage of the MSA’s population has declined since 1990, accounting for approximately nearly 40 percent in 1990, declining to approximately one-third by 2010. The Evansville MSA’s population in 2010, nearly 359,000, has increased by approximately 34,000 residents over the 20-year period. A proposed unified city and county government will be on the ballot in 2012, which would dramatically increase the city’s population from 117,429 to 179,703.

### *Income and Employment*

The following table summarizes the historical growth of income and employment in Indiana and Vanderburgh County from 2000 through 2009, based on the latest data provided by the Bureau of Economic Analysis.

This employment data offers insight into the County’s level of income, which in turn leads to disposable income that could be potentially spent at the Project in the form of social or other events at the property. Income and employment statistics are also indicative of the strength of the local economy and in turn, the health of local businesses.

**Table 1-2**

<b>Vanderburgh County Income and Employment</b>						
<b>Year</b>	<b>Non-Farm Income</b>		<b>Non-Farm Employment</b>		<b>Income/ Employed</b>	
	<b>\$ (000s)</b>	<b>% Change</b>	<b>Employed</b>	<b>% Change</b>		<b>% Change</b>
2001	\$5,125,306	--	127,876	--	\$40,080	--
2002	\$5,345,827	4.3%	126,753	-0.9%	\$42,175	5.0%
2003	\$5,514,803	3.2%	126,857	0.1%	\$43,473	3.0%
2004	\$5,700,559	3.4%	125,166	-1.3%	\$45,544	4.5%
2005	\$5,895,082	3.4%	126,329	0.9%	\$46,665	2.4%
2006	\$6,277,046	6.5%	126,873	0.4%	\$49,475	5.7%
2007	\$6,761,506	7.7%	126,469	-0.3%	\$53,464	7.5%
2008	\$6,761,506	0.0%	127,152	0.5%	\$53,177	-0.5%
2009	\$6,658,530	-1.5%	123,889	-2.6%	\$53,746	1.1%

Source: Bureau of Economic Analysis, HSP

As shown, income levels in the county steadily increased from 2000 until 2007. In 2008, which coincides with the beginning of the last economic recession, income growth was flat and decreased slightly in 2009. Employment figures exhibited only minor changes during the period, except in 2009, when employment declined by 2.6 percent.

As a comparison, the following table shows the same employment and income statistics for the State of Indiana.

**Table 1-3**

Indiana State Income and Employment						
Year	Non-Farm Income		Non-Farm Employment		Income/ Employed	
	\$ (000s)	% Change	Employed	% Change		% Change
2001	\$170,712,842	2.6%	3,588,104	-1.6%	\$47,577	4.3%
2002	\$174,864,227	2.4%	3,547,026	-1.2%	\$49,299	3.6%
2003	\$181,423,521	3.8%	3,547,659	0.0%	\$51,139	3.7%
2004	\$188,246,290	3.8%	3,586,423	1.1%	\$52,489	2.6%
2005	\$194,156,209	3.1%	3,626,252	1.1%	\$53,542	2.0%
2006	\$205,655,358	5.9%	3,665,740	1.1%	\$56,102	4.8%
2007	\$205,655,358	0.0%	3,715,676	1.3%	\$55,348	-1.3%
2008	\$220,948,619	7.4%	3,679,114	-1.0%	\$60,055	8.5%
2009	\$216,310,708	-2.1%	3,512,833	-4.7%	\$61,577	2.5%

Source: Bureau of Economic Analysis, HSP

Indiana’s income and employment follow a similar trend identified in the preceding table; steady income growth until 2007 with a decrease following the 2008 recession. Employment increased and decreased to a greater degree statewide and income has averaged about \$7,000 higher statewide than in Vanderburgh County.

*Income*

Residents’ Effective Buying Income (EBI) can also help demonstrate the amount of disposable income that is available locally. Effective buying income consists of all wages, dividends and interest less taxes. This data is shown in the following table.

**Table 1-4**

Effective Buying Income (EBI) 2009				
	Evansville	Vanderburgh County	State of Indiana	United States
<b>Total EBI (000)</b>	\$1,889,987	\$3,325,397	\$120,375,575	\$6,443,994,426
<b>Median Household EBI</b>	\$29,820	\$34,874	\$38,341	\$42,303
<b>% of Households by EBI Group</b>				
<b>Less than \$20,000</b>	30.4%	25.4%	21.2%	24.2%
<b>\$20,000 - \$34,999</b>	28.8%	24.8%	24.4%	23.6%
<b>\$35,000 - \$49,999</b>	19.5%	19.0%	21.1%	19.4%
<b>\$50,000 &amp; Over</b>	21.3%	30.8%	33.3%	32.8%

Source: Sales and Marketing Management, HSP

Evansville's EBI was approximately \$5,000 lower than Vanderburgh County and nearly \$10,000 lower than the State of Indiana median. Those with EBI of \$50,000 or more only made up 21.3 percent of city residents, although they made up 30.8 percent of county residents.

### *Employment Diversity*

Employment diversity is a key factor in the long-term health of a local economy. Those areas with a reliance on one or two sectors can be very susceptible to changes in the fortunes of those sectors. For example, a community with a large industrial base is likely to suffer wider swings in employment than one with a mix of industries or those with more stable employment (such as government and education).

The next table displays Vanderburgh County's employment, by industry sector, as of 2009.

**Table 1-4**

<b>Vanderburgh County Employment by Category - 2009</b>		
<b>Description</b>	<b>Total Jobs</b>	<b>% of Total</b>
<b>By Industry</b>		
Farm employment	327	0.3%
Nonfarm employment	123,889	99.7%
<b>Private employment</b>	<b>112,966</b>	<b>90.9%</b>
Health care and social assistance	19,193	15.5%
Retail trade	13,950	11.2%
Manufacturing	12,437	10.0%
Accommodation and food services	10,154	8.2%
Construction	7,887	6.3%
Administrative and waste management services	7,148	5.8%
Other services, except public administration	6,537	5.3%
Professional, scientific, and technical services	5,187	4.2%
Wholesale trade	5,181	4.2%
Transportation and warehousing	4,683	3.8%
Finance and insurance	3,587	2.9%
Management of companies and enterprises	3,558	2.9%
Real estate and rental and leasing	3,369	2.7%
Arts, entertainment, and recreation	2,717	2.2%
Educational services	2,576	2.1%
Information	2,264	1.8%
Mining	1,497	1.2%
Utilities	964	0.8%
Forestry, fishing, and related activities	77	0.1%
<b>Government and government enterprises</b>	<b>10,923</b>	<b>8.8%</b>
Military	597	0.5%
Federal, civilian	971	0.8%
State and local	9,355	7.5%
State government	3,307	2.7%
Local government	6,048	4.9%
<b>Total Employment</b>	<b>124,216</b>	<b>100%</b>

Source: Bureau of Economic Analysis

As the table shows, Vanderburgh County’s local economy is well diversified as not one segment accounts for more than 16 percent of total employment. Industries with the highest employment,

Health Care (15.5 percent) and Government (nine percent) are stable industries that are required in all local communities. Retail Trade and Manufacturing employment are the only other industries with more than ten percent of the County's total employment.

### *Largest Employers*

Large and mid-sized companies generate the bulk of corporate transient hotel stays, which provides the majority of revenue for most hotels. The following table shows the largest employers in the Evansville area.

**Table 1-5**

<b>Largest Employers in Southwest Indiana</b>		
<b>Company</b>	<b>Product/Service</b>	<b>Employees</b>
Deaconess Hospital	Medical services	5,300
Toyota Motor Manufacturing, Indiana	Auto Manufacturing	4,100
St. Mary's Medical Center	Medical services	3,800
Evansville Vanderburgh School Corporation	Education	3,000
Berry Plastics	Injection-molded plastics	2,235
University of Southern Indiana	Education	2,150
Koch Enterprises, Inc.	Industrial and auto parts manufacturing	2,119
Alcoa Warrick Operations	Aluminum sheet and ingot	2,000
T.J. Maxx	Distribution center	1,700
Vectren	Utility: gas and electric	1,265
Casino Aztar	Gaming and entertainment	1,200
SABIC Innovative Plastics	Plastics: Lexan, Valox, Ultem	1,200
Springleaf Financial Services	Financial services	1,200
Old National Bancorp	Banking and financial services	975
Mead Johnson Nutrition	Pediatric nutrition	950
Ameriquel Foods	Meals ready-to-eat	900
Industrial Contractors	Construction	900
Toyota Boshoku of America	Automotive Supplier	850
AT&T	Wireless communications	750
Peabody Energy Midwest	Coal mining	701
SRG Global	Color & Chrome Plastics Manufacturing	650
Ivy Tech Community College	Education	630
PGW Pittsburgh Glass, LLC	Automotive glass	595
University of Evansville	Education	510
Fifth Third Bank	Banking and financial services	450
Vuteq Corporation	Automotive Interior Parts	450
Atlas World Group	Corporate and household movers	400
Red Spot Paint and Varnish	Coatings for automotive plastics	345
Anchor Industries	Tents, canopies, and canvas accessories	307
Whirlpool Corporation	Engineering Laboratory	300
Clondalkin Pharma and Healthcare	Paperboard printing	224

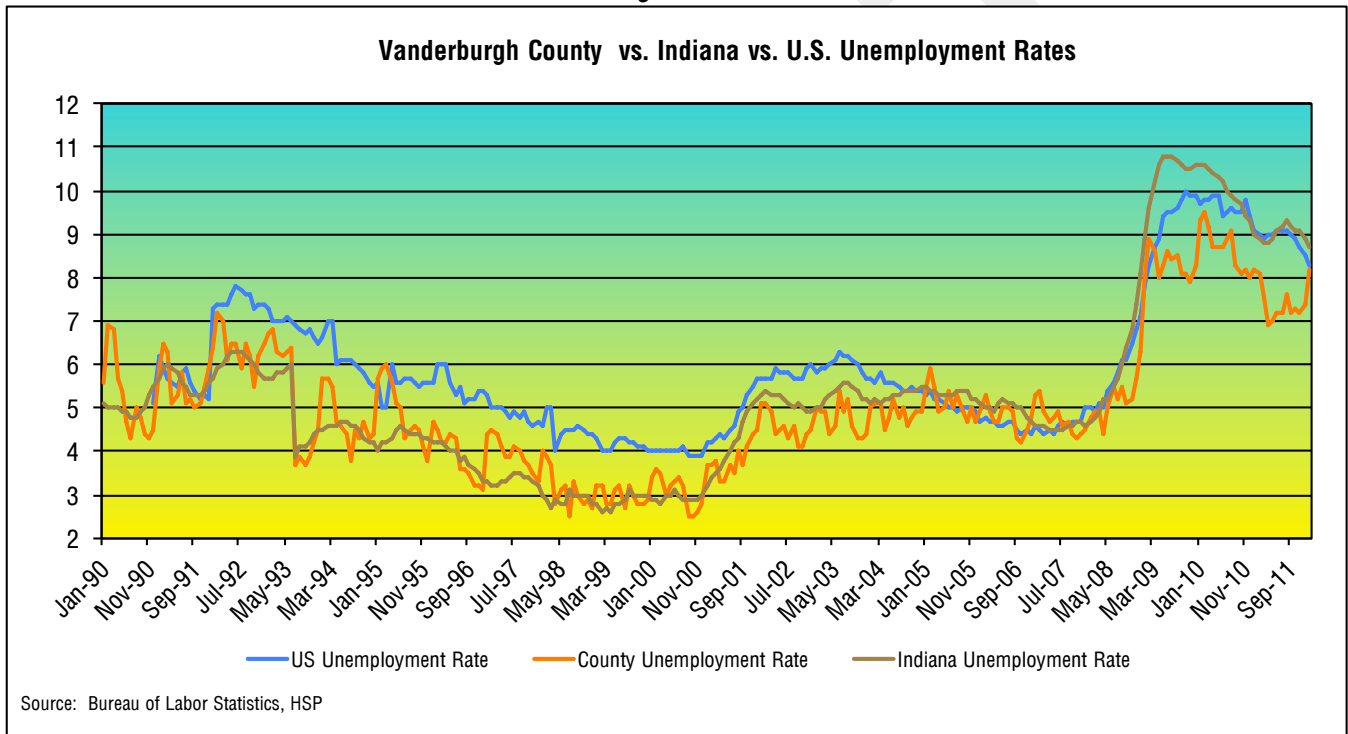
Source: Southwest Indiana EDC

The largest employers include two hospital systems, major manufacturing (Toyota, Berry Plastics, Koch and Alcoa) and schools. The largest downtown companies include Vectren, Casino Aztar and several large banks. In addition, the city and county governments are based downtown, all of which generate room nights on a continuous basis.

### Unemployment

The level of employment, as well as unemployment, offers additional insight into the strength of the local economy. The following table shows Vanderburgh County's unemployment rate in relation to the state and national unemployment rates.

**Figure 1-3**



Prior to the economic recession in 2008, the Vanderburgh County unemployment rate was slightly greater than the state's rate and closely mirrored that of the national average. After 2008, the state's unemployment rate increased to nearly 11 percent, while the county rate peaked at 9.5 percent and has since decreased to 8.0 percent, although it dropped to 7.0 percent briefly in 2011.



## Education

The education level of a community’s residents is indicative of employment, income levels and long-term economic growth. The following table shows the educational attainment of adults in Vanderburgh County.

**Table 1-6**

Educational Attainment				
Age 25+ Population	Evansville	Vanderburgh County	Indiana	United States
Less Than 9th Grade	3.7%	3.3%	6.1%	6.2%
9th to 12th, No Diploma	11.8%	8.9%	8.3%	8.7%
High School Graduate (incl. equiv.)	35.7%	34.4%	28.5%	29.0%
Some College, No Degree	25.0%	24.0%	21.3%	20.6%
Associate Degree	6.6%	7.3%	7.6%	7.5%
Bachelor’s Degree	12.3%	16.0%	17.7%	17.6%
Graduate, Professional or Doctorate Degree	4.9%	6.2%	10.4%	10.3%

Source: U.S. Census Bureau

In both Evansville and Vanderburgh County, education attainment of the local population is less than that of both the state and nation. While Vanderburgh County’s educational attainment is only slightly less than the state and national percentage, Evansville’s attainment is much lower in terms of higher education. The percentage of individuals with graduate, professional or doctorate degrees is more than half that of both the state and national average.

## Higher Education

The presence of colleges, universities and educational institutions typically result in an area of vibrant activity that results from a number of students on campus as well as the events and activities occurring throughout the school year.

**Table 1-7**

Vanderburgh County - Colleges & Universities	
Institution	Total Enrollment
Ivy Tech Community College - SW	10,917
University of Southern Indiana	10,820
University of Evansville	3,113
Harrison College - Evansville	336
<b>Total</b>	<b>25,186</b>

Source: HSP

As shown, more than 25,000 students attend college in Vanderburgh County. Ivy Tech Community College and the University of Southern Indiana both have enrollment in excess of 10,000 students, while the University of Evansville has an enrollment of more than 3,000 students.

### Synergistic Developments and Attractions

The proposed Project will be located in close proximity to a number of attractions in downtown Evansville. These attractions will have a direct impact on a new downtown convention hotel's performance and will be expected to generate a substantial number of room nights to support the Project's operation. The following section provides a general overview of these attractions. Chapter 3 of this report will conduct a detailed analysis of several of the facilities outlined below.

The following figure shows the Project's site in relation to downtown Evansville.

Figure 1-3



### *The Centre*

The Centre is a 280,000 square foot convention center and auditorium that consists of nearly 14,000 square feet of ballroom space, 38,000 square feet of exhibit space and 12 meeting rooms that total slightly more than 12,000 square feet. The facility also includes the 2,500-seat Aiken Theatre. The facility is owned by Vanderburgh County and operated by SMG, a third party management firm.

Prior to its closure in 2009, the 471-room Executive Inn served as the primary convention hotel for The Centre. The Centre was sized based on the room count at the Executive Inn, which was connected via skywalk. As the hotel deteriorated over the years, it became less helpful in bringing events to the city. The proposed hotel and subject of this study will likely sit on the site of the former Executive Inn.

The following figure shows the exterior of The Centre.

**Figure 1-4**



The Centre was completed in 2000 as the current facility was developed through a renovation that included the demolition of a substantial portion of the previous, smaller, meeting facilities. Only the Aiken Theatre and its related support spaces were maintained. The Centre's ballroom, exhibit hall and meeting rooms were constructed around the theatre, with the potential of a future exhibit hall expansion possible on the facility's northeast end of the facility.

In addition to traditional exhibits, conventions and meetings, The Centre uses the Aiken Theatre to host a Broadway series, musical performances and a number of speaker and lecture events.

Currently, The Centre lacks a hotel in close proximity to help attract convention events. The proposed Project will directly impact The Centre's ability to attract these events, which in turn, would drive room nights to the Project. The Centre is located adjacent to the proposed Project's site, as well as across MLK Boulevard from the Ford Center arena.

### *Ford Center*

The Ford Center is a 10,000-seat arena that was completed in November 2011. The facility serves as the home facility for the University of Evansville men's and women's basketball teams as well as the Evansville IceMen, a minor league hockey team that competes in the Central Hockey League. In addition to these events, the Ford Center also hosts concerts, family shows and graduation ceremonies for local high schools and colleges. The arena is owned by the City of Evansville and operated by VenuWorks, a third party management firm.

The following figure shows the exterior of the Ford Center.

**Figure 1-5**



The Ford Center is located on the corner of Main Street and Martin Luther King Jr. Boulevard and attracts a significant number of spectators for athletic events, concerts and other special events. The facility's proximity to Main Street's restaurants, bars and entertainment venues offers convenient access to these establishments for event attendees. The facility's site is also adjacent to the proposed site of the Project.

### *Casino Aztar*

The Casino Aztar is a development that includes a 2,700-passenger riverboat casino, the 250-room Casino Aztar Hotel, the 96-room Le Merigot boutique hotel, a 14,500 square foot executive conference center, retail shops, restaurants, and a 1,660-vehicle parking garage. Together, the

Casino Aztar complex encompasses more than 840,000 square feet at Riverfront Park along the Ohio River.

The following figure shows the Casino Aztar hotel and Riverboat casino along Evansville's riverfront.

**Figure 1-6**



Casino Aztar's hotels are the only downtown Evansville lodging accommodations. The Casino Aztar Hotel would not be expected to directly compete with the proposed Project due to the casino's practice of offering complimentary or discounted room rates for gaming patrons. The Le Merigot offers a high quality option for gaming patrons, but the property also serves as the highest quality lodging accommodation in downtown Evansville, which makes it an attractive hotel for corporate and group travelers. Therefore, the proposed hotel would compete directly with the Le Merigot.

The Le Merigot is the centerpiece of Casino Aztar's "District" development. The District includes the Le Merigot Hotel as well as the Casino Aztar Executive Conference Center and several restaurants. The District has developed into a popular entertainment area for the younger demographic.

### *Main Street*

Evansville's primary downtown dining and entertainment district is Main Street. Stretching from Martin Luther King Jr. Boulevard to Riverfront Park, Main Street is seven contiguous blocks of restaurants, bars, entertainment venues, offices and residential buildings. Main Street's unique serpentine route was designed to encourage pedestrian traffic while minimizing vehicular traffic.

The following figure shows Evansville's Main Street, facing northwest from 2<sup>nd</sup> Street.

**Figure 1-7**



### **Other Attractions**

In addition to the synergistic developments and attractions identified above, Evansville has a number of other historical, cultural, entertainment and recreation attractions throughout the city. The following table presents these attractions.

**Table 1-8**

<b>Additional Evansville Attractions</b>	
<b>Attraction</b>	<b>Type</b>
Angel Mounds State Historic Site	Historical
Bosse Field	Recreation/Historical
Burdette Park & Aquatic Center	Recreation
Downtown Riverwalk	Recreation/Entertainment
cMoe Children's Museum	Cultural
EMTRAC	Cultural/Historical
Evansville African American Museum	Cultural
Howell Wetlands	Cultural/Recreation
LST 325	Historical
Mesker Park Zoo & Botanic Garden	Cultural
Reitz Home Museum	Historical
Victory Theatre	Cultural
Wesselman Woods Nature Preserve	Cultural/Recreation
Willard Library	Cultural
Source: Evansville CVB, HSP	

Each additional attraction is described in further detail below.

- *Angel Mounds State Historic Site:* The Angel Mounds State Historic Site is nationally recognized as one of the best-preserved Native American sites in the United States. Preservation and restoration efforts, led by Eli Lilly, revealed artifacts and historical information in the late 1930s, which continue today with annual digs from Indiana University students. An interactive museum is also on site.
- *Bosse Field:* Opened in 1917, Bosse Field is the third-oldest baseball stadium used for professional baseball in the country. It currently houses the Frontier League Evansville Otters (minor league) and has a capacity for 5,181 spectators. Bosse Field also served as the filming location for the 1992 film “A League of their Own”.
- *Burdette Park & Aquatic Center:* The only municipal park in Vanderburgh County, Burdette park is a 140-acre facility featuring an aquatic park, aquatic center, miniature golf, fishing lakes, hiking trails, party houses, BMX racing and tennis courts. The park has summer camp programs for children and hosts the annual Hoosiers Nationals race.
- *cMoe – Koch Family Children’s Museum of Evansville:* Located in downtown Evansville, cMoe is a children’s museum that offers several permanent galleries and exhibits that provide educational experiences that emphasize science, math, physics, creative arts, financial literacy and physical fitness.
- *Downtown Riverwalk:* The Evansville Downtown Riverwalk is a paved stretch of recreation space that follows the banks of the Ohio River. The Riverwalk passes the

Evansville Museum of Arts, History & Science and Evansville Museum Transportation Center, the Evansville Pagoda (currently the Evansville Visitor Center) and the Casino Aztar developments. An amphitheater is also located along the Riverwalk, which hosts outdoor concerts and other seasonal special events.

- *Evansville Museum of Arts, History & Science and Evansville Museum Transportation Center (EMTRAC):* EMTRAC is located on Evansville’s Riverfront, and features travelling exhibits, a children’s learning and exploration center, a planetarium and a permanent art collection of painting and sculptures dating back to the 16<sup>th</sup> century.
- *Evansville African American Museum:* Located east of downtown Evansville in a portion of the Lincoln Gardens federal housing project, the African American Museum features interactive exhibits and a showcase of life in Lincoln Gardens. The Museum is a rendition to the last 70 years of African American history and culture in Evansville.
- *Howell Wetlands:* The Howell Wetlands is a 35-acre urban wetland habitat. Over two miles of hiking trails lead visitors through the largest urban wetland in Indiana. The New Conservation Station museum offers educational and recreational programs on-site.
- *LST 325 – WWI Landing Ship, Tank:* Located south of Downtown, LST 325 is the last operational LST (Landing Ship, Tank) in existence. As the largest producer of LSTs during World War II, Evansville serves as the home to the vessel. LST is a moving museum that provides historical context to the vital role the vessels played during the war.
- *Mesker Park Zoo & Botanic Gardens:* The largest zoo in Southern Indiana, which includes over 50 acres and is home to more than 700 animals, offers numerous animal exhibits as well as a gift shop and restaurant. The botanical gardens offer walking tours.
- *Reitz Home Museum:* Located in downtown Evansville, the Reitz Home Museum is a restored and renovated Victorian-era mansion, originally constructed in the 1880s. The museum provides examples of the French Second Empire architecture and other period standards of luxury that are presented via tours throughout the property.
- *Victory Theatre:* Located in downtown Evansville, across from the Ford Center, The Victory Theatre is a 1,950-seat venue that serves as the home to the Evansville Philharmonic Orchestra. The venue also hosts a number of comedy acts and musical performances.
- *Wesselman Woods Nature Preserve:* The Wesselman Woods Nature Preserve is the largest urban forest of its kind and quality in the United States and is one of Indiana’s few remaining old growth bottomland hardwood forests. Over six miles of trails allow visitors to interact with a diverse number of woodland species. The preserve also includes a nature center that includes exhibits, observation areas and multipurpose rooms.



- Willard Library: Opened in 1885, the Willard Library continues to operate as a public library and houses one of the most extensive collections for genealogy study in the Midwest.

## Implications

As shown, the City of Evansville, Vanderburgh County and The Evansville MSA has a diversified economy, yet have struggled to maintain population growth rates similar to the state and nation as a whole. Earning and employment figures remain consistently lower than the state and national average as well. However, the City's position as a regional hub provides it with a core of educational, government and health centers that will continue to support the economy, along with a currently robust manufacturing sector. The revitalization of downtown with the Ford Center arena, main street and continued investments along the riverfront and casino, provide a positive trend for a new hotel downtown. These improvements help to keep downtown employers downtown and these employers generate room night activity for hotels.

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## **HEADQUARTER CONVENTION HOTEL DEVELOPMENT TRENDS**

This section provides insight on the methods and tools used for convention hotel development in various markets. As the primary hotels for a market's convention facilities and typically the largest hotel in the downtown and market area, a number of critical criteria must be met to ensure the greatest potential of success for both the property itself as well as the market as a whole. In most cases, these hotels require some form of financial incentives to be developed, typically in the form of public subsidies.

### **Convention Hotel Market**

The convention and meetings market has evolved over the past 20 years and has grown more sophisticated and planners have increased their requirements. At one time meeting planners expected to contract with multiple hotels in order to service a convention, pay for their own transportation and seek additional event and meeting locations. In recent years however, cities began to offer room packages within just a few very large hotels adjacent to convention centers. This improvement in packaging of the convention product led to expectations by the market and competitive pressure for all convention facilities to offer a convenient package of hotels attached, adjacent or within immediate area walking distance of the convention facility. This eliminates the need for shuttling in most cases and often the hotels provide enough meeting and event spaces for the additional needs of the planners. Those that do not offer such a package, such as Evansville, suffer considerably when competing for meetings, conferences, conventions and other events. Those that offer the best packages, such as Indianapolis, San Diego, Charlotte and San Antonio, have shown excellent convention center performance. Even smaller cities like Evansville end up competing in this tough market, especially as it is surrounded by four larger convention markets (Indianapolis, Louisville, St. Louis and Nashville).

The demands are not just for hotel rooms, but high-quality, full-service hotel room blocks in major branded hotels. Due to the requirements for large room blocks, meeting and function space, food and beverage service and parking, these facilities are often outside the realm of private financial feasibility. This feasibility gap is generally temporary, typically during the pre-development and early operational stages of the property, but renders such projects difficult to finance. However, for markets with lower average daily rates and occupancy levels, the feasibility gap can be ongoing. As a result, the public sector has found creative ways to participate in the financing of these hotel developments because they recognize that without such facilities, the performance of their publicly funded convention facilities will suffer and not provide the economic impact that rationalized their initial development.

Since 1992, one of the most notable trends in public finance has been the use of municipal bonds and other public financing tools to enable the development of convention headquarter hotels.

### *Rationale for Public Involvement*

The business of establishing a successful urban core was once viewed as the secret to success of the development or revitalization of pioneering American cities. It was also the response to the suburbanization and flight that occurred in the 1960s and 1970s that left urban cores mostly vacant and struggling for relevance. In recent years, however, the expectation to create a live/work/play environment in downtowns has spread to most cities, regardless of size or historical development patterns. Competition for tourists, conventioners and businesses has become fierce, as has creating a positive environment for visitors and residents. This has led to a building boom not only of convention centers, but sports venues, retail, housing, hotels and cultural attractions in most urban centers in the United States. Early analysis indicates that cities that are not proactive and fail to spur urban core development will be at a competitive disadvantage in the future if venues, the pedestrian experience and access are not convenient or well-planned for visitors, residents, and business users.

Cities today are increasingly aware that planning hotels adjacent, or connected, to convention centers, with additional access to other urban amenities, is necessary to help both properties succeed. Meeting planners demand easy access between venues, especially convention centers and hotels. Cities that fail to respond have been unable to attract meetings and conventions and have lost a significant amount of market share that many communities have yet to recapture. Because of event growth, meeting planners demand larger room blocks and try to house their entire membership in a small cluster of hotels. Cities that wish to remain competitive in the tourism and convention market must be visionary, proactive and creative in the sizing, placement and connectivity of major hotels with their convention center(s) and other attractions.

Cities are now helping to finance hotels due to the fact that convention hotels are key to the success of their tourism package. At the same time, such hotels are large financial obligations that often do not provide enough of a return on investment for the private development community to undertake. Developing the appropriate project with the optimal level of meeting and support space, results in a relatively expensive project.

The absolute size of these projects, including extensive meeting, restaurant and parking infrastructure, places financial pressure on the hotel during its early years when occupancy levels are ramping up. However, the issue is not necessarily the long-term operating characteristics of the hotel. Most large hotels, as they stabilize after three to five years, perform well. Once these poor early year economics are folded into the long-term financial picture, overall returns fall below alternative investment vehicles. In addition, there is reluctance among banks and other lending institutions to lend to larger hotels, unless there is an equity contribution of up to 50 percent.

The financial reality of a convention hotel being consistently filled with large groups to keep it profitable is not realistic. The large city-wide conventions that a hotel-convention center package attracts do nothing to fill the large supply of rooms during the rest of the year. So although a city may want to build a 1,000-room property to host the largest conventions, reality dictates a more realistic project. The same concepts apply for smaller markets. How many events per year will actually cause the hotel to sell out? A hotel needs to run at an average occupancy level of at least

60 percent to be healthy in the long term (that is, generate enough revenue to continually reinvest in upgrades, replacement of systems, etc.). Occupancy levels above 65 percent are much preferred. With sell-out convention clients only coming along perhaps 12 to 36 times per year, the existing market will need to provide primary occupancy support for a hotel, with conventions and other events seen as opportunities to compress occupancy and rate up.

However, without a large number of rooms available in the convention hotel (more than the typical market would support), the events that cities seek to host will not be attracted to the community at all. Many have a “room block minimum” of 200, 250, 300 or more rooms. Without a large enough hotel, the groups will not consider the city or convention center.

Another reason for a city to support downtown convention hotels is to reinvigorate a downtown core by attracting people back downtown. Suburban growth has come at the expense of downtowns and their centralized resources. Often when hotels are subsidized, there is criticism from various groups. However, these direct subsidies pale in comparison to the indirect and unmeasured cost of spreading cities’ infrastructure to outlying areas. The efforts of economic development officials have not been to just keep other cities from luring businesses and their spending to other states, but to keep urban businesses from moving to their own suburbs.

Downtown supporters have been fighting for workers, visitors and residents since the suburban boom began. When given a choice, private hotel developers will often build limited service hotels in suburban locations, due to lower risk and lower overall costs for land and lenders prefer their predictable performance and reasonable cost per key. A lack of quality Central Business District hotels contributes to the push of local businesses out of downtowns, as full service hotels are a key amenity to corporate location. But limited service hotels clustered around suburban interstates do nothing to lure conventions, meetings or tourists and undermine the economics of center city full-service hotels.

Cities have responded to the new reality of the convention hotel business in numerous ways, depending upon various state and local laws and financing mechanisms. Assistance ranges from favorable land leases, to regulating development of limited service hotels in the middle range of intervention, to complete public ownership of hotels.

### *Public Participation Options*

Building large hotels is very difficult due to the cost and space required for development, and as a result, are typically viewed as not feasible by the private sector. However, large hotels are vital for successful convention center environments to work properly. Public entities have owned hotels for many decades, as evidenced by numerous land lease structures at airports and in downtown settings. However, more direct participation has been called for as the private sector has had difficulty obtaining hotel financing at reasonable equity and interest rate levels.

Public participation can help hedge the financial risk in the early ramp-up years of a large convention hotel property. Credit enhancements, tax incentives and abatements, and capital investment that count towards equity are all tools that are used to get over the initial ramp-up

period. The public sector has creatively dealt with participation in many ways, sometimes unique to state and local regulations.

### *Public-Private Partnerships (P-3)*

Traditional public investment, in the form of inducements to bridge the financing gap, has taken the form of land assemblage, public payments for parking and infrastructure, and funding public components of the hotel, such as meeting and ballroom space. This approach was used in Norfolk for its Marriott, Portsmouth for the Renaissance, Indianapolis for its initial Marriott, and in many other markets. Another strategy uses grants, tax abatements, or creation of districts where taxes earned in the district are used to fund the public contribution. Often a combination of these sources is used to make a project happen, as has been demonstrated in numerous instances.

State programs often play a key role as states have more power to create and appropriate tax streams for projects. States such as Kansas, Texas, Mississippi, Kentucky and others have created programs that allow for either the rebate of state taxes or other related inducements.

Land leases are also a common incentive for hotel developers. In some cases, a public entity may acquire the necessary land and lease it back to the developer. The advantage to land leases is that they lower the development costs and allow the cost of the land to be amortized and subsequently paid for out of operating revenues.

The following is a list of incentives provided by public agencies to stimulate hotel development:

- Tax abatement
- Tax rebates
- Tax Increment Financing (TIF)
- Equity participation
- Construction of meeting space, parking structure, and/or other infrastructure
- Credit enhancement of financing
- Land assemblage
- Rebate of development fees for licensing, permitting and water and sewer hookup fees
- Free or nominal ground rent
- Section 108 loans
- Community Development Finance Authority (CDFA) grants or Community Development Block Grants (CDBG)

### *Public Sponsorship via Tax-Exempt Bonds*

The most direct form of public participation is public ownership of the asset. This allows the hotel to qualify for tax-exempt financing and avoid property taxes. In this instance, the city is investing in the hotel as an insurance policy for its convention center and urban renewal efforts. This type of ownership was used for Chicago's Hyatt McCormick Place, Houston's 1,200-room Hilton, Denver's 1,100-room Hyatt, and in Overland Park, Kansas' Sheraton hotel as well as more than a dozen others, as shown in the table further in the document. While tax-exempt bond funding originated with larger projects and markets, it is now common in all market sizes.

Since 1997 with a change in tax law, communities have a new alternative, one using a publicly owned tax-exempt bond financial structure. Using either public incentives or tax exempt financing has advantages and disadvantages including both financial and political consequences. The newer, tax-exempt method is achieved via creation of a publicly owned, tax-exempt bond financed structure. It utilizes a single purpose tax-exempt entity created by the public to issue revenue bonds to finance the construction of the project. The bonds are primarily secured by net cash flow from the hotel and hotel occupancy taxes, and may or may not be enhanced with bond insurance. These bonds typically require some financial assurances from a political jurisdiction or require fairly heavy insurance to support the project's financing based solely on the operations of the hotel.

The advantages to this approach are:

- An ability to get the deal done with the public's timeline,
- Developing a hotel when the private sector is unwilling to invest in it,
- A lower cost of capital compared to a privately financed alternative,
- The long-term nature of the financing, and
- The public ownership of the project at bond retirement.

The disadvantages are:

- The significantly increased amounts of financing required to capitalize credit enhancement and financing reserves,
- Negative public perception and reaction to a publicly-owned hotel, which can delay projects or cause costly referenda, such as in Dallas,
- Restrictions on performance-based contracts, and
- Long-term performance risk.

### *Risk*

Whether the private or public sector builds and owns the hotel, there is always an element of risk. It breaks down into financial risk and operational risk. With private development, the public's subsidy/investment is a one-time or limited time risk, which is quantifiable. The long-term risk is

that the project owners may not reinvest in the property over the long-term and cause the entire complex to have a bad reputation, etc. With public financing, the public sector takes the long-term risk and responsibility for the project and therefore has control over long-term quality, design and operation. However, the annual debt load is usually very close to the operating income available, which gives the project a smaller margin of error in performance before reserves are used. This will exist for the life of the bonds, usually 22 to 25 years. Myrtle Beach and St. Louis are unfortunate examples of projects where the hotel did not perform as expected and required the recapitalization of the project. In either case, some level of risk exists.

## Summary

The options available to cities and developers continue to increase as both the public and private sector create new funding mechanisms unique to the legal, financial and other political realities of the city, county or state.

The following table shows 24 public-private hotel developments underway or completed since 1992, with the identification of the percentage of the developments that were funded by each the private and public sector.

**Table 2-1**

Public-Private Hotel Developments										
City	State	Brand	Opening	Rooms	Total Hotel Costs (000)	Cost/Room (000)	Public Sector*		Private Sector	
							Investment (millions)	Percentage of Total Cost	Investment (millions)	Percentage of Total Cost
Atlantic City	NJ	Sheraton	1997	502	\$85	\$169	\$38.2	44.9%	\$46.8	55.1%
Austin	TX	JW Marriott	2015	1,012	\$303	\$299	\$3.0	1.0%	\$300.0	99.0%
Baltimore	MD	Marriott	2001	750	\$133	\$177	\$10.0	7.5%	\$123.0	92.5%
Boston	MA	Westin	2007	793	\$200	\$252	\$15.0	7.5%	\$185.0	92.5%
Charlotte	NC	Westin	2003	700	\$143	\$204	\$16.0	11.2%	\$127.0	88.8%
Chattanooga	TN	Chattanooga	2001	202	\$43	\$213	\$20.0	46.5%	\$23.0	53.5%
Denver	CO	Adam's Mark	1998	1,230	\$135	\$110	\$25.0	18.5%	\$110.0	81.5%
Fort Wayne	IN	Courtyard by Marriott	2010	250	\$47	\$188	\$12.0	25.5%	\$35.0	74.5%
Fort Worth	TX	Omni	2009	600	\$160	\$267	\$40.0	25.0%	\$120.0	75.0%
Franklin	TN	Marriott	1999	300	\$30	\$100	\$12.0	40.0%	\$18.0	60.0%
Indianapolis	IN	Marriott	2001	615	\$100	\$163	\$23.0	23.0%	\$77.0	77.0%
Indianapolis	IN	JW Marriott, Courtyard, Springhill Suites	2011	1,568	\$354	\$226	\$48.5	13.7%	\$305.5	86.3%
Lancaster	PA	Marriott	2009	294	\$45	\$153	\$20.0	44.4%	\$25.0	55.6%
Louisville	KY	Marriott	2005	617	\$111	\$180	\$57.5	51.8%	\$53.5	48.2%
Madison	WI	Hilton	2000	222	\$29	\$131	\$10.0	34.5%	\$19.0	65.5%
Miami Beach	FL	Loews	1998	800	\$110	\$138	\$29.0	26.4%	\$81.0	73.6%
Minneapolis	MN	Hilton	1992	816	\$145	\$177	\$89.2	61.6%	\$55.6	38.4%
Norfolk	VA	Marriott	1992	405	\$60	\$148	\$23.0	38.3%	\$37.0	61.7%
Philadelphia	PA	Loews	1998	350	\$54	\$154	\$18.0	33.3%	\$36.0	66.7%
Philadelphia	PA	Marriott	1995	1,408	\$237	\$168	\$36.5	15.4%	\$200.0	84.6%
San Antonio	TX	Hyatt	2008	1,003	\$280	\$279	\$208.0	74.3%	\$72.0	25.7%
Tampa	FL	Marriott	1998	716	\$105	\$146	\$27.0	25.8%	\$77.5	74.2%
Washington	DC	Marriott	2013	1,167	\$639	\$548	\$308.0	48.2%	\$331.0	51.8%
Wichita	KS	Hyatt	1998	303	\$42	\$140	\$20.1	47.3%	\$22.3	52.7%
<b>Average</b>	--	--	<b>2002</b>	<b>693</b>	<b>\$150</b>	<b>\$197</b>	<b>\$46.2</b>	<b>30.9%</b>	<b>\$103.3</b>	<b>69.1%</b>
<b>Total</b>	--	--	--	<b>16,623</b>	<b>\$3,589</b>	--	<b>\$1,109.0</b>	--	<b>\$2,480.2</b>	--

\* Public participation may be upfront capital only, or could include value of abatements and other incentives over time  
Source: Hunden Strategic Partners



As shown, a total of nearly \$3.6 billion in hotel developments have used a public-private funding mechanism. Of the total development, the public sector has subsidized more than 30 percent of the costs and this may not include land costs. The average cost per room over the projects during the past 20 years is \$197,000. However, the average cost per room of those hotels opened after 2007 was \$280,000. This suggests the truly expensive nature of these projects compared with limited service hotels, which typically cost less than \$100,000 per room.

The following table shows 26 projects that have use a tax-exempt financing mechanism with bonds supported by project revenue.

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**Table 2-2**

<b>Tax-Exempt Financing with Bonds Supported by Project Revenues</b>						
<b>City</b>	<b>State</b>	<b>Brand</b>	<b>Opening</b>	<b>Rooms</b>	<b>Public Bond Issue (millions)</b>	<b>Cost/Room (000)</b>
Austin	TX	Hilton	2004	800	\$280.1	\$350
Baltimore	MD	Hilton	2008	757	\$305.0	\$403
Baltimore	MD	Hilton	2005	756	\$200.9	\$266
Bay City	MI	Doubletree	2004	150	\$32.9	\$219
Chesapeake	NY	Hyatt	2002	400	\$193.0	\$483
Chicago	IL	Hyatt	1998	800	\$108.0	\$135
Chicago	IL	Hyatt Expansion	2013	451	\$180.0	\$399
Columbia	SC	Hilton	2006	300	\$67.0	\$223
Columbus	OH	Hilton	2012	532	\$178.0	\$335
Coralville	IA	Marriott	2006	286	\$33.0	\$115
Dallas	TX	Omni	2012	1,016	\$479.2	\$472
Denver	CO	Hyatt	2005	1,100	\$394.8	\$359
Erie	PA	Sheraton	2008	200	\$45.4	\$227
Fort Lauderdale	FL	Hilton	2011	1,000	\$415.0	\$415
Houston	TX	Hilton	2004	1,200	\$326.2	\$272
Myrtle Beach	SC	Radisson	2001	404	\$76.5	\$189
Omaha	NE	Hilton	2004	450	\$112.0	\$249
Omaha	NE	Hilton (Expansion)	2011	150	\$37.0	\$247
Overland Park	KS	Sheraton	2002	412	\$105.7	\$257
Phoenix	AZ	Sheraton	2008	1,000	\$346.1	\$346
Providence*	RI	Westin	1995	364	\$70.0	\$192
Providence*	RI	Hilton	2005	392	\$78.4	\$200
Sacramento	CA	Sheraton	2000	503	\$104.9	\$209
St. Louis	MO	Renaissance Suites	2003	1,081	\$276.6	\$256
Trenton	NJ	Marriott	2002	197	\$58.0	\$294
Vancouver	WA	Hilton	2005	226	\$47.5	\$210
<b>Average</b>	--	--	<b>2005</b>	<b>574</b>	<b>\$175.0</b>	<b>\$282</b>
<b>Total</b>	--	--	--	<b>14,927</b>	<b>4,551</b>	--

\* Estimated Cost  
Source: Hunden Strategic Partners

As shown, more than \$4.5 billion in bonds were issued to develop these large hotels, an average of \$280,000 per hotel room. Averaging the cost of those built since 2008, the cost per room is \$355,000 or 27 percent higher per room than the public-private models. This is in part due to financing costs, reserve requirements and other protections that the market has required. As a result, the cost savings due to lower interest rates has been reduced, as the market has required more and more protections.

Other cities considering convention hotel developments include:

- Jackson, MS
- Miami, FL
- Miami Beach, FL
- Portland, OR
- Memphis, TN
- Oklahoma City, OK
- Houston, TX – 1,000 rooms
- Seattle, WA
- Sacramento, CA
- San Diego, CA (468-room Hilton Expansion)
- Salt Lake City, UT – 1,000 rooms
- Minneapolis, MN - 1,200 rooms
- New York, NY -1,500-rooms

While economic conditions impact the timeline of such projects, due to their long planning and development horizons (it can take from three to more than ten years from concept to opening, depending upon numerous political and economic factors), projects will continue to be proposed and built.

### **Hotel Market Development Cases**

The following examples illustrate how small to mid-sized cities have recently participated in convention hotel developments. Cities include:

- St. Charles, Missouri
- Coralville, Iowa
- Erie, Pennsylvania
- Fort Wayne, Indiana
- Owensboro, Kentucky

#### *St. Charles, Missouri*

Historic St. Charles, Missouri, located approximately 40 miles west of downtown St. Louis, is a growing, successful suburb with a historic past. Its well-preserved downtown and Lewis and Clark legacy made it a regional tourist destination for years. Riverboat gaming nearby and the development of an arena provided critical mass to the City's cache of attractions. St. Charles worked for years to leverage that success by building a convention facility to host those

interested in holding meetings and conventions there. A hotel of good quality and size adjacent to the center was key to the development's success. After several failed attempts, the City completed a development deal with John Q. Hammons (JQH) to develop the hotel and approved the building of the convention center, both of which opened in 2005.

**Project:** The St. Charles Convention and Sports Facilities center features approximately 36,700 square feet of exhibit space, two ballrooms totaling 18,300 square feet, and 9,300 square feet of meeting rooms. The project was funded and developed by the city. The \$40 million convention center hotel, a 296-room Embassy Suites, was funded by JQH. Discussions are now underway to expand the project and hotel product.

**Financing:** The \$32.5 million convention center was funded by the City while the \$40 million hotel is a public-private partnership with JQH. The city is essentially providing free land to the hotel project and also allowed the hotel to run the convention center's food and beverage operations. This provided the hotel with more revenue than it otherwise would have generated on its own and guarantees that the two integrated projects will work together. The city formed a property and sales tax TIF around the hotel and is using the revenues from the TIF to partially fund the convention center. The hotelier pays the five percent of food and beverage sales to the convention center yielding an incentive to the hotel in the range of \$4 million over the first 30 years of the project. JQH agreed to pay 0.75 percent of gross hotel sales in order to expand the convention center ballroom. Global Spectrum is managing the convention center for the City.

### *Coralville, Iowa*

Coralville is located adjacent to Iowa City, Iowa and the University of Iowa, a regional center in Iowa. Coralville was simply a small town until the 1990s, when it aggressively pursued growth opportunities. It put itself on the map by developing a major new regional mall on I-80. Since then it has worked to redevelop a separate 100-acre parcel on I-80 with a convention center, hotel and other attractions.

**Project:** The 250-room Marriott hotel and convention center opened in 2006. The project was developed by FaulknerUSA as an integrated property and was backed by the City. The convention center has 30,000 square feet of exhibit space, 15,000 square feet of ballroom space, and 15,000 square feet of meeting space.

**Financing:** The city determined early on to develop the project and finance it with public, tax-exempt bonds. A sales tax TIF around the Coralville Mall, Iowa's largest, was expanded to the site area and its revenues, plus the hotel's cash flows are being used as backstops for the bonds. The state also provided limited funding. The project costs are \$60 million and the bonds were issued in 2004.

In 2012, the community received a downgrade in its bond ratings due to the Marriott's underperformance and the city's overall debt burden. The hotel's performance issues were partially attributed to the economic recession and the Iowa floods in 2008. Both events limited

the number of corporate events the convention center could attract and therefore had a substantial negative effect on the Marriott's ability to generate substantial room nights.

### *Erie, Pennsylvania*

Erie has an active Civic Center complex near downtown, however it did not include a convention facility. As part of Erie's efforts to revitalize its bayfront along Lake Erie, it secured funding from the Commonwealth of Pennsylvania for a new convention center in the first part of the decade. In order to make the project work, the Erie Civic Center Authority recognized the need to induce the development of a hotel with the project. As a result it conducted a search for a development and financing structure that would allow the project to be built.

**Project:** The project includes the Erie Bayfront Convention Center, opened in 2007, with more than 30,000 square feet of exhibit space, as well as a 200-room Sheraton Hotel, opened in early 2008. Both facilities face the Bay and are linked via a pedestrian bridge over a boat slip inlet. The hotel was developed by Acquest Realty and White Lodging and will be managed by White Lodging.

The hotel is an example of a "full-service lite" hotel, that is, one with a full-service flag, but with less function space and lesser quality than a true full-service Sheraton. It can still participate in the Starwood meeting sales program and considers itself a Sheraton, but the costs were much lower due to the fewer amenities.

**Financing:** The convention center was financed with a state grant of approximately \$40 million, while the hotel was financed using tax-exempt bonds totaling \$45.4 million. A public entity was created to own the hotel project and issue the bonds, which the County agreed to fully guarantee in the event of a financial gap at the hotel. The hotel has performed better than expected and the project is currently considered a success.

### *Fort Wayne, Indiana*

Fort Wayne has pursued downtown redevelopment through the Harrison Square downtown revitalization project. This project, aimed towards attracting more visitors to downtown Fort Wayne, includes a baseball stadium, retail and condominium developments, an expansion of the convention center, a new convention hotel and adjacent parking structures, pedestrian connectors and public spaces. The hotel component, a 250-room Courtyard by Marriott, was developed to supplement the 246-room Hilton and Fort Wayne's ability to attract additional convention business. In order to complete the hotel's development, the public sector offered a number of incentives to allow the property to open in 2010.

**Project:** The development of the Fort Wayne Courtyard, which opened in 2010, included the 250-room hotel, a sports bar and restaurant, approximately 7,500 square feet of meeting space and a pedestrian skybridge that connects the property to the Grand Wayne Convention Center, the Embassy Theatre and a 300-space parking garage. The property was developed by and is managed by White Lodging.

This is an excellent example of a “limited-service plus” hotel that lowered its costs by using a limited-service flag, but adding function space, a restaurant and room service. The city was able to then get a larger hotel than it otherwise would have been able to fund had the hotel been a true full-service brand with all of its costs.

**Financing:** The \$28 million project (\$47 million when including other public developments, such as the garage), which included the cost of the land and the skybridge, was supplemented by \$12 million in public incentives, which included \$6 million in state tax credits, a ten-year graduated property tax abatement, a five-year personal property tax abatement and up to \$250,000 in annual recapture of local hotel taxes. The public sector also provided the land, infrastructure and paid for the \$1 million pedestrian connection to the convention center. Additional infrastructure development surrounding the property, including a large parking garage, was funded by the previously existing TIF district surrounding the property.

### *Owensboro, Kentucky*

Owensboro is located near Evansville, Indiana and suffered similarly due to the closing/demolition of its Executive Inn in 2008 when the Executive Inn was demolished. The Executive Inn was a 600-room hotel with 140,000 square feet of meeting/exhibition space. As a result of its closure, the City and other forces came together to fund a new convention and event center. To induce events, the project also needed a hotel. A 150-room Hampton Inn was proposed by a developer with local roots. The project/hotel includes a full service restaurant and several meeting rooms that will be connected to the event center along Owensboro’s riverfront. The two facilities will serve as the western anchor of Owensboro’s riverfront revitalization project currently under development along the Ohio River. Since both facilities have been under development, local business, residential housing and a second hotel have begun development along the riverfront. The Hampton Inn is owned and operated by the Malcolm Bryant Corporation.

**Project:** The 150-room Hampton Inn follows the new urban hotel design currently being implemented by Hampton Inns. While more expensive to develop than a typical Hampton Inn, the hotel will provide enhanced guest amenities and offer a more luxurious atmosphere not currently found in the local market. It is a good example of a “limited-service plus” hotel that provides lower costs due to the brand, but also adds services and amenities not typical for this brand.

**Financing:** The \$20.3 million project was developed on a tract of land provided by the City of Owensboro and was declared feasible only after it received \$5 million in public incentives through the Kentucky Tourism and Development Act (KTDA). The KTDA is a tourism development program that grants a sales tax rebate of up to 25 percent of development costs, only if the project meets a number of criteria based on net fiscal impact and out-of state visitation to Kentucky. The rebate, which is paid over a ten-year period, or \$500,000 annually in this case, was viewed as the only feasible way the project could be developed. The project is now under construction.

## Implications

In today's competitive convention market, the market has demanded and received top-quality hotel and convention center packages, usually connected to each other, in most major U.S. cities and now even in second and third-tier cities. For a community to be competitive in the industry, a convention center alone will not suffice. Clearly, the destination package must include a solid-quality convention hotel. However, for many smaller communities, the costs are simply too great for a true full-service convention hotel of the size necessary to assist the convention center. As a result, many of these markets, such as Erie, Fort Wayne and Owensboro have opted for hybrid hotel models that include the amenities meeting planners expect but at lower price points via a limited-service brand or a full-service brand with fewer amenities.

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## LOCAL MEETING FACILITY ANALYSIS

This chapter identifies local meeting facilities that will both serve as a demand generator for the proposed Project as well as potential competition for meeting space within the hotel. The meeting facilities identified below drive group demand for local hotels and will be a significant factor in the success of downtown convention hotel.

The following table shows an overview of the total function space found in Evansville meeting facilities.

**Table 3-1**

Evansville Meeting Facilities by Type - Minimum 1,000 SF of Total Function Space									
Meeting Facilities	Total Function Space	Largest Exhibit	Total Exhibit	Largest Ballroom	Total Ballroom	Largest Mtg Room	Total Mtg Room	Breakout Rooms	Distance from The Centre (miles)*
<b>Convention/Arena</b>									
The Centre**	63,496	38,000	38,000	13,400	13,400	1,008	12,096	12	0.0
Ford Center	21,050	19,950	19,950	--	--	1,100	1,100	1	0.0
Casino Aztar	14,540	--	--	1,404	3,528	2,303	11,012	10	0.8
Total/Average	99,086	57,950	57,950	14,804	16,928	4,411	24,208	23	0.3
<b>Hotels</b>									
Clarion Inn***	10,870	--	--	5,000	9,322	560	1,548	4	4.2
Holiday Inn-Airport	7,872	--	--	7,872	7,872	--	--	0	4.2
Fairfield Inn	1,867	--	--	--	--	950	1,867	3	4.6
Hilton Garden Inn	1,219	--	--	--	--	1,219	1,219	2	3.5
Hampton Inn	1,215	--	--	--	--	840	1,215	2	3.3
Total/Average	23,043	0	0	12,872	17,194	3,569	5,849	11	4.0
<b>University</b>									
Evansville****	4,600	--	--	4,600	4,600	--	--	--	2.1
Southern Indiana	--	--	--	6,972	6,972	--	--	4	7.5
Total/Average	4,600	0	0	11,572	11,572	0	0	4	4.8
<b>Total/Average Market</b>	<b>126,729</b>	<b>57,950</b>	<b>57,950</b>	<b>39,248</b>	<b>45,694</b>	<b>7,980</b>	<b>30,057</b>	<b>38</b>	<b>3.0</b>

\* Intersection of Main St. & MLK Blvd.  
 \*\* Also includes 2,550 seat Auditorium - Aiken Auditorium  
 \*\*\* Also includes 7,848 SF of patio function space  
 \*\*\*\* U of E also has three theatres with 480, 400 and 240 seats  
 Source: Individual Facilities, mPoint, Hunden Strategic Partners

As shown, Evansville has more than 133,000 square feet of total function space in the local market. Of this space, The Centre (convention center) accounts for nearly half (47 percent), as the convention center possesses a total of more than 63,000 square feet of function space. As Evansville's primary meeting space, The Centre has the largest amount of ballroom space (13,400 square feet), exhibit space (38,000 square feet) and meeting rooms (12,096 square feet with 12 divisions) in the local market. The Centre also includes the 2,500-seat Aiken Theatre that serves as additional meeting space for events.

The Ford Centre (arena) is capable of providing more than 21,000 square feet of function space, including nearly 20,000 square feet of exhibit space (the arena's event floor). However, this space is subject to the facility's event schedule is primarily used for tenant events or other

entertainment and special events such as concerts and family shows. The Casino Aztar's conference center includes more than 14,000 square feet of function space that includes a 3,500 square foot ballroom, and ten meeting rooms that account for slightly more than 11,000 square feet.

Evansville hotels also provide meeting space. Together, these properties offer more than 23,000 square feet of function space, all of which are either ballroom or meeting space. The Clarion Inn accounts for nearly half of the total hotel function space as the property's adjacent conference center contains more than 9,000 square feet of ballroom space and four meeting rooms that total 1,500 square feet. The Clarion contains nearly 8,000 square feet of patio space that is used for events during the spring, summer and fall. Only the Holiday Inn-Airport contains another ballroom (7,800 square feet), while the remaining hotels contain meeting rooms that total no more than 1,000 square feet.

Evansville's two major universities, the University of Evansville (U of E) and University of Southern Indiana (USI), also possess meeting facilities for events. Together, these spaces account more than 11,000 square feet of total function space, as U of E offers 4,800 square feet of ballroom space and USI offers nearly 7,000 square feet of meeting room space that is divisible into four smaller rooms. Although this space is open for public use, each university has a priority scheduling policy that reserves meeting space for university use before the space becomes available for public activities.

## **Individual Meeting Facilities Overview**

### *The Centre*

The Centre is a 280,000-square foot convention center and auditorium that consists of nearly 14,000 square feet of ballroom space, 38,000 square feet of exhibit space and 12 meeting rooms that total slightly more than 12,000 square feet. The facility also includes the 2,500-seat Aiken Theatre. The facility is owned by Vanderburgh County and operated by SMG, a third party management firm.

The following figure shows the exterior of The Centre.

Figure 3-1



The Centre was completed in 2000 as the current facility was developed through a renovation that included the demolition of a substantial portion of the previous, smaller, meeting facilities. Only the Aiken Theatre and its related support spaces were maintained. The Centre's ballroom, exhibit hall and meeting rooms were constructed around the theatre, with the potential of exhibit hall expansion possible on the facility's northeast end.

In addition to traditional exhibits, conventions and meetings, The Centre uses the Aiken Theatre to host a Broadway series, musical performances and a number speaker and lecture events.

The following table shows The Centre's historical event demand.

**Table 3-2**

The Centre - Events by Type						Percent Change (2007-2011)
Event Type	2007	2008	2009*	2010	2011	
Broadway	11	7	10	5	7	-36.4%
Concert	13	5	14	15	9	-30.8%
Family Show	9	17	16	14	15	66.7%
Other**	25	15	16	5	60	140.0%
Sports Event	1	1	1	1	1	0.0%
Convention	28	24	51	18	13	-53.6%
Trade Show	26	24	27	36	30	15.4%
Meeting	121	126	138	142	133	9.9%
<b>Total</b>	<b>234</b>	<b>219</b>	<b>273</b>	<b>236</b>	<b>268</b>	<b>14.5%</b>

\* The Centre hosted Executive Inn convention events after the hotel closed  
 \*\*Dinners, banquets, auctions and other non-traditional convention center events  
 Source: SMG

As shown, The Centre hosted 268 events in 2011, a nearly 15 percent increase from 2007. Other events, which include dinners, banquets, receptions, and auctions, among others, increased by 140 percent over the same period, an increase from 25 events in 2007 to 60 in 2010. Other increases include family shows (67 percent), trade shows (15 percent) and meetings (ten percent). Alternatively, several events experienced a decrease over the same period. Convention events decreased by nearly 54 percent, Broadway events decreased by more than 36 percent and concerts decreased by more than 30 percent.

Although The Centre increased the total number of events over the five-year period, these events have not necessarily generated increased demand for a new hotel. Local visitors traditionally attend the majority of events that have increased. Events that typically attract non-local visitors: conventions, and to a lesser extent Broadway and concert events, have all declined. This results in fewer attendees that would require lodging accommodations. This downward trend has been directly attributed to the loss of the now demolished Executive Inn and the current lack of a nearby hotel. It is estimated that only about 3,000 room nights are generated by The Centre in a given year, due to the lack of non-local events.

The following table illustrates rental revenue for each meeting space at The Centre over the same period. Ballroom and meeting rooms revenue are reported as one rental line item. Also, theatre rent does not include box office revenue from ticket sales for concerts and other events.

**Table 3-3**

<b>The Centre - Rental Revenue by Meeting Space</b>						
<b>Space</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Percent Change (2007-2011)</b>
Theatre Rent	\$ 128,365	\$ 155,117	\$ 147,803	\$ 169,166	\$ 94,790	-26.2%
Ballroom and Meeting Rooms	101,552	105,006	90,973	140,740	88,625	-12.7%
Exhibit Hall	80,954	95,723	97,572	114,250	100,160	23.7%
<b>Total</b>	<b>\$ 310,871</b>	<b>\$ 355,846</b>	<b>\$ 336,347</b>	<b>\$ 424,156</b>	<b>\$ 283,575</b>	<b>-8.8%</b>

Source: SMG, Hunden Strategic Partners

As shown, The Centre’s primary source of rental revenue changed between 2007 and 2011. In 2011, exhibit hall rentals generated \$100,000, a nearly 24 percent increase from 2007. Over the same period, theatre rent decreased by more than 26 percent, while ballroom and meeting rooms rental revenue decreased by more than 12 percent. Combined, all three rental spaces generated approximately \$283,000 in 2011, a decrease of nearly nine percent from 2007.

These revenue figures follow the shift of the types of events The Centre has attracted in recent years. Exhibit hall revenue increased due to a greater number of dinners, banquets, receptions, and auction facility rentals, while ballroom and meeting space rental revenue decreased as the facility hosted fewer events in these room types. The one expectation to this trend was 2010, which generated over \$424,000 in facility rental revenue. This increase has been primarily attributed to an increased number of trade shows held that year. The decrease in theatre rental revenue is in accordance with the fewer number of Broadway and concerts hosted.

The following table shows the historical financial performance of The Centre.

**Table 3-4**

<b>The Centre - Historical Financial Performance</b>						
<b>Line Item</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Percent Change</b>
<b>Revenue</b>						
<i>Event Revenue</i>						
Facility Rental	\$ 310,871	\$ 355,846	\$ 336,347	\$ 424,156	\$ 283,575	-8.8%
Box Office	38,628	57,996	32,060	37,176	38,548	-0.2%
Marketing Revenue	6,440	10,954	31,912	37,229	11,005	70.9%
Reimbursable*	599,278	290,150	266,087	796,691	739,893	23.5%
<b>Total Event Revenue</b>	<b>\$ 955,217</b>	<b>\$ 714,947</b>	<b>\$ 666,407</b>	<b>\$1,295,252</b>	<b>\$1,073,021</b>	<b>12.3%</b>
<i>Ancillary Income</i>						
Catering	\$ 930,980	\$ 903,319	\$ 823,746	\$1,023,199	\$ 731,966	-21.4%
Concession Revenue	64,858	71,778	58,504	70,170	62,719	-3.3%
Novelty Revenue	18,241	13,009	4,441	15,787	9,164	-49.8%
Facility Fees	42,044	81,039	61,566	74,872	54,707	30.1%
Other Income**	44,904	430,252	470,274	57,696	57,789	28.7%
<b>Total Ancillary Income</b>	<b>\$1,056,123</b>	<b>\$1,069,145</b>	<b>\$ 948,256</b>	<b>\$1,184,027</b>	<b>\$ 858,555</b>	<b>-18.7%</b>
<b>Total Revenue</b>	<b>\$2,056,244</b>	<b>\$2,214,344</b>	<b>\$2,084,937</b>	<b>\$2,536,975</b>	<b>\$1,989,364</b>	<b>-3.3%</b>
<b>Expense</b>						
Wages and Benefits	\$1,429,111	\$1,506,174	\$1,508,557	\$1,435,848	\$1,352,623	-5.4%
General and Administrative	193,752	169,455	145,638	109,506	127,496	-34.2%
Cost of Goods Sold	294,966	328,505	270,260	277,586	243,198	-17.6%
Contractual Service	30,700	22,096	29,126	32,817	19,397	-36.8%
Repairs and Maintenance	122,139	135,837	151,515	143,416	151,875	24.3%
Supplies	92,014	89,679	70,063	102,388	61,298	-33.4%
Utilities	313,520	374,834	421,973	416,001	443,891	41.6%
<b>Total Expense</b>	<b>\$2,476,202</b>	<b>\$2,626,580</b>	<b>\$2,597,131</b>	<b>\$2,517,561</b>	<b>\$2,399,778</b>	<b>-3.1%</b>
<b>Net Income (Deficit)</b>	<b>\$ (419,958)</b>	<b>\$ (412,236)</b>	<b>\$ (512,195)</b>	<b>\$ 19,414</b>	<b>\$ (410,413)</b>	<b>2.3%</b>
SMG Management Fee***	\$ 258,452	\$ 263,807	\$ 289,345	\$ 188,319	\$ 188,783	-27.0%
*Reimbursable Labor, Utilities and Services						
** Other revenue included a percentage of Reimbursable revenue in 2008 and 2009						
*** Base fee with a percentage of gross revenue incentive						
Source: SMG, Hunden Strategic Partners						

As shown, The Centre generated nearly \$2 million in gross revenue in 2011, but expended \$2.4 million, which resulted in a net deficit of approximately \$410,000 plus the nearly \$200,000 management fee. Over the five-year period, The Centre's revenue decreased by three percent, while expenses decreased by a similar percentage. The Centre's primary form of revenue comes from catering services and reimbursements. Reimbursement revenue, which includes labor, utilities and services, results from The Centre's "cost-plus contract" with contractors. With this agreement, which is common in many convention centers, the facility initially pays for these line items and then receives a reimbursement of the cost plus an additional payment, which generates a gross profit for the event. However, many events are required to cover the other non-reimbursed expenses.

With the exception on 2010, The Centre historically operated at an operational deficit, ranging from \$512,000 in 2009 to \$410,000 in 2011. When considering the deficit and the management fee, the total deficit has decreased from (\$680,000) to (\$600,000).

The Centre’s management has indicated that the facility is at a significant competitive disadvantage due to the lack of a hotel in close proximity. Convention events that were previously held in Evansville have since moved their groups to other communities, most of which are in Indiana.

The following table shows an overview of The Centre’s lost business reports.

**Table 3-5**

<b>The Centre - Hotel Related Lost Business*</b>					
	<b>2008</b>	<b>2009*</b>	<b>2010</b>	<b>2011</b>	<b>Total</b>
Total Lost Events	47	45	35	31	158
Hotel Related Lost Events	8	5	8	7	28
<b>Percent of Total</b>	<b>17.0%</b>	<b>11.1%</b>	<b>22.9%</b>	<b>22.6%</b>	<b>17.7%</b>

\* Executive Inn Closes  
 Source: SMG, Hunden Strategic Partners

Hotel related lost business is classified as potential clients that chose a different meeting space, either in Evansville or in another market, due to the lack of hotel rooms in close proximity to the meeting facility. Over the four-year period, nearly 18 percent of all lost business was attributed to the lack of a hotel. However, once the Executive Inn closed in 2009, hotel related lost business increased to more than 22 percent each year. The Centre’s management also indicates that these lost business reports do not account for the number of organizations that refuse to enter into contract talks until a new hotel is developed near the facility.

*Ford Center*

The Ford Center is a 10,000-seat arena that was completed in November 2011. The facility serves as the home facility for the University of Evansville men’s and women’s basketball teams as well as the Evansville IceMen, a minor league hockey team that competes in the Central Hockey League. In addition to these events, the Ford Center also hosts concerts, family shows and graduation ceremonies for local high schools and colleges. The arena is owned by the City of Evansville and operated by VenuWorks, a third party management firm.

Management has indicated that there is a need for additional storage space. Currently, a significant portion of event equipment, which includes basketball courts, ice hockey dasher boards, indoor football turf, etc., is stored off-site at the now closed Robertson Stadium. Ideally, the facility would require more than 20,000 square feet of storage space, although 7,500 square feet of space would be acceptable.

The following figure shows the exterior of the Ford Center.

Figure 3-2



The following table shows the Ford Center's events, by type, since the facility's opening in November of 2011.

Table 3-6

Ford Arena Attendance - By Event*				
Event Type	Events	Event Days	Attendance	Average Attendance per Event
Concert	7	7	76,151	10,879
Family Show	11	8	62,180	5,653
Sports Event	59	52	197,807	3,353
<b>Total</b>	<b>77</b>	<b>67</b>	<b>336,138</b>	<b>4,365</b>

\*Arena opened in November 2011  
Source: VenuWorks

As shown, the Ford Center has hosted a total of 77 events over 67 event days (multiple events have been held on one calendar date, i.e. an Evansville women's basketball game followed immediately by a men's basketball game.). Since opening, more than 336,000 spectators have visited the arena, for an average of more than 4,300 spectators for each event. The facility has hosted seven concerts that had an average attendance of nearly 11,000 - the facility's capacity for a concert setup. Sporting events, which include several non-tenant events such as high school basketball games, accounted for the highest percentage (77 percent) of all events. These events attracted an average of 3,350 spectators.

Although the Ford Center has generated a substantial amount of foot traffic in downtown Evansville, the facility's events typically attract local residents who do not require lodging accommodations. Concert events, especially by premier performing acts, have demonstrated the



ability to attract spectators from a wider regional audience and have generated a number of room nights at the Casino Aztar and the Le Merigot hotel. It is estimated that between ten and 15 percent of these concert spectators require lodging accommodations. Sporting events and family shows generate a minimal number of room nights as these spectators are typically local residents and will commute to and from the arena that same evening. HSP estimates that the concerts and, to a lesser extent the sporting events, generate about 3,000 room nights annually, about the same as The Centre.

The following table shows the Ford Center's budget for 2012. Since the facility's 2011 financial records only account for two months of operation, a presentation of the 2012 budget will best represent the financial estimates for the facility.

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**Table 3-7**

<b>Ford Centre - 2012 Financial Budget</b>	
<b>Line Item</b>	<b>2012 Budget</b>
<b>Revenue</b>	
<i>Event Revenue</i>	
Facility Rental	\$ 397,500
Concession Revenue	2,288,837
Catering	99,789
Novelty Revenue	174,400
Reimbursable*	1,435,800
Premium Seating	505,625
<b>Total Event Revenue</b>	<b>\$ 4,901,951</b>
<i>Ancillary Income</i>	
Naming Rights	\$ 355,500
Marketing Revenue	346,860
Facility Fees	558,550
Other Income	(20,625)
<b>Total Ancillary Income</b>	<b>\$ 1,240,285</b>
<b>Total Revenue</b>	<b>\$ 6,142,236</b>
<b>Expense</b>	
Wages and Benefits	\$ 2,194,399
General and Administrative	355,074
Cost of Goods Sold	801,321
Marketing/Advertising	206,500
Contractual Service	436,600
Repairs and Maintenance	157,219
Supplies	191,515
Equipment	150,000
Fulfillment Cost	747,100
<b>Total Expense</b>	<b>\$ 5,239,728</b>
<b>Net Income (Deficit)</b>	<b>\$ 902,508</b>
VenueWorks Management Fee**	\$ 120,000
*Reimbursable Labor, Utilities and Services	
** Base fee with a percentage of gross revenue incentive	
Source: VenueWorks, Hunden Strategic Partners	

As shown, the Ford Center is expected to generate a net income of more than 900,000 in 2012. However, this is achieved through a deal with the City that reimburses utility, labor and other contracted services to the facility, which is presented in the \$1.435 million revenue line item for reimbursable expenses. Although these figures represent an operational profit for the facility, there is still a level of uncertainty due to the fact that facility has been open for less than a year.

### *Casino Aztar – Executive Conference Center*

In addition to its casino and two hotels, the Casino Aztar complex also offers meeting space in the form of the Casino Aztar Executive Conference Center. The facility is attached to the Casino Aztar Hotel and within a short walking distance from the Le Merigot and The District development. The Executive Conference Center contains approximately 3,500 square feet of ballroom space and 11,000 square feet of meeting room space. The facility primarily hosts meetings, banquets, receptions and small conferences.

The following figure shows the Executive Conference Center's ballroom set up for a banquet event.

**Figure 3-3**



Due to confidential policies, the Casino was not able to provide financial information or the number of events, by type, hosted by the facility each year. However, interviews with Casino administration did indicate that nearly all events are locally based and therefore generate a minimal number of room nights. Of all event types, weddings were indicated to have the greatest impact on room nights, often generating between 15 and 30 room nights per event.

The Casino Aztar does not pursue meetings and conventions as aggressively as a traditional meeting venue. Because the Aztar's primary focus is on gaming operations, the Executive Conference Center typically serves as a supplemental revenue stream, rather than a generator of room nights for the casino's two hotel properties. However, it has been indicated that during periods of declining gaming revenue, management would actively pursue these types of events.

## **Local Hotels**

Only two local hotels offer function space in excess of 5,000 square feet; the Clarion Inn (10,800 square feet) and the Holiday Inn-Airport (7,872 square feet). Both facilities have one large ballroom with multiple divisions and no exhibit space. These two properties represent the two largest meeting spaces outside of the downtown Evansville area. Both properties are older and of lower quality, having lost their top quality brand designations due to this reduced quality.

Conversations with management at both properties indicate that neither attracts a significant number of non-local meetings. The majority of events held within both hotels' meeting space is generally locally based, which typically includes corporate meetings, luncheons, weddings and other banquets. This results in a minimal number of room nights generated by these meeting facilities. Both management teams stated that the meeting space is used much more as an additional revenue source than a means to generate room nights in each respective hotel.

### *Clarion Inn*

The Clarion Inn contains 10,800 square feet of ballroom space as well as 1,500 square feet of breakout room space. Although the property contains the largest amount of function space outside of the downtown area the Clarion Inn does not attract a significant number of non-local meetings. Instead the Clarion hosts a large number of weddings, luncheons and banquets.

Management has indicated that the property is attractive for corporate travelers; however, these individuals typically conduct meetings off-site and do not require the meeting space offered by the hotel.

### *Holiday Inn-Airport*

As a former Marriott property, the Holiday Inn-Airport contains substantially more meeting space than found in a typical Holiday Inn. The property's 7,800 square feet of total function space is contained in a ballroom. In addition to the ballroom, the property also includes an atrium space that can be used as special event space.

Much like the Clarion Inn, The Holiday-Inn Airport specializes in smaller, local, meetings that include weddings, luncheons and banquets.

## **Local Universities**

### *University of Evansville*

The University of Evansville's main meeting facility is Eykamp Hall, a 4,600-square foot ballroom that serves as the primary meeting facility for all university sponsored events and commencements. Additional space includes three theaters: the Shanklin Theatre (480 seats), the Neu Chapel (400 seats) and Wheeler Concert Hall (240 seats).

All University of Evansville meetings facilities have a scheduling policy that offers university-sponsored events priority scheduling. As a result, these meeting spaces do not host a significant number of community-based or other third-party events.

### *University of Southern Indiana*

The University of Southern Indiana's primary meeting facility is Carter Hall, which includes nearly 7,000 square feet of meeting room space with four divisions. Much like the University of Evansville, they are nearly exclusively used for university sponsored events.

### **Implications**

The Centre serves as the primary convention facility in the local market. The facility contains the greatest amount of exhibit, ballroom and meeting room space and is centrally located in downtown Evansville. Prior to the closure of the Executive Inn, The Centre demonstrated the ability to generate a number of conventions and other large gatherings. Since the hotel's closure, The Centre has struggled to attract these same groups. Currently, the nearest hotels to The Centre are Casino Aztar properties. These properties have indicated that group room nights are not a priority and would rather focus on gaming related business or corporate transient travelers.

Other than The Centre, only the Ford Center generates a substantial number of events and visitors that provide room nights for the proposed Project, although the majority of attendees to the arena are local and would not require overnight accommodations. The remaining meeting spaces within the Casino Aztar, local hotels and two local universities primarily host local banquets, receptions and meetings, which typically do not generate many room nights.

Ultimately, any new convention hotel must have its own function space in order to compete for smaller group business that will provide itself business on a daily basis, and must have a large number of sleeping rooms to help The Centre compete for larger events.

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## **EVANSVILLE HOTEL ANALYSIS**

This chapter presents national hotel market and industry trends, an overview of the Evansville hotel market as well as an analysis of competitive properties related to a new downtown convention hotel in the local market. Since the proposed hotel will be adjacent to The Centre, it is especially critical to know how the hotels in Evansville support or otherwise contribute to the community's effort to induce visitation for convention, meetings and other events.

While most hotels simply accommodate existing demand, other hotels can actually induce demand, by providing a place to meet, conduct trainings, transact business in meeting rooms and ballrooms, etc. The proximity, size and quality of hotels as they relate to a large public convention, expo or other public assembly facility have a direct impact on the success of those facilities. Public assembly facilities without hotels within walking distance will suffer; those without quality, full-service hotels nearby will suffer and those without a large block or rooms nearby will suffer.

### **National Hotel Market and Trends**

National hotel trends are important to the development prospects of any hotel, whether it involved macro supply and demand issues, amenity trends, financing trends, or other trends impacting the industry.

The table below shows selected characteristics of the U.S. lodging industry from 1992 through 2011.

**Table 4-1**

<b>National Lodging Industry Annual Summary</b>						
<b>Year</b>	<b>Occupancy</b>	<b>Change</b>	<b>Average Daily Rate</b>	<b>Change</b>	<b>Revenue per Available Room</b>	<b>Change</b>
1992	61.9%	--	\$59.62	--	\$36.90	--
1993	63.1%	1.9%	\$61.30	2.8%	\$38.68	4.8%
1994	64.7%	2.5%	\$64.24	4.8%	\$41.56	7.4%
1995	65.1%	0.6%	\$67.17	4.6%	\$43.73	5.2%
1996	65.0%	-0.2%	\$70.81	5.4%	\$46.03	5.3%
1997	64.5%	-0.8%	\$75.31	6.4%	\$48.57	5.5%
1998	63.8%	-1.1%	\$78.15	3.8%	\$49.86	2.7%
1999	63.1%	-1.1%	\$81.29	4.0%	\$51.29	2.9%
2000	63.5%	0.6%	\$85.24	4.9%	\$54.13	5.5%
2001	59.8%	-5.8%	\$84.45	-0.9%	\$50.50	-6.7%
2002	59.0%	-1.3%	\$83.20	-1.5%	\$49.09	-2.8%
2003	59.2%	0.3%	\$83.28	0.1%	\$49.30	0.4%
2004	61.3%	3.5%	\$86.70	4.1%	\$53.15	7.8%
2005	63.1%	2.9%	\$91.29	5.3%	\$57.61	8.4%
2006	64.2%	1.7%	\$96.77	6.0%	\$62.13	7.8%
2007	64.1%	-0.2%	\$102.38	5.8%	\$65.63	5.6%
2008	60.4%	-5.8%	\$106.55	4.1%	\$65.61	0.0%
2009	54.5%	-9.8%	\$98.20	-7.8%	\$53.55	-18.4%
2010	57.6%	5.7%	\$98.08	-0.1%	\$56.47	5.5%
2011	58.6%	1.8%	\$102.20	4.2%	\$59.91	6.1%
<b>Thru 3/12</b>	<b>56.8%</b>	<b>3.8%</b>	<b>\$103.54</b>	<b>4.0%</b>	<b>\$58.78</b>	<b>7.9%</b>
<b>Avg. Annual Growth Rate</b>		<b>-0.2%</b>		<b>2.9%</b>		<b>2.8%</b>

Source: Smith Travel Research, HSP

Occupancy peaked at an all-time high of 65.1 percent in 1995, decreased to 59.0 percent after 9/11 and then peaked again at 64.2 percent in 2006. The latest recession is the most severe recorded in the hotel industry post-Depression. Occupancy decreased to 54.5 percent, a 15 percent decline. Average daily rate peaked at \$106.55 in 2008 and bottomed out in 2010 at about \$98. Occupancy increased in 2010 and 2011 and rates began to increase as well in 2011. Rate and occupancy growth have been relatively strong through March of 2012, each increasing about four percent. Smith Travel Research expects the increases to continue throughout 2012.

The figure below shows the above data in graph form, highlighting the annual change in performance.



Figure 4-1



Performance in 2011 was much improved from the severe decline of 2009. As the above graph indicates for the years 1996 through 1999, 2007, and 2008 even when occupancy declines, average daily rates can increase. This speaks to the concept of maximum practical occupancy. At a certain average occupancy, there are enough 'sold-out' dates and demand pressure to raise prices.

The table below shows the breakdown of supply by market segment, as well as the growth pipeline for new product.

Table 4-2

U.S. Active Rooms Development Pipeline & Change - 2010 to 2011							
Chain Scale	Existing Supply	% of Total Supply	% Change (2010 - 2011)	In Construction	% Change (2010 - 2011)	Total Active Pipeline	% Change (2010 - 2011)
Luxury	124,261	2.5%	1.4%	820	-63.5%	3,918	-27.8%
Upper Upscale	549,891	11.3%	1.6%	6,317	-10.7%	14,994	-19.9%
Upscale	607,852	12.4%	2.7%	13,944	-19.6%	77,090	-3.5%
Upper Midscale	801,301	16.4%	5.3%	15,536	-24.1%	90,232	-13.0%
Midscale	527,785	10.8%	-8.3%	4,619	-72.0%	28,162	-22.3%
Economy	783,528	16.0%	-0.1%	1,386	-51.0%	4,243	-36.0%
Unaffiliated	1,491,109	30.5%	1.5%	7,713	-29.5%	103,784	-10.9%
<b>Total</b>	<b>4,885,727</b>	<b>100.0%</b>	<b>0.9%</b>	<b>50,335</b>	<b>-35.0%</b>	<b>322,423</b>	<b>-12.2%</b>

Source: Smith Travel Research

Due to severe constraints in lending associated with the recession and poor performance of hotels nationwide, new supply has been very limited. This will help the industry recover as demand increases. From 2010 to 2011, total supply increased less than one percent. The largest increase was in Upper Midscale properties, with more than 15,000 new rooms. Midscale rooms declined by 8.3 percent. The number of rooms under construction is down by 35 percent across the chain scales, with Luxury, Midscale and Economy type rooms decreasing the most from the prior year. The total active pipeline is also down by 12.2 percent.

## **Development & Financing**

The hotel development pipeline had been robust until 2008, when the credit crisis hit and real estate in all sectors declined. This has made credit more expensive and the combination of lack of funds and poor market performance essentially stopped new developments in 2009. Only the best, most predictably successful projects have been financed since then. These include limited service hotels in fast growing areas and full-service hotels in strong markets like New York.

The loan-to-value ratio is an important measure of the amount of risk banks are willing to take on real estate investments. Historically, hotels have exhibited a higher risk level in the eyes of lenders and as such, have required a substantial equity investment. However, cookie-cutter branded prototype projects at interstate intersections – very predictable to bankers in terms of safety and profitability – have achieved loan-to-value rates of up to 75 percent.

As the performance of hotels improved, bankers felt more comfortable approving higher loan amounts relative to the value of the project. At its peak in 2005, the LTV was nearly 70.6 percent on average. It decreased to 60 percent in 2008 and has been slowly recovering since that time.

According to a Hotel Business survey, regional banks were the most often used source for hotel loans.

## **Transactions**

Cap rates are a measure of risk and reward. The higher the cap rate, the riskier the market expects an investment to be (and the higher the reward expected). To determine value, appraisers, buyers and sellers use net operating income divided by the cap rate. A hotel with \$1 million in net operating income and a 10 percent cap rate would have a value of \$10 million. However, using a 5 percent cap rate would give a value of \$20 million. During the height of the hotel buying frenzy in 2005 and 2006, some hotels were sold at effective cap rates lower than five percent, leading to extraordinary values.

Cap rates for hotels have historically been in the 9 to 12 percent range for most markets, except in places like New York, San Francisco, Boston and Hawaii. The rate was below ten percent in 2005 and 2007 and below nine percent in 2006, leading to record sales prices and intense transaction activity. Some transactions included cap rates as low as three percent during the height of the hotel financing and construction boom of 2005 – 2007. The rates then increased substantially during the recession, lowering valuations and the ability to get loans. The higher the

cap rate, the lower the valuation of the hotel and with the market-wide increase in cap rates, hotel transaction activity ceased for about three years, with the exception of foreclosed hotels.

## Development Costs

The table below shows the hotel development costs for the different segments hotels for the latest year available. These are critical figures when considering which type of hotel to develop.

**Table 4-3**

2010 Hotel Development Cost Survey Per-Room Averages						
	Land	Building and Site Improvements	Soft Costs	FF&E	Pre-Opening & Working Capital	Total
<b>Budget/Economy Hotels</b>						
Average from Budgets	\$11,700	\$50,800	\$4,400	\$8,100	\$3,000	\$65,200
Median	\$11,200	\$46,200	\$2,200	\$8,100	\$2,900	\$52,700
Allocation	14%	66%	10%	11%	4%	
<b>Midscale Hotels w/o F&amp;B</b>						
Average from Budgets	\$23,400	\$71,400	\$11,100	\$9,500	\$4,100	\$98,000
Median	\$12,200	\$63,100	\$8,100	\$9,200	\$2,800	\$82,100
Allocation	14%	68%	9%	10%	4%	
<b>Extended Stay Hotels</b>						
Average from Budgets	\$12,200	\$79,000	\$11,300	\$12,600	\$3,300	\$131,600
Median	\$10,900	\$69,300	\$9,900	\$13,000	\$2,400	\$105,500
Allocation	12%	68%	9%	12%	4%	
<b>Midscale Hotels W/ F&amp;B</b>						
Average from Budgets	\$13,900	\$76,800	\$13,200	\$12,000	\$3,800	\$117,300
Median	\$10,200	\$63,300	\$10,400	\$11,300	\$3,000	\$100,600
Allocation	13%	65%	11%	12%	3%	
<b>Full-Service Hotels</b>						
Average from Budgets	\$16,800	\$122,900	\$22,200	\$22,000	\$6,900	\$208,100
Median	\$13,200	\$111,600	\$14,000	\$18,100	\$5,700	\$156,200
Allocation	12%	64%	12%	12%	4%	
<b>Luxury and Resorts</b>						
Average from Budgets	\$86,700	\$345,700	\$133,800	\$54,000	\$20,800	\$598,500
Median	88,600	\$299,800	\$88,600	\$57,700	\$18,700	\$538,200
Allocation	17%	59%	11%	10%	4%	

Source: HVS

Costs per room vary dramatically for the various types of hotels, from a median of \$52,700 for economy properties to \$538,200 for luxury properties. For most developments, the question is whether or not to develop an midscale limited service hotel (with or without food and beverage) or a full-service hotel. The cost differential is significant. The median cost per room for a full-service hotel was \$156,200 in 2010 while the median cost for a midscale limited service hotel with food and beverage is \$100,600, a difference of more than \$55,000 per room.

A good rule of the thumb in the industry is that the average daily rate multiplied by 1,000 will give a developer a sense of what cost of hotel the market will support. So for example, a hotel expected to perform at \$125 per night on average could be developed for \$125,000 per room. This is not enough to support a full-service hotel without public assistance, but instead calls for an upscale limited-service hotel with food and beverage.

## Largest Hotel Brands

One of the continuing trends of the past decade has been the growth of hotel companies to create and expand brands into every conceivable niche, including extended stay (discussed below), boutiques, fractionals, etc. These companies typically do not own their hotels, but brand them and provide the support, advertising, group sales and other services for the hotel owners for a fee.

The table below shows the top 20 hotel brands in the world, by number of rooms.

**Table 4-4**

Top Twenty Global Hotel Brands by Room Count - 2011								
Rank	Brand	Company	Hotels	Rooms	Rooms/Hotel	Occupancy	Avg. Daily Rate	RevPAR
1	Best Western	Best Western	4,048	309,580	76	57.0%	\$84.73	\$48.26
2	Holiday Inn	InterContinental Hotels Group	1,301	238,440	183	59.4%	\$94.88	\$56.37
3	Marriott Hotels & Resorts	Marriott International	550	202,213	368	69.4%	\$137.17	\$95.20
4	Holiday Inn Express	InterContinental Hotels Group	2,107	193,268	92	63.0%	\$95.78	\$60.38
5	Hilton Hotels & Resorts	Hilton Hotels	538	192,159	357	65.0%	\$144.05	\$93.63
6	Hampton Inn	Hilton Hotels	1,804	177,448	98	62.3%	\$98.73	\$61.51
7	Comfort Inn	Choice International	1,995	153,747	77	55.4%	\$77.16	\$41.76
8	Days Inn	Wyndham Hotels Group	1,859	148,155	80	46.2%	\$62.67	\$29.01
9	Sheraton Hotels & Resorts	Starwood Hotels & Resorts	397	138,356	349	n/a	n/a	n/a
10	Super 8 Motels	Wyndham Hotels Group	2,156	134,827	63	49.1%	\$59.45	\$29.21
11	Courtyard	Marriott International	882	129,632	147	80.6%	\$113.30	\$91.37
12	Quality	Choice International	1,369	128,156	94	48.0%	\$67.30	\$32.31
13	Ramada Worldwide	Wyndham Hotels Group	894	117,842	132	47.9%	\$74.28	\$35.61
14	Crowne Plaza Hotels & Resorts	InterContinental Hotels Group	376	103,876	276	61.3%	\$101.74	\$62.36
15	Motel 6	Accor	1,012	99,686	99	n/a	n/a	n/a
16	Radisson Hotels	Carlson Hospitality	427	95,167	223	n/a	n/a	n/a
17	Value Place	Value Place	672	84,689	126	n/a	n/a	n/a
18	La Quinta Inns & Suites	La Quinta	795	81,309	102	n/a	n/a	n/a
19	Residence Inn	Marriott International	610	73,839	121	80.6%	\$113.32	\$91.37
20	Hyatt Regency/Hyatt	Hyatt	164	71,901	75	n/a	n/a	n/a
<b>Total</b>		--	<b>7,037</b>	<b>914,196</b>	<b>147</b>	--	--	--

Source : Hotel Business

Best Western is the largest brand by number of rooms, with nearly 310,000 in more than 4,000 properties. The largest brand with the largest hotels on average is Marriott, followed closely by Hilton, with an average room count of 368 and 357, respectively and approximately 200,000 rooms each. The best performing large chains in terms of RevPAR (revenue per available room) are Marriott and Hilton, with RevPARs at approximately \$95. Courtyard and Residence Inn, both

by Marriott and with combined performance statistics, are very close in RevPAR to their full-service brands, with \$91.37.

## Other Trends of Note

Several other trends have been occurring in the industry over the past several years. These include:

- **Amenity Creep.** The major brands, led by Starwood, began expecting a higher quality of amenities in their hotels. This began with the “Heavenly Bed” for Westin and now all major brands have their own premium bedding product. It continued with bathroom products, flat screen televisions, wireless internet, branded gym/spa experiences, and other amenities now expected that previously were considered to be luxuries. These have even crept into the limited service brands. Overall, this has increased the initial and ongoing costs of hotels, although customers have been loyal to those that have implemented the improvements.
- **Brands Multiply.** Worldwide, the expansion of brands continues to change the face of the competitive environment. Eager to show earnings and market share for Wall Street, major brands compete fiercely. Using multiple brand products clustered in the same corporate structure, proprietary reservation systems and corporate programs work in tandem to drive business. Comparing profit potential with a brand or without a brand is becoming a serious exercise for hotel owners. At the same time, the proliferation of brands means fewer independents that struggle for fair share using price as the preferred strategy.
- **Boutiques Multiply.** Boutique hotels, with trendy bars, individual style and a brand all their own have been increasing across the U.S. This has led major hotel brands to try to create boutique brands where each feels like an individual boutique hotel. Marriott created the Autograph collection, which allows boutiques to use the Marriott reservation and rewards system but retain their own name, style and independence.
- **Global Travel and the Impact of Energy Prices and Economic Conditions.** The large fluctuations in oil and fuel costs have a continual impact on travel and this will continue to be a major factor in the coming years.
- **Distribution.** The increase in booking travel via the internet has been a major trend in the industry for the past ten years, with approximately one-third of revenue booked online in 2010. An additional estimated 30 to 40 percent of bookings were researched online. This has brought transparency and increased competition to the market and all players with a solid internet and distribution strategy are able to compete effectively.
- **Technology.** The fast advance of technology means hotels have to continually keep up with expectations of their guests. With multiple wireless devices, guests expect a high-speed wireless network throughout the hotel that will allow them to use their smartphones, tablets (led by the iPad) and laptops without connectivity issue. In-room movies via Lodgenet can now be controlled via an application on a guest’s

smartphone. And many hotels have introduced in-room iPads that allow concierge services, room service, check out, entertainment and other items to be taken care of directly from the iPad.

- **Social Media and Crowd-Rating.** The rise of social media and user-based ratings has had a direct impact on hotel decision making. Sites like Trip Advisor allow users to rate and castigate hotels directly on the website, which allows potential customers to determine if they will choose that hotel. Hotels are having to be incredibly proactive and reactive to comments posted on Twitter, Facebook and such ratings sites.
- **Demographics.** The advent of two major demographic shifts will have a positive impact on the hotel business over the foreseeable future. The first is the baby boomer generation reaching retirement. With the largest amount of disposable income and nest egg capital, this large group will have the ability to travel in large numbers for the next 10 to 15 years. Secondly, the BRIC economies (Brazil, Russia, India and China) have exploded in their economic power over the past several years. This has led to a massive increase in the middle classes in these nations and these populations are traveling in increasing numbers.

### **Local Hotel Market**

The local hotel market is characterized by a collection of limited-service, smaller hotel properties, some older full-service properties and a few aged motels. The local hotel market was characterized as hotels within a 15-mile radius of downtown Evansville.

The table below breaks out the hotels in the market, according to Smith Travel Research.

**Table 4-5**

<b>Hotels in the Evansville Market*</b>			
<b>Name</b>	<b>Rooms</b>	<b>Opened</b>	<b>Market Class</b>
Hilton Garden Inn Evansville	112	Jul-08	Upscale
Residence Inn Evansville East	78	Feb-98	Upscale
Holiday Inn Evansville Airport	199	Mar-88	Upper Midscale
Clarion Inn & Conference Center Evansville	198	Jun-73	Upper Midscale
Drury Inn & Suites Evansville East	150	Jul-98	Upper Midscale
Drury Inn & Suites Evansville North	145	Jul-80	Upper Midscale
Hampton Inn Evansville	140	Jul-91	Upper Midscale
Hampton Inn Evansville Airport	120	Aug-11	Upper Midscale
Fairfield Inn Evansville East	117	Dec-94	Upper Midscale
Fairfield Inn Evansville West	110	Aug-95	Upper Midscale
Comfort Inn East Evansville	108	Mar-99	Upper Midscale
Holiday Inn Express Evansville North	99	May-95	Upper Midscale
Holiday Inn Express Evansville West	81	Jan-01	Upper Midscale
Holiday Inn Express & Suites Evansville	69	Sep-98	Upper Midscale
Holiday Inn Express Henderson	60	Jul-97	Upper Midscale
Comfort Inn Henderson	55	Aug-01	Upper Midscale
Ramada Inn Henderson	117	Jun-74	Midscale
Quality Inn North Evansville	73	Jan-00	Midscale
La Quinta Inns & Suites Evansville	64	Dec-96	Midscale
Sleep Inn Henderson	63	Mar-98	Midscale
Baymont Evansville East	56	Aug-99	Midscale
Quality Inn East Evansville	50	Nov-91	Midscale
Casino Aztar Hotel	250	Dec-96	Indep
The Le Merigot	100	Dec-06	Indep
Home Life Studios & Suites	84	Jun-79	Indep
Esquire Inn	67	Jun-70	Indep
Economy Inn	56	Jun-64	Indep
Deluxe Inn	53	n/a	Indep
Arrowhead Motel	47	n/a	Indep
Royal Inn	40	n/a	Indep
Oak Meadow Lodge	39	Dec-88	Indep
Henderson Downtown Hotel	38	Jun-68	Indep
John James Audubon State Resort	6	Jun-38	Indep
Jameson Inn Evansville	123	Sep-86	Economy
Value Place Evansville	121	Jun-08	Economy
Motel 6 Evansville	102	Dec-73	Economy
Super 8 Henderson Evansville Area	100	Aug-68	Economy
Econo Lodge Evansville	98	Sep-58	Economy
Econo Lodge Inn & Suites Evansville	82	Feb-00	Economy
Studio Plus Evansville East	72	Feb-97	Economy
Lee Inn Of America Evansville	71	Aug-89	Economy
Days Inn Evansville East	60	May-94	Economy
Super 8 Evansville East	58	Apr-89	Economy
Super 8 Evansville North	49	Mar-96	Economy
<b>Total/Average</b>	<b>3,980</b>	<b>Jul-89</b>	<b>--</b>

\* Hotels within 15 miles of downtown Evansville  
Source: Smith Travel Research

There are a total of 44 hotels in the Evansville market totaling nearly 4,000 rooms. The average age of the hotels is 23 years. The largest hotels are the Casino Aztar hotel with 250 rooms, followed by the much older Holiday Inn and Clarion hotels at nearly 200 rooms each. Currently, there is not a large, newer hotel with the amenities (quality restaurants and function space) sought by out-of-town meeting planners.

The next table summarizes the hotels by market class, average size, average opening date and number of hotels by class.

**Table 4-6**

<b>Hotel Summary - Evansville Market</b>					
<b>Market Class</b>	<b>Rooms</b>	<b>% of Total</b>	<b>Hotels</b>	<b>Rooms/ Hotel</b>	<b>Avg Opening Date</b>
Luxury	0	--	0	--	--
Upper Upscale	0	--	0	--	--
Upscale	190	5%	2	95	Apr-03
Upper Midscale	1,651	41%	14	118	Oct-94
Midscale	423	11%	6	71	Jun-93
Independent	780	20%	11	71	Sep-76
Economy	936	24%	11	85	Jul-87
<b>Total/Average</b>	<b>3,980</b>	<b>100%</b>	<b>44</b>	<b>90</b>	<b>Jul-89</b>

Source: Smith Travel Research

As shown, there are no luxury or upper upscale properties in Evansville. There are only two hotels considered to be upscale, totaling 190 rooms. These include the Hilton Garden Inn and the Residence Inn. The average age is high due to a number of older properties that bring down the average of the market. The majority of the other hotels have been either opened or renovated within the past ten to 15 years. Just over 40 percent of rooms in the Evansville market are considered to be upper midscale, the largest of the market classes. More than half of all hotels (55 percent) are considered to be midscale or lower. On the whole, the hotel market in Evansville is generally older, of midscale quality, smaller and features limited services.

One new upscale hotel is under development now, the 120-room Courtyard by Marriott, which will be located on the east side of Evansville near the Hilton Garden Inn.

## **Market Notes**

### *Executive Inn*

The Executive Inn was a 471-room independent hotel in downtown Evansville, formerly located on the site partially occupied by the Ford Center. The property was connected to The Centre via a skybridge and served as the headquarters hotel for all large events at the meeting facility. The Executive Inn also contained over 10,000 square feet of ballroom and meeting space in which a number of banquets, receptions and other small events were held.



Due to limited demand and lack of continued reinvestment, the property experienced a slow decline of quality and increase in financial stress, eventually resulting in the property operating less than 100 rooms. Due to the decline and eventual closure of the hotel and the approval for the new Ford Center, the Executive Inn and its parking garage were demolished.

### *Courtyard by Marriott*

A new 120-room Courtyard by Marriott is currently under construction near the I-164 and Lloyd Expressway interchange. Once completed, the Courtyard will serve as the newest and highest quality hotel property in Evansville. As a result, the property is expected to be very competitive with the cluster of properties in that area as well as with any new downtown hotel. The hotel's occupancy also is expected to be bolstered by a significant number of Marriott Rewards travelers that will select the hotel while in Evansville. Since the Marriot flag was removed from the current Holiday Inn-Airport, Marriott has not operated a full-service property in the local market. While Courtyard is not full-service, it has certain full-service amenities like food and beverage options.

### **Competitive Set**

HSP has chosen a set of primary competitive hotels to analyze that are either the best performing, have significant function space or are the most relevant to business at The Centre. These properties will also illustrate the current competitive market that any proposed hotel would enter. Some of the factors considered were market orientation, quality, average rate, size, location, age, brand, and market demand mix. There are very few hotels in downtown Evansville, so those outside the downtown core area were chosen primarily based on their quality, age and number of rooms. Any new downtown hotel is expected to have the highest quality and newest property in market, so it would compete against those that have those similar characteristics.

The figure below shows a map of the competitive hotels.

Figure 4-2



The following table shows a summary of the hotels in the competitive set.

**Table 4-7**

<b>Evansville Competitive Set Hotels</b>		
<b>Hotel</b>	<b>Date Opened</b>	<b>Rooms</b>
Casino Aztar Hotel	2000	250
Holiday Inn Evansville Airport	1992	199
Clarion Inn & Conference Center Evansville	1977	198
Courtyard*	2013	120
Hilton Garden Inn Evansville	2008	112
The Le Merigot	2010	100
Holiday Inn Express Evansville West	2005	81
<b>Total</b>		<b>1,060</b>
<i>Average</i>	<i>2000</i>	<i>151</i>
* Estimated opening Source: Smith Travel Research		

There are seven hotels in the competitive set, totaling 1,060 rooms. The largest is the Casino Aztar Hotel, with 250 rooms, but it is also primarily targeted towards gaming patrons. The newest hotels are branded select (also known as limited) service properties, such as the to-be-opened Courtyard, Hilton Garden Inn and Holiday Inn Express. The Clarion and Holiday Inn are older full-service hotels that are showing their age. Previously, each was a better brand, such as a Marriott, but lost these flags due to their condition. The Le Merigot is Evansville’s only boutique style hotel as well as the newest property in the market.

### *Le Merigot*

The Le Merigot is located on NW Riverside Drive within The District, directly across the street from the Casino Aztar. The property is the only boutique hotel in the local market as well as one of only two hotels (Casino Aztar Hotel) in downtown Evansville. The 97-room property was opened 2006 and is owned and operated by the Casino Aztar.

Le Merigot is connected to the Casino Aztar riverboat via a skybridge over NW Riverside Drive and is also located in close proximity to the bars and restaurants within The District. The District is a mixed-use development, anchored by the Le Merigot, which was developed by Casino Aztar to serve as an entertainment area to supplement the entertainment offered within the Casino.

The Le Merigot is shown in the following figure.

Figure 4-3



As a casino owned and operated hotel, the Le Merigot operates in a slightly different manner than a traditional hotel. Although the property caters to a number of traditional markets; corporate transient, group and leisure, its affiliation with the Casino results in a number of complimentary and discounted rooms for “high-roller” casino gamers and other gamers that have won significant amounts while gambling. However, the numbers of these rooms are much less than at the Casino Aztar Hotel, described below, due to a combination of the Le Merigot’s small size and the popularity of the property for downtown visitors.

It is estimated that 10 percent of demand is generated by group business, 50 percent from corporate transient business and 40 percent from leisure (primarily casino gamers). While ADR and occupancy is impacted by the number of complimentary and discounted rooms, it is estimated that the Le Merigot’s ADR is \$117, while occupancy is estimated at 63 percent.

### *The Casino Aztar Hotel*

The Casino Aztar Hotel is located on NW Riverside Drive, across the street from the casino riverboat and its dining and entertainment facility, while it is also adjacent to The District and the Le Merigot. The 250-room property opened in 1996 and serves as the centerpiece of the entire Casino Aztar complex. The hotel is connected to the casino riverboat, the casino’s restaurants and bars and a parking structure via a skybridge. The property is owned and operated by the Casino Aztar.

The Casino Aztar Hotel is shown in the following figure.

Figure 4-4



The Casino Aztar Hotel offers a number of complimentary and discounted rooms and this is the primary driver of occupancy. While the Le Merigot serves as the high-end option for visitors, the Casino Aztar Hotel serves as the economical option as well as for winners at the casino who receive complimentary rooms. Since it was built in 1996, the property has not undergone any extensive renovations and therefore is of a much lower quality than the Le Merigot and the rest of the competitive set.

Management has indicated that initial discussions are underway for a renovation of the property. This would include an upgrade of each sleeping room, bathrooms and common areas. Specific details were not made available due to confidentiality policies. However, rates are expected to increase by approximately ten percent after the renovation, which should be complete within about one year.

It is estimated that 70 percent of the hotel's total rooms are allocated for gamers. This leaves the property with approximately 80 rooms that are available for non-gamers. Patrons with a "Players Cards" receive a 30 percent room discount when staying at the property.

It is estimated that 15 percent of demand is generated by group business, 25 percent from corporate transient business (due to a much lower quality and lack of brand) and 60 percent from leisure (again, primarily casino gamers). ADR and occupancy is also greatly impacted by the number of complimentary and discounted rooms, it is estimated that the property's average daily rate (ADR) is \$79, while occupancy is estimated at 60 percent. The high occupancy is attributed to the number of complimentary and discounted rooms.

### *Clarion Inn & Conference Center*

The Clarion Hotel and Conference Center is located on the northwest side of Evansville, along US-41. The 198-room property was opened in 1973 and is attached to a conference center that

includes two ballrooms, one 5,000 square feet, the other slightly more than 3,000 square feet, as well as a number of separate breakout rooms.

The following figure shows the Clarion Inn.

Figure 4-5



The Clarion Conference Center competes with The Centre for a number of smaller, local and regional events. For these smaller events, the Clarion can accommodate a large percentage of these visitors with room blocks, which makes it an attractive meeting venue for meeting planners. However, total function space at the Clarion is much less when compared to The Centre and therefore cannot compete for medium and larger sized events. The older nature of the property limits which customers will choose this hotel.

It is estimated that 12 percent of demand is generated by group business, 70 percent from corporate transient business (due to the attached meeting facilities) and 18 percent from leisure (due to the property's close proximity to a number of local attractions). The estimated ADR is \$76, while occupancy is estimated to be 42 percent.

#### *Holiday Inn Express West*

The Holiday Inn Express West is located on the western edge of Evansville along IN-62. The 81-room hotel was opened in 2001, in close proximity to a number of retail developments surrounding the hotel.

The following figure shows the Holiday Inn Express West.

Figure 4-6



The property is the closest Holiday Inn property to downtown Evansville and therefore receives a number of room nights from those in its loyalty program that attend events at The Centre or the Ford Center. The Centre has a greater impact than the arena, as it is estimated that during events, convention goers account for 15 percent of total room nights.

It is estimated that five percent of demand is generated by group business, 81 percent from corporate transient business (due to the close proximity of a number Evansville businesses) and 14 percent from leisure. It is estimated that the Holiday Inn Express West's ADR is \$95, while occupancy is estimated at 71 percent.

### *Hilton Garden Inn*

The 112-room Hilton Garden Inn was opened in 2008 and serves as the newest, and highest quality hotel on Evansville's east side. The property is located in close proximity to I-164 as well as a number of retail stores, restaurants and other hotels. The hotel's location near the Lloyd Expressway and I-164 allows for a significant number of highway travelers as well as corporate transient visitors that want convenient highway access.

The Hilton Garden Inn is shown in the following figure.

Figure 4-7



The Hilton Garden Inn benefits from its location near the Interstate, its proximity to a number of corporate headquarters, nearby dining and retail options as well as the Hilton Honors program. Combined, these factors allow the property to command the second highest performance figures in the local market.

It is estimated that eight percent of the hotel's demand is generated by group business, 78 percent from corporate transient business and 14 percent from leisure. It is estimated that ADR is \$107, while occupancy is estimated at 66 percent. The owners of this hotel, Dunn Hospitality, are also building the new 120-room Courtyard by Marriott nearby.

#### *Holiday Inn Airport*

The Holiday Inn Airport is located in north Evansville, along US-41, near the Evansville Regional Airport. The 199-room property originally opened as a Marriott in 1998 and was recently converted to a Holiday Inn. The property also includes a nearly 8,000 square foot ballroom which is used for banquets, receptions and other small events.

The Holiday Inn Airport is shown in the figure below.



Figure 4-8



The hotel's proximity to the Evansville Regional Airport makes the property an attractive option for corporate travelers; however, this popularity has recently declined due to the removal of the Marriott brand from the property. Since becoming a Holiday Inn, the property has struggled to maintain occupancy above 50 percent, although ADR is one of the highest in the market.

It is estimated that 12 percent of demand is generated by group business, 74 percent from corporate transient business and 14 percent from leisure. It is estimated that the Holiday Inn's ADR is \$79, while occupancy is estimated at 51 percent.

### **Competitive Set Performance**

The following table shows performance data for the competitive set from 2011.

**Table 4-8**

Historical Supply, Demand, Occupancy, ADR, and RevPar for Competitive Hotels											
Year	Annual Avg. Available Rooms	Available Room Nights	% Change	Room Nights Sold	% Change	Occ.	% Change	ADR	% Change	RevPar	% Change
2006	736	268,820	--	174,532	--	64.9%	--	\$74.38	--	\$48.29	--
2007	828	302,220	12.4%	170,405	-2.4%	56.4%	-13.2%	\$86.00	15.6%	\$48.49	0.4%
2008	884	322,828	6.8%	177,586	4.2%	55.0%	-2.4%	\$87.97	2.3%	\$48.39	-0.2%
2009	940	343,100	6.3%	206,420	16.2%	60.2%	9.4%	\$83.33	-5.3%	\$50.14	3.6%
2010	940	343,100	0.0%	212,130	2.8%	61.8%	2.8%	\$85.07	2.1%	\$52.60	4.9%
2011	940	343,100	0.0%	193,122	-9.0%	56.3%	-9.0%	\$88.47	4.0%	\$49.80	-5.3%
2012 YTD (February)	940	55,460	0.0%	27,379	-5.6%	49.4%	-5.6%	\$89.90	-1.9%	\$44.38	-7.4%
Projected 2012	940	343,100	0.0%	190,225	-1.5%	55.4%	-1.5%	\$88.91	0.5%	\$49.30	-1.0%
CAGR* (2005-2011)	4.6%	4.6%	--	1.5%	--	-2.4%	--	3.3%	--	0.3%	--

\*Compound Annual Growth Rate  
Sources: STR, HSP

With the addition of the Hilton Garden Inn, total rooms increased to 940 rooms in 2011. Room night demand peaked in 2010 at more than 212,000 room nights, declined to 193,000 room nights in 2011 and is expected to further decline to 190,000 room nights in 2012. Occupancy has ranged from 55 percent in 2008 to 64.9 percent in 2006. Rate has increased from 2006 through 2008, then declined for two years before rebounding and to reach a high of \$88 in 2011. ADR is expected to reach a record high of nearly \$89 in 2012. RevPar remained relatively stable from 2006 to 2009. In 2010, RevPar increased, yet fell to under \$50 in 2011. 2012 forecasts estimate RevPar to reach nearly \$50.

While the recession did not appear to hurt the Evansville hotel market in 2008, 2009 or 2010, certain businesses that consolidated, moved or closed operations hurt the market in 2011.

The following table is HSP's estimated of 2011 performance for the hotels in the competitive set.

**Table 4-9**

Competitive Set Hotels Estimated Occupany, Rate & Market Segmentation for 2011						
Hotel	Rooms	RevPAR	RevPAR Yield	Market Segmentation		
				Corp. Transient	Group	Leisure
The Le Merigot	97	\$74	148%	50%	10%	40%
Casino Aztar Hotel	250	\$47	95%	25%	15%	60%
Clarion Inn & Conference Center Evansville	198	\$32	64%	70%	12%	18%
Holiday Inn Express Evansville West	81	\$67	135%	81%	5%	14%
Hilton Garden Inn Evansville	112	\$71	142%	78%	8%	14%
Holiday Inn Evansville Airport	199	\$40	81%	74%	12%	14%
<b>Total/Weighted Averages</b>	<b>937</b>	<b>\$50</b>	<b>100%</b>	<b>58%</b>	<b>11%</b>	<b>31%</b>

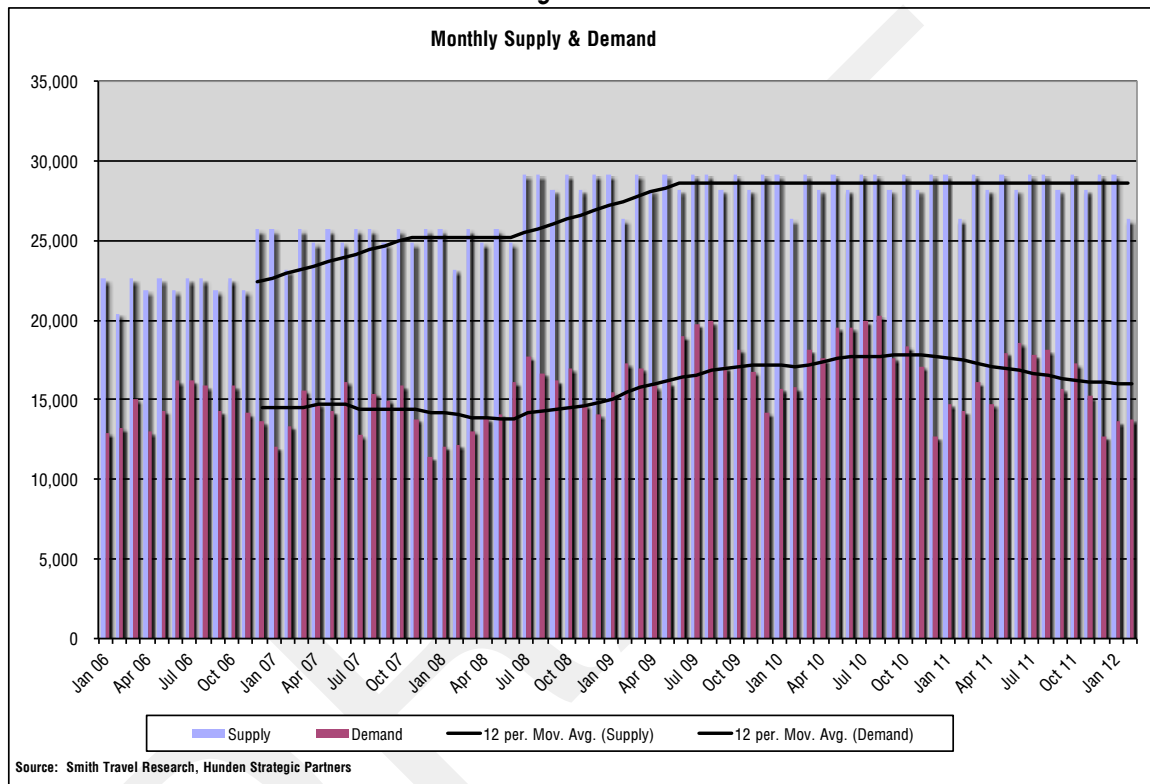
Source: HSP

As shown, the Le Merigot has the highest RevPAR yield of the competitive set. On the other end of the spectrum, the Clarion Inn is projected to have a RevPAR yield of only 64 percent. RevPAR

is revenue per available room and calculated by multiplying rate by occupancy. Across the competitive set's market segmentation, 58 percent are corporate transient, 31 percent are leisure and 11 percent are group.

The following figure shows the supply and demand trends for the set for the period shown above.

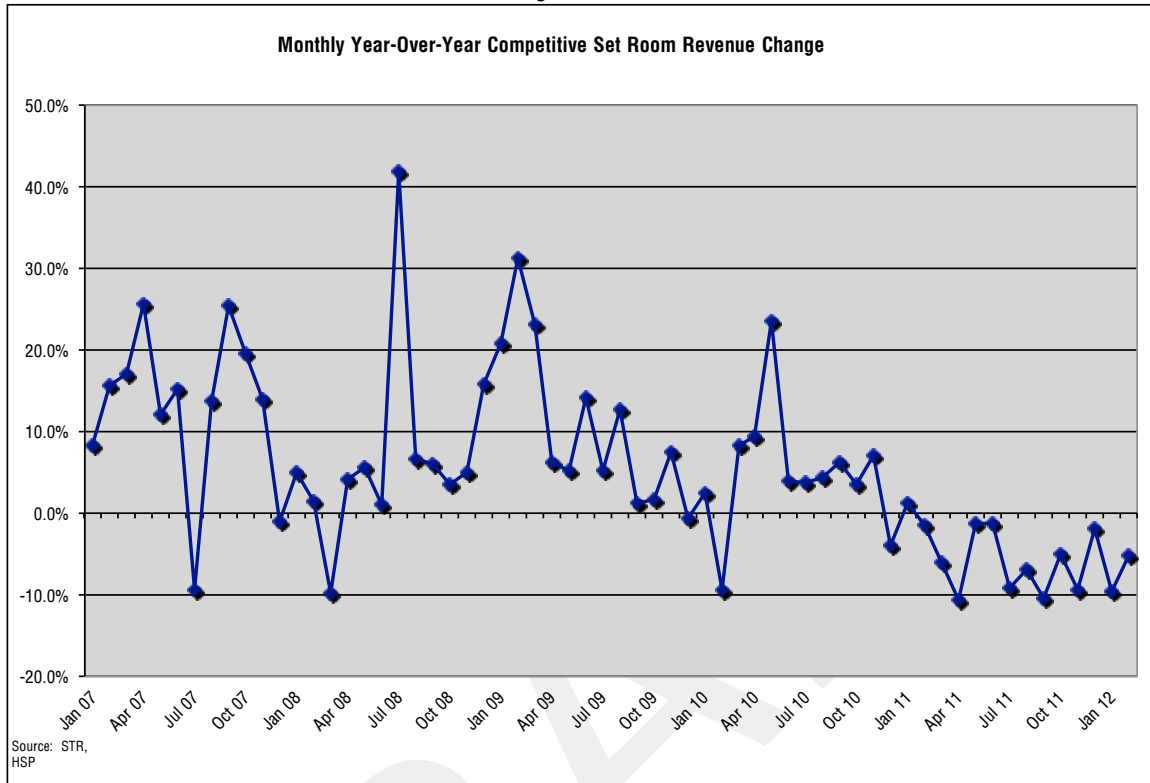
**Figure 4-9**



As shown, demand increased at the end of 2008, which coincides with the opening of the new Hilton Garden Inn property. Demand grew slightly until the beginning of 2011, when demand began to slightly decrease through the most recent reporting period.

The following figure shows room revenue changes by month (year over year).

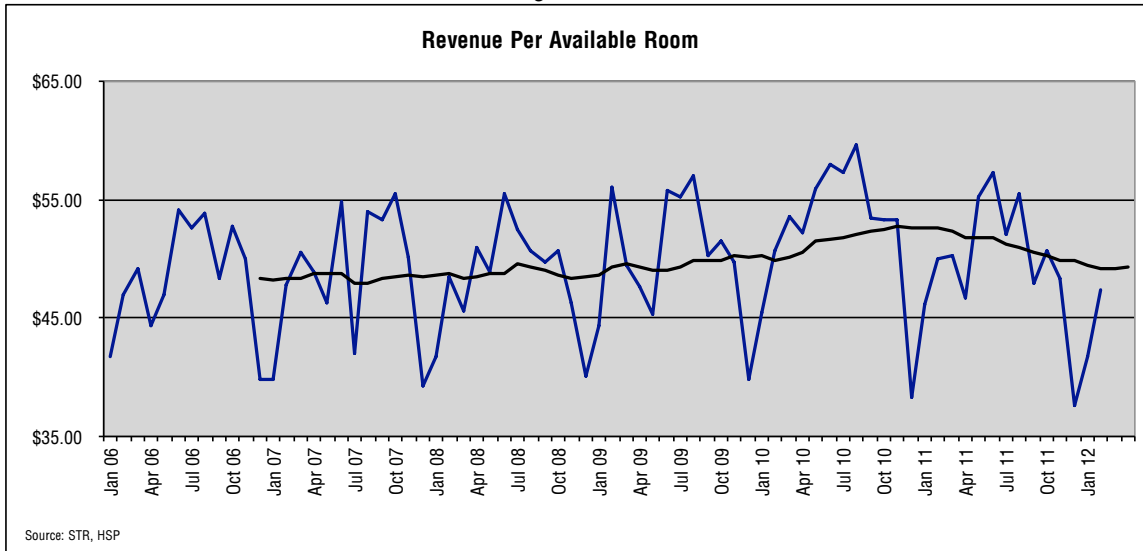
Figure 4-10



Any data point greater than zero is positive and is a positive indicator for Evansville’s hotel market. As shown, the competitive set’s room revenue remained positive from 2007 until 2011. From that point on, room revenue varied between zero and negative ten percent. While this revenue fluctuated in 2011, revenue growth still remained below zero.

The next figure shows Revenue Per Available Room (RevPAR), which is the product of occupancy and rate.

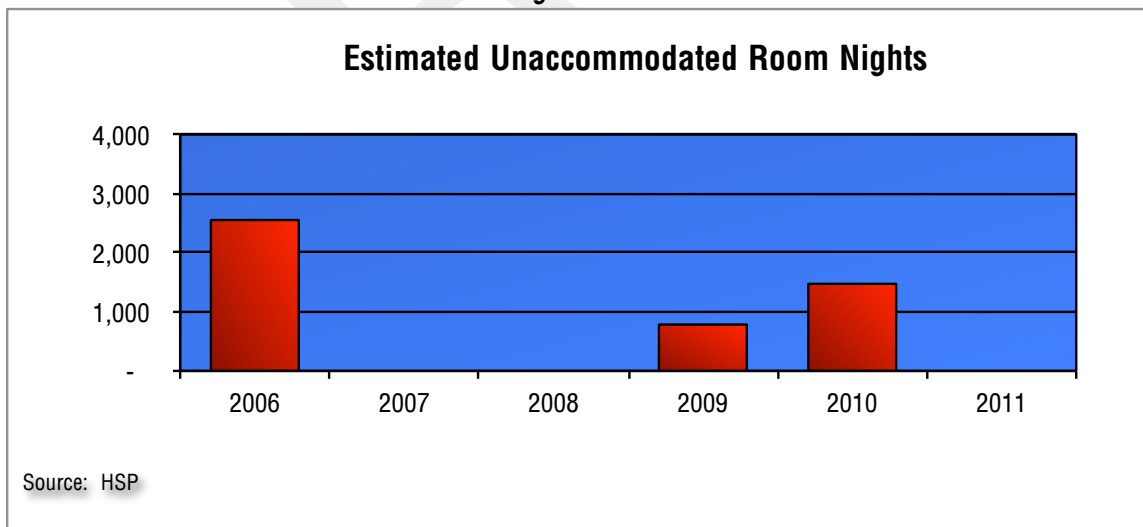
Figure 4-11



The smooth line above shows the 12-month moving average. RevPAR remained relatively stable until the second half of 2010, when RevPAR began to increase, followed by a decline in 2011.

The following figure shows the estimated unaccommodated room nights, which is based on the number of months of occupancy over 66 percent. When this occurs, there are many nights when hotels are sold out and guests must find accommodations outside of Evansville's competitive set. With new supply, this demand can be recaptured.

Figure 4-12

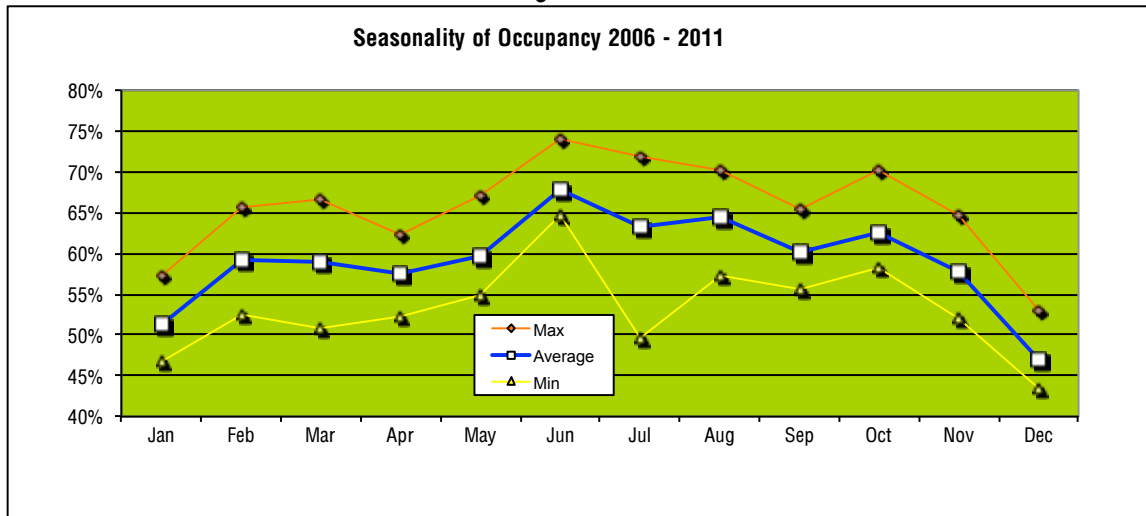


Unaccommodated demand was greatest in 2006, yet all demand was accommodated in 2007 and 2008. The local market experienced another period of unaccommodated demand in both 2009

and 2010, but with a drop in demand, all demand was accommodated in 2011. It is expected that this will change in 2012, with more sold out days than in prior years, based on conversations with hotel management.

The following figure displays the seasonality of occupancy during the last six years.

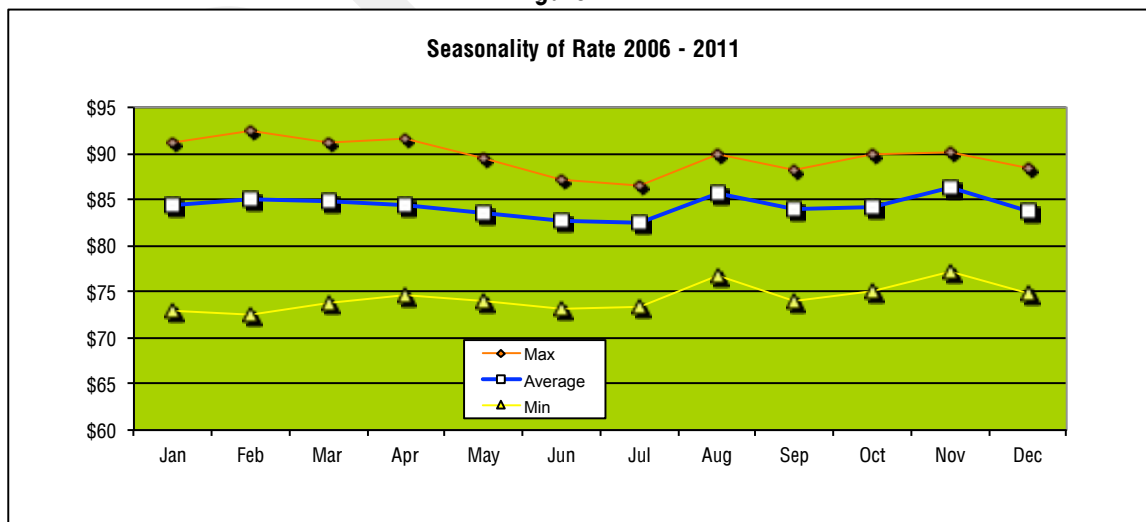
**Figure 4-13**



Occupancy peaks in June (nearly 68 percent on average), which is traditionally one of the busiest leisure travel months. Like most markets, occupancy is lowest in December and January.

The following figure shows the seasonality of rate.

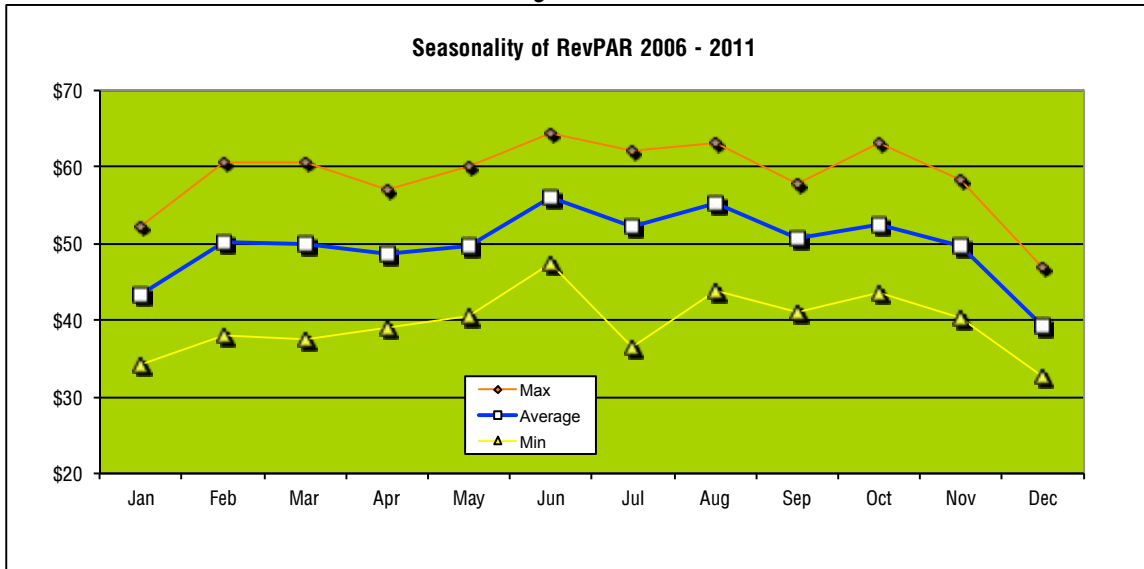
**Figure 4-14**



Average daily rate is generally consistent throughout the year, with a slight peak in August and November, on average.

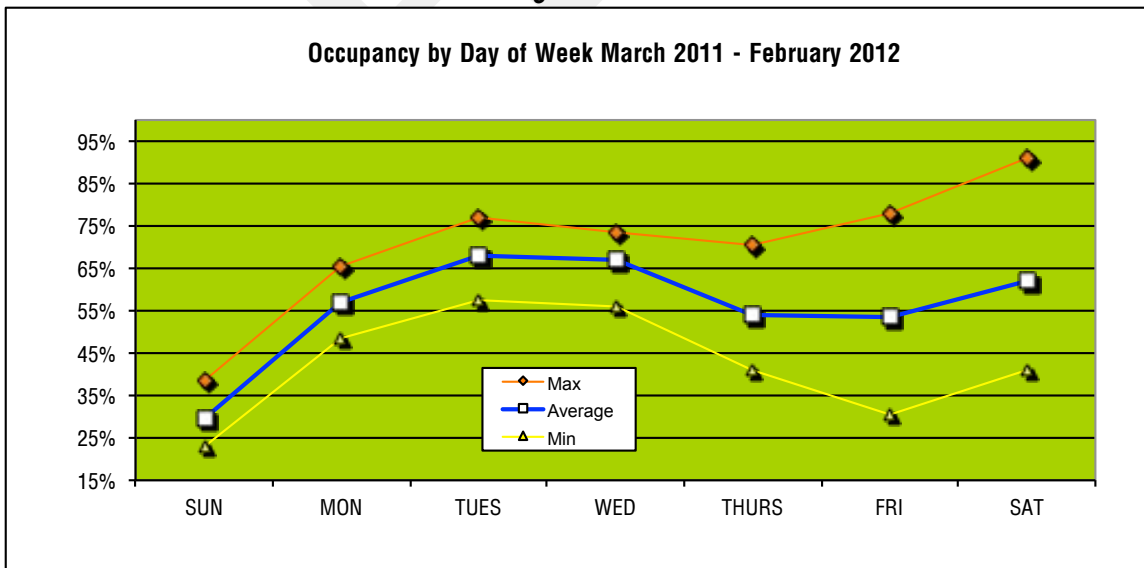
The following figure shows the seasonality of RevPAR, which is the product of rate and occupancy and suggests overall revenue.

**Figure 4-15**



The following figure shows occupancy by day of week during the last 12 months of data.

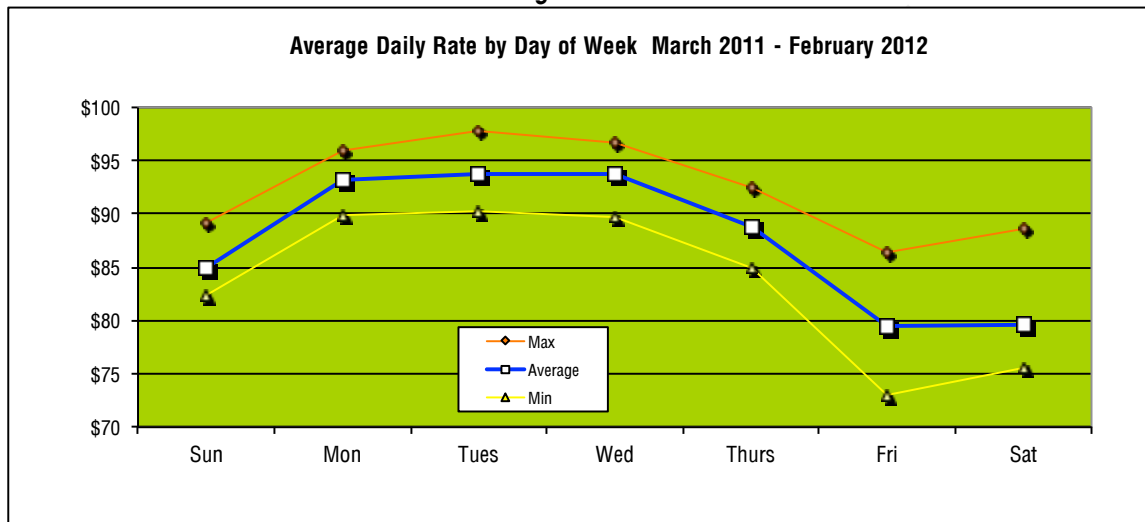
**Figure 4-16**



Occupancy is highest on Tuesday and Wednesday, suggesting the strength of the commercial market compared to other market segments, however it is also high on Saturday, likely an impact the Casino Aztar Hotel, which shows that leisure travel is strong. In certain months, occupancy has been as high as 90 percent on Saturday night.

The following figure shows average daily rate by day of week.

Figure 4-17



Rate is highest on Mondays, Tuesdays and Wednesdays and lowest during leisure weekend nights.

In the hotel demand and financial chapter, projections will be made for the recommendations as they relate to new or improved hotel product.

### Implications

While the local Evansville market has a number of attractive hotel properties, only the two casino hotels, Le Merigot and the Casino Aztar Hotel are located downtown. Because these properties primarily cater to their casino gamers, little effort is made to aggressively attract business to the downtown market. The more traditional, branded, hotel properties are all located outside of the downtown core, in close proximity to either the interstate, food and beverage nodes, areas of high corporate concentration or the airport.

The competitive market has slightly decreased in both demand revenue, per room, while unaccommodated demand has not exceeded 2,000 room nights since 2007. This indicates that the local hotel market has been able to sufficiently meet demand in recent years. Any new hotel will need to both pull market share from other hotels as well as induce new demand that previously was not occurring in Evansville. If the hotel is of high enough quality, it will pull customers seeking the highest quality in the market, especially if it is associated with a strong



brand family like Marriott or Hilton. If it provides its own function space and helps The Centre bring in new business, then it will induce new group demand to the market, which will also help the overall market.

DRAFT

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## REGIONAL COMPETITIVE ANALYSIS

In order to understand how Evansville and The Centre compare and compete with other local and regional meeting and event options, competitive convention markets and facilities were identified and analyzed. These competitors markets are divided into three sets, Indiana and Local Competitors (primary), Indiana Casinos (secondary) and Regional Center Competitors (tertiary) competitive sets. Competitive facilities are identified by type, which include both Indiana and non-Indiana convention centers and individual hotels and casinos.

These cities and venues were determined through an analysis of lost business reports, discussions with the Evansville CVB and the event planner survey conducted for this study.

### Competitive Market Overview

Evansville's location in southwestern Indiana places the community in a difficult competitive position for convention and meeting business. The primary target conventions are Indiana-based associations. Evansville's location away from the central population areas, as well as accessibility issues, make the market less desirable than other communities such as Indianapolis, Fort Wayne and others. Additionally, Evansville's location along the Ohio River and its close proximity to three regional centers; Louisville, Nashville and St. Louis, make competing for regional conventions extremely difficult.

Competitive markets are classified as follows:

- Indiana and Local Competitors
- Indiana Casino Competitors
- Regional, Non-Indiana Competitors

The Indiana and Local Competitors set includes Indiana convention markets (as well as Owensboro, Kentucky) that currently compete with Evansville for state associations and regional meetings. This set not only includes convention facilities, but also large hotels that contain adequate total function space and walkable hotel rooms, similar to what would be offered in Evansville by The Centre with a new hotel. The Indiana Casino Competitors set includes casino facilities with function space and attached hotels, and the Regional Competitors include large metropolitan areas within Evansville's region.

This section will provide a brief description of each competitive market, identify major convention-related elements and provide critical success factors for each market.

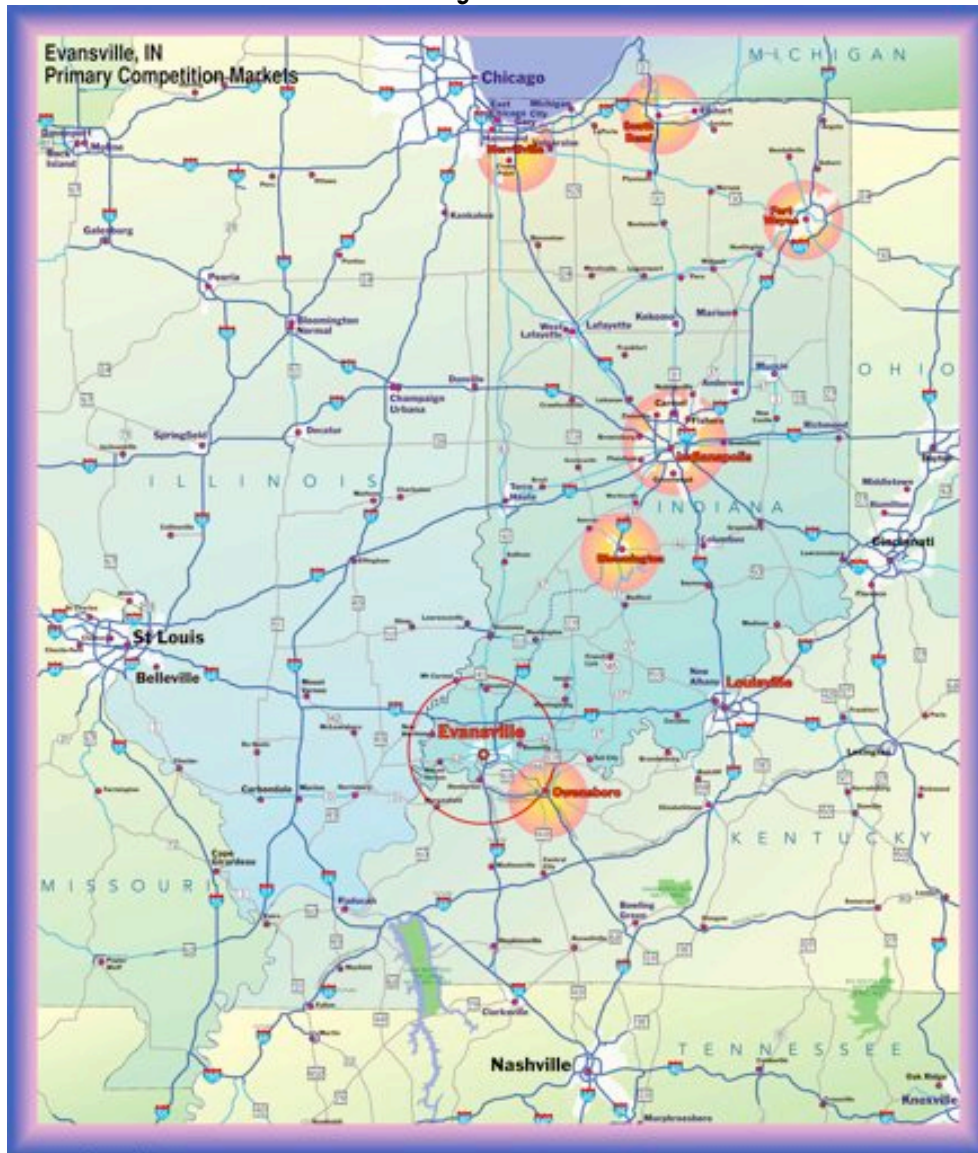
#### *Indiana and Local Competitors*

Evansville's primary competition will come from Indiana convention centers and large hotels with substantial meeting space. Since Evansville's primary market will be either state associations or

regional professional organizations, the following cities have been identified as the primary competitive set for The Centre and the proposed hotel.

The following map shows these competitors in relation to Evansville.

**Figure 5-1**



The following table shows the Indiana convention facilities that compete with Evansville for convention and meeting business.

**Table 5-1**

Competitive Environment - Indiana Convention Centers									
Facility	City	Total Function Space	Exhibit Space	Ballroom Space	Mtg. Room Space	Miscellaneous	Walkable Hotels	Walkable Rooms	Rooms Onsite
Indiana Convention Center	Indianapolis	903,534	721,500	66,923	115,111	--	19	5,881	4,450
Century Center	South Bend	82,771	53,124	12,012	17,035	50-seat Theatre	1	298	0
Grand Wayne Center	Fort Wayne	80,150	50,000	15,975	16,175	1,680 SF Gallery	2	495	495
Bloomington Convnetion Center	Bloomington	25,124	12,285	0	12,839	--	1	285	117
<b>Average</b>	--	<b>226,604</b>	<b>172,062</b>	<b>20,538</b>	<b>34,285</b>	--	<b>5</b>	<b>1,418</b>	<b>1,012</b>
<b>Non-ICC Average</b>	--	<b>57,372</b>	<b>34,702</b>	<b>8,942</b>	<b>14,078</b>	--	<b>1</b>	<b>303</b>	<b>153</b>
<b>The Centre</b>	<b>Evansville</b>	<b>63,496</b>	<b>38,000</b>	<b>13,400</b>	<b>12,096</b>	<b>2,500-seat Theatre</b>	<b>2</b>	<b>347</b>	<b>--</b>

Source: Hunden Strategic Partners

The Centre ranks fourth in this competitive set in terms of total function space with the Indianapolis Convention Center having the largest function space and most walkable rooms, significantly more than the competitors. The Centre has about 6,000 square feet more total function space than the average competitor, excluding the Indianapolis Convention Center, It also has around 3,300 square feet more exhibit space and 4,500 square feet more ballroom space than the average non-Indianapolis Convention Center facility. Meeting space at The Centre is 2,000 square feet less than the average non-Indianapolis Convention Center.

However, the lack of hotels onsite in Evansville is a competitive disadvantage. The competitors have either one large hotel or two smaller hotels providing nearly 300 rooms.

*Indianapolis, Indiana*

Indianapolis serves as the political, population and geographic center of Indiana. As the state’s capital and largest city, a significant number of state associations and other Indiana-based professional organizations are located in the Indianapolis metropolitan area. The city’s central location in the state and convenient access by the convergence of four interstate highways and its international airport, make Indianapolis an attractive meeting and convention destination. The Indianapolis downtown core consists of more than 5,500 hotel rooms within walking distance of the 903,000-square foot Indiana Convention Center. Additionally, these hotels contain substantial meeting space that allow individual hotels to host their own meetings and events.

*Fort Wayne, Indiana*

Fort Wayne is Indiana’s second largest city and serves as the regional hub of northeastern Indiana, northwest Ohio and far southwestern Michigan. This location provides the opportunity for the city to host a number of local state associations and regional professional organizations in need of meeting space. In recent years, the city has engaged in a redevelopment of its downtown core, centered on its convention center the recently-expanded Grand Wayne Convention Center (GWCC) with 50,000 square feet of exhibit space. The GWCC is attached to the 246-room Hilton and was recently connected, via skybridge, to the newly constructed 249-room Courtyard by Marriott convention hotel. Together, these two hotels provide nearly 500 connected hotel rooms

to the GWCC. Other downtown revitalization efforts include a new minor league baseball stadium, condos, parking decks and public spaces. The new convention hotel is a good example of a limited-service brand built with convention hotel amenities, like its own Starbucks, full-service restaurant/sports bar and 7,500 square feet of function space. Overall, Fort Wayne's hotel and convention options, downtown amenities and accessibility make it a comparable and very competitive city to Evansville.

### *Bloomington, Indiana*

The Bloomington Monroe County Convention Center is a facility that has been converted from an historic automotive building. Currently, only one hotel is within walking distance of the facility, the attached 117-room Courtyard by Marriott. There is also a larger Hilton Garden Inn several blocks away. However, administrators of the facility are in the pre-development stages of a potential expansion of the facility as well as the development of a new 150 to 250-room convention hotel adjacent to the meeting facilities.

The facility is located in close proximity to downtown Bloomington, which is heavily influenced by the presence of Indiana University. Downtown contains a number of unique restaurants, shops and entertainment options and is one of the most vibrant downtowns in the state, which makes hosting an event there attractive for planners and attendees. Bloomington is easily accessible from Indianapolis via IN-37, and outside of Evansville, is one of the largest southern Indiana communities with a dedicated convention center. Due to both of these facts, Bloomington is somewhat successful in attracting state association groups that have a rotating schedule. These groups will select Bloomington when the rotation mandates a southern Indiana convention host city.

Its challenges include a facility that is non-traditional and small, which makes hosting many events difficult. There is no actual exhibit space in the building, but instead a large and oddly-shaped multi-purpose room/ballroom. In addition, the lack of hotels downtown makes hosting a large event difficult.

### *Merrillville, Indiana*

Merrillville is a unique convention market due to the lack of one large convention facility. Instead, a number of hotels have developed their own meeting space and take advantage of the high level of traffic along Interstate 65 that connects Chicago to Indianapolis. Merrillville is an attractive meeting location for organizations that have a majority of their members that reside in the highly populated northwest Indiana and southern Chicago suburbs. Currently, the largest meeting facility is the Radisson Star Plaza hotel, with 63,000 square feet of meeting space. Merrillville is also unique in that there is minimal walkability between hotels and the Star Plaza. Typically, meetings and conventions held in the city are self-contained within one or two closely-linked hotels. However, in Merrillville, there are approximately a dozen hotels located immediately around the I-65 and Route 30 interchange, creating a large hotel block for large events. There are also dozens of restaurants, a large regional mall and numerous other strip malls in the area. While not an urban setting, it does meet the needs of many conferences due to its accessibility and location amongst a large population base.

### South Bend, Indiana

South Bend's convention market is centered on the Century Center and its 82,000 square feet of total function space, about 25,000 square feet of which is traditional exhibit space. The Century Center is attached to the 298-room DoubleTree (formerly a Marriott), the only hotel within walkable distance from the facility. The facility is also home to the South Bend Museum of Art and is connected to the College Football Hall of Fame via an underground tunnel. Although South Bend is home to the University of Notre Dame, the facility's downtown location is several miles from campus and does not benefit from the increased activity traditionally found in close proximity to college campuses, such as Bloomington. As a convention market, South Bend traditionally competes with Fort Wayne and Merrillville for state associations and regional meetings in northern Indiana and Southern Michigan. In terms of accessibility, South Bend is centrally located in northern Indiana and is accessible via a regional airport, Interstate 80/90, US 31 (running to Indianapolis) and the South Shore Line, a commuter rail line which connects South Bend with other northern Indiana communities and Chicago.

The hotel situation in South Bend is not optimal, although it does benefit from the 300-room Doubletree. However, the hotel has been downgraded over time as it was previously a Marriott. This suggests that business is not strong enough to generate the reinvestment needed for the hotel to maintain a better flag. The convention center is managed by Global Spectrum, which took over from public management several years ago. This has boosted performance at the Center.

### Owensboro, Kentucky

Owensboro is in the process of completing a nearly 90,000-square foot convention facility (43,000 square feet of exhibit space), attached to a 150-room Hampton Inn as a part of the city's efforts to revitalize its Ohio River waterfront. The convention center will offer meeting space that was previously provided by the now demolished Executive Inn. An additional 120-room Holiday Inn development was recently announced which will increase the total walkable hotel rooms from the convention center to 270. The Owensboro convention center will serve as the largest meeting facility in western Kentucky and is expected to attract state associations and regional professional organizations from the surrounding tri-state area of northern Kentucky, southwestern Indiana and eastern Missouri. All three projects are still in the development stage, with the Hampton Inn expected to open in 2013 while the convention center and Holiday Inn are slated to open in 2014.

While Owensboro is a smaller community and potentially less attractive to planners, it will provide a state of the art convention and event facility as well as a 150-room hotel onsite that will provide some competition for Evansville, especially in the local region.

### *Indiana Casino Competitors*

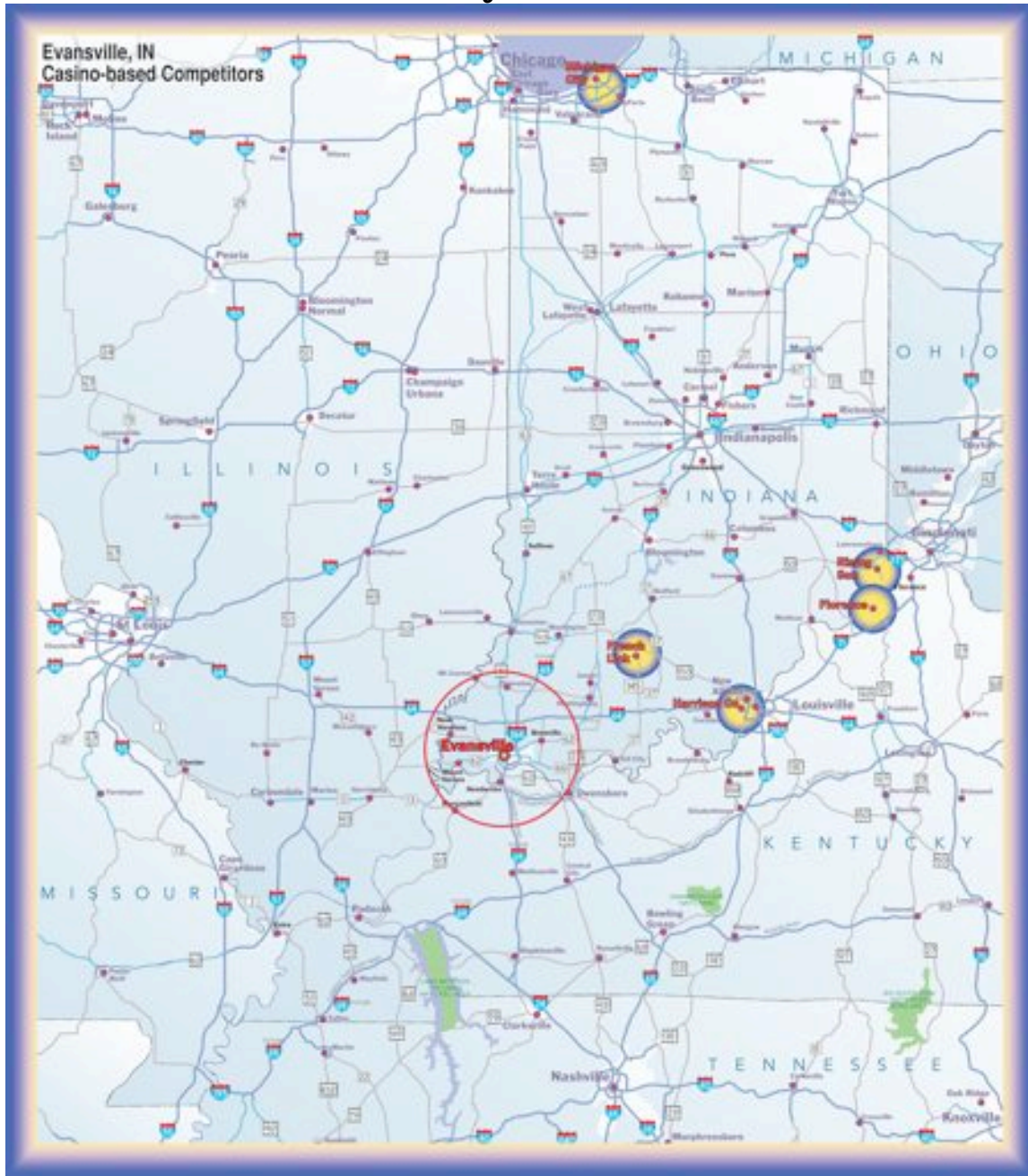
Indiana is home to a number of casinos that, in addition to gaming operations, have developed function spaces and hotes accommodations. Although not traditionally active in pursuing

conventions and other meeting events, these casino complexes possess the adequate function space and guest rooms to be competitive with Evansville. This is especially true during times of declining gaming revenue, when casinos become much more aggressive in their pursuit of these events as a means to provide supplemental income to offset the loss of gaming revenue.

The following map shows these competitors in relation to Evansville.



Figure 5-2



The following table shows the detail associated with the casino hotels and their function space.

**Table 5-2**

Competitive Environment - Indiana Casino Complexes									
Facility	City	Total Function Space	Exhibit Space	Ballroom Space	Mtg. Room Space	Miscellaneous	Walkable Hotels	Walkable Rooms	Rooms Onsite
French Lick Resort	French Lick	63,534	31,624	19,479	12,431	--	--	--	443
West Baden Springs	West Baden	45,352	0	34,834	10,518	--	--	--	246
Belterra Casino	Florence	34,859	12,600	9,360	12,899	--	--	--	608
Blue Chip	Michigan City	27,694	14,900	8,004	4,790	--	--	--	486
Aztar	Evansville	14,540	0	0	14,540	--	--	--	347
Rising Sun	Rising Sun	12,336	0	0	336	1,100-seat Theatre	--	--	201
<b>Average</b>	--	<b>33,053</b>	<b>9,854</b>	<b>11,946</b>	<b>9,252</b>	--	--	--	<b>389</b>
<b>The Centre</b>	<b>Evansville</b>	<b>63,496</b>	<b>38,000</b>	<b>13,400</b>	<b>12,096</b>	<b>2,500-seat Theatre</b>	<b>2</b>	<b>347</b>	<b>--</b>

Source: Hunden Strategic Partners

As shown, the closest casino to Evansville (beyond the Aztar located downtown) is the French Lick Resort and nearby West Baden Springs. Together, these hotels and casino offer a significant amount of function space and hotel rooms (689 total rooms). Except for Rising Sun, all of these casinos offer competitive room and function space packages to that found in Evansville.

Michigan City, Indiana

Michigan City is home to the Blue Chip Casino. The casino complex includes nearly 28,000 square feet of total function space and a 486-room hotel. The casino complex is located in close proximity to Lake Michigan, a major outlet mall and the Indiana Dunes National Lakeshore. These natural attractions, along with the casino’s gaming options, attract a number of state associations and regional events from both Indiana and southwest Michigan. Michigan City is accessible via Interstate 94 and the South Shore Line that connects the city with other northern Indiana communities and Chicago. The “Blu” hotel tower and the majority of function space were added in 2009 and makes the facility a true competitor for statewide functions.

French Lick, Indiana

French Lick and nearby West Baden Springs, are home to two convention facilities, the French Lick Resort and the West Baden Springs Hotel. Although the two facilities are located less than two miles from one another, they compete independently for conventions and other meeting groups. The French Lick Resort primarily operates as a casino, but does contain 63,500 square feet of total function space that is attached to a 443-room hotel that serves both convention attendees and casino tenants. The West Baden Springs Hotel contains 45,300 square feet of total function space that is contained within a 246-room hotel. Both facilities are located in a relatively isolated part of Southern Indiana and therefore accessibility can be a limiting factor for both complexes. However, the casino in the French Lick Resort and the historical nature of the West Baden Springs Hotel, both for its structural significance and ties to early 20<sup>th</sup> century organized crime and luxurious reputation, are unique factors that attract state associations and several regional professional organizations annually.

### *Florence, Indiana*

Florence is home to the Bellterra Casino, a gaming complex that also includes 35,000 square feet of total function space and a 608-room casino. Florence is located in southern Indiana along the Ohio River and is a relatively isolated community that can only be accessed via IN-156. Due to this relative isolation, the Bellterra typically does not attract a large number of conventions and events and primarily relies on its casino operation. However, the facility is capable of hosting these events and has demonstrated the ability to attract conventions and events from both southern Indiana and northern Kentucky.

### *Rising Sun, Indiana*

Rising Sun is the home of the Rising Star Casino. Similar to Florence, Rising Sun is located along the Ohio River, on the border with Kentucky, in a relatively isolated location. The casino complex contains 12,000 square feet of total function space that is attached to a 201-room hotel. Like the Bellterra Casino, the Rising Star primarily focuses on gaming operations, yet does attract several state associations and regional meetings from southeastern Indiana, northern Kentucky and southwestern Ohio.

### *Regional Competitors*

Evansville is centrally located between four metropolitan areas with substantial convention facilities. In addition to Indianapolis, three additional cities, Nashville, Louisville and St. Louis, all compete for regional and national events, most of which are too large for Evansville to host. As a result, these communities are not direct competitors with Evansville as each market has far greater total function space, many more walkable hotel rooms and more attractive downtown and entertainment districts. However, it shows that in order to be competitive, Evansville will need to provide meeting, hotel and entertainment facilities at a competitive quality level, even if on a smaller scale. The Ford Center and The Centre are good quality facilities that compete well, however the lack of a quality hotel package hurts Evansville.

The following map shows these competitors in relation to Evansville.

Figure 5-3



The table below shows the statistics for the regional competitors.

**Table 5-3**

Competitive Environment - Regional (Non-Indiana) Convention Centers									
Facility	City	Total Function Space	Exhibit Space	Ballroom Space	Mtg. Room Space	Miscellaneous	Walkable Hotels	Walkable Rooms	Rooms Onsite
Kentucky Expo Center	Louisville, KY	1,142,421	959,618	0	104,803	Athletic Complex**	7	1,424	n/a
America's Center	St. Louis, MO	675,448	503,000	28,416	144,032	--	11	4,522	1,073
Kentucky International Convention Center	Louisville, KY	291,512	191,000	30,160	70,352	--	11	3,405	616
Music City Center*	Nashville, TN	519,943	353,143	75,400	91,400	--	13	4,074	1,000
Owensboro Convention & Event Center*	Owensboro, KY	89,851	42,980	46,871	91,400	--	2	270	150
<b>Average</b>	--	<b>543,835</b>	<b>409,948</b>	<b>36,169</b>	<b>100,397</b>	--	<b>9</b>	<b>2,739</b>	--
<b>The Centre</b>	<b>Evansville</b>	<b>63,496</b>	<b>38,000</b>	<b>13,400</b>	<b>12,096</b>	<b>2,500-seat Theatre</b>	<b>2</b>	<b>347</b>	--

\* Under Construction  
 \*\* 78,000 SF Arena, Coliseum & Stadium  
 Source: Hunden Strategic Partners

As shown, other than Owensboro, the regional competitors offer much more space, many more walkable hotels (nine on average), more walkable rooms (2,739 on average) and have at least 150 rooms onsite. The Kentucky Expo Center actually has most of its 1,424 rooms within the complex, but they are not connected but would be considered to be onsite by many.

Nashville, Tennessee

Nashville is in the process of developing a new convention center with more than 350,000 square feet of exhibit space, called the Music City Center and an attached 1,000-room Omni hotel. This new convention center will more than double the meeting space of the existing Nashville Convention Center and will greatly improve the city's marketability to event planners, especially for national conventions and meetings. With the addition of the Omni, a total of 4,000 hotel rooms will be walkable from the new facility. A number of restaurants and entertainment, most notably live music establishments, in close proximity within the downtown core make Nashville a unique market for conventioners. As a convention market, Nashville serves as the regional center as well as the state capital, which makes it an attractive market for both state associations and regional professional organizations. As a major metropolitan area, Nashville is easily accessible by an international airport and the convergence of three interstate highways.

In addition to the convention center complex being developed, the Opryland Resort and Convention Center in suburban Nashville is just as much a competitor regionally (and nationally) for events. It features 2,800 rooms and hundreds of thousands of square feet of exhibit, ballroom and meeting space, all within a complex providing multiple dining options and shopping.

Louisville, Kentucky

Louisville consists of two distinctly different areas of convention activity. Downtown, the Kentucky International Convention Center (KICC) contains nearly 300,000 square feet of total function space. The facility is located within walkable distance of 3,400 hotel rooms as well as a number of restaurant and entertainment districts, which include 4<sup>th</sup> Street Live! and the YUM! Center. Several miles from the KICC is the Kentucky Exposition Center (KEC), a 1.1 million

square foot facility that contains 960,000 square feet of exhibition space. The KEC is located within one half mile from 1,400 hotel rooms, highlighted by the 588-room Crowne Plaza. The KEC is much more isolated when compared to the KICC in that there are minimal restaurant options surrounding both the meeting facility and surrounding hotels, however it is directly adjacent to the airport. As another regional center, Louisville attracts state conventions from Kentucky as well as those from southern Indiana. The market is served by an international airport and has access to three interstate highways.

*St. Louis, Missouri*

St. Louis has long been established as one of the most attractive convention markets in the United States. The City's convention center, the America's Center, contains 500,000 square feet of total function space. America's Center is a multi-venue complex that consists of the Cervantes Convention Center, the Edward Jones Dome, the St. Louis Executive Conference Center and the Ferrara Theatre. A total of 4,500 walkable hotels surround the complex, highlighted by the 1,000-room Renaissance St. Louis. In addition to these hotels, the complex is situated in very close proximity to a number of restaurants and entertainment options. Like both Indianapolis and Nashville, St. Louis' position as a regional center makes it an attractive convention facility for state, regional and national conventions and meetings. Convenient access is provided by an international airport and access to three interstate highways.

*Indiana Casino Complexes*

The following table shows the Indiana casino complexes facilities that compete with Evansville for convention and meeting business.

**Table 5-4**

Competitive Environment - Indiana Casino Complexes							
Facility	City	Total Function Space	Exhibit Space	Ballroom Space	Mtg. Room Space	Miscellaneous	Rooms Onsite
French Lick Resort	French Lick	63,534	31,624	19,479	12,431	--	443
West Baden Springs	West Baden	45,352	0	34,834	10,518	--	246
Beltterra Casino	Florence	34,859	12,600	9,360	12,899	--	608
Blue Chip	Michigan City	27,694	14,900	8,004	4,790	--	486
Aztar	Evansville	14,540	0	0	14,540	--	250
Rising Star	Rising Sun	12,336	0	0	336	1,100-seat Theatre	201
<b>Average</b>	--	<b>33,053</b>	<b>9,854</b>	<b>11,946</b>	<b>9,252</b>	--	<b>372</b>
<b>The Centre</b>	<b>Evansville</b>	<b>63,496</b>	<b>38,000</b>	<b>13,400</b>	<b>12,096</b>	<b>2,500-seat Theatre</b>	--

Source: Hunden Strategic Partners

In this comparison, French Lick offers the most total function space. Evansville ranks second in this competitive set in terms of total function space and first with the most exhibit space. In terms of ballroom space, Evansville ranks third, while two facilities do not offer any ballroom

space. Evansville offers more meeting room space than average, but is fourth in amount of total meeting room space. While The Centre at Evansville does not have onsite hotel rooms, it has 327 that are considered walkable rooms, only slightly less than the average onsite rooms for this competitive set.

### *Indiana Hotels*

The following table shows the individual Indiana hotels that compete with Evansville for convention and meeting business.

**Table 5-5**

Competitive Environment - Indiana Hotels							
Facility	City	Total Function Space	Exhibit Space	Ballroom Space	Mtg. Room Space	Miscellaneous	Rooms Onsite
JW Marriott	Indianapolis	102,755	18,500	61,100	23,155	--	1,005
Radisson Star Plaza	Merrillville	63,125	0	22,785	3,340	3,400-seat Theatre	374
Marriott Hotel	Indianapolis	38,734	0	29,328	9,406	--	622
Westin	Indianapolis	32,940	0	23,700	9,240	--	573
Crowne Plaza Union Station	Indianapolis	30,484	0	10,548	19,936	--	273
Sheraton	Indianapolis	27,490	0	9,389	18,101	--	378
Hyatt Regency	Indianapolis	27,440	0	17,634	9,806	--	499
Embassy Suites	Indianapolis	26,193	8,700	0	17,493	--	360
Alexander Dolce	Indianapolis	10,276	0	3,520	6,756	--	209
Omni Severin Hotel	Indianapolis	15,628	0	7,914	7,714	--	424
<b>Average</b>	--	<b>37,507</b>	<b>2,720</b>	<b>18,592</b>	<b>12,495</b>	--	<b>472</b>
<b>Non-JW Average</b>	--	<b>30,257</b>	<b>967</b>	<b>13,869</b>	<b>11,310</b>	--	<b>412</b>
<b>The Centre</b>	<b>Evansville</b>	<b>63,496</b>	<b>38,000</b>	<b>13,400</b>	<b>12,096</b>	<b>2,500-seat Theatre</b>	--

Source: Hunden Strategic Partners

The 1,005-room JW Marriott hotel in Indianapolis is the largest in the state and has the most function space in this competitive set and is an outlier due to its large function space size compared to the remainder of the hotels. The only non-Indianapolis hotel is the Radisson Star Plaza in Merrillville. For the remainder, the hotels have an advantage due to their central location in the state and the number of hotel rooms combined with function space in one facility.

### *Regional (Non-Indiana) Hotels*

The following table shows the individual regional, non-Indiana hotels that compete with Evansville for convention and meeting business.

**Table 5-6**

<b>Competitive Environment - Regional (Non-Indiana) Hotels</b>							
<b>Facility</b>	<b>City</b>	<b>Total Function Space</b>	<b>Exhibit Space</b>	<b>Ballroom Space</b>	<b>Mtg. Room Space</b>	<b>Miscellaneous</b>	<b>Rooms Onsite</b>
Gaylord Opryland Resort	Nashville, TN	641,415	439,718	126,845	74,852		2,881
Renaissance (includes current conv. Ctr. )	Nashville, TN	185,142	121,500	49,710	13,932	--	673
Union Station Marriott	St. Louis, MO	142,000	10,484	49,613	10,318	--	539
Galt House	Louisville, KY	141,571	13,133	59,150	69,288	--	1,291
Millennium Hotel	St. Louis, MO	100,182	23,350	48,798	28,034	--	780
Nashville Omni*	Nashville, TN	80,000	0	60,000	20,000	--	1,000
Louisville Marriott	Louisville, KY	64,539	0	40,656	23,883	--	616
Hilton Hotel @ the Ballpark	St. Louis, MO	62,762	0	24,261	38,501	--	670
Renaissance/Renaissance Grand	St. Louis, MO	61,695	0	35,923	25,772	--	917
Hyatt Regency @ the Arch	St. Louis, MO	56,996	0	37,000	19,996	--	910
Crowne Plaza @ Kentucky Expo Center	Louisville, KY	54,599	6,318	28,400	19,881	--	588
Sheraton Downtown	Nashville, TN	32,130	0	19,010	11,388	1,732 SF Terrace	474
Hilton Seelbach	Louisville, KY	27,352	0	21,178	6,174	--	321
Loews Vanderbilt	Nashville, TN	26,905	0	16,884	10,021	--	340
Hyatt Louisville Downtown	Louisville, KY	21,463	0	9,280	10,948	100-seat Theatre	393
<b>Average</b>	--	<b>113,250</b>	<b>40,967</b>	<b>41,781</b>	<b>25,533</b>	--	<b>826</b>
<b>The Centre</b>	<b>Evansville</b>	<b>63,496</b>	<b>38,000</b>	<b>13,400</b>	<b>12,096</b>	<b>2,500-seat Theatre</b>	--

\*Opening 2014  
Source: Hunden Strategic Partners

The Gaylord Opryland in Nashville, Tennessee has the largest function space in this competitive set while four other facilities offer total function space of more than 100,000 square feet. Evansville has the second largest exhibit space in this competitive set, but ranks second to last in terms of total ballroom space. Evansville also has less meeting room space than average for this competitive set.

## Implications

As this chapter has demonstrated, Evansville is in competition with not only convention centers, but also individual hotels and casinos complexes. These facilities, both within Indiana and those in the region, have developed convention packages that are comparable to The Centre in terms of total function space yet nearly all competitors outpace Evansville in terms of both walkable and onsite hotel rooms.

Indianapolis, with both the Indiana Convention Center and individual hotels with substantial meeting space, is directly competitive with Evansville for Indiana-based events. Indianapolis' central location, convenient accessibility and strong convention package are attractive options for Indiana meeting planners. In the event that these conventions and meetings rotate throughout the state, a number of other Indiana cities have developed strong convention packages that currently outpace Evansville's. Regionally, Evansville is at a significant disadvantage due to its close proximity to several major metropolitan areas with strong convention packages to attract regional and national events.



The development of an attached hotel property will increase Evansville's viability in the local convention market, but the number of walkable hotel rooms must continue to increase in order to enhance the market's convention package to remain competitive.

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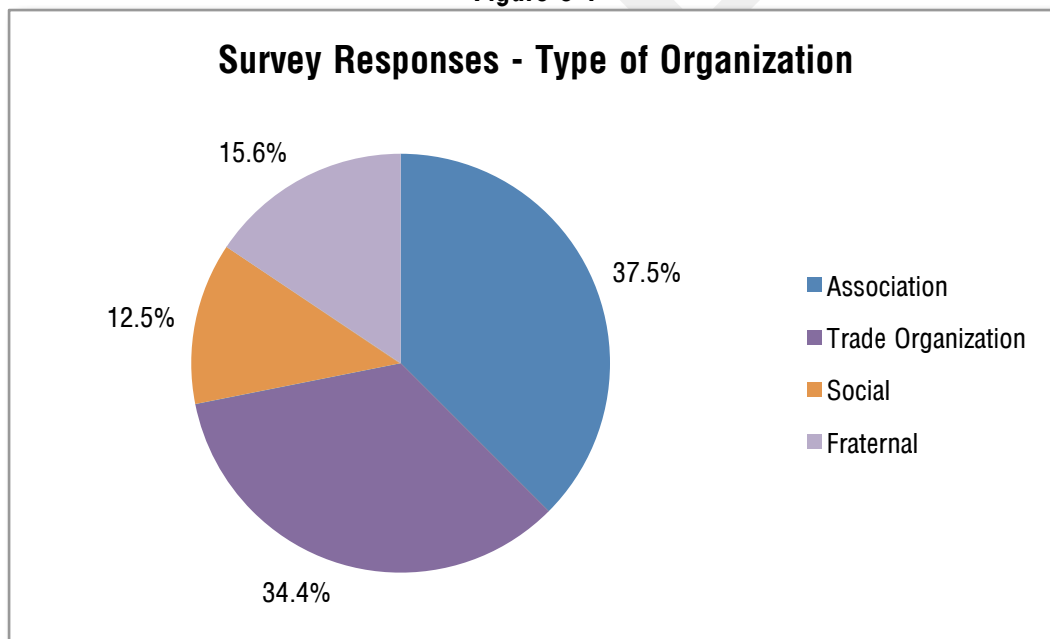
## MEETING PLANNER SURVEY

Hunden Strategic Partners conducted a meeting planner survey and sent it to more than 300 planners throughout the state of Indiana and beyond. The Evansville CVB provided these names and contact information due to its large database of local and regional market planners. The CVB developed this database through a range of data collection and interaction with these individuals. As a result, the HSP team felt these planners would provide the best representation of the needs and wants of the local meeting planner market.

While the results are not scientific, they do provide insight into meeting planner thoughts about Evansville and its competition. The results are presented below.

The following figure shows survey responses by type of organization.

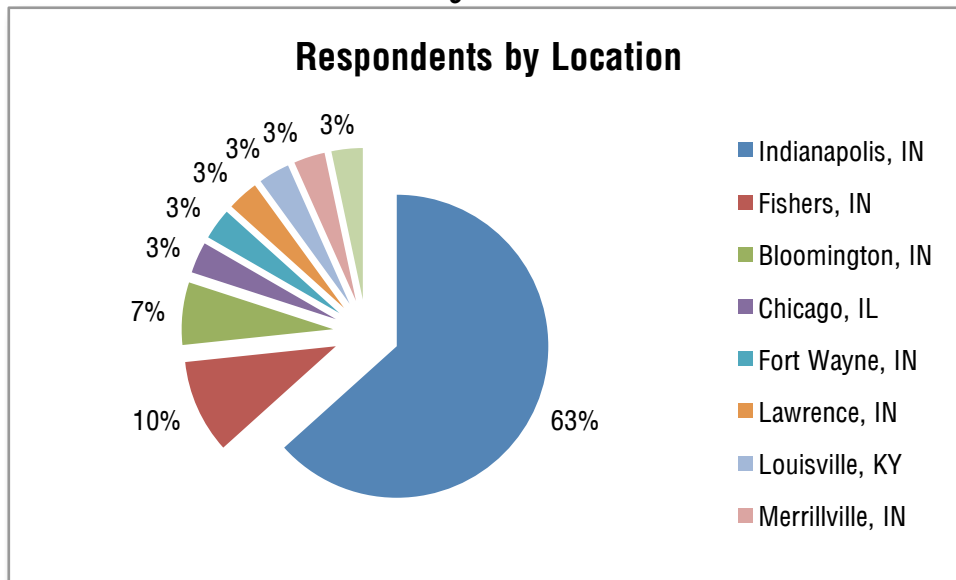
Figure 6-1



As shown, associations accounted for 37.5 percent of total respondents, followed closely by trade organizations with 34.4 percent. Fraternal organizations accounted for 15.6 percent and social organization responses made up 12.5 percent of the survey. These four organization types accounted for all responses. Other organization types that did not participate in the survey include government agencies, private corporations, military, educational and sports/athletic groups.

The table below shows where the respondent's organizations are based.

Figure 6-2



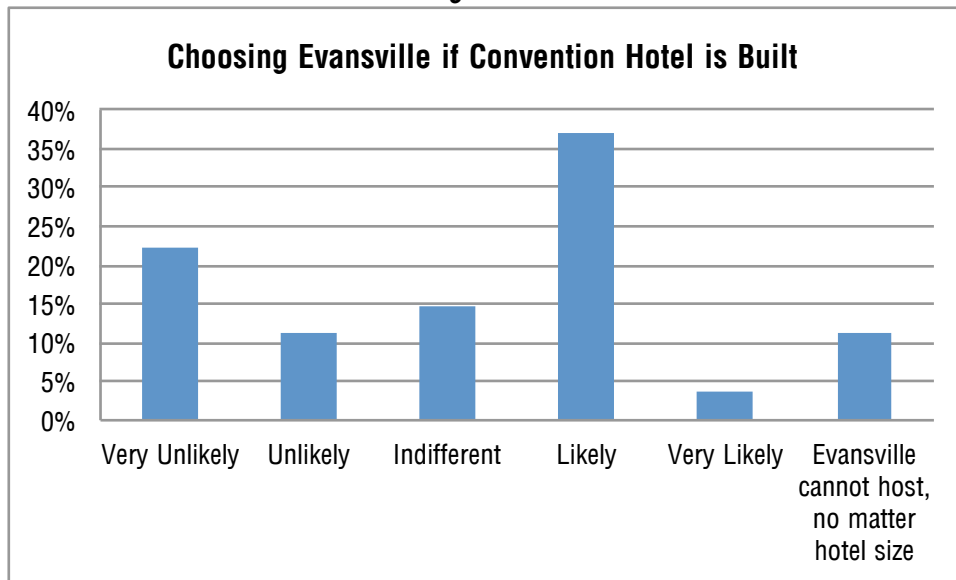
As the table shows, more than 60 percent of all respondents are based in Indianapolis. Fishers (an Indianapolis suburb) accounted for the next highest percentage of responses, ten percent, while Bloomington responses accounted for seven percent. The remaining responses all accounted for three percent of the survey. As the figure indicates, the vast majority of these responses are Indiana-based. This is expected due to the number of state associations and trade organization respondents that completed the survey.

After understanding the organization types and locations of the participating organizations, the following questions dealt with the likelihood that these organizations would use Evansville as a host city based on two factors, the construction of a new Convention Hotel and the completion of the I-69 extension to Evansville.

The following figure shows the results of the following question:

***“If a convention hotel were constructed in downtown Evansville, adjacent to the Ford Center and The Centre, what is the likelihood of your organization to choose Evansville for any of your events?”***

Figure 6-3

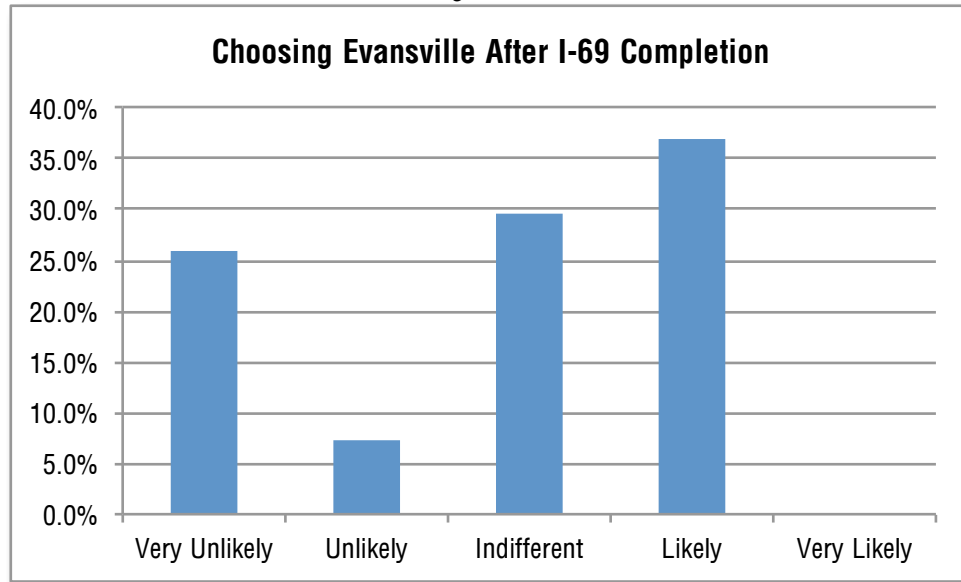


As shown, the figure indicates that approximately 40 percent of respondents would “likely” or “very likely” choose Evansville if a convention hotel was built adjacent to The Centre and the Ford Center. However, respondents that are “indifferent”, “unlikely” or “very unlikely” account for nearly half of all respondents, 48 percent, when combined. Approximately 13 percent of respondents indicate that Evansville is not capable of hosting their events, regardless of whether a hotel is built.

The following figure shows the results of the following question:

***“Will the completion of the I-69 extension to Evansville make you more likely to choose Evansville?”***

Figure 6-4



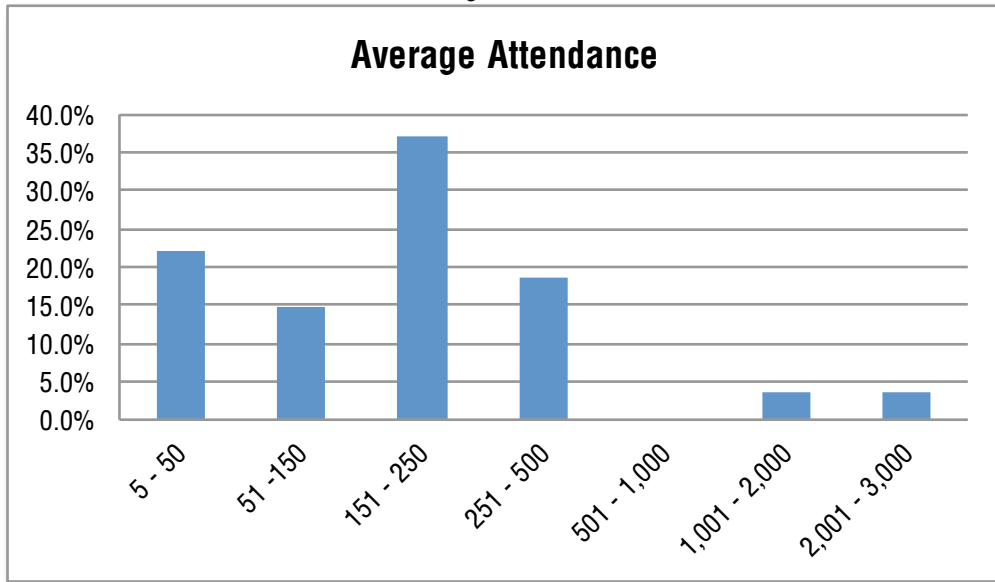
As shown, more than 35 percent of respondents indicated that they are “likely” to choose Evansville after the completion of I-69. The remaining 65 percent however, are “indifferent”, “unlikely” or “very unlikely” to choose Evansville.

The following figures show the results of the following question:

***“Of your organization’s events that could be held in Evansville (given the existing facilities and a new full-service hotel), please provide information regarding the following characteristics.”***

The following table shows average attendance by events planned by the respondents.

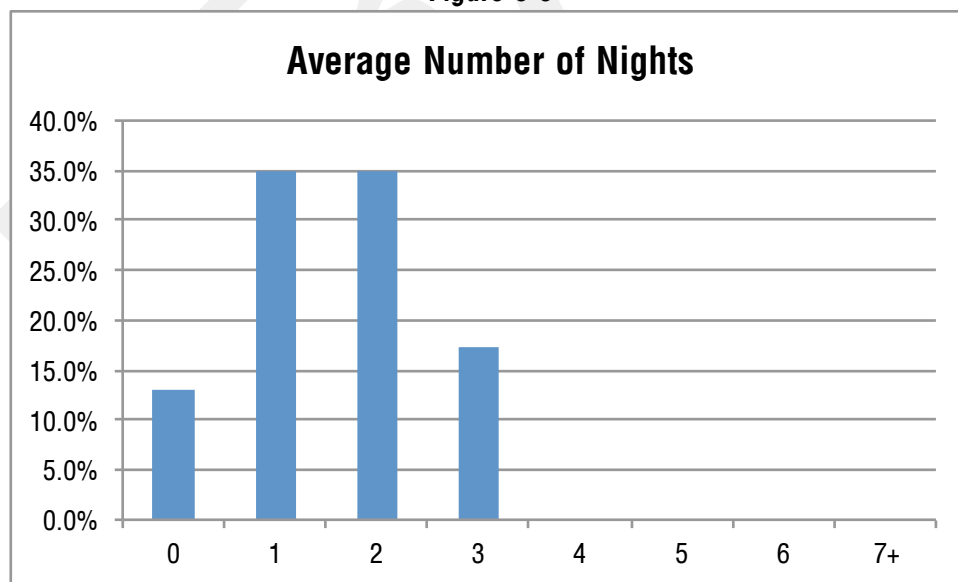
Figure 6-5



As shown, approximately 37 percent of respondents indicated that their events attract between 151 and 250 attendees. Combined, events with 500 or less attendees accounted for 93 percent of all responses.

The following figure shows the average number of nights needed for each event.

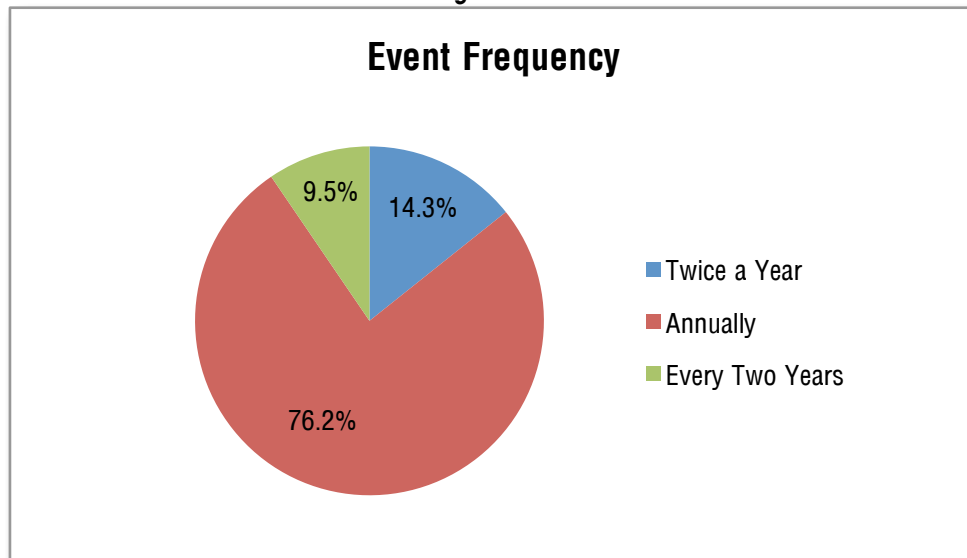
Figure 6-6



As shown, 35 percent of events account for an average of one or two nights, while approximately 17 percent of these events average three nights. Approximately 12 percent of the respondent's events do not last longer than one day.

The following figure shows the meeting frequency of each event.

Figure 6-7



Of all responses, more than 76 percent of all events are held annually, while 14 percent are held twice per year and nearly ten percent of events are held every two years.

### Meeting Space Requirements

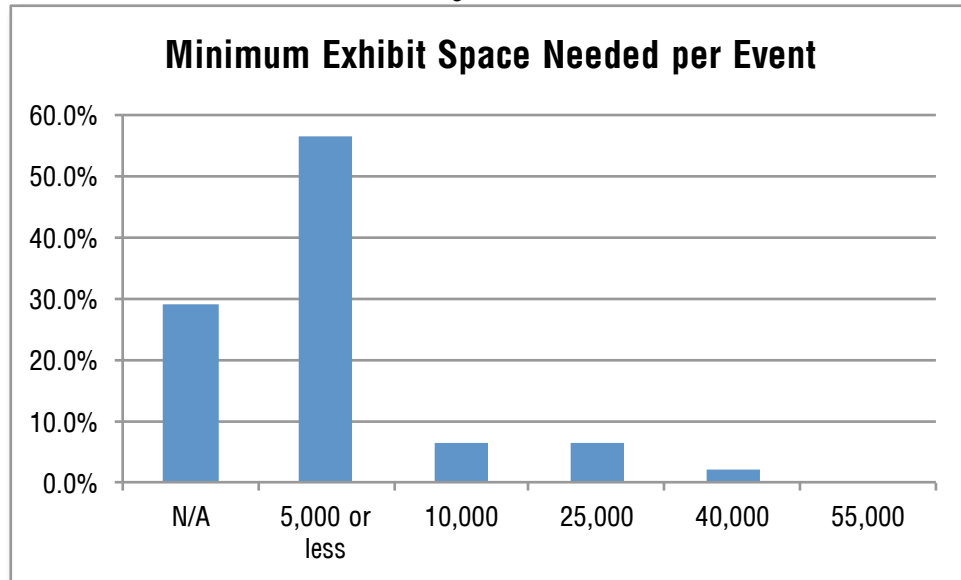
The following figures show the results of the following question:

***“Please identify the MINIMUM amount of each meeting space required for your events”***

The following figure shows the minimum exhibit space required for the each event.



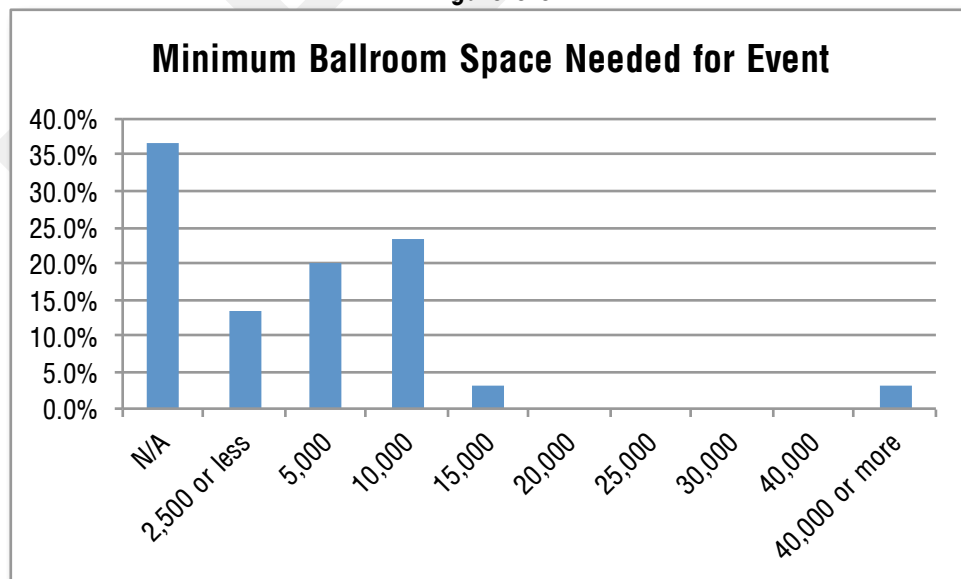
Figure 6-8



As shown, approximately 55 percent of respondents require 5,000 square feet or less of exhibit space, while nearly 30 percent of respondents do not require any exhibit space. Approximately six percent require both 10,000 and 25,000 square feet. Two percent require at least 40,000 square feet of exhibit space. Since associations do not usually have trade shows associated with their meetings, this is not a surprising result.

The following figure shows the responses related to ballroom needs.

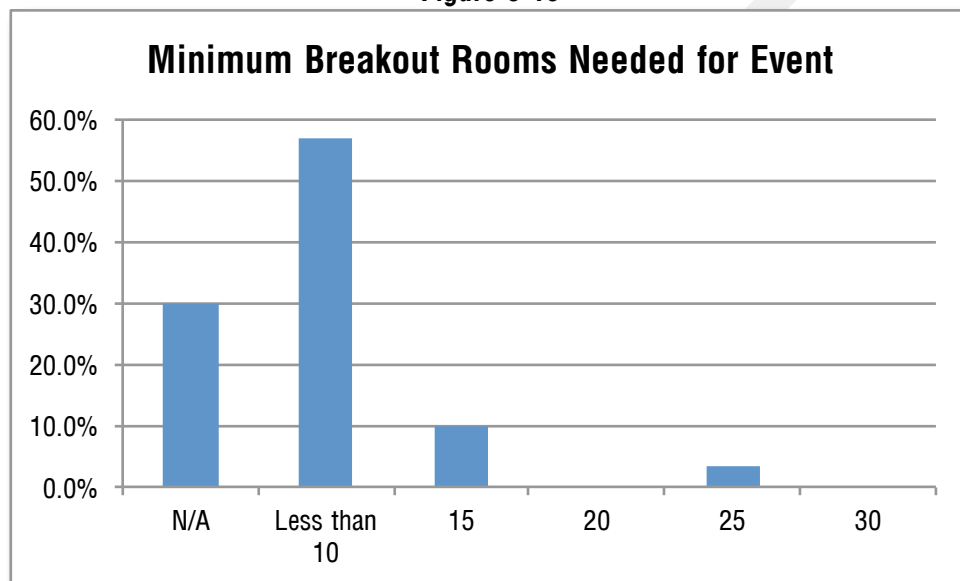
Figure 6-9



While 35 percent of respondents indicate that they do not require ballroom space, more than 20 percent indicated that they needed at least 10,000 square feet. 20 percent require 5,000 square feet and 12 percent need a minimum of 2,500 square feet or less. Less than five percent require at least 15,000 square feet, while the same percentage indicate the need for 40,000 square feet or more.

The following figure shows the results regarding the minimum number of breakout rooms needed.

Figure 6-10



In terms of minimum breakout rooms, nearly 60 percent of respondents indicated that they needed 10 or less. Ten percent require at least 15, while less than five percent require a minimum of 25.

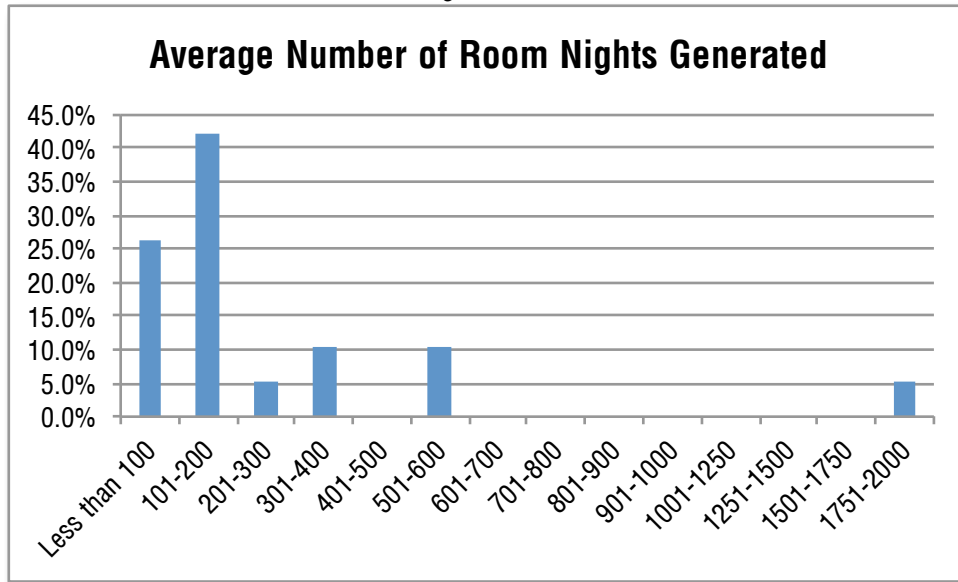
### Hotel Requirements

The following figures show the results of the following question:

***“Please identify the hotel room requirements for your events”***

The following figure shows room nights generated per event.

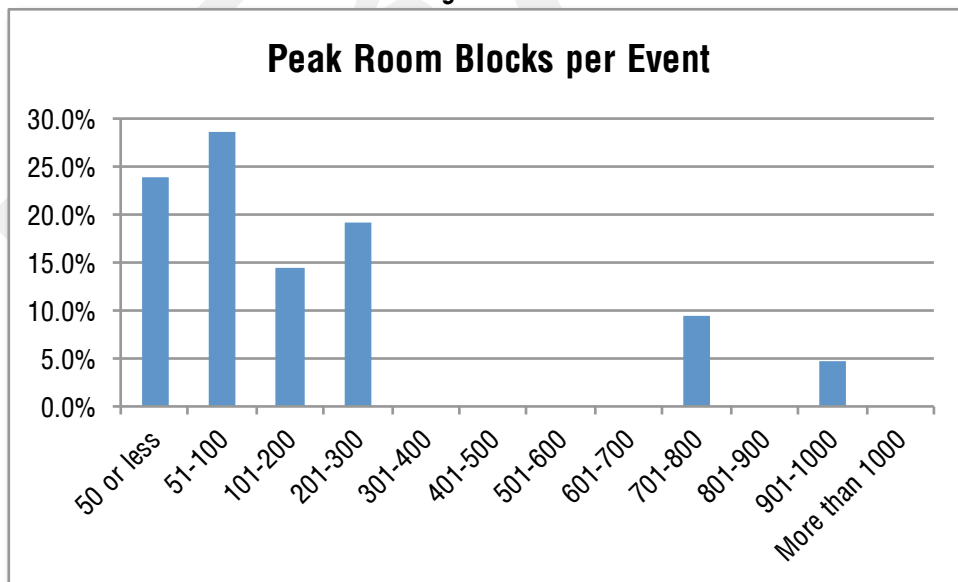
Figure 6-11



As shown, more than 40 percent of respondents indicated that their events generate between 101 and 200 room nights in the host city. Slightly more than 25 percent of these events generate less than 100 room nights.

The following figure shows the peak room blocks needed per event.

Figure 6-12

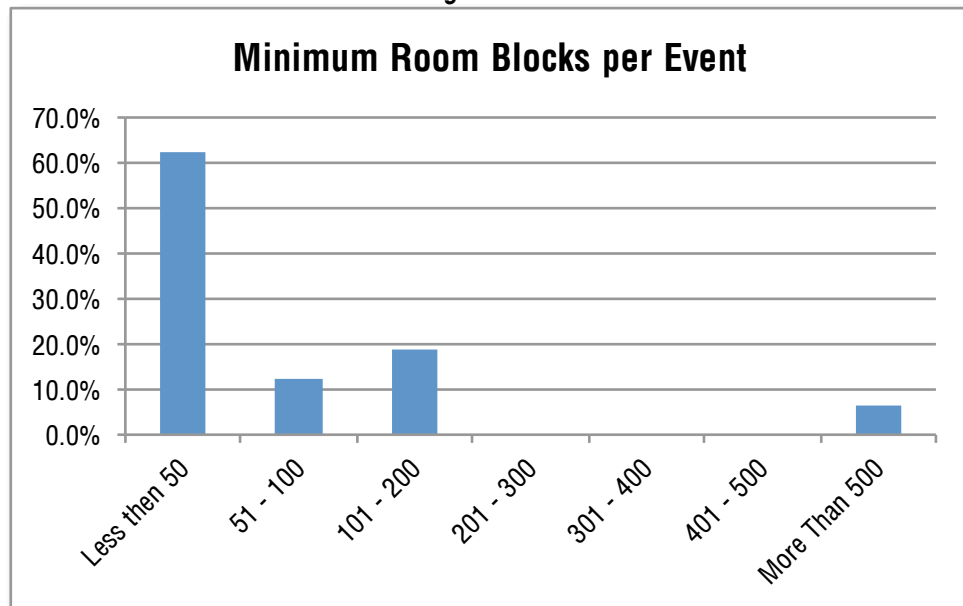


As shown, nearly 30 percent of respondents indicated that their event requires peak room blocks between 51 and 100 rooms, followed by nearly 25 percent of respondents that require 50 or less

peak room blocks. Of all responses, more than 85 percent indicate that their events require 300 or less peak room blocks.

The following figure shows the minimum room block needed for each event.

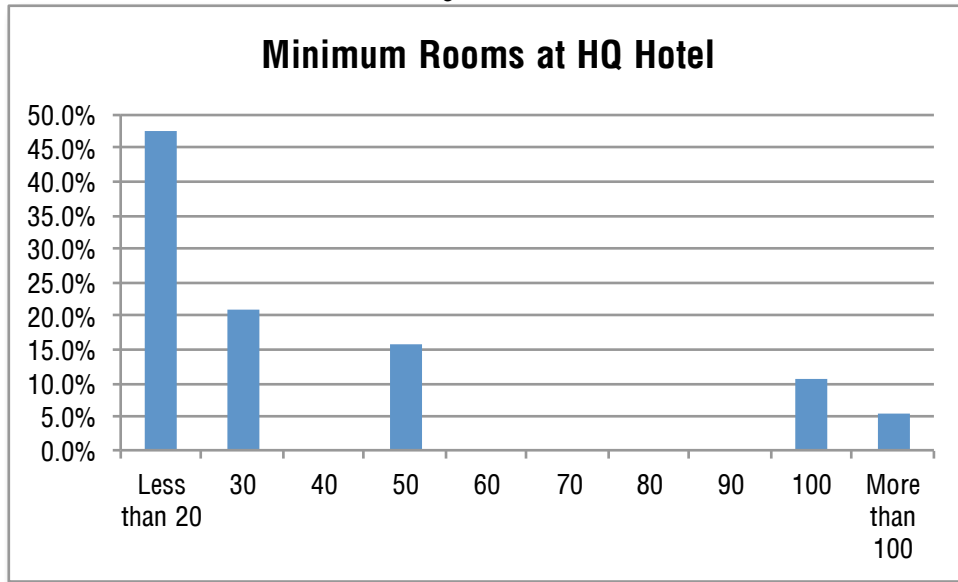
Figure 6-13



More than 60 percent of respondents require a minimum room block of less than 50, while slightly more than 10 percent require between 51 and 100 room blocks and nearly 20 percent require a minimum room block between 101 and 200 rooms.

The following shows the minimum rooms needed at the headquarters hotel.

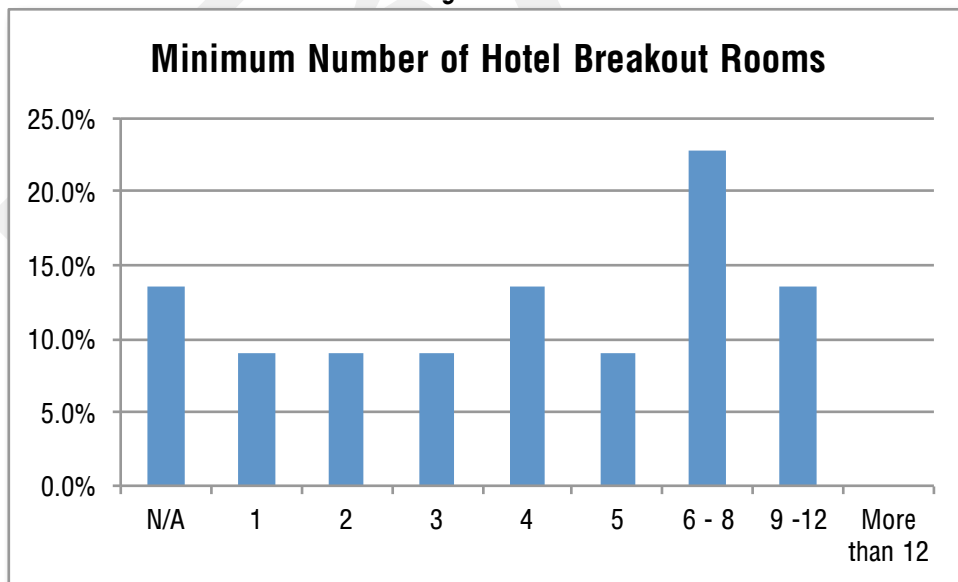
Figure 6-14



More than 45 percent of respondents require less than 20 rooms at the headquarters hotel in the host city. This is followed by 20 percent that require 30 rooms and 15 percent that require 50.

The following figure shows the minimal number of breakout rooms within the hotel property, separate from meeting space in the convention facility.

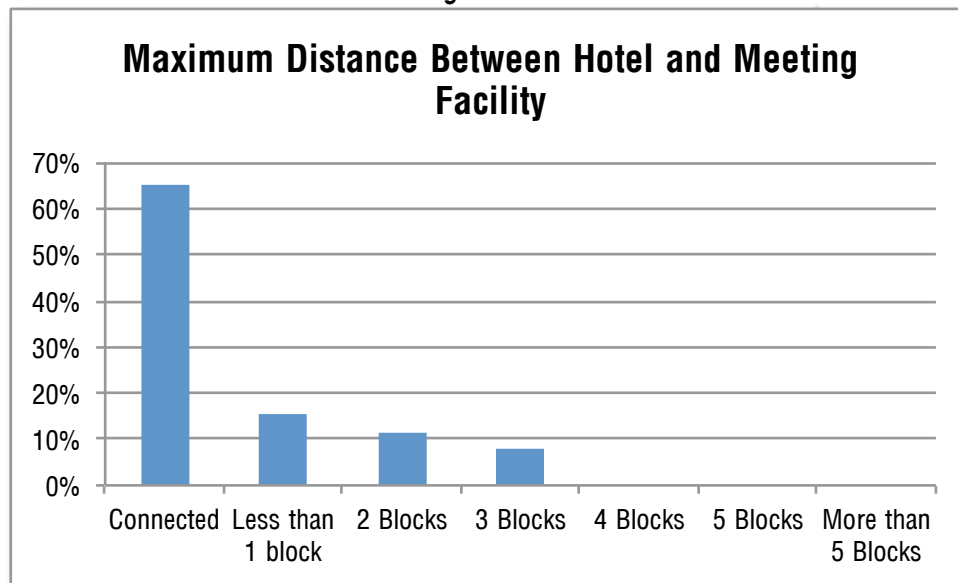
Figure 6-15



Approximately 23 percent of respondents require between six and eight hotel breakout rooms, while nearly 15 percent do not require these rooms for their events. Although the responses vary, no respondent indicated their event needs an excess of 12 breakout rooms.

The following figure shows the preferable distance between the convention hotel and the meeting facility.

Figure 6-16



As shown, nearly 70 percent of respondents indicate that hotel and meeting facility connectivity is essential for their events. Another 15 percent responded that the facilities must be less than one block apart. This suggests that even the casino hotels are farther from The Centre than planners would require.

### Critical Element Ratings

The following figures show the results of the following question:

***“Please rank the importance of each of the following elements that impact your selection of a convention/exposition venue and host city.”***

Respondents were asked to rank each element on a scale of 1 to 5, with “5” of the most importance and “1” of the lowest importance. The average off all responses are presented in the following table, which are ranked in order of most importance.

**Table 6-1**

Ranking of Critical Elements		
Rank	Critical Elements	Average
1	Meeting Space Quality	3.22
2	Price Structure	3.21
3	Proximity & Connectivity of HQ Hotel to Meeting Facility	3.04
4	Hotel Quality	3.00
5	Host City's Location	2.91
6	Hotel Room Block Availability	2.85
7	Attendee Air and Highway Transportation Access	2.85
8	Existence of Restaurants/Other Entertainment	2.76
9	Walkability of Restaurants/Other Entertainment	2.54

Source: Hunden Strategic Partners

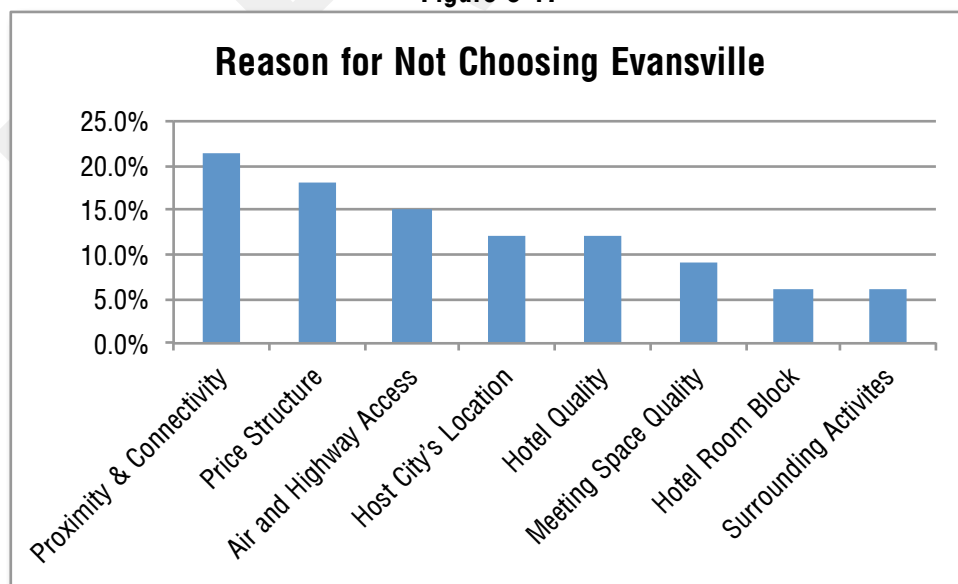
As shown, the qualities of meeting space and price structure were identified as the most important factors of the respondents. These rankings were closely followed by hotel and meeting facility connectivity/proximity and hotel quality. The existence and walkability of restaurants and entertainment areas were shown to be of the least importance.

The following figures show the results of the following question:

***“If you did not select Evansville, please identify each of the following that did not meet your event’s needs.”***

The following table shows the percentage of responses for each critical element identified as a factor in why the respondent’s group did not choose Evansville.

**Figure 6-17**

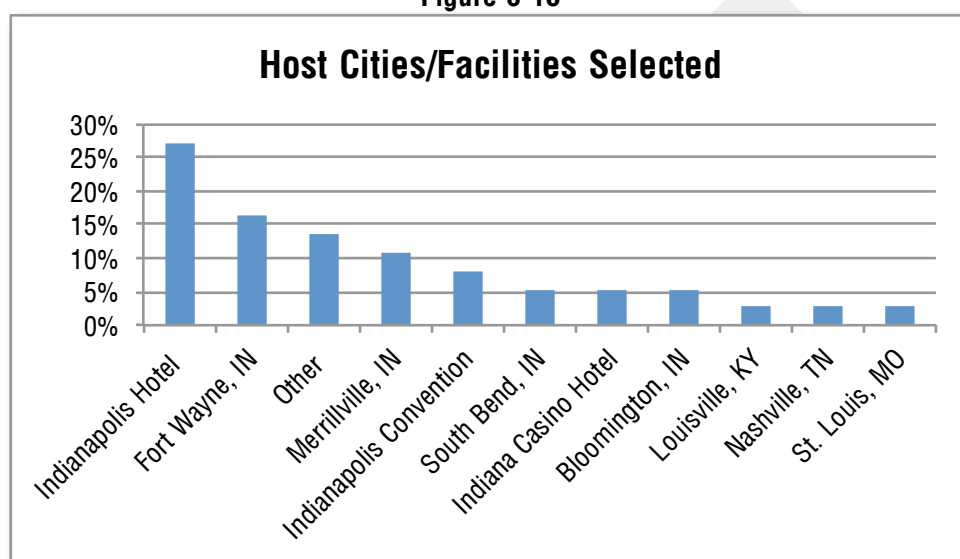


As shown, more than 20 percent of respondents indicated that the proximity and connectivity of local hotels and the meeting facility (The Centre) was the primary factor they did not host their event in Evansville. This was followed by a high price structure (18 percent), air and highway access (15 percent) and location and hotel quality (both 12 percent).

The following figures show the results of the following question:

***“For your largest three events in the last five years, please identify the host city/facility your organization selected.”***

Figure 6-18



As shown, more than 25 percent of respondents have hosted an event at an Indianapolis hotel in the past five years. Fort Wayne hosted slightly more than 15 percent of these events, while “Other” markets accounted for 13 percent of these events. “Other” markets included Columbus, Ohio, Chicago, Illinois, Atlanta, Georgia, Las Vegas, Nevada and Phoenix, Arizona.

## Implications

The majority of responses to this survey came from Indiana-based event planners, primarily from central Indiana. The results of the survey indicate that these event planners host relatively small events that attract less than 500 attendees and therefore generate between 100 and 300 room nights per event. This is reinforced by 85 percent of respondents that require less than a 300-room peak block for their events.

In terms of Evansville, these meeting planners have indicated that the proximity and connectivity of hotels to the meeting facilities is a significant negative factor as well as the price structure at both the meeting facility and local hotels. Access was also indicated as a negative factor, although



a significant percentage (35 percent) would consider Evansville once the I-69 extension was completed.

Nearly 40 percent of all respondents indicated that they would “likely” consider Evansville for their events in the event that a hotel was developed in close proximity to The Centre. Currently, many of these events are held in Central Indiana, in general and in Indianapolis hotel, in particular.

The two conflicting responses that are typical and set up the financing conundrum are the fact that planners do not necessarily need a major hotel, but many do require the hotel package to be within just a couple of blocks of the meeting facility. That means that for Evansville, the proposed hotel would need to accommodate the bulk of rooms for a particular meeting or event. Interestingly, the events are likely to be small enough that any hotel above 300 rooms would not likely be necessary in most cases. Assuming the hotel provided 75 percent to 80 percent of their total rooms for a large group block, a 300-room hotel would provide up to a 240-room block, which is more than most of the surveyed groups need. It suggests that even a hotel as small as 240 rooms would service the bulk of groups that would consider Evansville.

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## SWOT ANALYSIS & RECOMMENDATIONS

This section provides recommendations on the size and quality of the Project in relation to the market. These recommendations also take into consideration the synergistic relationship the Project will have on downtown Evansville in general and the Ford Center and The Centre in particular. In addition to recommendations, a SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis was conducted. A SWOT analysis identifies critical factors that will impact the recommended Project's operational and financial performance.

### SWOT Analysis

#### *Strengths*

- Visibility – Located at the intersection of Martin Luther King Jr. Blvd and Walnut Street, the hotel site is ideally located for visibility from local traffic visiting The Centre, Ford Arena, Evansville Vanderburgh Public Library, and The Evansville Civic Center Complex.
- The Centre – The Centre hosts approximately 250 annual events, a significant percentage of which require some level of hotel accommodations. Currently, visitors are required to either stay in the Casino Aztar hotels or be shuttled from hotels to a number of hotels miles away. The proposed Project would be connected via a skybridge and offer additional meeting space to supplement the existing space in The Centre.
- The Ford Center – The arena is generating a significant number of room nights annually, primarily from concerts, but also for certain sporting events. These would accrue to a downtown hotel first for most attendees.
- Downtown Entertainment – In addition to the Ford Center, downtown Evansville offers a modest number of entertainment options within walking distance of the Project. These options include the Victory Theatre, Main Street (and its numerous restaurants), Casino Aztar and The District. Together, Evansville can market itself as a walkable downtown that does offer a number of options to non-local visitors.
- Downtown Businesses – There are a number of downtown businesses, such as banks, law firms, Vectren and City and County government that generate room nights. A new, branded hotel on the site would be likely to capture the bulk of these guests due to its location and rewards program.
- Lack of Existing High Quality Full-Service Hotel – There is no direct competitor for the Project, suggesting a flight to quality when it opens and the ability to be the highest rated hotel (in terms of rate and quality) in the market.
- Opportunity for Groups to “Own” the Community – Smaller markets can attract groups that do not like being one of many events in town. In Evansville, a group will likely “own the hotel” and downtown while in town, providing a sense of attention and pride to the group.

### *Weaknesses*

- Regional Access and Location – Currently, Evansville is not directly accessible via the interstate highway system. Although the I-69 extension is expected to alleviate this issue, Evansville is still relatively isolated from other communities and major highways, especially when compared to competitive markets and from the population centers in Indiana.
- Room Block Dependence – The proposed Project will likely enter into an agreement with The Centre for a minimum room block for convention events. These blocks, especially in a smaller property, will limit the Project’s ability to attract non-convention business and also runs the risk of occasionally alienating regular corporate transient and/or group guests due to potential availability issues.
- Hotel Market Health – The local hotel market is characterized by lower occupancy rates and relatively low average daily rates, even for the better hotels. While the best hotels command decent rates, the market as a whole is not generating enough demand at high price points to support a large, full-service hotel. The result is a feasibility gap that must be filled in order to make the project work.
- Competition – The surrounding markets to Evansville are nearly all larger and offer more in terms of hotels, function space, entertainment and accessibility than Evansville (except Owensboro and Bloomington). These markets, such as Indianapolis, St. Louis, Nashville and Louisville are able to attract business that Evansville simply cannot. Even with a new and large branded hotel, Evansville will find it difficult unless a group mandates a ‘southern rotation’ in its schedule of events. Certain times, casinos across Indiana will also be able to attract business that Evansville will seek.
- Non-Downtown Hotel Nodes – Each of Evansville’s non-casino hotels have been developed near either high traffic areas or in close proximity to room night generators, primarily near the airport and I-164. The proposed Project’s downtown location, while in close proximity to several demand generators, will be forced to generate room nights by attracting a substantial percentage of business to its downtown location. This is especially critical on dates that The Centre is not hosting an event. During these periods, the proposed Project must attract corporate transient, group and leisure room nights.

### *Opportunities*

- Catalytic Development - The proposed Project can serve as a catalytic development to attract additional visitors to downtown Evansville and could potentially attract additional developments in the surrounding downtown core. Additional restaurants, bars and retail shops may be encouraged to open as a result, as could other types of businesses (either new or relocated).
- The Centre – The proposed Project will provide the adjacent hotel event planners have demanded since the demolition of the Executive Inn. New hotel rooms will make the

Centre much more competitive for local and regional events, which will have a positive impact on the local economy.

- The Ford Center – Although the Ford Center is not expected to generate the same number of room nights as the Centre, the Project will offer spectators the option to remain in downtown Evansville after events, rather than driving home.
- Economic, Fiscal and Employment Benefits – The Project will entice visitors to visit Evansville businesses, restaurants and entertainment facilities. These visits result in increased downtown spending, and in turn, an improved local business environment, additional tax collections and an increased number of employment opportunities. The visibility that visitors will have of the downtown from the new hotel will show off the community to a new population that may consider visiting again or even moving to the community. Currently, many people outside Evansville simply are not visiting. This strategy worked for Indianapolis. 30 – 40 years ago it was not much different than Evansville. Yet with persistent investments, more and more people came to know the city as a vibrant, growing and enjoyable community. Success breeds success.
- Lack of Downtown Hotels – The Casino Aztar Hotel and Le Merigot represent the only hotels in the downtown market. Both properties are owned by the Casino Aztar and therefore primarily cater to gaming guests. Additionally, 70 percent of all guests receive either a complimentary or discounted room rate, suggesting a focus on this segment and not on group or corporate guests.

### *Threats*

- Competitive Developments – Communities such as Owensboro, Bloomington, Fort Wayne and others are either considering large urban projects or building them already. These include convention hotels in Bloomington and Owensboro, convention center improvements in Louisville and Bloomington as well as entertainment districts in multiple locations.
- Other Newly Developed Hotels – Every time another limited service hotel is developed in Evansville, it dilutes potential demand that could be going to a new, larger downtown hotel. The longer Evansville waits to develop a hotel, the more difficult the market may become.

### **Recommendation**

Two opposing forces suggest implications for the project. The first is the **private hotel market**. Based on its performance in terms of pent up demand and average daily rate, it suggests that the only truly feasible hotel from a private market perspective is a 120 – 150-room limited service hotel, similar to what is being developed as a Courtyard on the east side. This is not unusual for most non-major markets. Even in Indianapolis, few hotels larger and more luxurious than a 150-room limited service project can be financed without outside (public) financial participation. In fact, all of the hotels over 150 rooms in downtown Indianapolis have received some form of financial assistance to be constructed, including the 180-room Hampton Inn & Suites in the late 1990s. In

addition, even with upfront financial assistance, too large a hotel in Evansville will eventually need reinvestment, that if not supported by the market, will be too expensive to justify. This would lead to a repeat of the Executive Inn downward cycle (or the South Bend Marriott to a Doubletree, etc.).

The second force at play is the **need of The Centre (as well as downtown in general)** and the competitive factors facing it. As shown, meeting planners expect large hotels that meet the needs of their groups in order to choose a facility like The Centre. Without a large hotel, The Centre will still not attract many groups beyond what it attracts today. In addition, the downtown casino hotels are primarily geared toward gamblers and not necessarily toward the needs of the corporate or meetings market. As shown, there does not appear to be much benefit to building a smaller hotel, nor a hotel larger than 300 rooms. Based on the surveys, any hotel of more than 200 rooms will service most of the needs of the planner who would consider coming to Evansville.

The optimal property to develop, therefore, is one that is large enough to attract groups to The Centre but not too large to be economically unsustainable or one that drags down the market. A smaller hotel such a 180-room hotel would not provide the positive impact needed, but would still be unfeasible privately.

The table below shows the committable rooms during the week and weekend in downtown Evansville.

**Table 7-1**

<b>Recommended Committable Rooms</b>			
Exhibit Space		36,252 SF	
Metric		12 /1,000 SF Ex. Space	
<b>Recommended Committable Rooms</b>		<b>435</b>	
Current Committable Rooms			
	Total Rooms	Committable	
		<b>Week</b>	<b>Weekend</b>
Aztar Hotel	250	75	25
Le Merigot	97	25	10
		Week	Weekend
Net Recommended Committable		335	400
Committable as % of Total		75%	75%
<b>Recommended Hotel Package</b>		<b>447</b>	<b>533</b>
Source: Hunden Strategic Partners			

Based on HSP's analysis of the median number of committable rooms to have within walking distance (or downtown) of a convention center, using a metric of 12 rooms per square feet of exhibit space, the recommended number of committable rooms downtown should be 435. Currently, there are between 35 and 100 committable rooms, depending on the day of the week,

since the casino hotels dedicate most of their rooms to gaming or corporate transient guests. Therefore, for an optimal hotel package, a significant number of hotel rooms is needed – more than likely can be justified by the market at this time.

***Based on the survey results, market analysis and comparable developments, the minimum room block (75 to 80 percent of total rooms) recommended is 200 rooms. This suggests a hotel of between 240 and 270 rooms.***

The table below shows how a 240-room hotel would fill the room block needs of The Centre and how future hotels could ultimately and optimally balance the needs of The Centre.

**Table 7-2**

<b>Proposed Hotel Development Scenario</b>				
Opening Date Stabilized	2015 2017	2018 2020	2021 2022	
Quality	Full-Service Light/ Ltd.-Service Plus	Limited Service	Boutique	
<b>Rooms</b>	<b>240</b>	<b>150</b>	<b>100</b>	<b>Total 490</b>
Committable %	80%	70%	50%	--
Committable	192	105	50	347
Existing Committable	100	292	397	--
<b>Total Committable</b>	<b>292</b>	<b>397</b>	<b>447</b>	<b>447</b>

Source: Hunden Strategic Partners

As shown, a 240-room hotel would provide a committable block of 192 rooms to add to the existing block of rooms downtown. So while total rooms downtown would then be nearly 600, only about 300 would be committable to a block. This is still more than enough to satisfy most events that would consider Evansville. In the future, as occurs in most cities, a second and third hotel with different characteristics should be developed over time to provide a variety of cost and quality options.

HSP conducted ten scenarios: five size options and two quality options for each. The scenarios conducted show the performance of ten scenarios, five full-service hotel models from 180 to 300 rooms and five limited-service plus models from 180 to 300 rooms. The limited-service plus models have less function space, lower quality finishes and fewer food and beverage options. Of course if the recommended hotel cannot be financed, then it truly is not feasible. Therefore, the scenarios were conducted to determine the economic value of each and the expected financial gap. If the public sector can determine a method for filling the gap, then the project can proceed.

The key difference between the scenarios beyond size is the level of quality and amenities. Full-service hotels and brands, as shown in the trends chapter, are quite expensive, ranging from

\$150,000 to \$210,000 per room. These include a significant amount (75 square feet per room) of function space as well dining facilities, concierge services, higher cost finishes in the design and construction, etc. Limited-service plus or Full-service light hotels, such as those built in Erie, Fort Wayne and Owensboro, include all of the amenities and services needed (room service, function space), but without all of the items that add significant cost (finishes, additional staff, excess function space, etc.). These hybrid models can cost \$25,000 to \$75,000 less per room than a full service convention hotel, making them much more feasible.

The following table shows an overview of the specifications (including costs) associated with each scenario.

**Table 7-3**

Evansville Hotel Recommended Components										
	180		210		240		270		300	
	Full Service	Limited Plus	Full Service	Limited Plus	Full Service	Limited Plus	Full Service	Limited Plus	Full Service	Limited Plus
<b>Guest Rooms</b>										
King Rooms	70	85	82	99	94	113	105	127	117	141
Double-Double	95	85	111	99	127	113	143	127	159	141
Conference Suites	2	1	2	1	2	1	3	1	3	2
Hospitality Suites	2	1	2	1	2	1	3	1	3	2
Junior Suites	5	4	6	4	7	5	8	5	9	6
Exec, Presidential & VIP Suites	5	5	6	6	7	7	8	8	9	9
<b>Total</b>	<b>180</b>	<b>180</b>	<b>210</b>	<b>210</b>	<b>240</b>	<b>240</b>	<b>270</b>	<b>270</b>	<b>300</b>	<b>300</b>
<b>Ballroom</b>										
Grand Ballroom	6,000	4,000	7,000	4,000	8,000	5,000	9,000	5,000	10,000	6,000
Junior Ballroom	0	0	0	0	0	0	4,000	0	4,200	0
<b>Total Ballroom</b>	<b>6,000</b>	<b>4,000</b>	<b>7,000</b>	<b>4,000</b>	<b>8,000</b>	<b>5,000</b>	<b>13,000</b>	<b>5,000</b>	<b>14,200</b>	<b>6,000</b>
<b>Meeting Rooms</b>										
Meeting Room (SF)	4,000	2,000	5,000	3,000	5,000	3,000	6,000	4,000	7,000	4,000
Meeting Rooms (#)	5	3	6	4	6	4	8	5	9	5
<b>Board Rooms</b>										
Board Room (SF)	500	500	500	500	500	500	500	500	500	500
Board Room (#)	1	1	1	1	1	1	1	1	1	1
<b>Total Function Space</b>	<b>10,500</b>	<b>6,500</b>	<b>12,500</b>	<b>7,500</b>	<b>13,500</b>	<b>8,500</b>	<b>19,500</b>	<b>9,500</b>	<b>21,700</b>	<b>10,500</b>
Function Space/Key	58	36	60	36	56	35	72	35	72	35
<b>Restaurants</b>										
Casual Bar/Restaurant (Seats)	45	45	53	53	60	60	68	68	75	75
Formal Restaurant (Seats)	None	None	None	None	None	None	22	None	24	None
Coffee Bar (Seats)	9	9	11	11	12	12	14	14	15	15
<b>Parking Spaces</b>										
	180	180	210	210	240	240	270	270	300	300
<b>Other Amenities</b>										
Business Center	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fitness Center	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pool	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Gift Shop	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Concierge	No	No	No	No	Yes	No	Yes	No	Yes	No
Spa	No	No	No	No	No	No	No	No	No	No

Source: Hunden Strategic Partners

As shown, the amount of function space ranges from 6,500 square feet to 21,700 square feet and restaurant seats range from 45 to 100. The amenities and expanded function space add significant cost to the project. The budget and estimated gap will be shown in the next chapter.



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## **SITE ANALYSIS AND CONCEPTUAL PLAN**

This chapter outlines the proposed site of the Project as well as provides drawings of each hotel scenario. Drawings will include hotels (and required parking structures) for both limited plus and full service models, which range from 180 to 300 rooms, in 30-room increments (180, 210, 240, 270, 300). The full-service models include a significant amount of function space (about 60 – 75 square feet per room) and the limited-service ‘plus’ models that would have a lesser amount of function space (about 35 – 40 square feet per room). Additional floor plans for each scenario are provided, which illustrate guest room layout and meeting space. In general, the site development components are split into three distinct buildings, connected by skyways:

- Ancillary Building, which consists of a 15,000-square foot footprint backing up to the Ford Center arena. The purpose of the building include acting as a connector between the hotel, the arena and convention center as well as providing needed storage for the arena as well as opportunities for restaurants, meeting rooms (that the hotel would likely control) and a presence for the Convention and Visitors Bureau.
- Hotel Tower, which would house all the components of the hotel, except for parking and some ancillary meeting rooms provided in the ancillary building.
- Parking Garage, which would include two to three levels of parking and 216 to 332 parking spaces.

The ten scenarios and their respective components are shown below.

**Table 8-1**

Evansville Hotel Recommended Components										
	180		210		240		270		300	
	Full Service	Limited Plus	Full Service	Limited Plus	Full Service	Limited Plus	Full Service	Limited Plus	Full Service	Limited Plus
<b>Guest Rooms</b>										
King Rooms	70	85	82	99	94	113	105	127	117	141
Double-Double	95	85	111	99	127	113	143	127	159	141
Conference Suites	2	1	2	1	2	1	3	1	3	2
Hospitality Suites	2	1	2	1	2	1	3	1	3	2
Junior Suites	5	4	6	4	7	5	8	5	9	6
Exec, Presidential & VIP Suites	5	5	6	6	7	7	8	8	9	9
<b>Total</b>	<b>180</b>	<b>180</b>	<b>210</b>	<b>210</b>	<b>240</b>	<b>240</b>	<b>270</b>	<b>270</b>	<b>300</b>	<b>300</b>
<b>Ballroom</b>										
Grand Ballroom	6,000	4,000	7,000	4,000	8,000	5,000	9,000	5,000	10,000	6,000
Junior Ballroom	0	0	0	0	0	0	4,000	0	4,200	0
<b>Total Ballroom</b>	<b>6,000</b>	<b>4,000</b>	<b>7,000</b>	<b>4,000</b>	<b>8,000</b>	<b>5,000</b>	<b>13,000</b>	<b>5,000</b>	<b>14,200</b>	<b>6,000</b>
<b>Meeting Rooms</b>										
Meeting Room (SF)	4,000	2,000	5,000	3,000	5,000	3,000	6,000	4,000	7,000	4,000
Meeting Rooms (#)	5	3	6	4	6	4	8	5	9	5
<b>Board Rooms</b>										
Board Room (SF)	500	500	500	500	500	500	500	500	500	500
Board Room (#)	1	1	1	1	1	1	1	1	1	1
<b>Total Function Space</b>	<b>10,500</b>	<b>6,500</b>	<b>12,500</b>	<b>7,500</b>	<b>13,500</b>	<b>8,500</b>	<b>19,500</b>	<b>9,500</b>	<b>21,700</b>	<b>10,500</b>
Function Space/Key	58	36	60	36	56	35	72	35	72	35
<b>Restaurants</b>										
Casual Bar/Restaurant (Seats)	45	45	53	53	60	60	68	68	75	75
Formal Restaurant (Seats)	None	None	None	None	None	None	22	None	24	None
Coffee Bar (Seats)	9	9	11	11	12	12	14	14	15	15
<b>Parking Spaces</b>	<b>180</b>	<b>180</b>	<b>210</b>	<b>210</b>	<b>240</b>	<b>240</b>	<b>270</b>	<b>270</b>	<b>300</b>	<b>300</b>
<b>Other Amenities</b>										
Business Center	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fitness Center	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pool	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Gift Shop	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Concierge	No	No	No	No	Yes	No	Yes	No	Yes	No
Spa	No	No	No	No	No	No	No	No	No	No

Source: Hunden Strategic Partners

As shown, the larger or more full service the hotel, the more function space, restaurant options and other amenities are included, which impacts the site development plan.

### Site Recommendations

The following figure shows an overview of the site for the proposed hotel, the second ancillary building and pedestrian connectors to connect both facilities to the Ford Center and The Centre.

Figure 8-1



- a) Ancillary Building
- b) Pedestrian Connector
- c) Civic Plaza

As shown, the site will encompass the entire city block bordered by MLK Boulevard to the northeast, Chestnut Street to the southeast, 6<sup>th</sup> Street to the southwest and Walnut to the northwest. The ancillary building is located on the north side of Walnut Street, between the proposed hotel and the Ford Center. Three pedestrian connectors are proposed, all of which connect to the ancillary building, from the hotel, from the Ford Center and from The Centre to allow pedestrian access to each facility. A civic plaza is also planned on the corner of MLK Boulevard and Walnut Street, designed to mirror the existing public space of the Vanderburgh Public Library across the street.

### Hotel Scenarios – Designs

#### *180-room Limited-Service Plus & 210-room Limited-Service Plus*

The following figure shows an overview of the 180-room limited-service plus and 210-room limited-service plus hotels on the site.

Figure 8-2

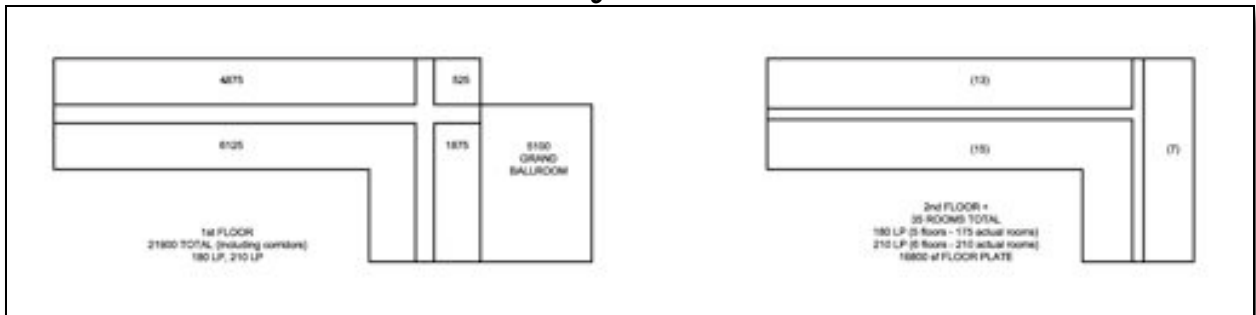


- a) Hotel
- b) Hotel Drop-off
- c) Hotel Amenity Area
- d) Parking Garage: Total Based on Room Count
  - 2-level: 216 vehicles
- e) Ancillary Structure
- f) Pedestrian Connector
- g) Civic Plaza

This scenario design positions the attached parking garage along Chestnut Street, the hotel drop-off along Walnut Street and a civic place on the corner of Walnut Street and MLK Boulevard. To accommodate both guests and employees, both scenarios would require a two level parking structure that would hold 216 vehicles.

The following figure shows the floor plan for both hotel scenarios.

Figure 8-3



This design includes a 5,100 square foot grand ballroom with 35 guest rooms on each level. This design results in a five-story 180-room limited plus property and a six-story 210-room limited plus property.

*180-room Full Service & 240-room Limited-Service Plus*

The following figure shows an overview of the 180-room full service and 240-room limited-service plus hotels on the site.

Figure 8-4

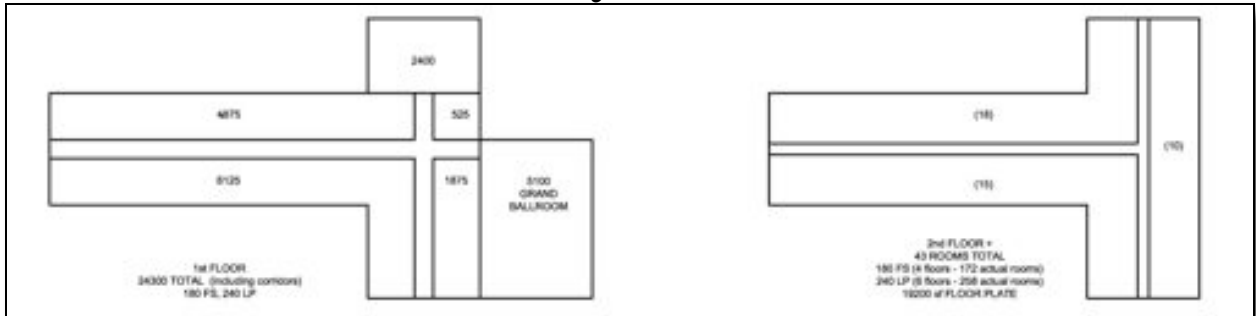


- a) Hotel
- b) Hotel Drop-off
- c) Hotel Amenity Area
- d) Parking Garage: Total Based on Room Count
  - 2-level: 216 vehicles (For 180 rooms)
  - 3-level: 332 vehicles (For 240 rooms)
- e) Ancillary Building
- f) Pedestrian Connector
- g) Civic Plaza

This scenario design is essentially the same design as the 180-room/210-room limited plus scenario, save for an addition hotel wing towards Walnut Street. Required parking varies between the two room counts. The 180-room property requires a two-level structure for 216 vehicles. The 210-room property requires a three-level structure for 332 vehicles.

The following figure shows the floor plan for both hotel scenarios.

Figure 8-5



This design also includes a 5,100-square foot grand ballroom with 43 guest rooms on each level. The addition of a 2,400 square foot wing expands first floor space and hotels rooms in the hotel tower. This design results in a four-story 180-room full service property and a six-story 240-room limited plus property.

### *270-room Limited-Service Plus*

The following figure shows an overview of the 270-room limited-service plus hotel on the site.



Figure 8-6

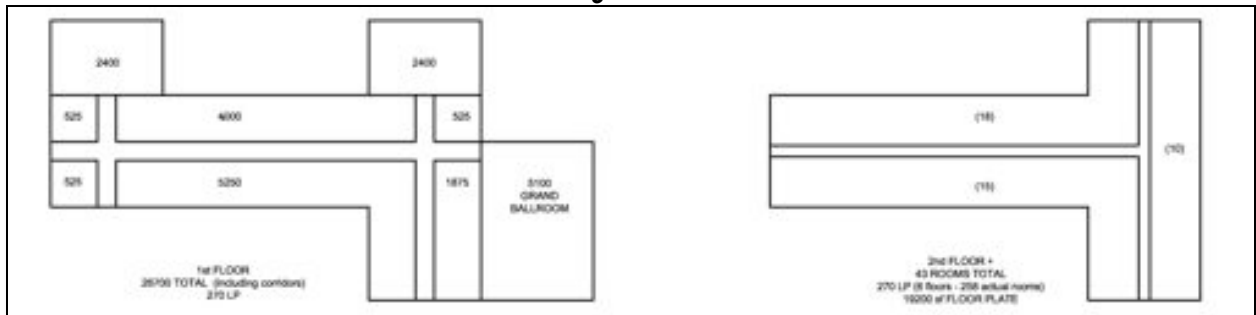


- a) Hotel
- b) Hotel Drop-off
- c) Hotel Amenity Area
- d) Parking Garage: Total Based on Room Count
  - 3-level: 332 vehicles
- e) Ancillary Building
- f) Pedestrian Connector
- g) Civic Plaza

This scenario design remains relatively similar to the two previous scenarios, the only addition being a wing on the end of the site closest to the intersection of 6<sup>th</sup> Street and Walnut Street. A three level parking structure is required for this property as well, which would accommodate 332 vehicles.

The following figure shows the floor plan for the hotel scenario.

Figure 8-7



This design also includes a 5,100 square foot grand ballroom with 43 guest rooms on each level. A second 2,400 square foot wing allows for additional floor space and guest rooms. This design results in a six-story 270-room limited-service plus property, although the actual room count would be 258 rooms under this configuration.

### *210-room Full Service*

The following figure shows an overview of the 210-room full service hotel on the site.

Figure 8-8

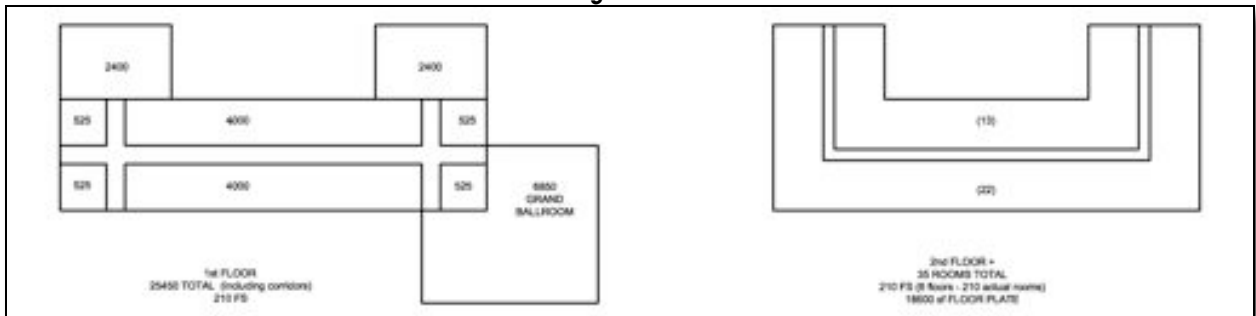


- a) Hotel
- b) Hotel Drop-off
- c) Hotel Amenity Area
- d) Parking Garage: Total Based on Room Count
  - 3-level: 332 vehicles
- e) Ancillary Building
- f) Pedestrian Connector
- g) Civic Plaza

This scenario design resembles a “U” shape as the wing closest to the parking garage is removed in favor of two larger wings along Walnut Street. Although the hotel tower is slightly different from previous designs, the parking garage, hotel drop-off and civic plaza remain in the same positions. Parking requirements include a three-level parking structure to accommodate 332 vehicles.

The following figure shows the floor plan for the hotel scenario.

Figure 8-9



This design expands the grand ballroom space to 6,850 square feet, up from 5,100 square feet in previous designs. This design can accommodate 35 guest rooms on each level. This design results in a six-story 210-room full service property.

### *300-room Limited-Service Plus*

The following figure shows an overview of the 300-room limited service plus hotel on the site.

Figure 8-10

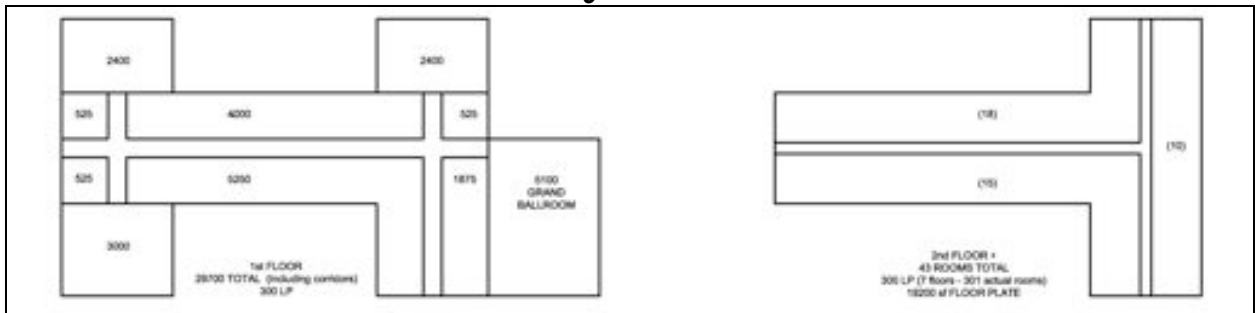


- a) Hotel
- b) Hotel Drop-off
- c) Hotel Amenity Area
- d) Parking Garage: Total Based on Room Count
  - 3-level: 332 vehicles
- e) Ancillary Building
- f) Pedestrian Connector
- g) Civic Plaza

This scenario design resembles an “H” shape that includes four wings, with the hotel tower designated to the wings nearest to MLK Boulevard. This design introduces a fourth wing along 6<sup>th</sup> Street that encloses the property’s amenity area. A three-level parking structure is required to accommodate guests and employees, with a maximum of 332 vehicles.

The following figure shows the floor plan for the hotel scenario.

Figure 8-11



This design reverts back to the 5,100 square feet grand ballroom found in previous designs. The fourth wing introduces an additional 3,000 square feet on the property's first floor. This design can accommodate 43 guest rooms on each level. This design results in a seven-story 300-room limited plus property.

#### *240-room Full Service*

The following figure shows an overview of the 240-room full service hotel on the site.

Figure 8-12

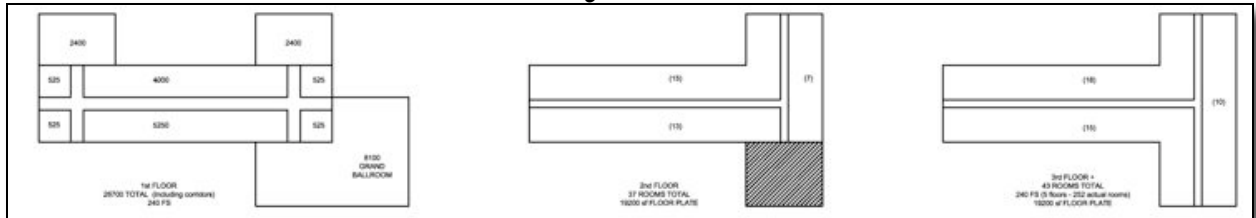


- a) Hotel
- b) Hotel Drop-off
- c) Hotel Amenity Area
- d) Parking Garage: Total Based on Room Count
  - 3-level: 332
- e) Ancillary Building
- f) Pedestrian Connector
- g) Civic Plaza

This scenario design includes three wings and a larger footprint for a grand ballroom. Other than the larger meeting space, this design is similar to previous scenarios. The three-story parking garage is required to accommodate 332 vehicles.

The following figure shows the floor plan for the hotel scenario.

**Figure 8-13**



This design includes an 8,100 square foot grand ballroom. This large meeting space would sacrifice one wing of guest rooms on the property's second floor, which would have 37 guest rooms. The remaining floors can accommodate 43 guest rooms on each level. This results in a seven-story 240-room full service property, although the design would actually include 252 guest rooms.

### *270-room Full Service & 300-room Full Service*

The following figure shows an overview of the 270-room full service and 300-room full service hotels on the site.



Figure 8-14

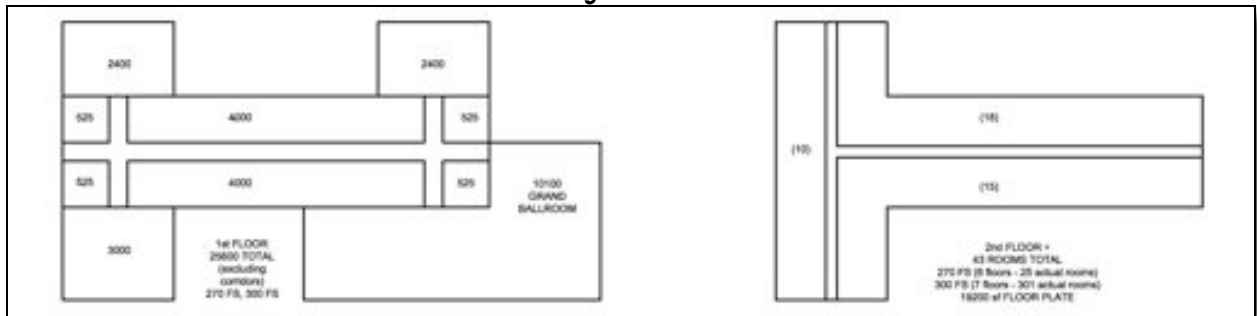


- a) Hotel
- b) Hotel Drop-off
- c) Hotel Amenity Area
- d) Parking Garage: Total Based on Room Count
  - 3-level: 332 vehicles
- e) Ancillary Building
- f) Pedestrian Connector
- g) Civic Plaza

This design moves the main hotel tower to border 6<sup>th</sup> Street as opposed to MLK Boulevard in previous designs. This is done to accommodate for a much larger meeting facility. This design encloses the property's amenity area but retains the position of the parking garage, hotel drop-off and civic plaza. The three-level parking structure accommodates 332 vehicles.

The following figure shows the floor plan for both hotel scenarios.

Figure 8-15



This design includes the largest grand ballroom space of all scenarios; 10,100 square feet. Each floor can accommodate 43 guest rooms on each level. This results in a six-story 270-room full service property, which would actually include 258 guest rooms, and a seven-story 300-room full service property.

### Implications

As this chapter has illustrated, a variety of hotels, with contained meeting space and an adjacent parking structure, are feasible on the designated site. Each scenario design also maintains connectivity with the ancillary building across Walnut Street, the Ford Center and The Centre.

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## DEMAND AND FINANCIAL PROJECTIONS

In this chapter, HSP provides estimates of performance for the various hotel scenarios, focusing in detail on the 240-room limited-service plus scenario, as that is the project that best optimizes room count, cost and performance.

All of the scenarios are summarized in the table below, with stabilized occupancy, rate and revenue per available room shown.

**Table 9-1**

<b>Projection of Stabilized ADR and Occupancy (2018)</b>					
<b>Limited Service</b>	<b>180</b>	<b>210</b>	<b>240</b>	<b>270</b>	<b>300</b>
ADR	\$137	\$134	\$132	\$130	\$129
Occupancy	61%	61%	60%	59%	58%
RevPAR	\$84	\$81	\$79	\$77	\$75
<b>Full Service</b>	<b>180</b>	<b>210</b>	<b>240</b>	<b>270</b>	<b>300</b>
ADR	\$137	\$134	\$132	\$130	\$129
Occupancy	62%	61%	60%	60%	59%
RevPAR	\$85	\$82	\$79	\$78	\$76

Source: Hunden Strategic Partners

As shown, the larger the hotel, the lower the stabilized occupancy, with the full-service (essentially more function space) scenarios exhibiting a slightly higher occupancy as they will be able to induce more group business. Average daily rate also declines as the hotel becomes larger because in order to generate occupancy for the higher room count, lower rates will need to be offered. This is the numeric proof or example of why larger, full-service convention hotels are difficult to develop. For every additional room built over a baseline, consistent occupancy will be harder to attain, leading to lower occupancy, lower rates or both.

### 240-Room Limited-Service Plus/Full-Service Light Scenario

The following table shows the estimated growth of each market segment from 2011 through 2018 (the stabilized year) for the competitive set, assuming the proposed hotel opens January of 2015 and the Courtyard opens in 2013.

**Table 9-2**

Estimated Competitive Set Demand Growth by Segment												
Year	Corporate Transient	% Change	Group	% Change	Leisure	% Change	Total Demand	% Change	Total Supply	% Change	Total Rooms	Occupancy
2012	108,428	--	28,534	--	53,263	--	190,225	-1.5%	343,100	0.0%	940	55.4%
2013	112,765	4.0%	29,040	1.8%	54,595	2.5%	196,401	3.2%	386,900	12.8%	1,060	50.8%
2014	116,712	3.5%	29,410	1.3%	55,414	1.5%	201,536	2.6%	386,900	0.0%	1,060	52.1%
2015	123,715	6.0%	35,098	19.3%	57,630	4.0%	216,444	7.4%	474,500	22.6%	1,300	45.6%
2016	128,664	4.0%	38,760	10.4%	59,359	3.0%	226,782	4.8%	474,500	0.0%	1,300	47.8%
2017	131,237	2.0%	41,917	8.1%	60,249	1.5%	233,404	2.9%	474,500	0.0%	1,300	49.2%
2018	132,549	1.0%	43,320	3.3%	60,852	1.0%	236,721	1.4%	474,500	0.0%	1,300	49.9%

Source: HSP

Occupancy in 2012 is estimated to be 55.4 percent, a fairly low occupancy rate, but one that can support smaller newer hotels. With the addition of the 120-room Courtyard in 2013, supply in the competitive set will increase by 12.8 percent, leading to a decline in occupancy, however it will also be accompanied by an increase in demand that will mitigate the impact. Demand in all segments is expected to increase in the coming years.

With the opening of the convention hotel and its ability to host meetings and conferences, as well as help the convention center and arena attract more events, group room nights are expected to increase substantially in the competitive set. The larger the hotel built, the more group room nights are expected to be induced to the market.

There will be a decrease in occupancy for the competitive set as the market absorbs the hotel, but the market should recover most of its occupancy by the time the hotel stabilizes.

The table below shows the estimated market penetration of the proposed hotel, based on how the hotel will penetrate various markets.

**Table 9-3**

Estimated Market Penetration of Proposed Hotel						
Year	Corporate Transient	Group	Leisure	Total Penetration	Projected Set Occupancy	Subject Occupancy
2015	113%	160%	40%	101%	45.6%	46.2%
2016	117%	180%	50%	110%	47.8%	52.7%
2017	123%	200%	60%	121%	49.2%	59.3%
2018	123%	200%	60%	121%	49.9%	60.3%
2019	123%	200%	60%	121%	49.9%	60.3%
2020	123%	200%	60%	121%	49.9%	60.3%
2021	123%	200%	60%	121%	49.9%	60.3%
2022	123%	200%	60%	121%	49.9%	60.3%
2023	123%	200%	60%	121%	49.9%	60.3%
2024	123%	200%	60%	121%	49.9%	60.3%
2025	123%	200%	60%	121%	49.9%	60.3%

Source: HSP

The hotel is expected to primarily cater to two market segments: the built in corporate market that is already in Evansville for business. As the newest and largest hotel with the highest quality and function space, it is expected to penetrate the corporate transient market well. As a meetings hotel attached to both the convention center and arena, it is expected to penetrate the group market especially well.

Overall, it's expected that the hotel will penetrate the competitive set at 121 percent at stabilization, but will start at only 101 percent. The resulting occupancy will be low for the first year of 46 percent, increasing to 60 percent by stabilization. While this is not the occupancy level one would desire for an ongoing hotel operation, it mimics the performance of the new 250-room Courtyard convention hotel in Fort Wayne, which has similar market characteristics.

The following table shows the estimated demand for the proposed hotel based on the penetration rates established above.

**Table 9-4**

Projected Demand for Proposed Hotel											
Year	Corporate Transient	% Change	Group	% Change	Leisure	% Change	Total Demand	% Change	Total Supply	Total Rooms	Occupancy
2015	25,809	--	10,368	--	4,256	--	40,432	--	87,600	240	46.2%
2016	27,791	7.7%	12,880	24.2%	5,479	28.8%	46,151	--	87,600	240	52.7%
2017	29,801	7.2%	15,477	20.2%	6,674	21.8%	51,952	12.6%	87,600	240	59.3%
2018	30,099	1.0%	15,995	3.3%	6,741	1.0%	52,834	1.7%	87,600	240	60.3%

Source: HSP

As shown, the majority of business is expected to come from corporate transient guests, followed by the group segment.

The table below shows the estimated market segmentation for the proposed hotel versus the competitive set.

**Table 9-5**

<b>Projected Hotel Stabilized Demand Mix vs. Comp Set</b>		
<b>Segment</b>	<b>Hotel at Stabilization</b>	<b>Comp Set</b>
Corporate	57%	56%
Group	30%	18%
Leisure	13%	26%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: HSP

The proposed hotel is projected to generate 57 percent of room nights from the corporate transient market (similar to the competitive set), 30 percent from groups and 13 percent from the leisure market. Due to the casino hotels, the competitive set has a higher percentage of leisure visitors. In addition, as the highest quality hotel in the market with the highest rates, it will find it more difficult to attract price-sensitive leisure guests.

The next table shows the summary of occupancy and rate for the proposed hotel.

**Table 9-6**

<b>Performance Projections</b>				
<b>Year</b>	<b>Average Daily Rate</b>	<b>Occupancy</b>	<b>Revenue per Available Room</b>	<b>Annual Increase</b>
2015	\$122	46%	\$56	--
2016	\$123	53%	\$65	--
2017	\$124	59%	\$74	14.0%
2018	\$128	60%	\$77	4.6%
2019	\$132	60%	\$79	3.0%
2020	\$136	60%	\$82	3.0%
2021	\$140	60%	\$84	3.0%
2022	\$144	60%	\$87	3.0%
2023	\$148	60%	\$89	3.0%
2024	\$153	60%	\$92	3.0%
2025	\$157	60%	\$95	3.0%

Source: HSP

As shown, the average daily rate for the hotel will be similar to that found at the Le Merigot and should be slightly higher on average.

Understanding how the hotel will perform internally is as important to the feasibility as the external occupancy and rate projections. The next table shows the performance of the proposed hotel based on a number of assumptions about the property.

**Table 9-7**

Projection of Income & Expense: 240-Room Hotel - (in \$000, inflated)									
	Year 1				Year 2	Year 3	Year 4	Year 5	
	\$	%	PAR	POR	\$	\$	\$	\$	%
Room Count	240				240	240	240	240	
Available Room Nights	87,600				87,600	87,600	87,600	87,600	
Occupancy Rates	46%				53%	59%	59%	59%	
Occupied Room Nights	40,432				46,151	51,952	51,952	51,952	
Average Daily Rate	\$123				\$124	\$128	\$132	\$136	
RevPAR	\$57				\$66	\$76	\$78	\$80	
Percent of Change from Prior Year	--				15.5%	15.8%	3.0%	3.0%	
<b>REVENUE</b>									
Rooms	\$4,967	75.6%	\$20,697	\$123	\$5,739	\$6,645	\$6,844	\$7,049	75.0%
Hotel Food and Beverage	1,189	18.1%	\$4,955	\$29	1,393	1,635	1,706	1,758	18.7%
Telephone	33	0.5%	\$137	\$1	38	44	46	47	0.5%
Other Operated Departments	131	2.0%	\$548	\$3	152	177	183	188	2.0%
Parking & Transportation	184	2.8%	\$769	\$5	213	247	256	263	2.8%
Rentals and Other Income	66	1.0%	\$274	\$2	76	88	91	94	1.0%
Total Revenue	\$6,571	100.0%	\$27,380	\$163	\$7,612	\$8,836	\$9,125	\$9,399	100.0%
<b>DEPARTMENTAL EXPENSES</b>									
Rooms	\$1,436	28.9%	\$5,982	\$36	\$1,544	\$1,728	\$1,779	\$1,833	26.0%
Hotel Food and Beverage	880	74.0%	\$3,667	\$22	1,017	1,193	1,229	1,266	72.0%
Telephone	36	110.0%	\$151	\$1	42	49	50	52	110.0%
Other Operated Departments	6	4.5%	\$25	\$0	5	6	6	7	3.5%
Parking & Transportation	151	77.0%	\$630	\$4	164	186	192	197	75.0%
Rent and Other Income	4	6.0%	\$16	\$0	4	4	5	5	5.0%
Total Departmental Expenses	\$2,513	38.2%	\$10,470	\$62	\$2,776	\$3,166	\$3,261	\$3,359	35.7%
<b>Gross Operating Income</b>	<b>\$4,058</b>	<b>61.8%</b>	<b>\$16,909</b>	<b>\$100</b>	<b>\$4,836</b>	<b>\$5,670</b>	<b>\$5,865</b>	<b>\$6,040</b>	<b>64.3%</b>
<b>UNDISTRIBUTED OPERATING EXPENSES</b>									
Administrative and General	\$578	8.8%	\$2,409	\$14	\$632	\$689	\$703	\$724	7.7%
Marketing	\$539	8.2%	\$2,245	\$13	\$586	\$654	\$666	\$686	7.3%
Utility Costs	\$329	5.0%	\$1,369	\$8	\$343	\$371	\$383	\$395	4.2%
Property Operations and Maintenance	\$335	5.1%	\$1,396	\$8	\$350	\$380	\$392	\$404	4.3%
Total Undistributed Expenses	\$1,781	27.1%	\$7,420	\$44	\$1,911	\$2,094	\$2,144	\$2,209	23.5%
<b>Gross Operating Profit</b>	<b>\$2,277</b>	<b>34.7%</b>	<b>\$9,489</b>	<b>\$56</b>	<b>\$2,925</b>	<b>\$3,576</b>	<b>\$3,720</b>	<b>\$3,832</b>	<b>40.8%</b>
<b>FIXED EXPENSES</b>									
Property Taxes	\$0	0.0%	\$0	\$0	478	478	478	478	5.1%
Insurance	99	1.5%	\$411	\$2	107	115	119	122	1.3%
Management Fee	230	3.5%	\$958	\$6	266	309	319	329	3.5%
Reserve for Replacement	\$66	1.0%	\$274	\$2	\$114	\$177	\$274	\$282	3.0%
Total Fixed Expenses	\$394	6.0%	\$1,643	\$10	\$965	\$1,079	\$1,190	\$1,211	12.9%
<b>Cash Flow from Operations</b>	<b>\$1,883</b>	<b>28.7%</b>	<b>\$7,847</b>	<b>\$47</b>	<b>\$1,960</b>	<b>\$2,497</b>	<b>\$2,530</b>	<b>\$2,621</b>	<b>27.9%</b>

Source: HSP



The property is projected to generate a total of \$6.6 million in gross revenue in the first year, increasing to \$9.4 million in the fifth year. Approximately \$1.9 million will be available to satisfy debt and equity requirements in the first year. By the fifth year the hotel is projected to generate \$2.6 million in net operating income.

## **Explanation of Income and Expense Items**

The estimates of income and expense statements are based on the results of operations of comparable hotels that are essentially full service hotels with some limited service attributes, such as smaller amounts of function space and fewer food and beverage options.

The steps in the projection of income and expenses for the proposed Hotel include projecting the income and expenses for Year 1. The income for each of these years is estimated based on the expected impact that the change in occupancy and average daily room rates is expected to have on income and expenses. Expense estimates are assumed to have both fixed and variable components, and vary based on projected occupancy levels.

### *Departmental Revenues and Expenses*

#### **Distributed Departmental Revenues and Expenses**

**Rooms Department:** Room revenue is estimated by multiplying the occupancy rate by the average daily rate (ADR) projected in this analysis.

Rooms department Expenses include payroll and related costs associated with the front desk and housekeeping, operating supplies, laundry linens, cable television, and other items necessary to maintain guest rooms.

**Food and Beverage:** Food and Beverage is comprised of room service, and revenues from bars, and catering revenue.

Food and beverage expenses are among the highest in the Hotel's departments (outside of telecommunications). Hotels with significant food and beverage business tend to have lower net profit ratios.

**Telephone Department:** Estimated telephone revenue is based on the experience of the similar hotel properties. The increasing use of cellular phones and expectation of free high-speed internet access has cut the gross and net revenue figures in this department across the industry in the last few years. Some hotel chains, such as Marriott, charge a flat \$10 per night fee for high-speed internet access, while others provide it gratis in select-service brands. In many hotels, this department loses money.

**Other Operated Departments:** This income category is typically comprised of smaller departments that generate income from activities such as valet laundry, business services, and

similar others. It is figured based on a percentage of total revenue and the experiences of other full-service properties.

**Parking:** Parking revenue consists of valet and parking garage revenue charged to the guest. In this case, the hotel will not own the garage and so will then pay many of these funds to the garage owner (likely the City or ERC). This model assumes that 75 percent of parking revenue is pledged to the City, or about \$5 per room night per car.

**Rentals and Other Income:** This income category is typically comprised of interest, commissions on vending machine sales, movies, and other miscellaneous income. This income category is typically highly dependent on occupancy and has a very low expense ratio.

### *Undistributed Operating Expenses*

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses in accordance with the Uniform System of Accounts for hotels. These expenses are discussed in the following paragraphs.

**Administrative and General:** This category covers expenses such as salaries and wages for management staff, bookkeeping, data processing charges, corporate office charges, office supplies, legal, accounting, allowance for bad debts, travel expenses, and similar items. General insurance (liability, business risk, etc.) is included in the Administrative and General (A&G) category.

**Marketing Expenses:** Marketing expenses include franchise fees, local advertising, marketing costs, the cost of printing brochures, and other related items. It is possible these figures could increase, depending upon the brand of hotel.

**Utilities:** This includes all utility expenses in the property, including electricity, gas and water.

**Property Operations and Maintenance:** Property operations and maintenance expenses include salaries and wages, employee benefits, other payroll costs, normal maintenance of the building and electrical and mechanical equipment.

### *Fixed Charges*

**Property Taxes:** are estimated based on the cost method of assessment, as discussed with the assessor's office. The rate for the hotel is 2.984 percent of assessed value.

**Insurance:** This insurance category covers only the cost of building and contents insurance and no liability insurance. The liability insurance is found in the A&G expense.

**Management Fees:** This fee is generally more complex and is figured based on a base fee as well as an incentive fee for bottom line performance.

**Reserve for Replacement:** As is standard for income-producing properties, a reserve for replacement for furniture, fixtures, and equipment, as well as other capital items has been included in this analysis. Recent studies have indicated that, over the long-term, a minimum of four percent is required to properly maintain hotel facilities and actual costs could be higher. HSP projects a reserve level that increases as the property ages, to a stabilized four percent.

### **Supportable Equity & Debt Funding**

The table below shows the supportable equity and debt, assuming loan rates, amortization periods, equity return requirements, debt coverage ratios and resulting supportable value per room.

The following assumptions have been made:

- Minimum senior loan coverage ratio of 1.0x by the first year of operation and 1.4x by the second year.
- Interest rate of 6.5 percent on an amortization schedule of 20 years.
- Maximum of 65 percent senior loan to value.
- Ten-year average return on equity requirement of 20 percent.
- Refinancing after third year, reducing interest rate to 6.0 percent.
- Project budget includes working capital to pay all operating expenses and debt service requirements in the first full year.

**Table 9-8**

<b>Financing Assumptions - 240-Room Convention Hotel</b>												
	<b>Constr. Yr1</b>	<b>Constr. Yr2</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Year 9</b>	<b>Year 10</b>
Net Operating Income	\$0	\$0	\$1,883	\$1,960	\$2,497	\$2,530	\$2,621	\$2,898	\$2,998	\$3,101	\$3,377	\$3,053
Interest and Debt Reserve W/D	\$289	\$868	\$0	\$300	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service Payment	(\$289)	(\$868)	(\$1,615)	(\$1,615)	(\$1,615)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)
Net Income to Repay Equity	\$0	\$0	\$268	\$645	\$882	\$1,107	\$1,197	\$1,474	\$1,574	\$1,677	\$1,953	\$1,629
Princ. Amount***	\$4,450	\$13,350	\$17,800	\$17,342	\$16,853	\$16,330	\$15,886	\$15,416	\$14,917	\$14,388	\$13,828	\$13,233
Interest	\$289	\$868	\$1,157	\$1,127	\$1,095	\$980	\$953	\$925	\$895	\$863	\$830	\$794
Less Payment	(\$289)	(\$868)	(\$1,615)	(\$1,615)	(\$1,615)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)	(\$1,424)
Loan Balance	\$4,450	\$13,350	\$17,342	\$16,853	\$16,333	\$15,886	\$15,416	\$14,917	\$14,388	\$13,828	\$13,233	\$12,604
<b>Assumptions</b>												
Loan Amount (\$000's)	\$17,800											
Amortization Period (Years)	20											
Loan Interest Rate	6.5%											
Annual Debt Service Payment (\$000's)	(\$1,615)											
Equity:												
Developer's Equity (\$000's)	\$6,200	16%										
Private Debt	\$17,800	46%										
Total Private Financing	\$24,000	63%	\$100,000	per room								
Debt (Private) Coverage Ratio			1.17	1.40	1.55	1.78	1.84	2.04	2.11	2.18	2.37	2.14
Return on Private Equity*			4.3%	10.4%	14.2%	17.8%	19.3%	23.8%	25.4%	27.1%	31.5%	26.3%
Return on Assets**			4.9%	5.1%	6.5%	6.6%	6.8%	7.5%	7.8%	8.1%	8.8%	7.9%
<i>*On developer's equity only.</i>												
<i>**On project cost.</i>												
<i>***Assumes 50% draw in Construction Year 1; 75% average during Construction Year 2</i>												
Source: HSP												

Based on these requirements, the estimated supportable value of the project is \$24 million or \$100,000 per key. This value could adjust significantly based on a number of assumption changes related to performance and financing requirements. As shown, when taxes are first assessed in material way (second year after opening), the net income drops and therefore cash reserves will be necessary to ensure that the coverage level of cash/income is sufficient to reach the 1.4x ratio.

Any other costs for the project will need to be borne by another entity.

The table below shows the economic value (financeable value) of the project under various scenarios, along with their performance information.

**Table 9-9**

<b>Projection of Stabilized ADR and Occupancy (2018)</b>					
<b>Limited Service Plus</b>	<b>180</b>	<b>210</b>	<b>240</b>	<b>270</b>	<b>300</b>
ADR	\$138	\$135	\$132	\$130	\$129
Occupancy	61%	61%	60%	59%	59%
RevPAR	\$85	\$82	\$79	\$77	\$75
Economic Value*	\$18.8	\$21.8	\$24.0	\$26.4	\$28.0
<b>Full Service</b>	<b>180</b>	<b>210</b>	<b>240</b>	<b>270</b>	<b>300</b>
ADR	\$138	\$135	\$132	\$130	\$129
Occupancy	62%	61%	61%	60%	59%
RevPAR	\$85	\$83	\$80	\$78	\$76
Economic Value*	\$19.5	\$22.4	\$24.6	\$27.1	\$28.7

\* Millions  
Source: Hunden Strategic Partners

As shown, economic value increases with the size of the project. However, value does not increase by much if the project has more function space and restaurants as the additional revenue is offset by higher property taxes.

Again, it should be noted that any increase in the cost per room of the hotel of even \$4,000 will increase the cost and subsidy by \$1 million or more.

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## **COST ESTIMATES & GAP FINANCING**

In this chapter, HSP provides estimates of the cost of the various scenarios, as well as the cost of the ancillary developments necessary to complete the development package. Based on the cost of the project versus the economic value of the project, there will be a gap, that would need to be financed, potentially from new tax revenues generated by the project.

The following items are priced into the hotel tower, the component expected to be developed by the private sector:

- Hotel Rooms
- Lobby
- Pool
- Restaurant(s)
- Function space (other than that provided by the amenity/ancillary connector building)
- Support spaces, kitchen, and related.
- Connector to the amenity/ancillary building

The following items are priced into the publicly-financed components:

- Ancillary/Amenity building that includes 30,000 square feet of space on two levels, including function space for the hotel, a restaurant and the CVB office and retail presence. This is not required for the hotel's development and therefore, while an expense, should not be totally counted as part of the hotel project cost.
- Connectors from the ancillary/amenity building to The Centre and the Ford Center
- Parking garage

All of the scenarios are summarized in the table below.

**Table 9-1**

Budget & Subsidy Estimates												
Metric	Limited Service Plus (000s)					Metric	Full Service (000s)					
	180	210	240	270	300		180	210	240	270	300	
<b>Hard Costs</b>												
Hotel	\$85	\$15,300	\$17,850	\$20,400	\$22,950	\$25,500	\$124	\$22,320	\$26,040	\$29,760	\$33,480	\$37,200
Connector to Amenity Building	\$9	\$810	\$810	\$810	\$810	\$810	\$9	\$810	\$810	\$810	\$810	\$810
FF&E	\$16	\$2,880	\$3,360	\$3,840	\$4,320	\$4,800	\$24	\$4,320	\$5,040	\$5,760	\$6,480	\$7,200
<b>Subtotal Hard Costs</b>		\$18,990	\$22,020	\$25,050	\$28,080	\$31,110		\$27,450	\$31,890	\$36,330	\$40,770	\$45,210
Per Key		\$105.50	\$104.86	\$104.38	\$104.00	\$103.70		\$152.50	\$151.86	\$151.38	\$151.00	\$150.70
<b>Soft Costs</b>												
Design/Engineering Fees	9.5%	\$1,530	\$1,773	\$2,015	\$2,257	\$2,499	9.5%	\$2,197	\$2,551	\$2,904	\$3,258	\$3,611
Developer Fee**	3.0%	\$591	\$689	\$788	\$886	\$984	3.0%	\$865	\$1,009	\$1,153	\$1,297	\$1,440
Financing Costs	3.9%	\$855	\$992	\$1,128	\$1,265	\$1,402	3.9%	\$1,232	\$1,432	\$1,631	\$1,831	\$2,030
Pre-Opening	\$4.5	\$810	\$945	\$1,080	\$1,215	\$1,350	\$6.0	\$1,080	\$1,260	\$1,440	\$1,620	\$1,800
<b>Subtotal Soft Costs</b>		\$3,787	\$4,399	\$5,011	\$5,623	\$6,235		\$5,375	\$6,251	\$7,128	\$8,005	\$8,882
Per Key		\$21.04	\$20.95	\$20.88	\$20.83	\$20.78		\$29.86	\$29.77	\$29.70	\$29.65	\$29.61
<b>Total Cost</b>		<b>\$22,777</b>	<b>\$26,419</b>	<b>\$30,061</b>	<b>\$33,703</b>	<b>\$37,345</b>		<b>\$32,825</b>	<b>\$38,141</b>	<b>\$43,458</b>	<b>\$48,775</b>	<b>\$54,092</b>
Per Key		\$126.54	\$125.80	\$125.25	\$124.83	\$124.48		\$182.36	\$181.63	\$181.08	\$180.65	\$180.31
<b>Economic Value of Hotel</b>												
		\$18,800	\$21,750	\$24,000	\$26,400	\$28,000		\$19,500	\$22,400	\$24,600	\$27,100	\$28,700
Per Key		\$104.44	\$103.57	\$100.00	\$97.78	\$93.33		\$119.17	\$117.33	\$112.75	\$110.41	\$105.23
<b>Value of Subsidy Needed</b>		<b>\$3,977</b>	<b>\$4,669</b>	<b>\$6,061</b>	<b>\$7,303</b>	<b>\$9,345</b>		<b>\$13,325</b>	<b>\$15,741</b>	<b>\$18,858</b>	<b>\$21,675</b>	<b>\$25,392</b>
<b>As a % of Total Cost</b>		<b>17%</b>	<b>18%</b>	<b>20%</b>	<b>22%</b>	<b>25%</b>		<b>41%</b>	<b>41%</b>	<b>43%</b>	<b>44%</b>	<b>47%</b>
<b>Public Costs</b>												
Garage		\$3,548	\$3,548	\$3,548	\$5,453	\$5,453		\$3,548	\$3,548	\$3,548	\$5,453	\$5,453
Two Connectors		\$2,286	\$2,286	\$2,286	\$2,286	\$2,286		\$2,286	\$2,286	\$2,286	\$2,286	\$2,286
Public Infrastructure/Plaza		\$1,643	\$1,643	\$1,643	\$1,643	\$1,643		\$1,643	\$1,643	\$1,643	\$1,643	\$1,643
<b>Subtotal Public Costs</b>		<b>\$7,477</b>	<b>\$7,477</b>	<b>\$7,477</b>	<b>\$9,382</b>	<b>\$9,382</b>		<b>\$7,477</b>	<b>\$7,477</b>	<b>\$7,477</b>	<b>\$9,382</b>	<b>\$9,382</b>
<b>Total of Subsidy plus Public Developments</b>		<b>\$11,453</b>	<b>\$12,146</b>	<b>\$13,538</b>	<b>\$16,685</b>	<b>\$18,727</b>		<b>\$20,801</b>	<b>\$23,218</b>	<b>\$26,335</b>	<b>\$31,057</b>	<b>\$34,774</b>
<b>Grand Total of All Projects</b>		<b>\$30,253</b>	<b>\$33,896</b>	<b>\$37,538</b>	<b>\$43,085</b>	<b>\$46,727</b>		<b>\$40,301</b>	<b>\$45,618</b>	<b>\$50,935</b>	<b>\$58,157</b>	<b>\$63,474</b>

\* All Construction-Related Fees & Costs (3% of Hard Costs) included in Hard Costs  
\*\* Based on Hotel Tower only  
Source: Hunden Strategic Partners

The hotel costs for the private sector tower and connector range from \$22.8 million for the 180-room limited service plus model to \$54.1 million for the full-service model with all function space. It is possible that with construction price increases that the costs could be higher. Any \$4,000 per room cost increase would result in approximately \$1 million in additional cost and subsidy.

Soft costs are generally figured as a percentage of hard costs. The pre-opening expense is the expense associated with hiring staff to market the hotel and get it ready for opening prior to the opening. Financing costs are those costs related to carried interest and other financing fees.

The 240-room “limited service plus/full-service light” model that has been the focus of this projection is \$30.1 million. With a value of \$24 million, this leaves a gap of \$6.1 million plus the cost of the garage and other connectors.



The garage is projected to cost between \$3.5 million and \$5.4 million, depending on if there are two or three levels. This is based on \$15,000 per space plus soft costs. The connectors are expected to be \$9,000 per linear foot and at over 200 feet total between the two, the costs are projected at \$2.3 million. Public infrastructure includes sidewalks, curbs, street work, utility connections, a public plaza and other street-level or underground work necessary to develop the projects. The amenity building is priced at \$200 per square foot plus soft costs.

**In total for the 240-room model, total public investment is \$13.5 million, not including the amenity building, which would add approximately \$6 to \$7 million to the overall cost.**

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## ECONOMIC, FISCAL & EMPLOYMENT IMPACT ANALYSIS

In order to determine the return on public investment for a project such as the convention hotel proposed it is important to complete an economic, fiscal and employment impact model. The Project will generate net new economic activity in the City and County because it will change the attractiveness of downtown Evansville for the better and will:

- Recapture spending that was leaving Evansville to go to other cities
- Generate more room nights
- Generate significant food and beverage sales, retail sales and transportation sales
- Generate new event activity at The Centre
- Create synergies with the Ford Center
- Create pedestrian and downtown activity after 5pm and on weekends
- Make downtown a more attractive place to live, work and play
- Increase community pride
- Create a better downtown environment
- Make downtown and the area more attractive to employees
- Make downtown and the area more attractive to employers

Several of these impacts are not easily measured, however the economic, fiscal and employment impacts can be estimated and they are presented here.

The detail for the 240-room limited service plus scenario will be shown and then a summary of all scenario impacts.

### Impacts

HSP uses the IMPLAN input-output multiplier model, which determines the level of additional activity in the Vanderburgh County economy due to additional inputs. For example, for every dollar of direct new spending in the county, the IMPLAN model provides multipliers for the indirect and induced spending that will result.

The net new and recaptured direct spending is considered to be the **Direct Impact**.

From the direct spending figures, further impact analyses will be completed.

- **Indirect Impacts** are the supply of goods and services resulting from the initial direct spending. For example, a visitor's direct expenditure on a hotel room causes the hotel to purchase linens and other items from suppliers. The portion of these hotel purchases that are within the local economy is considered an indirect economic impact.

- **Induced Impacts** embody the change in spending due to the personal expenditures by employees whose incomes are affected by direct and indirect spending. For example, a waitress at a restaurant may have more personal income as a result of the visitor’s visit. The amount of the increased income that the employee spends in the area is considered an induced impact.
- **Fiscal Impacts** represent the incremental tax revenue collected by the City or County due to the net new economic activity. The fiscal impact represents the government’s share of total economic benefit. Fiscal impacts provide an offset to the potential public expenditures required to support the development.
- **Employment Impacts** include the incremental employment provided not only onsite, but due to the spending associated with it. For example, the direct, indirect and induced impacts generate spending, support new and ongoing businesses, and ultimately result in ongoing employment for citizens. HSP will show the number of ongoing jobs supported by the project and provide the resulting income and income taxes generated.

The following table shows the net new direct, indirect and induced spending from the Project. This is not the total of all onsite and offsite spending, but the total net new spending to the community from the project. Some of the spending onsite will be transferred from other existing hotels and that is considered substitute spending and not counted.

**Table 11-1**

Direct Net New Spending (000s)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20	Year 25	Total
<b>Direct New Spending</b>										
Food & Beverage	\$991	\$1,552	\$1,971	\$2,235	\$2,295	\$2,624	\$2,687	\$3,076	\$3,320	<b>\$66,086</b>
Lodging	\$1,946	\$3,183	\$4,139	\$4,707	\$4,849	\$5,626	\$6,526	\$7,568	\$8,775	<b>\$153,218</b>
Retail	\$148	\$241	\$314	\$357	\$368	\$426	\$494	\$573	\$664	<b>\$11,600</b>
Transportation	\$300	\$491	\$638	\$726	\$748	\$867	\$1,005	\$1,165	\$1,350	<b>\$23,591</b>
Other	\$167	\$274	\$356	\$404	\$417	\$483	\$560	\$649	\$752	<b>\$13,147</b>
<b>Total</b>	<b>\$3,552</b>	<b>\$5,741</b>	<b>\$7,417</b>	<b>\$8,429</b>	<b>\$8,677</b>	<b>\$10,026</b>	<b>\$11,271</b>	<b>\$13,031</b>	<b>\$14,861</b>	<b>\$267,642</b>

Source: Hunden Strategic Partners

The direct new spending due to the Project is projected to total nearly \$3.6 million in the first year, increasing to nearly \$15 million by the 25<sup>th</sup> year. Total new direct spending is projected to be nearly \$270 million over the period. The largest category of new spending is lodging, followed by new food and beverage spending.

The next table shows the net new direct, indirect and induced spending. Essentially these are the second and third waves of economic spending impact from the direct spending.

**Table 11-2**

Direct, Indirect & Induced Net New Spending (000s)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20	Year 25	Total
<b>Net New Spending</b>										
Direct	\$3,552	\$5,741	\$7,417	\$8,429	\$8,677	\$10,026	\$11,271	\$13,031	\$14,861	<b>\$267,642</b>
Indirect	\$1,201	\$1,940	\$2,506	\$2,847	\$2,931	\$3,386	\$3,802	\$4,395	\$5,010	<b>\$90,327</b>
Induced	\$1,389	\$2,245	\$2,901	\$3,296	\$3,393	\$3,921	\$4,409	\$5,098	\$5,815	<b>\$104,694</b>
<i>Total</i>	<i>\$6,142</i>	<i>\$9,926</i>	<i>\$12,823</i>	<i>\$14,573</i>	<i>\$15,001</i>	<i>\$17,334</i>	<i>\$19,482</i>	<i>\$22,524</i>	<i>\$25,686</i>	<b><i>\$462,663</i></b>

Source: Hunden Strategic Partners

The combined spending from the net new activity at the Project is more than \$6 million in the first year and increases to more than \$25 million by the 25<sup>th</sup> year, totaling more than \$460 million.

The spending shown above will generate earnings by those who work in those industries and other affected by higher general spending. The expected net new earnings are shown below.

**Table 11-3**

Net New Earnings from Direct, Indirect & Induced Spending (000s)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20	Year 25	Total
<b>Net New Earnings</b>										
From Direct	\$1,119	\$1,808	\$2,336	\$2,655	\$2,733	\$3,159	\$3,553	\$4,108	\$4,686	<b>\$84,347</b>
From Indirect	\$392	\$634	\$820	\$932	\$959	\$1,108	\$1,248	\$1,443	\$1,647	<b>\$29,614</b>
From Induced	\$417	\$673	\$870	\$988	\$1,017	\$1,175	\$1,321	\$1,527	\$1,741	<b>\$31,372</b>
<i>Total</i>	<i>\$1,928</i>	<i>\$3,116</i>	<i>\$4,026</i>	<i>\$4,575</i>	<i>\$4,709</i>	<i>\$5,442</i>	<i>\$6,121</i>	<i>\$7,078</i>	<i>\$8,075</i>	<b><i>\$145,332</i></b>

Source: Hunden Strategic Partners

The new earnings from the net new spending are expected to be nearly \$2 million in the first year and increase to more than \$8 million over the period. The total new earnings are expected to total more than \$145 million over the period.

These earnings will support a number of full-time equivalent employees in a variety of industries, shown below.

**Table 11-4**

Net New Full-Time Equivalent Jobs from Direct, Indirect & Induced Earnings (000s)									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20	Year 25
<b>Net New FTE Jobs</b>									
From Direct	19	30	37	41	41	41	41	41	41
From Indirect	7	10	13	14	14	14	14	14	14
From Induced	7	11	14	15	15	15	15	15	15
<b>Total</b>	<b>33</b>	<b>51</b>	<b>64</b>	<b>71</b>	<b>71</b>	<b>71</b>	<b>71</b>	<b>71</b>	<b>71</b>

Source: Hunden Strategic Partners

New full-time equivalent jobs in the county are projected to be 71 by stabilization. This is not necessarily the number of people who will be employed onsite. That figure could range from 100 to 300 full and part-time jobs.

The next table shows the project fiscal impact from the project, including property taxes, parking revenue to the City, local option income taxes and hotel taxes.

**Table 11-5**

Fiscal Impact - Tax Impacts from Net New Spending (000s)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20	Year 25	Total
<b>Taxes Collected</b>										
Property Tax (2.984%)	\$0.0	\$477.9	\$477.9	\$477.9	\$477.9	\$477.9	\$490.0	\$502.4	\$515.1	<b>\$11,764</b>
Parking Revenue	\$151.3	\$164.1	\$185.6	\$191.6	\$197.4	\$226.6	\$250.2	\$276.2	\$305.0	<b>\$5,992</b>
Food & Beverage Tax (1.0%)	\$9.9	\$15.5	\$19.7	\$22.3	\$23.0	\$26.2	\$26.9	\$30.8	\$33.2	<b>\$661</b>
County Lodging Tax (8.0%)	\$155.7	\$254.6	\$331.1	\$376.6	\$388.0	\$450.1	\$522.1	\$605.4	\$702.0	<b>\$12,257</b>
County Option Income Tax (1.0%)	\$1.9	\$3.1	\$4.0	\$4.6	\$4.7	\$5.4	\$6.1	\$7.1	\$8.1	<b>\$145</b>
<b>Total</b>	<b>\$318.8</b>	<b>\$915.3</b>	<b>\$1,018.3</b>	<b>\$1,073.1</b>	<b>\$1,090.9</b>	<b>\$1,186.3</b>	<b>\$1,295.2</b>	<b>\$1,421.9</b>	<b>\$1,563.3</b>	<b>\$30,820</b>

Source: Hunden Strategic Partners

Total taxes and revenues collected by city and county agencies is projected to total \$30.82 million over the period, with nearly \$12 million in property taxes, more than \$12 million in lodging taxes as well as nearly \$6 million in parking fees.

### Construction Impact Summary

The following table shows the impact from construction for each scenario, which is a one-time activity.

**Table 11-6**

	Construction Impact										
	Development Cost (000s)	Materials Spending (000s)				Earnings from (000s)				Local Income Tax	Employment Years
Direct		Indirect	Induced	Total	Direct	Indirect	Indirect	Total			
<b>180 LS</b>	\$30,253	\$8,713	\$2,439	\$3,886	\$15,038	\$14,522	\$2,439	\$3,886	\$20,846	\$208.5	268
<b>180 FS</b>	\$33,896	\$9,762	\$2,732	\$4,354	\$16,848	\$16,270	\$2,732	\$4,354	\$23,356	\$233.6	300
<b>210 LS</b>	\$37,538	\$10,811	\$3,026	\$4,822	\$18,658	\$18,018	\$3,026	\$4,822	\$25,866	\$258.7	333
<b>210 FS</b>	\$43,085	\$12,408	\$3,473	\$5,534	\$21,416	\$20,681	\$3,473	\$5,534	\$29,688	\$296.9	382
<b>240 LS</b>	\$46,727	\$13,457	\$3,767	\$6,002	\$23,226	\$22,429	\$3,767	\$6,002	\$32,198	\$322.0	414
<b>240 FS</b>	\$40,301	\$11,607	\$3,249	\$5,177	\$20,032	\$19,345	\$3,249	\$5,177	\$27,770	\$277.7	357
<b>270 LS</b>	\$45,618	\$13,138	\$3,677	\$5,860	\$22,675	\$21,897	\$3,677	\$5,860	\$31,434	\$314.3	404
<b>270 FS</b>	\$50,935	\$14,669	\$4,106	\$6,542	\$25,318	\$24,449	\$4,106	\$6,542	\$35,097	\$351.0	451
<b>300 LS</b>	\$58,157	\$16,749	\$4,688	\$7,470	\$28,907	\$27,915	\$4,688	\$7,470	\$40,074	\$400.7	515
<b>300 FS</b>	\$63,474	\$18,280	\$5,117	\$8,153	\$31,550	\$30,467	\$5,117	\$8,153	\$43,737	\$437.4	562

Source: Hunden Strategic Partners

The construction impact will be greater the larger the project. For the 240-room limited service plus model, the total impact from materials spending is projected to be \$23.2 million. Earnings are projected to be more than \$32 million, leading to 414 job-years, or one job for one year.

The next table shows the summary of impacts.

**Table 11-7**

<b>Summary of 25-Year Impacts (millions)</b>	
<b>Net New Spending</b>	
Direct	\$268
Indirect	\$90
Induced	\$105
Total	<u>\$463</u>
<b>Net New Earnings</b>	
From Direct	\$84
From Indirect	\$30
From Induced	\$31
Total	<u>\$145</u>
<b>Net New FTE Jobs</b>	
	<b>Actual</b>
From Direct	41
From Indirect	14
From Induced	15
Total	<u>71</u>
<b>Taxes Collected</b>	
Property Tax (2.984%)	\$11.76
Parking Revenue	\$5.99
Food & Beverage Tax (1.0%)	\$0.66
County Lodging Tax (8.0%)	\$12.26
County Option Income Tax (1.0%)	\$0.15
COIT from Construction (1.0%)	\$0.32
Total	<u>\$31.14</u>
Source: Hunden Strategic Partners	

As shown, total net new spending is \$464 million, new earnings are \$145 million, new FTE jobs total 71 and new local taxes are \$31.14 million.

With the economic, fiscal and employment impacts calculated, based on the expected performance the of the Project, an analysis can be made of the proposed deal as it related to the public sector’s return on investment.

The following table shows the Project’s proposed cost, the resulting non-public investment and the total ROI for the non-private sector, presented as net new local taxes collected as a result of the Project’s development for all scenarios.



**Table 11-8**

<b>Summary of Cost, Value, Subsidy and Impact (millions)</b>					
<b>Limited Service Plus</b>	<b>180</b>	<b>210</b>	<b>240</b>	<b>270</b>	<b>300</b>
Cost of Private Project	\$22.8	\$26.4	\$30.1	\$33.7	\$37.3
Value of Private Project	\$18.8	\$21.8	\$24.0	\$26.4	\$28.0
<i>Subsidy Needed</i>	<i>\$4.0</i>	<i>\$4.7</i>	<i>\$6.1</i>	<i>\$7.3</i>	<i>\$9.3</i>
Public Projects*	\$7.5	\$7.5	\$7.5	\$9.4	\$9.4
<b>Total Public Participation</b>	<b>\$11.5</b>	<b>\$12.1</b>	<b>\$13.5</b>	<b>\$16.7</b>	<b>\$18.7</b>
<b>25-Year Impacts (millions)</b>					
Economic Impact	\$376.8	\$422.5	\$462.7	\$497.6	\$526.7
Jobs Impact	57	64	71	76	81
Fiscal Impact	\$24.6	\$28.0	\$31.1	\$34.1	\$36.9
Return on Public Investment	<b>\$13.2</b>	<b>\$15.8</b>	<b>\$17.6</b>	<b>\$17.4</b>	<b>\$18.2</b>
<b>Full Service</b>	<b>180</b>	<b>210</b>	<b>240</b>	<b>270</b>	<b>300</b>
Cost of Private Project	\$32.8	\$38.1	\$43.5	\$48.8	\$54.1
Value of Private Project	\$19.5	\$22.4	\$24.6	\$27.1	\$28.7
<i>Subsidy Needed</i>	<i>\$13.3</i>	<i>\$15.7</i>	<i>\$18.9</i>	<i>\$21.7</i>	<i>\$25.4</i>
Public Projects*	\$7.5	\$7.5	\$7.5	\$9.4	\$9.4
<b>Total Public Participation</b>	<b>\$20.8</b>	<b>\$23.2</b>	<b>\$26.3</b>	<b>\$31.1</b>	<b>\$34.8</b>
<b>25-Year Impacts</b>					
Economic Impact	\$397.6	\$443.5	\$475.8	\$529.2	\$561.4
Jobs Impact	60	68	73	81	86
Fiscal Impact	\$30.0	\$34.2	\$37.8	\$42.2	\$45.9
Return on Public Investment	<b>\$9.2</b>	<b>\$11.0</b>	<b>\$11.5</b>	<b>\$11.1</b>	<b>\$11.1</b>
* Garage, connectors, infrastructure. Does not include amenity building, estimated between \$6 - 7 million					
Source: Hunden Strategic Partners					

The table shows the likely public investment in the Project for each scenario and compares that with the fiscal impact over the period.

As stated previously, any increase in cost of the project will increase the subsidy needed and reduce the return on public investment.