



August 17, 2012

B. Todd Glover
City Administrator
P.O. Box 6400
100 Georgia Avenue
North Augusta, SC 29860

RE: Proposed North Augusta, SC Hotel and Conference Center

Dear Mr. Glover:

In accordance with our engagement letter, we have completed our Phase I analysis of the market viability of a possible full-service hotel and conference center (the “Project” or the “Subject”) in North Augusta, South Carolina. In the course of our work, we visited the market area, inspected the Site, and toured the immediate area. We subsequently completed the following market analysis procedures:

- Analyzed the suitability of the Site and surrounding areas;
- Reviewed critical issues such as access to the area, transportation systems, and the compatibility of surrounding land uses;
- Interviewed representatives of the City of North Augusta and Aiken and Edgefield Counties, as well as others in the community known to be knowledgeable about the North Augusta and Augusta, GA area lodging market;
- Gathered information from numerous sources including websites, our internal databases, Moody’s Analytics, and individuals knowledgeable about the Augusta and North Augusta market area characteristics, economic and demographic data, development projects and other such market-related information;
- Completed an analysis of the lodging sector in the immediate market area and throughout the state of South Carolina, and translated this information into a projection of potential utilization for the Hotel proposed for development; and
- Based upon the analysis of market demand, we estimated occupancy and average daily room rate for the proposed Hotel for a stabilized year of operation.

As in all studies of this type, the estimated results are based upon our assumption that competent and efficient management will operate the Project and presume no significant change in the competitive position of the lodging and conference industries in the market area from that set forth in this report. The conclusions reached are based upon our present knowledge of the market in the regional area as of the completion of our fieldwork conducted during July and August of 2012.

The following pages detail our estimates of general levels of market support for the Project, characteristics and performance of the competition, facility recommendations for the proposed hotel and conference center, and estimates of stabilized year performance.

Market Characteristics and Performance

To estimate the performance of a potential hotel in downtown North Augusta, South Carolina, where no hotels exist today, we looked at two groups of potentially competitive lodging facilities. The first group includes the full-service and better performing select-service hotels in the City of Augusta. This is the local competitive set, which the Project would compete with for business from individual corporate travelers, leisure travelers, and groups coming specifically to the Augusta/North Augusta area. The second group includes large hotels within the state of South Carolina that would compete with the Project for groups that seek meeting space and sleeping rooms from a state-wide and regional level, such as state association groups. The second group of competitors includes properties in Columbia, Greenville, Spartanburg, Myrtle Beach, Charleston, and Hilton Head Island.

The table on the following page summarizes the profile of the local competitive properties and their actual performance in 2011, followed by a table summarizing the aggregate performance of the local properties from 2007 through 2011, and year to date June 2011 and June 2012.

Local Competitive Set Profile											
	Room Count	Year Built	Meeting Space (sq. ft.)			F&B Outlet	Fitness Center	Pool	Business Center	Performance (2011)	
			Total	Sq. ft. per room	Largest					Occ	ADR
Marriott Augusta	372	1992	24,500	66	10,760	Yes	Yes	Both	Yes	60 - 65%	\$115 - 120
The Partridge Inn	144	1910	5,700	40	2,250	Yes	Yes	Outdoor	Yes	45 - 50%	\$130 - 135
Hilton Garden Inn Augusta	114	2008	2,800	25	2,100	Yes	Yes	Indoor	Yes	75 - 80%	\$125 - 130
Sheraton Hotel Augusta	152	2009	1,150	8	800	Yes	Yes	Both	Yes	55 - 60%	\$110 - 115
Courtyard Augusta	130	1984	1,200	9	590	Yes	Yes	Outdoor	Yes	70 - 75%	\$100 - 105
Doubletree Hotel Augusta	179	1990	10,400	58	5,670	Yes	Yes	Indoor	Yes	70 - 75%	\$115 - 120
Holiday Inn Augusta	150	1986	1,200	8	1,200	Yes	Yes	Outdoor	Yes	65 - 70%	\$80 - 85
Competitive Set Average	177	1983	6,707	38	3,171	N/A	N/A	N/A	N/A	64.3%	\$114.46

Source: PKF Consulting USA, LLC; individual property management and website

Historical Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2007	355,875	N/A	228,368	N/A	64.2%	\$113.36	N/A	\$72.74	N/A
2008	390,550	9.7%	260,030	13.9%	66.6%	117.73	3.9%	78.39	7.8%
2009	402,108	3.0%	248,774	-4.3%	61.9%	114.52	-2.7%	70.85	-9.6%
2010	452,965	12.6%	286,445	15.1%	63.2%	110.14	-3.8%	69.65	-1.7%
2011	452,965	0.0%	291,061	1.6%	64.3%	114.46	3.9%	73.55	5.6%
CAAG	6.2%		6.3%			0.2%		0.3%	
YTD 6/2011	226,665	N/A	148,979	N/A	65.7%	\$124.07	N/A	\$81.55	N/A
YTD 6/2012	226,665	0.0%	152,759	2.5%	67.4%	124.49	0.3%	83.90	2.9%

Source: PKF Consulting USA, LLC; Smith Travel Research

Select observations of the above data are as follows:

- On a compound average annual basis (CAAG), supply has increased 6.2 percent in the past five years. This is a result of the 2008 opening of the Hilton Garden Inn, and the 2009 opening of the Sheraton. There are several limited service hotels proposed or in the final planning stages in Augusta, though none would be directly competitive with the proposed Project.
- Accommodated demand, as measured by the number of occupied rooms, has increased 6.3 percent over the period analyzed, slightly more than the increase in supply. Market occupancy peaked in 2008 at 66.6 percent, but was already approaching this previous peak by year end 2011, when market occupancy was 64.3 percent. Year-to-date June 2012 occupancy is up to 67.4 percent, from 65.7 percent in the same period last year.
- Average daily rate (ADR) peaked in 2008 at \$117.73, and has remained relatively flat on a CAAG basis over the period analyzed. ADR for the period year to date June 2012 is relatively flat from the same period last year.
- On a CAAG basis, Revenue per Available Room (RevPAR) has also remained relatively flat. While many markets across the United States saw double-digit declines in RevPAR in 2009 and 2010, the Augusta, GA is seemingly more resilient with only 9.6 percent and 1.7 percent decreases in RevPAR in 2009 and 2010, respectively. 2011 saw a 5.6 percent increase in RevPAR, and year to date June 2012 RevPAR is up 2.9 percent from the same period last year.
- The above points suggest that the local market is recovering from the effects of the recent economic recession, and we have reason to believe that the hotels in this competitive set will return to previous peak occupancies by 2012, with previous peak ADRs following shortly after in 2013.

The table below summarizes the profile of the state-wide competitive properties and their actual performance in 2011.

State-Wide Competitive Set Profile											
	Room Count	Year Built	Meeting Space (sq. ft.)			F&B Outlet	Fitness Center	Pool	Business Center	Performance (2011)	
			Total	Sq. ft. per room	Largest					Occ	ADR
Marriott Columbia	300	1983	27,000	90	6,550	Yes	Yes	Indoor	Yes	60 - 65%	\$105 - 110
Embassy Suites Columbia Greystone	213	1988	14,000	66	8,780	Yes	Yes	Indoor	Yes	70 - 75%	\$110 - 115
Doubletree Columbia	238	1985	20,000	84	11,000	Yes	Yes	Outdoor	Yes	40 - 45%	\$85 - 90
Hilton Columbia Center	222	2007	6,800	31	3,600	Yes	Yes	Outdoor	Yes	60 - 65%	\$140 - 145
Greenville Hilton	256	1987	16,200	63	4,750	Yes	Yes	Indoor	Yes	55 - 60%	\$95 - 100
Hyatt Regency Greenville	328	1982	34,000	104	14,380	Yes	Yes	Outdoor	Yes	65 - 70%	\$105 - 110
Marriott Greenville	203	1988	11,600	57	4,840	Yes	Yes	Both	Yes	70 - 75%	\$100 - 105
Embassy Suites Greenville	267	1993	18,500	69	11,550	Yes	Yes	Both	Yes	65 - 70%	\$100 - 105
Marriott Renaissance Park Spartanburg	246	2004	26,800	109	11,340	Yes	Yes	Outdoor	Yes	55 - 60%	\$105 - 110
Sonesta (Former Crowne Plaza) Hilton H	340	1981	13,250	39	9,880	Yes	Yes	Both	Yes	45 - 50%	\$120 - 125
Holiday Inn Oceanfront Hilton Head	202	1973	4,600	23	3,000	Yes	Yes	Outdoor	Yes	60 - 65%	\$125 - 130
Charleston Marriott	341	1979	20,600	60	9,680	Yes	Yes	Outdoor	Yes	65 - 70%	\$130 - 135
Sheraton Myrtle Beach	400	2003	31,200	78	16,980	Yes	Yes	Indoor	Yes	55 - 60%	\$100 - 105
Hilton Myrtle Beach	385	1974	33,600	87	14,440	Yes	Yes	Outdoor	Yes	55 - 60%	\$125 - 130
Competitive Set Average	293	1986	20,042	68	7,728	N/A	N/A	N/A	N/A	61.1%	\$113.62

Source: PKF Consulting USA, LLC; individual property management and website

The table below summarizes the aggregate performance of the above listed properties, the state-wide competitive set, from 2007 through 2011, and year to date June 2011 and June 2012.

Historical Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2007	1,438,465	N/A	903,730	N/A	62.8%	\$120.99	N/A	\$76.01	N/A
2008	1,438,465	0.0%	875,253	-3.2%	60.8%	121.29	0.3%	73.80	-2.9%
2009	1,438,465	0.0%	813,583	-7.0%	56.6%	111.58	-8.0%	63.11	-14.5%
2010	1,438,465	0.0%	857,915	5.4%	59.6%	110.52	-0.9%	65.92	4.4%
2011	1,438,465	0.0%	879,035	2.5%	61.1%	113.62	2.8%	69.43	5.3%
CAAG	0.0%		-0.7%			-1.6%		-2.2%	
YTD 1/2011	119,720	N/A	76,741	N/A	64.1%	\$114.16	N/A	\$73.18	N/A
YTD 1/2012	119,720	0.0%	78,443	2.2%	65.5%	118.64	3.9%	77.74	6.2%

Source: PKF Consulting USA, LLC; Smith Travel Research

Select observations of the above data are as follows:

- Supply has not changed during the period analyzed.
- Accommodated demand, as measured by the number of occupied rooms, has decreased 0.7 percent over the period analyzed. Market occupancy peaked in 2007 at 62.8 percent, but was already approaching this previous peak by year end 2011, when market occupancy was 61.1 percent. Year-to-date June 2012 occupancy is up to 65.6 percent, from 64.1 percent in the same period last year.
- Average daily rate peaked in 2008 at \$121.29, and has decreased 1.6 percent on a CAAG basis over the period analyzed. ADR for the period year to date June 2012 is up 3.9 percent from the same period last year.
- On a CAAG basis, Revenue per Available Room has decreased 2.2 percent during the period analyzed. However, 2011 saw a 5.3 percent increase in RevPAR from 2010, and year to date June 2012 RevPAR is up 6.2 percent from the same period last year. This indicates that the state-wide market is not quite as resilient as the local Augusta market, but that market recovery is certainly underway.
- We believe that the hotels in this competitive set will return to previous peak occupancies by 2012, with previous peak ADRs following shortly after in 2013.

As noted in our previous discussion, we expect both the local and South Carolina state-wide competitive sets to return to previous peak occupancies by year end 2012, and previous peak ADR levels by year end 2013. Therefore, both markets will have reached full recovery by the time the proposed Project in North Augusta is completed in 2014/2015.

Facilities Recommendations

To be competitive in both the local and state-wide lodging markets, we believe the Project in North Augusta will need to have a minimum of 175 guestrooms. We believe the maximum number of guestrooms that may be supported is 250. We also believe that the Project should include 80-100 square feet of net useable meeting space per guestroom, or a total of 14,000 square feet to 17,500 square feet for a 175-room property, or 20,000 square feet to 25,000 square feet for a 250-room property. We recommend the Subject Hotel be affiliated with a national hotel chain at a quality level commensurate to a 3.0 or 3.5-star Hotel.

An important factor when building a hotel is the decision on the number of suites to build, and what should be the mix of king and double rooms. The two double bed or two queen bed rooms are the most popular room type among travelers seeking accommodations with multiple occupants, particularly groups. Leisure guests, SMERF and some association groups generally prefer this room type. Guestrooms with one king-sized bed are the preferred room type among corporate travelers, corporate groups, and many associations. All guest rooms will need to be appointed with all the features and amenities that are commensurate of a high-quality property, as there is a strong correlation between amenity offering and the perceived quality of the hotel.

We recommend the Project have a full-service restaurant on site open for breakfast, lunch, and dinner. We also recommend that the Subject feature a bar that operates in the evening, and a kitchen that supports the banquet and catering services and full room-service offered at the Subject. An additional outlet such as a coffee and or sandwich shop is also recommended.

Other support facilities are often times required by the hotel chain and have slowly become "standard amenities" perceived by hotel guests. These include swimming pool, business center (or services), fitness center, small sundry shop/corner and ample complimentary parking. Given the amount of group business that the Project will attract, a spa may be a consideration as well.

Stabilized Performance

We have analyzed the historical performance of both the local lodging market and the state-wide lodging market to project the performance of the Project.

A hotel's fair market share is a primary consideration in formulating estimates of potential competitive market position. Fair market share is defined as the percentage of

demand a given property could obtain based on the ratio of its available guestrooms to the total number of available guestrooms in the selected competitive market including the Subject. Market penetration or competitive share is expressed as a percentage of the fair share based on the attributes of the hotel relative to the competitive market. It is defined as the percentage of demand captured by a property on the basis of such competitive factors as location, appearance, chain affiliation, size, reputation, physical condition, market orientation, room rate structure and facilities offered. Factors indicating that a hotel would possess competitive advantages would suggest competitive share ratios in excess of 100 percent while competitive weaknesses are reflected in competitive share ratios of less than 100 percent.

We estimate that the Project will reach 100 percent of its fair share of occupancy by its third year of operation, which, based on a 225-room hotel, translates to **68 percent** occupancy. We believe the Subject will compete most directly with the Marriott Augusta, and will slightly out-perform this property in terms of occupancy as it will be significantly smaller in its room count. Conversely, the Subject's occupancy will be below the smaller properties in the local competitive set such as the Hilton Garden Inn and Courtyard, which fill up more quickly because of their reduced key count. The proposed project will operate at an occupancy level in-line with or slightly above the state-wide competitors, in aggregate.

We estimate that the Project will achieve an ADR, in a stabilized year of operations, slightly below the ADR achieved by the Marriott Augusta. In 2012 Dollars, we estimate the Subject's ADR to be **\$120.50**. Although this is slightly below that of the Marriott, it is above the ADR of the local competitive set as a whole, in aggregate.

Using the above estimates of occupancy and ADR, combined with our expertise and experience with comparable hotels, we have estimated the total revenue (in 2012 Dollars) and the amount that will flow to the bottom line for the proposed Project. In comparable hotels, we typically see that rooms revenue is equal to roundly 65 percent of the total revenue, and that 22 percent of total revenue flows through to the bottom line (before debt service but after a reserve for replacements). We therefore estimate total revenues and net operating income as follows:

Proposed North Augusta Hotel & Conference Center		
Number of Units:		225
Number of Annual Rooms Available:		82,125
Number of Rooms Occupied:		55,845
Annual Occupancy:		68%
Average Daily Rate:	\$	120.50
Revenue Per Available Room:	\$	81.94
		% of Total Revenue
Rooms Revenue:	\$ 6,730,000	65%
Other Revenue:	\$ 3,620,000	35%
Total Revenue:	\$ 10,350,000	
Net Operating Income:	\$ 2,277,000	22%
Source: PKF Consulting USA, LLC		

The estimates of utilization for the proposed Project contained herein were prepared on the basis of estimates and assumptions about the occurrence of future events. Since estimates and assumptions are inherently subject to uncertainty and variation, the actual results achieved by the proposed Hotel will likely vary from the estimated operating results and the variations may or may not be material. Accordingly, PKF Consulting USA, LLC does not warrant or guarantee the achievability of the estimated utilization.

We appreciate the opportunity to be of service to the City of North Augusta and thank you for selecting PKF Consulting USA, LLC for professional services. Should you decide to continue with a detailed market feasibility study, we will move onto Phase II of our analysis, as detailed in our engagement letter dated July 23, 2012.

Sincerely,

PKF Consulting USA, LLC