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Hotel Service Network

## COMPREHENSIVE MARKET STUDY REPORT

*Limited Service Hotel*

**CIBOLO, TEXAS**

**AUGUST, 2019**

**Prepared Exclusively for:**

**Cibolo Economic Development  
Corporation (CEDC)**

**Prepared by:**

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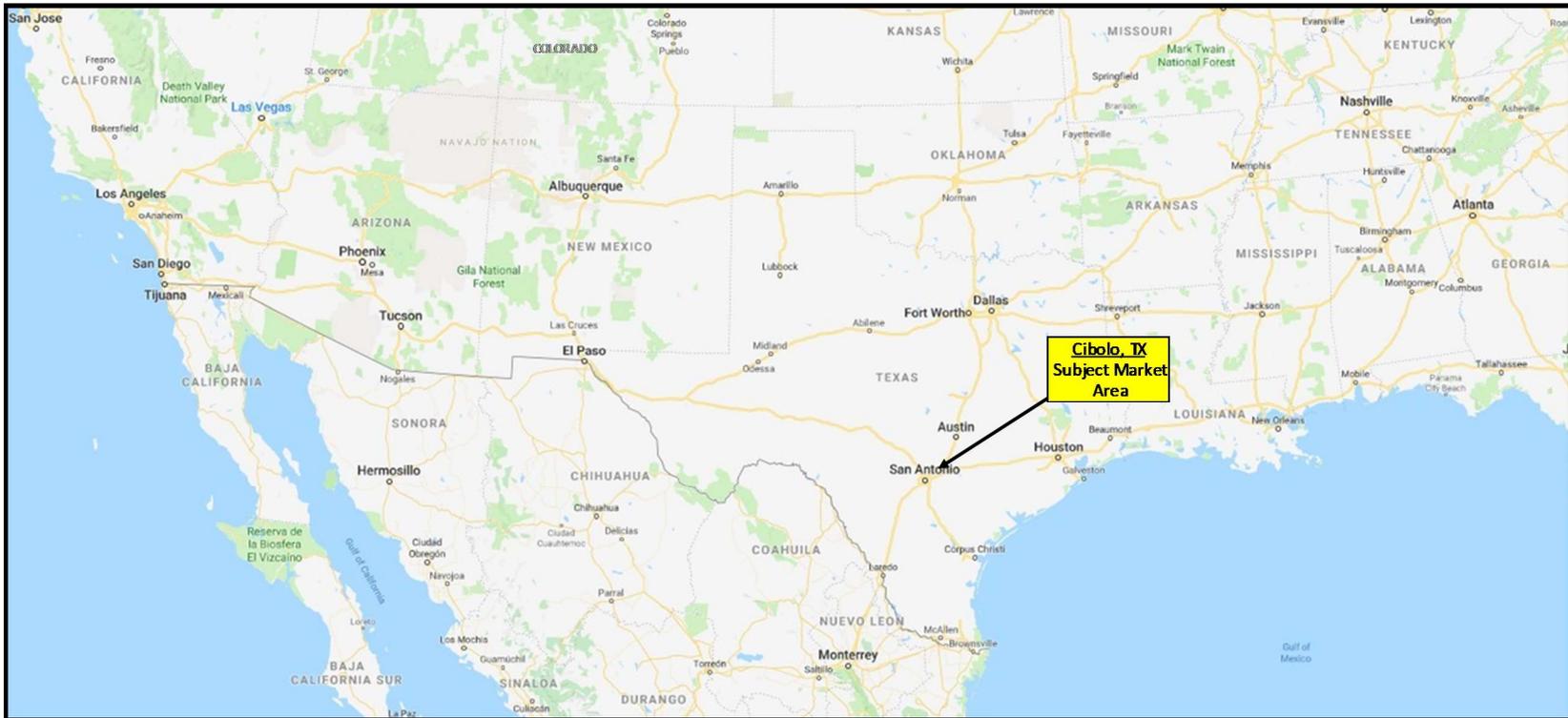
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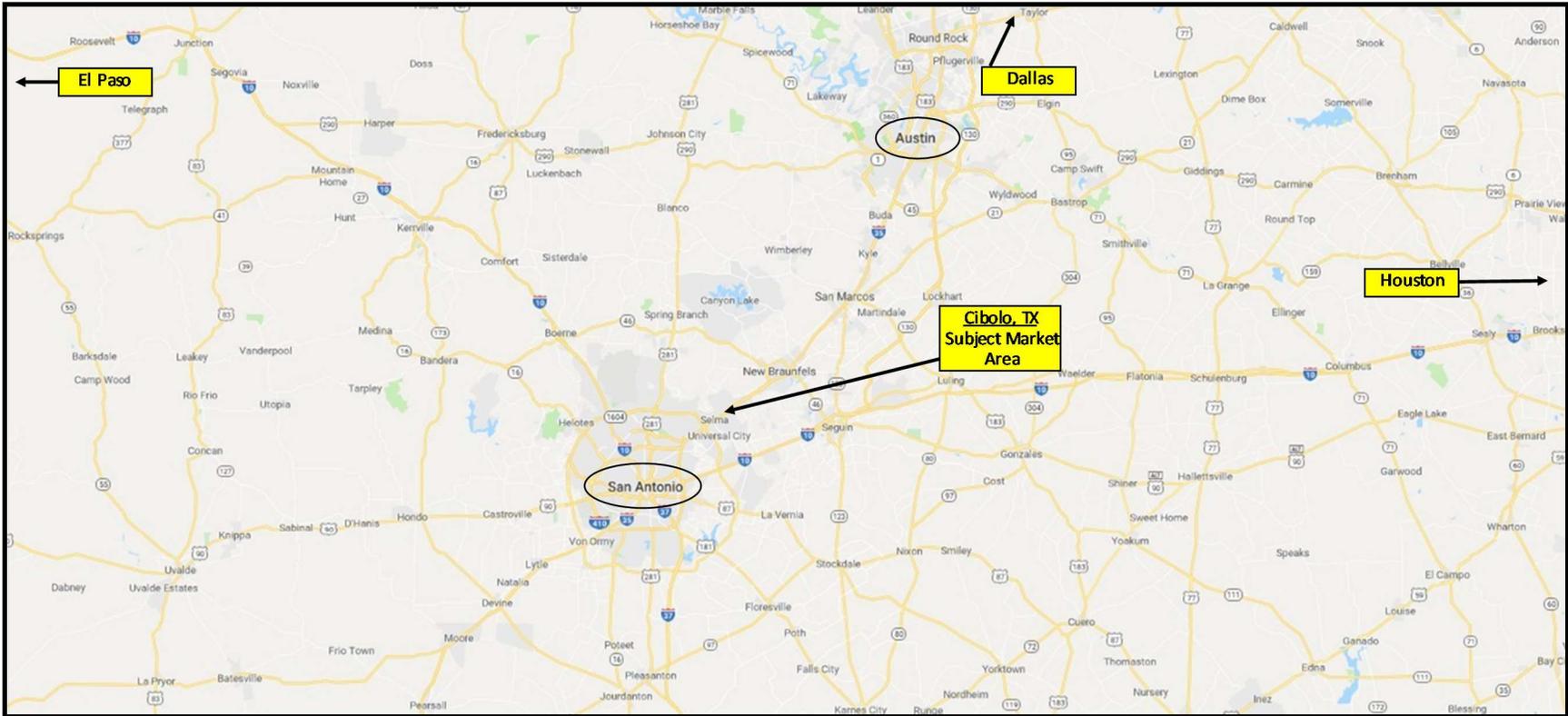
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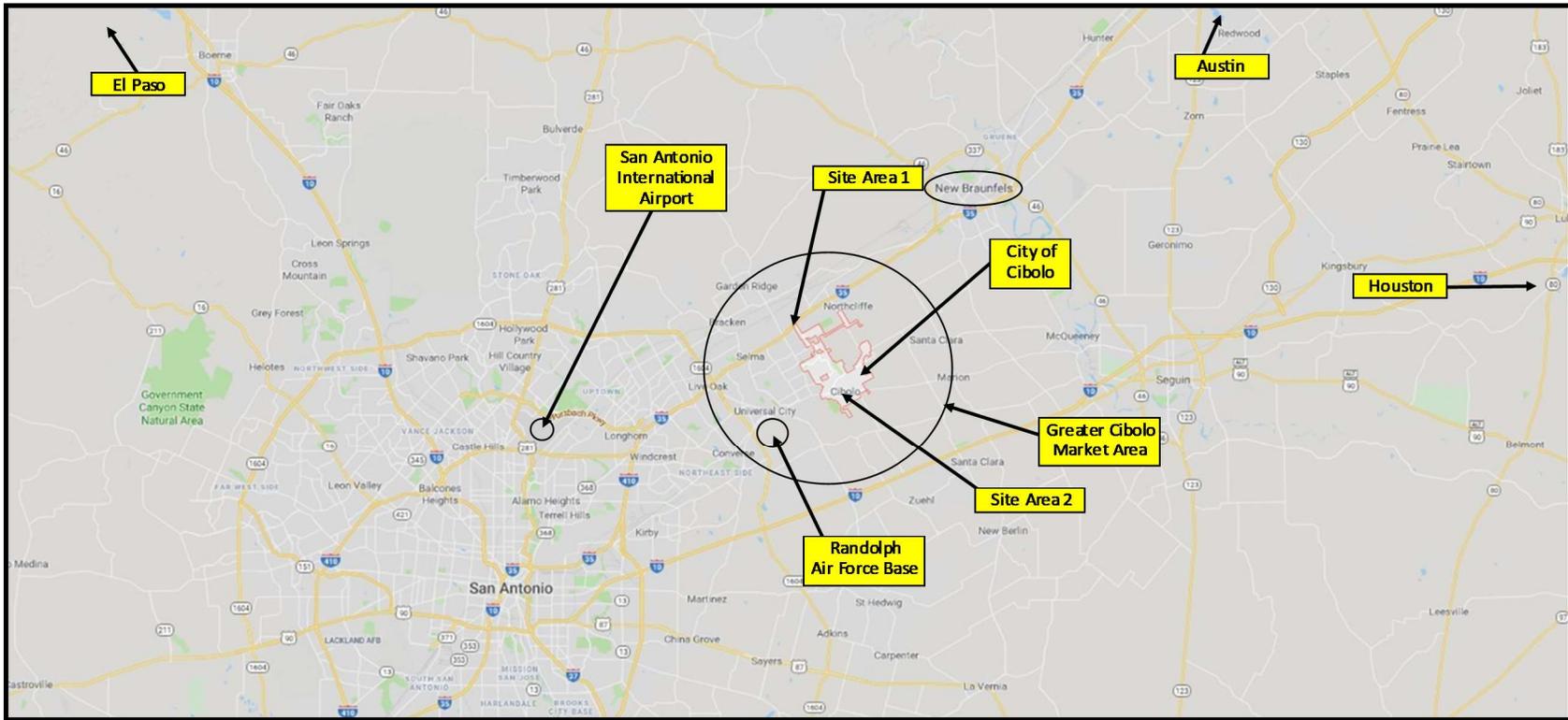
- Exhibit 1 - Geographic Relationship of the Subject Market to the South-Central United States Including Texas, Oklahoma, Kansas, Arkansas, Louisiana, New Mexico, Missouri, Mississippi and Colorado
- Exhibit 2 - Geographic Relationship of the Subject Market to the Greater South-Central Area of Texas, including San Antonio and Austin
- Exhibit 3 - Geographic Relationship of the Two Subject Sites to I-35, Randolph Air Force Base, San Antonio International Airport and the City of Cibolo
- Exhibit 4 - Geographic Relationship of the Competitive Set of Hotels for the Proposed Hotel as well as the Location of Certain Major Lodging Demand Generators in the Market Area
- Exhibit 5 - Geographic Relationship of the Two Subject Sites Under Consideration for Potential Hotel Development



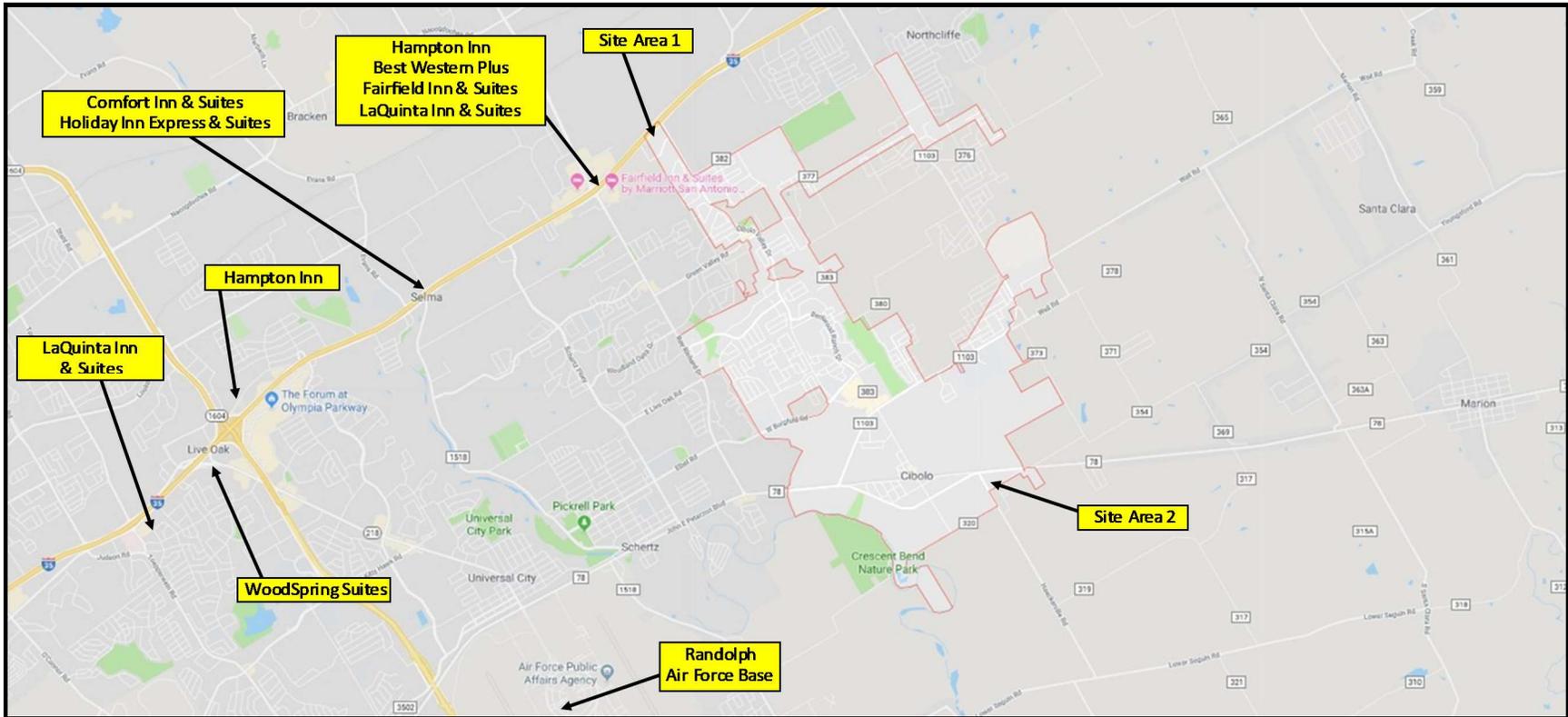
**Exhibit 1 - Geographic Relationship the Subject Market to the South-Central United States Including Texas, Oklahoma, Kansas, Arkansas, Louisiana, New Mexico, Missouri, Mississippi and Colorado**



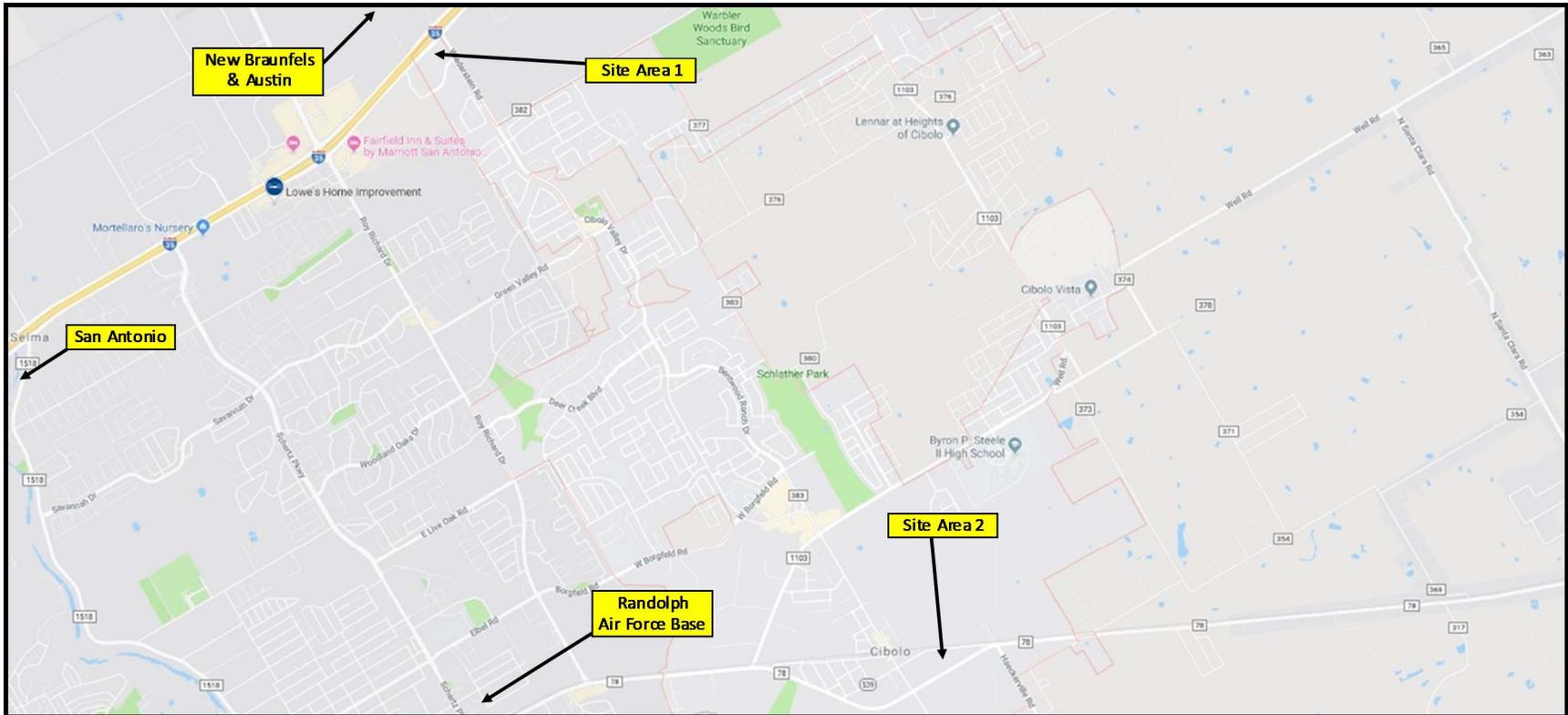
**Exhibit 2 - Geographic Relationship of the Subject Market to the Greater South-Central Area of Texas, including San Antonio and Austin**



**Exhibit 3 - Geographic Relationship of the Two Subject Sites to I-35, Randolph Air Force Base, San Antonio International Airport and the City of Cibolo**



**Exhibit 4 - Geographic Relationship of the Competitive Set of Hotels for the Proposed Hotel as well as the Location of Certain Major Lodging Demand Generators in the Market Area**



**Exhibit 5 - Geographic Relationship of the Two Subject Sites Under Consideration for Potential Hotel Development**

## **INTRODUCTION/OBJECTIVE**

Hospitality Marketers International, Inc., (HMI) has been engaged to provide this Comprehensive Hotel Market Study for the potential development of a limited-service midscale to upscale hotel in the greater Cibolo, Texas market area. HMI has been engaged by the Cibolo Economic Development Corporation (CEDC) to perform this market research. This report is the exclusive property of Cibolo EDC.

During the field research for this project, two proposed sites for a potential hotel were identified.

- One being situated as part of a much larger development located on the east side of I-35 known as the Cibolo Crossings Site
- One being on the east/south side of FM 78 just east of the intersection with South Main Street.

The specifics of these two subject site areas are discussed in greater detail in the Site Analysis Section of this report and are better identified in Exhibit 5 of this report.

The research included in this report supports the Conclusions recommending the style and size of the proposed hotel. This market study provides information concerning the greater City of Cibolo market area which includes two additional adjacent cities; the cities of Schertz and Selma. The market factors that would affect the possible development of the proposed limited-service style hotel in the City of Cibolo, Texas were researched and analyzed.

The focus of this report is on developing a limited-service style hotel in the subject market. Recommendations for the number of rooms are presented in this report. Local officials indicated that they have had not spoken with any specific hotel brand and are interested in receiving recommendations about potential hotel brands.

HMI conducted comprehensive field research to determine the relationship between the subject market and the proposed hotel's Lodging Supply competitors and Lodging Demand generators. Economic indicators were reviewed to determine the stability and future growth of the subject market area.

Multiple years of Occupancy, Average Daily Room Rate, and Sales Revenue projections for the proposed hotel were based upon a detailed review of the field research data. Facility recommendations as to product type, size, brand affiliation (if any), and amenities were based upon the Lodging Demand research for the proposed hotel. At this time, the projections in this report are for a Midscale to Upper Midscale 85-room limited service style hotel with a mix of extended stay style rooms

(up to 50%). The research that was conducted included a macro- and micro-market analysis of the greater City of Cibolo market as well as the adjacent cities of Schertz and Selma to determine the viability of this market to support the proposed hotel.

This market study report should be acceptable for internal as well as external investment and lending purposes. If, at any time, there are questions regarding this research, or if this report needs to provide specific information regarding this hotel development, HMI will be available to address the required information.

The Cibolo Economic Development Corporation (CEDC) has engaged HMI to perform this Comprehensive Hotel Market Study. This report is the property of the CEDC. Any distribution, use, or other application of this Comprehensive Hotel Market Study must have the prior approval of the CEDC through one of its authorized representatives.

## **GENERAL MARKET DESCRIPTION**

The subject market for this proposed limited-service style hotel is the City of Cibolo, Texas and surrounding communities including the cities of Selma and Schertz, both in Texas. This market area is a suburban area situated northeast of downtown San Antonio, Texas along Interstate I-35 on its west side and I-10 to the east. This market area is a growing residential, commercial and industrial area with an economy driven by a diversified industry base including retail trade, educational services, accommodations & food services, manufacturing and wholesale trade. It is situated in the south-central area of the State of Texas. Listed below is a description of this subject market area.

## **GEOGRAPHIC LOCATION**

The City of Cibolo is located northeast of San Antonio, Texas between I-35 and I-10. Its western or I-35 side is situated midway between downtown San Antonio (20 minutes south on I-35) and New Braunfels (20 minutes north on I-35). It is situated approximately one hour south of Austin, Texas via I-35. See Exhibits 3 and 4 of this report.

The City of Cibolo is situated approximately 20 miles northeast of the San Antonio International Airport and approximately 180 miles west of Houston Texas via I-10 and approximately 60 miles south of Austin, Texas via I-35.

The City of Cibolo is located in Guadalupe County, just outside of Bexar County which is where the City of San Antonio is situated.

Two separate sites were identified as potential development sites for a limited service style hotel which will be described in much greater detail in the following Site Analysis section of this report.

- One is situated on I-35 in the Cibolo Crossing development project just south of Wiederstein Road.
- One is situated on FM 78 at the intersection with Main Street, approximately midway between I-35 and I-10.

See Exhibits 3, 4 and 5 of this report for further details regarding the subject site locations.

## GENERAL MARKET CHARACTERISTICS

The greater Cibolo market area for purposes in this report should consider the tri city area of Cibolo, Schertz and Selma as well as immediate surrounding areas. This surrounding area would include Randolph Air Force Base (see the discussion in the Lodging Demand section of this report for further details on this significant Lodging Demand generator in this market area and its impact).

The greater Cibolo economy has a diverse industry base including retail trade, educational services, accommodation & food services, wholesale trade and manufacturing plus the significant impact that the Randolph Airforce Base has on the area. There is no dominance of any one of the previously mentioned industry sectors which range from 8.8% - 14.4% of the total employment.

Cibolo made Texas's 50 Safest Cities in 2019 listing.

Discussions with City of Cibolo officials indicated that less than 1,000 residents who live in Cibolo, actually work in Cibolo.

The City of Cibolo, with an estimated 2017 *Population* by American Factfinder (part of the US Census Bureau) of 26,602, is the second largest city of the three that comprise the greater Cibolo market area. It experienced a 71.2% increase from the 2012 Census total of 15,541 – the largest increase of the three cities during this period.

The greater Cibolo market area (Cibolo, Schertz and Selma) with an estimated 2017 *Population* by American Factfinder (part of the US Census Bureau) of 74,018, experienced a significant level of increase in *Population* from the 2012 Census total of 53,112 – a increase of 39.4%.

## EXHIBITS

The following exhibits describe the geographic location of the subject market and subject site.

- Exhibit 1 of this report shows the geographic relationship of the subject market to the South-Central United States, including Texas, Oklahoma, Kansas, Arkansas, Louisiana, New Mexico, Missouri, Mississippi and Colorado.
- Exhibit 2 shows the geographic relationship of the subject market to the greater south-central area of Texas, including San Antonio and Austin.
- Exhibit 3 shows the geographic relationship of the two subject sites to I-35, Randolph Air Force Base, the San Antonio International Airport and the City of Cibolo.
- Exhibit 4 shows the geographic relationship of the Competitive Set of Hotels for the proposed hotel as well as the location of the two identified potential site areas and the location of certain major Lodging Demand Generators in this market area.
- Exhibit 5 shows the geographic relationship of the two subject sites under consideration for potential hotel development.

## SITE ANALYSIS

This section of the report highlights the two subject site areas identified during the field research phase of this report in the City of Cibolo, Texas. See Exhibits 3, 4 and 5 of this report for further details about the location of the subject site areas for the proposed hotel. The two site areas will be referred to as Site 1 and Site 2 with no inference to one being more desirable than another.

## GENERAL SITE OVERVIEW

- Site Area 1 is situated in the Cibolo Crossing development project, a 116-acre mixed-use development project by Fasken Oil & Ranch/Babcock 165. This is a large development area located on the east side of I-35 between FM 3009 and Wiederstein Road. It already includes an entertainment complex (movie theater, a bowling alley, laser tag and a sports bar/restaurant.) Plans call for it to include additional retail and restaurants as well as multi-family residential and office space.
- Site Area 2 is situated in a planned development area known as Cibolo Commons that will be located on the south side of FM 78 and the east side of Main Street. Existing development of Cibolo Commons includes a youth sports complex with several baseball fields. Future plans call for retail, office space, a grocery store and both fast food and casual sit-down restaurants. It is situated across FM 78 from the Cibolo Multi Event Center – the new home of the San Antonio Athenians, a semi-pro women's soccer team which recently relocated to Cibolo this year.

## VISIBILITY

- Site Area 1, as previously stated, is situated at the Cibolo Crossing development along the east side of I-35. Depending on its location in this development project, it should have *Good* to *Very Good Visibility* to traffic on the interstate. Current plans indicate that a proposed hotel will be situated to the east of at least one row of low-rise buildings potentially limiting the hotel's Visibility to traffic on I-35. Signage and the height of the hotel building should help with this. Thus, an overall rating of *Very Good* was given to Site Area 1 for *Visibility*.
- Site Area 2, as previously stated, is situated in the planned development area known as Cibolo Commons that will be located on the south side of FM 78 and the east side of Main Street. While an initial plan for Cibolo Commons indicates that a proposed hotel would be set back from FM 78 with a few buildings between it and FM 78, discussions with local officials indicated that this is preliminary and subject to final designs. Therefore, the location of the proposed hotel could be changed so that it has *Excellent Visibility* to/from traffic on FM 78.

### ACCESSIBILITY

- Site Area 1 should have *Very Good Accessibility*. It will be located between two exits on I-35. The frontage roads on I-35 are limited to one direction only, on the east side of I-35 north bound. This could potentially cause a slight inconvenience to travelers if they miss the exit resulting in an overall *Accessibility* rating of *Very Good* instead of *Excellent*.
- Site Area 2 should have *Excellent Accessibility* to travelers from either direction on FM 78. Also, its location on FM 78 enables travelers to Randolph Air Force Base to have *Excellent Accessibility* due to the base entrance also being on FM 78, approximately three miles south of Site Area 2.

### LAND PREPARATION

- Site Area 1 is rated as *Excellent* for *Land Preparation* since it is part of a mixed-use development under active development. Several roads, buildings and parking areas are already in place.
- Site Area 2 is still “farm or ranch land” with some trees on it. It appears to be relatively flat indicating minimal grading/leveling being required. However, since no leveling has been done, it is rated overall as *Very Good* for *Land Preparation*.

### ENVIRONMENTAL ELEMENTS

Local officials did not indicate any known issues regarding either site. Since the mixed-use development of Cibolo Crossings is well under way, this would indicate that environmental elements have already been addressed. Still, the hotel developer of Site Area 1 should perform the necessary investigation to assure that all Environmental Elements have been addressed. This would also apply to the hotel developer at Site Area 2.

Therefore, any potential environmental issues at both of the subject sites were unknown to this consultant resulting in the rating “*Needing Investigation*”, for an average rating of 2.5. The developer should investigate other possible issues including water drainage, seepage or flood plain concerns, soil integrity or toxicity prior to development. This is especially true at Site Area 2.

These environmental elements are not within the scope of this hotel market study. It is recommended that the developer have a professional, independent environmental review completed along with a soil integrity test and any other testing that may be required.

### UTILITIES

Discussions with local officials indicated that all *Utilities*, including water and sewer, fire hydrants, gas, electric, telephone and internet, exist at or are in very close proximity to both subject site areas. This is supported by the amount of retail and commercial facilities already available in the Cibolo Crossings (Site Area 1) as well as in the general area of Site Area 2 with the development of residential units south of Cibolo Commons, the new YMCA east on FM 78, and on the west side of FM 78. Therefore, both of the subject site areas are rated *Excellent* for *Utilities*.

### ZONING AND ARCHITECTURAL REQUIREMENTS

Discussions with local officials indicated that all of the subject site areas may already have the proper *Zoning* for a proposed hotel and if not, zoning should be readily available.

These officials did not indicate any unusual *Architectural Requirements* for the proposed hotel in this market area.

Overall, both of the subject areas are rated as *Excellent*.

### SUPPORT SERVICES

- Site Area 1, as previously stated in this report, is located in Cibolo Crossing, a mixed-use development. There is an entertainment complex including a multi-screen theater, bowling, an arcade, a sports bar/restaurant and laser tag. Additional retail and restaurants are planned. This location enables convenient access to additional retail and fast food and/or casual restaurants proximate to the exit on I-35 just south of this development area. Therefore, it is rated as *Excellent* for *Land Preparation* since it is part of a mixed-use development under active development. Roads are already in place as well as few of the buildings and parking areas. Therefore, *Support Services* for this subject site area is rated *Excellent*.
- Site Area 2, while being part of the planned Cibolo Commons area, is still in a much earlier development phase than Site Area 1. Restaurants, both fast food and casual, are planned with significantly more development to be completed. Some retail and fast food restaurants are located along FM 78 between Randolph Air Force Base and the subject Site Area. Therefore, *Support Services* for this subject site area is rated *Very Good*.

### COMPETITIVE POSITION

Several factors should be considered when evaluating the *Competitive Position* of a proposed hotel located at either subject site area.

- First, is the subject site area's proximity to Randolph Air Force Base, a major if not *the* major Lodging Demand Generator in this overall market area. Site Area 2 is less than three miles east on FM 78 while Site Area 1 is approximately seven miles west from the base.
- Site Area 2's location on FM 78 will enable the proposed hotel to be the closest and most convenient limited service style property to the base.
- The members of the Competitive Set (described later in this report in the Lodging Supply Section) are all located along I-35, similar to Site Area 1.

Therefore, Site Area 1 was rated *Good* while Site Area 2 was rated *Excellent* for *Competitive Position*.

SUBJECT SITE EVALUATION		
CATEGORY	RATING	
	Site 1	Site 2
Visibility	Very Good	Excellent
Accessibility	Very Good	Excellent
Land Prep	Excellent	Very Good
Environmental	Investigate	Investigate
Major Utilities	Excellent	Excellent
Zoning	Excellent	Excellent
Architectural Controls	Excellent	Excellent
Area Support Services	Excellent	Very Good
Competitive Position	Good	Excellent
<b>Overall</b>	<b>Very Good</b>	<b>Very Good</b>

*Source: HMI*

These ratings are evaluated out of a possible 5 points, with 5 being Excellent. This analysis generated an overall score of 3.95 for Site Area 1 and 4.05 for Site Area 2 resulting in the *Very Good* ratings for both subject site areas. Sections requiring further investigation by the developer were given a 2.5 until more specific information is known.

## **ECONOMIC OVERVIEW**

This section of the report provides a composite analysis of the economic environment in which the proposed limited-service hotel would operate. It presents an overview of the economic stability of the subject market. This economic analysis does not conclusively determine how successful the proposed hotel will be in the City of Cibolo, Texas market area, including the greater tri city area of Cibolo, Selma and Schertz. It offers valuable insight into the economic stability and growth potential of the subject market. It will also directly affect the *Conclusions* formulated later in this report.

*The economic health of this market can be important to the success of the hotel. PKF Hospitality estimates that 85 % of a hotel's operating performance is strongly influenced by the local market conditions. (Hotel Management- July 15, 2013- PKF- Budgeting for a Local Affair, So Understand Your Market- Article). Therefore, this section highlights several key components of the greater City of Cibolo, Texas market area.*

The proposed limited-service hotel will draw Lodging Demand from the greater City of Cibolo market area including the neighboring cities of Selma and Schertz as well as the nearby Randolph Air Force Base. The following section details the economic stability of this market.

- Looking at the greater Cibolo market area including the cities of Cibolo, Selma and Schertz, there appears to be a good level of workforce diversification with the five leading industry sectors ranging from 8.8% to 14.4% (i.e. no one dominant industry sector) of the workforce. This is supported by the same top five industry sectors comprising 57.8% of the workforce in 2015. This is well below the 65.0% - 70.0% range. A score greater than this range indicates limited to marginal diversity of employment in the market area.
- However, the data in the previous bullet does not include the employment at nearby Randolph Air Force Base with a reported 12,200 employees (5,700 military personnel and 6,500 civilian). When these numbers are included as government employees, the data describing the top five industry sectors changes. The range becomes 6.8% to 39.8% with the top five totaling 71.1%, slightly higher than the previously discussed range of 65.0% - 70.0%. Plus, one sector (government) now has 39.8% of the total employees indicating significant dependence on this one sector. This will be discussed in greater detail later in this Economic Section of the report.

- The subject market's economy appears to be stable, recovering steadily from the US recession of 2008 – 2010. Unemployment from 2010 to 2018 in the City of Cibolo improved 44.2%, from 5.2% to 2.9%.
- The City of Cibolo announced in late July that Aisin AW, a Japanese-based auto parts technology company, would be investing in a new \$400 million 500,000 square foot facility in Cibolo that will create 900 new jobs. Operations of this new facility are currently projected to commence in 2021. This facility will be located along I-10 on the east/southeast side of Cibolo, approximately five miles east/southeast of Site Area 2.
- The population in the City of Cibolo increased by an average annual rate of 14.2% overall from 2012 –2017. The population in the greater Cibolo market area, which includes the three cities of Cibolo, Selma and Schertz, increased by an average annual rate of 7.9% for the same time period. This is a significant average annual rate of increase for this larger overall market area for the proposed hotel.
- The per capita annual income in the City Cibolo increased by an average annual rate of 0.26% over the same period while the average family income increased at the same average annual rate of 0.26%.
- The primary identifiable 2015 economic components of the greater Cibolo market area, i.e. the three Cities of Cibolo, Schertz and Selma, include Retail Trade, Educational Services, Accommodation & Food Services, Wholesale Trade and Manufacturing. It should be noted that when employment at Randolph Air Force Base is included in Government, it becomes the single largest industry sector (four times the second largest one). This indicates significant dependence on this single industry. This is discussed in greater detail in the Economic section of this report.

**GENERAL DEMOGRAPHIC and ECONOMIC CHARACTERISTICS**

The following chart highlights the *General Demographics* used in evaluating the economic stability of the greater Cibolo subject market. They include key *Population* demographics and *Household Income* characteristics. Data was reviewed for the Cities of Cibolo, Schertz and Selma from which the proposed hotel will potentially draw Lodging Demand.

The following is the most recent information regarding *Population*, *Mean Family Income* and *Average Per Capita Income* for the overall market area in which the proposed hotel will operate.

<b>POPULATION</b>				
	2012	2017	% CHG.	Avg. Annual % CHG.
City of Cibolo	15,541	26,602	71.2%	14.23%
City of Schertz	31,934	38,199	19.6%	3.92%
City of Selma	5,637	9,217	63.5%	12.70%
<b>TOTAL</b>	<b>53,112</b>	<b>74,018</b>	<b>39.4%</b>	<b>7.87%</b>
<b>AVERAGE FAMILY INCOME</b>				
	2012	2017	% CHG.	Avg. Annual % CHG.
City of Cibolo	\$105,521	\$106,878	1.3%	0.26%
City of Schertz	\$95,775	\$102,458	7.0%	1.40%
City of Selma	\$86,028	\$91,848	6.8%	1.35%
<b>AVERAGE</b>	<b>\$95,775</b>	<b>\$100,395</b>	<b>4.8%</b>	<b>0.96%</b>
<b>PER CAPITA INCOME</b>				
	2012	2017	% CHG.	Avg. Annual % CHG.
City of Cibolo	\$31,305	\$31,705	1.3%	0.26%
City of Schertz	\$30,817	\$33,378	8.3%	1.66%
City of Selma	\$29,752	\$30,601	2.9%	0.57%
<b>AVERAGE</b>	<b>\$30,625</b>	<b>\$31,895</b>	<b>4.1%</b>	<b>0.83%</b>
<i>Source: US Census - American Fact Finder</i>				

- The subject market area (the City of Cibolo) and the greater subject market area (the cities of Cibolo, Schertz and Selma) experienced increases in *Population* from 2012 to estimated 2017. The City of Cibolo experienced the greatest average annual rate of increase at 14.23%. The rate range of average annual increase for the greater market area was 3.92% to 14.23% over this five-year period.
- The *Average Family Income* increased annually for the City of Cibolo by 0.26% while the average annual rate of increase for the greater market area overall was 0.96%.
- The *Per Capita Income* increased annually for the City of Cibolo by 0.26% while the average annual rate of increase for the greater market area overall was 0.83%.

## WORKFORCE CHARACTERISTICS

The proposed hotel will be drawing employees from a market area comprised of the greater Cibolo market area (i.e. the cities of Cibolo, Selma and Schertz).

See Exhibit 6 of this report for a representation of this area. It will assist in analyzing the diversity of this market's employment base. The following two charts present the top industry sectors in this market area for the proposed hotel.

- The first chart presents this information for the three cities which comprise the greater Cibolo market area (i.e. Cibolo, Schertz and Selma).
- The second chart presents the same information with the employment numbers for Randolph Air Force Base added to the government industry sector.

This data was found in *2019 Joint Base Randolph Freedom Saver* publication, including "5,700 military personnel and 6,500 civilians", totaling 12,200 employees. These numbers did not appear to be included in the US Census data for any of the three cities comprising the greater Cibolo market area.

In both of the following charts, the top three employment industries are highlighted in Bold Yellow. The industries in Bold Blue comprise the next two top industry segments in this market area. The three industries showing the highest employment gains and losses from 2010 to 2015 are highlighted in Bold Blue and Bold Red in the right column.

EMPLOYMENT BY INDUSTRY Combined Cities of Cibolo, Schertz & Selma					
TYPE OF EMPLOYMENT	NUMBER OF PERSONS 2010	PERCENT OF PERSONS 2010	NUMBER OF PERSONS 2015	PERCENT OF PERSONS 2015	PERCENT 2010 - 2015
Agriculture, Forestry, Fishing & Hunting	137	1.0%	155	0.8%	13.1%
Mining, Quarrying, & Oil and Gas Extraction	14	0.1%	535	2.6%	<b>3721.4%</b>
Utilities	58	0.4%	55	0.3%	<b>-5.2%</b>
Construction	<b>1,447</b>	<b>10.2%</b>	1,681	8.3%	16.2%
Manufacturing	<b>1,253</b>	<b>8.9%</b>	<b>1,793</b>	<b>8.8%</b>	43.1%
Wholesale Trade	1,218	8.6%	<b>2,160</b>	<b>10.6%</b>	77.3%
Retail Trade	<b>1,853</b>	<b>13.1%</b>	<b>2,932</b>	<b>14.4%</b>	58.2%
Transportation and Warehousing	335	2.4%	899	4.4%	<b>168.4%</b>
Information	112	0.8%	134	0.7%	19.6%
Finance and Insurance	245	1.7%	299	1.5%	22.0%
Real Estate, Rental & Leasing	148	1.0%	275	1.4%	<b>85.8%</b>
Services	7,338	51.8%	9,407	46.3%	28.2%
- Professional, Scientific & Technical Services	499	3.5%	630	3.1%	26.3%
- Management of Companies and Enterprises	367	2.6%	407	2.0%	10.9%
- Administrative and Support and Waste Management and Remediation Services	473	3.3%	635	3.1%	34.2%
- Educational Services	<b>2,276</b>	<b>16.1%</b>	<b>2,591</b>	<b>12.7%</b>	13.8%
- Health and Social Assistance	787	5.6%	1,225	6.0%	55.7%
- Arts, Entertainment & Recreation	218	1.5%	272	1.3%	24.8%
- Accommodation & Food Services	<b>1,673</b>	<b>11.8%</b>	<b>2,287</b>	<b>11.3%</b>	36.7%
- Other Services	640	4.5%	864	4.3%	35.0%
- Public Administration	405	2.9%	496	2.4%	22.5%
<b>TOTAL</b>	<b>14,158</b>	<b>100.0%</b>	<b>20,325</b>	<b>100.0%</b>	<b>43.6%</b>

Source: U.S. Census

A review of the chart above indicates that the top five industries in 2015 (Retail Trade, Educational Services, Accommodation & Food Services, Wholesale Trade and Manufacturing) represented 57.8% of the total employment base. There was a slight change in the top five industry sectors from 2010 to 2015 with the same industry sectors representing 60.1% of the total employment base in 2010. Ideally, the top five industries should represent less than 65% - 70% of the employment to show good diversity.

In this market, the top three industries in 2015 were below this 60.0% threshold at 57.8%.

This reflects an increase/improvement in the diversity of 2.3% points from the 60.1% in 2010.

However, as already stated, the previous chart does not include employees at Randolph Air force Base. These base employee counts, of 5,700 military personnel and 6,500 civilians (totaling 12,200), were only available from one source dated as 2019. These numbers were not available for 2010 or 2015, the years in the chart above. However, since they are so significant, for the purposes of this report they have been presumed reasonable to use each year. They have been added to the Public Administration (i.e. Government) industry sector in the following chart in both 2010 and 2015. Due to the significance of the employee numbers at Randolph Air Force Base, the focus in this report will be on the data in the following chart.

EMPLOYMENT BY INDUSTRY Combined Cities of Cibola, Schertz & Selma plus Randolph Air Force Base Employees					
TYPE OF EMPLOYMENT	NUMBER OF PERSONS 2010	PERCENT OF PERSONS 2010	NUMBER OF PERSONS 2015	PERCENT OF PERSONS 2015	PERCENT 2010 - 2015
Agriculture, Forestry, Fishing & Hunting	137	0.5%	155	0.5%	13.1%
Mining, Quarrying, & Oil and Gas Extraction	14	0.1%	535	1.6%	3721.4%
Utilities	58	0.2%	55	0.2%	-5.2%
Construction	1,447	5.5%	1,681	5.2%	16.2%
Manufacturing	1,253	4.8%	1,793	5.5%	43.1%
Wholesale Trade	1,218	4.6%	2,160	6.6%	77.3%
Retail Trade	1,853	7.0%	2,932	9.0%	58.2%
Transportation and Warehousing	335	1.3%	899	2.8%	168.4%
Information	112	0.4%	134	0.4%	19.6%
Finance and Insurance	245	0.9%	299	0.9%	22.0%
Real Estate, Rental & Leasing	148	0.6%	275	0.8%	85.8%
Services	19,538	74.1%	21,607	66.4%	10.6%
- Professional, Scientific & Technical Services	499	1.9%	630	1.9%	26.3%
- Management of Companies and Enterprises	367	1.4%	407	1.3%	10.9%
- Administrative and Support and Waste Management and Remediation Services	473	1.8%	635	2.0%	34.2%
- Educational Services	2,276	8.6%	2,591	8.0%	13.8%
- Health and Social Assistance	787	3.0%	1,225	3.8%	55.7%
- Arts, Entertainment & Recreation	218	0.8%	272	0.8%	24.8%
- Accommodation & Food Services	1,673	6.3%	2,287	7.0%	36.7%
- Other Services	640	2.4%	864	2.7%	35.0%
- Public Administration ****	12,605	47.8%	12,696	39.0%	0.7%
TOTAL	26,358	100.0%	32,525	100.0%	23.4%
**** 12,200 civilian and military employees at Randolph Air Force Base have been added here. See report text for details.					
Source: U.S. Census					

The top three industries in 2015 (Public Administration, Educational Services and Retail Trade) represented 56.0% of the total employment base.

There was no change in the top three industry sectors from 2010 to 2015 with the same industry sectors representing 63.4% of the total employment base in 2010.

Ideally, the top three industries should represent less than 50% of the employment to show good diversity. In this market, the top three industries in 2015 were above this 50% threshold at 56.0%. This reflects an increase/improvement in the diversity of 7.4% points from the 63.4% in 2010. This indicates that the subject market area was able to lower its level of dependence on Public Administration (which includes the military base at a constant level) which now represents 39.0% of the previously discussed 47.8%.

When comparing the top three industries from 2010 to 2015, there was an 8.9% increase in the employment that they generated from 2010 to 2015 while the entire employment base increased by 21.0%. This indicates an overall improvement in the diversity of this greater Cibolo market area during this five-year period. This is especially true when one considers that the number of employees at the Randolph Air Force Base was only available for 2019 so, as previously stated, the same amount was utilized in both 2010 and 2015.

The subject market's top three employment industry sectors in 2015 were Public Administration (39.0%), Retail Trade (9.0%) and Educational Services (8.0%). In 2010, the top three industry sectors were the same with slightly different percentages at 47.8%, 7.0%, and 8.6% respectively. This indicates an improvement from 2010 to 2015 when comparing the top three industry groups and an evolving economy.

The fourth and fifth major industries in 2015 were Accommodation & Food Services (7.2%) and Wholesale Trade (6.8%). In 2010, they differed slightly with Accommodation & Food Services (6.3%) and Construction (5.5%). Adding these two to the top three industries equals 70.0% in 2015 vs. 75.2% in 2010. At 70.0% and 75.2% in 2015 and 2010 respectively, the top five industry groups were at the maximum of the 65% - 70% range (which indicates a good level of diversity in employment) or above it in 2015 and 2010. This reduction of 5.2% points from 2010 to 2015 indicates an improvement in the level of diversity in the *Workforce* from 2010 to 2015 as well as a slight lowering of the dependence on the Public Administration industry sector.

There appears to be an economic dependence on one industry sector, Public Administration (specifically the Randolph Air Force Base), since it was estimated at 39.8% in 2015.

From 2010 to 2015, this market showed growth in eighteen employment categories which are highlighted in Blue. The three leading industry sectors with gains in employment are highlighted in Bold Blue. One industry sector lost employment and is highlighted in Red. Overall, the subject market has shown an annual increase in employment of 23.4% or 4.68% from 2010 to 2015.

The three highest percentages of increase occurred in Mining, Quarrying & Oil and Gas Extraction (3,721.4%), Transportation & Warehousing (168.4%), and Real Estate, Rentals & Leasing (85.8%). The Mining sector increase is due to a combination of this being the smallest industry sector in 2010 combined with a new employer in this field relocating to Cibolo. Just one sector reflected a decrease, Utilities at -5.2%. This industry sector was the second smallest industry sector in 2010.

It should be noted that 2010 to 2015 encompassed the last year of the recent national recession. The ability of this subject market to increase its employment base from pre-recession levels during this time period is an indication of the market's economic strength. During this time, Unemployment Rates rose to a high of 5.2% and 6.5% respectively in 2010 in the Cities of Cibolo and Schertz. This will be reviewed in greater detail in the following section.

**UNEMPLOYMENT RATES**

The chart below presents a comparison of the *Unemployment Rates* for the greater Cibolo market area including the cities of Cibolo and Schertz (it was not available for the City of Selma) as well as the State of Texas.

HISTORICAL UNEMPLOYMENT RATES			
YEAR	CITY OF CIBOLO	CITY OF SCHERTZ	STATE OF TEXAS
2019-YTD (April)	3.3%	3.2%	3.7%
2018-YTD (April)	2.9%	3.2%	4.0%
2018	2.9%	3.2%	3.9%
2017	3.1%	3.4%	4.3%
2016	3.4%	3.8%	4.6%
2015	2.7%	3.3%	4.4%
2014	3.5%	4.1%	5.1%
2013	4.4%	5.3%	6.3%
2012	4.6%	5.5%	6.7%
2011	5.2%	6.2%	7.8%
2010	5.2%	6.5%	8.1%

Source: U.S. Bureau of Labor Statistics, city-data.com

In 2018, the *Unemployment* in the greater Cibolo market area cities were in a relatively narrow range of 9% - 3.2%. Over the past ten years, this market appeared to experience annual *Unemployment Rates* ranging from highs of 5.2% in 2010 for the City of Cibolo, and 6.5% and 8.1% respectively for the City of Schertz and the State OF Texas in 2010, to the lower rates of 2.9% - 3.9% in 2018.

A review of 2019 YTD *Unemployment* through April when compared to the same period the prior year indicates that *Unemployment* may rise slightly to 3.3% in 2019 and remain even at 3.2% in Schertz. Since 2015, the annual *Unemployment* rates in the greater Cibolo market area were between 2.7% - 3.8%, below the US average for those years.

This indicates that in this overall market area, the *Unemployment* rates over the past three years were below the 4% to 5% range which economists consider to be the maximized employment rate. This indicates that there could be some challenges in finding eligible employees in this market area.

### LABOR SUPPLY and WAGES

At this time, some Labor Supply problems were reported by local officials and several local business leaders. Contributing to this is the fact that during the prior three years the unemployment rates in this subject market area were below the level considered to be maximized employment, 4% - 5%. This typically indicates that the availability of labor supply could become an issue, potentially generating pressure on wages. This could impact the available labor supply in the Service industries.

It is recommended that the developer review this potentially low unemployment since it could create a need for slightly higher wages to attract quality staff within the Service sector. This would then result in potential pressure on hotel performance from higher labor costs.

### TRANSPORTATION

The *Transportation* opportunities for this part of southcentral Texas are very good. There two interstate highways, I-35 and I-10. I-35 runs north/south on the west side of Cibolo through the greater Cibolo market area, connecting south to San Antonio and then Laredo on the Mexican border, and north to Austin, Dallas, and up to Minneapolis. Site Area 1 is along I-35 with some visibility to travelers if a hotel were located there. I-10 traverses east/west through this market area connecting east to Houston and on to Jacksonville, Florida and west to El Paso and Los Angeles. While neither of the two site areas are visible to travelers on this interstate, Site Area 1 has great visibility to traffic on I-35 and Site Area 2 should have great visibility to traffic on FM 78 as discussed previously. See Exhibits 2,3 and 4 of this report for further details.

### Commercial Air Service

The primary and closest airport to Cibolo, with regularly scheduled passenger service, is San Antonio International Airport, situated approximately 20 miles southwest via I-35 and I-410.

An alternate second airport much farther from Cibolo with regularly scheduled passenger service is Austin-Bergstrom International Airport, situated approximately 70 miles north via I-35 and Texas 71. Regularly scheduled passenger flights on all major airlines are available to locations across the US as well as some international destinations.

Highway Traffic

The following chart highlights traffic counts in the area of the subject sites. See Exhibits 3, 4 and 5 of this report for the subject sites' geographic relationship to these traffic arteries.

<b>TRAFFIC COUNTS</b>			
<b>Cibolo, Texas</b>			
<b>LOCATION</b>	<b>YEAR</b>	<b>COUNT</b>	<b>CHANGE</b>
On I-35 - At FM3009	2017	108,809	-2.3%
	2013	111,376	-4.8%
	2009	117,000	--
	<b>PER YEAR AVERAGE CHANGE</b>		
- At County Road/Wiederstein Road	2017	115,986	-3.1%
	2013	119,705	20.9%
	2009	99,000	--
	<b>PER YEAR AVERAGE CHANGE</b>		
On FM78 - West of Main Street	2017	10,509	19.7%
	2013	8,778	-6.6%
	2009	9,400	--
	<b>PER YEAR AVERAGE CHANGE</b>		
- East of Main Street	2017	9,743	19.5%
	2013	8,151	-1.8%
	2009	8,300	--
	<b>PER YEAR AVERAGE CHANGE</b>		
On Main Street - North of FM78	2017	4,170	25.4%
	2016	3,326	32.0%
	2015	2,519	-2.2%
	2014	2,575	--
	<b>PER YEAR AVERAGE CHANGE</b>		

*Source: Texas Department of Transportation*

The traffic counts on I-35 apply directly to Site Area 1. Those on FM 78 and Main Street are applicable to Site Area 2. The most recent counts available were from 2017.

There were no clearly evident reasons for the slight decreases on I-35 in 2017.

It is important to note the significant increases on FM 78 and Main Street in 2017, which is the area proximate to Site Area 2.

**LODGING DEMAND**

This section of the report identifies Lodging Demand sources for the proposed hotel. Exhibit 3 of this report shows the market area that will be serviced by the proposed hotel on a year-round basis. This research supports the recommendations provided in the *Conclusions* section for the development of a midscale to upper midscale limited-service style hotel. The Lodging Demand discussed in this section applies to the greater City of Cibolo market area which includes the cities of Cibolo, Schertz and Selma and the Randolph Air Force Base.

**MARKET SEGMENTATION**

The first category to be identified in describing the Lodging Demand Potential for the subject market is the *Market Segmentation* that exists in this area. The following chart highlights the Market Segmentation projections for the proposed hotel in the overall market area. This estimate of Market Segmentation supports the recommendations for development of a midscale to upper midscale limited-service style hotel provided in the *Conclusions* section of this report.

<b>MARKET SEGMENTATION</b>					
	SUBJECT MARKET PROBABLE PERCENT OF MARKET	RANGE	PROPOSED PROPERTY PROBABLE MARKET	MARKET PENET.	RANGE
Individual Travel Markets	50.0%	46.5%-54.5%	65.0%	130.0%	61.5%-68.5%
Corporate/ Commercial	35.0%	31% - 38%	50.0%	142.9%	46% - 54%
Social/ Leisure	15.0%	11% - 19%	15.0%	100.0%	10% - 20%
Group Markets	50.0%	40.5%-54.5%	35.0%	70.0%	30.5%-38.5%
Business Related	35.0%	30% - 38%	25.0%	71.4%	16% - 24%
Social/ Leisure Related	15.0%	10% - 20%	10.0%	66.7%	10% - 20%
TOTAL	100.0%		100.0%		
<i>Source: HMI</i>					

The Market Segmentation for the Subject Market includes a wider area than just the City of Cibolo due to the major Lodging Demand generator, Randolph Air Force Base. Randolph Air Force Base is known to be generating demand for limited service style hotels in Cibolo, Selma, Schertz and Live Oak. The current Market Segmentation for the Subject Market is estimated to annually be split 70% Corporate/Commercial (includes Military) and 30% Social/Leisure.

The Market Segmentation for the proposed hotel (in the chart above) is anticipated to be similar to the Subject Market Segmentation with the split for the proposed hotel at 75% Corporate/Commercial (Includes Military) and 25% Social /Leisure.

Discussions with local officials and some business leaders indicated that the focus of a new limited service, midscale to upper midscale style hotel in the City of Cibola will continue to be visitors to Randolph Air Force Base. Due to this being a military base and the resulting inability to obtain specific data on the types (group vs. individual) of Lodging Demand being generated, the actual analysis may differ slightly. This will be discussed in detail later in the Lodging Demand section of this report.

However, since no banquet/meeting space except for a board room or two is currently planned for the proposed hotel, it would seem that its focus would be on individual travelers or group business travelers utilizing meeting space elsewhere.

The proposed hotel will generate an estimated 25% of its Lodging Demand from the Social/Leisure market segment which is projected to be split 15% Individual traveler and 10% Group business. This is slightly lower than the 30% split for the overall subject market area with a slight shift to a greater percentage of Individual travelers versus Group business. This will be discussed in detail later in this report.

Since the recommendations in this report include a mix of “traditional” style rooms and extended stay style rooms, it seems appropriate to discuss the following characteristics of extended stay guests and what the industry indicates as usage/demand for extended stay style rooms:

#### Extended-Stay Characteristics

Extended-Stay Lodging Demand is typically defined as guests desiring to stay five or more nights. While this “traditional” definition best supports the typical extended-stay hotel model for operation, there are also other users of extended-stay hotels. The 2013 Highland Group Report (Note: this was the last year the Highland Group reported this specific data) on the US Extended-Stay Lodging Industry for calendar year 2012 reported the following characteristics:

- Traditional extended-stay room nights accounted for approximately two-thirds or 67.6% of the overall Occupancy at extended-stay hotels. This indicated that one-third of the rooms were occupied by “traditional” transient travelers.
- Business travelers accounted for just over two-thirds of the extended-stay room nights.

It is anticipated that these characteristics could vary slightly in the Cibolo market with the traditional transient traveler market segment being slightly greater than one-third, previously stated as being the norm for an extended-stay hotel. Thus, as will be seen in the *Recommendations* section of this report, the proposed hotel should include a mix of both extended stay style rooms and traditional style hotel rooms. The following paragraphs discuss the potential demand for extended stay style rooms in the greater Cibolo market area.

The Corporate/Commercial market sector's (including military) extended-stay nights could draw from a variety of demand sources. These include military personnel (especially those with families accompanying them or coming to visit while they are here) attending numerous and lengthy training programs at Randolph Air Force Base; relocations to the area; construction workers; and government agencies – state and federal. Additionally, oil and gas exploration/extraction work is occurring west/southwest of this market area.

Operating with a mix of extended-stay style rooms, the proposed hotel will draw slightly different demand from the tourist market than a traditional style hotel. There is the potential for the traditional Social/Leisure market to be attracted to an extended-stay style hotel due to the added amenities and space available in an extended-stay room. For example, families may be drawn to the larger room and the ability to cook some meals in it. Additionally, throughout the high demand season in the spring and summer months, higher Occupancy rates at the traditional hotels may force traditional travelers utilize an extended-stay facility.

An interim extended-stay user would stay between three to five nights. This type of Lodging Demand in the greater Cibolo market would primarily be Social/Leisure travelers coming to the area for multiple nights. They would find the features of an extended-stay hotel to be attractive. Larger guest rooms, kitchen facilities and a residential ambience would be more appealing than traditional style hotels. This would especially be attractive to families seeking a central location between the popular downtown San Antonio tourist areas and the waterpark areas in New Braunfels. This type of extended-stay traveler might also be present in the Corporate/Commercial segment of this market.

Lastly, travelers familiar with extended-stay properties will choose this type of hotel for shorter stays due to the price/value of the accommodations and the amenities offered.

It is anticipated that in the greater Cibolo market area, the number of “traditional extended-stay travelers, i.e. staying five nights or more”, is similar to the two-thirds amount discussed in the *2013 Highland Group Report on Extended-Stay Lodging*. This is primarily due to the military generated demand driven by lengthy training.

However, the need for or actual use of the cooking facilities may not be as great since military personnel have access to meals on base so a mix of up to 50% extended stay style rooms is recommended.

In this market, offering traditional extended-stay room designs is advised for up to 50% of the rooms at the proposed hotel. This would include a mix of studio-style, extended-stay rooms to multiple-room suite accommodations. Offering additional studio-style rooms may be beneficial to accommodate the interim extended-stay guest and the traditional hotel guest. This could be the more prevalent extended-stay hotel demand for this market due to the types of demand generators in the Corporate/Commercial and Social/Leisure Market Segments.

The potential midscale to upper midscale limited-service style hotel with a mix of traditional and extended-stay style rooms will be competitive in the greater Cibola market area. This is because currently there is only one hotel with extended stay style rooms, the economy rated, extended stay style WoodSpring Suites. The recent opening (April 2019) of the Upscale rated 97-room, extended stay style Staybridge Suites in Schertz is an indication of the subject market area's potential demand for extended stay style rooms of a quality level well above the economy rated WoodSpring Suites.

#### MARKET SEGMENTATION PROFILES

To further define the Market Segmentation of the area, preliminary profiles for each Market Segment were identified. The following outline provides *Market Segmentation Profiles* that correspond to the proposed hotel's projected Market Segmentation. Again, these Market Segmentation Profiles will support the development of a limited-service style hotel as recommended in the *Conclusions* section of this report. These Market Segmentation Profiles are for the overall market area.

More specific and extensive Lodging Demand research would need to be conducted in the form of a Comprehensive Lodging Demand Analysis to further quantify the volume of Lodging Demand Potential that could be expected. The ratings in the chart below indicate the likelihood of Lodging Demand originating from the various market segments, but in no way indicate the volume of Lodging Demand that will be generated by these segments.

MARKET SEGMENTATION PROFILES		
	Dem and Potential	
	Transient = T Extended = E Group = G	Subject Property Potential
Social/Leisure Markets		
Visiting Friends & Relatives	T, E	Very Good
Area Sites & General Tourism		
Midway Between SA Riverwalk & New Braunfels	T, G	Very Good
Schlitterbahn natural water park - New Braunfels	T, G	Good
Retama Park Race Track	T	Good
Area Events		
RE/MAX Skylight Balloon Fest	T	Good
Athenians Soccer games - opposing teams, camps	G	Fair
Events at Retama Park-Horse races, etc.	T	Good
San Antonio Stock Show & Rodeo - Overflow/Compression	T, E, G	Very Good
Area Recreation (New Braunfels Schlitterbahn Waterpark - overflow)	T	Good
Interstate I-35 Travelers	T, G	Good
Weddings	G	Very Good
Reunions	G	Good
Other	G	Good
Motor coach Tours	G	Good
Amateur Youth Sports	T, G	Very Good
	<b>Potential</b>	<b>Very Good</b>
Corporate/Commercial Markets		
Agriculture	T	N/A
Mining, Quarrying & Oil and Gas Exploration	T, E, G	Very Good
Utilities	T, E, G	N/A
Construction	T, E	Good
Manufacturing	T, E	Good
Wholesale Trade	T	Good
Retail Trade	T	Good
Transportation and Warehousing	T	Good
Information	T	N/A
Finance, Insurance and Real Estate	T	N/A
Real Estate, Rental & Leasing	T	N/A
Services		
Professional, Scientific & Technical	T, E	Good
Management of Companies and Enterprises	T	Fair
Administrative, Support, Waste Management and Remediation	T	Good
Educational	T, E	Very Good
Health and Social Assistance	T, E	Good
Arts, Entertainment & Recreation	G	N/A
Accommodation & Food Services	T	Good
Other	T, E	Good
Public Administration - Military	T, E, G	Excellent
	<b>Potential</b>	<b>Very Good</b>
	<b>Overall Potential</b>	<b>Very Good</b>
<i>Source: HMI</i>		

As indicated above, the subject market appears to have generated some diversification in Lodging Demand.

The Corporate/Commercial includes the single largest potential Lodging Demand generator, Randolph Air Force Base which is included in the Public Administration industry sector (the sole industry sector rated Excellent) which will be discussed in greater detail later in this section of this report.

The chart also indicates the extensive number of Lodging Demand sources identified during the research phase of this report that are believed to be currently generating good or better Lodging Demand. These Lodging Demand sources relate to the overall subject market. The proposed hotel will have the potential to develop Lodging Demand from all of these sources. Some will be more productive than others for the proposed hotel.

#### Overall Market Characteristics

In the above chart, the Social/Leisure and the Corporate/Commercial segments were identified with Excellent, Very Good, Good and Fair ratings. Overall, the subject market's Lodging Demand is rated as a Very Good. These ratings are out of 5 possible points, with 5 being Excellent.

- The Social/Leisure market segment has a Very Good rating. It is rated 3.38 to an average rating of 2.5, yielding 135.0%.
- The Corporate/Commercial market segment has a Very Good rating. It is rated 3.32 to an average rating of 2.5, yielding 132.8%.
- Overall, this subject market is rated as Very Good. This rating is 3.35 to an average rating of 2.5, yielding 133.9%.

The Lodging Demand for the proposed limited-service, mid-scale to upper mid-scale hotel recommended in the *Conclusions* section of this report will be generated by multiple sources. These sources are discussed below.

- The Very Good and Excellent categories for the Individual traveler and for Groups in the previous Market Segmentation chart are discussed in the following paragraphs.
- It is believed that the peak season for the proposed hotel will be the period from March through August. A review of the performance of the existing lodging facilities, i.e. the Competitive Set of hotels defined later in this report, indicated that July, March, June, August, April and May respectively were the busiest months. This will be reviewed in greater detail later in this report.

#### Social/Leisure Profiles

Visitors/tourists will be drawn to this central part of the state for the following:

- (a) Visiting families and friends of local residents attending weddings, reunions, funerals, Quinceañera celebrations, other special occasions, and local events such as SMERF (Social, Military, Education, Religious and Fraternal) type group events.
- (b) Discussions with representatives of local business/organizations from the greater Cibolo area indicated the following:

- Cibolo is situated on I-35 midway between downtown San Antonio (the Convention Center, the Alamo and the Riverwalk area) to the south, and New Braunfels (Schlitterbahn Waterpark with natural features and Natural Bridge Caverns) to the north. It is a midway, price sensitive alternative for families visiting both areas.
- The San Antonio Rodeo is a month-long event in February – reported to be the largest indoor rodeo in the US. This event was reported to be generating compression Lodging Demand to the outer/nearby communities such as Cibolo and is an alternative for those seeking quality, more affordable lodging with convenient access to downtown San Antonio.
- Youth sports has the potential to be a significant Lodging Demand generator for the proposed hotel. This demand will come from several areas including:
  - The Cibolo Youth Sport Complex (adjacent to Site Area 2) currently has two baseball fields and three soccer fields. Local officials stated that a “Miracle Field” (focus on youth with special needs) plus two more baseball fields will be added in the next few years.
  - Two large 6A High Schools share a 7,000-seat football stadium in Schertz. Local officials indicated that an estimated 10% of the games’ attendees will require lodging.

Corporate/Commercial Profiles

- Corporate/Commercial Lodging Demand achieved an overall rating of Very Good. This was primarily due to Randolph Air Force Base which is just two miles along FM 78 from Site Area 2. One industry sector (Government-Public Administration) was rated as Excellent with the inclusion of the impact from this military base in this industry sector. Two industry sectors (Mining, Quarrying and Oil & Gas Exploration and Educational Services) were rated as Very Good. Ten industry sectors were rated Good and one was rated Fair.
- During a meeting with local business representatives, the following Lodging Demand was indicated:
  - An oil drilling company, Liberty Oilfield Services, that located in Cibolo in 2017 just south of Site Area 2 in the last few years indicated that:
    - In the first five months of 2019, it required 600 room nights, which equates to an estimated 1,440 room nights annually.
    - They utilize the LaQuinta Inn & Suites for up to 90% of their lodging needs with the balance staying at the Fairfield Inn & Suites.

- A representative of the Schertz-Cibolo-Universal City School District indicated the following:
  - Many Career and Technical Student Organizations (CTSO's) from across Texas hold weekend meetings throughout the school year. These include Future Farmers of America (FFA), Distributive Education Clubs of America (DECA), the Teachers Association, and others.
  - The number of attendees range from 85 - 100. Some events may include banquets.
- Local officials and an unofficial retired military person revealed the following Lodging Demand generated by Randolph Air Force Base:
  - The base trains fighter pilots for the US and other countries.
  - It is the home of the Air Training Command.
    - Pilot instructor training occurs here - course lasts 4 -6 months.
    - Lead fighter pilot training occurs here – course lasts 4 – 6 weeks.
  - Recruiters from across the country attend meeting/conferences.
  - Many meetings, conferences, and training sessions occur on base.
  - Job Fairs draw employers from as far away as New Jersey.
  - Faculty recruitment.
  - Weeklong conferences are common with 50 attendees on average. Typically, 2 – 4 of meetings/conferences occur at the same time.
  - Several different commands are located on this base.
  - Many meetings include military personnel and non-military or civilian personnel.
  - More specific information on Lodging Demand was not available at this time, however it is believed that this may become available in the future through the Freedom of Information Act.
  - The Randolph Lodge is located on the base with a reported 385 rooms.
  - Staff at some of the Competitive Set hotels indicated that a significant number of their room nights is driven by this airbase.

These industry segments will attract Individual business travelers to this market as suppliers, vendors, technicians, and corporate representatives. Some of these Lodging Demand Sources or major employers in the greater City of Cibolo market area are included in the following two charts provided by the joint Chamber of Commerce for the cities of Cibolo, Schertz and Selma. As previously described, the greater Cibolo market area includes these three cities. A listing of major employers for the City of Selma was not available.

<b>MAJOR EMPLOYERS</b>	
<b>Cibolo, Texas</b>	
<b>COMPANY</b>	<b>SERVICE OR PRODUCT</b>
AGE Industries	Custom Packaging & Shipping
Builders FirstSource	Building Supplies
Casa Mechanical	Plumbing / HVAC
Independent Rough Terrain Center	Rough Terrain Heavy Logistics
Liberty Oilfield Services	Online Oil Engineering Services
Robles 1	Demolition Contractor
Schertz-Cibolo-Universal City ISD	Educational
Signature Plating	Plating Materials
Wal-Mart	Retail

*Source: Cibolo Economic Development Corp.*

<b>MAJOR EMPLOYERS</b>	
<b>Schertz, Texas</b>	
<b>COMPANY</b>	<b>SERVICE OR PRODUCT</b>
Amazon	Online Retail
The Brandt Companies	Mechanical & Electrical Services
CalTex Protective Coatings	Automotive Protective Coatings
Caterpillar	Construction and Mining Equipment
FedEx Ground and Freight	Printing, Packing and Shipping
HEB Grocery Co.	Grocery
Lowe's	Home Improvement
Republic Beverage Co.	Wine and Spirits Distributor
Sysco	Food Product Distributor
Visionworks	Vision
Wal-Mart	Retail

*Source: Schertz Economic Development Corp.*

**LODGING DEMAND POTENTIAL INDEX**

The Lodging Demand Potential for the proposed hotel in the overall market area was also analyzed via the *Lodging Demand Potential Index*. This relates Lodging Demand Potential to the Market Segmentation previously projected for the proposed hotel and the industry distribution in the subject market area. As defined above, the location of the hotel may present some variations to this Lodging Demand Potential Index. This is a rating based on a scale of 0 to 5, with 5 indicating excellent Lodging Demand Potential and 2.5 indicating average Lodging Demand Potential. The following information shows the results of this analysis.

More specific and extensive Lodging Demand research would need to be conducted to further quantify the volume of Lodging Demand Potential expected for the proposed hotel. The ratings in the chart below indicate the likelihood of Lodging Demand originating from the various market segments, but in no way indicates the volume of Lodging Demand that will be generated by these segments.

LODGING DEMAND POTENTIAL INDEX		
MARKET SEGMENTATION	PERCENT OF MARKET	LODGING DEMAND POTENTIAL INDEX
Individual Travel Markets		
- Corporate/Commercial Markets	50.0%	3.5
- Social/Leisure Markets	15.0%	4.0
Group Markets		
- Business Related	25.0%	3.5
- Social Leisure Related	10.0%	3.5
<b>TOTAL</b>	<b>100.0%</b>	<b>3.6</b>
INDUSTRY DISTRIBUTION	PERCENT OF MARKET	LODGING DEMAND POTENTIAL INDEX
Agriculture, Forestry, Fishing & Hunting	0.5%	1.0
Mining, Quarrying, & Oil and Gas Extraction	1.6%	5.0
Utilities	0.2%	2.5
Construction	5.2%	3.5
Manufacturing	5.5%	3.0
Wholesale Trade	6.6%	2.5
Retail Trade	9.0%	2.5
Transportation and Warehousing	2.8%	2.5
Information	0.4%	2.0
Finance and Insurance	0.9%	2.0
Real Estate, Rental & Leasing	0.8%	2.0
Services	66.4%	
- Professional, Scientific & Technical Services	1.9%	2.5
- Management of Companies and Enterprises	1.3%	2.0
- Administrative and Support and Waste Management and Remediation Services	2.0%	2.0
- Educational Services	8.0%	2.5
- Health and Social Assistance	3.8%	2.0
- Arts, Entertainment & Recreation	0.8%	2.0
- Accommodation & Food Services	7.0%	2.5
- Other Services	2.7%	2.5
- Public Administration	39.0%	5.0
<b>Total:</b>	<b>100.0%</b>	<b>3.5</b>

Source: HMI, Inc.

It was estimated that the current overall Lodging Demand Potential for the greater Cibolo market areas as previously defined is 3.6 or above average, at 2.5. The yield is 144.0% to average. The reason for this above average rating is multi-faceted and will be discussed below.

The combined Individual Market Segments generate an average rating of 3.62. This is a yield of 144.6+% to average. The combined Group Market Segments are generating an average rating of 3.50 with a yield of 140.0%, due to Corporate/Commercial Group business and Social/Leisure Group business. It should be noted that due to the lack of more detailed information regarding Group business generated by the base, the actual breakdown between Individual and Group business may vary from what is presented in this report. For instance, sufficient detail was not available to determine if fighter pilot training should be considered Individual or Group business.

The Social/Leisure segment is stronger overall and is generating a yield of 152.0% while the Corporate/Commercial segment overall is generating a yield of 140.0%.

#### SEASONALITY OF LODGING DEMAND

*Seasonality of Lodging Demand* was reviewed for the subject market area. This seasonality analysis was based upon the Competitive Set hotels which include competitive hotels in the cities of Schertz, Selma and Live Oak, Texas. Local officials/businessmen stated that these hotels were being utilized. They include economy and upper midscale hotels that report to Smith Travel Research. Why these hotels were selected for the Competitive Set will be explained further in the Competitive Supply section of this report. This analysis indicates the subject market's potential to attract Lodging Demand during various seasons. It will help determine the strengths and weaknesses of the proposed hotel over the different seasons during its operational year.

The following chart shows the most current information related to deviation from total Lodging Demand for the Competitive Hotel Set for the proposed hotel in the City of Cibolo. This will be discussed in greater detail later in this report. In the following chart, ADR = Average Daily Rate, and RevPAR =Revenue Per Available Room based on the average of the performance for the prior three years, March 2016 through April 2019.

<b>SEASONALITY OF LODGING DEMAND</b>			
<b>Deviation From Average Monthly Demand</b>			
MONTH	DEMAND	ADR	REVPAR
January	82.9%	91.7%	74.6%
February	91.9%	99.2%	99.1%
March	<b>114.5%</b>	<b>110.4%</b>	<b>124.0%</b>
April	<b>104.6%</b>	<b>103.9%</b>	<b>110.1%</b>
May	<b>100.2%</b>	<b>100.2%</b>	98.5%
June	<b>113.0%</b>	<b>105.3%</b>	<b>120.6%</b>
July	<b>120.3%</b>	<b>112.4%</b>	<b>132.7%</b>
August	<b>106.7%</b>	<b>102.5%</b>	<b>107.3%</b>
September	88.8%	94.6%	88.9%
October	90.7%	93.7%	83.4%
November	93.6%	92.0%	87.4%
December	87.9%	90.6%	78.1%
<i>ITALICS = RevPAR Exceeds at Least One Factor</i>			
<b>BOLD = RevPAR Exceeds Both Factors</b>			
<i>Source: Smith Travel Research and HMI</i>			

The greatest deviations from the average monthly Lodging Demand are 114.5% in March, 104.6% in April, 100.2% in May, 113.0% in June, 120.3% in July and 106.7% in August. This indicates that six months exceed the average monthly demand for the subject market area and are above average. The next largest deviation from the average monthly Lodging Demand occurs in November at 93.6%.

Based on the previous chart, the subject market's Seasonality of Lodging Demand patterns are strong. There is significant strength from March through August, peaking in July and March, closely followed by June.

- The strongest months are July with 10.0% of the annual Lodging Demand followed by March with 9.5% and June with 9.4%.
- The months of March through August attained above average monthly Lodging Demand over the past 39-month period, March, 2016 through May, 2019.
- The strongest quarter includes the months of June, July and August with 28.3% of the average annual Lodging Demand. This creates a yield of 113.3% from the average annual quarterly Lodging Demand, which is above average seasonality.
- The three months of March, April and May are next with 26.6% of the average annual Lodging Demand. Thus, the period from March – August is the strongest half of the year.

- The RevPAR deviation to the average monthly amount of 98.5% (less than 100% when deviation of ADR and Demand were slightly greater than 100%) would typically be similar, but not necessarily the same amount greater than, 100%. However, this did not occur here due to the limited time frame of just 39 months of data being available.
- The period from March through August is the strongest half of the year with 54.9% of the annual Lodging Demand. This is typical seasonality for this west/south-central region of the United States with a yield of 109.9%.
- The weakest Lodging Demand period in this subject market is from December through February. This is based on average Lodging Demand at 21.9% of the average annual Lodging Demand and 20.6% of the average annual revenue. This indicates the seasonality of this market area and appears to be below average.
- Overall, this indicates that the market area is highly seasonal and is similar to the average seasonal pattern for this part of the United States.

The previous chart also demonstrates the seasonal strength of this subject market since, in five months, the deviation of RevPAR exceeds the monthly deviation of both Lodging Demand and ADR. In two additional months, February and September, the RevPAR deviation exceeds the monthly deviation in Lodging Demand. This equates to a total of seven months when the RevPAR deviation equals or exceeds the monthly average deviation in Lodging Demand or ADR. This is another indication of the seasonal strength of the subject market, but it also indicates that this market has the potential for wide fluctuations in Occupancy based upon seasonality.

However, the variances in ADR during weaker months of Occupancy (90.6% - 99.2% of the Average ADR versus 100.2% - 112.4% of the Average ADR in peak Occupancy months) also indicates seasonality variances in ADR in the market area. This is especially true during the weaker Occupancy months. Also, the relatively narrow range in ADR variances during both seasons may be an indication of the impact of the significant volume of demand being generated by Randolph Air force Base, which is presumed to be on a per diem rate.

There could be the potential to increase rates when the gap between Lodging Demand and ADR is greater than 5.0%. The data in the previous chart indicates that this occurs during the weaker demand months of January, February and September. The difference in these three months is 8.8%, 7.3%, and 5.8% respectively. It would appear that in these three months, ADR could be increased so that the difference would more closely match the strength of the Lodging Demand.

Monthly seasonality peaks in July, and is very closely followed by August, then March, and June with no severe peaks and valleys from March through August. The strength of these peak Lodging Demand months, combined with the weakness during the slower times, yields a 45.1% differential in Lodging Demand between July versus January. This indicates the inability of the Corporate/Commercial and Social/Leisure markets to compensate for slow times in this market area.

The subject market operates within a broad range of Occupancy percentages. The highest average monthly Occupancy over the past 39-month period ending May 2019 of 78.0% in July, closely followed by June and March respectively at 75.7% and 74.3% (for an average high Occupancy of 76.0%). During the same 39-month period, this market had average low Occupancies of 57.0% and 53.8% in December and January respectively (for an average low Occupancy of 55.4%). This is a swing of 20.6% points from the average high Occupancy of 76.0% to the average low of 55.4%, or a 37.2% change. This indicates that the subject market area has a moderate swing in Occupancy from peak to slow times.

In ADR, there were average highs of \$93.34 in July and \$91.62 in March, yielding an average high of \$92.48 during the past 39-month period ending in May 2019. Average lows of \$75.18 in December, 76.16 in January and \$76.41 in November occurred during the same period yielding an average low ADR of \$75.92. This swing of \$16.56 or 21.8% is a typical variance between high and low periods for seasonal business/vacation areas such as this. However, the fact that the top three average Occupancy months (July, June and March respectively) over the same 39-month period ending May 2019 are the first, third and second highest average ADR months over the same period indicates that the Competitive Set is attempting to maximize rates during peak periods of Occupancy.

During the past six years, the monthly averages result in a RevPAR range from an average high of \$72.85 in July to a low of \$40.96 in January, for a swing of \$31.89 or 77.9%. This indicates that ADR and Occupancy are driving RevPAR maximization in this market because the high RevPAR occurs in the month of July, the highest average Occupancy and highest average ADR month, during this 39-month period.

A review of the Competitive Set's performance for the twelve-month period ending May 2019 indicated that Occupancy was highest on weekends with average annual Occupancy on Friday and Saturday at 73.5% and 77.5% respectively. Weekdays (Monday - Thursday) achieved average annual Occupancy levels of 62.9%, 68.9%, 69.3% and 68.5%, respectively. Sunday had the lowest average Occupancy during this twelve-month period, at 50.2%. The daily breakdown of Occupancies over this period for the Competitive Set is presented in the following chart prepared by Smith Travel Research:

Occupancy (%)								Total Month
Sun	Mon	Tue	Wed	Thu	Fri	Sat		
Jun - 18	56.1	68.8	77.0	79.5	81.6	81.7	83.9	76.0
Jul - 18	58.2	75.1	77.3	77.1	75.6	88.4	93.0	77.1
Aug - 18	49.7	57.5	65.9	67.4	65.6	78.0	85.8	67.4
Sep - 18	49.1	56.0	65.9	64.0	59.6	58.6	67.8	60.0
Oct - 18	46.1	58.1	63.1	61.1	60.6	68.8	76.1	61.8
Nov - 18	46.6	60.3	66.8	67.3	69.3	73.2	72.6	65.6
Dec - 18	50.1	61.4	66.3	66.0	66.4	64.8	69.4	63.2
Jan - 19	46.7	62.3	63.1	64.9	63.1	59.3	58.2	60.0
Feb - 19	51.2	67.4	77.1	78.1	73.1	73.8	73.7	70.6
Mar - 19	52.4	72.0	75.8	78.7	75.4	77.7	85.2	73.7
Apr - 19	45.2	61.5	66.6	69.0	71.4	84.0	84.8	68.6
May - 19	48.8	53.9	63.8	63.8	64.2	70.6	80.5	63.9
<b>Total Year</b>	<b>50.2</b>	<b>62.9</b>	<b>68.9</b>	<b>69.3</b>	<b>68.6</b>	<b>73.5</b>	<b>77.5</b>	<b>67.3</b>

Source: Smith Travel Research

Also, during the past twelve months ending January 2018, there was a significant difference between the average ADR's achieved on weekdays (Monday - Thursday) at \$103.85 (range of \$103.12 - \$104.67) vs. the weekend average ADR's (Friday and Saturday) at \$121.74. This is a \$17.94 or 17.3% difference between Weekday and Weekend average ADR's. ADR hit a monthly average high of \$125.09 in October 2017. There was an ADR rate range (for the twelve months ending January 2018) from a low of \$94.86 in November 2017 to a high of \$125.09 in July 2017. A daily account of ADR's during this period is presented in the following chart prepared by Smith Travel Research.

ADR								Total Month
Sun	Mon	Tue	Wed	Thu	Fri	Sat		
Jun - 18	76.00	80.23	83.12	84.05	84.39	95.01	94.67	86.64
Jul - 18	79.18	83.89	85.48	85.91	84.42	102.10	107.20	90.23
Aug - 18	76.81	79.18	80.47	81.56	79.55	91.88	95.21	84.56
Sep - 18	75.11	77.67	80.16	78.59	77.02	76.82	86.14	79.21
Oct - 18	76.94	78.43	80.02	78.71	78.48	80.61	81.33	79.37
Nov - 18	72.24	76.76	78.73	77.80	76.02	80.02	78.74	77.51
Dec - 18	73.75	77.11	79.37	79.34	77.49	77.60	78.03	77.57
Jan - 19	74.75	79.17	79.60	80.65	78.52	76.63	75.70	78.19
Feb - 19	77.60	82.74	86.45	85.30	82.40	88.93	86.96	84.69
Mar - 19	79.79	87.55	91.54	90.40	91.32	100.12	106.10	93.68
Apr - 19	74.42	80.53	83.85	82.43	81.03	93.38	94.64	85.28
May - 19	78.97	79.23	83.28	82.65	84.03	89.95	98.08	86.03
<b>Total Year</b>	<b>76.44</b>	<b>80.42</b>	<b>82.85</b>	<b>82.43</b>	<b>81.33</b>	<b>88.99</b>	<b>91.39</b>	<b>83.94</b>

Source: Smith Travel Research

The above data shows that the average Weekend (Friday and Saturday) ADR of \$90.19 is modestly higher (\$8.43) than the Weekday (Monday - Thursday) average ADR at \$81.76. This indicates that the typical Weekend Social/Leisure Lodging Demand is generating higher ADR's than the Corporate/Commercial Demand which typically occurs on Weekdays. This also indicates that the Corporate/Commercial segment appears to be more price sensitive than the Social/Leisure segment since the Weekend average ADR is higher than the Weekday average ADR.

This analysis of the most recent twelve-month period indicates that the highest ADR days are also the highest Occupancy days. This indicates that the Competitive Set is attempting to maximize rates on the highest Occupancy day during this period.

A review of the following chart indicates the subject market is attempting to maximize RevPAR since the highest RevPAR occurs on the highest Occupancy day and the highest ADR day. However, a comparison of the average weekend (Friday and Saturday) RevPAR at \$68.13 versus the average weekday (Monday - Thursday) RevPAR at \$55.46 for a 22.8%, reveals a significant difference. This indicates there is most likely room for improvement.

RevPAR								Total Month
Sun	Mon	Tue	Wed	Thu	Fri	Sat		
Jun - 18	42.64	55.16	64.01	66.80	68.86	77.58	79.45	65.83
Jul - 18	46.06	63.01	66.05	66.21	63.80	90.24	99.74	69.54
Aug - 18	38.14	45.51	53.06	55.00	52.16	71.63	81.70	57.02
Sep - 18	36.85	43.47	52.79	50.29	45.89	45.04	58.36	47.53
Oct - 18	35.45	45.58	50.45	48.07	47.52	55.42	61.93	49.09
Nov - 18	33.65	46.30	52.59	52.37	52.68	58.58	57.14	50.82
Dec - 18	36.94	47.34	52.61	52.36	51.43	50.30	54.16	49.00
Jan - 19	34.89	49.30	50.19	52.37	49.56	45.42	44.07	46.94
Feb - 19	39.76	55.77	66.62	66.64	60.24	65.60	64.10	59.82
Mar - 19	41.78	63.00	69.39	71.14	68.83	77.78	90.38	69.00
Apr - 19	33.62	49.56	55.86	56.89	57.87	78.42	80.28	58.51
May - 19	38.51	42.70	53.17	52.76	53.97	63.47	78.99	54.98
<b>Total Year</b>	<b>38.36</b>	<b>50.62</b>	<b>57.11</b>	<b>57.15</b>	<b>55.76</b>	<b>65.41</b>	<b>70.84</b>	<b>56.49</b>

Source: Smith Travel Research

#### RATE SENSITIVITY FACTOR ANALYSIS

Similar to the Lodging Demand Potential Index, a preliminary *Rate Sensitivity* analysis was performed. This ranks the Market Segmentation planned for the proposed hotel and the anticipated Rate Sensitivity within the Market Segments. It utilizes a 5-point scale, with 5 indicating extreme sensitivity and 2.5 being average. The following are the results of this analysis.

The data in the following chart is an analysis of the performance of the Competitive Set (described later in the Lodging Supply section of this report) on an annual basis. It should be noted that another factor necessary to this Rate Sensitivity discussion includes the significant Lodging Demand being generated by the Randolph Air Force Base. The reported per diem rate for the zip code that the airbase is located in is \$94 for 2019 while the per diem rate for Bexar County and the City of San Antonio is \$124. Also, discussions with a representative of the Randolph Inn (the military hotel located right on Randolph Air Force Base) indicated that they have “contract rates with limited service hotels in this greater Cibola market area ranging from \$70 - \$85. The combined impact of the these “contract rates” and the lower \$94 per diem rate for those from the largest Lodging Demand generator in this market area is most likely having a significant impact on an overall bases as well as specifically on the Corporate/Commercial lodging segment since the military business is included in it. This supports the significantly higher Rate Sensitivity for the Corporate/Commercial segment reflected in the following chart.

RATE SENSITIVITY FACTOR		
Market Segmentation	% of Market	Rate Sensitivity Factor
Individual Travel Markets		
- Corporate/Commercial	50.0%	3.2
- Social/Leisure	15.0%	2.4
Group Markets		
- Business Related	25.0%	3.2
- Social/Leisure Related	10.0%	2.4
TOTAL	100.0%	3.0
<i>Source: HMI</i>		

This review of Rate Sensitivity in the subject market area is based first on the assumption that the proposed limited-service hotel will primarily compete with the midscale to upper midscale hotels in the greater Cibolo Texas market area. These hotels comprise the Competitive Set discussed in detail in the *Lodging Supply* section of this report. To balance this market with average Rate Sensitivity, the performance of the projected ADR's for the Competitive Set of Hotels on Weekdays (Monday - Thursday) which is typically Corporate/Commercial Lodging Demand and on Weekends (Friday - Saturday) which is typically Social/Leisure were analyzed to determine each of their Rate Sensitivity levels.

The projected average low single rate of the entire Competitive Set (described in the following Lodging Supply section of this report) for winter (January 2020) and summer (July 2019) was projected at \$96.24. This is 14.7% greater than this market's actual twelve-month ending May 2019 average ADR of \$83.94 for the Competitive Set. This is based on the Competitive Set utilized in this report. It indicates that during this past twelve-month period some discounting was incurred by the Competitive Set. It should also be noted that the projected average low single rate is based on rates quoted in the seasonal months previously indicated. Data from winter and summer seasons were utilized in this analysis.

The projected 2018 Weekday average ADR (\$81.76) is 15.0% less than the average low single rate and the average Weekend ADR (\$90.19) is 6.3% less than the average low single rate. These are material variances (especially the Weekday average ADR) from the average single rate of the Competitive Set. It indicates overall above average Rate Sensitivity in the subject market at this time.

It is estimated that there will be above average (a rating of 3.0) *Rate Sensitivity* primarily due to the above average (a rating of 3.2) *Rate Sensitivity* from the Corporate/Commercial Segments combined with slightly below average 2.4 *Rate Sensitivity* rating for the Social/Leisure Segments as indicated in the chart above.

These result in above average overall *Rate Sensitivity* with a rating of 3.0. It is believed that these levels of *Rate Sensitivity* in the Corporate/Commercial and Social/Leisure markets will continue annually due to the ongoing presence of the air base.

#### FEEDER MARKETS

Discussions indicated that the Corporate/Commercial and Social/Leisure *Feeder Markets* for the proposed hotel are believed to be on a national basis, especially when considering the military training Lodging Demand. This is also supported by San Antonio being a national convention destination as well as having historically significant attractions. Almost equal to this will be the draw from a statewide and regional basis. This is due to the many Social/Leisure attractions available with Cibolo being situated conveniently along I-35, midway between downtown San Antonio and New Braunfels, with the latter's waterpark/leisure attractions.

#### UNACCOMMODATED LODGING DEMAND

*Unaccommodated Lodging Demand* is described in two ways. The first is Lodging Demand that prefers to stay in the subject market but currently stays in other areas due to the lack of adequate accommodations, either due to condition or number of available rooms. The second definition is Lodging Demand staying in the subject market but actually desiring accommodations in other areas.

At present, there are no hotels located in the City of Cibolo. The closest midscale to upper midscale hotels are in nearby Schertz, Selma and Live Oak. Therefore, the first type of *Unaccommodated Lodging Demand* is definitely occurring. Also, based on the definition of the second type of *Unaccommodated Lodging Demand* and the absence of any hotels in the City of Cibolo, the second type cannot be occurring.

The Competitive Set is comprised of nine Economy and Upper Midscale rated hotels. Four Upper Midscale hotels are located in Schertz, three Upper Midscale hotels are located in Selma, and one Economy hotel and one Upper Midscale are located in Live Oak. All nine members of the Competitive Set are nationally branded limited-service hotels. These hotels were selected: because they report to Smith Travel Research (STR), because of their location, and because they are Limited-Service, Economy to Upper Midscale hotels in service/pricing.

The daily Occupancies for this period are presented in the following chart prepared by Smith Travel Research. Those highlighted in **Red** are days achieving 85% Occupancy or greater, **Yellow** are days achieving 75% Occupancy or greater, and **Blue** are days achieving 70.0% - 74.9%.

Occupancy (%)								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Jun - 18	56.1	68.8	77.0	79.5	81.6	81.7	83.9	76.0
Jul - 18	58.2	75.1	77.3	77.1	75.6	88.4	93.0	77.1
Aug - 18	49.7	57.5	65.9	67.4	65.6	78.0	85.8	67.4
Sep - 18	49.1	56.0	65.9	64.0	59.6	58.6	67.8	60.0
Oct - 18	46.1	58.1	63.1	61.1	60.6	68.8	76.1	61.8
Nov - 18	46.6	60.3	66.8	67.3	69.3	73.2	72.6	65.6
Dec - 18	50.1	61.4	66.3	66.0	66.4	64.8	69.4	63.2
Jan - 19	46.7	62.3	63.1	64.9	63.1	59.3	58.2	60.0
Feb - 19	51.2	67.4	77.1	78.1	73.1	73.8	73.7	70.6
Mar - 19	52.4	72.0	75.8	78.7	75.4	77.7	85.2	73.7
Apr - 19	45.2	61.5	66.6	69.0	71.4	84.0	84.8	68.6
May - 19	48.8	53.9	63.8	63.8	64.2	70.6	80.5	63.9
<b>Total Year</b>	<b>50.2</b>	<b>62.9</b>	<b>68.9</b>	<b>69.3</b>	<b>68.6</b>	<b>73.5</b>	<b>77.5</b>	<b>67.3</b>

Source: Smith Travel Research

A review of the Competitive Set's performance in the most recent twelve-month period ending May 2019 reveals that a total of

- 29.75 days (8.2%) during this twelve-month period achieved Occupancies of 85% or greater (highlighted in Red).
- An additional total of 72.25 days (19.8% of the year) achieved Occupancies of 75.0% or greater (highlighted in Yellow).
- An additional 34 days (9.3% of the year) achieved Occupancy levels of 70.0% - 74.9% (highlighted in Blue).

This results in a total of 37.3% of the days in the twelve months ending May 2019 that achieved an Occupancy of 70.0% or greater. This is considered an Occupancy performance level at which newer and better hotels are either at or approaching a level of maximized Occupancy.

It should be noted that data in the chart above demonstrates the seasonality of this market as previously discussed in this report with 90.6% of the days achieving an Occupancy of 70.0% during the six-month period March–August/spring and summer.

**LODGING SUPPLY**

This section of the report describes the competitive Lodging Supply or Competitive Set that will affect the proposed hotel, particularly for hotel room demand. Smith Travel Research reports that there are fourteen motels and hotels within an approximate six-mile radius of the two sites in Cibolo, totaling 1,329 rooms for an average size of 94.9 rooms. The Competitive Set of hotels were selected because of their location, because they report to Smith Travel Research (STR), and because they are similar in style, pricing, and/or service to the proposed limited-service hotel. The following chart highlights the nine members of the Competitive Set of hotels which total 872 rooms.

<b>PRIMARY COMPETITIVE HOTELS</b>				
Number of Hotels:	9			
Number of Hotel Rooms:	872			
Chain Related:	Hotels:	9	% Overall Mark	100.0%
	Rooms:	872	% Overall Mark	100.0%
Non-Chain Related:	Hotels:	0	% Overall Mark	0.0%
	Rooms:	0	% Overall Mark	0.0%
<b>PRODUCT DIFFERENTIATION ANALYSIS</b>				
CATEGORY	NUMBER OF HOTELS	PERCENT OF MARKET	NUMBER OF ROOMS	PERCENT OF MARKET
Economy	0	0.0%	0	0.0%
Economy (Extended Stay) <i>Live Oak: WoodSprng Suites - 121 rms.</i>	1	11.1%	121	13.9%
Mid-Scale (Limited Service)	0	0.0%	0	0.0%
Mid-Scale (Extended Stay)	0	0.0%	0	0.0%
Upper Midscale (Limited Service) <i>Live Oak: Hampton Inn &amp; Suites - 85 rms., LaQuinta Inn &amp; Suites - 137 rms. Schertz: Fairfield Inn &amp; Suites - 117 rms., Hampton Inn - 98 rms., Best Western Plus - 61 rms., LaQuinta Inn &amp; Suites 81 rms. Selma: Comfort Inn &amp; Suites - 88 rms., Holiday Inn Express &amp; Suites - 84 rms.</i>	8	88.9%	751	86.1%
Upper Mid Scale (Extended Stay)	0	0.0%	0	0.0%
Upscale (Select Service)	0	0.0%	0	0.0%
Upscale (Extended Stay)	0	0.0%	0	0.0%
<b>TOTALS</b>	<b>9</b>	<b>100.0%</b>	<b>872</b>	<b>100.0%</b>
<b>Average Room Size:</b>			<b>96.9</b>	
<i>Source: HMI</i>				

The average size of the Competitive Set of Hotels in the previous chart is 96.9 rooms. The current anticipated size of the proposed hotel is 85 rooms. This is smaller than the average size of the Competitive Set of Hotels. It equates to a Fair Share Size Adjustment factor of 113.99% when compared to the average size of the existing Competitive Set described in the previous chart.

All nine members of the Competitive Set of Hotels are nationally branded, limited service style hotels. The members of the Competitive Set are a mix of those rated as Economy and Upper Midscale. The Economy property is the sole extended stay style, limited service hotel in the Competitive Set.

A strong regional or national brand affiliation is recommended for the proposed hotel to be competitive. This would assist in positioning it to be competitive in the subject market and in attracting visitors from both a regional and a national basis.

**PROJECTED OCCUPANCY AND AVERAGE DAILY RATE**

The following chart highlights advertised competitive hotel rates, anticipated Occupancy performance, and the projected ADR rates of the proposed hotel’s Competitive Set of hotels. These hotels report to Smith Travel Research (STR).

<b>COMPETITIVE HOTEL OCCUPANCY &amp; RATES</b>				
<b>PROPERTY</b>	<b>Occ. Perform.</b>	<b>RATE ANALYSIS</b>		<b>PROJECTED ADR</b>
		<b>SUMMER</b>	<b>WINTER</b>	
<u>Live Oak, TX</u>				
Hampton Inn Randolph AFB	Average	\$111-\$123	\$94-\$104	<b>\$91.42</b>
LaQuinta I-35N at Toepperwein	Below	\$106-\$135	\$71-\$76	<b>\$75.66</b>
WoodSpring Suites I-35 North	Below	\$77-\$87	\$40-\$47	<b>\$51.46</b>
<u>Schertz, TX</u>				
Best Western Plus Atrium Inn	Below	\$102-\$141	\$92-\$112	<b>\$89.40</b>
Fairfield Inn Northeast	Above	\$138-\$168	\$101-\$114	<b>\$96.39</b>
Hampton Inn	Above	\$153-\$174	\$105-\$120	<b>\$96.60</b>
LaQuinta Inn & Suites	Average	<b>N/A</b>	\$99-\$109	<b>\$88.40</b>
<u>Selma, TX</u>				
Comfort Inn Randolph AFB	Average	\$83-\$93	\$103-\$124	<b>\$85.64</b>
Holiday Inn Express & Suites	Above	\$105-\$132	\$127-\$140	<b>\$94.50</b>
<b>Competitive Market Average Daily Room Rate (ADR):</b>				<b>\$83.94</b>
* Rates shown reflect the low single to high double for each season.				
** Where seasonal rate range was not available, similar available rate range was used.				
Source: HMI				

The rates listed in the above chart were quoted/advertised for the summer of 2019 and winter of 2020. The Competitive Average Daily Rate (ADR) of \$83.94 in the previous chart is the actual twelve-month annual ADR through May 2019 for this Competitive Set per data collected by STR. The annual ADR's for each property in the previous chart are based on the reported advertised rate ranges for particular seasonal periods discounted to produce the actual twelve-month period ending May 2019 ADR for the Competitive Set.

The following chart presents the Primary Competitive Set of hotels for the proposed hotel. In the chart above, the two hotels in Live Oak were excluded to form the Primary Competitive Set of hotels. The two that were omitted are the one Economy rated member of the Competitive Set and an Upper Midscale property which is the oldest member of the Competitive Set at 33.3 years old. These hotels are not believed to be true competitors of the proposed hotel. Also, these two hotels are the farthest from Cibolo.

PRIMARY COMPETITIVE HOTEL OCCUPANCY & RATES				
PROPERTY	Occ. Perform.	RATE ANALYSIS		PROJECTED ADR
		SUMMER	WINTER	
<u>Live Oak, TX</u>				
Hampton Inn Randolph AFB	Average	\$111-\$123	\$94-\$104	<b>\$91.42</b>
<u>Schertz, TX</u>				
Best Western Plus Atrium Inn	Below	\$102-\$141	\$92-\$112	<b>\$89.40</b>
Fairfield Inn Northeast	Above	\$138-\$168	\$101-\$114	<b>\$96.39</b>
Hampton Inn	Above	\$153-\$174	\$105-\$120	<b>\$96.60</b>
LaQuinta Inn & Suites	Average	<b>N/A</b>	\$99-\$109	<b>\$88.40</b>
<u>Selma, TX</u>				
Comfort Inn Randolph AFB	Average	\$83-\$93	\$103-\$124	<b>\$85.64</b>
Holiday Inn Express & Suites	Above	\$105-\$132	\$127-\$140	<b>\$94.50</b>
<b>Competitive Market Average Daily Room Rate (ADR):</b>				<b>\$92.19</b>
* Rates shown reflect the low single to high double for each season.				
** Where seasonal rate range was not available, similar available rate range was used.				
Source: HMI				

- A review of the Occupancy performance for the Primary Competitive Set of Hotels in the subject market indicated that they are performing from below average to above average.
- The projected twelve-month period ending May, 2019 average ADR of the Primary Competitive Set was projected at \$92.19, based on their collective projected ADR's for this period. The above chart also indicates that there are two rate tiers within the Primary Competitive Set.

- The first rate tier has the highest projected rate. It has four members, the Fairfield Inn and the Hampton Inn, both located in Schertz with projected ADR's of \$96.39 and \$96.60 respectively. Also included in this rate tier are the Hampton Inn and the Holiday Inn Express & Suites, both located in Selma with projected ADR's of \$91.42 and \$94.50 respectively. These projected ADR's yield a projected average ADR for this first rate tier of \$94.73. The projected average ADR for this first tier achieves a yield to the projected Primary Competitive Set average ADR of \$92.19 or 102.8%. This projected average ADR of \$92.19 achieves a yield to the projected Competitive Set ADR of \$83.94 or 109.8%.
- The second rate tier has three members. The Best Western Plus and the LaQuinta Inn & Suites, both located in Schertz with projected ADR's of \$89.40 and \$88.40 respectively. The third member of this second rate tier is the Comfort Inn in Selma with a projected ADR of \$85.64. These three projected ADR's achieve a projected average ADR of \$87.81 which has a yield to the projected Primary Competitive Set average ADR of \$92.19 or a yield of 95.3%. This projected ADR of \$87.81 achieves a yield to the projected Competitive Set ADR of \$83.94 or 104.6%.

Historically, the Competitive Set achieved an average annual ADR growth rate of 0.86% over the three-year period from March 2016 through February 2019. This three-year period was comprised of one twelve-month period that reflected a decrease and one that reflected an increase. The twelve months ending February 2018 experienced a decrease of -1.7% and the next twelve-month period ending February 2019 experienced an increase of 2.8%. This results in an average annual rate of increase over this 36-month period of 0.86%. Year-to-date through May 2019, the ADR rate of growth increased by 1.2% when compared to the same period the prior year. Comparing this to the average ADR growth rate in the prior two year-year period, the 2019 annual ADR growth rate is projected at 0.58%. This 0.58% projected growth rate in ADR will be applied in 2019 in the projections in this report to arrive at a projected 2019 ADR. Combining this projected 2019 annual growth rate of 0.58% with the historic actual growth rate of 1.2% for the period 2017 – 2018 yields a two-year average annual growth rate of 0.89%. In 2020 half of this or 0.45% will be applied and then commencing in 2021 and all future years 75% of this or 0.67% will be applied for annual ADR growth purposes in this report.

### Rate Positioning

It is suggested that the proposed midscale to upper-midscale, limited-service hotel be rate positioned midway between the two rate tiers discussed previously in this report. This would indicate a yield to the Competitive Set of Hotels of 108.73% and it results in a projected ADR of \$91.27. This would position it to compete with the LaQuinta Inn & Suites, the Best Western Plus (both in Schertz), and the Hampton Inn in Selma.

However, to this would be added a 5.0% premium due to the proposed hotel being new versus the average age of the Primary Competitive Set of hotels at 12.4 years.

This would result in a projected ADR for the proposed hotel of \$96.48 in its third full year of operation (2023).

For projection purposes, it is recommended that the proposed hotel be rate positioned to achieve a yield to the Competitive Set of Hotels of 113.7% by the time it stabilizes in its third year of operation, 2023.

In the projections in this report, this will be reduced by 5.0% in years one and two to allow for any discounting which typically occurs. This is typical when promoting a new hotel as it opens and will result in yields to the projected average ADR for the Competitive Set of Hotels of 102.6% in year one and 108.0% in year two. This will position the new hotel to be the rate leader in the second rate tier as previously discussed.

This rate positioning of the proposed hotel should result in ADR's in the \$84 - \$90 range when it opens in 2021, the first full year of operation. In 2022 and 2023, being the second and third full year of operation, the resulting rates should be in the ranges of \$90 - \$96 and \$95 - \$101, respectively.

**COMPETITIVE FACTOR ANALYSIS**

A *Competitive Factor Analysis* was also performed for the Primary Competitive Set of Hotels. This analysis is based upon a scale of 0 to 5, with 5 indicating strong competitive factors and 2.5 being average. The following chart highlights this analysis of the Primary Competitive Set of Hotels in the categories of *Rate, Facility, Brand, Location* and *Market Segmentation*. It also indicates the overall competitive factor for each property and for the subject market. This section of the report provides an overview of the competitive position that each hotel occupies within the subject market.

<b>PRIMARY COMPETITIVE SET - COMPETITIVE FACTOR ANALYSIS</b>									
PROPERTY NAME	AGE (Yrs.)	# OF ROOMS	AAA RATING	RATE	FACILITY	BRAND	LOCAT.	MKT. SEG.	COMP. FACTOR
<u>Schertz, TX</u>									
Best Western Plus Atrium Inn	23.5	61	3	2.6	3.0	3.5	3.0	2.5	<b>2.9</b>
Fairfield Inn Northeast	10.3	117	3	2.4	3.5	4.5	3.0	2.5	<b>3.2</b>
Hampton Inn	13.5	117	3	2.4	3.5	4.5	3.0	2.5	<b>3.2</b>
LaQuinta Inn & Suites	10.5	81	N/A	2.6	3.0	3.5	3.0	2.5	<b>2.9</b>
<u>Selma, TX</u>									
Comfort Inn Randolph AFB	9.5	88	2	2.7	3.0	4.0	2.5	2.5	<b>2.9</b>
Hampton Inn Randolph AFB	7.3	85	3	2.5	3.0	4.5	2.0	2.5	<b>2.9</b>
Holiday Inn Express & Suites	12.3	84	3	2.4	3.5	4.5	2.5	2.5	<b>3.1</b>
<b>COMBINED RATING</b>	<b>12.4</b>		<b>2.8</b>	<b>2.5</b>	<b>3.2</b>	<b>4.1</b>	<b>2.7</b>	<b>2.5</b>	<b>3.0</b>
<i>Source: HMI</i>									

In the chart above, this market is indicating an overall above average Competitive Factor rating of 3.0 out of a possible 5.0. In the chart above, all of the categories (except the AAA ratings) reflect above average (a rating of 2.5) ratings ranging from 2.5 for *Market Segment* to 4.1 for *Brand*.

- The *Average Age* of the Primary Competitive Set of Hotels is 12.4 years with a range of 7.3 years to 23.5 years. Only one of the hotels is over twenty years old.
- Typically, every 5 – 7 years, hotels need renovations that include soft goods and case goods. This would include just one member of the Primary Competitive Set in this category in potential need of this level of renovation
- Every 12-15 years they need a “full renovation” which, in addition to the soft goods and case goods, includes mechanical work and exterior work. Five members of the Primary Competitive Set are either at this stage or are approaching it in within a couple of years.

- Once hotels hit the 20+ age category they begin to complete “on going” renovations as deemed necessary by normal wear and tear on the property. One member fits into this latter category.
- The above chart indicates that one of the five hotels, the Comfort Inn, will be the most competitive with the proposed hotel *Rate* wise. Two, the Best Western and the LaQuinta, are projected to be slightly competitive *Rate* wise with the proposed hotel while the Hampton Inn in Selma is projected to be similar *rate* wise. The remaining members of the Primary Competitive Set are projected to be positioned *rate* wise at slightly below average level.
- The *Facilities* ratings of the Primary Competitive Set show that all of the hotels earned similar ratings of 3.0 or 3.5. All of the members of the Primary Competitive Set are rated by Smith Travel Research as Upper Midscale indicating they will have similar *Facilities*. The biggest difference is that two have outdoor pools and were rated as 3.
  - Should the proposed hotel include extended stay style rooms as recommended in this report, this will differentiate it (in a positive way) from the members of the primary Competitive Set.
- There is very good *Brand* representation among the Primary Competitive Set of Hotels. Brands represented include: Hilton Hotels – Hampton Inn; Marriott International – Fairfield Inn & Suites; Choice Hotels International – Comfort Inn; Intercontinental Hotel Group (IHG) -Holiday Inn Express & Suites and Wyndham Hotels International – LaQuinta Inn & Suites. Thus, all members of the Primary Competitive Set of Hotels have strong national/international hotel brands, indicating the need for the proposed hotel to also be affiliated with a strong regional or national/international hotel brand.
- Regarding the *Location* of the Primary Competitive Set of Hotels relative to the two subject site areas, all of them are situated along I-35 with the closest ones to Site Area 1 receiving a higher rating. As previously stated in this report, a hotel located at Site Area 2 will be the closest to the front entrance of Randolph Air Force Base with both being located on FM 78.

- Regarding *Market Segmentation*, while these hotels are limited service like the proposed hotel, none have any extended stay style rooms.
  - The recommendations in this report call for up to 50% of the rooms in the proposed hotel to be extended stay style. This will differentiate the proposed hotel from the other members of the Primary Competitive Set and will make it more attractive to the significant amount of longer term (greater than just 2 or 3 days) guests that research indicated is high in this market area.
  
- The Fairfield Inn & Suites and the Hampton Inn, both in Schertz, earned the highest overall ratings of 3.2 due to brand strength and facilities. The Holiday Inn Express followed closely with a rating of 3.1 due to its brand strength and its facilities.

**COMPETITIVE SET LODGING PERFORMANCE**

The following section highlights the Competitive Set’s Lodging Performance in the subject market. The lodging performance of the Competitive Set is based upon data from March 2016 through May 2019. Due to this relatively short period of time (39 months), the following charts include only one comparative year, 2018 versus 2017. The Competitive Lodging Performance of Lodging Demand Growth, Lodging Supply Growth, Occupancy, Average Daily Room Rate (ADR), and Revenue Per Available Room (RevPAR) is analyzed.

**Lodging Demand Growth**

The following chart highlights *Lodging Demand Growth* that has occurred in the subject market area.

<b>COMPETITIVE LODGING PERFORMANCE</b>					
<b>Lodging Demand Growth</b>					
	2016	2017	2018	YTD 2018	YTD 2019
Primary Competitive Lodging Demand - Percentage Change	N/A	N/A	1.9%	2.9%	2.0%
<i>Source: Smith Travel Research &amp; HMI</i>					

*Lodging Demand Growth* for the Competitive Set in the chart above grew by 1.9% in calendar 2018. Comparing the two years of to date data through May indicates a potential annual growth rate in 2019 of 1.51%. However, since this is such a short period of time just half of this rate will be applied commencing in 2019 and all future year projections for this report.

### Lodging Supply Growth

The following chart reflects the *Lodging Supply Growth* that occurred in the subject market.

<b>COMPETITIVE LODGING PERFORMANCE</b>					
<b>Lodging Supply Growth</b>					
	2016	2017	2018	YTD 2018	YTD 2019
Primary Competitive Lodging Supply - Percentage Change	N/A	N/A	0.0%	0.0%	0.0%
<i>Source: Smith Travel Research &amp; HMI</i>					

The STR listing of Competitive Set hotels indicated that there was one addition to this greater Cibolo market area from 2016 through 2019, in neighboring Live Oak a 138-room Upscale Hilton Garden Inn with a reported 8,000 square feet of banquet/meeting space in February 2016. Due to the proposed hotel being a Midscale to Upper Midscale limited service style hotel and the Hilton Garden being an Upscale select service style hotel, the latter was not felt to be directly competitive with the proposed hotel and not included in this analysis as an addition to the *Room Supply*.

Also, a 96-room upscale extended stay style Staybridge Suites is under construction in Schertz. This would be an 11.01% increase to the Competitive Set. However, since this is an upscale extended stay style hotel versus the proposed hotel being a Midscale to Upper Midscale, just 50% i.e., a 5.5% of the 96 rooms have been used to increase the Lodging Supply in the projections in this report.

Discussions with local officials did not indicate that there were any proposed hotels under consideration in the greater Cibolo market area.

Due to STR not indicate any additions to the Room Supply during the 39-month historical period covered, it was not possible to determine the historic absorption rate for the Competitive Set of Hotels.

### Occupancy

The following chart depicts the Competitive Lodging Performance of the subject market's *Occupancy*.

<b>COMPETITIVE LODGING PERFORMANCE</b>					
<b>Occupancy</b>					
	2016	2017	2018	YTD 2018	YTD 2019
Primary Competitive Hotels	N/A	65.5%	66.8%	64.1%	66.0%
<i>Source: Smith Travel Research &amp; HMI</i>					

*Occupancy* data in the chart above shows that the Competitive Set was at its highest annual rate of 66.8% in 2018. Comparing the *Occupancy* rate year-to-date through May 2019 to the same period the prior year indicates a projected annual 2019 *Occupancy* of 67.8%.

### Average Daily Room Rates

The following chart highlights the historical trend of *Average Daily Room Rates* in the market.

<b>COMPETITIVE LODGING PERFORMANCE</b>					
<b>Average Daily Room Rates</b>					
	2016	2017	2018	YTD 2018	YTD 2019
Primary Competitive Average Daily Room Rates	N/A	\$82.49	\$83.51	\$84.90	\$85.90
Percentage Change	N/A	N/A	1.2%	2.4%	1.2%
<i>Source: Smith Travel Research &amp; HMI</i>					

*Average Daily Rate (ADR)* data in the chart above indicates that the Competitive Set ADR increased by 1.2% from 2017 to 2018. Also, when comparing the 2019 year-to-date results through May 2019 to the same period the prior year indicates a projected annual increase in ADR in 2019 of 0.58% over calendar 2018. This 0.58% will be applied in 2019 for growth purposes in the projections in this report.

Combining this projected 2019 annual growth rate of 0.58% with the historic actual growth rate of 1.2% for the period 2017 – 2018 yields a two-year average annual growth rate of 0.89%. In 2020 half of this or 0.45% will be applied and then commencing in 2021 and all future years 75% of this or 0.67% will be applied for annual ADR growth purposes in this report.

Revenue Per Available Room (RevPAR)

The following chart depicts the *Revenue Per Available Room (RevPAR)* historical performance in the market.

<b>COMPETITIVE LODGING PERFORMANCE</b>					
<b>Revenue Per Available Room</b>					
	2016	2017	2018	YTD 2018	YTD 2019
Primary Competitive Revenue Per Available Room (RevPAR)	N/A	\$54.03	\$56.75	\$56.03	\$57.81
Percentage Change	N/A	N/A	3.2%	5.4%	3.2%
<i>Source: Smith Travel Research &amp; HMI</i>					

*Revenue Per Available Room (RevPAR)* trends showed that the Competitive Set experienced consistent positive results in RevPAR growth during the limited time frame available/presented in the above chart.

## **ISSUES, RISKS AND OPPORTUNITIES**

The following section of the report deals with topics that should be addressed when undertaking a hotel development project such as the one studied in this report. Many of these topics are common to hotel development and are addressed here as a matter of due diligence in evaluating the subject market and subject site for the proposed hotel. Also, highlighted in this section are any concerns or opportunities which have arisen during the research portion of this report that would directly affect the proposed hotel development. This may require additional research by the developer when pursuing the development of the proposed hotel.

## **COMPETITIVE PRICING PRESSURES**

Regarding Competitive Pricing Pressures, a midscale to upper-midscale, limited-service hotel will need to be sensitive to the pricing strategies established in this greater Cibolo, Texas market area. This is especially true due to the significant dependence of this market area on a single producer of Lodging Demand, Randolph Air Force Base. Therefore, the proposed hotel will need to be sensitive to any Rate Sensitivity in this seasonal market area where the ADR can fluctuate as much as \$18+ from high season to low season as well as the potentially volatile federal government per diem rate.

It is recommended that the proposed midscale to upper-midscale, limited-service hotel have the capability of increasing rates during peak Lodging Demand periods and the ability to offer solid price/value with lower rates during slower Lodging Demand periods. A well-positioned midscale to upper -midscale hotel product is recommended.

## **RATE POSITIONING**

It is suggested that the proposed midscale to upper-midscale, limited-service hotel be rate positioned midway between the two rate tiers discussed previously in this report. This would indicate a yield to the Competitive Set of Hotels of 108.73%. This yield positioning results in a projected ADR in today's dollars of \$91.27. This would position it to compete with the LaQuinta Inn & Suites, the Best Western Plus (both in Schertz) and the Hampton Inn in Selma.

However, to this would be added a 5.0% premium due to the proposed hotel being new versus the average age of the Primary Competitive Set of hotels at 12.4 years.

This would result in a projected ADR for the proposed hotel of \$96.48 in its third full year of operation (2023). For projection purposes, it is recommended that the proposed hotel be rate positioned to achieve a yield to the Competitive Set of Hotels of 113.7% by the time it stabilizes in its third year of operation, 2023.

In the projections in this report, this will be reduced by 5.0% in years one and two to allow for any discounting which typically occurs. This is typical when promoting a new hotel as it opens and will result in yields to the projected average ADR for the Competitive Set of Hotels of 102.6% in year one and 108.0% in year two.

This will position the new hotel to be the rate leader in the second rate tier as previously discussed.

This rate positioning of the proposed hotel should result in ADR's in the \$84 - \$90 range when it opens in 2021, the first full year of operation. In 2022 and 2023, being the second and third full year of operation, the resulting rates should be in the ranges of \$90 - \$96 and \$95 - \$101, respectively.

#### GROWTH IN LODGING DEMAND

*Lodging Demand Growth* for the Competitive Set grew by 1.9% in calendar 2018. Comparing the year-to-date data through May, 2019 to the same period the prior year indicates a potential annual growth rate in 2019 of 1.51%. However, due to the short period of historic information available for consideration, half of this rate will be applied in 2019. The average of these two (1.9% and 1.51%) annual growth rates is 1.705%. Half of this or 0.85% will be applied in 2020 and then commencing in 2021 and all future years, 75% or 1.28% will be applied in all future year projections for this report.

#### MARKET SEGMENTATION PROFILES

Due to the single largest Lodging Demand generator being Randolph Air Force Base, i.e. military, there is limited specific information available on group business versus individual business. Discussions with local business people and officials indicated that a large amount of group business takes place on base in the form of training classes, however no specific data was available. Therefore, the actual *Market Segmentation* (i.e. group vs. individual) resulting from the *Lodging Demand* generated by the base may differ from what is projected in this report.

#### SUPPORT SERVICES

As discussed previously in this report, the availability and variety of restaurants in the overall Cibolo market area for guests are very good. This includes area activities, especially at Site Area 1 which is part of the larger mixed-use development project of Cibolo Crossing with its entertainment center which is already open. Site Area 2 is part of a mixed-use development known as Cibolo Commons that will also include a variety of restaurants including known fast food ones and a few local restaurants in the downtown area.

### GROWTH IN LODGING SUPPLY

As previously stated in this report, there was one addition to this greater Cibolo market area from 2016 through 2019, in neighboring Live Oak, a 138-room Upscale Hilton Garden Inn with a reported 8,000 square feet of banquet/meeting space in February 2016. Due to the proposed hotel being a Midscale to Upper Midscale, limited service style hotel and the Hilton Garden being an Upscale select service style hotel, the latter was not felt to be directly competitive with the proposed hotel and not included in this analysis as an addition to the *Room Supply*.

Also, a 96-room Upscale extended stay style Staybridge Suites is under construction in Schertz. This would be an 11.01% increase to the Competitive Set. Due to it being an Upscale extended stay style hotel versus the proposed hotel being a Midscale to Upper Midscale, (just 50%), i.e. a 5.5% of these rooms were add as an increase in Lodging Supply has been applied for the projections in this report.

Discussions with local officials did not indicate any proposed hotels being under consideration in the greater Cibolo market area.

In 2019, the Impact Factor of the proposed 85-room midscale to upper-midscale, limited service style hotel was estimated at 70.4%. This is based on the proposed hotel potentially and primarily impacting the members of the Primary Competitive Set of hotels described previously which comprise 70.4% of the total rooms in the Competitive Set of Hotels.

### PROPER TY TAXES

A detailed analysis of the *Property Tax* structure in the City of Cibolo and in Guadalupe County was not within the scope of this report. The developer should analyze the property tax structure within the City of Cibolo and both Guadalupe County prior to development of the proposed hotel.

### POLITICAL CLIMATE

Discussions with local officials indicated that the *Political Climate* in the subject market area was reported to be very good towards development in both of the two site areas under consideration for the proposed hotel.

### ENVIRONMENTAL CONCERNS

No unusual *Environmental Concerns* were noted at any of the subject site areas for the proposed hotel. Since a detailed Environmental Impact Study was not within the scope of this report, at least an Environmental Level I study should be completed by the developer. Toxic waste issues were not directly addressed within the scope of this study. However, the developer should conduct necessary environmental impact testing to make sure that the proposed hotel is in compliance with local ordinances and environmental regulations. Additionally, this should include a review of previous use, soil integrity, water drainage, water seepage, flood plain, toxic waste issues, etc.

### ZONING AND ARCHITECTURAL CONCERNS

City of Cibolo officials indicated that hotel zoning is already in place or can be obtained via application process to support this proposed hotel. They also stated that there are no special architectural/design issues.

### LABOR MARKET, SUPPLY AND WAGES

At this time, discussions with local officials and business leaders indicated some potential Labor Supply problems as evidenced by the relatively low rates of Unemployment previously discussed in this report. They include rates of 2.9% and 3.2% in the Cities of Cibolo and Schertz respectively for both 2018 indicating potential for labor shortages. This could put pressure on wages in order to procure a sufficient number of competent employees for the Service sector and other related industries. The range of 4% - 5% is what economists consider to be the maximized unemployment rate. This could impact the available labor supply in the Service industries.

Local officials did not indicate any wage pressures at this time. However, the 2016 - 2018 annual Unemployment Rates for both the cities of Cibolo and Schertz are well below 5.0%. It appears that this will continue into the near future, however it could change. This could indicate the potential for competitive wage pressure in the future (i.e. 2019 and 2020).

### AREA OF FRANCHISE PROTECTION

If the proposed hotel is associated with a national/international franchise, it is recommended that an *Area of Franchise Protection* be established to ensure that there is no encroachment by a similarly branded hotel in the subject market area. This would be at least a twenty-mile radius around the subject site for five years or more until the proposed hotel stabilizes. This will require negotiating with the proposed franchise brand to ensure adequate protection. Areas of Franchise Protection should be established by the developer to cover the subject market identified in Exhibit 2 of this report.

**CONCLUSIONS**

The following *Conclusions* are based upon analysis of the research performed for this market study which recommends development of an 85-room midscale to upper-midscale limited-service style hotel with a mix of both traditional and extended stay style rooms. This style of hotel will have the flexibility to attract both Corporate/Commercial and Social/Leisure Lodging Demand.

These projections are based upon the operating performance of the subject market at the time of this report, and a timely completion of the proposed hotel discussed herein, based upon this report’s presentation.

These recommendations are based upon the research performed for this Comprehensive Hotel Market Study.

They also assume professional management, operation and marketing of the proposed hotel.

More details about the proposed hotel’s type and size are outlined in the *Property Recommendations* section of this report.

**PROJECTED PROPERTY PERFORMANCE – 85 ROOMS**

The following series of charts show the projected hotel’s performance, specifically in Occupancy, Average Daily Rates and Projected Revenue, beginning in the first full year of operation, which is assumed to be 2020.

**Occupancy**

The following chart shows the Projected Occupancy of the proposed hotel.

PROJECTED OCCUPANCY							
YEAR	PROJECTED MARKET OCCUPANCY			PROJ. MKT. PENET.	PROJECTED HOTEL OCCUPANCY		
	Low	Probable	High		Low	Probable	High
2021	58.1%	<b>61.2%</b>	64.2%	<b>111.9%</b>	65.0%	<b>68.5%</b>	71.9%
2022	58.9%	<b>62.0%</b>	65.1%	<b>117.8%</b>	69.3%	<b>73.0%</b>	76.6%
2023	59.6%	<b>62.8%</b>	65.9%	<b>124.0%</b>	73.9%	<b>77.8%</b>	81.7%
*Projected performance is +/- 5 percentage points and will be affected by changes in Lodging Supply and Demand growth levels used to formulate these projections.							
Source: HMI							

For projection purposes in this report, 85 rooms were utilized. The Occupancy projections in this report apply a Projected Market Penetration yield of 124.0%. This 124.0% projected Market Penetration Yield is comprised of the following:

- 100.0% of the total Fair Share Size Adjustment Yield of 114.0% (discussed previously in this report) was utilized.
- A 5.0% premium was added due to the proposed hotel being new versus an average age of the Primary Competitive Set of 12.4 years today.
- A 5.0% premium was added since it was recommended that half of the rooms in the proposed hotel be extended stay style rooms, differentiating it from all other members of the Competitive Set.
- In 2019, the Impact Factor of the proposed 85-room, upper-midscale, limited service style hotel was estimated at 70.4%. This is based on the proposed hotel potentially and primarily impacting the members of the Primary Competitive Set of hotels described previously which comprise 70.4% of the total rooms in the Competitive Set of Hotels.

*Lodging Demand Growth* for the Competitive Set grew by 1.9% in calendar 2018. Comparing the May 2019 year to date data to the same period the prior year indicates a potential annual growth rate in 2019 of 1.51%. However, due to the short period of historic information available, half of this rate will be applied in 2019. The average of these two (1.9% and 1.51%) annual growth rates is 1.705%. Taking a conservative approach, half of this or 0.85% will be applied in 2020. Then commencing in 2021 and all future years, 75% or 1.28% will be applied in all future year projections for this report.

Regarding *Lodging Supply Growth*, as previously stated in this report, there was one addition to this greater Cibolo market area from 2016 through 2019. In neighboring Live Oak, a 138-room Upscale Hilton Garden Inn with a reported 8,000 square feet of banquet/meeting space in February 2016 was built. Due to the proposed hotel being a Midscale to Upper Midscale limited service style hotel and the Hilton Garden being an Upscale select service style hotel, the latter was not felt to be directly competitive with the proposed hotel and it was not included in this analysis.

Also, a 96-room Upscale, extended stay style Staybridge Suites is under construction in Schertz. This would create an 11.01% increase to the Competitive Set. Due to it being an Upscale, extended stay style hotel versus the proposed hotel being a Midscale to Upper Midscale, just 50% i.e. a 5.5% have been added to increase in the Lodging Supply has been applied in the projections in this report.

Local officials did not indicate that there were any proposed hotels under consideration in the greater Cibolo market area.

Average Daily Room Rate

The following chart highlights the *Projected Average Daily Room Rate* for the proposed hotel.

<b>PROJECTED AVERAGE DAILY ROOM RATE</b>			
<b>YEAR PROBABLE</b>	<b>PROJECTED MARKET ADR</b>	<b>PROJECTED MARKET YIELD</b>	<b>PROJECTED SUBJECT PROPERTY ADR*</b>
High <b>2021</b>	\$89.18 <b>\$84.93</b>	<b>102.6%</b>	\$91.53 <b>\$87.17</b>
Low	\$80.68		\$82.82
High <b>2022</b>	\$89.77 <b>\$85.50</b>	<b>108.0%</b>	\$96.99 <b>\$92.38</b>
Low	\$81.22		\$87.76
High <b>2023</b>	\$90.37 <b>\$86.07</b>	<b>113.7%</b>	\$102.78 <b>\$97.89</b>
Low	\$81.77		\$92.99
<p><i>* Net ADR equals room revenue plus restaurant, lounge, meeting &amp; conference revenue.</i>  <i>** Projected performance is +/- 5 percentage points and will be affected by changes in Lodging Supply and Lodging Demand growth levels used to formulate these projections.</i></p>			
<p><i>Source: HMI</i></p>			

With the 85-room hotel currently recommended in this report, a Projected Market Yield of 113.7% (comprised of a rate positioning yield of 108.7% plus a 5.0%point premium for being new versus the average age of the Primary Competitive Set at 12.4 years) was applied based on the rate positioning of the proposed hotel previously discussed.

By its third full year of operation (2022), the proposed midscale to upper-midscale, limited-service hotel should be rate positioned as the rate leader in the second rate tier. This would result in the proposed hotel being projected to achieve an ADR of \$97.89 due to its newness and if it is an upper-midscale hotel in 2023.

To attain these ADR projections, the proposed hotel must be properly rate positioned as established in this report. This includes facility, product, amenities and services offered as anticipated for a new hotel of this style. Also, the rates established for the proposed hotel must be competitive with the subject market's rate structure and positioning.

*Average Daily Rate (ADR)* growth rates that have been projected in this report are 0.58% in 2019, 0.45% in 2020, and 0.67% commencing in 2021 and all future years.

Room Revenue

Based upon the Occupancy and Average Daily Room Rate projections previously presented, the following chart highlights the *Projected Room Revenue* for the proposed hotel.

PROJECTED ROOM REVENUE			
YEAR	PROBABLE ROOM REVENUE	PROJECTED RevPAR	MARKET RevPAR YIELD
2021	\$1,851,524	\$59.68	114.9%
2022	\$2,091,654	\$67.42	127.3%
2023	\$2,362,926	\$76.16	141.0%
<i>* Projected performance is +/- 5 percentage points and will be affected by changes in Projected Occupancy or Projected ADR.</i>			
<i>Source: HMI</i>			

Given the projected Occupancy and ADR levels, the proposed hotel should achieve room revenue levels significantly higher than the average Primary Competitive Set of Hotels in the market area by its third year of operation.

## **PROPERTY RECOMMENDATIONS**

The following Property Recommendations were based upon the research conducted for this report.

### **PROPERTY TYPE**

Based on the projected Occupancy and Average Daily Room Rates in the subject market area and the product segmentation for both Lodging Demand and Supply, it appears that the proposed hotel's *Property Type* should be a midscale to upper-midscale, limited-service style hotel with a mix of traditional style rooms and extended stay style rooms.

### **PROPERTY SIZE**

Based upon the subject market's projected Occupancy and Average Daily Room Rates and on Lodging Demand and Supply segmentation, the proposed *Property Size* was calculated at 85 rooms.

This is slightly smaller than the average size of the Competitive Set of Hotels, identified as 96.9 rooms. This difference results in a Fair Share Size Adjustment of 114.0%.

It is felt that based upon the research analyzed at this time, a hotel of this size would be in line with the Lodging Demand research developed for this subject market. This size property should be well absorbed in this market.

### **PROPERTY AMENITIES**

Recommended *Property Amenities* should be compatible with the product type and the brand affiliation selected for the proposed hotel. Also, consideration must be given to the Market Segmentation Profiles and demographics of the subject market. Product offerings should be in line with the national or regional franchise selected for the proposed hotel.

Property amenities and services that may be required are as follows:

- An indoor swimming pool area would be appreciated by the Social/Leisure market segment, especially when competing with other members of the Primary Competitive Set since none were reported to have a pool. A well-lit, attractively decorated pool area is suggested. This type of amenity would assist in servicing the Social/Leisure market including youth sports teams, family tourists, weddings, and reunions traveling to this market area.
- Offering a whirlpool in the swimming pool area is suggested. Several whirlpool suites marketed as "honeymoon suites" could also be considered to attract Social/Leisure travelers.

- Offering an exercise room/area and a business center is recommended for the Corporate/Commercial traveler and for the Social/Leisure traveler.
- The sleeping rooms should provide the typical amenities currently required by a midscale to upper-midscale, limited-service hotel chain. A large work desk and wireless internet access in the rooms are expected by Corporate/Commercial guests.
- The proposed hotel should offer a complimentary breakfast similar to what would be required by the chosen brand and similar to better than what is offered by members of the Competitive Set.
- Some oversized vehicle parking for buses/motor coaches or vacationers with recreational vehicles and/or boat trailers should be available.
- A small kiosk/convenience store area would be beneficial.

#### SLEEPING ROOM CONFIGURATION

The recommended *Sleeping Room Configuration* should be compatible with the area's overall Market Segmentation for the proposed hotel.

- The proposed hotel is projected to have a slightly uneven split between Corporate/Commercial guests (75.0%) and Social/Leisure guests (25.0%). Thus, it would be appropriate to have a greater number of double queen rooms versus king rooms. This is also because rooms with double queen beds provide greater flexibility for all market segments.
- The suggested mix could be 75.0% to 90.0% double queen and 10% to 25.0% king bedded rooms. The higher number of double queen rooms would provide a greater flexibility in satisfying guest needs, especially those with families.
- Also, five of the seven members of the Primary Competitive Set are "hotels and suites". Therefore, it is recommended that the proposed hotel also have a number of suites included in its room count.
  - This could possibly be accomplished through the recommendation that approximately half of the guest rooms be extended stay style rooms/suites.

- The need for this latter style room is supported by the level of Lodging Demand in the market area described as staying greater than four to five nights, some for as long as multiple weeks (i.e. oil field workers and those attending training at Randolph Air force Base) as well as businesses indicating a potential need for this type of room for relocations and recruitment of staff. Also supporting the need for extended stay style rooms is the recent opening of the 96-room Staybridge Suites hotel in Schertz, an upscale extended stay hotel – the first all extended stay style hotel that is not economy rated in the greater Cibolo market area.

#### BRAND AFFILIATION

It is recommended that the proposed hotel be affiliated with a national/international hotel brand. All of the members of the Competitive Set have a national/international hotel brand.

#### RATE STRATEGY

The Room Rate Strategy for the proposed hotel should be compatible with the Average Daily Room Rate projections indicated in this report. The rate positioning in this report is recommended. Seasonality of Room Rates is also a consideration for this hotel.

Given the Average Daily Room Rate research performed and the projections set forth in this report, it appears that the proposed hotel would be positioned to compete as the rate leader in the second rate tier discussed previously in this report. This will result in the proposed hotel being rate positioned to achieve a yield to the Competitive Set of Hotels of 113.7% by the time it stabilizes in its third year of operation.

#### OPENING DATE

The Opening Date for the proposed upper-midscale, limited-service style hotel should be selected based upon the seasonality of the subject market. Ideally, opening this hotel between December and January would give it a two-month “soft opening period” prior to the commencement of the busy season in this market area which runs March through August. This would enable the proposed hotel to capture the maximum revenue prior to the softer season beginning in September.



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Further questions concerning this report should be directed to HMI.

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