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Hotel Service Network

COMPREHENSIVE MARKET STUDY REPORT

Select Service Hotel

CIBOLO, TEXAS

AUGUST, 2019

Prepared Exclusively for:

**Cibolo Economic Development
Corporation (CEDC)**

Prepared by:

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EXHIBITS

- 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 Subject Site 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 the Identified Potential Site Area and the Location of Certain Major Lodging Demand Generators in the Market Area

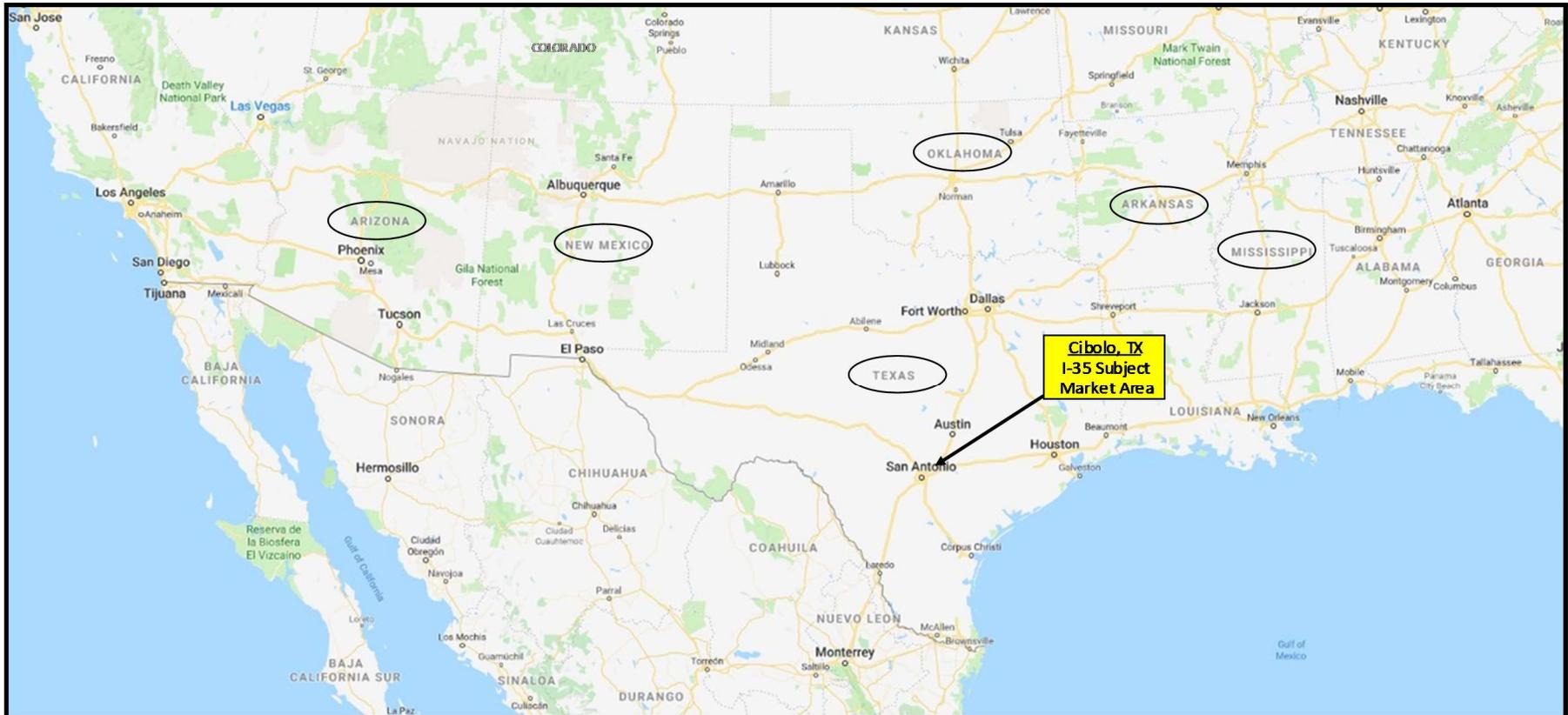


Exhibit 1 - Geographic Relationship the Subject Market to the South-Central United States Including Texas, Oklahoma, Kansas, Arkansas, Louisiana, New Mexico, Missouri, Mississippi and Colorado



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

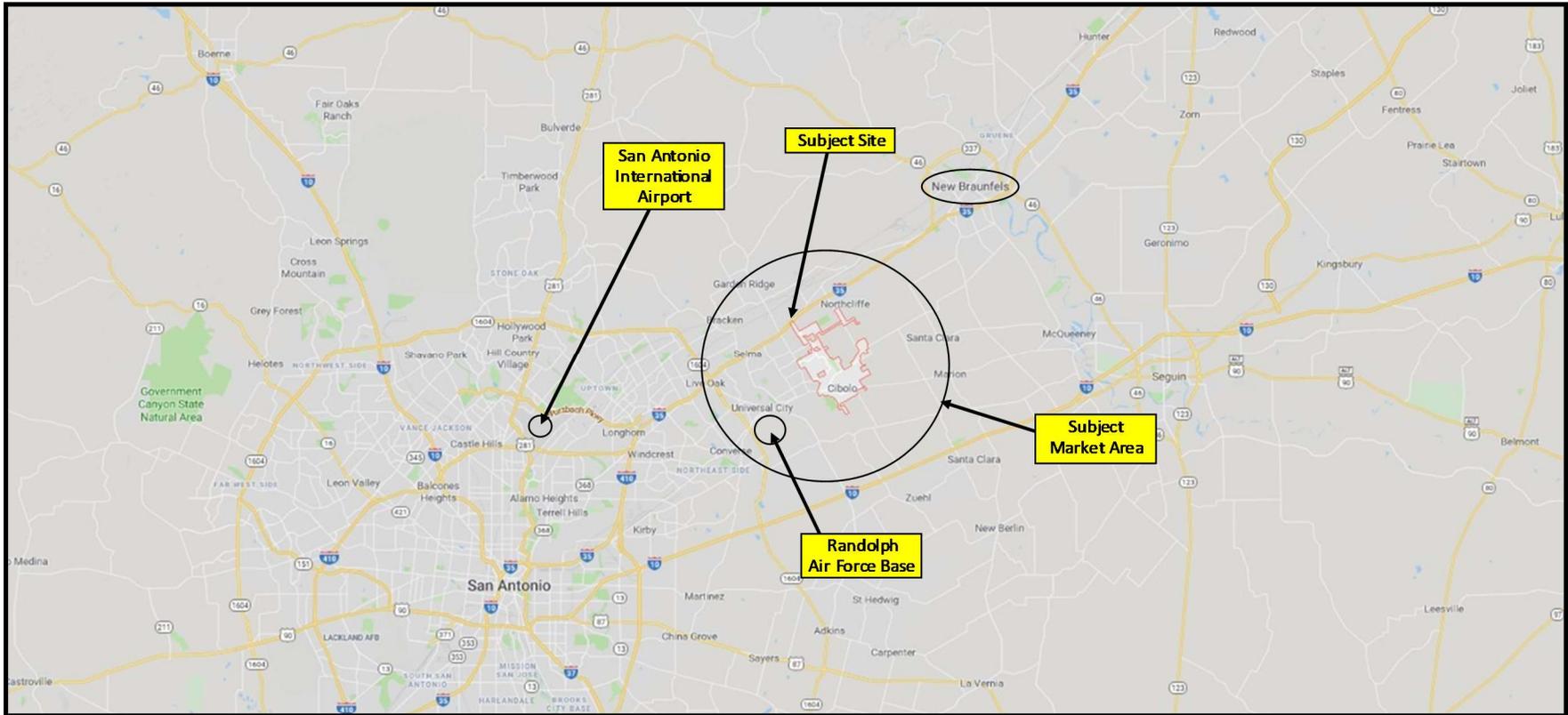


Exhibit 3 - Geographic Relationship of the Subject Site to I-35, Randolph Air Force Base, San Antonio International Airport and the City of Cibolo

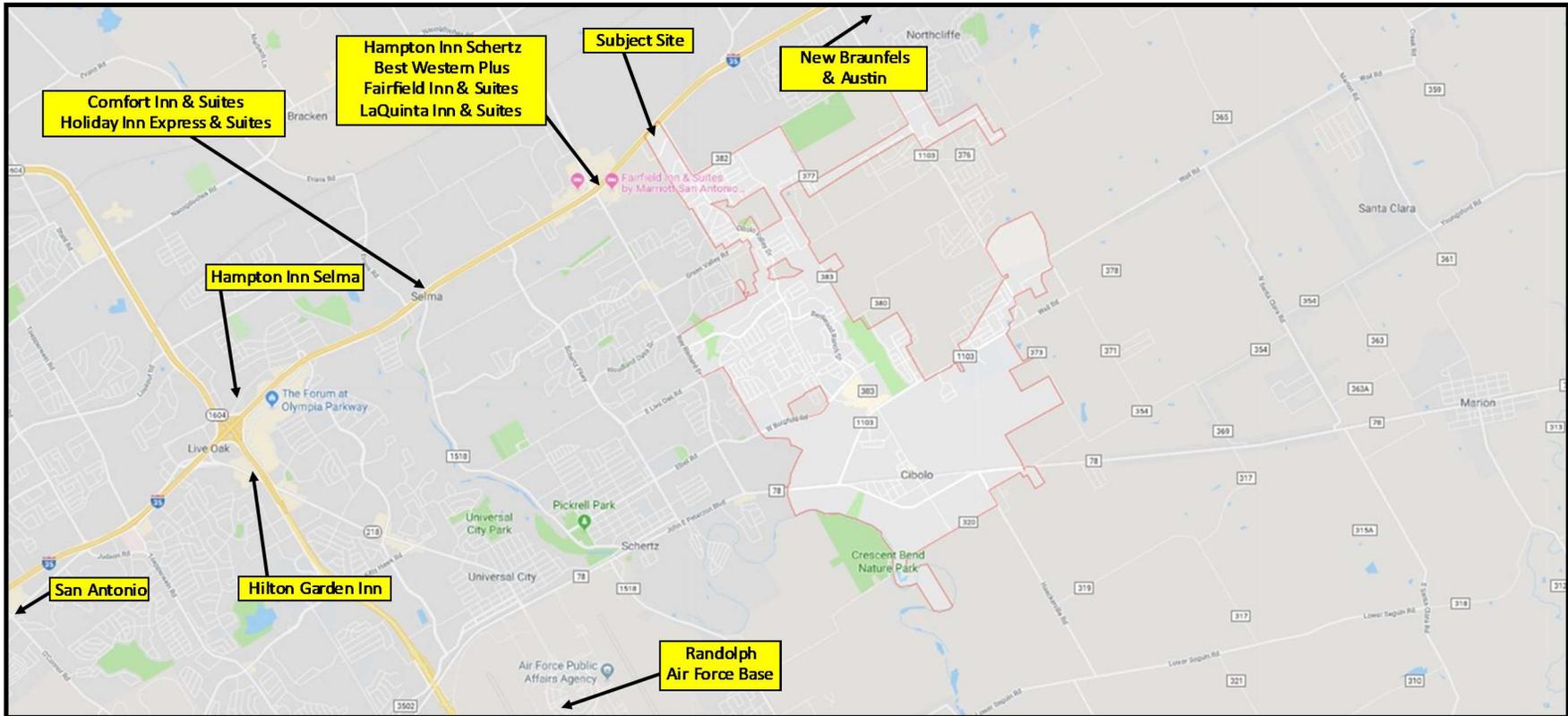


Exhibit 4 - Geographic Relationship of the Competitive Set of Hotels for the Proposed Hotel as well as the Location of the Identified Potential Site Area and the Location of Certain Major Generators in the Market Area

INTRODUCTION/OBJECTIVE

Hospitality Marketers International, Inc., (HMI) has been engaged to provide this Comprehensive Hotel Market Study for the potential development of a select-service upper 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, one site area was identified for the potential upper midscale to upscale select-service style hotel. This site area is situated within the mixed-use development project commonly known as Cibolo Crossing situated on the east side of I-35. The specifics of this subject site area 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 select-service style hotel in the City of Cibolo, Texas were researched and analyzed.

The focus of this report is on developing a select-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 an Upper Midscale to Upscale 120-room select-service style hotel. 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) as 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 select-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. This greater Cibolo market area is roughly bordered by 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 and 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 in which the City of San Antonio is situated.

One potential development site was identified for the proposed select-service style hotel which will be described in greater detail in the following Site Analysis section of this report. It is situated along I-35 in the Cibolo Crossing development project just south of Wiederstein Road. See Exhibits 3, 4 and 5 of this report for further details regarding the subject site location.

GENERAL MARKET CHARACTERISTICS

The greater Cibolo market area (for purposes in this report) should comprise 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 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 and food services, wholesale trade and manufacturing plus the significant impact that the Randolph Air Force 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 – an increase of 40.4%.

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 subject site to I-35, Randolph Air Force Base, 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 identified potential site area and the location of certain major Lodging Demand Generators in this market area.

SITE ANALYSIS

This section of the report highlights the subject site area 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 area for the proposed hotel.

GENERAL SITE OVERVIEW

The site area 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.

VISIBILITY

The site area, 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 the proposed hotel will be situated to the east of at least one row of low-rise buildings, potentially limiting the proposed hotel's Visibility to traffic on I-35. Signage and the height of the proposed hotel building should help with this situation. Thus, an overall rating of *Very Good* was given to this Site Area for *Visibility*.

ACCESSIBILITY

The site area 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*.

LAND PREPARATION

The site area is rated as *Excellent* for *Land Preparation* since it is part of a mixed-use development under active construction. Several roads, buildings and parking areas are already in place.

ENVIRONMENTAL ELEMENTS

Local officials did not indicate any known issues regarding the subject site. Since the mixed-use development of Cibolo Crossing is well under way, this would indicate that environmental elements have already been addressed. Still, the hotel developer at this site area should perform the necessary investigation to assure that all Environmental Elements have been addressed.

Therefore, any potential environmental issues at the subject site 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.

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 the subject site area. This is supported by the amount of retail and commercial facilities already available in this site area, which is part of the Cibolo Crossing mixed-use development. Therefore, this subject site area is rated *Excellent* for *Utilities*.

ZONING AND ARCHITECTURAL REQUIREMENTS

Discussions with local officials indicated that the subject site area may already have the proper *Zoning* for the 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, the subject area is rated as *Excellent*.

SUPPORT SERVICES

This site area, as previously stated in this report, is located within Cibolo Crossing, a mixed-use development which includes 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 construction. Roads are already in place as well as a few of the buildings and parking areas. Therefore, *Support Services* for this subject site area are rated *Excellent*.

COMPETITIVE POSITION

Several factors should be considered when evaluating the *Competitive Position* of a proposed hotel located at the 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. This subject site area is approximately seven miles north from 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 this site area.

Therefore, subject Site Area was rated *Good* for *Competitive Position*.

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

These ratings are evaluated out of a possible 5 points, with 5 being Excellent. This analysis generated an overall score for this site area of 3.95 for the subject Site Area resulting in the *Very Good* ratings for it. 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 select-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, Schertz and Selma. 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 select-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, Schertz and Selma, 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 40.8% 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 40.8% 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. Operation of this new facility is currently projected to commence in 2021. This facility will be located along I-10 on the east/southeast side of Cibolo, approximately eight miles east/southeast of the subject Site Area
- The population of the City of Cibolo increased by an average annual rate of 14.2% from 2012 –2017. The population in the greater Cibolo market area, which includes the three cities of Cibolo, Schertz and Selma, 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 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.

POPULATION				
	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%
TOTAL	53,112	74,018	39.4%	7.87%
AVERAGE FAMILY INCOME				
	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%
AVERAGE	\$95,775	\$100,395	4.8%	0.96%
PER CAPITA INCOME				
	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%
AVERAGE	\$30,625	\$31,895	4.1%	0.83%
<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, Schertz and Selma).

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%	3721.4%
Utilities	58	0.4%	55	0.3%	-5.2%
Construction	1,447	10.2%	1,681	8.3%	16.2%
Manufacturing	1,253	8.9%	1,793	8.8%	43.1%
Wholesale Trade	1,218	8.6%	2,160	10.6%	77.3%
Retail Trade	1,853	13.1%	2,932	14.4%	58.2%
Transportation and Warehousing	335	2.4%	899	4.4%	168.4%
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%	85.8%
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	2,276	16.1%	2,591	12.7%	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	1,673	11.8%	2,287	11.3%	36.7%
- Other Services	640	4.5%	864	4.3%	35.0%
- Public Administration	405	2.9%	496	2.4%	22.5%
TOTAL	14,158	100.0%	20,325	100.0%	43.6%

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 40.0% 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 (40.0%), 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 and 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 40.8% 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. This Site Area is along I-35 with good to very good 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. The subject site area has very good visibility to traffic on I-35. 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 site. See Exhibits 3, 4 and 5 of this report for the subject site geographic relationship to these traffic arteries.

TRAFFIC COUNTS			
Cibolo, Texas			
LOCATION	YEAR	COUNT	CHANGE
On I-35 - At FM3009	2017	108,809	-2.3%
	2013	111,376	-4.8%
	2009	117,000	--
PER YEAR AVERAGE CHANGE			-0.9%
- At County Road/Wiederstein Road	2017	115,986	-3.1%
	2013	119,705	20.9%
	2009	99,000	--
PER YEAR AVERAGE CHANGE			2.1%

Source: Texas Department of Transportation

The traffic counts on I-35 apply directly to the subject site area. There were no evident reasons for the slight decreases on I-35 in 2017.

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 an upper midscale to upscale select-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 an upper midscale to upscale select-service style hotel provided in the *Conclusions* section of this report.

MARKET SEGMENTATION					
	SUBJECT MARKET PROBABLE PERCENT OF MARKET	RANGE	PROPOSED PROPERTY PROBABLE MARKET	MARKET PENET.	RANGE
Individual Travel Markets	55.0%	51.5%-58.5%	45.0%	81.8%	39.5%-49.5%
Corporate/Commercial	40.0%	36% - 43%	30.0%	75.0%	26% - 34%
Social/Leisure	15.0%	11% - 19%	15.0%	100.0%	10% - 20%
Group Markets	45.0%	40.5%-51.5%	55.0%	122.2%	48.5%-5385%
Business Related	30.0%	25% - 35%	35.0%	116.7%	28% - 38%
Social/Leisure Related	15.0%	11% - 19%	20.0%	133.3%	15% - 25%
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, Schertz, Selma 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 65% Corporate/Commercial (includes Military) and 35% Social /Leisure.

Discussions with local officials and some business leaders indicated that the focus of a select-service, upper midscale to upscale style hotel in the City of Cibola will continue to be visitors to Randolph Air Force Base. However, because this style of hotel will include an estimated 3,500 - 5,000 square feet of banquet/meeting space, it is anticipated to have a slightly greater focus on group business, both Corporate/Commercial and Social/Leisure. With the military base as a significant driver of Lodging Demand in this market area 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.

The proposed hotel will generate an estimated 35% of its Lodging Demand from the Social/Leisure market segment which is projected to be split 15% Individual traveler and 20% Group business. This is slightly greater than the 30% split for the overall subject market area with a slight shift to a greater percentage of Group travelers versus Individual travelers. 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 to 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 a third 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 upper midscale to upscale select-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 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 select-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		
	Demand 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 ar 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 - overlow)		
Interstate I-35Travelers	T, G	Very Good
Weddings	G	Excellemt
Reunions	G	Very Good
Other	G	Good
Quinceañera,	G	Very Good
Amateur Youth Sports	T, G	Good
	Potential	Very Good
Corporate/Commercial Markets		
Agriculture	T	NA
Mining, Quarrying & Oil and Gas Exploration	T, E, G	Very Good
Utilities	T, E, G	NA
Construction	T,E	Good
Manufacturing	T,E	Good
Wholesale Trade	T	Good
Retail Trade	T	Good
Transportation and Warehousing	T	Good
Information	T	NA
Finance, Insurance and Real Estate	T	NA
Real Estate, Rental & Leasing	T	NA
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	NA
Accommodation & Food Services	T	Good
Other	T,E	Good
Public Administration - Military	T,E,G	Excellemt
	Potential	Very Good
	Overall Potential	Very Good

Source: HMI

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 3.47 to an average rating of 2.5, yielding 138.8%.
- 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 3.40 to an average rating of 2.5, yielding 135.8%

The Lodging Demand for the proposed select-service, upper mid-scale to upscale 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, February 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 along 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 Sports Complex 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 a few years as funding is secured.
 - 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 included in the 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 on FM 1103 just south of downtown Cibolo:
 - 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:
 - It is located approximately 15 minutes or 8 driving miles from the site of the proposed hotel.
 - It is the headquarters for Air Education and Training Command, the primary training and professional education command in the Air Force.
 - It is the headquarters for the Air force Military Personnel Center.
 - 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.

MAJOR EMPLOYERS	
Cibolo, Texas	
COMPANY	SERVICE OR PRODUCT
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.

MAJOR EMPLOYERS	
Schertz, Texas	
COMPANY	SERVICE OR PRODUCT
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	30.0%	3.5
- Social/Leisure Markets	15.0%	4.0
Group Markets		
- Business Related	35.0%	3.8
- Social Leisure Related	20.0%	4.0
TOTAL	100.0%	3.8
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
Total:	100.0%	3.5

Source: HMI, Inc.

It was estimated that the current overall Lodging Demand Potential for the greater Cibolo market areas as previously defined is 3.8 or above average, at 2.5. The yield is 152.0% 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 3.67. This is a yield of 146.6% to average.

The combined Group Market Segments are generating an average rating of 3.87 with a yield of 154.9%, due to both potential 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 160.0% while the Corporate/Commercial segment overall is generating a yield of 146.4%.

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 upper midscale and upscale 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, February 2016 through May 2019.

SEASONALITY OF LODGING DEMAND			
Deviation From Average Monthly Demand			
MONTH	DEMAND	ADR	REVPAR
January	82.9%	94.2%	90.9%
February	90.4%	98.8%	114.9%
March	113.4%	109.1%	143.7%
April	106.7%	103.3%	132.3%
May	99.7%	101.4%	117.5%
June	110.6%	104.9%	139.3%
July	119.4%	110.1%	152.8%
August	106.4%	101.8%	126.0%
September	88.0%	95.1%	100.6%
October	93.5%	95.6%	103.9%
November	91.4%	93.8%	102.3%
December	85.4%	91.0%	90.3%
<i>ITALICS = RevPAR Exceeds at Least One Factor</i>			
BOLD = RevPAR Exceeds Both Factors			
<i>Source: Smith Travel Research and HMI</i>			

The greatest deviations from the average monthly Lodging Demand are 113.4% in March, 106.7% in April, 110.6% in June, 119.4% in July, and 106.4% in August. This indicates that five 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 May at 99.7%.

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 9.4%, and June with 9.2%.
- The months of March through August attained above average monthly Lodging Demand over the past 40-month period, March, 2016 through May, 2019.
- The strongest quarter includes the months of June, July and August with 28.0% of the average annual Lodging Demand. This creates a yield of 112.3% 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 was greater than 100% in ten of the twelve months. This is very strong and an indication that the Competitive Set is maximizing rate during most of the year.
- The period from March through August is the strongest half of the year with 54.5% of the annual Lodging Demand. This is typical seasonality for this west/south-central region of the United States with a yield of 109.4%.
- The weakest Lodging Demand period in this subject market is from December through February. This is based on average Lodging Demand at 21.6% of the average annual Lodging Demand and 20.4% 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 ten months, the deviation of RevPAR exceeds the monthly deviation of both Lodging Demand and ADR. In two additional months, December and January, the RevPAR deviation exceeds the monthly deviation in Lodging Demand. This equates to a total of twelve 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 (91.0% - 98.8% of the Average ADR versus 101.4% - 110.1% 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 (Lodging Demand exceeds ADR) is greater than 5.0%. The data in the previous chart indicates that this occurs during the two higher demand months of June and July. The difference between these two months is 5.7% and 9.3% respectively. It appears that in these two 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 June, March and April 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 30.5% 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 40-month period ending May 2019 of 76.6% in July, closely followed by June and March respectively at 73.3% and 72.7% (for an average high Occupancy of 74.0%). During the same 40-month period, this market had average low Occupancies of 54.8% and 53.2% in December and January respectively (for an average low Occupancy of 54.0%). This is a swing of 20.0% points from the average high Occupancy of 74.0% to the average low of 54.0%, or a 37.0% 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 \$107.92 in July and \$106.95 in March, yielding an average high of \$107.44 during the past 40-month period ending in May 2019. Average lows of \$91.97 in November, \$89.24 in December and \$92.42 in January occurred during the same period yielding an average low ADR of \$91.21. This swing of \$16.23 or 17.8% 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 40-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 40 months, the monthly averages result in a RevPAR range from an average high of \$82.09 in July to a low of \$48.88 in December, for a swing of \$33.21 or 67.9%. 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 40-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 73.3% and 78.2% respectively. Weekdays (Monday - Thursday) achieved average annual Occupancy levels of 65.8%, 74.0%, 73.8% and 70.0%, respectively. Sunday had the lowest average Occupancy during this twelve-month period, at 48.9%. The daily breakdown of Occupancies over this period for the Competitive Set is presented in the following chart prepared by Smith Travel Research:

Occupancy (%)								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Jun - 18	48.4	66.8	77.4	79.0	77.5	79.5	79.8	73.1
Jul - 18	50.3	74.0	76.9	76.1	74.3	89.6	94.2	75.6
Aug - 18	45.5	58.3	67.7	68.1	63.2	76.1	83.8	66.4
Sep - 18	46.0	57.8	71.5	69.5	61.2	54.7	65.5	60.5
Oct - 18	44.5	62.8	69.8	66.5	65.0	72.6	79.3	65.8
Nov - 18	41.1	61.2	69.8	70.1	69.3	70.8	67.7	64.7
Dec - 18	49.1	64.7	73.3	73.3	70.1	64.5	68.3	65.6
Jan - 19	45.1	67.3	68.9	71.2	65.6	58.7	57.1	62.6
Feb - 19	49.2	72.1	84.4	84.2	76.7	74.0	70.5	73.0
Mar - 19	50.1	77.4	82.2	83.5	78.2	78.4	84.0	75.7
Apr - 19	43.7	67.7	74.6	76.8	74.0	86.5	87.6	72.9
May - 19	47.5	58.4	72.5	71.6	68.5	71.5	78.4	67.3
Total Year	46.9	65.8	74.0	73.8	70.0	73.3	76.2	68.6

Source: Smith Travel Research

Also, during the past twelve months ending May 2019, there was just a modest difference between the average ADR's achieved on weekdays (Monday - Thursday) at \$98.06 (range of \$96.01 - \$99.53) vs. the weekend average ADR's (Friday and Saturday) at \$100.71. This is a \$2.65 or 2.7% difference between Weekday and Weekend average ADR's. ADR hit a monthly average high of \$107.73 in March 2019. There was an ADR rate range (for the twelve months ending May 2019) from a low of \$89.69 in December 2018 to a high of \$107.73 in March 2019. A daily account of ADR's during this period is presented in the following chart prepared by Smith Travel Research.

ADR								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Jun - 18	93.47	98.35	100.74	102.15	98.54	108.02	106.74	102.11
Jul - 18	97.27	100.79	103.99	105.20	100.75	112.30	114.24	105.43
Aug - 18	94.67	99.79	98.65	99.28	96.83	100.67	106.42	99.89
Sep - 18	90.07	93.60	95.52	93.81	91.80	87.99	95.53	92.92
Oct - 18	90.80	93.34	96.60	94.39	93.14	91.48	91.98	93.35
Nov - 18	89.90	94.30	96.32	94.97	91.43	91.94	89.44	92.69
Dec - 18	86.14	89.60	92.55	92.89	91.42	87.39	87.44	89.69
Jan - 19	88.52	93.88	95.05	95.88	92.77	86.67	85.89	91.96
Feb - 19	93.88	98.93	101.99	101.43	97.67	99.77	98.40	99.22
Mar - 19	95.99	104.25	108.04	106.89	105.80	110.23	116.81	107.73
Apr - 19	92.20	98.57	101.37	98.94	97.37	102.16	103.44	99.78
May - 19	96.09	98.14	101.18	101.08	100.35	104.06	108.46	101.81
Total Year	92.50	97.05	99.53	99.04	96.61	99.91	101.59	98.39

Source: Smith Travel Research

The above data shows that the average Weekend (Friday and Saturday) ADR of \$100.71 is modestly higher (\$2.65) than the Weekday (Monday - Thursday) average ADR at \$98.06. 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 and is most likely the result of both the significant military demand being generated combined with the per diem rate.

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 \$75.32 versus the average weekday (Monday - Thursday) RevPAR at \$69.01 for a \$6.31 difference or 9.1%, reveals a modest difference. This indicates there is slight room for improvement.

RevPAR								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Jun - 18	45.24	65.68	77.97	80.72	76.36	85.84	85.16	74.63
Jul - 18	48.94	74.55	80.01	80.09	74.89	100.58	107.63	79.69
Aug - 18	43.05	58.19	66.77	67.59	61.19	76.60	89.22	66.32
Sep - 18	41.39	54.08	68.33	65.21	56.19	48.09	62.57	56.25
Oct - 18	40.42	58.58	67.39	62.81	60.50	66.45	72.96	61.46
Nov - 18	36.91	57.75	67.21	66.59	63.32	65.09	60.57	59.94
Dec - 18	42.27	57.95	67.82	68.09	64.09	56.36	59.74	58.88
Jan - 19	39.88	63.20	65.50	68.23	60.87	50.87	49.04	57.58
Feb - 19	46.22	71.34	86.12	85.41	74.91	73.86	69.35	72.46
Mar - 19	48.07	80.68	88.79	89.23	82.69	86.39	98.11	81.56
Apr - 19	40.27	66.70	75.59	75.99	72.03	88.36	90.63	72.69
May - 19	45.67	57.36	73.37	72.35	68.71	74.43	85.07	68.49
Total Year	43.35	63.89	73.61	73.08	67.64	73.21	77.42	67.47

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 in which the airbase is located 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 Cibolo 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	30.0%	3.0
- Social/Leisure	15.0%	2.6
Group Markets		
- Business Related	35.0%	3.0
- Social/Leisure Related	20.0%	2.6
TOTAL	100.0%	2.8
Source: HMI		

This review of Rate Sensitivity in the subject market area is based first on the assumption that the proposed select-service hotel will primarily compete with the upper midscale to upscale 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 \$110.27. This is 12.1% greater than this market's actual twelve-month ending May 2019 average ADR of \$98.39 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 2019 Weekday average ADR (\$98.06) is 11.1% less than the average low single rate and the average Weekend ADR (\$100.46) is 8.9% 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 2.8) *Rate Sensitivity* primarily due to the above average (a rating of 3.0) *Rate Sensitivity* from the Corporate/Commercial Segments combined with slightly above average 2.6 *Rate*

Sensitivity from 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 upper midscale to upscale 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 seven Upper Midscale and one upscale rated hotels. Four Upper Midscale hotels are located in Schertz, three Upper Midscale hotels are located in Selma, and one upscale hotel is located in Live Oak. All eight members of the Competitive Set are nationally branded, one is a select-service style hotel while the remaining seven members of the Competitive Set are limited-service hotels. These hotels were selected: because they report to Smith Travel Research (STR), because of their location, and because they are either Select-service or Limited-Service, Upper Midscale to upscale 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	48.4	66.8	77.4	79.0	77.5	79.5	79.8	73.1
Jul - 18	50.3	74.0	76.9	76.1	74.3	89.6	94.2	75.6
Aug - 18	45.5	58.3	67.7	68.1	63.2	76.1	83.8	66.4
Sep - 18	46.0	57.8	71.5	69.5	61.2	54.7	65.5	60.5
Oct - 18	44.5	62.8	69.8	66.5	65.0	72.6	79.3	65.8
Nov - 18	41.1	61.2	69.8	70.1	69.3	70.8	67.7	64.7
Dec - 18	49.1	64.7	73.3	73.3	70.1	64.5	68.3	65.6
Jan - 19	45.1	67.3	68.9	71.2	65.6	58.7	57.1	62.6
Feb - 19	49.2	72.1	84.4	84.2	76.7	74.0	70.5	73.0
Mar - 19	50.1	77.4	82.2	83.5	78.2	78.4	84.0	75.7
Apr - 19	43.7	67.7	74.6	76.8	74.0	86.5	87.6	72.9
May - 19	47.5	58.4	72.5	71.6	68.5	71.5	78.4	67.3
Total Year	46.9	65.8	74.0	73.8	70.0	73.3	76.2	68.6

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

- 17.0 days (4.7%) during this twelve-month period achieved Occupancies of 85% or greater (highlighted in Red).
- An additional total of 89.3 days (24.5% of the year) achieved Occupancies of 75.0% or greater (highlighted in Yellow).
- An additional 68.0 days (18.6% of the year) achieved Occupancy levels of 70.0% - 74.9% (highlighted in Blue).

This results in a total of 47.8% 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 85.4% of the days achieving an Occupancy of 70.0% during the six-month period March–August/spring and summer.

FOOD AND BEVERAGE

This section provides a preliminary overview of the Food and Beverage operation planned for the proposed upper-midscale to upscale select-service style hotel. This property will feature a “Bistro” style restaurant and lounge area that provides three meals a day and a limited cook-to-order menu for each meal period as well as a limited assortment of beverage items. The following is a recap of typical planned food and beverage service that might be expected which has been utilized to project the preliminary Food and Beverage Revenues from these facilities. Once the food and beverage facilities are finalized for the proposed hotel, these projections can be fine-tuned.

OVERVIEW OF FOOD AND BEVERAGE FACILITIES

Based upon information provided by the developer at the time of this report, the scope of the food and beverage facilities at the proposed upper-midscale to upscale select-service style hotel, the food and beverage venues will include:

- **Pantry Area:** This is a retail food and beverage space typically located adjacent to the front desk. It is open 24 hours a day, seven days a week. Healthy snacks, sweet treats, cold beverages and meals to cook in guest room microwaves are available for sale as well as many convenience items to meet travelers’ needs.
- A “Bistro” restaurant that will provide a cook-to-order breakfast, lunch and dinner. The menu might include typical contemporary American cuisine with a limited variety of items as compared to the typical restaurant in a full-service hotel. Room service is also usually available in the evening.
- As part of this “Bistro” restaurant, there will be a lounge area in/adjacent to the lobby area where beverages may be served.
- The banquet/meeting space is anticipated to be comprised of approximately 3,500 – 5,000 square feet of flexible breakout space, including a “board room or two”. It is anticipated that this banquet/meeting space will be supported by at least a catering kitchen on the hotel premises.

FOOD AND BEVERAGE DEMAND

This section highlights preliminary elements of the demand for Food and Beverage venues associated with the proposed select-service upper midscale to upscale style hotel. Typical select-service style hotel Food and Beverage revenues include sales from a “bistro style restaurant and bar” area as well as from banquet and meeting space which can range from 2,500 – 7,500 square feet.

This consultant researched the similar style (select-service style hotels) hotels within approximately six miles of the subject site for the proposed subject select-service style hotel and found one, the Hilton Garden Inn in Live Oak, Texas. This hotel is described in greater detail in the following Lodging Supply section of this report. Due to the similarities in food & beverage amenities as well as the number of sleeping rooms between the proposed subject hotel and the Hilton Garden Inn and their proximity to each other, it seems appropriate to model the projected food and beverage services at the proposed hotel to be similar to that of the Hilton Garden Inn.

Restaurant Demand

- The “Bistro” restaurant will primarily support the proposed hotel’s guests with breakfast, lunch and dinner. While it is possible that this facility will attract residents and business patrons, especially for lunch and dinner, the amount of revenue that will be generated by this “local” business is anticipated to be limited at this time. This is believed to be the situation since additional restaurants/brew pubs are being included in the plans for the Cibolo Crossing.
- The characteristics of the restaurant’s clientele will match those of the proposed hotel’s guests: upper midscale to upscale in nature. The restaurant should be an ideal location to attract business executives meeting with clients for lunch or dinner. However, if the developers of Cibolo Crossing proceed with plans for more restaurants to be developed, these additional restaurants will most likely impact the “Bistro” facility’s ability to attract this local clientele.
- This Bistro restaurant, being part of the hotel in Cibolo Crossing, could be considered part of the potential future restaurants in this mixed-use development complex. As is typical with hotel restaurants, its competitive potential with other nearby free-standing restaurants and bars would be limited.
- Currently, very limited dining choices are available within a two-mile radius of the proposed hotel’s location. There are a few restaurants, mid-priced casual in style and pricing, as well as several fast food restaurants along I-35 north and south of the subject site area, especially in the FM 3009 Exit area less than two miles south of the subject site.

Beverage Demand

- The lounge area will primarily support the hotel’s guests. It is designed to provide a relaxed atmosphere in the lobby area for hotel guests to enjoy a glass of wine or other beverages.
- Once again, there is currently limited bar/lounge venues available in the immediate site area similar to the market area’s restaurants.

CONFERENCE AND BANQUET FACILITIES

Typically, at this point in the report, a chart is presented highlighting the projected characteristics of the demand that could be expected at the proposed upper midscale to upscale select-service hotel's conference and banquet facilities. However, as previously stated, due to one significant demand generator being Randolph Air Force Base and the lack of public information being available because it is military (i.e. it is being considered as Corporate/Commercial in this report), it is not practical at this time to project the usage of banquet/meeting space and the sleeping rooms that these meetings will generate.

However, it is possible to project potential usage of the banquet/meeting space on a Social/Leisure basis and this is presented in the following chart. The following chart provides a partial projection of the sleeping rooms anticipated to be generated by a variety of Social/Leisure segments. Various Social/Leisure Group Demand characteristics are highlighted below.

PRELIMINARY PROJECTED SOCIAL/LEISURE BANQUET AND SLEEPING ROOM USAGE - Select-Service Hotel						
MARKET	# OF FUNCTIONS	% OF BUSINESS	TOTAL # OF ATTENDEES	% OF BUSINESS	# OF SLEEPING ROOMS	% OF BUSINESS
<i>Weddings@ Hotel</i> (Average = 250 people per wedding, 60% require rooms for 2.0 nights @ 2.25 people/room)	44	62.9%	11,000	89.4%	5,867	95.8%
<i>Other Functions</i> (Average = 50 people for function , Rooms - 10.0% require rooms for 2.0 nights) - Charity Events - Religious Events - Rehearsal Dinners - Family Reunions - Retirement Parties - Holiday Season Events - Quinceañera - Social/Leisure Events- Show ers, Birthdays, Anniversaries	26	37.1%	1,300	10.6%	260	4.2%
TOTALS	70	100.0%	12,300	100.0%	6,127	100.0%
<i>Source: HMI</i>						

The most identifiable Social/Leisure Group market potential is Weddings. The following chart indicates the Population potential for this market.

POPULATION WEDDING-AGED RESIDENTS - FEMALE					
AREA	10-14 YRS.	15-19 YRS.	20-24 YRS.	25-34 YRS.	TOTAL
City of Cibolo	1,148.9	1,291.9	711.7	1,688.7	4,841.2
City of Schertz	1,407.9	1,451.2	1,191.1	2,313.8	6,364.0
City of Selma	406.9	300.3	202.9	1,004.2	1,914.3
TOTAL	2,963.7	3,043.3	2,105.7	5,006.7	13,119.5
<i>Source: U.S. Census American Fact Finder (2016)</i>					

In the greater Cibolo market area, the percent of the Population that is female was estimated at 52.2% in 2016 by American Fact Finder, a Division of the US Census. The following chart highlights the potential wedding market for the greater Cibolo market area.

<i>Combined Citites of Cibolo, Schertz & Selma</i>			
	AGE GROUP		
	15-24 YEARS	25-34 YEARS	TOTAL
Female Population	5,149.1	5,006.7	10,155.8
Wedding Population @ 80.0%	4,119.3	4,005.4	8,124.6
Wedding Potential @ 80.0%	3,295.4	3,204.3	6,499.7
10-Year Forecast-Number of Weddings (Per Year)	329.5	320.4	650.0
NUMBER OF WEDDINGS PER YEAR			
- Estimated Number of Weddings Hotel	NA	NA	44
- Market Share	NA	NA	6.77%
<i>Source: HMI</i>			

Research indicated that the most popular times to get married in Texas are spring and fall (i.e. April, May, early June, and Mid-September through October and November. This is an 18-week period. Based on HMI's experience, it was estimated that there would be an average of about twenty-one weddings per year during this market area's prime wedding months of April through October. It has been assumed that the banquet/meeting space on average could handle 1.5 weddings per weekend which equates to 27 weddings. Additionally, during the remaining 34 weekends of the year it is projected that that the proposed subject hotel would handle one wedding every other weekend which equates to 17 more weddings. This results in a total of 44 weddings per year or 6.77% of the potential wedding market.

During the previously referenced group meeting of local business people and officials, an average wedding size was estimated to be 150 – 200 attendees for two different venues. However, these two spaces are both smaller than the potential 2,500 – 7,500 square feet of banquet space at the proposed hotel. This space was estimated to be an average of 5,000 square feet that could handle groups of up to 400 attendees. These two venues

indicated that the number of attendees was limited due to the size of the space. Based on this consultant's experience, the average wedding size ranges from 250 – 325 attendees, requiring a recommended space size of approximately 4,000 square feet.

Discussions with area representatives who attended a meeting to discuss the needs for the potential hotel were unable to provide support data on weddings and other social events including frequency and number of attendees. Additionally, local venue owner/operators failed to provide supporting data after repeated requests were made by this consultant.

This consultant's experience indicates an overall average wedding size of 250 – 325 attendees. However, as previously stated, discussions with local officials indicated that weddings occurring at local venues averaged an estimated 150 – 200 attendees, however these sizes were limited due to the size of the venue. For the estimated 44 weddings using an average size of 250 attendees, there would then be an estimated 11,000 attendees. The guest room usage was estimated at 60% with 2.25 guests per room for 2.0 nights. This translates to about 133 room nights per wedding based on double Occupancy, or 5,867 room nights per year from this market.

PROJECTED FOOD AND BEVERAGE REVENUE

As previously stated in this report, research on similar style (select-service style hotels and similar in size – number of sleeping rooms) hotels in the market area was completed by this consultant. Therefore, it seems appropriate to base the food & beverage projections for the proposed subject hotel on the results of this research.

This research indicated that this other property achieved estimated historical average food and beverage revenues per occupied room of \$27.41. For projection purposes in this report and to maintain a conservative nature to these projections, this amount was discounted by 20%. Then an annual growth factor of 2.0% was applied to arrive a projected \$23.61 per occupied room (POR) in 2021, the first full year of operations for the proposed hotel. This amount was utilized to arrive at the projected food & beverage revenues for the entire proposed subject hotel, i.e. to include banquet and catering as well as the restaurant and bar areas as previously described. This same 2.0% growth factor was applied each year to arrive at the projected Food & Beverage sales per occupied room in each succeeding year in the projections in this report.

PROJECTED FOOD & BEVERAGE REVENUE						
YEAR	PERCENT OF HOTEL SALES	PROBABLE F&B YIELD	TOTAL FOOD & BEVERAGE	FOOD	BEVERAGE	OTHER
2021	19.1%	76.8%	\$654,544	\$397,012	\$135,721	\$121,811
2022	18.6%	74.7%	\$728,548	\$441,899	\$151,066	\$135,583
2023	18.1%	72.6%	\$810,918	\$491,861	\$168,146	\$150,912
* Projected performance is +/- 5 percentage points and will be affected by changes in Projected Occupancy or Projected ADR.						
Source: HMI						

- The Food and Beverage sector is expected to generate 19.1% of the proposed hotel's total revenue in its first full year and 18.1% of the hotel's total revenue in its third full year. The industry average, which includes all food and beverage revenues i.e. restaurants, bars, banquets and conference space, per the HOST Almanac 2017 report for calendar 2016 for full-service hotels, was 24.9%. It appears that the proposed select-service upscale hotel is projected to perform below the industry average for full-service hotels. The primary factor contributing to this difference is most likely due to the limited nature of the "bistro" style restaurant and lounge area compared to the typical restaurant and lounge area in a larger, full-service upscale hotel. Another contributing factor is probably the method of calculating the projected food and beverage revenues based on a factor of what a similar style neighboring hotel is achieving versus calculating it specifically for this property.

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 subject site for the proposed hotel 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 select-service hotel. The following chart highlights the eight members of the Competitive Set of hotels which total 572 rooms.

COMPETITIVE HOTELS				
Number of Hotels:		8		
Number of Hotel Rooms:		752		
Chain Related:	Hotels:	8	%Overall Marke	100.0%
	Rooms:	752	%Overall Marke	100.0%
Non-Chain Related:	Hotels:	0	%Overall Marke	0.0%
	Rooms:	0	%Overall Marke	0.0%
PRODUCT DIFFERENTIATION ANALYSIS				
CATEGORY	NUMBER OF HOTELS	PERCENT OF MARKET	NUMBER OF ROOMS	PERCENT OF MARKET
Economy	0	0.0%	0	0.0%
Economy - Extended Stay:	0	0.0%	0	0.0%
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 & Suites - 85 ms.</i> <i>Schertz: Fairfield Inn & Suites - 117 ms., Hampton Inn - 98 ms., Best Western Plus - 61 ms., LaQuinta Inn & Suites 81 ms.</i> <i>Selma: Comfort Inn & Suites - 88 ms., Holiday Inn Express & Suites - 84 ms.</i>	7	87.5%	614	81.6%
Upper Mid Scale Extended Stay	0	0.0%	0	0.0%
Upscale (Select Service) <i>Live Oak: Hilton Garden Inn-Conference Center - 138 ms.</i>	1	12.5%	138	18.4%
Upscale Extended Stay	0	0.0%	0	0.0%
TOTALS	8	100.0%	752	100.0%
Average Room Size:			94.0	
<i>Source: HMI</i>				

The average size of the Competitive Set of Hotels in the previous chart is 94 rooms. The current anticipated size of the proposed hotel is 120 rooms. This is larger than the average size of the Competitive Set of Hotels. It equates to a Fair Share Size Adjustment factor of 78.33% when compared to the average size of the existing Competitive Set described in the previous chart.

Seven of the eight members of the Competitive Set of Hotels are nationally branded, limited service style hotels. One is an upscale select-service style hotel while the balance of the members of the Competitive Set are rated as Upper Midscale.

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).

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	\$92.77
Hilton Garden Inn Conf. Ctr.	Above	\$138-\$184	\$103-\$119	\$117.00
<u>Schertz, TX</u>				
Best Western Plus Atrium Inn	Below	\$102-\$141	\$92-\$112	\$86.05
Fairfield Inn Northeast	Above	\$138-\$168	\$101-\$114	\$101.60
Hampton Inn	Above	\$153-\$174	\$105-\$120	\$102.12
LaQuinta Inn & Suites	Average	N/A	\$99-\$109	\$87.78
<u>Selma, TX</u>				
Comfort Inn Randolph AFB	Average	\$83-\$93	\$103-\$124	\$84.63
Holiday Inn Express & Suites	Above	\$105-\$132	\$127-\$140	\$98.28
Competitive Market Average Daily Room Rate (ADR):				\$98.39
* 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 \$98.39 in the above 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, one hotel in Schertz was excluded to form the Primary Competitive Set of hotels. The Best Western Plus Atrium was omitted due to its age of 23.5 years today. It is the oldest member of the Competitive Set.

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	\$92.77
Hilton Garden Inn Conf. Ctr.	Above	\$138-\$184	\$103-\$119	\$117.00
<u>Schertz, TX</u>				
Fairfield Inn Northeast	Above	\$138-\$168	\$101-\$114	\$101.60
Hampton Inn	Above	\$153-\$174	\$105-\$120	\$102.12
LaQuinta Inn & Suites	Average	N/A	\$99-\$109	\$87.78
<u>Selma, TX</u>				
Comfort Inn Randolph AFB	Average	\$83-\$93	\$103-\$124	\$84.63
Holiday Inn Express & Suites	Above	\$105-\$132	\$127-\$140	\$98.28
Competitive Market Average Daily Room Rate (ADR):				\$99.48
* 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 \$99.58, based on their collective projected ADR's for this period. The above chart also indicates that there are three rate tiers within the Primary Competitive Set.
 - The first-rate tier has the highest projected rate. It has just one member, the Hilton Garden Inn, with a reported Calendar 2018 ADR of \$117.00. This projected ADR for this first tier achieves a yield to the projected Primary Competitive Set average ADR of \$99.48 or 117.6%. This projected average ADR of \$117.00 achieves a yield to the projected Competitive Set ADR of \$98.39 or 118.9%.
 - The second-rate tier has four members. The Fairfield Inn and the Hampton Inn, both in Schertz with projected ADR's of \$101.60 and \$102.12 respectively. The remaining member of this second rate tier is the Holiday Inn Express & Suites in Selma, with a projected ADR of \$98.28. These three projected ADR's achieve a projected average ADR of \$100.67 which has a yield to the projected Primary Competitive Set average ADR of \$99.48 or a yield of 101.2%. This projected average ADR of \$99.48 achieves a yield to the projected Competitive Set ADR of \$98.39 or 102.1%.

- The Third-rate tier has three members. The LaQuinta Inn & Suites in Schertz, with a projected ADR of \$87.78, and the Comfort Inn Randolph AFB and the Hampton Inn AFB in Selma with a projected ADR's of \$85.64 and \$92.77. These two projected ADR's achieve a projected average ADR of \$88.73 which has a yield to the projected Primary Competitive Set average ADR of \$99.58 or a yield of 89.2%. This projected average ADR of \$88.73 achieves a yield to the projected Competitive Set ADR of \$98.39 or 90.2%.

Historically, the Competitive Set achieved an average annual ADR growth rate (decrease) of -1.1% over the three-year period from February 2016 through January 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 January 2018 experienced a decrease of -2.9% and the next twelve-month period ending January 2019 experienced an increase of 1.8%. This results in an average annual rate of decrease over this 36-month period of (-0.55%).

However, it should be noted here that the calendar year data provided by STR offers only a two-year comparison of calendar year ADR's, 2017 to 2018, which reflects a growth rate of 1.1%. STR data indicates that year-to-date through May 2019, the ADR rate of growth decreased by (-0.6%) when compared to the same period the prior year.

Comparing this to the average ADR growth rate in the prior calendar two-year period, the 2019 annual ADR growth rate is projected as a decrease of (-0.41%). This (-0.41%) projected growth rate in ADR will be applied in 2019 to the projections in this report to arrive at a projected 2019 ADR.

Combining this projected 2019 annual growth rate of (-0.41%) with the historic actual growth rate of 1.1% for the period 2017 – 2018 yields a two-year average annual growth rate of 0.345%. Commencing in 2020 and all future years, this 0.345% will be applied for annual ADR growth purposes in this report.

Rate Positioning

It is suggested that the proposed upper-midscale to upscale select-service style hotel be rate positioned midway between first and second rate tiers discussed previously in this report. This would indicate a yield to the Competitive Set of Hotels of 110.6% and it results in a projected ADR of \$108.84. This would position it to compete just slightly below the Hilton Garden Inn in Live Oak and it would be the rate leader of the Fairfield Inn and the Hampton Inn (both in Schertz), and the Holiday Inn Express in Selma. This is based on the development of an upper midscale to upscale style hotel. This rate positioning will be utilized in the projections in this report. However, if the actual development plan for the proposed hotel is for an upscale hotel such as

a Marriott Courtyard, then the proposed hotel would compete directly with the Hilton Garden Inn and achieve a projected ADR comparable to the Hilton Garden Inn, i.e. at \$117.00 for a yield to the Competitive Set of 118.9%

A 5.0% premium was added to the previously described yield of 110.6% due to the proposed hotel being new versus the average age of the Primary Competitive Set of hotels at 9.6 years today and approaching twelve years when the proposed hotel is projected to be open for its first full in 2021.

This would result in a projected ADR for the proposed hotel of \$115.05 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 115.6% 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 104.3% in year one and 109.8% 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 \$100 - \$106 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 \$106 - \$112 and \$112 - \$118, 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.

PRIMARY COMPETITIVE SET - COMPETITIVE FACTOR ANALYSIS									
PROPERTY NAME	AGE (Yrs.)	# OF ROOMS	AAA RATING	RATE	FACILITY	BRAND	LOCAT.	MKT. SEG.	COMP. FACTOR
<u>Live Oak, TX</u>									
Hilton Garden Inn-Conference Center	3.5	138	3	2.1	4.5	4.5	4.0	4.0	3.8
<u>Schertz, TX</u>									
Fairfield Inn Northeast	10.3	117	3	2.5	3.5	4.5	3.0	2.5	3.2
Hampton Inn	13.8	117	3	2.4	3.5	4.5	3.0	2.5	3.2
LaQuinta Inn & Suites	10.5	81	N/A	2.8	3.0	3.5	3.0	2.5	3.0
<u>Selma, TX</u>									
Comfort Inn Randolph AFB	9.8	88	2	2.9	3.0	4.0	2.5	2.5	3.0
Hampton Inn Randolph AFB	7.3	85	3	2.7	3.0	4.5	2.0	2.5	2.9
Holiday Inn Express & Suites	12.5	84	3	2.6	3.5	4.5	2.5	2.5	3.1
COMBINED RATING	9.6		2.8	2.6	3.4	4.3	2.9	2.7	3.2
<i>Source: HMI</i>									

In the chart above, this market is indicating an overall above average Competitive Factor rating of 3.2 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 from 2.6 for *Rate* to 4.3 for *Brand*.

- The *Average Age* of the Primary Competitive Set of Hotels today is 9.6 years with a range of 3.5 years to 13.8 years. None of the hotels is over twenty years old.
- Typically, every 5 – 7 years, hotels need renovations that include soft goods and case goods. One member of the Primary Competitive Set will be approaching this age range when the proposed hotel opens and in potential need of this level of renovation at that time.
- 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. No members fit into this latter category.
- The above chart indicates that one of the seven hotels, the Comfort Inn, will be the most competitive with the proposed hotel *Rate* wise. Three, the LaQuinta, the Hampton Inn Randolph AFB and the Holiday Inn Express & Suites, are projected to be slightly competitive *Rate* wise with the proposed hotel while the Fairfield Inn Northeast 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 except for the Hilton Garden Inn which earned a strong 4.5 rating due to it being very similar in style to the proposed hotel, i.e. it is a select-service style hotel with a Bistro style café and bar area as well as banquet/meeting space. All of the other members of the Primary Competitive Set are rated by Smith Travel Research as Upper Midscale indicating they will have similar *Facilities* with no Food & Beverage except for a complimentary breakfast. The biggest difference is that two have outdoor pools resulting in a *Facilities* rating of 3 in the previous chart.
 - 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 – Hilton Garden Inn and 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 subject site area, all of them are situated along I-35 with the closest ones to Site Area receiving a higher rating.
- Regarding *Market Segmentation*, only the Hilton Garden Inn has banquet/meeting space (8,000 sq. ft.) and a Bistro style café and lounge area like the proposed hotel. Therefore, it was rated 4.0. The balance of the hotels are limited service hotels and none, including the Hilton Garden Inn, have 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 Hilton Garden Inn earned the highest overall rating of 3.8 because it is a select-service hotel and because of the strength of its brand. The Fairfield Inn & Suites and the Hampton Inn, both in Schertz, earned the next 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 February 2016 through May 2019. Due to this relatively short period of time (40 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.

COMPETITIVE LODGING PERFORMANCE					
Lodging Demand Growth					
	2016	2017	2018	YTD 2018	YTD 2019
Primary Competitive Lodging Demand - Percentage Change	N/A	N/A	3.5%	5.7%	7.6%
<i>Source: Smith Travel Research & HMI</i>					

Lodging Demand Growth for the Competitive Set in the chart above grew by 3.5% in calendar 2018. Comparing the two years of to-date data through May indicates a potential annual growth rate in 2019 of 6.28%. However, since this is such a short period of time, just half of this rate 3.14% will be applied in 2019. In 2020, half of the projected two-year (2018 and 2019) average annual rate of growth $((3.5\%+6.28\%)/2) \times 50\% = 2.445\%$ will be applied and then commencing in 2021 and all future years, 75% of this or 3.67% will be applied in all future year projections for this report.

Lodging Supply Growth

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

COMPETITIVE LODGING PERFORMANCE					
Lodging Supply Growth					
	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 & 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 an upper midscale to upscale select-service style hotel, the Hilton Garden appears to be directly competitive with the proposed hotel. However, due to the method/dates that STR uses when including hotels, the Hilton Garden Inn was not indicated as an increase to the Lodging Supply in 2016. This 138-room property equates to a 21.5% increase in the *Room Supply* in February 2017.

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 this property not having any banquet/meeting space but being upscale in pricing and service, just 50% of its 96 rooms were included in the projections. They reflect a 6.38% increase in Lodging Supply for the projections in this report.

Discussions with local officials indicated that there is a potential 85-room midscale to upper midscale extended stay style hotel project being pursued at either the same site area as the proposed subject hotel or at a site on FM 78 near the downtown Cibolo area. Due to its style and service level, half of this or 42.5 rooms were included in the projections in this report as a 4.88% increase to the Room Supply in the projections in this report.

Due to the STR listing of hotels in this market area not indicating any additions to the Room Supply during the 40-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*.

COMPETITIVE LODGING PERFORMANCE					
Occupancy					
	2016	2017	2018	YTD 2018	YTD 2019
Primary Competitive Hotels	N/A	64.3%	66.5%	65.3%	70.2%
<i>Source: Smith Travel Research & HMI</i>					

Occupancy data in the chart above shows that the Competitive Set was at its highest annual rate of 66.5% 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 70.7%. There was no specific reason for this 2019 YTD increase over the same period last year.

Average Daily Room Rates

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

COMPETITIVE LODGING PERFORMANCE					
Average Daily Room Rates					
	2016	2017	2018	YTD 2018	YTD 2019
Primary Competitive Average Daily Room Rates	N/A	\$97.54	\$98.57	\$101.00	\$100.40
Percentage Change	N/A	N/A	1.1%	1.4%	-0.6%
<i>Source: Smith Travel Research & HMI</i>					

Average Daily Rate (ADR) data in the chart above indicates that Competitive Set ADR increased by 1.1% from 2017 to 2018. Also, comparing the 2019 year-to-date results through May 2019 to the same period the prior year indicates a projected annual decrease in ADR in 2019 of (-0.6%) over calendar 2018. Comparing this 2019 YTD (-0.6%) to the average of the prior two years for the same period results in a projected 2019 annual rate of decrease of (-0.41%) which will be applied in 2019 for growth purposes in the projections in this report.

Combining this projected 2019 annual growth rate of (-0.41%) with the historic actual growth rate of 1.1% for the period 2017 – 2018 yields a two-year average annual growth rate of 0.345%. Commencing in 2020 and all future years, this 0.345% 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.

COMPETITIVE LODGING PERFORMANCE					
Revenue Per Available Room					
	2016	2017	2018	YTD 2018	YTD 2019
Primary Competitive Revenue Per Available Room (RevPAR)	N/A	\$62.67	\$65.58	\$65.94	\$70.50
Percentage Change	N/A	N/A	4.6%	7.2%	6.9%

Source: Smith Travel Research & HMI

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, an upper-midscale to upscale select-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 upper-midscale upscale to select-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 upper-midscale to upscale hotel product is recommended.

RATE POSITIONING

It is suggested that the proposed upper-midscale to upscale select-service style hotel be rate positioned midway between first and second rate tiers discussed previously in this report. This would indicate a yield to the Competitive Set of Hotels of 110.6% and it results in a projected ADR of \$108.84. This would position it to compete just slightly below the Hilton Garden Inn in Live Oak and it would be the rate leader of the Fairfield Inn and the Hampton Inn (both in Schertz), and the Holiday Inn Express in Selma. This is based on the development of an upper midscale to upscale style hotel. This rate positioning will be utilized in the projections in this report. However, if the actual development plan for the proposed hotel is for an upscale hotel such as a Marriott Courtyard, then the proposed hotel would compete directly with the Hilton Garden Inn and achieve a projected ADR comparable to the Hilton Garden Inn, i.e. at \$117.00 for a yield to the Competitive Set of 118.9%

A 5.0% premium was added to the previously described yield of 110.6% due to the proposed hotel being new versus the average age of the Primary Competitive Set of hotels at 9.6 years today and approaching twelve years when the proposed hotel is projected to be open for its first full in 2021.

This would result in a projected ADR for the proposed hotel of \$115.05 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 115.6% 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 104.3% in year one and 109.8% 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 \$100 - \$106 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 \$106 - \$112 and \$112 - \$118, respectively.

GROWTH IN LODGING DEMAND

Lodging Demand Growth for the Competitive Set in the chart above grew by 3.5% in calendar 2018. Comparing the two years of to-date data through May indicates a potential annual growth rate in 2019 of 6.28%. However, since this is such a short period of time, just half of this rate 3.14% will be applied in 2019. In 2020, half of the projected two-year (2018 and 2019) average annual rate of growth or 2.445% will be applied. Then commencing in 2021 and all future years, 75% of this or 3.67% will be applied in all future 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 owners 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 and retail in the overall Cibolo market area for guests are very good. This includes area activities proximate to the subject site area which is part of the larger mixed-use development project of Cibolo Crossing with its entertainment center which is already open.

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 an Upper Midscale to Upscale select-service style hotel, the Hilton Garden is anticipated to be directly competitive with the proposed hotel, however due to the method/dates that STR uses when including hotels, this Hilton Garden Inn is not reflected as an increase to the Lodging Supply in 2016. This 138-room property equates to a 21.5% increase in the *Room Supply* in February 2017.

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 this property not having any banquet/meeting space but being upscale in pricing and service, just 50% of the 96 rooms for a 6.38% increase were used to increase the Lodging Supply in the projections in this report.

Discussions with local officials indicated that there is a potential 85-room midscale to upper midscale extended stay style hotel being pursued at either the same site area as the proposed hotel or at a site on FM 78 near the downtown Cibolo area. Due to its style and service level, half of this or 42.5 rooms were included in the projections in this report as a 4.88% increase in the Room Supply for the projections in this report.

In 2019, the Impact Factor of the proposed 120-room upper-midscale to upscale select-service style hotel was estimated at 59%. This is based on the proposed hotel potentially and primarily impacting the 136-room Hilton Garden Inn and potentially half of the remaining members of the Competitive Set of hotels described previously.

PROPERTY 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 the subject site area 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 zoning is either 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 a 120-room upper-midscale to upscale select-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 – 120 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 2021.

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	57.2%	60.2%	63.2%	104.8%	59.9%	63.1%	66.2%
2022	59.3%	62.4%	65.5%	110.3%	65.4%	68.8%	72.3%
2023	61.5%	64.7%	67.9%	116.1%	71.4%	75.1%	78.9%
*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, 120 rooms were utilized. The Occupancy projections in this report apply a Projected Market Penetration yield of 116.1%. This 116.1% projected Market Penetration Yield is comprised of the following:

- 111.1%, which is what a similar style upscale select-service style hotel within the greater Cibolo market area achieved Occupancy wise to that of the Competitive Set for 2017 and 2018.
- A 5.0% premium was added due to the proposed hotel being new versus an average age of the Primary Competitive Set of 9.6 years today.
- The recommendations in this report suggest up to a third of the rooms in the proposed hotel be extended stay style rooms. If this is done, then an additional 5.0% premium is warranted due to the extended stay style rooms, differentiating it from all other members of the Competitive Set. However, this has not been applied at this time.
- In 2019, the Impact Factor of the proposed 120-room upper-midscale to upscale select-service style hotel was estimated at 59%. This is based on the proposed hotel potentially and primarily impacting the 136-room Hilton Garden Inn and potentially half of the remaining members of the Competitive Set of hotels described previously.

Lodging Demand Growth for the Competitive Set in the chart above grew by 3.5% in calendar 2018. Comparing the two years of to date data through May indicates a potential annual growth rate in 2019 of 6.28%. However, since this is such a short period of time, just half of this rate 3.14% will be applied in 2019. In 2020, half of the projected two year (2018 and 2019) average annual rate of growth or 2.445% will be applied and then commencing in 2021 and all future years, 75% of this or 3.67% 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. Due to the proposed hotel being an Upper Midscale to upscale select-service style hotel the Hilton Garden is felt directly competitive with the proposed hotel, however due to the method/dates that STR using when including hotels, this Hilton Garden Inn is not reflected as an increase to the Lodging Supply in 2016. This 138-room property equates to a 21.5% increase in the *Room Supply* in February 2017.

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 this property not having any banquet/meeting space but being upscale in pricing and

service, just 50% of the 96 rooms were used for a 6.38% increase to the Lodging Supply in the projections in this report.

Discussions with local officials indicated that there is a potential 85-room midscale to upper midscale extended stay style hotel project being pursued at either the same site area as the proposed subject hotel or at a site on FM 78 near the downtown Cibolo area. Due to its style and service level, half of this or 42.5 rooms have been included in the projections in this report as a 4.88% increase in the Room Supply in the projections in this report.

In 2019, the Impact Factor of the proposed 120-room upper-midscale to upscale select-service style hotel was estimated at 59%%. This is based on the proposed hotel potentially and primarily impacting the 136-room Hilton Garden Inn and potentially half of the remaining members of the Competitive Set of hotels described previously.

Average Daily Room Rate

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

PROJECTED AVERAGE DAILY ROOM RATE			
YEAR PROBABLE	PROJECTED MARKET ADR	PROJECTED MARKET YIELD	PROJECTED SUBJECT PROPERTY ADR*
High	\$103.79		\$105.28
2021	\$98.84	101.4%	\$100.27
Low	\$93.90		\$95.26
High	\$104.14		\$111.21
2022	\$99.19	106.8%	\$105.91
Low	\$94.23		\$100.61
High	\$104.50		\$117.46
2023	\$99.53	112.4%	\$111.87
Low	\$94.55		\$106.28

* Net ADR equals room revenue plus restaurant, lounge, meeting & conference revenue.
 ** 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.

With the 120-room hotel currently recommended in this report, a Projected Market Yield of 115.6% (comprised of a rate positioning yield of 110.6% plus a 5.0% point premium for being new versus the average age of the Primary Competitive Set at 9.6 years today), was applied based on the rate positioning of the proposed hotel previously discussed.

By its third full year of operation (2022), the proposed upper-midscale to upscale select-service hotel should be rate positioned midway between the first and second rate tiers. This would result in the proposed hotel being projected to achieve an ADR of \$115.05 due to its newness and if it is an upper-midscale to upscale 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 (-0.41%) in 2019, 0.345% commencing in 2020 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	\$2,770,331	\$63.25	106.3%
2022	\$3,193,176	\$72.90	117.8%
2023	\$3,680,561	\$84.03	130.5%
* Projected performance is +/- 5 percentage points and will be affected by changes in Projected Occupancy or Projected ADR.			
Source: HMI			

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.

TOTAL REVENUES

Based on the potential Food and Beverage revenues discussed previously in this report, the following chart presents the projected Total Revenues, i.e. rooms Revenues and Food & Beverage Revenues for the proposed hotel.

PROJECTED TOTAL REVENUE					
YEAR	PROBABLE ROOM REVENUE	TOTAL FOOD & BEVERAGE	TOTAL REVENUE	NET ADR	NET RevPAR
2021	\$2,770,331	\$654,544	\$3,424,875	\$123.96	\$78.19
2022	\$3,193,176	\$728,548	\$3,921,724	\$130.07	\$89.54
2023	\$3,680,561	\$810,918	\$4,491,480	\$136.52	\$102.55
<i>* Projected performance is +/- 5 percentage points and will be affected by changes in Projected Occupancy or Projected ADR.</i>					
Source: HMI					

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 an upper-midscale to upscale, select-service style hotel with a mix of traditional style rooms and extended stay style rooms (up to one-third of the rooms) if the chosen brand for a select-service style hotel will permit this combination of 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 120 rooms.

This is slightly larger than the average size of the Competitive Set of Hotels, identified as 78.3 rooms. This difference results in a Fair Share Size Adjustment of 78.3%. However, the Competitive Set is primarily limited service style hotels except for the Hilton Garden Inn, which is at 136 rooms presenting the subject 120-room hotel with a Fair Share size Adjustment of 113.3%.

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.

As previously discussed in this report, there is a potential 85-room hotel (an addition to the Lodging Supply) planned potentially at this same site area. A possibility is to drop this and increase the size of the proposed hotel to approximately 150 rooms with still a third of the rooms being extended stay style. This would have minimal negative impact on the projections in this report and in fact possibly a positive impact due to the extent of extended stay rooms making this into a "Combo Hotel"

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 an upper-midscale to upscale, select-service hotel chain. A large work desk and wireless internet access in the rooms are expected by Corporate/Commercial guests.
- The proposed hotel may offer a limited complimentary breakfast with additional cook to order hot items available in the Bistro Café area. The limited complimentary items are necessary to provide items somewhat similar to those 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 (65.0%) and Social/Leisure guests (35.0%). 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 115.3% 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 month or two “soft opening period” prior to the commencement of the busy season in this market area which runs February through August. This would enable the proposed hotel to capture the maximum revenue prior to the softer season beginning in September.



Hospitality Marketers International, Inc.

DISCLAIMER

The decisions presented herein were based upon the information available and received at the time this report was compiled. Hospitality Marketers International, Inc., (HMI) has taken every possible precaution to evaluate this information for its completeness, accuracy and reliability. To the best of its knowledge, HMI feels the information and decisions presented herein are sound and reliable.

HMI is not responsible for effects that occur from future political, economic or social events that ultimately alter these projections. These events should be monitored accordingly and potentially the results of this report may require updating to respond to future events.

Also, it should be understood that normal economic and marketplace conditions change constantly. HMI assumes no responsibility for information that becomes outdated once this report is written; nor is it responsible for keeping this information current after the date of this report.

It should be understood that the results presented in this report are the professional opinion of HMI and are based upon the information available at this time. These opinions infer proper and professional management of the business operation. The opinions also infer that market conditions do not change the information received upon which those opinions have been based. HMI assumes no responsibility for changes in the marketplace.

Furthermore, it is presumed that those reading this report completely understand its contents and recommendations. If the reader is unclear of the understanding of the contents, clarification should be received from its writer, HMI.

Lastly, HMI assumes that those who receive this report take into account its recommendations. Any deviation from these recommendations is solely the responsibility of those receiving and acting upon this report.

Further questions concerning this report should be directed to HMI.

Sincerely,
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