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# **Hotel Market Assessment Nevele Resort, Casino and Spa**

Wawarsing, New York (Ulster County)

Prepared for:  
Nevele Investors, LLC

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# HOTEL MARKET ASSESSMENT

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## *Introduction*

This section of the report addresses the potential revenues that could be generated from a redeveloped Nevele Resort featuring a Las Vegas Style Casino. The Hotel Market Assessment estimates room night demand and room revenue based on the proposed hotel building program, discussed earlier. The analysis assumes that the hotel would penetrate the overnight gamer segment in the market. We also believe the redeveloped hotel with a Las Vegas style casino would be an attractive alternative to certain tourist segments targeting the Catskills area. An analysis of the variables associated with this market, such as room supply, occupancy and average daily room rate, was conducted to support our demand estimates. In addition, the market demographic data was also utilized to forecast potential demand.

The redevelopment of the resort hotel should allow the Nevele operators to capture gamer visits from the periphery of the 180 minute drive time local market. The hotel should allow patrons driving considerable distances the option of spending the night out of convenience or for a short gaming vacation. A hotel would also act as an additional marketing tool for the casino marketing department in attracting premium players.

The assessment estimates room night demand and room revenue based on the proposed hotel concept. The analysis assumes that the hotel would serve the overnight gamer segment. We also assumed that the hotel would be an attractive alternative to certain tourist segments targeting the area. An analysis of the variables associated with this market, such as room supply, occupancy, and average daily room rate was conducted to support our demand estimates. In addition, the market demographic data was also utilized to forecast potential demand.

## *Methodology*

The first step was to gain a thorough understanding of the existing hotel market in the region including the casino and non-casino hotel segments. We toured the relevant market areas and hotels in order to perform a qualitative assessment of the regional market. Based on the information gathered from the site visit and other sources, the proposed hotel, in addition to penetrating the overnight gamer segment, would capture a portion of the tourist market as well as the mid size group meeting market given the lack of alternative convention and meeting space in the area.

The room night demand forecast was segregated into two segments, including the overnight gamer (casino demand) and leisure tourist (non-casino demand) segments. The overnight gamer demand was based on the potential gamer visits each proposed site could capture if developed. Based on the lack of casino hotel rooms in the region, we believe some latent demand exists.

Next, we estimated the proposed hotel's penetration into the non-casino market, defined for this assessment as the mid-range to upscale hotels in the area. The room night demand estimate for the leisure tourist segment market was based on the current supply and demand profile, combined with assumptions regarding future growth. The Innovation Group analyzed the proposed hotel's location, quality and scope, including the amenity package, in relation to the

target market. The subject would be competing with several quality hotels in the area however we anticipate that the proposed hotel will outperform area hotels given the proposed amenity package. Information was obtained relating to hotel room supply, occupancy rates, and average daily rates (“ADR”) from Smith Travel Research. In order to forecast future growth, we analyzed data on the regional population and tourism growth trends, as well as the historical performance of the relevant hotels.

Finally, estimated room rates were applied to the room night demand for the proposed hotel in order to forecast room revenue. We analyzed the comparable competitive hotel environment and prevailing room rates for the purpose of finding the price point, which maximizes hotel revenue.

### ***Existing Local Lodging Market***

The redeveloped Nevele Resort will be unique to the majority of the reporting existing hotel market in the Ulster and Greene Counties hotel inventory such that it will be far ahead of the Limited Service Mid Scale and Economy hotels in the region in terms of quality and offerings. In order to develop a benchmark of the Occupancy, ADR, and RevPAR for the region, the branded limited service hotels plus a few economy-motels were needed to run the Smith Travel TREND Report.

In total, the reporting existing properties includes 9 hotels located between Ulster and Greene Counties offering about 671 rooms, however in order to obtain a Smith Travel Report, area economy hotels such as the Super 8, Econo Lodge, Howard Johnson, and Days Inn were added in order to reach the minimum property count to conduct the analysis.

**Smith Travel Reporting Hotels in Catskills**

<b>Name of Establishment</b>	<b>City &amp; State</b>	<b>Zip Code</b>	<b>Aff Date</b>	<b>Open Date</b>	<b>Rooms</b>
Courtyard Middletown	Middletown, NY	10941	Aug 2003	Aug 2003	134
Comfort Inn Saugerties	Saugerties, NY	12477	Nov 1997	Nov 1991	65
Super 8 Montgomery Maybrook Area	Montgomery, NY	12549	Jun 1978	Jun 1978	96
Best Western Monticello	Monticello, NY	12701	Jun 1989	Jun 1989	62
Econo Lodge Monticello	Monticello, NY	12701	Nov 2008	Jun 1950	47
Super 8 Monticello	Monticello, NY	12701	Sep 2005	Jun 1980	46
Howard Johnson Express Inn Liberty	Liberty, NY	12754	Jan 2005	Jun 1964	70
Days Inn Liberty	Liberty, NY	12754	Jun 1963	Jun 1963	120
Days Inn Wurtsboro	Wurtsboro, NY	12790	Feb 1995	Oct 1989	31
<b>Total Properties:</b>				<b>9</b>	<b>671</b>

*Source: Smith Travel Research Bureau, The Innovation Group*

In order to better understand the potential demand and revenue the redeveloped Nevele Resort could generate, The Innovation Group interviewed Ulster and Green County’s Tourism Directors and hotel managers at the Foxwoods and Mohegan Sun Resorts regarding market segmentation, seasonal occupancy rates and ADRs. Unfortunately, comparable properties such as the Honor’s Haven, which is located next to the Nevele Resort, the Lexington Hudson Valley Resort, and the Villa Roma Resort do not report their monthly occupancies or ADRs to Smith Travel and so

telephone interviews were conducted with additional tourism and economic development officials to analyze the regional competition.

The following table lists the ten comparable hotels for which Smith Travel data was not available; however, interviews were conducted with a variety of officials to understand market segmentation, seasonality, and ADRs.

**Comparable Non Reporting Hotels in the Catskills**

<b>Hotel</b>	<b>City</b>	<b>Rooms</b>
Honor's Haven Resort & Spa	Ellenville, NY	250
Lexington Hudson Valley Resort & Spa	Kerhonkson, NY	275
Villa Vosilla Hotel	Tannersville, NY	80
Villa Roma Resort & Conf Ctr	Callicoon, NY	234
Courtyard Marriott Middletown	Middletown, NY	134
Foxwoods-Grand Pequot Tower	Mashantucket, CT	824
Foxwoods-MGM Grand Hotel	Mashantucket, CT	312
Foxwoods-Great Cedars Hotel	Mashantucket, CT	825
Foxwoods-Two Trees Inn	Mashantucket, CT	280
Mohegan Sun	Ledyard, CT	1,176
<b>Total</b>		<b>4,390</b>

*Source: The Innovation Group*

## ***Proposed Competitive Facilities***

Empire Resorts, Inc., which operates The Monticello Racetrack in Sullivan County, has announced plans to partner with EPR Properties in order to develop a casino resort at the site of the former Concord Resort. The development is being called Adelaar and will include a casino resort and spa, golf course, family resort hotel (including waterpark and conference center), sporting club and village. The village will consist of retail, commercial and residential development. The 650,000 square foot casino will include a 70,000 square foot gaming floor with table games and slots. Over 1,000 hotel rooms are planned for five lodging venues including a 391 room casino hotel. In addition to gaming, there will be other entertainment options including a waterpark, CineBowl & Grille, retail and outdoor activities.

## ***Existing Local Lodging Market Performance***

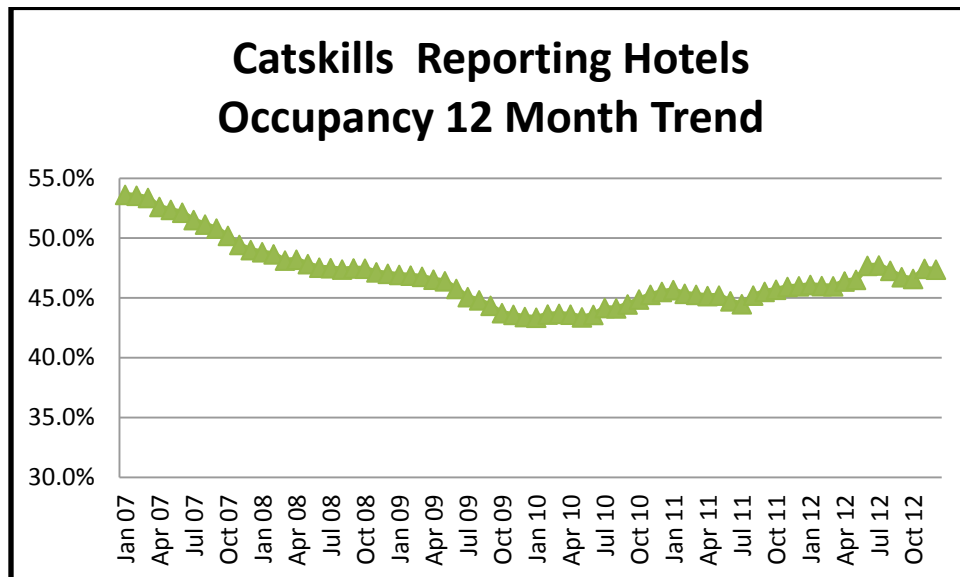
The following table provides a month to month illustration of the occupancy, ADR and RevPAR for the reporting properties in the Catskills market. Hotel occupancies in 2012 showed significant increases during holiday periods in April, June and November for spring break, summer vacation, and Thanksgiving holidays. ADR however did not improve in 2012, generating a decline in 2011 to \$93.16. RevPAR did improve annually between 2009 through 2012 increasing by 2.7% over the 2011 average of \$43.

### Reporting Catskills Hotel Performance Statistics

Date	Occupancy		ADR		RevPar	
	This Year	YoY	This Year	YoY	This Year	YoY
Period						
Jan-12	33.0%	4.2%	\$85.20	6.0%	\$28.15	10.4%
Feb-12	32.9%	-3.4%	\$85.08	5.4%	\$27.95	1.8%
Mar-12	34.2%	-0.6%	\$82.49	0.7%	\$28.19	0.1%
Apr-12	42.7%	12.8%	\$84.74	3.0%	\$36.19	16.2%
May-12	47.6%	3.6%	\$92.89	-5.7%	\$44.21	-2.3%
Jun-12	61.0%	29.9%	\$100.58	2.7%	\$61.33	33.4%
Jul-12	64.6%	0.6%	\$109.05	0.9%	\$70.49	1.5%
Aug-12	63.9%	-7.7%	\$98.94	-4.3%	\$63.22	-11.7%
Sep-12	48.0%	-11.8%	\$93.47	-6.6%	\$44.85	-17.6%
Oct-12	51.3%	-3.3%	\$91.79	0.3%	\$47.05	-3.0%
Nov-12	56.9%	21.7%	\$88.49	0.0%	\$50.37	21.7%
Dec-12	32.2%	-2.5%	\$84.08	7.0%	\$27.10	4.3%
Total 2009	43.5%	-7.7%	\$90.62	-2.0%	\$39.39	-9.5%
Total 2010	45.5%	4.8%	\$92.18	1.7%	\$41.99	6.6%
Total 2011	46.1%	1.1%	\$93.39	1.3%	\$43.02	2.5%
Total 2012	47.4%	3.0%	\$93.16	-0.2%	\$44.19	2.7%

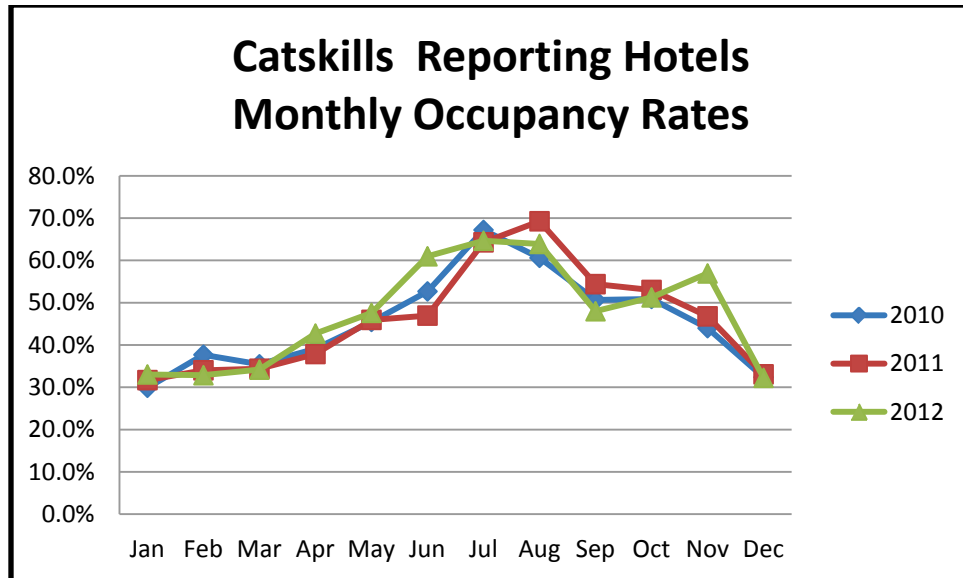
Source: Smith Travel Research, The Innovation Group

As shown in the following chart, occupancies remained relatively stable from 2010 through 2012 ranging 45% to 47% annually.



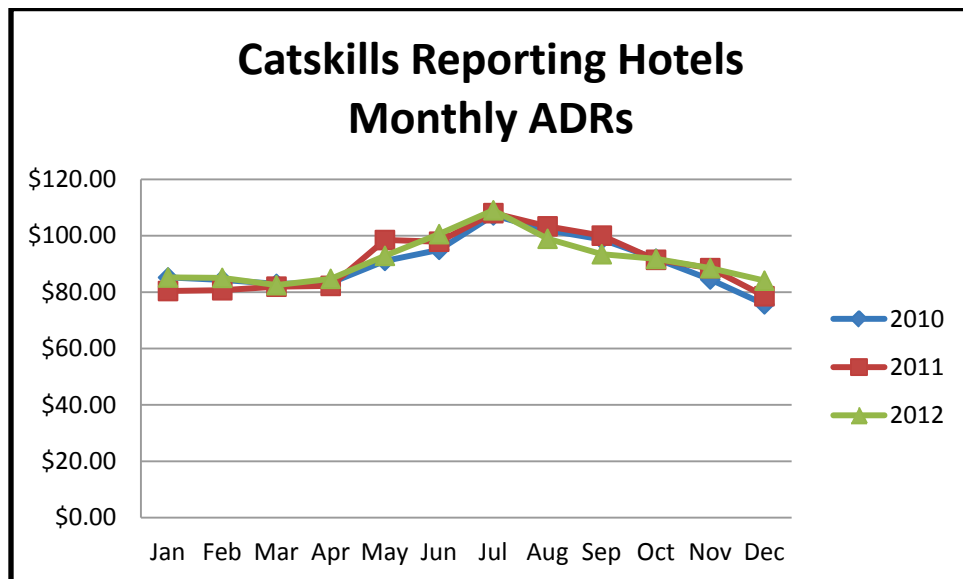
Source: Smith Travel Research

As expected, higher occupancies occur from June through September largely due to tourists enjoying outdoor activities in the region.



*Source: Smith Travel Research*

Average daily rates have also been relatively stable over the last three years also at an annual average of \$93. ADRs are at the highest during the summer months peaking at \$110 and falling to \$84 during the winter and shoulder months.



*Source: Smith Travel Research*

## *Subject Hotel Demand*

### **Non-Casino Demand**

The proposed hotel, while inducing new demand segments, is anticipated to capture a portion of the existing hotel market. Several different segments of travelers generate lodging market demand. Each traveler segment uses lodging accommodations for different reasons, travels for different durations, and is rate sensitive to varying degrees. There is no published segmentation data available for the selected hotels or Ulster County; however, The Innovation Group conducted several telephone interviews with chamber officials and tourism bureau managers.

Group meeting demand typically consists of small to mid-sized corporate or professional groups conducting meetings and seminars and SMERF groups (social, military, ethnic, religious, and fraternal). Conversations with area hotel personnel revealed that group meetings demand in the area is not strong and that group meetings are constrained by meeting space capacity. Significant meeting space is primarily featured at the Villa Roma Resort and Conference Center which features 20,000 sqft of event space. Honor's Haven Resort and Spa also advertises 20,000 sq.ft of event space. Given the lack of additional significant conference facilities at local hotels, we estimated group meeting demand in the local market at approximately 5% of total room night demand (RND).

Leisure demand consists of visitors to the area, excluding business or group travelers. Leisure demand occurs primarily during high season and, to a lesser extent, weekends and holidays throughout the year. This segment accounts for the majority of visitation to the area, estimated at 69% of total room night demand.

Commercial demand from business travelers occurs primarily during weekdays, and experiences the least amount of seasonality. Commercial demand is also estimated at 5% of total room night demand. Group Tour demand consists mostly of tourists traveling in groups by bus charter and is estimated at 21% of room night demand. Our assumptions for RND segmentation for the hotel market in the area are summarized in the table below.

<b>Current Market Business Mix</b>	
<b>Hotel Segment</b>	<b>% of Total</b>
Group Tour	21%
Group Meetings	5%
Tourist	69%
Commercial	5%
<b>Total</b>	<b>100%</b>

Source: The Innovation Group

Market segmentation for the subject hotel is anticipated to vary from the existing competitive hotel supply due to the mid-week group meeting demand induced by the meeting space and casino demand generated from the proposed resort. The Tourist Segment is expected to generate the highest non-gaming demand for the resort given the market's heavy orientation to leisure.

The Nevele Resort is expected to capture a premium of its fair share of Group patrons given the quality of the rooms and amenities proposed at the resort and the limited competitive supply in the area. The Commercial hotel segment may prefer to stay at national branded hotels in the region to maximize rewards programs and points although the availability of branded hotels is extremely limited in the area.

**Non-Casino Demand: Adjustments to Fair Share**

	2017	2018	2019	2020	2021
<b>Group Tour</b>	115.0%	120.0%	120.0%	120.0%	120.0%
<b>Group Meetings</b>	150.0%	175.0%	175.0%	175.0%	175.0%
<b>Tourist</b>	89.0%	94.0%	94.0%	94.0%	94.0%
<b>Commercial</b>	90.0%	95.0%	95.0%	95.0%	95.0%

## Casino-Related Demand

Casino room night of demand (RND) relates to casino patrons that will utilize a hotel room while visiting the resort. These visits are incremental to the projected gaming visit determined in the casino market assessment. Casino RND is based on a capture rate of how many proposed gaming patrons from each market area will stay at the hotel during their visit. The capture rates increases the further the casino patron has to travel to reach the resort. Each room night of demand from the casino segment is expected to have a double occupancy factor between 1.5 adults for the interior markets to 1.9 adults for the outer market. Length of stay is also expected to vary based on distance traveled, from one night in the Primary to 1.8 nights in the outer markets.



### Nevele Resort Casino Room Night of Demand by Market Region for Casino Segment

Segment	Gamer Visits	Capture Rate	Overnight Gamers	Annual RND
Primary	910,603	0.50%	4,553	3,385
Suburban NYC	208,575	2.01%	4,192	3,316
Westchester	64,387	3.02%	1,941	1,842
NYC	224,446	8.04%	18,045	18,543
Long Island	24,621	10.72%	2,639	2,701
Western CT	175,616	4.02%	7,060	6,463
Southwest CT	157,805	3.02%	4,758	3,954
Secondary NE	200,677	1.34%	2,689	1,959
Albany	159,381	3.35%	5,339	4,814
Western MA	29,452	4.69%	1,381	1,368
Secondary NW	23,945	2.68%	642	563
Tioga Park	43,516	3.35%	1,458	1,306
Northern PA	10,291	3.35%	345	309
Poconos	63,351	1.34%	849	583
Wilkes-Barre	66,569	3.35%	2,230	1,685
Bethlehem	149,674	3.35%	5,014	3,768
Paterson NJ	201,327	3.02%	6,070	4,942
Northern NJ	342,297	3.35%	11,467	10,612
Staten Island	35,412	3.35%	1,186	1,182
Out-of-market	38,649	29.48%	11,394	13,673
<b>Total</b>	<b>3,130,592</b>		<b>93,253</b>	<b>83,213</b>

Source: The Innovation Group

### Total Demand

Combining demand from all segments total annual demand in room nights is anticipated to be approximately 131,469 in year one and increase to 142,418 by year five.

### Room Night Demand by Segment

	2017	2018	2019	2020	2021
Group Tour	10,754	11,377	11,491	11,606	11,722
Group Meetings	4,467	7,467	7,616	7,692	7,769
Tourist	30,984	33,346	33,847	34,354	34,870
Commercial	2,051	2,203	2,225	2,247	2,269
Casino	83,213	83,962	84,591	85,188	85,788
<b>Total Demand</b>	<b>131,469</b>	<b>138,354</b>	<b>139,769</b>	<b>141,087</b>	<b>142,418</b>

Source: The Innovation Group

The following table shows hotel RND by segment, based on the total number of rooms. Casino demand accounts for approximately 60% of total demand.

#### Room Night Demand Percentages by Segment

	2017	2018	2019	2020	2021
Group Tour	8.2%	8.2%	8.2%	8.2%	8.2%
Group Meetings	3.4%	5.4%	5.4%	5.5%	5.5%
Tourist	23.6%	24.1%	24.2%	24.3%	24.5%
Commercial	1.6%	1.6%	1.6%	1.6%	1.6%
<b>Casino</b>	<b>63.3%</b>	<b>60.7%</b>	<b>60.5%</b>	<b>60.4%</b>	<b>60.2%</b>
Total Demand	100.0%	100.0%	100.0%	100.0%	100.0%

Source: The Innovation Group

### *Estimated Average Daily Rate*

The Innovation Group estimated ADR for the proposed hotel based on the current ADR profile for comparable casino hotels in the target market with similar amenities and of similar quality, segregated by visitor segment and by weekend and weekday periods. As previously mentioned, the quality and scope of the proposed hotel is expected to be superior in comparison to the comparable group non-casino hotel group, therefore average daily rates are based on information gathered from comparable casino hotels in similar jurisdictions of similar size and scope.

#### Subject Blended ADR Forecast

Segment	Midweek Rate	Weekend Rate
Group Tour	\$174.01	\$199.82
Group Meetings	\$174.01	\$199.82
Tourist	\$156.61	\$184.70
Commercial	\$165.31	\$183.17
Casino	\$156.61	\$184.70
<b>Annual Average</b>	<b>\$161.67</b>	<b>\$185.46</b>

Source: The Innovation Group

### *Hotel Room Revenue*

The Nevele is expected to generate a combined total of \$22 million in annual room revenue from a blend of three and four star rooms during its first full year of operations. Occupancy rates for casino resorts exceed local market hotels and resorts due to additional visitation from the casino segment. This is further induced by aggressive marketing campaigns and comped hotel rooms, driving occupancy rates near 100% in some casino resort and hotel markets. Annual occupancy for is projected at 80.8% growing to 87.5% by Year 5.

#### Nevele Hotel Room Revenue Summary

	2017	2018	2019	2020	2021
Number of Rooms	446	446	446	446	446
Annual Room Nights Available	162,790	162,790	162,790	162,790	162,790
Occupancy	80.8%	85.0%	85.9%	86.7%	87.5%
RND	131,469	138,354	139,769	141,087	142,418
ADR	\$167.66	\$169.56	\$172.96	\$176.59	\$180.30
<b>ROOM REVENUE</b>	<b>\$22,041,637</b>	<b>\$23,459,009</b>	<b>\$24,173,954</b>	<b>\$24,914,687</b>	<b>\$25,678,393</b>

Source: The Innovation Group

### *Incremental Gaming Revenue*

In addition to direct hotel revenue, the development of a hotel will offer the opportunity to capture additional gamer visits primarily in the outer markets. A hotel will also serve as another marketing tool for the casino marketing department in attracting players from the outlying areas. In estimating incremental gaming revenues from hotel patrons, we utilized the estimated demand figures generated in the hotel analysis for this project. We have estimated that casino room demand will approximate 60% of the total estimated room night demand for the proposed Hotel. This figure assumes an aggressive marketing and comp approach that attempts to fill the rooms throughout the week. We estimate a high spend per visit for casino guests as they are staying at the hotel specifically to gamble and tend to have a higher gaming budget than transient hotel guests and day trip gamers and will likely frequent the casino more than once during their stay.

#### Proposed Hotel Incremental Gaming Revenue 2017

Market Segment	RND	Double Occ.	Guests	Prop	Visits	Win	Revenues
Group Tours	10,754	1.1	11,829	75.0%	8,872	\$88.00	\$780,707
Group Meeting	4,467	1.1	4,914	72.0%	3,538	\$80.00	\$283,044
Tourist/ Leisure	30,984	2	46,476	85.0%	39,504	\$112.00	\$4,424,489
Commercial	2,051	1	2,051	65.0%	1,333	\$82.00	\$109,337
<b>Subtotal</b>	<b>48,256</b>		<b>65,270</b>		<b>53,247</b>		<b>\$5,597,577</b>
Casino	83,213		93,253		93,253	\$336.96	\$31,422,549
<b>Total</b>	<b>131,469</b>		<b>158,523</b>		<b>146,500</b>	<b>\$252.70</b>	<b>\$37,020,126</b>

Source: The Innovation Group

It should be noted that a portion of room revenues represent comped or discounted rooms to rated players. Based on operating experience at other properties, we estimate that 70% of CRND will be comped and 25% of CRND discounted by an average of 50%, with another 5% being cash. The following table shows the promotional allowance budgets that could be expected to be assigned to the casino, along with the net gain in EBITDA the property is projected to receive as a result of the hotel development.

Net Property EBITDA from Hotel (MMs)					
	2017	2018	2019	2020	2021
Hotel EBITDA	\$7.59	\$8.19	\$8.46	\$8.73	\$9.01
Less: Promotional Allowances	\$11.41	\$11.62	\$12.20	\$12.28	\$12.63
Plus: Incremental Gaming EBITDA @ 50% margin	\$18.51	\$19.07	\$19.54	\$20.00	\$20.47
<b>Net Property EBITDA</b>	<b>\$14.70</b>	<b>\$15.63</b>	<b>\$15.80</b>	<b>\$16.45</b>	<b>\$16.85</b>
	\$7.59	\$8.19	\$8.46	\$8.73	\$9.01
<i>Incremental Gaming Revenues</i>	\$11.41	\$11.62	\$12.20	\$12.28	\$12.63