VIA EMAIL

June 10, 2016

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Email: Micah.Gursky@sluhn.org

Re: Proposed Hotel in Tamaqua, PA

Dear Mr. Gursky:

In accordance with Component 1 of our proposal and discussions with you regarding the feasibility of the proposed hotel project, the following letter summarizes our findings and conclusions to date relative to the development of a hotel on one of the three sites in Tamaqua, Pennsylvania.

Our findings and conclusions are based upon our present knowledge and information with respect to economic and demographic data, room night demand sources, and the status of the competitive hotel market at the completion of our fieldwork and analysis in May 2016.

SUMMARY OF FINDINGS AND CONCLUSION

Based on our review and analysis of the market and competitive trade area, as well as current and prospective hotel supply and demand trends in the Tamaqua market area, we are of the opinion that there is ***insufficient market support*** for a hotel at any of the three sites under consideration.

Initially, from a locational standpoint, we focus on access, visibility, proximity to demand generators, and proximity to area amenities as basic attributes of a site relative to a prospective hotel's competitive set and its ability to draw demand to its location.

Overall, as can be seen on the map on the following page, all three of the designated hotel sites lack proximity to the region's primary interstates, including Interstates 81 (I-81) and 476 (I-476), making direct access to these prime arteries below-average relative to existing hotels. Moreover, the sites lack any meaningful visibility to a large source of potential demand that would help draw them to their respective locations. Next, two of the three sites under consideration are considered tertiary locations and lack proximity to any meaningful demand generators. In addition, while the site adjacent to the *TIDE Industrial Park* (TIDE) benefits from proximity to certain commercial demand generators within the park, our research and interviews indicate that the amount of hotel-related demand emanating from TIDE is not substantial and insufficient to support a hotel. As for proximity to an amenity base, only the site located in downtown Tamaqua offers convenient access to various food and beverage outlets and retail services typically sought by hotel guests. However, this amenity base is modest when compared to that available in and around the competition.

Collectively, these factors make the three sites under consideration comparatively weak locations relative to their prospective competition, as they do not possess the locational attributes to effectively compete in the region and draw demand to their location. Moreover, the subject sites will continuously be vulnerable to being out-positioned by new hotel supply developed in more primary locations in the trade area, most notably along I-81 or I-476, which are both considered to be much better locations for hotels in the region.

That said, if a hotel were to be developed on any of the three sites, we would recommend that it be done at the TIDE site given its proximity to I-81, direct access to commercial demand emanating from TIDE, and its ease of access from Route 309. The proposed hotel should be a limited- or select-service-type product and no larger than 50 units, based on current and prospective demand levels. We further recommend that the subject hotel be affiliated with a national brand, which will help generate demand for the property from their loyal customers, as well as the traveling public. The benefits of a national brand include familiarity of a brand name, a reservation system, and a robust loyalty program. Branding would also assist in "share shifting" demand from other hotels, using a price-discounting strategy.

It should however be noted that the small size of the hotel would limit the interest of the more primary hotel brands, forcing a developer to affiliate with a secondary or tertiary brand, which would further limit the appeal/draw of the project and reduce its average room rate potential. Examples of primary limited- and select-service brands include *Marriott's Fairfield Inn & Suites, Hilton's Tru,* and *Choice's Comfort Suites*.

Based on the foregoing, we estimate that a 50-unit, nationally-branded, limited-service hotel can achieve an annual occupancy level of roughly 60 percent in a stabilized year, at an average daily rate (ADR) between $90.00 to $100.00, equating to a RevPAR of $54.00 to $60.00 (in current-value 2016 dollars). These performance levels are below average relative to national and local performance metrics, but reflect the challenges associated with the sites. In addition, the smaller size of the hotel will make it a challenge to achieve a market-based return on investment to attract private capital without a significant subsidy by a public entity. Specifically, the initial cost to build the hotel, coupled with the ongoing fixed operational costs spread across a low room count, will hinder the hotel's ability to generate enough free cash flow to meet its debt service, let alone provide for an adequate return on investment to the owner. Therefore, we suggest you evaluate the financial aspects of the project thoroughly prior to proceeding, if at all.

As an alternative to the above, the development of a smaller lodging facility of 20 rooms or less in a bed-and-breakfast format may appeal to a local or regional entrepreneur willing to represent both the equity and management of the operation, so long as a relevant return on investment can be substantiated. We suspect some sort of community subsidy would still be required to make financial sense of the project, but the fact that the investor is also the manager/operator may close the financial gap sufficiently to warrant development of the project. If you do choose to pursue this option, consideration should be given to co-locating the lodging facility with complementary or synergistic uses, such as a restaurant or retail.

The balance of our letter summarizes the above findings and conclusions.

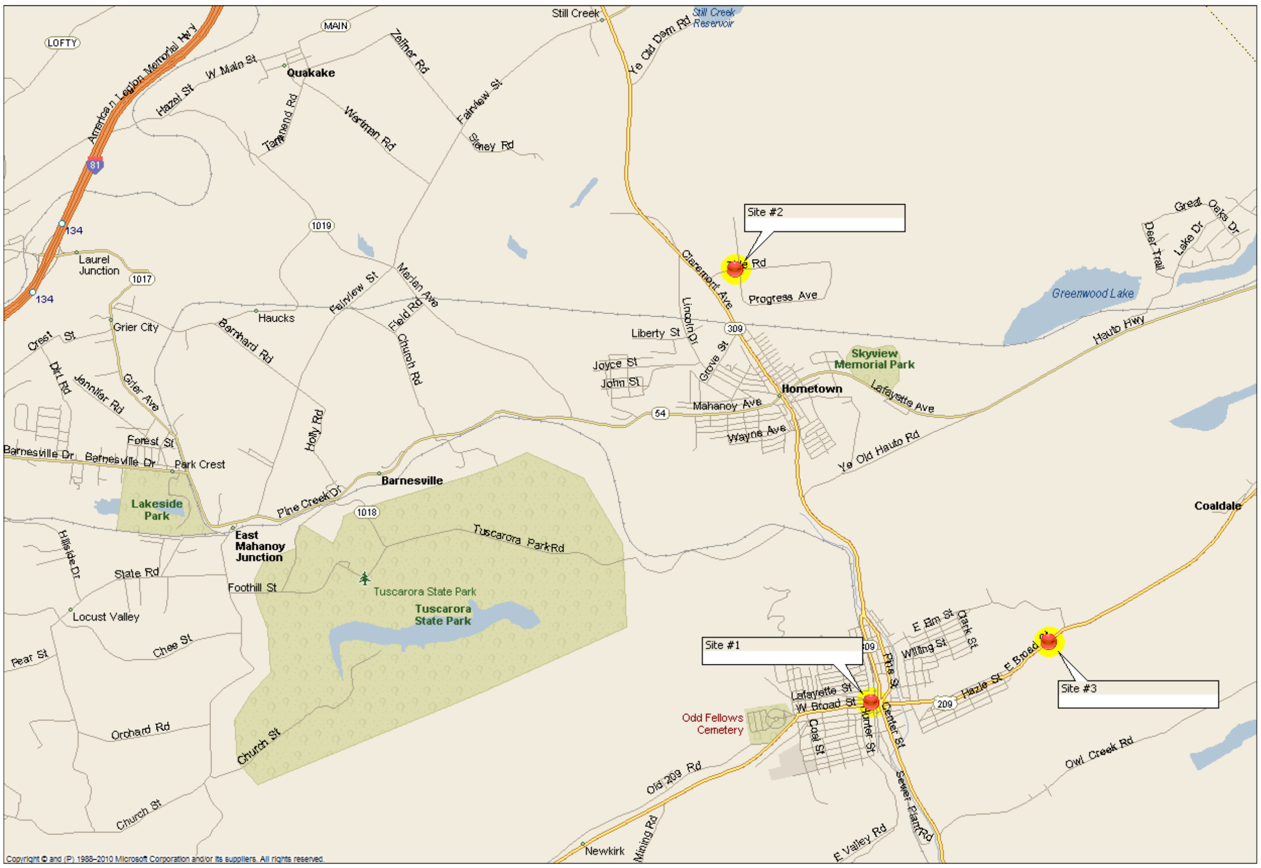
SITE SELECTION ANALYSIS

As part of our proposal, REV*PAR* International was tasked with evaluating three potential sites identified by the *Tamaqua Area Community Partnership* for the proposed hotel development, and subsequently establishing which, if any, represents the best long-term location. The sites identified by the *Tamaqua Area Community Partnership* for evaluation and shown in the map on the following page are:

- Site 1 – Downtown Tamaqua (24 West Broad Street);
- Site 2 – *TIDE Industrial Park* site; and,
- Site 3 – U.S. Route 209 (US-209), East of Tamaqua, within the CRIZ.

We note that these sites are general areas and not specific locations, based on the preliminary nature of this project. As such, our comments are based on the general locational attributes rather than specific site characteristics.

In order to evaluate the three sites, we prepared a site matrix that ranks each location against the others relative to those (primary) factors typically associated with successful hotels, where success is defined as achieving above-average top-line performance (Occupancy, ADR, RevPAR) relative to a defined competitive set of hotels. Essentially, the matrix aids in establishing which site possesses the necessary characteristics typically associated with successful hotel locations and, thus, represents the best potential site. Insight is gained using the site matrix by: establishing success factors, assigning a weight based on factor importance, ranking each site against each other, and adding the scores (with the ***highest score*** determining the best site). A brief discussion of each factor follows the site matrix below.



Factor	Importance	Site 1: Downtown Tamaqua		Site 2: TIDE Industrial Park		Site 3: US-209 Corridor	
		Site Rank	Score	Site Rank	Score	Site Rank	Score
Proximity to Demand	3	1	3	3	9	2	6
Proximity to I-81	3	1.5	4.5	3	9	1.5	4.5
Proximity to Area Amenities	3	3	9	1	3	2	6
Access	2	1	2	3	6	2	4
Overall Visibility (Direct & Indirect)	2	2.5	5	1	2	2.5	5
Proximity to Future Growth	2	1	2	2.5	5	2.5	5
Surrounding Ambiance	1	2.5	2.5	1.5	1.5	2	2
Total			**28**		**35.5**		**32.5**

Site Matrix for Proposed Hotel, Tamaqua, PA

Importance Ranking: 3 - Most Important; 2 - Important; and 1 – Less Important
Score Ranking: 3 - Best -- 1 – Worst; a score of 1.5 or 2.5, etc., indicates 2 sites are considered equal.
THE HIGHEST SCORE ESTABLISHES THE BEST SITE
Source: REV*PAR* International, Inc.

- ***Proximity to Demand***: The room night demand in the greater Tamaqua market can be segmented into four primary categories: commercial transient, group, leisure transient, and extended-stay. Due to the lack of lodging facilities in Tamaqua, the local room night demand that exists is being accommodated in the surrounding lodging nodes, namely Hazleton, Frackville, and Lehighton/Jim Thorpe. The majority of the demand is leisure transient, which uses hotels along I-81 as a convenient stopover on their way to their final destination. For Lehighton/Jim Thorpe hotels, travelers are specifically visiting the quaint town of Jim Thorpe. Commercial demand is the second-largest segment using area hotels. Much of the local commercial demand is also interstate-related, since many of the local corporations are involved in the distribution or warehousing fields, and are often located proximate to the interstate or highway.

To that end, Site 2 received the highest ranking due its location proximate to I-81, with the greatest potential to attract leisure travelers and commercial transient from this artery. Additionally, Site 2 is anticipated to be either within or proximate to TIDE, which is home to the largest concentration of commercial demand generators in Tamaqua. Within TIDE, there are several demand generators, including *ELK Lighting*, *Silberline Manufacturing* and *Fox Transportation*, to name a few.

As for group demand, Tamaqua and the broader area, as noted above, generally have few meeting venues and event spaces to support a large group market. Nonetheless, our research indicated that there is some group-related demand that exists in the market and would use the subject hotel, if open, and would not necessarily be site-specific. Thus, we consider each site equal as relates to the group segment.

Purpose-built, extended-stay products in the market, namely the *Mainstay Suites Barnesville* and *Residence Inn* and *Candlewood Suites*, both in Hazleton, accommodate the majority of this demand. As the proposed hotel will be limited-service in nature, rather than extended-stay, we do not anticipate that this will be a major source of demand. Therefore, this does not factor into the site evaluation for this segment of demand.

With the introduction of a new hotel product bearing a national brand affiliation, it will allow the hotel to "share shift" some room night demand being accommodated in other hotels in other markets, as well as generate a modest latent demand. This latent demand will include, to some degree, overflow of commercial demand from nearby markets, such as Hazleton and Frackville, and overflow of leisure demand from Lehighton/Jim Thorpe, during the peak summer months. Situated near I-81, Site 2 is strategically located to capture such latent demand and received the highest marks.

- ***Proximity to I-81***: Site 2 was rated the highest, as it is located just four miles south of I-81, the most proximate of the three sites to this important artery providing access to Scranton to the north and Harrisburg to the south. To the north in Hazleton, there is a concentration of lodging properties, as well as in Frackville to the southwest. Both of these areas feature hotels with direct access and visibility from I-81. Neither Site 1 nor Site 3 is considered proximate to I-81, due to their location in Tamaqua, roughly seven miles south of I-81, via Route 309, which can be congested during peak travel periods.

- ***Proximity to Area Amenities and Overall Ambiance***: Site 1 was rated the highest for both factors, primarily due to its location in downtown Tamaqua which places it proximate to a number of food and beverage outlets and tourist attractions, such as *Tamaqua Station Restaurant, La Dolce Casa* and *Basile Italian Delight*, to name a few. In addition, the *Tamaqua Railroad Station* features numerous events and tours through the year. Site 3, east of downtown Tamaqua along US-209 in a future mixed-use development, is appealing due to its relative lack of congestion. However, we do note that this site is very speculative and the infrastructure changes, i.e. the Route 309 Bypass, would need to occur to make this site more appealing than Site 1. Site 2 is perhaps the least aesthetically appealing site, as it would be located proximate to or within TIDE and the *Wal-Mart Super Center*.

- ***Access***: The three sites are located within about 10 miles of each other. However, Site 2 will be located immediately off Route 309, with the most proximate access to I-81, which provides a distinct advantage over the other two sites. Site 1, located in downtown Tamaqua, is accessible via Route 309, but further from I-81. Finally, Site 3 is further east of Site 2, along US-209 and may have better access than Site 1 if the proposed bypass road is created with the development of the hotel. The development of the bypass is speculative, but would provide a slight advantage over Site 1.

- ***Overall Visibility:*** Because of their locations in downtown Tamaqua and just east of downtown, Sites 1 and 3 have the best visibility for travelers in the downtown area. However, visibility from downtown Tamaqua does not equate to increased lodging demand, as much of the demand will emanate from outside the area. Site 2, depending upon its exact location, may have visibility from Route 309. Of note, none of the sites has visibility from I-81. Therefore, both Sites 1 and 3 ranked highest, while Site 2 ranked lowest.

- ***Proximity to Future Area Growth***: Currently, there is limited growth planned in the Tamaqua area. The majority of area growth is occurring either in the Hazleton area, related to the *Humboldt Industrial Park* to the north, or in Frackville to the south, proximate to the *Highridge Business Park*. Site 1 ranked the lowest due to its location in Tamaqua, which is densely developed at this time, with limited available space for future development. Sites 2 and 3 were ranked equally, as there is space available for new tenants in TIDE and the potential for new development exists at Site 3.

Based on these factors, we rated Sites 1, 2, and 3 with raw scores of 28, 35.5 and 32.5, respectively. Given the fact that Site 2 achieved the highest score, we conclude that it has the best location of the three for hotel development at present, but clear limitations relative to successful hotel development as noted. Accordingly, we continued with our analysis relative to the proposed hotel development on Site 2 proximate to or within TIDE.

SITE AND AREA REVIEW

As noted in the previous section, of the three possible sites, TIDE would be the preferred location for a hotel. Therefore, this section focuses on TIDE as the subject site, which is located roughly four miles south of I-81 and three miles north of downtown Tamaqua. Relative to the broader area, it is roughly 15 miles east of Pottsville, the county seat, and 14 miles southwest of Jim Thorpe. On a regional level, Tamaqua is 100 miles southwest of New York City and 150 miles northeast of Baltimore.

Access and Visibility

Access to the site will be via Route 309, which connects to Allentown to the south, and Hazleton to the north. Travel volume along Route 309 is roughly 13,000 travelers daily. Route 309 connects to I-81, the major north-south thoroughfare in the area, roughly four miles north of Site 2. Travel volume along I-81 is roughly 40,000 travelers daily. Route 309's intersection with US-209 is in downtown Tamaqua, just south of the subject site. US-209 connects to Pottsville to the west, and Lehighton, Jim Thorpe, and I-476 to the east. Travel volume along I-476 is roughly 23,000 travelers daily. Interestingly, traffic volume along US-209 in Jim Thorpe is 10,000 cars, which decreases to 4,500 in Tamaqua.

Interviews with local hotel operators indicated that the travelers in this market predominantly arrive by car, which includes a sizeable "walk-in" component of demand. As such, it would be advantageous to locate the hotel on a site proximate to or directly on Route 309 to achieve some visibility, albeit to a fraction of the travelers who are exposed to the subject's competitors, which are located along I-81 or I-476. The subject's distance to I-81 will likely preclude it from achieving visibility via the blue highway informational signs; however, the addition of a commercial billboard could assist. That said, the site will be easily accessible from I-81 via Route 309, but the four-mile distance is likely to act as a major deterrent in attracting demand from I-81. As such, we would rate the subject site's access and visibility as fair.

Proximity to Area Amenities and Demand Generators

The subject site's proximity to area amenities is considered fair. One restaurant, *Basile Italian Delight*, is located proximate to TIDE. The *Wal-Mart Super Center* provides access to countless retail items, but is generally not considered a primary amenity by most travelers. We note that the closest amenity base, including independent restaurants and retail shops, is located three miles to the south in downtown Tamaqua. In comparison to most of the competitive set, the subject's access to area amenities is considered inferior, with the exception of the *Mainstay Suites* Barnesville, which also lacks nearby amenities.

The subject site's proximity to demand generators is considered weak, with the exception of its proximity to TIDE. However, based on our informal survey, TIDE generates less than 1,000 hotel room nights per year, given the manufacturing and distribution nature of many of the tenants. We note that both *Highridge Business Park* and *Humboldt Industrial Park* reportedly generate higher levels of demand based on our interviews with local hotel operators, but the subject is 25 miles north of *Highridge Business Park*, the largest park in Schuylkill County, and 11 miles south of *Humboldt Industrial Park*, which is in Hazelton. In addition, hotels located more proximate to these parks thus capture the vast majority of this demand. A summary of the three area business parks is outlined in the following table.

Area Industrial Parks

	TIDE	Humboldt Industrial Park	Highridge Business Park	
Acreage	+200	+3,000	±2,000	
Location	Route 309, Tamaqua & Hometown	Exit 143, I-81, Hazleton Township	Exits 116 and 119, I-81, Pottsville & Minersville	
Distance from Subject Site	N/A	11	25	
Total Employees	500	9,000	3,000	
Tenants [1]	Fox Transportation	Coca Cola	Lowe's	Trillium CNG
	Gellner Industrial	American Eagle Outfitters	Jeldwen	Big Lots Stores
	Highwood USA	Amazon	Walmart	Wegmans's Food Markets
	Silberline Manufacturing	Cargil Cocoa and Chocolate	Big Lots	Sapa Extrusions
	Transwestern Polymers	Amazon	Fanelli's	Solar Innovations
	Veolia Water	AutoZone	Electrolux	Gordon Food Services
	ELK Lighting	Gonella Frozen Products	Jones Stephens	Sara Lee/Hillshire Brands

Note: [1] All tenants for TIDE were listed, while a sample of the tenants for Humboldt and Highridge were included.
Sources: Various sources; compiled by REV*PAR* International, Inc.

Aside from the aforementioned business parks, there are no substantial nodes of commercial demand in the area. However, there is one substantial demand generator in Nesquehoning, roughly 11 miles east of Tamaqua (via US-209). *Kovatch* (KME) manufactures customized, specialty-vehicle rescue products for fire-rescue, military, aviation, and industrial uses. In aggregate, this company employs 800 associates at its four U.S. locations and generates between 3,000 and 5,000 room nights per year, depending upon equipment deliveries. A majority of this demand is accommodated by hotels in Lehighton. Of note, this company was purchased by *REV Group* in April 2016. At this time, the headquarters and primary manufacturing operations will remain in Nesquehoning. Of note, *Air Products and Chemicals* is headquartered in Allentown and has several satellite facilities in the immediate area, including Tamaqua. This facility generates some lodging demand in the area, but the majority of the corporate demand remains in the Allentown area, due to its proximity, roughly 40 miles to the southeast.

As noted earlier, I-81 generates significant hotel demand in the form of travelers passing through the area for business or leisure. Other sources of demand include tourists visiting Jim Thorpe or the *Yuengling Brewery* in Pottsville. Unfortunately, the subject site is 16 and 19 miles away, respectively, from these attractions/demand generators. Our interviews with area hoteliers uncovered that other sources of room night demand emanated from social activities in the local market. This included weddings, anniversaries, reunions, birthdays, as well as visiting friends and family that live in the market. Any hotel at the subject site is positioned to capture this type of demand from Tamaqua and nearby boroughs and townships, but is unlikely to pull it from larger cities such, as Pottsville.

Based on the preceding, we would rate the subject site's proximity to area amenities and demand generators as below average.

Area Review

Tamaqua is considered part of the Pennsylvania Coal Region and the Appalachian Mountains, and is located on the western edge of the Pocono Mountains. As such, this area was heavily reliant on coal mining throughout the 20th century, which has steadily declined as the use of coal has diminished. Because of the coal industry, this was a regional center for railroad activity for the Reading Company and Lehigh & New England railroad companies. However, with lack of demand from the coal industry, railroad activity diminished. Currently, there is one track in Tamaqua operated by the Reading and Northern Railroad. In terms of economic growth in Schuylkill County, local officials have been focused on retaining and expanding existing businesses. For example, *Highwood*, a manufacturer of synthetic wood with a base of 100 employees located in TIDE, is in a high growth mode and expanding its footprint. *ELK Lighting*, also located in TIDE, recently purchased additional buildings to support its growth. While in Tamaqua, they formed tax increment financing (TIF) funding to attract new businesses within the city limits. While these efforts have not had measured success in terms of economic growth, they are creating stability in the area and providing a foundation for future growth. Area officials are also considering future industrial development at Schuylkill Airport, due to its expansive 1,000 acres.

According to *Woods & Poole Economics*, the population of Schuylkill County has remained relatively unchanged from 2005 to 2015. However, the state and the nation grew at a rate of 0.4 and 1.0 percent, respectively, during this same period. From 2015 to 2025, the county population is expected to decline slightly at a rate of 0.1 percent, below the level estimated for both the state and the nation, which are projected to grow 0.5 and 0.9 percent, respectively. A summary of the economic and demographic trends is presented in the table on the following page.

Economic and Demographic Trends			
Year	**Schuylkill County**	**State of Pennsylvania**	**United States**
Population Trends			
2005	146,112	12,351,881	295,560,549
2015	145,677	12,816,186	325,421,865
CAG (1) 2005-2015	**(0.0%)**	**0.4%**	**1.0%**
2025 (2)	144,210	13,409,085	357,582,283
CAG (1) 2015-2025	**(0.1%)**	**0.5%**	**0.9%**
Employment Trends			
2005	64,730	7,166,974	174,228,321
2015	69,700	7,803,462	192,313,686
CAG (1) 2005-2015	**0.7%**	**0.9%**	**1.0%**
2025 (2)	73,714	8,608,261	215,601,880
CAG (1) 2015-2025	**0.6%**	**1.0%**	**1.1%**
Unemployment Rates			
2005	5.5%	4.4%	4.9%
2013	8.0%	6.2%	6.7%
2014	6.0%	4.9%	5.6%
2015	4.8%	4.1%	5.0%
Retail Sales (3)			
2005	$1,466,841	$159,831,003	$3,864,722,037
2015	$1,396,543	$159,425,963	$4,093,325,829
CAG (1) 2005-2015	**(0.5%)**	**(0.0%)**	**0.6%**
2025 (2)	$1,515,550	$184,056,281	$4,966,420,957
CAG (1) 2015-2025	**0.8%**	**1.4%**	**2.0%**

Notes: (1) Compound Annual Growth.
(2) Projected data.
(3) In 2004 dollars.
Sources: Woods & Poole Economics, Inc. and the Bureau of Labor Statistics; compiled by REV*PAR* International, Inc.

Retail sales for the county posted a decline of 0.5 percent from 2005 to 2015, while the state remained unchanged. During this period, national retail sales increased 0.6 percent. Future projections indicate that retail spending will increase in all areas from 2015 to 2025. Schuylkill County retail sales are projected to increase by 0.8 percent, while the state and nation are estimated to increase by 1.4 and 2.0 percent, respectively.

In addition to the warehousing, logistics, and manufacturing sectors, Schuylkill County is also home to three prisons located in Frackville, 20 miles from the subject site. These prisons are *FCI Schuylkill* - medium security (capacity: 1,330); *SCI Frackville* – maximum security (capacity: 500); and *Schuylkill County Prison* (capacity: 277). The federal prison system generates limited lodging demand in the form of relatives visiting inmates, as well as peripheral demand due to relocating staff and training.

As previously noted, this area is located along the Appalachian Mountains and proximate to the Pocono Mountains. As such, it features several tourist attractions, including:

- The borough of Jim Thorpe, also known as "the Switzerland of America", which features numerous eponymous shops, restaurants, and outdoor recreational activities;
- The *Yuengling Brewery* in Pottsville, which had over 74,000 visitors in 2015;
- Several state parks, including Tuscarora and Locust Lake, which had over 400,000 visitors in aggregate, in 2015; and,
- *Tamaqua Railroad Station*, with over 30,000 visitors in 2015, and the *No. 9 Mine and Museum.*

We note that, while these are popular attractions, other than Jim Thorpe, they do not generate significant lodging demand. According to our interviews, most visitors are local or passing through the area on their way to a more primary destination.

The economic and demographic projections indicate that the economy of the area will continue to grow modestly in the future, at rates lower than both the state and the nation. The modest growth is indicative of the more rural nature of the area and the stability of the existing economic drivers, coupled with lack of large development projects, which would provide growth that is more significant. Our estimates reflect the extent to which these factors will affect the local hotel market and the performance of the proposed limited-service hotel.

Based on our review of the area economic indicators, as well as discussions with people familiar with the local economy, there is minimal growth expected in the near term. Accordingly, similar growth trends are anticipated into the foreseeable future, barring any other unforeseen natural, economic, or political events.

TAMAQUA AND TIDE DEMAND SURVEY

As we understand, the motivation to build a hotel in Tamaqua is to provide area businesses with a local lodging alternative, rather than having to travel up to 30 minutes to the current lodging facilities in Hazleton, Frackville, and Lehighton/Jim Thorpe. In order to assess this demand, with your cooperation, REV*PAR* International administered an online survey to the tenants of TIDE and selected area businesses over a one-week period in May 2016. It is important to note that these surveys and the data provided **do not** represent, nor should they be construed as, a statistically valid survey sample. Accordingly, the results should be viewed as "order of magnitude" and suggestive, rather than definitive.

We received 17 responses, of which four were from three of the TIDE tenants (out of the total seven tenants), with the balance of the responses from area businesses. (*We note that two of the TIDE responses were from the same company, but different departments*.) In aggregate, the respondents generated roughly 775 room nights annually, with roughly 300 coming from TIDE tenants. If we extrapolate the total room nights emanating from TIDE, based on the responses from the three companies, and apply them to the remaining four tenants, the potential room night demand from TIDE approximates 500+ per year. This level of annual demand is generally not supportive of hotel development. The following bullets summarize other key findings from the survey.

- Over half of the respondents indicated that they would use a hotel at TIDE.
- Average rate paid for lodging was $100.50 (TIDE $104.50).
- Area hotels most frequently used were the *Hampton Inn* and *Residence Inn*, both in Hazleton.
- The most-often cited decision factors used in choosing a specific hotel were its location proximate to the business, average rate, and facilities.

SCHUYLKILL COUNTY LODGING MARKET

Although the majority of the hotels in the competitive set are located in Hazleton, which is in Luzerne County, following is an overview of the historical performance for the Schuylkill County lodging market as a reference point, since the site is located within it.

According to STR, there are 15 hotels with 821 rooms in Schuylkill County. Of note, eight of these hotels with 461 rooms are located in Pottsville and Frackville. A summary of the lodging performance for the county is presented in the following table. Please note that only two of the hotels in the competitive set are located in Schuylkill County: the *Holiday Inn Express & Suites* and the *MainStay Suites*.

Historical Performance for Schuylkill County Lodging Market					
Year	Available Room Nights	Occupied Room Nights	Annual Occupancy	Average Room Rate	RevPAR
Year-End					
2012	275,210	122,241	44.4%	$80.17	$35.61
2013	290,190	125,923	43.4%	$80.14	$34.77
2014	300,208	139,005	46.3%	$79.54	$36.83
2015	299,665	139,501	46.6%	$83.52	$38.88
CAG (1)	**2.9%**	**4.5%**	--	**1.4%**	**3.0%**
Year-to-Date Through March					
YTD 3/2015	73,890	25,484	34.5%	$79.17	$27.31
YTD 3/2016	73,890	24,645	33.4%	$78.49	$26.18
% Change	**0.0%**	**(3.3%)**	--	**(0.9%)**	**(4.1%)**

Note: (1) Compound Annual Growth.
Source: STR; compiled by REV*PAR* International, Inc.

Overall, the Schuylkill County lodging market remained relatively unchanged from 2012 to 2015, except for the addition of the *MainStay Suites* in June 2013. This market consistently operates at an occupancy level in the mid 40 percentile, with an average room rate range in the lower $80's. Comparatively, in 2015, the national hotel industry achieved a 66 percent annual occupancy at an ADR of roughly $120. Of note, the decline in both occupancy and average room rate in 2016 was largely due to the improved weather conditions in the area compared to the severe winter weather, which affected this area in January and February 2015 and led to modestly higher hotel usage.

COMPETITIVE LODGING FACILITIES

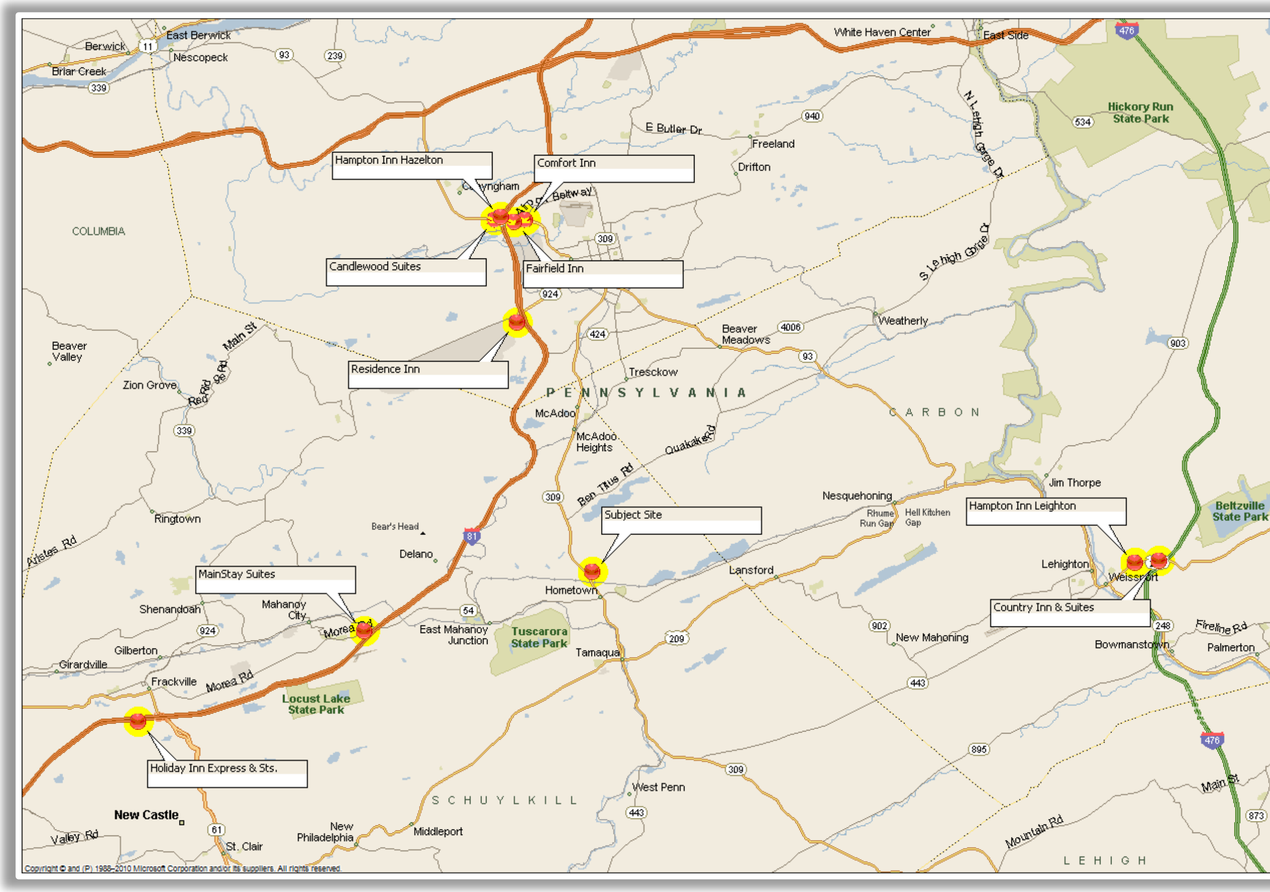
Currently, there is not an established lodging market within Tamaqua. Travelers to this area generally utilize lodging facilities in Hazleton (12 miles to the north) along I-81; Frackville (18 miles to the west) along I-81; and Lehighton/Jim Thorpe (17 miles to the east) along I-476. The overall lodging market is comprised of nine hotels with a collective 831 rooms and generally is limited-service in nature, catering predominantly to leisure and commercial transient travelers. The Hazelton competitive set includes all of the hotels generally located around Exit 145 of I-81, with the exception of the *Residence Inn,* which is located at Exit 143. The second competitive set includes those hotels located in Frackville and Lehighton.

Please note that several hotels were excluded from the defined competitive set, due to size, condition, market orientation, and pricing. Examples are the *Ramada Inn* (Hazleton) and *Pine's Motel* (Tamaqua). The table to the right provides a summary of the defined competitive lodging supply.

Competitive Supply	
Competitive Hotels	# of Rooms
Hazleton Competitive Set	
Candlewood Suites Hazleton	124
Residence Inn Hazleton	92
Hampton Inn Hazleton	122
Fairfield Inn & Suites Hazleton	100
Comfort Inn West Hazleton	117
Subtotal	**555**
Frackville/Lehighton Competitive Set	
MainStay Suites Barnesville Frackville	70
Holiday Inn Express & Suites Frackville	65
Hampton Inn Lehighton Jim Thorpe	78
Country Inn & Suites Lehighton Jim Thorpe	63
Subtotal	**276**
Grand total	**831**

Source: REV*PAR* International, Inc.

The following map illustrates the location of the competitive hotels relative to the subject site.



HISTORICAL MARKET PERFORMANCE

A summary of the historical performance of the defined competitive set is included in the following table.

Historical Operating Performance of the Competitive Market

Year	Available Room Nights	Occupied Room Nights	Annual Occupancy	Average Daily Rate	RevPAR
2011	277,765	178,785	64.4%	$91.97	$59.20
2012	277,765	180,628	65.0%	$93.45	$60.77
2013	290,540	167,990	57.8%	$93.74	$54.20
2014	303,315	195,468	64.4%	$91.26	$58.81
2015	303,315	190,255	62.7%	$93.93	$58.92
CAG (1)	**2.2%**	**1.6%**	--	**0.5%**	**(0.1%)**

Note: (1) Compound Annual Growth.
Source: REV*PAR* International, Inc.

Over the last five years, the competitive room night supply has increased at a compound annual rate of 2.2 percent, due to the opening of the 70-room *MainStay Suites* in June 2013. During this period, demand and the resultant occupancy in the competitive set remained in a tight range, fluctuating by less than 2.5 points, with the exception of 2013, when the market only achieved 58 percent occupancy and realized a decline of 13,000 room nights. The decline in occupancy in 2013 is partially due to the opening of the *MainStay Suites*, coupled with a decrease in demand due to general softness in the market. Additionally, the *Hampton Inn Lehighton/Jim Thorpe* was under renovation and the *Holiday Inn Express* in Frackville changed its pricing strategy, which focused on room rate growth at the expense of occupancy. Into 2015, the overall market realized a loss of 5,000 room nights, equating to a roughly a 1.5-point decline in occupancy. Hoteliers indicated this was a result of a combination of factors, including the impact of construction projects along I-81, which decreased travel in the area, and the aforementioned shift in ADR strategy.

Between 2011 and 2015, the overall competitive set ADR increased by 0.5 percent on a compound annual basis, or roughly $2. This is well below the rate of inflation and well below the national rate of growth during the same period, which was 4.2 percent. The ADR in the Hazleton market remained relatively unchanged during the analysis period, as most operators focused on maintaining occupancy. However, the hotels in Lehighton and Frackville were able to increase rate at the expense of a decline in occupancy. As noted earlier, the *Holiday Inn Express* led this shift in pricing strategy. Of note, the hotels in Lehighton accommodate more leisure demand, which allows for increases in average rate during the peak summer season.

RevPAR, which reflects both the performance of occupancy and average room rate, decreased 0.1 percent compounded annually over this same period, due to the aforementioned poor average rate growth and the modestly lower occupancy.

Generally, the defined competitive set achieves annual occupancies more consistent with national trends, but the average room rate is about 25 percent lower than the national average of $120.

HISTORICAL MARKET SEGMENTATION

A summary of the historical market segmentation for the competitive set is provided in the following table.

In 2015, the market segmentation of the overall competitive set was 45 percent leisure, 35 percent commercial, 11 percent group, and 10 percent extended-stay. As illustrated, the accommodated demand is relatively well diversified; however, the leisure and commercial transient traveler has the greatest influence on demand patterns in the market, as they represent the largest source of room night demand to area hotels at 80 percent of total demand. This demand is generally characterized as both commercial and leisure travelers traveling through the area via I-81 and I-476. Commercial travelers, aside from those traveling on the area highways, are typically visiting area companies located at TIDE, *Humboldt Industrial Park*, *Highridge Business Park*, and *Kovatch*.

Historical Market Mix for the Competitive Supply

Market Segment	2011		2015		Compound Annual Growth
	Total Occupied Rooms	Percentage of Total	Total Occupied Rooms	Percentage of Total	
Commercial	62,063	35%	65,835	35%	1.5%
Group	19,137	11%	20,314	11%	1.5%
Leisure	79,651	45%	85,716	45%	1.9%
Extended- Stay	17,934	10%	18,389	10%	0.6%
Total	**178,785**	**100%**	**190,255**	**100%**	**1.6%**

Source: REV*PAR* International, Inc.

Overall, occupied room nights for all segments have increased slightly due to the addition of the *MainStay* Suites, reflecting a compound annual growth rate of 1.6 percent between 2011 and 2015, with the leisure segment posting the highest increase of roughly 1.9 percent, and the commercial and group segments both posting 1.5 percent increases.

SEASONALITY

Room night demand for the defined lodging market, including Hazleton, Frackville, and Lehighton/Jim Thorpe, is moderately seasonal with occupancies typically declining from November through March, due to a drop in commercial and leisure business. Comparatively, April through October is the strongest period due to increased commercial demand throughout the week and leisure demand on weekends. Leisure demand is strongest in the summer due to the numerous amenities and attractions in Jim Thorpe. This season begins in May and declines in October.

FUTURE ADDITIONS TO SUPPLY

During the course of our research and analysis, which included discussions with representatives from the hotel brands and local planning officials, we did not identify any hotels, other than the subject, planned for Tamaqua and the broader area, including Hazleton, Lehighton/Jim Thorpe and Frackville.

Should any unforeseen projects be developed, it could affect the subject hotel's estimated performance.

SUPPLY AND DEMAND PROJECTIONS

Future growth in room night demand for the competitive set is based on historical trends and future economic growth prospects of the local hotel market, which is primarily a function of the growth associated with commercial and leisure travel. The table below summarizes our supply and demand growth projections for the defined competitive market.

The slight increase in demand in 2016 and 2017 is a result of the current performance of the hotel market, which has posted modest gains in 2016 following the declines in 2015. Most hotel operators expect this to continue into 2017, with leisure and commercial transient demand leading the way. The increases from 2018-2020 are a result of the opening of the proposed subject 50-room branded hotel and the latent demand it is expected to attract to the market as a result of it being a new product and carrying a brand affiliation. Based on the foregoing, between 2015 and 2021, room night supply and demand are both estimated to grow at a compound annual growth rate of 1.0 percent.

Because of supply and demand being in-balance over the projection period, occupancy is anticipated to remain relatively unchanged, with the exception of a slight decrease when the subject hotel opens in 2018. However, as the market absorbs the new supply and demand continues to grow, occupancy levels are expected to return to historic levels.

Summary of Future Supply and Demand Growth
Competitive Market Area

Year	Supply		Demand		Market Occupancy
	Room Nights	% Change	Room Nights	% Change	
2015	303,300	---	190,300	---	63%
2016	303,300	0.0%	192,800	1.3%	64%
2017	303,300	0.0%	194,700	1.0%	64%
2018	321,600	6.0%	199,900	2.7%	62%
2019	321,600	0.0%	200,900	0.5%	62%
2020	321,600	0.0%	201,900	0.5%	63%
2021	321,600	0.0%	201,900	0.0%	63%
CAG (1)	**1.0%**	--	**1.0%**	--	--

Note: (1) Compound Annual Growth.
Source: REV*PAR* International, Inc.

PRELIMINARY OCCUPANCY AND ADR ESTIMATES FOR SUBJECT HOTEL

In order to determine if there is sufficient demand to support a hotel of any size, we employed two different methodologies: a Zero-Based Build-Up approach and the traditional Market Penetration Analysis.

Zero-Based Build-Up

The zero-based build-up estimates the room night demand that a proposed hotel can expect to capture on a daily, weekly, or monthly basis, from the various sources of demand previously identified, including:

- Area businesses (determined by the survey);
- Walk-in business from the interstates;
- Group business, namely social in nature, emanating from the Tamaqua area;
- Overflow demand when the surrounding markets are operating at peak capacity, namely Jim Thorpe during the summer; and,
- Latent demand, defined as that demand that exists in the market, but is not being accommodated by the current lodging products.

This approach indicated that the potential demand for the hotel would equal about 11,000 room nights annually. Assuming that this level of demand translated to annual occupancy rate of 60 to 70 percent, with 60 percent being the minimum level typically required to justify feasibility, the build-up analysis yielded a total potential hotel size of 50 rooms.

Market Penetration Analysis

This room count was then tested via a traditional market penetration analysis, essentially estimating the penetration rates required by segment to achieve a 60 percent occupancy level. This analysis provides a more realistic approach to prospective levels of utilization, by assessing the relative penetration levels of the subject vis-a-vis the competition based on those factors that dictate success; namely location, branding, facilities, pricing, branding, management, etc., by market segment. Such a comparison of competitive advantages and disadvantages indicates the overall market penetration that a property could achieve above or below 100 percent of its fair market share.

Overall, we estimate that the proposed 50-room subject will achieve 81 percent of its fair share in 2018, its first year of operation, resulting in an occupancy rate of 50 percent. Thereafter, the overall penetration for the subject increases to 92 percent of fair share, while the occupancy is projected to increase to 58 percent in the second year. Finally, stabilized performance levels consist of an occupancy rate of 60 percent and an overall market penetration of 96 percent, which we believe to be fairly aggressive under the circumstances, and representative of the subject's performance over the long term. At this occupancy level, the penetration analysis supported the initial zero-based methodology that resulted in the room count of 50. A summary of our penetration and occupancy estimates is presented in the *Addenda.*

Average Room Rate

In terms of pricing, the hotels in the competitive set are achieving ADRs in 2016 ranging from roughly $63 to $134, with an average of roughly $94. In our opinion, based on the same factors that generated the 96 percent overall penetration rate, the subject hotel would achieve a similar penetration rate for pricing, indicating an ADR range of $90.00 to $100.00, which equates to a RevPAR of $54.00 to $60.00 (in current-value 2016 dollars).

Conclusion

The foregoing estimated performance levels are typically not supportive of hotel development, as they are well below national performance metrics and modestly below local performance metrics, but reflect the challenges associated with the site as previously discussed. In addition, the smaller size of the hotel will make it a challenge to achieve a market-based return on investment to attract private capital without a significant subsidy by a public entity. Specifically, the initial cost to build the hotel, coupled with the ongoing fixed operational costs spread across a low room count, is likely to hinder the hotel's ability to generate enough free cash flow to meet its debt service, let alone provide for an adequate return on investment to the owner. Therefore, we suggest you proceed with caution, if at all.

If you were to move forward with the project and pursue potential brands, we would suggest *Marriott's Fairfield Inn & Suites, Hilton's Tru,* or *Choice's Comfort Suites*. However, we note that these brands typically require a minimum of 75 rooms. Moreover, although we briefly considered an independent hotel, the reality is that the occupancy levels would ultimately be lower. Finally, it would likely be challenging to obtain debt financing for an independent venture no more than 50 rooms in this location.

A final consideration is the development of a markedly smaller, independent hotel of 20 rooms or less in a bed-and-breakfast format, which may appeal to a local or regional entrepreneur willing to represent both the equity and management of the operation, so long as a relevant return on investment can be substantiated. We suspect some sort of community subsidy would still be required to make financial sense of the project, but the fact that the investor is also the manager/operator may close the financial gap sufficiently to warrant development of the project. If you do choose to pursue this option, consideration should be given to co-locating the lodging facility with complementary or synergistic uses, such as a restaurant or retail.

Please let us know if you wish to discuss our findings further.

This letter is provided for ***internal use only***, and may not be distributed to any outside third parties.

Sincerely,
REV*PAR* International, Inc.
REVPAR International, Inc

ADDENDA

Market Penetration Analysis
Proposed Hotel
Tamaqua, PA

Year	2018		2019		2020		2021		2022		2023		2024	
Available Rooms in Comp. Set	881		881		881		881		881		881		881	
Available Room Nights														
Subject Hotel	18,250		18,250		18,250		18,250		18,250		18,250		18,250	
Total Market	321,565		321,565		321,565		321,565		321,565		321,565		321,565	
Subject's Fair Share	5.7%		5.7%		5.7%		5.7%		5.7%		5.7%		5.7%	
Comm.		**Market Mix**		**Market Mix**		**Market Mix**		**Market Mix**		**Market Mix**		**Market Mix**		**Market Mix**
Total Segment Demand	70,200		70,500		70,900		70,900		70,900		70,900		70,900	
Fair Share of Demand	3,984		4,001		4,024		4,024		4,024		4,024		4,024	
Penetration Rate	112%		125%		125%		125%		125%		125%		125%	
Demand Captured	4,500	49%	5,000	48%	5,000	45%	5,000	45%	5,000	45%	5,000	45%	5,000	45%
Group														
Total Segment Demand	21,300		21,400		21,500		21,500		21,500		21,500		21,500	
Fair Share of Demand	1,209		1,215		1,220		1,220		1,220		1,220		1,220	
Penetration Rate	58%		85%		85%		85%		85%		85%		85%	
Demand Captured	700	8%	1,000	10%	1,000	9%	1,000	9%	1,000	9%	1,000	9%	1,000	9%
Leisure														
Total Segment Demand	89,800		90,200		90,700		90,700		90,700		90,700		90,700	
Fair Share of Demand	5,096		5,119		5,148		5,148		5,148		5,148		5,148	
Penetration Rate	78%		87%		98%		98%		98%		98%		98%	
Demand Captured	4,000	43%	4,500	43%	5,000	45%	5,000	45%	5,000	45%	5,000	45%	5,000	45%
Ext. Stay														
Total Segment Demand	18,700		18,800		18,900		18,900		18,900		18,900		18,900	
Fair Share of Demand	1,061		1,067		1,073		1,073		1,073		1,073		1,073	
Penetration Rate	0%		0%		0%		0%		0%		0%		0%	
Demand Captured	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Total Demand														
Total Market Demand	199,900		200,900		201,900		201,900		201,900		201,900		201,900	
Fair Share of Demand	11,345		11,402		11,459		11,459		11,459		11,459		11,459	
Penetration Overall	81%	100%	92%	100%	96%	100%	96%	100%	96%	100%	96%	100%	96%	100%
Demand Captured	9,200		10,500		11,000		11,000		11,000		11,000		11,000	
Estimated Subject Occ.	**50%**		**58%**		**60%**		**60%**		**60%**		**60%**		**60%**	
Estimated Market Occ.	**62%**		**62%**		**63%**		**63%**		**63%**		**63%**		**63%**	