

REQUEST FOR COUNCIL ACTION

To: Honorable Mayor and Members of the City Council

**From: Charles Randy Oliver
City Manager**

AGENDA DATE REQUESTED: September 19, 2006

ACTION REQUESTED: RECEIVE AND FILE THE HOTEL MARKET AND FEASIBILITY STUDY OF THE PEORIA AREA CONDUCTED BY HVS CONVENTION, SPORTS & ENTERTAINMENT FACILITIES CONSULTING A DIVISION OF HVS INTERNATIONAL.

BACKGROUND: The Peoria Civic Center is currently undergoing a major expansion. When completed, the Center will contain over 110,000 square feet of exhibit space, 27,000 square feet of meeting space, and 18,000 square feet of pre-function space. In 2002, the Civic Center Authority hired Johnson Consulting to analyze the Center's master plan. In the consultant's experience and opinion, hotels physically attached to Convention Centers in northern climates are much more successful than hotels that are not attached. According to the study, downtown Peoria needs more hotel rooms, a view shared by the Peoria Area Convention and Visitors Bureau. The Peoria Civic Center Authority indicates that a number of potential conventions have not selected Peoria because of the lack of an adequate number of rooms.

The Peoria Civic Center Authority is proposing the construction of a full service hotel on a site owned by the Authority, adjacent to and directly south of the Civic Center. On March 17, 2006 the City of Peoria and the Peoria Area Civic Center Authority released a RFP seeking proposals for the development of a 250 to 300 room full-service hotel adjacent to the Peoria Civic Center complex. On May 2, 2006 the Hotel Selection Committee received six proposals to build the Convention Center Hotel. Several of the downtown hotels voiced their concerns for a new hotel and recommended a market study be conducted. On July 25, 2006 the Council approved the selection of HVS International as the consulting firm to perform a Hotel Market Needs Assessment to help both the City Council and Civic Center Authority determine if the project is viable and what, if any, public incentives would be required.

RECOMMENDATION: To Receive and File the Hotel Market Study and to allow HVS to present their findings.

FINANCIAL IMPACT: N/A

NEIGHBORHOOD CONCERNS: Several of the downtown hotels recommended such a study be conducted.

IMPACT IF APPROVED: The study will provide the information needed by the Mayor, Council and Civic Center Authority to make a more informed decision regarding the need for more hotel space.

IMPACT IF DENIED: The Hotel Study and Recommendations will not be presented.

ALTERNATIVES: None.

EEO CERTIFICATION NUMBER: N/A.

RELATIONSHIP TO THE COMPREHENSIVE PLAN: The Hotel Feasibility Study is consistent with the Comprehensive Plan. **VISION: WE HAVE A HEALTHY, THRIVING ECONOMY.**

GOAL: A. Provide an economic environment that supports existing and new businesses.

REQUIRED SIGNATURES

Department Director

[Signature]

Economic Development

Finance Director

James B. Scroggin

(Certification of Availability of Funds)

Corporation Counsel

[Signature]

City Manager

Charles R. Oliver 9/15/06

Proposed Civic Center Hotel Market Study

Peoria, Illinois

Submitted to:

City of Peoria
Peoria City Hall
419 Fulton Street
Peoria, IL 61601

Prepared by:

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September 13, 2006

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Appendix I



September 13, 2006

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City of Peoria
Peoria City Hall
419 Fulton Street
Peoria, IL 61601

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Re: Proposed Civic Center Hotel

New York
San Francisco
Boulder
Denver
Miami
Dallas
Chicago
Washington, DC
Weston, Connecticut
Phoenix
Vancouver
Toronto
London
Madrid
New Delhi
Singapore
Sydney
São Paulo
Buenos Aires

Dear Ladies and Gentlemen,

Pursuant to city's request, we herewith submit our market study pertaining to the above-captioned property. We have inspected the site and facilities and analyzed the hotel market conditions in the Peoria area. The conclusions reached are based upon our present knowledge of lodging conditions in the competitive market, as of the completion of our fieldwork on August 10, 2006.

We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. The market study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Very truly yours,

A handwritten signature in black ink that reads 'Thomas Hazinski'.

Tom Hazinski
Managing Director
HVS Convention, Sports & Entertainment
Facilities Consulting
A Division of HVS International

1. Executive Summary

Purpose of Market Study	The purpose of this study is two-fold: (1) to determine future occupancy and room rates of the proposed Civic Center hotel and (2) to estimate the proposed hotel's effect on comparable facilities in the downtown market.
Civic Center	The Peoria Civic Center is currently expanding its convention and meeting space. As part of a complex-wide \$55.0 million renovation, the expansion will help maintain the Civic Center's status as the market's premier meeting facility. However, new competition will emerge when the Embassy Suite and Conference Center opens in 2007.
Hotel Site	The proposed hotel will sit on a two-acre plot adjacent to the existing Civic Center complex. HVS analyzed issues of size, topography, access, visibility, and the availability of utilities, concluding that the site is appropriate for the operation of a full-service lodging facility. The major advantage of the proposed site is its location and accessibility to the interstate, downtown Peoria and the Civic Center itself. The limited amount of convenient on-site parking presents a key disadvantage.
Market	<p>HVS reviewed a variety of economic indicators pertinent to the market area including the MSA Business Indicator Report conducted by Dr. Goitein at Bradley University. The market population is stable with relatively little growth expected over the next 15 years. The airport experienced growth in passenger traffic in the last few years with the introduction of new airlines. Both retail sales and per capita income show consistent growth over the last few years as well. Overall, the Peoria market is a modestly expanding economy with above average historical performance.</p> <p>With over 15,000 employees Caterpillar, Inc. is the largest employer in the general market. And much of Peoria's future depends on their possible growth or decline.</p>
Proposed Hotel	The proposed subject would contain 250 guestrooms, 21,000 gross square feet of meeting and function space, a concept restaurant, a lobby lounge, a fitness

center, an indoor swimming pool and whirlpool, a gift shop, and other ancillary support facilities necessary for the operation of a full-service, convention-oriented hotel. The subject property's furniture, fixtures, and equipment would be of a first-class quality and comparable or superior to those of its competitors.

**Market for
Hotel Rooms**

HVS evaluated current and historical occupancy and room rates in the downtown market place. Marketwide occupancy is expected to decline in 2007 \2008 due to the impact of the Embassy Suites opening in 2007. The subject hotel's opening in 2009 will cause marketwide occupancy to decline in 2009 with occupancy expected to remain relatively flat in 2010 and thereafter.

A number of projects in the Peoria market currently under development will increase demand for hotel rooms including:

- The expansion of the Peoria Civic Center;
- The construction of the Embassy Suites and Conference Center; the expansion of Saint Francis Hospital; and
- The expected construction of a Museum Square and visitor center.

Competition

Currently, the primary and secondary competitors of the subject hotel absorb much of the projected demand for downtown hotel rooms. The primary competitors to the proposed Civic Center hotel are the Pere Marquette, the Holiday Inn City Centre, the Mark Twain, the Radisson and the Staybridge hotel. HVS also identified eight additional hotels, which we consider to be secondary competitors.

Facilities entering the market within the next three years will impact the overall operating performance of the market. Among these new facilities, the subject property will face direct competition with the Embassy Suites and Conference Center, which reportedly received land, infrastructure and the conference center from the City of East Peoria as part of a package exceeding \$20.0 million. For the subject property to be competitive with the Embassy Suites, it will need to be developed with a similar cost and quality per room.

**Projected
Occupancy**

HVS estimates a stabilized occupancy of 67% for the proposed Civic Center Hotel. Although the subject property may operate at occupancies above this stabilized level, we believe it is equally possible for new competition and

temporary economic downturns to force occupancy levels below this selected point of stability.

Projected Rates

HVS projects an average daily rate of \$127 in 2009 for the new Civic Center Hotel. In general we expect room prices to move in line with the general rate of inflation. Accounting for the upward pull on rates from the higher rates structures of the market's new hotels, the average daily rate will increase faster than the inflation rate in 2007 and 2008. Projected average rates and anticipated occupancy percentages assist in forecasting room revenue. In turn, room revenue figures provide the basis for estimating many additional income and expense categories. The rates projected for the proposed Civic Center hotel will be one of the determining factors in calculating the hotel's effect on its competition.

Development Costs

The proposed hotel must meet the standards required by its franchiser. A 250-room full-service hotel would typically cost roughly \$33.0 million to develop, assuming a favorable land-lease and City-provided parking.

Based on a favorable land lease with the Peoria Civic Center, HVS estimated the necessary land cost, while estimates of the development cost were based on a hotel development cost survey conducted by HVS International.

Civic Center Hotel Development

A Civic Center hotel will require financial assistance. Furthermore, the subsidy amount may be impacted due to the subsidies received by the Embassy Suites. For our development cost estimates, HVS assumed the City would provide both the site and parking. It is necessary for any potential developers to determine if projected occupancy and room rates would provide an acceptable rate of return.

Impact on Other Properties

The opening of a Civic Center hotel and the Embassy Suites and Conference Center will impact the operating performance of existing downtown properties.

The Pere Marquette will lose some of the Civic Center business that it now receives as the de facto "Civic Center Hotel". Because the overall meeting and convention market will grow as a result of the renovated and expanded Civic Center, the Pere Marquette will experience only a modest decline in overall business due to the number of additional rooms. Overall occupancy will decline primarily because of the competition for corporate or general business use from new competing hotels.

The Holiday Inn has reached the point in the maintenance cycle of a hotel when a major investment is needed to update and repair the property. Even without a new hotel, without a significant investment in the property occupancy rates are likely to continue to decline. Historically, the hotel shows relatively weak occupancy rates and competition from new hotels will only further depress occupancy rates. In the absence of significant capital improvements, HVS predicts that the Holiday Inn cannot survive the emergence of any additional competitors.

The Mark Twain will experience modest declines in occupancy with the opening of the two new hotels. Currently, their location across from Caterpillar's world headquarters allows the hotel to cater to the market's premier corporate customer. This non-branded property has acceptable occupancy levels and one of the highest average daily rates in the marketplace. The step-up in price to the room rates of the new hotels for customers of the Mark Twain would be smaller than the other properties in the marketplace. The Mark Twain will provide rooms to the Civic Center on a limited basis.

The Staybridge is a limited-service extended stay product. The favorable price point and overall market demand for this product is expected to limit the impact from the new hotel properties on occupancy. The Staybridge will provide rooms to the Civic Center on a limited basis.

As the only hotel of the "competitor group" that did significant amounts of tourist business, the Radisson will be impacted somewhat differently from the opening of the subject hotel. Therefore, the proposed subject hotel will compete with the Radisson in both quality and accommodations. HVS expects only modest declines in occupancy.

Conclusion

Without the development of new hotels or the renovation of existing properties, the Peoria Civic Center's expansion and operating performance will be at risk. Event planners seek attached hotel/meeting complexes and Peoria could optimize public/private development by creating such a complex. Nationally, the current cost of developing a full-service hotel often exceeds its actual value. Development cost calculations include a cost-free land lease and City-provided parking. These added incentives are necessary in order to encourage a developer to build a Civic Center Hotel.

A new Civic Center hotel would depress occupancy rates for existing downtown hotels. An alternative strategy to new construction would be the renovation of older downtown properties. However, this solution does not offer the convenience of an attached hotel and would not increase the total number of available rooms in the downtown market.

If additional quality rooms are not introduced into the market, the expanded Civic Center will suffer a substantial competitive disadvantage. The primary objective of the Civic Center expansion is to attract larger and more frequent meetings and events. Without the addition of quality hotel rooms to the Peoria market this may not be achieved.

2. Nature of the Assignment

Subject of the Market Study

The subject property is planned to be a conference center lodging facility containing 250 rentable units; approximately 21,000 gross square feet of meeting space, two food and beverage outlets, an indoor swimming pool and whirlpool, exercise room, business center, gift shop, and the appropriate back-of-the-house facilities. The subject property has a projected opening in early 2009. It would be located on the Peoria Civic Center site in the City of Peoria, Illinois.

Objective of the Market Study

The objective of the market study is to evaluate the supply and demand factors affecting the market for transient accommodations in the Peoria area. The objective was to determine the average daily rate and occupancy rates of a new Civic Center Hotel.

In addition, HVS studied the impact the proposed property would have on the existing hotels in the downtown market.

Use of the Study

This market and hotel feasibility study is being prepared for use by City of Peoria in connection with the development of the subject property. The information presented in this report should not be disseminated to the public or third parties beyond its intended use without the express written consent of HVS International.

Method of Study

The methodology used to develop this market study is based on the market research and valuation techniques set forth in the textbooks authored by HVS International for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels*,¹ *Hotels, Motels and Restaurants: Valuations and Market Studies*,² *The Computerized Income*

¹ Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

² Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).

Approach to Hotel/Motel Market Studies and Valuations,³ and *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*.⁴ The specific steps of which are as follows:

1. The physical orientation of the subject site with respect to access and visibility to highways, other forms of transportation and the local demand for transient and meeting accommodations was analyzed. We also reviewed the supportive nature of surrounding land uses as they related to demand trends and the proposed subject property.
2. The demand for transient and meeting and group accommodations was investigated to identify the various generators of visitation operating within the local market. The current and anticipated potential of each of these market segments was evaluated to determine the extent of existing and future demand. Interviews with officials of business and government, as well as statistical data collected during the fieldwork, was useful in locating and quantifying transient demand.
3. The market orientation of area lodging facilities was evaluated to determine their competitive position with respect to the proposed subject property. Those properties displaying similar market attributes received a physical inspection, along with selective management interviews, to estimate levels of occupancy, room rates, operating ratios, market segmentation and other pertinent operational characteristics. Some of the competitive factors that were specifically reviewed include: location, type and quality of facilities, rate structure (daily, weekly, monthly), physical condition, management expertise and chain affiliation.
4. Statistical data relating to general economic and demographic trends often foreshadows future potential for market areas and neighborhoods. Interviews with local Chambers of Commerce, economic development agencies and other related organizations, along with an investigation of the subject property's primary market area revealed patterns reflecting stability with a moderate amount of growth.

³ Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).

⁴ Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*. (Chicago: Appraisal Institute, 1992).

5. Expense factors relating to local conditions such as labor, food and beverage costs, energy rates, assessed values and taxes were researched. We utilized actual expense experience from comparable properties in the economic portions of our report.
6. Through interviews with hotel operators, developers, governmental officials and others, we ascertained the status of projects under construction, proposed or rumored which might be competitive with the subject property.
7. Based on the data and information gathered during the fieldwork phase, along with our extensive library of actual hotel operating statements, financial statistics, area hotel trends and investor requirements, we performed a supply and demand analysis for the subject property to determine its anticipated market orientation and competitive position with respect to other lodging facilities. This analysis resulted in a quantification and documentation of probable future trends in the subject property's occupancy, average rate, and overall room revenues.

Date of Inspection

The subject site was inspected by Brian Harris on August 10, 2006.

3. Description of the Real Estate

Land

The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property and its overall cost. Factors such as size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site.

The subject site is located on Peoria Civic Center property in a portion of the property now being used as a parking lot. The site is located at the intersection of SW Jefferson Ave and William Kumpf Blvd.

A secondary site across SW Jefferson Ave will contain the parking lot for the subject property. Locating the parking across a busy road without a pedestrian bridge may create ease of use/safety issues for certain hotel chains.

Physical Characteristics

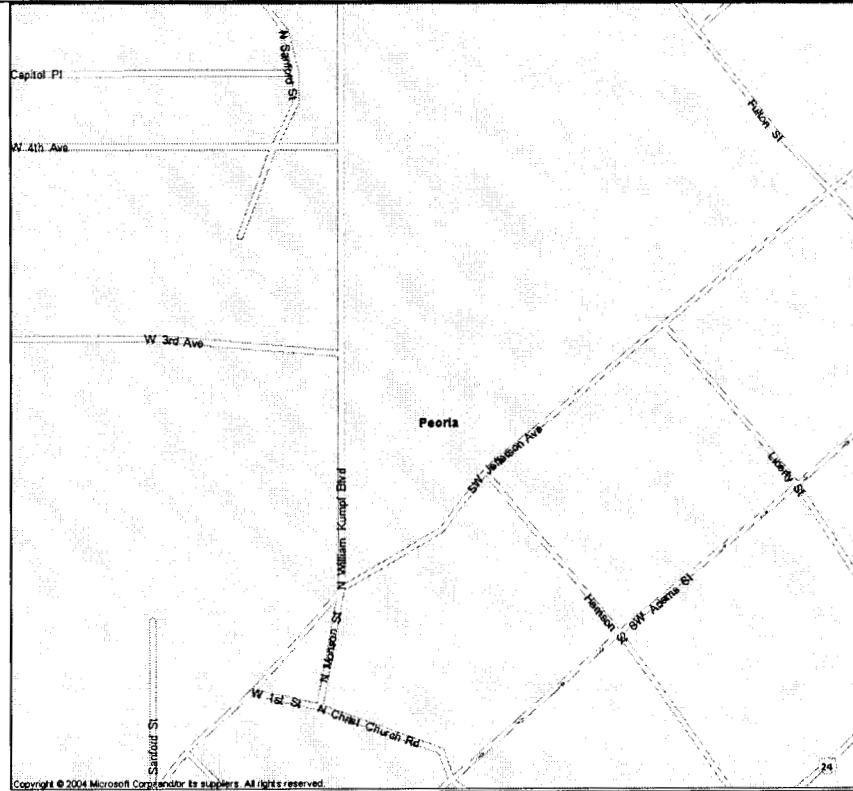
The exact site size will be determined by the civic center in a land lease that has not yet been negotiated. Preliminary discussions indicate that a site for a 250-room hotel and about 150 surface parking spaces would be available next to the Peoria Civic Center at a triangle of land of approximately 2 acres.

Size of Hotel Sites

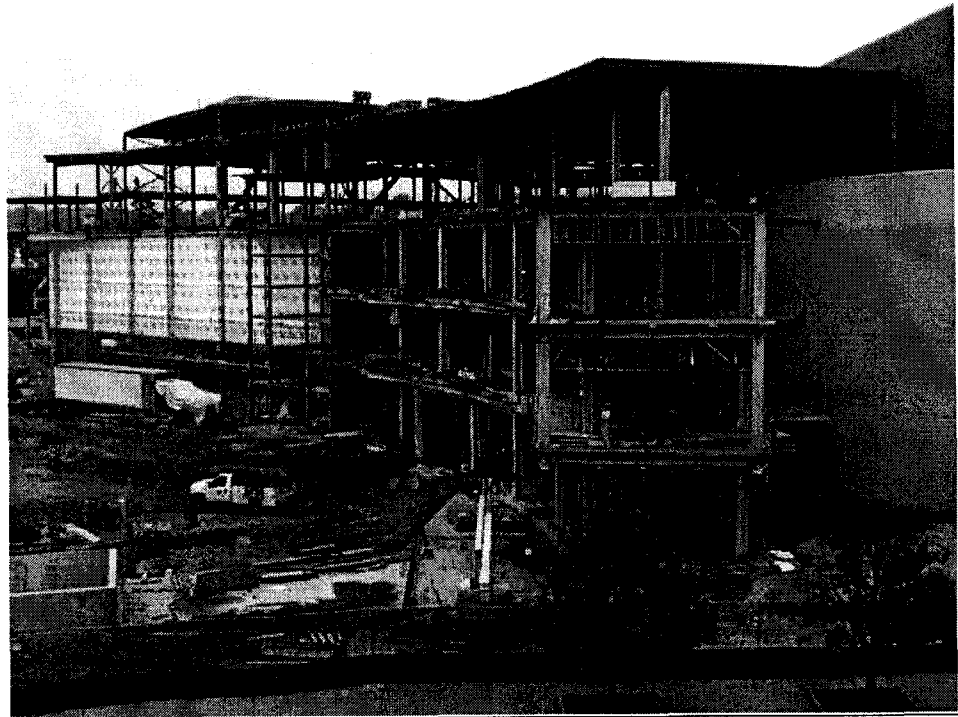
Use	Site	Sq Ft	Acres	Parking Capacity
Hotel	Civic Center Site	88,460	2.031	150
Parking	Franklin Street Parking Lot	54,500	1.251	120
Parking	City of Peoria Lot			50
Parking Capacity without Garage				320

Source: HVS

The Site is at the corner created by Kumpf Blvd and SW Jefferson Ave



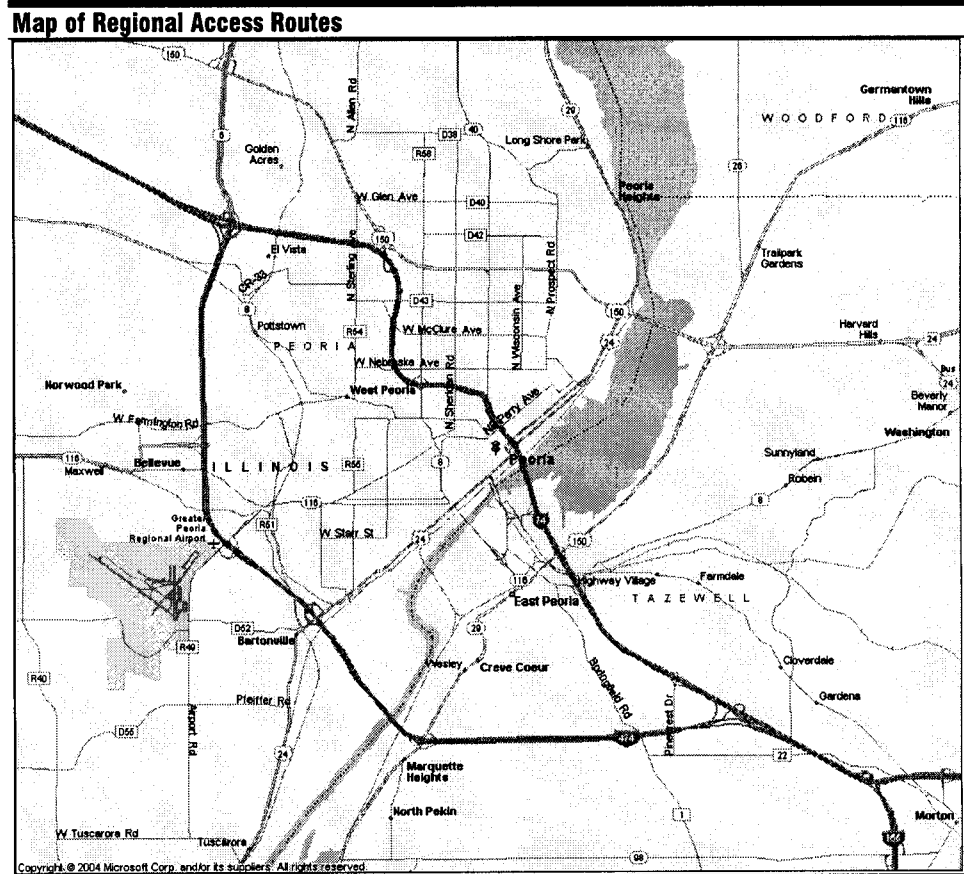
Site currently is a Staging Area for Construction Equipment related to the Expansion of the Civic Center



Site Utility

The subject site will not contain significant excess development potential once hotel and 150 parking spaces are located on the site. The site is currently a parking lot for the Peoria Civic Center.

Regional Access



Interstate 74 (I-74), which runs northwest/southeast through Peoria, is the primary roadway in the area. I-74 starts at its intersection with Interstate 80 in Bettendorf, continues in a southerly direction to Galesburg, IL and extends southeast across Peoria and the remainder of the state, to its terminus in Cincinnati, Ohio. Motorist traveling in either direction can exit I-74 and arrive in downtown Peoria within a few blocks of the property.

Local Access and Visibility

The subject site is located in downtown Peoria next to several well-known locations including city hall and the civic center.

Parking

The requirements of the franchiser will be the primary determinant on the number and location of parking spaces for the subject hotel.

Utilities

The subject site is served by all the necessary utilities, which are outlined in the following table.

Available Utilities

Utilities	Provider
Water and Sewer	Illinois Water Company
Electricity	Central Illinois Light Company
Waste Disposal	Waste Management

The following table details other salient highlights of the subject site's characteristics.

Site Characteristics

Easements and Encroachments

There are no known easements or encroachments encumbering the property that would significantly affect its utility or marketability.

Soil and Subsoil Conditions

Geological and soil reports were not available for review during the preparation of this report. HVS is not qualified to evaluate soil conditions other than by a visual inspection of the surface. No extraordinary conditions were apparent.

Nuisances and Hazards

HVS have not been informed of any site-specific nuisances or hazards, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because HVS is not experts in this field, we do not warrant the absence of hazardous waste, and we urge the reader to obtain an independent analysis of these factors.

Zoning

The city of Peoria has stated that a hotel on the civic center site would be a legal use of the property. Based on this information, the subject property appears to conform to local zoning regulations.

HVS does not warrant the subject property’s conformance with local zoning regulations and recommends an independent verification. We assume that all necessary permits and approvals will be secured (including an appropriate liquor license), and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations.

Access to Local Demand Generators

The subject site is situated proximate to the area’s primary generators of lodging demand. The following table outlines some of these major demand generators and their respective distances from the subject site.

Local Demand Generators

Demand Generator

- Caterpillar, Inc.
 - OSF Saint Francis Medical Center
 - Methodist Medical Center
 - Keystone Steel and Wire Company
 - AES Great Plains-CILCO
 - Bradley University
 - Komatsu America International
 - National Center of Agriculture Research
 - Peoria Civic Center
 - Peoria Museum Square
-

Neighborhood

The neighborhood surrounding a lodging facility often has an impact on the hotel’s status, image, class, style of operation, and sometimes its ability to attract and properly serve a particular market segment. This section of the report investigates the subject property’s neighborhood and evaluates any pertinent locational factors that could affect the hotel’s occupancy, average rate, and overall profitability.

As noted, the subject property is located at the intersection of SW Jefferson Ave and Kumpf Blvd. The site is located in the center of Peoria with the city hall and the civic center located at the same site. In general, this neighborhood is in the renewal stage of its life cycle with properties making major investments in renovations to stay competitive in the marketplace. Within the immediate vicinity of the site land use is primarily governmental with the city hall and the civic center.

Land Conclusion

Overall, the supportive nature of the development in the immediate area is considered appropriate for the operation of a lodging facility.

HVS analyzed the issues of size, topography, access, visibility, and the availability of utilities. Advantages of the site include the ability to connect directly to the civic center, easy interstate access and downtown location. Disadvantages of the site primary relate to the limited amount of on-site parking. The advantages noted above generally outweigh the disadvantages. Overall, the site is appropriate for hotel use.

4. Market Area and Neighborhood Analysis

The economic vitality of the market area surrounding the subject property is an important consideration in forecasting lodging demand and income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project hostelry demand. The purpose of the market area analysis is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilization, or decline. In addition to predicting the direction of the economy, the rate of change must be quantified. These trends are then correlated based on their propensity to reflect variations in lodging demand, with the objective of forecasting the amount of growth or decline in transient visitation by individual market segment (e.g., commercial, meeting and group, and leisure).

Market Area Definition

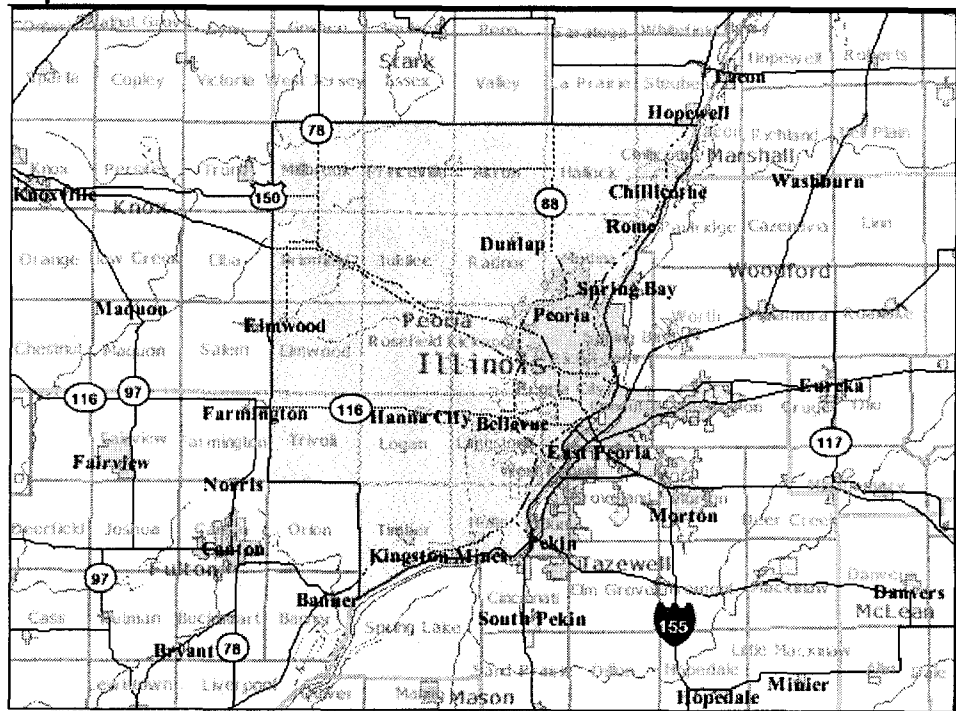
The market area for a lodging facility is the geographical region where the sources of transient visitation (demand) and the competitive supply are located. A lodging facility's market area is generally defined as the geographical area of influence surrounding the property. In most instances, this area also encompasses the hotel's demand generators and competitive lodging facilities. The economic and demographic profile of the defined market area is typically relevant in gauging the strength of the market's lodging demand. However, sometimes, particularly for resorts properties, the feeder markets that generate demand to the resort location are more pertinent for analysis. The subject property is located in the city of Peoria, the county of Peoria, and the state of Illinois.

For the purpose of statistical analysis, Peoria is part of the Peoria-Perkin Metropolitan Statistical Area, which is located in central Illinois. The MSA is the most standard definition used in comparative studies of metropolitan areas. The federal government defines an MSA as a large population nucleus; together with adjacent counties, it has a higher degree of social integration.

The city of Peoria is home to Bradley University, the Peoria Rivermen of the American Hockey League, a federal courthouse, the Peoria Civic Center

(which includes Carver Arena), and the world headquarters of Caterpillar Inc. Medicine has also become a major part of Peoria's economy. The city has three major hospitals plus the University of Illinois's College of Medicine at Peoria, the Midwest Affiliate of St. Jude Children's Research Hospital and the Children's Hospital of Illinois.

Map of Market Area



The Economic Development Council of Central Illinois provided HVS with a copy of the second quarter 2006 economic performance as prepared by the Center for Business and Economic Research. We have included this report in an appendix due to the change in the size of the MSA and the considerable effort they have made to correct for the change.

The report on current economic activity prepared by the Center for Business and Economic Research show a generally healthy economy. The Summary Peoria MSA index of regional economic performance indicates an economy that is beginning to enter a period of slower economic growth. The index shows that the downturn that began in 1999 has been reversed over the last few years reaching a new high in 2005.

Population Trends

The population trends show an MSA with a very stable population with growth rates of under 0.35% until 2020.

Population Trends

Year	Estimated Population	Increase	Rate of Increase
1990	358,552		
2005	369,161	10,609	Below 0.2% Annual Growth
Est 2020	386,745	17,584	Below 0.35% Annual Growth

Source : Economic Development Council for Central Illinois

Retail Sales in MSA

Retail Sales (in billions of dollars)

1999	2000	2001	2002	2004	2005
\$3.788	\$4.614	\$4.739	\$4.466	\$4.822	\$5.135

Economic Development Council for Central Illinois

Per Capita Income in MSA

Per Capita Income

1999	2000	2001	2002	2003	2004
\$26,729	\$27,972	\$28,588	\$28,816	\$29,912	\$31,632

Source: Economic Development Council for Central Illinois

Major Business & Industry

To better identify trends in the regional economy, HVS analyzed the major private- and public-sector employers of Peoria County; our findings are presented in the following table.

Major Private-Sector and Public-Sector Employers in Peoria County					
Rank	Manufacturing	Number of Employees	Rank	Non-Manufacturing	Number of Employees
1	Caterpillar Inc.	Over 15,000	1	OSF Saint Francis Medical Center	Over 1500
2	Keystone Steel and Wire Co.	1000-1500	2	Methodist Medical Center	Over 1500
3	Morton Metalcraft Co.	1000-1500	3	Illinois Central College	Over 1500
4	XPAC	1000-1500	4	Peoria School District 150	1000-1500
5	SC2	500-1000	5	G & D Integrated	1000-1500
6	Komatsu	250-500	6	Proctor Community Hospital	1000-1500
7	AmerenCILCO	250-500	7	Bradley University	1000-1500
8	Aventine Renewable Energy, Inc.	250-500	8	Par-A-Dice Casino	500-1000
9	CNH - Goodfield	250-500	9	Peoria County	500-1000
10	Degussa Goldschmidt	250-500	10	City of Peoria	500-1000

Source: Economic Development Council for Central Illinois

As shown, Caterpillar Inc. is by far the largest employer in the greater Peoria area. As the largest manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines in the world, the activity generated at the Caterpillar World Headquarters is significant to the hotel sector as people come in for trainings or corporate business from out of town. Caterpillar has recently been having some of its most successful years in its history

Other major employers in the area include various manufacturing, educational, and health-care institutions.

Unemployment Statistics

The following table presents average unemployment rates from 1996 to the present for the City of Peoria, the local MSA, Oklahoma and the nation.

Unemployment Statistics

Year	City of Peoria	Peoria-Piken MSA	State of Illinois	U.S.
1996	6.8 %	5.9 %	5.3 %	5.4 %
1997	5.3	4.3	4.8	4.9
1998	4.3	3.5	4.5	4.5
1999	4.6	3.9	4.5	4.2
2000	4.9	4.3	4.2	4.0
2001	5.6	4.9	5.4	4.7
2002	6.5	5.7	6.5	5.8
2003	7.1	6.1	6.7	6.0
2004	6.5	5.6	6.2	5.5
2005	5.3	4.7	5.7	5.1
Recent Month - May				
2005	5.1 %	4.4 %	5.7 %	5.1 %
2006	4.7	4.0	4.4	4.6

Source: U.S. Bureau of Labor Statistics

The City of Peoria has consistently shown a higher unemployment rate than the Peoria-Perken MSA Unemployment peaked at 7.1% in 2003, declining each year to the May 2006 rate of 4.7%.

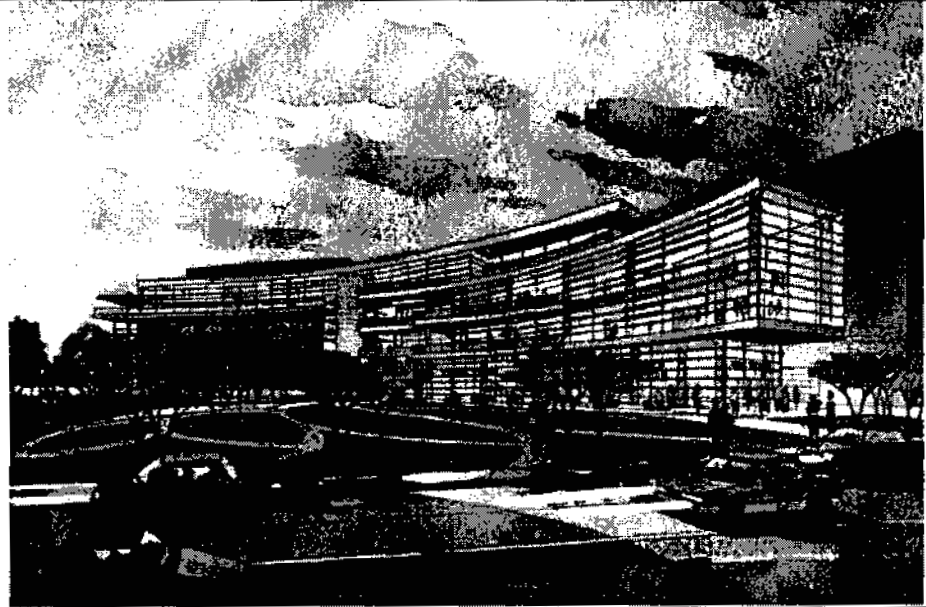
Major Developments

The Peoria marketplace is planning a number of major developments, which would all have a significant impact on the subject property, including:

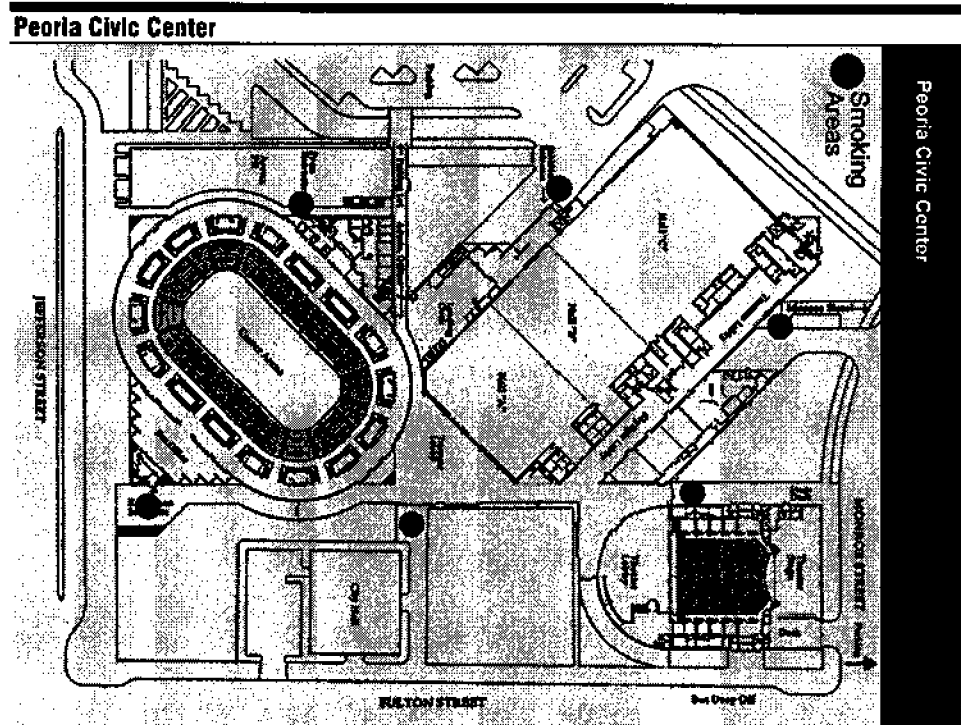
The Peoria Civic Center

The Peoria Civic Center is in the process of sending \$55 million to revitalize and expand its facilities to respond to demand for larger convention and entertainment venues. The three structures of the Civic Center are connected via an enclosed glass panel arcade. The convention center expansion will add 41,300 square feet to the exhibit hall and a new 15,000 square feet of kitchen and banquet space, as well as an additional 10,000 square feet in meeting space. Roughly \$12.5 million and \$5 million will be spent on Arena and Theatre improvements, respectively.

Peoria Civic Center after Expansion (shows subject hotel site to left)



Opened in 1982, the Civic Center Complex ("the Complex") cost \$65.0 million. The Complex is composed of three major elements, the convention center, the Carver Arena and the Theatre. The three facilities host approximately 900,000 attendees during 300 events a year.



Embassy Suites/Riverfront Conference Center

The eight-story Embassy Suites Hotel will be owned by John Q. Hammons. The 52,000-square-foot conference center will be operated by Hammons, but owned by the city of East Peoria. Separated by the Bob Michel Bridge and south of the 226-suite hotel will be the GEM Tower, an eight-story office building. The buildings will be funded by a combined public and private investment of about \$65 million. The City's RiverFront conference center will feature rooms for smaller meetings, though one area will convert into a 20,000-net square foot ballroom suitable for weddings.

Museum Square

Slated for completion in 2009, the \$100+ million Museum Square is a 6.8-acre development on the Illinois River in downtown Peoria. The Square will house two separate facilities: the Central Illinois Regional Museum and the Caterpillar Visitor Center. The museum will feature interactive displays, innovative galleries, a planetarium, Imaginarium, and regionally focused exhibits in 110,000 square feet. Caterpillar, Inc. will maintain the 50,000 square foot Caterpillar Visitor Center.

OSF Saint Francis Medical Center

The ninth largest Catholic hospital in the nation, St. Francis has announced a \$245 million expansion of its downtown campus. The expansion will provide a separate, larger entrance to the Children's hospital as well as additional rooms to house additional adult and children facilities.

Illinois Medical Center

The Illinois medical center is currently adding 115,000 sq ft of additional space to its facilities. The city of Peoria is assisting the project by providing a parking deck for the project.

Interstate I-74

The I-74 Project is the largest road reconstruction project in downstate Illinois history. The project is currently 80% complete with completion projected for late 2006/early 2007.

The Shoppes at Grand Prairie

A 10 mile ride from downtown, the Shoppes at Grand Prairie is an open-air shopping and lifestyle center. This area is expected to see the construction of three new limited-service hotels including a Country Suites and Inns and a Wingate.

Additional developments in the works include:

- East Peoria Technology Boulevard Expansion
- Family House new facility
- Growth Cells Infrastructure
- I-wire Infrastructure
- Illinois Central College Wet-Lab Restoration
- Illinois River Water Restoration Project
- Northwoods Mall Renovation
- Peoria NEXT Innovation Center
- Peoria Zoo Expansion

Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts reflect local business activity and the

overall economic health of the area. Peoria is served by the Greater Peoria Regional Airport (the "GPRA"), which is located within 15 minutes of the subject site. The following table illustrates important operating statistics for this facility.

Airport Statistics

Year	Greater Peoria Regional Airport		
	Passenger Traffic	Percent Change*	Percent Change**
2000	385,185	--	--
2001	400,920	4.1 %	4.1 %
2002	426,582	6.4	5.2
2003	368,614	(13.6)	(1.5)
2004	452,448	22.7	4.1
2005	520,034	14.9	6.2

Source: Greater Peoria Regional Airport

Large annual increases and decreases in passenger count are driven by increases/decreased in demand and the total number of airlines serving a particular airport. As such, the large decrease in passenger count in 2003 can be attributed to two separate airliners ceasing operations out of the GPRA. In 2004, Allegiant Airlines started serving Peoria, which explains a portion of the 2004 increase in passengers.

Currently five airlines fly in and out of Peoria, American Airlines, Delta ASA, Northwest AirlinK, United Express and the most recent addition, Allegiant Air. The GPRA has 46 non-stop flights daily to and from Atlanta, Chicago, Dallas/Ft. Worth, Las Vegas and Minneapolis.

Tourist Attractions and Events

Tourism is greatly important to Peoria area hotels. Demand is generally strongest during key holiday weekends and the summer vacation season. Primary leisure demand generators in the market include the Illinois River, Par-a-Dice Casino, Eastside Sports Center, and the Wildlife Prairies Park .

Conclusion

HVS reviewed a variety of economic indicators pertinent to the market area including the MSA Business Indicator Report conducted by Dr. Goitein at Bradley University. We have determined that the market population is stable with relatively little growth expected over the next 15 years. The airport has shown growth in passenger traffic. Both the per capita income and retail sales of the region show an economy that has been steadily growing over the last

few years. Overall, the marketplace demonstrates stability combined with modest growth.

The Peoria marketplace is tied in significant ways to the success of Caterpillar, Inc. It is by far the largest employer in town with over 15,000 employees in the general market. Much of Peoria's future depends on the possible growth or decline of Caterpillar, Inc. economic performance and dedication of the local market.

5. Recommendations on the Hotel Design

Property Overview

This section investigates the subject property's proposed physical improvements. HVS carefully reviewed the product offerings of competitive hotels in downtown Peoria, East Peoria, and several suburban properties. Interviews with civic center management focused on the appropriate facilities for a convention headquarters hotel.

The subject property will feature 250-rooms within a multi-story structure. To penetrate the convention market effectively, the hotel will offer a competitive array of amenities. HVS has relied on the proposed improvements plans provided by respondents to the RFP for a convention center hotel for general guidance regarding features and costs of the Subject Property.

Project Timing

For the purpose of this analysis, HVS has assumed an opening date of 2009 for the hotel. This date considers the necessary time for funding, pre-development, and construction. Moreover, our occupancy build-up takes into consideration the formidable task of opening a hotel on a specific date.

Brand Affiliation

A number of full-service hotel franchisers could be considered for a Civic Center Hotel. We have focused on the Hilton brand because it was the brand selected by two of the respondents to the RFP. The Hilton brand is highly appropriate for a hotel of this caliber and market orientation. HVS projections assume that a competent and experienced hotel management company familiar with the operation of a first-class, full-service, convention-oriented hotel will manage the hotel for the ten-year period.

Overall Hotel Design and Condition

The design and functionality of a lodging facility's appearance has a direct influence on marketability, occupancy, average room rate, operating

efficiency and overall profitability. The Hotel's facilities should be of high quality, conforming at a minimum to the brand-specific guidelines set forth by the operator of the hotel.

In addition to meeting Hilton's general guidelines, HVS recommends that the hotel's design incorporate local architectural influences as much as possible. The convention headquarters hotel should serve as a gateway to the city and the expanded convention center as the hotel will likely be the first stop of many conventioners and guests. This novelty will give the hotel a competitive edge when compared to standard products featured by many existing hotels in the region.

**HOTEL DESIGN &
FUNCTIONALITY**

HVS will review both design and functionality features, as well as review the necessary features required for each hotel area.

The following table presents a summary of proposed hotel facilities:

Proposed Facilities Summary

Guestrooms		Number of Rooms	
Total Number of Rooms		250	
King		2/3	
Double/Double		1/3	
Handicapped Accessible		Per Code	
Non-Smoking		Majority	
<i>Developer may elect to have more doubles for convention business</i>			
Food and Beverage			
Full-Service Restaurant		Yes	
Lounge		Yes	
Ballroom Kitchen Facilities		Yes	
Room Service		Yes	
Meeting and Banquet Space		Size (Square Feet)	
		Gross Net	
Meeting Rooms		7,000	5,000
Ballroom		14,000	10,000
Total Meeting Space		21,000	15,000
Amenities			
Restaurant		First Class Restaurant	
Lounge		Generously Sized Lounge	
Pool		Indoor Pool, Spa, Sauna	
Exercise Facility		Large Exercise Facility	
Services			
Services appropriate to a full-service hotel			

Source: HVS

Guestrooms

Designed to capitalize on available space, the proposed property's guestrooms should be spacious and comfortable. The guestrooms will consist of a mixture of double/doubles and kings, in addition to a combination of several suite arrangements. Some of the items that should be provided in the living area of the guestrooms are outlined in the following table.

Guestroom Furniture, Fixtures, and Equipment

- One king-sized bed or two double beds
 - Nightstand(s) with lamp, telephone with voice mail, and clock radio
 - Armoire with refrigerated minibar and remote-controlled 29-inch color television with in-room movies and video games
 - Work desk with lamp, chair, telephone, and wall-mounted mirror
 - Upholstered chair, ottoman, floor lamp
 - Mirrored closet with luggage rack, safe, and iron and ironing board
 - Patterned bedspreads and drapes
 - Vinyl-covered walls
 - Wall-to-wall carpeting
 - Bathroom with tile floor, cast-iron tub, flush toilet, marble sink, chrome fixtures, mirror, coffeemaker, and wall-mounted hair dryer
 - Individually controlled thermostat
 - Ceiling-mounted sprinklers and single-station, hard-wired smoke detector
 - Wireless Internet
-

Guestroom corridors should be wide enough to permit the easy passage of housekeeping and room service carts. The corridors are finished to at least the standards required by Hilton.

Lobby

The lobby and entrance area is important to the overall image of a lodging facility. In addition to serving a number of functional uses, the lobby creates an initial impression on the arriving guest. The size of the lobby is a function of the number of guestrooms in the facility.

Guests will enter the street-level lobby area via the porte cochere. The entrance should allow guests to be greeted with an attractive decor and immediate access to the registration and information desks and guest elevators. This area should be well organized, to minimize confusion and maximize traffic flow for guests and personnel. Public restrooms, telephones and elevators should be clearly identifiable and easy to reach. Other facilities accessible from the lobby should include the hotel's concept restaurant, lobby lounge, the gift shop, public restrooms, and the escalators and elevators providing access to the upper floors of the structure.

Lobby seating should be ample as to accommodate guests. Lighting, furniture, and decor should be designed for aesthetics and guest comfort.

Located within the lobby and the front desk should be equipped for guest registration, advance reservations, cashier services, money changing,

information, distribution of room keys and guest mail, messages, switchboard operation, and accounting.

Computer terminals should be installed to facilitate accounting, registration and general office duties. The front desk area should have direct telephone and/or intercom linkage with all areas of the hotel including administrative offices, the housekeeping department, restaurant and lounge, fitness area, and guestrooms.

The front desk should also provide a system of security for cash and guests' valuables; this is best accomplished using a safe, located in a separate room designed for this purpose. Guests should be able to see their valuables placed into the safe, but this area should not be readily visible to passers-by or employees. The following functions should be located in offices situated either adjacent to or directly behind the front desk: reservations, telephone operations, night audit and guest accounting, and front office management.

**Food &
Beverage
Outlets**

Food and beverage facilities should include a concept restaurant and lobby lounge on the first level. Overall, the food and beverage outlets proposed for the subject property are to be of a first-class nature, consistent with the overall design of the hotel.

**Meeting &
Function Space**

The subject property should contain roughly 21,000 gross square feet of meeting space inclusive of a $\pm 10,000$ -square-foot ballroom including pre-function space, and $\pm 5,000$ -square-foot of meeting and boardrooms. The amount of meeting and function space must meet the requirements of the franchiser.

**Recreational
Amenities &
Parking**

Recreational amenities planned for the subject property include an in-door swimming pool, whirlpool, and exercise room. A small gift shop adjacent to the lobby will be the only retail amenity within the hotel. The hotel may incorporate additional retail at street level but this will depend on future discussions with the selected developer.

Ample parking for the hotel should be conveniently available to hotel guests with the construction of surface level parking or a parking garage across the street from the hotel. Valet and self-park options at rates consistent with those charged at the other downtown area hotels should also be available.

HVS expects the property to be able to compete with its national and local counterparts based on its planned offerings.

Back-of-the-House

Offices should be located adjacent to the reception desk and are to be efficient, functional, and stylish.

The housekeeping department includes laundry facilities and the linen issue & storage area. The linen room should have an office for the housekeeper and a rooms status system joined to the front desk and house cleaners' closets on the guestroom floors. Adequate storage areas are required for linens and supplies in use, as well as new, unused linen and supplies. These areas should be locked and secured at all times. A linen and uniform issue area should be situated adjacent to the linen storage rooms, where employees will pick up their clean uniforms and the linen supplies required for the day.

Sufficient storage is required in the maintenance area to hold items such as spare parts, mechanical equipment, furniture, carpet, wall covering, cleaning materials, and cleaning and maintenance equipment.

Often a hotel will employ a central supply storage system where all new non-food items are stored and issued upon requisition. This concept combines the housekeeping and maintenance storage requirements into a single area, which generally has a positive impact on theft control and labor costs.

Fire Protection

Fire safety should be planned on a structural level to separate areas of high fire risk (e.g., laundry room) from areas in which fire is likely to cause particular hazards (e.g., corridors, stairwells, public rooms). Smoke and heat detectors, sprinkler systems, exit signage, fire extinguishers, pull stations, standpipes, and emergency lighting should be installed according to code. System design considerations should be geared to adjust to future codes.

Conclusion

In the planning and design considerations for hotels, guest comfort and satisfaction is paramount, but must be developed within the boundaries defined by economic feasibility. Guest satisfaction is generated not only by the aesthetic and structural design parameters that directly affect the hotel's guestrooms and public areas, but also by the functional layout and configuration of the building as a whole.

The design, functional layout, and configuration of the proposed subject property are expected to be straightforward and incorporate sound design principles for hotel construction and in accordance with at a minimum Hilton standards. The design of guest, public, and back-of-the-house traffic circulation patterns, the separation of back-of-the-house facilities from the public facilities, and the ease of access from public to non-public areas are also

among the major design factors that promote guest comfort and efficiency of operation. The optimal design for the proposed subject property should not only encompass the recommended facilities but also appropriately balance the considerations of guest satisfaction, operational efficiency, and cost benefit.

The proposed subject improvements are designed to contain 250 guestrooms, 21,000 gross square feet of meeting and function space, a concept restaurant, a lobby lounge, a fitness center, an indoor swimming pool and whirlpool, a gift shop, and other ancillary support facilities necessary for the operation of a full-service, convention-oriented, downtown hotel. The subject property's furniture, fixtures, and equipment are expected to be of first-class quality and comparable or superior to those of its competitors in the area.

6. Market for Transient Accommodations

Definition of Subject Hotel Market

The market for transient accommodations is an all-encompassing term referring to the many types of travelers who use lodging facilities in a given area. These travelers represent the market's accommodated room night demand. In addition, the market may be characterized by latent demand, which consists of unaccommodated demand and/or induced demand. Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all of the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can induce demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities.

Historical Supply & Demand Data

This section begins with an analysis of historical lodging demand trends in order to determine what changes have occurred. The historical number of competitive hotel rooms will then be estimated to evaluate local supply trends. Area wide occupancy levels can be calculated based on the number of hotel rooms available in the market and the demand for lodging accommodations. The total room night demand will be divided into individual market segments allowing HVS to forecast growth rates based on the economic and demographic data set forth earlier in this report. We will also identify unaccommodated and induced demand that may have an impact on the future performance of local lodging facilities.

Smith Travel Research (STR) is an independent research firm which compiles data on the lodging industry; its published data is routinely used by typical hotel buyers. STR has compiled historical supply and demand data for the subject property and its competitors. This information is presented in the following table, along with the marketwide occupancy, average rate, and rooms revenue per available room (RevPAR).

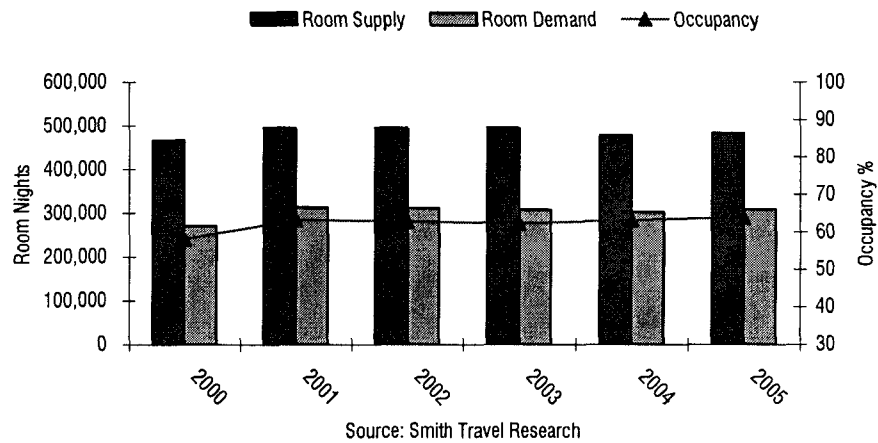
Historical Supply and Demand Trends (STR) for Primarily the Downtown Properties

	2000	2001	2002	2003	2004	2005	Year-to-Date Through June		Average Annual Compounded
							2005	2006	
Average Daily Room Count	1,277	1,356	1,356	1,356	1,310	1,324	1,291	1,356	
Available Room Nights	466,205	494,940	494,940	494,940	478,248	483,162	233,658	245,436	
Change	—	6.2 %	0.0 %	0.0 %	(3.4) %	1.0 %	—	5.0 %	0.7 %
Occupied Room Nights	270,926	313,380	311,199	308,239	302,342	308,527	149,715	165,392	
Change	—	15.7 %	(0.7) %	(1.0) %	(1.9) %	2.0 %	—	10.5 %	2.6 %
Occupancy	58.1 %	63.3 %	62.9 %	62.3 %	63.2 %	63.9 %	64.1 %	67.4 %	
Average Rate	\$70.10	\$71.48	\$73.20	\$73.08	\$73.30	\$77.05	\$76.24	\$82.59	
Change	—	2.0 %	2.4 %	(0.2) %	0.3 %	5.1 %	—	8.3 %	1.9 %
RevPAR	\$40.74	\$45.26	\$46.02	\$45.51	\$46.34	\$49.20	\$48.85	\$55.66	
Change	—	11.1 %	1.7 %	(1.1) %	1.8 %	6.2 %	—	13.9 %	3.8 %

Source: Smith Travel Research

RevPAR is calculated by multiplying occupancy by average rate, and provides an indication of how well rooms revenue is being maximized. Within the limitation imposed by Smith Travel to insure the privacy of information submitted by various hotels we selected a market sample that best represented the downtown hotels. The hotels included in the trend report are the Pere Marquette, the Holiday Inn City Centre, the Mark Twain, the Staybridge, the Radisson, and The Courtyard by Marriott, Residence Inn and the Holiday Inn Express. A decrease in room supply in 2004 was due to a fire at the Courtyards Hotel, which was rebuilt, and reopened in 2005. The hotels were chosen within the limitations imposed by STR to represent the downtown hotel marketplace.

Historical Supply and Demand Graph



The STR data shows a market that has experience modest but steady growth in RevPAR over the past few years. The marketplace was not as impacted by the aftereffects of 9/11/01 as many hotel markets in the county. Overall, the STR data shows a consistent downtown hotel market with limited growth in room demand.

It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample and not every property reports data in a consistent and timely manner. These factors can influence the overall quality of the information by skewing the results; inconsistencies may also cause the STR data to differ from the results of our competitive

**Demand
Analysis
Using Market
Segmentation**

survey. Nonetheless, STR data provides the best indication of aggregate growth or decline in existing supply and demand.

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Although a market may have various segments, the three primary classifications occurring in most areas are corporate, meeting and convention, and leisure.

Market segmentation is a useful procedure because individual classifications often exhibit unique characteristics in terms of growth potential, seasonality of demand, average length of stay, double occupancy, facility requirements, price sensitivity, and so forth. By quantifying the room night demand by market segment and analyzing the characteristics of each segment, the demand for transient accommodations can be projected. Lodging demand in the Peoria area is generated primarily by the following three market segments.

Segment 1	Corporate
Segment 2	Meeting and Convention
Segment 3	Individual Leisure

Based on HVS fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2005 distribution of accommodated room night demand as follows. It is important to note that the total room nights in the following table differs from that shown in the STR table due to the weighting of some competitors. Additional detail on the weighting of the competitors will be shown in the competition section of this report.

Accommodated Room Night Demand

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Corporate	166,172	49 %
Meeting and Convention	105,372	31
Individual Leisure	68,212	20
Total	339,755	100 %

Source: HVS

A significant amount of the corporate and meeting and convention demand relate to the needs of Caterpillar. Due to its downtown location, the civic center is responsible for generating a significant amount of the meeting and convention demand.

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment in an effort to determine future trends in room night demand.

Corporate Segment

The corporate segment consists of individual business travelers who are visiting various firms in the subject property's market. This demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday. In markets where the weekday occupancy often exceeds 90%, some unaccommodated corporate demand is likely to be present. The typical length of stay for corporate guests ranges from one to three days, and the rate of double occupancy is a low 1.2 to 1.3 people per room. Corporate demand is relatively constant throughout the year, although some declines are noticeable in late December and during other holiday periods.

The corporate segment includes numerous smaller classifications; however, the primary categories considered in this analysis are individual business travelers and high-volume corporate accounts. Most individual business travelers are visiting firms in the immediate area or passing through en route to other destinations. Their lodging choices are influenced by brand loyalty (and frequent traveler programs in particular), as well as location and convenience with respect to businesses and amenities. High-volume corporate accounts are generated by local companies; demand in this sub-segment may include employees of the firm or its affiliates, and often consists of training groups. These companies typically designate hotels as "preferred" accommodations; in return, the selected lodging facilities generally offer a significant discount from their published rates. Typically, these rates are negotiated on an annual basis, and the size of the discount is tied to the number of room nights produced. Caterpillar is a good example of a local company that makes a significant effort to control its travel expenses by negotiating a corporate rate at the local hotels that its employees use.

Meeting and Convention Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Because of vacations, the summer months represent the slowest period for this market

segment; winter demand varies. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERF (social, military, educational, religious, and fraternal) groups.

Corporate groups are one of the most profitable components of this segment, because they exhibit limited price sensitivity and they often sponsor banquets and other events that generate revenue for the host hotel. In the subject property's market, most corporate group activity is generated by the same major employers that contribute high-volume corporate accounts. This demand may take the form of training programs, sales meetings, division conferences, and similar events with a business purpose. Corporate groups generally meet during the work week, thus generating lodging demand on Monday through Thursday nights. The average length of stay is two to four days, although training groups may stay six nights or more. Double-occupancy rates in this category typically range from 1.0 to 1.5.

Association demand is generally divided on a geographical basis: the most common categories are national, regional, and state associations. Depending on their nature, these associations may be more rate sensitive than corporate groups. This is particularly true when members are not reimbursed by their employers, but must pay to attend (i.e., guestroom and conference fees). The scheduling pattern of associations also depends on the nature of the group. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends.

The SMERF market consists of groups that are social, military, educational, religious, or fraternal in nature. Examples include family or military reunions, youth groups, and fraternal organizations such as the Knights of Columbus. These groups are extremely budget conscious, and have a strong preference for weekend and summer meeting times, when rates are generally lowest. Typically, groups such as this have a high double-occupancy rate of 2.0 to 2.5, and the length of stay is relatively short (one to three nights). Most hotel operators use this type of demand to bolster occupancy during off-peak times of the month and year, when other demand sources are limited.

Future meeting and group demand is closely related to growth in the corporate segment. Because most meetings have either a direct or an indirect business purpose, the economic considerations that have an impact on commercial travel also affect meeting and group demand. The exception is

**Leisure
Segment**

non-commercial meetings, which are tied to the economic factors that influence leisure travel. It should be noted that meetings and similar events are booked in advance, and thus growth in this segment tends to lag slightly behind increases in commercial demand.

The leisure market segment consists of individuals and families who are spending time in the area or passing through en route to other destinations. Their travel purposes may include sightseeing, recreation, visiting friends and relatives, or numerous other non-business activities. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. These peak periods are negatively correlated with corporate visitation, underscoring the stabilizing effect of capturing weekend and summer tourist travel. The typical length of stay ranges from one to four days, depending on the destination and travel purpose, and the rate of double occupancy typically ranges from 1.8 to 2.5 people per room.

Leisure travelers tend to be the most price-sensitive segment of the lodging market. They may prefer low-rise accommodations where parking is convenient to the rooms, and they often select accommodations that include complimentary amenities such as continental breakfast. Ease of highway access and proximity to tourist attractions and retail centers are important locational considerations.

Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income often have a strong correlation to non-commercial visitation. Traffic counts on nearby highways and attendance levels at local attractions can also form a basis for projections. Of the economic and demographic data presented earlier in this report, trends in retail sales, retail sector employment, total employment, and air traffic counts tend to have the strongest influence on leisure demand. Based on our analysis of these indicators, we project modest growth in the leisure segment.

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of the local area, three segments were defined as representing the subject property's lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand.

Based on this procedure, we forecast the following annual market segment growth rates:

Annual Market Segment Growth Rates

Market Segment	Annual Growth Rate									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Corporate	5.0 %	1.0 %	1.0 %	1.0 %	1.0 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %
Meeting and Convention	2.0	1.0	1.0	1.0	1.0	0.5	0.5	0.5	0.5	0.5
Individual Leisure	1.0	1.0	1.0	1.0	1.0	0.5	0.5	0.5	0.5	0.5
Base Demand Growth	3.3 %	1.0 %	1.0 %	1.0 %	1.0 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %

Source: HVS

These growth rates will be used in subsequent sections of this report to forecast changes in lodging demand.

Latent Demand

The table presented earlier in this section illustrated the accommodated room night demand in the subject property's competitive market. Because this estimate is based on historical occupancy levels, it includes only those hotel rooms that were used by guests. Latent demand reflects potential room night demand that has not been realized by the existing competitive supply, and can be divided into unaccommodated demand and induced demand.

Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all of the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historical accommodated room night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests will be able to secure hotel rooms in the future and it is necessary to quantify this demand. Area wide occupancy in excess of 70% is typically the first sign of possible unaccommodated demand in any given market.

We see relatively little unaccommodated demand in the marketplace. The new hotels will provide a hotel experience that is not currently available in the marketplace and that will result in increased occupancy from unaccommodated demand. Excess hotel rooms will be available in the summer months for both convention and business needs that sometime conflict now resulting in some lost hotel occupancy. Business will hold

meeting in the hotels that they would not have otherwise done without better ad more available facilities.

Unaccommodated demand is further indicated if the market is at all seasonal with a distinct high season and low season; such seasonality indicates that while year-end occupancy may average in excess of 70%, the market sells out many nights during the year.

Marketwide Base Year Occupancy and Maximum/Minimum Trends

	Base Year Monthly Occupancy	Trend Maximum Occupancy	Trend Minimum Occupancy
January	53.1%	55.1%	50.3%
February	65.2%	65.5%	54.9%
March	62.2%	72.7%	62.2%
April	68.2%	68.2%	54.7%
May	65.3%	67.7%	61.2%
June	70.4%	73.1%	63.1%
July	64.7%	72.7%	52.2%
August	65.7%	73.4%	63.7%
September	67.3%	68.1%	61.7%
October	72.1%	73.7%	66.2%
November	64.4%	64.4%	56.7%
December	47.8%	48.1%	38.9%
Average	63.9%	63.9%	58.1%

Source: Smith Travel Research

The marketplace shows the typical trend of northern cities or reduced occupancy in December and January. The market shows strength in the April to October period. October has consistently been the strongest month in the marketplace.

We have also compared the annual occupancies reported by Smith Travel Research to the annualized occupancy levels we derived from our own market interviews. In some cases, reporting by hotels to STR is inconsistent, thereby skewing the data. Furthermore, the STR estimation of marketwide occupancy gives equal competitive weight to all the hotels contained in the sample, where in reality some of the hotels may only be partially competitive with the subject property. We have therefore made slight adjustments to the historical monthly occupancy levels shown above based on our estimation of the base year's weighted marketwide occupancy, which will be discussed in greater detail in the Competition section of this report.

Based upon our review of demand fluctuations within the subject property's market area, we have made an estimation of the amount of unaccommodated demand present. This estimation is made per month as a percentage of the known base year accommodated demand in each segment. The results are shown in the table below.

Estimation of Unaccommodated Demand

	Corporate		Meeting and Convention		Individual Leisure	
	%	Room Nights	%	Room Nights	%	Room Nights
January	0 %	0	0 %	0	0 %	0
February	0	0	0	0	0	0
March	0	0	0	0	0	0
April	0	0	0	0	0	0
May	2	289	4	366	0	0
June	3	452	4	382	2	124
July	2	286	4	363	0	0
August	2	291	4	369	0	0
September	2	288	4	365	2	118
October	4	637	4	404	0	0
November	0	0	0	0	0	0
December	0	0	0	0	0	0
Total	1 %	2,243	2 %	2,249	0 %	242

Source: HVS

Induced Demand

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities.

Induced Demand Factors

Opening Meeting Space Embassy
 Expansion Peoria Civic Center
 Opening Museum Square
 Expansion St. Francis
 Opening Embassy
 Opening Civic Center Hotel

The opening of the Caterpillar Visitor Center will create a new and identifiable demand for Caterpillar dealers to bring customers to Peoria to see the factory and visitor center. Caterpillar estimated they host around 20,000 Caterpillar dealer sponsored guests currently and expect that to expand to around 35,000 after the museum is opened.

Induced Demand Calc for Caterpillar Visitor Center at Central Illinois Regional Museum

Total Visitors to Museum Square	336,000
Percentage Overnight Stays	25%
Overnight (defined min 2 hour drive)	84,000
Incremental Visitors	67%
New Overnight Visitor	56,000
Percentage Caterpillar	27%
Caterpillar Official Sponsored Guests	15,000
Average Nights Stayed	1.00
Total Visitor Nights	15,000
All Visitor Double Occupancy	50%
Room Night Generated Caterpillar	7,500
Per Month	625
Allocated to Study Hotels	80% 500

Source: Caterpillar, HVS

Induced Demand Calculation Estimate for Central Illinois Regional Museum

Overnight Visitors Museum at Museum Square	41,000
Percentage Stay at Hotel	50%
Hotel Customer per years	20,500
Occupancy	3.5
Hotel Room Nights	5,857
Per Month	488
Allocated to Study Hotels	66% 322

Source: Caterpillar, HVS

Induced Demand Calculation

Market Segment	Induced Room Nights									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Corporate	0	0	600	3,300	3,600	3,600	3,600	3,600	3,600	3,600
Meeting and Convention	0	4,200	10,009	22,990	30,762	30,762	30,762	30,762	30,762	30,762
Individual Leisure	0	0	0	1,932	2,898	3,864	3,864	3,864	3,864	3,864
Total	0	4,200	10,609	28,222	37,260	38,226	38,226	38,226	38,226	38,226

Source: HVS

Potential Demand

Once market segment growth rates and degrees of latent demand are estimated, the annual marketwide potential demand can be determined. Potential demand is essentially the amount of demand which would be possible in a market which has no seasonality restrictions (e.g. the maximum monthly occupancy is 100% each month). Thus, the potential demand equates to the base year accommodated demand, inflated at the growth rates set forth for each market segment, plus any estimation of unaccommodated or induced demand. The following table details the potential annual room night demand for the subject property's market area.

Potential Demand

Market Segment	Potential Room Nights									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Corporate	174,626	176,827	179,647	185,494	187,616	188,536	189,460	190,390	191,324	192,262
Meeting and Convention	107,621	113,340	120,680	136,089	144,993	145,564	146,138	146,715	147,295	147,877
Individual Leisure	68,909	69,645	70,388	73,165	74,843	76,169	76,531	76,894	77,259	77,626
Total	351,156	359,812	370,715	394,748	407,452	410,269	412,129	413,999	415,878	417,766

Source: HVS

Accommodated Demand & Marketwide Occupancy

Based upon a review of the market dynamics in the subject property's competitive environment, we have forecast growth rates for each market segment. We have also analyzed the existence of unaccommodated demand in the market, as well as the potential for induced demand to occur in the future. Using the calculated potential demand for the market, we have then determined marketwide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area.

The following table details our projections of market demand growth. This includes total occupied room nights, as well as any residual unaccommodated demand in the market.

Accommodated Demand

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Corporate										
Occupied Room Nights	174,626	176,827	179,647	185,494	187,616	188,536	189,460	190,390	191,324	192,262
Residual Demand	2,209	1,777	1,343	0	0	0	0	0	0	0
Accommodated Demand Growth	5.1 %	1.3 %	1.6 %	3.3 %	1.1 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %
Meeting and Convention										
Occupied Room Nights	107,621	113,340	120,680	136,089	144,993	145,564	146,138	146,715	147,295	147,877
Residual Demand	2,152	1,731	1,308	0	0	0	0	0	0	0
Accommodated Demand Growth	2.1 %	5.3 %	6.5 %	12.8 %	6.5 %	0.4 %	0.4 %	0.4 %	0.4 %	0.4 %
Individual Leisure										
Occupied Room Nights	68,909	69,645	70,388	73,165	74,843	76,169	76,531	76,894	77,259	77,626
Residual Demand	229	184	139	0	0	0	0	0	0	0
Accommodated Demand Growth	1.0 %	1.1 %	1.1 %	3.9 %	2.3 %	1.8 %	0.5 %	0.5 %	0.5 %	0.5 %
Totals										
Occupied Room Nights	351,156	359,812	370,715	394,748	407,452	410,269	412,129	413,999	415,878	417,766
Residual Demand	4,591	3,692	2,791	0	0	0	0	0	0	0
Accommodated Demand Growth	3.4 %	2.5 %	3.0 %	6.5 %	3.2 %	0.7 %	0.5 %	0.5 %	0.5 %	0.5 %
Available Room Nights per Year	577,284	608,472	639,152	730,402	730,402	730,402	730,402	730,402	730,402	730,402
Available Room Night Growth	1.8 %	5.4 %	5.0 %	14.3 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	60.8 %	59.1 %	58.0 %	54.0 %	55.8 %	56.2 %	56.4 %	56.7 %	56.9 %	57.2 %

Source: HVS

According to current expectations, marketwide occupancy will incur a decline in 2007/2008 due to the opening of the Embassy Suites in 2007. The opening of the subject hotel in 2009 will cause a second decline in occupancy rates, with occupancy expected to remain relatively flat in 2010 and thereafter.

7. Competition

The current and anticipated supply of competitive lodging facilities is an integral component of the supply and demand relationship. To evaluate an area's competitive environment, the following steps should be taken:

- Identify the area's lodging facilities and determine which are directly and indirectly competitive with the subject property.
- Determine whether additional hotel rooms will enter the market in the foreseeable future (net of attrition).
- Quantify the number of existing and proposed hotel rooms available in the market.
- Review the rate structure, occupancy levels, market orientation, facilities, and amenities of each competitor.

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of the area's hotels, as well as the comments of management representatives, we have identified five properties that are expected to be primarily competitive with the Subject Property. These primary competitors total 994 rooms in 2005. In addition, HVS has also selected eight secondary competitors, which will compete with the subject property to some extent. Weighted hotel room counts help predict the degree to which the secondary facilities will compete with the subject property. The aggregate weighted room count of the secondary competitors is 544 rooms.

The primary competitors except for one are full-service hotels, which cater to the corporate market segment, with a large amount of business derived from the meeting and group segment. The limited-service Staybridge was included in the primary set due to its location within walking distance of the civic center. The secondary competitors compete based on product-orientation, as they are either full-service hotels competing in different market segments or limited-service hotels. Of the competitive properties, Marriott, Staybridge and Holiday Inn have branding advantage in the market.

**Primary
Competitors**

The following table summarizes the important operating characteristics of the primary competitors and the aggregate secondary competitors. This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data. The table also sets forth each property's penetration factors; penetration is the ratio between a specific hotel's operating results and the corresponding data for the market. If the penetration factor is greater than 100%, the property is performing better than the market as a whole; conversely, if the penetration is less than 100%, the hotel is performing at a level below the marketwide average.

Primary Competitors and Aggregate Secondary Competitors

Property	Number of Rooms	Est Segmentation			Estimated 2003			Estimated 2004			Estimated 2005		
		Corporate	Meeting and Convention	Individual Leisure	Weighted Annual Room Count	Average Rate	RevPAR	Weighted Annual Room Count	Average Rate	RevPAR	Weighted Annual Room Count	Average Rate	RevPAR
Shyridge Suites Hotel IHG	106	70 %	10 %	20 %	106		106	106		106		106	120.2 %
Hotel Pere Marquette	287	37	60	3	288		288	287		287		287	89.1
Holiday Inn Peoria City Centre IHG	324	40	40	20	324		324	324		324		324	90.7
Radisson Hotel Peoria Carlson	168	55	5	40	168		168	168		168		168	96.8
Mark Twain Hotel	109	70	10	20	110		110	109		109		109	100.2
Sub-Totals/Averages	994	49 %	32 %	19 %	996	57.9 %	\$72.43	\$41.96	50.3 %	\$74.08	\$37.24	\$43.95	95.5 %
Secondary Competitors	1,137	48 %	30 %	22 %	588	61.0 %	\$65.32	\$39.84	62.5 %	\$67.32	\$42.05	\$46.61	108.0 %
Totals/Averages	2,131	49 %	31 %	20 %	1,584	59.1 %	\$69.71	\$41.17	54.7 %	\$71.30	\$38.97	\$44.91	100.0 %

Source: HVS

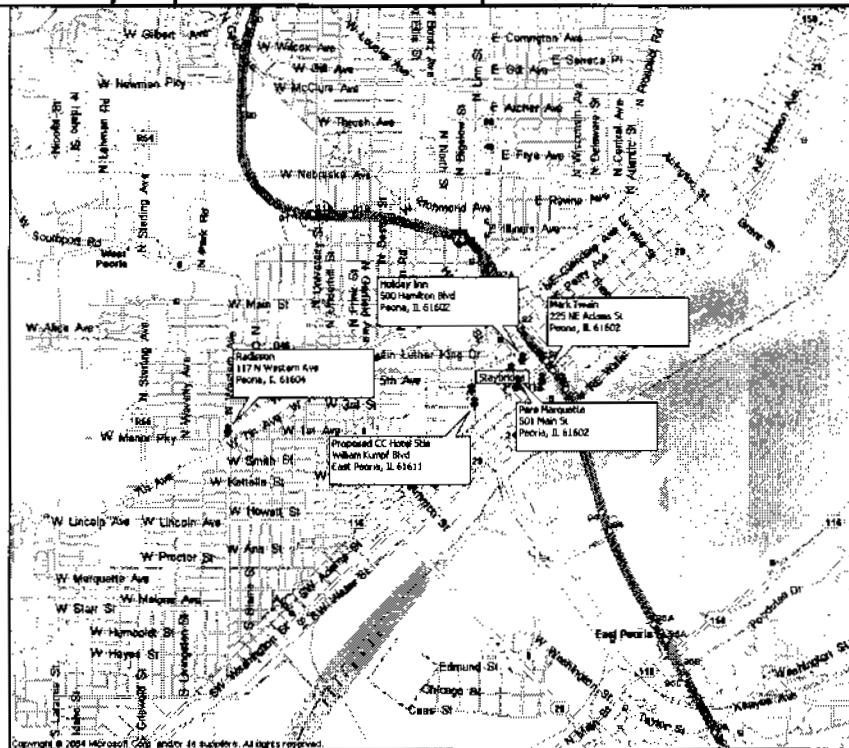
Primary Competitors

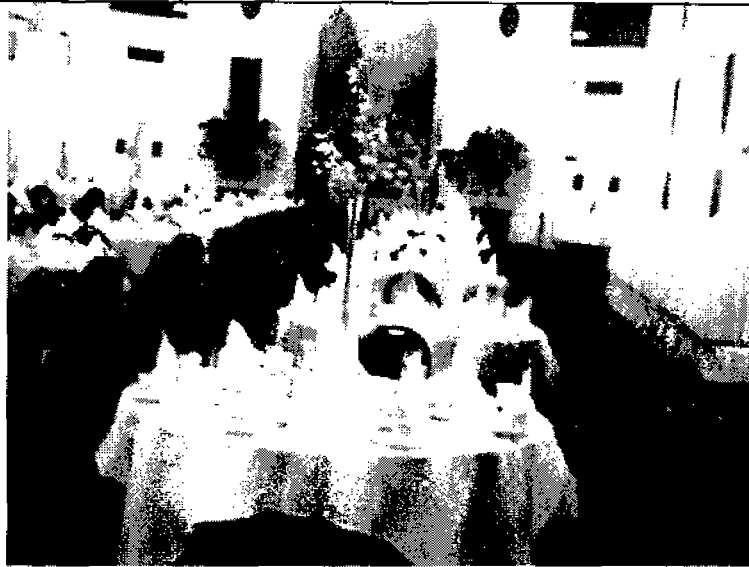
Property	Number of Rooms	Year Opened	Last Renovation	Distance To Subject	Facilities and Amenities							Meeting Space (SF)	Meeting Space per Room	Branded or Private	Type
					Restaurant	Lounge	Kitchenette	Room Service	Exercise Room	Business Center	Meeting Rooms				
Staybridge Suites Hotel IHG #11 Winners Way, East Peoria	106	1993	2005	1/4 miles	0	0	Y	N	Y	Y	Y	1,024	9.7	Branded	Select-Service
Hotel Pere Marquette 2701 West Lake Ave., Peoria	287	1927	2005	1/4 miles	1	1	Y	Y	Y	Y	Y	18,000	62.7	Private	Full-Service
Holiday Inn Peoria City Centre IHG 500 Hamilton Blvd, Peoria	324	1976	2000	1/4 mile	1	1	N	Y	Y	Y	Y	20,000	61.7	Branded	Full-Service
Radisson Hotel Peoria Carlson 117 N Western Ave, Peoria	168	1970	In process	2 1/2 miles	1	1	Y	Y	Y	Y	Y	5,307	31.6	Branded	Full-Service
Mark Twain Hotel 225 NE Adams Street, Peoria	109	1967	2004	1/2 mile	1	1	N	Y	Y	Y	Y	Uses Parkard Building		Private	Full-Service
Totals/Averages	994											44,331	44.6		

In the last few years, many of the market's older hotels have undergone significant renovations. These properties range in size from 324 to 106 rooms. The market demand has a corporate orientation and in 2005, this segment contributed almost 50% of the overall occupancy. The meeting and convention segment comprised 32% of the total followed by the transient/tourist segment (at 19%).

In 2005, the primary competitors achieved an overall occupancy of 57% at an average rate of \$76.58, yielding RevPAR of \$43.65. The primary competitors are mostly located in the downtown market, which has historically had the lowest occupancy but the highest average rates. The following pages describe HVS evaluations and conclusions regarding each primary competitor.

Map of Primary Competitive Set of Hotels and Proposed Civic Center Site



**Pere Marquette
Hotel****Ballroom of the Pere Marquette Hotel in downtown Peoria**

The 287-room Pere Marquette opened in 1927 making it Peoria's oldest hotel and for many years its largest hotel. The hotel is located on Main Street in downtown Peoria, adjacent to the Civic Center. Listed with the National Register of Historic Places, the property has good curb-appeal. Pere Marquette Hotel Associates, LP own and operate the hotel.

The hotel restaurant "Carnegie", which was renovated recently seat 185-seat guests. The lobby bar "Rendezvous" seats roughly 200 guests, while private entertainment sections for business customers with evening drinks and appetizers are also available.

The 12-floor hotel has several weaknesses due in part to its historic nature including lack of a pool, poor access from the parking garage to the front desk, stairs to the lobby that make bag handling a problem, lack of a magnetic strip room key for security and smaller elevators. The tenth, 11th and 12th floors offer a level of size and comfort in hotel suites unmatched by any property currently in the marketplace.

In 2005, the hotel underwent an extensive \$6.0 million renovation including the remodeling of 36 suites. Every room in the hotel has new furniture and beds, with pillow top mattresses. Caterpillar, Inc. contributed greatly to the

renovation allowing the company priority use of the tenth floor facilities over the next decade.

The hotel has recently seen the increase in rates and occupancy experience by the majority of the hotel industry. Its historic rate and occupancy levels are at the lower part of the range of operating results for non-branded hotels that may provide reasonable rates of return to their owners.

The hotel has approximately 18,000 square feet of meeting space and is located across from the Peoria Civic Center. The hotel currently has the most ornate ballrooms and meeting spaces in the downtown marketplace. The hotel works in conjunction with the Civic Center on larger events. The following table shows the estimated amount of business the hotel is receiving due to the positive impact of the civic center on downtown hotel business.

The City of Peoria worked with the management of the Pere Marquette and Caterpillar in 1981 to reopen the hotel with a city sponsored financing by Industrial Development Bonds for \$10.0 million. The city also obtained an Urban Development Action Grant to build the hotel-parking garage; over the next 20 years, the hotel will gradually purchase the facility from the city.

Civic Center Generated Business at the Pere Marquette by Type of Event

Group	Date	Pere Plus			Totals
		Pere Only	1 hotel	Citywide	
IL Fertilizer & Chemical Ass	Jan-06				
IL Kids Wrestling Fed	Jan-06				
IL Music Educators Ass	Jan-06				
IL Pork Producers Ass	Jan-06				
St. Jude's Gymnastics Meet	Jan-06				
Equipment Ministries	Feb-06				
IL High School Ass	Feb-06				
Midwest Truckers Assn.	Feb-06				
IHSA Class A Boys	Mar-06				
IHSA Class AA Boys	Mar-06				
Super Valu Food Show	Mar-06				
American Public Works Ass	Apr-06				
American Public Works Ass	Apr-06				
Barber Shop Quartet	Apr-06				
Fire Chiefs	May-06				
IL/WI Elks	Jun-06				
Illinois School Nutrition Ass	Jun-06				
United Methodist Church	Jun-06				
V.F.W.-Veterans of Foreign War	Jun-06				
American Legion	Jul-06				
Super Valu Food Show	Aug-06				
Township Highway	Aug-06				
Barber Shop Quartet State Conv	Sep-06				
Illinois Fire Chiefs	Oct-06				
National Assn. of Campus	Nov-06				
Tournament of Champions	Nov-06				
Tournament of Champions Fans	Nov-06				
Township Officials	Nov-06				
IL Elem. School Cheerleading	Dec-06				
Universal Cheerleading Ass	Dec-06				
Totals		\$434,845	\$284,071	\$237,470	\$956,386
Source: Pere Marquette					

At the time of our inspection, the Pere Marquette was in above average condition for a property constructed in the 1920s. Due to its recent extensive renovation and repositioning in the market, the Pere Marquette's competitive performance should improve.

**Holiday Inn
Peoria City
Centre**

Opened in 1976, the 327-room Holiday Inn City Centre is located on Hamilton Road in downtown Peoria. A small hotel, already on the site in 1976, was incorporated into the design of the new hotel. The hotel is the largest in the local market and is situated within walking distance of the Civic Center. The hotel is owned and managed by Kenseth Hospitality Corporation, LLC.

The property features a Bennigan's restaurant, lobby lounge, indoor swimming pool and whirlpool, sauna, exercise room, business center, and approximately 20,000 square feet of meeting space. The ballroom and meeting space are located on a lower level of the hotel, which creates a good degree of separation between hotel guests and meeting attendees. The hotel while beginning to feel dated still has good curb appeal.

At the time of our inspection, the Holiday Inn was in good-to-fair condition. The hotel has some maintenance issues including the lack of cold air conditioning and limited supplies of hot water. The hotel is beginning to get a tired look with stained carpets and worn chairs in the public areas. The interior ceiling showed signs of multiple leaks. The Holiday Inn's competitive performance will not improve until the operators invest in substantial renovation and repairs.

**Mark Twain
Hotel**

The 110-room nine-story Mark Twain Hotel opened in 1967 and is located in downtown Peoria towards the riverfront about 1/4 miles from the subject property. The hotel is situated at 225 NE Adams near Caterpillar's international headquarters. The hotel is owned and managed by G & O Hotel Investors Inc. The property features an exercise room, gift shop, business center, and approximately 400 square feet of meeting space. The hotel has below average curb-appeal, as it was previously a limited-service chain motel prior to a series of internal renovations including the addition of Uno Chicago Grill for room service and dining. Recently the hotel underwent an extensive renovation of its guestrooms and completed a renovation of the public areas. At the time of our inspection, the Mark Twain was in very good condition. The Mark Twain's competitive performance is expected to improve, due to its recent extensive renovation and continued repositioning in the market as the boutique downtown hotel.

Uno Chicago Grill is located on the first floor of the hotel. The restaurant offers Chicago style deep-dish pizza, steaks, salads, burgers, sandwiches and pastas. Seattle's Best latte and the Uno's cybercafé are adjacent to the restaurant.

When the hotel guests need meeting space, they use the Packard Plaza meeting facilities. Built in 1927, the building received its name when the first floor was a Packard auto dealership. Today, the Packard Plaza is a full service banquet facility featuring food, customized menus, and individual presentations. The facility is directly across the street from the hotel and represents a unique asset in terms of meeting space for the hotel.

Caterpillar, Inc. is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines and industrial gas turbines; the Caterpillar, Inc. World Headquarters is within walking distance of the hotel.

Staybridge Suites

The 106-room Staybridge Suites opened in 1993 and is the newest hotel located in downtown Peoria, less than a quarter mile from the Civic Center. The hotel is an all-suites hotel with 86 single-bedded rooms and 21 double-bedded rooms with all units having a fully equipped kitchen. The property features an indoor swimming pool and whirlpool, generously sized fitness center and extensive business center for a limited-service property. The hotel has good curb-appeal. At the time of our inspection, the Staybridge was in very good condition, and comparable to the assumed condition of the subject property. The Staybridge's competitive performance is expected to remain steady, due to the hotel offering the only all suite product in the downtown marketplace.

Radisson Hotel keeps the European Feel of the former Jumer's Castle Lodge

Radisson Hotel



Opened in 1970, the Radisson Hotel is roughly two miles west of the subject property site. The hotel had formerly been a Jumer's Castle Lodge has many unique European based design elements including the extensive use of wood. The hotel features 168 guestrooms including 16 suites, 59 king rooms and 93 two bedded rooms. Renovated in 2004 at a cost of \$4.3 million, the property features a 250-seat restaurant, 50-seat lounge, business center, exercise facility, full size swimming pool and hot tub and has approximately 5,000 square feet of meeting space. The hotel is currently undergoing a long-term renovation including sleep number beds for guestrooms and a complete a renovation of the public areas. At the time of our inspection, the Radisson was in good condition. Due to its recent extensive renovation and repositioning in the market, the Radisson's competitive performance should improve.

**Secondary
Competitors**

Because of their location and/or facilities, the following properties are not primary competitors. The room counts of all secondary competitors are weighted by their assumed degree of competitiveness with the subject property.

The following tables show operating characteristics of the secondary competitors.

Secondary Competitors

Property	Number of Rooms	Year Opened	Distance To Subject
Par-A-Dice Hotel \ Casino	208	1997	3 miles
Best Western Ashland House	98	2001	3 miles
Hampton Inn Peoria East\Casino	154	1993	3 miles
Residents Inn by Marriott	66	1999	3 miles
Stoney Creek Inn East Peoria	165	2000	4 miles
SpringHill Suites from Marriott	124	2000	3 miles
Courtyard Peoria by Marriott	78	Reopened 2005	3 miles
Total	1,137		

Secondary Competitors

Property	Number of Rooms	Est. Segmentation			Total Competitive Level	Estimated 2003			Estimated 2004			Estimated 2005					
		Corporate	Meeting and Convention	Individual Leisure		Weighted Annual Room Count	Average Rate	RevPAR	Occ.	Average Rate	RevPAR	Occ.	Average Rate	RevPAR			
Par-A-Dice Hotel \ Casino	208	30 %	50 %	20 %	30 %	62			62			62					
Best Western Ashland House	98	70 %	10 %	20 %	40 %	39			39			39					
Hampton Inn Peoria East/Casir	154	40 %	40 %	20 %	40 %	62			62			62					
Residents Inn by Marriott	66	40 %	40 %	20 %	70 %	46			46			46					
Stoney Creek Inn East Peoria	165	50 %	15 %	35 %	40 %	66			66			66					
SpringHill Suites from Marriott	124	70 %	10 %	20 %	70 %	87			87			87					
Ramada & Conference Center	244	30 %	50 %	20 %	70 %	171			171			171					
Courtyard Peoria by Marriott	78	70 %	10 %	20 %	70 %	55			27			27					
Totals/Averages	1,137	48 %	30 %	22 %	52 %	588	61.0 %	\$65.32	\$39.84	560	62.5 %	\$67.32	\$42.05	550	64.7 %	\$72.04	\$46.61

In 2005, the secondary competitors achieved an overall weighted occupancy of 63.8% at an average rate of \$71.93 yielding a RevPAR of \$45.90.

**Ramada Inn
Peoria**

The 244-room Ramada Inn opened in 1970. It is located at 4400 North Brandywine Drive, situated off I-74. Owned and operated by Brandywine Hospitality, LLC, hotel amenities include a restaurant, lobby lounge, heated indoor swimming pool and whirlpool, sauna, exercise room, gift shop, business center, and approximately 10,000 square feet of meeting space. Because of its age and subsequent condition, the hotel has only average curb-appeal. As such, improving the Ramada's competitive performance would require additional renovations.

**Par-A-Dice
Hotel**

Located in East Peoria, the Par-A-Dice Hotel is adjacent to the Illinois River. Constructed to meet the needs of Par-A-Dice casino patrons, the hotel runs much higher occupancy rates than the rest of the market averaging an impressive occupancy in excess of 90%. The casino provides the hotel with a consistent stream of customers; in return, the hotel offers complimentary or reduced room rates to preferred customers of the casino.

The Par-A-Dice Hotel offers 208 luxury guestrooms and over 20,000 square feet of plush banquet and meeting space. Facilities are designed to accommodate functions up to 1,000 people. The hotel is currently upgrading its convention and meeting space, both of which were still in good shape.

Amenities include exercise facility, wireless internet in all rooms, including all meeting and banquet facilities, ATM, voicemail, safe deposit boxes, fax service, rollaway beds, and same-day dry cleaning. Dining\entertainment options include the Par-A-Dice Island Buffet, Boyd's Steakhouse, Nelson's Deli and Bourbons

**Best Western
Ashland House**

Built in 2001, the 98-room Best Western Ashland House is eight minutes from Peoria's waterfront in 201 E Ashland Street in Morton, Illinois. Because of its recent construction and generous meeting facilities, HVS included the Best Western in the secondary set of competitors focusing primarily on the meeting and transient/tourist segments of the market.

- The Best Western Ashland House & Conference Center offers over 10,000 square feet of first class meeting and banquet space. Additional amenities include a pool, exercise facility, business center and complimentary breakfast.
- Hampton Inn East Peoria** The 154-room Hampton Inn East Peoria is located off Interstate 74 at exit 95B at #11 Winners Way. Overlooking the Illinois River, the Hampton Inn is located a few hundred feet from the Par-A-Dice Casino's dining and entertainment options. The hotel offers three meeting rooms with a total capacity of 1,224 square feet of meeting space, an indoor pool, business center, and exercise facility.
- Residents Inn Peoria** The three-story 66-room Residence Inn Peoria is located at 2000 West War Memorial Drive. Rooms are larger than the average hotel and include a fireplace, luxury bedding, internet and services aimed to the extended-stay customer. All rooms include a full kitchen with oven, dishwasher, microwave oven, refrigerator, and icemaker, and one meeting room of 294 square feet. The Residents Inn Peoria should outperform the market due to the popularity of the suite concept and the strength of the Marriott franchise
- Stoney Creek Inn** The 164-room Stoney Creek Inn is located off Interstate 74 at the East Port Marina. The hotel has 12 extended stay cottages and full kitchens in every suite. Amenities include a fitness center, business center, gift shop, and a rustic "hearth bar". The conference center offers approximately 5,336 square feet of meeting space. The Eastside Centre sports complex provides a significant amount of weekend business to the property. It is a little over one mile from the Par-A-Dice Casino.
- Holiday Inn Express Peoria** The four-story 85-room Holiday Inn Express is located across the Illinois River in East Peoria. The hotel is located off I-74\exit 95A at 300 Eastlight Court. Hotel features include an indoor pool with retractable roof, exercise room, and meeting space for 25 people.
- Spring Hill Suites by Marriott** The 124-room Spring Hill Suites Peoria is located at 2701 West Lake Street. The hotel has an indoor pool and whirlpool, exercise room, business center, same day valet service, a guest laundry facility and a snack shop. Every room has a kitchen with a microwave, refrigerator, coffee maker and wet bar; every suite also has a business desk, two phone lines with data ports, free local calls, hair dryer, iron & board. Room service is offered by Ruby Tuesday.
- Courtyard by Marriott** Located at 1928 W War Memorial Drive, behind the Northwoods Mall, the Courtyard by Marriott is five miles east of the Shoppes at Grand Prairie and

four miles west of downtown. The 78-room property has one modest meeting room with additional amenities including an exercise room, indoor pool and whirlpool. The Courtyard Cafe offers breakfast items at a competitive price. The Courtyard's competitive performance is expected to outperform the market due to the popularity of the brand concept and the strength of the Marriott franchise.

The previous Courtyard Hotel burned down after lightening struck the property in 2004. A replacement was constructed and opened in June of 2005 making this the newest hotel in the marketplace.

**Additions to
Supply**

It is important to consider any new hotels that may have an impact on the proposed subject property's operating performance. Based on fieldwork and interviews with local hotel operators, developers, and government officials, HVS identified two properties proposed or under development in the Peoria area: the Embassy Suites in East Peoria and the subject hotel.

Embassy Suites

The eight-story 226-room Embassy Suites Hotel and Conference Center is currently under construction. Across the Illinois River in East Peoria, the hotel will feature rooms surrounding a central atrium core. The developers of the hotel John Q. Hammons Hotels and Resorts operate the conference center as well.

As reported by the Economic Development Council for Central Illinois the City of East Peoria contributed to the project by borrowing money to purchase 25-acres of riverfront land and install the basic infrastructure to build the \$10.3 million conference center. Over the next two decades, the hotel and conference center will repay the City using money from property, sales and hotel tax revenue generated by the facility. No tax revenues will flow directly from the complex into the city's operating fund for the next twenty years. If revenues fall, Hammons will cover the shortfall by approximately \$185,000 a year.

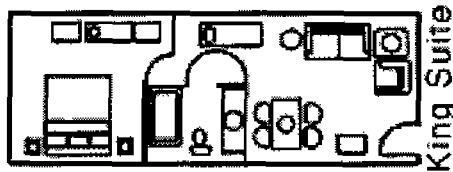
The hotel will have 52,000 gross square feet of meeting and convention space, including a 20,000 square foot ballroom finished to the best of market standards.

Embassy Suites East Peoria



The typical Embassy Suites feature a deluxe two-room guest suite, two television sets with cable, movies, and remote control; a wet bar, microwave, refrigerator, coffee maker, two dual-line speaker telephones with data ports, voice mail, hairdryers, iron, ironing boards in every suite and same day laundry service.

Typical Design of an Embassy Suites Unit



Parking appears to be a significant problem with the civic center site. Located across SW Jefferson Ave, the civic center site will permit about 150 parking spaces, which means that a portion of the parking would be across the street at two city lots. Careful review is necessary to ensure compliance with brand standards. The construction budget for the hotel does not contain funds for a land-lease for the Civic Center parking or the purchase of land and the construction of surface parking for the other needed parking.

The subject property will compete directly with the Embassy Suites now under construction in East Peoria directly on the other side of the Illinois River. The Embassy Suites reportedly received the land, certain infrastructure and the conference center from the City of East Peoria as part of the \$20.0 million package to induce construction of the hotel. To compete with the Embassy Suites, the subject property must be developed at a similar cost per room. The subject hotel will also contain a restaurant and lounge.

Overview of Features for a Hilton Hotel

Comfort	Convenience	Safety
250 Thread Count Sheets	Coffee Maker	Audible alarms
25 inch Television	Computer	Automatic Door Closer
Air Conditioning	Convenient Electrical Outlets	Controlled Access
Alarm Radio	Crabtree and Evelyn Amenities	Double Locking Doors
Bolster Pillow	Cuisinart Coffeemaker	Electronic Smoke Detector
Complimentary HBO(R)	Desk Level Electric Plugs	Emergency Call Button on
Connecting Rooms	Desk Level HSA Connection	Night Light
Curved Shower Rod	Desk Level Phone Jacks	Scald Proof Shower/Tub
Designer Throw Blanket	Evening Room Service Available	Secondary Locking
Duvet Covers	Fax	Thumb Dead Bolt
Ergonomic Desk Chair	Hairdryer	
Feather Pillows Non Allergenic	Hand Held Shower	
Flexible Work Environment	High Speed Internet Access	
Granite Counter Tops/Vanities	In-Suite Coffee	
Hilton Eat Right Menu	Iron	
Hilton Serenity Bed Program	Ironing Board	
Hilton Serenity CollectionTM	Laundry Valet Caddy	
Movie Channel	Microwave	
Jacuzzi	Mini Bar	
Jetted Tub/Hydro Spa	Mini Refrigerator	
Large Arm Chair with Ottoman	Newspaper M-F (USA Today)	
Lever Door Handles	Remote-Controlled Television	
Non-Smoking	Rollaways	
On-Demand Movies	Surge Protected Desk Outlets	
On-Demand Video Games	Telephone - Auto Wakeup	
Thermostat (adjustable)	Telephone - in Bath	
Three Jet Body Shower	Telephone - Two Lines	
Throw Blankets	Telephone - Two Phones	
TV-Cable	Telephone - Voice Mail	
TV-Pay per view	Telephone - with Dataport	
TV-Premium HBO,CNN,ESPN	Telephone-with Speaker phone	
TV-Standard Network	Two Phones with Dataport	
Video Games on TV	Two Phones with Speaker	
Workstation	Two Phones with Voicemail	
	Valet / Self Laundry Available	

The subject hotel would need to contain additional meeting and convention space to supplement civic center space and to remain competitive with the Embassy Suites. To stay competitive and maintain adequate occupancy rates, the subject hotel would need to attract and book smaller events; making extensive in-house meeting space a necessity.

Estimate of Needed Banquet Space for Hilton

Type of Room	Sq Ft	Banquet Capacity	Size
Ballroom	10,000	850	175' x 55.42'
Meeting	1,327	80	52.83' x 26'
Meeting	1,210	70	55.42' x 23'
Meeting	688	40	27.67' x 25.42'
Meeting	675	40	27.75' x 25.5'
Meeting	624	40	26.5' x 24.17'
Meeting	600	40	25' x 24.67'
Meeting	414	30	23' x 18.17'
Meeting	375	25	25.5' x 15.25'
meeting	313	20	20.8' x 15.0'
Gross to Net	4,774		
Est Gross Square Feet	21,000		

Source: HVS

Proposed Competitors

Proposed Property	Number of Rooms	Total Competitive Level
Proposed Property	250	100%
Embassy Suites East Peoria	226	75%
Totals/Averages	476	

Source: HVS

Conclusion

HVS identified five primary competitors, eight secondary competitors and the Embassy Suites (under construction) as potential competitors of the subject property. In 2005, the total competitive supply achieved an estimated 60% occupancy at a \$75 average rate, resulting in a RevPAR of \$45. Within the next three years, new supply will enter the market affecting the overall operating performance and occupancy rates of the market.

8. Projection of Occupancy

Along with average rate results, the occupancy levels achieved by a hotel are the foundation of the property's financial performance and market value. Most of a lodging facility's other revenue sources (such as food, beverages, and telephone income) are driven by the number of guests, and many expense levels also vary with occupancy. Consequently, a well-documented forecast of occupancy is essential.

To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a competent hotel management team to achieve an optimal mix of occupancy and average rate.

Penetration Rate Analysis

The subject property's forecasted market share and occupancy levels are based upon its anticipated competitive posture within the market, as quantified by its penetration rate. The penetration rate is the ratio of a property's market share to its fair share.

In this equation, market share represents that portion of total market demand accommodated by a property and fair share represents the subject hotel's portion of the total supply (calculated as the subject's room count divided by the total supply of the market at large).

If a property with a fair share of 5% is capturing 5% of the market demand in a given year, then its occupancy will equal the marketwide occupancy, and its penetration rate will equal 100% ($5\% \div 5\% = 100\%$). If the same property achieves a market share in excess of its fair share, then its occupancy will be greater than the marketwide occupancy, and its penetration rate will be greater than 100%. For example, if a property's fair share is 5% and its market share is 7%, then its penetration rate is 140% ($7\% \div 5\% = 140\%$). Conversely, if the property captures less than its fair share, then its occupancy will be below the marketwide average, and its penetration rate will be less than 100%.

Penetration rates can be calculated for each market segment of a property, and for the property as a whole. For example, leisure segment penetration can be determined by: 1) dividing the subject property's leisure room nights captured (property's total room nights captured multiplied by property's leisure segment percentage) by: 2) the hotel's fair share of total areawide leisure demand (property's fair share percentage multiplied by the market's total leisure room night demand). Simplifying the formula, a hotel's market share percentage divided by its fair share percentage equals its market penetration. In essence, a penetration above 100% in a certain market segment indicates that the hotel is capturing more than its fair share of that source of demand, while a penetration rate below 100% indicates that a hotel is capturing less than its fair share of demand. A penetration of 100% indicates that the hotel is capturing its pro-rata share of the market segment's room night demand.

**Explanation of
Market Share &
Penetration Rate
Adjustment**

The subject's occupancy is forecast by estimating the hotel's penetration by market segment for each year of the forecast period. The estimation of penetration rates is based upon our review of the historical penetration rates of the subject's competitors. If all of the competitors are expected to remain stable in their ability to penetrate the market, then the historical penetration rates may be appropriately projected to remain the same throughout the forecast period. However, when additions to supply are anticipated or if a particular hotel is expected to alter its ability to compete in some way (e.g. through a refurbishment or change in brand or management), then penetration rates for all the hotels in the market must be adjusted. The reason for the need to adjust the penetration rates of all the hotels in the market is due to the circular calculation of the penetration rate. A hotel's penetration rate is calculated as its market share of demand divided by its fair share of demand. If one hotel's penetration rate increases, thereby increasing its market share and leaving less demand for the other hotels in the market to capture, then the penetration rates of the remaining hotels automatically decline (all other things being equal).

For example, let us assume that a hotel is slated for a renovation and repositioning, thus enabling the hotel to improve its occupancy through increased market penetration. A higher penetration by one hotel will result in a larger capture of room nights by that hotel, thus leaving a reduced number of room nights to be shared by the rest of the competitive set. The additional room nights captured by this hotel will come out of the same finite pie of demand from which the other hotels in the market draw their demand. Any inducement of new demand due to the repositioning will have already have

been built into the forecast of marketwide demand in the forecast of marketwide occupancy.

A similar impact is felt when a new hotel is added to the market. Penetration rates for the new hotel are forecast. The penetration rates are multiplied by the hotel's fair share percentage (calculated as the hotel's fair share of supply) to calculate the hotel's market share percentage. The hotel's market share percentage is then multiplied by the total demand forecast for that market segment in that year, resulting in the room nights captured by the new hotel in that segment. When the new hotel enters the market the penetration of all the existing hotels will automatically be impacted because they will each be capturing a smaller amount of the demand pie once the new hotel takes its share. If the new hotel captures less than its fair share of demand then the penetration rates of the existing hotels will increase, and alternatively, if the new hotel captures greater than its fair share of demand then the penetration rates of the existing hotels will decline. Thus, the penetration rate of a stable hotel is often impacted year to year by the penetration rates of its competitors.

An existing hotel may retain the same number of room nights captured in a particular market segment when a new hotel is added to the market, but that hotel's penetration rate must increase to do so. This is because the existing hotel's fair share percentage declines as new rooms are added to the market, and so to remain at the same level of room night capture its penetration rate must increase (rooms night captured = fair share x penetration rate x total market segment demand). A complete description of this process is presented in an addendum to this report.

In the following table, the penetration rates attained by the primary competitors are set forth for each segment for the base year, 2005. The results are used as a basis for our forecast of penetration rates for the subject and each competitive hotel into the future.

**Historical
Penetration
Rates by
Market
Segment**

Historical Penetration Rates

Property	Corporate	Meeting and Convention	Individual Leisure	Overall
Staybridge Suites Hotel IHG	172 %	39 %	120 %	120 %
Hotel Pere Marquette	67	172	13	89
Holiday Inn Peoria City Centre IHG	74	117	90	91
Radisson Hotel Peoria Carlson	109	16	193	97
Mark Twain Hotel	143	32	100	100
Secondary Competition	107	103	118	108

Source: HVS

Projected Penetration Rates by Market Segment

Penetration rates for the proposed subject property and each of the competitive hotels have been forecast based upon the historical performance of each property and the changes we foresee in the marketplace going forward. Changes in market share and penetration rates are expected due to additionally, existing hotel properties may be repositioning within the market based on new supply proposed for the area.

The following tables set forth - by market segment - the projected adjusted penetration rates for the proposed subject property and each hotel in the competitive set throughout the projection period.

Corporate Segment Adjusted Penetration Rates

Hotel	2005	2008	2009	2010	2011	2012	2013	2014	2015
Staybridge Suites Hotel IHG	172 %	164 %	161 %	160 %	159 %	159 %	159 %	159 %	159 %
Hotel Pere Marquette	67	86	84	84	83	83	83	83	83
Holiday Inn Peoria City Centre IHG	74	65	64	63	63	63	63	63	63
Radisson Hotel Peoria Carlson	109	104	102	101	101	100	100	100	100
Mark Twain Hotel	143	152	150	149	148	148	148	148	148
Secondary Competition	107	102	100	99	99	99	99	99	99
Proposed Property	0	0	108	112	116	115	115	115	115
Embassy Suites East Peoria	0	109	110	112	113	115	115	115	115

Source: HVS

Meeting and Convention Segment Adjusted Penetration Rates

Hotel	2005	2008	2009	2010	2011	2012	2013	2014	2015
Staybridge Suites Hotel IHG	39 %	39 %	39 %	39 %	39 %	39 %	39 %	39 %	39 %
Hotel Pere Marquette	172	168	154	145	144	144	144	144	144
Holiday Inn Peoria City Centre IHG	117	112	100	100	100	100	100	100	100
Radisson Hotel Peoria Carlson	16	20	20	20	20	20	20	20	20
Mark Twain Hotel	32	33	32	32	32	32	32	32	32
Secondary Competition	103	105	103	103	103	103	103	103	103
Proposed Property	0	0	134	140	139	139	139	139	139
Embassy Suites East Peoria	0	107	110	115	120	120	120	120	120

Source: HVS

Individual Leisure Segment Adjusted Penetration Rates

Hotel	2005	2008	2009	2010	2011	2012	2013	2014	2015
Staybridge Suites Hotel IHG	120 %	116 %	118 %	118 %	118 %	118 %	118 %	118 %	118 %
Hotel Pere Marquette	13	13	13	13	13	13	13	13	13
Holiday Inn Peoria City Centre IHG	90	88	89	89	89	89	89	89	89
Radisson Hotel Peoria Carlson	193	214	217	217	217	217	217	217	217
Mark Twain Hotel	100	97	99	99	99	99	99	99	99
Secondary Competition	118	115	117	117	117	117	117	117	117
Proposed Property	0	0	89	89	89	89	89	89	89
Embassy Suites East Peoria	0	97	99	99	99	99	99	99	99

Source: HVS

Forecast of Subject Property's Occupancy

Market Segment	2009	2010	2011	2012	2013	2014	2015
Corporate							
Demand	185,494	187,616	188,536	189,460	190,390	191,324	192,262
Market Share	13.5 %	14.0 %	14.4 %	14.4 %	14.4 %	14.4 %	14.4 %
Capture	25,014	26,184	27,207	27,277	27,411	27,545	27,680
Penetration	108 %	112 %	116 %	115 %	115 %	115 %	115 %
Meeting and Convention							
Demand	136,089	144,993	145,564	146,138	146,715	147,295	147,877
Market Share	16.8 %	17.5 %	17.4 %	17.4 %	17.4 %	17.4 %	17.4 %
Capture	22,867	25,363	25,355	25,455	25,556	25,657	25,758
Penetration	134 %	140 %	139 %	139 %	139 %	139 %	139 %
Individual Leisure							
Demand	73,165	74,843	76,169	76,531	76,894	77,259	77,626
Market Share	11.1 %	11.1 %	11.1 %	11.1 %	11.1 %	11.1 %	11.1 %
Capture	8,123	8,309	8,456	8,496	8,537	8,577	8,618
Penetration	89 %	89 %	89 %	89 %	89 %	89 %	89 %
Total Room Nights Captured	56,003	59,856	61,019	61,228	61,503	61,779	62,056
Available Room Nights	91,250	91,250	91,250	91,250	91,250	91,250	91,250
Subject Occupancy	61 %	66 %	67 %	67 %	67 %	68 %	68 %
Marketwide Available Room Nights	730,402	730,402	730,402	730,402	730,402	730,402	730,402
Fair Share	12 %	12 %	12 %	12 %	12 %	12 %	12 %
Marketwide Occupied Room Nights	394,748	407,452	410,269	412,129	413,999	415,878	417,766
Market Share	14 %	15 %	15 %	15 %	15 %	15 %	15 %
Marketwide Occupancy	54 %	56 %	56 %	56 %	57 %	57 %	57 %
Total Penetration	114 %	118 %	119 %	119 %	119 %	119 %	119 %

Source: HVS

According to expectations, the subject property will realize a ramp-up period in order to achieve penetration typical of a full-service, first-class hotel. We expect the subject property's penetration levels to remain relatively stable in the corporate market segment while increasing moderately and consistently in the meeting and group market segment following the introduction of the full-service hotel supply to the area, the proposed subject property's overall penetration level is expected to stabilize at roundly 119% throughout the projection period.

The following table summarizes the proposed subject property's projected market segmentation.

Subject Property's Market Segmentation

	2009	2010	2011	2012	2013	2014	2015
Corporate	45 %	44 %	45 %	45 %	45 %	45 %	45 %
Meeting and Convention	41	42	42	42	42	42	42
Individual Leisure	15	14	14	14	14	14	14
Total	100 %	100 %	100 %	100 %	100 %	100 %	100 %

Source: HVS

The proposed subject property is expected to accommodate a stable percentage of corporate demand as it stabilizes. However, the commercial market segment is anticipated to remain a strong market segment for the subject property, accounting for 45% of the proposed subject property's overall demand. The subject property is expected to establish itself as a leader in the meeting and group segment due to its unique attachment to the civic center; the meeting and group segment is expected to be a dominant market segment for the subject property accounting for roughly 42% of the property's overall occupancy by its stabilized year. Demand associated with the leisure market segments is expected to remain relatively constant as a result of the property's moderate accommodation of demand in these segments.

Based on the preceding analysis, the following forecast of occupancy results. Dividing the total number of room nights captured by the subject property's annual number of available room nights (calculated as 250 x 365) produces the projected occupancy percentage.

Subject Property's Occupancy Forecast

	2009	2010	2011	2012	2013	2014	2015
Total Room Nights Captured	56,003	59,856	61,019	61,228	61,503	61,779	62,056
Available Room Nights	91,250	91,250	91,250	91,250	91,250	91,250	91,250
Subject Occupancy	61.4 %	65.6 %	66.9 %	67.1 %	67.4 %	67.7 %	68.0 %
Rounded	61 %	66 %	67 %	67 %	67 %	68 %	68 %

Source: HVS

For the purpose of forecasting the effect of the subject property on the other properties, we will use the following occupancy levels:

Forecast of Occupancy

Year	Subject Property's Occupancy
2009	61%
2010	66%
2011	67%
2012	67%
2013	67%
2014	67%

Source: HVS

Based on our analysis of the property and competitive market, we have selected a stabilized occupancy of 67%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given any and all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

9. Average Rate Analysis

One of the most important considerations in estimating the value of a lodging facility is a supportable forecast of its attainable average rate, or the average rate per occupied room. Average rate can be calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which in turn provides the basis for estimating most other income and expense categories.

The Concept of Average Rate

A hotel's average room rate is the weighted average of the various amounts charged to different market segments, such as rack rates, published rates, commercial rates, and contract rates. The average rate also takes into account differentials during peak and off-peak periods, including various seasons of the year, holidays, and weekends. Different types of rooms may also command varying rates, and thus have an impact on the overall average rate. The following is a description of several typical rate categories.

Rack Rate – an undiscounted room rate generally given to anyone who does not qualify for or request a discounted rate. The term is derived from the room rack (now a computer terminal) at the front desk, which contains information about each room's rate, including the highest amount that can be charged for that type of unit. When a hotel is expected to be full during a certain period or when a guest arrives without a reservation, the rack rate is usually the only rate available. The average rate is almost always lower than the rack rate.

Published Rate – the rate listed in directories and other publications. This rate is usually quoted as a range (i.e., single: \$70-\$100), and represents the various rack rates for specific types of accommodations. Published rates usually set the upper limit of average rate, and average rates tend to be closest to published rates in the case of single (rather than double) rooms.

Commercial Rate – is a discounted rate available to certain commercial travelers. Some hotels charge all commercial travelers a commercial rate upon request, while others offer it only to established accounts based on their projected use of the hotel. Commercial rates vary because they can be negotiated between the business and the hotel. These rates are always below the rack and published rates and, depending on the market mix, may approximate the property's average rate.

Contract Rate – is a discounted rate available to specific high-volume users, such as airlines, convention groups, and bus tours. Contract rates are negotiated and often apply to a block of rooms that are reserved on an ongoing basis and paid for regardless of use. Depending on the amount of use and the time it occurs, a contract rate may be heavily discounted and thus significantly lower than both the average rate and the commercial rate.

Complimentary Rooms – It is customary for hotels to provide rooms to very important guests on a complimentary basis. When performing a room night analysis, complimentary rooms should be included in the occupancy projection, because these occupied rooms represent actual demand (although they generate no revenue). However, the inclusion of complimentary rooms in the occupancy lowers the calculated average rate, and thus the treatment of complimentary rooms in the average rates obtained from competitive properties must be consistent in order to draw an accurate rate comparison.

In forecasting average room rate for a proposed hotel, the average rates of similar hotels operating in the same market are examined as a starting point and future rate changes are forecast based on market conditions and the proposed property's relative competitiveness. The process is outlined as follows:

1. The average room rates for the competition are researched and compared to determine whether the proposed rates for the subject reflect market conditions, competent management and buyer's expectations.
2. Factors that impact future trends in room rate inflation are analyzed and projected annual inflationary changes are then quantified.
3. The proposed subject property's average room rate is quantified and projected into the future utilizing either the competitive positioning or the market segmentation method. These two methods are described as follows:

Competitive Positioning Method - competitive positioning starts with the analysis of the average room rates currently achieved by the local competitive

hotels. These rates establish a range within which the room rate for the subject property should fall. The likely average rate for the subject property is then compared to the average rate of the hotel in the sample that is most similar in quality, size, facilities, amenities, market orientation, location, management, image and affiliation. Upward and/or downward adjustments are made to the subject's average rate to reflect any differences between the comparable and the subject that might be realized by affiliation or positioning. The competitive positioning method works well if the subject property is an existing hotel and a comparable is present in the market.

Market Segmentation Method - in applying the market segmentation method, an average room rate is developed by individual market segments. This method starts with the previously developed demand forecast for the subject property, which includes a projection of the number of room nights captured for each market segment. Using the room rates charged on a segmented basis by the subject and competitive properties as a base, a room rate estimate is developed for each market segment. The estimated room rate for each market segment is then multiplied by the projected number of room nights captured and the results are totaled to yield the total rooms revenue. An average rate can be calculated by dividing the total rooms revenue by the number of rooms occupied. The advantage of the market segmentation method is its ability to adjust the projected average room rate for changes in market mix. The disadvantage is that detailed rate data for each competitor in the market is not usually public knowledge and is difficult, if not impossible, to obtain.

**Competitive
Position**

Although the average rate analysis presented here follows the occupancy projections, these two statistics are highly correlated; in reality, one can not project occupancy without making specific assumptions regarding average rate. This relationship is best illustrated by rooms revenue per available room (RevPAR), which reflects a property's ability to maximize rooms revenue. The following table summarizes the 2005 average rate and RevPAR levels of the subject property's competitors.

Average Rate and RevPAR of the Competitors

Property	Estimated 2005 Average Room Rate	Rooms Revenue Per Available Room
Staybridge Suites Hotel IHG	\$75.00	\$54.00
Hotel Pere Marquette	83.63	44.66
Holiday Inn Peoria City Centre IHG	71.14	38.66
Radisson Hotel Peoria Carlson	65.00	37.71
Mark Twain Hotel	96.00	57.65
Average	\$76.83	\$43.95

Source: HVS

**Market
Segmentation**

This technique begins with an analysis of the room rates commanded by local hotels in each market segment. Using this information, we can forecast the subject property's rate on a segment-by-segment basis. The projected rate in each segment is then multiplied by the number of room nights the hotel is expected to capture in that segment (as determined earlier in this analysis). These amounts are totaled, yielding the overall rooms revenue. Average rate is then calculated by dividing the property's total rooms revenue by the estimated number of occupied rooms. The advantage of the market segmentation method is its ability to reflect anticipated changes in the subject property's market mix and their impact on average rate.

**Average Rate
Increases**

It is important to note that hotel room rate increases do not necessarily conform to the underlying monetary inflation rate, because lodging facilities are influenced by market conditions such as the relationship between supply and demand. A hotel's ability to raise room rates is affected by a number of factors, including:

Supply and Demand Relationships – the relationship between supply and demand is one of the factors that determine hotel occupancies and average rates. Strong markets, where lodging demand is increasing faster than supply, are often characterized by rate growth that exceeds inflation. Markets that are overbuilt or suffering from declining demand are unlikely to exhibit any significant increases in average rates.

Inflationary Pressures – price increases caused by inflation affect hotel room rates by eroding profit margins and encouraging operators to raise prices. This strategy is effective only in markets that are characterized by a healthy supply and demand relationship.

Improving the Competitive Standard – when a new lodging facility enters a mature market; its rates may be set higher than the marketwide average in an effort to justify the development costs. This may allow other competitors to achieve corresponding gains by effectively raising the amount the market will bear. However, if the addition to supply has a severe impact on the occupancy levels of other hotels, price competition may ensue.

Property-Specific Improvements – changes that make a hotel more or less attractive to guests can have an impact on average rate. An expansion, renovation, upgrading, or the introduction of additional facilities and amenities may enable greater-than-inflationary room rate increases. Likewise, deferred maintenance may make a property less competitive, engendering a decline in room rates.

In determining average rate projections, changes that occur prior to occupancy stabilization are generally attributable to factors that are specific to the property and the market. After a hotel achieves a stabilized occupancy, room rates are generally expected to continue to increase at the underlying inflation rate throughout the remainder of the projection period.

Based on these considerations, the following table identifies the positioned segmented average rates and the growth rates that have been applied to each rate through the stabilized year. In general we expect room prices to move in line with the general rate of inflation. The ADR is increased faster than the inflation rate in 2007 and 2008 to account for the upward pull on rates from the higher rates structures of the new hotels.

Forecast of Average Rate Growth											
	2005 Average Room Rate	Projected Growth Rate									
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Corporate	\$115.00	3.0 %	4.0 %	3.0 %	4.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %
Meeting and Conventio	108.00	3.0	4.0	3.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0
Individual Leisure	105.00	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0

Source: HVS

The following table illustrates the methodology HVS used to project the subject property's average rate.

Subject Property's Average Rate Forecast

	2009	2010	2011	2012	2013	2014	2015
Corporate							
Average Rate Growth	4.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %
Captured Room Nights	25,014	26,184	27,207	27,277	27,411	27,545	27,680
Rooms Revenue	\$3,300,758	\$3,558,836	\$3,808,904	\$3,933,177	\$4,071,043	\$4,213,744	\$4,361,449
Average Rate	\$131.96	\$135.92	\$140.00	\$144.20	\$148.52	\$152.98	\$157.57
Meeting and Convention							
Average Rate Growth	4.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %
Captured Room Nights	22,867	25,363	25,355	25,455	25,556	25,657	25,758
Rooms Revenue	\$2,833,802	\$3,237,413	\$3,333,551	\$3,447,097	\$3,564,525	\$3,685,969	\$3,811,567
Average Rate	\$123.93	\$127.64	\$131.47	\$135.42	\$139.48	\$143.67	\$147.97
Individual Leisure							
Average Rate Growth	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %
Captured Room Nights	8,123	8,309	8,456	8,496	8,537	8,577	8,618
Rooms Revenue	\$959,941	\$1,011,423	\$1,060,219	\$1,097,208	\$1,135,490	\$1,175,108	\$1,216,111
Average Rate	\$118.18	\$121.72	\$125.38	\$129.14	\$133.01	\$137.00	\$141.11
Total							
Average Rate Growth	#DIV/0!	3.0 %	3.1 %	3.0 %	3.0 %	3.0 %	3.0 %
Captured Room Nights	56,003	59,856	61,019	61,228	61,503	61,779	62,056
Rooms Revenue	\$7,094,501	\$7,807,672	\$8,202,674	\$8,477,482	\$8,771,058	\$9,074,822	\$9,389,126
Average Rate (Before Discount)	\$126.68	\$130.44	\$134.43	\$138.46	\$142.61	\$146.89	\$151.30
Average Rate Penetration	150.1 %	150.1 %	150.2 %	150.2 %	150.2 %	150.2 %	150.2 %
Marketwide Average Rate Growth	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %
Marketwide Average Rate	\$84.38	\$86.91	\$89.52	\$92.20	\$94.97	\$97.82	\$100.75

Source: HVS

The following average rates are used to project the subject property's effect on the other downtown properties.

Forecast of Average Rate

Year	Average Rate
2009	\$126.68
2010	\$130.44
2011	\$134.43
2012	\$138.46
2013	\$142.61
2014	\$146.89

Source: HVS

10. Development Cost Review

In performing a cost analysis, HVS utilized the actual developer's budget estimates received as part of the RFP process for the Civic Center Hotel as a starting point. These budgets takes into consideration the physical, structural, and design elements specific to the property, making it the most accurate assessment of the subject hotel's actual cost.

Development Cost Budget

Item	Cost
Improvements	\$28,250,000
Furniture, Fixtures, & Equipment	4,750,000
Land	Land Lease
Total Cost New Estimate	\$33,000,000

Source: HVS

To check against the developer's budget, we used a hotel development cost survey conducted by HVS International. This survey is published annually in a newsletter entitled *The Hotel Valuation Journal*. The survey presents the range of per room costs associated with various components of hotel development including improvements, furniture and equipment, pre-opening expenses, and operating capital. Statistics are compiled for budget hotels, mid-scale hotels with/without food and beverage, extended-stay hotels, full-service and luxury hotels. The results of this survey are presented in the following table.

Hotel Development Cost Survey (Amounts per Room)

	Land		Building and Site Improvements		Soft Costs		FF&E		Pre-Opening and Working Capital		Total	
2004												
Budget/Economy Hotels	\$4,100	- \$25,400	\$22,000	- \$69,300	\$600	- \$12,200	\$4,100	- \$15,300	\$1,300	- \$6,400	\$32,700	- \$109,100
Midscale Hotels w/o F&B	4,100	- 33,100	37,900	- 132,900	2,000	- 36,600	5,000	- 20,200	800	- 22,300	51,100	- 190,100
Extended Stay Hotels	2,400	- 44,500	43,400	- 138,800	2,000	- 42,500	3,200	- 20,400	600	- 10,700	57,300	- 198,800
Midscale Hotels w/ F&B	3,600	- 53,300	38,400	- 163,300	3,100	- 41,700	6,000	- 30,600	1,000	- 17,000	57,300	- 237,000
Full-Service Hotels	3,500	- 93,100	50,800	- 233,600	2,100	- 72,900	7,600	- 40,400	1,700	- 29,300	77,100	- 339,700
Luxury Hotels and Resorts	12,900	- 231,800	157,700	- 1,123,100	24,300	- 222,300	31,100	- 104,600	9,700	- 45,100	343,500	- 1,406,500
2003												
Budget/Economy Hotels	\$4,100	- \$25,400	\$20,800	- \$65,400	\$600	- \$6,500	\$3,100	- \$15,000	\$1,200	- \$6,400	\$32,400	- \$108,000
Mid-Scale Hotels w/o F&B	4,200	- 33,100	30,200	- 108,200	2,800	- 36,200	5,500	- 16,500	1,200	- 12,500	53,000	- 188,200
Extended-Stay Hotels	5,600	- 42,800	45,500	- 130,900	3,800	- 41,700	7,800	- 20,000	1,300	- 8,500	74,400	- 193,000
Mid-Scale Hotels with F&B	3,500	- 65,200	36,200	- 154,100	3,000	- 41,600	6,200	- 23,000	1,300	- 7,800	61,100	- 227,900
Full-Service Hotels	5,800	- 89,500	54,300	- 222,500	3,500	- 72,000	6,800	- 50,100	1,600	- 23,100	78,200	- 323,500
Luxury Hotels and Resorts	36,000	- 220,800	150,200	- 1,069,600	33,000	- 214,100	47,100	- 116,600	15,600	- 45,100	333,500	- 1,365,500
2002												
Budget/Economy Hotels	\$4,500	- \$14,100	\$20,800	- \$51,800	\$400	- \$4,100	\$2,900	- \$14,700	\$1,100	- \$5,300	\$32,900	- \$79,200
Mid-Scale Hotels w/o F&B	4,200	- 32,100	30,100	- 105,000	2,000	- 35,200	5,300	- 16,300	1,200	- 12,300	49,000	- 188,200
Mid-Scale Hotels with F&B	3,400	- 50,700	36,200	- 161,800	3,000	- 40,500	6,100	- 21,800	1,300	- 7,700	61,100	- 203,900
Full-Service Hotels	5,400	- 57,300	52,500	- 235,900	3,400	- 70,700	6,700	- 48,400	1,500	- 22,900	53,400	- 323,500
Luxury Hotels and Resorts	36,000	- 128,300	150,200	- 322,900	32,900	- 140,400	44,300	- 98,300	15,100	- 28,500	353,300	- 804,000
2001												
Budget/Economy Hotels	\$4,400	- \$9,500	\$13,500	- \$44,600	\$300	- \$3,400	\$2,900	- \$12,700	\$800	- \$5,400	\$29,800	- \$65,500
Mid-Scale Hotels w/o F&B	5,500	- 27,500	28,500	- 84,000	1,400	- 18,000	4,500	- 19,000	1,000	- 12,600	43,500	- 136,600
Mid-Scale Hotels with F&B	6,000	- 31,500	28,200	- 157,200	3,200	- 40,900	6,700	- 21,100	1,600	- 9,200	50,500	- 205,500
Full-Service Hotels	8,000	- 79,500	53,000	- 227,800	3,600	- 67,800	11,500	- 41,000	2,300	- 23,200	67,200	- 336,200
Luxury Hotels and Resorts	18,500	- 115,200	145,000	- 290,500	25,000	- 140,100	36,000	- 106,700	5,500	- 28,500	254,300	- 584,000

Source: HVS International

As illustrated by the previous table, hotel development costs in 2001 experienced a decrease on the low end of the range for some improvement categories. Meanwhile, the high end of the range continued to increase, widening the development cost range for all property types. In 2002, costs increased in all developments categories shown above. The 2003 development cost survey incorporates new trends in hotel development that directly affected the survey results. In addition to the impact of material price increases, the geographic distribution and type of hotel development influenced the ranges: the high end of per-room costs ranges in the budget/economy and mid-scale with food and beverage categories pushed upward by development budgets for hotels in Manhattan. And the decline in the low end of the range of per-room costs for the luxury segment is based on development budgets for five-star hotels constructed as part of mixed-use projects. 2004 saw a continuation of this trend as the high-end of the total cost continues to rise.

Based on plans for the subject property, the subject property will be classified in the full-service category due to substantial improvements. As noted, subject guestrooms featured granite vanity tops and bathroom tile upgrades relative to typical Courtyard properties. Total development costs, including land, in the full-service category range from \$66,400 to \$323,500 per room.

**Building & Site
Improvements**

Improvements include all buildings and other relatively permanent structures located on, or attached to, the subject parcel. The cost of the improvements includes costs of materials, fees, and labor. HVS estimates the development cost of the subject property's improvements to be roughly \$105,000 per room, or a total of \$26,250,000.

**Furniture, Fixtures
& Equipment**

Furniture, fixtures, and equipment (FF&E) include all non-permanent, removable items at the subject property, such as guestroom furnishings, kitchen equipment, and items of decor. The cost of the furniture, fixtures, and equipment, along with all fees associated with installing and furnishing the items in the subject property comprise the total cost of furniture, fixtures, and equipment. We estimate the development cost of the subject property's furniture, fixtures, and equipment at roundly \$19,000 per room, or a total of \$4,750,000.

**Pre-Opening &
Working
Capital Costs**

Pre-opening costs include expenses such as marketing, staffing, training and administrative expenditures. Working capital includes a working capital reserve to maintain adequate cash flow until the operation reaches a break-

even point. We estimate the pre-opening costs for the subject property to be roughly \$5,000 per room, or a total of \$1,250,000.

Soft Costs

Soft costs include items other than labor and material that are necessary for construction, but are not typically part of the construction contract. Soft costs can include professional fees, financing costs and the interest paid on construction loans, taxes and the builder's or developer's all-risk insurance during construction, marketing, sales, and lease-up costs incurred to achieve occupancy or sales. We estimate the amount of operating capital for the subject property to be roundly \$3,000 per room, or a total of \$750,000.

Development Cost

Based on the preceding analysis, we estimate the development cost of the proposed subject property as follows.

Development Cost

Item	Cost per Room	Cost
Building	\$105,000	\$26,250,000
Furniture, Fixtures, & Equipment	19,000	4,750,000
Pre-Opening	5,000	1,250,000
Operating Capital	3,000	750,000
Total Replacement Cost	\$132,000	\$33,000,000

Source: HVS

Land Cost

The Peoria Civic Center owns the site for the proposed hotel and they would be willing to enter into a long-term land lease at \$1 per year. Since we have not been asked to perform an appraisal of the property, for the purposes of this study we will rely on this estimate of land Value, rather than arrive at our own estimate of land value. The city of Peoria would also contribute parking for the project

Developer's profit represents the entrepreneurial incentive anticipated by hotel developers to induce the construction of a new hotel project. As a result of economic conditions in the hotel industry, developer's profit has not always been in evidence. If the economic value of a new hotel does not exceed development cost, indicating that developers will not earn any profit from their effort, it would most likely not be a project which would be completed since the financial incentive is not present.

Allocation of Developer's Profit

The developer's profit is not included in these calculations.

Development Cost Conclusion

Combining the improvement cost, the furniture, fixtures, and equipment, soft, opening, and land costs estimates yield the subject property's total development cost of \$33,000,000 excluding developer's profit.

Total Development Cost

Item	Cost
Improvements	\$28,250,000
Furniture, Fixtures, & Equipment	4,750,000
Land	Land Lease
Total Cost New Estimate	\$33,000,000

Source: HVS

It is important to note that this cost estimate is prior to any developer's profit allocation. In most hotel development projects, developer's profit can range from 10-20% of the project's total cost. This range is often determined by the difference in the market value of the project versus the total development cost. The remaining excess value is typically referred to as developer's profit.

Conclusion

To estimate development costs for the Subject Property, HVS quantified several components of the total property. The land value was estimated based on its current contracted price. The development cost of the building improvements was estimated based on a hotel development cost survey conducted by HVS International.

11. Impact of Proposed Civic Center Hotel on the Peoria Market

HVS analyzed the Peoria hotel market and projected the financial performance of a proposed full-service convention center hotel adjacent to the Civic Center (“Civic Center Hotel”). The analysis and projections are described in our Hotel Market and Feasibility Study report. In addition, HVS was asked to determine the effects a new downtown full-service hotel would have on existing downtown hotel properties. The purpose of this supplemental report is to provide an independent analysis of the Civic Center Hotel’s impact on its primary hotel competitors.

HVS identified five (5) hotels that would compete with the Civic Center Hotel. Selection of these competitors was based upon proximity to the convention center and estimates of current and future demand for room nights generated by Civic Center complex activities. HVS specifically directed its analysis at these primary competitors:

- The three primary downtown properties, the **Pere Marquette**, the **Holiday Inn**, and the **Mark Twain**; they are all full-service hotels with significant amounts of convention and meeting space.
- The limited-service **Staybridge Suites Hotel**, which offers extended stay accommodations.
- The **Radisson**, a full-service property is a five minute drive from the Civic Center. This hotel receives a significant amount of business from the civic center when citywide events occur; but with limited meeting space, it competes primarily in transient corporate and leisure segments of the marketplace.

The following table summarizes the primary characteristics of the competitive properties.

Primary Competitive Properties

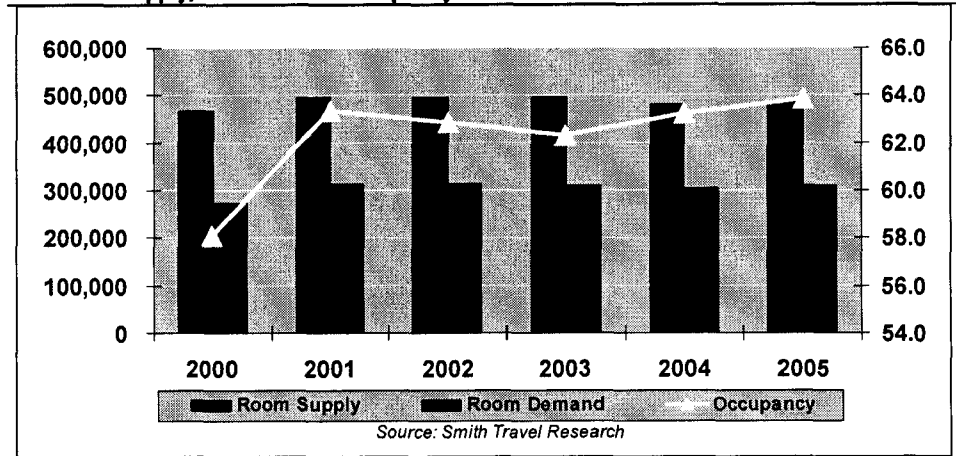
Property	Number of Rooms	Year Opened	Meeting Space (SF)
Staybridge Suites Hotel IHG	106	1993	1,024
Hotel Pere Marquette	287	1927	18,000
Holiday Inn Peoria City Centre IHG	324	1976	20,000
Radisson Hotel Peoria Carlson	168	1970	5,307
Mark Twain Hotel	109	1967	Parkard Building

Since each of these properties penetrates the lodging market in different ways, the impact of the introduction of the Civic Center Hotel will vary greatly from one property to another. HVS selected those measures critical to financial performance of a hotel and evaluated the impact on hotel occupancy, average daily room rate, and revenue per available room (REVPAR). HVS used the outcomes of those measurements to offer observations on the likely financial performance and viability of each property.

Historical Supply and Demand

Recent trends in supply and demand provide an indication of future growth in the Peoria lodging market. The following chart illustrates those trends.

Historical Supply, Demand and Occupancy



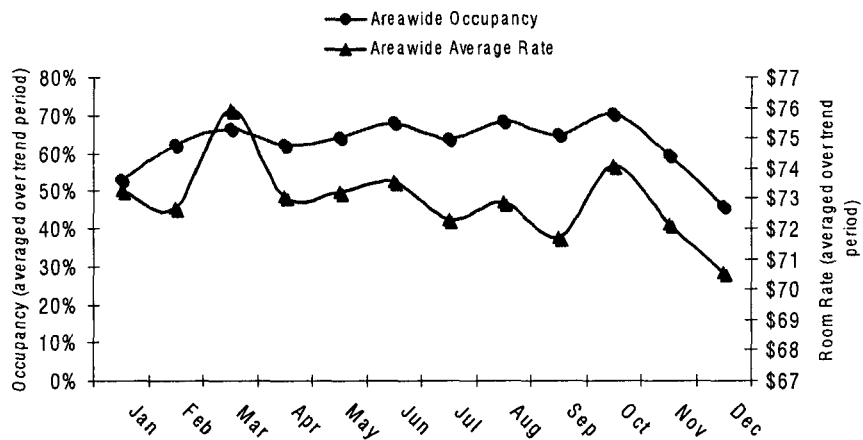
The most recent increases in room supply occurred in 2000 and 2001 with the opening of the Staybridge Suites and Springhill Suites properties. Since then, supply has decreased slightly as some rooms in existing properties went out of service. Supply declined 3.4 % in 2004 as a result of the fire that destroyed

the Marriot Courtyard. Rebuilt in 2005, it returned a significant portion of its room supply to the market.

While demand jumped in 2001 due to the increase in supply, the market experienced small declines in demand from 2002 through 2004. Reflecting a weaker economy was the overall decline in the national lodging market after the events of September 11th, as well as the temporary withdrawal of certain rooms at the Radisson and the Pere Marquette from the supply for renovation. Demand began to recover in 2005 and further recovery is expected in 2006 with year to date occupancies showing a 10% increase over the prior year. This historical perspective indicates that stabilized occupancy in the Peoria market is in the low to mid 60 percent range.

The price of rooms as measured by the average daily room rate ("ADR") varies with occupancy. The table below shows the seasonal trends in rate and occupancy.

Rate and Occupancy



Source: Smith Travel Research

In 2005, the ADR was approximately \$77, but year-to-date 2006 data indicate the ADR will grow over eight percent to approximately \$83. These recent trends in rate and occupancy indicate that the market is currently in a much improved position. However, planned new supply will have significant impacts in the near future.

Anticipated Supply Increases

Two planned projects, the Embassy Suites and the proposed Civic Center Hotel will add a substantial new supply of rooms and meeting and conference space. The Embassy Suites in East Peoria, currently under construction will offer 226 suites and 52,000 gross sq ft of function space including a 20,000 sq ft ballroom. That property is expected to open in July 2007. For the purposes of this study, HVS assumed that the proposed Civic Center Hotel will open in January 2009. Developers have proposed 250 rooms and limited amounts of function space.

HVS estimates that the current room supply of primary and secondary competitors to the proposed Civic Center Hotel is approximately 1,600 hotel rooms. The addition of an estimated 476 rooms in two new properties would increase that competitive supply by approximately 30 percent. In the absence of corresponding growth in new lodging demand, this supply will reduce the occupancies of existing hotels.

Future Increases in Demand

Demand for lodging in Peoria could increase from three potential sources:

- Growth of the existing market that may be caused by economic and population growth;
- Increased ability to accommodate previously unaccommodated demand due to the addition of new supply; and
- Induced demand or the additional demand for hotel rooms driven by the construction, renovation or expansion of new or existing public or private projects that bring visitors to Peoria.

An in-depth discussion of these growth areas is presented below.

Base Demand Growth

HVS projected baseline demand growth based on a historical growth rates and anticipation of future economic and population growth. The table below presents these projections by hotel market segment.

Base Demand Growth							
Market Segment	Annual Growth Rate						
	2006	2007	2008	2009	2010	2011	2012
Corporate	5.0 %	1.0 %	1.0 %	1.0 %	1.0 %	0.5 %	0.5 %
Meeting and Convention	2.0	1.0	1.0	1.0	1.0	0.5	0.5
Individual Leisure	1.0	1.0	1.0	1.0	1.0	0.5	0.5
Base Demand Growth	3.3 %	1.0 %	1.0 %	1.0 %	1.0 %	0.5 %	0.5 %

Unaccommodated Demand

Unaccommodated demand currently exists in the marketplace but is not being met by the existing facilities. Typically unaccommodated demand occurs during periods of peak demand when the market is fully occupied and visitors have to cancel or defer their trips. Based on our review of the market HVS concluded that roughly 5,000 room nights were unaccommodated in 2005, which is only one percent of the total accommodated room nights. Changes in unaccommodated demand in 2005 and 2006 reflect withdrawals and additions to supply. The two new hotels will absorb a portion of the current and future existing unmet demand. HVS estimates of unaccommodated demand absorbed by the two new hotels are shown in the table below.

Unaccommodated Demand							
	2006	2007	2008	2009	2010	2011	2012
Corporate	146	602	1059	2426	2451	2463	2475
Meeting and Convention	142	586	1032	2364	2388	2399	2411
Individual Leisure	15	62	110	252	254	256	257
Total	303	1,250	2,201	5,042	5,093	5,118	5,144

Induced Demand

Induced demand is new room hotel nights resulting from the introduction of new demand generators in the market. Several new developments in Peoria are likely to induce new lodging demand including; the Embassy Suites Hotel, the proposed Civic Center Hotel, the Civic Center expansion, the expansion of Saint Francis Hospital, and the new riverfront museum. These developments will increase the demand for hotel rooms as out-of-town guests make use of the new and expanded facilities. HVS projections of induced demand are presented in the following tables.

Induced Demand Projections

Market Segment	2007	2008	2009	2010	2011	2012
Corporate	--	600	3,300	3,600	3,600	3,600
Meeting and Convention	4,200	10,009	22,990	30,762	30,762	30,762
Individual Leisure	--	--	1,932	2,898	3,864	3,864
Total	4,200	10,609	28,222	37,260	38,226	38,226

Induced Demand by Source

Opening Meeting Space Embassy	6,000
Expansion Peoria Civic Center	10,800
Opening Museum Square	3,864
Expansion St. Francis	1,200
Meeting Space Civic Center Hotel	2,400
Caterpillar Museum	6,000
Embassy Suites	3,217
Civic Center Hotel	4,745
Total Induced Demand	38,226

Caterpillar, Inc.

Corporate demand from Caterpillar, Inc. is the single most important factor affecting lodging demand in downtown Peoria. The price point that Caterpillar, Inc. is willing to pay for a hotel room will be a major determinate of the success of any new downtown hotel.

Caterpillar, Inc., as the primary corporate citizen of Peoria, has had a special relationship with the Pere Marquette for more than 20 years. The firm has invested significant funds toward the renovation of the hotel's common spaces and in rooms on the tenth floor. As a result, Caterpillar, Inc. and the Pere Marquette have entered into a 10-year agreement giving the firm exclusive rights of occupancy to all rooms on the tenth floor. In addition, the hotel is the preferred provider of rooms to vendors, guests, suppliers and others visiting Caterpillar, Inc. corporate headquarters. The Pere Marquette almost exclusively supplies Caterpillar, Inc.'s demand for hotel rooms; as a result, the firm would not require the additional room supply occurring with the development of the Civic Center Hotel.

Overall Market Growth

The Caterpillar Visitor Center is a unique and potentially important expansion of hotel customer supply. Caterpillar Inc.'s dealers currently sponsor customers to visit the Peoria headquarters; the Caterpillar Museum

would then act as an additional draw attracting an increasing number of sponsored visitors. The company estimates that 15,000 new sponsor-generated tourists would visit Peoria each year.

The combination of the estimate of the base demand growth, projections of the induced demand, and the unaccommodated demand results in an estimate of overall growth by market segment. The tables below show the percentage increase and projected growth in total demand for hotel rooms.

Growth in Total Demand for Hotel Rooms

Market Segment	Potential Room Nights						
	2006	2007	2008	2009	2010	2011	2012
Corporate	174,626	176,827	179,647	185,494	187,616	188,536	189,460
Meeting and Convention	107,621	113,340	120,680	136,089	144,993	145,564	146,138
Individual Leisure	68,909	69,645	70,388	73,165	74,843	76,169	76,531
Total	351,156	359,812	370,715	394,748	407,452	410,269	412,129

Baseline growth appears to be unusually strong in 2006; this is like to continue to some extent in 2007 albeit at a slower rate of increase. The introduction of the Embassy Suites, the expansion of the Civic Center and the opening of the proposed Civic Center Hotel are the primary drivers behind demand growth in 2008 through 2010. In subsequent years we assume that demand will grow at historical average rates.

Occupancy Forecast

Occupancy is the key statistic from which to determine the health of a hotel. As the hotel market changes from increasing supply and growing demand, the forecast of occupancy provides an estimate of a hotel's overall health. The following table provides a rough correlation between occupancy and operating results. This table provides general guidance; specifics of each hotel will depend on many other factors including, operating efficiency, the amount of outstanding debt on the hotel, and its need for capital improvements.

The opening of the Embassy and Civic Center Hotel will adversely affect the overall occupancy rates for hotel rooms in Peoria. The hotel rooms in our competitive set see occupancy reduce to 55.5 percent, recovering slowly over time. This occupancy rate, while being in the break-even range for unbranded hotels, places branded properties in a range that shows possible financial trouble.

The introduction of an additional 476 rooms at the Embassy Suites and the Civic Center Hotel will increase existing hotel rooms. Those hotels will absorb a disproportionate share of induced and unaccommodated demand causing total occupancy in the Competitive Hotels to decline from 60.8% to 53.2%. However, the overall decline in occupancy for these Competitive Hotels will have an adverse impact on both ADR and total room revenues or RevPAR.

To determine the impact of the proposed Civic Center Hotel on the market, HVS estimated the market rate and occupancy assuming first that the new hotel is built and then second that the hotel is not built. Both scenarios assume the construction of the Embassy Suites. The following table shows the projection of market occupancy, ADR and RevPAR for the year 2011 under both development scenarios and after the impacts of the new developments have stabilized.

2011 Projections of Market Occupancy, ADR and RevPAR							
Market Factors	2006	2007	2008	2009	2010	2011	2012
Subject Hotel Opens							
Occupancy	60.8%	59.1%	58.0%	54.0%	55.8%	56.2%	56.4%
Average Daily Rate	\$77.22	\$79.53	\$81.92	\$84.38	\$86.91	\$89.52	\$92.20
Revenues per Avail. Room	\$46.97	\$47.03	\$47.51	\$45.60	\$48.48	\$50.28	\$52.02
Subject Hotel Does Not Open							
Occupancy	60.9%	59.4%	58.4%	61.2%	62.6%	63.1%	63.4%
Average Daily Rate	\$77.22	\$79.53	\$81.92	\$84.38	\$86.91	\$89.52	\$92.20
Revenues per Avail. Room	\$47.02	\$47.24	\$47.87	\$51.64	\$54.43	\$56.46	\$58.42

A comparison of the ADR and the RevPAR of the Competitive Hotels with and without the development of the Civic Center Hotel portrays a marginal additional decline in revenues per available room of \$6.18 per room per night

HVS has estimated the impact of this occupancy decline on each of the existing Competitive Hotels. Occupancy variances are driven by proximity to the Civic Center and the mix of market segments of each property. All five of the Competitive Hotels would be impacted by an occupancy rate decline of 12.4%. As discussed in the General Occupancy Overview table on page eight, hotels whose occupancy falls below 50% are likely to experience significant financial trouble.

Occupancy Effect on Downtown Peoria Hotels from both a new Embassy and Civic Center Hotel

Primary Competitors	2006	2007	2008	2009	2010	2011	2012	2013
Staybridge Suites Hotel IHG	71.0%	68.8%	66.2%	60.0%	60.9%	61.1%	61.2%	61.5%
Hotel Pere Marquette	59.7%	57.7%	57.1%	51.5%	51.7%	51.6%	51.8%	52.0%
Holiday Inn Peoria City Centre IHG	51.9%	51.1%	49.0%	43.7%	45.3%	45.4%	45.5%	45.7%
Radisson Hotel Peoria Carlson	60.8%	58.7%	56.5%	51.4%	52.3%	52.6%	52.8%	53.0%
Mark Twain Hotel	64.0%	62.0%	59.7%	54.0%	54.8%	54.9%	55.0%	55.3%

Changes in Occupancy Year over Year								
Staybridge Suites Hotel IHG	-2.23%	-2.56%	-6.20%	0.90%	0.11%	0.19%	0.29%	
Hotel Pere Marquette	-1.99%	-0.55%	-5.59%	0.11%	-0.04%	0.17%	0.23%	
Holiday Inn Peoria City Centre IHG	-0.85%	-2.12%	-5.24%	1.55%	0.12%	0.16%	0.20%	
Radisson Hotel Peoria Carlson	-2.08%	-2.23%	-5.07%	0.84%	0.33%	0.19%	0.25%	
Mark Twain Hotel	-2.03%	-2.35%	-5.65%	0.76%	0.08%	0.17%	0.26%	

Hotel Business by Market Segment Primary and Secondary Competitors

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Corporate	166,172	49 %
Meeting and Convention	105,372	31
Individual Leisure	68,212	20
Total	339,755	100 %

Market Segments of the Primary Competitive Hotels

Primary Competitors	Corporate	Meeting and Convention	Individual Leisure
Staybridge Suites Hotel IHG	70%	10%	20%
Hotel Pere Marquette	37%	60%	3%
Holiday Inn Peoria City Centre IHG	40%	40%	20%
Radisson Hotel Peoria Carlson	55%	5%	40%
Mark Twain Hotel	70%	10%	20%

Pere Marquette

The Pere Marquette is the oldest hotel in Peoria, maintaining a nostalgic place within the community. With its ornate 1920s style, the hotel has a marked historic atmosphere. The Pere Marquette facilities have been upgraded as the result of a major renovation costing over \$6.0 million. The hotel also has plans for additional improvements over the next few years. The hotel lacks a pool, a critical component to the transient / tourist customer. The management of the hotel recognizes this weakness so the hotel sales staff focuses on business travelers and the sale of meeting space, both of which are not as dependent on having a pool.

The Pere Marquette is dependent on the meeting and convention segment of the market for approximately 60% of its business, while the primary and secondary competitors average 31% of business from meeting and groups.

The Pere Marquette is not attached to the Civic Center, but because of its proximity, it is currently the hotel most affected by Civic Center events. A number of smaller events are booked only at the Pere Marquette by the Civic Center. Management of the hotel feels that it will lose this set of events to a new attached Civic Center Hotel. The Civic Center expansion would create a second entrance that will be located on the opposite site of the civic center from the Pere Marquette. The table below shows the current impact of the Civic Center on the Pere Marquette.

Pere Marquette Room Sales Generated by the Civic Center

Host Hotel	\$434,845
Co-Host Hotel	284,071
Citywide Event	237,470
Total	\$956,386

Compared to other Competitive Hotels, the Pere Marquette will experience a somewhat increased loss of Civic Center related business due to losing its status as the Civic Center Hotel. The host hotel will become the new Civic Center Hotel and receive the business that only the Pere Marquette was earning when it acted by default as the Civic Center Hotel. The co-host business is also expected to decline, as the Pere Marquette becomes the second choice rather than primary option. As a partial offset to this loss, the hotel will generate additional room nights driven by the larger event calendar and attendance of the expanded convention center.

Pere Marquette Occupancy Projections

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Corporate									
Market for Rooms	166,172	174,626	176,827	179,647	185,494	187,616	188,536	189,460	190,390
Market Penetration	67%	90%	90%	90%	90%	90%	90%	90%	90%
Room Nights PM	20,697	27,400	26,428	25,203	22,473	22,544	22,489	22,546	22,656
Market Share	12%	16%	15%	14%	12%	12%	12%	12%	12%
Meeting and Convention									
Market for Rooms	105,372	107,621	113,340	120,680	136,089	144,993	145,564	146,138	146,715
Penetration	172%	172%	165%	165%	155%	145%	145%	145%	145%
Room Nights PM	33,564	33,506	32,453	33,154	30,140	30,156	30,147	30,266	30,386
Market Share	32%	31%	29%	27%	22%	21%	21%	21%	21%
Individual Leisure									
Market for Rooms		68,212	68,909	69,645	70,388	73,165	74,843	76,169	76,531
Penetration	13%	13%	13%	13%	13%	13%	13%	13%	13%
Room Nights PM	1,678	1,614	1,550	1,494	1,380	1,412	1,437	1,444	1,451
Market Share	2%	2%	2%	2%	2%	2%	2%	2%	2%
Total Room Night Sales Per									
Corporate	20,697	27,400	26,428	25,203	22,473	22,544	22,489	22,546	22,656
Meeting and Convention	33,564	33,506	32,453	33,154	30,140	30,156	30,147	30,266	30,386
Individual Leisure	1,678	1,614	1,550	1,494	1,380	1,412	1,437	1,444	1,451
Totals	55,939	62,520	60,431	59,851	53,993	54,112	54,073	54,256	54,493
Rooms	287	287	287	287	287	287	287	287	287
Days in Year	365	365	365	365	365	365	365	365	365
Available Nights	104,755	104,755	104,755	104,755	104,755	104,755	104,755	104,755	104,755
Occupancy	53.40%	59.68%	57.69%	57.13%	51.54%	51.66%	51.62%	51.79%	52.02%

Mark Twain Hotel

The Mark Twain is a good example of two key principles of the hospitality industry - location and service. The building itself is nondescript with a dated exterior design. The ownership of the hotel has focused on the interior with yearly renovations to continue upgrading the facility. Its location across from the Caterpillar Inc., World Headquarters gives the hotel the opportunity to cater to the market's premier corporate customer. The combination of focused management, improved property and convenient location has resulting in improved operating results.

The hotel has acceptable occupancy levels for a non-branded property and one of the highest average daily rates in the marketplace. Due to high

corporate demand, the hotel cannot offer significant blocks of rooms to the civic center without disrupting the travel needs of its corporate clients.

The Mark Twain has the premium price point in the downtown hotel marketplace. The step-up in price to the room rates of the new hotels for customers of the Mark Twain would be smaller than the other properties in the marketplace.

The smallest of the Competitive Hotels, Mark Twain's size may become a liability. Larger groups will likely be attracted to a renovated and expanded convention center and will be more apt to generate room nights at the Civic Center Hotel than the Mark Twain. This may be offset by the induced demand generated by the Caterpillar Museum. Because Mark Twain's market segment is oriented principally towards the corporate segment and an expected increase in induced demand, HVS believes that the hotel is more likely to absorb the competitive pressures from the new hotels than some of the other competitors.

Holiday Inn

The Holiday Inn is the largest and most modern of the downtown properties. With over 300 rooms, a Bennigan's Restaurant, large amounts of public space, an indoor pool and significant amounts of convention and meeting space, the hotel is a major asset to downtown and the Civic Center. The Holiday Inn is a property that has reached the age when a full soft and case goods update along with significant capital repairs is needed. The current condition of the property is a likely reason for its low level of occupancy. Rooms at the Holiday Inn represent the largest single asset when the civic center needs to book groups of rooms for large events. The ability and desire of the owners of the Holiday Inn to make the required capital investment in the property is a critical determinant in the feasibility of any new downtown property.

The Holiday Inn has significant capital needs including repairs to the air conditioning system (central and in-room), the hot water system and the roof shows multiple leaks with visible damage to multiple ceiling tiles. The hotel also needs a soft goods update, the carpets throughout the hotel are stained and the public spaces have not been sufficiently reconfigured for the impact of moving most dining and lounge activities to the Bennigan's restaurant. However, the hotel does have potential with large meeting spaces located on a separate floor, large public spaces, an attached restaurant, garage parking, large room inventory, in-door pool and downtown location.

Event planners look for a certain quality/quantity of hotel room for a major convention. Without a major update, the Holiday Inn is in danger of dipping below the quality level demanded by event planners. Without the rooms from the Holiday Inn, the downtown market is in danger of dropping below the room count needed for major conventions at the civic center. The Civic Center is in danger of having the worst of both worlds: a larger facility with fewer hotel rooms to sell for major events.

Due to its expansive meeting facilities, the Holiday Inn attracts more meeting and convention business, but significantly less business in the corporate segments when compared to the rest of the market.

Comparison of Holiday Inn Market Segments to Overall Market

	Corporate	Meeting and Convention	Individual Leisure
Average Primary & Secondary Competitors	49%	31%	20%
Holiday Inn Peoria City Centre IHG	40%	40%	20%

HVS projected the Holiday Inn's occupancy on the assumption that a major renovation will not be done on the hotel. Should the owners of the hotel make the needed capital investments the hotel can be expected to perform better than the projections shown below.

Changes in Occupancy for the Holiday Inn

	2006	2007	2008	2009	2010	2011	2012	2013
Holiday Inn Peoria City Centre IHG	51.9%	51.1%	49.0%	43.7%	45.3%	45.4%	45.5%	45.7%
Change		-0.85%	-2.12%	-5.24%	1.55%	0.12%	0.16%	0.20%

Even before the introduction of new hotel rooms to the marketplace, the Holiday Inn has a weak occupancy rate compared to other Competitive Hotels. The decline in occupancy in 2007 reflects the continuing loss of market share, primarily due to the condition of the hotel. The hotel is currently for sale and assumptions on the intent of a purchaser are incalculable. New owners could renovate the existing facility, purchase the asset for other development purposes, or approach the City with a public/private partnership proposal involving City support for the renovation. They might do so arguing that less public support will be needed to renovate the Holiday Inn rather than construct a new hotel.

The Radisson

The Radisson is a renovated Jumers Castle Lodge with an attached 250-seat restaurant. This property is the only primary competitor not in the downtown area.

Comparison of Radisson Hotel Market Segments to Overall Market

	Corporate	Meeting and Convention	Individual Leisure
Average Primary & Secondary Competitors	49%	31%	20%
Radisson Hotel Peoria Carlson	55%	5%	40%

The above table shows that the hotel is twice as dependent on the transient/tourist market segments compared to the market in general. The hotel is also much less dependent on the meeting and convention market segment, getting only 5% of business from this segment as compared to 31% for the whole market. While the hotel may be positively impacted in the meeting and convention market segments if the civic center attracts larger shows to Peoria, the Radisson is differentiated from the other competitors by its marketing strategy and is more likely to maintain a viable financial posture than some of the other hotels.

Changes in Occupancy for the Radisson Hotel

	2006	2007	2008	2009	2010	2011	2012	2013
Radisson Hotel Peoria Carlorsor	60.8%	58.7%	56.5%	51.4%	52.3%	52.6%	52.8%	53.0%
Change		-2.08%	-2.23%	-5.07%	0.84%	0.33%	0.19%	0.25%

Embassy Suites & Conference Center

The Embassy Suites and Conference Center in East Peoria will be in a position as a new full-service facility to book smaller events that would otherwise have used the civic center. While the conference facilities will be smaller than the expanded Civic Center the size is not much smaller than the existing Civic Center. The fit and finish of the East Peoria Conference Center will be competitive with or superior to the expanded civic center. The East Peoria facilities will be a major competitor to the meeting spaces at the individual hotels. While smaller than the Civic Center, the Embassy will possess the largest and best-equipped meeting facilities for a hotel.

Conclusions

Each of the five competitors will be impacted differently by the development of a Civic Center hotel. The path of development that occurs in Peoria's lodging market, particularly downtown, will have a direct impact on the future development and operating success of the Civic Center itself.

Nationally, mid-sized city downtown hotel markets generally consist of a few large full-service hotels (often older properties) and a collection of more current select-service or limited-service hotels that are located outside of the downtown core. In the Peoria marketplace, three hotels provide the majority of the rooms for civic center events: the Pere Marquette, the Holiday Inn and the Radisson. The Pere Marquette and the Holiday Inn are critical properties for most Civic Center events and the owners of the Pere Marquette and the Radisson have made significant investments in their properties. The owners of the Holiday Inn must decide whether to renovate or not renovate their property; their decision will impact the subject property in varied ways.

The Civic Center needs a better supply of hotel rooms to compete effectively for the larger conventions. The Convention and Visitor Board (CVB) has reported problems with bringing larger conventions to town due to the lack of an attached hotel. Without an improved hotel rooms supply, the Civic Center will have trouble attracting large events to Peoria.

The Redevelopment of the Holiday Inn

The development of a Civic Center hotel is heavily influenced by the decision to renovate the Holiday Inn. Offering the property for sale complicates potential outcomes, significantly increasing the risk related to developing the Civic Center hotel. Even without renovations, the supply of rooms at the Holiday Inn coupled with the development of two new facilities will create a surplus of hotel rooms in Peoria, decreasing occupancy rates and overall operating results. Conversely, the 476 rooms created by a renovated Holiday Inn, a Civic Center hotel, and the Embassy Suites would also create a surplus of hotel rooms would also affect competing hotels negatively. The development of a Civic Center hotel should not be determined until the owners of the Holiday Inn decide the future of their property.

Impacts on the Pere Marquette

The Pere Marquette occupies a unique position in the market as the preferred hotel room provider to Caterpillar. The combined expansion of the Civic Center and the development of the Civic Center Hotel will have a significant negative impact on the Pere Marquette's occupancy. It will lose not only lodging revenues but associated catering and ancillary revenues as it will lose its current position as the "defacto" Civic Center Hotel. These impacts would

be lessened if the Holiday Inn were redeveloped, assuming the Civic Center Hotel would then not be developed.

Impacts on the Holiday Inn

Currently experiencing the lowest occupancy of any of the downtown or studied hotels and burdened by a cost structure that includes a franchise fee, continued operation of the hotel is already uncertain. Development of the two new hotels will threaten the continued financial viability of the Holiday Inn unless major structural and renovation investments are made.

Impacts on the Mark Twain

The Mark Twain occupies a unique niche in the lodging market driven primarily by its location proximate to Caterpillar's world headquarters. The hotel is less dependent upon meeting and group business and caters more directly to corporate clients. Its size and ADR are likely to enable it to maintain its competitive position and to sustain financial viability. We believe that the Mark Twain will continue to experience the highest occupancy rates of the downtown hotels, albeit at a level reduced from its current operating history.

Impacts on the Radisson

Of all of the competitive hotels, the Radisson is the least dependent upon the meeting and group market segment, targeting its marketing and services to the transient/leisure segment. As a result, it is expected that, while occupancy will decline somewhat, it will be less impacted by the new hotels than the downtown hotels that cater to meeting and group and corporate market segments.

Impacts on the Staybridge

The Staybridge occupies a unique position amongst the competitor hotels as an extended stay property. The hotel is much less dependent upon meeting and group business and caters primarily to the corporate sector. HVS expects occupancy at the Staybridge to decline with the addition of the two new hotels but for the property to maintain occupancy at a level where breakeven or positive operating results may be earned.

The Civic Center

The expansion and operating performance of the Civic Center will be enhanced by the development of additional quality hotel rooms in downtown Peoria. Ideally, to attract larger events, development of a Civic Center Hotel attached or directly connected to the Civic Center itself will occur. Event planners seek attached hotel/meeting complexes and creating such a complex in Peoria is an optimizing public/private partnership development strategy. However, substantial renovation of the Holiday Inn's rooms might produce a

similar operating result at the Civic Center as overall market occupancy is at levels that allow for significant absorption of additional room nights.

An expanded Civic Center will suffer substantial competitive disadvantages if additional quality rooms in downtown Peoria are not developed and the downtown hotels do not continue to renovate their properties. The primary objective of Civic Center expansion – to attract larger and more frequent groups and meetings in order to generate addition economic benefits for Peoria – is not likely to be achieved without quality hotel rooms to market with the Civic Center.

12. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. No responsibility is assumed for matters of a legal nature.
3. We have not considered the presence of potentially hazardous materials such as asbestos, urea formaldehyde foam insulation, any form of toxic waste, polychlorinated biphenyls (PCBs), pesticides, mold, or lead-based paints. The appraisers are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
4. We have made no survey of the property, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the land and improvements is within the boundaries of the property described, and that there is no encroachment or trespass unless noted.
5. All information, estimates, and opinions obtained from parties not employed by HVS International are assumed to be true and correct. We can assume no liability resulting from misinformation.
6. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
7. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
8. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
9. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per diem fees and travel costs are paid prior to the appearance.

10. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
11. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
12. The quality of a lodging facility's on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
13. The estimated operating results presented in this report are based on an evaluation of the overall economy, and neither take into account nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of rooms, food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been prepared on the basis of information obtained during the course of this study and are intended to reflect the expectations of a typical hotel buyer.
14. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on the date of our field inspection.
15. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
16. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.

17. This report was prepared by HVS International, a division of H&R Valuation Services, Inc. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of H&R Valuation Services, Inc. as employees, rather than as individuals.
18. At the time of our appraisal, the U.S. was involved in a conflict in Iraq and under an elevated terrorist alert nationwide. The widely held view of various noted economists was that any such conflict or terrorist event had the potential to slow the pace of economic recovery. We have taken these general expectations into consideration in developing our projections.
19. This report is set forth as a market study of the proposed subject property; this is not an appraisal report.

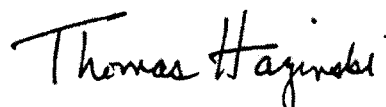
13. Certification

We, the undersigned, hereby certify:

1. that the statements of fact presented in this report are true and correct to the best of our knowledge and belief;
2. that the reported analyses, opinions, and conclusions presented in this report are limited only by the assumptions and limiting conditions set forth, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. that Brian Harris personally inspected the property described in this report; Thomas Hazinski participated in the analysis and reviewed the findings, but did not personally inspect the property;
4. that we have no current or contemplated interests in the real estate that is the subject of this report;
5. that we have no personal interest or bias with respect to the subject matter of this report or the parties involved;
6. that this report sets forth all of the limiting conditions (imposed by the terms of this assignment) affecting the analyses, opinions, and conclusions presented herein;
7. that the fee paid for the preparation of this report is not contingent upon our conclusions, or the occurrence of a subsequent event directly related to the intended use of this report;
8. that our engagement in this assignment was not contingent upon developing or reporting predetermined results; and
9. that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this market study.



Brian Harris
Senior Manager



Thomas Hazinski
Managing Director