

***AV* American Valuation Group, Inc.**

December 22, 2005

Mr. Robert Edwin Field
1377-C Spencer Avenue
Lancaster, PA 17603

Re: Market Studies
Proposed Hotel & Convention Center
City of Lancaster
Lancaster County, Pennsylvania

Dear Mr. Field:

In accordance with your request, I have read the following five "market studies":

- (1) *Market Study, Cash Flow Estimates, and Economic Impact Analysis July 1999 - Proposed Hotel and Conference/Convention Center, Lancaster, Pennsylvania*, prepared by Ernst & Young (the "EY Study"),
- (2) *Market and Economic Analysis for the Proposed Convention Center in Downtown Lancaster*, dated November 2000 and prepared by Pricewaterhouse Coopers, LLP (the "PWC Study"), and,
- (3) A 2002 Update Draft to the *Market and Economic Analysis for the Proposed Convention Center in Downtown Lancaster*, dated November 2000 and prepared by Pricewaterhouse Coopers, LLP (the "PWC Update"),
- (4) *Market Study - Proposed Marriott Hotel Lancaster, Pennsylvania*, dated February 7, 2003 and prepared by Hospitality Valuation Services International (the "HVS Study"), and,
- (5) "Memorandum - Draft" dated August 7, 2003 and prepared by C. H. Johnson Consulting, Inc. (the "CHJ Study").

My review of these documents was solely for purposes of determining the extent to which the above studies were strictly market studies, or if they also could be considered "feasibility studies." It is emphasized that the purpose of this letter was not for an appraisal or consulting assignment review as defined within the *Uniform Standards of Professional Appraisal Practice* (USPAP). It is important to review the accepted definitions of market study, marketability study, feasibility study, economic feasibility, and economic impact statement. In this case, the relevant definitions are as defined below:

Market Study - A macroeconomic analysis that examines the general market conditions of supply, demand, and pricing of the demographics of demand for a specific area or property type. A market study may also include analyses of construction and absorption trends.¹

Marketability Study -

- (1) A process that investigates how a particular piece of property will be absorbed, sold, or leased under current or anticipated market conditions; includes a market study or analysis of the general class of property being studied.
- (2) A microeconomic study that examines the marketability of a given property or class of properties, usually focusing on the market segment(s) in which the property is likely to generate demand. Marketability studies are useful in determining a specific highest and best use, testing development proposals, and projecting an appropriate tenant mix.²

Feasibility Study -

- (1) A study of the cost-benefit relationship of an economic endeavor. (USPAP, 2002 ed.)
- (2) An analysis undertaken to investigate whether a project will fulfill the objectives of the investor. The profitability of a specific real

¹The Dictionary of Real Estate Appraisal, 4th ed., Appraisal Institute, 2002, p. 176.

²The Dictionary of Real Estate Appraisal, 4th ed., Appraisal Institute, 2002, p. 174.

estate project is analyzed in terms of the criteria of a specific market or investor.

- (3) Often interchangeable with investment analysis. Both studies forecast property revenues and expenses. Feasibility analysis is more often undertaken as part of a highest and best use study for a proposed property use.³

Economic Feasibility - The ability of a project or an enterprise to meet defined investment objectives; an investment's ability to **produce sufficient revenue to pay all expenses and charges and to provide a reasonable return on and recapture of the money invested...** An investment property is economically feasible if its prospective earning power is sufficient to pay a fair rate of return on its complete cost (including indirect costs), i.e., the estimated value at completion equals or exceeds the estimated cost.⁴ [Emphasis added]

Economic Impact Statement (Study) - A report detailing a major real estate project's potential impact on the local economy, which may include estimates of the project's market value and potential gross sales as well as indications of its business, occupational, and tax impact on the community.⁵

From a review of the EY Study, although referred to as a market study, this report is more of a "marketability study" as defined above, and includes cash flow estimates for the first five years of operation under the four different scenarios proposed. Based largely on estimated attendance levels, RevPAR for the hotel, occupied room nights by the hotel, rooms revenue by the hotel, and associated revenues generated by the convention center, the EY Study concludes that Scenario IV (an upscale, full-service hotel with 281 rooms and a newly constructed 61,000 square foot convention center) "is the most appropriate of the development scenarios to **investigate further**, based on the market information gathered to date." [Emphasis added] **It is important to note that this does not take into account the estimated costs associated with the development of each**

³The Dictionary of Real Estate Appraisal, 4th ed., Appraisal Institute, 2002, p. 110.

⁴The Dictionary of Real Estate Appraisal, 4th ed., Appraisal Institute, 2002, p. 91-92.

⁵The Dictionary of Real Estate Appraisal, 4th ed., Appraisal Institute, 2002, p. 92.

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Scenario, the financial feasibility or the anticipated returns. [Underlining added] (Page 5) This same statement is repeated again on Page 78, along with:

“Future phases of this engagement would include **cash flow analysis and financial modeling** of the selected Scenarios and an economic impact analysis.” [Emphasis added]

“As part of Phase II (of this assignment), it will be necessary to analyze the potential **financial gap** for both the Hotel and Conference/Convention Center facilities to determine the extent to which a **public/private partnership** will be required.” [Emphasis and comment added]

These statements all suggest that economic feasibility, which by definition needs to account for all related construction hard and soft costs, an appropriate equity and debt financial structure, and potential financial success, was not taken into account in the EY Study, but it was to be considered in a follow-up study. The EY Study also considered the community economic impact of the project, but it did not relate the potential tax revenue to the potential hotel and convention center cost of “\$91 million” (in 1998 dollars) and convention center annual deficits. (Page 91)

From a review of the original PWC Study, this report also is a “marketability study” detailing demand factors, supply (competition) factors, market characteristics, user surveys, industry trends, and includes cash flow estimates for the convention center **alone** (not including the hotel) over the first five years of projected operation under a proposed scenario of “160,000 to 181,000 square feet.” (Page 60) Based on the “preceding market analysis,” the PWC study concludes that the expanded convention center is “**an optimal building program**.” (Page 57) In the PWC Study, the convention center building size conclusion is made without taking into account the estimated costs associated with the development of the project, the adjacent development of a hotel, financial feasibility, or the anticipated returns or deficits to be subsidized.

All of the above suggests that economic feasibility was not taken into account in the PWC Study, nor was it to be considered in a follow-up study. The PWC Study also considered the community economic impact of the project, but it did not relate the potential tax revenue to the potential convention center cost of “\$30.9 million to \$34.9 million.” (Page 69)

The 2002 PWC Update provides updated demand factors, supply (competition) factors, market characteristics, user surveys, industry trends, and provides convention center utilization estimates based on a larger exhibition hall of 50,000 to 56,000 square feet. It does not have cash flow estimates. Interestingly, the PWC Update makes the following statements resulting from prospective user surveys:

"These interviews identified a **limited demand** among potential users whose events require approximately 50,000 square feet of exhibit space." (Page 31)

"In summary, our interview findings suggest that the market for concerts, sporting, and special events is **already served** by existing facilities in markets such as Hershey, Harrisburg, Philadelphia and Baltimore." (Page 33)

"If existing planned convention centers throughout Maryland, New York, Pennsylvania, and the rest of the region move forward with construction and opening, they will add potentially competitive supply of convention facilities."

Partly because of the above, and other potentially adverse market factors, the last finding from this report states the following:

"... the combination of the downturn in the industry and increase in competitive supply could result in a slow ramp-up to stabilization (greater than 5 years)..." (Page 41)

From a review of the HVS Study, this report is a "marketability study" detailing demand factors, supply (competition) factors, market characteristics, industry trends, and has five-year occupancy, average daily rate (ADR), room revenue, food & beverage revenue and food & beverage expense projections for the hotel **alone** (not including the convention center) for a proposed "300-room Marriott Hotel." (Page 2) The HVS Study does **not** include an initial five-year cash flow projection, nor does it conclude that the proposed hotel is an optimal building program or comment on its financial feasibility. The foregoing suggests that economic feasibility was not taken into account in the HVS Study, but notes that the estimated cost was \$50 mil. for the hotel and \$50 mil. for the convention center (\$100 mil. total). (Page 2) Further, it did not consider the community economic impact of the project.

The CHJ Study is only a "draft analysis" of the proposed Lancaster Convention Center **alone** (not including the hotel) based purely on CHJ's "assumptions and estimates" and "secondary sources of information." Therefore, it is not even a marketability study or market study, and definitely not a feasibility study. It does include cash flow estimates for the convention center **alone** (not including the hotel) over the first five years of projected operation under an proposed scenario of "79,786 square feet" (Page 1) with food, beverage and parking revenues and expenses (Table 10) and without

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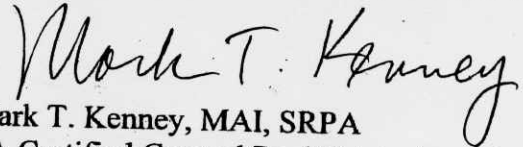
food, beverage and parking revenues and expenses (Table 11). The above suggests that economic feasibility was not taken into account in this analysis, nor was it to be considered in a follow-up study. Further, it did not consider the community economic impact of the project.

In conclusion, my review of the five reports discussed above indicates that they are intended to be market or marketability studies, and neither are represented as feasibility studies nor include sufficient information and analysis required to be considered feasibility studies.

If you have any questions pertaining to this submission, please do not hesitate to contact me by phone, fax or email at mkenney@ameri-val.com.

Sincerely yours,

AMERICAN VALUATION GROUP, INC.



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MTK/m