

PROJECTED UTILIZATION OF THE PROPOSED HOTEL

The supply and demand analysis included general overviews of the Saint Thomas, Virgin Islands market area, a detailed analysis of the properties projected to provide competition to the proposed hotel, a discussion of the characteristics of room-night demand, and projections of future room supply and demand within the competitive environment. In this section, the information which has been presented in the preceding chapters is synthesized to project the utilization of the proposed hotel.

Projected Market Penetration and Occupancy

Market Penetration

The potential occupancy of the proposed hotel has been evaluated in terms of its “Fair Share” of market demand. Fair share is the number of rooms in the proposed hotel as a percentage of the total market area supply. There are presently two properties representing 658 total available rooms which would compete with the proposed hotel. The number of units in the proposed hotel, the projected market area available rooms per day, and the resulting fair share percentage for the period 2018 through 2022 are listed below:

| Fair Share of the Proposed Curio Hotel by Hilton 2018 – 2022 | | | |
|---|--|--|---|
| <i>Year</i> | <i>Number of Rooms in Proposed Hotel</i> | <i>Projected Market Area Supply of Rooms</i> | <i>Projected Fair Share of Proposed Hotel</i> |
| 2018 | 80 | 738 | 10.8% |
| 2019 | 80 | 738 | 10.8% |
| 2020 | 80 | 738 | 10.8% |
| 2021 | 80 | 738 | 10.8% |
| 2022 | 80 | 738 | 10.8% |

Source: Interim Hospitality Consultants

Induced Room Demand represents hotel guests who are attracted to the Market Area due to new attractions or the specific hotel new amenities not found in the competitive hotels.

Assuming that each competitive property, including the proposed hotel, were to receive only its fair share of the market demand from 2018 through 2022, each would achieve projected occupancies ranging from 75.0% in 2018 to 85.0% in 2022, the projected market set occupancy, during the projection period.

To further refine the analysis and to take into account the qualitative factors affecting the occupancy of a lodging facility, the proposed hotel’s competitive position was evaluated by an analysis that relates the most important factors which influence a potential guest’s choice of lodging facilities. Such a comparison of the hotel’s advantages and disadvantages indicates the degree to which a hotel could penetrate a given market relative to its fair share. Market penetration (percent of fair share) is the percentage of demand actually accruing to a hotel, calculated as the ratio between the number of rooms occupied in the property and the fair share of occupied rooms attributable to that property. The proposed hotel must capture a portion of both (1) current room-night demand, and (2) growth in demand for overnight accommodations, to obtain the projected occupancy levels.

In this instance, the proposed property should have a number of competitive advantages. Its competitors may be considered less desirable by potential market users due to the lack of certain characteristics which will be unique to the proposed facility. The following factors and assumptions are major considerations in determining the penetration potential of the proposed hotel relative to its competitors:

1. *Location:* On the western face of the eastern hill adjacent to the cruise ship harbor in Charlotte Amalie, Saint Thomas, United States Virgin Islands.

2. *Accessibility and Visibility:* Extremely good accessibility coupled with excellent visibility.
3. *Market Orientation:* The proposed hotel would be directly positioned to the commercial guest in addition to the leisure market segment.
4. *Room Mix:*

| Curio Hotel by Hilton Charlotte Amalie, Saint Thomas, USVI Proposed Room Mix | |
|---|------------------|
| 56 | King/Sofa |
| 16 | Queen/Queen/Sofa |
| 8 | Corner King/Sofa |
| 80 | Total Rooms |

Source: Interim Hospitality Consultants

Included in the room mix will be an appropriate number of rooms with full access for the physically challenged.

5. *Room Amenities:* Oversized beds with plush duvet covers and triple sheets, spacious work desk, ergonomic chair, two telephones with voice mail and data port, complimentary wireless and wired Internet access, plus hospitality center with a microwave oven, refrigerator/freezer, coffee maker with complimentary coffee and tea refreshed daily. The guest bathroom features five fixtures: whirlpool tub for two, glass-walled shower for two, double vanity sinks, and separate Commode Room.
6. *Hotel Amenities:* Meeting space to accommodate small to mid-sized groups, a complimentary 24-hour business center, 24-hour fitness room, full Spa and Aquatic Center with swimming pools, health spa, and dry sauna, and complimentary WiFi hot spots in public areas.
7. Full Service Restaurant and Lounge and Pool Snack Bar.
8. *Newness:* The project will be the newest hotel in the competitive supply, thereby offering more appeal to the proposed property.
9. *National Franchise:* The facility will gain instant name recognition and set itself apart from other competitive hotels when it positions itself in the luxury hotel market.
10. *Hotel Management:* The facility will be professionally managed and aggressively marketed.

While the foregoing is primarily a qualitative analysis, it represents a fair approximation of the projected market situation based on the fieldwork.

The proposed hotel's market penetration and underlying assumptions are summarized as follows:

1. *Leisure:* Due to the hotel being marketed as the number-one quality product in the luxury hotel classification, the hotel's projected penetration of fair market share will range from 107.1% to 115.3% over the five-year projection period.
2. *Commercial:* The fair market share of commercial business is projected to run from 107.1% to 115.3%. This can be achieved with a professional sales marketing effort. If for any reason the tourist business declines through seasonality or energy shortages, state and local commercial solicitation must be made to offset the decline.
3. *Occupancy:* The projected occupancy should be attainable if the property is built as described, professionally operated in all facets, and business of the area continues to be positive. In years 3 to 5, additional competition may materialize to substantially reduce the projections.

Market Penetration is the percentage of demand for rooms projected for the proposed Curio Hotel by Hilton. It is calculated as the ratio between the number of rooms projected to be occupied at the proposed hotel against the Fair Share of occupied rooms attributed to the hotel's Market Set.

To calculate Market Penetration, information from the Supply and Demand Analysis Section of this Study indicates:

Step One:

| | |
|--|---------|
| a. Total of year round Hotel Market Set of Rooms | 738 |
| b. Times estimated average occupancy | 70.0% |
| c. Times days in year | 365 |
| d. Equals total Guest Room Nights | 188,559 |
| e. Times Curio Hotel by Hilton's proposed Fair Share | 20,440 |
| f. Equals the Goal of Guest Room Nights the Curio Hotel by Hilton must achieve | 20,440 |

Step Two:

- a. Convert the projected Curio Hotel by Hilton 2018 occupancy of 70.0% into Occupied Guest Room Nights 21,900
- b. Divided by the Goal of 20,440
- c. Equals the Curio Hotel by Hilton's Market Penetration 107.1%

Market Penetration must be at least 100% to be equal with the hotel's Market Set of competitors. The higher the total is over 100, the stronger the leadership of the hotel. If the Market Penetration is under 100, then something is wrong in the hotel's image, features, or marketing, and must be corrected.

| Future Years Market Penetration | | | |
|---------------------------------|--------|--------|--------|
| 2019 | 2020 | 2021 | 2022 |
| 108.5% | 111.1% | 113.7% | 115.3% |

Consecutive Market Penetration for future years with no addition to the Market Set and prior to operations success.

| Projected 80-Room Curio Hotel by Hilton Projected Market Penetration, Room-Night Demand and Occupancy | | | | | | |
|--|--------|---------|---------|---------|---------|---------|
| | | 2018 | 2019 | 2020 | 2021 | 2022 |
| Projected Room Demand | | | | | | |
| Leisure | 90.0% | 169,703 | 172,127 | 175,030 | 176,976 | 179,400 |
| Commercial | 10.0% | 18,856 | 19,125 | 19,448 | 19,664 | 19,933 |
| Total Demand | 100.0% | 188,559 | 191,252 | 194,478 | 196,640 | 199,333 |
| Fair Share Ratio | | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% |
| Projected Penetration as a Percentage of Fair Market Share | | | | | | |
| | | 107.1% | 108.5% | 111.1% | 113.7% | 115.3% |
| Projected Market Penetration | | | | | | |
| Leisure | 90.0% | 19,710 | 20,236 | 21,024 | 21,872 | 22,338 |
| Commercial | 10.0% | 2,190 | 2,248 | 2,336 | 2,430 | 2,482 |
| Total Market Penetration | 100.0% | 21,900 | 22,484 | 23,360 | 24,302 | 24,820 |
| Available Rooms at the Proposed Hotel | | | | | | |
| | 80 | 29,200 | 29,200 | 29,200 | 29,280 | 29,200 |
| Projected Occupancy | | 75.0% | 77.0% | 80.0% | 83.0% | 85.0% |

Source: Interim Hospitality Consultants

Note: Totals may not foot due to rounding.

| Curio Hotel by Hilton Charlotte Amalie, Saint Thomas, USVI Optimum Proforma Year One | | | | | | |
|--|----------------|------------------|------------------|------------------|------------------------|------------------|
| | | <i>Peak</i> | <i>Main</i> | <i>Shoulder</i> | <i>Balance of Year</i> | <i>2018</i> |
| <i>Months</i> | | 2,3 | 1,4,5,6,7,11,12 | 8,10 | 9 | |
| <i>Days</i> | | 59 | 214 | 62 | 30 | 365 |
| <i>Room Mix</i> | <i># Rooms</i> | | | | | |
| King/Sofa | 56 | 450.00 | 300.00 | 250.00 | 200.00 | |
| Queen/Queen/Sofa | 16 | 500.00 | 360.00 | 340.00 | 250.00 | |
| Corner King/Sofa | 8 | 550.00 | 400.00 | 350.00 | 300.00 | |
| Total Rooms: | 80 | | | | | |
| Optimum Revenue | | | | | | |
| King/Sofa | 56 | 1,486,800 | 3,595,200 | 868,000 | 336,000 | 6,286,000 |
| Queen/Queen/Sofa | 16 | 472,000 | 1,232,640 | 337,280 | 120,000 | 2,161,920 |
| Corner King/Sofa | 8 | 259,600 | 684,800 | 173,600 | 72,000 | 1,190,000 |
| Total Optimum Revenue | 80 | 2,218,400 | 5,512,640 | 1,378,880 | 528,000 | 9,637,920 |
| Seasonal Occupancy | | 85.0% | 80.0% | 65.0% | 60.0% | 76.6% |
| Optimum Guest Room Nights | | 4,720 | 17,120 | 4,960 | 2,400 | 29,200 |
| Seasonal Guest Room Nights | | 4,012 | 13,696 | 3,224 | 1,440 | 23,372 |
| Seasonal Revenue | | 1,885,640 | 4,410,112 | 896,272 | 316,800 | 7,508,824 |
| Seasonal Average Daily Rate | | 470.00 | 322.00 | 278.00 | 220.00 | 335.63 |
| Average Daily Rate use | | | | | | 335.00 |
| Occupancy use | | | | | | 75.0% |

Projected Average Room Rate

The projections of average room rate for the proposed hotel are based on the following factors:

1. The competitive market position of the proposed hotel as one of the newest projects in the area.
2. The assumption that the proposed hotel will be professionally managed and aggressively marketed.
3. The assumption that the proposed hotel will be affiliated with a national franchise chain.
4. The assumption that the proposed mid-priced hotel will command a rate, somewhat commensurate with competition of higher room rates.

A detailed review of recent trends in room rate increases to estimate the impact of inflation was conducted along with the consideration of the specific experience of the hotels in the competitive market.

Based on the above assumptions and details, the proposed Curio Hotel by Hilton should achieve an initial average rate \$335.00 in the first stabilized year of operations, 2018.

An inflation rate of 4.0% per year was assumed. The following table summaries the current year (inflated) dollar room rates projected for the proposed hotel.

| Projected Average Room Rate (Current Year Dollars) | |
|---|--------------------------|
| <i>Year</i> | <i>Average Room Rate</i> |
| 2018 | \$335.00 |
| 2019 | \$348.00 |
| 2020 | \$362.00 |
| 2021 | \$376.00 |
| 2022 | \$391.00 |

Source: Interim Hospitality Consultants

The projected average room rates could be materially different if significantly higher or lower rates of inflation are actually experienced. Since the actual rates of inflation cannot be predicted with any degree of certainty, no assurance is given that the actual average room rates achieved will not vary materially from those projected in this Study.

Summary

Based upon the occupancy of the Curio Hotel by Hilton, the proposed hotel's Total Market Penetration and underlying assumptions are summarized as follows:

1. *Leisure:* Due to the hotel being marketed as the number one quality product in the luxury hotel classification, the hotel's projected penetration of fair market share will range from 107.1% to 115.3% over the five-year projection period.
2. *Commercial:* The fair market share of commercial business is projected to range from 107.1% to 115.3%. This can be achieved with a professional sales marketing effort. If for any reason the tourist business declines through seasonality or energy shortages, state and local commercial solicitation must be made to offset the decline.
3. *Occupancy:* The projected occupancy should be attainable if the property is built as described, professionally operated in all facets, and business of the

area continues to be positive. In years 3 to 5, additional competition may materialize to substantially reduce the projections.

These projections are based on estimates and assumptions developed in connection with the Feasibility Study. However, certain assumptions may not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the projection period may vary from the forecasts, and the variations may be material.

| Proposed Curio Hotel by Hilton Saint Thomas, Virgin Islands | | | |
|--|------------------|-------------------------------|-------------------------|
| <i>Year</i> | <i>Occupancy</i> | <i>Average Daily Rate</i> | <i>Room Revenue</i> |
| 2018 | 75.0% | \$345.00 | \$7,336,500 |
| 2019 | 77.0% | \$348.00 | \$7,824,430 |
| 2020 | 80.0% | \$362.00 | \$8,456,320 |
| 2021 | 83.0% | \$376.00 | \$9,137,700 |
| 2022 | 85.0% | \$391.00 | \$9,704,620 |

Source: Interim Hospitality Consultants