



FIELD RESEARCH OVERVIEW REPORT

**LAKE IN THE HILLS, ILLINOIS
SEPTEMBER, 2014**

Management

Research

Marketing

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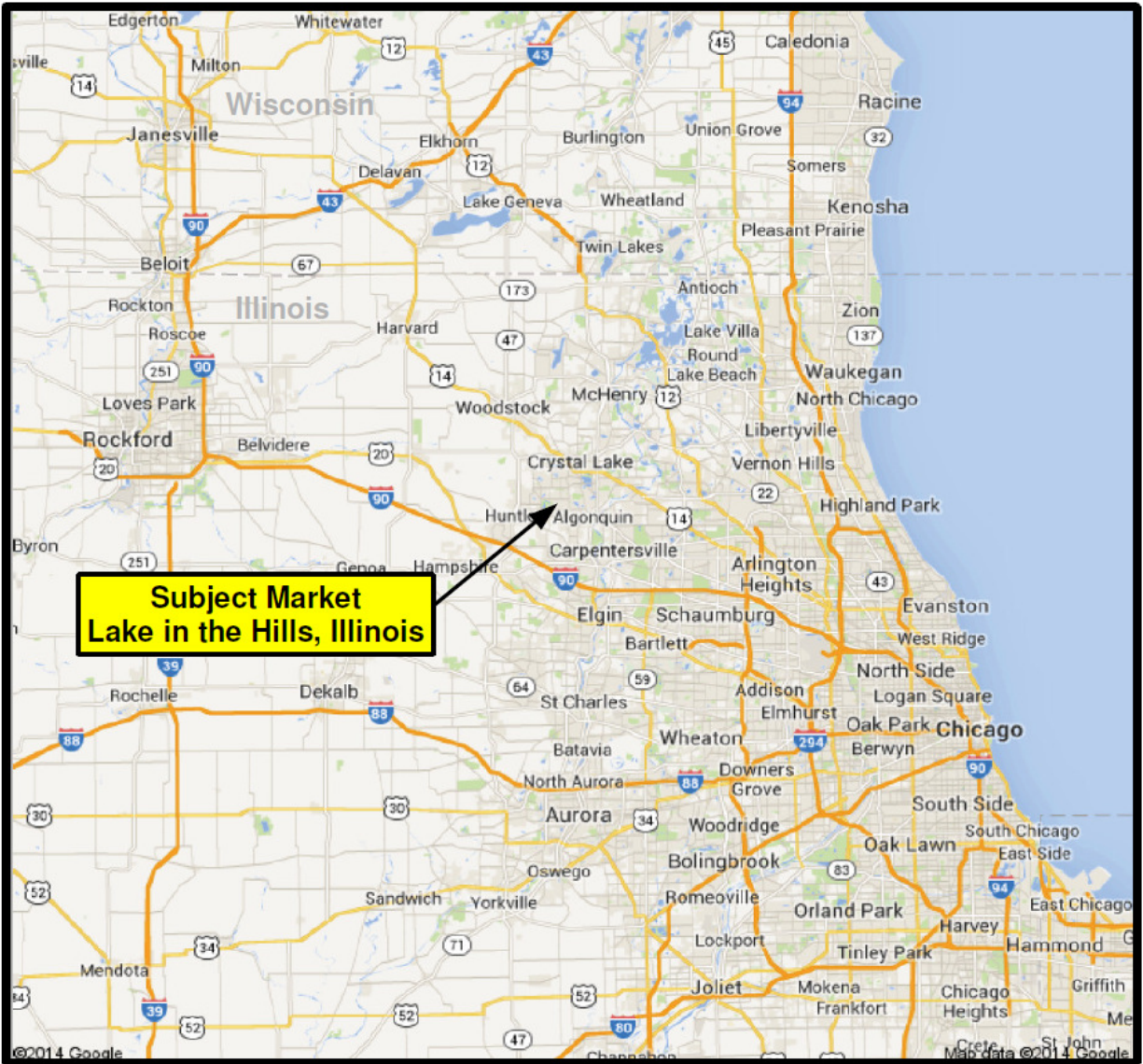


Exhibit 1 – Subject Market Area Including the Wisconsin-Illinois Border, Rockford and Chicago



Exhibit 2 – Closer View of the Subject Market Area

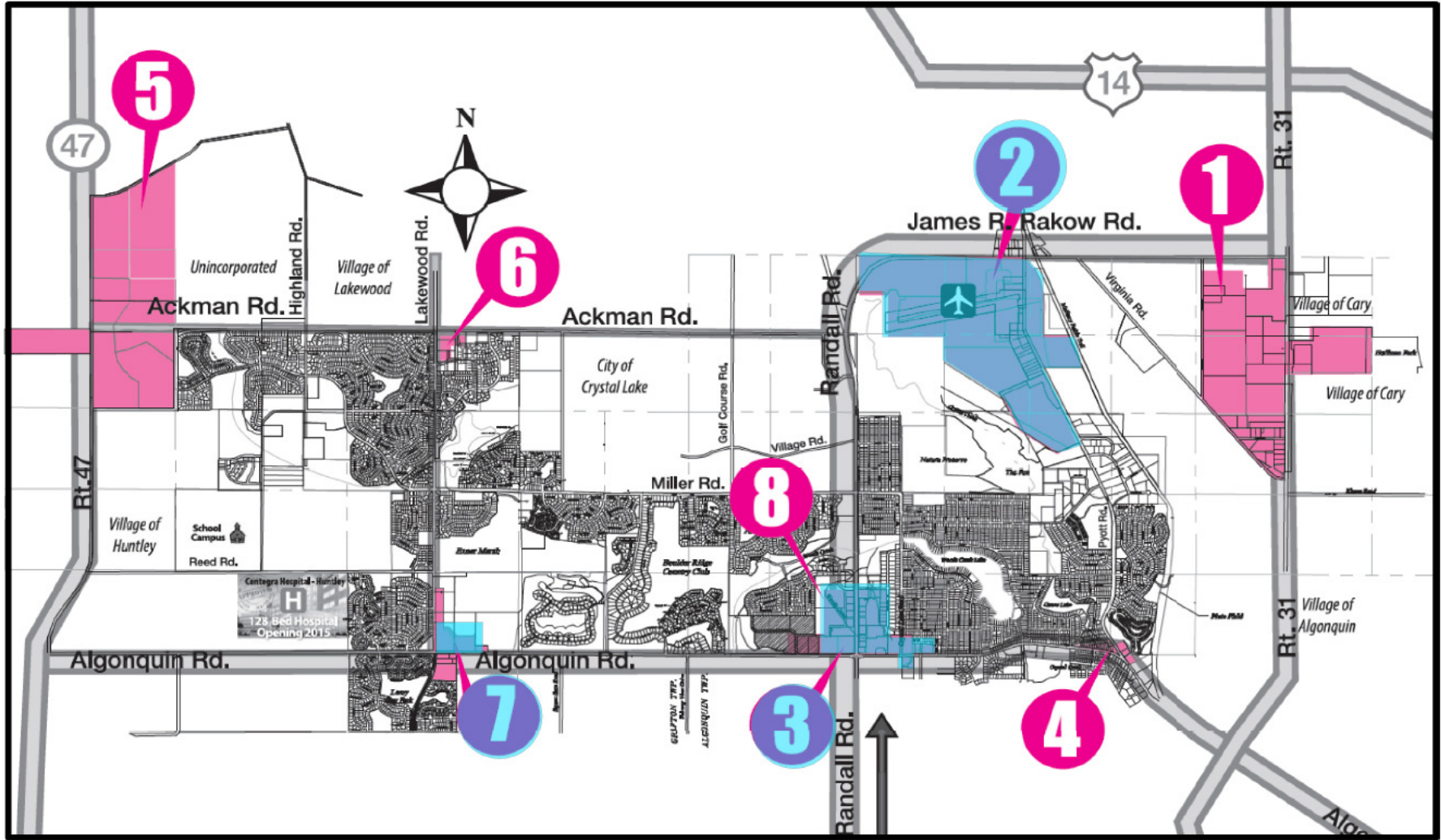


Exhibit 3 – Three Primary Subject Sites Available for the Proposed Hotel Development

The following Field Research Overview Report was prepared based upon the field research performed by Hospitality Marketers International, Inc. on August 20th, 2014. This report provides an overview of the highlights observed in the Lake in the Hills, Illinois market area. It provides preliminary Operational Projections for this market's ability to support a proposed mid-priced, limited-service hotel in this market. Recommendations will be provided for the continuation of the Hotel Market Study to complete either a Community Overview Hotel Market Study or a Comprehensive Hotel Market Study.

As an overview report with preliminary Operational Projections and recommendations, this report is intended to be used as an internal document. It is not intended to be used for external purposes, such as investment or lending activity. It is intended to determine if further research of the subject market is necessary and if a more detailed Hotel Market study is to be completed. In a full Hotel Market Study, these comments would be expanded and presented with more detail.

This report is the sole property of the Village of Lake in the Hills, Illinois. This report cannot be used without the expressed permission of The Village of Lake in the Hills, Illinois.

GENERAL MARKET OBSERVATIONS

(Economic, Lodging Demand, Lodging Supply Highlights)

- The Lake in the Hills market is located in the far southeast corner of McHenry County, which is just west of the metropolitan Chicago area and just south of the Wisconsin/Illinois border.
 - The attached exhibits highlight the geographic location of Lake in the Hills as well as the Subject Site areas.
- Highway 31 and Highway 14 are the major traffic routes through this area. Highway 31 travels north into Wisconsin and south to I-90, which travels west to Rockford and east to Chicago. Highway 14 travels southeast to the northern suburbs of Chicago and northwest to southern Wisconsin where it intersects with I-90 in Janesville, Wisconsin.
- There is also a Metra Train Station in this market area which allows for easy access to the downtown Chicago market area approximately 48 miles east of Lake in the Hills.
- McHenry County consists of a number of cities in close proximity of each other and therefore a proposed hotel would serve Lake in the Hills as well as the overall southeast area of McHenry County.
- It is a well-developed community that is growing in several economic areas.

Lodging Demand

- The chart below demonstrates the current distribution of lodging demand in the Corporate/Commercial and Social/Leisure market segments in the subject market area.

MARKET SEGMENTATION					
	SUBJECT MARKET PROBABLE PERCENT OF MARKET	RANGE	PROPOSED PROPERTY PROBABLE MARKET	MARKET PENET.	RANGE
Individual Travel Markets	75.0%	72.5%-77.5%	75.0%	100.0%	72.5%-77.5%
Corporate/ Commercial	50.0%	47.5%-52.5%	50.0%	100.0%	47.5%-52.5%
Social/ Leisure	25.0%	22.5%-27.5%	25.0%	100.0%	22.5%-27.5%
Group Markets	25.0%	22.5%-27.5%	25.0%	100.0%	22.5%-27.5%
Business Related	15.0%	12.5%-17.5%	15.0%	100.0%	12.5%-17.5%
Social/ Leisure Related	10.0%	7.5%-12.5%	10.0%	100.0%	7.5%-12.5%
TOTAL	100.0%		100.0%		

Source: HMI

- As seen in the above chart, there is very good diversity of lodging demand sources in both the Corporate/Commercial and Social/Leisure market segments. The Corporate/Commercial market segment will be slightly stronger due largely to the amount of industry in the market area. There is also strong diversity in the Corporate/Commercial lodging demand sources. There is Social/Leisure lodging demand present in the market however it has slightly less diversity and tends to be more seasonal in nature.
- The chart below shows an overview of the lodging demand sources in the Lake in the Hills market area.

MARKET SEGMENTATION PROFILES		
	Demand Potential	
	Transient = T Extended = E Group = G	Subject Property Potential
Social/Leisure Markets		
Visiting Friends & Relatives	T, E	Excellent
McHendry County Area Sites & General Tourism	T, G	Very Good
Area Events and Festivals	T, G	Very Good
Area Recreation	T, G	Very Good
Distressed, Social Interim Housing & Relocation	T, E	Very Good
Transient Traffic	T	Good
Weddings	G	Very Good
Reunions	G	Very Good
Funerals	G	Very Good
Other	G	Very Good
Motorcoach Tours	G	Fair
Amateur and Youth Sports	G	Excellent
	Potential	Very Good
Corporate/Commercial Markets		
Agriculture	T	Very Good
Manufacturing	T, E, G	Excellent
Retail/Commercial	T	Excellent
Professional Services	T	Excellent
Government/Military	T	Good
Health Care	T, E, G	Excellent
Distribution	T	Good
Utilities	T, G, E	Good
Construction	T, G, E	Very Good
Real Estate	T, E	Very Good
2016 - New Centrega Hospital - Huntley, IL	T, E, G	Excellent
Visiting Doctors and Speakers	T, E	Excellent
Human Resources	T, E	Excellent
Visiting Patients and Families	T, E	Very Good
Vendors & Suppliers to Local Market	T	Very Good
Transient Traffic	T, G	Good
Meetings and Seminars	G	Excellent
Corporate	G	Excellent
Association	G	Very Good
Government/Military	G	Good
Inventory and Auditing Companies	G, E	Very Good
	Potential	Very Good
	Overall Potential	Very Good
<i>Source: HMI</i>		

- The Social/Leisure opportunities in this market include a focus on agricultural based tourism, music events, festivals, and outdoor recreation. Additionally, the area has a variety of museums, theaters, and live music venues.
- The youth and amateur sports market was reported to be growing in this market as a concentrated effort is being made to bring additional competitions to the area including triathalons, marathons, and other endurance type events. This market recently hosted a Tough Mudder event which was reported to be very successful.

- The main focus of the youth sports market is on baseball as there are tournaments held in this area which were reported to draw national and international teams. The market area has hosted events associated with the Continental Amateur Baseball Association (CABA) including the CABA World Series and other annual tournaments and camps. These events brought large numbers of teams, spectators, vendors, scouts, and officials to this market area with many coming from across the country as well as international markets. The sports facilities available in this market area allow for these events to continue to grow in the area.
 - There is also a new Wakeboard Park planned for the area to be opened in 2015. This park will likely attract visitors from outside the area and wakeboard tournaments as well to the market.
 - This area is a popular agri-tourism area with numerous farmers' markets, farm tours, and numerous agriculture related events and activities. There are several u-pick farms throughout the area and the fall season is very popular for pumpkin and harvest related activities.
- The Health and Social Services, Accommodation and Food Services, and Retail Trade industries are the leading industry segments in Lake in the Hills. In McHenry County, the leading industry segments are Manufacturing, Retail, and Education.
 - In the Lake in the Hills market area, the Health and Social Services segment will likely grow as there is a new 128-bed Centrega Hospital planned just west of the village in Huntley. This hospital is currently under construction and planned to be open in 2016. One of the potential hotel sites is located just east of this new development.
 - There is also a 22,000 square-foot medical office development that has been newly proposed for the area surrounding the hospital.
 - The Health and Social Services market segment is also supported by a large Dell Webb retirement community with a population of approximately 10,000 people.
 - It was also reported that there is a large amount of manufacturing companies in the market area specializing in a diverse range of products and industries including a variety of companies in the medical supply and technology field. Many of these companies have national and international ties.
 - It was noted that there is still land available in the village and the county for additional industrial and commercial development.

- Lodging demand grew by 5.1% in 2013. It is on pace to grow at 6.23% in 2014. The historic annual growth rate was 2.76% from 2009-2014 which excludes the decrease seen in 2008 from the national recession. It should be noted that this growth rate includes a (4.3%) decrease in 2012. Following this decrease, the market saw an increase of 5.1% in 2013.
- The Lodging Demand Seasonality of the subject market is showing lodging demand strength from May through October.
 - In this six month period, there are four months when revenue is maximized.
 - All six of these months have the potential to increase rates to better match demand.
 - The weakest Lodging Demand period is December through February.

Lodging Supply

- While there is currently no hotel in Lake in the Hills, there are several hotels in McHenry County. The main competitive hotels in this market area are listed below.
 - Comfort Inn Crystal Lake
 - Country Inn and Suites Crystal Lake
 - Holiday Inn Chicago NW Crystal Lake
 - Hampton Inn McHenry
 - Best Western Woodstock Inn
 - Quality Inn Woodstock
 - Holiday Inn Express & Suites Chicago Algonquin
- Characteristics of the Competitive Set:
 - This Competitive Set consists of 630 rooms.
 - The Average Size of the Competitive Set is 90 Rooms
 - The Average Age of the Competitive Set is 15.3 years.
 - This Competitive Set is represented by mid-priced, limited-service hotels. The only exception is the 197-room Holiday Inn which is a full-service hotel.
- There are also several economy priced hotels and independently operated hotels in this market area.
- There are no true extended-stay hotels in the subject market.
- It was also reported that while there is meeting space available at some of the hotels in the market area, there is a need for additional meeting space. The meeting space at the proposed hotel would potentially strengthen the group lodging demand in this market.

Historical Lodging Performance

- Currently, this market is experiencing only 46.75 nights with Occupancy over 70%. Of these, there are 21.25 nights with Occupancy over 80%. These nights are mainly Friday and Saturday nights.
- Average Daily Room Rates (ADR) had negative growth rates in 2009 and 2010 as it was recovering from the national recession. Since 2011, this market has had continuous growth in ADR. It grew by 1.1% in 2013. It is projected that this market may see a small (0.66%) decrease in demand in 2014. The historic annual growth rate was 0.57% from 2008 to 2014. This historic growth rate increased to 2.46% from 2011 to 2014 due to the removal of the negative growth rates in 2009 and 2010.
- The chart below shows the current ADR performance of the hotels in the competitive set. It should be noted that the two lowest priced hotels, the Best Western Woodstock Inn and the Quality Inn in Woodstock, have been removed from this chart due to their lower rate structure and the fact that the proposed hotel should compete directly with the higher priced hotels listed below.

COMPETITIVE HOTEL OCCUPANCY & RATES					
PROPERTY	Occ. Perform.	RATE ANALYSIS			PROJECTED ADR
		SINGLE	DOUBLE	WEEKEND	
<u>Algonquin, IL</u> Holiday Inn Express	Above	\$103-\$124	\$103-\$124	\$112-\$139	\$107.55
<u>Crystal Lake, IL</u> Comfort Inn	Average	\$99-\$104	\$99-\$104	\$99-\$104	\$86.28
Country Inn & Suites	Above	\$97-\$114	\$97-\$114	\$105-\$124	\$99.00
Holiday Inn Chicago NW	Above	\$104-\$114	\$104-\$114	\$94-\$114	\$90.53
<u>McHenry, IL</u> Hampton Inn	Above	\$114-\$119	\$114-\$119	\$114-\$119	\$104.85
COMPETITIVE MARKET AVERAGE DAILY ROOM RATE (ADR):					\$97.18
<i>Source: HMI</i>					

- In this market, it is estimated that the proposed hotel should be positioned similar to the Country Inn and Suites in Crystal Lake as this property is approximately in the middle of these higher priced properties. Using this positioning allows for a yield of 107.5% to the overall competitive set which includes the two lower priced properties. This yield is projected to result in an ADR of \$110.40 by the third year of operation.

SUBJECT SITES

- There are currently three primary subject sites available for the proposed hotel. There are additional sites available for commercial development in the market area however the three sites analyzed in this overview were deemed to be the strongest hotel sites at this time.
- It should be noted that while this fieldwork report is focused on the development of a traditional style hotel, all three subject sites researched below appear to support an extended-stay style property.
- The chart below shows a brief evaluation of each site. Highlights of this chart are presented below.

SUBJECT SITE EVALUATION			
Lake in the Hills, IL			
CATEGORY	Site 1: Randall Road	Site 2: Airport	Site 3: New Hospital
Visibility	Good	Excellent	Very Good
Accessibility	Good	Excellent-Conditional	Excellent
Parking	Excellent	Excellent	Excellent
Site Prep	Very Good-Investigate	Very Good-Investigate	Very Good-Investigate
Environmental	Very Good-Investigate	Very Good-Investigate	Very Good-Investigate
Major Utilities	Excellent	Fair	Excellent
Zoning	Excellent	Very Good-Investigate	Excellent
Architectural Controls	Very Good-Investigate	Very Good-Investigate	Very Good-Investigate
Area Support Services	Excellent	Good-Conditional	Very Good
Competitive Position	Excellent	Very Good	Very Good
Overall	Very Good	Very Good	Very Good
Ranking	2	3	1
<i>Source: HMI</i>			

Site Area 1

- Site Area 1 is located on the southern edge of the village on the east side of Randall Road which is the main commercial and retail corridor in the village.
- This site offers five acres and is surrounded by a large number of support services including numerous fast food venues and sit-down restaurants, a movie theater, and various local residential support services.
- This site is currently vacant and set back from Randall Road behind a strip mall and restaurants. This removed location does limit visibility and accessibility to this site. It should be noted that hotel signage would be permitted on Randall Road.

Site Area 2

- Site Area 2 is located in the northern section of the village adjacent to the Lake in the Hills Public Airport. The site is bordered by James R. Rakow Road to the north and Randall Road to the west and consists of 138 acres.
- A hotel on this site would be part of a larger commercial and retail development plan as it is proposed that this site would include a number of support services.
- This site is currently vacant and would offer the proposed hotel water views of the pond located on the site.
- This site is slightly removed from the main commercial and retail area of the village with no support services within walking distance. Still, if the remainder of the land was developed into a retail and commercial center, this would provide the needed support services.
 - Failure to develop these support services would seriously lessen the marketability of a hotel at this site. For this reason the Support Services category was ranked as “Good-Conditional”.
- Accessibility and Visibility would be excellent on this site as the proposed hotel would receive the first choice in location within the overall 138 acres. It was also reported that there is a court decree to add access points on James R. Rakow Road in order to support commercial development on this site. If these access points were challenged or reduced, this would significantly lessen accessibility to this site.
- While being removed from the main commercial area, this site will have the advantage of being located in a quieter, more peaceful setting as well as being the first hotel seen by visitors entering the village from the north.
- It should be noted that this is the only site area which is not currently development-ready. Water, electric, sewer, internet, etc. would need to be brought to this site and this may increase the cost of development.

Site Area 3

- Site Area 3 is located on the southern edge of the village in the northeast quadrant of the intersection of Algonquin Road and Lakewood Road. This site is within walking distance of the new 128-bed Centrega Hospital development which is to be completed by 2016.
- This site is less than two miles west of Randall Road which is the main commercial and retail corridor in the village.

- This site area offers a cluster of sites totaling a combined 5 acres and is surrounded by a wide variety of support services including a CVS pharmacy and a collection of small restaurants.
- This site is currently vacant and would offer excellent visibility to traffic on Algonquin Road. However, being slightly removed from the main traffic routes and the commercial area of the village may limit some visibility to general traffic. Directional signage would be required.

Overall Ranking

- Based on the analysis of the three site areas, a numerical rating of the sites was determined. Site Area 2 received the lowest rating with a 4.25 due mainly to the lack of support services and utilities in the area. Confirmation of the development of support services and utilities should be obtained prior to adding a hotel to this site area as this will be critical to the success of the property.
- Site Area 1 and Site Area 3 were both rated as being fairly strong with a rating of 4.53 and 4.72, respectively. At this time, both sites would be considered a strong choice for a hotel development because of their location relative to area support services, demand generators and development readiness. Further evaluation could be provided in a full Hotel Market Study.

PROPERTY RECOMMENDATIONS

Based upon this preliminary field research, the following Property Recommendations are presented:

- A mid-priced, limited-service hotel is the recommended **PROPERTY TYPE**. This is based upon the Lodging Demand characteristics of the market and that this will be the first hotel to directly serve the Lake in the Hills market.
- The recommended **PROPERTY SIZE** is in the 60-room size range. This is based upon the Lodging Demand characteristics of this market. This sized hotel will be smaller than the Average Sized hotel in the Competitive Set of 90 rooms. A size adjustment for the performance projections was made for the smaller sized hotel.
- It should be noted that there is currently no extended-stay hotels in this market. There is the potential for the proposed hotel to operate as an extended-stay hotel in this market and currently all three subject sites should support this style of property. If an extended-stay style hotel was researched, the projections presented below would be adjusted to demonstrate the performance of this lodging style.

PRELIMINARY OPERATIONAL PROJECTIONS

(Occupancy, Average Daily Room Rates and Sales Revenue)

- The following chart shows the preliminary Operational Projections for Occupancy, Average Daily Room Rates and Sales Revenue for a 60-room, mid-priced, limited-service hotel. These are preliminary projections and they would be reviewed, potentially modified, and expanded in a more complete Hotel Market Study. They are for the third year, which is the estimated stabilized year of operational performance levels.

PROJECTED PERFORMANCE FOR A 60-ROOM MID-PRICED, LIMITED-SERVICE PROPERTY			
	PROJECTED MARKET PERFORMANCE <i>PRESENT MARKET</i>	PROJECTED MARKET PENETRATION	PROJECTED HOTEL PERFORMANCE <i>60 ROOMS</i>
OCCUPANCY			
Probable	55.9%	141.3%	79.0%
ADR			
Probable	\$102.74	107.5%	\$110.44
RevPAR			
Probable	\$57.44	151.9%	\$87.25
REVENUE			
Probable	NA	NA	\$1,910,674
<p><i>*Projected performance is +/- 5 percentage points and will be affected by changes in Lodging Supply and Demand growth levels used to formulate these projections.</i></p>			
<p><i>Source: HMI</i></p>			

- The above preliminary projections take into account the following:
 - Lodging Demand growth was at an average of 2.66% per year which is below the historic annual rate of growth of 2.76% seen from 2009-2014.
 - No new supply growth was added to Lake in the Hills or the surrounding county area.
 - A Fair Share adjustment yield of 150% is allowable in this market due to the smaller size of the proposed 60-room hotel in a market where the average size hotel is 90 rooms. If the full 150% adjustment was used, this would produce a third year Occupancy of over 80%. Industry standards suggest that projected third year Occupancy should be capped at 80%. For this reason, a conservative 141.3% yield was projected in the third year resulting in a projected Occupancy of 79.0%.

- By Increasing ADR an average of 2.14%, this is slightly lower than the 2.43% historic annual increase seen from 2009-2014 and slightly higher than the 0.57% annual increase seen from 2008-2014.
- At this time, the proposed hotel was rate-positioned similar to the Country Inn and Suites in Crystal Lake with a 107.5% yield to the overall competitive set. There is the potential, that in a more complete Hotel Market Study, this rate positioning could be increased.

PRELIMINARY BENCHMARK DEVELOPMENT COSTS

- As a benchmark to indicate support for the proposed hotel, the following Benchmark Development Costs were developed. These are only benchmarks to support hotel development. They include all costs associated with the proposed hotel to the stabilized year of operation. They show the maximum support level for this proposed hotel development. Ideally, this maximum support level should not be exceeded without a good reason.

BENCHMARK DEVELOPMENT COSTS		
	ALLOWABLE COST PER ROOM*	ALLOWABLE TOTAL PROJECT COST*
60 Rooms	\$94,595	\$5,675,707
<i>*These projections will be affected by changes in Projected Occupancy or Projected ADR.</i>		
<i>Source: HMI</i>		

- With a 35% equity investment, this support level will generate an annual rate of return of 28.68%. (*Adjusting the Equity and/or Desired Rate of Return will adjust the Benchmark Development Costs accordingly.*)

RECOMMENDATION

Based upon the Field Research performed and the information reviewed above, there is a strong indication that the Lake in the Hills, Illinois market could support additional hotel development. Therefore, completing a detailed Community Overview Hotel Market Study or a Comprehensive Hotel Market Study is recommended.



DISCLAIMER

The decisions presented herein were based upon the information available and received at the time this report was compiled. Hospitality Marketers International, Inc., (HMI) has taken every possible precaution to evaluate this information for its completeness, accuracy and reliability. To the best of its knowledge, HMI feels the information and decisions presented herein are sound and reliable.

At the present time of this report, the United States and world economies are in the midst of a recovery from a major recessionary period that ran from 2008 - 2010. This recovery appears to be continuing according to current news reports with most economic indicators indicating growth since 2011.

HMI is not responsible for effects that occur from future political, economic or social events that ultimately alter these projections. These events should be monitored accordingly and potentially the results of this report may require updating to respond to future events.

Also, it should be understood that normal economic and marketplace conditions change constantly. HMI assumes no responsibility for information that becomes outdated once this report is written; nor is it responsible for keeping this information current after September, 2014.

It should be understood that the results presented in this report are the professional opinion of HMI and are based upon the information available at this time. These opinions infer proper and professional management of the business operation. The opinions also infer that market conditions do not change the information received upon which those opinions have been based. HMI assumes no responsibility for changes in the marketplace.

Furthermore, it is presumed that those reading this report completely understand its contents and recommendations. If the reader is unclear of the understanding of the contents, clarification should be received from its writer, HMI.

Lastly, HMI assumes that those who receive this report act in accordance with its recommendations. Any deviation from these recommendations is solely the responsibility of those receiving this report.

Further questions concerning this report should be directed to HMI.

Sincerely,
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