

MARKET DEMAND STUDY

**PROPOSED HOTEL
CONNELLSVILLE, PENNSYLVANIA**

PREPARED FOR:
ALLEGHENY TRAIL ALLIANCE
LATROBE, PENNSYLVANIA

PREPARED BY:
PKF CONSULTING
PHILADELPHIA, PENNSYLVANIA

DATE OF THE REPORT:
JANUARY 8, 2013





January 8, 2013

Ms. Linda M. Boxx, President
Allegheny Trail Alliance
P.O. Box 501
Latrobe, PA 15650

Dear Ms. Boxx:

In accordance with the terms of our engagement, we are pleased to present this letter summarizing “Phase One” findings from our independent market demand study for a hotel (“the Hotel”) proposed for development in the City of Connellsville, Fayette County (“the County”), Pennsylvania.

This letter summarizes our findings related to the following analyses we have completed:

- Area review;
- Competitive supply and demand analysis;
- Hotel concept and facility recommendations; and,
- Estimates of occupancy and average daily room rate (“ADR”) for the proposed hotel.

In completing this phase of the assignment, we performed numerous tasks. Specifically, we:

- Discussed the project and its elements with you and representatives of the Allegheny Trail Alliance and obtained information concerning the planned orientation and scope of the project;
- Visited Connellsville and toured the surrounding area;
- Obtained and reviewed historical lodging data for the area lodging market as a whole and for certain local hotel properties and economic/demographic data for relevant areas;
- Interviewed management at relevant local commercial lodging facilities;

- Interviewed representatives of the local economic development organization and the area's visitor's bureau;
- Interviewed representatives of and gathered relevant data from potential key generators of lodging demand present in the market area;
- Estimated the potential for future growth in demand for and the supply of lodging facilities in the market area;
- Formulated recommendations as to the type and size of the Hotel which would most appropriately position it within the market;
- Evaluated the relative competitiveness of the Hotel based on factors related to its market position, orientation, location and relationship to demand generators; and,
- Prepared projected levels of occupancy and ADR for the Hotel based on an assumed hotel type and size within the context of the competitive market outlook.

These analyses are summarized in the content of this report.

As in all studies of this type, the estimated results are based upon competent and efficient management and presume no significant changes in the competitive position of the lodging industry in the market area from those set forth in this report. The conclusions reached are based upon our present knowledge of the competitive lodging market as of the completion of our fieldwork concluded on December 21, 2012.

The terms of our engagement are such that we have no obligation to revise this report or the estimated operating results to reflect events or conditions that occur subsequent to the date of the completion of our fieldwork. However, we are available to discuss the necessity for revision in view of changes in the economic or market factors affecting the proposed development. Since the estimated operating results are based on estimates and assumptions that are subject to uncertainty and variation, we do not represent them as results that will actually be achieved.

This report has been prepared for your use and guidance in developing the subject proposed hotel and may be provided, in its entirety, to prospective franchisors, developers, lenders, equity partners, and government agencies as desired. The report and its contents, however, may not be quoted in any appraisal, prospectus or other document without our prior written consent.

We very much appreciate this opportunity to be of service.

Sincerely yours,

PKF Consulting

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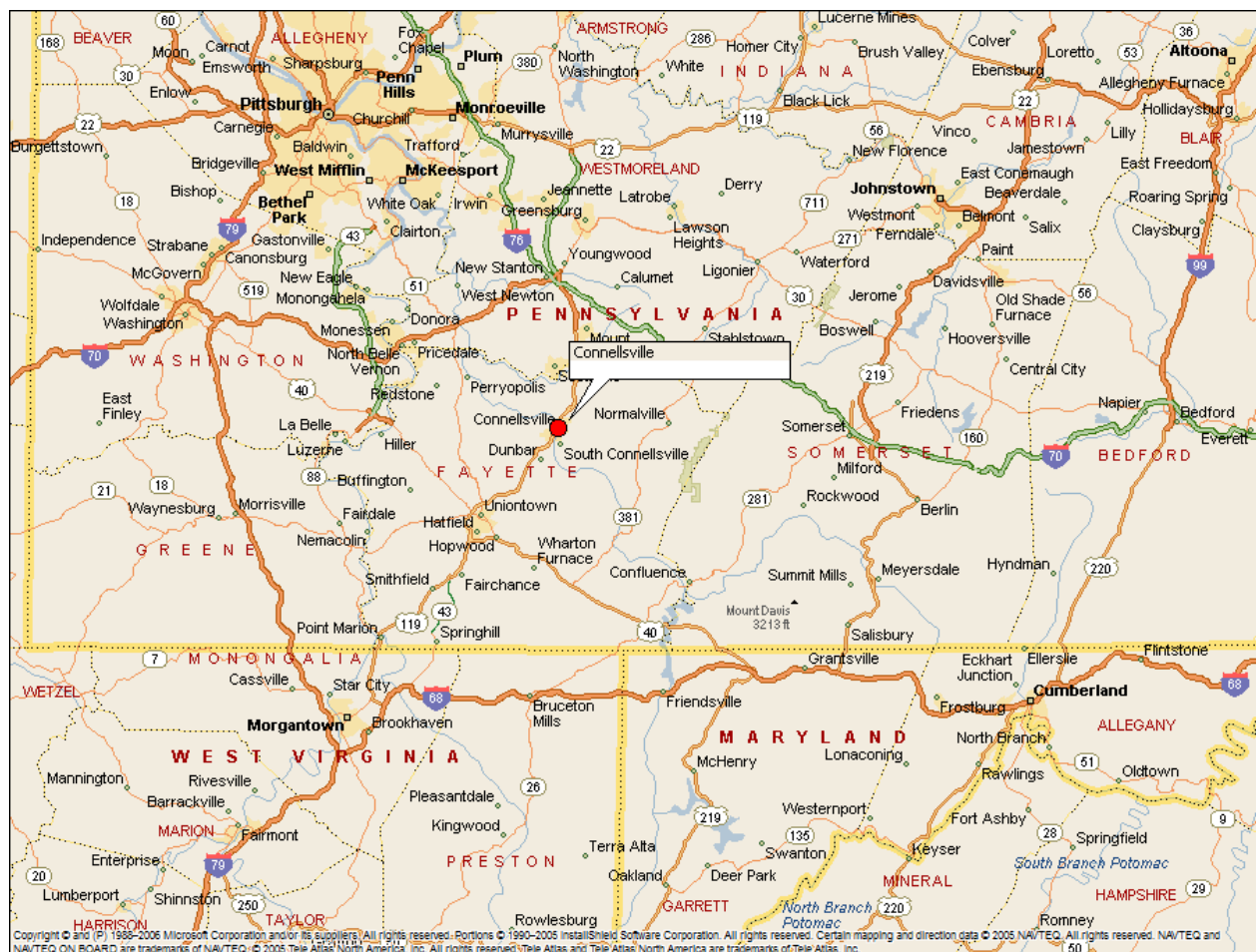
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Area Review

The City of Connellsville is located in Southwest Pennsylvania's Laurel Highlands region, approximately 50 miles southeast of Pittsburgh. Historically, the region's economy has been underpinned by the manufacturing and mining industries. After decades of slow decline, recent activity generated by the shale natural gas industry has reinvigorated the region's economy to a degree.

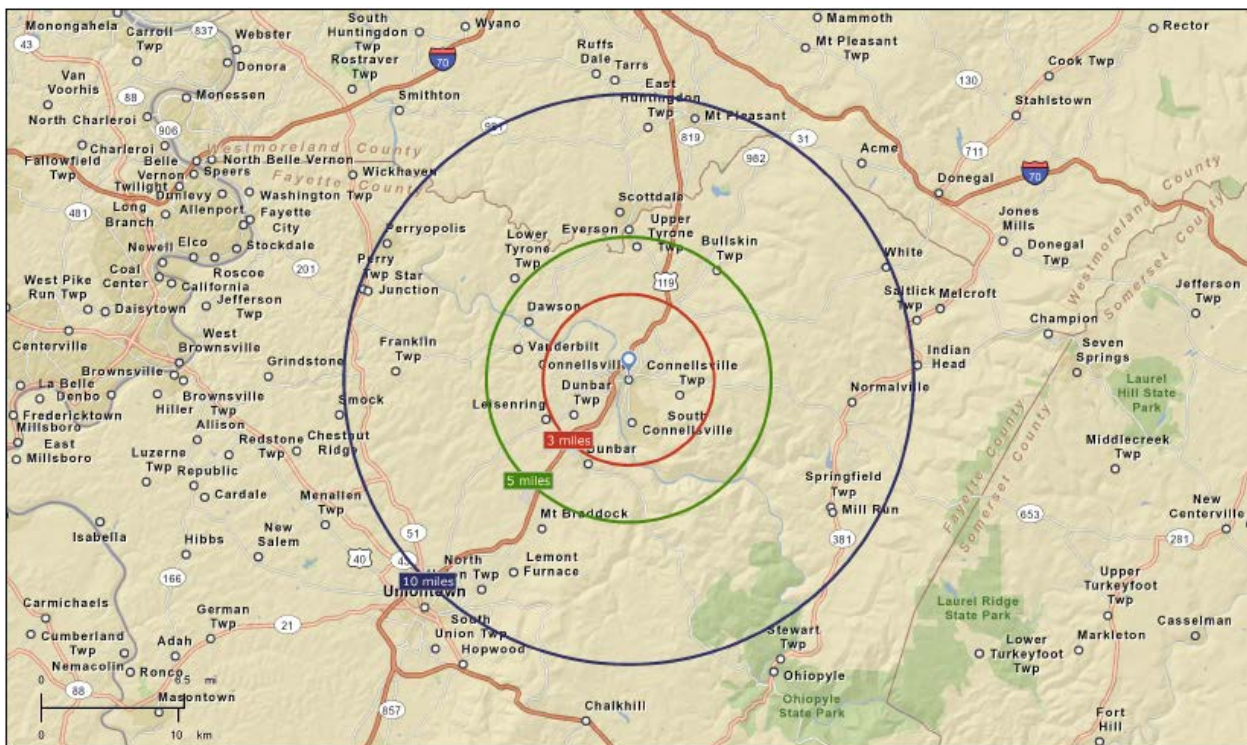
At the local level, Connellsville has developed into a popular stop along the Great Allegheny Passage (GAP) trail which extends from Pittsburgh to Cumberland, Maryland before linking with the C & O Canal towpath and proceeding to Washington, DC. The combined 335 miles of trail represent one of the premier bicycle trail systems in the U.S. The trail has garnered notable attention from the press and steadily increasing visitation since its opening, with annual ridership levels currently reported in the vicinity of 750,000, a figure which continues to grow. The following map identifies the location of Connellsville within the greater region.



As the regional map indicates, Connellsville is located south of I-70/I-76 (the Pennsylvania Turnpike), the primary east/west highway serving the southern half of Pennsylvania. U.S. Route 119 (“Route 119”) is the County’s primary north/south throughway, entering the County from West Virginia in the south and extending north through Uniontown, then Connellsville and onward into Westmoreland County, where it intersects with the Pennsylvania Turnpike. Downtown Connellsville is located approximately 17 miles (a 20-minute drive) south of U.S. 119’s connection with the Turnpike.

Demographic Indicators

Because there is hotel stock that currently serves neighboring Uniontown, to the south, and the Mount Pleasant/Scottdale area, to the north, our demographic analysis highlights the localized Connellsville area as well as a wider scope. The following local map shows three, five, and 10-mile radii anchored from Connellsville’s downtown.



A summary of comparative population trends in these identified areas is presented in the following table.

Historical Population Trends				
Area	2010	Est. 2012	Proj. 2017	C.A.G.R. ¹
3-Mile Radius	17,147	17,108	16,795	-0.4%
5-Mile Radius	24,847	24,740	24,243	-0.4%
10-Mile Radius	70,022	70,163	69,345	-0.2%
Pennsylvania	12,702,379	12,807,296	12,997,575	0.3%
U.S.A.	308,745,538	313,129,017	323,986,227	0.7%
(1) Compound Annual Growth Rate Source: ESRI				

As the following table illustrates, the population of the local area is projected to continue to decline modestly through 2017, while the populations of the Commonwealth of Pennsylvania and U.S. are projected to increase. A summary of selected income statistics is presented in the following table.

Income Estimates - 2012	
Area	Median Household
3-Mile Radius	\$31,147
5-Mile Radius	\$32,967
10-Mile Radius	\$35,415
Pennsylvania	\$49,167
U.S.A.	\$50,157
Source: ESRI	

As the table indicates, residents of the local area are significantly less affluent than those in the surrounding Commonwealth and in the U.S. overall.

Employment and Business Activity

The 224-bed Uniontown Hospital ranks as the largest employer in the County, with some 1,300 employees. The Nemaquin Woodlands resort is the second-largest employer and the only other employer with over 1,000 workers. The 10 largest employers in Fayette County are presented in the following table.

Largest Fayette County Employers - 2011	
Employer	Employees Locally
Uniontown Hospital	1,300
Nemacolin Woodlands	1,078
Connellsville School District	663
Wal-Mart	675
National Envelope	650
Albert Gallatin School District	425
Teletech	625
Laurel Highlands School District	427
Uniontown School District	265
Highlands Hospital	400
Source: Fay-Penn Economic Development Council	

Highlands Hospital, located in Connellsville, is the largest individual private employer in the local area and, aside from Wal-Mart (with its store on Route 119) the only one of the County’s largest private employers to be located in the immediate area. This 75-bed acute care hospital predominantly serves the local Connellsville community. In 2010, Highlands Hospital partnered with the Cleveland Clinic to develop the Highlands Hospital Center for Autism. The program was established to offer state-of-the-art educational and behavioral treatment to individuals with autism in Southwestern Pennsylvania.

Fayette County has nine business parks comprising a total of 2,791 acres. Each of these parks is composed in part or in total of Keystone Opportunity Zones (KOZ), which provide a 10-year phased-in real estate tax abatement for new development. A listing of the parks is presented in the following table.

Fayette County Business Parks			
Business Park Site	Acreage		Map Code
	Total	KOZ*	
Springhill Township Site	892	892	1
Ridec Property	686	686	2
Fayette Business Park	311	262	3
Fayette County Property	264	60	4
University Technology Park	193	193	5
Greater Uniontown Business Park	156	53	6
Lemont Furnace Site	143	143	7
South Uniontown Brownfield Road Site	123	123	8
Connellsville Industrial Park	23	23	9
Total	2,791	2,435	
*Keystone Opportunity Zone Source: Fay-Penn Economic Development Council			

As the table indicates, KOZs cover some 2,435 acres within the nine business parks. All of the parks are located along the Route 119 corridor bisecting the central part of the County. There are also plans to develop at least one additional industrial park along Route 119 in Dunbar, approximately six miles south of Connellsville, over a 10- to 15-year period. Work on this new park is tentatively planned to begin with a groundbreaking in the spring of this year.

The map on the following page indicates the locations of Fayette County’s nine operational business parks relative to Connellsville.

Fayette County Business Parks



As mentioned previously, the introduction and rapid growth of the shale natural gas industry has had a clear stimulating impact on the area’s economy over the past several years. The development of the underlying Marcellus Shale formation (and potentially other hydrocarbon-bearing shales) is relevant to the area lodging market because of the substantial demand for transient lodging that this industry’s activities generate. This demand materializes most prevalently during the initial development phase with exploration and drilling, before trailing off during the subsequent production phase.

The following table summarizes trends in unconventional drilling activity in Fayette County and neighboring Westmoreland (to the north), Somerset (to the east) and Greene (to the west) counties and the Commonwealth overall since 2008.

Unconventional Wells Drilled					
Area	2008	2009	2010	2011	2012
Fayette County	20	57	44	54	47
Westmoreland County	33	39	49	59	42
Somerset County	-	7	4	7	6
Greene County	67	101	103	121	108
Four-County Total	120	204	200	241	203
Pennsylvania Total	335	818	1,609	1,972	1,365
Four-County % Total PA Wells	35.8%	24.9%	12.4%	12.2%	14.9%

Source: Pennsylvania Department of Environmental Protection

As the table indicates, drilling volume has increased dramatically since 2008, which was the first year of large-scale activity in the region, though most recently seems to have stabilized below the all-time high set in 2011. This trend is in large part attributable to a cratering in natural gas commodity prices, which has made development less profitable and was itself a product of major supply increases yielded by the realization of the potential of the Marcellus and other U.S. shale formations. However, after early declines, the four-county area's proportion of drilling in the Commonwealth has partially rebounded to approximately 15 percent. Our research indicates this activity continues to generate substantial demand for lodging in the area which is currently accommodated by local hotels, especially in Uniontown due to its high concentration of lodging and local amenities and services.

Tourism and Recreation

Fayette County is one of three Pennsylvania counties classified for tourism purposes as the Laurel Highlands, also including Westmoreland County and Somerset County. Tourism in the Laurel Highlands is largely driven by outdoor and natural area recreation.

The Laurel Highlands contain eight state parks, 150-plus miles of hiking and biking trails and several notable historical sites. The Youghiogheny River's Lower Yough (21 miles east of downtown Connellsville; a 40-minute drive) in Ohiopyle State Park is famous within the whitewater rafting community for its Class-3 and Class-4 rapids. The Lower Yough is the most-trafficked whitewater canoeing and kayaking area east of the Mississippi River and attracts adventurers from throughout the Northeast and Midwest.

The GAP trail has over the past decade generated an increasingly substantial degree of new recreational visitation to the area. The following table summarizes a recent census of trail visitors at points in Connellsville and nearby Ohiopyle, indicating the share of overall weekly visitation occurring on each day.

Great Allegheny Passage Trail Average Daily Trail Counts 2007 to 2009*		
Day of the Week	Connellsville	Ohiopyle
Monday	12%	10%
Tuesday	10%	9%
Wednesday	10%	9%
Thursday	9%	8%
Friday	10%	11%
Saturday	23%	29%
Sunday	<u>25%</u>	<u>24%</u>
Total/Week	100%	100%
Mon-Fri %	52%	47%
Sat-Sun %	48%	53%
*Most recent available Source: Progress Fund		

As the table indicates, trail visitation roughly doubles on weekends in both Connellsville and Ohiopyle.

Great Allegheny Passage Trail Average Monthly Trail Counts - 2011				
Month	Connellsville	%	Ohiopyle	%
Jan	100	0%	100	0%
Feb	100	0%	100	0%
Mar	500	2%	1,000	1%
Apr	1,590	6%	4,671	5%
May	3,691	13%	11,242	12%
Jun	5,221	19%	15,238	16%
Jul	5,615	20%	21,671	23%
Aug	4,452	16%	17,272	19%
Sep	3,138	11%	10,257	11%
Oct	2,554	9%	9,555	10%
Nov	1,120	4%	2,015	2%
Dec	<u>100</u>	<u>0%</u>	<u>100</u>	<u>0%</u>
Total	28,181	100%	93,221	100%
Source: Progress Fund				

As the table indicates, the GAP Trail in Ohiopyle receives substantially more visitation than it does in Connellsville; however, this disparity is in large part attributable to that checkpoint's location within Ohiopyle State Park, which also attracts much local visitation. Seasonality is a major factor shaping visitation across the year, with a peak in June through August, shoulder periods in May and June and also in September and October, and virtually no visitation during the late fall and winter months. It is also notable that the

2011 trail count survey indicated that visitation in 2011 was approximately 18 percent lower than in 2010, attributing the decline to poorer weather in 2011. While weather will inherently impact visitation each year, better weather than that experienced in 2011 can be expected on the average, which should yield greater visitation than in 2011. Further, with the full completion of the trail into Pittsburgh later this year and growing awareness, it is reasonable to anticipate further visitation growth in the future.

Of particular importance to the area's commercial lodging market is the share of GAP trail ridership for multi-day trips. The "2012 Trail Town User Survey" revealed that approximately 26 percent of visitors surveyed in Connellsville and 68 percent in Ohiopyle are travelling on an overnight trip. These travelers seek a wide range of overnight accommodations, including campgrounds, vacation or family/friend homes, bed & breakfasts and hotels/motels.

Nemacolin Woodlands resort was awarded a resort gaming license by the Pennsylvania Gaming Control Board in the spring of 2011 and construction on a \$50 million Lady Luck casino at Nemacolin began at the end of 2012. Project representative anticipate the facility should be ready for a grand opening in mid-summer of this year. The 70,000 square-foot casino will have 600 slot machines, 28 table games, a restaurant and a lounge. The casino will complement Nemacolin's existing resort offers and should generate some incremental visitation from the surrounding region.

The region is home to two major ski resorts: Seven Springs (19 miles; a 33-minute drive from downtown Connellsville) and Hidden Valley (24 miles; a 39-minute drive). Seven Springs offers overnight visitors a 414-room main lodge as well as dozens of condominiums, chalets and townhomes. Hidden Valley also has its own 160-room lodge on the resort. Both of these resorts also offer a variety of summer-season activities and programs targeted to attract vacationers and conferees. These two resorts periodically generate overflow and/or value-seeking lodging demand that is accommodated by other hotels in the surrounding region, particularly to the east in Somerset, Pennsylvania. The distance from Connellsville to these two resorts is comparable to their distance from Somerset.

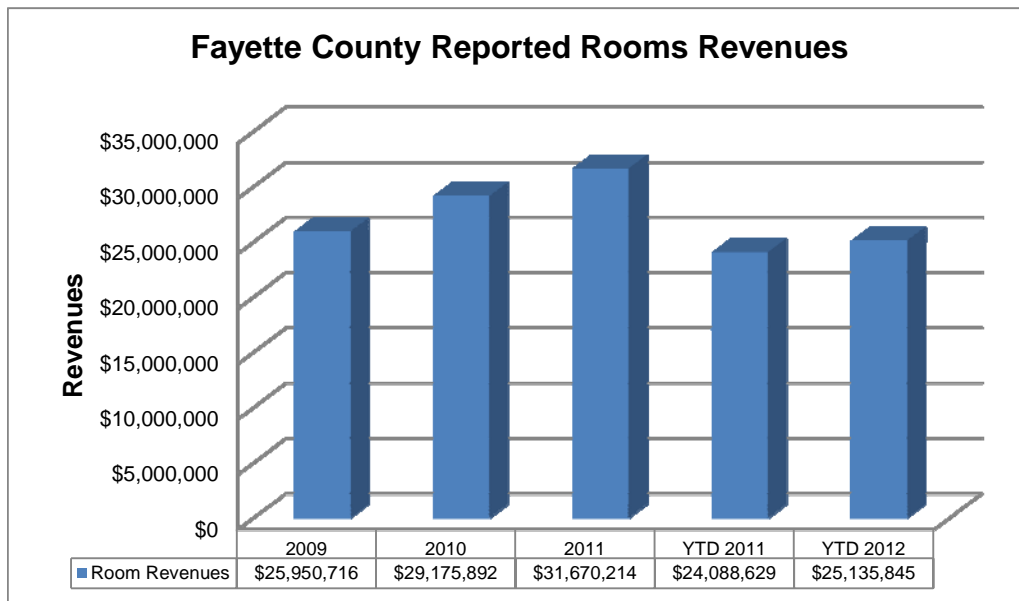
Frank Lloyd Wright's Fallingwater residence, located approximately 15 miles (a 23-minute drive) east of downtown Connellsville, is of the one of the nation's premier architectural landmarks. The landmark is listed within the Smithsonian's *Life List* of 28 places "to visit before you die." Living up to this billing, Fallingwater attracts some 160,000 visitors per year of whom approximately 75 percent travel from at least four hours away. Visitation peaks in the summer and fall, and the residence is closed for January and February. Because of the heavy visitation to this attraction from outside the local area, Fallingwater is a robust generator of lodging demand for the Laurel Highlands region.

Hotel Market Analysis

According to Smith Travel Research, Fayette County has 17 hotels with a total of 1,279 guestrooms, averaging 75 rooms per property. These hotels vary widely in age, market orientation and quality, ranging from independent motor lodges to the 318-room, four-star Nemaocolin Woodlands Resort. Excluding Nemaocolin, the principal concentrations of hotel supply in the County are in Uniontown, with six hotels and 428 guestrooms and Belle Vernon, with four hotels and 212 guestrooms. Combined with Nemaocolin Woodlands, this hotel supply represents 75 percent of the County’s guestroom inventory. The remainder of the County’s hotel supply is scattered across several other communities including Chalkill, Dawson, Farmington, Markleysburg, Perryopolis and Connellsville; each of which have one hotel. It is important to note that Smith Travel Research’s census does not include “Bed & Breakfast” properties, of which there are several within the County, including four in and around Connellsville with a total of 15 guestrooms.

Our market analysis investigated the performance of the Fayette County hotel market at large as well as more localized submarkets including hotels in Uniontown and Mount Pleasant and Bed & Breakfasts in and around Connellsville. While not directly indicative of the potential for a hotel in Connellsville, this performance data helps characterize trends in market forces which shape the area’s hotel market at large.

The following graph summarizes historical trends in gross rooms revenues for all hotels (including Bed & Breakfasts) in Fayette County from 2009 to October of 2012.



*Year-to-date September
Source: Fayette County Treasurer

As the graph indicates, County-wide revenues have increased steadily since the bottoming-out of the most recent recession in 2009. Over the first nine months of 2012, revenues were approximately 4.3 percent above that experienced over the same period in 2011.

There is currently only one true hotel/motel property in Connellsville, the 47-room Melody Motor Lodge which is located along Route 119 at the southern extremity of the City. There are also five bed & breakfast properties in or just outside of Connellsville. This submarket represents a total of 62 guestrooms. The following table summarizes the performance of this lodging submarket in 2011 and year-to-date 2012.

Local Connellsville-Area Hotels and Bed & Breakfasts Gross Rooms Revenues					
Property	# Rooms	2011		YTD 2012 Total	YTD Month
		Total	Per Room		
Connellsville B&B	5	\$61,049	\$12,210	\$57,581	September
Melody Motor Lodge	47	\$331,390	\$7,051	\$233,393	October
Greenwood House	3	\$4,981	\$1,660	\$6,555	September
Victorian Rose B&B	2	\$5,125	\$2,563	\$4,590	October
Seams Like Home	5	\$20,890	\$4,178	\$22,048	September
Total	62	\$423,435	\$6,830	\$324,167	

Source: Fayette County Treasurer

As the table indicates, this local submarket generated approximately \$423,000 in rooms revenue in 2011 (most recent full year available). The following table relates this submarket to the County on a rooms revenue and supply basis.

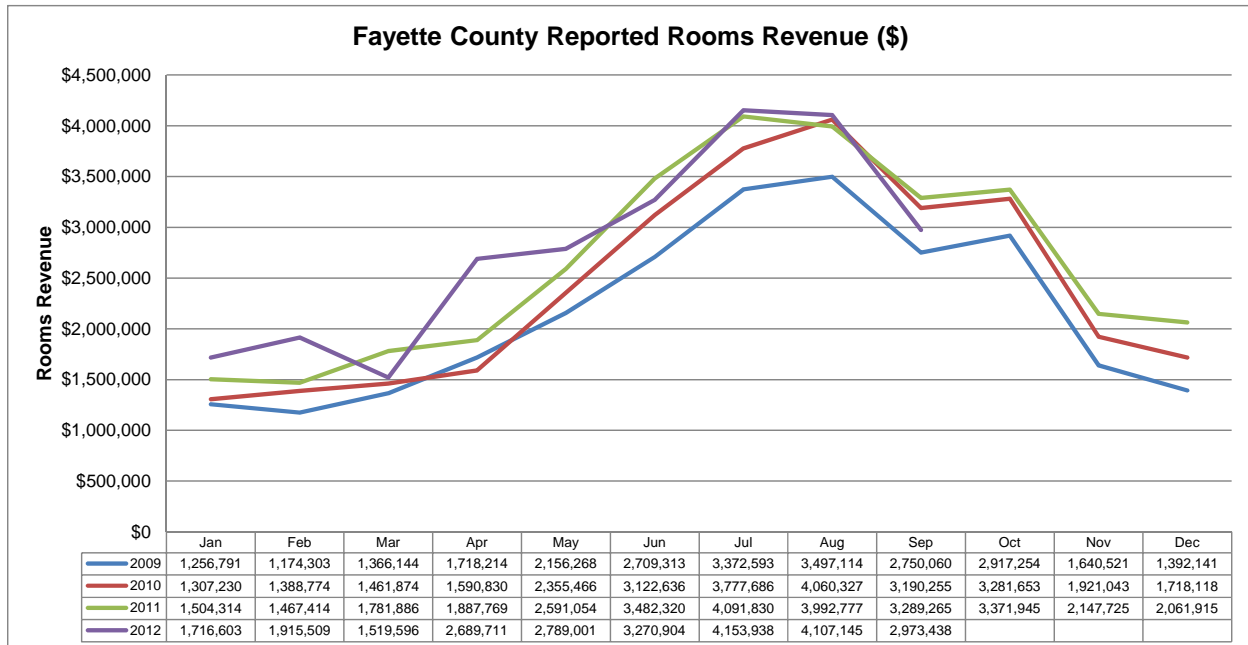
Lodging Market Comparison				
Market	Rooms Supply		Rooms Revenues	
	Total	% Cty. Total	Total	% Cty. Total
"Local Connellsville"	62	4.8%	\$423,435	1.6%
Fayette County	1,279	100.0%	\$31,670,214	100.0%

Source: Smith Travel Research; Fayette County Treasurer; compiled by PKF Consulting

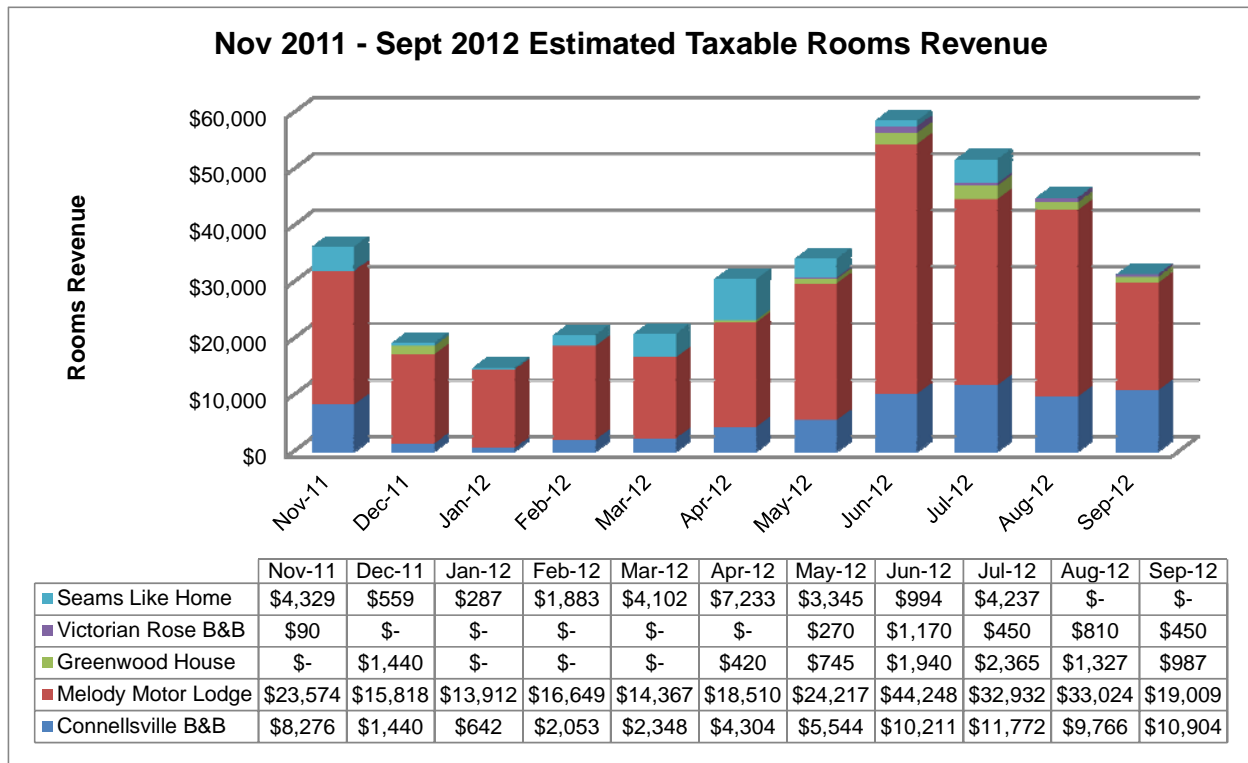
As the table indicates, while this localized submarket represents approximately 4.8 percent of the County-wide lodging supply, it accounts for only 1.6 percent of rooms revenue. However, a portion of this disparity can be attributed to the relatively inferior quality of the

Melody Motor Lodge and the differentiated business concept of bed & breakfasts (which can sustain lower occupancies than most hotel concepts).

Further enlightenment as to the nature of demand accommodated by hotel markets can be gained through an analysis of seasonal trends. In this case, we have examined results for the County and for the more localized set of properties in and around Connellsville, as illustrated in the following two graphs.



Source: Fayette County Treasurer



*Monthly estimates above may not foot to aggregate year-to-date data
Source: Fayette County Treasurer (compiled by PKF Consulting)

As the graphs indicate, both the local and county-wide markets reach a peak in June through August, when tourist and other recreational visitation to the area generates an influx of lodging demand.

We have also obtained historical performance data from Smith Travel Research for a group of hotels in Uniontown and Waynesburg (another town to the west which has experienced an influx of demand from the shale natural gas industry). This group of hotels is identified in the following table.

"Uniontown Submarket"			
Property	Location	Open Date	Rooms
Comfort Inn	Waynesburg, PA	1997	71
Fairfield Inn	Uniontown, PA	1999	69
Super 8	Uniontown, PA	2002	61
Holiday Inn	Uniontown, PA	1968	178
Hampton Inn	Uniontown, PA	1997	86
Total			465

Source: Smith Travel Research

With the exception of the Comfort Inn Waynesburg, each of these properties is located approximately 13 miles south (a 16-minute drive) of downtown Connellsville via Route 119.

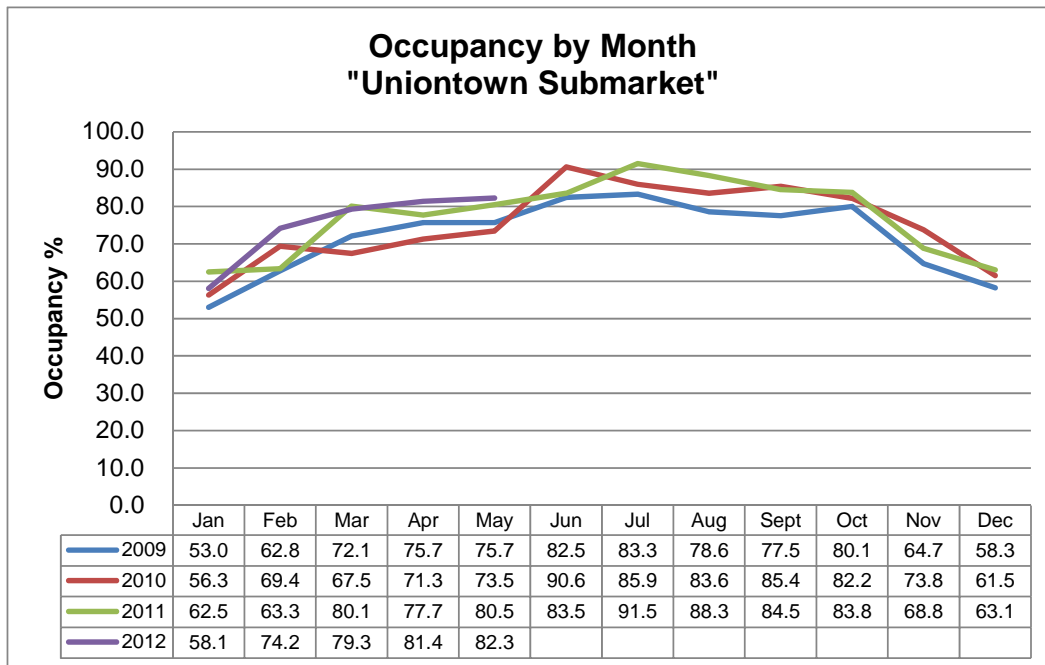
The following table summarizes the recent historical performance of this submarket.

"Uniontown Submarket"									
Historical Performance of the Competitive Market									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2007	169,725	-	113,670	-	67.0%	\$78.41	-	\$52.51	-
2008	169,725	0.0%	120,781	6.3%	71.2%	\$78.32	-0.1%	\$55.74	6.1%
2009	169,725	0.0%	122,304	1.3%	72.1%	\$80.08	2.2%	\$57.71	3.5%
2010	169,725	0.0%	127,404	4.2%	75.1%	\$83.07	3.7%	\$62.36	8.1%
2011	169,725	0.0%	131,383	3.1%	77.4%	\$90.51	9.0%	\$70.06	12.4%
CAGR	-	0.0%	-	3.7%	-	-	3.7%	-	7.5%
YTD 5/11	70,215	-	51,253	-	73.0%	\$86.26	-	\$62.96	-
YTD 5/12	70,215	0.0%	52,685	2.8%	75.0%	\$93.28	8.1%	\$69.99	11.2%

Source: **Smith Travel Research**

As the table indicates, this submarket has experienced 3.7 percent compound annual growth in both accommodated demand (occupied rooms) and average ADR over the 2007 to 2011 period. The steady increases in demand and occupancy—which continued uninterrupted through the recession—highlight the impact of the shale natural gas industry on the market during this period. Through the first five months of 2012, demand increased another 2.8 percent and ADR increased by 8.1 percent. At these five-month paces, the market would have experienced an annual 2012 occupancy of approximately 80 percent at an ADR of approximately \$98.

Room rates in the Uniontown submarket are significantly less impacted by seasonality than are occupancies. In the trailing 12 months to May 2012, ADRs ranged narrowly, between \$89.89 in January and \$96.49 in May. The following graph summarizes monthly trends in occupancy in this submarket.



Source: Smith Travel Research

Finally, we also acquired recent performance data for the 68-room Holiday Inn Express Mount Pleasant, which opened in 2005 and is located approximately eight miles (a 10-minute drive) north of downtown Connellsville via Route 119.

Holiday inn Express Mount Pleasant Estimated Historical Performance		
Year	Occupancy	ADR
2011	75% to 80%	\$79 to \$84
YTD Nov 2012	75% to 80%	\$85 to \$90
Source: PKF Consulting		

Of particular note are the similar occupancy levels and lower ADRs experienced by this property relative to the Uniontown submarket.

We also investigated the likelihood of other hotel projects planned for development within the market area which could have an impact on the potential for the subject proposed hotel. Our research uncovered two projects now in the planning stages, both of which would be located in Uniontown and affiliated with Choice Hotels, which could be relevant if developed. These projects would add up to roughly 200 new guestrooms to the Uniontown submarket. However, it should be noted that the status of both projects retains a degree of uncertainty, and it is questionable whether these projects would be considered directly competitive with the subject proposed hotel. We are not aware of any other planned hotel projects which would materially impact the performance of the subject proposed hotel.

Thus, we have thoroughly analyzed the historical performance of the market area's commercial lodging supply and the outlook for future changes to the makeup of this supply. The following key points summarize the analysis:

- Demand for lodging in the area continues to grow at this stage of the recovery cycle from the most recent national economic recession.
- Seasonal trends shape demand across the market to a significant extent, with demand peaking in the summer season and dropping off in the winter and early spring.
- Average room rates for quality, bona-fide hotels in the area currently materialize in the vicinity of \$90 to \$100, on an annual basis. Recent trends suggest the market is experiencing a rate appreciation phase which would apply upward pressure on these ADR levels into the future.

Selected Potential Demand Generator Analysis

We identified and, to the extent possible, investigated the demand-generating potential of several distinct organizations and activities present in the market area. Our research into each of these potential demand generators is briefly summarized in the following paragraphs.

Shale Natural Gas Industry

Previously in this report, we discussed the recent growth of shale drilling and its impact on the area's lodging market heretofore. Our research and recent historical precedent indicate that this industry's lodging demand generation can be volatile and potentially short-lived, depending on a myriad of external economic, political and legislative factors. Thus, it is inherently impossible to exactly predict the magnitude or longevity of lodging demand-generating activities that are driven by the shale drilling industry. However, drilling permit issuances do provide one indication of probable near- to mid-term activity. The following table summarizes unconventional drill permit issuances over the past several years within the region and Commonwealth.

Unconventional Drilling Permits Issued					
Area	2008	2009	2010	2011	2012
Fayette County	33	88	77	68	57
Westmoreland County	37	88	87	114	89
Somerset County	2	18	18	9	6
Greene County	68	182	179	217	147
Four-County Total	140	376	361	408	299
Pennsylvania Total	578	2,005	3,363	3,561	2,634
Four-County % Total PA Permits	24.2%	18.8%	10.7%	11.5%	11.4%
Source: Pennsylvania Department of Environmental Protection					

As the table indicates, permitting volumes declined in 2012 from the all-time high of 2011 in each surveyed area. However, after early declines, the four-county area’s proportion of permitting in the Commonwealth appears to have stabilized at approximately 11 percent. Thus, this trend appears to indicate that over the foreseeable future and without now-unforeseen influence from external disruptive factors, drilling volumes could continue at a pace roughly similar to that experienced in 2012.

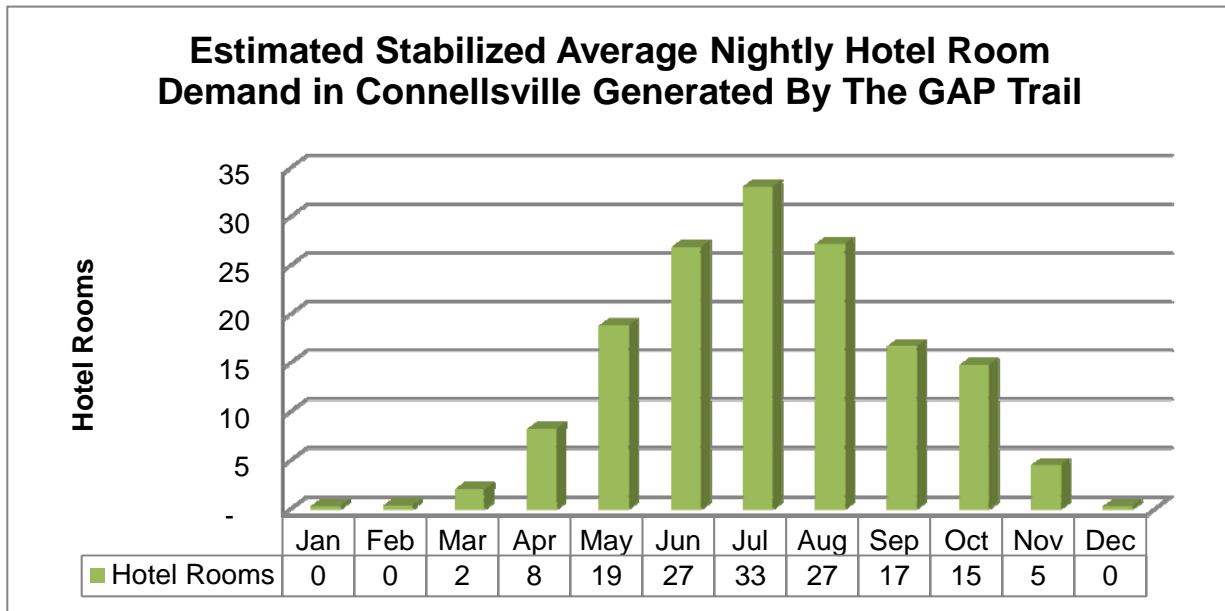
The proposed hotel will be located in Connellsville, which does offer a degree of area amenities attractive to industry crews, albeit at a smaller concentration than in nearby Uniontown. Current occupancies in the Uniontown submarket, while healthy, indicate some ability to absorb additional demand if necessary and further performance appreciation would likely bolster the probability of one or more additions to supply. We are also sensitive to the potential for operational and logistical complications which could materialize with the accommodation of these crews at the Hotel. Given these factors, we would anticipate the proposed hotel could potentially be anticipated to accommodate somewhat less than its “fair share” of demand from the market area’s shale industry.

Great Allegheny Passage Trail

Our analysis of the GAP trail as a demand generator for the subject proposed hotel is based on interviews with the Allegheny Trail Alliance, management at local hotels and bed & breakfasts and recent surveys and statistical analyses prepared by others, namely:

- The “2012 Trail Town User Survey” Report, Progress Fund;
- The “Correction to 2011 Trail User Survey” Memorandum, Progress Fund; and,
- The “Analysis of 2011 Trail Usage Patterns Along The Great Allegheny Passage” Report, Progress Fund

We have applied relevant statistical findings from the “*User Survey*” (and “*Correction*”) which addresses visitor characteristics, behavior and preferences to statistical findings from the “*Trail Usage Analysis*” which addresses overall visitation volumes. Combined, these two empirical resources yield a plausible quantification of potential demand for a hotel in Connellsville which would be generated by the GAP Trail. Accounting for a proportion of travelers who prefer to be accommodated at double-occupancy, we estimate that hotel demand in Connellsville generated by the GAP Trail peaks at an average of approximately 33 rooms per night over the month of July, as depicted in the following graph.



Source: PKF Consulting

Our research indicates that lodging facilities must be located within three easily-traveled miles of the GAP trail to attract travelers. Assuming the Hotel will be located at a site convenient and proximate to the trail, and because the Melody Motor Lodge is of advanced age, relatively low quality and is inconvenient to the trail, we anticipate the proposed hotel would potentially capture nearly all hotel-seeking GAP trail demand in Connellsville. We also believe a degree of impact could be felt by the local bed & breakfasts in and around Connellsville by the introduction of a new, quality hotel alternative.

Fallingwater

Connellsville’s distance from Fallingwater is comparable to other surrounding communities in Fayette and Somerset counties that offer hotel lodging. Accounting for double occupancy and non hotel-seeking overnight visitors, we believe the Hotel should be able to potentially attract its “fair share” of demand generated by Fallingwater. Demand generated by Fallingwater would likely trend with seasonal visitation levels to the landmark, with demand peaking in the summer and fall.

Highlands Hospital

As described previously, Highlands Hospital has a local orientation and input provided by the Hospital did not suggest material amounts of overnight visitation on the part of patients. However, it is likely that some nominal amount of lodging demand is generated by this facility, and a new hotel in Connellsville would be highly competitive for this demand.

CSX

CSX's rail infrastructures in the local Connellsville area require significant upkeep each year to remain safe and functional. This maintenance brings several 20- to 30-member work crews to the area each year, for several weeks at a time in the spring and summer, who are currently accommodated by hotels in Uniontown. However, our research indicates that, because much of the work is accomplished in and around Connellsville, a new hotel in Connellsville could potentially be highly competitive for demand generated by this visitation.

Penn State University-Fayette

Our discussions with PSU-Fayette administrative and athletics department representatives indicated that the campus generates relatively little hotel lodging demand. This campus primarily serves the local area, with a large majority of commuter students and a relatively small faculty.

PSU-Fayette's athletics department supports several varsity sports programs that attract visiting competitors from outside the region approximately 12 times per year, on each occasion requiring a total of 10 to 15 hotel rooms for one-night-stays. In recent years during the spring, PSU-Fayette has also hosted the annual USCAA National Basketball Championships, with 34 collegiate teams and a total of some 800 visitors. Nemaocolin Woodlands has been the tournament's official headquarters and has reportedly provided highly satisfactory accommodation of the lodging and meeting demand generated by the tournament.

Given the roughly equidistant location of the PSU-Fayette campus between Connellsville and Uniontown, we believe a new hotel in Connellsville could reasonably be anticipated to capture roughly its "fair share" of demand from PSU-Fayette, which, again, is relatively minor.

Reunions, Weddings, Funerals, General Business and Unclassified Visitation

Social events organized in and around Connellsville, like nearly all communities, generate material amounts of lodging demand periodically throughout the year. Our discussions with the local clergy and event venue management support an assumption for some modest demand generation throughout the year for which the proposed hotel should be competitive. Businesses in Connellsville also generate a modest amount of local

commercial lodging demand for which the hotel should be highly competitive. However, there are no sizeable corporate lodging demand generators in the local Connellsville area.

In the winter months, an effective marketing effort on the part of management at the Hotel should be able to attract a degree of value-seeking and/or overflow demand generated by the Seven Springs and Hidden Valley ski resorts, especially those visitors originating from Ohio and other areas to the west. Considering the operational ski seasons for these two resorts, we anticipate this demand source would materialize in the months of December through March. The provision of van/shuttle service for transporting guests to and from the resorts could enhance the Hotel's competitiveness for this demand.

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Facility Recommendations

Our facility recommendations are based on our market analysis, including primary and secondary research. Overall, we recommend the Hotel be positioned as a small, limited-service (without an on-site restaurant) property of two-plus “star” quality. This concept and positioning should maximize operational efficiencies—given the supportable guestroom inventory identified later in this report—and, in our opinion, align most closely with the needs of demand in the market.

It is our understanding that several sites may be suitable for the Hotel’s location. However, we have not opined on the suitability any particular site and assume the eventually-selected site will support the Hotel’s competitiveness. We understand the proposed facility could represent new construction and/or adaptive re-use of existing residential or commercial structures.

Guestrooms

We recommend the Hotel’s guestroom program have a mix of approximately 50 to 60 percent single king-bedded rooms and 40 to 50 percent double queen-bedded rooms. This guestroom mix should be suitable for appropriately accommodating the widest range of demand across the year.

Guestrooms should be designed for both comfort and functionality and be equipped with a quality array of amenities. The following amenities and services are, in our opinion, appropriate for guestrooms in the Hotel.

- Complimentary high-speed wireless Internet access
- Sofa with pull-out bed (in king-bedded rooms)
- Alarm clock radio
- Coffee maker
- Hairdryer
- Cable TV with pay-per-view movies
- Telephone with voicemail and complimentary local calling
- Iron and ironing board
- Work desk and chair

- Microwave
- Mini-fridge

Public Spaces

We recommend the Hotel offer an attractive and spacious lobby area conducive to informal gatherings by Hotel guests. We also recommend an on-site breakfast dining area for guests sized to accommodate maximum Hotel occupancy. It is our understanding that a restaurant of some type may be developed in conjunction with the Hotel. This facility would significantly enhance the Hotel's attractiveness to guests.

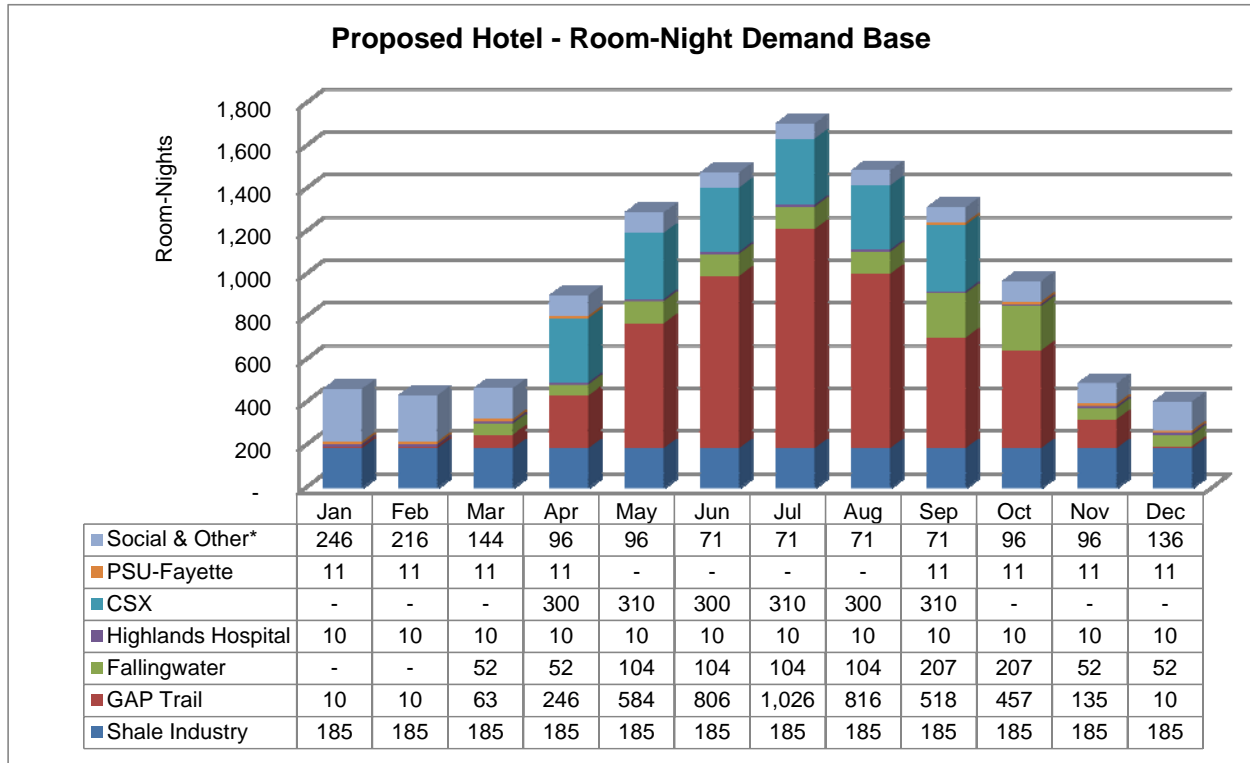
An on-site laundry area and business center should also be available to guests and would likely receive heavy use by GAP trail guests and other travelers.

The Hotel should also have secure on-site bicycle storage and a simple self-service bicycle maintenance/detailing area. This facility would receive utilization both from bicyclists in the warm-weather months and skiers in the winter.

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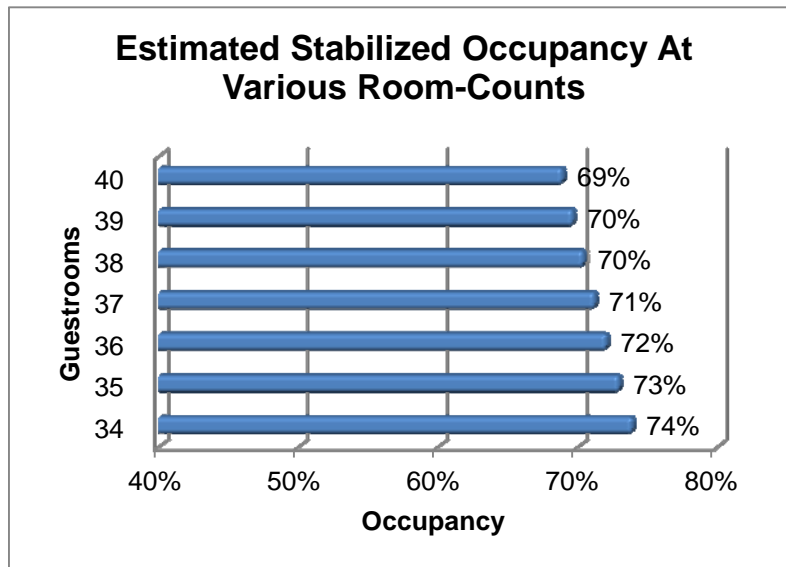
Estimates of Occupancy and Average Room Rate

We have analyzed the previously identified demand and supply factors within the context of the assumption that the proposed hotel would be of high quality and efficiently and professionally managed. As a result, we have estimated a total potential demand base for the Hotel, as summarized in the following table.



*Weddings, funerals, reunions, general business and unclassified

As the graph indicates, the demand base is significantly shaped by seasonal factors; particularly so by GAP trail-generated demand. This demand pattern results in a range of occupancies bracketing a 70 percent level for a range of guestrooms counts between 34 and 40 rooms, as summarized in the following graph.



As the graph indicates, this range of guestrooms in the Hotel’s inventory yields annual stabilized occupancies between 69 percent at 40 rooms and 74 percent at 34 rooms. For the purposes of this analysis, we have assumed the Hotel will have an inventory of 35 guestrooms.

We have also estimated prospective average daily room-rates (in current-value 2013 dollars) by segment, as summarized in the following table.

Year 1 Average Room Rate Estimates Proposed Connellsville Hotel	
Demand Generator	ADR (2013 \$)
Shale Industry	\$80.00
GAP Trail	\$125.00
Fallingwater	\$105.00
Highlands Hospital	\$95.00
CSX	\$80.00
PSU-Fayette	\$95.00
Social & Other*	\$95.00
Total	\$103.00
*Weddings, funerals, reunions, general business and unclassified	
Source: PKF Consulting	

As the table indicates, we estimate an aggregate annual ADR of approximately \$103, with ADRs ranging by segment from \$80 for shale industry and CSX guests, whom are likely to

be accommodated at negotiated rates, to \$125 for GAP trail guests, most of whom will visit during peak demand periods and are relatively insensitive to price (considering the lack of hotel competition in Connellsville).

Like most hotel properties, the proposed hotel in Connellsville is likely to experience an initial “ramp-up” period during which time performance steadily improves to a stabilized level as it establishes a market position. In our opinion, this ramp-up period would materially impact ADR and, to a greater extent, occupancies over the initial few operating years. To summarize, our projections of captured demand, occupancy levels, ADR (expressed in current-value dollars) and RevPAR for the proposed hotel over its initial five operating years are presented in the following table.

Projected Performance of the Subject									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	ADR*	Percent Change	RevPAR*	Percent Change
1	12,775	--	8,320	--	65%	\$103.00	--	\$67.08	-
2	12,775	0.0%	8,946	7.5%	70%	\$103.00	0.0%	\$72.13	7.5%
3	12,775	0.0%	9,319	4.2%	73%	\$105.00	1.9%	\$76.60	6.2%
4	12,775	0.0%	9,319	0.0%	73%	\$107.00	1.9%	\$78.05	1.9%
5	12,775	0.0%	9,319	0.0%	73%	\$107.00	0.0%	\$78.05	0.0%
CAGR	-	0.0%	-	2.9%	-	-	1.0%	-	3.9%

*2013 \$

Source: PKF Consulting