

CBRE HOTELS
VALUATION & ADVISORY SERVICES

**ACCOMMODATION NEEDS STUDY-
PHASE 1 REPORTING**

**IN RESPONSE TO TOWN OF HANOVER
RFP ED-01-19**

PROPOSED HOTEL HANOVER
HANOVER, ONTARIO
FILE NO. 19-APPRHOTELS-0098
DATE: NOVEMBER 15, 2019

CBRE

November 15, 2019

Town of Hanover
341 10th Street
Hanover, Ontario, N4N 1P5

Attn: Brian Tocheri
CAO/Clerk

RE: Accommodation Needs Study – Phase 1 Reporting, Hanover, Ontario

Dear Mr. Tocheri:

In accordance with the terms of our engagement, CBRE Limited has completed the Phase 1 research and analysis as part of the Accommodation Needs Study for the Town of Hanover in response to RFP ED-01-19 issued by the Town of Hanover.

It is our understanding that the Town of Hanover is interested in obtaining a third-party study to better understand the potential for a new hotel development in the Town of Hanover.

The purpose and intended use of this report is to determine the level of market and economic support for a potential hotel development within the Hanover. This report has been prepared solely for the internal planning purposes of the Client. This report cannot be relied on for financing or investment purposes.

The projections are based on a review of market information and interviews with market participants. The entire study, including all findings and conclusions, pertains to the competitive market area and is based on our knowledge and information with respect to current and projected economic data, expected growth in the supply of and demand for hotel accommodation, proposed construction of facilities, which could be deemed to be competitive, and the status of the competitive market as at November 15, 2019. Our conclusions as presented in this report are reflective as of this fieldwork date.

In the absence of year-round hotel demand generators in Hanover, we have concluded that a new hotel would not be viable at this time. The details supporting this conclusion are detailed in our report.

As in all studies of this type, the projected operating results are based on competent and efficient management and presume no significant change in the competitive position of the accommodation industry in the immediate area except as set forth in this report. The estimates are subject to uncertainty and variation and we do not represent them as results that will be achieved. They have, however, been conscientiously prepared on the basis of available information and our experience in the industry.

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NOVEMBER 15, 2019

If you have any further questions concerning our analysis, or if CBRE Limited can be of further assistance to you, please contact us.

A handwritten signature in blue ink that reads "Brian Stanford". The signature is written in a cursive style.

Brian Stanford, CMC, ISHC, FRICS
Senior Managing Director
CBRE Hotels
Valuation & Advisory Services
Phone: (647) 943-3741

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ADDENDA

INTRODUCTION

INTRODUCTION

In June 2019, CBRE Hotels was retained by the Town of Hanover to undertake an Accommodation Needs Study to assess the market and economic potential for a hotel development in Hanover, Ontario.

It is our understanding that the Town of Hanover is interested in assessing the market and economic potential for a hotel development with the objective of attracting third party development interest in the development if the project is warranted.

This report presents the research and analysis with respect to the development of a proposed hotel. The analysis herein has assumed an opening date for a proposed hotel of January 1, 2023.

The objectives of Phase 1 have been to:

- Determine if there is a market and economic opportunity to develop a hotel in Hanover; and
- Determine the ideal product in terms of facilities and amenities based on market demand.

In order to complete the Phase 1 analysis, CBRE has undertaken the following steps:

- Completed a review of the economic and travel conditions affecting the demand for accommodation in the market area;
- A review of the existing accommodation market in region, including an assessment of the existing facilities and the market demand segmentation;
- Interviews with local and regional stakeholders;
- A review of typical site selection criteria to identify the areas within the Town of Hanover which are likely best suited to a new hotel development in the market;
- A recommendation as to the size, facilities, amenities and branding options for a proposed hotel development
- An estimate of future growth in supply of, and demand for, hotel accommodation in the competitive market area;
- Preparation of market penetration rates by market segment and occupancy projections for a proposed hotel over the projection period of January 1, 2023 to December 31, 2028, based on the facilities, and market orientation;

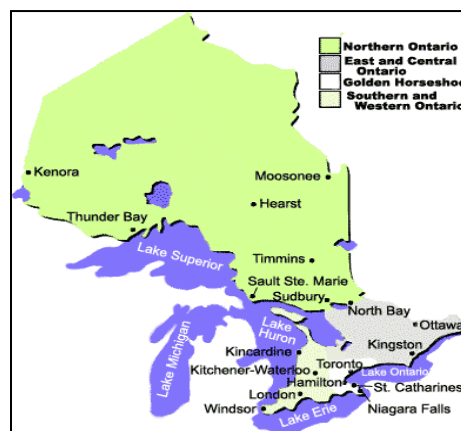
MARKET OVERVIEWS

PROVINCE OF ONTARIO ECONOMIC OVERVIEW

Ontario is located in Central Canada, bordered by the Great Lakes, Hudson Bay and James Bay. It is Canada's second largest province in total land area. The largest border is with the province of Manitoba to the west and then the province of Quebec to the east. Ontario also shares borders with the U.S. states of Minnesota to the west, New York to the south east, and Michigan to the south west.

Population

The largest concentration of people and cities is in the "Golden Horseshoe" along the western end of Lake Ontario including the Greater Toronto Area, Hamilton, and Niagara Falls. The "Greater Golden Horseshoe" describes the metropolitan area outside the core region and which includes Kitchener-Waterloo area, Barrie, and Peterborough.



ONTARIO MARKET OVERVIEW

Economic Overview

Notable highlights regarding Ontario's economic environment are provided below and have been sourced from The Conference Board of Canada's Spring 2019 Metropolitan Outlook I report:

	ONTARIO ECONOMIC INDICATORS							
	2016	2017	2018	2019F	2020F	2021F	2022F	2023F
Real GDP at Basic Price (2007 \$ millions)	692,800	711,994	727,824	743,375	758,523	774,070	789,208	804,359
Annual % Change	2.4%	2.8%	2.2%	2.1%	2.0%	2.0%	2.0%	1.9%
Population (Thousands)	13,853	14,051	14,293	14,496	14,703	14,908	15,110	15,311
Annual % Change	1.1%	1.4%	1.7%	1.4%	1.4%	1.4%	1.4%	1.3%
Employment (Thousands)	7,000	7,127	7,239	7,341	7,442	7,535	7,620	7,703
Annual % Change	1.1%	1.8%	1.6%	1.4%	1.4%	1.4%	1.2%	1.1%
Unemployment Rate	6.6%	6.0%	5.6%	5.3%	5.2%	5.1%	5.2%	5.2%
Household Income Per Capita (\$)	\$45,792	\$47,252	\$48,473	\$49,397	\$50,550	\$51,822	\$53,193	\$54,611
Retail Sales (\$ millions)	\$200,886	\$216,318	\$225,513	\$236,113	\$244,018	\$252,266	\$260,709	\$269,435
Annual % Change	6.9%	7.7%	4.3%	4.7%	3.3%	3.4%	3.3%	3.3%
CPI (Annual Change)	1.8%	1.7%	2.4%	1.6%	2.0%	2.1%	2.0%	2.0%

Source: Conference Board of Canada, Spring 2019

- Real GDP growth in Ontario is expected to see modest growth in 2019 at 2.1% and dipping to 2.0% in 2020. While there are several large construction projects scheduled over the next couple of years (\$2-billion petrochemical plant in Sarnia and the CIBC Square in Toronto), the modest growth can be partially attributed to slowing global growth, increasing household indebtedness and policy

changes which have weakened drivers such as household spending and residential construction that previously fueled positive year-to-year Real GDP growth from 2014-2017. Additionally, there may be a risk of Real GDP growth dropping lower than expected due to significant provincial budget cuts and weaker job creation.

- Provincial population growth is expected to grow at a steady rate of 1.4% from 2019 to 2022.
- Slowing economic growth and high consumer indebtedness persist and are expected to continue to restrain consumer spending growth. Consumer spending growth is expected to fall from 2.9% in 2018 to 2.4% in 2019 before stabilizing in 2023 at 2.0%.
- Although job growth is forecasted to slow, Ontario will not be as heavily affected, as the province is expected to experience the strongest employment gains in 2019 and 2020. Employment is forecasted to remain steady from 2019 to 2020 at a healthy 1.4%. Ontario's forecasted employment rate is expected to outperform the national rate from 2019 to 2023.
- The provinces unemployment rate is expected to fall further from the 2018 rate of 5.6% to 5.3% in 2019 and 5.2% in 2020. The rate will continue to fall steadily to 5.1% in 2021 where it will then begin to rise to 5.2% in 2022 and 2023.
- The federal government's move to tighten lending requirements coupled with provincial housing policy changes have allowed Ontario's housing market to show signs of stabilization. Housing starts are expected to fall by 7.6% in 2019. However, housing starts are forecasted to strengthen by 2023 achieving 78,000 units due to new government policies.
- Real Investment is expected to grow at an average of 3.2% between 2019-2023 after coming off a strong 2018 growth of 3.6%. The softening of growth is from residential construction with federal and provincial housing measures cutting into home sales and decreasing the demand for new home construction. However, strong growth in non-residential investment will help offset the decrease in residential construction projects. Investments in non-residential construction in Downtown Toronto paired with Toyota's multi-billion-dollar investment in the retooling of its Cambridge plant will cause investment growth to rise from 2.3% in 2019 to 3.2% in 2020.

Tourism Overview

In Winter 2019, the Conference Board of Canada released the most recent Travel Market Outlooks for the 2018 to 2022 period. The projections for Ontario are summarized below:

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PROVINCIAL TRAVEL MARKET OUTLOOK

Ontario	2018	2019	2020	2021	2022
Total ('000s overnight province visits)	53,878	54,928	56,001	57,117	58,212
	1.0	1.9	2.0	2.0	1.9
Domestic	44,261	44,986	45,758	46,552	47,313
	1.4	1.6	1.7	1.7	1.6
Business	3,225	3,296	3,377	3,456	3,535
	1.6	2.2	2.5	2.3	2.3
Pleasure	17,332	17,638	17,962	18,317	18,642
	1.5	1.8	1.8	2.0	1.8
United States	6,615	6,817	6,984	7,147	7,308
	0.8	3.0	2.5	2.3	2.3
Overseas	3,002	3,125	3,259	3,418	3,590
	2.1	4.1	4.3	4.9	5.0
Total Expenditures (\$ millions overnight)	18,796	19,776	20,741	21,779	22,852
	4.6	5.2	0.9	5.0	4.9
Travel Price Index	5.18	3.17	2.72	2.54	2.54

Source: The Conference Board of Canada

- Overall, overnight visits in 2018 were projected to expand by 1.0% after realizing 3.0% growth in 2017 driven by the Canada 150th anniversary celebrations. Moving forward, Overnight visits in 2019 are poised for another strong year, forecasted to increase by 1.9%. Going forward growth is projected to be in the range of 2.0% per year over the next few years.
- Business travel is expected to continue to grow at 2.3% to 2.5% per annum over the next several years supported by strong but moderate economic indicators.
- Over the forecast horizon, visits to Ontario should benefit from the increased funding for festivals and events across the province. The provincial government invested over \$20 million in tourism grants through Celebrate Ontario that supported 328 festivals and events in 2018.
- Overseas arrivals to the province are expected to benefit from increased air capacity from emerging source markets within continued strong growth anticipated.
- The strength of the US dollar in recent years has had a positive impact on domestic travel in Canada and Ontario. Canadians that would have travelled to the US for vacation are increasingly making plans to travel domestically. Given that Ontarians have a high propensity to travel within their home province, this trend has had a positive impact on hotel performance and is expected to support continued growth in the near future.

GREY COUNTY

Grey County is located in Southwestern Ontario and is part of the Georgian Triangle. Grey County is made up of one city, three towns, and five townships. These include Owen Sound, which is the county seat, Grey Highlands, West Grey, Meaford, Georgian Bluffs, Hanover, Southgate, The Blue Mountains, and Chatsworth.

Grey County is located approximately 160km from Toronto via Highway 10. Grey County is part of the Georgian Triangle which is made up of the counties surrounding Georgian Bay. This includes Bruce, Grey, and Simcoe County.



Source: Township of Georgian Bluffs

Data relating to the Grey County economy is included on the following table.

Grey County Economic Profile Demographics

Population	% of Canadian	% Change	Average Annual Growth Rate	
2019 Estimate	Total	2014-2019	2014-2019	
98,008	0.27%	2.90%	0.58%	
Household Income – 2019 Average				
% Above/Below National Average	Total Income 2019 Estimate	% Canadian Total	Per Capita	Hhlds. \$100,000+
-3.96% Above	\$3,823,070,000	0.27%	\$39,008	31.50%
Household Spending – 2019 Average				
% Above/Below National Average	Total Household Spending 2019 Estimate	% Canadian Total	Per Capita	Per Household
0.62% Above	\$4,519,207,777	0.29%	\$46,111	\$109,060

Source: Sitewise, 2019

According to the 2016 Canada Census, the population of Grey County was 93,830, an increase of 1.4% over the 2011 census. The largest population centres in Grey County include City of Owen Sound (21,341), Municipality of West Grey (12,518), and the Municipality of Meaford (10,991). The following table shows the projected populations changes between the 2011 Canadian census and 2041. In Grey County, more than 22,600 people are over the age of 65 (24.1% of the total population) and approximately 57,310 (61%) are between the ages of 15 and 64 years.

Grey County - Change in Population

	2011	2016	2031	2041
Population	92,568	93,830	105,390	107,110
Change (%)	--	1.4%	12.3%	1.6%

Source: Grey County

The table below summarizes 2016 total employment in Grey County by industry sector for industries with at least 1,000 jobs, according to the community profile. As shown, health care and social assistance, manufacturing, retail trade, and construction are the leading industries in the county and provide the large majority of the employment in the area.

Employment by Industry Sector - Grey County

Industry Sector	2016	
Healthcare and social assistance	6,390	15%
Manufacturing	5,745	14%
Retail trade	5,605	13%
Construction	4,565	11%
Agriculture	3,145	8%
Accommodation and Food Services	2,960	7%
Educational Services	2,615	6%
Other Services	2,265	5%
Professional, scientific, and technical services	2,060	5%
Public administration	1,985	5%
Transportation and warehousing	1,795	4%
Finance and insurance	1,510	4%
Wholesale Trade	1,125	3%

Source: Grey County

Top employers for Grey County include:

- Grey Bruce Health Services (Owen Sound, Southampton, Warton, Lion's Head, Markdale, Meaford)
- Hanover & District Hospital (Hanover)
- Bay Growers (Clarksburg)
- Transcontinental Printing (Owen Sound)
- Chapman's Ice Cream (Markdale)

While not located in Grey County, the Bruce Power Nuclear Plant is a major regional employer. The plant is located in Tiverton, ON which is approximately 50km from the Town of Hanover.

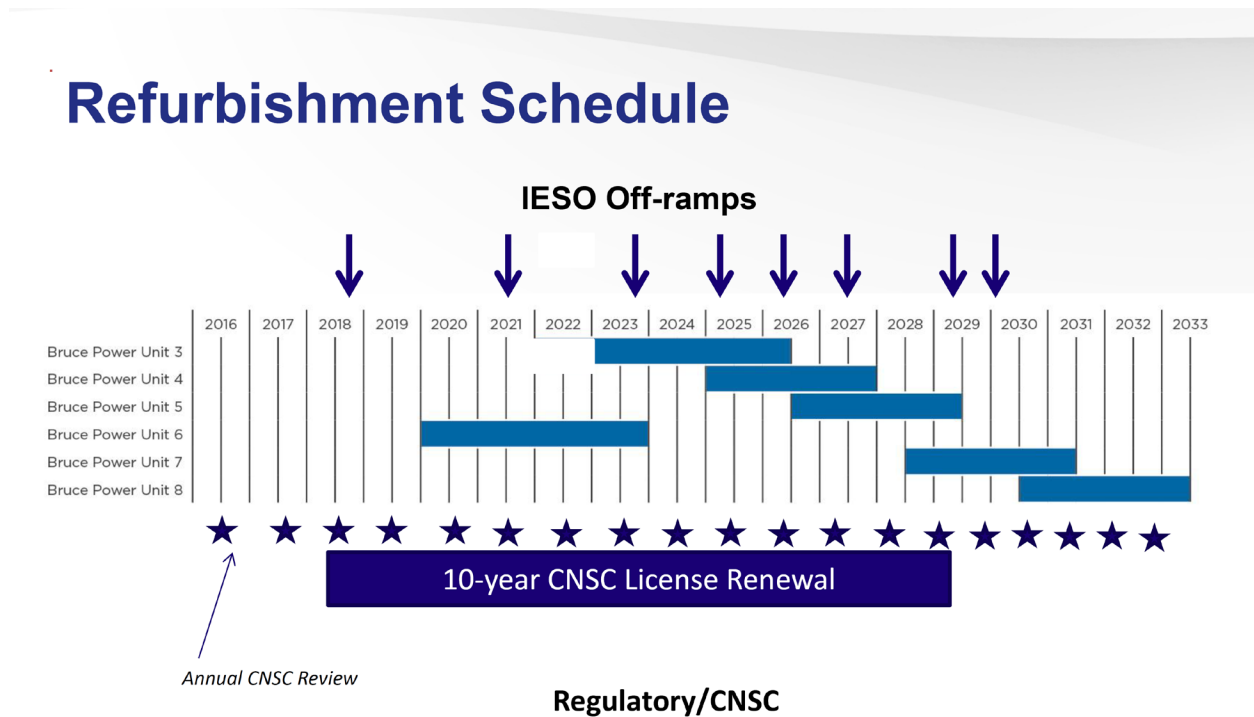
Bruce Power Refurbishment

In nearby Tiverton, the \$13 billion refurbishment of the Bruce Power Nuclear Reactors is starting in 2020. This is the largest valued infrastructure project in Canada and will take place over the next 15 years. Bruce

Power currently produces approximately 30% of Ontario’s power annually. This project called the Major Component Replacement (MCR) involves refurbishing six of eight nuclear reactors taking the units offline in different phases. The goal of the projects is to extend the usable life of the reactors to 2064.

The refurbishment project will produce approximately 25,000 direct and indirect jobs across Ontario. In preparation of this project, Bruce Power awarded over \$914 million worth of manufacturing contracts to suppliers that provide necessary pieces to the refurbishment project¹. Approximately 50 suppliers supporting the refurbishment project have set up offices/warehouses in Bruce, Grey, and Huron counties in order to be in close proximity to the Tiverton plant. Major firms that have re-located offices to the area include Aecon, SNC Lavalin, Black & McDonald, GE, Stantec, Worley Parsons. It is our understanding that suppliers entering the area would prefer to hire workers locally as opposed to have employees travel in weekly for work.

The schedule for refurbishment and taking units offline is as follows:



Source: Bruce Power

¹ Canada’s Top 100 Projects, <https://top100projects.ca/project-details/?id=229&yr=2019>

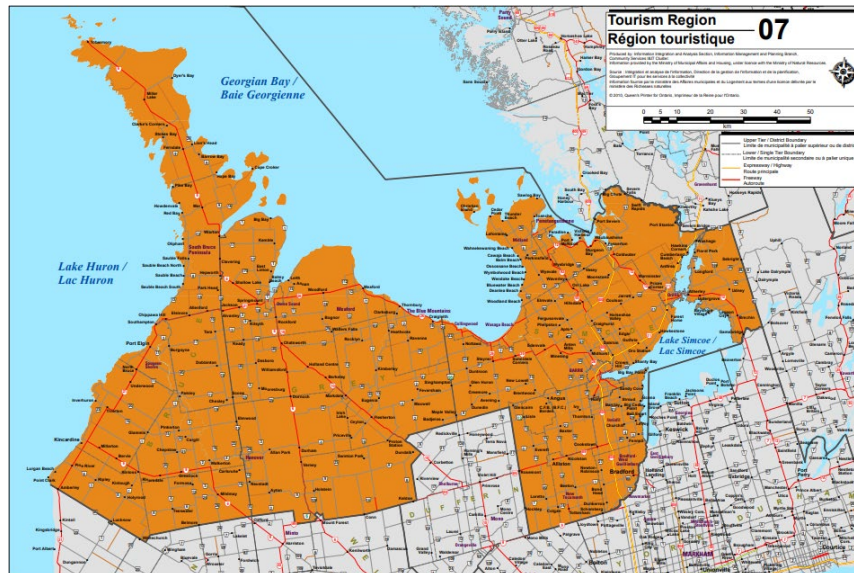
Tourism

Tourism in Grey County is directly related to the natural habitats and abundant recreational activities located in and around the County. Much of the tourist activity in Grey is concentrated around outdoor recreation and heritage. The largest natural attraction in the region is the Niagara Escarpment, which passes through the region and has a number of features. This includes the Bruce Trail, Beaver Valley, a UNESCO World Heritage site and a popular ski destination, and Eugenia Falls, home of Grey County’s only gold rush.

Grey County offers a multitude of attractions and recreational activities throughout its communities. There are over 30 golf courses in Grey and Bruce County that offer picturesque golf experiences to all ranges of skill levels. Grey County is also home to nine waterfalls, some of which allow for rafting, paddling, canoeing, and kayaking, as well as numerous on-road, off-road, and rail trail cycling routes. Thousands of years of glacial ice have formed terrain suitable for rock climbing, bouldering, and spelunking, as well as skiing, snowshoeing, downhill and cross-country skiing in the winter. Grey County can also be explored through its rich cultural heritage and history. Museums in the county highlight the CN Rail development, WWI and WWII artifacts, and historic homes of the region, while the Tom Thomson Art Gallery and Durham Art gallery showcase contemporary art exhibitions.

RTO 7

Grey County is also a part of Regional Tourism organization 7 (RTO 7), which includes Bruce County and Simcoe County as well. The following table provides some key visitation figures for 2016; the most recent year of data available.



Source: Ontario Ministry of Tourism, Culture, and Sport

The volume and value of tourism in Canada is measured by Statistics Canada through two primary surveys: the Travel Survey of Residents of Canada (TSRC) and International Travel Survey (ITS). In turn, the Ontario Ministry of Tourism, Culture and Sport (MTCS) customizes the data to reflect specific sub-regional provincial

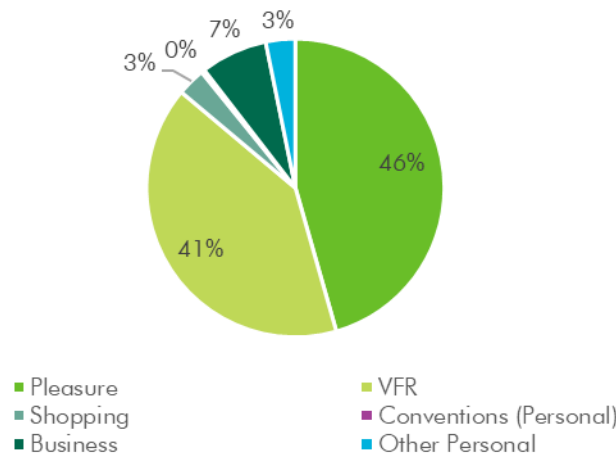
regions and the formats required by MTCS’s Tourism Regional Economic Impact Model (TREIM). In Canada, a domestic tourist is someone who takes an “out-of-town” trip for one or more nights, or a same day out-of-town trip that takes them at least 40 km one-way from his/her home. It should be noted that visitor volumes have been calculated using person visits rather than the number of tourists, this means that one tourist can account for multiple visits throughout the year.

RTO 7 Visitation 2016	
Total Person Visits	11,451,700
Ontario	11,277,200
Other Canada	103,700
USA	--
Overseas	70,700
Total Overnight Visits	4,830,800

Source: Ministry of Tourism, Culture, and Sport

As shown, 11.45 million people visited RTO 7 in 2016, with 98% of all visitation originating from within Ontario. Of the total number of trips, 42% of people stayed overnight, while 58% visited the region for a day-trip. The average length of stay of overnight visits was 3 nights.

RTO 7 - Main Purpose of Trip (Person Visits)



The main purpose of trips to RTO 7 was driven by the Pleasure based trips representing 46% of total trips or 5.2 million visits in 2016. The second highest purpose of travel was for visiting friends and family located in the Region. Other reasons for travel represent less than 10% of total visits each and include reasons such as business, shopping, and other personal reasons.

RTO 7 Seasonal Visitation - 2016

Q1 (Jan- Mar)	2,274,800	20%
Q2 (Apr-Jun)	3,035,300	27%
Q3 (Jul-Sep)	4,158,600	36%
Q4 (Oct-Dec)	1,983,000	17%
Total	11,451,700	100%

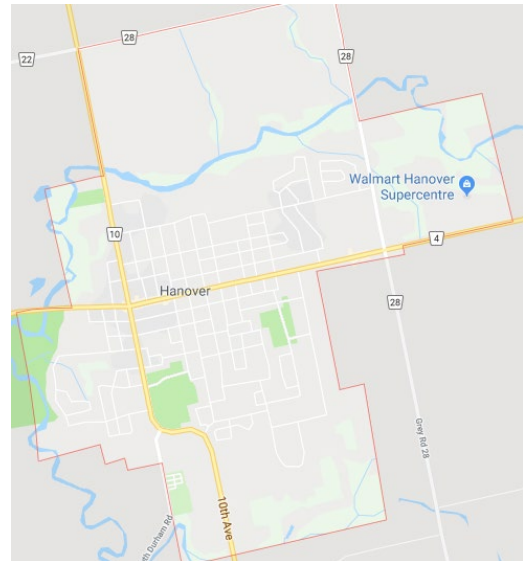
Source: Ministry of Tourism, Culture, & Sport

Visitation to RTO 7 is highly seasonal, with 36% of total person visits occurring in the third quarter, or between July and September. The second quarter, between April and June sees the second highest visitation levels, with Q4 experiencing the lowest visitation for the year in 2016.

TOWN OF HANOVER ECONOMIC OVERVIEW

The Town of Hanover is located within Grey County in Southwestern Ontario. The Town of Hanover is a regional commercial centre in southwestern Grey County with a population of approximately 8,000. Hanover is located 63 km southwest of Owen Sound and 180km northwest of Toronto. The community is easily accessed through provincial highways 4, 9, and 6.

The Town of Hanover is on the border of Bruce County west of Durham and east of Walkerton. Bruce County is home to the population centres of Port Elgin, Southampton, Kincardine, and Walkerton. The Town of Hanover is located 55km west of Kincardine and 10km west of Walkerton.



Data relating to the local economy are included on the following table.

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Hanover Economic Profile Demographics

Population	% of Canadian	% Change	Average Annual Growth Rate	
2019 Estimate 8,146	Total 0.02%	2014-2019 4.70%	2014-2019 0.94%	
Household Income – 2019 Average				
% Above/Below National Average	Total Income 2019 Estimate	% Canadian Total	Per Capita	Hhlds. \$100,000+
-25.81% Above	\$271,211,000	0.02%	\$33,294	23.8%
Household Spending – 2019 Average				
% Above/Below National Average	Total Household Spending 2019 Estimate	% Canadian Total	Per Capita	Per Household
-24.70% Above	\$302,097,837	0.02%	\$37,085	\$84,479

Source: Sitewise, 2019

Sitewise projects that within the next five years Hanover’s population will increase by 4.7% to 8,314 by 2024.

Economy

Hanover is home to 500 businesses which are classified as small to medium in size. The Town has a variety of retail and dining establishments that provide support for the regional area. Major retail chains located in Hanover include: Walmart, Canadian Tire, Rona Inc., LCBO, Beer Store and Giant Tiger.

The Town of Hanover has a diverse economic base, specifically driven by the manufacturing, retail, and health care industries. The Hanover & District Hospital provides primary and secondary care services for Hanover and neighbouring municipalities. The hospital employs approximately 200 people in the region.

Major Employers and Key Sectors

The type of industry in the Town of Hanover has a large focus on manufacturing and retail sectors. The main industry in this area include food, furniture, power, agriculture, and milling.

The following chart identifies a selection of major public and private sector employers (listed alphabetically) in the Town of Hanover:

Hanover – Major Employers	
Public	Private
Bruce Grey Catholic District School Board	Electrical Contacts
Hanover & District Hospital	Exceldor Foods
Town of Hanover	Horizon Division of Maple Leaf Foods
	Independent (Grocery)
	Lesson Canada
	P&H Milling Group
	Playtime Casinos
	Walmart

Source: Town of Hanover

Business Park

Within the Town of Hanover, there is a business park located in the south end at 14th Avenue and 1st Street. This business park is home to a variety of industries including manufacturing companies, storage facilities, warehouses, and retail facilities. According to information provided by the Town of Hanover, the majority of lots located within this park have been sold. At this time of this report, there is a 11.6-acre Certified Site available for sale at 1st Street and 18th Avenue. The site is zone M1- Restricted Industrial and is fully serviced.

Building Permits

The following chart summarizes the building activity taking place in the Town of Hanover.

Hanover Building Permit Values					
	2014	2015	2016	2017	2018
Total Commercial/Industrial/Institutional Major Renos	36	45	24	20	34
Residential Permits Issued	6	23	47	28	45
Total Construction Value	\$6,795,800	\$11,862,620	\$15,050,367	\$30,271,962	\$27,011,497
% Growth	-	74.6%	26.9%	101.1%	-10.8%

Source: Town of Hanover

- Recent building activity includes John Diefenbaker Senior School, Gateway Casino, Wightman Telecom, Fidler Moving & Storage, Hanover & District Hospital and the Scotiabank branch.

Tourism

With regard to tourism offers, Hanover features festivals and events that take place annually. Maclean's Ales Brewery offers brewery tours and is a stop on the Saints & Sinners Trail which is a brewery tour that runs throughout Grey County. Playtime Casinos just completed an \$18 million renovation which now offers 300 slots and 8 live table games along with a full-service restaurant and buffet. The Hanover Raceway offers live horse racing on Saturday's during the summer and broadcasts other North-American races year-round. The Hanover Civic Theatre hosts plays, concerts, and events year-round at their downtown location. Sights and Sounds Festival is a summer block party taking place over four days at the end of July, this event brings thousands of visitors to experience Downtown Hanover.

Conclusion

The Town of Hanover is comprised of approximately 8,146 residents. Accounting for about 8.6% of Grey County's population. The majority of employment in Hanover is within the manufacturing, retail, and health care sector. The Town of Hanover has a variety of sports facilities, entertainment venues and hosts events throughout the year which bring visitors to the area.

COMPETITIVE MARKET

COMPETITIVE MARKET

Provincial Market Analysis

The following is the data compiled and published by CBRE for the Ontario accommodation market. While the provincial market performance does not have a direct impact on the performance of the accommodation market in the Town it has been included to provide context for the regional and local accommodation market performance.

Ontario Market Performance Results

Year	Occupancy	ADR	ADR % Growth	RevPAR	RevPAR % Growth
2008	61.4%	\$127.15	-	\$78.07	-
2009	57.1%	\$119.36	-6.1%	\$68.15	-12.7%
2010	60.4%	\$121.35	1.7%	\$73.30	7.5%
2011	61.0%	\$122.10	0.6%	\$74.48	1.6%
2012	61.6%	\$124.89	2.3%	\$76.93	3.3%
2013	62.3%	\$126.06	0.9%	\$78.54	2.1%
2014	64.1%	\$130.46	3.5%	\$83.62	6.5%
2015	65.2%	\$138.62	6.3%	\$90.38	8.1%
2016	67.7%	\$145.58	5.0%	\$98.56	9.0%
2017	69.3%	\$154.82	6.3%	\$107.23	8.8%
2018	70.0%	\$162.04	4.7%	\$113.47	5.8%
YTD July 2018	68.4%	\$158.41	-	\$108.39	-
YTD July 2019	67.3%	\$161.00	1.6%	\$108.41	0.0%
CAGR	1.3%	2.5%		3.8%	

Source: CBRE Hotels

- Provincial occupancy levels started to decline in 2008, falling to 61.4%. Results were impacted by a softening in the global economy, particularly in the 4th quarter of that year. In an effort to attract/maintain demand, many hotels across the province implemented discounting strategies, which resulted in an overall decline in ADR of 5.6%.
- The 2009 results reflect the continued impact of the weak economy and challenges in key areas such as the auto sector. The Province saw a decline in occupancy to a low of 57.1%.
- Occupancy and ADR have improved since 2010. Hotel supply/demand fundamentals have remained solid in Ontario, with modest levels of new hotel supply, and continued increases in demand. As the global economy recovered, and the Ontario economy in particular improved, the hotel sector in the Province has benefitted.
- Provincial occupancy reached a new high in 2018 of 70%. Healthy demand levels, buoyed in part by major sporting events across the province, as well as the general health in the economy, also supported a healthy 4.7% lift in ADR to \$162.04 last year.
- YTD July 2019 is up 1.6% in ADR from the same period last year and occupancy continues to remain in the high 60% range.

Competitive Market Identification

In order to identify hotel market trends as they relate to the subject property, a competitive market has been identified and information on the historic performance has been drawn from data collected through the CBRE Hotels Trends database². Through this database CBRE Hotels obtains top line (occupancy and average daily rate) data monthly on over 2,200 properties across Canada representing over 60% of the Canadian industry's 400,000 rooms.

Information about the competitive market performance has been sourced using data available in the CBRE Hotels Trends database as well as interviews with accommodation operators.

While the proposed hotel will be in Hanover and will compete most directly with the local properties, given the relatively limited accommodation market in this area and the vast geography, it is likely that demand will come from a wider region. To that end the competitive market includes properties located between Kincardine, Southampton, Port Elgin, and Owen Sound. Included in the competitive market are, limited service and focused service properties branded and independent. The inclusion of properties in this large geographical area reflects the current accommodation markets and ensures that any hotel demand that is being generated in these communities is being accounted for in the analysis.

While there are additional fixed-roof accommodation facilities in Hanover and the surrounding area, these properties are non-branded family-run accommodations such as B&B's or long-term apartment style accommodations and would not be competitive with the proposed hotel. As such, they have not been included in our market analysis.

The following table presents the competitive accommodation market for the subject hotel. The competitive properties were chosen based on a variety of factors, including location, facilities and amenities offered, market characteristics and segmentation as well as room rate structure.

² <http://www.cbre.ca/EN/services/valuationservices/hotels/Pages/trends-custom-research.aspx>

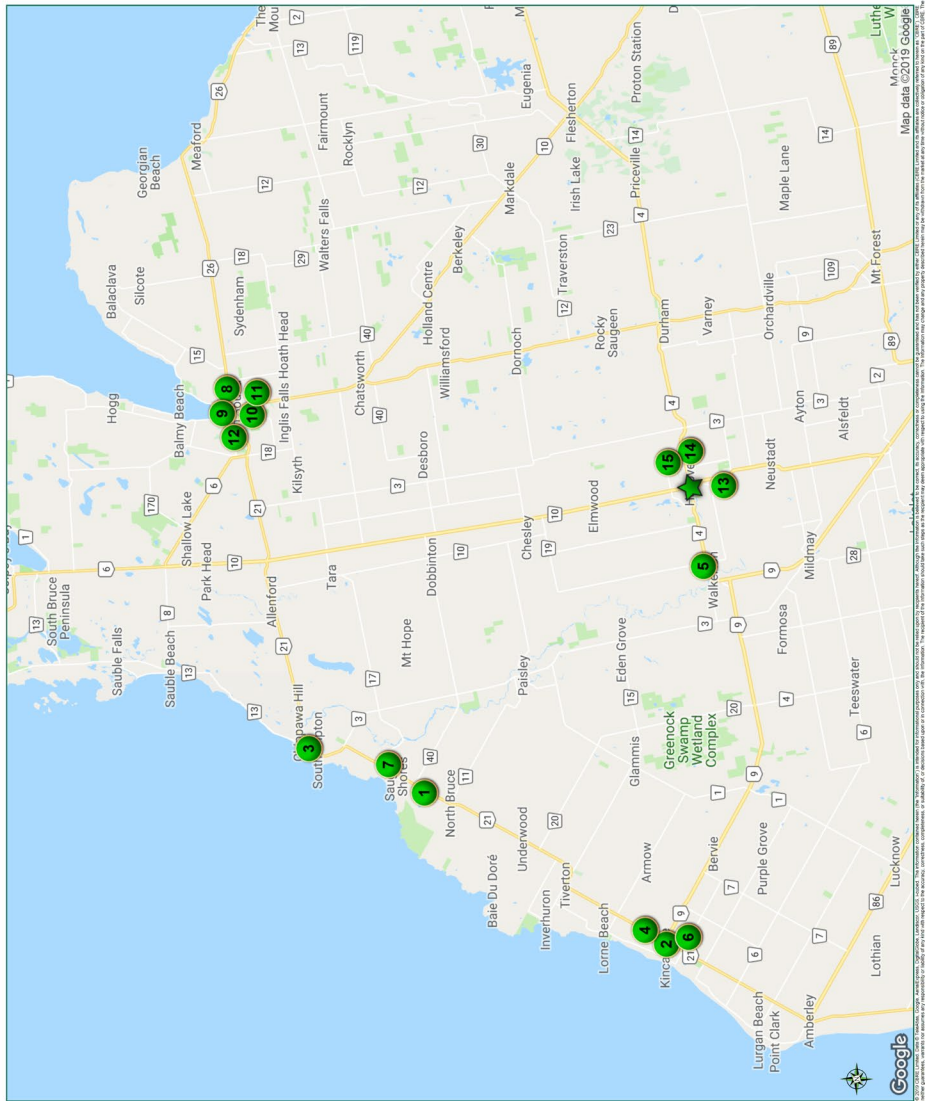
ACCOMMODATION NEEDS STUDY – PHASE 1 NOVEMBER 15, 2019

Competitive Market

No.	Name	Location	Rooms	Type	Total Meeting Space (SF)	Meeting Space SF per Room	Restaurant	Lounge	Breakfast Service	Swimming Pool	Fitness Centre	Business Centre
1	Super 8 Port Elgin	5129 ON-21, Port Elgin	55	Limited Service Hotel	836	15.2			X	X	X	X
2	Holiday Inn Express Kincardine Dwntrn	2 Millenium Way, Kincardine	70	Focused Service Hotel	1000	14.3			X	X	X	X
3	Quality Inn Southampton	100 North Rankin St., Southampton	52	Limited Service Hotel	-	-						
4	SureStay Plus Hotel by Best Western Kincardine	791 Durham Street, Kincardine	59	Focused Service Hotel	-	-			X		X	X
5	Best Western Plus Walkerton Hotel	10 Eastridge Rd RR#1, Walkerton	50	Focused Service Hotel	2000	40.0						
6	TownePlace Suites Kincardine	19 Millenium Way, Kincardine	84	Extended Stay Hotel	5091	60.6			X	X	X	X
7	Travelodge Port Elgin Colonial	235 Goderich St, Port Elgin	65	Limited Service Hotel	1000	15.4	X			X	X	
8	Comfort Inn Owen Sound	955 9th Ave E., Owen Sound	59	Limited Service Hotel	-	-			X			
9	Best Western Inn On The Bay Owen Sound	1800 2nd Ave E., Owen Sound	100	Focused Service Hotel	6000	60.0	X		X	X	X	
10	Travelodge Owen Sound	880 10th St. E. Owen Sound	65	Limited Service Hotel	-	-			X			X
11	Quality Inn Owen Sound	950 6th St. E., Owen Sound	79	Limited Service Hotel	-	-	X		X	X	X	X
12	Nights Inn Owen Sound (formerly Knights Inn)	672 10th St. W, Owen Sound	28	Limited Service Hotel	-	-			X			
13	Traveller's Inn Hanover	244 7th Ave, Hanover	44	Limited Service Hotel	200	4.5						
14	Canadiana Motel Hanover	617 10th St., Hanover	16	Limited Service Hotel	-	-						
15	Grey Rose Suites	394 10th St., Hanover	9	Extended Stay Hotel	-	-						
Total			835									

As of the end of 2018, the competitive market, was comprised of 15 properties offering 835 rooms or 304,775 available room nights. A map showing the location of each competitor is included on the following page.

Competitive Market Map



- ★ Proposed Hotel Hanover
- 1 Super 8 Port Elgin
- 2 Holiday Inn Express Kincardine Dwrtn
- 3 Quality Inn Southampton
- 4 SureStay Plus Hotel by Best Western Kincardine
- 5 Best Western Plus Walkerton Hotel
- 6 TownePlace Suites Kincardine
- 7 Travelodge Port Elgin Colonial
- 8 Comfort Inn Owen Sound
- 9 Best Western Inn On The Bay Owen Sound
- 10 Travelodge Owen Sound
- 11 Quality Inn Owen Sound
- 12 Nights Inn Owen Sound (formerly Knights Inn)
- 13 Traveller's Inn Hanover
- 14 Canadiana Motel Hanover
- 15 Grey Rose Suites



Competitive Market Historic Performance

Based on the information contained in the Trends database and CBRE Hotels research, the following presents the historic performance of the competitive market over the 2014-2018 period and year to date July 2019.

HISTORIC COMPETITIVE MARKET PERFORMANCE SUMMARY							
Total Competitive Market							
	2014	2015	2016	2017	2018	July 2018 YTD	July 2019 YTD
Rooms	633	750	800	835	835	835	835
Annual Occupancy	45.2%	48.8%	49.0%	50.0%	53.9%	50.2%	52.3%
Average Daily Rate	\$115.43	\$120.27	\$125.10	\$128.59	\$131.41	\$129.36	\$131.88
RevPAR	\$52.18	\$58.66	\$61.24	\$64.31	\$70.85	\$64.94	\$69.01
Available Room Nights	231,045	274,500	292,000	304,775	304,775	177,855	177,855
Occupied Room Nights	104,443	133,880	142,941	152,438	164,329	89,288	93,067
Room Revenues	\$12,056,364	\$16,102,372	\$17,881,723	\$19,601,451	\$21,594,502	\$11,550,051	\$12,273,445
Market Segmentation							
Segment	Competitive Market		ORN	%			
CORPORATE			59,500	36.2%			
MEETING			21,332	13.0%			
LEISURE			56,034	34.1%			
GOVERNMENT/OTHER			27,462	16.7%			
TOTAL			164,329	100.0%			
Market Growth							
	2014	2015	2016	2017	2018	July 2018 YTD	July 2019 YTD
Available Room Nights	-	18.8%	6.4%	4.4%	-	-	-
Occupied Room Nights	-	28.2%	6.8%	6.6%	7.8%	-	4.2%
Average Daily Rate	-	4.2%	4.0%	2.8%	2.2%	-	1.9%
RevPAR	-	12.4%	4.4%	5.0%	10.2%	-	6.3%
Competitive Market							
1	Super 8 Port Elgin	2	Holiday Inn Express Kincardine Dwntr				
3	Quality Inn Southampton	4	SureStay Plus Hotel by Best Western Kincardine				
5	Best Western Plus Walkerton Hotel	6	TownePlace Suites Kincardine				
7	Travelodge Port Elgin Colonial	8	Comfort Inn Owen Sound				
9	Best Western Inn On The Bay Owen Sound	10	Travelodge Owen Sound				
11	Quality Inn Owen Sound	12	Nights Inn Owen Sound (formerly Knights Inn)				
13	Traveller's Inn Hanover	14	Canadiana Motel Hanover				
15	Grey Rose Suites						
Total Growth							
	CAGR		Total Growth				
	2014 to 2018		2014 to 2018				
Available Room Nights	7.2%		31.9%				
Occupied Room Nights	12.0%		57.3%				
Average Daily Rate	3.3%		13.8%				
RevPAR	7.9%		35.8%				

Source: CBRE Hotels

- The competitive market includes mid-scale limited service and focused service hotels located in Hanover, Port Elgin, Southampton, Owen Sound, and Kincardine as well as some smaller, independent and branded motels.
- The most recent hotel to open in the market was the 84-room TownePlace Suites Kincardine which opened in 2016.
- The competitive market has historically achieved occupancy levels in the high 40% to mid 50% and 2018 occupancy finishing at 54%, approximately 16 points behind the provincial average.
- Over the historic period ADR has grown to \$131.41 in 2018 an average of 3.3% per year.
- The increased demand and ADR growth has led to annual RevPAR growth which has averaged more than 7.9% per year from 2014 to 2018.

- YTD July 2019 is up 4.2% in occupied room nights and up 1.9% in average daily rate resulting in a 6.3% increase in RevPAR. This YTD increase was driven by a construction project taking place at the Gay Lea – Teeswater Creamery in Teeswater. This project took approximately 12 months and finished in June 2019.

Performance by Submarket Area

Within the competitive market there are three distinct “submarkets” which perform at very different levels. The following table summarizes the performance of each of these submarket areas in 2018 and year to date 2019.

ACCOMMODATION SUBMARKET PERFORMANCE						
	2018			YTD 2019 Change		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Owen Sound	55.4%	\$122.80	\$67.97	+0.89 Pts	-0.4%	1.3%
Saugeen Shores/Kincardine	56.3%	\$140.65	\$79.16	+0.96 Pts	3.8%	5.7%
Hanover/Walkerton	42.3%	\$122.96	\$52.01	+9.32 Pts	2.4%	27.9%

Source: CBRE Hotels

- Within the competitive market there are three submarkets located in both Grey and Bruce County.
- The Owen Sound accommodation market has historically performed in the mid 50% range and ADR has gradually increased to \$122.80 by the end of 2018. Owen Sound has more of a corporate base of occupied room night demand compared to the other areas of the competitive market.
- The Saugeen Shores/Kincardine market typically performs at higher occupancy and RevPAR as it attracts a high volume of leisure travels and has a sufficient base of corporate demand with the Bruce Power Nuclear Plant located in Tiverton, ON.
- The Hanover/Walkerton market faces greater challenges on the occupancy side as the market deals of seasonality and its distance from a major city centre.

Accommodation Operator Interviews

As part of the stakeholder consultation process CBRE interviewed a number of the accommodation operators to gain a better understanding of some of the market dynamics.

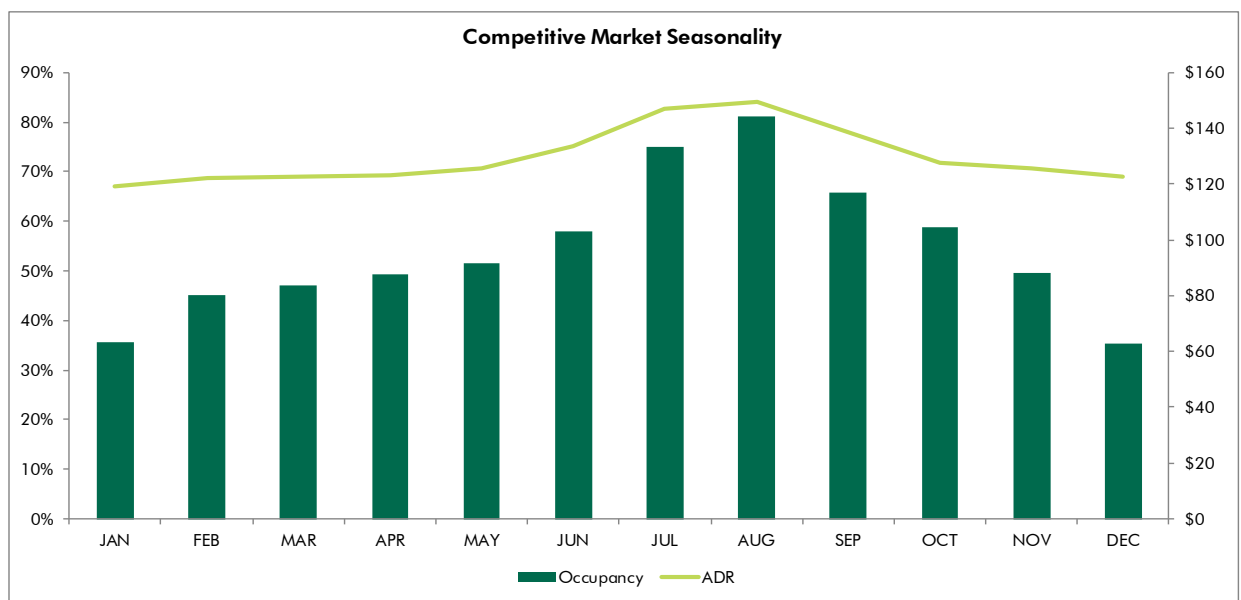
- Our research indicates that the majority of hotel and motel accommodations in Hanover/Walkerton are busiest during the summer months of July and August with strong weekend demand and relatively strong weekday demand. Demand declines during the shoulder seasons of May, June, September, October and occupancy is very low from December to March.
- Within Hanover, there are two motels which cater to primarily leisure and government/other and do not directly cater to corporate travelers. Of the stakeholders we spoke with within Hanover, the short-term accommodation rental units get demand from all segments however are leisure and corporate based. Guests who utilized short term rental apartments have negotiated weekly or monthly rates for their stays as opposed to a daily rate. The hotels in the area obtain demand during the week from

corporate businesses in the area and on the weekends from leisure travelers attending a local event or passing through.

- Based on interviews with local operators, there is a limited amount of demand for meeting/conference space in Hanover. Businesses seldomly use local facilities and most corporate based meetings are held at their own facilities/offices. Hotels host some social catering business during the holiday season, but this demand is quite minimal.

Seasonality

Data compiled by CBRE relating to the typical seasonality pattern for occupancy and ADR for the competitive market is summarized in the following chart.

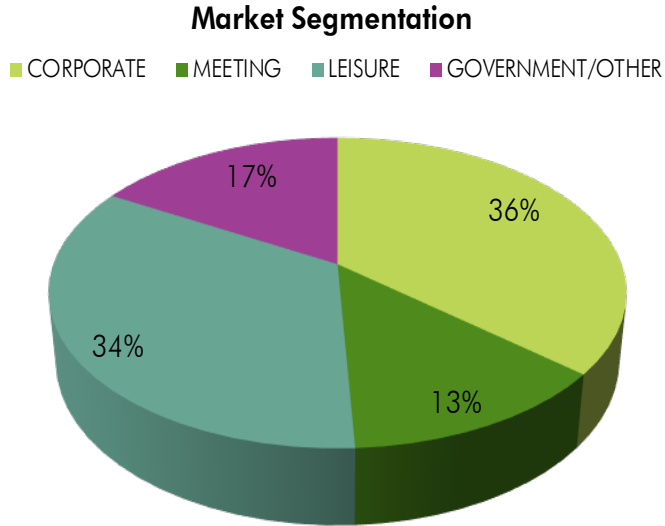


- As shown, the competitive market experiences occupancy levels that range from the high 30% to 50% range in the low season; November to May. Peak occupancy levels in the market are in the range of 65% to 80% range between July and September. The market sees shoulder season occupancy levels in the low to mid 50% range over the balance of the year.
- Market ADR patterns typically move in concert with the peak demand periods throughout the year although they can be impacted by large events and/or construction projects which can drive rates up or down.

Market Segmentation Analysis

In most markets, overall demand varies based on the nature of travel. Lodging demand is typically generated from four different segments: Corporate, Group/Meeting, Leisure, and Government/Other.

On the basis of CBRE Hotels market research, and discussions with hotel operators and owners, the estimated market segmentation for the competitive market in 2018 is presented below:



Demand Segmentation - Competitive Market 2018

Segment	Room Night Demand	%
CORPORATE	59,500	36.2%
MEETING	21,332	13.0%
LEISURE	56,034	34.1%
GOVERNMENT/OTHER	27,462	16.7%

Compiled by CBRE Hotels

The following section provides details on various segments of demand for the local market.

Corporate Segment

Corporate travelers are defined as business people attracted by businesses in the area. Commercial transient demand includes individuals visiting the companies in the immediate area or passing through town. Corporate volume demand is generated by local firms and includes employees of the company or others doing business with the firm.

Most demand from the corporate segment is generated between Sunday and Thursday nights, declines Friday and Saturday nights, and increases somewhat on Sundays. The typical duration of occupancy is one to three days and is characterized by single occupancy. Historically, this demand segment has been somewhat less

price sensitive than other segments. Rates are often pre-negotiated with the hotel and are sometimes discounted in return for a high number of occupied rooms. Often, these types of travelers are influenced by quality of the hotel, brand loyalty, and location. In general, the corporate segment is highly desirable as it provides a solid base of weekday demand and tends to pay higher room rates than the Meeting and Other segments.

In 2018, this segment generated approximately 59,500 occupied room nights or 36% of demand within the competitive market. The competitive market has an established corporate/commercial base with major employers such as Bruce Power and other industrial/manufacturing companies.

Leisure Segment

Leisure travelers generally include vacationers or travelers passing through the area. This category effectively includes all non-commercial related travellers too small to be defined as a group. This segment is typically attracted by a hotel's location relative to area attractions (including friends/relatives). Demand from leisure travelers is typically generated throughout the week during peak periods, with more weekend demand in shoulder seasons. Leisure travelers tend to have a high level of double occupancy. This demand segment tends to generate the highest rates. The typical stay for leisure travelers is between one and four nights.

In 2018, this segment generated approximately 56,034 occupied room nights or 34% of demand within the competitive market. Leisure travellers are primarily tourists visiting attractions in and around Grey County. Sports teams are an important source of weekend demand for many of the hotels within the competitive market. This includes weekend travellers attending local events, weddings, guests visiting friends and relatives, in addition to seasonal vacationers. After speaking to local operators, it has been indicated that summer and fall are popular travel periods for leisure travelers.

Meeting/Conference

Group and Meeting travelers are defined as any group occupying five or more rooms on a given night. This segment includes corporate groups, associations, and SMERF (social, military, educational, religious, and fraternal) groups. This segment is typically attracted by a hotel's meeting facilities and recreational amenities in the area. Demand from corporate groups is typically generated between Sunday and Thursday nights, and can include corporate functions, holiday parties, incentive groups, etc.

Often, corporate groups pay high rates, especially incentive groups, where companies “wine and dine” their top salesman and upscale/luxury hotels. Corporate groups tend to have a high level of single occupancy, while other groups tend to have more double occupancy. Associations and SMERF groups have a more varied occupancy pattern and often hold weekend meetings. This demand segment tends to be somewhat price sensitive. There is a perception (often true) that by occupying a block of rooms, a volume discount should be given. The typical stay for group demand is between three and five days. Tour group demand is also included within this segment. Group/meeting travelers tend to stay at full-service hotels and utilize a hotel's food and beverage facilities. This segment is seasonal, and repeat business on an annual basis is not guaranteed.

In 2018, the group/meetings segment generated approximately 21,332 occupied room nights or 13% of demand within the competitive market. In the competitive market, there are few full-service hotels or

properties with significant amounts of meeting space, therefore the majority of the Meeting/Conference demand in the market is generated by events held at the various third-party facilities.

Other / Contract

Other/Contract demand includes any construction and maintenance crew business as well as rooms generated online through third party providers such as Hot Wire, Expedia, Priceline, etc and by brand loyalty redemptions or associate stays. Government demand is also included in this segment. Demand in this segment is typically represented by sources, which are highly rate sensitive and are normally provided with significantly discounted room rates.

In 2018, the other/government segment generated approximately 27,462 occupied room nights or 17% of demand within the competitive market. While there is some degree of demand generated by government business, the Other occupied room night demand in the competitive market is primarily generated by discounted segments such as construction on regional projects.

FUTURE DEMAND FACTORS

FUTURE DEMAND FACTORS

In order to gain a better understanding of the existing or future demand which may exist for a hotel development, CBRE conducted interviews with stakeholders such as major local employers, accommodation operators (short term apartments, motels and hotels), attractions and local event venues. This is in addition to discussions we had with representatives of the Town of Hanover, Saugeen Shores, Grey County, and Kincardine.

The stakeholders contacted as part of our research program are listed below.

Stakeholder Interviews	
Contacted (Interview Conducted)	
Hanover Parks & Recreation	Gateway Casinos
Hanover Raceway	Ground Effects – Event Space
Hanover Holidays	Grey County Tourism
RTO7	Hanover Figure Skating
Hanover Legion Oldtimers	Hanover Swim Team
Grey Bruce Singers	Hanover Community Players
BackPorch Promotions	Grey Bruce School of Dance
Kerry Moore School of Dance	Exceldor Foods
Electrical Contacts	P&H Milling Group
Cedar Crest Trout Farm	Walkerton Water Centre
MacLean’s Ales Inc	Erwins Heating Supplies Ltd.
Municipality of Kincardine	Grey County Economic Development
Saugeen Shores Economic Development	Best Western Plus Walkerton
J Switzer Properties	Travellers Inn Hanover
Canadiana Motel	Travelodge Port Elgin
SureStay Plus Kincardine	Quality Inn Southampton
Edgewell Operations	Hanover Minor Hockey
Bluewater District School Board	Bruce Grey Catholic District School Board
Hanover Legion	Gateway Casinos – Corporate
Bruce County Economic Development	Municipality of North Perth
Municipality of West Grey	Town of Minto
Saugeen EDC	Pike Lake Motel
Contacted (No Response/Interview Declined)	
Hanover Minor Soccer	Maple Leaf Foods
New-Life Mills Limited	Grey Rose Suites
Westario Power Inc.	DancEnergy
Hanover Minor Ringette	Grey Bruce Highlanders AAA
CIMT College	Wellington North Economic Development

Source: CBRE Hotels

Approximately 54 key stakeholders were identified and contacted as part of our analysis, and we were successful in conducting interviews with 44 of them. Of the key stakeholders, 18 were either major employers or community groups. Other stakeholders we conducted interviews with include hotel operators in the competitive market to understand the hotel accommodation market from a regional perspective. Regional economic development offices were interviewed to understand the economic dynamics of the region.

Key Takeaways

The following presents a summary of the key take-aways from the interviews conducted. The summary comments have been presented based on the four sources of demand as discussed earlier.

Corporate Market

- Hanover is generating a limited amount of Corporate and Commercial accommodation demand. A number of local Hanover and Walkerton businesses were interviewed to determine the level of need for corporate room nights.
- It was determined that Corporate Travelers conduct a limited amount of business in Hanover and have a small amount of accommodation needs. Businesses host executives to their offices irregularly or host annual meetings only a few times a year and require minimal room nights as most of the attendees are within a 1.0 hr - 1.5hr drive of Hanover.
- Of the businesses interviewed, most respondents stated they are not satisfied with the existing accommodation product in Hanover and prefer to utilize branded hotel properties nearby.
- The respondents also stated that if business is conducted, it primarily takes place outside of Hanover as it is simply 'too small' to host executives. A large share of corporate business in Hanover is outbound as meetings as most likely held in larger regional centres.
- Stakeholders that do use hotels prefer branded properties that are in close proximity to their offices. The needs for hotel rooms range from approximately 10-1,800 room nights a year depending on the size of the company and the schedule for corporate based events taking place throughout the year.

Meeting/Conference Market

- Following discussions with stakeholders, there is limited demand for meeting space in the area.
- Corporate businesses currently use local venues in the area for boardroom style meetings or semi-annual meetings with their company. However, the majority of businesses that CBRE Hotels spoke with utilize their own office facilities and require little third-party meeting space.
- Hotels in the area currently offer meeting space and host a variety of business meetings and social catering events. According to local accommodation operators, demand is limited to local groups and there are limited bookings for meeting space outside the region.

Leisure Market

- Interviews with local accommodation and vacation rental operators have indicated there is strong demand for accommodations in the local area as a result of leisure and recreation travel. The Leisure market is the largest demand driver out of the four segments in Hanover.
- Local event venues indicated they do have wedding groups come from out of town to attend weddings and have limited options for accommodations when an event is taking place. Weddings are a popular summer weekend activity and with little available accommodation. Currently,

attendees are required to travel far distances for suitable accommodation. Local event venues do not have affiliations or packages with local accommodation operators however they currently recommend local facilities if there is availability.

- Community Theatre Shows are well attended in Hanover with travelers coming from across Ontario. Attendees of these events are sometimes looking for local accommodation following a show especially in the winter season.
- Local sports groups have indicated they would be capable of hosting more tournaments if there was suitable accommodation within Hanover. Currently, an average of 25% of total of sports teams attending tournaments in Hanover travel from 100+km for the weekend event. They have indicated there is not suitable accommodation in Hanover.
 - Currently there is a limited amount of multi-day sports tournaments being held in Hanover.
- Hanover is home to some festivals in Town however these are mostly attending by locals.

Government/Other Market

- This segment can include demand from on-going construction crew business and rooms booked on third party booking sites such as Expedia or Booking.com. There is on-going construction taking place throughout Hanover however this type of business is often low rated business with per diems given to the workers for nightly accommodation. Some lower price accommodation in the market.

DEVELOPMENT OVERVIEW

DEVELOPMENT OVERVIEW

Location Overview

The Town of Hanover is located in Southwestern Ontario and is part of Grey County. Hanover is a commercial centre for the region with retail, financing, and entertainment services located in Town. The Town of Hanover is located 18km from Highway 6 and 97km from Highway 401/Guelph.

The Town contains a mix of local businesses, food service outlets, retail and big box retail as well as residential developments. The Hanover is home to a business park and the local industry consists of manufacturing, agriculture, and health care.

Location Considerations

When determining the optimum location and site for an accommodation development, developers typically consider the following characteristics:

- **Access** – An optimal hotel development site should be easily accessible and ideally situated in a convenient location with easy access to and from major arterial roadways.
- **Ingress/Egress** – An optimal hotel site should have simple, easily accessible routes of ingress and egress.
- **Visibility** – An optimal hotel development site should allow for the hotel to be oriented in such a way that the building could be seen by traffic in all directions. It would still be necessary to supplement the building visibility with appropriate signage along major roadways and on the building and site itself.
- **Proximity to demand generators** – An optimal hotel development site should be reasonably proximate to the local demand generators such as major businesses or industrial parks as well as recreation and leisure attractions.
- **Proximity to support amenities** – An optimal hotel development site should be within walking distance or reasonably proximate to a concentration of support amenities such as restaurants, entertainment, and retail.

In general, leisure travelers place a higher value on having amenities within walking distance and ease of access to and from major transportation routes, while corporate travelers and meeting/conference guests would expect business and industrial parks to be within a short driving distance.

If the location characteristics for a prospective hotel's development are not optimized it would have an impact on the proposed hotels ability to achieve the projections contained herein.

Development Area Review

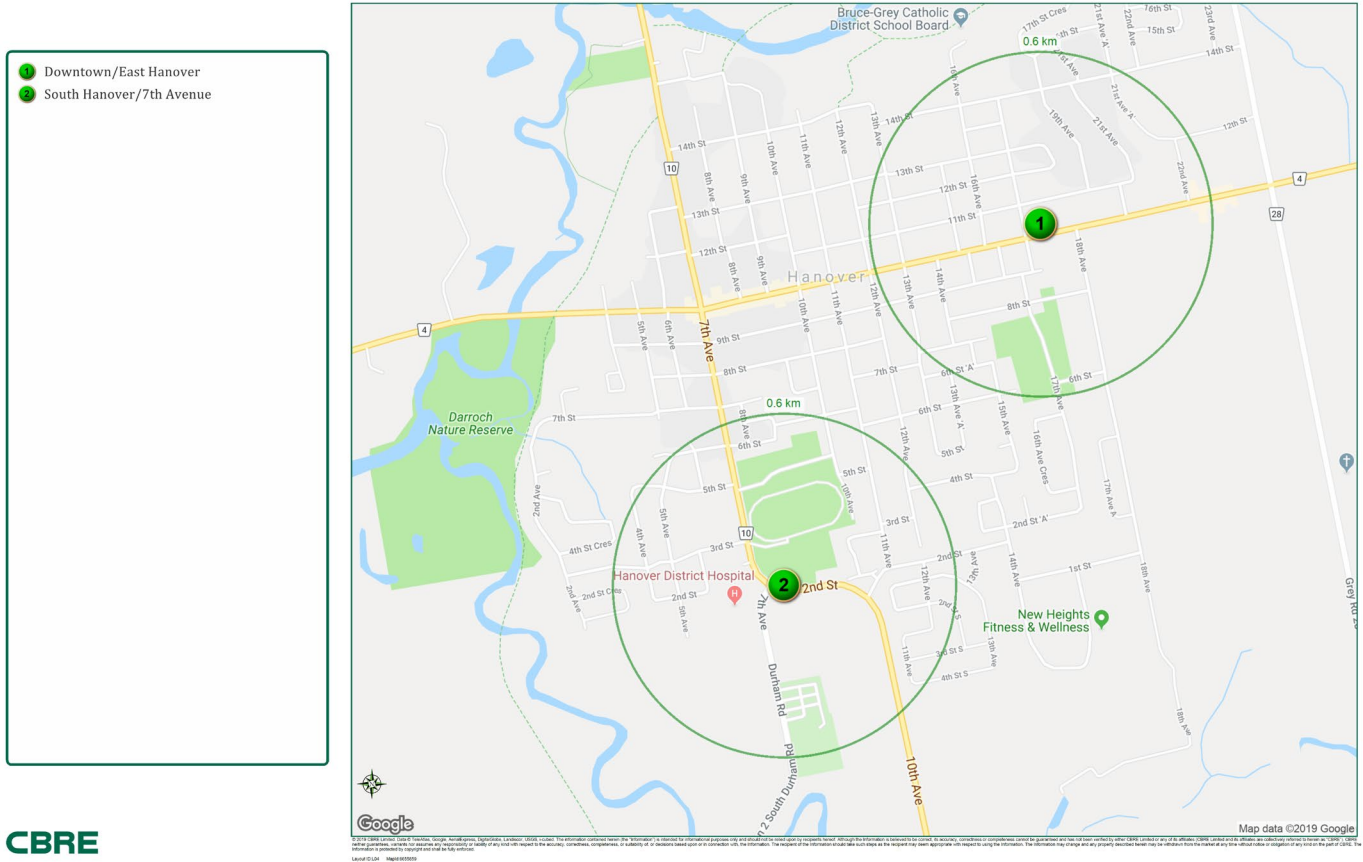
It was not within the scope of this study to review or source specific development sites for the alternatives however, we have we have reviewed two areas within Hanover that would likely be considered by

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accommodation developers. The following map identifies the two primary areas in the Town, which have been considered as identified generally on the map below:

1. Downtown/East Hanover

2. South Hanover/7th Avenue



These two areas represent the places that a developer would most likely look to develop a new accommodation product in Hanover. Both development areas were selected as each are surrounded by support amenities such as retail, dining, entertainment, and corporate businesses.

	<u>Strengths</u>	<u>Weaknesses</u>
No.1 Downtown/East Hanover	<ul style="list-style-type: none"> • Main commercial area for Hanover home to retail and dining areas. • Close proximity to Highway 4 • In proximity to corporate businesses along Highway 4 	<ul style="list-style-type: none"> • Located further from primary access routes. • Entertainment facilities and corporate demand generators are further in distance.

<p>No. 2 South Hanover/7th Avenue</p>	<ul style="list-style-type: none"> • Close to Hanover business park • Within walking distance to Gateway Casino, P&H Centre, and Hanover Raceway • Close to Hanover District Hospital 	<ul style="list-style-type: none"> • Limited dining and retail amenities within walking distance
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As noted, the potential development areas identified all have strengths and weaknesses relative to the developers site criteria outlined previously. Additionally, the type of accommodation product being contemplated will influence the relative importance of each of the factors.

Development Concept

When determining the ideal product for accommodation development within the Town of Hanover, the motivations and priorities of the hotel investment and lending community were also considered along with the market factors. Typically, if a community is going to be successful in attracting private sector hotel investment, a comprehensive and independent third-party assessment of the opportunity is required. The hotel investment community is exposed to a wide range of projects, and has many communities soliciting their development interest. They are looking for formal independent confirmation that a project has merit. Typical hotel investors have several key criteria they consider when determining how/where to invest their funds, the most important of which are:

1. **Return on Investment:** Return on Investment measures the gain or loss generated on an investment relative to the amount of money invested. Hospitality property is considered to be a secondary form of real estate investment due to its specialized nature, requirement for strong management and higher risk associated with the income stream. Investors require a higher rate of return on hospitality property as compared to more traditional real estate investments. Our experience in the industry indicates that typical hotel investors expect a return on investment in the range of 10% to 15%, far higher than what is characteristic of other real estate classes.
2. **Availability and Likelihood of Financing:** The availability and cost of financing has a direct impact on the value of a hotel, and hence hotel financing parameters play an integral role in the feasibility of new hotels. In today’s lending environment, obtaining financing on a non-branded asset is highly challenging. The support of large, well-known international brand mitigates the performance risk of an asset with the premier brands almost always outperforming second tier brands or independent hotels. In addition, the support of a large brand/reservation system and national marketing network, also makes a hotel asset much less vulnerable to new supply. Further, when considering construction financing on new build assets, lenders will finance on the lower of capital cost or estimated market value ~ which directly impacts the level of equity required to move a project forward. In the most ideal situation, capital cost and estimated market value are equal.
3. **Liquidity/Exit Strategy:** Both lenders and developers consider the ultimate exit strategy when evaluating a hotel investment opportunity. Research shows that branding also helps to reduce the

liquidity risk of an asset, in the sense that there would be more potential purchasers for product carrying strong brands that are not specific to one owner/operator/developer.

These are critical factors that influence a hotel developer's investment decision, and these should be considered when evaluating the opportunity for attracting accommodation development to any community. Throughout the engagement CBRE consistently evaluated the potential for accommodation development in the Town of Hanover bearing in mind these "typical" development and investment parameters. All recommendations, such as the size of the project, the nature of the accommodation (i.e. branded vs. un-branded) were based on what our experience in the industry has shown would give the community the best means for attracting an interested developer, and ensuring a development with the greatest long-term potential for success is developed, taking into account all of the market and investment factors in the Town of Hanover.

Based on our review of the existing accommodation product within the competitive market, the historic market performance, the nature of local demand generators and the economic operating conditions for hotels in the regional market area, we have recommended the following development option for a proposed hotel in Hanover.

60 Room Branded Limited Service Hotel

The development recommendation is that of a branded, 60-unit, midscale limited service hotel. Examples of brands that could be considered for such a development include, but are not limited to Microtel, Best Western GLo, Tru by Hilton, Comfort Inn, and TRYP by Wyndham Hotels. In this case, branding is recommended in that it will not only enhance the marketability of the project but will also enhance the potential for project financing.

The potential positioning of future accommodation in Hanover as a limited service hotel is based on these primary factors:

- This level of hotel can appeal to a broad range of guests and types of travelers.
- The design prototypes for these brands are of strong quality.
- This level of hotel is more cost effective to develop relative to other higher service level hotels.
- This level of hotel is more cost effective to operate relative to other higher service hotels.
- Branding would enhance the appeal of the property to the hotel investment and lending community.

This development option would include a comprehensive offering of amenities for both business and leisure travelers. Hotels of this nature typically feature a variety of guestrooms, including standard one or two bedded rooms. Guestrooms within this tier of hotels typically include amenities such as a desk or work space, high-speed internet and/or wireless internet access, and in-room coffee making facilities. The proposed development program should include a variety of room types as dictated by the brand development standards.

Other services that would be available at the proposed hotel would include a breakfast room, 1,200 square feet of meeting space, and a fitness room. The inclusion of a sufficient amount of meeting space to

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accommodate of approximately 100 people would allow the hotel to attract some meeting/conference business and compete effectively within the market. The meeting space would be suitable to host small corporate meetings and social gatherings.

Based on our experience in the industry and knowledge of comparable hotel construction projects, the proposed hotel development would require approximately 1.5-2.0 acres of land, including the appropriate surface parking coverage.

The following table outlines a preliminary facility program for the proposed hotel.

PROPOSED HOTEL FACILITY PROGRAM

GUESTROOMS	% of Room Mix	Keys	Sq. Ft./Rm	Total GFA
King	48%	29	255	7,344
Queen/Queen	45%	27	290	7,830
King Deluxe	2%	1	360	432
Accessible	5%	3	360	1,080
Total	100%	60	278	16,686
FOOD & BEVERAGE / BANQUETS		Seats	Sq. Ft./Rm	Total GFA
Breakfast Room		60	16	955
Total		60	16	955
MEETING/CONFERENCE FACILITIES		Capacity	Sq. Ft./Rm	Total GFA
Meeting Room 1		75	15	900
Meeting Room 2		25	5	300
Total		100	20	1200
OTHER			Sq. Ft./Rm	Total GFA
Fitness Room			8	500
Lobby / Public Spaces			42	2,500
BOH / Circulation			186	11,159
Total Hotel GFA			550	33,000

Source: CBRE Hotels

Limited Service Hotel Location

With respect to the location, for this type of development, the three key considerations would be:

- Access to and from major transportation routes;
- Proximity to restaurants, retail and other support amenities
- Corporate and commercial demand generators

For a hotel of this nature, being located somewhere that is easily accessible for guests increases the likelihood of capturing “drive in” demand. The proximity to support amenities for guests, particularly restaurants, is critical because the food and beverage facilities at this type of hotel would be limited, usually just a breakfast room. This type of accommodation product would be attractive for families and corporate travelers in Hanover and as such should be located in an area where it is easy to get around, even if driving is required.

Conclusion

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Based on a review of the existing hotel product, and on our research on the various sources of market demand, a limited service hotel product is considered to be the best fit for the market and the most likely to generate interest from potential developers. It is not possible to recommend one particular area over the other until the type of accommodation product a developer is willing to build is identified.

MARKET AND PROPERTY PROJECTIONS

MARKET PROJECTIONS

Competitive Market Supply Analysis

CBRE Hotels considers the following factors in determining which additions to supply may affect the competitive market:

- Distance from the subject hotel
- The current and future condition of the physical plant
- The type of facilities and amenities to be offered
- Information from hotel operators on “who” would be considered a primary competitor

It should be noted that information regarding proposed hotel developments may vary once the planning department grants approvals or hotel development financing is finalized. While CBRE Hotels has made attempts to determine the level of new supply entering the market, it is impossible to determine every hotel that will be developed in the future, when they will be completed or their potential impact on the subject hotel. The inherent risk of any future new hotel supply has been implicitly considered in the selection of a stabilized occupancy level for the subject property.

Summary of Proposed New Supply						
No.	Name	Rooms	Probability	Type	Opening Date	Status
1	Proposed Hotel Hanover	60	100%	Limited Service Hotel	1-Jan-23	PROPOSED
2	Comfort Inn Goderich	63	100%	Limited Service Hotel	1-Sep-19	OPEN
3	Holiday Inn Express-Port Elgin	60	100%	Focused Service Hotel	1-Apr-20	UNDER CONSTRUCTION
4	Microtel Port Elgin	68	100%	Limited Service Hotel	1-Jan-21	PLANNING STAGES
5	TownePlace Suites Owen Sound	100	100%	Extended Stay	1-Jun-21	PLANNING STAGES
6	BW Plus Walkerton (Expansion)	30	50%	Focused Service Hotel	1-Jan-21	PLANNING STAGES
7	Heritage Grove - Boutique Hotel Owen Sound	75	0%	Focused Service Hotel	1-Jan-23	PROPOSED
		<i>Total</i>	456			

- The 63-room Comfort Inn Goderich opened in September 2019 which results in 21 rooms impacting supply in 2019 and 42 rooms effectively impacting the supply in 2020.
- In Port Elgin, a 60-room Holiday Inn Express is currently under construction at the intersection of Devonshire Road and Waterloo Street and is expected to open in spring 2020.
- A Microtel Inn is proposed for Port Elgin at Lakeshore Drive and Highway 21, construction has not started yet but currently has an active site plan application. The property is expected to have 68 guest rooms.

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- Construction is about to commence in Owen Sound for a 100- room TownePlace Suites property on 16th Avenue East. The extended stay style hotel is expected to open mid-year 2021.
- The owners of the Best Western Plus Walkerton indicated that they are planning to expand the property by 30 rooms and this is expected to be completed by 2021.
- There is a re-zoning application in progress in Owen Sound for a 75-room boutique style hotel on 16th Street East which is part of a multi-use development. This project is still in preliminary stages.

Between 2019 and 2023, the competitive market is projected to see 347 new rooms enter, inclusive of a notional 60 room hotel in Hanover. The overall market supply is expected to increase by 41.5%.

Competitive Market Demand and ADR Projections

The demand projections prepared for the competitive market are based on the economic outlook for the area, current market dynamics and anticipated changes in demand patterns throughout the projection period. The following summarizes our projections for future room demand and ADR growth.

Overall Accommodation Demand for Competitive Market									
	Projection 2019	Projection 2020	Projection 2021	Projection 2022	Year 1 2023	Year 2 2024	Year 3 2025	Year 4 2026	Year 5 2027
Available Room Nights	312,440	344,195	401,257	416,465	438,365	438,365	438,365	438,365	438,365
Occupied Room Nights	174,188	186,382	201,292	215,383	223,998	230,718	235,332	235,332	235,332
Market Occupancy	55.8%	54.2%	50.2%	51.7%	51.1%	52.6%	53.7%	53.7%	53.7%
Demand Growth	6.0%	7.0%	8.0%	7.0%	4.0%	3.0%	2.0%	0.0%	0.0%
Market Average Daily Rate	\$134.04	\$137.39	\$140.14	\$142.94	\$145.80	\$148.71	\$151.69	\$154.72	\$157.82
Rate Growth	2.0%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Source: CBRE Hotels

- As of YTD July 2019 demand is pacing ahead of the same period in 2018 and is expected to continue growth of 6.0%. The Comfort Inn Goderich opened 63 rooms in September 2019 as well. Projected occupancy is expected to be in the range of 56%.
- In 2020, the Holiday Inn Express – Port Elgin is projected to open with 60 guest rooms. This supply addition is expected to decrease overall occupancy to 54.2%. The Bruce Power NCR project is expected to officially start in 2020 and start to bring some demand to the Kincardine and Port Elgin markets.
- From 2021 to 2023, 183 guest rooms are projected to enter the market which will bring the market occupancy down to the low 50%.
- In 2023 (Year 1 for the proposed hotel in Hanover), demand in the competitive market is projected to grow minimally at 4.0% as market fundamentals begin to stabilize and the new supply is absorbed into the market.
- Over the balance of the projection period market ADR is projected to grow at 1.0% per annum.

Market demand is projected to increase by in excess of 35% over the 2019-2026 period (year 5 for the proposed hotel), however supply is expected to grow by almost 40% over this same time period, negating any strong occupancy growth in the market.

PROPOSED HOTEL PROJECTIONS

Projected Occupancy and Average Daily Rate

The subject property projections examine the potential future occupancy and Average Daily Rate (ADR) for the subject hotel based on numerous factors including economic influences and the actual and projected supply/demand relationship in the competitive markets and typical brand positioning for similar assets.

In assessing the projected occupancy and rate performance of the proposed inn a market penetration analysis was undertaken, in which the concept of “fair market share” was utilized. This concept states that, all things being equal, a property will attract rooms demand in the same proportion as its share of rooms supply. Market penetration in excess of 100.0% indicates that a property possesses competitive advantages relative to the market as a whole, while competitive weaknesses are reflected in penetrations of less than 100.0%. The marketing philosophy and pricing strategy for a property can also impact its penetration. Accordingly, there are other factors besides competitive weakness that can contribute to a penetration of less than fair share.

The following analysis assesses the projected market position/occupancy, average rate, and RevPAR levels for the proposed hotel. The projections are based on numerous factors including the economic influences, the projected supply/demand relationship in the competitive market, interviews with local stakeholders and expected growth in demand for accommodations in the local area. It is assumed that there are no significant changes in the market over the projection period that would impact the current status of the competitive rooms supply other than as currently identified.

The following table summarizes the projected occupancy and ADR projections and positioning of the proposed hotel as a 60-room branded asset over the initial 5 years of operation. The detailed segmentation analysis is provided on the following page.

Corporate/Commercial Segment

The proposed subject hotel is projected to capture approximately 4,257 occupied room nights within the Corporate/Commercial segment in its stabilized year, 2025, representing 30% of the hotel’s total demand. Most of these occupied room nights within the Corporate/Commercial segment will be captured over the Sunday through Thursday period throughout the year.

- The proposed hotel will be a newly built, branded hotel, which is expected to help in attracting some local corporate demand.
- There is a limited amount of Corporate business within Hanover and demand is primarily generated by businesses conducting a normal course of business (i.e. hosting meetings with executives, company meetings, client presentations, etc)
- The limited number of large corporate demand generators in the area will make it difficult for the property to attract a significant number of room nights in this segment.

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- From the stakeholders interviewed that use hotels, the majority mentioned that they prefer using branded accommodation and direct employees of their companies to Walkerton as it is the closest location with a branded hotel asset.
- The proposed hotel is not expected to induce Corporate demand into the market, rather it will re-capture a portion of existing demand that was either being accommodated in other local accommodations or in the surrounding cities and towns.

The proposed hotel’s projected performance within the Corporate/Commercial demand segment is summarized below.

	Year 1 1-Jan-23	Year 2 1-Jan-24	Year 3 1-Jan-25	Year 4 1-Jan-26	Year 5 1-Jan-27
CORPORATE					
Fair market share	4,052	4,173	4,257	4,257	4,257
Projected market share	75%	78%	80%	80%	80%
Demand captured by subject	3,039	3,234	3,406	3,406	3,406

Upon stabilization, the hotel will attract about 14 corporate room nights per day over the key 200-250 primary corporate demand days annually.

Meeting/Conference Segment

Hotels within the competitive market typically capture approximately 13% of their total demand from the Meeting/Conference demand segment. The majority of demand captured for this segment is captured by properties that have conference facilities on site.

The proposed hotel is projected to generate a lower proportion of annual demand from this segment, at 6% of total demand or 725 occupied room nights upon stabilization in 2025. Projections in this segment are based on the following:

- The proposed hotel will be a newly built, branded hotel, and will contain approximately 1,200 square feet of meeting space with a maximum capacity of approximately 100 people.
- The proposed hotel is expected to attract many in house meetings each year, of which a proportion will generate occupied room night demand for the hotel, as well as capture demand from meetings and events in the local area.
- Our projections assumed that a new build hotel would be able to host a variety of corporate meetings and social events throughout the year.
- With 1,200 square feet of meeting space as well as on-site accommodations, the proposed inn is expected to be an attractive option for multi-day meetings and events in Hanover.

The proposed hotel’s projected performance within the Meeting/Conference demand segment is summarized below.

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	Year 1 1-Jan-23	Year 2 1-Jan-24	Year 3 1-Jan-25	Year 4 1-Jan-26	Year 5 1-Jan-27
MEETING					
Fair market share	1,453	1,496	1,526	1,526	1,526
Projected market share	43%	45%	48%	48%	48%
Demand captured by subject	617	673	725	725	725

Upon stabilization, the hotel is projected to generate an estimated 725 room nights per year from the Meeting/Conference segment.

Leisure/Tourist Segment

Hotels within the competitive market typically capture approximately 36% of their total annual demand from the Leisure demand segment. The proposed hotel is projected to capture a higher proportion of demand from this segment, at 52% of total demand or 5,813 occupied room nights upon stabilization in 2025, the third year of operations. Projections in this segment are based on the following:

- The proposed hotel will be a newly built, branded limited service hotel.
- The proposed hotel would be attractive for sports groups as it would be well located in Hanover in relation to sports and event facilities.
- Sports tourism would be limited by seasonal and functional capacity issues as these events are typically concentrated over a 2 to 3-day period.
- Given that much of the leisure demand in the competitive market is highly seasonal, and concentrated on weekends and in the summer season, the capacity limits of the hotel will impact the amount of demand the property can reasonably expect to capture from this demand segment.
- Hanover has a variety of attractions such as Gateway Casinos, Hanover Raceway, Maclean's Ales Brewery, and the Hanover Theatres.
- There is a lack of quality, branded accommodation in the immediate area, with the closest hotel being in Walkerton.

It is expected that the proposed hotel would be able to capture a portion of Leisure demand that was previously staying outside of Hanover or was not able to stay in the area due to lack of available accommodations, particularly during peak travel seasons. The proposed hotel's projected performance within the Leisure demand segment is summarized below.

	Year 1 1-Jan-23	Year 2 1-Jan-24	Year 3 1-Jan-25	Year 4 1-Jan-26	Year 5 1-Jan-27
LEISURE					
Fair market share	3,816	3,930	4,009	4,009	4,009
Projected market share	140%	143%	145%	145%	145%
Demand captured by subject	5,342	5,601	5,813	5,813	5,813

Upon stabilization, the hotel will attract about 30-40 leisure room nights per day over the key 120-180 primary leisure demand days annually.

Government/Other Segment

It is expected that the hotel would benefit from some demand from local work and construction crews that are working throughout the region, in addition to some extended stay demand that exists within the market. However, this segment of demand is typically highly rate sensitive and while it is reasonable to expect the proposed hotel to capture a portion of this existing demand, it would be at a lower rate. The proposed hotel is also expected to utilize online travel websites to capture demand within the 'Other' segment. This segment of demand is also typically offered at a highly discounted rate.

Hotels within the competitive market typically capture approximately 17% of their total demand from the Government/Other demand segment.

The proposed hotel is projected to capture a lower proportion of occupied room nights from this segment, at 11% of total demand or 1,277 occupied room nights in 2025, the third year of operations. Projections in this segment are based on the following:

- The proposed hotel will be a newly built, branded limited service hotel.
- The proposed hotel is expected to make use of online travel agency websites to fill rooms during lower demand periods.
- The proposed hotel is expected to be an attractive accommodation choice for crew demand generated by road and hydro work within the local area.

The proposed hotel's projected performance within the Government/Other demand segment is summarized below.

	Year 1 1-Jan-23	Year 2 1-Jan-24	Year 3 1-Jan-25	Year 4 1-Jan-26	Year 5 1-Jan-27
GOVERNMENT/OTHER					
Fair market share	1,870	1,926	1,965	1,965	1,965
Projected market share	60%	63%	65%	65%	65%
Demand captured by subject	1,122	1,204	1,277	1,277	1,277

Summary of Property Projections

Projections by segment of demand for the proposed hotel including occupancy is shown below:

Proposed Hotel Hanover Segmentation

	Year 1 1-Jan-23	Year 2 1-Jan-24	Year 3 1-Jan-25	Year 4 1-Jan-26	Year 5 1-Jan-27
CORPORATE					
Fair market share	4,052	4,173	4,257	4,257	4,257
Projected market share	75%	78%	80%	80%	80%
Demand captured by subject	3,039	3,234	3,406	3,406	3,406
MEETING					
Fair market share	1,453	1,496	1,526	1,526	1,526
Projected market share	43%	45%	48%	48%	48%
Demand captured by subject	617	673	725	725	725
LEISURE					
Fair market share	3,816	3,930	4,009	4,009	4,009
Projected market share	140%	143%	145%	145%	145%
Demand captured by subject	5,342	5,601	5,813	5,813	5,813
GOVERNMENT/OTHER					
Fair market share	1,870	1,926	1,965	1,965	1,965
Projected market share	60%	63%	65%	65%	65%
Demand captured by subject	1,122	1,204	1,277	1,277	1,277
SUBJECT ROOM DEMAND BY SEGMENT					
CORPORATE	3,039	3,234	3,406	3,406	3,406
% of Demand	30.0%	30.2%	30.4%	30.4%	30.4%
MEETING	617	673	725	725	725
% of Demand	6.1%	6.3%	6.5%	6.5%	6.5%
LEISURE	5,342	5,601	5,813	5,813	5,813
% of Demand	52.8%	52.3%	51.8%	51.8%	51.8%
GOVERNMENT/OTHER	1,122	1,204	1,277	1,277	1,277
% of Demand	11.1%	11.2%	11.4%	11.4%	11.4%
Total Subject Demand	10,121	10,712	11,221	11,221	11,221
SUBJECT OCCUPANCY	46.2%	48.9%	51.2%	51.2%	51.2%

Source: CBRE Hotels

SEASONALITY OF DEMAND

The following table presents the seasonality of demand and capacity analysis for the proposed hotel based on the above projections for each demand segment in the second year of operations.

Seasonality and Capacity Analysis									
TOTAL DEMAND		Winter (Jan-Mar)		Spring (Apr-Jun)		Summer (Jul-Sep)		Fall (Oct-Dec)	
occupied room nights	10,712	1,396		3,069		3,458		2,789	
% demand	100.0%	13.0%		28.6%		32.3%		26.0%	
period occupancy	48.9%	25.9%		56.2%		62.7%		50.5%	
		Sun-Thur	Fri-Sat	Sun-Thur	Fri-Sat	Sun-Thur	Fri-Sat	Sun-Thur	Fri-Sat
occupied room nights	10,712	982	415	2,035	1,034	2,351	1,107	1,699	1,090
% demand	100.0%	70.3%	29.7%	66.3%	33.7%	68.0%	32.0%	0.0%	100.0%
period occupancy		25.2%	26.6%	52.2%	66.3%	60.3%	71.0%	43.6%	69.9%

Source: CBRE Hotels

Summer is expected to be the busiest season for the proposed hotel, with 32.3% of total demand and an average occupancy of 62.7% between July and September. This is followed by spring, which is expected to represent approximately 28.6% of demand and occupancy of 56.2%. Fall is expected to see similar demand levels to the spring, with 26% of total demand and a seasonal occupancy of 50.5%. Winter is expected to represent the lowest demand period at 13% and an occupancy of 25.9%.

As shown, the proposed hotel is projected to achieve relatively strong weekend occupancy levels in the spring, summer, and fall. However, mid-week occupancy, particularly in the off-peak periods, presents a significant challenge in achieving sustainable business levels.

The following presents the seasonality implications for each of the demand segments:

- Corporate – Corporate travel in the region is concentrated in the spring, winter, and fall months; however, more limited amount of corporate demand does exist in the summer months as well. Corporate demand is typically concentrated between Sunday and Thursday.
- Meeting/Conference – Meeting and Conference demand provides a relatively consistent source of demand throughout the year, with slightly higher demand periods in the spring and fall. Meeting and conference demand typically occurs between Sunday and Thursday.
- Leisure – Leisure demand is typically concentrated throughout the warmer months when travelers are more likely to book vacations, add vacation time onto a business trip or conference, host a wedding or event, or visit friends and relatives. Leisure demand generally occurs on weekends; however, in the summer months weekday leisure demand increases.
- Government/Other – Government/Other demand provides a source of demand throughout the year. Demand within this segment is typically concentrated throughout the week.

IMPLICATIONS

HOTEL DEVELOPMENT ANALYSIS & IMPLICATIONS

The market potential of the subject development has been predicated on the basis of a 60-unit limited service offering a 1,200 square foot meeting facility. CBRE has completed our analysis based on the assumption that the subject hotel's first year of operation would be 2023. In this section, reference is made to the concept of a stabilized occupancy or stabilized year of operation. When projecting a property's future overnight room nights captured and occupancy rates, the assumptions of continued growth and no new additions to the competitive accommodation supply will produce unreasonably high capture and occupancy levels. A new build hotel requires time to build-up occupancy, which in a five-year projection takes approximately 3 years. The use of a single stabilized occupancy rate attempts to smooth out the occupancy curve, as a property will experience upward/downward occupancy cycles during a calendar year.

For the investment community, a successful project must attain at least 70% occupancy by the third year of operation.

Analysis of a Hotel Development in the Town of Hanover

The foregoing research and analysis has examined the market and development potential for a 60-room hotel development in the Town of Hanover.

Based on the projections presented, the hotel would only achieve a stabilized occupancy of approximately 51% with very low occupancy levels on weekdays on a year-round basis and weekends with the exception of the summer period. At this level of performance, the hotel would be at least 20 percentage points below an investor's expected occupancy level for a successful project.

Implications

The foregoing research and analysis confirms that there is not a "need" for a traditional hotel development in Town of Hanover. Generally, in order to support a new hotel development, the competitive market should be operating at an annual occupancy approaching 70% before a new hotel is developed. As of the end of 2018 the competitive market achieved an occupancy of 53.9% and the Hanover/Walkerton market achieved an occupancy of 42.3%.

While stakeholder discussions and interviews indicated that there are certain times of the year where there is a need for hotel accommodation in the Town, there is insufficient corporate and commercial "demand" year-round to support the mid-week off-season and shoulder season occupancies required to meet the levels required to make a traditional transient hotel viable. In addition, there are just over 300 hotel rooms currently under construction in the competitive market representing more than 36% increase in available rooms in a market that is running in the low to mid 50% range today.

Given the demand dynamics of the market as a whole, it will take time to absorb this new supply with occupancy levels returning to the mid 50% range.

In the absence of year-round hotel demand generators in Hanover, we have concluded that a new hotel would not be viable at this time.

Given all of the new supply coming into the competitive market area the Town may be able to work with the existing and new operators of these properties to find ways to accommodate visitors to Hanover without the development of a property in Town.

ASSUMPTIONS AND LIMITING CONDITIONS

ASSUMPTIONS AND LIMITING CONDITIONS

1. Unless otherwise specifically noted in the body of the report, it is assumed that title to the property or properties appraised is clear and marketable and that there are no recorded or unrecorded matters or exceptions to total that would adversely affect marketability or value. CBRE is not aware of any title defects nor has it been advised of any unless such is specifically noted in the report. CBRE, however, has not examined title and makes no representations relative to the condition thereof. Documents dealing with liens, encumbrances, easements, deed restrictions, clouds and other conditions that may affect the quality of title have not been reviewed. Insurance against financial loss resulting in claims that may arise out of defects in the subject property's title should be sought from a qualified title company that issues or insures title to real property.
2. Unless otherwise specifically noted in the body of this report, it is assumed: that the existing improvements on the property or properties being appraised are structurally sound, seismically safe and code conforming; that all building systems (mechanical/electrical, HVAC, elevator, plumbing, etc.) are in good working order with no major deferred maintenance or repair required; that the roof and exterior are in good condition and free from intrusion by the elements; that the property or properties have been engineered in such a manner that the improvements, as currently constituted, conform to all applicable local, provincial, and federal building codes and ordinances. CBRE professionals are not engineers and are not competent to judge matters of an engineering nature. CBRE has not retained independent structural, mechanical, electrical, or civil engineers in connection with this appraisal and, therefore, makes no representations relative to the condition of improvements. Unless otherwise specifically noted in the body of the report: no problems were brought to the attention of CBRE by ownership or management; CBRE inspected less than 100% of the entire interior and exterior portions of the improvements; and CBRE was not furnished any engineering studies by the owners or by the party requesting this appraisal. If questions in these areas are critical to the decision process of the reader, the advice of competent engineering consultants should be obtained and relied upon. It is specifically assumed that any knowledgeable and prudent purchaser would, as a precondition to closing a sale, obtain a satisfactory engineering report relative to the structural integrity of the property and the integrity of building systems. Structural problems and/or building system problems may not be visually detectable. If engineering consultants retained should report negative factors of a material nature, or if such are later discovered, relative to the condition of improvements, such information could have a substantial negative impact on the conclusions reported in this appraisal. Accordingly, if negative findings are reported by engineering consultants, CBRE reserves the right to amend the appraisal conclusions reported herein.
3. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraisers. CBRE has no knowledge of the existence of such materials on or in the property. CBRE, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea formaldehyde foam insulation, contaminated groundwater or other potentially hazardous materials may affect the value of the property. The value

estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

We have inspected, as thoroughly as possible by observation, the land; however, it was impossible to personally inspect conditions beneath the soil. Therefore, no representation is made as to these matters unless specifically considered in the appraisal.

4. All furnishings, equipment and business operations, except as specifically stated and typically considered as part of real property, have been disregarded with only real property being considered in the report unless otherwise stated. Any existing or proposed improvements, on or off-site, as well as any alterations or repairs considered, are assumed to be completed in a workmanlike manner according to standard practices based upon the information submitted to CBRE. This report may be subject to amendment upon re-inspection of the subject property subsequent to repairs, modifications, alterations and completed new construction. Any estimate of Market Value is as of the date indicated; based upon the information, conditions and projected levels of operation.
5. It is assumed that all factual data furnished by the client, property owner, owner's representative, or persons designated by the client or owner to supply said data are accurate and correct unless otherwise specifically noted in the appraisal report. Unless otherwise specifically noted in the appraisal report, CBRE has no reason to believe that any of the data furnished contain any material error. Information and data referred to in this paragraph include, without being limited to, numerical street addresses, lot and block numbers, land dimensions, square footage area of the land, dimensions of the improvements, gross building areas, net rentable areas, usable areas, unit count, room count, rent schedules, income data, historical operating expenses, budgets, and related data. Any material error in any of the above data could have a substantial impact on the conclusions reported. Thus, CBRE reserves the right to amend conclusions reported if made aware of any such error. Accordingly, the client-addressee should carefully review all assumptions, data, relevant calculations, and conclusions within 30 days after the date of delivery of this report and should immediately notify CBRE of any questions or errors. CBRE does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information or the state of affairs of the real property furnished by the Client to CBRE and contained in any appraisal report prepared by CBRE.
6. The date of value to which any of the conclusions and opinions expressed in this report apply, is set forth in the Letter of Transmittal. Further, that the dollar amount of any value opinion herein rendered is based upon the purchasing power of the Canadian Dollar on that date. This appraisal is based on market conditions existing as of the date of this appraisal. Under the terms of the engagement, we will have no obligation to revise this report to reflect events or conditions which occur subsequent to the date of the appraisal. However, CBRE will be available to discuss the necessity for revision resulting from changes in economic or market factors affecting the subject.
7. CBRE assumes no private deed restrictions, limiting the use of the subject property in any way.

8. Unless otherwise noted in the body of the report, it is assumed that there is no mineral deposit or subsurface rights of value involved in this appraisal, whether they are gas, liquid, or solid. Nor are the rights associated with extraction or exploration of such elements considered unless otherwise stated in this appraisal report. Unless otherwise stated it is also assumed that there are no air or development rights of value that may be transferred.
9. CBRE is not aware of any contemplated public initiatives, governmental development controls, or rent controls that would significantly affect the value of the subject.
10. The estimate of Market Value, which may be defined within the body of this report, is subject to change with market fluctuations over time. Market value is highly related to exposure, time promotion effort, terms, motivation, and conclusions surrounding the offering. The value estimate(s) consider the productivity and relative attractiveness of the property, both physically and economically, on the open market.
11. Any cash flows included in the analysis are forecasts of estimated future operating characteristics are predicated on the information and assumptions contained within the report. Any projections of income, expenses and economic conditions utilized in this report are not predictions of the future. Rather, they are estimates of current market expectations of future income and expenses. The achievement of the financial projections will be affected by fluctuating economic conditions and is dependent upon other future occurrences that cannot be assured. Actual results may vary from the projections considered herein. CBRE does not warrant these forecasts will occur. Projections may be affected by circumstances beyond the current realm of knowledge or control of CBRE
12. Unless specifically set forth in the body of the report, nothing contained herein shall be construed to represent any direct or indirect recommendation of CBRE to buy, sell, or hold the properties at the value stated. Such decisions involve substantial investment strategy questions and must be specifically addressed in consultation form.
13. Also, unless otherwise noted in the body of this report, it is assumed that no changes in the present zoning ordinances or regulations governing use, density, or shape are being considered. The property is appraised assuming that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, provincial, nor national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report is based, unless otherwise stated.
14. The report has been prepared at the request of the client, and for the exclusive (and confidential) use of the client. The report may not be duplicated in whole or in part without the specific written consent of CBRE nor may this report or copies hereof be disclosed to third parties without said written consent, which consent CBRE reserves the right to deny. If consent is given, it will be on condition that CBRE will be provided with an Indemnification Agreement and/or Non-Reliance letter, in a form and content satisfactory to CBRE, by a party satisfactory to CBRE. Exempt from this restriction is duplication for the internal use of the client-addressee and/or transmission to attorneys, accountants, or advisors of the client-addressee. Also exempt from this restriction is transmission of the report to any court,

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15. Any value estimate provided in the report applies to the entire property, and any pro ration or division of the title into fractional interests will invalidate the value estimate, unless such pro ration or division of interests has been set forth in the report.
16. The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization. Component values for land and/or buildings are not intended to be used in conjunction with any other property or appraisal and are invalid if so used.
17. The maps, plats, sketches, graphs, photographs and exhibits included in this report are for illustration purposes only and are to be utilized only to assist in visualizing matters discussed within this report. Except as specifically stated, data relative to size or area of the subject and comparable properties has been obtained from sources deemed accurate and reliable. None of the exhibits are to be removed, reproduced, or used apart from this report.
18. No opinion is intended to be expressed on matters which may require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate appraisers. Values and opinions expressed presume that environmental and other governmental restrictions/conditions by applicable agencies have been met, including but not limited to seismic hazards, flight patterns, decibel levels/noise envelopes, fire hazards, hillside ordinances, density, allowable uses, building codes, permits, licenses, etc. No survey, engineering study or architectural analysis has been made known to CBRE unless otherwise stated within the body of this report. If the Consultant has not been supplied with a termite inspection, survey or occupancy permit, no responsibility or representation is assumed or made for any costs associated with obtaining same or for any deficiencies discovered before or after they are obtained. No representation or warranty is made concerning obtaining these items. CBRE assumes no responsibility for any costs or consequences arising due to the need, or the lack of need, for flood hazard insurance.
19. Acceptance and/or use of this report constitutes full acceptance of the Contingent and Limiting Conditions and special assumptions set forth in this report. It is the responsibility of the Client, or client’s designees, to read in full, comprehend and thus become aware of the aforementioned contingencies and limiting conditions. Neither the Appraiser nor CBRE assumes responsibility for any situation arising out of the Client’s failure to become familiar with and understand the same. The Client is advised to retain experts in areas that fall outside the scope of the real estate appraisal/consulting profession if so desired.

20. CBRE assumes that the subject property analyzed herein will be under prudent and competent management and ownership; neither inefficient nor super-efficient.
21. It is assumed that there is full compliance with all applicable federal, provincial, and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report.
22. No survey of the boundaries of the property was undertaken. All areas and dimensions furnished are presumed to be correct. It is further assumed that no encroachments to the realty exist.
23. The property has been valued on the basis that the property complies in all material respects with any restrictive covenants affecting the property and has been built and is occupied and is being operated, in all material respects, in full compliance with all requirements of law, including all zoning, land use classification, building, planning, fire and health by-laws, rules, regulations, orders and codes of all federal, provincial, regional and municipal governmental authorities having jurisdiction with respect thereto. There may be work orders or other notices of violation of law outstanding with respect to the real estate as described in the report. However, such circumstances have not been accounted for in the appraisal process.
24. No inquiries have been placed with the fire department, the building inspector, the health department or any other government regulatory agency, unless such investigations are expressly represented to have been made in the report. The subject property must comply with such regulations and, if it does not comply, its non-compliance may affect the market value of the property. To be certain of such compliance, further investigations may be necessary.
25. Because market conditions, including economic, social and political factors, change rapidly and, on occasion, without notice or warning, the estimate of value expressed herein, as of the effective date of this appraisal, cannot be relied upon as of any other date without subsequent advice of CBRE.
26. Client shall indemnify and hold CBRE fully harmless against any loss, damages, claims, or expenses of any kind whatsoever (including costs and reasonable attorneys' fees), sustained or incurred by a third party as a result of the negligence or intentional acts or omissions of Client, and for which recovery is sought against CBRE by that third party.

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