

# Long Grove Hotel Market, Financial Feasibility & Impact Study

**To:** Greg Jackson, Village Manager  
The Village of Long Grove  
3110 Old McHenry Road  
Long Grove, IL 60047

**From:** Rob Hunden, CEO  
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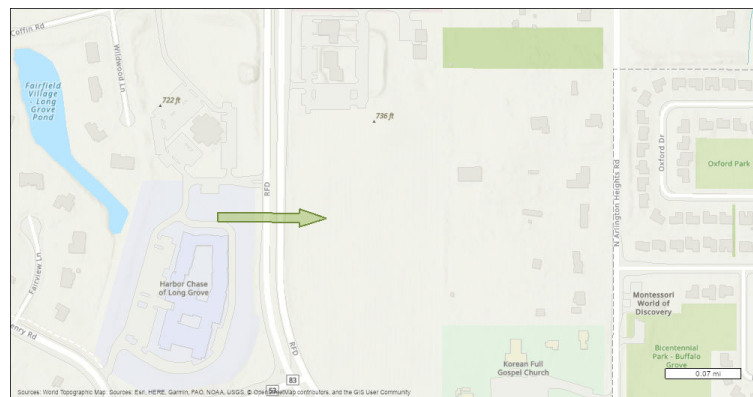
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## Understanding

The Village of Long Grove (Village or Client) is seeking a proposal for a market analysis and financial feasibility study related to the development of a new hotel (Project or Hotel) located in Long Grove, Illinois. Hunden Strategic Partners (Hunden) proposes to complete the requested scope of work using our thorough methodology. Hunden understands that the Village is looking to build the Project on one of two locations, and that the location of the Project will dictate many of the hotel's plans and features. Hunden will conduct two separate demand/financial and impact models for the potential sites, providing recommendations and projections for each.

Site One is located at the crossroads of Highway 53 and Interstate 83:

**Site #1 South 15 Assessors Map**



Site Two is located at the crossroads of Lake Cook Road and Highway 53:

**Site #2 Southgate/Menards Assessor's Map**



The vision for the Hotel is to provide lodging that does not disturb the established aesthetic of the Village and serves as a compelling contribution to the community. Village regulations stipulate that the Project may not exceed 30' height, or four (4) stories. The study will include analysis of auxiliary function space, on-site amenities, and a potential restaurant element. The study will provide the Client with market-driven analytics to determine the overall demand, opportunity and financial feasibility of a Hotel on each proposed site.

The following scope of work details our tailored methodology to deliver an independent hotel financial feasibility study.

## Scope of Work

Hunden proposes a scope of work that meets or exceeds all the elements necessary for an analysis of this type. Hunden is happy to discuss any changes to this scope and to modify the report organization and methodology as needed.

Hunden's work plan is proposed to be organized as follows:

- Task 1 – Kickoff, Project Orientation, and Interviews
- Task 2 – Economic, Demographic, and Tourism Analysis
- Task 3 – Hotel Market Analysis
- Task 4 – Support Amenities: Retail/Restaurant and Event Space Analysis
- Task 5 – Comparables Analysis
- Task 6 – Recommendations
- Task 7 – Demand and Financial Projections
- Task 8 – Economic, Fiscal, and Employment Impact Analysis

## Task 1: Kickoff, Project Orientation and Interviews



Hunden will perform the following orientation and due-diligence oriented tasks:

- Obtain information and data from the Village of Long Grove, key stakeholders, and any other appropriate agencies.
- Tour Long Grove and the two proposed Project sites, as well as any surrounding demand generators.
- Interview stakeholders from a variety of local private and public organizations and perform fieldwork as appropriate.
- Review any previously completed studies, master plans and/or proposed concepts brought to the Client by private developers.
- Inventory accommodations and hotels in Long Grove and the surrounding area.
- Gather and review available economic, demographic, and financial data.

## Task 2: Economic, Demographic and Tourism Analysis

Hunden will evaluate Long Grove's position as an economic center of activity, as well as a destination for overnight visitors. These visitors may include those in town for meetings, events, business travel, professional, leisure, special event, and sports visitors, or those in the area for other reasons. This analysis will provide a realistic assessment of the area's SWOT. Among the data gathered and analyzed will be:

- Geographic attributes, accessibility, and transportation links,
- Trends in population growth and income,
- Higher education demographics and student data,
- Corporate presence, major employers and any significant recent or likely future changes,
- Tourism attractions.

**ESRI Neighborhood Analysis, Placer.ai Analysis and CoStar Insights.** Hunden utilizes the latest market data, visitor origin data, demographic data, psychographic data and other resources to determine a comprehensive view of your marketplace.

### Task 3: Hotel Market Analysis

**Industry Trends.** Hunden will cover the trends that influence hotel development and performance and how recent macro events have impacted hotels in the Project area. In addition, Hunden will cover key drivers of demand, financial realities, including typical metrics and cap rates, and others as relevant.

**Local Market.** In this task, Hunden will profile the area supply of hotels as well as the key nodes or clusters of hotels in the marketplace. Hunden will interview local hotel and tourism management reps to determine the sources of demand for the market generally and for individual hotels in and around the area. Hunden will gather local and regional tourism data from specific hotel, event, sports and meeting facilities and organizations. Hunden will consider such annual events and seasonal tourism waves to examine how the existing hotels are or are not accommodating the type of demand that would like to visit the area.

**Competitive Sets.** Hunden will analyze Long Grove and the nearby area of quality hotels to determine two separate competitive sets of hotels relevant to the two proposed Project sites. Hunden will consider location, size, quality, age, brand, concept, amenities and other factors. Hunden will obtain data through interviews and STR (Smith Travel Research) statistical database and reports, and a variety of industry resources.

**Proposed and Under Construction Projects.** Hunden will profile the relevant projects underway or imminent and consider those as part of the future competitive set absorption dynamic.

**Comp Set Performance.** The analysis will include tracking of occupancy, monthly room night demand, average daily rate (ADR), and Revenue per Available Room (RevPAR), and performance by year, month, day of week, unaccommodated demand and demand type/market mix.

Hunden will discuss how new hotels have been absorbed into the market and how any additions or renovations have impacted the performance of the hotel market. Hunden will provide conclusions on the ability of these improvements to induce more demand from each major market segment. Market segmentation within the set will also be shown in three primary categories:

- Commercial transient,
- Group (both corporate group, association, and other), and
- Leisure.

#### **Task 4: Support Amenities: Retail/Restaurant and Event Space Analysis**

**Retail/Restaurant.** The purpose of this task is to identify the types of support amenities that would be most appropriate for the Project and how they will perform, including restaurants, food trucks and support retail. In this task, Hunden will conduct an analysis of the locally available nodes of retail, restaurants, and bars in and around Long Grove, focused on supply, character, quality and cuisine. What is missing? What are the current market opportunities? What do hotel guests desire that they cannot get at other hotels in the area? Hunden will determine.

**Event and Meeting Space.** Hunden will then study the local supply and quality of event and meeting space in Long Grove and identify opportunities and challenges associated with the current marketplace. Are there gaps in quality, supply of certain facility types, and overabundance of certain types of facilities? A high-level analysis of the competitive supply will paint a clear picture of the optimal size and quality of function space to include in the hotel.

#### **Task 5: Comparables Analysis**

Hunden will profile other unique, downtown boutique hotel developments, highway-adjacent hotels, and any types of hotels deemed comparable to the Project, in similarly sized cities and towns in Illinois and across the country, as appropriate. Items to be considered in the comparable analysis will include, as available:

- Location,
- Brand,
- Room count,
- Unique concepts and experiential amenities,
- Event and function space, and
- Site details.

#### **Task 6: Recommendations**

Based on the previously completed tasks and findings, Hunden will provide two sets of recommendations for the two proposed Hotel sites. Hunden will show both what the market would support immediately (optimal financial feasibility) and what is optimal for the Project (which may have lower initial viability, but longer-term positive impacts) for each of the sites. Hunden will provide implications on program, including:

- Number and mix of guest rooms,
- Level of quality/service,
- Function and event space, including:
  - ideal size, capacity, indoor/outdoor or combination, event types and usage,

- Experiential elements and amenities such as on-site spa,
- Branding options, and
- Other details, as appropriate.

## Task 7: Demand and Financial Projections

In this task, Hunden will prepare separate financial models for each of the site scenarios.

Hunden will determine how the market will absorb the proposed hospitality development over time, providing a ten-year demand projection. Ultimately the question Hunden will answer is: How will the proposed hospitality development perform regarding occupancy, rate, and revenue per available room (RevPAR)?

Hunden's approach to answering these questions includes a strong methodology. Hunden will:

- Perform a market penetration analysis for each of the proposed hotels and estimate future room-night demand, occupancy, and ADR,
- Include assumptions for competitive market demand growth, induced demand, recapture of demand, and unaccommodated demand based on earlier analysis and penetration and inducement capability of each proposed hotel,
- Each market segment will be assessed, including leisure, commercial, and group. Average rate for each segment will be analyzed and projected, and
- Project capture of existing demand from the competitive set and outside the set.

This methodology will result in a projection of occupancy, rate, and Revenue per Available Room (RevPAR) for ten years of operation. These will then lead to a more detailed pro forma by line item.

Based on the projection of demand and applying several assumptions regarding room rates, food and beverage revenue and expense and other items, Hunden will prepare a financial projection for each of the proposed Projects. This financial analysis includes the following, based on the Uniform System of Accounts for hotels, commonly accepted throughout the industry:

- Estimate revenues by line item. Expenses directly related to the facility will also be projected for the period. The model will generate a pro forma operating statement that includes the revenue and expense items, including the following:
  - Revenues: rooms, food and beverage, parking, other operated departments, and other income,
  - Departmental expenses: rooms division, food & beverage, and other,
  - Unallocated expenses: general and administrative, marketing, maintenance, utilities, and technology,

- Other Expenses: branding and management fees, insurance, taxes, insurance, capex reserve and other expenses.

The financials will be presented in a line-item by line-item basis, which will lead to estimates of net operating income or loss. These will then feed a valuation model, as well as a supportable financing model of equity and debt.

## Task 8: Economic, Fiscal, and Employment Impact Analysis

In this task, Hunden will prepare separate impact projection models for each of the site scenarios.

Hunden will conduct an economic, fiscal and employment impact analysis for each of the two Project locations and scenarios to determine the direct, indirect, and induced impacts, including the tax revenues that would be generated by the new Hotel. Based on the above analysis, a projection of net new direct spending will be tabulated. New spending is spending that is new to the community as visitors come to Long Grove and the surrounding area due to an event, spend the night or otherwise spend time or money in the area. Hunden will analyze the spending by residents (transfer spending) and discuss the amount that is recaptured. For example, due to the existence of activity generated by events, economic activity occurs as residents pass up opportunities to leave the area to spend money. Instead of going to an event in another area, the event keeps their spending within the area. This is considered recaptured demand. The net new and recaptured direct spending is considered to be the **Direct Impacts**.

From the direct spending figures, further impact analyses will be completed.

- **Indirect Impacts** are the supply of goods and services resulting from the initial direct spending. For example, an attendee's direct expenditure on a hotel room causes the hotel to purchase linens and other items from suppliers. The portion of these hotel purchases that are within the local economy is considered an indirect economic impact.
- **Induced Impacts** embody the change in local spending due to the personal expenditures by employees whose incomes are affected by direct and indirect spending. For example, a waitress at a restaurant may have more personal income as a result of the attendee's visit. The amount of the increased income that the employee spends in the area is considered an induced impact.
- **Fiscal Impacts** represent the incremental tax revenue collected by the City due to the net new economic activity related to an event. For example, our analysis will estimate the hotel and other tax revenue from an overnight stay by an attendee and considers this a fiscal impact. The fiscal impact represents the government's share of total economic benefit. Fiscal impacts provide an offset to the potential public expenditures required to host events. Hunden will identify the taxes affected and conduct an analysis of the impact on these accounts and governmental units.

- **Employment Impacts** include the incremental employment provided not only onsite, but due to the spending associated with an event. For example, the direct, indirect and induced impacts generate spending, support new and ongoing businesses, and ultimately result in ongoing employment for citizens. Hunden will show the number of ongoing jobs supported by the project and provide the resulting income and income taxes generated.

Hunden uses one of the industry’s most relied upon multiplier models, IMPLAN. This input-output model estimates the indirect and induced impacts, as well as employment impacts, based on the local economy. An input-output model generally describes the commodities and income that normally flow through the various sectors of the economy. The indirect and induced expenditure, payroll and employment result from the estimated changes in the flow of income and goods caused by the projected direct impacts. The model data are available by various jurisdictional levels, including counties.

## Deliverable Milestones and Timing

**Draft Analysis** – Hunden proposes to complete a PowerPoint-style draft analysis approximately six to seven (6-7) weeks after the following has occurred: contract signed, initial payment received, and in-person kickoff trip has occurred.

**Final Analysis** – After receiving comments on the draft, Hunden will issue its final analysis electronically as a PowerPoint-style deliverable.

## Fees

Hunden proposes to complete the study for a professional fee of \$52,000, inclusive of one trip to Long Grove for the kickoff visit, plus a \$1,200 fee for the purchase of two STR reports, for a total lump-sum fee of **\$53,200**.

Hunden will bill the Client according to the following payment milestones:

- Kickoff to initiate work: \$20,000
- Delivery of draft analysis: \$25,000
- Delivery of final analysis: \$ 8,200

## Contractual Conditions

The following conditions apply to this engagement with you.

**SCOPE LIMITATIONS.** Hunden’s services do not include the following: any assistance with a bond marketing strategy; any assistance with the preparation or distribution of any official statement; or



any advice on the municipal bond market. Hunden does not provide advice with respect to municipal financial products or the issuance of municipal securities, including services with respect to the structure, timing, terms and other similar matters concerning such financial products or issues.

Hunden is not a municipal advisor and Hunden is not subject to the fiduciary duty set forth in section 15B(c)(1) of the Registration and Regulation of Brokers and Dealers Act (15 U.S.C. 78o-4(c)(1)) with respect to the municipal financing product or issuance of municipal securities. Client is advised that any actual issuance of debt must be done under the advice of its bond counsel and financial advisors. Your financial advisor should provide any advice concerning the specific structure, timing, expected interest cost, and risk associated with any government loan or bond issue. Potential advisors should not rely on representations made in this report with respect to the issuance of municipal debt.

The findings and recommendations of Hunden's research will reflect analysis of primary and secondary sources of information. Estimates and analyses presented in our work product will be based on data that are subject to variation. Hunden will use sources that it deems reliable, but will not guarantee their accuracy. Recommendations will be made from information provided by the analyses, internal databases, and from information provided by external sources.

Client is entitled to receive the work product(s) prepared by Hunden pursuant to this Agreement. Client has no right to access or deliverance of any underlying statistics, models, or any other information developed by Hunden in preparing the Report to which this Agreement pertains.

**REVISIONS.** Hunden will complete a maximum of two drafts of the report. The Client is expected to provide comments and edits on the draft report and those will be addressed by Hunden. Hunden's results may not always agree with the desires of the Client. Hunden will use its independent perspective and research to drive our results. Any revisions, questions, conversations, zooms or travel requested after two drafts (initial draft report, then final draft), will be billed at Hunden's hourly rates of: \$400 for Rob Hunden and \$300 for the project team. Payment on the final milestone will be required and an advance of \$2,500 on the hourly work that would be required by the Client or its designees, such as lenders and others.

**UPDATES.** Hunden has no responsibility to update its work product(s) for events and circumstances occurring after the date presented to the Client. Delayed invoice payments will result in delay of deliverables for the next portion of work. If edits and comments are not received from the Client related to any prior deliverable within thirty (30) days of the delivery of the deliverable, the work product will be considered final, and the current billing will be sent and become due.

**TIMING OF DELIVERABLES.** The timeline for the study begins when the following have occurred: 1) receipt of first payment, 2) signing of this contract and 3) receipt of any Client materials related to the Project requested by Hunden.

**BILLING.** Any past invoices must be paid prior to the delivery of the next Milestone Deliverable. If an invoice remains unpaid 30 days after it was emailed to the client, Hunden may without further obligation, cease the assignment and terminate the Agreement. All previous invoices will remain

due. Any invoice unpaid after 30 days will accrue a 3% per month late fee. Any invoice unpaid after 90 days will result in legal action by Hunden to collect such invoice(s).

Failure by Hunden to assess late fees does not preclude Hunden from assessing late fees in the future.

**TRAVEL.** In the event that the Client chooses to alter, adjust or change dates/times of any Client-related trip after Hunden has booked and purchased travel arrangements, it shall be the responsibility of the Client to reimburse Hunden for any fees and fare/price differences associated with cancellation/change of travel arrangements.

**USE OF DELIVERABLE.** The Work Product is copyrighted and cannot be manipulated in any way beyond the format that it was provided to the Client.

**TERMINATION.** Notwithstanding the Billing language above, Hunden reserves the right to terminate this Agreement on fifteen (15) days written notice to Client should Client fail to satisfactorily perform its obligations under this Agreement. In the event Hunden terminates this Agreement, Client is obligated to pay Hunden for all services rendered under this Agreement prior to termination, including work through the next unbilled milestone. Nothing contained herein shall constitute a waiver of Hunden's right to bring suit for damages or to enforce specific performance of this Agreement. In the event of termination of this Agreement by the Client, Client is obligated to pay Hunden for all services rendered under this Agreement prior to termination, including work through the next unbilled milestone. Hunden further reserves the right to take any legal action necessary to enforce its rights under this Agreement. In the event Hunden is required to commence suit to collect any unpaid amounts due to it from Client, Client agrees to reimburse Hunden for its costs and attorneys' fees in bringing such suit.

It is agreed that the liability of Hunden to the Client is limited to the amount of the fees paid by client to Hunden.

Hunden limits its responsibility to the Client and any use of the study produced pursuant to this Agreement by third parties shall be at the risk of the Client and/or said third parties. By the execution of this Agreement, Client acknowledges that he/she/it has read and agrees to the terms and conditions of this Agreement and agrees to the inclusion of a standard set of General Assumptions and Limiting Conditions in the report. Additional conditions prompted by the discovery of extraordinary or unusual circumstances uncovered during the course of investigation may be added to the study assignment, if necessary.

**DISPUTES.** Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, other than non-payment of amounts due hereunder, shall be settled by arbitration administered by the American Arbitration Association in accordance with its Commercial [or other applicable] Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

If this document meets with Client's approval, Client may accept this letter and authorize Hunden to proceed by signing below.

## Authorization

Accepted By:

Signature \_\_\_\_\_

Printed Name \_\_\_\_\_

Title \_\_\_\_\_

Company \_\_\_\_\_

Date: \_\_\_\_\_