Lodging Accommodation Demand Study

For the Upper Cape

Cape Cod, MA

<u>Prepared for:</u>

Paul Niedzwiecki
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PO Box 226
3225 Main St.
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October 7, 2015

Pinnacle
Advisory Group

Pinnacle Advisory Group

Boston New York Newport Beach Tampa Washington D.C.

Hospitality Consulting
Asset Management
Real Estate Appraisal
Litigation Support

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October 7, 2015

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Re: Lodging Accommodation Demand Study for the Upper Cape

Dear Mr. Niedzwiecki:

We have completed our research and analysis in connection with the Cape Cod Commission's request to determine if additional lodging accommodations are "needed" on the Upper Cape. The Upper Cape includes the towns of Bourne, Mashpee, Falmouth, and Sandwich. The recommendations for lodging accommodations are based on market demand, and not necessarily on financial feasibility. Additionally, our lodging recommendations address facility attributes including location, type, size, and price point.

Our analysis focused exclusively on hotels, motels, resorts, and bed and breakfasts. This study did not consider alternate lodging options that do not collect lodging tax, including home rentals, Airbnb, or similar facilities. Pinnacle Advisory Group reviewed general economic conditions and analyzed the lodging supply and demand characteristics in the subject market areas. Issues such as the seasonality of demand and the range of supply in terms of quality and pricing were key factors considered during our analysis. During the course of our analysis, we also interviewed various demand generators, numerous management representatives in the market area, and others familiar with the lodging trends in the Upper Cape to better understand the supply and demand dynamics in the local lodging market. The findings contained herein were based on field research conducted in July and August 2015.

As in all studies of this type, projections contained herein are based upon estimates and assumptions that are subject to uncertainty and variability. While we do not present the projected results as those which will ultimately be achieved, we have prepared them conscientiously based upon the most reliable forms of information available to us and our extensive experience in the lodging and real estate industries. We have no obligation, unless subsequently so engaged, to update this study because of events occurring subsequent to the completion of our analysis. Additional limitations regarding our research and projections are presented at the end of this report.

If you have any questions, or we can be of additional assistance to you, please do not hesitate to contact us at your convenience. Thank you for the opportunity to be of service to you.

Respectfully submitted,

Pinnacle Advisory Group

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Introduction and Scope

Pinnacle Advisory Group was retained by the Cape Cod Commission to evaluate the demand for overnight accommodations. More specifically, the objectives of the Commission with respect to this study, and as outlined in the Request for Proposals (RFP) included: 1) a comprehensive inventory of existing lodging accommodations for each town located within the Upper Cape; 2) an assessment of the current demand characteristics including seasonal and annual occupancy and average daily rate achieved by lodging properties; 3) projections for future demand based on planned developments, coupled with new supply, within the Upper Cape; and 4) recommendations regarding demand for additional lodging facilities based on our research.

Scope of Research and Analysis

The work completed during our research and analysis included:

- Met with project organizers to better understand the Commission's objectives with respect to the project and to set project scope;
- Completed a comprehensive inventory of existing accommodations in the towns of Bourne, Mashpee, Falmouth, and Sandwich. This included all transient units, such as hotel, motel, and bed and breakfast inventory. The inventory includes the number of rooms, price point, amenities, published rates (peak season and off season where available), and location of each facility, and whether the property is nationally branded or locally owned lodging. Our research included data collected from the internet as well as phone calls to most properties.
- Interviewed members of the Chamber of Commerce and/or Planning Departments in each town, including:
  - Cape Cod Chamber of Commerce: Wendy Northcross, CEO
  - Sandwich-Chamber of Commerce: Jay Pateakos, Executive Director & Planning & Economic Development: Blair Haney
  - Mashpee Town Planner: Tom Fudala
  - Falmouth- Chamber of Commerce: Mike Kasparian, President & Assistant Town Planner: Heather Harper
  - Bourne-Cape Cod Canal Region Chamber: Marie Oliva, Executive Director & Town Planner: Coreen Moore

- Interviewed key representatives of demand generators within the towns of the Upper Cape, including:
  - Bourne
    - MA Maritime Academy – Denise Mcardle (Camps & Conferences Coordinator)
  - Mashpee
    - Mashpee Commons – John Renz (VP, Leasing and Operations)
  - Falmouth
    - Museums on the Green/Historical Society - Mark A. Schmidt (Exec Director)

        - Woods Hole Oceanographic Institute – Joanne Trump (Information Office) & Kathy Patterson (Ocean Science Exhibit Center manager) & Mary Ann White (AP Coordinator)
        - Marine Biological Lab – Professor Stefano Allesina (Head of new program partnership with University of Chicago)
        - Falmouth Aquatics – Jim Preisig (Chairman)
        - Falmouth Youth Hockey – Paul Moore (President)
        - Olympic Village development – Jody Shaw, CLSV (developer) representative
    - Sandwich
        - Heritage Museums & Gardens - Ellen Spear (President & CEO)
    - Other
        - Jim Berry: Appraiser with Cushman & Wakefield with extensive work on the Upper Cape
- Toured numerous lodging properties within each town in the Upper Cape and interviewed relevant management representatives to better understanding the dynamics of the local lodging market, including owners, general managers, and directors of sales for a sampling of properties in each town ranging from bed and breakfasts to a full-service resort which represented approximately 1/3 of all available rooms across property types;
- Compiled estimates of historical operating performance data (monthly occupancy and average daily room rate (ADR) where available) for lodging accommodations in the Upper Cape;
- Reviewed planned developments in regions of the Upper Cape to gauge potential future demand over the next 5 to 15 years;
- Researched and compiled information on new accommodations that are proposed, in planning, and/or under construction;
- Provided recommendations for meeting any needs identified, including providing the types of facilities, price points, and locations best suited for new or upgraded facilities, given the demand characteristics.
- Prepared supply and demand estimates for any identified additional lodging recommendations, by season.
- Prepared a written final report.

Executive Summary

Pinnacle Advisory Group was retained by the Cape Cod Commission to conduct a study to analyze lodging demand for the Upper Cape. Presented below is a summary of our findings and recommendations.

- There are 44 lodging accommodations in the Upper Cape with approximately 1,650 rooms. During the off season many lodging accommodations close, bringing the total inventory to approximately 1,300.
- The inventory of accommodations include 15 hotels, 9 bed and breakfasts, 18 motels, and two resort properties. Twenty seven properties are located in Falmouth, 11 in Sandwich, two in Mashpee, and four in Bourne.
- The Upper Cape region, similar to Cape Cod as a whole and other New England destinations, is a highly seasonal market; occupancy in the off season is up to 60% lower than those of the peak season. Average rates follow similar patterns, with discounts of 50% or more off peak season rates. During peak summer months of July and August, the average occupancy for the Upper Cape lodging supply is ~85%, during shoulder season (May and June, and September and October), occupancy averages ~60%, and during off season (November through April), the hotels that remain open average in the 20% range. Room rates vary dramatically by property type and season.
- Many properties close in the off-season due to the lack of demand and the costs to continue operating, including the difficulty in finding year-round employees.
- Overall lodging demand is comprised of ~90% leisure/tourists at the majority of lodging accommodations, with almost no corporate transient. Demand at the smaller sized accommodations is almost exclusively leisure/tourist, while the larger hotels with meeting space accommodate more groups (social, association, and corporate), outside of peak months when the leisure market commands a higher rate and group demand is not needed.
- There is a lack of upscale/upper upscale lodging accommodations in the towns of the Upper Cape. The largest resort property in Falmouth competes with upscale accommodations in the towns of Chatham and Brewster due to its prime beachfront location; however there is a perception among guests that differentiates the Upper Cape from the Lower Cape and makes competition difficult, particularly in the shoulder and off seasons.
- Demand for lodging accommodations in the Upper Cape is considered to be stabilized and the market is considered to be in a mature state. Without the addition of new demand generators to attract additional demand in the shoulder and off season, demand is projected to follow historical trends of monthly occupancies based on seasonality.
- The lodging market in the Upper Cape is well-established and follows the same patterns of seasonality year after year. Minor fluctuations may exist based on economic conditions and weather patterns. Without any new demand generators entering the market, there is no projected significant growth or corresponding need for additional lodging options. The overall trends in the local tourism industry are expected to vary in the future similar to historic levels.
- In Sandwich, there is a proposed large scale development for an indoor/outdoor sporting complex, and a general discussion of a similar development in Falmouth focused on aquatics; if these projects come to fruition, a market study for each specific location is recommended to determine the viability of an associated hospitality component. Specifically, to determine if there are inadequate lodging accommodations to support these developments, assuming that the projects generate sufficient demand for lodging.
- Needs for additional lodging accommodation is possible in conjunction with the development of new demand generators. Select-service properties (hotels without significant meeting space of

full food and beverage offerings), sized to fit the demand generated by the respective demand generators, would be the recommended property type. These additional accommodations would likely bring in induced demand – demand that has been previously unaccommodated the market due to lack of specific product – if branded due to their affiliations, and would accommodate primarily the needs of their respective venues. In the shoulder and off season, these properties could negatively affect the demand levels of existing properties.

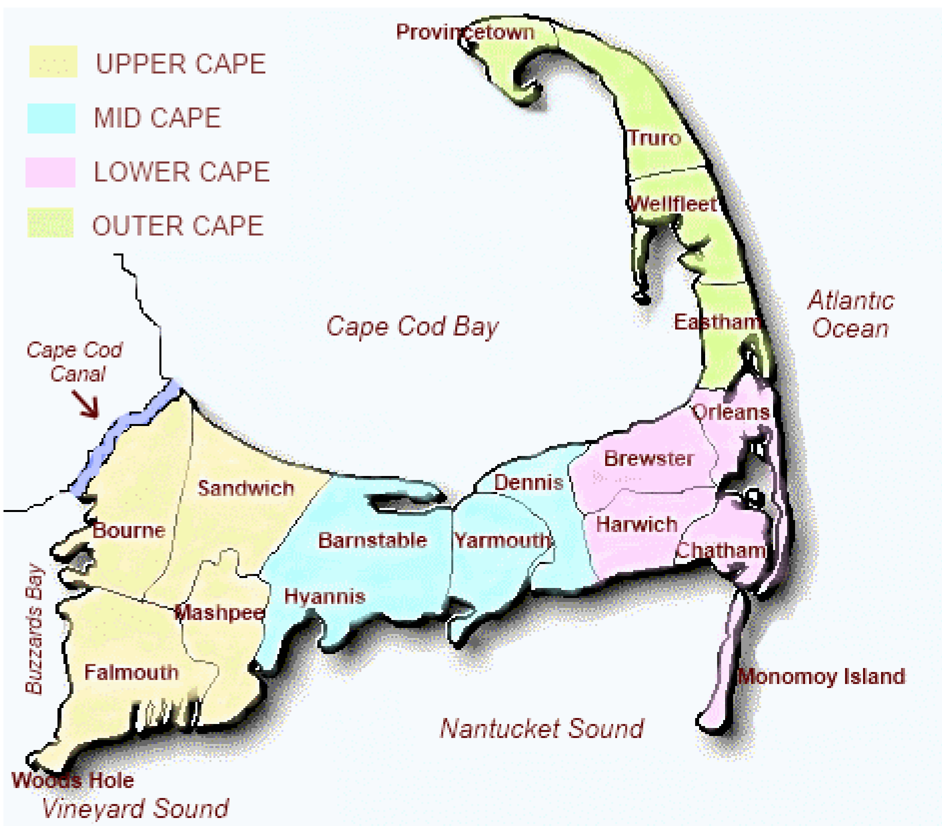
- A waterfront location is the most desirable attribute expressed by demand generators; however based on our conversations with planning departments, available land as well as development and zoning laws are restrictive for waterfront development at this time.

Towns of the Upper Cape

Overview

Cape Cod is a 65-mile-long peninsula in Massachusetts linked to the mainland by two bridges, the Sagamore Bridge and the Bourne Bridge. Barnstable County contains the 15 towns of Cape Cod. Dukes County consists of the eleven islands southeast of Massachusetts, and Nantucket County is the island and town of the same name. As of the 2010 census, the population was 216,902. Its county seat is Barnstable (Hyannis). Barnstable County borders Plymouth County to the northwest; off Barnstable County's southern shore are Dukes County and Nantucket County.

The below map provides an overview of the entirety of Cape Cod, and delineates the regions of the Upper Cape, Mid Cape, Lower Cape, and Outer Cape.



The Upper Cape region of Cape Cod encompasses the eastern part of the Cape and includes the towns of Bourne, Mashpee, Sandwich, and Falmouth. The map below outlines in more detail the regions of the Upper/Mid Cape. Note, this report does not include the town of Barnstable which includes Cotuit, Marstons Mills, and Osterville Villages.

Source: Cape Cod Chamber of Commerce; Cape Cod Commission

The towns of the Upper Cape region are characterized by more of a year-round population that other areas on the Cape, historical town centers, the Cape Cod Canal Region, beaches and seashore, and as a departure point for the islands. Major institutions in the Upper Cape include the Joint Base Cape Cod, Woods Hole Oceanographic Institute, the Marine Biological Lab, and the Massachusetts Maritime Academy.

There are a number of annual events that draw visitors to the Upper Cape region. A sampling of these festivals and events include:

- Bourne Scallop Festival: now in its 46th year, this festival that occurs over a weekend in mid-late September draws over 50,000 visitors to the Cape Cod Fairgrounds in Falmouth and features midway rides, live entertainment, and seafood.
- SandwichFest: in its 7th year in 2015, this late June annual street fair features arts and crafts, a beer and wine garden, and food tents competing for the best sandwich in Sandwich.
- Mashpee Powwow: 2015 was the 94th annual Pow Wow, held at the Cape Cod Fairgrounds in early July. The Powwow is a traditional celebration of Mashpee Wampanoag culture featuring Native American dancing, drumming, games, food, art, jewelry, wampum, gifts, crafts and clothing.
- Annual Quahog Day: this annual festival, in its 7th year in 2015, takes place in June at the Flying Bridge Restaurant overlooking the Falmouth Harbor. The mascot Doug the Quahog predicts how many sunny days lie ahead for the summer season.
- New Balance Falmouth Road Race: in its 43rd year in 2015, in August, over 12,000 runners gather in Woods Hole on Water Street and casual to elite runners take the course to the finish at the beach in Falmouth Heights.

The following sections discuss the characteristics of each town within the Upper Cape region, including major demand generators and any proposed or planned developments that could affect future lodging demand.

Bourne

The town of Bourne is the first town visitors encounter when officially arriving on Cape Cod; Bourne is located on both sides of the Cape Cod Canal. Bourne consists of regional roadways which travelers need to go through to access other parts of the Cape, making traffic issues a major concern for this area. According to information compiled by the American Community Survey (ACS) five year estimates, the population of Bourne was 19,729 as of 2013. Approximately 56% of the town's housing inventory is owner-occupied.

Bourne consists of nine separate villages; Bourne, Bourndale, Buzzards Bay, Cataumet, Gray Gables, Monument Beach, Pocasset, Sagamore, and Sagamore Beach. The town's main attraction is the Cape Cod Canal, a 17.4 mile long Canal which is the widest sea level canal in the world. The Canal features 3,000 acres of waterway and parkland, and has 14 miles of recreational banks that allow for outdoor activities including hiking, biking, and fishing. There are two visitor's centers, one located in Buzzards Bay and the other located at the base of the Sagamore Bridge. In 2014, the Buzzards Bay visitor's center had 29,756 visitors, while the Sagamore visitor's center had 98,462. The railroad station in Buzzards Bay is an active station for the Cape Cod Central Railroad.

According to the Town Planner, future development in Bourne is targeted for Buzzards Bay. There have been efforts to lessen the zoning and regional regulatory restrictions in this village to encourage future development. However, sewage treatment capacity remains a major limitation to future projects. Current projects in the Growth Incentive Zone include a 106-room assisted living facility and a proposed 101-room hotel. Preliminary plans for the hotel include a four-story property with the possibility of meeting space, as proposed by developer's engineering company Horsley Witten Group, Inc.

The town's major demand generators are outlined below:

- *MA Maritime Academy* – The MA Maritime Academy is a four year, co-educational state university located in Buzzards Bay. The Academy has an enrollment of close to 1,400 and offers bachelor and master's degrees in liberal arts and sciences along with technical and professional studies. Founded in 1891, the Massachusetts Maritime Academy is the oldest continuously operating maritime academy in the country.

- *Joint Base Cape Cod* – The Joint Base Cape Cod (formerly known as the Massachusetts Military Reservation) encompasses ~21,000 acres in the Upper Cape. Organizations located on the base include the Massachusetts Air National Guard's Otis Air National Guard Base, the US Coast Guard's Air Station Cape Cod, the Veterans Administration Cemetery, the US Air Force's Cape Cod Air Force Station, and the Massachusetts Army National Guard's Camp Edwards. In addition, there are numerous other tenants on JBCC with affiliation to federal, state, and county entities.
- *Cape Cod Canal* – As previously mentioned, the 17.4- mile long Cape Cod Canal offers miles of scenic recreational areas suitable for a variety of recreational activities. The Army Corps of Engineers maintains the Cape Cod Canal Visitor Center which introduces visitors to the history, features, and operation of the canal.

Sandwich

Sandwich is characterized as a historical town; it was incorporated in 1639 and is the oldest incorporated town on Cape Cod. According to information compiled by ACS, the 2013 population of Sandwich was 20,615. Approximately 69% of the town's housing inventory is owner-occupied. The town's major demand generators are outlined below:

- *Heritage Museums and Gardens* – The Heritage Museums and Gardens features 100 acres of gardens, trails, and special exhibits, along with a vintage carousel and arts, artifacts, and antiques. The museums and gardens are open from April through October, and Fridays, Saturdays, and Sundays between Thanksgiving and Christmas. The attraction brings roughly 110,000 visitors annually, with the majority of visitors coming in July and August. Between Thanksgiving and Christmas, approximately 12,000 visitors come for holiday themed events and exhibits. The Heritage Adventure Park, which opened in 2015, features zip lining courses open in the spring, summer, and fall. The Heritage Museums and Gardens also hosts special events including weddings and corporate retreats. Typically, 15 weddings are hosted annually, primarily during summer weekends.
- *Sandwich Glass Museum* – The Sandwich Glass Museum is located on Main St., Sandwich, across from the Town Hall. The museum is closed in January and open Wednesdays through Sundays in

February and March, and open daily the remainder of the year. The Museum features rare glass including original works from the Boston & Sandwich Glass Company, which ceased glass making in 1888. The museum features various exhibits and demonstrations, including glassblowing.

In Sandwich, a new visitor's center is being constructed on Route 130. This 1,000 square foot center will be comprised of the Chamber of Commerce office as well as the visitor's center. The center will be staffed year-round versus the existing center which is staffed by volunteers seasonally, which will better serve the goal of the Chamber to make Sandwich known as more of a year-round destination.

While not a demand generator, another important development in the town of Sandwich is the building of a third energy reactor by NRG. According to the Town Planer, this project will generate $3 million in tax revenue for the town.

Potential Future Development

- Sandwich Sports Complex:

  A sporting complex has been proposed for South Sandwich village. The project is currently in the due diligence phase for its permitting. The scope of the complex is a 56-acre parcel that would include athletic buildings including a natatorium for swimming and diving events in the winter, and ice rink that could serve basketball uses, and an AstroTurf field that would support indoor soccer. Additionally, the complex would have six baseball and four outdoor soccer fields. Part of the master planning includes two hotel projects; one larger "sports" hotel that is proposed at 200 rooms, and a small, more boutique 100-room "spa" hotel.

  According to the Town Planning Department, the permitting phase of the project would likely take 12 to 18 months, and the indoor fields and baseball parks would be completed first, followed by the hockey rink and the pool. The hotel component, if determined feasible, would likely be the last stage of the development.

- Sandwich Marina District:

  A 22.5 acre parcel has been evaluated for a masterplan vision for the area around the marina at East Boat Basin in Sandwich. The overall site is bound by Ed Moffit Drive to the west, Gallo Road and Town Neck Road to the east and the railway easement adjacent to Tupper Road to the south. The masterplan includes improved access to the area, a mix of uses to attract both area residents and seasonal visitors, focusing on more intensive uses along the waterfront and the preservation of natural areas. Potential improvements identified include a mix of residential, commercial, hospitality, and civic uses.

Mashpee

According to the ACS, the 2013 population of Mashpee was 14,000. Approximately 51% of the town's housing inventory is owner-occupied.

New Seabury is a community located in the south portion of Mashpee. The community includes condominiums and the Popponesset Marketplace. A development named "Southport" consists of 750 retirement condominiums, which are scheduled to open in 2017. According to the Town Planner, there is land that is permitted for commercial development which is currently undergoing legal issues.

Developments in progress in Mashpee include an assisted living center named the "Bridges at Mashpee" which is scheduled to open soon, and a second assisted living center, "Northbridge" which is currently in the permitting stages.

The town's major demand generator is:

- *Mashpee Commons* – Mashpee Commons is an open-air shopping center located at the intersection of Route 151 and 28 in Mashpee. The center is open daily and features numerous shopping and dining options.

Future Development

- Mashpee Commons Expansion: Currently, Mashpee Commons is undergoing an expansion. Total expansion plans include 382 residential apartment buildings and single family homes. The units are in addition to the 40 apartments that currently exist. Plans call for 50 total units to be built in Phase I which is expected to be completed in the next two years. According to the developer, depending on the market, an additional 25 to 50 units would be built annually thereafter. There will also be smaller retail, such as real estate offices, insurance offices, and potentially two restaurants. A hospitality component is also desired by the developer.

Falmouth

The Town of Falmouth is located in the southwestern part of Cape Cod and is the second largest town on Cape Cod. Falmouth encompasses eight separate villages: Falmouth, East Falmouth, West Falmouth, North Falmouth, Woods Hole, Waquoit, Hatchville, and Teaticket. According to information compiled by the ACS, the population of Falmouth was 31,591 in 2013. The towns demographic tends to be an older, retired population, along with second home owners and families. According to the ACS, approximately 60% of the town's full time population is older adults, with 28% of the town's population over the age of 65. Reportedly, the town's population triples in the summer months as visitors flock to vacation spots along the seashore. Approximately 50% of the town's housing inventory is owner-occupied.

Falmouth is an ideal base for taking day trips to areas such as Martha's Vineyard, Newport, and Nantucket. Falmouth is well known for its warm water beaches, traditional, walkable, Main Street village with popular boutiques, restaurants, and historic village green. According to the Chamber of Commerce, Falmouth competes with areas such as the Berkshires for regional visitors who are coming for two day vacations. In the shoulder season, European visitors will stay for up to a week in the area, and take advantage of the downtown area shopping, museums, and beaches.

Falmouth has been granted $1.4 million from the State Department of Transportation to renovate the historic Falmouth Station train depot. The project will include a new visitor's center and a functional bus station. The Station is located in Falmouth's cultural district, and is walkable to Main St. and easily accessible to the area's Shining Sea Bikeway, a popular 22-mile bike path that stretches from North Falmouth to Woods Hole. The satellite visitor's center is projected to be open within the next two years.

The town's major demand generators are:

- *Museums on the Green* – The Falmouth Museums on the Green consist of four museum buildings and two acres of gardens; the 1730 building, 1790 building, the barn/visitor center, and the cultural center. The cultural center was built in 2012 and hosts public events as well as private events such as small weddings and corporate retreats. The research center and cultural building are open year-round, where the historic houses are open Memorial Day through Columbus Day. According to the Executive Director, in 2014 the museum had 10,500 visitors, with the majority visiting from July 4th through October 1st. Private events at the cultural center are now booking one year ahead, and weekends are booked in 2016 from May through November. Weddings make up approximately 25% of the private event bookings, with other smaller events such as birthday parties and showers, and small corporate group meetings making up the remainder. Guests for these events are referred to the local Chamber for lodging accommodations and reportedly use the Inn on the Square.

- *Falmouth Youth Hockey* – In June of 2012, a new sports complex opened in the Falmouth Technology Park. The Ice Arena hosts several ice hockey leagues and tournaments throughout the year and could induce future hotel demand into the area. According to President Paul Moore, the complex brings a number of tournaments to the area from the late Fall until late spring, creating demand on weekends. Additionally, there are number of summer programs and leagues hosted during the summer months.
- *Woods Hole* – Woods Hole is a village on the southwestern corner of Falmouth. The area draws visitors for shopping, museums, educational institutes, and the ferry to Martha's Vineyard. The primary ferry service to Martha's Vineyard is run by the Steamship Authority, which docks in Woods Hole and serves Oak Bluffs and Vineyard Haven in the peak season, and Vineyard Haven in the off season. Ferries run throughout the day starting at 6 am and the last ferry returning at 10 pm. The journey on the ferry takes about 45 minutes.
- *Woods Hole Oceanographic Institute* – The Woods Hole Oceanographic Institute is the world's largest, private, non-profit oceanographic research facility studying all aspects of the ocean. The Institute employs over 1,000 people, including scientific and technical staff, ships' crew and officers, and a variety of scientific, service, and administrative support staff. According to the information center and center exhibit center manager, the visitor's center has approximately 5,000 visitors annually, with approximately 1,500 in the months of July and August. School groups are accommodated in the spring and the fall. The Ocean Science Exhibit Center reportedly has between 22,000 and 25,000 visitors annually, including a number of bus tours.
- *Marine Biological Lab* – The Marine Biological Lab (MBL) is a private, nonprofit institution founded in Woods Hole in 1888. The MBL has approximately 250 year-round employees, and more than 300 visiting scientists, summer staff, and research associates from institutions around the world who join in the summer months. The MBL's intellectual culture has developed in part through its renowned summer programs, which attract more than 1,700 scientists and advanced students from around the globe each year to participate in intense, transformative research and advanced-level courses in a range of biological subjects. The lab has a year-round staff of more than 300 employees, about half of which are scientists and scientific support personnel working in fields ranging from microbial evolution and cellular mechanisms of camouflage to ecology and global climate change.

  As of June 12, 2013, the Marine Biological Laboratory and the University of Chicago agreed to form an affiliation. With the University of Chicago affiliation, the MBL is expected to experience an increase in visitation over the next several years. According to the Director of the program partnership with the University of Chicago for undergraduate pilot program, the partnership is beginning with 90 students and 10 professors coming to Woods Hole for a week in early September. The program is expected to continue annually with approximately the same number of attendees, and depending on its success, there is a possibility of adding additional programming partnerships.

Future Development

- Falmouth Aquatics/Olympic Village

Falmouth officials are in the process of master planning for an overall vision of possible uses for a 31-acre parcel off Route 151 in Falmouth. The privately-owned property, currently vacant, is reviewing concepts for creating an “Olympic Village” on the site. According to our discussion with Jody Shaw, representative for the developer, there would need to be a commercial component to make the project viable, as it is anticipated that the land for the recreational and potential hotel uses would likely be donated or heavily discounted, and the developer would need to have some sort of retail component with rent income to make the project work. Mr. Shaw noted that this commercial space might be in the range of 80,000 square feet.

Falmouth Aquatics is a nonprofit group looking to build a large-scale swim and wellness center. The proposed development would include a 51,000 square foot aquatics enter, with a total requirement of 10 acres to satisfy open space requirements. According to the Chairman of Falmouth Aquatics, the center is needed in the area to attract additional demand to the area through tournaments, as well as to enhance the quality of life for local residents who do not currently have access to a swimming facility anywhere on the Upper Cape. The Swim center at the MA Maritime Academy is reportedly not large enough to accommodate the types of tournaments and events that the group envisions.

The Aquatic Center proposes that the majority of the tournaments hosted would take place from October to March, the traditional “off-season” for the Cape region. Swim meets would typically include Friday through Sunday patterns, with 350 swimmers. While no specific studies have been done to date as to the total potential number of events and attendees that the center would bring, organizers compare the project to the Upper Valley Aquatic Center in Whitewater, VT, as well as the Swimming Hole in Stowe, VT.

In terms of potential timing, the project is currently looking to identify and secure a site for the Aquatic Center. Once a site has been secured, the project organizers expect that they could be operational within three to four years.

Lodging Market Analysis - Supply

Method of Data collection

In order to evaluate the current and prospective status of the lodging industry in the Upper Cape, it is important to define a competitive supply of properties that accommodate demand. To identify the existing lodging accommodations within the towns of the Upper Cape, we researched the respective Chamber of Commerce websites, along with the Smith Travel Research inventory of properties. Online research, complemented with phone calls and in-person inspections, allowed us to compile a comprehensive list of existing inventory within the Upper Cape.

We compiled a comprehensive spreadsheet, by town, with information on each property, including (where available) name, address, phone number, number of guest rooms, owner, type of property, quality scale, type of location, seasonal or year-round available, published rates, and any amenities (restaurant, meeting space, pool, fitness center). The spreadsheet is presented as a separate attachment to be reviewed in conjunction with this report.

Existing Supply within the Upper Cape

We have identified 44 different lodging accommodations in the towns of the Upper Cape, ranging from bed and breakfasts to resorts. There are a number of bed and breakfasts with three guest rooms; however, since these properties are not required to pay a lodging tax and often sell their guest rooms via alternate channels such as Airbnb, we have not included these properties in our analysis. Out of the total lodging supply, 25 properties are open year-round, while 19 operate on a seasonal basis. There are a total of 15 hotels, 9 bed and breakfasts, 18 motels, and two resort properties. Only two properties, the Holiday Inn Falmouth and the Quality Inn Bourne carry national brand affiliations; the remainder of lodging accommodations are independent. The lodging supply in the Upper Cape is aged; the majority of properties were opened in the 1950's through the 1980's. Properties within the towns of the Upper Cape vary widely in their quality level; we have noted within each town the breakdown of properties by type, to include economy, midscale, upscale, and luxury, based on their physical characteristics as well as perceived level of service.

Bourne

Inventory in Bourne includes four economy and midscale properties. The 43-room Quality Inn is the only branded property in Bourne, and is the largest property in the area. Accommodations in Bourne exist both sides of the Cape Cod Canal. The other hotel property in Bourne is the 40-room All Seasons Inn & Suites (formerly the Knights Inn Bourne), which operates year-round. The 17-room Bay Motor Inn operates seasonally in Buzzards Bay, and the four-room Sand Dollar Bed & Breakfast is open seasonally in Sagamore Beach. There are small bed and breakfast operations which have not been specifically included in this report as properties with three rooms or less do not pay lodging tax. However, we spoke with one such seasoned operator who noted that a bed and breakfast association existed historically; however, reportedly business has declined significantly in recent years and the association no longer exists.

Sandwich

Lodging supply in Sandwich consists of 11 properties comprised of six motels, three bed & breakfasts, and two hotels, consisting of economy through upscale class ratings. The majority of accommodations are located around the town's historic downtown district, or along Route 6A which travels east/west along the northern edge of Cape Cod. The largest and most upscale property is the 48-room Dan'l Webster Inn & Spa, located on Main St. The Belfry Inn and Bistro is a unique property housed in a former church built in 1902. Properties along Route 6A are comprised mainly of exterior corridor motels.

Mashpee

Lodging supply in Mashpee is very limited. Accommodations consist of two independent motels classified as economy level properties. According to the Town Planner and other lodging operators, one of the lodging properties currently serves as more of a long-term, low income rental unit facility, rather than accommodating traditional lodging uses. The 18-room Santuit Inn is considered the only property operating in the true sense of a transient lodging accommodation. This exterior-corridor motel located directly off of Route 28 north of Mashpee Commons, is closed January through March.

Falmouth

Falmouth has the largest inventory of lodging accommodations of all of the towns in the Upper Cape, with a total of 27 lodging properties from bed & breakfasts to a full service resort property, ranging from properties classified as economy up through luxury. The town has varying demand generators and landscapes, from the beach in North Falmouth to the heavily concentrated Main St. downtown area, to Woods Hole in the south east corner of the Cape.

The 266-room Sea Crest Beach Hotel is the largest property, and recently underwent a multi-million dollar renovation, completed in 2014. The resort is located in North Falmouth on Old Silver Beach and benefits from a prime waterfront location. While the Sea Crest Beach Hotel is the only true resort property, we have also classified the 37-room Mariners Point property as a resort due to the private beach and its recreational facilities.

In addition to the Quality Inn in Bourne, Falmouth has the only other nationally branded lodging property in the Upper Cape, the 98-room Holiday Inn. There are a total of 11 properties classified as hotels that were identified in Falmouth.

Motels represent 9 lodging accommodations in Falmouth. Motel properties are located throughout Falmouth, from the beach areas to downtown to Woods Hole.

There are currently five bed & breakfast properties located in Falmouth. According to an interview with one bed and breakfast operator, due to increased competition from Airbnb, half of the bed and breakfast accommodations in Falmouth have closed in the last five to seven years.

New Supply

During the course of our fieldwork, we interviewed Town Planning Departments, Chambers of Commerce, and local developers from the communities within which the competitive hotels operate to ascertain the status of any on-going or proposed hotel developments. The following section outlines our findings for any proposed or potential new hotel development in each respective town of the Upper Cape.

Bourne

- In Buzzards Bay, there is a proposed hotel for the Main Street area, within the Growth Incentive Zone. The site is located at 25 Perry Street. The developer's engineering group, Horsley Witten Group, has identified the proposed hotel to be a four-story, 101-room hotel with some meeting space. The proposed hotel has been discussed as a potential Hampton Inn. As of the writing of this report, the project had not yet been presented to the planning board, and as such, is very preliminary in status.

Sandwich

- In conjunction with the proposed sports complex as previously discussed, there are two hotels proposed; one nationally branded, 200 rooms hotel referenced as a "sports" hotel and a second, 100-room high-end "Spa" hotel. According to the town planner, plans are very preliminary and further market studies would be done to determine demand for the projects as proposed.

Mashpee

- We did not identify any imminent hotel projects within the town of Mashpee. According to the developer of Mashpee Commons, there was a 125-hotel permitted for a parcel on the east side of Route 28 south of Mashpee Commons; however the project as proposed did not fit the overall vision for the development. The developer indicated that a boutique hotel would be desired near Trout Pond or alternatively at the Town Common across from the library, but there are no projects that have been proposed.

Falmouth

- Cape Club – formerly Ballymeade Country Club: The Cape Club by Troon is currently undergoing renovations to its clubhouse and course. Formerly, a 125-room hotel project associated with the golf course and country club was being considered. According to those familiar with the development, a hotel is no longer in the planning stages. Alternatively, the club is looking to develop between 8 and 12, 4-bedroom, rental cottages to satisfy the needs of golfers and guests of weddings and other special events taking place at the club.

- SpringHill Suites, Main St. – a 110-unit SpringHill Suites is currently being considered for a 2-acre parcel at the corner of Main St. and Lantern Lane. The property would offer an indoor and outdoor pool, 1-2 meeting rooms, a fitness center, and a business center within the lobby area. The hotel would offer complimentary breakfast to guests in addition to free wireless internet access. The site is located within walking distance of the quaint shops and restaurants located in the center of Falmouth. The location would also provide guests easy access to the area beaches as well as the Woods Hole ferry to Martha's Vineyard. A rendering of the project is pictured below:

According to the Town Planning department, the project was attractive in its possibility of accommodating off-season demand as a nationally-branded hotel. As of the writing of this report, the project was brought before the Cape Cod Commission in a September 3rd hearing, during which the project was rejected as proposed, mainly due its massing on the site. It is expected that appeals will be filed.

Lodging Market Analysis - Demand

Method of Information Collection

During the course of our fieldwork, we obtained operating statistics for select properties in each town of the Upper Cape, and where possible, we conducted in-person interviews with on-site management and various ownership entities. Due to the fact that typically only branded properties report their occupancy and average daily rate statistics to Smith Travel Research, the available operating performance was limited to that of the Holiday Inn Falmouth and the Quality Inn Bourne. As such, our analysis relied on in-person interviews with operators and those familiar with the seasonal demand patterns specific to the Upper Cape. Our findings are presented in the following sections.

Historical Demand

Barnstable County Overall Lodging Performance

The chart on the following page outlines the historical (2012 through year-to-date April 2015) occupancy and average daily rate for lodging properties in Barnstable County as a whole. It is important to note that this data, compiled by the Chamber of Commerce, was derived from properties that contribute to Smith Travel Research, and as such, represents only a sampling of lodging accommodations on Cape Cod. Still, the monthly metrics provide a framework that illustrates the seasonality of the region on a whole.

Barnstable County Average Daily Rate					Barnstable County Occupancy				
	2015	2014	2013	2012		2015	2014	2013	2012
January	$ 95.80	$ 90.90	$ 88.93	$ 84.98	January	33.5%	30.8%	29.3%	28.3%
February	$ 100.91	$ 103.27	$ 94.50	$ 93.88	February	34.9%	35.3%	40.1%	35.2%
March	$ 100.46	$ 96.89	$ 93.80	$ 92.06	March	49.4%	33.9%	34.2%	37.9%
April	$ 112.78	$ 107.47	$ 104.19	$103.65	April	44.2%	44.6%	40.1%	42.4%
May		$ 127.91	$ 124.55	$125.52	May		55.9%	52.9%	51.0%
June		$ 163.47	$ 156.77	$152.16	June		65.8%	66.1%	69.1%
July		$ 229.58	$ 216.74	$206.45	July		77.6%	78.0%	77.2%
August		$ 244.01	$ 230.00	$219.23	August		74.8%	85.0%	82.0%
September		$ 149.61	$ 144.45	$142.27	September		67.9%	67.2%	68.8%
October		$ 129.65	$ 121.22	$118.46	October		57.5%	58.3%	57.7%
November		$ 113.58	$ 102.47	$ 99.84	November		39.6%	40.0%	38.8%
December		$ 103.57	$ 96.91	$ 92.44	December		32.0%	33.3%	31.1%

Source: STR
Note: occupancy and average faily rate presented during months when reporting properties are open

Source: STR

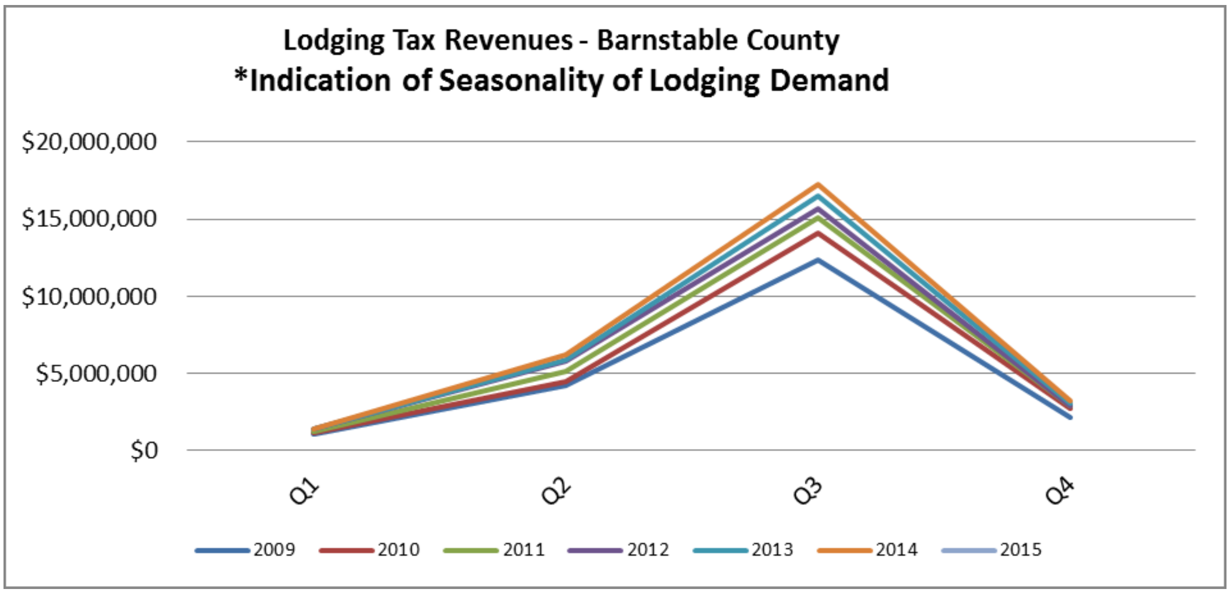
Generally, the peak demand period for tourism on Cape Cod begins on Memorial Day and lasts through Labor Day, similar to other seasonal markets in New England. Fall foliage draws visitors on the weekends through October. Winter months tend to have very low occupancies for the majority of lodging properties and often business levels do not make it possible for properties to stay open year-round.

Year-to-date as of June 2015 occupancy and average daily rate information was also obtained through Smith Travel Research. This data represents 22 properties that report their performance, out of a total inventory of 194 properties. Corresponding reporting rooms are 2,659 out of a total census of 10,834.

	Year to Date - June 2015 vs June 2014											
	Occ %		ADR		RevPAR		Percent Change from YTD 2014					
	2015	2014	2015	2014	2015	2014	Occ	ADR	RevPAR	Room Rev	Room Avail	Room Sold
Barnstable County, MA	49.7	46.9	132.89	127.79	66.00	59.94	5.9	4.0	10.1	9.4	-0.6	5.2

Source: Smith Travel Research

We attempted to obtain lodging tax revenues by town from the State Department of Revenue; however, we were informed that this information is not compiled nor can be disclosed due to confidentiality restrictions. The lodging tax information that we attempted to collect by town was not consistently available, and as such, we have presented the overall Barnstable County lodging tax revenues from 2009 through first quarter 2015. The graph clearly illustrates the seasonality of demand and its consistency from year-to-year.



Upper Cape Historical Occupancy and Average Rate Performance

Seasonality

While the towns of the Upper Cape may be thought of as less of a true seasonal market than other areas of the Cape that are more dependent on beach related activities, general consensus and observed patterns from lodging operators do indicate that there is a distinct seasonality to lodging demand. Traditional tourism accounts for the majority of demand from July fourth through Labor Day, which represents the peak occupancy periods for lodging accommodations. According to our interviews with the Chamber of Commerce, as well as many lodging operators, within this time period, many accommodations are not filling to capacity. Increasingly, the booking window, even for peak periods, has lessened; reportedly the booking window for July at one upscale property was one week or less. July 4th weekend, and the first two weeks of August are the true peak periods where a majority of properties are sold out. Following Labor Day, families without children, and European visitors represent the main sources of tourism for the region, through Columbus Day. Fall foliage and favorable weather draws weekend visitors, and around the holiday period (Thanksgiving through Christmas), local events and the visiting of family and friends draw some lodging demand, though well below that of the summer months. According to the Cape Cod Chamber of Commerce, there are ongoing efforts to stretch the traditional peak season through family activities. January through March are the lowest demand periods of the year, when operators either close or run on abbreviated schedules and use this time to do maintenance and upkeep on their properties.

Occupancy and Average Daily Rate

Occupancy on the Upper Cape follows similar patterns as the Cape as a whole, as previously illustrated. Average daily rate follows a similar pattern to occupancy, as operators heavily discount room rate in attempts to boost occupancy levels outside of the peak demand periods. The highest average daily rates are obtained in the months of July and August, peaking slightly over $200 at the upscale properties in the market mid $100s for the lower rated economy properties. In the months of June and September, rate decreases of $60 to $70 below the peak months are common. The month of October falls slightly below the rates in September. Outside of these months, if operators remain open, average daily rate drops significantly, and it is common for rate to be 50% discounted with resulting RevPARs (Revenue Per Available Room) up to 85% lower than that of the peak months.

Based on operating statistics that we were able to collect from lodging accommodations, the below chart outlines estimates of overall monthly occupancy for lodging properties in the towns in the Upper Cape.

Estimated Monthly Performance -Upper Cape Comp Set

Month	Occupancy
January	21%
February	21%
March	23%
April	41%
May	50%
June	57%
July	79%
August	87%
September	69%
October	52%
November	28%
December	26%
Average/ Total	**46%**

Source: Pinnacle Advisory Group

Note: Occupancy projections represent inventory that is open

Market Mix

Based on our interviews, while we did identify some demand that could be classified as corporate demand, the primary segment of demand is leisure. There is very little (under 5%) of demand that could be classified as corporate transient demand; operators note that the majority of this demand that does exist on Cape Cod stays in accommodations in the commercial center of Hyannis. Corporate demand from the scientific community, which includes recruiting for various positions, tends to use rentals homes due to the fact that there is no lodging tax and kitchen facilities are desirable for these types of stays which tend to be longer in duration. In Falmouth, there is some government related demand that is accommodated, primarily in the off season, as there are few properties that are large enough to accommodate this demand of ten to 15 rooms in a group during the months of May through October when higher rated leisure demand is more desirable. Group demand is limited on the Upper Cape due to the type of lodging accommodations that exist. They have little meeting space, other than the Sea Crest Beach Hotel, which has 30,000 square feet of meeting space. This hotel accommodates association business and SMERF (Social, Military, Educational, Religious, and Fraternity Groups) which come locally and regionally and stay patterns are based on each group's rotation schedule. Group business is accommodated mid-week. According to one operator, there is strong competition from group business from other properties as meeting planners and corporate groups tend to think of a "Cape Cod" destination as locations in Chatham and Brewster. Overall, it is estimated that 90-95% of demand is considered leisure, including social group (wedding) demand.

Lodging Demand by Town

Towns of the Upper Cape benefit from some local (within driving distance) demand during the months of February and April, when schools have their winter and spring breaks. Due to the relatively close distance of destinations in the Upper Cape as compared to the Lower and Outer Cape, while not robust, lodging accommodations do receive some business from families looking for an accessible, affordable vacation.

> _Bourne_ – As previously discussed, supply in Bourne is limited to two hotels, a bed and breakfast, and a motel, limiting available historical operating performance. Based on our in-person interviews, demand for lodging in Bourne is limited by the lack of support amenities (such as quality food and beverage establishments) and the traffic in and around the bridge areas. Guests stay in the area for a specific purpose, rather than traveling to Bourne as a destination in itself. Weekend demand is generated by weddings. The MA Maritime does generate some need for lodging accommodations; however, according to operators that we spoke with in the area, demand is limited mainly to large events such as graduation weekend and parents' weekends. The Academy holds camps and conferences; however according to the director, overnight visits are not hosted unless guests are part of the Coast Guard or a specific program, indicating that there is not a significant amount of overnight lodging demand.
>
> Additionally demand in Bourne is generated from those visiting friends and family and attending events such as reunions or special events like the Pan Mass Challenge. August is the peak month and is typically booked further out than other months in the peak season. Based on our research, occupancy in the town of Bourne reaches the upper 50%s, with a rate in the low $120s. Properties over the bridge (i.e. in Bourne) can command a rate premium to those located in Buzzards Bay.
>
> _Sandwich_ – According to operators that we spoke with, the season in Sandwich extends from April to December, with seasonal patterns during this time period. The months of April through June, and September and October bring a higher concentration of European tourism. Also, as these tend to be the months where guests from cities within a relatively short driving distance (such as

Boston) might come for a weekend getaway, demand is highly dependent on the weather. Bus tours provide some weekday demand; typically this segment tends to stay for patterns of four nights in the months of May through October. September and October are the peak months for wedding demand on the weekends, as well as demand for guests in the area to see the fall foliage, including Canadian and European travelers.

Demand is reportedly not as strong as in prior years; for example, according to one operator, occupancy in the month of July 2015 was down close to 15% to that of peak historical years. Weekdays are difficult days to attract demand, even in the "peak" season. This demand includes construction and utility workers and crew demand, as well as those who may live in the area but are undergoing home construction projects.

According to the Heritage Museums and Gardens event planner, guests stay in lodging properties such as the Dan'l Webster Inn, however pricing in the summer months can be prohibitive at $250 per night. Guest speakers, performers, consultants, and donors also visit throughout the year and reportedly need accommodations that cost around $175 per night. A small number (roughly 10 to 15) of such visitors are brought in in a typical year. In addition to this demand, the Museums and Gardens also host larger groups, such as the recent international Hydrangea Seminar, which brought approximately 75 people to the area. Guests for larger groups such as this have utilized the Cape Codder for accommodations. The center only accommodates these types of groups once per year, as organizers note that it is too costly to transport attendees to and from lodging, due to the lack of a large enough property to accommodate the group close to the museum.

Our research indicates that occupancy in Sandwich is below 20% in the winter months of November through March, in the 40% range in the months of April through June, mid 70's% in July, peaks in August around 85%, dips to the 60% range in September, and falls dramatically into the 20% range after Columbus Day, with a slight increase to the mid-20's% around the holiday period with families visiting. Multiple operators noted that the historical "high" season has eroded due to the second home market and alternate accommodations available on Airbnb, and the peak month of August is not bringing demand levels to cause properties in the market to sell out.

Mashpee – Based on our interviews, demand in Mashpee is extremely seasonal, with occupancies in the low 20% in the low season, to close to 90% in August, the peak month. While August benefits from some leisure tourism demand, the remainder of the months rely on lower rated business including construction crews, long term relocations, and those attending events in the area such as a wedding, reunion, or funeral.

Average rate follows a similar pattern to occupancy, with a difference of roughly $100 between the peak and low season rates.

Falmouth – Based on our interviews with local operators across a variety of lodging accommodation types, the area's demand patterns are indicative of a classical New England seasonal market. While July and August are the peak months for tourism, properties are not necessarily filling to capacity with mid-week demand. In the peak season, different types of lodging properties accommodate different types of travelers (i.e., those who want a resort versus and bed and breakfast versus a motel); however in the off season, it is more common for lodging properties across levels to compete for the same base of customers who are looking for low-priced accommodations. Mid-week demand, similar to Sandwich, is buoyed by motor coach tours. International guests represent up to 20% of overall demand at some properties, and this segment visits Falmouth in the shoulder months of April and October. In addition to international demand, shoulder season demand is characterized by couples without children and retired couples. The Joint Base Cape Cod generates limited demand that is accommodated at low rates in January through March with off-season project based guests, typically work crews who stay at properties in the area for extended stays (multiple weeks at a time). Properties in Woods Hole benefit from the ferry to Martha's Vineyard. Visitors may stay in the area for two to three days at a time and take day trips to the Vineyard. Additionally, some hotels benefit from passengers who are stranded due to weather conditions when the ferry does not run.

In addition to the tourism demand, the Oceanographic Institute has some need for overnight lodging accommodations. This includes vendors who come to meet with scientists, visitors from other similar institutions, and interviewees who might come to the area for up to one week. According to the Institute, these guests use hotels in the area including the Inn on the Square, Holiday Inn, Coonamessett, and the Woods Hole Inn. While the Institute has need for hotel rooms on a year-round basis; reportedly, it does not typically run into availability issues for their guests. According to our interviews with operators, demand coming from the Institute is very rate sensitive and needs to be accommodated in the peak months when it is not desirable at the rate required. Additionally this demand was affected by the sequestration and can fluctuate. Overall demand attributed to the Institute was estimated at under 3,000 room nights annually on a whole.

As previously discussed, the Marine Biological Lab's undergraduate program partnership with the University of Chicago could bring in some additional demand for lodging. The pilot program including 90 students and 10 professors expects that most will be lodged at the Marine Biological Lab; however the program director noted that there could be some demand for lodging related to this program. Depending on the success of this program, there is potential for additional programs to be expanded.

According to the President of the Chamber of Commerce, Falmouth's ability to attract more true tourism is inhibited by its lack of modern, quality accommodations. While the town does have a handful of more upscale properties, the majority of inventory is aged and the town lacks true luxury product to compete with other areas on the Cape. However, general consensus among operators was that in order for demand levels to increase above what they have been historically, a significant new demand generator would need to be added to the market. Coupled with the increased competition that operators feel from second home rentals and Airbnb, demand is not projected to grow above current levels.

Similar to demand patterns in other towns on the Cape, lodging operators in Falmouth indicated that even the top operators are not operating at full capacity during the peak months. In the month of August, there is a lack of business at the end of the month when all schools other than Massachusetts resume prior to Labor Day and operators struggle to fill. During the shoulder, and particularly during the off-season, operators that remain open are forced to drastically cut their rates to attract demand, putting significant pressure on properties that were somewhat lower rated even during peak season. Even those properties which command the highest average daily rates in the peak season reportedly use packages and discounts such as Groupon to attract demand in the off season, with rates at a 50% or more discount to their peak summer rates. Properties closer to beach locations experience slightly higher occupancies, as demand stretches further into the shoulder season while temperatures remain favorable and visitors are staying during the weekends.

Based on our interviews with lodging operators, a sharp increase in occupancy begins at Memorial Day and drops at Labor Day. Across property types, occupancy is in the 20-25% range in the winter months of January through March, increases to the mid 40s% in April, mid 50s% in May, and peaks in July through September, with August being the peak month when properties achieve occupancies ranging from 85-90%. These data points represent an average of property performance across lodging types and therefore individual properties may operate at lower or higher occupancies than these average ranges.

Recommendations for Future Lodging Accommodations and Projected Performance Ranges

According to survey work done by the Cape Cod Chamber of Commerce, visitors' number one reason to choose a lodging accommodation is a location near the water, and the second most important is to be near friends or family that they are visiting. The Chamber receives requests for luxury properties, which are currently limited to Chatham Bars Inn, Wequassett, and Ocean's Edge Resort, all on the east side of Cape Cod. As previously noted, The Sea Crest Beach Resort is the Upper Cape's most upscale resort property; however much of its appeal is due to its prime location on the water, and whereas the Chatham properties are four star / four diamond, the Sea Crest is three star/three diamond property.

The President of the Chamber noted that in terms of prospects for future visitation, the Upper Cape market is extremely mature. The proven, historical seasonality limits ability to grow demand out of the peak season. Additional concern for future demand growth is inhibited by the presence of alternative accommodations such as Airbnb and vacation rental homes. The Cape Cod Chamber indicated that out of 160,000 total housing units on the Cape, 55,000 are strictly rental units.

Based on our fieldwork and analysis of the towns of the Upper Cape, with consideration given to potential future developments, the following paragraphs outline our recommendations for additional lodging accommodations, if any, by town, including location, general type of facility recommended, advantages and disadvantages, and estimated ranges of occupancy and average daily rate for each.

Bourne

- Within Bourne, we have not identified sufficient current or projected demand to warrant additional lodging accommodations, based on current operating levels at existing accommodations, any planned future developments, and supporting amenities. Without the presence of major demand generators, the area itself does not have significant needs for additional accommodations, outside of a handful of events throughout the year, such as the MA Maritime Center graduation, or the Pan-Mass Challenge. As previously discussed, visitors to Bourne are typically staying in the area for a specific purpose, rather than coming to the area as a destination in itself.

  If a hotel were to be built in Bourne, the recommended location would be at the site of the proposed hotel on Perry St. in Buzzards Bay. While we have not specifically analyzed the projected demand levels for the proposed hotel, this hotel would likely be able to capture demand from the lower-rated lodging accommodations in the area; however, the achievable average daily rate would still be relatively low, and occupancy would likely be lower than other locations within the Upper Cape even in the peak months, due to the lack of demand generators, tourist attractions, and surrounding support amenities to encourage tourism such as quality food and beverage establishments. A moderately priced lodging option at this location could induce some demand which did not previously exist due to its reservation system. Additionally, the hotel would accommodate unaccommodated demand during the peak season. A smaller (i.e., ~100 room count), nationally branded hotel in the midscale or upper midscale chain category would be most appropriate. Based on our analysis, a hotel at this location would be less desirable than other opportunities identified, due to the lack of support amenities or new demand generators.

Sandwich

- *Sports Complex Site:* Within the town of Sandwich, we have identified the most viable need for additional lodging accommodations to be associated with the proposed sports complex.
  - Without having completed a comprehensive market study, our initial recommendation based on the scope of the project as outlined would be for one nationally branded, select service hotel. The hotel should be located within close proximity (walking distance) to the venues of the sports complex where tournaments are being held. A recommended room count could range from 150 to 200 rooms. This room count recommendation can only be confirmed with the assumption that the sports complex will generate significant lodging demand, and the ultimate room count should be tailored specifically to the projected needs of the sporting complex. A national brand is recommended to capture additional demand to supplement demand generated by the sporting events; a brand would likely induce some demand due to the reservation system and brand recognition. It would be recommended that the consideration of a second hotel, proposed as a "Spa Hotel", should be postponed as a later phase of development when demand generated from the complex is more established and the performance of an initial hotel has been evaluated.
  - *Advantages:*
    - The hotel would benefit from being the only branded lodging property in Sandwich;
    - The sports center would provide opportunities for demand in the shoulder and off season (October through March/April) through its tournaments, supplementing the traditional tourism months of July through September.
  - *Disadvantages*
    - Current demand levels would likely not support new hotel development, and as such, the hotel would rely heavily on the performance of the sports center.
  - The hotel would rely primarily on demand associated with the sports complex. As the only branded lodging property in the town of Sandwich, the hotel would also attract leisure guests in the peak season who are looking for a familiar, nationally branded option. Based on our preliminary analysis, we believe it is reasonable that a nationally branded, select service hotel (i.e. a Fairfield Inn by Marriott or similarly positioned brand) could perform at an occupancy in the 60-65% range with an average daily rate in the mid-$120 to mid-$130 range. This estimated performance range is dependent on the success of the complex as a whole as proposed; without the sporting complex, we would not recommend additional hotel development.
  - Without the demand generated by the proposed sports complex, there is not sufficient market demand to warrant additional lodging accommodations based on current demand levels. However, if the sports complex were to come to fruition as outlined, resulting demand could be significant enough to support the above outlined facility.

Mashpee

- Within Mashpee, we have not identified sufficient current or projected demand, based on current operating levels at existing accommodations, lack of planned future developments, and demand generators, to warrant additional hotel development. While developers have expressed interest in a boutique hotel as part of Mashpee Commons, the lack of direct water access and additional demand generators other than the shopping center limit the demand needed to support a higher end property as was indicated desirable by developers.
- In New Seabury, if there were a site available with direct waterfront access, a hotel project could be considered which would accommodate seasonal leisure demand and group demand generated from weddings in the community. The profile of such a facility would be a smaller (50 to 75 room), boutique, upscale to upper upscale level of accommodations. If a water location were identified and available, a seasonal accommodation that closed in the winter months would be best suited to meet the demand needs of this location. Further analysis would be needed should such a parcel be identified.

Falmouth

- *Olympic Village Site*: Within the town of Falmouth, we have identified the most viable need for additional lodging accommodations to be associated with the 31-acre site at the intersection of Routes 28 and 151. A hotel in conjunction with the developments as outlined for the Olympic Village, including the plans envisioned for the Falmouth Aquatic Center, would be a potential opportunity. According to the developers of the site, a hotel would likely come in the final phase of development for the overall project. Preliminary discussions have included concepts for a 100 to 150 room hotel project, potentially with conference space.

  Without having completed a comprehensive market study, our initial recommendation based on the scope of the project as outlined would be for one nationally branded, select-service hotel (one without significant meeting space or full food and beverage offerings). A recommended room count could range from 100 to 150 rooms as proposed; however a comprehensive market study should be done to determine the optimum room count. Midscale to upper midscale, national brands would be best suited to meet this demand. The demand generated from the aquatics center would be the primary source of business for a new hotel project and would need to be quantified in a market study prior to determining feasibility for associated lodging.

    - *Advantages:* The aquatics center, as proposed, would provide opportunities for demand in the shoulder and off season (October through March/April) through its tournaments, supplementing the traditional tourism months of July through September;
    - Additional proposed options for Olympic Village, including other recreational uses in addition to the aquatic center, retail, and commercial developments, would provide support for a hotel development at this location; and
    - The location on the southeast corner of 151 and 28, directly north of the Cape Club (formerly Ballymeade Country Club) would provide convenient accessibility.

- *Disadvantages*
  - Current demand levels would likely not support new hotel development, and as such, the hotel would rely heavily on the performance of the aquatics center.
  - The area immediately surrounding the site lacks significant sources of commercial lodging demand.
- The hotel would rely primarily on demand associated with the aquatics complex. The hotel would be the second nationally branded hotel in Falmouth, joining the Holiday Inn. Based on our preliminary analysis, we believe it is reasonable that a nationally branded, select service hotel could perform at an occupancy in the 60-65% range with an average daily rate in the upper-$120 to upper-$130 range. This estimated performance range is dependent on the success of the aquatic center as a whole as proposed; without the development, we would not recommend additional hotel development.

- *Falmouth Inn Site:* In addition to the consideration of a newly built hotel, based on our conversations with local lodging operators as well as the Chamber of Commerce, an opportunity exists in association with the existing Falmouth Inn.

  According to our research, the perceived need for additional or alternate lodging accommodations in Falmouth is for an upscale, quality product. Based on our interviews with lodging operators in Falmouth, there is strong demand for their highest-rated rooms in the peak season, indicating that there is a segment of traveler that is not price sensitive and unaccommodated demand may exist in the upper-upscale/luxury segment.

  While further consideration and a complete market study is necessary to determine the viability of a repurposing of this hotel, we believe that a higher end, lifestyle boutique lodging accommodation located at this site would be attractive to leisure travelers as well as the limited corporate demand in Falmouth. The location proximate to downtown Falmouth yet slightly removed from the congestion of Main St., coupled with the location of the site and availability of parking, are advantages for this site as a potential opportunity for redevelopment to attract higher rated demand to the area.

- *Upgrades to existing accommodations:* The Upper Cape region lacks a resort property with a four or five star designation. Further upgrades to existing facilities, such as the Sea Crest Beach Hotel, including physical renovations as well as higher staffing levels in an effort to achieve higher star and diamond ratings, would allow a property to command higher average room rates than are currently being achieved. However, a cost benefit analysis by ownership would need to be carefully considered to determine if such renovations would be worthwhile from a feasibility standpoint.

Additional Considerations

During the course of our interviews with operators, we identified additional concerns and considerations that should be explored in conjunction with future hospitality development in the Upper Cape. We have outlined these briefly below:

- Need for housing for staff: Multiple operators indicated the current struggle that they have to accommodate housing for seasonal staff. One property in Falmouth reportedly employs a year round staff of 30 which increases to 75 in the summer months. As weekly housing options become a more desirable alternative for transient leisure guests, prices become prohibitive for seasonal workers; according to one operator that we spoke to who sources housing for seasonal staff, reportedly in Falmouth, there were ~40 weekly housing options ranging from $2,500 to $4,000 per week for the 2015 summer season. Operators indicated that the addition of any new lodging supply would further exacerbate the current challenges in seasonal housing. Considerations such as a requirement to include affordable housing units as part of future development projects, and more lenient zoning laws for short-term housing were suggestions voiced in regards to this concern.

- Operators in each town of the Upper Cape indicated that there is an increasing struggle for hotel properties to compete against alternate forms of lodging accommodations, such as Airbnb and home rentals. This issue is more prominent among bed and breakfasts and smaller properties, as they compete with accommodation options that can offer the same rooms to guests – often with kitchen facilities and multiple rooms per house, which are desirable among families traveling to the area – and the disparity in rate due to the lodging tax that the properties with over three rooms have to pay put them at a disadvantage. Suggestions from operators included consideration of imposing some type of lodging tax on seasonal rentals. While we realize that this issue is not exclusive to the Upper Cape Cod region, it is an increasing concern for lodging operators specifically that compete in this highly seasonal market comprised of almost solely leisure demand.

If the issues discussed above were resolved, then individual properties could have the capital to reinvest in their properties, raising the quality of lodging accommodations in the Upper Cape. For example, if employee housing was subsidized or real estate tax incentives were provided, hypothetically the capital provided by these measures could be required to improve the physical plant and/or increase the level of service. Additionally, if lodging taxes were imposed on private home rentals and rental units that are not currently subject to lodging tax, the competitive field could be somewhat leveled, potentially allowing for lodging properties to recapture some of the demand that has been lost to the private home market.

Assumptions and Limiting Conditions

This report is subject to the following assumptions and limiting conditions:

1. Estimated results are based on an evaluation of the present general economy of the area and do not take into account, or make provisions for, the effect of any sharp rise or decline in local or general economic conditions that may occur. There usually will be a difference between the estimated results and those actually achieved, as events and circumstances often deviate from expectations. Those differences may be material.
2. It is expressly understood that the scope of our study and resulting report does not include the possible impact of zoning or environmental regulations, licensing requirements or other such restrictions concerning the project except where such matters have been brought to our attention and are disclosed herein.
3. We have no obligation to update our findings regarding changes to the scope of the proposed development or changes in the market conditions subsequent to the completion of our fieldwork.
4. The information gathered during the course of the fieldwork and used in this analysis is assumed to be accurate.
5. Neither all nor part of the contents of this report (especially any findings or conclusions, the identity of the consultants, or the firm with which they are connected) shall be disseminated to the public through advertising media, news media, sales media or any public means of communication without the prior, written consent and approval of Pinnacle Advisory Group.
6. No liability is assumed for matters legal in nature. Pinnacle Advisory Group cannot be held liable in any cause of action concerning this assignment for any compensatory dollar amount over and above the total fees collected from this engagement.
7. Any and all legal expenses incurred in the defense or representation of Pinnacle Advisory Group, its principals, and its employees will be the responsibility of the client.
8. We are not required to give testimony or attendance in court by reason of this assignment, with reference to the property in question, unless prior arrangements have been made and agreed to in writing.