



To: Lee Rollins, Manager, Town of Bermuda
From: Sarah Odio, Project Manager, Development Finance Initiative
Date: October 1, 2018 Update
Re: *Analysis of Bermuda Run hospitality demand drivers and supply performance*

The Town of Bermuda Run is a community of 2,300 located in the western Piedmont Region of North Carolina. With a median household income of \$84,000 and median age of 59, Bermuda Run is both wealthier and more mature than North Carolina as a whole. The town is advantageously situated in the western portion of the Winston-Salem MSA (home of Wake Forest University) and in the heart of the Yadkin Valley American Viticultural Area (AVA). The limited supply of local hotel options, however, cannot support the growing demand driven by regional sports facilities, a nationally recognized event space, wine and golf tourism, and local medical facilities. This analysis focuses on understanding the Bermuda Run hospitality market, both its key demand drivers and its ability to support new supply.

LOCAL DEMAND DRIVERS

The hospitality market in Bermuda Run is supported through a mix of traditional transient and group segmentations. While medical facilities, corporate centers, and access along I-40 ensure a steady source of transient demand, the area's sport complexes and event spaces support a robust SMERF¹ group base.

The following regional destinations are all within a ten-minute drive of the proposed hotel site:

Sports

- Bermuda Run's BB&T Sportsplex is a regional powerhouse, drawing more than 250,000 annual visitors and supporting roughly 37,500 room-nights annually². The renovation of existing fields and the addition of eight new artificial-turf fields will allow the park to remain open year-round and is projected to substantially increase the park's economic impact. Once completed, the expansions will form one of the largest sports parks of its kind on the East Coast, allowing the facility to host not only the existing national and regional soccer competitions but also additional events in ultimate frisbee and lacrosse year-round. The park's expansion is expected to support an additional 8,500 annual room-nights.
- Next door to the Sports Park, the addition of a 120,000-square-foot indoor sports complex, known as Carolina Athletic Performance (CAP), is also under construction. The Winston-Salem Convention and Visitors Bureau has identified CAP as a "game-changer" for the region. The complex expects to attract at least 175,000 visitors in the first year, the majority of which

¹ Social, Military, Educational, Reunion, and Fraternal

² Calculation by DFI based on above typical assumption of an Average Guest per Room of two to account for group bookings.

will be traveling from outside the MSA. In addition to extending the area's sports season with its indoor basketball and volleyball courts, CAP will also provide services in training and injury rehabilitation, opening the door to a new type of sports-oriented tourism. Both the Sports Parks and CAP are 1.5 miles from the proposed hotel site and will soon be directly connected via a pedestrian bridge across I-40.

Events (Corporate & Wedding)

- WinMock at Kinderton is adjacent to the proposed development site and features multiple event spaces that can accommodate small groups and functions with up to 450 guests. Recognized with an individual listing on the National Register of Historic Places, WinMock hosts over 250 corporate, wedding, and social events and attracts roughly 100,000 visitors each year. While this demand currently translates into an estimated 8,000 to 10,000 annual room-nights, a vast majority of these are leaving the immediate market due to a lack of quality supply nearby. With an average wedding cost of about \$30,000, expectations of quality are unmet by the current market. According to WinMock management, guests frequently seek boutique and upscale accommodations as far as 15 miles away.

Tourism & Leisure

- Centrally located in the thriving Yadkin Valley Wine Country, Bermuda Run is within 20 miles of over 20 wineries. Research from the NC Wine and Grape Council suggests that roughly two million wine tourists contributed \$320 million to the state's economy in 2016, representing market growth of over 100% since 2009. The large majority of that growth occurred on Bermuda Run's doorstep in the Yadkin Valley, the most renowned wine-growing region in the state (with the closest vineyard, Raylen Vineyards & Winery, a mere 6 miles from the hotel site). As the Yadkin Valley continues to gain prominence, tourism in the area can be expected to increase.
- Bermuda Run boasts eight golf courses within 15 miles of the site. Two courses, including the Bermuda Run County Club and Tanglewood Park, are located within two miles. Tanglewood Park, whose golf course is currently undergoing a \$2 million renovation, also features horseback riding, swimming, fishing, and BMX racing, and attracts an estimated 550,000 visitors annually.

Business Travel

- Within a 10-mile radius of the proposed development site, 1,150 businesses employ more than 13,000 individuals. Thirty percent of these firms fall into industries that are the most likely to support business travel (BTI). The largest of these, healthcare, accounts for roughly 460 jobs in Bermuda Run. Combined, the area's top five firms employ more than 2,700 individuals and see annual revenues of more than \$200 million. Ashley Furniture Distribution in particular is known to consume a significant number of room-nights at Bermuda Run's single hotel.

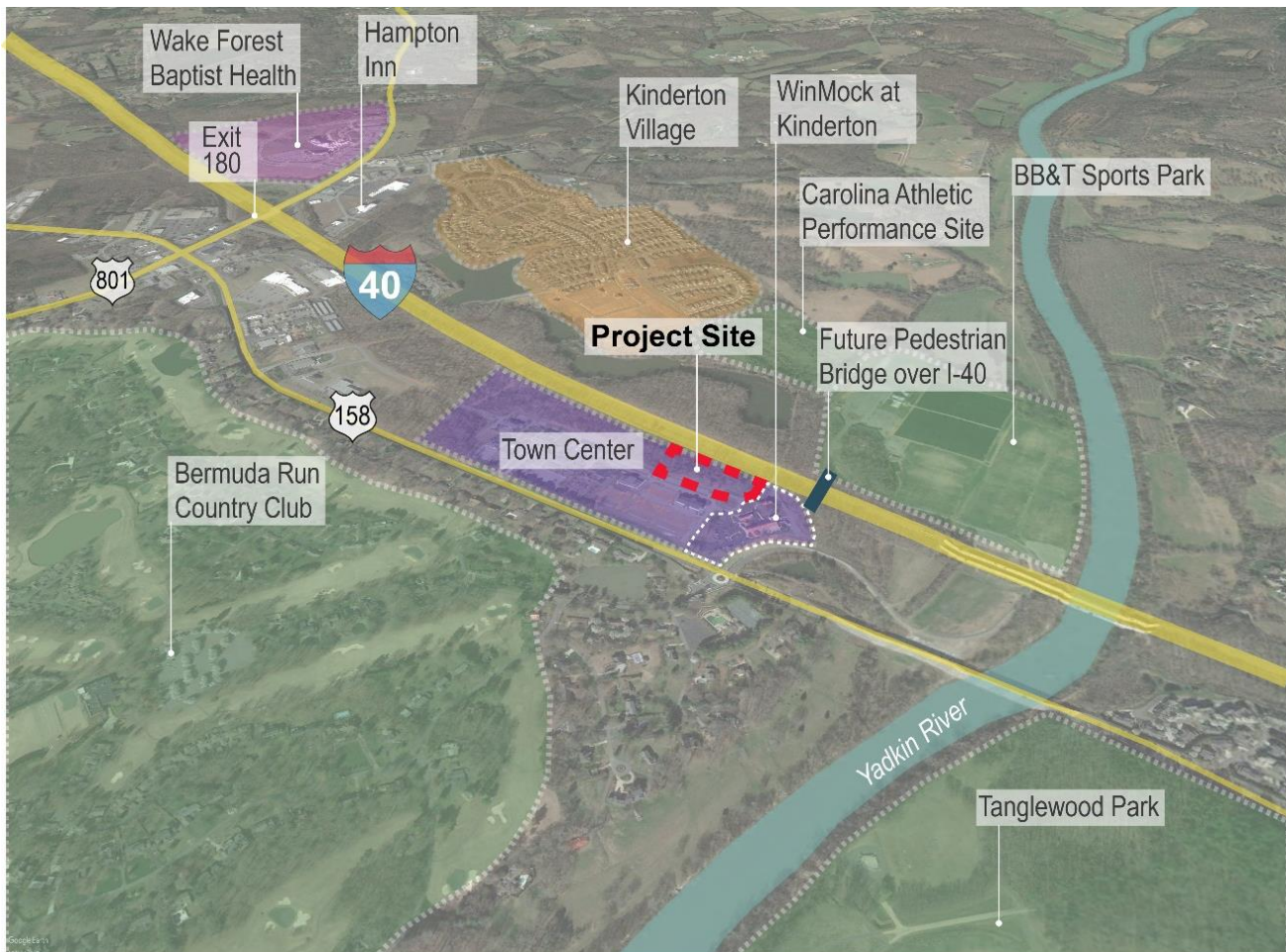
Medical

- The Wake Forest Baptist Davie Medical Center is a state-of-the-art, 50-bed medical facility located within two miles of the proposed site. Originally constructed to replace the existing hospital in neighboring Mocksville, the facility serves the greater Davie County area.
- The Novant Health Clemmons Medical Center is a 36-bed medical facility located just three miles from the proposed site and provides specialty services in surgery and orthopedics.

- Located directly across from the proposed site, two facilities, Advanced Oral and Facial Surgery of the Triad and Novant Health Brain and Spine Surgery, offer services in cosmetic, oral, facial, spine, and brain surgeries.

Based on the variety and strength of local demand drivers and reports from venues, DFI estimates that demand for quality hotel rooms far exceeds existing supply. BB&T Sports Park and WinMock at Kinderton alone currently generate an estimated 45,000 room-nights annually, and are expected to add demand for at least 8,500 room units in the next year. The Tourism & Leisure, Business and Medical destinations do not track annual room nights generated. DFI can assume based on market trends in other markets that golf, wine tourism, business travel and medical facilities generate significant demand for additional room nights.

Map 1: Proposed project site and local destinations



SUPPLY PERFORMANCE ANALYSIS

Despite strong demand drivers, Bermuda Run’s hospitality market remains underserved, with one upper mid-scale product providing 86 keys within the town limits. As seen in Map 1, the proposed site for a hotel development in Bermuda Run is centrally located relative to several of the area’s major attractions, and is in walking distance to the most prominent destinations.

An additional 260 economy to midscale rooms are available within five miles of Bermuda Run’s town center, clustered in the neighboring town of Clemmons (See Table 1). There are no hotel rooms available within walking distance of any of the primary demand drivers. The sole independent hotel built in 1986 with 144 rooms is comparable to a midscale hotel and only underwent minor renovations in 2012. Across the Yadkin Valley region, there are three upper mid-scale properties and no upscale properties, supplying 234 rooms above the midscale classification for wine tourists to the region.

Table 1: Hotel supply relative to Bermuda Run project site

Class	5-Mile Radius	10-Mile Radius	Yadkin Valley	Winston-Salem
Luxury	-	-	-	-
Upper Upscale	-	-	-	865
Upscale	-	437	-	799
Upper Midscale	86*	644	234	1114
Midscale	60	410	167	685
Economy	56	265	146	503
Independent	144	144	156	615
Total	346	1900	703	4581

Source: Esri Business Analyst

* Bermuda Run Hampton Inn

Due to age and quality, the lower-class products in Clemmons are incompatible with the needs of the majority of visitor’s to the area. As a result, these properties are severely underperforming (see STR Trend Report for Clemmons Area), skewing the potential of the hospitality market in Bermuda Run. A Holiday Inn Express in Clemmons with 92 upper-midscale rooms is in the development pipeline, and no other hotels are currently proposed.

The overall lower quality of available products within five miles limits the area’s ability to fully capture demand. Reports from both BB&T Sports Park as well as WinMock at Kinderton indicate that guests are venturing as far as downtown Winston-Salem in search of higher quality products, but primarily to upper midscale and upscale hotels in western Winston-Salem along the I-40. DFI, therefore, focused further analysis of potential occupancy rates and average daily rates to a 10-mile radius that captures the cluster of hotels along I-40 in the Hanes Mall area, but does not reach into downtown Winston-Salem. Within a ten-mile radius, 1,081 rooms are available above the midscale classification.

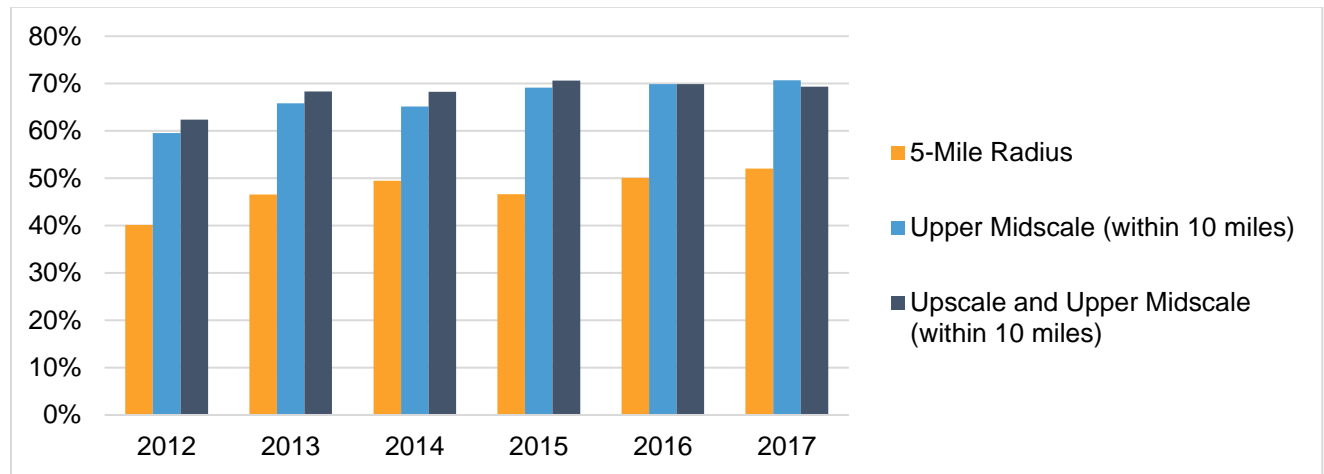
Occupancy Rate

As seen in Figure 1, occupancy rates for the upper midscale and upscale brand hotels³ within 10 miles of Bermuda Run have steadily increased from a 60% to a nearly 70% annual average over

³ Due to STR Trend report rules, the upscale brand hotels within 10 miles of Bermuda Run cannot be isolated. The rule specifies that no parent company can exceed 70% of room supply and Marriott currently exceeds this amount of upscale supply in the area.

a five-year period. The hotels within five miles have also improved performance. Even though the Hampton Inn reported at minimum 65% occupancy, on average the mix of economy and midscale hotels have not exceeded occupancy of 52%,

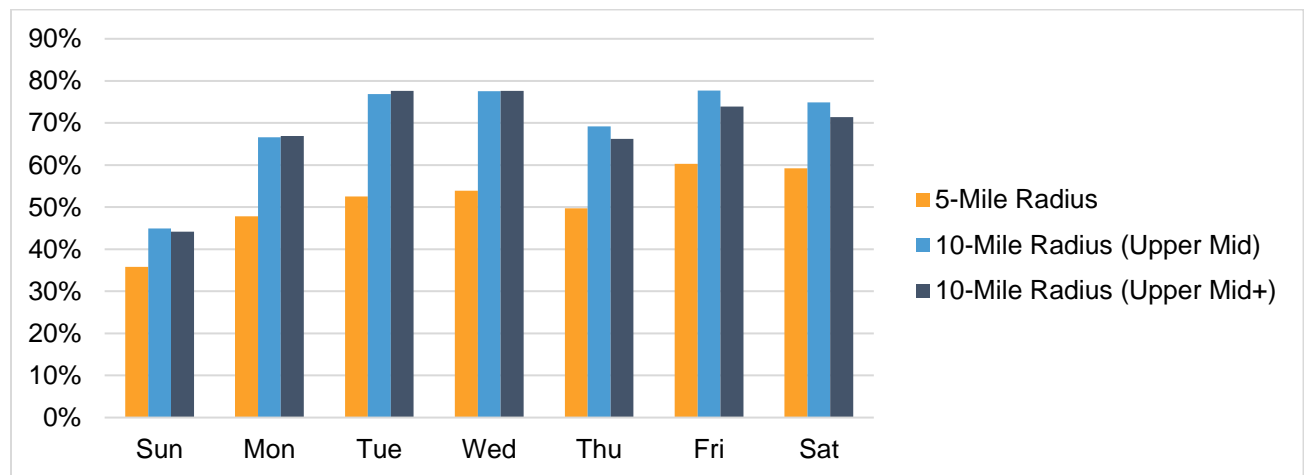
Figure 1: Occupancy rates for hotels within 5 and 10 miles of Bermuda Run, 2012-2017



Source: Smith Travel Research

The occupancy rate for all products is relatively stable throughout an average week. The Running 12 Month Average Performance by Day (see Figure 2), suggests that the market attracts a healthy mix of business and other travelers. Tuesdays and Wednesdays are particularly strong for higher class hotels with occupancy rates exceeding weekend trends.

Figure 2: 12 months average occupancy rate by day for hotels within 5 & 10 miles of Bermuda Run



Source: Smith Travel Research, April 2017 – March 2018

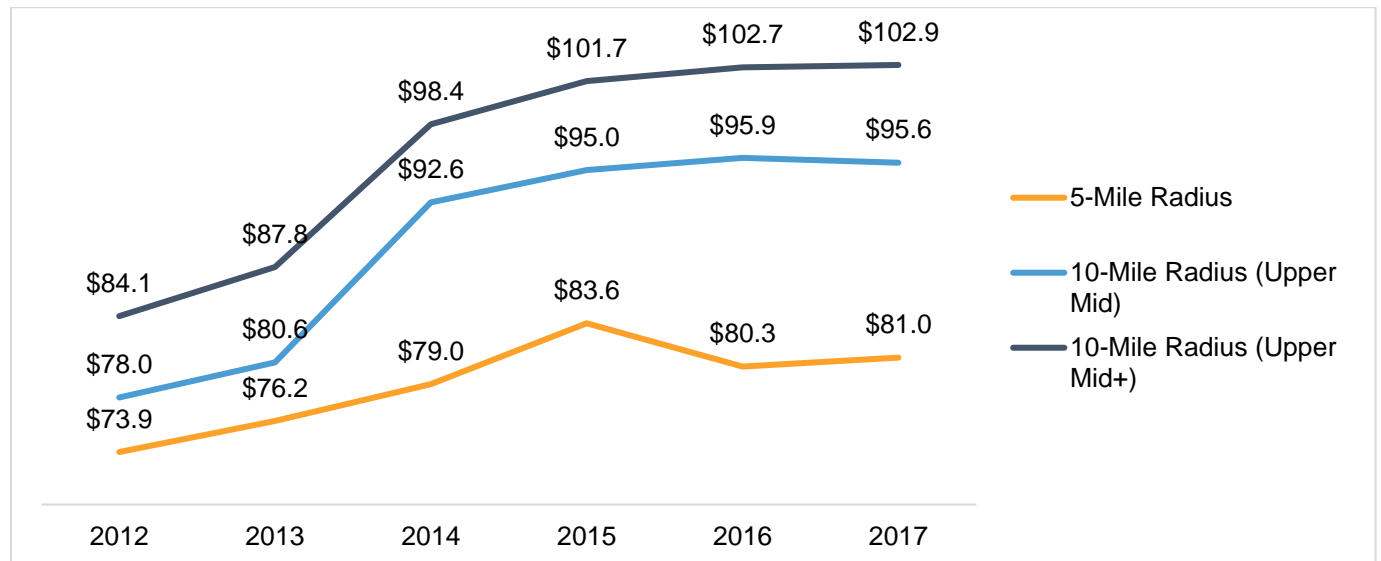
A new upper midscale or upscale class hotel in such close proximity to major demand drivers is therefore likely to perform, at minimum, at a similar level as comparable products with less favorable locations. With only 96 keys currently in development in the market, DFI estimates that an upscale hotel can achieve an occupancy rate of 70% at stabilization if the ADR is appropriately set.

Average Daily Rate (ADR)

Over the 12 months between April 2017 and March 2018, upper midscale class hotels reported an ADR of \$95 and upscale hotels reported an estimated average of \$115.⁴ The hotels within five miles of Bermuda Run, comprised primarily of economy and midscale products, reported an average of \$81.50, although the Hampton Inn individually reported \$105.

As seen in Figure 3, the average ADRs of upper midscale and upscale hotels within 10 miles of Bermuda Run have grown at an annual rate of 4% over five years, with lower class hotels lagging significantly behind with an annual growth rate of 1.8%.

Figure 3: Average Daily Rate (ADR) for hotels within 5 and 10 miles of Bermuda Run, 2012-2017



Source: Smith Travel Research

Assuming a fully stabilized new hotel on the opportunity site in 2025, current trends predict a supportable ADR of \$126 to \$139 for an upscale hotel and \$105 to \$115 for upper midscale.

CONCLUSION

The Bermuda Run market is severely underserved by quality hotel products, which in turn is constraining the potential of its local tourism market. As demand continues to grow with the expansion of facilities and the upper midscale and upscale market remains stable, Bermuda Run can support a program of roughly 130 keys at occupancy rates and daily rates in line with current trends. There is no additional demand for the existing product type within five miles of Bermuda Run, including economy and midscale hotels. An upscale brand or independent boutique at or above the upscale class can both meet the Town's public interests and succeed in this growing market.

⁴ Although a STR Trend report exclusively for the upscale hotels could not be generated, DFI calculated the average ADR based on two reports: one that included only upper midscale hotels within 10 miles and one that included upper midscale and upscale hotels within 10 miles.