

South Huron Lodging Demand Market Study

Municipality of South Huron
Exeter, ON

Effective Date: August 9, 2019



COMMERCIAL



MULTI-FAMILY



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DISPUTE &
SPECIAL SERVICES



SPECIAL PURPOSE

PREPARED FOR
Municipality of South Huron
Mr. Dan Best
322 Main Street S
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September 30, 2019

Project No.: 20720.105340.000

Mr. Dan Best

Municipality of South Huron
322 Main Street S
Exeter, ON, N0M 1S6

Via email: scurrie@southhuron.ca

Dear Mr. Best

RE: South Huron Lodging Demand Market Study

In accordance with your request by way of a contract dated June 25, 2018 and as per the Terms of Reference provided herein, I have provided an assessment of the lodging market in the Municipality of South Huron as at the effective date of August 30, 2019. The intended user of this report is Municipality of South Huron ["Client"]. The intended use is to provide information for planning purposes and no other use. No additional intended users are identified or intended by the appraiser.

This Report and Appendices must be read as a whole as sections taken alone may be misleading and lead the reader to an incorrect conclusion. Information provided by the client and collected through market research and analysis is stored in our working file. This assignment has been completed in accordance with the Scope of Work as outlined in Section 1.2.

The analysis contained in this report is based upon assumptions and estimates that are subject to uncertainty and variation. These estimates are often based on data obtained in interviews with third parties, and such data are not always completely reliable. In addition, we make assumptions as to the future behaviour of consumers and the general economy, which are highly uncertain. However, it is inevitable that some assumptions will not materialize, and unanticipated events may occur that will cause actual achieved operating results to differ from the financial analyses contained in this report and these differences may be material. Therefore, while our analysis was conscientiously prepared on the basis of our experience and the data available, we make no warranty that the conclusions presented will, in fact, be achieved.

Should you have any questions, please contact Qaiser Mian AACI at your convenience.

Respectfully submitted,



Altus Group Limited

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South Huron Lodging Demand Market Study
Municipality of South Huron, Exeter, ON

Executive Summary

Executive Summary

Demand for lodging in the Municipality of South Huron is considered highly seasonal with an excess of demand in the summer months when vehicle-based tourism peaks in Ontario but an excess of hotel rooms in the shoulder and off-season months. Local area hotels, motels and bed and breakfast operations are estimated to achieve a year-round occupancy of approximately 60-65% overall.

Although demand for a 60-70 room hotel would be supportable in the South Huron market, modern development standards, cost considerations and operating efficiencies typically require market support for a minimum 90+ guestrooms.

Current lodging options in the South Huron market include a combination of Hotels, Motels/Inns as well as bed and breakfast operations. There is only one chain-affiliated hotel in the subject market and a significant amount of supply is available via home-sharing platforms including Airbnb and HomeAway with rates ranging from \$34 for a private bedroom to over \$250 per night for an entire dwelling. We have included Stratford in our supply analysis as it is the closest significant lodging market to the subject.

Based on analysis of the visitation data by segmentation, we estimate approximately 53,000 overnight visitors came to the South Huron area in 2019. Leisure demand (beach and other tourist attractions) is estimated to represent the majority of total demand at 57%, 13% was attributed to Agri-tourism (breweries and wineries), 3% commercial driven demand, 6% sports tourism related and the rest including visiting friends and family, attending meeting, convention and exhibition, as well as some latent demand which is currently displaced to larger destinations such as London and Stratford.

The total room night demand within South Huron was estimated to be 41,791 nights in 2019. Following seasonality adjustments for occupancy rate and total serviceable demand, our analysis indicate that a 61-room new hotel would be most optimal in order to reach the typical threshold of 65% occupancy rate for any minimally viable hotel.

A 61-room hotel would represent 23% of the total hotel rooms in the subject area (including the subject). However, due to the competitiveness of a new hotel with contemporary facilities and amenities with recognized brand affiliation, access to yield-management tools, marketing and reservations systems a penetration ratio¹ of approximately 150% is estimated to be achievable which is within the observed range for new entrants in markets similar in size to the subject. In other words, the subject hotel is expected to outperform the existing hotels in the market, capturing more than its fair share in the subject market.

A key consideration for private sector investment decisions in particular going-concern businesses such as hotels is the ability to operate in an efficient and cost-effective manner. Contemporary hotel design standards, development costs and marketing requirements mean that hotels under 90-guestrooms are not considered to be viable by most hotel brands. Therefore, although there is potential space for a new hotel entrant in the South Huron market, this may not be financially or economically viable at this time.

¹ a penetration factor is the ratio between a property's market share and its fair share. Penetration factors were used to project the subject property's ability to capture room night demand. A hotel's fair share of lodging demand is equal to its number of rooms divided by the total competitive supply of rooms. A penetration factor above or below 100% indicates a hotel's greater or lesser ability to compete in the marketplace.

SWOT² Analysis

	<ul style="list-style-type: none"> ▼ The Municipality of South Huron is home to a number of significant demand generators including Grand Bend beach, Huron Country Playhouses, as well as a large number of wineries and breweries. ▼ The subject market is within a three-hour drive (300kms) of the Greater Toronto Area, Guelph as well as the Kitchener Waterloo Region, a significant source of visitation to the area. ▼ Diverse sources of potential demand including leisure, commercial and emerging sectors such as sports and Agri-tourism.
	<ul style="list-style-type: none"> ▼ The area lacks a critical mass of leisure demand generators and infrastructure in the subject area including restaurants, retail, and entertainment. ▼ Demand is concentrated in the summer months with little demand in off-peak season. ▼ There are a number of hotels located in London and Stratford, with a larger selection of support facilities and amenities. ▼ Lack of direct access of 400-series Highways.
	<ul style="list-style-type: none"> ▼ A lack of quality lodging options in the subject market area currently. ▼ The proposed casino in Grand Bend could potentially be a major economic driver and bring sizeable demand for lodging in the area. ▼ Potential to capitalize in the growth in sports tourism and Agri-Tourism.
	<ul style="list-style-type: none"> ▼ Private homes and cottages are significantly more prevalent than hotels and motels in the area making Airbnb like hosting services a shadow lodging provider thereby crowding the market for formal overnight lodging operators. ▼ Macro-economic factors still influence demand for leisure demand including the US/Canadian exchange rates.
	<ul style="list-style-type: none"> ▼ The Municipality of South Huron enjoys a varied economic base, significant leisure tourism draws in the summer months related to the Grand Bend beach as well as several private demand generators that draw visitors to the area. A strategic focus on growing the areas tourism sector would allow the area to attract investment in much needed quality accommodation offerings.

² Strengths, Weaknesses, Opportunities, Threats

1 Introduction

1.1 Terms of Reference

The following table provides a summary of the Terms of Reference (TOR) guiding this consulting assignment. The terms of reference were provided by Dan Best of Municipality of South Huron. In addition to the TOR outlined below, this report is subject to the Standard Terms and Limiting Conditions, also outlined in Appendix A.

Terms of Reference	
Client and Intended User	Dan Best, Municipality of South Huron
Intended Use	To provide information for planning purposes and no other use
Purpose	This study was undertaken to ascertain the level of current and anticipated hotel room demand in the Municipality of South Huron taking into consideration the various sources of known and quantifiable demand.
Effective Date	August 9, 2019
Signing Date of the Report	September 30, 2019
Property Identification	Exeter, ON

1.2 Scope of Work

The scope of work has included the following:

- ▼ Visit the subject market in order to understand the market dynamics, demand influencers and economic development strategy.
- ▼ Review publicly available tourism, political, economic or other factors that could affect the demand for lodging in the subject market.
- ▼ Review of our internal database, STR: Smith Travel Research report, tourism data, economic data, and undertake discussions with industry professionals to gain market intelligence.
- ▼ Interview area stakeholders including employers, economic development officials, competitive hotel operators to assess the quantity, quality and seasonality of demand in the primary market area.
- ▼ A supply and demand analysis will be conducted to identify the existing level of demand for transient accommodation facilities and the estimated level of unsatisfied demand in the areas. This analysis will include an inventory of competitive accommodation facilities in the market and its environs, including those considering major renovation or other possible new developments

- ▼ Prepare an historical demand analysis that will focus on the following key elements of demand:
 - ▼ The levels of historical growth in room-night demand as well as the rationale for this growth;
 - ▼ The seasonality of accommodation demand;
 - ▼ Demand segmentation; and
 - ▼ Demand for the various types of accommodation, services and amenities.
- ▼ Estimate the level of unsatisfied demand in order to identify any potential gaps in the market.
- ▼ Provide commentary on complementary amenities and facilities as well as key success factors that would enhance the value proposition of the subject project.
- ▼ A narrative report summarizing our analysis, findings and conclusions will be presented at the end of our investigation and analysis

1.3 Extraordinary Limiting Conditions

An Extraordinary Limiting Condition, as defined in Section 2.19 of CUSPAP 2018, is a necessary modification or exception of a Standard Rule which may diminish the reliability of the report.

During the course of appraising the subject property, no Extraordinary Limiting Conditions were invoked.

1.4 Extraordinary Assumptions

An Extraordinary Assumption, as defined in Section 2.19 of CUSPAP 2018, is an assumption, directly related to a specific assignment, which, if found to be false, could materially alter the opinions or conclusions.

This report is subject to the following Extraordinary Assumption(s):

Extraordinary Assumptions	
Quality of Information	In order to estimate the levels and sources of demand we have interviewed a number of area stakeholders. We have relied on their input in forming our estimates of existing lodging demand.
Competitiveness	The proposed hotel is assumed to possess the competitiveness of a contemporary hotel including market leading facilities and amenities with recognized brand affiliation, access to a revenue-management system, marketing and reservations systems, allowing it to capture a greater than fair-share of total demand. We have also included the high-end and low-end scenarios for sensitivity, widening the range of the capture ratios to 19% to 100%.

1.5 Hypothetical Conditions

A Hypothetical Condition, as defined in Section 2.27 of CUSPAP 2018, is that which is contrary to what exists, but is supposed to exist for the purpose of analysis.

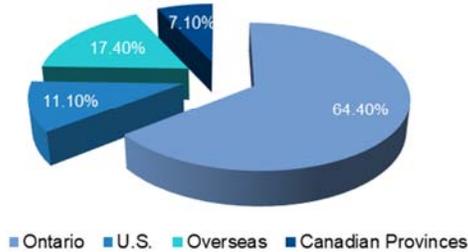
The estimated market value included herein will potentially be affected if any of the following Hypothetical Conditions are not realized:

Hypothetical Conditions	
Timing	Estimates of demand are based on current levels of quantifiable demand from a variety of sources. The analysis is not intended to be provide a wholistic but rather a representative view of demand in the market.
Subject	We have estimated the current levels of lodging demand in the Exeter market and estimate subject hotel performance assuming the subject hotel is operational as of the effective date of this report.

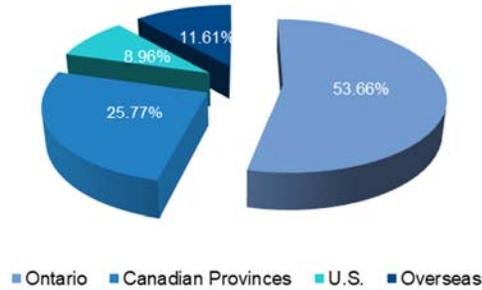
2 Tourism Market Overview

2.1 Ontario Tourism Market

Sources of Ontario's tourism receipts



Origin of Overnight Visitors

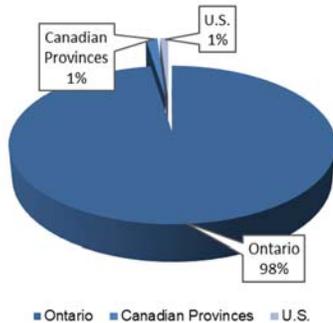


Ontario is the most visited province in Canada, capturing over 144 million tourists in 2016 (latest available figures). The province flourishes due to its strong economic performance, nature preservation, a variety of sports activities offered, and cultural events and festivals. As of 2016, 54% of travelers were intra-provincial, 26% were inter-provincial, 9% from the United States, and 12% from overseas. The 2016 numbers have shown an increase in tourism receipts from overseas, as compared to 2008, where 66.8% of tourism receipts were intra-provincial, 7.8% were inter-provincial, 13.9% from the United States, and 11.6% from overseas.

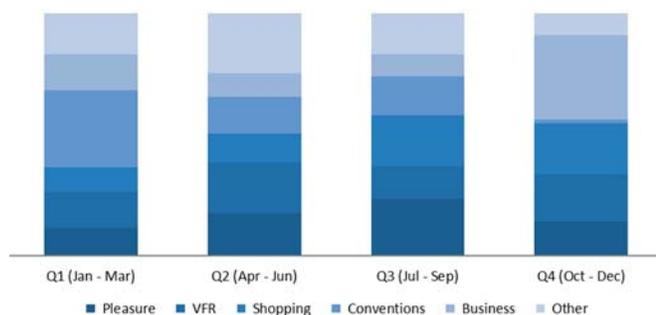
2.2 Huron, Perth, Waterloo and Wellington Region Tourism Market

In this section, we summarize the tourism market performance of the Huron, Perth, Waterloo and Wellington Region as of 2016. The region includes the subject area as well as the Kitchener-Waterloo-Cambridge-Guelph regions.

Origin of Overnight Visitors



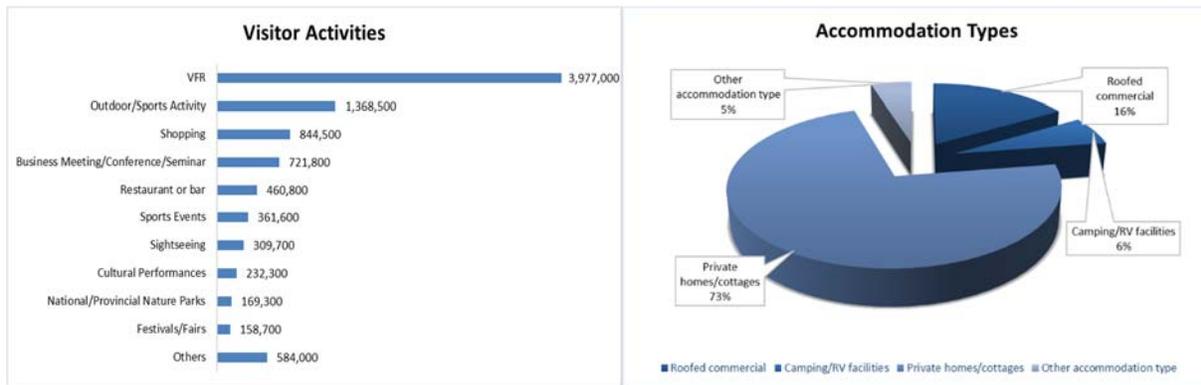
Seasonality by Purpose of Trip



In 2016, there were more than 10 million-person visits to the Region of Huron, Perth, Waterloo and Wellington, of which 2.7 million visitors stayed overnight with an average length of stay of 2.5 nights.

A majority of visitors to the Huron, Perth, Waterloo and Wellington region were from within Ontario with an average party size was 2.2 persons. 'Visiting Friends and Relatives' (VFR), outdoor/sports activity, constituted approximately 43% and 15% of all reasons to visit the area.

- ▼ January to March was the slowest (Q1) travel period with visitation rebounding from Q2 onwards.
- ▼ Visitation peaks in Q2 and through Q3 as most vehicular travel is correlated to weather conditions.
- ▼ The most popular accommodation types were private homes and cottages, almost three times more than roofed commercial, which includes hotels, motels, and commercial cottage/cabins.
- ▼ Hotels made up 9% of the total nights spent in all accommodation types, approximately 600,000 in absolute numbers.



2.2.1 South Huron Demand Generators

Arts and Culture

- ▼ **Huron Country Playhouse and Playhouse II** are located in Grand Bend, Ontario, and have capacities of 650 and 300 seats respectively. Extensive renovation and expansion were completed in 2011. The theatre features state-of-art sound and lighting, infrared hearing and wheelchair access. The playhouses attract 50,000 to 70,000 people annually in its 13-week season which runs from June to August. Shoulder season programming is contemplated by the playhouse in the medium term. The Playhouse partners with local accommodation providers to package overnight stays with theatre tickets as approximately 80% of its patrons travel over 40kms to attend events.
- ▼ **Lambton Heritage Museum** opened in 1978 and is home to more than 25,000 artifacts and 10,000 photographs. The 50,000-sf facility includes two main galleries and seven buildings. It attracts approximately 17,000 visitors every year.
- ▼ **Canadian Baseball Hall of Fame and Museum** opened in 1983 in Toronto, Ontario, and relocated to St. Marys, Ontario (about 35km from Exeter, Ontario) in 1994. The 32-acre facility is home to four ball fields and walking trails.
- ▼ **Iceculture Inc.** is recognized as a world-wide leader in the hospitality ice industry. It offers guided tours of the facilities and illustrates the production process of the ice sculpture products, which are used in more than 25 countries.
- ▼ **Eddington's of Exeter** is a casual fine dining restaurant in the subject market specializing in continental cuisine prepared with local flare. It features a summer patio and a seasonally adjusted menu inspired by local delicacies. The restaurant is owned and operated by a local owner/chef who also provides international culinary tours.

Festivals & Events

- ▼ **Exeter Ram Rodeo** is an annual western-themed entertainment event that runs during the second weekend in August. It was established in 1996 and attracts several thousand of attendees every year.
- ▼ **Stratford Summer Music** is a multi-week music festival, taking place between July and August annually. Created in 1955 and revived in 2001, the music festival features more than 350 artists in 100 outdoor and indoor events across downtown Stratford, Ontario.
- ▼ **Stratford Festival** is North America's largest classical repertory theatre company, offering up to eight productions a day from April to November. The festival is known for its focus on William Shakespeare's plays.
- ▼ **Art in the Park** is an outdoor juried fine arts and craft show, taking place every Wednesday, Saturday, and Sunday from May to September in Stratford, Ontario. It was created in 1968 to showcase artists both locally and across Canada.
- ▼ **Exeter Farmers' Market** runs every Thursday from May to October. It offers locally grown fruits, vegetables, honey, maple syrup, plants, flowers, meat products, and baked goods. Live music and beer garden are also available.

Sports

- ▼ **Grand Bend Motorplex** is a multi-purpose motorsports facility featuring IHRA Championship Drag Racing and two competitive motorcross tracks. It is home to the annual IHRA Mopar Canadian Nationals, Canada's longest running and largest National Event Drag race. It also offers an onsite motorhome area, camping compound, as well as concerts.
- ▼ **Grand Bend Sport Parachuting Center** is the only skydiving school in southwestern Ontario. It offers freefall skydive for both first-time and experienced jumpers as well as video and photography of the skydive.
- ▼ **Ironwood Golf Club** opened in 1965 and offers 18-hole golf course in Exeter, Ontario. It features four sets of tees from 4,752 to 6,165 yards and has a par of 71.
- ▼ **Exeter Golf Club** is a 9-hole golf course located in Exeter, Ontario. It opens from April to November.
- ▼ In addition, South Huron hosts a number of **hockey tournaments** attracting over 60 teams to the area of which approximately 45 teams are from outside the region, thereby requiring overnight accommodation as the average stay is 2.5 nights over a November through January period (five weekends).

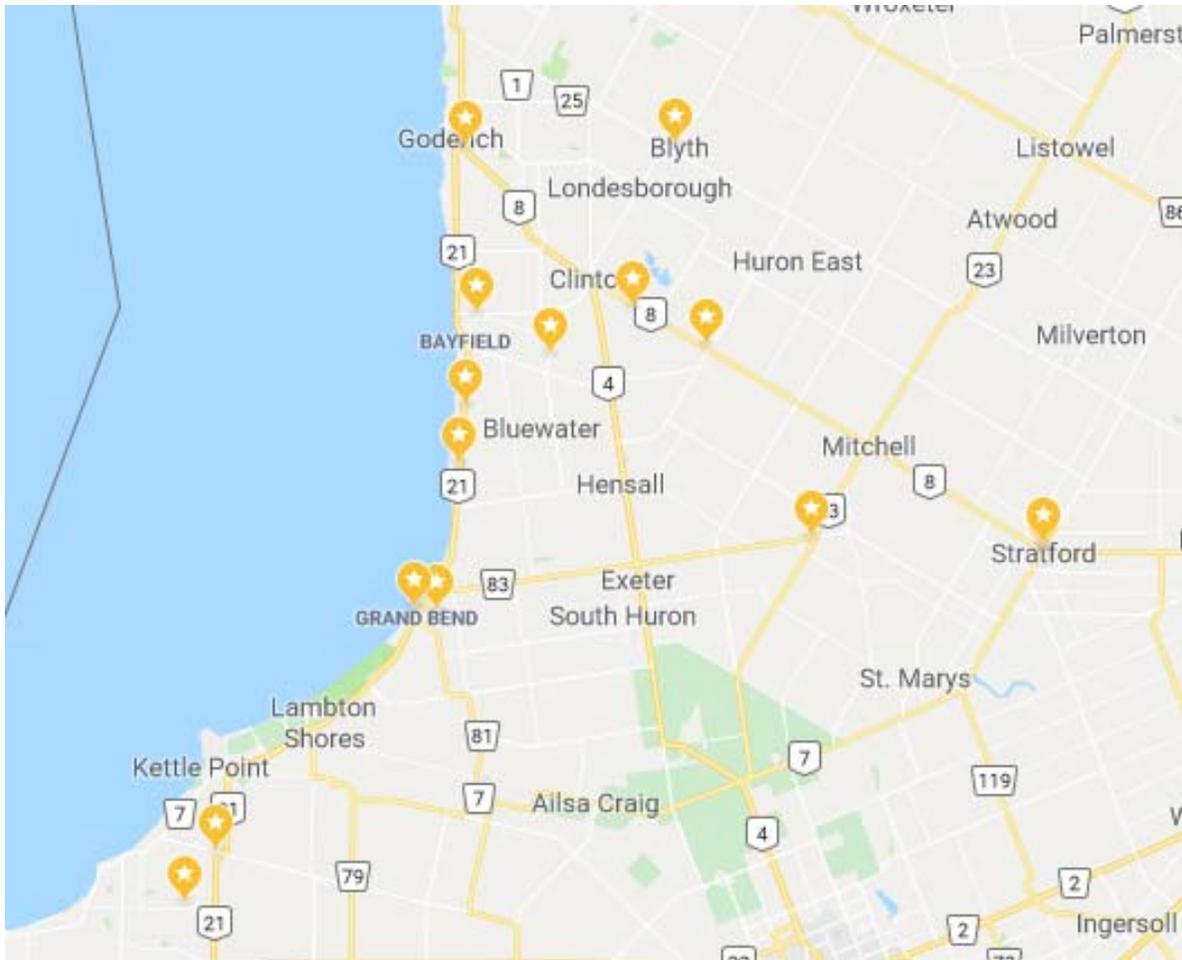
Nature

- ▼ **Grand Bend Beach** is located approximately 25km west of the subject area and attracts tens of thousands of visitors during the summer months. The beach features volleyball courts, splash pad, playground/baseball facility, lifeguards, picnic tables, concession stand and boardwalk. The beach is also recognized as a Blue Flag beach for its water quality and strict safety criteria.
- ▼ **Port Blake Park and Beach** is located on the shores of Lake Huron and features access to beach, fire pits, picnic shelter, BBQs, playground equipment, and change room facilities.
- ▼ **Pinery Provincial Park** is a 2,532-hectare provincial park located in Grand Bend, Ontario. Established in 1957, the park features over 800 vascular plants, 300 bird species, and 21 square kilometers of rare forests and rolling dunes. It also offers 10km of sand beach, 14km of bike trail, and 38km of ski trails to explore and attracted 583,000 visitors in 2017.
- ▼ **South Huron Trail** is an 8km all season trail that links the MacNaughton-Morrison Trail and the Morrison Dam Conservation Area. It features a picnic shelter, BBQs, playground equipment, washrooms, change room facilities as well as a 30-acre inland lake, Morrison Reservoir (Morrison Lake), in the Morrison Dam Conservation Area, and attracts thousands of visitors annually.

Wineries & Breweries

- ▼ **Dark Horse Estate Winery** (Grand Bend, ON) is a fully integrated commercial estate winery opened in 2016. The 31,000-sf facility is equipped with state-of-art winemaking technology and features patio, VIP reception area, 20-acre vineyard, and full-service meeting space with a capacity of 300 people. The winery hosts approximately 21 weddings per year (June through October) and is looking to increase this to 40 weddings within the next 3-5 years.
- ▼ **Culture Shock Kombucha** (Grand Bend, ON) is a brewery located on the shores of Lake Huron. The products feature the use of organic tea and juice.

- ▼ **Bad Apple Brewing Company Ltd** (Zurich, ON) is a licensed craft beer microbrewery with an on-site retail store. Opened in 2011 in Zurich, Ontario (about 20km from Exeter, Ontario), the company currently brews five different types of beer.
- ▼ **Black Donnelly's Brewing Company** (West Perth, ON) is a craft microbrewery located in West Perth, Ontario (about 20km from Exeter, Ontario). There are about 20 licensed establishments serving the Roman Line Lager brewed by the company.
- ▼ **Cornerfield Wine Company** (Bayfield, ON) is a family-owned winery opened in 2019. The 5-acre vineyards were established in 2015.
- ▼ **Stone House Brewing Company** (Verna, ON) is a brewery located in Varna, Ontario (about 30km from Exeter, Ontario). It offers full-service on-site retail outlet, tasting rooms, and private tours.
- ▼ **River Road Brewing and Hops** (Bluewater, ON) is Huron County's first farm-based brewery and offers 4 kinds of beer all year and various seasonal beer.
- ▼ **Maelstrom Winery** (Seaforth, ON) opened in 2009 and is Huron County's first winery. It is family-owned and features 8-acre vineyard, wine tours and tastings
- ▼ **Half Hours on Earth Brewery** (Seaforth, ON) is a brewery located in Seaforth, Ontario (about 28km from Exeter, Ontario). It offers more than 10 types of beer and wine.
- ▼ **Square Brew** (Goderich, ON) is the only craft brewery located in Goderich, Ontario (about 50km from Exeter, Ontario) and offers two all-year and various seasonal beers.
- ▼ **Cowbell Brewing Co.** (Blyth, ON) features a state-of-the-art brewing facility, restaurant, retail store, and entertainment space. It also offers guided tours and event space.
- ▼ **Herald Haus Brewing Co.** (Stratford, ON) is a heritage brewery in Stratford that offers 8 different types of beer.
- ▼ **Black Swan Brewing Co.** (Stratford, ON) is located in downtown Stratford and features a microbrewery and taproom that offers retail sales of the beers. The Black Swan beers are also offered in restaurants across Ontario.
- ▼ **Jobsite Brewing Company** (Stratford, ON) currently offers four types of beer and tours of the production facilities.
- ▼ **Corker's Wine Cellar** (Forest, ON) opens from Tuesday to Friday and offers wine kits that can be chosen from over 150 varieties of wine.
- ▼ **Alton Farms Estate Winery** (Plympton-Wyoming, ON) was established in 2005. It features a patio, wine tastings and event space.



Corporate Demand Generators

- ▼ **Hensall District Co-Op Inc** is an agricultural produce company founded in 1937. The company produces grain and bean products and trades feed, food products, seeds, petroleum, and propane. Based in Hensall, Ontario, it is one of the top ten most profitable non-financial co-operatives in Canada and has over 5,000 members and approximately 600 employees across 30 locations in Ontario and Manitoba. The company currently generates approximately 40 room-nights of hotel demand which is mostly accommodated in London or Stratford due to visitor preference. Visitors originate from Japan and a training facility in Manitoba, typically spending 2 nights at the Exeter facility.
- ▼ **Gnutti Carlo** is an international manufacturer of engine parts founded in 1920 in Italy. It offers rocker arms, rocker arm assemblies, valve lifters, valve lifter assemblies, valve bridges, fuel injection components, shafts, other components, castings, and high pressure die castings across 14 locations in 9 countries. The R&D Center and Manufacturing Facility in South Huron is the company's only location in Canada and employs about 180 employees.
- ▼ **JMR Electric** is one of the largest electrical and mechanical contracting businesses in Ontario. Established in 1978, it offers services to clients across academic, health care, recreation & social, governmental, and commercial industries.

- ▼ **New United Goderich** is an aircraft maintenance and modification shop with an international client base. It offers aircraft maintenance, painting, refurbishment, avionics installation, cabin management systems and connectivity, and engineering. Established in 1993, the company is based in South Huron and employs about 100 people. The company generates up to 30 room-nights of lodging demand with most of the international electing to stay in London due to availability of complementary facilities and amenities for guests. Travel is concentrated between March and September with limited visitation in the winter months. Average stays vary but average up to one week.
- ▼ **Syfilco Ltd.** is a manufacturer of industrial knitted fabrics and netting products and offers drainage filters, hay bale net wrap, and pallet net wrap. Opened in 1979 in Exeter, Ontario, the company is a family-owned business with approximately 20 employees.
- ▼ **Aurora Cannabis** closed the \$2.5 billion acquisition deal on MedReleaf in July 2018, the largest cannabis takeover in industry history. The primary reason for the transaction was to increase the production capacity of the company and meet the strong domestic and international demand due to recent legalizations of recreational use of marijuana across Canada, U.S. and Europe. MedReleaf's assets include 55,000 sf, 7,000 kg/year facility in Markham, 210,000 sf, 28,000 kg/year facility at Brantford, and 1 million sf, 105,000 kg/year greenhouse at Exeter. The combined company has 11 facilities and a funded capacity of over 570,000 kg/year.

Proposed Casino

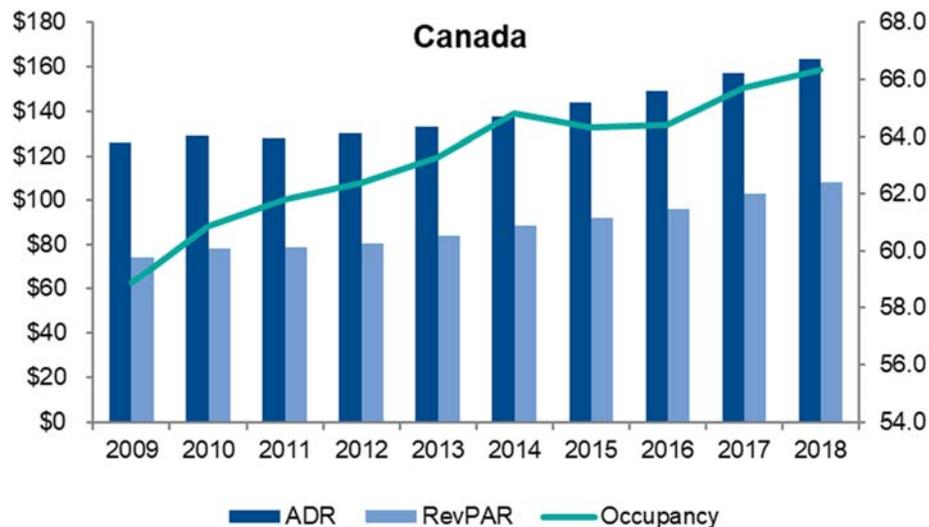
A casino venue was proposed at a location next to Dark Horse Estate Winery and Huron Country Playhouse and Playhouse II near Grand Bend, Ontario. South Huron council has declared its support for the proposed casino gaming facility and an environmental scan was prepared for Gateway Casinos. The project would be a major economic driver in the region. However, there are already two existing casinos near Grand Bend, Gateway Casinos Clinton (50km from Grand Bend) and Gateway Casinos London (70 km from Grand Bend).

The priority for Gateway Casinos remains its existing slots operation in Clinton and London, which may be compromised if a new casino opens in Grand Bend. Therefore, it is not certain if Gateway Casinos and Entertainment will proceed with the proposed casino venue near Grand Bend. We have not considered the impact of a potential casino in our analysis due to the relatively speculative nature of the casinos size and timing.

3 Lodging Market Overview

According to the Hotel Association of Canada, there were 8,253 hotels across Canada containing 455,959 guest rooms as of July 2019. An overview of the Canadian, Ontario, and London lodging market performance is presented following and will form the foundation of our analysis.

3.1 Canadian Lodging Market



Source: STR, 2019

In late 2008 and 2009, drastic changes occurred in the national economy, largely precipitated by a global credit crisis. As a result, the tourism and accommodation markets witnessed a notable decline in both occupancy levels, and ADR's. Beginning in 2010, the market stabilized, and began to recover, with 2012 to 2014 demonstrating significantly improved hotel performance.

New visa rules between China-Canada commenced in early 2015, which will issue long-term and multiple-entry visas to citizens. Whether it is for business travel, tourism or family visits this new visa will be valid for up to 10 years. This is a huge significance as there are over 1.5 million overseas Chinese in Canada, which represents the largest immigrant group. Furthermore, China is currently the fourth largest tourism market for Canada, with more than 440,000 visitors who spend over \$1 billion annually.

Starting in 2014, the downturn in crude oil prices combined with the decline in the value of the Canadian dollar relative to the US dollar resulted in fewer Canadians travelling to the US for leisure benefitting the local accommodations industry. In addition, the weaker Canadian dollar also attracted US traveller back to Canada following a long hiatus. Following the election of Donald Trump in late 2016 and the subsequent change in policies by the US has resulted in fewer travellers choosing to travel to the US once again benefitting the Canadian lodging sector as a viable alternative to the US for leisure stays.

Growth has been strongest in Ontario, Vancouver and Montreal as well as resort markets in Alberta whereas Edmonton and Calgary reported declines in performance due to the impact of declining investment in the resources sector.

Hotel room supply is expected to average between 1.3% and 1.5% in 2019 and 2020 nationally. Growth in supply is expected to be concentrated in secondary and tertiary markets with the bulk of new supply coming in Ontario, BC and Quebec.

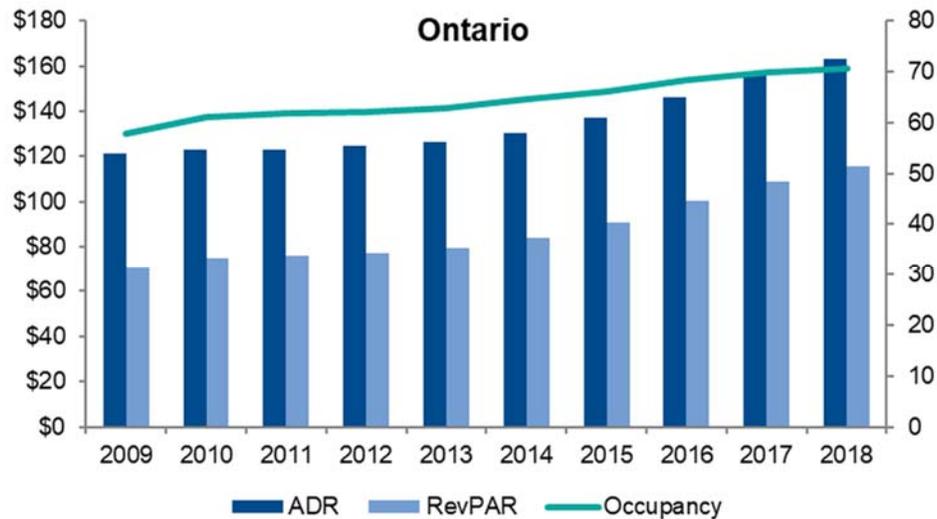
Occupancy grew at an annual rate of 1.3% from 2009 through 2018 while Average Daily Rate (ADR) grew at an annual rate of 2.9% resulting in a Revenue per Available Room (RevPAR) growth rate of 4.3% annually from 2009 to 2017. Supply grew by 1% through 2018 with the greatest increase noted in Atlantic and Western Canada.

As of July 2019, occupancy decreased by 0.9% compared to the same period in 2018 while ADR and RevPAR grew by 1.8% and 0.9%, respectively nationwide.

Canada	Occupancy	% Change	CAGR	ADR	% Change	CAGR	RevPAR	% Change	CAGR	% Δ Demand	% Δ Supply
2009	58.9	n/a	n/a	126.25	n/a	n/a	74.36	n/a	n/a	n/a	n/a
2010	60.9	3.4%	3.4%	128.75	2.0%	2.0%	78.41	5.4%	5.4%	4.70	1.20
2011	61.8	1.5%	2.4%	127.85	-0.7%	0.6%	79.01	0.8%	3.1%	-	-
2012	62.4	1.0%	1.9%	129.89	1.6%	1.0%	81.05	2.6%	2.9%	1.60	0.50
2013	63.3	1.4%	1.8%	133.07	2.4%	1.3%	84.23	3.9%	3.2%	2.10	0.50
2014	64.8	2.4%	1.9%	137.36	3.2%	1.7%	89.01	5.7%	3.7%	-	-
2015	64.3	-0.8%	1.5%	143.52	4.5%	2.2%	92.28	3.7%	3.7%	0.20	1.00
2016	64.4	0.2%	1.3%	149.02	3.8%	2.4%	95.97	4.0%	3.7%	1.50	0.90
2017	65.7	2.0%	1.4%	156.72	5.2%	2.7%	102.97	7.3%	4.2%	3.20	0.80
2018	66.3	0.9%	1.3%	163.40	4.3%	2.9%	108.33	5.2%	4.3%	2.00	1.00
YTD July 2018	65.1	n/a	n/a	160.99	n/a	n/a	104.80	n/a	n/a	n/a	n/a
YTD July 2019	64.5	-0.9%	n/a	163.87	1.8%	n/a	105.70	0.9%	n/a	0.90	1.50

Source: STR, 2019

3.2 Ontario Accommodation Market



Source: STR, 2019

The province of Ontario is the largest tourism destination in Canada offering approximately 140,000 hotel rooms across the province. Throughout the 2009-2018 periods, Ontario's occupancy, ADR and RevPAR saw continually strong growth, with annual compound growth rates of 2.2%, 3.4% and 5.7% respectively between 2009 and 2019.

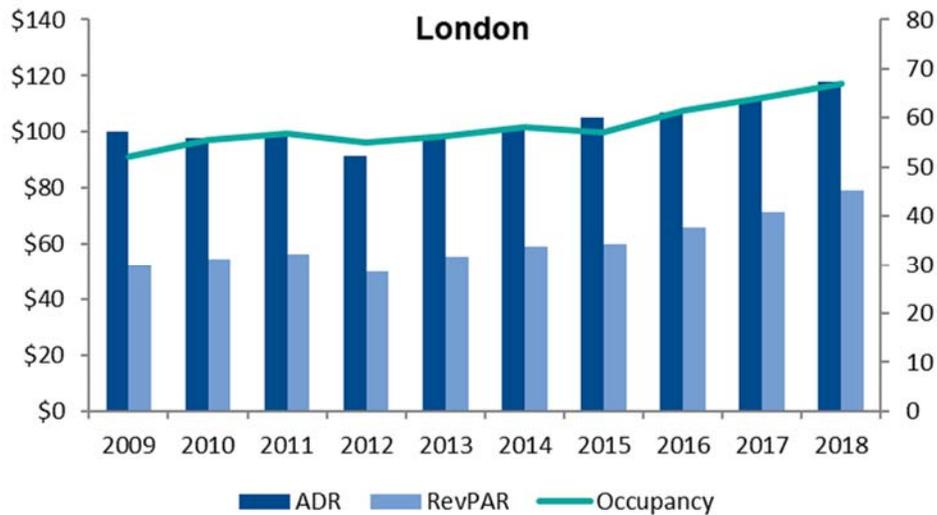
In 2018, occupancy, ADR and RevPAR grew to 70.7%, \$163.26 and \$115.42 respectively. RevPAR grew by 5.8% as the weaker Canadian dollar attracted record number of international visitors to the market and kept more Canadian travellers from vacationing across the border. As of July 2019, occupancy is down 1.4% while ADR is up 1.9% compared to the same period in 2017 resulting in a slight increase of 0.4% in RevPAR.

Ontario	Occupancy	% Change	CAGR	ADR	% Change	CAGR	RevPAR	% Change	CAGR	% Δ Demand	% Δ Supply
2009	57.9	n/a	n/a	121.30	n/a	n/a	70.23	n/a	n/a	n/a	n/a
2010	61.1	5.5%	5.5%	122.76	1.2%	1.2%	75.01	6.8%	6.8%	6.20	0.60
2011	61.8	1.1%	3.3%	122.95	0.2%	0.7%	75.98	1.3%	4.0%	-	-
2012	62.0	0.3%	2.3%	124.90	1.6%	1.0%	77.44	1.9%	3.3%	1.10	0.70
2013	62.8	1.3%	2.1%	126.50	1.3%	1.1%	79.44	2.6%	3.1%	1.90	0.40
2014	64.7	3.0%	2.2%	130.20	2.9%	1.4%	84.24	6.0%	3.7%	-	-
2015	66.2	2.3%	2.3%	137.37	5.5%	2.1%	90.94	8.0%	4.4%	2.90	0.60
2016	68.4	3.3%	2.4%	146.39	6.6%	2.7%	100.13	10.1%	5.2%	4.40	0.50
2017	69.8	2.0%	2.4%	156.23	6.7%	3.2%	109.05	8.9%	5.7%	2.80	0.50
2018	70.7	1.3%	2.2%	163.26	4.5%	3.4%	115.42	5.8%	5.7%	1.80	0.40
YTD July 2018	69.2	n/a	n/a	159.72	n/a	n/a	110.53	n/a	n/a	n/a	n/a
YTD July 2019	68.2	-1.4%	n/a	162.71	1.9%	n/a	110.97	0.4%	n/a	0.40	1.60

Source: STR, 2019

3.3 London Accommodation Market

The city of London was used as a proxy for the health of the overall lodging market in subject markets catchment area and is likely one of the biggest source markets for displaced demand.



Source: STR, 2019

London has seen robust growth in hotel occupancy in the period between 2009 and 2018, growing from 52.2% to 67% with average occupancy rate of 58.4%. Occupancy in the London market grew at an annual compound growth rate of 2.8% per year between 2009 and 2018.

London's ADRs have grown steadily over the past several years with an annual compound growth rate of 1.8% between 2009 and 2018. The combined impact of strong occupancy and ADR has meant that Revenue per Available Room (RevPAR) grew at an annual compound growth rate of 4.7% from 2009 through 2018. YTD July data shows a 0.5% decrease in occupancy and 3.7% increase in ADR leading to a 3.2% increase in RevPAR compared to the same period in 2018.

London	Occupancy	% Change	CAGR	ADR	% Change	CAGR	RevPAR	% Change	CAGR	% Δ Demand	% Δ Supply
2009	52.2	n/a	n/a	100.18	n/a	n/a	52.29	n/a	n/a	n/a	n/a
2010	55.6	6.5%	6.5%	98.06	-2.1%	-2.1%	54.52	4.3%	4.3%	15.40	4.00
2011	56.9	2.3%	4.4%	98.94	0.9%	-0.6%	56.30	3.3%	3.8%	-	-
2012	55.0	-3.3%	1.8%	91.25	-7.8%	-3.1%	50.19	-10.9%	-1.4%	1.10	0.30
2013	56.4	2.5%	2.0%	98.46	7.9%	-0.4%	55.53	10.6%	1.5%	5.00	1.80
2014	58.0	2.8%	2.1%	101.53	3.1%	0.3%	58.89	6.0%	2.4%	-	-
2015	57.2	-1.4%	1.5%	105.20	3.6%	0.8%	60.17	2.2%	2.4%	4.00	-
2016	61.5	7.5%	2.4%	107.16	1.9%	1.0%	65.90	9.5%	3.4%	-	-
2017	64.2	4.4%	2.6%	111.15	3.7%	1.3%	71.36	8.3%	4.0%	1.90	1.10
2018	67.0	4.4%	2.8%	117.91	6.1%	1.8%	79.00	10.7%	4.7%	2.30	0.50
YTD July 2018	65.6	n/a	n/a	116.26	n/a	n/a	76.27	n/a	n/a	n/a	n/a
YTD July 2019	65.3	-0.5%	n/a	120.51	3.7%	n/a	78.69	3.2%	n/a	(0.40)	-

Source: STR, 2019

4 Lodging Market Supply & Demand Analysis

4.1 Supply Analysis - Existing Supply

Current lodging options in the South Huron market include a combination of Hotels, Motels/Inns as well as bed and breakfast operations. There is only one chain-affiliated hotel in the subject market and a significant amount of supply is available via home-sharing platforms including Airbnb and HomeAway with rates ranging from \$34 for a private bedroom to over \$250 per night for an entire dwelling. We have included Stratford in our supply analysis as it is the closest significant lodging market to the subject.

- ▼ **Oakwood Inn Resort** – located at 70671 Bluewater Hwy, the 124-room resort is a family owned and operated upscale resort. Built in 1922, the resort offers a private beachfront on Lake Huron, eighteen-hole golf course, tennis courts, indoor saltwater pool, sauna, spa, exercise room, and over 3,000 sf of meeting space. The property was observed to be in average condition and in need of significant capital improvements. The resort caters to a combination of leisure, group and meeting demand segments.
- ▼ **Pine Dale Motor Inn** – located at 107 Ontario Street South, the 41-room inn was recently remodeled. The hotel is in close proximity to Lake Huron and features a pub, indoor saltwater pool, whirlpool spa, sauna and game room with a pool table, pinball and video games.
- ▼ **Amber Hotel** – built in 2015, the 21-room hotel is located at 99 Ontario Street South. The hotel is in close proximity to Grand Bend Beach and offers 2-bedroom suite with kitchen facilities.
- ▼ **Hessenland Inn** – located at 72981 Bluewater Highway, Zurich, the 20-room hotel is in close proximity to Lake Huron. It offers a restaurant, bar/lounge, and outdoor pool.
- ▼ **Ranch House Inn** – located at 414 Main Street South, the hotel is in proximity to Ironwood Golf Club and Grand Bend Beach.
- ▼ **Best Western Plus the Arden Park Hotel** – located at 522 Ontario Street, Stratford, the 144-room hotel offers an indoor pool, fitness center, restaurant, and bar/lounge. The hotel also offers 10,000 sf of meeting space across multiple rooms.
- ▼ **The Bruce Hotel** – the 25-room hotel is located at 89 Parkview Drive, Stratford. The upscale hotel is inspired by a Shakespearean character and offers indoor swimming pools, tennis court, restaurants, banquet room, bar/lounge, fitness centre, and 2,497 sf of meeting space.
- ▼ **The Parlour Inn** – built in 1871, the 36-room hotel is located at 101 Wellington Street, Stratford. The hotel is in proximity to Stratford festival theatres, business parks, and University of Waterloo Stratford Campus. It also offers meeting space across three rooms, with the largest room being able to accommodate up to 120 people.
- ▼ **Mercer Hall Inn** – located at 108 Ontario Street, Stratford, the 14-room hotel is the smallest in our competitive set and offers a restaurant, bar/lounge, and coffee shop.
- ▼ **The Stratford Hotel** – the 12-room hotel was built in 1875. Located at 107 Erie Street, Stratford, the 2-storey hotel offers a garden and coffee/tea in the common area.

With the exception of the Oakwood Resort and the Best Western Plus at Arden Park, the lodging options almost exclusively cater to seasonal leisure demand and some project driven commercial demand (work crews, contract workers, etc.).

4.1.1 Existing Supply Map

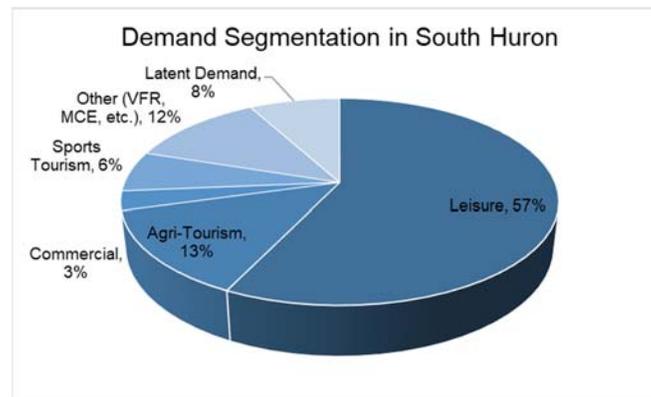


4.2 Demand Analysis

4.2.1 Potential Addressable Market

In order to estimate and forecast the lodging demand in the subject area, we have reviewed the tourism data published by the Ministry of Tourism, Culture and Sport and interviewed a number of local stakeholders including Hensall District Co-Op Inc, Huron Country Playhouses, Dark Horse Estate Winery, New United Goderich, etc.

Based on our analysis of published visitation data by segment, first-hand interviews and utilizing our experience in the industry we estimate approximately 53,000 overnight visitors to the South Huron area in 2019. Leisure demand (beach and other tourist attractions) is estimated to represent the majority of total demand at 57%, 13% was attributed to Agri-tourism (breweries and wineries), 3% commercial driven demand, 6% sports tourism related and the rest including visiting friends and family, attending meeting, convention and exhibition, as well as some latent demand which is currently displaced to larger destinations such as London and Stratford.



Source: Altus Group, 2019

Demand Segmentation

Demand Segments	Overnight Visits (PPL)	Average Length of Stay	Total Nights	Avg. Party Size	Total Room Nights	Capture Ratio	Total Captured Demand
Total Leisure Demand	30,475	1.6	40,805	2.1	19,431	37%	7,239
Total Agri-Tourism Demand	7,185	1.8	12,933	2.0	6,467	43%	2,751
Total Commercial Demand	1,600	2.7	3,360	1.0	3,360	28%	930
Total Sports Tourism Demand	3,375	2.5	8,438	2.5	3,375	75%	2,531
Other (VFR, MCE, etc.)	6,395	1.6	10,232	2.0	4,895	25%	1,224
Latent Demand	4,264	1.0	4,264	1.0	4,264	25%	1,066
Total	53,294	1.5	80,031	1.9	41,791	38%	15,740

Source: Altus Group, 2019

- ▼ The average length of stay in the Region of Huron, Perth, Waterloo and Wellington was 2.54 in 2016 and ranged from 1.17 to 6.87 nights.
- ▼ In our analysis, the average length of stay was estimated to be 1.5 nights overall ranging from 1.0 to 2.7 nights.

- ▼ A total of 53,294 overnight visitors and an average length of stay of 1.5 nights translates to approximately 80,000 total nights spent in formal paid accommodations in South Huron.

Taking the average party size of 2.2 for the overall region in 2016 into consideration, we estimated the average party sizes for different segmentations in South Huron, ranging from 1-person party for business trips to 2.5-person party for sports tournaments. Combining with the numbers of total nights, the total room night demand within South Huron was estimated to be 41,791 nights in 2019.

To gauge the total demand that could be captured by a potential new hotel, we applied capture ratios to each segment ranging from 25% to 75% of segment demand. An overall capture ratio of 38% was estimated for a modern midscale chain-affiliated hotel leading to approximately 16,000 room nights of potential captured demand.

Seasonality Adjusted Demand

Total Serviceable Demand by Quarter	Q1 (Jan - Mar)		Q2 (Apr - Jun)		Q3 (Jul - Sep)		Q4 (Oct - Dec)	
Total Leisure Demand	426	6%	2,384	33%	4,003	55%	426	6%
Total Agri-Tourism Demand	388	14%	1,052	38%	987	36%	323	12%
Total Commercial Demand	240	26%	159	17%	212	23%	320	34%
Total Sports Tourism Demand	726	29%	253	10%	253	10%	1,299	51%
Other (VFR, MCE, etc.)	306	25%	306	25%	306	25%	306	25%
Latent Demand	160	15%	213	20%	533	50%	160	15%
Total	2,245	14%	4,367	28%	6,294	40%	2,834	18%

Seasonality of the demand for lodging in the subject market area was analyzed based on the overall tourism data and information provided by local stakeholders.

- ▼ The results indicate significantly higher demand in Q2 and Q3, mostly due to the concentration of leisure demand in the summer months.
- ▼ Commercial demand is distributed somewhat evenly throughout the year, while sports tourism attracts some demand in the off-peak season (Q4 and Q1). Some of the variation in demand is mitigated by the ice hockey tournaments in winter, but not enough so to offset the impact of the lack of leisure demand in the winter.
- ▼ The first quarter is estimated to have the least serviceable demand, making up merely 14% of the total demand.

Therefore, due to considerable seasonality in South Huron tourism market, a proportion of the total captured demand will be lost in Q3, when the occupancy rate would be over 90% and any new hotel would not be able to satisfy all the demand in the market. In our baseline case, the seasonality adjustment decreased the overall capture ratio of the subject by approximately 3%.

	Q1	Q2	Q3	Q4	Total
Occupancy Rate	40%	79%	113%	51%	
Adj. Total Serviceable Demand	2,245	4,367	5,000	2,834	14,447
Adj. Occupancy	40%	79%	90%	51%	65%

- ▼ Following seasonality adjustments for occupancy rate and total serviceable demand, our analysis indicate that a 61-room new hotel would be most optimal in order to reach the typical threshold of 65% occupancy rate for any minimally viable hotel.
- ▼ A 61-room hotel would represent 23% of the total hotel rooms in the subject area (including the subject).

Lastly, a five-year demand forecast was undertaken by applying growth rates ranging from 1% for commercial and sports tourism demand to 3% for leisure demand. By 2024, the lodging demand in the subject area would be able to support a 74-room hotel without seasonality adjustment. A seasonality adjustment would result in market support for a total 68 rooms over the next five years.

The forecast is predicated on the assumption that only a single-pad arena would be developed to replace existing Arena facilities. A casino is not considered in our analysis as stated earlier.

Demand Forecast	2019	2020	2021	2022	2023	2024
Leisure General	7,239	7,456	7,680	7,910	8,147	8,392
Agri-Tourism	2,751	2,806	2,862	2,919	2,977	3,037
Commercial	930	939	949	958	968	977
Sports Tourism	2,531	2,557	2,582	2,608	2,634	2,660
Other (VFR, MCE, etc.)	1,224	1,236	1,248	1,261	1,273	1,286
Latent Demand	1,066	1,087	1,109	1,131	1,154	1,177
Total Serviceable Demand	15,740	16,080	16,429	16,787	17,154	17,529
Rooms	66	68	69	71	72	74
Adj. Rooms	61	62	64	65	67	68

4.2.2 Sensitivity Analysis

In order to gauge the magnitude of impact on occupancy rate if the capture ratios of the subject hotel were higher or lower than those in the baseline case, we have undertaken a sensitivity analysis assuming 50% higher capture ratios for the best-case and 25% lower for worst-case scenario.

Best Case Scenario

As shown in tables below, in the best-case scenario, approximately 7,500 more room nights would be captured in 2019 than the baseline, resulting in an overall 55% capture ratio. Following an adjustment for seasonality, the capture ratio dropped to 41% of total demand.

A potential hotel with 61 rooms would be able to achieve an average occupancy rate of 78% in 2019. Existing hotel operators would be expected to take steps to counter the impact of new supply, including; lowering rates, undertaking renovations, increasing marketing and advertising efforts in order to mitigate the negative impact on their hotel of any new lodging supply. This scenario is considered to have a low likelihood of occurrence as price-based competition would be detrimental to the entire marketplace and result in a loss of revenue for both the existing operators as well as any new entrant without simulating significant additional demand for hotel rooms in the market.

Best Case Scenario – Demand by Segment

Demand Segments	Overnight Visits (PPL)	Average Length of Stay	Total Nights	Avg. Party Size	Total Room Nights	Capture Ratio	Total Captured Demand
Total Leisure Demand	30,475	1.6	40,805	2.1	19,431	56%	10,858
Total Agri-Tourism Demand	7,185	1.8	12,933	2.0	6,467	64%	4,126
Total Commercial Demand	1,600	2.7	3,360	1.0	3,360	42%	1,395
Total Sports Tourism Demand	3,375	2.5	8,438	2.5	3,375	100%	3,375
Other (VFR, MCE, etc.)	6,395	1.6	10,232	2.0	4,895	38%	1,836
Latent Demand	4,264	1.0	4,264	1.0	4,264	38%	1,599
Total	53,294	1.5	80,031	1.9	41,791	55%	23,188

Best Case Scenario – Seasonally Adjusted Demand

Total Serviceable Demand by Quarter	Q1 (Jan - Mar)		Q2 (Apr - Jun)		Q3 (Jul - Sep)		Q4 (Oct - Dec)	
Total Leisure Demand	639	6%	3,576	33%	6,004	55%	639	6%
Total Agri-Tourism Demand	583	14%	1,578	38%	1,480	36%	485	12%
Total Commercial Demand	359	26%	238	17%	318	23%	480	34%
Total Sports Tourism Demand	968	29%	338	10%	338	10%	1,733	51%
Other (VFR, MCE, etc.)	459	25%	459	25%	459	25%	459	25%
Latent Demand	240	15%	320	20%	799	50%	240	15%
Total	3,247	14%	6,508	28%	9,399	41%	4,035	17%

	Q1	Q2	Q3	Q4	Total
Occupancy Rate		58%	117%	169%	72%
Adj. Total Serviceable Demand	3,247	5,010	5,010	4,035	17,301
Adj. Occupancy		58%	90%	90%	78%

Worst Case Scenario

For the Worst-Case Scenario, the capture ratios were reduced by 25% for all segmentations, resulting in an overall capture ratio of 28%. This translates to 11,805 room nights captured. In this case, occupancy rates in all quarters would be below 90%, meaning no seasonality adjustment would be necessary. Therefore, a 61-room hotel would achieve an average occupancy rate of 53% overall.

Worst Case Scenario – Demand by Segment

Demand Segments	Overnight Visits (PPL)	Average Length of Stay	Total Nights	Avg. Party Size	Total Room Nights	Capture Ratio	Total Captured Demand
Total Leisure Demand	30,475	1.6	40,805	2.1	19,431	28%	5,429
Total Agri-Tourism Demand	7,185	1.8	12,933	2.0	6,467	32%	2,063
Total Commercial Demand	1,600	2.7	3,360	1.0	3,360	21%	698
Total Sports Tourism Demand	3,375	2.5	8,438	2.5	3,375	56%	1,898
Other (VFR, MCE, etc.)	6,395	1.6	10,232	2.0	4,895	19%	918
Latent Demand	4,264	1.0	4,264	1.0	4,264	19%	799
Total	53,294	1.5	80,031	1.9	41,791	28%	11,805

Worst Case Scenario – Seasonally Adjusted Demand

Total Serviceable Demand by Quarter	Q1 (Jan - Mar)		Q2 (Apr - Jun)		Q3 (Jul - Sep)		Q4 (Oct - Dec)	
Total Leisure Demand	319	6%	1,788	33%	3,002	55%	319	6%
Total Agri-Tourism Demand	291	14%	789	38%	740	36%	242	12%
Total Commercial Demand	180	26%	119	17%	159	23%	240	34%
Total Sports Tourism Demand	544	29%	190	10%	190	10%	975	51%
Other (VFR, MCE, etc.)	229	25%	229	25%	229	25%	229	25%
Latent Demand	120	15%	160	20%	400	50%	120	15%
Total	1,684	14%	3,275	28%	4,720	40%	2,126	18%

	Q1	Q2	Q3	Q4	Total
Occupancy Rate		30%	59%	85%	38%
Adj. Total Serviceable Demand	1,684	3,275	4,720	2,126	11,805
Adj. Occupancy		30%	59%	85%	38%

5 Other Considerations

A number of non-demand-based considerations are worth considering in regard to lodging needs for the Municipality of South Huron including, but not limited to:

- ▼ quality and location of accommodations,
- ▼ critical mass of support amenities, facilities and attractions,
- ▼ seasonality of demand,
- ▼ tourism promotion and destination marketing, and;
- ▼ other factors.

Location

The Municipality of South Huron offers several location options for a new hotel offering including Grand Bend and Exeter. As most of the demand is generated in the leisure segment, a location proximate to popular leisure attractions such as the beach, winery or playhouse should be considered. Additionally, a location which is central of support infrastructures such as highways (primary source of transport for visitors to the area), restaurants, entertainment options, parks and trails would also be positive. The commercial core of Exeter lacks the critical mass of such amenities except for access for which it is superior in comparison to Grand Bend.

Quality of Accommodations

The majority of accommodation options in the catchment area are in need of capital improvements and uplift, which is the primary reason for commercial demand being displaced to larger markets such as London where the quality of accommodations is superior. A new hotel could address this issue through design and construction quality that is focused on a value driven contemporary offering.

- ▼ Affiliation with a national or international brand would offer the dual benefit of immediate name recognition and access to reservation infrastructure that would allow the hotel to supplement demand during shoulder periods.
- ▼ Based on market research a hotel positioned in \$120-\$150 per night average rate would be best suited to capture the largest portion of overall demand.
- ▼ In addition, although no significant unmet meeting demand was identified, contemporary hotels typically offer at least a minimal amount of on-site meeting space (up to 1,000sf) including boardrooms.
- ▼ Complementary facilities such as indoor swimming pool, fitness center, lounge, all-day dining restaurant, and laundry facilities would add to the value proposition.
- ▼ A mix of standard guestrooms and suites would be preferable to capture individual and group travellers.

Critical Mass of Attractions

A viable destination requires a mix of facilities, amenities, attractions, and entertainment options. South Huron offers a good complement of such infrastructure however it is primarily focused on the seasonal tourism business generated by Grand Bend Beach. A concerted effort is required to round out South Huron as a year-round destination. Key partnerships with current businesses would be critical including the Playhouse, Winery and tour operators to leverage marketing, programming, and business development opportunities.

Seasonality of Demand

As previously stated and discussed in the report, the success of a destination demands proper management of shoulder and off-peak visitation periods. A number of promising segments were identified in our research including;

- ▼ Agri-Tourism; a significant number of wineries and breweries are located within an accessible distance to South Huron, developing this sector would allow the Municipality to create a unique character for itself as a destination.
- ▼ Sports Tourism; this is an emerging sector for lodging demand throughout Ontario, supported by sports tournaments held throughout the province. In order to capture and grow capacity within this segment is attractive due to the recurring nature of demand as well as the counter-cyclical nature of their travel particularly for ice hockey tournaments. In order to capture a larger share of sports demand the Municipality would require investment in a new arena to host such tournaments.

The subject market is primarily accessed via the regional highway network which means that inclement weather periods will see a significant drop in demand overall. Creating an attractive destination with year-round visitation would require the development of unique year-round events and programs to draw visitors from surrounding areas who are willing to travel shorter distances despite the colder weather.

Tourism Promotion and Destination Marketing

A concerted effort to market and promote targeted tourism sectors in partnership with public and private stakeholders is necessary to capture a greater share of the overall tourism market, remain top-of-mind for visitors and create an identifiable identity for South Huron. Value add programming with regional partners to add South Huron to travel itineraries will allow for greater exposure for the region as a tourism destination.

Other Considerations

A key consideration for private sector investment decisions in particular going-concern businesses such as hotels is the ability to operate in an efficient and cost-effective manner. Contemporary hotel design standards, development costs and marketing requirements mean that hotels under 90-guestrooms are not considered to be viable by most hotel brands. Therefore, although there is potential space for a new hotel entrant in the South Huron market, this may not be financially or economically viable at this time.

6 Certification

Effective Date: **August 9, 2019**
Subject Property: **Municipality of South Huron, Exeter, ON**

I certify that, to the best of my knowledge and belief that:

- ▼ The statements of fact contained in this report are true and correct.
- ▼ The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions.
- ▼ I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved. I am therefore an independent and external professional.
- ▼ I am not in a conflict of interest to undertake this assignment.
- ▼ I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- ▼ My engagement in and compensation for this assignment was not contingent upon developing or reporting predetermined results, the amount of the value estimate, or a conclusion favouring the client.
- ▼ My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Canadian Uniform Standards of Professional Appraisal Practice, Valuation - Professional Standards 2016 of the Royal Institution of Chartered Surveyors and the International Valuation Standards.
- ▼ I have the knowledge and experience to complete this assignment competently, and where applicable, this report is co-signed in compliance with Canadian Uniform Standards of Professional Appraisal Practice, Valuation - Professional Standards 2016 of the Royal Institution of Chartered Surveyors and the International Valuation Standards..
- ▼ In preparing the report, Alice Sun M.A., provided professional assistance with respect to market research and analysis.
- ▼ As of the date of this report, Qaiser Mian AACI has fulfilled the requirements of The Appraisal Institute of Canada Continuing Professional Development Program for designated and candidate members, and is a member in good standing of the Appraisal Institute of Canada.

Qaiser Mian AACI
AIC Member #: 904734

Signing Date: September 30, 2019
[Attachments and Appendices](#)

Appendix A - Altus' Terms of Reference

Appendix A Altus' Terms of Reference

Ordinary Assumptions and Limiting Conditions

Definitions

Ordinary Assumptions and Limiting Conditions

The following Ordinary Assumptions and Limiting Conditions apply to **real estate appraisals** prepared by Altus Group ("Altus"). Any Special Conditions have been added as required.

The certification that appears in this appraisal report is subject to compliance with the Personal Information and Electronics Documents Act (PIPEDA), Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP), Professional Standards of the Royal Institution of Chartered Surveyors (RICS), International Valuation standards (IVS), published by the International Valuation Standards Council and any other Appraisal Organization to which the author is a member and the following conditions.

1. This report is prepared only for the client and authorized users specifically identified in this report and only for the specific use identified herein. No other person may rely on this report or any part of this report without first obtaining consent from the client and written authorization from the authors. Liability is expressly denied to any other person and, accordingly, no responsibility is accepted for any damage suffered by any other person as a result of decisions made or actions taken based on this report. Liability is expressly denied for any unauthorized user or for anyone who uses this report for any use not specifically identified in this report. Payment of the appraisal fee has no effect on liability. Reliance on this report without authorization or for an unauthorized use is unreasonable.
2. Because market conditions, including economic, social and political factors, may change rapidly and, on occasion, without warning, this report cannot be relied upon as of any date other than the effective date specified in this report unless specifically authorized by the author.
3. The author will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it. The property is appraised on the basis of it being under responsible ownership. Unless otherwise stated in this report, no registry office search has been performed and the author assumes that the title is good and marketable and free and clear of all encumbrances. Matters of a legal nature, including confirming who holds legal title to the appraised property or any portion of the appraised property, are outside the scope of work and expertise of the author. Any information regarding the identity of a property's owner or identifying the property owned by the listed client and/or applicant provided by the author is for informational purposes only and any reliance on such information is unreasonable. Any information provided by the author does not constitute any title confirmation. Any information provided does not negate the need to retain a real estate lawyer, surveyor or other appropriate experts to verify matters of ownership and/or title.
4. Verification of compliance with governmental regulations, bylaws or statutes is outside the scope of work and expertise of the author. Any information provided by the author is for informational purposes only and any reliance is unreasonable. Any information provided by the author does not negate the need to retain an appropriately qualified professional to determine government regulation compliance.
5. No survey of the property has been made. Any sketch in this report shows approximate dimensions and is included only to assist the reader of this report in visualizing the property. It is unreasonable to rely on this report as an alternative to a survey, and an accredited surveyor ought to be retained for such matters.
6. This report is completed on the basis that testimony or appearance in court concerning this report is not required unless specific arrangements to do so have been made beforehand. Such arrangements will include, but not necessarily be limited to: adequate time to review the report and related data, and the provision of appropriate compensation.
7. Unless otherwise stated in this report, the author has no knowledge of any hidden or unapparent conditions (including, but not limited to: its soils, physical structure, mechanical or other operating systems, foundation, etc.) of/on the subject property or of/on a neighbouring property that could affect the value of the subject property. It has been assumed that there are no such conditions. Any such conditions that were visibly apparent at the time of inspection or that became apparent during the normal research involved in completing the report have been noted in the report. This report should not be construed as an environmental audit or detailed property condition report, as such reporting is beyond the scope of this report and/or the qualifications of the author. The author makes no guarantees or warranties, express or implied, regarding the condition of the property, and will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. The bearing capacity of the soil is assumed to be adequate.
8. The author is not qualified to comment on detrimental environmental, chemical or biological conditions that may affect the market value of the property appraised, including but not limited to pollution or contamination of land, buildings, water, groundwater or air which may include but are not limited to moulds and mildews or the conditions that may give rise to either. Any such conditions that were visibly apparent at the time of inspection or that became apparent during the normal research involved in completing the report have been noted

in the report. It is an assumption of this report that the property complies with all regulatory requirements concerning environmental, chemical and biological matters, and it is assumed that the property is free of any detrimental environmental, chemical legal and biological conditions that may affect the market value of the property appraised. If a party relying on this report requires information about or an assessment of detrimental environmental, chemical or biological conditions that may impact the value conclusion herein, that party is advised to retain an expert qualified in such matters. The author expressly denies any legal liability related to the effect of detrimental environmental, chemical or biological matters on the market value of the property.

9. The analyses set out in this report relied on written and verbal information obtained from a variety of sources the author considered reliable. Unless otherwise stated herein, the author did not verify client-supplied information, which the author believed to be correct.
10. The term "inspection" refers to observation only as defined by CUSPAP and reporting of the general material finishing and conditions observed for the purposes of a standard appraisal inspection. The inspection scope of work includes the identification of marketable characteristics/amenities offered for comparison and valuation purposes only.
11. The opinions of value and other conclusions contained herein assume satisfactory completion of any work remaining to be completed in a good and workmanlike manner. Further inspection may be required to confirm completion of such work. The author has not confirmed that all mandatory building inspections have been completed to date, nor has the availability/issuance of an occupancy permit been confirmed. The author has not evaluated the quality of construction, workmanship or materials. It should be clearly understood that this visual inspection does not imply compliance with any building code requirements as this is beyond the professional expertise of the author.
12. The contents of this report are confidential and will not be disclosed by the author to any party except as provided for by the provisions of the CUSPAP and/or when properly entered into evidence of a duly qualified judicial or quasi-judicial body. The author acknowledges that the information collected herein is personal and confidential and shall not use or disclose the contents of this report except as provided for in the provisions of the CUSPAP and in accordance with the author's privacy policy. The client agrees that in accepting this report, it shall maintain the confidentiality and privacy of any personal information contained herein and shall comply in all material respects with the contents of the author's privacy policy and in accordance with the PIPEDA.
13. The author has agreed to enter into the assignment as requested by the client named in this report for the use specified by the client, which is stated in this report. The client has agreed that the performance of this report and the format are appropriate for the intended use.
14. This report, its content and all attachments/appendices and their content are the property of the author. The client, authorized users and any appraisal facilitator are prohibited, strictly forbidden, and no permission is expressly or implicitly granted or deemed to be granted, to modify, alter, merge, publish (in whole or in part) screen scrape, database scrape, exploit, reproduce, decompile, reassemble or participate in any other activity intended to separate, collect, store, reorganize, scan, copy, manipulate electronically, digitally, manually or by any other means whatsoever this appraisal report, appendices, all attachments and the data contained within for any commercial, or other, use.
15. If transmitted electronically, this report will have been digitally signed and secured with personal passwords to lock the appraisal file. Due to the possibility of digital modification, only originally signed reports and those reports sent directly by the author can be reasonably relied upon.
16. Where the intended use of this report is for financing or mortgage lending or mortgage insurance, it is a condition of reliance on this report that the authorized user has or will conduct lending, underwriting and insurance underwriting and rigorous due diligence in accordance with the standards of a reasonable and prudent lender or insurer, including but not limited to ensuring the borrower's demonstrated willingness and capacity to service his/her debt obligations on a timely basis. Liability is expressly denied to those that do not meet this condition. Any reliance on this report without satisfaction of this condition is unreasonable.
17. Unless specifically stated, the value conclusions contained in this report applies to the real estate only, and does not include personal property, machinery and equipment, trade fixtures, business value, goodwill or other non-realty items. This report is limited to surface rights only and does not include any inherent subsurface or mineral rights. Income tax considerations have not been included or valued unless so specified in this report. No representations are made as to the value changes that may be attributed to such considerations.
18. It is assumed that legal, engineering, or other professional advice, as may be required, has been or will be obtained from properly qualified legal professional sources and that this report will not be used for guidance in legal or technical matters such as, but not limited to, the existence of encroachments, easements or other discrepancies affecting the legal description of the property. It is assumed that

there are no concealed or dubious conditions of the subsoil or subsurface waters including water table and flood plain, unless otherwise noted.

19. It is assumed that any and all liabilities that might accrue against the real estate such as taxes, hypothecs, contracts or services of any kind, are paid when due. Taxes and other fees (e.g. broker commissions) incurred during the hypothetical sale of the real estate are not addressed in this report.
20. This report may contain estimates of future financial performance, estimates or opinions that represent the author's view of reasonable expectations at a particular point in time, but such information, estimates or opinions are not offered as predictions or as assurances that a particular level of income or profit will be achieved, that events will occur, or that a particular price will be offered or accepted.

Actual results achieved during the period covered by our prospective financial analyses will vary from those described in this report, and the variations may be material.

21. This report assumes that the property will be competently managed, leased and maintained by financially sound owners over the expected period of ownership. This engagement does not entail an evaluation of management's or owner's effectiveness, nor is the author or Altus responsible for future marketing efforts and other management or ownership actions upon which actual results will depend.
22. The value is based on the purchasing power of the Canadian dollar as of that date.

Definitions

Altus InSite Investment Trends Survey

Altus InSite undertakes a survey of the Canadian real estate industry to determine the informed consensus opinion on investment performance trends and valuation parameters from Canada's key investors, lenders and other opinion leaders. The results of this quarterly survey are presented online as a series of data reports and charts for the Office, Retail, Industrial and Multiple Unit Residential asset classes for seven major markets across Canada.

Highest and Best Use

Highest and best use may be defined as:

“The reasonably probable use of a property, that is physically possible, legally permissible, financially feasible and maximally productive, and that results in the highest value.”³

The highest and best use of both land as though vacant and the property as developed must meet four criteria. The highest and best use must be:

Physically Possible: The size, shape, terrain and soil conditions of a parcel of land affect its physical utility and adaptability. The size, design and condition of an improved property may suggest that rehabilitation, conversion or demolition is in order

Legally Permissible: Depends on public restrictions such as zoning, building codes, historic preservation regulations and environmental controls, as well as the private or contractual restrictions found in deeds and long-term leases

Financially Feasible: Uses that should produce returns that exceed the income required to satisfy operating expenses and debt service (interest and amortization)

Maximum Return: Among financially feasible uses, the use that produces the highest price or value consistent with the rate of return warranted by the market.

Fee Simple⁴

An interest consisting in absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, expropriation, police power and escheat.

³ *Canadian Uniform Standards of Professional Appraisal Practice, Appraisal Institute of Canada. 2018. Section 2.26*

⁴ *The Appraisal of Real Estate: 3rd Canadian Edition. Vancouver. University of British Columbia Real Estate Division. 2010. Section 6.2*

Leased Fee⁵

An ownership interest held by the landlord with the rights of use and occupancy conveyed by the lease to others. The rights of the lessor (the leased fee owner) and the leased fee are specified by contract terms contained with the lease.

Leasehold⁶

The interest held by the lessee (the tenant or renter) through a lease conveying the rights of use and occupancy for a stated term under certain conditions.

Liquidity

I have provided my opinion on the liquidity of the subject property if it were placed on the open market for sale. The summary shows a single-word description from Excellent through Poor, explained as follows:

Excellent Liquidity

- May achieve a price above market value and within a brief marketing period
- ▼ High competition among buyers, keen and able to make an acquisition
- ▼ Rare availability of similar assets
- ▼ A high availability of both debt and equity
- ▼ Brief marketing period is possible
- ▼ Evidence of similar properties achieving price above a common view of market value
- ▼ Overwhelming strengths of investment character

Good Liquidity

- Likely to achieve market value within a reasonable marketing period
- ▼ Buyers, keen and able to make an acquisition
- ▼ Restricted availability of similar assets
- ▼ A good availability of both debt and equity
- ▼ Reasonable marketing period and brokerage effort required in order to achieve market value
- ▼ High confidence of brokers able to achieve market value estimate
- ▼ Similar properties demonstrate pricing at a common view of market value
- ▼ Investment character strengths outweigh the weaknesses

Modest Liquidity

- Value may be difficult to achieve; a more extensive marketing period may be required
- ▼ Selective and few buyers
- ▼ Demand/supply of investment opportunities is in balance
- ▼ A good availability of debt but at higher margins
- ▼ More cautious sources of equity
- ▼ Strengths and weaknesses of investment character offset each other
- ▼ More extensive marketing effort required in order to achieve value
- ▼ Similar properties demonstrate pricing at a common view of market value

⁵ *The Appraisal of Real Estate: 3rd Canadian Edition. Vancouver. University of British Columbia Real Estate Division. 2010. Section 6.4*

⁶ *Ibid.*

Poor Liquidity

Value is difficult to gauge and achieve notwithstanding an extensive marketing period

- ▼ Very few buyers and limited to a speculative nature only
- ▼ Unusual assets, or high, or potentially high availability of similar assets
- ▼ Poor availability of debt even at higher margins
- ▼ Very cautious sources of equity
- ▼ Limited trading activity
- ▼ Extensive marketing period required
- ▼ Overwhelming weaknesses of investment character
- ▼ Low broker confidence

Market Value

Market Value is defined by the Appraisal Institute of Canada in the *Canadian Uniform Standards of Professional Appraisal Practice*⁷ as:

“The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.”

Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- ▼ buyer and seller are typically motivated;
- ▼ both parties are well informed or well advised, and acting in what they consider their best interests;
- ▼ a reasonable time is allowed for exposure in the open market;
- ▼ payment is made in terms of cash in Canadian dollars or in terms of financial arrangements comparable thereto; and
- ▼ the price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Exposure Time

Exposure Time is an estimate of the length of time that the property interest being appraised would have been offered on the market before the hypothetical consummation of a sale at the estimated value on the effective date of the appraisal.

Exposure Time is a retrospective estimate based upon experience and the opinions gathered from real estate brokers active in the field. The estimate of time period for reasonable exposure is not intended to be a prediction, but is an estimate of the amount of time that the property would have required to be exposed for sale on the open market in an appropriate manner, and using an experienced broker.

⁷ *Canadian Uniform Standards of Professional Appraisal Practice*, Appraisal Institute of Canada. 2018. Section 18.8.4.i.