LEE COUNTY VISITOR & CONVENTION BUREAU

LODGING PRODUCT STUDY, LEE COUNTY, FLORIDA
JANUARY 2015

THE HIGHLAND GROUP
HOTEL INVESTMENT ADVISORS

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THE HIGHLAND GROUP

January 7, 2015

Ms. Tamara Pigott
Executive Director
Lee County Visitor & Convention Bureau
The Beaches of Fort Myers & Sanibel
2201 Second Street, Suite 600
Fort Myers, Florida 33901

By email: tpigott@leegov.com

Dear Ms. Pigott,

We are pleased to present this lodging product study to the Lee County Visitor & Convention Bureau. The study is intended to be a tool for the County as it makes plans to sustain and build market share and increase lodging revenue. Research involved selection of comparable or competing counties and markets for evaluation, product assessment, data gathering and analysis, and interviews in the marketplace. Revenue opportunities and potential program initiatives are presented based on our findings.

We have done our best to obtain accurate information for you. However, since we relied on interviews as well as other sources some information may be incomplete or vary from actual. Conclusions are based on research ended December 19, 2014 and we cannot be responsible for events occurring subsequent to that date, or not foreseen. Our projections, if any, are based on assumptions, and we do not warrant that they will be achieved. This report has been prepared for use by Lee County Visitor & Convention Bureau in its product development and planning process, and for presentation to select members of the Lee County community. It is restricted against inclusion in offering statements or other uses without our express written permission.

Please do not hesitate to call as we can be of further assistance or whenever questions arise concerning this report or the underlying research and analysis.

Sincerely,

The Highland Group

The Highland Group Hotel Investment Advisors, Inc.

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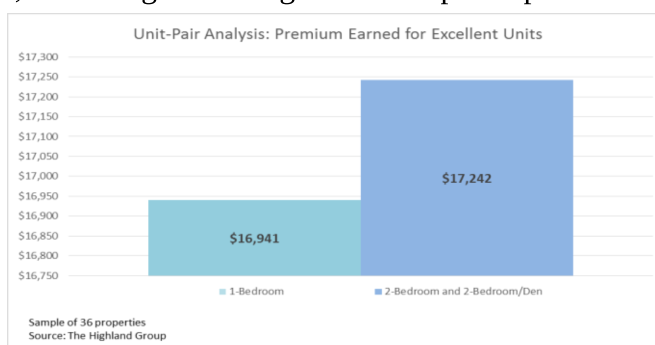
Executive Summary — Lee County, Florida

Lee County tourism product is very good. Both private buildings and public infrastructure have obviously been improved over time. We did not find that Lee County product is worse than nearby destinations or unsatisfactory overall. But, we found that Lee County has risks to address and an opportunities to significantly improve tax revenues and property owner revenues.

Lodging is either regularly improved or deteriorates rapidly. Reinvestment and renovation are crucial to keep Lee County competitive. Five key statistics in this study highlight the benefits of action and risks of complacency for Lee County.

$16,627: Vacation rental units in excellent condition average $16,627 more revenue annually than units that are in fair to poor condition, according to the Highland Group unit pair analysis. Renovation pays.



$2: Lee County only gained $2 in hotel average daily rate between 2009 and 2013, well below gains in comparable counties. The national and Florida average increases were more than five-times higher, according to Smith Travel Research (STR). Improving revenue management can benefit both property owners and the county.

24%: Only 24 percent of Lee County visitors are visiting for the first time and this figure has been dropping, according to Davidson-Peterson Associates.

52: Average age of visitors to Lee County is 52 and has been rising, according to Davidson-Peterson Associates. This is unusually high and puts the county at risk of aging out of a viable clientele and becoming identified as obsolete.

10%: Only 10 percent of visitors identify Lee County as more expensive than anticipated, according to Davidson-Peterson Associates. This is unusually low and means that the county is missing revenue opportunities.

Answers to four key questions addressed in this study are highlighted in this executive summary and presented in more detail in the following report.

Is Lee County losing market share to other destinations?

Lee County has lost hotel revenue share, but slowly. STR statistics show that Lee County had 19.6 percent of total hotel revenues among 5 counties included for comparison in 2009. Lee County's share of revenues declined to 18.2 percent in 2013. All five counties gained revenue over this period. The reduction of 1.4 percent lodging revenue market share means that other counties gained hotel revenue faster than Lee County from the depth of the recession through the bulk of the recovery.

With the addition of vacation rentals, data from county tax collectors shows that Lee County increased from 22 to 24 percent of total tax revenues among the five counties from 2007 to 2014. These are two peak years and this indicates that the county is competitive when vacation rentals are included with hotel revenues. However, Lee County collected 24 percent of lodging revenues in the five counties while it has 25 percent of lodging inventory. Although close, Lee County is just below its fair market share of revenues of vacation rentals and hotels. In our opinion, Lee County can readily grow overall revenues to fair market share. With better revenue management and better renovation of lodging product Lee County should be able to exceed fair market share.

How does Lee County lodging product compare to other markets?

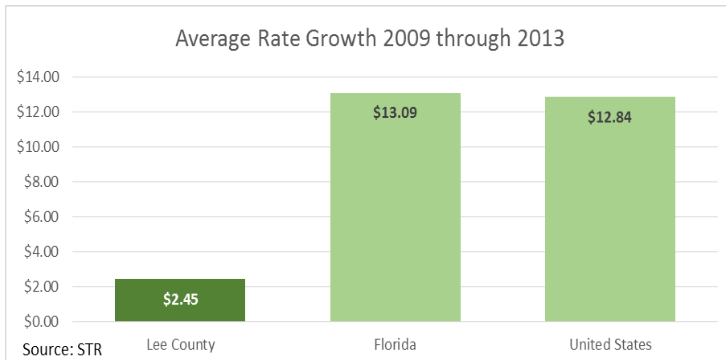
All five counties have the same types of lodging product available, but the mix is different in each county and market. STR statistics show that Lee County hotel lodging inland and on Fort Myers Beach tends to be newer on average than other markets compared, while Sanibel and Captiva product is uniquely concentrated from the late 1960's and 1970's.

Lee County hotel lodging product, by number of rooms, is more concentrated in the upscale/upper upscale category and less in the luxury category than some of the other counties, according to STR statistics. STR statistics also show that Lee County has stronger brand representation, as a share of county inventory, than some of the other counties and its brand representation is broadly distributed across the major brands.

TripAdvisor data indicates that Lee County has more than its fair share of vacation rental inventory. With more than 2,500 vacation rental units, Lee County has 34 percent of the vacation rentals among the 5 comparable counties. According to visitor ratings from TripAdvisor, Lee County beach vacation rentals earn positive ratings, but are not at the top of their class. In our opinion, the quality of product in Lee County could be improved.

Is Lee County missing revenue opportunities?

Yes. Revenue management in the County is less productive than it could be.



Overall, we think the county is underpriced compared to its potential. National chain operators are dramatically improving revenues with sophisticated revenue management technology and techniques. Independent hotel and vacation rental operators may lack awareness of, or access to, revenue management training and skills. Lee County Visitor & Convention Bureau could have a valuable role improving revenue management, particularly for independent hotel and vacation rental operators by including revenue management training as part of its Team Tourism programming.

And better product generates higher rates.

While some revenue gains are available from improved revenue management, in our opinion incremental revenue increases are available to Lee County properties with appropriate product renovation. On average, "A" quality vacation rental units earn $16,627 more in annual revenue than "C" or "D" quality units, based on the Highland Group "unit-pair" analysis. By implementing purposeful programs to encourage renovation, Lee County Visitor & Convention Bureau can increase revenues for both property owners and the county.

Additionally, Lee County has older visitors, on average, and fewer first time visitors than comparable markets. We see a significant risk that Lee County will develop an image as out-of-date and a place for older people. This poses a significant risk to future revenues. Purposeful design for renovations can be an integral part of protecting and enhancing future revenues.

Does Lee County Lodging product need to be improved to be competitive for the future?

Yes. Lodging requires constant upgrading. As with all counties, Lee County lodging will need to be upgraded to be competitive for the future.

A Role for Lee County Visitor & Convention Bureau

Lee County should have a long-term program to stimulate and sustain lodging renewal. The Lee County Visitor & Convention Bureau should play a valuable role to educate, inspire, excite and recognize owners and management companies who implement renovations that are desirable for their Lee County setting.

Lee County accommodations providers can use purposeful design to reflect the unique and special character of each of its destinations. Renovations carried out by property owners can add value by showcasing the unique sense of place that differentiates Fort Myers Beach from Sanibel or Captiva or destinations outside Lee County. In our opinion, lodging product in Lee County does not generally take advantage of a design style that is unique to the county or its destination markets. Design can be a tool the Lee County Visitor & Convention Bureau uses to stimulate interest in its destinations, attract new first-time visitors, and reach a younger market.

We see a special opportunity for renewal on Sanibel Island and Captiva. In our opinion, architecture will either be purposefully developed into an iconic aspect of these islands or will define them as tired and out-of-date. The architecture is uniquely from the late 1960s and 1970s; an era which is becoming desirable and fashionable for interior and building design. We suggest a program to focus design attention on lanais and unit entries to begin establishing its architecture as an asset for the islands.

Methodology

This Lee County lodging product study is based on an evaluation of lodging in Lee County and how it compares to select markets. The comparison included product evaluation on site as well as statistical analysis.

We visited Lee County, toured a broad selection of lodging product across the County and interviewed local lodging operators – both hotel and vacation rental - as well as Visitor & Convention Bureau representatives. We made a preliminary selection of markets to use for comparison based on Lee County interviews, geography, lodging selection patterns and our knowledge of the industry. The initial group of counties included Sarasota, Manatee, Monroe, Pinellas, Walton, Bay, Charlotte, Hillsborough, Collier, Martin, St. Lucie and Brevard. We narrowed the initial list of counties to five, based on interviews about visitor lodging selection patterns. The five are Sarasota, Manatee, Pinellas, Collier and Monroe. After visiting the five and assessing data, we further developed the analysis around Pinellas, Collier, Monroe and Manatee Counties compared to Lee County.

In addition to evaluating the counties overall, we evaluated select markets within the counties. From an initial list of Sarasota, Bradenton, St. Petersburg, Clearwater, Longboat Key, Marco Island, Naples, St. Pete Beach, Siesta Key, Treasure Island, Madeira, and Islamorada, as well as Lee County markets of Sanibel, Captiva, Fort Myers, and Fort Myers Beach we selected eleven including three in Lee County to present in detail. Data from other markets was considered where appropriate and available. We visited each of these markets, evaluated product in the field and gathered statistical information.

Statistical data was drawn from county hotel tax reports, county visitor survey reports, STR data, US Census data, TripAdvisor, VRBO, AirBNB, Travelocity, AAA, Zillow, other internet resources, Florida tax data, and other sources. We also used STR hotel census data to establish market share and average hotel size in terms of gross rooms and by age of unit, market class of unit and brand. We added data on vacation rental counts from TripAdvisor and VRBO. We used

STR occupancy and average rate data and balanced this against occupancy and rate data from visitor surveys to encompass vacation rentals. We looked at revenue share using county tax data. We looked at visitor surveys to compare age of residents, first time visitor ratios and other profile characteristics. We used other data including State retail tax reports, US Census statistics, and residential home sale price averages to develop a more complete picture of the nature of each market.

By conducting a special survey of major vacation rental companies, we were able to develop information about the value of renovations. This “unit-pair study” included 38 vacation rental units. Half of the units were classified as high quality and renovated “A” units. For each “A” unit we gathered data on a matching “C” or “D” quality unit. The units paired were in the same complex, with the same number of bedrooms and bathrooms, and the same aspect to the beach (waterfront matched to waterfront, courtyard matched to courtyard). For the pairs, we collected data on unit size, aspect, and annual gross revenue.

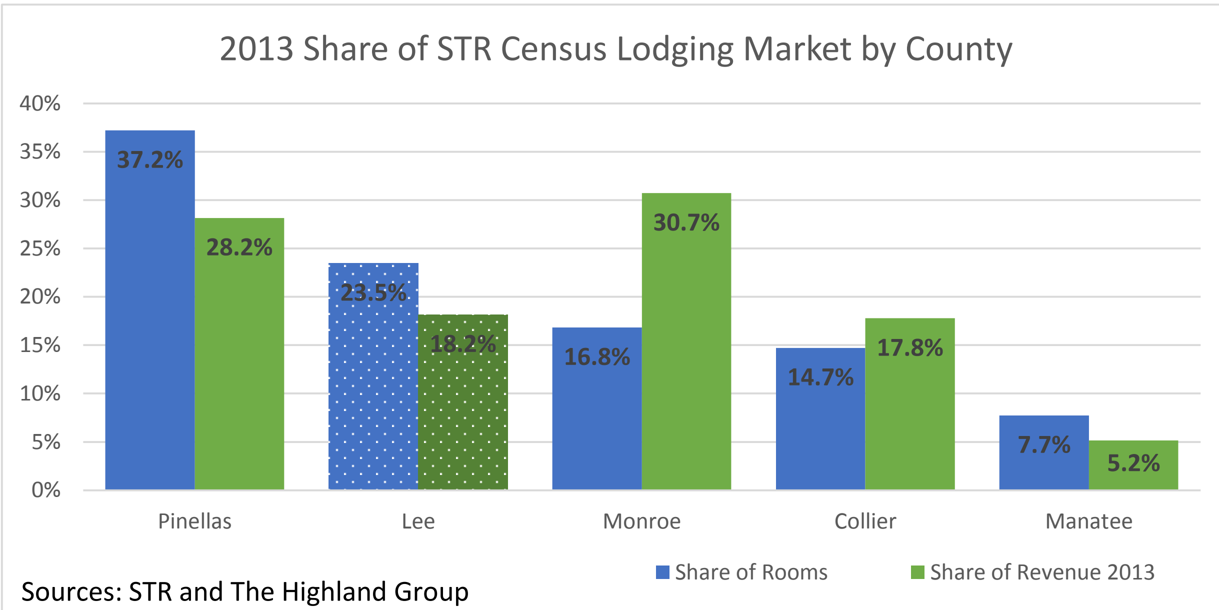
From the data and our experience in the industry, we addressed the four questions asked of this study and answered in this report:

- Is Lee County losing market share to other destinations?
- How does Lee County lodging product compare to other markets?
- Is Lee County missing revenue opportunities?
- Does Lee County Lodging product need to be improved to be competitive for the future, and how?

Market & Revenue Share

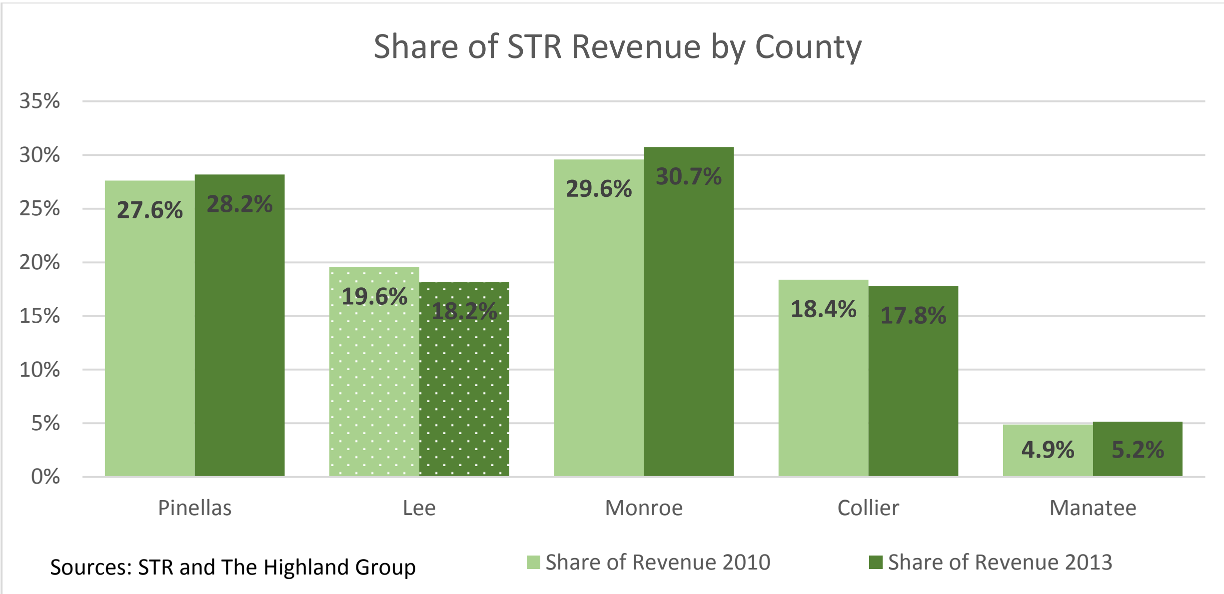
Hotels

We analyzed hotel data from STR and determined that Lee County captured less than its fair share of revenue through 2013 and its share of revenue had decreased over time in a five-county set.



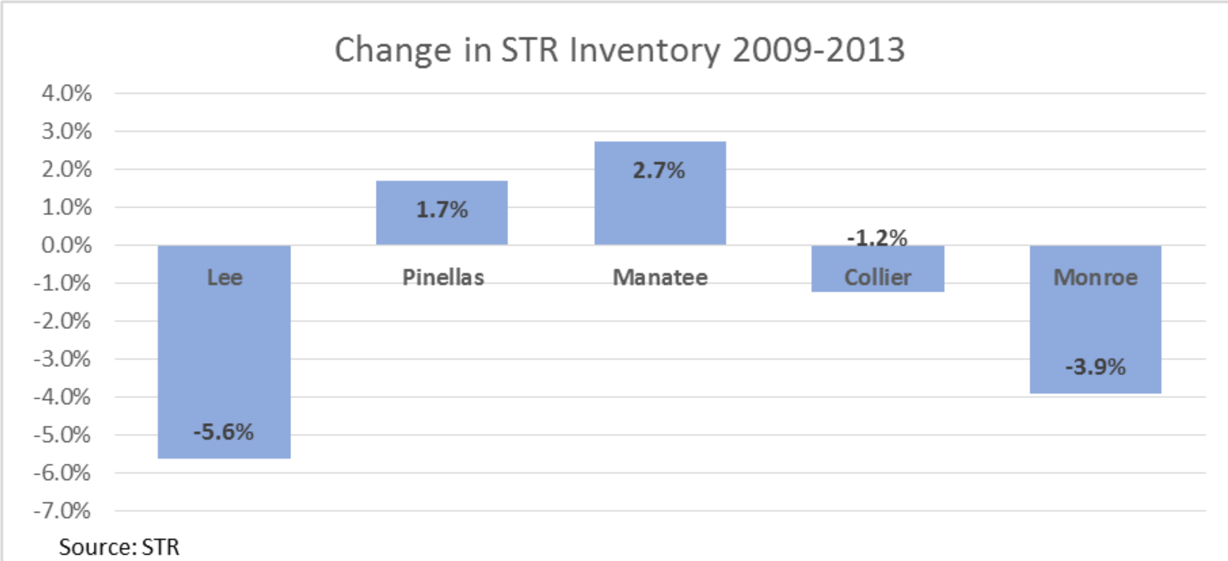
Lee County had the third highest share of hotel rooms in 2013, at 23.5 percent, among the comparable counties of Pinellas, Monroe, Collier and Manatee. However, according to STR, Lee County only captured 18.2 percent of lodging revenue. Lee County captured less than its fair share.

All five counties grew revenue from 2009 through 2013, a four year period reflecting the recession through recovery. Pinellas, Monroe and Manatee counties increased revenue faster and their share of revenue grew from 2009 to 2013. Collier County lost 0.6 percent in revenue share and Lee County lost 1.4 percent.



According to STR, 25 hotels closed in Lee County from 2010 through 2013. These hotels included 11 economy, 11 mid and upper midscale, and 3 upscale properties. For comparison, 18 hotels closed in Manatee County including 13 economy, 1 luxury, 4 mid and upper midscale. Lee County showed a loss of 5.6 percent of inventory and 1.4 percent in room revenue share. However, Monroe lost 3.9 percent inventory and gained 1.1 percent revenue share. Manatee and Pinellas gained inventory and revenue share; Manatee County gained 2.7 percent in inventory and 0.3 percent room revenue share, while Pinellas gained 1.7 percent inventory and 0.6 percent room revenue share. Collier County lost 1.2 percent of its inventory and lost 0.6 percent room revenue share.

By number, most of the properties closed in each county were low-revenue operations and should have a long term benefit as they are replaced by newer product and/or clean up a neighborhood.

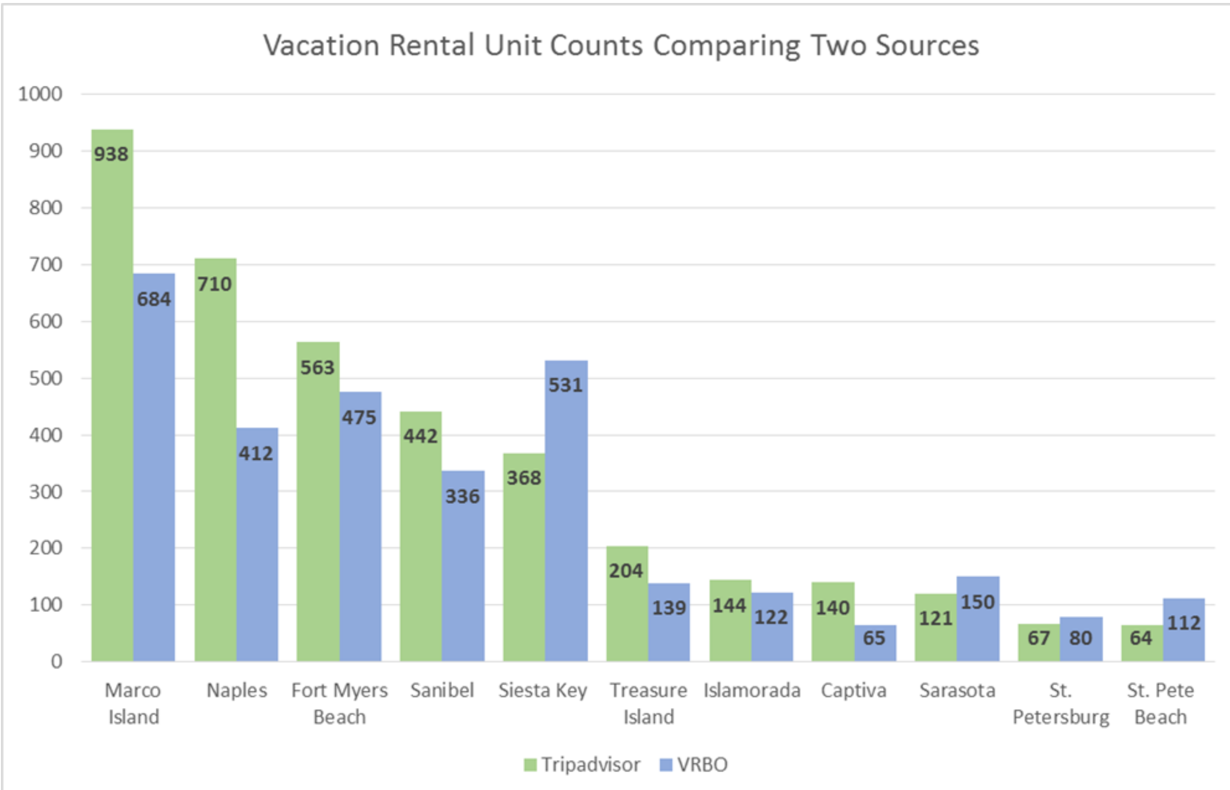


In our opinion, there are several underlying causes of Lee County's declining hotel revenue share. We consider loss of inventory a small contributor to the decrease in room revenue share. Also contributing is product mix since Monroe (Key West) and Collier (Naples) counties have a higher concentration of luxury and higher-rated hotels which skews their revenue upward. However, Lee County is well positioned for upscale and luxury product. Critically, all the other counties seem to have had more aggressive room rate management than Lee County, as discussed in the "Revenue Management" section of this report.

Vacation Rentals

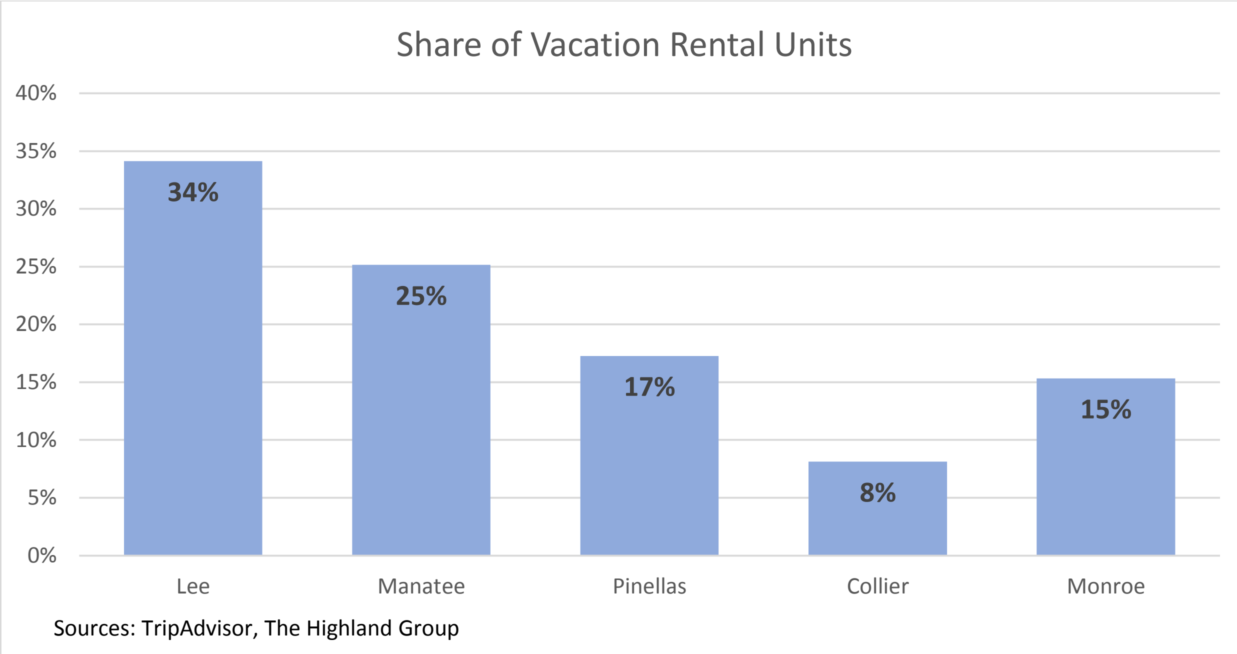
In addition to hotel lodging revenue, each county derives taxes from vacation rental units. Laws surrounding vacation rentals vary between areas and affect the number of units offered. For instance, some areas permit nightly vacation rentals while others require a minimum stay of seven or more nights. Some counties also have more buildings that restrict rentals.

The counties track vacation rentals by tax payer, some of which represent multiple units and others only one. Accordingly, there is no official data available about the number of vacation rental units. However, we understand from interviews and observation that the great majority of units are listed in VRBO as a booking channel or on TripAdvisor with reviews or as a channel, or both. The variation between these two data sources shows in the chart following. We used these sources to reflect the approximate size of the inventory in each market. We considered the figures from TripAdvisor with the lodging inventory reported in the STR census to derive an estimate of total lodging inventory.



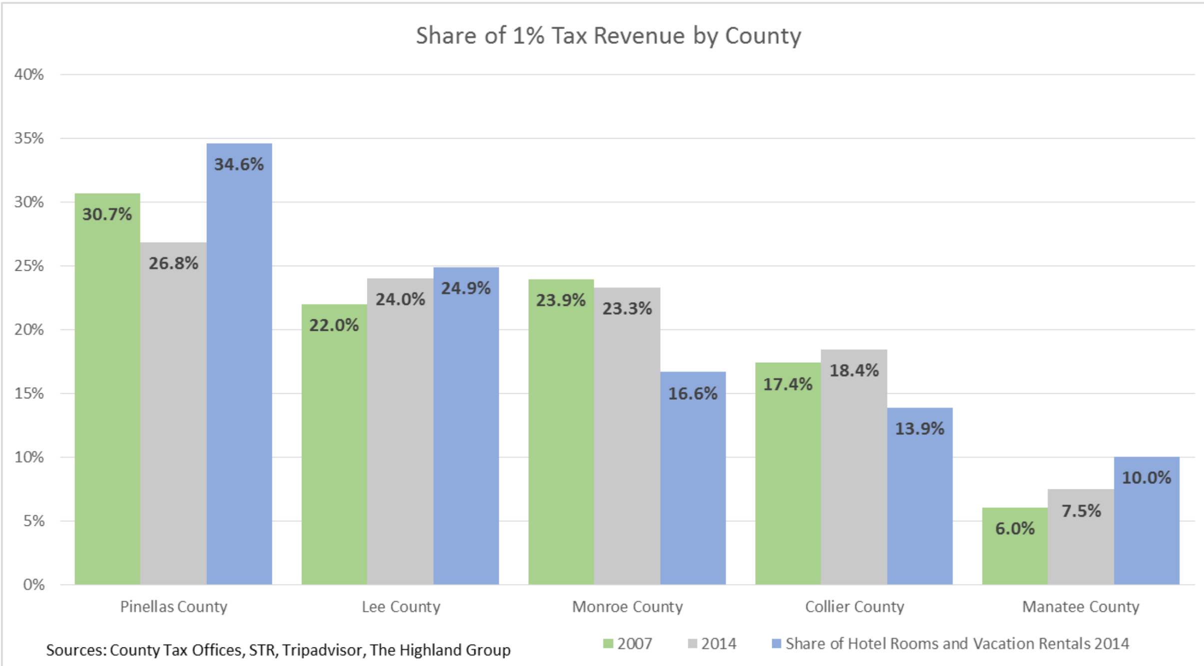
To use TripAdvisor to estimate the size of the vacation rental market in each county we queried TripAdvisor about each market area in each county. This provides a consistent estimate. However, it is not exact. Some individual units are listed in TripAdvisor, while other listings are for buildings, understating inventory. Some units are listed in more than one market, although TripAdvisor discourages this practice. Some units are listed in a market although they may be in a bordering area. Some units are not listed in TripAdvisor.

Lee County had 2,562 units according to our TripAdvisor analysis, equating to 34 percent of the total among the five counties. This includes the three communities in the chart above as well as units in Cape Coral, Estero and other areas of Lee County. Three Lee County islands represent 38 percent of total vacation rentals in the grouping of nine destinations across five counties. This is well above fair share.



During our field evaluation, we found that beach front buildings with vacation rentals on islands including Fort Myers Beach, Treasure Island, Naples and Marco Island look like they are from the same era as nearby hotels, typically the 1980's and 1990's. On these islands, vacation rentals are arrayed along the main highway, although they are also found in residential neighborhoods. Vacation rentals across the street from the beachfront hotels are characteristically in older buildings from the 1970's and 1960's. Sanibel, Captiva and Islamorada tend to have 1970's garden style resorts set back from the highway on the beach and nearby. Between Sanibel and Captiva there are around 600 vacation rentals, with multiple units in some rentals. Fort Myers Beach has over 600 on its own.

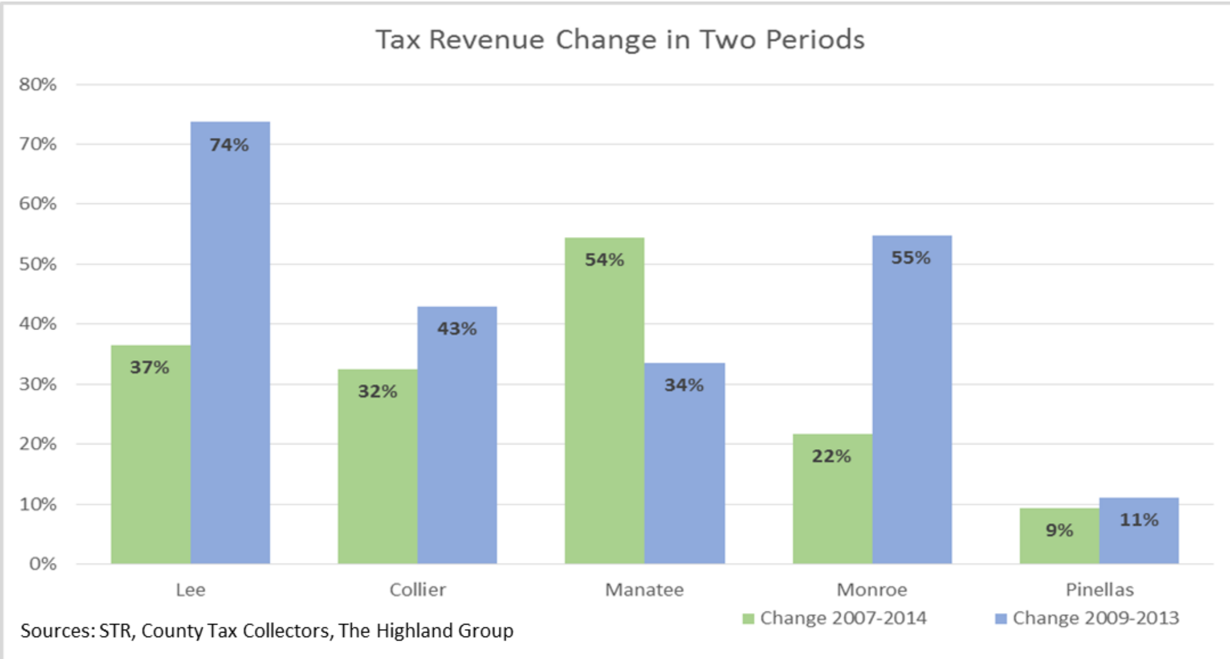
The following chart, taken from tax records provided by the tax collector of each county, shows share of revenue, and includes vacation rentals as well as hotels. County tax rates vary from year to year and county to county, although most are 4 or 5 percent of taxable revenue. To compare revenues we used 1 percent of revenues rather than total taxes collected. This was calculated as a quarter of taxes collected at 4 percent or a fifth of taxes collected at 5 percent. In years when the tax rate changed, we pro-rated based on months.



Lee County gained tax revenue share from 2007 to 2014 against these other counties overall. This could reflect a combination of factors including more aggressive collection of taxes, timing of collections and penalty receipts and improved revenues for vacation rentals or hotel revenues in Lee County compared to the others. Lee County is second only to Pinellas and is close to Monroe in terms of lodging revenue in both years shown.

While Lee County captures 24 percent of revenues, it has almost 25 percent of units, including hotel rooms and vacation rentals. Monroe County and Collier County capture more than their fair share based on number of units while Lee, Manatee, and particularly Pinellas counties capture less than their fair share.

Share of revenue in the STR hotel data (pages 9 and 10) shows a slight decrease with Lee County losing 1.4 percent revenue share over 4 years from 2010 to 2013. Conversely, the change shown in share of tax collections over 8 years from 2007 to 2014 shows a slight increase for Lee County of 2 points. We address the effect of the timing difference between the Tax Collector and STR data sets in the following chart. The chart compares the increase in revenue from 2009 to 2013 for the STR hotel data and from 2007 to 2014 for the Tax Collector data including vacation rentals and other lodging.



The tax data compares two strong years, 2007 and 2014, and is shown in green. Lee County gained more revenue than the other counties, except Manatee, based on tax data. As a result, it gained in overall share across the 8 years between strong demand periods. The STR data is shown in blue. The change from 2009 to 2013 is a reflection of how deeply the recession impacted each county and how rapidly the counties recovered. Lee County and Monroe County seem to have been hit harder than the other counties, and made up more revenue in the recovery period.

Lee County was hit particularly hard during the recession. It was absorbing an oversupply at the same time that the recession affected demand. This appears to have made the County even more vulnerable to rate discounting than most markets. Because it was hit hard, its recovery from 2009 to 2013 was bigger than the other counties shown. Even though its recovery was bigger, it showed a drop in revenue share from 2010 to 2013 as illustrated in the chart on page 9.

The data presents a mixed picture of Lee County's market share. It suggests that, while Lee County is certainly not doing badly, it has the potential to increase revenues and share captured.

Hotel Lodging & Market Comparison

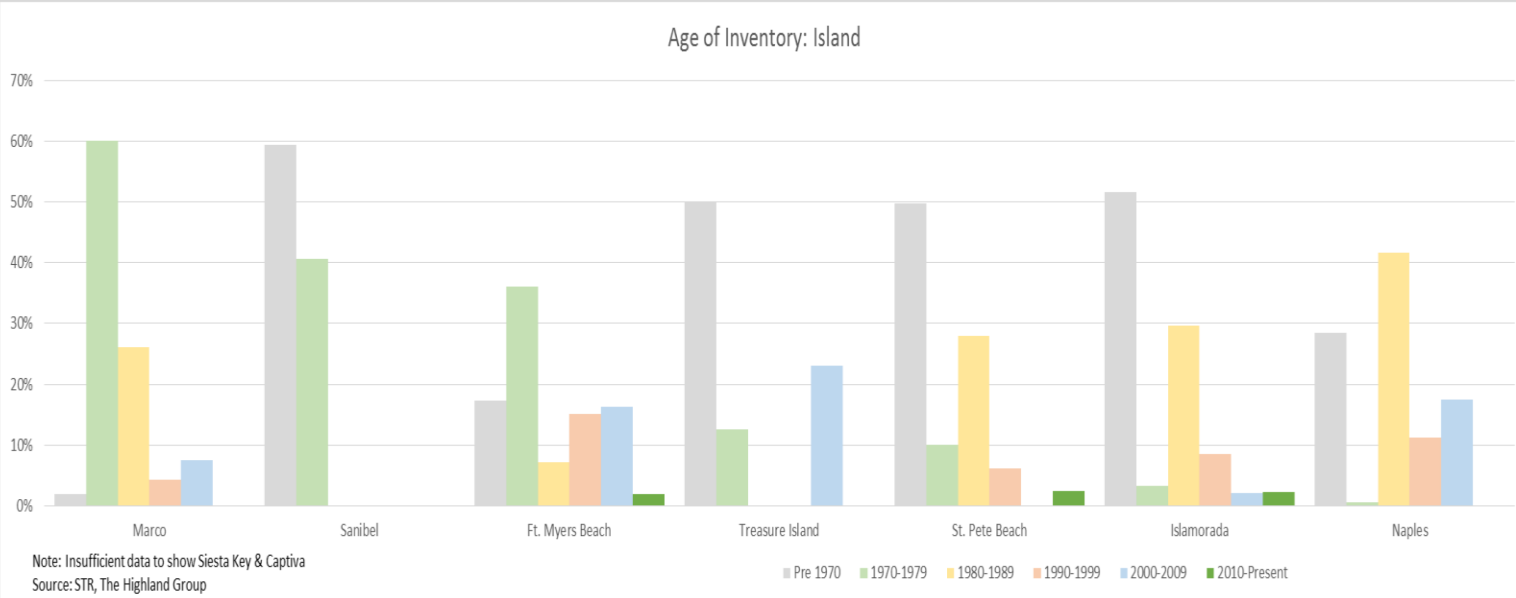
Hotel Lodging Comparison

Lodging is developed in waves as developers respond to opportunities created by tax incentives, such as in the 1980's, periodic availability of ready financing such as in late 2000s, franchise sales initiatives, replacement opportunities after hurricanes, and constraints of building regulations, among other factors. For instance, development on Sanibel is highly constrained while high rise development in Clearwater Beach has recently been encouraged by building codes. All five counties have inventory from each of the post-1950 lodging eras characterized below. Although the mix is different in each county, the look and feel of a place depends, in part, on its mix of products.

• Historic		Iconic (the Vinoy, Don Cesar)
• Tourist courts	**1950's-60's**	Small, Tamiami Trail and beach, family-owned, diminishing
• Full-service	**1980's**	Large, beach or downtown, some with public financing
• Motor hotels	**1970's**	Garden style, diminishing inland, remaining on the islands
• Limited-service	**1980's-00's**	Branded, Interstate/suburban, interior corridor after 1995
• Suite hotels	**1980's-90's**	On the islands, mid-rise, front-loaded, often tax-advantaged or condo financed

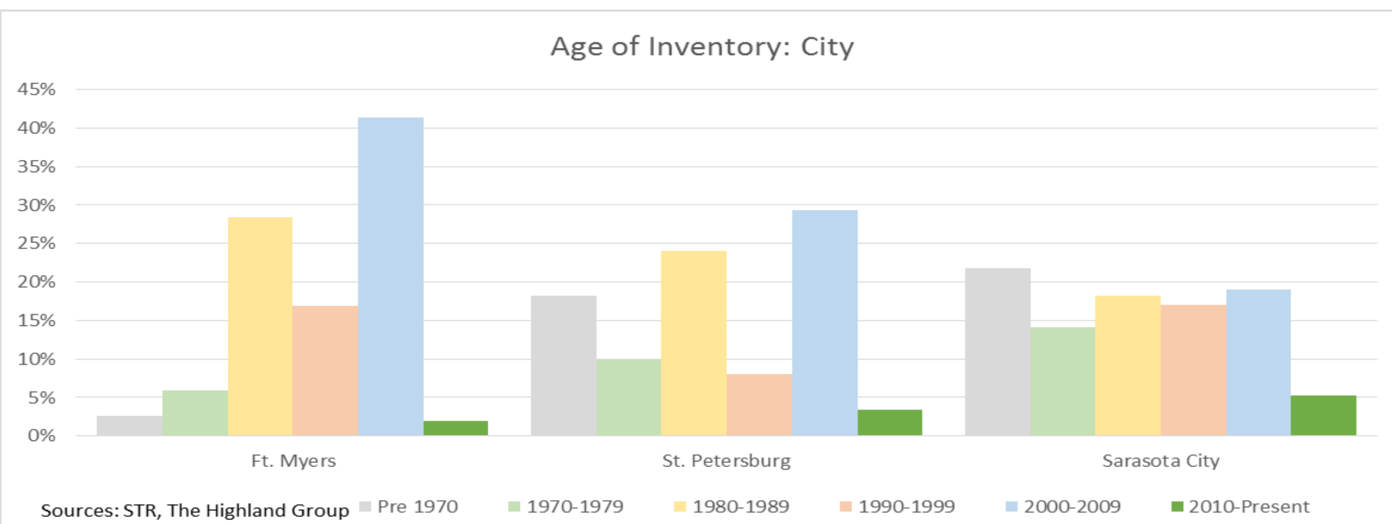
The following chart shows age of inventory for select island markets. Sanibel (and Captiva, although not shown) is highly concentrated in pre-1970 (gray) and 1970-1979 (green) inventory. Although most islands have a fair amount of pre-1970 inventory and Marco has a large amount of 1970's product, comparatively, the age of island inventory is oldest in Sanibel and Captiva. This large proportion of a 1970's style product, however, differentiates these islands from the others and is a potential market strength. If purposefully developed, incorporating design and branding related to this era, Sanibel and Captiva can use the style of island lodging to their unique advantage.

In contrast, Fort Myers Beach has newer inventory than other islands, which is also a potential advantage.



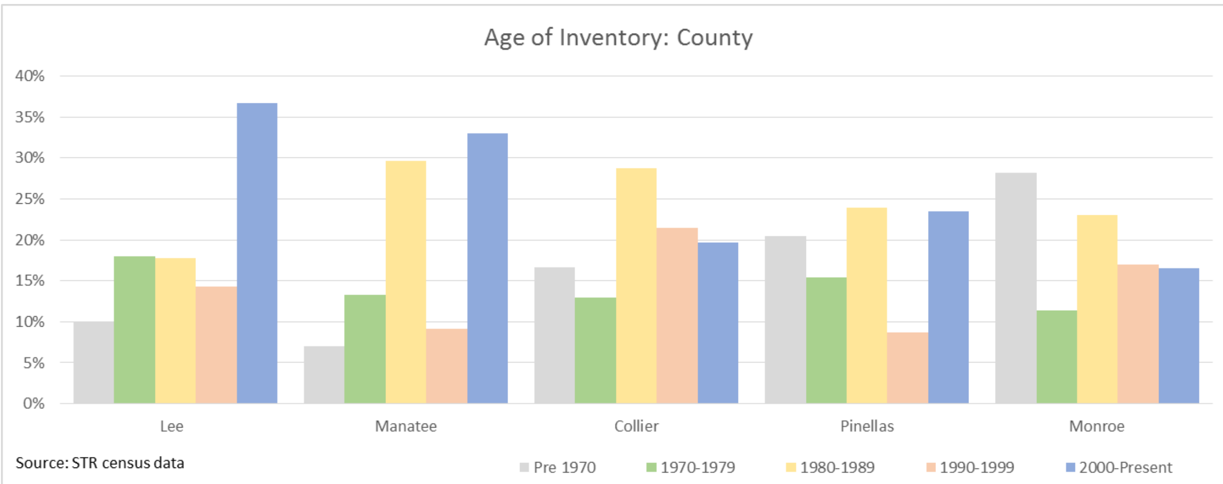
Note: Insufficient data to show Siesta Key & Captiva
Source: STR, The Highland Group

Green bars show the share of inventory from the 1970s. Peach and blue bars illustrate the share of inventory that was added or replaced after 1990. Yellow shows inventory from the 1980's. The darker green bars show newest inventory among the islands which is comparably distributed between Fort Myers Beach, St. Pete Beach and Islamorada.



Sources: STR, The Highland Group

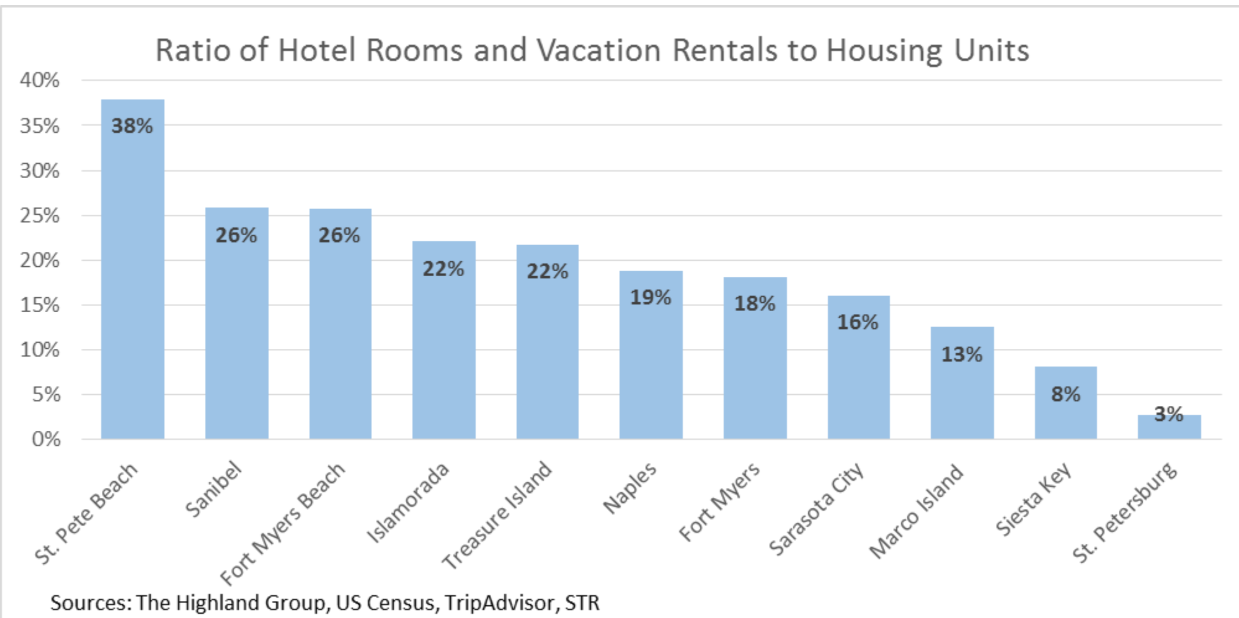
The relative ease of building inland is reflected in the more recent construction on the city side of Lee County. Advantageously, Fort Myers has more inventory from the last 30 years than the other cities. However, the majority of "new" product in Fort Myers is already five or more years old and will lose its advantage without reinvestment. Also reflected in this chart is a strong proportion of pre-1970 inventory in Sarasota and St. Petersburg. Among this inventory are desirable, historic products including the Vinoy, but there is also low quality lodging represented.



Overall county inventory ages are more evenly spaced, largely because they are less constrained by building codes and more affected by standard trends in financing and product development. Lee County has a higher proportion of new inventory (blue bar) although it is concentrated inland. The newer beachfront inventory is in Pinellas County and Clearwater Beach. Most successful at attracting new, replacement and redevelopment inventory along the beach, Clearwater Beach has re-developed in prime areas. In contrast, most of Lee County's premium rate areas on the beach have 1960's and 1970's product. In our opinion, the age and distribution of Lee County inventory will diminish its revenue potential unless it is deliberately positioned as a unique design asset.

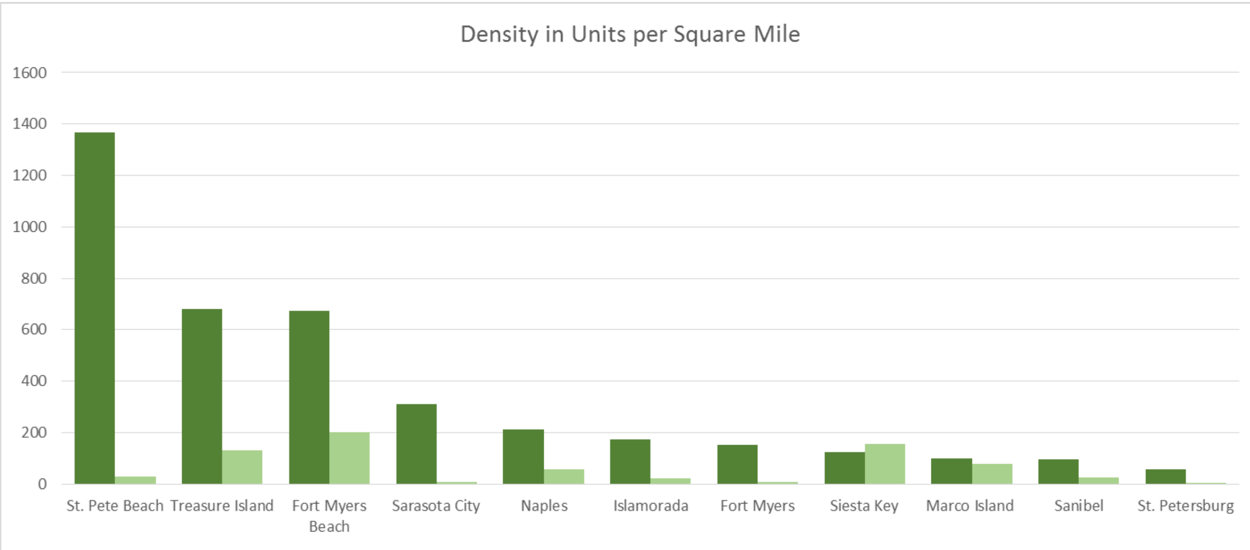
Hotel Market Comparison

As a way of comparing the nature of these hotel markets, we looked at other aspects of their communities including resident age, income, property value, population, retail sales and other variables. All these counties have retirement and tourism components to their economies, as well as other economic components. Although all these beach communities are residential as well as resort and tourist oriented, some have a stronger residential aspect than others. As shown in the chart following, we calculated the ratio of hotel rooms plus vacation rentals to housing units as a way to compare residential versus tourist orientation. St. Petersburg Beach is strongly tourist oriented. Marco Island and Siesta Key are more residentially oriented judging by their mix of units. Both Sanibel and Fort Myers Beach have about 26 percent as many hotel and vacation rental units as housing units. Fort Myers has 18 percent, which is higher than St. Petersburg and slightly higher than Sarasota. In part these figures reflect the degree to which the community is concentrated on the ocean.



We also looked at density in number of units per square mile as a way to make an empirical evaluation of the look of the beach communities we saw during our field comparison. The chart following shows the number of hotel rooms plus vacation rental units divided by square miles for the city or town as reported by the Census Bureau. Vacation rentals reflect TripAdvisor counts.

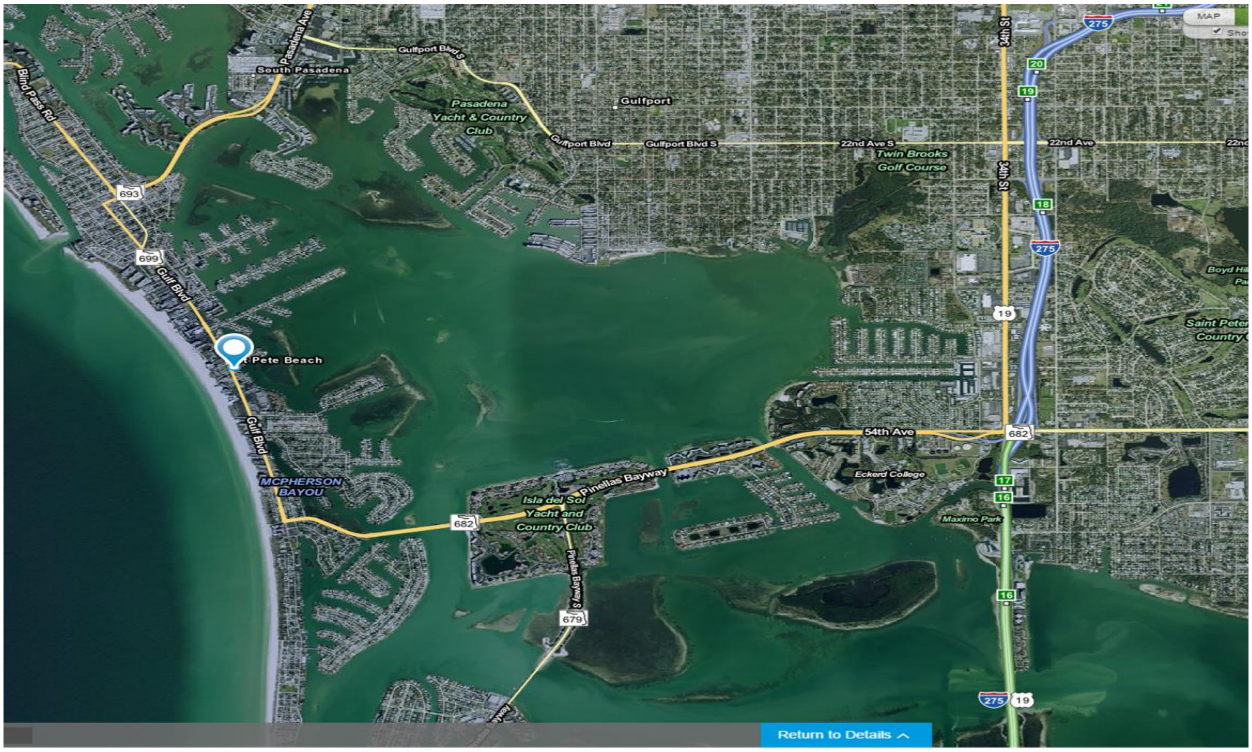
Sanibel is the least densely developed among these communities. Captiva is not listed because it does not appear as a city in Census Bureau data. St. Pete Beach is the most densely developed with lodging. Like St. Petersburg Beach, Fort Myers Beach and Treasure Island are geographically concentrated in the beachfront resort area. Marco Island is densely developed with mid and high rise buildings on the beach, but there is a broad area between the beach and the mainland that is not densely developed bringing its statistic down. Islamorada is largely developed but is low rise and therefore relatively low density.



Sources: Census, STR, TripAdvisor, The Highland Group

Aerial views of Sanibel and St. Petersburg Beach from www.open.Mapquest.org, shown on the following page, further illustrate the difference between St. Petersburg Beach, the most densely developed of these communities, and Sanibel - the least densely developed. We include this illustration to highlight how special a vacation experience is offered on Sanibel. This should carry a high value. However, realizing that value requires lodging of a caliber to support strong room rates.

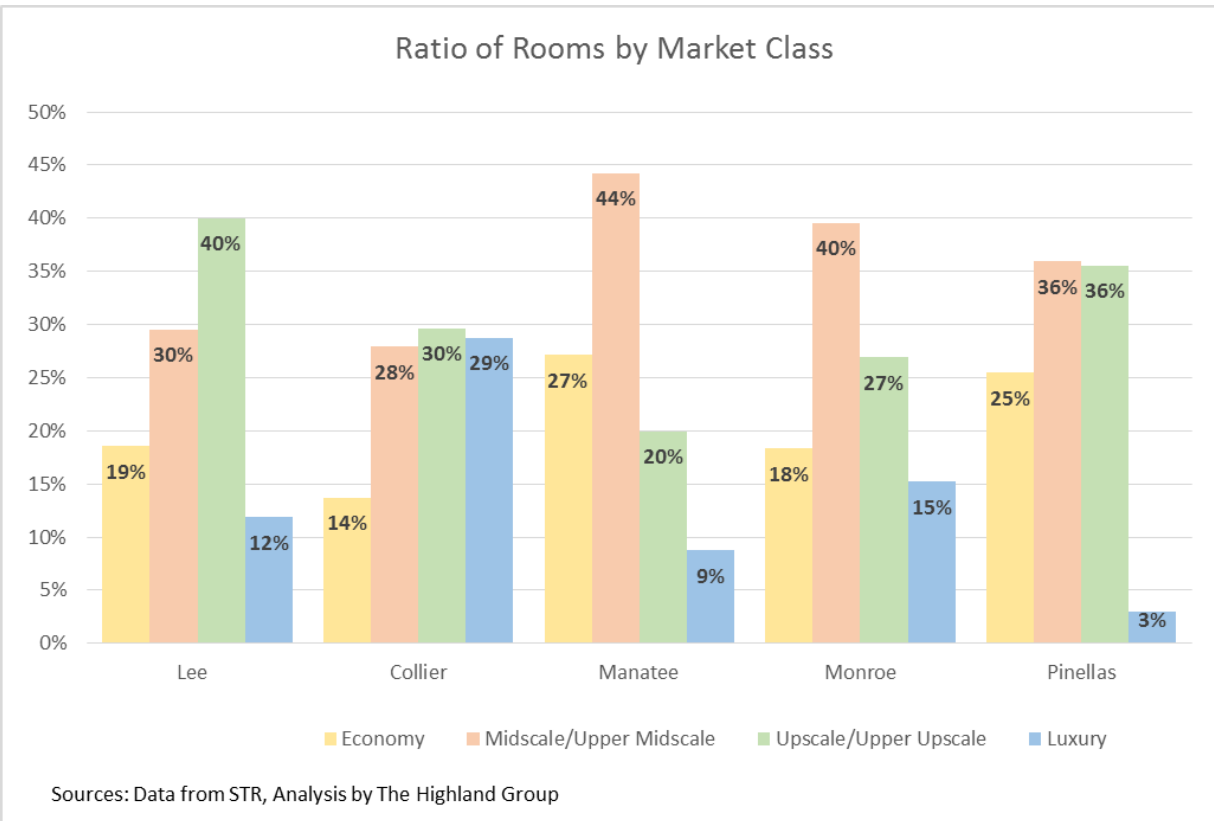
Aerial view of St. Pete Beach from www.open.Mapquest.org



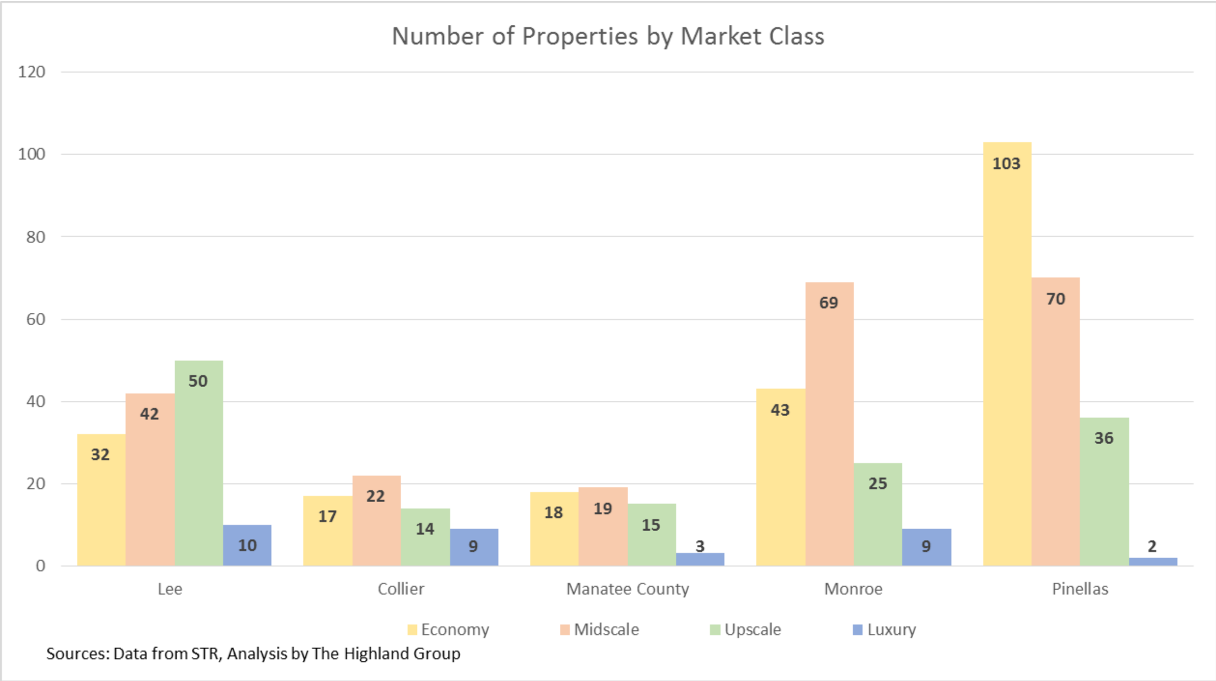
Aerial view of Sanibel from www.open.Mapquest.org

Hotel Product Mix

As part of studying the lodging market, we looked at the mix of units by age, market class, size, and brand. Collier County dominates the luxury market, which reflects Naples as well as other destinations, while Lee County has the most upscale product, shown in the chart following. The upscale class includes products such as Homewood Suites by Hilton, Hotel Indigo by IHG, Four Points by Starwood and Hyatt Place.

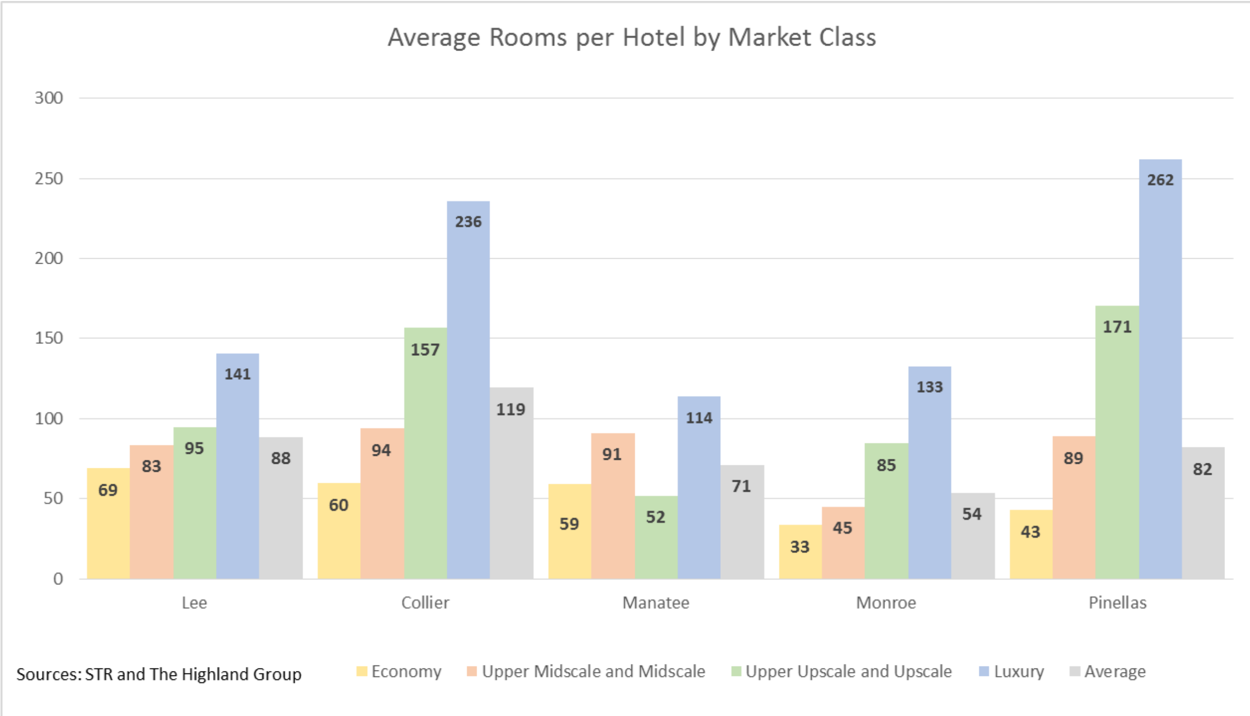


Pinellas County has the most economy properties. It also has a heavy proportion of midscale properties, which are toward the low end of the spectrum of hotels. This drives the share figures shown on page 14. Lee County has the most upscale hotels and also the most luxury hotels, although Collier County's luxury hotels have more total rooms. Lee County should be in a good position to command rate.

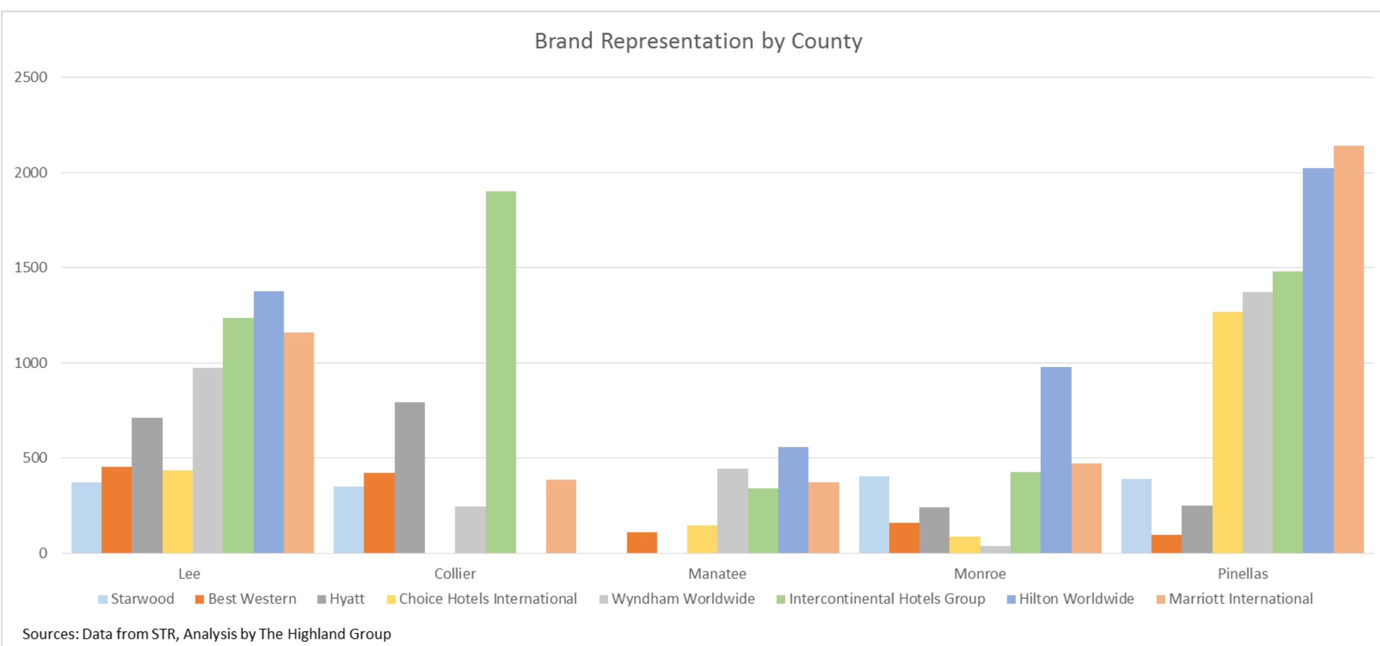


The average size of hotel by market class for each county is illustrated in the following chart. Manatee and Monroe counties have smaller hotels on average.

Luxury and upscale hotels in Collier County and Pinellas County are larger than the other counties. Large and full-service hotels generate a larger total spend and can fill rooms off season with group and other business that may not be available to smaller properties. For both counties, average size is driven by a few destination properties.

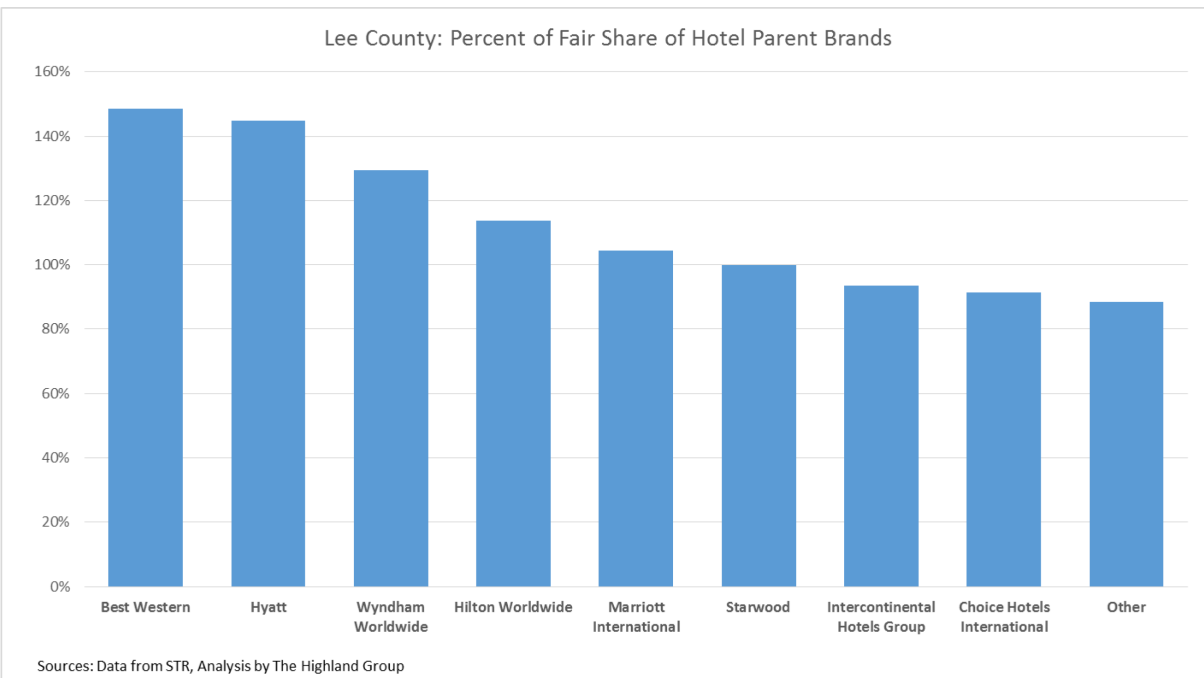


Brand representation by county is shown in the following chart. Brand representation affects the channels to which hotels have access, and their revenue management. It also affects consistency of product and the pressure brought on owners to renovate. The chart reflects families of brands. For example Marriott, Courtyard, Fairfield Inn and Residence Inn are part of the Marriott family.



Choice and Wyndham, which are the large economy to midscale brand families, have less representation in these markets than typical across the United States. Conversely, these markets have more independent hotels than typical. This suggests that the independent hotels perform well enough that they are not motivated to affiliate.

Lee County has 25 percent of the branded rooms across the five counties, which is close to its share of all rooms. It has well above 25 percent of the Hyatt and Best Western as well as Wyndham product, above fair share of the Hilton product and about fair share of the Starwood and Marriott product. It is below fair share of Intercontinental Hotels Group (IHG) and Choice product. The chart following shows how much more or less than pro rata share of rooms in each brand is held by Lee County. At 100 percent, Lee County has its pro rata share.

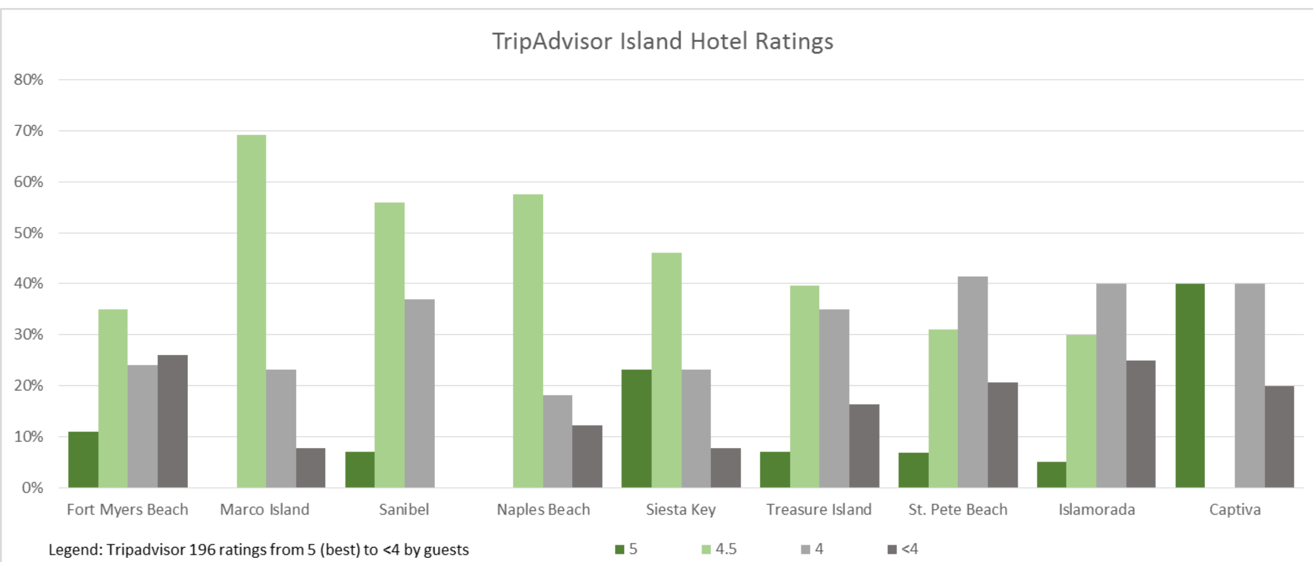


Product Improvement

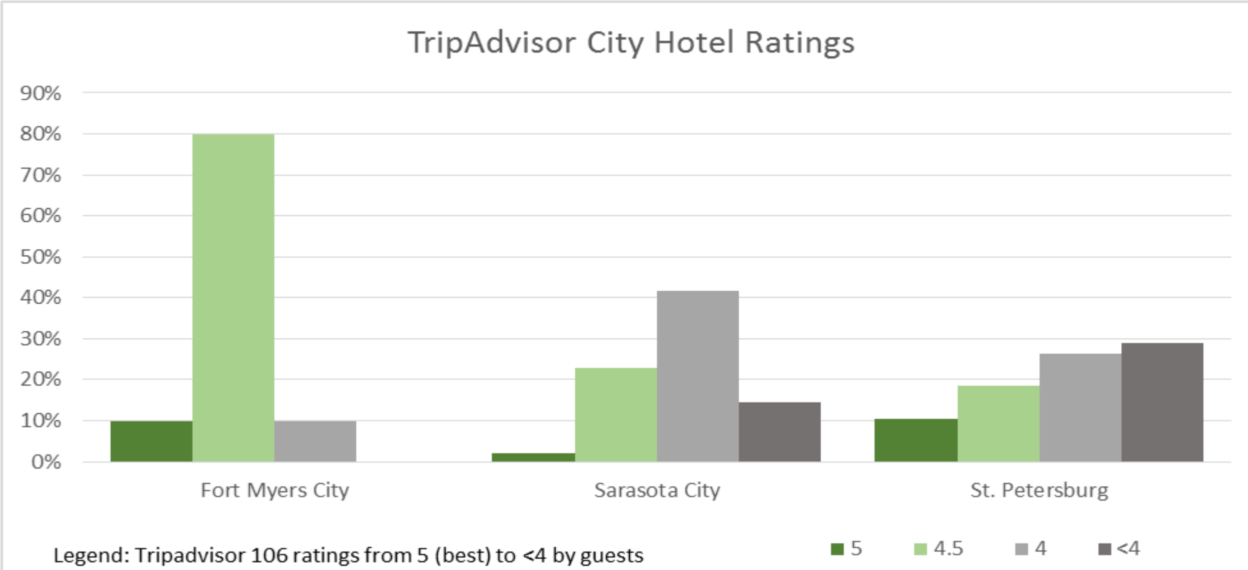
Hotel Product Evaluation

Guest evaluation is a means to assess how product compares from one market to another. We evaluated a selection of properties in our field assessment. However, we used TripAdvisor guest ratings as a consistent source for comparison of the complete hotel product offering in each market.

TripAdvisor ratings show approximately how guests perceive a hotel or vacation rental compared to their expectations. Accordingly, luxury hotels do not necessarily get the highest ratings because guest expectations are very high and difficult to meet. Similarly, economy hotels can attain strong ratings if guests perceive that their quality is excellent compared to the level they are expected to provide. TripAdvisor ratings for hotels and vacation rentals on the islands and in the cities are shown in the charts following.

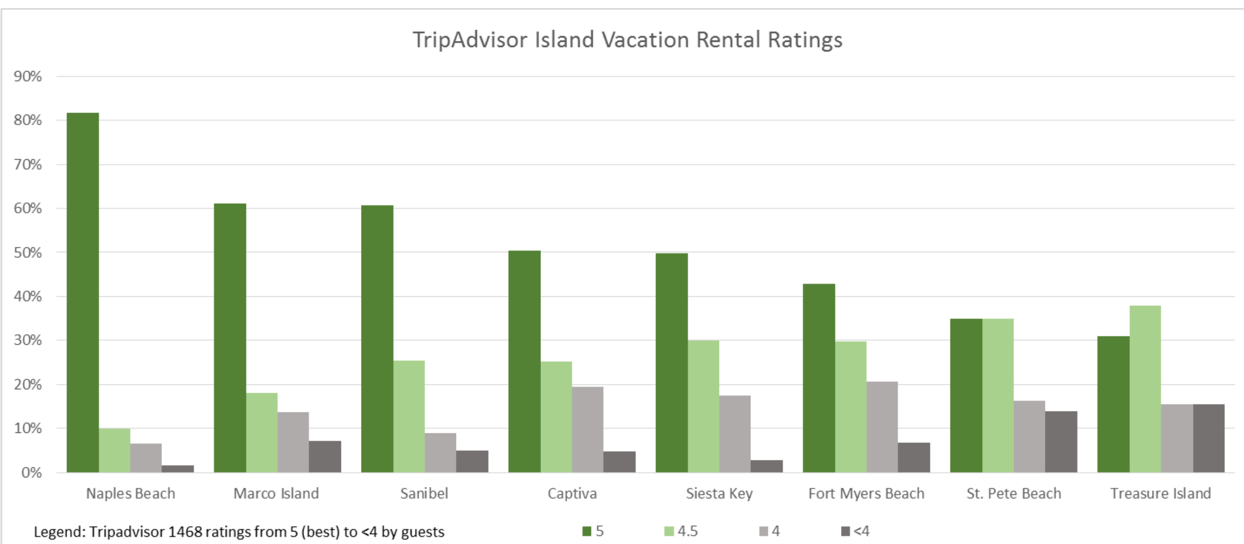


The dominant TripAdvisor rating for island hotels is 4.5. Sanibel showed no scores below 4, while Fort Myers Beach had ratings at all levels. Hotels on Sanibel, Captiva and Fort Myers Beach score well. However, they have the capacity to improve their ratings. Reviews suggest that with product improvement a shift could occur from 4 and less than 4 ratings to 4.5 and 5 ratings.

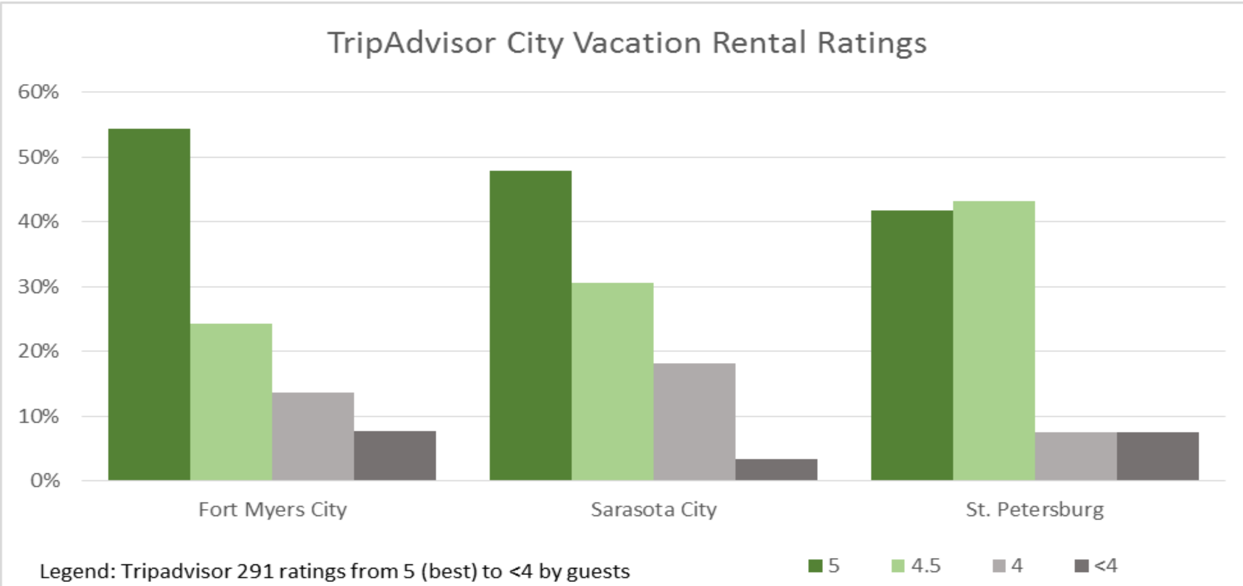


Fort Myers City hotel ratings are far better than those in Sarasota City and St. Petersburg with a strong representation from ratings of 4.5 and 5 and no ratings below 4.

Vacation Rental Product Evaluation



Vacation rentals in these charts earn more ratings of 5 than hotels. We attribute this in part to length of stay. Guests who have been in a unit for several days tend to get comfortable with their surroundings. We also attribute the higher scores in part to personal relationships that develop between property owner and renter. Sanibel, Captiva and Fort Myers Beach all attain more scores of 5 than any other score, but do not score as well as Naples Beach or Marco Island. Performance is strong, but has the potential to improve.

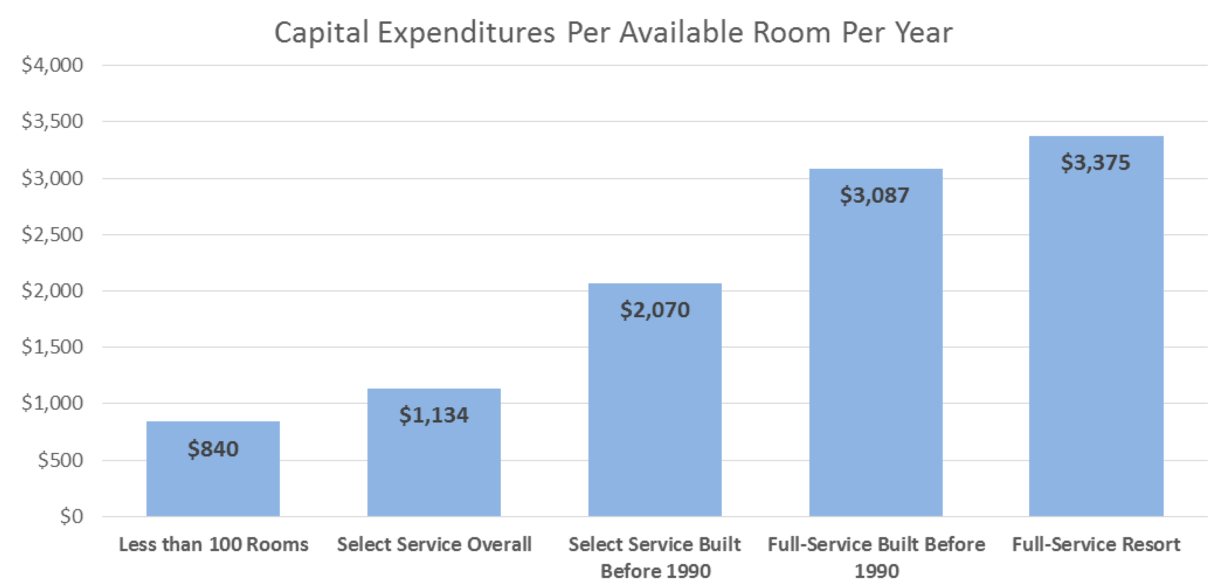


These cities do not score as well on vacation rentals as the islands. However, Fort Myers demonstrates the best scores among the three cities.

Capital Expenditures (CapEx)

Capital Expenditure, or CapEx, is spending on hotel capital improvements, primarily renovations. CapEx is tracked by the International Society of Hospitality Consultants which released its most recent report in 2007. An updated report should be released in 2015.

Hotels are capital intensive operations. CapEx spending spikes when hotels are 6 to 8 years old and again when they are 14 to 16 years old. This is because hotels typically undertake renovations every 6 to 8 years including furniture, soft goods, public spaces, some HVAC and some bathroom work. There is a significantly larger spike in years 22 to 24 for hotels that are going to remain competitive. In this period, hotels replace or renovate infrastructure such as roofs, elevators, electrical, plumbing, exterior and large HVAC systems. The chart following shows the overall annual average CapEx spending per unit over the life of hotels of various types.

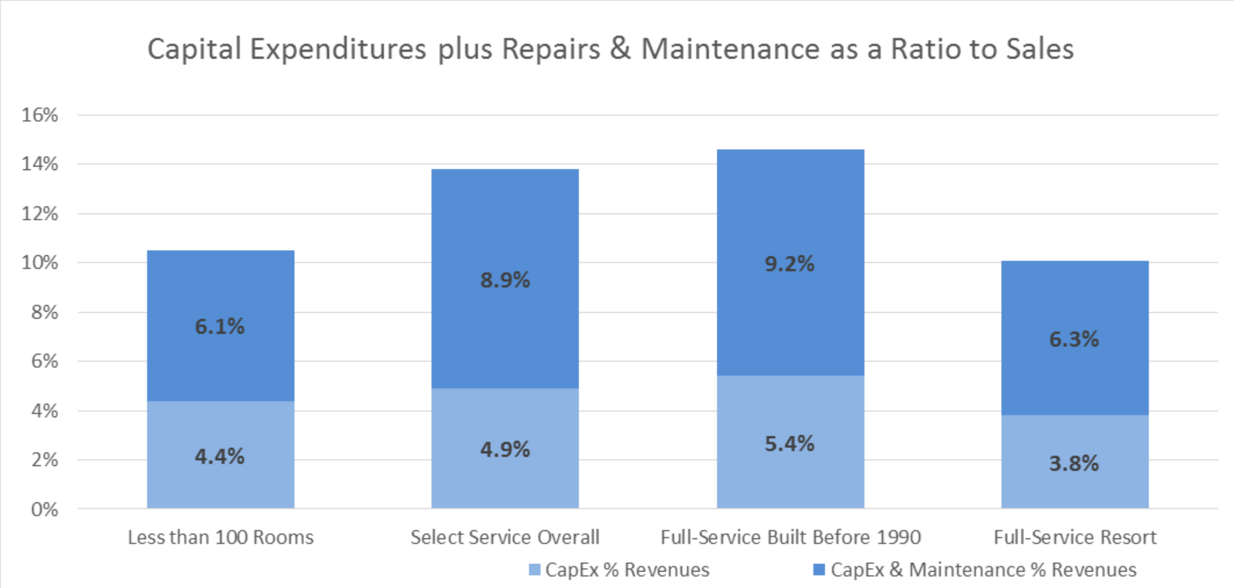


Source: CapEx 2007, A Study of Capital Expenditures in the Hotel Industry

Keeping product competitive is expensive – but less expensive for the property owner than loss of revenue due to deteriorated product.

CapEx and Repairs and Maintenance are evaluated together because the allocation to one or the other depends on tax planning. In addition, maintenance expense typically goes up when there is deferred CapEx because deteriorated units have more broken appliances, systems and fixtures requiring repair. They also typically have higher energy costs. Renovating reduces operating costs as well as increasing revenues.

Properties built before 1990 are now 25 years old or more. They tend to have a higher ratio of CapEx and Repairs and Maintenance to sales. This is partly because the costs of a major renovation are spread over the average or because they have not yet renovated and their maintenance costs are high. Sometimes the ratio is elevated because revenues tend to be low for older properties if they have not upgraded. CapEx is coupled with repairs and maintenance in the chart following.



Source: CapEx 2007, A Study of Capital Expenditures in the Hotel Industry

In Lee County, branded hotels are generally kept up to brand standards. While these are different for Days Inns than for Hyatt Hotels, they generally require significant reinvestment at least every ten years at the time of re-licensing.

Although there are exceptions, independently owned hotels and vacation rental units seem to spend less than branded hotels, judging by our field evaluation. Owners may not be aware of the extent to which their units have fallen in quality, or may chose not to re-invest. They may not realize how much product deterioration costs them in reduced revenues – or they may not recognize the profit to be derived from providing higher quality product.

It is our opinion that additional revenues could be realized by properties that are updated. The volume of vacation rental units and independently owned properties in Lee County makes this a particular challenge, and opportunity.

Revenue Opportunities

We identified four areas of opportunity for accommodations partners in Lee County to potentially improve lodging revenues.

- Revenue Management
- Arresting the Aging of the Market
- Encouraging Renovation
- The Special Case of Sanibel

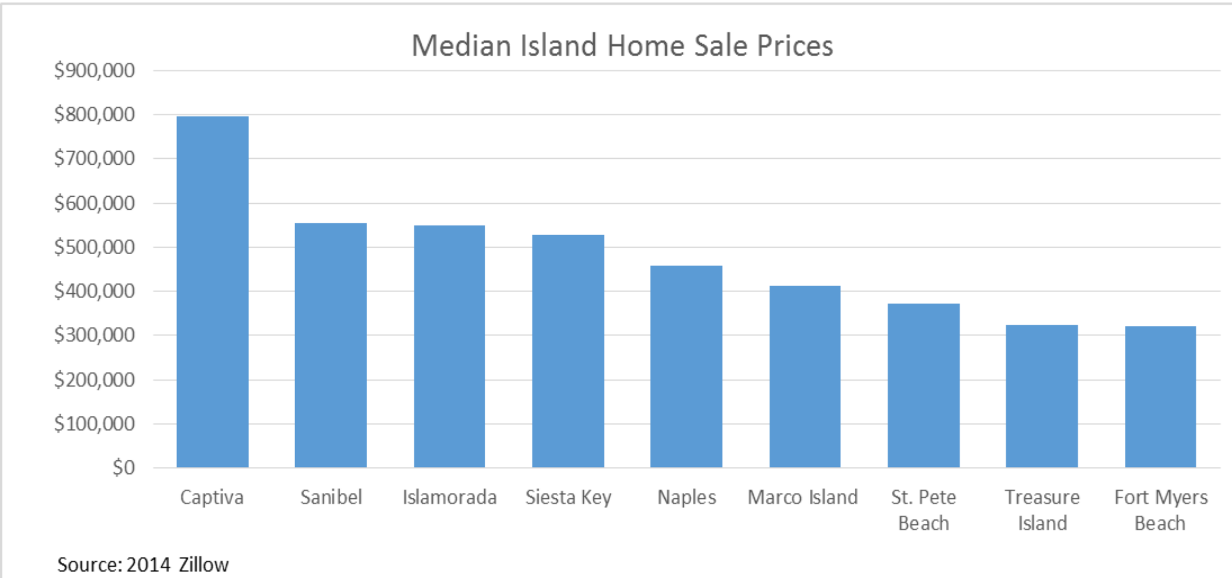
Revenue Management

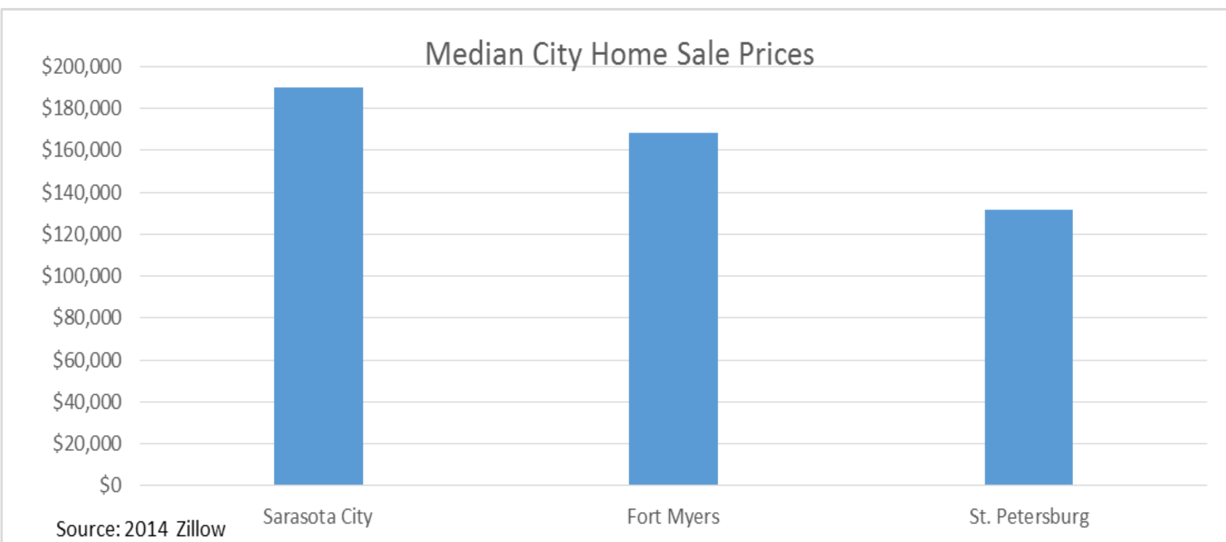
"Revenue Management is the application of disciplined analytics that predict consumer behavior at the micro-market level and optimize product availability and price to maximize revenue growth." www.en.wkipedia.org

The hotel industry, following the airline industry, has been improving its revenue management technology and techniques for over 30 years. Revenue management techniques are most varied and effective in periods of strong demand. With the resurgence of lodging demand over the past three years, the increasingly sophisticated revenue management techniques and technologies that were developed through the recession are having results. Hilton, Marriott and IHG have invested heavily in revenue management technology and offer stables of skilled revenue managers to their managed and franchised assets. Hotels that participate in these programs are now revenue advantaged.

Asset Values

Asset values on Sanibel and Captiva, as indicated by home prices, are particularly strong and home prices in the cities are modest in comparison, as shown in the tables following. Lodging product should be commensurate. A market that can sustain these residential asset values should be able to attract and retain premium lodging rates, if commensurate product is available.

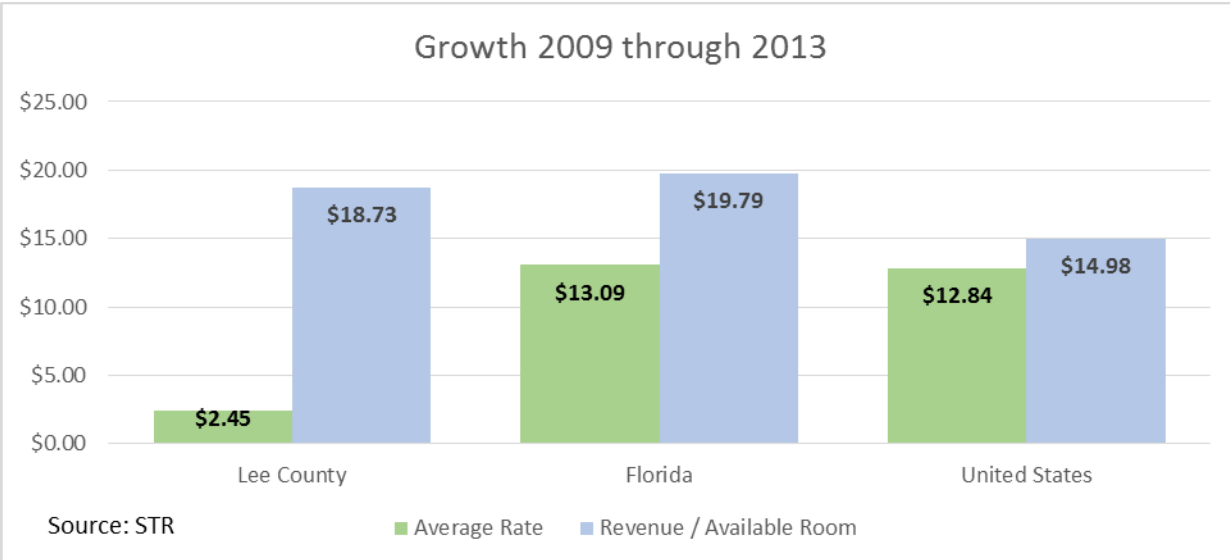


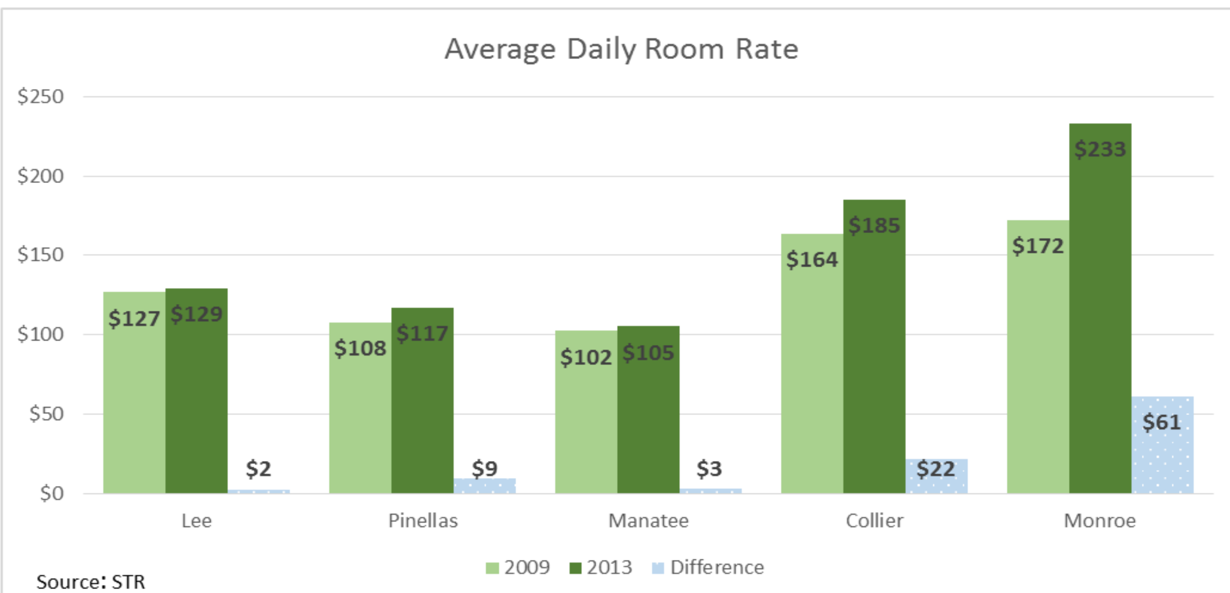


Average Rate

Hotel average rates are indicative of how a community's lodging product is positioned.

By a factor of more than five-times, Lee County gained less rate than the average for the United States or Florida from 2009 through 2013. Lee County gain in revenue per available room, RevPar, was closer to the Florida average. This means that the County gained occupancy in the recovery. It should now be poised to gain rate. The data in the following charts is from STR.



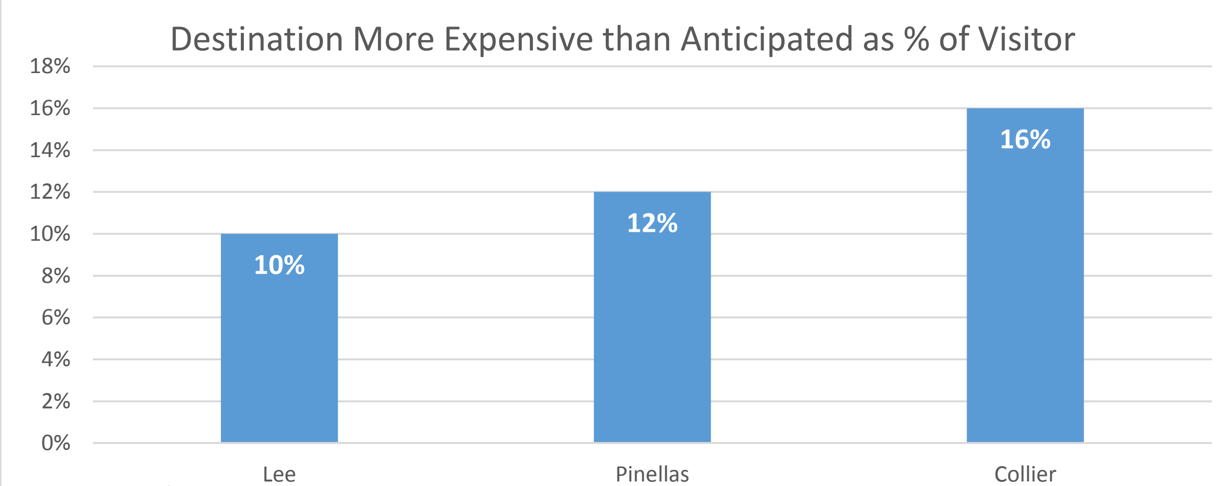


Average rates in Monroe County and Collier County are strengthened by the full service luxury hotels in the market. In comparison, Pinellas County average rates are weakened by its proportion of economy and midscale product. Lee County also has full-service resorts and its share of luxury product is almost as strong as Monroe County. Lee County also has stronger than average contribution from upscale and upper scale product. While Lee County is slightly above Pinellas, it remains well below Collier and Monroe counties. Yet, all four comparable counties moved average rate up more than Lee County from 2009 to 2013. Lee County should have the opportunity to move rate up.

Lee County, with its high proportion of independent hotels or vacation rentals in locations with the strongest rate potential, is not well positioned to benefit from brand-based technology-driven revenue management programs. However, its characteristics suggest that it could benefit from revenue management. Lee County has extremely strong demand in season and has shoulder seasons when revenue management techniques should be beneficial. Lee County also should have a particularly affluent visitor to some areas. Without sophisticated revenue management, it would be difficult for independent operators to price to the level that the market can accept, in our opinion.

Value Perception

The chart following indicates that Lee County has a low percentage of visitors who consider it more expensive than anticipated.



Source: Davidson-Peterson Associates

Revenue management recognizes that:

- Some people who consider a hotel rate more expensive than anticipated will stay anyway. Over time they adjust their expectations.
- Some people who consider a hotel expensive can be replaced by other customers who are satisfied with the value offered.
- Some people who consider a destination too expensive can be shifted to a shoulder or off-season period, which increases occupancy and creates capacity for visitors who find value in higher rates.

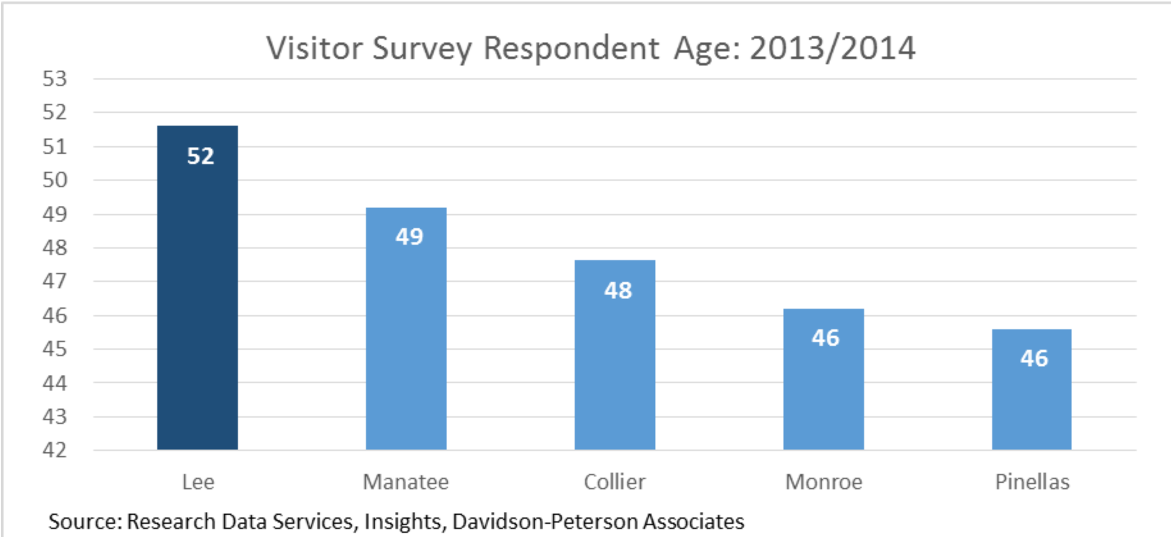
For these reasons, revenue management seeks to operate at a level where a higher proportion of visitors than in Lee County find rates more expensive than anticipated.

In our opinion, these statistics are an indicator that Lee County has the capacity to increase rates. Although, in our experience, increasing rates is best received and yields the most overall revenue gain when coupled with product improvement.

We recommend that the Lee County Visitor & Convention Bureau explore providing educational programs to accommodations partners to assist with improved revenue management, particularly for its independent hotels and vacation rentals.

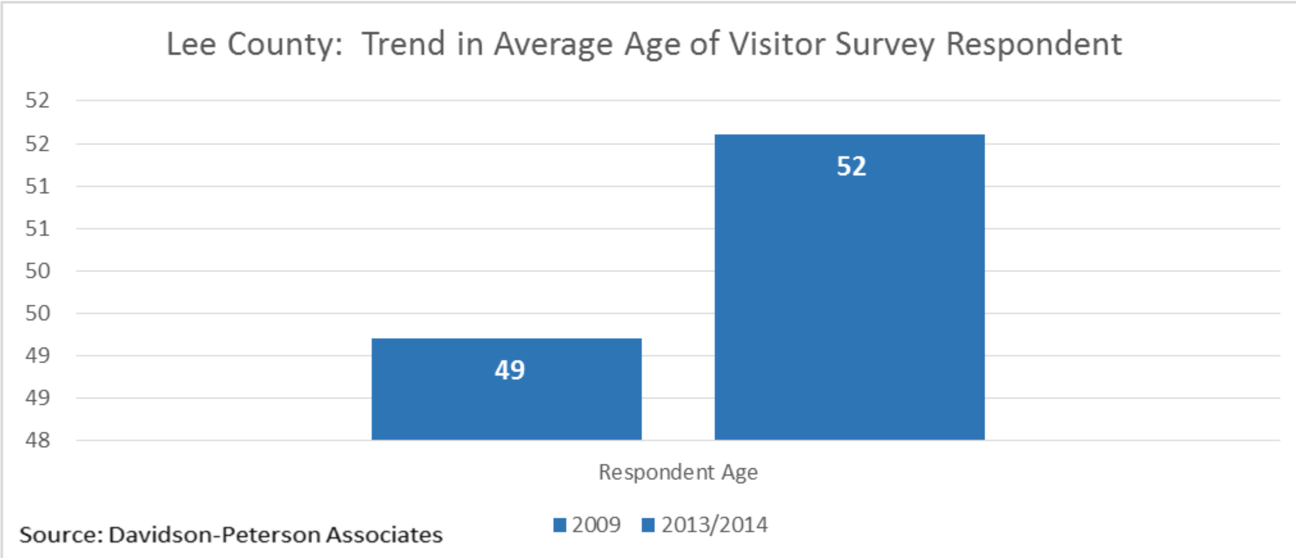
Arrest the Aging of the Market

Lee County has older visitors than those responding to other county visitor surveys.



According to respondents from 2014 visitor surveys, Lee County visitor age averages 52 compared to a range of 49 to 46 in comparable counties, calculated from winter 2013 through summer/fall 2014. For point of reference, the median resident age of all five counties is estimated at 45 to 46 years old and the median age of Florida residents is 40. All five counties are similar in geography and nature; we anticipate that Lee County can attract a younger distribution of visitors.

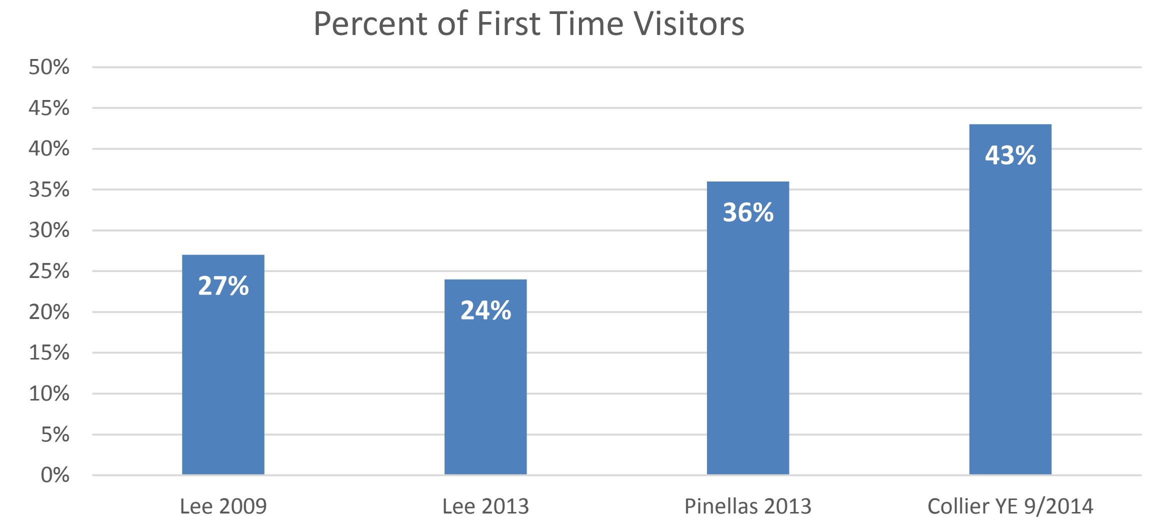
Currently, Lee County seems to be appealing disproportionately to baby boomers. "*Baby boomers are people born during the demographic post–World War II baby boom, between the years 1946 and 1964*". www.en.wkipedia.org. Baby Boomers are 50 and 68, as of 2014. While they will be a large part of the traveling public for many years, their travel is peaking. We expect them to begin to thin as a share of the traveling public within three to five years.



Lee County's visitors are getting older. According to Davidson-Peterson Associates, respondents in 2009 averaged 49 years of age, but in from winter 2013 through summer 2014 averaged 52. In the winter season, the average is already 57.

Relying heavily on a market that is already over 50 and aging puts Lee County at risk in two ways. First, aging markets diminish. Second, markets strongly associated with an elderly population become less and less desirable to new visitors. Rising age statistics coupled with declining first time visitor statistics suggest that this may have started already.

Lee County has a significantly lower contribution from first time visitors than comparison counties, as shown in visitor survey data highlighted in the following chart.



Source: Research Data Services, Insights, Davidson-Peterson Associates

Visitor surveys indicate that 24 percent of respondents visited Lee County for the first time in 2013. Already lower than other destinations, the proportion of first time visitors declined from 27 percent in 2009.

While it is less expensive to market to returning guests; it is inherently dangerous that tourists are not choosing to try Lee County over other destinations. A low contribution from new visitors makes Lee County vulnerable to a diminishing market as its visitors age. It is possible that some Lee County destinations are already being perceived as most suitable to older people. This perception, if hardened, would be difficult and expensive to reverse, in our opinion.

We recommend that Lee County Visitor & Convention Bureau address this characteristic of its market. Baby boomers should remain a large and valued part of the market for Lee County, however other visitors should also be pursued to balance the County's visitor age distribution.

One way to broaden appeal to younger visitors is with appropriate design. All hotel chains are in the midst of major renovation programs and current designs are purposefully structured to attract youthful travelers. This is not because younger people have the most money or because they are the largest segment of the traveling public. It is because they are the trend setters and influence the preferences of other travelers.

Encourage Renovation

We recommend that Lee County Visitor & Convention Bureau partner with the Lee County Hotel Association and other local organizations to encourage renovations. In addition to promoting this effort the programs should promote design that is:

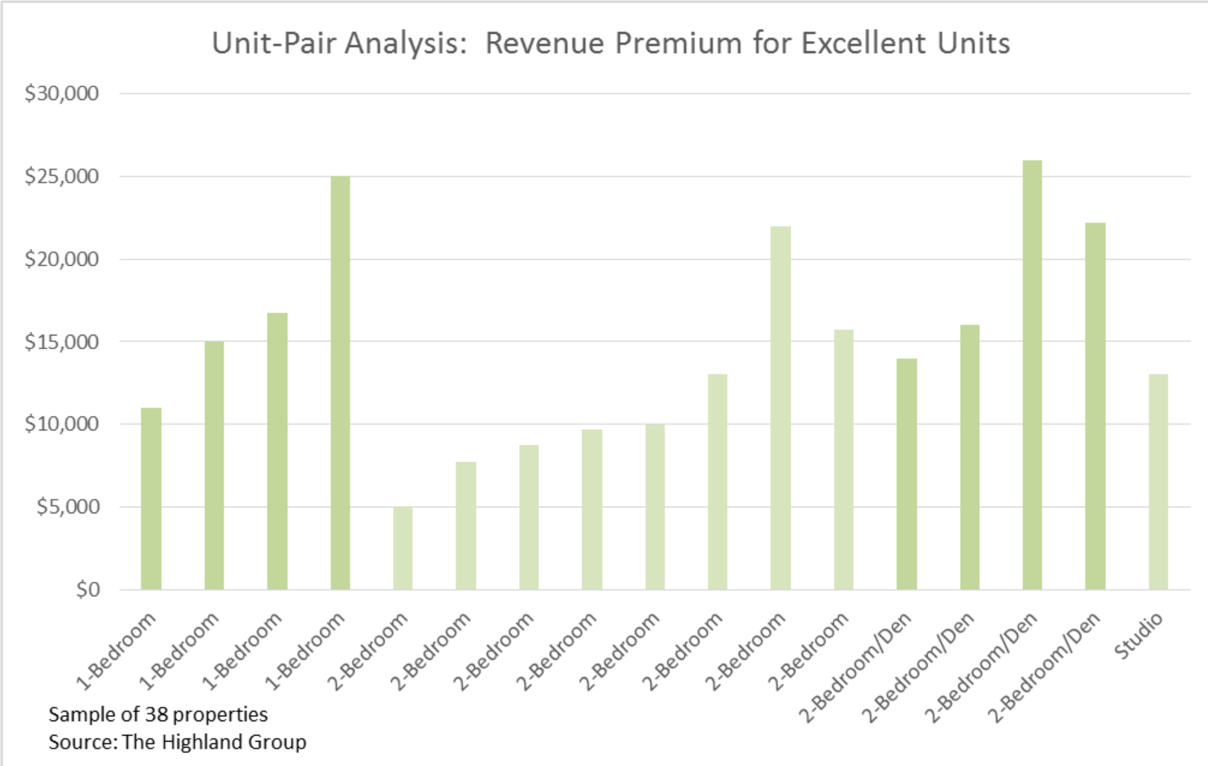
- Forward-looking
- Contemporary and fresh
- Location-sensitive, reflecting unique design attributes for each Lee County community
- Aimed toward younger visitors
- Desirable to the County's current core market of Baby Boomers

Unit Pair Analysis

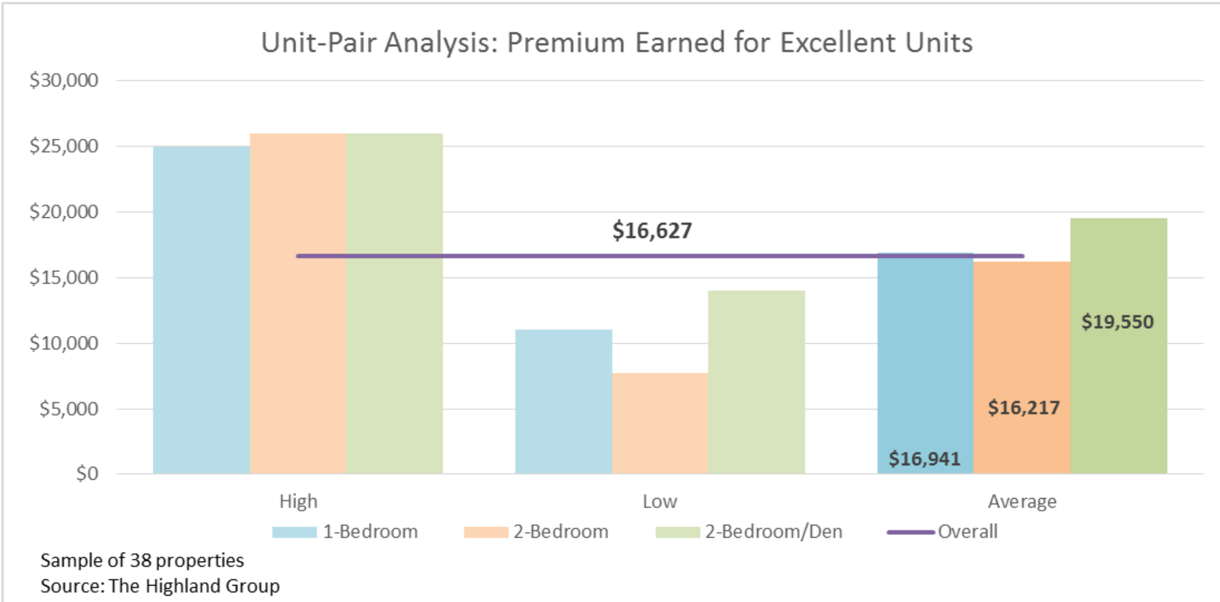
We conducted a "unit-pair" analysis to investigate the potential for increased revenues when vacation rental units are renovated. To conduct the analysis, we collected annual revenue for a total of 36 individual vacation rental units. For each renovated unit in the analysis classified as "A", there was a matching unit in need of renovation, classified as "C" or "D". Each unit type and its match were located in the same complex, built at the same time, with the same view and same number of bedrooms and baths. Revenues for each unit in a pair were for the same year. Premium in revenue for a renovated "A" unit was calculated in comparison to "C/D" units. Below is the break-out of unit type used in the analysis:

- 4 "C/D" one bedroom units and 4 "A" one bedroom units
- 8 "C/D" two bedroom units and 8 "A" two bedroom units
- 4 "C/D" two bedroom units with den and 4 "A" two bedroom units with den
- 2 "C/D" studios and 2 "A" studios
- A total of 17 comparisons

Premiums achieved for a renovated unit ranged from $5,000 to $26,000 over a year, as indicated in the following chart.



The annual average premium for an "A" grade one bedroom unit was $16,941 and for a two bedroom unit with den was $19,550. The overall average premium for the year was $16,627 more for "A" units over "C" or "D" units, as shown in the table following, which includes some studios. Payback for a $30,000 renovation would be less than 2 years in many cases. Renovating pays.



Unit-pair analysis shows a significant opportunity to improve revenues with renovation of vacation rental units. This would benefit property owners as well as tax collections for Lee County.

Product Improvement

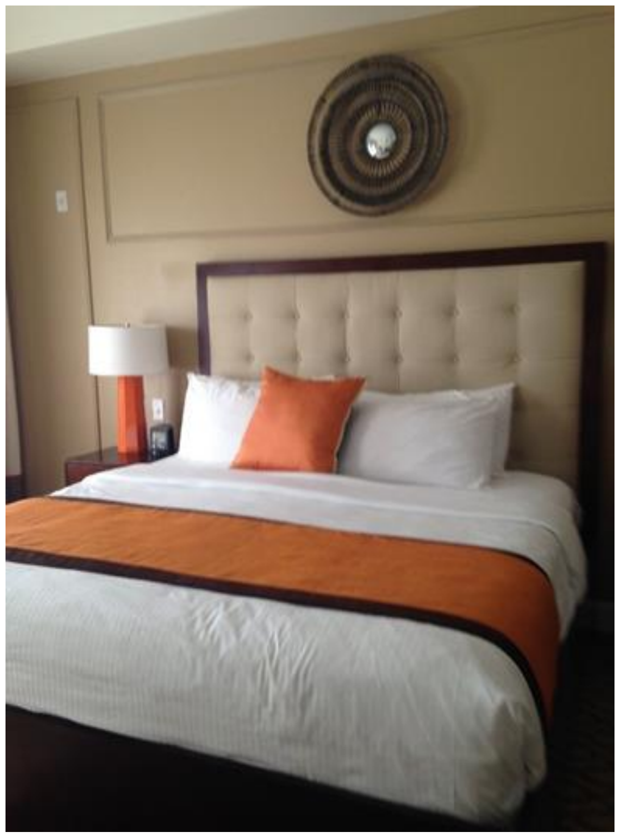
We found product ranging from poor to excellent across the five counties. We did not find that poor quality was a particular problem in Lee County compared to the other four counties. However, all five counties have more vacation rental units and independent properties than typical across the United States. We found enough poor product in Lee County to identify a revenue opportunity from product improvement.

In our opinion, if Lee County had higher quality product overall, accommodations partners could command higher rates, achieve higher occupancies and therefore gain higher revenues. We recommend purposeful product improvement – upgrades that are well-designed, reflect a sense-of-place and generate returns for their owners. The sections following illustrate our recommendations.

Beds: *Guests expect lodging to deliver a good night's sleep*

The entire hotel industry upgraded beds and bedding in a five year period known as the bed wars, starting with Starwood's introduction of the Heavenly Bed in 1999. Guest response was immediate and positive. In Lee County, vacation rentals managed by hotel companies typically have upgraded beds and bedding; others often do not. Good beds and bedding are standard in the lodging industry. Poor quality is noticeable post bed wars because guests are accustomed to high quality. Poor quality beds and bedding are an immediate indication of low value lodging product.

Dated (back ache)



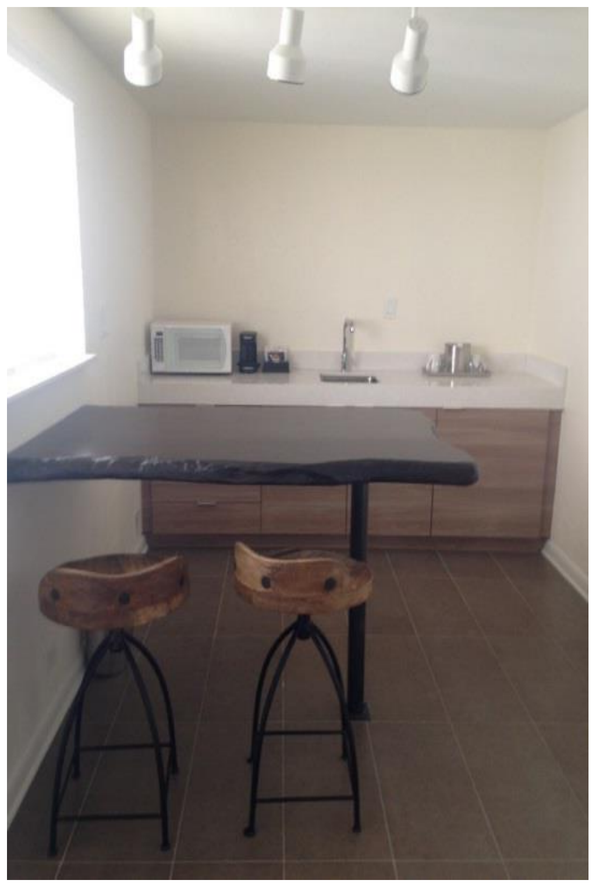
Contemporary (fun): Hotel Zamora St. Pete Beach

Kitchens: *Renovated signals clean*

Guests know at a glance if a kitchen is clean and judge the entire property dirty if the kitchen looks outdated or unsanitary. Contemporary kitchens have matching appliances and granite or composite counters; cabinets are clean, functional and look new.

Pelican Cove designers took renovation a step further and installed a streamlined contemporary kitchen that redefines this mid-century hotel as desirable for affluent and design-conscious travelers.

Dated



Contemporary: Pelican Cove Islamorada

Bathrooms: *Don’t have to be large to be fresh*

Hotel brands are aggressively upgrading bathrooms and they are using bathrooms as a defining feature of whether a hotel is new and desirable or old and fading. As with exterior corridors, bathrooms will increasingly be a determinant of how guests judge the acceptability and value of lodging product. Tile and granite or composite have been hotel standards for years except for the most economy-oriented properties. Showers (no tub) and trackless glass doors are becoming standard.

Dated

Contemporary: Pelican Cove Islamorada

Renovation on a budget*: Renovation can be innovative and imaginative*

Renovations of vacation rentals and independent hotels should be highly individualized, reflecting both individual design preferences and individual budget constraints. Photos below show the Postcard Inn at St. Pete Beach where murals and surfboards create a bright new look. The Best Western Fort Myers Beach delivered an excellent renovation in a mid-scale chain-affiliated property with tile floors, granite counters and contemporary furnishings. Although these hotel buildings are not contemporary, they became highly desirable destinations because of the creativity of their renovations.

Fresh: Post Card Inn St. Pete Beach

Fresh: Best Western Fort Myers Beach

Product Improvement Recommendations

Our evaluation of market statistics indicates that Lee County accommodations partners have an opportunity to increase revenue by increasing rate. As part of a strategy to successfully increase rate, we recommend promoting product improvement across the range of lodging in the County.

Five aspects of a program to encourage renovation are:

Educate: Both hotel and vacation rental owners need to understand the financial benefits of product improvement. In some cases they also need information about how to improve their product. The VCB and LCHA can help educate and provide information in both areas through seminars and outreach through management companies.

Inspire: Many owners do not know what new product looks like, and cannot imagine applying new concepts to their old spaces. The VCB and LCHA can inspire and promote improvements by recognizing and distributing information about excellent renovations. For instance, the LCHA could have an annual juried renovation competition, with a jury of interior designers and architects connected to Lee County, for both hotels and vacation rentals.

Excite: Design creates a buzz in a community. Judicious PR could be used by the VCB and LCHA to generate conversation and competition among property owners about renovations and the subsequent financial rewards.

Recognize: The VCB could pledge to promote all property renovations via the "What's New" press release. Additionally, excellent or inspired renovations could be highlighted in a new section of the LCHA website that recognizes winners each year – perhaps showcasing the most recent four years of winners with virtual tours on-line. Winning properties could also be awarded a plaque and other recognition. The LCHA could start the program the first year by inviting designers with a connection to Lee County to participate and introducing them to unit owners who are interested in upgrading.

Renew: Product quality tends to build in a community of property owners, just as one homeowner installs new landscaping and others follow. When one hotel owner gets strong financial results for an unusually good design, some others will imitate, if they know. There will always be owners who chose to operate low quality product, but Lee County can reduce their share of inventory.

Celebrate this beautiful place.

Lee County has the most spectacular sunsets, interesting wildlife, and beautiful scenery on the planet. Yet art in local hotels and vacation rentals depicts other places – like Italy. The Visitor & Convention Bureau has a library of local photographs and local art available for reproduction at no cost to members. We recommend arranging access to on-demand production of framed art at commercially competitive prices using frame designs that reflect Lee County design parameters. The Lee County Visitor & Convention Bureau can encourage owners to add a sense of place to Lee County lodging décor.

Addendum: Sanibel

Each destination in Lee County is unique. A product improvement program should celebrate different design styles for Sanibel, Fort Myers Beach and Fort Myers inland. However, it is our opinion Sanibel has a singular opportunity because there is a strong style to its building design, and its very low density offers something special and valuable to visitors. This, coupled with the affluence of the community, gives Sanibel a particularly strong rate opportunity, if it can deliver commensurate lodging product.

Steven's sentiment, below, underlies the danger of the low first-time visitor figure and the high and rising average age affecting Lee County.

> *"I've been going to my grandparent's condo on Sanibel my whole life. I love it. But I wouldn't consider taking my family to the other places we see on Sanibel, just from the way they look from the outside."*
>
> *Steven. Young executive. Father of 3.*

This accentuates the need for Sanibel to embrace a special local design and style. In our opinion, developing Sanibel's design as a part of its brand also has the potential to benefit other destinations in Lee County.

Iconic Resort Design

Some of the most eternally successful resorts in the world are defined by their architecture. Because they actively celebrate their iconic architecture, it never goes out of fashion. Santorini is blue and white and stucco and bougainvillea. Rosemary Beach is upper story balconies and roof line. Santa Fe is adobe, wrought iron and terra cotta. Charleston is side porches and pastel exteriors. Cape May is Victorian gingerbread and bright colors.

Sanibel is cohesively late 1960s and 1970s in its architecture and its look is part of its brand. It can be celebrated and desirable, or old and tired. Both design effort and marketing will be needed if the outcome is to be celebrated and desirable.

Santorini

Rosemary Beach

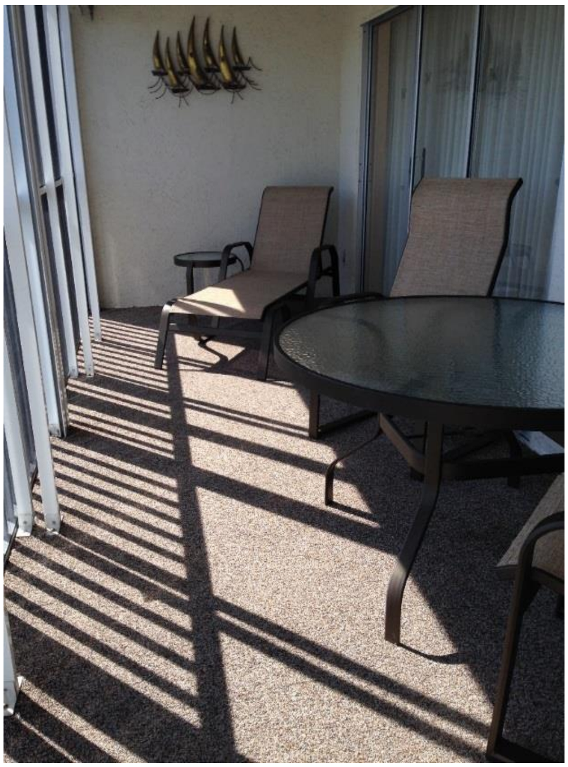
Iconic design is also used by hotel brands to build recognition and elevate the desirability of their product:

- Hyatt atriums set the company's hotels apart and made them destinations; they drive revenue
- Holiday Inn Express towers made the brand recognizable and identified these hotels as high quality products even though some were new and some conversions
- Starwood showers and beds brought Westin hotels back from a fading to aspirational
- Hilton used a package of entry carpets, planters, signs and doors to create a strong sense of place, arrival and identity for their Hampton Inn hotels, repositioning the brand up-market

As a place to start, we recommend pursuing iconic design concepts for two building components that are standard building features throughout Sanibel – lanais and entry doors.

Lanais

Sanibel has lanais for many if not most of its units. Uniquely Sanibel and likely necessary for mosquito relief, they can be found at all price levels and sizes of units. Unfortunately, most lanais are undecorated, uninspired and lack style and freshness. This not only degrades the lodging experience, but is a wasted opportunity.



Lanais should be an architectural icon for Sanibel, becoming part of its brand and an expectation for guests.

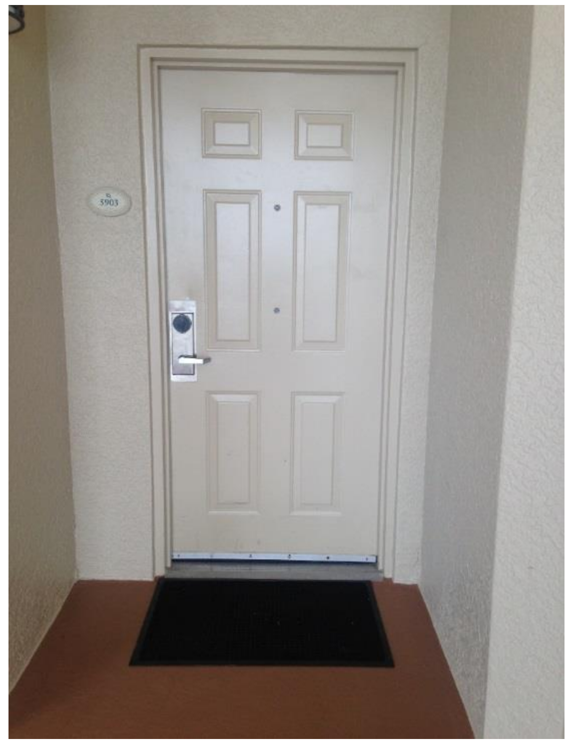
Lanai pictures that illustrate the potential for these valuable spaces follow. Touches of color, fresh paint, flooring, lighting, welcoming seating, ceiling fans and flora are just a few features that could contribute to uniquely Sanibel lanais. Lanais should be usable, sexy and identified with Sanibel.

Source: Casa Ybel **Source: Pottery Barn.com**

There is an opportunity to encourage great lanai renovations and to define a uniquely Sanibel lanai design. We recommend the LCHA, in conjunction with other Sanibel organizations, take an active role in the design of the quintessential Sanibel lanai by engaging an architect and designer or through a contest. Similar to current Home Design television productions, we also recommend working with property owners to make source (designer, contractor, material and price) information readily available to other property owners.

__Arrival Experience__

Arrival, curb appeal and first impressions, set a new visitor's expectations. Dated, bland and uninviting entryways are common on Sanibel. We perceive this to be a barrier to attracting new and younger visitors and a hurdle for increasing rates.



We recommend that the LCHA, in conjunction with other Sanibel organizations, take an active role with Sanibel property owners to design a new look for entryways. Sanibel entries should offer a hospitable and exciting arrival experience while blending with the late 1960's and 1970's style of Sanibel's architecture. We recommend a design package including doors, sidelights, exterior flooring and walkway, ground lighting, numbers and hardware to establish a "Sanibel Welcome". Other recommendations include selecting an architect to work with the community to create a desirable, welcoming, arrival experience around guest unit entries, providing prototype schematics and material sources for property owners and working with associations and property management to roll-out new entryway concepts.

Sanibel Design

Coincidentally, designs and trends currently coming into fashion compliment Sanibel's architecture as the new "contemporary".

Acceptable to the bargain seeking

The unit above shows a common style around Florida resorts, but has become dated.

The unit on the next page, from Pelican Cove on Islamorada showcases a lamp, flooring and furniture style that is becoming fashionable now and also reflects styles from the late 1960s and 1970s - laminate modern furniture, clean lines and retro lighting. Timing is very good for promoting a change in style which would be current and youthful yet familiar and complementary to Sanibel's architecture. Trends in room design are moving strongly toward the era of Sanibel's lodging.

Desirable to the young and affluent