

TEULON MOTEL

F E A S I B I L I T Y S T U D Y

DECEMBER 2007

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C O N F I D E N T I A L I T Y S T A T E M E N T

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D I S C L A I M E R

This following document was prepared by the KARL CHRISTOPHER GODAR, Certified Management Accountant at the conclusion of a consulting assignment in which I assisted the members of the *COMMUNITY RESOURCES DEPARTMENT* in the preparation of this *FEASIBILITY STUDY*.

This Feasibility Study has been prepared on a best-effort basis and reflects the conditions prevailing at the time of my analysis which was completed on December 7, 2007. The projections, recommendations and conclusions contained in this report are, to some degree, based upon opinions and assumptions which are, of course, subject to variations, depending upon evolving events. Therefore, I cannot represent them as results which will necessarily be achieved, but only as those which will most likely be attained, provided the opinions and assumptions relied upon remain valid. Readers are cautioned that the information contained in this report may not be appropriate for their purposes.

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1.0 EXECUTIVE SUMMARY

1.1 Project Summary

The goal of this report is to outline the feasibility of locating a motel in the Town of Teulon. This report shall discuss the need for more accommodations in Teulon and the surrounding area. More specifically the report considers market feasibility, location feasibility, operational feasibility, and financial and economic feasibility.

1.2 Background

The Mayor and Council of the Town of Teulon are committed to maintain a strong focus on a sustainable future while at the same time creating a modern and progressive town. This commitment to sustainable development is clearly evidenced in BY-LAW NO. 6/07 that provides a strong incentive to individuals and businesses that construct new buildings in Teulon.

A need for additional motel accommodations in Teulon has been identified as being desirable for the community and consistent with the Town's sustainable developments plans. Based on preliminary discussions and research by the town's Community Resource Officer it was decided to undertake a study to look into the feasibility of locating a motel in the town.

1.3 Objective

The objectives of the study are to:

1. Determine if an independent facility or part of a chain would be best – Brand Affiliation
2. Determine whether the facility should have food services or not and whether a pool as part of the facility would be a viable component or not – Motel facilities & packages
3. Determine the need for more accommodations in Teulon and surrounding area – Market Analysis
4. Consideration of occupancy levels for sustainability
5. Local Competition
6. Provide facility cost estimates and best size estimates
7. Viability

1.4 Study Conclusion

- Brand affiliation (chain) is not desirable for a smaller market, smaller sized motel facility. The internet has leveled the playing field in many areas for the non-chain operators including reservation systems. Independence of action and ability to adjust to local needs gives the independent operation an advantage.
- Complementary services like food services are important contributors to an unaffiliated, smaller motel. Adding such revenue streams also increases the needed investment and adds to operational complexity. In Teulon, the addition of another restaurant would negatively impact existing operations. The preferable alternative is to let others provide the food services.
- Large motels provide small pools for the patrons. For small motels, the additional cost of a pool does not justify additional potential revenues. A safer strategy would be to get the motel up and running and then consider adding a pool. To be successful, a new motel venture must keep its capital costs as low as possible.
- The Interlake region enjoys a very strong domestic market. Given high gasoline prices, post 9-11 travel restrictions and health concerns, the outlook for the Interlake region looks bright.
- 55.5% of the travelers to the Interlake region were overnight visitors. Most overnight visitors (77.1%) stayed in the home of a friend or relative during their stay in the Interlake region. These two statistics strongly suggest that the Interlake region is under serviced. In such a case adding more accommodation spaces shall result in increased occupancy rates for all suppliers of accommodations.
- The primary objective of a community driven initiative is to benefit the entire community. As envisioned in this report, the motel development concepts tries very hard to cause a positive impact on existing businesses.
- A 20 unit motel is estimated to cost around \$1,235,000. At this size the motel shall be large enough to have a positive impact on the community but, not too large to cause competing businesses hardship. Sites 2 and 3 (Page 7) are both excellent, not only in terms of visibility but also large enough to accommodate future expansion in the development plans.
- The financial projections show that a 20 room motel can show a before tax and amortization profit after paying out \$35,000 a year in interest costs.

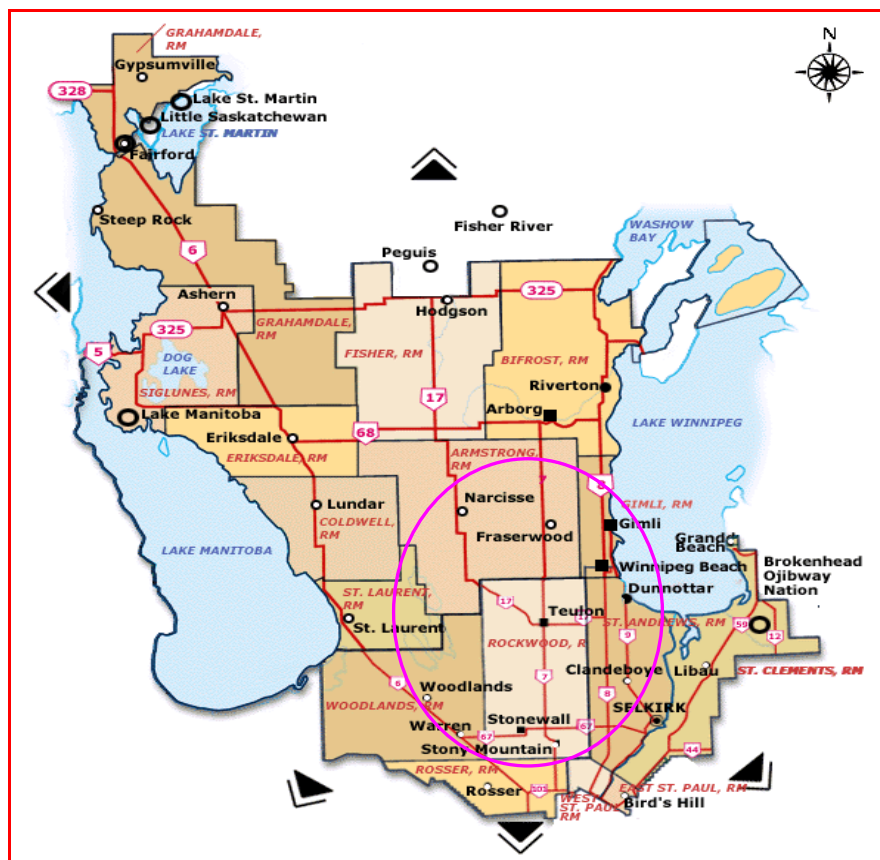
2.0 ECONOMIC FEASIBILITY

(The Business Environment)

2.1 Town of Teulon and Area Profile

The Town of Teulon is located in the heart of Manitoba's Interlake Region a short 30 minute drive North of Manitoba's capital city, Winnipeg, via #7 HWY. Teulon has grown into a major centre for agriculture, with its economy diversifying to a large and varied commercial and industrial sector. It is also located 170 kilometers from the 24 hour U.S. border crossing at Emerson, Manitoba, Canada.

Surrounded by a wide variety of tourist and general interest attractions, Teulon is located within a 20 minute drive of some of the best beaches in the province. The Norris Lake Provincial Park is only a 10 minute drive away. The World Famous Snake Dens of Narcisse and Oak Hammock Marsh both attract thousands of visitors every year and are only a short drive from the Town of Teulon.



2.2 Infrastructure

Currently four possible properties have been identified as being available for motel development in Teulon. These properties are both privately and publicly owned, and most of the properties have current access to most utilities. All identified properties were reported to have sewer lines running along them, however a connection fee would be required, as well as the cost of building a line into the development. The establishment of motel on any of the identified lots would not require significant development beyond the construction of the building.

Telecommunications facilities are readily available throughout the community, and would allow the necessary access for use of a central reservation system. Wireless and most forms of high-speed Internet connections are available, as are various brands of satellite and cable TV.



Site 1 on #7 hwy where the existing Motel is located





Site 2 .on Hwy #7 Between Fry-Days Restaurant and Site 1



Site #3 on Hwy 415 West of Fry-Days and East of Manufactured Homes Park





Site #4 down town on Main Street beside Hall, owned by Doug Stone

2.3 Tax Rates

Favourable tax rates in the community provide a competitive advantage to business wanting to locate in the area. The following are the tax rates for the Town of Teulon for 2007 compared to Winnipeg.

2007 Municipal Tax Rates

PROPERTY CLASS	MUNICIPAL RATE	EDUCATION RATE	TOTAL RATE
City of Winnipeg	25.45	43.84	69.29
Teulon	23.50	37.92	61.42

In comparison to The City of Winnipeg's tax rates, Teulon's are more competitive.

In addition to favourable tax rates, the Town of Teulon is implementing a Building Incentive for new residences and businesses within the Town of Teulon in order to encourage economic development. Property owners may be eligible, upon application, for **cash incentives** over a period of 1 to 3 years. Applications for the "incentive" must be made within 6 months of the residence/business being added to the Town of Teulon Assessment Roll. A property will not be eligible for the incentive program more than one time.

Building incentive grants for qualified new, fully constructed businesses may be paid as follows:

- Year One (or portion thereof) – Grant equivalent to 80% of the general municipal taxes (from the date of entry to the roll)
- Year Two – Grant equivalent to 60% of general municipal taxes
- Year Three – Grant equivalent to 40% of general municipal taxes

2.4 Hotel vs. Motel

Besides the obvious physical differences between hotels and motels, there are numerous economic differences between these two accommodation formats.

Hotel: These establishments provide suites or guest rooms within a multi-story or high-rise structure, accessible from the interior only, and they generally offer guests a range of complementary services and amenities, such as food and beverage services, parking, laundry services, swimming pools and exercise rooms, and conference and convention facilities.

Motor Hotel: These establishments are designed to accommodate clients traveling by motor vehicle and provide short-stay suites or guest rooms within a low-rise structure, characterized by ample, convenient parking areas, interior and/or exterior access to rooms, and their location along major roads. Limited complementary services and amenities may also be provided.

Motel: These establishments are designed to accommodate clients traveling by motor vehicle, and provide short-stay suites or guest rooms, within a one or two story structure, characterized by exterior access to rooms and ample parking areas adjacent to the room entrances. Limited complementary services and amenities may also be provided.

Motels, due to their lack of luxury services, tend to command a lower room rates than do hotels; as a result, consumers on budgets tend to favor motels. The clientele in motels has a propensity to be domestic travelers.

Hotel/Motel Clientele

HOTEL	
DOMESTIC	72%
PERSONAL	25%
BUSINESS	40%
GOVERNMENT	7%
FOREIGN	28%
USA	15%
OTHER	13%
MOTEL	
DOMESTIC	89%
PERSONAL	55%
BUSINESS	32%
GOVERNMENT	2%
FOREIGN	11%
USA	7%
OTHER	4%

Furthermore, motels tend not to be affiliated to any large brands and are located predominantly on highways. At small sizes, motels and hotels have 50 or less rooms, but usually less than 30; occupancy rates for motels tend to be higher (51%) at this size than that of hotels (46%). Small hotels earn proportionally more of their revenue from the sale of alcohol (36%) than room sales (26%), whereas motels earn significantly more from room sales (58%).

2.5 **Brand Affiliation**

According to research carried out by the Canadian Tourism Commission (CTC) branded (the Chains) hotels and motels perform differently in the marketplace than non-affiliated establishments and that on the average affiliated establishments generated stronger performance results.

Before drawing conclusions, it must be recognized that affiliated accommodations tend to have more available rooms compared to non-affiliated establishments. In fact, 95% of affiliated hotels were mid-sized to large, while 88% of non-affiliated hotels were small to mid-sized. In other words, bigger establishments benefit from economies of scale and can be very effectively operated using a "cookie cutter" business model. This stronger performance assumes a large mass market demand.

Affect of Brand Affiliation on Accommodation Operating Costs

HOTEL	AFFILIATED	NON-AFFILIATED
Average Number of Rooms	226	88
Average Daily Rate (ADR¹)	\$131	\$112
Revenue per Available Room (RevPAR²)	\$80	\$64
Occupancy Rate³	63%	58%
MOTELS	AFFILIATED	NON-AFFILIATED
Average Number of Rooms	79	38
Average Daily Rate (ADR)	\$78	\$63
Revenue per Available Room (RevPAR)	\$50	\$35
Occupancy Rate³	63%	56%

On average, affiliated establishments also charge \$15 to \$19 per room per night more in room fees. In spite of the higher cost of affiliated establishments, both hotels and motels have higher average occupancy rates than non-affiliated. However, motels of either type have higher occupancy

¹ **ADR:** Average Daily Rate; a calculation of accommodation revenue per day divided by the total number of rooms sold.

² **RevPAR:** Revenue per Available Room; a calculation of accommodation revenue per day divided by the total number of available rooms. It is also calculated by multiplying the occupancy rate by the average daily room rate.

³ **Occupancy Rate:** The total number of units occupied divided by the total number of units available for a given reporting period, normally expressed as a percentage.

rates on average (51%) than hotels (46%); this may be due to the location of motels on the highway, rather than at destinations.

Medium Hotels & Motels by Affiliation				
	AVERAGE NUMBER OF ROOMS	AVERAGE DAILY RATE (ADR)	REVENUE PER AVAILABLE ROOM (REVPAR)	OCCUPANCY RATE
All Medium Hotels	112	\$94	\$55	59%
Affiliated Hotels	116	\$95	\$57	61%
Non-Affiliated Hotels	106	\$93	\$52	55%
All Medium Motels	72	\$71	\$43	60%
Affiliated Motels	73	\$74	\$47	64%
Non-Affiliated Motels	70	\$63	\$33	53%

Since many non-affiliated hotels and motels also provide shops and restaurants on the premises, their revenues are divided between room rental and the sale of food and goods. By comparison, affiliated hotels and motels generate a higher percentage of their total revenue from the sale of rooms; this is particularly true of motels. **However, the sale of additional goods and services (i.e. restaurants or shops) beyond room rentals insulates hotels and motels from low occupancy rates during the shoulder and off seasons and provides additional benefit to the community.** Nonaffiliated hotels in particular, generate 35% of their revenues from the sale of food and beverage, compared with just 26% by affiliated establishments.

Affect of Brand Affiliation on Accommodation Revenue		
HOTELS	AFFILIATED	NON-AFFILIATED
Rooms	63%	53%
Meals	19%	22%
Alcohol	7%	13%
Merchandise	1%	1%
Service	10%	11%
MOTELS	AFFILIATED	NON-AFFILIATED
Rooms	91%	65%
Meals	4%	14%
Alcohol	1%	7%
Merchandise	0%	6%
Service	4%	8%

Cost analysis carried out by the CTC indicates that both affiliated and non-affiliated hotels spend 33% of revenue earned on labour expenses. Motels of both types however, spend less on labour than do hotels. Labour expenses for affiliated motels equals 25% of revenues, while nonaffiliated motels spend

28%. Additional expenses including occupancy costs, advertising, depreciation and interest are similarly distributed among affiliated and non-affiliated establishments of the same size.

Distributions	Location of Hotels & Motels		Share of Revenue	
	100%	100%	Hotel	Motel
Labour	Suburbs, 16%	Suburbs, 28%	36%	24%
Cost of Goods	Rural, 15%	Rural, 10%	9%	5%
Occupancy	Highway, 16%	Highway, 31%	15%	15%
Advertising	Central, 48%	Central, 29%	4%	4%
Depreciation	Airport, 5%	Airport, 3%	7%	10%
Other Expenses			20%	19%
Operating Profit			9%	22%

Affiliated establishments are more profitable on the sale of goods and services than are nonaffiliated; this may be due to the economies of scale achieved by larger organizations. Furthermore, the operating profit margin for affiliated hotels is on average 24%, while nonaffiliated hotels is only 22%. This indicates that when all operating costs, including the sale of rooms, food and services, are distributed on a per room basis, costs are lower in affiliated hotels; this is due in part to economies of scale enjoyed by firms with strong purchasing power.

Affect of Brand Affiliation on Accommodation Cost of Goods		
HOTELS	AFFILIATED	NON-AFFILIATED
Cost of Goods Sold as a Share of Revenue	10%	15%
Cost of Goods Margin	65%	58%
MOTELS	AFFILIATED	NON-AFFILIATED
Cost of Goods Sold as a Share of Revenue	2%	13%
Cost of Goods Margin	54%	52%

Brand affiliation also tends to affect the size and location of establishments. 90% of nonaffiliated establishments are small or medium sized (less than 100 rooms), while affiliated are far larger. At the small size, the gross operating profit per available room (GOPAR⁴) of small and medium sized non-affiliated hotels is inappreciably higher than affiliated businesses. In addition, hotels of both sorts are usually located in central locations, while motels are regularly located on highways.

⁴ **GOPAR:** Gross Operating Profit per Available Room; calculated by dividing a hotel's total gross operating profit by the total number of rooms available per year.

50%

0%

The onset of Internet-based central reservation systems allows Hotel Motel owners to have advance bookings and to determine occupancy forecasts far more easily than in the past. It also ensures that consumers are able to compare prices and to explore accommodation options not previously known of. Providers without central reservation systems are at a distinct disadvantage. The Internet however, has leveled the playing field. Just Google a location and rooms and one now has several sites to explore to find accommodations.

2.6 Industry Trends

The travel and accommodations industry has and is undergoing changes. The industry enjoyed strong sustained growth for decades until September 11, 2001 followed by the SARS outbreak and now high gasoline prices and environmental concerns.

More specifically, economic conditions in general have been a major industry concern. The Business Conditions Survey on Traveler Accommodation, May 16th 2005 (BCS-TA) reports that virtually one-third of hotel operators reported that the economic climate had been a major impediment to the hospitality business. One in four cited excess room supply as an impediment, while one in five cited a shortage of skilled labour. Conversely, public health and safety, which was among the top business impediments in 2004, appears to no longer be a primary concern for accommodation providers

Global fears of disease, terrorism and higher travel costs (stemming from dramatic increases in gasoline prices) have dampened the Canadian tourism industry. These same factors are having a positive impact on recreation destinations close to major population centers that have historically depended on domestics travelers like the Interlake.

3.0 PROJECT BENEFITS AND COSTS

3.1 Community Benefits

The goal of creating an additional accommodation establishment in Teulon is to complement current services, not to detract. To achieve this goal, it will be necessary to ensure that the capacity of the new development does not exceed what the region can manage. Existing suppliers of rooms could experience declining occupancy rates. However, with the correct capacity coupled with a strategic business model, there is strong potential for growth in Teulon that can benefit existing establishment. The following provide examples of potential activities that can be targeted to benefit existing establishments:

1. **Sporting Events & Conferences** – Larger accommodation capacity would allow Teulon to compete for more and bigger conferences and sporting events. With the right mix of establishments, overflow to current accommodation from the new establishment would be possible. Conference and sporting event contracts lead to high levels of spending in the host community, and would increase revenue for food and beverage and retail providers.
2. **Corporate Retreats** – The rise in the number of corporate retreats has created a market for communities able to offer executive activity packages and suitably luxurious accommodation. Given that Teulon already has a golf course and excellent recreation facilities in the area the addition of appropriate accommodation could open the door for this type marketing.
3. **Meeting & Conference Rooms** – If available to the public, the community could benefit from additional meeting room space for clubs and organizations. Scheduling difficulties faced by a lack of convenient space in the community could be overcome.
4. **Event Facilities** – The availability of accommodation and event facilities would provide additional facilities in the community for weddings, parties and other large events, and indeed would allow for further commercial bookings of accommodation for guests.

Other benefits that can accrue to the community and region include:

1. **Employment** – Clearly a facility of the size, which would fulfill capacity in the community, would require several staff, some of who would require skills in the hospitality industry. There is the potential for increasing general and highly skilled employment.
2. **Tourist Culture** – With the addition of further accommodation, greater numbers of rubber tire trade tourists could be encouraged to remain in

the area and experience the tourism opportunities present. There could be noticeable increases in ticket sales at the Teulon and District Museum. Hunters frequenting the Interlake area will be encouraged remain.

3. Temporary Workers – Specialized engineers from utility and professional firms needed on an irregular basis in the region could make use of additional accommodation while visiting.

In addition to the social gains that could be made by the community by the development of a motel facility, there are significant financial gains also to be made. Using a Regional Economic Impact Model, it is possible to estimate the economic effects of an accommodation development in Teulon. One model determines that an investment of \$1,240,000 for a 20 room motel, which allows for marginally more than \$62,000/room, produces a direct impact on the GDP of approximately \$350,000. The construction and building supply sector would feel the first benefit. Using the Multiplier Effect, as people employed in the building sector earn more, employees in other sectors would also benefit from increased spending. In addition, as the motel will encourage larger numbers of visitors to remain in the area, food and beverage and retail proprietors would also see improvements in sales.

Clearly, if an establishment of this size was sustainable in Teulon, and ***it should be if costs are kept to a minimum***, then the community as a whole would benefit.

3.2 Community Opposition

Given the size of Teulon and competition already located in the area, there could be opposition from local business to new development. The local hoteliers will be quick to resist the construction of a new establishment, based on the fact that overall occupancy rates are not perceived to be very high. The new establishment could be perceived to be spreading the market even thinner, which could reduce revenues to below a break-even level.

Steps will need to be taken to inform local business of the value of joint marketing and strategic alliances. Partnerships between current and potential future business will allow for tourism opportunities not now possible. In addition, there will be differences between the target markets of motels and hotels. Hotel guests are willing to pay more for additional services; this segment would be unlikely to stay in a motel, were there an option. Friendly relations between local business would thus lead to referrals.

Proactive discussion with local hoteliers about any developments will ensure support for investment, and create an environment conducive to community prosperity.

3.3 Project Considerations

There needs to be a consensus among all members of local government that a motel investment is truly desired. Without this the wheels of government will be slow to turn, and opportunities might be lost. It will be necessary for local government to solidify its commitment to new investment. There should be a concise plan of tax incentives, and other benefits that will be offered to new business. In order to secure investment, this package of tax incentives and inducements should be completed immediately, so that when interest is registered, the package can be quickly tailored for individuals.

3.4 Development Costs

Average development cost data for economy and budget motels are available, but vary widely across the sector. In areas with high land costs, cuts are made in other areas to even out expenses. However, generally speaking the following holds true.

Per-Room Average Development Costs						
	Land	Building & Site Improvements	Soft Costs	Furniture Fixtures & Equipment (FF&E)	Pre-Opening & Working Capital	Total
Budget & Economy Motels						
Average	\$14,205	\$40,796	\$4,205	\$8,308	\$3,047	\$70,561
Allocation	20%	58%	6%	12%	4%	100%
Median	\$13,560	\$37,100	\$2,238	\$8,300	\$2,796	\$63,994
Midscale Motels w/o Food & Beverage						
Average	\$16,514	\$63,743	\$11,816	\$9,774	\$4,098	\$105,945
Allocation	16%	60%	11%	9%	4%	100%
Median	\$13,916	\$56,309	\$8,513	\$9,498	\$2,796	\$91,032
Midscale Motels w Food & Beverage						
Average	\$17,142	\$70,382	\$13,898	\$12,659	\$3,754	\$117,835
Allocation	15%	66%	13%	12%	4%	100%
Median	\$12,553	\$58,097	\$10,876	\$11,887	\$2,993	\$96,406

With Teulon's relatively low cost of land and potential inducements from the town, developers would be able to build a motel very cost effectively. The proportion of expenses that would need to be allotted to land and building site improvements presents an excellent opportunity for development in the area, in that overall costs can be either redirected to improving FF&E expenditures, or simply cost savings made in relation to more expensive markets.

For future reference, the per-room development costs can be extrapolated as

follows for a 20 room development.

20-Room Development Costs Estimates						
	Land	Building & Site Improvements	Soft Costs	Furniture Fixtures & Equipment (FF&E)	Pre-Opening & Working Capital	Total
Budget & Economy Motels						
Average	\$284,100	\$815,592	\$84,100	\$166,160	\$60,940	\$1,411,220
Median	\$271,200	\$742,000	\$44,760	\$166,000	\$55,920	\$1,279,880
Allocation	21%	58%	3%	13%	4%	100%
Midscale Motels w/o Food & Beverage						
Average	\$330,280	\$1,274,860	\$236,320	\$195,480	\$81,960	\$2,118,900
Median	\$278,830	\$1,126,180	\$170,260	\$189,960	\$55,920	\$1,820,640
Allocation	15%	62%	9%	10%	3%	100%
Midscale Motels w Food & Beverage						
Average	\$342,840	\$1,407,640	\$277,960	\$253,180	\$75,080	\$2,356,700
Median	\$251,060	\$1,161,940	\$217,520	\$237,740	\$59,860	\$1,928,120
Allocation	13%	60%	11%	12%	3%	100%

3.5 Motel Facilities & Packages

In order to secure the compliance of the community for the construction of a motel development, it may be necessary to ensure that the motel provides facilities not only for the benefit of their guests but also for the benefit of the community as a whole. For example, if the motel is anticipating providing health club and swimming pool facilities for their patrons, it would be worthwhile to also provide memberships for the broader community.

Generally, a swimming pool and health club facility is only justifiable in larger facilities, 80 plus rooms. Such amenities provide a motel with a competitive advantage over its competition and help maximize market share. In other words they help a business attract a bigger slice of an existing pie. Due to economies of scale, the additional revenue brought in by an amenity like a swimming pool cannot justify the incremental cost. Consequently, for a 20-room motel, the swimming pool issue should be dealt with as a separate issue to be cost shared by the town and the business developer, perhaps as a Phase II.

3.6 Financing Alternatives

Financing a business requiring total investment in the range of \$1,200,000 to \$2,250,000 in a small community is a challenge. This kind of money is drawn to larger centers, which offer lower perceived risk and higher potential returns on investment. The province of Manitoba has recognized this barrier to economic development in smaller communities. To encourage investment in smaller communities the province has established the Manitoba Community Enterprise Development Tax Credit Program.

Under the Manitoba Community Enterprise Development Tax Credit Program no single investor can hold more than 10% of an issue (\$500,000 maximum). A Manitoban who invests in approved eligible local enterprises will earn a 30% personal income tax credit on a maximum annual investment of \$30,000 or up to \$9,000 in tax credits. The tax credits offset Manitoba income tax payable. Any unused credits can be carried forward for 10 years OR back for three years, no earlier than 2003. Investments must be held for three years. A premature redemption will result in the claw back of the tax credit.

Another viable financing alternative is the formation of a cooperative. The province of Manitoba has enacted changes to the Cooperatives Act making it easier to form a cooperative and to allow it to function in a business like manner while preserving the cooperative principles.

Both alternatives are founded on community participation and involvement and both act to assist risk sharing and raising investment dollars. Furthermore, these alternatives are not mutually exclusive. A new venture can take advantage of both.

4.0 MARKET & OPERATIONS FEASIBILITY

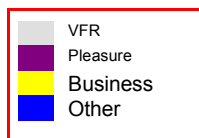
4.1 Markets Analysis

The "Interlake Regional Tourism Profile 2004" released in 2005, states that of the 692,000 region visits to the Interlake region in 2004, 384,000 or 55.5% were overnight visitors, while 208,000 or 44.5% were same day visitors.

2004 Top Canadian Origins	
	Person Visits
Manitoba	333,000
Alberta	8,000
B.C.	8,000

2004 Top American Origins	
	Person Visits
Minnesota	8,000
North Dakota	1,000
Michigan	1,000

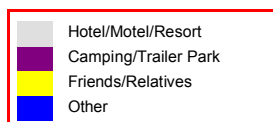
Main Purposes of Overnight Trip to the Interlake Region
2004



	VFR	Pleasure	Business	Other
Canada	97,000	235,000	9,000	18,000
US	7,000	5,000	1,000	4,000
Overseas		337		
Total	104,000	240,377	10,000	22,000

The majority, 63.9% of all visitors to the region indicated their main purpose of travel was for taking a pleasure trip. The next popular responses were to visit friends and relatives – VFR – (27.6%) and for other reasons (5.8%). Finally, 2.7% of respondents indicated that their trip to the Interlake was for business purposes.

Lodging Used by Overnight Visitors to the Interlake Region
2004



	Hotel/Motel/Resort	Camping/Trailer Park	Friends/Relatives	Other
Canada	77,000	142,000	802,000	3,000
US	21,000	5,000	44,000	3,000
Overseas			1,000	
Total	98,000	147,000	847,000	6,000

The above chart shows that most overnight visitors, 847,000 or 77.1% stayed in the home of a friend or relative during their stay in the Interlake region. The next popular type of lodging used was staying at a campsite or trailer park. 147,000 or 13.4% of overnight visitors used this type of accommodation. The third popular type of accommodation was

staying at a hotel, motel or resort. 98,000 persons or 8.9% indicated they used this type of accommodation. Finally, persons using some other type of accommodation numbered 6,000 or .6% of the overnight visitors to the Interlake region.

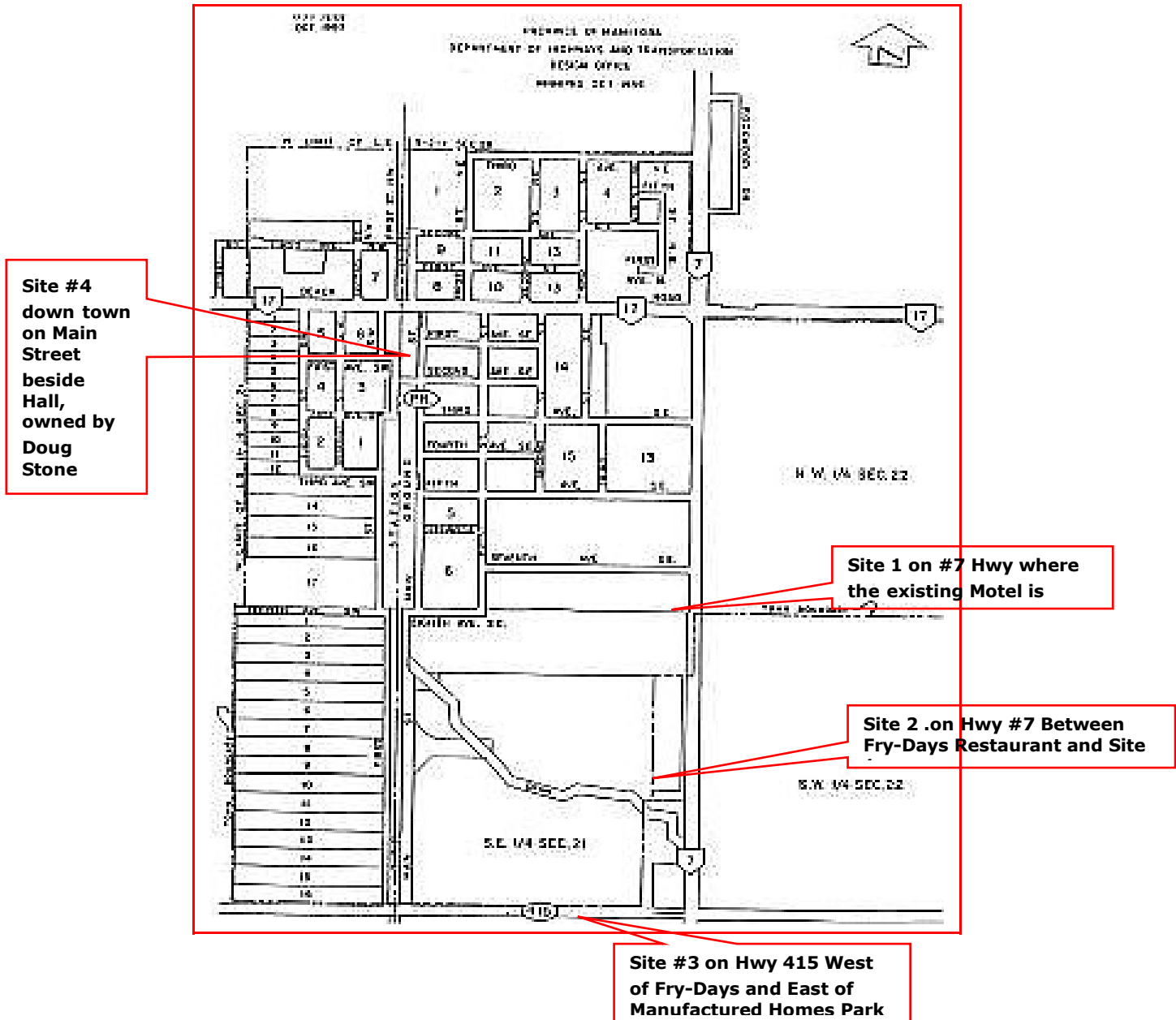
63.9% for pleasure trip, 27.6% to visit friends and relatives and 77.1% stay with friends and relatives. These statistics strongly suggest that there is lack of available and affordable accommodations in the Interlake area.

4.2 Occupancy Issues

Location	Motel /Hotel	# of Rooms	Capacity	Avg. RMs to Capacity	Room Rates	Population	Capacity to Pop
Arborg	Zan's Family Inn	8	23	3	48 - 60	1,021	44.4
Ashern	Interlake Motel	13	40	3	52 - 59	1,480	14.0
	Ashern Motor Inn	12	36	3	42 - 60		
	Sharptail Motor Inn	8	30	4	55 - 65		
Eriksdale	Eriksdale Inn	8	32	4	41.95	911	28.5
Fisher Branch & Broad Valley	Minh's Restaurant & Motel	4	12	3	45 - 60	1,944	23.7
	Fisher Branch Motor Hotel	17	58	3	55 - 95		
	Country Harvest Inn	3	12	4	55 - 65		
Fraserwood	Fraserwood Tourist Hotel	8	16	2	25 - 50	75	4.7
Gimli	Lakeview Resort	99	308	3	92 - 285	5,797	9.0
	Misty Lake Lodge & Conference Centre	37	200	5	84 - 199		
	Autumnwood Motel & RV Resort	18	64	4			
	Viking Inn	21	75	4	49 - 86		
Lundar	Lundar Motor Hotel	20	44	2	45 - 80	1,339	30.4
St. Martin – Moosehorn	St. Martin Motor Hotel	14	45	3	35 - 60	1,416	20.2
	Moosehorn Motor Hotel	6	25	4	55		
Riverton	Riverton Motor Inn	9	36	4	40	537	14.9
Selkirk	Selkirk Inn & Conference Centre	35	102	3		9,515	82.0
	Selkirk Motor Inn	7	14	2	49 - 59		
Stonewall	Rockwood Motor Inn	12	50	4	45 - 65	4,376	87.5
Teulon	Teulon Inn Motor Hotel	4	7	2		1,124	160.6
	RT's Motel		?				
Warren	North Warren Inn	4	12	3	76	675	56.3
Winnipeg Beach	Beach Hotel	6	12	2	40	1,017	31.8
	Hamilton House Motel	5	20	4	75 - 110		
		370	1,250				

The above table shows that Teulon is under serviced compared to the other communities in the Interlake region. The Teulon calculation does not include the 10 rooms provided by the RT's Motel. This motel does not publish its rates and gives the impression of providing limited service and appears to need upgrades in order to become attractive to average motel patrons. Adding 20 rooms or 60 spaces to Teulon's accommodations capacity the capacity to population ratio becomes 16.8 or more inline with Ashern and St. Martin.

4.3 Site Analysis



- Site 1.** On highway #7 but visibility may be hampered driving north and there may be some question about the adequacy of the land for development and impact on the existing motel.
- Site 2.** Also on highway #7, visibility and the apparent amount of available land for development appear better.
- Site 3.** On highway #415, clearly visibility from highway #7 and well as on 415 with an apparent abundance of available land. Proximity to a restaurant could be an asset and the site opens complimentary development possibilities to better serve the manufactured home park e.g. a convenience store, gas bar, etc.
- Site 4.** On main street, a downtown location is not compatible with a motel development concept. Furthermore, the Teulon Hotel services the downtown area already.

4.4 Competition Analysis

Hotel Search Legend

Number of units	Star Rating
Capacity	Convention/Banquet Facilities
Rates	Small Pets Permitted
Restaurant- Licenced / Unlicenced	Room Service
Pool - Indoor / Outdoor	

		#	#	#	TI	TI	TI	TI	TI	TI	TI	TI	TI	TI	TI
Arborg	Zan's Family Inn	8	23	48 - 60	✓									✓	✓
Ashern	Interlake Motel	13	40	52 - 59										✓	
Ashern	Ashern Motor Inn	12	36	42 - 60											✓
Ashern	Sharptail Motor Inn	8	30	55 - 65											
Broad Valy.	Country Harvest Inn	3													
Eriksdale	Eriksdale Inn	8	32	41.95											✓
Fisher Br.	Minh's Restaurant & Motel	4	12	45 - 60											
Fisher Br.	Fisher Branch Motor Hotel	17	58	55 - 95								✓			
Fraserwood	Fraserwood Tourist Hotel	8	16	25 - 50	✓										
Gimli	Lakeview Resort	99	308	92 - 285				✓	✓		3.5	✓			
Gimli	Misty Lake Lodge & Conf. Cntr	37	200	84 - 199	✓				✓		2.5	✓	✓	✓	✓
Gimli	Autumnwood Motel RV Resort	18	64												
Gimli	Viking Inn	21	75	49 - 86								✓			
Lundar	Lundar Motor Hotel	20	44	45 - 80											✓
Moosehorn	Moosehorn Motor Hotel	6	25	55	✓										✓
Riverton	Riverton Motor Inn	9	36	40											
Selkirk	Selkirk Inn & Conf. Centre	35	102		✓						3.5	✓	✓	✓	✓
Selkirk	Selkirk Motor Inn	7	14	49 - 59											
St. Martin	St. Martin Motor Hotel	14	45	35 - 60	✓										
Stonewall	Rockwood Motor Inn	12	50	45 - 65							2.5				✓
Teulon	Teulon Inn Motor Hotel	4	7												
Warren	North Warren Inn	4	12	76	✓							✓	✓	✓	✓
WPG Beach	Beach Hotel	6	12	40											
WPG Beach	Hamilton House Motel	5	20	75 - 110											
Totals		378	1,261												

In planning a motel it is important to know the competition, where the competition is located, the services provided and prices charged. Motel rooms are like the seats on an airplane. An empty seat or room cannot be saved and sold the next day. Hence cooperation among accommodations providers is very important. When booked 100% refer all subsequent inquiries to a "competitor".

The Winnipeg Beach – Gimli area accommodation are typically booked solid during the summer months. This area is within minutes of Teulon by car.

4.5 Purchasing and Supply Sources

SUPPLIERS	
Name of Supplier	Product/Service Provided
AAA Alarm Systems Ltd. (204) 949-0078	Alarms, Security Systems & Locks, Safety, Security Systems
Canwest Bedding Ltd. / Serta Mattress Company (204) 667-3782	Bed Units, Bedding & Bedding Accessories, Furniture, Upholstery & Upholstery Cleaning
Coca Cola Bottling Ltd. (204) 633-2590	Beverages, Non-Alcoholic
Costco Wholesale (204) 654-4369	Meats, Case Goods, Beverages, Non-Alcoholic, Paper Products, Tobacco
Guest Supply Canada (905) 896-1060	Amenities, Bedding & Bedding Accessories, Linens, Towels & Napkins, Lighting, Cleaning Products
HED Insurance and Risk Services (204) 943-0331	Insurance
Lintex / George Courey (204) 942-6762 or (800) 279-9350	Linens, Towels & Napkins, Bedding & Bedding Accessories, Uniforms, Aprons & Clothing, Amenities, Draperies
Manitoba Hydro (204) 480-5356	Construction & Renovation, Energy Management, Lighting, Property Management, Refrigeration Equipment & Services
Manitoba Tourism Education Council (MTEC) (204) 957-7437 or (800) 820-6832	Training & Development, Education & Training

Supplies and services necessary to operate a motel are readily available. The list above gives a sampling of typical motel suppliers with contact numbers.

4.6 Human Resources

According to industry sources almost a quarter of Canadian hoteliers name employment as a major impediment to their business. In fact, there is currently a shortage of unskilled (23%) and skilled (22%) labour facing the industry.

17.8% of Teulon's population is between 60 – 70 years of age compared to 11.5% for Winnipeg. An additional 11.6% of Teulon's is between 15 – 24 years of age compared to 14.1% in Winnipeg. Taken together Teulon's population mix is considered more favourable than Winnipeg's to supply the envisioned motel with needed human resources. The fact remains that jobs are more plentiful in a larger center than a smaller center so the creation of new job opportunities is not only beneficial to a business, it is also beneficial to the entire community.

5.0 FINANCIAL MODELING

5.1 Capital Cost Estimates

Project Costs Estimates	Economy	Midscale No Food & Beverage	Midscale with Food & Beverage	Project Financing Estimates	Economy	Midscale No Food & Beverage	Midscale with Food & Beverage
Land	197,600	312,000	336,750	Debt Financing	550,000	850,000	1,000,000
Building & Site Improvements	778,050	1,228,500	1,347,000				
Soft Costs	61,750	97,500	89,800				
Furniture and Fixtures	160,550	253,500	359,200	Town of Teulon Contribution ⁵	185,000	300,000	345,000
Working Capital	37,050	58,500	112,250	Equity	500,000	800,000	900,000
TOTAL	1,235,000	1,950,000	2,245,000	TOTAL	1,235,000	1,950,000	2,245,000

The chart above provides projects cost estimates and project financing estimates for three (3) alternatives, each having 20 units.

1. Economy
2. Midscale – No food & beverage
3. Midscale – with food & beverages

These estimates are based on industry norms established to determine the reasonableness of new project costs and for use in feasibility analysis. If further consideration is determined to be warranted then architects and engineers must be engaged to prepare actual blue prints and work must be tendered out to get firm costs.

The final cost for a 20 unit motel is expected to range from \$1,235,000 to \$2,245,000. These cost estimates show that going from "Economy" to "Midscale" results in increased costs. A failure to recognize this fact can result in embarrassing overruns. As stated earlier, some cost saving may be achieved through favorably priced land, local participation and the saving in one area can be applied to another cost area.

The estimated debt financing comes in at about 45% of the total project costs. This level of debt financing is within the comfort range that most conventional lenders for a project of this nature. The remainder of the funding must therefore come from investment and/or government incentives and similar goods and services.

5.2 Earnings Estimates

⁵ ***The Town of Teulon contribution stated above is presented strictly for discussion purposes and does not reflect any commitment made by Town Officials.***

		Year 1	Year 2	Year 2
Revenue	(A)	325,000	341,000	357,800
Cost of goods sold	(B)	96,500	100,400	105,900
Gross profit		228,500	240,600	251,900
Expenses				
Selling expenses	(C)	18,000	18,000	18,000
Admin. & Finance	(D)	170,200	173,800	176,400
		188,200	191,800	194,400
Net Income		40,300	48,800	57,500

*Projected

(A) Revenue

Cost of Goods Sold				
CATEGORY		Year 1	Year 2	Year 3
Room revenue	1.	320,000	336,000	352,800
Other income	2.	5,000	5,000	5,000
Total revenue		325,000	341,000	357,800

1. Room revenue

Room revenue for Year 1 was estimated as follows:

No. of Rooms	X	Average Room Rate	X	Days in Year	Total	X	Occupancy Rate	Room revenue
20	X	\$85.00	X	365	620,500	X	51.57%	\$320,000

The average room rate includes double as well as single occupancy and it is expected that additional person staying in a room will be charged appropriately.

2. Other income

Typical motels generate additional income from drink dispensing machines, long distance telephone charges, and the sale of confections, newspapers and magazines.

(B) Cost of Goods Sold

Cost of Goods Sold				
CATEGORY		Year 1	Year 2	Year 3
Sales		325,000	341,000	357,800
Salaries	1.	47,000	49,100	51,500
Employee Benefits		4,700	4,700	5,100
Workers' Compensation		3,900	4,000	4,300
Cleaning supplies		9,400	9,900	10,400
Equipment rent		3,200	3,200	3,200
Laundry and dry-cleaning	2.	13,000	13,600	14,300
Licenses		500	500	500
Linen, bedding supplies, uniforms	3.	6,800	7,200	7,500
Paper stationery, guest supplies		1,300	1,300	1,400
R&M – Building, Parking, Lawn		5,200	5,400	5,700
R&M – Equipment		1,500	1,500	2,000
Cost of Goods Sold		96,500	100,400	105,900
Cogs % of Sales		29.7%	29.4%	29.6%

1. Salaries

The motel salaries develop at approx. \$3,900 per month or 14.4% of room revenues. This is for house keeping.

2. Laundry and dry cleaning

Estimated at approximately 4% of room revenue

3. Linen, bedding, supplies and uniforms

Estimated at approximately 2% of room revenue

(C) Selling expenses

Selling expenses are projected as follows:

SELLING EXPENSES				
		Year 1	Year 2	Year 3
Advertising and promotion	1.	12,000	12,000	12,000
Shipping and delivery	2.	6,000	6,000	6,000
Total		18,000	18,000	18,000

3. Advertising and promotion

Estimated at \$1,000 per month.

4. Shipping and delivery

Estimated at \$500 per month.

(D) Administrative and Finance

ADMINISTRATIVE & FINANCE EXPENSES

		Year 1	Year 2	Year 3
Accounting & Legal		5,000	6,000	6,000
Amort. – capital assets	1.	- - -	- - -	- - -
Computer costs		1,600	1,600	1,600
General Expenses		1,200	1,200	1,200
Int. and bank charges		2,400	2,500	2,600
Int. Long Term Debt	2.	35,000	35,000	35,000
Management salaries	3.	40,000	40,000	40,000
Office Salaries	4.	18,000	18,000	18,000
Employee benefits – Mgmt/Office		5,000	5,000	5,000
Office Expenses		3,000	3,000	3,000
Insurance	5.	20,000	21,000	22,500
Property and Business Taxes	6.	15,000	16,000	16,000
Telephone		6,000	6,000	6,000
Utilities		18,000	18,500	19,500
	Total	170,200	173,800	176,400

1. Amortization – capital assets

Amortization on capital assets has not been calculated.

2. Interest on long term debt

The interest on term debt was estimated at 7% of \$500,000.

3. Management Salary

Estimated at \$40,000 per year. It is assumed that this would be the base and that any additional compensation would be performance based i.e. exceeding the forecast earnings results.

4. Office Salary

This estimated is \$1,500 per month for bookkeeping services and typically this also includes looking after the front desk during and answering the telephone.

5. Insurance

The forecast amounts are within the range paid by businesses with similar.

6. Property taxes

The forecast amounts are within the range paid by businesses with similar.

5.3 Break-even Analysis

	Year 1	%
Revenue	264,697	100.0
Variable Expenses		
Cost of goods sold	79,938	30.2
Selling expenses	14,559	5.5
	<u>94,497</u>	<u>35.7</u>
Contribution margin	170,200	64.3
Fixed expenses		
Admin & Financial expenses	<u>170,200</u>	<u>64.3</u>
Net income	<u>0</u>	- -

Formula: $(\text{Fixed expense} + \text{Net Income}) / \text{Contribution Margin} = \text{B.E.}$
 $(\$170,200) / 64.3\% = \$264,697$

The break-even analysis shows that the Year 1 forecast sales are \$60,303 greater than break-even sales.

6.0 CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

The analysis contained in this report leads to the following conclusions:

1. Brand Affiliation

Brand affiliation (chain) is not desirable for a smaller market, smaller sized motel facility. The internet has leveled the playing field in the area of reservation systems. Independence of action and ability to adjust to local needs gives the unaffiliated operation an advantage.

2. Hotel facilities & packages

Complementary services like food services are important contributors to an unaffiliated, smaller motel. Adding such revenue streams also increases the needed investment and adds to operational complexity. In Teulon, the addition of another restaurant could negatively impact existing operations. For Phase I, the preferable alternative is to let others provide the food services.

Large motels provide small pools for the patrons. For small motels, the additional cost of a pool does not justify additional potential revenues. A safer strategy would be to get the motel up and running and then consider a building a pool. To be successful, a new motel venture must keep its capital costs as low as possible.

The addition of a pool and other complementary services can always be considered during a Phase II expansion.

3. Market Analysis

The Interlake region enjoys a very strong domestic market. Given high gasoline prices, post 9-11 travel restrictions and health concerns, the outlook for the Interlake region looks bright.

4. Occupancy Issues

55.5% of the Interlake region were overnight visitors. Most overnight visitors (77.1%) stayed in the home of a friend or relative during their stay in the Interlake region. These two statistics strongly suggest that the Interlake region is under serviced. In such a case adding more accommodation spaces shall result in increased occupancy rates for all suppliers of accommodations.

5. Local Competition

The primary objective of a community driven initiative is to benefit the entire community. As envisioned in this report, the motel development is not expected to cause any existing businesses hardship.

6. Development costs

A 20 unit motel is estimated to cost around \$1,235,000. At this size the motel shall be large enough to have a positive impact on the community but, not too large to cause competing businesses hardship. Sites 2 and 3 are both excellent, not only in terms of visibility but also large enough to accommodate future expansion in the development plans.

7. Viability

The financial projections show that a 20 room motel can show a before tax and amortization profit after paying out \$35,000 a year in interest costs.

6.2 Recommendations

This study shows that the development of a 20 unit motel in Teulon warrants further consideration. The following actions should be undertaken pending the Mayor and Council's approval:

- Engage architects to draw up preliminary drawings for sites 2 and 3. This will help to conceptualize the facility and identify design issues. Among the design goals expansion ability is very important.
- Based on the results of the preliminary drawings, the Mayor and Council must agree on a tentative inducement package for qualified developer.
- Establish a Motel Development Steering Committee. This committee then develops and implements strategies to attract developers and/or set up a cooperative and/or engages the Manitoba Community Enterprise Development Tax Credit Program.