

Sherburne Inn

MARKET
ANALYSIS

JANUARY 2005

INTRODUCTION

As identified in the RFP for this project, TDC will undertake a preliminary market assessment of 2-3 potential reuses of the Sherburne Inn. This market research will only be a preliminary, general investigation to determine if sufficient potential exists to support further in-depth investigation. Certainly prior to any private or public investment into the Sherburne Inn, a more detailed analysis must be undertaken. Working with the Steering Committee for this project, approximately fifteen uses were identified as potential uses of the Inn. After further discussion, those uses were narrowed to three for further study. Uses to be studied include: full service restaurant, a hotel/inn, and small shops. A number of assumptions are made without supporting information.

Prior to considering each of the above uses some basic information concerning the market area is important to review.

Basic Demographic Information

In undertaking the preliminary market assessment, it was determined that two market areas exist. The first market area is a fifteen mile radius from the intersections of Route 12 and Route 80. The second market area is a twenty-five mile radius from the same location. It is understood, however, that it is likely that a high percentage of any users for a renovated Sherburne Inn will likely come from outside both of these market areas, especially when considering the hotel/inn option. Listed following are two tables that demonstrate the population and number of households included in each of the market areas:

POPULATION

<u>Year</u>	<u>15 Miles</u>	<u>25 Miles</u>
1990 Census	43,634	103,758
2000 Census	43,156	105,075
2004 Estimate	43,156	105,626
2009 Projected	43,176	106,178

NUMBER OF HOUSEHOLDS

<u>Year</u>	<u>15 Miles</u>	<u>25 Miles</u>
1990 Census	15,404	36,083
2000 Census	15,832	38,689
2004 Estimate	15,995	39,362
2009 Projected	16,211	40,162

Source: U.S. Census and Claritas, Inc. data

As can be seen from the above tables, an insignificant population growth is being projected over the next five years for both market areas (.04% for the fifteen mile radius, .5% for the twenty-five mile radius). Due to projected smaller household sizes, however, there is some limited growth in the number of projected households by the year 2009.

Traffic Counts

The heart of Sherburne's downtown area is the intersection of Route 12 and Route 80. Route 12 is the major north/south route through Chenango County. Route 12 is also the most direct link between the larger cities of Utica and Binghamton. Route 80 runs east/west in the northern section of Chenango County. It is a very indirect route that links the Syracuse area to Cooperstown, though this would not likely be the preferred route of travel (see map).

Traffic Counts are maintained by the New York State Department of Transportation as annual average daily traffic (AADT), a total daily volume of traffic in both directions on a specific section of highway. For Route 12 in the Village of Sherburne (from Route 80 north to the intersection of Route 12b, a distance of .75 miles) the AADT is 9,231. With the exception of the AADT counts on Route 12 in and around the City of Norwich, this is the highest traffic count of any segment of any road in Chenango County. For Route 80 to the west (County Route 23 to the intersection of Route 12, a distance of .71 miles), the registers AADT count is 2,786. Route 80 to the east (intersection of Route 12 to County Route 25, of distance of 6.7 miles) registers a AADT of 1,626. This traffic data reveals that downtown Sherburne's main intersection has a significant amount of traffic flow each day. Even allowing for some vehicles being counted more than once, the traffic likely approaches 10,000 cars per day at that location.

Attractions in the Market Areas

Within the fifteen mile market area radius of the Village of Sherburne, the main population centers include the City of Norwich, the Villages of Sherburne and New Berlin. Attractions in this radius include, Colgate University, which is by far the largest attraction; the Roger Center in Sherburne; and the Earlville Opera House, as well as some museums and other attractions in the City of Norwich. Expanding to the twenty-five mile market area radius adds the Villages of Cazenovia, Morrisville, and Oxford, and attractions such as Cazenovia College, SUNY Morrisville, and the numerous antique shops on Route 20. Just outside this twenty-five mile radius, some nearby attractions include the Turning Stone Casino, Hamilton College, the Village of Cooperstown and its museums, and the City of Oneonta, which includes two colleges and several other large attractions.

MARKET FOR A RESTAURANT

The last economic use of the Sherburne Inn was as a restaurant and tavern on the first floor. One of the needs identified by the Village Steering Committee was for a full service restaurant in the Village. The use as a restaurant on the first floor likely will provide a lower capital cost since upper floor renovation is not needed. The total exterior, however, would have to be renovated and a more available parking situation would have to be developed, either by the restaurant on private property or through the use of public parking areas. Apparently some of the kitchen equipment remains, however, it is not known whether a new owner could use it.

Competition

Within the fifteen mile radius, 37 restaurants were identified. The majority of these restaurants were located in Norwich to the south. Thirteen of those restaurants are classified as full service restaurants, meaning they provide both lunch and dinner and not fast food.

Consumer Spending

In 2004 the households within the fifteen mile radius expended over \$60 million on food away from home. An additional \$4.6 million was spent on alcoholic beverages consumed away from home. With only 37 restaurants identified in the radius, it is likely that a large percentage of this spending occurred in restaurants outside the area. The households spending on food in this radius is projected to increase by over 16% by 2009. There is likely a demand in the area to be captured. The large number of travelers coming to or passing through the Sherburne area will also provide some demand that is available to be captured.

Projected Financial Results

The potential revenues from a restaurant will come from two sources: dining and events. A third source, guests, will be present if hotel rooms are built on the upper floors of the Inn. It is almost impossible to project the potential revenues of a known restaurant, let alone an unknown new entity. However, detailed below are some very primarily preliminary projections based upon some significant assumptions.

Dining - Assumptions: A dinner, including food and beverage, has an average cost of \$21 and lunch, including food and beverage, has an average cost of \$11. For both dinner and lunch, assume 15 patrons per day for six days a week. These assumptions project revenues of \$149,760. A reasonable estimate for labor, food, and other operating cost is 70%. A deduction of 70% yields \$44,928 in gross operating profit.

Events - The Sherburne Inn will likely host events, banquets, etc. Due to the limited space, an average of 25 people will be used for calculation purposes with an assumption of one event every other week. A per head cost of \$50 is used to calculate revenues of \$32,500. A deduction of 70% yields a gross operating profit of \$9,750.

Combining the two gross operating profits from both dining and events totals \$54,678 annually.

Guests – Over a year’s time, 100 guests from each room will eat breakfast, lunch, and dinner at a cost of \$38 per day. Assuming 16 hotel rooms are available, this yields revenue of \$60,800 per year and a gross operating profit of \$18,241.

According to the architect’s report, the cost of renovating the exterior and the first floor could range from \$271,000 to \$790,000. The amount of \$530,000 will be used for this analysis. A loan to value ratio (LTV) of 75% and debt service coverage (DSC) ratio of 1.1 will be used. Based upon the above estimated costs and assumptions, the redevelopment of the first floor into a full service restaurant does meet these requirements. However, these estimates do not include the acquisition of the property. Based upon the remaining funds for debt service, a mortgage for acquisition of \$80,700 can be amortized. The calculations are listed below.

Equity required for renovation = \$132,500

\$530,000 x .75 (LTV) = \$397,500

Mortgage 6% for 15 yrs. = \$40,900/yr.

\$54,678 - \$5,468 (1.1 DSC) = \$49,210

Funds available for acquisition costs - \$8,310

Even though the total capital cost for this option will be less because only the exterior and the first floor are renovated, the cost to renovate is still significant and the cost to acquire is not known. The Inn is currently listed for sale at \$269,000. To allow a developer a return on their investment, it is likely that a user of the first floor will have to be a full service restaurant offering fine dining, a lounge, and very well appointed surroundings. It is clear from other examples throughout New York State that a well appointed restaurant serving fine food can draw diners from up to 50 miles away once a reputation is established and assuming the restaurant is properly marketed. One important issue that must be considered is the apparent inability to get a full liquor license. This is due to the building location in relationship to a church. It is possible, however, to obtain beer and wine licenses.

The income generated from an established restaurant as described above will probably present the opportunity to minimally meet the required cash flow for a developer/owner. One other option that may be feasible is to develop a multi-purpose first floor featuring moderately priced breakfast and lunch, fine dining on limited nights of the week, and/or possibly a bakery or tavern. This option may be feasible and could possibly generate enough revenues if the right mix is developed. However, there is also the possibility that the multi uses could confuse potential customers.

MARKET FOR HOTEL/INN ROOMS

The Sherburne Inn was originally built for the purpose of providing a place along the turnpike from Utica to Binghamton for travelers to stay. In a time when that journey took more than a day, rooms were definitely needed in the Sherburne area. Now, when the journey can be made in a couple hours a place to stay is not always required for travelers. However, there is significant traffic that passes the Inn every day and large attractions in the area that draw visitors from outside the area. The upper two floors of the Inn originally were divided into a number of small rooms. As detailed in the architect's report, while the walls have been demolished, 6-10 units on each floor can likely be created. This would create a 12-20 room inn with rooms sizes to accommodate current travelers.

Competition

Within the fifteen mile market radius, four hotel/motel facilities were identified. These facilities contain 184 rooms. The Colgate Inn in Hamilton and the Howard Johnson Inn in Norwich were the only full service hotels. Also 26 Bed and Breakfasts were identified, estimated to contain 72 rooms. Expanding to the 25 mile market radius three more hotel/motels with 39 rooms and 18 additional Bed and Breakfasts with an estimated 50 rooms were included.

Estimate Financial Results

The architect estimates the cost of developing the two upper floors into hotel rooms to be \$890,500. This includes an elevator and assumes that the exterior and the first floor have already been renovated. If 16 moderate sized rooms can be created, a nightly fee of \$70.00 is realistic when compared to the competition. A conservative 50% occupancy rate is used. Using these rates, \$204,400 will be generated annually. The income is reduced by 40% for operating, management, and affixed and capital reserve expenses. This results in \$122,640 in income. Typical hotel loans require 70%-75% LTV and 1.2 to 1.4 debt service coverage. Based upon the above estimated costs and assumptions, the redevelopment of the upper floors of the Sherburne Inn to hotel rooms does meet these estimates. The addition of hotel rooms also generates additional funds to pay for acquisition costs and creates additional customers for the restaurant. See calculation below:

Equity required for renovation = \$222,625

\$890,500 x .75 (LTV) = \$667,875

Mortgage 6% for 15 yrs. = \$68,766/yr.

\$122,640 - \$49,056 (1.4 DSC) = \$73,584

Funds available for acquisition costs - \$4,818

With its location near Colgate University and other attractions in the area, a 12-20 room renovated Inn can be easily filled during times of specific local events that would draw large numbers of people to Colgate or other area attractions. Travelers to and through the Sherburne area would also likely fill some hotel rooms. To generate the room charges and the occupancy required to justify the acquisition and renovation costs as detailed by the architect, it is clear that a full service facility must be created that will allow the Inn to be seen as a destination in and of itself. To create such a destination, it will require a complete renovation, while providing necessary ancillary services such as parking. The Inn should include a full service restaurant and at least a limited service spa. The development of a limited service spa can provide significant revenues and occupancy. Due to the physical size of the Sherburne Inn, a limited service spa is probably all that can be accommodated.

In 2002, Thoma Development Consultants completed a study of Destination Spas in New York and Pennsylvania. This study revealed nightly rates of hotel rooms with high end spa services at an average of \$532 while moderate spa facilities averaged \$325. A spa associated with the Sherburne Inn would likely be considered a moderate limited service spa due to the small size of the site. For such spas, occupancy rates need to average 61-80%, which is much higher than the overall hotel industry. To undertake such a project would clearly be viewed as high risk to any potential investor. A developer would have to create a facility that would generate its own market while also being able to capture some of the local market on limited occasions.

MARKET FOR SMALL SHOPS

A renovated Sherburne Inn could also house small shops that would not only serve the needs of the community, but also the tourists traveling along Route 12. The Steering Committee has identified a number of uses that would be a welcome addition to the Village. Several of them would fit well into a multi-tenanted Inn. Those uses include a clothing boutique, jewelry store, gift shop, newsstand, bakery, and bookstore. These retail activities could easily serve both markets – residents and tourists. The architect's report identifies 4,156 square feet of rentable commercial space on the first floor only. The potential also exists for shops to be located on the second floor if an elevator is installed.

Competition

The Village of Sherburne has a pharmacy, grocery store, a couple of gift stores, and a large variety store. There is not much other retail except for restaurants. Focusing on the uses identified above will limit competition and provide needed services to the community. The main competition for any retail in Sherburne are the stores in the large retail centers of Norwich and Hamilton.

Estimate of Financial Results

As previously mentioned, according to the architect's report, the cost of renovating the exterior and the first floor of the Sherburne Inn could range from \$271,000 to \$790,000. The amount of \$271,000 will be used for this analysis. Based upon the rentable space available (4,156 square feet), renting \$5-\$10 per square foot would yield an income of \$20,780 to \$41,560 annually. If 3,000 square feet of the second floor is also rentable, that could generate between \$15,000-\$30,000 in additional revenue. The use of the second floor will require that an elevator be installed and second floor renovations, thus increasing the renovation cost by \$248,500.

The owner must carry all expenses since the separation of utilities will not be easily accomplished. Expenses will likely approach 25% of gross rents. This generates a gross operating profit of between \$15,585 and \$31,170 for the first floor only. A required debt service coverage ratio of at least 1.2 will reduce the operating profit to \$12,468 and \$24,936. Unless the top rent is received enough funds will not be generated to pay the debt. This analysis also does not include the cost of acquisition or factor in a rent up period. To achieve the highest rent, it is likely that more will have to be spent on the exterior and first floor renovation than the minimum amount.

Equity required for renovation = \$67,750

\$271,000 x .75 (LTV) = \$203,250

Mortgage 6% for 15 yrs. = \$16,291/yr.

\$15,585 - \$3,117 (1.2 DSC) = \$12,468

\$31,170 - \$6,234 (1.2 DSC) = \$24,936

Funds available for acquisition costs - ?

Another issue facing the developer of a multi use Sherburne Inn is the requirement to complete all renovations without all end users committed to space. The project could take a significant number of months to reach a break-even point. Based upon the above estimated costs and assumptions, the redevelopment of the first floor into small shops does not likely meet the proposed debt service coverage requirements. The only way that a use such as described above could be successful is if a much greater equity investment is made by the owner.