

ERNST & ASSOCIATES, INC.

Hospitality and Real Estate Consulting and Appraisal Services

MARKET ANALYSIS
PROPOSED EXECUTIVE CONFERENCE CENTER
BILLINGS, MONTANA
JULY 16, 2002

Prepared By:

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Downtown Billings Partnership
July 16, 2002

Hotels. It could be developed in conjunction with a new hotel facility. Regardless of the ultimate development scenario, we believe that a first-class, executive conference center will meet the goals and objectives of the community at large and could be an important contribution to the overall expansion of downtown Billings.

Our estimates reached herein are predicated upon the assumption of competent and efficient management to be performed by professional, qualified management, with efficient marketing and good control over revenues and expenses.

Based on our research, we are unaware of any directly competitive conference centers in the pipeline for the defined market area, other than the subject and one conference center currently under construction within the Yellowstone Medical Center. One or two other centers were mentioned during the course of our work, as being projects included in long range plans for a couple of the major employers in Billings, but neither project could be considered viable at this time. Should the actual number of proposed executive conference centers differ from the estimates in this report, they could have an impact on our projected utilization levels, and that impact could be material.

This report is for use by you and your development partners for internal planning purposes, as well as presentation to the Downtown Billings Partnership and/or its subsidiaries. We understand that the report may be shared with community representatives. Neither the report, nor any portion of the report, may be quoted or included in another document without our prior written consent.

It should be noted that any reference to potential utilization levels contained in this report is considered preliminary. Estimated utilization levels and/or anticipated revenue are based primarily on industry trends and are subject to revision as part of Phase II and III of our work.

The date of this report is July 16, 2002, an arbitrary date selected by the consultant, representing the last day of market research. The subject site area was inspected by Susan Ernst during the week of June 26 – July 2, 2002.

On the following pages will be found a summary of our major findings, conclusions and recommendations as a result of our market analysis. This report is subject to the Statement of Assumptions and Limiting Conditions contained in the addendum.

It has been our pleasure working with you on this project.

Respectfully submitted,

ERNST & ASSOCIATES, INC.

By:

Susan L. Ernst, ISHC
President
Certified General Real Estate Appraiser

INTRODUCTION

Identification of Property

The subject of this market analysis is a proposed executive conference center, to be located in Billings, Montana. There are at least two site locations that may be appropriate for the proposed project, however, a specific site location has not been secured at this time. For purposes of this preliminary market analysis, we have assumed that all of the criteria required to operate a successful conference center will be met and this is discussed in another section of this report.

Property Ownership

As mentioned, a specific site location has not been designated at this time. The most optimum site, but not confirmed, would be the land situated between the Northern Hotel and the Sheraton Hotel in downtown Billings. The reader is invited to the site analysis section of this report for further discussion on this subject.

Purpose, Intended Use and Date of the Report

The purpose of this consulting assignment is to estimate the market support for a proposed executive conference center.

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Scope of Our Work

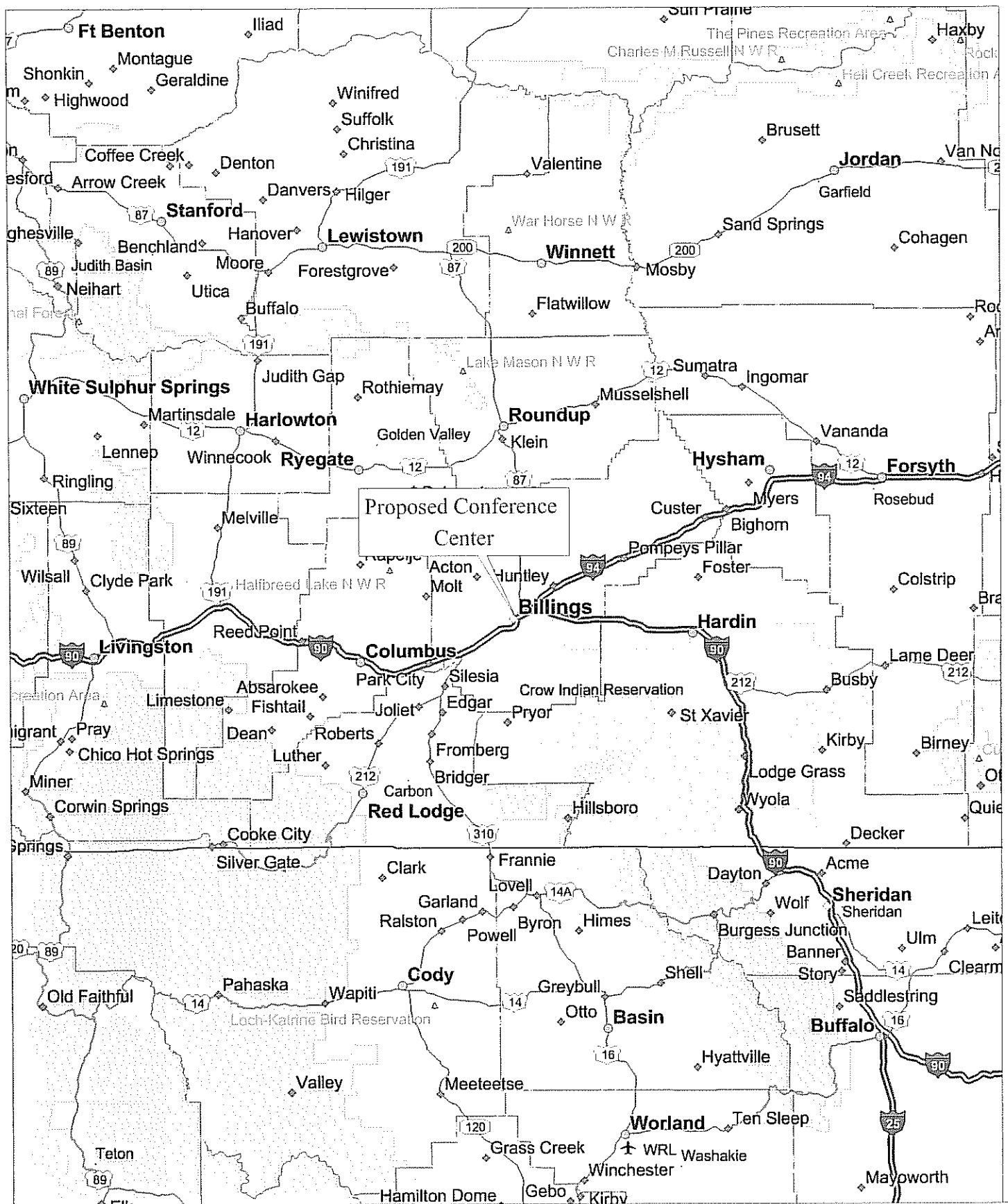
In order to assist you in meeting your objectives, the scope of our work included, but was not necessarily limited to, the following tasks:

- A general overview of Yellowstone County and the Billings market area, and their economic and demographic characteristics.
- An analysis of the downtown Billings area to determine its relative advantages and/or disadvantages with respect to accessibility, visibility, surrounding land uses, proximity to major demand generators and trends that may enhance or detract from its suitability for a executive conference center development;

- An analysis of selected economic and demographic factors pertinent to the overall market area to assess the economic environment in which the proposed project will operate;
- An identification and analysis of the full-service hotels and other facilities that are currently capturing demand for group meetings, conventions, banquets and other functions;
- A determination of the major segments of executive conference facility demand, the demand characteristics of the competitive supply and the potential for growth for each demand segment;
- Preliminary facility recommendations and an estimate of a reasonable range of revenue and expense that can be anticipated from the proposed project; and,
- The preparation of this written report outlining our findings, conclusions and recommendations.

Statement of Competency

Susan L. Ernst, ISHC (International Society of Hospitality Consultants) is a Certified General Real Estate Appraiser in California. She has over twenty years experience providing consultation and appraisal services for commercial properties located throughout the country, and specializes in the hospitality industry. In addition to her consultation and appraisal experience, she has had extensive specialized education in the appraisal and analysis of commercial real estate. Ms. Ernst is highly-qualified to conduct this assignment.



Area Map

AREA ANALYSIS

State of Montana Overview

Montana is a large, sparsely-populated state with an economy that historically depended on natural resource-linked industries. The open plains of central and eastern Montana provide land for grain farming, grazing for large herds of beef cattle, oil and gas fields and rich coal deposits. The mountainous regions of western Montana yield timber for wood products manufacturing and minerals for mining. Recent years, however, have seen the state relying less on its natural resources, and branching out into a more diversified economy. Many more service-producing jobs (consisting of both high and low wage jobs) are being added to Montana's economy than are goods-producing jobs. Tourism (with predominantly low-wage jobs) is becoming more important to the state's economy.

The Continental Divide runs along the crests of the Rocky Mountains from Canada to Mexico, literally dividing the waters of the North American Continent. Montana is known as the headwaters state because much of the water which flows to the rest of the nation comes from the mountains of Montana. Two of the nation's major river systems, the Missouri and Columbia, are born high in the Rocky Mountains of Montana.

Some of the state's economic and demographic indicators are highlighted in the following chart.

Population: 904,433 (2001 Census estimate)
According to the 1990 Census, Montana's population is 52.5% urban and 47.5% rural; there are 6.04 persons per square mile and Montana is the 44th most populous state.

Capital City: Helena--population is 25,780 (2000 Census estimate)

Largest City: Billings--population is 89,847 (2000 Census estimate)

State Name: "Montana" is from the Latin word for "mountainous region"

Size: 147,046 square miles in total area
145,556 square miles in land area
1,490 square miles in water area
94,109,440 total acres
4th largest state in the union
Greatest distance from East to West Boundary: app. 550 miles
Greatest distance from North to South Boundary: app. 320 miles in western Montana and app. 280 miles in eastern Montana

The State of Montana is the home of some of the country's most popular destinations:

1. Yellowstone National Park
2. Glacier National Park
3. Little Bighorn National Monument
4. Fort Peck Dam
5. Bighorn Canyon National Recreation Area
6. National Bison Range
7. Libby Dam
8. Museum of the Rockies
9. Montana Historical Society, Helena
10. Lewis & Clark Caverns State Park



View of Wildlife in Yellowstone
National Park – July 1, 2002

A Montana Economy at a Glance – April, 2002 report, is located on the following page and summarizes some of the state's current employment trends. Overall, Montana's April unemployment rate of 4.5 percent was 1.5 percentage points below the national rate of 6.0 percent. The unemployment rate in Yellowstone County (Billings MSA), for the same period, was only 2.9%.

MONTANA ECONOMY AT A GLANCE

April 2002

UNEMPLOYMENT BY COUNTY

Not seasonally adjusted

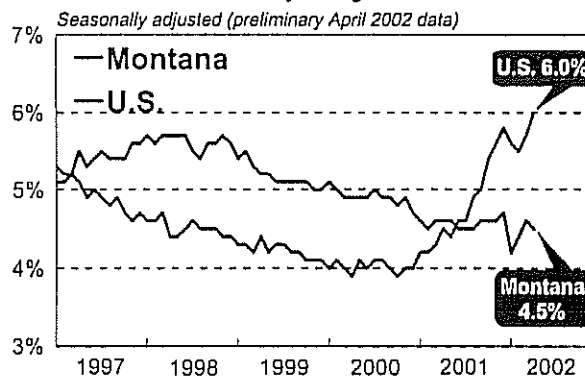
	April 2001	April 2002*
UNITED STATES	4.2%	5.7%
MONTANA	4.6%	4.5%
Cascade **	4.2%	4.2%
Missoula **	3.7%	3.6%
Yellowstone **	2.9%	3.2%
Beaverhead	3.8%	3.1%
Big Horn	13.4%	13.4%
Blaine	5.2%	6.4%
Broadwater	4.3%	3.2%
Carbon	4.1%	4.3%
Carter	1.6%	2.1%
Chouteau	2.9%	2.7%
Custer	3.3%	2.8%
Daniels	3.7%	3.9%
Dawson	2.4%	2.6%
Deer Lodge	6.6%	5.8%
Fallon	2.8%	3.7%
Fergus	6.0%	4.3%
Flathead	6.7%	6.3%
Gallatin	2.7%	2.8%
Garfield	1.8%	3.1%
Glacier	11.2%	8.7%
Golden Valley	2.9%	4.9%
Granite	10.0%	10.7%
Hill	3.7%	3.6%
Jefferson	4.1%	4.0%
Judith Basin	4.2%	3.9%
Lake	9.4%	8.3%
Lewis & Clark	4.1%	4.0%
Liberty	2.3%	2.1%
Lincoln	15.2%	14.0%
McCone	3.8%	1.6%
Madison	3.8%	4.1%
Meagher	7.5%	6.7%
Mineral	9.8%	10.2%
Musselshell	4.7%	6.8%
Park	5.5%	4.8%
Petroleum	3.3%	3.1%
Phillips	5.3%	5.2%
Pondera	3.6%	4.2%
Powder River	1.1%	2.3%
Powell	6.0%	6.1%
Prairie	5.5%	3.4%
Ravalli	4.3%	4.4%
Richland	6.4%	6.0%
Roosevelt	7.6%	6.8%
Rosebud	7.1%	5.3%
Sanders	10.0%	10.3%
Sheridan	2.8%	3.5%
Silver Bow	4.8%	4.9%
Sullywater	3.0%	3.1%
Sweet Grass	1.8%	3.3%
Teton	3.1%	3.3%
Toole	2.7%	2.3%
Treasure	3.2%	3.6%
Valley	3.2%	3.5%
Wheatland	3.8%	6.0%
Wibaux	2.6%	4.3%

*April 2002 rate preliminary

** Cascade=Great Falls MSA
Missoula=Missoula MSA
Yellowstone=Billings MSA

April 2002 HIGHLIGHTS

Unemployment



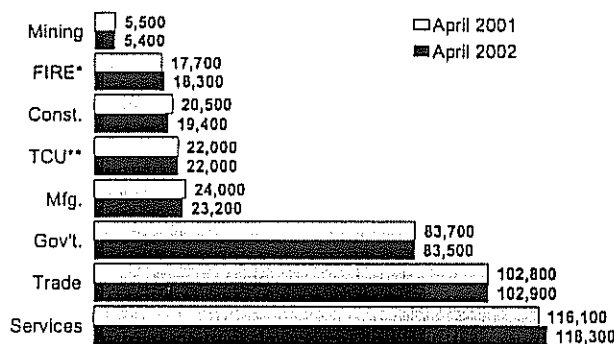
Montana's April unemployment rate of 4.5 percent was 1.5 percentage points below the national rate of 6.0 percent.

Earnings

Average weekly earnings for Montana's private sector production workers were up 1.9 percent over the year in April, outpacing U.S. inflation of 1.6 percent.

Nonag Payroll Employment

Montana Jobs (Seasonally Adjusted)



*Finance/Insurance/Real Estate **Transportation/Communications/Utilities

Montana's nonagricultural payroll employment was up about 700 jobs (0.2 percent) over the year.

- Services was up about 2,200 jobs.
- Construction was down about 1,100 jobs.
- Manufacturing was down approximately 800 jobs.

2000 CENSUS

Educational attainment

The 2000 Census reports the following educational attainment information for Montana:

- Less than 9th grade: 4.3%
- 9th-12th grade, no diploma: 8.6%
- High school graduate, including GED: 31.3%
- Some college, no degree: 25.6%
- Associate degree: 5.9%
- Bachelor's degree: 17.2%
- Graduate or professional degree: 7.2%

For more Census information, visit the Montana Census and Economic Information Center website at <http://ceic.commerce.state.mt.us>.

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Yellowstone County and the City of Billings - Overview

Located in south central Montana, Yellowstone County is Montana's most populous with 113,419 residents, according to the 1990 Census. One of the most populated counties in Montana, Yellowstone is located in the south central part of the state. It was organized in 1883 from a part of Custer County & parts of it were taken from Carbon, Sweet Grass, Musselshell, Big Horn and Stillwater Counties. In 1919 and in 1925, Yellowstone and Carbon Counties annexed parts of each other.

Billings is the county seat and is the state's largest city with a population of approximately 90,000. Billings is a major retail and wholesale trade, financial, energy, transportation and medical center. It is not unusual for people from as far away as 250 miles to drive to Billings for their business, shopping and healthcare needs.

Population Data and Personal Income

Population trends for the state, county and city of Billings are summarized in the following chart.

Population Trends						
Area	2000 Census	7/1/99 est	7/1/98 est	4/1/90 Census	% Chg '90 to '00	% Chg '90 to '99
Montana	902,195	882,779	879,533	799,065	12.9%	10.5%
Yellowstone County	129,352	127,258	126,237	113,419	14.0%	12.2%
Billings	89,847	92,988	92,112	81,125	10.8%	14.6%

Source: U.S. Bureau of the Census

Double-digit population growth has been experienced in the state, as well as Yellowstone County and the city of Billings since 1990. Personal income per capita is summarized in the following chart.

Yellowstone County Personal Income Per Capita					
Year Average	U.S.	Montana	% of National Average	Yellowstone County	% of National Average
1999	\$28,542	\$21,997	77%	\$25,253	88%
1998	\$27,322	\$21,307	78%	\$24,449	89%
1997	\$25,874	\$20,173	78%	\$23,193	90%
1996	\$24,651	\$19,383	79%	\$22,173	90%
1995	\$23,562	\$18,764	80%	\$21,492	91%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System.

Some of the state's largest and most influential employers are located in the Billings MSA.

Top 20 Private Employers

- Albertson's Food & Drug
 - Better Business Systems
 - Billings Gazette
 - Cenex Inc.
 - Conoco Inc.
 - Deaconess Billings Clinic
 - Exxon Company
 - First Interstate Bank
 - Food Services of America
 - Interstate Brands/Sweetheart Bakery
 - JTL Group Inc.
 - Rocky Mountain College
 - St. John's Lutheran Home
 - St. Vincent Healthcare
 - Sysco Food Services
 - Teleperformance USA
 - Wal-Mart
 - Wells Fargo Services
 - Western Medical Services
 - Yellowstone Treatment Centers
-

Source: Montana Department of Labor & Industry, Research & Analysis Bureau

Transportation

Air – Billings Logan International Airport is located just five minutes from the central business district. The airport is a regional hub served by Northwest, Delta, Big Sky, Frontier, United, Skywest, and Horizon. Total enplanements have increased at a modest rate of about 2% per year, since 1994.

Billings Logan International Airport		
Year	Total Enplanements	% Inc/Dec
1994	308,493	--
1995	331,146	7.3%
1996	323,563	-2.3%
1997	317,521	-1.9%
1998	328,123	3.3%
1999	351,233	7.0%
2000	359,609	2.4%
2001	354,722	-1.4%

Source: Aviation & Transit Business Manager, Billings Logan International Airport

Daily nonstop flights to Salt Lake City, Denver, Minneapolis and Seattle provide direct commuting to key business centers. Two fixed base operators meet demands for general aviation: Corporate Air and Edwards Jet Center. Airborne Express, Federal Express and United Parcel Service provide additional air freight services.

Rail – Burlington Northern Santa Fe Railway Company (BNSF) and Montana Rail Link, Inc. provide rail service to and from the Billings area. BNSF has an intermodal hub in Billings. Both railroads are major transportation sources for grain and coal shipments from Montana.

Truck Carriers – Over seventy authorized motor carriers run regular and irregular routes from Billings to all parts of the United States and Canada.

Bus Service – There are four bus lines that currently serve the Billings area: Greyhound Bus Lines – passenger, charter, package express; Karst Stage – charter; Rimrock States – charter; Silver Eagle – charter shuttle service.

METropolitan Transit Systems – the MET serves all Billings shopping centers, schools, hospitals and other points of interest. (Note: We understand that the city's bus service cannot serve county land; for that reason, the city bus cannot connect with MetraPark which is situated on county land. This negatively impacts the ability to transfer guests from that park back to their lodging accommodations in the city. Conversely, this inconvenience would require a lodging guest to arrange for special transportation to MetaPark and other venues outside the city's limits.)

Highway Transportation – Two interstate highway systems and U.S. Highways 87, 212 and 310 serve Billings. Interstate 90 provides direct routes to Chicago, Spokane and Seattle. Interstate 94 is direct to Minneapolis. Interstate 25, via Interstate 90, links Billings and Denver.

Income and Retail Sales

Billings (MSA) per capita personal income was approximately \$25,253 in 1999, compared to the state's per capita personal income of \$21,997 for the same year. Median household effective buying income was \$33,731 in 1999. Total retail sales in Billings were \$1,903,076,000 in 1999.

Labor Force

The labor force in Billings is well educated and skilled. Total employment by industry is summarized in the following chart.

All Industries	88,846
Farm	1,431
Agriculture, Forestry and Fisheries	848
Mining	653
Construction	5,526
Manufacturing	3,730
Transportation, Communication & Public Utilities	5,430
Trade	24,982
Wholesale	6,750
Retail	18,232
Financial, Insurance, Real Estate	6,231
Services	30,763
Government & Government Enterprise	9,252
Military	735
Local & State	6,793
Federal, Civilian	1,724
Total Non-Farm	87,415

Source: Montana Department of Commerce, CEIC, 2001

Education

The Montana State University in Billings has an enrollment of approximately 4,500 students. It is the major education center in eastern Montana, and the third largest of the six units of Montana University System. An MBA Program is offered as well as research services provided by the College of Business. The Rocky Mountain College, with 800 students, is a private school, affiliated with the Methodist, Presbyterian and United Church of Christ churches.

Both MSU and Rocky Mountain College are fully accredited by Northwest Association of Schools and Colleges and both offer extensive continuing education courses to Billings residences.

The MSU Billings College of Technology is a modern facility with extensive offerings. The college is flexible and willing to work with local businesses to meet demands of today's work place.

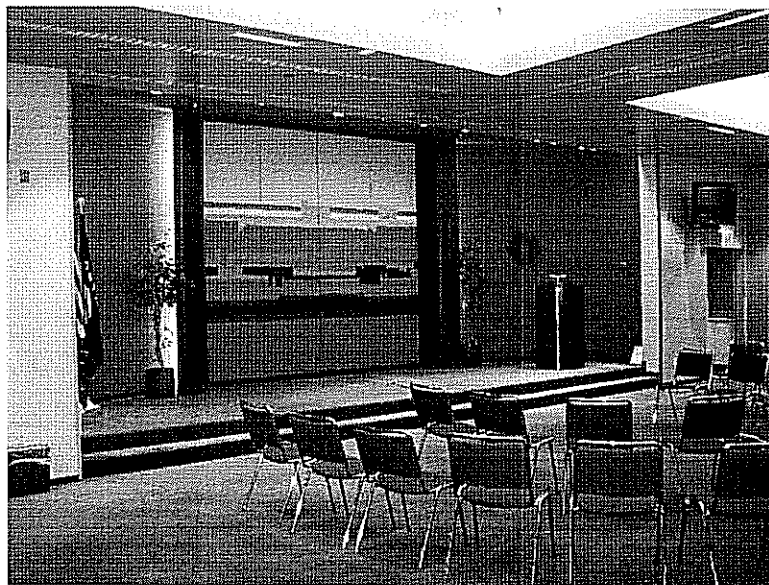
The Arts

The Alberta Bair Theater for the Performing Arts is located in downtown Billings. The Billings Symphony Orchestra, the Billings Community Concert Association and the Billings Studio Theatre bring multi-cultural events to the city. The Peter Yegen Jr. Museum, the Western Heritage Center and the Yellowstone Art Museum are also located in Billings.

The MetraPark is an enterprise of Yellowstone County and began its existence as a fair ground early in the last century. It is still the site of the state's largest event, MontanaFair, each August. MetraPark sits on a substantial acreage along the Yellowstone River. This facility offers a 10,000 seat arena, a 6,000 seat grandstand, two major heated and air conditioned exhibition buildings totaling two and one half acres of indoor space, as well as a collection of smaller buildings, a one half mile track and horse barns. This venue is popular for trade and consumer shows, concerts, rodeos, hockey, basketball, wrestling, indoor football, livestock shows, banquets, team roping, business meetings, motor sports, festivals, and conventions.

Medical Centers

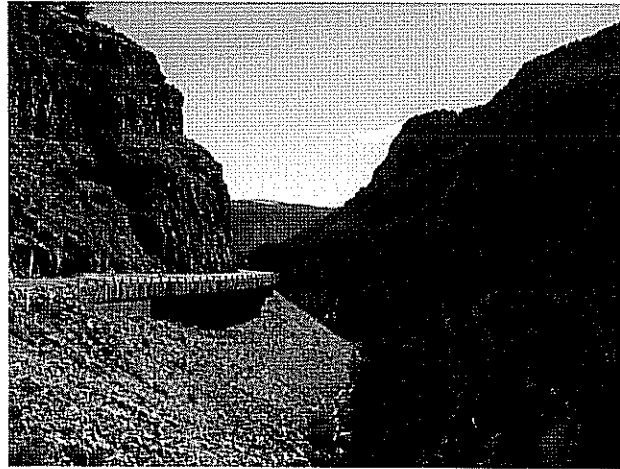
Billings' medical community provides the most advanced health care services in a four-state area. Two modern and fully accredited hospitals with a total of 586 beds, forty clinics and over four hundred physicians offer every major medical specialty and provide a complete range of medical-surgical services and emergency care.



Meeting Room in the Deaconess Medical Center

Area Attractions

Three of the five entrances to Yellowstone National Park are in Montana. The most spectacular is the Beartooth Highway, near Billings. It offers some of the world's most breathtaking mountain scenery at every turn.



President Teddy Roosevelt made Yellowstone the world's first National Park. Its geysers, mud pots, painted canyons, wildlife and recreation make this park the world's best. Yellowstone National Park is approximately 130 miles from Billings, on Highway 212 via Red Lodge and Cooke City.

Near by Red Lodge possesses all the charm one would expect in a resort town. This small mining village is full of antique and western stores, boutiques, fine dining, nearby hiking and outdoor recreation. Red Lodge is located about sixty miles from Billings.

Historic Cody, Wyoming takes you back to the Old West. Near the East Entrance of Yellowstone Park, Cody is the home to the world-renowned Buffalo Bill Historical Center, the Cody Nite Rodeo and Old Trail Town. Shopping, river rafting, horseback riding, golfing, mountain biking and climbing are just some of the attractions found in Cody, located about 111 miles from Billings.

Retrace the Lewis and Clark Expedition at Pompey's Pillar, where William Clark carved his name into this sandstone lookout rock, the only remaining permanent physical evidence of the expedition. East on I-94, this attraction is located about 28 miles from Billings.

There are a number of wonderful attractions near Billings, which enhance Billings' ability to capture group meetings that combine business and leisure activities.

SITE ANALYSIS

WHAT MAKES A GOOD CONFERENCE CENTER SITE?

The traditional "location, location, location" rule that applies to hotels and resorts also applies to conference centers. Just as with hotels and resorts, when a conference center fails, usually location is part of the underlying reason. Most often conference center sites are suburban and the location elements that are generally important are:

- Proximity to a major concentration of corporate headquarters and/or regional offices.
- Proximity to an airport servicing major carriers (within an hour's drive).
- Easy access to major highways (within 15 minutes of a major artery).
- A setting that allows for a distraction free environment.¹

SITE DESCRIPTION

The Downtown Billings Partnership and New Century Entertainment, Inc. have identified two possible site locations in the downtown area. The **North Study Site A** is comprised of several blocks bound by North 6th Avenue to the north; 30th Street to the west; 27th Street to the west; and, North 4th Avenue to the south. The **South Study Site B** is comprised of several blocks bound by North 1st Avenue to the north; 29th Street to the west; and 27th Street to the east; and, Montana Avenue to the south.



¹ *Understanding Conference Centers*, International Association of Conference Centers - 1989

A specific site location has not necessarily been secured at this time. It is most likely, but not confirmed, that land situated between the Sheraton Hotel and the Northern Hotel, (currently developed with an office building) could be made available for the development of the project. This is the area known as **South Study Site B**. This parcel of land is currently improved with the Securities Building and the owner of the land and building is Mr. Randy Reger. He is a local commercial realtor. The property was listed for sale in July, 2002.



We have been asked to assess the overall downtown area in terms of its suitability for the development of an executive conference center.

VISIBILITY AND ACCESSIBILITY

Either site area would have excellent visibility and accessibility. The downtown area is within five minutes of the Logan International Airport. This is a major strength of the Downtown Billings area, in general. Both site areas are proximate to a strong network of local and regional freeway systems with easy access.

SURROUNDING NEIGHBORHOOD

Both sites under study are surrounded by commercial and retail uses, as well as a number of lodging facilities, most of which are in walking distance from either site. South Study Site B is superior to North Study Site A, due to its proximity to the two major hotels in the downtown area: the Sheraton and the Northern Hotel. Combined, they offer 442 rooms (source: Smith Travel Research lodging trends report). It makes good sense for a non-residential conference

center to be developed next to a hotel or hotels that will have enough guest rooms to accommodate multi-day meetings.

Currently, there are no major anchor retail tenants in the downtown area. There are a variety of smaller shops, the majority of which are targeted to the leisure traveler. Generally speaking the “Big Box” retailers are now located in neighborhood shopping centers located outside of the downtown area. There is also a lack of housing in downtown Billings at this time. This issue is currently under study and based on preliminary reports, there appears to be fairly strong support for mixed-use housing developments in downtown Billings. Additional housing and one or two major anchor tenants would have a positive impact on the overall growth of downtown. Coupled with the proposed multi-screen theater and the conference center, as well as the existing performing arts center and other downtown focal points, a synergy could be created that would bring a new energy to the downtown core.

PROXIMITY TO DEMAND GENERATORS

The downtown’s proximity to the Logan International Airport is excellent and will enhance the Project’s ability to accommodate meetings generated by attendees from out of town. Billings is the largest city in Montana and currently, the population within a 250-mile radius comes to Billings for business, shopping and healthcare needs.

The Montana State University, the Deaconess Billings Clinic and St. Vincent Healthcare are three of Billings’ major employers and are located within just a few blocks of the downtown area. These employers alone generate approximately 5,000 employees. Based on our interviews, each of these employers, and particularly the university, could have the potential of generating a significant amount of demand for a state-of-the-art executive conference center in downtown Billings.

In addition, there are a number of major employers in Billings that will generate demand for the executive conference center. They are as follows:

- Avista (One-Eighty) Communications
- First Interstate Banc System
- KOA
- KPMG Peat Marwick
- KTVQ2TV
- Morgan Stanley Dean Witter
- Moulton Bellingham Longo
- New York Life
- Northern Analytical Labs, Inc.
- Northern Rockies Cancer Center
- Deaconess Dialysis
- St. Vincent Healthcare
- Quest Diagnostics
- US WAPA
- Intiepid USA

Downtown Billings Partnership Projects

Many of the redevelopment projects under way in downtown Billings grew out of work done by the Downtown Billings Partnership and its associated committees and advisory boards. The following is an excerpt from an article found in the Billings Gazette, dated January 12, 2002. Some of the information is now dated, but it certainly illustrates the proactive posture of the Billings community.

The Downtown Housing Committee sponsored a survey of more than 1,300 people that attempted to gauge interest in downtown housing.

The survey showed that as many as 2,500 people who work downtown or attend downtown churches had a great interest in moving there – equating to almost three percent of the total Billings population.

The survey has already had concrete results. Architect Randy Hafer, who built five loft apartments in a downtown building, recently contracted with the owners of the Universal Awards building at 3217 Montana Avenue, to renovate the second floor of the building into seven loft apartments.

Hafer said the owners, Doug Dierenfield and Doug Hart, read about Hafer's project, obtained a copy of the housing survey and decided to take the plunge.

This is a building they've been in for sixteen years and they haven't done anything with," Hafer said. "And they didn't have to do anything... They're doing this because they thought it was cool."

Dierenfield and Hart also plan to take advantage of low-interest financing provided by the partnership for façade renovation, landscaping and awnings, Hafer said.

Meanwhile, the partnership is working with an affordable-housing organization that is planning to create low-income apartments in the old Acme Hotel on North Broadway.

The Billings Cultural Partners, another arm of the partnership, commissioned a study showing the economic impact of the arts on Billings and then put together a cultural plan. It recently hired Shari Nault-Pullar as its cultural coordinator and has set a goal of doubling attendance – from 500,000 to 1 million – at all participating institutions by 2010.

Partnership member Ann Miller, a former director of the Alberta Bair Theater, said the group has been working for more than four years and is moving slowly, deliberately, toward its goals.

"Our hope is, if we're going to do something, we're going to do it well," she said.

The Downtown Property Owners Advisory Board led the streetscape project on four blocks of North Broadway. Work is already done on decorative intersections, crosswalks and landscaping and the rest of the street furniture and decorative lighting will be installed by spring.

To tie the Broadway project in with other parts of the downtown, trees, irrigation lines and new benches will be extended down Second Avenue between 27th and 29th streets. To make it easier to navigate the downtown, five large signs will go up soon listing all merchants in the central business district.

Two more sidewalk cafes on Broadway – in front of Casey's Golden Pheasant and the Travel Café – will be open for business this spring, joining the existing one in front of the Montana Brewing Company.

Property owners put up \$600,000 of the \$2 million cost of the Broadway streetscape project.

"That's a big chunk of change for people wondering if they can stay in business," said Don Olsen, an architect who worked on the plan.

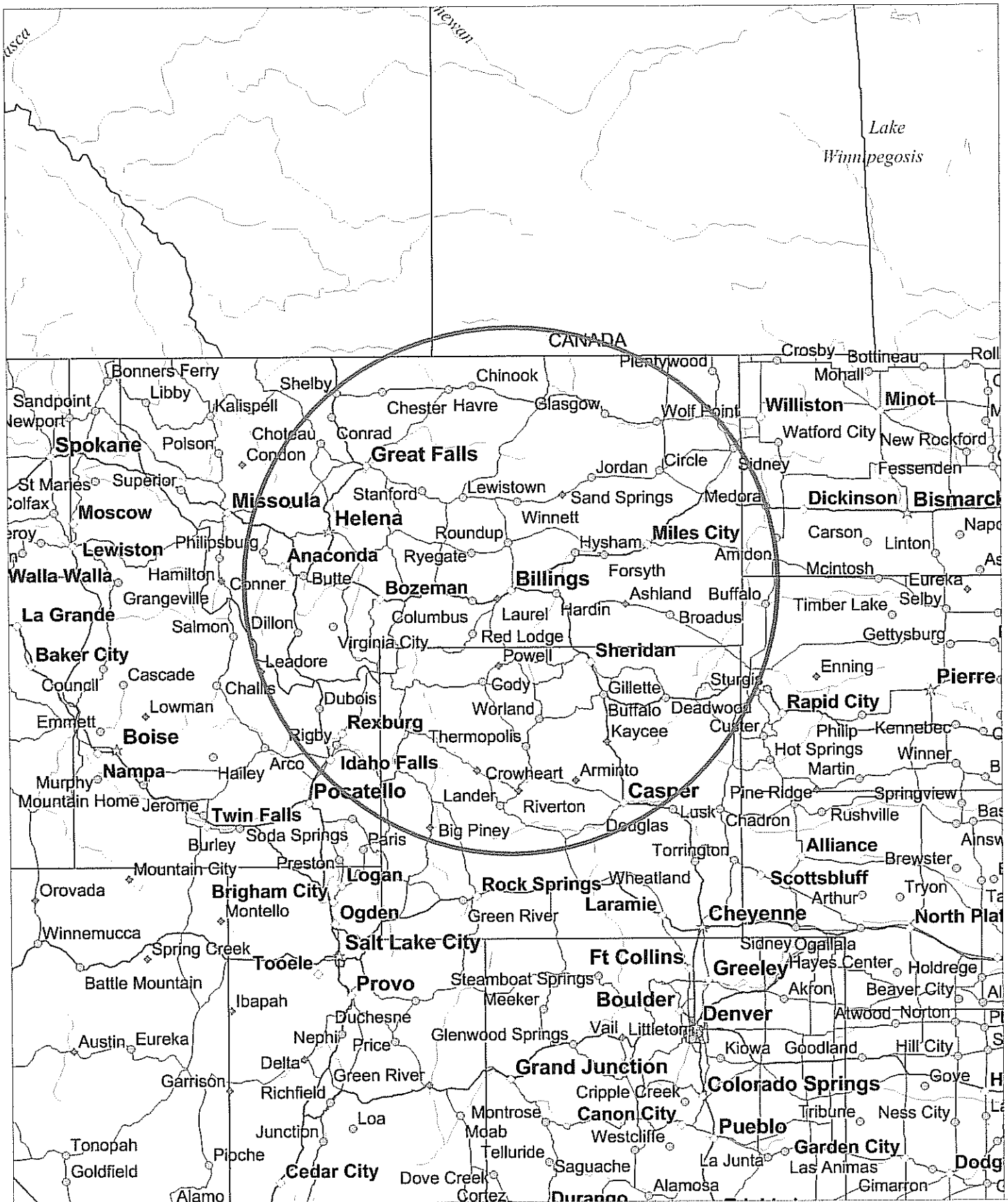
The façade and awning improvement program grew out of the work of the Urban Design and Historic Preservation Committee, which also proposed building pedestrian bridges over the railroad tracks at 25th and 30th streets.

The Parking Advisory Board pushed for diagonal parking on some downtown streets, and it instituted 10-hour zones with reduced rates. The board also helped create a parking lot for oversize vehicles and downtown workers on the Arcade block at Minnesota Avenue and South 27th Street.

For the future, based on the board's recommendation, the city is planning to expand the Park 2 parking garage on the 2600 block of First Avenue North.

Conclusion

The site's location is convenient for local residents and should be attractive to social, military, educational, religious and fraternal groups. We conclude that the site is excellent in terms of its suitability for the development of an executive conference center.



250 Mile Radius Map

CONFERENCE CENTER INDUSTRY

OVERVIEW

The development of conference centers has evolved over the last thirty years beginning first with specialized retreat centers that were built and operated for specific organizations with clearly defined needs. Gradually, conference centers began to be developed and marketed to a broader range of corporations and groups. The growth of the conference center industry has been bolstered by the increased emphasis on training and staff development embraced by American business after World War II. Holding meetings and training events away from the normal business environment has proved to be a very effective way to concentrate creative energy, focus attention on a narrow topic, and accomplish a great deal in a short period of time. Businesses and organizations of all kinds are now very likely to have planning retreats, training sessions, conferences and seminars on a regular basis. Increasingly, these groups are turning toward conference centers as the ideal locations for these events.

TYPES OF CONFERENCE CENTERS

There are four basic varieties of conference centers, each with its own market niche and unique characteristics.

Executive conference centers cater to meetings of middle to upper-level management in large corporations and typically provide first class accommodations with many amenities and recreational opportunities.

Corporate conference centers are typically developed for (or by) one major user to meet all of their training and off-site meeting needs. These facilities typically offer pleasant surroundings with very good quality sleeping rooms but offer fewer amenities than executive conference centers.

Resort conference centers offer high quality accommodations and the best amenities of all the conference center types. Resort meeting facilities attract groups for training, staff meetings and incentive programs. They have extensive recreational facilities and are usually located in attractive and retreated areas.

University conference centers are developed near to, or in conjunction with, established colleges or universities. Although these centers focus on academic conferences and seminars, they foster an interdisciplinary approach to problem solving and often bring together diverse groups of people. They offer accommodations which range from basic, or budget sleeping rooms to conventional, full-service hotel rooms. Recreational opportunities are usually provided by the existing facilities of the affiliated university.

The proposed Project will be a non-residential conference center. It is important to identify

the major differences between a non-residential conference center and a residential conference center. Obviously, one offers a lodging component and the other doesn't. This difference, however, plays an important role in the marketing and pricing strategy developed by the operator. It also impacts the types of group meeting guests that are likely to use the facility.

In a typical hotel, the rooms department is the most profitable of all the profit centers (rooms, food and beverage, telephone, and other departments). The operator of a hotel is usually most concerned about selling sleeping rooms as they drive the overall profitability of the property. The other facilities and amenities (restaurants, meeting space and recreational facilities) are offered in order to ensure that the hotel operator will be able to capture demand from all of the primary sources of business for a hotel: individual business travelers, meeting and convention delegates, leisure and other travelers. Many times, the operator will provide attractive discounts to meeting attendees for the price of the meeting room, or provide some services for free, with the knowledge that a certain block of guestrooms will be rented at the going rate.

In a non-residential conference facility, the operator does not have the luxury of profit derived from guest rooms' revenue. The operator has one thing to sell: meetings. Therefore, the pricing structure and management's philosophy can be quite different. The operation of a non-residential conference center is a specialized business that requires special management skills and aggressive marketing techniques throughout the life of the property. Before the center can succeed, it must be designed extremely carefully to meet the needs of its attendees. At a minimum, its facilities and amenities must surpass anything being offered by the area's hotel stock in the form of meeting facilities. The best non-residential executive conference centers in the United States are very specialized and do not compare with the typical hotel meeting facility. In the next section, we have provided a profile of representative comparable facilities located across the country.

REPRESENTATIVE COMPARABLE SUPPLY

The proposed Project will be a non-residential, state-of-the-art executive conference center. There are no facilities currently in the Billings market area that meet the criteria envisioned for the subject. We have elected to present property profiles of a number of first-class facilities located throughout the United States. We believe that an evaluation of this comparable supply (in conjunction with the Demand Analysis) provides an excellent backdrop from which to arrive at facilities recommendations for the proposed Project, as well as estimates of its most likely utilization levels.

We have included profiles for the following properties:

Conference Center	Location
South San Francisco Conference Center	South San Francisco, California
Network Meeting Center	Santa Clara, California
Bell Harbor International Conference Center	Seattle, Washington
Forum Conference & Education Center, Inc.	Cleveland, Ohio
Summit Executive Conference Center	Chicago, Illinois
Coleman Center	New York, New York

The reader should note that some of the conference centers are located in large cities, with significantly larger population bases, compared to Billings, Montana. We have selected comparatively small conference centers, regardless of their locations, in order to present a representative list of comparables to that envisioned for Billings. We have taken their locations and market area characteristics into consideration when analyzing their individual operating levels.

COMPARABLE NON-RESIDENTIAL CONFERENCE CENTERS
SUMMARY CHART

	South San Francisco Conference Center	Network Meeting Center	Bell Harbour Int'l Conference Center	Summit Executive Centre	Forum Conference Center	Coleman Center
Location	So. San Francisco, California	Santa Clara, California	Seattle, Washington	Chicago, Illinois	Cleveland, Ohio	New York, New York
Year Open	1993	1988	1996	1997	1990	1991
Location/ Distance to Airport	Freeway One Mile	Urban 8 Miles	Urban 5 Miles	Urban	Urban 10 Miles	Urban
Total Meeting Space	13,400 sf	15,250 sf	17,000 sf	20,000 sf	13,200 sf	21,000 sf
Food and Beverage Service Available	Yes	Yes	Yes	Yes	Yes	Yes
Estimated Project Cost	\$7.5 million	NA	\$9 million	Existing Business Purchased	Inside Office Bldg. \$650,000	Inside Office Bldg. \$500,000
Project Funding	Revenue Bonds Dedicated hotel tax	NA	Port of Seattle	Private	Private	Private
Annual Occupancy	50%-60%	70%-75%	75%-80%	60%-65%	75%-80%	75%-80%
CMP	\$49	\$65	\$69	\$110	\$60	\$139
Market Mix	60% Corporate 22% Association 7% Government 11% SMERF	100% Corporate	50% Corporate 20% International 30% SMERF	97% Corporate 1% Associations 2% SMERF	60% Corporate 20% Association 20% SMERF	95% Corporate 5% SMERF

Source: Rabourn Associates

South San Francisco Conference Center, South San Francisco, CA

The South San Francisco Conference Center is located at 255 South Airport Boulevard in South San Francisco. This non-residential conference center offers approximately 16,500 square feet of meeting space in a variety of configurations. It opened in 1993. This center is located between two full-service hotels and is near the San Francisco International Airport.

Location Characteristics

The center is located one mile north of the San Francisco International Airport at the Highway 101 South Airport Boulevard exit. The center is visible from the freeway and easily accessible. Downtown San Francisco is about 15 minutes north by automobile and the Silicon Valley is less than 30 miles south. Parking for about 700 cars is available on site, shared with two adjacent hotels, the Holiday Inn to the south and the Ramada Inn to the north.

The South San Francisco Conference Center is located within the San Francisco International Airport lodging market, surrounded by a variety of full-service and limited service hotels.

Meeting Facilities

Approximately 13,400 square feet of meeting space in the Grand Ballroom can be divided into as many as ten different sound-insulated rooms, while the 3,000 square foot Baden Room can be divided in half. Its four story lobby is surrounded by a glass ellipse with a dramatic free-form floating ceiling, and provides nearly 2,700 square feet of pre-function space, flooded with natural light. Another 3,600 square feet of pre-function space wraps around the ballroom.

The following chart summarizes a partial breakdown of available space. Please see the addendum for additional details.

Room	Dimensions	Sq. Ft.	Ceiling Height	Theater	Reception	Banquet	Classroom
Ballroom	84' x 162'	13,500	13	1,200	1,200	850	700
Salons A-E	84' x 81'	6,750	13	680	690	420	310
E or F	84' x 46'	3,750	13	400	390	250	180

According to management, the 3,750 square foot space is one of the most frequently requested.

Services and Amenities

This conference center is equipped with a complete kitchen and banquet staff, in-house audio-visual services, an infrared-assisted listening system for the hearing impaired, a high quality public address system, and ample electrical, telephone, and data capability throughout. The entire facility is on one floor.

Operating Statistics

This facility opened in 1993. It was the result of a \$7.5 million renovation to an existing building. It measures about 40,000 square feet in total. The project was funded through a \$5.5 million revenue bond and a \$2 million dedicated hotel tax.

Market segmentation is estimated to be approximately 60% Corporate, 22% Association, 7% Government and 11% SMERF (Social, Military, Educational, Religious and Fraternal).

Annual occupancy at the center is in the range of 50%-60% at an estimated meeting rate per person of about \$50-\$60. Management indicated that typically most meeting charges encompass a room charge, plus food and beverage, plus audio visual charges.

Opportunities/Barriers

According to management, operating expenses currently exceed revenue. In answer to the question, "What would you do differently if you could change anything at the center?" management indicated that they would add more parking, a 20,000-25,000 square foot exhibit hall and an amphitheater.

The South San Francisco Conference Center was developed to positively impact the economy of the City of South San Francisco. With the center hosting conferences, seminars, meetings and conventions, the attendees of these events stay in the city's hotels and generate tax revenue for both the City and the Conference Center. In addition, attendees dine in the city's restaurants, utilize the local convention-related services and participate in other activities which generate sales tax revenue for the city. The conference center is required to be financially self-sustaining; and through its portion of the hotel tax revenue and operating revenue generated through rentals of event space and provision of event services, all expenditures associated with operating the facility are paid. (*Source: South San Francisco Conference Center Rules and Regulations – Rev 1/98*)

Network Meeting Center, Santa Clara, California

The Network Meeting Center is one of the Silicon Valley's leading day-meeting facilities. This is a dedicated meeting facility, designed and operated for corporate meetings. With 17 meeting rooms, plus exhibit and event space, this facility can accommodate up to 300 people.

Location Characteristics

The Network Meeting Center is located eight miles from the San Jose International Airport and about 22 miles from the San Francisco International Airport. It is situated adjacent to the 500-room Westin Hotel. This facility is easily accessible to meeting attendees throughout the Bay Area. Located in Santa Clara on Great America Parkway between Highway 101 and 237, it is located adjacent to the Techmart and the Santa Clara Convention Center.

This facility promotes its accessibility to meeting attendees from outside the San Francisco Bay Area. There are over 170 daily non-stop flights at the San Jose International Airport. The airport is served by all major airlines, offering nationwide non-stop service, as well as non-stop service from Tokyo, Japan.

Meeting Facilities

The Network Meeting Center offers approximately 15,250 square feet of meeting space in fourteen rooms. In addition, it features a large atrium and dining spaces that can accommodate up to 250 guests.

The meeting rooms are configured as follows:

Room	Dimensions	Sq.Ft.	Ceiling Ht	Class Room	Hollow Square	Board Room	U Shape	Theater	Reception	Bankette
Santa Clara	28'x58'	1,624	11	100	50	35	40	120	110	66
SV	42'x86'	3,612	11	180	60	50	50	250	299	152
Fremont	29'x61'	1,739	11	110	50	35	40	120	123	60
Willow	22'x25'	538	11	16	18	18	14	28	38	12
San Jose	30'x38'	1,140	11	60	38	25	28	70	70	36
MV	20'x22'	440	11	9	12	12	8	15	27	6
Milp.	28'x28'	784	11	40	29	20	22	50	57	30
MS	17'x17'	285	11	4	8	8	-	12	27	6
MH	28'x34'	952	11	50	34	30	28	60	69	36
NA	24'x38'	912	11	35	35	35	28	40	49	36
Sunnyv.	27'x49'	1,323	11	70	40	30	35	80	100	42
Cuper.	21'x35'	735	11	28	22	16	18	32	49	18
LG	21'x24'	504	11	18	18	14	12	25	35	12
LA	20'x33'	660	11	32	28	20	24	40	49	24

Management indicated that the majority of meeting demand is comprised of smaller groups.

Therefore, all of their meeting spaces are comparatively small, providing an intimate but efficient meeting space.

Services and Amenities

All of the meeting rooms feature:

- High-backed “8-hour” conference chairs
- Individual lighting and temperature controls
- Electrically driven blackout shades and projection screens
- In-room sound systems
- Built-in whiteboards
- Soundproof walls with tackable surfaces
- Technology for network labs and video-conferencing
- Internet connectivity via T1 line
- A meeting coordinator, available at all times

Operating Statistics

Almost 100% of the center’s business is corporate. This facility features a \$65-\$75 day meeting package rate, which includes lunch, am and pm breaks and standard audiovisual equipment. The center generates an annual occupancy of about 65%-75%. The Network Meeting Center is over ten years old. It was completely upgraded several years ago, including new carpet, wood trim, wall coverings and ergonomic chairs.

Opportunities/Barriers

The Network Meeting Center features some innovative marketing techniques. The general manager and co-founder, David Van Etten, has developed a group seminar especially designed to help meeting planners understand the important issues associated with offsite meetings. In addition, they will provide a free videoconference demonstration featuring their Picturitel 4000 ZX equipment.

Bell Harbor International Conference Center

Opened in June of 1996, Bell Harbor is located on Pier 66, 2211 Alaskan Way, Seattle, Washington. This facility offers over 42,000 square feet of meeting and banquet space (see details in addendum). It is owned by the Port of Seattle and managed by CRG Hospitality.

Location Characteristics

The Bell Harbor International Conference Center is located on the inner harbor of Seattle. This facility is accessed via I-5 from either the Mercer Street/Fairview Avenue exit or the Madison exit. It is necessary to cross town to get to the waterfront, but once there, the views are wonderful. The Republic Parking Garage at the Art Institute of Seattle is the parking garage for the conference center.

Meeting Facilities

All of Bell Harbor spaces combined, total about 17,000 square feet of meeting space. A partial summary of room configurations follows. Please see the addendum for additional information on this center.

Room	Dimension	Sq. Feet	Theater	Classroom	Conference	Banquet	Reception
Bay Aud.	84' x 72'	6,043	-	300/220	-	-	-
Sound	45' x 40'	1,800	160/90	84/60	36/26	88/110	120
Cove	39' x 28'	1,092	70/48	48/36	34/24	48/60	70
Harbor Dining	76' x 51'	3,876	450/300	-	-	280/300	500

Note: Seating capacities based on stack chairs/ergonomic chairs

Services and Amenities

The conference center offers built-in audio visual and conference equipment, individual temperature controls and tackable wall surfaces. Meeting furniture and set-up includes padded executive chairs for 12-hour comfort.

The conference rate of \$70-\$75 includes a continental breakfast, mid-morning coffee break, buffet luncheon, mid-afternoon snack, conference supplies and a dedicated meeting planner.

Additional services are available at the Business Service Center, including photocopying, faxing, secretarial assistance, message service, video editing and last-minute presentation preparation.

Operating Statistics

This center opened in 1996. According to management, market segmentation is estimated to

be 50% Corporate, 20% International Corporations, 30% SMERF. About 80% of their business is repeat clientele. The facility runs an annual occupancy of about 70%-80% at a meeting package rate of about \$70-\$75 per person.

The project, which totals about 42,000 square feet, cost about \$9 million to construct. It was funded by the Port of Seattle and is currently managed by CRG Hospitality. They are a member of the International Association of Conference Centers.

Opportunities/Barriers

This center employs three sales managers, each of which are responsible for certain markets:

Sales Manager #1	Sales Manager #2	Sales Manager #3
Banking	Accounting	Birthdays
Communications	Aerospace	Private Parties
Computer	Architecture	Reunions
Design	Bio-Tech	Social Events
Finance	Construction	Wedding Receptions
Food & Beverage	Education	
Hi-Tech	Engineering	
Insurance	Government	
Law	International	
Local Corporate	Manufacturing	
Media	Maritime	
Public Relations	Medical	
Religious	Meeting Planning	
Software	Pharmaceutical	
Sports Teams	Retail	
	Transportation	
	Travel	

The Bell Harbor International Conference Center obviously caters to a diverse market and requires several sales managers in order to effectively market to each segment.

Summit Executive Centre

The Summit Executive Centre opened in 1997 and is located at 205 N. Michigan Avenue in Chicago, Illinois. The center offers approximately 20,000 square feet of meeting space. This center was developed from the purchase of an existing business and was funded privately.

Location Characteristics

The Summit Executive Centre is about five minutes from downtown Chicago. This center is proximate to over 3,500 hotel rooms. It is within a five minute walk of four of Chicago's finest hotels, and is connected to two of these hotels (Swissotel and Hyatt Regency Chicago) through an enclosed concourse.

The Athletic Club Illinois Center is a three minute walk from the Summit Executive Centre. This is a full service fitness center featuring a six story rock climbing wall, Olympic sized indoor pool, outdoor pool and sundeck, basketball and racquetball courts, aerobic classes, free weights, exercise machines and personal trainers.

Meeting Facilities

This center features approximately 20,000 square feet of meeting facilities comprised of eleven rooms. A variety of configurations is available. Please see the addendum for additional details about this center.

Room	Dimensions	Sq. Feet	U-Shape	Team	School	Theater
1 (A&B)	28' x 50'	1,400	35	48	60	100
1 (A)	28' x 25'	700	17	24	28	50
4	32' x 36'	1,152	30	40	45	95
4+6+8	32' x 102'	3,264	-	128	125	250

Services and Amenities

This is a modern center with good quality furnishings. The center offers executive leather arm chairs and 30 inch wide tables. Other features include fluorescent and incandescent lighting with dimmers, adjustable thermostats and seminar supplies.

The meeting package rate includes a continental breakfast, full day unlimited beverage and snack service, and buffet lunch. Audio Visual equipment is included in the package rate as well, and includes an LCD projector, display output for computer and video, VCR and CD player, cassette recorder, wireless microphone and built-in screens.

Operating Statistics

According to management, market segmentation is estimated to be 97% Corporate, 1%

Associations, and 2% SMERF. About 80% of their business is local and about 20% is from out-of-state. About 70% of their business is repeat clientele. This center achieves an annual occupancy of about 60%-65% and a complete meeting package rate of about \$100-\$115 per person. The center employs nine full time employees and about 80% of their employees are hourly.

Opportunities/Barriers

The Summit Executive Centre was refurbished a few years ago to include new carpet and wall covering and new audio-visual equipment. New art work has been added to the center's Chicago art collection. The art work was placed in their lounge and restroom vestibules, "adding new life and conversation to your total meeting experience".

Forum Conference & Education Center, Inc.

The Forum Conference & Education Center is located inside One Cleveland Center, 1375 East Ninth Street, Cleveland, Ohio. It opened in 1990 and is comprised of about 13,200 square feet of meeting space.

This facility is privately owned by Francis and Evelyn Girard. The project cost approximately \$650,000 in 1990 and was privately funded.

Location Characteristics

This center is located in downtown Cleveland, proximate to four hotels within a two-block radius. It is situated about ten minutes from Hopkins Airport. It is also situated about two blocks from the Rock & Roll Hall, Science Museum and shopping. Pre-paid parking is available in the parking garage attached to One Cleveland Center.

Meeting Facilities

There are 13 meeting rooms, including a 400-seat auditorium, comprising about 13,200 square feet of meeting space. The total building size is about 30,000 square feet.

Services and Amenities

Services include advanced A/V and video presentation capabilities, interactive videoconferencing, satellite downlink in all rooms, conference planning, business services and attached parking garage.

Operating Statistics

According to management, market segmentation is estimated to be 60% Corporate, 20% Association, and 20% SMERF. About 65% of their business is local, with about 35% originating from out of state. This center achieves an annual occupancy level of about 75%-80% at a complete meeting package rate of about \$60-\$65. About 75% of their business is repeat clientele.

Opportunities/Barriers

Management indicated that if they could improve on anything at the center, they would:

- Add more electrical circuits in each room;
- Create a larger-capacity room that could accommodate 50, classroom-style;
- Add more dining space; and,
- Add more storage space.

Coleman Center

The Coleman Center is a 21,000 square foot conference center located at 810 Seventh Avenue in New York. It is situated on the 23rd floor of an office building. It opened in 1991 at a cost of \$500,000. The facility was recently expanded, increasing the space by an additional 5,370 square feet. It is owned and operated by a limited partnership and managed by Coleman Finkel. We have included this comparable as an example of a facility that was constructed within an existing office building.

Location Characteristics

The center is located in mid-town New York, proximate to at least twelve hotels, with two hotels directly across the street. It is close to transportation, restaurants and entertainment.

Meeting Facilities

The center is comprised of thirteen rooms and offers a number of configurations. The following chart summarizes the available configurations. Additional details regarding this center can be found in the addendum.

Room	Dimensions	U	Double U	Square	Classroom	Theater
1	48' x 46'	42	66	60	100	150
3,4,7,8	25' x 28'	21	30	30	35	65
3&4, 7&8	50' x 28'	35	60	40	65	80
5,9	12' x 14'		8			
2,6	14' x 20'		14			

Services and Amenities

This conference center has been designed to maximize the learning experience. The meeting rooms are fully equipped with state-of-the-art audiovisual equipment. Furnishings include leather armchairs and 30-inch wide conference tables. Equipment includes video taping/screening, single and multiple-projector slide presentation equipment, overhead projection and built-in screens.

The complete meeting package rate includes all audiovisual equipment, a dedicated planner, continental breakfast, buffet lunch and all-day refreshments.

Operating Statistics

Market segmentation is estimated to be 95% Corporate, 5% Associations and SMERF. About 90% of their business is generated locally and 10% is generated from out-of-state. About 85% of total business is repeat clientele. This center's annual occupancy is about 75%-80% at a complete meeting package rate of \$135-\$145.

Opportunities/Barriers

Mr. Finkel is well known in the industry and has published a number of books about conference centers. He indicated that if he could do anything to improve his conference center, he would add more technologically advanced equipment. On the other hand, he indicated that many conference centers go overboard with high-tech equipment without really evaluating their attendees' needs.

DEMAND ANALYSIS

CONFERENCE CENTER CLIENTELE - GENERAL

Conference participants are people -- the same people who, as individuals on other occasions, may well make use of a hotel or resort. But while they are at a conference, they are part of a narrow segment of the overall hospitality market. They are part of the small to medium sized corporate meeting market -- the most rapidly growing segment of the United States hospitality market and by far the most important market segment for conference centers. Most small to medium sized meetings that take place in conference centers fall into the following categories:

- Training, at all levels within the corporation
- Strategic planning
- Budget / audit meetings
- Customer presentations
- Board of Directors meetings
- Departmental and committee meetings
- Sales and marketing meetings
- Team-building retreats
- Incentive meetings
- New product

These meetings are normally planned on short notice, most of them 180 days or less in advance. The average size for this type of meeting is thirty people, and the average meeting duration is 2.5 nights (that is, conferees stay over two or three nights for most meetings). Many large companies have meeting and travel departments staffed with professional meeting planners, but the vast majority of corporate meetings are planned by part-time meeting planners who have other job responsibilities.

Beyond corporate conference customers, other group market segments represent a much smaller portion of the overall business of conference centers. Included in those other segments are association groups and government/military groups. Association business at conference centers is primarily connected with university centers and geared toward their continuing education programs. Associations, government and military conference business are more price sensitive, and government or military meeting planners may be reluctant to sign typical conference center contracts.

Non-conference segments of a conference center's market include local banquet business, social weekend lodging business, local recreation business and non-conference group business including weddings, reunions, incentive groups and other groups that do not require the conference space or the special services of the conference department. Whether or not to market to this segment becomes an important issue. Non-conference business can help to fill in the gaps during slow seasons, or on weekends. Non-conference business can be important to the financial viability of the property.

DEMAND FOR THE PROPOSED PROJECT

Demand is generated from both the private and public sectors. This category encompasses all of the area's employers, from a wide array of industry types, including, but not limited to, high-technology, bio-technology, healthcare, insurance, legal, real estate, retail, education, etc.

Association demand is generated from local, regional and state-wide associations. Social, Military, Educational, Religious and Fraternal (SMERF) group demand is typically generated from these sources found in Billings or within the region.

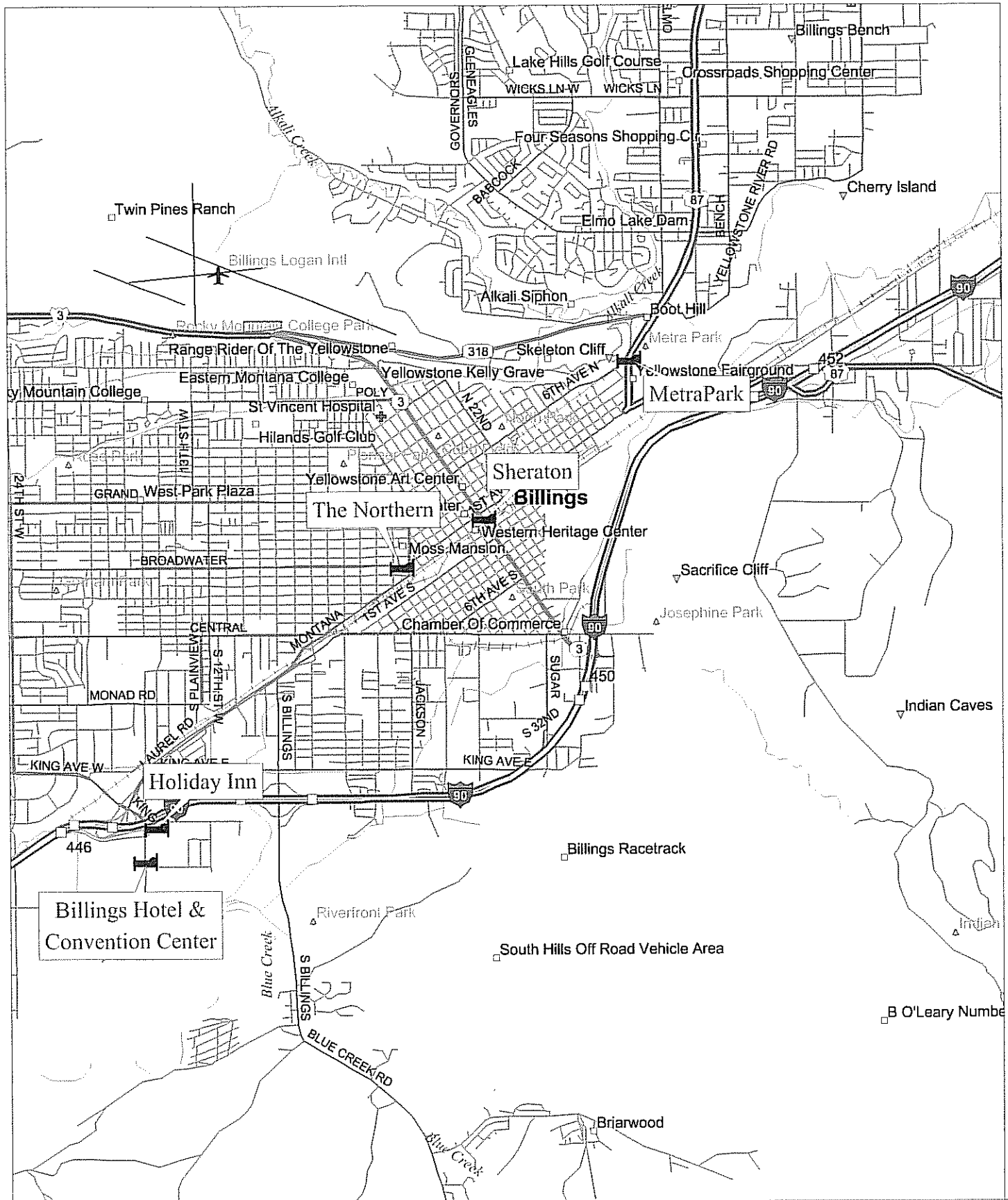
Currently, the majority of group meeting demand is being accommodated by the area's hotels and two large convention center facilities, the convention center at the Holiday Inn and the MetraPark facility. There are no non-residential executive conference centers in Billings that meet the criteria envisioned for the subject property. The Deaconess Clinic does have a small conference center which was constructed in the late 1980's. Generally speaking, it is restricted to healthcare-related meetings. This center does feature teleconferencing equipment but lacks some of the amenities found in today's modern conference centers. A new conference facility is under construction at the St. Mary's Healthcare Center. It will be similar to, and compete with, the existing center at the Deaconess Clinic. Given their location characteristics; i.e., in hospitals away from local restaurants, etc., we do not believe that these centers will compete directly with the subject project.

Given the lack of a first-class, non-residential conference center in Billings, the majority of the one-day meetings that are generated by the various sources of demand outlined above, are also utilizing area hotels. Several of the employers that we spoke to indicated that they have their own on-site meeting facilities that are used primarily for one-day meetings. With few exceptions, on-site facilities proved to be little more than informal, small classroom settings with old fashioned furnishings; certainly not conducive to effective meetings.

We have analyzed the potential demand for the proposed Project based on three methodologies:

- Analysis of Demand Currently Captured by Area Hotels
- Interviews with Potential Demand Generators
- Comparable Supply Analysis

By analyzing the demand captured by area hotels, we can make reasonable estimates regarding the demand generated for group meeting guests in the area. In order to lend support to those findings, as well as to identify specific needs for various types of groups, we have interviewed a number of potential users. Combined, these two methodologies provide good insights into the depth of the market and their specific needs as it relates to the proposed Project. In the previous section, we analyzed a number of comparable facilities across the United States. This step identifies demand for the Project from a supply-sided analysis and helps to demonstrate the type of facilities and amenities that can be developed and should be offered in order to maximize the project's utilization potential.



Competitive Supply

Analysis of Demand Currently Captured by Area Hotels

The following chart summarizes lodging trends for the hotels in the Billings area that are currently capturing the majority of group meeting demand. This data was provided by Smith Travel Research, based in Tennessee. Smith Travel Research is an independent research firm that tracks the hotel industry in the United States. An understanding of the lodging market in Billings is necessary in order to understand trends in group meetings in this area and to identify opportunities, as well as barriers to entry for the proposed project.

Year	Occupancy	Average Room Rate	RevPAR	% Increase/Decrease
1996	57.8%	\$52.62	\$30.42	-4.9%
1997	56.1%	\$53.53	\$30.05	-1.2%
1998	61.3%	\$55.41	\$33.94	12.9%
1999	63.4%	\$56.51	\$35.80	5.5%
2000	62.0%	\$58.11	\$36.01	.6%
2001	62.0%	\$59.78	\$37.08	3.0%
2001 through May	60.2%	\$55.90	\$33.64	4.9%
2002 through May	71.4%	\$66.42	\$47.40	40.9%

Source: Smith Travel Research

The hotels included in this analysis are:

Hotel	Number of Guest Rooms
Sheraton	282
Holiday Inn	317
Northern Hotel	160
Billings Hotel and Convention Center	238
Billings Inn	60
Hilltop Inn	57
Total Rooms	1,114

Smith Travel Research has restrictions on the minimum number of hotels that are included in a trends report, due to the proprietary nature of the data. During the period analyzed, one of the larger hotels provided only partial data, making it necessary to add more rooms to the supply of rooms being analyzed. Therefore, we included the two inns that currently cater to hospital-related demand in downtown Billings. Based on our interviews with several of the hotel operators, the statistics in the preceding chart are representative of the market, as a whole.

This supply of hotels achieved a 63.4% annual occupancy during 1999. The combined occupancy dropped to 62% by year-end 2000, with a 2.8% increase in the average daily room rate, to \$58.11. RevPAR, (Revenue Per Available Room), is calculated by multiplying

occupancy times room rate. RevPAR is a useful unit of measure when comparing hotels that achieve varying occupancy and rate levels. RevPAR has increased since 1998, demonstrating a healthy growth trend. The significant growth in utilization levels for the year-to-date period of May 2002, reflects the positive impact that the national bowling tournament had on the entire market.

This market is extremely seasonal. That is, monthly trends vary widely and impact the annual utilization levels that can be achieved in this market. Seasonal trends for 1999 are summarized in the following chart. Industry-wide, 2000 was a banner year for most markets, and 2001 was a dreadful year, with the impact of the terrorist attacks of September 11, as well as an economic downturn that began mid-year 2001 and is only now showing minimal signs of recovery.

Month	Occupancy	Month	Occupancy
January	47.2%	July	77.0%
February	55.5%	August	76.7%
March	59.6%	September	72.2%
April	59.4%	October	66.1%
May	62.8%	November	58.6%
June	73.9%	December	50.5%

Source: Smith Travel Research

The slow and peak seasons are clearly demonstrated by occupancy levels at the selected hotels. The peak season includes the months of June-August, generated by the significant number of leisure travelers to the region's attractions, including of course, Yellowstone National Park. The slow season appears to be December-February and the remaining months comprise the shoulder periods for this lodging supply.

In order to further quantify group demand for the project, we took a closer look at the first-class hotels in the Billings market. This supply of hotels has historically captured the majority of the first-class demand for lodging, as well as meeting facilities. One of the major advantages for the proposed project is that it will be developed proximate to two of the first-class leaders in the market: the Sheraton and the Northern Hotel.

The following chart summarizes facilities and amenities for the primary competitors in the Billings market.

Hotel	No. of Rooms	Meeting Space Square Feet (SF)
Sheraton	282	15,000
Northern Hotel	160	10,000
Holiday Inn	317	20,000
Convention Center		30,000
Billings Hotel	238	27,000

Description of Primary Hotel Competitors

In the following paragraphs, we describe the condition and quality level of the four primary

hotel competitors in the market. We have described their strengths as well as their perceived weaknesses. It is important to note that some of our comments may appear overly critical but the decision-makers in connection with this project must have a clear understanding of the opportunities and/or the barriers to entry that may be created by the existing supply of hotel rooms. In addition, if a conference center is developed in downtown Billings and is intended to operate in harmony with the existing downtown hotels, the hotels' overall condition, facilities and amenities, and service levels will directly impact the potential success or failure of that project.



View of Northern Hotel in foreground; Sheraton in background, separated by Securities Building

The Sheraton is located at 27 N. 27th Street in downtown Billings. Due to its high-rise construction, it is a major landmark in downtown Billings. It can be seen from the airport, which is less than one mile away. This hotel features full service facilities and amenities. There are 13 meeting rooms in this hotel. The largest room is approximately 7,800 square feet and can accommodate up to 650. The Sheraton was built in 1985. It is constructed of masonry. The Sheraton is an older hotel that appears somewhat outdated and is showing signs of wear and tear. The Sheraton's lobby area is unappealing when compared to the lobby found in modern hotels today. This hotel's lobby is utilitarian in nature and somewhat disappointing. It was also surprising to find a number of commercial tenants leasing office space on the ground floor of the hotel as well as some of the upper floors. The hotel's swimming pool and health club facilities are of inferior quality. The restaurant and cocktail lounge on the top floor of the hotel share this premium view corridor with a video and slot machine arcade, the latter of which may be evidence of an attempt to maximize revenue but is a disappointing use of this space.

The Northern Hotel (formerly a Radisson) is a historic landmark in Billings. Originally constructed in the 1800's, the hotel was destroyed by fire and re-built in the 1940's. This is a high-rise hotel, constructed of masonry. The Northern Hotel is a very old property, which appears rather outdated. This hotel has clearly reached the end of a typical life cycle for a property of this type. The typical life cycle for a full-service hotel comparable to the Northern would be approximately 45-50 years and that is assuming that it is periodically refurbished and that worn out or obsolete furniture, fixtures and equipment are replaced as needed. It would appear that it is time to either fully refurbish this property or replace it with a new hotel. Conversely, due to this hotel's longstanding reputation in Billings, it captures a fairly significant repeat clientele and in many cases, visitors have returned to this hotel for years. It is acknowledged that if the hotel were ultimately demolished to be replaced with a new hotel, it would be sorely missed by a great many people.



View of Holiday Inn

The Holiday Inn is located at 5500 Midland Road, adjacent to I-90, west of downtown. This hotel is the largest hotel in the supply. It contains approximately 20,000 square feet of meeting space within the hotel, plus the 30,000 square foot Montana Convention Center, a free-standing facility that is situated behind the hotel. There are 17 meeting rooms and board rooms in the hotel. Large events, up to 3,200, can be accommodated in the convention center. The convention center is a popular venue for trade shows and features ticket booths, cash concessions, loading docks and fork lifts, stage/lighting equipment and acres of free parking. This hotel opened in 1972 but has undergone a major renovation. The guest rooms are constructed around a large atrium which is attractively decorated with plantings and a water feature. The hotel appears light and airy, compared to its primary competitors.



View of Convention Center located behind Holiday Inn

The Billings Hotel and Convention Center is located next door to the Holiday Inn, at I-90 and 1223 Muldowney Lane in west Billings. This hotel opened in 1973. It is very old and appears outdated. This hotel features meeting facilities that, according to its brochure, can accommodate up to 1,500 people. There are approximately nineteen meeting rooms available. Once combined, the largest space is approximately 11,500 square feet and can accommodate 1,500 theater-style. There is an indoor swimming pool and hot tub and two amusement waterslides. In addition, there is an outdoor courtyard with BBQ pit and volleyball court.



View of Billings Hotel and Convention Center

The MetraPark is an enterprise of Yellowstone County and began its existence as a fairgrounds early in the last century. It is still the site of the state's largest event, MontanaFair, each August. MetraPark sits on a substantial acreage along the Yellowstone River. This facility offers a 10,000 seat arena, a 6,000 seat grandstand, two major heated and air conditioned exhibition buildings totaling two and one half acres of indoor space, as well as a collection of smaller buildings, a one half mile track and horse barns. This venue is popular for trade and consumer shows, concerts, rodeos, hockey, basketball, wrestling, indoor football, livestock shows, banquets, team roping, business meetings, motor sports, festivals, and conventions. The MetraPark has attracted the Family Motor Coach Association International Convention and the Gold Wing Road Riders International Wing Ding. The American Bowling Congress national tournament was held at the MetraPark this year, with a significant positive impact on the entire community. We observed this facility to be immaculate and management to be professional and hospitable.



View of MetraPark – Site of recent Bowling Tournament
(Bowling equipment being removed – wood pallets donated to charity)

Estimated Group Meeting Demand Accommodated by Billings Hotels

Based on our interviews with local hotel operators, as well as data furnished by Smith Travel Research, we estimate that approximately 30%-50% of total demand at the four competing hotels is generated from group meeting guests. This would indicate that during 2001, for example, about 100,900 roomnights were booked in connection with group meetings. Assuming a double occupancy factor (number of people in each guest room) of about 1.5, would indicate a total number of attendees of approximately 151,400, rounded. All things being equal, this would equate to approximately 415 group meeting guests per day. However, due to the seasonality in this market, it is more realistic to assume a trend of utilization that fluctuates significantly depending on the type of meeting and the time of the year.

The Chamber of Commerce provided Ernst & Associates with a calendar of meeting events for the year 2002. This calendar was effective as of January 22, 2002. By that time, there had been a significant amount of group meetings, conventions and trade shows placed on the books for the primary competitive supply. We calculated 135 functions, with over 44,000 attendees and the potential for 68,000 to 136,000 hotel roomnights (depending on the length of the meeting or function). These figures do not include fifteen functions booked at the MetraPark for large trade shows and other functions, because the number of attendees are not posted. (This can be a huge figure. For example, the attendance at the bowling tournament was estimated at 54,000.)

An exciting observation was the variety of groups that are currently seeking group meeting sites. They included corporate, social, military, educational, fraternal, state and national associations. We have elected not to present this calendar in our report due to the proprietary nature of some of the data but it lends support to our findings and conclusions that follow. Assuming that by late January, 150 functions (including MetraPark's) had been booked suggests a healthy group market. Based on the bookings to date, the business was shared by the four competitive hotels as follows.

Hotel	Average Group Size	% of Total Business
Sheraton Hotel, Downtown	257	33%
Northern Hotel, Downtown	182	<u>13%</u>
Sub-Total		46%
Holiday Inn	323	42%
Billings Hotel & Convention Center	325	<u>12%</u>
Sub-Total		54%
Total Booked Group Functions as of 1/22/02		100%

Source: Chamber of Commerce, Billings, MT

As can be seen in the preceding chart, about 46% of the group business booked to date is being captured by downtown hotels; the remaining 54% is being captured by the Holiday Inn and the Billings Hotel and Convention Center. It is interesting to note the average group size, based on the data available. It appears that the downtown hotels are capturing meetings of

about 180-257, while the hotels situated next to the convention center are capturing larger groups of about 325. We noted that there is an opportunity in this market to target the smaller, corporate meeting of 45-75 as long as the proposed conference center can be designed to offer the very best setting for "serious" meetings.

Conclusion

The preceding analysis assessed business trends for full-service hotels in the Billings market. Based on this analysis, we estimated that the Billings market captured approximately 151,400 group meeting guests during 2001, rounded. This figure is considered very conservative as it does not include the number of attendees at MetraPark who may, or may not have stayed at an area hotel.

Year	Occupied Hotel Room Nights	30% - 50% Group Functions	Average Group Functions, X Double Occupancy Factor of 1.5
1999	256,467	76,940 – 128,234	153,881
2000	251,975	75,593 – 125,988	151,186
2001	252,235	75,671 – 126,118	151,342

Source: Smith Travel Research, Ernst & Associates, Inc.

It is reasonable, if not conservative, to assume that the proposed Project can capture at least 10% of that demand, or 15,000 annual attendees (151,400 x 10%, rounded). This equates to 65 attendees per day, assuming a "230-day" year (deducting holiday/down periods and assuming a 5 day week). At this point in the analysis, we have not included demand from non-conference business, or social functions (family occasions, award dinners, special occasions, etc.).

It is assumed that the proposed Project will be state-of-the-art and should be very effective in creating demand for meetings that currently are not being accommodated at area hotels, due to a lack of the appropriate facilities and/or amenities to attract them currently.

Non-Conference Business

Based on our research, as well as our experience with similar projects, it is reasonable to estimate that the center can capture one social function each weekend period (assuming 46 weeks) at an average size of about 100. This would equate to an additional 4,600 guests at the center. (In reality, during peak months the center could capture more than one function and during the slow months, may not capture any business.)

Interviews with Potential Demand Generators

As further support to our conclusions, we contacted major employers, civic leaders, and others in the Billings region to assess their demand for the proposed Project. We conducted personal and telephone interviews and emailed questionnaires to others. The Downtown Billings Partnership supplied us with several lists of contacts in the community, most of which represent major employers. We contacted as many as possible within the scope of this phase of our work, either with a telephone call or written questionnaire. We supplemented that list with hospitality industry leaders in the area and those who are active in planning meetings throughout the region. Highlights of our interview process are as follows:

There are a significant number of group meetings, conventions, and other functions currently being conducted in a stock of older hotels that lack state-of-the-art meeting facilities and amenities. There was a consensus among the people that we interviewed that a state-of-the-art conference center would be a welcome addition to the downtown, and there would be demand for it on a regular basis.

Several major employers in the market indicated the need for teleconferencing, videoconferencing and computer laboratories. They suggested that if that equipment was available that they would take their groups off site (away from their place of employment). This observation may be very important, particularly in the long term, given the size of Montana and the time required to travel to and from the state. The healthcare facilities in Billings, for example, have discovered the advantage of their videoconferencing equipment in order to reach patients and healthcare personnel in remote locations. Some would say that videoconferencing is the wave of the future, cutting down on travel costs and expediting meetings with people all over the world. It would seem that Billings, Montana would be an ideal headquarters for that type of equipment.

Many of the employers' representatives that we spoke to mentioned that currently, the existing hotels and other meeting venues in the market have become too relaxed in their upkeep of their properties and their service levels. They suggested that if the proposed project were developed it may place pressure on its competitors to upgrade their facilities in order to regain their competitive position, and this, in turn, would help to expand the entire market.

Almost everyone we spoke to indicated that they believed the proposed conference center was a good idea. There was a concern that it should not be too big as there was a ceiling on its potential. Conversely, one of the hotel managers suggested it would be foolish not to build it large enough to accommodate a large meeting (he cited 500 in his example), because as the downtown grew, the demand for the facility would grow and it would be unfortunate not to have the capability to reach out to larger functions.

A number of people in Billings acknowledged that it is a seasonal market and caution should be taken regarding the addition of new hotel rooms. Lodging facilities have not been considered as a part of the development, given the assumption that the conference center would work in tandem with the existing hotels. It should be noted that the majority of those we spoke to indicated that the best case scenario would be to replace the Northern Hotel with

a new, first-class hotel property, but they were imperative in their requests not to be quoted as they understood the sensitivity of this issue. One interviewee indicated that it would be wonderful to replace the Northern Hotel with a new property; however maintain the historic ambience of the hotel in its new design taking advantage of its history and ties to the community.

There is ample potential demand for a conference center in the downtown area from community organizations, social, fraternal and religious groups. This demand is price-sensitive, however. Many of these groups enjoy heavy discounts, if not at-no-charge, services. This segment of demand is an important one to market to, however, due to the exposure it provides for potential, other business.

Some of the employers contacted indicated that they have their own on-site meeting facilities and most likely would not use the facility. However, with a few exceptions, their on-site facilities were no more than an informal classroom setting with old fashioned furnishings. There is an opportunity to "upsell" to these employers, once they are aware of the sophistication of the facilities and amenities that will be offered by the proposed project.

Representatives of the Montana State University indicated that the university would be very willing to discuss the potential of a partnership in the development of the proposed conference center. It should be noted that if the university were to become involved with the project, there are cost considerations and scheduling issues that would have to be agreed upon. The center, as envisioned, fits within the profile of the university's long range plans. The university targets CEO's, Human Resources and marketing executives in its continuing education programs and envisions expanding that program via a conference center that features video conferencing capability. The university is charged with the task of providing programs that will enhance and grow the existing workforce in Montana. State-of-the-art conferencing facilities are imperative in order to reach the community that stretches across the state.

Interviews with Major Employers and Community Representatives

We wish to express our gratitude to the following people, who granted us a personal or telephone interview during the course of our research.

Last Name	First Name	Company / Organization	Title / Responsibility
Allen	Mary	Common Ground, Art and Gift Shop, Downtown	Owner
Anderson	Brian	City Division of Building & Safety	Senior Plans Examiner
Bolman	Jeff	City of Billings	Planning
Bowles	Alan	Hilton Hotels Corporation	Regional Franchise Director
Boyer	Nancy	Boyer & Dimich Assoc.	Board Member, DBP
Burns	Michael	Deaconess Billings Clinic	Specialist
Carr	Bob	Montana State University	Dean, College of Technology
Coleman	Sandra	Montana State School District 2	Human Resources
DeVeau	Carlene	Deaconess Billings Clinic	Human Resource Director
Dubaniewicz	Dan	Sheraton Hotel	General Manager
Fagg	Harrison	Harrison G. Fagg & Assoc.	Alternate representative, DBP
Fisher	Richard	Montana State University	College of Technology
Foster	Kay	Planteriors	Owner
Gallagher	Linda	Hotel / Motel Association	President (also, Days Inn)
Glassing	Rhona	Avista Communications	Human Resources Director
Glennon	Patty	St. Vincent Healthcare	Manager, Workplace Environment
Gottwals	Harry	Billings Depot	Owner/Operator
Hash	Bernice	Chamber of Commerce	Director of Business Development

PROPOSED EXECUTIVE CONFERENCE CENTER, BILLINGS, MONTANA

Hawke	Sandra	MetraPark	Marketing Director
Jones	Valda H.	Northern Hotel	Sales / Marketing
Kaercher	Audrey	Moulton, Bellingham, Longo	Human Resources Director
Kenson	Gail	Planning Dept., Billings	Planner II
Leikam	Dorothy	New York Life	Human Resources
McClure	Joe	Big Sky Economic Devl. Auth.	Board Member, DBP
McDonald	Greg	Wendy's of Montana	Board Member, DBP
McKay	Sarie	Northern Rockies Cancer Center	Human Resources
Mench	Tina	Intrepid, USA	Human Resources
Miller	Ann	Cultural Arts Partners	Board Member, DBP
Moran	Marlene	St. John's Lutheran Home	Human Resources
Mueller	Carol	KOA	CEO
Olsen	Kim	Olsen Architects	Board Member, DBP
Olson	David	City of Billings	Business Licenses
Phelps	Gladys	Administrative Assistant	Downtown Billings Partnership
Reno	Jim	Yellowstone Co. Commission	Board Member, DBP County Commissioner
Robison	Ellen	Morris Murdock Travel	Manager / Agent
Schaer	Mike	Computers Unlimited	Board Member, DBP
Scibelli	Art	Downtown Billings Partnership	Executive Director
Senit	Steve	Northern Analytical Labs	Human Resources
Sexton	Dr. Ronald	Montana State University	Chancellor
Slyter	Lisa	Northern Hotel	Sales / Marketing
Smith	Fred	Hilton Hotels Corporation	Regional Development

Sorich	Kathy	Quest Diagnostics	Human Resources
Taylor	Dennis	City Administrator	Board Member, DBP
Tooley	Chuck	City of Billings	Mayor
Woolsey	Ken	Montana State University	University Affairs
Ziegler	Ziggy	Yellowstone Co. Commission	Alternate representative, DBP
Ziegler	Stella	Stella's Café, Downtown	Owner/Operator

Compiled by: Ernst & Associates, Inc.

The work that we have completed to date on this project is considered Phase I of a multi-phased engagement. We are available and look forward to continuing the interview process, as appropriate. We will incorporate any subsequent findings, as a result of additional interviews or written input that we receive. Our findings and conclusions are preliminary and subject to revision based on additional work that will be completed in Phase II and III of this engagement.

CONCEPT AND DESIGN IMPLICATIONS

The following paragraphs summarize our preliminary recommendations with regard to the optimum facilities and amenities that should be offered by the proposed Project. Our recommendations are based on our research in connection with this study and our experience with similar projects. **Please note that based on our agreement, detailed facilities recommendations and estimated utilization levels will be prepared in Phase II and III of our work, based on your authorization.**

Facility Design - General

Because of the specialized focus of conference centers, there are physical, operational, and philosophical differences in virtually every aspect of a conference center's operation – some subtle, and some quite apparent. Examples of the major differences between conference centers and other types of hospitality operations begins with the design of the overall facility. The orientation of a conference center, from the beginning, is focused on the primary purpose of the facility: accommodating conferences. The physical plant is organized in such a manner as to separate functions, minimize distractions, and provide convenience for the conferee. For example, conference rooms are separated from banquet rooms as well as from dining rooms and other high traffic areas, so that the conferees are isolated from any type of outside interference. The conference rooms are also positioned for convenient access to telephones, restrooms, refreshment areas, conference service personnel stations and all other conference services.

In conference centers, the meeting space is dedicated, single-purpose space, designed specifically for conferences. It is not multi-function space, designed to accommodate receptions, banquets and other social functions. It is used solely for conferences, and everything from lighting to interior wall surfaces, color schemes, and acoustics, is designed to enhance meeting productivity. Conference rooms generally offer ample electrical hookups, interface for computers, and access to data, video and audio distribution lines. Larger meeting spaces normally are provided with audio-visual control rooms and have provision for front and/or rear screen projection.

Conference centers often utilize windows or skylights to bring outside light into conference spaces. Interior illumination usually includes both fluorescent and incandescent lighting with dimming capability. Each conference room is designed with individual climate control mechanisms, and ceilings are high enough not to interfere with appropriate audio-visual requirements.

In addition, conference centers are usually designed to incorporate informal gathering places for conferees, sometimes referred to as dialogue centers or workshop suites. Often they include libraries or reading rooms, as well as workrooms and offices for visiting meeting planners.

Conference center facility design also includes space for private receptions and banquets,

although such space in conference centers is primarily for the use of in-house conference events, as opposed to non-conference catering business. Generally, a variety of food and beverage outlets is provided in conference centers, and those food service outlets are usually oriented toward accommodating groups rather than individual patrons.

Conference centers reflect the primary objective of providing a dedicated total meeting environment in all aspects of the design.²

Overall Concept

We recommend that a non-residential executive conference center be developed in downtown Billings. It should be constructed on one level and should offer state-of-the-art facilities and amenities, catering to the discerning corporate meeting guest. The conference center should provide first-class food and beverage service in-house. Or, at a minimum, the center should be equipped with the necessary kitchen and preparation facilities and the actual food and beverage service could be handled by a contracted catering service.

Attention should be given to the architectural style and landscaping treatments at the center. Unique landscaping treatments or water features would go a long way in enhancing the project's overall appeal. This is particularly true for social gatherings, community events and high-level corporate management meetings. *However, it is imperative that the design not be so expensive that the cost to build exceeds the value generated by the income stream that the center can generate. This fact is extremely important in the consideration of this project and the ceiling that may exist on the meeting package rate that can be captured in this market.*

The optimum plan would call for the proposed Project to be within walking distance of the Sheraton and the Northern Hotel. This feature is excellent and will enhance the center's ability to capture multi-day meetings, as well as one-day meetings that require an overnight stay for travelers arriving in advance of their meeting. In addition, Billings is the ideal destination for a group meeting or function that combines business with pleasure; i.e. a side trip to Yellowstone National Park. This type of function will generate the need for lodging. Consideration of a covered walkway for all or a portion of the distance between the center and the hotels would be an added plus -- ensuring safety and less discomfort during inclement weather. It is assumed that the center would have a dedicated parking garage to maximize its usage.

Based on our analysis of demand for the project, it is apparent that in order for the center to capture more than its fair share of demand, it will need to be purpose-designed to meet some of the special requirements of corporations in the area. That is, it should feature at least one computer lab and should be equipped for teleconferencing and video conferencing. All furnishings should be of excellent quality to ensure a first-class learning environment. At the same time, the design should take into consideration the demand for social functions and banquets that will require a relaxed environment, conducive to socializing and having fun.

² *Understanding Conference Centers*, International Association of Conference Centers, 1989

Meeting Facilities

Based on our research and analyses, we recommend the following preliminary configuration and overall size for the proposed center. These estimates are preliminary, subject to revision, and intended for discussion and planning purposes only. With your authorization, we are available to refine our facilities recommendations (Phase II of our proposal).

Room	Square Feet	Divisible by:	Total Sq. Ft. Per Room
Group of 20 at 45 sf/pp	900	0	900
Group of 40 at 25 sf/pp	1,000	0	1,000
Room for 60 at 45 sf/pp	2,700	3	900 each
Room	3,600	3	1,200 each
Two Rooms	2,000	2	1,000 each
Four Rooms	<u>2,400</u>	4	600 each
Sub Total	12,600		
Lobby/Pre-Function	2,500		
Dining Room for 100 @ 15sf	1,500		
Kitchen	1,000		
AV/Storage	600		
Sub-Total	18,200		
Circulation (Increase by 25%)	<u>4,550</u>		
Grand Total	22,750		

Services and Amenities

We recommend that the center offer all of the facilities and amenities commensurate with the best executive conference centers in the country. At a minimum, the center should provide:

- Ergonomic chairs and purpose-designed conference tables
- Plenty of storage so as to maximize center's level of efficiency
- One computer laboratory for up to 20 stations
- State-of-the-art audio visual equipment, built-in as appropriate
- First-class food and beverage service (to be provided in separate dining room)
- Refreshment stations for all-day refreshment service
- Wide, comfortable pre-function areas, suitable for pre-registration and pre-event functions
- Comfortable lobby with casual seating for socializing during breaks
- Ample parking and complimentary transportation to hotels
- Ample-sized restrooms and telephone banks to ensure efficient service for corporate groups
- Business center with administrative support, fax machines, computer hook-ups, copying, etc.
- Technical service staff and meeting planner available at all times

Complete Meeting Package Pricing

Because of the relatively low occupancy levels typically inherent in conference center operations compared to standard hotel operations in the same market environment, combined with the higher costs of development, the pricing of the combination of product and service becomes a key part of the economics of the project. The Complete Meeting Package concept has evolved in the industry in partial answer to this dilemma. By pricing the facility on a "daily, per person" basis, with a package price that includes all the meeting essentials, a conference center is able to maximize its revenues per guest day. However, since the market place is relatively unfamiliar with this pricing approach, the successful implementation of this pricing strategy requires a combination of factors working together. These include:

- A sales staff that understands and can communicate the benefits of this approach to the customer;
- Delivery of "the product" in a consistently high-quality manner so that it becomes clear there is a strong price/value relationship with resulting higher levels of demand; and,
- Consistent implementation of the CMP approach as "the way we do business" so that the market place does not assume it can force the return to piecemeal pricing.

This being said, it should be understood that during the stabilization period (the center's first few years of operation) "flexibility" will be the name of the game. If ala carte pricing is the way to "own a meeting planner's business", then so be it.

Conference centers historically have provided the full range of their services to clients for a single package rate which includes guest room accommodations (if appropriate), meeting rooms, food service including three meals, and morning and afternoon refreshment breaks, basic conference services such as planning assistance and standard audio-visual equipment, ground transportation and/or recreational amenities. Complete Meeting Package rates are typically quoted on a per person basis for either single or multiple occupancy and are frequently discounted during the non-peak seasons.

The following illustrates a typical conference center package structure. Prices will vary depending on the market and other factors. This example is intended for illustration purposes only.

Sample Day Guest Plan Per Person Per Day*	
Lunch	\$15.00
Refreshment Breaks	10.00
Conference Department	<u>30.00</u>
Total Per Person Price	\$55.00

*With the Day Guest Plan, any change in the price normally increases or reduces the conference allocation, and allocations to other departments remain constant.

Reasonable Expectations of Subject's Utilization Levels

Based on our research and experience with similar projects, the following range of utilization levels can be considered reasonable with respect to the proposed conference center. This range is provided solely for your planning and discussion purposes. As indicated in our proposal dated May 28, 2002, upon your review of this market analysis and with your authorization, we are available to refine our facilities recommendations and estimate the project's utilization levels in Phase II and III of this consulting assignment.

Preliminary Estimate of Revenue and Income	Dollar Amount – Range
Meeting Package Rate	\$45 - \$55 per person
Banquet Function	\$25 - \$35 per person
Attendees Per Day	75 – 100
Revenue Per Year	\$1,500,000 - \$2,500,000
Income Available Before Debt Service, Reserve & Taxes	25%-35%

Source: Ernst & Associates, Inc.

Based on the scope of work agreed upon in Phase I of this consulting assignment, we have analyzed the market support for a proposed conference center. We have concluded that there is sufficient demand to support a 20,000 to 30,000 square foot conference center in downtown Billings. Our conclusions and recommendations are subject to the Statement of Assumptions and Limiting Conditions included in the addendum to this report. For purposes of this analysis, it is assumed that the project would be constructed and open for business in the year 2004. Complete meeting package rates, and anticipated revenue presented in this report are stated in 2002 dollars and are subject to revision, based on the results of subsequent phases of this consulting assignment.

Conference and Banquet Function Pricing at Billings Hotels

Typical pricing plans for banquet functions or group meetings are as follows for the Billings hotels. The quoted prices will range depending on a number of factors, including the size of the function and the time of the year. The following quotations were made during the week of July 16, 2002.

	<i>Sheraton</i>	<i>Northern</i>	<i>Holiday Inn</i>	<i>Billings Hotel</i>
Ballroom Size (Sq. Ft.)	7,800	7,735	10,200	2,900
Capacity	650	520	525	150 - 200
Price Per Room	\$1,000	\$600-\$1,000	\$1,525	\$350
Junior Ballroom	NA	4,600	2,300	NA
Capacity	NA	300	96	25
Price Per Room	\$250-\$395	\$50	\$350	\$75
Convention Center				20,000 sq. ft. \$1,200
Additional Charges:				
Lunch-Dinner	\$7.25 - \$24.50	\$12.00 - \$23.00	\$7.95 - \$24.95	\$10.00 - \$25.00
AM/PM Coffee	\$22.50/person continuous service	\$14.00 / gallon	\$14.95/ gallon	\$12.50 / gallon
Rental of Equipment				\$200/Day
LCD Projector		\$225	\$195	
Screen			\$10	
Overhead Projector		\$25	\$30	\$35
TV/VCR		\$25	\$40	\$25
	\$100-\$300*			
	*depending on if they need to rent equipment from outside contractor.			

Compiled by: Ernst & Associates, Inc.

STATEMENT OF ASSUMPTIONS & LIMITING CONDITIONS

Standards Rule ("S.R.") 2-1 of the "Standards of Professional Appraisal Practice of the Appraisal Institute" requires the appraiser to "clearly and accurately disclose any extraordinary assumption or limiting condition that directly affects the appraisal and indicate its impact on value." In compliance with S.R. 2-1, and to assist the reader in interpreting this report, such Assumptions and Limiting Conditions are set forth as follows:

The appraiser assumes no responsibility for economic, physical or demographic factors that may affect or alter the opinions in this report if said economic, physical or demographic factors were not present as of the date of the letter of transmittal accompanying this report. The appraiser is not obligated to predict future political, economic or social trends.

In preparing this report, the appraiser was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either expressed or implied, is given by the appraiser for the accuracy of such information and the appraiser assumes no responsibility for information relied upon later found to have been inaccurate. The appraiser reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Maps, plats and exhibits included in this report are for illustration only to serve as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from the report.

No opinion is intended for matters that require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate appraisers.

Possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of the appraiser, the report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with proper written qualification and only in its entirety for its stated purpose.

Disclosure of the contents of this report is governed by the By-Laws and Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially the identity of the appraiser, or the firm with which she is associated, or any reference to the Appraisal Institute) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the author.

Testimony or attendance in court or at any other hearing is not required by reason of rendering this market study. Further, unless otherwise indicated, separate arrangements shall be made in a reasonable time in advance of any testimony or attendance in court or at any other hearing, concerning compensation for the appraiser's time and expenses to prepare for and attend any such court appearance or hearing.

Our report is based on estimates, assumptions and other information developed from research of the market, knowledge of the industry, and data which you have provided. The sources of information and bases of the estimates and assumptions are summarized in the report. This data is presumed to be reliable and, where possible, has been verified; but no responsibility, whether legal or otherwise, will be assumed for its accuracy, nor can it be guaranteed as being certain. Under the terms of this engagement, we have no

obligation to revise the report to reflect events or conditions that occur subsequent to the date of the report. However, we are available to discuss the necessity for revision resulting from changes in the economic or market factors affecting the project.

Our report is intended solely for your internal planning purposes and presentation to operators and/or management companies. It may also be presented to lending institutions in connection with a lending decision. This report may not be included in a sales brochure, offering, appraisal or other written document without our prior written consent.

CERTIFICATION OF THE APPRAISER/CONSULTANT

The signer of this report does, by her signature on this report, certify that to the best of her knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property or project that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
4. Our compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
5. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice of The Appraisal Foundation, with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
6. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
7. As of the date of this report, I, Susan L. Ernst, ISHC, have completed the requirements under the continuing education program of the Appraisal Institute.
8. Susan L. Ernst has made a personal inspection of the property and/or site area that is the subject of this report.

Respectfully submitted,



Susan L. Ernst, ISHC

Appraiser's State Certification #AG0013254

ADDENDUM

Professional Qualifications

SUSAN L. ERNST, ISHC

Introduction

Susan Ernst specializes in real estate consulting and appraisal services. She has over twenty years of experience in the real estate industry, with the majority of her involvement being in the hospitality industry. Clients benefit from her appraisal and consulting experience which includes hotels, resorts, motels, restaurants, clubs, conference centers, as well as other commercial real estate. She is a Certified General Real Estate Appraiser in the State of California and a Member of the International Society of Hospitality Consultants.

Experience

1990-Present Ernst & Associates, Inc., Novato, CA, President

Provides valuation, market and feasibility study services in the acquisition, sale, leasing, portfolio management, land use and development planning of investment real estate. Special expertise in hotel and restaurant appraisals and consulting. Assignments have included economy, full-service and luxury hotels, suite hotels, resorts, conference centers and a variety of foodservice projects, including fine dining, casual dining, and fast food restaurants. Also provide appraisal and consulting services with respect to office, retail and industrial uses.

1990 Horwath International, Hong Kong, Manager

Provided technical review and training in connection with market, valuation and feasibility studies for hotels.

1982-1989 Laventhol & Horwath, San Francisco, Manager

Provided market, valuation and feasibility studies, as well as litigation support services for hotels, restaurants and other hospitality industry-related uses.

1980-1982 Magic Pan Restaurants, San Francisco, Assistant to Controller

Para-professional, financial and marketing analysis in connection with a national restaurant chain comprised of over 100 restaurants.

Associations

- ◆ Member, International Society of Hospitality Consultants
- ◆ Associate, Appraisal Institute
- ◆ Golden Gate Restaurant Association

Certification

**Certified General Real Estate Appraiser, State of California
License #AG013254**