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## *Proposed St. Joseph Hotel*

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*Submitted for Public Review*

*St. Joseph, Minnesota 56374*

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**SUBMITTED TO:**

Ms. Cynthia Smith-Strack  
Municipal Development Group  
25562 Willow Lane  
New Prague Minnesota 56071

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**PREPARED BY:**

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*June 13, 2014*

Ms. Cynthia Smith-Strack  
Municipal Development Group  
25562 Willow Lane  
New Prague Minnesota 56071

**Re: Proposed St. Joseph Hotel  
St. Joseph Minnesota 56374**

Dear Ms. Smith-Strack:

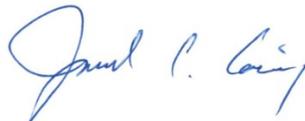
At your request, we are pleased to submit our Market Study in regards to a potential hotel located in St. Joseph, Minnesota. Two potential site locations were proposed and we have reviewed the local real estate and analyzed the hotel market conditions in the St. Joseph area based upon each site. We have studied the proposed project and the results of our fieldwork and analysis are presented in this report. We have also reviewed the proposed improvements for these sites. The subject sites were inspected by Joel C. Cairy, Douglas G. Rohde, and Melia E. Nagel in April 2014.

We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and all assumptions and limiting conditions set forth herein.

Sincerely,  
**LHR Hospitality Management**



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## **EXECUTIVE SUMMARY**

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### Subject of the Market Study

The subject of the Market Study is a proposed midscale, limited service hotel to be located in the City of St. Joseph, Minnesota. Two sites have been proposed. The first is located along the Interstate-94 corridor at the County Road 2 intersection, adjacent to the old Park-and-Ride, on approximately two acres of land. The second proposed location is a location within town, on the northeast corner of County Road 75 and Northland Drive. With significant pros and cons to each location it is ultimately recommended if a hotel is built in St Joseph that the Interstate location be the prime consideration, given the ability to draw much needed weekday business from Interstate travelers that will be paramount to its success. As additional development is added near the Hotel, this will have a direct positive impact on additional demand factors.

It is assumed that the hotel will be operated as a midscale, limited service hotel. One option in this category of hotels is a Cobblestone Hotel which offers the benefits and support of a franchise but with lower monthly fees and annual licensing agreement, this gives the owners great flexibility to get out of a franchise if needed. Another viable option would be an AmericInn Hotel and Suites which offers strong regional name recognition but also adds additional franchise costs and a long-term owner commitment of a ten to twenty year licensing agreement. The proposed site(s) offer alternative brand choices that would all be feasible and comparable to a Cobblestone or AmericInn. Based upon our market research, we recommend the property have approximately 36 to 54 guestrooms, a pool and fitness room, as well as breakfast area. For this study, the proformas were based on a property with 44 guestrooms.

Similar to the Cobblestone brand are Guesthouse Inn and Suites, Centerstone Hotels and Best Western. These brands all offer shorter term licensing agreements from one to four years and lower franchise costs annually. With the exception of Best Western, the initial application fees are also significantly lower. These brands generally have a reservation contribution of 25 to 35%.

Similar to the AmericInn brand are Comfort Inn and Suites, Country Inn and Suites, and Microtel. These brands all have long term licensing agreements from ten to twenty years with higher application fees. These brands generally have a reservation contribution of 40% annually.

Due to the size and future growth of the city and the enrollment of the two universities in St Joseph and Collegeville, the city's residents and visitors would benefit by having a second hotel option. We expect the hotel to compete and draw significant market share from the other hotel in St. Joseph, which is a Super 8. It will also compete indirectly with some hotels on the western edge of St. Cloud and the two St. Cloud interstate properties.

### Ownership, Franchise and Management Assumptions

The developer of the proposed property is a long-time local resident with the in-sight and desire to develop, own and manage a new hotel development in St. Joseph.

Details pertaining to the management terms have not yet been determined; however we assume that the proposed hotel will be managed by a professional management company that

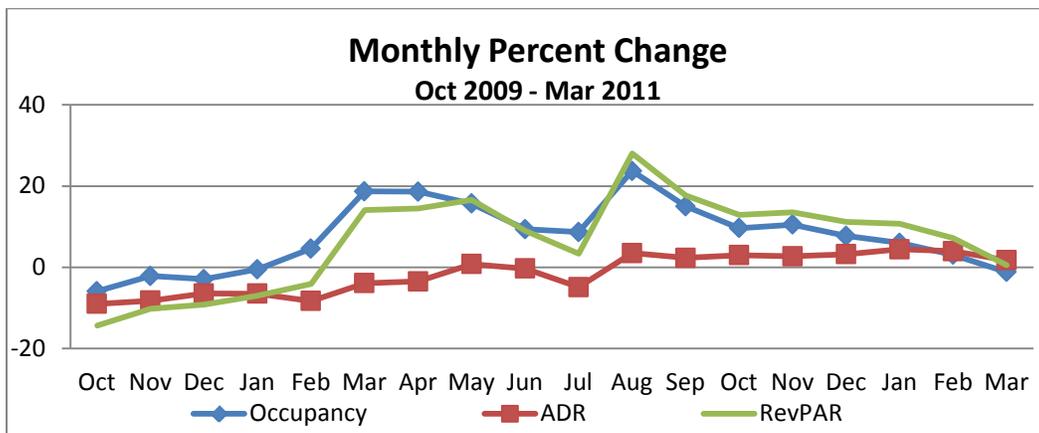
is experienced in the operation of midscale, limited-service hotels in this region. We have assumed a market appropriate management fee of 5.0% of total revenues in our study. Based on our review of anticipated agreement terms, the anticipated franchise expenses for each brand consideration (Cobblestone and AmericInn) are reflected in our forecast. Both brands specifically target communities with populations of 5,000 to 10,000.

St Joseph / St Cloud MSA Hotel Market Trends

Local employers, the Army Reserve, I-94 traffic, and the area’s university and college represent the primary sources of demand in the St. Joseph market. Due to the size and limited reporting and resources as it pertains to the hotel market in the St. Joseph area, as well as the close proximity of St. Cloud, St. Cloud data and trends are significant factors when determining trends for St. Joseph.

April lodging results were down throughout the state over April 2013. Total lodging demand declined by 3.4%, resulting in a statewide occupancy decline of three points to 59%. Average Daily Rate (ADR) also increased by nearly 4% to \$96.77. Year-to-date, demand has increased by 2%, ADR has increased by 4% and Revenue per Available Room (RevPAR) has increased by nearly 5%.

April occupancy declined in every sector statewide except St. Cloud. The largest decline in demand occurred in Duluth (11%) which resulted in a nine point occupancy decline. ADR continued to improve in all sectors except Mankato, led by a 6% increase in Duluth. Despite increases in ADR, RevPAR declined in every sector except the Twin Cities and St. Cloud. Year-to-date, sector occupancies are still above last year, except in Duluth and Northern Minnesota. ADR has increased between 1.5% and 7.9% (with the exception of St. Cloud). RevPAR has increased between 1% and 11% with the exception of Duluth.



## Scope of Work

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- All information was collected and analyzed by the staff of LHR Hospitality Management. Information was supplied by the client and/or the property's development team.
- The subject sites have been evaluated from the viewpoint of their physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.
- The subject property's proposed improvements have been reviewed for their expected quality of construction, design, and layout efficiency.
- The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
- Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.
- An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness.
- Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.
- A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the subject property.

**DESCRIPTION OF THE SITE AND NEIGHBORHOOD**

The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property and its ultimate marketability. Factors such as size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site.

It is important in the hotel industry to have as many unique demand generators as possible. It is important to play up the aspects that are available, such as the unique artsy and eclectic feel of downtown St. Joseph, its convenient interstate access, the College of St Benedict and St John’s University, and connectivity to St Cloud and closeness to the Twin Cities.

The Economic Development Authority has expressed it would be very aggressive to assist with this hotel project. Opportunities include Tax Increment Financing (TIF), tax abatement, delay of fees during ramp up period, future occupancy tax, etc.

Two subject sites have been proposed for this project. Site #1 is at the intersection of Interstate 94 and County Road 2 with easy visibility and access from the Interstate. Site #2 is near downtown St. Joseph at the intersection of County Road 75 and Northland Drive.

**Physical Structure: Site #1 – Interstate**

Site #1 is roughly 1 ½ to 2 acres and offers visibility off of Interstate 94 and frontage along County Road 2.

The interstate location benefits from being on and visible from the Interstate making it an easy on/off for interstate travelers passing through the area. Water is currently available at that location, but sewer is not, which will negatively impact development costs. There are multiple land owners involved in the two parcels being considered at this location and sale negotiations could be hindered by this. Once the first business goes into this location it is expected others will follow suit. The City has planned for retail, professional office/services and possible restaurant.



Direction	Adjacent Use
North	Highway 2 - Farmland
South	Farmland
East	Farmland
West	Interstate 94

Physical Structure: Site #2 – County Road 75 (Near Downtown)

Site #2 is roughly 3.9 acres along County Road 75 and has frontage from Northland Drive.

The site near downtown is walking distance to other amenities, such as restaurants, shopping, the colleges, etc. County Road 75 plays host to most of the food and beverage selections in St Joseph, as well as being a great growth corridor for current and future businesses. The city’s business park sits just northeast of the County Road 75 site and the newest demand generator in the areas, the Army Reserve Training Center. However, without the visibility from the Interstate it will be tough to pull additional weekday business to this location. Site #2 is already zoned for commercial use and has sewer and water.

Average Daily Traffic counts are impressive on County Road 75; however many of these are local commuters in the St Cloud area and not overnight hotel users.

Direction	Adjacent Use
North	Small Commercial & Residential
South	Lake Wobegon Trail / Hwy 75
East	Small Retail
West	Northland Drive – Residential & Future Commercial



Access and Visibility

It is important to analyze the site in regard to ease of access with respect to regional and local transportation routes and demand generators. The subject site is readily accessible to a variety of local, county, state, and interstate highways.



**Regional Maps**



St Joseph is approximately 70 miles northwest of Minneapolis off Interstate 94. The downtown sits 1.2 miles east of the interstate and about 7 miles west of St. Cloud.

Of the two subject sites, the interstate location would benefit from the high traffic counts and visibility of the interstate traveler. At either location the proposed subject property is expected to have adequate signage at the street; thus, the proposed hotel should benefit from very good visibility from within its local neighborhood. Overall, the subject site #1 (interstate location) would benefit from excellent accessibility, and the proposed hotel is expected to enjoy very good visibility attributes. This site will also represent itself as the first lodging opportunity for eastbound I-94 vehicles entering the greater St Cloud market. At Site #2 the proposed hotel will have to rely on additional Interstate signage (billboards) and other marketing avenues to compete with the visibility of Site #1.

*Site #1 - Interstate*

Interstate 94 runs in a northwest/southeast fashion with approximately 23,000 – 25,500 vehicles per day. Traffic counts along I-94 vary significantly between winter and summer due to seasonal recreational drivers (“cabin traffic”) at which time traffic counts can exceed 50,000 vehicles along this stretch during the summer months. The main exit off Interstate 94 is County Road 2 (proposed site #1) and carries approximately 10,000 vehicles per day. This counts drops dramatically by the time you get through St. Joseph with counts reaching approximately 2,700 on the east side of town.

<b>Highway Traffic Counts Per Day – 2009-2011</b>	
<b>Trunk Road</b>	<b>Number of Vehicles</b>
I 94 (Spring, Fall, Winter)	23,000 – 25,500
<b>I 94 (Summer)</b>	<b>50,000+</b>
Cty Rd 2 (at Interstate)	10,000

*Site #2 – Near Downtown*

County Road 75 (proposed site #2) carries anywhere from 12,100 cars on the west side of town to 22,300 on the east side of town (as you near St Cloud). The cross road of proposed site #2 is Northland Drive which carries approximately 2,450 vehicles per day.<sup>1</sup>

<b>Highway Traffic Counts Per Day – 2009-2011</b>	
<b>Trunk Road</b>	<b>Number of Vehicles</b>
Cty Rd 2 (Downtown)	2,700
Cty Rd 75 (West)	12,100
Cty Rd 75 (East)	22,300
Northland Drive	2,450

The proposed property will be served by the St. Cloud Regional Airport (STC), which is located 15.2 miles from Site #1 and 13.1 miles from Site #2 to the east of the subject sites. Carrier service is provided by Allegiant Air and United servicing Chicago. From the airport, motorists will proceed westbound on County Road 75. An alternate option is the Minneapolis / St. Paul International Airport (MSP), 85 miles to the southeast of the subject sites.

<sup>1</sup> [www.dot.state.mn.us/traffic/data/hist-maps](http://www.dot.state.mn.us/traffic/data/hist-maps), 2009 - 2011.

## Neighborhood

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The neighborhood surrounding a lodging facility often has an impact on a hotel's status, image, class, style of operation, and sometimes its ability to attract and properly serve a particular market segment. This section of the report investigates the subject neighborhood and evaluates any pertinent location factors that could affect its future occupancy, average rate, and overall profitability.

The subject properties are located in the City of St. Joseph. Some of the city's major landmarks include St. Joseph Catholic Church, St. Benedict's Monastery, the College of St. Benedict (CSB) and the nearby St. John's University (SJU) in Collegeville, three (3) miles west of town. CSB and SJU are two separate institutions that share a single academic program. The College of St. Benedict is noted in the downtown area for the high spire of St. Joseph's Church, and the rotunda and dome of the Monastery and College Sacred Heart Chapel. The architecture is different from other buildings and the major structures are visible from miles away. The schools attract visitors and students alike year round because of their historical value to the area.

In addition to the College downtown boasts a fairly new building with shops and restaurants on the main level and living units on the upper level. The area just to the east of downtown plays host to a very attractive new home development. The city has a good mix of new and nice looking older homes. The Chamber of Commerce hopes to move the local Farmers Market to a downtown location, currently being held near the Wobegon trailhead. The City hosts such annual events as Joetown Rocks and 4<sup>th</sup> of July Fest, Community Showcase and the Millstream Arts Festival. In addition, the College of St. Benedict hosts approximately 3,300 events per year.



In general, we would characterize the neighborhood as 40% college/university, 20% office/retail, 30% residential use, 10% restaurant, and 5% other. The proposed subject property's opening should be a positive influence on the area; the hotel is expected to be in character with and should complement surrounding land uses.

Overall, the supportive nature of the development in the immediate area is considered appropriate for and conducive to the operation of a hotel.

## Utilities

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The subject site will reportedly be served by all necessary utilities and we assume that these will be acquired from the most cost-effective providers within the local market.

### *Site #1 – Interstate*

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Proposed site #1 (Interstate) currently has water, however not sewer, though sewer is expected to be run once a viable business commits to the location.

*Site #2 – Near Downtown*

Proposed site #2 is already serviced by both water and sewer.

**Soil and Subsoil Conditions**

Geological and soil reports were not provided to us or made available for our review during the preparation of this report. We are not qualified to evaluate soil conditions other than by a visual inspection of the surface; no extraordinary conditions were apparent.

**Nuisances and Hazards**

We were not informed of any site-specific nuisances or hazards, and there were no visible signs of contaminants at the time of our inspection. Because we are not experts in this field, we do not warrant the absence of hazardous waste and urge the reader to obtain an independent analysis of these factors.

**Flood Zone**

According to the Federal Emergency Management Agency map illustrated below, both subject sites are located in flood zone X. This is an area which is determined to be outside the 0.2% annual chance floodplain.



**Proposed Site #1 (Interstate)**



**Proposed Site #2 (Downtown)**

**Zoning**

According to the local planning office, the Interstate site future zoning allows for business commercial use with a mix of commercial and residential. The town site is already zoned for commercial use, under which a hotel use is permitted. We assume that all necessary permits and approvals will be secured (including an appropriate liquor license, if applicable) and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. Our zoning analysis should be verified before any physical changes are made to the site.

## Easements and Encroachments

We are not aware of any easements attached to the property that would significantly affect the utility of the site or marketability of this project.

## Conclusion

We have analyzed the size, topography, access, visibility, and the availability of utilities.

### *Site #1 – Interstate*

Site #1 (Interstate) is located favorably for visibility of Interstate traffic which will be necessary to bring in weekday business. Eventually additional businesses / amenities are likely to be built around the hotel. This location is also situated conveniently between the two colleges (CSB/SJU), the main business generator in the area.

### *Site #2 – Near Downtown*

Site #2 is located favorably proximate to several downtown retail outlets; commercial buildings; dining options and other various facilities that are likely to directly benefit the property. Though this is an added benefit for this location choice we do not feel it will significantly increase business demand over the interstate location.

In general, either site should be well suited for future hotel use, with very good access, visibility (whether interstate travelers or local traffic), and topography for an effective operation. However, based upon the need for weekday business we feel the interstate location would be better suited at this time.

## MARKET ANALYSIS

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The economic vitality of the market area and neighborhood surrounding the subject sites is an important consideration in forecasting lodging demand and future income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project lodging demand. The purpose of the market area analysis is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilize, or decline. In addition to predicting the direction of the economy, the rate of change must be quantified. These trends are then correlated based on their propensity to reflect variations in lodging demand, with the objective of forecasting the amount of growth or decline in visitation by individual market segment, e.g. commercial/corporate, medical, meeting and convention, and sports groups/leisure.

### Market Area

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The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject property is located in the city of St. Joseph, the county of Stearns, and the state of Minnesota.



Stearns County is home to thirty cities and thirty-four townships of which St. Cloud is the largest and the county seat. St. Joseph is eight miles west of St. Cloud and part of the St. Cloud Metropolitan Statistical Area. The population of Stearns County tends to be overall younger than Minnesota as a whole, largely in part to the numerous colleges, universities and technical schools that draw young adults to the area. In addition to a younger population, the workforce is well educated.

St. Joseph has a population of 6,646, a 42.0% increase since 2000, which is made up of 37.2% men and 62.8% women. The median age at 22.7 years is well below the

Minnesota average of 43.1. In addition the population is extremely well educated with 36.8% with a Bachelor's Degree or higher. As a result of these two factors the estimated median household income is \$61,811, a 58.9% increase from 2000 and well above the national average of \$41,994.

The subject property's market area can be defined by its Metropolitan Statistical Area (MSA): St. Cloud, MN MSA. The MSA is the most standard definition used in comparative studies of metropolitan areas. The federal government defines an MSA as a large population nucleus, which, together with adjacent counties, has a higher degree of social integration.

### Economic and Demographic Review

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A primary source of economic and demographic statistics used in this analysis is the Complete Economic and Demographic Data Source published by Woods & Poole Economics, Inc. – a well-regarded forecasting service based in Washington, D.C. Using a database containing more than 900 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Historical statistics are based on census

data and information published by the Bureau of Economic Analysis. Projections are formulated by Woods & Poole, and all dollar amounts have been adjusted for inflation, thus reflecting real change.

The data are summarized in the following tables.

	2010 Population	Median Income	Avg. Age	Bachelors Degree or Higher	Male / Female	Housing Units
<b>National Average</b>		\$41,994	36.4	24.4%	49.1% / 50.9%	N/A
<b>St Joseph</b>	6,646	61,811	22.7	36.8	37.2 / 62.8	1,127
<b>St Cloud MSA</b>	189,284		33.5	22.7	50.4 / 49.6	71,388
<b>Stearns County</b>	150,785	42,426	33.3	22.0	50.4 / 49.6	56,289
<b>Minnesota</b>	4,989,848	47,111	43.1	27.4	49.6 / 50.4	1,895,127
<b>Neighboring Communities</b>						
<b>Waite Park</b>	6,864	33,803	34.9	16.1	48.7 / 51.3	3,082
<b>Sartell</b>	11,854	52,531	31.7	30.2	48.9 / 51.1	3,513
<b>Sauk Rapids</b>	11,620	45,857	34.2	20.9	47.8 / 52.2	4,004
<b>St Cloud</b>	59,624	37,346	33.6	29.6	50.4 / 49.6	23,211

Source: [www.epodunk.com](http://www.epodunk.com) (2010 US Census)

					Avg Annual Compounded Change		
	1990	2000	2010	2020	1990-00	2000-10	2010-20
<b>Residential Population (thousands)</b>							
Stearns County	119.7	133.7	150.8	169.3	1.2%	1.3%	1.2%
St Cloud MSA	150.1	168.1	189.3	214.6	1.2%	1.3%	1.3%
Minnesota	4389.9	4933.7	5310.6	5860.2	1.2%	0.8%	1.0%
United States	249,622.80	282,162.40	309,349.70	341,069.50	1.3%	1.0%	1.0%
<b>Per-Capita Personal Income (dollars)</b>							
Stearns County	\$21,325	\$28,220	\$31,962	\$37,256	3.2%	1.3%	1.7%
St Cloud MSA	21,114	28,386	31,798	36,887	3.4%	1.2%	1.6%
Minnesota	27,319	36,311	39,015	44,553	3.3%	0.7%	1.4%
United States	26,826	33,771	36,700	41,366	2.6%	0.9%	1.3%
<b>W&amp;P Wealth Index</b>							
Stearns County	83.5	88.49	89.86	92.24	0.6%	0.2%	0.3%
St Cloud MSA	82.76	88.82	89.23	91.29	0.7%	0.0%	0.2%
Minnesota	102.18	108.81	106.12	107.29	0.6%	-0.2%	0.1%
United States	100	100	100	100	0.0%	0.0%	0.0%
<b>F&amp;B Sales (millions of dollars)</b>							
Stearns County	\$298	\$242	\$264	\$304	-1.9%	0.9%	1.5%
St Cloud MSA	336	312	363	424	-0.7%	1.6%	1.7%
Minnesota	8,846	8,913	9,439	10,583	0.1%	0.6%	1.2%
United States	257,805	341,525	406,372	498,870	3.2%	1.9%	2.3%
<b>Total Retail Sales (millions of dollars)</b>							
Stearns County	\$2,649	\$2,372	\$2,608	\$3,352	-1.0%	1.0%	2.9%
St Cloud MSA	2,797	2,759	3,102	4,017	-0.1%	1.2%	2.9%
Minnesota	49,421	70,356	73,125	92,148	4.2%	0.4%	2.6%
United States	\$2,620,710	\$3,613,909	\$3,818,137	\$4,810,490	3.8%	0.6%	2.6%

Source: Woods & Poole Economics, Inc., 2012

## Workforce Characteristics

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE); wholesale trade; and services produce a considerable number of visitors who are not particularly rate sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities (TCPU) employers can also be important, depending on the company type.

The following table sets forth the St Cloud MSA workforce distribution by business sector in 1990, 2000, and 2010, as well as a forecast for 2020.

INDUSTRY	1990 % of Total		2000 % of Total		2010 % of Total		2020 % of Total	
FARM	119.33	4.72%	75.735	1.98%	145.455	3.08%	212.42	3.36%
FORESTRY, FISHING, RELATED ACTIVITIES & OTHER	4.441	0.18%	8.204	0.21%	10.42	0.22%	12.078	0.19%
MINING	4.226	0.17%	6.028	0.16%	7.593	0.16%	9.963	0.16%
UTILITIES	7.025	0.28%	7.762	0.20%	20.919	0.44%	25.881	0.41%
CONSTRUCTION	216.659	8.56%	315.24	8.26%	341.338	7.23%	452.193	7.16%
MANUFACTURING	470.744	18.61%	770.114	20.17%	757.201	16.03%	972.075	15.39%
WHOLESALE TRADE	129.787	5.13%	232.709	6.10%	199.261	4.22%	280.854	4.45%
RETAIL TRADE	289.915	11.46%	404.932	10.61%	355.213	7.52%	410.471	6.50%
<b>TOTAL TRADE</b>	<b>419.702</b>	<b>16.59%</b>	<b>637.641</b>	<b>16.70%</b>	<b>554.474</b>	<b>11.74%</b>	<b>691.325</b>	<b>10.95%</b>
TRANSPORTATION & WAREHOUSING	103.651	4.10%	116.881	3.06%	156.402	3.31%	222.878	3.53%
INFORMATION	32.649	1.29%	63.911	1.67%	128.82	2.73%	163.473	2.59%
FINANCE & INSURANCE	63.553	2.51%	135.979	3.56%	193.029	4.09%	271.241	4.30%
REAL ESTATE, RENTAL & LEASE	14.548	0.58%	70.53	1.85%	60.496	1.28%	83.051	1.32%
PROFESSIONAL & TECHNICAL SERVICES	59.381	2.35%	117.765	3.08%	148.293	3.14%	211.469	3.35%
MANAGEMENT of COMPANIES & ENTERPRISES	13.836	0.55%	21.969	0.58%	73.436	1.55%	126.335	2.00%
ADMINISTRATIVE & WASTE SERVICES	45.698	1.81%	92.772	2.43%	143.441	3.04%	226.581	3.59%
EDUCATIONAL SERVICES	43.244	1.71%	76.192	2.00%	105.501	2.23%	146.444	2.32%
HEALTH CARE & SOCIAL ASSISTANCE	265.154	10.48%	430.732	11.28%	777.51	16.46%	1108.328	17.55%
ARTS, ENTERTAINMENT & RECREATION	8.237	0.33%	14.399	0.38%	23.884	0.51%	27.047	0.43%
ACCOMMODATION & FOOD SERVICES	60.412	2.39%	92.332	2.42%	110.379	2.34%	151.072	2.39%
OTHER SERVICES, EXCEPT PUBLIC ADMINISTRATION	119.826	4.74%	181.616	4.76%	163.241	3.46%	232.461	3.68%
<b>TOTAL SERVICES</b>	<b>615.788</b>	<b>24.34%</b>	<b>1027.777</b>	<b>26.92%</b>	<b>1545.685</b>	<b>32.72%</b>	<b>2229.737</b>	<b>35.31%</b>
FEDERAL CIVILIAN GOVERNMENT	97.005	3.83%	113.832	2.98%	187.809	3.98%	245.7	3.89%
FEDERAL MILITARY	12.692	0.50%	11.233	0.29%	32.363	0.69%	39.405	0.62%
STATE and LOCAL GOVERNMENT	348.023	13.76%	456.927	11.97%	581.565	12.31%	683.224	10.82%
<b>TOTAL GOVERNMENT</b>	<b>457.72</b>	<b>18.09%</b>	<b>581.992</b>	<b>15.24%</b>	<b>801.737</b>	<b>16.97%</b>	<b>968.329</b>	<b>15.33%</b>
<b>TOTAL</b>	<b>2530.036</b>	<b>100.00%</b>	<b>3817.794</b>	<b>100.00%</b>	<b>4723.569</b>	<b>100.00%</b>	<b>6314.644</b>	<b>100.00%</b>
* in millions								
Source: Woods & Poole Economics, Inc., 2012								

## Business Development

According to local business leaders there are no current prospects for new significant business developments in the St. Joseph area. In the St. Cloud / Sartell market new medical facilities are driving the development of new lodging facilities in the area. Specifics have not been publicly announced yet, but should be coming shortly. According to the same area leaders, they are telling us that the corporate market is the lowest demand generator for the area.

## Major Business and Industry

The leading industries in St. Joseph, Minnesota are: Educational services (19%); Retail trade (16%); Manufacturing (14%); Transportation and warehousing (10%); Public administration (8%); Construction (8%); Other services, except public administration (6%).<sup>2</sup>

Among the most common occupations in St. Joseph are: Electrical equipment mechanics and other installation, maintenance, and repair occupations including supervisors (6%); Other production occupations including supervisors (5%); Retail sales workers except cashiers (5%); Material recording, scheduling, dispatching, and distributing workers (5%); Carpenters (4%); Laborers and material movers, hand (4%); and Metal workers and plastic workers (4%).

Providing additional context for understanding the nature of the regional economy, the following table presents a list of the major employers in the subject property’s market of St Joseph/St Cloud.

Top Ten Employers <sup>3</sup>	
Name	# of employees
St Cloud Hospital/CentraCare Health System	6,949
Coborn’s Inc	6,800
State of Minnesota ( <i>St. Cloud State Univ., St Cloud Technical &amp; Community College, St. Cloud Correctional Facility and other state dept. offices</i> )	2,938
St Cloud Area School District	1,650
Veterans Affairs Medical Center	1,513
Gold’n Plump Poultry	1,500
Electrolux North America	1,300
College of St Benedicts / St John’s University	998
Stearns County	820
Nahan Printing	724

The College of St Benedict and St John’s University is the largest employer in the City of St Joseph.

According to the St. Cloud Area Quarterly Business Report, forty-nine percent of 74 surveyed firms experienced improved business activity over the past three months, while 19 percent reported decreased activity. Nearly one-quarter of firms indicate increased difficulty attracting qualified workers, and 31 percent increased capital expenditures. Private sector employment gains in the St. Cloud area were fairly broad-based through January, with strong growth recorded in the local professional/ business services, education/ health and **leisure/hospitality** sectors.<sup>4</sup>

<sup>2</sup> www.city-data.com

<sup>3</sup> St Cloud Convention and Visitors Bureau 2013

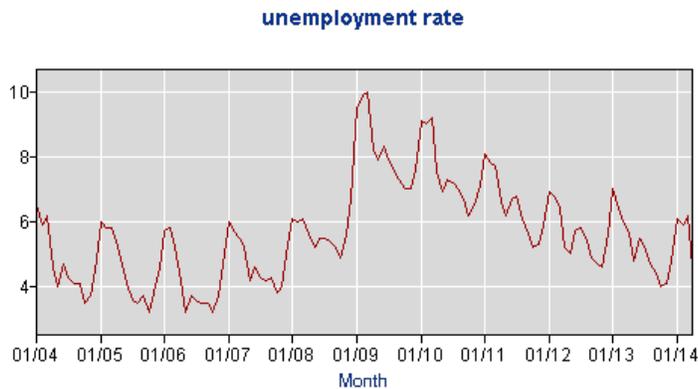
<sup>4</sup> The St. Cloud Area Quarterly Business Report, March 2014.

## Unemployment Statistics

The following table presents historical unemployment rates for the proposed subject property's market area.

UNEMPLOYMENT RATES <sup>5</sup>				
Year	City	MSA	State	U.S.
2004	n/a	4.7	4.6	5.5
2005	4.4	4.5	4.2	5.1
2006	4.1	4.2	4.1	4.6
2007	4.7	4.8	4.7	4.6
2008	5.5	5.6	5.5	5.8
2009	8.0	8.2	8.0	9.3
2010	7.1	7.5	7.4	9.6
2011	6.3	6.5	6.5	8.9
2012	5.5	5.6	5.6	8.6
2013	5.0	5.2	5.0	7.4

The following graph presents historical monthly unemployment rates for the St. Cloud MSA.



Source: US Bureau of Labor Statistics, Jan 2012

The unemployment rate for the U.S. fluctuated within the narrow range of 4% to 6% in the period spanning 1997 to 2007. The recession that began in late 2007, and the subsequent financial crisis in 2008, forced many businesses to downsize or cease operations. Over seven million jobs were lost between 2008 and 2009; as a result, the national unemployment rate reached new heights by the fourth quarter of 2009. Some job growth resumed in 2010, but unemployment remained relatively high for most of the year. As recovery continues, the unemployment rates have been on a steady decline since hitting a high in 2010. Unemployment in St Joseph has followed the national economic trends and continues to recover. The St Joseph/St Cloud market has a distinguishing factor as it relates to their unemployment rate. Unemployment rates drop significantly in the summer months due to being an area driven

<sup>5</sup> United States Bureau of Labor Statistics, May 2014.

strongly by the local colleges. As the students leave for the summer there are fewer people in search of jobs thus dropping the unemployment rate, as shown in the graph above.

### University Enrollment Statistics

Colleges and universities serve as a great business generator for hotel venues, with the obvious visiting parents, graduation events, conferences, visiting faculty and dignitaries. The major universities in the area include: The College of Saint Benedict (St. Joseph), Saint John's University (Collegeville), St Cloud State University (St. Cloud), St Cloud Technical and Community College (St. Cloud), College of St Scholastica (St Cloud), Rasmussen College (St. Cloud), and Minnesota School of Business (Wait Park).



**College of Saint Benedict (CSB)** in St. Joseph and **Saint John's University (SJU)** in Collegeville, are nationally recognized liberal arts colleges with a combined enrollment of 3,860 undergraduate students and 998 employees. Although these colleges reside on two separate campuses, they share academic programs and students travel between campuses on a daily basis.<sup>6</sup>

These two colleges attract over 135,000 visitors to their two campuses annually, which consist of prospective students, other campus visitors (parents, tour groups, visiting clergy/ faculty, etc.), cultural events, and summer sports camps.

**St Cloud State University** is Minnesota's second-largest public university, with more than 16,200 undergraduate students and over 1,600 graduate students, is located in downtown St Cloud, along the west bank of the Mississippi River. The university offers more than 200 majors, minors and pre-professional programs and more than 60 programs in their School of Graduate Studies.<sup>7</sup>



**St Cloud Technical and Community College** is an accredited school with 40 major programs of study and services approximately 6,300 students each year.<sup>8</sup>

**College of St Scholastica** is an independent private college offering sixteen undergraduate and graduate degree programs in Business & Technology, Education, Health Sciences, and Nursing and located five miles north of downtown St. Cloud.<sup>9</sup>



**Rasmussen College** specializes in career-focused training designed to provide maximum job placement potential in a short amount of time. A Rasmussen education is technology-intensive, focused, and innovative.<sup>10</sup>

<sup>6</sup> [www.csbsju.edu](http://www.csbsju.edu)

<sup>7</sup> [www.stcloudstate.edu](http://www.stcloudstate.edu)

<sup>8</sup> [www.sctcc.edu](http://www.sctcc.edu)

<sup>9</sup> [www.css.edu](http://www.css.edu)

<sup>10</sup> [www.rasmussen.edu](http://www.rasmussen.edu)

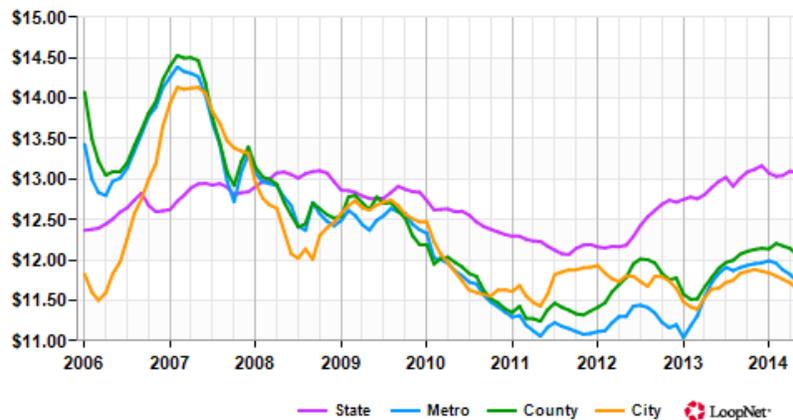
**Minnesota School of Business** offers more than 40 university degree programs in business, technology, creative media, health and legal science.<sup>11</sup>



## Office Space Statistics

Trends in occupied office space are typically among the most reliable indicators of lodging demand, because firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Thus, trends that cause changes in vacancy rates or in the amount of occupied office space may have a proportional impact on commercial lodging demand, and a less direct effect on meeting demand. The following table details office space statistics for the pertinent area.

Asking Rent Office for Lease St. Cloud, MN (\$/SF/Year)



According to LoopNet.com, the average asking rental rate per square foot per year for Office properties in St. Cloud, MN as of May 2014 was \$11.64. This represents a decrease of -1.4% compared to the prior three months, with an increase of +0.0% year-over-year. County-wide, average rental rates in St. Cloud are -1.1% lower at \$12.07 per square foot per year for Office properties currently for lease.<sup>12</sup>

## Airport Traffic



Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizeable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

The St Cloud Regional Airport (STC) located on the east side of town and fourteen miles south east of St Joseph. Mesaba Airlines, operating flights for Delta Connection, ended service to Minneapolis/St Paul International Airport on December 31, 2009. The St Cloud

<sup>11</sup> [www.msoe.edu](http://www.msoe.edu)

<sup>12</sup> [www.loopnet.com](http://www.loopnet.com), May 2014.

Regional Airport went without scheduled commercial airline service for almost three years before Allegiant Air began service to/from Phoenix, Arizona on December 15, 2012. They currently service Chicago O’Hare (the second busiest airport in the nation) from the St Cloud Airport with two flights per day.

<b>ST CLOUD REGIONAL AIRPORT ANNUAL PASSENGER STATISTICS<sup>13</sup></b>	
<b>Year</b>	<b>Total Enplanements</b>
2013	# will be released by the FAA in July
2012	973
2011	165
2010	1,198
2009	14,294
2008	20,161

The Minneapolis / St. Paul International Airport (MSP) is 85 miles southeast of St Joseph and the closest full-service international airport to St. Joseph. MSP is a major hub for Delta Airlines and is the sixteenth busiest airport in the nation with approximately sixteen million enplanements per year.



<b>MINNEAPOLIS ST PAUL INTERNATIONAL AIRPORT ANNUAL PASSENGER STATISTICS<sup>14</sup></b>	
<b>Year</b>	<b>Total Enplanements</b>
2013	16,935,134
2012	16,570,164
2011	16,541,281
2010	16,267,066
2009	16,104,719
2008	16,955,453

### Tourist Attractions

The market benefits from a variety of tourist and leisure attractions in the area. Though the area is not necessarily known as a “vacation/tourist destination” and it doesn’t have a lot of corporate business driving the market, the biggest attraction to this area is that it is the “center of the state” and it makes it an ideal location for amateur/ youth athletics. The multitude of universities in the area, with their various sporting venues, makes it an ideal location for youth sporting events, tournaments, competitions and camps. This market is their bread and butter and their bookings in this market are far out pacing previous years.

<sup>13</sup> Federal Aviation Administration

<sup>14</sup> [www.mspairport.com/about-msp/statistics](http://www.mspairport.com/about-msp/statistics). June 2014.

The College of St Benedicts Performing Arts programming plays host to at least 28 high quality events a year. From fall of 2013 through May of this year they had 26 events alone. The college is well suited for growth in this market with five theatres and dance studios. They also have great visual arts programming.

The St Joseph and St Cloud area offers multiple festivals, sporting events and music events. The Lake Wobegon Trail is a 46-mile long hike and bike pathway that extends from St Joseph to Osakis then connects to the Central Lakes Trail all the way to Fergus Falls and will eventually connect to the Paul Bunyan Trail.

St Cloud is situated along the banks of the Sauk and Mississippi Rivers and home to the area’s River’s Edge Convention Center which includes 180,000 square feet of space, 19 meeting rooms, 60,000 square feet of continuous exhibit space and a 16,000 square foot ballroom. The River’s Edge Convention Center is a very big demand generator for the area, as almost half of the city’s room nights are the result of the events taking place at the Convention Center.

Major Attractions
Lake Wobegon Trail
Hill Museum & Manuscript Library (The Saint John’s Bible)
River’s Edge Convention Center
Stearns History Museum
St Cloud Symphony Orchestra
St John’s Boy Choir
Sand Prairie Wildlife Management & Environmental Education Area
College of St Benedicts Fine Arts Programming
MN Amateur Baseball Hall of Fame
Munsinger Clemens Botanical Society

Major Festivals / Events		
Waite Park Family Fun Fest	June	Waite Park
Granite City Days	June	St Cloud
Joetown Rocks Festival	July	St Joseph
Halfway Jam	July	Royalton
Tour of Saints	July	St Joseph
Music Fest	August	St Cloud
Benton County Fair	August	Sauk Rapids
St Cloud Pride Fest	September	St Cloud
Millstream Arts Festival	September	St Joseph
St John’s Homecoming Weekend	October	Collegeville
Festival of Lights	December	St Cloud

## Conclusion

There is a wide variety of economic indicators for the pertinent market area. Our market interviews and research revealed that although the area lacks significant corporate business as it relates to generating hotel stays, the market benefits from a well-established, tour group, convention, and amateur athletics markets. The educational sector is strong and continues to remain a cornerstone of this market.

Our analysis of the outlook for this specific market also considers the broader context of the national economy. The U.S. economy entered a recession in December of 2007, initially caused by the subprime mortgage crisis that led to the collapse of the housing bubble. The recession worsened in the fall of 2008 when the financial crisis upset the world economy. The U.S. fell into economic decline for most of 2009, but some positive trends began to emerge mid-year. The nation's gross domestic product and corporate profits began to grow again in the third quarter of 2009 and momentum has continued to build through today.

The area market of St Joseph appears to be following suit with steady to low growth with the new Army Reserve Training Center opening that will bring additional new jobs to the area.

## SUPPLY AND DEMAND ANALYSIS

In the lodging industry, price varies directly, but not proportionately, with demand and inversely, but not proportionately, with supply. Supply is measured by the number of guestrooms available, and demand is measured by the number of rooms occupied; the net effect of supply and demand towards equilibrium results in a prevailing price, or average rate. The purpose of this section is to investigate current supply and demand trends as indicated by the current competitive market, and set forth a basis for the projection of future supply and demand growth.

The 44-room proposed hotel will be located at the intersection of Interstate 94 and County Road 2 in St Joseph, Minnesota. The greater market surrounding the proposed subject property (approximately 12 mile radius) offers 24 hotels and motels, spanning 1,789 rooms. The two largest hotels are the 257-room Holiday Inn and Suites and the 229-room Best Western Plus, both in downtown St. Cloud.

Of this larger supply set, the proposed subject property is expected to compete with a smaller set of hotels based on various factors. These factors include location, price point, product quality, length of stay (such as an extended-stay focus vs. non-extended-stay focus), room type (all-suite vs. standard), hotel age, or brand, among other factors. Based upon these factors we expect the proposed Hotel's primary competitors to be the Super 8 St Joseph, Fairfield Inn and Suites, Country Inn and Suites, Days Inn, Super 8 St Cloud, Holiday Inn Hotel and Suites, Quality Inn, Homewood Suites by Hilton, Hampton Inn and Suites, AmericInn Sartell, Holiday Inn Express, and AmericInn St Cloud.

## National Overview

The proposed property's local lodging market is most directly affected by the supply and demand trends within the immediate area. However, individual markets are also influenced by conditions in the national lodging market. We have reviewed national lodging trends to provide a background for the forecast of the supply and demand for the proposed subject property's competitive set.

Smith Travel Research (STR) is an independent research firm that compiles data on the lodging industry; its published data is routinely used by typical hotel buyers. The U.S. hotel industry has fully recovered on a revenue basis, topping at \$163 billion in 2013 and is only a matter of time before profits, which were reported at \$60 billion follow suit.<sup>15</sup>



The data in the above chart only calculates properties reporting to STR.

<sup>15</sup> Hotel News Now, "US Hotel Profits on the Rise," June 2014.

Profit growth at this point in the cycle is being sparked by rate growth rather than occupancy, so everything is being driven directly to the bottom line, said Robert Mandelbaum, director of research information services at PKF. According to the President of PKF, Mark Woodworth, he believes looking forward; hotel profits should continue to grow. Based upon history and the depth of the downturn in 2009, this upturn could last seven to ten years, yet operators need to keep a watchful eye over their properties and expenses. Profit growth at this point in the cycle is being sparked by rate growth rather than occupancy. Strengthening occupancy levels should permit hotels to further reduce and eventually eliminate the deep discounts implemented in response to the recession. The net result will be accelerated rate growth as occupancy nears stabilization.

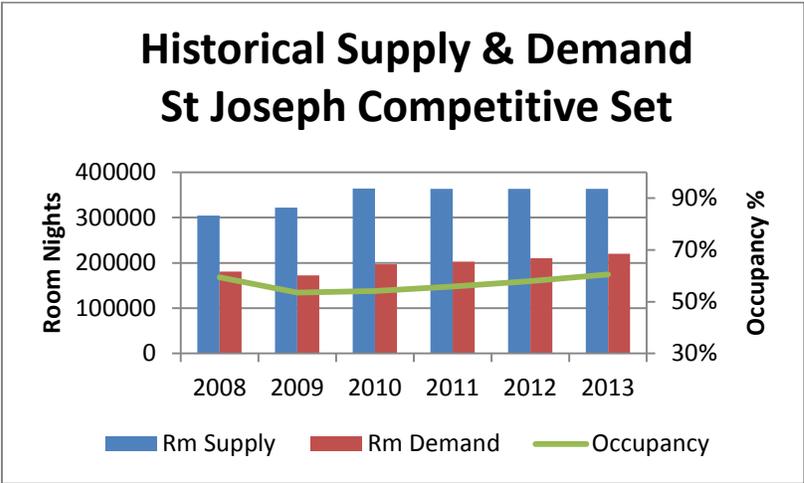
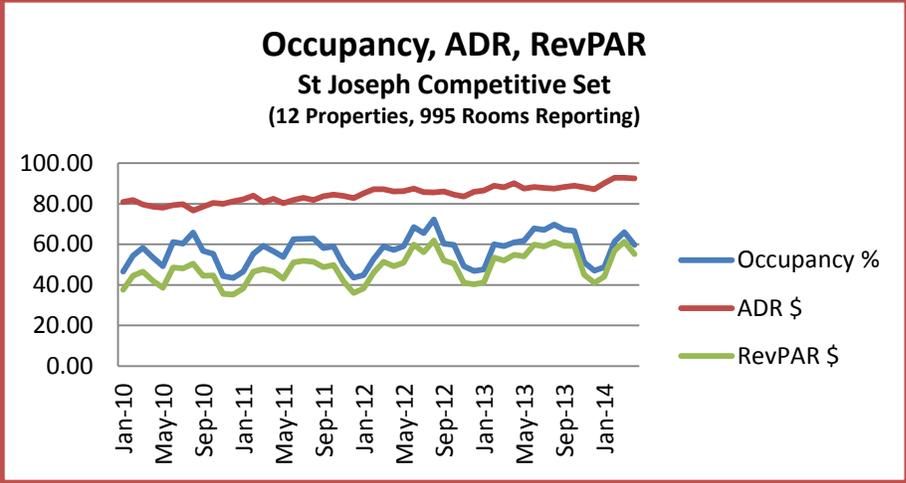
Americans are forecast to average more than two summer trips of at least two nights away from home this year. The bulk of that travel is expected to be by car, with 84% saying they will drive for a summer vacation.<sup>16</sup>

### Historical Supply and Demand Data

STR has compiled historical supply and demand data for a group of hotels considered applicable to this analysis for the proposed subject property. This information is presented in the following table, along with the occupancy, average rate, and room revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well room revenue is being maximized.

<b>Competitive Set Name of Hotel (St Joseph / St Cloud Market)</b>	<b>Aff Date</b>	<b>Open Date</b>	<b>Rooms</b>
Country Inn & Suites, St Cloud West	May 1996	May 1996	63
Fairfield Inn & Suites St Cloud	Apr 1992	Apr 1992	54
Holiday Inn Express St Cloud	May 1999	May 1999	113
AmericInn St Cloud	Feb 1997	Feb 1997	45
Days Inn St Cloud	Oct 2004	Jun 1987	87
Holiday Inn & Suites St Cloud	May 1977	May 1977	257
Super 8 St Cloud	Oct 1984	Oct 1984	68
Quality Inn St Cloud	Feb 2009	Jun 1987	63
Homewood Suites St Cloud	Sep 2009	Sep 2009	87
Hampton Inn Suites St Cloud	Oct 2009	Oct 2009	77
Super 8 St Joseph	Dec 1986	Dec 1986	27
AmericInn Sartell	Aug 1999	Aug 1999	54
<b>Total</b>			995

<sup>16</sup> Worgull, Samantha, "Summer Forecast," [www.hotelnewsnow.com](http://www.hotelnewsnow.com), June 2014.



It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample and not every property reports data in a consistent and timely manner; these factors can influence the overall quality of the information by skewing the results. These inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provides the best indication of collective growth or decline in existing supply and demand; thus, these trends have been considered in our analysis.

The data reflects an overall market occupancy level of 60.5% in 2013, compared to 58.0% for 2012. Local college and universities in the area, as well as amateur athletic groups, represent the primary sources of demand for this market. Corporate midweek market is very flat to no growth. Supply growth has been relatively flat in this market over the past four years and demand, with the exception from 2009 to 2010 as the market rebounded, has remained relatively steady with a consistent 3 – 4% growth each year.

The data reflects an overall market average rate level of \$88.14 in 2013, which compares to \$85.97 for 2012. The entrance of new high quality hotels and renovations to existing hotels allowed local hotel operators to increase average rates on a consistent basis. The average rate continued to increase even through the nationally felt economic downturn, though at a

significantly slower pace than in recent years. Since 2011, the average rates have been increasing 2.5 – 4% each year. The latest year-to-date data indicate that the average rate in this market is experiencing a relatively strong rebound from the recent recession. These occupancy and average rate trends resulted in a RevPAR level of \$53.35 in 2013 which is expected to increase in 2014.

## Seasonality

Monthly occupancy and average rate trends for the selected Competitive Set are presented in the following tables. The Competitive Set chosen was the best market sample to capture market share across the hotels in St Cloud’s west side and the I-94 corridor. Our research showed that even though hotels were along the I-94 corridor they still pulled business off Highway 10 and Highway 15.

MONTHLY OCCUPANCY TRENDS (%)								
Month	2008	2009	2010	2011	2012	2013	2014	AVG.
January	53.0	49.9	46.5	46.5	44.9	47.7	48.8	48.0
February	58.5	52.8	54.4	55.4	52.8	60.0	61.3	56.5
March	58.2	55.3	58.3	59.3	58.9	59.1	66.0	59.4
April	61.5	54.0	53.5	56.6	57.2	61.0	59.7	57.6
May	59.8	50.9	49.2	53.7	59.1	61.8		55.8
June	62.8	59.6	61.2	62.5	68.5	67.9		63.9
July	63.6	60.5	60.3	62.7	65.5	67.1		63.3
August	74.1	62.3	65.9	62.9	72.3	69.8		67.9
September	65.2	55.1	56.8	58.2	60.4	67.3		60.4
October	63.7	56.2	55.4	59.0	59.8	66.6		60.0
November	49.4	46.5	44.4	49.8	49.2	51.1		48.4
December	43.5	41.7	43.4	43.5	46.8	47.1		44.3
<b>Annual Occupancy</b>	<b>59.4</b>	<b>53.5</b>	<b>54.1</b>	<b>55.8</b>	<b>58.0</b>	<b>60.5</b>		<b>56.9</b>

\*Occupancies above 60% are highlighted.

MONTHLY AVERAGE RATE TRENDS (\$)								
Month	2008	2009	2010	2011	2012	2013	2014	AVG.
January	76.51	81.24	80.95	82.16	85.17	86.62	90.18	83.39
February	79.05	82.33	81.85	84.11	87.14	88.99	92.89	85.54
March	80.45	79.78	79.68	80.69	87.23	88.14	92.83	84.50
April	77.03	78.54	78.54	82.45	86.13	90.14	92.48	84.04
May	72.44	77.86	78.17	80.32	86.25	87.53		80.92
June	77.01	77.85	79.39	81.81	87.45	88.22		82.42
July	76.67	76.90	79.86	82.91	85.78	87.80		82.06
August	79.09	76.78	76.72	81.82	85.68	87.53		81.58
September	77.98	76.35	78.50	83.68	86.17	88.22		82.17
October	76.09	77.94	80.43	84.51	84.56	88.85		82.36
November	77.18	77.43	80.05	83.96	83.55	88.17		81.96
December	79.30	77.18	81.18	82.83	86.00	87.16		82.51
<b>Annual ADR</b>	<b>77.37</b>	<b>78.25</b>	<b>79.50</b>	<b>82.57</b>	<b>85.97</b>	<b>88.14</b>		<b>82.28</b>

\*The highest average rate is highlighted for each year.

The market area is somewhat seasonal in nature. The highest occupancy months are June through October, with occupancy levels typically exceeding 60% and slowly approaching 70%. Demand drops significantly in the holiday and winter months of November, December and January. Surprisingly, average rate levels have not historically followed similar trends to those of occupancy. February, March and April consistently draw higher rates and August draws some of the lowest rates, even though it is consistently the highest demand month. February and March may be the result of bad winter weather and driving conditions that cause the properties to offer rack rates during these times due to freeway closures and winter storms. Another interesting discovery is that rates have very little fluctuation throughout the year, fluctuating on average about \$4.50.

### Demand Patterns

According to Smith Travel Research, a review of the trends in occupancy, average rate, and RevPAR by the night of the week reflects that peak days of the week in the St Joseph / St Cloud market are Friday and Saturday at 70.0 and 76.3% respectively. Average rates seem to follow the occupancy trend as it pertains to day of the week with \$96.45 on Fridays and \$99.55 on Saturdays. This data was confirmed by our visits and interviews in the St Joseph area.

In most markets, business travel, including individual commercial travelers and corporate groups, is the predominant source of demand on Monday through Thursday nights. Leisure travelers and non-business-related groups generate a majority of demand on Friday and Saturday nights. According to the St Cloud Convention and Visitors Bureau, the main source of demand in this market is amateur athletics due to the city's central location within the state and their numerous sporting venues at all area colleges. After Friday and Saturday, Tuesday and Thursday show the next highest demand in the area with approximately 66% occupancy which leads us to believe there is still a fair share of commercial travelers and corporate groups staying in the area. The majority of the corporate businesses are in St Cloud which will affect the chances of pulling that business to St Joseph, thus the need to build the hotel at the interstate location, so it is able to pull business from the I-94 traveler to offset the lost corporate business.

The College of St Benedict serves as a large demand generator for its social calendar alone. They can host dinners of up to 400 people. They have an extensive wedding business mid-May through late-fall. They also provide housing on campus at a cost. Another source is the summer conference business they play host to, along with high school banquets and events. St John's University also hosts several weddings and events each year. They are both run by CSB's Events and Catering Department

### Supply

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified several properties that are expected to be primarily competitive with the proposed subject property. If applicable, additional lodging facilities may be judged to be only secondarily competitive; although the facilities, rate structures, or market orientations of these hotels prevent their inclusion among

the primarily competitive supply, they are expected to compete with the proposed property to some extent.

The following table represents the hotels in the St Joseph / West St Cloud market that we would consider to be the primary competitors for the Proposed Hotel. The Abbey Guesthouse at St John’s University offers accommodations to the public but is not considered a hotel so does not report to Smith Travel Research and has not been included on the list. We still feel it is worthy of noting due to the fact that they have thirty rooms. Another thing to take into consideration is the dorm rentals as competition during the summer months for camps and events at the respective colleges. They will compete with the hotel for demand in the summer. The Super 8 in St Joseph is the only other hotel in St. Joseph (highlighted in blue). The properties highlighted in orange are in Sartell or on the west side of St. Cloud. Though there is one other property, a Motel 6, in Waite Park (the next closest to St Joseph), its reputation, condition and quality have led us to remove it as a competitor. The final two (in white) are the only other properties directly off the Interstate. According to their respective franchises and the St Cloud Convention and Visitors Bureau, they draw the majority of their business directly from interstate travelers and rarely participate in city-wide room blocks. If the proposed property were to be built in town at the County Road 75 location, we would recommend removing these two properties from the competitive set.

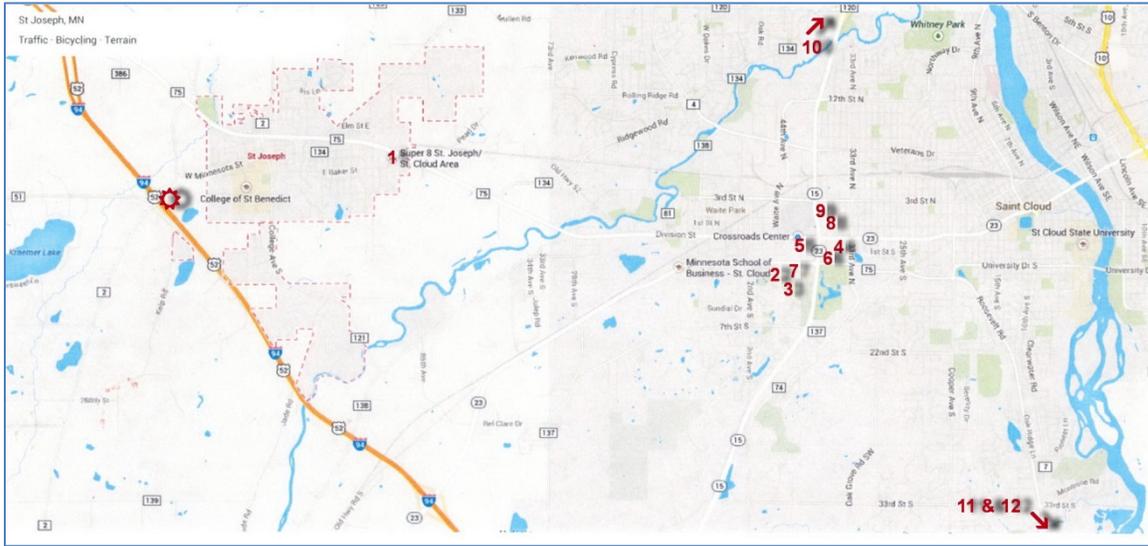
These twelve competitive hotels represent 995 rooms in the market. The proposed hotel with 44 rooms will represent 4.2% share of this current competitive set. According to the St Cloud Convention and Visitors Bureau they receive numerous requests for hotel options closer to the College of Saint Benedict and Saint John’s University leading us to believe the hotel would be able to draw its fair share of the market and remain competitive with the St Cloud hotels and bigger brand names.

***St Joseph / St Cloud Primary Competitor Hotels***

	<b>Hotel</b>	<b># Rooms</b>
1	Super 8, St Joseph	27
2	Fairfield Inn & Suites, St Cloud	54
3	Country Inn & Suites, St. Cloud	63
4	Days Inn, St Cloud	87
5	Super 8, St Cloud	68
6	Holiday Inn Hotel & Suites	257
7	Quality Inn	63
8	Homewood Suites by Hilton, St Cloud	87
9	Hampton Inn & Suites, St Cloud	77
10	AmericInn, Sartell	54
11	Holiday Inn Express, St Cloud (I-94)	113
12	AmericInn, St Cloud (I-94)	45
	<b>Total Rooms</b>	<b>995</b>

*Note: Blue highlighted property is located in St. Joseph; Orange highlighted properties are located in the surrounding communities of Sartell and the west side of St. Cloud; the white ones are located directly off I-94 with visibility from the interstate.*

The following map illustrates the locations of the proposed subject property and its future primary competitors.



**Proposed Property**

- |                        |                            |                             |
|------------------------|----------------------------|-----------------------------|
| 1 Super 8 St Joseph    | 5 Super 8 St Cloud         | 9 Hampton Inn St Cloud      |
| 2 Fairfield St Cloud   | 6 Holiday Inn St Cloud     | 10 AmericInn Sartell        |
| 3 Country Inn St Cloud | 7 Quality Inn St Cloud     | 11 Holiday Inn Exp St Cloud |
| 4 Days Inn St Cloud    | 8 Homewood Suites St Cloud | 12 AmericInn St Cloud       |

### Primary Competitors

Our survey of the primarily competitive hotels in the local market shows a range of lodging types and facilities. Each primary competitor was inspected and evaluated. Descriptions of our findings are presented below.

#### Primary Competitor #1 – Super 8, St Joseph

The Super 8 in St. Joseph is on Country Road 75 on the east end of town near the intersection of 20<sup>th</sup> Avenue. With only 27 guestrooms, it is the smallest hotel in the competitive set; however it is the only hotel currently in St Joseph. It is across the street from the new Army Reserve Center and the American Burger Bar.



#### Primary Competitor #2 – Fairfield Inn and Suites, St Cloud



The Fairfield Inn and Suites by Marriott is located on the west end of St Cloud on 2<sup>nd</sup> Street near County Road 15. The 54-room hotel was recently renovated and offers complimentary breakfast, fitness room, indoor pool, business center, on-site laundry, vending and sundry shop. Plus they have the added benefit of being under the Marriott brand and affiliated with the Marriott Rewards program, making it difficult to lure Rewards members away. This property is at the top end for ADR in this competitive set.

*Primary Competitor #3 – Country Inn and Suites, St Cloud*

The Country Inn and Suites by Carlson is located on Park Avenue near County Road 15. Their 63 room property offers an indoor pool, complimentary breakfast, round-the-clock chocolate chip cookies, business center and fitness room. With a good reputation and strong brand behind them, they are also at the top end for ADR in this competitive set.



*Primary Competitor #4 – Days Inn, St Cloud*



The Days Inn is located in St Cloud off of 37<sup>th</sup> Avenue and County Road 75. The property features 87 guestrooms with complimentary breakfast and an indoor pool with waterslide. Though a Wyndham property, which could draw loyalty guests, it has poor TripAdvisor reviews ultimately affecting its reputation.

*Primary Competitor #5 – Super 8, St Cloud*

Located on Park Avenue near the intersection of County Roads 75 and 15, the Super 8 offers 68 guestrooms and few other amenities. It is another Wyndham property with poor TripAdvisor reviews.



*Primary Competitor #6 – Holiday Inn & Suites, St Cloud*



The Holiday Inn and Suites is a full-service hotel and the largest hotel in the market and competitive set with 257 guestrooms and 11,000 square feet of meeting space that can accommodate up to 700 people. Their Holidome features two basketball courts, two volleyball courts, three pools, two hot tubs and an arcade. They offer local complimentary shuttle service and a full-service restaurant and bar. Due to its centralized location in downtown St Cloud it is a prime hotel for the convention groups that come to town. Probably a least likely competitor for the proposed property, it was included in the set due to its strong presence in the marketplace and a strong rate driver for the area.

*Primary Competitor #7 – Quality Inn, St Cloud*

The Quality Inn is a 63-room hotel on the west side of St Cloud at the intersection of County Roads 15 and 23. They offer a complimentary deluxe continental breakfast, exercise facility, indoor pool, laundry facilities and all rooms are equipped with refrigerators and microwaves. They also have a national chain restaurant on site. Though not as strong of a brand as some of the other hotels in the competitive mix, they have good reviews on TripAdvisor and are ranked 6<sup>th</sup> among 20 hotels in St Cloud.



*Primary Competitor #8 – Homewood Suites, St Cloud*

Homewood Suites is one of the newer properties in the St Cloud area. Built in 2009, it offers 87 extended-stay style suites with fully equipped kitchens. They offer a full hot breakfast and have meeting space to accommodate up to 50 people. As a Hilton property it has the advantage of the HHonors rewards program and strong guest loyalty. They are the top ranked hotel in St Cloud on TripAdvisor.

*Primary Competitor #9– Hampton Inn & Suites, St Cloud*

The Hampton Inn is another Hilton property, also built in 2009. It offers 77 guestrooms, meeting space to accommodate 30 people, indoor pool, complimentary hot breakfast or breakfast bag to go, sundry shop, laundry facilities, complimentary local shuttle, and snack shop.



*Primary Competitor #10 – AmericInn, Sartell*



One of two AmericInns in our competitive set, the AmericInn in Sartell has 54 rooms including suites. It is located at the intersection of Highway 15 and County Road 1 where Sartell, St. Cloud and Sauk Rapids meet. They offer a hot breakfast, indoor pool, meeting space, room service and fireplace suites. AmericInn has a strong presence in the mid-west.

*Primary Competitor #11 – Holiday Inn Express, St Cloud (I-94)*

The final two competitors would be direct competitors only if the Interstate site is chosen for the proposed property, as they are the only other two properties visible from the interstate on this stretch of I-94. The first is the Holiday Inn Express in St Cloud. It has 113 recently renovated guestrooms, a 24-hour fitness center and two indoor pools. Holiday Inn is part of InterContinental Hotels Group with one of the largest guest loyalty programs in the world.



*Primary Competitor #12– AmericInn, St Cloud (I-94)*



The final hotel in our competitive set is the second AmericInn in the area. It is located in St Cloud with direct visibility and access from I-94. They have 45 comfortable rooms and excellent reviews on TripAdvisor ranking it number 4 in St Cloud. The drawback to these two interstate properties is that they are five miles from downtown St Cloud and thus five miles from many amenities. These final two properties get the majority of their business from interstate travelers and produce quite well for each of their respective brands.

**Supply Changes**

It is important to consider any new hotels that may have an impact on the proposed subject property’s operating performance. Based upon our research and inspection, there are currently no hotel projects in the development phase in the market; however according to the St Cloud Convention and Visitors Bureau more lodging will be coming to the Sartell area with the larger medical center developments, but no official announcements have been made yet.

While we have taken reasonable steps to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect in the market will be. Depending on the outcome of current and future projects, the future operating potential of the proposed subject property may be positively or negatively affected. Future improvement in market conditions will raise the risk of increased competition. Our forthcoming forecast of stabilized occupancy and average rate is intended to reflect such risk.

## Latent Demand

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Latent demand reflects potential room night demand that has not been realized by the existing competitive supply; this type of demand can be divided into unaccommodated demand and induced demand.

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historical accommodated room night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests will be able to secure hotel rooms in the future, and it is therefore necessary to quantify this demand.

Unaccommodated demand is further indicated if the market is at all seasonal, with distinct high and low seasons; such seasonality indicates that although year-end occupancy may not average in excess of 70%, the market sells out many nights during the year.

Our interviews with market participants found that the market has the potential to sell out during large conventions and sporting events, primarily during summer months and weekends. Special events at the universities include freshman orientation, move-in and move-out, winter and spring graduations, and various other smaller events will sell out the St Joseph hotels. This potential sell-out of the market during some of these times would lead to unaccommodated demand. A portion of this demand, which is currently turned away, should return to the market concurrent with the supply increase.

Induced demand from I-94 represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities. Although increases in demand are expected in the local market, we have accounted for this growth in the determination of market segment growth rates rather than induced demand.

## Demand & Market Segmentation

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The following table presents the most recent trends for the subject hotel market as tracked by LHR. The data pertains to the competitors discussed previously in this section; performance results are estimated, rounded for the competition, and in some cases weighted if there are secondary competitors present. In this respect, the information in the table differs from the previously presented STR data and is consistent with the supply and demand analysis developed for this report.

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. According to the St Cloud CVB these segments are best broken down by Commercial/Corporate, Medical, Meetings and Conventions, and Sporting Groups and Leisure. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2014 distribution of accommodated room night demand for the competitive set as

follows. Keep in mind some businesses may overlap segments depending on the purpose of the stay (i.e. I-94 travelers could fall in Commercial/Corporate, while others will fall in Leisure).

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Commercial/Corporate	11,398	5%
Medical	45,589	20%
Meeting & Convention	79,781	35%
Sporting Groups & Leisure	91,179	40%
<b>Total</b>	<b>227,947</b>	<b>100%</b>

The market’s demand mix comprises commercial/corporate demand, with this segment representing only about 5% of the accommodated room nights in this St Cloud market. The remaining portion comprises medical at 20%, meeting and convention at 35%, with the final portion sporting group and leisure in nature, reflecting 40%.

Lodging demand is generated by highway traffic, tourist attractions, festivals and events, meeting and convention facilities, university activities, government and corporations visited by customers, employees and vendors. These demand generators produce business travelers, leisure travelers and groups for area hotels from within the local market and from certain feeder cities where travelers originate.

### Positioning & Customer Profile

The Hotel is well-positioned to target and appeal to new and returning customers, both leisure and corporate clientele. Following is an area sampling of organizations that will assist in the property’s success.

### Leisure Market

- Amateur Sporting Events
- Area Festivals & Fairs
- College Sports Tournaments
- Family Reunions
- Scenic Specialties
- College Reunions
- Tour & Travel Groups
- St Cloud CVB Leads
- Military & Social Reunions
- Convention Center Leads
- I-94 Travelers

### Corporate / Government

- Army Reserve Training Center / National Guard
- Stearns County Government
- St John’s University
- St Cloud State University
- Coborn’s
- Sterling Electric
- Nash Finch
- Electrolux North America
- City of St Joseph / St Cloud
- College of St Benedict
- CLC Corporate Lodging Accounts
- St Cloud Hospital/CentraCare
- St Cloud VA Medical Center
- St Joseph/St Cloud Public Schools
- Breny Transportation
- Nahan Printing
- St Cloud Correctional Facility
- Gold’n Plump Poultry

### Associations

- Travel Industry Associations
- State Associations
- Law Enforcement
- Agricultural Associations
- Realtors Association
- Historical Preservation Groups

### Transient

- Airline Travelers
- Loyalty Program Guests
- Third-Party Websites / Social Media
- I-94 Travelers

The subject hotel expects to do well from ancillary meetings and events at the College of St Benedict and St. John’s University. We expect travelers to book groups for sports events, weddings, social events, lectures, conferences, and concerts. The goal of the hotel should be to become one with both schools. It is expected that through yield management and good relationship building the subject hotel will be the hotel of choice for both schools.

## Commercial/Corporate Segment

Commercial/Corporate demand makes up only 5% of the total market according to the St Cloud Convention and Visitors Bureau and consists mainly of individual business people passing through the subject market or visiting area businesses, in addition to high-volume corporate accounts generated by local firms. Brand loyalty (particularly frequent traveler programs), as well as location and convenience with respect to businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as “preferred” accommodations in return for more favorable rates, which are discounted in proportion to the number of room nights produced by a commercial client. Commercial demand typically is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods.

The typical length of stay for commercial guests ranges from one to three days, and the rate of double occupancy is low. Business travelers tend not to be as price sensitive as the leisure traveler. Corporate travel in the market is mostly generated by the local companies which have

offices in the St Joseph/St Cloud market, including the College of St Benedict, St John's University, Army Reserve Training Center, Nahan Printing, Coborn's, Breny Transportation, and other various businesses located in the immediate area. Furthermore, corporate demand is also generated by events and activities at the River's Edge Convention Center in St Cloud. According to the St Cloud Convention and Visitors Bureau convention bookings are way ahead of pace. The CVB reported that they already have 45,000 hotel room nights booked for future years.

A customer loyalty program is a key amenity to the business traveler and being associated with a franchise (as compared to an independent) will provide a well-respected and highly desirable hotel image. The proposed Hotel is centrally located between the two universities (CSB/SJU) with direct access and visibility from the interstate. It would be recommended that the property maintain the most recent technology in its common areas as well as guestrooms in order to best accommodate the business traveler.

This property would be one of three interstate hotels serving the St Cloud area and the first hotel for eastbound traffic; this will result in substantial increase in the weekday commercial segment room nights. We expect this segment to be about 30% of the proposed hotels business.

Considering both current and historical trends, we project an annual change of 2% in Year 1, followed by an increase of 3% in Year 2, and further growth of 2% in Year 3. After these first three projection years, we have forecast nominal demand change rates of 1% in Year 4 and Year 5, before demand stabilizes.

### Medical Segment

Medical demand makes up about 20% of the total market according to the St Cloud Convention and Visitors Bureau. Medical would normally be classified as Commercial/Corporate but because this specific category within the segment is such a large contributing factor it has been broken out into its own segment. The segment consists of visiting doctors and nurses, medical training, and patients and their families in town for extended care. With new development at the medical center in Sartell it would be lucrative for the proposed property to tap in to this growing segment. New lodging facilities will be developed in the Sartell area but have not yet been announced, so further details are not available at this time. The medical segment is year round and is not concentrated on any specific day of the week. Extended stay facilities and nearby amenities are an added benefit for this market.

The proposed hotel should expect its portion of this business to be about 5% due to its distance from the Medical Center as well as the potential of new hotels entering that specific Sartell market.

Considering both current and historical trends, we project an annual change of 1% each year for the first five years before demand stabilizes.

## Meeting and Convention Segment

The meeting and convention market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Although there are numerous classifications within the meeting and convention segment, the primary categories considered in this analysis are corporate groups, associations, and SMERFE (social, military, ethnic, religious, fraternal, and educational) groups. Corporate groups typically meet during the business week most commonly in the spring and fall months. These groups tend to be the most profitable for hotels, as they typically pay higher rates and usually generate ancillary revenues including food, beverage and banquet revenue. SMERFE groups are typically price-sensitive and tend to meet on weekends and/or during the summer months or holiday season, when greater discounts are usually available. These groups generate limited ancillary revenues. The profile and revenue potential of associations varies depending on the group and the purpose of their meeting or event.

The majority of meeting and convention demand will be generated by events and activities at the River's Edge Convention Center, college of St Benedict and St John's University, and the Army Reserve Training Center. Sport groups would typically fall in this category, but because this is such a strong category in this market it fills a category on its own. Group demand from this source is expected to be steady in the near term.

We would expect a significant amount of business from the Army Reserve Training Center and overflow meetings from the two colleges and a minimal amount of overflow from the St Cloud convention market. This segment expected to be about 8% of the hotel's business.

Considering both current and historical trends, we project demand change rates of 2% per year in Years 1, 2 and 3 and 1% each year following.

## Sporting Groups & Leisure Segment

Sporting Groups and Leisure demand consists of individuals and families spending time in an area or passing through en route to other destinations or visiting for amateur athletics. Amateur athletics is the strongest category in this market and is well ahead of pace for future years. Travel purposes include sightseeing, recreation, or visiting friends and relatives. Leisure demand also includes room nights booked through OTA's and Internet sites such as Expedia, hotels.com, Priceline, and social media; however, leisure may not be the purpose of the stay. This demand may also include business travelers and group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. The leisure traveler tends to be the most price-sensitive. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. These peak periods represent the opposite of commercial visitation trends, underscoring the stabilizing effect of capturing weekend and summer tourist travel. Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income correlate strongly with leisure travel levels.

A number of attractions in the subject property's market area contribute to leisure demand. Leisure travel is primarily generated by events at the Universities and Colleges, including sports

and recreational events, weddings, tour groups, homecoming weekend, graduation, freshman orientation, and other visitors to the schools for various events and activities. The tour segment only produces about 1,200 room nights in the market.

Various sports events and conferences generate large blocks of room nights for hotels in the market, especially those hotels that have the meeting space to accommodate small conferences in-house, as well as meetings at the colleges. St Joseph is underutilized due to the lack of hotels in St Joseph.

The hotel’s largest market segment will be Sporting Groups and Leisure at approximately 57% of its business.

Considering both current and historical trends, we project demand change rates of 1.5% in Year 1, 2% in Year 2, and 3% in Year 3. After these first three projection years, we have forecast demand change rates of 1% in Year 4 and 1% in Year 5.

## Conclusion

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of the local area, four segments were defined as representing the subject property’s lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. Based on our findings, we forecast the following business mix and average annual compounded market segment growth rates.

Market Segment	Property Business Mix	Annual Growth Rate				
		Year 1	Year 2	Year 3	Year 4	Year 5
Commercial/Corporate	30%	2%	3%	2%	1%	1%
Medical	5%	1%	1%	1%	1%	1%
Meeting & Convention	8%	2%	2%	2%	1%	1%
Sporting Groups & Leisure	57%	1.5%	2%	3%	1%	1%

The four segments with the vast majority of demand are amateur sports, meetings and conventions and medical and lastly with the lowest contribution rate of only 5% is corporate. The meetings and convention business is going to remain on or ahead of pace in future years. The same stands true for amateur sports. It continues to be a very strong market in the future because of the wide variety of venues in close proximity to the subject site. Medical is a segmentation that is on track for growth due to the new developments in North St Cloud / Sartell and needs to be monitored carefully. The medical campus market is only about 10 miles from the subject site and will see some of the business just because of the I-94 corridor access and ease of Highway 75. The corporate market will have to be worked hard; however with the immediate competition in St Joseph it is our estimation that the subject property will capture more than its fair share of the St Joseph corporate business.

## DESCRIPTION OF THE PROPOSED PROJECT

The quality of a lodging facility's physical improvements has a direct influence on marketability, attainable occupancy, and average room rate. The design and functionality of the structure can also affect operating efficiency and overall profitability.

The proposed Hotel will be a midscale, limited service containing 36 to 54 guestrooms and be two to three stories high depending on the final number of rooms. The recommended site for the proposed subject property was once farmland and an old park and ride. GTI Properties and Walz Properties, LLC own raw land adjacent to Interstate 94 and is available for immediate sale.

Concept planning for an initial development was completed in 2011 with assistance from the St. Joseph EDA and according to our research would suit the needs of the area well and accommodate the proposed hotel property.

### Development Possibilities: Interstate 94 interchange with Stearns County State Aid Highway 2<sup>17</sup>

We propose the new hotel structure be built as a 44-unit with pool, hotel and suites, has a porte-cochère for guest drop off and street level uncovered parking. The Hotel will feature a breakfast area, an indoor swimming pool (which could be marketed to the community), hot tub and workout facilities.

It is recommended that the proposed property be flagged with a brand (national franchise) such as one of our two primary examples of Cobblestone or AmericInn or their like branded options. As this decision has yet to be determined the major difference lies in the requirements of a franchise agreement. The shorter term and annual renewal agreements offer the owner more flexibility if it is deemed that the uniqueness of the market allows the property to perform similar to the brand as an independent. These brands with the exception of Best Western are smaller and slightly less known brands than the larger national and international brands. The longer term franchise agreements generally offer more regional and national advertising and marketing programs with additional brand support to the property and are many times viewed as a long term operating insurance policy. Each owner's situation varies in risk assessment and short and long term goals as it relates to the asset.



<sup>17</sup> City of St Joseph, Economic Development Administration

### *Sample Cobblestone Hotel Exteriors*



### *Sample AmericInn Exteriors*



## Site Improvements and Hotel Structure

By utilizing the Interstate site the proposed hotel will have visibility from Interstate 94 with on and off ramps from both directions from County Road 2. The hotel will have a main and pedestrian entrance accessible by County Road 2. Site improvements are expected to include free-standing signage at the main entrance point to the development, which should direct motorists to the hotel's main entrance (additional signage is also expected to be placed on the exterior of the building). We assume that all signage will adequately identify the property and meet brand standards. Planned landscaping should allow for a positive guest impression and competitive exterior appearance. Sidewalks will be present along the front entrance and around the perimeter of the hotel.

The hotel structure is expected to comprise of one single building, which should be constructed as a stick build hotel. We assume the exterior of the hotel will be finished with brick and feature stone accents on the ground level and near the main entrance. A stairway and elevator are expected to provide internal vertical transportation within the main structure. Double-paned windows will reduce noise transmission into the rooms. Heating and cooling will be provided by through-the-wall units and several large units for the public areas. The building components are expected to be normal for a hotel of this type and should meet the standards for this market. We assume that all structural components will meet local building codes and that no significant defaults will occur during construction that would impact the future operating potential of the hotel or delay its assumed opening date.

## Public Areas

The lobby should be adequate and appropriate for a similarly designed and branded hotel. The lobby walls are expected to be finished with vinyl wall covering, and the floor is expected to be finished with carpeting and marble tiles. The front desk should feature a granite or marble countertop and is expected to be installed with appropriate property management and

telephone systems. The furnishings and finishes in this space should offer an appropriate first impression, and the design of the space should lend itself to adequate efficiency. We assume that all property management and guestroom technology will be appropriately installed for the effective management of hotel operations.

*Sample Cobblestone Hotel Lobby*



*Sample AmericInn Lobby*



The hotel will offer a breakfast area with comfortable seating. If the Cobblestone brand is chosen the hotel would also offer a cocktail bar featuring beer and wine. Their size and layout should be appropriate for the hotel. The furnishings of the space are expected to be of a similar style and finish as lobby and guestroom furnishings.

*Sample Cobblestone Breakfast / Cocktail Area*



*Sample AmericInn Breakfast Area*



The hotel is expected to offer an exercise room and indoor swimming pool as recreational facilities.

Other amenities are expected to include a business center, a sundries counter integrated into the front desk, and vending areas on each hotel floor with ice machines. Overall, the supporting facilities should be appropriate for a hotel of this type, and we assume that they will meet brand standards.

## Guestrooms

The hotel is expected to feature standard and suite-style room configurations, and guestrooms should be present on all levels of the property's proposed single building. We assume the guestrooms will offer typical amenities for this product type. In addition to the standard furnishings, guestrooms should feature an iron and ironing board, a coffeemaker, and wireless, high-speed Internet access. Suites are expected to feature a larger living area and additional amenities such as a microwave and small refrigerator. Overall, the guestrooms should offer a competitive product for this neighborhood.

We assume all guestroom bathrooms will be of a standard size, with a shower-in-tub, commode, and single sink with vanity area, featuring a granite or marble countertop. The floors are expected to be finished with marble tile, and the walls will likely be finished with vinyl wall-covering. Bathrooms will feature a hairdryer and toiletries. Overall, the bathroom design should be appropriate for a product of this type.

The interior guestroom corridors should be wide and functional, permitting the easy passage of housekeeping carts. Corridor carpet, wall vinyl, signage, and lighting should be in keeping with the overall look and design of the rest of the property.

### *Sample Cobblestone Guestrooms*



### *Sample AmericInn Guestrooms*



## Back-of-the-House

The hotel is expected to be served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and a prep area to service the needs of the

breakfast and cocktail area. These spaces should be adequate for a hotel of this type and should allow for the efficient operation of the property under competent management.

### ADA and Environmental

We assume that the property will be built according to all pertinent codes and brand standards. Moreover, we assume its construction will not create any environmental hazards (such as mold) and that the property will fully comply with the Americans with Disabilities Act.

### Construction Budget

A construction budget for the proposed hotel has not been prepared by a professional cost estimator at this time. However, we estimate approximately \$65,000 per key plus land and other development costs based upon a Cobblestone or AmericInn product.

### Conclusion

Though a brand/franchise affiliation has yet to be determined; there are several appropriate brands mentioned earlier that work for this market/site. There are two brands that are appropriate for this project. The AmericInn will drive additional ADR and has superior regional name recognition, however the extended license agreement will limit the owner to react to changing market conditions. Cobblestone, a similar, but less well-known brand does offer the flexibility of one year license terms. Ultimately the ownership will need to make a decision on which route fits with their long term investment strategy.

Cobblestone was built on the premise of going after small town markets such as St Joseph that are in need of a good quality brand hotel, but not necessarily large enough to attract the bigger name franchises. Another major factor for a Cobblestone is the licensing agreement length. It is one of a few brands that afford the owner annual renewals or non-renewals without penalty. The uniqueness of the St Joseph market also lends itself well to an independent hotel product. Based upon two full years of operating results and customer data and feedback the property owner should have a good understanding on whether the future of the property is brand dependent or not. Finally the Cobblestone brand offers beer and wine service in the evenings, which until the area surrounding the hotel is developed further with additional amenities, could be a key factor to bringing in business.

Cobblestone Hotels offers a brand umbrella that focuses on filling the lodging needs of many smaller communities by introducing our upper mid-scale all new build properties. Cobblestone Hotel and Suites and Cobblestone Inn and Suites, is one of the fastest growing new build brands in the United States. Cobblestone Hotels currently offers properties in thirteen states (primarily mid-west). They opened their first property in January 2008 and since then have 43 open properties, 12 under construction and another 45 under development. They offer superb curb appeal, which gives guests a wonderful sense of arrival. These properties feature state of the art technology that allows for exceptional operation and marketing functionality. All guest rooms are enhanced with telecommunications and advanced business-oriented amenities such as high speed wireless internet access in all of the guest rooms and public spaces. Since their guest mix

includes equal parts of leisure guests and business travelers, their properties stay balanced seven days a week.

AmericInn is a limited service hotel chain founded in 1984. It competes across the mid-scale (without food and beverage) hotel segment and is dedicated to providing the best value for their guests. AmericInn is a Minnesota-based company with headquarters in the Twin Cities' suburb of Chanhassen. AmericInn currently has over 240 locations open or under development in 24 states, with over 12,500 rooms nationwide. They grew the company strictly with new construction prototypical hotels, but as of 2010, the company decided to expand its reach and offer franchises to high-quality conversion products. AmericInns are popular with business and leisure travelers alike. Their motto is to welcome each guest and treat them like a neighbor.

AmericInn offers their Easy Rewards loyalty program, which allows members to earn \$40 cash or a \$75 room voucher after just ten points (one point per night). It is the only hotel rewards program that pays out a cash reward.

Overall, the subject property should offer a well-designed, functional layout of support areas and guestrooms. All typical and market-appropriate features and amenities are anticipated to be included in the hotel's design. We assume that the building will be fully open and operational on the assumed opening date and will meet all local building codes and brand standards. Furthermore, we assume that the hotel staff will be adequately trained to allow for a successful opening and that pre-marketing efforts will have introduced the product to major local accounts at least six months in advance of the opening date.

## **PROJECTION OF OCCUPANCY AND AVERAGE RATE**

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Along with average rate results, the occupancy levels achieved by a hotel are the foundation of the property's financial performance and market value. Most of a lodging facility's other revenue sources (such as food, beverages, and telephone income) are driven by the number of guests, and many expense levels also vary with occupancy. To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a typical, professional hotel management team to achieve an optimal mix of occupancy and average rate.

### **Forecast of Subject Property's Occupancy**

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Because the supply and demand balance for the competitive market is dynamic, there is a circular relationship between factors of each hotel in the market. The performance of individual new hotels has a direct effect upon the aggregate performance of the market, and consequently upon each hotel's market segments. The same is true when the performance of existing hotels changes, either positively (following a refurbishment, for example) or negatively (when a poorly maintained or marketed hotel loses market share).

A hotel's penetration factor is calculated as its achieved market share of demand divided by its fair share of demand. Thus, if one hotel's penetration performance increases, thereby increasing its achieved market share, this leaves less demand available in the market for the other hotels to capture and the penetration performance of one or more of those other hotels consequently declines (other things remaining equal). This type of market share adjustment takes place every time there is a change in supply, or a change in the relative penetration performance of one or more hotels in the competitive market.

Our projections of occupancy performance for the subject property account for these types of adjustments to market share within the defined competitive market.

Within the commercial/corporate segment, the proposed subject hotel's penetration is positioned as the market leader by the stabilized period due to its interstate location, new facility, and convenience between the two major colleges in St Joseph and Collegeville. The proposed subject property is expected to outperform the other St Joseph hotel and will draw business away from it.

The proposed subject property's leisure penetration rate is positioned appropriately within the range of existing competitors, supported by the hotel's proposed Interstate location. This location is conveniently located at the main exit for St Joseph and between the two local college campuses. A short drive to local area restaurants, shopping and entertainment venues should allow it to realize a leisure penetration level equal to its fair share by the stabilized year.

Based on our analysis of the proposed subject property and market area, we have selected a stabilized occupancy level which is intended to reflect the anticipated results of the property over its remaining economic life, given any and all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or

low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

### Average Rate Analysis

One of the most important considerations in estimating the value of a lodging facility is a supportable forecast of its attainable average rate, which is more formally defined as the average rate per occupied room. Average rate can be calculated by dividing the total room revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast room revenue, which in turn provides the basis for estimating most other income and expense categories.

### Competitive Position

Although the average rate analysis presented here follows the occupancy projection, these two statistics are highly correlated; in reality, one cannot project occupancy without making specific assumptions regarding average rate. This relationship is best illustrated by revenue per available room (RevPAR), which reflects a property's ability to maximize room revenue.

The defined competitive market set realized an overall average rate of \$88.14 in 2013, improving from the 2012 level of \$85.97. As of April 30, the market is 4.1% ahead of pace for 2014.

We expect marketwide average rates to continue to increase in 2015 as hotels continue to rebound from discounts and deals amidst the difficult economic conditions and slow recovery of the past few years. Moreover, some hotels have recently completed major renovation projects that should lead to improved rate growth. As economic conditions improve, we anticipate strong patterns of growth in marketwide average rate in 2014 and 2015, followed by a stabilizing of growth rates.

The proposed subject property's rate position should reflect growth similar to market trends, but will achieve a higher average daily rate because of its new facility and highly visible interstate location.

A new property must establish its reputation and a client base in the market during its ramp-up period; as such, the proposed subject property's average rates in the initial operating period have been discounted to reflect this likelihood. We forecast 5.0% and 2.0% discounts to the proposed subject property's forecast room rates in the first two operating years, which would be typical for a new operation of this type.

## **PROJECTION OF INCOME AND EXPENSES**

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The forecast of income and expense is expressed in current dollars for each year. The stabilized year is intended to reflect the anticipated operating results of the property over its remaining economic life, given any or all applicable stages of build-up, plateau, and decline in the life cycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses. The five year period reflects the typical holding period of large real estate assets such as hotels. In addition, the five-year time frame provides for the stabilization of income streams and comparison of yields with alternate types of real estate. The forecasted income streams reflect the future benefits of owning specific rights in income-producing real estate.

### **Premise of Forecast**

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In 2011, occupancy gains have been considerable on a nationwide basis and, in many markets, average rates showed signs of recovery beginning in the second half of 2010. With demand recovery established, hotel operators continue to pursue price increases. Operators and investors in the market anticipate an acceleration of revenue growth thereafter as the economy and lodging market continue to gain traction in the recovery; this outlook is reflected in our forecasts. Strong RevPAR growth and continued monitoring of expenses are anticipated to positively affect the overall net operating income.

### **Fixed and Variable Component Analysis**

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LHR reports are developed on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then increased in tandem with the underlying rate of inflation, while the variable component is adjusted for a specific measure of volume such as total revenue.

Our proforma model is based upon variables that we input for each revenue and expense item for a "base year," which in this case is the year 2015. The base-year forecast sets forth the ratios to revenue, amounts per available room, or amounts per occupied room that we believe can be achieved at the stated base-year average rate and occupancy. Our input variables are derived from the comparable hotel statements. The model then calculates a base-year forecast of income and expense in these base-year dollars.

The actual forecast is derived by adjusting each year's revenue and expense by the amount fixed (the fixed expense multiplied by the inflated base-year amount) plus the variable amount (the variable expense multiplied by the inflated base-year amount) multiplied by the ratio of the projection year's occupancy to the base-year occupancy (in the case of departmental revenue and expense) or the ratio of the projection year's revenue to the base year's revenue (in the case of undistributed operating expenses). Fixed expenses remain fixed, increasing only with inflation.

Our discussion of the revenue and expense forecast in this report is based upon the output derived from the fixed and variable model. This forecast of revenue and expense is accomplished through a step-by-step approach, following the format of the *Uniform System of Accounts for the Lodging Industry*. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

### Inflation Assumption

In consideration of the most recent trends, the projections set forth previously, and our assessment of probable property appreciation levels, we have applied an underlying annual inflation rate of 2.5%. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

### Summary of Projections

Based on an analysis that will be detailed throughout this section, we have formulated a forecast of income and expense. The forecasts pertain to years beginning January 1, 2015 and are expressed in inflated dollars for each year.

### Forecast of Income and Expense

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take up to three years for the subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the proposed subject property's operating budget and comparable income and expense statements. Our forecast is based upon calendar years beginning January 1, 2015 and is expressed in inflated dollars for each year.

### Room Revenue

Room revenue is determined by two variables: occupancy and average rate. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.

### Food and Beverage Income / Expense

The proposed property is planned as a limited service hotel. Due to this, Food and Beverage was not evaluated for the purpose of this study. If Cobblestone is selected, it does have a beverage component, and while this is important in selecting a franchise it was not material in determining the feasibility of a hotel in this market and its location.

## Other Operated Departments Revenue

According to the Uniform System of Accounts, Other Operated Departments include any major or minor operated department other than rooms, food, and beverage. These departmental revenues and expenses are presented in the Other Operated Department revenue and expense line items on a Summary Operating Statement, with sub-schedules setting forth the individual departmental revenues and expenses in more detail. An Other Operated Department revenue and expense may be presented in the summary statement if it is considered a significant factor in the hotel operation. Telephone revenue and expense is now considered a component of Other Operated Departments and is being reported as a separate line item more infrequently now that telephone revenue has become so inconsequential.

## Rooms Expense

Room expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy and managers can generally scale the level of service staff on hand to meet an expected occupancy level, much of a hotel's payroll is fixed. A base level of front desk personnel, housekeepers, and supervisors must be maintained at all times. As a result, salaries, wages, and employee benefits are only moderately sensitive to changes in occupancy.

Commissions and reservations are usually based on room sales, and thus are highly sensitive to changes in occupancy and average rate. Expenses such as guest supplies, linens, continental breakfast vary with occupancy.

## Administrative and General Expense

Administrative and general expense includes the salaries and wages of all administrative personnel who are not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category.

Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages; commissions on credit card charges; provision for doubtful accounts, which are moderately affected by the number of transactions or total revenue; and salaries, wages, and benefits, which are very slightly influenced by volume.

Administrative and general expenses in the study account for 9.5%-11% of gross revenue. This expense is higher than industry standard but is reasonable based on the size of the hotel. Of that total a full time General Manager position accounts for approximately 50% of the total expense in this area.

## Marketing Expense

Marketing expense consists of all costs associated with advertising, sales, and promotion; these activities are intended to attract and retain customers. Marketing can be used to create an image, develop customer awareness, and stimulate patronage of a property's various facilities.

The marketing category is unique in that all expense items, with the exception of fees and commissions, are totally controlled by management. Most hotel operators establish an annual marketing budget that sets forth all planned expenditures. If the budget is followed, total marketing expenses can be projected accurately. Marketing expenditures are unusual because although there is a lag period before results are realized, the benefits are often extended over a long period. Depending on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months.

Based on the size of the property a dedicated sales manager will not be needed. The expense in this category is primarily franchise marketing and loyalty program expense, as well as, marketing directed by the property. Of the two franchises presented in the study AmericInn was the only franchise that had a franchise marketing fee. The fee is 2.5% of gross room revenue.

### Franchise Fee

Franchise fees are generally considered to be royalty fees and the straight line amortization of the initial/base fee. Other franchise related expenses such as franchise marketing fees, loyalty program fees are accounted for in the Marketing expense category.

For the purpose of this analysis, Cobblestone and AmericInn were used as the potential franchise candidates for the proposed property. Both franchises offer different pricing with Cobblestone using a flat rate pricing versus AmericInn which has a royalty fee of 5% of gross room revenue.

It should be noted that while Cobblestone had higher franchise fees than AmericInn the overall franchise related expense was approximately \$12,000-\$14,000 lower annually when franchise marketing fees were added. When evaluating franchises, cost is definitely a factor but it should also be weighed in terms of contribution rate, length of contract, etc.

### Property Operations and Maintenance

Property operations and maintenance expense is another expense category that is largely controlled by management. Except for repairs that are necessary to keep the facility open and prevent damage (e.g., plumbing, heating, and electrical items), most maintenance can be deferred for varying lengths of time.

Maintenance is an accumulating expense. If management elects to postpone performing a required repair, they have not eliminated or saved the expenditure; they have only deferred payment until a later date. A lodging facility that operates with a lower-than-normal maintenance budget is likely to accumulate a considerable amount of deferred maintenance.

The age of a lodging facility has a strong influence on the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. However, as the hotel grows older, maintenance expenses escalate.

A well-organized preventive maintenance system often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend. The quality of initial construction can also have a direct impact on future maintenance requirements. The use of high-quality building materials and construction methods generally reduces the need for maintenance expenditures over the long term.

The property operations and maintenance expense ranges from 3.6%-4.3% as a percentage of gross revenue and is slightly higher than industry average. However, the reason that it is higher is the region of the country that the hotel is located. The hotel will require more grounds maintenance with snow removal, etc.

### Utilities Expense

The utilities consumption of a lodging facility takes several forms, including water and space heating, air conditioning, lighting, cooking fuel, and other miscellaneous power requirements. The most common sources of hotel utilities are electricity, natural gas, fuel oil, and steam. This category also includes the cost of water service.

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement their utility requirements with less expensive sources, such as gas and oil, for heating and cooking.

In general, based on the size and construction of the hotel any brand will basically be the same in terms of utility usage. The utility forecast expense ranges from 5.84% to 6.95% of gross revenue and is considered to be a conservative estimate.

### Management Fee

Management expense consists of the fees paid to the managing agent contracted to operate the property. Some companies provide management services and a brand name affiliation (first-tier management company), while others provide management services alone (second-tier management company). Some management contracts specify only a base fee (usually a percentage of total revenue), while others call for both a base fee and an incentive fee (usually a percentage of defined profit). Basic hotel management fees are almost always based on a percentage of total revenue, which means they have no fixed component. While base fees typically range from 2% to 5% of total revenue, incentive fees are deal specific and often are calculated as a percentage of income available after debt service and, in some cases, after a preferred return on equity. Management fees generally have an inverse relationship to the level of gross revenue, meaning a smaller gross revenue base will likely command a higher percentage.

Total management fees for the subject property have been forecast at 5.0% of total revenue. The management fee is reasonable for a hotel of this size and forecasted revenue.

## Property Taxes

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Property (or ad valorem) tax is one of the primary revenue sources of municipalities. Based on the concept that the tax burden should be distributed in proportion to the value of all properties within a taxing jurisdiction, a system of assessments is established. Theoretically, the assessed value placed on each parcel bears a definite relationship to market value, so properties with equal market values will have similar assessments and properties with higher and lower values will have proportionately larger and smaller assessments.

Depending on the taxing policy of the municipality, property taxes can be based on the value of the real property or the value of the personal property and the real property. We have based our estimate of the proposed subject property's market value (for tax purposes) on an analysis of assessments of comparable hotel properties in the local municipality.

The estimated property taxes are lower than industry standard; however, it is reasonable based on the taxing district.

## Insurance Expense

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The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage. Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy.

The estimated insurance cost would account for 1.5%-1.7% of gross rental income which is in line with industry standard.

## Conclusion

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The market study and accompany proformas do anticipate the project to be able to cash-flow. The property should produce a net operating income percentage between 24%-33% which is reasonable for a small limited service hotel. However, dependent upon the debt and equity position of the project, the returns generated are likely to be below typical investment targets for similar type projects. It is important to note that at an average of 70% loan to value on the proposed project, the debt service coverage on this hotel does not leave much room for error in case of an increase in supply or reduction in demand.

Based on the information gathered we have established two brands that would be appropriate. Both brands are respectable choices with track records of succeeding in rural and outlying markets. The most significant item to assess is the benefits of short term cash flow versus long term flexibility in maximizing net income versus becoming an independent hotel after stabilization. Cobblestone offers a beverage component, overall lower franchise related fees, and the benefit of becoming independent after stabilization. The AmericInn flag does bring with it a noteworthy regional brand recognition which should generate higher occupancy and ADR and lower fee structure, however a franchise agreement would need to be negotiated that allows early outs or a shorter length of time in order to have flexibility after stabilization.

## **STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**

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- This report is set forth as a market study of the proposed subject property; this is not an appraisal report.
- This report is to be used in whole and not in part.
- No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed to be marketable and free of any deed restrictions and easements. The property is evaluated as though free and clear unless otherwise stated.
- We assume that there are no hidden or unapparent conditions of the subsoil or structures, such as underground storage tanks, that would impact the property's development potential. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
- We have not considered the presence of potentially hazardous materials or any form of toxic waste on the project site. The consultants are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
- The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have assumed the proposed hotel would be designed and constructed to be in full compliance with the ADA.
- We have made no survey of the site, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the described real estate will be within the boundaries of the property described, and that no encroachment will exist.
- All information, financial operating statements, estimates, and opinions obtained from parties not employed by LHR Hospitality Management are assumed to be true and correct. We can assume no liability resulting from misinformation.
- Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
- The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
- All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
- None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
- We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.
- If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
- We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
- The quality of a lodging facility's on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible

ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.

- The financial analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease due to market volatility and economic forces outside the control of the hotel's management. We assume that the price of hotel rooms, food, beverages, and other sources of revenue to the hotel will be adjusted to offset any increases or decreases in related costs. We do not warrant that our estimates will be attained, but they have been developed on the basis of information obtained during the course of our market research and are intended to reflect the expectations of a typical hotel investor as of the stated date of the report.
- This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of value or the date of our field inspection, whichever occurs first.
- Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
- It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
- Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.
- This study was prepared by LHR Hospitality Management. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of LHR Hospitality Management as employees, rather than as individuals.

## **CERTIFICATION**

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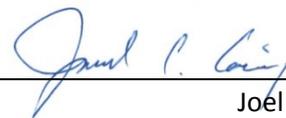
The undersigned hereby certify that, to the best of our knowledge and belief:

- the statements of fact presented in this report are true and correct;
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
- we have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved;
- we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
- our engagement in this assignment was not contingent upon developing or reporting predetermined results;
- our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined result or direction in performance that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this study;
- Joel C. Cairy and Douglas G. Rohde personally inspected the property described in this report;
- no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this report;



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Douglas G. Rohde  
President & CEO



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Joel C. Cairy  
Executive Vice President & COO  
**LHR Hospitality Management**