Hotel Market Analysis
Cambridge, MN

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EXECUTIVE SUMMARY

The client engaged IDM to produce the following update to the hotel market analysis report for the development of a limited service hotel in the City of Cambridge, located in Isanti County, in East Central Minnesota. The purpose of the study is to analyze the city and surrounding communities to determine the feasibility of the market and understand the risks associated with a hotel development. The consultant will also review the impact and financial feasibility of a 75 units or room hotel development at the request of the client. This is based on local interest for development considerations.

Given the size and pace of the economic activity in subject market and its surrounding area—the nearby communities of Minneapolis and St. Paul, the location of the subject site and its proximity to the greater Twin Cities market, and the current development efforts stimulating tourism—it seems apparent that there is a base demand for a hotel lodging facility. The potential for development in the area is promising, and IDM is engaged to verify market demand and overall market observation. This study includes a preliminary Economic Analysis Section that will further verify the potential of building a hotel.

The consultant is engaged to update a previous study completed in 2014 and provide a Competitive Market Overview, a Comprehensive Statistical Market Study, and all project economics from operations to development. This includes operational speculations providing an overview of market, potential development information concerning the market area, and market factors that would affect the possible development of a hotel at this location.

Given the consultants' development experience, existing hotel management, and knowledge of the hospitality industry, they are fully aligned to develop first-class hotels and qualified to offer market analyses. All parties remain confident that an independent review of this report would support our findings.

This report may or may not be acceptable for external investing and/or lending purposes and may depend upon this market's ability to support this hotel, additional requirements, and the desire for more specific information.

ENGAGEMENT SCOPE

This study presents the current and potential demand for hotel accommodations and analysis of existing facilities in the subject market and the greater surrounding competitive market. It recommends the position and general characteristics of the hotel and other project amenities to compete amongst the market. These characteristics will be driven by architectural site limitations, functionality of the operation, and the market's ability to sustain the business.

Process Overview and Scope

Previously, the consultants interviewed community, city and county leaders and secured data from the city staff, and existing hotel facilities, regarding the status of their businesses and future plans for each market addressed in the analysis: reviewed economic data from the city, state, and region, hotel market. Forecasts were made based on the market's historic performance, the growth in demand, and anticipated supply. The potential subject hotel's accommodation occupancy levels through the first several years of operation are based on those historical trends.

The market analysis determines the current and potential market for hotel accommodations and amenities, including the necessary components, and further determines the appropriate size, positioning, and scope of facilities to best serve the market, including market share and competitive advantages and disadvantages. These recommendations will be presented in a narrative and tables that set forth the hotel description, meeting space, breakout rooms, largest room, mix and type of guest market segmentation, recommended facilities and amenities. The consultants will also identify recommended price points and estimated levels of utilization.

Based on recommendations regarding project market and historical trends, the consultants will prepare a consolidated statement of estimated annual operating results for the proposed facility, complete with sources and level of revenues, related and unallocated expenses for the property through available cash flow for debt service and return on equity. The estimate will address a typical year in the property's operation in current value dollars and set forth the anticipated first several years of operating results in inflationary dollars.

The focus of the study was to review overall market through market interviews, primary market research, and historical data.

For a hotel to be competitive and successful within its market it must be competitively positioned. We provide factors important to this hotel's success and address factors necessary for the hotel's site. The factors that we address in the market study are:

- Project site and its accessibility.
- Visibility from various points.
- Proximity to demand generators and their impact.
- Benefit of support amenities and services.
- Facility amenities and potential design enhancements to the existing product.
- General economics of the market and operating hotel.
- Comparison to competitive hotels' characteristics.
- Continuity with overall development strategy, or master plan, of the project or community.
- Lodging demand within the subject market and property market share.
- Competitive set investigation and comparison.

The conclusion of this analysis includes:

- A review of the statistical history of competitive hotels within the market.
- Forecast of occupancy, ADR, and revenue trends for the subject market and potential subject property.
- Detailed operational projections for sales and expenses for guest rooms, and food and beverage such as banquet and catering departments. We will also review past and current trends to industry averages.
- Market segment contribution projections to determine hotel amenities.
- Ten-year operational profit & loss and sales projections, evaluated in today's dollar.
- Economic impact within the region.

Research

This report focuses on the supply and demand in hotel accommodations within the subject market. To best understand the current market dynamics and relative positioning of subject hotel, we looked at current demographics and its trend, market analysis from independent resources, and a review of the most competitive and comparable hotels, meeting, and banquet facilities. Our research identified the historic and projected occupancy, Average Daily Rate (ADR), market segmentation mix, and operational positioning of the project. Our research leads to the review of the facilities, amenities, services, and general condition of the competition to position the hotel.

Similar trends affect the economics of hotel operations and the demand for hotel accommodations. To forecast these operational projections, we used industry standards, relevant data from managed properties, area demographics, and industry statistics. To determine if the business environment could sustain the added hotel supply, we gathered and analyzed relevant data such as current and proposed demand generators, population growth and demographics, and employment growth. This information is in the Hotel Lodging Demand section.

Market Performance and Facilities Recommendations

The consultants utilized independent statistical data to project both the supply of and the demand for hotel lodging and meeting facilities in the competitive set or potential market. The consultants looked at the market history and considered the viability of a subject facility based on market trends.

Next, we project, in detailed fashion, the occupancy, average rate, and revenues for the first 10 years of operation based on historical trends within the subject market. We used those projections to recommend the size, type, and characteristics of the hotel and the amenities offered. We will meet with you to discuss the feasibility and various interests of the potential developer, owner and operator.

Development Costs & Operational Costs: Economic Analysis

The Economic Analysis included in the market study shows development and construction estimates based on our experience and industry-supplied data (such as industry averages) to complement the revenue and expense pro forma analysis for this hotel project. These figures will be compared with the estimated development costs for a full understanding of risk level. Whole debt service assumptions and equity return are not modeled nor directly addressed.

ASSIGNMENT LOCATION—Cambridge, MN

Cambridge, MN, Overview

Cambridge is a city in Isanti County, located in East Central Minnesota, United States, at the junction of Minnesota State Highways 65 and 95 just 15 miles west of I-35. It is located just over an hour north of the Twin Cities, MN. It is the county seat of Isanti County and is located along the Rum River. Cambridge is notable for having the highest percentage of Swedish Americans of any city in the United States with a population of over 5,000 people.

Cambridge is also connected to the greater Midwest by rail. Burlington Northern Santa Fe Corporation (BNSF Railway) has daily mainline rail service between Minneapolis and Duluth. Train traffic is significant and the tracks divide the center of town.

History of Cambridge

The City of Cambridge was established in the late 19th century along the railroad from Minneapolis to Duluth. It was named by settlers from New England, although the surrounding area was heavily populated with Swedish immigrants, as were many areas of Minnesota.

The old city of Cambridge was located a mile and one half south of the present city, platted in 1856 by John Owens, a St. Paul newspaperman, and R. F. Slaughter, a St. Paul real estate developer; Owens retired from the newspaper in 1857 and began farming in North Branch Township. The post office was established in 1856. The new Cambridge was started when Jedediah Kimball of Maine built a boardinghouse in 1859. The towns people voted in 1869 to rename the community Cambridge, rather than Old Isanti, for the county seat; it was incorporated as a village February 26, 1876. A number of businesses began, including a woolen mill, roller mills, and a starch factory, and when the Great Northern Railway came through in 1899, there was increased development.

Today

The City of Cambridge, "Minnesota's Opportunity Community," is located in Isanti County, Minnesota about 45 miles north of the Minneapolis-St. Paul metro area, and about one hour from downtown Minneapolis. It is the largest community in the county with approximately 20% of the county population. Cambridge's employment represents 60 percent of the employment opportunities in Isanti county. The subject area has a significant number of retail and manufacturing businesses that is somewhat disproportionate to the population of the city and the community often appears larger than its physical size. Cambridge has become the hub of the county offering not only employment opportunities but also retail, educational and medial service to the people who live in Isanti County.

Cambridge is home to the Cambridge Medical Center, Cambridge Campus of Anoka Ramsey Community College, and the Cambridge-Isanti School District. The East Central Regional Library, serving six counties, is also headquartered in Cambridge.

The 700-seat Performing Arts Center on the campus of Cambridge-Isanti High School is the center of Cambridge's cultural life. The state-of-the-art theater presents performances by student, professional and touring artists. It also supports one of the most active arts education program in the region.

The community's proximity to the Twin Cities and its accessibility from TH-65 (one of the major roadways connecting central Minnesota to the metro area) allows Cambridge residents to enjoy the cultural and sports of the city and region. The community's accessibility has helped make Cambridge as a growing residential and commercial area.

The effects of the national recession has positioned many markets with limited changes in supply and now present unique opportunities for developers to see regional market conditions, once again favorable. The opportunities to acquire developed land, at attractive prices, are now surfacing, as well as lenders again financing hotel projects.

SUBJECT SITE ANALYSIS

The market being studied in this market analysis is in the City of Cambridge, MN. The community was settled by New England settlers and Swedish immigrants in 1866. This farming community was very desirable because it had a potato starch factory, a wool carding and spinning mill, a flour mill, long distance telephone service, an electric plant and was a great place for young families.

Today as the County seat it not only is the hub for government services and offices but it also offers the residents regional shopping, medical and educational services.

Safety

The safety of the immediate area is regarded as a relatively safe area, with little to no crime in Cambridge area on the rise. Cambridge's property crime levels tend to be much lower than Minnesota's average level. The same data shows violent crime levels in Cambridge tend to be lower than Minnesota's average level.

Violent crime is so low in the area that it did not report against the national average. The violent crime data would suggest that Cambridge is safer than the average US city. Violent crime—which includes murder, forcible rape, robbery, and aggravated assault—is well below the nation percentile. Property crime—which includes burglary, larceny, theft, and vehicle theft—is lower than the national average as well.

Visibility

The sites being analyzing in Cambridge are located away from the downtown area but close to the area's major employers. The subject sites are visible, located on or near the major corridors of business.

Accessibility

The City of Cambridge is located north of the state's Twin Cities with Interstate 35 to the east and State Hwy 169 to the west. Primary access to Cambridge is via State Highway 95 (east/west) and State Highway 65 (north/south). The intersection of these two highways has the highest traffic in the area and is the focal point for the commercial area. Highway 65 is a four-lane rural expressway providing convenient accessibility to the Twin Cities metro area for communities throughout east central Minnesota. Highway 95 is a two-lane highway running east/west through the area. The City of Cambridge is centrally located and is most accessible by automobile or by private air travel.

Below is a list of major regional cities, their distances, and approximate drive times to Cambridge:

- Minneapolis/St. Paul—48 miles (55 min)
- Duluth, MN—114 miles (2 hours)
- Rochester, MN—125 miles (2 hours 15 min)
- St. Cloud, MN—48 miles (1 hour)
- Madison, WI—306 miles (5 hour 30 min)

Air Transportation

Cambridge is serviced by two airports, the Cambridge Municipal Airport and Minneapolis St. Paul International Airport. The Cambridge Municipal Airport is a public airport located at the west edge of the community. It is owned and operated by the City of Cambridge and is used mostly for private aviation and transport.

The Minneapolis - St. Paul International Airport (MSP) is an international airport located in the Twin Cities of Minneapolis and St. Paul, MN just 44 miles (53 minutes) from Cambridge. In 2010, MSP served 32 million passengers and accommodated 437,075 landings and takeoffs making it 15th in North America for the number of travelers served and the 12th busiest airfield in the United States. It is currently served by twenty two airlines and operates more than half a million take offs and landings on an annual basis.

Education

Cambridge is within 1 hour (45-55 miles) of at least 56 different post-secondary institutions that provide technical and advanced educational programs. The Cambridge area has and above average graduation rate for high school, at approximately 85% combined (city, township and Isanti County). Ironically the county population does not have a higher post-secondary graduate percentage. Only 18.8% of the population in the City of Cambridge has a bachelor's degree.

Anoka Ramsey Community College – has a campuses located in Cambridge and Coon Rapids. Beginning in 1965 with 600 students in a wing of Centennial High School in Circle Pines, Anoka-Ramsey Community College has grown considerably. In 1967 the college moved to the current Coon Rapids Campus of approximately 103 acres. The Cambridge Campus opened in 1978 and has shown consistent growth in enrollment and facilities. The Cambridge campus serves approximately 2500 students. Classes are also offered at several off site locations including Becker, Blaine, Chisago Lakes, Elk River, Monticello, North Branch and several other locations. In 2010 there were more than 12,500 students enrolled in fulltime and continuing education classes. It is a member of the Minnesota State Colleges and Universities System offering associate degrees that transfer as the first two years of bachelor degrees. Associate Degrees include Associate of Arts, Applied Science and Science.

Lodging in Cambridge

There are several campgrounds and one hotel/motel accommodation, The Crossings by Grand Stay Inn & Suites, available in the Cambridge area. Campgrounds are located near lakes and the scenic protected Rum River. The Isanti County Fairgrounds facility also provides a parking area for camping, with showers and hook-ups.

Meeting Facilities in Cambridge

Existing banquet and meeting facilities in this market are typical of the small community profile of most communities in the Midwest. The facilities that are available are supported by local caterers and rental companies. There are extremely limited resources for corporate or board meetings, association meetings or events that require hotel rooms adjacent to or in the same building that the meeting is being held in. Many of the companies located in the county have small in-house meeting facilities or often will meet in the Twin Cities for larger events. The closest full-service hotel is located in Elk River or the northern suburbs of Minneapolis and St. Paul, 32 miles away.

The largest and newest meeting and banquet facility is the Armed Forces Reserve Center. It is available to the public for rental and offices meetings, classes, basketball and volleyball tournaments, fundraisers, weddings, receptions, etc. The AFRC is a large assembly hall and two classrooms which can be divided in half that seat 60 people classroom style. The Assembly Hall which accommodates up to 400 for a banquet is a multi-purpose room that doubles as a large banquet area and a gymnasium. It has a regulation basketball court or it can be divided into two half courts with adjustable basketball hoops. This space is used weekly, frequently by the community college for classes. Rental fees are priced very reasonably and discounted/free for government and non-profit groups. It is not available during reserve training weeks.

Eight miles from Cambridge is Isanti which has small meeting and banquet venues of similar variety from restaurants, bowling alley and coffee shop locations to a Civic Arena and Community Center. Spectacular Events offers complete catering at their Banquet Center located at Sanbrook Golf Course.

Demographics

The 2017 estimated population is 8,749 people, 3,137 households, and 1,967 families residing in the city of Cambridge. The population density was 1,087 inhabitants per square mile and the housing density of 3,426 homes at 459 units per square mile

The median age in the city was 34 years and 26% of residents were under the age of 18; 8.9% were between the ages of 18 and 24; 27.5% were from 25 to 44; 20% were from 45 to 64; and 18% were 65 years of age or older. The gender makeup of the city was 47% male and 53% female.

Subject Market Economic Profile

This section of the report will highlight the general economic conditions observed for this market area by reviewing various research sources, including independent reports on population, unemployment, demographics, and lodging statistics within the region. This overview does not in itself determine the potential success of the hotel in the Cambridge market; however, it offers insights into the stability and growth potential of the community. It will directly affect the conclusions reached in this study.

The Cambridge economic base is diversified, with a relatively equal distribution among the manufacturing, wholesale/retail, and services sectors. Manufacturing traditionally has been a principal industry in the city. Cambridge is also a primary retail and wholesale trade center, drawing from the market area.

Subject Site Local Demand-Generating Businesses

Cambridge, MN and Isanti County have attracted numerous business and leisure travel to utilize overnight accommodations in the community. There are limited hotel accommodations in the county and in the area. Below is a list many of the top or key events identified that creates overnight demand. Locally, hotel rooms and temporary camping facilities at the fair grounds are used for guests. Cambridge and Isanti County have significant leisure and sports related seasonal events that attract weekend business to the community.

Demand Generating Business/Event	Market Segment	Time of Year	
Isanti County Fair Grounds	Leisure	July	
BMX State and National Events and tournaments	Leisure	Summer	Plus multiple events during year
MN Youth Soccer tournaments (American Youth Soccer)	Youth	April/May (week long) plus weekend in June	4000+ participants and 20,000 spectators
Isanti Hockey Arena & Hockey Association	Youth	November- February	Multiple tournaments
Isanti Rodeo and Jubilee Days	Leisure	July (Thurs- Sunday)	Draws nationwide
City of Isanti Rodeo Grounds	Leisure	April – October	Dog Shows, Horse shows, 4H and other estimated at 20 events annually
Soft Ball and Baseball Regional Tournaments	Leisure	April – October	Youth Baseball
			Adult Softball
			Baseball Assn
Curling Tournaments	Leisure	Weekends-Winter	Adult tournaments
Anoka Ramsey Community College	Education	Year round	Graduation, Seminars, relocation
Armed Force Reserve Center	Training- Military	Year round based on schedule	Requires guest rooms during training
Allina Medical Center	Medical	Year round	Transient, Patients families, relocation
Ritz Machine Works	Corp Transient	Year round	Corporate Travel
Weddings	Leisure	Year Round	Approximately 40 per year in the community

ECONOMIC CONCLUSIONS

This section identifies a wide variety of economic indicators that are pertinent to the market area. The diversity of the business and economy are above average. Workforce, population, redevelopment, and growth in the market are projected to be increasing for the city and county. The tourism industry is stable and somewhat seasonal. The outlook for the area is generally favorable, and growth should recover through the near term.

REGIONAL HOTEL MARKET & COMPETITIVE SET ANALYSIS

The first step in the process of forecasting the potential rate and occupancy impact to the subject hotel is to understand historical trends of the nation, market, competitive set, and the region in which the subject hotel resides. The purpose of this section is to investigate current supply and demand trends of historical total, transient and group demand, as indicated by the current competitive market, then set forth a basis for the projection of future supply and demand growth.

Hotels are typically defined by service level and market class, defined next. These factors will help in estimating future demand levels as well as competition for an existing or new build project. The goal is to estimate growth for a subject project based on the historical trends in occupancy and the average rate nationally and locally. The competitive sets' historical performance allows us to base future projections on market data collected, as seen in the following tables.

Type of Hotels Defined

The competitive set and market is made up of several hotels offering a variety of services, rooms, and room types. The types of facilities across the U.S. are ever-changing in today market. Those differences in properties typically result in varying average room rates and occupancies. The various types of lodging facilities found in most markets are defined in the following segment. Hotels found in the competitive market that are traditionally categorized based on the level of service, style of hotel and its amenities.

Full-Service Hotel

These facilities are generally mid-priced, upscale, or luxury hotels with a restaurant, lounge facilities, and meeting space as well as minimum service levels, often including bell service and room service. These hotels report food and beverage revenues. There are full-service properties in the region; none were immediately identified in the market and competitive set.

Limited-Service Hotel

These properties are hotels with rooms-only operations (i.e., without food or beverage service) or hotels that offer a bedroom and bathroom for the night but few other services or amenities. These hotels are often in mid-priced, budget, or economy groups and do not report food and beverage revenue.

Select Service Hotel

The term select service has evolved over the last 10 years. Once hotels strived to be all things to all travelers and now the attention has shifted to designing different properties for different travel occasions or traveler needs. If a significant segment of the target customer doesn't want meetings and event space or a restaurant; developers have chosen not to build it and limited service hotels emerged. Yet some development need certain offerings or amenities to make the project competitive and compensate for lack of area services not represented. This has become very challenging for brand hotels not conforming to a brand model that fits all markets and thus spurred the boutique development arena. Boutique hotels are select service or focused service properties by design.

Motel or Seasonal Motel/Bed & Breakfast

These properties are usually economy, modest, or small private, unique hotel environments that differentiate themselves from larger chain/branded hotels by providing personalized accommodations and services/facilities. Typically, they are furnished in a themed, stylish, or inspirational manner. They usually are considerably smaller than mainstream hotels, often ranging from 10 to 50 guest rooms. They might offer food & beverage outlets or only guest room accommodations.

Shared Residences, Home & Apartment *Rentals*

The introduction of unique lodging offerings such as AirBnB has transformed the lodging industry in the past few years, much as Uber and Lyft have done with the hired car industry. Home and apartment rentals through Vacation Rental by Owner (VRBO), Homeaway, AirBnB add inventory to many compressed (or under supplied and high demand) markets. These markets are also perceived as expensive markets where overnight accommodations are 5-10 times the countries industry average in rate. In some places like San Francisco, Silicon Valley and New York, residents rent their homes to travelers to pay the rising cost of rent. High rates of hotel occupancy and rising rates have made these options viable for travelers and residents. This is also very common in vacation destination markets throughout the country with ample inventory in Florida and the coasts.

Resort Hotels

Resort hotels are more of a property type and could be defined as a limited service or full-service property. Resort properties typically utilize a prime location to influence the development. In traditional destination resort markets, amenities such as spa, sports or recreation, and retail are provided and required for market flexibility to varying consumers. Resort programming, site layout, accessibility to attractions, and design are critical to the success of the property type.

Boutique Hotel

Boutique or Lifestyle Hotels are limited or full-service lodging properties that are typically described as "small hotels" which have between 10 and 120 rooms and usually under 100 rooms in unique settings with upscale accommodations. Boutique hotels began appearing in the 1980s in major cities like London, New York, and San Francisco. Today independent owners have built boutique hotels in most all market throughout the U.S. and even the brands are building segments of boutique hotels.

Market Class and Chain Scale

"Class" is an industry categorization that includes chain-affiliated and independent hotels. The class for a chain-affiliated hotel is the same as its chain scale. An independent hotel is assigned a class based on its ADR relative to those of the chain-affiliated hotels in its geographic proximity, as defined by the national trend and reporting agencies.

Chain scale segments are a method by which branded hotels are grouped based on the actual average room rates. Independent hotels, regardless of their average room rates, are included as a separate chain scale category. Understanding in which class the property will compete will allow it to be measured against national averages. National firms such as Smith Travel Research (STR) and PKF Hospitality Research forecast industry benchmarks based on the following chain scales. The market class and chain scale segments are categorized as follows:

- Luxury Chains
- Upper Upscale Chains
- Upscale Chains
- Upper Midscale Chains
- Midscale Chains (chain scale of the subject hotel)
- Economy Chains
- Independents

The regional hotels that were compared for a possible competitive set included the following properties. The current mix of properties consist of mostly midscale and thee upper midscale segments. There are no properties in the upper end of the chain class in the subject market.

The Best Western Franchise will compete in the Midscale to Upper Midscale class for demand.

Trend Analysis

When analyzing a market, it is important to understand the trends of occupancy, average rate, and revenue for groups of hotels, whole market patterns, and segments of properties. Smith Travel Research (STR) from Hendersonville, TN is the industry leader in gathering and sourcing hospitality data and is used specifically to gather trend information. STR has the most comprehensive database of hotel performance information available. STR is an independent research firm that compiles and publishes data on the lodging industry, and this information is routinely used by typical hotel buyers, developers and lenders. All branded and franchised hotel chains in the world report their performance to STR. Reports are available for specific markets and individual properties and were used in the study.

National Hotel Market Trends

National historic trends are important to any hotel development or potential project because all markets face supply-and-demand challenges. The subject 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 hotel's competitive set.

The following information on nation trends demonstrates the characteristics of the U.S. Lodging Market as reported by STR.

US Lodging Industry Annual Trends in Occupancy, ADR, & RevPAR

1992- 2016

REPRESENTATIVE YEAR	AVAILABLE NATIONAL OCCUPANCY	OCCUPANCY PERCENT CHANGE	AVERAGE DAILY RATE	ADR PERCENT CHANGE	REVENUE PER AVAILABLE ROOM	REVPAR PERCENT CHANGE
1992	61.9%		$59.62		$36.90	
1993	63.1%	1.9%	$61.30	2.8%	$38.68	4.8%
1994	64.7%	2.5%	$64.24	4.8%	$41.56	7.4%
1995	65.1%	0.6%	$67.17	4.6%	$43.73	5.2%
1996	**65.0%**	-0.2%	$70.81	5.4%	$46.03	5.3%
1997	64.5%	-0.8%	$75.31	6.4%	$48.57	5.5%
1998	63.8%	-1.1%	$78.15	3.8%	$49.86	2.7%
1999	63.1%	-1.1%	$81.29	4.0%	$51.29	2.9%
2000	63.5%	0.6%	$85.24	4.9%	$54.13	5.5%
2001	59.8%	-5.8%	$84.45	-0.9%	$50.50	-6.7%
2002	59.0%	-1.3%	$83.20	-1.5%	$49.09	-2.8%
2003	59.2%	0.3%	$83.28	0.1%	$49.30	0.4%
2004	61.3%	3.5%	$86.70	4.1%	$53.15	7.8%
2005	63.1%	2.9%	$91.29	5.3%	$57.61	8.4%
2006	64.2%	1.7%	$96.77	6.0%	$62.13	7.8%
2007	64.1%	-0.2%	$102.38	5.8%	$65.63	5.6%
2008	60.4%	-5.8%	$106.55	4.1%	$65.61	0.0%
2009	54.5%	-9.8%	$98.20	-7.8%	$53.55	-18.4%
2010	57.6%	5.7%	$98.08	-0.1%	$56.47	5.5%
2011	60.1%	4.3%	$101.64	3.6%	$61.06	8.1%
2012	61.4%	2.2%	$106.10	4.4%	$65.17	6.7%
2013	62.3%	1.5%	$110.35	4.0%	$68.69	5.4%
2014	64.4%	3.4%	$115.32	4.5%	$74.28	8.1%
2015	**65.6%**	1.9%	**$120.01**	4.1%	**$78.67**	5.9%
2016	**65.5%**	-0.2%	**$123.97**	3.3%	**$81.19**	3.2%
Avg. Annual Growth Rate since 1992	***0.24%***		***3.10%***		***3.34%***	
Avg. Annual Growth Rate since 2000	***0.19%***		***2.37%***		***2.57%***	
Note: CAGR = Combined Average Annual Growth Rate						

(*Source:* IDM & Smith Travel Research)

National occupancy peaked in 1995 at 65.1 percent and has decreased to a low of 59 percent after the 9/11 terrorist attacks on the United States. The latest recession of 2009 is the most severe drop in the hotel industry occupancy, recording a 54.5 percent historical low, nearly a 10 percent point drop. Average daily rate hit its high in 2008 at $106.55 and bottomed two years later in 2010 at a reported $98.08. The recession's severe impact on the industry resulted in significant RevPAR decline reported at (18.4) percent (an all -time high percent change).

Demand growth resumed in 2010, led by select markets that had recorded growth trends in the fourth quarter of 2009. A return of business travel and some group activity contributed to these positive trends with occupancy up 5.7 percent and ADR nearly flat. The resurgence in demand was partly fueled by the significant price discounts that were widely available in the first half of 2010 which seemed to transition out in the latter half of the year, balancing much of the early rate loss. Demand growth remained strong, but decelerated from 2011 through 2013, increasing at rates of 4.7 percent, 2.8 percent, and 2.0 percent, respectively. Demand growth then surged to 4.0 percent in 2014, driven by a strong economy, a robust oil and gas sector, and limited new supply, among other factors.

By 2014, occupancy had surpassed the 64 percent mark. Average rate rebounded similarly during this time, bracketing 4.0 percent annual gains from 2011 through 2014. Recently, in 2014 and 2015, the industry has seen much needed improvements, resulting in record statistics. The occupancy in 2014 at 64.4 percent was the strongest years since 1997, average rate at $115.32, highest ever reported annually and revenue per available room at $74.27, up over 8 percent from 2013.

In 2015, demand continued to outpace supply growth (a trend since 2010), the U.S. reported an all-time high with record occupancy for the year at 65.6 percent, up 1.9 percent and ADR at $120.01, up 4.1 percent. This resulted in a 6 percent increase in RevPAR. This all combined makes 2015 the strongest year on record going back nearly 30 years, at the time.

In 2016, trends continued to break records. Although technically occupancy fell -.2 percent or basically remained flat, average rate grew 3.3 percent to $123.97 (the highest ever reported) leading RevPAR further increase to a record peak of $81.19, up 3.2 percent.

Key Points

- 2015 and 2016 are the strongest years on record for the hotel industry.
- Occupancy was 65.6 and 65.5 percent respectively, the highest occupancy ever recorded in the U.S.
- Demand was at a record high and during 2016, 1.2 billion rooms were sold and 1.8 billion room were available.
- Supply or available rooms for 2016 only grew by 1.1 percent but 2017 will be a banner year for new supply
- ADR for 2016 was up 3.3 percent and reported at $123.97
- Forecast- U.S. hotel occupancy to remain heightened in 2017, rising slightly to nearly 66.0 percent; the 0.4point gain is relatively conservative, in consideration of continued supply additions.
- On a national average, strengthening demand levels should also permit hotel operators to increase room rates by 2.5 - 3.0 percent in 2017.
- 2017-year end results are not yet available but are expected to show little growth in occupancy over 2016 but higher average rates than reported in 2016.

COMPETITIVE SET ANALYSIS

Consultants have analyzed sources of information from Smith Travel Research, the lodging industry's leading information and data provider on competitive performance. The competitive set was analyzed to identify the history of occupancy, average rate, and revenue per available room to forecast the subject facility performance.

A competitive set consists of a group of hotels by which a property can compare itself to the group's aggregate performance; and can be based on location, equivalent market classification, and similar amenities. There must be a minimum of three hotels in any competitive set excluding the subject hotel. The properties area also broken out by market class and chain scale defined next and that determines their competitive factor to the subject property.

IDM reported on the greater market looking at hotels within a radius of the subject hotel market. Fifteen properties were identified in the Coon Rapids, Cambridge, Elk River and Forest Lake area. The following STR class scales represents the area supply.

Subject Market Hotel Competitive Set
GREATER REGIONAL MARKET SUPPLY

Property Name	Location	Market Class	Affiliation Date	Open Date	Number of Rooms
Crossings by GrandStay	Cambridge	Midscale Class	Jun 2009	Jul 1995	42
GrandStay Hotel & Suites	Chisago City	Midscale Class	May 2014	May 2014	51
Country Inn & Suites	Coon Rapids	Upper Midscale Class	Nov 2011	Apr 1987	108
Holiday Inn Express & Suites	Coon Rapids	Upper Midscale Class	Jun 1997	Jun 1997	72
InTow n Suites Minneapolis North	Coon Rapids	Economy Class	May 2002	Jan 1999	136
Fairfield Inn	Coon Rapids	Upper Midscale Class	Jul 1996	Jul 1996	59
AmericInn	Coon Rapids	Midscale Class	Mar 1998	Mar 1998	53
GrandStay Hotel & Suites	Delano	Midscale Class	Apr 2015	Apr 2015	54
County Inn & Suites	Elk River	Upper Midscale Class	May 1999	May 1999	78
AmericInn	Forest Lake	Midscale Class	Jun 1983	Jun 1983	45
County Inn & Suites	Forest Lake	Upper Midscale Class	May 1998	May 1998	56
AmericInn	Ham Lake	Midscale Class	Sep 1994	Sep 1994	54
Best Western Plus	Coon Rapids	Upper Midscale Class	May 2011	May 2011	66
AmericInn	Princeton	Midscale Class	May 1999	May 1999	45
AmericInn	North Branch	Midscale Class	Jun 2000	Jun 2000	50
				Total	969

(*Source:* IDM & Smith Travel Research)

The flowing chart identifies the number of rooms in each of the market chain scales represented in the regional competitive market. There are currently six properties in the upper midscale segment and 439 rooms. This would likely be the chain scale for the subject facility. The midscale segment also is represented by eight properties and 394 rooms and would likely compete for demand.

Subject Market Hotel Competitive Set
MARKET BY CHAIN SCALE CLASSIFICATION

Chain Scale	Number of Properties	Number of Rooms
Luxury	0	
Upper Upscale	0	0
Upscale	0	0
Upper Midscale	6	439
Midscale	8	394
Economy	1	136
Unaffiliated	0	
Total	15	969

(*Source:* IDM & Smith Travel Research)

Subject Market Competitive Set: Defined for Subject Property

A competitive set consists of a group of hotel properties that directly compete for room nights due to proximity, consumer segment and similarity of product. A competitive set enables individuals to compare property performance with the aggregate performance of their direct competition. The consultant looked at all the regional supply in the immediate market and the following hotels exist in the subject are and compete for overnight lodging.

Primary Competitive Hotel Set

In the Cambridge area, the consultant used historical data from nine competitive hotels; all of these hotels are limited-service facilities with many offering varying room types. The Cambridge Market Competitive Set includes the following hotels:

Establishment	**City**	**Open Date**	**Rooms**
Country Inn & Suites	Forest Lake, MN	May 1998	58
Country Inn & Suites	Elk River	May 1999	78
GrandStay Hotel & Suites	Cambridge	July 1995	42
AmericInn North Branch	North branch, MN	June 2000	50
Fairfield Inn	Coon Rapids	July 1996	59
AmericInn	Forest Lake	June 1983	43
AmericInn	Ham Lake	Sept 1994	52
AmericInn Princeton	Princeton, MN	May 1999	45
Best Western Plus Metro	Coon Rapids, MN	May 2011	66
		Total	**493**
(Source: IDM & Smith Travel Research)			

Competitive Sets Historical Trends

The primary competitive market trend of the regional properties is detailed below. The markets STR five-year trend from 2011 to December of 2017 identified 2016 as a record occupancy year at 56.5%, up 3.8% over 2015 yet fell slightly to 56.1% in 2017, down -0.8% and resulting in a six-year combined average growth rate (CAGR) of 3.2%. Average rate reached an all-time high in 2017 at $97.52 up 5.9% over the six-year rate of growth. Total revenues through 2017 have a six-year CAGR of 5.9%.

Subject Market Hotel Competitive Set

HISTORICAL GROWTH IN ROOMS SUPPLY AND DEMAND

2011 - 2017

	Rooms Available	Rooms Available Percent Change	Rooms Occupied	Occupancy Percent	Rooms Occupied Percent Change	Average Rate ADR	Percent Change	RevPAR	Percent Change	Total Regional Room Revenue
2011	180,430	0.0%	87,172	48.3%		$80.53	-11.3%	$38.91	12.7%	$ 7,019,648
2012	180,371	0.0%	87,898	48.7%	0.8%	$83.95	4.2%	$40.91	5.1%	$ 7,378,607
2013	180,400	0.0%	96,552	53.5%	9.8%	$85.36	1.7%	$45.69	11.7%	$ 8,241,923
2014	180,675	0.2%	98,299	54.4%	1.8%	$89.06	4.3%	$48.46	6.1%	$ 8,754,758
2015	180,675	0.0%	98,420	54.5%	0.1%	$94.24	5.8%	$51.34	5.9%	$ 9,275,373
2016	180,675	0.0%	102,133	56.5%	3.8%	$96.57	2.5%	$54.59	6.3%	$ 9,862,706
2017	180,553	-0.1%	101,350	56.1%	-0.8%	$97.52	1.0%	$54.74	0.3%	$ 9,883,456
6 Year CAGR	*0.0%*		*2.5%*			*3.2%*		*5.9%*		*5.9%*

Note: CAGR = Combined Average Annual Growth Rate 2011-2017

(*Source:* IDM & Smith Travel Research)

Competitive Set Performance Analysis

We have analyzed (a) the market's STR data, (b) reviewed with demand-generating businesses and managers of hotels, (c) existing hotel supply, (d) brand affiliation, (e) consultant-estimated occupancy, (f) ADR, and (g) revenues for hotels in the immediate area as well as those in the secondary market. These statistics were derived from Smith Travel Trend reports, individual property reports, and specific property interviews. This analysis estimates how each hotel performs within the identified markets.

Subject Market Hotel Competitive Set

ESTIMATED OCCUPANCY, MARKET MIX, PENETRATION RATES AND ADR

2017 December Year-end

Property Name	Number of Rooms	Rooms Available	Estimated Occupancy	Rooms Occupied	Average Rate	Rooms Revenue
PRIMARY COMPETITION						
Grandstay Hotel & Suites Cambridge	42	15,330	55.0%	8,432	$ 99.00	$ 834,719
Country Inn & Suites Forest Lake	58	21,170	56.0%	11,855	$ 99.00	$ 1,173,665
AmericInn Forest Lake	43	15,695	52.0%	8,161	$ 90.00	$ 734,526
AmericInn Lodge & Suites North Branch	50	18,250	52.0%	9,490	$ 90.00	$ 854,100
AmericInn Lodge & Suties Ham Lake	52	18,980	52.0%	9,870	$ 90.00	$ 888,264
Country Inn & Suites Elk River	78	28,470	54.0%	15,374	$ 95.00	$ 1,460,511
AmericInn Lodge & Suites Princeton	45	16,425	54.0%	8,870	$ 90.00	$ 798,255
Fairfield Inn Minneapolis Coon Rapids	59	21,535	64.0%	13,782	$ 110.00	$ 1,516,064
Best Western Plus Coon Rapids North Metro Hotel	66	24,090	63.0%	15,177	$ 105.00	$ 1,593,554
TOTAL PRIMARY	493	179,945	56.1%	101,010	$ 97.55	$ 9,853,657

(*Source:* IDM & Smith Travel Research)

Comments

The above chart demonstrates the possible occupancy and average rate for the competitive set of hotels. It shows the estimated occupancies spread amongst the individual hotel properties. It is estimated that the Best Western, Fairfield Inn, and GrandStay Hotel & Suites outperform the market average based on their location and brand affiliation.

Market Penetration

Illustrated in the following chart is the estimated penetration of all properties in the market. The chart is an estimate of each hotel's overall occupancy. Each hotel's penetration factor is computed by first calculating the hotel's room nights by the total room nights accommodated by all hotels, and then dividing the hotel's market share by the hotel's fair share and penetration factor. If a property's overall penetration is 100%, that hotel is receiving its equal share of accommodated room nights.

MARKET PENETRATION

PRIMARY COMPETITION	Number of Rooms	Rooms Available	Fair Market Share	Overall Penetration Rate
Grandstay Hotel & Suites Cambridge	42	15,330	8.5%	98.0%
Country Inn & Suites Forest Lake	58	21,170	11.8%	99.8%
AmericInn Forest Lake	43	15,695	8.7%	92.6%
AmericInn Lodge & Suites North Branch	50	18,250	10.1%	92.6%
AmericInn Lodge & Suties Ham Lake	52	18,980	10.5%	92.6%
Country Inn & Suites Elk River	78	28,470	15.8%	96.2%
AmericInn Lodge & Suites Princeton	45	16,425	9.1%	96.2%
Fairfield Inn Minneapolis Coon Rapids	59	21,535	12.0%	114.0%
Best Western Plus Coon Rapids North Metro Hotel	66	24,090	13.4%	112.2%
TOTAL PRIMARY	493	179,945	100.0%	100.0%

(*Source:* IDM)

Currently it is estimated that the Fairfield Inn, Best Western, and GrandStay hotel are performing at a higher occupancy level than the remaining competitive set and therefore the overall penetration rate is more than 100%. The remaining limited-service hotels in the greater market are experiencing lower market fair share, likely due to accessibility, age of product, brand performance and location. The subject property being new in the region should also capture more than its fair share of regional demand upon stabilization.

Positioning Against the Competitive Set

Given that there are no full-service hotels present in the greater competitive region it is essential that this proposed hotel be positioned in the upper mid-scale or midscale tier of the competition at a 3-Star level, offering competitive services and amenities; such as indoor pool and fitness center, complimentary breakfast, free WIFI, and will likely need franchise affiliation. It is also recommended that the property offer limited meeting facilities and focus small groups utilizing the communities many sporting venues. This allows the subject hotel to be competitive against existing product and attract regional demand.

A select-service hotel offering competitive accommodations will compete against regional market. Some of the brands that compete and are reported in the midscale class are Best Western Premier and Plus, Comfort Suites, Hampton Inn & Suites, Wyndham Garden Hotels, Holiday Inn, and Holiday Inn Express.

Seasonal Market Trends

It is typical of the hospitality industry overall, and especially in the Midwest, to experience occupancy trends tied to demand generators such as weather, seasons, and travel patterns influenced by seasonality. The seasonal occupancy of this market is traditional for this region of the United States and is represented in the following tables.

Units of Measurement

A competitive set is measured by three benchmarks: *Occupancy, Average Rate, and Revenue per Available Room (RevPAR). Occupancy* identifies the number of sold rooms in a given period. *Average Rate* identifies the average selling price during a given period. Lastly, *RevPAR* is a measure that, regardless of hotel size, compares revenue for each room the property has in its inventory. RevPAR takes the total revenue and divides it by the total rooms a facility has to offer. This number is a baseline measure, allowing a uniform comparison of hotels within the competitive set.

Subject Market Hotel Competitive Set
6 YEAR MONTHLY AVERAGE TRENDS 2011-2017

Month	Occupancy	ADR	REVPAR	REVENUE
January	38.8%	$ 83.86	$ 32.50	$ 498,534
February	43.6%	$ 84.22	$ 36.76	$ 509,337
March	44.7%	$ 83.92	$ 37.53	$ 575,576
April	49.3%	$ 85.37	$ 42.12	$ 625,097
May	53.9%	$ 88.36	$ 47.66	$ 730,653
June	67.0%	$ 95.19	$ 63.79	$ 946,454
July	67.5%	$ 96.41	$ 65.05	$ 997,263
August	67.1%	$ 95.13	$ 63.88	$ 979,314
September	61.8%	$ 95.50	$ 59.00	$ 875,432
October	56.9%	$ 89.19	$ 50.73	$ 777,773
November	44.1%	$ 85.78	$ 37.82	$ 560,965
December	42.6%	$ 84.99	$ 36.17	$ 554,525
Total	53.2%	$ 89.93	$ 47.81	$ 8,630,924

(*Source:* IDM & Smith Travel Research)

This analysis shows the market's potential to attract Lodging Demand during various seasons. It will help to determine the strengths and weaknesses during the operational year for the proposed property.

The market unit of measurements are displayed in the above table identifying the average of each measurement. In the comparison analysis, the region's monthly five-year averages are detailed. The market averaged 53.2% annually over the six years.

In analyzing the seasonality market trends, as is typical with the upper-Midwest region, this market performs better from June through October than during the remaining part of the year. The market sees a strong increase in demand during the summer. Rates also increase during these months due to the demand cycle, which peaks during times of high social/leisure demand.

The strongest time of year in the market is June, July and August. This summer season reached an average occupancy over the six years in the competitive set of 67.2% with rates averaging $95.58. This period is affected by summer travelers, sporting groups, social meetings, weddings, and activity within the regional market. Further, the sporting events and weddings business in the hospitality industry is typically at its peak during these summer months.
The shoulder months of May and September average the next highest average occupancy and rate reported at 55.4% and $88.78 respectively.

The weakest season is the winter months of January and December, providing a six-year average occupancy of 40.7% for the competitive at rates of $84.43. This is typical occupancy trending for the Midwest market, although the variation in average rate from peak to non-peak seasons is not as strong as reported in other markets. The fact that this market sees a $4.00 variance from its peak period to its low season is a clear indication that the properties manage its rates seasonally, and does not try discounting deeply in off peak times to try to gain occupancy.

Day of Week Trends

A review of the trends in occupancy and average rate by day of the week provides some insight into the impact that the current economic conditions have had on the competitive lodging market and the types of customers using lodging within the market. In most markets, business travel consists of individual corporate or commercial travelers, locally negotiated rate amongst market business, and corporate groups; and is the predominant source of demand on Monday through Wednesday and *sometimes* Thursday nights. Social leisure travelers and non-business-related individual and group travelers typically generate a majority of demand on Friday and Saturday nights.

Over the year last 12 months of 2017 and 2016, the greater market has weekdays Monday through Wednesday performing at an average occupancy of 55.2 percent, weekends (excluding

Sundays) at 68.3 percent, and shoulder days of Sunday and Thursday at 45.6 percent. Weekend days Fridays and Saturdays along with week days of Tuesdays and Wednesdays have averaged the record occupancy in the past 12 months with a combined average of 62.8 percent. This indicates high levels of both corporate and social leisure demand.

Subject Market Hotel Competitive Set
DAY OF WEEK COMPARISON

	12 Month Rolling 2017			ADR	Three year trend	
	Occupancy	Growth Rate*	ADR	Growth Rate*	Average Occupancy	ADR
Sunday	37.9%	*1.6%*	$91.76	*2.0%*	37.0%	$90.14
Monday	51.1%	*-0.6%*	$92.28	*1.0%*	51.3%	$91.68
Tuesday	57.5%	*-0.9%*	$93.36	*0.3%*	58.4%	$92.72
Wednesday	56.9%	*-0.3%*	$94.35	*1.2%*	57.6%	$93.11
Thursday	53.3%	*1.2%*	$94.17	*1.7%*	52.8%	$92.74
Friday	64.7%	*4.7%*	$104.39	*2.6%*	62.7%	$102.46
Saturday	71.9%	*4.3%*	$106.46	*2.1%*	70.1%	$104.71
Average	**56.1%**	***1.5%***	**$97.52**	***1.7%***	**55.7%**	**$ 96.13**

(*Source:* IDM & Smith Travel Research)

LODGING FACILITY RECOMMENDATIONS

Property Description and Recommendations

The property should reflect the expectations of today's mixed generational business and focus on leisure travelers throughout the region. The concept focus should offer guests a relaxed contemporary design that is stylish, comfortable, and compliments the group and leisure traveler. A new branded select service should be competitive in the region and successful long term.

The size of this hotel is recommended up to 60-80 guest rooms given the market conditions with some gathering or meetings and event space in the lobby and small adjacent lobby space. The suggested evaluation at 75 rooms was used for the purposes of economic modeling. The amenities of the hotel should focus on the current market demand generators, sporting events, traveling teams, national and regional tournaments. This includes the following amenities:

Competitive Facilities Description

- Contemporary and modern décor, keeping within distinct attributes that make a broad mix of generational travelers feel welcome and comfortable, such as modern bathrooms with back lit mirrors and built in blue tooth speakers, interesting modern room features and design. Guests should experience comfortable amenities such as in-room refreshment centers with refrigeration and microwaves, comfortable bedding, recognized name-brand bath amenities and name-brand products in a convenience center.
- The proposed structure of the hotel should offer approximately 75 guest rooms in a mid-rise structure, featuring a variety of guest rooms (with double bedded queen rooms to accommodate groups) and possibly a few suites. Although the exact mix of rooms will not be determined or considered in this report, sample room layouts in the attached addendum should be considered and could be comprised of:
    - Multi-room suites to accommodate guests for 2-3 nights or extended stay.
    - King and double-queen traditional guest rooms.
- The guest rooms should offer similar amenities throughout all of rooms. These amenities should include a flat panel 42"-48" HD TV -with the ability to use mobile multimedia that guest bring with them that will broadcast through in room TV's; refrigerator and limited wet bar/ kitchenettes (potentially in suites), in-room beverage and snack selections, coffee maker, desk will likely not be necessary and free computer wireless access, ergonomic seating, task lighting, and multiple accessible power outlets. This is the project standard of quality and amenities by which the competitive set will compare itself.

- Conference and meeting space of less than 800 square feet may be a significant attraction to the potential project and would assume some additional risk. There have been many cases in which branded hotels has made concessions to their brand model and included small or medium meeting space. This variance to the brand standards allows for a competitive advantage over market competitions. Many independent hotels also take on this strategy although we did not identify a high level of group and meetings demand within the subject market.

  The meeting space, if it were considered by a development group, would be needed to be competitive in the social gathering and small business market. The conference and meeting space should be comprised of:
    - Meeting space for small gatherings
    - Small private boardroom is likely not necessary as part of that flexible meeting space.
    - Small prep-kitchen, storage, restroom, and back-of-house space for local catering to facilitate food service.

- The surface-level accessible parking, offering a safe, secure environment that is easily accessible and well lit. Electric vehicle charging stations should also be provided to hotel guests, free or for a fee.
- Health and fitness facility offering expanded fitness options- open 24/7, with state-of-the-art equipment; a contemporary water feature with an indoor or outdoor pool would likely be necessary to be competitive in the seasonal leisure market.
- Large lobby space with dedicated Food & Beverage Area, a place for guests to get ready for their day during breakfast and relax and unwind in the evening. This area should reflect style and comfort, with the following minimum basic services:
    - Premium coffee selections.
    - Full breakfast service.
    - Limited service bar (beer and wine license) offering small snacks and limited dining options or managers reception would be competitive and attract travelers.
    - Upscale entertainment features such as high-end TVs and sound systems, table top computers, potential gaming area; the lobby will be designed to allow it to double as a living room area and gathering place for guests.
- The hotel as mentioned above should offer limited food options that are simple to prepare and execute. The facility should offer limited breakfast menu and possibly a convenience store area.

SUMMARY CONCLUSIONS

- Market has reported steady growth from 2011-2017 averaging 53.2 percent over that period. In fact, 2016 and 2017 achieved record highs in occupancy at 56 percent and ADR at $96.50-$97.50.
- Tourism is an economic driver in area through the summer and early fall seasons as its peak season, but also has year-round tourism impact from the leisure market segment.
- Proposed subject hotel should exceed the competitive product in the market because it is new and could offer more attractive amenities than the existing hotels. This can be accomplished with a variety of guest accommodations and critical meeting areas as proposed earlier.
- The site should focus on both visibility and accessibility to *transient* and *social* demand generators. The market drives a stable occupancy and consistent average rate that is seasonally driven.
- The subject hotel will likely run occupancy upon opening in the mid 50 percent range in a partial year and exceed mid 60 percent range by the third year of operation, market average, at a likely rate of $105 (low) to $120 (high) range, based on services and amenities, in year three.
- Occupancy should be expected to reach a five-year average of 65 percent (low) to 70 percent (high) and stabilize occupancy in the mid-60 percent range by Year 3, at or near 63-65 percent.

CONCLUSIONS: FEASIBILITY REVIEW

PROJECTION OF INCOME & EXPENSE

The following financial analyses scenario is presented for the potential subject property based on industry guidelines as reported by STR in the 2017 Annual HOST report, individual comparable operating statements from our database of hotel statistics and regional or geographical trends. All financial data are presented according to the three most common measures of industry performance: inflated ratio to sales, amounts per available room (PAR), and amounts per occupied room night (POR). Hotel revenues were projected based on the historical trends of managed business and the above-mentioned standards or guidelines. The pro forma does include estimated property taxes at the limited service national average as reported by STR.

This forecast is based on the facilities program set forth previously as a Best Western Plus facility, as well as the occupancy and average rate forecast for the subject hotel based on the competitive sets' forecasted performance. The forecast of income and expense is expressed in current dollars for each year. A stabilized year is intended to reflect the anticipated operating results of the property over its remaining economic life or typical 10-year period. The 10-year period reflects the typical holding period of hotel real-estate. Thus, income and expense estimates from the stabilized year forward excludes the future impact of supply and demand relationship, as well as any nonrecurring or unusual revenues or expenses.

Hotel
Based on the projections and prior information prepared, the consultant projects a five-year operating pro forma for a 75-room hotel with limited service food & beverage programming at some cost. The forecast represents a first full year of operation opening 2020 allowing for construction.

The following projections of income and expense are based on historic comparison of properties in our data base and the national operating statistics for limited service hotels; specifically lodging facilities with limited food & beverage offerings, also termed limited service properties. It is estimated that the subject facility will take 3 years to reach stabilized level of operation. More specifically, we have reviewed all estimated historic performance and for discussion and comparison purposes, will discuss Year 3 of operation (2022) as the stabilized year of business.

Hotel revenue projections indicate that at Year 3 of stabilized business, the facility would generate estimated revenues of $2,285,000 million—to include room revenues of $1,923,000 million for the facility, $362,000 in miscellaneous revenues, including vending and in room sales of food & beverage or lobby market. Many new hotels serve breakfast and the operator can choose to charge for it or make it inclusive of the nightly rate. Adding a market and limited beer, wine or alcohol sales in the lobby allow for additional revenues. The latter was forecasted and limited revenues were represented in the following model.

Sales tax and room tax are not traditionally reported on hotel operational models and are considered pass through costs that are collected and paid to a local agency. The tax collection and impact will be discussed later in the study.

The property should achieve total occupancy by running at or near 63 percent occupancy and an ADR near $110.00; a $13.00 to $15.00 premium amount compared to the competitive set based on current economic trends and inflation.

Also forecasted are additional revenues from overnight guests and local consumers with other revenues—such as a grab-and-go convenience shop, in room refreshment centers, vending, convenience kiosks, increased Wi-Fi, and miscellaneous in the other income.

Rooms Departmental Expense estimates are projected at 20 percent of room revenue or $374,000 in annual expense. Rooms expense primarily consist of those expenses related to the sale and operation of the guestrooms. Such expenses include payroll, salaries and benefits for both guest services and related property cleaning and departmental direct expenses. The departmental expenses also include reservation processing fees (for either independent or franchised hotels), commissions, cost of guest supplies, laundry and linen, uniforms, and other related costs.

The industry and our data suggests rooms expense ranging between 20 percent and 25 percent of rooms revenue when comparing limited-service properties in the midscale to upper midscale segment; on a per-occupied-room basis, the range was between $15.00 and $30.00. We have projected rooms expense for the proposed subject hotel at 22 percent in the first year (or $21.68 per occupied room), stabilizing at 18 percent in 2024 (or $21.00 to $23.00 per occupied room). The proposed subject hotel's rooms department expense has been positioned based upon our review of the type and size of the property.

Food & Beverage Expenses consist of the items and staffing necessary for the operation of a hotels food, restaurant. bar and banquet facility (as applicable). These expenses include payroll, salaries, benefits, the direct cost of inventory for both food and beverage items, and all related expenses related to the food outlets such as china, glass, linen and uniforms. Costs or expenses would be estimated at a minimum of 75 percent of food & beverage revenues as a national average. It is typical banquets revenue yields a higher profitability based on the planning and structured cost of events and should be considered even if at a limited level. These percentages are comparable to similar operations and industry comparisons.

Telephone Department Expenses are based on the experience of the similar hotel properties. The increasing use of cellular phones and expectation of free high-speed internet access has cut the gross and net revenue figures in this department across the industry in the last few years yet the infrastructure still carries costs associated with maintaining internet and property phone service. It is assumed that internet would be provided for free in this hotel and that costs would therefore be higher than revenue for telephone and internet***.***

Rentals and Other Income & Expenses This category is typically comprised of interest, commissions on vending machine sales, movies, and other miscellaneous income. This income category is typically highly dependent on occupancy and has a very low expense ratio.

Undistributed Expenses relates to items not directly attributed to specific operating departments. This category includes utilities and general repairs and maintenance. Property operations and maintenance expense is another expense category that is largely controlled by management and ownership of a property. Except for repairs that are necessary to keep the facility open and prevent damage such as heating, electrical items, and plumbing repairs; most maintenance can be deferred for varying lengths of time. Long-term capital maintenance is an accumulating expense and if is postponed over a period of time it is not eliminated, simply deferred to a later date and likely increased proportionately over time. A lodging facility that operates with a lower-than-normal maintenance budget is likely to accumulate a considerable amount of deferred maintenance.

Utilities are forecasted at a ratio of nearly 5 percent of sales or $112,000, estimated at $6.50 per occupied room, and 1,500 per available room which is within the typical range of allowable expenditure in the industry. Utility costs include water, sewer, gas, electricity, heating and cooling. Costs of utilities vary based on location, seasonality and occupancy. Typically, electricity tends to be the most expensive utility which is why many hotels are now looking into solar energy. As a percentage of total revenue, standards of operations indicate utility expenses range from 3.5 to 5.1 percent, or $997 to $1,651 per available room.

Repairs & Maintenance are projected at 5.0 percent of revenues totaling $6.20 to $6.50 per occupied room night; and $1,480 per available room. As a percentage of total revenue, standards of operations indicate a property operations and maintenance expense range from 4.7 to 5.5 percent, or $1,088 to $1,536 per available room.

Administrative & General costs include general manager payroll, benefits, incentives and related expenses of the hotel management staffing for those who are not directly associated with a revenue department. This expense also includes the cost of various administrative functions and supplies such as credit card commissions, professional fees, bookkeeping, allowance for bad debts, travel expenses and miscellaneous. Most administrative and general expenses are relatively fixed as a relation to occupancy and percent of sales. This category is projected at 7.9 percent of total revenue or $180,000 and per available room amount of $2,400. As a percentage of total revenue, standards of operations indicate administrative expenses to range from 8.5 to 10.5 percent, or $2,648 to $6,492 per available room.

Marketing Expenses consist of all costs associated with the marketing, advertising, sales and promotion of a property ant the property and includes franchise marketing as well. The result of this expenditure is to attract and retain a customer base. Initial marketing can be used to develop a brand or image especially in the boutique or soft brand affiliated properties. This expense category includes payroll, benefits, incentives and related expenses, the cost of advertising and promotion, direct mail, publications, printing and placement, e-mail and Internet campaigns; at a total of $142,000 or 6.2 percent of property revenues and $1,900 per available room. As a percentage of total revenue, standards of operations indicate marketing expenses to range from 3.7 to 6.0 percent, or $700 to $2,700 per available room. For non-branded hotels or boutique properties marketing expenses may trend higher, close to 6 to 8 percent based on the lack of franchise fees including brand marketing and royalty fees.

Franchise fees were estimated into the evaluation based on industry averages for franchise agreement ranging from 5 to 6 percent of total revenues. For consideration, it is customary for the brand to charge 4 to 9 percent of revenues if a franchise would be considered. Franchise fees vary based on the brand and typically also charge additionally for royalty fees, marketing fees and customer loyalty programs. The customary range of franchise fees for evaluation purpose is 7 to 10 percent. The consultant showed 6 percent and $135,00 annually for franchise fees. Royalties and additional marketing costs would be in the marketing expense.

Management Fees are contracted costs affiliated with the managing company of the facility or in an owner operator model, fees for the oversight and management of the facility to include professional fees. Some management contracts specify only a base fee as a percentage of gross revenue ranging from 2-4 percent (or monthly minimum for startup properties); while most have incentive clauses based on revenue and profitability of the operation. These are often calculated as a percentage of income available after fixed costs such as debt service, insurance and taxes.

Management fees are estimated at $80,000 or 3.5 percent of total hotel revenue, which is within the range of customary fee structures. Projections do not include an incentive to the management company based upon performance of preferred return to investor group based on initial capital investment, typical within the industry. Actual fees will vary depending upon other contract terms and managed amenities such as restaurant, banquets, and other property outlets.

Fixed Expenses include items that are relatively fixed and not sensitive to the operating levels of the facility. Property taxes vary across the U.S. but are typically based on the real value of the property. Tax rates are based on the national average and that of the consultants managed properties. The tax evaluation of the subject property was based on industry percentage of total revenue, standards of operations indicating a range from 4.3 to 5.2 percent, or $1,000 to $1,400 per available room. Taxes were estimated at3.7 percent or $85,000.

Insurance Expense consists of the cost of insuring the lodging facility and its contents against damage from fire, weather, water infiltration etc. General insurance costs include premiums relating to liability and theft coverage for a business. Insurance rates are based on many factors, including building design and construction, fire prevention systems and vary with the fluctuation in occupancy. Insurance was estimated at the regional average of $290 per available room, totaling $22,000. As a percentage of total revenue, standards of operations indicate insurance expense to range from .07 to 1.5 percent, or $240 to $320 per available room.

Reserve for Replacement is standard for income-producing properties, a reserve for replacement for furniture, fixtures, and equipment, as well as other capital items has been included in this analysis. Recent studies have indicated that, over the long-term, a minimum of 1 to 2 percent is required to properly maintain hotel facilities and actual costs could be higher. The reserve is calculated at 2 percent and $46,000.

In summary, the overall cash flow available for debt service after a 3.5 percent management fee, a 2.0 percent reserve for replacement allocation and taxes at 3.7 percent; Net Income is projected at 33.1 percent of total revenue or $757,000 in 2020 and is primarily comprised of rooms revenue; this is an average range and can be characterized as average performance.

As a percentage of total revenue, standards of operations indicate net income of a limited-service property to range from 35.6 to 43.7 percent, or $8,400 to $12,615 per available room. This economic model allows for $8,800 to $12,600 per avail room or 33 percent for debt service.

The first full 5-year operating pro forma follows and the 10-year inflated ratio to revenue, inflated amounts per available room, and inflated amounts per occupied room night were produced by the consultant for the subject hotel were provided in a separate file.

Cambridge MN Subject Hotel
Projected Operating Results
Calendar Years

	2020		2021		2022		2023		2024	
Number of Units:	75		75		75		75		75	
Number of Annual Rooms Available:	27,375		27,375		27,375		27,375		27,375	
Number of Rooms Occupied:	15,330		16,430		17,250		18,070		18,620	
Annual Occupancy:	56.0%		60.0%		63.0%		66.0%		68.0%	
Average Daily Rate:	$105.00		$108.25		$111.50		$114.75		$117.75	
Revenue Per Available Room:	$58.80		$64.95		$70.25		$75.74		$80.07	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenues										
Rooms	$1,610,000	84.0%	$1,779,000	84.1%	$1,923,000	84.2%	$2,074,000	84.2%	$2,193,000	84.2%
Food & Beverage	242,000	12.6%	265,000	12.5%	286,000	12.5%	307,000	12.5%	324,000	12.4%
Other Income	64,000	3.3%	71,000	3.4%	76,000	3.3%	82,000	3.3%	86,000	3.3%
Total Revenues	1,916,000	100.0%	2,115,000	100.0%	2,285,000	100.0%	2,463,000	100.0%	2,603,000	100.0%
Departmental Expenses										
Rooms	356,000	22.1%	364,000	20.5%	374,000	19.4%	383,000	18.5%	392,000	17.9%
Food & Beverage	176,000	72.7%	194,000	73.2%	208,000	72.7%	224,000	73.0%	236,000	72.8%
Telecommunications	14,000	0.0%	14,000	0.0%	14,000	0.0%	15,000	0.0%	15,000	0.0%
Total Departmental Expenses	546,000	28.5%	572,000	27.0%	596,000	26.1%	622,000	25.3%	643,000	24.7%
Departmental Profit	1,370,000	71.5%	1,543,000	73.0%	1,689,000	73.9%	1,841,000	74.7%	1,960,000	75.3%
Undistributed Expenses										
Administrative & General	159,000	8.3%	170,000	8.0%	180,000	7.9%	191,000	7.8%	200,000	7.7%
Marketing	122,000	6.4%	133,000	6.3%	142,000	6.2%	151,000	6.1%	159,000	6.1%
Franchise Fees	113,000	5.9%	125,000	5.9%	135,000	5.9%	145,000	5.9%	154,000	5.9%
Property Operation and Maintenance	101,000	5.3%	108,000	5.1%	111,000	4.9%	114,000	4.6%	117,000	4.5%
Utilities	97,000	5.1%	105,000	5.0%	112,000	4.9%	119,000	4.8%	125,000	4.8%
Other Undistributed Expenses	16,000	0.8%	18,000	0.9%	19,000	0.8%	20,000	0.8%	22,000	0.8%
Total Undistributed Operating Expenses	608,000	31.7%	659,000	31.2%	699,000	30.6%	740,000	30.0%	777,000	29.9%
Gross Operating Profit	762,000	39.8%	884,000	41.8%	990,000	43.3%	1,101,000	44.7%	1,183,000	45.4%
Base Management Fee	67,000	3.5%	74,000	3.5%	80,000	3.5%	86,000	3.5%	91,000	3.5%
Fixed Expenses										
Property Taxes	80,000	4.2%	82,000	3.9%	85,000	3.7%	87,000	3.5%	90,000	3.5%
Insurance	21,000	1.1%	22,000	1.0%	22,000	1.0%	23,000	0.9%	23,000	0.9%
Total Fixed Expenses	101,000	5.3%	104,000	4.9%	107,000	4.7%	110,000	4.5%	113,000	4.3%
Net Operating Income	594,000	31.0%	706,000	33.4%	803,000	35.1%	905,000	36.7%	979,000	37.6%
FF&E Reserve	38,000	2.0%	42,000	2.0%	46,000	2.0%	49,000	2.0%	52,000	2.0%
Net Income After Reserve	$556,000	29.0%	$664,000	31.4%	$757,000	33.1%	$856,000	34.8%	$927,000	35.6%

CRITICAL DEVELOPMENT CONSIDERATIONS

The following section of the report suggests critical industry hotel development strategies that should be considered when evaluating the development of a hotel project such as the one studied in this report. These strategies are common to hotel development and the necessary due diligence in evaluating the subject market and subject site for the proposed hotel. Also reviewed are potential barriers to development that may have been uncovered in the supplied research within this report. Critical issues may/may not have a direct effect on the hotel development.

Subject Market

The Cambridge area is a market that is expanding and currently experiencing growth, especially in the leisure market. Currently demand is regionally spread and the specific market is not seen as a strong market for hotel operation, but is above regional statistical reporting and improving, based on the historical trend of the competitive set.

Growth in Lodging Supply

The most recent addition to Lodging Supply in this market was in 2006 (the Best Western Coon Rapids 40 minutes form the subject market) and although at present there are no new hotels planned in the immediate region; it is likely given the current occupancy and ADR trends in the Twin Cities of Minneapolis and St. Paul that additional supply will enter the region and could affect the subject market. Currently no other Lodging Supply growth was factored into the projections for the near term. It is estimated that new product in the region should capture more than its fair share of demand given the age of properties in the competitive set.

Growth in Lodging Demand

Lodging Demand has kept up with the changes in supply and has resulted in steady increases in the last 5 years. The historic combined average growth rate in occupied rooms in the subject market averaged 2.5 percent per year from 2011 through 2017. Based on industry outlook and research performed it is projected that the market should continue to see positive growth for 2018. The average rate also experienced positive rate of growth at 3.2 percent over the same period and is expected to show positive growth in 2018.

Development Incentives

The development culture and attitude of the community would be defined as opportunistic and supportive of development. There appears to be strong interest in developing a hotel in this immediate area from the community. The benefits to the city are significant. The community willingness to assist in the approval process for a hotel project suggests that there is potential for development incentives.

Property Tax

Detailed review of the tax structure in the subject market was not executed within the scope of this report and national averages by property class were provided. A development group should analyze the property tax structure within the market

Project Scope: Franchise or Independent Affiliation

It has been estimated that a limited or select service franchise property would have a higher potential of success in this market. The franchise affiliation should allow the subject property to stabilize occupancy and grow market share quicker than an independent property. This also depends on the exact site selection of the project. The proper brand affiliation is required and the development group should be very selective of the brand.

Franchise Protection

Franchise companies restrict area development so that brands within a franchise company to not directly compete against one another for the same consumer, thus allowing for the family to maximize market share in a competitive set. This is defined as an area of franchise protection. It is recommended that to ensure that there is no encroachment by a similar hotel brands in the market area the development group negotiate with franchise brands to ensure adequate protection against future development for a period of stabilization and beyond.

Project Marketing

This hotel should be marketed beyond the community in which it is positioned and would likely need the assistance of broad franchise awareness and draw. The hotel will require effective marketing to the surrounding regional attractions and businesses. The location of the subject hotel, away from other major lodging demand generators will require aggressive marketing to make and keep the market aware of the hotel.

CERTIFICATION, ASSUMPTIONS, AND LIMITING CONDITIONS STATEMENT

The above report is presented to provide information on the market in which the subject property will perform. The report is to be used in whole and not in part. The research provided in this report was obtained from review of supportive data and information. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property and market.

All information, financial operating statements, estimates, and opinions obtained from parties not employed by the consultant are assumed true. It should be understood that normal economic and marketplace conditions change constantly. The consultant assumes no responsibility for information that becomes outdated once this report is written, nor is it responsible for keeping this information current after March 2018. The consultant takes no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.

None of this material may be changed or reproduced in any form without the consultants' written permission, and the report cannot be disseminated to the public through advertising, news, sales, or other media.

It should be understood that the results presented in this report are the opinions of the consultant team and are based upon the information available at this time. These opinions infer proper and professional management of the business operation. The opinions also infer that market conditions do not change.

The estimated operating results presented in the report are based on an evaluation of the overall economy. The quality of a hotel facility's onsite management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume the responsible ownership and competent management. Any departure from this assumption may have a significant negative impact on the projected operating results.

The consultants' company routinely seeks opportunities to consult, develop, and manage boutique and branded hotels in the region. Our consulting engagements include a fee structure for a specific scope of work. These engagements occasionally result in a minor equity interest or long-term management contract for a prospect facility. The consultant has no current or contemplated interests in the real estate that is the subject of this report. The fee paid for the preparation of this report is not contingent upon the conclusions, upon occurrence of a subsequent event directly related to the intended use of this report, or that our engagement was contingent upon developing or reporting predetermined results.

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 the consultants' experience and other factors not specifically set forth in this report. If the reader is making a fiduciary or individual investment decisions and has questions concerning the material presented, it is recommended that the reader contact the consultants.

The consultants prepared this study. The statements of fact presented in this report are true and correct to the best of the consultants' knowledge and are rendered by the staff of the consultants as employees rather than as individuals. The reported analyses, opinions, and conclusions presented in this report are limited only by the assumptions and limiting conditions set forth, and they are the consultants' personal, impartial, and unbiased professional analyses, opinions, and conclusions. The consultants have extensive experience in the hospitality industry, hotel & restaurant management, hospitality development, and in the evaluation of hotels; the consultants believe that we are competent to undertake this study.

This report may or may not prove to be acceptable for external investing and/or lending purposes. An investor or lender may require additional information concerning this market's ability to support this hotel. Our responsibility is limited to the client, and the use of the final report by others shall be solely at the risk of the client and/or third parties. The report is also subject to the terms and conditions set forth in our engagement letter with the client.

GLOSSARY OF HOSPITALITY TERMS

The following definitions of industry terminology are derived from the Uniform System of Accounts for the Lodging Industry (10th Revised Edition).

Type of Hotel

Full-Service Hotel – Generally mid-price, upscale, or luxury hotels with a restaurant, lounge facilities, and meeting space as well as minimum service levels that often include bell service and room service. These hotels report food & beverage revenue.

Limited-Service Hotel – Hotels with rooms-only operations (i.e., without food & beverage service) or hotels that offer a bedroom and bathroom for the night but few other services and amenities. These hotels are often in the mid-price, and budget or economy groups and do not report food & beverage revenue.

There are also upscale or luxury hotels that do not manage their food & beverage operations (e.g., leased to a third party) that are categorized as limited-service hotels.

Boutique Hotel - These are hotels that appeal to their guests because of their unusual amenity and room configurations. They are normally independent, smaller than 100 rooms, have a high average rate and offer high levels of service. Boutique hotels often provide authentic cultural or historic experiences and interesting services to guests. There are select chains considered "Boutique" in the STR database, they are the Autograph Collection (Marriott International), Dream Hotel (Wyndham Worldwide), Exclusive Hotels, Joie De Vivre, Kimpton Hotels, and W Hotel (Starwood Hotels & Resorts).

B&B/Inn - These establishments are independently owned and operated; most include breakfast in the room rate, have 20 rooms or less and have a resident/owner innkeeper.

Condo Hotel - A condominium hotel is a property where a specified part of a piece of real estate is individually owned while use of and access to common facilities in the piece such as hallways, heating system, elevators, exterior areas is executed under legal rights associated with the individual ownership and controlled by the association of owners that jointly represent ownership of the whole piece.

Lifestyle - Lifestyle hotels tend to be small to medium sized hotels (100-180 rooms) that provide highly personalized ancillary services that appeal to a particular demographic. They have unique design, amenities, configuration and functionality that better serves the target demographic. Brands that are always included in the "Lifestyle" category are aloft Hotels (Starwood Hotels & Resorts), Edition (Marriott), Hotel Indigo (InterContinental Hotels), element (Starwood Hotels & Resorts), NYLO and Jumeirah Hotels.

Dual-brand hotels - A property that combines two hotels that operate separately but share economies of scale deriving from the sharing of resources such as back-of-house operations. Usually such properties combine two brands from one hotel chain, but there are examples of one building containing two flags from different hotel companies. Commonly referred in the United States as "two-pack hotels." There also exist examples of three-pack hotels, although this property type is less common.

Soft brands - Individualized or independent hotels that give owners and operators the opportunity to affiliate with a major chain distribution while retaining their unique design, name and orientation. There is typically slight branding identification at the property level without the need for a property to adhere to brand standards.

Revenues

Rooms – Revenues derived from the rental of sleeping rooms at the hotel, net of any rebates and discounts.

Food – Revenues derived from the sale of food, including coffee, milk, tea, and soft drinks. This is also often reported by the various meal periods served: breakfast, lunch, dinner, and room service.

Beverage – Revenues derived from the sale of beverages, including beer, wine, and liquors. Also includes banquet beverage revenues.

Other Food & Beverage – Revenues derived from other sources such as meeting room rentals, cover or service charges, or revenues derived from the sale of goods or services made in connection with banquets, such as equipment rental, music, decorations, and souvenirs. Also, includes banquet service charges.

Telecommunications – Revenues derived from guest use of telephones in the hotel, including local and long-distance calls, service charges, high-speed or wireless Internet, and commissions.

Other Operated Departments – Revenues generated from garage and parking, guest laundry, golf and tennis, health club, spa, swimming pool, barber/beauty shop, gift shop, newsstand, etc., when operated by the hotel (excluding casinos).

Rentals and Other – Income from rentals of space for business purposes, including concessions in any of the departments mentioned under Other Operated Departments. Includes income generated from sources not included elsewhere but excludes investment income.

Cancellation Fees – Fees incurred as a result of group cancellations (e.g., group attrition fees).

Departmental Expenses

Rooms – Rooms departmental expenses include labor costs such as salaries and wages for front desk, housekeeping, reservations, bell staff, and laundry, plus employee benefits. Other operating expenses in the rooms department include linen, cleaning supplies, guest supplies, uniforms, central or franchise reservation fees, equipment leases, and travel agent commissions.

Food and Beverage (F&B) – Food & Beverage departmental expenses include the cost of goods sold (food & beverages), labor and related benefits, and other operating expenses. Labor costs include departmental management, cooks and kitchen personnel, service staff, banquet staff, and bartenders. Other operating expenses include china, silverware, linens, restaurant and kitchen supplies, menus and printing, and special promotions.

Telecommunications – Telecommunications departmental expenses include costs of calls, cost of Internet service, and other related expenses but exclude capital lease payments.

Other Operated Departments & Rentals – Other departmental expenses would comprise those expenses (labor and other) that offset the revenue generated by other operated departments, such as garage, guest laundry, athletic facilities, and gift shop, as well as rental activity.

Undistributed Operating Expenses

Administrative and General (A&G) – Included in this category are the payroll and related expenses for the general manager, human resources and training, security, clerical staff, controller, and accounting staff. Other A&G expenses include office supplies, computer services, accounting and legal fees, cash overages and shortages, bad debt expenses, travel insurance, credit card commissions, transportation (non-guest), and travel and entertainment.

Marketing – Marketing expense includes payroll and related expenses for the sales and marketing staff, direct sales expenses, advertising and promotion, travel expenses for the sales staff, and civic and community projects. Includes national advertising fee or assessment paid to franchise company plus cost of frequent guest stay programs.

Utility Costs – Utility expenses typically include electricity, fuel (oil, gas, and coal), purchased steam, and water. Includes central plant and energy management systems.

Property Operations and Maintenance – This category includes payroll and related expenses for maintenance personnel, cost of maintenance supplies, cost of repairs and maintenance of the building, furniture and equipment, the grounds, and the removal of waste matter.

Franchise Fee – Includes only the royalty fees charged by franchise companies.

Management Fees – Fees charged by management organizations for management services or supervision. Includes both base and incentive fees.

<u>**Fixed Charges**</u>

Property Taxes – Typically include taxes on real estate, business and occupation, personal property, utilities, and other municipal taxes.

Insurance – Cost of insuring the hotel building and contents against fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, or other perils such as terrorism. Includes all insurance except workers' compensation.

Land and Building Rent – Includes charges for lease of land and/or building.

Equipment Rental – Includes capital leases for rental of data processing equipment, telephone equipment, and other major items.

Interest – Includes all interest expenses on any obligations such as mortgages, notes payable, bonds, debentures, taxes in arrears, or any other indebtedness on which interest is charged.

Depreciation and Amortization – Deductions on the building, leaseholds and leasehold improvements, furnishings and equipment, and assets held under capital leases.

Other Fixed Charges – Includes any other expenses that relate to the ownership of the hotel, and gains or losses from any sale of assets.

<u>**Other Terms**</u>

Number of Occupied Room Nights – Rooms occupied by hotel guests on a paid basis.

Price Category – Categories of properties defined through price perception to the consumer: Luxury, Upscale, Mid-Price, and Economy.

Location – Urban, suburban, airport, interstate, resort, small metro/town.

Competitive Set - A competitive set consists of a group of hotels by which a property can compare itself to the group's aggregate performance. There must be a minimum of three hotels in any competitive set evaluation report by STR. To protect proprietary data, a single hotel or brand cannot exceed 40 percent of the competitive set for North American hotels and 50 percent for hotels outside of North America. A single hotel company (i.e. Marriott brands, Choice brands, etc.) may only comprise 60 percent of the competitive set room supply.

Chain Scale – Luxury chain, upper upscale chain, upscale chain, midscale chain with food & beverage (F&B), midscale chain without F&B, economy chain, independents.

Reserve for Capital Replacement – Amount set aside for replacement of furniture, fixtures, and equipment (as may be required by loan, franchise, or management agreement).

Average Daily Rate (ADR) – Room revenue divided by rooms sold. The currency used to express ADR is shown on each report.

Demand (Rooms Sold) – The number of rooms sold or rented (excludes complimentary rooms).

Market – A geographic area within a country. Markets are defined by STR and STR Global.

Occupancy – Rooms sold divided by rooms available multiplied by 100. Occupancy is always expressed as a percentage of rooms occupied.

Percent Change – Amount of growth: up, flat, or down; this period versus same period last year (month or year-to-date). Calculated as ((TY - LY) / LY) * 100.

RevPAR – Revenue per Available Room or room revenue divided by rooms available.

Affiliation- A nationally recognized brand, portfolio or chain (franchise).

Management Company- A company that manages hotels for owners typically in return for fees and/or a share of revenues. A management company may or may not have any of its own funds invested in a hotel that it manages.

Asset Management Company- Hotel asset management is the fiduciary responsibility of managing the lodging investment to meet the specific objectives of ownership. The asset manager's role in building value is analyzed at both the portfolio and property levels.

Hotel Location Identifiers

Urban- A densely populated area in a large metropolitan area. (E.g. Atlanta, Boston, San Francisco, London, Tokyo.).

Suburban- Suburbs of metropolitan markets. Examples are Sags Harbor and White Plains, New York, near New York City, USA and Croydon and Wimbledon near London, UK. Distance from center city varies based on population and market orientation.

Airport- Hotels in close proximity of an airport that primarily serve demand from airport traffic. Distance may vary.

Interstate- Hotels in close proximity of major highways, motorways or other major roads whose primary source of business is through passerby travel. Hotels located in suburban areas have the suburban classification.

Resort- Any hotel located in a resort area or market where a significant source of business is derived from leisure/destination travel. Examples are: Orlando, Lake Tahoe, Daytona Beach, Hilton Head Island, Virginia Beach.

Small Metro/Town- Areas with either smaller population or limited services, in remote locations. Size can vary dependent on market orientation. Suburban locations do not exist in proximity to these areas. In North America, metropolitan small town areas are populated with less than 150,000 people.

Destination Resorts- These are hotels that appeal to the leisure traveler, are located in resort markets and are considered a destination in themselves. They have extensive amenities, multiple pools, multiple restaurants and a normally a beautiful physical property. If a hotel has the word "resort' in its name and is part of a luxury or upper-upscale chain it is automatically considered a Destination.

Scale, Class or Price Designations

Chain Scale- The chain scale segments are based primarily on the actual, system-wide average room rates of the major chains (independent hotels are included as a separate category).
The chain scale segments are: Luxury, Upper Upscale, Upscale, Upper Midscale, Midscale, and Economy. Independent is considered a seventh Scale.

Sub-Market Scale- This segment is similar to market scale with the following exceptions: Luxury, Upper Upscale and Upscale are combined to form Upscale, Upper Midscale and Midscale is combined to form Midscale. Economy includes only Economy. The sub-market scales are: Upscale, Midscale, and Economy

Class- Class is an industry categorization which includes chain-affiliated and independent hotels. The class for a chain-affiliated hotel is the same as its chain scale. An independent hotel is assigned a class based on its ADR, relative to that of the chain hotels in their geographic proximity. The class segments are: Luxury, Upper Upscale, Upscale, Upper Midscale, Midscale, and Economy

Market Price Segments (U.S. Only)

The five categories of a metro STR market which are defined by actual or estimated average room rate. The five price categories are shown below:

Luxury - top 15 percent average room rates

Upscale - next 15 percent average room rates

Mid-Price - middle 30 percent average room rates

Economy - next 20 percent average room rates

Budget - lowest 20 percent average room rates