



Hospitality Marketers
International, Inc.

Management

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COMPREHENSIVE MARKET STUDY REPORT

COLUMBUS, MINNESOTA

MAY, 2016

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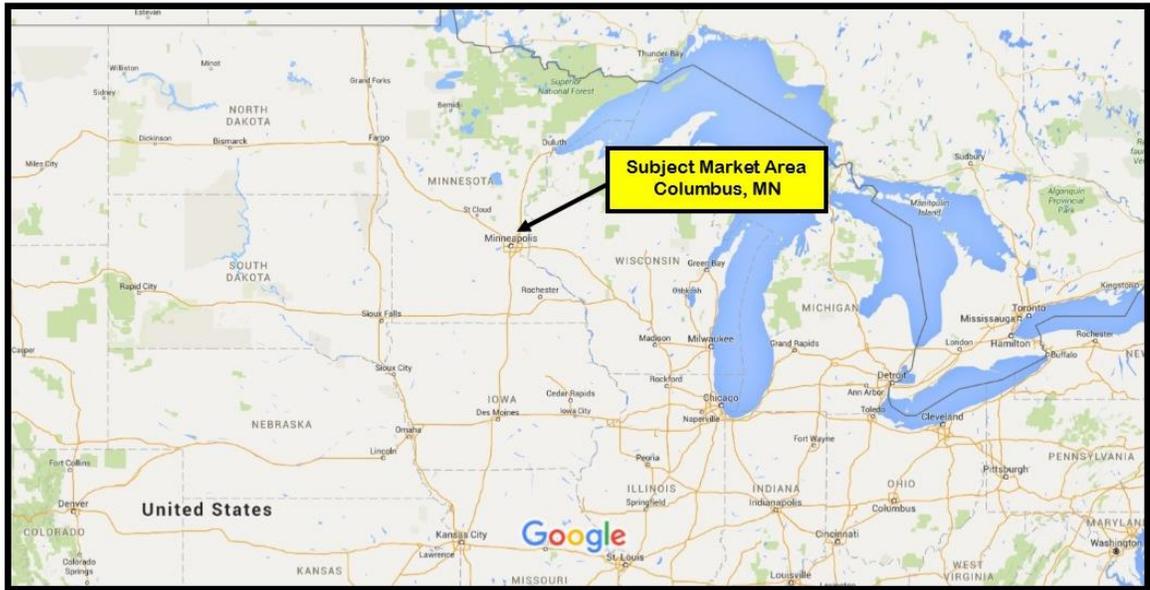
TABLE OF CONTENTS
Columbus, Minnesota

Introduction/Objective	1-2
General Market Description	3-6
Geographic Location	
General Market Characteristics	
Exhibits	
Site Analysis	7-11
General Site Overview	
Land Preparation	
Utilities	
Visibility	
Zoning and Architectural Requirements	
Accessibility	
Support Services	
Environmental Elements	
Competitive Position	
Economic Overview	12-24
General Demographic and Economic Characteristics	
Two-Mile Radius	
Four-Mile Radius	
Eight-Mile Radius	
Population and Number of Households – Overall Observations	
Household and Per Capita Income – Overall Observations	
Workforce Characteristics	
Unemployment Rates	
Labor Supply and Wages	
Transportation	
Highway Traffic	
Air Service	
Economic Conclusions	
Lodging Demand	25-44
Market Segmentation	
Market Segmentation Profiles	
Overall Market Characteristics	
Social/Leisure Profiles	
Corporate/Commercial Profiles	
Lodging Demand Potential Index	
Seasonality of Lodging Demand	
Rate Sensitivity Factor Analysis	
Feeder Markets	
Unaccommodated Lodging Demand	

Lodging Supply	45-54
Projected Occupancy and Average Daily Rate	
Rate Positioning	
Competitive Factor Analysis	
Competitive Set Lodging Performance	
Lodging Demand Growth	
Lodging Supply Growth	
Occupancy	
Average Daily Room Rates	
Revenue Per Available Room (RevPAR)	
Issues, Risks and Opportunities	55-58
Competitive Pricing Pressures	
Growth in Lodging Demand	
Market Segmentation & Profile	
Growth in Lodging Supply	
Property Taxes	
Political Climate	
Environmental Concerns	
Zoning and Architectural Concerns	
Labor Market, Supply and Wages	
Area of Franchise Protection	
Conclusions	59-65
Projected Property Performance – 75 Rooms	
Occupancy	
Average Daily Room Rate	
Projected Room Revenue	
Property Recommendations	
Property Type	
Property Size	
Property Amenities	
Sleeping Room Configuration	
Brand Affiliation	
Rate Strategy	
Opening Date	

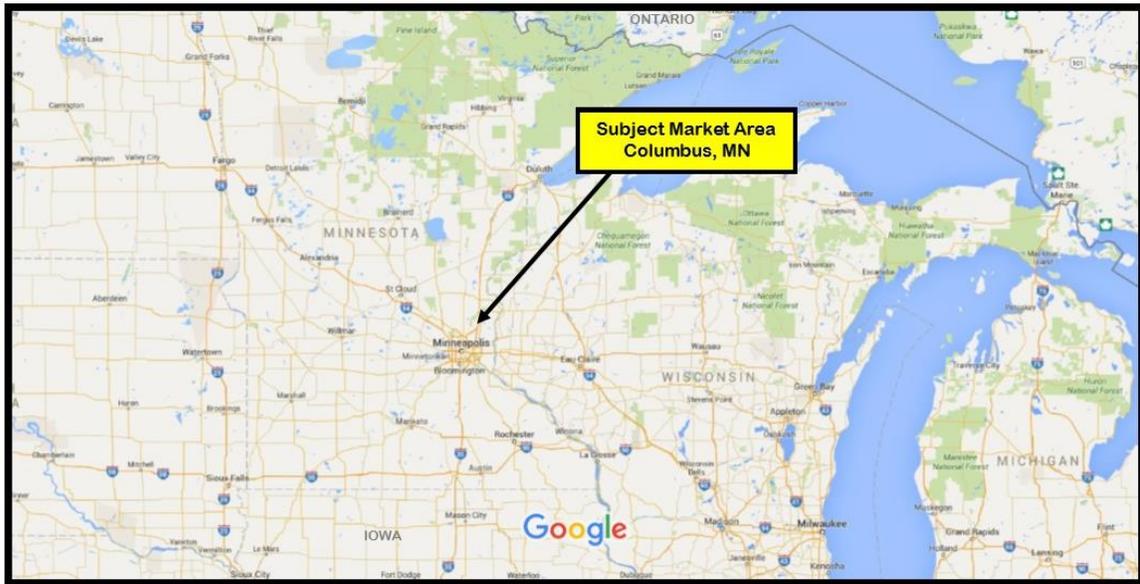
EXHIBITS

- Exhibit 1 - Geographic Relationship of the Subject Market to the Central United States
- Exhibit 2 - Geographic Relationship of the Subject to the North-Central United States Including the States of Minnesota, Wisconsin, Iowa, Michigan, North Dakota, South Dakota, and the Canadian Province of Ontario
- Exhibit 3 - Geographic Relationship of the Subject Columbus Market to Greater East-Central Minnesota and North-Western Wisconsin
- Exhibit 4 - Geographic Relationship of the Subject Market Area to Columbus, Forest Lake, Lino Lakes and the Competitive Set of Hotels
- Exhibit 5 - Geographic Relationship of the Two Subject Sites in Relation to Exit 129 on I-35 and the Columbus and Forest Lake Market Area
- Exhibit 6 - Proposed Location of the Hotel at Site Area B, which is Adjacent to the Running Aces Casino Racetrack
- Exhibit 7 - Economic Radii Analyzed in this Report



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Exhibit 1 — Geographic Relationship of the Subject Market to the Central United States



Map data ©2016 Google 50 mi

Exhibit 2 — Geographic Relationship of the Subject Market to the North-Central United States Including the States of Minnesota, Wisconsin, Iowa, Michigan, North Dakota, South Dakota, and the Canadian Province of Ontario

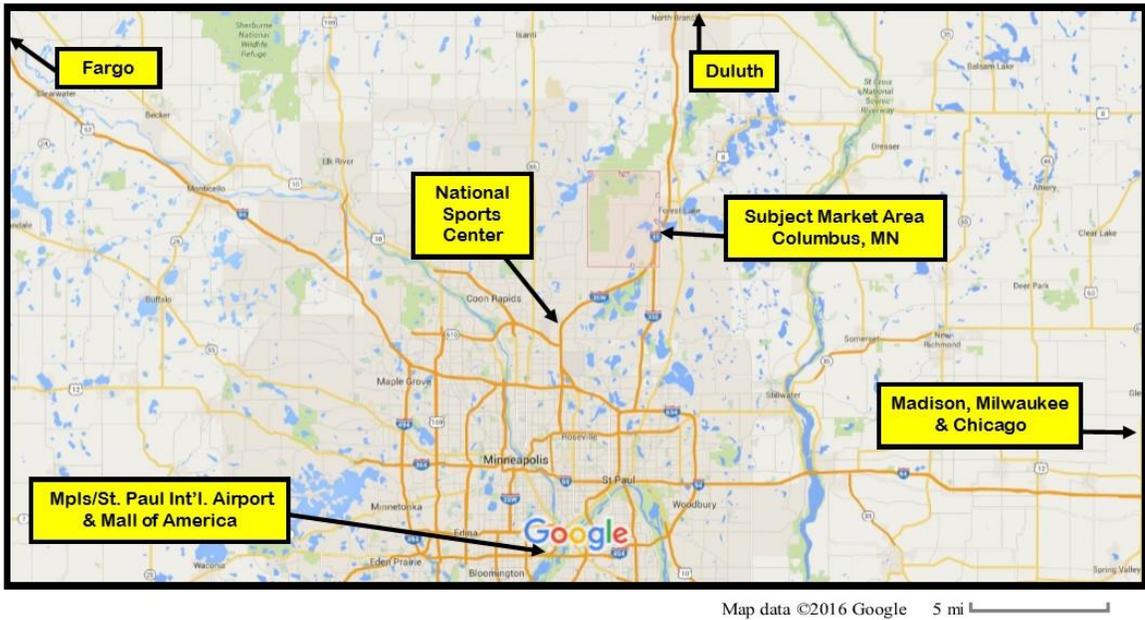


Exhibit 3 — Geographic Relationship of the Subject Columbus Market to Greater East-Central Minnesota and North-Western Wisconsin

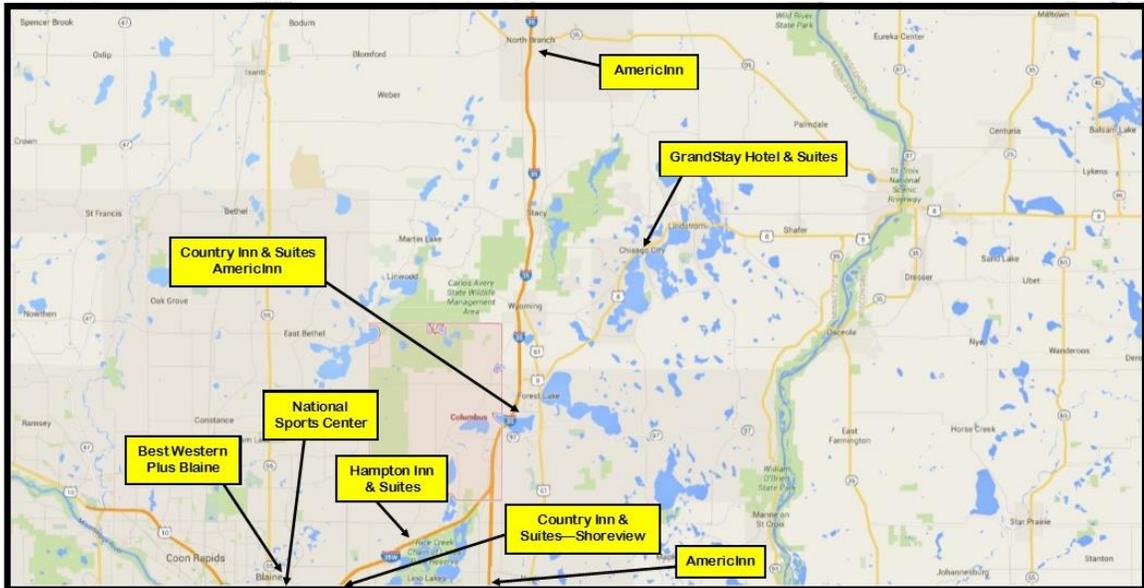
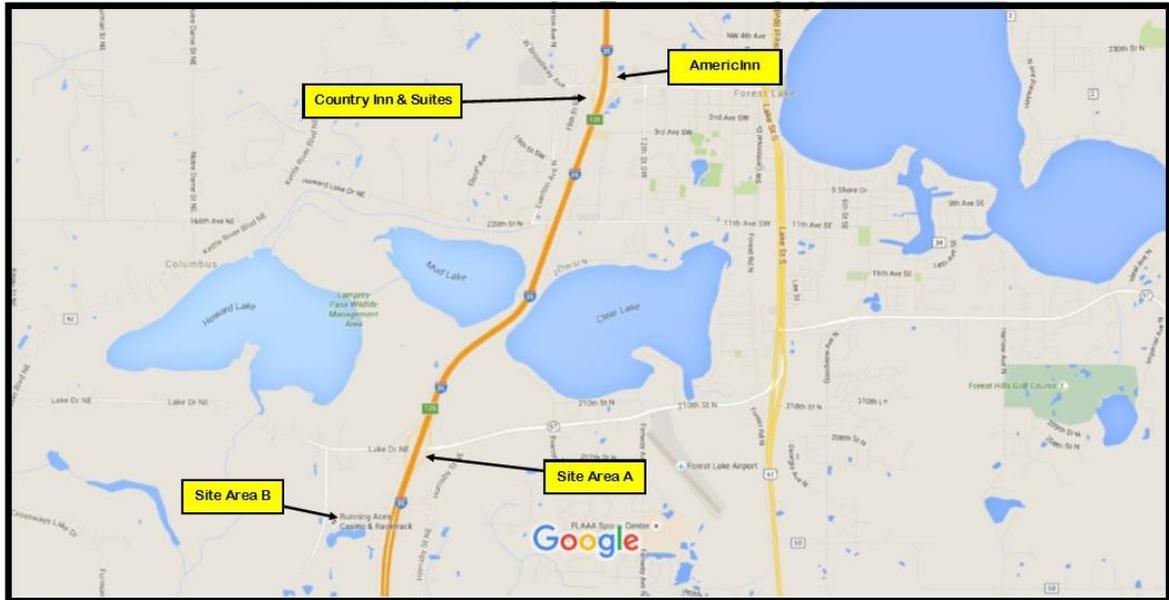


Exhibit 4 — Geographic Relationship of the Subject Market Area to Columbus, Forest Lake, Lino Lakes and the Competitive Set of Hotels



Map data ©2016 Google 200 ft

Exhibit 5 — Geographic Relationship of the Two Subject Sites in Relation to Exit 129 on I-35 and the Columbus and Forest Lake Market Area

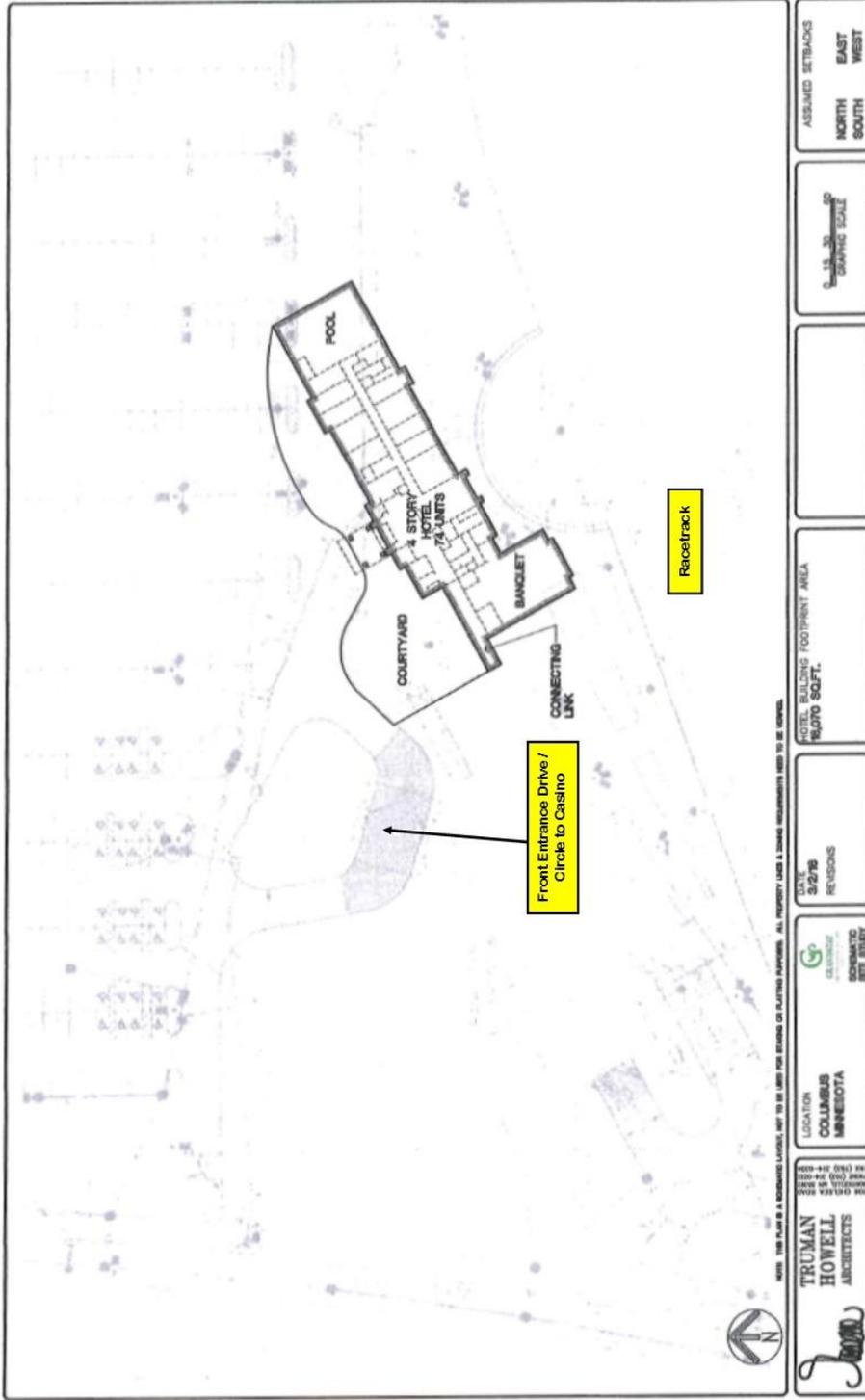


Exhibit 6 — Proposed Location of the Hotel at Site Area B, which is adjacent to the Running Aces Casino Racetrack

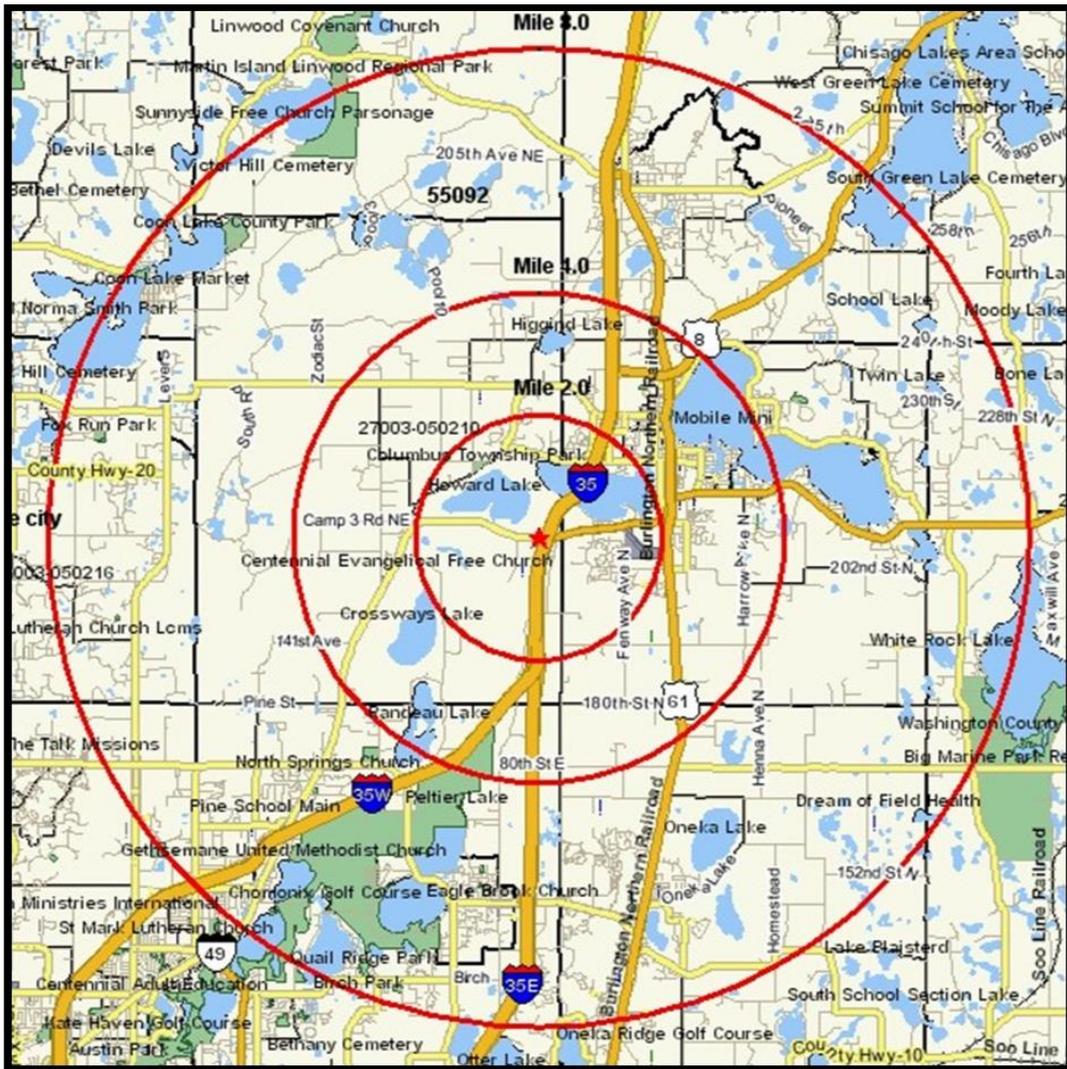


Exhibit 7 — Economic Radii Analyzed in this Report

INTRODUCTION/OBJECTIVE

Hospitality Marketers International, Inc., (HMI) has been engaged to provide this Comprehensive Hotel Market Study for the potential development of a limited-service hotel in the greater Columbus, Minnesota market area. HMI has been engaged by the City of Columbus, Minnesota to perform this market research. This report is the exclusive property of the City of Columbus, Minnesota.

During the field research for this project, two potential site areas were identified in the greater Columbus, Minnesota market area. These two site areas are reviewed in this market study and are in the general area of Exit 129 on I-35 on the east side of the City of Columbus. They are discussed in greater detail in the Site Analysis Section of this report and are better identified in Exhibit 3 and 4 of this report.

The research included in this report supports the Conclusions recommending the style and size of the proposed hotel. This market study provides information concerning the greater Columbus, Minnesota market including the communities of Forest Lake and Wyoming as well as both Anoka and Washington Counties in Minnesota and the market factors that would affect the possible development of this proposed limited-service style hotel.

The focus of this report is on developing a limited service style hotel in the subject market. Ms. Elizabeth Mursko, City Administrator for the City of Columbus, indicated that presentations had recently been made by representatives of both AmericInn and GrandStay hotels. Ms. Mursko requested that this report provide information regarding the subject market's ability to support a proposed limited-service style hotel (i.e. not a specific brand). Recommendations are presented for the number of rooms, potential hotel brands and price category.

HMI conducted comprehensive field research to determine the relationship between the subject market and the proposed hotel's Lodging Supply competitors and Lodging Demand generators. Economic indicators were reviewed to determine the stability and future growth of the subject market area.

Multiple years of Occupancy, Average Daily Room Rate, and Sales Revenue projections for the proposed hotel were based upon a detailed review of the field research data. Facility recommendations as to product type, size, brand affiliation (if any), and amenities were based upon the Lodging Demand research for the proposed hotel. At this time, the projections in this report are for a 75 room hotel. The research that was conducted included a macro- and micro-market analysis of the greater Columbus and Forest Lake market areas as well as portions of both Anoka and Washington Counties to determine the viability of this market to support the proposed hotel.

This market study report should be acceptable for internal as well as external investment and lending purposes. If, at any time, there are questions regarding this research, or if this report needs to provide specific information regarding this hotel development, HMI will be available to address the required information.

Ms. Elizabeth Mursko, on behalf of the City of Columbus has engaged HMI to perform this Comprehensive Hotel Market Study. This report is the property of the City of Columbus and any distribution, use or any other application of the Comprehensive Hotel Market Study must have Ms. Mursko's or another appropriate representative of the /city of Columbus's prior approval.

GENERAL MARKET DESCRIPTION

The subject market for this proposed limited-service style hotel is the City of Columbus, Minnesota market area. The City of Columbus is a bedroom community (for those working in Minneapolis and/or St. Paul, i.e. the Twin Cities or their northern suburbs), located in Anoka County in east central Minnesota, west of the St. Croix River which forms the Minnesota-Wisconsin state line. Listed below is a description of this subject market area.

GEOGRAPHIC LOCATION

- The City of Columbus is situated in the east central Anoka County along I-35. This location places it approximately twenty-six miles north of both downtown Minneapolis and downtown St. Paul. This proximity to the “Twin Cities” of Minneapolis/St. Paul contributes to it being a bedroom community for people commuting to work in the Twin Cities. See Exhibits 2 and 3 of this report for further details regarding the subject market’s location.
- The eastern side of the City of Columbus borders with the City of Forest Lake, which is situated on the east side of I-35, immediately northeast of the two subject site areas.
- The City of Columbus is situated at Exit 129 on I-35, where Minnesota Route 97 traverses east/west. This Exit 129 is the first exit north of where I-35 splits into I-35 E heading to downtown St. Paul and I-35 W heading to downtown Minneapolis. This enables very good access to both of the “Twin Cities”.
- The City of Columbus’s location on I-35 also places it approximately one hundred thirty miles south of Duluth, Minnesota. It is approximately twenty-five miles southwest of the popular vacation/tourist area of Taylor Falls, Minnesota on the St. Croix River via I-35 and US Route 8.
- The two subject site areas are in close proximity of Exit 129 on I-35. One being vacant land on the immediate east side of I-35 both north and south of MN-97 Site Area A. The second is located on the east side of the Running Aces Casino which is in the west side of the southwest quadrant of Exit 129, Site Area B.
- See Exhibits 2 and 3 of this report for further details regarding the subject market’s location.

GENERAL MARKET CHARACTERISTICS

- With the proximity of the City of Forest Lake to the two subject sites in the City of Columbus, the *General Market* area for the proposed hotel is considered to include both cities.
- The City of Columbus is a relatively affluent mix of residential (typically comprised of larger lot development), rural and commercial areas. It combines the best of rural scenic living with the convenience of being proximate to the vibrancy of a major metropolitan area, Minneapolis/St. Paul. The City of Columbus, with a population of 3,914 in the 2010 Census, experienced a slight 1.09% decrease in its population from the 2000 Census total of 3,957.
- The City of Forest Lake, in Washington County on the east side of I-35 from south of MN 97 north to US Route 8, surrounds the 2,270-acre Forest Lake. It has retail and restaurants focused at Exit 131 on I-35 (two miles north of the two subject site areas at Exit 129), in the downtown area, and along US 61 which runs north/south approximately one mile east of I-35. The City of Forest Lake, with a population of 18,375 in the 2010 Census, experienced a 170.3% increase in its population from the 2000 Census total of 6,798. It should be noted that this significant increase is believed to be due to the 2001 merger of the City of Forest Lake with Forest Lake Township.
- The City of Columbus boasts large tracts of public land which are its western border running north/south. These include the Carlos Avery Wildlife Management Area and Lamprey Pass. This includes significant wetland areas that form most of the western half of the city's side, limiting its growth in that direction.
- The City of Columbus's location on I-35 places it in a major growth corridor in the northeast Twin Cities Metro Area. In June, 2015, the City of Columbus hired the McComb Group to update the Columbus Freeway Corridor Retail Potential Report from 2009. This report identifies this corridor as running north/south along I-35 from just north of Exit 129 (the two subject site areas) to just south of where I-35 splits into I-35E and I-35W. It therefore includes the area where the two subject site areas are located.

- Retail and restaurants are basically located in three separate areas of this greater Columbus/Forest Lake market area. First there is the area south of MN 97 and Exit 129 on the west side of I-35 which includes Gander Mountain, some recreational vehicle sales/service, Running Aces Casino Racetrack and the Holiday convenience/gas station. Second is the area around Exit 131 which includes some national retail and chain fast food restaurants (Menards, Home Depot, Walgreens, McDonalds, Taco Bell and Perkins); and the third area is on US 61 east of I-35 and south of downtown Forest Lake which includes smaller local retail and local restaurants.
- The Forest Lake Sports Center is located less than a mile east of Site Area A with a focus on local and regional tournaments for ice hockey, softball, baseball, and soccer. Additionally, the national Sports Center is located in Blain, approximately fifteen miles southwest of the subject site areas for the proposed hotel. It has a reported 4 million visitors annually competing in soccer, baseball, softball and ice hockey. These facilities and their potential Lodging Demand are discussed in detail in the Lodging Demand section of this report.
- The greater market area including both Columbus and Forest Lake attracts visitors for popular outdoor activities including hunting, hiking, boating and fishing. The Running Aces Casino Racetrack is a major entertainment draw for both its seasonal harness racing as well as card tournaments. These demand generators are discussed in greater detail later in the Lodging Demand section of this report.
- The 2010 Census indicated that 37.8% of the population in Columbus and 47.0% of the population in Forest Lake was less than 30 years old. Additionally, the 2010 Census indicated that 32.4% of the population in Columbus and 21.6% of the population in Forest Lake was between the ages of 45 – 60. This data indicates that the greater market area population is comprised of a younger population and the tail end of the baby boomers.

EXHIBITS

The following exhibits describe the geographic location of the subject market and subject site.

- Exhibit 1 of this report shows the geographic relationship of the subject market to the central United States.
- Exhibit 2 shows the geographic relationship of the subject market to the north central United States including the states of Minnesota, Wisconsin, Iowa, Michigan, North Dakota, South Dakota and the Canadian Province of Ontario.
- Exhibit 3 shows the geographic relationship of the Columbus market to greater east central Minnesota and north western Wisconsin: the “Twin Cities” of Minneapolis/St. Paul Minnesota, the National Sports Center in Blaine Minnesota and the St. Croix River that separates Minnesota and Wisconsin.
- Exhibit 4 shows the geographic relationship of the subject market area to Columbus, Forest Lake, Lino Lakes and the Competitive Set of Hotels.
- Exhibit 5 shows the location of two subject sites in relation to Exit 129 on I-35 and the Columbus and Forest Lake market area.
- Exhibit 6 shows the proposed location of the hotel at Site Area B, which is adjacent to the Running Aces Casino Racetrack.
- Exhibit 7 shows the economic radii analyzed in this report.

SITE ANALYSIS

This section of the report highlights the geographic location of the two subject site areas identified by the City of Columbus for a proposed limited-service hotel (Site Areas A and B). See Exhibit 4 of this report for the location of the two Potential Site Areas, (PSA), in the greater Columbus, Minnesota market area.

GENERAL SITE OVERVIEW

There were two site areas identified by local officials as PSA's for the proposed hotel. Discussions with City of Columbus officials indicated a desire to not focus on one specific site in this report, but rather on the general area that they are situated in, the greater Columbus market area. With this in mind, the overriding factor appears to be that the hotel should be located in close proximity to Exit 129 on I-35, the interchange at I-35 and Lake Drive/Scandia Trail (MN 97). Two general areas in close proximity to this were identified and are listed in no particular order of preference:

- Site Area A is the land situated on the east side of I-35, immediately north and south of MN 97. This would be the northeast and southeast quadrants of Exit 129 on I-35.
- Site Area B is situated adjacent to the east side of the Running Aces Casino Racetrack main building. It should be clarified that Running Aces does not have slot machines per Minnesota state law. Therefore, while the term "Casino" is utilized in its name, it is not a true casino since it has no slot machines. It does however have a room with numerous tables for poker, blackjack, etc.

See Exhibit 4 of this report for the location of these two PSA's.

LAND PREPARATION

A general review of the two subject site areas (PSA's) during the field research visit by this consultant resulted in the following observations regarding Land Preparation:

- Site Area A is comprised of two general areas. The area on the north side of MN-97 has trees which will most likely need to be removed and it is relatively flat requiring minimal grading. There were no buildings observed that would require demolition/removal. The area on the south side of MN-97 appeared to be partially cleared, but appeared to have a few buildings which may require removal depending on the specific location chosen. This site area is rated *Very Good for Land Preparation*
- Site Area B is the land adjacent to the east end of the Running Aces Casino building which is flat with some "blacktop" area and some grassy areas. It appears that minimal grading would be required at this site area. This site area is rated *Excellent for Land Preparation*.

UTILITIES

With the existing commercial, residential and industrial development in this general area (i.e. on all sides of the two development site areas), it appears that all *Utilities*, including municipal water, sewer, fire hydrants, storm sewers, sanitary sewers, gas, electric, telephone and internet, exist at the edge of the site area or are in very close proximity. This should be verified by the developer. Both site areas are therefore rated *Excellent* for *Utilities*.

VISIBILITY

A general review of the two subject site areas (PSA's) during the field research visit by this consultant resulted in the following observations regarding the Visibility of the two PSA's:

- Site Area A: Depending on where in this general area that the proposed hotel is developed, it should be visible to traffic approaching Exit 129 on I-35 from that direction as they exit I-35 either from the north or the south. A proposed hotel in either part of this site area will be clearly visible once visitors exit I-35 and reach MN 97. Therefore, this site area is rated *Excellent* for *Visibility*.
- Site Area B: This site area is located a very short distance (one half mile) southwest of Exit 129 on I-35. While it will have Excellent Visibility to traffic heading north on I-35 approaching Exit 129 from the south, traffic exiting from either north or south will not be able to see the proposed hotel until their arrival at the Running Aces Casino facility. Therefore, this site area is rated *Very Good* for *Visibility*.

ZONING AND ARCHITECTURAL REQUIREMENTS

Discussions with local officials indicated that both site areas may already have the proper *Zoning* for the proposed hotel and if not, they should be readily available. These officials did not indicate any unusual or out of the ordinary *Architectural Requirements* present in the market area. Overall, this overall subject area is therefore rated as *Excellent*.

ACCESSIBILITY

A general review of the two subject site areas (PSA's) during the field research visit by this consultant resulted in the following observations regarding the Accessibility of the two sites:

- Site Area A: This site area is situated right off of Exit 129 on the east side of I-35 which should provide *Excellent Accessibility*.
- Site Area B: This site area is situated on the east side of the main building of Running Aces Casino-Racetrack, approximately half a mile from Exit 129 on I-35. This requires traveling west on MN-97 and then south on Zurich Street. While slightly further from I-35 (less than half a mile), the *Accessibility* of this site area is rated as *Excellent*.

SUPPORT SERVICES

There are *Very Good Support Services* located two miles north on I-35 at Exit 131, the primary exit for the Forest Lake area. This area includes a good variety of fast food and casual sit-down restaurants as well as some national retail. However, at Exit 129 on I-35 where the two subject site areas are located, the following was observed:

- Site Area A: This site area is situated at this exit on I-35. There is a Holiday Station/Convenience Store located at this exit on the west side of I-35. Also, Gander Mountain is located less than one half mile south of Exit 129 along the frontage road on the west side of I-35. Due to restaurants and most other retail being located two miles north on I-35 at the next exit, *Support Services* for this Site Area is rated as *Good*.
- Site Area B: This site area is situated adjacent to the Running Aces Casino-Racetrack. Discussions with Running Aces personnel indicated that it will be connected to their main building providing convenient, easy access to the gaming as well as the restaurant and bar areas, a positive feature during the longer winter period in this area. Also, the added feature of attached entertainment to the hotel (the Casino Racetrack and their proposed trout fishing pond (no license required)), results in *Support Services* for this Site Area being rated *Excellent*.

ENVIRONMENTAL ELEMENTS

There did not appear to be any major potential Environmental Elements at either of the subject site areas, however the prior use of the overall development area was not known.

- These comments resulted in the rating “*Needing Investigation*”, for an average rating of 2.5
- A brief review of this area did not indicate any other natural issues regarding water drainage, seepage or flood plain concerns, soil integrity or toxic issues.

These environmental elements are not within the scope of this hotel market study. It is recommended that the developer have a professional, independent environmental review completed along with a soil integrity test and any other testing that may be required.

COMPETITIVE POSITION

Several factors should be considered when looking at the *Competitive Position* of the two subject site areas.

- First is the general overall area where both site areas are located, in relatively close proximity to Exit 129 on I-35. This exit on I-35 is the first exit (just a mile) north of where I-35 splits into I-35E and I-35W. The former travels to the State Capitol in downtown St. Paul and the latter travels to downtown Minneapolis. This provides convenient easy access to both areas while staying in one location. It would also be the first location of a hotel on I-35 going north out of the Twin Cities market area once I-35E and I-35W rejoin into I-35 for travelers heading to Duluth and points north including the Boundary Waters Canoe Area and Thunder Bay, Ontario.
- Second, the Running Aces Casino Racetrack is located in close proximity to Exit 129 in the southwest quadrant. Currently there is no hotel in this immediate area, enabling the proposed hotel (located at one of the two subject site areas) to be the closest hotel located to this potential Lodging Demand generator. Additionally:
 - Site Area A is located on the east side of I-35 while the Running Aces Casino Racetrack is located on the west side of I-35, less than one half mile from this exit in the southwest quadrant.
 - Site Area B is located on the site of the Running Aces Casino Racetrack on the east side of its main building. Discussions with local officials indicated that the proposed hotel would be connected to the Running Aces Casino Racetrack main building with one of its sides facing the race track. This would give this Site Area a distinct advantage due to its proximity/access to this amenity including the restaurant and bar. This latter point was mentioned as desirable during discussions with at least one local major employer.

- Third, this general location situates the proposed hotel proximate to an area of potential youth and adult amateur athletics (i.e. the Forest Lake and Columbus athletic fields/complexes) as well as the National Sports Center, approximately fifteen miles southwest of the subject site areas in Blaine. These two potential Lodging Demand generators will be discussed in greater detail in a subsequent section of this report.

As a result of these varying factors, Site Area A is rated *Very Good* and Site Area B is rated *Excellent* when considering each site areas *Competitive Position*.

Therefore, compared to the hotels in greater Columbus, Forest Lake and Lino Lakes market area the proposed site areas are both rated as *Very Good* with regard to *Competitive Position*.

The following chart summarizes the subject site area for the proposed hotel.

SUBJECT SITE EVALUATION		
CATEGORY	RATING	
	Site Area A	Site Area B
Visibility	Excellent	Very Good
Accessibility	Excellent	Excellent
Land Prep	Very Good	Excellent
Environmental	Investigate	Investigate
Major Utilities	Excellent	Excellent
Zoning	Excellent	Excellent
Architectural Controls	Excellent	Excellent
Area Support Services	Good	Excellent
Competitive Position	Very Good	Excellent
Overall	Very Good	Very Good
<i>Source: HMI</i>		

The total score in the chart above was 3.85 for Site Area A and 4.15 for Site Area B out of a possible 5.0, resulting in the Overall rating of a strong *Very Good*. Sections in the chart requiring further investigation by the developer are given a 2.5 out of 5 rating until additional specific information is known. More information regarding these areas could raise these ratings to *Excellent*.

ECONOMIC OVERVIEW

This section of the report provides a composite analysis of the economic environment in which the proposed limited-service hotel would operate. It presents an overview of the economic stability of the subject market. This economic analysis does not conclusively determine how successful the proposed hotel will be in the greater Columbus, Minnesota market area; however, it offers valuable insight into the economic stability and growth potential of the subject market. It will also directly affect the *Conclusions* formulated later in this report.

The economic health of this market can be important to the success of the hotel. PKF Hospitality estimates that 80% of a hotel's operating performance is strongly influenced by the local market conditions. (Hotel Management- July 15, 2013- PKF- Budgeting for a Local Affair, So Understand Your Market- Article). Therefore, this section highlights several key components of the greater Columbus market area.

The proposed limited-service hotel will draw Lodging Demand from the greater Columbus, Minnesota market area which includes the surrounding smaller portions of Anoka, Washington and Chisago Counties. Primarily it will include portions of neighboring Forest Lake in Washington County and Wyoming in Chisago County as well as the greater Columbus area in Anoka County. This section will assist in understanding the economic stability of this market.

- There appears to be limited diversification of the workforce in the City of Columbus market area with one industry sector, Arts & Entertainment, having 40.1% of the workforce and the next closest one at 15.6%. This is reflective of the dominance in the immediate City of Columbus area with Running Aces Casino Racetrack as its major employer.
- Looking at the three city market areas of Columbus, Forest Lake and Wyoming, there is significant improvement in the diversification of the workforce with the top three industry sectors totaling 63.8%: Health & Social Assistance (26.6%), Educational Services (20.6%), and Accommodation and Food Services (16.6%).
- The subject market's economy appears to be stable, recovering steadily from the US recession of 2008 – 2010. There has been an average 58.1% improvement in unemployment from 2009 to 2015 for the three city areas of Columbus, Forest Lake and Wyoming. This improving trend appears to be continuing through February, 2016 when compared to the same period last year.

- The subject market's economic base reflects positive results in the areas reviewed. The workforce in the three city area of Columbus, Forest Lake and Wyoming increased 10.4% from 2009 – 2014. The largest percentage increase was in the City of Columbus at 37.3% while the other two cities experienced increases of 8.1% and 6.2% respectively.
- Increases in average annual household and per capita incomes as well as the median annual incomes were reflected in all areas when reviewing data for the greater Columbus market area, (i.e. the three city market area as well as a greater area in Anoka County including Lino Lakes.) The population and number of households also displayed increases for the radii reviewed.
- The economic components of the City of Columbus and Anoka County are listed below.
 - The economic factors driving this three city market area are mixed, including manufacturing, tourism and youth/amateur sports on both a regional and a national basis. Additionally, there has been consistent increased housing growth from 2013 – 2015. This matches the growth in population which will be discussed in greater detail later in this section of the report.
 - Corporate/Commercial and Social/Leisure transportation in the subject market is sufficient: I-35 and then I-35E and I-35W traverses the market area north/south, intersecting with I-694 approximately twelve miles south of Exit 129 on I-35 where the two subject site areas are located. This provides convenient access easy access to the state capital, St. Paul and to Minneapolis. The Mall of America and the Minneapolis/St. Paul International Airport are both located approximately thirty minutes south of the greater Columbus market area.
 - More of this economic impact will be described in the Lodging Demand Section of this report along with details about these economic generators and additional Lodging Demand sources.

GENERAL DEMOGRAPHIC and ECONOMIC CHARACTERISTICS

The following charts highlight the *General Demographics* used to evaluate the economic stability of the subject market. They include key *Population* demographics and *Household Income* characteristics of the subject market area. Radii of two, four, and eight miles from the subject site areas at Exit 129 on I-35 were analyzed. The two-mile radius provides information about the immediate area surrounding the two subject sites, including most of the City of Columbus as well as part of neighboring Forest Lake. The larger four and eight-mile radii include all of Forest Lake as well as the City of Wyoming, immediately north of Forest Lake, and south of the subject site areas to include the northern portions of Lino Lakes. See Exhibit 6 of this report for additional details regarding these radii. The information in the following charts was obtained from the Nielsen/Claritas Household Trend 2015 Report.

Two-Mile Radius

The following chart lists the major economic demographics of the immediate subject market area within a two-mile radius of the two subject site areas that are located proximate to Exit 129 on I-35.

GENERAL MARKET DEMOGRAPHICS							
Columbus, MN							
RADIUS: 2 Mile							
	2010 CENSUS	2015 ESTIMATE	PERCENT CHANGE	ANNUAL PERCENT CHANGE	2020 PROJECTION	PERCENT CHANGE	ANNUAL PERCENT CHANGE
POPULATION	4,570	5,076	11.1%	2.2%	5,521	8.8%	1.8%
HOUSEHOLDS	1,708	1,897	11.1%	2.2%	2,058	8.5%	1.7%
AVERAGE HOUSEHOLD SIZE	2.68	2.68			2.68		
AVERAGE HOUSEHOLD INCOME	2000 Census \$68,102	\$79,706	17.0%	1.1%	\$82,549	3.6%	0.7%
MEDIAN HOUSEHOLD INCOME	\$60,068	\$68,654	14.3%	1.0%	\$70,379	2.5%	0.5%
AVERAGE PER CAPITA INCOME	\$25,453	\$29,788	17.0%	1.1%	\$30,771	3.3%	0.7%

Source: Claritas

This two-mile radius includes the immediate area in the City of Columbus as well as the western/southwestern portions of the City of Forest Lake which surrounds the two subject site areas for the proposed hotel.

- The subject market in this two-mile radius of the subject site areas experienced an increase in *Population* from 2010 to estimated 2015. This increase averaged an annual rate of 2.2%. The *Population* is projected to continue to increase through 2020 at a slightly smaller average annual rate of 1.8%.
- The number of *Households* increased from 2010 to the estimate in 2015 at an average annual rate of 2.2%, reflecting the increase in *Population*. The actual number of *Households* is projected to continue to increase through 2020 at an annual average rate of 1.7%. This indicates that the historic trend is expected to continue at a slightly lower rate.
- The average *Family Size* is estimated at 2.68 people in 2015, similar to the 2010 Census of 2.68 people. The average *Family Size* is projected to continue to remain constant through 2020 at 2.68 people. This trend of constant family size could be an indication of younger families moving into this market area.
- The *Per Capita Income* was estimated to have increased at an average annual rate of 1.1% from 2000 through 2015. This rate of growth is similar to the 1.1% and 1.0% growth rates of the *Average Household Income* and *Median Household Income* respectively for the same period.
- During the five-year period from 2015 – 2020, *Per Capita Income* is estimated to increase at an average annual rate of 0.7%. This compares to an estimated rate of increase in *Average and Median Household Incomes* of 0.7% and 0.5% respectively.

Four-Mile Radius

The following chart lists the major economic demographics of the subject market within a four-mile radius of the subject site. This includes all of the City of Columbus and most of the City of Forest Lake.

GENERAL MARKET DEMOGRAPHICS							
Columbus, MN							
RADIUS: 4 Miles							
	2010 CENSUS	2015 ESTIMATE	PERCENT CHANGE	ANNUAL PERCENT CHANGE	2020 PROJECTION	PERCENT CHANGE	ANNUAL PERCENT CHANGE
POPULATION	17,294	18,403	6.4%	1.3%	19,461	5.7%	1.1%
HOUSEHOLDS	6,618	7,109	7.4%	1.5%	7,545	6.1%	1.2%
AVERAGE HOUSEHOLD SIZE	2.61	2.59			2.58		
AVERAGE HOUSEHOLD INCOME	2000 Census \$62,785	\$78,797	25.5%	1.7%	\$82,828	5.1%	1.0%
MEDIAN HOUSEHOLD INCOME	\$55,088	\$67,844	23.2%	1.5%	\$70,368	3.7%	0.7%
AVERAGE PER CAPITA INCOME	\$24,026	\$30,439	26.7%	1.8%	\$32,112	5.5%	1.1%

Source: Claritas

- The subject market in this four-mile radius of the two subject site areas experienced a *Population* increase from 2010 to estimated 2015. This increase averaged an annual rate of 1.3%. The Population is projected to continue this increase through 2020 at an average annual rate of 1.1%.
- The number of *Households* increased from 2010 to the estimate in 2015 at an annual average rate of 1.5%, reflecting the increase in *Population*. The actual number of *Households* is projected to continue to increase through 2020 at an annual average rate of 1.2%. This indicates that the historic trend is expected to continue at a slightly lower rate.
- The average Family Size is estimated at 2.59 people in 2015, slightly less than the 2010 Census at 2.61 people. The projected average Family Size is projected to continue through 2020 at 2.58 people, down slightly from the historic rate of growth. This average size is down slightly from the two-mile radius, indicating a potentially slightly older population whose kids have moved out of the house and outside of the area, or a younger population with slightly fewer kids.

- The Per Capita Income was estimated to have increased at an average annual rate of 1.8% from 2000 through 2015. This rate of growth is similar to the 1.7% growth rate of the Average Household Income for the same period and is slightly higher than the 1.5% growth rate of the Median Household Income for the same period.
- During the five-year period from 2015 – 2020, the Per Capita Income is estimated to increase at an average annual rate of 1.1%. This compares to an estimated rate of increase in Average and Median Household Incomes of 1.0% and 0.7 respectively.

Eight-Mile Radius

The following chart lists the major economic demographics of most of the City of Columbus as well as rural areas to the east, west, north and south of the cities of Columbus, Wyoming and Forest Lake. This includes Columbus, Wyoming and Forest Lake.

GENERAL MARKET DEMOGRAPHICS							
Columbus, MN							
RADIUS: 8 Miles							
	2010 CENSUS	2015 ESTIMATE	PERCENT CHANGE	ANNUAL PERCENT CHANGE	2020 PROJECTION	PERCENT CHANGE	ANNUAL PERCENT CHANGE
POPULATION	64,820	68,905	6.3%	1.3%	72,858	5.7%	1.1%
HOUSEHOLDS	22,923	24,473	6.8%	1.4%	25,920	5.9%	1.2%
AVERAGE HOUSEHOLD SIZE	2.83	2.82			2.81		
AVERAGE HOUSEHOLD INCOME	2000 Census \$71,289	\$94,023	31.9%	2.1%	\$101,237	7.7%	1.5%
MEDIAN HOUSEHOLD INCOME	\$62,930	\$80,994	28.7%	1.9%	\$86,126	6.3%	1.3%
AVERAGE PER CAPITA INCOME	\$25,211	\$33,394	32.5%	2.2%	\$36,016	7.9%	1.6%

Source: Claritas

- The subject market within this eight-mile radius increased in *Population* from 2010 to estimated 2015. This increase averaged an annual rate of 1.3%. This *Population* is projected to continue to increase at a rate of 1.1%, slightly lower than the same historic rate through 2020.
- The number of *Households* increased at an average annual rate of 1.4% from 2010 to the estimate in 2015. This rate of increase is expected to continue through 2020 with a projected increase of 1.2%. These rates are slightly higher than the growth rates in the four-mile radius.

- The average *Family Size* is estimated at 2.82 people in 2015, down slightly from the 2010 Census at 2.83 people. The 2015 rate of growth is projected to decrease slightly to 2.81 through 2020.
- The *Per Capita Income* was estimated to have increased at an average annual rate of 2.2% from 2000 through 2015. This rate of growth is slightly higher than the growth rates of both *Average Household Income* and *Median Household Income* of 2.1% and 1.9% respectively for the same period.
- During the five-year period from 2015 – 2020, *Per Capita Income* is estimated to increase at an average annual rate of 1.6%. This compares to the estimated increase of *Average and Median Household Incomes* of 1.5% and 1.3% respectively.

POPULATION AND NUMBER OF HOUSEHOLDS – OVERALL OBSERVATIONS

The *Population* of the subject market area, including all three radii, experienced average annual rates of increase of 1.3% - 2.2% from 2010-2015. The lower 1.3% was in the larger four and eight-mile radii which include more wetlands and less populated areas west, south and east of the immediate subject market area surrounding Exit 129 on I-35. From 2015–2020, projections indicated slightly lower rates of increase from 1.8% - 1.1%. These growth rates in *Population* translated into similar historic and projected future growth rates in *Households*. They were also reflected in slight variances in the *Average Household Size* in all three radii, ranging from 2.59 – 2.82 with the middle radius experiencing the smallest size and the largest radii experiencing the largest household size. The continuing trend of increasing number of *Households* with just minimal shrinkage in the *Average Household Size* indicates a growing younger *Population* comprised of families with kids.

HOUSEHOLD AND PER CAPITA INCOME – OVERALL OBSERVATIONS

The historic changes in *Average and Median Household Incomes* and *Per Capita Incomes* varied depending on the radii. In the two-mile radii there was a very narrow rate range of 1.0% - 1.1%, indicating a possible older population with some retirees living in this radius while the two larger radii had a greater rate range of 1.5% - 2.2%, indicating younger families. These three income categories reflected lower levels of increase in a greater range over the next five years through 2020 and ranged from 0.5% to 1.6%.

WORKFORCE CHARACTERISTICS

Workforce Characteristic data was available for not just the City of Columbus, but also for the cities of Forest Lake and Wyoming as well as for Anoka, Washington and Chisago Counties. These are the same counties in which the previously mentioned three cities are located. With the two subject site areas being in such close proximity to all three cities, the combined data from these three cities was deemed to best represent this market area. The counties in which these three cities are situated are believed to be too heavily influenced by factors in other parts of the respective counties that would not impact this market area. Data in the following chart highlights the distribution of the labor force within this greater City of Columbus market area that also includes the cities of Forest Lake and Wyoming. This will assist in analyzing the diversity of this market's employment base. The top three employment industries are highlighted in bold yellow. The additional industries in bold blue make up the top five industries in this market area. The three industries showing the highest employment gains and losses from 2009 to 2014 are highlighted in bold blue and bold red in the far right column.

EMPLOYMENT BY INDUSTRY					
Combined (Columbus, Forest Lake, Wyoming, MN)					
TYPE OF EMPLOYMENT	NUMBER OF PERSONS 2009	PERCENT OF PERSONS 2009	NUMBER OF PERSONS 2014	PERCENT OF PERSONS 2014	PERCENT 2009 - 2014
Agriculture, Forestry, Fishing & Hunting	10	0.1%	13	0.1%	30.0%
Mining, Quarrying, & Oil and Gas Extraction	1	0.0%	2	0.0%	100.0%
Utilities	0	0.0%	0	0.0%	0.0%
Construction	563	5.8%	600	5.6%	6.6%
Manufacturing	891	9.1%	1,303	12.1%	46.2%
Wholesale Trade	161	1.6%	313	2.9%	94.4%
Retail Trade	1,391	14.2%	1,752	16.2%	26.0%
Transportation and Warehousing	373	3.8%	231	2.1%	-38.1%
Information	67	0.7%	39	0.4%	-41.8%
Finance and Insurance	142	1.5%	178	1.6%	25.4%
Real Estate, Rental & Leasing	186	1.9%	207	1.9%	11.3%
Services	5,995	61.3%	6,160	57.0%	2.8%
- Professional, Scientific & Technical Services	307	3.1%	291	2.7%	-5.2%
- Management of Companies and Enterprises	50	0.5%	31	0.3%	-38.0%
- Administrative and Support and Waste Management and Remediation Services	409	4.2%	485	4.5%	18.6%
- Educational Services	1,200	12.3%	1,343	12.4%	11.9%
- Health and Social Assistance	1,896	19.4%	1,718	15.9%	-9.4%
- Arts, Entertainment & Recreation	528	5.4%	578	5.4%	9.5%
- Accommodation & Food Services	1,011	10.3%	1,077	10.0%	6.5%
- Other Services	461	4.7%	495	4.6%	7.4%
- Public Administration	214	2.2%	142	1.3%	-33.6%
TOTAL	9,780	100.0%	10,798	100.0%	10.4%

Source: U.S. Census

The top three industries in 2014 (Retail Trade, Health & Social Assistance and Educational Services) represented 44.5% of the total employment base. In 2009, the top three industries sectors were the same three sectors with a total of 45.9% of the total employment base in 2009. Ideally, the top three industries should represent less than 50% of the employment to show good diversity. In this market, the top three industries in 2014 are well below this 50% threshold. This indicates a very good level of diversity in the subject market area and that it does not appear to rely heavily on any one of these three industries. When comparing the top three industries from 2009 to 2014, there was a slight decrease in the employment they generated indicating a slight improvement in the diversity between these three industry sectors.

The subject market's top three employment industry sectors in 2014 were Retail Trade (16.2%), Health & Social Assistance (15.9%) and Educational Services (12.4%). In 2009, the top three industry sectors were in a slightly different order with levels of 14.2%, 19.4% and 12.3% respectively. This indicates a slight change from 2009 to 2014 when comparing the top three industry groups and an evolving economy.

The fourth and fifth major industries in 2014 were Manufacturing (12.1%) and Accommodation & Food Services (10.0%). In 2009, they were the same industry sectors at 9.1% and 10.3% respectively. Adding these two to the top three industries equals 66.6% in 2014 vs. 65.3% in 2009. At 66.6% in 2014, the top five industry groups were between 65% - 70%, a range that indicates good diversity in the *Workforce*. This level in 2014 indicates a very good level of diversity in the workforce and the area's lack of economic dependence on any one of these industry sectors. The change from 2009 to 2014 indicates a slight improvement in the diversity of the employment distribution in the area's *Workforce*.

From 2009 to 2014, this market showed growth in thirteen employment categories which are highlighted in blue. The leading industry sectors with gains in employment are highlighted in bold blue. The six industries that lost employment are highlighted in red. One industry group remained unchanged. Overall, the subject market has shown a strong increase of 10.4% or (2.08% per year) in employment from 2009 to 2014.

The three highest percentages of increase occurred in Mining, Quarrying & Oil and Gas Extraction at 100.0%, Wholesale Trade at 94.4%, and Manufacturing at 46.2%. Six other sectors experienced double digit increases ranging from 11.3% - 30.0%. The largest decrease occurred in Information, the fifth smallest sector in 2009 (67 employees).

It should be noted that 2009 to 2014 encompassed the last few years of the recent national recession. The ability of this subject market to return to pre-recession levels during this time period is an indication of the strength in this market's economy. During this time, Unemployment Rates rose to a high of 10.2% in 2009 in Wyoming with an average Unemployment Rate for the three cities in 2009 of 8.8%. This will be reviewed in greater detail in the following section.

UNEMPLOYMENT RATES

The chart below presents a comparison of the *Unemployment Rates* for the three Cities of Columbus, Forest Lake and Wyoming as well as Anoka and Washington Counties and the State of Minnesota.

HISTORICAL UNEMPLOYMENT RATES						
YEAR	CITY OF COLUMBUS, MN	CITY OF FOREST LAKE, MN	CITY OF WYOMING, MN	ANOKA COUNTY	WASHINGTON COUNTY	STATE OF MINNESOTA
2016-YTD (Feb)	4.1%	3.7%	5.4%	4.2%	3.7%	4.5%
2015-YTD (Feb)	4.4%	3.8%	5.4%	4.3%	3.8%	4.6%
2015	3.6%	3.2%	4.2%	3.6%	3.2%	3.7%
2014	4.6%	4.2%	4.6%	4.1%	3.6%	4.2%
2013	5.1%	4.6%	6.0%	5.0%	4.4%	4.9%
2012	5.8%	5.3%	6.8%	5.9%	5.1%	5.6%
2011	6.7%	6.2%	7.9%	6.8%	5.9%	6.5%
2010	7.9%	6.9%	9.2%	8.0%	6.7%	7.4%
2009	8.6%	7.5%	10.2%	8.4%	7.3%	7.8%
2008	5.4%	5.0%	6.8%	5.5%	5.0%	5.4%
2007	4.6%	4.1%	5.9%	4.5%	4.0%	4.6%
2006	4.0%	3.6%	4.9%	3.9%	3.5%	4.0%
2005	4.0%	3.6%	4.9%	3.8%	3.5%	4.1%

Source: U.S. Bureau of Labor Statistics, city-data.com

The 2015 year-end *Unemployment Rate* for all of the areas in the chart above is in a narrow 3.2% - 4.2% range. The 3.7% average 2015 year-end rate for the three cities, Columbus, Forest Lake and Wyoming, is equal to the State of Minnesota rate of 3.7%. When comparing the 4.4% average rate for the three cities for 2016 year-to-date through February, 2016 to the 4.5% rate for the same period in 2015, the projected 2016 year-end average annual *Unemployment Rate* for the three cities is 3.6%. Over the past eleven years this three city market area historically appears to annually experience an *Unemployment Rate* that ranges from 0.0% points to 1.0% points greater than the State of Minnesota's annual rate with an average annual difference of 0.35% points.

The three city average 2015 annual unemployment rate of 3.7% is below the US average for 2015. Also, the three city average is currently performing in a range that is less than the maximized employment rate considered by economists to be between 4% and 5%. This indicates that the area could be at the point when there could be some challenges in finding eligible employees in the market area.

LABOR SUPPLY and WAGES

At this time, no Labor Supply problems were reported in any employment sector in the subject market. However, with Unemployment appearing to be at a level of maximized employment, the availability of labor supply could become inadequate. This could put pressure on wages in order to procure a sufficient number of competent employees for the Service sector and other related industries. This rate range of 4% - 5% is what economists consider to be the maximized unemployment rate. This could impact the available labor supply in the Service industries.

Local officials did not indicate any wage pressures at this time. However, the 2015 annual Unemployment Rate is at a level of less than 5.0%. It appears that this will continue into the near future, however this could change. This would indicate the potential for competitive wage pressure in the future (i.e. 2016 and 2017). It is recommended that the developer review this potentially low unemployment since it could create a need for slightly higher wages to attract quality staff within the Service sector. This would then result in potential pressure on hotel performance through higher labor costs.

TRANSPORTATION

The *Transportation* opportunities for this part of the eastern Minnesota market are numerous. Access to the area will be via one north/south highway and two east/west routes which serve this market. These entry highways include:

- The primary north/south access route in greater Columbus, Minnesota is I-35. It runs 130 miles north to Duluth, Minnesota and south to the Twin Cities of Minneapolis/St. Paul and then further south to Kansas City, Oklahoma City, Dallas, San Antonio and Mexico. The two subject site areas are located along I-35 at Exit 129. Less than a mile south of Exit 129, I-35 splits into I-35E (to downtown St. Paul, the state capitol) and into I-35W (to downtown Minneapolis, where the Vikings, the Twins and the Grizzlies play). Both routes lead to the Minneapolis/St. Paul International Airport on the south side of the Twin Cities. Both routes also connect to I-694 and I-94 leading to points east and west of the Twin Cities.
- East/west routes traversing through the greater Columbus market include MN97 and US Route 8. MN 97 east of I-35 traverses the south side of Forest Lake. It is also known as the Scandia Trail which runs to Scandia and then MN 95 along the St. Croix River. West of I-35, MN 97 is also known as Anoka County 23 and/or Lake Drive, which travels west and south through the City of Columbus eventually intersecting with I-35W in Lino Lakes. US Route 8 is the second east/west route through the market area commencing at Exit 32 on I-35. It traverses east through the north side of Forest Lake to Chisago City and on to Taylor Falls across the St. Croix River and into Wisconsin.

Highway Traffic

The following chart highlights traffic counts in the area of the subject site. See Exhibits 3 and 4 of this report for the proposed site's geographic relationship to these traffic arteries.

TRAFFIC COUNTS Columbus, Minnesota				
LOCATION	YEAR	COUNT	CHANGE	
On Highway 23 - West of I-35	2014	7,700	-2.5%	
	2011	7,900	27.4%	
	2008	6,200	--	
On I-35 - North of Highway 97/23-Exit 129	2014	68,000	3.0%	
	2011	66,000	-1.5%	
	2008	67,000	--	
	- South of Highway 97/23-Exit 129	2014	77,000	1.3%
		2011	76,000	-3.8%
		2008	79,000	--
On I-35W - North of Highway 23	2014	39,500	5.3%	
	2011	37,500	8.7%	
	2008	34,500	--	
On I-35E - North of Main Street	2014	37,500	-3.8%	
	2011	39,000	-7.1%	
	2008	42,000	--	
On Highway 97 - East of I-35	2014	18,000	3.4%	
	2011	17,400	-4.4%	
	2008	18,200	--	

Source: Minnesota Department of Transportation

The traffic counts at all locations reflect increases in all but two areas reviewed. Discussions did not indicate any readily available reason for the two decreases. The sites of counts on I-35W and I-35E are on the north side of the first exits south of where I-35 splits into two separate routes. There are increases in traffic on three of the four sides of Exit 129 with the one decrease occurring on the west side, which goes west into Columbus. Overall this is positive in that it indicates an increase in potential visitors to the subject market area with the positive increases on I-35 in both directions.

Air Service

The closest regularly scheduled passenger air service to regional, national and international destinations is at the Minneapolis/St. Paul International Airport located approximately 32 miles south on I-35E or 39 miles south via I-35W on the south side of the Twin Cities Metro area.

ECONOMIC CONCLUSIONS

The *Population* data for the greater Columbus market area indicated that the historic trend of increasing numbers is projected to continue at a slightly lower rate for the next five years. Household and per capita incomes reflected modest increases historically with continuing increases projected for the same five-year period. These strong results are a reflection of the growing nature of this market area. Discussions indicated that this area was growing because of the area being a bedroom community for the Twin Cities metro area with younger families with and without children moving here. The information provided indicated that the distribution of existing employment in the greater Columbus market area (Columbus, Forest Lake and Wyoming) has very good diversity with the five top industries totaling just 66.6% of the total workforce. Labor Supply in the subject market was reported to be available. However, the trend of decreasing unemployment numbers in the market area indicate a potential labor shortage which may put pressure on wages to attract labor to the service industry.

LODGING DEMAND

This section of the report identifies Lodging Demand sources for the proposed hotel. Exhibit 3 of this report shows the market area that will be serviced by the proposed hotel on a year-round basis. This research supports the recommendations provided in the *Conclusions* section for the development of a limited-service style hotel. The Lodging Demand discussed in this section applies to the entire greater Columbus market area and not just to one of the two site areas previously reviewed in this report. Comments will be provided as to how the different sites may or may not have an effect on the Lodging Demand performance at that specific site area.

MARKET SEGMENTATION

The first category to be identified in describing the Lodging Demand Potential for the subject market is the *Market Segmentation* that exists in this area. The following chart highlights the Market Segmentation projections for the proposed hotel in the overall market area. Each site may have its own Market Segmentation variations. This estimate of Market Segmentation supports the recommendations for development of a limited-service hotel provided in the *Conclusions* section of this report.

MARKET SEGMENTATION					
	SUBJECT MARKET PROBABLE PERCENT OF MARKET	RANGE	PROPOSED PROPERTY PROBABLE MARKET	MARKET PENET.	RANGE
Individual Travel Markets	85.0%	82.5%-87.5%	65.0%	76.5%	62.5%-67.5%
Corporate/ Commercial	65.0%	62%- 68%	40.0%	61.5%	37%- 43%
Social/Leisure	20.0%	17%- 23%	25.0%	125.0%	22%- 28%
Group Markets	15.0%	12.5%-17.5%	35.0%	233.3%	32.5%-37.5%
Business Related	5.0%	2%- 7%	10.0%	200.0%	7%- 12%
Social/Leisure Related	10.0%	7%- 13%	25.0%	250.0%	22%- 28%
TOTAL	100.0%		100.0%		
<i>Source: HMI</i>					

The Market Segmentation for the overall market area includes the greater Columbus market area, comprised primarily of northeast Anoka County, northwest Washington County, and southwest Chisago County, i.e. including the cities of Forest Lake in Washington County and Wyoming in Chisago County in addition to the City of Columbus in Anoka County. The current subject Market Segmentation is estimated to annually be split 70% Corporate/Commercial and 30% Social/Leisure. This estimated overall Market Segmentation is based on discussions with local area officials and major employers in the market area.

The Market Segmentation for the proposed hotel (shown in the chart above) is anticipated to differ from the Market Segmentation of the broader market area due to the proposed hotel's proximity to the Running Aces Casino Racetrack.

- The proposed limited-service style hotel in the overall market will generate an estimated 50.0% of its Lodging Demand from the Corporate/Commercial market segment. This is less than the greater market area is anticipated to generate, but with a very different focus. This is comprised of 40% Individual demand and 10% Group demand. The relatively low amount of Group Corporate/Commercial Demand in the subject market area is due to the present lack of quality meeting/conference space in the greater market area. This will be discussed later in this report.
- The proposed hotel in the overall market will generate an estimated 50.0% of its Lodging Demand from the Social/Leisure market segment. This is greater than the overall subject market area. This is due to the proposed hotel's location/proximity to Running Aces and to the potential for youth group sports business, both of which will be discussed later in this report.

Two different site areas, as previously discussed in this report, are under consideration. The location of each is anticipated to have an impact on the market segmentation for the proposed hotel, especially at Site Area B.

- Discussions indicated that plans for a proposed hotel at Site Area B, which is located adjacent to the Running Aces Casino Racetrack, include an estimated 3,000 – 4,000 square feet of banquet/meeting space. This would facilitate the hosting of more gatherings at Running Aces, both social and business related. This is because the only current banquet/conference space is an estimated 4,000 sq. ft. room which also serves as the indoor dining/viewing area for the race track during summer racing season when inclement weather occurs.
- As will be discussed later in this report in greater detail, the location of Site Area B adjacent to Running Aces is also more convenient to eating and drinking facilities that are open 24 hours a day.

The previous chart indicates that the overall market segmentation for the proposed hotel will be different than that of the Competitive Hotel Set hotels, which are located in multiple communities surrounding the Columbus market area.

MARKET SEGMENTATION PROFILES

To further define the Market Segmentation of the area, preliminary profiles for each Market Segment were identified. The following outline provides *Market Segmentation Profiles* that correspond to the proposed hotel's projected Market Segmentation. Again, these Market Segmentation Profiles will support the development of a limited-service style hotel as recommended in the *Conclusions* section of this report. These Market Segmentation Profiles are for the overall market area. Each subject site may have some variations within these Market Segmentation Profiles.

More specific and extensive Lodging Demand research would need to be conducted in the form of a Comprehensive Lodging Demand Analysis to further quantify the volume of Lodging Demand Potential that could be expected. The ratings in the chart below indicate the likelihood of Lodging Demand originating from the various market segments, but in no way indicates the volume of Lodging Demand that will be generated by these segments.

MARKET SEGMENTATION PROFILES		
	Demand Potential	
	Transient = T Extended = E Group = G	Subject Property Potential
Social/Leisure Markets		
Visiting Friends & Relatives	T, E	Very Good
Area Sites & General Tourism		
Running Aces Casino RaceTrack		
Card Tournaments	T	Excellent
Other events - concerts, etc.	T	Excellent
Major National Race events	T, G	Excellent
Carlos Avery Wildlife Area	T, G	Good
Area Events		
Forest Lake July 4th celebration	T, G	Very Good
Area Recreation- (Boating, Hiking, Biking, Hunting, Fishing, etc.)	T	Good
Interstate I-35 Travelers	T, G	Very Good
Weddings	G	Very Good
Reunions	G	Good
Other	G	Good
Motor coach Tours - primarily due to Running Aces	G	Very Good
Amateur Youth Sports		
Forest Lake - Sports complex tournaments	G	Excellent
National Sports Center events	T, G	Good
	Potential	Very Good
Corporate/Commercial Markets		
Agriculture	T	N/A
Mining, Quarrying & Oil and Gas Exploration	T,	N/A
Utilities	T, E, G	Good
Construction	T, E	Very Good
Manufacturing	T, E	Excellent
Wholesale Trade	T	Fair
Retail Trade	T	Good
Transportation and Warehousing	T	Fair
Information	T	N/A
Finance, Insurance and Real Estate	T	Good
Real Estate, Rental & Leasing	T	Good
Services		
Professional, Scientific & Technical	T	Good
Management of Companies and Enterprises	T	N/A
Administrative, Support, Waste Management and Remediation	T, E	Good
Educational	T, E	Good
Health and Social Assistance	T, E	Good
Arts, Entertainment & Recreation	T	Good
Accommodation & Food Services	T, E	Good
Other	T	Good
Public Administration	T	Fair
	Potential	Good
	Overall Potential	Very Good

Source: HMI

As indicated above, the subject market appears to have some diversification in Lodging Demand generated primarily by the Social/Leisure and then by the Corporate/Commercial Segments. The chart also indicates the extensive number of Lodging Demand sources identified during the research phase of this report that are believed to be currently generating good or better Lodging Demand. These Lodging Demand sources relate to the overall subject market. The proposed hotel will have the potential to develop Lodging Demand from all of these sources. Some will be more productive than others for the proposed hotel. Also, the location of this hotel in the market area, i.e. at one of the two site areas previously discussed in this report, will have some effect on these Market Segment Profiles.

Overall Market Characteristics

In the above chart, both the Social/Leisure and the Corporate/Commercial segments were identified with Excellent, Very Good, Good and Fair ratings respectively. Overall, the subject market's Lodging Demand is rated as a strong Good.

- The Social/Leisure market segment has a strong Very Good rating. It is rated 3.96 to an average rating of 2.5, yielding 158.4%.
- The Corporate/Commercial market segment is rated as an above average Good. It is rated 3.03 to an average rating of 2.5, yielding 121.2%.
- Overall, this subject market is rated as Very Good. This rating is 3.50 to the average Good rating of 2.5, yielding 139.9%.

The Lodging Demand for the proposed limited-service hotel recommended in the *Conclusions* section of this report will be generated by multiple sources. These sources are discussed below.

Social/Leisure Profiles

On an Individual traveler basis as well as for groups, the Very Good and Excellent categories in the previous Market Segmentation chart are discussed below. While the peak season is the summer, the shoulder season starting in April is busy and continues through October.

Visitors/tourists are drawn to the greater Columbus, Minnesota market area for the following:

- (a) Visiting families and friends of local residents attend locally driven weddings, reunions, other special occasions, and local events such as SMERF (Social, Military Religious & Fraternal) type group events.

- (b) There is a wide variety of items in this market area that generates some vacation/tourism visitors to the area including:
 - (i) The City of Forest Lake and its reported oldest and largest state July 4th celebration.
 - (ii) There are many outdoors recreational activities including boating, fishing, swimming and kayaking on Forest Lake as well hiking and biking in the area.
 - (iii) The 23,000-acre Carlos Avery Wildlife Management Area (WMA) is situated northwest of the City of Columbus. It is home to the Wildlife Science Center, with Minnesota's largest wolf pack as well as bears, lynx and raptors and it provides educational tours. The Carlos Avery WMA is known for hunting of waterfowl, deer and squirrel as well as trappers harvesting mink, muskrat, raccoon and beaver.
 - (iv) The Columbus market area is located less than a mile north of where I-35 splits into I-35E (to St. Paul Minnesota- the state capital) and I-35W (to downtown Minneapolis and the University of Minnesota main campus). This situates it in a unique location to provide visitors from the north to the Twin Cities an affordable place to stay with easy access to the entire Twin Cities area of Minneapolis/St. Paul.

- (c) Running Aces Casino Racetrack is situated less than half a mile off of Exit 129 on I-35, in the southwest quadrant of this exit. It is the location of Site Area B discussed previously in this report. Discussions with representatives of this facility indicated the following potential Lodging Demand that it would generate:
 - (i) The number one phone inquiry: Do they have a hotel? Callers are seeking one night stays on Thursday, Friday or Saturday nights.
 - (ii) Harness racing occurs from May through September rain or shine. During the race season, races occur on Tuesday, Saturday, Sunday; and on Wednesday starting the last week of July.
 - (iii) During the race season, there are an estimated 40 – 50 trainers, owners and drivers who stay for the season, but were described as rate sensitive when considering what they would pay for a place to stay. However, there are five to ten separate owners who may be considered potential Lodging Demand generators.

- (iv) Numerous events are held at Running Aces throughout the year including:
1. Blackjack and Poker tournaments. The blackjack tournaments are held biweekly attracting 8 – 100 players for a day, but this could be extended with a hotel. The poker tournaments occur quarterly running Thursday through Sunday and attracting 400 players. The estimated number of room nights would be 10% of the players plus the promoters for an average of 1.5 nights.
 2. Simulcasts of major races such as the Kentucky Derby, the Breeder's Cup and others (about six of these events annually) with estimated attendances ranging from 100 – 250 for three of them and 1,500 – 6,000 for the other three events.
 3. Comedy shows (9 planned during the year) and outdoor concerts (3 planned this summer), Club, Diamond and Spade VIP parties (10 during the year). These all have estimated attendances ranging from 300 – 3,000 with the higher numbers being for outdoor concerts.
- (v) Bus Tours currently visit the facility every other week on weekdays. It was reported that with a hotel, this could increase and generate Lodging Demand. Discussions indicated that the combination of harness racing, the card room and the trout pond (no license required) creates an experience for retired people on bus tours.
- (vi) The most avid card players were reported to primarily play during the week to avoid the weekend crowds.
- (vii) A representative from Running Aces indicated the following typical characteristics of having a "card room":
1. Typically, one-night stays increasing to two-night stays during tournaments.
 2. Most tournament players are from out of state, i.e. from Wisconsin, North Dakota and Michigan.
 3. Additionally, Minnesota law limits the house profits to 18% of all gambler losses, which results in the remaining 82% having to join a "player pool" which needs to be returned to the players. One method is by funding the comping/discounting hotel rooms for card room players.

- vii) A hotel situated on Site Area B connected to the Running Aces facility with a twenty-four-hour bar and restaurant could be attractive to both the Social/Leisure and/or the Corporate Commercial traveler.

- (d) There are two significant amateur/youth sports facilities in or near the subject market area for the proposed hotel. The first is the Forest Lake Area Athletic Association (FLAAA) sports complex approximately one mile east of Exit 129 on I-35 and Site Area A. Discussions with the Director of the FLAAA indicated the following:
 - (i) An ice arena with two sheets of ice hosts hockey tournaments that run 2 -3 days during November – February. Typically, there can be 16 – 30 teams within a 2 – 3-hour drive. Teams of 12 – 15 players plus coaches and parents were reported to be staying primarily in the White Bear Lake area, approximately twelve miles south on I-35E.
 - (ii) Also, there is a junior league pro-hockey team that plays teams from the upper Midwest and Canada. These teams stay overnight usually on weekends.
 - (iii) Softball (girls' elite fast pitch from all over the US), baseball, and soccer fields are located at this complex and at a sports complex in Columbus. During the summer there are tournaments with as many as 45 teams from the Midwest (i.e. Kansas, Illinois and the Dakotas) and Canada. Tournaments in July run from Wednesday through Sunday. A tournament during the first weekend in June is reported to attract 3,000.
 - (iv) During the winter months there are traveling volleyball and basketball tournaments. Two large tournaments occur on weekends in January attracting 50 – 70 teams.

The second and significantly larger sports complex is the National Sports Center located in Blaine, Minnesota approximately fifteen miles southwest of this market area via either I-35W or Lake Drive. This is a 600-acre multi-sport facility with 50 plus athletic fields (primarily soccer), an eight sheet Schwan Super Ice Rink plus other facilities. Discussions with an official indicated the following:

- (i) There are a reported 4 million visitors (includes both local and from outside the area) to the complex annually.
- (ii) 168,000 people are seeking housing, mostly during the summer on weekends, typically 2 – 4 nights.

- (iii) They have negotiated rates with an estimated 60 hotels in “the Twin Cities Gateway Group” of communities which includes Anoka, Blaine, Coon Rapids, Fridley, Ham Lake, Lino Lakes, Moundsville, New Brighton and Shoreview.
- (iv) To be part of their recommended listing of hotels from the National Sports Center, the hotel must work with its “room rebate system”, believed to be 10%.
- (e) Social/Leisure Group business could include those attending special events such as weddings, reunions, etc. in the market area.

Corporate/Commercial Profiles

- a) Corporate/Commercial Lodging Demand achieved an overall rating of Good. This was primarily due to one segment being rated Excellent (Manufacturing); one being rated Very Good (Construction); eleven being rated Good; and three being rated Fair.
- b) Discussions were held with two of the major employers in the market area, both in the Manufacturing sector which was rated in the above chart as Excellent.
 - 1) Discussions with a representative of Rosenbauer, a manufacturer of fire engines, indicated the following:
 - i. They bring in 5 – 50 customers per week for inspections and plant tours. They typically stay an average of 3 – 5 nights at hotels in either Lino Lakes or White Bear Lake.
 - ii. They also bring in crews to train on the trucks as well as mechanics who will maintain the trucks. These can be groups of 20- 80 for a week who require meeting space.
 - iii. It would be beneficial to have their guests stay in the same place where they meet, dine and enjoy a few beverages. Also, on a monthly basis there are some international visitors who bring their families with them and stay for five nights or more.
 - iv. This company generates at a minimum an estimated 2,500 – 3,000 room nights annually, resulting in its ability to have a negotiated rate in the mid-\$70 range.

2) Discussions with another manufacturer, Polaris, indicated that they are the research and development location for a national/international company. Their Lodging Demand consists of:

- i. Suppliers
- ii. Interviewing of prospective employees averaging 20 – 30 per month for one night.
- iii. Dealer networks that include 6 – 20 attendees 6 – 8 times per year.
- iv. A variety of conferences with an estimated 200 attendees for one to two nights occurring twice a year.
- v. Visitors/employees from other locations averaging 20 people per week for two nights.
- vi. They look for a hotel with meeting/conference space.
- vii. They currently stay at the GrandStay in Chisago City due to it being new and clean. However, the Exit 129 site area would be fifteen minutes closer to the Twin Cities and the Minneapolis International Airport. This would be a big draw for their visitors.
- viii. They felt that their military customers would like the proximity to the casino.

3) Discussions were held with several other employers at a Columbus Business Forum Breakfast who revealed the following Lodging Demand points:

- i. Representatives from the Country Loft indicated that they draw visitors on a regional basis including Minnesota, Wisconsin, North and South Dakota, Nebraska, Iowa, Manitoba and Saskatchewan. They have 2 - 3 customers per month in for training and they stay 2 – 3 days; plus, there is an annual meeting of 25 people.
- ii. Representatives from Ziegler CAT indicated that theirs' is the largest of 28 locations. They host training events for both sales and maintenance of up to 50 people. They recently held training for five technicians on a weekly basis for five months, 5 – 6 nights per week.
- iii. The Holiday Station/Convenience Store located in the southwest quadrant of Exit 129 on I-35 was reported to be the busiest in the State of Minnesota.

- iv. The Fairview Medical Center/Hospital located in Wyoming (seven miles north of the two subject site areas) was reported to be a “regional facility” drawing from as far north as Cambridge, twenty-seven miles north.
- c) Discussions with one of the two manufacturers indicated that they would not hesitate to utilize a hotel that was proximate to the Running Aces facility.
- d) All of these industry segments will bring individual business travelers to the subject market as suppliers, vendors, technicians, and corporate representatives. These Lodging Demand Sources or major employers in the greater Columbus market are included in the following chart.

MAJOR EMPLOYERS			
Greater Columbus, Minnesota Area			
COMPANY	SERVICE OR PRODUCT	LOCATION	NUMBER OF EMPLOYEES
Fairview Medical Center/Hospital	Healthcare	Wyoming	1,250
Polaris Industries	Manufacturing	Wyoming	500
Running Aces Casino RaceTrack	Entertainment	Columbus	450
Rosenbauer	Manufacturing	Wyoming	320
Premier Marine	Manufacturing	Wyoming	255
Waldoch Crafts & Customs, Inc.	Mfg./Retail	Columbus	120
Westmor Fluid Solutions	Mfg./Retail	Columbus	85
Fanforlak LLC (Gander Mtn.)	Retail	Columbus	73
Ziegler Inc.	Heavy Equipment	Columbus	66

Source: City of Coilumbus & Chisago County HRA-EDA

LODGING DEMAND POTENTIAL INDEX

The Lodging Demand Potential for the proposed hotel, in the overall market area, was also analyzed via the *Lodging Demand Potential Index*. This relates Lodging Demand Potential to the Market Segmentation previously projected for the proposed hotel and the industry distribution in the subject market area. There are two different proposed site locations. As defined above, the location of the hotel may present some variations to this Lodging Demand Potential Index. This is a rating based on a scale of 0 to 5, with 5 indicating excellent Lodging Demand Potential and 2.5 indicating average Lodging Demand Potential. The following information shows the results of this analysis.

More specific and extensive Lodging Demand research would need to be conducted to further quantify the volume of Lodging Demand Potential expected for the proposed hotel. The ratings in the chart below indicate the likelihood of Lodging Demand originating from the various market segments, but in no way indicates the volume of Lodging Demand that will be generated by these segments.

LODGING DEMAND POTENTIAL INDEX		
MARKET SEGMENTATION	PERCENT OF MARKET	LODGING DEMAND POTENTIAL INDEX
Individual Travel Markets		
- Corporate/Commercial Markets	40.0%	2.9
- Social/Leisure Markets	25.0%	3.5
Group Markets		
- Business Related	10.0%	2.3
- Social Leisure Related	25.0%	4.5
TOTAL	100.0%	3.4
INDUSTRY DISTRIBUTION	PERCENT OF MARKET	LODGING DEMAND POTENTIAL INDEX
Agriculture, Forestry, Fishing & Hunting	0.1%	2.5
Mining, Quarrying, & Oil and Gas Extraction	0.0%	1.0
Utilities	0.0%	3.5
Construction	5.6%	3.0
Manufacturing	12.1%	5.0
Wholesale Trade	2.9%	2.0
Retail Trade	16.2%	2.5
Transportation and Warehousing	2.1%	2.0
Information	0.4%	1.0
Finance, Insurance, and Real Estate	1.6%	2.0
Real Estate, Rental & Leasing	1.9%	2.5
Services	57.0%	
- Professional, Scientific & Technical Services	2.7%	3.0
- Management of Companies and Enterprises	0.3%	1.0
- Administrative and Support and Waste Management and Remediation Services	4.5%	2.5
- Educational Services	12.4%	2.5
- Health and Social Assistance	15.9%	2.5
- Arts, Entertainment & Recreation	5.4%	4.0
- Accommodation & Food Services	10.0%	2.5
- Other Services	4.6%	2.5
- Public Administration	1.3%	1.0
Total:	100.0%	2.9
<i>Source: HMI, Inc.</i>		

It was estimated that the current overall Lodging Demand Potential is 3.4 or well above average at 2.5. The yield is 136.0% to average. The reason for this significantly above average rating is multi-faceted which will be discussed below.

The combined Individual Market Segments generate an average rating of 3.11. This is a yield of 125.2% to average.

The combined Group Market Segments are generating an average rating of 3.87 with a yield of 154.9%.

The Social/Leisure segment is stronger overall and is generating a yield of 114.4% while the Corporate/Commercial segment overall is generating a yield of 111.2%.

The strength of the Social/Leisure segment is a direct result of the potential to capture a significant portion of the group business. First, it is not only capturing the bus tours currently going to Running Aces Casino Racetrack, but there is the potential to significantly increase this business with a hotel located either adjacent to it or in close proximity to it. Closely following are the sports teams playing at the FLAAA and Columbus sports complexes and then the possible overflow during peak competitions occurring at the national Sports Center.

Discussions indicated that several of the larger manufacturers in the greater Columbus market area, specifically in Wyoming, could potentially generate significant Lodging Demand. This is due to both the age/condition of the hotels in Lake Forest as well as the possibility of moderate meeting space at the proposed hotel at Site Area B adjacent to Running Aces Casino Racetrack.

SEASONALITY OF LODGING DEMAND

Seasonality of Lodging Demand was reviewed for the subject market area. This seasonality analysis was based upon the Competitive Set hotels which include competitive hotels in Forest Lake, Chisago City, North Branch, Lino Lakes, White Bear Lake, Shoreview and Blaine; all cities surrounding the greater Columbus market area. They include midscale and upper midscale hotels that report to Smith Travel Research. Why these hotels were selected for the Competitive Set will be explained further in the Competitive Supply section of this report. This analysis indicates the subject market's potential to attract Lodging Demand during various seasons. It will help determine the strengths and weaknesses of the proposed hotel during its operational year.

The following chart shows the most current information related to deviation from total Lodging Demand for the Competitive Set of hotels identified for the proposed hotel in the City of Columbus. This will be discussed in greater detail later in this report. In the following chart: ADR = Average Daily Rate and RevPAR =Revenue Per Available Room.

SEASONALITY OF LODGING DEMAND			
Deviation From Average Monthly Demand			
MONTH	DEMAND	ADR	REVPAR
January	71.6%	93.7%	65.7%
February	77.1%	94.4%	79.0%
March	85.0%	93.1%	78.6%
April	88.9%	95.1%	86.7%
May	104.5%	98.5%	100.5%
June	126.5%	106.4%	135.7%
July	132.6%	98.4%	142.0%
August	132.8%	106.0%	137.4%
September	115.3%	105.8%	123.0%
October	108.6%	97.0%	102.7%
November	81.3%	94.5%	77.4%
December	81.5%	94.1%	74.8%
<i>ITALICS = RevPAR Exceeds at Least One Factor</i>			
<i>BOLD = RevPAR Exceeds Both Factors</i>			
<i>Source: Smith Travel Research and HMI</i>			

The greatest deviations from the average monthly Lodging Demand are 104.5% in May, 126.5% in June, 132.6% in July, 132.8% in August, 115.3% in September and 108.6% in October. This indicates that seven months exceed the average monthly demand for the subject market area and are above average. The next largest deviation from the average monthly Lodging Demand occurs in April at 88.9%.

Based on the previous chart, the subject market's Seasonality of Lodging Demand patterns are strong. There is significant strength from March through October, peaking in the middle of this six-month period.

- The strongest month is August with 11.1%, a yield of 132.6% of the average monthly Lodging Demand, followed by July with 11.05%, and June with 10.5%.
- The months of March through October have attained above average monthly Lodging Demand over the past five years (2010 – 2015).
- The strongest quarter includes the months of June, July and August with 31.7% of the average annual Lodging Demand. This creates a yield of 126.9% from the average annual quarterly Lodging Demand. The months of September, October and November are next with 25.4% of the average annual Lodging Demand.
- The six-month period of May – October is the strongest half of the year with 60.03% of the average annual Lodging Demand for a yield of 120.05%. This is about average for this upper mid-west region of the United States.

- The weakest Lodging Demand period in this subject market is the months of December through February. This is based on average Lodging Demand at 19.2% of the average annual Lodging Demand and at 18.0% of the average annual revenue. This clearly indicates the strong seasonality of this market area.
- Overall, this is a fairly normal seasonal pattern for this part of the United States with only some minor deviations, especially with the tourism aspect of the market.

The previous chart also demonstrates the seasonal strength of this subject market since, in five months, the deviation of RevPAR exceeds the monthly deviation of both Lodging Demand and ADR. In one additional month, the RevPAR deviation exceeds the monthly deviation in ADR and in one other month, the RevPAR deviation exceeds the monthly deviation in Lodging Demand. This equates to a total of seven months when the RevPAR deviation exceeds the monthly average deviation in Lodging Demand or ADR. This is another indication of the seasonal strength of the subject market, but it also indicates that this market has the potential for wide fluctuations in Occupancy based upon seasonality.

A review of the seasonal fluctuations in ADR does not indicate as high of a degree in seasonal fluctuations as in Lodging Demand. The seasonal variations in ADR range from 93.1% to 106.0%, a range of just 12.9% on an annual basis.

Meanwhile the Lodging Demand variation in the slower months is in the range of 71.6% - 81.5% while during the busier months in a range of 126.5% - 132.8%, a definite sign of seasonal fluctuation with four weaker Occupancy months of November thru February. These significant variances in Lodging Demand appear to be due to the seasonality of the market area.

There could be the potential to increase rates when the gap between Lodging Demand and ADR is greater than 5.0% points. The data in the previous chart indicates that this occurs during the months of May thru October. These differences range from 6.0% points in May to 34.2% points in July. It would appear that in these months, ADR could be increased so that the difference more closely matches the strength of the Lodging Demand.

Monthly seasonality peaks in August, closely followed by July with no severe peaks and valleys from May through October. The strength of these peak Lodging Demand months, combined with the weakness during the slower times, yields a 185.6% differential in Lodging Demand between August and December. This indicates the inability of the Corporate/Commercial and Social/Leisure markets to compensate for slow times.

The subject market operates within a broad range of Occupancy percentages. The highest average monthly Occupancy over the past six years was 70.5% in August, closely followed by July at 70.4% (for an average high Occupancy of 70.5%). During the same six-year period, this market had average low Occupancies of 38.2% in January. This is a swing of 32.25% points from the average high Occupancy of 70.5% to the low of 38.2%, or an 84.4% change. This indicates that the subject market area has a significant swing in Occupancy from summer to winter.

There is a much smaller fluctuation in ADR, with average highs in July (\$96.89) during the past six years and average lows of \$82.71 in January and \$83.06 in December (an average low of \$82.89). This is a swing of \$14.00, or 16.9%. This is a rather small variance between high and low periods. The fact that the top two Occupancy months reflect a variance of just \$2.92 or 3.0% indicates that the Competitive Set appears to be attempting to maximize rates during peak periods of Occupancy. This is also evidenced by the six highest Occupancy months – August, July, June, September, October and May have the six highest ADR's in a slightly different order – July, June, August, September, May and October.

During the past six years, the monthly averages result in a RevPAR range from an average high of \$68.25 in July to an average low of \$31.58 in January, for a swing of \$36.67 or 116.1%. This indicates that ADR and Occupancy are driving RevPAR maximization in this market because the six months with the high RevPAR are the same as those with the highest average Occupancy and the highest average ADR for this same six-year period.

A review of the Competitive Set's performance for the most recent twelve-month period, March, 2015 through February, 2016 indicated that Occupancy was highest on weekends with average annual Occupancy on Friday and Saturday at 64.9% and 72.7%, respectively. Midweek (Monday - Thursday) achieved average annual Occupancy levels of 53.0%, 64.0%, 64.3% and 57.6%, respectively. Sunday had the lowest average Occupancy during this twelve-month period, at 35.7%. The daily breakdown of Occupancies over this period for the Competitive Set is presented in the following chart prepared by Smith Travel Research:

An explanation of the color coding in the chart below is found in the Unaccommodated Lodging Demand section of this report.

Occupancy (%)								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Mar - 15	30.0	47.6	54.3	54.2	44.7	53.5	60.7	48.8
Apr - 15	31.8	51.6	59.6	61.0	48.9	61.1	67.0	54.5
May - 15	38.9	48.3	63.6	63.5	55.2	67.9	83.2	60.4
Jun - 15	38.3	59.1	71.4	76.5	68.4	87.5	96.7	70.7
Jul - 15	46.8	67.8	83.9	78.4	73.0	84.2	89.8	75.2
Aug - 15	48.2	65.8	78.8	78.6	73.9	84.5	92.1	74.0
Sep - 15	40.1	54.6	69.2	73.8	68.1	76.9	90.4	67.9
Oct - 15	38.9	63.7	74.1	71.5	62.0	69.1	79.7	66.0
Nov - 15	26.2	44.0	54.8	54.4	51.3	51.3	53.6	47.1
Dec - 15	28.2	44.8	49.2	48.9	49.9	43.6	44.6	44.7
Jan - 16	28.8	41.1	51.8	52.0	45.0	43.7	48.8	44.1
Feb - 16	33.6	47.3	59.8	57.8	50.3	53.9	62.0	51.9
Total Year	35.7	53.0	64.0	64.3	57.6	64.9	72.7	58.8

Source: Smith Travel Research

Also, during the past twelve months, there was a very slight difference between the average ADR's achieved midweek (Monday, Tuesday, Wednesday and Thursday) at \$91.84 vs. the weekend average ADR (Friday and Saturday) at \$109.15. This is an \$18.31 or 18.8% difference between midweek and weekend average ADR's. ADR hit a high monthly average of \$108.23 in July, 2015. There was an ADR rate range for the period from March, 2015 through February, 2016 ranging from a low of \$87.29 in March, 2015 to a high of \$108.23 in July, 2016. A daily account of ADR's over this period is presented in the following chart prepared by Smith Travel Research.

ADR								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Mar - 15	81.24	83.96	87.02	85.11	85.35	92.13	93.70	87.29
Apr - 15	85.53	86.44	87.84	87.08	85.33	98.10	99.82	90.47
May - 15	88.75	86.00	88.84	89.69	88.89	102.03	105.90	94.84
Jun - 15	95.46	93.85	95.40	96.56	99.08	117.93	122.49	104.48
Jul - 15	100.59	97.47	102.35	100.07	106.07	119.67	123.52	108.23
Aug - 15	97.26	93.90	98.11	99.40	100.18	116.17	119.62	104.84
Sep - 15	95.04	94.37	94.12	95.51	99.97	119.49	120.67	103.80
Oct - 15	89.95	89.36	92.59	91.40	89.61	105.46	109.45	96.82
Nov - 15	84.21	84.53	87.86	89.85	88.40	101.54	102.71	91.63
Dec - 15	85.90	86.35	87.85	88.53	90.98	99.84	100.40	91.31
Jan - 16	88.71	84.53	86.41	86.14	88.49	100.11	99.74	91.23
Feb - 16	89.36	85.56	86.87	86.55	88.21	99.13	101.42	91.17
Total Year	90.93	89.47	92.03	92.20	93.69	107.89	110.41	97.57

Source: Smith Travel Research

The above data shows that the midweek (Monday – Thursday) average ADR at \$91.85 is significantly lower than the average weekend (Friday and Saturday) ADR at \$109.15. This indicates that the Social/Leisure Lodging Demand, typically weekend business, is generating higher ADR's than Corporate/Commercial Lodging Demand which typically occurs during midweek. This also indicates that the Corporate/Commercial segment appears to be more price sensitive than the Social/Leisure segment since the midweek average ADR is significantly lower than the weekend average ADR.

This analysis of the most recent twelve-month period indicates that the two highest ADR days are similar to the two highest Occupancy days. This means that the Competitive Set is attempting to maximize rates on the highest Occupancy days during this period, which is an improvement over the historic averages discussed previously.

A review of the following chart indicates the subject market is attempting to maximize RevPAR since the highest RevPAR occurs on the highest Occupancy and the highest ADR days. This indicates that the Competitive Set appears to be attempting to maximize RevPAR since the highest ADR and Occupancy days are the same. This is also supported by a comparison of the average Weekend (Friday and Saturday) RevPAR at \$75.14 versus the average midweek (Monday through Thursday) RevPAR amount at \$54.90, revealing only a 36.9% difference.

RevPAR								Total Month
Sun	Mon	Tue	Wed	Thu	Fri	Sat		
Mar - 15	24.39	39.99	47.27	46.10	38.14	49.25	56.84	42.57
Apr - 15	27.21	44.56	52.38	53.11	41.69	59.96	66.86	49.26
May - 15	34.50	41.50	56.54	57.00	49.05	69.31	88.08	57.28
Jun - 15	36.58	55.47	68.10	73.82	67.75	103.15	118.48	73.90
Jul - 15	47.10	66.10	85.84	78.47	77.39	100.71	110.97	81.38
Aug - 15	46.87	61.82	77.35	78.14	74.00	98.12	110.13	77.56
Sep - 15	38.11	51.50	65.17	70.53	68.11	91.89	109.14	70.45
Oct - 15	35.02	56.95	68.60	65.38	55.52	72.92	87.24	63.94
Nov - 15	22.07	37.20	48.18	48.91	45.32	52.06	55.08	43.15
Dec - 15	24.23	38.64	43.18	43.28	45.43	43.56	44.75	40.78
Jan - 16	25.54	34.73	44.80	44.82	39.78	43.80	48.67	40.21
Feb - 16	30.05	40.50	51.94	50.05	44.33	53.47	62.87	47.36
Total Year	32.46	47.40	58.89	59.33	53.99	70.03	80.25	57.38

Source: Smith Travel Research

RATE SENSITIVITY FACTOR ANALYSIS

Similar to the Lodging Demand Potential Index, a preliminary *Rate Sensitivity* analysis was also performed. This ranks the Market Segmentation planned for the proposed hotel and the anticipated Rate Sensitivity within the Market Segments. It utilizes a 5-point scale, with 5 indicating extreme sensitivity and 2.5 being average. The following are the results of this analysis.

RATE SENSITIVITY FACTOR		
Market Segmentation	% of Market	Rate Sensitivity Factor
Individual Travel Markets		
- Corporate/Commercial	40.0%	3.2
- Social/Leisure	25.0%	2.5
Group Markets		
- Business Related	10.0%	3.2
- Social/Leisure Related	25.0%	2.5
TOTAL	100.0%	2.8
<i>Source: H/M/I</i>		

This review of Rate Sensitivity in the subject market area is based first on the assumption that the proposed limited-service hotel will primarily compete with the midscale to upper mid-scale, limited-service hotels located in greater Columbus market area, i.e. including but not limited to Forest Lake, Wyoming, Chisago City, North Branch and Lino Lakes. These hotels comprise the Competitive Set discussed in detail in the *Lodging Supply* section of this report. To balance this market with average Rate Sensitivity, the midweek (Monday – Thursday) performance of the Competitive Set which is typically Corporate/Commercial Lodging Demand and the Social/Leisure Lodging Demand, which is typically the weekend (Friday - Sunday), were analyzed to determine each of their Rate Sensitivity levels.

The projected average low single rate of the entire Competitive Set for summer (July/August) 2016 through winter (February/March) 2017 was \$112.63. This is 15.4% greater than this market's historic average ADR of \$97.57 for the Competitive Set of hotels during the twelve months ending in February, 2016. This is based on the Competitive Set utilized in this report. This indicates that during the prior twelve months, modest to significant discounting occurred below the average low single rate in the market. The use of data from the two separate seasons should allow for the significant seasonality in this market that was discussed earlier in this report.

The weekday average ADR (\$91.85) is 18.4% less than the average low single rate and the average weekend ADR (\$109.15) is 3.1% less than the average low single rate. These are significant variances from the average single rate of the Primary Competitive Set and indicate overall above average Rate Sensitivity in the subject market at this time

It is estimated that there will be slightly above average *Rate Sensitivity* from the Corporate/Commercial Market and average *Rate Sensitivity* from the Social/Leisure Segments as indicated in the chart above. It is believed that this level of *Rate Sensitivity* will continue annually due to the high demand during the peak spring, summer and fall seasons. It is anticipated to continue due to the popularity of this market area for sports teams, especially during the summer months.

FEEDER MARKETS

Discussions indicated that the Social/Leisure *Feeder Markets* for the proposed hotel are believed to be primarily regional drawing demand from states surrounding Minnesota (i.e. Wisconsin, Illinois, Iowa, Nebraska, North and South Dakota and Manitoba, Canada).

Corporate/Commercial Feeder Markets are believed to be both regional and national with some international demand because of the primary industries in the area, i.e. Polaris and Rosenbauer (manufacturer of fire engines). The Corporate/Commercial Lodging Demand generators include suppliers/vendors, professional services, smaller training/sales meetings/conferences, and all other Corporate/Commercial Lodging Demand.

UNACCOMMODATED LODGING DEMAND

Unaccommodated Lodging Demand is described in two ways. The first is Lodging Demand that prefers to stay in the subject market but currently stays in other areas due to the lack of adequate accommodations, either due to condition or number of available rooms. The second definition is Lodging Demand staying in the subject market but actually desiring accommodations in other areas.

Currently, there are few quality limited service hotels within the immediate Columbus market area, i.e. a five-mile radius that includes Forest Lake. The greater Columbus market area identified by this consultant includes Columbus, Forest Lake, Wyoming and Lino Lakes. Discussions with local officials indicated that the first type of *Unaccommodated Lodging Demand* is occurring. This is because of the quality of available hotel rooms in Forest Lake and because of the corporate/commercial and youth sports market Lodging Demand. This latter point is primarily due to the fact that this market generates most of the youth sports Lodging Demand during the peak summer season.

Since there is limited Lodging Supply in the immediate area surrounding the National Sports Center in Blaine, Minnesota, the second type of *Unaccommodated Lodging Demand* may be occurring on a minimal basis.

The Competitive Set includes all of the midscale and upper midscale limited service hotels within a twelve-mile radius that are located on I-35, I-35E, I-35W and on US Route 8 as well as the one upper midscale hotel at the National Sports Center. This set of hotels consists of eight properties with 544 total rooms. They were selected because they report to Smith Travel Research (STR) and because of their location on the primary traffic arteries in the subject market area.

A review of the Competitive Set's performance in the most recent twelve-month period, March, 2015 through February, 2016, reveals that a total of 89.26 days (24.5%) from May - October (spring, summer and fall) achieved Occupancies of 70.0% or greater. This is typical for this part of the country and is considered an Occupancy performance level at which newer and better hotels are reaching maximized Occupancy.

The daily Occupancies for this period are presented in the following chart prepared by Smith Travel Research. Those highlighted in yellow are days achieving 75% Occupancy or greater, blue are days achieving 70.0% - 74.9% Occupancy range.

Occupancy (%)								Total Month
Sun	Mon	Tue	Wed	Thu	Fri	Sat		
Mar - 15	30.0	47.6	54.3	54.2	44.7	53.5	60.7	48.8
Apr - 15	31.8	51.6	59.6	61.0	48.9	61.1	67.0	54.5
May - 15	38.9	48.3	63.6	63.5	55.2	67.9	83.2	60.4
Jun - 15	38.3	59.1	71.4	76.5	68.4	87.5	96.7	70.7
Jul - 15	46.8	67.8	83.9	78.4	73.0	84.2	89.8	75.2
Aug - 15	48.2	65.8	78.8	78.6	73.9	84.5	92.1	74.0
Sep - 15	40.1	54.6	69.2	73.8	68.1	76.9	90.4	67.9
Oct - 15	38.9	63.7	74.1	71.5	62.0	69.1	79.7	66.0
Nov - 15	26.2	44.0	54.8	54.4	51.3	51.3	53.6	47.1
Dec - 15	28.2	44.8	49.2	48.9	49.9	43.6	44.6	44.7
Jan - 16	28.8	41.1	51.8	52.0	45.0	43.7	48.8	44.1
Feb - 16	33.6	47.3	59.8	57.8	50.3	53.9	62.0	51.9
Total Year	35.7	53.0	64.0	64.3	57.6	64.9	72.7	58.8

Source: Smith Travel Research

LODGING SUPPLY

This section of the report describes the competitive Lodging Supply or Competitive Hotel Set that will affect the proposed hotel, particularly for hotel room demand. Smith Travel Research reports that there are thirty motels, hotels and resorts ranging from economy to upscale styles. These include limited service, select service and full service properties totaling 2,106 rooms within an estimated fifteen-mile radius of the subject site area (Exit 129 on I-35) in Columbus, Minnesota. However, the primary competitors of the proposed hotel are midscale and upper midscale, limited service hotels. Therefore, the Competitive Set of hotels was selected because of their location, their being utilized by Lodging Demand generators identified during the research for this report, their reporting to Smith Travel Research, and because they are similar in style and/or service to the proposed limited-service hotel. The following chart highlights members of the Competitive Set of hotels.

PRIMARY COMPETITIVE HOTELS				
Number of Hotels:		8		
Number of Hotel Rooms:		544		
Chain Related:	Hotels:	8	%Overall Marke	100.0%
	Rooms:	544	%Overall Marke	100.0%
Non-Chain Related:	Hotels:	0	%Overall Marke	0.0%
	Rooms:	0	%Overall Marke	0.0%
PRODUCT DIFFERENTIATION ANALYSIS				
CATEGORY	NUMBER OF HOTELS	PERCENT OF MARKET	NUMBER OF ROOMS	PERCENT OF MARKET
Budget	0	0.0%	0	0.0%
Economy	0	0.0%	0	0.0%
Midscale (Limited-Service) <i>Chisago City: GrandStay Hotel & Suites - 51 ms.</i> <i>Forest Lake: AmericInn - 45 ms.</i> <i>North Branch: AmericInn - 50 ms.</i> <i>White Bear Lake: AmericInn - 49 ms.</i>	4	50.0%	195	35.8%
Midscale (Full-Service)	0	0.0%	0	0.0%
Upper Midscale (Limited-Service) <i>Lino Lakes: Hampton Inn Suites - 112 ms.</i> <i>Forest Lake: Country Inn & Suites - 58 ms.</i> <i>Shoreview: Country Inn & Suites - 83 ms.</i> <i>Blaine: Best Western Plus@The National Sports Center - 98 ms.</i>	4	50.0%	349	64.2%
Upper Midscale Extended Stay	0	0.0%	0	0.0%
Upscale Extended Stay	0	0.0%	0	0.0%
Upscale Suite (Full-Service)	0	0.0%	0	0.0%
TOTALS	8	100.0%	544	100.0%
Average Room Size:			68.0	
<i>Source: HMI</i>				

The average size of the hotels in the Competitive Set is 68 rooms. The current anticipated size of the proposed hotel is 75 rooms. This is larger than the average size of the Competitive Set Hotels, for a Fair Share Size Adjustment factor of 90.67%.

All of the members of the Competitive Set properties are either regionally or nationally branded. A strong regional or national brand affiliation is recommended for the proposed hotel. This would assist in positioning it to be competitive in the subject market and would enable it to compete in the broader market.

A further review of the previous chart indicates that there is a mix of price categories as described by STR in the Competitive Set (all limited service style). Half of the properties or 35.8% of the rooms are Midscale properties and the other half are Upper Midscale or 64.2% of the rooms. The majority of the rooms, half of the properties being upper midscale combined with the previous Unaccommodated Lodging Demand Analysis, indicates overall modest or average rate sensitivity overall in the hotel sector.

PROJECTED OCCUPANCY AND AVERAGE DAILY RATE

The following chart highlights advertised competitive hotel rates, anticipated Occupancy performance, and the projected ADR rates of the proposed hotel's Competitive Set of hotels. These hotels report to Smith Travel Research (STR).

COMPETITIVE HOTEL OCCUPANCY & RATES				
PROPERTY	Occ. Perform.	RATE ANALYSIS		PROJECTED ADR
		SUMMER	WINTER	
<u>Blaine, MN</u> BW Plus @ Nat'l Sports Ctr	Above	\$99-\$140	\$84-\$132	\$96.69
<u>Chisago City, MN</u> GrandStay Hotel & Suites	Average	\$114-\$134	2017 not avail	\$101.68
<u>Forest Lake, MN</u> AmericInn	Below	\$103-\$120	2017 not avail	\$83.63
Country Inn & Suites	Average	\$112-\$169	\$148-\$169	\$100.17
<u>Lino Lakes, MN</u> Hampton Inn	Above	\$139-\$169	\$99-\$139	\$115.89
<u>North Branch, MN</u> AmericInn	Below	\$110-\$130	\$100-\$120	\$92.00
<u>Shoreview, MN</u> Country Inn & Suites	Average	\$139-\$159	\$118-\$139	\$104.06
<u>White Bear Lake, MN</u> AmericInn	Below	\$112-\$133	2017 not avail	\$95.55
Competitive Market Average Daily Room Rate (ADR):				\$100.98
* Rates shown reflect the low single to high double for each season.				
** Where seasonal rate range was not available, similar available rate range was used.				
<i>Source: HMI</i>				

The Competitive Average Daily Rate (ADR) in the previous chart is the overall ADR for the Competitive Set of Hotels reported by STR for the twelve-month period ending February, 2016. It has a growth factor of 3.5% (the five-year annual historic average rate of increase for the period 2010 – 2015) applied to arrive at the projected ADR for calendar 2016 for the Competitive Set and for each property and collectively as a group. The annual ADR's for each property in the previous chart are based on the reported advertised rate ranges for particular seasonal periods.

- A review of the Occupancy performance for the Competitive Set of Hotels in the subject market indicated that they are performing at varying levels from below to above average.
- The above chart also indicates that there are three rate tiers within the Competitive Set.
 - The first rate tier has the highest rate and is comprised of just the Hampton Inn with a projected ADR of \$115.89. It is located approximately eight miles southwest of the two subject site areas via I-35 or MN 97/23. A projected ADR of \$115.89 achieves a yield to the projected average ADR of \$100.98 or 114.8% of the Competitive Set.
 - The second rate tier includes the Best Western Plus National Sports Center (\$96.69) in Blaine, the GrandStay Hotel & Suites (\$101.68) in Chisago City, the Country Inn & Suites (\$100.17) in Forest Lake, the Country Inn & Suites (\$104.06) in Shoreview and the AmericInn (\$96.55) in White Bear Lake. The projected average ADR's for these five hotels is \$99.83. A projected average ADR of \$99.83 achieves a yield to the projected average ADR of \$100.98 or 98.9% of the Competitive Set.
 - The third rate tier includes the AmericInn (\$83.63) in Forest Lake and the AmericInn (\$92.00) in North Branch. The projected average ADR's for these two hotels is \$87.82. A projected average ADR of \$87.82 achieves a yield to the projected average ADR of \$100.98 or 87.0% of the Competitive Set.

Historically, the Competitive Set achieved an average annual ADR growth rate of 3.5% from 2011 through 2015. Year-to-date through February, 2016, the ADR rate of growth has been 3.1%. Comparing this to the average ADR growth rate in the prior three-year period, the 2016 annual ADR growth rate is projected at 3.42%. Half of this rate, 1.71%, will be utilized for 2016 projection purposes in this report. The actual five-year historic average annual ADR rate of growth for the period 2011 – 2015 of 3.5% will be applied for growth purposes commencing in 2017 and all future years when projecting the Competitive Set's ADR.

Rate Positioning

It is suggested that the proposed midscale to upper midscale, limited-service hotel be rate positioned at the top of the middle or second rate tier. This is recommended due to the average age of the Competitive Set being 12.8 years with four properties (half of the Competitive Set including the two hotels closest to the proposed site areas) being fifteen or more years old. The projected average ADR of the second rate tier is \$99.83 with a yield to the Competitive Set's overall average ADR of \$100.98 or 98.9%. The rate leader in this second rate category has a projected 2016 ADR of \$104.06 with a yield to the Competitive Set's overall average ADR of 103.1%. Therefore, the proposed hotel being positioned as one of the rate leaders in this second rate tier, should achieve a yield of 103.1% to the overall Competitive Set's average ADR. With the proposed hotel being brand new in 2018 versus an average age of almost over fifteen years for the Competitive Set, a five percentage point premium can be added. This results in a yield for the proposed hotel of 108.1% in 2020, its currently anticipated third full year of operation. This would result in the proposed hotel being projected to achieve an ADR of \$122.72 in 2020.

For projection purposes, it is recommended that the proposed hotel be rate positioned to achieve a yield to the Competitive Set of 108.1% by the time it stabilizes in its third year of operation. This will be reduced by 5.0% in years one and two to allow for any discounting which typically occurs. This is typical when promoting a new hotel as it opens and will result in yields to the projected average ADR for the Competitive Set of 97.6% in year one and 102.7% in year two. This will position the new hotel as the rate leader in the middle of the second rate tier.

This rate positioning of the proposed hotel should result in ADR's in the \$99 - \$102.00 range when it opens in early to mid-2017. In 2018, 2019 and 2020 being the first, second and third full year of operation, the resulting rates should be in the ranges of \$102 - \$106, \$110 - \$116 and \$120 - \$124, respectively.

COMPETITIVE FACTOR ANALYSIS

A *Competitive Factor Analysis* was also performed for the Competitive Set of hotels. This analysis is based upon a scale of 0 to 5, with 5 indicating strong competitive factors and 2.5 being average. The following chart highlights the analysis of the Competitive Set of hotels in the categories of *Rate, Facility, Brand, Location* and *Market Segmentation*. It also indicates the overall competitive factor for each property and for the subject market. This section of the report provides an overview of the competitive position that each hotel occupies within the subject market.

The following chart shows the competitive factor analysis of the *Competitive Set*.

COMPETITIVE FACTOR ANALYSIS									
PROPERTY NAME	AGE (Yrs.)	# OF ROOMS	AAA RATING	RATE	FACILITY	BRAND	LOCAT.	MKT. SEG.	COMP. FACTOR
<u>Blaine, MN</u>									
BW Plus @ Nat'l Sports Ctr	9.0	98	3	2.6	4.0	4.0	2.0	2.0	2.9
<u>Chisago City, MN</u>									
GrandStay Hotel & Suites	2.0	51	3	2.5	4.0	3.0	2.0	2.5	2.8
<u>Forest Lake, MN</u>									
AmericInn	33.0	45	N/A	3.0	2.0	3.2	4.5	2.5	3.0
Country Inn & Suites	18.0	56	2	2.5	3.0	4.0	4.5	3.5	3.5
<u>Lino Lakes, MN</u>									
Hampton Inn	8.5	112	3	2.2	4.5	4.5	3.5	4.0	3.7
<u>North Branch, MN</u>									
AmericInn	15.8	50	2	2.7	3.5	3.2	1.5	2.0	2.6
<u>Shoreview, MN</u>									
Country Inn & Suites	8.5	83	3	2.4	3.5	4.0	2.0	2.5	2.9
<u>White Bear Lake, MN</u>									
AmericInn	18.3	49	2	2.6	3.5	3.2	2.0	2.0	2.7
COMBINED RATING	12.8		2.5	2.5	3.8	3.7	2.3	2.6	3.0
<i>Source: HMI</i>									

In the chart above, this market is indicating an overall above average competitive factor for all categories with *Facility* closely followed by *Brand* getting the highest ratings of 3.8 and 3.7 respectively out of a possible 5.0, and *Location* getting the lowest rating of 2.3 out of a possible 5.0.

- The *Average Age* of the Competitive Set hotels is 12.8 years with a range of 2.0 years to 33.0 years. Four of the eight hotels are between 15.8 and 33.0 years old. This indicates that four of the eight hotels will be in need of or have recently experienced a full renovation including soft goods, case goods, and exterior work as well as mechanical work, which typically occurs after the first fifteen years of a hotel's life. The AmericInn in Forest Lake, if not already, should be approaching its second major renovation by the time the proposed hotel opens in mid-2017.

- Three of the remaining four hotels are 8.5 – 9.0 years old indicating that they should have completed renovations or are planning renovations that include soft goods and case goods. This is required every five to seven years to maintain guest satisfaction, to assure returning guests, and to maintain the current AAA rating. Only the two-year new GrandStay in Chisago City should not require its first renovation until 2020, the anticipated third full year of operations of the proposed hotel. The average age of the existing hotels in the market area would give the proposed hotel a distinct advantage over most of them.
- The above chart indicates that the three AmericInns will be the most competitive with the proposed hotel *Rate* wise, with the AmericInn in Forest Lake being the most competitive. This is because it has the lowest projected ADR's of the Competitive Set as indicated in the previous chart. It should be noted that the three AmericInn are three of the four hotels rated as Midscale by STR in the Competitive Set.
- The *Facilities* ratings of the Competitive Set hotels show that the Hampton Inn located in Lino Lakes is rated the most competitive with the proposed hotel because of its 648 sq. ft. meeting room (the need for meeting space was specifically mentioned by more than one demand generator interviewed) and the quality of its facilities. The GrandStay and the Best Western Plus achieved the second highest facility ratings due to the former being like new and the latter having a special game room and other kid related facilities.
- There is good *Brand* representation in the Competitive Set of hotels. National hotel brands include: Hilton Hotels International through Hampton Inn; Best Western International through the Best Western Plus; and Carlson Rezidor Hotel Group through the two Country Inn & Suites hotels. AmericInn and GrandStay are strong regional brands in this market area. The AmericInn brand received a slightly higher *Brand* rating, 3.2 vs. 3.0, because it has a significantly greater number of properties and it is represented in more states.
- Regarding the *Location* of the Competitive Set relative to the subject site areas in the City of Columbus, the two closest hotels to the Site Areas previously discussed in this report are located in Forest Lake, two miles north on I-35 at Exit 131. This resulted in the highest rankings of 4.5 for the Country Inn & Suites and the AmericInn, both located in Forest Lake. The next closest hotel, the Hampton Inn in Lino Lakes. is approximately eight miles south on either I-35 or MN 97/23 from the subject Site Areas. The AmericInn in North Branch is the furthest member of the Competitive Set of hotels at twenty miles resulting in the lowest 1.5 ranking.

- Regarding *Market Segmentation* of the Competitive Set relative to the proposed limited service, midscale to upper midscale hotel, the Hampton Inn in Lino Lakes received the highest rating primarily due to it being referenced multiple times during discussions with potential demand generators for the proposed hotel. The balance of the hotels in the Competitive Set were all mentioned to some degree resulting in their respective ratings here and how they would be anticipated to compete with the proposed hotel.
- The Hampton Inn in Lino Lakes received the highest overall Competitive Factor rating of 3.7 due to its *Facility, Brand, Market Segment* and *Location* ratings. This was followed by the Country Inn & Suites and the AmericInn, both located in Forest Lake, primarily due to their *Location* and *Brand* ratings. *Market Segmentation* for the Country Inn & Suites and *Rate* for the AmericInn with *Competitive Factor* ratings of 3.5 and 3.0 respectively achieved the second and third overall highest ratings.

COMPETITIVE SET LODGING PERFORMANCE

The following section highlights the Competitive Set’s Lodging Performance in the subject market. The lodging performance of the Competitive Set is based upon data from calendar 2010 through February, 2016. The Competitive Lodging Performance of Lodging Demand Growth, Lodging Supply Growth, Occupancy, Average Daily Room Rate (ADR), and Revenue Per Available Room (RevPAR) is analyzed. The YTD figures compare 2016 YTD through February to the same period the prior year.

Lodging Demand Growth

The following chart highlights *Lodging Demand Growth* that has occurred in the subject market area.

COMPETITIVE LODGING PERFORMANCE								
Lodging Demand Growth								
	2010	2011	2012	2013	2014	2015	YTD 2015	YTD 2016
Primary Competitive Lodging Demand - Percentage Change	N/A	6.9%	5.7%	5.1%	11.4%	2.5%	1.5%	5.1%
2010-2015 - Annualized Growth Rate:								6.3%
<i>Source: Smith Travel Research & HMI</i>								

Lodging Demand Growth for the six-year period 2010 – 2015 showed positive growth in every year ranging from 2.5% - 11.4%. Year-to-date through February, 2016, Lodging Demand Growth was up 5.1%. Comparing this performance to the average of the prior three-year period indicates a potential increase of 5.79% in 2016. This percentage will be utilized in this report for the 2016 growth rate. The five-year historic average for the period 2010 – 2015 was 6.3%. The six-year projected

average annual growth rate for the period 2010 – 2016 is 7.24%. In 2017, the five-year historic growth rate of 6.3% will be applied for growth purposes. In 2018, the rate of 6.77% (which is halfway between the 6.3% and the 7.24% rate) will be applied. Then commencing in 2019 and all future years the rate of 7.24% will be applied for growth purposes.

Lodging Supply Growth

The following chart reflects the *Lodging Supply Growth* that occurred in the subject market.

COMPETITIVE LODGING PERFORMANCE								
Lodging Supply Growth								
	2010	2011	2012	2013	2014	2015	YTD 2015	YTD 2016
Primary Competitive Lodging Supply - Percentage Change	N/A	0.0%	0.0%	0.0%	6.9%	3.2%	10.3%	0.0%
2010-2015 - Annualized Growth Rate:								2.0%
<i>Source: Smith Travel Research & HMI</i>								

The STR listing of Competitive Set hotels indicated the only addition to the Lodging Supply during this six-year period occurred in May, 2014 with the opening of the 51-room GrandStay Hotel & Suites.

Local officials indicated that they were not aware of any other specific hotel development projects that were under consideration within a ten-mile radius of the two site areas. However, there are two competing hotel proposals under consideration at this time, one to be located in Site Area A at Exit 129 on I-35 and one in Site Area B adjacent to the Running Aces Casino Racetrack. Since the recommendation of this report is to proceed first with the Site Area B proposed hotel, half of an anticipated 50-room hotel projected to open at Site Area A is included in the projections in this report as growth in the Lodging Supply of 4.17% in 2019.

An analysis of the historic Absorption Rate of this Lodging Supply by Lodging Demand in this subject market indicates that a new hotel would be absorbed in approximately 7.5 months, considerably less than the industry normal rate of less than three years.

Occupancy

The following chart depicts the Competitive Lodging Performance of the subject market's *Occupancy*.

COMPETITIVE LODGING PERFORMANCE Occupancy								
	2010	2011	2012	2013	2014	2015	YTD 2015	YTD 2016
Primary Competitive Hotels	47.6%	50.8%	53.7%	56.5%	58.8%	58.4%	45.5%	47.8%
<i>Source: Smith Travel Research & HMI</i>								

Occupancy data shows that the Competitive Set was at its highest annual rate of 58.8% in 2014 and at its lowest rate of 47.6% in 2010. *Occupancy* for the five-year period from 2010 through 2015 reflected positive results with increases in *Occupancy* each year.

Results through the first two months of 2016 indicate that *Occupancy* increased slightly by 5.1% while Lodging Demand increased 5.1% as well. The average change in Lodging Demand over the prior three years indicates an average annual change/increase of 5.8% in calendar 2016. This will be applied for 2016 annual projection purposes in this report resulting in a projected 2016 annual *Occupancy* of 61.8% for the Competitive Set.

Average Daily Room Rates

The following chart highlights the historical trend of *Average Daily Room Rates* in the market.

COMPETITIVE LODGING PERFORMANCE Average Daily Room Rates								
	2010	2011	2012	2013	2014	2015	YTD 2015	YTD 2016
Primary Competitive Average Daily Room Rates	\$81.87	\$83.93	\$84.77	\$86.42	\$92.28	\$97.27	\$88.47	\$91.20
Percentage Change	N/A	2.5%	1.0%	1.9%	6.8%	5.4%	9.2%	3.1%
2010-2015 - Annualized Growth Rate:								3.5%
<i>Source: Smith Travel Research & HMI</i>								

Average Daily Rate (ADR) over the six years reviewed showed consistent positive results, with increases ranging from 1.0% - 6.8% for a five-year average annual rate of increase of 3.5%. Year-to-date through February, 2016, the rate of growth has been 3.1%. Comparing this to the previous three-year average annual *ADR* growth rate, the projected 2016 annual *ADR* growth rate is projected at 3.42%. Since the

2016 results are for just two months, half of this rate or 1.71% will be applied for projection purposes in this report for 2016. Including this projected rate of growth for 2016, the six-year average ADR rate of growth from 2010 – 2016 is projected to be 3.81%. However, the five-year actual historical growth annual average growth rate of 3.5% will be applied commencing in 2017 and all future years for projected ADR growth purposes in this report.

Revenue Per Available Room (RevPAR)

The following chart depicts the *Revenue Per Available Room (RevPAR)* historical performance in the market.

COMPETITIVE LODGING PERFORMANCE								
Revenue Per Available Room								
	2010	2011	2012	2013	2014	2015	YTD 2015	YTD 2016
Primary Competitive Revenue Per Available Room (RevPAR)	\$38.94	\$42.68	\$45.55	\$48.80	\$54.26	\$56.84	\$40.25	\$43.60
Percentage Change	N/A	9.6%	6.7%	7.1%	11.2%	4.8%	0.4%	8.3%
2010-2015 - Annualized Growth Rate: 7.9%								
<i>Source: Smith Travel Research & HMI</i>								

Revenue Per Available Room (RevPAR) trends showed that the Competitive Set experienced positive RevPAR growth every year from 2011 – 2015. The 2016 year-to-date growth rate is an increase of 8.3%. When compared to the average results over the prior three years, this indicates an annual rate of growth in 2016 of 9.41% yielding a projected 2016 RevPAR of \$62.19.

ISSUES, RISKS AND OPPORTUNITIES

The following section of the report deals with topics that should be addressed when undertaking a hotel development project such as the one studied in this report. Many of these topics are common to hotel development and are addressed here as a matter of due diligence in evaluating the subject market and subject site for the proposed hotel. Also highlighted in this section are any concerns or opportunities which have arisen during the research portion of this report that would directly affect the proposed hotel development. This may require additional research by the developer when pursuing the development of the proposed hotel.

COMPETITIVE PRICING PRESSURES

Regarding Competitive Pricing Pressures, the new midscale to upper midscale, limited-service hotel will need to be sensitive to the pricing strategies established in this Columbus, Minnesota market area. As discussed previously in this report, there is below average potential Rate Sensitivity in this market with both the Corporate/Commercial and the Social/Leisure market segments having below average Rate Sensitivity.

It is recommended that the proposed midscale to upper midscale, limited-service hotel have the capability of increasing rates during peak Lodging Demand periods and the ability to offer solid price/value with lower rates during slower Lodging Demand periods. A well-positioned midscale to upper midscale hotel product is recommended.

As previously discussed, it is suggested that the proposed midscale to upper midscale, limited-service hotel be rate positioned as the rate leader in the middle rate tier. This is recommended due to the average age of the Competitive Set being 12.8 years with four properties (half of the Competitive Set including the two hotels located in Forest Lake the two closest to the proposed site areas) being fifteen or more years old. The projected average ADR of the second rate tier is \$99.83 with a yield to the Competitive Set's overall average ADR of \$100.98 or 98.9%. The rate leader in this second rate tier has a projected 2016 ADR of \$104.06 with a yield to the Competitive Set's overall average ADR of 103.1%. Therefore, the proposed hotel being positioned as one of the rate leaders in this second rate tier, should achieve a yield to the overall Competitive Set's average ADR of 103.1%. Due to the proposed hotel being brand new in 2018 versus an average age of about fifteen years for the Competitive Set, a five percentage point premium can be added. This results in a yield for the proposed hotel of 108.1% in 2020, its currently anticipated third full year of operation. This would result in the proposed hotel being projected to achieve an ADR of \$122.72 in 2020.

For projection purposes, it is recommended that the proposed hotel be rate positioned to achieve a yield to the Competitive Set of 108.1% by the time it stabilizes in its third year of operation. This will be reduced by 5.0% in years one and two to allow for any discounting which typically occurs. This is typical when promoting a new hotel as it opens and will result in yields to the projected average ADR for the Competitive Set of 97.6% in year one and 102.7% in year two. This will position the new hotel as the rate leader in the middle of the second rate tier.

This rate positioning of the proposed hotel should result in ADR's in the \$99 - \$102.00 range when it opens in early to mid-2017. In 2018, 2019 and 2020, (being the first, second and third full year of operation), the resulting rates should be in the ranges of \$102 - \$106, \$110 - \$116 and \$120 - \$124, respectively.

GROWTH IN LODGING DEMAND

Lodging Demand Growth for the six-year period 2010 – 2015 showed positive growth every year ranging from 2.5% - 11.4%. Year-to-date through February, 2016, Lodging Demand Growth was up 5.1%. Comparing this performance to the average of the prior three-year period indicates a potential increase of 5.79% in 2016. This percentage will be utilized in this report for the 2016 growth rate. The five-year historic average for the period 2010 – 2015 was 6.3%. The six-year projected average annual growth rate for the period 2010 – 2016 is 7.24%. In 2017, the five-year historic growth rate of 6.3% will be applied for growth purposes. In 2018, the rate of 6.77% which is half way between the 6.3% and the 7.24% rate will be applied. Then commencing in 2019 and all future years the rate of 7.24% will be applied for growth purposes.

Market Segmentation & Profile

The *Market Segmentation* and the *Market Segmentation Profiles* discussed previously in this report primarily represented what is anticipated to occur in the overall market area. However, consideration of two Site Areas for the proposed hotel results in some differentiation of the overall *Market Segmentation* and market *Segmentation Profiles* when considering each Site Area. Two examples being:

- The proposed hotel development plans for Site Area B include banquet/meeting space of approximately 4,000 sq. ft. which would complement the meeting space already available at the Running Aces facility. This would indicate a focus on *Market Segmentation* that includes groups, both Corporate/Commercial and Social Leisure segments, requiring such space.
- The proposed hotel development plans for Site Area A, which is situated at Exit 129 on I-35, with typically very limited meeting space indicates a focus on the Individual Traveler, be they Social/Leisure or Corporate Commercial driven or groups that require minimal to no meeting space, i.e. youth sports teams.

GROWTH IN LODGING SUPPLY

The STR listing of Competitive Set hotels indicated the only addition to the Lodging Supply during this six-year period occurred in May, 2014 with the opening of the 51-room GrandStay Hotel & Suites.

Local area officials indicated that they were not aware of any other specific hotel development projects that were under consideration within a ten-mile radius of the two Site Areas. However, there are two competing hotel proposals under consideration at this time, one to be located in Site Area A at Exit 129 on I-35 and one in Site Area B adjacent to the Running Aces Casino Racetrack. Since the recommendation of this report is to proceed first with the Site Area B proposed hotel and the differences in the Lodging Demand generated, half of an anticipated 50 room hotel projected to open at Site Area A is included in the projections in this report as growth in the Lodging Supply of 4.17% in 2019.

An analysis of the historic Absorption Rate of this Lodging Supply by Lodging Demand for this subject market indicates that a new hotel would be absorbed in approximately four months, considerably less than the industry norm of less than three years.

In 2017, the Impact Factor of the new 75-room limited service style hotel was estimated at 74.2%. This is based on the following:

- 280 rooms of the Competitive Set or 51.5.0% of the total rooms in the Competitive Set are located at least nine or more miles from the two subject site areas. Therefore, it is believed that the proposed hotel might impact 50.0% of them (of the 51.5%) or 25.7%.
- It is felt that the proposed hotel will potentially impact the hotels in Forest Lake, Chisago City and Lino Lakes (48.5% of the total rooms) at a rate of 100.0% due to their location and accessibility to the major Lodging Demand generators for the proposed hotel discussed previously in this report.
- Therefore, the total Impact of the proposed hotel utilized in the projections in this report is 74.2% (i.e. 48.5% + 25.7%).

PROPERTY TAXES

A detailed analysis of the *Property Tax* structure in the City of Columbus and Anoka County was not within the scope of this report. The developer should analyze the property tax structure within the City of Columbus and Anoka County prior to development of the proposed hotel.

POLITICAL CLIMATE

Discussions with local officials indicated that the *Political Climate* in the subject market area was reported to be supportive of developing the proposed hotel at either of the subject site areas in the City of Columbus.

ENVIRONMENTAL CONCERNS

No unusual *Environmental Concerns* were noted at either of the subject site areas for the proposed hotel. Since a detailed Environmental Impact Study was not within the scope of this report, at least an Environmental Level I study should be completed by the developer. Toxic waste issues were not directly addressed within the scope of this study. However, the developer should conduct necessary environmental impact testing to make sure that the proposed hotel is in compliance with local ordinances and environmental regulations. Additionally, this should include a review of previous use, soil integrity, water drainage, water seepage, flood plain, storm surge, toxic waste issues, etc.

ZONING AND ARCHITECTURAL CONCERNS

The City of Columbus officials indicated that zoning is either already in place or will be in place to support this proposed hotel. They also stated that there are no special architectural/design issues. It is recommended that the developer review and implement any other additional building code requirements that are specifically due to this being an area susceptible to hurricanes.

LABOR MARKET, SUPPLY AND WAGES

At this time, no Labor Supply problems were reported in any employment area. No wage pressures were indicated at this time. The reported current (YTD through February, 2016) *Unemployment Rate* of 4.1% indicates a level of approximately 3.5%, which is well below the 4.0% - 5.0% range that is considered a level of maximized employment. This is an indication of potential limited available labor in the market area. The historic trend over the past five years shows a decrease in the *Unemployment Rate* by an average of 0.86% points per year. If this continues, there most likely will be a potential labor supply problem with possible wage pressure. It is recommended that the developer monitor this because it could potentially create a need for slightly higher wages to attract quality staff. This would result in potential pressure on the proposed hotel's economic performance because of higher labor costs.

AREA OF FRANCHISE PROTECTION

It is recommended that an *Area of Franchise Protection* be established to ensure that there is no encroachment by a similarly branded hotel in the subject market area. This would be at least a ten-mile radius around the subject site for five years or more until the proposed hotel stabilizes. This will require negotiating with the proposed franchise brand to ensure adequate protection. Areas of Franchise Protection should be established by the developer to cover the subject market identified in Exhibit 4 of this report.

CONCLUSIONS

The following *Conclusions* are based upon analysis of the research performed for this market study which recommends development of a 75 room, midscale to upper midscale limited-service style hotel. This style of hotel will have the flexibility to attract both Corporate/Commercial and Social/Leisure Lodging Demand. These projections are based upon present operating performance of the subject market at the time of this report, and a timely completion of the proposed hotel discussed herein, based upon this report’s presentation. More details about the proposed hotel type and size are outlined in the *Property Recommendations* section of this report.

PROJECTED PROPERTY PERFORMANCE – 75 ROOMS

The following series of charts show the projected hotel’s performance, specifically in Occupancy, Average Daily Rates and Projected Revenue, beginning in the first full year of operation, which is assumed to be 2018.

Occupancy

The following chart shows the Projected Occupancy of the proposed hotel.

PROJECTED OCCUPANCY							
YEAR	PROJECTED MARKET OCCUPANCY			PROJ. MKT. PENET.	PROJECTED HOTEL OCCUPANCY		
	Low	Probable	High		Low	Probable	High
2018	60.4%	63.6%	66.7%	90.9%	54.9%	57.8%	60.6%
2019	62.2%	65.4%	68.7%	95.6%	59.5%	62.6%	65.7%
2020	66.7%	70.2%	73.7%	100.7%	67.1%	70.6%	74.2%
*Projected performance is +/- 5 percentage points and will be affected by changes in Lodging Supply and Demand growth levels used to formulate these projections.							
Source: HMI							

With the 75-room hotel currently planned by the developer, a Projected Market Penetration yield of 100.7% has been applied. This projected Market Penetration Yield is comprised of the following:

- 90.7%: The total Fair Share Size Adjustment Yield discussed previously in this report.
- 10.0%: The premium that could be applied due to the proposed hotel being brand new versus the average age of the Competitive Set at almost fifteen years when it opens in late 2018. This added factor typically ranges from 5.0% - 10.0%. With Site Area B being adjacent to the Running Aces Casino Racetrack, it was felt appropriate to utilize the higher end of this range in these projections.

- Estimates of Lodging Demand growth, as previously discussed in this report, include an increase of 5.79% in 2016, 6.30% in 2017, 6.77% in 2018 and a rate of 7.24% commencing in 2019 and all future years. A five-year projected average annual rate of Lodging Demand growth of 6.67% was utilized for projection purposes in this report.
- Local area officials indicated that they were not aware of any other specific hotel development projects that were under consideration within a ten-mile radius of the two site areas. However, there are two competing hotel proposals under consideration at this time, one to be located in Site Area A at Exit 129 on I-35 and one in Site Area B adjacent to the Running Aces Casino Racetrack. Since the recommendation of this report is to proceed first with the Site Area B proposed hotel and the differences in the Lodging Demand generated, half of an anticipated 50-room hotel projected to open at Site Area A is included in the projections in this report as growth in the Lodging Supply of 4.17% in 2019.
- An analysis of the historic Absorption Rate of this Lodging Supply by Lodging Demand for this subject market indicates that a new hotel would be absorbed in approximately 7.5 months, considerably less than the industry normal rate of less than three years.
- In 2017, the Impact Factor of the new 75-room limited service style hotel was estimated at 74.2%.

Average Daily Room Rate

The following chart highlights the *Projected Average Daily Room Rate* for the proposed hotel.

PROJECTED AVERAGE DAILY ROOM RATE			
YEAR Probable	PROJECTED MARKET ADR	PROJECTED MARKET YIELD	PROJECTED SUBJECT PROPERTY ADR*
High 2018	\$111.28 \$105.98	97.6%	\$108.56 \$103.39
Low	\$100.68		\$98.22
High 2019	\$115.17 \$109.69	102.7%	\$118.28 \$112.65
Low	\$104.20		\$107.01
High 2020	\$119.20 \$113.53	108.1%	\$128.86 \$122.72
Low	\$107.85		\$116.59
<p>* Net ADR equals room revenue plus restaurant, lounge, meeting & conference revenue. ** Projected performance is +/- 5 percentage points and will be affected by changes in Lodging Supply and Lodging Demand growth levels used to formulate these projections.</p>			
Source: HMI			

- *Average Daily Rate (ADR)* over the six years reviewed showed consistent positive results, with increases ranging from 1.0% - 6.8% for a five-year average annual rate of increase of 3.5%. Year-to-date through February, 2016, the rate of growth has been 3.1%. Comparing this to the previous three-year average annual ADR growth rate, the projected 2016 annual ADR growth rate is projected at 3.42%. Since the 2016 results are for just two months, half of this rate, 1.71% will be applied for projection purposes in this report for 2016. Including this projected rate of growth for 2016, the six-year average ADR rate of growth from 2010 – 2016 is projected to be 3.81%. However, the five-year actual historical growth annual average growth rate of 3.5% will be applied commencing in 2017 and all future years for projected ADR growth purposes in this report.
- It is recommended that the proposed midscale to upper midscale, limited-service hotel have the capability of increasing rates during peak Lodging Demand periods and the ability to offer solid price/value with lower rates during slower Lodging Demand periods. A well-positioned midscale hotel product is recommended.

- As previously discussed, it is suggested that the proposed midscale to upper midscale, limited-service hotel be rate positioned as the rate leader in the middle rate tier. This is recommended due to the average age of the Competitive Set being 12.8 years with four properties (half of the Competitive Set including the two hotels closest to the proposed site areas) being fifteen or more years old. The projected average ADR of the second rate tier is \$99.83 with a yield to the Competitive Set's overall average ADR of \$100.98 or 98.9%. The rate leader in this second rate category has a projected 2016 ADR of \$104.06 with a yield to the Competitive Set's overall average ADR of 103.1%. Therefore, the proposed hotel being positioned as one of the rate leaders in this second rate tier, should achieve a yield to the overall Competitive Set's average ADR of 103.1%. Due to the proposed hotel being brand new in 2018 versus an average age of almost over fifteen years for the Competitive Set, a five percentage point premium can be added. This results in a yield for the proposed hotel of 108.1% in 2020, its currently anticipated third full year of operation. This would result in the proposed hotel being projected to achieve an ADR of \$122.72 in 2020.
- For projection purposes, it is recommended that the proposed hotel be rate positioned to achieve a yield to the Competitive Set of 108.1% by the time it stabilizes in its third year of operation. This will be reduced by 5.0% in years one and two to allow for any discounting which typically occurs. This is typical when promoting a new hotel as it opens and will result in yields to the projected average ADR for the Competitive Set of 97.6% in year one and 102.7% in year two. This will position the new hotel as the rate leader in the middle of the second rate tier.
- This rate positioning of the proposed hotel should result in ADR's in the \$99 - \$102.00 range when it opens in early to mid-2017. In 2018, 2019 and 2020, (being the first, second and third full year of operation), the resulting rates should be in the ranges of \$102 - \$106, \$110 - \$116 and \$120 - \$124, respectively.
- To attain these ADR projections, the proposed hotel must be properly rate positioned as established in this report. This includes facility, product, amenities and services offered as anticipated for a new hotel of this style. Also, the rates established for the proposed hotel must be competitive with the subject market's rate structure and positioning.

Projected Room Revenue

The following chart depicts the *Projected Room Revenue* established in this report. The Probable Room Revenues are based upon the Occupancy and Average Daily Room Rates established in this report.

PROJECTED REVENUE			
YEAR	PROBABLE ROOM REVENUE	PROJECTED RevPAR	MARKET RevPAR YIELD
2018	\$1,634,605	\$59.71	88.6%
2019	\$1,929,927	\$70.50	98.2%
2020	\$2,373,509	\$86.70	108.8%
* Projected performance is +/- 5 percentage points and will be affected by changes in Projected Occupancy or Projected ADR.			
Source: HMI			

Given the projected Occupancy and ADR levels, the proposed hotel should achieve room revenue levels significantly higher than the Competitive Set by its third year of operation.

PROPERTY RECOMMENDATIONS

The following Property Recommendations were based upon the research conducted for this report.

Property Type

Based upon the projected Occupancy and Average Daily Room Rates in the subject market area and the product segmentation for both Lodging Demand and Supply, it appears that the proposed hotel's *Property Type* should be a Midscale to Upper Midscale, Limited-Service category with a mix of traditional rooms and suites.

Property Size

Based upon the subject market's projected Occupancy and Average Daily Room Rates and on Lodging Demand and Supply segmentation, the proposed *Property Size* was calculated at 75 rooms. This is slightly larger than the average size of the Competitive Set identified in this report at 68 rooms resulting in a Fair Share Size Adjustment of 90.7%. The projections in this report utilize all of the 10.0% of the potential premium yields due to the hotel being at least fifteen years newer than the average of the Competitive Set when it opens. It is felt that based upon the research analyzed at this time, a hotel of this size would be in line with the Lodging Demand research developed for this subject market. This size property should be well absorbed into this market.

Property Amenities

Recommended *Property Amenities* should be compatible with the product type and the brand affiliation selected for the proposed hotel. Also, consideration must be given to the Market Segmentation Profiles and demographics of the subject market. Product offerings should be in line with the national or regional franchise selected for the proposed hotel.

Property amenities and services that may be required are as follows:

- An appropriate indoor swimming pool area would be appreciated by the Social/Leisure market segment, especially when competing with other members of the Competitive Set. A well-lit, attractively decorated pool area is suggested. This type of amenity would assist in servicing the Social/Leisure market including youth sports teams, family tourists, weddings, and reunions traveling to this market area.
- Offering a whirlpool in the swimming pool area is suggested. Several whirlpool suites marketed as “honeymoon suites” could also be considered to attract Social/Leisure travelers.
- Offering an exercise room/area and a business center is recommended for the business/commercial traveler, projected to be 50% of the Lodging Demand.
- The sleeping rooms should provide the typical amenities currently required by a midscale to upper midscale, limited-service hotel chain. A large work desk and wireless internet access are expected in guest rooms by Corporate/Commercial guests.
- Some oversized vehicle parking for buses and vacationers with recreational vehicles should be considered.
- A small kiosk/convenience store area would be beneficial since the closest facilities are located at least a half mile away.

Sleeping Room Configuration

The recommended *Sleeping Room Configuration* should be compatible with the area’s overall Market Segmentation for the proposed hotel. The proposed hotel is projected to have an even split between Social/Leisure guests and Corporate/Commercial guests, which would indicate that it would be appropriate to have a greater number of double queen rooms versus king rooms. This is also due to rooms with double queen beds providing greater flexibility for all market segments. The suggested mix could be 75.0% to up to 90.0% double queen and 10% to 25.0% king bedded rooms. The mix of suites and traditional rooms should be typical for the brand chosen.

Brand Affiliation

Discussions with the developer indicated that the focus currently was on either GrandStay Hotel & Suites or AmericInn. Both brands already have at least one representative property included in the Competitive Set of hotels.

Rate Strategy

The Room Rate Strategy for the proposed hotel should be compatible with the Average Daily Room Rate projections indicated in this report. The rate positioning in this report is recommended. Seasonality of Room Rates is also a consideration for this property. Given the Average Daily Room Rate research performed and the projections set forth in this report, it appears that the proposed hotel would be positioned to compete in the middle of the second rate tier. Initially, for projection purposes in this report, it would appear that the proposed hotel will be rate positioned to achieve a yield to the Competitive Set of 108.1% by the time it stabilizes in its third year of operation.

Opening Date

The Opening Date for the proposed midscale to upper-midscale, limited-service style hotel should be selected based upon the seasonality of the subject market. Ideally, opening this hotel in early spring would capture the maximum revenue prior to the softer season beginning in November.

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DISCLAIMER

The decisions presented herein were based upon the information available and received at the time this report was compiled. Hospitality Marketers International, Inc., (HMI) has taken every possible precaution to evaluate this information for its completeness, accuracy and reliability. To the best of its knowledge, HMI feels the information and decisions presented herein are sound and reliable.

At the present time of this report, the United States and world economies are in the midst of a recovery from a major recessionary period that ran from 2008-2010. This recovery appears to be continuing according to current news reports with most economic indicators indicating growth since 2011.

HMI is not responsible for effects that occur from future political, economic or social events that ultimately alter these projections. These events should be monitored accordingly and potentially the results of this report may require updating to respond to future events.

Also, it should be understood that normal economic and marketplace conditions change constantly. HMI assumes no responsibility for information that becomes outdated once this report is written; nor is it responsible for keeping this information current after May, 2016.

It should be understood that the results presented in this report are the professional opinion of HMI 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 information received upon which those opinions have been based. HMI assumes no responsibility for changes in the marketplace.

Furthermore, it is presumed that those reading this report completely understand its contents and recommendations. If the reader is unclear of the understanding of the contents, clarification should be received from its writer, HMI.

Lastly, HMI assumes that those who receive this report act in accordance with its recommendations. Any deviation from those recommendations is solely the responsibility of those receiving this report.

Further questions concerning this report should be directed to HMI.

Sincerely,

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