

# Hotel Market Analysis Project Feasibility

Miller, South Dakota

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## Market Analysis & Project Feasibility Study

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## EXECUTIVE SUMMARY

The City of Miller South Dakota (client) engaged the following market analysis for the potential development of a lodging facility, possibly without franchise affiliation, in the community's subject area. The purpose of the study is to analyze the existing supply and demand and forecast future demand of the local hotels to determine feasibility of this project and understand the impact, risks and benefits associated with a development of this nature. The market study is a supply-and-demand based analysis measuring local travel trends and is used to determine the feasibility of a hotel development.

Given the size and pace of the regional economic activity and age of supply in the competitive market and its surrounding area—it seems apparent that there may be a base demand of tourism. Given the subject site under city ownership; and their willingness to support the development concept, the consultant was engaged to verify market demand and overall market observations and projections.

The consultant is engaged to provide a Competitive Market Overview, a Comprehensive Statistical Market Study, and project economics from operations to development with a focus on a lodging facility located in the city limits. The community currently has a site under control that houses the community center and an empty lot adjacent the facilities. They are in consideration of development opportunities to add lodging accommodations to the region. The overall project would have a high level of repositioning at the city's main corridor, which is highly visible and accessibility. This study includes operational hotel projections based on an overview of market, potential development information concerning the market area, and market factors that would affect the possible development of a hotel in this general area and location.

The primary questions that this report will answer through a factual and statistical analysis are as follows:

- ✓ What are the historical, current and future hotel growth market trends?
- ✓ What are the existing competitors in the market area?
- ✓ What is the impact of local and regional tourism?
- ✓ How are they performing? How is the region performing?
- ✓ How will new facilities improve the position of the hotel and tourism market?
- ✓ Are the desires for quality and amenities in the subject hotel consistent and competitive with what the market can support?
- ✓ What are the demand and financial projections for the proposed project at various key counts?
- ✓ Does the current supply meet the basic needs of travelers today and in the future?
- ✓ Can an independent hotel be competitive in this market or should it rely on franchise affiliation? If a brand, which one?

Given the consultants' development portfolio and experience, regional hotel management, client list of feasibility studies performed and knowledge of the hospitality industry; they are fully aligned to develop first-class hotels and qualified to offer market analysis and feasibility. All parties remain confident that an independent review of this report would support our findings. This report may or may not be acceptable for external investing and/or lending purposes and may depend upon this market's ability to support this hotel, additional requirements, and the desire for more specific information may be requested.

### **ENGAGEMENT SCOPE**

This study presents the current and potential demand for hotel accommodations and analysis of existing facilities in the subject market and the greater surrounding competitive market. It recommends the scope and general characteristics of the hotel and other amenities necessary to the development based on the development opportunity. Some characteristics will be driven by architectural site limitations, functionality of the operation, and the market's ability to sustain the business.

### **Process Overview and Scope**

For the market analysis, the consultants investigated area businesses and data from the regional data sources, major franchise hotel chains, and independent hotel facilities regarding the status of their businesses and future plans for the market as addressed in the analysis. Forecasts were made based on the market's historic performance, the growth in demand, and anticipated changes in supply. The subject hotel's accommodation occupancy levels, target rate strategies and revenue projections through the first several years of operation are based on those historical trends.

The market analysis determines the current and potential market for hotel accommodations and amenities, including the necessary components or amenities, and further determines the appropriate size, positioning, and scope of facilities to best serve the market, including market share (fair share of demand) and competitive advantages and disadvantages against competition. These recommendations are presented in this narrative report and its tables that set forth the hotel description, meeting space, potential mix and type of guest rooms, recommended facilities and amenities, and other commentary on the development of the subject facility based on the regional competition. The consultants will also identify recommended market classification of hotel type, price points and estimated levels of utilization.

Based on recommendations regarding project design, the consultants will later present a consolidated statement of estimated annual operating results for the subject facility complete with sources and level of departmental revenues, related direct and unallocated expenses for

the property through available cash flow for debt service and return on equity. The estimate will address a typical year in the property's operation in current value dollars and set forth the anticipated first several years of operating results in inflationary dollars.

The first step of this process involved an extensive market visit and tour. The consultant toured the subject market, site location and existing facility conditions, reviewed site goals, possibilities, objectives, and investigated regional competitive market supply.

For the subject hotel to be competitive and successful long-term within the market it must be positioned to induce or create new demand that is not fulfilled in the area by existing supply; or take market share from existing regional supply based on a more competitive and new product. This is typically done by offering competitive advantages to create demand. Initiatives can be economic drivers, amenities such as leisure or business-related services, brand or soft brand affiliation, etc.- all based on the target consumer or target market segments. The identification of necessary initiatives should be the primary goal of importance during development analysis. The consultant will discuss initiatives potentially critical to this hotel's success and address factors necessary in the site evaluation. The factors that will be addressed in the market study are:

- Project site and its accessibility
- Regional demand generators and their position
- Benefit of support amenities and services
- Facility amenities and design enhancements
- General operating conditions of the market existing lodging facilities
- Comparison to competitive hotels' characteristics
- Lodging demand within the subject market and property market share
- Competitive set investigation and comparison

The conclusion of this analysis includes:

- A review of the statistical history of competitive hotels within the market.
- Forecast of occupancy, ADR, and revenue trends for the subject market and potential subject property factoring in regional supply changes.
- Detailed operational projections for sales and expenses for guest rooms and food and beverage. We will also review past and current trends to industry averages.
- Ten-year operational profit & loss and sales projections evaluated in today's dollar.
- Investment analytics as to the value of the asset based on the net income approach and determine gaps in development and explore the eligibility of entitlements.

## **Research**

This report focuses on the supply and demand of hotel accommodations within the subject market. To best understand the current market dynamics and relative positioning of subject property, the consultant reviewed historical and current market statistics and analysis from independent resources, and a physical inspection of the competitive and comparable hotels including any meeting, and banquet facilities. Our research identified the historic and projected occupancy, Average Daily Rate (ADR), market segmentation mix, and operational positioning of the facilities in comparison to the subject property. Our research leads to the review of the regional facilities, amenities, services, and general conditions of the competition to position the subject hotel for direct competition.

Market trends affect the economics of hotel operations and the demand for hotel accommodations. To forecast operational projections, the consultant used industry standard reports, relevant data from their previously managed properties in their portfolio, area demographics, and industry statistics. To determine if the business environment could sustain the added hotel supply, the consultant gathered and analyzed relevant data such as current and proposed demand generators, population growth and demographics, and employment growth.

## **Market Performance and Facilities Recommendations**

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

Next, in detailed fashion, they project the occupancy, average rate, and revenues for the first 5 years of operation based on historical trends within the subject market. We used those projections to recommend the size, type, and characteristics of the hotel and the amenities offered. We will meet with you to discuss the feasibility and align various interests of the developer and operator.

## **Development Costs & Operational Costs: Economic Analysis**

The Economic Analysis was part of the original proposal in the market study to show development and construction estimates based on our experience and industry-supplied data (such as industry averages by class and costs per room). In effort to understand the hotel development and the revenue and expense pro forma analysis for this hotel project a valuation may be determined. These figures will be compared with the estimated development costs for a full understanding of risk level. Debt service assumptions and investment analysis is modeled for evaluation purposes.

## **ASSIGNMENT LOCATION—Miller South Dakota**

### **Market Overview**

Miller is located in east-central South Dakota midway between the state capital of Pierre and the city of Huron. Miller is the county seat of Hand County with a city population of 1,400 and Hand County has an overall population of nearly 3,500 with a median age of 50 years old.

The community has excellent access to transportation being located on the intersection of US Highway 14 and SD State Highway 45 as well as being on the Dakota, Minnesota and Eastern Railroad. The Laura Ingalls Wilder Historic Highway incorporates U.S. 14 from South Dakota in the west to Rochester, Minnesota, in the east, where the historic roadway continues on U.S. 63. In South Dakota and Minnesota, the road parallels the Rapid City, Pierre and Eastern Railroad, formerly the Dakota, Minnesota and Eastern Railroad.

US 14 and US 83 are the only national routes serving Pierre, South Dakota, one of only four state capitals not on the Interstate Highway System and until that interstate was created was the route many travelers followed west to popular tourist destinations such as the Black Hills National Forest, Badlands National Park, Mount Rushmore and other popular attractions.



Hand County is composed of excellent farm land and rolling ranch land providing a balanced agricultural economy. Corn, wheat, and sunflowers are the main crops while cattle and hogs are the most prominent livestock. Miller has a vibrant downtown business district that serves the greater area. Miller's industrial sector is anchored by the headquarters of the Mid-Dakota Rural Water System and the main office for Clipper Windpower's Rolling Thunder project. Video of the community can be found here. <http://www.millersd.org/on-hand-development-corporation/why-miller>.

Miller boasts a clinic and hospital, elementary through high schools, an assisted living center, nursing home, library, full city services such as police protection, sewer, electric, and street departments and emergency services.



## Community History

The history of Miller starts with the railroad being built through Hand County. In 1880, the Chicago and Northwestern Railway Company completed railroad track from Huron to Pierre. The company designated sidings along the route including Siding #3 and Siding #4. Eventually, Siding #3 became the nearby town of St. Lawrence and Siding #4 developed into the town of Ree Heights. In late 1880 the first settlers entered the area. These included the folks that initially settled in the Wessington Hills and the men who were hired to serve at the sidings.

Henry Miller, an entrepreneur from Blairstown, IA, took an interest in building a town in central Hand County. He purchased 40 acres and on July 7, 1881, made a trip two miles west of Siding #3 to select the site for the town. He returned to the area by train on September 8, 1881, along with 22 settlers from Iowa. They officially drew lots and founded the city of Miller. The founder Miller, through a friend that was employed by the railroad, convinced the railroad company to build another siding and depot at the City of Miller site even though it was so close to Siding #3. The railroad construction crew showed a few days after the settlers had drawn lots, and three days later the depot was completed. This was of importance to have a Siding in the community for the transportation of farmed crops and rail was the main distribution of those crops.

Throughout the late 1880's, Miller knew many good times and grew quickly. Along with other towns on the northern plains, it faced its share of difficulties such as blizzards, prairie fires and drought. Through it all the town continued to thrive with highlights including the first public school between Huron and Pierre in 1882 and a bid for the state capital in 1889.

*(Source: Consultant & Millersd.org)*

## Tourism

Recreational opportunities abound with some the finest pheasant and upland game hunting in the state. Lake Louise Recreational Area is only 14 miles northwest of Miller and provides bass and pan fish for the enthusiastic angler. Good fishing can also be experienced at Camp Dakota, Rose Hill and Jones Lake, all within Hand County. Miller is only 54 miles from Lake Sharpe and 78 miles from Lake Oahe on the Missouri River.

### Lake Louise

Lake Louise was created in 1932, when the south fork of Wolf Creek was dammed and is located 14 miles west of Miller, SD off of U.S. highway 14. Water depth in this 164-acre impoundment averages nine feet, with a maximum depth of 25 feet. Anglers and hunters come to this area for its abundant game. Lake Louise Recreation Area is located in the heart of pheasant and duck country.

The area caters to seasonal tourism offering reservations for the 39 campsites, either with or without electricity, and two cabins, open year-round. The cabins consist of a set of bunk beds, double bed, table and benches. Outside accommodations are a fire grate, picnic table and porch.

### **Hunting**

South Dakota has historically been known for Sturgis & motorcycles, the Bad Lands, Pheasants and Mount Rushmore. Without a doubt, South Dakota is the pheasant hunting capitol of the world and brings in national travel to many small communities, regional outfitters and public lands. Pheasants and pheasant hunting are solidly engrained in South Dakota culture for good reason and is an economic generator for many family businesses and small rural communities.

Pheasants successfully introduced in 1908, this game bird native to China thrives in South Dakota's diverse landscape of grasslands, croplands, wetlands and shelterbelts. Since 1919, the tradition of pheasant hunting has brought friends and families together in holiday-like fashion. Every year opening weekend brings unprecedented enthusiasm, excitement, and activity to cities and rural communities across the state. Below are a few nearby regional sites for hunting.

City of Huron, SD- Offering nearly 125,000 publicly accessible acres within a 60-mile radius of the city, Huron has acquired the name of "Ringneck Nation" for good reason. The local Heartland Region Chapter of Pheasants Forever is an annual stop for nonresident hunters at the Huron Event Center on the eve before the pheasant opener.

City of Miller- is a small town with a big reputation for hunting. Although less public land exists near town, working with local landowners in the area can produce the hunt of a lifetime for pheasant hunters willing to get to know local landowners. A hunting directory of Miller South Dakota publicly lists three pheasant hunting lodges, guides, outfitters, clubs, preserve listings found near Miller, SD. These are lodges which include Oakley Farm, High Plaines, and Dakota Wild Wings are full service facilities offering lodging and food & beverage as well as hunting.

Many of the regional facilities have 10+ bedrooms and can accommodate 20+ individual hunters seasonally. These facilities do not report statistics on local tourism and do attract national attention with packages in excess of \$1,000 to \$1,500 per person per day for hunting and guide service, lodging and food & beverage. These family run businesses have supplied lodging in effort to maximize profitability and induce national travel due to the lack of adequate accommodations in many of the small communities throughout central South Dakota.

## **Opportunity and Project Concept**

The City of Miller is looking for a redevelopment opportunity to further stimulate the local economy and increase tourism. The opportunity exists to enhance the cities community center and build a new lodging facility on Main Street in the community. Lodging is limited to a very few regional properties and the one facility in town, the Super 8 Miller South Dakota, opened in October of 1976 and offers 21 rooms at the intersection of U.S 14 and route 45.

The Super 8 facility has the following online description of the services and amenities offered: “The two-story Super 8 Miller offers 21 rooms featuring free Wi-Fi, HDTVs and desks. Guests can also heat and cool goodies in the included microwaves and mini-fridges and brew a fresh pot anytime with coffeemakers. Breakfast is served daily, compliments of the house. Coin-operated laundry facilities are also on hand for guest use. Pets are allowed for a small fee, and there's no charge for parking. Less than 56 miles north of I-90, the Super 8 lands guests within a mile north of central Miller. A day out at Lake Louise Recreation Area is just 15 miles away, and Huron Regional Airport offers flights less than 50 miles from the hotel. At the Super 8 Miller, guests can wake up to free breakfast, refresh laundry while on the road and bring their pets.”

Given the age of the facility the community would like to explore the opportunity to build a new and competitive lodging facility with modern furniture and fixtures to support local businesses and attract local tourism.

## **SUBJECT SITE ANALYSIS**

### **Accessibility**

Miller and the subject development site is located north east of the junction of two U.S routes; 45 which runs south from Interstate 90 and Kimball SD to the north to US 212 connecting Orient/Rockham; and 14 which runs west across the state from Brookings on the Minnesota boarder to Pierre on the Missouri River and eventually on to Interstate 90 to the west where it meets the Badlands National Park and the Black Hills National Forest. The community's modern airport has an asphalt runway that is 3,600 feet long and features hangers, fueling facilities, and a pilot's lounge built in 2006.

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

- Sioux Falls, SD—174 miles (2 hours 36 minutes)
- Pierre, SD —72 miles (1 hour 10 minutes)
- Rapid City, SD—244 miles (3 hours 49 minutes)
- Aberdeen, SD —89 miles (1 hour 30 minutes)
- Watertown, SD—117 miles (2 hours)
- Bismarck, ND—234 miles (4 hours)
- Sturgis, SD—245 miles (4 hours)
- Minneapolis, MN—317 miles (6 hours)

## **REGIONAL HOTEL MARKET & COMPETITIVE SET ANALYSIS**

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

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

### **Type of Hotels Defined**

The competitive set and market is made up of several hotels offering a variety of services, rooms, and room types. The types of facilities across the U.S. are ever-changing in today's market. Those differences in properties typically result in varying types of guests and average room rates travelers are willing to pay and result in occupancies based on guest usage. The various types of lodging facilities found in most markets are defined in the following segment. Hotels found in the competitive market that are traditionally categorized based on the level of service, style of hotel and its amenities. Types of hotels vary as do the revenues they produce based on their style and level of accommodations.

### **Full-Service Hotel**

These facilities are generally mid-priced, upscale, or luxury hotels with a restaurant, lounge facilities, and meeting space as well as higher service levels, often including bell service, valet, concierge and room service. These hotels report multiple departmental revenue sources most commonly rooms, food & beverage and other. There are full-service properties in the region; and are identified in the market and competitive set.

### **Limited-Service Hotel**

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

**Select Service Hotel**

The term select service has evolved over the last 10 years. Once hotels strived to be all things to all travelers and now the attention has shifted to designing different properties for different travel occasions or more specific to certain traveler's needs and expectations. Historically speaking a significant segment of the target customer didn't want to pay for services they were not utilizing like meetings and event space or a restaurant; developers chosen not to build those amenities and limited service hotels emerged. Today in some market's hotels need certain offerings or amenities to make the property competitive and to compensate for lack of area services not represented in a regional marketplace and select service properties emerged. This has become very challenging for brand hotels not conforming to a brand model that fits all markets and thus spurred the boutique development arena. Boutique hotels are select service or focused service properties by design.

**Motel or Seasonal Motel/Bed & Breakfast**

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

**Shared Residences, Home & Apartment Rentals**

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

### **Resort Hotels**

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

Today many resort amenities are often added to non–resort properties to broaden the markets and travelers they attract. It is not just travelers on vacation that seek resort facilities but also groups of travelers in various market segments such as social, educational, meeting and incentive, conventions; which are increasingly looking for properties to attract regional participants and attendees. Resorts often add value to the overall event and can be influenced by cultural or environmental factors.

### **Boutique Hotel**

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

### **Market Class and Chain Scale**

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

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

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

### **Market Competition and Chain Scale**

The consultant analyzed and reported on the area lodging facilities and the corresponding chain scale within a limited 50-mile radius of the subject market. The consultant identified 13 hotels with 564 total rooms and reported them in the following chain scale or market class:

<b>Hotel Market Competitive Set</b>				
<b>SUBJECT MARKET NUMBER OF HOTELS BY CHAIN SCALE</b>				
<b>CHAIN SCALE</b>	<b>NUMBER OF PROPERTIES</b>	<b>NUMBER OF ROOMS</b>	<b>%</b>	
Luxury	0	0	0%	
Upper Upscale	0	0	0%	
Upscale	0	0	0%	
Upper Midscale	0	0	0%	
Midscale	2	112	20%	
Economy	3	115	20%	
Unaffiliated	8	337	60%	
<b>Total</b>	<b>13</b>	<b>564</b>	<b>100%</b>	

(Source: Consultant & Smith Travel Research)



The current mix of properties in the market report indicates 3 facilities in the economy segment representing 20 percent of the total market; 2 properties with 20 percent of rooms inventory in the midscale segment; 3 and no properties in the upper midscale segment, upscale, upper upscale or luxury segment facilities. The majority leader in the market are the 8 facilities with 60 percent of rooms inventory representing the unaffiliated or independent segment. There were a handful additional small independent lodge properties that features 10 or less rooms that were not considered in these numbers. Most of the market supply is independent properties catering to the leisure traveler.

**Franchise Affiliation by Class**

The following table segments by chain scale the various brand franchises and independent collections of hotels commonly found and is not a complete list of offerings. Many brands and franchise companies offer a variety of hotels vertically throughout the competitive segments or scales. This is to compete in similar markets with a diverse of lodging options at comparable price points and consumer segments. The following is not a complete list of hotels by chain scale although covers many of the offerings in the US.

Smith Travel Research (str) Global Chain Scales						
Franchise Brands	Luxury	Upper Upscale	Upscale	Upper Midscale	Midscale	Economy
Starwood Collection by Marriott	Luxury Collection St. Regis W hotels	Westin Sheraton Le Meridien Design Hotels	Aloft Four Points Sheraton Element			
Marriott	JW Marriott Ritz Carlton Edition Bulgari Hotels	Autograph Collection Marriott Hotels Renaissance Gaylord Tribute	AC Hotels Courtyard Residence Inn Springhill Suites Moxy Delta	Fairfield Inn Town Place Suites		
Hilton	Conrad Waldorf Astoria	Canopy Embassy Suites Curio Hilton Hotels	Doubletree Hilton Garden Inn Homewood Suites	Doubletree Club Hampton Inn Hampton Inn & Suites H2 Suites		
Hyatt	Grand Hyatt Park Hyatt	Hyatt Hyatt Regency	Hyatt House Hyatt Place			
InterContinental IHG	InterContinental Hotels	IC Hotels Wyndham Hotels Kimpton Hotels Indigo	Ascend Cambria Clarion Crowne Plaza Staybridge Even Hotels	Comfort Comfort Inn Comfort Suites Holiday Inn Holiday Inn Express	Quality Inn Baymont Suites Candlewood Suites Hawthorn Suites	Rodeway Red Roof
Radisson		Radisson Blu Radisson Red	Radisson	Country Inn & Suites Park Inn		
Best Western			BW Premier	BW Plus Vibe	Best Western Signature	
Wyndham		Wyndham Grand Dolce Hotels	Wyndham TRYP Dazzler TM Trademark		La Quinta Hawthorn Suites Ramada Wingate Baymont AmerinInn Wyndham Garden	Travelodge Howard Johnson Days Inn Microtel Super 8
<b>Independent Collections</b>	Four Seasons 21c Museum Hotels  Fairmont  Sofitel	Affina Hotels Ace Hotel Group  Joie De Vivre  Omni Dream Hotels	Club Med Great Wolf Lodge  Citizen M  Aqua Hotels Allegro		Americas Best Suites  Crossings GrandStay Red Lion	Best Hotels Extended Stay America  Value Place  America Best Inn & Value
	Mandarin Oriental Lowes Hotels Thompson Hotels Trump Hotels Destination Hotels	Swissotel Hard Rock Hotels	Club Med Graduate Hotels NYLO Hotel	Settle Inn	Budgetel Motel 6	

\*Not a complete list of all hotels

(Source: Consultant)

## **Trend Analysis**

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

## **National Hotel Market Trends**

National historic trends are important to any hotel development or potential project because all markets face supply-and-demand challenges. National trends identify baseline projections and threshold for key performance indicators. The subject property's local lodging market is most directly affected by the supply and demand trends within the immediate area. However, individual markets are also influenced by conditions in the national lodging market. We have reviewed national lodging trends to provide a background for the forecast of the supply and demand for the proposed subject hotel's competitive set.

The following information on nation trends demonstrates the characteristics of the U.S. Lodging Market as reported by STR through full year 2018 year-end data.

US Lodging Industry Annual Trends in Occupancy, ADR, & RevPAR						
1992- 2018						
REPRESENTATIVE	AVAILABLE NATIONAL	OCCUPANCY PERCENT	AVERAGE DAILY	ADR PERCENT	REVENUE PER	REVPAR PERCENT
YEAR	OCCUPANCY	CHANGE	RATE	CHANGE	AVAILABLE ROOM	CHANGE
1992	61.9%		\$59.62		\$36.90	
1993	63.1%	1.9%	\$61.30	2.8%	\$38.68	4.8%
1994	64.7%	2.5%	\$64.24	4.8%	\$41.56	7.4%
1995	65.1%	0.6%	\$67.17	4.6%	\$43.73	5.2%
1996	<b>65.0%</b>	<b>-0.2%</b>	\$70.81	5.4%	\$46.03	5.3%
1997	64.5%	<b>-0.8%</b>	\$75.31	6.4%	\$48.57	5.5%
1998	63.8%	<b>-1.1%</b>	\$78.15	3.8%	\$49.86	2.7%
1999	63.1%	<b>-1.1%</b>	\$81.29	4.0%	\$51.29	2.9%
2000	63.5%	0.6%	\$85.24	4.9%	\$54.13	5.5%
2001	59.8%	<b>-5.8%</b>	\$84.45	<b>-0.9%</b>	\$50.50	<b>-6.7%</b>
2002	59.0%	<b>-1.3%</b>	\$83.20	<b>-1.5%</b>	\$49.09	<b>-2.8%</b>
2003	59.2%	0.3%	\$83.28	0.1%	\$49.30	0.4%
2004	61.3%	3.5%	\$86.70	4.1%	\$53.15	7.8%
2005	63.1%	2.9%	\$91.29	5.3%	\$57.61	8.4%
2006	64.2%	1.7%	\$96.77	6.0%	\$62.13	7.8%
2007	64.1%	<b>-0.2%</b>	\$102.38	5.8%	\$65.63	5.6%
2008	60.4%	<b>-5.8%</b>	\$106.55	4.1%	\$65.61	0.0%
2009	54.5%	<b>-9.8%</b>	\$98.20	<b>-7.8%</b>	\$53.55	<b>-18.4%</b>
2010	57.6%	5.7%	\$98.08	<b>-0.1%</b>	\$56.47	5.5%
2011	60.1%	4.3%	\$101.64	3.6%	\$61.06	8.1%
2012	61.4%	2.2%	\$106.10	4.4%	\$65.17	6.7%
2013	62.3%	1.5%	\$110.35	4.0%	\$68.69	5.4%
2014	64.4%	3.4%	\$115.32	4.5%	\$74.28	8.1%
2015	65.6%	1.9%	\$120.01	4.1%	\$78.67	5.9%
2016	<b>65.5%</b>	<b>0.0%</b>	<b>\$123.97</b>	<b>3.1%</b>	<b>\$81.19</b>	<b>3.2%</b>
2017	<b>65.9%</b>	<b>0.9%</b>	<b>\$126.72</b>	<b>2.1%</b>	<b>\$83.57</b>	<b>3.0%</b>
2018	<b>66.2%</b>	<b>0.5%</b>	<b>\$129.83</b>	<b>2.4%</b>	<b>\$85.96</b>	<b>2.9%</b>
Avg. Annual Growth Rate since 1992	<b>0.26%</b>		<b>3.04%</b>		<b>3.31%</b>	
Avg. Annual Growth Rate since 2000	<b>0.23%</b>		<b>2.37%</b>		<b>2.60%</b>	

Note: CAGR = Combined Average Annual Growth Rate

(Source: Consultant & Smith Travel Research)

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

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

growth then surged to 4.0 percent in 2014, driven by a strong economy, a robust oil and gas sector, and limited new supply, among other factors.

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

In 2015, demand continued to outpace supply growth (a trend since 2010), the U.S. reported an all-time high with record occupancy for the year at 65.6 percent, up 1.9 percent and ADR at \$120.01, up 4.1 percent. This trend would continue through 2018 with additional growth in all measures of occupancy, rate and RevPAR reporting an all-time high in 2017 at 65.9 percent occupancy, average rate at \$126.72 and \$83.57 RevPAR. In 2018 the industry continued its record breaking numbers reporting occupancy at 66.2 percent an increase of .5 percent, average rate at an all-time high \$129.83, up 2.4 percent This all combined makes 2018 the strongest year on record going back nearly 30 years and reporting revenue per available room at \$85.96 up 2.9 percent.

### **Key Points**

- From 2016-2018 hotels reported the strongest years on record for the lodging industry in total occupancy, average rates, and revenue generated.
- In 2017 and 2018, hotels in the United States operated at the highest occupancy and average rates ever recorded, with additional growth across all metrics.
- In 2017 and 2018 hotel development activity correlated directly with the ebbs and flows of hotel-sector performance. As the market continued to reach a new peak for the current development cycle in 2017 and 2018, developers pursued hotel construction (supply) and redevelopment and repositioning at a pace not seen since 2006 and 2007, and the pipeline of new hotel projects gained momentum.
- Occupancy in 2018 was 66.2 percent, the highest occupancy ever recorded in the U.S.
- Demand was at a record high and during 2018, 1.4 billion rooms were sold out of the 1.8 billion available rooms.
- ADR for 2018 was up 2.4 percent and reported at \$129.83.
- Growth rates since 2000 reported occupancy up 2.3 percent; average rates up 2.37 percent; and revenue per available room up 2.6 percent.

### Industry Trends 2019

- For 2019 the U.S. hotel industry is projected to report a 0.2 percent increase in occupancy to 66.3 percent, a 1.4 percent rise in ADR to \$131.83 and a 1.6 increase in RevPAR to \$87.41.
- The 2.9 percent RevPAR increase recorded in both 2018 and 2017 was the lowest RevPAR percentage change for the country since the recession.
- Four of the top 25 markets are projected to report RevPAR growth of 3.0 percent or higher: Atlanta, GA; Tampa/St. Petersburg, FL; San Francisco/San Mateo, CA; and Nashville, TN.
- Among chain scales, the economy segment is likely to report the largest increase in occupancy up 1.0 percent. Luxury chains are expected to post the highest growth rate in ADR with an increase of 2.5 percent. Independents are expected to see the highest jump in RevPAR up 2.4 percent. While all segments should report RevPAR increases for 2019, the lowest rate of RevPAR growth is projected in the upscale segment up 0.3 percent.

### Industry Forecast & Trends 2020

- STR & tourism economics project a 0.3 percent decrease in occupancy to 66.1 percent, a 1.4 percent increase in ADR to \$133.70 and a 1.1 percent rise in RevPAR to \$88.40 for 2020.
- Occupancy in the U.S. has not declined year over year since 2009 and could be affected by the national increases in supply out pacing demand in 2020.
- Two of the top 25 U.S. markets are projected to report RevPAR growth of 3.0 percent or higher which are Miami, FL and San Francisco, CA. New York City is the only market of all the major markets forecasted for a RevPAR decline.

Regarding chain scale, the highest overall rate of RevPAR growth is expected in the luxury segment forecasted at 1.5 percent, while the lowest is once again projected among upscale chains forecasted at nearly .5 percent for 2020.

*(Source: Consultant & Smith Travel Research August 2019 Forecast)*

## COMPETITIVE SET ANALYSIS

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

A competitive set consists of a group of hotels by which a property can compare itself to the group's aggregate performance; and can be based on location, equivalent market classification, segment of traveler and similar amenities offered. There must be a minimum of three hotels in any competitive set excluding the subject hotel. To protect proprietary data, a single hotel or brand cannot exceed 40 percent of the competitive set for North American hotels. A single hotel company (i.e. Marriott brands, Choice brands, etc.) may only comprise 60 percent of the competitive set room supply. Competitive hotels were chosen based upon that fact. To protect proprietary data, the subject property may or may not be included in the competitive set of other hotels (for existing property evaluation).

The complete historical report from Smith Travel Research is included in the supporting materials.

### **Subject Market Competitive Set: Defined for Subject Property**

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

## Regional Lodging Facilities

Analyzing the market specific class, age and location of existing supply/lodging is next in the evaluation process. The greater market was reviewed and the following properties in subject market evaluated for regional competition in demand. The following table shows the area supply of inventory, brand, market class, number of rooms and date the property opened.

Miller South Dakota Area Market Competition 50 Mile Radius GREATER MARKET HOTEL SUPPLY					
PROPERTY NAME	DISTANCE FROM SUBJECT SITE	CITY	MARKET CLASS	DATE OPENED	# ROOMS
Super 8 Miller	0.8	Miller, SD	Economy	10/1/1976	21
Dew Drop Inn Motel	0.9	Miller, SD	Independent	6/1/1959	17
Super 8 Redfield	33.5	Redfield, SD	Economy	12/1/1995	27
Wilson Motor Lodge	34.5	Redfield, SD	Independent	N/A	24
Faulkton Inn	36.4	Faulkton, SD	Independent	6/1/1992	20
Lode Star Casino	38.1	Thompson, SD	Independent	7/1/1994	49
Traveler Motel	38.6	Huron, SD	Independent	N/A	18
Crossroads Hotel	39.7	Huron, SD	Independent	6/1/1992	100
Quality Inn Huron	40.1	Huron, SD	Midscale	9/1/1996	60
Best Western	40.1	Huron, SD	Midscale	9/1/1993	52
Super 8 Huron	40.2	Huron, SD	Economy	2/1/1977	67
Dakota Inn	40.2	Huron, SD	Independent	N/A	71
Golden Buffalo Casino & Resort	42.5	Lower Brule	Independent	N/A	38
<b>Total Properties within 50 Miles</b>		<b>13</b>	<b>Average Age</b>	<b>33 years</b>	<b>564</b>

(Source: Consultant & Smith Travel Research)

In the market, there are 13 regional hotels totaling 564 rooms. These hotels range from limited-service facilities to independent and economy properties, very few are considered full-service. The average-size of hotels in the market is 43 rooms with the largest hotel at 100 rooms each and the smallest at 17 rooms. The average age of hotels in the subject market is 33 years old and most hotel buildings run a useful life span of 38-40 years of age. This list of properties did not include hotel in Pierre, SD or those located along the interstate corridor.

From these properties the consultant identified properties that would be competitive with the proposed hotel project for room accommodations and guests. This competitive set was determined through consideration of factors such as location, size, consumer attraction, amenities offered, rate structure, management, and demand generators. We have excluded hotels within the local market that we view as uncompetitive due to their size, location, target consumer, facility, or focus market to get the best possible representation of key performance indicators.



### Primary Competitive Hotel Set

The subject market area consists of the following four competitive hotels (based primarily on location) on which historical data on business trends was reviewed; these properties offer 208 rooms in the economy, midscale class and upper midscale class. These hotels are almost all limited-service lodging offering very few lodging amenities. Many of the hotels in the competitive set and most of all in the region are non-franchise properties and are independent run hotels.

The primary competitive set of hotels was evaluated and information gathered through various online travel agents or OTAs. The star ratings and rates were taken from current peer evaluation sites, such as Trip Advisor.

The markets competitive set includes the following hotels and shows the age and date of franchise affiliation for each of the properties:

Hotel Market Competitive Set						
SUBJECT MARKET SELECTED COMPETITION						
COMPETITION	CITY	OPEN DATE	AFF DATE	MARKETCLASS	# OF ROOMS	
Quality Inn	Huron, SD	9/1/1996	5/1/2013	Midscale Class	60	
Crossroads Hotel	Huron, SD	6/1/1986	4/1/1986	Upper Midscale Class	100	
Super 8 Miller	Miller, SD	10/1/1976	10/1/1976	Economy	21	
Super 8 Redfield	Redfield, SD	12/1/1995	12/1/1995	Economy	27	
<b>Total Number of Rooms</b>					<b>208</b>	

(Source: Consultant & Smith Travel Research)

### Subject Market Competitive Set

The primary set of competitive hotels were the properties where located closest to the subject area and those that reported trend analysis to Smith Travel. The competitive set of hotels are all limited service properties in the greater market with an average age of 31 years from which they originally opened. The average sized property in the set is approximately 52 keys with the largest at 100 keys and smallest in the subject market at 21 keys. The last facility to open in the subject market was the Quality Inn Huron, SD in 1996 with 60 rooms.

This opens an opportunity for an additional new facility with modern design elements, standards that should meet or exceed the expectations of today's regional travelers.

## Units of Measurement

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

## STR Historical Trend of the Primary Competitive Set

The next step in the process of forecasting the potential rate and occupancy of the subject hotel once repositioned is to understand the historical trends of the competitive set or the region in which the subject hotel resides, as well as the position in which the subject hotel will contend and its competitions performance. These factors will help in estimating future demand levels. We have forecasted estimated growth on the historical changes in occupancy and the average rate of the competitive set from the historical performance, as seen in the following table.

Miller South Dakota Subject Competitive Set										
HISTORICAL GROWTH IN ROOMS SUPPLY AND DEMAND										
2015-2019										
	ROOMS AVAILABLE			ROOMS OCCUPIED						
	ROOMS AVAILABLE	PERCENT CHANGE	ROOMS OCCUPIED	OCCUPANCY	PERCENT CHANGE	ADR	PERCENT CHANGE	REV PAR	PERCENT CHANGE	REGIONAL ROOM REVENUE
2015	75,920	0.0%	33,293	43.9%	0.0%	\$71.87	0.0%	\$33.67	0.0%	\$ 2,406,337
2016	75,920	0.0%	35,455	46.7%	6.5%	\$72.42	0.8%	\$33.82	0.4%	\$ 2,567,713
2017	75,920	0.0%	30,341	40.0%	-14.4%	\$77.04	6.4%	\$30.79	-9.0%	\$ 2,337,425
2018	75,920	0.0%	32,534	42.9%	7.2%	\$80.81	4.9%	\$34.63	12.5%	\$ 2,629,205
YTD Oct 2019	63,232	0.0%	27,060	42.8%	-3.4%	\$82.27	1.6%	\$35.21	-1.9%	\$ 2,226,201
<b>3 Year CAGR</b>		<b>0.0%</b>		<b>-0.8%</b>			<b>4.0%</b>		<b>0.9%</b>	<b>3.0%</b>

Note: CAGR = Combined Average Annual Growth Rate

(Source: Consultant & Smith Travel Research)

The table above quantifies the past four years' trends for room occupancy, Average Daily Rate (ADR), and the ratio of rooms available to rooms' revenue (RevPAR) for the subject market. Overall, this competitive set has historically reported increases in occupancies from 2015 to 2019, except for 2017 (which dropped 14 percent) although is reasonably low in the forty percent range and far below the national average occupancies at the mid sixty percent range. The market also reported a lower average rate than national averages in the \$70-\$80 ADR range. This supply of hotels reported a high of 46.7 percent occupancy in 2016 and a low of 40 percent in 2017. Year to date October 2019 is reporting 42.8 percent occupancy, down -3.4 percent from 2018. Currently the market reported a 3-year growth rate in demand at -0.8 percent through 2018.

The last three years resulted in a combined average rate of growth of 4.0 percent in change in ADR, a slight loss in demand down -0.8 percent with the RevPAR up 0.9 percent in the region. The average daily rate is currently trending the highest in 2019 at \$82.27 up 1.6 percent over the previous year.

The overall regional market and the industry have seen significant improvements in the economic trends. Nationally, occupancies and rates reached all-time highs in 2018 and forecasts for 2019 remain strong. This market currently suffers from quality accommodations in the immediate area thus factoring lower than national trending statistics and the non-reporting independent hotels are likely not outperforming the competitive set of hotels identified in the report based on age and location yet likely still run lower than the national average.

### Competitive Set & Individual Property Performance Analysis

We have analyzed (a) the national and region market STR data, (b) interviews with demand-generating businesses and managers of hotels, (c) existing hotel supply, (d) brand affiliation, (e) consultant-estimated occupancy, (f) ADR, and (g) revenues for hotels in the immediate area. These statistics were derived from Smith Travel Trend reports, individual property reports, and specific property interviews. This analysis identifies how each hotel performs within the identified markets and uses the year end 2018 as a baseline of comparison.

Miller South Dakota Subject Competitive Set ESTIMATED OCCUPANCY, MARKET MIX, PENETRATION RATES AND ADR 2018 December Year-end							
PROPERTY NAME	MARKET CLASS	NUMBER OF ROOMS	ROOMS AVAILABLE	ESTIMATED OCCUPANCY	ROOMS OCCUPIED	ADR	ROOMS REVENUES
<b>PRIMARY COMPETITION</b>							
Quality Inn	Midscale Class	60	21,900	45.0%	9,855	\$ 79.00	\$ 778,545
Crossroads Hotel	Upper Midscale Class	100	36,500	45.0%	16,425	\$ 86.00	\$ 1,412,550
Super 8 Miller	Economy	21	7,665	36.0%	2,759	\$ 70.00	\$ 193,158
Super 8 Redfield	Economy	27	9,855	36.0%	3,548	\$ 70.00	\$ 248,346
<b>TOTAL PRIMARY</b>		<b>208</b>	<b>75,920</b>	<b>42.9%</b>	<b>32,587</b>	<b>\$ 80.79</b>	<b>\$ 2,632,599</b>
Dec 2018 YE Market STR Reported Data				42.9%	32,534	\$ 80.81	\$ 2,629,205

(Source: Consultant & Smith Travel Research)

Based on interviews, franchise affiliation and knowledge of the overall market performance it is believed that the midscale class properties; the Crossroads Hotel and the Quality Inn outperform the economy products in the region running 45 percent occupancy and a rate premium at or near \$80.00 and above, likely a \$10.00 premium annually over the Super 8 properties in Miller and Redfield. It is estimated that the Miller Super 8 hotel runs approximately 35-37 percent annual occupancy at an ADR at or near \$70.00. These are likely the operating statistics of the Super 8 in Redfield as well based on franchise affiliation, age of property and current design and management/ownership.

### Regional Competition: Secondary Competitive Set

From the regional market supply of properties, the consultant identified greater market facilities that would be competitive with the proposed hotel project for room accommodations and guests, in like locations, and used the seasonality and day of week trends to compare like destination markets in the region to that of the subject market. The above-mentioned properties in the primary competitive set did not report day of week trends due to the Crossroads opting out of day of week analysis so the following report was chosen for reporting purposes.

This secondary competitive set was selected through consideration of factors such as location, size, class, consumer attraction, amenities offered, rate structure, management, and demand generators. The secondary group was sampled for comparison due to the lack of reporting in the initial competitive set day of week performance (as previously mentioned) and chosen based on their size, location, target consumer, facility, or focus market to get the best possible representation of key performance indicators.

The following hotels were evaluated and later compared to the primary competitive set's performance and are defined in the following market segments:

Secondary Hotel Market Competitive Set						
SUBJECT MARKET SELECTED COMPETITION						
COMPETITION	CITY	OPEN DATE	AFF DATE	MARKETCLASS	# OF ROOMS	
PRIMARY COMPETITION						
Quality Inn	Huron, SD	9/1/1996	5/1/2013	Midscale Class	60	
Best Western	Huron, SD	9/1/1993	9/1/1993	Midscale Class	52	
Super 8	Redfield, SD	12/1/1995	12/1/1995	Economy Class	27	
AmericInn Lodge & Suites	Fort Pierre, SD	6/1/2008	8/1/2008	Midscale Class	67	
<b>Total Number of Rooms</b>					<b>206</b>	

(Source: Consultant & Smith Travel Research)

Further comparison of regional supply was analyzed with historic trend reports to benchmark market performance and define the primary competitive properties. The secondary group of hotels was reviewed and evaluated based on the market class and competitive position.

The following chart identifies the historic trends of demand, average rate and revenue for the secondary competitive set.

Miller/Huron South Dakota Secondary Subject Competitive Set										
HISTORICAL GROWTH IN ROOMS SUPPLY AND DEMAND										
2013 - 2019										
	ROOMS AVAILABLE		ROOMS OCCUPIED		ADR		REVPAR		ROOM REVENUE	
	ROOMS AVAILABLE	PERCENT CHANGE	ROOMS OCCUPIED	OCCUPANCY	PERCENT CHANGE	ADR	PERCENT CHANGE	REVPAR	PERCENT CHANGE	ROOM REVENUE
2013	75,190		41,538	55.2%		\$73.18		\$40.43		\$ 3,039,730
2014	75,190	0.0%	45,686	60.8%	10.0%	\$74.94	2.4%	\$45.54	12.6%	\$ 3,423,893
2015	75,190	0.0%	43,364	57.7%	-5.1%	\$80.80	7.8%	\$46.60	2.3%	\$ 3,503,959
2016	75,190	0.0%	42,691	56.8%	-1.6%	\$81.89	1.3%	\$46.49	-0.2%	\$ 3,495,753
2017	75,190	0.0%	40,888	54.4%	-4.2%	\$84.08	2.7%	\$45.72	-1.7%	\$ 3,437,730
2018	75,190	0.0%	40,428	53.8%	-1.1%	\$84.67	0.7%	\$45.52	-0.4%	\$ 3,422,982
YTD Sep 2019	56,238	0.0%	32,223	57.3%	4.3%	\$87.02	3.8%	\$49.86	8.2%	\$ 2,803,973
5 Year CAGR		<b>0.0%</b>		<b>-0.5%</b>		<b>3.0%</b>		<b>2.4%</b>		<b>2.4%</b>
3 Year CAGR		<b>0.0%</b>		<b>-2.3%</b>		<b>1.6%</b>		<b>-0.8%</b>		<b>-0.8%</b>

Note: CAGR = Combined Average Annual Growth Rate

(Source: Consultant & Smith Travel Research)

Overall, this competitive set has seen an overall decrease in regional demand over last six years 2013 -2018 (apart from 2014 showing a 10 percent increase in occupancy) with a combined 5-year average rate of growth of -0.5 percent in rooms occupied. The competitive set tends to range from 57-60 percent annual occupancy over the past 5 years. Rate was a different story however reporting a 3.0 percent change in ADR resulting in RevPAR up 2.4 percent in the last 5 years; and room revenue up 2.4 percent. Year to date September of 2019 is reporting some significant trends in rate, occupancy and RevPAR overall. Occupancy for the competitive set is up 4.3 percent, rate up 3.8 percent and RevPAR and total revenue up 8.2 percent.

The average daily rate for this set has steadily increased annually since 2013 with its most significant increase in 2015 jumping 7.8 percent. Destination and seasonal markets tend to react with changes to ADR based on poor weather conditions and changes in seasonal travel patterns, yet this market has shown proven rate performance increases year over year. It is assumed that this group relies heavily not only seasonal tourism but regional leisure and business travel. It should also be noted that this market has run consistent occupancies far less than the national.

### **Competitive Set & Individual Property Performance Analysis**

We have analyzed (a) the national and region market STR data, (b) interviews with demand-generating businesses and managers of hotels, (c) existing hotel supply, (d) brand affiliation, (e) consultant-estimated occupancy, (f) ADR, and (g) revenues for hotels in the immediate area. These statistics were derived from Smith Travel Trend reports, individual property reports, and specific property interviews. This analysis identifies how each hotel performs within the identified markets and uses the year end 2018 as a baseline of comparison.

Miller/Huron SD Secondary Subject Competitive Set ESTIMATED OCCUPANCY, MARKET MIX, PENETRATION RATES AND ADR 2018 December Year-end							
PROPERTY NAME	MARKET CLASS	NUMBER OF ROOMS	ROOMS AVAILABLE	ESTIMATED OCCUPANCY	ROOMS OCCUPIED	ADR	ROOMS REVENUES
<b>PRIMARY COMPETITION</b>							
Quality Inn	Midscale Class	60	21,900	50.0%	10,950	\$ 79.00	\$ 865,050
Best Western	Midscale Class	52	18,980	55.0%	10,439	\$ 87.00	\$ 908,193
Super 8	Economy Class	27	9,855	45.0%	4,435	\$ 70.00	\$ 310,433
AmericInn Lodge & Suites	Midscale Class	67	24,455	60.0%	14,673	\$ 91.70	\$ 1,345,514
<b>TOTAL PRIMARY</b>		<b>206</b>	<b>75,190</b>	<b>53.9%</b>	<b>40,497</b>	<b>\$ 84.68</b>	<b>\$ 3,429,190</b>
Dec 2018 YE Market STR Reported Data				53.8%	40,428	\$84.67	\$ 3,422,982

(Source: Consultant & Smith Travel Research)

Based on interviews, franchise affiliation and knowledge of the overall market performance it is believed that the AmericInn leads the market in revenue and occupancy at 60 percent and average rate over \$90.00 annually with total revenue at \$1.34 million. The occupancy leaders are expected to be the following midscale limited-service properties which include the AmericInn and Best Western at 55-60 percent occupancy annually in 2018. The Quality Inn and the Super 8 Huron likely follow the market leaders running 45-50 percent occupancy and \$70.00-79.00 in ADR, a discount in both metrics. It appears based on the 2019 numbers that the leading properties will likely continue to drive rate based on the occupancy numbers which would be good for all of the area supply.

### **Positioning Against the Competitive Set**

Given the age of the regional hotels present in the immediate market and the level of offerings at the independent properties in the immediate and greater markets, it is essential that this proposed hotel be positioned to compete at the amenities offered within the group at a 3 Diamond level of AAA Standards. The hotel should be perceived as an efficient, full or select-service hotel, discussed in detail later and offer a product that is both positioned for transient social, leisure and business travelers. This allows the subject hotel to be competitive with all properties and capture market share from all hotels in the market based on location, quality, new product and rate.

AAA Diamond ratings are an industry guideline for levels of design and guest comfort. The facility needs to be capable of competing at the 3-Diamond level against the area properties

and brands (as an example) that include Courtyard by Marriott, Fairfield Inns, Holiday Inn Express, and Hampton Inn, among others. The following excerpts from AAA Diamond rating descriptions offer a simple guide to the differences of the ratings:

To be eligible for evaluation, establishments meet basic requirements for cleanliness, comfort and security (hotels) or cleanliness, food preparation and service (restaurants).

After establishments are designated as AAA Approved, inspectors assign a rating of One to Five Diamonds. Diamonds based on the extensiveness of services, facilities and amenities typical of each rating level. The Diamond Ratings guide members in selecting establishments appropriately matched to their needs and expectations.

- 1 Diamond Appeal to budget-minded travelers. Provide essential, no-frills accommodations. Meet basic requirements pertaining to comfort, cleanliness and hospitality.
- 2 Diamonds Appeal to travelers seeking more than basic accommodations. Provide modest enhancements to overall physical attributes, design elements and amenities, typically at a moderate price.
- 3 Diamonds Appeal to travelers with comprehensive needs. Multifaceted with a distinguished style, including marked upgrades in the quality and level of physical attributes, amenities and comfort.
- 4 Diamonds Upscale in all areas. Progressively more refined and stylish. Physical attributes reflect enhanced quality throughout. Fundamental hallmarks include extensive amenities and a high degree of hospitality, service and attention to detail.
- 5 Diamonds The ultimate in luxury and sophistication. Physical attributes are extraordinary in every manner. Fundamental hallmarks include meticulous service that exceeds guest expectations, impeccable standards of excellence and personalized services and amenities that provide an unmatched level of comfort.

With the trends of design ever changing in the hotel industry AAA inspectors have carefully noted property amenities that start to bleed into higher designations such as a prevalence of open and active lobby areas, dramatic headboards, wood and laminate flooring options and the increased use of glass, marble and stone. The observation and use of sustainable and allergy-free products in amenities and expanded fitness and pool options tend to blur the lines

and differentiation of a 3 – 4 Diamond status. It is safe to say that there are many 3 Diamond hotels that choose to push a 4 Diamond level of design and finish through the property to remain competitive for years to come. This is a recommended strategy or objective for the subject property.

### **Subject Hotel Competitiveness Factor**

The consultant factored the competitive lodgings' overall market performance for occupancy, growth of supply and demand, market penetration and segmentation, average rate, and revenue to rank the competitive set. The subject hotel should participate against the primary market as follows:

#### **Least Competitive**

Super 8 Miller  
Super 8 Redfield

#### **Competitive**

Best Western Huron  
Quality Inn Huron  
Crossroads Hotel

#### **Most Competitive**

Due to the location, accessibility to demand areas, and it being the newest product entering the market, the subject hotel could capture room nights and grow in occupancy against the named competition. Most of this competition is indirectly competitive given the distance from the subject community. This hotel is in a visible downtown city center location within the market and should yield positive long-term benefits in performance if positioned correctly. The support services and accessibility to the subject hotel and area attractions are equally as important to the viability of the subject hotel.



### Seasonal Market Trends of the Primary Set

It is typical of the hospitality industry overall, and especially in the Midwest, to experience occupancy trends and travel patterns tied not only to local demand generators but also impacted by events such as weather, holiday's, and seasonality. The seasonal trends of this market are traditional for this region in the United States and are represented in the following tables.

The subject market reported the following average monthly trends over the last 5 years.

Miller South Dakota Subject Competitive Set 5 Year Seasonality Trend 2015-2019						
Month	Primary Set Occupancy	Sec. Set Occupancy	Primary Set ADR	Sec. Set ADR	Primary Set REVPAR	Sec. Set REVPAR
January	30.5%	41.5%	\$ 75.25	\$ 79.05	\$ 22.95	\$ 32.78
February	35.4%	45.1%	\$ 75.01	\$ 76.30	\$ 26.58	\$ 34.39
March	37.3%	50.9%	\$ 76.31	\$ 78.86	\$ 28.49	\$ 40.15
April	37.8%	51.1%	\$ 75.02	\$ 77.75	\$ 28.36	\$ 39.71
May	43.4%	55.7%	\$ 73.72	\$ 77.44	\$ 31.98	\$ 43.15
June	58.4%	70.3%	\$ 80.86	\$ 83.11	\$ 47.20	\$ 58.41
July	51.9%	67.9%	\$ 76.14	\$ 80.77	\$ 39.53	\$ 54.84
August	45.9%	65.1%	\$ 81.22	\$ 84.12	\$ 37.32	\$ 54.72
September	50.1%	65.2%	\$ 81.21	\$ 81.60	\$ 40.72	\$ 53.17
October	50.2%	57.2%	\$ 81.04	\$ 85.67	\$ 40.66	\$ 57.56
November	47.6%	58.1%	\$ 78.13	\$ 82.79	\$ 37.23	\$ 48.09
December	28.1%	39.2%	\$ 71.45	\$ 74.57	\$ 20.06	\$ 29.22
<b>Total</b>	<b>43.2%</b>	<b>56.4%</b>	<b>\$ 76.62</b>	<b>\$ 79.83</b>	<b>\$ 33.08</b>	<b>\$ 45.05</b>
Averages of the Primary & Secondary Competitive Sets						

(Source: Consultant & Smith Travel Research)

### Primary Competitive Set

The market units of measurement are displayed in the above table identifying the 5-year average of each measurement by month. The strongest time of year in the subject market is June, July, September and October regionally averaging 52.7 percent occupancy and \$79.81 ADR on average over the last 5 years. This peak season reached a 5-year average occupancy at 58.3 percent in 2016 but rates peaked in 2018 at \$84.03 in this peak season. In 2019 the competition is reporting the highest year to date ADR trending above \$82.00 through October. This is below average typical occupancy peak season when compared to other regional markets based on the types of hotel accommodations.

Typically, the spring and fall months in midwestern markets tend to run the next highest occupancy (February, March, April, and November) reported at 39.5 percent in the

competitive set. Winter months average the lowest occupancy with December and January averaging 29.3 percent in the last 5 years.

### **Secondary Competitive Set**

The market units of measurement are displayed in the above table identifying the 5-year average of each measurement by month. The strongest time of year in the secondary subject market is June, July, August, September and October regionally averaging 65.1 compared to 52.7 percent occupancy of the primary set; and \$83.05 in average daily rate compared to the primary set of \$79.81 ADR on average over the last 5 years. This peak season reached a 5-year average occupancy at 70.3 in June the only month between the two sets of hotels to break that threshold in occupancy.

The spring and fall months of the secondary set performed at 54 percent occupancy, a 10-point premium over the primary set and an ADR of \$79.21 compared to \$75.80 for the primary set.

The secondary competitive set runs a premium of 13 points in occupancy compared to the primary set and nearly the same average rate. It would be logical that a new hotel, competitively positioned in the region, would perform somewhere between the 5-year averages of the two competitive sets in both rate and occupancy.

The seasonal trends by way of monthly occupancy and ADR of the primary competitive set are presented in the following tables.

Miller South Dakota Subject Competitive Set Monthly Occupancy Trends						
Month	2015	2016	2017	2018	2019	Average
January	30.5%	33.3%	30.5%	31.9%	26.3%	30.5%
February	35.4%	36.1%	32.5%	39.7%	33.5%	35.4%
March	37.3%	33.6%	38.2%	35.6%	42.0%	37.3%
April	37.8%	42.6%	39.2%	38.1%	31.3%	37.8%
May	43.4%	47.9%	38.8%	46.5%	40.4%	43.4%
June	58.4%	64.1%	50.4%	59.7%	59.2%	58.4%
July	51.9%	63.8%	47.4%	49.5%	47.0%	51.9%
August	45.9%	50.8%	41.1%	44.5%	47.4%	45.9%
September	52.1%	49.6%	49.1%	52.0%	47.9%	50.1%
October	55.3%	55.8%	41.7%	45.8%	52.3%	50.2%
November	46.3%	52.9%	42.9%	48.5%		47.6%
December	31.6%	29.8%	27.8%	23.0%		28.1%
Annual Occupancy	43.8%	46.7%	40.0%	42.9%	42.8%	43.2%

  

Miller South Dakota Subject Competitive Set Monthly Average Rate Trends						
Month	2015	2016	2017	2018	2019	Average
January	\$ 68.00	\$ 69.77	\$ 74.08	\$ 76.66	\$ 81.82	\$ 75.25
February	\$ 70.00	\$ 70.33	\$ 76.04	\$ 75.43	\$ 78.55	\$ 75.01
March	\$ 71.00	\$ 72.59	\$ 77.55	\$ 76.05	\$ 78.38	\$ 76.31
April	\$ 72.20	\$ 72.20	\$ 73.34	\$ 77.55	\$ 77.88	\$ 75.02
May	\$ 70.10	\$ 68.73	\$ 71.28	\$ 77.70	\$ 77.41	\$ 73.72
June	\$ 68.00	\$ 70.20	\$ 75.82	\$ 89.28	\$ 88.19	\$ 80.86
July	\$ 68.20	\$ 69.64	\$ 75.86	\$ 81.12	\$ 79.98	\$ 76.14
August	\$ 71.30	\$ 72.29	\$ 81.40	\$ 84.04	\$ 87.98	\$ 81.22
September	\$ 83.94	\$ 79.39	\$ 82.37	\$ 80.94	\$ 79.23	\$ 81.21
October	\$ 78.95	\$ 74.07	\$ 81.40	\$ 84.76	\$ 87.15	\$ 81.04
November	\$ 73.75	\$ 77.46	\$ 78.61	\$ 82.64	\$ -	\$ 78.13
December	\$ 67.85	\$ 71.56	\$ 73.44	\$ 73.84	\$ -	\$ 71.45
Annual Average Rate	\$71.87	\$72.42	\$77.04	\$80.81	\$82.27	\$ 76.62

(Source: Consultant & Smith Travel Research)

The months of June and July tend to report the highest occupancy rates ranging from 47 to 59 percent occupancy with June reaching an all-time high at 64.1 percent in 2016. Historically the highest rates are recorded in the months where regional tourism is at its peak and summer travel impacts much of the nation.

The monthly occupancy and average rates patterns reflect important seasonal characteristics. Utilizing these trends, the consultant developed the forthcoming forecast of market-wide demand and average rate. The competitive market is characterized by a moderate degree of seasonality, which is evident in the monthly occupancy statistics. The strongest occupancy levels are recorded in the summer and fall months, when demand from leisure travelers supplements the commercial segment that is the principal source of demand in this market.

### **Day of Week Trends**

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

Over the year last 12 months rolling through September of 2019, the greater market has weekdays Monday through Wednesday performing at an average occupancy of 64.6 percent, weekends (excluding Sundays) at 54.2 percent, and shoulder days of Sunday and Thursday at 43.3 percent. Tuesday's report the highest occupancy at 67.6 percent occupancy in the past 12 months indicating a higher than expected level of corporate business demand.

This is significantly above average week day performance of a moderate demand market and below average performance when comparing weekend performance to larger regional cities given the amount of leisure and social travel.

The following chart reports the day of week demand in both average rate and occupancy.

Miller South Dakota Subject Competitive Set DAY OF WEEK COMPARISON						
	12 Month Rolling YTD Sep 2019			ADR	3 Year Trend	
	Occupancy	Growth Rate*	ADR	Growth Rate*	Average Occupancy	Average ADR
Sunday	31.9%	0.3%	\$86.71	3.0%	32.1%	\$83.44
Monday	59.9%	2.6%	\$83.72	1.3%	58.2%	\$82.16
Tuesday	67.6%	1.1%	\$84.47	1.5%	67.1%	\$82.77
Wednesday	66.2%	-0.3%	\$85.60	1.3%	66.4%	\$83.66
Thursday	54.6%	-0.6%	\$86.60	1.2%	54.1%	\$84.93
Friday	55.4%	0.9%	\$90.78	1.4%	54.2%	\$88.69
Saturday	53.0%	-1.0%	\$93.12	1.9%	53.4%	\$90.38
<b>Average</b>	<b>55.5%</b>	<b>0.5%</b>	<b>\$87.10</b>	<b>1.5%</b>	<b>55.0%</b>	<b>\$85.11</b>

\* Growth rate from 2 years prior

(Source: Consultant & Smith Travel Research)

The market has seen overall increase in weekly occupancy from two years prior; up 0.5 percentage points from 55 to 55.5 percent. The ADR increased slightly by 1.5 percent reported at \$87.10 up from the previous 2-year period reporting \$84.52. These statics are also beating the 3-year average trends in overall rate and occupancy showing improvements in occupancy midweek Monday' sand Tuesday's and weekends on Friday's. It appears that there is more regional corporate demand than originally expected and was not apparent in the primary competitive set given the lack of day of week reporting.

## LODGING DEMAND & SEGMENT PENETRATION INVESTIGATION

Hospitality market segmentation is an approach that encompasses identification of different groups of customers who have different needs, price points, and stay patterns. The market segmentation process also considers which segments to target and when, through different sales efforts and maximize property demand and occupancy.

There will be distinct differences among travel patterns for each segment as well as buying patterns of goods and services to meet each segment's requirements. The STR reports a markets regional statistic; STR does not identify market segments for this area as the competition does not submit its segmentation. The following segmentation was estimated based on the consultant's expertise and regional supply investigation.

The following is a brief description of the Lodging Demand source profiles identified for this market.

### Transient or Individual Markets

Retail	Premium-rated business (non-discounted) booked at peak opportunity Best Available Rates (BAR) and weekend rates—the going rate changes based upon demand
Corporate Negotiated	Contract business discounted based on volume
Qualified Discount	Business in non-demand periods, AAA, AARP, military
Opaque Internet	Consumers purchasing at discount price point regardless of hotel; Hotwire, Priceline, Expedia/Travelocity/Orbitz (Internet) package
Packages	Packages, bed & breakfasts, getaways
Extended Stay	Discounts due to multiple consecutive nights (7+ and 14+)

### Group Markets

Corporate	Companies holding training meetings/vendor or supplier meetings
Social Leisure	Weddings, fraternal organizations, and retreats/reunions (SMERF)
Association	State and regional meetings
Tour & Travel	Bus tours and traveling organizations

The transient or individual, corporate, and commercial markets are made up of several major sources of business: (a) government, insurance, and health care, (b) general transient corporate/commercial, (c) leisure business, and (d) social, leisure and discount AAA & AARP business. The market has a significant source of transient business, with the overall market performance estimated at 85 percent. The corporate and leisure market will likely be the primary sources of business for the subject hotel and the market.

Group demand in this market is currently based on city conventions, cyclical association business, and seasonal weekend sports tournament groups, youth traveling sports-related groups seasonally—all location and rate driven. As indicated above, the individual travel segments will total 85 percent, reducing group demand to 20 percent. This market is not a traditional large group convention or meetings market with multiple hotels offering 5,000 to 15,000+ square feet of meeting space and multiple breakout rooms. However, is serviced by a few local properties with large event space in key markets.

While social/leisure business is important to this property, there is a large supply of hotels in the immediate region offering a multitude of hotel accommodations. The social/leisure consumer is price and location driven and sometimes brand driven; however, the movement in this segment is “experience” driven. The subject area is a sought-out destination for leisure travel; therefore, it will invite stays through distinctive pricing and accommodations. The rate in the high season capitalizes on the leisure weekender market segment.

The Competitive Market Performance for this market is estimated as follows:

<b>Individual Travelers</b>	<b>85% of Market Demand</b>
Retail transient travelers	25%
Corporate accounts	20%
Social/leisure	40%
<b>Group-Related Business</b>	<b>15% of Market Demand</b>
Corporate functions/meetings	5%
Social events/Tour & travel	10%

### Growth in Lodging Demand

The growth in lodging demand as it relates to the greater secondary market and immediate primary set has reported a trend over the course of the last 4 years in declining demand and overall occupancies at about -1 to 2 percent. It is anticipated the future growth will continue at a minimum of 0.5 percent to 1.0 percent annual increase in rooms; we should anticipate future growth in regional room revenue both in the immediate set and the regional set inclusive of the greater market based on new supply.

Looking at historical trends, occupancy was forecasted with the competitive set occupancy and ADR, taking into consideration the market supply/demand factors and current economic trends. Growth rates were factored in at an increase of 2.5 (or less) percent annually in occupied rooms until the subject hotel facility would open and affect first full year of operations in 2022, shown below.

Miller South Dakota Subject Competitive Set ESTIMATED FUTURE GROWTH IN SUPPLY AND DEMAND										
	Rooms Available	Rooms Occupied	Occupancy	Rooms Occupied % Change	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Total Room Revenue	
<b>2015</b>	75,920	0.0%	33,293	43.9%	0.0%	\$ 71.87	0.00%	\$ 33.67	0.00%	\$ 2,406,337
<b>2016</b>	75,920	0.0%	35,455	46.7%	6.5%	\$ 72.42	0.77%	\$ 33.82	0.45%	\$ 2,567,713
<b>2017</b>	75,920	0.0%	30,341	40.0%	-14.4%	\$ 77.04	6.38%	\$ 30.79	-8.96%	\$ 2,337,425
<b>2018</b>	75,920	0.0%	32,534	42.9%	7.2%	\$ 80.81	4.89%	\$ 34.63	12.47%	\$ 2,629,205
<b>2019</b>	75,920	0.0%	32,664	43.0%	0.4%	\$ 81.52	0.88%	\$ 35.07	1.28%	\$ 2,662,739
<b>2020</b>	75,920	0.0%	32,796	43.2%	0.4%	\$ 83.52	2.46%	\$ 36.08	2.87%	\$ 2,739,127
<b>2021</b>	75,920	0.0%	32,928	43.4%	0.4%	\$ 85.94	2.90%	\$ 37.28	3.32%	\$ 2,830,008
<b>2022</b>	92,345	21.6%	33,654	36.4%	-16.0%	\$ 88.43	2.89%	\$ 32.23	-13.55%	\$ 2,975,912
<b>2023</b>	92,345	0.0%	34,470	37.3%	2.4%	\$ 90.98	2.89%	\$ 33.96	5.38%	\$ 3,136,113
<b>2024</b>	92,345	0.0%	35,307	38.2%	2.4%	\$ 93.61	2.89%	\$ 35.79	5.39%	\$ 3,305,014
<b>2025</b>	92,345	0.0%	36,164	39.2%	2.4%	\$ 96.31	2.89%	\$ 37.72	5.39%	\$ 3,483,091
<b>CAGR</b>	<b>4.0%</b>	<b>1.6%</b>	<b>-2.3%</b>			<b>2.8%</b>		<b>0.4%</b>		<b>4.4%</b>

(Source: Consultant & Smith Travel Research)

In these projections, the supply or rooms available for the market is represented in the subject market from 2015 to 2019 at just over 75,900 rooms. In 2022, the supply will change with the impact of the subject hotel adding 16,425 annual available room nights based on 45 keys, a 21 percent growth in supply.

The consultant next factored in the new supply from the subject and minimal new induced demand created by the opening of this new project. At an annual rate of growth of 0.4 percent over the first 3 years the total market is expected to achieve 43 to 46 percent occupancy by 2021. Rooms occupied and average rate trends were factored next and represented above at



historical rates of growth. Next, the consultant will identify the trends by market segment to get to the overall market impact, demonstrated in the following charts.

The future demand of the competitive set can be analyzed by looking at trends in demand by market segments. We estimated and evaluated market penetration potentials for each segment by comparing the advantages and disadvantages of the proposed subject facility to those of the competitive set. Factors affecting penetrations include location, accessibility, property size (total rooms and meeting capacity), finish and quality levels, service, room rates, food & beverage outlets, guest amenities, and brand.

### **Market Supply & Demand Projections**

It is estimated that a subject hotel featuring 45 rooms entering the subject market will see similar, if not higher, increases in demand based on the hotel's fair share of the market.

The following market forecast is based on the 2018/2019 market statistics and assumptions. For the purposes of evaluating the feasibility of a hotel in the subject market, we have projected the introduction of a 45-room hotel into the current primary competitive set performance, detailed below in 2022 as its first full year of operation for comparison.

Miller South Dakota Subject Competitive Set ESTIMATED FUTURE GROWTH IN SUPPLY AND DEMAND									
	2018	2019	2020	2021	Year 1 2022	Year 2 2023	Year 3 2024	Year 4 2025	Year 5 2026
ROOMS SUPPLY	75,920								
ADDITIONS TO SUPPLY									
Subject Hotel 45					16,425				
TOTAL ADDITIONS	0	0	0	0	16,425	0	0	0	0
TOTAL ANNUAL ROOM NIGHTS	75,920	75,920	75,920	75,920	92,345	92,345	92,345	92,345	92,345
GROWTH OVER PRIOR YEAR	0.0%	0.0%	0.0%	0.0%	21.6%	0.0%	0.0%	0.0%	0.0%
EXISTING DEMAND SATISFIED									
Existing Transient & Commercial	14,640	14,699	45%						
Existing Leisure	13,014	13,066	40%						
Existing Group	4,880	4,900	15%						
TOTAL EXISTING DEMAND	32,534	32,664							
GROWTH RATES									
Transient & Commercial		0.0%	0.0%	0.0%	2.0%	2.5%	2.5%	2.5%	2.5%
Leisure		1.0%	1.0%	1.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Group		0.0%	0.0%	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Not Recognized, Induced & Displaced		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL DEMAND									
Existing Transient & Commercial	14,640	14,640	14,640	14,640	14,933	15,306	15,689	16,081	16,483
Commercial Not Recognized, Induced & Displaced	0	0	0	0	0	0	0	0	0
TOTAL	14,640	14,640	14,640	14,640	14,933	15,306	15,689	16,081	16,483
GROWTH OVER PRIOR YEAR		0.0%	0.0%	0.0%	2.0%	2.5%	2.5%	2.5%	2.5%
Existing Leisure	13,014	13,144	13,275	13,408	13,743	14,087	14,439	14,800	15,170
T&L Not Recognized, Induced & Displaced	0	0	0	0	0	0	0	0	0
TOTAL	13,014	13,144	13,275	13,408	13,743	14,087	14,439	14,800	15,170
GROWTH OVER PRIOR YEAR		1.0%	1.0%	1.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Group	4,880	4,880	4,880	4,880	4,978	5,077	5,179	5,282	5,388
Group Not Recognized, Induced & Displaced	0	0	0	0	0	0	0	0	0
TOTAL	4,880	4,880	4,880	4,880	4,978	5,077	5,179	5,282	5,388
GROWTH OVER PRIOR YEAR		0.0%	0.0%	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%
TOTAL DEMAND	32,534	32,664	32,796	32,928	33,654	34,470	35,307	36,164	37,041
GROWTH OVER PRIOR YEAR	7.2%	0.4%	0.4%	0.4%	2.2%	2.4%	2.4%	2.4%	2.4%
OVERALL MARKET OCCUPANCY	42.9%	43.0%	43.2%	43.4%	36.4%	37.3%	38.2%	39.2%	40.1%
MARKET ADR	\$80.81	\$ 81.52	\$ 83.52	\$ 85.94	\$ 88.43	\$ 90.98	\$ 93.61	\$ 96.31	\$ 99.10
GROWTH OVER PRIOR YEAR	4.9%	0.9%	2.5%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%

(Source: Consultant)

In the projections above, we estimate the growth of market segments transient, commercial, leisure, and group from 2019–2026 with the impact of the subject hotel property and the supply changes previously mentioned in 2022. Growth in transient, commercial and group demand is estimated at an average of .5 percent through 2022 and is expected to continue through 2026 at a rate of 2.3 percent. It is estimated that once new supply changes are made it will induce unfulfilled demand throughout the greater market. This forecast will allow us to realize base demand and the markets rates based on history.

The overall market occupancy is reflected in the above chart and is planned to reach an excess of 45 percent in 2021 (based on historical trends) and dropping in 2022 to 36 percent with the impact of the subject hotel before increasing once again. It is estimated that this competitive set will show signs of stabilization or recovery based on the regional demand and age of regional supply and the aging non-branded lodging facilities throughout the region.

Average growth in rates will likely continue to make up for the lack of occupancy and the market will likely exceed \$85.00-90.00 as a group in 2021/2022. It is also estimated that growth in ADR to be increasing at 2-3 percent annually given the historical trends of the set and tourism overall in the greater region.

### **Average Rate Projections**

The following chart forecasts the ADR by market segment, starting at the 2018 overall market rate of \$80.81. The average rate is estimated and forecasted by market segment for both the competitive set and subject hotel once repositioned at the targeted goal. It is important to clarify that we have first created a baseline ADR for the subject hotel prior to the repositioning of the property, which should position the hotel for a premium ADR.

It is expected that the subject hotel will position itself higher than the average rate of the existing competitive set. Typically, upscale properties will focus on rate separation from the regional properties and should result in annual rates \$5.00-\$15.00 over the estimated results of the primary competition defined in this report.

The projections on the following chart take into consideration the above revenue management initiatives and competitive set additions and compares the 2019 rates for both the regional properties and that of the initial rates for the upscale segment and subject hotel in today's dollars.

Miller South Dakota Subject Competitive Set									
SUBJECT PROPERTY									
ESTIMATED AVERAGE DAILY ROOM RATE									
	Rates in 2018 Dollars	2019	2020	2021	Year 1 2022	Year 2 2023	Year 3 2024	Year 4 2025	Year 5 2026
<b>Transient &amp; Commercial</b>									
Percent Annual Growth		2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Average Segment Rate	\$79.00	\$80.58	\$82.19	\$84.66	\$87.20	\$89.81	\$92.51	\$95.28	\$98.14
Segment Rate for Subject	\$79.00	\$80.58	\$82.19	\$84.66	\$87.20	\$89.81	\$92.51	\$95.28	\$98.14
Occupied Room Nights	14,640	0	0	0	2,922	2,995	3,209	3,432	3,665
Estimated Revenue	\$ 1,156,584		\$0	\$0	\$254,790	\$268,990	\$296,856	\$327,010	\$359,687
<b>Leisure</b>									
Percent Annual Growth		2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Average Segment Rate	\$85.00	\$86.70	\$89.30	\$91.98	\$94.74	\$97.58	\$100.51	\$103.52	\$106.63
Segment Rate for Subject	\$87.00	\$88.74	\$91.40	\$94.14	\$96.97	\$99.88	\$102.87	\$105.96	\$109.14
Occupied Room Nights	13,014	0	0	0	2,689	3,257	3,467	3,949	4,047
Estimated Revenue	\$ 1,106,156		\$0	\$0	\$260,749	\$325,302	\$356,664	\$418,437	\$441,686
<b>Group</b>									
Percent Annual Growth		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Average Segment Rate	\$69.00	\$70.38	\$71.79	\$73.22	\$74.69	\$76.18	\$77.71	\$79.26	\$80.84
Segment Rate for Subject	\$69.00	\$70.38	\$71.79	\$73.22	\$74.69	\$76.18	\$77.71	\$79.26	\$80.84
Occupied Room Nights	4,880	0	0	0	1,240	1,309	1,612	1,644	1,677
Estimated Revenue	\$ 336,727		\$0	\$0	\$92,613	\$99,722	\$125,261	\$130,302	\$135,576
<b>Subject Hotel</b>									
<b>Total Demand - All Segments</b>									
Total Estimated Revenue	\$2,599,467	\$0	\$0	\$0	\$608,151	\$694,013	\$778,781	\$875,749	\$936,949
Total Occupied Room Nights	32,534	0	0	0	6,851	7,561	8,288	9,025	9,389
<b>Overall Avg Room Rate for Market</b>	<b>\$80.81</b>	<b>\$ 81.52</b>	<b>\$ 83.52</b>	<b>\$ 85.94</b>	<b>\$ 88.43</b>	<b>\$ 90.98</b>	<b>\$ 93.61</b>	<b>\$ 96.31</b>	<b>\$ 99.10</b>
<b>Overall Avg Room Rate for Subject</b>					<b>\$ 88.77</b>	<b>\$ 91.79</b>	<b>\$ 93.96</b>	<b>\$ 97.04</b>	<b>\$ 99.79</b>
Overall Annual Growth						3.4%	2.4%	3.3%	2.8%
<b>Overall Rooms REVPAR</b>					<b>\$ 48.78</b>	<b>\$ 52.47</b>	<b>\$ 43.81</b>	<b>\$ 55.47</b>	<b>\$ 57.04</b>
ADR variance to Comp Set					\$ 0.34	\$ 0.81	\$ 0.36	\$ 0.72	\$ 0.69

(Source: Consultant)

The subject hotel is projected is estimated in Year 3 (2024) to achieve an ADR of \$90.00 to \$95.00 for its guest rooms compared to the market estimated at reaching an ADR of \$90.00 to \$93.50 based on the growth rates defined above. This is an estimated on-par ADR in comparison to the competitive set nearly the same. The subject property's ADR will also be dependent on amenities offered as well as the position of the competition at that time.

Induced demand was not forecasted at the current market rates which given the unique location catering to unique groups could play a significant factor in demand for the subject property in room nights over the first five years of operation.

**SUBJECT PROPERTY PERFORMANCE**

**Occupancy**

The occupancy for the subject property will be addressed in the next section of the study. The subject hotel should be able to retain an average occupancy of 55-60 percent and a conservative market share of 100 percent—upon stabilized Year 4 of operation (2024)—based on estimated levels of performance in the market and the support of the regional displaced demand. With proper market and product positioning, this occupancy rate could aggressively exceed this average of the reporting set. The following projections are subject to a ± 5% range.

Miller South Dakota Subject Competitive Set					
SUBJECT PROPERTY					
MARKET PENETRATION AND PROJECT OCCUPANCY					
	Year 1	Year 2	Year 3	Year 4	Year 5
	2022	2023	2024	2025	2026
<b>SUBJECT PROPERTY- COMBINED AVAILABLE ROOMS</b>	45	45	45	45	45
<b>SUBJECT PROPERTY- ANNUAL ROOMS AVAILABLE</b>	16,425	16,425	16,425	16,425	16,425
<b>MARKET - ANNUAL ROOMS AVAILABLE</b>	92,345	92,345	92,345	92,345	92,345
<b>FAIR MARKET SHARE OF SUPPLY</b>	17.79%	17.79%	17.79%	17.79%	17.79%
<b>MARKET OCCUPANCY</b>	45.5%	46.8%	39.3%	40.3%	41.3%
<b>MARKET PENETRATION</b>					
Transient & Commercial	110%	110%	115%	120%	125%
Leisure	110%	130%	135%	150%	150%
Group	140%	145%	175%	175%	175%
Induced	0%	0%	0%	0%	0%
<b>ROOM NIGHTS CAPTURED</b>					
Transient & Commercial	3,193	3,272	3,507	3,751	4,005
Leisure	2,852	3,455	3,677	4,188	4,293
Group	1,354	1,431	1,761	1,797	1,833
Demand Not Realized in the Competitive Set & Induced	0	0	0	0	0
<b>TOTAL</b>	<b>7,399</b>	<b>8,158</b>	<b>8,945</b>	<b>9,736</b>	<b>10,131</b>
<b>MARKET SHARE CAPTURED</b>	20.4%	21.9%	23.5%	24.9%	25.3%
<b>OVERALL MARKET PENETRATION</b>	114.5%	123.2%	131.9%	140.2%	142%
<b>SUBJECT PROPERTY OCCUPANCY</b>	45.0%	49.7%	54.5%	59.3%	62%
<b>MARKET MIX</b>					
Transient & Commercial	43%	40%	39%	39%	40%
Leisure	39%	42%	41%	43%	42%
Group	18%	18%	20%	18%	18%
Demand Not Realized in the Competitive Set & Induced	0%	0%	0%	0%	0%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

(Source: Consultant)

The above chart represents the subject hotel’s fair share of the market demand; that is, if all forecasted demand (or rooms booked in the competitive set) were split equally among existing hotels in the set, the number of annual rooms available for the subject would result in the subject hotel’s forecasted share of 100 percent. In this case, the subject hotel’s fair share for

the 45-room hotel is 17.7 percent of the overall demand. Market penetration is estimated at 96 percent for Year 1, growing to 100 percent by Year 3 and 4, based on a strategy to take higher rated regional tourism and not solely rely on regional induced demand. This would result in the subject hotel's future occupancy levels at aggressive levels when compared to the local market and in line with the greater overall region.

The consultant also forecasted market penetration by segment. It is estimated that the subject hotel will receive 110-115 percent of its fair share of transient and commercial demand given its location and that it is not a franchise or branded property; and about 125-135 percent of leisure demand due to the lack of community repositioning and local support services and more traditional brand affiliation. The group market share is estimated at approximately 150-160 percent of the existing market share given the location and services planned at the subject facility.

Occupancy for the subject hotel is estimated at or near 115 percent market share in Year 1 at or near 42-45 percent occupancy and peaking at 145 percent by Year 5 outperforming the market and allowing for growth in rate and overall revenue.

## LODGING FACILITY RECOMMENDATIONS

### **Subject Hotel Competitive Facilities Description**

Given the location of the subject market in and around popular tourism regions and the lack of quality accommodations in the area; and the immediate regional facilities are dated limited to offer popular expected amenities; the subject hotel should offer competitive amenities, comparable service, and unique characteristics; at the economy price point and midscale segment from design and service initiative. Designing the hotel to be unique would allow for it to maximize occupancy and average rate. A select-service with minimal food and beverage offerings breakfast and evening drink and a kitchen catering to the social event space already in the market' could exceed local offerings and the needs regional travelers and influence tourism underserved in the current market.

The hotel will should to include certain market and guest amenities, often perceived as necessary or common to be considered competitive. The concept and focus should offer guests a clean and rustic contemporary design that is comfortable and utilizes the location to its utmost advantage. The hotel should focus on more trending design features that are not found in the market given the age of regional supply and the typical branded offerings and their use of conformed style based on brand affiliation. A design consideration could be unique to the market is one that that focuses on modern beach style, lifestyle design and showcasing indoor/outdoor spaces for guests.

There current development opportunity under consideration is a 40-45 room hotel without franchise affiliation to be built on the community-controlled site at the center of the community. These hotel amenities and services should consider including:

- Hotel to be built as a low-rise structure of no more than 2 story stick build structure with a possibility of exterior corridor entryway (on first floor) if an interior corridor facility cannot be designed within budget.
- Modern upscale design and contemporary décor, keeping within attributes of its surrounding market with three fixture baths, oversized showers and interesting room features and design. Guests should experience upscale amenities such as simple in-room refreshment centers or refrigerators, modern and upscale bedding, recognized name-brand or local bath amenities and/or recognized name-brand or custom products throughout the hotel.
- Room and suites should be considered and could be comprised of:
  - Multi-room suites to accommodate long-term market demand or extended stay corporate business sized over 375 to 450 sq. ft. each if possible.
  - Given the size of the estimated floor layout the king and double and queen

traditional guest rooms will be smaller (320-350 sq. ft.) compared to the traditional industry guestroom at 350-375 sq. ft.

- Fewer double queen rooms than standard king rooms might be necessary if the property should focus on corporate travel and leisure alike. Double queens will be important for meeting and events to attract the group, leisure traveler and social market segments.
  - More single kings than queen bedded rooms are necessary to accommodate business and leisure travelers.
- Development Factor: Guestrooms are getting smaller throughout the lodging industry. Marriott's Moxy and Hilton's Tru are two brands with small guestrooms. It is a movement that is not losing popularity especially in urban markets or property repositioning in existing facilities. Other franchise companies that have small room facilities include Best Western Vib and Glo, Choice, and independent groups like Modus. These are hotels enter markets and offer rooms that are unusual, reasonably-priced based on amenities and cater to modern, working and leisure frequent travelers.
  - Small meeting space is offered it the adjacent community center and no additional meeting space is needed in the hotel facility.
  - A surface-level and protected accessible parking offering a safe, secure environment that is easily accessible and well lit.
  - Food & Beverage area, a place for guests to get ready for their day and relax and unwind in the evening is typically need in close adjacency to the lobby area. We see this area offering breakfast grab and go and possibly feature full service bar beverage and light or small food offerings (free of charge possibly) in the evening for guests and not on the financial model.

This area should reflect style and comfort, with the following minimum basic services:

- Premium coffee selections
  - Select and limited complimentary breakfast service
  - Attractive bar offering limited small plate options
  - Entertainment features such as high-end 50-60" TVs in the gathering area
- A food & beverage area should be a very limited food service program and offer breakfast and light evening options in the lobby area. The site location has a few dining and traveler support amenities within driving and walking distance and three meals might need to be offered initially until the subject project initiates further development in the community.
  - The hotel should offer outdoor greenspace for firepits, games and features to have guests gather seasonally. This space adjacent the lobby make for ease of programming and monitoring for staff and allows for beverage service.



- Latest technologies that offer seamless interface from office to hotel room, including:
  - High-speed wired and wireless network throughout the facility
  - In-room premium TV service provider with DVR capabilities, music and sound, and personal device streaming to in room technology both video and audio
  - Business-minded facilities and/or resource center

The dining program of the hotel should consider a grab and go convenience area in the lobby and in room with limited food and snacks offering additional hospitality and profitability.

The guest rooms should offer similar amenities throughout the mix of rooms. These amenities could include a refrigerator (in all rooms), and possible kitchenettes in the suites. In-room beverage and snack selections as well as the following amenities should be considered; coffee maker, iron and ironing board, desk with computer access and ergonomic seating, task lighting, and multiple accessible power outlets. This is the project standard of quality and amenities by which the competitive set will compare itself.

The amenities of the hotel will need to consider given the limited space utilization are as follows.

- The hotel should be designed for leisure travelers yet meet the needs of a corporate and group guest. It should feature a variety of rooms and suites for both business and social leisure travelers. Leisure travelers would likely support the weekends and summer high seasons. Few suites with a focus on contemporary and modern interior design could drive rate in peak season.
- Extended-stay suites that feature amenities for long-term guests (4+ nights) that are not in the immediate market (yet found in the regional secondary market) could attract market share currently not present in the regional market.
- State-of-the-art Wi-Fi, HD flat-screen 48' or larger TVs (with ease of wireless streaming from personal devices), task lighting, efficient work space in the guestroom and lobby should be offered.
- The guest room configuration will need to address the market segmentation profiles. This will require having guest rooms comparable to the business and social/leisure markets.

### **SUMMARY CONCLUSIONS**

- The facility description for the proposed hotel should be positioned to compete in the economy/midscale product category although build at the economy segment price point if possible. A new unaffiliated hotel offering regional quality, unique market amenities and focused service—should be competitive in the region and successful long term.
- The size of this hotel at 40-55 guest rooms should be supported in the market based on current trends in occupancy, studied displacement of demand, and the age of the existing supply in the greater market.
- The recommended 30 room facility was used for the purposes of economic modeling and may have difficulty from a cost feasibility standpoint as an economy product. Subject hotel must offer a competitive product against the branded supply (and market supply of mostly economy segment facilities) and unbranded facilities in the area. This can be accomplished with a variety of guest accommodations and unique facility at the subject location.
- Site needs to offer both visibility and accessibility to regional *transient, group* and *social* demand generators and cater to regional travel. The market drives a stable and increasing occupancy and consistent average rate that is seasonally driven. The location under consideration is accessible and at the community center yet lack current economic development. This project would be catalyst for tourism and redevelopment to the community.
- The market has a suitable supply of area workforce within the subject market yet has a limited number of traveler support services in the community. This is a service-driven region that offers a favorable workforce for the retail and hospitality although much of the supply is along the interstate corridors. The ability to find a quality staff for a high-level hotel is important.

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## **CONCLUSIONS: FEASIBILITY REVIEW PROJECTION OF INCOME & EXPENSE**

The following financial analysis scenario is presented for the subject property based on industry guidelines as reported by STR in the 2018 Annual HOST Almanac, individual comparable operating statements from our database of hotel statistics and regional geographical trends. This forecast is based on the facilities program set forth previously, as well as the occupancy and average rate forecast discussed previously. All financial data are presented according to the three most common measures of industry performance: inflated ratio to sales, amounts per available room (PAR), and amounts per occupied room night (POR). Hotel revenues were projected based on the historical trends of the market and repositioned hotel designed at the above-mentioned standards or guidelines. The pro forma does include an estimate of property taxes also based on the above mentioned guidelines.

This forecast is based on the facilities program set forth previously, as well as the occupancy and average rate forecast for the subject hotel based on the competitive sets' forecasted performance. The forecast of income and expense is expressed in current dollars for each year with an inflation rate at 2.5 percent. Stabilized year is intended to reflect the anticipated operating results of the property over its initial 10-year period. The 10-year period reflects the typical holding period of hotel real-estate before consideration of selling. Thus, income and expense estimates from the stabilized year forward excludes the future impact of supply and demand relationship, as well as any nonrecurring or unusual revenues or expenses.

### **Hotel**

Based on the projections and prior information prepared, the consultant projects a five-year operating pro forma (below) for a 30-room hotel with limited and complimentary food & beverage programming competing at the economy/midscale segment within the greater region.

The following description sets forth the basis for the forecast of income and expense. It is anticipated that the property will take four years to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of comparable income and expense statements.

The projections assume a first full year of operation (which should be achievable based on new build construction and design build of the property) opening in 2022 and managed by an owner operator. The following projections of income and expense are based on historic comparison of properties in our data base and the national operating statistics for limited-service and independent hotels; specifically lodging facilities in the midscale segment.

It is estimated that the subject facility will take 3 to 4 years to reach stabilized level of operation or occupancy in this market. More specifically, we have estimated performance and for discussion and comparison purposes, will review the fourth full year of operation in the projections (2025) as the stabilized year of business.

**Hotel revenue projections indicate that at the fourth full year of operation 2025 of stabilized business, the facility would generate estimated revenues of \$647,000 thousand**—to include room revenue and miscellaneous income for the facility. Sales tax and room tax are not traditionally reported on hotel operational models and are considered pass through costs that are collected and paid to a local agency monthly. The tax collection and impact will be discussed later in the study.

The property should achieve total occupancy by running at or near 60 percent occupancy and an ADR at approximately \$92.00; at or near the primary competitive set at about \$95.00 in 2025 (estimated) reflecting current economic trends and inflation.

Food & beverage revenue projections are not estimated based on that they are likely complimentary or not offered for the limited service facility. Other revenues—such as a grab-and-go convenience shop, in room refreshment centers, vending, convenience kiosks, increased Wi-Fi, and miscellaneous at \$44,000 annually.

***Rooms Departmental Expense*** estimates are projected at 21 percent of room revenue or \$128,000 in annual expense. Rooms expense primarily consist of those expenses related to the sale and operation of the guestrooms. Such expenses include payroll and its taxes, salaries and benefits for both guest services (with limited hours at the desk) and related property cleaning and departmental direct expenses. The departmental expenses also include reservation processing fees (for either independent or franchised hotels), travel agent and OTA commissions, cost of guest supplies, laundry and linen, uniforms, and other related costs.

The industry and our data suggest rooms expense ranging between 21 percent and 25 percent of rooms revenue when comparing limited-service properties in the economy/midscale and small-town segments; on a per-occupied-room basis, the range was between \$16.00 and \$33.00. We have projected rooms expense for the proposed subject hotel at 28 percent in the first year (or \$24.00 per occupied room), stabilizing at 21 percent in 2025 (or \$21.25 per occupied room); totaling approximately \$4,200 per available room compared to the industry average of 4,200 to 8,000 for small-town properties and those in the economy/midscale segment. The proposed subject hotel's rooms department expense has been positioned based upon our review of the type, size and staffing of the property.

***Food & Beverage Expenses*** consist of the items and staffing necessary for the operation of a hotel's food & beverage, grab and go offerings and roof top restaurant facility. These expenses include payroll, salaries, benefits, the direct cost of inventory for both food and beverage items, and all related expenses related to the food outlets such as china, glass, linen and uniforms. Costs or expenses would be estimated at a minimum of 60 to 70 percent of food & beverage revenues in traditional restaurant and additionally complimentary food would be a direct expense to the facility and not factored in the projections; These percentages are comparable to similar operations and industry comparisons.

***Telephone Department Expenses*** are based on the experience of the similar hotel properties and part of the utility costs. The increasing use of cellular phones and expectation of free high-speed internet access has cut the gross and net revenue figures in this department across the industry in the last few years, yet the infrastructure still carries costs associated with maintaining internet and property phone service. These costs are somewhat fixed and range less than \$10,000 to \$12,000 annually. It is assumed that internet would be provided for free in this hotel and that costs would therefore be higher than revenue for telephone and internet.

***Rentals and Other Income & Expenses*** This category is typically comprised of interest, commissions on vending machine sales, movies, and other miscellaneous income including in room mini bar sales which we factored annual revenues of approximately \$44,000. This income category is typically highly dependent on occupancy and has a very low expense ratio typically less than one half to one third.

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

Utilities are forecasted at a ratio of 7.7 percent of sales or \$50,000, estimated at \$8.31 per occupied room, and 1,667 per available room; which is within the typical range of allowable expenditure in the industry. Utility costs include water, sewer, gas, electricity, and trash removal, heating and cooling. Amenities such as pools also pay a factor into utility costs to heat water and run equipment. Costs of utilities vary based on location, seasonality and

occupancy. Typically, electricity tends to be the most expensive utility which is why many hotels (including the subject facility) are now looking into solar energy. As a percentage of total revenue, standards of operations for economy/midscale segment facilities and those found in small-towns indicate utility expenses range from 3.7 to 5.1 percent, \$4.00 to \$8.00 per occupied room, or \$1,000 to \$1,700 per available room.

Repairs and maintenance which includes all property and rooms repairs, service contracts, elevator maintenance and materials, tool and property maintenance (landscaping and season maintenance) are projected at 9.7 percent of revenues totaling \$63,000 or \$10.47 per occupied room night; and \$2,100 per available room. As a percentage of total revenue, standards of operations for economy/midscale properties in small-metro towns indicate a property operations and maintenance expense range from 4.8 to 6.0 percent, or \$1,100 to \$2,200 per available room.

***Administrative & General*** costs include general manager payroll, benefits, incentives and related expenses of the hotel management staffing for those who are not directly associated with a revenue department. This expense also includes the cost of various administrative functions and supplies such as credit card commissions, professional fees, bookkeeping, allowance for bad debts, travel expenses and miscellaneous. Most administrative and general expenses are relatively fixed as a relation to occupancy and percent of sales. This category is projected at 15 percent of total revenue or \$97,000 and per available room amount of \$3,200. As a percentage of total revenue, standards of operations indicate in economy/midscale small metro towns administrative expenses to range from 8.5 to 11 percent, or \$2,000 to \$4,000 per available room.

***Marketing Expenses*** consist of all costs associated with the marketing, advertising, sales and promotion of a property. The result of this expenditure is to attract and retain a customer base. Initial marketing can be used to develop a brand or image especially in the boutique or soft brand affiliated properties. This expense category includes payroll, benefits, incentives and related expenses, the cost of advertising and promotion, direct mail, publications, printing and placement, e-mail and Internet campaigns and franchise marketing fees; at a total of \$39,000 or 6.0 percent of property revenues and \$1,300 per available room. As a percentage of total revenue, standards of operations for economy/midscale and small metro towns indicate marketing expenses to range from 4.0 to 6.0 percent, or \$1,000 to \$2,700 per available room. For non-branded hotels or boutique properties marketing expenses may trend higher (especially if running full-service facilities), close to 6 to 8 percent based on the lack of franchise fees including brand marketing and royalty fees.

**Franchise fees** were **not** estimated into the evaluation given the uncertainty of the hotel being a branded/franchise hotel and likely operating as an independent or one with a soft brand affiliation. For consideration, it is customary for the brand to charge 4 to 5 percent of revenues if a franchise would be considered. Franchise fees vary based on the brand and typically also charge additionally for royalty fees, marketing fees and customer loyalty programs. The customary range of franchise fees for evaluation purpose is 7 to 10 percent.

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

Management fees are estimated at \$19,000 or 3.0 percent of total hotel revenue, which is within the range of customary fee structures as a percentage but will not support a fee desired by a professional third party management company and would suggest an owner operated facility. Projections do not include an incentive to the management company based upon performance of preferred return to investor group based on initial capital investment, typical within the industry. Actual fees will vary depending upon other contract terms such as accounting fees and managed amenities such as restaurant, banquets, and other property outlets. Properties of this nature is small communities and small room count would likely be owner operator managed and not truly have a management fee or company.

**Fixed Expenses** include items that are relatively fixed and not sensitive to the operating levels of the facility. Property taxes vary across the U.S. but are typically based on the real value of the property. Tax rates are based on the city and county budgets, which change annually. The tax evaluation of the subject property was based on industry percentage of total revenue, standards of operations indicating a range from 2.1 to 3.4 percent, or \$977 to \$3,362 per available room for limited service properties.

**Insurance Expense** consists of the cost of insuring the lodging facility and its contents against damage from fire, weather, water infiltration etc. General insurance costs include premiums relating to liability and theft coverage for a business. Insurance rates are based on many factors, including building design and construction, fire prevention systems and vary with the fluctuation in occupancy. Insurance was estimated at the regional average of \$500 per available room or 2.3 percent of total revenue, totaling \$15,000. As a percentage of total revenue, standards of operations indicate insurance expense to range from 1.0 to 2.0 percent, or \$200 to \$600 per available room.

***Reserve for Replacement*** is standard for income-producing properties, a reserve for replacement for furniture, fixtures, and equipment, as well as other capital items has been included in this analysis. Furniture, fixtures, and equipment are essential to the operation of a lodging facility, and their quality often influences a property's class. This category includes all non-real estate items that are capitalized, rather than expensed. The furniture, fixtures, and equipment of a hotel are exposed to heavy use and must be replaced at regular intervals. The useful life of these items is determined by their quality, durability, and the amount of guest traffic and use.

Periodic replacement of furniture, fixtures, and equipment is essential to maintain the quality, image, and income-producing potential of a lodging facility. Because capitalized expenditures are not included in the operating statement but nevertheless affect an owner's cash flow, a forecast of income and expense should reflect these expenses in the form of an appropriate reserve for replacement.

Recent studies have indicated that, over the long-term, a minimum of .5 to 1.9 percent is required to properly maintain hotel facilities and actual costs could be higher. The reserve is calculated at 1.5 percent and \$10,000.

### ***Property Taxes***

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

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



**CONCLUSION**

In conclusion, our analysis reflects an operation, with net income expected to total 33.0% of total revenue by the stabilized year before taxes and debt service. The stabilized total revenue comprises primarily rooms revenue with a small contribution from food and beverage revenue. On the cost side, departmental expenses total 23.2 percent of revenue by the stabilized year, while undistributed operating expenses total 38.5 percent of total revenues; this assumes that the property will be operated competently by a proven hotel operator.

In summary, the overall cash flow available for debt service or EBITDA and taxes after a 3.0 percent management fee, a 1.5 percent reserve for replacement allocation; Net Income is projected at 27.7 percent of total revenue and \$5,967 per available room; or \$179,000 and is primarily derived from rooms revenue; this is in the average range and can be characterized as below average performance based on regional rates, number of keys or rooms at the Subject Facility and occupancy. As a percentage of total revenue, standards of operations indicate net income of limited-service properties in small metro towns in the economy/midscale segment range from 27 to 41 percent (after taxes), or \$8,500 to \$12,600 per available room.

The first full 5-year operating pro forma, 10-year inflated ratio to revenue (following tables), and the inflated amounts per available room, and inflated amounts per occupied room night were produced by the consultant for the subject hotel are shown on the addenda tables.

**Miller SD Subject Hotel**

Projected Operating Results

Calendar Years

	2022		2023		2024		2025				2026	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Per Room	P.O.R.	Ratio	Amount	Ratio
Number of Units:	30		30		30		30				30	
Number of Annual Rooms Available:	10,950		10,950		10,950		10,950				10,950	
Number of Rooms Occupied:	4,930		5,480		6,020		6,570				6,570	
Annual Occupancy:	45.0%		50.0%		55.0%		60.0%				60.0%	
Average Daily Rate:	\$86.25		\$88.00		\$89.75		\$91.75				\$93.50	
Revenue Per Available Room:	\$38.81		\$44.00		\$49.36		\$55.05				\$56.10	
<b>Revenues</b>												
Rooms	\$425,000	93.2%	\$482,000	93.2%	\$540,000	93.3%	\$603,000	\$20,100	\$100.17	93.2%	\$614,000	93.3%
Other Income	31,000	6.8%	35,000	6.8%	39,000	6.7%	44,000	\$1,467	\$7.31	6.8%	44,000	6.7%
<b>Total Revenues</b>	<b>456,000</b>	<b>100.0%</b>	<b>517,000</b>	<b>100.0%</b>	<b>579,000</b>	<b>100.0%</b>	<b>647,000</b>	<b>\$21,567</b>	<b>\$107.48</b>	<b>100.0%</b>	<b>658,000</b>	<b>100.0%</b>
<b>Departmental Expenses</b>												
Rooms	119,000	28.0%	122,000	25.3%	125,000	23.1%	128,000	\$4,267	\$21.26	21.2%	132,000	21.5%
Other	15,000	48.4%	17,000	48.6%	20,000	51.3%	22,000	\$733	\$3.65	50.0%	22,000	50.0%
<b>Total Departmental Expenses</b>	<b>134,000</b>	<b>29.4%</b>	<b>139,000</b>	<b>26.9%</b>	<b>145,000</b>	<b>25.0%</b>	<b>150,000</b>	<b>\$5,000</b>	<b>\$24.92</b>	<b>23.2%</b>	<b>154,000</b>	<b>23.4%</b>
<b>Departmental Profit</b>	<b>322,000</b>	<b>70.6%</b>	<b>378,000</b>	<b>73.1%</b>	<b>434,000</b>	<b>75.0%</b>	<b>497,000</b>	<b>\$16,567</b>	<b>\$82.56</b>	<b>76.8%</b>	<b>504,000</b>	<b>76.6%</b>
<b>Undistributed Expenses</b>												
Administrative & General	82,000	18.0%	87,000	16.8%	92,000	15.9%	97,000	\$3,233	\$16.11	15.0%	99,000	15.0%
Marketing	27,000	5.9%	31,000	6.0%	35,000	6.0%	39,000	\$1,300	\$6.48	6.0%	39,000	5.9%
Franchise Fees	0	0.0%	0	0.0%	0	0.0%	0	\$0	\$0.00	0.0%	0	0.0%
Property Operation and Maintenance	57,000	12.5%	61,000	11.8%	62,000	10.7%	63,000	\$2,100	\$10.47	9.7%	65,000	9.9%
Utilities	36,000	7.9%	41,000	7.9%	45,000	7.8%	50,000	\$1,667	\$8.31	7.7%	51,000	7.8%
<b>Total Undistributed Operating Expenses</b>	<b>202,000</b>	<b>44.3%</b>	<b>220,000</b>	<b>42.6%</b>	<b>234,000</b>	<b>40.4%</b>	<b>249,000</b>	<b>\$8,300</b>	<b>\$41.36</b>	<b>38.5%</b>	<b>254,000</b>	<b>38.6%</b>
<b>Gross Operating Profit</b>	<b>120,000</b>	<b>26.3%</b>	<b>158,000</b>	<b>30.6%</b>	<b>200,000</b>	<b>34.5%</b>	<b>248,000</b>	<b>\$8,267</b>	<b>\$41.20</b>	<b>38.3%</b>	<b>250,000</b>	<b>38.0%</b>
<b>Base Management Fee</b>	<b>14,000</b>	<b>3.1%</b>	<b>16,000</b>	<b>3.1%</b>	<b>17,000</b>	<b>2.9%</b>	<b>19,000</b>	<b>\$633</b>	<b>\$3.16</b>	<b>2.9%</b>	<b>20,000</b>	<b>3.0%</b>
<b>Fixed Expenses</b>												
Property Taxes	16,000	3.5%	17,000	3.3%	17,000	2.9%	17,000	\$567	\$2.82	2.6%	18,000	2.7%
Insurance	14,000	3.1%	14,000	2.7%	15,000	2.6%	15,000	\$500	\$2.49	2.3%	15,000	2.3%
<b>Total Fixed Expenses</b>	<b>37,000</b>	<b>8.1%</b>	<b>38,000</b>	<b>7.4%</b>	<b>40,000</b>	<b>6.9%</b>	<b>40,000</b>	<b>\$1,333</b>	<b>\$6.64</b>	<b>6.2%</b>	<b>41,000</b>	<b>6.2%</b>
<b>Net Operating Income</b>	<b>69,000</b>	<b>15.1%</b>	<b>104,000</b>	<b>20.1%</b>	<b>143,000</b>	<b>24.7%</b>	<b>189,000</b>	<b>\$6,300</b>	<b>\$31.40</b>	<b>29.2%</b>	<b>189,000</b>	<b>28.7%</b>
<b>FF&amp;E Reserve</b>	<b>7,000</b>	<b>1.5%</b>	<b>8,000</b>	<b>1.5%</b>	<b>9,000</b>	<b>1.6%</b>	<b>10,000</b>	<b>\$333</b>	<b>\$1.66</b>	<b>1.5%</b>	<b>10,000</b>	<b>1.5%</b>
<b>Net Income After Reserve</b>	<b>\$62,000</b>	<b>13.6%</b>	<b>\$96,000</b>	<b>18.6%</b>	<b>\$134,000</b>	<b>23.1%</b>	<b>\$179,000</b>	<b>\$5,967</b>	<b>\$29.73</b>	<b>27.7%</b>	<b>\$179,000</b>	<b>27.2%</b>

Source: Grey Hospitality www.GreyHC.com

## DEVELOPMENT AND DESIGN ANALYSIS

The consultant was engaged to review the economic trends in the market area as research provided during the first part of the feasibility process and evaluate operational projections of the new subject facility.

The consultant provided estimates of development costs reported by industry experts: both the physical structure and the interior amenities- excluding furniture, fixtures, and equipment necessary to deliver a finished branded or independent boutique hotel product, as described earlier.

Typically, a guideline that is used for development is that for every thousand dollars (\$1,000) of development cost, excluding the cost of land, equals one dollar (\$1.00) of stabilized ADR. So, one hundred-thousand dollars per key (\$100k/key) needs \$100 ADR to support the basic development cost principals. In this scenario our average stabilized rate of \$83.00 (shown below) in today's represented dollar should be able to support a development cost of \$83,000 per key or room built. At 45-rooms that would be suggesting a project near \$3,735,000 million in total development costs (although this does not apply to the cost of land and should be a comparison only) for the hotel guestrooms not including the cost of land, building and necessary parking and without the consideration of project subsidies.

<b>Miller SD Subject Hotel</b>				
Representative Year of Operation- Stabilized				
	Stated in	2020	Dollars	
Number of Units:		30		
Number of Annual Rooms Available:		10,950		
Number of Rooms Occupied:		6,570		
Annual Occupancy:		60.0%		
Average Daily Rate:		\$83.00		
Revenue Per Available Room:		\$49.80		
	Amount	Ratio	Per Room	P.O.R.
<b>Revenues</b>				
Rooms	\$545,000	93.3%	\$18,167	\$82.95
Other Income	39,000	6.7%	1,300	5.94
<b>Total Revenues</b>	<b>584,000</b>	<b>100.0%</b>	<b>19,467</b>	<b>88.89</b>
<b>Departmental Expenses</b>				
Rooms	115,000	21.1%	3,833	17.50
Other				
<b>Total Departmental Expenses</b>	<b>115,000</b>	<b>19.7%</b>	<b>3,833</b>	<b>17.50</b>

(Source: Consultant)

The consultant has detailed operational projections for sales revenue based on occupancy and Average Daily Room rates. This portion of the study lists specific operational projections for rooms, food & beverage, catering and sales revenues, and the direct expenses related to those departments.

The subject hotel could have 30-45 rooms of various sizes with an average of 325 sq. ft. and should be operated as a franchise affiliated soft branded or independent select-service micro boutique hotel, AAA Rated 3 Diamond or 4 Star facility (based on customer review sites such as Trip Advisor) offering competitive market lodging, corporate/social meeting, and group business with limited food & beverage services.

The hotel at the subject site should include lobby, registration, and food & beverage facilities as described with separate restaurant for serving a flexible breakfast, possible light lunch and dinner meal options and full liquor bar, prep kitchen and roof top restaurant area and possible event space. The building could feature support services for the hotel and the guest rooms such as exercise room, laundry, storage, retail, and other revenue generating amenities.

City center and suburban hotels typically require about 1.2 car parking spaces per room available or about 30-50 percent more parking than that of the number rooms if the hotel has amenities such as event space or a restaurant. Parking facilities should be sized to meet peak hour demand requirements, which may vary based on the type of hotel and market. Properties that cater to primarily business travel will see their peak parking demand weekday evenings where as social and leisure travel orientated properties tend to have peak parking demand on weekends throughout the day and overnight.

### **Space Allocation Guideline**

A preliminary project space allocation and cost summary follow. These estimates are based on recent comparable projects, national segment cost reporting (defined later) and information supplied by architectural work on other projects and suggest minimum space requirements. The total planned space used was about 16,000 square feet, which allows us to determine potential development costs.

<b>Hotel Space Allocation Worksheet</b>						
<b>Project:</b>		<b>Miller SD Subject Hotel</b>				
<b>Description</b>				40 Traditional		
<b>Number of Guest Rooms</b>			<b>30 Keys</b>	5 Suites		
			Sub-Totals	Total Area	% of Area	SF Per Key
<b>Residential Areas/ Rooms</b>						
	Sq. Ft. per Unit	Number of Units	Total Sq. Ft.			
Traditional Guest Rooms QQ	325 Square feet	15	4,875			
Traditional Guest Rooms King	325 Square feet	15	4,875			
Specialty Suites	475 Square feet	0	-			
		Total units	30	9,750		
Circulation & Servicesquare footage		15%	1,463			
<b>Total Residential Areas</b>				<b>11,213</b>	<b>69.97%</b>	<b>373.75</b>
<b>Public Areas</b>						
Lobby Flow Area	Area Per Key	10 Sq Ft	300			
Seating areas	Area Per Key	5 Sq Ft	150			
Lobby Lounge	Area Per Key	0 Sq Ft	0			
Reception	Area Per Key	6 Sq Ft	167			
Breakfast		12 Sq Ft	360			
Retail/Business Center	Area per Key	1 Sq Ft	30			
Misc	Area per Key	2 Sq Ft	60			
Spa	Area per Key	0 Sq Ft	0			
Employee Break Area	Area per Key	5 Sq Ft	150			
Baggage Storage	Area per Key	0 Sq Ft	0			
Swimming Pool Outdoor/Indoor	Area per Key	0 Sq Ft	0			
Small Meeting Room		10 Sq Ft	300			
Hotel Fitness Center	Area per Key	0 Sq Ft	600			
<b>Total Public</b>				<b>1,967</b>	<b>12.27%</b>	<b>65.56</b>
<b>Restaurant</b>						
2-3 Meal Day Restaurant	Restaurant Seating	0				
	Area per Seat	15 Sq Ft	0			
Garden Greenspace F&B	Bar Seating	20				
	Area per Seat	15 Sq Ft	300			
	Circulation & other		0			
Food Prep Area	Area Per Seat	8 Sq Ft	240			
F&B Storage	Area Per Seat	2 Sq Ft	60			
Circulation and Misc	% of Net Area	25%	125			
	Kitchen Total Sq. Ft.		425			
	Total Sq. ft. Per Seat		27			
<b>Total Food &amp; Beverage</b>				<b>1,025</b>	<b>6.40%</b>	<b>34.17</b>
<b>Administrative &amp; Back of House</b>						
Front Office	Area per Key	8 Sq Ft	240			
Executive Offices	Area per Key	3 Sq Ft	90			
Sales & Catering	Area per Key	0 Sq Ft	0			
Housekeeping	Area per Key	3 Sq Ft	90			
Laundry	Area per Key	10 Sq Ft	300			
Linen Storage & Laundry	Area per Key	8 Sq Ft	240			
Engineering	Area per Key	2 Sq Ft	60			
Mechanical	Area per Key	20 Sq Ft	500	2%		
Misc & Circulation	% of Net Area	10%	300			
<b>Total Admin &amp; Back of House</b>				<b>1,820</b>	<b>11.36%</b>	<b>60.67</b>
<b>Hotel Area</b>				<b>16,024</b>	<b>100%</b>	
<b>Area Per Key</b>		1.25		<b>534</b>	<b>Sq Ft Per Key</b>	

(Source: Consultant)

### **Industry Average Development Costs**

In 2017/18, the national lodging market continued to climb to new heights. In 2017, hotels in the United States operated at the highest occupancy and average rates ever recorded, with additional growth across both metrics in the 2018 year-to-date period. Hotel development activity correlates directly with the ebbs and flows of hotel-sector performance. As the market continued to reach a new peak for the current development cycle in 2017, developers pursued hotel construction and redevelopment at a pace not seen since 2006 and 2007 and the pipeline of new hotel projects gained momentum.

Data was collected for actual hotel construction budgets across 46 states. While not every construction budget was captured (due to a variety of reasons, including incomplete data, skewed data, or development attributes), the construction budgets sampled span the United States. Furthermore, construction costs vary greatly in different parts of the country. In this sample, the highest construction costs per key, as would be expected, were for projects in New York City, while select high-barrier-to-entry markets in California, Texas, and Florida also exhibited high costs per room. Conversely, the lowest costs per room were evident for limited-service hotels in highway-adjacent or tertiary markets throughout the country.

The following information provided annually by HVS International, an industry leader in property valuation. The various hotel development costs are specific to their scale or segment. These figures are a national guide to evaluate project estimates. Because the data is sorted and averaged by the provider, development costs are averages and do not total for each type of property.

The Uniform System of Accounts for the Lodging Industry (USALI) provides industry participants with a common language for analyzing the financial performance of a hotel. However, no such system exists for hotel development budgets. Evaluating the completeness of a budget is often challenging, as different line items are used, and some components are unintentionally omitted. Based on our experience in reviewing actual developers' budgets, as well as preparing the annual *HVS Hotel Development Cost Survey*, we have developed the following summary format for hotel development budgets, which forms the basis for the presented cost categories. We find that these categories are meaningful for hotel professionals when undertaking an analysis relating to hotel feasibility, and they provide a basis from which to analyze proposed projects. The following illustration shows the ten categories defined by HVS, as well as the typical items that each include:

Hotel Development Cost Survey HVS International Estimated Per-Room Hotel Development Costs 2017/2018 Report							
Hotel Chain Scale	Land	Building & Site Improvements	Soft Costs	FF&E	Pre-Opening & Working Capital	Average Costs of Development per Room	
<b>Budget &amp; Economy Hotels</b>							
Average	\$ 7,700	\$ 56,000	\$ 5,700	\$ 8,600	\$ 3,800	\$ 79,300	
Allocation of Total Project	10%	70%	8%	11%	5%		
<b>Limited Service Hotels</b>							
Average	\$ 16,200	\$ 91,800	\$ 16,700	\$ 17,100	\$ 5,200	\$ 139,700	
Allocation of Total Project	11%	66%	10%	11%	3%		
<b>Extended-Stay Midscale Hotels</b>							
Average	\$ 12,700	\$ 93,200	\$ 16,800	\$ 18,700	\$ 3,800	\$ 139,100	
Allocation of Total Project	9%	67%	11%	12%	3%		
<b>Extended-Stay Upscale Hotels</b>							
Average	\$ 20,200	\$ 124,700	\$ 25,200	\$ 24,400	\$ 5,100	\$ 192,900	
Allocation of Total Project	10%	66%	11%	3%	3%		
<b>Dual Branded Hotels</b>							
Average	\$ 41,200	\$ 133,200	\$ 19,700	\$ 19,600	\$ 11,600	\$ 218,900	
Allocation of Total Project	13%	66%	9%	10%	3%		
<b>Select- Service Hotels</b>							
Average	\$ 34,000	\$ 137,600	\$ 29,800	\$ 20,800	\$ 6,300	\$ 221,000	
Allocation of Total Project	13%	64%	12%	11%	3%		
<b>Lifestyle/Soft-Branded Hotels</b>							
Average	\$ 47,300	\$ 217,400	\$ 42,200	\$ 30,200	\$ 12,900	\$ 346,300	
Allocation of Total Project	11%	64%	12%	9%	4%		
<b>Full-Service Hotels</b>							
Average	\$ 30,600	\$ 222,500	\$ 41,800	\$ 28,900	\$ 10,100	\$ 318,200	
Allocation of Total Project	12%	66%	11%	11%	3%		
<b>Luxury Hotel &amp; Resorts</b>							
Average	\$ 74,300	\$ 353,100	\$ 102,300	\$ 60,800	\$ 13,700	\$ 604,200	
Allocation of Total Project	11%	60%	15%	12%	3%		
<b>Redevelopment Projects</b>							
Average	\$ 60,000	\$ 165,500	\$ 33,200	\$ 25,900	\$ 9,500	\$ 271,000	
Allocation of Total Project	19%	5%	11%	11%	4%		

(Source: Consultant & HVS)

From the reported costs as a comparison the benchmark should be compared to the costs of budget & economy segments and limited-service development projects. These hotels averaged a cost range per key from \$79,300 to \$139,700 per room in 2017/2018 (inclusive of the cost of land ranging from \$7,700 to \$16,200 per key). This does not also factor in the use of subsidies and tax credits and the impact on overall development costs.

Costs of development vary drastically depending on the chain scale and in many cases do not include independent properties. When considering a franchise hotel, the franchisor will supply estimated project costs based on their design and amenity requirements.

The subject property should compete in the limited service midscale segment at the economy plus or limited-service development cost analysis range if possible. Few economy and budget

hotels are being developed these days because costs are too high to only yield economy rates or RevPAR.

The following is an estimated project developed analysis for this subject site as described in the economy plus class would be approximately \$115,000 to \$120,000 per key (without the cost of land) or a total of \$5.1-5.3 million in total cost. Based on regional projects the consultant detailed the project cost assumptions as follows and included the project incentives to estimate an overall project at \$5.1 million and \$114,000 per key.

<b>Miller SD Subject Hotel</b>				
	<b>Number of Rooms</b>	<b>30</b>		
	<b>Floor Area</b>		<b>Construction Per SF</b>	<b>Costs</b>
				<b>Cost per Rm</b>
<b>Construction</b>				
Hotel Lodging Facility	16,024		\$ 120.00	\$ 1,922,900
Builders Risk Insurance				\$ 35,000
Contingency 5%				\$ 97,895
<b>Building area total</b>	<b>16,024</b>			<b>\$ 2,055,795</b>
				\$ -
<b>Total Building Estimate</b>	<b>16,024</b>			<b>\$ 2,055,795</b>
Architectural & Engineering 5.5%				\$ 113,069
Land Acquisition- Site preparation & improvements				\$ -
Parking Lot Acquisition				\$ -
<b>ACQUISITION &amp; CONSTRUCTION COST</b>				<b>\$ 2,168,864</b>
				\$ 72,295
<b>FF&amp;E Furniture, Fixtures &amp; Equipment</b>	\$5,000	per room		\$ 150,000
<b>OS&amp;E Owner Supplied Equipment</b>	\$3,500	per room		\$ 105,000
<b>Kitchen Equipment Budget</b>	\$50,000			\$50,000
<b>HARD COSTS</b>				<b>\$ 2,473,864</b>
				\$ 82,462
Technical Services - Schematic Design, OS&E Selection, Kitchen Design, Opening				\$ 50,000
Appraisal				\$ 10,000
Development(er) Fees				\$ -
Interior Design Fees				\$ 50,000
Purchasing Fees				\$ 50,000
FF&E Install Fees				\$ 50,000
Project Branding and Deliverable Fees				\$ 30,000
Project Management Fees				\$ -
Carried Interest Over Construction				\$ -
Legal & Other Professional Services				\$ 10,000
Taxes				\$ -
Pre-Opening Marketing & Labor costs				\$ 50,000
Pre-Opening Direct Expenses				\$ 50,000
Operating Reserve				\$ 50,000
<b>SOFT COSTS</b>				<b>\$ 400,000</b>
				\$ 13,333
<b>TOTAL PROJECT COSTS without credits and subsidies</b>	<b>Per Sq. Ft</b>		<b>\$ 179.35</b>	<b>\$ 2,873,864</b>
<b>PER KEY/ROOM</b>				<b>\$ 95,795</b>

(Source: Consultant)



## CRITICAL DEVELOPMENT CONSIDERATIONS

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

### **General Planning & Development Considerations**

The consultant believes the market could accommodate up to an additional 30-50 keys given the age of regional product, the central location of the subject facility, and the regional tourism and subject area displaced demand; therefore based on initial design plans and building massing on the proposed site, economic modeling was shown at 45 keys utilizing a 2-story structure and new build construction on the existing lot available with architectural limitations. There are very few franchise options in the market and that could be evaluated for the best competitive advantage and ownership discretion.

### **Guestroom Size**

Midscale hotels are looking to reduce building costs, and are leaning toward smaller, stripped-down room's (easier to do with flat-screen TVs on the wall instead of sitting on a bureau) which also makes the room more efficient and spacious for comfortable furniture. This is a possible market consideration for the subject property as leisure travelers often like well-appointed sleeping chambers with luxurious bathrooms.

Hilton's Tru brand has 231-square-foot guestrooms (compared to Hampton's average of 340 square feet) that do not have closets or chests of drawers that would need to be cleaned and maintained, but use hooks and rods on the walls for storage. The rooms also scrapped a desk in favor of a chair with a large arm that can hold a laptop computer or a notepad. Best Western's Vibe brand is looking at rooms under 200 sq. ft. (averaging 188 sq. ft.) with built in storage under the bedding and eliminating in room closets. Guestroom desks are also eliminated with larger lobby areas offering space for guests to work and spend money in revenue producing areas instead of the guestroom.

Millennials continue to be a driving force of hotel design trends, with no indication of relinquishing their vast influence. In fact, comprising roughly 75 million people, by 2050 they will remain the largest generational group in the United States, making up more than 25 percent of our population. Small guestrooms offer opportunities to accommodate more travelers and focus guests on more social space for experiential common areas, restaurants

and bars (revenue generating spaces). This search for experience is trending to command higher average daily rates because of the style of lodging and its social spaces.

### **Subject Market**

Currently demand is regionally spread, below the national average, and the area is more suited for local business and leisure market segments. Competition within the market exists with some of the region's largest hotel brands in key markets and seasonal tourism and hunting are accommodated by family run businesses and properties of a unique nature not offering traditional lodging accommodations. The current occupancy and rate in the region would typically make the area not as appealing for development of franchise facilities or independent facilities given the cost of construction today. If a new lodging facility, in the midscale to economy segment of the hotel chain scale, was built as described in this report it would likely out compete the primary competitive set in overall RevPAR and likely trend to the key performance indicators of the secondary greater market identified in the report.

### **Growth in Lodging Supply**

Reasonable steps to investigate proposed hotel projects and their status was taken through site visits and interviews, yet due to the nature of real estate and hotel development, it is impossible to determine with certainty every hotel that will be opened in the future, whether they are in planning or development, or what their marketing strategies and overall impact to the market will be to the subject. Depending on the outcome of current and future projects, the future operating potential of the proposed subject hotel could be affected. Future improvements in market conditions will raise the risk of increased competition. No additional supply growth was factored into the projections of this study.

### **Food & Beverage Options**

The subject hotel has a very few regional considerations for restaurant facility options and traveler support services. The facility would likely need to offer limited food service in the main lobby level for breakfast in addition to a light evening option and bar facilities. The facility might also cater to small groups wanting food service included in their stay. The addition or consideration of a full-service lobby level restaurant would potentially impact the overall key count and add additional risk/reward to the operations, and not suggested. The facility may also want a limited kitchen to service the local community center featuring a small limited menu for additional revenues and to meet the needs of the greater community.

**Hotel Valuation**

Hotels such as the subject are typically classified as income-producing real estate. Income producing real estate is developed, owned and operated with the objective of creating value by renting space to users who will pay rates high enough to cover all operating expenses, fixed costs and to produce a profit on, as well as a return of, the original investment. Therefore, the value of the income-producing real estate is typically determined by the amount of net income the property is expected to generate as well as by the rates of return on alternative investments available. This is known as valuation based on the income capitalization approach. The purpose of valuation or appraisal is to estimate the prospective market value of the fee simple interest in the proposed hotel based on the stabilization of its operations.

Estimates of market value, As Complete, through the Income Approach on the Discounted Cash Flow (DCF) method, considers fluctuations and changes in income and expense levels over a specified holding period. Although discussions with market participants revealed that most income-producing properties are purchased on the basis of current income (direct capitalization), a discounted cash flow analysis is more appropriate for the valuation of the subject given the changes in short term cash flows.

The DCF method uses an estimate of projected levels of income for each year of a holding period less expenses, then arrives at a reversion value of the property at the end of the holding period and discounts the resulting cash flows at an appropriate discount rate. The discount rate reflects the riskiness of the income stream relative to alternative investments available in the market. For stabilized properties, the direct capitalization method is the approach that would likely be considered by the subject's most probable buyer.

The Income Approach discussion is organized into three main sections. The first section consists of an introduction and discussion of methodology, of which this is a part. Second, the basic income and expense assumptions needed to generate the five-year cash flow for the property are presented. These assumptions include market room rates, operating expenses, and other miscellaneous assumptions. The third section consists of the derivation of appropriate discount and reversion capitalization rate, presentation of a projected cash flow statement and concludes with final conclusions of value by the Income Approach.

### **Basis for Income and Expense Assumptions**

The consultant's projections for the subject are primarily based on a review of the subject's historical performance, which is tempered with industry standards. Data from the following sources are used as the basis for the income and expense assumptions which follow:

- Historical operating results for the subject. The subject is a stable hotel with an excellent location in a destination market.
- Transient hotel industry averages and trends reported in Smith Travel's 2018 HOST Study and PKF Hospitality Research's Trends in the Hotel Industry: 2014 Edition.
- Detailed financial statements of comparable full-service and boutique hotels were analyzed and reviewed.

### **Reversion Valuation by the Direct Capitalization Approach**

In order to complete the DCF valuation, we must estimate a reversion value for the property. Our discounted cash flow analysis assumes the building is sold at the end of Fiscal 2031 a ten year hold for the asset. The estimated the reversion value of the subject utilizing a direct capitalization method applied to the year end results on net ordinary income \$527,000 and deducted the debt expense to get an adjusted net income of \$5,673,684. A 3.0% cost of sale (\$85,000) is deducted from the reversion proceeds. The following section discusses capitalization rates.

### **Overall Capitalization Rate**

The overall capitalization procedure provides for a "return of" and a "return on" an equity investment through the relationship of net operating income to a hotel's sale price. For the comparison of a capitalization of one property to that of another, our analysis includes the following characteristics of the property:

1. Reliability of the income estimate
2. Probability of sudden changes in near-term income
3. Ratio of net income to total revenue
4. Likelihood of new competition

In the analysis, the consultant sourced surveys of investment criteria and data regarding hotel investments including studies published by various industry sources. National averages for upper upscale hotel in 2018 by Price Waterhouse Cooper show capitalization rates range from 6 to 10 percent with the average of 7.73 percent.

The consultant is of the opinion that because of the market position of the property and it being a slow growing market based on the history of operations that an appropriate capitalization rate for the subject would rest at the higher range of 9.0 to 10.0 percent. A reversion capitalization rate at the midpoint of 9.5 percent is modeled.

<b>Miller SD Subject Hotel</b>				
<b>VALUATION - DISCOUNTED CASH FLOW</b>				
Period	Number of Months	Projected NOI	0.00% PV Factor	Unrounded Present Value
2022	12	\$ 62,000	1.000000	\$ 62,000
2023	24	96,000	1.000000	96,000
2024	36	134,000	1.000000	134,000
2025	48	179,000	1.000000	179,000
2026	60	179,000	1.000000	179,000
2027	72	182,000	1.000000	182,000
2028	84	187,000	1.000000	187,000
2029	96	190,000	1.000000	190,000
2030	108	193,000	1.000000	193,000
2031	120	195,000	1.000000	195,000
Reversion		1,950,000	1.000000	1,950,000
				\$ 3,547,000
		RENOVATION COSTS		\$ -
			ROUNDED	\$ 3,500,000
<b>Value of the Reversion</b>				
Year 11 NOI				\$ 198,000
Terminal Capitalization Rate				10.0%
Indicated Value at Reversion (Fee Simple Interest)				\$ 1,980,000
Less Selling Costs				(30,000)
Net Reversion				1,950,000

(Source: Consultant)

To estimate the stabilized reversionary value, we divide the historical net income, or \$198,000 by a residual capitalization rate of 10 percent. From the resulting stabilized value total of \$1,950,000 and a sale price at \$2.0 million, less the 3 percent selling costs of \$30,000 for the cost of sales to arrive at a net proceeds' valuation based on income capitalization of \$1950,000.

The discounted cash flow analysis (Discounted Cash Flow Analysis Summary) is presented at the end of this section. Applying the 10 percent discount rate to the subject's cash flows, results in a complete rounded value indication rounded to \$3,500,000, or \$116,000 per key or room.

**INVESTMENT ANALYSIS**

To understand the project feasibility, it is necessary to understand the investment analysis as it pertains to financing and disposing of a hospitality asset. The scenario below estimates the development cost of the 16,000 sq. ft. facility would be \$2,873,000 or \$95,795 per key for the 30-room hotel. If a loan to value was financed at 30 percent equity or \$862,159 including the land value of an assumed \$250,000 the debt would be \$2,011,705 at 5.25 percent interest for 25 years, the debt payment annually would be \$144,661. With the initial investment of equity and land value the estimated return on the initial equity at sale of the property in 10 years assumes a 0-3 percent return on invested equity, thus making the scenario likely not feasible without community support or other incentives (dependent on reasonable property tax, financing terms, construction costs and professional operational oversight).

Miller SD Subject Hotel												
Investment Analysis												
Project Costs (less Subsidies)	\$ 2,873,864											
Entitlements												
Total Investment	\$ 2,873,864											
Value (Appraised)												
GAP or Surplus												
LTV	70.0%											
Loan Amount - 1st	\$ 2,011,705		Equity:	\$ 862,159								
Interest Rate - 1st	5.25%		Equity Needed	\$ 862,159		LTV 30%						
Term - 1st	25 Years		Property Contribution	\$ 250,000								
P&I - 1st	\$ 12,055 \$ 144,661		Developers Fee									
End Principal Balance - 1st	\$1,499,618		<b>Balance to raise</b>	<b>\$ 612,159</b>								
Developers Equity	\$ 612,159											
Year	NOI	Debt Service 1st	Debt Service 2nd	Cash Flow	DSCR - 1st	DSCR - Total	Cash on Cash	Principal Paydown	Cash Flow + rinc. Paydow	Full Return %		
				\$ (612,159)								
2022	\$ 62,000	\$ 144,661	\$ -	\$ (82,661)	0.43	0.43	-13.5%	-\$39,217	-\$43,444	-7.10%		
2023	\$ 96,000	\$ 144,661	\$ -	\$ (48,661)	0.66	0.66	-7.9%	-\$41,327	-\$7,334	-1.20%		
2024	\$ 134,000	\$ 144,661	\$ -	\$ (10,661)	0.93	0.93	-1.7%	-\$43,549	\$32,888	5.37%		
2025	\$ 179,000	\$ 144,661	\$ -	\$ 34,339	1.24	1.24	5.6%	-\$45,891	\$80,230	13.11%		
2026	\$ 179,000	\$ 144,661	\$ -	\$ 34,339	1.24	1.24	5.6%	-\$48,360	\$82,698	13.51%		
2027	\$ 182,000	\$ 144,661	\$ -	\$ 37,339	1.26	1.26	6.1%	-\$50,960	\$88,299	14.42%		
2028	\$ 187,000	\$ 144,661	\$ -	\$ 42,339	1.29	1.29	6.9%	-\$53,701	\$96,040	15.69%		
2029	\$ 190,000	\$ 144,661	\$ -	\$ 45,339	1.31	1.31	7.4%	-\$56,589	\$101,928	16.65%		
2030	\$ 193,000	\$ 144,661	\$ -	\$ 48,339	1.33	1.33	7.9%	-\$59,633	\$107,972	17.64%		
2031	\$ 2,145,000	\$ 1,644,279	\$ -	\$ 500,721				-\$62,840	\$563,561	92.06%		
				10 Year Total	\$	100,050						
EQUITY IRR	-0.2%											
								<b>Accumulated Principal: \$ 502,068</b>				
								Value in Year 10 @ 10 CAP: \$ 1,950,000				
								Loan balance upon sale: \$ 1,509,636				
								<b>Net proceeds at sale: \$ 381,864</b>				

(Source: Consultant)

## **CERTIFICATION, ASSUMPTIONS, AND LIMITING CONDITIONS STATEMENT**

The above report is presented to provide information on the market in which the subject property will perform. The consultant does hereby certify that the company has no undisclosed interest in the property, and employment and compensation are not contingent upon the findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein. The report is to be used in whole and not in part. The research provided in this report was obtained from review of supportive data and information. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property and market.

All information, financial operating statements, estimates, and opinions obtained from parties not employed by the consultant are assumed true. It should be understood that normal economic and marketplace conditions change constantly. The consultant assumes no responsibility for information that becomes outdated once this report is written, nor is it responsible for keeping this information current after December 2019. The consultant takes no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.

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

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

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

The consultants' company routinely seeks opportunities to consult and develop boutique and branded hotels in the region and nationally. Our consulting engagements include a fee structure for a specific scope of work. The consultant has no current or contemplated interests in the real estate that is the subject of this report. The fee paid for the preparation of this report is not contingent upon the conclusions, upon occurrence of a subsequent event directly

related to the intended use of this report, or that our engagement was contingent upon developing or reporting predetermined results.

Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by the consultants' experience and other factors not specifically set forth in this report. If the reader is making a fiduciary or individual investment decisions and has questions concerning the material presented, it is recommended that the reader contact the consultants.

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

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



## GLOSSARY OF HOSPITALITY TERMS

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

### **Type of Hotel**

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

**Limited-Service Hotel** – Hotels with rooms-only operations (i.e., without food & beverage service) or hotels that offer a bedroom and bathroom for the night but few other services and amenities. These hotels are often in the mid-price, and budget or economy groups and do not report food & beverage revenue. There are also upscale or luxury hotels that do not manage their food & beverage operations (e.g., leased to a third party) that are categorized as limited-service hotels.

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

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

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

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

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

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

### **Revenues**

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

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

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

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

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

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

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

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

### **Departmental Expenses**

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

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

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

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

### **Undistributed Operating Expenses**

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

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

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

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

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

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

### **Fixed Charges**

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

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

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

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

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

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

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

### **Other Terms**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Hotel Location Identifiers**

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

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

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

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

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

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

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

**Scale, Class or Price Designations**

**Chain Scale-** The chain scale segments are based primarily on the actual, system-wide average room rates of the major chains (independent hotels are included as a separate category).

The chain scale segments are: Luxury, Upper Upscale, Upscale, Upper Midscale, Midscale, and Economy. Independent is considered a seventh Scale.

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

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

**Market Price Segments (U.S. Only)**

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

- Luxury - top 15 percent average room rates
- Upscale - next 15 percent average room rates
- Mid-Price - middle 30 percent average room rates
- Economy - next 20 percent average room rates
- Budget - lowest 20 percent average room rates