



**FEASIBILITY STUDY  
FOR A GRANDSTAY HOTEL & SUITES**

**Jordan, Minnesota**

April 19, 2019

Prepared for:  
Allied Development Resources, LLC



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The Hospitality Consulting Group is pleased to present the accompanying report entitled: "Feasibility Study for a GrandStay Hotel & Suites – Jordan, Minnesota" which has been prepared in accordance with our engagement letter dated March 15, 2019.

Incorporated within this report are discussions of the local and area market conditions, characteristics of competitive hotels, analysis of the potential lodging demand available to a new hotel, description of facilities, estimates of utilization for the planned facilities, financial projections for the hotel's first five years of operation, and an analysis of the project's economic feasibility.

The conclusions are based on information developed from research of the market, discussions with local government officials, representatives of the business community, and on our knowledge of the industry. The sources of information and bases of the estimates and assumptions are stated in the body of the report. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will vary from our projections and the variations may be material.

Further, we are not responsible for future marketing efforts and other management actions upon which actual results will depend.

We have no responsibility to update this report for events and circumstances that occur after the conclusion of our field work, which is concurrent with the report date shown below. However, we are available to discuss the necessity for revision in view of changes in the economic and market factors affecting the project.

Tom Hanson  
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This report is intended solely for the information of Allied Development Resources, LLC for use in developing a hotel. It may also be used to obtain conventional funding for the hotel. Otherwise, neither the report nor its contents, nor any reference to our Firm may be referred to or quoted in any registration statement, sales brochure, prospectus, loan, appraisal or other agreement or document without our prior written consent.

April 19, 2019

*Hospitality Consulting Group, Inc.*

HOSPITALITY CONSULTING GROUP, INC.

**GRANDSTAY HOTEL & SUITES  
FEASIBILITY STUDY  
JORDAN, MINNESOTA**

Letter of Transmittal

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**GRANDSTAY HOTEL & SUITES  
FEASIBILITY STUDY  
JORDAN, MINNESOTA**

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## **SECTION 1: INTRODUCTION**

### **BACKGROUND**

Jordan, Minnesota is a growing third tier suburb in the southeastern Minneapolis-St. Paul metropolitan area. It is a historic town with 15 buildings on the National Register of Historic Places. The city's only lodging facility is a 5-room bed & breakfast. Visitors to the community must travel approximately 12 miles to reach upper midscale hotel accommodations in Shakopee. Accordingly, Allied Development Resources, LLC is contemplating the development of a GrandStay Hotel & Suites in Jordan to better meet the needs of area residents and businesses.

Stephen Sherf, president of *Hospitality Advisors*, has extensive experience working with hotel developments throughout the United States. He was retained to research the market support for the new hotel and to develop estimates of utilization and prepare projections of the hotel's room revenues and operating results. The scope of his work in conjunction with this engagement is summarized below.

### **SCOPE OF WORK**

The research into the market support for a new hotel included the following:

- Determination of the primary market area and evaluation of pertinent demographic and economic information;
- Identification of likely sources of lodging demand;
- Identification and evaluation of competitive lodging facilities;
- Projection of the lodging demand that the proposed new hotel in Jordan could reasonably expect to capture;

- Projection of the average daily rate and levels of utilization the hotel could expect to achieve in its first five years of operation;
- Financial projections for the planned hotel’s first five years of operation;
- Analysis of the project’s economic feasibility; and
- Preparation of this final report documenting the findings, conclusions, recommendations, and financial projections for the hotel.

## **SECTION 2: EXECUTIVE SUMMARY**

This section describes, in brief, the findings and conclusions derived from our study of the market for a new hotel in Jordan, Minnesota. This overview includes a review of the market area, and the competitive environment, a description of the planned facilities, and financial projections expected for the hotel. The estimates and the information presented in this section are meant as a summary of, not a substitute for, the body of the report which contains additional information and detail critical to a full understanding of the basis for the estimates made and the context within which they were formed.

### **Project Description**

Jordan, Minnesota is a growing third tier suburb in the southwest Minneapolis-St. Paul metropolitan area. It is a historic town with 15 buildings on the National Register of Historic Places. The city's only lodging facility is a 5-room bed & breakfast. Visitors to the community must travel approximately 12 miles to reach upper midscale hotel accommodations in Shakopee. Accordingly, Allied Development Resources, LLC is contemplating the development of a GrandStay Hotel & Suites in Jordan to better meet the needs of area residents and businesses.

The planned hotel will contain 69 guest rooms and suites in a four-story building. A pub that will serve food for lunch and dinner is planned to be attached on one end of the building and a co-working space will be attached to the other end of the building. Both the pub and the co-working space will be leased out. Hotel guests will have access to meeting facilities and a business center located in the adjacent co-working space.

Other amenities at the hotel will include an indoor pool, a small convenience market, fitness room, guest laundry, free WIFI, outdoor grilling area and a multi-function space which hosts a free hot breakfast for guests and serves as a communal room during the rest of the day.

### **Site Review**

The hotel site is located along Highway 169 near the commercial/retail area

that is developing around the new Highway 282 intersection west of the downtown. It is a vacant parcel of land located on the western edge of a loop formed by Eldorado Drive/Seville Drive from Creek Lane South.

Visibility is excellent for northbound travelers on Highway 169 but is obscured for southbound travelers. A pylon sign on the site would be visible from the Highway 282 intersection.

This site is considered to be suitable for the proposed hotel development.

### **Local Market Conditions**

The population of Jordan increased by nearly 8 percent over the last seven years and presently has a population of around 9,000. The primary hotel market also includes the communities of Belle Plaine and New Prague. Combined with Jordan, the primary market has a total population of nearly 27,000. The population of the primary market is projected to increase 25 percent by 2030.

The median household income in Jordan is significantly below Scott County and 10 percent lower than the overall Twin Cities median.

Jordan has a diverse employment base covering a variety of industries. Its manufacturing employment is relatively small. Jordan expects to add 300 jobs between 2020 and 2030.

The unemployment rate in Scott County was 2.1 percent in 2018, a level that is slightly lower than the Minneapolis-St. Paul Metropolitan Area of 2.3% and much lower than the U.S. unemployment rate of 3.9 percent.

Jordan has excellent highway transportation. It is located on U.S. Highway 169 which provides direct access into the Minneapolis-St. Paul urban area.

There are several attractions in and around Jordan that draw visitors to the area including: The Renaissance Festival, an active apple orchard, a tournament quality golf course, and several wedding venues.

## **Hotel Supply**

The only lodging facility in Jordan is the historic Nicolin Mansion, a small upscale bed & breakfast with five guest rooms.

Seven hotels with a total of 454 rooms have been identified that would be directly competitive with a new hotel in Jordan. They are the closest hotels that offer quality that is similar to the proposed hotel. Three of the hotels are upper midscale quality while the other four are midscale quality. Five of these hotels are in Shakopee, one is located in Belle Plaine, and one is in New Prague.

## **Hotel Demand**

In order to assess the recent business trends in the Jordan area lodging market, detailed performance data for a sample of six upper midscale and midscale hotels was obtained from STR Global, a well-known research firm that collects and provides lodging data to the industry. Analysis of this data found that demand increased at a compound average annual rate of 6.1 percent between 2013 and 2016. Demand declined in the next two years, which is attributed to deterioration of the quality of the midscale hotels, aggravated by new hotels opening in Bloomington. Even with these recent declines, lodging demand has increased over the last five years at an average annual compound rate of 2.1 percent. The three upper midscale hotels in the sample achieved an estimated overall annual occupancy of nearly 69 percent in 2018.

The occupancy and average rate were estimated for each of the seven hotels judged to be competitive with a new hotel in Jordan. These hotels achieved a combined annual occupancy of 64 percent and an ADR of \$103 in 2018.

Hotel occupancies are highest during the summer and, on weekly basis, peak on Saturday nights. These patterns demonstrate that the area attracts a large number of tourists and there is strong local social demand on weekends.

The mix of the lodging demand in the seven competitive hotels is estimated to consist of the following:

**COMPETITIVE MARKET MIX**

<b>Market Segment</b>	<b>Occupied Rooms</b>	<b>Percent of Total</b>
Commercial	42,000	40%
Leisure	48,000	45%
Group	16,000	15%
<b>Total</b>	<b>106,000</b>	<b>100%</b>

**Projected Occupancy**

A new hotel in Jordan would accommodate the locally generated lodging demand, capture some demand that seeks higher quality rooms from Belle Plaine and New Prague, capture some travelers from Highway 169, and provide additional capacity for business peaks during festivals and athletic events.

The proposed hotel represents a fair share of 13.2 percent (69/523 = 13.2%) of the competitive supply. Based on competitive factors the subject hotels is projected to be able to capture 93 percent of its fair share of the 106,000 occupied roomnights in the competitive supply, or a 2018 base of 12,900 annual roomnights.

In addition to this demand base, the hotel would capture new demand generated by the local market due to the availability of the facilities, and it would provide additional capacity for evenings when the market is at capacity. In total, the hotel is projected to capture an additional 2,000 annual roomnights from these sources.

Based on the community’s projected population growth and assumed continued strength in the area economy, an annual 2.0 percent growth in lodging demand is projected.

The results of the utilization analysis are presented in the following table, which shows the subject hotel achieving projected occupancies that open at 56 percent in its first full year of operation and its market share should stabilize in its third year at 65 percent.

**Projected Market Mix and Occupancy  
69 Rooms**

<b>Market Segn</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Commercial	4,900	5,300	5,700	5,800	5,900
Leisure	6,100	6,600	7,000	7,200	7,300
Group	3100	3300	3600	3600	3700
<b>Totals</b>	<b>14,100</b>	<b>15,200</b>	<b>16,300</b>	<b>16,600</b>	<b>16,900</b>
Occupancy	56%	60%	65%	66%	67%

Occupancies projected for the first two years are lower than the stabilized level of operation (90% and 95% of projected market share, respectively) as the hotel will require time to build public awareness and to develop its marketing program.

**Average Daily Room Rate**

Projections of the average daily rate for the planned hotel were developed from an analysis of the quality and pricing structure of the other area hotels, as well as historical market performance. Our analysis of individual hotels calculated the average daily rates at the three upper midscale hotels in 2018 ranged from about \$105 to \$125. Combined, the average rate for the three upper midscale hotels was \$114.50.

The proposed hotel will operate in a smaller market that has a median household income that is approximately two-thirds of Scott County’s median. Based on the analysis, the proposed GrandStay is projected to achieve an average rate of \$102 expressed in 2018 dollars.

For projection purposes, we have used a 2 percent growth factor applied annually over the projection period. The inflated average rate in 2021, the hotel’s first full year of operation, is projected to be \$108.24.

**PROPOSED GRANDSTAY HOTEL & SUITES**  
**Projected Average Daily Rate**  
**69 Rooms**

<b>Year</b>	<b>Average Daily Rate</b>
2021	\$108.24
2022	\$110.41
2023	\$112.62
2024	\$114.87
2025	\$117.17

**Financial Projection Summary**

The financial projections prepared for the first five full years of operations for the proposed hotel are summarized in the following table.

**FINANCIAL PROJECTION SUMMARY**  
**69-ROOM GRANDSTAY HOTEL & SUITES**

	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>223</b>	<b>2024</b>
Occupancy	56%	60%	65%	66%	67%
Average Daily Rate	\$108.24	\$110.41	\$112.62	\$114.87	\$117.17
Total Revenue	\$1,534,488	\$1,687,363	\$1,845,694	\$1,917,217	\$1,990,947
Departmental Expenses	(355,492)	(380,336)	(406,032)	(419,090)	(432,509)
Undistributed Expenses	(435,011)	(480,087)	(517,132)	(532,354)	(547,451)
Fixed Charges	(162,326)	(185,690)	(212,439)	(219,084)	(225,955)
Management Fee	(61,047)	(67,129)	(73,428)	(76,274)	(79,207)
Cash Flow For Debt Service	\$520,612	\$574,121	\$636,663	\$670,415	\$705,825

**Project Cost Estimate**

The developer provided an estimated total project cost of \$10,693,000, which includes a land cost of \$450,000. The cost of the land equals \$6,522 per key. The project cost also includes 7,000 square feet of commercial space for the pub and the co-working facility.

### Economic Feasibility

For analysis purposes we have assumed an equity investment of \$4,277,200, leaving a loan of \$6,415,800 to provide funds for the \$10,693,000 total project cost.

#### Debt Term Assumptions:

Annual Interest Rate:	5.75%
Amortization:	20 years
Annual Payment:	\$537,954

The results of the feasibility analysis are presented in the following table.

#### Economic Feasibility Analysis

Estimated Project Cost: \$10,693,000

40% Equity; 60% Debt

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Cash Flow Avail. for Debt Service	\$520,612	\$574,121	\$636,663	\$670,415	\$705,825
Lease Income	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>
Total Cash Flow	\$660,612	\$714,121	\$776,663	\$810,415	\$845,825
Debt Service	\$537,954	\$537,954	\$537,954	\$537,954	\$537,954
<b>Debt Service Coverage Ratio</b>	<b>1.23</b>	<b>1.33</b>	<b>1.44</b>	<b>1.51</b>	<b>1.57</b>
Cash Flow to Equity	\$122,659	\$176,167	\$238,710	\$272,462	\$307,872
Equity	\$ 4,277,200	\$ 4,277,200	\$ 4,277,200	\$ 4,277,200	\$ 4,277,200
<b>Return on Equity</b>	<b>2.9%</b>	<b>4.1%</b>	<b>5.6%</b>	<b>6.4%</b>	<b>7.2%</b>

A debt coverage ratio (cash flow/annual debt service) of a minimum of 1.2 times is required and 1.4 times is typically preferred by lenders. This analysis shows that the hotel is projected to generate sufficient cash flow to meet its debt service requirements with a comfortable debt coverage margin after the second year. Also, in this simple analysis, the projected cash on cash return on equity is 5.6 percent once the hotel reaches its stabilized level of operation in the third year and is projected to increase to 7 percent by the fifth year.

Hotel investors typically like to see cash on cash returns of at least 10 percent, which this project does not achieve over its first five years. These returns are on the low range of economic feasibility.

## **SECTION 3: PROJECT DESCRIPTION**

### **HOTEL DESCRIPTION**

The planned hotel will contain 69 guest rooms and suites in a four-story building. There will be 23 guest rooms on each of the three upper stories. The first floor will contain the lobby, breakfast area, pool and whirlpool, fitness center, and administrative space. A pub that will serve food for lunch and dinner is planned to be attached on one end of the building. A co-working space of approximately 3,500 square feet will be attached to the other end of the building. Both the pub and the co-working space will be leased out.

Other amenities at the hotel will include a small convenience market that carries snacks and microwaveable foods, guest laundry, free WIFI, outdoor grilling area and a multi-function space which hosts a free hot breakfast for guests and serves as a communal room during the rest of the day.

#### **Guest Rooms**

The planned room mix will have 57 double queen rooms, 6 single king rooms, and six 2-room king suites. All the guest rooms will have a mini-fridge and a microwave. Two of the suites will be set up for extended stays as they will have a full-sized stove and refrigerator and separate living space.

The guest rooms will include flat screen televisions with at least one premium movie channel, a coffee maker, and free high-speed internet.

#### **Meeting Room**

A meeting room will allow the hotel to attract additional demand related to area meetings and social functions. The hotel will have access to meeting facilities located in the adjacent co-working space. The meeting space is planned to include a room of at least 900 square feet

## **GRANDSTAY FRANCHISE**

A GrandStay Hotel & Suites is the lodging product proposed for this project. GrandStay is a rapidly growing chain of upper mid-market lodging facilities in the Upper Midwest. The chain now has 34 hotels located in the states of Minnesota, Wisconsin, Iowa, Michigan, North Dakota, South Dakota, and Oregon. There are 20 GrandStay hotels in Minnesota

The franchise is a good fit for the identified market. The hotel's new facilities and adjacent pub will allow it to successfully capture the local lodging demand that currently leaves the market.

## **SITE DESCRIPTION**

The hotel site is located along Highway 169 near the commercial/retail area that is developing around the new Highway 282 intersection west of the downtown. It is a vacant parcel of land located on the western edge of a loop formed by Eldorado Drive/Seville Drive from Creek Lane South. The site is level, has been cleared, and all utilities are available at the site. The site is approximately 0.6 miles from the Highway 169 intersection.

Access to the site is via 2<sup>nd</sup> Street West to Creek Lane South, to Eldorado Drive. While access to the hotel site is not direct from a major road, a guest would never lose sight of the hotel as they drive to it from the highway and/or 2<sup>nd</sup> Street.

Commercial developments within the loop include a barbecue restaurant and a Subway sandwich shop, several retail and personal service stores, and a dental clinic. An office building anchored by Riverland Bank is located at the intersection of Seville Drive and Creek Lane South. Also, at this intersection is a 50-unit senior apartment complex and the Jordan Library. Land has been purchased adjacent to this complex for another 60-unit senior housing project.

Commercial developments located at the Highway 169 interchange include a Holiday Station and convenience store, McDonald's, Taco Bell, Clancy's Bar & Pizza Parlor, a car dealership, grocery store, Ace Hardware, and a liquor store.



The site is centrally located within the Jordan community. The downtown area is six blocks to the east on 2<sup>nd</sup> Street, Jordan’s industrial park is a similar distance west on 2<sup>nd</sup> Street/Quaker Avenue, and the city’s baseball complex is approximately ten blocks to the southeast.

### **Visibility**

The proposed hotel would be highly visible for northbound travelers on Highway 169, as the land between the site and the highway is marsh that will never be developed. The site is obscured for southbound travelers before the Highway 282/2<sup>nd</sup> Street intersection by a car dealership, although a pylon sign on the site would be visible and the hotel would be visible from the intersection. Future highway plans call for an overpass that would further obscure the property for southbound travelers.

### **Local Restaurants**

There are a variety of restaurants in Jordan:

- Linsey’s BBQ & Grill (located across El Dorado Drive from the hotel)
- Jordan Supper Club & Jordan Tap
- Clancy’s Bar & Pizza Parlor

- Suzette’s Restaurant
- Feed Mill Restaurant
- Empire Wok
- Pickled Pig Pub
- McDonald’s
- Taco Bell

Suzette’s and the Jordan Supper Club are both popular restaurants that draw patrons from beyond the local area.

## **CONCLUSION**

Based on my review, I believe this site is suitable for the proposed hotel development.

## **SECTION 4: REGIONAL CHARACTERISTICS**

### **INTRODUCTION**

The following section provides an overview of the market environment within which a new hotel would operate. Included within this section is a review of selected economic and demographic data, along with descriptions of the transportation infrastructure, tourism and attractions in the area.

### **LOCATION**

The City of Jordan is located Scott County, one of seven counties that make up the Minneapolis-St. Paul Metropolitan Area. The southwestern suburban city is approximately 35 miles from downtown Minneapolis and 38 miles from downtown St. Paul.

Other sizeable communities surrounding Jordan include: Belle Plaine (8 miles to the south); New Prague (10 miles to the south), Chaska (10 miles to the north); and Shakopee (12 miles to the northeast). These communities all are located within about a 10- to 15-minute drive from the proposed hotel site.

There are no upper midscale hotels in Belle Plaine, New Prague, or Chaska.

The populations of these communities are shown in the following table.

#### **Population of Surrounding Communities**

	<u>2017</u>
<b>Jordan</b>	<b>8,942</b>
Belle Plaine	8,056
New Prague	7,598
Chaska	26,941
Shakopee	41,519

*Source: Metropolitan Council Estimates*

Jordan’s location and the proposed hotel’s primary market are shown on the map on the following page. The primary market consists of the communities of Jordan, Belle Plaine and New Prague. The total population of these communities is nearly 24,600. Chaska has closer hotel options in Chanhassen and Shakopee.

**DEMOGRAPHICS**

Population data for the communities in the primary market and Scott County is presented in the table below. Between 2000 and 2010, the population of Jordan and the surrounding townships increased by 42 percent, representing a compound annual average growth rate of 3.6 percent. Between 2000 and 2017, this growth rate has slowed to annual compound rate of 1.1 percent, which was below Scott County’s rate of growth for that period.

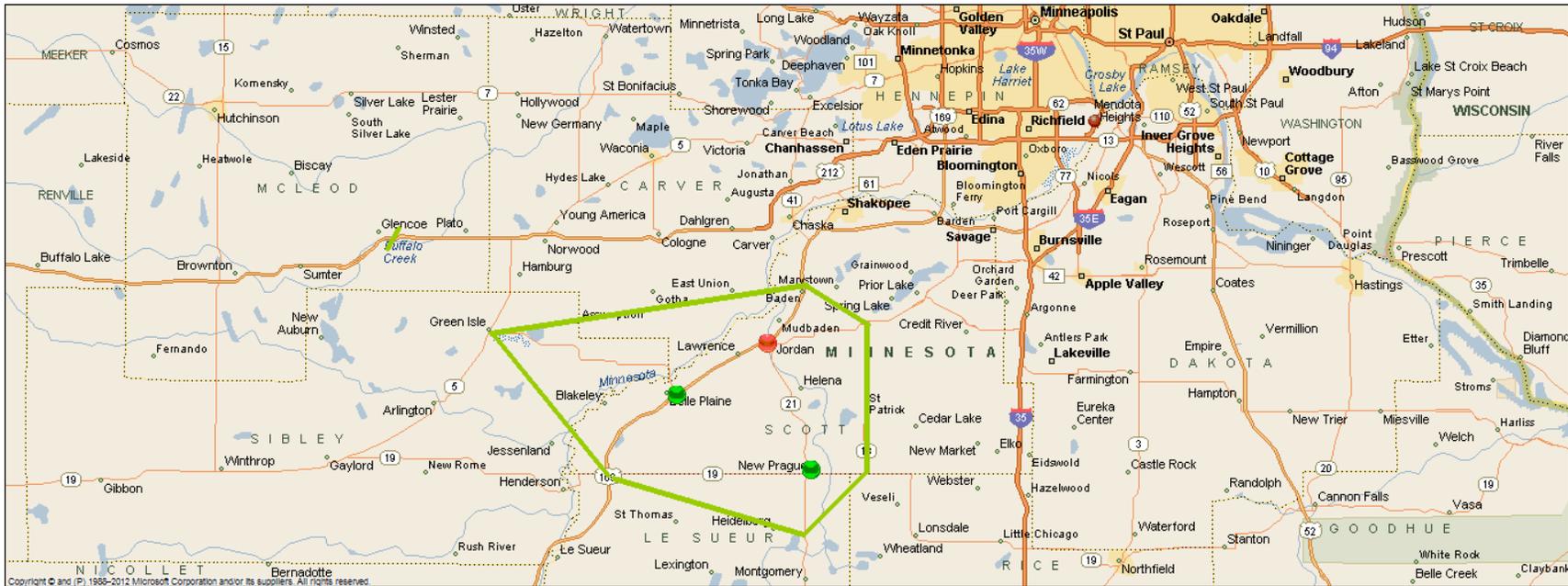
The population of the primary market increased by 56 percent between 2000 and 2010, representing a compound annual average growth rate of 4.5 percent over the decade. Its recent compound growth rate was 1.3 percent over the last seven years.

**POPULATION CHANGE**  
**Primary Market Area**

<b>Community</b>	<b>2000</b>	<b>2010</b>	<b>Compound Annual Growth</b>	<b>2017</b>	<b>Compound Annual Growth</b>
Jordan	5,856	8,306	3.6%	8,942	1.1%
Belle Plaine	4,595	6,661	3.8%	8,056	2.7%
New Prague	<u>3,157</u>	<u>7,321</u>	<u>9.1%</u>	<u>7,598</u>	<u>0.5%</u>
Total Primary Market	15,608	24,298	4.5%	26,613	1.3%
Chaska	17,603	23,770	3.1%	26,941	1.8%
Shakopee	20,568	37,076	6.1%	41,519	1.6%
Scott County	89,498	129,928	3.8%	144,717	1.6%
Twin Cities (7 counties)	2,642,062	2,849,567	0.7%	3,075,513	1.1%

Source: U.S. Census, Metropolitan Council Estimates

### Jordan, Minnesota Primary Hotel Market Area



Population projections for Jordan prepared by the Metropolitan Council show that Jordan is expected to experience growth averaging 1.1 percent annually through 2030. The rate of growth expected over the next decade will be similar to what has occurred in the last seven years.

**POPULATION PROJECTIONS**

<b>Community</b>	<b>2017</b>	<b>Projected 2030</b>	<b>Compound 2017-2030</b>	<b>Historic Growth 2010-2017</b>
Jordan	8,942	10,360	1.1%	<b>1.1%</b>
Belle Plaine	8,056	10,920	2.4%	2.7%
New Prague(1)	<u>7,598</u>	<u>na</u>	<u>na</u>	<u>0.5%</u>
Total Primary Market	26,613	na	na	1.3%
Chaska	26,941	32,000	1.3%	1.8%
Shakopee	41,519	48,100	1.1%	1.6%
Scott County	144,717	176,260	1.5%	1.6%
Twin Cities (7 counties)	3,075,513	3,448,741	0.9%	1.1%

Note 1: A portion of New Prague lies in a county that is not part of the metropolitan area

*Source: Metropolitan Council*

**Residential Building Permits**

Residential building permit data over the last five years documents the community’s growth. Development accelerated in 2014 and experienced a large increase in 2018. At the present time, there are 26 multifamily housing units under construction and 12 more approved for development. In addition, 60 new residential lots were platted last year on a parcel that has the capacity for another 180 lots.



Source: City of Jordan

### Household Incomes

The median household income for the communities in the primary market, Scott County, and the 7-county Minneapolis-St. Paul Metropolitan Area is shown in the following table. The median is the midpoint at which there are an equal number of households with larger and smaller incomes. The median household income in Jordan is significantly below Scott County and 10 percent lower than the overall Twin Cities median.

Community	MEDIAN HOUSEHOLD INCOME		Average Annual Compound Growth (Percent)
	2010	2017	
Jordan	\$61,700	\$66,200	1.1%
Belle Plaine	\$69,100	\$75,900	1.0%
New Prague(1)	na	na	
Scott County	\$82,200	\$93,200	1.8%
Twin Cities (7 counties)	\$65,200	\$73,700	0.7%

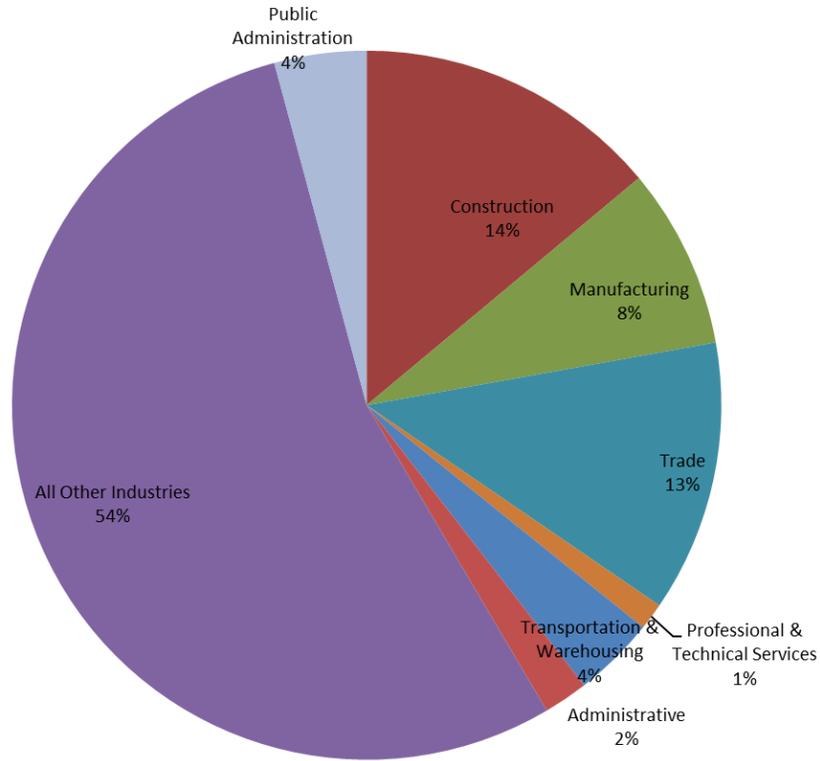
Note 1: A portion of New Prague lies in a county that is not part of the metropolitan area

Source: Metropolitan Council Community Profiles

### Employment

Employment is a strong indicator of an area’s economic health. Jordan has a diverse employment base covering a variety of industries. Its manufacturing employment is relatively small. Jordan expects to add 300 jobs between 2020 and 2030.

### Jordan Employment



*Source: Metropolitan Council Community Profiles*

A large industrial park is located across Highway 169 from Quaker Avenue which is an extension of 2<sup>nd</sup> Street West. Tenants in the park include:

Business

- Accu-Rite Powder Coating
- Dynotec Industries
- Engle Diversified Industries
- Enterprise Pattern & Prototype
- JL Theis, Inc

Product/Service

- Metal coatings
- Remanufactured transmissions
- Machine shop
- Patterns & molds
- Commercial landscape contractor

Jordan Transformer	Remanufactured power transformers
Mid-County Fabrication	Fabricated metal products
Siwek Lumber & Millwork	Building Supplies

**Major Employers**

Large commercial employers in Jordan include:

**MAJOR JORDAN EMPLOYERS**

<u>Company Name</u>	<u>Product / Service</u>	<u>Industry</u>	<u>Employees</u>
Mn. River Valley Special Ed. Coop.	Specialty education	Education	150
SM Hentges & Son	Excavation & concrete contractor	Construction	150
Minger Construction	Contractor	Construction	80
Engle Diversified Industries	Metal Stamping	Manufacturing	70
Jordan Transformers	Remanufacture large power transformers	Manufacturing	67
Dynotec Industries	Remanufactured transmissions	Manufacturing	26

Source: Scott County

**Jordan Transformers** redesigns and remanufactures substation class electrical power transformers. It has a national client base in this specialty field; the company can usually rebuild a transformer for significantly less than the cost of a new one. Customers frequently accompany their devices and remain in Jordan for several days while the repair is being completed. A company representative estimated they generate over 300 hotel rooms annually.

**SCALE Regional Public Safety Training Facility** is located a little north of Jordan along Highway 169. The facility provides training for law enforcement, fire-fighting and public works groups. It has class rooms, a shooting range, driving simulator, a large kitchen, and dorm rooms. The facility is used extensively by Scott and Carver County employees, as well as by groups from greater Minnesota. Also located on these grounds is the juvenile detention facility for the county. The regional training center generates lodging demand from trainers and out-state participants.

The surrounding communities of Belle Plaine and New Prague each have a large manufacturing plant:

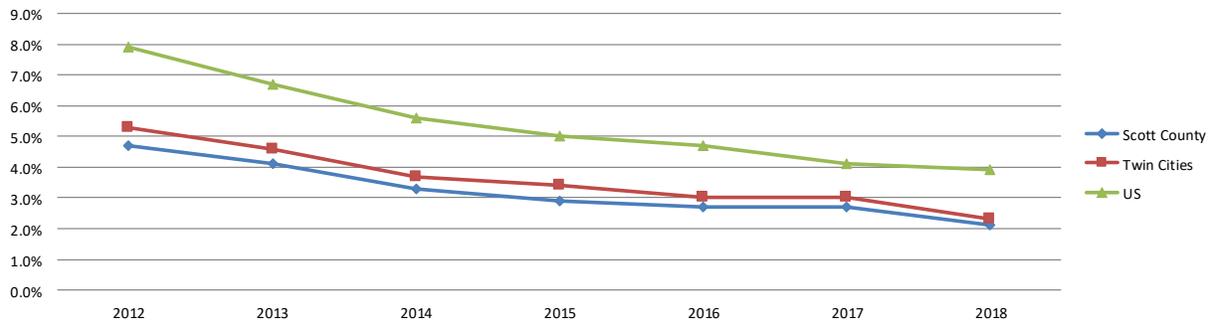
**Cambria** operates a large manufacturing plant that produces countertop surfaces. The company has done well catering to the recent boom in home construction and remodeling. With 200 employees, it is the largest commercial employer in Bell Plaine.

**Chart Industries** operates a large manufacturing facility in New Prague and is the largest commercial employer in the community. The plant produces cryogenic equipment that is used in all aspects of the liquid gas industry. The company is an international organization that is traded on the Nasdaq Stock Market.

### Unemployment

The unemployment rate in Scott County was 2.1 percent in 2018, a level that is slightly lower than the Minneapolis-St. Paul Metropolitan Area of 2.3% and much lower than the U.S. unemployment rate of 3.9 percent.

Unemployment Rate



Source: U.S. Bureau of Labor Statistics

## TRANSPORTATION

### Highways

Jordan has three major highways passing through it:

**U.S. Highway 169** provides direct access to Shakopee and the I-494 beltway that encircles Minneapolis and St. Paul. The road is a major regional highway that extends north to Minneapolis and beyond to terminate on the Iron Range near the Canadian border. The highway extends south from Jordan to Mankato and intersects Interstate 90 at Blue Earth. It then continues south to Des Moines where it intersects Interstate 80 and to Kansas City where it connects with Interstate 29.

Traffic counts taken by the Minnesota Department of Transportation in 2017 show that a daily average of 28,000 vehicles travel this highway north of Jordan and 21,000 travel to the south. Highway 169 passes directly by the hotel site.

**County Highway 21** provides access to south central Minnesota and to Faribault to the east. It extends south to New Prague and joins up with County Road 13 which continues south to intersect Interstate 90 at Albert Lea. Highway 21 turns east at Montgomery and intersects Interstate 35 at Faribault. Traffic counts show that a daily average of 5,600 vehicles travel this highway west of Jordan.

**State Highway 282** extends east to Prior Lake where it connects with County Road 13 that continues north to Savage. It joins County Road 9 at Jordan which continues northwest to Carver and connects with U.S. Highway 212. Traffic counts show that a daily average of 6,500 vehicles travel this highway south of Jordan.

## **AREA ATTRACTIONS**

There are several attractions in and around Jordan that draw visitors to the area.

**Minnesota Renaissance Festival** has been held near Jordan for 48 years. The festival operates on seven weekends between mid-August and the end of September. Over the 16 days, the festival draws nearly 300,000 people. It is an annual event for many people, some of which travel from out-state Minnesota and even the surrounding states. Two-day tickets are available and the

website lists hotels in Shakopee, Belle Plaine, Bloomington and several other suburbs.

The festival is a popular wedding venue and it is reported to host 50 to 60 weddings from May to October. Ceremonies can be held at the various props on the grounds. Receptions are hosted in a period-correct event center that can hold up to 150 people.

The company that owns the festival recently purchased 150 acres near the Scott County Fairgrounds located along Highway 169 just south of Jordan. Having lost the lease on their previous grounds, the organization plans to open the new festival grounds in 2021.

**Mini Met Baseball Stadium** is known as one of the finest town ballparks in the state. Constructed in 1935, it features a wooden grandstand and the park is meticulously maintained. The Jordan Brewers, a team within the Minnesota Amateur Baseball Association, plays 18 home games there during the summer. The town also supports two men's teams and the ballpark hosts high school, American Legion, and amateur tournaments throughout the summer.

**Minnesota Harvest Orchard** has been a popular family attraction since 1971. The orchard celebrates the apple harvest with wagon rides, sales, food, and entertainment. The farm also has strawberries in the summer and pumpkins in the fall. The orchard is a popular wedding venue; it hosts receptions in a 4,000-square foot barn that can seat 250. A second larger venue is available from May through July. Weddings are scheduled nearly every Friday and Saturday from May through October.

**Ridges at Sand Creek** is an 18-hole golf course located just south of Jordan. It is a public course and hosts a number of tournaments. It annually hosts two high school section championships along with boys and girls state high school tournaments. The clubhouse features a restaurant and the club is a popular wedding venue. Its banquet facility has a scenic view of the golf course and can seat up to 400 people.

**The Scott County Fair** is held annually on permanent grounds south of the Jordan Industrial Park. This week-long event, held at the end of July, is typically attended by 50,000 people.

**Scott-Carver Threshers Old Time Harvest Festival** is held over three days in August. The festival typically attracts 9,000 people.

**Valleyfair** is the largest amusement park in the Upper Midwest. It is located on 125 acres on the banks of the Minnesota River in Shakopee. The park features 75 rides and attractions, including eight roller coasters. It also has a large outdoor waterpark. The park is a very popular attraction that draws many tourists to the area.

**Canterbury Park** is a thoroughbred horse racing facility located along Highway 169 in Shakopee. The 408-acre grounds include the racing facility with two tracks and an enclosed grandstand, a casino card room, an outdoor concert venue, and an Expo Center.

The track has 66 live racing days (usually Thursday through Sunday) between May and mid-September. The races last year drew an attendance of nearly 449,000. Additional events are held at the track during the remainder of the year. The track also has simulcast racing year-round.

Canterbury operates a 20,000-square foot card casino with 73 gaming tables where visitors can play poker, blackjack and other casino games. The casino is supported by a full bar and two restaurants.

Canterbury opened its Expo Center in 2014. The flexible facility has 24,000 square feet of floor area and a 3,500-square foot pre-function space. It can seat 1,500 for a banquet and can hold 2,000 for a reception. The facility is used for tradeshow, corporate events, weddings, and fund raisers.

**Mystic Lake Casino** is a native American casino located in Prior Lake, 12 miles from Jordan. The 150,000-square foot casino has 4,000 slot machines and 78 table games. The casino is supported by 10 restaurants, 3 bars, a showroom, golf course, spa, and a 766-room hotel. It also features 67,000 square feet of flexible meeting space. It is the largest casino in Minnesota.

## **SECTION 5: AREA HOTEL SUPPLY**

A new hotel in Jordan would capture lodging demand from business activities in and around Jordan, visitors to area residents and social events, visitors to the Renaissance Festival, and wedding parties utilizing venues at Minnesota Harvest Orchard, Ridges at Sand Creek Golf Course, and the Renaissance Festival.

Because there are no competitive hotels in Jordan, I found it informative to look at the facilities, amenities and pricing structure of competitive hotels in neighboring Shakopee that accommodate Jordan's lodging demand.

### **COMPETITIVE HOTEL SUPPLY**

The only lodging facility in Jordan is the Nicolin Mansion, a small upscale bed & breakfast, located in the downtown area. This property has five rooms, each with its own private bathroom. The property is a historic hotel that is on the National Register of Historic Places. In addition to romantic getaways for couples, the hotel markets to weddings and small receptions; it can accommodate up to 40 people.

This property would only be competitive with the proposed hotel for a small portion of leisure demand. Corporate/commercial guests normally do not stay at bed & breakfast type facilities due to their lack of amenities.

#### **Competitive Hotels**

Seven hotels with a total of 454 rooms have been identified that would be directly competitive with a new hotel in Jordan. They are the closest hotels that offer quality that is similar to the proposed hotel. Five of these hotels are in Shakopee, one is in Belle Plaine, and one is in New Prague.

There is one midscale hotel in Chaska, an 82-room Norwood Inn & Suites. The hotel opened as a Best Western and subsequently changed to a GrandStay Inn & Suites. Under new ownership, the hotel recently became an independent Norwood Inn & Suites. The hotel is reported to have both quality and service

issues. This hotel was considered to have very little effect on Jordan lodging demand.

It is important to note that four of the seven competitive hotels are more than 20 years old, including two of the upper midscale properties. Thus, the newness of the proposed hotel will give it a competitive advantage over the older hotels.

The competitive hotels are summarized in the table on the following page. Descriptions of the individual hotels follow the table.

### **New Hotels**

There are two hotels under development in Shakopee that will provide additional lodging alternatives for area demand:

- a 127-room Fairfield Inn & Suites is under construction. Fairfield is an upper midscale Marriott brand; and
- a 63-room My Place Hotel is planned to break ground this spring. My Place is a franchised midscale extended stay hotel.

**Jordan Competitive Hotels**

Hotel	Location	Quality	Age	Rooms	Rack Rates (2019)		Amenities
					Regular	Suite	
Country Inn & Suites	Shakopee	Upper midscale	22 Years	62	\$102	\$124-\$131	Pool, hot tub, fitness room, fridge & microwave, meeting room (20), breakfast
Hampton Inn	Shakopee	Upper midscale	9 Years	77	\$143	\$153	Pool, fitness room, meeting room (960 s.f.), breakfast
Holiday Inn Express & Suites	Shakopee	Upper midscale	6 Years	94	\$127	\$127	Pool, fitness room, meeting room (900 s.f.), breakfast
AmericInn Lodge	Shakopee	Midscale	17 Years	66	\$99	\$108-\$148	Pool, hot tub, sauna, small meeting room (800 s.f.), breakfast
Best Western Total Rooms	Shakopee	Midscale	24 Years	<u>65</u> 364	\$100-\$110	na	Pool, hot tub, breakfast, fridge& microwave,
Secondary Competition: Hometown Inn & Suites	Belle Plaine	Midscale	21 Years	44	\$80-\$90	\$110-\$130	Pool, whirlpool, fridge & microwave, 2 small meeting rooms, restaurant, gift shop
Quality Inn & Suites Total Rooms	New Prague	Midscale	22 Years	<u>46</u> 454	\$81-\$85	\$99-\$109	Pool, fridge & microwave, meeting room (300 s.f.)



**Country Inn & Suites**  
(Upper Midscale)

Location: Shakopee, MN

Number of Keys: 62

Year Opened: 1997

Amenities: Pool, hot tub, fitness room. fridge & microwave in rooms,  
meeting  
Room (capacity of 20), breakfast

Rack Rates: \$102

TripAdvisor Rating: 3.5 Very Good  
64% Excellent or Very Good



**Hampton Inn**  
(Upper Midscale)

Location: Shakopee, MN

Number of Keys: 77

Year Opened: 2010

Amenities: Pool, fitness room, meeting room (960 s.f.), breakfast

Rack Rates: \$143

TripAdvisor Rating: 4.5 Excellent  
90% Excellent or Very Good



**Holiday Inn Express & Suites**  
(Upper Midscale)

Location: Shakopee, MN

Number of Keys: 94

Year Opened: 2013

Amenities: Pool, fitness room, meeting room (900 s.f.), breakfast

Rack Rates: \$127

TripAdvisor Rating: 4.5 Excellent  
96% Excellent or Very Good



**AmericInn Lodge & Suites**  
(Midscale)

Location: Shakopee, MN

Number of Keys: 66

Year Opened: 2002

Amenities: Pool, whirlpool, sauna, meeting room (800 s.f.), breakfast

Rack Rates: \$127

TripAdvisor Rating: 4.5 Excellent  
96% Excellent or Very Good



**Baymont Inn**  
(Midscale)

Location: Shakopee, MN

Number of Keys: 127

Year Opened: 1990

Amenities: Pool, hot tub, 4 meeting rooms (1,960 s.f.), restaurant Bar, continental breakfast

Rack Rates: \$90 - \$100

TripAdvisor Rating: 2.5 Average  
33% Excellent or Very Good

Comments: No longer considered competitive due to the condition of the property



**Best Western**  
(Midscale)

Location: Shakopee, MN

Number of Keys: 65

Year Opened: 1995

Amenities: Pool, hot tub, 4 meeting rooms (1,960 s.f.), restaurant  
Bar, continental breakfast

Rack Rates: \$100 - \$110

TripAdvisor Rating: 4.5 Excellent  
85% Excellent or Very Good



**Home Town Inn & Suites**  
(Midscale)

Location: Belle Plaine, MN

Number of Keys: 44

Year Opened: 1998

Amenities: Pool, whirlpool, fridge & microwave in rooms, 2 small meeting rooms, restaurant, gift shop

Rack Rates: \$80 - \$90

TripAdvisor Rating: 3.5 Very good  
49% Excellent or Very Good

Comments: Opened originally as an AmericInn Lodge & Suites



**Quality Inn & Suites**

(Midscale)

Location:	New Prague, MN
Number of Keys:	46
Year Opened:	1997
Amenities:	Pool, fridge & microwave in rooms, meeting room (300 s.f.), breakfast
Rack Rates:	\$81 - \$85
TripAdvisor Rating:	3.0 Average 42% Excellent or Very Good
Comments:	Opened originally as an AmericInn Lodge & Suites

## **PROPOSED HOTELS**

The City of Chaska has been pursuing a new hotel to provide support for its new curling arena and events center, as well as its growing commercial base. An RFP was issued in early 2018, however there is no current activity on this project.

This project was the only proposed hotel identified in the competitive market.

## **MEETING AND BANQUET FACILITIES**

There is a very limited amount of public meeting space in Jordan. The Jordan Community Center has some meeting and banquet space available for resident use. Since liquor is not allowed in the facility, it is seldom used for wedding receptions.

**Ridges at Sand Creek** golf course has a scenic banquet facility that can seat up to 400 people.

**Minnesota Renaissance Festival** has a period-correct event center that can hold up to 150 people.

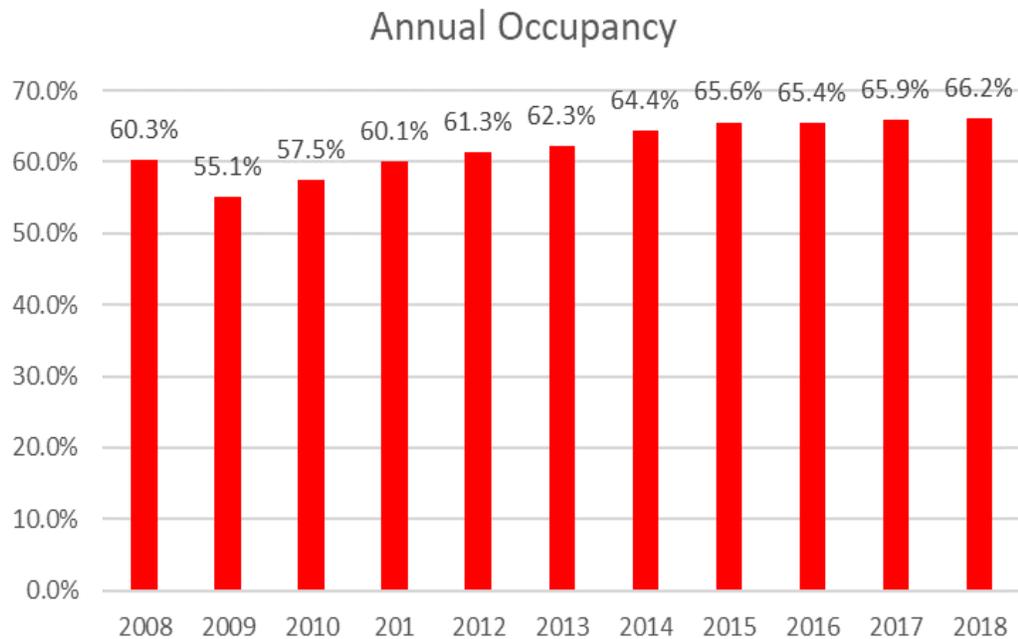
**Minnesota Harvest Orchard** has a 4,000-square foot barn that can seat 250 people and a second larger venue that can seat up to 350.

The **Hampton Inn, Holiday Inn Express & Suites**, and the **AmericInn Lodge & Suites** have meeting rooms of 800 to 960 square feet that can accommodate approximately 45 people with a class room set-up, 65 for a banquet, 100 for a reception, and 25 for a conference. **The Country Inn & Suites, Home Town Inn & Suites**, and the **Quality Inn & Suites** all have smaller meeting rooms that are about ½ the size of the other hotels.

## SECTION 6: AREA HOTEL DEMAND

### HOTEL INDUSTRY TRENDS

Industry forecasts released by STR Global anticipate that the average national occupancy will remain at its current 66 percent level through the end of 2020. The growth in supply is expected to equal the growth in demand in 2019 and slightly overtake the demand growth in 2020. 2018 marked the ninth straight year of occupancy growth for the industry.



Source: STR Global

Average daily rates increased by 2.4% in 2018 and are forecast to increase 2.3% in 2019 and 2.2% in 2020. These rates are similar to the inflation rate forecasts. Revenue per available room (average rate multiplied by occupancy) is forecasted to increase 2.3% in 2019 and 1.9% in 2020.

Demand increased by 2.5% in 2018 and is forecasted to increase 1.9% in 2019 and 1.7% in 2020. Supply is forecasted to increase 1.9% in 2019 and 1.7% in 2020. Thus, occupancies in subsequent years are projected to stabilize as the rate of supply and demand growth comes into equilibrium.

There are over 1,200 new hotels opening in 2019 with a total of over 150,000 hotel rooms. Approximately 34 percent of the new hotels are upper midscale product, while only 8 percent are midscale facilities. Of the hotels in the construction pipeline, nearly 57 percent are upper midscale while 16 percent are midscale.

## **LOCAL MARKET HOTEL DEMAND**

A new hotel in Jordan would capture lodging demand from both the local social/leisure market and commercial activity in Jordan and along the Highway 169 corridor. Its market is limited by hotels located in Shakopee (12 miles to the northeast), Chaska (10 miles to the north), Belle Plaine (8 miles to the south), and New Prague (10 miles to the southeast). In order to quantify the amount of lodging demand in the area, representatives of local businesses were interviewed to identify their lodging needs and the hotels they utilize. Recent population and employment growth trends were evaluated and performance data for the competitive hotels was obtained that included annual performance as well as monthly and weekly utilization patterns.

The patronage that will be available to a new hotel consists of commercial travelers conducting business in the area, visitors to area residents and social functions, leisure travelers visiting area attractions, festivals and recreational opportunities. In addition, the proposed hotel's extended stay suites will attract commercial travelers on assignment, relocating employees and people waiting for a new home or for a transaction to be completed.

### **Commercial Demand**

Commercial demand occurs steadily throughout the year with little seasonal fluctuations other than a decline in business travel during holiday periods. This segment of demand occurs mostly during the weekdays. It originates from vendors, customers, sales meetings, and other business-related travelers in the area.

Commercial travelers generally seek out franchised hotels that are located near their business destination. Since they are typically on expense accounts, many seek out the newer and higher quality hotels.

Jordan Transformer reported that their customers frequently remain in Jordan for two to three days and estimate that they generate some 300 roomnights annually. Also, the SCALE Regional Public Safety Training Facility requires lodging for trainers as well as some of the out-state participants.

### **Leisure Demand**

The Leisure demand segment consists primarily of attendees at weddings, funerals, and other social gatherings, visitors to local friends and relatives, visitors to the Valley Fair amusement park, activities at the Renaissance Festival grounds, and visitors to the area's special events. This market segment is largest during the summer months, when leisure travel is at its peak, and reaches its low point in December and January. The fact that occupancy at area hotels increases and they charge significantly higher room rates during the summer indicates that summer demand is strong in the market. Leisure demand is typically more price sensitive than commercial demand.

Jordan hosts several youth athletic events that draws visitors. Many of these are held at the Community Center which opened in 2015, The Center features three side-by-side gymnasiums that are used to host basketball, volleyball and wrestling tournaments. The Mini Met also hosts several baseball tournaments.

### **Group Demand**

Group business is generated by area employers who hold training sessions, sales meetings and planning sessions, government agencies, associations, wedding parties and other social events.

There are three businesses in the immediate Jordan area that host weddings nearly every summer and fall weekend: The Ridges at Sand Creek golf club, the Renaissance festival, and the Minnesota Harvest Orchard. Guests at these events typically stay in Shakopee, however, the proposed hotel would be much closer and more convenient.

## **AREA HOTEL MARKET PERFORMANCE**

Five hotels in Shakopee are considered to be competitive with a new Jordan hotel: three are upper midscale quality and two are midscale quality. Two other midscale hotels located in Belle Plaine and New Prague are also considered to be somewhat competitive.

The hotels in Shakopee accommodate demand from Jordan because there are no hotels there. Thus, a new Jordan hotel would capture the bulk of this business, although some visitors may still go to Shakopee due to brand loyalty. Similarly, a new Jordan hotel would recapture demand that has been diverted to the Belle Plaine hotel only eight miles away. The proposed GrandStay, being newer and of higher quality, would capture some demand from the older hotels in Belle Plaine and New Prague.

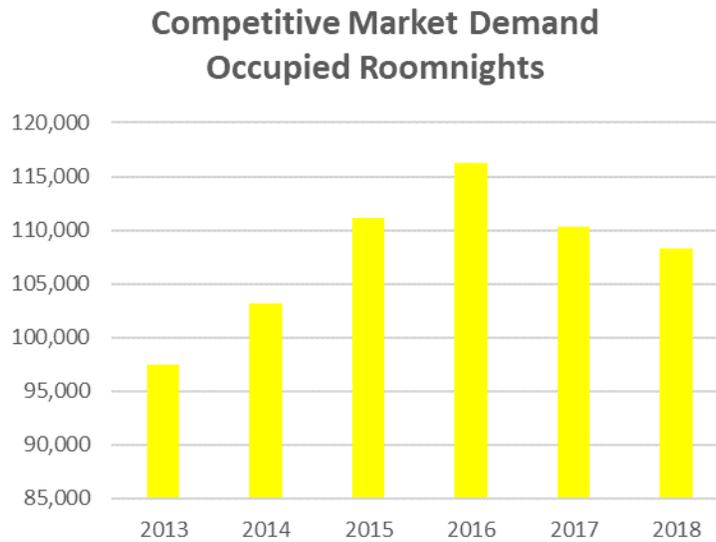
In order to assess the recent business trends in the Jordan area lodging market, detailed performance data for the competitive hotels was obtained from STR Global, a well-known research firm that collects and provides lodging data to the industry. The Home Town Suites and the Quality Inn do not contribute to STR's data base, so their performance is not included in the lodging data obtained. Included in the STR sample is a 127-room Baymont Inn located in Shakopee. After an inspection of the property and a discussion with local city officials, the hotel was determined to not be competitive. Because of its large size and low performance, it has negatively affected the overall market performance.

### **Historic Lodging Demand**

As shown in the graph below, the hotel demand accommodated by the six hotels in the sample (includes the Baymont Inn) increased at a compound average annual rate of 6.1 percent between 2013 and 2016, aided somewhat by the addition of the 94-room Holiday Inn Express (a supply increase of 21 percent) in the spring of 2013. The market then experienced a 5 percent decline in 2017 and another 2 percent decline in 2018. Even with these recent declines, lodging demand has increased over the last five years at an average annual compound rate of 2.1 percent.

A discussion with Shakopee's Director of Planning and Development attributed the decline to the city's older lodging supply and renovations at the Baymont Inn (175 rooms) that resulted in a large number of rooms out of

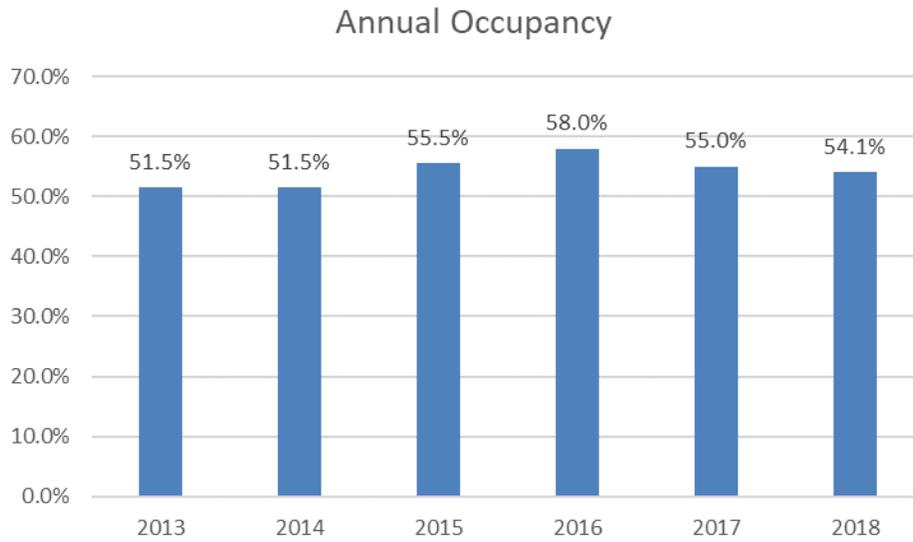
order, but still in the rooms inventory. He was not aware of any decline in overall lodging demand and noted that some employers were sending visitors to hotel in Bloomington because the local upscale hotels were full and the other hotels were not of acceptable quality.



Source: STR Global

The recent decline in demand has caused the occupancy of the competitive hotel supply to fall three points in 2017 and another 1 point in 2018. We believe that fluctuating business levels at the 175-room Baymont Inn have played a part in these declines. As the oldest property and the largest in the competitive supply, its recent franchise changes and condition distorts somewhat the performance of the newer hotels. When the Baymont is eliminated from the competitive supply, the sample’s occupancy increases to 60 percent.

The recent occupancy trend for the competitive market is shown in the following graph, which includes the Baymont Inn.



Source: STR Global

### Estimated Hotel Performance

Since performance measures for individual hotels are not provided, the occupancy and average rate was estimated for each hotel judged to be competitive with a new hotel in Jordan. These hotels are summarized in the following table.

As would be expected, the three upper midscale hotels outperformed the midscale hotels. They achieved an estimated combined occupancy of 69 percent in 2018 and an ADR of \$114. This compares to the combined annual 45 percent occupancy and \$89 ADR of the three midscale hotels in the sample. After eliminating the estimated performance of the Baymont Inn from the sample, the two remaining midscale hotels achieved an estimated combined occupancy of 58 percent and an ADR of \$95. The upper midscale hotels achieved an occupancy that was 11 points higher and an average rate premium of \$19 over the midscale hotels.

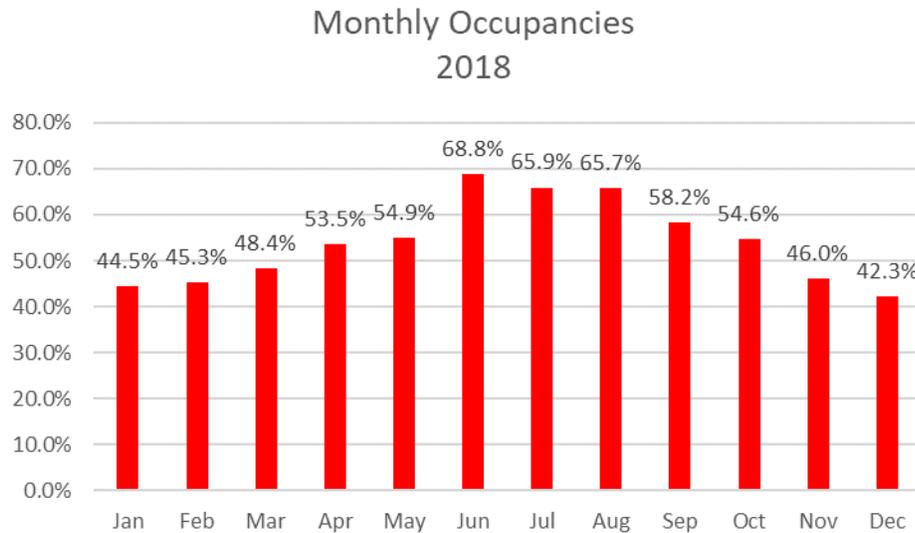
As a reference, the annual 2018 occupancy of the overall Twin Cities market was 67.6 percent and the adjacent Bloomington market experienced a 71.6 percent occupancy. It appears that the performance of the Shakopee lodging market is being hampered by the large supply of older midscale hotels.

**JORDAN COMPETITIVE HOTELS**

Hotel	Location	Quality	Age	Estimated 2018		Amenities
				Occupancy	ADR	
Country Inn & Suites	Shakopee	Upper midscale	22 Years	60-65%	\$105-\$110	Pool, hot tub, fitness room, fridge & microwave, meeting room (20), breakfast
Hampton Inn	Shakopee	Upper midscale	9 Years	60-65%	\$120-\$125	Pool, fitness room, meeting room (960 s.f.), breakfast
Holiday Inn Express & Suites	Shakopee	Upper midscale	6 Years	60-65%	\$110-\$115	Pool, fitness room, meeting room (900 s.f.), breakfast
AmericInn Lodge & Suites	Shakopee	Midscale	17 Years	55-60%	\$95-\$100	Pool, hot tub, sauna, small meeting room (800 s.f.), breakfast
Best Western	Shakopee	Midscale	24 Years	55-60%	\$95-\$100	Pool, hot tub, breakfast, fridge& microwave,
Secondary Competition: Home Town Inn & Suites	Belle Plaine	Midscale	21 Years	60-65%	\$75-\$80	Pool, whirlpool, fridge & microwave, 2 small meeting rooms, restaurant, gift shop
Quality Inn & Suites	New Prague	Midscale	22 Years	<u>60-65%</u>	<u>\$85-\$90</u>	Pool, fridge & microwave, meeting room (300 s.f.)
Totals				64%	\$103	

### SEASONALITY

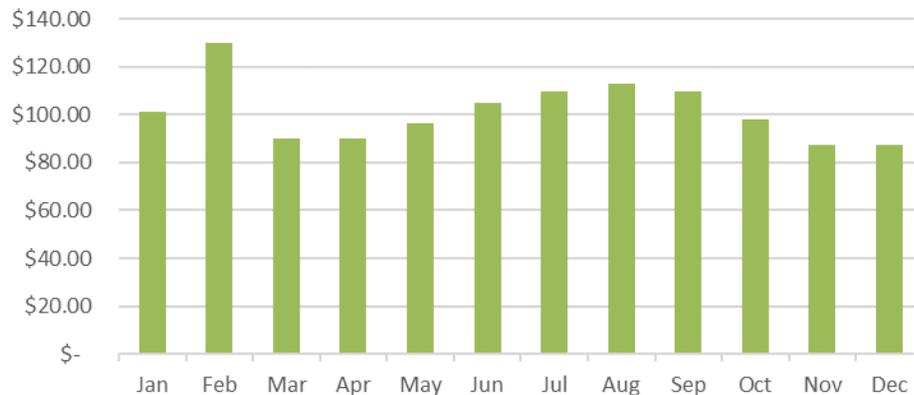
The seasonality of demand is an important component in determining the size of a new hotel and projecting its annual occupancy. Monthly performance data for the sample obtained from STR Global shows that lodging activity peaks in the summer, when occupancies are 20 to 25 occupancy points higher than the levels experienced during the winter. Thus, for a new hotel in Jordan to achieve a viable occupancy level on an annual basis, its size will be such that it will experience some capacity nights during the summer peak and during large local events.



Source: STR Global

As shown in the following graph, the Average Daily Rate (ADR) pattern follows the monthly occupancy trend. When demand is high, hotels can charge higher room rates, while during the slower winter months, they sometimes discount room rates to compete effectively for the reduced level of demand.

### Competitive Market Average Daily Rate (2018)



Source: STR Global

The spike that occurred in February 2018 was a result of the extremely high hotel demand during the Super Bowl hosted in Minneapolis. In the month of February, the hotel demand in the Twin Cities metropolitan area was 17 percent higher than the previous year and the average daily rate was 47 percent higher.

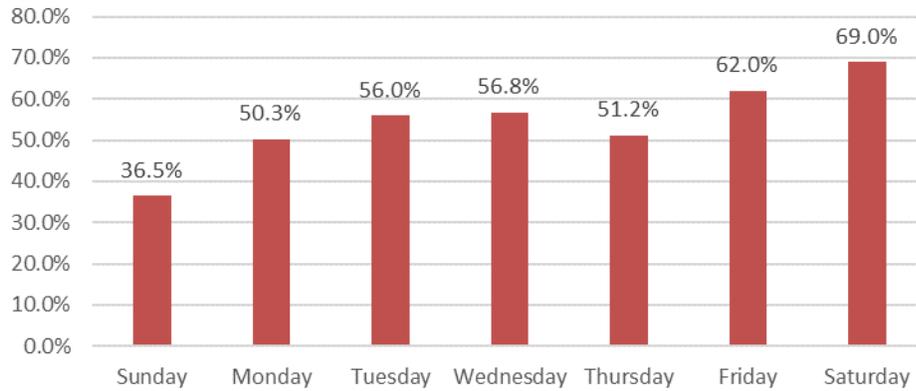
#### Market Mix

It is important to identify the mix of business in a lodging market since the different segments have different demand patterns and room rate characteristics. Shown below is the weekly occupancy pattern for the six hotels in the sample.

The chart shows that Friday and Saturday are the highest occupancy nights of the week. This contrasts with markets that are driven by commercial demand which peaks during the week. This pattern indicates two important characteristics of the market:

1. There is a large amount of weekend leisure demand; and
2. Commercial demand, while stable throughout the week, is somewhat weak relative to the supply of hotel rooms.

**Competitive Market  
Weekly Occupancy**



Source: STR Global

After eliminating the Baymont Inn and adding the two hotels in Belle Plaine and New Prague, the mix of the lodging demand in the seven competitive hotels is estimated to consist of the following:

**COMPETITIVE MARKET MIX**

<b>Market Segment</b>	<b>Occupied Rooms</b>	<b>Percent of Total</b>
Commercial	42,000	40%
Leisure	48,000	45%
Group	16,000	15%
<b>Total</b>	<b>106,000</b>	<b>100%</b>

## **SECTION 7: UTILIZATION PROJECTIONS**

In this section of the report the projected growth characteristics of the area’s lodging demand is presented in order to determine the future strength of the competitive market and calculate the share which the planned hotel could expect to capture within its competitive set. The projected utilization of the hotel is then presented, based on the expected growth in lodging demand and the hotel’s competitive advantages and disadvantages, which will determine the share of the lodging market it would capture. The hotel’s projected average daily rate is then presented.

### **PENETRATION ANALYSIS**

A new hotel in Jordan would accommodate the locally generated lodging demand, capture some demand that seeks higher quality rooms from Belle Plaine and New Prague, capture some travelers from Highway 169, and provide additional capacity for business peaks during festivals and athletic events. It would also occasionally accommodate leisure travelers visiting attractions in the southern suburbs, such as Valleyfair Amusement Park, Canterbury Downs, and the Minnesota Zoo.

Jordan’s lodging demand, because it has no hotels, is displaced primarily to hotels in Shakopee, as well as to the Home Town Suites in Belle Plaine. It is also expected to capture some demand from New Prague. The subject hotel’s “fair share” is determined by calculating the ratio of the rooms available at the proposed hotel to the total number of competitive rooms available within the market. Because of the age and quality of the Baymont Inn in Shakopee, it was excluded from the penetration analysis.

The fair share calculation was applied to the demand that existed within the competitive hotels in 2018, because these hotels accommodate Jordan demand. The new upper midscale GrandStay is expected to re-capture most of the demand that has been deterred to the upper midscale and midscale hotels identified in the competitive supply. The two new hotels under construction in Shakopee (Fairfield Inn & Suites and My Place Hotel) will duplicate the quality of hotels already operating in Shakopee, so are not expected to

exert any significant additional competitive pressure on the Jordan market. Rather, they will compete for demand originating in Shakopee. Therefore, the two new hotels were not included in the fair share calculation.

The fair share calculation reflects the market share that the hotel could expect to capture if all available rooms in the market were favored equally by potential guests and choices were made on a purely random basis. The planned 69 rooms represent 13.2 percent of the competitive supply of seven hotels ( $69/523 = 13.2\%$ ). Thus, the proposed hotel's fair share of the identified demand is 13.2 percent of the estimated 106,000 occupied roomnights or 14,000 roomnights.

My analysis indicates that the subject hotel will likely capture less than its fair share of the Belle Plaine and the New Prague market. Reducing the fair share against the two hotels in these markets results in a penetration equal to 93 percent of fair share, or 12,900 roomnights captured from the seven competitive hotels. While the newness of the hotel will provide a competitive advantage for demand originating in Jordan, it must be recognized that some local demand will still choose lodging in Shakopee because of the restaurants, shopping and variety of franchised hotels that exist in that community.

A new hotel of the quality proposed will bring additional lodging demand into the Jordan market. Sources of this demand include:

- The new rooms will provide additional capacity to accommodate demand arising from athletic contests and the Renaissance Festival;
- Shakopee hotels experience a large number of capacity nights during the summer from families drawn to the southwestern suburbs by Valley Fair and the other attractions in the area;
- The availability of new hotel facilities will capture some demand that seeks higher quality rooms from the independent hotel in Belle Plaine and the older hotel in new Prague, as well as some local demand that has gone to the Belle Plaine hotel due to its convenient location.
- The extended stay suites with kitchens at the proposed GrandStay hotel will attract long term guests; and

- The availability of new hotel facilities will encourage local residents to host more social events and will attract some through travelers on Highway 169.

Based on the market analysis, it is estimated that an additional 2,000 roomnights can be generated in the market by the new hotel.

## **PROJECTED LODGING DEMAND**

Estimates of future lodging demand were developed from analysis of the composition of the market demand, the area's population forecasts, historic demand growth trends, and industry forecasts.

### **Lodging Demand Growth**

In estimating future levels of lodging demand that can be captured by the proposed hotel, the following factors were considered:

- Jordan's population is projected to increase at a compound annual rate of 1.1 percent through 2030.
- Jordan should continue to benefit from the improvements to Highway 169 with increased commercial and industrial activity.
- Nationally, improved economic conditions and increased travel by Baby Boomers is forecast to result in continued growth in leisure travel.
- Industry analysts project that nationally demand will increase at 1.9% and 1.7% over the next two years.

Based on these factors of anticipated population growth and commercial development, we have assumed an annual 2.0 percent growth in Jordan's base lodging demand for projection purposes.

The projected growth rate applied to the level of estimated demand existing in 2018, plus the turnaways and the new business produces the following projected lodging demand for the proposed hotel:

**PROJECTED JORDAN MARKET GROWTH**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Base Demand	12,900	13,158	13,421	13,690	13,963	14,243	14,527	14,818
Turnaways				600	600	600	600	600
New demand				1,380	1,407	1,435	1,464	1,493
Total	12,900	13,158	13,421	15,669	15,971	16,278	16,592	16,911
Increase		2.0%	2.0%	16.7%	1.9%	1.9%	1.9%	1.9%

Based upon an assessment of the market demand, the potential utilization for the recommended hotel's first five full years of operation has been estimated, assumed to begin in 2021 and stabilize in 2023. In developing the utilization estimates, several key assumptions were made including the following:

- The hotel will obtain and be operated under a GrandStay Hotel franchise;
- Amenities at the hotel will include an indoor pool and a meeting room;
- The planned pub will remain in continuous operation;
- The hotel will be managed by competent personnel;
- Hotel management will implement a comprehensive program of on-going maintenance covering all facilities, furnishings and equipment;
- Management will conduct an aggressive program of pre-opening marketing and will continue an effective program of advertising and group promotions targeted toward area groups and social gatherings throughout the projection period; and
- No new hotels, other than the subject, will be constructed in Jordan or Belle Plaine during the projection period.
- In addition, all findings, estimates, assumptions and conclusions discussed in this report are integral parts of the analyses and estimates that follow.

### PROJECTED OCCUPANCY

In order to calculate the occupancy that the subject hotel is likely to achieve, the performance of the other competitive hotels was analyzed along with the lodging demand that is generated by area employers and activities in the Jordan area.

The proposed hotel will be the newest hotel in the market and will be the only hotel in Jordan. Therefore, it will have minimal competition for lodging demand originating in the primary market, especially the wedding and other social-related demand. It will also be conveniently located to the area’s leisure attractions.

Taking into consideration these factors, the planned lodging facility is projected to reach a stabilized market penetration in all three segments by its third year and achieve annual occupancies that range from 56 percent to 67 percent over its first five years of operation:

**Projected Market Mix and Occupancy  
69 Rooms**

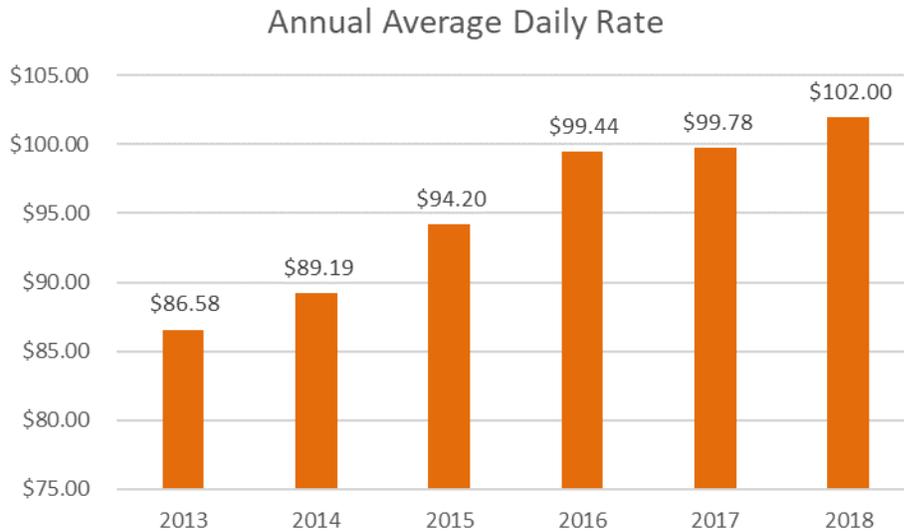
<b>Market Segn</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Commercial	4,900	5,300	5,700	5,800	5,900
Leisure	6,100	6,600	7,000	7,200	7,300
Group	3100	3300	3600	3600	3700
<b>Totals</b>	<b>14,100</b>	<b>15,200</b>	<b>16,300</b>	<b>16,600</b>	<b>16,900</b>
Occupancy	56%	60%	65%	66%	67%

Occupancies projected for the first two years are lower than the stabilized level of operation achieved in the third year, as the hotel will require time to develop its marketing program and to maximize public awareness of the hotel facilities.

### PROJECTED AVERAGE RATE

The rate of increase in average daily rate for the competitive hotel sample showed little increase in 2017 but increased by 2.2 percent in 2018. In each of the two years prior to 2017, ADR increased by 5.6 percent. The ADR has increased by an average annual compound rate of 3.3 percent over the last five years.

The recent trend in average daily rate for the competitive market sample is shown on the following graph.



Source: STR Global

As with the market occupancy, the Shakopee hotel market’s 2018 ADR falls below the Twin Cities (\$122.66) and Bloomington (\$ 123.47)

Projections of the average daily rate for the planned hotel were developed from an analysis of the quality and pricing structure of the other area hotels, as well as historical market performance. As shown in the table below, current rates for guest rooms at the competitive area hotels range from \$80 to \$143 and rates for suites ranged from \$99 to \$153. The proposed GrandStay Hotel is upper midscale quality, similar to the Hampton Inn, Holiday Inn Express & Suites, and the Country Inn & Suites. The other hotels are midscale quality and therefore command lower room rates.

**JORDAN COMPETITIVE HOTELS**

Hotel	Quality	Age	Rack Rates (2019)		Estimated 2018	
			Regular	Suite	Occupancy	ADR
Country Inn & Suites	Upper midscale	22 Years	\$102	\$124-\$131	60-65%	\$105-\$110
Hampton Inn	Upper midscale	9 Years	\$143	\$153	60-65%	\$120-\$125
Holiday Inn Express & Suites	Upper midscale	6 Years	\$127	\$127	60-65%	\$110-\$115
AmericInn Lodge & Suites	Midscale	17 Years	\$99	\$108-\$148	55-60%	\$95-\$100
Best Western	Midscale	24 Years	\$100-\$110	na	55-60%	\$95-\$100
Secondary Competition: Home Town Inn & Suites	Midscale	21 Years	\$80-\$90	\$110-\$130	60-65%	\$75-\$80
Quality Inn & Suites	Midscale	22 Years	\$81-\$85	\$99-\$109	60-65%	\$85-\$90

Source: STR Global and Hospitality Consulting Group

Performance data derived from STR Global estimates that the sample of 6 hotels achieved an overall average rate of \$102.00 in 2018, which was 2.2 percent above the 2017 average rate of \$99.78.

Our analysis of individual hotels calculated the average daily rates of the three upper midscale hotels in 2018 ranged from about \$105 to \$125. Combined, the average rate for the three upper midscale hotels was \$114.50.

The average daily rate at a hotel falls below the rack rates due to the numerous discounts that are offered to guests and large corporate clients. The proposed hotel will operate in a smaller market that has a median household income that is approximately two-thirds of Scott County's median. Based on the analysis, the proposed GrandStay is projected to achieve an average rate of \$102 expressed in 2018 dollars.

The industry-wide ADR is forecasted to increase annually at a rate of 2.3 percent and 2.2 percent over the next two years. The data for the sample of 6 competitive hotels provided by STR Global showed an increase of 2.2 percent in 2018.

For projection purposes, a 2 percent growth factor is applied annually over the projection period. The inflated average rate in 2021, the hotel’s first full year of operation, is projected to be \$108.24.

**PROPOSED GRANDSTAY HOTEL**  
**Projected Average Daily Rate**  
**69 Rooms**

<u>Year</u>	<u>Average Daily Rate</u>
2021	\$108.24
2022	\$110.41
2023	\$112.62
2024	\$114.87
2025	\$117.17

**REVENUE PER AVAILABLE ROOM**

Revenue per available room (RevPAR) combines both occupancy and average daily rate to provide a measure of a hotel’s overall performance. It is used industry-wide to evaluate hotels. The subject hotel’s RevPAR at stabilized occupancy of 65 percent and an average rate of \$112.62, would be nearly \$73. The table below displays the estimated RevPAR for the subject hotel over the projection period.

**GRANDSTAY HOTEL**  
**Projected RevPAR**

<u>Year</u>	<u>Projected Occupancy</u>	<u>Projected Average Daily Rate</u>	<u>Estimated RevPAR</u>	<u>Increase</u>
2021	56%	\$108.24	\$60.60	-
2022	60%	\$110.41	\$66.64	10.0%
2023	65%	\$112.62	\$72.89	9.4%
2024	66%	\$114.87	\$75.71	3.9%
2025	67%	\$117.17	\$78.62	3.8%

## **PROJECTED ROOM REVENUE**

Room revenue is a product of the number of occupied rooms times the hotel’s average daily room rate.

Based on the occupancy and average rate projections developed in this market study, the recommended hotel facilities should be able to achieve the levels of room sales shown in the table below.

**GRANDSTAY HOTEL**  
**Projected Room Revenue**  
**69 Rooms**

	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Available Rooms	25,185	25,185	25,185	25,185	25,185
Occupied Rooms (Rounded)	14,100	15,200	16,300	16,600	16,900
Annual Occupancy	56%	60%	65%	66%	67%
Occupied Rooms (Rounded)	14,100	15,200	16,300	16,600	16,900
Average Daily Rate	\$108.24	\$110.41	\$112.62	\$114.87	\$117.17
Room Sales (Rounded)	\$1,526,000	\$1,678,000	\$1,836,000	\$1,907,000	\$1,980,000

## **SECTION 8: FINANCIAL PROJECTIONS**

Estimates of cash flow from operations before debt service have been prepared for the first five years of operation for the proposed hotel, expected to complete its first full year in 2021. The major assumptions as to the hotel occupancy and room rates are noted at the top of the projection columns and have been developed from an analysis of the local lodging market. The operating expense projections are derived from an analysis of income statements of several limited service hotels along with industry data for small limited service hotels.

Room revenues reflect an annual increase of 2.0 percent in average daily rate and expense categories have been inflated at an annual rate of 2.0 percent. Many of the expenses were projected on an amount per occupied room basis, while the relatively fixed expenses reflect only inflationary increases. The projected Utility expense has both a fixed and a variable component.

The financial projections on the following page are presented in the reporting format that is suggested by the Uniform System of Accounts for Hotels. This allows for comparison to industry data.

### **NOTES TO FINANCIAL PROJECTIONS**

#### **Revenue**

**Guest Room Revenue** projections are based upon the occupancy and average rate estimates previously presented.

**Vending Revenue** is income from the convenience market and vending machine sales.

**Miscellaneous Income** consists of income from guest laundry, interest and other ancillary revenue sources, net of costs.

#### **Departmental Expenses**

**Rooms Departmental Expenses** include payroll and related benefit expenses for the front desk and housekeeping. It also includes other

**PROPOSED 69-ROOM GRANDSTAY HOTEL**  
**PROJECTED CASH FLOW FROM OPERATIONS BEFORE DEBT SERVICE**

	<u>2021</u>		<u>2022</u>		<u>2023</u>		<u>2024</u>		<u>2025</u>	
OCCUPIED ROOMNIGHTS	14,100		15,200		16,300		16,600		16,900	
OCCUPANCY	56.0%		60%		65%		66%		67%	
ADR	\$108.24		\$110.41		\$112.62		\$114.87		\$117.17	
	<u>AMOUNT</u>	<u>%</u>								
<b>REVENUE:</b>										
Guest Rooms	\$1,526,184	99.5%	\$1,678,232	99.5%	\$1,835,706	99.5%	\$1,906,842	99.5%	\$1,980,173	99.5%
Vending	4,489	0.3%	4,936	0.3%	5,399	0.3%	5,608	0.3%	5,824	0.3%
Miscellaneous Income (net)	3,815	0.2%	4,196	0.2%	4,589	0.2%	4,767	0.2%	4,950	0.2%
<b>Total Revenue</b>	<b>1,534,488</b>	<b>100.0%</b>	<b>1,687,363</b>	<b>100.0%</b>	<b>1,845,694</b>	<b>100.0%</b>	<b>1,917,217</b>	<b>100.0%</b>	<b>1,990,947</b>	<b>100.0%</b>
<b>DEPARTMENTAL EXPENSES:</b>										
Rooms Departmental Expenses	354,145	23.2%	378,856	22.6%	404,412	22.0%	417,408	21.9%	430,762	21.8%
Vending Expenses	1,347	30.0%	1,481	30.0%	1,620	30.0%	1,682	30.0%	1,747	30.0%
<b>Total Departmental Expenses</b>	<b>355,492</b>	<b>23.2%</b>	<b>380,336</b>	<b>22.5%</b>	<b>406,032</b>	<b>22.0%</b>	<b>419,090</b>	<b>21.9%</b>	<b>432,509</b>	<b>21.7%</b>
<b>Total Departmental Profit</b>	<b>1,178,996</b>	<b>76.8%</b>	<b>1,307,027</b>	<b>77.5%</b>	<b>1,439,662</b>	<b>78.0%</b>	<b>1,498,127</b>	<b>78.1%</b>	<b>1,558,438</b>	<b>78.3%</b>
<b>UNDISTRIBUTED OPERATING EXPENSES</b>										
Administrative & General Expenses:	139,758	9.1%	146,954	8.7%	154,381	8.4%	158,715	8.3%	163,164	8.2%
Information & Telecommunications	18,397	1.2%	18,765	1.1%	18,815	1.0%	19,192	1.0%	19,250	1.0%
Marketing Expenses	61,047	4.0%	67,129	4.0%	73,428	4.0%	76,274	4.0%	79,207	4.0%
Franchise Fee	91,571	6.0%	100,694	6.0%	110,142	6.0%	114,411	6.0%	118,810	6.0%
Utilities	81,100	5.3%	85,940	5.1%	90,877	4.9%	92,250	4.8%	93,429	4.7%
Property Operations & Maintenance:	43,138	2.8%	60,605	3.6%	69,489	3.8%	71,513	3.7%	73,591	3.7%
<b>Total Undistributed Operating Expenses</b>	<b>435,011</b>	<b>28.3%</b>	<b>480,087</b>	<b>28.5%</b>	<b>517,132</b>	<b>28.0%</b>	<b>532,354</b>	<b>27.8%</b>	<b>547,451</b>	<b>27.5%</b>
<b>INCOME BEFORE FIXED CHARGES</b>	<b>743,985</b>	<b>48.5%</b>	<b>826,940</b>	<b>49.0%</b>	<b>922,530</b>	<b>50.0%</b>	<b>965,773</b>	<b>50.4%</b>	<b>1,010,988</b>	<b>50.8%</b>
<b>FIXED CHARGES</b>										
Insurance	21,967	1.4%	23,312	1.4%	24,738	1.3%	26,253	1.4%	27,859	1.4%
Real Estate Taxes	109,835	7.2%	112,032	6.6%	114,272	6.2%	116,558	6.1%	118,889	6.0%
Management Fee	61,047	4.0%	67,129	4.0%	73,428	4.0%	76,274	4.0%	79,207	4.0%
Replacement Reserve	30,524	2.0%	50,347	3.0%	73,428	4.0%	76,274	4.0%	79,207	4.0%
<b>Total Fixed Charges</b>	<b>223,373</b>	<b>14.6%</b>	<b>252,820</b>	<b>15.0%</b>	<b>285,867</b>	<b>15.5%</b>	<b>295,358</b>	<b>15.4%</b>	<b>305,162</b>	<b>15.3%</b>
<b>CASH FLOW BEFOR DEBT SERVICE</b>	<b>\$520,612</b>	<b>33.9%</b>	<b>\$574,121</b>	<b>34.0%</b>	<b>\$636,663</b>	<b>34.5%</b>	<b>\$670,415</b>	<b>35.0%</b>	<b>\$705,825</b>	<b>35.5%</b>

miscellaneous rooms expenses such as breakfast expense, cleaning and guest room supplies, cable TV fees, linens and cleaning supplies, and other direct operating costs for the rooms department. The payroll component of this expense is relatively fixed, varying only slightly in response to changes in occupancy, as housekeeping staff and certain other hourly workers have variable schedules.

**Vending Expenses** refers to the cost of items sold in the convenience market and vending machines.

### **Undistributed Operating Expenses**

**Administrative and General Expenses** include management and administrative payroll and the general costs associated with operating the hotel facility, including credit card commissions, bank charges, professional fees, travel and entertainment and other miscellaneous costs.

**Marketing Expenses** include the costs associated with advertising, sales and promotion, and include travel agent commissions, promotional materials, and other promotional expenditures. Included in this expense is the Marketing Fee assessed by GrandStay equal to 2 percent of room revenue.

**Franchise Fees** – This fee of 1 percent of room sales is paid to GrandStay Hospitality to support the loyalty program.

**Utilities** expense includes costs related to heating and cooling, electricity, gas, water and sewer. Utilities expense is projected from a base of \$5.40 per occupied room and includes both a fixed and a variable portion.

**Property Operations & Maintenance** expenses includes the costs associated with repairs, maintenance, grounds keeping, and other related property operating costs. This expense is reduced in the early years as the facility will be new and the equipment under warranty.

### **Fixed Charges**

**Property tax** expense is projected from an estimate of \$1,500 per room which was derived from the actual expense incurred by existing hotels

**Insurance** expense is projected to be \$300 per room, similar to the premiums paid by other hotels with pools.

**Management Fee** – The hotel is assumed to be managed by an outside management company for a fee equal to 4.0 percent of room revenue.

**Replacement Reserve** represents funds that will be set aside from operating cash flow to fund the future cost of replacing and upgrading furnishings and fixtures in the facility that will be required to maintain its competitive standing in the market on a continuing basis. This reserve is calculated at 2.0

percent of projected total revenue in the first year, increasing by an additional 1.0 percent of revenue in each of the next two years and stabilizing at 4.0 percent.

## **ECONOMIC FEASIBILITY ANALYSIS**

In order to test the economic feasibility of the project, an analysis of the hotel’s ability to generate sufficient funds to cover its estimated debt service was calculated.

### **Project Cost Assumptions**

The developer provided an estimated total project cost of \$10,693,000, which includes a land cost assumption of \$450,000. The cost of the land equals \$6,522 per key. The project cost also includes 7,000 square feet of commercial space for the pub and the co-working facility.

### **Additional Income Stream Assumptions**

The hotel project also includes a 3,500-square foot pub on the north end of the building and a 3,500-square foot co-working space on the south end. The developer expects to obtain triple net leases on these spaces in the amount of \$20 per square foot. These leases would contribute an additional \$140,000 of revenue annually for the project. Hospitality Consulting Group did not conduct any investigation into rental rates in the Jordan market and therefore do not take any responsibility for the achievability of these leases.

### **Financing Assumptions**

For analysis purposes we have assumed a 40 percent equity investment of \$4,277,200, leaving a loan of \$6,415,800 to provide funds for the \$10,693,000 total project cost.

#### Source of Funds:

Equity	\$4,277,200	40%
Debt	<u>6,415,800</u>	<u>60%</u>
	\$10,693,000	100%

## Debt Term Assumptions:

Annual Interest Rate:	5.75%
Amortization:	20 years
Annual Payment:	\$537,954

The results of this analysis are presented in the following table.

**Economic Feasibility Analysis**

Estimated Project Cost: \$10,693,000

40% Equity; 60% Debt

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Cash Flow Avail. for Debt Service	\$520,612	\$574,121	\$636,663	\$670,415	\$705,825
Lease Income	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>
Total Cash Flow	\$660,612	\$714,121	\$776,663	\$810,415	\$845,825
Debt Service	\$537,954	\$537,954	\$537,954	\$537,954	\$537,954
<b>Debt Service Coverage Ratio</b>	<b>1.23</b>	<b>1.33</b>	<b>1.44</b>	<b>1.51</b>	<b>1.57</b>
Cash Flow to Equity	\$122,659	\$176,167	\$238,710	\$272,462	\$307,872
Equity	\$ 4,277,200	\$ 4,277,200	\$ 4,277,200	\$ 4,277,200	\$ 4,277,200
<b>Return on Equity</b>	<b>2.9%</b>	<b>4.1%</b>	<b>5.6%</b>	<b>6.4%</b>	<b>7.2%</b>

A debt coverage ratio (cash flow/annual debt service) of a minimum of 1.2 times is required and 1.4 times is typically preferred by lenders. This analysis shows that the hotel is projected to generate sufficient cash flow to meet its debt service requirements with a comfortable debt coverage margin after the second year. Also, in this simple analysis, the projected cash on cash return on equity is 5.6 percent once the hotel reaches its stabilized level of operation in the third year and is projected to increase to 7 percent by the fifth year.

Hotel investors typically like to see cash on cash returns of at least 10 percent, which this project does not achieve over its first five years. These returns are on the low range of economic feasibility.

*The financial projections are based on the results of the market study and analysis of comparable hotel operating data. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will vary from our projections and the variations may be material. Further, we are not responsible for future marketing efforts and other management actions upon which actual results will depend.*

# ADDENDUM

## **CONSULTANT QUALIFICATIONS HOSPITALITY CONSULTING GROUP**

*Stephen Sherf – President, Hospitality Consulting Group*

Stephen Sherf has over 35 years of consulting experience in the hospitality industry. He spent 15 years with a large national public accounting firm, where he was the partner-in-charge of the hospitality consulting division for the Upper Midwest. He also started a gaming consulting company where he worked for 15 years, and most recently, founded a hospitality consulting company. He is presently active as a sales agent with Minneapolis-based Leines Hotel Advisors.

Mr. Sherf has an extensive background in hospitality consulting that encompasses market studies, valuations, appraisals, acquisitions and sales. He has performed market studies and other advisory services for over 200 hotel projects located mainly throughout the Midwest for clients that include developers, lenders, hotel companies, and municipalities.

He also has particular expertise in development consulting to the gaming industry and has worked on numerous income producing real estate projects that include nursing homes, elderly housing, subsidized and market rate housing, office buildings, retail developments, convention centers, ice arenas, restaurants, convenience stores, bowling alleys and cinemas.

Operating positions held during Mr. Sherf's career include restaurant manager, auditor, Vice President of Development for a hotel company with 13 properties, and Treasurer for a gaming company where he oversaw the operations of three Colorado casinos.

Mr. Sherf is known for his hands-on involvement and realistic conclusions. Where appropriate, development recommendations are backed by an economic feasibility analysis and a sensitivity analysis to assess risk.

He has provided expert witness testimony relating to the valuation of hotels and restaurants and business interruption claims. He has taught continuing education seminars and spoken at gaming, investment, and state appraisal conferences. He has been a guest lecturer at the University of Minnesota Graduate School of Business and Stout University. He is frequently quoted in local newspapers and business magazines.

Mr. Sherf received an undergraduate degree in economics and an MBA in finance from Cornell University. He holds a real estate license in Minnesota and Wisconsin and has taken several American Appraisal Institute courses. He is a Certified Public Accountant (inactive), is active in the Minnesota Lodging Association, has served on the planning commission for the City of Minnetrista, and has held a Colorado gaming license.