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Hotel Service Network

**ADDENDUM
to the
COMPREHENSIVE HOTEL
MARKET STUDY**

Completed in August, 2013

GLENCOE, MINNESOTA

MAY, 2018

Prepared Exclusively for:

City of Glencoe, Minnesota

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EXHIBITS

- Exhibit 1 - Geographic Relationship of the Subject Market to Minnesota and the Surrounding States
- Exhibit 2 - Geographic Relationship of the Subject Market Area to the Regional Market Area Including the Hotels in the Competitive Set
- Exhibit 3 - City of Glencoe and the Major Lodging Demand Generators and Support Services Including the Subject Site Area
- Exhibit 4 - Closer View of the Proposed Subject Site

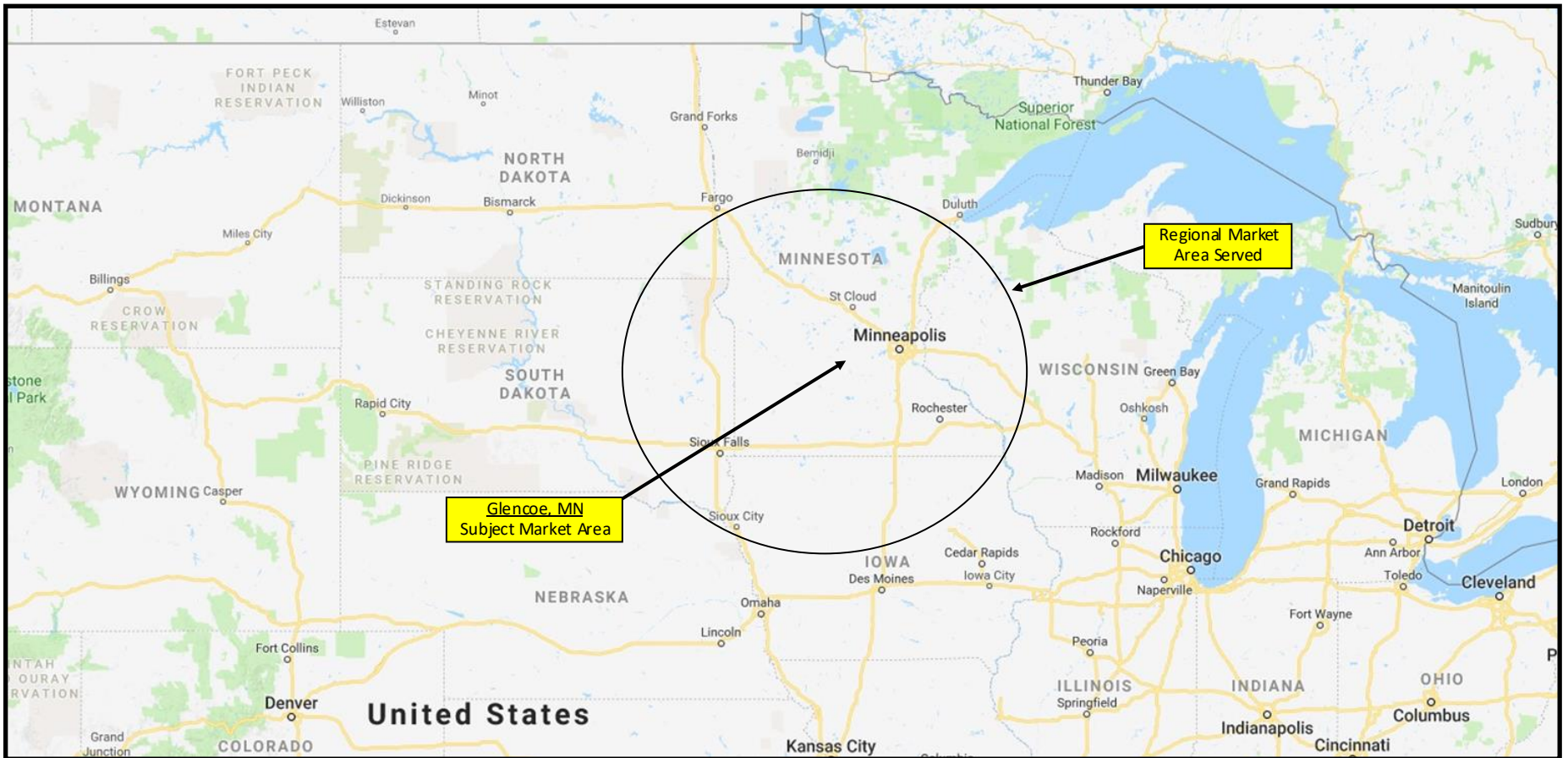


Exhibit 1 — Geographic Relationship of the Subject Market to Minnesota and the Surrounding States

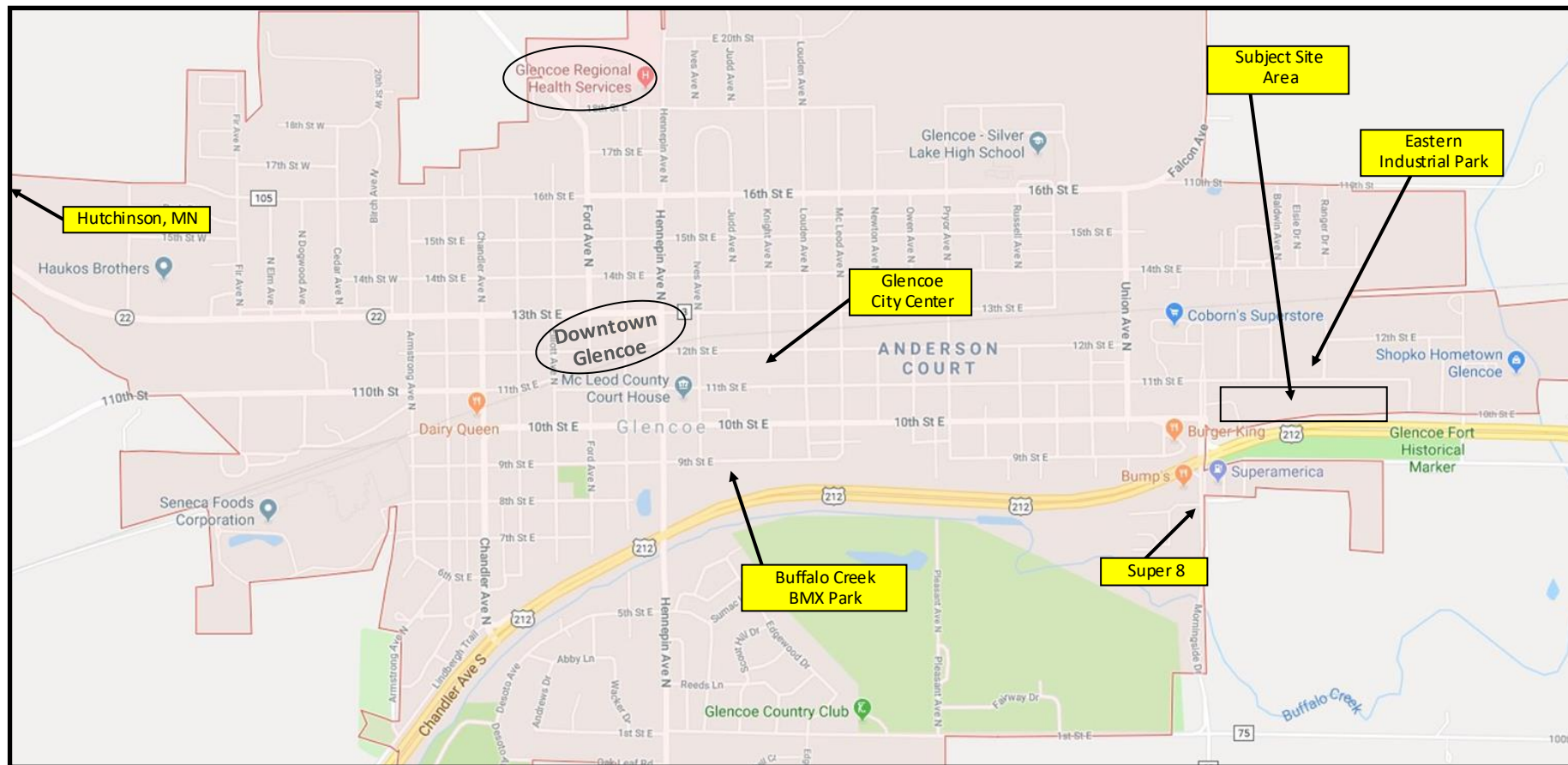


Exhibit 3 — City of Glencoe and the Major Lodging Demand Generators and Support Services Including the Subject Site Area

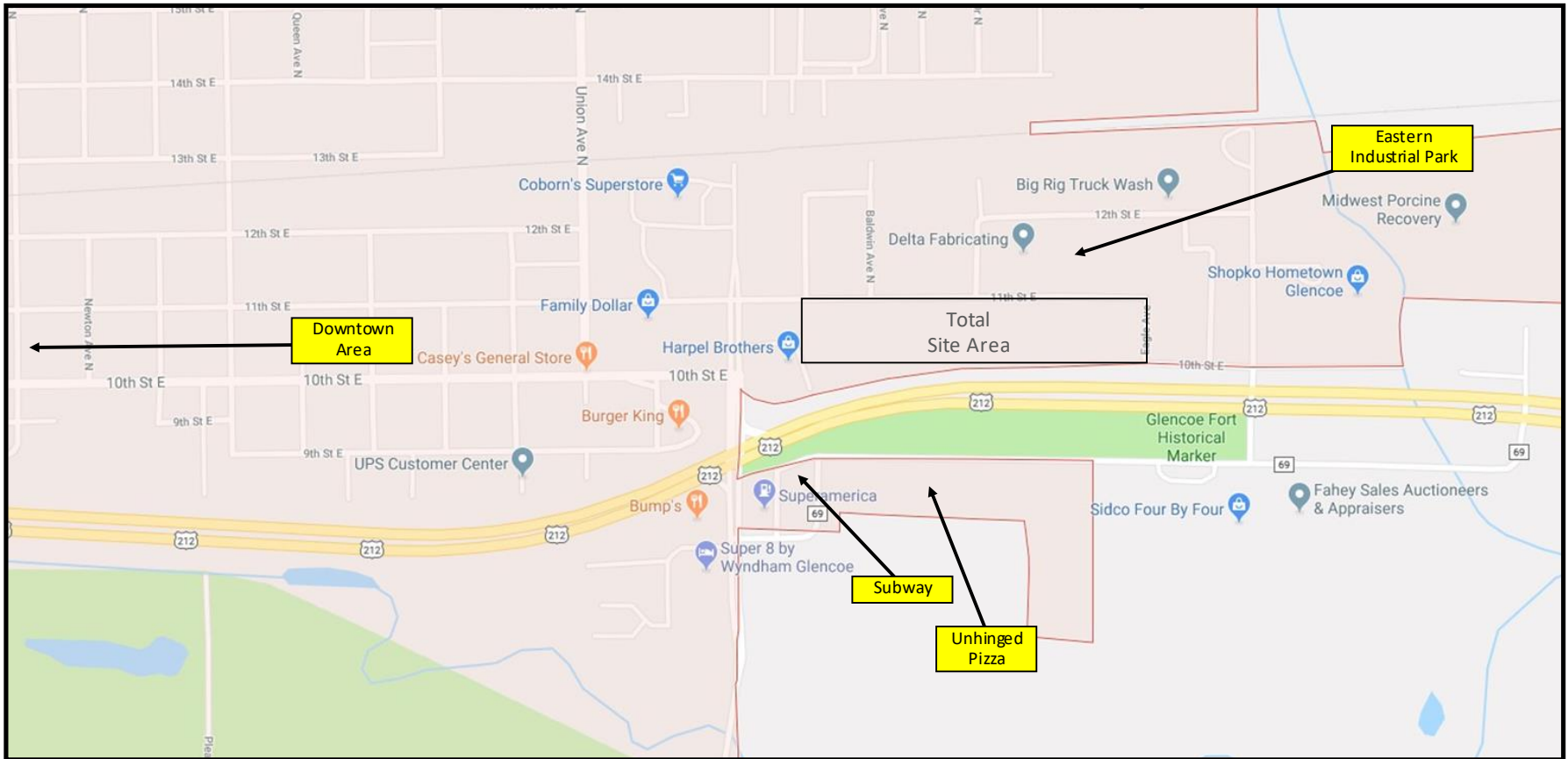


Exhibit 4 — Closer View of the Proposed Subject Site

INTRODUCTION/OBJECTIVE

The following is an Addendum to the Comprehensive Hotel Market Study completed in August, 2013. It updates the research presented in that report with current market data to support the proposed hotel. This Addendum Report was prepared based upon the field research performed by Hospitality Marketers International, Inc. in April, 2018. This report provides an overview of the highlights observed in the City of Glencoe, Minnesota and the surrounding market area. It provides updated preliminary Operational Projections for this market's ability to support a limited service, mid-priced hotel in this market. Based upon the research performed, this report also includes updated preliminary projections for this market supporting a 55-room hotel which is an increase from the 44-room hotel proposed in the original market study.

This report serves as an Addendum Report presenting preliminary Updated Operational Projections and recommendations. Its purpose is to determine if further research of the subject market is necessary and if a more detailed Hotel Market study should be completed. In an updated full Comprehensive Hotel Market Study, these Addendum Report comments would be expanded and presented in detail.

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UPDATED EXHIBITS

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

- Exhibit 1 of this report shows the geographic relationship of the subject market to Minnesota and the surrounding states.
- Exhibit 2 shows the geographic relationship of the subject market area to the regional market area. The hotels in the Competitive Set are also shown.
- Exhibit 3 of this report shows the City of Glencoe and the major Lodging Demand generators and support services. The Subject Site area is also shown.
- Exhibit 4 of this report shows a closer view of the proposed subject site.

UPDATED PROPOSED PROPERTY DESCRIPTION

It was determined that a limited service, mid-priced hotel would be the best fit for this market and this Addendum Report will investigate the potential feasibility of developing a hotel of this style. Based upon the research performed to date, the following recommendations for this type of property were developed:

- PROPERTY TYPE: Mid-Priced
- PROPERTY STYLE: Limited-Service
- PROPERTY SIZE: 55 Rooms
 - It should be noted that this is an increase from the 44-room hotel proposed in the 2013 Comprehensive Market Study. This increase is due to changes in the current market conditions in the surrounding market area.
- SLEEPING ROOM CONFIGURATION:
 - 60-70% Queen Bedded Rooms
 - 30-40% King Bedded Rooms
 - Up to 10% Suites
- PROPERTY SERVICES/AMENITIES
 - Typical of This Product Type and Style:
 - Complimentary Breakfast Area
 - Exercise Area
 - Indoor Pool/Whirlpool - Optional
 - Small Business Center
 - Small Meeting Room
- OPENING DATE: Late winter to early spring (to ramp up for the higher Occupancy months.)
- SUPPORT SERVICES: At this time, support services are located in close proximity to the proposed subject site however it is likely that most guests would need to drive to these support services. The support services are located at the intersection of Morningside Drive and US Highway 212 which serves as the main traffic route through Glencoe. They include Burger King, Subway, Unhinged Pizza, and Bumps Family Restaurant. The proposed site has the potential to include additional support service developments immediately adjacent to the proposed hotel. At this time any development potential is in the preliminary planning stages. Additional food and beverage venues are located throughout the city.

UPDATED OPERATIONAL PROJECTIONS

(Occupancy, Average Daily Room Rates and Sales Revenue)

This Addendum to the Comprehensive Hotel Market Study completed in August, 2013 includes Preliminary Operational Projections for a 55-room property. These updated projections would be reviewed, potentially modified, and expanded in a Comprehensive Hotel Market Study. They are projected for the third full year of operation, which is the estimated stabilized year of operational performance for the proposed hotel.

55-ROOM PROPERTY

Based upon the research performed, the following chart shows the preliminary Operational Projections for Occupancy, Average Daily Room Rates and Sales Revenue for a 55-room, mid-priced, limited service hotel in the third year of operation.

OCCUPANCY

PROJECTED OCCUPANCY							
YEAR	PROJECTED MARKET OCCUPANCY			PROJ. MKT. PENET.	PROJECTED HOTEL OCCUPANCY		
	Low	Probable	High		Low	Probable	High
2020	53.2%	56.0%	58.8%	105.1%	55.9%	58.9%	61.8%
2021	53.8%	56.6%	59.4%	116.8%	62.8%	66.1%	69.4%
2022	54.0%	56.9%	59.7%	122.9%	66.4%	69.9%	73.4%
<i>*Projected performance is +/- 5 percentage points and will be affected by changes in Lodging Supply and Demand growth levels used to formulate these projections.</i>							
<i>Source: HMI</i>							

AVERAGE DAILY ROOM RATE

PROJECTED AVERAGE DAILY ROOM RATE			
YEAR Probable	PROJECTED MARKET ADR	PROJECTED MARKET YIELD	PROJECTED SUBJECT PROPERTY ADR*
High	\$117.21	99.5%	\$116.68
2020	\$111.63		\$111.12
Low	\$106.05		\$105.57
High	\$119.56	104.8%	\$125.28
2021	\$113.86		\$119.31
Low	\$108.17		\$113.35
High	\$120.75	110.3%	\$133.19
2022	\$115.00		\$126.85
Low	\$109.25		\$120.50
* Net ADR equals room revenue plus restaurant, lounge, meeting & conference revenue.			
** Projected performance is +/- 5 percentage points and will be affected by changes in Lodging Supply and Lodging Demand growth levels used to formulate these projections.			
Source: HMI			

REVENUE

PROJECTED REVENUE			
YEAR	PROBABLE ROOM REVENUE	PROJECTED RevPAR	MARKET RevPAR YIELD
2020	\$1,313,324	\$65.42	104.6%
2021	\$1,582,440	\$78.83	122.3%
2022	\$1,779,785	\$88.66	135.6%
<p>* Projected performance is +/- 5 percentage points and will be affected by changes in Projected Occupancy or Projected ADR.</p>			
Source: HMI			

- The above preliminary projections take into account the following:
 - Lodging Demand growth was estimated to grow at a cumulative average rate of 2.31% from 2020 to 2022. This projection is conservative as it is slightly less than the 2.83% average growth rate from 2015-2017 but is slightly higher than the 1.57% average growth rate from 2012-2017. This conservative approach was taken due to Glencoe being a slightly more rural area than some of the more commercial markets included in the Competitive Set discussed later in this report. These projections also take into account the 5.64% growth rate projected for 2018. Projected future Lodging Demand Growth in 2019 is 2.00%, 2.00% in 2010, 1.00% in 2021, and 0.50% in 2022.
 - The 55 rooms of the proposed hotel will be less than the average room count in this market at 67.60-rooms, yielding 122.91% to the average sized property in the Competitive Set which will be defined later in this report. Using this total size yield in the third year of operation allows for a projected third year Occupancy of 69.9%. This does not take into account changes in present economic and competitive factors that could affect these projections.
 - It should be noted that changes to this proposed room count would result in a change in the projected Occupancy of the proposed hotel.
- At the time of this report, new 54-room Cobblestone Inn is planned to open in 2018 in Hutchinson, MN. This new Lodging Supply was factored into these projections.
- An impact factor of 49% was used in these projections to account for the hotel rooms in Hutchinson, Waconia, and Glencoe as these were reported to be the hotel rooms most commonly used by visitors to Glencoe.
- ADR growth is estimated to increase 7.37% in 2018. It is estimated to grow an average of 3.24% per year from 2020 to 2022. This a conservative growth rate when compared to the 4.27% growth rate between 2012 and 2017. Again, this conservative approach was taken due to Glencoe being more rural than the larger commercial areas included in the Competitive Set which tend to have slightly higher rate structures.
- At this time, the proposed hotel was rate-positioned with a 110.3% yield to the ADR of the Statistical Competitive Set. This positioning will be defined in this report as being slightly higher than the average ADR of the Competitive Market Study this rate positioning could change.

UPDATED PRELIMINARY OPERATIONAL PROFORMA

The following Preliminary Operating Proforma depicts the Projected Performance of the proposed 55 room, mid-priced, limited-service property in Glencoe, Minnesota. It is based on the Occupancy and Average Daily Room Rates established in this 2018 Addendum to the Comprehensive Hotel Market Study, completed in 2013. A preliminary scenario was developed for the 55-room, mid-priced, limited-service hotel recommended.

The expense amounts and the GOP in the chart below were calculated by applying the performance results from the mid-priced segment as reported in the *Smith Travel Research Host Report - 2017* on the US Lodging Market for the operational year 2017. This data was thought to represent actual hotels in normal years of operation. In a full Operational Proforma and Investment Analysis, the results in the chart would be expanded with greater detail and would forecast the cash-flow after debt service.

PRELIMINARY OPERATIONAL PROFORMA	
Third Year of Operation: 2022	
Revenue	\$1,817,051
Departmental Expenses	\$473,160
Undistributed Operating Expenses	\$536,757
Gross Operating Profit	\$834,753
<i>*Note: GOP is before Fixed Costs of P&I, Real Estate Tax, Insurance, Management Fees, Franchise Fees & Reserve for Replacement.</i>	
<i>Source: HMI</i>	

UPDATED BENCHMARK DEVELOPMENT COSTS

- The following Benchmark Development Cost chart depicts the support level for this proposed hotel in Glencoe, Minnesota based upon the operational projections for Occupancy and Average Daily Room Rates contained in this report. A scenario was developed for the proposed 55-room limited-service, mid-priced hotel.
- Based on preliminary Occupancy and Average Daily Room Rate projections, Benchmark Development Costs were calculated. These provide a preliminary indication of viability for developing this hotel. More comprehensive feasibility research should be performed to obtain anticipated operational expenses and fixed cost structuring such as debt service, property taxes, insurance, and depreciation. This would in turn formulate a more thorough analysis of the financial viability of this hotel project. Land cost is another factor that will have significant impact on Benchmark Development Costs.
- Benchmark Development Costs include all costs associated with the proposed hotel's development up to its stabilized year of operation: land costs; land preparation costs; development costs; construction/renovation costs; furniture, fixtures and equipment (FF&E); pre-opening operational and marketing expenses; and cash flow shortages. Any other associated development costs would also be part of this calculation. An estimated developmental industry average Occupancy factor of 60.0% was used for this proposed 55-room, limited-service, mid-priced hotel.
- For this proposed hotel, an estimated industry average factor of \$1.375 of Average Daily Room Rate per thousand dollars of development cost was utilized. This factor is in the lower range for a limited-service hotel. The range is typically between \$1.375 - \$1.425 for a limited-service hotel. This lower range is due to land costs, development costs and operational costs (i.e. Real Estate Taxes, Utilities costs, Wage Scales, etc.). Deviations from the developmental Occupancy and Average Daily Room Rate Factors were calculated based upon Occupancy and Average Daily Room Rate Projections established in this report.
- With that in mind, the following preliminary Benchmark Development Costs were calculated.

LIMITED-SERVICE MID-PRICED HOTEL

BENCHMARK DEVELOPMENT COSTS		
	ALLOWABLE COST PER ROOM*	ALLOWABLE TOTAL PROJECT COST*
55 Rooms	\$102,340	\$5,628,719
<i>*These projections will be affected by changes in Projected Occupancy or Projected ADR.</i>		
<i>Source: HMI</i>		

- Ideally, as the developer calculates development costs for this hotel, the total cost should not surpass these preliminary break-even Benchmark Development Costs. Exceeding these Benchmark Development Costs may indicate that the proposed hotel is not financially feasible to pursue. However, projected development costs below these Benchmark Development Costs may indicate that additional research should be performed by the developer to determine the overall economic feasibility of developing this hotel.
- Based upon the 25% equity investment, the Rate of Return for the proposed 55-room hotel was estimated at 15% per year. If the equity investment or Rate of Return is adjusted, it will affect the Benchmark Development Costs.
- The Benchmark Development Cost calculations and the return calculations listed above are only a few of many benchmarks the developer should utilize in determining the feasibility of this project. This calculation does not take into account any present value calculations. These would be calculated in an actual Operational Proforma or in an Analysis of Cash Flow and Return on Investment. The actual Return on Investment should include returns on both the projected sales value and the Cash Flow analysis.

UPDATED GENERAL MARKET

- The City of Glencoe is located in McLeod County in southeast Minnesota.
- The Glencoe market is located along US Highway 212 and State Highway 22.
 - 54 miles west of Minneapolis
 - 15 miles southeast of Hutchinson
 - 60 miles south of St. Cloud
- The chart below gives an overview of the population and per capita income growth in this market area.

POPULATION				
	2011	2016	% CHG.	Avq. Annual % CHG.
City of Glencoe	5,654	5,535	-2.1%	-0.42%
McLeod County	36,719	35,926	-2.2%	-0.43%
State of Minnesota	5,278,190	5,450,868	3.3%	0.65%

AVERAGE FAMILY INCOME				
	2011	2016	% CHG.	Avq. Annual % CHG.
City of Glencoe	\$67,718	\$65,250	-3.6%	-0.73%
McLeod County	\$78,993	\$69,850	-11.6%	-2.31%
State of Minnesota	\$90,120	\$99,626	10.5%	2.11%

PER CAPITA INCOME				
	2011	2016	% CHG.	Avq. Annual % CHG.
City of Glencoe	\$24,155	\$23,650	-2.1%	-0.42%
McLeod County	\$27,704	\$28,241	1.9%	0.39%
State of Minnesota	\$30,310	\$33,225	9.6%	1.92%

Source: US Census-American Fact Finder

- While the estimated Average Family Income in 2013 increased from the \$56,501 estimate, the other areas have decreased. In the 2013 Comprehensive Market Study, the Population in the city was estimated at 5,958 which is higher than the 2016 Population presented above. The Per Capita Income has also decreased since the 2013 hotel study when it was estimated at \$22,875.
- It was reported by the city that the national recession may have had some effect on these numbers. During this time, the city did not lose any major employers, however there were nearby communities that did have some layoffs. There is the potential for the economy in the city to increase as residential developments are currently planned for the city, including a 50-unit multi-family building. Additionally, a number of area companies have expanded or are planning expansions.

- The top industries in Glencoe are:
 - Manufacturing 25.5%; Health and Social Assistance 23.4%; and Retail Trade 12.7%. These represent 61.6% of the employment which is above the desired maximum 50% diversity employment level for the top three industries.
 - This is a change from the 2013 report when the 2011 data showed the leading industry segments in the city as the following: 1) Health and Social Assistance – 30.4%, 2) Educational Services – 13.6%, and 3) Retail Trade – 13.1%. This shows the market growth in the Manufacturing industry.
- Unemployment data for 2016 and 2017 was unavailable for the City of Glencoe. In 2015, unemployment in the City of Glencoe was 3.2% compared to McLeod County at 4.0%, and Minnesota's 3.7% unemployment rate.
 - These rates cannot be compared to the 2013 Hotel Study due to the unemployment rates not being available for the city in 2013. In talking with area officials, it was stated that unemployment in the city has been consistently improving.
 - The average unemployment rate from 2008 to 2017 was 6.5% in the city compared to 6.2% in McLeod County and 5.3% in the state.
- At the time of this study, city officials did not report any significant Labor Supply shortages or evidence of Wage Pressure within the service industries in the city. It was reported that the city draws employees from the surrounding area as well as the city.
- The main regional traffic route in Glencoe is US Highway 212 (east/west) and State Highway 22 (north/south). US Highway 212 connects the city to I-494 in Minneapolis and it connects the city to Minneapolis and the Minneapolis International Airport. State Highway 22 is the main connection between Glencoe and Hutchinson located approximately 15 miles northwest of Glencoe.
- The traffic counts presented in this report cannot be compared to the 2013 report due to the current counts being taken from different locations. Additionally, there has been construction in the city which has also changed some traffic patterns in the city.
 - Traffic counts on Highway 212 at the intersection of Highway 2, near downtown Glencoe, have increased 11.3% from 2011 to 2015. East of Highway 15, the traffic counts on Highway 212 increased 2.0% during this same time period.

- Traffic counts on Morningside Drive north of Highway 212 increased drastically by 160% from 2011 to 2015. This was reportedly due to the construction in the area as well as a new grocery store opening near this traffic count location. Traffic counts on Morningside Drive south of Highway 212 decreased by -3.6% during this same time period. This section of the highway leads out of the commercial area and into a more rural area of the city.
- Glencoe is home to a municipal airstrip for small aircraft. Commercial air service is located 53 miles east of Glencoe in Minneapolis at the Minneapolis International Airport. This international airport serves as one of the major hub airports in the United States serving almost all major national and international airlines with flights to numerous major United States hub and destination cities.
- The City of Glencoe is heavily residential with a diversity of industrial and agricultural land.
- The city is home to a number of manufacturing companies specializing in numerous products and services. The city is currently home to two industrial parks which are well occupied but still offer land for new development. It was reported that a number of companies in the city have recently expanded or are in the process of expanding.
- The Glencoe Regional Health Services campus includes a full-service hospital, nursing home and short-term care and rehabilitation center. This facility services the City of Glencoe as well as the surrounding county area. It is one of the major employers in the city. There is also a memory care and assisted living facility in the city.
- Social/Leisure activities are highlighted by the youth sports market which includes a number of annual tournaments. Additionally, the city is home to the Buffalo Creek BMX Track which was reported to draw visitors from the local and regional area. There are also a number of festivals held throughout the year and it was reported that weddings and reunions were very common in this area.

UPDATED SUBJECT SITE

- At the time of the 2013 Comprehensive Market Study, a specific site had not been selected. At the time of this report, a specific site was selected and is presented below.
- The proposed subject site for the hotel development is located on the south side of 11th Street and on the north side of US Highway 212. This site is less than 500 feet from the intersection of Morningside Drive and Highway 212 where a number of support services are located. The site is currently vacant, cleared and ready for development. It is located on the south side of the industrial park with industrial development located along the north side of 11th Street. This land was reported to be currently for sale.
- This site consists of 8 total acres with approximately 1.5-1.75 acres needed for hotel development. As noted earlier in this report, the remaining acreage has the potential to be the future home to additional support services.
- At this time, this site is not located in a Tax Incremental Financing District.
- The following provides an evaluation of the proposed Subject Site Area.

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

- Based upon field research, the overall rating of the Subject Site is Excellent with a rating of 4.5. These ratings are based on a 5-point scale with 5 being Excellent.
- *Visibility* of the site would be Excellent due to its location immediately along US Highway 212 which serves as a major regional traffic route in the area and the main route leading traffic into and out of the city. This could assist in generating Lodging Demand from the transient traffic segment. Traffic signage on US Highway 212 east and west of the city would assist in generating awareness to travelers.
 - Access to the site will be off of 11th Street. There are currently two access points to 11th Street off of US Highway 212: one via Falcon Avenue on the east side of the site and another via Morningside Drive on the west side of the site.
- *Major Utilities and Zoning* were reported to be in place due to the commercial and industrial developments surrounding the site. It was reported that this site should be environmentally ready for development due to its previous use as agricultural land. Still, additional research may need to be performed by the developer to verify the Environmental condition of this site. The previous use of this site should be favorable for hotel development but should be investigated fully prior to development.
- *Support Services* in the area were ranked as Good. While a selection of support services are located in close proximity to the subject site they are not all within walking distance. Additionally, walking to these locations would require guests to cross busy traffic routes. If additional support services such as a gas station, convenience store, or restaurant could be added to the area surrounding the hotel, this rating could be improved. These additional support services could also help to attract the youth sports market segment to the proposed hotel.
- The *Competitive Position* of the proposed hotel should be Very Good as it will be located on US Highway 212 near the city's companies and current support services. The only factors limiting the competitive factor of this subject site is that currently no support services are available immediately adjacent to the subject site.

UPDATED LODGING DEMAND

The chart below shows the current distribution of Lodging Demand in the Competitive Set. This is explained later in the Lodging Supply section. It includes Corporate/Commercial and Social/Leisure market segments as well as the anticipated Lodging Demand for the proposed hotel in Glencoe.

MARKET SEGMENTATION					
	SUBJECT MARKET PROBABLE PERCENT OF MARKET	RANGE	PROPOSED PROPERTY PROBABLE MARKET	MARKET PENET.	RANGE
Individual Travel Markets	70.0%	67.5%-72.5%	70.0%	100.0%	67.5%-72.5%
Corporate/ Commercial	40.0%	37.5%-42.5%	40.0%	100.0%	37.5%-42.5%
Social/ Leisure	30.0%	27.5%-32.5%	30.0%	100.0%	27.5%-32.5%
Group Markets	30.0%	27.5%-32.5%	30.0%	100.0%	27.5%-32.5%
Business Related	10.0%	7.5%-12.5%	10.0%	100.0%	7.5%-12.5%
Social/ Leisure Related	20.0%	17.5%-22.5%	20.0%	100.0%	17.5%-22.5%
TOTAL	100.0%		100.0%		
<i>Source: HMI</i>					

- As seen in the 2013 Comprehensive Market Study, the proposed hotel is expected to have the same Market Segmentation as the Overall subject market since the proposed hotel will be the newest and highest quality hotel in a city where it was reported that most visitors choose not to stay at the existing Glencoe Super 8. It will therefore serve all Lodging Demand segments in Glencoe. In this subject market area, the Corporate/ Commercial markets will be more consistent throughout the year while the Social/Leisure markets will be slightly more seasonal.
- The chart below is an overview of the Lodging Demand sources in the Glencoe market area.

MARKET SEGMENTATION PROFILES		
	Demand Potential	
	Transient = T Extended= E Group= G	Subject Property Potential
Social/Leisure Markets		
Visiting Friends & Relatives	T, E	Excellent
Glencoe and McLeod County Tourism and Recreation	T, G	Good
Area Events and Festivals	T, G, E	Good
Outdoor Recreation	T, G	Good
Distressed, Social Interim Housing & Relocation	T, E	Good
Transient Traffic	T	Very Good
Overflow Traffic	T, G	Good
Weddings	G	Excellent
Reunions	G	Very Good
Funerals	G	Very Good
Other	G	Very Good
Motorcoach Tours	G	Low
Social, Military, Educational, Religious & Fraternal Groups	G	Good
Amateur and Youth Sports	G	Very Good
Potential		Very Good
Corporate/Commercial Markets		
Agriculture	T	Very Good
Mining, Quarrying & Oil and Gas Exploration	T	Fair
Utilities	T, E, G	Good
Construction	T, E	Very Good
Manufacturing	T, E, G	Very Good
Wholesale Trade	T	Good
Retail Trade	T	Good
Transportation and Warehousing	T	Good
Information	T	Good
Finance, Insurance and Real Estate	T	Very Good
Real Estate, Rental & Leasing	T	Very Good
Services		
Professional, Scientific & Technical	T, E	Good
Management of Companies and Enterprises	T	Good
Administrative, Support, Waste Management and Remediation	T	Fair
Educational	T, E	Good
Health and Social Assistance	T, E	Very Good
Visiting Family and Friends	T, G	Very Good
Visiting Speakers and Physicians	T, G	Very Good
Donors	T	Good
Vendors and Technicians	T	Very Good
Administration		Very Good
Other	T, E	Good
Public Administration	T	Good
Vendors & Suppliers to Local Market	T	Good
Transient Traffic	T, G	Very Good
Overflow Traffic	T, G	Good
Corporate Business Groups	G	Good
Professional Business Associations	G	Good
Government Groups	G	Good
Inventory and Auditing Companies	G, E	Good
Potential		Good
Overall Potential		Good
Source: HMI		

- The following chart highlights the major employers in the City of Glencoe.

MAJOR EMPLOYERS Glencoe, MN		
COMPANY	ESTIMATED EMPLOYEES FT/PT	SERVICE OR PRODUCT
Glencoe Regional Health Services	595	Healthcare
McLeod County	282	Government
Glencoe-Silver Lake Schools	170	Education
Miller Manufacturing	210	Manufacturing
Starkey Labs, Inc.	150	Hearing Technology Manufacturing
Coborn's	145	Grocery Store
Seneca Foods Corporation	150	Food Product Manufacturing
Twin Cities & Western Railroad	84	Rail Transportation
McLeod Co-op Power	37	Utilities
City of Glencoe	121	Government
Delta Fabricating Co.	38	Custom Enclosures - Electrical
Shopko Hometown	23	Department Store
Glencoe Co-op Association	17	Food and Agricultural Supply
ADM	24	Animal Nutrition
<i>Figures Above Include Full and Part Time Employees</i>		
<i>Source: City of Glencoe</i>		

- Since 2013, Lodging Demand has increased largely due to the growth in the Manufacturing industry segment. The Health industry has also seen steady growth in the city as the medical campus continues to expand its services. An updated recap of these opportunities includes the following:
- The leading employment sector in Glencoe is Manufacturing. This industry segment consists of numerous companies in the industrial parks located on the east or west side of the city. These companies produce a wide variety of products which service a diverse collection of industries. Some of the leading manufacturers are noted in the chart above and all were reported to have the potential to bring vendors, technicians, administration, and regulation officials into the area throughout the year. It was also reported that these companies have national and international ties.
- Since the 2013 report, it was noted that a number of companies in the city have expanded. Additionally, it was reported that since 2013 the city has not lost any major employers.
 - It should be noted that a number of these companies reported to be currently using hotels in Hutchinson and Chanhassen due to the lower quality of lodging offered in Glencoe. It was reported that these visitors would prefer to stay in Glencoe if a new, high quality hotel was offered in the city.

- The Medical market segment in the city is led by the Glencoe Regional Health Services campus which offers a full-service hospital, long-term care unit, transitional-care unit and a nursing home. This medical center serves Glencoe as well as the surrounding regional area. There is the potential for this medical center to bring visiting physicians, vendors, suppliers, and technicians to the market area. There is also the potential for the human resource department to require overnight rooms for recruited employees. Major medical services are offered in the Minneapolis/St. Paul area as well as Rochester, Minnesota.
 - Due to the long-term care, transitional-care, nursing home, assisted living, and memory-care facilities in the city, there is the potential for visiting family and friends to come to Glencoe for overnight stays.
- The Agricultural market is very strong in Glencoe with agricultural land surrounding the city. This market has the potential to generate Lodging Demand from insurance representatives, seed and equipment dealers, and government officials.
 - Additionally, there is a large implement dealer as well as an industrial equipment reseller in the city which were reported to bring customers to the area from across the country.
- The Retail and Food Services industry is slightly limited with no national big box retailer in the city. There are a number of residential support services in the city as well as a variety of nationally branded fast food venues and locally owned casual restaurants. It was reported that the majority of vendors, suppliers, administration, and inventory teams are currently based in Minneapolis or choose to stay in Minneapolis as they service the surrounding regional area.
- The real estate industry has the potential to generate Lodging Demand as new residents move into the area and are looking for permanent housing. There is still land available in the city for additional residential development.
- The construction industry was reported to draw crews to the city as area companies expand. Additionally, one construction company in the city reportedly requires overnight rooms for crew members. Lastly, it is proposed that Highway 212 will eventually become a four-lane highway and this project would also have the potential to generate Lodging Demand in the city.

- At this time, there is some group Corporate/Commercial Lodging Demand from area businesses holding potential training classes, meetings, and conferences in the city. This demand segment has the potential to increase if a higher quality hotel was added to the city. The meeting space offered at the City Center is also a valuable asset to draw demand to the city.
 - The Glencoe City Center is located in the heart of downtown and offers newly renovated space for events with up to 500 attendees. This facility is commonly used for weddings, reunions, fundraisers, corporate events, business association meetings, and corporate trainings both on weekends and throughout the week. Attendees and groups booking the City Center were reported to be from both the local area as well as state and national markets. It was reported that the City Center is currently booked consistently through 2018 with a number of bookings in 2019. A higher quality hotel in the city is a common request from attendees and it is likely that additional events could be drawn to the City Center if a new hotel were added to the city.
- The visiting family and friends market will be one of the leading sources of Social/Leisure Lodging Demand in Glencoe. A portion of this Lodging Demand is due to the assisted living, memory care, transitional care, and long-term care facilities in the city which typically draw visiting family and friends to a market. Additionally, it was reported that family gatherings, including weddings and funerals, are large events which have the potential to draw visitors from outside the area. The meeting and banquet space offered at the City Center also assists in bringing these events to this market area.
- A number of annual festivals are held in the city including Glencoe Days, Polka Fest, Orange Fest, Polecheski Days, Garlic Fest, Winstock, and the McLeod County Fair held in the county. The Glencoe Concert Series is held at the Glencoe City Center bringing three national acts to the city each year with approximately 200 to 300 attendees per event. In addition to these events, there is the potential for vendors and performers to also require overnight rooms. The few hotels in the regional area would allow the proposed hotel to service any overflow demand generated by these events.
- The outdoor recreation market includes various local parks, the Glencoe outdoor aquatic center, an 18-hole golf course at Glencoe Country Club, and area bike and snowmobile trails.

- The youth and amateur sports market segment currently draws visitors to the city and many of these guests stay in areas outside of Glencoe due to fewer rooms being available in Glencoe and the lower quality of these rooms. A number of sporting events held in neighboring cities were reported to have the potential to generate overflow demand for Glencoe. Baseball tournaments are the most common in the city and they include the annual Wood Bat Tournament with 48 teams from the local and regional area. There is also an annual large gymnastics meet and numerous hockey tournaments that are held in the city.
 - The Buffalo Creek BMX Track is also located in Glencoe and was reported to draw riders from the regional area requiring overnight rooms during special events at the track.
- Being located immediately along US Highway 212 allows the proposed hotel to serve the transient traffic market segment. While this Lodging Demand should be present throughout the year, it could potentially increase in the winter months during inclement weather. US Highway 212 is a heavily traveled route leading into the Minneapolis market area.
- The tourism industry in the city is slightly limited due to the lack of museums and tourism sites. There are a few tourist attractions throughout the county but the Social/Leisure Lodging Demand will largely focus on visiting family, youth sports and area events.

To analyze Lodging Demand in the subject market area, a Competitive Set of hotels in the Glencoe area was identified. These are the hotels local officials indicated were being utilized by visitors to this market area. A listing of these hotels is provided below in the Lodging Supply section of this report.

- Lodging Demand in the Competitive Set increased by 2.3% in 2017. The historic average annual growth rate was 1.57% from 2012 - 2017. This time period included negative growth in 2014 and 2015. If these negative growth years are removed, the average annual growth rate increases to 2.83% from 2015 to 2017.
- Lodging Demand is projected to increase by 5.64% in 2018 and this growth rate was used in the projections presented later in this report.
- Lodging Demand Annual Seasonality of the subject market showed Lodging Demand strength from May through October.
 - Revenue was maximized from June to September. It is likely that the Glencoe lodging market could follow a similar pattern with strength in the summer due to the youth sports and wedding market in the city and the festivals held throughout the market area.

- Within the Competitive Set, there is the potential for rates to increase which would better match Lodging Demand levels from June to October.
- The weakest Lodging Demand period is December through February.
- During the three-year period from April, 2015 through March, 2018, this market appears to have an average weekday ADR of \$93.79 which is lower than the average ADR of \$98.06.
- The average weekend ADR is \$106.30, which is higher than the average annual ADR of \$98.06. This indicates the strength of the tourism and youth sports market in this overall market area.
- The Social/Leisure market has the potential to be more limited in Glencoe due to the more limited tourism amenities. Lodging Demand generated by this market segment will largely focus on weddings, family gatherings with a number of youth sports tournaments and some festival activity. Glencoe is also positioned to potentially service overflow demand from events in the regional area. If a new hotel is added to the city, there is the potential for the Social/Leisure market segments to increase. Currently, Glencoe has the potential to focus more specifically on the Corporate/Commercial markets which may require corporate or negotiated rates.
- The average low single rate advertised in the market is \$91.00. Based upon this rate, the overall market is experiencing below average Rate Sensitivity as the average advertised low single rate is well below the market's ADR of \$100.16. It appears that the weekend Lodging Demand has slightly lower Rate Sensitivity than the weekend Lodging Demand.
 - Due to adjustments made to the 2013 Competitive Set, a comparison to the current Competitive Set ADR could not be made.
- *Unaccommodated Lodging Demand* is described in two ways. 1) It is Lodging Demand that prefers to stay in the subject market but is currently staying in other areas due to the lack of adequate accommodations. This is due either to condition or number of available rooms. 2) It can also be described as Lodging Demand that is staying in the subject market but actually desires accommodations in other areas.
 - In Glencoe, there is currently one hotel, a Super 8. Due to the older age of this property and the reported lower level of service, area representatives stated that many Glencoe visitors choose to stay in Hutchinson, Chaska, and Chanhassen.

- The second definition was reported to occur, especially during large youth sporting events and festivals held in Hutchinson in the summer months. During these events, there is the potential for Glencoe to serve as an overflow lodging option. Winstock, the large music festival, is held 19 miles south of Glencoe in Winsted. It was reported to require hotel rooms throughout the regional area.
- A review of the Competitive Set's performance from April, 2015 through March, 2018 reveals that 97.75 nights (26.8% of the year) achieved Occupancies of 70.0% or greater. This is considered an Occupancy performance level at which newer and better hotels are reaching maximized Occupancy.
 - Of the 97.75 nights with over 70% Occupancy, there were 34 nights (9.3%) with Occupancy levels over 80%. 12.75 of these 34 nights have over 90% Occupancy (3.5% of the year). The nights with over 80% or 90% Occupancy occur on Saturday nights from May to October and on Tuesday and Wednesday nights in June.
 - The 26.8% nights per year over 70% Occupancy show about average Unaccommodated Lodging Demand.
 - It should be noted that this performance is based on a Competitive Set which includes hotels located in markets larger than Glencoe. While it is estimated that similar demand patterns may be seen, a conservative approach will be taken in the projections for the proposed hotel to account for Glencoe's more rural nature.
 - Additionally, due to the adjustments made to the 2013 Competitive Set, a comparison to the Competitive Set used in this report could not be made.

UPDATED LODGING SUPPLY

- The Competitive Set of hotels presented in this report is slightly different than the Competitive Set used in the 2013 Comprehensive Market Study. This is because some of the hotels in the 2013 Competitive Set changed brands and many are associated with the same brand family. In order to provide a diverse Competitive Set consisting of a collection of brands, a new Competitive Set was selected. Additionally, this refiguring of the Competitive Set allowed for a Competitive Set within in a closer proximity to Glencoe than the 2013 Competitive Set.
- There is currently one hotel in Glencoe, a Super 8, located in the southwest quadrant of the intersection of Morningside Drive and US Highway 212.
- There are nationally branded hotels in Hutchinson located 15 miles northwest of Glencoe. One hotel in Waconia is located 20 miles northeast of Glencoe and a number of nationally branded hotels and support services are located 35 miles east of Glencoe in Chanhassen.
- The hotel in Gaylord, 17 miles south of the site, was also included in the Overall Competitive Set due to the rural nature of this community which should help to balance the more commercial market of Chanhassen.
- Hotels in Hutchinson, Waconia, and Chanhassen were reported to be most commonly used by visitors to the area. Several of these properties which were similar in size and style to the proposed hotel for Glencoe were selected to generate a Competitive Set.
- There is a 54-Room Cobblestone Inn planned to open in 2018 in Hutchinson. These new rooms were factored into the preliminary projections presented in this report.
- There is also the potential for a 32-room hotel to open in Winsted, 19 miles north of Glencoe. It was reported that this property is in the very early financing stages and will therefore not be considered in the preliminary projections.
- Seven hotels comprise the Overall Competitive Set. They are located in the immediate region and are identified as follows:
 - CHANHASSEN
 - Country Inn and Suites – 122 Rooms - 28 Years Old – Upper Mid-Priced
 - Holiday Inn Express and Suites – 14 Years Old – 122 Rooms
 - GAYLORD
 - EconoLodge – 30 Rooms - 20 Years Old – Economy Priced

- GLENCOE
 - Super 8 - 33 Rooms - 33 Years Old – Economy Priced
- HUTCHINSON
 - AmericInn – 86 Rooms – 23 Years Old – Mid-Priced
 - Days Inn – 52 Rooms - 36 Years Old – Economy Priced
- WACONIA
 - AmericInn Lodge and Suites – 61 Rooms - 11 Years Old – Mid-Priced
- Competitive Set characteristics are as follows:
 - Average Size – 67.57 Rooms
 - Average Age – 23.57 Years
 - No Hotels in the 5-7 Year Renovation Period
 - 1 Hotel in the 12-15 Year Renovation Period
 - 5 Hotels require On-going Renovations and Maintenance
 - No new hotels in the market area under construction.
 - Product Category
 - Economy – 3 Hotels – 115 Rooms – 24.3%
 - Mid-Priced - 2 Hotels – 147 Rooms – 31.1%
 - Upper Mid-Priced – 2 Hotels – 211 Rooms – 44.6%
 - All of these hotels are affiliated with major national hotel brands. There are independently operated hotels in the surrounding market area however they were not included in this Competitive Set as they were not noted to be overly competitive with the proposed hotel.
 - Total Rooms – 473 Rooms
- Due to the adjustments made to the 2013 Competitive Set, a comparison to the Competitive Set used in this report could not be made.
- The following chart shows the projected ADR performance of the hotels in the Overall Competitive Set:

COMPETITIVE HOTEL OCCUPANCY & RATES				
PROPERTY	Occ. Perform.	RATE ANALYSIS		PROJECTED ADR
		SUMMER	WINTER	
<u>Chanhassen, MN</u>				
Country Inn & Suites	Above	\$124-\$168	\$100-\$122	\$114.37
Holiday Inn Express	Above	\$122-\$159	\$96-\$127	\$112.14
<u>Gaylord, MN</u>				
Econo Lodge	Below	\$76-\$97	\$78-\$102	\$66.19
<u>Glencoe, MN</u>				
Super 8	Below	\$76-\$92	\$63-\$82	\$58.69
<u>Hutchinson, MN</u>				
AmericInn	Above	\$130-\$141	\$120-\$132	\$113.75
Days Inn	Average	\$80-\$109	\$80-\$109	\$70.88
<u>Waconia, MN</u>				
AmericInn	Average	\$106-\$160	\$102-\$124	\$108.24
Competitive Market Average Daily Room Rate (ADR):				\$101.32
* Rates shown reflect the low single to high double for each season.				
** Where seasonal rate range was not available, similar available rate range was used.				
Source: HMI				

- In this Competitive Set, there appears to be two rate tiers. The top rate tier is highlighted in Red and the next rate tier is highlighted in Blue.
 - To accurately rate position the proposed hotel, it was thought appropriate to remove the economy priced hotels in Glencoe, Gaylord and Hutchinson as well as the highest priced hotel, the County Inn and Suites in Chanhassen. Therefore, the proposed hotel's rate positioning would be in the midrange of the upper rate tier. At this time, the average updated rate positioning would yield 110.3% to the Smith Travel Research Competitive Set ADR of \$101.32.
 - This positioning within the upper rate tier is thought to be justified since the proposed hotel will be the newest and highest quality hotel in Glencoe. Additionally, it was reported that most Glencoe visitors are currently staying in Hutchinson, Chanhassen, and Waconia where they are paying higher prices for hotel rooms.
 - It would position the proposed hotel competitively below the AmericInn in Hutchinson, the city's nearest competitor, and above the AmericInn Lodge and Suites in Waconia.
 - This rate positioning would be analyzed along with a more detailed review of the members of the Competitive Set in a Comprehensive Hotel Market Study report.

- The Competitive Position of these hotels shows the following:
 - The *Average Age* of the Competitive Set hotels is 23.57 years, placing these hotels at a competitive disadvantage. All of the Competitive Set hotels are beyond the first major renovation period and over half are in a stage of constant maintenance and repair. Currently the 11-year old AmericInn Lodge and Suites in Waconia is the newest hotel in the Competitive Set. This should provide a positive competitive position for the proposed hotel.
 - *Competitive Rate Positioning* was discussed above and would position the proposed hotel at 110.3% to the Competitive Set.
 - The hotel *Facilities* in the market immediately surrounding the subject site will likely be fairly competitive due to the typical standards of the national brands in this market area. Still, the age of these hotels is evident. This older age is likely more prevalent at the Economy priced properties in the Competitive Set. It was reported that the Super 8 in Glencoe is showing its age and does not offer a high level of customer service. This was reported to be one of the main reasons for Glencoe visitors to utilize the hotels outside the city. The proposed hotel should compete very well with the current Super 8 in the city.
 - *Brand Competition* within the Competitive Set will be above average. Operating the proposed hotel with a national brand representation could improve its competitive position in this market. However, the size of the proposed hotel may limit the selection of national brands. If a national brand is not feasible, a strong regional brand is highly recommended.
 - It should be noted that hotels in this market area are mainly affiliated with one brand family, Wyndham Hotels. Offering a new brand in this market area could provide the proposed hotel with a competitive advantage.
 - The *Location* of the new hotel immediately along US Highway 212 should provide this property with a competitive advantage as this is a main traffic route into and out of the Minneapolis market area and through the surrounding region. This location also positions this proposed hotel in the midst of nationally branded support services including a Burger King, Subway, and Super America. There is also additional land available adjacent to the subject site and there is the potential for this land to be developed with additional support services.

UPDATED HISTORICAL LODGING PERFORMANCE

- *Lodging Demand* in this market increased every year from 2012 to 2017 with the exception of 2014 and 2015 when a decrease of -0.2% and -2.7% was seen, respectively. No specific reason was given for this decrease. The largest increase was seen in 2016 at 3.0%. A growth rate of 2.3% was seen in 2017 and it is projected that 2018 will see a growth rate of 5.64%. It should be noted that this demand performance is based largely on hotels which are not located in Glencoe. It is conservatively projected that Lodging Demand in the city should increase in coming years as the offering of a new quality place to stay has the potential to generate some additional Lodging Demand in the city. Being the newest hotel in the city and being located in the commercial area of the city along Highway 212 should give the proposed hotel a competitive advantage.
- *Occupancy* followed a trend similar to that of Lodging Demand with increases in all years except 2014 and 2015. The highest Occupancy rate (at 59.7%) occurred in this market in 2017. In 2018, Occupancy is projected at 63.1% for the Competitive Set. The projections presented in this report reflect future Occupancy growth specifically for the Glencoe market.
- *Lodging Supply* has not seen new growth since 2007 when the AmericInn Lodge and Suites was added to the Waconia market. At the time of this report, a 54-room Cobblestone Inn is planned to open in 2018 in Hutchinson, 15 miles northeast of Glencoe. This new property was factored into the preliminary projections presented later in this report. Additionally, there is the potential for a 32-room hotel to open in Winsted, 19 miles north of Glencoe. It was reported that this property is in the very early financing stages and will therefore not be considered in the preliminary projections.
- *Average Daily Room Rates (ADR)* experienced positive growth in all years analyzed from 2012 to 2017 except for 2017 when a decrease of -0.1% was seen. The highest growth rate occurred in 2016 with a growth rate of 5.5%. ADR is projected to increase by 7.37% in 2018 resulting in an ADR of \$106.26 compared to \$98.96 in 2016. The 2012 to 2017 historic average annual change in ADR was 4.27%.
 - It should be noted that due to the more rural nature of Glencoe compared to the larger hotel markets used in the Competitive Set, a conservative approach was taken when projecting ADR for the proposed hotel. The lower rates of the Super 8 in Glencoe may generate competition in some market segments, however the lower quality of this hotel should mitigate some of this competition.
- *Revenue Per Available Room (RevPAR)* has seen positive growth each year from 2012 to 2017. The highest growth rate occurred in 2016 with a growth rate of 8.6%. This resulted in a RevPAR of \$57.81 in 2016. In 2018, RevPAR is projected to decrease 13.43% to \$67.00. The average annual increase from 2012 to 2017 was 6.23%.

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Further questions concerning this report should be directed to HMI.

Sincerely,
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