



HOTEL MARKET STUDY
MONTICELLO, MINNESOTA

September 2023

Prepared for:
City of Monticello



Mr. Jim Thares
Economic Development Manager
City of Monticello
505 Walnut Street
Monticello, MN 55362

Dear Mr. Thares:

The Hospitality Consulting Group is pleased to present the accompanying report entitled: "Hotel Market Study – Monticello, Minnesota" which has been prepared in accordance with our engagement letter dated June 12, 2023. This report follows our earlier market study report issued in March 2014, and a partial update conducted in May 2020.

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, facility recommendations, estimates of utilization for the recommended facilities, financial projections for the recommended hotel's first five years of operation, and an analysis of the project's economic feasibility.

Our 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.

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.

Our report is intended solely for the information of the City of Monticello for use in attracting a hotel developer or furthering its redevelopment efforts. It may also be used to obtain 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 financial document without our prior written consent.

September 29, 2023

Hospitality Consulting Group, Inc.

HOSPITALITY CONSULTING GROUP, INC.

HOTEL MARKET STUDY MONTICELLO, MINNESOTA

Letter of Transmittal

CONTENTS

	<u>PAGE</u>
<u>1. INTRODUCTION</u>	1
BACKGROUND.....	1
SCOPE OF STUDY.....	1
<u>2. EXECUTIVE SUMMARY</u>	3
<u>3. REGIONAL CHARACTERISTICS</u>	12
INTRODUCTION.....	12
LOCATION.....	12
DEMOGRAPHICS.....	13
BUILDING PERMITS.....	16
EMPLOYMENT.....	17
SURROUNDING COMMUNITIES.....	20
TRANSPORTATION.....	23
RESTAURANTS.....	25
TOURISM.....	26
<u>4. AREA HOTEL SUPPLY</u>	29
HOTEL SUPPLY.....	29
ROOM RATE STRUCTURE.....	37
MEETING FACILITIES.....	38
<u>5. AREA HOTEL DEMAND</u>	40
HOTEL INDUSTRY TRENDS.....	40
HOTEL DEMAND.....	41
HOTEL MARKET PERFORMANCE.....	44
HOTEL DEMAND PROJECTIONS.....	48

HOTEL MARKET STUDY MONTICELLO, MINNESOTA

CONTENTS (Continued)

	<u>PAGE</u>
<u>6. RECOMMENDED FACILITIES</u>	51
HOTEL FACILITY RECOMMENDATIONS	51
<u>7. SITE REVIEW</u>	54
CRITERIA.....	54
SUMMARY EVALUATION	55
<u>8. UTILIZATION PROJECTIONS</u>	59
UTILIZATION ASSUMPTIONS	59
PROJECTED OCCUPANCY	60
PROJECTED AVERAGE RATE	64
PROJECTED ROOM REVENUE	66
<u>9. FINANCIAL PROJECTIONS</u>	67
NOTES TO FINANCIAL PROJECTIONS	67
ECONOMIC FEASIBILITY ANALYSIS.....	70

ADDENDUM: CONSULTANT'S QUALIFICATIONS

SECTION 1: INTRODUCTION

BACKGROUND

Monticello, Minnesota is a prosperous community located along Interstate 94, midway between Minneapolis and St. Cloud. It functions as a sub-regional center for shopping, business, and healthcare services between St. Cloud and Maple Grove. Monticello's downtown was originally developed along Broadway parallel to the Mississippi River. However, more recent retail developments along the interstate have made this area the focal point for economic activity.

The City of Monticello is encouraging the development of a new hotel to supplement its aging hotel supply. Accordingly, four potential hotel sites have been identified, all located near the interstate, that have attracted interest from hotel developers. The purpose of this study is to provide a current assessment of Monticello's hotel market.

Hospitality Advisors has extensive experience working with hotel developments throughout the United States. We were retained to research the market support for a new hotel and to recommend the size and scope of facilities appropriate for this market. The scope of our work in conjunction with this engagement is summarized below.

SCOPE OF STUDY

Our 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 sources of lodging demand;
- Identification and evaluation of competitive lodging facilities;

- Recommendation of the type and size of hotel and amenities that will perform best in the Monticello market;
- Projection of the lodging demand that the recommended hotel could reasonably expect to capture; and
- Projection of the average daily rate and resulting room revenue that the hotel could reasonably expect to achieve.

In performing this study, we obtained performance data for the competitive hotels, researched current room rates at area hotels, obtained and analyzed relevant demographic and economic data, prepared a penetration analysis for the recommended hotel, and prepared projections of revenue and operating expenses for the hotel's first five years of operation.

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 Monticello, Minnesota. This overview includes our review of the market area and the competitive environment, our review of the recommended hotel 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.

The key findings of our market study are summarized below:

MARKET CHARACTERISTICS

Monticello has a strong economy. Its population, and the population of its immediate market area, increased by 13 percent over the last decade. Although Monticello's median household income is below that of Wright County in which it is located, the county's median income is 29 percent higher than the state-wide level. It is a retail center for a large area that extends out approximately 10 miles. Education, Healthcare and Social Assistance makes up the largest employment category, followed by Manufacturing.

Recent developments in the community include a relatively large number of single and multifamily housing units. The City is also in the process of developing a large complex of athletic fields that will allow it to capitalize on the growing sports tourism trend.

Monticello enjoys a prominent location along Interstate 94 and the Mississippi River and is midway between Minneapolis and St. Cloud. Two exits on the interstate provide excellent access to the community's retail and service establishments for the more than 44,000 vehicles that pass by the city each day. Highway 25 provides the only river crossing within 13 to 15 miles in either direction.

HOTEL SUPPLY

There are three franchised hotels and one older motel in Monticello. The Best Western Chelsea Plus is an older but well-maintained upper midscale property. The other two franchised hotels, a Days Inn and a Super 8, are economy motels and therefore would not be directly competitive with a new upper midscale property. The fourth hotel, the AmericInn Motel is an older independent economy property and thus not competitive with a new hotel.

Interviews with the large Monticello employers disclosed that some commercial lodging demand is displaced to hotels in Albertville, Rogers, and even Maple Grove. We identified four hotels located along the I-94 corridor that would be directly competitive with a new upper midscale hotel in Monticello: the Best Western Prime Chelsea Inn in Monticello; the Country Inn & Suites in Albertville; and the Hampton Inn & Suites and the Holiday Inn & Suites in Rogers.

Due to the greater distance, hotels in Maple Grove would be secondarily competitive. We identified eight hotels considered to be secondarily competitive with a new upper midscale hotel in Monticello.

Room rates at the upper midscale hotels in the primary competitive supply range from \$130 to \$166 before discounts. Room rates at the upper midscale and upscale properties in the secondary supply range from \$137 to \$319, before discounts.

MEETING SPACE

Meeting facilities allow a hotel to attract additional demand related to area meetings, merchandise and hobby shows, as well as social functions. Monticello has two large venues with capacity of up to 300 persons: one is located in the Community Center and the other is in a bowling alley. Two of the hotels have meeting rooms: the Best Western has a 1,200-square foot function room and the Super 8 has a 1,500-square foot room.

Several local events have outgrown the available meeting space so are forced to hold their functions in the community center gym. Several larger groups have been turned away from Monticello due to insufficient meeting space.

While a large event center at a new hotel would draw new events to the community, such a facility would not be economically viable without significant financial

assistance, given the elevated construction costs and interest rates that presently exist. Due to the large ballroom space in the community center, a similar large ballroom at the hotel would likely be under-utilized. We feel that a divisible meeting room of between 800 to 1,200 square feet would be appropriate for a new Monticello hotel.

HOTEL DEMAND

The lodging industry was devastated by the Covid-19 pandemic when travel was severely restricted and many businesses shut down. Industry wide RevPAR (revenue per available room) was reported to have declined by 50 percent in 2020. Since that low, the industry has steadily been returning back to normal. Through the first half of 2023, industry wide RevPAR was reported to be nearly 2 percent higher than the same pre-Covid period in 2019 (in adjusted dollars). The competitive supply along the I-94 corridor experienced an annual occupancy of 65 percent in 2022, which was 10 points higher than the statewide average.

In order to assess the recent trends in the Monticello lodging market, we obtained detailed performance data for the four hotels in the competitive supply. This data shows that the competitive set of four hotels achieved an overall annual occupancy of 64.7 percent in 2022, the highest level achieved in the last eight years. Generally, a hotel targets a 60% to 70% occupancy to be successful.

The amount of hotel demand accommodated by the four competitive hotels has increased over the last two years, documenting the recovery from the extreme impact from Covid-19 felt largely in 2020. The number of occupied roomnights in 2022 exceeded the 2021 level by nearly 15 percent and was 1.6 percent higher than even the pre-Covid demand in 2019.

Monthly performance data over the last three years for the competitive set shows that lodging activity peaks in the summer, exceeding 70 percent in the months of April through September, typical of an interstate location. The fact that the summer increase is not that large relative to the rest of the year indicates there is a strong commercial component to the lodging demand which occurs throughout the year. Turnaways from the market occur during athletic tournaments and generally on weekends throughout the summer and fall.

The ADR for the competitive supply increased by a remarkable 16 percent in 2021 followed by an 11 percent increase in 2022. Year-to-date through May, the ADR for the competitive set is up over 8 percent.

A new hotel in Monticello would seek to capture the upscale lodging demand that is leaving the community to stay at higher quality hotels in neighboring cities.

The patronage that will be available to a new hotel consists of commercial visitors conducting business in the area, travelers on the interstate, people attending social functions and visitors to area residents, and people attending meetings and other group functions.

The mix of the lodging demand accommodated by the competitive set is estimated to consist of the following:

ESTIMATED MARKET MIX (2022)

Market Segment	Occupied Roomnights	% of Total
Commercial	34,000	47%
Leisure	31,100	43%
Group	7,200	10%
Totals	72,300	100%

Based on our analysis, we believe that a base annual growth rate of **2.0 percent** is a reasonable expectation for continued hotel demand growth for the competitive supply through 2029. An additional **1.0 percent growth** in 2025 and 2026 was factored into our analysis to account for the new hotel rooms available when the subject hotel opens.

FACILITY RECOMMENDATIONS

Based on our evaluation of the local hotel supply and demand conditions we believe that an **80-room limited-service hotel of Upper Midscale quality** will perform best within the Monticello competitive market. A strong national franchise will be needed to compete with the hotels that exist in Rogers and Maple Grove. The hotel’s amenities should include an indoor pool, a meeting room of approximately 1,000 square feet, an exercise room, and facilities to

provide a complimentary breakfast.

POTENTIAL SITES

The City has identified four possible locations for a new hotel. These sites are shown on the map on page 56. The hotel sites were evaluated on the basis of visibility from major transportation routes, access, proximity to destinations, proximity to restaurants, and the suitability of surrounding land uses.

We believe that the two most western sites (Site 1 and Site 4) are both suitable for immediate development, due to the suitability of the surrounding land uses and their proximity to restaurants. Sites 2 and 3 lack surrounding development and therefore are thought to be premature for a hotel at this time.

PROJECTED OCCUPANCY

Based on the results of our market study, we estimate that the recommended hotel would be able to capture a 5.0 percent premium above its fair share of the primary market demand. This premium will be due to the newness of its facilities as it competes with the older Best Western Plus Chelsea Hotel. Its occupancy would be made up of guests upgrading from the current hotels, guests currently leaving the market to stay in newer hotels in surrounding communities, guests that are attracted to the market by the new hotel franchise, and guests that are presently turned away from the market on nights when the hotels are at capacity.

The results of our utilization analysis are presented in the following table, which shows the subject hotel achieving projected occupancies that open at 54% and reach 64 % by its fifth year of operation. Its market share should stabilize in its third year; occupancies projected for the first two years are lower than the stabilized level of operation as the hotel will require time to build public awareness and to develop its marketing program.

RECOMMENDED MONTICELLO HOTEL
Projected Utilization
80 Rooms

	2025	2026	2027	2028	2029
Market Demand:					
Base Market	78,200	80,600	82,200	83,900	85,500
Crews	1,000	-	1,000	-	1,000
Total Market	79,200	80,600	83,200	83,900	86,500
Subject Hotel:					
Commercial	7,300	7,800	8,500	8,600	8,800
Leisure	7,100	7,500	7,800	7,900	8,100
Group	1,500	1,700	1,800	1,800	1,900
Occupied Rooms	15,900	17,000	18,100	18,300	18,800
Available Rooms	29,200	29,200	29,200	29,200	29,200
Projected Occupancy	54%	58%	62%	63%	64%
Market Share	20.1%	21.1%	21.8%	21.8%	21.7%
Fair Share	20.7%	20.7%	20.7%	20.7%	20.7%
Penetration Rate	96.9%	101.8%	105.0%	105.2%	104.9%

AVERAGE DAILY RATE

The analysis from which we developed our projections of average daily rate for the recommended hotel included the quality and pricing structure of the other primary competitive hotels.

We estimate that the average daily rate for the primary competitive hotels will range between \$129 and \$146 in 2023. Based on our analysis, we have determined that the recommended upper midscale hotel should be able to achieve an average rate of **\$135** expressed in current 2023 dollars. Factored into the room rates projected for the subject hotel is an inflation factor of 2 percent and a real growth factor of 1 percent, for a total annual increase of 3 percent. The inflated average rate in 2025, its first full year of operation, is projected to be \$143.20.

**PROJECTED AVERAGE RATE
80 Rooms**

Year	Average Daily Rate
2023	\$135.00
2024	\$139.05
2025	\$143.20
2026	\$147.50
2027	\$151.90
2028	\$156.50
2029	\$161.20

FINANCIAL PROJECTION SUMMARY

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

**FINANCIAL PROJECTION SUMMARY
80-ROOM UPPER MIDSACLE HOTEL**

	2025	2026	2027	2028	2029
Occupancy	54%	58%	62%	63%	64%
Average Daily Rate	\$143.20	\$147.50	\$151.90	\$156.50	\$161.20
Total Revenue	\$2,287,152	\$2,518,603	\$2,761,343	\$2,876,170	\$3,043,255
Departmental Expenses	(566,737)	(608,255)	(650,672)	(672,857)	(703,267)
Undistributed Expenses	(641,702)	(715,306)	(777,038)	(803,401)	(840,117)
Fixed Charges	(141,992)	(242,212)	(284,219)	(296,484)	(311,289)
Management Fee	(91,075)	(100,300)	(109,976)	(114,558)	(121,222)
Cash Flow For Debt Service	\$845,646	\$852,531	\$939,438	\$988,870	\$1,067,360

ECONOMIC FEASIBILITY ANALYSIS

For purposes of analyzing the economic feasibility of the new hotel, Hospitality Consulting Group assumed the hotel to have a total cost of \$11,000,000, or \$137,500 per guest room.

The financing terms utilized in the analysis assumed a 35 percent equity investment of \$3,850,000, leaving a loan principal of \$7,150,000 to provide funds for the \$11,000,000 total project cost.

Source of Funds:

Equity	\$3,850,000	35%
Debt	<u>7,150,000</u>	<u>65%</u>
	\$11,000,000	100%

Debt Term Assumptions:

Annual Interest Rate:	8.0%
Amortization:	20 years
Annual Payment:	\$718,000

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

Economic Feasibility Analysis

Estimated Project Cost: \$11,000,000

35% Equity; 65% Debt; 8% Interest

	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Cash Flow Avail. for Debt Service	\$846,000	\$853,000	\$939,000	\$989,000	\$1,067,000
Debt Service	\$718,000	\$718,000	\$718,000	\$718,000	\$718,000
Debt Service Coverage Ratio	1.18	1.19	1.31	1.38	1.49
Cash Flow to Equity	\$128,000	\$135,000	\$221,000	\$271,000	\$349,000
Equity	\$3,850,000	\$3,850,000	\$3,850,000	\$3,850,000	\$3,850,000
Return on Equity	3.3%	3.5%	5.7%	7.0%	9.1%

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 minimally meet its debt service requirements in the first two years, and will not produce a comfortable debt coverage until its fourth year.

Hotel investors typically like to see cash on cash returns of at least 10 percent. A hotel development company, who also would manage the hotel, may include the management fee in its investment decision and thus accept a lower return. In this simple analysis, the projected cash on cash return on equity only reaches 9 percent by the hotel’s fifth year of operation.

The project cost and terms of financing assumptions used in this analysis produces marginal debt coverage in the hotel’s early years and does not

provide an acceptable return on investment until its fifth year. Therefore, we conclude that the hotel project may not be economically feasible without some measures that either reduces its cost or the interest rate, or both.

SECTION 3: 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 a description of the transportation infrastructure and attractions in the area.

LOCATION

Monticello is located in Wright County, approximately 37 miles northwest of the Twin Cities of Minneapolis and St. Paul and 27 miles southeast of St. Cloud. It is located along Interstate 94 at its intersection with State Highway 25. I-94 is a major east-west traffic route that bisects the state. Highway 25 is a north-south corridor between the interstate and U.S. Highway 10, an important route to St. Cloud and north central Minnesota. Highway 25 is the only Mississippi River crossing between Clearwater and Elk River and is on the National Scenic Byway Route, and the Mississippi River Trail Bikeway.

There are four lodging facilities in Monticello, of which three carry national franchises. However, these hotels are not able to meet the needs of travelers who seek newer and/or higher quality accommodations. We have determined the primary market for a new Monticello hotel by analyzing drive times to the surrounding towns that have such accommodations. This market area is defined by the proximity of St. Cloud to the west and Albertville, Rogers and Maple Grove to the east, and the hotels, restaurants and shopping options available in these communities.

The hotel market area is smaller than the trade area because lodging accommodations are typically selected at the location that is nearest to a traveler's destination. While people residing in outlying communities may come to Monticello for shopping, health care and professional services, visitors to these communities are more likely to stay in the closest hotel that meets their quality

and service requirements. Thus, Monticello’s primary hotel market is restricted by the proximity of communities that have competitive hotels.

The determined market area for a new hotel, shown on the map on the following page, includes the neighboring towns of Big Lake and Becker. The irregular red line on the map depicts a 15-minute drive time.

DEMOGRAPHICS

Population

The market area experienced a large increase in population over the last decade. Population data for Monticello, the identified market area, and Wright County is presented in the table below. Between 2010 and 2020, the county population increased by more than 13 percent and Monticello increased by the same amount.

POPULATION CHANGE

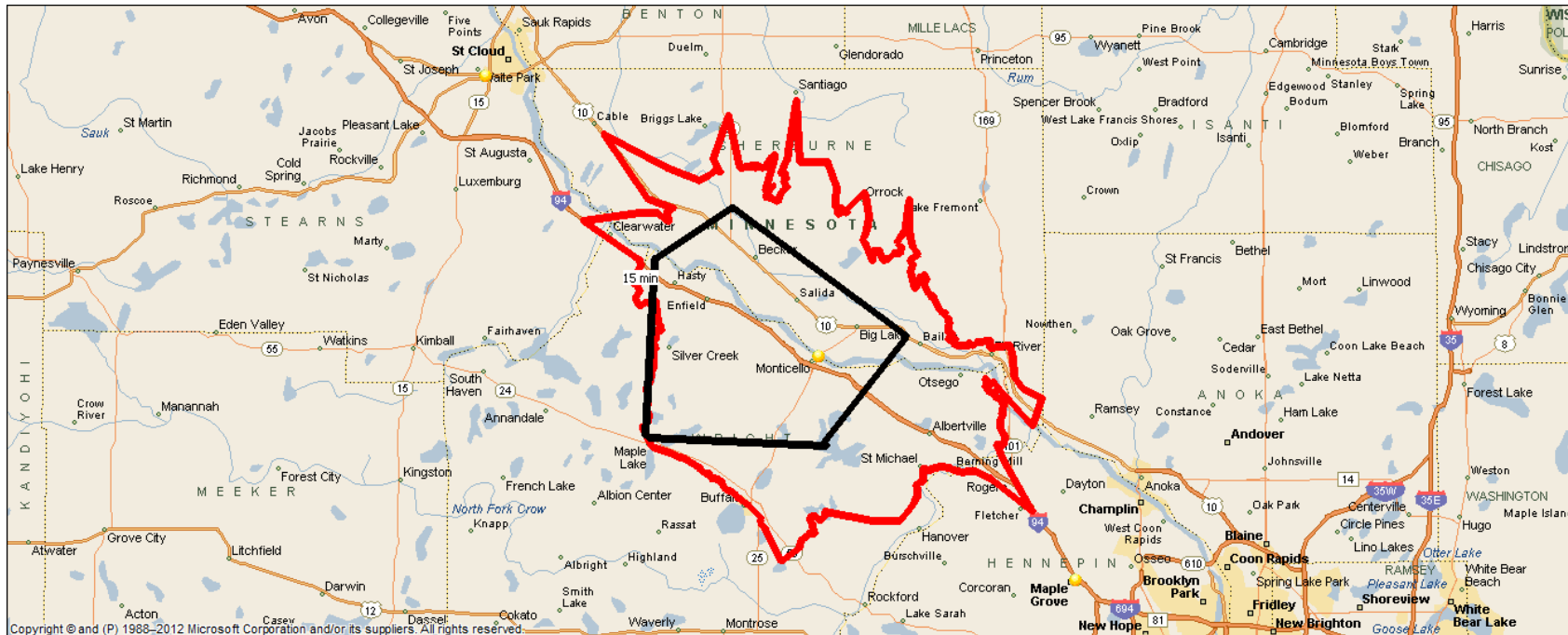
**Primary Market Area
Monticello, MN**

	2000	2010	2020	2010-2020 Change
Monticello	8,544	12,759	14,455	13.3%
Big Lake	6,059	10,060	11,688	16.2%
Becker	2,673	4,538	4,877	7.5%
Silver Creek Twp.	2,332	2,335	2,559	9.6%
Total	19,608	29,692	33,579	13.1%
Wright County	89,986	124,700	141,333	13.3%

Source: U.S. Census

The City of Monticello continues to experience population growth. In the spring of 2022, the Minnesota State Demographic Center estimated its population has increased to 15,087, which is 4 percent above the 2020 census number.

Monticello, Minnesota Primary Hotel Market Area



Wright County’s population was 141,333 in 2020 and is estimated to be 147,350 in 2023. Its population is projected to increase by another 9.6 percent to 161,422 by 2030¹, representing a 1.3 percent compound annual growth for the decade. The county’s population is projected to increase by 12.1 percent between 2030 and 2040. This represents a slightly lower compound annual increase of 1.1 percent.

The Metropolitan Council² reports that the 7-county Twin Cities Metropolitan Area increased by 12 percent between 2010 and 2020. It projects that its population will increase by another 818,000 by 2050. It estimates that the area population will increase by 9 percent in the 2020-2030 decade, by 8 percent in the decade 2030-2040, and by 7 percent between 2040 and 2050. This growth is expected to result in another 626,000 jobs. These increases are relevant as growth in the outer ring suburbs will continue to stimulate growth in surrounding communities, such as Monticello, Albertville, and Rogers.

Since 2020, Wright County has been the fastest growing county in the state, achieving a population increase of 4 percent, according to US Bureau Census estimates.

Between 2018 and 2021 the number of households in Monticello increased by 686 to a total of 5,379³ households. The number of households has increased to 5,675¹ according to an estimate released in spring 2022.

Household Incomes

The median household incomes for Monticello, the identified market area, Wright County, and Minnesota are presented in the table below. Between 2018 and 2021, the median household income of Monticello increased by nearly 12 percent, while the county increased by 22 percent. The median is the midpoint at which there are an equal number of households with larger and smaller incomes. The median household income in Monticello was estimated to be \$73,651 in 2021, which is 5.2 percent below the state median.

¹ Minnesota State Demographic Center

² MetroStats, July 2021

³ US Census American Community Survey

MEDIAN HOUSEHOLD INCOME

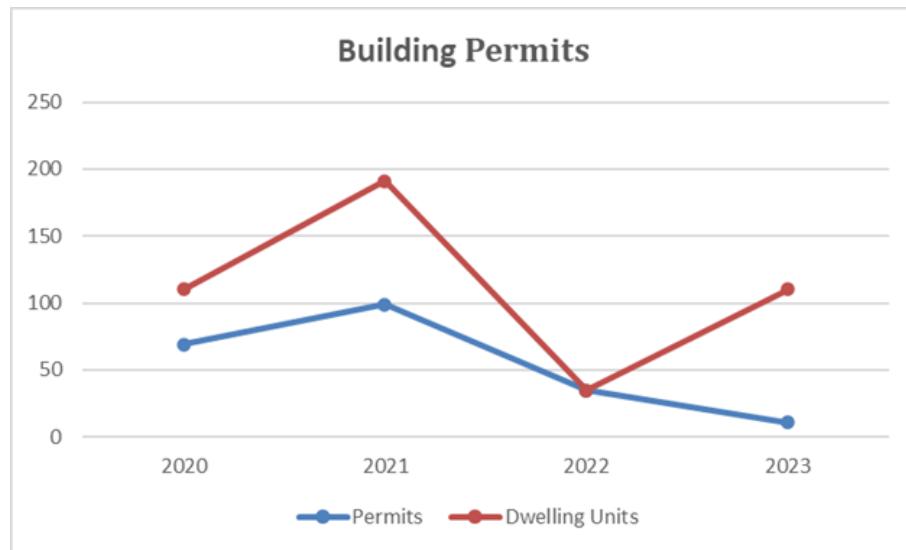
Primary Market Area

	2010	2018	2021	2018-2021 Change
Monticello	\$62,891	\$65,938	\$73,651	11.7%
Big Lake	\$61,941	\$79,612	\$93,524	17.5%
Becker	\$60,021	\$87,083	\$80,083	-8.0%
Silver Creek	\$52,507	\$58,125	\$64,821	11.5%
Wright County	\$67,963	\$81,881	\$99,964	22.1%
Minnesota	\$59,126	\$68,411	\$77,720	13.6%

Source: U.S. Census;
2021 ACS 5-Year Estimates

BUILDING PERMITS

New housing construction in Monticello hit a peak in 2021 when 97 multifamily units and 93 single family units were permitted. Residential development declined in 2022 with a total of 35 single family units permitted and no multifamily permits. In 2023 there are 476 housing units under construction and another 257 residential units planned.

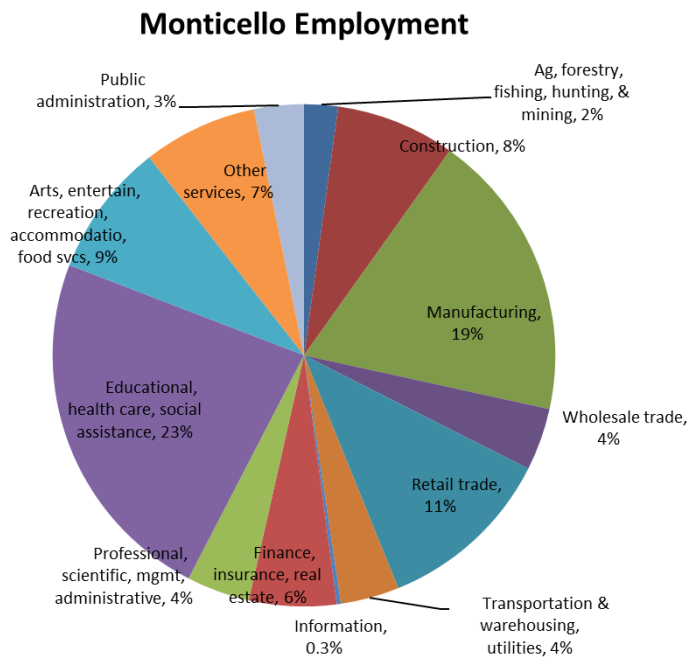


Source: City of Monticello

Monticello is experiencing a significant amount of commercial development. In 2022 nearly \$24 million of commercial developments were permitted, along with \$2.9 million of industrial development. In 2021 nearly \$14.8 million of industrial development was permitted.

EMPLOYMENT

Employment is a strong indicator of an area’s economic health. The graph below shows that Manufacturing and Education, Health Care & Social Services are the two largest employment categories in Monticello, accounting for 42 percent of the total employment. Manufacturing businesses are generally strong generators of lodging demand.



Source: MN Department of Employment & Development

Major Employers

Monticello has three large companies that provide the largest source of employment. It also has a number of manufacturers that generate hotel demand. The largest companies are profiled below.

MAJOR BUSINESS EMPLOYERS

<u>Company Name</u>	<u>Product / Service</u>	<u>Employees</u>
Xcel Energy	Energy	650
Cargill Kitchen Solutions	Food Products Supplier	425
CentraCare Health-Monticello	Health Care	577
Ultra Machining Company	Precision Machining	215
Polaris (WSI, Inc.)	Precision Machining & Mfg.	120
Bondhus	Tool Mfg & Distribution	104

Source: City of Monticello

Xcel Energy operates an electric generating nuclear power plant in Monticello. It completed a \$665 million upgrade in 2013 that boosted output and extended the life of the facility. Its operating license has been extended through 2030. This facility needs to be re-fueled and maintenance performed every two years for which a large number of contract workers (400-600) are brought in for up to several months. While many of the workers bring campers or trailers, a large number stay in area hotels.

Xcel also operates three coal-fired generators in nearby Becker. One of these generators will be shut down by the end of this year, while the other two will be taken out of service by 2030, as the utility moves toward clean energy sources.

Xcel received approval in September 2022 to construct a 460-megawatt solar farm on 3,500 acres it owns near Becker in an effort to move away from coal as a generating power source. The development will cost approximately \$575 million and create 300 construction jobs and 14 permanent full-time jobs. In May of this year, Xcel applied for approval to construct another 250-megawatt solar array that would make the complex one of the largest in the country. The addition would create 90 construction jobs. Both of these projects are to be completed by the end of 2025. They are projected to create \$240 million in economic impact to the area.

Cargill Kitchen Solutions is a leading marketer of further processed egg products. It operates a protein processing plant in Monticello that processes over 125 million pounds of eggs annually. It is a subsidiary of Cargill, Inc., the largest privately held company in the nation, which is headquartered in Wayzata, MN.

CentraCare Health-Monticello is centered around a 124-bed critical access community hospital. The hospital, one of nine CentraCare hospitals in the region, offers 25 specialty services. The Center has 150 medical staff members.

UMC (Ultra Machining Company) is a precision machining company with a specialty in the medical and aerospace industries. The company also develops prototype parts and does some assembly. Founded in 1968, the company recently added a 60,000-square foot expansion to its 75,000-square foot plant in Monticello.

Polaris (WSI, Inc.) manufactures small precision parts and assembles engines. It has 120 employees at the Monticello plant.

Bondhus Corporation manufactures high quality hand tools used throughout numerous industries. The nearly 60-year-old company has 104 employees.

Wiha Tools USA manufactures and distributes professional grade precision hand tools. Headquartered in Germany, the Monticello facility distributes tools to North, Central and South America. A 75,000-square foot manufacturing and logistics center is expected to be completed by the end of this year which will more than double their current space and add 40 jobs. A 75,000-square foot addition is planned for 2028.

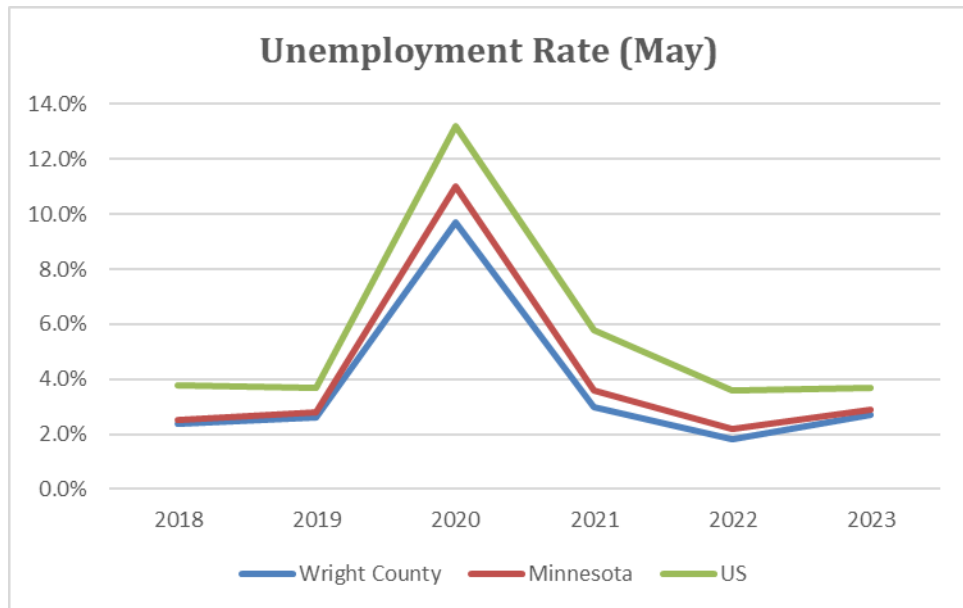
Proposed Data Centers.

Data centers that house hundreds of computers require enormous amounts of energy. Google had announced plans to construct a large data center on land Xcel owns near its Sherco coal plant. However, in December 2022 Google abandoned this project.

Last September Elk River Technologies announced its plans to build a data center on 384 acres near the Google site. The project is estimated to cost up to a billion dollars and will create 1,200 construction jobs and 100 full time permanent jobs.

Unemployment

The unemployment rate in Wright County as of May 2023 was 2.7 percent, a level that is equal to the statewide Minnesota rate and significantly lower than the national unemployment rate of 3.7 percent. The unemployment rate in the local economy trends very closely with the state.



Source: U.S. Bureau of Labor Statistics

SURROUNDING COMMUNITIES

In order to understand the dynamics of the area lodging market, we have provided a summary of Monticello’s trade area and the surrounding communities, which are shown on the map on page 14. Monticello hotels capture demand from Big Lake and Becker, while they lose demand to Rogers and Maple Grove. They also lose demand to Albertville, but gain demand on occasions when the one hotel there is full.

Trade Area

Monticello enjoys a relatively large retail market area that encompasses an approximate 10-mile radius with a total of more than 100,000 people. The secondary trade area extends west to include Clear Lake, Clearwater and Annandale and has a population of approximately 35,000 people.

Big Lake

Big Lake is located 3 miles northeast of Monticello on Highway 10. It had a population of 11,688 in 2020. The median household income in the community is 20 percent above the state median. Big Lake has one small independent motel and one fine dining restaurant and banquet facility, Willy’s on the Water. It also has a Mexican restaurant, El Loro. The Third Rail Bar & Grill, and Trails Grill and Sports Bar are more informal bistro/pub restaurants. Lodging demand from Big Lake is accommodated in Monticello due to the greater variety of hotels and restaurants there.

Becker

Becker has an estimated population of 4,877 and is located seven miles north and west of Monticello. The median household income in the community is 3 percent higher than the state median. The Sherburne County Generating Station, the largest coal-fired power plant in the state, is located in Becker. The maintenance of this facility periodically brings in crews that require lodging in area hotels.

There are two motels in Becker, a 68-room upper midscale GrandStay Hotel & Suites and a 32-room economy Becker Inn & Suites (once a Super 8). Restaurants are limited to the Pebble Creek Grill, located at the public golf course, which serves lunch and dinner and can accommodate banquets of up to 225, Los Ortizes Restaurant which is open for lunch and dinner and the Great Wall Chinese Restaurant. Additional dining options include Charlie’s Sports Bar and Grill and Dueling Brews brewpub that serves sandwiches.

Albertville

Albertville is located seven miles east of Monticello on I-94. It has a population of 7,896 and a median household income that is 3 percent higher than the state. Its major attraction is the Albertville Premium Outlets, a popular outlet mall with more than 65 stores.

The 66-room, upper midscale Country Inn & Suites is the only hotel in Albertville, but the hotels in Monticello and the surrounding communities of Rogers, Becker, Buffalo, and Maple Grove offer “shop and stay” packages for the mall. While the shopping is an attraction, this hotel draws demand from Monticello primarily because of the popular D Michael B’s Resort Bar & Grill that is located adjacent

to it. There is also a Willy McCoys, Hong Thai, and The Space Aliens Bar & Grill.

Rogers

Rogers is located 17 miles east of Monticello on I-94. It has a population of 13,295 and a median household income that is 76 percent higher than the state. This community continues to develop rapidly and is known as a strong family community with a good school system. It has a concentration of retail that is anchored by Kohl's and a Super Target. Its largest retail attraction is a 185,000-square foot Cabela's outdoor store.

There are four hotels in Rogers: a Hampton Inn & Suites and a Holiday Inn Express & Suites upper midscale properties; an AmericInn midscale property; and a Super 8 economy lodging facility. Food and beverage outlets include supper clubs Maynard's Restaurant and Bar and Clives Roadhouse. A popular brewpub, the Short or Tall Eatery & Dining Hall, is located adjacent to the Holiday Inn Express. Other restaurants include Guadalajara Mexican Restaurant, and two Asian restaurants: Bo Bo and Hong Thai. In addition, there are over 25 other food service options, including a variety of fast-food outlets.

Maple Grove

Maple Grove is a suburb of Minneapolis located 24 miles east of Monticello on I-94. It has a population of 70,253 and a median household income estimated to be \$117,442 that is 51 percent higher than the state. The community's largest employer is Boston Scientific with around 3,000 employees. Maple Grove has one of the largest retail concentrations in the state, making it a regional shopping destination. Since the Shoppes at Arbor Lakes, a 370,000-square foot lifestyle center opened, three additional centers have been added, bringing the total retail space to nearly 2 million square feet. Only Bloomington with the Mall of America has more space. Within the retail concentration at Arbor Lakes is a wide variety of restaurants that include steakhouses, ethnic restaurants, bistros, a brewpub, coffee shops and fast food.

There are 11 hotels in Maple Grove: six upscale hotels, two upper midscale hotels, one midscale hotel and two economy motels. Three of these hotels carry a Marriott franchise, two have a Hilton franchise, and two have an Intercontinental Hotel Group franchise.

TRANSPORTATION

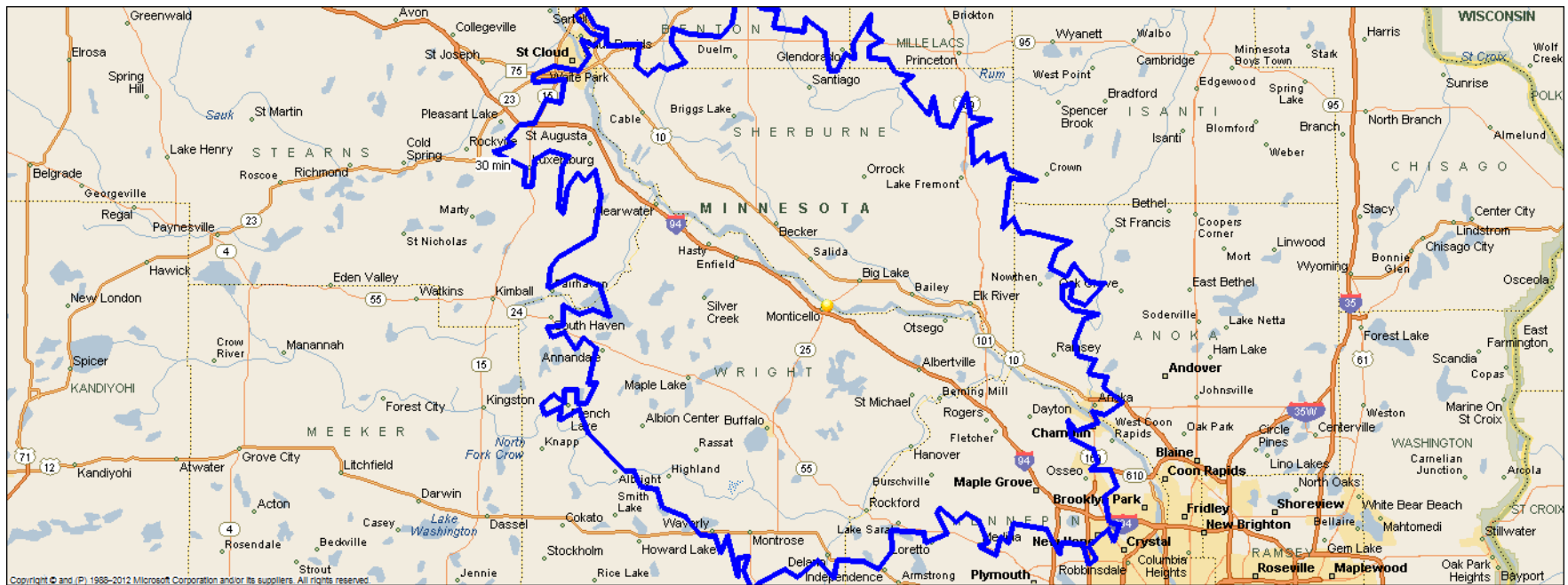
Highways

The highway network around Monticello is shown on the map on the following page. The irregular blue line indicates a 30-minute drive time from Monticello. This distance reaches St. Cloud to the northwest and Maple Grove to the south-east.

Monticello is located at the intersection of Interstates 94 and State Highway 25. Interstate 94 is a major route across the upper Midwest that connects Minneapolis-St. Paul with Chicago and Detroit to the east, and St. Cloud, Fargo, North Dakota and Billings, Montana to the west. At Billings, I-94 connects with Interstate 90 and continues west to Seattle, Washington. Highway 25 is a north-south route across central Minnesota that connects Monticello with Big Lake to the northeast and Buffalo to the south.

Traffic counts taken by the Minnesota Department of Transportation in 2022 show that Interstate 94 carries a large volume of traffic: a daily average of 57,300 vehicles to the east of Monticello and 43,900 vehicles to the west. Average daily travel on State Highway 25 between Monticello and Buffalo to the south is about 15,900 vehicles and between Monticello and U.S. Highway 10 to the north is about 40,900 vehicles. Highway 10 carries an average of 13,400 vehicles a day to the west of the Highway 25 intersection and 18,800 vehicles a day to the east of the intersection. This river crossing is the only one within 15 miles to the west and 13 miles to the east.

Monticello Area Highways



RECENT DEVELOPMENTS

The City of Monticello has been instrumental in bringing two recent projects to the city.

Block 52

This redevelopment project was recently completed on a major downtown block located at Pine and Broadway Streets. The project consists of 87 residential units, 30,000 square feet of first-floor retail space and underground parking.

Pointes at Cedar

This development will consist of a mix of housing, commercial business, and public amenities to be constructed around three interconnected man-made lakes. Located along Edmonson Avenue between Chelsea Road and School Boulevard, the 100-acre site is currently being prepared, with completion of the lake expected by the end of this year. The first residential project is under development on 10 acres of a 32-acre site. Permitted this year were 100 units of luxury apartments and a clubhouse, with another 100 units planned.

RESTAURANTS

Restaurants can be an important hotel requirement, particularly for commercial travelers and for local businesses entertaining customers. There is a shortage of restaurants of the type that would appeal to a commercial traveler in Monticello, compared to Maple Grove. At least one quality restaurant exists in both Albertville and Rogers, and both communities are close enough to the many restaurants in Maple Grove to support their corporate hotels. Monticello restaurant alternatives include:

- Applebee's Neighborhood Bar & Grill – A national franchised bistro that serves lunch and dinner. Liquor is available.
- Chatters Restaurant and Bar – A locally owned restaurant that serves lunch and dinner. Evening entrees include steak, fish and chicken, along with burgers, sandwiches and salads. Liquor is available.
- Bluestone Grill – Casual Mexican restaurant that serves lunch and dinner. Beer, wine and margaritas are available.

- Buffalo Wild Wings - A national franchised family-oriented sport bar that serves lunch and dinner. Liquor is available.
- Cornerstone Café – A locally owned, well-regarded restaurant that serves lunch and dinner. Liquor is available.
- Pancho Villa Restaurant & Bar – A casual Mexican restaurant with a full bar that serves lunch and dinner.
- Rancho Grande Authentic Mexican Restaurant – A casual restaurant with a full bar that serves lunch and dinner.
- Perkins Family Restaurant – A national franchised coffee shop that is open 24 hours. Liquor is not available.
- Pizza Ranch – an informal family restaurant with a menu centered around pizza. Liquor is not available.
- Guild Tavern and Social House Restaurant – Located in the River City Extreme bowling alley. It is a casual restaurant and sports bar that serves lunch and dinner.
- Beef O’Brady’s – a casual table service restaurant and bar located in downtown Monticello.
- Asian Café – a casual restaurant that features Japanese dishes and sushi. It is located in downtown Monticello.

It must be recognized that high-quality restaurant options are an important factor in a new hotel’s ability to capture some of the demand that presently leaves the Monticello market. This requirement was expressed by several of the large employers and similar concerns have been voiced in other hotel projects located in smaller cities. While Monticello has a broad range of restaurants and fast food, it does not have a chef-oriented restaurant or a steakhouse. Thus, some hotel business will continue to be lost to Rogers and Maple Grove.

TOURISM

Monticello is located along the banks of the Mississippi River and is part of the National Scenic Byway Route. At this location, the river is not deep enough to be navigable by vessels larger than small fishing boats. However, with a mild current, the river is ideal for canoes, kayaks and even paddleboats. Both banks are tree-lined and the city has developed walking and biking paths that extend

six miles including the length of the city.

The City's most recent Comprehensive Plan cites the community's system of parks and open space as a major factor in attracting and retaining new residents. At the present time, the city has three community parks located along the Mississippi River that are connected by the aforementioned pathway. These provide picnic facilities, restrooms, fishing piers and boat launches. They also provide excellent locations from which to observe the flock of over 1,500 Trumpeter Swans that winter here. The nearby power plant warms the river enough to keep it open during the winter. Several city residents provide 1,200 pounds of corn daily to help feed the once endangered birds. The feeding spectacle is a popular attraction for birders.

Other existing recreational facilities include the **Montissippi County Park**, a 170-acre park located along the Mississippi River northwest of the downtown area. The park features several hundred feet of river frontage, a boat launch, fishing pier, camping area, picnic grounds and two miles of trails for hiking, biking and cross-country skiing.

Lake Maria State Park is located six miles west of Monticello. This 1,580-acre park of rolling terrain preserves one of the few remaining stands of "Big Woods" hardwood trees that once covered southern Minnesota. Park activities include hiking (14 miles of trails), horseback riding, canoeing, fishing and cross-country skiing. Amenities include camper cabins and backpack camp sites. The park is open year-round.

The **Bertram Chain of Lakes Regional Park** was recently completed in a joint effort by Wright County and the City of Monticello. The park is located about three miles southwest of the city and consists of 1,200 acres of woodlands, lakes, wetlands and prairie. The park features a beach, several picnic areas, 7.5 miles of hiking trails and 14 miles of mountain bike rails. The park's camping facilities include 38 RV sites and six camper cabins.

Monticello Athletic Park is a large field-sports complex located on the north edge of the Bertram Regional Park. The large athletic park has 22 soccer fields, five lacrosse fields, and eight football fields. Following the first phase of improvements in 2019, many local athletic teams made Bertram their home field in 2020.

Immediate future plans call for the development of several baseball/softball fields, permanent restrooms, a concession stand, playgrounds and picnic areas. The

masterplan eventually calls for more fields, ball diamonds and amenities. These improvements will be based on community need and potential funding opportunities. The park is now funded by the municipal liquor fund.

The City has expanded its **Pathway** to include the entire length of the city up to the Montissippi County Park and a path along Broadway. It plans to extend the trails along the west side of the city limits to include the Bertram Lakes Park complex. This extensive pathway will connect the city's recreational facilities. This will create a recreational amenity for residents and visitors that will include and be supported by the Monticello Community Center.

SECTION 4: AREA HOTEL SUPPLY

A new hotel would seek to capture lodging demand from business activities in Monticello, visitors to area residents, and travelers on Interstate 94. It should be an upper midscale hotel that can capture demand currently leaving the market due to the lack of upscale hotel rooms, rather than competing directly with the existing hotels in the community.

Our analysis evaluated the facilities, amenities and pricing structure of the competitive hotels in Monticello and the neighboring communities that are capturing some of the Monticello lodging demand. Interviews with Monticello's large employers revealed that a large portion of the upscale commercial lodging demand utilizes hotels in Rogers, Maple Grove, and Albertville.

In this section of the report, we present information regarding the area's hotels that would be competitive with a new upper midscale hotel in Monticello.

HOTEL SUPPLY

The Monticello hotel market is framed by St. Cloud to the west and Maple Grove to the east. There are several hotels located along U.S. Highway 10 to the north, but we identified little leakage of Monticello demand to these properties. There are also two hotels (Country Inn & Suites and Super 8) located along State Highway 55 in Buffalo to the south. These hotels limit the draw of Monticello hotels from the south.

There are three franchised hotels and one older motel in Monticello. All three franchised hotels were visited during our fieldwork. The Best Western Chelsea Plus is an older but well-maintained upper midscale property. The other two franchised hotels, a Days Inn and a Super 8, are economy hotels and therefore would not be directly competitive with a new upper midscale property. The fourth hotel, the AmericInn Motel is an older independent economy property and thus not competitive with a new hotel.

MONTICELLO HOTELS

Hotel	Quality	Age	Rooms	October 2023 Rack Rates		Amenities
				Regular	Suite	
Best Western Plus Chelsea Inn & Suites	Upper Midscale	23 Years	51	\$130	\$150-\$160	Pool, hot tub, fitness room, Meeting room(1,200 sf)
Super 8	Economy	47 Years	70	\$87-\$97	\$147	Pool, meeting room (1,500sf)
Days Inn	Economy	37 Years	33	\$79-\$85	\$112	Jacuzzi suite
AmericInn Motel	Economy	42 Years	<u>28</u>	\$59-\$63	na	Refrigerators, microwaves
			131			

Source: STR and Hospitality Consulting Group

The rack rates shown in the above table are for room rates posted for October of this year. Summer rates are generally about \$20 higher.

The three franchised hotels are located near each other on the south side of the interstate, east of Highway 25. The area is currently more industrial than retail-oriented, however multi-unit residential projects are being attracted to this area. Restaurants on that side of the interstate include Applebee’s, Chatters, Blue Stone Grill, Buffalo Wild Wings, Taco Bell, McDonald’s and a small oriental restaurant.

Primary Competitive Hotels

Interviews with the large Monticello employers disclosed that some commercial lodging demand is displaced to hotels in Albertville, Rogers, and even Maple Grove. We also found that much leisure demand, particularly on weekends, is being displaced from Monticello due to frequent lack of room availability at the Best Western Plus.

Albertville is a 15-minute drive from Monticello, Rogers is 20 minutes, and Maple Grove is a 25-minute drive. Within this market area, there are four hotels located along the I-94 corridor that would be directly competitive with a new upper mid-scale hotel in Monticello. Due to the greater distance, hotels in Maple Grove would be secondarily competitive with a new hotel in Monticello.

The locations of these competitive hotels are shown on the following map.

Primary Competitive Hotel Locations



Best Western Plus Chelsea Inn & Suites



This 51-room, 23-year-old hotel presents the highest quality accommodations available in Monticello. It has upgraded to qualify for the franchise's "Plus" premium designation. It has 14 suites and amenities include an indoor pool and hot tub, an exercise room and 1,200 square feet of meeting space. A hot breakfast is provided to guests. Its room rates are \$130 for a regular room and \$150 for a suite. Rates generally increase about 15 percent during the summer and can increase by 45 percent on busy weekends. The hotel frequently fills on Saturday nights and sometimes requires a 2-night stay over a weekend.

Country Inn & Suites – Albertville



This 66-room, 19-year-old upper mid-scale hotel features an indoor pool and hot tub, an exercise room and a small 525-square foot meeting room. A hot breakfast is provided to guests. Its room rates are \$130 for regular rooms and \$141-\$173 for suites. Rates increase by about 15 percent during summers and 20 to 30 percent on weekends. The hotel offers up to a 10

percent discount for a variety of travelers. The hotel is located adjacent to a popular restaurant, D Michael B's Resort Bar & Grill, and across the street from the large Albertville Premium Outlet Mall. This is a Choice Hotels International franchise.

Hampton Inn & Suites – Rogers



This 16-year-old, upper midscale hotel has 114 rooms along with an indoor pool, a fitness center and a 1,012-square foot meeting room. A hot breakfast is provided to guests. Its room rates are \$124 - \$129 for a regular room and \$145 - \$149 for a suite. The hotel offers a 15 percent discount for non-refundable advance reservations. This is a Hilton franchise.

Holiday Inn Express & Suites – Rogers



This 14- year-old, upper midscale hotel has 75 rooms, an oversized indoor pool area that features several water park elements, an arcade, fitness center and an 806-square foot meeting room. A hot breakfast is provided to guests. Its room rates are \$119-\$124 for a regular room and \$129 - \$139 for a suite. Weekend rates are \$20 higher. It offers a 15 percent discount for non-cancellable reservations. The hotel is an Intercontinental franchise.

The characteristics and amenities of the primary competitive hotel supply are summarized in the following table.

PRIMARY COMPETITIVE AREA HOTELS

Hotel	Location	Quality	Age (Years)	Rooms	Rack Rates (Oct. 2023)		Meeting Space	Amenities
					Regular	Suite		
Primary Competition:								
Best West Plus Inn & Suites	Monticello	UM	23	51	\$130	\$160-\$170	1,200 sf	Pool, hot tub, fitness room
Country Inn & Suites	Albertville	UM	19	66	\$139	\$149-\$159	525 sf	Pool, hot tub, fitness room
Hampton Inn & Suites	Rogers	UM	16	114	\$166-\$175	\$194	1,012 sf	Pool, fitness room
Holiday Inn Express & Suites	Rogers	UM	14	75 306	\$139	\$149-\$159	806 sf	Pool, hot tub, fitness room

Key: M=Midscale; UM=Upper Midscale; U=Upscale
 Source: STR and Hospitality Consulting Group

Secondary Competitive Hotels

The following eight hotels are considered to be secondarily competitive with a new upper midscale hotel in Monticello due to their location and/or quality. The hotels in Maple Grove have a larger commercial component than the primary competitive hotels and are less reliant on interstate demand.

AmericInn



This 44-year-old, midscale hotel has 61 rooms along with an indoor pool and a hot tub. A hot breakfast is provided to guests. Its room rates are \$114-\$119 for a regular room and \$174 for a suite. There is no premium for weekends, however summer rates are \$20 higher. This is a Wyndham franchise.

Cambria Suites-Maple Grove



This 14-year-old, upscale hotel has 129 rooms along with an indoor pool, a fitness center and 2,025 square feet of meeting space. A hot breakfast is provided to guests. Its room rates are \$137-\$153 for a regular room and \$202 - \$222 for a suite. Weekend rates are 20 percent higher. This is a Choice Hotel franchise.

Hampton Inn-Maple Grove



This 26-year-old, upper midscale hotel has 120 rooms along with an indoor pool, a fitness center and a small 625-square foot meeting room. A hot breakfast is provided to guests. Its room rates are \$188. Weekend rates are 25 percent higher. This is a Hilton franchise.

Holiday Inn Hotel & Suites-Maple Grove



This 16-year-old, upper midscale hotel is the only full-service hotel in the market area. It has 136 rooms along with a restaurant and lounge, an indoor waterpark that is popular on weekends, a fitness center, and two meeting rooms with a total of 1,635 square feet. Its room rates are \$218 for a regular room and \$298-\$343 for a suite during the week. Weekend rates increase by as much as 50 percent. Rates include four wristbands for the weekend water park. This is an Intercontinental Hotel Group franchise.

Marriott Courtyard-Maple Grove



This 15-year-old, upscale hotel has 115 rooms along with an indoor pool, a fitness center and a 720-square foot meeting room. The hotel features a limited restaurant and bar. It has the highest room rates in the area at \$319 for a regular room and \$469 for a suite.

Hilton Garden Inn-Maple Grove



This 20-year-old, upscale hotel has 120 rooms along with an indoor pool, a fitness center and 1,400 square feet of meeting space. The hotel features a limited restaurant and bar. Its room rates are \$219 - \$229 for a regular room and \$249 for a suite. Weekend rates are 10 percent lower.

Staybridge Suites



This 23-year-old, upscale hotel has 119 rooms along with an indoor pool, a fitness center and a small 176-square foot meeting room. The hotel provides a breakfast buffet for guests and a cocktail reception three evenings per week. Its room rates are \$199 for a regular room and \$239 for a suite. Weekend rates are 5 percent lower. This is an Intercontinental Hotel Group franchise.

SpringHill Suites



This upscale all-suite hotel opened in 2019 with 84 rooms. Each suite has a minifridge and a microwave. A breakfast buffet is provided to guests and other amenities include an indoor pool, fitness center, a convenience store, and an outdoor grilling area. Its room rates are \$171-\$254 for a suite. Weekend rates are 20 percent lower. This is a Marriott franchise.

The secondary competitive hotels are summarized in the table below.

SECONDARY COMPETITIVE AREA HOTELS

Hotel	Location	Quality	Age (Years)	Rooms	Rack Rates (Oct. 2023)		Meeting Space	Amenities
					Regular	Suite		
Secondary Competition:								
AmericInn & Suites	Rogers	M	44	61	\$114-\$119	\$174	none	Pool, hot tub
Cambria Suites	Maple Grove	U	14	129	\$137-\$153	\$202-\$222	2,288 sf	Pool, hot tub, fitness room, bistro bar
Hampton Inn	Maple Grove	UM	26	120	\$188	na	625 sf	Pool, fitness room
Holiday Inn Hotel & Suites	Maple Grove	UM	16	136	\$218	\$298-\$343	312/1,323 sf	Water park, fitness rm, restaurant, lounge
Marriott Courtyard	Maple Grove	U	15	115	\$319	\$469	720 sf	Pool, whirlpool, fitness room, limited rest, bar
Hilton Garden Inn	Maple Grove	U	20	120	219-229	\$249	1,400 sf	Pool, whirlpool, fitness room, limited rest, bar
Staybridge Suites	Maple Grove	U	23	119	\$199	\$239	176 sf	Pool, hot tub, fitness room
SpringHill Suites	Maple Grove	U	4	<u>84</u> 884	na	171-254	558 sf	Pool, fitness room

Key: M=Midscale; UM=Upper Midscale; U=Upscale
Source: STR and Hospitality Consulting Group

ROOM RATE STRUCTURE

Current room rates in Monticello range from \$66 for economy lodging to \$120 for midscale lodging accommodations, before discounts. Demand sometimes peaks on weekends on account of tournaments and various social events. Room rates are sometimes increased by up to \$40 on these weekends and rates generally are increased by \$10 during the summer.

Room rates at the upper midscale hotels in the competitive supply range from \$130 to \$166 before discounts.

The current posted room rates for the competitive area hotels are summarized in the following table.

PRIMARY COMPETITIVE AREA HOTELS

Hotel	Location	Quality	Age (Years)	Rooms	Rack Rates (Oct. 2023)		Lowest Discount
					Regular	Suite	
Primary Competition:							
Best West Plus Inn & Suites	Monticello	UM	23	51	\$130	\$160-\$170	\$121
Country Inn & Suites	Albertville	UM	19	66	\$139	\$149-\$159	\$118
Hampton Inn & Suites	Rogers	UM	16	114	\$166-\$175	\$194	\$154
Holiday Inn Express & Suites	Rogers	UM	14	75 306	\$139	\$149-\$159	\$123

Key: M=Midscale; UM=Upper Midscale; U=Upscale
 Source: STR and Hospitality Consulting Group

Maple Grove has a stronger commercial base than the other communities in the primary market, and it benefits from the generally higher room rates charged in Minneapolis. Thus, it is able to achieve higher room rates and support several upscale properties. Room rates at the upper midscale and upscale properties range from \$137 to \$319, before discounts. The current posted room rates for the secondary competitive hotels are summarized in the following table.

SECONDARY COMPETITIVE AREA HOTELS

Hotel	Location	Quality	Age (Years)	Rooms	Rack Rates (Oct. 2023)		Lowest Discount
					Regular	Suite	
Secondary Competition:							
AmericInn & Suites	Rogers	M	44	61	\$114-\$119	\$174	\$103
Cambria Suites	Maple Grove	U	14	129	\$137-\$153	\$202-\$222	\$120
Hampton Inn	Maple Grove	UM	26	120	\$188	na	\$163
Holiday Inn Hotel & Suites	Maple Grove	UM	16	136	\$218	\$298-\$343	\$165
Marriott Courtyard	Maple Grove	U	15	115	\$319	\$469	\$158
Hilton Garden Inn	Maple Grove	U	20	120	219-229	\$249	\$184
Staybridge Suites	Maple Grove	U	23	119	\$199	\$239	\$170
SpringHill Suites	Maple Grove	U	4	84	na	171-254	\$156
				884			

Key: M=Midscale; UM=Upper Midscale; U=Upscale
 Source: STR and Hospitality Consulting Group

MEETING FACILITIES

Meeting facilities allow a hotel to attract additional demand related to area meetings, merchandise and hobby shows, as well as social functions. Meeting and function space in Monticello is provided by two large venues:

- **Monticello Community Center** - The largest array of meeting facilities in Monticello is located in the Monticello Community Center. The Mississippi Room is used for business, entertainment and social functions. It has 4,200 square feet and can accommodate up to 300 people. It is a popular venue for wedding receptions. In addition, there are three other meeting rooms of 940, 462, and 168 square feet. The rooms are available for rent to the public and liquor is allowed at events.
- **River City Extreme** is a bowling alley and entertainment complex located in Monticello. In addition to a restaurant, bar and a large game room, the complex features a ballroom with a capacity for 300 that is popular for weddings and banquets.
- **Super 8** has a 1,500-square foot meeting space
- **Best Western** has 1,200 square feet of meeting space.

A community needs public space to accommodate such functions as business meetings, training sessions, seminars, banquets, fund raisers, reunions and receptions. Several decades ago, most hotels had restaurants and large meeting spaces to fulfill these needs. However, the development of large numbers of economy and limited-service hotels, which lack food service and offer only small meeting space, has diluted the demand for full-service hotels, making their development difficult. As a result, restaurants, golf clubs and banquet halls are capturing increasing shares of this business.

The City of Monticello responded to this need by including a large meeting space within its community center. The executive director of the Monticello Chamber of Commerce indicated that the community has a need for even larger meeting space than what currently exists. Several local events have outgrown the available meeting space so are forced to hold their functions in the community center gym. Several larger groups have been turned away from Monticello due to insufficient meeting space.

While a large event center at a new hotel would draw new events to the community, such a facility would not be economically viable without significant financial assistance, given the elevated construction costs and interest rates that presently exist.

Based on this research, we feel that a divisible meeting room of 800 to 1,200 square feet would be appropriate for a new hotel in Monticello. Such a space would help the hotel attract commercial meetings business and also accommodate smaller social functions. Due to the large ballroom space in the community center, a similar large ballroom at the hotel would likely be under-utilized.

SECTION 5: AREA HOTEL DEMAND

HOTEL INDUSTRY TRENDS

The lodging industry was devastated by the Covid-19 pandemic when travel was severely restricted and many businesses shut down. Robert W. Baird & Company reported that industry wide RevPAR (revenue per available room) declined by 50 percent in 2020. Since that low, the industry has steadily been returning back to normal and it exceeded the performance of most other industries in 2022. Through the first half of 2023, STR Global reports that industry wide RevPAR (Revenue Per Available Room) was nearly 2 percent higher than the same period in 2019 (in adjusted dollars).

The leisure market segment was the first to recover, driven by pent-up demand after Covid restrictions, supported by excess cash from savings and government payouts. The business and group segments have been slower to recover. Business demand is expected to be back to 80 percent of normal by the end of this year. A full recovery is projected to occur in 2026. Industry wide occupancy in 2023 is projected to reach 64 percent with a 4 percent increase in ADR (average daily rate) resulting in a 5.5 percent RevPAR increase.

Future revenue growth is expected to come mostly from room rate increases, although some occupancy increase is expected due to the emerging commercial and group market segments. PwC projects a 3.5 percent increase in RevPAR for 2024.

Overall occupancy at Minnesota hotels increased from 48 percent in 2021 to 55 percent in 2022, according to STR Global data obtained from the Minnesota Lodging Association. The competitive supply along the I-94 corridor experienced an annual occupancy of 65 percent in 2022, which was 10 points higher than the statewide average.

The statewide occupancy through May of this year was 57 percent compared to 61 percent for the competitive supply. The statewide numbers are influenced by the low occupancy experienced at Downtown Minneapolis hotels. Statewide RevPAR in Minnesota increased by 11.4 percent through April of this year.

Airbnb has eroded hotel demand in some markets, particularly resort locations and large cities. Cofounded in 2008, Airbnb now has 2.9 million hosts and 8 million listings around the world. Hotels offer consistency while Airbnb offers more amenities, sometimes unique accommodations, and a different lodging experience, often at a lower price. These lodging options have the greatest impact on hotels in markets where the supply of hotel rooms is limited, as in large cities. For example, Airbnb is estimated to capture more than 10 percent of hotel demand in Paris, London and New York City. In response to this competition, some hotels are successfully listing rooms on the Airbnb platform. The largest impact is felt by midscale and luxury hotels: a study of the industry between 2008 and 2017 found that Airbnb rentals resulted in an estimated RevPAR decline of 4 percent and 2 percent in these segments respectively. It is important to note that many rentals occur in markets when hotels are full, so they do not result in reduced hotel revenues. A search of the Airbnb platform found only four listing in Monticello.

HOTEL DEMAND

A new hotel in Monticello would seek to capture the upscale lodging demand that is leaving the community to stay at higher quality hotels in neighboring cities, upscale demand from the interstate, and a portion of the demand that is presently accommodated by local hotels. In order to quantify the amount of local demand that can be expected, we interviewed representatives of area businesses, local government, and local hotels. In addition, we obtained historic performance data for the four franchised hotels in the competitive supply.

The patronage that will be available to a new hotel consists of commercial visitors conducting business in the area, travelers on the interstate, people attending social functions and visitors to area residents, and people attending meetings and other group functions. In conducting our market analysis, we looked at the characteristics of each demand component. A description of these characteristics follows.

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 weekdays. It originates from travelers conducting business in the area and passing through on the interstate. Commercial travelers generally seek out franchised hotels that are located near their business destination. Because much of this segment travels frequently, they are more likely to participate in hotel loyalty clubs.

This segment is estimated to be approximately 80 percent of its pre-Covid base. The return of the business traveler will be an important factor in the future growth in lodging demand.

Interviews with the large employers in the area revealed a typical number of visitors from corporate personnel, management, vendors, potential employees and customers.

- **Cargill Kitchen Solutions** has fewer visitors than previously since its corporate headquarters was moved to the Minneapolis suburb of Wayzata. It sponsors some training events and is visited by personal from other locations and maintenance specialists. The administrator interviewed indicated that some of the visitors stay at the Best Western Plus in Monticello, while most of the upper-level visitors stay in Maple Grove, attracted by the Hilton, Marriott, and Intercontinental hotel products and the variety of restaurants and shops.
- **UMC (Ultra Machining Company)** produces precision machined components. An administrator at the company indicated they do get some out-of-state visitors, but was unable to estimate the number.
- **Polaris (WSI, Inc.)** estimates that it has an average of one visitor a month that require lodging. These visitors typically utilize local hotels, but sometimes go to hotels in Maple Grove. Brand loyalty, loyalty club points and variety of restaurants were noted as reasons for leaving the Monticello market. The company has multiple meeting rooms in its plant, so has little need for outside meeting space.
- **Xcel Energy** operates a nuclear energy plant on the northwest edge of Monticello and a coal-fired energy plant in nearby Becker. The nuclear

plant is shut down every two years for re-fueling and maintenance. Crews of 400 to 600 workers are brought to the area for around 45 days in the spring during these scheduled power outages. While many of these workers bring campers and trailers, lodging contracts for the crews are negotiated by the contractor and this demand can fill area hotels that participate. Such an event occurred in April 2023, with the next outage scheduled for Spring 2025. Even if the hotels in the competitive supply do not participate in the worker contracts, they benefit from overflow demand from the economy hotels that are filled with workers. The nuclear plant just completed a \$665 million project that will extend the life of the generator (licensed through 2030) and increase its output.

Several business executives mentioned that a lack of restaurants in Monticello that are suitable for entertaining would be a detriment to a new hotel for some types of their visitors. In contrast to the limited restaurants in Monticello, there is a wide variety of restaurants and fine dining options in Maple Grove.

Leisure Demand

The Leisure demand segment consists primarily of visitors to local residents by friends and relatives, visitors attending weddings, reunions and other social gatherings, participants in sports tournaments that are hosted in town, and visitors to Monticello's special events.

Sports tourism is a growing segment of leisure hotel demand. A survey conducted by the University of Minnesota found that about 5 percent of event participants at the Bertram Chain of Lakes Park utilize hotels in the area. Local hotels should increasingly benefit as the athletic facilities develop more state-wide and regional tournaments

Leisure travelers passing through the area on Interstate 94 are estimated to account for approximately 30 percent of the total demand accommodated by the four competitive hotels. The Leisure market segment is largest during the summer months, when vacation travel is at its peak, and reaches its low point in December and January. Leisure demand is typically the most price sensitive demand segment.

Monticello is in the process of enhancing its outdoor recreational amenities in an attempt to attract tourists who seek more active experiences. These efforts include expanding the bike paths throughout the city and linking its parks, and improving access to the Mississippi for fishing, canoeing and kayaking. We believe these

efforts should be viewed as amenities that will enhance Monticello’s attractiveness as a destination, but are not strong enough to generate a significant amount of additional hotel demand. This is because the proximity to the Twin Cities area reduces the probability of an overnight stay from area visitors to these amenities.

Group Demand

Group business is generated by meetings, seminars and training sessions held by area employers, government agencies, associations and businesses. Monticello’s location midway between St. Cloud and the Twin Cities makes it a good location for regional groups and hobby shows. Demand from this segment has yet to fully recover to pre-Covid levels.

HOTEL MARKET PERFORMANCE

In order to assess the recent trends in the Monticello lodging market, we obtained detailed performance data from STR, a well-known research firm that collects and provides lodging data to the industry. The competitive supply consists of the one upper midscale hotel in Monticello (Best Western Chelsea Inn) and the three upper midscale hotels located along the I-94 corridor in Albertville (Country Inn & Suites) and Rogers (Hampton Inn & Suites and Holiday Inn Express & Suites).

This data shows that the competitive set of four hotels achieved an overall annual occupancy of 64.7 percent in 2022, the highest level achieved in the last eight years. The hotels achieved an average daily room rate of \$126.87, which represents an 11 percent increase over the previous year. Generally, a hotel targets a 60% to 70% occupancy to be successful.

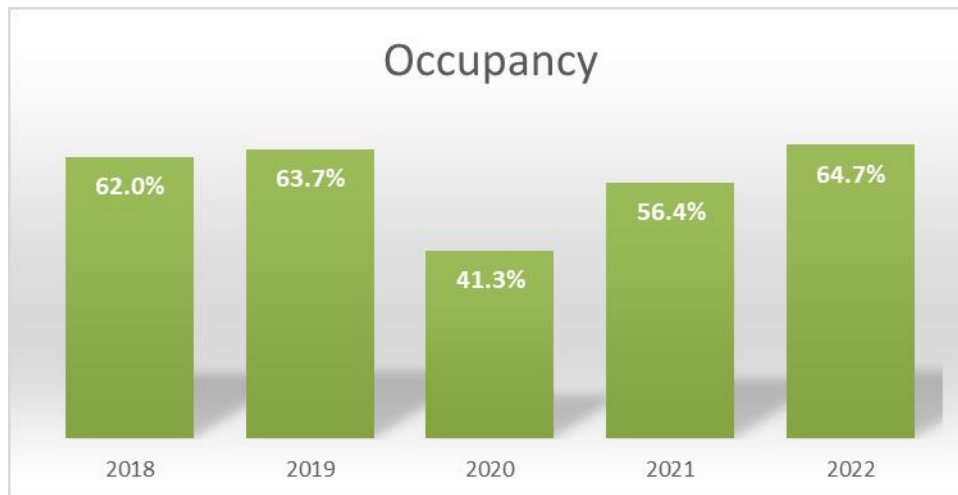
Lodging Demand

The amount of hotel demand accommodated by the four competitive hotels has increased over the last two years, documenting the recovery from the extreme impact from Covid-19 felt largely in 2020. The number of occupied roomnights in 2022 exceeded the 2021 level by nearly 15 percent and was 1.6 percent higher than even the pre-Covid demand in 2019. The recent trend in occupied hotel rooms is shown in the following graph.



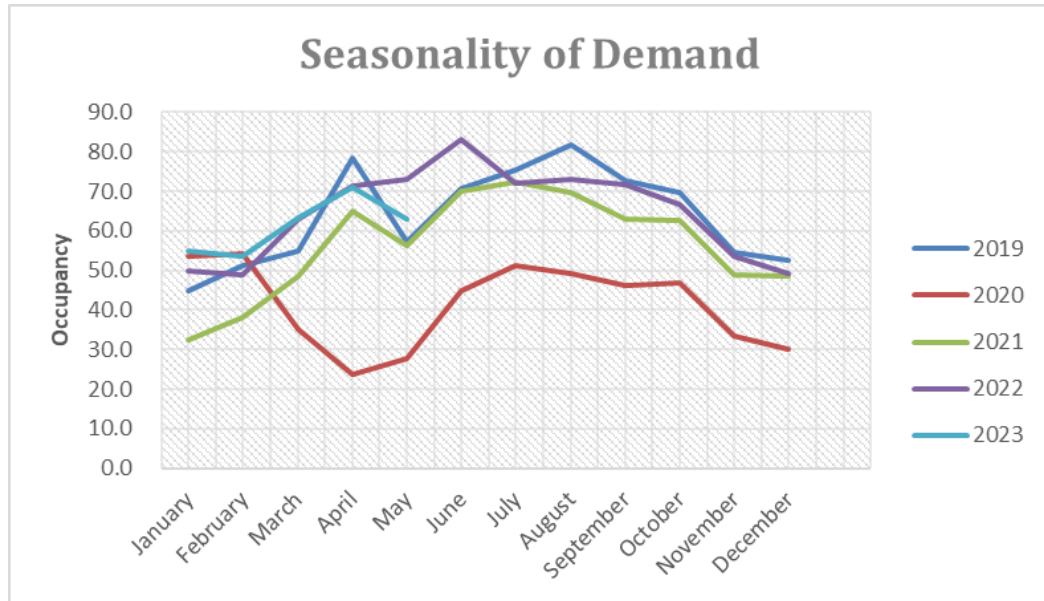
Source: STR

This demand resulted in the annual occupancies of the competitive set shown below. The market achieved about a 65 percent annual occupancy in 2022, which was one point higher than the pre-Covid level in 2019.



Source: STR

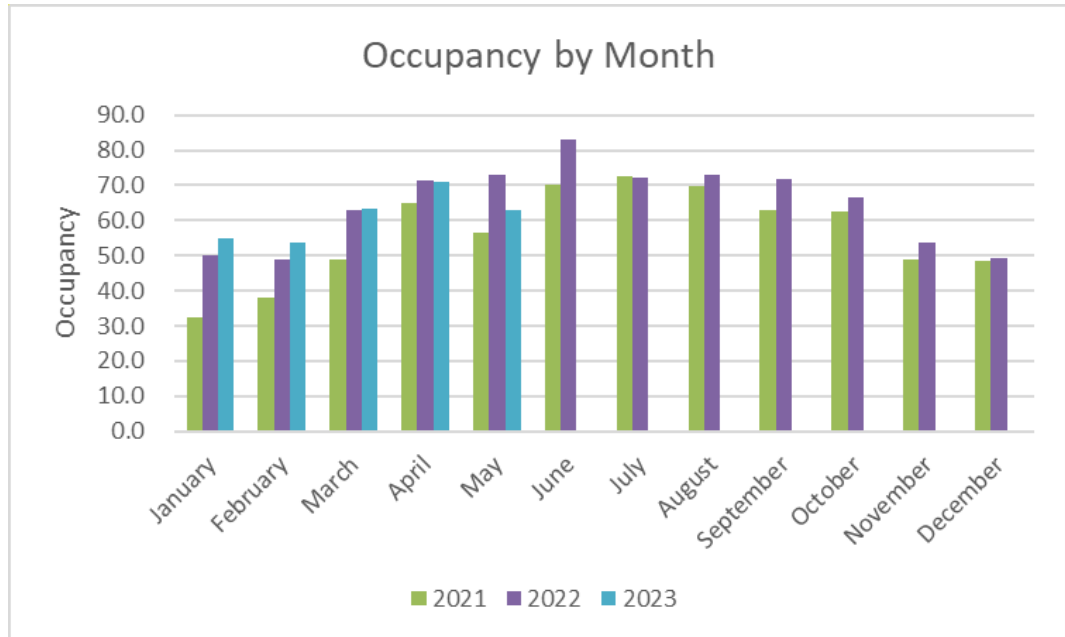
A graph depicting monthly occupancies is shown below. Occupancies tend to peak during the summer months which is a pattern typical of an interstate location. The fact that the summer increase is not that large relative to the rest of the year indicates there is a strong commercial component to the lodging demand which occurs throughout the year.



Source: STR

The graph shows the recovery from the large downturn in demand experienced in 2020. It also marks the impact of the Xcel Energy work crews in April of 2021 and 2023. Demand in 2022 exceeded 2019 pre-Covid demand. The rush to travel experienced in 2022 has subsided slightly: year-to-date through May total demand is nearly equal to the demand experienced during the same period last year.

The seasonality of demand is an important component in determining the size of a new hotel and in projecting its annual occupancy. Monthly performance data over the last three years for the competitive set shows that lodging activity peaks in the summer, exceeding 70 percent in the months of April through September.

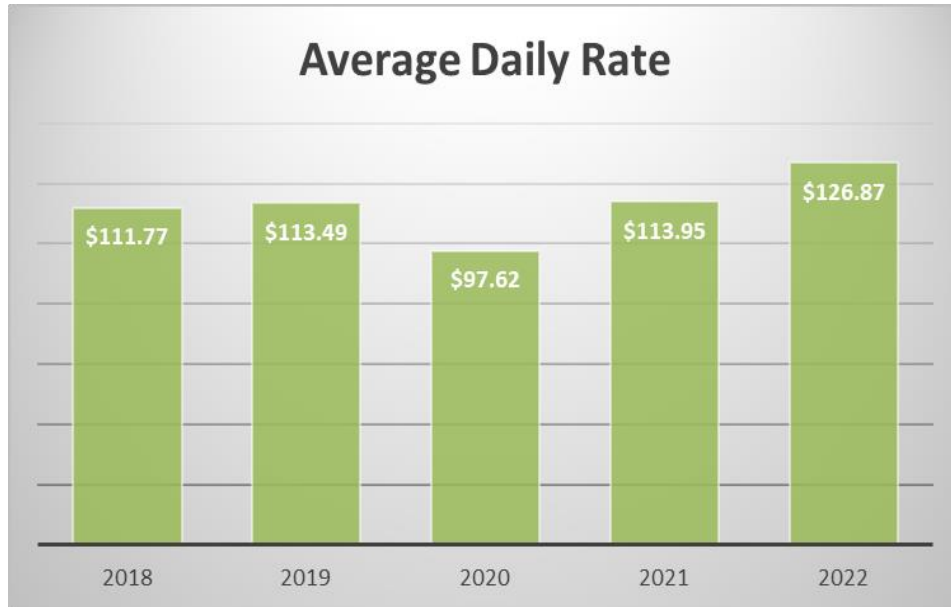


Source: STR

Average Daily Rate

The average daily rate over the last five years is shown in the graph below. The increase in ADR since 2020 is remarkable with a 16 percent increase in 2021 followed by an 11 percent increase in 2022. Year-to-date through May, the ADR for the competitive set has increased over 8 percent.

These large increases were a combination of hotels trying to recover from the poor 2020 performance, along with the necessity to cover increasing labor costs necessary to attract workers after Covid.



Source: STR Global

HOTEL DEMAND PROJECTIONS

Growth rate assumptions were developed from analysis of the area’s population forecasts, historic demand growth trends, and industry forecasts.

Market Mix

It is important to identify the mix of business in a lodging market since the different segments are likely to be growing at different rates and have different room rate characteristics. The mix of the lodging demand accommodated by the competitive set is estimated to consist of the following:

ESTIMATED MARKET MIX (2022)

Market Segment	Occupied Roomnights	% of Total
Commercial	34,000	47%
Leisure	31,100	43%
Group	7,200	10%
Totals	72,300	100%

We estimate that 47 percent of the competitive set market is generated by commercial activity, 43 percent is generated by local and leisure travelers, and 10 percent comes from meetings and other group functions.

We estimate that approximately 30 percent of the lodging accommodated by the competitive hotel set is business that comes off the interstate that is approximately equal parts commercial and leisure demand.

Growth in Lodging Demand

In estimating future levels of lodging demand that would be available to a new hotel, we considered the following factors:

1. Factor 1: The continued recovery from the Covid impact will result in more lodging demand, particularly in the commercial and group segments. The hotel industry is tied directly to the regional and national economy. As business activity continues to pick up, salesmen, executives and other business travelers will return to the road in increasing numbers. The recent increases in disposable income resulting from higher wages will support increases in vacations and other leisure travel. Hotel industry analysts expect the hotel industry to fully recover by 2025.
2. Population projections for Wright County show an expected 14 percent increase between 2020 and 2030. This represents a compound annual rate of 1.3 percent. A 12 percent growth is expected for the decade between 2030 and 2040.
3. The addition of more hotel rooms will allow for more guests to be accommodated on the nights in which the hotels are at capacity. This situation occurs on many nights during the summer and frequently on weekends throughout the year. An additional 1,000 roomnights have been added to the competitive market demand in the odd years to account for the demand from the Xcel work crews that can be accommodated by the additional available hotel rooms.
4. The addition of a new national franchise will draw more travelers off the interstate and discourage local commercial and leisure demand from leaving the Monticello market.

Based on these factors, we believe that a base annual growth rate of **2.0 percent** is a reasonable expectation for continued hotel demand growth for the competitive supply through 2029. An additional **1.0 percent** increase in 2025 and 2026 was factored into our analysis to account for the additional hotel rooms available when the subject hotel opens.

The amount of lodging demand projected to be captured by the competitive set of hotels is summarized in the following table. This demand includes demand that is presently leaving the market due to insufficient hotel quality and capacity and demand that will be attracted to the Monticello market by a new franchised hotel.

**MONTICELLO AREA LODGING MARKET
Projected Growth (With 80-Room Hotel)**

Year	Available Rooms	Demand (Roomnights)	Growth Rate(2)	Market Occupancy
Historic:				
2018	306	69,200		62%
2019	306	71,100	2.7%	64%
2020	306	46,100	-35.1%	41%
2021	306	63,000	36.4%	56%
2022	306	72,300	14.8%	65%
Projected:				
2023	306	74,400	2.9%	67%
2024	306	75,900	2.0%	68%
2025(1)	386	79,200	4.3%	56%
2026	386	80,600	1.8%	57%
2027	386	83,300	3.3%	59%
2028	386	83,900	0.7%	60%
2029	386	86,500	3.1%	61%

Note 1. Assumes subject hotel opens with 80 rooms

Note 2. Assumes crew business results in 1,000 additional roomnights in 2025, 2027, and 2029

Source: Hospitality Consulting Group

SECTION 6: RECOMMENDED FACILITIES

This section of the report presents the facilities that are recommended for a hotel that will be most successful given the area market characteristics. Estimates of the utilization of the recommended hotel are presented in the next section of the report.

HOTEL FACILITY RECOMMENDATIONS

Building both quality and amenities into a hotel adds cost and therefore, higher quality hotels with a restaurant and meeting space must charge higher room rates. Thus, the price sensitivity of a market must be assessed in order to determine the type of a hotel project that can be supported by the subject market.

The full-service hotel has all but disappeared in recent years for locations other than urban areas, large office parks, and corporate centers. This is due to their higher cost (and higher room rates) relative to limited-service hotels that can offer the same quality room but at a lower rate. Due to the challenges of staffing and operating a restaurant, full-service hotels are also considered to be of greater risk by lenders and investors.

Based on our evaluation of the local hotel supply and demand conditions we believe that an 80-room limited-service hotel of upper midscale quality will perform best within the Monticello competitive market.

Guest Rooms

The guest rooms should be finished with high quality floor and wall coverings and appropriately furnished. Bathrooms should be tiled and have granite counter-tops. Most of the bathrooms should have a walk-in shower, rather than a tub. Rooms should include smart televisions with at least one popular streaming service, a coffee maker, and free high-speed internet. We suggest the hotel's room complement should include some interconnecting rooms to better accommodate

family travelers. Four 1-bedroom suites are recommended to accommodate relocations, wedding parties and guests celebrating special occasions. At least one of the suites should offer full kitchen facilities suitable for long term stays.

Meeting Facilities

The hotel should include a public function room of approximately 1,000 square feet. A room of this size could accommodate 50 to 80 for a meeting, 50 for a banquet, and 100 for a reception. This amenity will allow the hotel to attract an additional demand segment made up of area meetings and social functions.

Other Amenities

Other amenities that are recommended for the hotel include:

- An indoor pool that will improve the hotel's competitiveness for leisure travelers and for visitors to area residents;
- An exercise room with several high-quality exercise machines and a television;
- A business center with a computer and printer available to guests 24 hours a day;
- Complimentary breakfast for guests; and
- High speed wireless internet access throughout the hotel.

Parking

Adequate and convenient parking will be required for the success of the hotel. In order to meet local code requirements, we estimate that the hotel should have at least 100 parking spaces. Additional parking may be required to accommodate attendees at functions that are not staying at the hotel.

Franchise Discussion

There is an emerging trend within the hotel industry whereby guests select a hotel based on its company's rewards program, rather than on convenience of location, room rates or amenities. The large franchise companies award points

for staying in their hotels which can then be redeemed for free or discounted stays at any hotel within their respective chains. Thus, it is not unusual for travelers to drive an extra distance to stay at a hotel whose rewards program they participate in. This factor can distort the competitive environment within a particular hotel market.

Marriott, Hilton, and Intercontinental Hotel Group have the most popular programs, as they have hotels throughout the world, including a number of popular resorts, where rewards can be redeemed. Choice Hotels has a liberal rewards program that provides free hotel rooms, but its inventory of hotels and resorts is not nearly as extensive as the three aforementioned hotel companies. Because these hotel brands are represented in nearby Albertville, Rogers and Maple Grove, we recommend that a hotel carrying a well-recognized national franchise should be considered for Monticello in order to achieve maximum market penetration. The stronger the subject hotel's franchise, the less business will be lost to these hotels in the surrounding markets.

SECTION 7: SITE REVIEW

The City has identified four possible locations for a new hotel. The general suitability of these sites is discussed below.

CRITERIA

Hotel sites are evaluated on the basis of visibility from major transportation routes, access, proximity to destinations, proximity to restaurants, and the suitability of surrounding land uses.

Visibility and Accessibility

All of Monticello's existing hotels are located near the Pine Street/Highway 25 intersection with the interstate. Their locations provide visibility from the interstate and easy accessibility for highway travelers. The technology of smart phones and GPS systems has reduced the importance of visibility and accessibility as they allow for a guest to easily book a hotel in advance and find its location. Thus, the need for visibility is diminished as fewer travelers stop at a hotel on impulse.

Proximity to Destinations

The largest industrial area is located on the southern side of Interstate 94 along Chelsea Road. Businesses located in this vicinity include UMC, Polaris, and Aroplax Injection Molding.

Businesses located on the northern side of the interstate along Broadway include BondHus and the CentraCare medical complex.

Proximity to Restaurants

Most of the community's restaurants are located along Highway 25, with three of the more popular ones (Applebee's, Chatters, and Buffalo Wild Wings) on the south side of the interstate. All three are located approximately 0.5 miles

or more from the existing hotels, so are beyond a comfortable walking distance. There is also a variety of fast-food restaurants in this area. A table service restaurant within easy walking distance would create a competitive advantage for a new hotel.

Suitability of Surrounding Land Uses

Generally, a retail or residential neighbor is preferable to an industrial land use. These typically are more compatible with a hotel as they are quieter, have pedestrian activity, and external lighting.

SUMMARY EVALUATION

As with any real estate development, the cost of the site and its necessary improvements ultimately has the greatest influence on selection.

The four identified site locations are shown on the map on the following page.

Site 1 has several potential hotel sites within the new Pointes at Cedar commercial/residential development. These sites are desirable because of their proximity to the restaurants located nearby along State Highway 25 and their proximity to the existing hotels. There are several potential hotel sites within the masterplan, however, we favor the site that is closest to Chelsea Road. This would be across the street from the Best Western Plus and very near the two franchised economy motels. The combination of these hotels, all within walking distance of each other, would provide a large number of rooms at varying price points that would be attractive to larger groups meeting in the city.

The two potential sites along Cedar Street are less desirable because of the incongruous nature of the commercial establishments on the west side of the street.

Site 2 is a large tract of agricultural land located at the eastern exit on I-94 and bounded by the interstate on the north, Chelsea Road on the south, and Fenning Avenue on the east. It is known as Freeway Adjacent Parcel (south side). With the exception of a Mill's Fleet Farm, the land uses along the south side of Chelsea Road are industrial. Businesses located here include UMC, Polaris, and Aroplax



Injection Molding. A hotel at this location would be convenient for visitors to these businesses. Because of the proximity to the interstate, noise abatement would be an important consideration in the construction of a hotel.

The site is visible for traffic eastbound on I-94 but is blocked for westbound traffic by the overpass. Fenning Avenue, which runs along the site's eastern border, provides convenient access to the CentraCare medical center and downtown Monticello.

A recent proposal (Big River) for commercial development has been submitted for the 10 acres on the eastern side of this parcel. Preliminary plans include 3 or 4 food outlets, a coffee outlet, 3 auto-related services, and possibly a bank. A second development phase on the western portion of the parcel would consist of larger shopping outlets.

This site seems premature for a hotel at this time but its viability will improve as the surrounding area develops.

Site 3 is located east of the eastern I-94 exit on the edge of the city. It is bordered by the interstate to the north and Broadway Street (Old Highway 152) on the south. The site lacks any commercial development in the immediate area, but has excellent access to downtown via Broadway Street as well as the businesses along Chelsea Road.

The site has excellent visibility and accessibility for westbound travelers on I-94 as they would pass by the hotel before having to exit the interstate. Eastbound travelers would have to exit before encountering the property, but would also have good access to reach the hotel.

This site seems even more premature for hotel development than Site 2 and will benefit from commercial development in the surrounding area. Because of the proximity to the interstate, noise abatement would be an important consideration in the construction of a hotel on this site.

Site 4 is located on the north side of I-94 and west of State Highway 25, which is the main road into downtown Monticello. It is bordered to the north by 7th Street West, and is separated from the highway by a Runnings Home, Farm & Outdoor Store and a Cub Foods grocery store. Residential development lies to the north and further west.

There is a Rancho Grand Mexican restaurant, a Pancho Villa restaurant and a Kentucky Fried Chicken outlet in the immediate area. The site has excellent visibility for eastbound travelers on I-94 as they would pass by the hotel before having to exit the interstate. Visibility for westbound travelers is partially blocked by the Highway 25 overpass.

We think this site is suitable for new hotel development.

SECTION 8: UTILIZATION PROJECTIONS

Our analysis of the Monticello lodging market concluded that the community is losing the more upscale demand to higher quality (upper midscale and upscale) hotels and franchises of the larger hotel companies that are located in neighboring cities. In order to assess the viability of a higher quality hotel, we quantified the amount of demand that such a hotel could capture, given the dynamics of the market, and estimated the average daily rate it could achieve.

UTILIZATION ASSUMPTIONS

As presented in the Hotel Demand chapter, annual lodging demand in the competitive market recovered in 2022 from the Covid downturn and the market occupancy was approximately one point higher than the peak years of 2015 and 2019.

The focus of a new hotel in Monticello should be to capture the demand that is currently leaving the market due to the lack of higher quality hotel accommodations and to capacity constraints. While the Best Western Prime Chelsea Hotel is an upper midscale hotel and well maintained, it is still more than 20 years old. It also sells out frequently on Saturday nights and business is strong enough that it requires a two-night minimum stay on some weekends.

A new, upper midscale hotel would benefit from local demand that would upgrade from the economy motels when they are full with the Xcel work crews. The hotel could participate in the worker contract business at a discounted rate if it had capacity and chose to do so.

Based upon an assessment of the market demand, we have estimated the potential utilization for the recommended hotel's first five full years of operation, assumed to begin in 2025 and stabilize in 2027. In developing the utilization estimates, several key assumptions were made including the following:

- The hotel will obtain and be operated under a strong national franchise;
- 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 Monticello during the projection period.

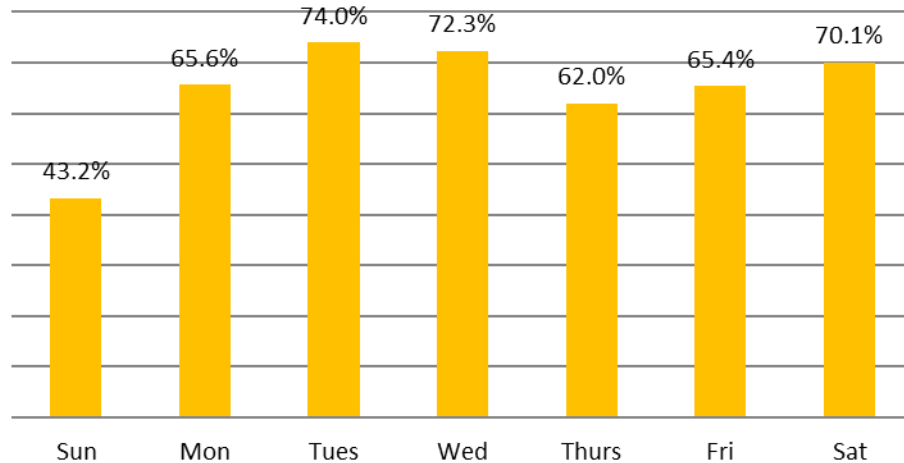
In addition, all findings, estimates, assumptions and conclusions discussed in this report are integral parts of the analyses and estimates that follow.

PROJECTED OCCUPANCY

In order to calculate the occupancy that the subject hotel is likely to achieve, we looked at the performance of the other competitive hotels in the primary market and analyzed the lodging demand that is generated by employers and activities in the Monticello area and by travelers on the interstate.

Further insight into the market can be gained by analyzing the weekly demand patterns. As shown below, on average an occupancy greater than 70 percent was achieved on Tuesday, Wednesday and Saturday nights throughout the year. The high weeknight occupancies indicate that a strong commercial demand component exists in the market.

Annual Day-of-Week Occupancy



Source: STR

For the months of June 2022 and through May 2023, an average occupancy of greater than 70 percent was reached on Tuesday in six months, on Wednesday in eight months, on Thursday in five months, and on Saturday in nine months. The competitive market ran at near capacity in June 2022, with the monthly average for every night except Sunday achieving occupancies greater than 79 percent. Average occupancies at these levels indicates that the market is unable to accommodate all of the demand on certain nights, resulting in demand leaking out of the market, most likely going to hotels in Maple Grove.

Based on the forecasted continued economic improvement and growth in local population, we have assumed that the amount of lodging demand accommodated by the subject hotel will increase at a base annual rate of 2.0 percent throughout the projection period. An additional 1.0-point demand growth is projected for the new hotel’s first two years of operation due to the additional capacity it provides, as well as increased marketing efforts among the competitive hotels in response to the new competitor.

The sources of this new demand included:

- Additional commercial demand that is presently deterred from staying in Monticello (and goes to Maple Grove) due to lack of high-quality accommodations;

- Additional demand from travelers on I-94 attracted by a new hotel carrying another national franchise and offering additional capacity on nights when the local hotels fill up;
- Additional demand from meetings and training sessions held by area companies, associations, and organizations;
- Additional demand from sports tournaments held at the Monticello Athletic Park; and
- Additional demand generated by social functions such as weddings and reunions which will be attracted by the new facilities.

Projected Hotel Utilization

Based on the results of our market study, we estimate that the recommended hotel would be able to capture a premium above its fair share of the primary market demand. By calculating the ratio of the rooms available at the new hotel to the total number of rooms available within the market, its “fair share” percentage of demand may be determined. 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 recommended 80 rooms represent 20.7 percent of the competitive supply ($80/386 = 20.7\%$). Our analysis found that the hotel can expect to achieve a market share that has a 5.0 percent premium over its fair share. This premium will be due to the newness of its facilities as it competes with the older Best Western Prime Chelsea Hotel.

The results of our utilization analysis are presented in the following table, which shows the subject hotel achieving projected occupancies that range from 54 percent in its first year to 64 percent in its fifth year.

**RECOMMENDED MONTICELLO HOTEL
Projected Utilization
80 Rooms**

	2025	2026	2027	2028	2029
Market Demand:					
Base Market	78,200	80,600	82,200	83,900	85,500
Crews	1,000	-	1,000	-	1,000
Total Market	79,200	80,600	83,200	83,900	86,500
Subject Hotel:					
Commercial	7,300	7,800	8,500	8,600	8,800
Leisure	7,100	7,500	7,800	7,800	8,100
Group	1,500	1,700	1,800	1,800	1,900
Occupied Rooms	15,900	17,000	18,100	18,200	18,800
Available Rooms	29,200	29,200	29,200	29,200	29,200
Projected Occupancy	54%	58%	62%	62%	64%
Market Share	20.1%	21.1%	21.8%	21.7%	21.7%
Fair Share	20.7%	20.7%	20.7%	20.7%	20.7%
Penetration Rate	96.9%	101.8%	105.0%	104.7%	104.9%

Occupancies projected for the first two years are lower than the stabilized level of operation, as the hotel will require time to develop its marketing programs, particularly for group business, and to maximize public awareness of the hotel facilities. The hotel is expected to achieve its full market share of leisure demand in the second year and its full market share of the commercial and group demand in its third year. Thus, its market penetration will stabilize in its third year of operation.

It must be recognized that some local demand will still choose lodging in Maple Grove because of the restaurants, shopping and variety of Upper Midscale and Upscale hotels that exist there.

Market Mix

The mix of the hotel’s lodging demand at its stabilized level of operation is shown in the table below.

**ESTIMATED MARKET MIX
New 80-Room Hotel (Stabilized)**

Market Segment	Occupied Roomnight	% of Total
Commercial	8,500	47%
Leisure	7,800	43%
Group	1,800	10%
Totals	18,100	100%

PROJECTED AVERAGE RATE

The analysis from which we developed our projections of average daily rate for the recommended hotel included the quality and pricing structure of the other primary competitive hotels.

As shown in the table below, current weeknight rack rates for regular rooms at the competitive area hotels range from \$130 to \$179. Room rates are very flexible and can change daily depending on bookings. All the hotels charge a premium for Friday and Saturday nights (ranging from 5 to 45 percent) and during the summer (premiums ranging from 5 to 15 percent). The Best Western Plus in Monticello tends to charge the highest weekend premium (of up to 45 percent). It was estimated to achieve an average rate of about \$120 in 2022.

The average daily rate at a hotel falls below the rack rates due to the numerous discounts that are offered to guests and to lower rates charged during periods of slack demand. Some of the competitive hotels offer a 10% discount for seniors and AAA members; some offer a 10% to 15% discount for their loyalty club members, and a 10% to 15% discount for advance non-refundable purchase. Performance data obtained from STR shows that the competitive supply achieved an overall average rate of \$126.87 in 2022. This rate is more than 11 percent higher than the average rate achieved in the previous year. For the first five months of 2023, the average rate was nearly \$128, which is 8.3 percent higher than the same period last year.

We estimate that the average daily rate this year for the primary competitive hotels will range between \$129 and \$146. Based on our analysis, we have determined that the recommended upper midscale hotel should be able to achieve an average rate of **\$135** in current 2023 dollars.

COMPETITIVE AREA HOTELS

Hotel	Location	Quality	Age	Rooms	2023 Rack Rates(1)		Weekend Premium	Summer Premium	Estimated 2022 ADR	Estimated 2023 ADR
					Regular	Suite				
Primary Market										
Best Western Chelsea Inn	Monticello	Upper midscale	18	52	\$130	\$150-\$160	45%	15%	\$120	\$130
Country Inn & Suites	Albertville	Upper midscale	14	66	\$130	141-173	20%	15%	\$119	\$129
Hampton Inn & Suites	Rogers	Upper midscale	11	114	\$179-\$189	\$194	5%	15%	\$135	\$146
Holiday Inn Express & Suites	Rogers	Upper midscale	9	75	\$139	\$149-\$159	5%	5%	\$125	\$135

Note 1: Posted rates October 2023

Source: Hotel web sites and Hospitality Consulting Group

The large increases in ADR that occurred in the last two years is not expected to continue. The industry-wide ADR is forecasted to increase between 3.0 and 4.0 percent in 2024. Accordingly, we believe that a 3.0 percent annual rate growth is reasonable for projecting future room rates in the Monticello competitive market. Factored into the average room rate projected for the subject is an inflation factor of 2 percent and a real growth factor of 1 percent, for a total increase of 3 percent annually. The inflated average rate in 2025, assumed to be its first full year of operation, is projected to be \$143.20.

PROJECTED AVERAGE RATE

80 Rooms

Year	Average Daily Rate
2023	\$135.00
2024	\$139.05
2025	\$143.20
2026	\$147.50
2027	\$151.90
2028	\$156.50
2029	\$161.20

PROJECTED ROOM REVENUE

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

**PROPOSED MONTICELLO HOTEL
Projected Room Revenue
80 Rooms**

	2025	2026	2027	2028	2029
Available Rooms	29,200	29,200	29,200	29,200	29,200
Occupied Rooms (Rounded)	15,900	17,000	18,100	18,300	18,800
Annual Occupancy	54%	58%	62%	63%	64%
Occupied Rooms (Rounded)	15,900	17,000	18,100	18,300	18,800
Average Daily Rate	\$143.20	\$147.50	\$151.90	\$156.50	\$161.20
Room Sales (Rounded)	\$2,277,000	\$2,508,000	\$2,749,000	\$2,864,000	\$3,031,000

SECTION 9: FINANCIAL PROJECTIONS

Estimates of cash flow from operations before debt service have been prepared for the first five years of operation for the hotel, expected to open in 2025. 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 industry data for small limited-service hotels.

Room revenues reflect an annual increase of 3.0 percent in average daily rate and expense categories have been inflated at an annual rate of 2.0 percent, with the exception of labor and real estate taxes that were inflated at 3.0 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 suggested by the Uniform System of Accounts for Hotels.

NOTES TO FINANCIAL PROJECTIONS

Revenue

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

Miscellaneous Income consists of meeting room rentals, movie rentals, guest laundry, pool rentals, interest and other ancillary revenue sources presented net of associated costs.

Departmental Expenses

Rooms Departmental Expenses include payroll and related benefit expenses for the front desk, housekeeping, and laundry. It also includes other miscellaneous rooms expenses such as breakfast expense, cleaning and guest room

**RECOMMENDED 80-ROOM UPPER MIDSCALE HOTEL
PROJECTED CASH FLOW FROM OPERATIONS BEFORE DEBT SERVICE**

	<u>2025</u>		<u>2026</u>		<u>2027</u>		<u>2028</u>		<u>2029</u>
OCCUPIED ROOMNIGHTS	15,900		17,000		18,100		18,300		18,800
OCCUPANCY	54.5%		58%		62%		63%		64%
ADR	\$143.20		\$147.50		\$151.90		\$156.50		\$161.20
	<u>AMOUNT</u>	<u>%</u>	<u>AMOUNT</u>	<u>%</u>	<u>AMOUNT</u>	<u>%</u>	<u>AMOUNT</u>	<u>%</u>	<u>AMOUNT</u>
REVENUE:									
Guest Rooms	\$2,276,880	99.6%	\$2,507,500	99.6%	\$2,749,390	99.6%	\$2,863,950	99.6%	\$3,030,560
Vending	5,642	0.2%	6,153	0.2%	6,682	0.2%	6,891	0.2%	7,221
Miscellaneous Income (net)	4,630	0.2%	4,950	0.2%	5,271	0.2%	5,329	0.2%	5,475
Total Revenue	2,287,152	100.0%	2,518,603	100.0%	2,761,343	100.0%	2,876,170	100.0%	3,043,255
DEPARTMENTAL EXPENSES:									
Rooms Departmental Expenses	565,044	24.8%	606,409	24.2%	648,667	23.6%	670,790	23.4%	701,101
Vending Expenses	1,693	30.0%	1,846	30.0%	2,005	30.0%	2,067	30.0%	2,166
Total Departmental Expenses	566,737	24.8%	608,255	24.2%	650,672	23.6%	672,857	23.4%	703,267
Total Departmental Profit	1,720,415	75.2%	1,910,349	75.8%	2,110,671	76.4%	2,203,313	76.6%	2,339,988
UNDISTRIBUTED OPERATING EXPENSES									
Administrative & General Expenses:	207,767	9.1%	218,495	8.7%	229,668	8.3%	236,329	8.2%	244,899
Information & Telecommunications	17,973	0.8%	18,333	0.7%	18,322	0.7%	18,688	0.6%	18,685
Marketing Expenses	102,460	4.5%	112,838	4.5%	123,723	4.5%	128,878	4.5%	136,375
Franchise Fee	136,613	6.0%	150,450	6.0%	164,963	6.0%	171,837	6.0%	181,834
Utilities	104,476	4.6%	113,938	4.5%	123,736	4.5%	127,606	4.4%	133,714
Property Operations & Maintenance:	72,414	3.2%	101,253	4.0%	116,626	4.2%	120,064	4.2%	124,611
Total Undistributed Operating Expenses	641,702	28.1%	715,306	28.4%	777,038	28.1%	803,401	27.9%	840,117
INCOME BEFORE FIXED CHARGES	1,078,713	47.2%	1,195,043	47.4%	1,333,633	48.3%	1,399,912	48.7%	1,499,872
FIXED CHARGES									
Insurance	32,782	1.4%	35,822	1.4%	39,143	1.4%	42,773	1.5%	46,739
Real Estate Taxes	63,672	2.8%	131,165	5.2%	135,100	4.9%	139,153	4.8%	143,328
Management Fee	91,075	4.0%	100,300	4.0%	109,976	4.0%	114,558	4.0%	121,222
Replacement Reserve	45,538	2.0%	75,225	3.0%	109,976	4.0%	114,558	4.0%	121,222
Total Fixed Charges	233,067	10.2%	342,512	13.6%	394,195	14.3%	411,042	14.3%	432,512
CASH FLOW BEFOR DEBT SERVICE	\$845,646	37.0%	\$852,531	33.8%	\$939,438	34.0%	\$988,870	34.4%	\$1,067,360

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 house-keeping staff and certain other hourly workers have variable schedules.

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. This expense is calculated at 5 percent of total revenue and includes a franchise marketing fee of 2.5 percent of room revenue.

Franchise Fees are fees paid to the franchise company as a royalty. The expense is calculated to be 5.0 percent of room revenue, an amount typical for most franchises.

Utilities expense includes costs related to heating and cooling, electricity, gas, water and sewer. Utilities expense is projected from a base of \$6.20 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 over the early years as the facility will be new and the equipment under warranty.

Management Fee

Management Fee – We have assumed that the hotel will be managed by a professional management company for a fee equal to 4.0 percent of total revenue.

Fixed Charges

Insurance expense is projected to be \$375 per room, similar to the premiums paid by other hotels with pools.

Property tax expense is projected from an estimate of \$1,500 per room, an amount derived from industry data, and was increased by 3.0 percent each year. This expense amounts to approximately 5.0 percent of total revenue. In the first year, the tax expense assumes the hotel is only half completed at the time of assessment.

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 the second year, stabilizing at 4.0 percent in the third year.

ECONOMIC FEASIBILITY ANALYSIS

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

Project Cost

The following development budget estimate was prepared by Hospitality Consulting Group for purposes of testing the preliminary economic feasibility of the project. It is based on budgets from other upper midscale hotels from projects on which we have worked, However, the quality and scope of amenities selected for the actual project could cause the costs to vary significantly.

For analysis purposes, we have assumed the hotel to have a total cost of \$11,000,000, or approximately \$137,500 per guest room.

Recommended 80-Room Upper Midscale Hotel Monticello, Minnesota

Building Specifications: 80-unit Upper Midscale Hotel
with indoor pool, hot breakfast, meeting room, and exercise room.

	<u>Total</u>	<u>Per Room</u>
Land	\$880,000	\$11,000
Building and Improvements	6,930,000	86,625
Site Work Allowance	960,000	12,000
Fixtures, Furnishings, and Equipment	1,200,000	15,000
Financing & Amortizable Costs	340,000	4,250
Contingency & Working Capital	240,000	3,000
Development/Other Fees	450,000	5,625
Total Project Costs	\$11,000,000	\$137,500

Financing Scenario

The terms for hotel financing depend on the experience and financial strength of the developer and the operator. At the present time, conventional hotel loans are being made at 8.0 to 8.5 percent interest rate with the requirement of between 30 to 40 percent equity. For analysis purposes we have assumed an 8.0 percent interest rate and a 35 percent equity investment or \$3,850,000, leaving a loan of \$7,150,000 to provide funds for the \$11,000,000 total project cost.

Source of Funds:

Equity	\$3,850,000	35%
Debt	<u>7,150,000</u>	<u>65%</u>
	\$11,000,000	100%

Debt Term Assumptions:

Annual Interest Rate:	8.0%
Amortization:	20 years
Annual Payment:	\$718,000

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

Economic Feasibility Analysis

Estimated Project Cost: \$11,000,000
 35% Equity; 65% Debt; 8% Interest

	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Cash Flow Avail. for Debt Service	\$846,000	\$853,000	\$939,000	\$989,000	\$1,067,000
Debt Service	\$718,000	\$718,000	\$718,000	\$718,000	\$718,000
Debt Service Coverage Ratio	1.18	1.19	1.31	1.38	1.49
Cash Flow to Equity	\$128,000	\$135,000	\$221,000	\$271,000	\$349,000
Equity	\$3,850,000	\$3,850,000	\$3,850,000	\$3,850,000	\$3,850,000
Return on Equity	3.3%	3.5%	5.7%	7.0%	9.1%

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 minimally meet its

debt service requirements in the first two years, and will not produce a comfortable debt coverage until its fourth year.

Hotel investors typically like to see cash on cash returns of at least 10 percent. A hotel development company, who also would manage the hotel, may include the management fee in its investment decision and thus accept a lower return. In this simple analysis, the projected cash on cash return on equity only reaches 9 percent by the hotel's fifth year of operation.

The project cost and terms of financing assumptions used in this analysis produces marginal debt coverage in the hotel's early years and does not provide an acceptable return on investment until its fifth year. Therefore, we conclude that the hotel project may not be economically feasible without some measures that either reduces its cost or the interest rate, or both.

ADDENDUM

CONSULTANT QUALIFICATIONS HOSPITALITY CONSULTING GROUP

Stephen Sherf – *President, Hospitality Consulting Group*

Stephen Sherf has over 30 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 in 2000, founded a hospitality consulting company. He has also worked as a sales agent for hotels 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.

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