

Hotel Market Analysis

Project Feasibility

Cambridge, MN

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Cambridge Minnesota Hotel Market Analysis

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EXECUTIVE SUMMARY

The City of Cambridge engaged IDM Group, LLC to produce the following report for the potential development of limited, select or full service hotel in the city of Cambridge, located in Isanti County, in East Central Minnesota. The purpose of the study is to analyze the surrounding community and cities to determine the feasibility of the market and understand the risks associated with a development.

Given the size and pace of the economic activity in Cambridge and its surrounding area—the nearby communities of Minneapolis and St. Paul, the location of the subject site and its proximity to the greater Twin Cities market—it seems apparent that there is a base demand for a hotel with meeting and banquet facilities. The potential for development in the area is promising, and IDM is engaged to verify market demand and overall market observation. This study includes a preliminary Economic Analysis Section that will further verify the potential of building a hotel.

IDM is engaged to provide a Competitive Market Overview, a Comprehensive Statistical Market Study, and all project economics from operations to development. This includes operational speculations providing an overview of market, potential development information concerning the market area, and market factors that would affect the possible development of a hotel at this location. The goal is to provide a Competitive Market Overview, a Comprehensive Statistical Market Study, and all Project Economics—from operations to development—on operational speculations.

Given the consultants' development experience, existing hotel management, and knowledge of the hospitality industry, they are fully aligned to develop first-class hotels and qualified to offer market analyses. All parties remain confident that an independent review of this report would support our findings.

This report may or may not be acceptable for external investing and/or lending purposes and may depend upon this market's ability to support this hotel, additional requirements, and the desire for more specific information.

ENGAGEMENT SCOPE

This study presents the current and potential demand for hotel accommodations and analysis of existing facilities in the Cambridge market and the greater surrounding competitive market. It recommends the position and general characteristics of the hotel and other project amenities to compete amongst the market. These characteristics will be driven by architectural site limitations, functionality of the operation, and the market's ability to sustain the business.

Process Overview and Scope

For the market analysis, the consultants interviewed community, city and county leaders and secured data from the city staff, and existing hotel facilities, regarding the status of their businesses and future plans for each market addressed in the analysis: reviewed economic data from the city, state, and region, hotel market. Forecasts were made based on the market's historic performance, the growth in demand, and anticipated supply. The potential subject hotel's accommodation occupancy levels through the first several years of operation are based on those historical trends.

The market analysis determines the current and potential market for hotel accommodations and amenities, including the necessary components, and further determines the appropriate size, positioning, and scope of facilities to best serve the market, including market share and competitive advantages and disadvantages. These recommendations will be presented in a narrative and tables that set forth the hotel description, meeting space, breakout rooms, largest room, mix and type of guest market segmentation, recommended facilities and amenities. The consultants will also identify recommended price points and estimated levels of utilization.

Based on recommendations regarding project market and historical trends, the consultants will prepare a consolidated statement of estimated annual operating results for the proposed facility, complete with sources and level of revenues, related and unallocated expenses for the property through available cash flow for debt service and return on equity. The estimate will address a typical year in the property's operation in current value dollars and set forth the anticipated first several years of operating results in inflationary dollars.

The first step of this process involved a meeting with the city economic development staff and city administrator along with a thorough market tour of the potential sites and community. We identified several potential site locations, reviewed site goals, possibilities, objectives, and the competitive markets to be analyzed. The focus of the study was to review overall market through market interviews, primary market research, and historical data.

For a hotel to be competitive and successful within its market it must be competitively positioned. We provide factors important to this hotel's success and address factors necessary for the hotel's site. The factors that we address in the market study are:

- Project site and its accessibility.
- Visibility from various points.
- Proximity to demand generators and their impact.
- Benefit of support amenities and services.
- Facility amenities and potential design enhancements to the existing product.
- General economics of the market and operating hotel.
- Comparison to competitive hotels' characteristics.
- Continuity with overall development strategy, or master plan, of the project or community.
- Lodging demand within the subject market and property market share.
- Competitive set investigation and comparison.

The conclusion of this analysis includes:

- A review of the statistical history of competitive hotels within the market.
- Forecast of occupancy, ADR, and revenue trends for the subject market and potential subject property.
- Detailed operational projections for sales and expenses for guest rooms, and food and beverage such as banquet and catering departments. We will also review past and current trends to industry averages.
- Market segment contribution projections to determine hotel amenities.
- Ten-year operational profit & loss and sales projections, evaluated in today's dollar.
- Economic impact within the region.

Research

This report focuses on the supply and demand in hotel accommodations within the subject market. To best understand the current market dynamics and relative positioning of subject hotel, we looked at current demographics and its trend, market analysis from independent resources, and a review of the most competitive and comparable hotels, meeting, and banquet facilities. Our research identified the historic and projected occupancy, Average Daily Rate (ADR), market segmentation mix, and operational positioning of the project. Our research leads to the review of the facilities, amenities, services, and general condition of the competition to position the hotel.

Similar trends affect the economics of hotel operations and the demand for hotel accommodations. To forecast these operational projections, we used industry standards, relevant data from managed properties, area demographics, and industry statistics. To determine if the business environment could sustain the added hotel supply, we gathered and analyzed relevant data such as current and proposed demand generators, population growth and demographics, and employment growth. This information is in the Hotel Lodging Demand section.

Market Performance and Facilities Recommendations

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

Next, we project, in detailed fashion, the occupancy, average rate, and revenues for the first 10 years of operation based on historical trends within the subject market. We used those projections to recommend the size, type, and characteristics of the hotel and the amenities offered. We will meet with you to discuss the feasibility and various interests of the potential developer, owner and operator.

Development Costs & Operational Costs: Economic Analysis

The Economic Analysis included in the market study shows development and construction estimates based on our experience and industry-supplied data (such as industry averages) to complement the revenue and expense pro forma analysis for this hotel project. These figures will be compared with the estimated development costs for a full understanding of risk level. Whole debt service assumptions and equity return are not modeled and directly addressed.

ASSIGNMENT LOCATION—Cambridge, MN



Project Location and Description

Exhibit 1 of this report shows the geographic location of Minnesota and the Cambridge market area within the United States.

Exhibit 2 of this report shows the geographic location of the Cambridge market within the State of Minnesota.

Exhibit 3 shows the geographic location of the subject site within the City of Cambridge.

Cambridge, MN, Overview

Cambridge is a city in Isanti County, located in East Central Minnesota, United States, at the junction of Minnesota State Highways 65 and 95 just 15 miles west of I-35. It is located just over an hour north of the Twin Cities, MN. It is the county seat of Isanti County and is located along the Rum River. Cambridge is notable for having the highest percentage of Swedish Americans of any city in the United States with a population of over 5,000 people.

Cambridge is also connected to the greater Midwest by rail. Burlington Northern Santa Fe Corporation (BNSF Railway) has daily mainline rail service between Minneapolis and Duluth. Train traffic is significant and the tracks divide the center of town.

Cambridge is growing and the most rapid growth took place between the years of 2000 and 2008. The 2000 population of 5520 grew to 8111, at the 2010 census or a 32% increase. During the next 25 years the city estimates that Cambridge will grow by another 60%. For a few years Cambridge was the fastest growing area of East Central Minnesota.

History of Cambridge

The City of Cambridge was established in the late 19th century along the railroad from Minneapolis to Duluth. It was named by settlers from New England, although the surrounding area was heavily populated with Swedish immigrants, as were many areas of Minnesota.

The old city of Cambridge was located a mile and one half south of the present city, platted in 1856 by John Owens, a St. Paul newspaperman, and R. F. Slaughter, a St. Paul real estate developer; Owens retired from the newspaper in 1857 and began farming in North Branch Township. The post office was established in 1856. The new Cambridge was started when Jedediah Kimball of Maine built a boardinghouse in 1859. The towns people voted in 1869 to rename the community Cambridge, rather than Old Isanti, for the county seat; it was incorporated as a village February 26, 1876. A number of businesses began, including a woolen mill, roller mills, and a starch factory, and when the Great Northern Railway came through in 1899, there was increased development.

Today

The City of Cambridge, “Minnesota’s Opportunity Community,” is located in Isanti County, Minnesota about 30 miles north of the Minneapolis-St. Paul metro area, and about one hour from downtown Minneapolis. It is the largest community in the county with approximately 20% of the county population. Cambridge is the closest tax-free JOBZ development zone to Minneapolis —just 45 miles straight north of downtown. It is attractive for businesses to locate or expand in Cambridge's JOBZone, because business can save thousands of dollars in taxes each year through 2015 from community incentives. The subject area has a significant number of retail and manufacturing businesses that is somewhat disproportionate to the population of the city and the community often appears larger than its physical size. Cambridge has become the hub of the county offering not only employment opportunities but also retail, educational and medial service to the people who live in Isanti County.

Cambridge is home to the Cambridge Medical Center, Cambridge Campus of Anoka Ramsey Community College, and the Cambridge-Isanti School District. The East Central Regional Library, serving six counties, is also headquartered in Cambridge.

The 700-seat Performing Arts Center on the campus of Cambridge-Isanti High School is the center of Cambridge's cultural life. The state-of-the-art theater presents performances by student, professional and touring artists. It also supports one of the most active arts education program in the region.

The community’s proximity to the Twin Cities and its accessibility from TH-65 (one of the major roadways connecting central Minnesota to the metro area) allows Cambridge residents to enjoy the cultural and sports of the city and region. The community’s accessibility has helped make Cambridge as a growing residential and commercial area.

The affects of the national recession has positioned unique opportunities for developers to see regional market conditions, once again favorable. The opportunities to acquire developed land, at attractive prices, are now surfacing.

SUBJECT SITE ANALYSIS

The market being studied in this market analysis is in the City of Cambridge, MN. The community was settled by New England settlers and Swedish immigrants in 1866. This farming community was very desirable because it had had a potato starch factory, a wool carding and spinning mill, a flour mill, long distance telephone service, an electric plant and was a great place for young families. Today as the County seat it not only is the hub for government services and offices but it also offers the residents regional shopping, medical and educational services.

Safety

The safety of the immediate area is regarded as a relatively safe area, with little to no crime in Cambridge area on the rise. Cambridge's property crime levels tend to be much lower than Minnesota's average level. The same data shows violent crime levels in Cambridge tend to be lower than Minnesota's average level.

The 2009 FBI database shows that the crime in the Cambridge area reported less than 300 total occurrences of which nearly 80% of them were non violent thefts. Violent crime is so low in the area that it did not report against the national average. The violent crime data would suggest that Cambridge is safer than the average US city. Violent crime—which includes murder, forcible rape, robbery, and aggravated assault—is well below the nation percentile. Property crime—which includes burglary, larceny, theft, and vehicle theft—is lower than the national average as well.

Visibility

The sites being analyzing in Cambridge are located away from the downtown area but close to the area's major employers. The subject sites are visible, located on or near the major corridors of business.

Accessibility

The City of Cambridge is located north of the state's Twin Cities with Interstate 35 to the east and State Hwy 169 to the west. Primary access to Cambridge is via State Highway 95 (east/west) and State Highway 65 (north/south). The intersection of these two highways has the highest traffic in the area and is the focal point for the commercial area. Highway 65 is a four-lane rural expressway providing convenient accessibility to the Twin Cities metro area for communities throughout east central Minnesota. Highway 95 is a two lane highway running east/west through the area. The City of Cambridge is centrally located and is most accessible by automobile or by private air travel.

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

- Minneapolis/St. Paul—48 miles (55 min)
- Duluth, MN—114 miles (2 hours)
- Rochester, MN—125 miles (2 hours 15 min)
- St. Cloud, MN—48 miles (1 hour)
- Madison, WI—306 miles (5 hour 30 min)

Air Transportation

Cambridge is serviced by two airports, the Cambridge Municipal Airport and Minneapolis St. Paul International Airport. The Cambridge Municipal Airport is a public airport located approximately 2.5 miles from the central business district. It is owned and operated by the City of Cambridge and is used mostly for private aviation and transport.

The Minneapolis - St. Paul International Airport (MSP) is an international airport located in the Twin Cities of Minneapolis and St. Paul, MN just 48 miles (55 minutes) from Cambridge. In 2010, MSP served 32 million passengers and accommodated 437,075 landings and takeoffs making it 15th in North America for the number of travelers served and the 12th busiest airfield in the United States. It is currently served by twenty two airlines and operates more than half a million take offs and landings on an annual basis.

Education

Cambridge is within 1 hour (45-55 miles) of at least 56 different post secondary institutions that provide technical and advanced educational programs. The Cambridge area has and above average graduation rate for high school, at approximately 85% combined (city, township and Isanti County). Ironically the county population does not have a higher post secondary graduate percentage. Only 18.8% of the population in the City of Cambridge has a bachelor's degree.

Anoka Ramsey Community College – has a campuses located in Cambridge and Coon Rapids. Beginning in 1965 with 600 students in a wing of Centennial High School in Circle Pines, Anoka-Ramsey Community College has grown considerably. In 1967 the college moved to the current Coon Rapids Campus of approximately 103 acres. The Cambridge Campus opened in 1978 and has shown consistent growth in enrollment and facilities. The Cambridge campus serves approximately 2500 students. Classes are also offered at several off site locations including Becker, Blaine, Chisago Lakes, Elk River, Monticello, North Branch and several other locations. In 2010 there were more than 12,500 students enrolled in fulltime and continuing education classes. It is a member of the Minnesota State Colleges

and Universities System offering associate degrees that transfer as the first two years of bachelor degrees. Associate Degrees include Associate of Arts, Applied Science and Science.

Lodging in Cambridge

There are several campgrounds and one hotel/motel accommodation, The Crossings by Grand Stay Inn & Suites, available in the Cambridge area. Campgrounds are located near lakes and the scenic protected Rum River. The Isanti County Fairgrounds facility also provides a parking area for camping, with showers and hook-ups.

Meeting Facilities in Cambridge

Existing banquet and meeting facilities in this market are typical of the small community profile of most communities in the Midwest. The facilities that are available are supported by local caterers and rental companies. There are extremely limited resources for corporate or board meetings, association meetings or events that require hotel rooms adjacent to or in the same building that the meeting is being held in. Many of the companies located in the county have small in-house meeting facilities or often will meet in the Twin Cities for larger events. The closest full service hotel is located in Elk River or the northern suburbs of Minneapolis and St. Paul, 32 miles away.

There are a variety of small rooms available for rental for 20-70 people at a variety of restaurants including: Crossings by Grand Stay Inn & Suites, Grace Point Crossing, Heritage Center, Minnco Center, Perkins Restaurant, Pizza Pub, TSL Properties and Sidelines Sports Grill. The Minnco Center is the best facility for meetings seating up to 72 theatre style or 42 for banquets. It is only available to non-profit organizations for seminars and training meetings.

Several larger venues include the Cambridge American Legion which will seat 260 for a banquet and offers a kitchen for use by guest or outside caterer. Isanti County Historical Society, located at the NW corner of the Fairgrounds has facilities for 100 person banquet that include a commercial catering support kitchen, wireless internet access and small audio visual systems. A wedding coordinator and wedding packages are available. Note: July 8, 2011 this venue burned due to arson and has now been torn down.

The Isanti Fairgrounds, located in Cambridge near Hwy 95 is used year-round for approximately 80 events. Not only are their Curling facilities for tournaments but other buildings are used for trade shows, animal shows, and the Jaycee Building on site offers seating up to 200 people and has a kitchen. Inquiries have been made about building expansion to accommodate indoor BMX events year round. The Fairgrounds also offers parking lots to campers during high demand times since there are not enough hotel rooms available.

The largest and newest meeting and banquet facility is the Armed Forces Reserve Community Center. It is available to the public for rental by calling the City offices for meetings, classes, basketball and volleyball tournaments, fundraisers, weddings, receptions, etc. The AFRC is a large assembly hall and two classrooms which can be divided in half that seat 60 people classroom style. The Assembly Hall which accommodates up to 400 for a banquet is a multi-purpose room that doubles as a large banquet area and a gymnasium. It has a regulation basketball court or it can be divided into two half courts with adjustable basketball hoops. This space is used weekly, frequently by the community college for classes. Rental fees are priced very reasonably and discounted/free for government and non-profit groups. It is not available during reserve training weeks.

Eight miles from Cambridge is Isanti which has small meeting and banquet venues of similar variety from restaurants, bowling alley and coffee shop locations to a Civic Arena and Community Center. Spectacular Events offers complete catering at their Banquet Center located at Sanbrook Golf Course.



MINNESOTA REGIONAL ECONOMIC INVESTIGATION TOURISM AND DEMAND GENERATORS

Minnesota's Tourism Investment

It was reported by the Minnesota Tourism and Economic Recovery Report that even as our nation contended with an unprecedented economic crisis and severe weather in 2009, Minnesota's \$11 billion tourism industry remained one of the core strengths of the state's economy—despite tourism posting a dramatic decline in 2009, falling from \$13.1 billion in travel expenditures in the previous year. All details are available in our 2009 Economic Impact of Traveler Spending report online at Explore Minnesota.com.

(Source: Explore Minnesota)

Tourism plays a vital role in Minnesota and businesses that cater to tourism—such as resorts, hotels, campgrounds, bed & breakfasts, and retail stores—complement hundreds of miles of biking trails as well as the many parks, golf courses, historic sites, and area attractions.

The estimated number of annual person-visits in Minnesota is more than seven times the total population of the state. Person-visits to and through Minnesota for leisure or business are as follows:

• Visiting friends/family (unpaid lodging visitors)	13.6 million
• Hotel/motel/B&B visitors	12.1 million
• Day trip visitors	9.2 million
• Campground visitors	2.5 million
• Resort visitors	1.6 million
• Total person-visits in Minnesota	39.0 million

Source: The Economic Impact of Expenditures by Travelers on Minnesota, June 2007-May 2008

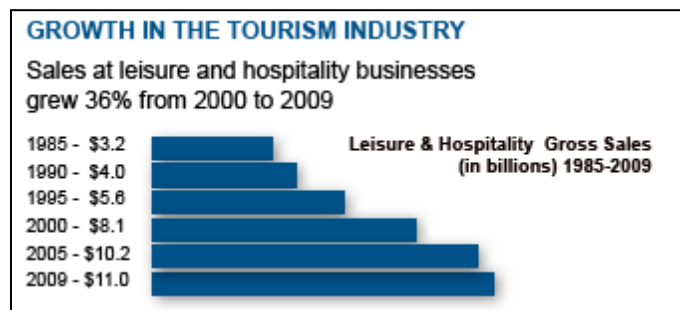
(A person-visit represents one person staying in one accommodation for one or more nights, or on a day trip away from home.)

Top home states of non-resident travelers: Wisconsin, North Dakota, Iowa, Illinois, California, Michigan, South Dakota and Texas. The vast majority of all travelers to Minnesota come from the North Central region.

Minnesota's Tourism Investment

The Department of Tourism spent approximately \$10 million in 2009 promoting the state as an ideal travel destination. In return:

- Travelers spent more than \$11 billion in the state in 2009
- Tourism directly supported 238,000 full-time equivalent jobs over 10% of the state's total private sector employment and \$3.9 billion in wages and salaries.
- Travel spending generated \$699 million in local government revenues and state revenues.
- Travel & tourism creates jobs and generates sales in every county of the state.
- Travelers in Minnesota spend more than \$33 million a day.
- The leisure and hospitality industry account for 17% of the Minnesota's state sales tax revenues.



- Sales in the travel industry grew 36% from 2000 to 2009.
- Every \$1 invested in state tourism marketing returns an estimated \$4.60 in local and state taxes, \$20.40 in wages and \$53.00 in gross sales.
- Minnesota ranks 22nd among the states in traveler spending, 18th in travel generated employment and 14th in travel generated payroll.
- Summer is Minnesota's top tourism season, generating \$4.07 billion.

Economic Impact by County

The Cambridge area reports within the Minneapolis-Saint Paul Region. The county of Isanti is one of 10 counties reporting to this region. Isanti County reported \$30,936,390 in gross sales and supporting 832 jobs, ranking 10th within the region.

Seasonality Review

To fully understand the traveler impact on Minnesota as a four-season destination, the Department of Tourism tracks spending as follows:

- Q1 Winter December–March
- Q2 Spring April–May
- Q3 Summer June–August
- Q4 Fall September–November

Total estimated 2009 traveler expenditures were \$11 billion and was reported as follows:

- Q1 \$2.64 billion 24%
- Q2 \$1.54 billion 14%
- Q3 \$4.07 billion 37%
- Q4 \$2.75 billion 25%



Traveler Spending by Sector

Spending during Minnesota's \$39 million annual visits is distributed throughout the economy as follows:

- Shopping & Retail 25%
- Recreation 25%
- Food 24%
- Lodging 14%
- Transportation 12%

Subject Market Economic Profile

This section of the report will highlight the general economic conditions observed for this market area by reviewing various research sources, including independent reports on population, unemployment, demographics, and lodging statistics within the region. This overview does not in itself determine the potential success of the hotel in the Cambridge market; however, it offers insights into the stability and growth potential of the community. It will directly affect the conclusions reached in this study.

The Cambridge economic base is diversified, with a relatively equal distribution among the manufacturing, wholesale/retail, and services sectors. Manufacturing traditionally has been a principal industry in the city. Cambridge is also a primary retail and wholesale trade center, drawing from the market area.

Economy

Cambridge provides residents and visitors a unique blend of outdoor activities, agricultural experiences, art, and cultural diversity. Cambridge has a strong market for manufacturing businesses, many of which are located within the city. These businesses include a variety of manufacturing, machining and engineering companies. This strong and diverse economy allows the city to offer potential employers the ability to compete in a global economy. The city is home to the Cambridge Opportunity Industrial Park, a 107 acre park with approximately 55 acres available and the Southeast Industrial Park, a 118 acre site that is almost completely built out. The Rum River Business Park and Spirit River Crossings a retail development have available sites for growth. The community of approximately 8000 has attracted an unusually a high profile of retail with anchors including Target, Cub Foods, Lowe's, Kohl's Department Store, Super Wal-Mart, Super Menards, Office Max, and Applebee's. Retail stores serve the surrounding communities including Princeton, Isanti, Bradford, West Point, Walbo, and Grandy, MN.

Business

Isanti County is home to more than two dozen tech-intensive manufacturers in diverse industries including metals, plastics, automotive parts, printing, testing labs, food processing and materials handling. Local companies provide finished goods or parts for medical devices, recreational vehicles, grain-handling equipment, food products, electronic equipment, automobiles and other products.

Employment

The unemployment rate in Isanti County—reported by the DEED Local Area Unemployment Statistics (LAUS) office in May 2011—is 8 % with Minnesota at about 6.6%. The seasonally adjusted unemployment rate has dropped more than 2 points from January 2011 when it topped 10.3% and 12.2% in January 2010. The Isanti County area is estimated unemployment at 8.0% ranking 77th of the state’s 87 counties. The Labor force in the county is 21, 776 with an average of over 10,110 jobs offered annually, the three largest sectors in Education and Health Services; Trade Transportation and Utilities; Manufacturing. Although jobs are available, the percentage of workers in Isanti County who commute to a different county for work is 61.8%

Economy	Cambridge, MN	Minnesota
Unemployment Rate (May 2011)	8.0%	6.7%
Recent Job Growth	2.2%	N/A
Future Job Growth	N/A	N/A
Sales Taxes	6.875%	N/A
Room Taxes	N/A	Vary
Income per Capita (2009)	25,555	29, 431
Household Income (2009)	55,233	55, 691

Population

Isanti County has a land area of 438 square miles and is the 25th most populous county in the state and in 2008 it was the 5th fastest growing county in the state. US Census reported that as of the 2010 there were 37,816 people living in the county or a 20.9% increase in population since 2000. There are 14,331 households in the county. The population density was 2.66 people per square mile.

Of the 14,311 households, 25.0% had children under the age of 18, and 11.2% were 65 or older. The median age is 33.8 years.

According to City-Data.com, in 2009 the population of The City of Cambridge was 7734 a 40.1% growth since 2000. Through the 90's Cambridge's population has grew by about 8%. It is estimated that in the first 5 years of the past decade the population of Cambridge has grew by about 30%. Since 2005 Cambridge's population has grown by another 8%. Cambridge is expected to reach 11,000 residents by 2020. Currently 54.9% of the population is female and the median age is 38.5%.

Largest Employers

The Cambridge Department of Economic Development currently has an up-to-date list of local businesses. The following list is information dated 2010. According to City economic Director, Stan Gustafson the employment base of the community is estimated at 9,000-10,000; greater than the population of the community at 8,111 (2010 US Census).

Major businesses have facilities in Cambridge, as shown in the following table:

Employers in Cambridge, MN Company Name	Business	Number Employed
Cambridge Medical center	Medical, surgical & hospital	834
Cambridge Isanti School District	Elementary & Secondary	900
Wal-Mart Supercenter	Discount store	412
Grace Pointe Crossing	Nursing Care facility	421
Isanti County	County Government	250
Team Industries	Machining	205
WaterWorks Manufacturing	Metal Stampings	150
Arrow Tank and Engineering	Tank Fabrication	130
Menards Mega Store	Building Materials	130
Target	Discount Store	125
Anoka Ramsey Community College	College	80
Schlagel, Inc	Grain Handling Equipment	72
Park Manufacturing	Electric Connectors	56
North Star Media	Offset Printing	51
SunOpta Foods	Processing Natural and Organic foods	50
Peoples Bank of Commerce	Bank	45
Cortec	Advanced Plastic Films	37
US Water Services	Engineering	36
Minnco Credit Union	State Credit Union	40
Mape USA	Crank Shafts	20
Isanti Tool, Inc	Manufacturing	20
Cambridge State Bank	Bank	25
Lares Corporations	Motor Vehicle steering	20

Subject Site Local Demand-Generating Businesses

Cambridge, MN and Isanti County have attracted numerous business and leisure travel to utilize overnight accommodations in the community. There are limited hotel accommodations in the county and in the area. Below is a list many of the top or key events identified that creates overnight demand. Locally, hotel rooms and temporary camping facilities at the fair grounds are used for guests. Cambridge and Isanti County have significant leisure and sports related seasonal events that attract weekend business to the community.

Demand Generating Business/Event	Market Segment	Time of Year	
Isanti County Fair	Leisure	July	
BMX State and National Events and tournaments	Leisure	Summer	Plus multiple events during year
MN Youth Soccer tournaments (American Youth Soccer)	Youth	April/May (week long) plus weekend in June	4000+ participants and 20,000 spectators
Istanti Hockey Arena & Hockey Association	Youth	November- February	Multiple tournaments
Isanti Rodeo and Jubilee Days	Leisure	July (Thurs- Sunday)	Draws nationwide
Fair grounds	Leisure	April - October	Dog Shows, Horse shows, 4H and other estimated at 20 events annually
Soft Ball and Baseball Regional Tournaments	Leisure	April - October	Youth Baseball Adult Softball Baseball Assn
Curling Tournaments	Leisure	Weekends-Winter	Adult tournaments
Anoka Ramsey Community College	Education	Year round	Graduation, Seminars, relocation
Armed Force Reserve Center	Training-Military	Year round based on schedule	Requires guest rooms during training
Allina Medical Center	Medical	Year round	Transient, Patients families, relocation
MAPE	Corp Transient	Year round	Use high end hotel in Twin Cities for top executives
Weddings	Leisure	Year Round	Approximately 40 per year in the community

ECONOMIC CONCLUSIONS

This section identifies a wide variety of economic indicators that are pertinent to the market area. The diversity of the business and economy are above average. Workforce, population, redevelopment, and growth in the market are projected to be increasing for the city and county. The tourism industry is stable and somewhat seasonal. The outlook for the area is generally favorable, and growth should recover through the near term.

Subject site strengths include:

- Central access from the region's corridors and easy accessibility from Minneapolis and St. Paul and its suburbs. Easy access from the region's corridors, which allows the community to be a good location for residential and commuter housing. The area is one of the largest commuter regions in East Central Minnesota and is strengthened by its proximity to the above-mentioned cities.
- Tourism is a regional industry in which travelers are driven based on value, location, price, and amenities. The combined tourism impact of Isanti County is estimated at \$198,360 million in the area, and ranking 13th in the state for spending in 2008, a decrease of 0.8% from 2007.
- Cambridge is perceived as an affordable market, from its housing market, employment base, and retail positioning. The community is a suburban market at a value and the area has seen significant retail growth.
- Currently there is only one small limited service hotel located in the city. There will be little competition in the near future, regardless of demand.
- Isanti County has only one hotel, and it is located in Cambridge. Outside the county the closest city with hotel rooms is North Branch which is 14 miles from Cambridge. Other area communities with hotels are Princeton, 19 miles; Mora, 24 miles and Pine city, 28 miles. All hotels/motels are limited service. Cambridge has an emerging tourism market and currently the county of Isanti is one of 10 counties reporting to the greater region. Isanti County reported \$30,936,390 in gross sales and supporting 832 jobs, ranking 10th within the region.
- Leisure and hospitality in Minnesota generates \$11.0 billion in gross annual sales and More than \$699 million is generated in state sales taxes.
- Minnesota's leisure and hospitality industry employs more than 238,000 workers
- Tourism is a key sector of Minnesota's economy, comparable to agriculture in its contribution to the gross state product
- The annual number of person-visits in Minnesota (39 million) is nearly eight times the total population of the state
- Minnesota tourism generates more than \$33 million in gross receipts/sales per day
- (duplicate)

- Tourism marketing provides a measurable return on investment. Every \$1 invested in tourism marketing returns an estimated \$4.60 in new state and local taxes, \$20.40 in wages and \$53 in gross sales. *(Based on Minnesota Office of Tourism Advertising, 2000)*
- Cambridge is the county seat located near the center of the county. It is a destination and the central retail shopping district for the county residents and travelers to the county.
- Cambridge and Isanti County communities host many sport related tournaments and special events year-round attracting visitors to the county.

Subject site weaknesses include:

- The market offers a limited variety of available guest rooms in the area. All are limited service, economy, and budget properties. Demand is high on seasonal weekends (defined later) and moderate during weeknights.
- The current existing hotels are well established within the market given their age, and both travelers and companies have strong relationships with those properties. Travelers have few choices and select the hotel based on location and availability.
- The market has seen new hotel rooms added outside the immediate market area, and significant growth in the hotel market in Minneapolis and St. Paul, giving travelers and groups many regional competitive choices.
- The immediate area has a limited number traveler support services in dining and retail options within a walkable distance.

REGIONAL HOTEL MARKET & COMPETITIVE SET ANALYSIS

Historical Trend of the Market and Competitive Set

The first step in the process of forecasting the potential rate and occupancy of the subject hotel market is to understand historical trends of the market, competitive set, and the region in which the subject hotel resides. These factors will help in estimating future demand levels. We have based estimated growth on the historical changes in occupancy and the average rate of the competitive sets from the historical performance, as seen in the following charts.

We were able to obtain historical information on the competitive set from three separate sources: Explore Minnesota Tourism and Smith Travel Reports, which has been tracking the local trends; the Smith Travel Research (STR) trend of the immediate market; and the STR trend of the competitive set.

Type of Hotels Defined

The competitive set and market is made up of several hotels offering a variety of services, rooms, and room types. Those differences in properties typically result in varying average room rates and occupancies. Listed below are the two different types of hotels found in the competitive market.

Full-Service Hotel

These facilities are generally mid-priced, upscale, or luxury hotels with a restaurant, lounge facilities, and meeting space as well as minimum service levels, often including bell service and room service. These hotels report food and beverage revenues. There are full-service properties in the region but none were immediately identified in the market and competitive set.

Limited-Service Hotel

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

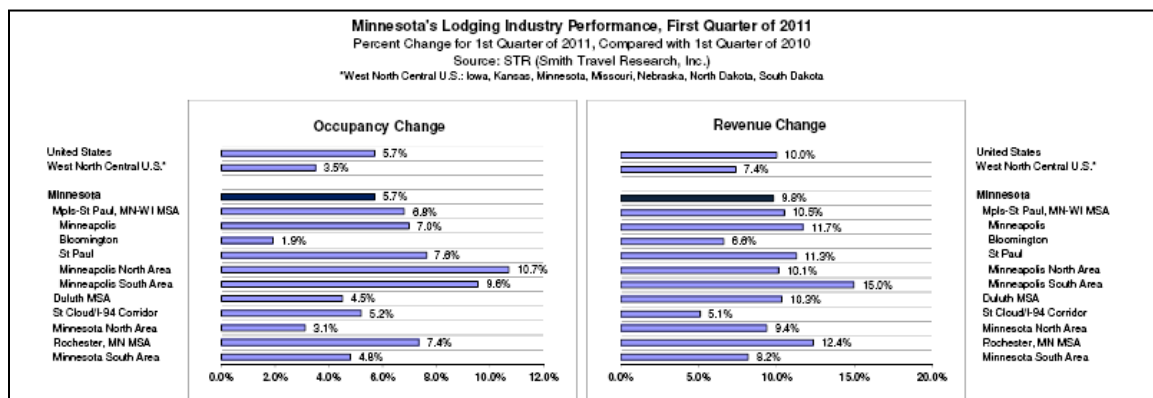
There are also some upscale or luxury hotels that do not manage their food and beverage operations (e.g., leased to a third party) that are categorized as limited-service hotels.

Regional Market Supply and Demand History

Smith Travel Reports, requested by the Explore Minnesota Tourism Department, compares the regions around the state. The report identifies the state and regions occupancy and average rate trends as a percent increase over previous year. The 2011 history trend and the first quarter year-to-date report shows a change in key statistics for the two-year comparison of the subject market with that of the surrounding markets. The Cambridge regional market hotels identified in this report are participating in the Minneapolis North Area Regional Tract.

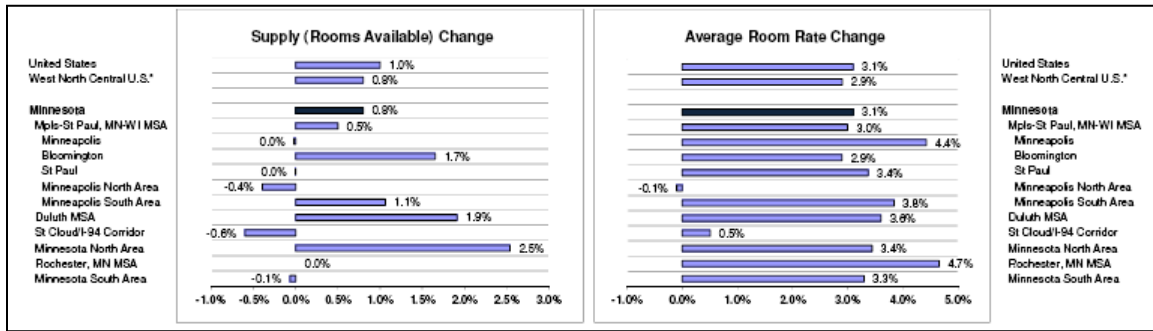
The following information presents the overall market history in supply, demand, occupancy, average room rate, and room revenue. (See industry definitions in the Glossary attached for clarification of terms.)

The first set of graphs, showing first quarter 2011 lodging changes for Minnesota and other geographic areas, illustrates how Minnesota was nearly identical to the U.S. in the amount of growth in all six metrics: occupancy (+5.7%), room rates (+3.1%), revenue per available room (i.e., RevPAR; +9.0%), revenue (+9.8%), supply (+0.8%) and demand (+6.5%). Minnesota outperformed or tied the 7-state West North Central region in all six metrics. Within Minnesota, the Minneapolis-St Paul Metro market outperformed greater Minnesota overall, but with substantial variation within the five areas within the Metro market and the five areas in greater Minnesota.



(Source: *Minnesota Tourism Industry* & Smith Travel Research)

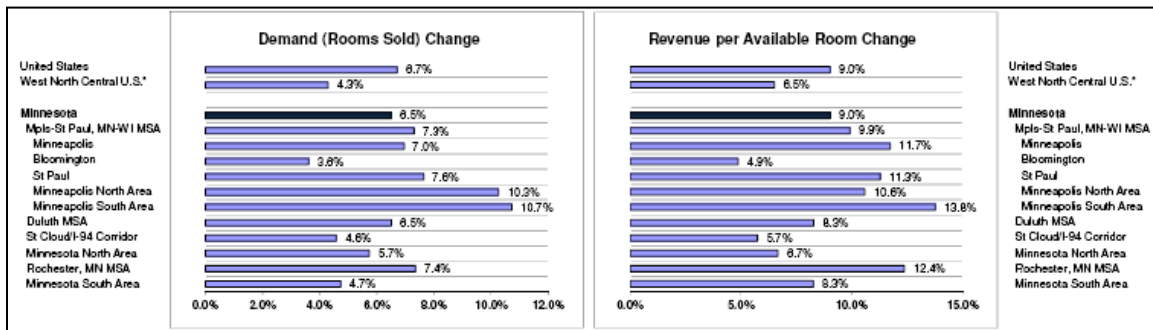
The competitive set of hotels (defined later) has outperformed some of these state and US benchmarks for the first quarter and will be explained in detail. The Cambridge (Minnesota North tract) area had a 3.1% change in occupancy and 9.4% change in revenue.



(Source: Minnesota Tourism Industry & Smith Travel Research)

Both the US and the state of Minnesota have seen little changes to the supply of guestrooms up 1% over first quarter 2010 and Minnesota up .08% for the same period of time. The average rate has seen an increase of 3.1% for both the total US and the State of Minnesota.

The greater Cambridge market or northern tract had a 2.5% change in new supply and the average rate increased 3.4% for 2010.

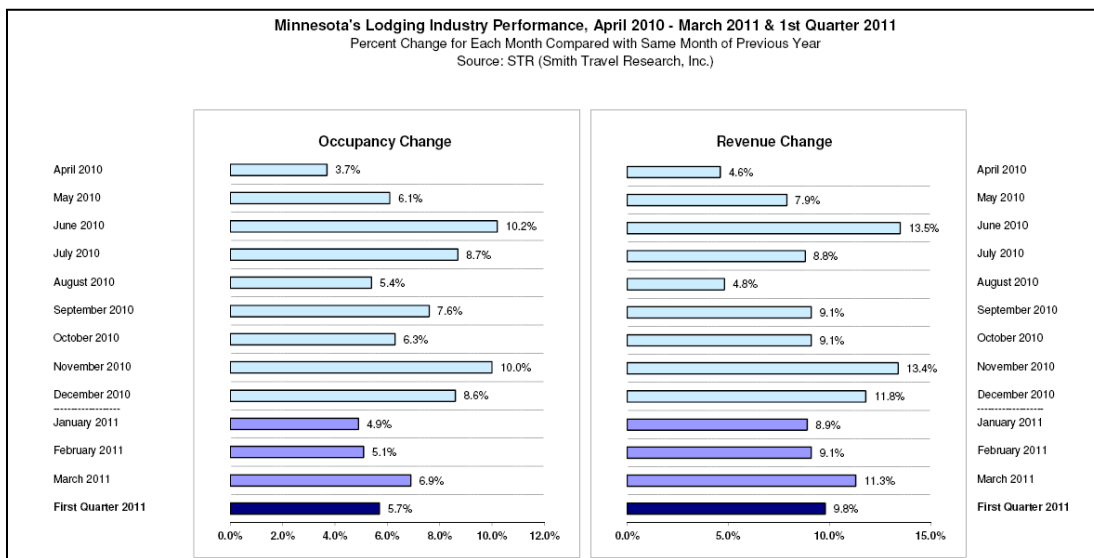


(Source: Minnesota Tourism Industry & Smith Travel Research)

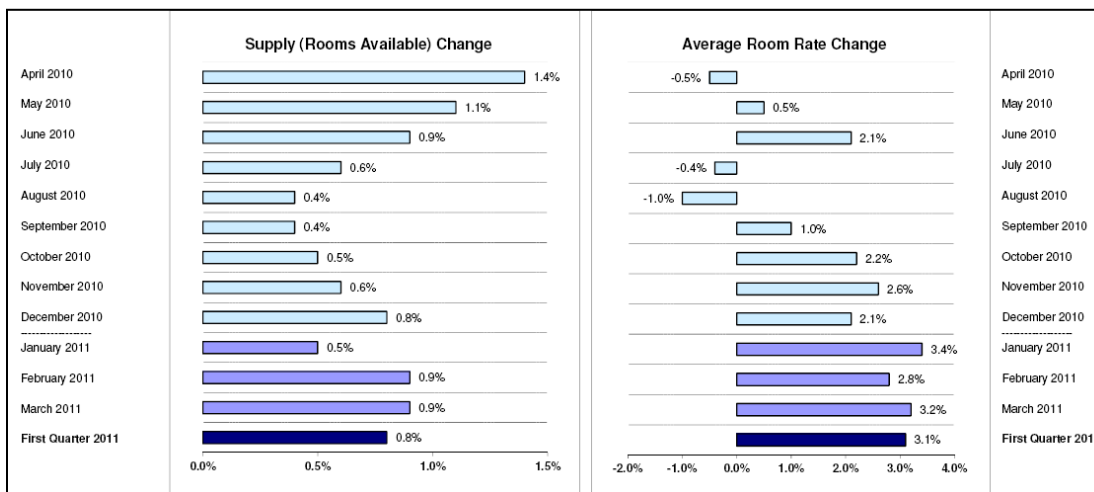
Demand of guestrooms and the revenue per available room were reported at an increase of 6.5% and 9.0%, respectively for both the total US and the State of Minnesota. The greater Cambridge northern tract has seen an increase of 5.7% in rooms sold (demand) and a RevPAR increase of 6.7%.

The following graphs demonstrate Minnesota’s monthly year-over-year change in lodging performance for the most recent 12 months, along with quarterly change for the first quarter of 2011. One of the six graphs in this set is shown below, illustrating a 12-month time line of Minnesota occupancy change.

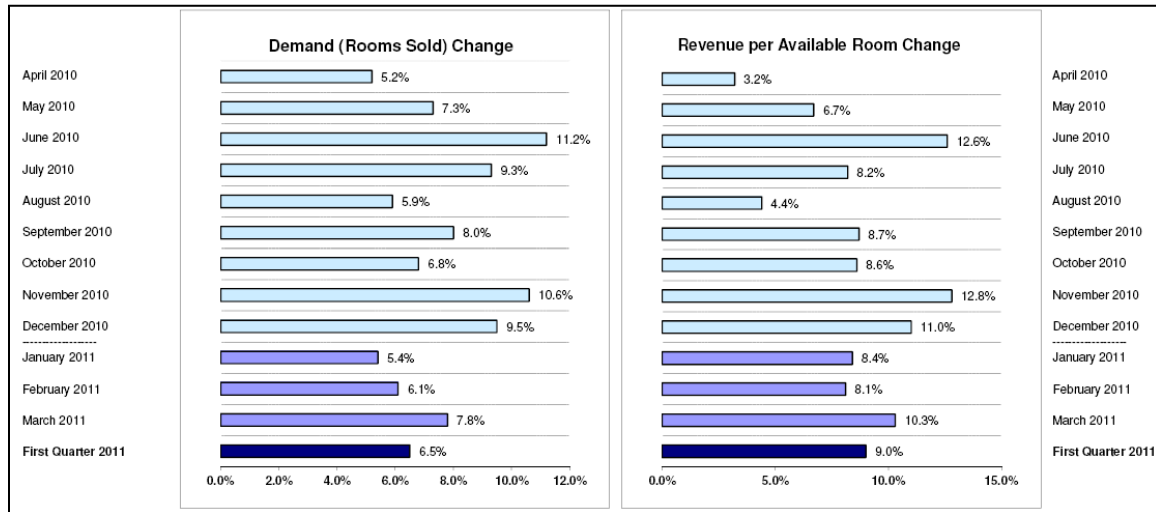
For perspective, the first quarter of 2010 provided the first overall positive quarterly change in lodging performance since the recession took hold of Minnesota’s lodging sector in 2008. At that time (i.e., first quarter 2010), average room rate was the only metric still experiencing negative year-over-year change. The continuing slide of room rates, through the summer of 2010.



(Source: Minnesota Tourism Industry & Smith Travel Research)



(Source: Minnesota Tourism Industry & Smith Travel Research)



(Source: Minnesota Tourism Industry & Smith Travel Research)

Key Points

- First quarter 2011 shows significant signs of tourism recovery in the state.
- Occupancy has seen an increase of 5.7% and revenue up 9.8%.
- These results are congruent with the nation trends of 5.7% in occupancy and 10% in revenue.
- The Minneapolis –St Paul MS which borders the subject market is up 6.8% in occupancy and 10.5% in revenue
- The Minneapolis North tract is up 10.7% in occupancy and 10.5% in revenue
- Rooms supply has seen little change in growth of new properties with only a 0.8% change through the first quarter 2011

Cambridge Competitive Sets: Defined for Subject Property

A competitive set consists of a group of hotel properties that directly competes for room nights due to proximity and similarity of product. A competitive set enables individuals to compare property performance with the aggregate performance of their direct competition.

We have identified properties that would be competitive with the proposed hotel project for room accommodations, banquets/meetings, and food & beverage. This competitive set was determined through consideration of factors such as location, size, consumer attraction, amenities offered, rate structure, management, and demand generators. It includes properties within a 24 mile radius of the subject hotel. We have excluded hotels within the local market that we see as uncompetitive due to their size, location, facility, or focus market.

In the Cambridge competitive set, there are five hotels with a total of 264 rooms. These hotels are all limited service, and economy products. The average-size hotel in the market is 53 rooms, with the largest at 65 rooms.

We identified the competitive hotels (for the reason of identifying historic trends) and analyzed them for trends and comparison of market position. The competitive sets of hotels were evaluated and information gathered through various online travel agents or OTAs. The star ratings and rates were taken from current peer evaluation sites such as Trip Advisor and industry evaluation organizations. These hotels were interviewed, and occupancy and ADR statistics verified through brand performance. The competitive set has STR (Smith travel Research) reporting since 2005. The star ratings and rates were taken from current peer evaluation sites such as Trip Advisor and industry evaluation organizations. The competitive hotels are comprised of the following properties.

Cambridge Competitive Market & Hotels

In the Cambridge market, we identified the competitive markets (for the reason of identifying historic trends) and analyzed them for trends and comparison of market position. The set of hotels located in the Cambridge area and regarded as a mix of franchise limited-service properties. These properties are highly transient; most are small branded properties. These hotels were interviewed, and occupancy and ADR statistics verified through brand performance division. The competitive set has STR reporting since 2005, attached and reviewed later in the study.

Cambridge Lodging Competitive Set

The primary set of competitive hotels were the properties that leveraged location and amenities to complement the transient nature of their businesses.

These are the properties that consumers would feel are comparable to a hotel within the subject market. All of these hotels are considered midscale and are limited-service lodging supply, offering limited food & beverage outlets. It should be noted that the Crossings by Grand Stay Inn & Suites in Cambridge and the Budget Host Inn in North Branch would have been included in this competitive set. They however do not report to Smith Travel Research and therefore were interviewed separately.

These primary competitive set of hotels are comprised of the following properties:

Country Inn & Suites Forest Lake

1954 Broadway

Forest Lake, MN 55025

(651) 982-9799

www.countryinn.com

Nightly rates recently viewed: \$93.00–\$134.00

3-Star Hotel and 2-Diamond AAA Rated

The Country Inn is a 56-room limited-service property located on US 35 in Forest Lake, MN, 30 miles southeast of Cambridge. The property opened in 1998 and has been affiliated with the Country Inn franchise since May of 1998, when it opened.

The Country Inn & Suites Forest Lake, MN hotel provides quality accommodations, service and convenient amenities that make it popular for business and leisure travelers. Guests will enjoy premium amenities like free high-speed Internet, heated indoor pool and complimentary breakfast. The Forest Lake hotel is located near the area's best attractions, golf courses, shopping, dining, entertainment, business and cultural venues.

The hotel features interior corridors, and all rooms come equipped with coffee makers, hair dryers, irons and ironing boards. Microwaves and refrigerators are available upon request. The Country Inn & Suites also offers limited meeting space for small events. The meeting space can accommodate gatherings of up to 25 guests.

The rate positioning for the hotel offers midweek rates starting a \$93.00 to \$109.00 (includes continental breakfast) and locally negotiated rates or corporate rates starting at \$79.00. This is a 10% discount off the best available rate.

AmericInn Mora

1877 Frontage Road

Mora, MN 55051

(320) 679.5700

www.americinn.com

Nightly rates recently viewed: \$82.00–\$106.00

2½-Star Hotel and 2-Diamond AAA Rated

The AmericInn Mora was opened in April of 1998 with 41 rooms. The hotel is located on the frontage road along Highways 65 and 23, 24 miles north of Cambridge.

The town is named for its sister city in Mora, Sweden. It is home to the Mora Vasaloppet Cross Country Ski Race, which has been a premier international event for over a quarter of a century. The area offers pristine area lakes and rivers for water and fishing enthusiasts alike.

The AmericInn Mora close in proximity to the Grand Event Center which holds a variety of receptions and events. The property is located five minutes from downtown Mora, where guests will find a variety of restaurants and quaint shops.

The hotel offers room choices with 2 queen beds or a suite with whirlpool with or without fireplace (for a rate of \$165.00 to \$180.00) and free wireless high speed Internet. All of the standard room accommodations come with two queen beds and are furnished with microwave, refrigerator, iron, ironing board, hair dryer, coffee maker and have wireless Internet access

The rate positioning for the hotel offers midweek rates starting at \$81.90 and locally negotiated rates or corporate were not available for review.

AmericInn Lodge & Suites North Branch

38675 14th Avenue
North Branch, MN 55056
(877) 854-4605
www.americinn.com

Nightly rates recently viewed: \$89.00–\$99.00
2-Star Hotel and 2-Diamond AAA Rated

The AmericInn Lodge and Suites in North Branch is the newest hotel in the competitive set, opening in June of 2000. The hotel features 50 rooms and is located just east of I-35 and south of Hwy 95 in North Branch approximately 14 miles east of Cambridge.

Rooms offer complimentary high-speed Internet access, one king-sized bed or two queen beds, a sleeper sofa or chair with ottoman, large work desk, and a hospitality center with refrigerator, microwave, and coffee maker. The property offers a variety of room types, including suites with whirlpools and fireplaces; and an inviting pool, free breakfast, in a lodge atmosphere. Free High Speed Wired and Wireless Internet available and a computer is available for Guest Access

The hotel offers one meeting room that is 1200 square feet and can accommodate 14 to 48 people for small meetings, more prevalent to business functions and not banquets or social functions. The facility has small onsite kitchen facilities to cater group functions.

The rate positioning for the hotel offers midweek rates starting at \$89.00, and locally negotiated rates or corporate rates are a flat 15% discount off any best available room rate.

Comfort Suites Ramsey

6440 US 10 West

Ramsey, MN 55303

(763) 323-4800

www.comfortsuites.com

Nightly rates recently viewed: \$90.00–\$145.00

2-Star Hotel and 2-Diamond AAA Rated

The Comfort Suites hotel is located off State Route 10 in the northwest suburbs of Minneapolis and St. Paul, about a 30 minute drive to the twin cities and 31 miles southwest of Cambridge. The property is within 15 miles of the National Sports Center in Blaine, Cabela's in Rogers, MN and Albertville Premium Outlets in Albertville, MN. It is also an easy drive to Target Center, Xcel Energy Center, the Metrodome, the Mall of America and the downtown areas of Minneapolis and St. Paul.

Ramsey is located in the northwestern part of Anoka County, bordered by both the Mississippi and Rum Rivers. More than 500 acres of parks can be found, as well as trails for hiking and biking. Ice skating and ice hockey are popular seasonal activities. Multiple shopping centers and numerous other attractions are in close proximity. Ramsey, Minnesota has a variety of restaurants and lounges, many of which can be found in close proximity to the hotel

Rooms offer complimentary high-speed Internet access, one king-sized bed or two queen beds, a sleeper sofa or chair with ottoman, large work desk, and a hospitality center with refrigerator and microwave (in all rooms), and coffee maker. The property has an indoor pool, business center, and a small convenience store.

The hotel offers one meeting room that is 500 square feet and can accommodate up to 65 people for small corporate meetings and not banquets or social functions. The facility has no onsite kitchen facilities to cater group functions.

The rate positioning for the hotel offers midweek rates starting at \$90.00 and locally negotiated rates or corporate rates starting at \$79.00 for a double queen. This is a 10% discount off the best available rate.

Best Western Chelsea Inn & Suites

89 Chelsea Road
Monticello, MN 55362
(763) 271-8880
www.bestwestern.com

Nightly rates recently viewed: \$89.00–\$119.00

2-Star Hotel and 2-Diamond AAA Rated

The Best Western Chelsea Inn and Suites is located on Interstate 94 between Minnesota's Heartland and the metropolitan communities of Minneapolis and St. Paul are 45 minutes away. This hotel is approximately 50 miles southwest from Cambridge. The facility opened in 2000 and has been affiliated with the Best Western franchise since April of 2005.

The hotel is located only 6 miles from Albertville Premium Outlets, Minnesota's largest outlet mall shopping center with over 100 stores. The property offers 52 rooms of which 15 are suites with a connected living room (not separated by door) to a bedroom. The hotel offers guests an indoor pool and whirlpool, fitness center, and complimentary breakfast.

The hotel offers one meeting room that can accommodate up to 90 people for small corporate meetings, more prevalent to business functions and not banquets or social functions such as weddings. The facility has no onsite kitchen facilities to cater group functions.

The rate positioning for the hotel offers midweek rates starting at \$89.99 and locally negotiated rates or corporate rates for starting at \$69.00 for a double queen. This is a 20% discount off the best available rate.

COMPETITIVE SET ANALYSIS

We have analyzed sources of information from Smith Travel Research (STR), the lodging industry's leading information and data provider. STR has the most comprehensive database of hotel performance information available. All branded and franchised hotel chains in the world report performance to STR. We have attached the trend of the competitive set to identify the history of occupancy, average rate, and revenue per available room to forecast the subject facility performance.

A single hotel or brand can comprise a maximum of 35% of the reporting rooms of any competitive set. To protect proprietary data, the subject property may or may not be included in the competitive set of other hotels; this is at the discretion of each hotel's management. The complete historical report from Smith Travel Research is included in the supporting materials.

Primary Competitive Hotel Set

In the Cambridge area, we used historical data from five competitive hotels; all of these hotels are limited-service facilities with many offering varying room types. The Cambridge Market Competitive Set includes the following hotels:

Establishment	City	Open Date	Rooms
Country Inn& Suites	Forest Lake, MN	May 1998	56
AmericInn Mora	Mora, MN	April 1998	41
AmericInn North Branch	North branch, MN	June 2000	50
Comfort Suites Ramsey	Ramsey, MN	September 1998	65
Best Western Chelsea Inn	Monticello, MN	March 2000	52
		Total	264

(Source: IDM & Smith Travel Research)

The above properties were interviewed, and visited; Descriptions of these hotels were detailed previously. We considered location, quality, and services, comparing the existing supply against the subject hotel description, detailed earlier. We compared the hotel rate positioning in transient rate offered both at (a) best rate quoted on the web, branded websites, through the guest services at the property, and (b) the locally negotiated or contracted corporate rates with the area's economic drivers (i.e., the top businesses). This competitive set was identified to analyze the trend of occupancy and average rate within the market neighboring Cambridge.

New & Existing Hotel Supply

At this time no other new hotels were announced for the Minnesota North Market Tract. Therefore, no additional supply growth was factored into the projections for this report.

The City of Cambridge has one property in the subject market and has the following specifications:

Crossings Cambridge by GrandStay Inn & Suites

300 South Garfield Street

Cambridge, Minnesota 55008

(763) 689-0542

www.crossingscambridge.com

GrandStay Hospitality and the GrandStay Hospitality family in a branded franchise network offering about 22 locations and Midwest properties; with a few in Florida and California. The company's motto is "you get more than just a typical hotel room. You will stay in a spacious suite and will be surrounded by our warm and friendly staff." The Crossings would have been considered in the primary competitive set although they do not submit trend data to STR. The property is located off Hwy 95 and Hwy 65 in the heart of east central Minnesota and provides convenient access to the surrounding lakes and parks.

The property offers a variety of rooms, suites in its 42 guest room accommodations. The property offers an indoor pool, meeting space for up to ten individuals and features the following:

- Free wireless/wired Internet access
- Free local phone calls
- Complimentary business services
- Free parking
- Catering services available
- Extended lobby perfect for informal gatherings and sidebar meeting
- Complimentary express breakfast, served with Seattle's Best coffee

The rate positioning for the hotel offers midweek rates starting at \$84.99 (\$94.99 on weekends) and locally negotiated rates or corporate rates for starting at \$69.00 for a double queen. This is a 20% discount off the best available rate.

Competitive Sets Historical Trends

The primary competitive market trend of the regional properties is detailed below. The markets STR five-year trend from 2005 to April of 2011 identified 2005 as a record occupancy year at 56.9%, which has declined annually since, resulting in a five year combined average growth rate (CAGR) of -3.5%. The market is showing positive change through early 2011 at 12.1% over 2010. The market saw a significant increase in rooms supply outside the competitive set and growth in the Twin Cities. The market ADR has a five-year growth rate of 2.0% and total revenues also at -1.5%.

Cambridge Minnesota Lodging Competitive Set HISTORICAL GROWTH IN ROOMS SUPPLY AND DEMAND 2005 - 2011											
	ROOMS AVAILABLE		ROOMS OCCUPIED		PERCENT CHANGE		ADR	PERCENT CHANGE	REV/PAR	PERCENT CHANGE	REGIONAL ROOM REVENUE
	ROOMS AVAILABLE	PERCENT CHANGE	ROOMS OCCUPIED	OCCUPANCY	PERCENT CHANGE						
2005	96,360		54,862	56.9%		\$73.39		\$ 41.78		\$ 4,026,322	
2006	96,360	0.0%	52,479	54.5%	-4.3%	\$77.32	5.4%	\$ 42.11	0.8%	\$ 4,057,676	
2007	96,360	0.0%	51,150	53.1%	-2.5%	\$80.23	3.8%	\$ 42.59	1.1%	\$ 4,103,765	
2008	96,360	0.0%	50,116	52.0%	-2.0%	\$80.29	0.1%	\$ 41.76	-1.9%	\$ 4,023,814	
2009	96,360	0.0%	48,411	50.2%	-3.4%	\$77.76	-3.2%	\$ 39.07	-6.4%	\$ 3,764,439	
2010	96,360	0.0%	45,906	47.6%	-5.2%	\$81.20	4.4%	\$ 38.68	-1.0%	\$ 3,727,567	
YTD April 2011	31,680	0.0%	13,370	43.3%	12.1%	\$77.63	-0.3%	\$ 33.64	11.8%	\$ 1,037,913	
5 Year CAGR		0.0%		-3.5%		2.0%		-1.5%		-1.5%	

Note: CAGR = Combined Average Annual Growth Rate from 2005 to 2010

(Source: IDM & Smith Travel Research)

Competitive Set Performance Analysis

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

Cambridge Minnesota Lodging Competitive Set				
ESTIMATED OCCUPANCY, MARKET MIX, PENETRATION RATES AND ADR				
2010 Year-end Market Statistics				
PRIMARY COMPETITION	NUMBER OF ROOMS	ROOMS AVAILABLE	ESTIMATED OCCUPANCY	ROOMS OCCUPIED
Country Inn & Suites Forest Lake	56	20,440	48.0%	9,811
AmericInn Mora	41	14,965	42.0%	6,285
AmericInn North Branch	50	18,250	38.0%	6,935
Comfort Suites Ramsey	65	23,725	54.0%	12,812
Best Western Chelsea Inn & Suites	52	18,980	53.0%	10,059
TOTAL PRIMARY	264	96,360	47.6%	45,902

(Source: IDM & Smith Travel Research)

Market Penetration

Illustrated in the following chart is the estimated penetration of all properties in the market. The chart is an estimate of each hotel's overall occupancy. Each hotel's penetration factor is computed by first calculating the hotel's room nights by the total room nights accommodated by all hotels, and then dividing the hotel's market share by the hotel's fair share and penetration factor. If a property's overall penetration is 100%, that hotel is receiving its equal share of accommodated room nights.

MARKET PENETRATION				
	NUMBER OF ROOMS	ROOMS AVAILABLE	FAIR MARKET SHARE	OVERALL PENETRATION RATE
PRIMARY COMPETITION				
Country Inn & Suites Forest Lake	56	20,440	21.2%	100.8%
AmericInn Mora	41	14,965	15.5%	88.2%
AmericInn North Branch	50	18,250	18.9%	79.8%
Comfort Suites Ramsey	65	23,725	24.6%	113.4%
Best Western Chelsea Inn & Suites	52	18,980	19.7%	111.3%
TOTAL PRIMARY	264	96,360	100.0%	100.0%

(Source: IDM)

Currently it is estimated that the two AmericInn properties in Mora and North Branch are under performing the competitive set and therefore the overall penetration rate is less than 100%. The remaining limited-service hotels in the greater market are experiencing higher market fair share, likely due to accessibility to the larger Twin Cities MSA and interstate locations.

Market Class and Chain Scale

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

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

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

Positioning Against the Competitive Set

Given that there are no full-service hotels present in the greater competitive region it is essential that this proposed hotel be positioned in the midscale tier of the competition at a 2-3-Star level, offering competitive services and amenities; such as indoor pool and fitness center, complimentary breakfast, free WIFI, and will likely need franchise affiliation. It is also recommended that the property offer very limited meeting facilities and focus on more limited services. This allows the subject hotel to be competitive against current offerings and attract regional demand with a new product. A midscale, select-service hotel offering competitive accommodations will directly compete against regional market. Some of the brands that compete and are reported in the midscale class are Best Western Premier and Plus, Comfort Suites, Hampton Inn & Suites, Wyndham Garden Hotels, Holiday Inn, and Holiday Inn Express.

An independent hotel may have difficulty competing in this market. If a developer chooses to follow a development path of an independent property it may take longer than the three year period of time to stabilize occupancy; more typical of franchise property which captures market share in 2-3 years, depending on the franchise.

Subject Hotel Competitiveness Factor

We have factored in the competitive lodgings' overall market performance for occupancy, growth of supply and demand, market penetration, average rate, and revenue to rank the competitive set. We have identified the market class in which the subject hotel will compete and have evaluated the supply within the region. The subject hotel should participate in the market against the supply as follows:

Least Competitive

Best Western Chelsea
Comfort Suites Ramsey

Competitive

Country Inn & Suites

Most Competitive

AmericInn Mora
AmericInn North Branch
Crossings By Grand Stay

Due to the Cambridge market's location, in-between demand areas and its smaller transient focused product and design, a new hotel may have difficulty in capturing its fair market share of room nights and occupancy initially. The hotel will need to be located in a competitive section of the city and would create high barriers to entry for future competition. The accessibility to the proposed subject hotel and area attractions are more challenged for the subject market because Cambridge is not located adjacent to the region's interstate. .

Key Points

- The market has seen combined average rates of growth from 2005-2010 as follows; decreases in occupancy, down -3.5%; and increases in ADR up 2.0% and RevPAR and room revenue both down -1.5%.
- Regional competition is scattered and aged. The market is made of mostly small limited service hotels. There are no full-service hotels in the immediate subject market; there are no hotels offering medium to large meeting facilities.
- A new property entering the market has the potential to grow in occupancy and average rate - being positioned as a high end of the market.
- A property that has a strong brand behind it may be more competitive in this region and capture more than its fair share of the market demand.
- The AmericInn Brands are currently estimated to be receiving less than their fair share of market demand and they would be the closest competitors to a new hotel in the subject market.

Seasonal Market Trends

It is typical of the hospitality industry overall, and especially in the Midwest, to experience occupancy trends tied to demand generators such as weather, seasons, and travel plans/patterns. The seasonal occupancy of this market is traditional for the upper-Midwest region of the United States. The seasonal trends of the regional market are listed below.

Cambridge Minnesota Lodging Competitive Set					
5 Year Seasonality Trend 2005-2010					
Month	Market Occupancy	Monthly Demand	Market ADR	Market RevPAR	Market Revenues
January	39.6%	3,240	\$ 75.55	\$ 45.66	\$ 244,782
February	46.2%	3,414	\$ 75.81	\$ 52.54	\$ 258,815
March	49.0%	4,009	\$ 74.67	\$ 54.34	\$ 299,352
April	47.9%	3,794	\$ 74.98	\$ 55.63	\$ 284,474
May	49.7%	4,070	\$ 75.97	\$ 58.00	\$ 309,198
June	65.0%	5,146	\$ 81.34	\$ 74.74	\$ 418,576
July	68.2%	5,578	\$ 82.63	\$ 73.46	\$ 460,910
August	67.6%	5,536	\$ 82.72	\$ 80.61	\$ 457,938
September	56.7%	4,488	\$ 81.07	\$ 65.44	\$ 363,842
October	53.7%	4,396	\$ 77.11	\$ 62.07	\$ 338,976
November	44.4%	3,517	\$ 75.77	\$ 50.07	\$ 266,483
December	38.8%	3,179	\$ 76.69	\$ 39.80	\$ 243,798
Total	52.4%	50,487	\$ 78.25	\$ 59.26	\$ 3,950,608

(Source: IDM & Smith Travel Research)

This analysis shows the market's potential to attract Lodging Demand during various seasons. It will help to determine the strengths and weaknesses during the operational year for the proposed property.

In the comparison analysis, the region's monthly five-year averages are detailed. The market averaged 52.4% annually over the five years.

In analyzing the seasonality market trends, as is typical with the upper-Midwest region, this market performs better from May through October than during the remaining part of the year. The market sees a strong increase in demand during the summer. Rates also increase during these months due to the demand cycle, which peaks during times of high social/leisure demand.

The strongest time of year in the market is June, July and August. This summer season reached an average occupancy in the competitive set of 66.9% with rates averaging \$82.23. This period is affected by summer travelers, sporting groups, social meetings, weddings, and activity within the regional market. Further, the social meeting and wedding market in the hospitality industry is typically at its peak during these summer months.

The weakest season is the winter months of January and December, providing a five-year average occupancy of 39.2% for the competitive at rates of \$76.12. This is typical occupancy trending for the Midwest market, although the variation in average rate from peak to non-peak seasons is not as strong as reported in other markets. The fact that this market sees a \$6.11 variance from its peak period to its low season is a clear indication that the properties manage its rates seasonally, although deeper discounting may be necessary to achieve higher levels of occupancy in the off-peak season, given the competitive set's sensitivity to rate.

LODGING DEMAND & SEGMENT PENETRATION INVESTIGATION

Hospitality market segmentation is an approach that encompasses identification of different groups of customers who have different needs, price points, and stay patterns. The market segmentation process also considers which segments to target and when, through different sales efforts. There will be distinct differences among travel patterns for each segment as well as buying patterns of goods and services to meet each group's requirements. The STR reports for the hotel market properties deemed competitive with the proposed subject hotel and larger area market that compares regional statistics and do not identify market segments, which are gathered through the interview process.

The consultants also conducted a limited survey portion of the feasibility process, interviewing some of the major market employers, community leaders and coordinators of sporting events. This survey process assists in determining accommodation needs of potential demand generators. The interview process was done to estimate the market segmentation and demand trends in the area market. The results are reflected in the supply projections in this report and then validated.

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

Transient or Individual Markets

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

Group Markets

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

The transient or individual, corporate, and commercial markets are made up of several major sources of business: (a) government, insurance, and health care, (b) general transient corporate/commercial, (c) leisure business, and (d) social, leisure and discount AAA & AARP business. The market has a significant source of transient business, with the overall market performance estimated at 80%. The corporate and leisure market will likely be the primary sources of business for the subject hotel.

Group demand in this market is currently based on seasonal weekend sports tournament groups, youth traveling sports related groups in the winter season and spring, and all are location and rate driven. As indicated above, the individual travel segments will total 80%, reducing group demand to 20%. This market is not a group convention and meetings market with the need for hotels offering 10,000+ sq ft of meeting space and multiple breakout rooms. The greater market offers large meeting space in the competitive hotels in the Twin Cities and regional convention center, typical of major metropolitan markets.

While social/leisure business is important to this property, there is a not a large supply of hotels in the immediate Cambridge region offering a multitude of hotel accommodations. The social/leisure consumer is price and location driven and sometimes brand driven; however, the movement in this segment is “experience” driven. The Greater Cambridge area is not a sought-out destination and therefore will need a distinctive pricing and accommodation reason to stay. The rate in the high season capitalizes on the leisure weekender market. Wedding receptions are booked at a local event center and then rooms are reserved at a hotel close to the venue. This market is somewhat underserved due to the lack of meeting and banquet space.

The Competitive Market Performance for this market is as follows:

Individual Travelers	80% of Hotel Business
Retail Transient Travelers	30%
Corporate Accounts	20%
Social/Leisure	30%
Group-Related Business	20% of Hotel Business
Association Business	0%
Corporate Functions/Meetings	5%
Social Events	15%

Market Growth

Projections for a hotel operation are based upon historic statistics and operating performance in the market area. Occupancy, ADR, and Revenue projections for the hotel were based upon a detailed review of the field research data and preliminary estimates of ADR, Lodging Demand, and Lodging Supply Growth. In addition, recommendations as to the property type, suggested property size and density, and services and amenities to offer are included but are at the discretion of the developer.

This study suggests that the *Growth in Lodging Demand* should remain positive yet show minimal growth for the subject market and property by year end. The variety of Lodging Demand in the area is diverse and competitive. With the market in recovery and showing positive trending it is estimated that 2011 will end with a 2% growth over 2010. The total US midscale hotel market tier is expected to see a 1.8 to 2% increase in overall demand by year-end 2011.*

At this time, the *Growth of Lodging Supply* set should not be a concern. The recent number of hotels entering the market near the interstate corridors has dropped significantly due to the lack of financing. The lack of growth for new properties or potential development will have a favorable effect on transient, leisure, and group business for the property. The total US market is expected to see little growth in 2011, forecast at 1.0%.*

Many of the area hotels are transient-rate competitors of the potential subject hotel and will directly compete for market share. Any new supply in the area will decrease area occupancy during the weekdays and lower seasonal times for the initial time period following the opening. It is a positive that the proposed subject hotel is in a stable, growing area.

Room Rate Competition will be critical for the potential subject hotel among primary competitive hotels and competing for group business. Proper rate positioning will be required, and competing with branded hotels on the interstate corridor north of the Twin Cities will be crucial, while maintaining a competitive local presence and premier choice to the area's limited-service branded properties. The subject hotel should generate a higher average ADR yield compared to the market hotels and competitive within the primary set, as historically seen.

The proposed hotel will still need to be rate sensitive to the market for transient guests, contracted rates, and regional social group business alike. The total US midscale hotel market tier is expected to see a 4.0% increase in 2011.*

*Reported STR & PKF Hotel Business Industry Outlook January 2011

Growth in Lodging Demand

The growth in lodging demand for the market showed a negative trend from 2006 to 2010; however, the first few months of 2011 has seen significant increase in demand in both the competitive set and regionally throughout the state. The market has seen steady improvement and signs of recovery in early 2011, with a positive percent change of 12.1% year over year.

The overall market in Cambridge seems to be recovering and growing in demand due various industries generating travel; demand generators, as mentioned earlier, are driving business, which should show strong improvements in occupancy and ADR growth in the competitive set. Below, we have the primary competitive set trend with the impact of a new hotel of 52 rooms entering the market in 2013. This will forecast the impact of future growth in demand as it correlates with the subsequent supply increases.

Looking at historical trends, occupancy is forecasted with the competitive set occupancy and ADR, taking into consideration the market supply/demand factors and current economic trend. Growth rates will be discussed in detail by market segment, as well as total overview.

The Subject Market Forecast											
COMBINED ESTIMATED FUTURE GROWTH IN SUPPLY AND DEMAND											
	Rooms Available	Rooms Occupied	Occupancy	Rooms Occupied % Change	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Total Room Revenue		
2008	96,360	0.0%	50,116	52.0%	-2.0%	\$ 80.29	0.1%	\$ 41.76	-1.9%	\$ 4,023,814	
2009	96,360	0.0%	48,411	50.2%	-3.4%	\$ 77.76	-3.2%	\$ 39.07	-6.4%	\$ 3,764,439	
2010	96,360	0.0%	45,906	47.6%	-5.2%	\$ 81.20	4.4%	\$ 38.68	-1.0%	\$ 3,727,567	
2011	96,360	0.0%	47,650	49.5%	3.8%	\$ 82.84	2.0%	\$ 40.96	5.9%	\$ 3,947,133	
2012	96,360	0.0%	49,462	51.3%	3.8%	\$ 84.50	2.0%	\$ 43.38	5.9%	\$ 4,179,690	
2013	115,340	19.7%	51,492	44.6%	4.1%	\$ 86.91	2.9%	\$ 38.80	-10.5%	\$ 4,475,410	
2014	115,340	0.0%	53,608	46.5%	4.1%	\$ 89.40	2.9%	\$ 41.55	7.1%	\$ 4,792,520	
2015	115,340	0.0%	55,380	48.0%	3.3%	\$ 91.95	2.8%	\$ 44.15	6.2%	\$ 5,091,929	
CAGR	3.7%	3.8%	0.2%		2.5%		2.7%		6.4%		

CAGR is Combined Average Growth Rate 5 year starting 2010

(Source: IDM & Smith Travel Research)

In this projection, rooms available for the market shows no change in the subject market from 2008 to 2012. Since there are very few hotels located in the immediate market, all will directly compete for local corporate and leisure business; therefore, a conservative approach to occupancy growth and average rate is displayed.

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

Estimated penetrations should be considered in relation to the hotel's fair market share. If demand were distributed evenly in accordance with the ratio of hotel rooms to the total supply of the market, the proposed hotel would capture 100% of each segment.

It was reported that the competitive properties of the primary market experienced demand of 45,906 room nights in 2010 for a combined level of occupancy of 47.6%, derived from the STR Trend Report. The combined market segmentation demand is summarized as follows, based on the study, experience, and market reviews:

<u>Market Segment</u>	Total	Percent
Transient & Commercial	22,953	50%
Social & Leisure	13,772	30%
<u>Group</u>	<u>9,181</u>	<u>20%</u>
Total	45,906	100%

Commercial

The continued growth in the commercial or contract-rate markets is now in recovery as indicated by recent trends in economic indicators and corporate travel in the competitive set. While the current economy is recovering from the lack of corporate travel, the diversity of industry and global headquarters in the market make the area viable for added hotel supply and somewhat "safe." With the additional market growth and current expansion in the business community, we estimate increases in demand in 2011/2012 at an average of 4.0%. This would be an accelerated increase in occupancy over the combined market average or total average occupancy increase historically.

Transient & Leisure

The transient/leisure market contends to be one of the strongest sources of business within the market. With Minnesota expanding its seasonal tourism leisure-focused sports travelers participating in tournaments have increased travel throughout the area. We estimate increases in demand in 2011/2012 at an average of 4.0%.

Group

The group market is the most limited segment within the market. The groups currently meeting in this market attend the sporting tournaments, weddings and small business meetings.

It is estimated that a new hotel entering the subject market of about 50 rooms will see similar, if not higher increases in demand, based on the hotels fair share of the market. This is demonstrated on the following chart.

Projections

The market forecast is represented as follows, based on the 2010 market statistics and assumptions. For the purposes of evaluating the feasibility of a hotel in the subject market we have projected the introduction of a 52 room hotel into the current primary competitive set performance, detailed below:

Cambridge Subject Market ESTIMATED FUTURE GROWTH IN SUPPLY AND DEMAND								
	2010	2011	2012	Year 1 2013	Year 2 2014	Year 3 2015	Year 4 2016	Year 5 2017
ROOMS SUPPLY	96,360							
ADDITIONS TO SUPPLY								
Subject Market Hotel 52 Rooms				18,980				
TOTAL ADDITIONS	0	0	0	18,980	0	0	0	0
TOTAL ANNUAL ROOM NIGHTS	96,360	96,360	96,360	115,340	115,340	115,340	115,340	115,340
GROWTH OVER PRIOR YEAR		0.0%	0.0%	19.7%	0.0%	0.0%	0.0%	0.0%
EXISTING DEMAND SATISFIED								
Existing Transient & Commercial	22,953	50%						
Existing Leisure	13,772	30%						
Existing Group	9,181	20%						
TOTAL EXISTING DEMAND	45,906	100%						
GROWTH RATES								
Transient & Commercial	0.0%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%
Leisure	0.0%	4.0%	4.0%	5.0%	5.0%	4.0%	3.0%	3.0%
Group	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL DEMAND								
Existing Transient & Commercial	22,953	23,871	24,826	25,819	26,852	27,657	28,487	29,342
Commercial Not Recognized, Induced & Displaced	0	0	0	0	0	0	0	0
TOTAL	22,953	23,871	24,826	25,819	26,852	27,657	28,487	29,342
GROWTH OVER PRIOR YEAR		4.0%	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%
Existing Leisure	13,772	14,323	14,896	15,640	16,422	17,079	17,592	18,119
T&L Not Recognized, Induced & Displaced	0	0	0	0	0	0	0	0
TOTAL	13,772	14,323	14,896	15,640	16,422	17,079	17,592	18,119
GROWTH OVER PRIOR YEAR		4.0%	4.0%	5.0%	5.0%	4.0%	3.0%	3.0%
Group	9,181	9,457	9,740	10,033	10,334	10,644	10,963	11,292
Group Not Recognized, Induced & Displaced	0	0	0	0	0	0	0	0
TOTAL	9,181	9,457	9,740	10,033	10,334	10,644	10,963	11,292
GROWTH OVER PRIOR YEAR		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL DEMAND	45,906	47,650	49,462	51,492	53,608	55,380	57,042	58,753
GROWTH OVER PRIOR YEAR		-5.2%	3.8%	3.8%	4.1%	4.1%	3.3%	3.0%
OVERALL MARKET OCCUPANCY	47.6%	49.5%	51.3%	44.6%	46.5%	48.0%	49.5%	50.9%
MARKET ADR	\$81.20	\$82.84	\$84.50	\$86.91	\$89.40	\$91.95	\$94.54	\$96.75
GROWTH OVER PRIOR YEAR		4.4%	2.0%	2.0%	2.9%	2.9%	2.8%	2.3%

(Source: IDM)

The above chart represents a 52 room franchise hotel entering the market in 2013, allowing time for construction and representing a full year of operation. In the projections above we estimate the growth of the market segments transient/commercial, leisure, and group from 2010-2013, and demonstrating the impact of the new hotel project.

Unaccommodated Lodging Demand

Unaccommodated demand—that is, accommodations that cannot be fulfilled or displaced within a sampling of hotels—is described two ways: The first is *lodging demand that prefers to stay in the market or competitive set but currently uses hotels in other locations*. At present, this occurs during peak-demand periods such as times of sporting events, summer travel weekends, major community/city events, and conventions. In these peak periods, occupancy overflows or spills out to area hotels in nearby markets. While these consumers would rather stay in the competitive set area (Cambridge), supply is completely consumed. This is known as *displaced demand*.

The second definition of unaccommodated lodging demand is *guests who are currently staying in the competitive set but prefer hotel accommodations, likely at a higher level, within the set*. As an example, a traveler who normally stays at full-service hotels elsewhere has booked his or her reservation at an area's limited-service property because other supply is not appropriate or too old, thus not meeting needs. This type of demand, *induced*, creates a new market or choice of hotel in a given market and is difficult to estimate. However, with the choices in the immediate downtown market and lack of unique boutique properties, or new facilities with desirable amenities, the number of consumers in the niche of unaccommodated demand is high.

For the purpose of the market study, we did not estimate the impact of induced or displaced demand. This is an estimate of all market segments displaced and induced due to the lack of guest rooms available in peak times and new meeting facilities needed to create a new hotel attraction.

Displaced Demand

Transient/commercial/social demand is typically estimated that at times given the market properties would exceed market supply and create displaced demand; however, we did not forecast the impact of increased displaced demand.

Induced Demand

We did not forecast the impact of induced demand. If the proposed hotel has made the decision to offer meeting space for business, social and leisure events; the property may attract small regional attention. The property could then be successful in two sources of group business: first, the social market, focusing on weddings and sporting events and banquets, could attract a minimum of 15-20 peak wedding dates with nearly 15-20 rooms per event. Again this impact was not evaluated in the study.

SUBJECT PROPERTY PERFORMANCE

Occupancy

The occupancy for the subject property will be addressed in the next section of the study. It should be able to retain an average occupancy of 51% and 107% market share—upon stabilized Year 3 of operation (2015)—based on estimated levels of performance in the market. With proper market and product positioning, this occupancy rate could slightly exceed this average. The following projections are subject to a $\pm 5\%$ range.

Cambridge Subject Market									
SUBJECT HOTELS									
MARKET PENETRATION AND PROJECT OCCUPANCY									
	2010	2011	2012	Year 1 2013	Year 2 2014	Year 3 2015	Year 4 2016	Year 5 2017	
SUBJECT PROPERTY- COMBINED AVAILABLE ROOMS	52	52	52	52	52	52	52	52	52
SUBJECT PROPERTY- ANNUAL ROOMS AVAILABLE	18,980	18,980	18,980	18,980	18,980	18,980	18,980	18,980	18,980
MARKET - ANNUAL ROOMS AVAILABLE	96,360	96,360	96,360	115,340	115,340	115,340	115,340	115,340	115,340
FAIR MARKET SHARE OF SUPPLY	19.70%	19.70%	19.70%	16.46%	16.46%	16.46%	16.46%	16.46%	16.46%
MARKET OCCUPANCY	47.6%	49.5%	51.3%	44.6%	46.5%	48.0%	49.5%	50.9%	
MARKET PENETRATION									
Transient & Commercial	100%	100%	100%	110%	115%	120%	120%	120%	
Leisure	100%	100%	100%	120%	130%	135%	140%	140%	
Group	30%	30%	30%	30%	30%	30%	30%	30%	
Displaced	0%	0%	0%	0%	0%	0%	0%	0%	
Induced	0%	0%	0%	0%	0%	0%	0%	0%	
ROOM NIGHTS CAPTURED									
Transient & Commercial	4,521	4,702	4,890	4,674	5,081	5,461	5,625	5,794	
Leisure	2,713	2,821	2,934	3,088	3,513	3,794	4,053	4,174	
Group	543	559	576	495	510	525	541	557	
TOTAL	7,777	8,082	8,400	8,257	9,104	9,780	10,219	10,525	
MARKET SHARE CAPTURED									
	16.9%	17.0%	17.0%	16.0%	17.0%	17.7%	17.9%	17.9%	
OVERALL MARKET PENETRATION									
	86.0%	86.1%	86.2%	97.4%	103.2%	107.3%	108.9%	108.9%	
SUBJECT OCCUPANCY									
	41.0%	42.6%	44.3%	43.5%	48.0%	51.5%	53.8%	55.5%	
MARKET MIX									
Transient & Commercial	58%	58%	58%	57%	56%	56%	55%	55%	
Leisure	35%	35%	35%	37%	39%	39%	40%	40%	
Group	7%	7%	7%	6%	6%	5%	5%	5%	
TOTAL	100%	100%	100%	100%	104%	104%	104%	104%	

(Source: IDM)

The above chart also represents the subject hotel's fair share of the market demand; that is, if all forecasted demand or rooms booked were split equally among existing hotels in the set, the number of annual rooms available for the subject would result in the subject hotel's forecasted occupancy. In this case, the subject hotel's fair market share for the 52 room hotel is 16.46%. Market penetration is estimated at 97% for Year 1, growing to 107% by Year 3, resulting in the subject hotel's future occupancy levels and the contribution by market share and based upon recommendations made later.

The following chart forecasts the ADR by market segment, starting at the 2010 overall market rate of \$81.20. The average rate is estimated and forecasted by market segment for both the competitive set and subject hotel. It is important to clarify that we have first created a baseline ADR for the subject hotel prior to the repositioning of the property, which should position the hotel for a premium ADR.

Cambridge Subject Market								
SUBJECT HOTELS								
ESTIMATED AVERAGE DAILY ROOM RATE								
	ADR Estimates		Year 1 2013	Year 2 2014	Year 3 2015	Year 4 2016	Year 5 2017	
	2010	2011						
Transient & Commercial								
Percent Annual Growth		2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	2.0%
Average Segment Rate	\$80.00	\$81.60	\$83.23	\$85.73	\$88.30	\$90.95	\$93.68	\$95.55
Segment Rate for Subject	\$85.00	\$86.70	\$88.43	\$91.09	\$93.82	\$96.63	\$99.53	\$101.52
Occupied Room Nights	4,521	4,702	4,890	4,674	5,081	5,461	5,625	5,794
Estimated Revenue	\$384,285	\$407,663	\$432,442	\$425,741	\$476,698	\$527,719	\$559,875	\$588,230
Leisure								
Percent Annual Growth		2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Average Segment Rate	\$87.00	\$88.74	\$90.51	\$93.23	\$96.03	\$98.91	\$101.88	\$104.93
Segment Rate for Subject	\$93.00	\$94.86	\$96.76	\$99.66	\$102.65	\$105.73	\$108.90	\$112.17
Occupied Room Nights	2,713	2,821	2,934	3,088	3,513	3,794	4,053	4,174
Estimated Revenue	\$252,309	\$267,600	\$283,886	\$307,750	\$360,608	\$401,137	\$441,376	\$468,190
Group								
Percent Annual Growth		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Average Segment Rate	\$75.50	\$77.01	\$78.55	\$80.12	\$81.72	\$83.36	\$85.03	\$86.73
Segment Rate for Subject	\$85.00	\$86.70	\$88.43	\$90.20	\$92.01	\$93.85	\$95.72	\$97.64
Occupied Room Nights	543	559	576	495	510	525	541	557
Estimated Revenue	\$46,155	\$48,465	\$50,938	\$44,650	\$46,923	\$49,270	\$51,787	\$54,385
Subject Hotel								
Total Demand - All Segments								
Total Estimated Revenue	\$682,749	\$723,729	\$767,266	\$778,141	\$884,229	\$978,126	\$1,053,037	\$1,110,804
Total Occupied Room Nights	7,777	8,082	8,400	8,257	9,104	9,780	10,219	10,525
Overall Average Room Rate for Market								
Overall Annual Growth		2.0%	2.0%	2.9%	2.9%	2.8%	2.8%	2.3%
Overall Average Room Rate for Subject	\$87.79	\$89.55	\$91.34	\$94.24	\$97.13	\$100.01	\$103.05	\$105.54
Overall Annual Growth		2.0%	2.0%	3.2%	3.1%	3.0%	3.0%	2.4%
Overall Rooms REVPAR								
ADR variance to Comp Set	\$37.38	\$39.63	\$39.74	\$45.20	\$50.05	\$53.85	\$57.14	\$55.93
ADR variance to Comp Set	\$6.59	\$6.71	\$6.84	\$7.33	\$7.73	\$8.07	\$8.50	\$8.79
Forecasted Comp set Comparison	\$81.20	\$82.84	\$84.50	\$86.91	\$89.40	\$91.95	\$94.54	\$96.75

(Source: IDM)

The subject hotel is projected is estimated in Year 3 (2015) to achieve an ADR of \$100.00 for its guest rooms compared to the market estimated at reaching an ADR of \$91.95 based on the growth rates defined above. This is a premium ADR in comparison to the competitive set of \$8.06 is based on the property being new and positioned against an aging competitive set. The subject property's ADR will also be subject to the amenities offered, as well as the position of the competition at that time.

LODGING FACILITY RECOMMENDATIONS

Property Description and Recommendations

The property should reflect the expectations of today's business and leisure travelers while maintaining the charm of the area. The concept focus should offer guests a sophisticated yet relaxed contemporary design that is stylish, comfortable, and defines its city. A new brand select service or lifestyle hotel—unique to the greater area and offering unparalleled regional quality and focused service—should be competitive in the region and successful long term. This may be a good market for a hybrid brand modified prototype if a branded hotel is valued. This hotel will be a competitive facility. The market will likely react moderately to the regional tourism and, over time, support the subject hotel.

The size of this hotel is recommended for 45-55 guest rooms. The suggested evaluation at 52 rooms was used for the purposes of economic modeling and is feasible given the current stabilization of the properties occupancies and the market demand rebound.

The amenities of the hotel will need to address what the market is attracting. This includes the following amenities:

Competitive Facilities Description

- Modern upscale décor, keeping within distinct attributes that make guests feel sophisticated, such as modern bathrooms and interesting room features and design. Guests should experience comfortable amenities such as in-room refreshment centers with refrigeration and possible microwaves, comfortable bedding, recognized name-brand bath amenities and/or recognized name-brand products and possibly in a convenience center.
- The proposed structure of the hotel should offer approximately 45-55 guest rooms in a low to mid-rise structure (2-3 stories) featuring a variety of guest rooms and a few suites. Although the exact mix of rooms will not be determined or considered in this report, sample room layouts in the attached addendum should be considered and could be comprised of:
 - Multi-room suites to accommodate guests for 2-3 nights or extended stay.
 - King and double-queen traditional guest rooms.
- The guest rooms should offer similar amenities throughout all of rooms. These amenities could include a flat panel 37"-42" HD TV, refrigerator and limited wet bar/ kitchenettes (potentially in suites), in-room beverage and snack selections, coffee maker, iron and ironing board, desk with free computer access (wired & wireless), ergonomic seating, task lighting, and multiple accessible power outlets. This is the project standard of quality and amenities by which the competitive set will compare itself.

-
- Conference and meeting space will not be a significant part of the potential project and would assume some additional risk. There have been many cases in which branded hotels, such as Hilton Garden Inn, has made concessions to their brand model and included large meeting space. This variance to the brand standards allows for a competitive advantage over market competitions. Many independent hotels also take on this strategy although we did not identify a high level of group and meetings demand within the subject market.

The meeting space, if it were considered by a development group, would be needed to be competitive in the social gathering, and wedding market. The conference and meeting space should be comprised of:

- Meeting space for small gatherings
 - Small private boardroom as part of that flexible meeting space.
 - Small prep-kitchen, storage, restroom, and back-of-house space
- The surface-level accessible parking, offering a safe, secure environment that is easily accessible and well lit.
 - Health and fitness facility offering expanded fitness options- open 24/7, with state-of-the-art equipment; a contemporary water feature with an indoor or outdoor pool would likely be necessary to be competitive in the seasonal leisure market.
 - Food & Beverage area, a place for guests to get ready for their day during breakfast and relax and unwind in the evening. This area should reflect style and comfort, with the following minimum basic services:
 - Premium coffee selections.
 - Full breakfast service.
 - Limited service bar (beer and wine license) offering small snacks and limited dining options or managers reception would be competitive and attract travelers.
 - Upscale entertainment features such as high-end TVs and sound systems; the lobby will be designed to allow it to double as a living room area and gathering place for guests.
 - A full service restaurant will not be necessary meaning the facility offers breakfast, lunch and extensive dinner options, room service, and support service for banquets. The hotel as mentioned above should offer limited food options that are simple to prepare and execute. The facility should offer limited breakfast menu and possibly a convenience store area.
 - Latest technologies that offer seamless interface from office to hotel room, including:
 - High-speed wired and wireless network throughout the facility.
 - In-room premium music such as iPod/MP3 player-clock radios.
 - Business-minded facilities or resource center allowing guest to print.

SUMMARY CONCLUSIONS

- Proposed subject hotel will exceed the competitive product in the market because it is new and offers more amenities than the existing hotels. This can be accomplished with a variety of guest accommodations and critical meeting spaces as proposed earlier.
- Visible site, accessible easily from various directions, and unique market positioning.
- Site offers both visibility and accessibility to *transient* and *social* demand generators. The market drives a stable occupancy and consistent average rate that is seasonally driven.
- Location has many risks/advantages over the competitive set because of its accessibility and location. It would be the only new project in the market to date.
- Market shows positive recovery and stable economic trends.
- Subject market average rate of \$81.20 and occupancy of 47.6 percent year-end 2010 is just below the complete state average.
- Recovering economic sector in industrial and healthcare business within the county. Tourism is an economic driver in area through the summer and early fall seasons.
- The subject hotel will likely run occupancy upon opening in the mid 40 percent range and exceed 50 percent by the third year of operation, market average, at a likely rate of \$100 (low) to \$110 (high) range, based on services and amenities, in year three.
- Occupancy should be expected to reach a five-year average of 56 percent (low) to 63 percent (high) and stabilize occupancy in the mid-50 percent range by Year 3, at or near 51 percent.

CONCLUSIONS: FEASIBILITY STUDY REVIEW

The following financial analyses scenario demonstrates the performance of the proposed subject property based upon the research in this market study. These projections will be considered by a development group when evaluating the size and scope of the project. These projections are based upon a select service, mid-upscale franchise hotel, with recommendations attached in this report. The pro forma does include estimated property taxes based on the value of the subject hotel.

Hotel

Based on the projections and prior information prepared, the consultant projects a five-year operating pro forma for a 52-room franchise subject hotel facility within the Cambridge market without extensive meeting space. Meeting space (indoor) of up to 3,500 sq ft could be considered but is not recommend creating immediate demand. This would be adequate size to accommodate up to 200 individuals, but would require additional capital costs and risk. The comparison has utilized both regional and industry national average performance.

More specifically, we have reviewed all estimated performance and, for discussion and comparison purposes, will discuss Year 3 of operation (2015) as the stabilized year of business. Hotel revenue projections indicate that at Year 3 of stabilized business, the facility would generate estimated revenues of \$1.033 million—to include room and miscellaneous revenues. The property should achieve this by running occupancy at or near 52% occupancy and an ADR of \$100.25. This ADR will result in room revenues alone exceeding \$990,000 by Year 3.

The subject hotel could generate an additional revenue contribution to total income if a meeting facility is added; although this is not demonstrated in the attached pro forma. Catering facilities that offer in house banquet department that can purchase, store and prepare food & beverage onsite may add value to the operation. This source of revenue will also have revenue contributions from nightly guests as well as the local community or patrons not staying at the facility.

The food revenues for the hotel and suites were based on a Per Occupied Room (POR) basis each year for food at \$22.00, beverage at \$8.00 as reported according to the 2011 STR Host Annual Report, an industry comparison index tool. This calculation would provide nearly \$250,000 in year three from in house sales based on the POR calculation of nearly 10,000 occupied rooms. Total food revenues based on POR basis and local community sales would likely not exceed \$350-400,000 annually, of which 15-20% would be the expected profit margin.

Rooms Departmental Expense estimates are projected at 21.3% of room revenue. Such expenses include payroll for both guest services and related property and guestroom cleaning, and departmental direct expenses. The departmental expenses include reservation processing fees (for either independent or franchised hotels), cost of guest supplies, laundry and linen, uniforms, and other related costs.

Food & Beverage expenses were not factored into the proforma. These expenses would typically include payroll, the direct cost of inventory for both food and beverage items, and all related expenses related to the food outlets. Costs would be estimated at a minimum of 80% of food & beverage revenues; this is comparable to similar operations of this size and regional comparisons as analyzed by Smith Travel Research. This estimate would include food service for one catering facility.

Undistributed Expenses relate to items not directly attributed to specific operating departments. This category includes utilities estimated at \$5.00 per occupied room, which is within the national average range. Repairs and maintenance are projected at 5% of revenues at \$3.00 per occupied room night, comparable to similar operations in the region and historical trends.

Administrative & General costs include payroll and related expenses of management and the cost of various administrative functions and supplies such as credit card commissions, professional fees, and miscellaneous. This category is projected at 10% of total revenue.

Marketing Expenses include payroll and related expenses, the cost of advertising and promotion, direct mail and Internet campaigns, and any franchise-related assessments (if applicable) at 5.1% of base revenues.

Management Fees are estimated at 3% of total hotel revenue. The typical industry average is 3.2%, which is the customary base fee for hotel management; it does include an incentive to the management company based upon performance of preferred return to investor group, typical within the industry. Actual fees will vary depending upon other contract terms. Some franchise companies actually support owner operated models that would not require a professional management company. This allows for additional income to be available for debt service and may be considered in this market.

Fixed Expenses include items that are relatively fixed and not sensitive to the operating levels of the facility. Property taxes were not evaluated however insurance was estimated at an industry average of 1.3% of revenue totaling \$13,000 annually.

Franchise fees were entered into the evaluation at an estimated amount of \$59,000 or nearly 6% of revenue. It is customary for the brand to charge 8%–11% of revenues in royalty, franchise, and marketing fees. These fees vary based on the franchise participation.

In summary, the overall cash flow available for debt service is projected at 40% of total revenue or \$400,000, depending on furniture, fixture and equipment (FF&E) reserves estimated at 1% and without property taxes. Real estate and property taxes should be adjusted accordingly. The first full five-year operating pro forma produced by the consultant for the subject hotel is shown on the following page.

Cambridge Hotel Project

Projected Operating Results

Calendar Years

	2013		2014		2015		2016		2017	
Number of Units:	52		52		52		52		52	
Number of Annual Rooms Available:	18,980		18,980		18,980		18,980		18,980	
Number of Rooms Occupied:	8,350		9,110		9,870		10,250		10,630	
Annual Occupancy:	44.0%		48.0%		52.0%		54.0%		56.0%	
Average Daily Rate:	\$94.50		\$97.25		\$100.25		\$103.25		\$105.75	
Revenue Per Available Room:	\$41.58		\$46.68		\$52.13		\$55.76		\$59.22	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenues										
Rooms	\$789,000	95.8%	\$886,000	95.8%	\$989,000	95.7%	\$1,058,000	95.7%	\$1,124,000	95.8%
Food & Beverage	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Telecommunications	9,000	1.1%	10,000	1.1%	11,000	1.1%	12,000	1.1%	12,000	1.0%
Other	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other Income	26,000	3.2%	29,000	3.1%	33,000	3.2%	35,000	3.2%	37,000	3.2%
Total Revenues	824,000	100.0%	925,000	100.0%	1,033,000	100.0%	1,105,000	100.0%	1,173,000	100.0%
Departmental Expenses										
Rooms	201,000	25.5%	206,000	23.3%	211,000	21.3%	216,000	20.4%	221,000	19.7%
Food & Beverage	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!
Telecommunications	18,000	200.0%	20,000	200.0%	22,000	200.0%	23,000	191.7%	25,000	208.3%
Other	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total Departmental Expenses	219,000	26.6%	226,000	24.4%	233,000	22.6%	239,000	21.6%	246,000	21.0%
Departmental Profit	605,000	73.4%	699,000	75.6%	800,000	77.4%	866,000	78.4%	927,000	79.0%
Undistributed Expenses										
Administrative & General	91,000	11.0%	99,000	10.7%	106,000	10.3%	112,000	10.1%	117,000	10.0%
Marketing	45,000	5.5%	49,000	5.3%	53,000	5.1%	56,000	5.1%	58,000	4.9%
Franchise Fees	47,000	5.7%	53,000	5.7%	59,000	5.7%	63,000	5.7%	67,000	5.7%
Property Operation and Maintenance	47,000	5.7%	51,000	5.5%	52,000	5.0%	54,000	4.9%	55,000	4.7%
Utilities	44,000	5.3%	49,000	5.3%	53,000	5.1%	56,000	5.1%	59,000	5.0%
Other Undistributed Expenses	9,000	1.1%	10,000	1.1%	11,000	1.1%	12,000	1.1%	12,000	1.0%
Total Undistributed Operating Expenses	283,000	34.3%	311,000	33.6%	334,000	32.3%	353,000	31.9%	368,000	31.4%
Gross Operating Profit	322,000	39.1%	388,000	41.9%	466,000	45.1%	513,000	46.4%	559,000	47.7%
Base Management Fee	25,000	3.0%	28,000	3.0%	31,000	3.0%	33,000	3.0%	35,000	3.0%
Fixed Expenses										
Property Taxes	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Insurance	13,000	1.6%	13,000	1.4%	13,000	1.3%	14,000	1.3%	14,000	1.2%
Total Fixed Expenses	13,000	1.6%	13,000	1.4%	13,000	1.3%	14,000	1.3%	14,000	1.2%
Net Operating Income	284,000	34.5%	347,000	37.5%	422,000	40.9%	466,000	42.2%	510,000	43.5%
FF&E Reserve	8,000	1.0%	9,000	1.0%	10,000	1.0%	11,000	1.0%	12,000	1.0%
Net Income After Reserve	\$276,000	33.5%	\$338,000	36.5%	\$412,000	39.9%	\$455,000	41.2%	\$498,000	42.5%

Hotel Site Recommendations

The city is looking for a “best site” to build a hotel given the market feasibility. Eight notable sites were provided by the Economic Development Director, Stan Gustafson. Ultimately, the final decision regarding actual site selection will be based on the developer groups preferred choice based on the cost of the land, potential community incentives and the overall development master plan congruent to community growth. Site comments are as follows:

1. Cambridge Opportunity Industrial Park – not a preferred hotel site because the site is located in an area that is not convenient to existing amenities and services. The industrial park is not located near retail or restaurants – it is designed for businesses.
2. Southeast Industrial Park – not a preferred hotel site because this area is already populated with industry and has limited sites available. The site is a significant distance from the existing retail and restaurant area.
3. Woodcrest Park Redevelopment – premature for hotel development site because the city has not yet completed the road structure, utilities improvements or begun marketing the acreage to business. Although it is centrally located, it does not have the best visibility at this time. It would be difficult (not impossible) for owner to have a hotel to manage as the first development in the park. Should the city offer significant incentives to offset the risk, this area could be considered.
4. Downtown Cambridge – the community is an attractive downtown, with train tracks that divide the community. Train traffic is frequent, 12-26 trains per day and noisy. There was not an obvious existing building choice large enough to acquire and renovate. The city does not own land in downtown that could be used for new hotel construction. Hotel in downtown would support existing retail and restaurants.
5. Spirit River Crossing – 2.5 acre site owned by City and listed by Opus adjacent to Kohl’s Department Store. Nestled in a newer retail development with big box retail surrounding the site. This site could be used for a franchise limited service hotel site.
Map #1
6. Benk Property - 5 acre site owned by a private developer – behind Cub Foods and Target. Visibility from highway is limited but it is situated at back of the development which would limit excessive traffic and noise. Would need to position building on site to avoid back of buildings, deliveries and waste removal. Site could be used for larger hotel development which could include additional amenities such as meeting and banquet rooms. Map#1

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7. Greenburg Motors Site on Hwy 95 east of downtown – location could be a viable hotel site because of the short distance to retail and restaurants, support services, for travelers/tourists and business travelers. This land has potential for TIF. An estimated 23,000 cars per day pass by this site. The cost of relocation for Greenburg Motors would need to be considered. Map#2
 8. Becklin Property Site, adjacent to Greenburg Motors on Hwy 95 east of downtown- location is a viable hotel site because of the short distance to retail, restaurants and services. It has potential for TIF. An estimated 23,000 cars per day pass by this site. Map#2
 9. Fleet Go – Site is located on Hwy 95 east of downtown across from the Greenburg Motors Site and Becklin Property. The redevelopment of this site offers the potential for TIF. It also has estimated 23,000 cars per day pass by this site. Map#3
 10. Perkins Restaurant Site, Hwy 95 at North Garfield St. just west of the intersection of Hwy 65. In 1999, the lot adjacent to the restaurant had been considered for a 46-66 unit hotel with pool. This site offers opportunity to build a multiple story hotel without a restaurant. Perkins is a popular restaurant for travelers and tourists in Cambridge. Hotel may need to lease parking lot from Perkins owner to meet additional parking needs if meeting and banquet spaces are incorporated in the business plan. Site is small but central with good visibility. Traffic counts are 19,000 cars per day. The Crossings by Grand Stay Inn & Suites is located three blocks from this site at 300 South Garfield Street. Map#4

REGIONAL ECONOMIC IMPACT

For the purposes of this engagement, we will estimate the positive economic impact to the City of Cambridge from retail sales taxes in Year 5 (2017) of the hotel operation.

Year 5 projections indicate that the facility offering 52 rooms and suites will be able to draw approximately 10,630 additional lodging room-nights into the community than the property is expected to draw in 2011. We further estimate that the overall market will absorb the additional market supply of the newly expanded hotel and collectively reach an occupancy level of 51%, on average, given the new supply. Adjusting for inflation at 2.5% annually, the average rate of the market hotel inventory in Year 5 would be \$96.75. It is estimated that the subject hotel in Year 5 will achieve an average rate of \$105.75, a premium of \$9.00 compared to the competitive market.

There are other benefits to the City of Cambridge and the community not noted, such as additional property taxes, employee spending, and business expansions or relocations. It is clear that the local economy will derive substantial benefits from the addition of this facility.

CRITICAL DEVELOPMENT CONSIDERATIONS

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

Subject Market

The Cambridge area is a market that is positioned for growth although not currently seen as a strong market for hotel operation based on the historical trend of the competitive set. The market has seen a downward trend in occupancies from 2005-2010. Competition within the market is not seen as strong direct competition.

Growth in Lodging Supply

The most recent addition to Lodging Supply in this market was in 2000. At present, no new hotels have been added to the pipeline in the subject market area. As a result, no other Lodging Supply growth was factored into the projections for the near term.

Growth in Lodging Demand

Lodging Demand has resulted in a 12.1% increase in early 2011 which is an encouraging sign that the market is recovering from the U.S. recession. The historic combined average growth rate in the subject market averaged -3.5% per year from 2005 to 2010. Based on industry outlook and research performed it is projected that the market should continue to see positive growth for 2011. It was further projected that Lodging Demand will grow by 3.5% each year from 2011 through 2015.

Development Incentives

The development culture and attitude of the community would be defined as pro-growth. There appears to be strong interest in developing a hotel in this immediate area from the City and Economic Development Department. The benefits to the city are significant. The community willingness to assist in the approval process for a hotel project suggests that there is potential for development incentives. Establishment of a Tax Incremental Funding (TIF) District could be developed for the hotel.

Property Tax

Detailed review of the tax structure in the subject market was not executed within the scope of this report. A development group should analyze the property tax structure within the market

Project Scope: Franchise or Independent Affiliation

It has been estimated that a limited or select service franchise property would have a higher potential of success in this market. The franchise affiliation should allow the subject property to stabilize occupancy and grow market share quicker than an independent property. This also depends on the exact site selection of the project. The proper brand affiliation is required and the development group should be very selective of the brand.

Franchise Selection & Protection

In review of the market research a few brands have been suggested for consideration and the information provided in section 8 of this report. Hampton Inn Hometown Prototype and Home2 Suites by Hilton are an example of franchise options that are not represented in the market and are part of the Hilton family which has broad reach in attracting travelers.

Hampton Hometown franchise offers opportunity in rural and tertiary markets through a smaller, more efficient Hampton Inn with as few as 52 rooms, fitting on as little as 1.32 acres. The community of Burlington, WI recently added a Hometown Inn which is a rural community without direct interstate access. The properties are also intended to be owner operator facilities.

The Home2 Suites by Hilton is an extended stay product which may or may not be suitable in this immediate market and franchise review is advised. This concept may be more competitive within the greater regional market.

Franchise companies restrict area development so that brands within a franchise company to not directly compete against one another for the same consumer, thus allowing for the family to maximize market share in a competitive set. This is defined as an area of franchise protection. It is recommended that to ensure that there is no encroachment by a similar hotel brands in the market area the development group negotiate with franchise brands to ensure adequate protection against future development for a period of stabilization and beyond.

Revenue Management Strategies

Research indicated that rate management has shown growth disproportionate with the decline in historical occupancies. The evaluated competitive set present market rate structure generating increased in ADR given the age of the properties and amenities offered.

The historic combined average growth rate in the subject market averaged 2.0% per year from 2005 to 2010. Based on industry outlook and research performed it is projected that the market should continue to see positive growth for 2011. It was further projected that Lodging Demand will grow by 2.5% each year from 2011 through 2015.

The recommended rate position of the subject hotel should be in line with that of the current market at a slight premium of \$5.00-10.00. Preliminary rate positioning appears to suggest that the market would not support a product at a premium of 125-150% index. Premium rates could be charged during peak demand periods; however, these rates will be moderated by seasonal leisure travel as this market segment tends to be rate sensitive.

Project Marketing

This hotel should be marketed beyond the community in which it is positioned and would likely need the assistance of broad franchise awareness and draw. The hotel will require effective marketing to the surrounding regional attractions and businesses. The location of the subject hotel, away from other major lodging demand generators will require aggressive marketing to make and keep the market aware of the hotel.

CERTIFICATION, ASSUMPTIONS, AND LIMITING CONDITIONS STATEMENT

The above report is presented to provide information on the market in which the subject property will perform. The report is to be used in whole and not in part. The research provided in this report was obtained from review of supportive data and information. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property and market.

All information, financial operating statements, estimates, and opinions obtained from parties not employed by the consultant are assumed true. It should be understood that normal economic and marketplace conditions change constantly. The consultant assumes no responsibility for information that becomes outdated once this report is written, nor is it responsible for keeping this information current after September 2011. The consultant takes no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.

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

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

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

The consultants' company routinely seeks opportunities to consult, develop, and manage boutique and branded hotels in the region. Our consulting engagements include a fee structure for a specific scope of work. These engagements occasionally result in a minor equity interest or long-term management contract for a prospect facility. The consultant has no current or contemplated interests in the real estate that is the subject of this report. The fee paid for the preparation of this report is not contingent upon the conclusions, upon occurrence of a subsequent event directly related to the intended use of this report, or that our engagement was contingent upon developing or reporting predetermined results.

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

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

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

GLOSSARY OF HOSPITALITY TERMS

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

Type of Hotel

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

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

There are also upscale or luxury hotels that do not manage their food & beverage operations (e.g., leased to a third party) that are categorized as limited-service hotels.

Select-Service Hotel

Hotels with a hybrid of amenities to attract market demand are defined as select-service. These hotels typically include about 50-150 guest rooms, limited food-service operations, and scaled-down meeting space. These properties often tout spacious guest rooms with comfortable, custom beds that are comparable to rooms found at their full-service cousins.

Some additional trademarks of select-service hotels include lounge areas for working and socializing, hot breakfast service, and free high-speed Internet access. Travelers get all this for about less than they would pay at a full-service property.

Revenues

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

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

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

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

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

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

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

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

Departmental Expenses

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

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

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

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

Undistributed Operating Expenses

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

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

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

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

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

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

Fixed Charges

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

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

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

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

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

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

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

Other Terms

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

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

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

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

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

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

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

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

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

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

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