

Initial Market Assessment for a Limited-Service Hotel in Big Lake, Minnesota

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Maxfield
Research & Consulting

7575 Golden Valley Road
Suite 385

Golden Valley, MN 55427

612.338.0012

www.maxfieldresearch.com



April 9, 2018

MEMORANDUM

TO: Ms. Hanna Klimmek, EDFP
City of Big Lake

FROM: Mr. Joe Hollman
Maxfield Research and Consulting, LLC

RE: Initial Market Assessment for a Limited-Service Hotel in Big Lake, Minnesota

Introduction/Purpose and Scope of Research

This memorandum contains an initial market assessment to evaluate the potential demand for a limited-service hotel in the City of Big Lake, Minnesota, specifically on a Site located in the northeast corner of the intersection between Highway 10 and Lake Street North in Big Lake. The methodology used to assess demand in this memorandum is proprietary to Maxfield Research and Consulting, LLC but is consistent with methodologies used by analysts throughout the real estate and lodging industries.

It is important to note that conclusions contained herein are preliminary, and are intended only to broadly assess the depth of demand for a limited-service hotel in the draw area, or Primary Market Area (PMA), and to determine whether additional hotel rooms could be supported. A more thorough investigation of the unique characteristics of the draw area, outlined in a *Full Feasibility Study*, would reveal more specific factors that would impact demand and appropriate market positioning for a hotel development.

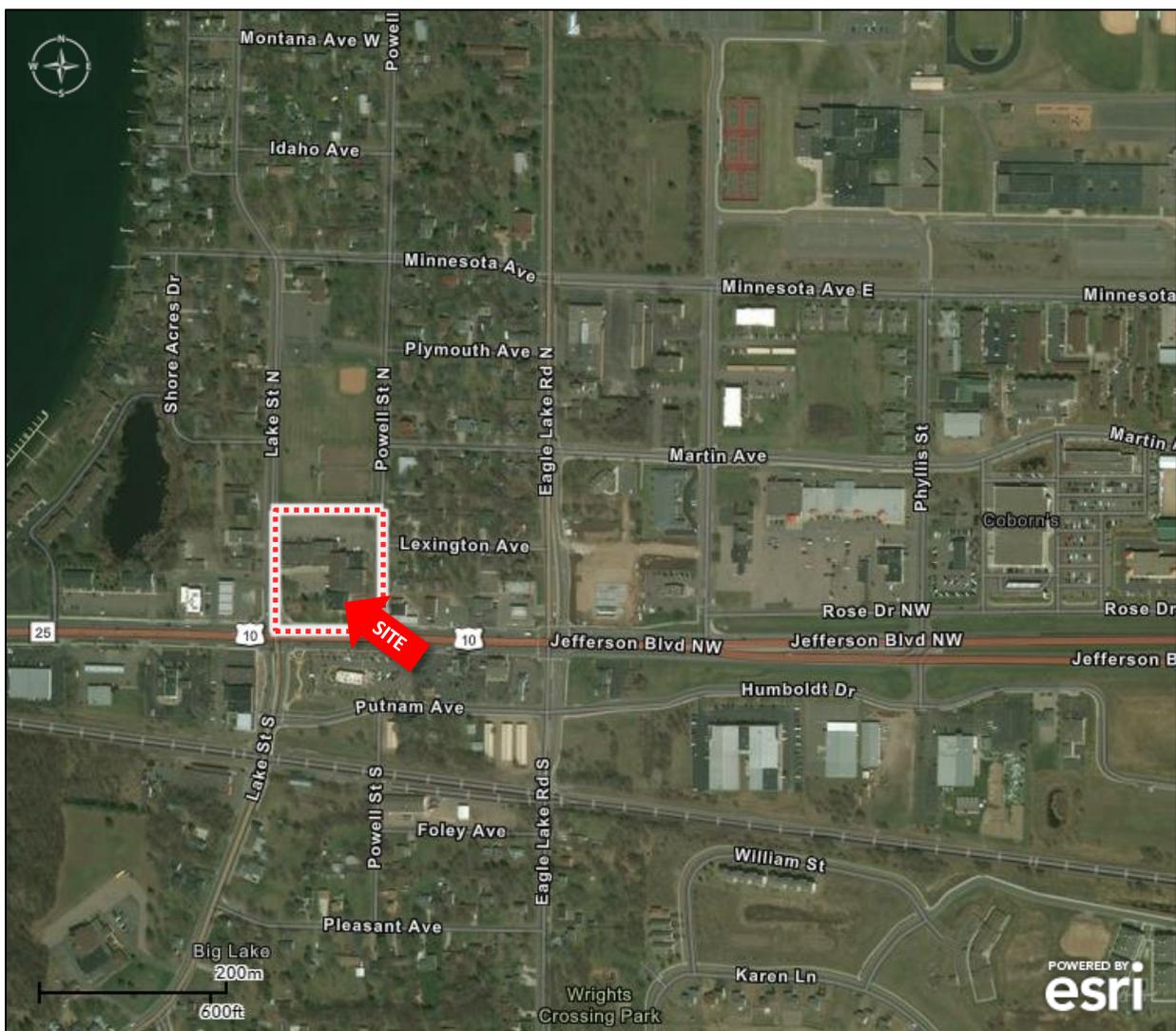
The scope of the study includes a demographic review of Big Lake and the surrounding Market Area with population and household growth trends, household income trends, employment trends, and an assessment of market conditions for limited-service hotel properties in the area. Based on these factors, Maxfield Research evaluates the potential to support additional hotel rooms in Big Lake and the surrounding area.

This report includes secondary research. Secondary research is credited to the source when used, and is usually data from the U.S. Census or regional planning agencies. Secondary research is always used as a basis for analysis, and is carefully reviewed in light of other factors that may impact projections.

Site Description

It is our understanding that the subject property is an approximately 3.4-acre Site located in the northeast corner of the intersection between Highway 10 and Lake Street North in the City of Big Lake, Minnesota. The Site is currently developed with Big Lake's City Hall, an event center, and commercial space. The portion of Highway 10 adjacent to the Site receives average annual daily traffic of roughly 22,300 vehicle trips per day, while Lake Street experiences approximately 3,900 vehicle trips per day.

Subject Property Location Map

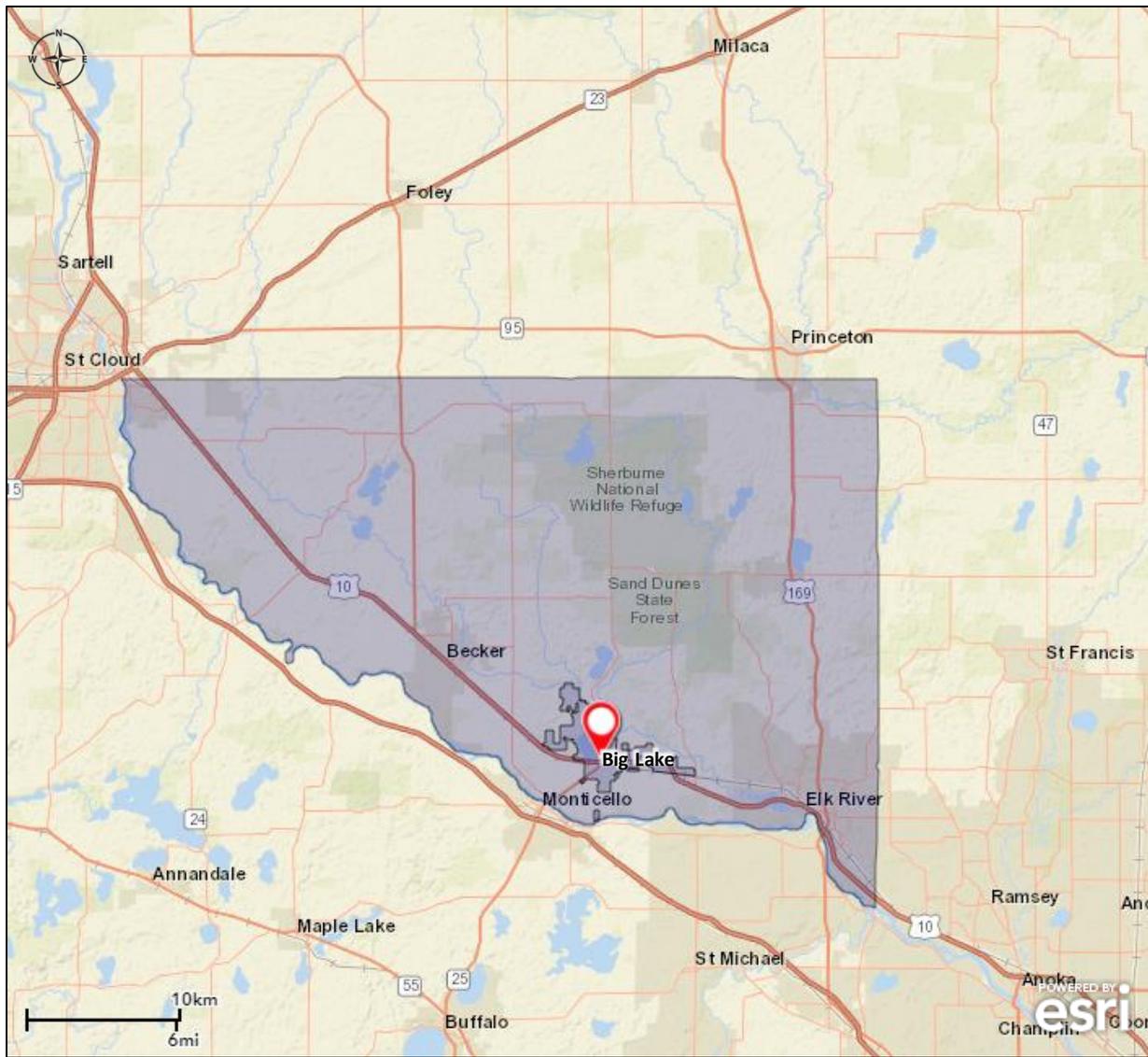


Primary Market Area Definition

Maxfield Research determined the draw area for a limited-service hotel in the City of Big Lake, Minnesota based on geographic and man-made barriers, commuting and community orientation patterns, tourism and employment trends, and our experience in hotel development feasibility. Considering these factors, we determined a Primary Market Area (PMA) for a limited-service hotel in Big Lake would consist of Sherburne County, Minnesota.

The following map illustrates the location of Big Lake and the subject property in the PMA.

Primary Market Area



Population and Household Growth Trends

Table 1 presents a summary of population and household growth trends in the Market Area from 2000 to 2030. The 2000 and 2010 population and household figures were obtained from the U.S. Census Bureau. The 2018 estimates and projections for 2020 and 2030 are based on data provided by ESRI (a nationally recognized demographics firm) and the Minnesota State Demographic Center with adjustments made by Maxfield Research to reflect current year data.

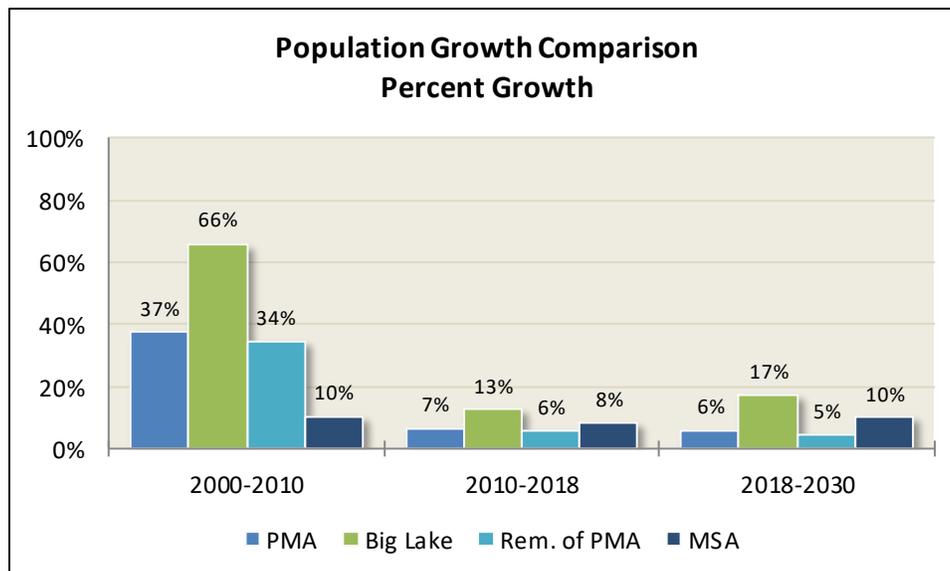
The following are key points from Table 1.

- As of 2010, the PMA contained 88,499 people and 30,212 households. Between 2000 and 2010, the population increased 37.4% (+24,082) while the number of households expanded 40.0% (+8,631). Big Lake’s population jumped 65.9% (+3,997) against household growth of 59.5% (+1,260) during the decade.
- The proportional change in new households was high relative to population suggesting a trend toward shrinking household sizes in the PMA. The trend toward declining household sizes indicates an aging household base and reflects a general shift in demographic factors that favor smaller households, such as a declining proportion of married couple households with children.

TABLE 1 POPULATION AND HOUSEHOLD GROWTH TRENDS AND PROJECTIONS BIG LAKE HOTEL MARKET AREA 2000 - 2030									
	Census		Estimate	Forecast		Change			
	2000	2010	2018	2020	2030	2000-2010		2010-2020	
						No.	Pct.	No.	Pct.
Population									
Primary Market Area	64,417	88,499	94,347	95,990	100,053	24,082	37.4%	7,491	8.5%
City of Big Lake	6,063	10,060	11,324	11,547	13,257	3,997	65.9%	1,487	14.8%
Remainder of PMA	58,354	78,439	83,023	84,443	86,796	20,085	34.4%	6,004	7.7%
MSP, MN-WI MSA*	3,031,918	3,348,859	3,629,971	3,701,606	3,993,052	316,941	10.5%	352,747	10.5%
Households									
Primary Market Area	21,581	30,212	32,200	32,765	34,206	8,631	40.0%	2,553	8.5%
City of Big Lake	2,117	3,377	3,790	3,864	4,435	1,260	59.5%	487	14.4%
Remainder of PMA	19,464	26,835	28,410	28,901	29,771	7,371	37.9%	2,066	7.7%
MSP, MN-WI MSA*	1,160,655	1,299,635	1,402,738	1,429,427	1,561,616	138,980	12.0%	129,792	10.0%
*16-County Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area									
Sources: US Census Bureau; ESRI; Minnesota State Demographic Center; Maxfield Research & Consulting, LLC									

- The pace of household growth declined late last decade as residential development activity dropped off sharply in the PMA due to the recession.

- Housing development has been gradually increasing since 2010, and we estimate that the PMA’s population increased 6.6% to 94,347 between 2010 and 2018 while the number of households also increased 6.6% (+1,988).
- Between 2018 and 2030, the PMA is projected to add 5,706 people (+6.0%) and 2,006 households (+6.2%). The rate of growth in the PMA is expected to be slightly lower than the MSA (10.0% population growth between 2018 and 2030).
- Growth in the City of Big Lake is projected to outpace the Remainder of the PMA, expanding by a total of 1,933 people (+17.1%) and 645 households (+17.0%) between 2018 and 2030. The Remainder of the PMA is projected to add 3,773 people (+4.5%) and 1,361 households (+4.8%).



Age Distribution

Table 2 on the following page presents the age distribution of the Market Area population from 2000 to 2023. For this analysis, we compare the age distribution of the PMA to the MSA. Information from 2000 and 2010 is sourced from the U.S. Census. The 2018 estimates and projections for 2023 were calculated by Maxfield Research based on information from ESRI, a reputable national demographics firm.

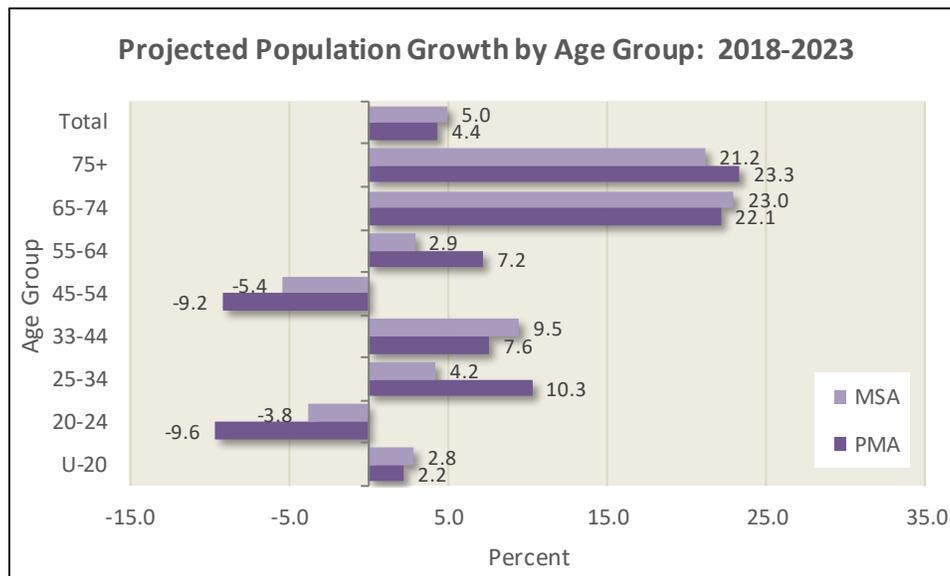
- In 2018, we estimate that the largest adult cohort by age in the PMA is 25 to 34, totaling 13,484 people (14.3% of the population), followed closely by the 45 to 54 age group with 13,333 people (14.1%). The 25 to 34 age group is also estimated to be the largest cohort in the MSA with 14.2% of the total population.

Age	Census		Estimate	Projection	Change			
	2000	2010	2018	2023	2000-2010		2018-2023	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Primary Market Area								
Under-20	21,780	27,864	27,321	27,921	6,084	27.9	600	2.2
20 to 24	4,344	5,414	6,631	5,992	1,070	24.6	-639	-9.6
25 to 34	9,980	12,363	13,484	14,868	2,383	23.9	1,384	10.3
35 to 44	11,855	13,874	12,964	13,947	2,019	17.0	983	7.6
45 to 54	7,704	13,377	13,333	12,113	5,673	73.6	-1,220	-9.2
55 to 64	4,170	8,300	10,759	11,532	4,130	99.0	774	7.2
65 to 74	2,344	4,187	6,199	7,570	1,843	78.6	1,371	22.1
75+	2,240	3,120	3,657	4,510	880	39.3	853	23.3
Total	64,417	88,499	94,347	98,453	24,082	37.4	4,106	4.4
Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area								
Under-20	892,581	923,080	941,324	967,872	30,499	3.4	26,548	2.8
20 to 24	196,852	217,813	241,864	232,616	20,961	10.6	-9,247	-3.8
25 to 34	464,231	485,863	515,422	537,174	21,632	4.7	21,752	4.2
35 to 44	538,126	463,867	481,888	527,504	-74,259	-13.8	45,616	9.5
45 to 54	413,976	518,756	492,296	465,620	104,780	25.3	-26,675	-5.4
55 to 64	231,504	379,150	469,125	482,732	147,646	63.8	13,607	2.9
65 to 74	150,631	193,255	290,691	357,426	42,624	28.3	66,735	23.0
75+	144,017	167,075	196,542	238,114	23,058	16.0	41,572	21.2
Total	3,031,918	3,348,859	3,629,153	3,809,060	316,941	10.5	179,907	5.0

Sources: U.S. Census Bureau; ESRI; Maxfield Research & Consulting, LLC

- In the PMA, the youth (age 19 and younger) population expanded a modest 2.2% (+600 people) between 2010 and 2018, while the adult population (age 20 to 64) also expanded 2.2% (+1,282 people) and the senior (age 65+) population jumped 22.6% (+2,224).
- Greatest growth is projected to occur among older adults in the Market Area. Aging of baby boomers led to a 99% increase (+4,130 people) in the 55 to 64 population between 2000 and 2010 in the PMA, while the MSA experienced a 64% increase in this age group.
- As this group ages, the 65 to 74 age group is projected to experience strong growth, adding 1,371 people (+22%) in the PMA between 2018 and 2023, while the 75 and older age group expands 23% (+853 people).
- A decline in the middle age cohorts is projected between 2018 and 2023 in the Market Area. The 45 to 54 age cohort is expected to contract -9.2% in the PMA (-1,220 people) and decline -5.4% in the MSA.

- The weak growth projected for the middle age population is a result of the comparatively small number of people who will move into those age cohorts between 2018 and 2023, a phenomenon known as the “baby bust.” The “baby bust” is often referred to the generation of children born between 1965 and 1980, an era when the United States birthrate dropped sharply.
- The PMA is expected to experience solid growth in the age 25 to 34 and 35 to 44 cohorts, expanding 10.3% (+1,384 people) and 7.6% (+983 people), respectively. The 55 to 64 age group is projected to expand by 774 people (+7.2%).



Household Income

The next table presents data on household income by age of householder in 2018 and 2023 for the PMA. The data is estimated by ESRI, a nationally recognized demographic services firm, and adjusted by Maxfield Research to reflect the most current local household estimates and projections. The following points summarize key findings.

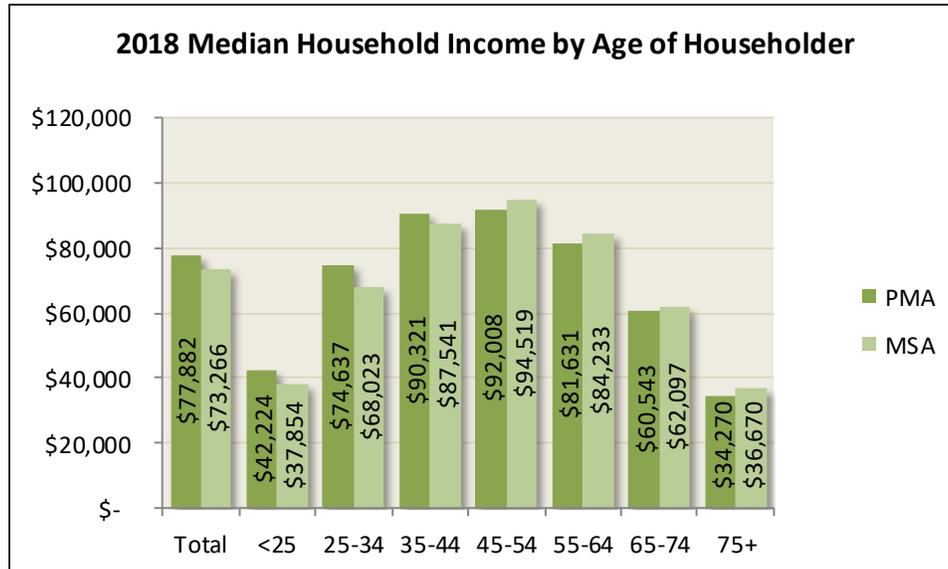
- In 2018, the median household income is estimated to be approximately \$77,882 in the PMA, compared to \$73,266 in the MSA.
- By 2023, the median household income is projected to increase 6.7% to \$83,107 in the PMA, compared to 10.3% growth in the MSA. The average annual increase between 2018 and 2023 in the PMA (+1.3%) will trail the historical annual inflation rate in the United States of 1.7% over the past ten years.

	Age of Householder							
	Total	<25	25-34	35-44	45-54	55-64	65 -74	75+
2018								
Less than \$15,000	1,703	250	224	169	182	288	277	313
\$15,000 to \$24,999	2,138	155	262	232	257	301	448	482
\$25,000 to \$34,999	1,895	138	338	259	238	319	282	320
\$35,000 to \$49,999	3,341	154	645	499	545	634	445	420
\$50,000 to \$74,999	6,374	260	1,426	1,191	1,291	1,102	725	377
\$75,000 to \$99,999	6,248	149	1,257	1,435	1,535	1,181	572	118
\$100,000 to \$199,999	9,244	139	1,399	2,413	2,600	1,846	710	136
\$200,000 or more	1,258	6	130	297	464	235	113	13
Total	32,200	1,253	5,682	6,496	7,112	5,905	3,573	2,179
Median Income	\$77,882	\$42,224	\$74,637	\$90,321	\$92,008	\$81,631	\$60,543	\$34,270
2023								
Less than \$15,000	1,808	247	254	191	163	280	311	362
\$15,000 to \$24,999	2,136	146	262	208	195	272	474	579
\$25,000 to \$34,999	1,793	120	316	239	176	276	295	370
\$35,000 to \$49,999	3,135	139	615	439	414	561	469	498
\$50,000 to \$74,999	5,774	223	1,352	1,058	947	977	770	447
\$75,000 to \$99,999	6,114	152	1,321	1,387	1,258	1,166	679	152
\$100,000 to \$199,999	11,207	170	1,844	2,944	2,656	2,310	1,049	233
\$200,000 or more	1,643	5	191	393	510	322	194	28
Total	33,611	1,203	6,156	6,858	6,320	6,165	4,241	2,669
Median Income	\$83,107	\$43,789	\$79,950	\$99,840	\$102,350	\$90,202	\$68,324	\$35,801
Change 2018 - 2023								
Less than \$15,000	105	-3	30	21	-18	-7	33	49
\$15,000 to \$24,999	-2	-9	-0	-24	-63	-28	26	97
\$25,000 to \$34,999	-102	-18	-22	-20	-62	-42	13	50
\$35,000 to \$49,999	-206	-15	-29	-61	-130	-73	24	79
\$50,000 to \$74,999	-599	-37	-74	-134	-344	-124	45	69
\$75,000 to \$99,999	-133	3	64	-48	-278	-16	107	34
\$100,000 to \$199,999	1,963	31	445	531	57	464	339	97
\$200,000 or more	385	-1	60	97	46	87	81	15
Total	1,411	-50	474	362	-792	260	667	490
Median Income	\$5,225	\$1,566	\$5,314	\$9,520	\$10,342	\$8,571	\$7,781	\$1,532

Sources: ESRI; US Census Bureau; Maxfield Research & Consulting, LLC

- In the PMA, the 25 to 34 and 65 to 74 age groups are projected to experience significant household increases between 2018 and 2023, climbing 8% (+474 households) and 19% (+667 households), respectively.
- The 35 to 44 and 55 to 64 age groups are also projected to grow, but more modestly, adding 362 households (+6%) and 260 households (+4%), respectively.

- As households age through the lifecycle, their household income tends to peak in their 40s and early 50s. This trend is evident in the Market Area as the age 45 to 54 age cohort has the highest estimated incomes at \$92,008 in the PMA and \$94,519 in the MSA.



- In the PMA, household growth is expected to occur in the upper-income brackets, as the number of households with incomes between \$100,000 and \$200,000 increases 21% (+1,963 households) while the number of households with incomes of \$200,000 or higher grows 31% (+385 households).
- Household growth in these higher-income brackets suggests that there will be more demand for discretionary goods and services (i.e. dining, lodging, recreation).

Employment Trends

Employment characteristics are an important component in assessing real estate needs in any given market area. These trends are notable since job growth is a primary driver of demand for commercial real estate, and job growth will often stimulate demand for hotel rooms, particularly from the business travel segment. Additionally, increased hiring in a market area can lead to higher levels of consumer spending, generating hotel room demand from the leisure segment.

The following employment projections, resident employment data, and industry employment information for Big Lake and Sherburne County is compared to the Central Minnesota Planning Area as defined by the Minnesota Department of Employment and Economic Development (DEED). Central Minnesota includes the following counties: Benton, Chisago, Isanti, Kanabec, Kandiyohi, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, Stearns, and Wright.

Employment Growth

Table 4 on the following page shows employment growth trends and projections from 2000 to 2025 based on the most recent information available from DEED for the City of Big Lake, the PMA, and Central Minnesota. Data for 2000, 2005, 2010, and 2016 represents the annual average employment for that year.

Employment projections for 2020 and 2025 are based on 2014-2024 industry projections published for Central Minnesota by DEED, the most recent forecast available. Maxfield Research applied the projected annual rate of growth to the 2016 employment data to arrive at the employment forecast for Central Minnesota. We then projected employment for Big Lake and the PMA based on a review of changes to the proportion of the Region's growth that occurred in the area between 2010 and 2016.

- In 2000, there were 1,176 reported jobs in Big Lake. Despite the economic recession, employment expanded 21.4% (+367 jobs) between 2000 and 2010 in Big Lake.
- By comparison, employment in the Remainder of Sherburne County increased 16.4% (+2,848 jobs) during that period, while employment in Central Minnesota expanded 4.9% between 2000 and 2010.
- Data from the Quarterly Census of Employment and Wages indicates that employment in Big Lake expanded 19.0% (+396 jobs) between 2010 and 2016, while employment in the Remainder of the County increased 13.6% (+2,757 jobs).
- Based on job growth rate projections for Central Minnesota provided by DEED, we anticipate that Big Lake will add 108 jobs by 2020, an increase of 4.3%.
- Solid job growth is expected in the Market Area between 2016 and 2020. Sherburne County is projected to experience a 5.3% gain (+1,348 jobs), while Central Minnesota employment expands 3.1%.
- Another 141 jobs (+5.4%) are expected to be added in Big Lake between 2020 and 2025, while employment in the Remainder of Sherburne County expands 5.4% (+1,318 jobs) and Central Minnesota employment increases 3.9%.
- The pace of job growth is projected to slow after 2020, as the region will experience potential labor force shortages and a surge in retirements.

TABLE 4 EMPLOYMENT GROWTH TRENDS AND PROJECTIONS BIG LAKE HOTEL MARKET AREA 2000 to 2025								
Annual Employment	City of Big Lake		Sherburne County		Remainder of County		Central Minnesota	
2000	1,716		19,088		17,372		233,865	
2005	2,095		23,318		21,223		251,517	
2010	2,083		22,303		20,220		245,310	
2016	2,479		25,456		22,977		270,545	
2020 Forecast	2,587		26,804		24,218		278,975	
2025 Forecast	2,727		28,263		25,536		289,882	
Change	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
2000 - 2010	367	21.4%	3,215	16.8%	2,848	16.4%	11,445	4.9%
2010 - 2016	396	19.0%	3,153	14.1%	2,757	13.6%	25,235	10.3%
2016 - 2020	108	4.3%	1,348	5.3%	1,241	5.4%	8,430	3.1%
2020 - 2025	141	5.4%	1,459	5.4%	1,318	5.4%	10,907	3.9%

Sources: MN DEED; Maxfield Research & Consulting, LLC

Resident Employment

Table 5 on the following page shows information on the resident labor force and employment in Sherburne County compared to Central Minnesota. Data for the City of Big Lake is not available. The data is sourced from the Minnesota Department of Employment and Economic Development (DEED). Resident employment data reveals the work force and number of employed people living in the area. Therefore, not all of these individuals necessarily work in the area.

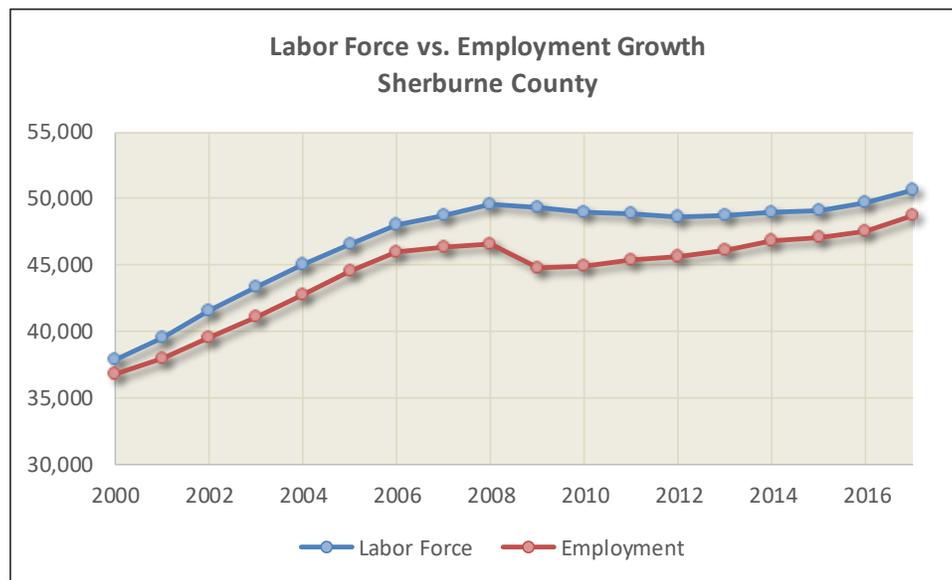
- Sherburne County’s labor force increased 33.7% (+12,777) between 2000 and 2017 compared to a 32.6% increase in resident employment.
- The County’s labor force expanded at a 2.6% average annual rate from 2000 through 2010. Since 2010, the labor force has increased at an average rate of 0.5% per year, from 48,989 in 2010 to 50,681 in 2016. The pace of labor force growth in the County has increased in recent years, climbing 1.1% in 2016 and 2.1% in 2017.
- Resident employment in the County expanded at a 2.0% annual rate from 2000 through 2010, but has since expanded at an average annual rate of 1.2%. The County experienced 1.0% growth in resident employment in 2016, followed by 2.3% growth in 2017.
- By comparison the Central Minnesota labor force has expanded 0.3% annually since 2010 against resident employment growth of 1.0% annually.

**TABLE 5
 LABOR FORCE AND RESIDENT EMPLOYMENT TRENDS
 BIG LAKE HOTEL MARKET AREA
 2000 - 2017**

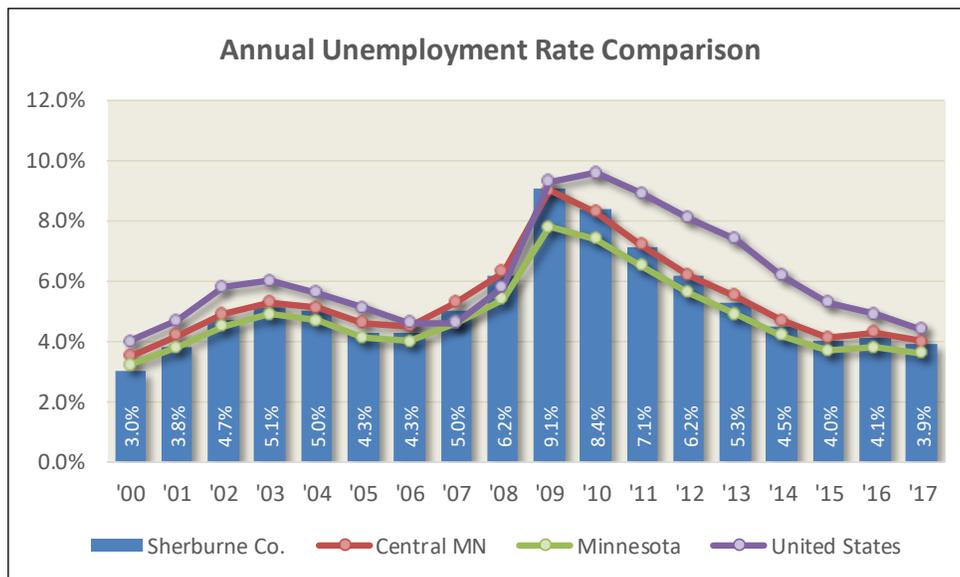
Year	Sherburne County			Central Minnesota		
	Labor Force	Employed Residents	UE Rate	Labor Force	Employed Residents	UE Rate
2017	50,681	48,710	3.9%	387,853	372,255	4.0%
2016	49,647	47,592	4.1%	382,367	365,893	4.3%
2015	49,098	47,117	4.0%	379,655	364,027	4.1%
2014	49,013	46,784	4.5%	377,864	360,258	4.7%
2013	48,733	46,136	5.3%	376,548	355,943	5.5%
2012	48,620	45,611	6.2%	376,181	352,799	6.2%
2011	48,872	45,383	7.1%	378,141	350,909	7.2%
2010	48,989	44,866	8.4%	378,703	347,154	8.3%
2009	49,293	44,821	9.1%	374,741	341,118	9.0%
2008	49,592	46,531	6.2%	372,582	349,114	6.3%
2007	48,738	46,299	5.0%	368,635	349,185	5.3%
2006	48,064	45,991	4.3%	363,359	346,907	4.5%
2005	46,529	44,513	4.3%	357,643	341,101	4.6%
2004	45,025	42,780	5.0%	354,172	335,941	5.1%
2003	43,310	41,090	5.1%	349,745	331,136	5.3%
2002	41,524	39,552	4.7%	343,085	326,277	4.9%
2001	39,496	38,001	3.8%	336,307	322,286	4.2%
2000	37,904	36,748	3.0%	328,733	317,285	3.5%

Sources: Minnesota DEED; Maxfield Research & Consulting, LLC

- Increased hiring drove the unemployment rate down throughout the Market Area as growth in the number of employed residents outpaced labor force growth since 2010.



- At 3.9%, the 2017 annual average unemployment rate in Sherburne County is slightly lower than Central Minnesota (4.0%) but slightly higher than Minnesota (3.6%). However, it is notably lower than the 4.4% unemployment rate across the United States.
- Unemployment rates in the Market Area experienced modest contraction over the past year, declining -0.3% in Sherburne County, -0.3% in Central Minnesota, and -0.2% in Minnesota.
- The following chart illustrates how unemployment in the Market Area has mirrored national trends but has remained well below the national rate throughout much of the past decade. Sherburne County's unemployment rate has tracked consistently with unemployment trends in Central Minnesota and the State of Minnesota.



Industry Employment and Wage Data

Table 6 on the following page displays information on the employment and wage situation in Big Lake compared to Sherburne County and Central Minnesota. The Quarterly Census of Employment and Wages (QCEW) data is sourced from DEED for the third quarter of 2016 compared to the third quarter of 2017, the most recent data available.

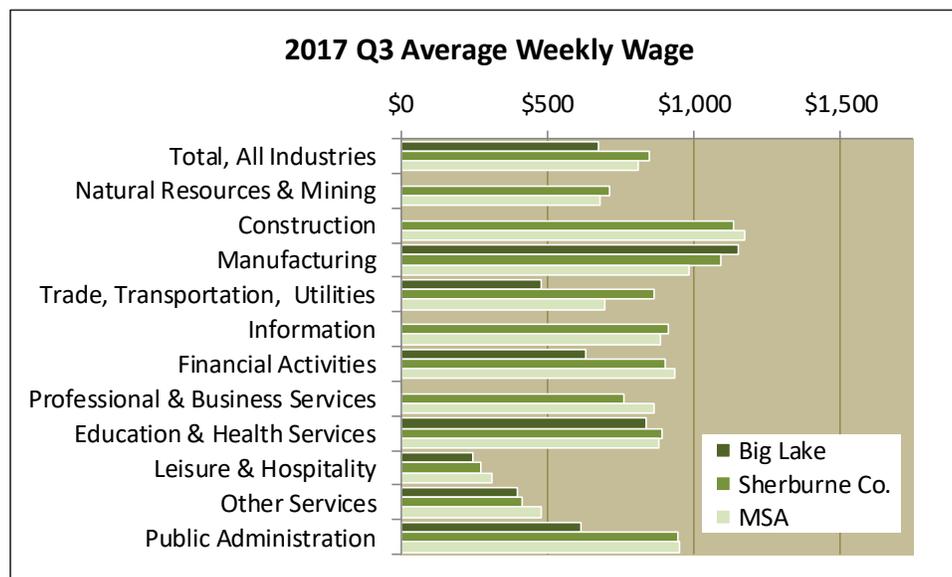
All establishments covered under the Unemployment Insurance (UI) Program are required to report wage and employment statistics to DEED quarterly. Certain industries in the table may not display any information which means that there is either no reported economic activity for that industry or the data has been suppressed to protect the confidentiality of cooperating employers. This generally occurs when there are too few employers or one employer comprises too much of the employment in that geography.

- As of the third quarter of 2017, there were 2,316 jobs and 203 business establishments in the City of Big Lake. Big Lake contains roughly 10% of Sherburne County's business establishments, and 9% of the County's jobs are located in Big Lake.

Industry	2016 Q3			2017 Q3			Change 2016 Q3 - 2017 Q3			
	Establish-ments	Employ-ment	Weekly Wage	Establish-ments	Employ-ment	Weekly Wage	Employment #	%	Wage #	%
CITY OF BIG LAKE										
Total, All Industries	200	2,505	\$689	203	2,316	\$676	-189	-7.5%	(\$13)	-1.9%
Natural Resources & Mining	--	--	--	--	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--	--	--
Manufacturing	15	436	\$1,311	14	375	\$1,152	-61	-14.0%	(\$159)	-12.1%
Trade, Transportation, Utilities	38	450	\$499	38	428	\$479	-22	-4.9%	(\$20)	-4.0%
Information	--	--	--	--	--	--	--	--	--	--
Financial Activities	16	52	\$702	18	60	\$634	8	15.4%	(\$68)	-9.7%
Professional & Business Services	--	--	--	--	--	--	--	--	--	--
Education & Health Services	28	627	\$812	29	611	\$837	-16	-2.6%	\$25	3.1%
Leisure & Hospitality	24	483	\$241	24	416	\$246	-67	-13.9%	\$5	2.1%
Other Services	31	135	\$400	32	132	\$396	-3	-2.2%	(\$4)	-1.0%
Public Administration	4	138	\$583	4	134	\$614	-4	-2.9%	\$31	5.3%
SHERBURNE COUNTY										
Total, All Industries	1,859	25,547	\$857	1,946	25,514	\$849	-33	-0.1%	(\$8)	-0.9%
Natural Resources & Mining	33	589	\$718	33	616	\$715	27	4.6%	(\$3)	-0.4%
Construction	378	2,187	\$1,170	396	2,345	\$1,134	158	7.2%	(\$36)	-3.1%
Manufacturing	144	3,673	\$1,076	152	3,757	\$1,095	84	2.3%	\$19	1.8%
Trade, Transportation, Utilities	350	6,163	\$882	345	5,933	\$863	-230	-3.7%	(\$19)	-2.2%
Information	15	137	\$782	17	88	\$914	-49	-35.8%	\$132	16.9%
Financial Activities	122	484	\$922	132	508	\$903	24	5.0%	(\$19)	-2.1%
Professional & Business Services	219	1,903	\$798	233	1,863	\$761	-40	-2.1%	(\$37)	-4.6%
Education & Health Services	195	5,199	\$888	209	5,173	\$893	-26	-0.5%	\$5	0.6%
Leisure & Hospitality	147	2,529	\$277	153	2,464	\$274	-65	-2.6%	(\$3)	-1.1%
Other Services	215	961	\$417	234	1,031	\$417	70	7.3%	\$0	0.0%
Public Administration	41	1,720	\$1,009	42	1,732	\$948	12	0.7%	(\$61)	-6.0%
CENTRAL MINNESOTA										
Total, All Industries	16,696	272,560	\$816	17,340	276,113	\$809	3,553	1.3%	(\$7)	-0.9%
Natural Resources & Mining	466	4,946	\$694	473	5,066	\$680	120	2.4%	(\$14)	-2.0%
Construction	2,529	19,234	\$1,189	2,625	20,167	\$1,176	933	4.9%	(\$13)	-1.1%
Manufacturing	1,160	41,781	\$996	1,178	42,245	\$983	464	1.1%	(\$13)	-1.3%
Trade, Transportation, Utilities	3,715	57,382	\$710	3,797	57,262	\$699	(120)	-0.2%	(\$11)	-1.5%
Information	207	3,206	\$899	226	3,274	\$884	68	2.1%	(\$15)	-1.7%
Financial Activities	1,332	9,154	\$928	1,392	9,349	\$935	195	2.1%	\$7	0.8%
Professional & Business Services	1,781	18,092	\$859	1,862	18,469	\$865	377	2.1%	\$6	0.7%
Education & Health Services	1,794	69,117	\$891	1,906	69,933	\$879	816	1.2%	(\$12)	-1.3%
Leisure & Hospitality	1,521	28,433	\$314	1,581	28,866	\$310	433	1.5%	(\$4)	-1.3%
Other Services	1,722	8,212	\$475	1,825	8,241	\$479	29	0.4%	\$4	0.8%
Public Administration	469	13,000	\$954	475	13,238	\$951	238	1.8%	(\$3)	-0.3%

Sources: Minnesota Department of Employment and Economic Development; Maxfield Research & Consulting, LLC

- In Big Lake, total employment contracted -7.5% (-189 jobs) between the third quarters of 2016 and 2017, as the Leisure and Hospitality and Manufacturing sectors declined by -67 jobs (-13.9%) and -61 jobs (-14.0%), respectively.
- Sherburne County employment contracted -0.1% during that same time period, losing -33 jobs, as employment in the Trade, Transportation, and Utilities sector declined -3.7% (-230 jobs).
- The Education and Health Services industry is the largest employment sector in Big Lake, providing 611 jobs (26 of total employment) in the City.
- Trade, Transportation, and Utilities is the largest employment sector in the County with 5,933 jobs (23%), followed by Education and Health Services with 5,173 jobs (20%).
- Average weekly wages in Big Lake (\$676) are -20% lower than the County (\$849) and roughly -16% lower than Central Minnesota (\$809). Wages declined slightly over the year in the Market Area, contracting -1.9% in Big Lake and -0.9% in Sherburne County.
- In Big Lake, the highest average wages are found in the Manufacturing (\$1,152) and Education and Health Services (\$837) sectors, while highest wages in Sherburne County are in the Construction (\$1,134) and Manufacturing (\$1,095) sectors.



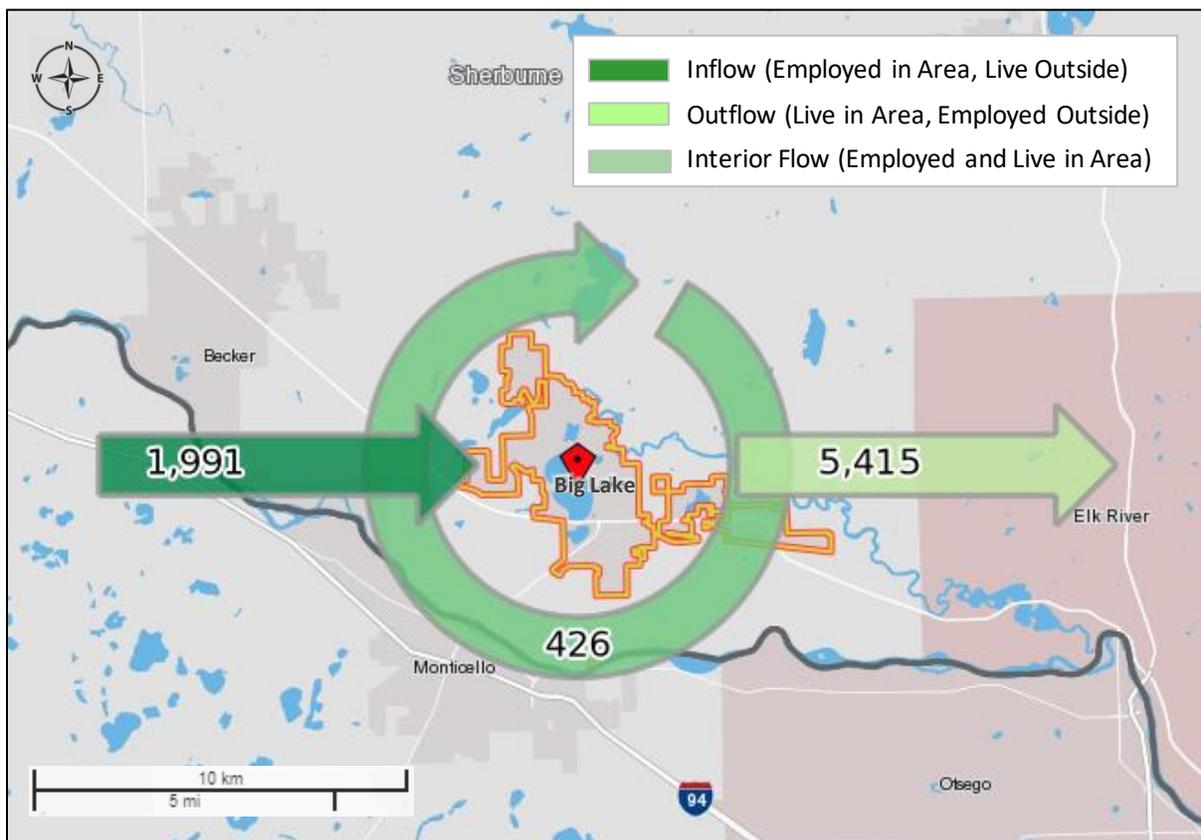
- There are 416 Leisure and Hospitality jobs in Big Lake as of the third quarter of 2017, representing 18% of total employment in the City. The average weekly wage in the Leisure and Hospitality industry is \$246, roughly -10% lower than the average Leisure and Hospitality wage in Sherburne County (\$274). Leisure and Hospitality industry wages increased 2.1% in Big Lake but declined -1.1% in the County over the year.

Commuting Patterns

The following map illustrates inflow and outflow characteristics of the workers in Big Lake. Outflow reflects the number of workers living in the City but employed outside Big Lake, while inflow measures the workers that are employed in the City but live outside the City. Interior flow reflects the number of workers that live and work in Big Lake. Data is sourced from the U.S. Census Bureau Longitudinal Employer-Household Dynamics (LEHD) program for 2015, the most recent data available.

- As shown, Big Lake is an exporter of workers as a significantly higher number of residents leave the area for employment than nonresidents commute into the area. Roughly 1,991 workers come into the area for employment (inflow) while 5,415 residents leave the area (outflow) and 426 both live and work in the City (interior flow).
- Roughly 82% of the jobs in Big Lake are filled by workers commuting into the City for employment.

City of Big Lake, Minnesota Commuting Inflow/Outflow



Hospitality Market Analysis

This section provides initial research to examine the potential to develop a hotel on the subject property in Big Lake. This section includes a summary of hotel market conditions along with an inventory of hotel rooms in the area surrounding Big Lake.

Occupancy, demand, revenue, room rate, supply, and revenue per available room (RevPAR) are the key metrics used to measure performance in the hotel industry. Smith Travel Research (STR) defines these key industry metrics as shown below.

Occupancy – Rooms sold divided by rooms available; occupancy is always displayed as a percentage of rooms available.

Revenue – Total room revenue generated from the sale or rental of rooms.

Supply – The number of rooms times the number of days in the period.

Room Rate (Average Daily Rate) – Room revenue divided by rooms sold, displayed as the average rental rate for a single room.

Demand – The number of rooms sold.

RevPAR – Room revenue divided by rooms available.

Selected Hotel Properties in the Market Area

Maxfield Research and Consulting, LLC acquired data from STR to gain an understanding of the hotel market in the area surrounding Big lake and to assess primary competitors based on historical and current performance.

Table 7 on the following page provides a summary of the hotel properties in the surrounding area that would be competitive with a new hotel project in Big Lake.

- In total, seven properties with 491 rooms are included in the STR trend report.
- Opening in 2005, the Holiday Inn Minneapolis Northwest in Otsego is the newest property in the competitive set.
- Three other properties, including the Country Inn & Suites Albertville, GrandStay Hotel & Suites Becker, and the Best Western Chelsea Hotel in Monticello opened in the 2000s. The Country Inn & Suites Elk River opened in 1999, while the Days Inn in Monticello opened in 1986 and the Super 8 Monticello opened in 1977.

- STR’s Chain Scale segments are grouped primarily according to actual average room rates, although an independent hotel, regardless of room rate, is included as a separate Chain Scale category. The Chain Scale segments are: Luxury, Upper Upscale, Upscale, Upper Mid-scale, Midscale, Economy, and Independent.
- Four of the properties are classified as Upper Midscale hotels (GrandStay Hotel & Suites Becker, Country Inn & Suites Albertville, Country Inn & Suites Elk River, and Holiday Inn Minneapolis Northwest). The Best Western Chelsea Hotel is considered Midscale, while the Days Inn and Super 8 in Monticello are classified as Economy hotels.

TABLE 7 HOTEL PROPERTIES SURVEYED IN HOTEL TREND REPORT BIG LAKE HOTEL MARKET AREA April 2018				
Property	City	Yr. Built	Rooms	Property Type
Competitive Properties Inventoried in STR Report				
Days Inn Monticello	Monticello	1986	33	Economy
Best Western Chelsea Hotel	Monticello	2000	51	Midscale
Super 8 Monticello	Monticello	1977	70	Economy
GrandStay Hotel & Suites Becker	Becker	2004	68	Upper Midscale
Country Inn & Suites Albertville	Albertville	2004	66	Upper Midscale
Country Inn & Suites Elk River	Elk River	1999	78	Upper Midscale
Holiday Inn Minneapolis Northwest	Otsego	2005	125	Upper Midscale
Total Rooms in STR Report:			491	
Sources: Smith Travel Research, Inc.; Maxfield Research & Consulting, LLC				

- As depicted in the map on the following page, the hotels closest to Big Lake are the three properties in Monticello (Days Inn, Best Western Chelsea, and Super 8) and the GrandStay Hotel and Suites in Becker.
- Most of the hotel properties in the competitive set are clustered along the I-94 corridor in Wright County. Traffic volumes on the major highways near these properties range from 31,500 to 45,000 vehicle trips per day along I-94 and 28,500 vehicle trips per day along Highway 25 in Monticello. The Albertville property is exposed to slightly higher traffic volumes, as I-94 experiences roughly 72,000 vehicle trips per day at its intersection with County Road 19 (16,700 vehicle trips per day).
- There are also two hotel properties located near the intersection between Highways 101, 10, and 169 in Otsego (Holiday Inn Minneapolis Northwest) and Elk River (Country Inn & Suites). This intersection experiences roughly 52,000 vehicle trips per day along Highway 101 and 35,500 vehicle trips per day along Highway 169. The Becker property is exposed to approximately 19,300 vehicle trips per day along Highway 10.

- There appears to be relatively few hotel properties located along the Highway 10 corridor through Sherburne County, particularly near Big Lake.

Hotel Locations

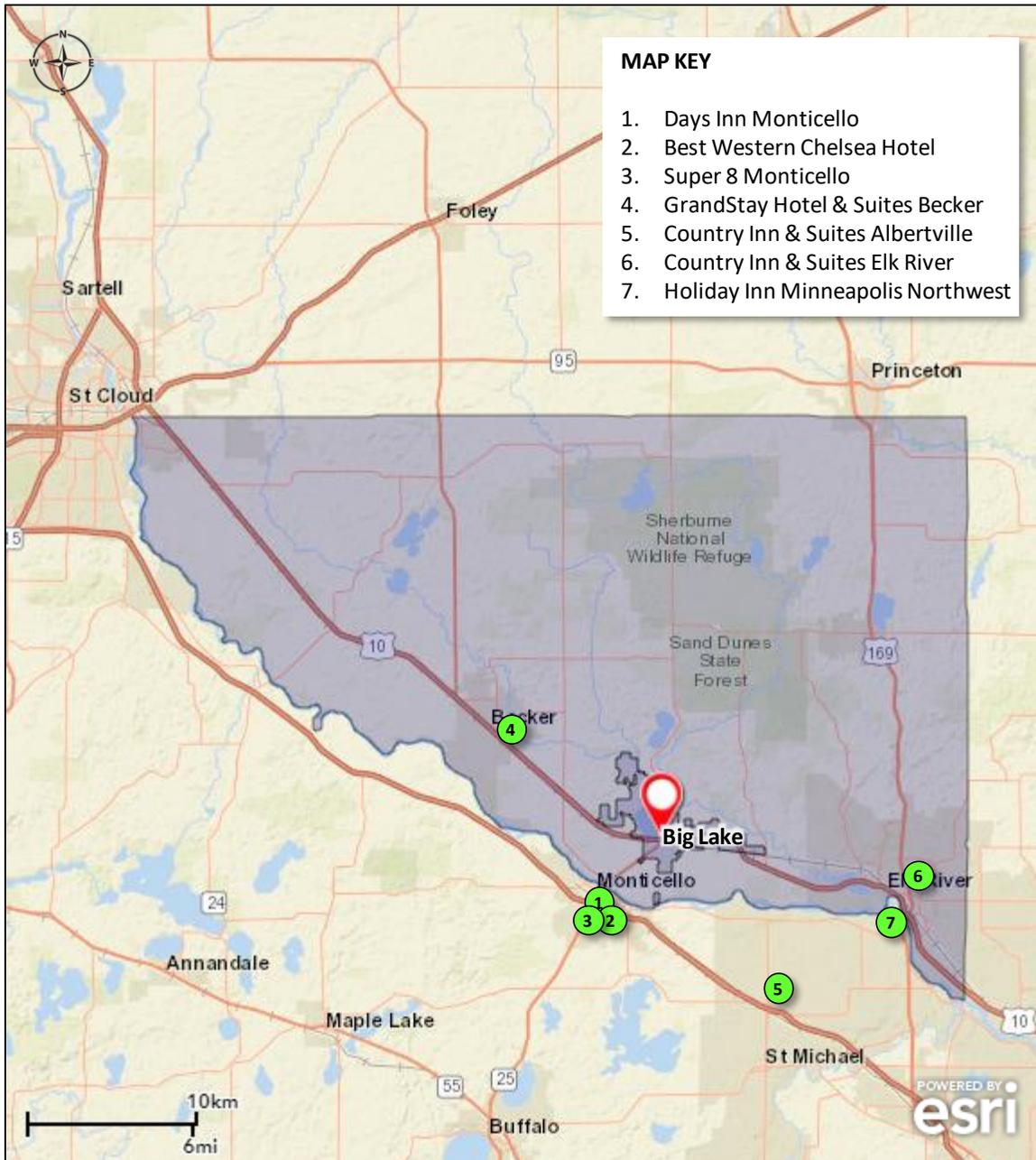
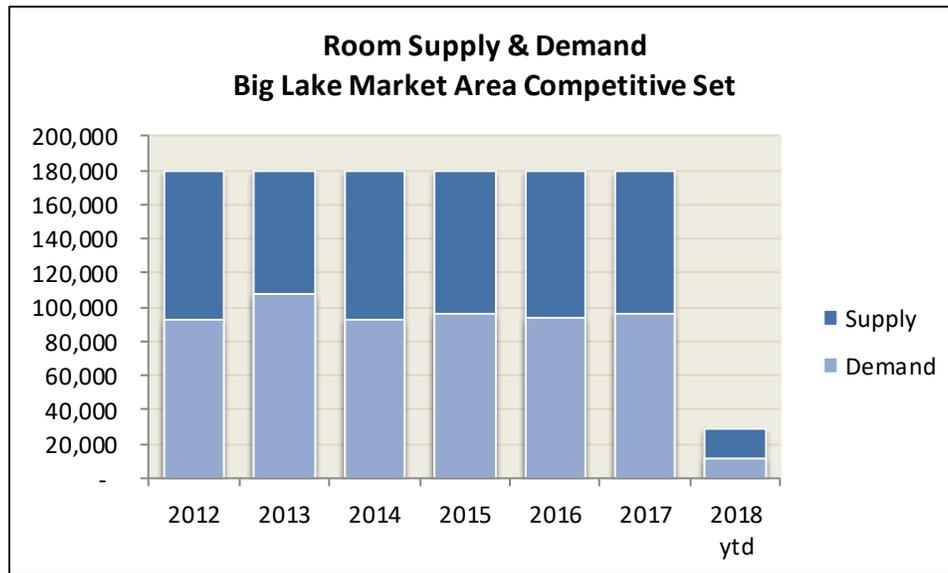


Table 8 displays aggregate data based on annual average benchmarks for the Big Lake Hotel Market Area competitive set from 2012 through February 2018. The STR report summarizes data for all properties in the competitive set, but it does not provide this information for the individual hotel properties.

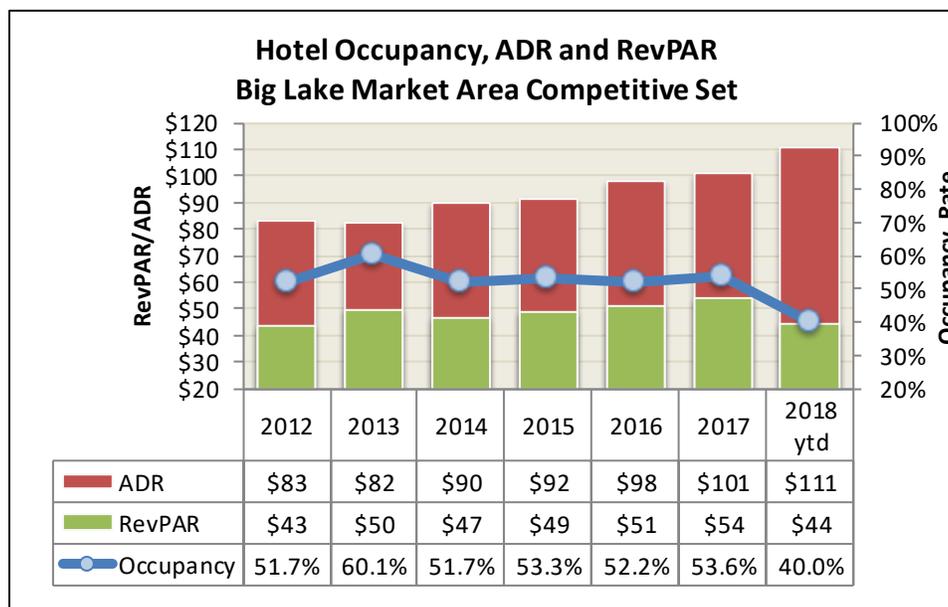
- Room supply is determined by multiplying the number of rooms in the competitive set by the number of days in that time period (i.e. 365 days in a year). Based on the 491 rooms in the competitive set of properties, the 2017 room supply equals 179,549 room nights.

Annual Averages							
	2012	2013	2014	2015	2016	2017	2018 ytd*
Occupancy	51.7%	60.1%	51.7%	53.3%	52.2%	53.6%	40.0%
Room Rate (ADR)	\$83.47	\$82.44	\$89.90	\$91.52	\$97.87	\$101.00	\$110.97
RevPAR	\$43.19	\$49.56	\$46.50	\$48.79	\$51.08	\$54.12	\$44.40
Supply	179,460	179,580	179,580	179,580	179,580	179,549	28,969
Demand	92,859	107,959	92,884	95,725	93,727	96,206	11,590
Revenue	\$7,750,759	\$8,899,639	\$8,349,949	\$8,761,028	\$9,172,747	\$9,716,986	\$1,286,170
Annual Change							
	'12-'13	'13-'14	'14-'15	'15-'16	'16-'17	'17-'18*	
Occupancy	16.2%	-14.0%	3.1%	-2.1%	2.7%	-1.0%	
Room Rate (ADR)	-1.2%	9.1%	1.8%	6.9%	3.2%	10.4%	
RevPAR	14.7%	-6.2%	4.9%	4.7%	6.0%	9.3%	
Supply	0.1%	0.0%	0.0%	0.0%	0.0%	-0.2%	
Demand	16.3%	-14.0%	3.1%	-2.1%	2.6%	-1.2%	
Revenue	14.8%	-6.2%	4.9%	4.7%	5.9%	9.1%	
*2018 year-to-date data through February; annual change reflects change from same time period in 2016.							
Sources: Smith Travel Research, Inc.; Maxfield Research & Consulting, LLC							

- The graph on the following page illustrates annual supply and demand trends among the competitive set of hotel properties. The supply of hotel rooms experienced little change over the past five years.
- Demand however, as measured by the number of rooms sold, jumped from 92,859 in 2012 to 107,959 in 2013. Demand declined to 92,884 in 2014, but has since increased modestly to 96,206 rooms sold in 2016.



- The annual occupancy rate jumped from 51.7% in 2012 to 60.1% in 2013, before dropping back to 51.7% in 2014. Occupancy rates climbed modestly to 53.6% in 2017.
- The average daily room rate ADR has increased at an average annual rate of 4.0% over the past five years, climbing steadily from \$83.47 in 2012 to \$101.00 in 2017 and \$110.97 through the first two months of 2018.
- Annual average RevPAR has also increased over the past five years, from \$43.19 in 2012 to \$54.12 in 2017, representing an annual average growth rate of 4.8%.



- The following charts show the seasonal nature of the local hotel market, as occupancy rates peak in the summer months and are lowest in November, December, and January of each year. ADR and RevPAR generally track with occupancy trends, peaking in the summer months.

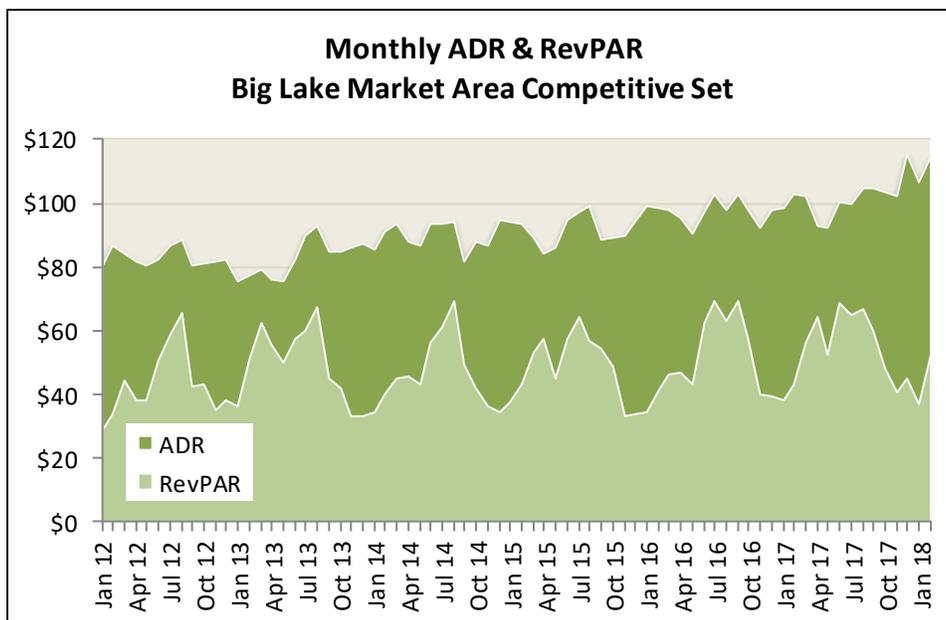
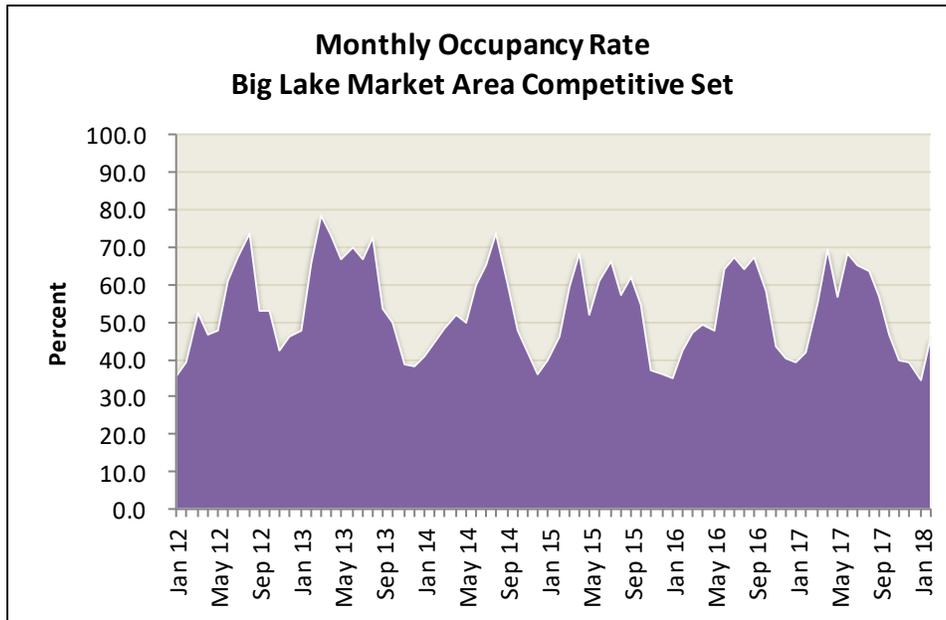
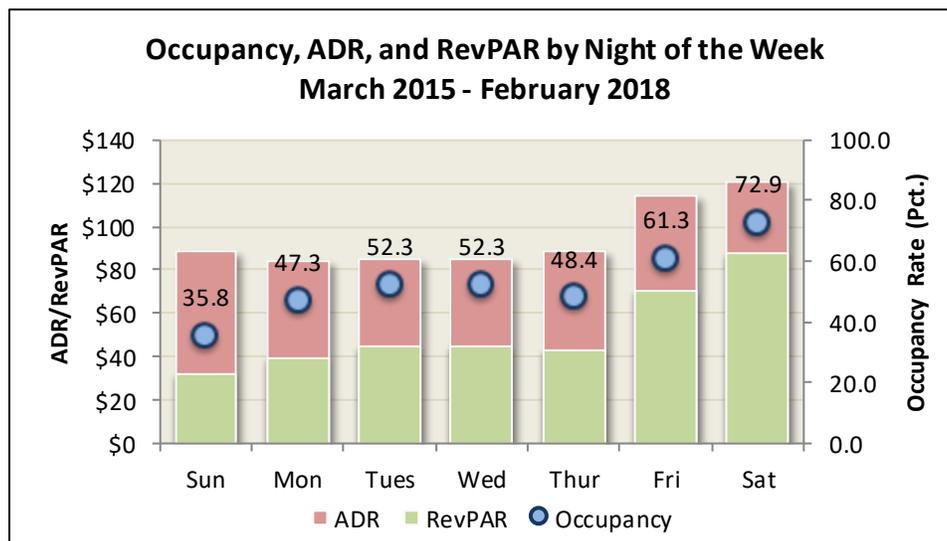


Table 9 on the following page displays occupancy rates, average room rates, and revenue per available room by day of the week in twelve-month periods over the past three years.

TABLE 9 DAY OF THE WEEK ANALYSIS BIG LAKE MARKET AREA March 2015 through February 2018								
Three Year Occupancy Rates								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Year
Mar '15 - Feb '16	36.0	47.6	52.0	51.7	48.5	60.7	72.2	52.6
Mar '16 - Feb '17	34.0	46.9	52.5	52.2	47.3	60.9	73.8	52.5
Mar '17 - Feb '18	37.2	47.4	52.5	53.0	49.2	62.3	72.9	53.5
3-Year Average	35.8	47.3	52.3	52.3	48.4	61.3	72.9	52.9
Three Year ADR								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Year
Mar '15 - Feb '16	80.95	79.61	81.16	80.84	84.74	108.47	112.92	92.03
Mar '16 - Feb '17	89.01	85.25	85.98	86.22	88.42	114.30	120.58	98.12
Mar '17 - Feb '18	95.92	87.20	87.59	88.86	91.74	119.80	127.95	102.27
3-Year Average	88.66	83.98	84.93	85.37	88.32	114.24	120.51	97.50
Three Year RevPAR								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Year
Mar '15 - Feb '16	29.15	37.90	42.18	41.78	41.13	65.89	81.48	48.42
Mar '16 - Feb '17	30.30	39.94	45.12	45.00	41.85	69.65	88.94	51.53
Mar '17 - Feb '18	35.70	41.37	46.03	47.11	45.13	74.65	93.29	54.73
3-Year Average	31.70	39.72	44.45	44.65	42.71	70.07	87.91	51.56
Sources: Smith Travel Research, Inc.; Maxfield Research & Consulting, LLC								

- Occupancy, ADR and RevPAR are highest on Fridays and Saturdays, indicating that the highest proportion of demand for room nights in the Big Lake Market Area is generated by leisure travelers. The slight uptick in occupancy and RevPAR on Tuesdays and Wednesdays indicates that the business segment is also a source of demand for hotel rooms in the Market Area.



Hotel Demand Generators

In general, demand for hotel rooms comes primarily from the following sources: Leisure travelers (including the transient segment); Visitors to the area for meetings, conventions, or special gatherings; and, Commercial travelers (i.e. regular business travelers).

- Commercial Segment – This demand generally includes individuals traveling on business. Commercial demand is generally strongest Monday through Thursday nights, while declining significantly on weekends. The typical length of stay ranges from one to three days and demand is generally consistent year-round. Business travelers tend not to be as price-sensitive as leisure travelers, and often utilize a property's food and beverage amenities.
- Group/Convention Segment – This source of room night demand would be generated by visitors traveling to the area to attend conventions, conferences, seminars, trade shows, training, sporting events, or other activities that generally include ten or more people. A large proportion of this activity occurs Monday through Friday. Most group travelers require full-service accommodations, quality meeting space and banquet facilities, and an adequately trained staff to deliver efficient meeting coordination.
- Leisure (Transient) Segment – A substantial source of room night demand in Minnesota is generated by the leisure market segment. Leisure demand is generated by people visiting the area for non-business reasons and travelers passing through the area en-route to another destination. Leisure demand is generally strongest Friday and Saturday nights and during the holiday seasons. Due to seasonal factors, this demand is strongest overall in the summer months. The leisure traveler tends to be the most price-sensitive segment of the lodging industry.

Conclusions

- Generally, a 70% occupancy rate is considered the equilibrium for a limited-service hotel to be profitable. While occupancy rates in the competitive set of properties in the Big Lake Market Area are trending upwards, they have not yet reached 70%.
- Although occupancy rates are not at the 70% threshold, ADR and RevPAR are experiencing steady growth. Additionally, Revenue increased 25% between 2012 and 2017 while the supply of hotel rooms in the Market Area held steady, suggesting that the existing set of competitive properties is experiencing solid performance.
- The somewhat older age of several of the properties indicates that they may be profitable at a lower occupancy rate due to an overall lower basis in the property.

- In addition, there appears to be a gap in the market as the majority of the hotel rooms are clustered along the I-94 corridor, with no properties in Big Lake.
- Continued growth in the number of business establishments and jobs in the Market Area will likely generate increasing demand from the commercial segment, while demand from the leisure segment will be strengthened by the projected household and income growth in the Big Lake Market Area.
- Hotels generally benefit from high visibility and proximity to demand generators, such as colleges, hospitals, attractions, entertainment, and services. Resort area hotels often obtain much of their business from leisure travelers that consider the lodging facility to be their destination, and accessibility would be secondary to factors such as facility quality, amenities, services, and nearby attractions.
- The subject property offers excellent visibility and convenient access to vehicles traveling along Highway 10. Depending on factors such as pricing and amenities, a new hotel in Big Lake could potentially experience room night demand from rate-sensitive customers that want to enjoy the recreational amenities in and near the PMA but don't want to pay the room rates at lodging establishments in nearby St. Cloud, Elk River, or other northwest Metro communities.
- This memorandum presents an initial market assessment, which is intended to broadly assess the demand for a hotel development in the Big Lake Market Area. A full market feasibility study would provide a detailed site analysis, comprehensive market information, calculations of demand for new hotel rooms in the Market Area, and recommendations for a potential hotel development concept (number of rooms, room rates, and features/amenities).