



*Achieve
Ambitions*

Proposed Headquarters Hotel at the Saint Paul RiverCentre

Prepared for the City of Saint Paul
Department of Planning and Economic Development
July 3, 2018

Key question

Can a hotel project like this be supported in the City of Saint Paul?



Table of Contents

Executive Summary	4
What is the state of the hotel industry?	12
Do convention hotels impact existing hotels?	19
Is the Saint Paul RiverCentre achieving its goals?	22
Does a RiverCentre Hotel make difference in Saint Paul?	33
What could be the impact in Saint Paul?	58
Appendix	70



Executive Summary



Executive Summary



JLL analyzed numerous factors related to a proposed headquarter hotel to be located adjacent to the Saint Paul RiverCentre. The proposed hotel site would be located atop the envisioned replacement of the RiverCentre Ramp. The following executive summary serves to answer the following questions related to the proposed headquarter hotel:

- Why is a convention center needed in Saint Paul?
- Will a convention center hotel be helpful for Saint Paul?
- Will a convention center have a negative impact on the current hotel landscape?
- What is the cost of a convention center hotel?
- How could the convention center hotel perform?
- What is the economic impact of a convention center hotel?
- Who would own the convention center hotel?

Executive Summary



WHY IS A CONVENTION CENTER NEEDED IN SAINT PAUL?

Successful convention centers generate significant opportunities to enhance a local economy via increased spending, more attractive development possibilities, expanded employment, and tax generation. In pursuit of these rewards, cities across the U.S. compete with one another every day for convention and meetings business.

However, simply constructing a convention center does not lead to success. Although the convention facility is essential, it is the “package” that typically wins the day and the business. Saint Paul offers components of a winning package, including excellent walkability (as measured by Walk Scores®) within an attractive downtown core, as well as a major international airport nearby; but it is missing one critical component. Convention centers need a connected or immediately adjacent hotel to be successful.

Currently, Saint Paul offers only one group-oriented hotel within walking distance of the RiverCentre, the 410-room InterContinental Saint Paul Riverfront. Meanwhile, the markets Saint Paul competes with for convention business, including Minneapolis, MN; Des Moines, IA; Madison, WI; Rochester, MN and Omaha, NE either have or are in the process of

developing two group-oriented hotels within a 1-mile radius of their respective convention centers. Moreover, Madison, Omaha, and Des Moines each offer a group-oriented hotel adjacent to their respective convention centers. Those that do not are in various stages of exploring how one might be developed. If Saint Paul desires to stay competitive, it should consider offering a second group-oriented hotel within walking distance of the RiverCentre, and the best location for such a hotel would be directly connected to the convention center.

WILL A CONVENTION CENTER HOTEL BE HELPFUL FOR SAINT PAUL?

JLL sought to answer this question through both primary survey research and an economic impact analysis, which is summarized following the question: *What is the economic impact of a convention center hotel?* In its primary research phase, JLL surveyed two separate groups: the first was an in-person focus group consisting of 15 locally-based meeting planners and the second was a national audience comprised of 36 meeting planners scattered throughout the U.S. For the national audience, JLL targeted meeting planners who have planned events in the Midwest of up to 1,200 room nights on peak. Events larger than 1,200 room nights on peak would require too many rooms to consider Saint Paul as a convention destination.

Executive Summary



As aforementioned, meeting planners are key stakeholders for headquarters hotels as they decide where to place group business, a core demand segment for convention-oriented hotels. According to JLL's research, 77% and 83% of focus group respondents and survey participants, respectively, deem selecting destinations with a headquarter hotel attached to the convention center absolutely necessary or highly important.

JLL also analyzed the RiverCentre operating performance. While the building reaches an optimal occupancy level on weekends, there is opportunity to fill the facility with additional weekday business. Meetings, conventions and tradeshows, which typically happen on weekdays, generate higher revenues per attendee than do consumer shows and other common weekend uses. Thus added hotel capacity that caters to the needs and wants of meeting planners, and therefore meeting attendees, will bolster efforts to bring groups to Saint Paul that spend money locally—at the hotel, at the RiverCentre, and in town.

Additionally, through the survey process, JLL delved into whether the RiverCentre facility meets the needs of meeting planners. JLL found that 69% and 70% of focus group and survey respondents, respectively, indicated that they strongly agree or agree that the RiverCentre space is

sufficient for their event needs. On the other hand, 93% and 53% of focus group respondents and survey participants, respectively, strongly disagree or disagree with the statement, *“the hotel package surrounding the RiverCentre is sufficient for their event needs.”*

WILL A CONVENTION CENTER HAVE A NEGATIVE IMPACT ON THE CURRENT HOTEL LANDSCAPE?

JLL analyzed the impact of a set of 10 headquarter hotels on their respective lodging markets upon opening. The analysis found that when a new headquarter hotel delivered in a period of economic growth, the new room supply is absorbed within one-to-two years. On the other hand, if the hotel opened during a recessionary environment, supply absorption took up to five years.

The set of hotels (and open years) included in this analysis pertains to the 1,100-room Hyatt Regency Denver at Colorado Convention Center (2005), the 1,203-room Hilton Americas Houston (2004), the 616-room Marriott Louisville Downtown (2005), the 700-room Westin Charlotte (2003), the 800-room Hilton Austin (2003), the 1,005-room JW Marriott Indianapolis (2011), the 917-room Marriott St Louis Grand Hotel (2003), the 1,190-room Hilton San Diego Bayfront (2008), the 757-room Hilton Baltimore (2008)

Executive Summary



and the 1,003-room Grand Hyatt San Antonio (2008).

Importantly, demand that absorbed the new supply following the opening of a headquarter hotel is largely driven by existence of the new hotel. For instance, when the 616-room Marriott Louisville Downtown opened in 2005, it caused a 45% increase in supply within the hotel's competitive market. That year hotel demand within the competitive market increased by 55%. Convention center hotels are therefore demand generators—they bring new demand for hotel accommodations to the market.

On the other hand, smaller hotels, such as a new 125-room select service hotel (e.g. Hampton Inn, Courtyard by Marriott etc.) are not large enough from both a room and meeting space perspective to house large groups centrally, and therefore do not generate significant new hotel demand. Such hotels will rely on demand already existing in the market.

WHAT IS THE COST OF A CONVENTION CENTER HOTEL?

Based on JLL's understanding of the project, initial development cost estimates for the proposed hotel could be in the \$300,000 per key range and is inclusive of cost savings that would result in its unique location atop of the proposed ramp. Given the recommended hotel size of roundly 500

rooms with approximately 40,000 square feet of meeting space, this amounts to a total cost of \$150 million. The recommended hotel program (e.g. room count, meeting space and position) is based on both JLL's market research and primary research processes.

The total project cost estimate as well as the allocation of funds within the development cost budget were informed by JLL's knowledge of completed headquarter hotel projects of a similar size and positioning, such as a +/- 500-room full service hotel in downtown Columbus, OH with +/- 20,000 square feet of meeting space as well as the +/- 500-room full service hotel with +/- 45,000 square feet of meeting space located in a suburb of Chicago, IL. The average development cost per key for the aforementioned completed properties, assuming 2.0% annual inflation from the time the development budgets were created, is roundly \$350,000 to \$375,000 per key.

HOW COULD THE CONVENTION CENTER HOTEL PERFORM?

JLL prepared pro-forma hotel projections to inform anticipated hotel performance over a 10-year investment horizon. As a first step, to project rooms revenues using occupancy and average daily rate (ADR) estimates, we obtained market performance data via a data purchase from the

Executive Summary



independent third-party data provider STR, formerly Smith Travel Research. JLL purchased two sets of data, the first includes the eight Downtown Saint Paul Hotels located within a 1-mile radius of the RiverCentre that report performance data to STR. The second set includes group-oriented hotels in the downtown areas of both Saint Paul and Minneapolis.

The two competitive sets were used to inform JLL's occupancy and average daily rate projections. It is JLL's opinion that the proposed hotel would perform better than the set of Saint Paul hotels in aggregate but not as well as the set of hotels that is largely comprised of hotels in downtown Minneapolis. JLL notes that selecting competitive sets based on location and hotel characteristics is both an art and a science as it requires choosing those hotels that are of similar size and positioning while also adhering to data provider requirements such as maintaining a balanced distribution of brand parent companies (e.g. Marriott International), as measured by room count.

The STR data obtained provide historical figures, and JLL used the historical data to inform future projections. Occupancy is estimated to ramp up from an opening year of 60.6% to a stabilized rate of 71.9% by year three of hotel operations. Stabilized occupancy projections are based

on a penetration, or fair share, analysis in which we looked at how other convention center-connected hotels perform in relation to their respective competitive sets. JLL's internal historical data includes four occupancy penetration rates of full service, convention center-connected hotels, including hotels in Schaumburg, IL, Houston, TX, Columbus, OH and Myrtle Beach, NC. Based on this analysis JLL expects the proposed hotel to exceed its fair share of occupancy by 4% upon stabilization. The average daily rate penetration estimate was based upon a similar analysis. Given the proposed hotel's prime location, JLL estimates the hotel will achieve a 7% rate premium with respect to the competitive set.

Penetration estimates, nevertheless, rely upon a baseline projection for the market. JLL assumed the market would increase from a 64% occupancy rate as of year-end 2017 to a 69% occupancy rate upon stabilization given added demand generated in the market due to the proposed hotel plus organic growth. Market average daily rates were assumed to increase at the inflationary rate of roundly 2% annually through the forecasted horizon.

After projecting the 'top line' or occupancy and average daily rate for the proposed hotel, the remaining line items in the pro-forma, both revenues and expenses, were based upon benchmarks of full service hotels in the

Executive Summary



Minneapolis market obtained through JLL's internal database. These hotels boast an average room count of 470 rooms, an average occupancy rate of 72% and an average daily rate of \$190, so the set is deemed representative of the proposed hotel. Overall, JLL estimates that the proposed hotel will earn approximately \$11 million in EBITDA Less Replacement Reserve by the third year of operation.

WHAT IS THE ECONOMIC IMPACT OF A CONVENTION CENTER HOTEL?

JLL analyzed the direct economic impact that the proposed hotel would have on the Saint Paul economy. JLL's estimates are broken down into economic impact during the construction phase and ongoing annual economic impact.

During the construction phase, direct impact pertains to the hard costs and furniture, fixtures and equipment (FF&E) of the development estimated at \$105 million and \$15.7 million, respectively. JLL further estimated that 25% of hard cost and 80% of FF&E spend will take place in the market, with the remaining spent outside of the market and therefore not captured in the development phase direct economic impact figure. JLL calculated the state, city and local sales using the estimated \$38.8 million portion of hard costs and FF&E spent in the market.

The ongoing direct economic impact pertains to the dollars spent by the hotel to operate coupled with spend by both proposed hotel guests and incremental market-wide hotel demand generated by the proposed hotel. To quantify visitor spend, JLL used Destination Marketing Association International (DMAI) estimates for guest spend per day and multiplied these figures by JLL's estimated occupied room nights. Hotel and both in-hotel restaurant and parking spend is captured in JLL's pro-forma while the DMAI estimates were used to project spend at other restaurants, sightseeing, entertainment, shopping and transportation, amounting to approximately \$100 per day. Incremental market hotel demand was estimated to generate the projected Saint Paul market average rate of \$180 by the third year of hotel operations.

Following the revenue calculations, the tax impact is quantified using the respective state, city and local sales and lodging tax rates: 6.875% state sales tax, 0.5% city sales, 0.25% local sales, 6.5% state lodging, 6.0% city lodging and 1.125% local lodging. Overall, the Saint Paul (city) share of projected economic impact amounts to approximately \$200k during construction and then \$1.7 million of the \$4.8 million generated annually upon stabilization.

Executive Summary



WHO WOULD OWN THE CONVENTION CENTER HOTEL?

Although there are examples of publicly-owned convention hotels, Saint Paul has been clear that a public ownership model is not being considered at this time. Therefore, should one be developed in Saint Paul, the private sector would own the hotel. However, our analysis shows that the cost to build the hotel exceeds the warranted investment the private sector would make. Therefore, a funding “gap” exists. This “gap” is not unusual, and in fact exists in most convention hotel projects across the US. The solution to bridging the gap is a creative public-private partnership (“P3”). Like other cities that successfully realized a convention hotel, Saint Paul could consider leveraging its land, the value of air rights above the new ramp, shared use agreements with existing and/or new public convention space, tax incentives, and various other alternatives to bring the cost of the project in line with the warranted investment value.

The City seeks the economic impact derived from more robust activity at its convention center. The private sector seeks a return-on-investment that is commensurate with the risks of the project. Albeit the private sector’s being much greater – both parties will make an investment, and both parties will assume some risks if the proposed project is to come to fruition.

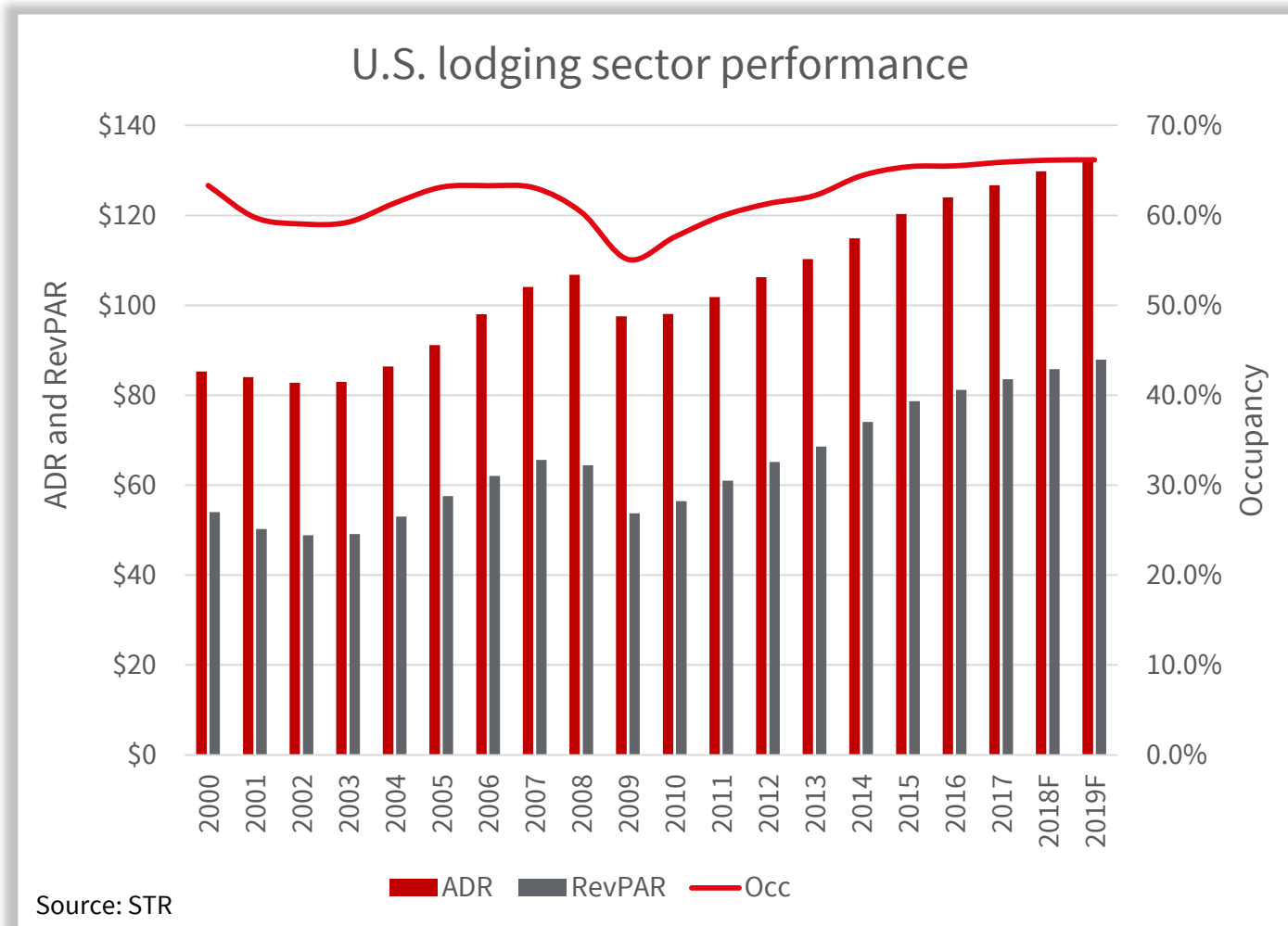
In exchange for its participation in the project, the City of Saint Paul would execute a room block agreement with the selected developer such that the convention center and/or CVB would have exclusive rights to sell large blocks of the rooms in the convention hotel several years into the future. Such an agreement would enable the hotel to be used for the purposes of maximizing economic impact through meetings, conferences and conventions, versus selling rooms primarily to transient guests.

Based on JLL’s economic impact analysis, coupled with anticipated property taxes and assumed market ground rent terms, the net present value of public revenues over 30 years amounts to \$133 million. Assuming a public investment of roundly \$35 to \$50 million, the proposed project could provide significant financial benefit to the community.

*What is the State of the
hotel industry?*



What is the State of the hotel industry?

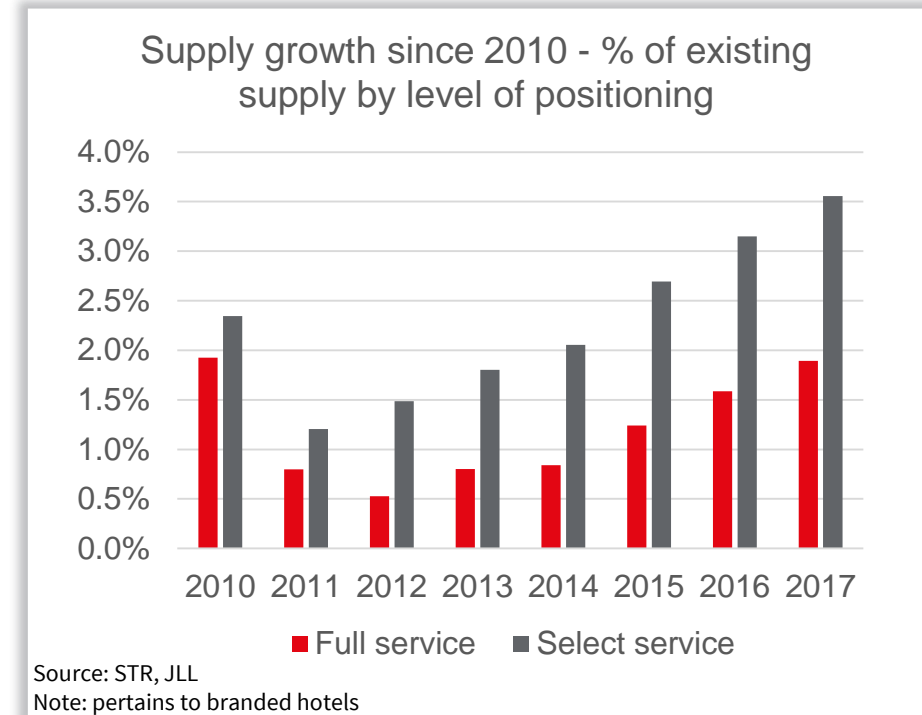


- As of year-end 2017, the U.S. lodging sector completed eight consecutive year of revenue per available room (RevPAR) growth. Industry prognosticators project continued growth in the medium term given robust economic and industry specific fundamentals.
- Continued RevPAR growth is anticipated in the years ahead, driven by gains in both occupancy and average daily rates (ADR).

What is the State of the hotel industry?

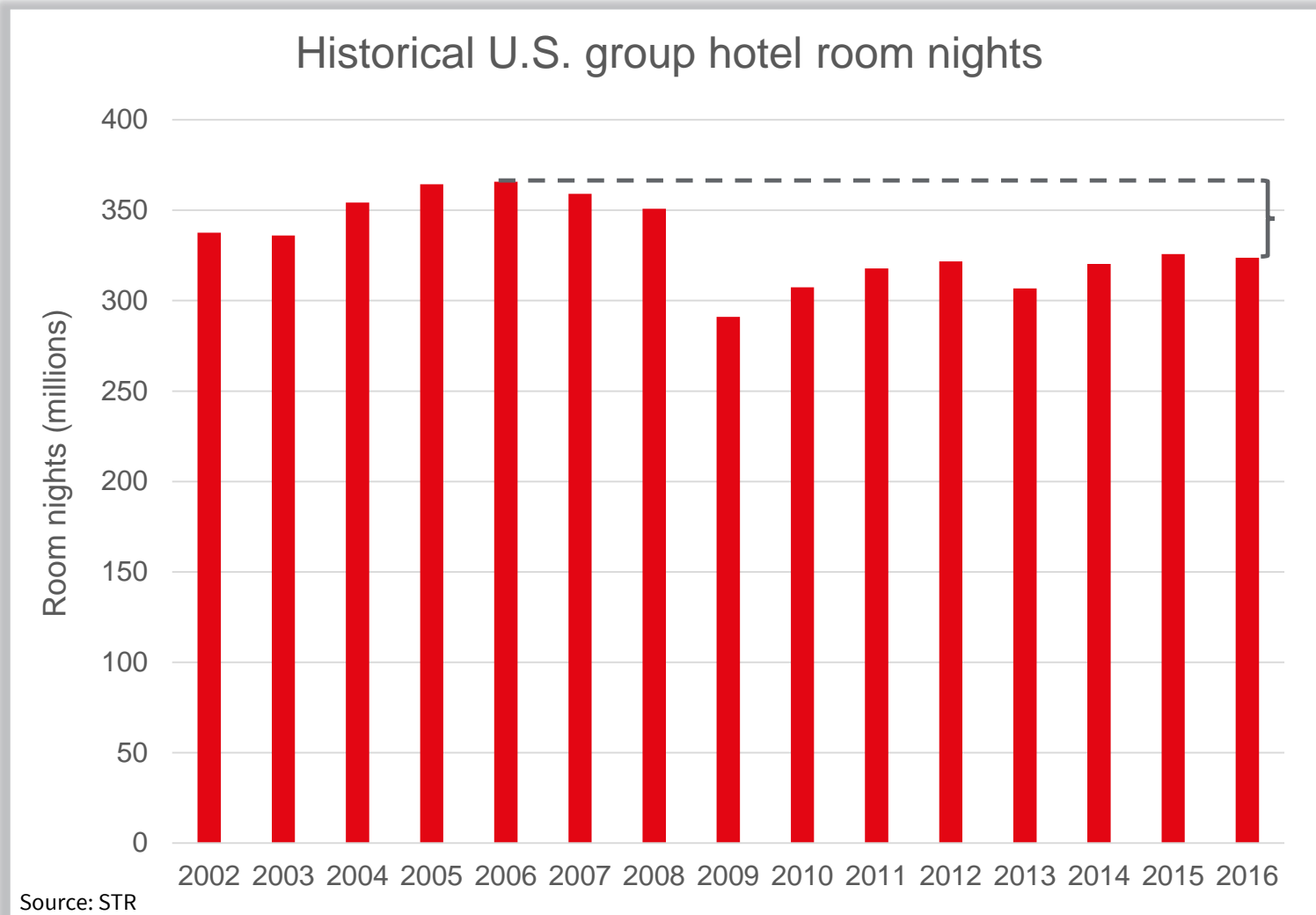


- U.S. hotel supply growth has been below the long term average since 2010.



- Over that time frame, as a percentage of existing supply, select service hotel supply growth outpaced that of full service hotels.
- Full service hotels cater to group demand more so than select service hotels given their generally larger room count and meeting space capacities, as well as their banquet and catering offerings.

What is the State of the hotel industry?

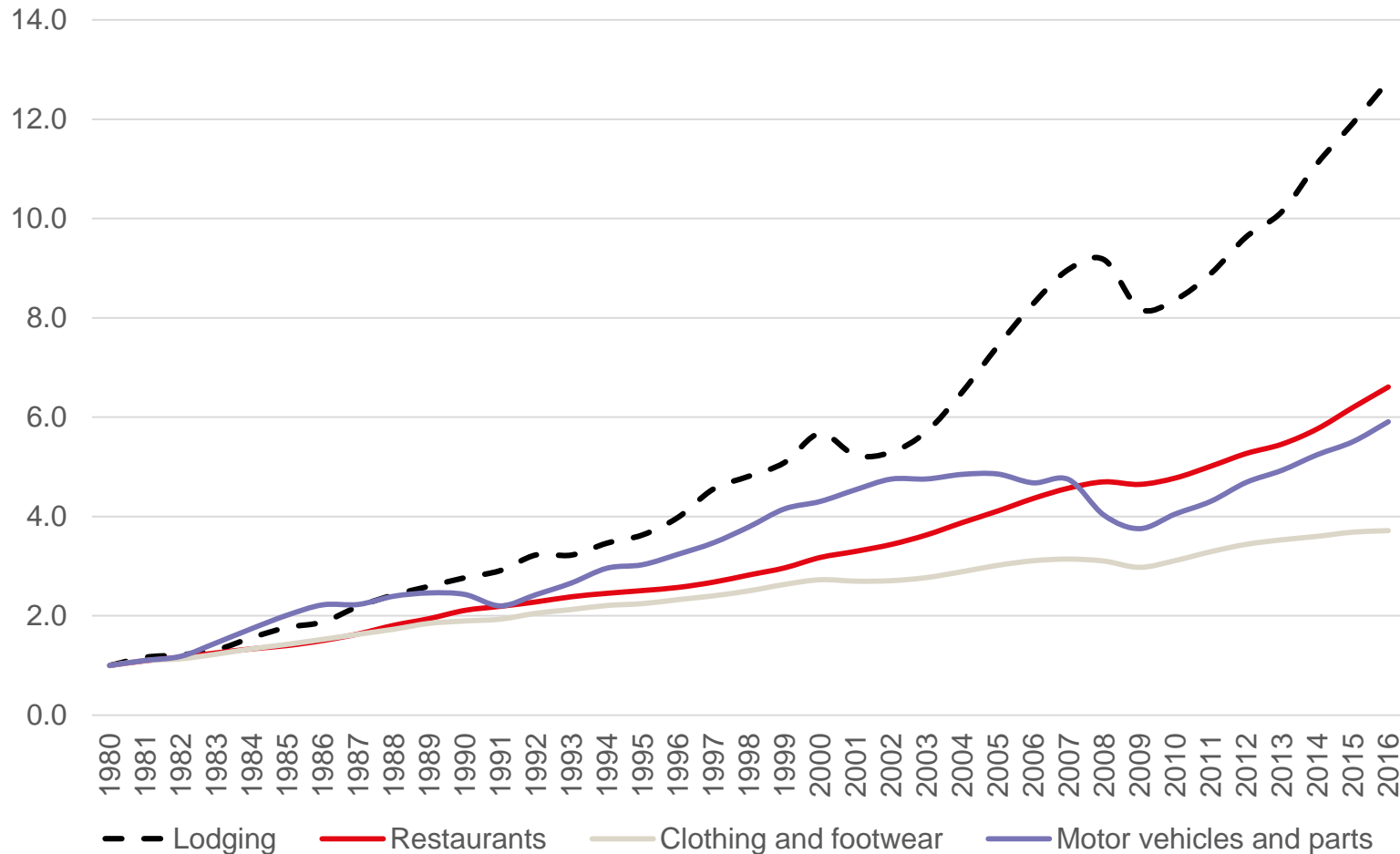


- The 2016 group room night figure is 12% below prior peak group demand level, highlighting historical precedent for continued growth.

What is the State of the hotel industry?



Total Consumer Spending Indexed to 1980



Source: U.S. Bureau of Economic Analysis

- Demand for lodging and other “experiential” categories have followed an upward trend while demand growth for clothing, footwear and vehicles has been less robust.
- Hotels present an opportunity to diversify consumer spending while also capitalizing on the hotel occupancy tax.

What is the State of the hotel industry?



Minneapolis-St Paul, MN-WI					
Start	End	Period	Occ	ADR	RevPAR
1991	2017	CAGR 1991 - 2017	0.1%	2.9%	3.0%
1991	2000	CAGR 1991 - 2000	0.6%	4.9%	5.6%
2003	2008	CAGR 2003 - 2008	0.6%	5.1%	5.7%
2009	2017	CAGR 2009 - 2017	2.2%	3.0%	5.3%

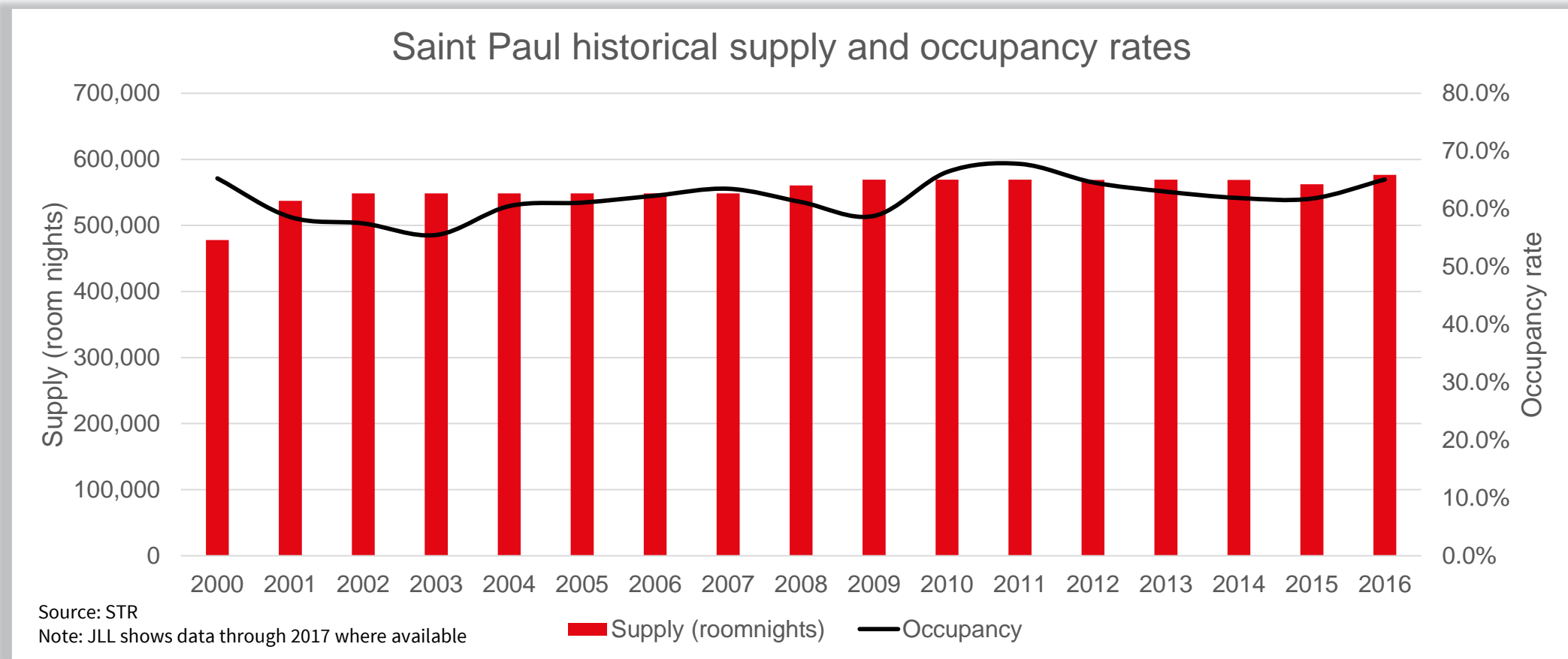
Total U.S.					
Start	End	Period	Occ	ADR	RevPAR
1991	2017	CAGR 1991 - 2017	0.2%	3.0%	3.2%
1991	2000	CAGR 1991 - 2000	0.2%	4.2%	4.5%
2002	2008	CAGR 2002 - 2008	0.4%	4.3%	4.7%
2009	2017	CAGR 2009 - 2017	2.3%	3.3%	5.7%

Revenue per available room (RevPAR) takes into account both occupancy rates (Occ) and average daily rates (ADR)

Source: STR, JLL

- RevPAR growth in the Minneapolis-Saint Paul MSA has generally tracked the national average over the 26-year period from 1991 to 2017.
- From 2009 to 2017, in the most recent cycle, RevPAR growth in the Minneapolis-Saint Paul MSA has lagged the U.S. average by 40 basis points.
- Lodging performance in the Minneapolis-Saint Paul MSA has started 2018 with a substantial move in the right direction, posting 16.5% RevPAR growth in January, driven by lodging demand associated with the Super Bowl.

What is the State of the hotel industry?

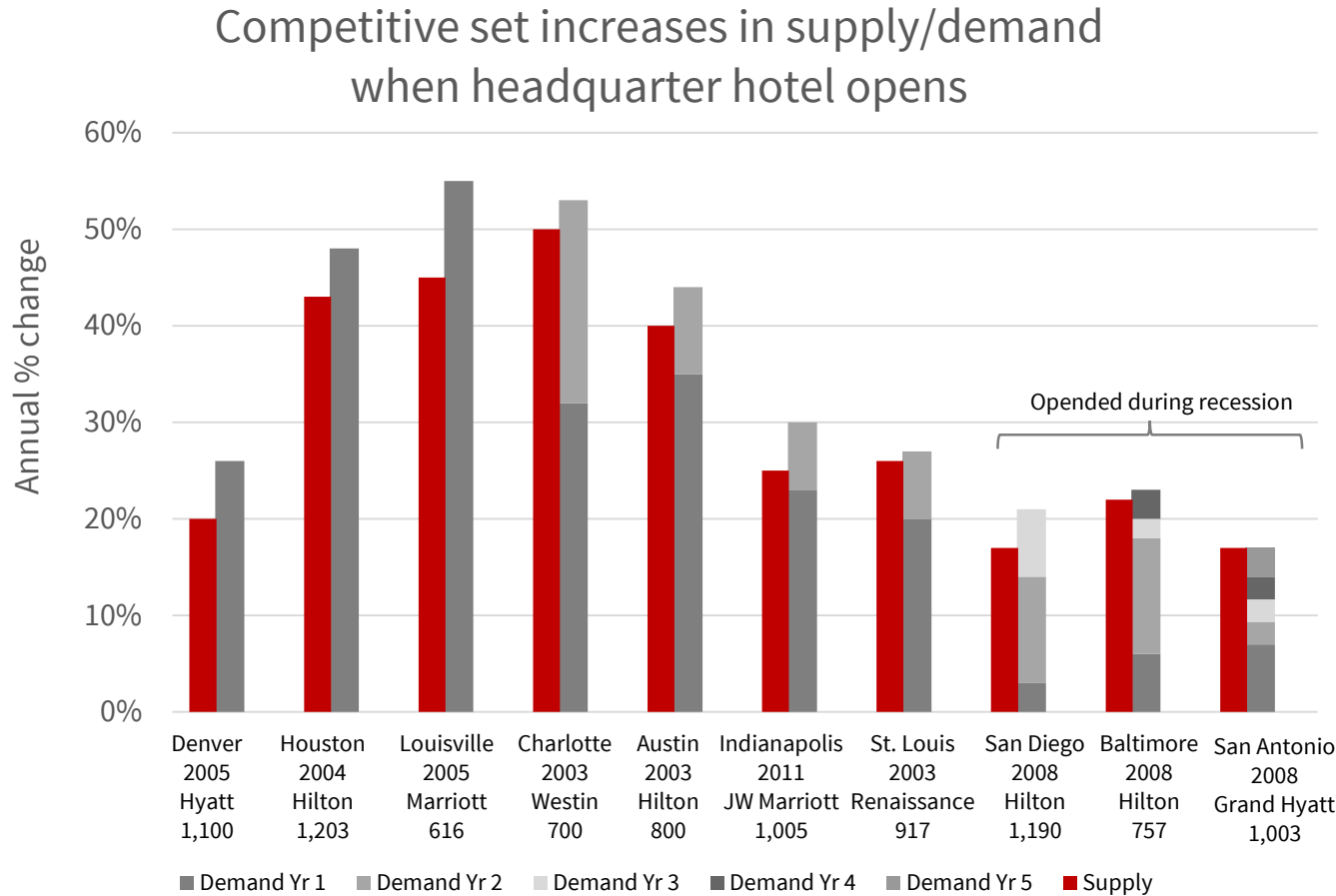


Compound annual growth rates (CAGR)	
Supply CAGR 2000 - 2016	1.2%
Demand CAGR 2000 - 2016	1.2%

*Do Convention Hotels impact
existing hotels?*



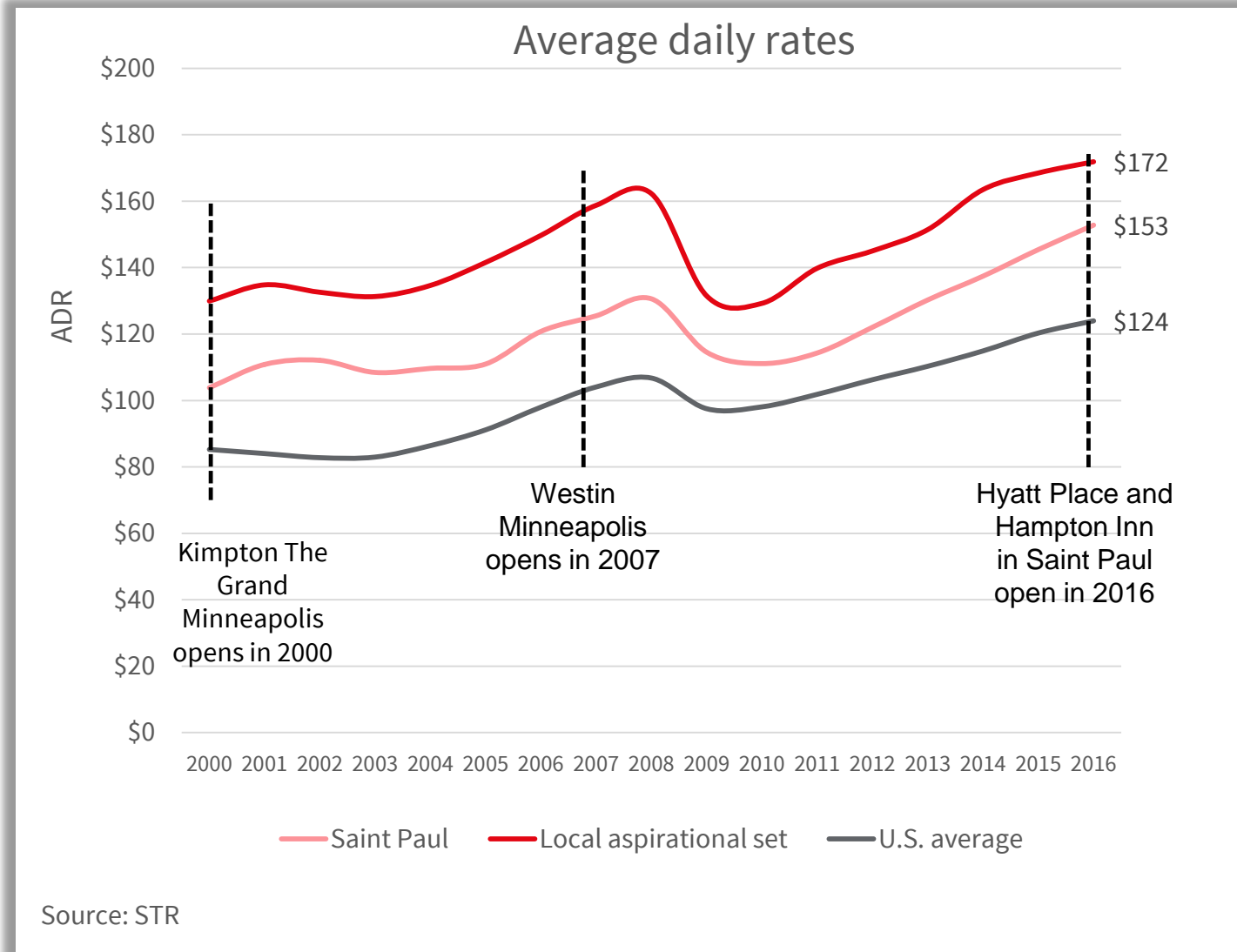
Do Convention Hotels impact existing hotels?



Source: STR, JLL

- In general, new supply from new headquarter hotels is fully absorbed within two years of opening as a result of increases in lodging demand.
- Headquarter hotels that opened during a recession have taken 3 to 5 years to be absorbed.

Do Convention Hotels impact existing hotels?



- Hotels that have opened in the Minneapolis/Saint Paul market have not directly caused a decline in hotel average daily rates
- Rather, the ADR declines that began in 2001 and 2008 were caused by economic conditions.
- Lists of the hotels captured in both the Saint Paul and local aspiration sets are shown in the appendix.

*Is the Saint Paul RiverCentre
achieving its goals?*



Is the Saint Paul RiverCentre achieving its goals?

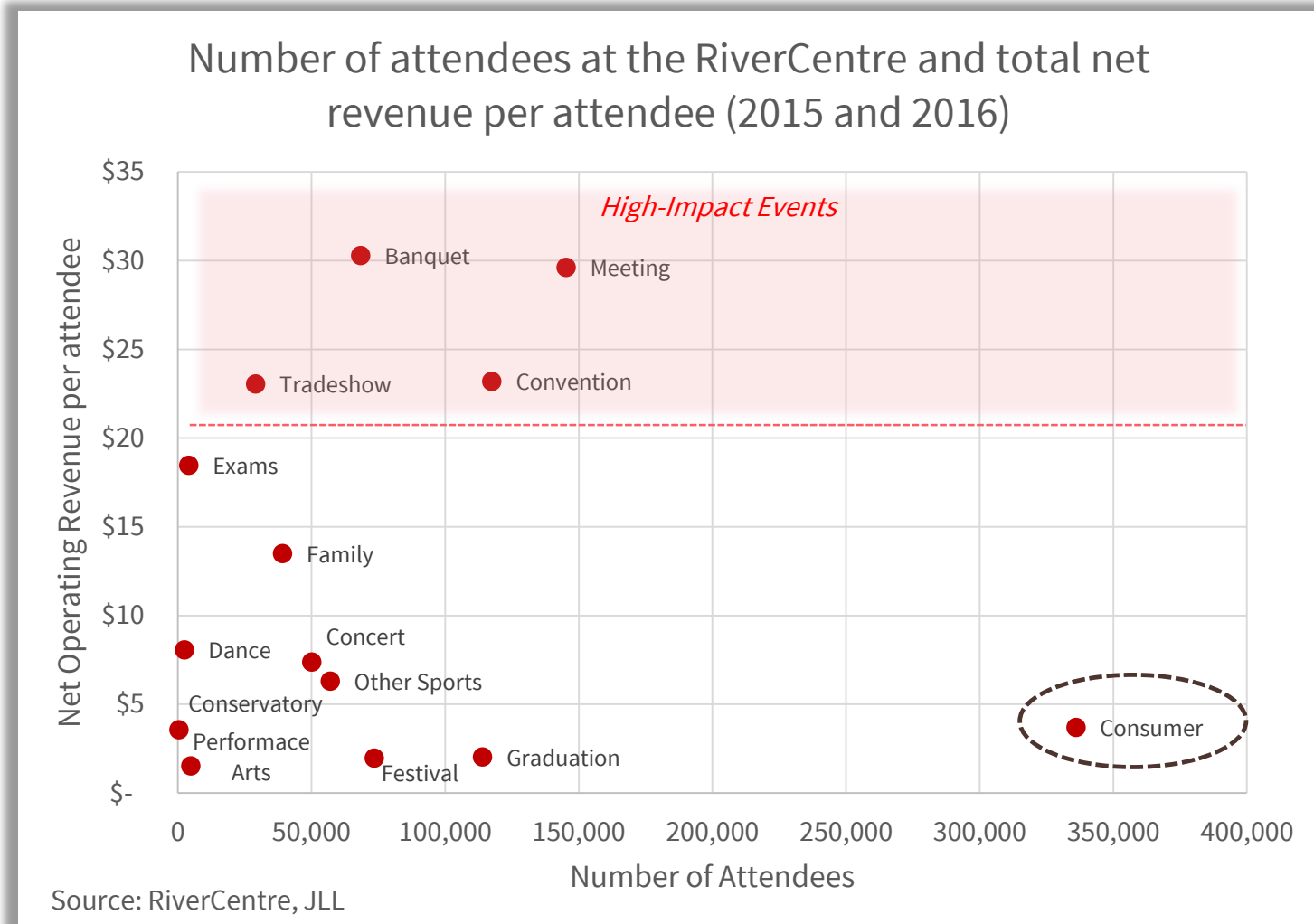


Visit Saint Paul Mission Statement:

Visit Saint Paul is the official convention & visitors bureau for Minnesota's capital city of Saint Paul.

The mission of the organization is to generate economic growth for Saint Paul by effectively marketing the RiverCentre campus, Saint Paul and the region as a preferred convention and tourism destination.

Is the Saint Paul RiverCentre achieving its goals?

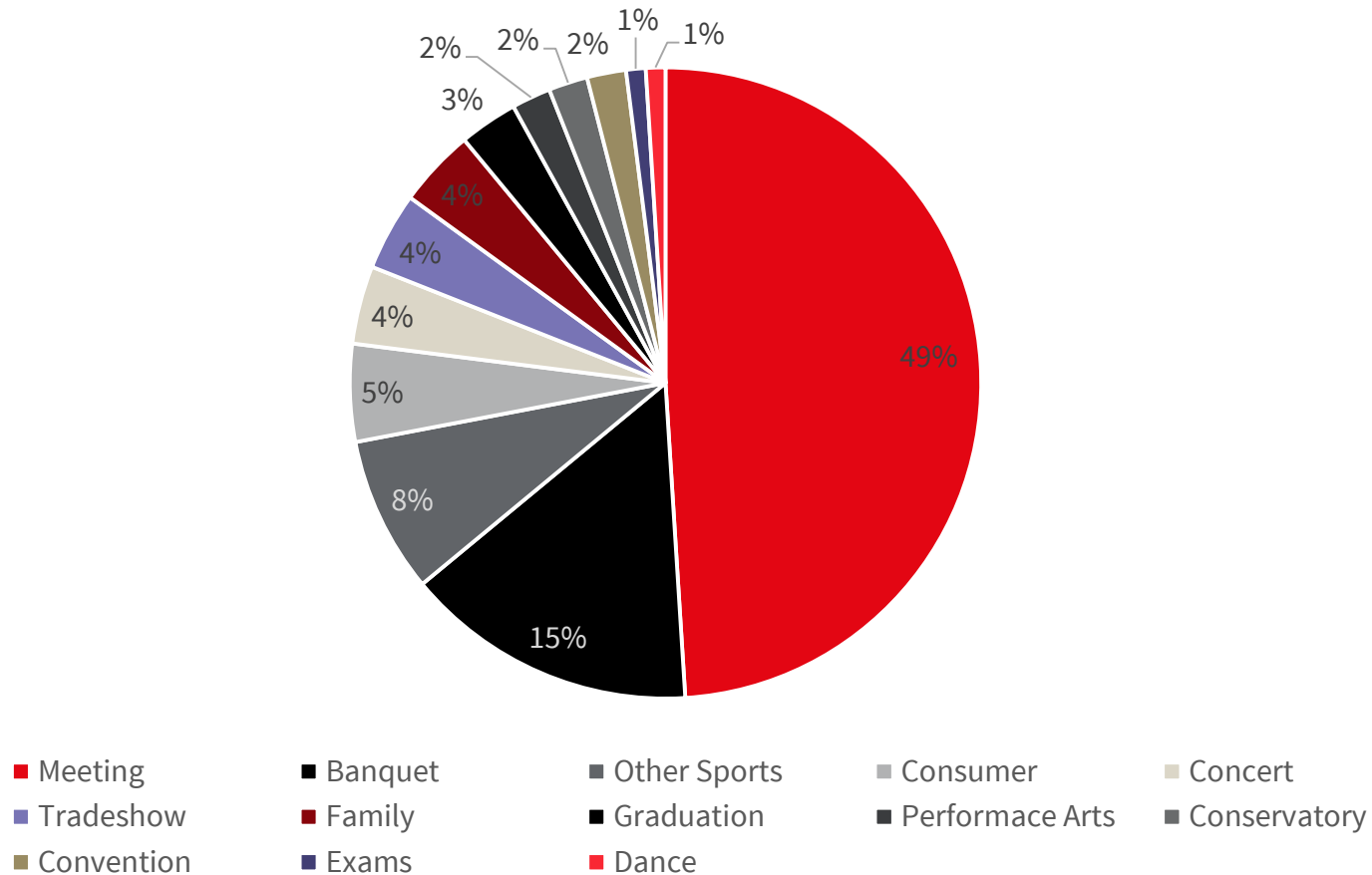


- Conventions, Tradeshow, Meetings, and Banquets generate more revenue on a per-attendee basis; and typically generate greater demand for local hotel rooms.
- Consumer shows generate high attendance but may be taking up space in lieu of higher impact events.

Is the Saint Paul RiverCentre achieving its goals?



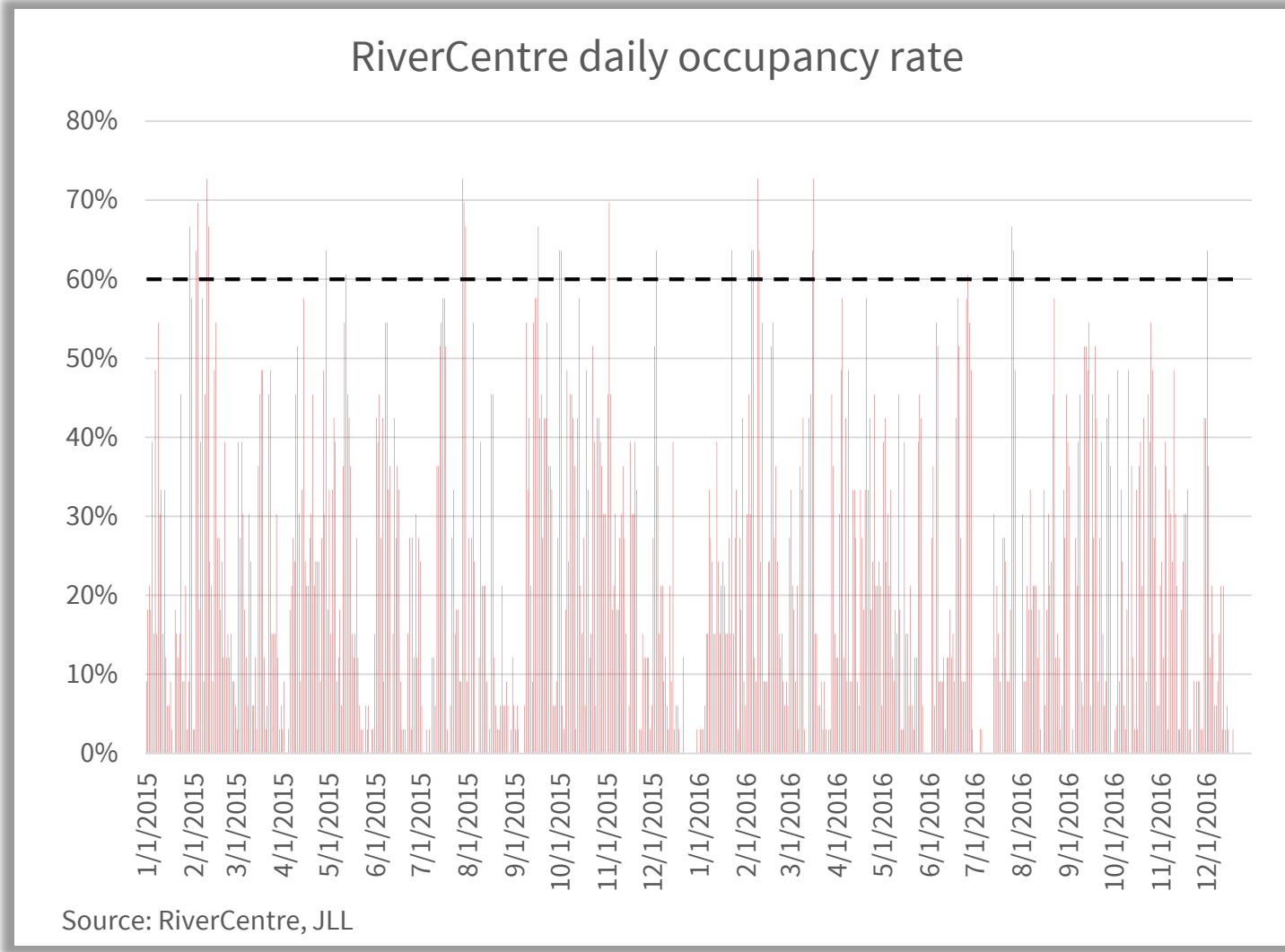
Mix of events at the RiverCentre (2015 - 2016)



Source: RiverCentre, JLL

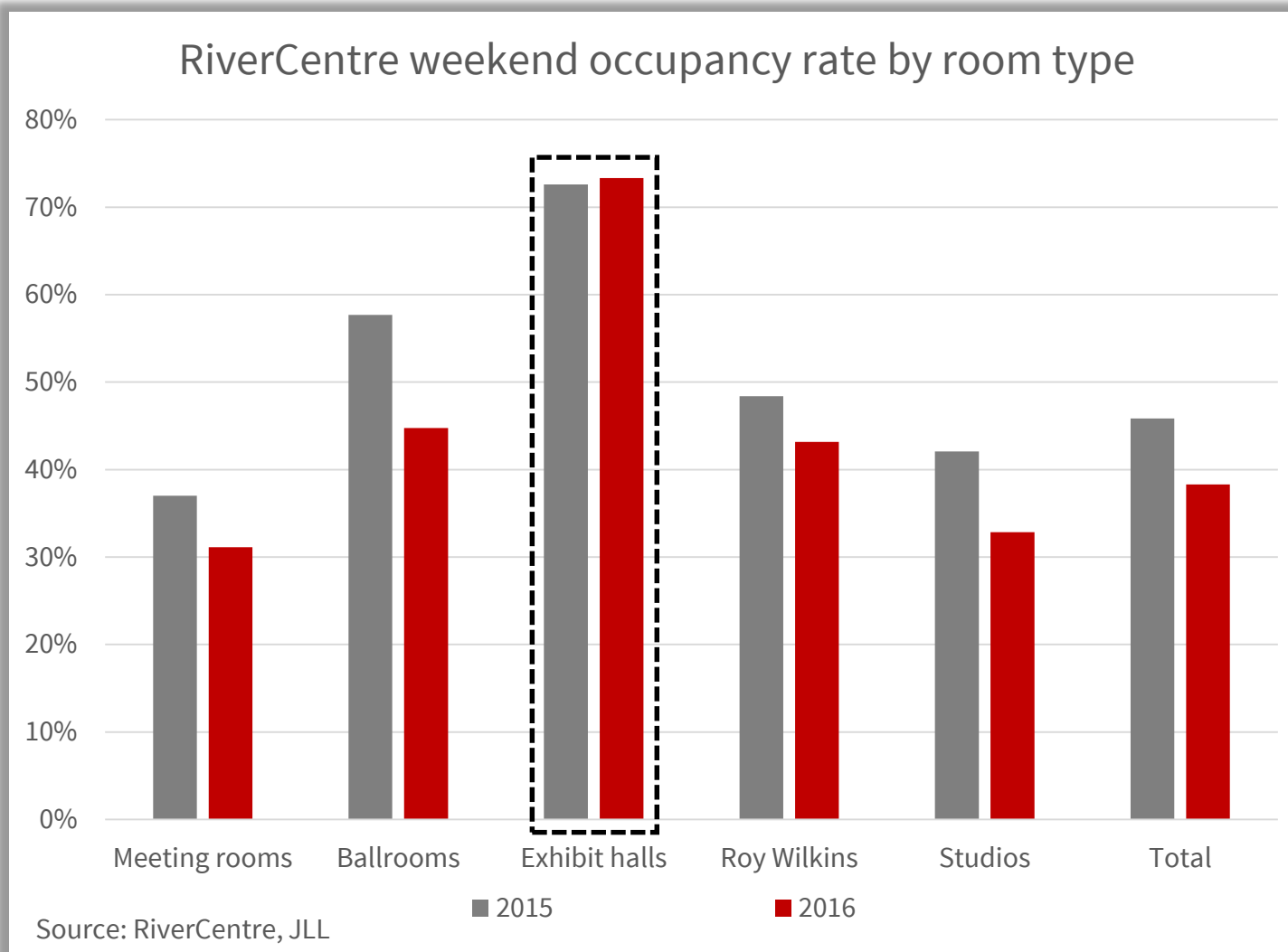
- Shown differently, almost three out of every four events in the RiverCentre are high-impact.

Is the Saint Paul RiverCentre achieving its goals?



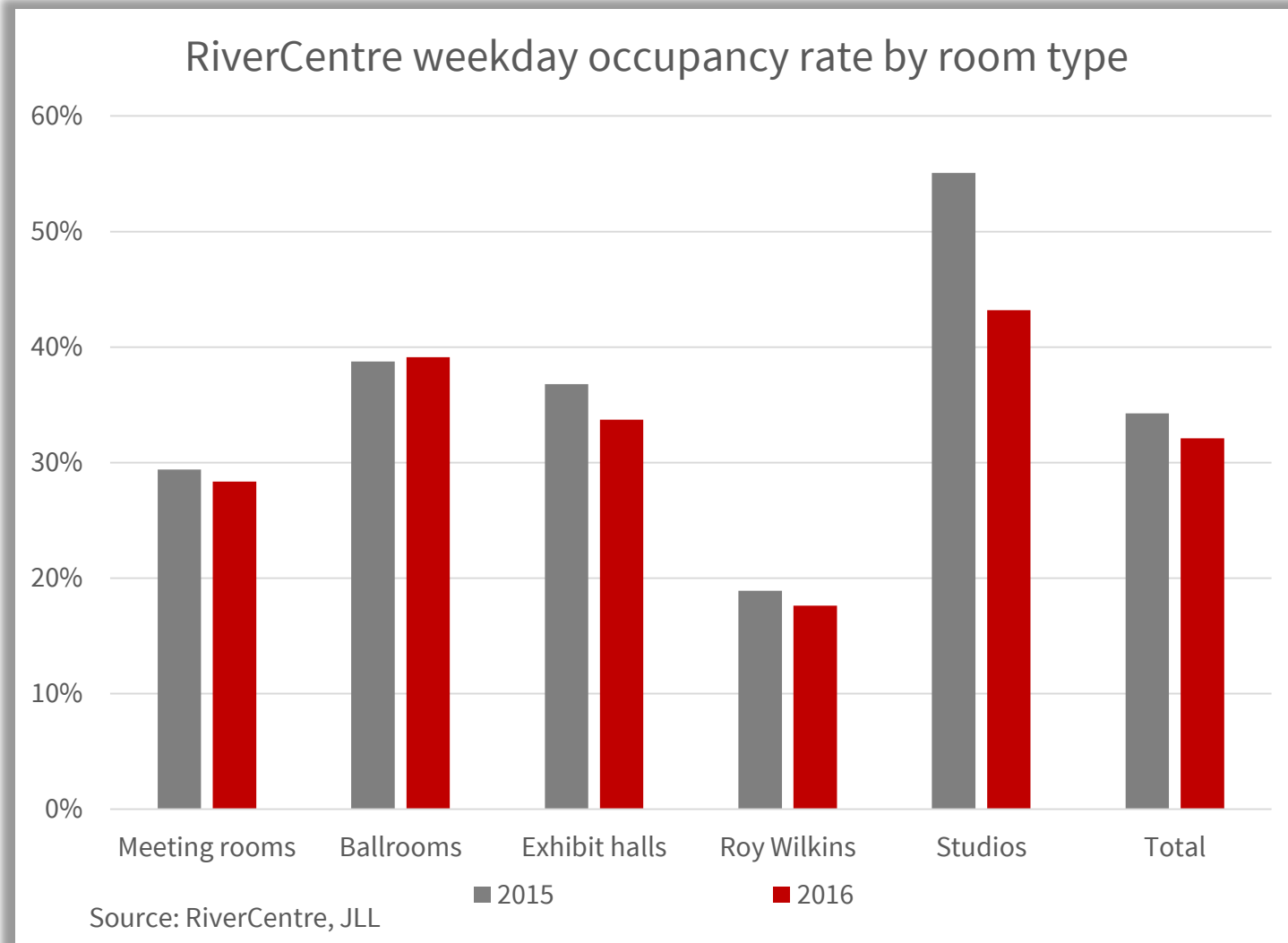
- The RiverCentre is busy, but is it the right kind of busy?
- Could it be the right kind of busy, targeting groups that use hotel rooms, given the current hotel landscape?

Is the Saint Paul RiverCentre achieving its goals?



- Weekend consumer shows at the RiverCentre exhibit hall generally cater to people who are local, and are therefore unlikely to generate significant numbers of hotel room nights.
- Moreover, these events take up space during the week to move in/out.

Is the Saint Paul RiverCentre achieving its goals?



- Weekday meeting, ballroom and exhibit hall usage generally caters to the business segment.
- 2015 and 2016 occupancy rates within the aforementioned room types permit added usage.
- Weekday usage of the RiverCentre for high-impact event types is anticipated to generate new hotel room nights within the market.

Is the Saint Paul RiverCentre achieving its goals?



- JLL analyzed markets deemed most competitive with Saint Paul from a meeting planner perspective.
- Among the markets analyzed, all but one has or is in the process of constructing a second group-oriented hotel located within a 1-mile radius of the convention center.
- Saint Paul boasts the 410-room InterContinental Saint Paul Riverfront but does not have a group-oriented hotel adjacent to the RiverCentre.

Hotel landscape analysis - competitive markets					
Market		Hotel 1		Hotel 2	
Convention Center	Location	Hotel	Rooms	Hotel	Rooms
Minneapolis Convention Center	Minneapolis, MN	Hilton	821	Hyatt Regency	645
Iowa Events Center	Des Moines, IA	Marriott	417	Hilton (In Construction)	330
Monona Terrace	Madison, WI	Hilton	240	Independent	367
Mayo Civic Center	Rochester, MN	Independent	660	Hilton (In Construction)	264
CenturyLink Center Omaha	Omaha, NE	Hilton	600	Marriott	333
Duluth Entertainment Convention Center	Duluth, MN	Holiday Inn	338	N/A	N/A

Note: pertains to group-oriented hotels located within 1-mile radius of convention center; bold pertains to hotels adjacent to convention center

Source: JLL, STR

Is the Saint Paul RiverCentre achieving its goals?

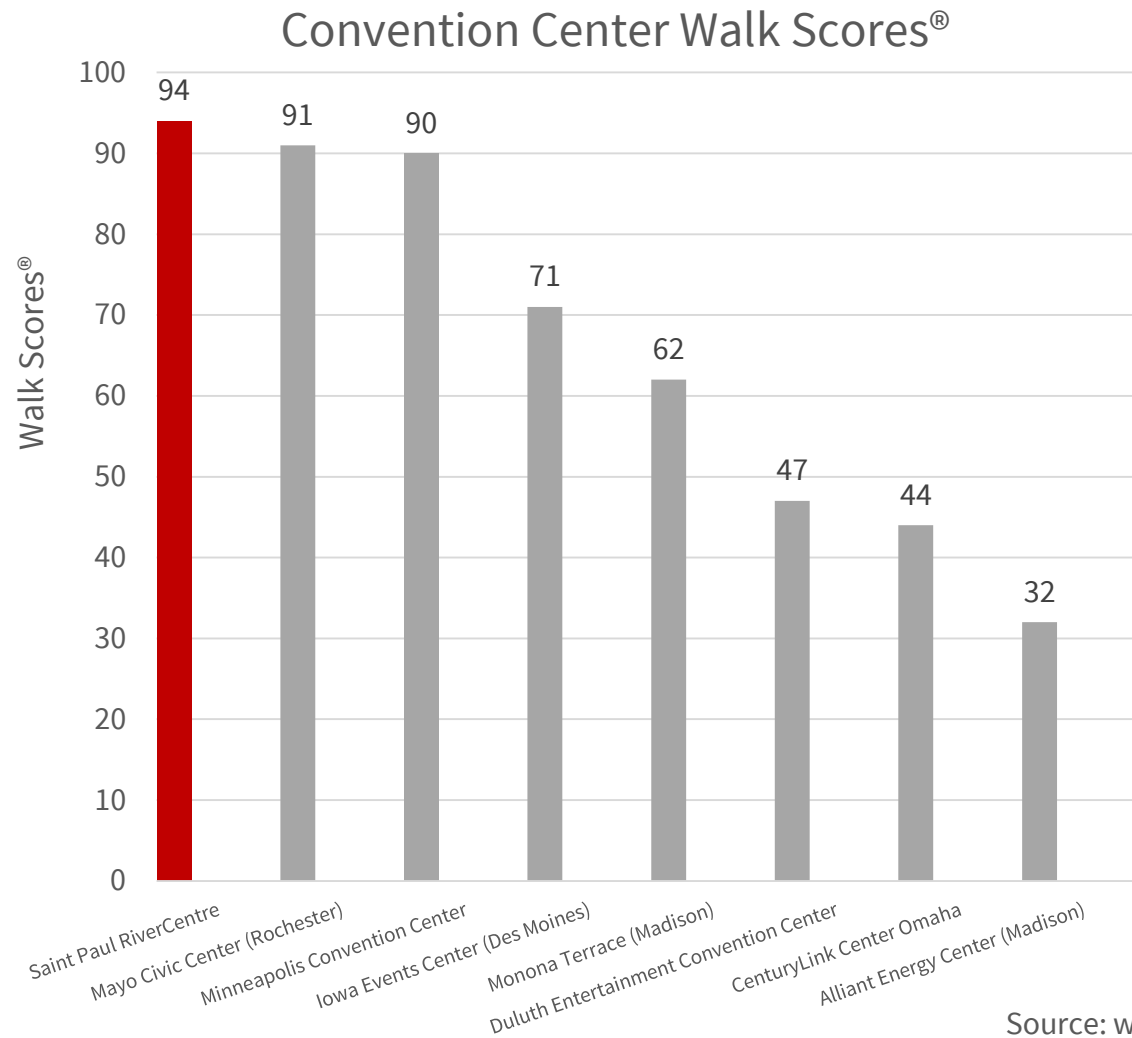


- JLL analyzed room count and meeting space offerings of the existing group-oriented hotels within walking distance of the competitive markets respective convention centers.
- These hotels average 483 rooms, 38,000 sq. ft. of meeting space including a 9,500 sq. ft. ballroom.

Operational group-oriented hotels within walking distance of convention center							
Hotel	Rooms	Meeting space (sq. ft.)	Meeting space per key (sq. ft.)	Largest ballroom (sq. ft.)	Largest ballroom sq. ft. per Key	Blocks from convention center	Walking distance from convention center (mi)
Hilton Omaha	600	39,400	66	10,000	17	0	0.0
Hilton Madison Monona Terrace	240	2,300	10	1,300	5	0	0.0
Omaha Marriott Downtown at the Capitol District	333	15,000	45	1,800	5	1	0.2
Hyatt Regency Minneapolis	645	105,000	163	13,400	21	2	0.2
Hilton Minneapolis	821	77,000	94	24,800	30	2	0.3
InterContinental St Paul Riverfront	410	48,000	117	10,100	25	4	0.4
The Kahler Grand Hotel	660	30,000	45	7,200	11	5	0.4
Holiday Inn & Suites Duluth Downtown	338	12,000	36	7,200	21	5	0.5
Madison Concourse Hotel	367	27,000	74	10,200	28	6	0.5
Marriott Des Moines Downtown	417	28,000	67	9,400	23	6	0.5
Average	483	38,000	79	9,500	20	3	0.3

Source: JLL, STR, hotel websites

Is the Saint Paul RiverCentre achieving its goals?



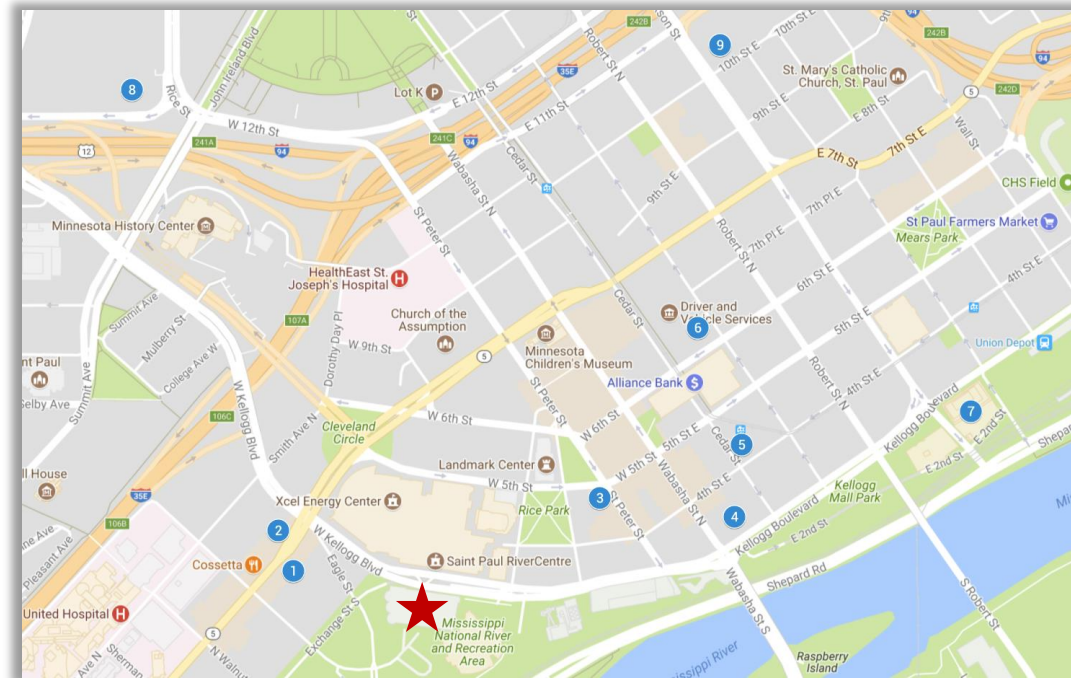
- Walkability is a very important characteristic for planners when selecting meeting/convention destinations.
- Walk Scores® take into account access to restaurants, coffee shops, parks, culture and entertainment etc.
- Saint Paul RiverCentre has the highest Walk Scores® among the competitive markets analyzed.

Is the Saint Paul RiverCentre achieving its goals?

- Although Saint Paul has hotel rooms surrounding the RiverCentre, it does not offer enough of the right type of hotel with respect to size, positioning and location.
- JLL's market research in the prior slides compare current Saint Paul hotel supply with that of competitive markets. The following section garners input from meeting planners related to a suitable program for a HQ hotel in Saint Paul. These analyses are intended to uncover how Saint Paul could achieve enough of the right type of hotel rooms from a meeting planner perspective.

Downtown Saint Paul Hotels				
Number in map	Hotel	Rooms	Meeting space	Meeting space per key
1	Hampton Inn & Suites St Paul Downtown	160	3,000	19
2	Holiday Inn St Paul Downtown	195	1,800	9
3	The Saint Paul Hotel	255	14,000	55
4	InterContinental St Paul Riverfront	410	48,000	117
5	Hotel 340	57	0	0
6	DoubleTree St Paul Downtown	251	12,000	48
7	Hyatt Place St Paul Downtown	149	3,000	20
8	Best Western Plus Capitol Ridge	127	6,500	51
9	Embassy Suites St Paul Downtown	208	5,000	24
Average		201	10,400	51

Source: JLL, STR



Source: Google Maps, JLL

*Does RiverCentre Hotel make
a difference in Saint Paul?*



Does RiverCentre Hotel make a difference in Saint Paul?



- In order to gauge whether a headquarters hotel at the RiverCentre would make a difference in Saint Paul with respect to impacting the city as a meeting/convention destination, JLL surveyed meeting planners.
- Meeting planners are the key stakeholders for headquarters hotels as they decide where to place group business, which is a core segment for headquarter hotels and convention centers.
- To diversify its sample of respondents, JLL conducted a focus group with local stakeholders as well as an online survey comprised planners based nationally who have booked a meeting or conference in a Midwest destination. Additionally, in the national survey, JLL sought to target meeting planners whose events did not exceed 1,200 room nights on peak given the room night capacity in downtown Saint Paul. Although several respondents reported events with more than 1,200 room nights on peak, JLL infers that these groups required 1,200 rooms on peak or fewer the last time they met in the Midwest, but have grown since then. That said, the majority of respondents fit the parameters desired by JLL. For these reasons, the survey results are deemed representative.
- The focus group took place at the Saint Paul RiverCentre on October 16, 2017. The online survey was open from October 26, 2017 to November 10, 2017.
- In general JLL asked the same question to both groups, however, in the focus group setting JLL had the opportunity to have a more in-depth discussion with those in attendance.

JLL Focus Group and Online Survey Respondent Summary			
	Focus Group	Online Survey	Total
Date(s) conducted	10/16/2017	10/26/2017 - 11/10/2017	N/A
Number of respondents (n)	15	36	51
Note: not all respondents answered all questions			
Source: JLL			

Is a RiverCentre Hotel a good ROI for the city?



In a few words, what comes to mind when you think of Saint Paul?

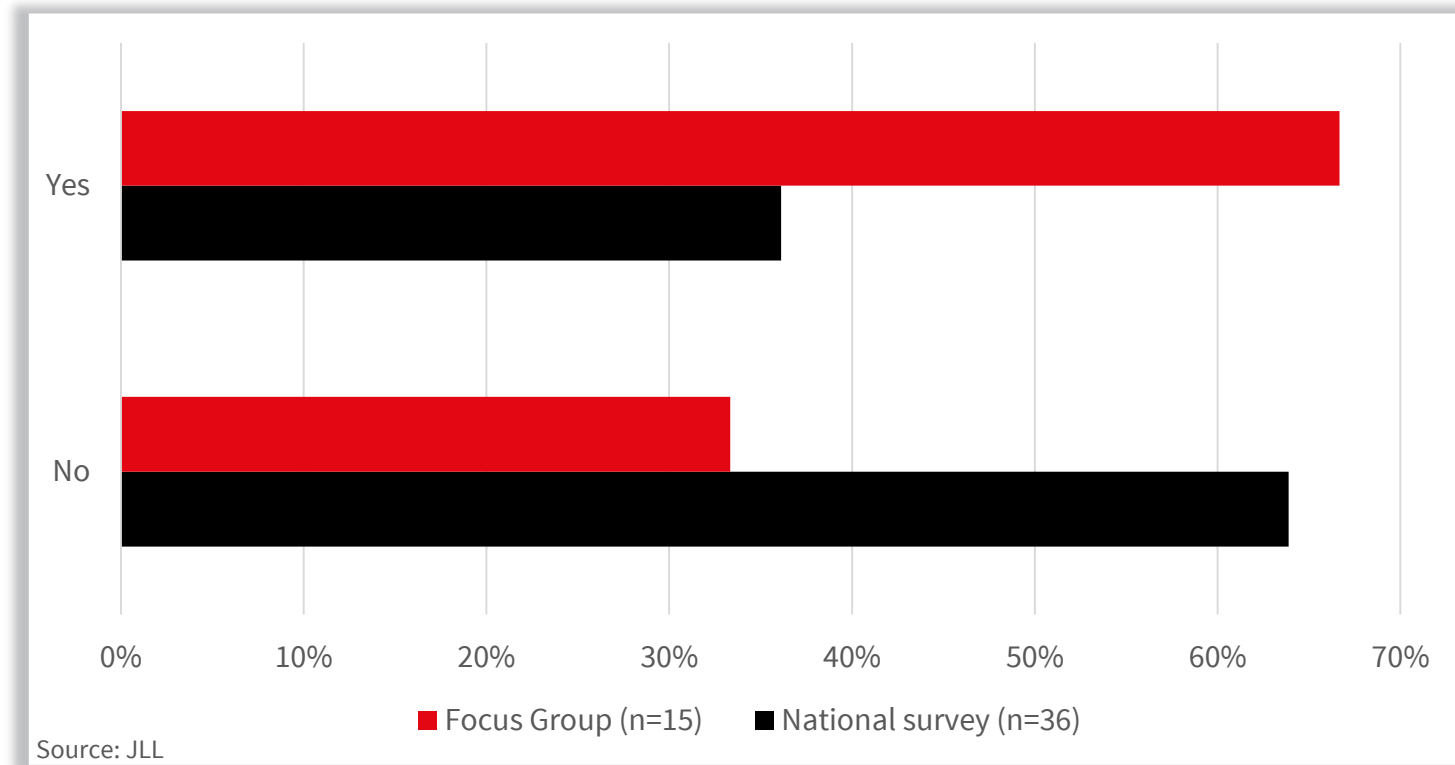
Representative comments - focus group

- “Friendly, safe, quite and clean environment, Surrounded by "walkable" neighborhoods”
- “State capital, MN wild, science museum, RiverCentre, Entertainment (concerts), Not a lot of night life, Transportation for groups required, Not a lot of evening event venues”
- “Accessible, Cost effective, Hometown feel”
- “Cosettas restaurant and ice sculptures., lack of hotels”
- “Friendly, walkable, quaint”
- “Quiet, Mn Wild, RiverCentre, few hotels, up and coming F&B scene”
- “Excel Energy Center, Science Museum and breweries”

Representative comments - national survey

- “Historic, not often thought about (perhaps mistakenly) location for a meeting, easily accessible, arts opportunities as 'add-ons' to conferences”
- “Minneapolis”
- “Sleepy. Wild Hockey. Saints Baseball. Government.”
- “Small city with limited entertainment (restaurants & nightlife) options.”
- “Business capital”
- “Cold but beautiful.”
- “Up and coming, technology, cold”
- “Nostalgic City. Minimal night time activity for conference. Minnesota Wild”

Has your group ever met in Saint Paul?

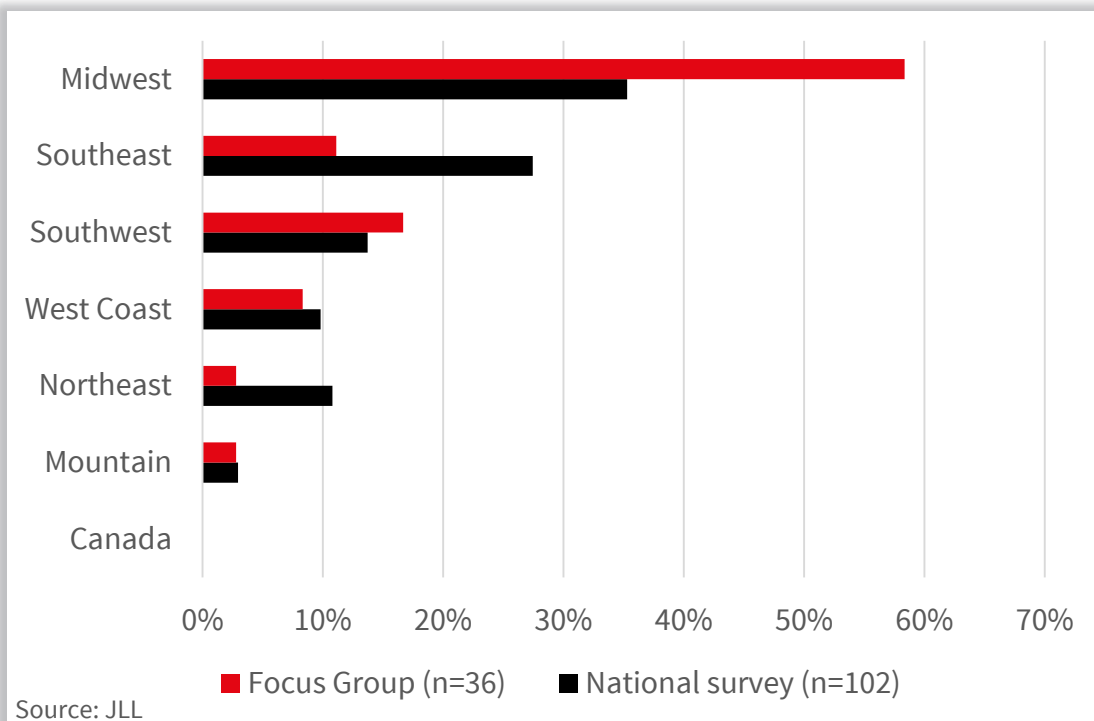


- JLL set out to gauge interest among meeting planners who both have and have not met in Saint Paul in order to quantify the primary reasons for either choosing or not choosing Saint Paul as a meeting destination.
- JLL garnered a diverse base of responses with approximately two-thirds of focus group respondents saying they met in Saint Paul. The opposite is true of national survey respondents.

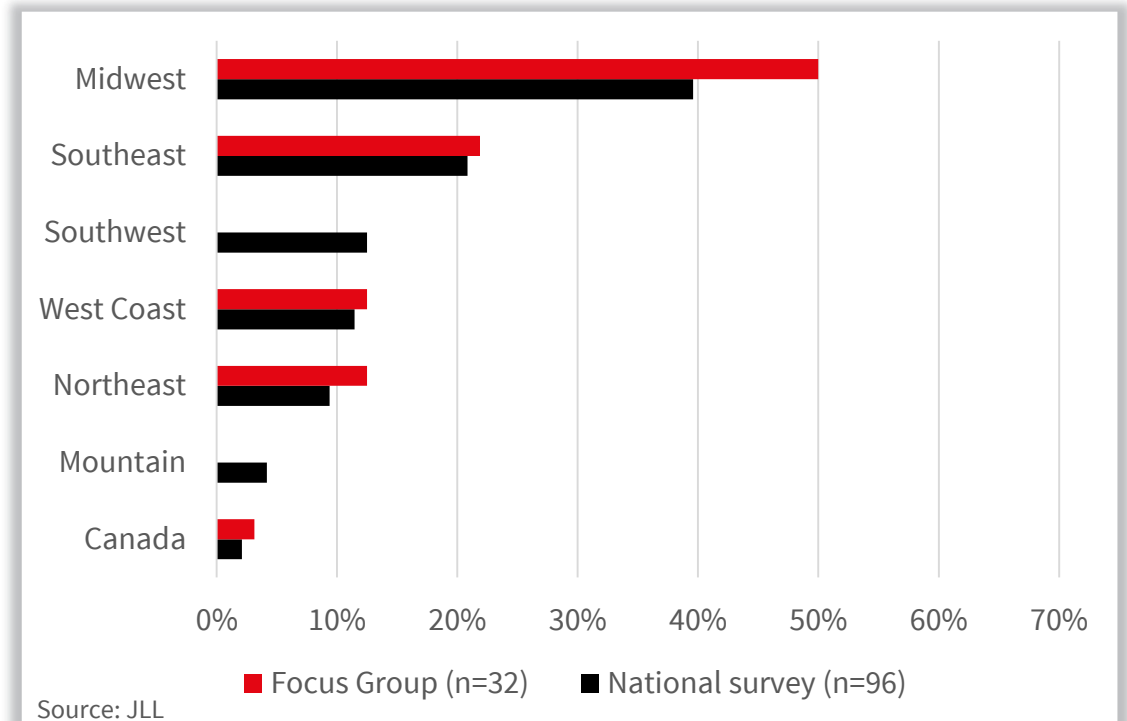
What cities/convention centers have/will you host/ed your event in the past/next three years?



Past three years



Next three years



- Both the focus group and survey samples included a concentration of meeting planners who booked events in the Midwest. In general, if an established group has never met in the Midwest, it is unlikely that they will do so in the future, so once again this is deemed a strong sample for the purposes of evaluating the hotel in question.

What cities/convention centers have you hosted your event in the past three years?



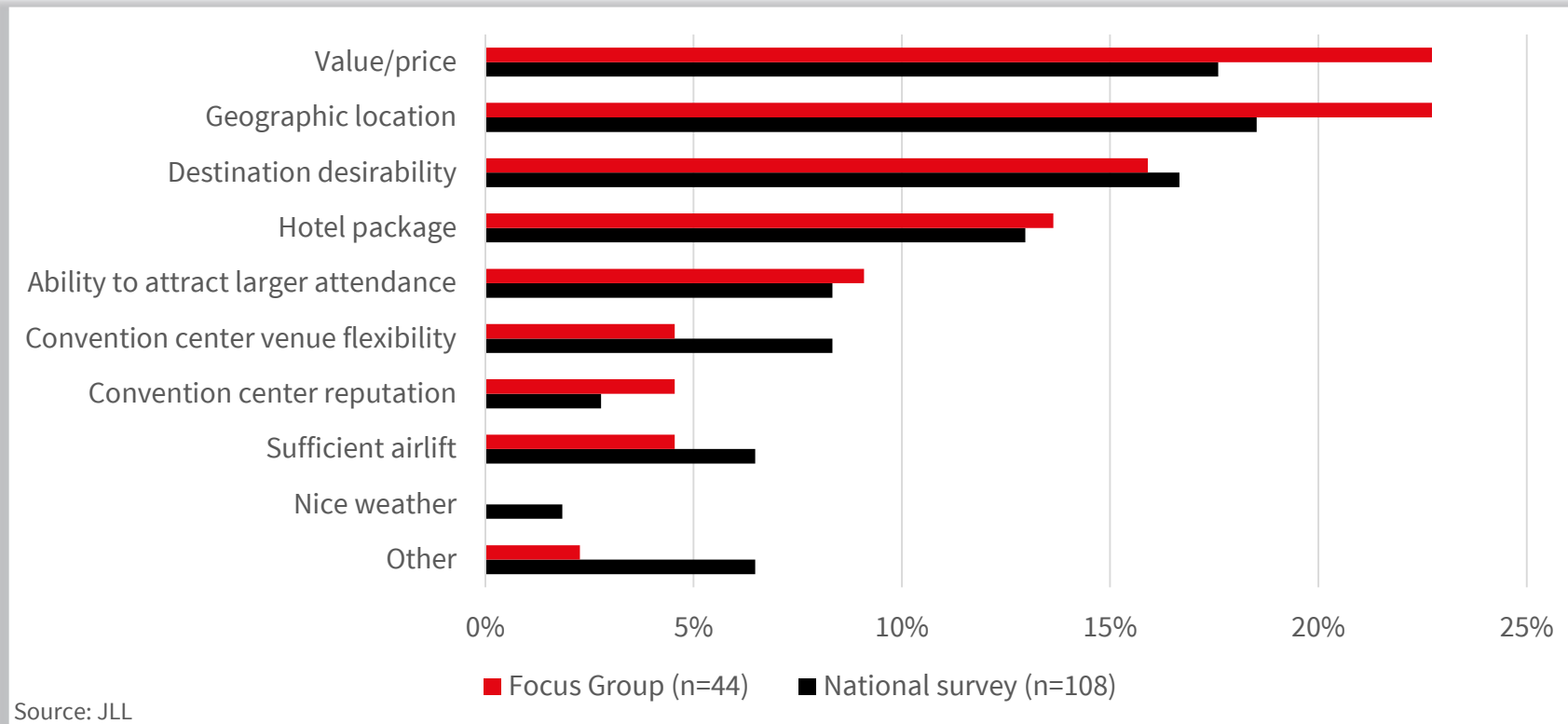
- National Survey
- Focus Group

What cities/convention centers are you planning to host your event in the next three years?



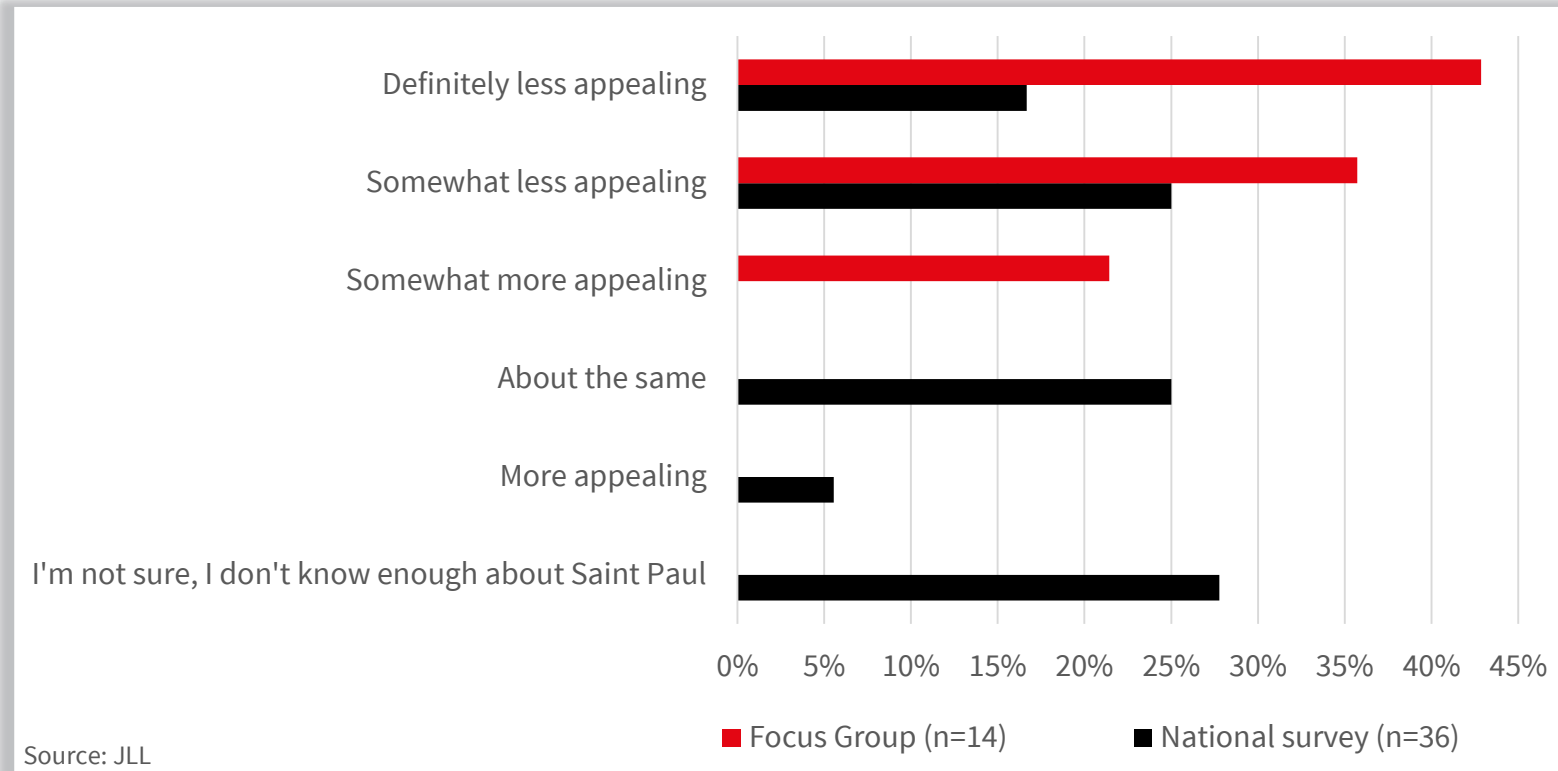
Blue pin: National Survey
Orange pin: Focus Group

Of these cities mentioned in the prior two questions, please select the top three reasons why these cities were chosen:



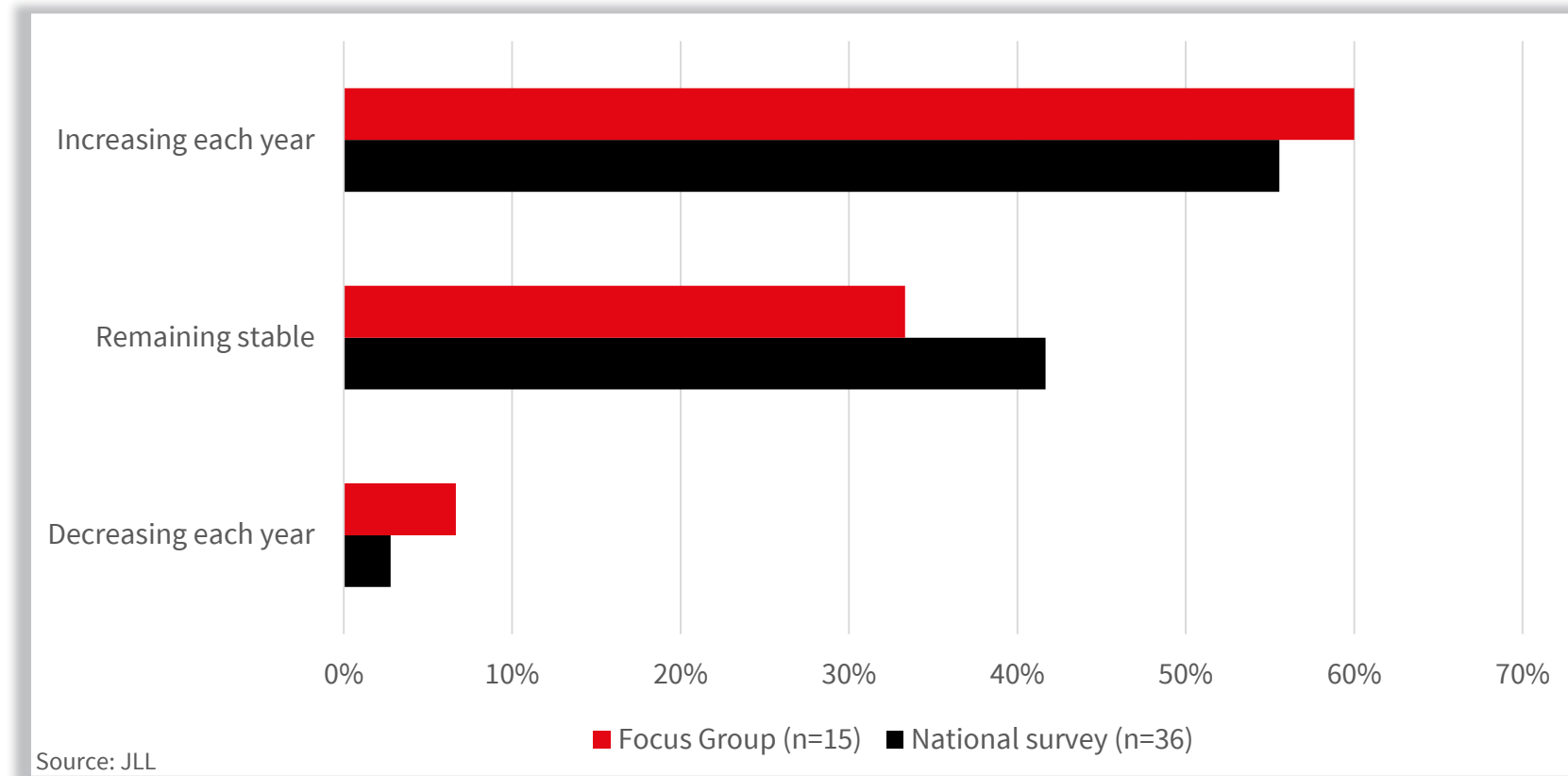
- The two most important reasons with respect to picking a meeting destination, for both focus group participants and national survey respondents, are value/price and geographic location.
- Saint Paul offers both, and therefore could be heightened as a meeting destination.

Relative to the cities you indicated before, how does Saint Paul today compare as a destination for your group?



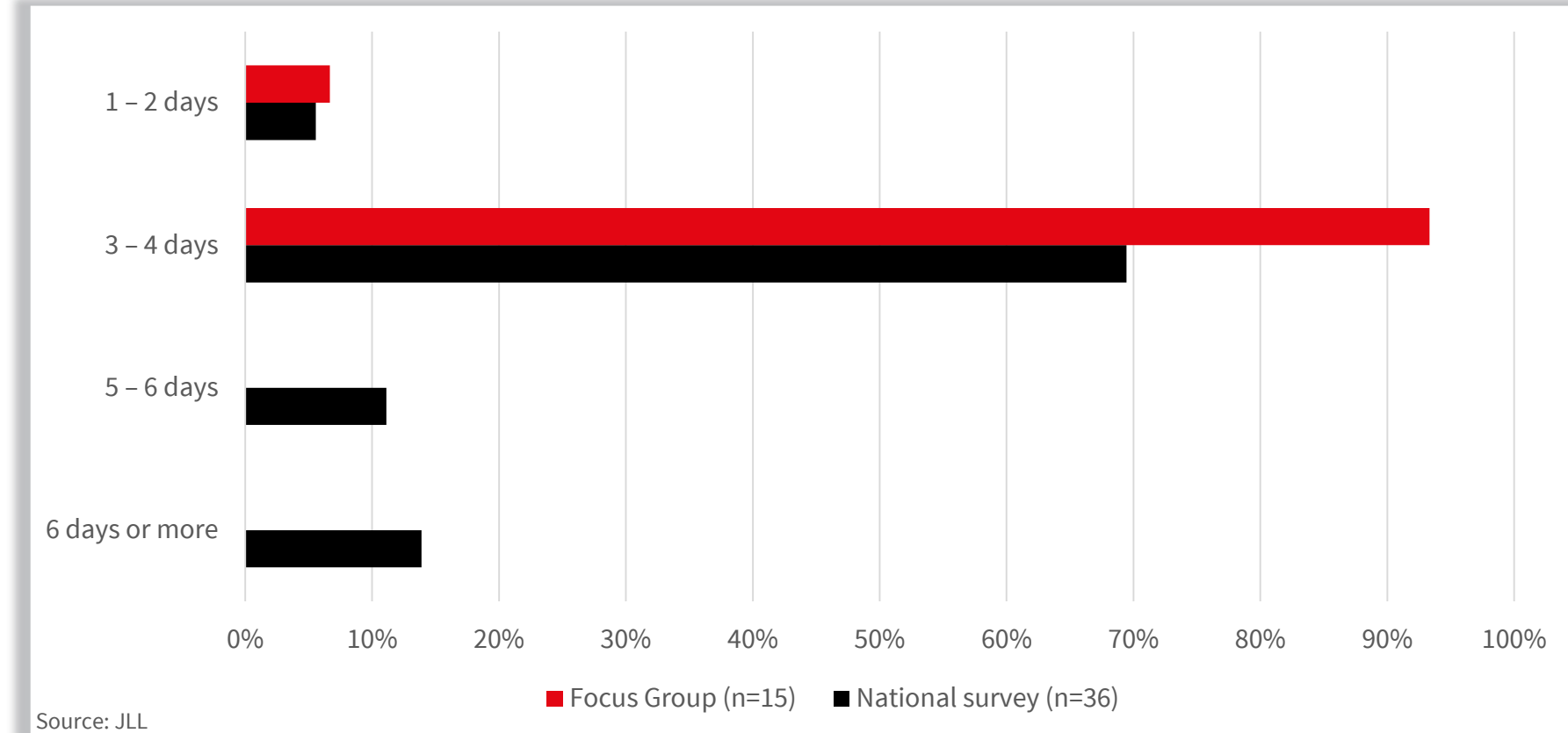
- Focus group participants view the Saint Paul market much less favorably when compared with other destinations they book.
- National responses are relatively evenly balanced. However, the most frequent answer was not knowing enough about the destination. The usefulness of improved destination marketing was surfaced later in the survey.

Attendance at my event is:



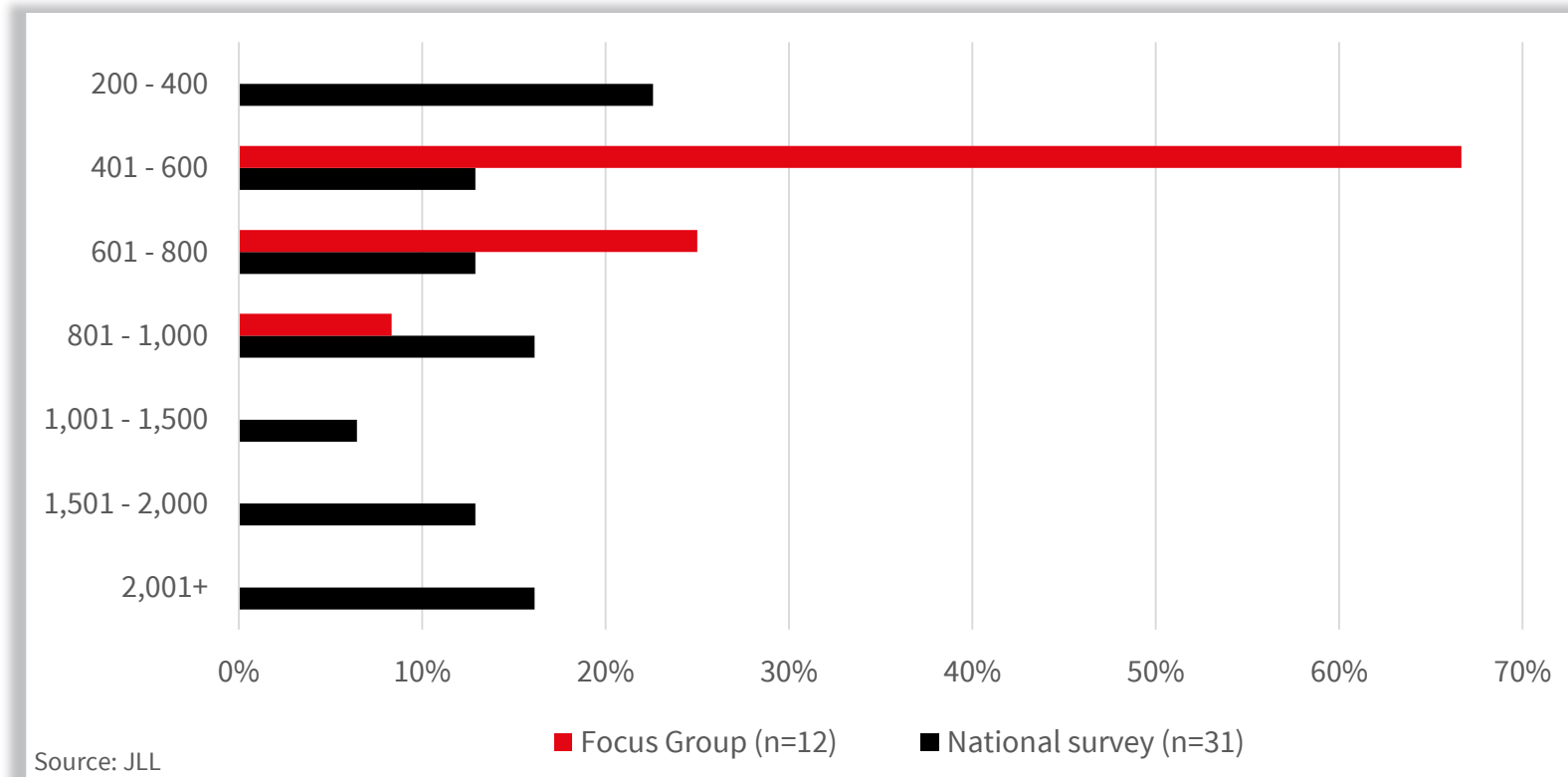
- The majority of events represented by focus group participants and national survey respondents are increasing.
- Several focus group respondents indicated in discussions that their events have outgrown Saint Paul with respect to a hotel room block.

My event typically lasts:



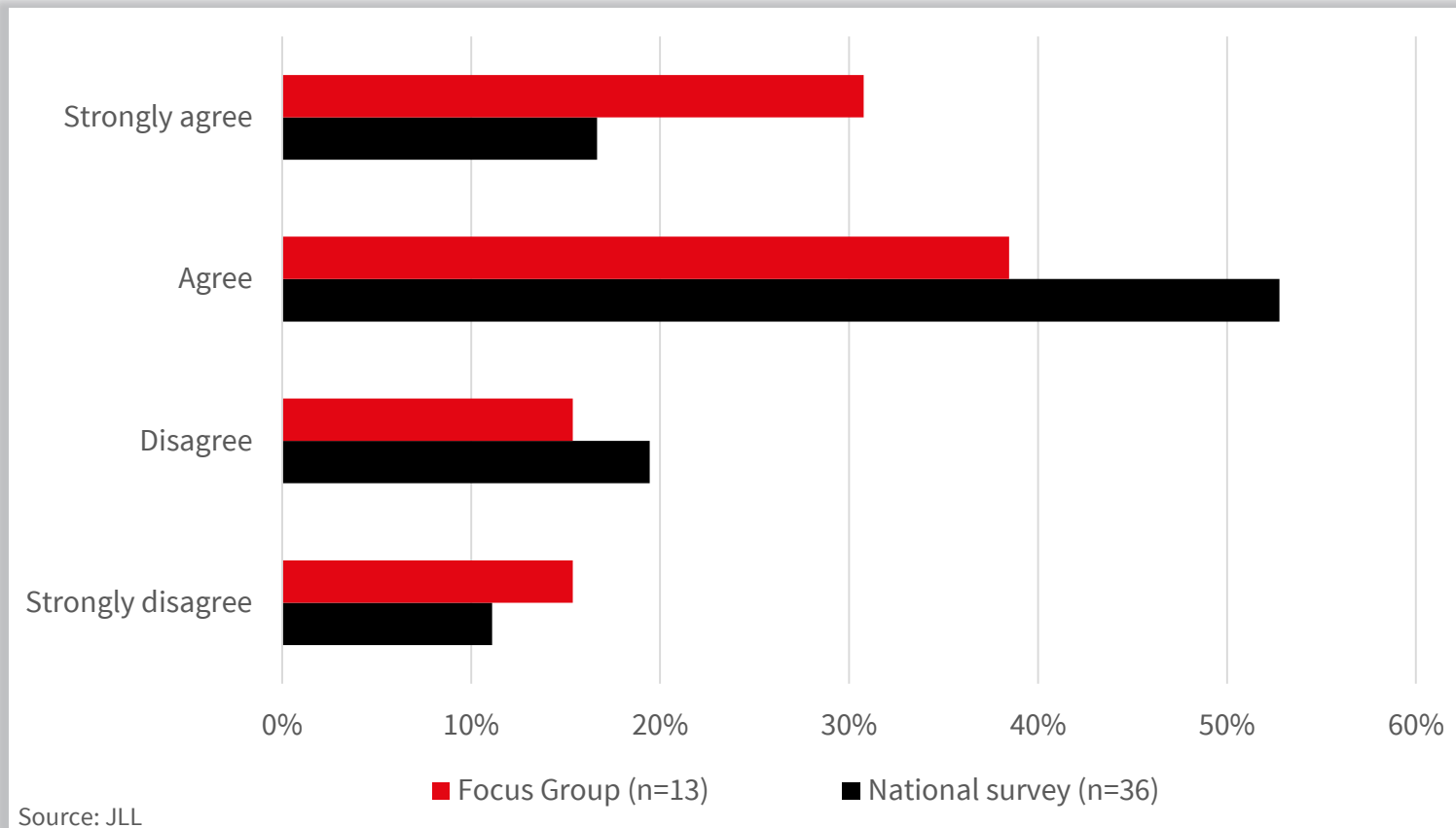
- The majority of events represented by focus group participants and national survey respondents are 3 – 4 days in duration.
- Multi-day events typically require hotel room blocks.

Please give us an overview of your largest annual meeting in terms of peak hotel rooms required:



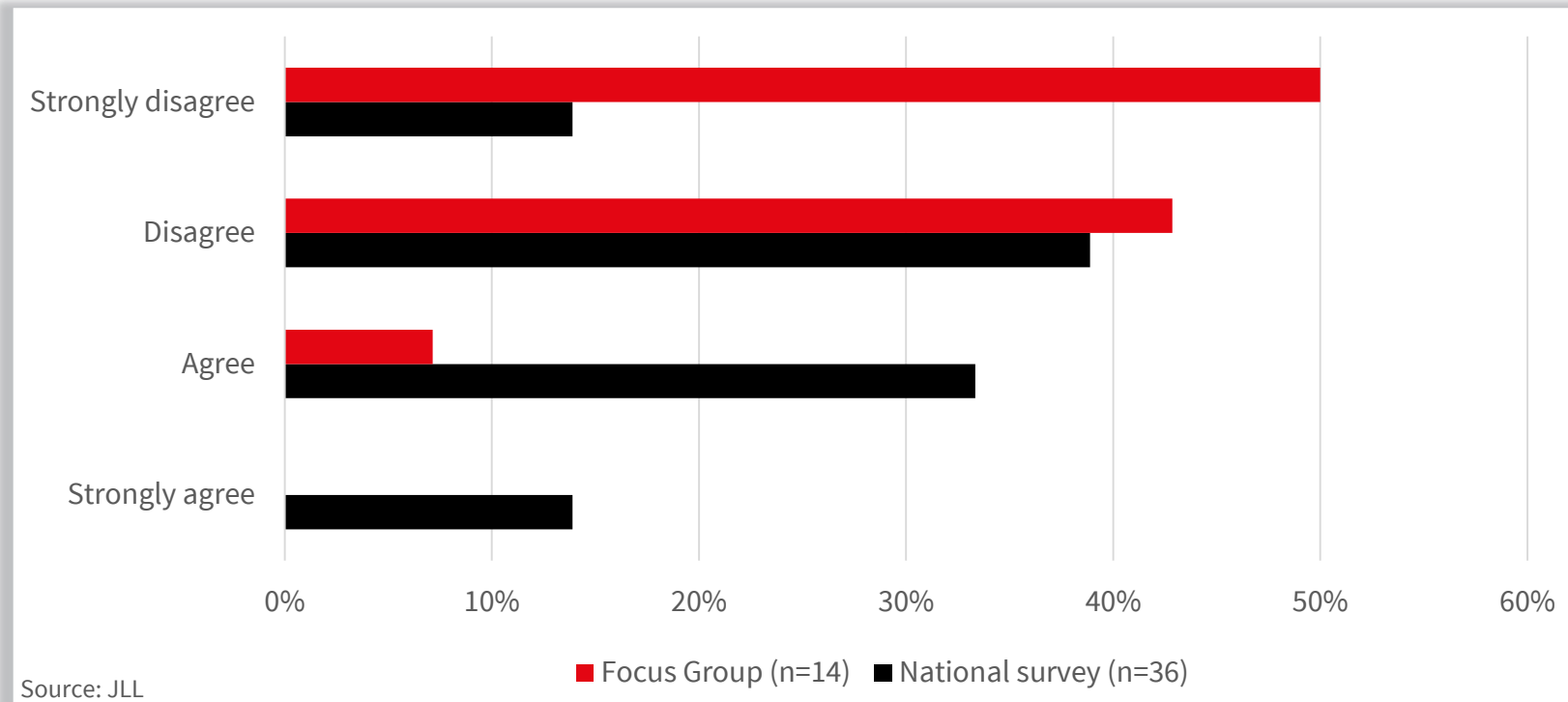
- The majority of events represented by focus group participants require 400 – 600 room on peak. National survey responses were more evenly distributed.
- A number of events have grown significantly since the last time they met in the Midwest.

Overall, the RiverCentre is sufficient for my event needs.



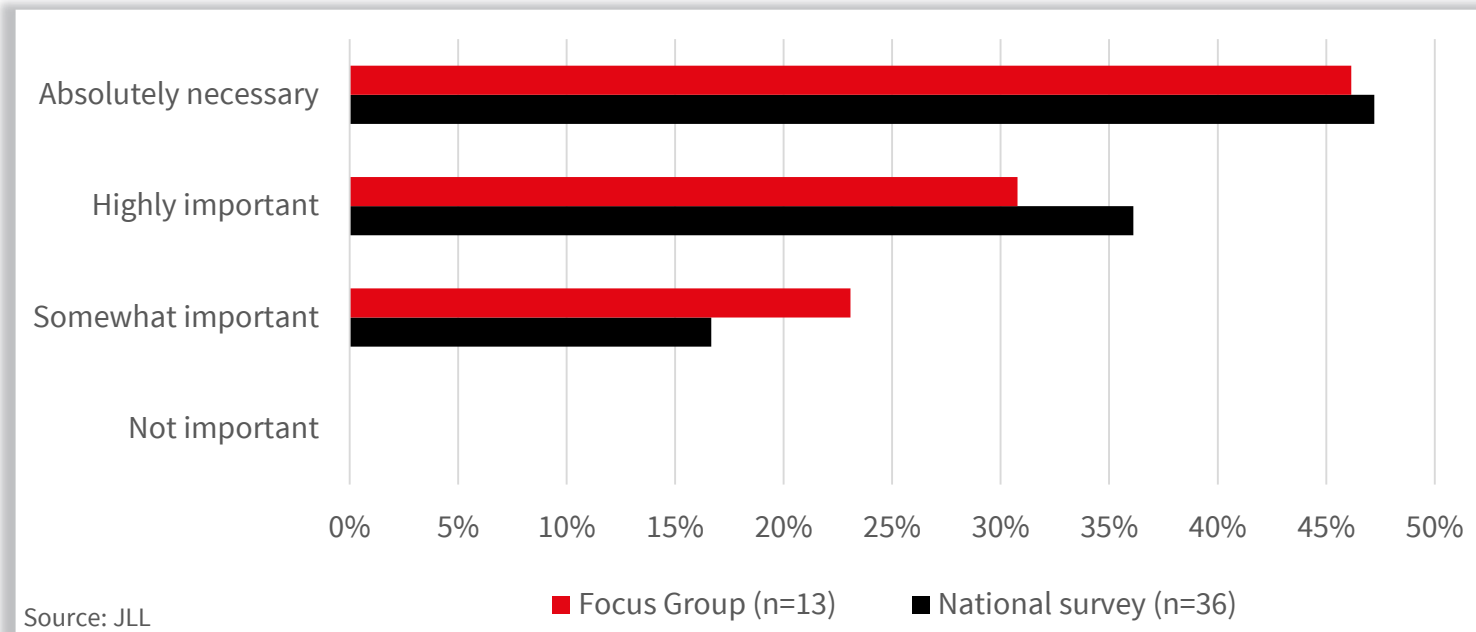
- 69% and 70% of focus group and survey respondents, respectively, indicated that they strongly agree or agree that the RiverCentre space is sufficient for their event needs.
- In discussions, numerous focus group participants indicated that the facility did not offer enough breakout room space.

The hotel package near the RiverCentre as previously described is sufficient for my event needs.



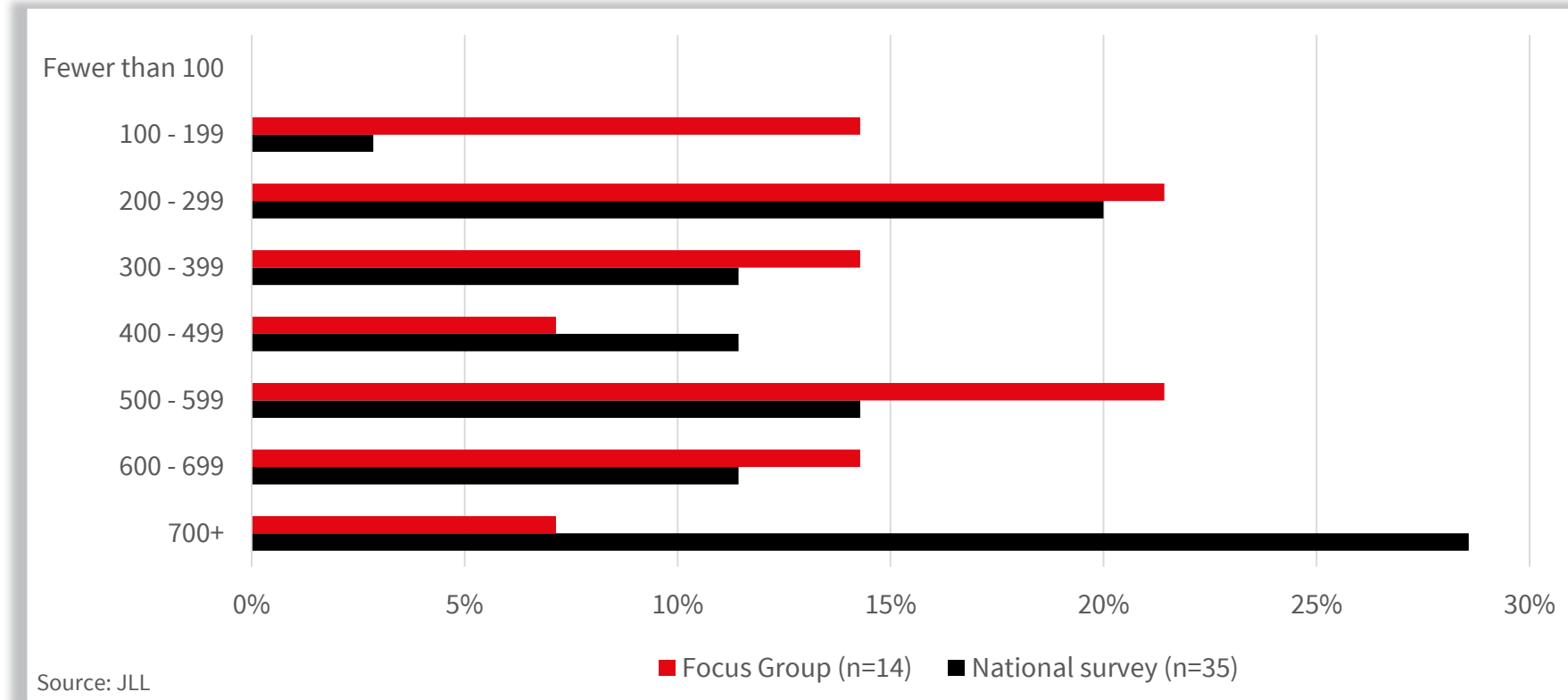
- 93% and 53% of focus group respondents and survey participants, respectively, strongly disagree or disagree with the statement that the hotel package surrounding the RiverCentre is sufficient for their event needs.
- 7% of focus group participants deem the hotel package sufficient. 47% of online survey respondents deem the hotel package sufficient.

How important is having a HQ hotel that is either attached to the convention center or connected via climate controlled sky walk when selecting a market for your events?



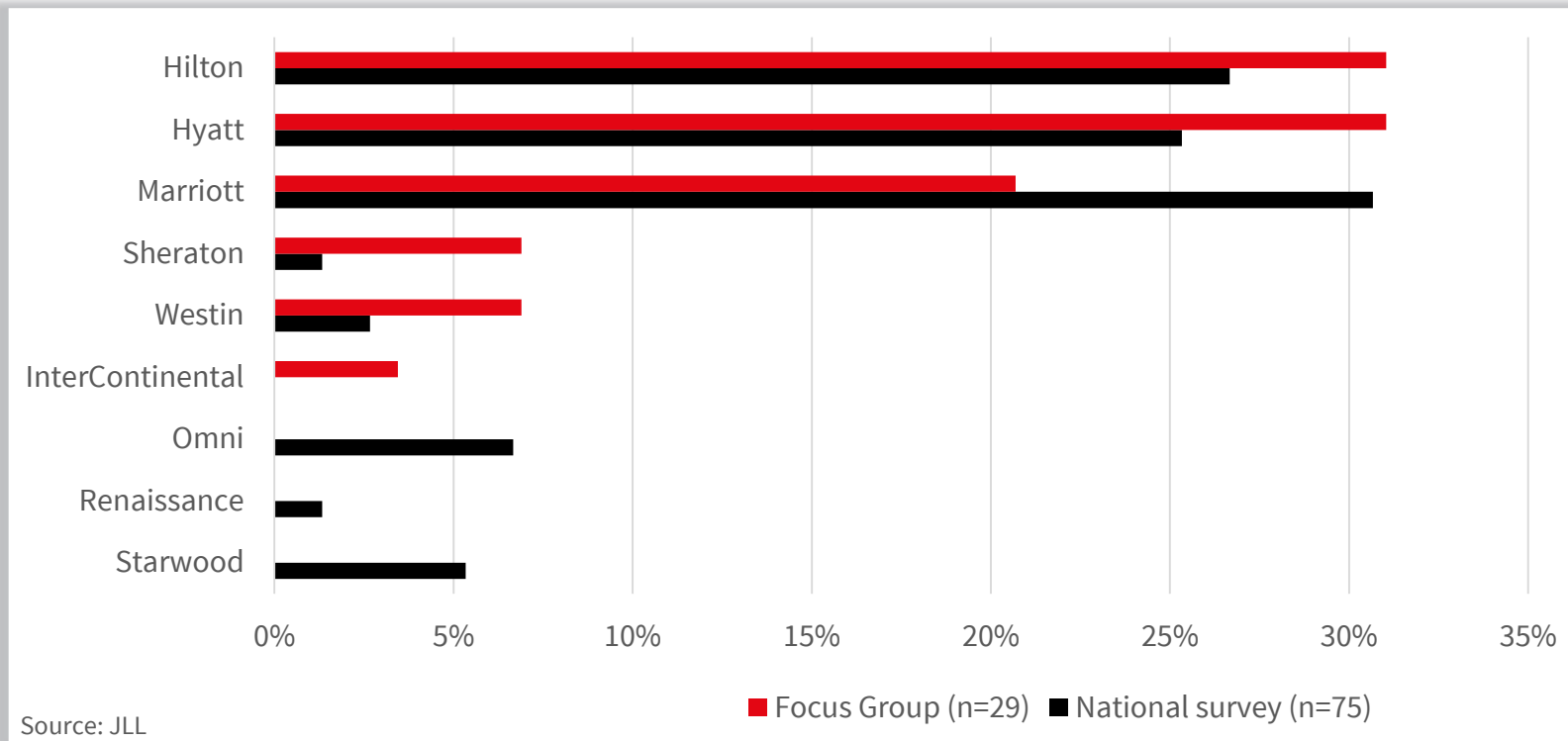
- 77% and 83% of focus group respondents and survey participants, respectively, deem selecting destinations with a HQ attached to the convention center absolutely necessary or highly important.
- Notably the sample of national respondents deem having a connected HQ hotel slightly more important than the focus group participants.

Please give us an overview of your largest annual meeting in terms of peak hotel rooms required:



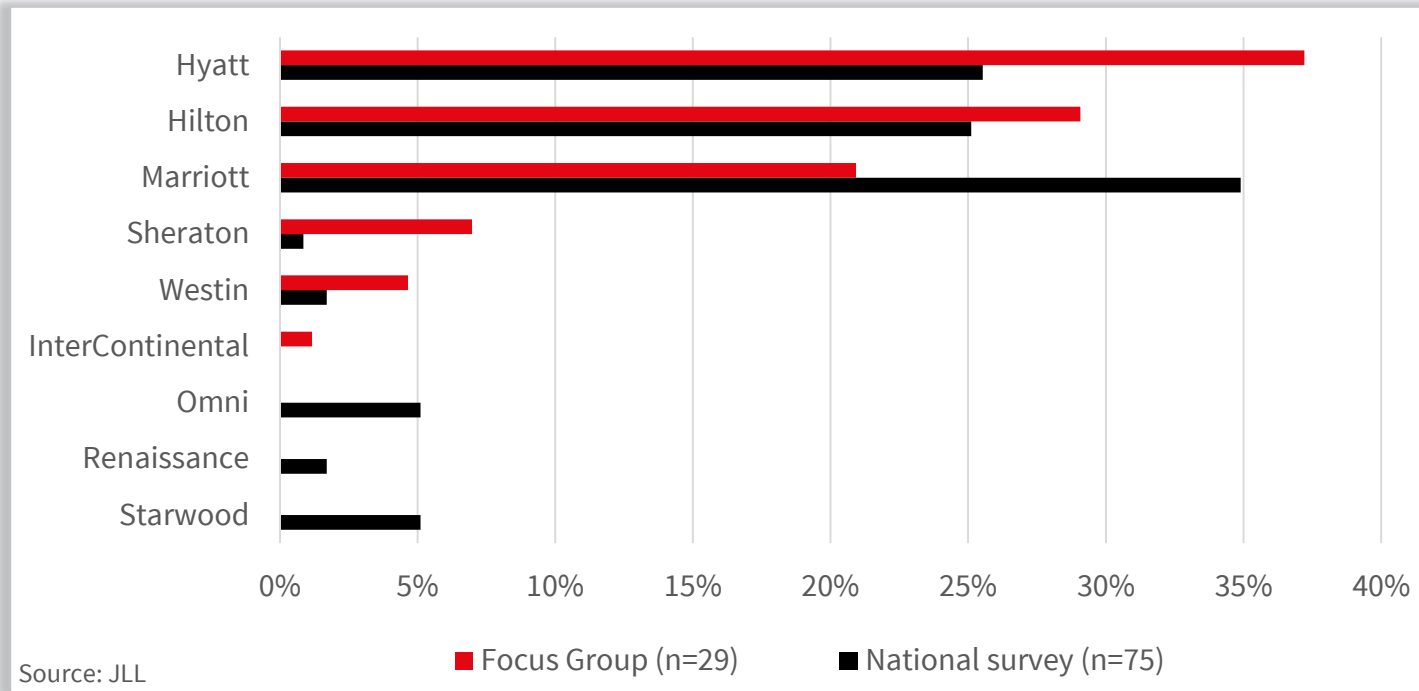
- The results for both focus group participants and online survey respondents appear to be bi-modal. There are lots of events in the 100 – 300 rooms on peak range and 500 – 700 rooms on peak ranges.
- In addition to JLL’s independent market research, results of this question were used to inform JLL’s recommended room count for the hotel in question.

Given your experience in other markets, what hotel brands would you target for the proposed headquarter hotel, if possible?



Note: Starwood is a brand parent company which was acquired by Marriott in 2016. Westin and Sheraton are the legacy Starwood brands typically targeted by meeting planners.

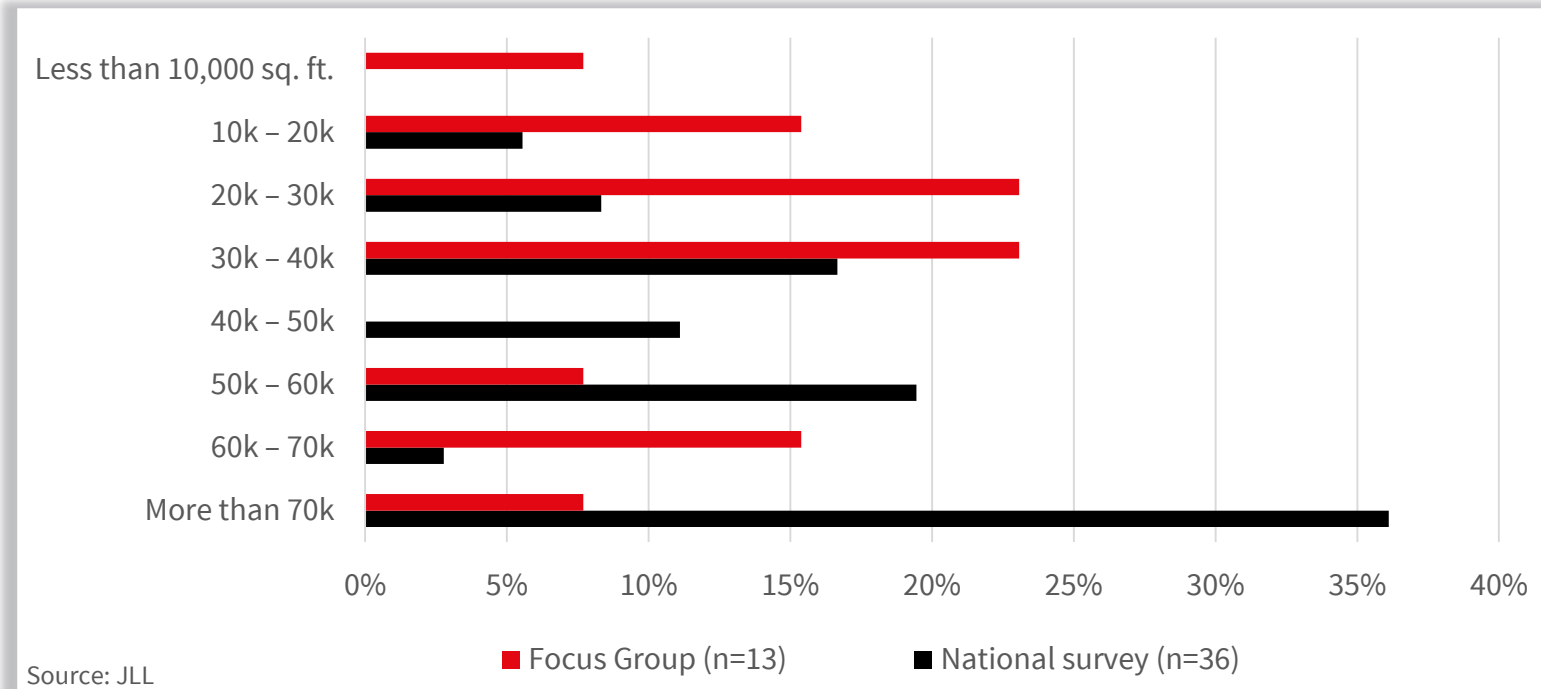
Given your experience in other markets, what hotel brands would you target for the proposed headquarter hotel, if possible? Please list brands in order of your preference.



Note: Starwood is a brand parent company which was acquired by Marriott in 2016. Westin and Sheraton are the legacy Starwood brands typically targeted by meeting planners.

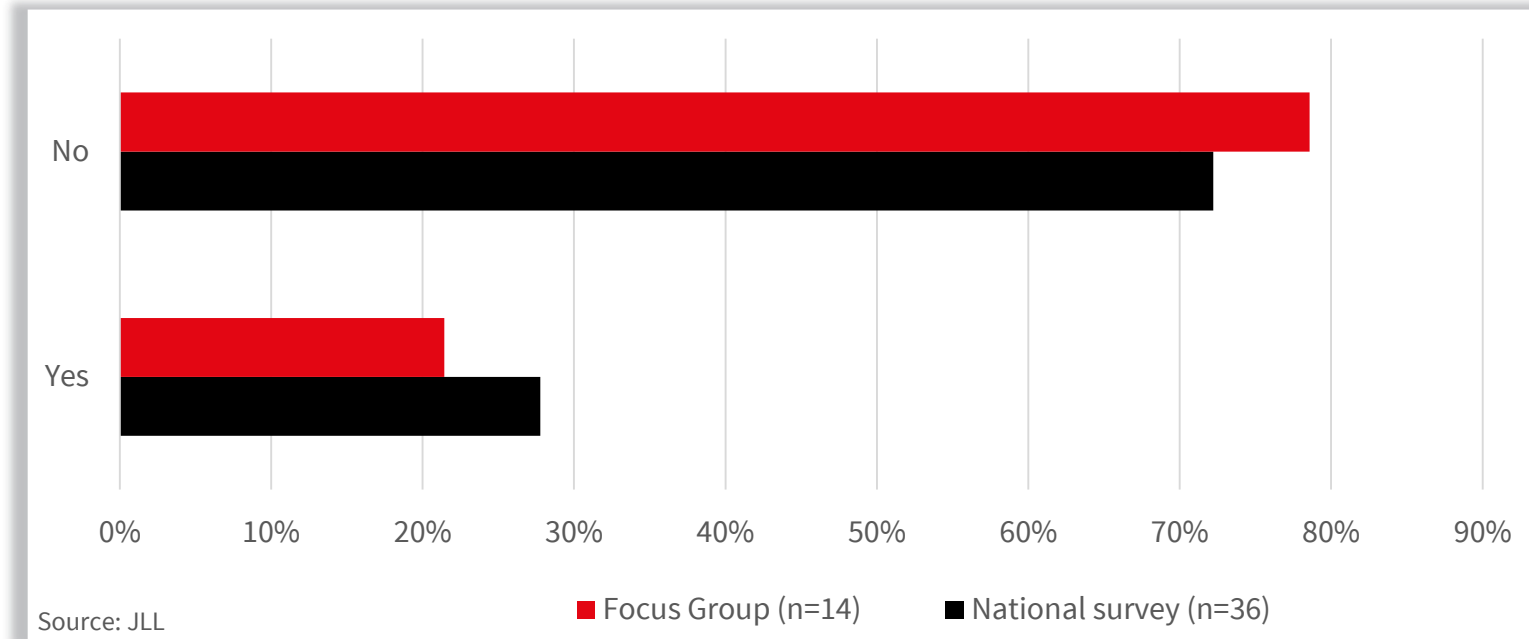
- JLL weighted the prior responses in order of preference. Hyatt was the top ranked brand among those in the focus group while Marriott was the top ranked brand among national survey respondents.
- Each of the brands listed above are deemed a suitable option for the hotel in question.

If you would prefer to see a new headquarters hotel adjacent to the RiverCentre, how much total meeting space would you like to see developed?



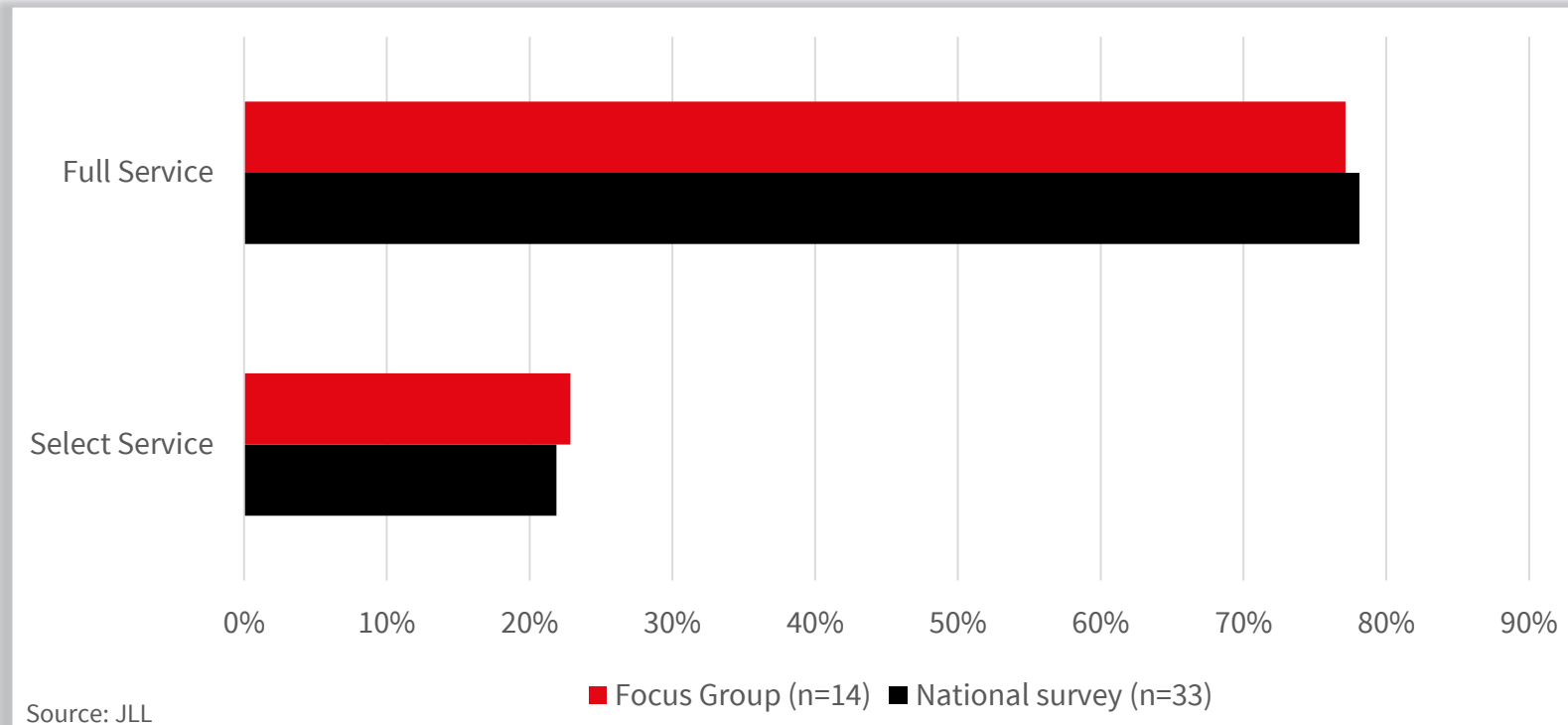
- Similar to the results of the question about peak room nights required, the results for both focus group participants and online survey respondents appear to be bi-modal. 69% of focus group respondents require up to 40k sq. ft. while 69% of online survey respondents require more than 40k sq. ft.
- In addition to JLL's independent market research, results of this question were used to inform JLL's recommended room count for the hotel in question.

We understand that headquarter hotels are typically full service hotels. However, would a premium select service hotel be a suitable headquarter hotel for your group?



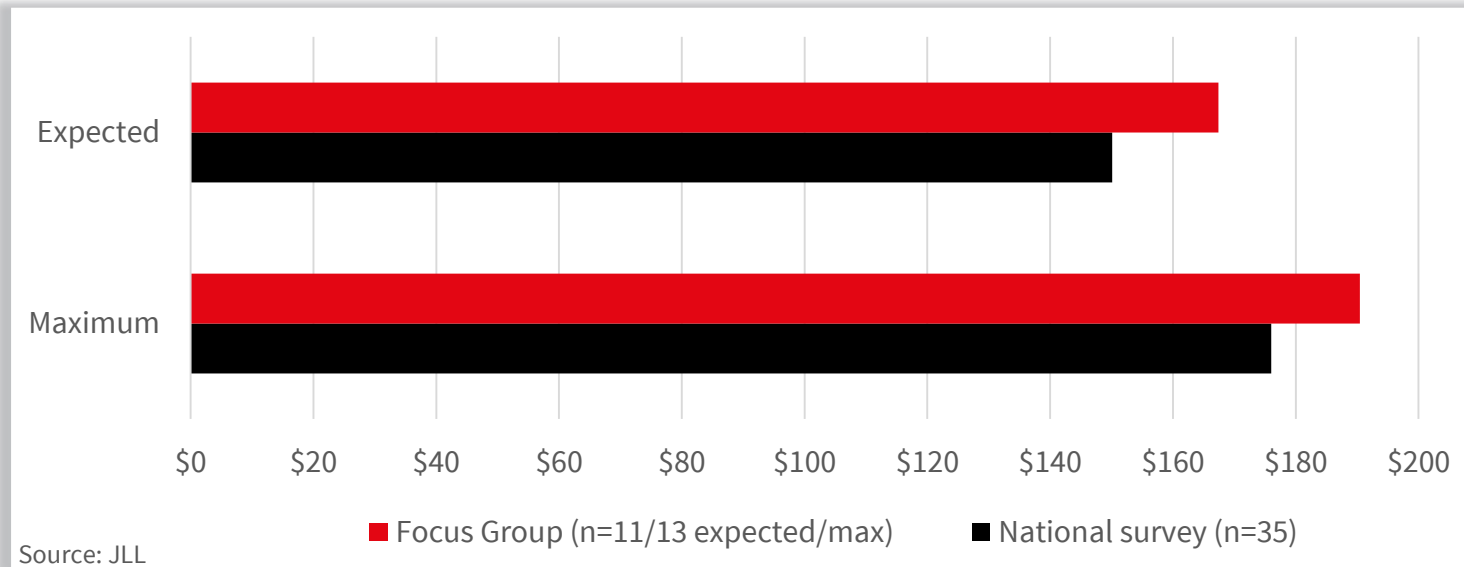
- 79% and 72% of focus group respondents and survey participants, respectively, report that they would not book their event at a premium select service hotel.
- In addition to JLL's independent market research, this question as well as the questions about brand preferences and meeting space requirements were used to inform JLL's recommendation for the City to pursue a full service hotel versus one of premium select service quality.

What is the percentage of full service or select service hotel rooms you would like to see in your ideal hotel block?



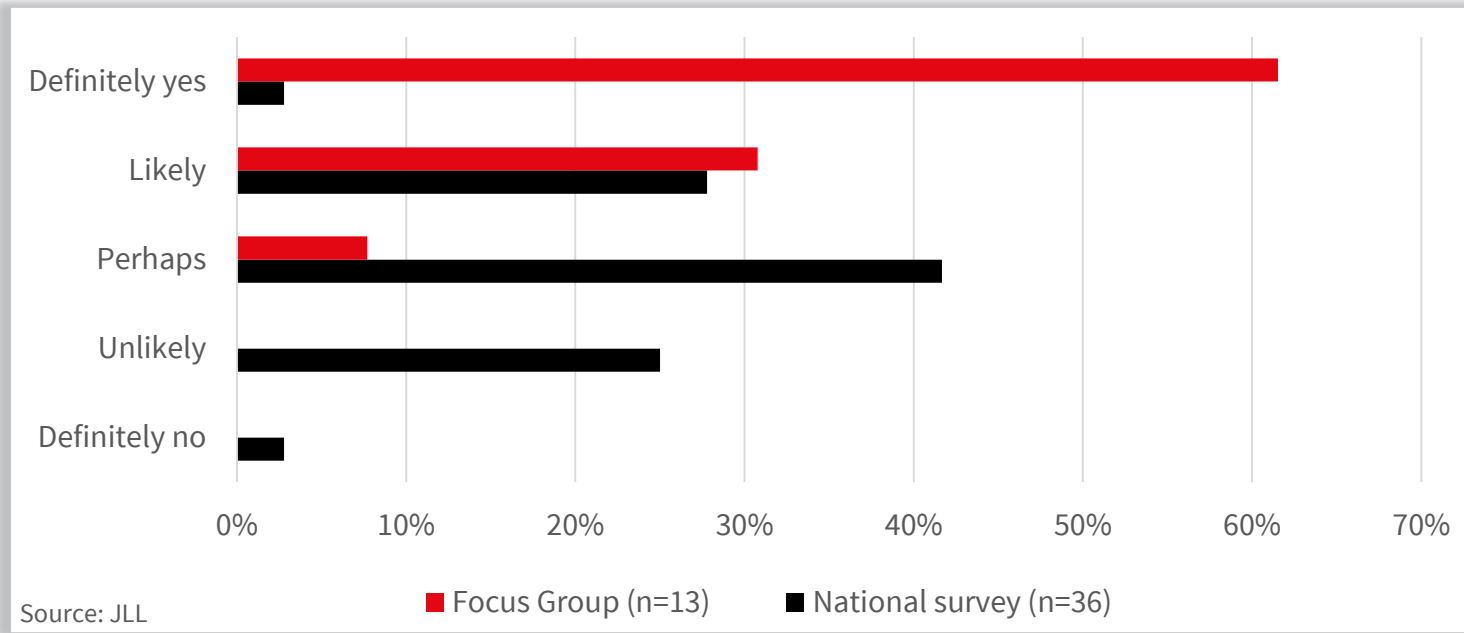
- On average, focus group and online survey respondents indicated that their ideal hotel room block includes 77% and 78% full service rooms and 23% and 22% select service rooms, respectively.
- While Saint Paul offers a number of premium select service hotels to round out a room block, it lacks a core full service group-oriented hotel property attached to its convention center.

What room rate would your attendees be expecting to pay for a Saint Paul headquarter hotel? What is the maximum room rate your attendees would be willing to pay for a Saint Paul headquarter hotel?



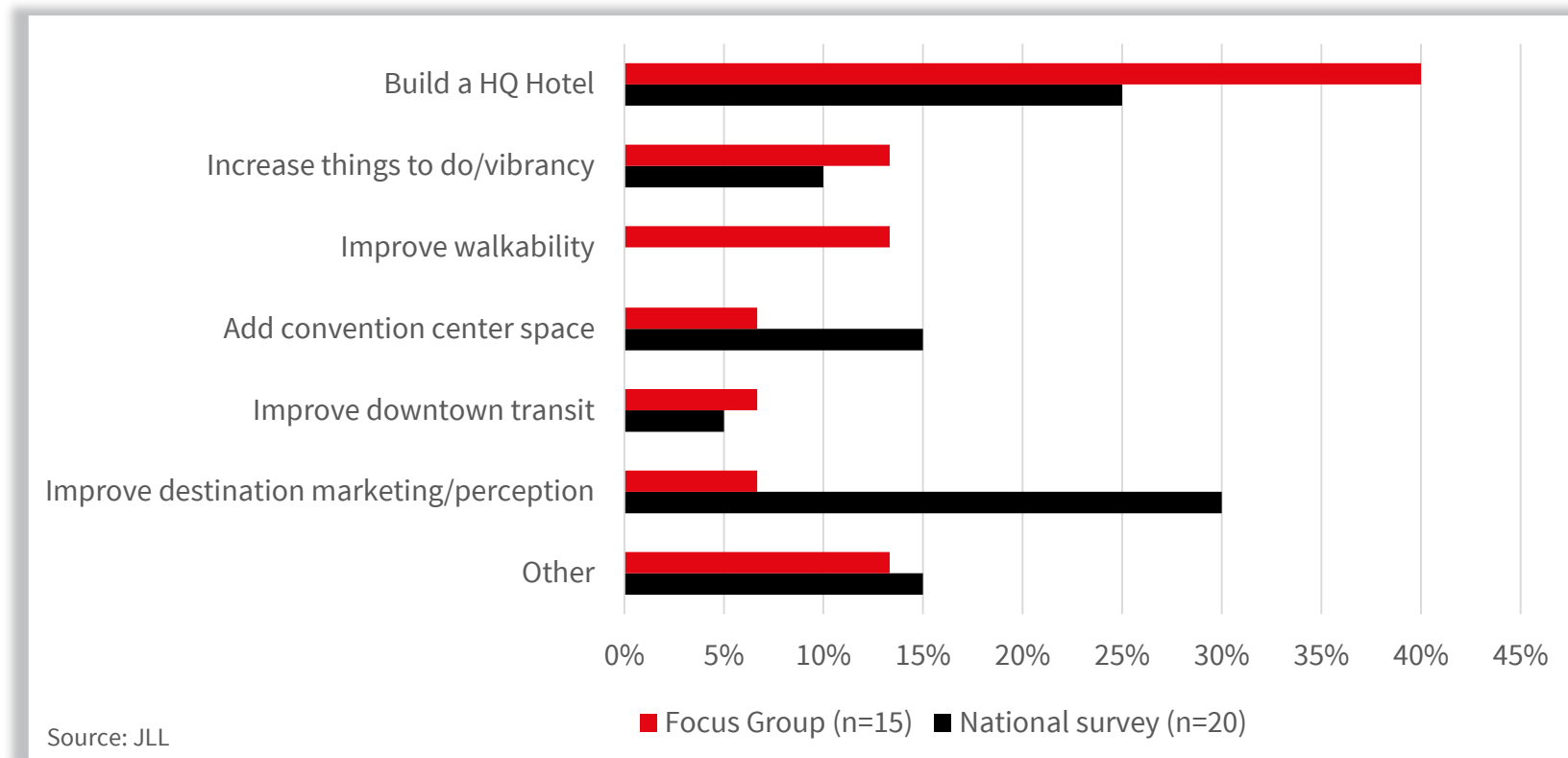
- On average, attendees of events planned by focus group participant would be expecting to pay \$167 per night up to \$190 per night. On average, attendees of events planned by survey respondents would be expecting to pay \$150 per night up to \$176 per night.
- In addition to JLL's independent research, these rates were used to inform the proposed hotel average daily room rate.

If Saint Paul were to add a headquarters hotel adjacent to the RiverCentre, how likely are you to select Saint Paul for your group in the future?



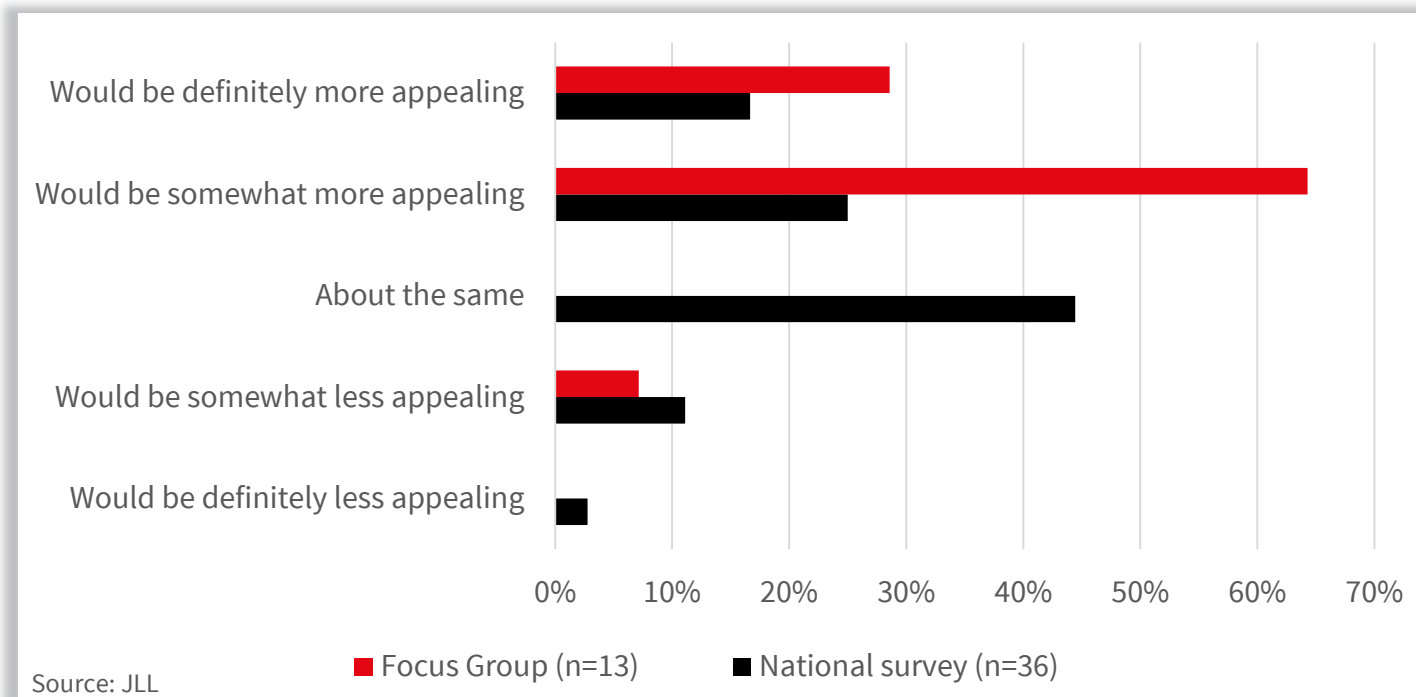
- 93% and 31% of focus group participants and survey respondents, respectively, indicated that they are definitely likely or likely to book their event at a Saint Paul headquarters hotel.
- 28% of the online survey respondents indicated that they are either unlikely or definitely would not bring their events to Saint Paul even with a headquarter hotel adjacent to the RiverCentre. While 20% of those groups may be too large at present for Saint Paul, there is a portion of the universe that may never go Saint Paul. Knowing which groups would not go to Saint Paul useful as well in order to optimize marketing dollars spent.

If Saint Paul could do one thing to improve as a convention destination, what would it be?



- 40% of focus group participants said that building a HQ hotel at the RiverCentre would be the most beneficial for Saint Paul as a convention destination, with the remaining answers are fairly evenly distributed.
- 30% of online survey respondents mentioned improved destination marketing as being an important item to enhance Saint Paul as a convention destination. 25% listed building a HQ hotel.

Assuming Saint Paul addresses most if not all of issues that you identified as important for your group, how would you again compare Saint Paul as an overall destination relative to the cities that typically host your event?



- 93% and 42% of focus group participants and online survey respondents, respectively, said that addressing key improvement opportunities would improve Saint Paul's status with respect to other destinations.

*What could be the impact in
Saint Paul?*



What could be the impact in Saint Paul?



- Based on market research, focus group discussions and survey responses, JLL recommends Saint Paul consider a program for the Proposed Hotel:
 - Full-service, Branded Hotel
 - 500 guest rooms, and
 - 40,000 sq. ft. of meeting space with a 15,000 sq. ft. column-free ballroom
- The pro-forma financial projections which follow pertain to a Proposed Hotel that includes this program.

Proposed Hotel Programming Summary	
Public Space	Area sq. ft.
Lobby, Front Desk and Vestibule	6,000
Three-meal Restaurant and Bar/Lounge	6,000
Public Restrooms	1,000
Meeting Space	40,000
Prefunction Space	12,000
Fitness Center	1,500
Subtotal	66,500
Guestrooms	Area sq. ft.
Guestrooms (500)	241,300
Suites (50)	27,500
Single King (250)	118,800
Double-Double (200)	95,000
Subtotal (500)	241,300
Gross guestroom area per key (sq. ft.)	483
Back of House Areas	Area sq. ft.
Back of House	52,300
Subtotal	52,300
Grand total gross sq. ft.	360,100
Grand total gross sq. ft. per key	720

Source: JLL

What could be the impact in Saint Paul?



Proposed HQ Hotel at the RiverCentre Pro-Forma

All Values In (USD'000)	2022				2023				2024				2025				2026			
Period Ending	December 31				December 31				December 31				December 31				December 31			
Days Open in Period	365				365				366				365				365			
Available Hotel Rooms	500				500				500				500				500			
Available Room Nights	182,500				182,500				183,000				182,500				182,500			
Occupied Room Nights	110,548				125,057				131,561				131,212				131,212			
Occupancy	60.6%				68.5%				71.9%				71.9%				71.9%			
Average Daily Rate	173.26				180.28				192.90				196.82				200.81			
RevPAR	104.95				123.53				138.68				141.51				144.38			
OPERATING REVENUE	Amount	Ratio	PAR	POR	Amount	Ratio	PAR	POR	Amount	Ratio	PAR	POR	Amount	Ratio	PAR	POR	Amount	Ratio	PAR	POR
Rooms Revenue	19,154	60.1%	38,308	173.26	22,545	60.6%	45,090	180.28	25,378	61.7%	50,756	192.90	25,825	61.7%	51,650	196.82	26,349	61.7%	52,698	200.81
Food & Beverage Revenue	11,608	36.4%	23,216	105.00	13,395	36.0%	26,790	107.11	14,374	35.0%	28,748	109.26	14,626	35.0%	29,252	111.47	14,923	35.0%	29,846	113.73
Parking / Garage / Valet Revenue	318	1.0%	636	2.88	367	1.0%	734	2.93	394	1.0%	788	2.99	401	1.0%	802	3.06	409	1.0%	818	3.12
Other Operated Departments Revenue	221	0.7%	442	2.00	255	0.7%	510	2.04	274	0.7%	548	2.08	279	0.7%	558	2.13	284	0.7%	568	2.16
Miscellaneous Income ¹	553	1.7%	1,106	5.00	638	1.7%	1,276	5.10	684	1.7%	1,368	5.20	696	1.7%	1,392	5.30	711	1.7%	1,422	5.42
Total Operating Revenue	31,853	100.0%	63,706	288.14	37,199	100.0%	74,398	297.46	41,104	100.0%	82,208	312.43	41,826	100.0%	83,652	318.77	42,676	100.0%	85,352	325.24
DEPARTMENTAL EXPENSES																				
Rooms Expenses	4,980	26.0%	9,960	45.05	5,636	25.0%	11,272	45.07	6,091	24.0%	12,182	46.30	6,198	24.0%	12,396	47.24	6,324	24.0%	12,648	48.20
Food & Beverage Expenses	8,125	70.0%	16,250	73.50	8,974	67.0%	17,948	71.76	9,343	65.0%	18,686	71.02	9,507	65.0%	19,014	72.46	9,700	65.0%	19,400	73.93
Parking / Garage / Valet Expenses	127	39.9%	254	1.15	147	40.1%	294	1.18	157	39.8%	314	1.19	160	39.9%	320	1.22	163	39.9%	326	1.24
Other Operated Departments Expenses	177	80.1%	354	1.60	204	80.0%	408	1.63	219	79.9%	438	1.66	223	79.9%	446	1.70	227	79.9%	454	1.73
Total Departmental Expenses	13,409	42.1%	26,818	121.30	14,961	40.2%	29,922	119.63	15,810	38.5%	31,620	120.17	16,088	38.5%	32,176	122.61	16,415	38.5%	32,830	125.10
Total Departmental Income	18,444	57.9%	36,888	166.84	22,238	59.8%	44,476	177.82	25,294	61.5%	50,588	192.26	25,738	61.5%	51,476	196.16	26,261	61.5%	52,522	200.14
UNDISTRIBUTED EXPENSES																				
Administrative & General	2,850	8.9%	5,700	25.78	3,034	8.2%	6,068	24.26	3,179	7.7%	6,358	24.16	3,241	7.7%	6,482	24.70	3,306	7.7%	6,612	25.20
Information & Telecommunication	605	1.9%	1,210	5.47	707	1.9%	1,414	5.65	781	1.9%	1,562	5.94	795	1.9%	1,590	6.06	811	1.9%	1,622	6.18
Sales & Marketing	2,600	8.2%	5,200	23.52	2,767	7.4%	5,534	22.13	2,900	7.1%	5,800	22.04	2,956	7.1%	5,912	22.53	3,016	7.1%	6,032	22.99
Property Operations and Maintenance (POM)	1,500	4.7%	3,000	13.57	1,597	4.3%	3,194	12.77	1,673	4.1%	3,346	12.72	1,706	4.1%	3,412	13.00	1,740	4.1%	3,480	13.26
Utilities	1,400	4.4%	2,800	12.66	1,490	4.0%	2,980	11.91	1,562	3.8%	3,124	11.87	1,592	3.8%	3,184	12.13	1,624	3.8%	3,248	12.38
Total Undistributed Expenses	8,955	28.1%	17,910	81.01	9,595	25.8%	19,190	76.73	10,095	24.6%	20,190	76.73	10,289	24.6%	20,578	78.41	10,498	24.6%	20,996	80.01
Gross Operating Profit	9,489	29.8%	18,978	85.84	12,643	34.0%	25,286	101.10	15,198	37.0%	30,396	115.52	15,449	36.9%	30,898	117.74	15,763	36.9%	31,526	120.13
Management Fee	956	3.0%	1,912	8.65	1,116	3.0%	2,232	8.92	1,233	3.0%	2,466	9.37	1,255	3.0%	2,510	9.56	1,280	3.0%	2,560	9.76
Income Before Non-Operating Income & Expenses	8,533	26.8%	17,066	77.19	11,527	31.0%	23,054	92.17	13,965	34.0%	27,930	106.15	14,194	33.9%	28,388	108.18	14,483	33.9%	28,966	110.38
NON-OPERATING INCOME & EXPENSES																				
Property Taxes	1,050	3.3%	2,100	9.50	1,071	2.9%	2,142	8.56	1,093	2.7%	2,186	8.31	1,115	2.7%	2,230	8.50	1,137	2.7%	2,274	8.67
Insurance	250	0.8%	500	2.26	255	0.7%	510	2.04	260	0.6%	520	1.98	265	0.6%	530	2.02	271	0.6%	542	2.07
Total Non-Operating Income & Expenses²	1,300	4.1%	2,600	11.76	1,326	3.6%	2,652	10.60	1,353	3.3%	2,706	10.28	1,380	3.3%	2,760	10.52	1,408	3.3%	2,816	10.73
EBITDA³	7,233	22.7%	14,466	65.43	10,201	27.4%	20,402	81.57	12,613	30.7%	25,226	95.87	12,814	30.6%	25,628	97.66	13,075	30.6%	26,150	99.65
Replacement Reserve (FF&E)	637	2.0%	1,274	5.76	1,116	3.0%	2,232	8.92	1,644	4.0%	3,288	12.50	1,673	4.0%	3,346	12.75	1,707	4.0%	3,414	13.01
EBITDA Less Replacement Reserve⁴	6,596	20.7%	13,192	59.67	9,085	24.4%	18,170	72.65	10,969	26.7%	21,938	83.38	11,141	26.6%	22,282	84.91	11,368	26.6%	22,736	86.64

¹ USALI 11th Edition refers to "Rentals & Other Income" as "Miscellaneous Income" ² USALI 11th Edition refers to "Fixed Charges" as "Non-Operating Income & Expenses" ³ USALI 11th Edition refers to "NOI" as "EBITDA" ⁴ USALI 11th Edition refers to "Adj. NOI" as "EBITDA Less Replacement Reserve"

Source: JLL

What could be the impact in Saint Paul?

Below are development costs metrics for the under construction Autograph Collection Hotel adjacent to the Harborside Event Center in downtown Forty Myers. The project was costed in November 2017.

- 238-key Autograph Collection by Marriott
- Three-meal Restaurant, Diner, Rooftop Bar, Casual Bar
- 8,000 SF Function Space (excludes H.E.C.)
- Mainsail: \$63M (Debt + Equity)
 - **\$265,000± per Key [2017\$]**
 - **Tower Only (No structural or parking)**
- City: \$12M in HEC renovations
- City: \$10M parking deck
- City: receives up to 3.5% “ground” lease



What could be the impact in Saint Paul?



- Given JLL's cash flow projections, assuming a reasonable range of cap and discount rates, the valuation range for the completed Proposed Hotel would be from \$114M to \$130M.
- Given JLL's experience with similar projects both locally and nationally, a development cost of \$300k per key is used in JLL's returns analysis.
- However, if costs exceed that amount, a larger public investment may be required.
- The full valuation matrix can be found in the Appendix.

Range of values, development costs and public subsidies for Proposed Hotel				
		Low	Middle	High
Cap rate		8.5%	8.0%	7.5%
Discount rate		11.0%	10.5%	10.0%
Valuation (M)	\$	114	\$ 122	\$ 130
Valuation per key		229,000	243,000	260,000
Development cost (M)		125	150	175
Development cost per key		250,000	300,000	350,000
Public funding gap (M)		11	28	45
Public funding gap per key	\$	21,000	\$ 57,000	\$ 90,000

Source: JLL

What could be the impact in Saint Paul?



- JLL compiled a preliminary development cost budget assuming a development cost of \$150M, or \$300,000 per key.
- This excludes land acquisition and parking redevelopment costs per JLL's understanding of the deal structure.
- The total project cost as well as the allocation of funds within the development cost budget line items shown were informed by JLL's knowledge of completed headquarter hotel projects.

Proposed HQ Hotel at the RiverCentre Summary		
Development Cost Budget		
Item	Amount (M)	% total
Construction	\$ 105.0	70%
Design & Engineering	7.5	5%
Owners Soft Costs	6.0	4%
Furniture, Fixtures & Equipment	15.0	10%
Operating Supplies & Equipment	6.0	4%
FF&E/OS&E Installation	3.0	2%
Information Technology	1.5	1%
Legal	1.5	1%
Pre-Opening	4.5	3%
Total	\$ 150.0	100%

Source: JLL

What could be the impact in Saint Paul?



Proposed HQ Hotel at the RiverCentre Yield Analysis

Development cost assumptions	
Guestrooms	500
Estimated development cost	\$150,000,000
Estimated development cost per room	\$300,000

Hotel and property tax rebate assumptions		
	Rebate % of total	Term (years)
State	0.0%	30
City	100.0%	10
Local	100.0%	10
Property	50.0%	10

Ground rent assumptions	
Ground rent % total revenue	3.0%
Yield threshold	10.0%
Ground rent cap rate	4.5%

Annual growth beyond year 12	2.0%
Discount rate	10.0%

	Site Prep / Pre-Development / Construction		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 30
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2051
Hotel Development Costs	\$ (75,000,000)	\$ (75,000,000)											
Cash Flow From Hotel Operation			6,596,000	9,085,000	10,969,000	11,141,000	11,368,000	11,597,000	11,841,000	12,025,000	12,269,000	12,518,000	18,700,000
Public Subsidy													
Hotel tax rebates													
<i>Total Rooms Revenue</i>			<i>19,150,000</i>	<i>22,540,000</i>	<i>25,380,000</i>	<i>25,820,000</i>	<i>26,350,000</i>	<i>26,880,000</i>	<i>27,500,000</i>	<i>27,980,000</i>	<i>28,540,000</i>	<i>29,120,000</i>	<i>43,410,000</i>
State			-	-	-	-	-	-	-	-	-	-	-
City			1,149,000	1,352,000	1,523,000	1,549,000	1,581,000	1,613,000	1,650,000	1,679,000	1,712,000	1,747,000	-
Local			215,000	254,000	286,000	290,000	296,000	302,000	309,000	315,000	321,000	328,000	-
Property taxes			<i>1,050,000</i>	<i>1,071,000</i>	<i>1,093,000</i>	<i>1,115,000</i>	<i>1,137,000</i>	<i>1,160,000</i>	<i>1,184,000</i>	<i>1,208,000</i>	<i>1,232,000</i>	<i>1,257,000</i>	<i>1,870,000</i>
Property tax abatement			525,000	536,000	547,000	558,000	569,000	580,000	592,000	604,000	616,000	629,000	-
Ground rent calculation													
<i>Total Revenue</i>			<i>31,850,000</i>	<i>37,200,000</i>	<i>41,100,000</i>	<i>41,830,000</i>	<i>42,680,000</i>	<i>43,540,000</i>	<i>44,460,000</i>	<i>45,240,000</i>	<i>46,150,000</i>	<i>47,090,000</i>	<i>70,170,000</i>
Ground rent			-	-	-	-	(5,907)	(234,907)	(478,907)	(662,907)	(906,907)	(1,155,907)	(2,105,100)
Ground rent direct cap													(47,713,333)
Key Money		2,000,000											
Unlevered Cash Flow	(75,000,000)	(73,000,000)	8,485,000	11,227,000	13,325,000	13,538,000	13,808,093	13,857,093	13,913,093	13,960,093	14,011,093	14,066,093	(31,118,433)
Public Investment	34,380,000												
Unlevered Cash Flow With Financial Enhancement	\$ (40,620,928)	\$ (73,000,000)	\$ 8,485,000	\$ 11,227,000	\$ 13,325,000	\$ 13,538,000	\$ 13,808,093	\$ 13,857,093	\$ 13,913,093	\$ 13,960,093	\$ 14,011,093	\$ 14,066,093	\$ (31,118,433)
NPV with financial enhancement	0												
Yield			5.8%	8.0%	9.7%	9.8%	10.0%	10.2%	10.4%	10.6%	10.8%	11.0%	16.5%

Source: JLL

Note: figures in italics are not being added up in the line "Unlevered Cash Flow"

Below are a selection of options to entice a private developer to enter the deal.

- Hotel occupancy tax rebate: State, City, Local
- Property tax abatement
- Ground rent escalation
- JLL's model is dynamic and can be adjusted as discussions with developers and the City progress.

What could be the impact in Saint Paul?



- The City can offer tax rebates to recoup/reduce public investment. Assuming market ground rent terms, the City will also collect ground rent beginning at a point when the developer could reasonably afford to pay ground rent.
- JLL has quantified the value of public revenue streams below, inclusive of tax rebates.

Public discount rate 4.5%

Public Revenue - Incorporates Hotel Tax Rebates and Property Tax Abatements													
	NPV	Year 1 2022	Year 2 2023	Year 3 2024	Year 4 2025	Year 5 2026	Year 6 2027	Year 7 2028	Year 8 2029	Year 9 2030	Year 10 2031	Year 30 2051	
Hotel taxes													
State	\$ 32.3	\$ 1,245,000	\$ 1,465,000	\$ 1,650,000	\$ 1,678,000	\$ 1,713,000	\$ 1,747,000	\$ 1,788,000	\$ 1,819,000	\$ 1,855,000	\$ 1,893,000	\$	2,822,000
City	17.7	\$ -	-	-	-	-	-	-	-	-	-	-	2,605,000
Local	3.3	\$ -	-	-	-	-	-	-	-	-	-	-	488,000
Property tax	17.2	525,000	535,000	546,000	557,000	568,000	580,000	592,000	604,000	616,000	628,000		1,870,000
Ground rent	16.6	-	-	-	-	6,000	235,000	479,000	663,000	907,000	1,156,000		2,105,000
Ground rent direct cap	45.7												47,713,000
Total	\$ 132.8	\$ 1,770,000	\$ 2,000,000	\$ 2,196,000	\$ 2,235,000	\$ 2,287,000	\$ 2,562,000	\$ 2,859,000	\$ 3,086,000	\$ 3,378,000	\$ 3,677,000	\$	57,603,000

Source: JLL

What could be the impact in Saint Paul?



- Assuming the headquarter hotel is built and operates as proposed, the present value of the direct tax and ground rent benefits accruing to the state, the city, and local municipalities over a 30-year period are estimated to be \$132.8 million.
- Therefore, if the headquarter hotel received a portion of these public revenues as the financial incentive to bridge the gap, and assuming the present value of those benefits were \$34.4 million; the state, the city, and the local municipalities would collectively generate positive public-sector cash flow of approximately \$98.4 million.

NPV of public revenues over 30 years		
Hotel taxes		
State	\$	32.3
City		17.7
Local		3.3
Property tax		17.2
Ground rent		16.6
Ground rent direct cap		45.7
Total		132.8
Public investment to hotel		34.4
Public income	\$	98.4

Source: JLL

What could be the impact in Saint Paul?



- JLL analyzed the direct economic impact of building the Proposed Hotel at the RiverCentre. This incorporates economic impact from construction through operation.
- For construction impact, JLL incorporates sales taxes related to hard costs and FF&E/OS&E for items purchased in-state and locally.
- For ongoing impact, JLL incorporates projected hotel revenues with daily spending averages for those out-of-hotel revenue streams per the Destination Marketing Association International multipliers. These estimates pertain to both guest of the Proposed Hotel as well as event goers eating in area restaurants and staying at other hotels, for example.

What could be the impact in Saint Paul?



Spending Impacts

- Direct spending associated with hotel operations
- Direct spending from hotel guests outside the hotel
- Direct spending from people attending an event at the RiverCentre but staying at different hotel

Tax Impacts

- Related to taxable hotel revenues
- Related to direct spending outside hotel

What could be the impact in Saint Paul?



Construction Impacts	
2017\$	
Spending Impact	
Direct	\$ 105,000,000
Employment Impact	
Direct (Total/Local)	840/210
Tax Impact	
State Sales	2,670,000
City Sales	194,000
Local Sales	97,000
Total Direct	<u>\$ 2,961,000</u>

Source: JLL

- Through an economic impact analysis, JLL projects a total direct impact from hotel construction of \$3.0M and an ongoing annual direct impact of approximately \$4.8M by year three of hotel operations.

Ongoing Annual Impacts	
Stabilized yr. 3 in 2017\$	
Spending Impact	
Direct Spend	\$ 41,601,000
Employment Impact	
Direct Hotel Jobs	300
Tax Impact	
<u>Direct</u>	
<i>State</i>	
State Sales	1,000,000
State Lodging	1,620,000
State Property	201,000
Subtotal	<u>2,821,000</u>
<i>City</i>	
City Sales	73,000
City Lodging	1,500,000
City Property	131,000
Subtotal	<u>1,704,000</u>
<i>Local</i>	
Local Sales	34,000
Local Lodging	262,000
Local Property	12,000
Subtotal	<u>308,000</u>
Total Direct	<u>\$ 4,833,000</u>

Source: JLL

Appendix



Appendix



Local competitive set			
Hotel	City	Open Date	Rooms
InterContinental St Paul Riverfront	Saint Paul	Jun-65	410
The Saint Paul Hotel	Saint Paul	Jun-10	255
DoubleTree St Paul Downtown	Saint Paul	Jun-80	251
Embassy Suites St Paul Downtown	Saint Paul	Jul-83	208
Holiday Inn St Paul Downtown	Saint Paul	Jun-79	195
Hampton Inn & Suites St Paul Downtown	Saint Paul	Nov-16	160
Hyatt Place St Paul Downtown	Saint Paul	Sep-16	149
Best Western Plus Capitol Ridge	Saint Paul	Jan-64	127

Aspirational competitive set			
Hotel	City	Open Date	Rooms
Marriott Minneapolis City Center	Minneapolis	Apr-86	583
InterContinental St Paul Riverfront	Saint Paul	Jun-65	410
Radisson Blu Minneapolis Downtown	Minneapolis	Mar-87	360
Curio Collection The Marquette Hotel	Minneapolis	Jun-70	282
Westin Minneapolis	Minneapolis	May-07	214
Kimpton The Grand Hotel Minneapolis	Minneapolis	Jul-00	140

Source: JLL, STR

Appendix



Proposed HQ Hotel at the RiverCentre									
Discounted Cash Flow Asset Value Analysis (USD'000)									
Summary of Assessment				Key Variables					
Date of Valuation	12/31/2021			Discount Rate	10.5%				
Holding Period	10 Years			Terminal Cap Rate	8.0%				
Land Tenure	Freehold/Fee - Simple			Closing Costs %	1.0%				
Value Calculations				Gross Yield		Net Yield			
PV of Terminal	58,496			2022	5.4%	5.4%			
PV of Income Stream	63,186			2023	7.5%	7.5%			
Gross Value	121,682	243 / key		2024	9.0%	9.0%			
				2025	9.2%	9.2%			
Capital Deductions	0			2026	9.3%	9.3%			
Net Value	121,682	243 / key		2027	9.5%	9.5%			
Terminal Value				2028	9.7%	9.7%			
Year 11 EBITDA Less Replace	12,829			2029	9.9%	9.9%			
Year 10 Residual Value	160,366			2030	10.1%	10.1%			
Closing Costs	1,604			2031	140.8%	140.8%			
Net Reversion Proceeds	158,762	318 / key							

Present Value Matrix - Net Value after Capital Deductions					
Value USD'000, Value USD/ key, 2022 Adj. EBITDA Cap Rate					
Discount Rate	Terminal Cap Rate				
	7.0%	7.5%	8.0%	8.5%	9.0%
9.5%	139,431	134,550	130,279	126,511	123,161
	279 / key	269 / key	261 / key	253 / key	246 / key
	4.7%	4.9%	5.1%	5.2%	5.4%
10.0%	134,629	129,966	125,885	122,284	119,084
	269 / key	260 / key	252 / key	245 / key	238 / key
	4.9%	5.1%	5.2%	5.4%	5.5%
10.5%	130,039	125,582	121,682	118,241	115,183
	260 / key	251 / key	243 / key	236 / key	230 / key
	5.1%	5.3%	5.4%	5.6%	5.7%
11.0%	125,649	121,389	117,661	114,372	111,449
	251 / key	243 / key	235 / key	229 / key	223 / key
	5.2%	5.4%	5.6%	5.8%	5.9%
11.5%	121,450	117,377	113,813	110,669	107,874
	243 / key	235 / key	228 / key	221 / key	216 / key
	5.4%	5.6%	5.8%	6.0%	6.1%

Minneapolis area full service hotel sales since 2012						
Contract Date	Transaction	Property City	Price	Rooms	Price per Room	Cap rate (%)
Feb-15	Westin Minneapolis Minneapolis 2015	Minneapolis	\$66,400,000	214	\$310,000	6.4
Jan-16	Hilton The Marquette Hotel Minneapolis 2016	Minneapolis	\$74,500,000	281	\$265,000	6.9
May-14	Wyndham Graves 601 Hotel 2014	Minneapolis	\$65,000,000	255	\$255,000	5.5
Jul-15	Le Meridien Chambers Minneapolis 2015	Minneapolis	\$15,000,000	60	\$250,000	6.0
Dec-16	The Commons Hotel Minneapolis 2016	Minneapolis	\$63,400,000	304	\$209,000	N/A
Oct-12	The Hotel Minneapolis Autograph Collection 2012	Minneapolis	\$46,000,000	222	\$207,000	6.6
Aug-16	DoubleTree Suites Minneapolis 2016	Minneapolis	\$40,200,000	229	\$176,000	8.3
Jul-16	Hilton Minneapolis 2016	Minneapolis	\$143,000,000	821	\$174,000	7.8
Mar-17	Marriott Minneapolis Northwest 2017	Brooklyn Park	\$29,250,000	230	\$127,000	9.8
Oct-15	Doubletree Minneapolis Park Place 2015	Minneapolis	\$37,325,500	297	\$126,000	N/A
Mar-14	Embassy Suites Bloomington 2014	Bloomington	\$24,000,000	218	\$110,000	N/A
Jul-14	Marriott Minneapolis Southwest 2014	Minnetonka	\$33,100,000	321	\$103,000	7.3

Source: JLL

Note: pertains to sales over \$100K per room

Proposed HQ Hotel at the RiverCentre Unlevered IRR Analysis

Development cost assumptions	
Guestrooms	500
Estimated development cost	\$150,000,000
Estimated development cost per room	\$300,000

Valuation assumptions	
Terminal cap rate	8.0%
Discount rate	10.5%

	Site Prep / Pre- Development / Construction	Construction	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
All In Hotel Development Costs	(\$75,000,000)	(\$75,000,000)										
Cash Flow From Hotel Operation			\$6,596,000	\$9,085,000	\$10,969,000	\$11,141,000	\$11,368,000	\$11,597,000	\$11,841,000	\$12,025,000	\$12,269,000	\$12,518,000
Hotel Net Reversion Value												\$158,800,000
Unlevered Cash Flow	(\$75,000,000)	(\$75,000,000)	\$6,596,000	\$9,085,000	\$10,969,000	\$11,141,000	\$11,368,000	\$11,597,000	\$11,841,000	\$12,025,000	\$12,269,000	\$171,318,000
Public Investment	\$28,750,000											
Unlevered Cash Flow With Financial Enhancement	(\$46,250,000)	(\$75,000,000)	\$6,596,000	\$9,085,000	\$10,969,000	\$11,141,000	\$11,368,000	\$11,597,000	\$11,841,000	\$12,025,000	\$12,269,000	\$171,318,000
Unlevered IRR	10.0%											

Source: JLL

- Based on JLL's pro-forma projections, a public investment of at least \$28.8M would be required for a developer to achieve a 10% unlevered rate of return—the return threshold generally sought after by private developers.
- The financial enhancement can be thought of as funding all or most of the hotel's meeting space.

Thank you



Tony Peterman
Executive Vice President
Hotels & Hospitality Group
tony.peterman@am.jll.com
(404) 307-9279



Eric Gorenstein
Associate
Hotels & Hospitality Group
eric.gorenstein@am.jll.com
(312) 228-3518