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December 6, 2016

Mr. Russ Wille
Community Development Director
City of Saint Peter
227 South Front Street
Saint Peter, Minnesota 56082

Dear Mr. Wille:

We are pleased to present our Phase I preliminary findings regarding a proposed hotel to be located in Saint Peter, Minnesota. Per our September 28, 2016 proposal, Phase I is an internal use document used to identify potential market demand for a hotel by conducting demand generator interviews, address factors regarding potential sites, and provide a recommendation on whether there are opportunities for development of a hotel in Saint Peter. We also provide a preliminary idea on the type of property best suited for the market and possible franchises that have an interest in development. Our findings and recommendations are based on our fieldwork conducted October 26-28, 2016 that included meetings with you and Mr. Prafke, Greater Mankato Growth, and a tour of the community. Subsequent telephone calls were conducted with the following individuals:

- Ed Lee – Chamber of Commerce
- Arlo Lehtinen – AmericInn General Manager
- James Irwin – Alumacraft Boats
- Eric Else – E.I. Microcircuits
- John Makela – Creation Technologies
- Tim Kennedy – Gustavus Adolphus College
- George Rohrick – Rivers Edge Hospital & Clinic
- Paul Peterson – Saint Peter School District
- Ann Volk – Fairgrounds
- Pat – Scholarship America
- Doug Wilson – Cambria University

Calls were placed and messages left with Heidi Boyum at GEO Boy/Jaraff Industries and Marlene Albers at SPRTC.

Based on our research in the field and the follow up phone calls with potential demand generators, it is our recommendation that a hotel should be considered for Saint Peter and that the City of Saint Peter move forward with the Phase II Market Demand Study. Our telephone demand interviews with those individuals listed above were positive in that the majority of them were of the opinion that a hotel was needed in the community and that they would support it. The number of room nights generated varied from a few per year, to weekly use. While the number of room nights is important to our research, just as important is the qualitative information provided as to whether they would use a new hotel, the preferred location, and the facilities and amenities deemed important that included complimentary breakfast, fitness room, business center, indoor pool, and meeting space. A restaurant within walking distance would be nice but not critical. Meeting space should be considered even though not all companies would use it.

Based on our demand interviews, we would recommend a Midscale limited-service hotel offering the above facilities/amenities and with an average daily rate in the \$90-\$100 range. It is our opinion that discussions regarding the best site will require further discussion.

Site Analysis

During our fieldwork and tour of the community, we were shown five potential sites for a proposed hotel. We considered factors such as access, visibility, and proximity to demand generators and support amenities for each of these sites as well as the size of the parcel. We also reviewed information from the assessor's office that was provided by you for each site. We did not consider specific information about the sites including availability, cost, and zoning.

1. Old KFC and Adams House on Martin Street in the south part of town
2. Parking Lot #5 in downtown Saint Peter
3. 4.4-acre site on Dodd Avenue just west of Highway 169
4. Hallet's Pond
5. Traverse Mall

In addition to these five sites, during our conversation with Ann Volk, she referred to a potential site at Broadway Avenue and Sunrise Drive that would be proximate to Gustavus Adolphus College and the new high school. While we drove past it during our tour, we did not take specific notes and would rely on information from you whether this site or one in the immediate vicinity could be considered.

There are two sites that we believe should no longer be considered: the old KFC/Adams House site is too small and Parking Lot #5 is too small as well as being in the downtown historic district that may pose some development challenges to a hotel franchise (based on our discussion with you).

Regarding the remaining three sites (four if the site on Broadway and Sunrise is to be included) all have potential for hotel development. We evaluated the sites based on the criteria listed above:

Dodd Avenue Site – Located on the north end of the city, this vacant site is the furthest from the major demand generators with the exception of the Hospital. Access is good and visibility is fair and would require signage on 169. Support amenities in the area are limited and the site is the furthest from downtown restaurants and retail outlets and other major demand generators.

Hallett's Pond Site – This vacant site would have fair access and visibility and would require signage on 169. Aesthetically, it has potential with the pond and surrounding trees and it is close to the Fairgrounds, which could be attractive for weddings and other events that are held there. Support amenities are fair in the area.

Traverse Mall Site – This site would have very good access and visibility off of 169 and the specific site would be just north of the Holiday service station. This site is also proximate to the Fairgrounds. The site is currently woods and would have to be cleared; on the north end of this 12-acre parcel is a rundown mobile home park and that could be an issue.

Sunrise Drive and Broadway Avenue – We reviewed this site on Google maps; it is adjacent to the college and proximate to the new high school with the athletic fields. It does lack visibility from 169 although access would be convenient off of 169 via Broadway Avenue. Sunrise Drive provides direct north/south access from the Hospital and the Sunrise Industrial Park. We believe this site or one in the immediate vicinity be considered as a possibility.

Overall, we believe these sites all have potential as well as some challenges. Ideally, a site closer to downtown Saint Peter or more proximate to the College would be recommended. Downtown Saint Peter offers many amenities that guests would find attractive and it could be a unique location unlike the existing franchised hotel's location in Saint Peter.

Hotel Supply

There are four lodging properties in Saint Peter with only one hotel a franchise property, the AmericInn Hotel & Suites. The 50-room AmericInn is located on Highway 169 at Livermore Street. The other properties include the Viking Jr. that opened in 1998 with 20 rooms, the Konsbruck boutique hotel offering five guest rooms in downtown Saint Peter, and the 23-room St. Peter Motel that rents out some rooms for long-term stays (this was mentioned in our interviews). The AmericInn would be the most direct competitor to a new hotel in the market because of its franchise, quality product and reputation, facilities and amenities, and rate structure. The Konsbruck was mentioned during our demand interviews and while it would compete with a new hotel, it only offers five guest rooms.

The Mankato hotel market, ten miles south of Saint Peter, offers 12 lodging properties with about 1,200 guest rooms and a range of product types and franchises. According to Visit Mankato, the average occupancy for the Mankato hotel market was estimated to be 60 percent, a number similar to what we have estimated Saint Peter's occupancy performance to be. We estimate the average daily rate of the quality lodging properties in Saint Peter to range between \$90-\$100 on average.

Demand Generator Summary

Our demand interviews indicated that the majority of the hotel users are pleased with the AmericInn Hotel & Suites as a hotel option in Saint Peter. They also indicated during peak periods of demand, there are no rooms available at this 50-room property and they are forced to travel to Mankato. Demand is generated by College graduation, the Nobel Conference, Synod Convention, Homecoming, sports camps, weddings, college and high school athletics, orthopedic surgeries, recruiting, training, events and festivals such as Nicollet County Fair, Winter Slam, auto restorers, dog and horse shows, construction workers, and potential overflow from Mankato. These are just some of the potential demand generators that were mentioned during our interviews (not an inclusive list). While the local industry generate a limited number of room nights, Cambria University, Rivers Edge Hospital & Clinic, and Gustavus Adolphus College have the potential to generate weekday demand throughout the year.

There is seasonality of demand in Saint Peter with the summer months and weekends in general generating higher occupancy. The slower periods of demand are from November to March and that is typical for Midwest hotels. It is always a challenge for lodging properties during this time and that is why a franchise with a good reputation and a solid marketing plan, reservation system, and frequent guest program is so important. In addition, a property with good management is also essential.

Recommendations

We believe a Midscale limited-service hotel would be appropriate for Saint Peter and we recommend approximately 50-60 guest rooms with the facilities and amenities typical of a limited-service hotel including complimentary breakfast, sundry shop, indoor pool, fitness center, business center, and meeting space to include a boardroom. Besides the traditional king and double queen guest rooms, suites (number to be determined) should be considered and include a kitchenette with wet bar, mini fridge, and microwave that could be utilized by guests staying for a longer period of time or for families.

After speaking with you today, we understand Country Inn & Suites (a Carlson Rezidor hotel brand) has expressed an interest in the market. We have left messages for GrandStay Hotel & Suites and Best Western. We are also aware that Cobblestone Hotel & Suites had contacted you awhile back and I would imagine would still be interested in Saint Peter. All of these brands would offer the city of Saint Peter a very good hotel product with a respected franchise.

We appreciate the opportunity to provide you with this Phase I letter regarding potential hotel development in Saint Peter, Minnesota. We will await your decision to proceed with Phase II. If in the meantime you have any questions regarding our findings and recommendations or if you receive calls/emails from hotel companies inquiring about hotel development, please contact us.

Sincerely,

Patek Hospitality Consultants, Inc.