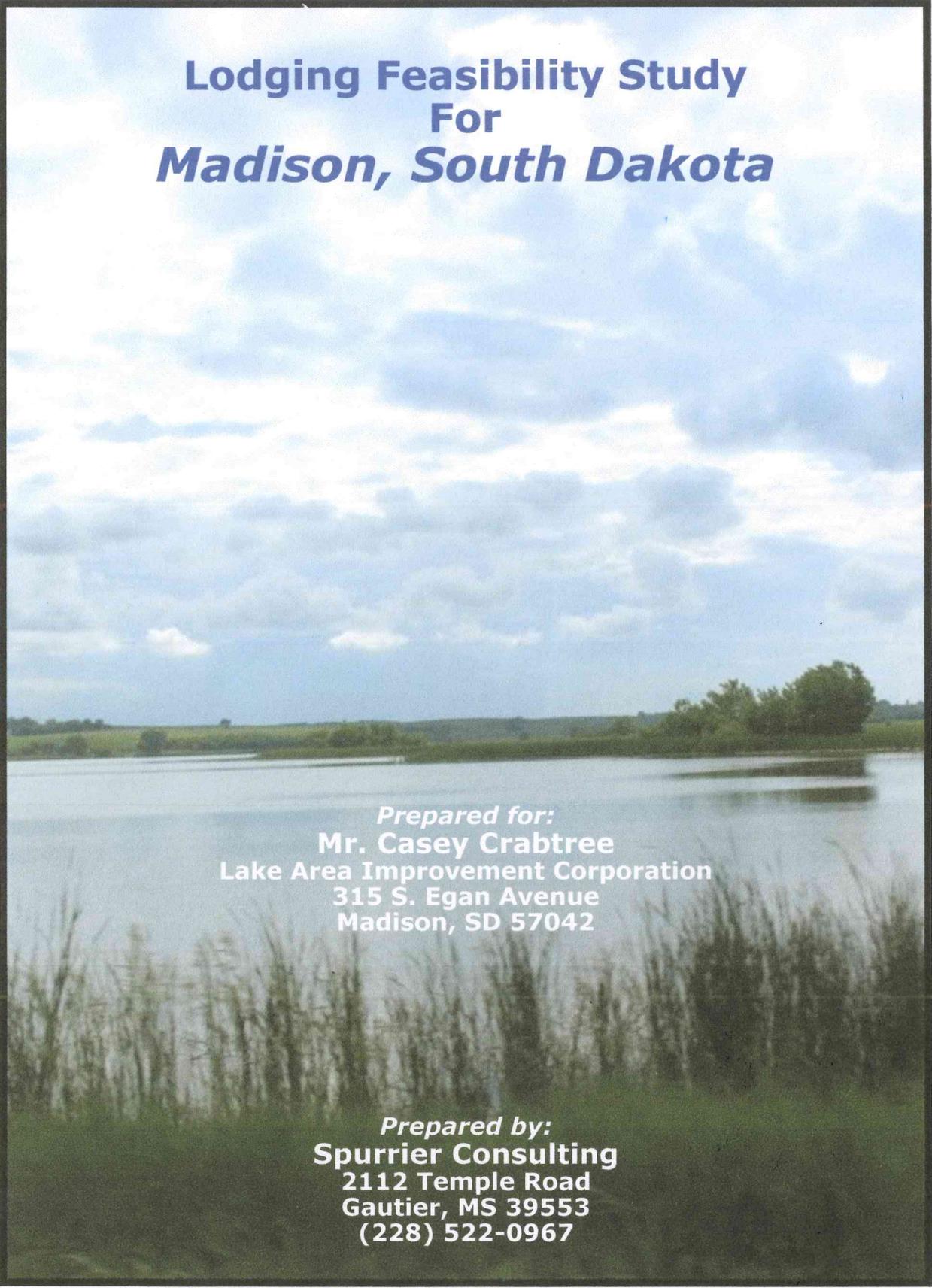


The following documentation is the
Executive Summary only.

If you should like a copy of the full Lodging
Study, please contact the LAIC.



**Lodging Feasibility Study
For
*Madison, South Dakota***

Prepared for:
Mr. Casey Crabtree
Lake Area Improvement Corporation
315 S. Egan Avenue
Madison, SD 57042

Prepared by:
Spurrier Consulting
2112 Temple Road
Gautier, MS 39553
(228) 522-0967

Index

Statement of Analysis

- 1. Executive Summary**
- 2. Marketing Strategy/Site Information**
- 3. Site Demographics/Statistics**
- 4. Photos & Maps**
- 5. Operating Projections & Budgets**

Statement of Analysis and Disclaimer

When preparing feasibility studies, Spurrier Consulting takes the approach of looking through the eyes of the investor/developer, searching for a possible market niche, and focusing on potential missed opportunities by competitors.

Many feasibility studies evaluate strictly the numbers and try to justify development based upon trends and numerical data. We believe a good product that fits well into the market, along with qualified management, can create an opportunity to expand into an already existing market.

Therefore, we rely less upon national association reports, that are often outdated, have conflicting material, or are confusing in their statements. We do our own research of the market, utilizing previous file data of successful operations, in order to establish projections and formulate comparisons. A franchise company may have historical data from other locations. However, those statistics still have to be modified, based upon conditions in the proposed market.

We rely upon statistical and development data provided by the various local agencies and governing bodies, such as the Chamber of Commerce, Economic Development, and Department of Tourism, along with interviews from local business leaders. We support our findings through many Internet resources, which often provide demographic profiles. We utilize Smith Travel Research (STR) data when available. However, a Smith Travel Research Trend Report is not available in all markets. Based on the data from Smith Travel, we adjust for the proposed product entering the market, since the polled hotels can not be all the segment, class, and age.

We do not evaluate or pre-qualify the financial capabilities of the individual investors in the study.

The decisions presented in the study are based on information available and received at the time of the writing of the study. Spurrier Consulting has taken every possible precaution to evaluate the information for its completeness, accuracy and reliability. To the best of our knowledge, we feel the information and decisions presented in the study are sound and reliable.

Normal economic and marketplace conditions change constantly, and Spurrier Consulting assumes no responsibility for information that has become outdated after August, 2016, nor is Spurrier Consulting responsible for keeping this information current after the issuance of the study. It should be understood that the results presented in the study are the professional opinion of Spurrier Consulting, and are reflective of information available at the present time. Spurrier Consulting assumes no responsibility for changes in the marketplace.

Spurrier Consulting presumes that those reading this study completely understand its contents and recommendations. If the reader is unclear regarding the conclusions of the study, clarification should be obtained from Spurrier Consulting.

Spurrier Consulting assumes that those who receive the study act in accordance with its recommendations. Any deviation from the recommendations is solely the responsibility of those receiving the study. Any further questions should be directed to Spurrier Consulting.

- Spurrier Consulting

Study Completed _____

Executive Summary

The purpose of this feasibility study is to examine the hospitality market of Madison, South Dakota, and to evaluate the probability of success for a lodging facility to be constructed on the southeast side of the city, south of State Route 34 (10th Street SW).

Madison is in the southeastern part of South Dakota. It is the county seat of Lake County. Madison is nestled between Lake Madison and Lake Herman. Sioux Falls, the largest city in the state, is 50 miles to the southeast. The state capital, Pierre, is about 170 miles to the northwest. Omaha, Nebraska, is 198 miles to the southeast.

The proposed location is part of the Lakeview Industrial Park in the southeast corner of Madison. It sits between the offices of Heartland Consumers Power District and Raven Industries. The site is on the south side of S.R. 34, across the highway from an AmericInn.

The major east/west highway in Madison is State Route 34. It connects Madison to Interstate Route 29, 18 miles to the east, and Pipestone, Minnesota, further to the east. S.R. 34 runs northwest across the southeast corner of South Dakota to the Missouri River and Pierre. U.S. Route 81, on the northwest side of Madison, runs north/south through the eastern edge of South Dakota.

Traffic counts on S.R. 34, near the proposed location, are showing 4,830 vehicles per day, average annualized daily traffic (AADT). The count on I-29, east of Madison, is 14,170 AADT.

According to the latest census data, Madison had an estimated 2015 population of 7,258, an increase of 11.7% above the 2010 census. The city had a median household income of \$37,045; per capita income of \$21,272; and a median house value of \$88,600. By way of comparison, the state of South Dakota had a median household income of \$50,338; per capita income of \$26,311; and a median house value of \$135,700. Lake County had an estimated 2015 population of 12,622 – up 12.7% from the 2010 census.

Historical attractions in the Madison area include:

Prairie Village Museum - two miles west of Madison on S.R.34, this facility features 40 restored buildings, agricultural displays, steam tractors, a sawmill, operating railroad, steam carousel and chapel car "Emmanuel".

Smith-Zimmerman Museum - located on the campus of Dakota State University, this museum features four period rooms with Victorian furnishings, early forms of transportation, farm equipment and a replica claim-shanty.

The Depot Railroad Museum – former depot of the Burlington Northern Railroad, listed on the National Register of Historic Places, currently housing the Greater Madison Area Chamber of Commerce, the Lake Area Improvement

Corporation, the Visitor Information Center, and a railroad museum.

South Dakota High School Basketball Hall of Fame - chronicles, records and preserves the history of outstanding basketball players, teams and contributions from across the state. Currently located in the Madison Community Center.

Madison is the home of Dakota State University. Founded in 1881, the institution has a student population of 3,145. DSU offers majors in business, information systems, teacher education, arts and sciences. The institution contributes significantly to Madison's economic development - particularly in the area of technology. DSU is the only undergraduate program of the eight institutions recognized by the National Security Agency as a Center of Academic Excellence in Cyber Operations. The Karl Mundt Foundation, Karl Mundt Library and Archives, and the Smith Zimmerman Museum are located on the DSU campus.

The Madison area is home to world-class outdoor recreational activities. Five glacial lakes in the region total over 7,000 surface acres. Lake Herman, two miles west of the city, contains 1,350 acres of water. Lake Madison, east of town, has 2,800 acres of water, and is home to the Walker's Point Recreation Area. On and off shore fishing allows anglers to catch walleye, perch, crappie, bass and bullhead. Lake County provides excellent hunting opportunities for pheasant, waterfowl and whitetail deer. The spring migration of ducks and geese attracts bird watchers to the area.

Cultural activities in the area are centered on the Dakota State campus. The Dakota Prairie Playhouse and Conference Center houses performing arts, conferences, trade shows, business meetings, receptions and more. The Playhouse features a 700-seat theater, large ballroom and lobby. The Madison Area Arts Council operates the Community Arts Center in the Brickhouse. Its consignment gallery features the best local and regional artists as well as a variety of instructional and educational opportunities. The John Green Art Studio, in downtown Madison, is a public gallery in addition to being Mr. Green's studio.

Festivals and events take place throughout the year in southeastern South Dakota. Just west of Madison, Prairie Village features activities such as the Northern Bull Riding Tour, Montongator Joe's Country Music Festival, Prairie Village Railroad Days, Madison Car Show and the Steam Threshing Jamboree. Events in Madison include Crazy Days, Show & Sell Craft Expo and Tour The City Road Races. Lake Herman is home to Herman Luce Pioneer Days and Fireworks Over Lake Herman.

Health care in the area is provided by Madison Regional Health, a 22-bed non-profit facility which is one of the largest employers in the area. It is a full-service hospital, providing inpatient and outpatient healthcare to Madison and the surrounding communities.

The economy of Lake County is dominated by agriculture. Soybeans and corn are major crops. However, Madison is a leader in technology, re-

search and development. The Lakeview Industrial Park, site of the proposed location, has 160 acres of prime land with infrastructure in place.

Major employers in Madison, along with their approximate number of employees, are:

Dakota State University	526
Manitou Group	226
Madison Regional Health System	225
Madison Central School District	156
East River Electric Power	129
Bethel Lutheran Home	79
Falcon Plastics	71
Rosebud Manufacturing	70
Raven Industries	67
Custom Touch Homes	65

Competition for the proposed location consists of two nationally "flagged" facilities - the AmericInn, across the highway from the site; and a Super 8, on the west side of Madison. Hotels within a 30-mile radius of Madison, according to Smith Travel Research, are:

<u>Economy Hotels</u>	<u># of Rooms</u>	<u>Year Built</u>
Super 8-Madison	34	1986
Days Inn-Brookings	119	1972
Econo Lodge-Brookings	102	1972
Super 8-Brookings	65	1996

<u>Mid-Level Hotels</u>	<u># of Rooms</u>	<u>Year Built</u>
AmericInn-Madison	38	2003
Quality Inn-Brookings	50	1993
Fairfield Inn-Brookings	76	1994
Holiday Inn Express-Brookings	62	2004
Hampton Inn-Brookings	87	2009
My Place Hotel-Brookings	62	2015
AmericInn-Hartford	47	2015
Best Western-U Bar Motel	27	1952

<u>Independent Hotels</u>	<u># of Rooms</u>	<u>Year Built</u>
US 34 Motel	37	1959
Windward Inn	24	2011
Arlington Inn	21	1993
Bilmar Inn & Suites	32	1999
Royal River Casino Motel	120	1998
Sunshine Inn	37	1975
Ortman Hotel	27	1929

There are 1,067 rooms within a 30-mile radius of Madison. The room breakdown is as follows:

<u>Segment</u>	<u># of Rooms</u>	<u>%</u>	<u>Last 10 YRS</u>	<u>%</u>	<u>Extended Stay</u>	<u>%</u>
Economy	320	30%	0		0	
Mid-Level	449	42.1%	196	43.6%	62	13.8%
Independent	37	27.9%	24	8.1%	0	

The hotels in Madison breakdown as follows:

<i>Segment</i>	<i># of Rooms</i>	<i>%</i>	<i>Age</i>
Economy	34	31.2%	30 Years Old
Mid-Level	38	34.9%	13 Years Old
Independent	37	33.9%	57 Years Old

A Smith Travel Research Trend Report through June, 2016 shows the following:

<i>Year</i>	<i>OCC</i>	<i>%</i>	<i>ADR</i>	<i>%</i>	<i>RevPAR</i>	<i>%</i>
2011	62.5%	+16.6%	\$87.16	+3.6%	\$54.47	+20.8%
2012	56.1%	-10.2%	\$92.56	+6.2%	\$51.96	-4.6%
2013	59.4%	+5.8%	\$94.41	+2%	\$56.05	+7.9%
2014	62.3%	+4.9%	\$97.75	+3.6%	\$60.88	+8.6%
2015	59.4%	-4.5%	\$100.86	+3.2%	\$59.94	-1.5%
2016	58.4%	-0.2	\$97.47	-4.2%	\$56.90	-4.5%

The average number of rooms for the reporting hotels is 59. The proposed hotel will have 67 rooms, which is 14% larger than the reporting hotels. There were five hotels in the Smith Travel Research Trend Report - two in the Madison market, and three in the Brookings market. The report included one economy segment property, representing 11% of the polled rooms; and four mid-level segment properties, representing 89% of the polled rooms. The hotels were Holiday Inn Express-Brookings (built 2004), Fairfield Inn-Brookings (1994), Hampton Inn-Brookings (2009), Super 8-Madison (1986), and AmericInn-Madison (2003). The decline in occupancy is mostly likely due to the opening of two new hotels in the Brookings market during 2015. The new hotels generate an additional 39,785 room nights. The 4.5% decline in the 2015 occupancy is equal to 3,878 room nights - very few based on the amount of new rooms introduced into the market.

The demand is as follows:

2011 +16.6%	2012 -10.2%	2013 +5.8%	2014 +4.9%	2015 -4.5
-------------	-------------	------------	------------	-----------

Rates at the nearby hotels are as follows:

<i>Hotel</i>	<i>Peak Season Rates</i>		<i>Off Season Rates</i>	
	<i>Weekend</i>	<i>Weekday</i>	<i>Weekend</i>	<i>Weekday</i>
Holiday Inn Express-Brandon:				
King Room	\$176	\$136	\$123	\$109
D/Queen Room	\$176	\$131	\$123	\$104
Jr. King Suite	\$196	\$140	\$131	\$114
King Suite	\$206	\$149	\$140	\$118
Deluxe Suite	\$216	\$159	\$149	\$123
K/Suite w/Jacuzzi	\$221	\$163	\$154	\$126
Super 8-Madison:				
S/Queen Room	\$100	\$100	\$100	\$60
D/Queen Room	\$110	\$110	\$110	\$70
AmericInn-Madison:				
S/Queen Room	\$99	\$89	\$99	\$89
D/Queen Room	\$104	\$94	\$104	\$94

S/Q Business Suite	\$106	\$96	\$106	\$96
King Executive	\$123	\$113	\$123	\$113
Q/Suite w/Whirlpool	\$129	\$119	\$129	\$119
King Executive Suite	\$135	\$125	\$135	\$125
Hampton Inn-Brookings:				
D/Queen Room	\$134	\$114	\$114	\$114
King Room	\$134	\$114	\$129	\$114
D/Queen Studio	\$149	\$139	\$139	\$139
King Studio	\$149	\$129	\$139	\$129
King w/Whirlpool	\$159	\$149	\$139	\$139
Fairfield Inn-Brookings:				
King Room	\$139	\$109	\$119	\$129
D/Queen Room	\$139	\$109	\$119	\$129
King w/Sofa	\$144	\$114	\$124	\$134
King Executive	\$149	\$119	\$129	\$139
Studio King	\$164	\$134	\$144	\$154
Two Bedroom	\$164	\$134	\$144	\$154

The nearest like-kind property is located in Brookings, approximately 30 miles from Madison. The property opened in 2004 with 62 rooms. The rates are as follows:

<i>Hotel</i>	<i>Peak Season Rates</i>		<i>Off Season Rates</i>	
	<i>Weekend</i>	<i>Weekday</i>	<i>Weekend</i>	<i>Weekday</i>
D/Queen Room	\$147	\$120	\$133	\$116
King Suite	\$151	\$138	\$151	\$133
K/Suite w/Whirlpool	\$160	\$137	\$160	\$128
King Leisure	\$151	\$125	\$133	\$120

The following statistical data is for the year ending 2015. The Holiday Inn Express FDD reported the construction costs for a 93-room property range between \$7,530,521 (\$80,973 per key) to \$10,553,775 (\$113,481 per key). The cost for the brand is \$50,000, the franchise fee is 5%, and the royalty fee is 3%. The occupancy is 69.1% for the brand nationally, the ADR is \$112.76, and the RevPAR is \$77.93. There were 1,726 hotels sampled for the averages, and there were 2,547 units in the system. The System Contribution was 62.9%, and the ADR was \$119.80. The IHG Rewards had an average occupancy of 50.7% and an ADR of \$115.80, and the Web Contribution occupancy was 26.8%, with an ADR of \$121.26. Additional information regarding the brand can be found in Section 2 of this study.

The South Dakota Department of Tourism showed in a report that visitors generated \$3.8 billion in 2015. The person-trips in South Dakota grew 3% in 2015, reaching 13.7 million visitors. Lodging accounted for 18.5% of the total tourism revenue. Lake County is part of the Southeast Region, which includes 14 counties. The region generated \$1.39 billion, up from \$1.32 billion. Lake County had tourism expenditures of \$23.98 million, down from \$25.31 million. Lodging expenditures in Lake County was \$27,300,000, up from \$25,200,000.

PwC US showed in a recent study that "average daily rate growth continues to look for a firm footing, despite peak occupancy levels." In

2016, the outlook anticipates a stabilization in occupancy. The pace of supply growth is expected to accelerate to 1.9%, with the percentage increase in available hotel rooms mirroring the long-term average. As a result, with occupancy levels expected to remain stable, albeit a 35-year high, coupled with the absence of this year's drag on the US dollar, increased confidence amongst hotel operators and brands is expected to result in meaningful average daily rate increases, resulting in RevPAR growth of 5.7%. The segment forecast is as follows:

2015:

<i>Chain Scale</i>	<i>Demand</i>	<i>Supply</i>	<i>Occupancy</i>	<i>ADR</i>	<i>RevPAR</i>
Luxury	1.4%	0.6%	0.8%	4.7%	5.5%
Upper Upscale	2.2%	1.3%	0.9%	4.4%	5.4%
Upscale	4.8%	4.3%	0.8%	5.0%	5.8%
Upper Midscale	3.4%	1.5%	1.9%	4.4%	6.5%
Midscale	2.3%	(0.1%)	2.4%	4.4%	6.9%
Economy	1.8%	0.1%	1.7%	5.2%	7.0%
Independent	2.8%	0.6%	2.2%	4.7%	7.0%

2016:

<i>Chain Scale</i>	<i>Demand</i>	<i>Supply</i>	<i>Occupancy</i>	<i>ADR</i>	<i>RevPAR</i>
Luxury	1.3%	2.0%	(0.7%)	5.7%	5.0%
Upper Upscale	1.2%	1.3%	(0.1%)	5.6%	5.5%
Upscale	4.4%	5.0%	(0.5%)	5.2%	4.7%
Upper Midscale	4.2%	3.7%	0.5%	5.1%	5.6%
Midscale	1.8%	1.3%	0.5%	5.2%	5.9%
Economy	(0.3%)	(0.4%)	0.1%	5.7%	5.9%
Independent	0.6%	1.3%	(0.4%)	6.1%	5.6%

Lodging Econometrics stated in a recent report that U.S. Hotel openings are forecast to accelerate in the next two years. The U.S. is scheduled to open a total of 742 hotels in the next two years. The pipeline report forecast 845 hotels in 2016, with another 998 hotel openings in 2017. All of the openings will be under three major franchise companies - Marriott International with 456 openings, Hilton Worldwide with 406 openings, and InterContinental Hotels Group with 374 openings.

PKF reports that room rates will increase 5.5% in 2016, with a 5.8% increase in 2017. PKF stated that roughly 132,000 rooms are currently under construction, up from 129,000 rooms during the second quarter of 2015. Over two-thirds of these properties are in the upscale or upper mid-scale segments. The most brands under development are Hampton Inn, Courtyard Inn, Fairfield Inn, and Hilton Garden Inn.

Top 10 Hospitality Industry Trends in 2016, as defined by R. A. Rauch & Associates, are:

- Analytics Rule
- Consolidation is Only Just Beginning
- Digital Marketing
- Invest in Capex Immediately
- Millennial Mindset Trends Toward Group Settings
- Optimal Channel Mix
- Personal Engagement in the Digital Age

Revenue Management
Sharing Economy & Disruption
Soft Landing

A Cornell University study demonstrates the value of loyalty programs. The researchers found a substantial jump in revenues when guests joined Stash, a frequent guest program. Two independent hotels had revenue increases of 50% compared to those hotels who were not members. The ADR increased slightly. However, the number of annual room nights sold increased dramatically.

The American Hotel & Lodging Association (AH&LA) stated that the hotel industry added more than 30,000 new hotel jobs and more than 100,000 new travel-related jobs, marking a record fifth year of consecutive job creation. Highlights included:

Lodging revenue sales grew from \$163 billion to \$176 billion.
Business traveler spending increased by 3%, and leisure traveler spending increased by 6%.
Total number of properties grew from 52,000 to 53,432.
Total number of rooms grew from 4.8 million to 4.978 million.

Conclusion

This study is an update of a report that was completed in 2010. Since it has been six years since we have visited Madison, we traveled to see the progress that has occurred. The lodging market in Madison has remained the same since the 2010 visit. There is a lack of hotels in the community. The only hotels in Madison are the Super 8 and AmericInn. The next closest hotels are in Brookings, close to 28 miles away. Madison is the county seat, there is a good business base, many lakes for fishing, good hunting that attracts outside visitors, and Dakota State University with a current enrollment of approximately 3,100. The traffic counts have declined slightly from 5,100 AADT to 4,830 AADT. In our opinion, because of the lack of hotels in this market, there has been leakage to other communities for lodging. Two new hotels opened in Brookings in 2015 - My Place Hotel and AmericInn.

The site cost is reasonable, and the proposed location is across the street from the AmericInn. Travelers are accustomed to seeking lodging at this location. Holiday Inn Express is a strong brand, with a good reservation contribution - 62.9% at \$119.80. The brand had a national average of 69.1% occupancy, \$112.76 ADR, and \$77.93 RevPAR. In the projections, we feel the hotel can perform the first year at 61% occupancy, \$107.00 ADR, and \$65.67 RevPAR. This is below the national statistical data. However, it will take 14-16 months before the property stabilizes, based on good marketing and management. The amenities and décor for a Holiday Inn Express are much higher than the properties located in Madison at the present time.

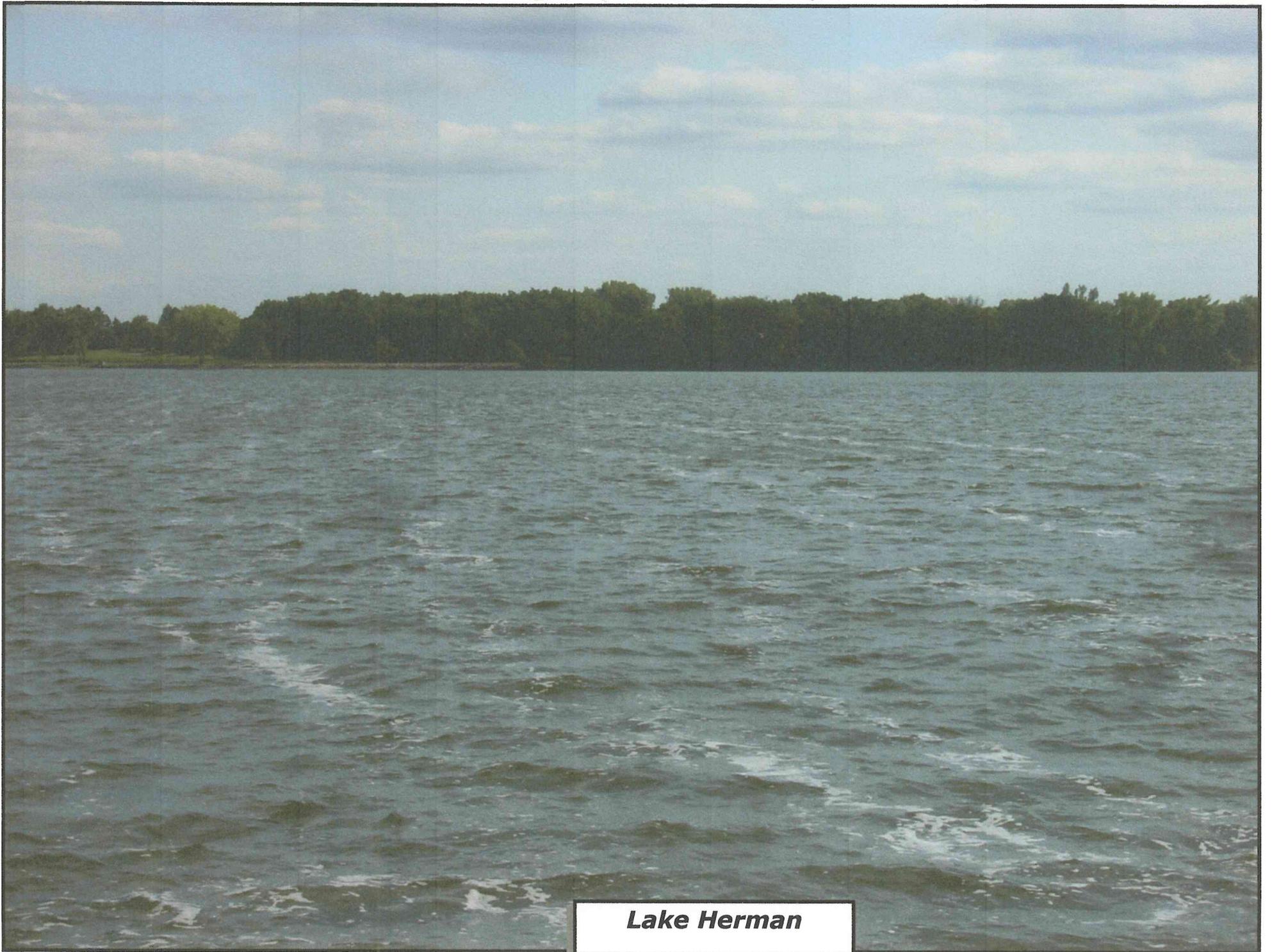
We obtained a regional Smith Travel Research Trend Report, which included the two hotels in Madison and three hotels in Brookings. The occu-

pancy declined slightly. However, this is probably due to the opening of the two new hotels in Brookings, and there was a shifting from the older hotels to the new product. Overall, we feel the trend report is strong enough to support the development of the proposed Holiday Inn Express.

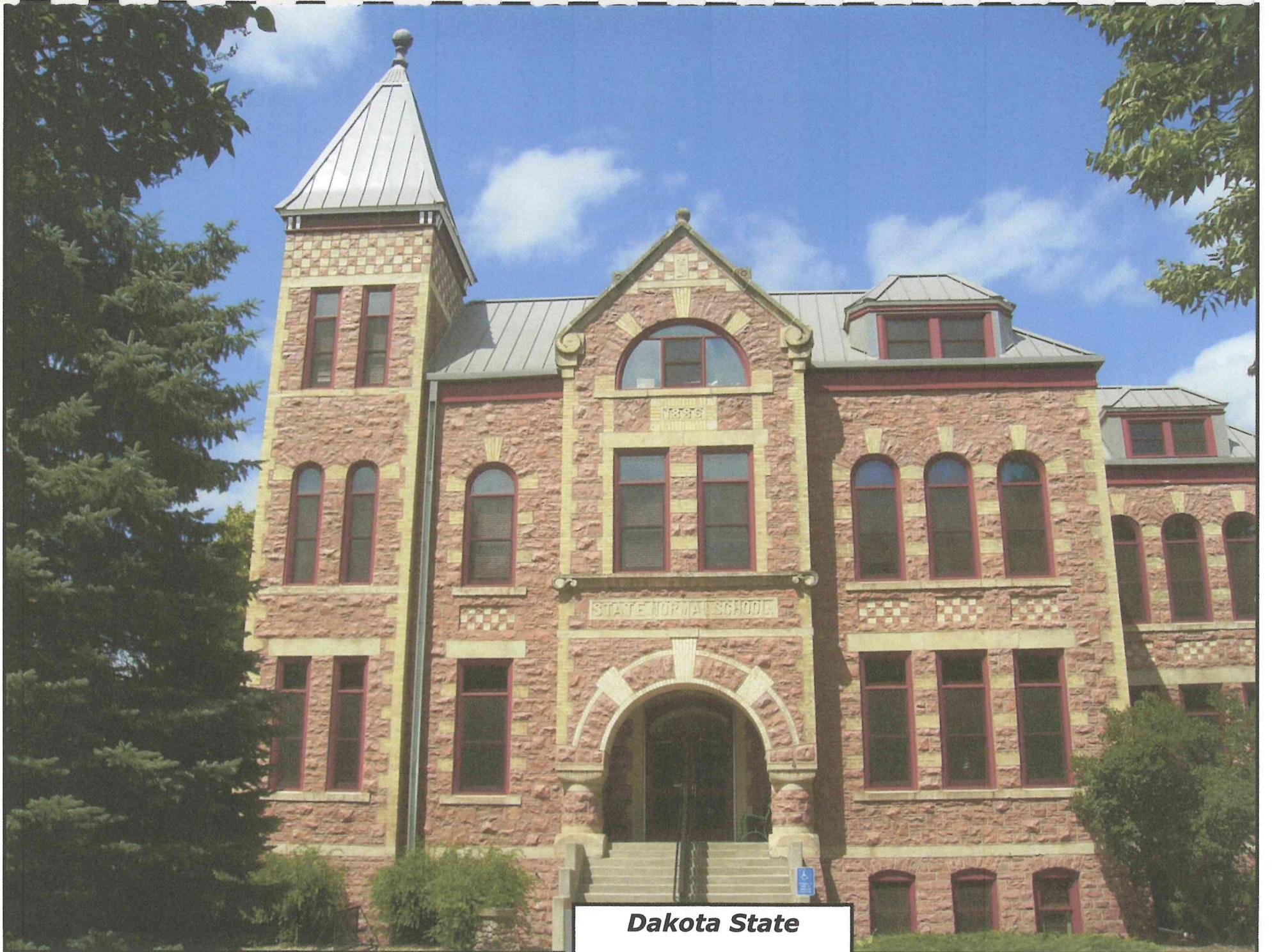
In a report released by PKF, they are forecasting that hotels will continue to enjoy RevPAR growth of 7.2% for 2015 and 6.8% for 2016. They are predicting a slight slowdown in 2016 (from 7.2% to 6.8%). The slowdown should not worry hoteliers because the growth in ADR will drive the increase in RevPAR. During the first quarter of 2015, lodging demand grew at a healthy rate of 4.2%. Overall supply is forecast to increase 1.2%, demand by 3.1%, occupancy by 2%, ADR by 5.2%, RevPAR by 7.2%, operating expenses by 3.8%, and NOI by 14.2%.

The amenities and room mix for the hotel can be found in Section 5 of this study, along with the projections. At the present time, IHG requires a minimum room count of 70 rooms, with a 10% variance. We have adjusted the original 52 room project to 67 rooms in order to obtain the brand. The IHG franchise representative for the state said that a new Holiday Inn Express will cost \$90,000 per key to develop without land costs. We have utilized that per key cost at an 80% loan-to-value to obtain the debt service in the projections. The projections may need to be updated after the architectural drawings have been completed and the construction bids obtained.

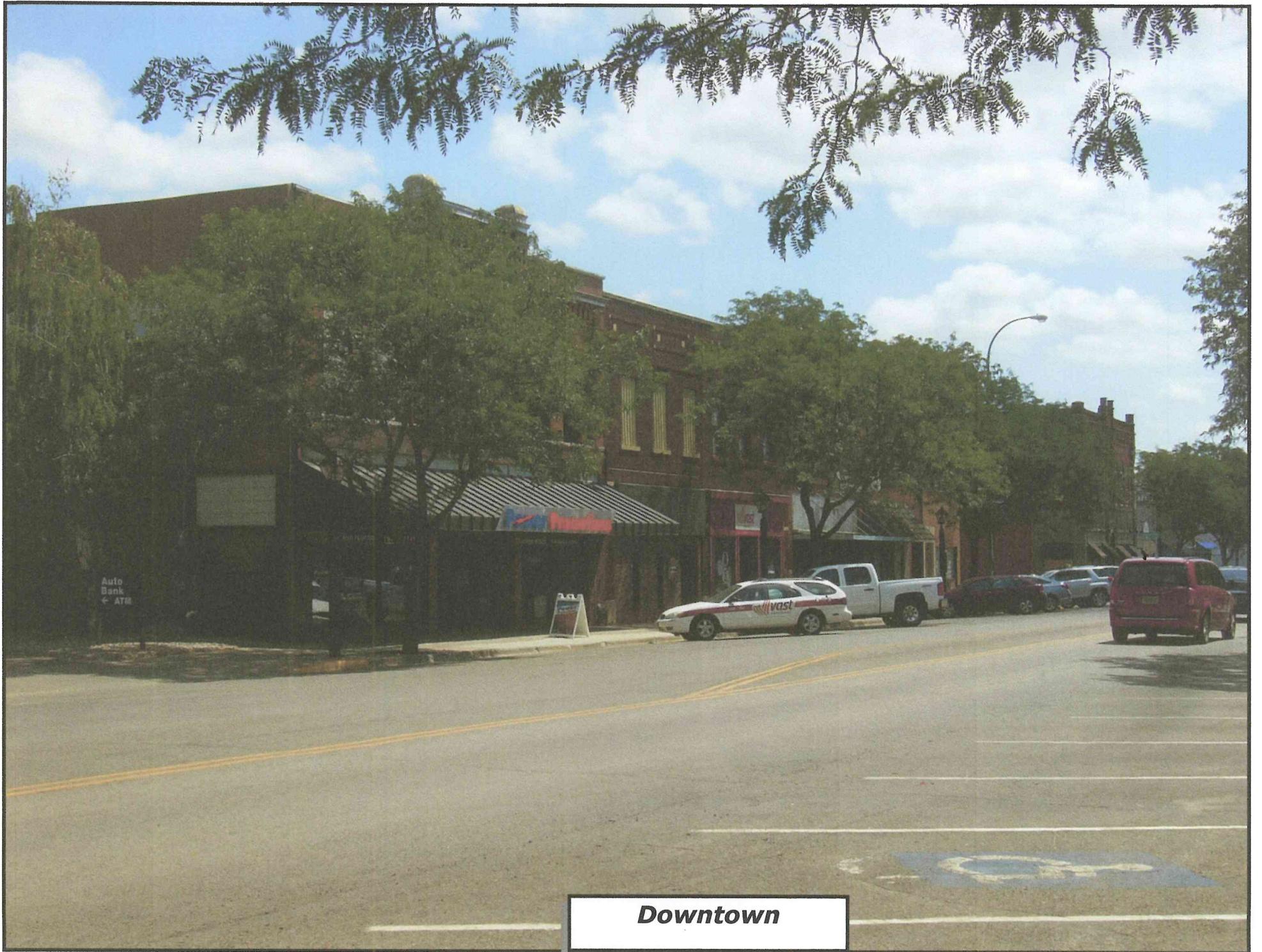
Please call our office with any questions regarding this report.



Lake Herman



Dakota State



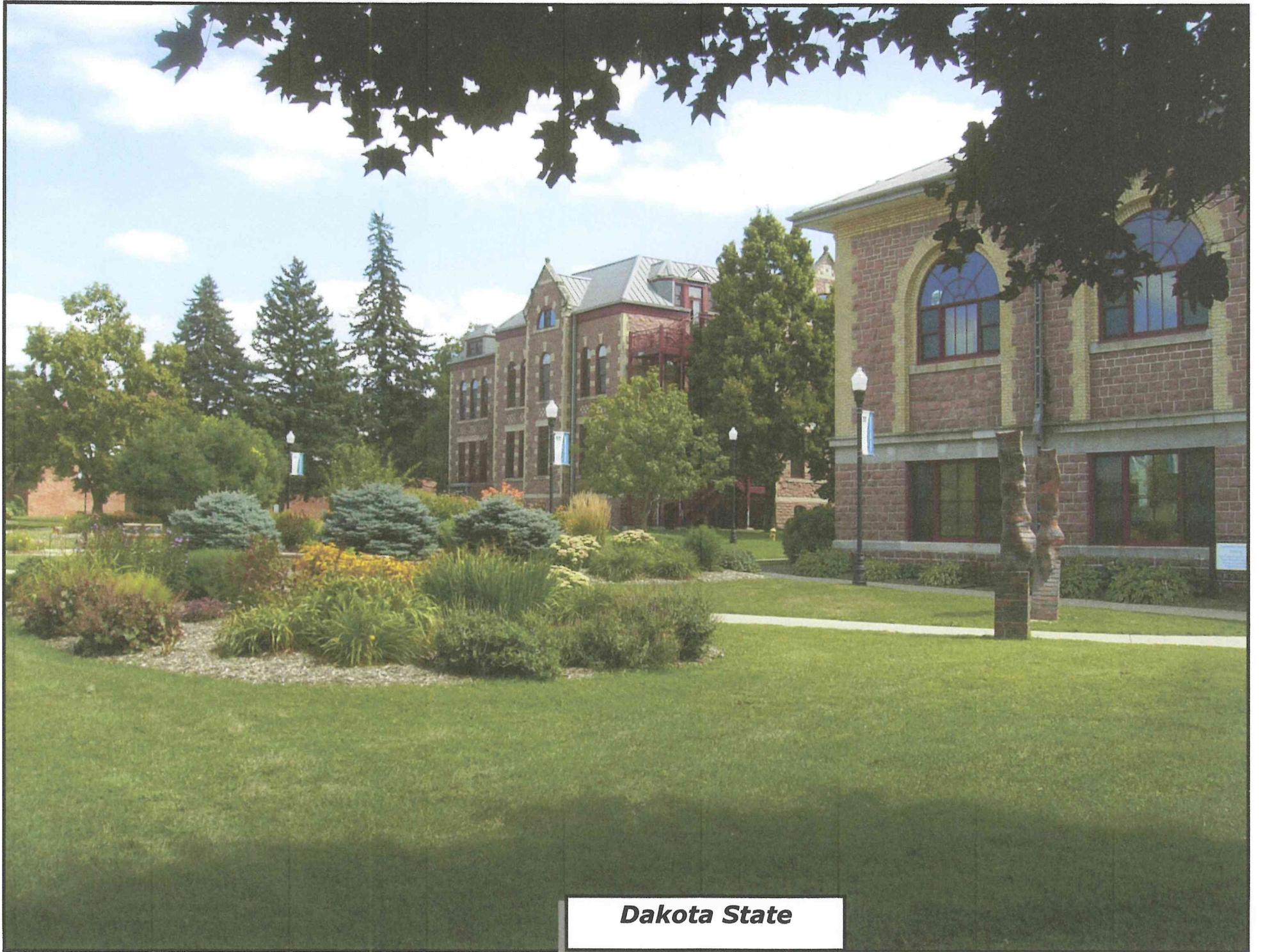
Downtown



Downtown

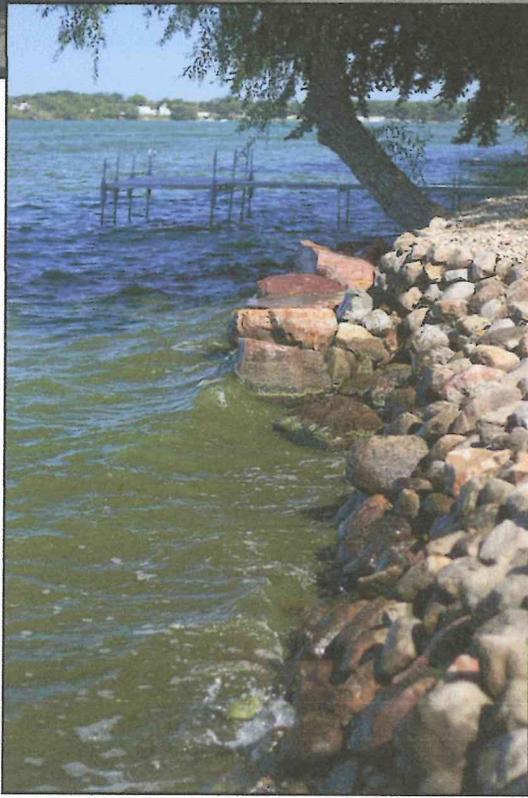


Madison

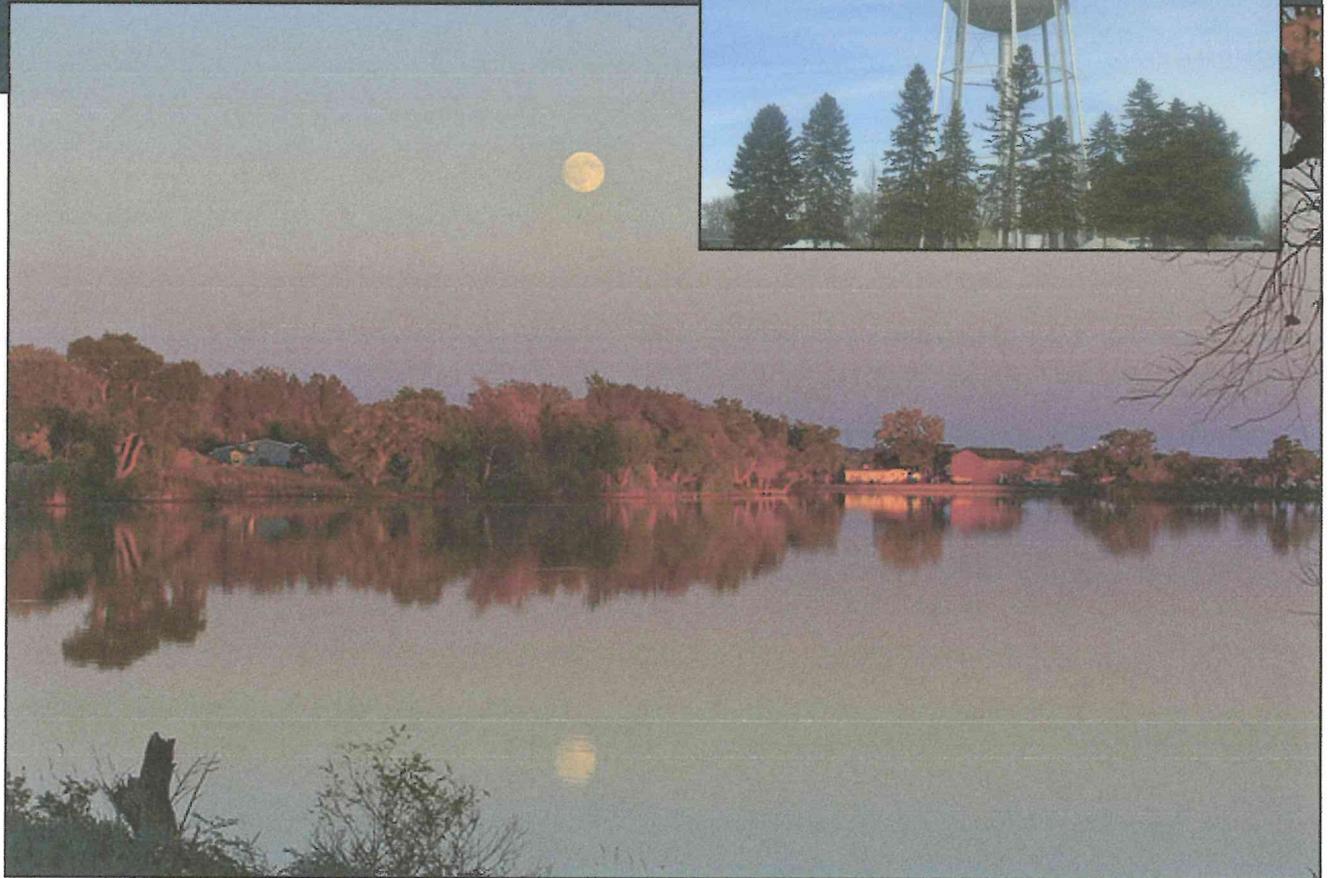
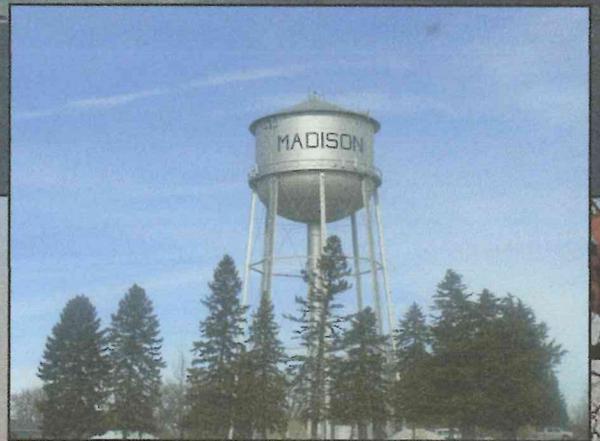
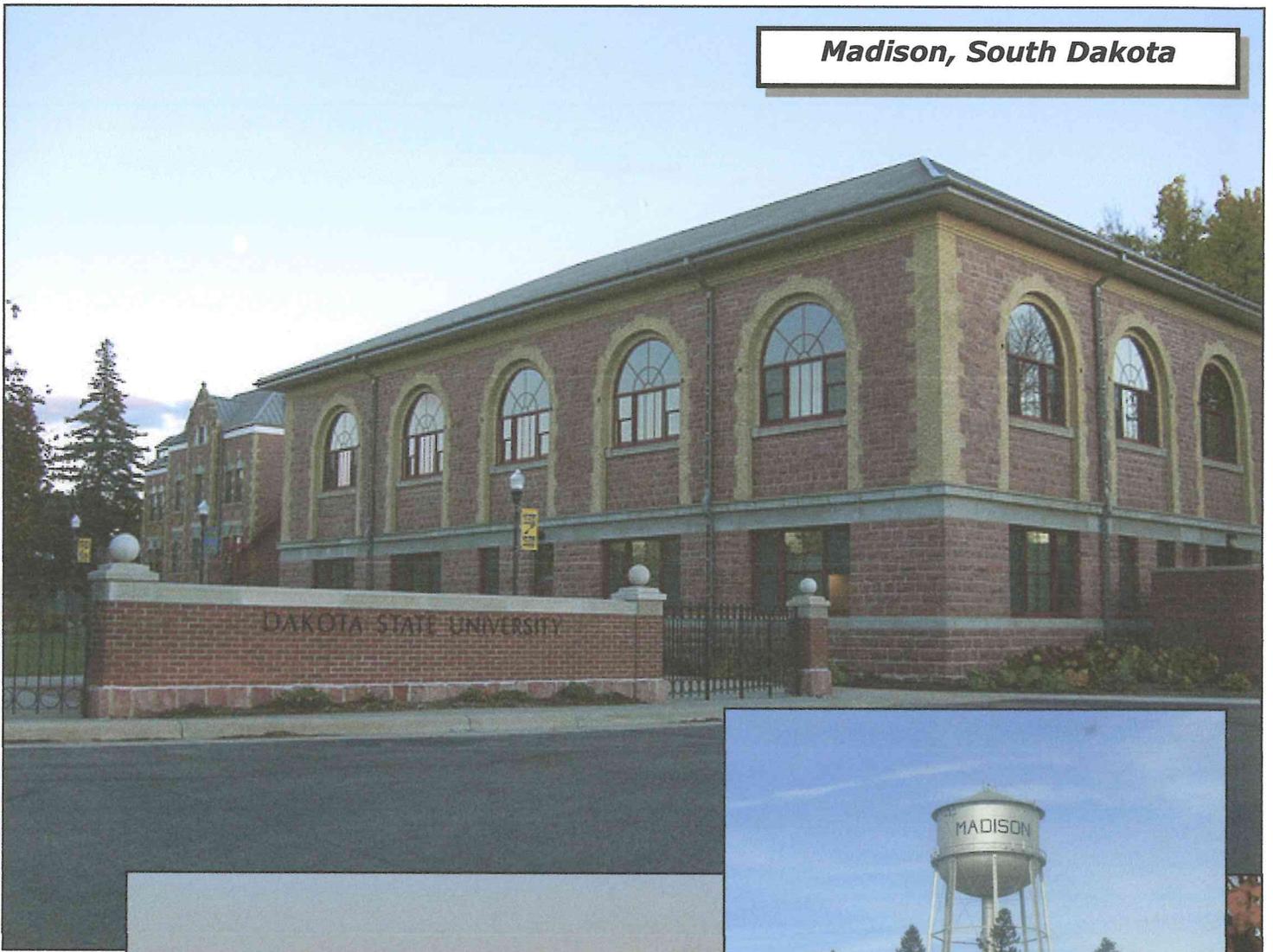


Dakota State

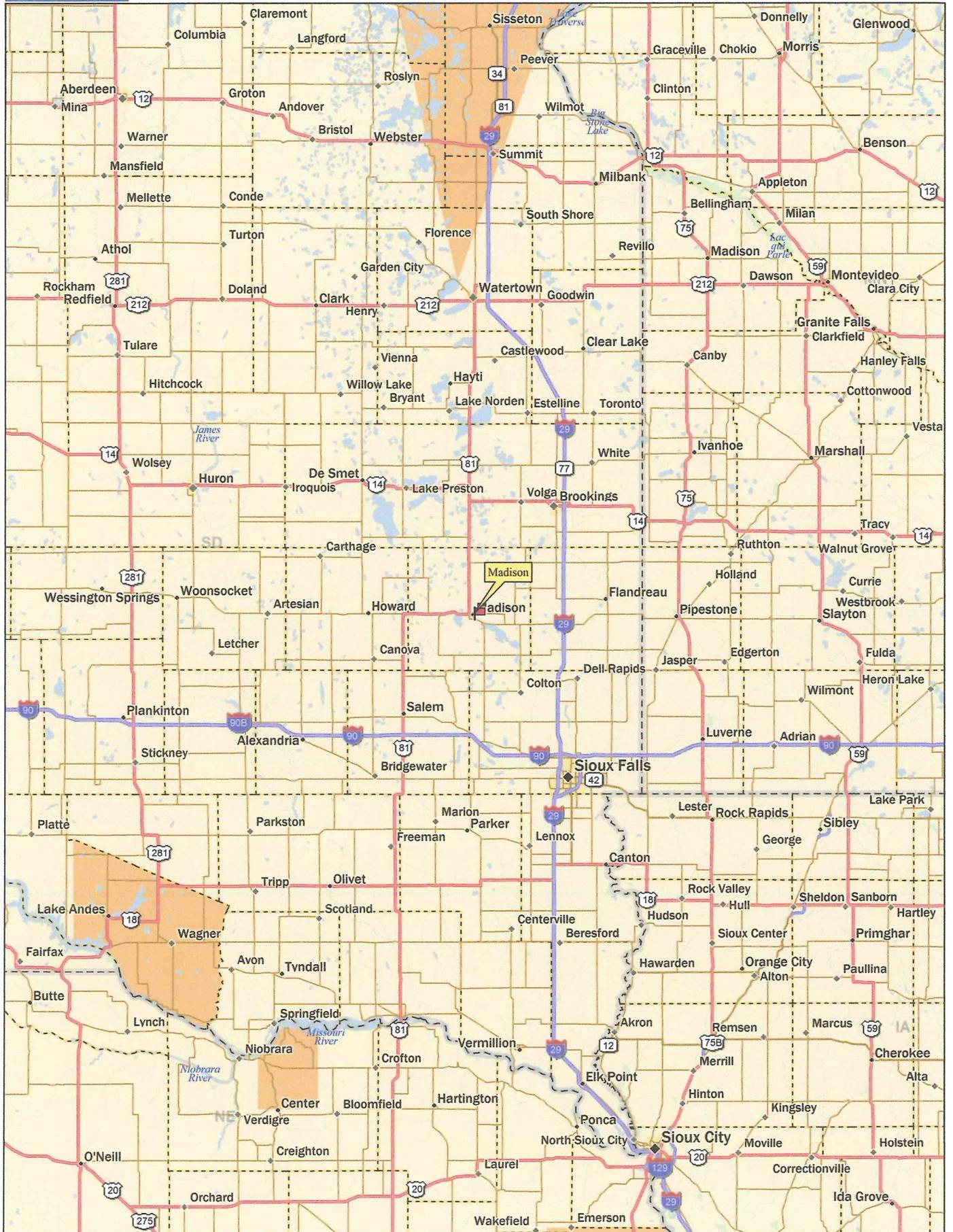
Madison, South Dakota



Madison, South Dakota







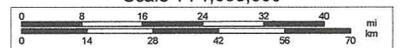
Data use subject to license.

© DeLorme. DeLorme Street Atlas USA® 2015.

www.delorme.com



Scale 1 : 1,600,000



1" = 25.25 mi

Data Zoom 7-0