

7 March 2016

Mr. Dave Mingo  
Community Development Director  
City of Yankton  
416 Walnut Street  
Yankton, SD 57078

Re: Market Feasibility Analysis for New Retail, Restaurants, and a Hotel in the City of Yankton, SD

Dear Dave:

This letter highlights our conclusions with regard to viability of new retail, restaurants, and a hotel in Yankton, SD.

The conclusions, recommendations, analysis, maps and data tables are provided in two sections:

- Section I — Retail
- Section II — Hotel

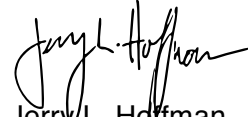
An overarching theme for our conclusions is that any new development that optimizes market potential in Yankton, SD, must occur in the area around 31<sup>st</sup> and Broadway. The highest and best uses for northwest corner of that intersection is a retail and mixed use community space. Viability of retailers and restaurants is enhanced when co-location is in an already strong retail center. Moreover, an extended stay midscale hotel would contribute to the densification of this property; and provide additional gravity to an area that already has a strong consumer draw.

Available outparcel lots fronting Menard's is attractive to new regional and national chain restaurants.

Our general recommendation is to combine retail, restaurants, and a hotel to enhance daytime and residential density; and to optimize sales, absorption and value.

Dave, please refer to the sections of this letter for further detail. Should you have any questions regarding this letter, please do not hesitate to contact us.

Sincerely,



Jerry L. Hoffman  
President  
Hoffman Strategy Group



Jeffrey S. Green  
President  
Jeff Green Partners

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## Conclusions

**Hoffman Strategy Group/Jeff Green Partners concludes that the greater Yankton, SD, market can support the following to a greater or lesser extent as outlined below:**

**Retail — We estimate 78,000 square feet of new retail stores and restaurants are supportable starting in 2016. Including a relocation of the Goodwill into a 40,000 square foot space, the Yankton, SD, market can support a total of 118,000 square feet. The new retail base as recommended in this report fills a void in this market; and appeals to the areas residential consumer lifestyle profile and daytime population base. Some of the recommendations include:**

- 50,000 SF Hobby Lobby
- 40,000 SF Goodwill relocated to the former Save-U-More building
- 5,500 SF Rue 21
- 5,000 SF Cato Junior/Misses/Plus
- 17,500 SF of restaurants such as Applebee's, Whiskey Creek, Chili's, or Ruby Tuesday; IHOP; Panda Express, Raising Cane, Firehouse Subs, and Starbucks

**Hotel — The Yankton, SD, market can support a new 60-room Candlewood Suites, an extended-stay midscale hotel; or a 60-room TownePlace Suites by Marriott, an extended-stay upper midscale brand hotel.**

Hoffman Strategy Group/Jeff Green Partners

RETAIL MARKET STUDY FOR YANKTON, SD

RETAIL MARKET

## BACKGROUND

Hoffman Strategy Group/Jeff Green Partners was retained by the City of Yankton, SD, to conduct a retail market study for new retail development on available properties in Yankton, SD. This study updates and expands on reports previously completed by other retail consultants. Specifically, the analysis in this report is for the period 2016 to 2021; recommendations are provided regarding retail tenants and tenant mix for key properties in Yankton; and estimated sales forecasts are made for each of the recommended retailers.

Issues that are addressed in this report include:

1. Quantify the retail spending potential for residents, daytime population, and visitors-tourists; and relate that to the impact on tenant mix.
2. Incorporate the most recent lifestyle characteristics of the trade area to support a set of recommended retailers and tenant mix.
3. For each available property location, determine what types of retail are supportable; recommend tenants; and estimate sales forecasts for each recommended retailer.

## ASSUMPTIONS

The retail market study is based on these assumptions:

- Population and household growth as projected by national database provider Nielsen/Claritas accurately reflects the greater Yankton, SD, market.
- Expenditure estimates for the residential population using Consumer Expenditure Survey data from the Bureau of Labor Statistics accurately reflects expenditure potential available to retailers within the defined trade area.
- Economic conditions of the greater Yankton County and Yankton market will remain stable over the next five years.
- Site locations for new retail are predominantly concentrated along the north-south US Highway 81 corridor, which inside the city-limits is Broadway Street between West 39<sup>th</sup> Street and West 21 Street. The main concentration for new retail store and restaurant location is the concentration at 31<sup>st</sup> and Broadway. Sites provide easy ingress/egress, ample parking, and adequate visibility.

RETAIL MARKET STUDY FOR YANKTON, SD

- The highest and best uses potential for approximately 40 acres at the northwest corner of 31<sup>st</sup> and Broadway is a retail-integrated mixed-use center. Mixed-uses for consideration include multifamily housing, a new hotel with small conference center, a sports complex, civic and public park space.
- The Yankton Mall will become less viable as a retail center for the Yankton-area market; and poses an opportunity to introduce non-retail uses for the period 2016 to 2021.
- Kmart recently announced store closures: Pierre, SD, in mid-March; and Mitchell, SD, in mid-April. While Kmart has not closed the store in Yankton, SD, that appears likely within the time period of this study because of the general business condition of this national retailer.

## ABOUT RETAIL AND THE YANKTON MARKET

Retail in Yankton is shifting out of and away from the enclosed Yankton Mall. The shift is toward and around the Menards and Walmart Supercenter at 31<sup>st</sup> and Broadway. This is the prevailing locus of retail activity for the Yankton market; and presents the most likely area for new-to-market retail stores and chain restaurants.

- Yankton's newest strip center, the Shoppes of Yankton, is located on the northeast corner of 31<sup>st</sup> and Broadway. Maurices moved out of the Yankton Mall to a space adjacent to Shoe Sensation (2015); and Verizon Wireless (2015).
- Culver's opened a location at the entrance to Menards in 2014.

Yankton Mall is a 226,000 sf enclosed mall that has served as the retail hub for the Yankton area since 1969. The mall is anchored by a 30,856 sf JCPenney. Other tenants include Dunham's Sports (16,635 sf), Carmike Theatres (15,685 sf), Christopher & Banks (3,300 sf), and Payless Shoes (6,000 sf), with a mix of local and temporary inline space tenants.

Schweser's, a Fremont, NE-based women's clothing store, is going out of business and closing stores in Iowa, Nebraska, South Dakota; and their online store. Their store at Yankton Mall is scheduled to close February 28, 2016. The closure of Schweser's will leave a 6,000 sf inline space vacant. There will be approximately 90,000 sf of total vacant space at the mall.

The mall was last renovated in 1980. Renovation and de-malling discussions between the City of Yankton and the mall owner, Dial Properties Management, have reportedly been ongoing since 2008. Cost estimates for a recent de-malling proposal are \$6.1 million and the city has

RETAIL MARKET STUDY FOR YANKTON, SD

established a special assessment fund for this purpose. New site designs show a Yankton Mall reposition to an entertainment hub. Carmike Theatres would be the central feature; and Dunham's would relocate to a 40,000 square foot end-cap space. The special assessment fund would support parking lot improvements, demolition of a vacant section of the mall to construct a courtyard, exterior entrances for individual stores, interior shop improvements and two outparcels for new tenants.<sup>1</sup>

Generational changes in shopping behaviors, consumer tastes and preferences, online retailers such as Amazon, and online retail generally are underlying the shifts in retail for Yankton, SD, and markets of all sizes across the US. Retailers are either closing or relocating under-performing stores (e.g., Sears, Kmart, JCPenney); slowing down new store expansion plans; seeking to operate smaller footprint stores; and even using stores as a distribution location for merchandise bought online (e.g., Best Buy). Owners of traditional retail real estate are forced to evaluate highest and best uses of the property. Often times, the result is the incorporation of non-retail uses.

Moreover, shopping centers like Empire Mall in Sioux Falls, SD, or Lakeport Commons in Sioux City, IA, are about an hour drive from Yankton. These regional retail centers are a draw for both regional and national chain retailers. For example, Gordmans is located at both shopping centers. They target markets that have a minimum trade area population of 100,000. Their co-tenants usually include national chain retailers such as Kohl's.

Kohl's smallest store prototype is 55,000 sf. This is usually a single store that is targeted for rural communities with 100,000 people in the trade area, similar to Gordmans.

New regional or national chain retailers and restaurants are still viable in the Yankton market, even though it is a more limited universe from which to recruit. The issues to address include: which one's are opening new store locations in Yankton-size markets; what are their co-tenancy preferences; and what is an anticipated time-to-market. In this context, Yankton's strength lies in the 31<sup>st</sup> and Broadway area. In particular, the northwest corner for retail and mixed uses; and the outparcels between Culver's and Verizon Wireless for chain restaurants (full-service and/or quick service).

For example, Hoffman Strategy Group/Jeff Green Partners recommends Cato Junior/Misses/Plus. Cato stores are located in trade areas with a minimum population of 25,000. Co-tenancy

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<sup>1</sup> *Officials: Latest Attempt at Mall Upgrade Promising*, by Rob Nielsen, Yankton Daily Press, August 21, 2015

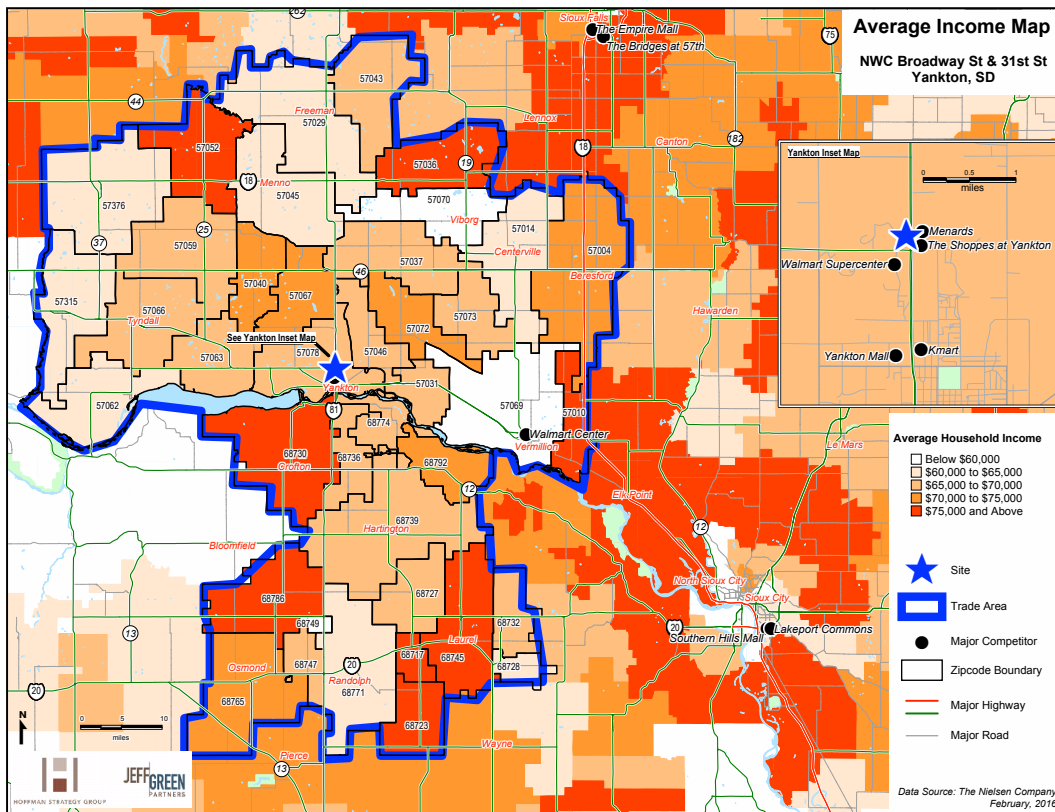
RETAIL MARKET STUDY FOR YANKTON, SD

preference is Walmart Supermarket or other big box power centers (see Mitchell and Sioux Falls, SD). Similarly, Rue 21 has stores located in smaller markets; and select sites adjacent to Menards and Walmart Supercenter (see Mitchell, SD). Both retailers already have targeted new store locations for 2016, and possibly for 2017. An approximate time-to-market may be 36 months, if relationships are built within the first three quarters of 2016.

The balance of this retail market study will address the Yankton trade area size and market characteristics. A set of national chain retailers and restaurants are recommended in the context of these broader retail industry shifts; and the retail market potential specific to Yankton.

**TRADE AREA**

Hoffman Strategy Group/Jeff Green Partners has determined that new retail and restaurants in the Yankton trade area should primarily have a strong appeal both to resident consumers and to destination-oriented travelers. This is based on field evaluation, the retail gravitation in the market, traffic patterns, and extensive experience in defining trade areas for retail and mixed use developments throughout the United States.



## RETAIL MARKET STUDY FOR YANKTON, SD

The trade area capitalizes on a regional population base of 70,298 within approximately 50-miles radius, extending south from Interstate 90 and just past US Highway 20 in Nebraska. This trade area, defined at the block group level, includes 27,765 resident households and 34,999 daytime workers; and is characterized as lower to upper middle income singles, couples and families.

Retail opportunity by category for the Yankton trade area is presented in the following table.

<b>Retail Category</b>	<b>2016 Demand (Expenditures)</b>	<b>2016 Supply (Retail Sales)</b>	<b>Void/Surplus</b>
General Merchandise Stores-452	\$138,744,541	\$167,735,969	(\$28,991,428)
Clothing and Clothing Accessories Stores-448	\$51,936,519	\$5,951,120	\$45,985,399
Furniture and Home Furnishings Stores-442	\$23,009,268	\$18,140,384	\$4,868,884
Electronics and Appliance Stores-443	\$21,059,962	\$40,574,732	(\$19,514,770)
Building Material, Garden & Equip. Stores-444	\$131,642,922	\$283,633,912	(\$151,990,990)
Supermarkets, Grocery Stores-4451	\$100,628,823	\$200,382,332	(\$99,753,509)
Sporting Goods, Hobby, Book, Music Stores-451	\$22,702,502	\$59,758,031	(\$37,055,529)
Full-Service Restaurants-72221	\$55,876,127	\$36,018,352	\$19,857,775
Fast Food/Limited Service Eating Place-7222	\$49,825,205	\$27,080,294	\$22,744,911

### **Retail Market Surplus**

This table supports the finding that regional and national chain retail and restaurants can capture sales revenue potential in the Yankton, SD, trade area. Walmart Supercenter, JC Penney, Menards, Bomgaars, Hy-Vee Supermarket, and Dunham's Sports attract consumers from around the Yankton area.

For example, \$167,735,969 in General Merchandise Stores retail sales is comprised of \$138,744,541 in spending by the trade area residents; and an additional \$28,991,428 in sales comes from consumers outside the trade area. Walmart Supercenter is in this retail store category. Hoffman Strategy Group/Jeff Green Partners does not recommend another general merchandise store because of Walmart's strong retail pull. However, this is a site location opportunity for retail stores that do well co-locating with or near a Walmart (e.g., Cato and Rue 21).

The Hy-Vee Supermarket in Yankton is associated with the \$200,382,332 in total retail sales by grocery stores. Of that amount, \$100,628,823 is attributed to trade area resident consumer spending; and an additional \$99,753,509 comes from consumers living outside the trade area. Given the retail pull of this store category, another supermarket is not part of the recommended retail tenant mix.



### **Retail Opportunity Void/Gap**

Resident consumers spend more of their retail dollars outside of the Yankton trade area on clothing and clothing accessories. That is, trade area residents spend \$51,936,519 on clothing and accessories; but the trade area only records \$5,951,120 in retail sales. That difference of \$45,985,399 represents Yankton's retail sales leakage in this store category. Yankton residents are most likely spending their retail dollars in Sioux Falls, SD, where Empire Mall has a better selection of fashion-oriented retailers than South Hills Mall in Sioux City, IA.

Stores such as Cato Junior/Misses/Plus and Rue 21 are recommended in this category. Each can capture a portion of the retail dollars that are spent on women's apparel in nearby markets like Sioux Falls, SD. Cato and Rue 21 are already in Yankton-sized markets such as Mitchell, SD. The area of 31<sup>st</sup> and Broadway meets their co-tenancy and site location criteria of being adjacent to or near a Walmart Supermarket; and having enough ground for a stand-alone building.

Moreover, a Cato and Rue 21 location near the existing locations of Shoe Sensation and Maurices at 31<sup>st</sup> and Broadway can strengthen these retailer's sales volume through cross-shopping opportunities.

Similar market opportunity exists for full-service and quick-service restaurants. Yankton trade area residents spend more of their food-away-from-home dollars in nearby markets like Sioux Falls, SD. The estimated amount of combined spending on fast-food and sit-down restaurants is \$105.7 million. Yankton's food establishments capture approximately \$63.1 million in sales; with approximately \$42.6 million spent elsewhere.

Culver's saw the opportunity to capture sales from the Yankton market and opened a location on the Broadway – US Highway 81 side of the Menards entrance.

Hoffman Strategy Group/Jeff Green Partners recommends additional fast food/fast casual restaurants such as Raising Canes, Panda Express and Firehouse Subs at 31<sup>st</sup> and Broadway; specifically, at the outparcels by Menards.

Applebee's, Whiskey Creek, Chili's or Ruby Tuesday's and IHOP can capture restaurant sales in the Yankton trade area, too. These restaurants may locate at the outparcels by Menards. Alternatively, these national chain restaurants could serve as anchors to a retail/mixed use development on the northwest corner of 31<sup>st</sup> and Broadway.

## **RETAIL RECOMMENDATIONS**

The Yankton trade area can support **78,000 sf** in new retail stores and restaurants; and the relocation of a 40,000 sf Goodwill store for a total **118,000 sf**. Store locations should complement the existing mix in the 31<sup>st</sup> and Broadway area. This tenant mix includes:

RETAIL MARKET STUDY FOR YANKTON, SD

50,000 sf Hobby Lobby

40,000 sf Goodwill relocated to the former Save-U-More building

5,500 sf Rue 21

5,000 sf Cato Junion/Misses/Plus

5,500 sf Applebee's, Whiskey Creek, Chili's or Ruby Tuesday

4,000 sf IHOP

2,500 sf Panda Express

2,000 sf Raising Cane

2,000 sf Firehouse Subs

1,500 sf Starbucks

These tenants attract residential consumers, daytime workers, and visitors from outside the trade area; and, offer both a convenience and a destination appeal.

Restaurants are considered an anchor category. The success of retail and mixed use space such as the 31<sup>st</sup> and Broadway area lies in the capacity to build economies of density in a central place. This builds in daytime, weekday, and weekend consumer demand components.

This recommended tenant mix is informed by a field evaluation that included visits to:

Southern Hills Mall, Sioux City, IA

Lakeport Commons Shopping Center, Sioux City, IA

Empire Mall, Sioux Falls, SD

Western Mall Shopping Center, Sioux Falls, SD

The Bridges at 57<sup>th</sup>, Sioux Falls, SD

8<sup>th</sup> & RR Center at 8<sup>th</sup> and Reid Street, Sioux Falls, SD (near riverfront)

31<sup>st</sup> and Broadway area of Yankton

Yankton Mall

Hy-Vee Supermarket, Yankton

RETAIL MARKET STUDY FOR YANKTON, SD

Downtown and the Landing Area of Yankton

West Yankton toward Gavins Point Dam

East Yankton on US Highway 50

Walmart Supercenter, Vermillion, SD

Downtown Vermillion

These competitor sites are located in the Trade Area map on Page 5.

RETAIL MARKET STUDY FOR YANKTON, SD

**SUPPORTABLE SALES FORECASTS BY RECOMMENDED MIX**

The following table details the forecasted sales by individual recommended tenant for the first year and fifth year of operations.

**Retail Expenditure Potential Table  
Yankton, SD**

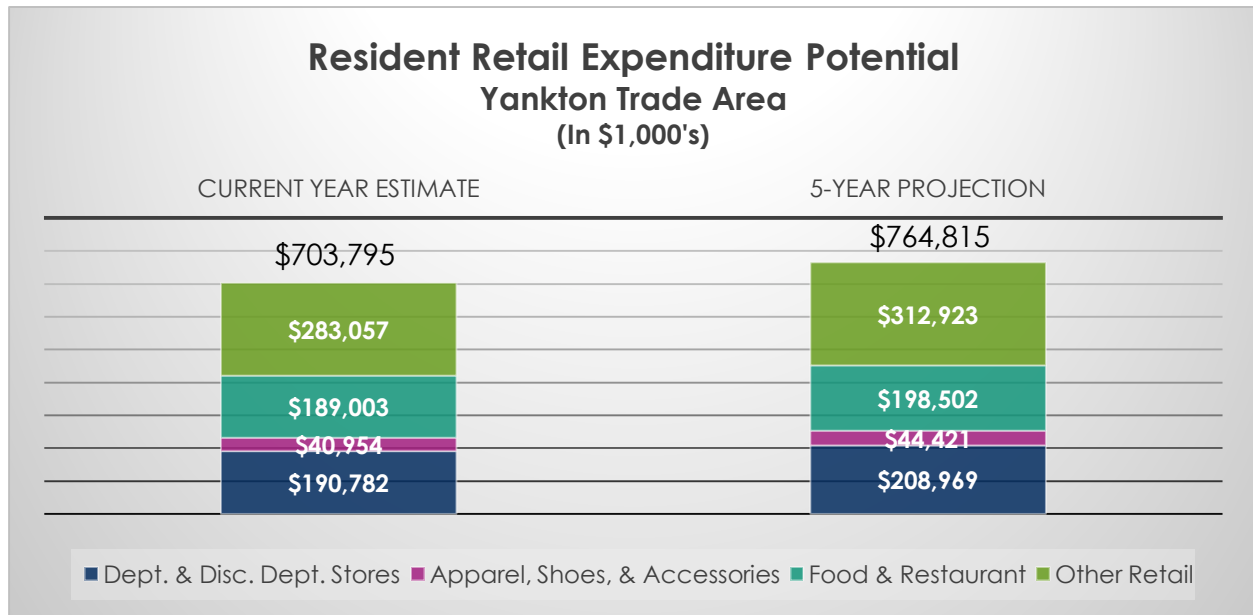
	Total Trade Area		Recommended Size	1st Year	1st Year	5th Year	5th Year	Retailers Such As:
	Current Year Estimate	5-Year Projection		Annual Sales*	Sales* Per Sq Ft	Annual Sales*	Sales* Per Sq Ft	
Department Stores	\$45,583,300	\$50,421,200						
Discount Department Stores	\$94,322,200	\$103,244,900	40,000	\$ 8,000,000	\$ 200	\$ 9,200,000	\$ 230	Relocated Goodwill
Warehouse Clubs & Superstores	\$50,876,000	\$55,302,900	50,000	\$ 8,750,000	\$ 175	\$ 10,062,500	\$ 201	Hobby Lobby
Womens Apparel	\$14,136,300	\$15,352,500	5,500	\$ 1,375,000	\$ 250	\$ 1,581,250	\$ 288	Rue 21
Mens Apparel	\$9,194,200	\$9,948,500	5,000	\$ 1,375,000	\$ 275	\$ 1,581,250	\$ 316	Cato Junior/Misses/Plus
Unisex Apparel	\$5,832,600	\$6,325,200						
Childrens Apparel	\$7,215,700	\$7,847,800						
Shoes & Accessories	\$4,575,600	\$4,946,800						
<b>Total Apparel, Shoes &amp; Accessories</b>	<b>\$40,954,400</b>	<b>\$44,420,800</b>	<b>10,500</b>	<b>\$ 2,750,000</b>	<b>\$ 262</b>	<b>\$ 3,162,500</b>	<b>\$ 301</b>	
Grocery Stores	\$111,874,900	\$117,818,400						
Specialty Food Stores	\$38,500,000	\$40,091,100	1,500	\$ 900,000	\$ 600	\$ 1,035,000	\$ 690	Starbucks
Alcoholic Beverages	\$10,589,500	\$11,170,100						
Fast Food/Fast Casual Restaurant	\$12,573,700	\$13,093,500	2,000	\$ 800,000	\$ 400	\$ 920,000	\$ 460	Raising Cane
			2,500	\$ 1,625,000	\$ 650	\$ 1,868,750	\$ 748	Panda Express
			2,000	\$ 1,000,000	\$ 500	\$ 1,150,000	\$ 575	Firehouse Subs
Full-Service Restaurant	\$15,464,500	\$16,329,000	5,500	\$ 3,025,000	\$ 550	\$ 3,478,750	\$ 633	Applebee's, Whiskey Creek, Chili's or Ruby Tuesday
			4,000	\$ 1,400,000	\$ 350	\$ 1,610,000	\$ 403	I-Hop
<b>Total Food &amp; Restaurant</b>	<b>\$189,002,600</b>	<b>\$198,502,100</b>	<b>17,500</b>	<b>\$ 8,750,000</b>	<b>\$ 500</b>	<b>\$ 10,062,500</b>	<b>\$ 575</b>	
Appliances, Computers and Electronics	\$24,758,800	\$30,060,600						
Art, Craft & Sewing Stores	\$549,500	\$601,800						
Auto Supplies	\$16,078,600	\$17,142,400						
Book Stores	\$2,819,900	\$3,216,100						
Cards & Gift Shops	\$1,426,000	\$1,597,700						
Drugstore / Pharmaceutical	\$110,339,300	\$116,590,200						
Florists	\$4,513,500	\$5,001,200						
Health & Beauty Store	\$9,886,300	\$10,744,600						
Furniture, Home Decor & Accessories	\$15,156,700	\$17,142,500						
Home Improvement	\$26,051,600	\$28,585,900						
Jewelry Store	\$1,541,400	\$1,920,400						
Laundry / Dry Cleaning	\$1,677,600	\$1,864,700						
Luggage Shops	\$240,600	\$281,400						
Optical / Vision Care	\$4,179,600	\$4,821,500						
Personal Expenses & Services	\$12,874,200	\$13,951,100						
Pet Supplies	\$10,403,100	\$11,668,600						
Photographic Equipment & Supplies	\$332,100	\$437,800						
Sporting Goods Store	\$3,302,200	\$3,918,200						
Tobacco Shop	\$12,330,200	\$14,395,500						
Toy & Hobby Shops	\$2,198,100	\$2,572,400						
Film & Theatre Entertainment	\$22,397,600	\$26,408,800						
<b>Total Other Retail</b>	<b>\$283,056,900</b>	<b>\$312,923,400</b>						
<b>Total Identified Retail Expenditure</b>	<b>\$703,795,400</b>	<b>\$764,815,300</b>	<b>118,000</b>	<b>\$28,250,000</b>	<b>\$ 239</b>	<b>\$ 32,487,500</b>	<b>\$ 275</b>	

\* Sales stated in constant 2016 dollars - No adjustment has been made for potential inflation

Forecasts of sales revenue estimates by tenant were derived using Jeff Green Partners' in-house proprietary models of expenditure potential. The Yankton trade area can support 118,000 total square feet of new retail and restaurant tenants. Estimated sales forecasts for these tenants are: \$28,250,000, assumed for 2017; and \$32,487,500 in the fifth year of operations (2022).

RETAIL MARKET STUDY FOR YANKTON, SD

Using data from the *Census of Retail Trade*, sales tax information, and resident population levels, Yankton trade area annual expenditure potential is determined for key retail types.



Total expenditure potential of Yankton trade area residents for current year (2016) is estimated at \$703.7 million; and five-year projection (2021) is \$764.8 million.

Estimates of additional retail spending potential from the daytime worker population is provided in the table below.

<i>Retail Store Type</i>	<b>Daytime Population Base</b>		
	<b>5-Miles</b>	<b>10-Miles</b>	<b>20-Miles</b>
<i>Department</i>	\$3,367,949	\$3,623,430	\$4,321,625
<i>Drug Stores &amp; Personal Care</i>	\$3,898,374	\$4,194,091	\$5,002,246
<i>Supermarkets</i>	\$16,684,458	\$17,950,083	\$21,408,866
<i>Apparel</i>	\$2,149,341	\$2,312,382	\$2,757,953
<i>Electronics and Appliance</i>	\$2,979,147	\$3,205,135	\$3,822,729
<i>Office Supplies, Stationery, Gifts</i>	\$2,944,721	\$3,168,098	\$3,778,555
<i>Full-Service Restaurants</i>	\$6,421,293	\$6,908,390	\$8,239,561
<i>Fast Food/Deli/Lunch Eateries</i>	\$6,190,920	\$6,660,542	\$7,943,955
<b>Total Identified Expenditures</b>	<b>\$44,636,203</b>	<b>\$48,022,151</b>	<b>\$57,275,490</b>
<i>Sources: ICSC Research, Nielsen Business Facts, Bureau of Labor Statistics</i>			

There is an additional \$48 million in potential retail spending from daytime workers within 10-miles radius of Yankton.

RETAIL MARKET STUDY FOR YANKTON, SD

Lastly, Yankton is a major seasonal-tourist attraction because of the Gavins Point Dam and the Lewis and Clark Lake. Estimates hold that the Yankton area attracts over two million tourists annually.<sup>2</sup> The following table identifies the potential retail spending impact from seasonal-tourist on the Yankton area.

<i>Spending Category</i>	<b>2015 Est. Tourist Spending</b>
<i>Ground Transportation/Fuel</i>	\$281,457,678
<i>Accommodation/Lodging</i>	\$182,231,921
<i>Retail Sales</i>	\$118,307,634
<i>Arts/Entertainment/Recreation</i>	\$69,648,849
<i>Food Stores</i>	\$51,521,067
<i>Total Est. Tourist Spending</i>	\$946,461,074

## RATIONALE

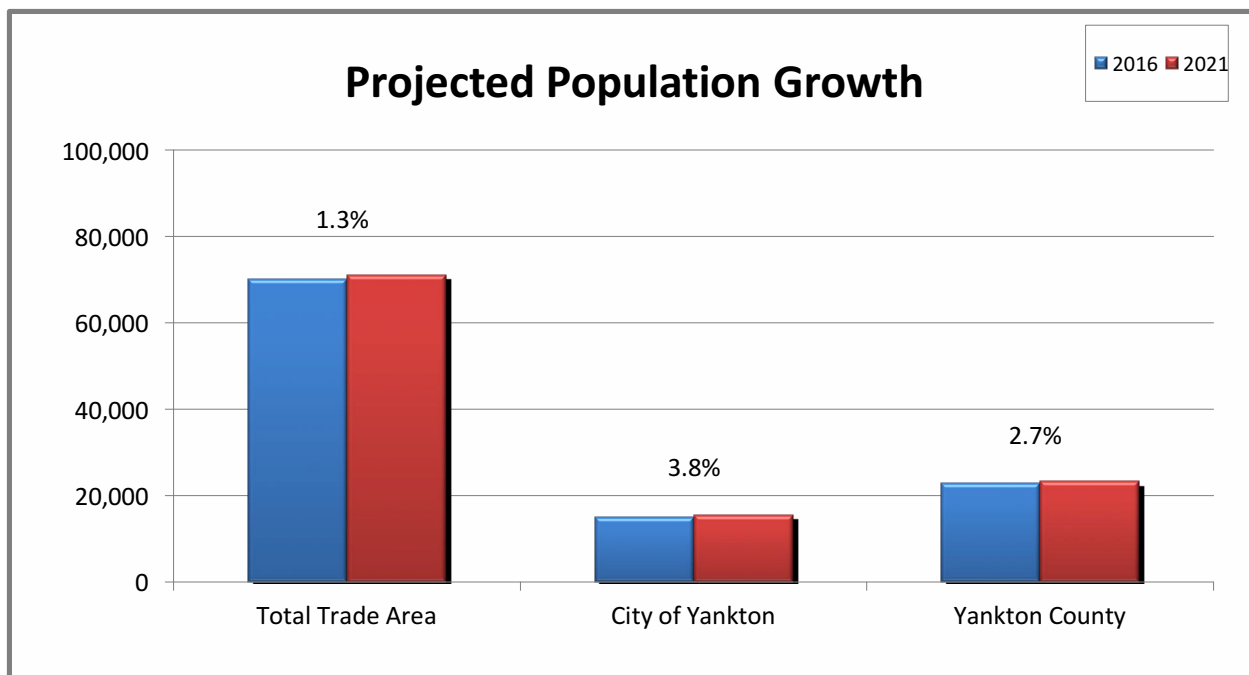
The following highlights the rationale for our recommended retail tenant mix.

- **Regional Corridor:** Yankton is on US Highway 81 north-south trade corridor; and US Highway 50 east-west trade corridor. This regional access point increases the overall trade area size and enhances the residential base from which to draw consumer expenditures.
- **Population Growth:** Yankton and Yankton County has a stable population. The larger trade area population growth is flat mainly due to the rural/agricultural surroundings. Residential population is projected to grow by 3.8 percent by 2021 for the City of Yankton.

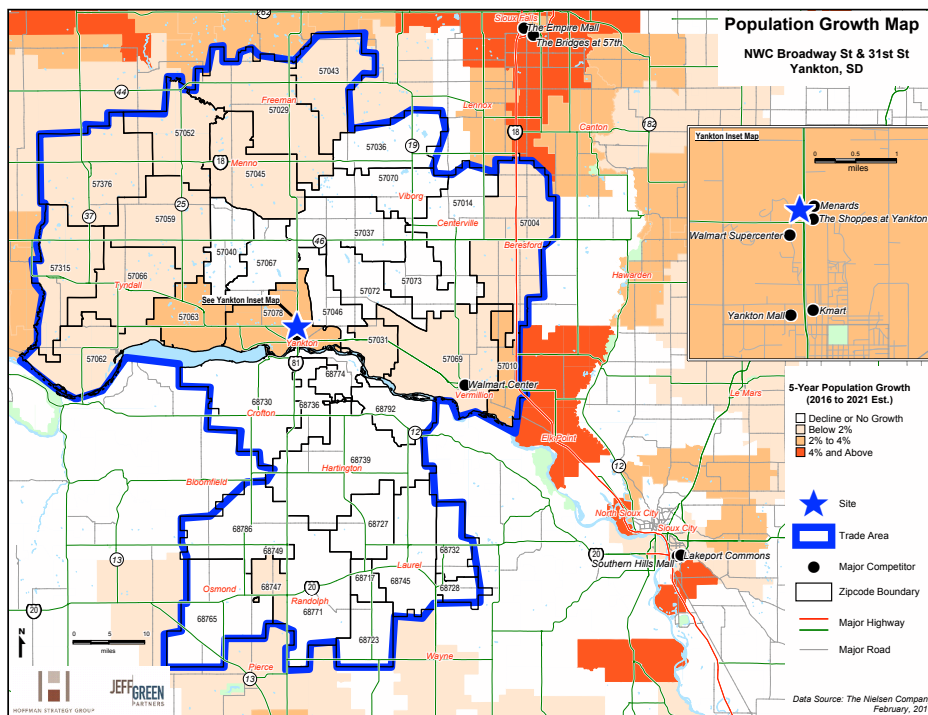
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<sup>2</sup> *Yankton Retail and Tourism-Driven Market Assessment*, SB Friedman Development Advisors, January 6, 2015

RETAIL MARKET STUDY FOR YANKTON, SD



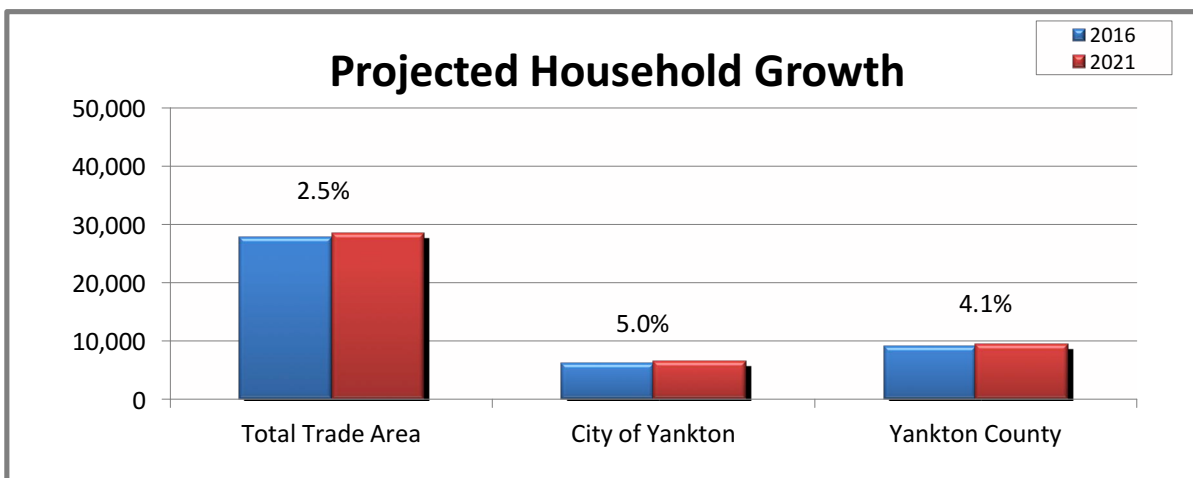
For Yankton County and the Yankton trade area, the projected population growth rates are: 2.7 percent and 1.3 percent, respectively.



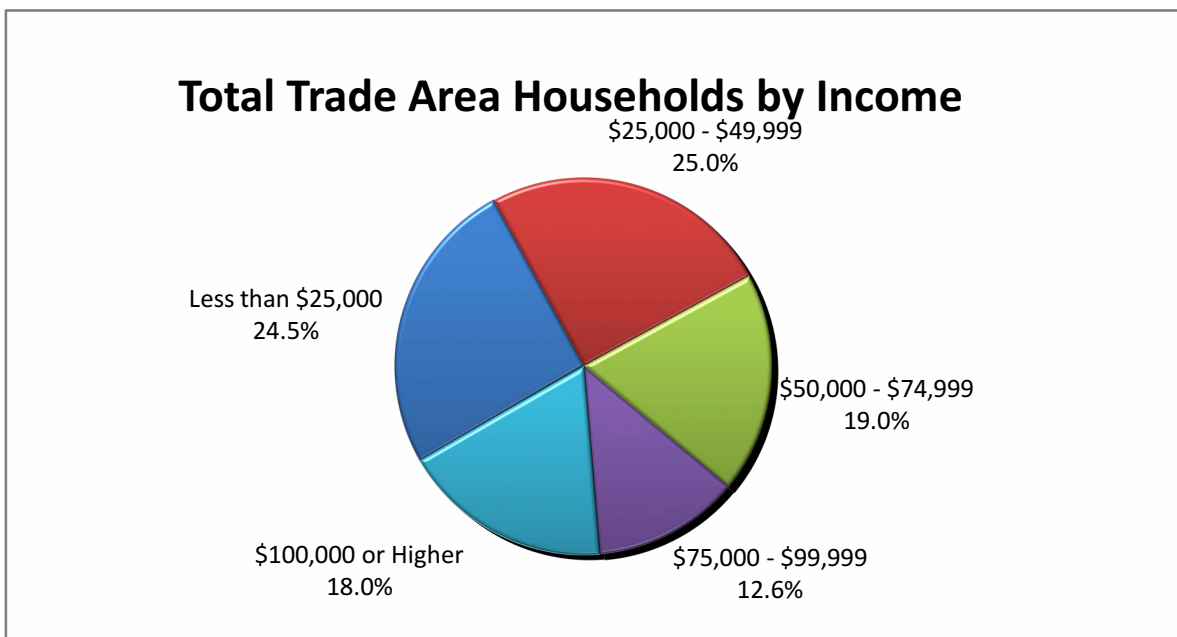
RETAIL MARKET STUDY FOR YANKTON, SD

The population growth is concentrated in and to the west of Yankton, as shown in the population growth map on the previous page.

- **Household Growth:** Household growth rates for the Yankton Trade Area, City of Yankton and Yankton County are: 2.5 percent, 5.0 percent, and 4.1 percent, respectively.



- **Trade Area Household Incomes:** The trade area has a strong presence of middle class households, with an average household income of \$65,594 (2016 est.).





## RETAIL MARKET STUDY FOR YANKTON, SD

- **Nielsen PRIZM® Lifestyles:** Nielsen's PRIZM® is a sophisticated consumer lifestyle segmentation system. PRIZM® combines demographics, consumer behavior and geographic data and defines every US household into 66 consumer behavior types or segments. These segments help describe consumer preferences, tastes, lifestyles and purchase behaviors and are used by retailers in their site selection process.

<i>Lifestyle</i>	<b>Trade Area HH's</b>	<b>Short Description</b>
<i>Simple Pleasures</i>	3,079 (11.1%)	With many of its residents over 65 years old, Simple Pleasures is mostly a retirement lifestyle: a neighborhood of lower-middle-class singles and couples living in modestly priced homes. Many are high school-educated seniors who held blue-collar jobs before their retirement. And a disproportionate number served in the military, so many residents are members of veterans clubs.
<i>Young &amp; Rustic</i>	2,701 (9.7%)	Young & Rustic is composed of middle-aged, restless singles. These folks tend to be lower-middle-income, high school-educated, and live in tiny apartments in the nation's exurban towns. With their service industry jobs and modest incomes, these folks still try to fashion fast-paced lifestyles centered on sports, cars, and dating.
<i>Traditional Times</i>	2,242 (8.1%)	Traditional Times is the kind of lifestyle where small-town couples nearing retirement are beginning to enjoy their first empty-nest years. Typically in their fifties and older, these upper-middle-class Americans pursue a kind of granola-and-grits lifestyle. On their coffee tables are magazines with titles like Country Living and Country Home. But they're big travelers, especially in recreational vehicles and campers.
<i>Mayberry-ville</i>	2,124 (7.6%)	Like the old Andy Griffith Show set in a quaint picturesque burg, Mayberry-ville harks back to an old-fashioned way of life. In these small towns, upper-middle-class couples like to fish and hunt during the day, and stay home and watch TV at night. With lucrative blue-collar jobs and moderately priced housing, residents use their discretionary cash to purchase boats, campers, motorcycles, and pickup trucks.
<i>Golden Ponds</i>	1,735 (6.2%)	Golden Ponds is mostly a retirement lifestyle, dominated by downscale singles and couples over

RETAIL MARKET STUDY FOR YANKTON, SD

		65 years old. Found in small bucolic towns around the country, these high school-educated seniors live in small apartments on less than \$35,000 a year; more than one in five reside in a nursing home. For these elderly residents, daily life is often a succession of sedentary activities such as reading, watching TV, playing bingo, and doing craft projects.
<i>Big Sky Families</i>	1,545 (5.6%)	Scattered in placid towns across the American heartland, Big Sky Families is a segment of middle-aged rural families who have turned high school educations and blue-collar jobs into busy, upper-middle-class lifestyles. Residents enjoy baseball, basketball, and volleyball, as well as fishing, hunting, and horseback riding. To entertain their sprawling families, they buy virtually every piece of sporting equipment on the market.
<i>Back Country Folks</i>	1,442 (5.2%)	Strewn among remote farm communities across the nation, Back Country Folks are a long way away from economic paradise. The residents tend to be poor, over 65 years old, and living in older, modest-sized homes and manufactured housing. Typically, life in this segment is a throwback to an earlier era when farming dominated the American landscape.

The trade area lifestyles reflect a mix of lower- to upper-middle class singles, family households, middle-age couples without children, and empty-nesting Baby-boomers.

Tenant mix recommendations are informed by these lifestyle profiles. For example, the women’s apparel Cato and Rue 21 appeal to market segments such as Young & Rustic and Big Sky Families.

RETAIL MARKET STUDY FOR YANKTON, SD

- **Area Demographics:** The following table presents and compares demographic characteristics of the total trade area to that of Yankton and Yankton County.

<b>Characteristics</b>	<b>Total Trade Area</b>	<b>Yankton</b>	<b>Yankton County</b>
% College Degree or Higher	25.2%	26.2%	26.1%
Person per HH	2.3	2.2	2.2
Median Age	39	40	41
% Married	54.3%	50.3%	53.5%
% Owner Occupied Housing	70.7%	63.4%	68.9%
% Seasonal Housing	12.5%	7.1%	9.1%
% White	92.4%	90%	90.8%
% African American	1.4%	3.1%	2.4%
% Hispanic	3%	4.4%	2.4%
% Asian/Pacific Is.	0.9%	0.9%	0.7%
% White Collar	56.5%	54.6%	55.4%
% Finance, Mgmt, & Professional	26.9%	23.9%	26.5%
% Services	26.1%	25.3%	22.6%
% Sales	21.8%	26.5%	24.9%

Data are from the Census Bureau, American Community Survey, and Bureau of Labor Statistics; and made available through Nielsen’s Site Reports proprietary GIS database system.

- **Daytime Employment Base:** The estimated employment (worker) base for the total trade area based on radii is:
  - 1 Mile — 6,506
  - 3 Miles — 12,847
  - 5 Miles — 15,002

RETAIL MARKET STUDY FOR YANKTON, SD

The predominant close-in daytime worker population for a 3-mile, 5-miles, and 10-miles radius of Yankton is provided in the following table.

<b>2016 Business Summary - Occupation</b>	<b>US-81 N, Yankton, SD 57078 0 - 3 mi</b>		<b>US-81 N, Yankton, SD 57078 0 - 5 mi</b>		<b>US-81 N, Yankton, SD 57078 0 - 10 mi</b>	
	Employment	%	Employment	%	Employment	%
<b>Total Employment by Occupation</b>	<b>12,847</b>		<b>15,002</b>		<b>16,140</b>	
<i>Office and Administrative Support</i>	1,586	12%	1,800	12%	1,933	12%
<i>Construction and Extraction</i>	1,115	9%	1,742	12%	1,933	12%
<i>Management</i>	1,135	9%	1,355	9%	1,471	9%
<i>Healthcare Practitioners and Technical</i>	1,323	10%	1,362	9%	1,393	9%
<i>Sales</i>	1,290	10%	1,436	10%	1,509	9%
<i>Business and Financial Operations</i>	805	6%	919	6%	975	6%
<i>Building and Grounds Cleaning and Maintenance</i>	662	5%	717	5%	763	5%
<i>Transportation</i>	640	5%	747	5%	800	5%
<i>Community and Social Service</i>	388	3%	433	3%	472	3%
<i>Education, Training, and Library</i>	405	3%	442	3%	498	3%
<i>Protective Service</i>	270	2%	370	2%	456	3%
<i>Food Preparation and Serving</i>	353	3%	392	3%	430	3%
<i>Personal Care and Service</i>	393	3%	440	3%	482	3%
<i>Installation, Maintenance, and Repair</i>	383	3%	482	3%	522	3%
<i>Production</i>	286	2%	388	3%	419	3%

Top employers in Yankton include:

Employer	Number of Employees
Avera Sacred Heart Hospital	1,000
South Dakota Human Services Center	700
Yankton School District	525
Sapa Extrusions	495
Hy-Vee	450
Kolberg Pioneer	440
Mount Marty College	429
Walmart	305
Wilson Trailer Company	310
Vishay Dale Electronics	292
First National Bank of Omaha	250

Hoffman Strategy Group/Jeff Green Partners

HOTEL MARKET STUDY FOR YANKTON, SD

HOTEL MARKET

## EXECUTIVE SUMMARY

Hoffman Strategy/Jeff Green Partners concludes that a new 60-room extended hotel is supportable in the Yankton market.

We recommend that an interested owner-developer conduct additional financial feasibility analysis for a 60-room Candlewood Suites; or a 60-room TownePlace Suites. Additional financial consideration should also be given to a small conference space of no more than 5,000 square feet attached to either hotel; enough to accommodate approximately 250 participants.

The optimal market position for either the Candlewood Suites or the TownePlace Suites is an anchor to a retail and mixed use center on the northwest corner of 31<sup>st</sup> and Broadway (US Highway 81). This area is already a retail anchor because of Menards, Walmart Supercenter, Maurices, Shoe Sensation, the new Verizon Store, and the new restaurant chain, Culver's. Moreover, young families in the community frequent the area because of the soccer fields. As such, either one of these hotels in association with new retail and restaurants represent the highest and best use of this property.

## BACKGROUND

Hoffman Strategy Group/Jeff Green Partners was retained by the City of Yankton, SD, to conduct a hotel market study. The purpose of this study is to determine whether a new hotel is supportable in the Yankton market; and if additional conference meeting space is supportable. If so, what size and brand.

Of additional interest is an estimation of net operating income and potential return on investment measures.

Issues that are addressed in this report include:

1. What are the general hotel market conditions in the Yankton market?
2. Does Yankton have enough hotel rooms to meet overnight visitor demand?
3. Is there sufficient conference and meeting space to meet community and business needs?
4. Is new lodging supportable? If so, what type, size and brand is supportable?
5. If new lodging is supportable, then what is the estimated potential for sales revenue, return on investment, and net operating income?

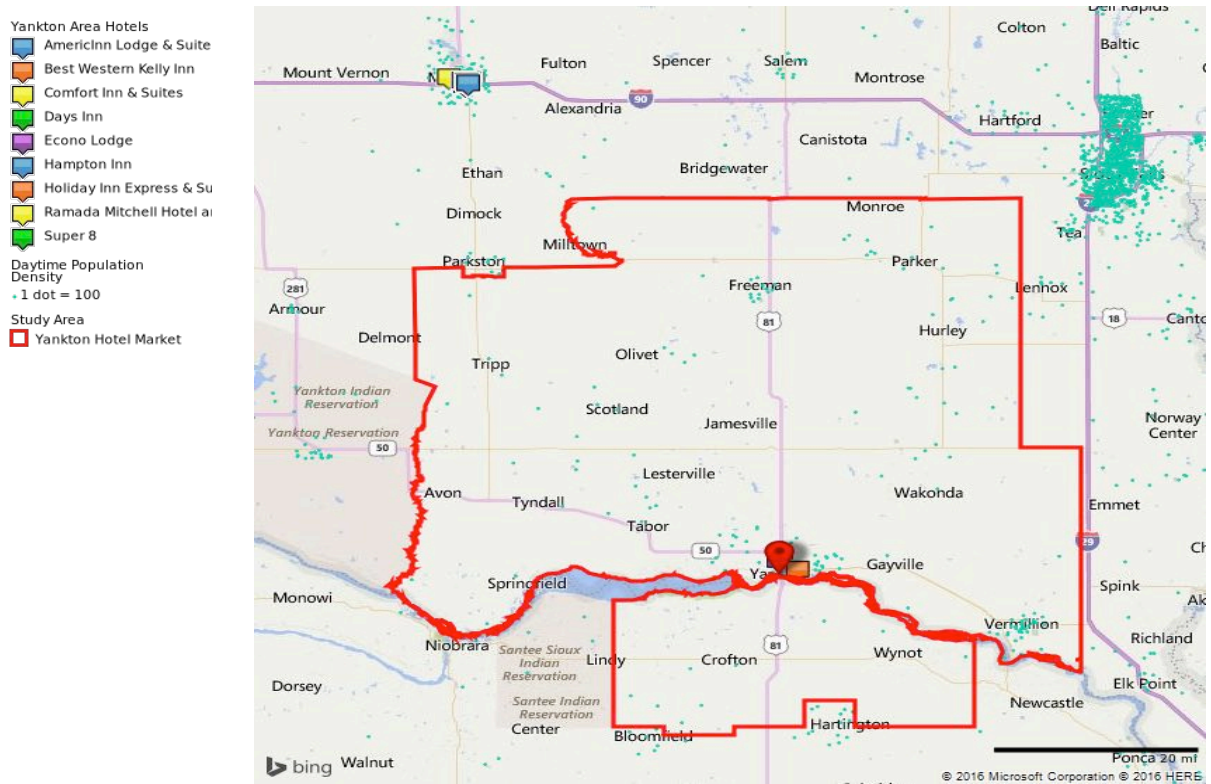
## ASSUMPTIONS

The hotel market study is based on these assumptions:

- Population and household growth as projected by national database provider Nielsen/Claritas accurately reflects the greater Yankton, SD, market.
- Expenditure estimates for the residential population using Consumer Expenditure Survey data from the Bureau of Labor Statistics accurately reflects expenditure potential available to retailers within the defined trade area.
- Performance of area hotels as provided by national database provider Smith Travel Research accurately reflects the Yankton, SD, market.
- Economic conditions of the greater Yankton County and Yankton market will remain stable over the next five years.
- Site locations for a new hotel are predominantly concentrated along the north-south US Highway 81 corridor, which inside the city-limits is Broadway Street between West 39<sup>th</sup> Street and West 21 Street.
- The highest and best uses potential for approximately 40 acres at the northwest corner of 31<sup>st</sup> and Broadway is a retail-integrated mixed-use center. Mixed-uses for consideration include a new hotel with small conference center, multifamily residential units, a sports complex, civic and public park space.

## ABOUT THE YANKTON HOTEL MARKET

The Yankton market is predominantly rural with high seasonal tourist volumes associated with the Lewis & Clark Lake and Recreation Area, Gavin's Point Dam, and other state park attractions.



Hotel demand generators include:

- Seasonal tourists, with peak season of three months;
- Overnight business guests;
- Visitors associated with Avera Sacred Heart Hospital and the Lewis & Clark Specialty Hospital; and
- Government agencies

While the map on Page 3 shows the primary trade area for the Yankton hotel market, overnight visitors predominantly come from outside this area. Seasonal tourists, for example, are estimated to number over two million during the summer months of June, July and August. These visitors are most likely to stay in RV's, campers, tents, and second homes around the Lewis & Clark Lake



HOTEL MARKET STUDY FOR YANKTON, SD

and Recreation Area. Others occupy the area hotels, which range from the older independent motels to locally-owned franchises of national chain brands.

Visitors are reported from across the US, as provided in the table below:

<b>Number of Visitors by State</b>			
Alabama	3	Montana	4
Alaska	6	Nebraska	149
Arizona	22	Nevada	19
Arkansas	13	New Hampshire	0
California	16	New Jersey	2
Colorado	83	New Mexico	2
Connecticut	20	New York	12
Delaware	4	North Carolina	25
Florida	19	North Dakota	11
Georgia	15	Ohio	7
Hawaii	0	Oklahoma	18
Idaho	2	Oregon	22
Illinois	33	Pennsylvania	9
Indiana	9	Rhode Island	0
Iowa	113	South Carolina	4
Kansas	22	South Dakota	224
Kentucky	6	Tennessee	9
Louisiana	4	Texas	60
Maine	7	Utah	6
Maryland	2	Vermont	2
Massachusetts	1	Virginia	16
Michigan	9	Washington	7
Minnesota	93	Washington D.C.	0
Mississippi	2	West Virginia	0
Missouri	50	Wisconsin	29
		Wyoming	14
		<b>TOTAL FOR STATES</b>	<b>1,205</b>

The majority of visitors are from the surrounding states of Nebraska, Iowa, and Minnesota.

The traffic corridors through Yankton are the north-south US Highway 81; and the east-west US Highway 50. Each provides access to the interstate systems: the east-west Interstate 90; and north-south Interstate 29. These are significant in that the secondary and tertiary hotel markets are defined by these corridors.

HOTEL MARKET STUDY FOR YANKTON, SD

- The Holiday Inn Express in Vermillion is part of the secondary trade area, which is located 35 miles east of Yankton near the US Highway 50 and Interstate 29 exchange.
- Ramada Hotel and Conference Center, Holiday Inn Express, Comfort Inn & Suites, Americinn Lodge & Suites, Super 8, and Hampton Inn in Mitchell, SD, are part of a secondary trade area, located 80 miles northeast of Yankton, on Interstate 90.
- Tertiary hotel markets include Sioux Falls, SD, 88 miles from Yankton; Sioux City, IA, 65 miles away; and Norfolk, NE, 60 miles on US Highway 81.

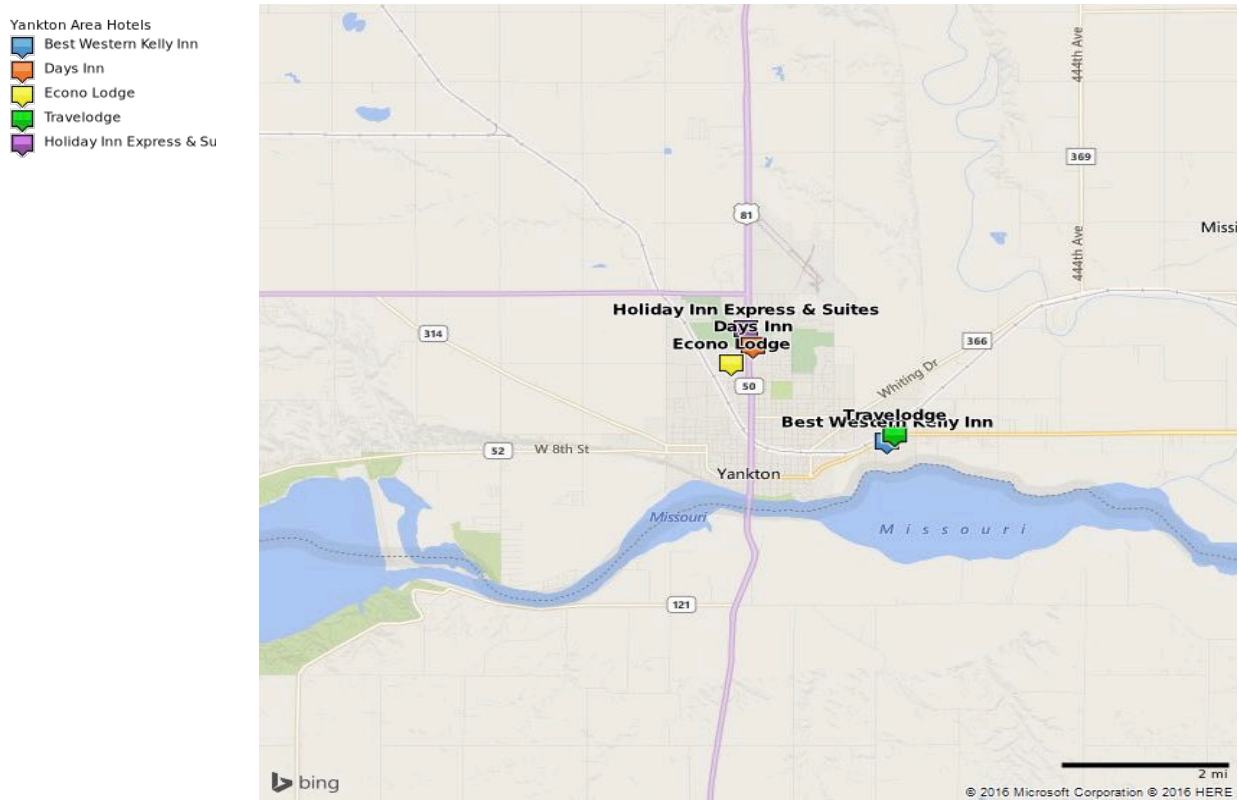
**YANKTON HOTELS**

Yankton has 473 rooms among nine hotels:

Name	Scale	Service Product	Open Date	Rooms
Starlite Inn	Independent	Limited		22
Colonial Inn	Independent	Limited		20
Broadway Inn	Independent	Limited		38
Lewis & Clark Resort	Independent	Limited		41
Econo Lodge	Economy	Limited	Mar 2015	59
Travelodge	Economy	Limited	Oct 1975	58
Days Inn	Economy	Limited	May 1992	56
Best Western Kelly Inn	Midscale	Full	Jun 1980	121
Holiday Inn Express	Upper Midscale	Limited	Jun 2003	58
Total				473

The Best Western Kelly Inn is the only hotel with a conference center. The facility has six meeting rooms that can accommodate 450 persons in 5,265 sf of space. Minervas Grill & Bar is the on-site restaurant that also provides room service and catering for conference center meetings, weddings, and other events.

HOTEL MARKET STUDY FOR YANKTON, SD



We examined the performance of the national franchise hotels in the brand-scale segments of economy, midscale, and upper midscale. Best Western Kelly Inn is the only full-service hotel. The others are limited-service: Days Inn, Econo Lodge, Holiday Inn Express, and Travelodge.

Aggregate performance for this comp set of hotels is provided in the following table.<sup>1</sup>

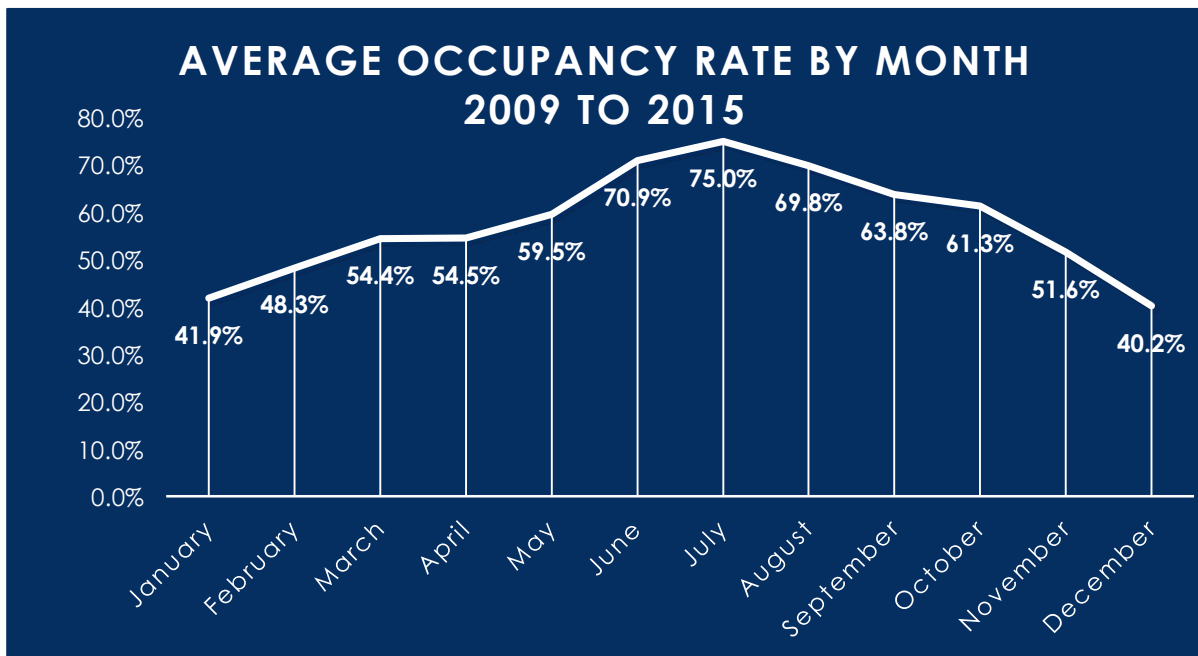
	Occupancy	ADR	RevPAR	Supply	Demand	Revenues
<b>2010</b>	57.7%	\$76.35	\$44.08	123,735	71,439	\$5,454,032
<b>2011</b>	59.7%	\$78.18	\$46.69	124,045	74,074	\$5,791,041
<b>2012</b>	61.0%	\$79.71	\$48.65	127,385	77,745	\$6,197,006
<b>2013</b>	54.5%	\$82.79	\$45.09	127,385	69,382	\$5,744,057
<b>2014</b>	57.9%	\$84.44	\$48.86	127,385	73,708	\$6,223,673
<b>2015</b>	54.7%	\$87.63	\$47.98	145,439	79,626	\$6,977,801

<sup>1</sup> Smith Travel Research

HOTEL MARKET STUDY FOR YANKTON, SD

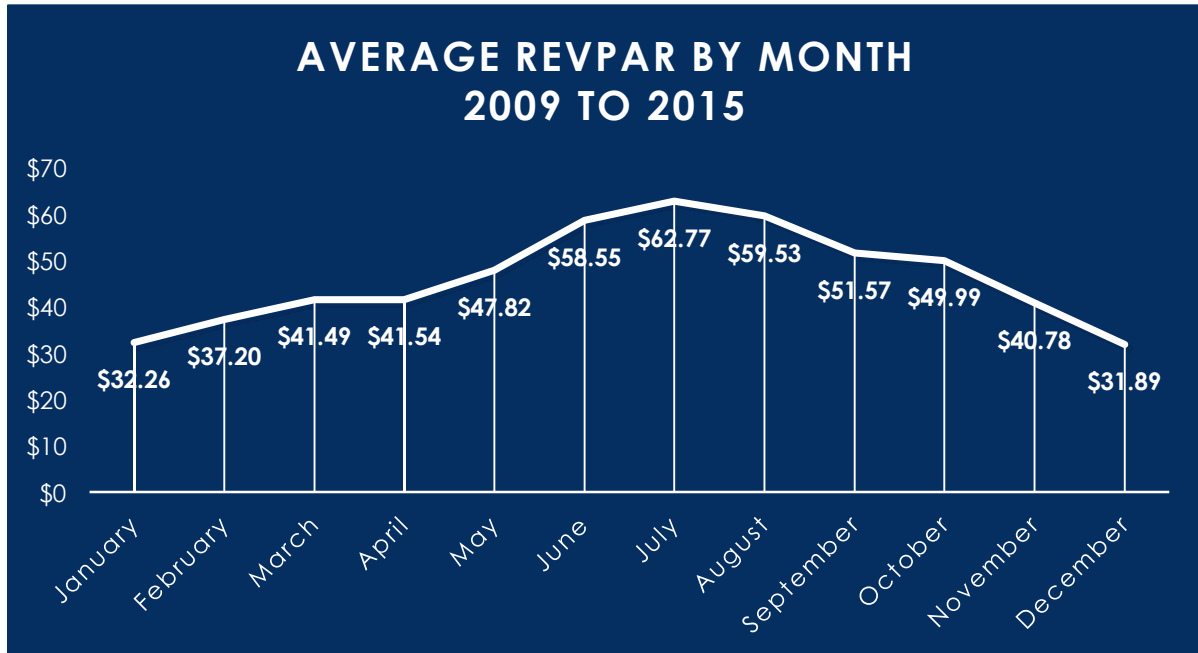
- Hotel inventory has remained relatively constant for the period 2010 to 2015. The most recent increase in hotel room supply is associated with the Econo Lodge opening in 2015.
- Annual room demand is on average 74,099 room nights. Overall annual demand has grown at a rate of 2.3 percent from 71,439 to 79,626 in 2010 and 2015, respectively.
- Room demand is light relative to hotel inventory which yields an overall average occupancy rate of 57.6 percent for the period 2010 to 2015.
- Yankton's hotel market is slowly absorbing new hotel inventory. The new supply of 59 rooms from the Econo Lodge opening in 2015 has lowered the occupancy rate by 3.2 percent even with a 5,918 bump in annual room nights' demand from 73,708 in 2014 to 79,626 in 2015.
- Revenue per available room (RevPAR) has slowly grown by an average annual rate of 1.8 percent over the period 2010 to 2015. Total revenues have grown by an annual rate of 2.7 percent from \$5.5 million in 2010 to \$7.0 million in 2015.

The chart below illustrate the seasonality of hotel demand based on summer tourists. Occupancy levels start to rise in June; peak in July; and begin to fall in August.



HOTEL MARKET STUDY FOR YANKTON, SD

Revenues per available room track with the occupancy rates: rising in June; peak in July; begin to drop in August.



This seasonally-driven business cycle places hotel operators on thin revenue generation during the off-season. Demand from non-tourist segment (e.g., business travelers and overnight visitors) is not very strong as indicated by off-season average occupancy rates of 48.5 percent for the six months of January to April, November and December. Revenues per available room average \$37.53 for these months.

Total annual revenues of \$6,977,801 for 2015, market share, and average daily room rates are used to estimate occupancy and revenues for each of the hotels in the competitive set.<sup>2</sup>

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<sup>2</sup> Average daily rates based on double occupancy room available Marc 4, 2016.

## HOTEL MARKET STUDY FOR YANKTON, SD

Hotel	Rooms	Est. Occupancy	ADR (3/4/16)	Market Share	Est. Rev.	RevPAR
Holiday Inn Express Vermillion	56	62%	\$125	13.7%	\$1,584,100	\$77.50
Holiday Inn Express Yankton	58	62%	\$121	14.2%	\$1,588,173	\$75.02
Econo Lodge Yankton	59	54%	\$67	14.5%	\$779,136	\$36.18
Best Western Kelly Inn	121	54%	\$94	29.7%	\$2,241,815	\$50.76
Travelodge Yankton	58	20%	\$49	14.2%	\$207,466	\$9.80
Days Inn Yankton	56	45%	\$75	13.7%	\$689,850	\$33.75
<b>Total</b>	408	50%	\$89		\$7,090,541	\$47.17

Actual performance will vary from the above estimates. The intention is to estimate the allocation of annual revenues among the national hotel operators on a market share and brand quality basis.

The Holiday Inn Express (2003) is the only upper midscale chain in Yankton. Average annual occupancy considers higher room demand for the seasonal tourist months of June, July and August; and the off-season overnight visitors for the balance of the year.

Best Western Kelly Inn (1980) captures the largest share of the total available rooms nights at 29.7 percent. However, the estimated average annual occupancy rate of 54 percent is based on the age and price point of this midscale brand property. Occupancy rates are much higher during the summer tourist season; and, in the off-season, occupancy rates may be higher at times due to hosting of meetings, conferences, and other events.

On that note, Best Western Kelly Inn is the only full-service hotel property. A conference center that seats approximately 450 persons in six rooms of various configurations, it is the only hotel-based location for holding area meetings and conferences.

The Travelodge (1975) is estimated as the poorest performing hotel in Yankton. This is a newer economy brand since September 2014, changing from a Super 8 flag. The poor ratings provided on various travel websites, along with the price-point, support an annual average occupancy of 20 percent.

## HOTEL BRAND, SIZE AND REVENUE ESTIMATES

Given the above hotel market analysis, we are recommending one of two new limited-service extended stay hotel products in the midscale market:

- 60-room Candlewood Suites
- 60-room TownePlace by Marriott

Hoffman Strategy Group/Jeff Green Partners finds that the optimal placement for either one of these hotel brands is as an anchor to a new retail and mixed use development project. This would be one of the highest and best uses of the northwest corner of 31<sup>st</sup> and Broadway.

## CANDLEWOOD SUITES

Candlewood Suites is a brand of International Hotel Group. This is a standard brand in the midscale extended stay market.



HOTEL MARKET STUDY FOR YANKTON, SD

The Candlewood Suites brand is situated in secondary and tertiary markets with strong extended stay demand drivers. For Yankton, this includes the hospital, corporate, industrial, and leisure tourists. Studio and one-bedroom suites offer kitchens and spacious workspaces. The Candlewood Cupboard provides 24-hour access to snacks, meals, and toiletry items on an honor payment system. Additionally, there is complimentary wifi, 24/7 gym, The Lending Locker, and laundry facilities.<sup>3</sup>

Candlewood Suites may be tailored to each owner and project. The prototype is suitable for new build, conversion, adaptive reuse, mixed-use, or dual-branded property.

Average daily rates range between \$85 to \$95.

IHG has 99 Candlewood Suites in the pipeline as of September, 2015. The estimated development cost per room is \$91,900 to \$264,700, which includes land; building and site improvements; soft costs (e.g., entitlements, survey, professional fees); furniture, fixtures and equipment; and pre-opening and working capital.

An average room is 525 square feet. Total building gross area is 31,500 square feet for a 60-room hotel.

The table below provides estimated net operating income for a 60-room hotel.<sup>4</sup> Assumptions include:

- Year 1: Occupancy Rate is 68 percent
- Year 3: Occupancy Rate is 72 percent
- Year 5: Occupancy Rate is 75 percent
- Average Daily Rate is \$95 in Year 1; Inflation-adjusted at 2 percent annually

**Candlewood Suites Yankton - Estimated Net Operating Income**

# Rooms	60		
Occupancy	68%	72%	75%
ADR	\$95.00	\$98.80	\$102.75
Rooms Occupied	14,892	15,768	16,425
Assumed Annual Inflation	2%		

<sup>3</sup> Candlewood Suites development information available on IHG.com.

<sup>4</sup> Operating expenses are from 2015 HOST Almanac, Smith Travel Research.



## HOTEL MARKET STUDY FOR YANKTON, SD

	Year 1	Year 3	Year 5
<b>Revenues</b>			
Rooms	\$1,414,740	\$1,557,878	\$1,687,702
Food / Beverage	\$0	\$0	\$0
Other Operated Departments	\$17,940	\$18,657	\$19,404
Rentals & Other Income	\$9,699	\$10,087	\$10,490
<b>Total Revenue</b>	<b>\$1,442,378</b>	<b>\$1,586,622</b>	<b>\$1,717,595</b>
<b>Departmental Expenses</b>			
Rooms	\$317,721	\$330,430	\$343,647
Food & Beverage	\$12,464	\$12,963	\$13,481
Other Operated Depts./Rentals	\$21,860	\$22,735	\$23,644
Total Departmental Expenses	\$352,046	\$366,127	\$380,773
<b>Total Department Profit</b>	<b>\$1,090,333</b>	<b>\$1,220,495</b>	<b>\$1,336,823</b>
<b>Undistributed Operating Expenses</b>			
Admin. & General	\$124,230	\$129,199	\$134,367
Marketing	\$76,676	\$79,743	\$82,933
Franchise Fees	\$77,543	\$80,645	\$83,871
Utility Costs	\$66,757	\$69,427	\$72,204
Property Operations & Maint.	\$74,666	\$77,653	\$80,759
Total Undistributed Operating Expenses	\$419,872	\$436,667	\$454,134
<b>Gross Operating Profit</b>	<b>\$670,461</b>	<b>\$783,828</b>	<b>\$882,689</b>
Management Fees	\$41,646	\$43,312	\$45,045
Income Before Fixed Charges	\$628,814	\$740,516	\$837,644
<b>Selected Fixed Charges</b>			
Taxes	\$70,178	\$72,985	\$75,905
Insurance	\$14,922	\$15,519	\$16,140
<b>Net Operating Income</b>	<b>\$543,714</b>	<b>\$652,012</b>	<b>\$745,600</b>

Total revenues for the Candlewood Suites in Yankton are estimated at \$1.4 million in year one; and \$1.7 million in year five, as the occupancy rates reaches stabilization of 75 percent.

Net operating revenues are estimated at \$543,714 for years one and two; \$652,012 for years three and four; and \$745,600 for year five and forward.

Next steps provide a general estimate of the value of a Candlewood Suites property. An income capitalization approach is used to value this proposed property. This values the property based on the net present value of annual net operating incomes; and discounted cash flow analysis.

## HOTEL MARKET STUDY FOR YANKTON, SD

The table below estimates the proposed Candlewood Suites property value using both a mortgage components and an equity component.

**Candlewood Suites Yankton - Return on Investment**


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**ROI Model Assumptions**

# Rooms	60
Holding Period	10
Stablized Year	3
Cap Rate	8%
Mortgage Interest Rate	5%
Mortgage Amortization	20
Yr. 1 NOI	\$543,714
Yr. 3 NOI	\$652,012
Yr. 5 + NOI	\$745,600
Loan-to-Value Ratio	60%
Debt Coverage Ratio	1.4
Debt Yield	15%
Equity Yield	18%

Debt Coverage Ratio Model	\$(000)	IRR	Value Per Room
Value of the Property	\$7,285,799	11%	\$121,430
Value of the Mortgage Component	\$4,903,954	5%	\$81,733
Value of the Equity Component	\$2,381,845	18%	\$39,697

**Project Metrics**


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Total Appreciation	27.9%
Annual Appreciation	2.5%
Cash Flow Return	54.2%
Appreciation Return	45.8%
Total Property Yield	10.8%
Stabilized Going In	
Cap Rate	8.4%

The assumed mortgage terms are based on a holding period of 10 years and an amortization schedule of 20 years. Net present value of net operating income is adjusted to reflect changes from year one of operation to year five as the year of stabilized operations. The 5 percent mortgage interest rate is a national average; as is the capitalization rate of 8 percent. Loan-to-value ratio of 60 percent is an industry standard; as is the debt coverage ratio of 1.4, the debt yield of 15 percent.

HOTEL MARKET STUDY FOR YANKTON, SD

The equity yield of 18 percent is the internal rate of return on equity capital. This is based on an annual national survey conducted by Smith Travel Research; and survey's tracked by HVS as of 2015.

The value of the proposed property is \$7,285,799 or \$121,430 per room. Of that, \$4,903,954 is the mortgage component, or 60 percent of total value. The equity component is \$2,381,845.

In terms of the estimated performance of this proposed Candlewood Suites property:

- The IRR for the total property is estimated at 11 percent.
- The property value appreciation over the 10 year holding period is 27.9 percent.
- Cash flow return of 54.2 percent is the proportion of property value attributed to the property's cash flows over the 10 year holding period.
- The appreciation return of 45.8 percent is the proportion of property value associated with the revision at the end of the 10 year holding period (i.e., mortgage balance owed).
- The total property yield of 10.8 percent is the property level IRR over the 10 year holding period.
- The stabilized going in cap rate of 8.4 percent is the stabilization year's net operating income (Year 3) divided by the property value.

If the owner of this property were to sell at the end of the 10 year holding period, then the estimated net sales price based on total property net present value is \$9,320,000.

## TOWNEPLACE SUITES BY MARRIOTT

TownePlace Suites by Marriott is the standard-bearer of the upper-midscale market. This extended stay product works in every market, from urban to tertiary, with flexible spaces that can be sized to meet the market needs.<sup>5</sup>



TownePlace Suites guest rooms include studio and one bedroom suites. Each has The Office, which is a work space featuring file drawers, storage space, and pull-out table. Suites have fully-equipped kitchens; and feature the elfa® closet system by The Container Store.

Guest rooms range in size from a 320 square foot studio to a 457 square foot one bedroom. Total building gross area is approximately 29,120 square feet for a 60-room hotel.

Marriott has 178 TownePlace Suites in the pipeline as of September, 2015. The estimated development cost per room is \$91,900 to \$264,700, which includes land; building and site improvements; soft costs (e.g., entitlements, survey, professional fees); furniture, fixtures and equipment; and pre-opening and working capital.

Average daily room rates range from \$125 to \$145.

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<sup>5</sup> The TownePlace Suites by Marriott development brochure, 2015.

## HOTEL MARKET STUDY FOR YANKTON, SD

The table below provides estimated net operating income for a 60-room hotel.<sup>6</sup> Assumptions include:

- Year 1: Occupancy Rate is 68 percent
- Year 3: Occupancy Rate is 72 percent
- Year 5: Occupancy Rate is 75 percent
- Average Daily Rate is \$125 in Year 1; Inflation-adjusted at 2 percent annually

**TownePlace Suites Yankton - Estimated Net Operating Income**

# Rooms	60		
Occupancy	68%	72%	75%
ADR	\$125.00	\$130.00	\$135.20
Rooms Occupied	14,892	15,768	16,425
Assumed Annual Inflation	2%		

	Year 1	Year 3	Year 5
<b>Revenues</b>			
Rooms	\$1,861,500	\$2,049,840	\$2,220,660
Food / Beverage	\$0	\$0	\$0
Other Operated Departments	\$17,940	\$18,657	\$19,404
Rentals & Other Income	\$9,699	\$10,087	\$10,490
<b>Total Revenue</b>	<b>\$1,889,138</b>	<b>\$2,078,584</b>	<b>\$2,250,554</b>
<b>Departmental Expenses</b>			
Rooms	\$317,721	\$330,430	\$343,647
Food & Beverage	\$12,464	\$12,963	\$13,481
Other Operated Depts./Rentals	\$21,860	\$22,735	\$23,644
Total Departmental Expenses	\$352,046	\$366,127	\$380,773
<b>Total Department Profit</b>	<b>\$1,537,093</b>	<b>\$1,712,457</b>	<b>\$1,869,781</b>
<b>Undistributed Operating Expenses</b>			
Admin. & General	\$124,230	\$129,199	\$134,367
Marketing	\$76,676	\$79,743	\$82,933
Franchise Fees	\$77,543	\$80,645	\$83,871
Utility Costs	\$66,757	\$69,427	\$72,204
Property Operations & Maint.	\$74,666	\$77,653	\$80,759
Total Undistributed Operating Expenses	\$419,872	\$436,667	\$454,134

<sup>6</sup> Operating expenses are from 2015 HOST Almanac, Smith Travel Research.

## HOTEL MARKET STUDY FOR YANKTON, SD

<b>Gross Operating Profit</b>	<b>\$1,117,221</b>	<b>\$1,275,790</b>	<b>\$1,415,648</b>
Management Fees	\$41,646	\$43,312	\$45,045
Income Before Fixed Charges	\$1,075,574	\$1,232,477	\$1,370,603
<b>Selected Fixed Charges</b>			
Taxes	\$70,178	\$72,985	\$75,905
Insurance	\$14,922	\$15,519	\$16,140
<b>Net Operating Income</b>	<b>\$990,474</b>	<b>\$1,143,973</b>	<b>\$1,278,559</b>

Total revenues for the TownePlace Suites in Yankton are estimated at \$1.8 million in year one; and \$2.2 million in year five, as the occupancy rates reaches stabilization of 75 percent.

Net operating revenues are estimated at \$990,474 for years one and two; \$1,143,973 for years three and four; and \$1,278,559 for year five and forward.

The table below estimates the proposed TownePlace Suites property value using both a mortgage components and an equity component.

#### TownePlace Suites Yankton - Return on Investment

##### ROI Model Assumptions

# Rooms	60
Holding Period	10
Stablized Year	3
Cap Rate	8%
Mortgage Interest Rate	5%
Mortgage Amortization	20
Yr. 1 NOI	\$990,474
Yr. 3 NOI	\$1,143,973
Yr. 5 + NOI	\$1,278,559
Loan-to-Value Ratio	60%
Debt Coverage Ratio	1.4
Debt Yield	15%
Equity Yield	18%

Debt Coverage Ratio Model	\$(000)	IRR	Value Per Room
Value of the Property	\$12,889,103	11%	\$214,818
Value of the Mortgage Component	\$8,933,449	5%	\$148,891
Value of the Equity Component	\$3,955,654	18%	\$65,928

## HOTEL MARKET STUDY FOR YANKTON, SD

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**Project Metrics**


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Total Appreciation	24.0%
Annual Appreciation	2.2%
Cash Flow Return	54.3%
Appreciation Return	45.7%
Total Property Yield	10.5%
Stabilized Going In Cap Rate	8.4%

The assumed mortgage terms are based on a holding period of 10 years and an amortization schedule of 20 years. Net present value of net operating income is adjusted to reflect changes from year one of operation to year five as the year of stabilized operations. The 5 percent mortgage interest rate is a national average; as is the capitalization rate of 8 percent. Loan-to-value ratio of 60 percent is an industry standard; as is the debt coverage ratio of 1.4, the debt yield of 15 percent.

The equity yield of 18 percent is the internal rate of return on equity capital. This is based on an annual national survey conducted by Smith Travel Research; and survey's tracked by HVS as of 2015.

The value of the proposed property is \$12,889,103 or \$214,818 per room. Of that, \$8,933,449 is the mortgage component, or 60 percent of total value. The equity component is \$3,955,654.

In terms of the estimated performance of this proposed TownePlace Suites property:

- The IRR for the total property is estimated at 10.5 percent.
- The property value appreciation over the 10 year holding period is 24 percent.
- Cash flow return of 54.3 percent is the proportion of property value attributed to the property's cash flows over the 10 year holding period.
- The appreciation return of 45.6 percent is the proportion of property value associated with the revision at the end of the 10 year holding period (i.e., mortgage balance owed).
- The total property yield of 10.5 percent is the property level IRR over the 10 year holding period.
- The stabilized going in cap rate of 8.4 percent is the stabilization year's net operating income (Year 3) divided by the property value.

If the owner of this property were to sell at the end of the 10 year holding period, then the estimated net sales price based on total property net present value is \$15,981,984.

## CONCLUSION

The optimal market position for either the Candlewood Suites or the TownePlace Suites is an anchor to a retail and mixed use center on the northwest corner of 31<sup>st</sup> and Broadway (US Highway 81). This area is already a retail anchor because of Menards, Walmart Supercenter, Maurices, Shoe Sensation, the new Verizon Store, and the new restaurant chain, Culver's. Moreover, young families in the community frequent the area because of the soccer fields.

As such, either one of these hotels in association with new retail and restaurants represent the highest and best uses of the 31<sup>st</sup> and Broadway site location. In order to ensure the success of each new tenant and either of the hotel operators entering the Yankton market, development should occur within a relatively dense area.