ANALYSIS OF THE ST. LOUIS HOTEL MARKET

As of
September 1, 2019

Prepared for

Land Clearance for Redevelopment Authority
of the City of St. Louis
1520 Market Street, Suite 2000
St. Louis, MO 63103

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September 19, 2019

Mr. Otis Williams, Executive Director
Land Clearance for Redevelopment Authority
of the City of St. Louis
1520 Market Street, Suite 2000
St. Louis, MO 63103

Re: Consulting Services to Review Hotel Demand and Development Opportunities for the Land Clearance for Redevelopment Authority

File Reference: HH19-4464MO

Dear Mr. Williams,

Per our engagement with the Land Clearance for Redevelopment Authority of the City of St. Louis we have prepared an analysis of the St. Louis hotel market with a concentration on the Central Business District (CBD) sub-market and the Cortex/Central West-End (CWE) sub-market. The purposes of the analysis include, but are not necessarily limited to the following.

- Provide an understanding of the underlying competitive factors impacting the hotel industry on a macro level and the factors impacting the St. Louis hotel market on a micro level.

- Provide an understanding of the historical growth in the identified St. Louis hotel sub-markets in total and by product type including analysis of the hotels under construction and/or proposed for the identified sub-markets.

- Provide an understanding of the current mix of hotel types; the impact of that mix on accommodating current demand and inducing new demand; and how the mix compares to other cities considered to be directly competitive with St. Louis for leisure transient, large in-house group demand, and convention center demand.

- Identify the product types that are under-represented, if any, and the types of hotels that need to be attracted to the sub-markets.

- Opine as to the adequacy of the current and proposed hotel supply with respect to supporting the America's Center Convention Complex and the additional hotel types needed to enhance the use of the convention facilities.

- Address the potential impact of the currently proposed hotels on the existing hotel supply.

- Address a sustainable level of future hotel development.

- Provide recommendations or guidance for the establishment of best practices guidelines for the use of development incentives or financial assistance for existing and potential future hotels.

As part of our research we interviewed representatives of Explore St. Louis, Lodging Hospitality Management (LHM), Drury Hotels, Hospitality Management Associates (HMA), Hilton Hotel Corporation, Marriott Hotel Corporation, InterContinental Hotel Group (IHG), and Hyatt Hotel Corporation with respect to their opinions of the St. Louis hotel market. All except one (1) person requested their comments remain anonymous and be considered in the broader context of comments from the other parties. The requests for confidentiality have been respected and responses incorporated into our opinions and conclusions if appropriate. Our opinions and conclusions also reflect the use of data and comments provided by clients in previous assignments, including information that may have been provided on a confidential basis.

For the purpose of our analysis we have defined the St. Louis Central Business District (CBD) sub-market as the area bounded by the Mississippi River on the east; I-64 on the south; Jefferson Avenue on the west; and Cole Street on the north. However, any hotel developed in the Soulard area would be included in the CBD sub-market.

For the purpose of our analysis the Cortex/Central West End (CWE) sub-market is defined as the area bounded by Grand Avenue on the east; I-44 on the south; Skinker Avenue on the west; and Delmar Boulevard on the north.

<u>Executive Summary</u>

- The St. Louis CBD sub-market needs one (1) or two (2) new full-service hotels with one (1) located proximate to the convention center and having 700 or more rooms.

- Attracting a major full-service hotel will require some form of significant financial assistance.

- The St. Louis CBD sub-market needs additional extended-stay hotel rooms.

- Additional “life-style” hotel rooms would benefit the CBD.

- Hotels expected to achieve above market average ADRs should be encouraged while those that would achieve ADRs below the CBD sub-market average should be discouraged.

- The number of rooms and the mix of rooms in the CBD hotel sub-market compares well to other markets reviewed. However, several of the markets have recently added, or are in the process of adding, one (1) of more major full-service hotels.

- Given the nature of the hospitality industry it should be assumed that all potential hotel developers will ask for some form of financial assistance.

- Financial incentives, or assistance, can be justified for some hotel types but the City should be prepared to say “no” to assistance for other property types.

- The City should continue to apply a cost-benefit test in the process of reviewing requests for financial assistance for hotel development.

- The City needs to be pro-active in solving the issue of the closed Millennium Hotel.

- Barring extraordinary circumstances, minimal financial assistance should be needed to encourage or support new hotel development in the Cortex/CWE hotel sub-market beyond the assistance that can be approved by the Cortex Innovation Community board.

- New hotel rooms will be needed in the Cortex/CWE sub-market for the foreseeable future.

- There is a need for a 200 to 250 room full-service hotel with group space in the Cortex/CWE sub-market in the immediate future.

- Understand that hotel development investment is finite and that St. Louis competes with other major cities for potential hotel development dollars.

Our analysis, conclusions, and market commentary are effective as August 1, 2019, the date of the completion of our fieldwork

After review of this documents please contact me with any questions or comments.

Respectfully submitted

H&H Consulting, Inc.,

Gary P. Andreas, President

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Terminology

The following terminology is important for the understanding of the analysis, commentary and conclusions.

Statistical Terminology

Occupancy Percentage (Annual): The total number of rooms sold for the year divided by the hotel rooms that were available during the year. (Example – a 100 room hotel has 36,500 available room nights on an annual basis; 25,000 room nights sold equate to a 68.5 percent occupancy.)

Average Daily Rate (ADR - annual): Total guest room revenue for the year divided by the total number of rooms sold during the year.

Rooms' Revenue Per-Available-Room (RevPAR): The total rooms' revenue for a given period divided by the number of available rooms for the same period; or the ADR multiplied by the occupancy percentage.

Hotel Classifications

Limited-Service Hotels: Limited-service hotels are generally defined as properties that have guest rooms and limited amenities, such as a swimming pool and basic exercise room. Some offer a small meeting room, usually the size of a guest room. Currently, limited-service hotels include budget priced hotels appealing to the traveler with extreme price sensitivity. Limited-service hotel brands include Pear Tree Inns by Drury, Days Inn, America's Best Value Inn, Motel 6, Red Roof Inn, Econo Lodge, Sleep Inn, Knights Inn, Best Western, and Wingate Inns. The classification also includes brands that are not specifically positioned to accommodate price sensitive demand such as older generation Holiday Inn Express, Fairfield Inn, Hampton Inn Hotels, Drury Inns, La Quinta and Comfort Inn hotels. Limited-service brands generally offer a complimentary breakfast ranging from a continental breakfast to a variation of a "hot" breakfast.

Select-Service Hotels: Historically, select-service hotels were included in the limited-service hotel classification. However, as the number of limited-service brands grew, significant price and quality variations became evident. Select-service hotels are essentially higher quality and higher priced limited-service hotels with some offering larger meeting and function space and amenities, such as upgraded exercise, or fitness rooms.

Some select-service hotels offer as much as 7,500 square feet of meeting and function space, but they do not necessarily include a restaurant or have in-house banquet capabilities. Select-service brands include Hampton Inn & Suites, Fairfield Inn & Suites, Holiday Inn Express & Suites, Hilton Garden Inn, Drury Suites, SpringHill Suites and Courtyard by Marriott. Hilton Garden Inn and Marriott Courtyard hotels generally have brand-specific restaurants with limited-menu breakfast and evening offerings. These hotels can be considered "full-service lite" hotels.

Drury Suites offer complimentary breakfast and evening food service, while the other select-service brands that do not have restaurants have complimentary breakfast service.

Full-service Hotels: In addition to guestrooms, these hotels offer a wide variety of amenities including one or more food and beverage venues, generally restaurants and bars; multiple meeting and function rooms typically including a primary ballroom and smaller meeting or breakout rooms; expanded fitness centers and other recreational amenities; a gift shop or other retail. Brands in this classification include Hilton, Marriott, Hyatt, Holiday Inn, Le Meridien, "W" Hotels, Omni, Lowes, Drury Plaza and Radisson.

Subsets of full-service hotels would include convention hotels; conference center hotels; up-scale, upper-upscale and luxury hotels; resorts; and destination hotels. This classification includes brands such as West, Ritz-Carlton, JW Marriott, Conrad Hotels & Resorts, St. Regis, Gaylord Hotels & Resorts, Peninsula Hotels, Four Seasons, Fairmont Hotels & Resorts, Vail Resorts, and major independent resorts.

All-Suites Hotels: All-suite hotels are properties where all of the guestrooms are suites. Embassy Suites has been the dominant brand in this classification for years. Marriott and Sheraton attempted to enter this arena in the past but few of those suite branded hotels remain. Choice Hotels has developed a brand known as Cambria Hotels which was introduced as a mid-market priced all-suite hotel; and Drury Suites is a mid-market entry in this classification. Essentially, an all-suite hotel is a full-service hotel where the rooms are presented in a suite configuration.

Life-Style Hotels: This is the newest classification of hotels that describes a property that is essentially an upscale limited-service or a select-service hotel. In addition to guestrooms, the hotels have well defined, but generally limited, food and beverage service that includes “healthy” food choices; small plate foods; and grab-and-go offerings. The hotels generally have a limited bar serving select beers and wine and some offering designer cocktails. The focal point of the life-style hotels is the expanded public space that is intended to provide the opportunity for, and encouragement of, socialization among hotel guests. In many of the brands, the rooms are smaller than in traditional hotels. Meeting space is generally limited and is often a temporary reconfiguration of the public space.

Life-style brands include Hyatt Place; Moxy, Aloft and Element Hotels by Marriott; Tru and Motto hotels by Hilton; EVEN and Avid Hotels by IHG; Radisson Red and Radisson Blu. Element is a crossover brand between life-style and extended-stay.

Extended-Stay Hotels: Extended-stay hotels were originally designed to feel like an apartment and targeted average lengths of stay in excess of seven days and were often used as temporary accommodations during corporate relocation. The original brands – Residence Inn by Marriott and Homewood Suites by Hilton were a moderately upscale-product and remain at the top of list of extended-stay hotels. As the concept matured and gained acceptance, more brands were introduced at price points below the Residence Inn and Homewood Suites. With the proliferation of the concept, the average length of stay has decreased and the targeted market mix is generally 60.0 percent true extended-stay demand and 40.0 percent transient demand.

In addition to studio, one and two bedroom units, the hotels generally offer a swimming pool, and a well-equipped fitness center; some offer outdoor recreational amenities; and many of the brands offer a complimentary breakfast with some offering a limited evening fare Monday through Thursday evenings depending on the competitive dynamics of the individual markets and the property location with respect to off-site food and beverage venues.

Extended-stay brands include Residence Inn, Homewood Suites, and StayBridge Suites by IHG at the higher price point of the classification; Home 2 Suites by Hilton, TownePlace Suites by Marriott, Hawthorne Suites, Candlewood Suites by IHG, and Hyatt House are considered mid-priced brands; and My Place Hotels, Extended Stay America, GuestHouse, and Mainstay Suites are considered budget brands.

Soft-Branded and Boutique Hotels: Boutique hotels and soft-branded, or branded boutique hotels include generally higher quality properties that do not fit any of the conceptual guidelines required to obtain a traditional franchise and are often hotels that have a cultural or historical significance to the community. In the case of soft-branded hotels, the property affiliates with one of the major franchising entities and benefits from the franchising entity's national reservation system and frequent guest programs. Hotels in this classification include Hotel Indigo and Kimpton Hotels by IHG; Curio, Tapestry, and Canopy by Hilton, AC Hotels, Autograph Collection Hotels, and Tribute Portfolio Hotels by Marriott; Hyatt Centric Hotels by Hyatt; The Luxury Collection; Sonesta Hotels, and The Omni Collection Hotels.

True boutique hotels are high quality hotels that are unique and choose not to affiliate with a larger hotel company. Prior to the conceptualizing of soft-branded hotels, most of those properties would have been considered boutique hotels. Boutique and soft-branded hotels generally have high quality room furnishings and appointments; high quality or specialty food and beverage services; meeting and function space intended more for social functions such as receptions, weddings, and high-end banquets rather than large group or association functions.

An example of soft-branded hotels in St. Louis include The Magnolia which is part of the Tribute Collection; the new Hotel St. Louis which is part of the Autograph Collection; the Curio at Union Station by Hilton; and the Chase Park Plaza Royal Sonesta Hotel. The Hotel Ignacio, the Moonrise Hotel, and the Cheshire Inn are boutique hotels in the traditional sense as will be The Last Hotel.

It should be noted that properties such as the Hotel Avyan in the Cortex/CWE sub-market and the City Place Hotel in the CBD sub-market are not boutique hotels; rather they are independent hotels.

While it is important to understand the various hotel classifications it is equally important to realize that many of the hotel brands cross classifications and compete with properties of differing classifications, depending on the market dynamics.

Other Terminology

Rate Stagnation: In the report we use the term "rate stagnation." This refers to the inability of a hotel, or hotels, in a given market to achieve annual ADR growth equal to or greater than the annual rate of inflation. If a sub-market is experiencing a prolonged period of rate stagnation, it becomes difficult to encourage, or justify, new hotel development unless the rate stagnation is specifically attributable to the poor quality of the existing hotel supply.

National Brand Average ADR: This term refers to the ADR achieved by a specific brand when the ADRs of all the hotels operating with that specific brand are averaged. Depending on the specific market dynamics, this statistic can have varying degrees of meaningfulness.

St. Louis Central Business District (CBD) Hotel Supply

From an historical perspective, the base supply for our analysis is the supply that existed as of January 1, 1986. 1986 was the first full year of operation of the 914-room Adam's Mark Hotel that now operates as the 910 room Hyatt. The Adam's Mark added a new dimension to the CBD hotel supply. This was also after the demolition of the approximately ten (10) year old, 300-room Sheraton Convention Center Hotel to make room for the northward expansion of the convention center.

Table S-1 summarizes the hotel room inventory as of 1985; the additions to and deletion from the supply in five year increments through 2015 and the total rooms as of January 1, 2019. The peak number of available hotel rooms occurred in 2012 at 7,963 rooms with the opening of the

Embassy Suites CBD. The supply declined by approximately 9.8 percent by 2015 with the closing of the 780-room Millennium Hotel. The loss of 165 at the Marriott Grand Hotel essentially reflects the separation of the rooms now identified as the Marriott Courtyard @ the Convention Center from the Marriott Grand. This reduction is offset by the concurrent opening of the Courtyard which shows an addition to the supply of 165 rooms.

The following comments are intended to provide a context for the change in hotel brands over the years for the hotels in Table S-1. The City Place Hotel opened as the Holiday Inn Riverfront, and operated as a Radisson Hotel and a Crowne Plaza Hotel before becoming the independently branded City Place Hotel. This is an independent hotel as opposed to a soft-branded or boutique hotel. The Holiday Inn Convention Center Hotel opened as a Radisson Hotel and converted to a Holiday Inn in approximately 1993. The Hilton St. Louis @ the Ballpark opened as a Breckenridge Hotel and obtained a Marriott franchise with the addition of the west tower in 1981; and then was rebranded as a Hilton Hotel in late 2005.

The 910-room Hyatt Regency opened as the flagship of the Adam's Mark Hotel chain in late 1985 and originally contained 914-rooms. The property was rebranded as a Hyatt Regency in 2008 after the sale and renovation of the hotel. The Millennium Hotel opened in 1969 as one of nineteen (19) Stouffers Hotels in the US. After the closing of the Stouffer's Hotel chain in the late 1980's, the hotel operated as the Regal Riverfront Hotel and a Clarion Hotel prior to its acquisition and conversion to a Millennium Hotel in 1999.

The Magnolia Hotel opened as the Mayfair Hotel in 1924 operating until its closing in 1989. The hotel was acquired and renovated, reopening as the Mayfair Suites Hotel in 1991. The hotel also operated as the Wyndham Mayfair Suites Hotel before its acquisition and conversion to the Magnolia Hotel.

The Hotel Lumiere @ The Arch was developed as an Embassy Suites. The Red Lion Hotel was an adaptive re-use of an old Edison Brothers warehouse and opened as a Sheraton Suites. The Hampton Inn @ the Arch was originally the St. Louis Bel-Aire Hilton which opened in 1962 and once included a Trader Vic's restaurant.

The Marriott Grand incorporates the original Statler Hotel plus new construction. The hotel opened as a Renaissance Hotel containing 1,082 guestrooms with the room count including the rooms now operating as the Marriott Courtyard Convention Center. The 165-room Courtyard opened in 2018. Concurrent with the opening of the Courtyard, the Renaissance name was changed to the Marriott Grand Hotel and the room count of the Marriott Grand was effectively reduced by 165 rooms to the current count of 917 rooms. Thus, the opening of the Marriott Courtyard Convention Center did not reflect a net addition to the CBD hotel room count.

Table S-1 — **Historical Hotel Room Supply**

St. Louis CBD	Base Rooms	Opened	As of 1985	Additions to Supply 1985-90	1991-95	1996-00	2001-05	2006-10	2011-15	2016-19	Totals 2019
Millennium St. Louis	780	1969	780						(780)		0
City Place Hotel	440	1974	440								440
Holiday Inn Convention Center	295	1978	300			(7)					293
Hilton St. Louis @ the Ballpark	675	1978	675							(4)	671
Drury Inn Union Station	177	1983	177								177
Hyatt Regency @ the Arch	910	1985	914				(4)				910
America's Best Value Inn	48	1985	48								48
Drury Inn - Convention Center	178	1990		178							178
The Hotel Majestic	91	1990		91							91
Pear Tree Inn (Market Street)	239	1991			239						239
Magnolia Hotel	182	1991			182						182
Hotel Lumiere @ the Arch	295	1995			295						295
Curio @ Union Station	539	1995			539					28	567
Marriott Courtyard Downtown West	151	1996				151					151
Drury Plaza Hotel	367	2000				355					355
Red Lion Hotel St. Louis	288	2001					288				288
Westin St. Louis	255	2001					255				255
Marriott St. Louis Grand	1,082	2002					1,082		(165)		917
Hampton Inn @ the Arch	190	2003					190				190
Hilton @ The Arch	195	2005					195				195
Marriott Residence Inn	188	2006						188			188
Four Seasons Hotel St. Louis	200	2008						200			200
Embassy Suites CBD	212	2012							212		212
Courtyard @ the Convention Center	165	2015							165		165
Hotel St. louis	140	2019								140	140
Net Change in Available Rooms			3,334	269	1,255	499	2,006	388	(568)	164	
Totals			3,334	3,603	4,858	5,357	7,363	7,751	7,183	7,347	7,347

Note: 2019 room total is as of July 1, 2019.

The following graph offers a visual presentation of Table S-1 plus the anticipated additions to supply by the end of 2021. The additions to supply include the hotels summarized in Table S-2. The Hotel St. Louis is now open and part of the competitive supply. The Hotel Indigo, a branded boutique hotel, is expected to open in the fourth quarter of 2019 but has been added to the supply in 2020 – 2021.

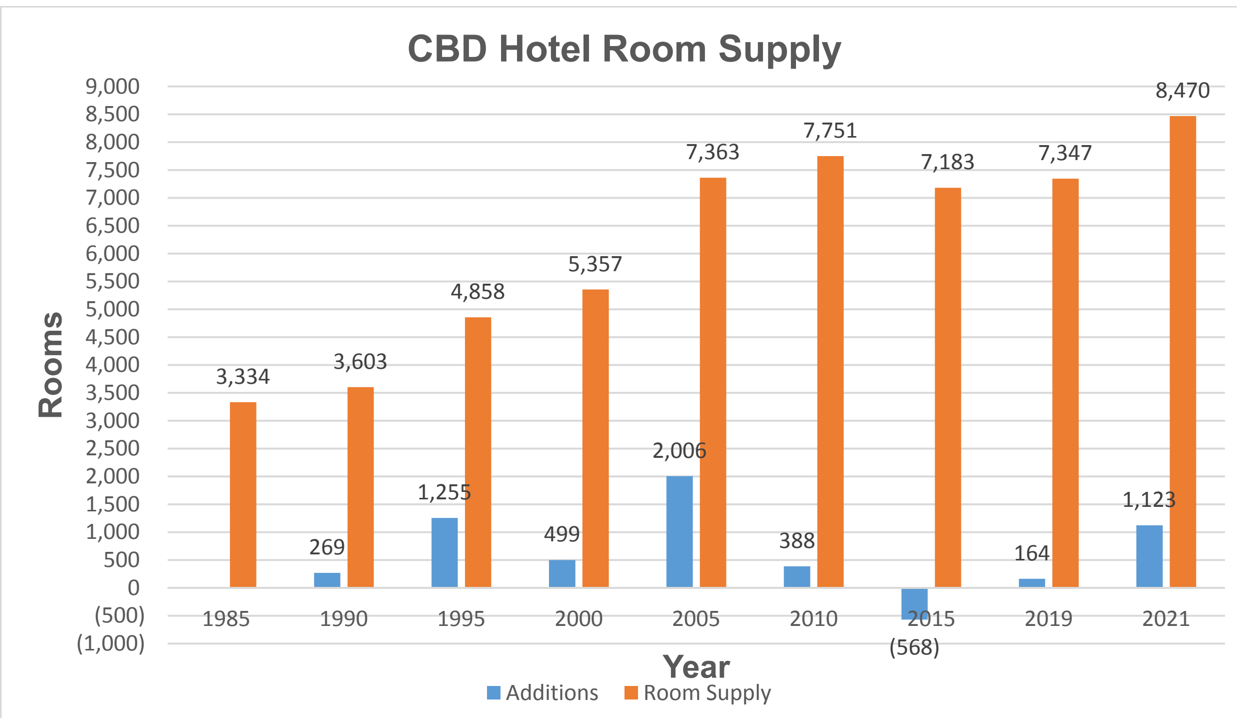
There is a potential for hotel rooms to be developed in the Chemical Building and operate as part of, or in support of, the new Hotel St. Louis. There are also proposals to renovate the Jefferson Arms and the Railway Exchange Building with each including a hotel component and to renovate the former Municipal Courts Building for hotel use. In our opinion, these developments are highly speculative and the potential rooms have not been included in the future supply.

As of the date of this report we are aware of three additional groups looking at the CBD sub-market for potential hotel development. However, these considerations are very preliminary and we have not speculated as to the potential outcome of the considerations.

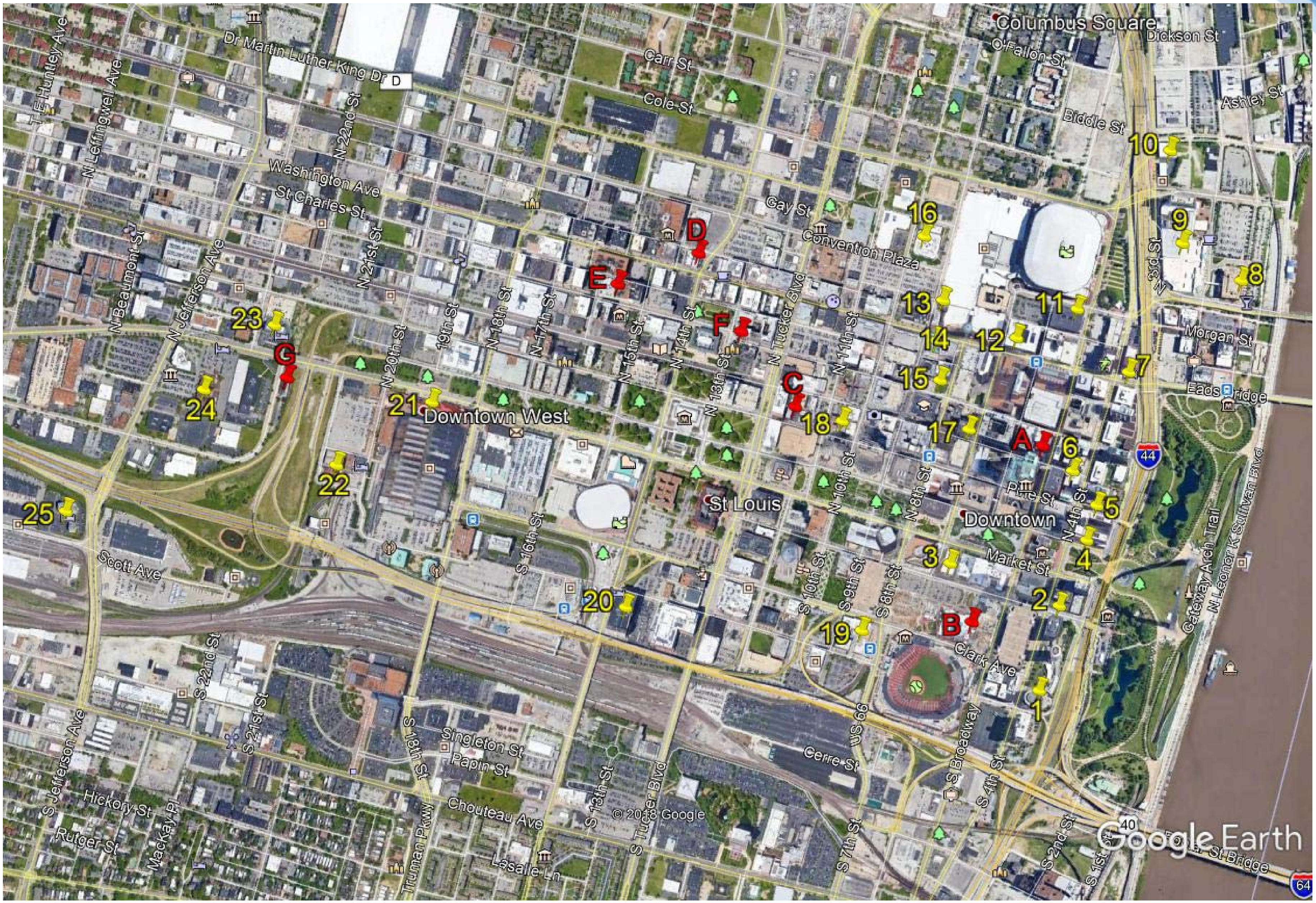
Table S-2

Additions to CBD Supply

Additions to CBD Supply as of July 1, 2019	Rooms
Hotel St. Louis	140
2019 Total Additions	140
July 1, 2019 - 2021 Additions to CBD Supply	
Hotel Indigo - 501 Olive	88
Shell Building - Home 2 Suites/Tru Hotels	184
Fairfield Inn & Suites - 2144 Market Street	137
21C Museum Hotel	200
The Last Hotel - 1501 Washington	144
Lowes Live! @ Ballpark Village	216
Moxy Hotel	154
July 1, 2019 - 2021 Total Additions	1,123



The following map is for reference purposes and locates the existing and proposed hotels in the CBD sub-market.



CBD Hotel Location Map

Table M-1

CBD Map Key

No.	Existing Hotels as of July 1, 2019	No.	July 1, 2019 - 2021 Additions to CBD Supply
1	Millennium St. Louis (now closed)	A	Hotel Indigo - 501 Olive
2	Drury Plaza Hotel	B	Lowes Live! @ Ballpark Village
3	Hilton St. Louis @ the Ballpark	C	Moxy Hotel
4	Hyatt Regency @ the Arch	D	The Last Hotel - 1501 Washington
5	City Place Hotel	E	21C Museum Hotel
6	Hilton @ The Arch	F	Shell Building - Home 2 Suites/Tru Hotels
7	Hampton Inn @ the Arch	G	Fairfield Inn & Suites - 2144 Market Street
8	Hotel Lumiere @ the Arch		
9	Four Seasons Hotel St. Louis		
10	America's Best Value Inn		
11	Drury Inn - Convention Center		
12	Embassy Suites CBD		
13	Courtyard @ the Convention Center		
14	Marriott St. Louis Grand		
15	Magnolia Hotel		
16	Holiday Inn Convention Center		
17	Hotel St. Louis		
18	The Hotel Majestic		
19	Westin St. Louis		
20	Red Lion Hotel St. Louis		
21	Curio @ Union Station		
22	Drury Inn Union Station		
23	Pear Tree Inn		
24	Marriott Courtyard Downtown West		
25	Marriott Residence Inn		

As shown, there is a grouping of hotels near Union Station that include the Curio Hotel in Union Station, the Drury Inn @ Union Station, the Pear Tree Inn and the Marriott Courtyard West. In addition a Fairfield Inn & Suites is currently under construction at a location directly across Market Street from the Pear Tree Inn. These hotels include a limited-service hotel, two (2) select-service hotels, and the Curio which is a brand positioned to be a high-end, full-service hotel. The Fairfield Inn & Suites will be positioned at the upper end of the range of limited-service hotels. In addition to serving their respective demand base, the hotels also function, informally, in concert to accommodate group demand generated by the Curio Hotel that is too large to be accommodated by the 539 rooms at the Curio Hotel. The Curio Hotel has approximately 100,000 square feet of meeting and function space accommodating groups up to 3,178 people.

With the increase in attractions at Union Station, including the 120,000 square foot St. Louis Aquarium @ Union Station, the Ferris wheel, new food & beverage venues, and expanded excursion trains, demand at these hotels should increase. This hotel grouping has the potential to function autonomously from the remainder of the CBD at certain peak demand periods. Construction of the proposed soccer stadium in the immediate neighborhood should directly benefit these hotels and further enhance the autonomous nature of the hotel group. However, the addition of a professional soccer team will not, on its own, justify development of an additional hotel.

The largest concentration of hotels is in the core of the CBD and, depending on the hotels, accommodates a mix of group, commercial and leisure transient demand. The convention center is located at the northern edge of the core CBD hotel supply being immediately proximate to only the Embassy Suites, the Marriott Courtyard at the Convention Center, the Marriott Grand Hotel and the Holiday Inn Convention Center. The other core CBD hotels are located away from the convention center.

The Four Seasons Hotel and the Hotel Lumiere Hotel @ the Arch are, essentially, casino dedicated hotels with the Four Seasons also accommodating the highest end CBD demand and mid-sized high-end group demand. The Hotel Lumiere also accommodates some leisure transient demand that is not casino related and can support the Four Seasons in accommodating group demand generated by that hotel.

In recent years, the annual demand mix in the CBD sub-market has been approximately 38.0 percent group, including convention center group demand and demand generated and accommodated by individual hotels; 30.0 percent corporate transient; 27.0 percent leisure transient; and 5.0 percent extended-stay demand. The demand mix varies by the time of the year with the strongest leisure transient demand occurring from mid-May through mid-October and during major holidays. Group demand is more evenly dispersed with the lowest demand being during major holidays. Corporate transient demand is weakest from early November through January. When the convention center hosts a “city-wide” convention, one requiring over 5,500 to 6,500 rooms on a daily basis, transient demand is displaced to other area sub-markets. Some events, such as a weekend Cardinal-Cubs series; baseball playoffs and the World Series; the hockey playoffs; and NCAA basketball tournaments generally create an MSA-wide hotel room sellout.

CBD Hotel Sub-Market Product Mix

Irrespective of the number of hotels and hotel rooms in a given market the appropriate mix of product type is important to effectively support the needs and growth of the group, commercial, transient, and social demands in the market. Depending on the market and the public facilities, such as convention centers and stadiums, a certain number of available rooms, regardless of type, is needed to accommodate the demand generated by those facilities. If the market is supported by a strong core of businesses appropriate types of hotels and an adequate number of rooms is required to accommodate commercial transient demand.

Group hotels, those with a significant number of guestrooms and significant meeting and function space, are necessary to support convention center activity, attract non-convention center group demand, and to support commercial group demand generated by local businesses. Appropriate hotel rooms are required to accommodate leisure transient demand. That demand often consists of family units that include both adults and children and exhibit measurable price sensitivity.

There is an element of demand that will not come to a market if there is not a high-end or luxury hotel at which to stay. Other elements of demand are attracted to hotels that offer specific, or unique, experiences in addition to attractions available in the local market. Such a self-contained experience is being developed at Union Station complex. Corporate and relocation needs also create demand for a certain number of extended-stay rooms at varying price points.

Given the various sources and types of demand, a variety of hotels at varying price points are necessary to accommodate the potential demand in most major CBD sub-markets.

Table S-3 summarizes the current CBD hotel supply by property type. In the process of classifying the hotels, we aggregated the full-service hotels, regardless of price point, into a singular group. We have also included the three all-suites hotels in the full-service hotel classification, since they are essentially full-service hotels that just have a specific type of room.

The boutique hotel grouping includes soft-branded hotels as well as independent boutique hotels. The select-service grouping includes the Hampton Inn @ the Arch. Often a Hampton Inn is considered a limited-service hotel but, in this instance the Hampton Inn has 5,000 square feet of meeting and function space. Typically, a Hilton branded hotel is considered a full-service property. However, we have classified the Hilton @ the Arch as a select-service hotel because it has only 5,000 square feet of meeting space. Additionally, it is our understanding that the property will be rebranded as a Hilton Garden Inn, which is a select-service brand.

Table S-4 provides a more detailed look at the number of available hotel rooms by property type as of July 1, 2019, and after incorporation of the new hotels that are under development or proposed and have a high likelihood of being developed.

Currently, the twenty four existing hotels have a total of approximately 7,347 guestrooms available on an average daily basis. Of the existing inventory eleven hotels containing 5,203 rooms are full-service properties. The hotels range in size from 212 to 917 rooms and encompass three of the hotels with ADRs at the low end of the CBD sub-market (the City Place, Holiday Inn Convention Center and Red Lion Hotels), as well as including the hotel with the second highest ADR in the CBD sub-market (the Westin Hotel). All of the hotels have significant meeting and function space with four of the hotels offering more than 40,000 square feet of meeting and function space. The Curio Hotel (100,000 square feet), the Hyatt Regency (83,300 square feet) and the Marriott Grand (77,125 square feet) all have in excess of 75,000 square feet of meeting and function space. Generally, 40,000 square feet or more of meeting and function space is considered significant and allows the hotel to compete with other hotels on a regional basis for group demand. The meeting and function space of the hotels is summarized in Table S-5. Please note that all meeting space and capacity data has been gathered from information provided by the hotel either directly or on the hotel's website.

There are three boutique hotels with a total of 413 guestrooms; one (budget hotel with 48 rooms; one extended-stay hotel with 188 guest units; two limited-service hotels with a total of 417 guestrooms; one luxury hotel with 200 rooms; and five select-service hotels with a total of 878 guestrooms.

Additions to supply include three boutique hotels with a total of 432 guestrooms; one 84 unit extended-stay hotel; two limited-service hotels with a total of 237 rooms; and two Life-style hotels with a total of 370 guestrooms. There are no new full-service, luxury, select-service, or budget hotels proposed for the CBD sub-market; and there are no life-style hotels currently in the CBD sub-market.

Table S-3

CBD Hotel Supplyby Property Type as of July 1, 2019

Property	Rooms	Property Type
Hotel Majestic	91	Boutique
Magnolia Hotel	182	Boutique
Hotel St. Louis	140	Boutique
America's Best Value Inn	48	Budget
Marriott Residence Inn	188	Extended-stay
City Place Hotel	440	Full-service
Holiday Inn Convention Center	293	Full-service
Hilton St. Louis @ the Ballpark	671	Full-service
Hyatt Regency @ the Arch	910	Full-service
Hotel Lumiere @ the Arch	295	Full-service
Curio Hotel @ Union Station	567	Full-service
Drury Plaza Hotel	355	Full-service
Red Lion Hotel St. Louis	288	Full-service
Westin St. Louis	255	Full-service
Marriott St. Louis Grand	917	Full-service
Embassy Suites CBD	212	Full-service
Drury Inn - Convention Center	178	Limited-service
Pear Tree Inn	239	Limited-service
Four Seasons @ Lumiere	200	Luxury
Drury Inn Union Station	177	Select-service
Marriott Courtyard Downtown West	151	Select-service
Hampton Inn @ the Arch	190	Select-service
Hilton @ The Arch	195	Select-service
Courtyard @ the Convention Center	165	Select-service
Total Existing Rooms	7,347	

Table S-4

Current & Future CBD Hotel Supply by Property Type

Type	Existing Hotels	Existing Rooms	Totals Existing	New/Proposed Hotels	Additional Rooms	Total Adds	As of 2021
Boutique	Magnolia Hoetl	182		21c Hotel [YMCA Building]	200		
	Hotel St. Louis	140		The Last Hotel	144		
	Hotel Majestic	91		Hotel Indigo	88		
	Sub-total		413	Sub-total		432	845
Budget	America's Best Value Inn	48					
	Sub-total		48				48
Extended-stay	Residence Inn	188		Home 2 Suites (Shell Building)	84		
	Sub-total		188	Sub-total		84	272
Full-service	Marriott Grand St. Louis CBD	917					
	Hyatt Regency @ the Arch	910					
	Hilton St. Louis @ the Ballpark	671					
	Curio Hotel @ Union Station	567					
	City Place Hotel	440					
	Drury Plaza Hotel	355					
	Hotel Lumiere @ the Arch	295					
	Holiday Inn Convention Center	293					
	Red Lion Hotel St. Louis	288					
	Westin St. Louis, MO CBD	255					
	Embassy Suites CBD	212					
	Four Seasons @ Lumiere	200					
	Sub-total		5,403			0	5,403
Limited-service	Drury Inn - Convention Center	178		Fairfield Inn & Suites	137		
	Pear Tree Inn	239		Tru Hotel (Shell Building)	100		
	Sub-total		417				
				Sub-total		237	654
Select-service	Hilton @ The Arch	195					
	Hampton Inn @ the Arch	190					
	Drury Inn Union Station	177					
	Courtyard @ the Convention Center	165					
	Courtyard Downtown West	151					
	Sub-total		878			0	878
Life-style		0		Lowes Live! @ Ballpark Village	216		
				Moxy Hotel	154		
	Sub-total		0	Sub-total		370	370
	Total		7,347	Total		1,123	8,470

Table S-5

CBD Hotel Meeting & Function Space as of July 1, 2019

		Meeting Space		Capacity	
Property	Rooms	Total	Largest	Theater	Banquet
Curio Hotel @ Union Station	567	100,000	28,560	3,178	2,382
Hyatt Regency St. Louis	910	83,000	19,758	1,975	1,320
Marriott Grand St. Louis CBD	917	77,125	20,106	2,100	1,725
Hilton St. Louis at the Ballpark	671	40,000	10,920	1,200	950
Red Lion Hotel St. Louis	288	30,000	6,517	750	600
Westin St. Louis, MO CBD	255	20,874	4,554	300	270
Four Seasons @ Lumiere	200	20,000	7,308	700	550
Drury Plaza Hotel	355	12,000	5,200	550	300
Magnolia	182	10,575	4,426	250	220
HI Convention Center	293	8,800	6,958	730	535
Hotel Lumiere	295	8,000	5,400	475	350
Hotel St. Louis	140	7,894	4,421	500	290
Drury Inn - Conv. Center	178	5,600	1,426	110	80
Embassy Suites CBD	212	5,600	3,026	300	200
PearTree Inn (Market Street)	239	5,200	2,850	225	150
Hampton Inn @ the Arch	190	5,000	2,625	200	180
Hilton @ The Arch	195	5,000	1,377	120	80
City Place Hotel (fka. Crowne Plaza)	440	4,200	1,590	100	80
Residence Inn	188	1,523	820	70	50
Courtyard Downtown West	151	1,368	720	50	0
Hotel Majestic/Omni/Le Meridian	91	1,200	600	60	30
Courtyard DT Convention Center	165	1,144	748	50	50
Drury Inn Union Station	177	1,065	729	65	32
America's Best Value Inn	48	0	0	0	0
Total Existing Rooms	7,347				

Future Hotel Market

A first impression of the property mix may indicate that, assuming the CBD sub-market needs more hotel rooms, the life-style, budget, extended-stay, limited-service and luxury segments are currently under-represented and will continue to be under-represented as of the end of 2021. In reality, the CBD sub-market is, and will continue to be, under-represented in the life-style, extended-stay, and potentially full-service classifications; however, additional budget hotels and limited-service hotels should be encouraged only on a highly selective basis. With respect to limited-service hotels, only the higher-rated brands are, and will continue to be, under represented.

The Fairfield Inn & Suites currently under construction and the proposed Tru Hotel in the Shell building achieve ADRs at the high end of the range for limited-service hotels and will not contribute to potential rate stagnation in the CBD sub-market. Development of limited-service hotels with national brand average ADRs under $125, while they would accommodate the more price sensitive elements of leisure and commercial transient demand, would contribute to rate stagnation.

On a purely available room basis, there are peak demand times when more limited-service rooms could be justified. However, it would be more beneficial for the excess periodic demand to be accommodated by hotels in surrounding sub-markets rather than trying to support lower rated limited-service hotels in the CBD sub-market. Given the cost of entry into the CBD sub-market, significant financial assistance would be required to economically justify development of the more price sensitive segment of the limited-service hotels.

While budget hotels do have their place in the broader MSA hotel market, they are generally detrimental to the performance of a CBD sub-market. Budget hotels generally do not accommodate commercial transient demand and do not help attract, or support, group demand that would be generated by the America's Center. While budget hotels do accommodate the most price sensitive element of transient demand, that is demand often considered less than desirable in a CBD environment, like the St. Louis CBD, that accommodates strong commercial transient and group demand and attracts significant family leisure transient demand.

The America's Best Value Inn is located on a land parcel that was relatively affordable at the time the hotel was developed. The current cost of entry into the St. Louis CBD sub-market is such that development of a budget hotel would be difficult to justify economically, and it is a hotel type that should not receive economic incentives for development.

Life-Style Hotels: There are currently no life-style hotels in the CBD sub-market and only two (2) proposed or under development, the Moxy and the Lowes Live! @ Ballpark Village. In theory, life-style hotels are designed to add a vibrant product to the market and be attractive to millennials. These hotels are positioned to serve what the industry perceives to be changing demand dynamics with younger hotel guests seeking a stronger sense of community; a vibrancy in the hotel product; more room simplicity and functionality; and a respect for the overall environment.

Life-style brands not represented in the CBD sub-market, after the addition of the Lowes and Moxy, will include Hyatt Place, Aloft, EVEN, Avid, Element, Motto, Radisson Red and Radisson Blu. Previously, we identified Tru as a life-style brand but have also referenced it as a limited-service hotel. A Tru is being developed with a Home 2 Suites as part of a dual branded hotel adaptive re-use of the Shell Building. In this instance, we are classifying the Tru as a limited-service hotel.

While life-style hotels are somewhat minimalist in design, they are not necessarily lower priced hotels. In most markets the life-style brands achieve ADRs equal to, or greater than, select-service branded hotels of a comparable age. The market could support two additional life-style hotels; however, they should be located proximate to Busch Stadium or in the general area of the intersection of Tucker Boulevard and Washington Avenue.

Extended-Stay Hotels: There is only one extended-stay hotel in the CBD sub-market, the 188-key Marriott Residence Inn located at Jefferson Avenue and I-64. There are no extended-stay hotels in the core CBD area. The Residence Inn CBD consistently achieves one of the highest occupancy levels of any hotel in the St. Louis metro area. The same is true for the Home 2 Suites Medical Center which is in the Cortex/CWE hotel sub-market and the Homewood Suites Galleria which is in the Clayton sub-market. All of the identified extended-stay hotels have achieved ADRs in excess of the respective national brand average ADR since opening of the hotels. The demand for extended-stay hotels is strong in the CBD and is currently under served; however, the 84-key Home 2 Suites, to be developed as part of the dual-branded hotel in the Shell Building, will help fill the void.

Assuming that the appropriate CBD property, or properties, can be acquired, the sub-market should support development of additional extended-stay units at a mid to upper-market price point. Again, caution should be taken with respect to the price point of any extended-stay hotel seeking financial incentives. The market is well positioned to support the higher quality extended-stay hotels; but budget extended-stay brands would under-serve the market. Viable brands would include Homewood Suites, StayBridge Suites, Element, or a second Residence Inn branded hotel.

These properties could be located anywhere in the CBD sub-market and would work well in the core of the CBD or on the periphery of the defined market area.

Soft-Branded or Boutique Hotels: Additional, well-located and appropriately sized soft-branded or boutique hotels should be well supported by the sub-market demand. These hotels generally offer higher quality rooms, good food and beverage venues that generate demand from both hotel guests and non-hotel guests. More importantly, they are hotels that would achieve strong ADRs partly because of the product quality and partly as a necessity for profitability as they are more expensive to develop.

Soft-branded hotels typically have their own identity that is not franchise specific. Thus, a market justified soft-branded hotel will not result in brand duplication. It is uncertain as to whether the CBD sub-market demand is currently sufficient to support brand duplication other than in the extended-stay segment. Approval of brand duplication in any market creates difficulties for the franchising entity, unless the same franchisee is involved in the ownership of each of the similarly branded hotels, or the demand depth and breadth of the market unquestionably supports the brand duplication.

The market could support one or two additional soft-branded hotels if they are an adaptive re-use of an existing building. Since a sub-market does have a maximum number of rooms that can be supported without extraordinary demand growth, caution should be taken in subsidizing too many soft-branded or life-style hotels at the expense of supporting development of a larger, full-service, or second convention center hotel. Soft-branded and life-style hotels generally have less than 200 rooms and do not support major group activities and convention center demand beyond just providing available rooms.

Available soft-branded hotels include Kimpton, Tapestry, Canopy, Hyatt Centric, Sonesta, Luxury Collection and Omni Collection Hotels.

Full-Service Hotels: The full-service segment currently has the largest number of hotels and the largest number of rooms of any hotel type in the CBD sub-market. However, full-service hotels also induce more demand than any other segment; accommodate group demand; attract commercial transient demand; and support convention center functions.

There are several challenges for the CBD sub-market with respect to full-service hotels. Perhaps most important is the fact that one (1) of the full-service hotels, the City Place, is a non-franchised hotel, yet it is not of sufficient quality to compete with the soft-branded or boutique hotels. Over the years, the hotel has operated with several national affiliations but is not currently in the condition that a strong franchise can be obtained without major capital expenditures. Per representatives of IHG, the hotel lost the Crowne Plaza affiliation, the last national brand on the hotel, due to poor product quality.

The Red Lion Hotel represents a weak brand for a mid-west hotel and the property condition has deteriorated since the days it operated as a Sheraton Suites Hotel. The Red Lion and the City Place Hotel are under common, ownership and the ownership group has recently filed for bankruptcy protection. Therefore, little can be expected in terms of product improvement in the near term and a sale of the hotels could be nearing. The sale of either or both hotels to an entity with the financial strength to renovate and reposition the hotels would be of benefit not only to the hotels but to the CBD sub-market in general. Both hotels adversely impact the ability of the market to increase the aggregate ADR and neither are of the quality to accommodate upscale convention demand.

Both hotels are well located within the CBD. The City Place has a superior view of the Arch and the riverfront; is well located with respect to Busch Stadium; and is well located with respect to the CBD office core. The Red Lion is located proximate to the Enterprise Center, St. Louis City Hall, and the Robert A. Young Federal Building. It is also at the mid-point of the corridor connecting the Ballpark area to Union Station. This is a location where a well operated and properly branded hotel should flourish.

The Holiday Inn Convention Center is in the necessary condition to retain the franchise but is poorly located to accommodate demand other than that generated by the convention center; and the design of the hotel is dated. The proposed convention center expansion will further physically isolate the hotel from the core of the CBD, from the Arch, and from Busch Stadium.

The remaining full-service hotels are good representations of their respective brands. However, only the Embassy Suites is less than fifteen years old and six are over twenty years old. However, most of the older full-service hotels are well located and have been renovated in recent years. This is typical of hotels in mature CBD sub-markets.

There are challenges in attracting a new full-service hotel to the market. The cost of development has become a major hurdle in most major markets without receiving assistance. For example the published costs for the new 800-room Lowes Hotel at the Kansas City Convention Center is $325 million, or approximately $406,250 per room. This is exclusive of land costs. The project is supported by tax abatement and land was contributed at no cost to the developer

The new Omni Hotel and Residence in Louisville, Kentucky is a thirty story mixed-use development that includes 612 guestrooms; 70,000 square feet of meeting and function space; and 225 luxury apartments. The total project cost has exceeded $320.0 million with the developer contributing $150.0 million; the City of Louisville contributing land and other incentives valued at $102.0 million; and the State of Kentucky contributing approximately $68.0 million. A new "signature" tax-increment financing district which is estimated to generate $206.0 million over 30 years was established to support the project. The city's contribution included not only the land but also the construction of a $17.0 million parking structure for the project.

Another challenge is securing a franchise that would not be a duplication of brands already in the CBD sub-market. The viable brands not currently in the market include Omni Hotel, "W" Hotel, InterContinental Hotel, Holiday Inn, and Sofitel by Accor. Of these, an Omni Hotel, InterContinental Hotel, and Sofitel would be viable brands for a 750 plus room group hotel.

Location is also an issue. A new full-service hotel with 750 or more rooms would need to be located immediately proximate to the convention center and may require acquisition of a site currently encumbered with existing improvements.

Given the addition of new convention center hotels in markets competitive with St. Louis for conventions and major group demand, an additional, new convention center hotel is needed for the America's Center to maximize its competitive position. Development of the hotel will require significant public participation.

Comparison to Competitive Cities

As part of our analysis we compared the CBD hotel inventories of several cities that are considered competitive with St. Louis for convention, tourism, and/or commercial demand. The cities included Kansas City, Indianapolis, Nashville, Louisville, Minneapolis, and Columbus, Ohio. The cities selected represent our opinion based on conversations with representatives of Explore St. Louis and the operators of major St. Louis CBD hotels. The St. Louis CBD sub-market includes twenty four hotels containing 7,347 rooms.

When considering Kansas City, we viewed the supply with and without the hotels in the Country Club Plaza area. Excluding the Country Club Plaza Hotels, there are approximately twenty four existing hotels containing a total of 5,226 rooms, including the 800-room Lowes Convention Center Hotel now under construction. Including the Plaza area, the number of existing hotels increases to thirty six (36) and the number of rooms increases to 7,520. The property and room counts for the other markets represent the CBD sub-market area.

The Nashville data excludes the Gaylord Opryland Resort which is not in the CBD. This development has approximately 2,900 guestrooms and approximately 760,000 square feet of meeting and function space. The largest venue has a gross area of approximately 113,000 square feet and can accommodate 7,900 people banquet-style and 10,000 theater-style. This is essentially a stand-alone convention complex.

Table S-6 summarizes the existing hotel supply in each of the markets and the additional hotels that are either under construction or proposed with a strong likelihood of being developed.

Table S-6

Compeitive City Hotel Supply

	Existing Properties			Proposed Properties		
City	No. of Hotels	Total Rooms	Largest Hotel	No. of Hotels	Total Rooms	Largest Hotel
St. Louis	24	7,347	917	7	1,123	216
Kansas City w/o Plaza	24	5,266	971	4	1,256	800
Kansas City w/Plaza	36	7,520	971			
Indianapolis	26	7,166	1,005	4	1,631	800
Nashville	36	9,025	800	2	412	237
Louisville	21	5,844	1,310	4	563	205
Minneapolis	33	8,002	821	6	831	201
Columbus	17	4,207	631	2	635	468

The number of rooms in the St. Louis CBD sub-market is in the middle of the range of total rooms if the Country Club Plaza rooms are included in the Kansas City analysis; and slightly above the middle if the Country Club Plaza rooms are excluded. In terms of the number of properties, St.

Louis trails other markets. With respect to the size of the largest hotel, St. Louis is comparable to all markets except Columbus, which has a much smaller convention center hotel than the other markets. Kansas City, Nashville and Minneapolis have reached the point where the market is supporting brand duplication in the select-service segment. All markets have experienced growth in soft-branded or boutique hotels and life-style hotels since 2015.

In the Kansas City market, two of the four proposed hotels are soft-branded with the Lowes Convention Center Hotel accounting for 800 of the new rooms. With the addition of the 800-room Lowes Hotel, there will be approximately 2,350 hotel rooms either connected to or immediately across a street from the KC Convention Center.

Indianapolis is adding four hotels with a total of 1,631 rooms. Two of the hotels are typical franchise properties, a Homewood Suites and a Hampton Inn & Suites, and one is a 600-room Pan AM Plaza Hotel which would be operated by Hilton. The fourth is an 800-room Hilton Signia Hotel that will be housed in a 38-story structure and is coordinated with a $120.0 million renovation of the Indiana Convention Center. The Pan AM Plaza Hotel and the Signia will be connected through a 50,000 square foot ballroom. The Signia brand is new to Hilton and is being positioned as a “sophisticated and high end” brand. The two soft-branded Hilton Hotels will comprise 1,400 of the 1,631 rooms being added to the market. It is also interesting to note that all four of the new properties are Hilton affiliated.

Currently, the Signia and Pan AM Hotels will receive tax abatement and other incentives to assist in the development. The incentives are similar to $115.0 million received by White Lodging for their $350.0 million project in Merrilville, IN that included a major hotel and the $60.0 million bond financing received by White Lodging in 2007 for development of the JW Marriott in the Indianapolis CBD.

Ten of the Indianapolis CBD hotels containing approximately 3,587 rooms are Marriott branded hotels including the 1,005 room JW Marriott. With the addition of the four new Hilton affiliated hotels eleven will be Hilton affiliated and contain approximately 2,958 rooms in total. In terms of quality rooms, the Indianapolis CBD sub-market will dominate the other Midwest markets and will add strong support to the renovated convention center. After completion of the new Hilton hotels, there will be 1,400 new hotel rooms immediately proximate to the convention center in addition to the 2,973 rooms currently connected to or immediately across a street from the convention center.

There are only two hotels proposed for the Nashville CBD. One is a 175-room Element. The other is a 237-room Conrad Hotel by Hilton which is one of the highest priced hotels in the Hilton system. There are four proposed hotels for the Louisville CBD sub-market containing a total of 563 rooms. One is a Moxy life-style hotel; one will be a soft-branded Hotel Distil, an AC Hotel by Marriott. The other two are hard branded franchise hotels.

There are six hotels proposed or under construction in the Minneapolis CBD area containing a total of 831 guestrooms. The largest will be a 201 room dual-branded Tru/Home 2 Suites hotel. The other properties include a Moxy, a Cambria Hotel & Suites, a Fairfield Inn & Suites, and an Element Hotel.

There are two hotels proposed for the Columbus CBD. One is a 167-room Tapestry Hotel by Hilton which is expected to open in August 2019. The other hotel is a second tower to the Hilton Convention Center Hotel and will contain approximately 468 rooms. While the convention center hotel tower is officially in the Hilton pipeline and development is expected by the city, start of construction has been delayed twice.

There are some similarities among the new hotels being developed in St. Louis and the other competitive markets. Several of the hotels are life-style branded hotels and others are soft-branded or boutique hotels. However, it cannot be overlooked that Kansas City and Indianapolis will see development of large full-service hotels at or near the respective convention centers. The brands are ones that should achieve ADRs at the high end of the respective markets.

After the addition of the proposed hotels, St. Louis will have less rooms than Nashville, Minneapolis, and Indianapolis, but more than Kansas City, Louisville, or Columbus. However, as noted, there is a disparity in the types of properties being developed and in the size of the hotels. Currently, none of the proposed hotels in St. Louis have more than 216 rooms; none are full-service, group hotels; none are convention hotels; and none are immediately proximate to the convention center.

Table PM-1 highlights the rooms in the St. Louis CBD sub-market and the other cities by property type. After considering the additions to supply, St. Louis will trail Indianapolis and Nashville in the number of full-service hotel rooms and will be comparable to Kansas City. St. Louis will trail Kansas City and Minneapolis in the number of boutique rooms; and will lead all other markets in limited-service hotel rooms.

Table PM-1

	Property Mix						
	Number of Rooms by City						
Existing Hotel Type	St. Louis	Indianapolis	Nashville	Louisville	Kansas City	Columbus	Minneapolis
Full-service	5,403	4,973	5,915	4,301	4,630	3,109	4,418
Boutique	413	209	700	247	1,160	149	1,945
Select-service	688	945	1,161	533	718	509	686
Extended-stay	188	577	438	273	428	232	386
Limited-service	607	462	248	315	453	59	199
Life style	0	0	563	175	0	0	368
Budget	48	0	0	0	131	149	0
Total Rooms	7,347	7,166	9,025	5,844	7,520	4,207	8,002
Proposed Additions							
Full-service	0	1,400	237	128	800	468	115
Boutique	432	0	0	205	230	167	139
Select-service	0	123	0	0	101	0	198
Extended-stay	84	108	175	120	0	0	259
Limited-service	237	0	0	0	0	0	0
Life style	370	0	0	110	125	0	120
Budget	0	0	0	0	0	0	0
Total Rooms	1,123	1,631	412	563	1,256	635	831
Total After Additions							
Full-service	5,403	6,373	6,152	4,429	5,430	3,577	4,533
Boutique	845	209	700	452	1,390	316	2,084
Select-service	688	1,068	1,161	533	819	509	884
Extended-stay	272	685	613	393	428	232	645
Limited-service	844	462	248	315	453	59	199
Life style	370	0	563	285	125	0	488
Budget	48	0	0	0	131	149	0
Total Rooms	8,470	8,797	9,437	6,407	8,776	4,842	8,833

The optimal mix of hotel rooms is market specific and depends on the nature of the primary demand generators. The mix between commercial transient, leisure transient, group and extended-stay demand is dependent on attributes of the individual markets and sub-markets. Table PM-2 compares the mix of rooms by product type in St. Louis and each of the other identified markets.

As shown the percentage of full-service rooms in the St. Louis market is lower than all markets except Kansas City and Minneapolis. However, Minneapolis has an abnormally high mix of boutique rooms with some rooms being in hotels that could have been classified as full-service. Excluding Minneapolis, the St. Louis CBD sub-market is in the middle of the range defined by the other markets in the boutique segment.

The St. Louis CBD sub-market lags the comparable markets in the percentage of extended-stay rooms with the need for additional extended-stay rooms having been highlighted elsewhere in this report. It is our opinion that development of additional full-service and extended-stay hotels should be encouraged; followed by life-style hotels and branded boutique hotels. Further, development of limited-service hotels, especially those that operate at a low or mid-price point, should be discouraged; and development of budget hotels should be strongly discouraged.

Table PM-2

	Room Mix Percentage by Property Type						
Total After Additions	St. Louis	Indianapolis	Nashville	Louisville	Kansas City	Columbus	Minneapolis
Full-service	63.8%	72.4%	65.2%	69.1%	61.9%	73.9%	51.3%
Boutique	10.0%	2.4%	7.4%	7.1%	15.8%	6.5%	23.6%
Select-service	10.4%	12.1%	12.3%	8.3%	9.3%	10.5%	10.0%
Extended-stay	3.2%	7.8%	6.5%	6.1%	4.9%	4.8%	7.3%
Limited-service	7.7%	5.3%	2.6%	4.9%	5.2%	1.2%	2.3%
Life style	4.4%	0.0%	6.0%	4.4%	1.4%	0.0%	5.5%
Budget	0.6%	0.0%	0.0%	0.0%	1.5%	3.1%	0.0%
Total Rooms	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Average Daily Rate (ADR) Challenges

Historically, the St. Louis CBD hotels have been “rate challenged.” With the exception of the Residence Inn CBD, none of the hotels have exceeded their respective national brand average ADRs and most are below the national brand average. This is not limited to the St. Louis CBD sub-market in that only the Residence Inn CBD, the Home 2 Suites CWE, the Hampton Inn & Suites Forest Park, the Hampton Inn & Suites Clayton, and the Homewood Suites Galleria have consistently exceeded the respective national brand average ADR.

This is attributable to several factors with a major factor being several hotels are in substandard condition and cannot increase ADR. In the hotel industry this often creates a cascading effect adversely impacting the ability of the better hotels to achieve the rate deserved by the hotel or appropriate for the brand. It is also a result of a growing number of hotels competing for a relatively constant commercial demand base and the abundance of demand from the leisure transient segment which is relatively price sensitive.

The lack of ADR achievement can also be attributed, in part, to the lower rated convention center demand experienced seasonally. The convention center hosts a variety of religious conventions which, while they generate significant room night demand, are generally rate sensitive. In addition, these groups do not generate demand for higher priced food and beverage services.

The solution to the hotel/convention center relationship is complex. The hotels need to support the convention center activities by providing rooms at a price point that the convention attendees will accept, or the convention center cannot be successfully marketed. Conversely, the convention center needs to upgrade the group demand attracting groups that will accept the higher room rates necessary to attract new full-service hotels. When hotel developers look at the St. Louis CBD sub-market, they either leave for other markets or develop smaller hotels targeted to a very specific element of the market demand.

The other side of the argument is that the convention center cannot be successful in upgrading the groups and attract groups with little or no price sensitivity, if the market does not have a sufficient number of high quality rooms that are desired by the attendees of higher rated group functions.

The lack of ADR achievement in the St. Louis CBD sub-market contrasts sharply with Minneapolis, Indianapolis, Louisville, and Nashville where the quality hotels are generally achieving ADRs at a 5.0 to 35.0 percent premium over the respective national brand averages. The rate strength and comparable demand in these markets is more attractive to potential developers.

Kansas City and Columbus are markets, like St. Louis, where most hotels do not achieve ADRs above the respective national brand averages. However, the new product in Kansas City is exerting an upward pressure on rates and meeting little resistance. The recent and proposed additions to supply are generally properties that will demand higher rates and, when achieved, will help increase the rates of the other hotels in the market.

The number of hotels and hotel rooms in a market are only part of the dynamic that determines whether the market is adequately supported. Other considerations include the mix of hotels; the quality of the hotel product; the demand mix experienced in the market; the strength of operations and condition of a convention center; the strength of local tourist attractions such as professional sports teams, and attractions such as the Gateway Arch; and cultural and recreational amenities. The chronological age of a hotel is not as important as the condition of the hotel. Inspecting each of the hotels in the St. Louis CBD sub-market and the hotels in the other identified markets goes well beyond the scope of this assignment. Therefore, we have assumed that the hotels in other markets are current with the respective brand standards, or are in the process of becoming current in order to retain the respective franchise.

Generally, we are familiar with the physical condition of the St. Louis hotels and have commented accordingly when a hotel is considered to be in below-franchise-standard condition or in a deficient condition when compared to other hotels in the CBD sub-market.

We have prepared a comparison of the hotel rooms by age for each of the markets. The findings are summarized in Table S-7. As shown St. Louis has a higher percentage of hotels developed in 2000 or earlier than any defined market other than Kansas City including the properties in the Country Club Plaza area. St. Louis has the fewest hotels developed in 2015 or later. The Kansas City market, excluding the Plaza area hotels, Louisville, and Minneapolis have over 20.0 percent of their hotel inventory developed since 2015. If age of the hotel inventory is a primary determinant of quality and viability, then St. Louis is lagging the other markets considerably.

Table S-7

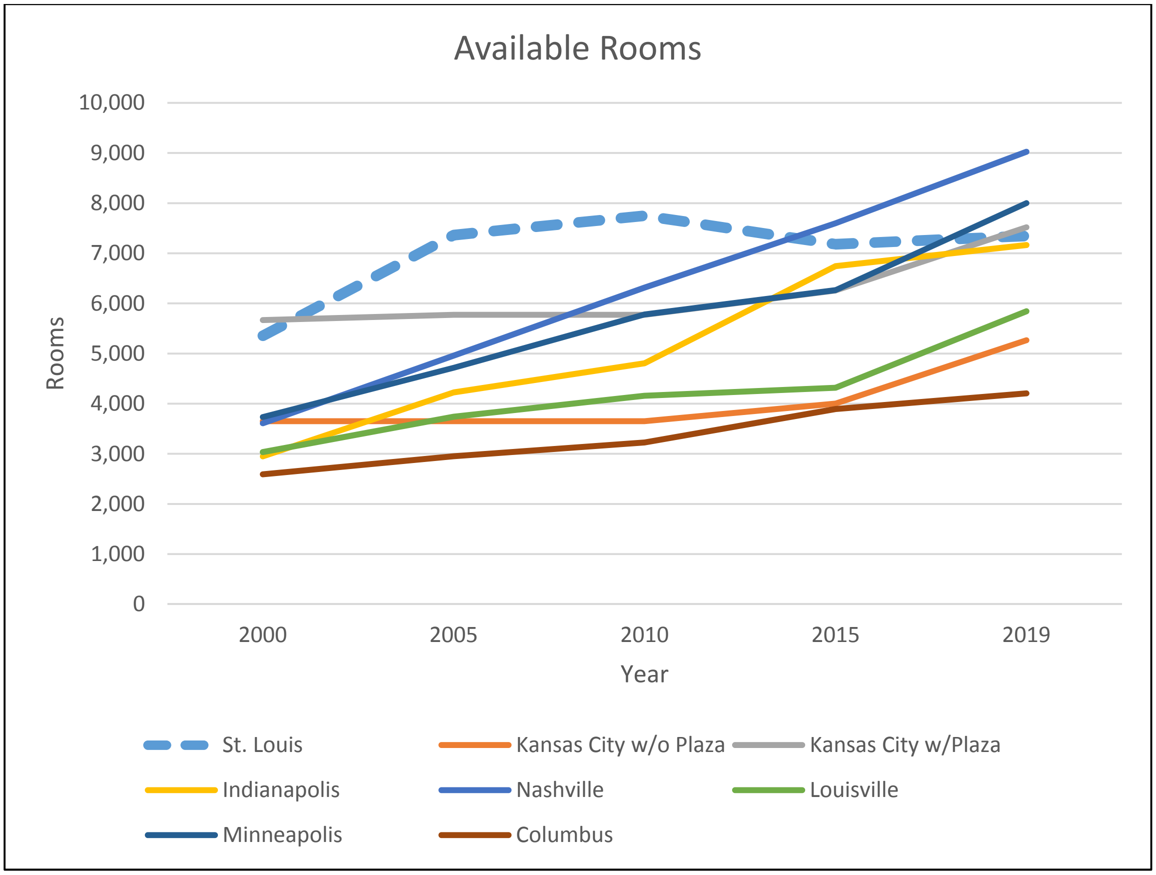
City	Pre-2000	2001-05	2006-10	2011-15	2016+	Total
Hotel Room Inventory by Age of Opening						
St. Louis	5,357	2,006	388	(568)	164	7,347
Kansas City w/o Plaza	3,652	0	0	351	1,263	5,266
Kansas City w/Plaza	5,668	106	0	483	1,263	7,520
Indianapolis	2,947	1,278	582	1,935	424	7,166
Nashville	3,610	1,350	1,356	1,283	1,426	9,025
Louisville	3,034	707	416	162	1,525	5,844
Minneapolis	3,732	984	1,063	484	1,739	8,002
Columbus	2,591	359	276	667	314	4,207
Percentage of Hotel Room Inventory by Age of Opening						
St. Louis	72.9%	27.3%	5.3%	-7.7%	2.2%	100.0%
Kansas City w/o Plaza	69.4%	0.0%	0.0%	6.7%	24.0%	100.0%
Kansas City w/Plaza	75.4%	1.4%	0.0%	6.4%	16.8%	100.0%
Indianapolis	41.1%	17.8%	8.1%	27.0%	5.9%	100.0%
Nashville	40.0%	15.0%	15.0%	14.2%	15.8%	100.0%
Louisville	51.9%	12.1%	7.1%	2.8%	26.1%	100.0%
Minneapolis	46.6%	12.3%	13.3%	6.0%	21.7%	100.0%
Columbus	61.6%	8.5%	6.6%	15.9%	7.5%	100.0%

Table S-8 compares the growth in available hotel room supply for each market from 2000 through 2019. St. Louis had more available rooms in the CBD sub-market than any of the competitive cities until 2015. By 2015, St. Louis had been surpassed by Nashville, and by 2019, had been surpassed by Nashville, Kansas City (with the Plaza rooms), and Minneapolis. As shown in Tables S-6 and PM-1, with the new supply, St. Louis will continue to be surpassed by Nashville, Minneapolis, Kansas City, and Indianapolis. The following chart is a visual presentation of Table S-8.

Table S-8

Total Hotel Room Supply by Year

City	2000	2005	2010	2015	2019
St. Louis	5,357	7,363	7,751	7,183	7,347
Kansas City w/o Plaza	3,652	3,652	3,652	4,003	5,266
Kansas City w/Plaza	5,668	5,774	5,774	6,257	7,520
Indianapolis	2,947	4,225	4,807	6,742	7,166
Nashville	3,610	4,960	6,316	7,599	9,025
Louisville	3,034	3,741	4,157	4,319	5,844
Minneapolis	3,732	4,716	5,779	6,263	8,002
Columbus	2,591	2,950	3,226	3,893	4,207



<u>Developer Considerations</u>

Most markets have hotels that are developed by a wide range of entities, many of which are not from the local market. Most developers do not necessarily look at a specific market and try to identify a brand to develop; rather, they look at a variety of markets to determine which would support their preferred hotel brand(s. Consequently, developers consider opportunities in a variety of markets and are attracted to the market that will provide them with the greatest opportunity for a strong return on their investment.

Part of the consideration is the demand strength in the market; the ability to achieve a strong ADR; the support of hotel demand for quality food & beverage services; and the demand for group space. Part of the consideration is what incentives a city, county or state would provide to help offset the total effective cost of a new hotel. National developers pit city against city and go where their efforts would generate the most benefit. *<u>This is true even if a project makes sense without inducements or assistance.</u>*

This is somewhat less the fact when the developer is local and/or owns and operates multiple properties that can contribute to some economies of scale. However, even the most civic minded developer will typically not undertake a development in one part of a broader market area if there is a better opportunity in another area. A developer typically will not, and should not be expected to, commence a project that is expected to generate a negative return on its investment or generate a return that would be significantly less than could be realized in an alternative investment or an investment in an alternative market.

Historically, the broader St. Louis market generally, and the CBD sub-market specifically, have benefited from hotel development companies that concentrate on the greater St. Louis area on a primary basis.

Hotel performance is cyclical with respect to new development, occupancy, and ADR growth. In the hotel cycle, ADR typically follows occupancy with changes ADR typically lagging changes in occupancy by three to six months, depending on the specific market dynamics. As occupancy levels increase, with the increases appearing to be sustainable, the hotels will generally raise room rates until the increases adversely impact occupancy.

Theoretically, at some point the rates will reach the point where potential guests do not perceive the price/value relationship to be acceptable, and they buy down to the next acceptable level of hotel or they defer trips to the market. At this point rate increases for the better properties moderate or decline until the rates of the lesser hotels reach the point where the perceived price/value relationship at the lesser hotel is such that the customer is willing to pay a few more dollars in rate to stay at the better hotel.

When a market reaches a demand level that new products are developed the aggregate occupancy growth typically plateaus or declines while the new properties are absorbed by the market and stabilize and the market resets the relationship among the hotels in expanded supply. Once the market re-stabilizes the cycle resumes. Barring a general economic downturn, in each cycle the ADR reaches a new high and any dips result in a higher low point than experienced in the previous dip.

Again, in theory, a sub-market can reach a point where potential demand has peaked and occupancies reach a maximum supportable level but a level insufficient to support new development. At that point the market maintains a general equilibrium and ADR increases generally mirror the rate of inflation.

The St. Louis market in general, and the CBD sub-market in specific, have gone through the cycle described periodically; but the local sub-markets have experienced smaller swings than many of the other similar sized market in the Midwest. This generally indicates a more sustainable level of demand than is experienced in most markets but also indicates the lack of periodically exceptional strong demand growth. A profoundly stable market in terms of demand generally does not attract significant new development unless it is perceived that a new property can induce new demand in its own right or in concert with an entity such as a major convention center; or that a new property(s can induce significant increases in ADR.

On a weighted average basis the St. Louis CBD has experienced an average rate of growth in RevPAR between 2.0 and 2.75 percent since 2000. On an annual basis there have been stronger growth years but no periods, other than the six (6 to twelve (12 months immediately following the attacks of September 11, 2001, where the sub-market experienced a dramatic decline in RevPAR.

While the RevPARs, driven primarily by rate growth, have increased in most years since 2000 the increase has not necessarily kept pace with the increase in development cost.

Based on published data the average costs for development of full-service hotels has increased at an average annual rate of approximately 14.0 percent since 2002 and the cost for development of select-service hotels has increased on an average annual basis by 16.5 percent. The increases for both significantly exceeds the annual rate of growth in RevPAR in the St. Louis CBD sub-market, as well as most other urban hotel markets. The increase in development costs does not simply reflect an increase in the cost of materials used in the construction process, the cost of land, and the cost of labor; but also reflects changes in hotel concepts, franchise requirements, the cost of life safety improvements, and changes in governmental regulations. Also the cost of land in a CBD sub-market has increased significantly since 2002 as availability has declined. The point is that the cost to develop a hotel has increased at a significantly greater rate since 2000 than has the ability of the hotels to increase revenues.

Per data, published by HVS in that firm's annual *Hotel Development Cost Survey,* indicates the average cost per-room to develop a full-service hotel in 2002 was approximately $165,000; in 2017, the average cost per-room was approximately $318,200. For select-service hotels the per-room costs increased from approximately $103,100 in 2002 to approximately $221,000 in 2017. Consequently, the challenge to economically justify hotel development has increased significantly since 2000.

CBD Sub-Market Challenge

The Millennium Hotel is one of the greatest market challenges for St. Louis. It is our understanding that the hotel has contamination and structural issues that make renovation of the property for any use economically questionable. Furthermore, round hotels have proven to be very operationally inefficient and the concept has generally not been developed in the last thirty-five or more years. Yet the hotel structure dominates the southern CBD site line overlooking the riverfront and is a prime location for a major hotel; a signature office structure; or a mixed-use development that would include a mix of hotel and residential; hotel and office; or office and residential; or perhaps all three.

Based on three conversations over the last year with the US representative of the owner, there appears to be little intent to do anything with the property in the foreseeable future. If it could be acquired and the structures demolished in total, it would be a location that would be attractive for a major development including a high-end hotel. The site would be the only exception to developing a major hotel that is not immediately proximate to the convention center.

Conclusions – CBD Sub-Market

Several conclusions can be reached from the analysis.

- The current hotel supply is comparable to the supply in other similar and competitive cities in the Midwest. However, the St. Louis CBD supply is, on average, older.

- Even with the rooms being added to the sub-market, additional hotel rooms will be needed for the convention center to maintain its competitive position.

- New hotels will need to have brands or concepts that will achieve an ADR higher than the current market average ADR concentrating on life-style hotels; high-end extended-stay hotels; and one or two full-service hotels with group capacity to support the convention center demand.

- Additional soft-branded or boutique hotels can be justified but should be encouraged primarily if they result in the adaptive re-use of a current building or result in the development of a challenged site.

- With the addition of the new Lowes at the Kansas City Convention Center and the two proposed Hilton branded hotels adjacent to the Indiana Convention Center in Indianapolis, the St. Louis CBD sub-market needs, or will soon need, a second convention center hotel containing at least 750 rooms and located immediately proximate to the convention center.

- Development of a major full-service hotel will require financial assistance and the time from gaining a commitment from a developer, approval of subsidies, and completion of the general approval process to the date of opening, will be at least three years.

- The CBD sub-market does not need additional budget or lower-priced, limited-service hotel rooms. Any additional hotels should be at a price point that they contribute to a stronger average ADR.

- Given the realities of the hotel industry and the cost of entry into any CBD sub-market, subsidies of some nature will be required to attract major developers.

- A solution is needed for the former Millennium Hotel property.

Cortex/Central West End (CWE) Sub-Market Hotel Analysis

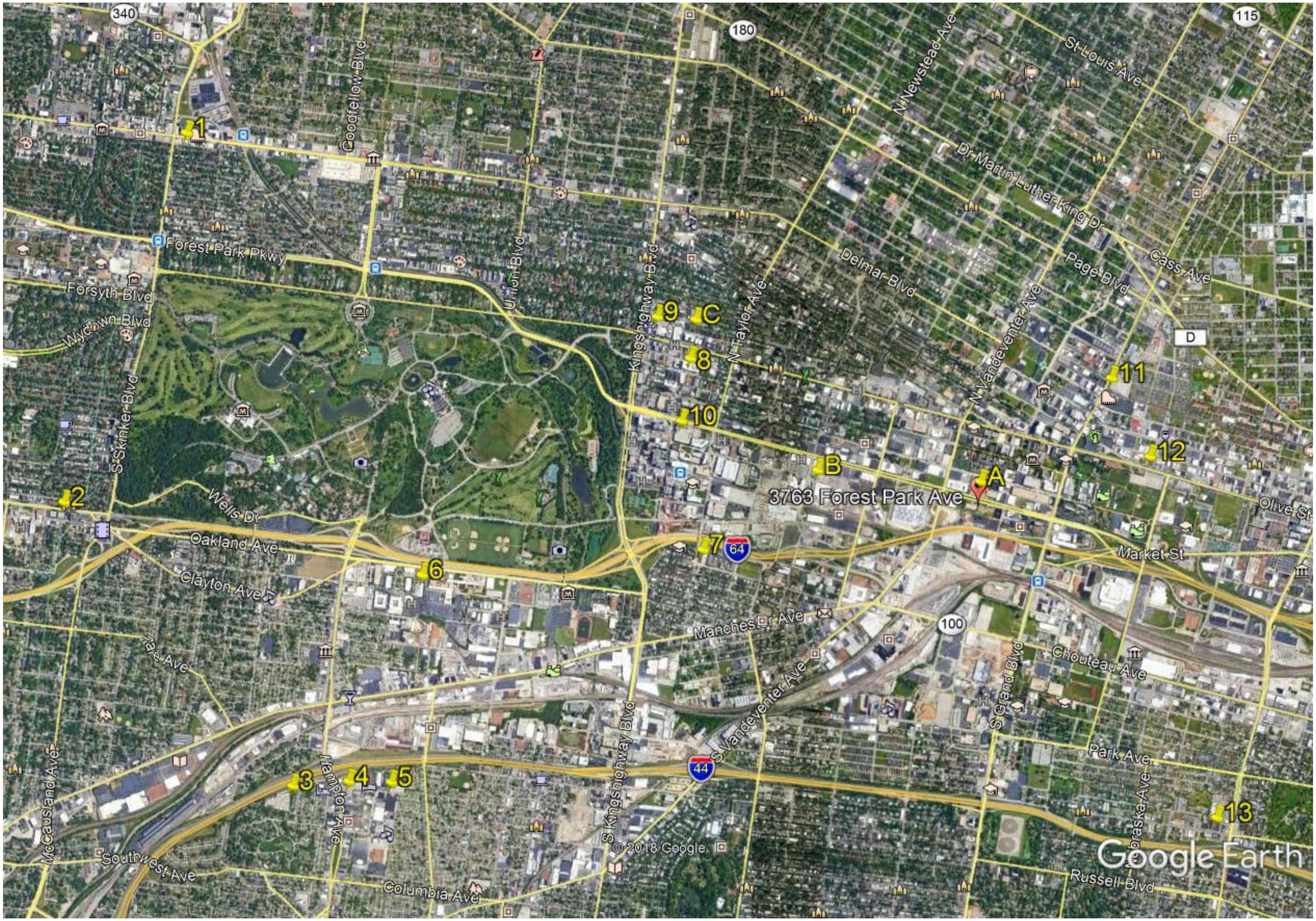
The Cortex/CWE sub-market is what the industry refers to as an urban/sub-urban sub-market, which typically means the costs and barriers to entry more closely reflect an urban sub-market but offer brand flexibility of a suburban market. With respect to the Cortex/CWE sub-market, the dynamics are simpler than those of the St. Louis CBD sub-market. Historically, the majority of the hotel room night demand was generated by the Washington University Medical Center; Washington and St. Louis Universities and related activities; and Forest Park centered tourism demand.

In 2002 the Cortex Innovation Community was launched and has consistently attracted start-up technology companies and satellite offices of established tech companies. Cortex was founded by a consortium consisting of Washington University, BJC Health Care, the University of Missouri St. Louis, St. Louis University and the Missouri Botanical Garden. The original master plan planned for development of approximately 4.5 million square feet of mix-use space and the creation of approximately 13,000 technology related jobs; and represented a total investment of approximately $2.3 billion. Hotel room night demand generated by the Cortex Innovation Community is strong and growing as the businesses stabilize and new businesses enter the area.

Medical related demand generated by the hospitals and research facilities that are part of the Washington University Medical Center complex, including BJC and St. Louis Children's Hospital; Shriners' Hospital for Children; St. Mary's Hospital St. Louis; St. Louis University Hospital and Cardinal Glennon Children's Hospital have historically generated strong hotel room night demand, and the demand has been increasing annually. Given the development of a new St. Louis

University Hospital campus and the continued expansion within the Washington University Medical Center complex, the medical related hotel room night demand is expected to continue growing for the foreseeable future.

Tourism demand in the sub-market is primarily centered on the activities and attractions in Forest Park including the zoo, the science center, the Muny Opera, the St. Louis Art Museum, the Dwight Davis Tennis Center, and events held in the park, such as the Forest Park Balloon Race. The park has also been the site of large family reunions that have historically generated significant weekend demand for the limited-service hotels and the Home 2 Suites.



Cortex/CWE Sub-Market Map

Table M-2

No.	Property	No.	2020 Additions to Supply
	Cortex/CWE Hotel Map Key		
1	Moonrise Hotel	A	Element Hotel - Cortex
2	Cheshire Inn	B	Aloft Hotel - Cortex
3	Drury Inn & Suites Forest Park	C	AC Hotel Central West End
4	Holiday Inn Forest Park		
5	Red Roof Inn		
6	Hampton Inn & Suites Forest Park		
7	Home 2 Suites Forest Park		
8	Holiday Inn Express & Suites CWE		
9	Chase Park Plaza Royal Sonesta		
10	Parkway (BJC) Hotel		
11	Angad Arts Hotel		
12	Hotel Ignacio		
13	Hotel Avyan (Lafayette Ave)		

Table S-9 summarizes the hotel room inventory as of July 1, 2019. Table S-9 indicates the Chase Park Plaza opened in 2001. The hotel actually opened in 1922 and was the destination hotel in St. Louis for decades. However, the hotel closed in 1988. In 1998 a massive renovation of the hotel began with the hotel reopening in 2001. After several changes in ownership, the hotel was acquired in 2018 by a unit of Sonesta hotels and renamed the Royal Sonesta Chase Park Plaza Hotel.

Of the total room inventory, 462 rooms were in the market as of January 1, 2000. Approximately 1,088 rooms were added between 2000 and 2010; and 301 rooms were added from 2015 to 2019. There were no hotel rooms added between 1987 and 2000.

Table S-10 summarizes the hotels by type. Approximately 426 hotel rooms are in boutique hotels; 174 are in budget hotels; there is a 106-room extended-stay hotel; there are 508 full-service hotel rooms; 127 limited-service hotel rooms; and 510 select-service rooms.

Table S-9

BJC/Cortex/Grand Center Hotel Room Supply as of July 1, 2019

			Meeting Space		Capacity	
Property	Rooms	Opened	Total	Largest	Theater	Banquet
Cheshire Inn	106	1964	4,000	3,136	230	261
Holiday Inn Forest Park	119	1973	1,440	1,440	125	80
Red Roof Inn	110	1985	0	0	0	0
Holiday Inn Express & Suites CWE	127	1986	0	0	0	0
Chase Park Plaza, Royal Sonesta	389	2001	65,000	14,156	2,000	1,000
Hampton Inn & Suites Forest Park	126	2006	980	980	50	42
Parkway (BJC) Hotel	220	2006	1,360	1,360	130	100
Hotel Avyan (fka HI Express)	64	2007	625	625	40	0
Drury Inn & Suites Hampton Ave	164	2008	4,600	2,800	150	150
Moonrise Hotel	125	2009	4,007	1,430	75	80
Hotel Ignacio	49	2015	0	0	0	0
Home 2 Suites	106	2016	0	0	0	0
Angad Arts Hotel	146	2019	2,500	1,750	N/A	250
Total Existing Rooms	1,851					

Table S-10

BJC/Cortex/Grand Center Hotel Room Supply by Type

Property	Rooms	Opened	Hotel Type
Cheshire Inn	106	1964	Boutique
Moonrise Hotel	125	2009	Boutique
Hotel Ignacio	49	2015	Boutique
Angad Arts Hotel	146	2019	Boutique
Red Roof Inn	110	1985	Budget
Hotel Avyan (fka HI Express Lafayette	64	2007	Budget
Home 2 Suites	106	2016	Extended-stay
Holiday Inn Forest Park	119	1973	Full-service
Chase Park Plaza, Royal Sonesta	389	2001	Full-service
Holiday Inn Express & Suites CWE	127	1986	Limited-service
Hampton Inn & Suites Forest Park	126	2006	Select-service
Parkway (BJC) Hotel	220	2006	Select-service
Drury Inn & Suites Hampton Ave	164	2008	Select-service
Total Existing Rooms	1,851		

The three newest hotels include the 49-room Hotel Ignacio which is a true boutique hotel developed primarily to accommodate high-end demand generated by St. Louis University. The second hotel is the 106-room Home 2 Suites extended-stay hotel; and the third is the Angad Arts Hotel which can best be described as an eclectic, boutique hotel.

In addition to the existing hotels there are three hotels that are proposed or under construction in the Cortex/CWE sub-market totaling 474 rooms. The properties include a 153-room Element Hotel; a 192-room AC Hotel; and a 129-room Aloft hotel. All three are part of the Marriott franchise system. The AC Hotel is a soft-branded hotel; the Element is a life-style extended-stay hotel; and the Aloft is a life-style hotel. The proposed additions to supply are summarized in Table S-11.

Table S-11

Proposed CWE Sub-Market Hotels			
Proposed	Rooms	To Open	Hotel Type
Element Hotel	153	2020	Extended-stay
AC Hotel CWE	192	2020	Boutique
Aloft Hotel - Cortex	129	2020	Life-style
Total Additional Rooms	474		

In addition to the three hotels announced or under development, there are other parties looking at opportunities to develop additional hotels with the biggest hurdle being locating a cost-justifiable site. There is a master planned development proposed for an area immediately proximate to the new St. Louis University Hospital complex that is being considered as a site for a new "conference center" type hotel; an upper scale select-service hotel; or a soft-branded hotel that would have significant meeting and function space. All of these considerations and efforts are in the early stages and no brands have been announced or specific sites identified.

Other than the Residence Inn Downtown and the Homewood Suites Galleria, the Cortex/ CWE sub-market is the only area where hotels are achieving ADRs and occupancies above the respective national brand averages. Both Home 2 Suites and the Hampton Inn & Suites Forest Park achieved ADRs 15 to 20 percent above the respective brand averages in each of the last three years. In each of the last two years, Home 2 Suites achieved the highest occupancy of any franchised hotel in the St. Louis MSA and Hampton Inn Forest Park achieved an occupancy level in each of the last five years in the top five MSA hotels. The Moonrise also achieved one of the higher occupancies in the MSA and an above market ADR.

It is our understanding that the ADR and occupancy projections for the Element and Aloft Hotels are above their respective brand averages. The rate of growth in hotel room night demand in the Cortex/CWE sub-market is expected to be more than sufficient to rapidly absorb the new rooms being added to the sub-market and sufficient to justify additional rooms.

Additional Hotels and Challenges – Cortex/CWE Sub-Market

The Cortex/CWE sub-market supply is positioned to absorb moderate hotel room night growth for the foreseeable future. However, additional rooms will be needed to accommodate the potential demand. The property types most appropriate for development include additional life-style hotels; stronger branded select-service hotels; an additional high-end extended-stay hotel such as a Homewood Suites or StayBridge Suites; and an additional mid-priced extended-stay hotel. In the near future, a 225 to 250 room full-service hotel with group function space should be considered.

Life-style hotels are specifically conceptualized to attract and accommodate demand from millennials and tech oriented individuals. Those are the people being attracted to the innovative job opportunities in the Cortex Innovation Community.

While several hotels have some meeting space, there are only four hotels in the Cortex/CWE sub-market with group true facilities – the Drury Inn & Suites, the Cheshire Inn, the Moonrise Hotel, and the Chase Park Plaza; and only the Chase Park Plaza is truly a full-service group hotel. The Drury Inn & Suites, the Cheshire Inn and the Moonrise Hotel each have approximately 4,000 to 4,600 square feet of meeting and function space. While the Cheshire Inn can accommodate up to 261 people for a group function the Drury Inn & Suites can only accommodate groups of up to 150 people, and the Moonrise groups of up to 80 people.

It is our opinion that there will be a need in the immediate future, within approximately three to five years, for a 225 to 250 room full-service hotel with meeting and function space that can accommodate groups of 300 to 350 people. The location within the sub-market would not be a critical consideration, but ease of access from I-64 should be a primary consideration, and a location near the core of the sub-market would be a plus.

With respect to extended-stay hotel development, a Residence Inn would be a consideration, but there could be impact issues with the Residence Inn Downtown located at Jefferson and U-64 which accommodates some Cortex/CWE sub-market demand and with the Element Hotel expected to open in 2020.

Unlike the CBD sub-market, potential rate achievement is not a significant concern in the Cortex/CWE sub-market. It is expected that the hotels currently proposed or under development would be able to achieve ADRs above the respective national brand averages and strong occupancy levels. However, the cost of land is high and construction costs are ever increasing.

Perhaps the greatest challenge is finding a site that cannot be better used as the location for another office building for start-up or existing tech companies; as a site for a new research or production facility; or to expand the services of the medical centers. Development of the proposed hotels involved acquiring sites that were already developed and, in at least one case, involved the developer relocating the previous tenants on the property.

It is our understanding that the Cortex Innovation District has rights to abate taxes on properties within the district. In our opinion, the appropriate decision makers in the Cortex District should weigh the individual development/land use proposals and grant abatement or other assistance accordingly.

With respect to hotel development, assistance from the City of St. Louis should take the form of approval of SIDs, TIDs, New Market Tax Credits, and Brownfields Redevelopment Tax Incentives. This would be in addition to any abatement approved by the Cortex Innovation District.

For redevelopment of land parcels in the Cortex/CWE sub-market that are not under the direct control of the Cortex Innovation District, minimal incentives should be necessary to encourage hotel development at this time. However, as the available redevelopment sites become scarce and require greater investment to acquire and, potentially, raze existing improvements and/or deal with extraordinary contamination and clean-up costs, there may be justification for assistance. Again, site availability is expected to be a greater issue than the financial aspects of a proposed hotel.

Potential hotel developers will ask for assistance and expect some to level the playing field if previous hotel developments received incentives. The most difficult task will be saying “no” for the first time and potentially losing a development.

Conclusions – Cortex/CWE Sub-Market

- The sub-market dynamics are strong and will justify new hotel development.
- ADR and occupancy achievement for new hotels should be strong for the foreseeable future.
- The sub-market could use additional life-style hotels, extended-stay hotels, and, at some point in the near future, a 225 to 250 room full service-hotel with meeting and function space sufficient to accommodate groups up to 300 to 350 people.
- There are a wide variety of brands available for development without brand duplication.
- Budget hotels should not be encouraged; but stronger branded limited-service hotels should not be discouraged.
- In the near term there should only be limited need for financial assistance other than approval of CIDs, TIDs, New Market Tax Credits, Brownfields Redevelopment Tax Incentives, unless a site requires extraordinary demolition costs or environmental remediation.

Best Practices

We reviewed the incentives offered by the City of St. Louis and the State of Missouri, as well as those offered by Kansas City, Nashville, Louisville, Columbus, Indianapolis, Minneapolis and the respective states. Other than relatively minor differences, the incentives were similar. The primary exception being the level of state involvement in the TIF process in Kentucky and the varying lengths of time for which tax abatement was granted.

The greatest difference with respect to tax abatement was the process used in Indianapolis where tax abatement is offered for a maximum of ten years with the first year abatement being 100 percent, then declining each year until the tenth year abatement is 5 percent. This is less beneficial to the recipient of the abatement than the current St. Louis practice. The St. Louis approach is similar to that of the other cities. However, the less generous practice in Indianapolis has not slowed development in the city or adversely impacted the city's ability to attract businesses from other states while retaining the current business base.

Also, beginning in 2020 Indianapolis is tying approval of tax incentives to wages as well as job creation. Tax incentives will be granted only to companies that agree to an $18.00 per-hour base pay rate; provide access to health care benefits; and support various community programs. City officials indicate they want to leverage tax incentives to achieve broader community benefits. Information on the new policy was published in the Indianapolis Business Journal on July 25, 2019, in an article titled *City to tie incentives to $18-1n-hour pay* written by Hayleigh Colombo.

It is essential to remember that hotel developers generally are not looking at where they should build a new hotel in the St. Louis MSA, but whether they should make their investment in St. Louis or look for a better opportunity in Louisville, Kansas City, Indianapolis, Chicago, Denver or any other MSA. Since hotel investment dollars are finite and opportunities are present in a variety of cities, the competition for those dollars is intense.

When incentivizing or financially assisting hotel development, it is important to identify the type and quality of hotels that will best benefit the CBD sub-market. Given the current CBD sub-market conditions, more quality hotel rooms are needed to help grow rate; support the future marketing of the convention center; and to help expand the CBD commercial base and support commercial hotel room night demand. It would be detrimental to encourage budget or lower rated limited-service hotels; and there are sufficient rooms available to accommodate the mid-priced leisure transient demand.

The hotels that should be encouraged are expensive to develop in any market and even more expensive in major CBD sub-markets due to high land costs, or the high cost of converting an existing, non-hotel property to hotel use.

The following “best practices” should be considered.

- It is our understanding that the current LCRA review process includes an economic benefits test before recommending public assistance. These practices should be continued with the primary test being whether a “subsidized” development would generate revenues through sales tax, head tax, payroll taxes, or other taxes sufficient to offset the cost of the subsidy. The test for the offset should encompass a multiple year window, as a hotel will take sixteen to thirty-six months or more to complete the development process and will not stabilize until the end of the second year of operations at the earliest, but typically stabilizes by the end of the third year of operations.

- If a hotel pro-forma provided by the developer does not indicate the hotel would stabilize by the end of the third full year of operations, then the development should be considered highly speculative and likely not market justified.

- Developers typically look at TIF, tax abatement, CIDs, and/or TIDs as those benefits generally available in all markets. Offering the familiar provides a sense of comfort to the developer, and the cost to the city for a TIF or tax abatement is very definable.

- Promotion of development in Enterprise Zones and Empowerment Zones should be encouraged.

- If development sites can be obtained by the city and any existing improvements razed, the development time frame can be reduced and several major developer headaches or concerns removed. Contributing prepared sites could take the place of other financial assistance and not impair tax revenues in the immediate future.

- Developers should be incentivized to redevelop existing buildings in the locations where hotels would be the most beneficial to the city. That would be near Busch Stadium, the Clark Street corridor from Busch Stadium to Union Station; Tucker Boulevard between Washington Avenue and Market Street; and areas near the convention center.

- Although it may be difficult, the city should strongly consider saying “no” to incentives for the wrong type of hotel or a hotel in the wrong location.

- Only “right sized” hotels should be incentivized. Unless there is something extraordinarily special about a proposed hotel, room counts under 130 should receive extra scrutiny. Although most life-style hotels have less than 150 rooms, many have less than 110 rooms; unless development of a life-style hotel constitutes an adaptive re-use of an existing building or a site with challenges, the approval process should receive extra scrutiny.

- The city should be proactive with respect to the potential development of another convention center hotel. It is apparent, from recent projects in Louisville, Indianapolis and Kansas City, that a new convention hotel will likely not happen without major public incentives or assistance. The fact that there are few brands available for a new convention hotel and few developers for that type of hotel only adds pressure and need for assistance.

- For the convention center to retain a strong competitive position in the future and to be able to upgrade the quality and price point of the hosted conventions, an additional convention center hotel will be essential.

- If a developer does not seek any incentives and is not developing a budget hotel, then the added rooms should be welcomed.

- Be cautious in agreeing to assistance for unproven brands or new brands that have fewer than twenty-five properties nationally with firm development commitments. The St. Louis market is not sufficiently dynamic to absorb what may be an unsuccessful brand.

<u>Standard Conditions</u>

The following Standard Conditions apply to real estate consulting assignments conducted by H&H Consulting Group, Inc. that render an opinion of value or develop estimates of future cash flows.

Reports may contain prospective financial information, estimates or opinions to represent the consultant's view of reasonable expectations at a particular point in time. However, such information, estimates, or opinions are not offered as predictions or as assurances that a particular level of income or profit will be achieved, that events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analyses will vary from those described in our report, and the variations may be material.

In the absence of competent technical advice to the contrary, it is assumed that the property is not adversely affected by concealed or unapparent hazards such as, but not limited to, asbestos, hazardous or contaminated substances, toxic waste, or radioactivity.

Any report and/or analyses included therein are intended for the information of the person or persons to whom it is addressed, solely for the purposes stated, and should not be relied upon for any other purpose. Neither our report, nor its contents, nor any reference to the consultant or H&H Consulting Group, Inc., may be included or quoted in any offering circular or registration statement, prospectus, sales brochure, appraisal, other agreement, or document, without our prior written permission. Permission will be granted only upon meeting certain conditions.

Information furnished by others is presumed to be reliable, and where so specified in the report, has been verified; but no responsibility, whether legal or otherwise, is assumed for its accuracy, and it cannot be guaranteed as being certain. No single item of information was completely relied upon to the exclusion of other information.

Assignments are accepted with the understanding that there is no obligation to furnish services after completion of the original assignment. If the need for subsequent services related to a market feasibility assignment (for example, testimony, updates, conferences, reprint or copy services) is contemplated, special arrangements acceptable to H&H Consulting Group, Inc. must be made in advance.

No significant change is assumed in the supply and demand patterns indicated in the report. Any analysis assumes market conditions were as observed as of the current date of our market research stated in the letter of transmittal. These market conditions are believed to be correct; however, the consultants assume no liability should market conditions materially change because of unusual or unforeseen circumstances.

Neither the report nor any portions thereof, the identity of the consultant or H&H Consulting Group, Inc. shall be disseminated to the public through public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the consultant and H&H Consulting Group, Inc.

The date of any conclusions apply as set forth in the letter of transmittal and within the body of the report.

Special Conditions

Unless documentation is provided to the contrary, it shall be assumed that there are no hidden environmental conditions that could adversely impact the value or utility of the hypothetical hotel site. In the event that future investigation determines that the site is affected by environmental hazards, or forms of contamination that would adversely impact the development, any opinions and conclusions expressed in this report shall be null and void.

In this report the terms “hypothetical” and “proposed” may be used interchangeably to describe the hotel and have the same meaning.

The terms “boutique” and “branded boutique” are inclusive of both property types.

With respect to market occupancy and/or average daily rate information, it is assumed that qualified professional hospitality management had operational responsibility for all hotels in the respective markets during the period(s) to which the information applies.

As part of the consulting process, H&H Consulting Group, Inc. **did not/will not** conduct an audit of any financial or statistical information provided by any third party representing the client or any other market participants. Rather, any financial or statistical data provided will be accepted as true and accurate.

The analysis and conclusions assume that there will not be a significant terrorist attack on US soil during the analysis period of sufficient magnitude as to disrupt travel or negatively impact the hospitality industry for an extended period of time. If such events occur, our conclusions could be adversely impacted and any conclusions in this report shall be null and void.

Statement of Confidentiality

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Intended User & Client

For the purpose of this assignment, our client is the Land Clearance for Redevelopment Authority of the City of St. Louis as represented by Mr. Otis Williams, its Executive Director, any related entities, and the respective assigns.

Copyright Protection

All opinions, analysis, and conclusions stated herein are intended for the exclusive use of our client, Land Clearance for Redevelopment Authority of the City of St. Louis located at 1520 Market Street, Suite 2000, St. Louis, MO 63103, direct affiliates and assigns thereof, and any other specifically identified intended user(s). Only the client and any other specifically identified intended user(s) may use this report for the sole purpose and intended use stated herein.