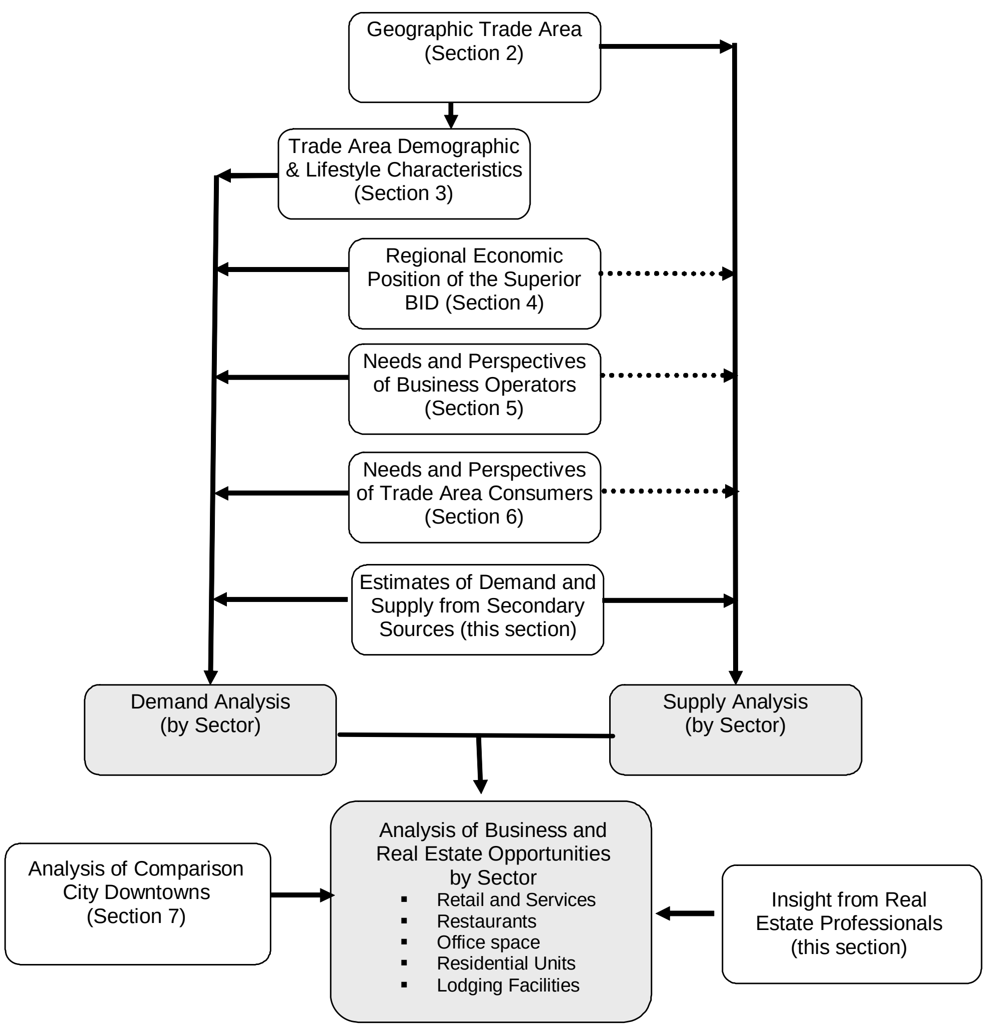
Section 8

# Analysis of Business and Real Estate Opportunities

*The Superior BID Market Analysis provides a foundation for business retention, expansion, and recruitment efforts. Using this foundation, Section 8 examines a series of business and real estate opportunities for the Superior BID. These opportunities build upon the information and conclusions presented in the preceding sections of this report.*

This section examines five business and real estate sectors that are important to downtown economic vitality: retail and services, restaurants, office space, residential units, and lodging facilities. Understanding the market potential of these uses can help identify opportunities for business retention, expansion, entrepreneurship, and recruitment. Demand and supply data, in addition to information from applicable prior sections of this report, are used here to develop an analysis of market opportunities by sector. The process is illustrated in Figure 8.1.

**Figure 8.1 – Analysis of Business and Real Estate Opportunities Flowchart**



Demand refers to the desire to purchase, coupled with the power to do so, in a particular business or product category. As figure 8.1 indicates, each section of this market analysis contributes to the analysis of demand. Due to the complexity of measuring demand, both quantitative data (such as expenditure potential) and qualitative data (perceptions and behaviors of consumers) are drawn from the market analysis to gauge market support.

The supply analysis requires collection of information to help gauge actual sales captured, or capacity to sell, in the trade area by sector. Due to the difficulty of collecting accurate data, this study relies on the sales estimates provided by secondary data sources. As business and real estate opportunities are explored, it is important that a thorough supply analysis be completed to fully inventory all existing and proposed operations that will compete within that sector.

Insights and perspectives of local real estate professionals were included in this section to supplement quantitative data analysis. Interviews were conducted with Knute Pedersen, Superior Glass Company; Daniel Markham, Reuben Johnson & Son, Inc.; Bobbi Germond and Steve Germond, Weichert Realtors; and Jim Ronding, Re/Max Realty. The valued insights of Tim Sauter of Sauter Fairchild Insurance and Jim Zastrow of M&I Marchall & Ilsley Bank were also incorporated.

Additional considerations related to the BID's future economic vitality should also be included in analyzing future demand and supply conditions. These considerations might include expected physical changes to the BID (such as major streetscape improvements) that will strengthen the appeal of the area. Demand and supply data coupled with future downtown vitality considerations provide an objective basis for encouraging or discouraging expansion or recruitment in a particular business category or real estate sector.

While the data collected in this market analysis may be insufficient to adequately support a detailed feasibility study, it does provide enough information to help initiate business retention, expansion and recruitment efforts. This data is not intended to replace the activities of commercial brokers and site selectors, but to complement the work of these individuals and assist potential entrepreneurs. Accordingly, data in this market analysis can be used to guide objective economic development efforts including:

1. determining if the district is ready to launch an expansion or recruitment effort for a particular type of business or real estate development;

2. assisting prospective entrepreneurs and business developers with objective market data; and

3. supporting economic development marketing efforts that objectively promote the benefits of doing business in the Superior BID.

## Retail and Services

The analysis of the retail and services sector focuses on the market potential for specific types of street-level businesses that directly serve the BID's primary consumer segments. The market for commercial space is a function of both chain and independent businesses seeking property that is both visible and easily accessible to trade area residents, daytime employees, students and visitors. Using data from prior sections combined with additional information presented here, market demand and market supply are examined. A resulting overall assessment of market opportunities for the Superior BID is then offered.

**Geographic Area for Analyzing Retail/Service Demand and Supply**

The analysis of demand and supply that follows assumes use of the most appropriate trade area identified in Section 2. These trade areas include the Superior Primary Trade Area and the Superior-Duluth Combined Trade Area. For each business category analyzed, the trade area should be the smallest geographic area that captures at least 75% of likely customers. For example, a drug store may be able to generate 75% of its customers from the Superior Primary Trade Area, but a furniture store may rely on the larger Superior-Duluth Combined Trade Area to generate 75% of its customers.

Tables 8.1 and 8.2 provide retail business data on the two trade areas defined in Section 2. Within the Superior Primary Trade Area, there are 380 retail businesses with sales of approximately $639 million. This is 34 percent of the sales generated throughout the larger Superior-Duluth Combined Trade Area (which has 1,188 retail businesses). As a benchmark, the Superior Primary Trade Area also equals 34 percent of the Superior-Duluth Combined Trade Area population. This suggests that based on population alone, there is not a significant leakage of dollars to or from Minnesota.

### Demand Analysis

*Demographic and Lifestyle Characteristics (Section 3)* - Demographic and lifestyle characteristics of the two trade areas help describe the type of consumers residing in these areas and their likely purchasing preferences and behaviors.[1] Compared to the combined states of Wisconsin and Minnesota, the data indicates that residents of both trade areas have lower home values, a growing elderly population, lower incomes, limited ethnic diversity, lower overall educational attainment, and a high proportion of service based employees. The differences are greater in the Superior Primary Trade Area. ESRI Business Information Solutions estimates that local residents have relatively higher frequency of purchasing items such as auto parts, toys/games, home improvements, kitchen supplies, and pet supplies.

*Business Operators Survey (Section 5)* - Responses to the business operators survey component of this market analysis provide another measure of demand for various types of retail and service businesses. The survey findings indicate that many business respondents would like to see more general retail, clothing, and professional services in the BID.

[1] Note: For businesses categories with trade areas different than those identified in Section 2, demographic and lifestyle data can be assembled with assistance from a private data firm. Online services from providers like ESRI Business Information Solutions and Claritas can help define these trade areas and provide the associated data.

*Consumer Survey (Section 6)* – Responses to the consumer survey component of this market analysis provide a third measure of demand for various types of retail and service businesses.[2] The survey findings indicate that most residents do their shopping at either Miller Hill Mall in Duluth or the South Tower Avenue area of Superior. Variety and quality of the products, convenient parking, and good weekend hours were identified as top reasons for shopping in these areas. The survey points to significant out-shopping for clothing, electronics, crafts, furniture, gifts and groceries. Respondents identified clothing stores as potential new businesses for the BID such as JC Penny and Kohl's as well as other women's and family clothing and shoes. Other types of retail frequently mentioned included a bakery, book store and a craft store.

*Demand (Expenditure Potential) in the Trade Areas (see Tables 8.1 and 8.2)* – Potential resident spending has been estimated by ESRI Business Information Solutions for a selection of retail categories in Table 8.1 and Table 8.2.

*Insight from Real Estate Professionals* - Based on interviews with the selected business leaders, the following points provide additional information on demand for retail and service businesses in the Superior BID:

- Local retailers draw customers from both Superior and the broader Twin Ports area (as demonstrated in the trade area maps in Section 2).
- Superior's lower sales tax (excluding clothing) does not result in significant draw of Minnesota resident expenditures. See discussion below.
- Retail tenants in Superior prefer not to pay higher retail space rents as those charged in Duluth.

**Sales Tax Comparison: Superior, WI vs. Duluth, MN**

Wisconsin has a 5.0-percent state sales tax and Douglas County charges an extra 0.5-percent "County Tax" for a total sales tax of 5.5-percent. Prescriptions and most non-prepared foods are exempt. However, over-the-counter medications are not.

Minnesota has a 6.5-percent state sales tax and Duluth charges an additional 1.0-percent for a total of 7.5-percent. Non-prepared foods and clothing are exempt from this tax. In addition, Duluth imposes an additional tax on all food, beverage and alcohol sales at restaurants.

With the exception of clothing, there is typically a 2-percent difference in sales tax making Superior a more attractive shopping destination on the basis of sales tax.

*Source: Northland Connection, http://www.northlandconnection.com/ and other sources.*

[2] For additional study, it may be useful to examine the behaviors and preferences of the various market segments served (or potentially served) by the BID. Three segments (downtown residents, area college students and visitors), represent important consumer groups for the BID. The expected level of demand from these market segments deserves additional study as it relates to individual business categories.

**Supply Analysis**

*Supply (Estimated Sales) in the Trade Areas (see Tables 8.1 and 8.2)* – Actual sales within the trade areas have been estimated by ESRI Business Information Solutions for a selection of retail categories in Table 8.1 and Table 8.2. These tables estimate the "Retail Gap" (Demand minus Supply) that may signal business opportunities by category. If the gap is negative (in red), then the area may already have a sufficient number of businesses in that category. These tables indicate that retail demand may exceed supply (what is actually sold) in the following categories: electronics/appliance, specialty food, clothing, shoe, jewelry, books, and office supply stores. Based on this ESRI data, business expansion and recruitment opportunities may exist.

*Insight from Real Estate Professionals* - Based on interviews with the selected business leaders, the following points provide additional information on the supply of retail and service businesses as it relates to the Superior BID:

- Current retail supply is clustered on Tower Avenue, approximately 1.5 miles south of the center of the BID. Major retail chains such as Wal-Mart, Target and Menards are already located in this area.
- Currently there are many retail vacancies in the BID. Belknap Street appears more vibrant than Tower Avenue, partly due to traffic volume.
- Additional retail space may be added to the BID as part of proposed mixed-use development to the west of the Blaine Business & Technology Center (including the former Central School site). One possible scenario includes a campus of two-story buildings, with first floor retail and second floor office space.
- The renovation of the Belknap Plaza on the east end of Belknap Street demonstrates the market desire for convenient and attractive shopping opportunities close to downtown.
- New retail space in the renovated New York Building on Tower Avenue is leasing slow, indicating some initial hesitation by retailers in accepting a downtown location. Reasons cited include a lack of guaranteed parking in front of the store.

**Market Opportunities**

Business leaders interviewed offer the following insights related to retail and service business opportunities in the Superior BID:

- There may be potential for Belknap Street to accommodate more "mid-box" stores if land acquisition difficulties are overcome.
- UW-Superior area is currently underserved with neighborhood-serving retail. There is currently no dedicated business district for area students.
- The Superior BID may be able to create multiple retail nodes in response to not having a single (core) business district.
- The eventual street improvements to North Tower Avenue will provide an opportunity to improve the commercial environment for future retail and service businesses in this area.
- The Superior BID has an advantage over downtown Duluth as it offers more readily available parking.
- The potential expansion of Murphy Oil could have a significant impact on BID retailing.

These perspectives, coupled with the demand and supply information presented earlier, provide a basis for identifying targeted categories for business retention, expansion and recruitment efforts. Based on the information assembled in this analysis, the following street-level retail and service categories (chains and independents) represent some of the potential market opportunities that deserve additional study:

- Auto parts
- Bakery
- Book Store
- Craft/Hobby store
- Electronics/Appliances
- Family clothing
- Gift stores
- Home improvement stores including furnishings
- Kitchen supply store
- Pet supply store
- Professional and business services
- Shoe store
- Toy store

Additional study of these business opportunities requires consideration of the needs and preference of trade area residents as reflected in their demographic characteristics (age, income, home ownership, etc.). Further, a better understanding of the impact of the Minnesota apparel sales tax exemption is needed. In addition, a more thorough study of existing and proposed supply is also needed.

In addition to these business categories, market opportunities may exist for various unique business categories not clearly defined by NAICS code classifications. Based on market analysis findings from other communities coupled with business examples being submitted to the University of Wisconsin-Extension's Innovative Downtown Business online clearinghouse, some broad categories of retail serve as "good fits" for many downtowns:

- Lifestyle and wellness retail and services;
- Stores that celebrate local arts and heritage;
- Stores that entertain or educate;
- Gift and indulgences stores;
- Unique destination retailers; and
- Neighborhood-serving retailers.

See the innovative Downtown Business clearinghouse for examples and case studies of these businesses operating throughout the Midwest and Northeastern United States.[3]

[3] http://www.uwex.edu/ces/cced/downtowns/innovative/

### Table 8.1 – Retail Demand and Supply, Superior Primary Trade Area

| **Summary Demographics** | |
|---|---|
| 2008 Population | 60,455 |
| 2008 Households | 25,916 |
| 2008 Median Disposable Income | $35,216 |
| 2008 Per Capita Income | $23,004 |

| **Industry Summary** | **Demand (Retail Potential)** | **Supply (Retail Sales)** | **Retail Gap (Demand-Supply)** | **Gap as % of Demand** | **Number of Businesses** |
|---|---|---|---|---|---|
| Total Retail Trade and Food & Drink (NAICS 44-45, 722) | $552,831,133 | $721,572,575 | **($168,741,442)** | **-31%** | 604 |
| Total Retail Trade (NAICS 44-45) | $474,024,996 | $639,474,115 | **($165,449,119)** | **-35%** | 380 |
| Total Food & Drink (NAICS 722) | $78,806,137 | $82,098,460 | **($3,292,323)** | **-4%** | 224 |
| Automobile Dealers (NAICS 4411) | $95,924,760 | $117,083,848 | **($21,159,088)** | **-22%** | 20 |
| Other Motor Vehicle Dealers (NAICS 4412) | $13,232,122 | $19,968,637 | **($6,736,515)** | **-51%** | 11 |
| Auto Parts, Accessories, and Tire Stores (NAICS 4413) | $6,595,313 | $11,438,338 | **($4,843,025)** | **-73%** | 17 |
| Furniture Stores (NAICS 4421) | $11,935,991 | $21,391,733 | **($9,455,742)** | **-79%** | 12 |
| Home Furnishings Stores (NAICS 4422) | $5,656,988 | $12,792,451 | **($7,135,463)** | **-126%** | 15 |
| Electronics & Appliance Stores (NAICS 443/NAICS 4431) | $12,100,402 | $5,967,679 | **$6,132,723** | **51%** | 18 |
| Building Material and Supplies Dealers (NAICS 4441) | $17,953,278 | $54,218,467 | **($36,265,189)** | **-202%** | 44 |
| Lawn and Garden Equipment and Supplies Stores (NAICS 4442) | $1,366,225 | $2,000,019 | **($633,794)** | **-46%** | 9 |
| Grocery Stores (NAICS 4451) | $72,217,710 | $72,556,079 | **($338,369)** | **0%** | 18 |
| Specialty Food Stores (NAICS 4452) | $849,646 | $667,068 | **$182,578** | **21%** | 7 |
| Beer, Wine, and Liquor Stores (NAICS 4453) | $7,686,802 | $10,370,032 | **($2,683,230)** | **-35%** | 10 |
| Health & Personal Care Stores (NAICS 446/NAICS 4461) | $16,502,762 | $26,718,665 | **($10,215,903)** | **-62%** | 15 |
| Gasoline Stations (NAICS 447/NAICS 4471) | $101,968,482 | $134,330,897 | **($32,362,415)** | **-32%** | 34 |
| Clothing Stores (NAICS 4481) | $12,411,154 | $3,502,860 | **$8,908,294** | **72%** | 14 |
| Shoe Stores (NAICS 4482) | $1,328,089 | $836,128 | **$491,961** | **37%** | 1 |
| Jewelry, Luggage, and Leather Goods Stores (NAICS 4483) | $2,520,007 | $906,203 | **$1,613,804** | **64%** | 2 |

| Industry Summary | Demand (Retail Potential) | Supply (Retail Sales) | Retail Gap (Demand-Supply) | Gap as % of Demand | Number of Businesses |
|---|---|---|---|---|---|
| Sporting Goods/Hobby/Musical Instrument Stores (NAICS 4511) | $4,637,564 | $9,172,374 | **($4,534,810)** | **-98%** | 37 |
| Book, Periodical, and Music Stores (NAICS 4512) | $5,804,910 | $4,052,658 | **$1,752,252** | **30%** | 7 |
| Department Stores Excluding Leased Depts. (NAICS 4521) | $56,489,642 | $52,524,449 | **$3,965,193** | **7%** | 9 |
| Other General Merchandise Stores (NAICS 4529) | $9,331,399 | $60,501,742 | **($51,170,343)** | **-548%** | 6 |
| Florists (NAICS 4531) | $704,657 | $1,154,076 | **($449,419)** | **-64%** | 10 |
| Office Supplies, Stationery, and Gift Stores (NAICS 4532) | $4,479,400 | $3,403,978 | **$1,075,422** | **24%** | 15 |
| Used Merchandise Stores (NAICS 4533) | $615,816 | $1,207,188 | **($591,372)** | **-96%** | 20 |
| Other Miscellaneous Store Retailers (NAICS 4539) | $2,555,263 | $2,089,972 | **$465,291** | **18%** | 22 |
| Food Services & Drinking Places (NAICS 722) | $78,806,137 | $82,098,460 | **($3,292,323)** | **-4%** | 224 |
| Full-Service Restaurants (NAICS 7221) | $27,080,188 | $26,460,611 | **$619,577** | **2%** | 98 |
| Limited-Service Eating Places (NAICS 7222) | $37,778,149 | $28,708,509 | **$9,069,640** | **24%** | 30 |
| Special Food Services (NAICS 7223) | $3,540,859 | $1,859,622 | **$1,681,237** | **47%** | 4 |
| Drinking Places - Alcoholic Beverages (NAICS 7224) | $10,406,941 | $25,069,718 | **($14,662,777)** | **-141%** | 92 |

**Data Note:** Supply (retail sales) estimates sales to consumers by establishments. Sales to businesses are excluded. Demand (retail potential) estimates the expected amount spent by consumers at retail establishments. Supply and demand estimates are in current dollars. A positive "gap" value represents "leakage" of retail opportunity outside the trade area. A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area. Explained another way, if the gap is negative (in red), then the area may already have a sufficient number of businesses in that category. The gap represents the difference between Retail Potential and Retail Sales. ESRI uses the North American Industry Classification System (NAICS) to classify businesses by their primary type of economic activity.
**Source:** ESRI and *info*USA®.

## Table 8.2 – Retail Demand and Supply, Superior-Duluth Combined Trade Area

| **Summary Demographics** | |
|---|---|
| 2008 Population | 178,204 |
| 2008 Households | 72,005 |
| 2008 Median Disposable Income | $39,260 |
| 2008 Per Capita Income | $25,394 |

| **Industry Summary** | **Demand (Retail Potential)** | **Supply (Retail Sales)** | **Retail Gap (Demand-Supply)** | **Gap as % of Demand** | **Number of Businesses** |
|---|---|---|---|---|---|
| Total Retail Trade and Food & Drink (NAICS 44-45, 722) | $1,744,699,551 | $2,164,692,516 | **($419,992,965)** | **-24%** | 1,661 |
| Total Retail Trade (NAICS 44-45) | $1,490,615,959 | $1,892,778,281 | **($402,162,322)** | **-27%** | 1,188 |
| Total Food & Drink (NAICS 722) | $254,083,592 | $271,914,235 | **($17,830,643)** | **-7%** | 473 |
| Automobile Dealers (NAICS 4411) | $302,656,668 | $434,675,628 | **($132,018,960)** | **-44%** | 61 |
| Other Motor Vehicle Dealers (NAICS 4412) | $39,771,004 | $56,143,958 | **($16,372,954)** | **-41%** | 38 |
| Auto Parts, Accessories, and Tire Stores (NAICS 4413) | $20,650,245 | $30,358,379 | **($9,708,134)** | **-47%** | 49 |
| Furniture Stores (NAICS 4421) | $35,679,663 | $58,486,279 | **($22,806,616)** | **-64%** | 31 |
| Home Furnishings Stores (NAICS 4422) | $21,015,993 | $31,180,993 | **($10,165,000)** | **-48%** | 36 |
| Electronics & Appliance Stores (NAICS 443/NAICS 4431) | $36,854,966 | $41,403,346 | **($4,548,380)** | **-12%** | 59 |
| Building Material and Supplies Dealers (NAICS 4441) | $55,956,669 | $113,628,347 | **($57,671,678)** | **-103%** | 115 |
| Lawn and Garden Equipment and Supplies Stores (NAICS 4442) | $3,860,192 | $4,226,550 | **($366,358)** | **-9%** | 19 |
| Grocery Stores (NAICS 4451) | $241,975,275 | $208,336,124 | **$33,639,151** | **14%** | 45 |
| Specialty Food Stores (NAICS 4452) | $5,031,270 | $3,865,935 | **$1,165,335** | **23%** | 31 |
| Beer, Wine, and Liquor Stores (NAICS 4453) | $25,403,672 | $26,837,196 | **($1,433,524)** | **-6%** | 33 |
| Health & Personal Care Stores (NAICS 446/NAICS 4461) | $49,263,830 | $75,226,130 | **($25,962,300)** | **-53%** | 69 |
| Gasoline Stations (NAICS 447/NAICS 4471) | $274,787,896 | $339,374,810 | **($64,586,914)** | **-24%** | 95 |
| Clothing Stores (NAICS 4481) | $46,909,498 | $56,948,777 | **($10,039,279)** | **-21%** | 77 |
| Shoe Stores (NAICS 4482) | $5,905,901 | $9,582,017 | **($3,676,116)** | **-62%** | 16 |
| Jewelry, Luggage, and Leather Goods Stores (NAICS 4483) | $7,733,569 | $10,204,167 | **($2,470,598)** | **-32%** | 17 |

| Industry Summary | Demand (Retail Potential) | Supply (Retail Sales) | Retail Gap (Demand-Supply) | Gap as % of Demand | Number of Businesses |
|---|---|---|---|---|---|
| Sporting Goods/Hobby/Musical Instrument Stores (NAICS 4511) | $11,800,870 | $27,767,853 | **($15,966,983)** | **-135%** | 100 |
| Book, Periodical, and Music Stores (NAICS 4512) | $12,168,109 | $10,816,087 | **$1,352,022** | **11%** | 20 |
| Department Stores Excluding Leased Depts. (NAICS 4521) | $186,205,069 | $171,571,466 | **$14,633,603** | **8%** | 23 |
| Other General Merchandise Stores (NAICS 4529) | $45,362,166 | $121,430,651 | **($76,068,485)** | **-168%** | 17 |
| Florists (NAICS 4531) | $3,702,771 | $4,194,342 | **($491,571)** | **-13%** | 29 |
| Office Supplies, Stationery, and Gift Stores (NAICS 4532) | $11,710,103 | $12,752,614 | **($1,042,511)** | **-9%** | 57 |
| Used Merchandise Stores (NAICS 4533) | $1,940,356 | $3,173,842 | **($1,233,486)** | **-64%** | 52 |
| Other Miscellaneous Store Retailers (NAICS 4539) | $11,548,350 | $16,684,010 | **($5,135,660)** | **-44%** | 82 |
| Food Services & Drinking Places (NAICS 722) | $254,083,592 | $271,914,235 | **($17,830,643)** | **-7%** | 473 |
| Full-Service Restaurants (NAICS 7221) | $117,674,533 | $116,552,051 | **$1,122,482** | **1%** | 226 |
| Limited-Service Eating Places (NAICS 7222) | $99,377,623 | $102,687,717 | **($3,310,094)** | **-3%** | 94 |
| Special Food Services (NAICS 7223) | $12,322,344 | $12,997,218 | **($674,874)** | **-5%** | 20 |
| Drinking Places - Alcoholic Beverages (NAICS 7224) | $24,709,092 | $39,677,249 | **($14,968,157)** | **-61%** | 133 |

**Data Note:** Supply (retail sales) estimates sales to consumers by establishments. Sales to businesses are excluded. Demand (retail potential) estimates the expected amount spent by consumers at retail establishments. Supply and demand estimates are in current dollars. A positive “gap” value represents “leakage” of retail opportunity outside the trade area. A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area. Explained another way, if the gap is negative (in red), then the area may already have a sufficient number of businesses in that category. The gap represents the difference between Retail Potential and Retail Sales. ESRI uses the North American Industry Classification System (NAICS) to classify businesses by their primary type of economic activity.
**Source:** ESRI and *info*USA®.

# Restaurants

The analysis of the restaurant sector focuses on the market potential for specific types of dining concepts that might serve the BID's consumer segments. The market for restaurants is a function of both chain and independent establishments seeking sites that are both visible and easily accessible to trade area residents, daytime employees, students and visitors. Using data from prior sections combined with additional information presented here, market demand and market supply are examined. A resulting overall assessment of market opportunities for the Superior BID is then offered.

**Geographic Area for Analyzing Restaurant Demand and Supply**

The analysis of demand and supply that follows focuses on the Superior Primary Trade Area as defined in Section 2. While some in-commuters, visitors and other nonresidents will be patrons of Superior's eating and drinking places, the analysis that follows focuses on residents, students and others residing in the Superior Primary Trade Area.

Tables 8.1 and 8.2 provide restaurant business data on the two trade areas defined in Section 2. Within the Superior Primary Trade Area, there are 224 food and drink businesses with sales of approximately $82 million. This is 30 percent of the sales generated throughout the larger Superior-Duluth Combined Trade Area (which has 473 food and drink businesses). As a benchmark, the Superior Primary Trade Area represents and equal 34 percent of the Superior-Duluth Combined Trade Area population. This suggests that based on population alone there is some leakage of food and drink dollars to Minnesota despite the higher taxation placed on food, beverage and alcohol sales in Duluth.

## Demand Analysis

*Demographic and Lifestyle Characteristics (Section 3)* - Demographic and lifestyle characteristics of the Superior Primary Trade Area help describe the type of local consumers and their dining preferences and behaviors.[4] Compared to the combined states of Wisconsin and Minnesota, the data indicates that this trade area has a growing elderly population, lower incomes, and limited ethnic diversity. ESRI Business Information Solutions estimates that the dining out frequency of Superior Primary Trade Area residents is similar to the national average. According to ESRI, restaurant brands that may match demand in this trade area include Big Boy, Bob Evans Farm, Golden Coral, Perkins, Ryan's, Arby's, Dairy Queen, Hardee's, Long John Silvers, Pizza Hut, and Steak and Shake (all have a Market Potential Index greater than 110). See Table 8.3.

*Business Operators Survey (Section 5)* - Responses to the business operators survey component of this market analysis also provide a measure of demand for additional eating and drinking places. The survey findings indicate that business respondents would prefer to see, more than any other type of business, more restaurants and coffee shops in the BID.

*Consumer Survey (Section 6)* – Responses to the consumer survey component of this market analysis provide a third measure of demand for various restaurant concepts. Over 20 percent of

[4] Note: For businesses categories with trade areas different than those identified in Section 1, demographic and lifestyle data can be assembled with assistance from a private data firm. Online services from providers like ESRI Business Information Solutions and Claritas can help define these trade areas and provide the associated data.

respondents visit the BID one or more times per week for its food service places. Respondents identified preferences for more family restaurants, coffee shops and a seafood restaurant. A bakery was mentioned most frequently, possibly in conjunction with a coffee shop. Other concepts that were frequently mentioned include: barbeque, brew pub, deli, Greek, Italian, late-night, Mexican, pancake, organic and steakhouse restaurants.

*Demand (Expenditure Potential) in the Superior Primary Trade Area (see Tables 8.1 and 8.2)* – Potential resident spending has been estimated by ESRI Business Information Solutions for a selection of retail categories, including "food and drink," in Table 8.1 and Table 8.2.

*Insight from Real Estate Professionals* - Based on interviews with the selected business leaders, the following points provide additional information on restaurant demand as it relates to the Superior BID.

- Eating and drinking places in Superior draw customers from throughout the Twin Ports area.
- Restaurants serve various segments: residents, daytime employees, students and visitors to the community.

**Supply Analysis**

*Supply (Estimated Sales) in the Superior Primary Trade Area (see Tables 8.1)* – The tables indicate that "food and drink" establishments in the Superior Primary Trade Area are actually capturing sales in excess of local demand. Supply (actual sales) is 4-percent greater than demand, which suggests that establishments are capturing sales from nonresidents. However, a closer look indicates that sales from local drinking places is much larger than local demand, but the sales from local eating places is smaller than local demand (a gap or opportunity to potentially fill).

*Insight from Real Estate Professionals* - Based on interviews with the selected business leaders, the following points provide additional information on the supply of restaurants as it relates to the Superior BID:

- Most of Superior's chain restaurants are located on Tower Avenue south of the BID. There are few chain restaurants in the BID at this time (mostly sandwich shops).
- Additional restaurant space may be added to the BID as part of proposed mixed-use development to the north and west of the Blaine Business & Technology Center (including the former Central School site). This would be well located relative to UW-Superior's students, faculty and staff.

**Market Opportunities**

Business leaders interviewed offer the following insights related to restaurant opportunities in the Superior BID:

- The UW-Superior area is currently underserved by neighborhood-serving restaurants. Market opportunities exist for developing a dedicated business district with dining opportunities for area students.
- Certain restaurant types are missing in the BID. For example, there may be a shortage of breakfast places downtown.

- The potential expansion of Murphy Oil could have a significant impact on BID restaurants.

These perspectives, coupled with the demand and supply information presented earlier, provide a basis for identifying targeted restaurant concepts for business retention, expansion and recruitment efforts. Based on the information assembled in this analysis, the following concepts deserve additional study:

- Family restaurants
- Coffee shops
- Seafood restaurant
- Bakery possibly in conjunction with a coffee shop
- Barbeque
- Brew pub
- Deli, Greek
- Italian restaurant
- Late-night restaurant
- Mexican restaurant
- Pancake restaurant
- Organic restaurant
- Steakhouse

Further study of these restaurant opportunities requires examination of the needs and preference of trade area residents as reflected in their demographic characteristics (age, and income) and survey responses. In addition, a more thorough study of existing and proposed supply is also needed.

## Table 8.3 – Restaurant Demand, Superior Primary Trade Area

| Demographic Summary | 2008 | 2013 |
|---|---|---|
| Population | 60,455 | 60,854 |
| Population 18+ | 47,391 | 48,194 |
| Households | 25,916 | 26,337 |
| Median Household Income | $44,240 | $52,794 |

| Product/Consumer Behavior | Expected Number of Adults | Percent | MPI |
|---|---|---|---|
| Went to family restaurant/steak house in last 6 months | 33,907 | 71.5% | 99 |
| Family restaurant/steak house last month: <2 times | 12,410 | 26.2% | 98 |
| Family restaurant/steak house last mo: 2-4 times | 12,976 | 27.4% | 103 |
| Family restaurant/steak house last mo: 5+ times | 8,526 | 18.0% | 95 |
| Family restaurant/steak house last 6 months: breakfast | 6,187 | 13.1% | 102 |
| Family restaurant/steak house last 6 months: lunch | 11,972 | 25.3% | 101 |
| Family restaurant/steak house last 6 months: snack | 1,126 | 2.4% | 80 |
| Family restaurant/steak house last 6 months: dinner | 24,570 | 51.8% | 99 |
| Family restaurant/steak house last 6 months: weekday | 18,390 | 38.8% | 100 |
| Family restaurant/steak house last 6 months: weekend | 19,871 | 41.9% | 97 |
| Family restaurant/steak house last 6 months: Applebee`s | 12,958 | 27.3% | 104 |
| Family restaurant/steak house last 6 months: Bennigan`s | 1,373 | 2.9% | 86 |
| Family restaurant/steak house last 6 months: Big Boy | 1,264 | 2.7% | 114 |
| Family restaurant/steak house last 6 months: Bob Evans Farm | 2,994 | 6.3% | 138 |
| Family restaurant/steak house last 6 months: Cheesecake Factory | 1,509 | 3.2% | 53 |
| Family restaurant/steak house last 6 months: Chili`s Grill & Bar | 3,561 | 7.5% | 69 |
| Family restaurant/steak house last 6 months: Cracker Barrel | 5,845 | 12.3% | 107 |
| Family restaurant/steak house last 6 months: Denny`s | 4,485 | 9.5% | 94 |
| Family restaurant/steak house last 6 months: Friendly`s | 1,757 | 3.7% | 105 |
| Family restaurant/steak house last 6 months: Golden Corral | 4,021 | 8.5% | 111 |
| Family restaurant/steak house last 6 months: Intl Hse of Pancakes | 3,834 | 8.1% | 75 |
| Family restaurant/steak house last 6 months: Lone Star Steakhouse | 1,843 | 3.9% | 106 |
| Family restaurant/steak house last 6 months: Old Country Buffet | 2,043 | 4.3% | 103 |
| Family restaurant/steak house last 6 months: Olive Garden | 7,451 | 15.7% | 95 |
| Family restaurant/steak house last 6 months: Outback Steakhouse | 4,359 | 9.2% | 79 |
| Family restaurant/steak house last 6 months: Perkins | 2,666 | 5.6% | 132 |
| Family restaurant/steak house last 6 months: Red Lobster | 6,553 | 13.8% | 96 |
| Family restaurant/steak house last 6 months: Red Robin | 1,518 | 3.2% | 76 |
| Family restaurant/steak house last 6 months: Ruby Tuesday | 3,574 | 7.5% | 89 |
| Family restaurant/steak house last 6 months: Ryan`s | 2,769 | 5.8% | 124 |
| Family restaurant/steak house last 6 months: Sizzler | 1,257 | 2.7% | 82 |
| Family restaurant/steak house last 6 months: T.G.I. Friday`s | 3,825 | 8.1% | 75 |
| Went to fast food/drive-in restaurant in last 6 months | 42,377 | 89.4% | 100 |
| Went to fast food/drive-in restaurant <5 times/mo | 15,543 | 32.8% | 101 |
| Went to fast food/drive-in 5-12 times/mo | 14,667 | 30.9% | 102 |
| Went to fast food/drive-in restaurant 13+ times/mo | 12,171 | 25.7% | 98 |
| Fast food/drive-in last 6 months: breakfast | 12,493 | 26.4% | 100 |
| Fast food/drive-in last 6 months: lunch | 27,789 | 58.6% | 100 |
| Fast food/drive-in last 6 months: snack | 6,769 | 14.3% | 86 |
| Fast food/drive-in last 6 months: dinner | 23,357 | 49.3% | 103 |
| Fast food/drive-in last 6 months: weekday | 32,284 | 68.1 | 103 |
| Fast food/drive-in last 6 months: weekend | 22,661 | 47.8 | 100 |
| Fast food/drive-in last 6 months: A & W | 2,945 | 6.2 | 117 |
| Fast food/drive-in last 6 months: Arby`s | 11,815 | 24.9 | 125 |
| Fast food/drive-in last 6 months: Boston Market | 1,757 | 3.7 | 66 |
| Fast food/drive-in last 6 months: Burger King | 18,550 | 39.1 | 105 |
| Fast food/drive-in last 6 months: Captain D`s | 2,502 | 5.3 | 103 |
| Fast food/drive-in last 6 months: Carl`s Jr. | 1,374 | 2.9 | 52 |
| Fast food/drive-in last 6 months: Checkers | 1,244 | 2.6 | 80 |
| Fast food/drive-in last 6 months: Chick-fil-A | 4,185 | 8.8 | 76 |

| Product/Consumer Behavior | Expected Number of Adults | Percent | MPI |
|---|---|---|---|
| Fast food/drive-in last 6 months: Chuck E. Cheese`s | 1,930 | 4.1 | 93 |
| Fast food/drive-in last 6 months: Church`s Fr. Chicken | 1,791 | 3.8 | 80 |
| Fast food/drive-in last 6 months: Dairy Queen | 9,873 | 20.8 | 124 |
| Fast food/drive-in last 6 months: Del Taco | 854 | 1.8 | 55 |
| Fast food/drive-in last 6 months: Domino`s Pizza | 6,306 | 13.3 | 93 |
| Fast food/drive-in last 6 months: Dunkin` Donuts | 4,005 | 8.5 | 74 |
| Fast food/drive-in last 6 months: Fuddruckers | 1,153 | 2.4 | 75 |
| Fast food/drive-in last 6 months: Hardee`s | 4,106 | 8.7 | 122 |
| Fast food/drive-in last 6 months: Jack in the Box | 3,160 | 6.7 | 67 |
| Fast food/drive-in last 6 months: KFC | 14,064 | 29.7 | 104 |
| Fast food/drive-in last 6 months: Little Caesars | 2,679 | 5.7 | 98 |
| Fast food/drive-in last 6 months: Long John Silver`s | 4,350 | 9.2 | 125 |
| Fast food/drive-in last 6 months: McDonald`s | 27,762 | 58.6 | 106 |
| Fast food/drive-in last 6 months: Panera Bread | 3,286 | 6.9 | 82 |
| Fast food/drive-in last 6 months: Papa John`s | 4,288 | 9.0 | 89 |
| Fast food/drive-in last 6 months: Pizza Hut | 12,434 | 26.2 | 111 |
| Fast food/drive-in last 6 months: Popeyes | 2,474 | 5.2 | 73 |
| Fast food/drive-in last 6 months: Quiznos | 4,396 | 9.3 | 89 |
| Fast food/drive-in last 6 months: Sonic Drive-In | 4,855 | 10.2 | 91 |
| Fast food/drive-in last 6 months: Starbucks | 3,730 | 7.9 | 60 |
| Fast food/drive-in last 6 months: Steak n Shake | 2,725 | 5.8 | 110 |
| Fast food/drive-in last 6 months: Subway | 14,432 | 30.5 | 101 |
| Fast food/drive-in last 6 months: Taco Bell | 16,165 | 34.1 | 103 |
| Fast food/drive-in last 6 months: Wendy`s | 16,118 | 34.0 | 104 |
| Fast food/drive-in last 6 months: Whataburger | 1,523 | 3.2 | 68 |
| Fast food/drive-in last 6 months: White Castle | 1,750 | 3.7 | 81 |
| Fast food/drive-in last 6 months: eat in | 17,355 | 36.6 | 98 |
| Fast food/drive-in last 6 months: home delivery | 5,089 | 10.7 | 99 |
| Fast food/drive-in last 6 months: take-out/drive-thru | 25,975 | 54.8 | 105 |
| Fast food/drive-in last 6 months: take-out/walk-in | 11,251 | 23.7 | 98 |

**Data Note:** An MPI (Market Potential Index) measures the relative likelihood of the adults in the specified trade area to exhibit certain consumer behavior or purchasing patterns compared to the U.S. average. An MPI of 100 represents the U.S. average.
**Source:** These data are based upon national propensities to use various products and services, applied to local demographic composition. Usage data were collected by Mediamark Research Inc. in a nationally representative survey of U.S. households. ESRI forecasts for 2008 and 2013.

# Office Space

The analysis of the office sector focuses on the market potential for front office, back office, light industrial and other uses that could accommodate existing, new and relocating employers in the BID. The market for office space is a function of service businesses in a wide variety of business categories. Using data from prior sections combined with additional information presented here, market demand and market supply are examined. A resulting overall assessment of market opportunities for the Superior BID is then offered.

**Geographic Area for Analyzing Office Space Demand and Supply**

The analysis of demand and supply that follows focuses on the City of Superior. While the office market is impacted by economic conditions in the broader Duluth-Superior MSA, an analysis of market dynamics specific to Superior provides more focus for this analysis.

### Demand Analysis

*Business Operators Survey (Section 5)* - Responses to the business operators survey component of this market analysis provide a measure of the attractiveness of the BID as a place to do business. The survey findings indicate that respondents have a high level of satisfaction with the BID, its services and facilities. Approximately 74 percent strongly or somewhat agree that the BID is an “excellent place to have a business.” A few are considering expanding products, service, or square footage.

*Consumer Survey (Section 6)* – Responses to the consumer survey component of this market analysis provide another measure of demand for quality office space. While office space may not be of direct interest to most residents, the employment such space provides is of importance. Of six scenarios presented to the survey respondent on the future of the BID, the scenario focusing on the BID as “the center of employment with new office employers…” was one of the two most preferred. Approximately 59 percent of respondents selected this among their top three scenarios.

*Insight from Real Estate Professionals* - Based on interviews with the selected business leaders, the following points provide additional information on office space demand as it relates to the Superior BID:

- Demand is hard to quantify as there are few office tenants with large employment levels and space needs in the BID.
- Superior businesses typically prefer newer facilities with parking and easy accessibility.
- The development of the Blaine Business & Technology Center in the BID has demonstrated the benefits of locating in a higher quality facility. Tenants including a glass company, dentist, beauty salon and others have reported increased sales.
- Of the 45,000 square feet of space in the Blaine facility (renovated in 2004), there is only 3,500 square feet vacant. Higher quality space like this appears to lease up quickly.
- Enbridge Energy will occupy a 12,000 square foot building in the new Grand Central Village (see below).

## Supply Analysis

*Insight from Real Estate Professionals* - Based on interviews with the selected business leaders, the following points provide additional information on the supply of office space as it relates to the Superior BID:

- Currently, there are three higher quality office buildings in the Superior BID. These include: the Blaine Business & Technology Center, City Center, and the former Post Office.
- The current office supply offers a wide range of rates and bonuses for new tenants.
- Grand Central Village is a proposed mixed-use development to the west of the Blaine Business & Technology Center (including the former Central School site). Proposed is a campus of two-story buildings (57,000 square feet), with frontage buildings on Belknap Street that have retail on the first floor and office space on the second floor. The development will help build a more proximate connection to the UW-Superior campus.
- There is a proposal for additional office space at Town Square (2911 Tower Avenue).
- Nearby Duluth has an excess of office space. The class A Wells Fargo Center commands $15-$20 per square foot rent plus other charges. Additional space including the 50,000 S.F. A&L Building on East Superior Street is in development.

## Market Opportunities

Business leaders interviewed offer the following additional insights related to office space development in the Superior BID:

- Some indicate an opportunity for slow and cautious growth of higher quality office space in the BID. Others suggest the market is fully served at present.
- It is likely that new tenants will come from within the community (excluding the economic stimulus that would be provided by a Murphy Oil Expansion).
- There may be opportunity to recruit new office space users to Superior such as engineering or accounting firms and energy or transportation related industries.
- There remains reluctance among some office users to relocated to higher quality space as the market is price sensitive. Redevelopment of older, historic buildings may be too costly given the rents that could be achieved.
- Future office developments are likely along Belknap Street, especially near the UW-Superior campus. Again, Superior may not develop as one single business district.
- Superior has a better business climate for development compared to Duluth. Duluth's permitting process has caused difficulties for local developers. Superior also has more convenient parking than downtown Duluth. Regarding taxation, higher property taxes (in Superior compared to Duluth) may be offset by lower income tax and sales tax rates.

Current conditions do not indicate opportunities for large-scale office development in the BID at this time. However, the development or reuse of buildings as quality office space may make market sense on an incremental basis as prospective tenants are identified. The business success of tenants who have recently moved to newer or rehabilitated space will continue to convey a new commercial image for the BID as a convenient, central, and profitable place to do business.

## Residential Units

The market for both rental and home ownership in the BID is a function of market demographics, income and employment, and location amenities. Using data from prior sections combined with additional information presented here, market demand and market supply are examined. A resulting overall assessment of market opportunities for the Superior BID is then offered.

| **Geographic Area for Analyzing Residential Demand and Supply** |
| --- |
| The analysis of demand and supply that follows focuses on the City of Superior in general and the Superior BID in particular. While the housing market is impacted by economic conditions in the broader Duluth-Superior MSA, an analysis of market dynamics specific to Superior provides more focus for this analysis. |

### Demand Analysis

*Demographic and Lifestyle Characteristics (Section 3)* - Demographic and lifestyle characteristics of the Superior Primary Trade Area help describe local residents and their current housing. Compared to the combined states of Wisconsin and Minnesota, the data indicates that residents of this trade area have a growing elderly population, lower incomes, and lower housing values. ESRI Business Information Solutions estimates 79 percent of housing units were valued below $100,000 in 2000. This compares to only 42 percent in the combined Wisconsin-Minnesota region. The relationship of renters to owners in the Superior Primary Trade Area is similar to that in the combined states.

*Consumer Survey (Section 6)* – Responses to the consumer survey component of this market analysis provide another measure of demand for housing development in the BID. Of six scenarios presented to the survey respondent on the future of the BID, the scenario focusing on the BID as a place with “new apartments, condos, and townhouses that appeal to a wide variety of residents from students to retirees” was most preferred. Approximately 60 percent of respondents selected this as one of their top three scenarios.

*Insight from Real Estate Professionals* - Based on interviews with the selected business leaders, the following points provide additional information on housing demand as it relates to the Superior BID:

- The housing market in Superior and the broader region is fairly stable. In Superior, there has been a slight shift from sales to rentals.
- For rentals, single family units are preferred over multi-family units.
- Some believe that many landlords rent at “below-market” rates to fill space. This contributes to demand for and expectations of low rent.
- The quick leasing of 29 residential units (targeted to seniors) in the New York Building demonstrates the market demand for affordable senior housing downtown.
- The BID office has received numerous inquiries from various residents interested in residential units downtown. The New York Building has a waitlist.
- New, near-campus housing for UW-Superior students may be in demand. However, crossing Belknap may be perceived as a safety issue. Additional student housing demand may also exist from WITC and Lake Superior College students.

- Residents of the MSA typical choose whether to look for housing in either Superior or Duluth (then focus on one or the other city).

**Supply Analysis**

*Insight from Real Estate Professionals* - Based on interviews with the selected business leaders, the following points provide additional information on the supply of residential units as it relates to the Superior BID:

- The Superior BID has a limited number of residential units at this time. Housing units sell for approximately 30-percent less in Superior than in neighboring Duluth.
- Potential developments include a mix-use project, possibly including student and senior (assisted living) housing, to the north of the Blane Business & Technology Center (including the former Central School site).
- The upcoming renovation of the Washington Building (Metro Plains) is expected to add additional senior housing units to the BID's residential inventory.
- The development of condos in downtown Duluth may have resulted in overbuilding. Some projects have been terminated.
- Housing in West Duluth is less expensive than Duluth, and more aligned with Superior.

**Market Opportunities**

Business leaders interviewed offer the following additional insights related to residential opportunities in the Superior BID:

- Downtown on Tower Avenue may be an attractive location for additional senior housing due to its proximity to the library and grocery store. Single floor units would be necessary for many of these residents.
- There is strong demand for affordable housing to serve lower-income residents.
- The expansion of Murphy Oil could have a significant impact on BID housing for construction workers and permanent employees.
- The BID can be positioned as a place to purchase entry-level housing.
- If certain unsightly land uses in the BID were cleaned up, areas of the BID would be more attractive for residential (and commercial) use.
- For downtown housing to grow, neighborhood-serving businesses must also be developed (such as a hair salon and convenience store as desired by tenants of the New York building).
- Opportunities for the development of condos or townhouses in the BID at this time are unknown as demand has not been fully documented.

Current conditions do not indicate opportunities for large-scale, higher-end residential units in the BID at this time. However, the development or reuse of buildings as quality and affordable rentals may make market sense on an incremental basis. Seniors and students, two market segments that are rent-sensitive, appear to provide a reasonable market for new rental units. The strengthening of neighborhood-serving retail and services will be essential in ensuring that subsections of the BID are suitable for residential use.

# Lodging Facilities

The analysis of the lodging sector focuses on the market potential for chain and independent hotels that could serve business, group, and leisure visitors to the community. Using data from prior sections combined with additional information presented here, market demand and market supply are examined. A resulting overall assessment of market opportunities for the Superior BID is then offered.

**Geographic Area for Analyzing Lodging Demand and Supply**

The analysis of demand and supply that follows focuses on hotels in the City of Superior. While the lodging market is impacted by economic conditions in the broader Duluth-Superior MSA, an analysis of market dynamics specific to Superior provides more focus for this analysis. However, a more complete lodging market analysis would consider properties in both Superior and Duluth.

### Demand Analysis

*Consumer Survey (Section 6)* – Responses to the consumer survey component of this market analysis offer potential issues and opportunities facing the BID and its ability to capture future room night demand. Respondents noted that the BID struggles from a poor reputation and image and a need to be cleaned up. Vacant lots, dirty storefronts, too many bars, and safety were comments found throughout the survey. These are all issues that may impact the capture of room night demand in the BID. However, many respondents saw the waterfront as an under utilized resource. The consensus was that capitalizing on the waterfront could be a key component in establishing a new identity for Superior and the BID. This new identity could contribute to attracting more overnight demand to the community.

*Demand as Measured by Hotel Operating Performance* (Smith Travel Research data) – Actual operating data for four representative, chain-affiliated hotels in Superior was analyzed to estimate lodging demand in Superior.[5] For the purpose of the study it is assumed that the data collected from the four hotels represent market conditions city-wide.

Occupancy is the number of rooms sold divided by the number of rooms available. The average daily rate (ADR) is room revenue divided by the number of rooms sold. Revenue per available room (RevPar) is the room revenue divided by rooms available. Operating data, for the combined sample of four Superior hotels, from 2003 through 2007 is presented in Table 8.4.

**Table 8.4 – Hotel Operating Performance Data for Four Hotels in Superior, WI**

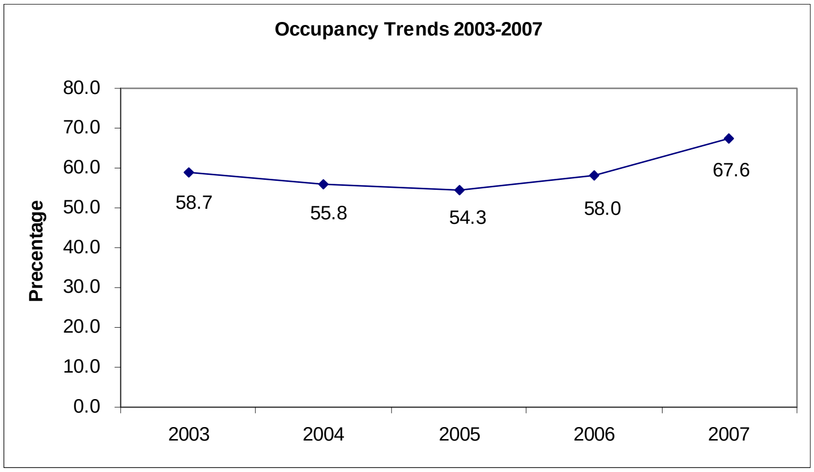
| Year | Occupancy | % Change | ADR | % Change | RevPar | % Change |
|---|---|---|---|---|---|---|
| 2003 | 58.7% | | $61.58 | | $36.16 | |
| 2004 | 55.8% | -4.9% | $65.89 | 7.0% | $36.79 | 1.7% |
| 2005 | 54.3% | -2.7% | $67.95 | 3.1% | $36.92 | 0.4% |
| 2006 | 58.0% | 6.8% | $67.54 | -0.6% | $39.19 | 6.1% |
| 2007 | 67.6% | 16.5% | $67.10 | -0.7% | $45.34 | 15.7% |

*Source: Smith Travel Research, Inc, 2008.*

[5] Sample hotels included the Super 8 Superior, Holiday Inn Express and Suites Superior, Days Inn Superior and Best Western Bridgeview Motor Inn

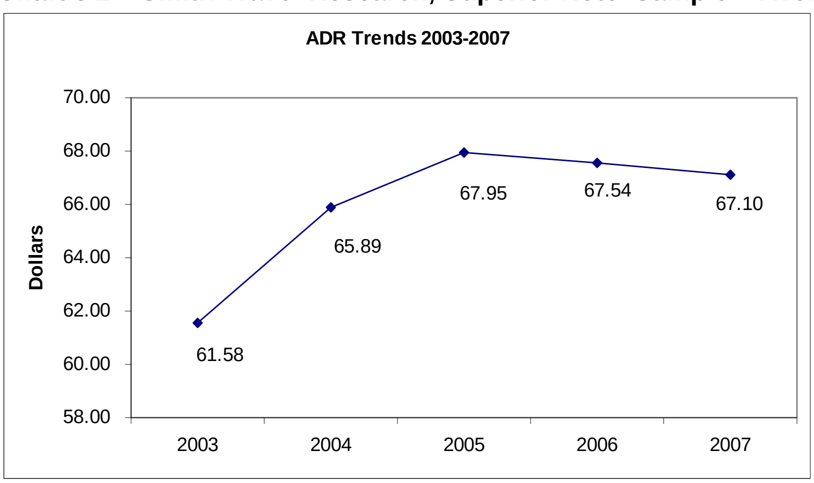
As illustrated in Chart 8.1, the sample Superior hotels experienced a healthy growth in occupancy rate to almost 68 percent in 2007. The occupancy rate represents an unusually strong 8 point increase over the previous year. For comparison, the U.S. lodging industry achieved an overall 63 percent occupancy in both 2005 and 2006.[6]

**Chart 8.1 – Smith Travel Research, Superior Hotel Sample - Occupancy**




As illustrated in Chart 8.2, the average daily rate was $67 in 2007. Average daily room rates saw a sharp increase from 2003 to 2004 and again in 2005. Since that time, rates have decreased slightly each year. For comparison, the US lodging industry achieved an overall $97 average room rate in 2006. The U.S. average room rate is higher due to the inclusion of larger, full-service properties located in major urban areas (commanding higher room rates).

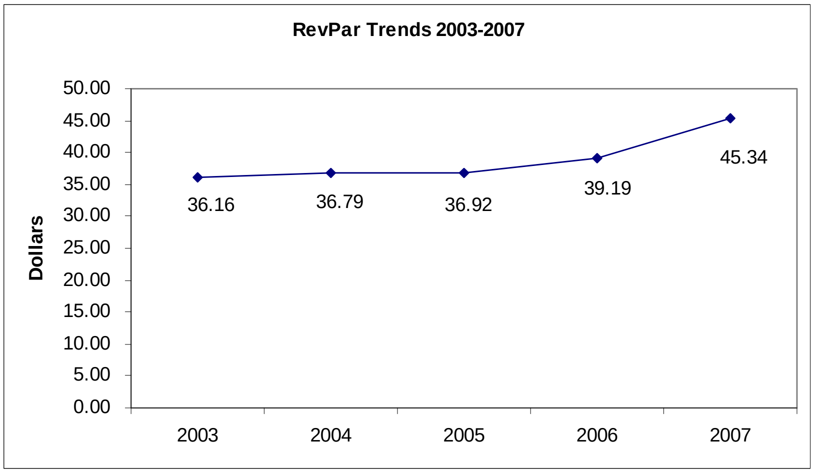
**Chart 8.2 – Smith Travel Research, Superior Hotel Sample – Average Daily Rate**




Revenue per available room (RevPar) is an indicator of the total revenue divided by the number of available rooms. It is the single best indicator of hotel demand and it combines both occupancy and average room rate. As illustrated in Chart 8.3, the RevPar for the sample Superior hotels has been increasing since 2003 and was $45 in 2007. Larger increases in RevPar occurred in both 2006 and 2007. For comparison, the U.S. RevPar was $62 in 2006.

[6] Choice Hotels 10K Report

**Chart 8.3 – Smith Travel Research, Superior Hotel Sample – RevPar**




## Supply Analysis

All of the current properties in Superior operate in the mid to lower prices "economy" segments of the lodging industry. The operating data in the previous demand analysis was purchased fromSmith Travel Research for four chain-affiliated properties as noted in Table 8.5. Four other hotels that operate in Superior, but not in the operating data, are also listed.

**Table 8.5 – Hotel Supply in Superior, WI**

| Superior Hotels (included in STR data) | Date Opened | Rooms |
|---|---|---|
| Super 8 Superior | Feb 1983 | 40 |
| Holiday Inn Express & Suites Superior | Aug 2000 | 84 |
| Days Inn Superior | Jan 2002 | 111 |
| Best Western Bridgeview Motor Inn | June 1964 | 96 |
| Total | | 331 |

| Superior Hotels (not in STR Data) | Date Opened | Rooms |
|---|---|---|
| Barker Island Inn | June 1982 | 112 |
| Androy Hotel | June 1925 | 80 |
| Superior Inn | | 69 |
| Manning Motel | | 21 |
| Total | | 282 |
| *Source: Smith Travel Research, Inc, 2008.* | | |

Future changes to the supply of hotels may include the following:

- Renovation and expansion of the Barker Island Inn
- Possible renovation of the Days Inn
- Possible development of a waterpark hotel

## Market Opportunities

Based on the Smith Travel Research data, there appears to be strong recent growth in room night demand in the market. The nature of this demand (business, group, leisure/other) deserves further study. If it is found that demand is being generated by UW-Superior or businesses in or near the BID, there may be opportunity to develop a limited-service (rooms only) lodging facility in the BID.