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destination Development Consulting



Downtown Madison Hotel Feasibility Study

January 2009
Hunden Strategic Partners

hunden strategic partners *destination real estate consulting*

January 24, 2009

Mario Mendoza
City of Madison
210 Martin Luther King Jr. Blvd
City-County Building, Room 403
Madison, WI 53703

Dear Mr. Mendoza:

The City of Madison engaged Hunden Strategic Partners (HSP), to conduct a feasibility study to make recommendations related to, and analyze projected performance for, a proposed convention center hotel in downtown Madison to optimize the performance of Monona Terrace Community and Convention Center. The attached is our report and includes analysis as of our due diligence period that occurred during August and September of 2008.

We have enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely yours,

HUNDEN STRATEGIC PARTNERS

Attachment

ASSUMPTIONS AND LIMITING CONDITIONS

This report has been prepared under the following general assumptions and limiting conditions:

- The findings presented herein reflect analysis of primary and secondary sources of information. HSP utilized sources deemed to be reliable but cannot guarantee their accuracy.
- No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or conditions which occur after the date of this report.
- Responsible ownership, competent property management, and professional marketing are assumed.
- Terrorist activity or other major calamity affecting travel, the economy and tourism is assumed not to occur.
- This report has been made only for the purposes stated and shall not be used for any other purpose.

CHAPTER 1

INTRODUCTION, REPORT LAYOUT, AND EXECUTIVE SUMMARY

Subject of the Study

The City of Madison, Wisconsin has retained Hunden Strategic Partners (HSP) to work with Madison's Downtown Hotel Feasibility Study Committee to conduct a downtown convention hotel feasibility study. The purpose of the study is to evaluate the potential demand for a new hotel downtown, and to recommend the optimal product given the needs of the market, including Monona Terrace Community and Convention Center.

Hunden Strategic Partners analyzed the following scope components in this report:

- Local economic, demographic, and related information.
- Local tourism, convention, and hotel infrastructure.
- National meeting and hotel trends.
- Market supply and demand for competitive hotels in Madison.
- Recommendations for a new hotel, including amenities.
- Comparable and competitive meeting and events markets and hotels.
- Demand for the recommended hotel.

The following is a summary of the project type, location and date of due diligence.

Table 1-1

Summary of Analysis Scope	
Property Type:	Proposed Convention Hotel
Location:	Proximate to Monona Terrace Community & Convention Center Madison, Wisconsin
Date of Market Inspection:	August 11, 2008

Company Description

Hunden Strategic Partners (HSP) is a full-service real estate development advisory practice specializing in destination assets, such as convention centers and convention hotels. With professionals in Chicago and Indiana, HSP provides a variety of services for all stages of destination development, in the following primary areas:

- Market and Financial Studies, including Feasibility & Valuation
 - Convention & Conference Centers
 - Hotels
 - Sports & Recreational Facilities
 - Entertainment/Retail Districts, Mixed-use Developments
 - Resorts
 - Arts, Cultural & Entertainment Facilities
- Master Strategy and Planning Development
- Owner's Representation and RFP Process Management
- Public Incentive Analysis
- Economic and Fiscal Impact Analysis
- Economic and Tourism Development Legislation Consulting
- Organizational Audits and Best Practices

HSP professionals have provided all of the above services for public and private sector clients. Beyond consulting, HSP professionals have experience in municipal and state government, economic development, and non-profit management.

Report Layout

The report is organized as follows:

Chapter 1 – Outlines the study concept, provides the report layout and an executive summary.

Chapter 2 – Reviews the economic, demographic and tourism forces in Madison and the region.

Chapter 3 – Analyzes the current meetings market, its performance and potential for expansion. Industry trends, meeting planner preferences, and event growth analysis are included. Information on Monona Terrace Community and Convention Center is also analyzed in this section.

Chapter 4 – Analyzes the current hotel market trends, demand issues, financing trends and other variables that impact the industry as a whole.

Chapter 5 – Analyzes the current hotel market in and around Madison, discusses the competitive set of quality hotels in and around the downtown area, and provides implications for future convention hotel development.

Chapter 6 – Analyzes the results of an online survey distributed to meeting planners from the region, the State of Wisconsin and national representatives.

Chapter 7 – Analyzes other facilities and cities that either compete with Madison for meetings business or are comparable markets in other ways.

Chapter 8 – Provides recommendations for a downtown convention hotel based on an analysis of strengths, weaknesses, opportunities and threats.

Chapter 9 – Makes projections of occupancy and rate for the hotel.

Chapter 10 – Makes projections of the impact of the status quo, or not developing the recommended hotel.

Initial Conclusions & Next Steps

Based on the research, surveys, and analysis set forth in the chapters in this study, HSP recommends the development of a 400-room convention hotel in downtown Madison, Wisconsin within easy walking distance to Monona Terrace Community and Convention Center, preferably connected or adjacent. This connectivity and/or adjacency to the convention center is critical for planners, especially in a market like Madison that experiences cold weather for much of the year.

In order to move forward with the process, critical next steps include:

- Site assessment.
- Conceptual design of the facilities (convention center, hotel and parking).
- More specific costs based on concept design.
- Economic, employment and fiscal impact analysis.
- Financing analysis to determine how best to structure a funding package.
- Developer, management and brand selection process.

Executive Summary

Hunden Strategic Partners has reviewed the local market situation, national meeting planner preferences, convention and hotel trends, as well as a number of other local, regional and national factors, including the competitive environment. HSP determined that a downtown convention hotel is not only recommended, it is necessary if Madison is to optimize the investment in Monona Terrace, retain and expand its position as an event destination, and continue the success of the downtown area. HSP is of the opinion that if a large, high-quality, convention hotel is built near Monona Terrace it will cause an improvement in demand, similar to the expansion in demand that Madison experienced when the Hilton opened in 2001. HSP believes that such a hotel will simultaneously create demand that will spill over to the rest of the market.

The current market downturn may delay the development due to macroeconomic financing issues; however, the other factors at play surrounding this development are not expected to change. The longer Madison waits to implement a development plan, the more market share and economic and fiscal revenues it will cede to other locations. The recommendation is based upon the following data points and observations, which are more thoroughly described later in this chapter and throughout the report:

- **Madison's current convention hotel package does not measure up to the basic needs of planners or Madison's competitors.** In nearly every measure – quality, location, or number of rooms, Madison does not have the hotel package that meeting and convention planners want and can get elsewhere with similar convention center options.
 - Very few quality, full-service hotels are available for events in Madison, and only one – the Hilton – is within easy walking distance of Monona Terrace. Generally, most meeting attendees will not walk more than 1,200 feet between destinations and that distance is used as a benchmark throughout the report. This is based on the experience of hotel, retail and other experts who have measured the willingness of consumers to walk – or tolerate – certain distances when choosing a destination.
 - Only two hotels, the Hilton Monona Terrace and The Best Western Inn on the Park, are located within walking distance (1,200 feet) of Monona Terrace, and the Best Western is not of the quality level that planners expect when blocking rooms for their attendees.
 - The number of *quality* rooms within walking distance (1,200 feet) of Monona Terrace includes only those in the Hilton. This is not close to the number needed by many groups in their primary room block. As a result, groups have to divide amongst multiple far-flung hotels. This is approximately one-third the quality proximate room count found in competitor cities.

- **Madison most often needs a room block of 300 to 700 walkable, committable, quality rooms and the current supply is not adequate.** Since only one quality hotel is within easy walking distance, Madison is at a great disadvantage. Even a new hotel will not completely solve the largest room block issues but will solve the majority of group issues: those that can fit in Monona Terrace and need an appropriate room block.
- **Madison's hotel market mirrors the Madison economy in its relative stability compared with the rest of the U.S. and the region.** While most of the U.S. has experienced a sharp and sudden economic downturn, Madison's economy has been somewhat insulated by three factors: the education complex via the University of Wisconsin and Madison Area Technical College (as well as one of the most educated populations in the U.S.), government via the State Capitol complex and related businesses, and healthcare via the massive University hospital system, Meriter and St. Mary's hospitals. These same stabilizing forces have kept the hotel market from declining like other markets throughout the Midwest and nation as a whole.
- **The performance of the Hilton in particular enjoys the strongest market position and signals that a properly conceived hotel product in the right location can outperform the market and better support the costs associated with a full-service convention hotel.** The Hilton for several years has turned away a significant number of room nights because it was fully occupied. This suggests that a new, high-quality hotel will draw these formerly unaccommodated room nights and will grow the available market demand for hotel room nights. In addition, when the Hilton opened – during a recession that was absorbing the impact of 9/11 and the travel recession before and after those events – it was absorbed into the market quickly and performed exceptionally well relative to the rest of the economy.
- **Madison's competitors continue to improve their hotel product package.** As discussed in the study, Madison competes with regional and national markets large and small, and most continue to induce the development of new convention hotels. Those that have not yet are working hard to do so. In most cases, the public sector has recognized the same issues that this study suggests, and has played a leading role in inducing these projects.
- **The impact of the recommended hotel will be positive to the community over the long-term in net new economic activity, fiscal revenue, and employment.** The cost of the status quo will be for Madison to fall behind its competitors and lose the economic and fiscal impact of the project.
- **Madison is a fast-growing market and the development of its central core is key to its identity as a place for residents, visitors and commerce.** Similar fast-growing markets have helped in the development of more hotels in the central business district.

As such, and based on many factors, HSP recommends the following be developed adjacent, connected or as close to Monona Terrace as possible.

Table 1-2

Recommended Hotel Components		
Item	Count	Unit
Guest Rooms (Total)	400	Rooms
Grand Ballroom	14,000	Square Feet
Junior Ballroom	4,800	
Meeting Rooms (5)	10,000	
Board Room (1)	500	
Parking	380	Spaces
Three-meal Restaurant	96	Seats
Fine Dining/Steak Restaurant	80	
Sports Bar	72	
Lobby Lounge/Bar	16	
Spa	Yes	
Indoor Pool	Yes	
Fitness Center	Yes	
Concierge Desk	Yes	
Business Center	Yes	
Extended Hours Room Service	Yes	
High Speed Internet (Wi/Fi)	Yes	

Source: HSP

The hotel is recommended to have its own substantial amount of function space, as detailed above. The purpose of internal function space is to allow the hotel to induce its own in-house meetings business when the CVB or Monona Terrace is not generating business for the hotel. It also provides an offsite meeting package for convention planners that may want to host board meetings or other side meetings during a convention. Additional meeting demand could be generated as well through the national sales force associated with the brand of the property. It is highly unlikely that a new convention hotel would be part of the Hilton brand family. Access to a new reservation pipeline and sales force would be an advantage for Madison as a destination. There are several brand options that would enhance the hotel.

Three restaurants are suggested in the hotel. One of the restaurants should offer three-meals per day and serve a generally upscale menu. This is where the morning breakfast buffet will be served. The other two restaurants will be similar in size, but one should likely offer a high-end steak and seafood style experience while the other is recommended to be a more casual sports bar concept, perhaps with live music on certain nights of the week. In addition, a lobby bar that doubles as a coffee bar in the morning and a standard bar in the evening should be programmed into the hotel. A full-service spa, pool, business center and room service should also be included. Room service late at night (24 hours is recommended) should be included since it is a continual request of meeting planners and their attendees.

Conclusions & Projections

The following is a summary of conclusions and projections regarding the hotel study from each chapter and component factor in the analysis.

Local Economy, Demographics and Tourism. The Madison market has seen investment, expansion and redevelopment in a broad cross-section of areas including arts centers, sports and convention facilities, restaurants, stores, attractions, and employers. Madison has evolved, especially over the last fifteen years, into a cohesive destination with its own brand of progressive lifestyle amenities. In this current economic climate, there are few major new destinations and developments planned except for the new development at the University of Wisconsin. However, the economic reality for Madison as a university and government center usually means much more stable growth despite the broader Midwestern economic slowdown. The area is still poised to be a growing presence in the world of regional tourism.

The quality-of-life attractiveness spills over positively to downtown Madison in terms of local residential opportunities, jobs, and hotel stays. Madison's regional and national profile has been raised to new levels as the local breadth of employment opportunity has grown and strengthened. Consistently positive national media attention will continue to further urban-growth prospects and revitalization efforts in older neighborhoods, downtown, as well as in suburban and metropolitan areas. The opportunities for support facilities and other attractions also are increased by these developments. The destination appeal of the metro area and local area residential and business growth present the support structure for the consideration of a proposed convention hotel development.

Meeting and Convention Industry Trends. The meetings industry continued to grow for all event types through 2007, mirroring the economy as a whole, until recently. Meeting planners are increasingly provided a variety of compelling destination and facility offerings for their meetings, and therefore now insist on a full package of facilities and amenities.

When comparing Madison's current situation to the trends and needs of the meetings and convention market (as well as the special event market), several critical conclusions can be drawn:

- Meeting planners expect a destination with several large hotels so they can put their attendees in as few hotels as possible. Planners are not willing to make numerous agreements with smaller hotels in order to achieve their required room block. There are only two large, quality hotels downtown and within decent walking distance to Monona Terrace, which severely limits Madison's hotel room block.
- Meeting planners generally require a destination with the hotel block within walking distance of the convention facility and prefer those hotels to be *connected or adjacent*, especially in cold weather climates like

Madison's. This puts further pressure on Madison to not use the Concourse, even though it needs to for room block purposes.

- Meeting planners expect the primary convention headquarters hotel to have a large amount of rooms they can easily block (in addition to being connected to the convention center). Madison does not have a hotel with a large number of rooms adjacent to Monona Terrace.
- Meeting planners absolutely prefer a convention headquarters hotel to have a significant amount of meeting space in the hotel, including ballrooms and meeting and board rooms. This not only provides a location for offsite (non-convention center) meetings and events but also allows the hotel to generate its own group-based business when the convention center is not generating room night business. Hotels without function space that are beholden to the convention center generally fare worse than those with function space, although in Madison this has not been the case (due to the downtown location and high quality compared to other downtown hotel options).
- HSP spoke with GMCVB and Monona Terrace staff and determined that the ability to block rooms for events at Monona Terrace is severely limited compared to other convention centers. While Monona Terrace can comfortably hold events with 800 – 1,500 attendees, the room block for this number of people requires shuttles and the use of many hotels. The shuttle expense is taken out of the Monona Terrace Event Assistance Fund, which is set up to provide relief for the additional costs associated with booking certain groups.
- While Madison has been successful in attracting groups with 2,000 – 3,000 for certain events, it has not been due to the hotel package, but due to the other factors that make Madison attractive (lakes, university, culture, downtown life, volunteers, etc.). With the proper hotel package, Madison could attract many more such groups.
- The opportunity for additional meetings business in Madison is substantial based on the Meeting Information Network (MINT) database analysis. The MINT database is tool used by meeting planners compare meeting facilities and is also used by convention bureaus to analyze potential business (events/meetings) that could be targeted. If Madison were able to develop the recommended hotel, the city could compete for an additional 665 meetings annually. This new business does not include those groups who could have potentially met in Madison, but due to availability, had to host their events elsewhere.

Monona Terrace. Monona Terrace Community and Convention Center's success has been almost entirely dictated by the hotel package it offers. The facility itself is a compelling architectural gem and provides excellent water views. However, due to limited hotel options, its business can not grow substantially unless the hotel room supply in Madison can accommodate additional room night bookings. As such, its business expanded substantially with the opening of the Hilton, but has since plateaued for several years. Until the recommended hotel is developed nearby, the center will likely stagnate or decline in performance.

The table below suggests that large conferences and conventions generate a high percentage of room nights from the facility. Developing a better hotel package will allow more and large of these types of events, generating more impact to downtown and surrounding area hotels.

Table 1-3

Hotel Room Nights Generated by Monona Terrace			
Year	Social Room Nights	Conv/Conf Room Nights	Total Room Nights
2003	2,583	52,270	54,853
2004	2,048	34,875	36,923
2005	2,093	59,802	61,895
2006	2,455	35,935	38,390
2007	1,882	39,444	41,326
Total	11,061	222,326	233,387
<i>Average</i>	<i>2,212</i>	<i>44,465</i>	<i>46,677</i>

Source: Monona Terrace, Hilton

The total number of room nights that Monona Terrace generated averages nearly 47,000 per year, which is a very strong figure given its limited amount of exhibit space. Large groups typically are responsible for more than 90 percent of all group room nights that book at the Hilton.

This number has the potential to increase if the business that currently is not able to find hotel accommodations due to room availability has more room block options downtown to bring visitors to Madison. Monona Terrace and the Greater Madison Convention and Visitors Bureau (GMCVB) tracks the business that has to be turned away from the center and Madison due to a concern with quality, well-located hotel room availability. The following table sets out the data that the GMCVB gathered, showing the amount of business that was turned away from Madison due to issues with room block availability. The information is classified by the date the event was expected to take place.

Table 1-4

Madison Lost Business Due to Room Availability			
Year	Room Nights	Attendees	Economic Impact
2001	1,950	1,225	\$482,263
2002	3,610	1,375	\$496,009
2003	1,350	1,150	\$454,492
2004	5,535	6,350	\$1,614,480
2005	4,225	1,780	\$907,717
2006	8,068	3,595	\$1,688,083
2007	28,273	18,695	\$12,035,326
2008	23,710	18,675	\$8,586,124
2009	14,415	6,300	\$5,087,700
2010	15,875	9,150	\$8,979,500
2011	16,260	8,350	\$6,725,900
2012	1,074	4,000	\$2,904,000
2013	5,581	700	\$637,000
Total	129,926	81,345	\$50,598,594

Source: GMCVB, City of Madison

The amount of business that is not able to host an event in Madison due to the unavailability of rooms is substantial. In 2007, the year with most complete data, an estimated 28,000 room nights were lost or canceled and nearly 19,000 attendees were lost due to hotel availability/room block issues. The GMCVB estimates that the city has ceded more than \$50 million in economic impact from groups since 2001, including future lost business through 2013. Essentially, if one fairly large group hosts a meeting in Madison, even though there may be the necessary meeting space available, it is likely that no adequate block of rooms exists that would be convenient to the group.

HSP also analyzed the lost business data by the year that the decision was made to not host in Madison (versus the above table, which shows the year the business would have taken place). The table below shows the decision dates for business that was lost for future business.

Table 1-5

Lost Business Decision Dates			
Year	Room Nights	Attendees	Economic Impact
2005	21,972	12,545	\$8,304,962
2006	17,306	11,540	\$7,340,276
2007	35,655	23,925	\$14,464,626
Total	74,933	48,010	\$30,109,864
Total Lost Business 2001-2007			\$50,598,594

Source: GMCVB

The trend shows increasing lost business as time has progressed. For example, nearly 60 percent of the total lost business since 2001 was lost between 2005 and 2007. This is further evidence that the hotel situation is having a negative, and increasingly large, impact on Madison’s meetings business.

Madison Hotel Market and Competitive Set of Hotels. The Madison hotel market is similar to many mid-sized markets with universities with many limited service hotels, and very few full-service, top quality hotels, especially downtown. Madison is a bit different in that it is the state capital and home of a Big Ten university, as well as a convention center location.

HSP has chosen a set of primary competitive hotels to analyze and relate to a proposed downtown hotel. Some of the factors considered were market orientation, quality, size, location, age, brand, and market demand mix.

The table below shows a summary of the hotels in the competitive set.

Table 1-6

Downtown Madison Competitive Set Hotels		
Hotel	Date Opened	Rooms
Madison Concourse Hotel	Jun-74	356
Hilton Madison Monona Terrace	Feb-01	240
Sheraton Hotel Madison	Jun-72	237
Best Western Inn On The Park	Jun-63	213
Doubletree Madison Downtown	Oct-74	163
Campus Inn	Jun-61	74
Total	--	1,283
<i>Average</i>	<i>Aug-74</i>	<i>214</i>

Source: Smith Travel Research

The competitive set consists of six hotels, ranging in size from the 74-room Campus Inn to the 356-room Madison Concourse Hotel. Although not every hotel in the set has similar characteristics, each has a number of attributes that are competitive with the proposed hotel. In all cases, the physical attributes are classified as midscale or upscale, if not better. Most of the set is located in downtown Madison, except for the Sheraton, which is located across from the Alliant Energy Center, and the Doubletree located near the University.

For this analysis, a combination of quality, location and market orientation were the primary factors for selection in the competitive set. Certain hotels will compete due to location, including the Hilton, Best Western and Concourse, although not all of these hotels are necessarily competitive based on quality. Others will compete for a combination of reasons. The most comparable is the Hilton Monona Terrace, in terms of location and quality.

It should be noted, that due to the Edgewater Hotel not submitting performance data to Smith Travel Research, it was omitted from the competitive set.

The figure below shows the competitive hotel properties on a map of the Madison area, as well as other properties in the area that are not considered to be competitive.

Figure 1-1



Given the positive demand generators and attributes, the proper hotel package does not exist to service current needs, especially those of the convention center. Despite this quality supply gap, the well-located and high-quality Hilton achieves the best

performance in the market, suggesting that the right hotel in the right location, can perform extremely well.

Market segmentation is the breakdown of business mix for a particular market or property. The following table shows the estimated market segmentation for the competitive set.

Table 1-7

Estimated Competitive Set Segmentation	
Corporate Transient	45%
Group	43%
Leisure	13%
Total	<u>100%</u>
Source: HSP	

Market segmentation averaged 45 percent corporate transient, 43 percent group, and 13 percent leisure. Group business is generally highest at the largest hotels as well as those that are closest to Monona Terrace. The Campus Inn and Doubletree had the highest rate of business travelers, at 72 and 70 percent, respectively. Leisure travel on weekends, mostly related to university activity, ranges from nine to 16 percent of demand at the hotels, averaging approximately 13 percent.

Previous Convention Hotel Success. The development of the Hilton was a necessity to service Monona Terrace when it was developed. When it opened into a recessionary economy, it performed well while the local hotel market improved in the face of declines the hotel market in the rest of the U.S. The table below shows historical room supply, demand, occupancy, rate and RevPAR for the competitive set of hotels with which a new proposed hotel would compete.

Table 1-8

Historical Supply, Demand, Occupancy, ADR, and RevPar for Competitive Hotels											
Year	Annual Avg. Available Rooms	Available Room Nights	% Change	Room Nights Sold	% Change	Occ.	% Change	ADR	% Change	RevPar	% Change
1999	1,043	380,695	--	256,425	--	67.4%	--	\$85.19	--	\$57.38	--
2000	1,043	380,695	0.0%	255,777	-0.3%	67.2%	-0.3%	\$89.49	5.0%	\$60.12	4.8%
2001	1,263	460,855	21.1%	278,757	9.0%	60.5%	-10.0%	\$95.13	6.3%	\$57.54	-4.3%
2002	1,283	468,295	1.6%	296,665	6.4%	63.4%	4.7%	\$97.78	2.8%	\$61.95	7.7%
2003	1,283	468,295	0.0%	296,280	-0.1%	63.3%	-0.1%	\$98.07	0.3%	\$62.05	0.2%
2004	1,283	468,295	0.0%	319,187	7.7%	68.2%	7.7%	\$101.65	3.7%	\$69.29	11.7%
2005	1,283	468,295	0.0%	315,697	-1.1%	67.4%	-1.1%	\$107.13	5.4%	\$72.22	4.2%
2006	1,283	468,295	0.0%	318,475	0.9%	68.0%	0.9%	\$113.51	6.0%	\$77.19	6.9%
2007	1,283	468,295	0.0%	317,724	-0.2%	67.8%	-0.2%	\$119.72	5.5%	\$81.23	5.2%
2008 YTD (July)	--	271,996	0.0%	189,621	4.2%	69.7%	4.2%	\$120.73	6.5%	\$84.17	11.0%
CAGR* (2002-2008)	2.1%	2.1%	--	2.7%	--	0.5%	--	4.3%	--	5.2%	--

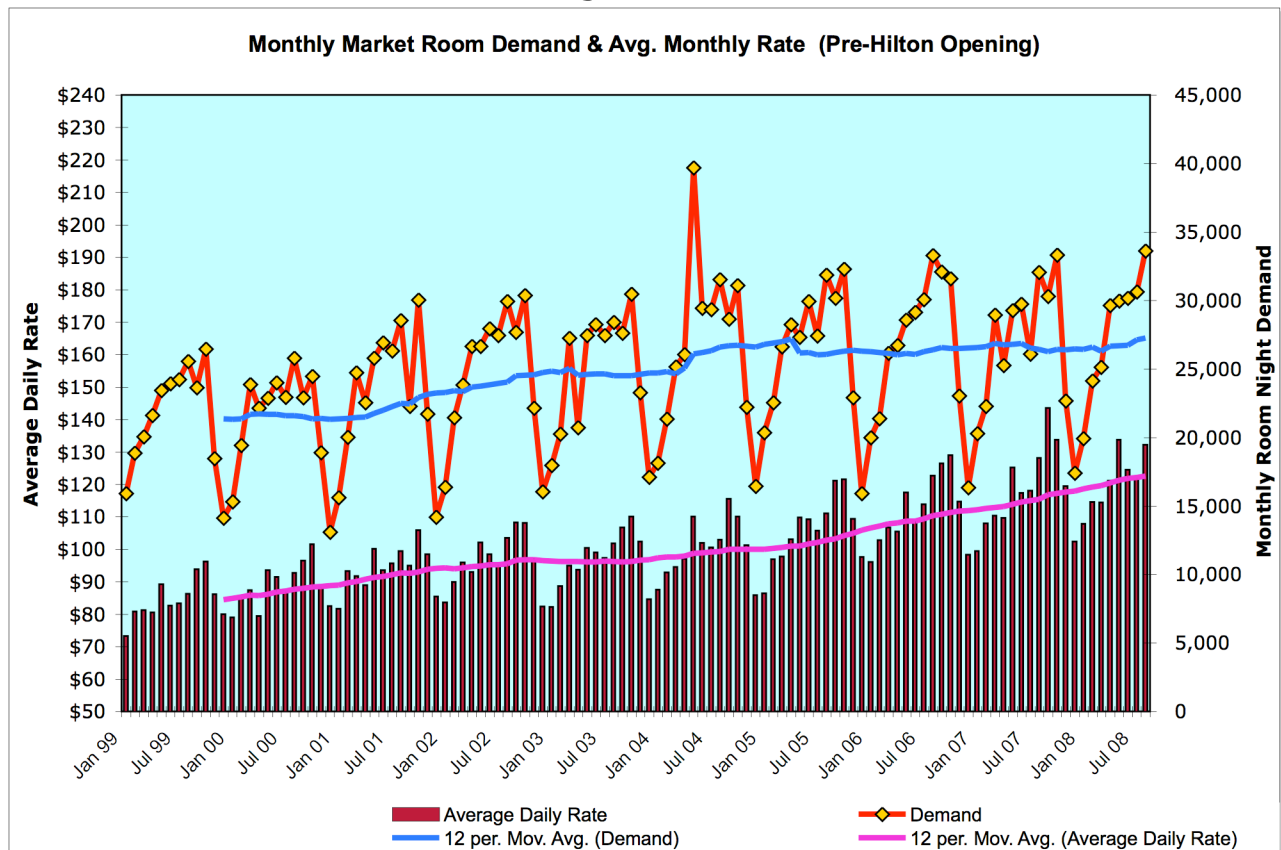
*Compound Annual Growth Rate
Sources: STR, HSP

The Hilton Monona Terrace opened in February of 2001 and despite the weak economy it was 50 percent absorbed in the first year. (In the year that the hotel opened, occupancy declined by only ten percent as the available room nights increased more than 20 percent.) Demand continued to increase so that by 2004, occupancy was higher than in 1999, the previous record high. Average daily rate increased by a substantial 6.3 percent in the year that the Hilton opened, despite the recession. Revenue per available room has consistently grown since 1999 except for the year the Hilton opened, when it dropped just over four percent. Within the body of the report, more data is shown regarding how Madison fared with the new hotel compared to the performance of the U.S. hotel industry during that time. The results are impressive and bode well for Madison.

The trends discussed above show that the addition of the Hilton Monona Terrace had a positive effect on the market, and specifically the competitive set. The additional supply of rooms allowed Madison to attract more group business and the hotels in the set either captured this new demand or recaptured existing demand that shifted throughout the set as a result of room availability.

The table below shows the monthly room demand and ADR trends from 1999.

Figure 1-2



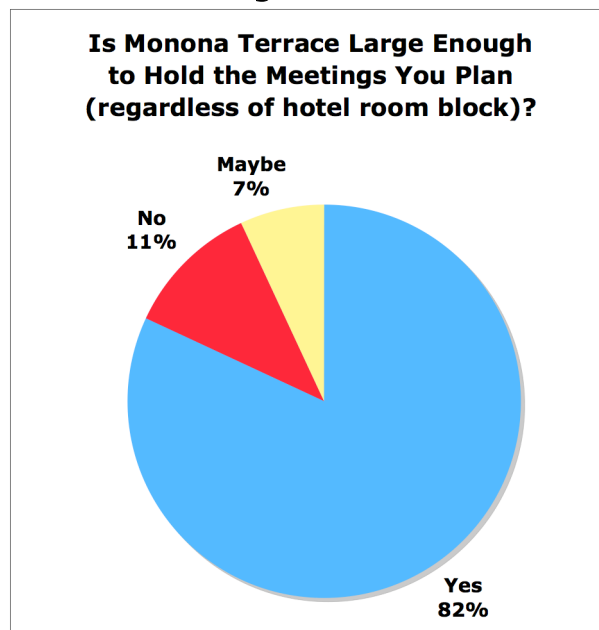
Monthly demand had been decreasing prior to the Hilton’s opening, then increased with its opening through 2005. Since 2005, demand has essentially been flat, while average daily rate has continued to increase. *This suggests that the Hilton was absorbed relatively quickly. No positive changes in the quality of supply or level of demand occurred from 2005 through the present as the competitive set is at maximum practical occupancy. This is the level that is reached when occupancy is as high as the current market allows given structural weaknesses, such as Sunday nights, holidays and other low occupancy periods. This is typically when demand is leaked to other markets, and new hotels must be built to accommodate increased demand.*

Introducing the recommended 400 additional rooms to the current market would impact the competitive set more so than the hotels outside of downtown in the greater Madison market. The new hotel would represent a supply increase in the competitive set of 31 percent, while the greater Madison market will experience a supply increase of less than nine percent. The initial estimated ten percent drop in the competitive set’s occupancy during the stabilization period, caused by the introduction of new rooms to the market, would be less felt by the hotels outside of downtown. The effects of the recommended hotel not being built are highlighted later in this chapter.

Meeting Planner Survey. HSP conducted a survey of more than 300 state and regional meeting planners to gauge interest in Madison as well as the convention center and the current and proposed hotel package. Most of the respondents to the survey distributed to meeting planners consider the Monona Terrace Convention Center a desirable facility to host meetings; however, the supply of quality hotel rooms near Monona Terrace is the clear disadvantage.

First it was important to understand if Madison has adequate meeting facilities that could accommodate additional meetings. The argument for a new convention hotel would be irrelevant if the facility it was proposed to serve could not increase its occupancy. The table below shows the responses when participants were asked if they felt that Monona Terrace as a meeting facility was large enough to meet their needs.

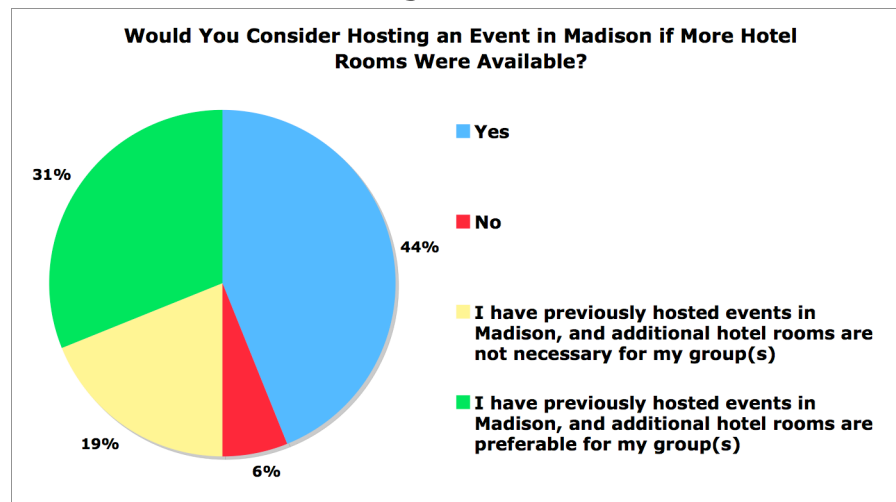
Figure 1-3



More than 80 percent of the respondents indicated that Monona Terrace is indeed large enough to host meetings for their respective groups.

The figure below shows the opinions of meeting planners when asked about the availability of rooms for the events they plan.

Figure 1-4



Of all the respondents, 75 percent said that they would consider Madison if more hotel rooms were available. While some prefer more rooms, many require it. Other findings:

- Very few respondents to the survey were adamantly opposed to considering Madison as a meeting option, so the issue is not the destination, but the infrastructure to host their event.
- The room block requirements and rate sensitivity indicate that potential demand exists for events in Madison.
- The current supply of hotel rooms is not able to provide a solid room block large enough to accommodate the needs of many of the meeting planners who would otherwise consider Madison.
- A room block of 800 rooms is preferred by a majority, as well as a headquarters hotel that can block 350 of its own rooms.

Competitive and Comparable Destinations. HSP profiled Madison’s primary regional and national competitor markets, which include cities larger and smaller, located from coast to coast. Madison has a challenge when it comes to remaining competitive with other meeting venues across the region and country. Madison is a city with great destination appeal, steady demand generators as the state capitol and the University of Wisconsin. However, it lacks adequate supply of quality hotel rooms that can be dedicated to attract group business from out of town. Therefore it cannot capture the revenue and economic benefits from those groups that now choose another location for their events and meetings. The table below shows the competitor cities and their hotel and meeting assets.

Table 1-9

Competitive Facilities					
Meeting Facility	City	Headquarter Hotel/ Adjacent Hotel	Adjacent or Connected Rooms	Hotel Rooms within 1,200 FT	Function Space Per Adjacent Room (SF)
Regional					
Kalahari Resort Convention Center*	Wisconsin Dells, WI	Kalahari Resort	750	750	82
Midwest Airlines Center	Milwaukee, WI	Hilton Milwaukee City Center	730	1,903	239
		Hyatt Regency	484	--	--
Minneapolis Convention Center	Minneapolis, MN	Hilton Minneapolis	821	1,908	444
		Hyatt Regency	533	--	--
McCormick Convention Center	Chicago, IL	Hyatt Regency	800	800	4,499
Saint Paul RiverCentre	St. Paul, MN	Holiday Inn RiverCentre	194	541	820
KI Convention Center	Green Bay, WI	Holiday Inn	147	486	297
Iowa Event Center	Des Moines, IA	Marriott	415	754	670
<i>Average</i>			696	1,020	1,007
National					
DeVos Place	Grand Rapids, MI	JW Marriott	340	1,022	228
		Amway Grand	682	--	--
Greater Columbus Convention Center	Columbus, OH	Hyatt Regency	631	1,716	563
		Crown Plaza Hotel	300	--	--
Walter E. Washington Convention Center	Washington D.C.	Renaissance	807	2,572	1,083
Colorado Convention Center	Denver, CO	Hyatt Regency	1,100	2,634	696
Rhode Island Convention Center	Providence, RI	Westin Hotel	564	1,259	238
Albuquerque Convention Center	Albuquerque, NM	<i>To Be Built</i>	500	1,190	490
Oregon Convention Center	Portland, OR	<i>To Be Built</i>	600	1,022	539
Austin Convention Center	Austin, TX	Hilton Austin	800	2,980	245
Qwest Center	Omaha, NE	Hilton Omaha	450	450	574
<i>Average</i>			753	1,649	748
Monona Terrace Convention Center	Madison, WI	Hilton Monona Terrace	240	453	352
*Hotel and convention center are one facility					
**Foyers, Atriums, and Terraces are not included in function space.					
Source: HSP, STR, Mpoint.com, Respective Hotels					

Madison competes with destinations that are much larger and/or have much larger convention facilities and hotel packages, along with larger destination marketing budgets. This immediately puts it at a disadvantage, which underscores why it is imperative for Madison to have a compelling hotel package. Regionally, Madison competes with Minneapolis, Chicago, Milwaukee, the Wisconsin Dells (occasionally), Des Moines, Green Bay and St. Paul. All but Green Bay have larger convention facilities, and all have more hotel rooms within 1,200 feet (four blocks) of the convention center than Madison.

The regional competitors average 696 hotel rooms connected to the convention center (nearly triple what Madison offers), and 1,020 rooms within walking distance (more than double Madison).

Madison competes nearly as often for business with a collection of national competitors that include Grand Rapids, Columbus, Washington, DC, Denver, Providence, Cleveland, Albuquerque, Portland, Austin, and Omaha. In every case on a national level, the convention facilities are larger, although some are not as compelling as Madison's. Nearly all have larger proximate hotel packages than Madison except for Portland (which has been working to develop a large convention hotel for many years).

On average, the national competitors have (or will have) 753 rooms connected to the convention center (compared with half that amount in Madison) and 1,649 rooms within walking distance (again, compared with less than one third that amount in Madison).

Discussion of Need, Strengths, Weaknesses, Opportunities and Threats.

When considering the idea to develop a hotel, one must consider the strengths, weaknesses, opportunities and threats of and for such a development.

Strengths

- **Location.** Downtown Madison as a destination offers amenities that visitors and meeting attendees prefer such as choices for dining and shopping and cultural venues.
- **Access.** Potential sites that would be suitable for the project have good access that would make them attractive to users. Downtown Madison itself is not located on a major interstate but has access to I- 90/94 and I-39.
- **Increasing Population.** The population of the local and regional areas has grown significantly over the last ten years and continues to increase. This increasing population provides a growing base of business in every major segment for a hotel (business, group and leisure). The growing population also enlarges the group base for Monona Terrace public events.
- **Excellent Demographics.** The market has the third-highest educated workforce in the country, which has accompanied strong market growth and high wages. These factors bode well for events and hotel success.
- **Relatively Strong Hotel Market.** The hotel market for the competitive set is performing well, and has continued to improve, despite nationwide declines over the past year. Even during the last recession and addition of the Hilton, the market absorbed the property well and RevPAR only declined slightly in one year.
- **Balanced Economy.** The economy of the area, both regionally and locally, is fairly balanced and should not suffer at a greater rate than the overall economy due to the presence of large numbers of government, healthcare and education jobs.

- **City Owned Land.** The city owns land that could be suitable for a hotel downtown near the convention center. Some parcels are a combination of city and state ownership and can be made available to the project.
- **Strong Leadership.** Local civic and political leaders have shown the vision and commitment to move downtown projects forward.

Weaknesses

- **Airport Access and Cost.** Madison is not competitive in terms of airline fares and is also has limited direct flights to other cities. Demand for a new hotel can be impacted if groups, especially those from out of state cannot get to Madison easily or inexpensively. This is a factor that a convention hotel will not likely impact.
- **Existing Hotel Package.** This is a weakness for Monona Terrace, yet is an opportunity for a new hotel. There are no hotels that offer the combination of full-service amenities, adequate function space, location and quality that a convention center needs to thrive.
- **Weak CVB Funding.** Madison has a relatively small destination marketing budget to use for attracting visitors and groups compared to most of its competitors.

Opportunities

- **The Group Market is Relatively Stable.** The local market for meetings and events continues to grow with the business, education and government in the community and the regional population. Even when economic times are difficult, group business is less affected than corporate travel and therefore can offer a stabilizing effect on the hotel market.
- **Lack of Quality Hotels Downtown.** Except for the Hilton and the Madison Concourse, the quality of the downtown hotel room supply is lacking. A number of the properties in the market are considerably older and outdated. Feedback from guests has indicated that they would prefer newer accommodations.
- **Lack of Proper Headquarters Hotel.** No single hotel meets the needs of downtown and the convention center: a large, full-service, branded convention headquarter hotel with a large number of rooms and meeting space.

Threats

- **U.S. Economy and Declining Demand.** The U.S. economy has been experiencing signs of extreme weakness in the past few months due to the housing credit crisis and financial meltdown. This could dampen demand growth for a convention and hotel facility in the short-term. However, the long-term tourism infrastructure needs of Madison and

external competitive threats suggest that a large convention hotel be planned and developed despite the current market conditions.

- **Existing/Proposed Hotels Nearby.** There have been plans discussed for other new hotels downtown and enhancements to the existing supply. This could actually complicate matters for a convention hotel, as these plans would not aim to expand demand because they would not be directly increasing Madison’s “walkable” hotel room supply. Instead they would create more of the same situation of scattered hotel rooms throughout downtown, and likely divide demand further.
- **Competitors with Improved Hotel Packages.** Cities that compete with Madison for meetings business pose a threat every time an improvement is made to one of their facilities or hotels. Meeting planners will often choose the city that had the most convenient and cost effective rooms. With room blocks scattered throughout the city, Madison is often beaten by other destinations that offer a tighter, larger hotel package of rooms.

Projection of Hotel Performance. HSP estimated how the hotel would perform based on a penetration analysis model. The table below summarizes the projected performance of the hotel.

Table 1-10

Performance Projections				
Year	Average Daily Rate	Occupancy	Revenue per Available Room	Annual Increase
2012	\$173	58%	\$100	--
2013	\$177	66%	\$117	16.5%
2014	\$182	72%	\$131	12.3%
2015	\$187	72%	\$135	3.0%
2016	\$193	72%	\$139	3.0%
2017	\$199	72%	\$144	3.0%
2018	\$205	72%	\$148	3.0%
2019	\$211	72%	\$152	3.0%
2020	\$217	72%	\$157	3.0%

Source: HSP

The hotel is projected to achieve a \$173 average rate in its first year with occupancy of 58 percent. At stabilization the average rate and occupancy are expected to be \$182 and 72 percent, respectively. Revenue per available room is projected to be \$100 in 2012 and increase to \$131 by 2014.

Estimate of Impact from Status Quo – “What if the recommended hotel is not built?” While a detailed economic, fiscal and employment projection is recommended for the next phase of analysis, HSP has undertaken a review of projections for critical impact items under two scenarios: if the hotel is built as proposed, and if it is not.

In general, there are many measurable and immeasurable areas of impact. The following would be negative impacts of the status quo:

- The relative, and absolute, strength of the hospitality and tourism industry would likely decline. This would be especially pronounced when comparing Madison to its peers and competitors. Those building and/or expanding their convention, hotel and event package would penetrate the market for events at a higher level relative to Madison. As a result, financial rewards to Madison would decline in relative terms.
- The hotel quality, capacity, and pricing power in Madison would stagnate, relatively speaking, compared to a scenario with a new, high quality, large and well-located facility.
- Hotel taxes collected would be less.
- Sales taxes collected would be less.
- Fewer people would be employed, both in the hotels and from spin-off impacts.
- The quality and quantity of meetings and events would stagnate and potentially decline.
- The incentive for hotels to improve, renovate, and promote high service levels will be less than if a strong new competitor was introduced.
- The existing lower quality hotels serving downtown would continue to serve downtown at similar levels of quality as today.
- Loss of a \$100 million+/- development project and the jobs, taxes and impact associated with it.
- There will be less revenue at Monona Terrace.
- There will be more subsidy needed to support Monona Terrace.

The impacts as measured for hotel room nights, hotel taxes collected, and events and revenue at Monona Terrace are shown below.

Table 1-11

Impact of Not Developing Recommended Hotel						
With Hotel	2012	2013	2014	2015	2016	Total
Total Monona Terrace Events	692	701	711	711	711	3,526
Total Monona Terrace Attendees	230,447	247,028	267,771	267,771	267,771	1,280,788
Monona Terrace Revenue	\$5,393,169	\$6,340,224	\$8,107,627	\$8,350,856	\$8,601,382	\$36,793,258
Monona Terrace Expense	\$8,582,652	\$8,840,131	\$9,105,335	\$9,378,495	\$9,659,850	\$45,566,464
Monona Terrace Net	-\$3,189,483	-\$2,499,908	-\$997,708	-\$1,027,639	-\$1,058,468	-\$8,773,206
Competitive Set Room Nights	366,479	394,630	407,392	407,392	407,392	1,983,285
Hotel Tax (TOT) Generated	\$4,557,955	\$5,055,306	\$5,375,356	\$5,536,616	\$5,702,715	\$26,227,948
Without Hotel	2012	2013	2014	2015	2016	Total
Total Monona Terrace Events	685	683	680	680	680	3,409
Total Monona Terrace Attendees	217,261	216,433	215,681	215,681	215,681	1,080,736
Monona Terrace Revenue	\$5,084,561	\$5,237,098	\$5,394,211	\$5,556,037	\$5,722,718	\$26,994,625
Monona Terrace Expense	\$8,332,672	\$8,565,987	\$8,805,834	\$9,052,398	\$9,305,865	\$44,062,755
Monona Terrace Net	-\$3,248,111	-\$3,328,889	-\$3,411,623	-\$3,496,360	-\$3,583,146	-\$17,068,130
Competitive Set Room Nights	326,839	330,107	333,408	333,408	333,408	1,657,170
Hotel Tax (TOT) Generated	\$4,024,289	\$4,182,403	\$4,346,730	\$4,472,785	\$4,602,496	\$21,628,702
Difference	2012	2013	2014	2015	2016	Total
Total Monona Terrace Events	7	18	31	31	31	117
Total Monona Terrace Attendees	13,187	30,595	52,090	52,090	52,090	200,052
Monona Terrace Revenue	\$308,608	\$1,103,126	\$2,713,417	\$2,794,819	\$2,878,664	\$9,798,633
Monona Terrace Expense	\$249,980	\$274,145	\$299,501	\$326,098	\$353,986	\$1,503,710
Monona Terrace Net	\$58,628	\$828,981	\$2,413,915	\$2,468,721	\$2,524,678	\$8,294,923
Competitive Set Room Nights	39,641	64,523	73,984	73,984	73,984	326,114
Hotel Tax (TOT) Generated	\$533,666	\$872,903	\$1,028,626	\$1,063,832	\$1,100,219	\$4,599,246

Source: HSP

As shown, over the next five years, a total of nearly 120 additional events would be foregone as well as more than 200,000 attendees. Revenue at Monona Terrace would be approximately \$10 million less and the net subsidy needed will be \$8.3 more. The number of lost room nights in the competitive set of hotels would be more than 325,000 over five years, leading to a loss of TOT of \$4.6 million over the period. At the hotel alone, more than 300 full-time equivalent jobs would be foregone.

Summary

Madison is an attractive destination for conventions, meetings and other groups, due to its attractive and interesting convention center, Monona Terrace, the beauty and dynamics of the city itself, and the fact that it is the location of the state capital and the University of Wisconsin-Madison. However, lack of quality, full service hotel rooms adjacent to Monona Terrace limit that facility's growth. Madison would profit

from a new full-service hotel within walking distance of the convention center. HSP recommends that the city encourage and assist development of a 400-room high-quality hotel in downtown Madison.

CHAPTER 2

MADISON GENERAL MARKET AREA ANALYSIS

Local market area characteristics influence the demand potential for convention centers and hotels. This section profiles the metropolitan area, and characteristics of the area that affect the hotel and convention industry and also provides a brief overview of the economic characteristics of the market.

Overview

The City of Madison, Wisconsin is part of the Madison Metropolitan Statistical Area (MSA) located in south central Wisconsin. The Madison MSA includes the Wisconsin counties of Dane, Columbia, and Iowa. The Madison Combined Statistical Area, which ranks 31st in U.S. with a 2007 population of 614,073, includes the Baraboo (Sauk county) Micropolitan area.

Brief History

Before the arrival of European settlers, the Madison area was home to Native Americans for nearly 12,000 years. Beginning in 1837, Yankee, English, Irish, German and Scandinavian settlers flocked to the rapidly growing community named for James Madison. Known for its natural beauty and healthful conditions, Madison's designation as the capital of Wisconsin guaranteed its growth as a center of state politics and education. By the time Madison became a city in 1856, the community had grown to more than 9,000 residents. The state's university was founded there in 1849, one year after statehood.

Madison was created in 1836 when former federal judge James Duane Doty purchased over a thousand acres of swamp and forest land on the isthmus between Lakes Mendota and Monona within the Four Lakes region, with the intention of building a city on the site. He lobbied that the site was central to Wisconsin's most important and oldest cities, Milwaukee, Prairie du Chien, and Green Bay. He also named streets for the 39 signers of the Constitution, and gave plots of land to state officials in exchange for making his planned new town the state's capital city.

Madison has grown as a government and higher education center in the last 150 years. Today it is the state's second largest city, metropolitan area, and routinely ranks at the top of national livability ratings.

Regional Access

Madison is located between the major metropolitan cities of Chicago and Minneapolis-St. Paul, Minnesota on Interstates 90 and 94, designations that run concurrently on the same roadway with the north-south interstate 39. I-90 is a

major coast-to-coast highway connecting Boston and Seattle. I-94 generally runs a northern parallel route to I-90, from Detroit to where I-90 once again meets it at Billings, MT. I-39 acts as a north-south regional highway connecting a series of small and mid-sized cities from far northern Wisconsin southward to central Illinois.

The city lies one hour (by highway) west of the large and industrial Milwaukee metropolitan area. Madison is a kind of central crossroads for the state's population, which is denser in the south and east parts of the state, than north and west. The state of Wisconsin has encouraged this pattern of travel in recent years by extending freeways to the southwest to Dubuque, Iowa and points west, and to the northeast connecting to the populated region consisting of Fond du Lac, Oshkosh, Appleton (Fox Cities), and Green Bay.

The figure below shows a map of the region.

Figure 2-1



Airport Access

The region's airport, the 11-gate Dane County Regional Airport (MSN) is home to just over 50 daily departures flying to fifteen cities, on six different airlines. In 2006 the airport recorded 803,000 enplanements, making it the second largest airport in the state after Milwaukee. Because larger cities are a relatively short drive away, Chicago's airports (ORD and MDW) and Milwaukee's airport (MKE) serve the Madison area population as well. The following six airlines service the Dane County Regional Airport:

- American Eagle
- Continental Express
- Midwest Connect
- Northwest Airlines
- Delta Connection
- United Express

The airport began construction in fall 2007 on a \$30 million project to add a three-story parking ramp to the existing ramp and a new, "green" exit plaza. The 500,000-square foot ramp will be adjacent to the existing ramp, adding 1,200 parking spaces to meet current and expected demand for close-in parking.

A study released by the U.S. Department of Transportation's Bureau of Transportation statistics show that in the first quarter of 2007, airfare rose 4.4 percent nationwide, one of the highest increases on record. However, the issue of most concern to Madison is that of the top 100 airports based on originating passengers, Madison had the third highest average air fare. Additionally, residents and businesses feel frustration that Dane County Regional Airport offers far fewer direct flight destinations than Chicago O'Hare, Midway, or Milwaukee's Mitchell International Airports. Each of those airports is a 1 1/2 to 2 1/2-hour drive from Madison.

Another recent trend does not favor small-to-middle sized airport markets such as Madison. As many airlines are forced to cut costs, they are cutting service to more and more cities. Many commercial airlines have gone out of business altogether, meaning Madison's chances of gaining direct service to more cities is not likely in the current economy.

Economic and Demographic Overview

The following text and tables summarize important characteristics of the local market defined by various geographical regions such as the city of Madison, Dane County, and the Madison MSA. These characteristics will help define the strength of the market, and will support the demand projections developed later in this report.

Population

A strong population base is important to the success of a convention center and full-service hotel because a share of its users will be local businesses and residents, especially regarding amenities such as function space. In the case of a hotel, other amenities (such as a restaurant) will also be used by locals.

Table 2-1 shows the population characteristics of the region, state, MSA and County.

Table 2-1

Madison, WI MSA, and State Population and Growth Rates				
	Population			Percent Change 2000-2007
	1990	2000	2007	
United States	248,709,873	281,421,906	299,389,484	6.0%
State of Wisconsin	4,891,769	5,363,675	5,601,640	4.2%
State of Illinois	11,430,602	12,419,293	12,852,548	3.4%
State of Iowa	2,776,755	2,926,324	2,988,046	2.1%
Madison Combined Metro	479,298	556,999	614,103	9.3%
Sauk County	46,975	55,225	58,447	5.5%
Madison MSA	433,797	504,073	547,869	8.0%
Columbia County	45,088	52,468	55,280	5.1%
Dane County	367,085	426,526	476,785	10.5%
Iowa County	20,150	22,780	23,561	3.3%
City of Madison	191,262	207,054	228,775	9.5%
City Pop. As % of MSA	44.1%	41.1%	41.8%	

Source: U.S. Census Bureau, HSP

The State of Wisconsin and much of the Midwest experienced moderate population growth from 1990 to 2007. Wisconsin surpassed the other states in the region in terms of growth. The metropolitan area population increased 8.0 percent in the past seven years, faster than the state and nation. Impressively, Dane County increased its population by 10.5 percent in the past seven years. Since 1990, it has added approximately 110,000 citizens. The city has grown almost as quickly, but this is due to a combination of natural growth and annexation. Regardless, the city continues to grow and prosper.

As stated, Madison continues to annex unincorporated surrounding areas, as do several suburban satellite communities such as Sun Prairie, Fitchburg, Waunakee, De Forest, McFarland, Middleton, Verona, and Cottage Grove.

Diversified Economy

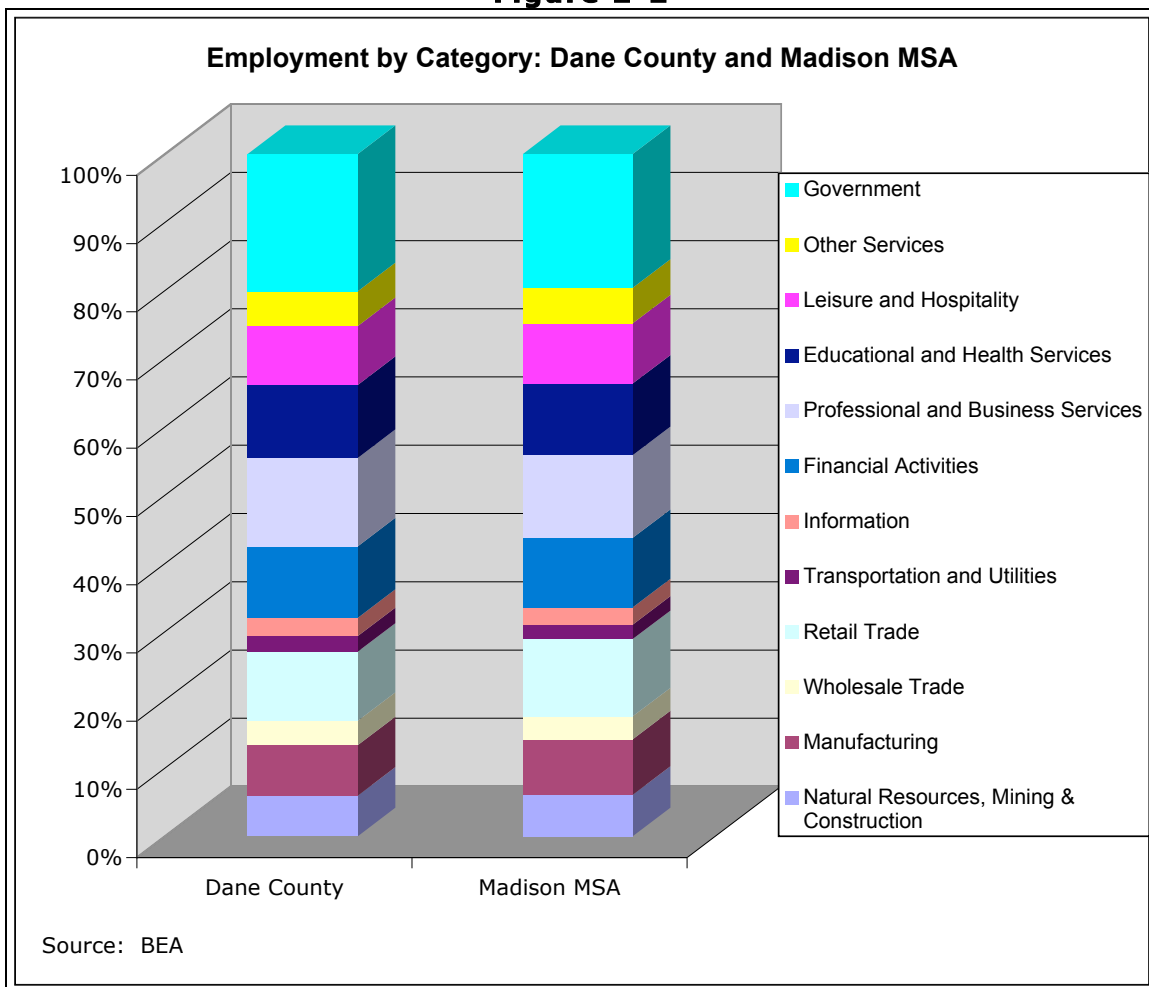
A healthy and diversified economy provides not only employment and disposable income for a market's residents, but it also helps to insulate an area from economic downturns. Markets that have historically relied on one sector, such as manufacturing, have often had difficulty recovering from market shifts to other sectors, which lead to an overall loss of local income and employment. This situation will often lead to declining population trends, as has been the case in many industrial cities, as residents move to other areas with better opportunities. This has happened in many Great Lakes states' manufacturing cities, including Milwaukee, Racine, Kenosha, WI, and Rockford, IL.

However, this is not the case for the Madison MSA. Heavy industry and manufacturing have never been a large part of the employment base. Instead, the

city has relied both on government and education, two relatively recession-proof revenue and job sources. Other prominent areas of employment include insurance and service-oriented companies, and high-tech and bio-technology firms that are located in Madison as a direct or indirect result of their proximity to the University of Wisconsin-Madison.

The figure below shows the diversification of the Madison MSA and Dane County employment totals, as provided by the Bureau of Economic Analysis (BEA).

Figure 2-2



As shown, employment in the Madison Metropolitan Statistical Area has several large components: Government, Professional and Business Services, Retail, Educational and Health Services, Financial Activities, and Leisure and Hospitality. The MSA is very consistent with Dane County terms of employment. Government accounts for about 20 percent of the local employment base due to being the seat of Wisconsin state government. Just a few blocks away, the University of Wisconsin-Madison, a

nationally respected institution of education and research, is the state's largest university, with over 41,400 students. The state government and university both flavor the city with a very high education level, which is reflected in the number of bookstores, publishers, and coffee shops. As a result, there is a strong representation in the Professional and Business Services sector, and education and Health Services sectors.

In terms of educational attainment, 48.2 percent of adults have a bachelors degree or higher and 20.9 percent have a graduate or higher degree, both very impressive figures relative to the U.S. (26.2 percent of U.S. adults have a bachelors or higher and 8.7 percent have a graduate or higher degree). Madison had the highest percentage of Ph.D.s in the nation according to Forbes Magazine in 2004, and the 3rd highest percentage of adults holding bachelors degrees or higher.

This high level of education provides the local workforce with a wealth of opportunity and as such, the local population is more educated than most other communities in the U.S.

Income and Employment

The depth and strength of a market's employment base and income levels is a strong indicator of its potential ability to support a convention hotel. In general, higher income levels indicate a high quality base of employers, which create demand generators for meeting space and hotel room nights via corporate transient and group visitors.

Markets with more wealth also tend to be attractive regionally and nationally for events as such populations are more likely to support trade and consumer shows, concerts, educational events and other public events. In addition, an educated and wealthier community is more likely able to have the public resources to provide meeting facility amenities, such as Monona Terrace. Less wealthy markets will have less disposable income available to spend on special events, for example, and would generally be expected to provide a lower level of attendee demand. Indicators of a market's overall wealth and growth can include trends in its income and employment.

The following table summarizes the historical growth in income and employment in the Madison MSA from 1998 through 2005, based on the latest data provided by the Bureau of Economic Analysis.

Table 2-2

Madison MSA Income and Employment						
Year	Non-Farm Income		Non-Farm Employment		Income/ Employed	
	\$ (000s)	% Change	Employed	% Change		% Change
1998	\$14,409,598	--	371,810	--	\$38,755	--
1999	\$15,129,860	5.0%	382,141	2.7%	\$39,592	2.2%
2000	\$16,402,102	8.4%	390,311	2.1%	\$42,023	6.1%
2001	\$17,151,219	4.6%	397,700	1.9%	\$43,126	2.6%
2002	\$17,922,484	4.5%	402,459	1.2%	\$44,532	3.3%
2003	\$18,597,090	3.8%	407,815	1.3%	\$45,602	2.4%
2004	\$19,529,877	5.0%	419,320	2.7%	\$46,575	2.1%
2005	\$20,616,682	5.6%	429,286	2.3%	\$48,026	3.1%

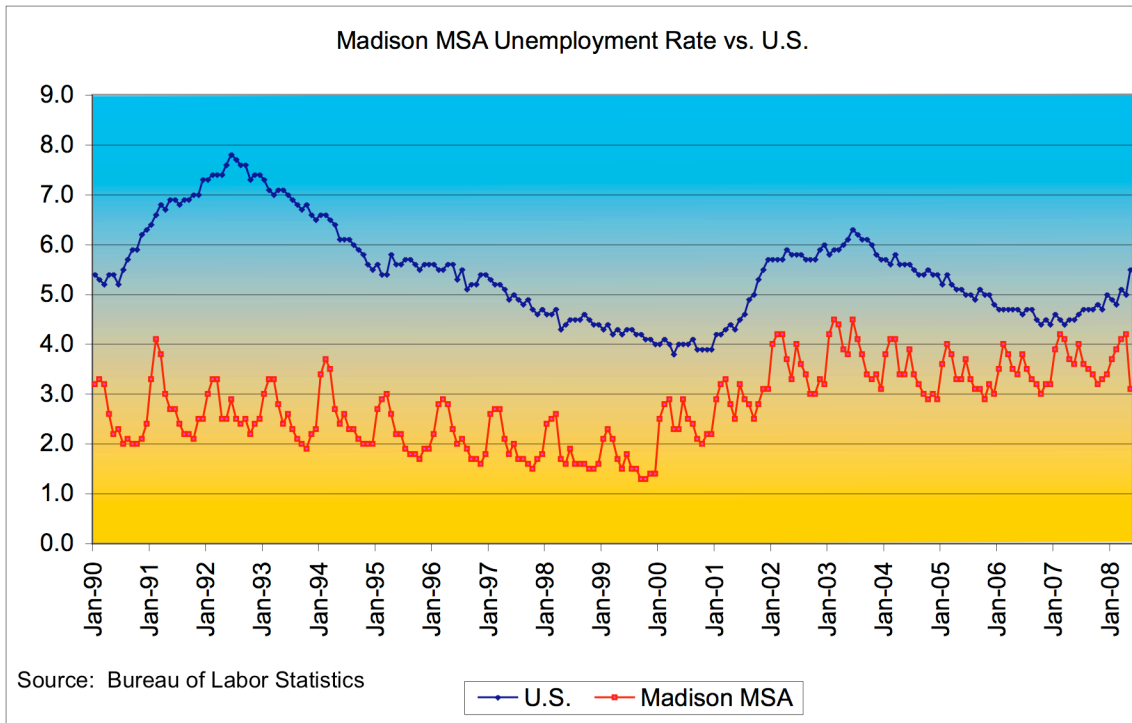
Source: Bureau of Economic Analysis, HSP

While the rate of growth has varied, each year since 1998 has shown an increase in income. Non-farm employment increased at a slower rate each year as well (leading to increased income per employee).

Unemployment

The figure below shows the unemployment rate in Madison in comparison to the national rate for 1995 through 2007.

Figure 2-3



The unemployment rate for Madison was below the average for the entire country from 1995 through 2008. The seasonal range of unemployment has generally oscillated between 1 and 2 percent throughout each year, largely because of the college student population. Generally, unemployment in Madison is lower than the U.S. rate by a full 1.5-to-2.5 percent, and is remarkably stable from year to year. However, since 2000, local unemployment has been approximately one percent higher than pre-2000 levels, but more stable. Nevertheless, Madison’s unemployment rate remains lower than the national average. The steadily growing economic base has been able to provide employment for the influx of new residents, and keep pace with the historically substantial average family income.

Income

Residents’ effective buying income helps to demonstrate the amount of disposable income that is available locally. Effective Buying Income is income less personal tax and non-tax payments, a number often referred to as "disposable" or "after-tax" income. Considered a bulk measurement of market potential, EBI indicates the ability to buy, and is essential for selecting, comparing, and grouping markets. Markets with higher EBI are important for hotels because the local population often attends and/or hosts events in function spaces, eats in hotel restaurants, and have outside functions catered by hotels or served by convention facilities. They also may

participate in putting up friends and families in hotel rooms when visiting. Effective Buying Income data is shown in the table below.

Table 2-3

Effective Buying Income (EBI) 2005			
	Madison MSA	State of Wisconsin	United States
Total EBI (000)	\$12,420,128	\$101,998,791	\$5,692,909,567
Median Household EBI	\$42,666	\$38,991	\$39,324
EBI Group			
Under \$20,000	16.9%	19.6%	21.5%
\$20,000-\$34,999	21.6%	23.5%	22.5%
\$35,000-\$49,999	22.3%	22.9%	19.3%
\$50,000+	39.2%	34.0%	36.7%
Source: Sales and Marketing Management			

As the table shows, Madison had a total effective buying income (EBI) of \$12.4 billion and a median household EBI of \$42,666 in 2005. This median EBI is higher than the State of Wisconsin as a whole (and the United States). The number of households with an EBI over \$50,000 is 39.2 percent, compared with just 34.0 percent in the state.

While college students tend to raise the level of cultural activity and awareness in the host city, they also tend to bring the average and median household income levels down, as they earn very little as a group. Typically, cities with a large number of college students will have a disproportionately high percentage of households at the lower end of the income scale. While that population segment exists in Madison, the 41,000 students at UW-Madison are a small segment compared to the entire metropolitan area of 547,869.

Traditional "college towns" such as Iowa City, IA, Columbia, MO, Bloomington, IN, Lawrence, KS, and State College, PA, are all small metro areas of between 100,000 and 175,000 including the 30,000 to 40,000 students, making up very large portions of that city's smaller metro populations. Thus the archetypal "college town" has a large percentage of low-income residents, and the city's entire EBI lags behind. How Madison differs is that it has a much larger, rapidly growing and healthy white-collar bio-research and service-oriented employment base that more than compensates for the lack of income in the student population. The power of the university lies in the concentration of students and resulting sports, arts and culture, and that is one of the major reasons these companies reside in the Madison area. The area attracts a highly educated and a more socially sophisticated workforce, thereby encouraging local companies to stay in Madison while becoming more competitive in their field.

The following table ranks U.S. metropolitan areas in terms of its Effective Buying Income.

Table 2-4

Effective Buying Income by Designated Market Area - 2007- Ranked by EBI per Household					
Designated Media Area	Rank of Total Spending	% of U.S. Spending	Effective Buying Income/ Household	Index (Percent of National Average)	EBI/HH Rank
San Francisco-Oakland-San Jose, CA	6	2.29	\$76,238	142	1
Washington, DC (Hagerstown, MD)	9	2.04	\$72,753	135	2
New York, NY	1	6.92	\$65,043	121	3
Boston, MA (Manchester, NH)	7	2.06	\$64,508	120	4
Monterey-Salinas, CA	124	0.24	\$63,773	119	5
Anchorage, AK	150	0.14	\$63,395	118	6
Chicago, IL	3	3.22	\$61,811	115	7
San Diego, CA	27	1.00	\$61,658	115	7
West Palm Beach-Ft. Pierce, FL	38	0.62	\$61,760	115	7
Denver, CO	18	1.26	\$60,505	113	10
Baltimore, MD	24	0.95	\$60,626	113	10
Hartford & New Haven, CT	29	0.87	\$60,166	112	12
Juneau, AK	207	0.02	\$60,417	112	12
Los Angeles, CA	2	5.91	\$59,731	111	14
Dallas-Ft. Worth, TX	5	2.21	\$59,743	111	14
Santa Barbara-Santa Maria-San Luis Obispo, CA	122	0.22	\$59,490	111	14
Philadelphia, PA	4	2.61	\$59,003	110	17
Seattle-Tacoma, WA	14	1.52	\$59,201	110	17
Austin, TX	51	0.55	\$59,064	110	17
Ft. Myers-Naples, FL	63	0.38	\$58,793	109	20
Honolulu, HI	73	0.43	\$58,828	109	20
Atlanta, GA	8	2.04	\$57,989	108	22
Houston, TX	10	1.93	\$58,048	108	22
Detroit, MI	11	1.67	\$57,975	108	22
Minneapolis-St. Paul, MN	15	1.47	\$57,812	108	22
Reno, NV	110	0.24	\$57,870	108	22
Fairbanks, AK	203	0.03	\$58,084	108	22
Las Vegas, NV	43	0.62	\$56,731	106	28
Phoenix, AZ	12	1.60	\$55,471	103	29
Sacramento-Stockton-Modesto, CA	20	1.33	\$54,767	102	30
Richmond-Petersburg, VA	59	0.45	\$54,880	102	30
Charlottesville, VA	181	0.07	\$55,025	102	30
Palm Springs, CA	144	0.14	\$54,208	101	33
Miami-Fort Lauderdale, FL	16	1.43	\$53,940	100	34
Cincinnati, OH	33	0.76	\$53,988	100	34
Salt Lake City, UT	35	0.90	\$53,875	100	34
Kansas City, MO	31	0.78	\$53,425	99	37
St. Louis, MO	21	1.06	\$52,571	98	38
Jacksonville, FL	49	0.56	\$52,660	98	38
Milwaukee, WI	34	0.75	\$52,178	97	40
Providence, RI-New Bedford, MA	52	0.54	\$52,214	97	40
Indianapolis, IN	26	0.90	\$51,523	96	42
Madison, WI	85	0.31	\$51,388	96	42

Source: Nielsen Media Research

As the table shows, the Madison Market Area had a median household EBI of \$51,388, ranking 42nd out of 210 metropolitan areas, slightly below the national average of \$53,900, but well above the vast majority of metro areas.

Corporate Presence

In general, a market’s corporations will provide event demand for convention centers and hotels via individual corporate transient travel, group training, new product launches, off-site meetings, banquets, and other events.

Table 2-5 shows the largest employers in the Madison MSA, by number of full-time employees.

Table 2-5

Madison, WI Largest Employers (1,000 +)		
Name	Industry	# of Employees
State of Wisconsin	Government	15,500
University of Wisconsin	Education	13,695
UW Hospital	Health Care	10,299
Madison Metropolitan School District	Education	6,545
Mercy Health Systems	Health Care	3,844
Dean Health Systems	Health Care	3,607
Meriter Health Systems	Health Care	3,470
City of Madison	Government	3,000
Epic Systems	Health Care Information	3,000
UW Hospital Foundation	Health Care	2,987
General Motors	Automotive	2,799
St. Mary's Hospital	Health Care	2,677
Kraft/Oscar Mayer Foods	Food	2,200
CUNA Mutual Group	Financial Services	2,150
Wilderness Hotel and Golf Resort	Hotel	1,600
Covance	Pharmaceuticals	1,575
Ho-Chunk Nation	Hotel	1,399
TDS Telecom	Telecommunications	1,200
Kalahari Resort	Hotel	1,127
Stoughton Trailers	Transportation	1,100
Beloit Memorial Hospital	Health Care	1,100

Source: Madison.com

The State of Wisconsin is the largest employer in the MSA, with approximately 15,500 employees. The City of Madison employs an additional 3,000 workers. Furthermore, the University of Wisconsin- Madison employs a total of 13,695, of which 2,060 are faculty. The private-sector major employers are dominated by bio research and hospital facilities, a growing consumer service industries sector, and the remainder represent a balanced family of companies from food processing (especially Kraft/Oscar Mayer), to casinos and resorts, particularly in the Wisconsin Dells area in the northern reaches of the metropolitan area.

Higher Education

The presence of colleges, universities, and educational institutions can serve not only as a demand base for hotels, but also a source of event demand for hotel function space.

The largest institution is the University of Wisconsin - Madison, with a student body of over 41,000, about 29,000 of which are undergraduates. UW routinely ranks as one of the nation's foremost public research universities, as well as ranking in the top 10 best public universities according to *U.S. News and World Report* in 2008. The university's influence on Madison's overall culture cannot be overstated, as the region's economics, arts scene, well-known college sports culture, and quality of life are generally regarded as the result of the campus's presence. About 48.2 percent of Madison's population over age 25 holds a bachelor's degree or higher, and Madison has the highest percentage of Ph.D.s in the nation according to *Forbes Magazine* in 2004, and the 3rd highest percentage of adults holding bachelors degrees or higher.

The University of Wisconsin is experiencing a great deal of growth and development. University representatives indicated that that the University is experiencing its largest building boom since the 1960's and the growth is guided by a comprehensive master plan. Below is a list of some of the development projects underway at UW.

- Work on the \$144 million Interdisciplinary Research Complex adjacent to UW Hospital and Clinics is nearing completion.
- The retail and housing portions of the University Square redevelopment have recently opened, with the university's \$57 million wing opening in January 2009. The campus portion will house student services including University Health Services, and offices for the registrar, bursar, financial services and a student activity center.
- A \$17.5 million renovation of Sterling Hall is to be completed by April 2010.
- A warehouse near Kohl Center is currently undergoing an \$8.8 million renovation to create instructional labs and studio space for the art program.
- The \$40 million addition to Grainger Hall, designed to house the School of Business' MBA program and Executive Education programs, has recently opened.
- A \$33.4 million expansion and renovation of the Education Building is scheduled to begin in September and be finished by September 2010.
- A \$117 million project that will create a new biochemistry building begins in the fall. The project will involve demolition of a 1956 wing of the biochemistry complex and construction of an eight-story tower.
- Work has begun to renovate the Washburn Observatory. Financed by \$2.5 million in gift funds, the renovation should be complete by May 2009.

- Groundbreaking was held this spring for the Wisconsin Institute for Discovery and the Morgridge Institute for Research, the public-private initiative designed to promote interdisciplinary research. The institute is set to open in late 2010.
- Scheduled to open in 2011, the new Union South building will be an upgraded facility from the previous Union South. The building will include a variety of uses including meeting space, retail, a theater and possible 60-room hotel.

Edgewood College, a small Dominican Catholic liberal arts college, Madison Area Technical College, the largest of the state's technical and community college system with over 44,000 enrolled on ten area campuses, Herzing College, and Madison Media Institute round out the city's higher education lineup. Community and technical college do not generate the visitor and hotel activity of traditional four-year institutions.

Madison Area Tourist Destinations

Madison and south central Wisconsin have tourist destinations that are an important packaging opportunity for a convention center hotel. The Midwest's top family tourist destination is the Wisconsin Dells area, which includes Baraboo, part of the northern reaches of the Madison metropolitan area. For the purposes of demonstrating tourism demand in Madison, the Wisconsin Dells area will not be included in Madison's area of tourism influence. Madison's proximity to "The Dells" is a significant part of the greater regional tourism culture, however, the city of Madison itself is too distant from those attractions to be considered a major reason tourists stay at Madison-area hotels.

The table below shows Madison's top tourist attractions.

Table 2-6

Madison's Top Tourist Attractions	
University of Wisconsin Sports	
Camp Randall Stadium - Football	
Kohl Center - Basketball & Hockey	
Sightseeing	
Betty Lou Cruises	
Capital Brewery	
Cave of the Mounds National Park	
Olbrich Botanical Gardens	
Cedar Grove Cheese Tours	
Olbrich Botanical Gardens	
University of Wisconsin Arboretum	
Monona Terrace Community and Convention Center	
The House on the Rock	
Taliesin & Frank Lloyd Wright Visitors Center	
Tyrol Basin Ski Area	
New Glarus Swiss Village	
Mid Continent Railway Museum	
Wollersheim Winery	
State Street	
Henry Vilas Zoo	
Cultural	
Chazen Museum of Art	
Governors Mansion	
Overture Center for the Arts	
Madison's Children's Museum	
Madison's Museum of Contemporary Art	
Wisconsin State Capitol	
Wisconsin Historical Museum	
Wisconsin Veterans Museum	
Source: Madison CVB	

The following attractions are in Madison.

University of Wisconsin Division I Athletics – This is the heart of the state’s college sports scene. Over 80,000 fans from around the state converge upon **Camp Randall Stadium** for Big Ten football games. Top-tier college basketball and hockey are played in the modern 1998 **Kohl Center** between the main campus and Downtown Madison.

Betty Lou Cruises – provides group charters and public cruises on Lake Mendota and Lake Monona, and includes a bar and buffet food service.

Capital Brewery – Brewers of award-winning, world-class beers since 1986

Olbrich Botanical Gardens – One of Madison's most popular attractions, this oasis of green includes a sunken garden, perennial garden, rose garden, rock garden, herb garden, wildflower garden and a tropical conservatory.

Cedar Grove Cheese Tours – Wisconsin is noted for its dairy farms. Cedar Grove offers factory tours to the public.

Henry Vilas Zoo – This free zoo, located inside Vilas Park, features over 800 animals of over 200 different species from around the world including African lions, South American alpacas and tortoises from the Galapagos Islands.

University of Wisconsin Arboretum – is a 1,260-acre forestland that borders the southern half of Lake Wingra, and is owned by the University. There are cross-country ski trails, a paved 10-K loop for runners and an educational visitors center.

Monona Terrace Community and Convention Center - is a 5-level convention center on the shores of Lake Monona in downtown Madison. It is famous for being designed by Frank Lloyd Wright in 1938, yet not being built until sixty years after Wright's passing. It opened in 1997, and features a gift shop that specializes in books and gifts inspired by Frank Lloyd Wright and Prairie Style architecture. The facility is discussed in more detail throughout the report, as it is the primary demand generator for meetings and event activity at a proposed hotel. This report provides additional information regarding the MTCCC in other chapters.

State Street - This seven-block bustling pedestrian-only street, which runs between Capitol Square and the university campus, is the main shopping and entertainment district for UW students, Madison's arts scene, and downtown workers alike, offering a diverse array of coffeehouses, ethnic restaurants, bookstores, art galleries and specialty shops.

The following attractions are just outside Madison within a one-hour auto trip by car.

The House on the Rock – is a uniquely designed house built on an exposed column of rock to parody Frank Lloyd Wright's architecture. Since opening in 1961, it has added a museum complex of architecturally unique rooms, automated musical rooms, streets, gardens and shops, including the world's largest carousel. More than 500,000 visitors annually come to the House on the Rock.

Taliesin preservation & Frank Lloyd Wright Visitors Center – This was Frank Lloyd Wright's home later in his career where he lived and worked for the majority of his career, later converted into the home of the Taliesin Fellowship. Visitors may tour Frank Lloyd Wright's home and school, and visit the bookshop.

Cave of the Mounds National Natural Landmark – is a natural limestone cave located in Blue Mounds, Wisconsin, and is named for two nearby hills called the Blue Mounds. In 1988, the United States Department of the Interior and the National Park Service designated the cave as a National Natural Landmark. The cave is noted for its unique beauty.

New Glarus Swiss Village – This town is known as “America’s Little Switzerland.” It was founded in 1845 by immigrants from Glarus, Switzerland, and is a popular tourist destination best known for its Swiss heritage, old world architecture, fine dining, outdoor festivals, and many forms of recreation.

Mid Continent Railway Museum - is an outdoor living history museum and operating railroad recreating, preserving, and interpreting the small town/shortline way of life from the "Golden Age of Railroading" spanning the years 1880 to 1916.

Wollersheim Winery – is a historic winery known for its distinctive wines. It is open year-round for guided tours and tastings.

The following are cultural attractions in Madison.

Chazen Museum of Art – is the resident art museum of the University of Wisconsin. This art museum's impressive collection includes, prints, photographs, paintings and sculptures from prehistoric times to modern day. Special exhibitions showcasing local artists take place throughout the year.

Madison’s Museum of Contemporary Art – Cesar Pelli designed the Overture Center for the Arts, completed in 2006, of which 51,000 sq feet is dedicated to this 106 year-old museum. It also features an outdoor rooftop sculpture garden.

Overture Center for the Arts – The 2,251-seat hall presents internationally acclaimed jazz, classical, opera, musicals, dance, world music, family entertainment and more.

Madison Children’s Museum - Children of all ages can dig for dinosaur bones, freeze their shadow on a phosphorescent wall and brush, groom and milk cows as they learn about the Wisconsin dairy industry.

Wisconsin Historical Museum – brings Wisconsin's history to life through exhibits on the material culture of the state and the Upper Midwest, from prehistoric times to the present day.

Wisconsin State Capitol – Rising between the picturesque waters of Lake Monona and Lake Mendota, the majestic dome of Wisconsin's Capitol building glows like a beacon above the Madison skyline and can be seen for miles around. The current Capitol was built between 1906 and 1917 at a cost of \$7.25 million, and climbs to a height of over 200 feet while sitting on a hill on an isthmus between the two lakes. The majestic Roman Renaissance-style State Capitol has the only granite dome in

the U.S. and inside has over 40 different types of stone from around the world as well as murals and handmade furniture.

Wisconsin Veterans Museum – is a museum honoring all Wisconsin veterans with dioramas on all wars from the Civil War to the present.

Additional Tourism Data

In 2004 Sports Illustrated on Campus named Madison the number one college sports town in the nation. The top attraction in Madison is seven annual University of Wisconsin home football games, accounting for 560,000 visitors in total attendance. Basketball home dates (18 annually) are filled to the rafters in the Kohl Center totaling another 309,600 visits. Another 20 dates for college hockey games (including the Badger Hockey Showdown just after Christmas) add 304,740 fans. Those events are responsible for approximately 1,174,000 attendees, and by far the largest driver of visits to Madison. Special football weekends such as Homecoming and Hall of Fame Day/Alumni Band days bring many more thousands of alumni and parents who do not attend the football game, but stay at area hotels during the weekend's activities.

Another major contributor to local tourism are the Wisconsin state high school athletic tournaments and championships in wrestling, hockey, and basketball. These events account for 238,700 annual room nights.

The most significant non-university related generator of traffic to Madison is state government activity, and business associated with the capital. Madison's burgeoning technology, bio-research, and consumer service oriented base have become a major regional force as the city's employment base has become less dominated by government.

Madison is also proud to be a leader in outdoor recreational sports. Parks and hundreds of miles of trails weave around five lakes that provide water sports and recreation. Although this is not necessarily a reason for a visitor to make the journey to Madison, it can be a reason for a visitor, to stay an additional night or possibly more. It also encourages visitors to become residents, which is how tourism becomes the ultimate economic development tool.

Contributing to the tourism appeal of Madison are a number of independent destinations for tourists outside the urbanized area, but are within a one-hour drive, mostly to the west of the city. Wisconsin Dells/Lake Delton area to the north is the Midwest's single most popular family destination, however, few hotel room nights result from Madison's proximity, and cannot be considered a significant factor for Madison's room occupancy.

However, Madison lies at the edge of a region called the Driftless Area, a landscape of hills, serpentine valleys, ridges, and coulees with exposed rock formations and other geographic curiosities. This made the region too rugged for farming or large

cities, but later in the 20th century became a popular weekend tourist destination with the residents in nearby cities such as Chicago, Milwaukee, Rockford, and Madison.

The Driftless Area is the result of four major ice-age glaciers all missing this area (thus not scraping the land flat upon the glacier's retreat and leaving "drift" in its wake). Adding to its already-varied topography, huge amounts of glacial melt water flooded the land, carving out some deep valleys and leaving exposed rocky cliffs.

Madison hotels are in a position to take some advantage of the easy access to these nearby Driftless Area tourist destinations, the most popular of which are House on the Rock and just a few miles away, Taliesin, Frank Lloyd Wright's Wisconsin home. New Glarus Swiss village, Cave of the Mounds, Tyrol Basin Ski Area, and six popular state parks including Devil's Lake are other popular destinations nearby to Madison, and are part of the local flavor that make Madison a moderate regional tourist destination.

As a progressive arts-focused university town and government center, there is no lack for street fairs, festivals, farmers markets, and other events. Some annual events include Art Fair on the Square, Taste of Madison, Crazy Legs Run, the World's Largest Brat Fest, the Wisconsin Film Festival, Africafest, Capital City Jazz Fest, Dane County Fair, Sugar Maple Traditional Music Festival, Great Taste of the Midwest craft beer festival, Willy Street Fair, and Winter Art Fair. The number of public festivals and events rivals most other cities many times its size, making Madison one of the liveliest cities of its size in the nation, and that aspect of city life continues to grow as the metropolitan area grows.

The following is a more in-depth discussion of some critical demand generators for hotels in the region.

Downtown Madison

Downtown Madison has experienced significant growth due to the strong and stable influence of government and college life. State Street is a 3/4 mile-long connector pedestrian street with hundreds of bars, shops, restaurants, and arts venues very popular with students and visitors to downtown Madison. The Capital Square features the Dane County Farmers' Market each week in summer on the green.

The opening of Monona Terrace in 1997, and ancillary development in the surrounding blocks added a more recent growth district in the adjacent blocks, along with the nearby revitalized King Street restaurant and bar area next to popular residential areas lining Lake Monona immediately east of downtown. The King Street area has more of an upper-scale feel as the restaurants cater to professional residents, rather than State Street's college student budgets.

North of the capitol building, new construction of condominium towers have reshaped the neighborhood. Transforming the city's arts scene on the west side of the Capitol

Square is the \$205 million Overture Center built in 2004, with many performance halls and a contemporary art museum, as previously discussed. It features the historic and renovated Oscar Mayer Theater, re-christened The Capitol Theater, seating 1,000. The largest performing hall is the completely new 2,251-seat Overture Hall. These are only the highlights in recent development in a downtown that has made great inroads in coming out from the shadow of the University's own magnetism to the region's population and culture. Downtown Madison has emerged as a desirable place to live with an uncharacteristically urban lifestyle for a city of its size.

Primary Area Visitor Demand Generators

Demand generators are those community assets (whether ongoing or event-based) that generate hotel room nights for the community. Below is a discussion of some of the primary demand generators. In addition to those discussed below, the State Capitol and related legal and support businesses are a major demand generator, as is the university.

Camp Randall Stadium

This 80,321-seat oval horseshoe-shaped, double-decked stadium is the home of Wisconsin Badgers football program, and is the oldest (1917) and fourth largest football stadium in the Big Ten conference. Madison's nickname "Mad-town" or "Mad City" generally has been earned by the fans of the college football team, although hockey and basketball fans have a reputation to be just as vocal and behaviorally expressive. The stadium grew in phases, most recently adding three levels of suites to the east side of the stadium above the top row of seats. The sold-out home games each welcome as many as 83,000 fans (despite the official capacity of 80,321), totaling between 560,000 and 581,000 annually. This facility is the largest in capacity after Notre Dame and the University of Nebraska (both can seat only a few hundred more fans). Even Green Bay's legendary Lambeau Field has a smaller capacity than Camp Randall Stadium. Despite its size, or possibly because of it, Camp Randall is rarely used for any other purpose than Badger football, except the WIAA Annual State High School Football Championship. During football weekends, hotel rooms are booked well in advance.

Kohl Center

The Kohl center, opened in 1998, is a three-tiered, modern arena, named in honor of Senator Herb Kohl, department and grocery store owner, who donated \$25 million to its creation. It is the home of the UW-Madison men's and women's basketball teams and the mens' and womens' ice hockey teams. It seats 17,190 for basketball and 15,237 for hockey. Other amenities include restaurants and athletic offices for coaches. The facility replaced the Wisconsin Fieldhouse for basketball and hockey, however other sports are still played there. The student section, called the Grateful Red at basketball games, help make the building a tough place for opponents to win,

and UW has a nearly unbeatable record at home, of 125 wins, and 11 losses. Kohl Center is home to the highest average attendance in the U.S. for NCAA Hockey games. Other events include WIAA High School Annual State Wrestling and Basketball Championships, figure skating shows, concerts, political gatherings, and convention exhibitions. An expansion of a practice rink for hockey is currently being discussed, but years away from fruition.

Monona Terrace Community and Convention Center

The most famous architect of the last century, Frank Lloyd Wright, designed Monona Terrace for Madison, first revealing it in 1938. Its construction was denied by only one vote. Although he tweaked its design over the years, by the time of his death in 1959, it was no closer to being built. Finally in 1992, Mayor Paul Soglin revived the plan and it was narrowly approved. It opened in 1997 and has been a catalyst for development on the south side of Capital Square and downtown Madison since that time. Monona Terrace has been featured in numerous magazines, won national acclaim from both architectural critics and the public, and is a tourist stop for fans of architecture.

Alliant Energy Center

This Dane County-owned convention and entertainment complex features a 255,000-square-foot exhibition hall (the state's largest unobstructed exposition facility in the state, built in 1995), hosting conventions and consumer shows, the 22,000 square-foot Dane County Arena, and Veterans Memorial Coliseum that holds up to 10,200 people for live concerts and other events. In addition, there are nine agricultural exhibit buildings, mostly used during the Dane County Fair and World Dairy Expo. Over 500 events draw more than one million people annually. Exhibition Hall is connected by a climate-controlled walkway to the 140-room Clarion Suites Madison-Central.

Warner Park "Duck Pond"

Warner Park is a city-owned baseball facility seating 7,500. It was constructed in 1982, and has been home to four minor-league teams playing in different leagues. The current tenant is the Northern League's "Madison Mallards" baseball organization. This park resides in a mostly residential part of Madison on the city's northeast side, and is locally famous for an enormous annual fireworks show.

Market Area Conclusion

The Madison market has seen investment, expansion and redevelopment in a broad cross-section of areas from arts centers, sports and convention facilities, restaurants, stores, attractions, and employers. Madison has evolved, especially over the last fifteen years, into a cohesive destination with its own brand of progressive lifestyle

amenities. In this current economic climate, there are few major new destinations and developments planned, however the economic reality for Madison as a university and government center usually means much more stable growth despite the broader Midwestern economic slowdown. The area is still poised to be a growing presence in the world of regional tourism.

The quality-of-life attractiveness spills over positively to downtown Madison in terms of local residential opportunities, jobs, and hotel stays. Madison's regional and national profile has been raised to new levels as the local breadth of employment opportunity has grown and strengthened, and as national media attention lavishes praise on a nearly annual basis. That can only help continued urban growth prospects and revitalization efforts in older neighborhoods, downtown, as well as in suburban and metropolitan areas. The opportunities for support facilities and other attractions also are increased by these developments. The destination appeal of the metro area and local area residential and business growth presents the support structure for the consideration of a proposed convention hotel development.

CHAPTER 3

CONVENTION AND MEETINGS INDUSTRY TRENDS

In order to provide an understanding of market growth and the factors that are shaping the future of the meeting and event industries, this section provides a current overview of trends and developments that are impacting meeting and convention facilities, especially as it relates to the need for well-located convention hotels.

Conventions, exhibitions, and trade shows are conducted for the purposes of exchanging information, conducting business transactions, and for educational, cultural, and social enrichment. The increasing need to carry out these purposes is driving the growth of the meetings industry. As developments occur in the larger economy, simultaneous developments occur in the meetings market, such as the growth of the tech sector generating growth in tech related meetings and events.

Often, a single event will use many different types of spaces, including exhibit halls, banquet facilities, and breakout meeting rooms. Well-designed multi-purpose facilities offer the proportions of different types of spaces that are appropriate for their market. In addition, they offer the flexibility to host multiple events at one time.

The table below summarizes the key attributes of various types of meetings, including facility requirements.

Table 3-1

Facility Types & Requirements for Various Event Types										
Event Type	Conventions with Exhibits	Conventions	Tradeshows	Consumer Shows	Assemblies	Sports Events	Conferences	Meetings	Trainings	Banquets
Attendance Range	150 - 50,000	150 - 15,000	250 - 50,000	8,000 - 1,000,000	5,000 - 50,000	500 - 100,000	50 - 2,000	10 - 300	10 - 300	50 - 2,000
Primary Purpose	Info Exchange & Sales	Info Exchange	Sales	Advertising & Sales	Info Exchange	Sports	Info Exchange	Info Exchange	Training	Social, Business & Charity
Facility Requirements	Exhibit Halls, Ballroom, Meeting Rooms, Hotel Block	Ballroom, Meeting Rooms, Hotel Block	Exhibit Halls, Hotel Block	Exhibit Halls	Arena or Exhibit Halls, Hotel Block	Arena, Stadium or Exhibit Halls, Hotel Block	Ballroom, Meeting Rooms, Hotel Block	Meeting Rooms, Hotel Block	Meeting Rooms, Hotel Block	Ballroom
Typical Facility Used	Convention Center & Large Hotels	Convention Center & Large Hotels	Expo Facilities & Convention Centers	Expo Facilities & Convention Centers	Arenas or Convention Centers	Arena, Stadiums, Convention Centers	Convention/Conference Centers and Hotels	Convention/Conference Centers and Hotels	Convention/Conference Centers and Hotels	Convention/Conference Centers and Hotels

Source: HSP

The various types of convention and conference center events are described below:

Conventions and Trade Shows – Associations, professional groups, and other membership organizations hold conventions and trade shows, with attendance ranging from 150 to 50,000 attendees. The larger of these meetings take place in convention centers with large exhibit halls, but as a Center for Exhibition Industry Research (CEIR) survey indicates, the majority of events require less than 50,000 square feet. Conventions and trade shows may feature a single meeting, but they usually offer a number of concurrent meetings and exhibitions. Facility needs include assembly space for general sessions and displays, banquet facilities, and numerous breakout-meeting rooms. Two-thirds of conventions and trade shows use exhibit space as a means to communicate ideas and to display products.

Conventions are high-impact events economically because a large percentage of attendees originate from outside the local area, typically stay several nights in the host city, and spend money on accommodations, food, transportation, retail goods, and entertainment. Spouses, family, or companions typically accompany a significant number of attendees.

Like conventions, trade shows offer a forum for exchanging industry ideas. They vary slightly from conventions in that they are more product- and sales-oriented. Trade shows are exhibit-intensive, and exhibitors prefer column-free, open-space facilities in which they construct temporary custom booths for product display. Trade shows

typically attract a large number of attendees, who originate from outside the host city but tend to have a shorter average stay than convention attendees.

Consumer Shows - Consumer shows are public, ticketed events featuring exhibitions of merchandise for sale or display. Consumer shows provide a means of product distribution and advertising. Some, such as auto and boat shows, have a recreational and entertainment function as well. Consumer shows range in size from small local and specialized shows with a few hundred attendees to large shows with thousands of attendees. The larger consumer shows may occur in convention centers, shopping malls, fairgrounds, and other public-assembly facilities with large exhibition areas. The majority of attendees are local, but exhibitors often come from out of town. Site selection considerations for consumer shows include the size and income of the local population, availability of facilities, and the number of competitive shows in the market.

Assemblies - Assembly events are social, military, educational, religious, and fraternal (SMERF) events. They attract larger numbers of people and require arena or stadium seating. Similar to conventions, attendees originate from outside the host city, but, unlike conventions, these events do not usually require large amounts of exhibit and meeting room space.

Sports - Sporting events are any youth, amateur, professional, or senior event of any variety of sports that can be played indoors. Typically, such events are held in arenas or stadiums, however, many events, from boxing to wrestling, to basketball, can be held in exhibit facilities with temporary seating/stands. As such, convention centers can be marketed for a variety of event types.

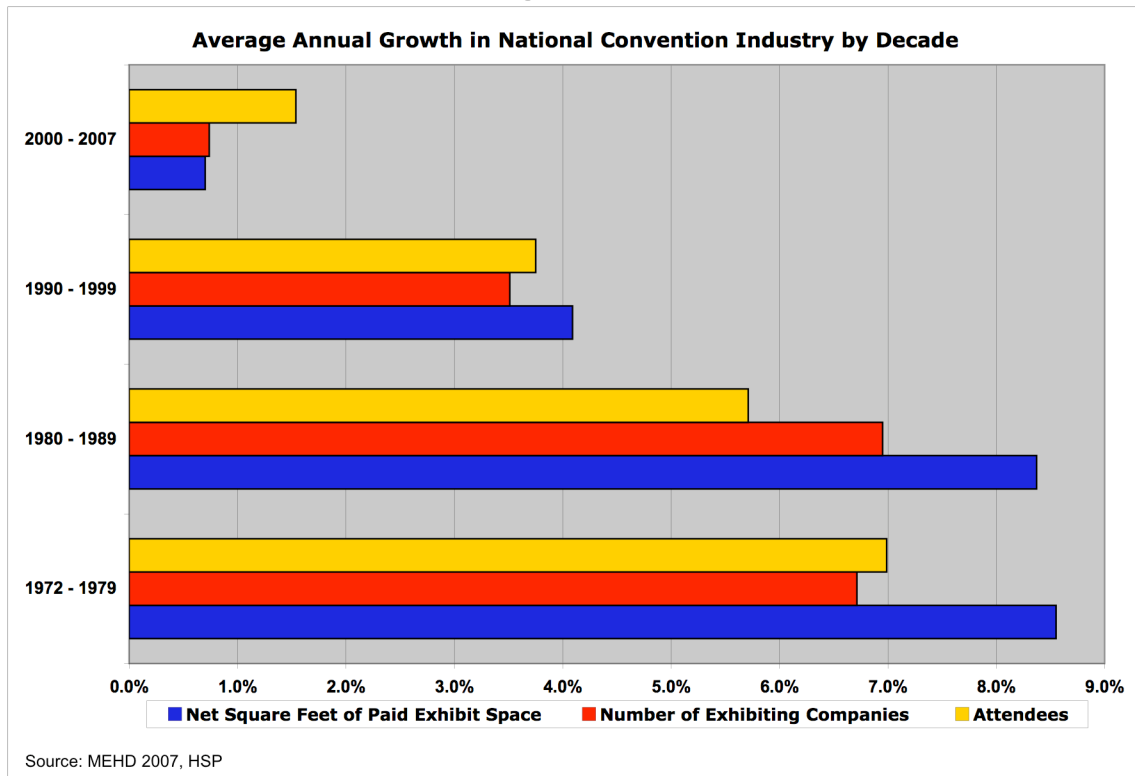
Conferences - Conferences are meetings typically held by associations, professional groups, and other membership organizations. Educational institutions also host conferences. These events do not usually require exhibit space, but otherwise their facility demands are similar to those of conventions—such as meeting space for general sessions, food service facilities, and breakout rooms. Hotels and conference centers typically serve as venues for conferences.

Corporate, Training and Other Meetings - Corporate meetings include training seminars, professional and technical conferences, incentive trips, and management meetings. Corporate meeting planners and attendees demand high-quality facilities. The existing facilities can accommodate most of these types of meetings; however, there are catering challenges for some users. With a higher-quality and expanded program of spaces, higher-rated and larger corporate meetings can be accommodated.

Banquets - Banquets are typically locally-generated events, from social and wedding events to the annual Chamber of Commerce event, which can be the largest of its kind in a given city. A mainstay of hotels and convention centers, banquets provide significant catering income and provide the community with its largest dining room, in most cases.

Figure 3-1 shows the growth in net square feet used, exhibiting companies, and attendees by decade, from 1972 through 2007.

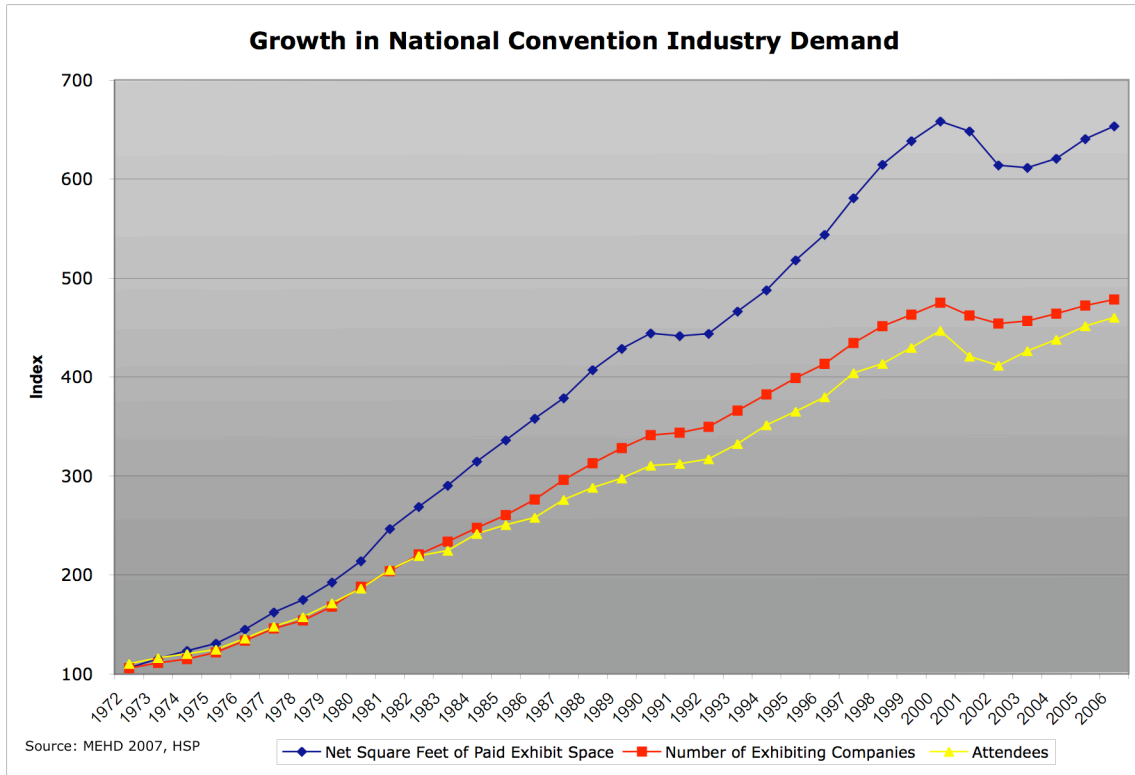
Figure 3-1



As shown, long-term demand trends show a greater need for space; although this growth has slowed over the years. This slowing growth has been a trend since the 1970s as companies continue to merge (limiting growth in the number of companies in any given industry) and there is continuing pressure on doing more with fewer employees. Where an entire sales force might have been dispatched to several conventions in decades past, now it is expected that a handful of people will represent a company at a convention or tradeshow. Yet these trends have not stopped growth in attendance, which is discussed later in this section.

As Figure 3-2 shows, while the impact on demand was real, there appears to be a return to growth, with a noticeable rebound in attendee traffic.

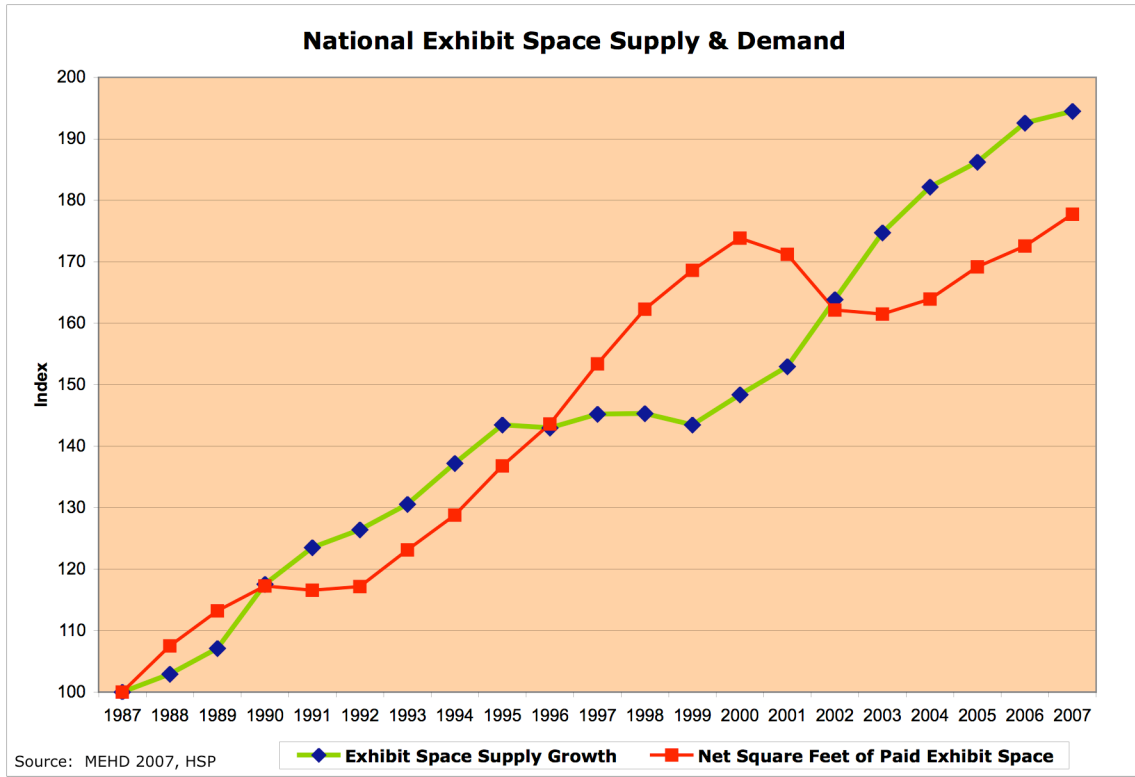
Figure 3-2



As the figure shows, annual average demand increased at significant levels through the 1970s and 1980s. The first Gulf War and short recession tempered growth at the beginning of the 1990s, but the decade still showed strong average annual growth of nearly four percent in every category. With the triple-hit of the dot-com bust, economic recession in the U.S. and abroad, and the travel depression following September 11, the industry showed its first serious negative change in demand in the early part of this decade, however it has been growing since 2003.

Figure 3-3 shows the comparison of supply and demand growth beginning in 1987.

Figure 3-3



The figure shows a very compelling and rational picture of supply growth in response to demand growth. From 1987 to 1989, demand outpaced supply. By the time supply caught up, a recession was on and it took until 1996 for demand growth to catch up to supply. What is stunning is the rate of growth in demand from 1993 through 2000, with an average increase of 5.1 percent. Supply stagnated during much of this period. By the mid-1990s, cities were not capturing the economic impact potential due to lack of quality supply versus demand. New facilities and expansions began opening with force in 2000 – just as a recession was about to begin. With the time horizon for developing facilities being many years, the increase in supply continued unabated through 2007, as long-held plans were finally brought to fruition. Demand declined for three years, but has since shown the same growth trajectory as supply from 2004 through 2007.

Demand for meeting and exhibition space allowed many communities in the U.S. to develop successful convention and trade show facilities during the 1970s and 1980s. Public sector involvement in these developments was motivated primarily by the desire to capture the economic benefits of the events they hosted in their communities.

The following table shows the expected increases in supply of exhibit space over the next several years.

Table 3-2

National Projected Added Exhibit Space (Square Feet)					
Fiscal Year	Expansions	New Facilities	Total	Increase from Base	Base
2008-2009	1,440,914	395,676	1,836,590	2.1%	90,132,141
2009-2010	1,125,500	153,000	1,278,500	1.4%	91,410,641
2010+	1,164,182	1,116,000	2,280,182	2.5%	93,690,823

Source: MEHD 2007

Over the next two years, the amount of exhibit space is projected to increase by three million square feet, mostly from expansions. The annual increases in each year are projected to represent between 1.4 and 2.5 percent of supply.

The table below shows the distribution of convention centers (by exhibit space) by size.

Table 3-3

Distribution of National Facilities by Size	
Total Square Feet of Exhibit Space	Percent of Facilities
25,000 - 49,999	16%
50,000 - 99,999	29%
100,000 - 499,999	47%
500,000+	8%

Source: MEHD 2007

Nearly half of convention centers have from 100,000 to 499,999 square feet of exhibit space. Only eight percent of centers have more than 500,000 square feet of exhibit space, while 45 percent have less than 100,000 square feet of exhibit space. Monona Terrace falls into this category.

Table 3-4 summarizes the ownership and management structure of U.S.-based exhibit halls.

Table 3-4

Ownership and Management of U.S. Exhibit Halls		
Type of Entity	Ownership	Management
Private	38%	63%
City	31%	17%
County	11%	4%
State	9%	6%
Combination Government	5%	1%
Government Authority	3%	5%
Other	3%	4%
Source: MEHD 2007		

As the table shows, over one-third of U.S. exhibition halls are privately owned, but more than 60 percent are operated by a private-management company. Public ownership of exhibit hall facilities often occurs because the facilities usually do not generate profits to an owner. The public sector will take ownership as a service in order to capture the related economic benefits within the jurisdiction. These benefits can range from revenue generated from hospitality taxes to increased sales activity in the local business community. Private management is common because, unlike governments, these companies have professional expertise in managing and operating facilities, and often have longstanding relationships with vendors, suppliers, and other industry organizations. In addition, a private-management company's experience and efficiency can help insulate a facility's operations from political issues and can help to reduce annual deficits as much as possible.

Occupancy. Convention center occupancy is maximized when the proper balance of destination elements occurs in terms of facility size, hotel package, retail and restaurant availability, and other factors. Exhibit hall occupancy can be difficult to measure as it is impossible to have 100 percent occupancy due to days required for set-up and tear-down. In the industry, a maximum occupancy rate for an exhibit hall would be approximately 70 percent; however, 50 percent to 60 percent occupancy is considered to be practical maximum occupancy. Rates below 50 percent would indicate the potential for increased marketing of the facility, with occupancy of over 60 percent possibly indicating an increased amount of lost business due to insufficient available dates.

The table below presents the occupancy rates by exhibit hall size for respondents according to the PwC survey.

Table 3-5

National Exhibit Hall and Ballroom Occupancy Rates				
Size	Conventions / Trade Shows	Consumer Shows	Total Ex. Hall Occupancy	Ballroom
Less than 100,000 square feet	19.8%	16.7%	36.3%	39.2%
100,000 to 500,000 square feet	30.7%	14.5%	44.1%	46.2%
More than 500,000 square feet	49.0%	8.1%	57.2%	63.6%

Source: PricewaterhouseCoopers 2007

Based on the PwC benchmarks, large size convention center respondents are within the range determined to be close to maximum occupancy. Small to mid-sized convention centers fared better in terms of occupancy rates for consumer shows, showing approximately 14 to 17 percent versus eight percent for large convention centers. More economic impact occurs with non-consumer shows, but consumer shows pay more rent and gate fees to the facility. Interestingly, ballroom occupancy rates for small and mid-sized convention centers were noticeably higher, approximately two to seven percent than that of their exhibit halls. Ballroom occupancy for large convention centers has the greatest difference over exhibit hall occupancy, with 64 percent versus 57 percent.

The following table presents total attendance for convention/trade shows and consumer shows.

Table 3-6

National Exhibit Hall Attendance			
Size	Conventions / Trade Shows	Consumer Shows	Total
Less than 100,000 square feet	57,200	72,200	129,400
100,000 to 500,000 square feet	203,500	192,300	395,800
More than 500,000 square feet	603,200	347,600	950,800

Source: PricewaterhouseCoopers 2007

As shown by the table, small convention centers generate a higher portion of their total attendance from consumer shows versus convention and trade shows. Conversely, the majority of attendance for large convention centers is generated from conventions and trade shows. Monona Terrace has averaged a total of 215,000 attendees over the past four years, which includes all event types, not just trade, convention and consumer shows.

The table below displays the number of convention/trade show and consumer show events hosted by survey respondents.

Table 3-7

Surveyed National Exhibit Halls - Number of Events			
Size	Conventions / Trade Shows	Consumer Shows	Total
Less than 100,000 square feet	29	20	49
100,000 to 500,000 square feet	48	24	72
More than 500,000 square feet	55	26	81

Source: PricewaterhouseCoopers 2007

All three convention center size respondents receive the majority of their demand from conventions and trade shows. Large convention centers have a higher percentage of convention and trade shows as a percent of their total exhibit hall business at approximately 68 percent and approximately 67 percent for mid-size and 59 percent for small convention centers. When compared with Table 3-6, small and mid-size convention centers draw larger crowds for consumer shows even with a fewer number of events than conventions and trade shows.

Monona Terrace has averaged 67 conventions and conferences in the last four years and 11 consumer shows. The number of consumer shows is lower than the national average for small convention centers.

This relationship is further shown in the table below.

Table 3-8

U.S. Exhibit Hall Events - Average Attendance		
Size	Conventions / Trade Shows	Consumer Shows
Less than 100,000 square feet	2,100	4,100
100,000 to 500,000 square feet	3,600	8,700
More than 500,000 square feet	10,000	16,400

Source: PricewaterhouseCoopers 2007

As illustrated previously, small and mid-size convention centers host more convention and trade show events, but receive more total attendees from consumer shows, as is more clearly evidenced by average attendance for type of event as displayed in the table. Both small and mid-size convention centers have nearly double the average attendance for consumer show events than convention and trade show events in small to mid-sized facilities. Although large convention centers have both a greater number of attendees and number of events of the convention and tradeshow type, the average attendance for consumer type show events is also higher than small to mid-size convention centers. Average attendance for large convention centers for consumer shows was approximately 16,000, compared to approximately 10,000 for conventions and trade shows.

In addition to convention, trade show, and consumer show events within their exhibit halls, convention centers also host a variety of other events at ballrooms and meeting rooms located on site.

The table below shows the average event count and attendance for survey respondents by facility size.

Table 3-9

U.S. Convention Centers - All Event Characteristics		
Size	Average Event Count	Average Total Attendance
Less than 100,000 square feet	344	262,200
100,000 to 500,000 square feet	370	523,000
More than 500,000 square feet	219	1,099,900

Source: PricewaterhouseCoopers 2007

Unsurprisingly, convention centers with large square footage capacities tend to host events with a higher number of attendees, even though fewer overall events are hosted. As noted elsewhere, Monona Terrace averaged 215,000 attendees during the past four years, lower than the average for small facilities. The number of events averaged 680 over the period, essentially double the average. *What this shows is that the average event size (by attendance) is less than half the size of the national average for smaller facilities (316 at Monona Terrace versus 762 nationally), and further implies that the facility is able to hold larger groups than it can reasonably capture in the market. This implication suggests a capacity problem outside the building, most likely the hotel room block capability.*

The table below shows the average number of room nights generated annually by respondents to the convention center survey.

Table 3-10

U.S. Convention Centers - Hotel Room Nights	
Size	Average Number of Room Nights
Less than 100,000 square feet	34,300
100,000 to 500,000 square feet	164,300
More than 500,000 square feet	1,122,400

Source: PricewaterhouseCoopers 2007

Again, larger convention centers host shows which not only attract higher attended events but also events with a higher portion of attendees from outside areas

requiring overnight accommodations. In Madison, despite the lower attendance level than average, the CVB has measured nearly 47,000 annual average room nights generated by Monona Terrace.

Size of Events

The majority of convention and trade show events are held in facilities with moderate space capacity. While there are a number of events that require more than 100,000 net square feet of exhibit space, a majority of events are held in facilities with 10,000 to 49,999 net square feet of space. Gross square footage is considered to be the total amount of space within a room or facility, as measured from wall to wall, while the net square footage measures the amount of space that is actually used by exhibits, booths, and other items, not including aisles and other areas. Net square footage is generally 50 percent of gross square footage.

The table below shows the distribution of event size for events of 3,000 net square feet or more and ten or more exhibitors. The table also shows the cumulative share of the events market that is included within each segment and all smaller segments. By definition, this does not consider the entire events market, as meetings without exhibitions, for example, are not included in this sample. However, events that require 100,000 net square feet of space (or 200,000 gross square feet) comprise only seven percent of these events, while 60 percent of events require 25,000 net (50,000 gross) square feet or less.

Table 3-11

Size of Exhibitions (gross exhibit space)		
	Percent of Total	Cumulative Total
6,000 - 14,999 SF	19%	19%
15,000 - 24,999 SF	13%	32%
25,000 - 34,999 SF	15%	47%
35,000 - 49,999 SF	13%	60%
50,000 - 100,000 SF	19%	79%
100,000 - 200,000 SF	14%	93%
200,000+ SF	7%	100%

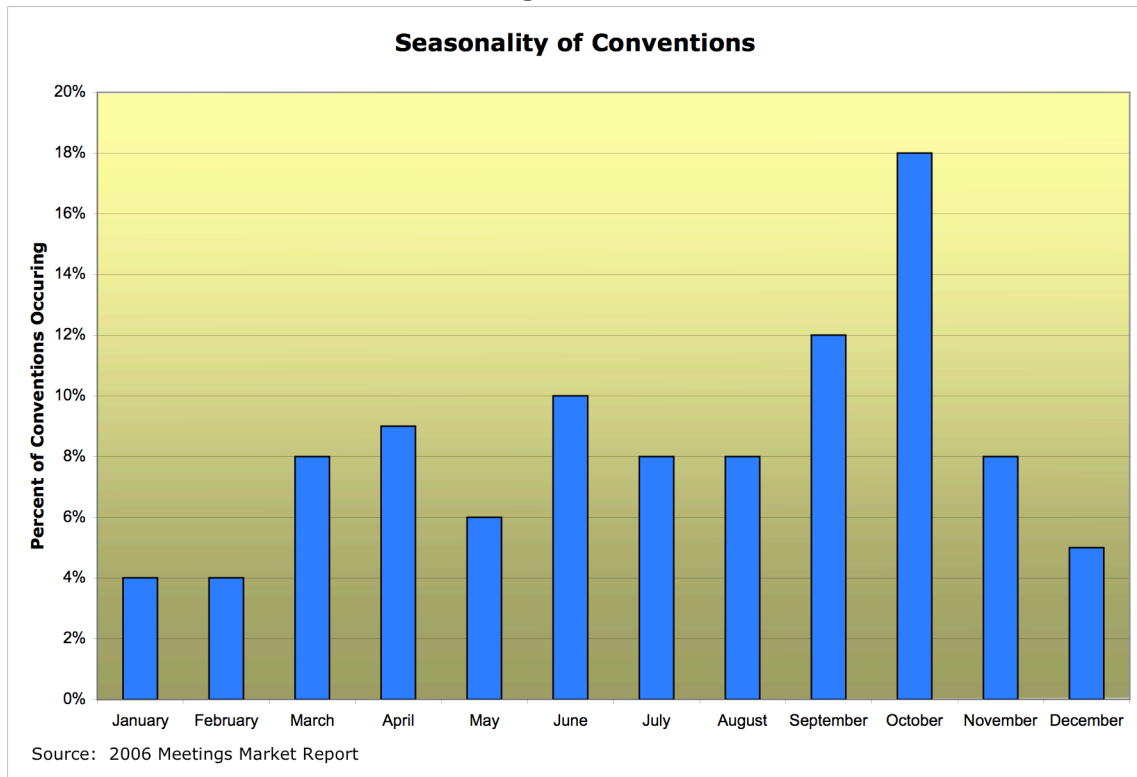
Source: Center for Exhibition Industry Research, HSP

Meetings Industry Data

Convention and Meetings Magazine issued a 2006 Meetings Market Report that provided data on the meetings and conventions industry, as well as the opinions of meeting planners.

Figure 3-4 shows the seasonality of the convention calendar across the U.S.

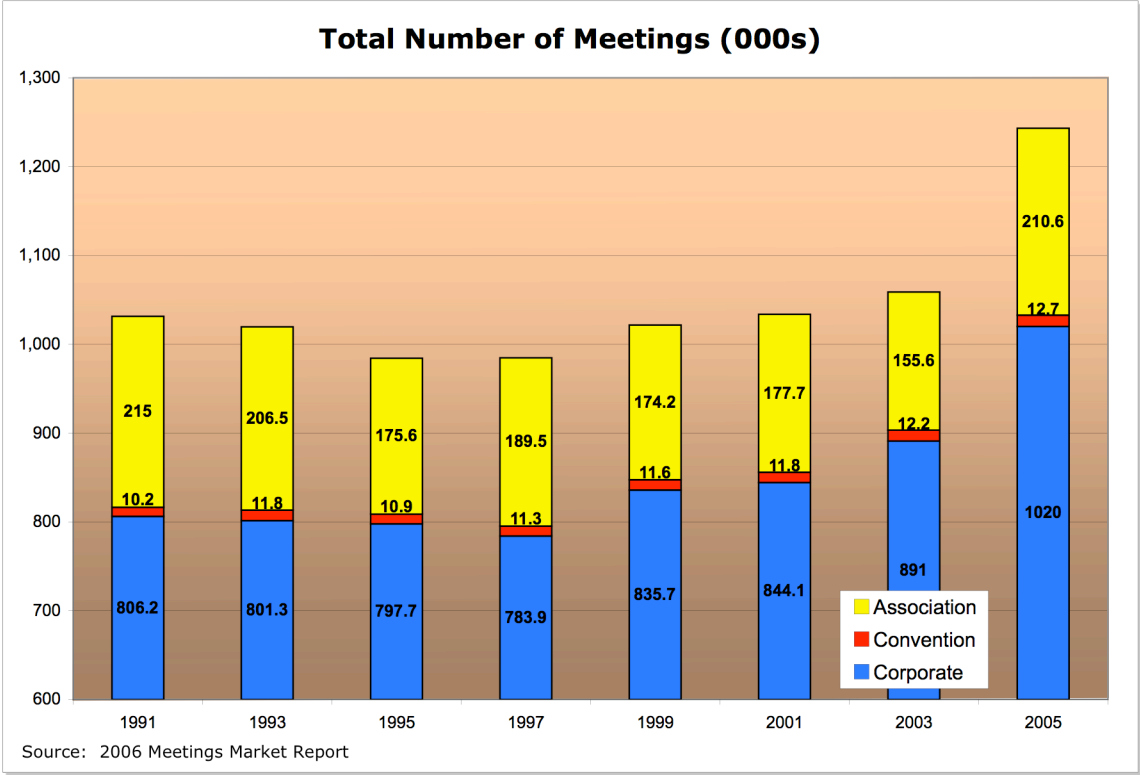
Figure 3-4



The heaviest month for conventions in the U.S. is October, with September, June and April also sharing a large percentage of convention demand.

Figure 3-5 shows the total number of meetings over the 1993 through 2005 period, by category.

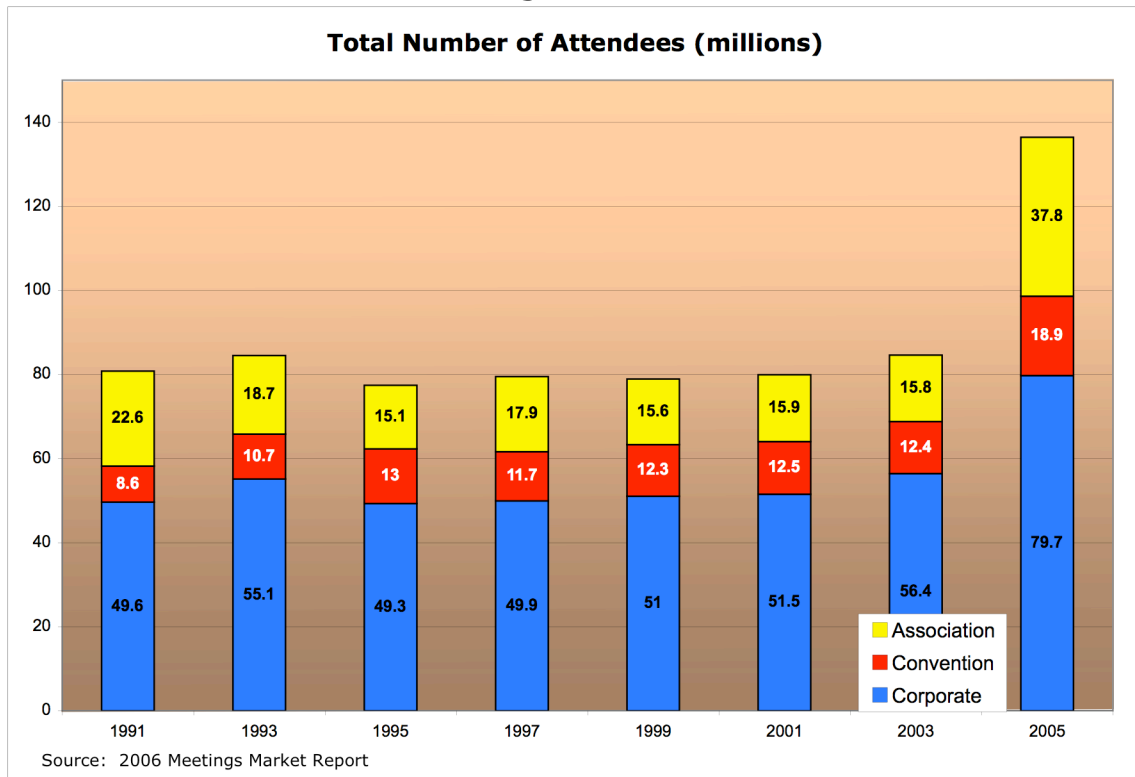
Figure 3-5



The majority of meetings were corporate meetings, followed by association meetings. Conventions represented a small portion of total meetings. The trends for meeting activity are exceptional, with a significant increase from 2003 to 2005.

The figure below shows the total number of attendees per category of meeting.

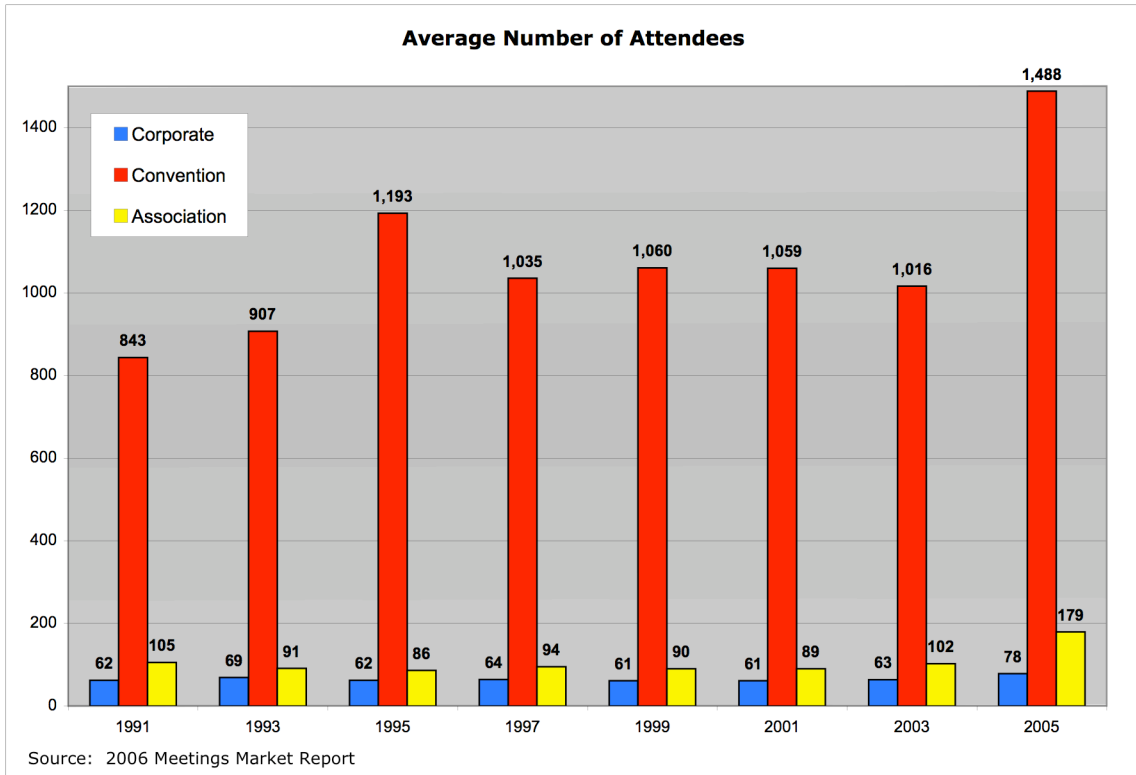
Figure 3-6



Corporate meetings had the most attendees by far, followed by association attendance and convention attendance. Total attendance was approximately 80 million for all categories throughout the period, except for 2005, when attendance spiked to nearly 137 million.

The figure below shows the average number of attendees at each type of meeting.

Figure 3-7



The average number of attendees is highest at conventions, with an average of 1,500. Association meetings are the next largest in terms of average attendance with approximately 179 attendees per meeting. Corporate meetings are about one-third smaller at 78 attendees per event. Both association and corporate meetings are the day-to-day business on which many hotels and some convention centers heavily rely.

The following table shows the estimated breakdown of association and corporate meetings by type.

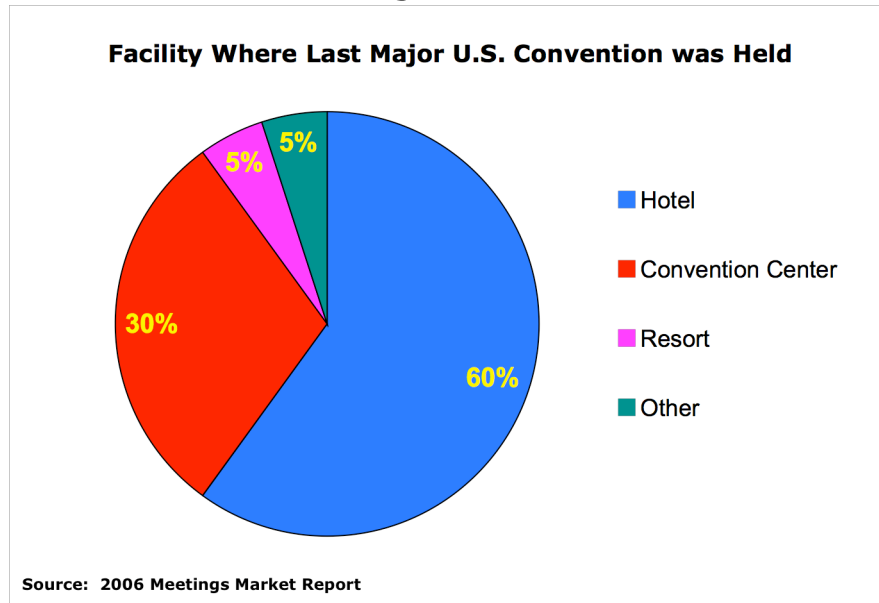
Table 3-12

Estimated Meetings Market Breakdown			
Type	Number	Events % of Total	Avg. Attendance
Corporate Meetings			
Training and Education Seminars	418,300	41%	93
Sales and Marketing Meetings	224,500	22%	96
Management Meetings	142,800	14%	44
Professional & Technical Meetings	91,800	9%	97
New Product Introductions	40,800	4%	97
Group Incentive Meetings	40,800	4%	113
Stockholder Meetings	10,200	1%	93
Other Meetings	51,000	5%	210
Total	1,020,200	100%	105
Association Meetings			
Training and Education Seminars	54,300	26%	122
Board Meetings	62,800	30%	30
Professional & Technical Meetings	35,800	17%	465
Regional/Local Chapter Meetings	26,500	13%	374
Other Off-Premises Meetings	31,200	15%	935
Total	210,600	100%	493
Source: 2006 Meetings Market Report			

Of the over 1 million corporate meetings, 41 percent were training and education seminars, 22 percent were sales and marketing meetings, and 14 percent were management meetings. Association events were comprised of training and education seminars (26 percent), with an average of 122 attendees, followed by board meetings, with an average of 30 attendees. Overall, the 2006 Meetings Market Report shows over 1.2 million corporate and association meetings.

The figure below shows the facility type that an association uses for annual meetings and/or conventions.

Figure 3-8



While convention centers hold 30 percent of conventions, hotels host approximately twice as many, 60 percent of the total. Resorts and other facilities host a total of 10 percent of annual meetings and/or conventions, again illustrating the relative importance of hotels in the meetings industry.

The following table shows the types of facilities used for all conventions and meetings (respondents could give more than one answer).

Table 3-13

Types of Facilities Used for U.S. Meetings and Conventions	
Downtown Hotels	68%
Suburban Hotels	48%
Resort Hotels (excluding golf resorts)	42%
Airport Hotels	26%
Convention Centers	19%
Golf Resorts	16%
Suites Hotels	16%
Gaming Facilities	9%
Residential Conference Centers	9%
Nonresidential Conference Centers	6%
Cruise Ships	1%

Source: 2006 Meetings Market Report

Suburban hotels and convention centers were used by a combined total of two-thirds of event planners.

The table below shows the important factors when choosing a meeting destination/city.

Table 3-14

Important Factors when Selecting a U.S. Meeting Destination			
	Convention	Association Meeting	Corporate Meeting
Availability of hotels and/or other facilities suitable for meetings	83%	79%	74%
Affordability of Destination	77%	81%	77%
Safety and Security of Destination	46%	na	na
Ease of Transporting Attendees to/from Location	43%	na	62%
Transportation Costs	43%	na	na
Source: 2006 Meetings Market Report			

Between convention, association, and corporate meeting planners, little differentiation in the factors driving decisions exist. The top criterion for convention planners was the availability of hotels and/or other facilities suitable for meetings. It was the second-most important item for both association and corporate planners. Affordability was the most important factor for association and corporate planners and the second most important for convention planners, although based on HSP's experience, convenience is key for state association planners.

Once a destination is selected, planners must then choose a hotel.

The table below shows the important factors for selecting hotels within the destination.

Table 3-15

Important Factors when Selecting a Hotel within a U.S. Meeting Location			
Item	Convention	Association	Corporate
Number, Size and Quality of Meeting Rooms	93%	69%	81%
Negotiable Food, Beverage and Room Rates	87%	80%	79%
Cost of Hotel or Meeting Facility	82%	80%	80%
Number, Size and Quality of Sleeping Rooms	79%	54%	72%
Quality of Food Service	70%	63%	70%

Source: 2006 Meetings Market Report

The most important factor for convention and corporate planners when selecting a hotel is the number, size and quality of meeting rooms. This speaks to the power of full-service properties versus limited-service or rooms-only hotels. This criterion is the third most important for association planners. Corporate planners list number, size and quality of meeting rooms and affordability of the facility as the two most important factors, highlighting the balance between quality and affordability. Cost of the meeting facility is an important criterion for association and convention planners as well. Note that while the number, size and quality of sleeping rooms is very important for convention planners, it is considerably less important for association planners and somewhat less important to corporate planners, showing that convention planners are more concerned with the availability of quality than the affordability of hotels. The ability to negotiate food and beverage and room rates is the third most important factor for corporate planners but does not rank as high percentage wise as meeting room amenities and affordability of facilities.

The following table shows the breakdown of hotel rates paid by groups.

Table 3-16

Average Guest Room Rates Paid for U.S. Meetings	
\$0 to \$70	4%
\$71 to \$90	5%
\$91 to \$100	8%
\$101 to \$120	7%
\$121 to \$140	13%
\$141 to \$150	15%
\$151 or more	48%
Average Daily Room Rate	\$161

Source: 2006 Meetings Market Report

While groups have a reputation for obtaining the lowest room rates, the rates paid by many groups (48 percent) are over \$151. These are usually in resort or popular urban destinations like New York, Chicago, Boston, San Francisco, or Miami.

However, for all meetings, only 24 percent paid less than \$120 per room night. The other 76 percent were willing to pay more than \$120 per night.

Downtown Madison, Wisconsin as Meetings Destination

The city of Madison, as a meetings destination, offers a unique package that attracts major events like the World Dairy Expo, the Ironman Wisconsin and the ESPN Great Outdoor Games, along with many other environmental, engineering, agri-business and medical groups. The fact that Madison is home to the University of Wisconsin and also the state capital of Wisconsin creates a strong demand for meetings in the area.

The table below shows the function space breakdown for all of the venues in and near downtown Madison.

Table 3-17

Downtown Madison - Function Space Summary						
Name	Rooms	Function Space Per Room (SF)	Total Function Space (SF)	Exhibit Space (SF)	Ballroom Space (SF)	Meeting Space (SF)
Alliant Energy Center	0	--	130,200	100,000	0	23,400
Monona Terrace	0	--	84,370	37,200	26,024	14,306
Madison Concourse Hotel	356	93	33,123	0	20,680	12,443
Fluno Center	100	188	18,763	0	0	14,640
Best Western Inn on the Park	213	87	18,510	0	5,208	11,440
Sheraton	237	72	16,967	0	5,300	11,667
Doubletree	163	30	4,857	0	0	4,857
Hilton Monona Terrace	240	15	3,576	0	0	3,576
Total	1,309	--	310,366	137,200	57,212	96,329
<i>Average</i>	<i>164</i>	<i>81</i>	<i>38,796</i>	<i>17,150</i>	<i>7,152</i>	<i>12,041</i>

Source: HSP, STR, Mpoint.com, Respective Hotels

There are two primary public meeting venues near downtown Madison, the Monona Terrace Community and Convention Center (Monona Terrace) on Lake Monona, just blocks from the Wisconsin State Capitol and the Alliant Energy Center, south of downtown. Below is a table that shows a detailed function space breakdown for Monona Terrace.

Table 3-18

Monona Terrace Convention Center Function Space			
	Total (SF)	By Division (SF)	Divisions
Exhibit Space			
Exhibition Hall	37,200		2
Exhibition Hall A		18,600	
Exhibition Hall B		18,600	
Ballroom Facilities			
Madison Ballroom	13,524		4
Madison Ballroom A		3,822	
Madison Ballroom B		3,822	
Madison Ballroom C		2,940	
Madison Ballroom D		2,940	
Meeting Rooms	33,646	33,646	21
	<u>84,370</u>	<u>84,370</u>	<u>27</u>
Adjacent Hotel Rooms	240		
Total Exhibit Space	37,200	Per Guest Room	155
Total Ballroom Space	13,524		56
Total Meeting Space	33,646		140
Other Space	0		0
Total Function Space	84,370		352
Total Exhibit Space Divisions	2	/100 Guest Rms	1
Ballroom Divisions	4		2
Meeting Room Divisions (incl. audit/am)	21		9
Total Divisions (including Ballroom)	27		11

Source: GMCVB, Monona Terrace, mpoint.com, HSP

Below is a similar summary table for the Alliant Energy Center.

Table 3-19

Alliant Energy Center Function Space			
	Total (SF)	By Division (SF)	Divisions
Exhibit Space			
Exhibit Hall	100,000		4
Exhibit Hall A		25,000	
Exhibit Hall B		25,000	
Exhibit Hall C		20,000	
Exhibit Hall D		30,000	
Meeting Rooms	23,400	23,400	21
Other Space	6,800	6,800	n/a
	<u>130,200</u>	<u>130,200</u>	<u>25</u>
Adjacent Hotel Rooms	140		
Total Exhibit Space	100,000	Per Guest Room	714
Total Ballroom Space	0		0
Total Meeting Space	23,400		167
Other Space	6,800		49
Total Function Space	130,200		<u>930</u>
Total Exhibit Space Divisions	4	/100 Guest Rms	3
Ballroom Divisions	0		0
Meeting Room Divisions (incl. audit/am)	21		15
Total Divisions (including Ballroom)	25		<u>18</u>

Source: GMCVB, Monona Terrace, mpoint.com, HSP

Although the Alliant Energy Center contributes room nights to the downtown hotels, this study is more focused on the needs of downtown and Monona Terrace, as well as the need and opportunity for city-wide events.

HSP collected data on the performance of the Monona Terrace Convention Center and the Madison meetings market as a whole to better understand the opportunity that Madison has to capture additional meetings business with a larger hotel package.

Below is a table that shows the event and attendance figures for Monona Terrace since 2004.

Table 3-20

Monona Terrace Event Summary												
Event	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total
Conventions & Conferences	28	59	43	34	54	72	73	70	73	60	66	632
Banquets	260	368	342	322	315	279	307	273	281	291	276	3,314
Meetings	223	415	381	394	345	274	260	220	200	220	210	3,142
Consumer Shows	8	13	13	12	6	12	17	12	11	10	11	125
Free Non-Profit Meetings	-	73	45	45	33	43	31	18	21	21	22	352
Free Community Programming Events	14	89	65	86	75	61	57	50	55	61	70	683
Entertainment Events	23	34	36	34	32	28	36	26	30	30	33	342
Total Events	556	1,051	925	927	860	769	781	669	671	693	688	8,590
<i>% Change Over Previous Year</i>	--	89%	-12%	0%	-7%	-11%	2%	-14%	0%	3%	-1%	--
Total Attendees	150,000	182,615	171,948	205,310	228,240	249,778	258,924	212,070	210,365	216,825	218,123	2,304,198
<i>% Change Over Previous Year</i>	--	22%	-6%	19%	11%	9%	4%	-18%	-1%	3%	1%	--

Source: Monona Terrace

Monona Terrace has hosted nearly 2.3 million attendees from the nearly 8,600 events held at the facility since it opened in 1997. There have been more banquets than any other event type for most of the years, primarily because the facility is highly desired for weddings, corporate/association dinners and receptions, and also is advertised as a community center. This is typical for smaller meeting facilities. The majority of banquets is from local organizations and typically generates very few room nights for the local hotels. Meetings are the next most frequent event type at the facility, followed by conventions and conferences, which are typically much larger in terms of attendance and can generate significant room night demand in the market.

The table below shows a summary of the revenues and expenses at the Monona Terrace Convention Center from 2001 through 2007.

Table 3-21

Historical Revenues and Expenses								
Revenues	2001	2002	2003	2004	2005	2006	2007	Average Growth
Banquets	\$ 636,678	\$ 699,436	\$ 855,219	\$ 794,920	\$ 870,949	\$ 916,483	\$ 999,724	8.16%
Meetings	\$ 559,269	\$ 552,166	\$ 557,627	\$ 526,406	\$ 515,243	\$ 622,025	\$ 671,930	3.46%
Conventions	\$ 1,091,731	\$ 1,171,527	\$ 1,240,872	\$ 1,191,003	\$ 1,625,634	\$ 1,430,629	\$ 1,415,875	5.45%
Conferences	\$ 242,484	\$ 381,420	\$ 389,962	\$ 419,397	\$ 423,477	\$ 508,763	\$ 658,498	19.60%
Consumer Shows	\$ 112,663	\$ 101,307	\$ 80,764	\$ 66,509	\$ 75,679	\$ 63,990	\$ 70,621	-6.55%
Entertainment	\$ 69,733	\$ 70,271	\$ 97,638	\$ 58,143	\$ 49,710	\$ 57,460	\$ 66,929	2.81%
Community Events	\$ 51,023	\$ 80,608	\$ 63,476	\$ 70,477	\$ 80,308	\$ 78,865	\$ 98,677	14.17%
Gift Shop	\$ 131,712	\$ 184,221	\$ 184,811	\$ 211,600	\$ 201,612	\$ 202,799	\$ 208,562	8.90%
Miscellaneous	\$ 57,208	\$ 74,639	\$ 68,616	\$ 93,172	\$ 91,251	\$ 125,140	\$ 195,171	24.87%
Total Revenue	\$ 2,952,501	\$ 3,315,595	\$ 3,538,985	\$ 3,431,627	\$ 3,933,863	\$ 4,006,154	\$ 4,385,987	6.99%
Expenses								
Payroll & Benefits	\$ 2,986,546	\$ 3,243,358	\$ 3,404,756	\$ 3,540,600	\$ 3,817,252	\$ 3,966,525	\$ 4,090,264	5.40%
Services	\$ 1,535,810	\$ 1,557,296	\$ 1,686,015	\$ 1,673,619	\$ 1,741,697	\$ 1,776,207	\$ 1,892,742	3.59%
Supplies	\$ 290,119	\$ 513,219	\$ 552,025	\$ 463,331	\$ 550,000	\$ 596,879	\$ 773,451	20.87%
Inter-D	\$ 99,569	\$ 79,693	\$ 79,693	\$ 109,863	\$ 111,756	\$ 111,792	\$ 122,630	4.89%
PILOT	\$ 240,000	\$ 244,000	\$ 251,000	\$ 259,000	\$ 266,000	\$ 274,000	\$ 284,400	2.87%
Operating Capital					\$ 24,500	\$ 65,517	\$ 60,841	
WRS Principal \$ Interest					\$ 31,239	\$ 32,413	\$ 33,701	
Total Expenses	\$ 5,152,044	\$ 5,637,566	\$ 5,973,489	\$ 6,046,413	\$ 6,542,444	\$ 6,823,333	\$ 7,258,029	5.91%
Subsidy Budget	\$ 2,993,000	\$ 2,927,386	\$ 2,906,495	\$ 2,853,641	\$ 2,674,908	\$ 2,912,452	\$ 2,925,661	
Subsidy Actual	\$ 2,399,543	\$ 2,322,328	\$ 2,439,104	\$ 2,614,786	\$ 2,608,737	\$ 2,817,179	\$ 2,881,043	
Difference	\$ 593,457	\$ 605,058	\$ 467,391	\$ 238,855	\$ 66,171	\$ 95,273	\$ 44,618	

Source: Monona Terrace

Revenue increased 12 percent in 2002, the first full year after the opening of the Hilton. The years 2005 and 2007 also showed large increases in revenue. Conference growth has been strongest in terms of revenue growth, increasing from \$243,000 in 2001 to \$658,000 in 2007. Conventions provide the most revenue for the facility, accounting for 32 percent of revenue. Expenses have increased from \$5.2 million to \$7.3 million over the period, causing an increase in the annual subsidy from \$2.4 million to nearly \$2.9 million last year.

The ability for events at any meeting facility to generate room nights is crucial to the success of a convention headquarter hotel. The table below shows the hotel room nights generated in the market by events hosted at Monona Terrace.

Table 3-22

Hotel Room Nights Generated by Monona Terrace			
Year	Social Room Nights	Conv/Conf Room Nights	Total Room Nights
2003	2,583	52,270	54,853
2004	2,048	34,875	36,923
2005	2,093	59,802	61,895
2006	2,455	35,935	38,390
2007	1,882	39,444	41,326
Total	11,061	222,326	233,387
<i>Average</i>	2,212	44,465	46,677

Source: Monona Terrace, Hilton

As mentioned above, hotel room nights associated with conventions and conferences represent a significant proportion of the room nights that Monona Terrace generates. The total number of room nights that Monona Terrace generated averages nearly 47,000 per year, which is a very strong figure given the limited amount of exhibit space at Monona Terrace.

This number has the potential to increase if the business that currently is not able to find hotel accommodations due to room availability has more room block options downtown to bring visitors to Madison. Monona Terrace and the Greater Madison Convention and Visitors Bureau (GMCVB) track the business that has to be turned away from the center and Madison because not enough hotel rooms are available in the city to accommodate the blocks that certain groups require. The following table sets out the data that the GMCVB gathered, showing the amount of business that was turned away from Madison due to issues with hotel room block availability. The information is classified by the date the event was expected to take place. This business is not solely related to Monona Terrace, but includes all events that were bid on by the CVB.

Table 3-23

Madison Lost Business Due to Room Availability			
Year	Room Nights	Attendees	Economic Impact
2001	1,950	1,225	\$482,263
2002	3,610	1,375	\$496,009
2003	1,350	1,150	\$454,492
2004	5,535	6,350	\$1,614,480
2005	4,225	1,780	\$907,717
2006	8,068	3,595	\$1,688,083
2007	28,273	18,695	\$12,035,326
2008	23,710	18,675	\$8,586,124
2009	14,415	6,300	\$5,087,700
2010	15,875	9,150	\$8,979,500
2011	16,260	8,350	\$6,725,900
2012	1,074	4,000	\$2,904,000
2013	5,581	700	\$637,000
Total	129,926	81,345	\$50,598,594

Source: GMCVB, City of Madison

The amount of business that is lost in Madison because of the unavailability of rooms is quite substantial. The GMCVB estimates that the city has lost more than \$50 million in economic impact from groups since 2001, including future lost business through 2013. Essentially, if one fairly large group wanted to host a meeting in Madison and the available meeting space was adequate, it is likely that no adequate block of rooms exists to accommodate the group.

HSP also analyzed the lost business data by the year in which the decision was made to not host in Madison (versus the above table, which shows the year the business would have taken place). The table below shows the decision dates for business that was lost between 2005 and 2007.

Table 3-24

Lost Business Decision Dates			
Year	Room Nights	Attendees	Economic Impact
2005	23,652	13,645	\$8,960,162
2006	15,626	10,440	\$6,685,076
2007	35,655	23,925	\$14,464,626
Total	74,933	48,010	\$30,109,864
Total Lost Business 2001-2007			\$50,598,594

Source: GMCVB

The trend above shows lost business increasing as time progresses. For example, nearly 60 percent of the total lost business since 2001 was lost between 2005 and 2007.

Room Block. Currently, Madison offers roughly 450 rooms which can be blocked throughout the city for most conventions. These rooms are not necessarily centrally located as they come from the Hilton, Madison Concourse, Best Western Inn on the Park and the Doubletree. Conflicts arise when the number of corporate transient room nights begins to compete with the group room nights. Hotels can capture a higher rate with most corporate transient room nights and therefore sometimes have to sacrifice the additional revenue to accommodate a group. Group blocks also have to be booked well in advance, before the properties accept enough other reservations to jeopardize the group's chances of obtaining an adequate block of rooms. In addition, the Hilton (which was originally intended to be larger) is not large enough and does not provide the meeting space most planners need when considering a headquarters hotel.

Practically speaking, the two most favorable hotels for group business are the Hilton and the Concourse, even though the Concourse is more than four blocks from Monona Terrace. The Best Western is not of sufficient quality and size to impress and attract groups. And, the other hotels nearby are not within walking distance, of sufficient quality, and/or of sufficient size, thereby requiring transportation to multiple hotels be provided, which adds to the cost of the business.

Accordingly, the addition of a large, true downtown convention hotel would add to the room block capability of Madison and optimize the performance of Monona Terrace and the ability of the CVB to lure other major events to town.

Implications

When comparing Madison's current situation to the trends and needs of the meetings and convention market (as well as the special event market), several critical conclusions can be drawn:

- Meeting planners expect a destination with several large hotels so they can put their attendees in as few hotels as possible. Planners are not willing to make numerous agreements with smaller hotels in order to achieve their room block requirements. With only two large hotels downtown of sufficient quality and within reasonable walking distance of Monona Terrace, Madison's hotel room block is severely limited to 450 rooms, instead of the 1,000 that could be booked if they were available.
- Meeting planners generally require a destination with adequate hotel room blocks within walking distance of the convention facility and prefer those hotels to be connected or adjacent, especially in cold weather climates like Madison's. This puts further pressure on Madison to not use the Concourse, even though they currently need to so for room block purposes.

- Meeting planners expect the primary convention headquarters hotel to have a large amount of rooms they can easily block (in addition to being connected to the convention center). Madison does not have a hotel with a large number of rooms adjacent to Monona Terrace.
- Meeting planners absolutely prefer a convention headquarters hotel to have a significant amount of meeting space in the hotel, including ballrooms and meeting and board rooms. This not only provides a location for offsite, ancillary (non-convention center) meetings and events, but allows the hotel to generate its own group-based business when the convention center is not generating room night business. Hotels without function space that are beholden to the convention center generally fare worse than those with function space, although in Madison this has not been the case (due to the downtown location and high quality compared to other downtown hotel options).
- HSP's professionals spoke with GMCVB and Monona Terrace staff and determined that the ability to block rooms for events at Monona Terrace is severely limited compared to their competitors. While the facility can comfortably hold events with 800 – 1,500 attendees, the room block for this number of people requires shuttles and the use of many hotels, which could be an additional expense incurred by the group.
- While Madison has been successful in attracting groups with 2,000 – 3,000 for certain events, it has not been due to the hotel package, but due to the other factors, such as the quality of meeting space and an effective CVB sales and marketing plan. With the proper hotel package, Madison could attract many more such groups.
- The opportunity for additional business in Madison is substantial based on the MINT database analysis. If Madison were able to offer peak room-nights to groups that totaled 500-750 rooms, an additional 665 meeting s would become potential prospects, with attendees ranging from 1,000 to 1,500.

CHAPTER 4

NATIONAL HOTEL ISSUES AND TRENDS

National hotel market trends are important to the development prospects of any hotel, whether it involves macro supply and demand issues, amenity trends, financing trends, or other trends impacting the industry. HSP reviews several areas of the industry that puts the proposed project in perspective and could influence some of the recommendations.

U.S. Lodging Industry

The U.S. lodging industry has experienced strong expansion with the growth of the travel industry.

The table below shows selected characteristics of the U.S. lodging industry from 1992 through 2007.

Table 4-1

National Lodging Industry Annual Summary						
Year	Occupancy	Change	Average Daily Rate	Change	Revenue per Available Room	Change
1992	61.9%	--	\$59.62	--	\$36.90	--
1993	63.1%	1.9%	\$61.30	2.8%	\$38.68	4.8%
1994	64.7%	2.5%	\$64.24	4.8%	\$41.56	7.5%
1995	65.1%	0.6%	\$67.17	4.6%	\$43.73	5.2%
1996	65.0%	-0.2%	\$70.81	5.4%	\$46.03	5.3%
1997	64.5%	-0.8%	\$75.31	6.4%	\$48.57	5.5%
1998	63.8%	-1.1%	\$78.15	3.8%	\$49.86	2.6%
1999	63.1%	-1.1%	\$81.29	4.0%	\$51.29	2.9%
2000	63.5%	0.6%	\$85.24	4.9%	\$54.13	5.5%
2001	59.8%	-5.8%	\$84.45	-0.9%	\$50.50	-6.7%
2002	59.0%	-1.3%	\$83.20	-1.5%	\$49.09	-2.8%
2003	59.2%	0.3%	\$83.28	0.1%	\$49.30	0.4%
2004	61.3%	3.5%	\$86.70	4.1%	\$53.15	7.8%
2005	63.1%	2.9%	\$91.29	5.3%	\$57.61	8.4%
2006	64.2%	1.7%	\$96.77	6.0%	\$62.13	7.8%
2007	64.1%	-0.2%	\$102.38	5.8%	\$65.63	5.6%
Annual Growth Rate		0.2%		3.7%		3.9%

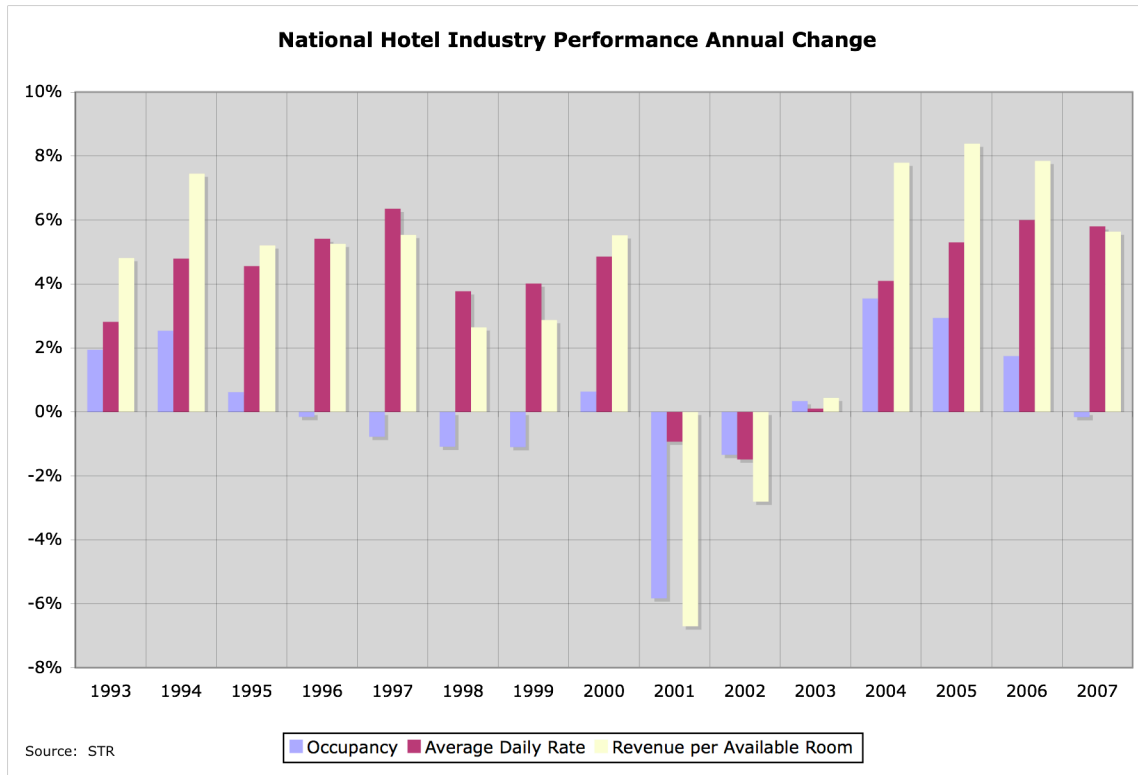
Source: Smith Travel Research, HSP

Occupancy peaked at an all-time high of 65.1 percent in 1995 and recently was as high as 64.2 percent in 2006. After 9/11 and the recession, occupancy decreased to 59 percent, before rebounding to the 64 percent range. The HSP outlook for 2008 is a decrease in occupancy of up to 1.5 percentage points. Average daily rate (ADR) increased at an average annual rate of 3.7 percent during the period, outpacing inflation (when food and energy are not counted). The last four years have exhibited strong ADR growth from four to six percent. Rate growth is expected to be low in 2008, according to HSP projections. Revenue per available room (RevPar) increased by record amounts in 2004, 2005 and 2006 and was strong in 2007. RevPAR is expected to be flat or negative in 2008 based on overall economic conditions (as it is the product of occupancy and rate). Smith Travel Research expects occupancy to decrease in 2008 and decrease further in 2009, although ADR is expected to increase slightly in 2008 and be stable in 2009.

Based on the data in the table above, there appears to be a breakpoint at 60 percent national occupancy, above which ADR and RevPAR increase, and below which ADR and RevPAR decline.

The figure below shows the above data in graph form, highlighting the annual change in performance.

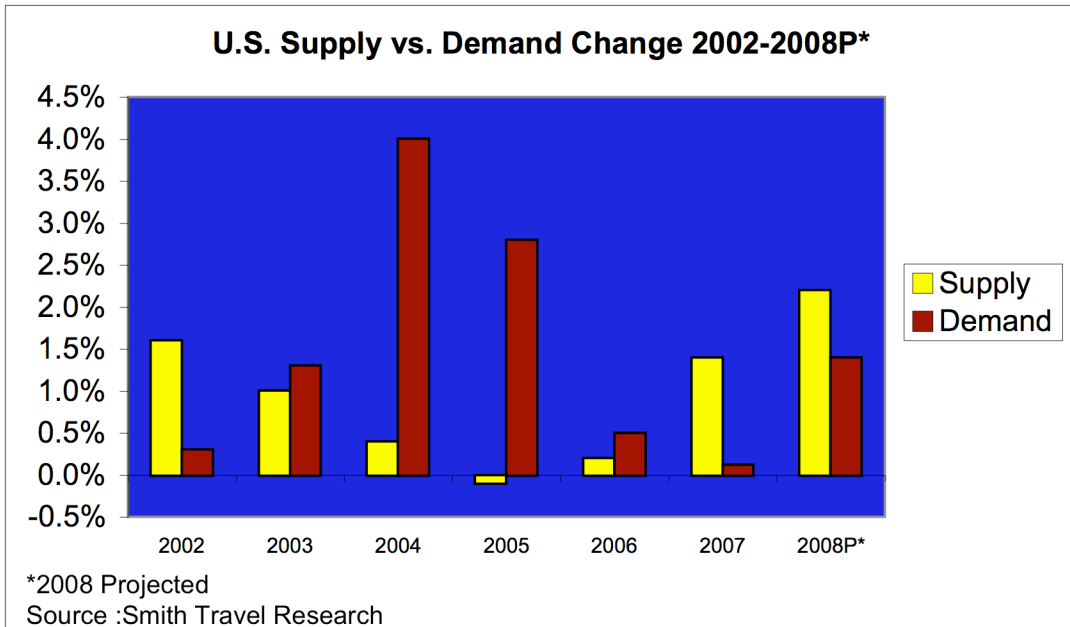
Figure 4-1



As the above graph indicates for the years 1996 through 1999, and in 2007, even when occupancy declines, average daily rates can increase. This speaks to the concept of maximum practical occupancy. At a certain average occupancy, there are enough 'sold-out' dates and demand pressure to raise prices.

The figure below shows annual changes in supply and demand.

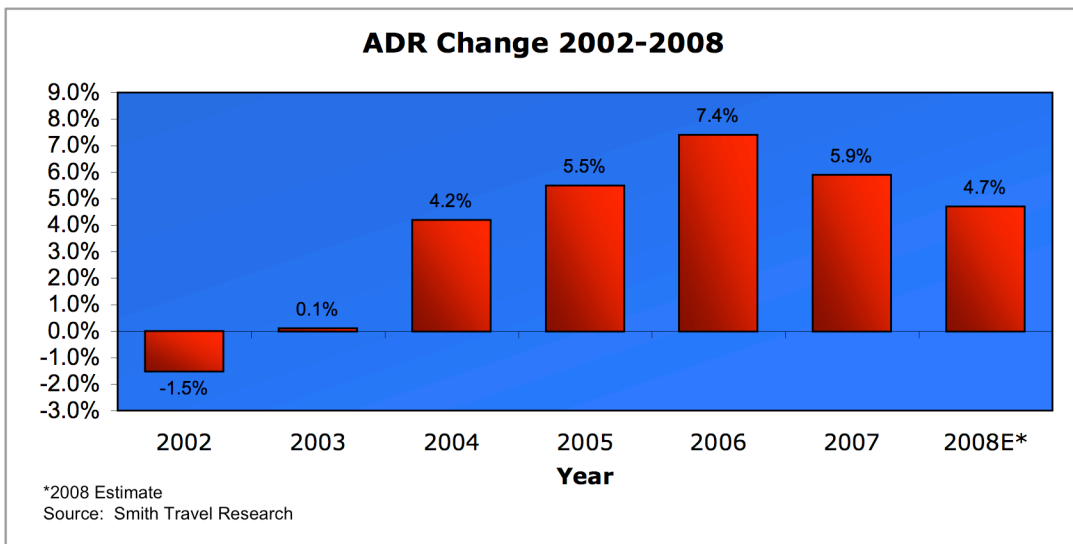
Figure 4-2



The figure shows that the increase in demand had outpaced the increase in supply in the years 2004 through 2006. However, the change in supply was much higher than the change in demand in 2007 and that trend is projected to continue into 2008. This should result in lower occupancy rates, which hurt the industry’s performance, especially if rates begin to decline.

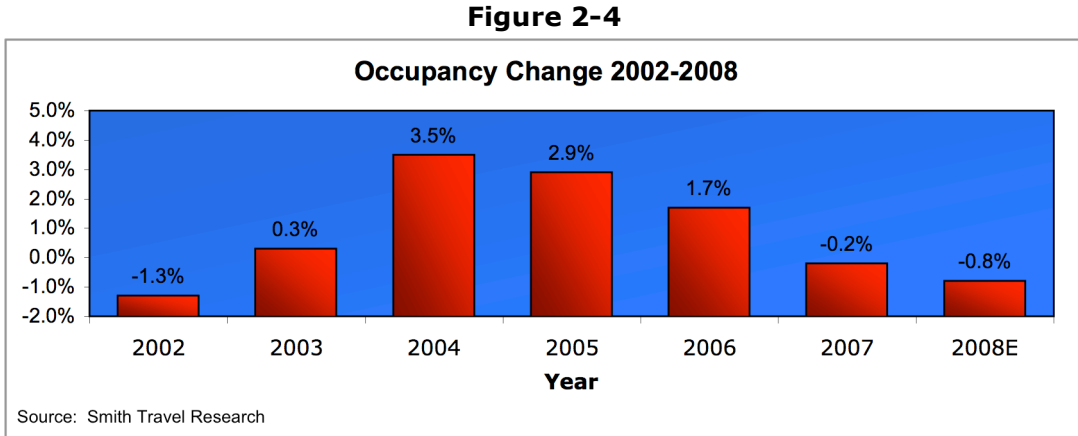
The figure below shows average daily rate (ADR) change over time.

Figure 4-3



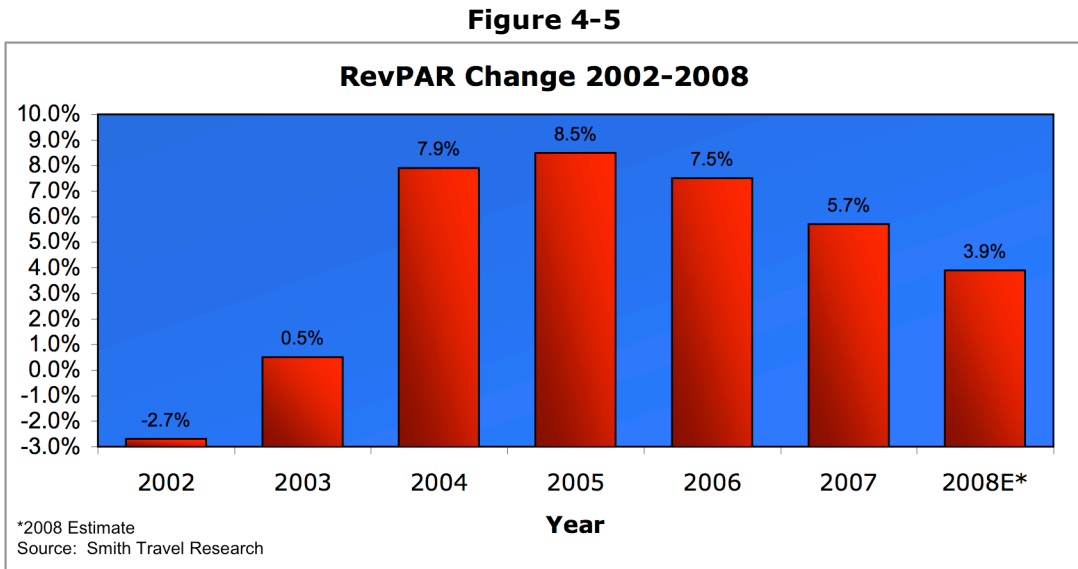
The projected increase in supply coupled with more moderate demand, as shown in Figure 4-2, is expected to slow growth in average daily rate for 2008 to 4.7 percent, down from 5.9 percent in 2007 and 7.4 percent in 2006.

The figure below shows changes in occupancy from 2002-2008.



Occupancy trends are continuing to decline after a 3.5 percent gain in 2004 and a 2.9 percent gain in 2005. There was a 0.2 percent loss in 2007 and occupancy is expected to decrease another 0.8 percent in 2008.

The figure below shows changes in RevPar from 2002 to 2008.

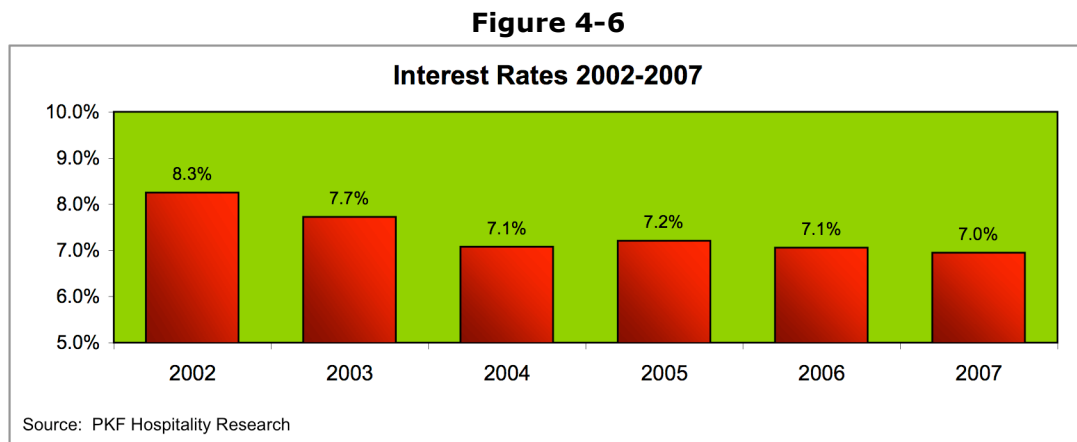


The effect of declining occupancy and the leveling off of ADR growth have slowed RevPar growth. After a high of 8.5 percent growth in 2005, RevPAR has declined to 5.7 percent in 2007 and is expected to dip to 3.9 percent in 2008. These trends show a leveling out of the hotel growth cycle as the post-9/11 recovery in the hotel industry begins to slow. In the past, this leveling of the hotel industry cycle has been accompanied by large increases in inventory. Growth of inventory has been less pronounced in this cycle as inventory levels have been low and new construction has been hampered by high costs and scarcity in materials and labor, due to the volume of construction in emerging markets. Most recently, the real estate mortgage crisis has also affected the hotel market, with higher rates of interest making financing a greater challenge.

Development & Financing

The hotel development pipeline had been increasing by the end of 2006, with a 64.2 percent increase over the previous year. New construction increased despite the labor shortage and high construction prices, which in previous years had diverted many investors to buy existing properties instead of paying the high cost of development. This trend began to soften in 2006 and new construction began to increase, due in large part to ADR increases. This has precipitated the dip in occupancy, as the market has not been able to fully absorb all the new supply.

The figure below shows the average interest rate on hotel development lending from 2002 – 2007.

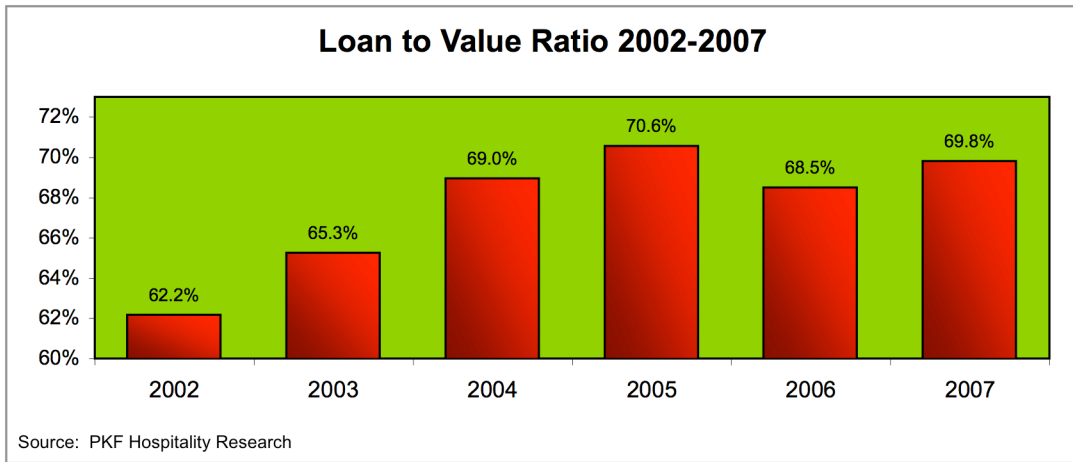


Declining interest rates which spurred real estate investment (and the housing bubble) from 2003 – 2006 also impacted the development of new hotels. The rates in 2008 have spiked dramatically and are currently at eight percent or higher on average.

The loan to value ratio is an important measure of the amount of risk banks are willing to take on real estate investments. Historically, hotels have exhibited a higher

risk level in the eyes of lenders and as such, have required a substantial equity investment. However, cookie-cutter branded prototype hotels at interstate intersections – very predictable and less risky to bankers in terms of safety and profitability – have achieved loan to value rate of 75 percent or more. The figure below shows the trend in LTV.

Figure 4-7

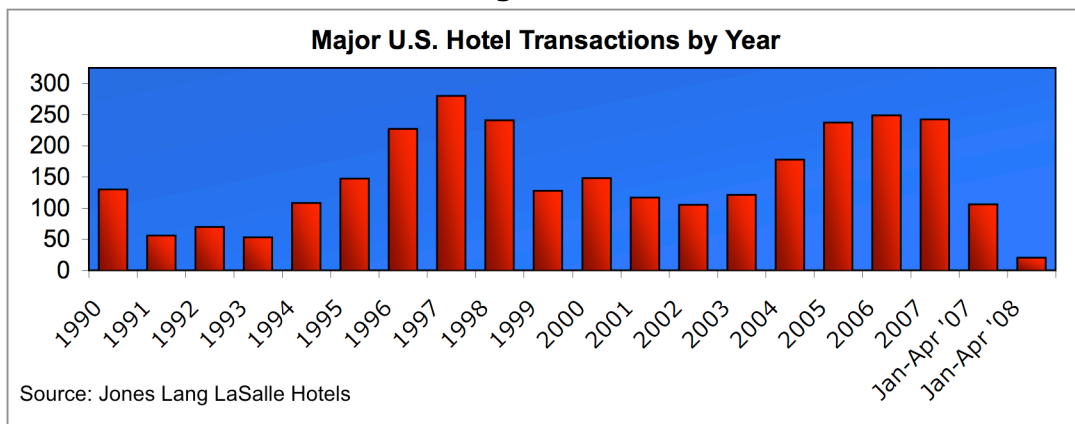


As the performance of hotels improved, bankers felt more comfortable approving higher loan amounts relative to the value of the project. At its peak in 2005, the LTV was nearly 70.6 percent on average. It has since decreased to 69.8 percent and HSP expects the 2008 rate to decline significantly.

Transactions

The following table shows historical trends for major hotel transactions since 1990.

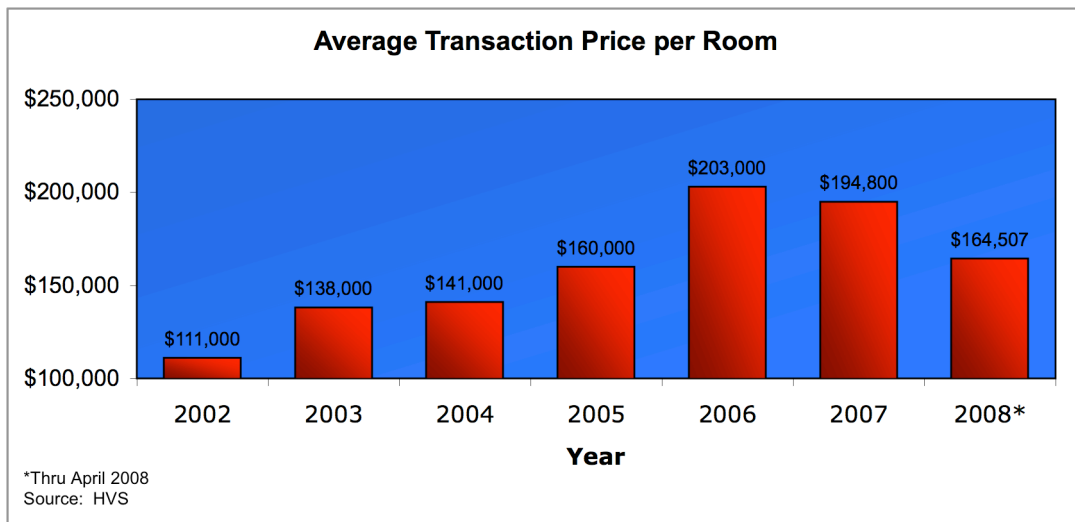
Figure 4-8



The above table shows the number of major hotel transactions through 2007, as well as a comparison of January 2007 through April 2007 with January 2008 through April 2008. These transactions are single property transactions of \$10 million and above. While transactions in the past four years had been approaching levels of the late 1990s, transactions have declined dramatically in the first quarter of 2008 when compared to the first quarter 2007. The lack of available capital as lenders seek to lend to only very solid deals has slowed new hotel development. This should be ultimately positive for those existing hotels and the general hotel supply-demand balance for the next several years.

The following figure shows average price per room of transactions from 2002 to first quarter 2008.

Figure 4-9



The figure above shows per room average transactions were at a five year high of \$203,000 in 2006 and the average has decreased significantly through the first quarter of 2008. This does not necessarily mean that sales prices are dropping, but merely that lower-priced properties are more prevalent and 'trophy' properties are not currently being sought. There have been no transactions this year over \$100 million as opposed to almost twenty during the same period last year, including six over \$200 million. Furthermore, the average size per transaction is down to 198 rooms in contrast to an average of over 300 rooms in 2004 through 2006.

The table below shows the largest single-asset hotel deals in the U.S. last year.

Table 4-2

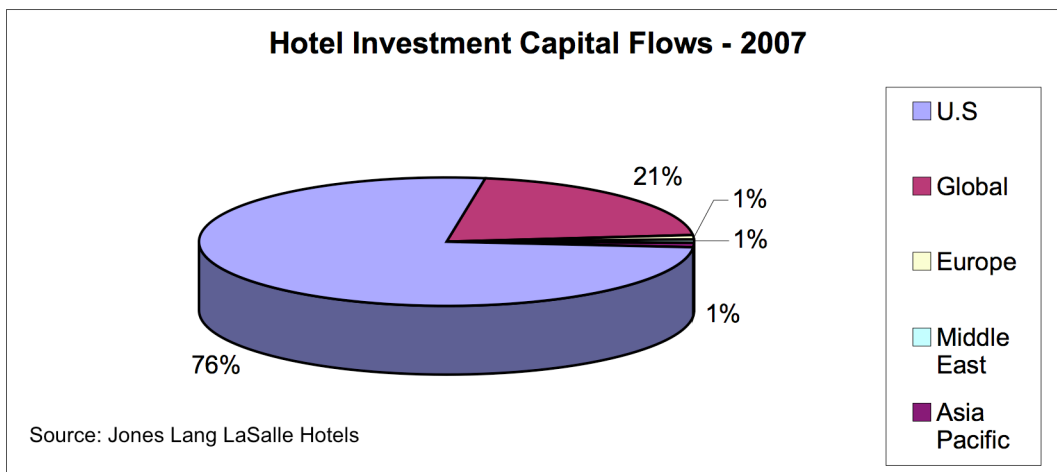
Ten Largest U.S. Single-Asset Hotel Transactions in 2007						
Property	Location	Seller	Price (\$M)	Rooms	Price per Key	Buyer
Maui Prince Makena	Maui, HI	Seibu, Inc.	\$575.0	310	\$1,854,839	Morgan Stanley Real Estate Fund V & Dowling Company, Inc
Hyatt Regency Waikiki	Honolulu, HI	Azabu Buildings Co. Ltd.	\$445.0	1,230	\$361,789	Hyatt Corporation
Mandarin Oriental	New York, NY	Apollo Real Estate Advisors, et al.	\$340.0	248	\$1,370,968	Istithmar Hotels
Westin Boston Waterfront	Boston, MA	Boston Convention Center	\$330.3	793	\$416,520	DiamondRock Hospitality Company Hotel, LLC
Knickerbocker Hotel Times Square	New York, NY	Sitt Asset Management	\$300.0	264	\$1,136,364	Istithmar Hotels
Hilton Washington and Towers	Washington, DC	Hilton Hotels Corporation	\$290.0	1,119	\$259,392	Lowe Enterprises & Canyon-Johnson Urban Fund
Renaissance Mayflower Hotel	Washington, DC	Walton Street Capital & Rockpoint Group	\$267.0	657	\$406,393	Rockwood Capital
Boston Marriott Long Wharf	Boston, MA	Boston Properties, Inc.	\$228.5	402	\$567,662	Sunstone Hotel Investors
Hyatt Regency San Francisco	San Francisco, CA	Subsidiary of Strategic Hotels & Resorts	\$210.0	802	\$261,845	Dune Capital Management, LP & DiNapoli Capital Partners
On the Ave Hotel	New York, NY	Rockpoint Group	\$201.4	267	\$754,120	Highgate Holdings

Source: Jones Lang LaSalle Hotels

New York and Hawaiian properties recorded the highest per-room (key) prices in 2007, with the Maui Prince Makena selling for \$1.85 million per key.

The figure below shows where hotel investment capital went geographically in 2007.

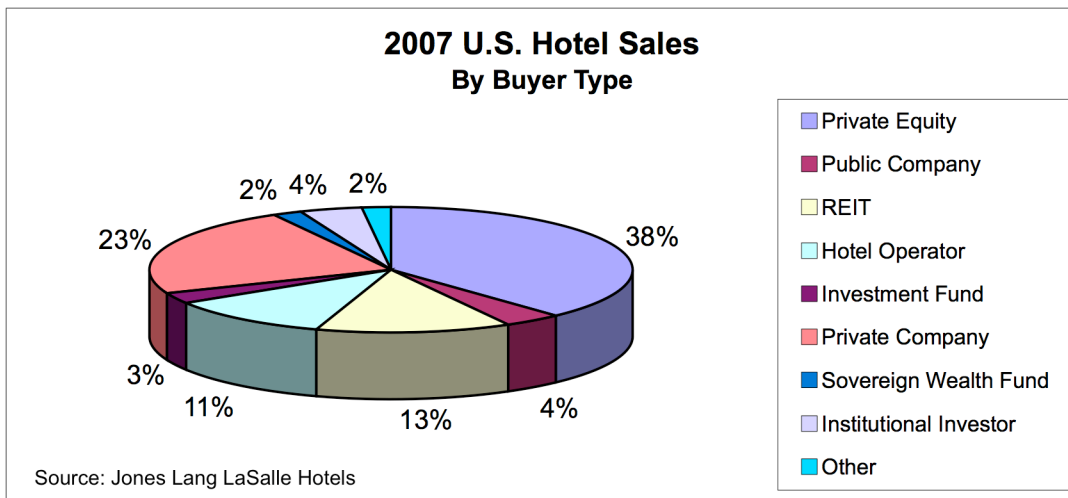
Figure 4-10



The vast majority of hotel investment occurred in the U.S. in 2007.

The figure below shows the type of buyer for U.S. hotel sales in 2007.

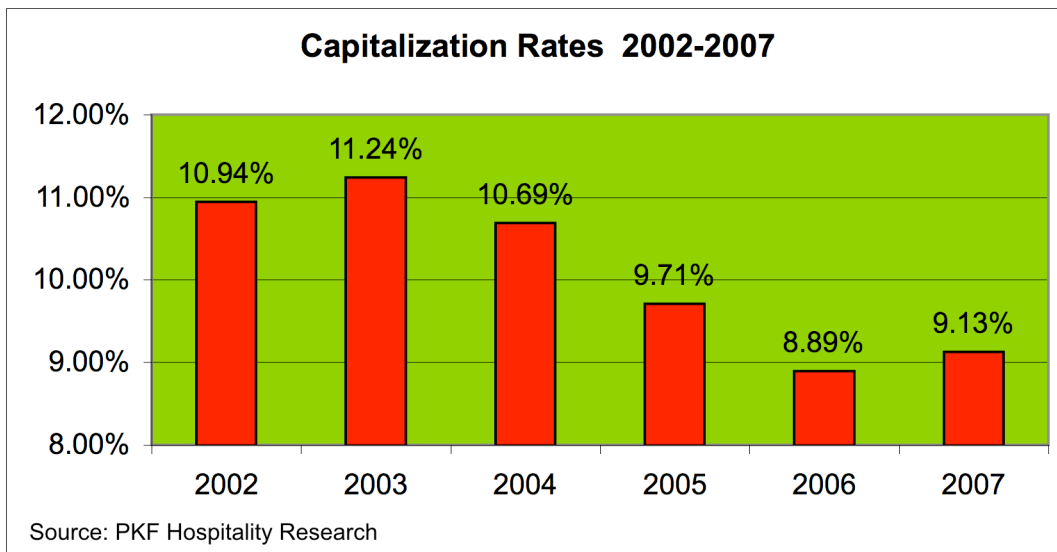
Figure 4-11



In 2007, private equity represented the large purchaser of U.S. hotels, with 38 percent of transactions. This is also expected to be a brief trend, as both private equity groups and the hotel industry have essentially fallen off the 'hot' list of healthy sectors. Private companies and REITs will likely increase their share in 2008.

The following figure shows the cap rate trend from 2002 through 2007. Cap rates are a measure of risk and reward. The higher the cap rate, the riskier the market expects an investment to be. To determine value, appraisers, buyers and sellers use net operating income divided by the cap rate to determine value. A hotel with \$1 million in net operating income and a 10 percent cap rate would have a value of \$10 million. However, using a 7 percent cap rate would give a value of \$14.3 million. During the height of the hotel buying frenzy in 2005 and 2006, some hotels were sold at effective cap rates of less than five percent, leading to extraordinary values.

Figure 4-12



Cap rates for hotels have historically been in the 10 to 12 percent range. The rate was below ten percent in 2005 and 2007 and below nine percent in 2006, leading to record sales prices and intense transaction activity. The rate in 2008 is expected to increase to more than 9.5 or 10.0 percent.

Development Costs

The table below shows the hotel development costs for the different segments of hotels for 2007 (and reported in 2008).

Table 4-3

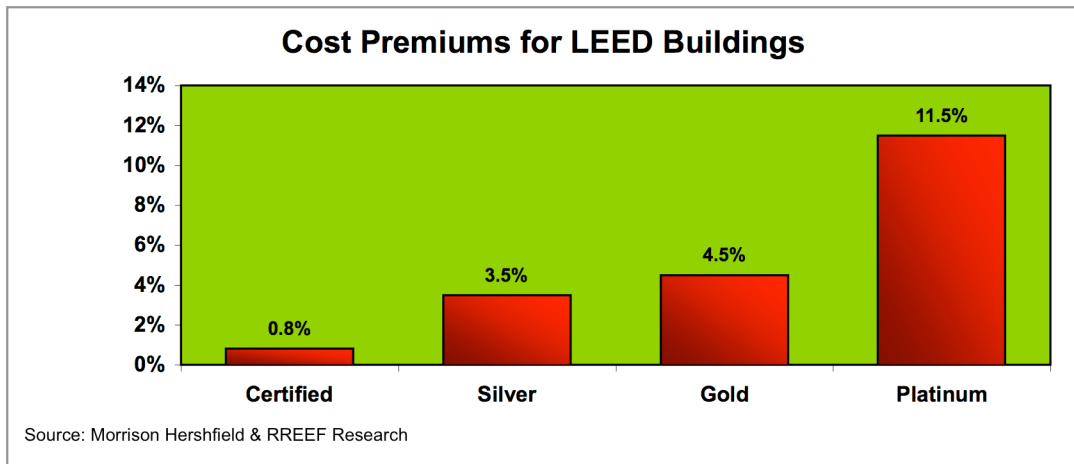
2008 Hotel Development Cost Per-Room Averages						
	Land	Bldg, and Site Improvements	Soft Costs	FF&E	Pre-Opening and Working Capital	Total
Budget/Economy Hotels						
Average	\$15,000	\$48,800	\$4,500	\$8,900	\$3,200	\$71,000
Median	\$14,400	\$44,400	\$2,300	\$8,900	\$3,000	\$57,400
Allocation	16%	67%	5%	16%	7%	
Midscale w/o F&B						
Average	\$30,200	\$76,300	\$12,400	\$10,500	\$4,300	\$111,700
Median	\$15,800	\$67,400	\$9,000	\$10,200	\$2,900	\$93,600
Allocation	16%	67%	10%	11%	5%	
Extended Stay						
Average	\$16,200	\$89,400	\$13,000	\$14,100	\$3,500	\$150,000
Median	\$14,400	\$78,400	\$11,300	\$14,600	\$2,600	\$120,200
Allocation	13%	63%	10%	11%	2%	
Midscale w/ F&B						
Average	\$18,500	\$83,900	\$14,800	\$13,700	\$4,000	\$130,700
Median	\$13,600	\$69,200	\$11,600	\$12,900	\$3,200	\$112,000
Allocation	14%	64%	11%	13%	3%	
Full-Service						
Average	\$21,700	\$133,900	\$25,800	\$24,400	\$7,300	\$239,500
Median	\$17,100	\$121,600	\$16,200	\$20,000	\$6,100	\$179,900
Allocation	11%	64%	12%	13%	4%	
Luxury and Resorts						
Average	\$109,400	\$385,100	\$120,800	\$59,800	\$22,600	\$705,500
Median	\$111,800	\$334,000	\$103,900	\$63,900	\$20,300	\$634,400
Allocation	18%	53%	16%	12%	5%	

Source : HVS

Costs per room vary dramatically for the various types of hotels, from a median of \$57,000 for economy properties to \$634,000 for luxury properties.

Green Development. The converging forces of rising energy costs, operating costs and the concern over real estate's impact on the environment have led many to adopt green design, building, and operating concepts. The Leadership in Energy and Environmental Design (LEED) standard is being adopted by various developments. The table below shows the cost premium associated with each level of LEED achievement.

Figure 4-13



The impact of being certified is minimal at less than one percent of development cost. However, to reach the platinum level requires funding of an additional 11.5 percent, on average.

Largest Hotel Companies

One of the continuing trends of the past decade has been the growth of hotel companies to create and expand brands into every conceivable niche, including extended stay (discussed below), boutiques, fractionals, etc. While this is a concern because future growth will have to come from gains in performance as opposed to new product, the results over the last ten years have been the dominance of several large hotel companies. These companies typically do not own their hotels, but brand them and provide the support, advertising, group sales and other services to the hotel owners for a fee.

The table below shows the top ten hotel companies in the world, by number of rooms.

Table 4-4

Top Ten Hotel Groups in the World				
Rank	Company	Hotels 2008*	Rooms 2008*	Rooms/Hotel
1	IHG	3,949	585,094	148
2	Wyndham Worldwide	6,544	550,576	84
3	Marriott International	2,901	517,909	179
4	Hilton Hotels	2,959	497,365	168
5	Accor	3,857	459,494	119
6	Choice International	5,516	445,254	81
7	Best Western	4,035	308,636	76
8	Starwood Hotels & Resorts	897	274,535	306
9	Carleson Hospitality	971	148,551	153
10	Global Hyatt	720	138,503	192
Total		32,349	3,925,917	151

* as of January 2008
Source : MKG Hospitality & HSP

Intercontinental Hotel Group, with its Holiday Inn and other brands, had the most number of rooms in 2008, with 585,000. The largest company in terms of properties is Wyndham, which franchises many of the lower-end hotel brands. Marriott and Hilton are regarded as the large full-spectrum hotel companies, offering quality products in all categories except the economy segment.

The next table shows the largest brands by number of rooms.

Table 4-5

Top Twenty Global Hotel Brands					
Rank	Brand	Company	Hotels 2008*	Rooms 2008*	Rooms/Hotel
1	Best Western	Best Western	4,035	308,636	76
2	Holiday Inn	IHG	1,382	256,775	186
3	Comfort Inn & Suites	Choice International	2,467	188,596	76
4	Marriott Hotels & Resorts	Marriott International	520	188,544	363
5	Hilton Hotels & Resorts	Hilton Hotels	511	176,523	345
6	Express by Holiday Inn	IHG	1,808	156,531	87
7	Days Inn of America	Wyndham Hotels Group	1,883	153,333	81
8	Hampton Inn	Hilton Hotels	1,490	147,326	99
9	Sheraton Hotels & Resorts	Starwood Hotels & Resorts	399	138,878	348
10	Super 8 Motels	Wyndham Hotels Group	2,081	128,587	62
11	Quality Inns & Hotels	Choice International	1,210	118,386	98
12	Courtyard	Marriott International	767	110,780	144
13	Ramada Worldwide	Wyndham Hotels Group	874	106,978	122
14	Motel 6	Accor	956	98,038	103
15	Mercure	Accor	756	93,827	124
16	Hyatt Hotels	Global Hyatt	213	92,755	435
17	Radisson Hotels	Carlson Hospitality/Rezidor	397	87,410	220
18	Ibis	Accor	769	86,486	112
19	Crowne Plaza Hotels & Resorts	IHG	300	83,661	279
20	Novotel	Accor	387	69,234	179
Total			6,629	947,555	182

* as of January 2008
Source : MKG Hospitality & HSP

Best Western has been and continues to be the largest single hotel brand, with more than 4,000 affiliated properties worldwide.

Extended Stay Development

Extended stay hotels have developed as a significant niche hotel market over the last ten years, and most especially during the last five years. This is a response to two prevailing forces in the market. On the demand side, there is a segment of transient travelers, primarily corporate based, that work on longer-term projects of either a few weeks to several months and require a hotel product that suits their needs. From a supply side, major hotel companies have identified a market not previously 'covered' by their brand families and that instead was historically accommodated by corporate apartments or limited-service hotels.

Developers are seeing the strength of the national market for extended stay hotels especially in urban settings. Many of the major chains are adding an extended stay brand to their portfolios, as the trends are more consistent and operating costs are much more conservative than traditional full-service hotels. Units in these developments offer guests many of the amenities of their own personal residences. Most offer a full kitchen, a business workspace area with internet capabilities, and larger sleeping accommodations.

The table below shows the room supply for extended stay properties across the U.S.

Table 4-6

US Extended Stay Hotel Supply								
Segment	3rd Qtr 2001	3rd Qtr 2002	3rd Qtr 2003	3rd Qtr 2004	3rd Qtr 2005	3rd Qtr 2006	3rd Qtr 2007	Change 06/07
Economy	50,593	51,431	51,143	53,323	52,983	52,805	57,306	8.5%
Mid-Priced	94,579	98,634	102,064	102,880	107,782	113,388	116,125	2.4%
Upsclae	71,122	74,876	80,902	85,613	91,250	97,954	107,343	9.6%
Total	216,294	224,941	234,109	241,816	252,015	264,147	280,774	6.3%

Source: The Highland Group

As shown, the number of rooms in the extended stay hotel segment has increased from 216,000 in the third quarter of 2001 to 281,000 in the third quarter of 2007, a 30 percent increase. The increase was 6.3 percent in the last year. The sub-segment with the most growth was the upscale portion, which increased 51 percent over the period and nearly ten percent from 2006 to 2007.

Other Trends of Note

Several other trends have been occurring in the industry over the past several years. These include:

- **Amenity Creep.** The major brands, led by Starwood, began expecting a higher quality of amenities in their hotels. This began with the “Heavenly Bed” for Westin, and now all major brands have their own premium bedding product. It continued with bathroom products, flat screen televisions, wireless internet, branded gym/spa experiences, and other amenities now expected that previously were considered to be luxuries. These have even crept into the limited service brands.
- **Brands Multiply.** Worldwide, the expansion of brands continues to change the face of the competitive environment. Eager to show earnings and market share for Wall Street, major brands compete fiercely. Using multiple brand products clustered in the same corporate structure, proprietary reservation systems and corporate programs work in tandem to drive business. Larger brand portfolios result in a decreasing value proposition for hotel owners and franchisees that experience increased costs but declining service delivery. Comparing profit potential with a brand or without a brand is becoming a serious exercise for hotel owners. At the same time, the proliferation of brands means fewer independents that struggle for fair share using price as the preferred strategy. While independent hotel operators use the Internet to level the playing field, continued downward pressure on rates results in destabilized markets and further erodes profitability.
- **Condotels Decline.** Selling hotel rooms/units as condominiums was a financing trend and gimmick for several years in order to help front load the

funding of projects. In most markets, this is not feasible and the trend has abated due to numerous lawsuits and failure of many projects.

- **Fractionals Increase.** Time sharing and fractional developments have continued to increase and in higher-end markets, fractional ownership is a popular trend.
- **Global Travel and the Impact of Energy Prices and Economic Conditions.** As the cost for fuel increases, the disposable income for leisure is increasingly diverted to purchase fuel for cars or is budgeted for higher airline costs. This diminishes the available budget for hotels and other leisure pursuits. While the impact has not yet fully materialized in downward pricing pressure or occupancy declines, it is expected to occur as oil and other energy prices increase. The energy bubble may have burst for now as the world faces a global recession, however, that too will negatively impact travel.
- **Distribution.** The increase in booking travel via the internet has been a major trend in the industry for the past ten years, with 27 percent of revenue booked online in 2006. An additional estimated 30 to 40 percent of bookings were researched online. This has brought transparency and increased competition to the market and all players with a solid internet and distribution strategy are able to compete effectively.
- **Demographics.** The advent of two major demographic shifts will have a positive impact on the hotel business over the foreseeable future. The first is the baby boomer generation reaching retirement. With the largest amount of disposable income and nest egg capital, this large group will have the ability to travel in large numbers for the next 10 to 15 years. Secondly, the BRIC economies (Brazil, Russia, India and China) have exploded in their economic power over the past several years. This has led to a massive increase in the middle classes in these nations and these populations are traveling in increased numbers. Much of this has been driven by high energy costs in Russia, but the trend looks to continue for many years to come.

Conclusion

These trends do not change the need for a convention hotel in Madison, however they will influence the financial structure in terms of cap rates, loan interest rates and potentially the timing of a project if lending remains tight for the next year.

CHAPTER 5

GREATER MADISON LODGING MARKET & COMPETITIVE SET

This chapter reviews both the total Madison market and the competitive set of hotels that a new downtown convention hotel will be entering, if built.

Greater Madison Lodging Market

The Greater Madison lodging market includes a wide variety of hotels, ranging from limited service to full service upscale hotels. The table below shows the breakdown of hotels in the area by type of property.

Table 5-1

Madison Area Hotel Market					
Type	Number	Percent of Total	Rooms	Percent of Total	Avg. Room per Hotel
Luxury	0	0%	0	0%	--
Upper Upscale	3	8%	640	14%	213
Upscale	3	8%	419	9%	140
Midscale w/ F&B	5	13%	758	17%	152
Midscale w/o F&B	7	18%	682	15%	97
Economy	11	28%	1,108	25%	101
Indep. Upper	4	10%	637	14%	159
Indep. Middle	2	5%	60	1%	30
Indep. Lower	5	13%	174	4%	35
Total	40	100%	4,478	100%	116

Source: Smith Travel Research, HSP

Of the forty properties considered a part of the area market, 30 percent of the rooms are considered to either be low quality or serve the lowest paying customers, which include branded economy properties as well as lower quality independent hotels. Only 28 percent of the rooms, or 1,277, are considered to be Upper Upscale or Independent Upper properties. The remaining 42 percent of room in the market are limited service in nature. There are no luxury properties in the market. When groups are considering the selection of Madison for an event, it is the full service hotels near the event venue (primarily Monona Terrace), that matter, and in this regard, Madison only has two worthy hotels totaling less than 600 rooms.

The table below shows the historical performance of the hotel market in the Madison area.

Table 5-2

Madison Hotel Market Performance 2002 - July 2008							
Average Daily Rate							
Month	2002	2003	2004	2005	2006	2007	2008
January	\$ 64.90	\$ 66.12	\$ 67.57	\$ 69.39	\$ 76.40	\$ 80.07	\$ 83.57
February	\$ 69.72	\$ 69.05	\$ 72.01	\$ 75.02	n/a	\$ 84.45	\$ 87.90
March	\$ 71.84	\$ 73.46	\$ 72.97	\$ 77.03	\$ 80.71	\$ 86.69	\$ 86.55
April	\$ 70.23	\$ 70.22	\$ 72.99	\$ 77.48	\$ 79.97	\$ 85.19	\$ 91.17
May	\$ 72.35	\$ 72.95	\$ 78.97	\$ 79.38	\$ 81.73	\$ 88.78	\$ 92.56
June	\$ 72.33	\$ 72.45	\$ 75.68	\$ 79.95	\$ 81.61	\$ 87.32	\$ 87.32
July	\$ 71.62	\$ 71.99	\$ 74.04	\$ 78.89	\$ 83.52	\$ 86.31	\$ 90.46
August	\$ 76.45	\$ 74.50	\$ 75.06	\$ 79.76	n/a	\$ 89.59	--
September	\$ 75.53	\$ 75.85	\$ 82.25	\$ 86.18	\$ 89.83	\$ 96.63	--
October	\$ 78.65	\$ 79.42	\$ 79.76	\$ 89.20	\$ 94.65	\$ 97.72	--
November	\$ 71.96	\$ 73.52	\$ 75.02	\$ 80.47	\$ 84.41	\$ 88.04	--
December	\$ 63.26	\$ 65.54	\$ 67.30	\$ 72.34	\$ 75.81	\$ 79.96	--
Average	\$ 71.57	\$ 72.09	\$ 74.47	\$ 78.76	\$ 82.86	\$ 87.56	--
YTD	\$ 70.43	\$ 70.89	\$ 73.46	\$ 76.73	\$ 80.66	\$ 85.54	\$ 88.50
Downtown Hotels							
Average	\$ 97.78	\$ 98.07	\$ 101.65	\$ 107.13	\$ 113.51	\$ 119.72	--
YTD	\$ 98.47	\$ 99.01	\$ 101.98	\$ 109.30	\$ 108.66	\$ 117.35	\$ 124.44
Occupancy							
Month	2002	2003	2004	2005	2006	2007	2008
January	44.8%	44.3%	44.8%	47.9%	47.9%	46.9%	45.7%
February	55.0%	54.1%	55.7%	58.7%	n/a	55.6%	58.4%
March	59.2%	62.9%	56.9%	58.6%	63.2%	63.1%	56.3%
April	65.3%	56.4%	60.6%	64.5%	60.5%	57.4%	64.7%
May	63.1%	59.0%	67.5%	64.5%	63.8%	60.1%	60.8%
June	73.0%	73.2%	75.4%	71.1%	69.9%	68.1%	70.5%
July	71.9%	73.2%	74.7%	67.0%	70.3%	63.7%	--
August	76.4%	72.9%	73.7%	71.5%	70.3%	70.7%	--
September	69.4%	68.9%	71.4%	68.5%	70.7%	69.9%	--
October	74.2%	70.3%	69.1%	71.2%	73.4%	72.6%	--
November	54.7%	55.1%	54.3%	53.3%	55.2%	51.7%	--
December	41.6%	41.4%	41.9%	41.6%	42.7%	41.7%	--
Average	62.4%	61.0%	62.2%	61.5%	62.5%	60.1%	--
YTD	60.1%	58.3%	60.2%	60.9%	61.1%	58.5%	59.4%
Downtown Hotels							
Average	63.4%	63.3%	68.2%	67.4%	68.0%	67.8%	--
YTD	72.7%	73.4%	76.5%	77.8%	75.8%	77.3%	78.4%

Source: Smith Travel Research

According to the Smith Travel Research, average rates for the Madison market increased to \$87.56 in 2007, compared to \$82.86 in 2006. Rates for January to July of 2008 were \$88.50, approximately \$3.00 more than the amount of \$85.54 for the same period during the previous year. The Madison lodging market achieved an occupancy rate of 60.1 percent in 2007, down 2.4 percent from 2006. Occupancy for the first half of 2008 increased from the same period in 2007, counter to the national

trend. Traditionally, the limited service hotels, clustered around interstate interchanges, operate at lower occupancy and rate levels than the hotels in business centers, such as downtown. This tends to lower the total occupancy and rate figures for the market as a whole, but the figures listed for downtown hotels as a comparison show a much stronger situation.

The revenue collected from the taxes imposed on the sales of hotel room nights is an important income stream for many meeting destinations. Monona Terrace receives funds from the city, which are derived from the hotel room tax fund. The table below shows the historical collection of hotel room taxes in the city of Madison since it was introduced in 1970.

Table 5-3

City of Madison Historical Room Tax Revenues					
Year	Room Tax Revenues	% Change	Rate	Rate Increase	% Change Less Rate Increase
1970	\$338,698	n/a	6.0%	n/a	n/a
1971	\$356,457	5.2%	6.0%	0.0%	5.2%
1972	\$386,956	8.6%	6.0%	0.0%	8.6%
1973	\$441,820	14.2%	6.0%	0.0%	14.2%
1974	\$495,082	12.1%	6.0%	0.0%	12.1%
1975	\$574,339	16.0%	6.0%	0.0%	16.0%
1976	\$640,002	11.4%	6.0%	0.0%	11.4%
1977	\$714,736	11.7%	6.0%	0.0%	11.7%
1978	\$800,432	12.0%	6.0%	0.0%	12.0%
1979	\$903,649	12.9%	6.0%	0.0%	12.9%
1980	\$1,010,615	11.8%	6.0%	0.0%	11.8%
1981	\$1,083,086	7.2%	6.0%	0.0%	7.2%
1982	\$1,348,618	24.5%	7.0%	16.7%	7.8%
1983	\$1,480,000	9.7%	7.0%	0.0%	9.7%
1984	\$1,607,779	8.6%	7.0%	0.0%	8.6%
1985	\$1,797,202	11.8%	7.0%	0.0%	11.8%
1986	\$1,978,409	10.1%	7.0%	0.0%	10.1%
1987	\$2,244,865	13.5%	7.0%	0.0%	13.5%
1988	\$2,488,123	10.8%	7.0%	0.0%	10.8%
1989	\$2,809,918	12.9%	7.0%	0.0%	12.9%
1990	\$2,902,682	3.3%	7.0%	0.0%	3.3%
1991	\$2,941,291	1.3%	7.0%	0.0%	1.3%
1992	\$3,195,849	8.7%	7.0%	0.0%	8.7%
1993	\$3,368,111	5.4%	7.0%	0.0%	5.4%
1994	\$3,580,460	6.3%	7.0%	0.0%	6.3%
1995	\$3,840,275	7.3%	7.0%	0.0%	7.3%
1996	\$4,656,733	21.3%	8.0%	14.3%	7.0%
1997	\$4,965,509	6.6%	8.0%	0.0%	6.6%
1998	\$5,328,204	7.3%	8.0%	0.0%	7.3%
1999	\$5,635,633	5.8%	8.0%	0.0%	5.8%
2000	\$5,997,504	6.4%	8.0%	0.0%	6.4%
2001	\$5,980,482	-0.3%	8.0%	0.0%	-0.3%
2002	\$6,311,554	5.5%	8.0%	0.0%	5.5%
2003	\$6,357,051	0.7%	8.0%	0.0%	0.7%
2004	\$6,544,618	3.0%	8.0%	0.0%	3.0%
2005	\$6,708,363	2.5%	8.0%	0.0%	2.5%
2006	\$7,130,648	6.3%	8.0%	0.0%	6.3%
2007	\$8,359,039	17.2%	9.0%	12.5%	4.7%
Total	\$117,304,792				
Average					8.0%

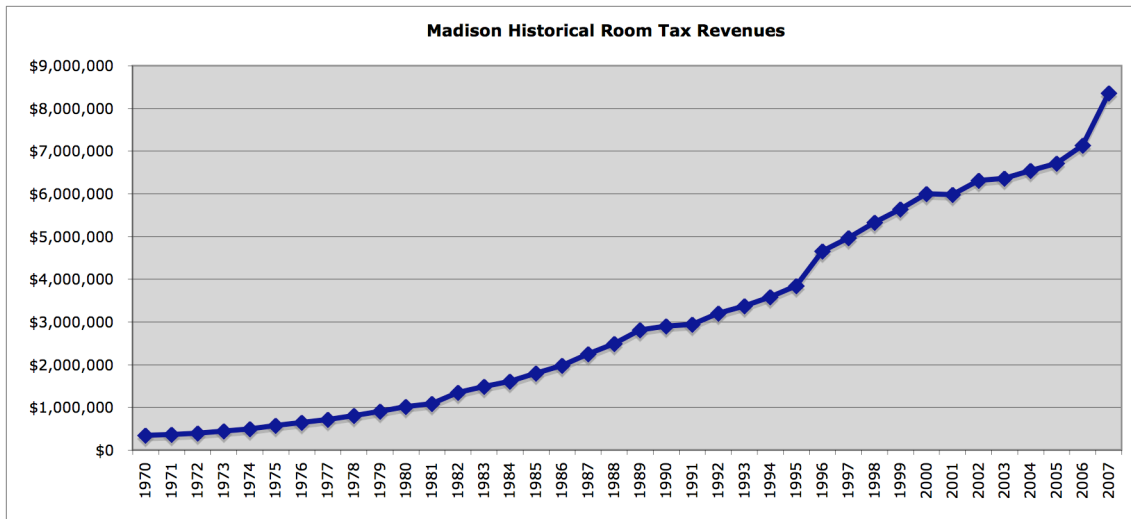
Source: City of Madison

The average annual increase over the period is eight percent per year. The tax rate has increased three times since the room tax was introduced, in 1982, 1996 and most recently in 2007. The introduction of the 240-room Hilton has been positive to the City of Madison in terms of room tax collection. Since opening in 2001, the room

tax revenues have increased each year. This is in contrast to the national hotel room revenue, which declined by 6.7 percent in 2001 and an additional 2.8 percent in 2002 before stabilizing in 2003. In relative and absolute terms, the Madison market increased in size and total revenue as a result of the Hilton's introduction. This is instructive as the City considers the addition of an even larger hotel downtown.

The figure below illustrates the trend from the data shown above.

Figure 5-1



The figure above illustrates that total revenue has continually increased, and spiked when the tax rate was increased.

Analysis of the Competitive Hotel Market

As a result of the review of the Madison hotel supply discussed above, the Consulting Team has chosen a set of primary competitive hotels to analyze and relate to a proposed downtown hotel. Some of the factors considered were market orientation, quality, size, location, age, brand, and market demand mix.

The table below shows a summary of the hotels in the competitive set.

Table 5-4

Downtown Madison Competitive Set Hotels		
Hotel	Date Opened	Rooms
Madison Concourse Hotel	Jun-74	356
Hilton Madison Monona Terrace	Feb-01	240
Sheraton Hotel Madison	Jun-72	237
Best Western Inn On The Park	Jun-63	213
Doubletree Madison Downtown	Oct-74	163
Campus Inn	Jun-61	74
Total	--	1,283
<i>Average</i>	<i>Aug-74</i>	<i>214</i>

Source: Smith Travel Research

The competitive set consists of six hotels, ranging in size from the 74-room Campus Inn to the 356-room Madison Concourse Hotel. Although not every hotel in the set has similar characteristics, each has a number of attributes that are competitive with the proposed hotel. In all cases, the physical attributes are classified as midscale or upscale, if not better. Most of the set is located in downtown Madison, except for the Sheraton, which is located across from the Alliant Energy Center, and the Doubletree located near the University.

For this analysis, a combination of quality, location and market orientation were the primary factors for selection in the competitive set. Certain hotels will compete due to location, including the Hilton, Best Western and Concourse, although not all of these hotels are not necessarily competitive based on quality. Others will compete for a combination of reasons. The most comparable is the Hilton Monona Terrace, in terms of location and quality.

The figure below shows the competitive hotel properties on a map of the Madison area, as well as other properties in the area that are not considered to be competitive.

Figure 5-2



The following section describes the primary competitive hotel facilities, their recent improvements or expansions, their market and other important characteristics.

Madison Concourse Hotel - The Madison Concourse Hotel, opened in 1974, and is the largest hotel in Madison, with 356-rooms and approximately 33,100 square feet of meeting space.

Although the hotel is nearly six blocks away from Monona Terrace, it is often used for room blocks due to its size. Transporting guests to and from events at Monona Terrace can be costly to attendees and most would prefer to be able to walk. The property is in the top tier in terms of the quality, however it is not as new, and therefore not as attractive compared to the Hilton. It should be noted that although the situation is not ideal, without the Madison Concourse Hotel, Madison would be even less competitive as a meetings destination.

Hilton Madison Monona Terrace - The Hilton Madison Monona Terrace is the second-largest hotel in the Madison market, with 240 guest rooms and over 3,500 square feet of function space. Built in 2001, the Hilton is the newest property in Madison and will complement a new convention center hotel.

When the hotel opened it was the first hotel built in Madison since 1990, and developed by the Marcus Corporation out of Milwaukee. The hotel is credited with improving Madison's competitiveness as a meeting and event destination as well as moving downtown forward as a cosmopolitan urban center. When Monona Terrace was built in 1997 it had no adjacent or connected hotel rooms until nearly five years later. The availability of quality hotel rooms at the Hilton is critical to the success of Monona Terrace. The hotel is discussed in further detail later in this chapter.

Sheraton Hotel - The Sheraton is the farthest hotel from the Monona Terrace of the set and was built in 1972. The Sheraton Hotel has 237 rooms and approximately 17,000 square feet of function space.

The Sheraton can contribute rooms, typically 75 to 100, for a meeting block if necessary, but this primarily occurs during the city-wide events such as World Dairy Expo, Ironman and university events. Location is the biggest disadvantage the Sheraton has to capture more group room nights. The Sheraton caters primarily to the corporate transient segment, which is estimated to contribute 60 percent of its total room nights sold, followed by 30 percent group business and 10 percent leisure.

Best Western Inn on the Park - The Best Western Inn on the Park is the second closest hotel to Monona Terrace. The Best Western Inn opened in 1963, has 213-rooms and over 18,500 square feet of meeting space.

Although the Best Western is within a short walking distance to Monona Terrace, the quality and condition of the property have recently started to become noticeable to visitors. The rate is the lowest out of the competitive set, which could make it appealing to certain pieces of business, but overall most would rather have higher quality accommodations. The Best Western can contribute roughly 75 to 100 rooms to a block if necessary.

Doubletree Madison Downtown – The Doubletree Madison Downtown is located near the University of Wisconsin campus. The Doubletree opened in 1974 and has a total of 163-rooms and approximately 4,900 square feet of meeting space.

It is not often that the Doubletree will need to offer rooms to a room block, however city-wide events demand more rooms and the Doubletree will then participate. The hotel primarily caters to corporate transient business that is often university related. The proximity of the Doubletree makes it challenging and often more costly to transport visitors to and from downtown.

Campus Inn – The Campus Inn is the smallest and oldest hotel in the competitive set, and located next to the University of Wisconsin. The Campus Inn opened in 1961, has 74-rooms and no meeting space.

The Campus Inn will not often participate in room blocks, primarily due to its size. With less than 75 rooms the hotel relies on corporate transient business that seek higher quality accommodations. It is estimated that the hotel generates 70 percent of its business from corporate transient visitors, 12 percent from group and 16 percent from leisure business.

HSP conducts interviews with local hoteliers and others familiar with the market to better understand the dynamic of the properties within the competitive set and make assumptions on each hotel’s performance.

Market segmentation averaged 45 percent corporate transient, 43 percent group, and 13 percent leisure. Group business is generally highest at the largest hotels as well as those that are closest to Monona Terrace. The Campus Inn and Doubletree had the highest rate of business travelers, at 72 and 70 percent, respectively. Leisure travel on weekends, mostly related to university activity, ranges from nine to 16 percent of demand at the hotels, averaging approximately 13 percent. The following table shows the estimated market segmentation for the competitive set.

Table 5-5

Estimated Competitive Set Segmentation	
Corporate Transient	45%
Group	43%
Leisure	13%
Total	<u>100%</u>
Source: HSP	

New Competitive Hotels

Currently there are no new hotels under construction or in the planning phase that would be a part of the competitive set in downtown Madison, although the Marcus Corporation owns the Madison Municipal Building site across the street from Monona

Terrace that has been considered by some to be a potential site for a proposed hotel. The only possible change to the competitive set would result from the possible renovation of the Edgewater Hotel. The property currently has 107 rooms and the owner of the property, Hammes Co., has indicated that it would like to expand the number of rooms, and that the site could support more meeting and convention space. A specific redevelopment plan has not been established.

Other projects at various stages of the planning and development process in the Madison market that may be competitive to the proposed project are:

- Hotel Indigo – Near west side, 140 rooms
- aLoft – Possible site behind the Sheraton, rooms TBD
- Hilton Garden Inn – Possible site near the Sheraton, rooms TBD
- Hyatt Place – 300 block of West Washington Ave, rooms TBD. This potential project would be located within walking distance from the Capitol and relatively close to Monona Terrace, which would qualify it to be competitive to the proposed hotel discussed in this report.
- Union South – A university development that is planned to have 60 rooms. The project, scheduled to open in early 2011, is expected to have meeting and activity rooms, food and beverage facilities.

In addition, the City has issued an RFP for developers to redevelop the “Library” block and this could include a hotel component. The proposed site includes the all parcels that come to a point on State Street along West Johnson and North Henry Streets.

Competitive Set Performance

HSP used Smith Travel Research data to analyze the competitive set of six hotels described above. The following table displays historical room supply, demand, occupancy, rate, and RevPAR for the selected primary competitive supply of hotels that were operational prior to March 2008.

Table 5-6

Historical Supply, Demand, Occupancy, ADR, and RevPar for Competitive Hotels											
Year	Annual Avg. Available Rooms	Available Room Nights	% Change	Room Nights Sold	% Change	Occ.	% Change	ADR	% Change	RevPar	% Change
2002	1,283	468,295	--	296,665	--	63.4%	--	\$97.78	--	\$61.95	--
2003	1,283	468,295	0.0%	296,280	-0.1%	63.3%	-0.1%	\$98.07	0.3%	\$62.05	0.2%
2004	1,283	468,295	0.0%	319,187	7.7%	68.2%	7.7%	\$101.65	3.7%	\$69.29	11.7%
2005	1,283	468,295	0.0%	315,697	-1.1%	67.4%	-1.1%	\$107.13	5.4%	\$72.22	4.2%
2006	1,283	468,295	0.0%	318,475	0.9%	68.0%	0.9%	\$113.51	6.0%	\$77.19	6.9%
2007	1,283	468,295	0.0%	317,724	-0.2%	67.8%	-0.2%	\$119.72	5.5%	\$81.23	5.2%
2008 YTD (July)	--	271,996	0.0%	189,621	4.2%	69.7%	4.2%	\$120.73	6.5%	\$84.17	11.0%
Projected 2008	1,283	468,295	0.0%	325,349	2.4%	69.5%	2.4%	\$123.43	3.1%	\$85.75	5.6%
CAGR* (2002-2007)	0.0%	0.0%	--	1.4%	--	1.4%	--	4.5%	--	6.2%	--

*Compound Annual Growth Rate
Sources: STR, HSP

Demand growth for room nights in the set ranged from a decline of 0.2 percent to nearly an eight percent increase despite the effects of 9/11 and the travel recession during that time. Most markets in the U.S. experienced noticeable decreases in demand during that time period, while the Madison market held relatively steady with the exception of a significant decrease in 2005. Average daily rate growth has been positive since 2002, with increases up to six percent during the period.

The table below shows the same information as above but includes the data two years prior to the Hilton Monona Terrace opening, to highlight the effect this hotel had on the competitive market.

Table 5-7

Historical Supply, Demand, Occupancy, ADR, and RevPar for Competitive Hotels											
Year	Annual Avg. Available Rooms	Available Room Nights	% Change	Room Nights Sold	% Change	Occ.	% Change	ADR	% Change	RevPar	% Change
1999	1,043	380,695	--	256,425	--	67.4%	--	\$85.19	--	\$57.38	--
2000	1,043	380,695	0.0%	255,777	-0.3%	67.2%	-0.3%	\$89.49	5.0%	\$60.12	4.8%
2001	1,263	460,855	21.1%	278,757	9.0%	60.5%	-10.0%	\$95.13	6.3%	\$57.54	-4.3%
2002	1,283	468,295	1.6%	296,665	6.4%	63.4%	4.7%	\$97.78	2.8%	\$61.95	7.7%
2003	1,283	468,295	0.0%	296,280	-0.1%	63.3%	-0.1%	\$98.07	0.3%	\$62.05	0.2%
2004	1,283	468,295	0.0%	319,187	7.7%	68.2%	7.7%	\$101.65	3.7%	\$69.29	11.7%
2005	1,283	468,295	0.0%	315,697	-1.1%	67.4%	-1.1%	\$107.13	5.4%	\$72.22	4.2%
2006	1,283	468,295	0.0%	318,475	0.9%	68.0%	0.9%	\$113.51	6.0%	\$77.19	6.9%
2007	1,283	468,295	0.0%	317,724	-0.2%	67.8%	-0.2%	\$119.72	5.5%	\$81.23	5.2%
2008 YTD (July)	--	271,996	0.0%	189,621	4.2%	69.7%	4.2%	\$120.73	6.5%	\$84.17	11.0%
CAGR* (1999-2007)	2.9%	2.9%	--	3.0%	--	0.1%	--	5.1%	--	5.2%	--

*Compound Annual Growth Rate
Sources: STR, HSP

The Hilton Monona Terrace opened in February of 2001 and despite the weak economy, approximately 50 percent of its room supply was absorbed in the first year (In the year that the hotel opened occupancy fell only ten percent as the available room nights increased more than 20 percent). Demand continued to increase so that by 2004, occupancy was higher than in 1999, the previous record high. Average

daily rate increased by a substantial 6.3 percent in the year that the Hilton opened, despite the recession. Revenue per available room has consistently grown since 1999 except for the year the Hilton opened, when it dropped just over four percent.

The following table shows how the competitive set fared compared with the national hotel market during a difficult time in the industry: 2001 through 2003, as well as the succeeding years.

Table 5-8

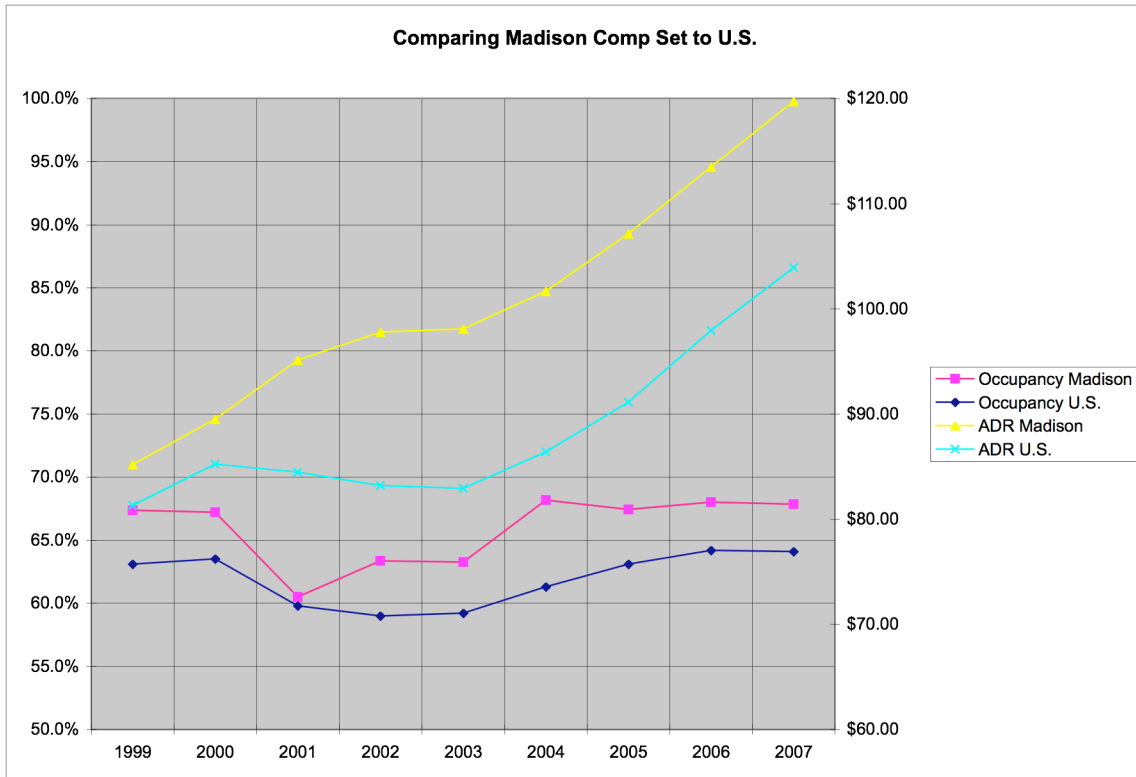
Year	Madison								U.S.							
	Supply Change	Demand Change	Occ.	% Change	ADR	% Change	RevPar	% Change	Supply Change	Demand Change	Occ.	% Change	ADR	% Change	RevPAR	% Change
1999	--	--	67.4%	--	\$85.19	--	\$57.38	--	4.1%	3.0%	63.1%	--	\$81.29	--	\$51.29	--
2000	0.0%	-0.3%	67.2%	-0.3%	\$89.49	5.0%	\$60.12	4.8%	3.4%	4.4%	63.5%	0.6%	\$85.24	4.9%	\$54.13	5.5%
2001	21.1%	9.0%	60.5%	-10.0%	\$95.13	6.3%	\$57.54	-4.3%	2.0%	-3.7%	59.8%	-5.8%	\$84.45	-0.9%	\$50.50	-6.7%
2002	1.6%	6.4%	63.4%	4.7%	\$97.78	2.8%	\$61.95	7.7%	1.8%	0.8%	59.0%	-1.3%	\$83.20	-1.5%	\$49.09	-2.8%
2003	0.0%	-0.1%	63.3%	-0.1%	\$98.07	0.3%	\$62.05	0.2%	1.0%	1.3%	59.2%	0.3%	\$82.92	-0.3%	\$49.09	0.0%
2004	0.0%	7.7%	68.2%	7.7%	\$101.65	3.7%	\$69.29	11.7%	0.4%	4.0%	61.3%	3.5%	\$86.37	4.2%	\$52.94	7.9%
2005	0.0%	-1.1%	67.4%	-1.1%	\$107.13	5.4%	\$72.22	4.2%	-0.1%	2.8%	63.1%	2.9%	\$91.12	5.5%	\$57.50	8.6%
2006	0.0%	0.9%	68.0%	0.9%	\$113.51	6.0%	\$77.19	6.9%	0.2%	0.5%	64.2%	1.7%	\$97.94	7.5%	\$62.88	9.4%
2007	0.0%	-0.2%	67.8%	-0.2%	\$119.72	5.5%	\$81.23	5.2%	1.3%	1.0%	64.1%	-0.2%	\$103.91	6.1%	\$66.61	5.9%
CAGR	--	--	0.1%	--	5.1%	--	5.2%	--	--	--	0.2%	--	3.5%	--	3.7%	--

Source: HSP, STR

In the year that the Hilton was introduced, which was a 21 percent increase in supply, demand increased by nine percent, average daily rate increased by 6.3 percent, and occupancy only declined by ten percent. This compares to the U.S. market which experienced a very small two percent increase in supply, yet a -3.7 percent decline in demand and a decline in average daily rate. Average daily rate declined for three years in the U.S. as a whole, but never declined in Madison. This suggests that the level of quality introduced by the Hilton was significant advance from existing product and there was a resulting flight to quality.

The following figure graphically shows similar information.

Figure 5-3

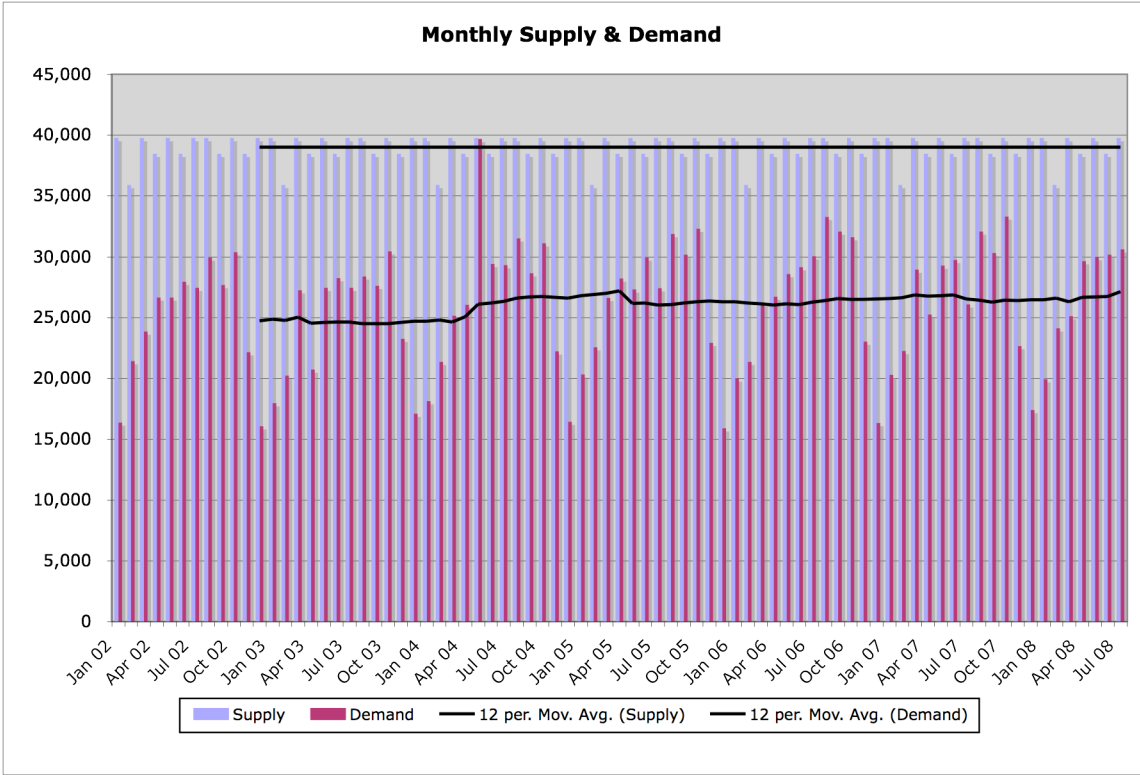


As shown above, occupancy declined briefly, but recovered quickly and reached a high as early as 2004, two years before the U.S. market reached its high point. The average daily rate, as previously discussed, increased every year, despite the large increase in supply and the recession in the U.S.

The market response to the Hilton opening indicates that downtown Madison hotels experienced a boost from the new business it brought to the market. Often when a new high-quality hotel is introduced into a market with limited quality (and quantity), new business is generated, existing business is expanded and a flight to quality occurs and visitors tend to gravitate to the newer higher quality rooms. If the new property is similar to the existing properties, the existing demand will simply be divided up a bit more. However, if a property with higher quality, more amenities and a higher room count is introduced, new demand can be generated, which allows existing hotels to benefit, despite some shifting of demand.

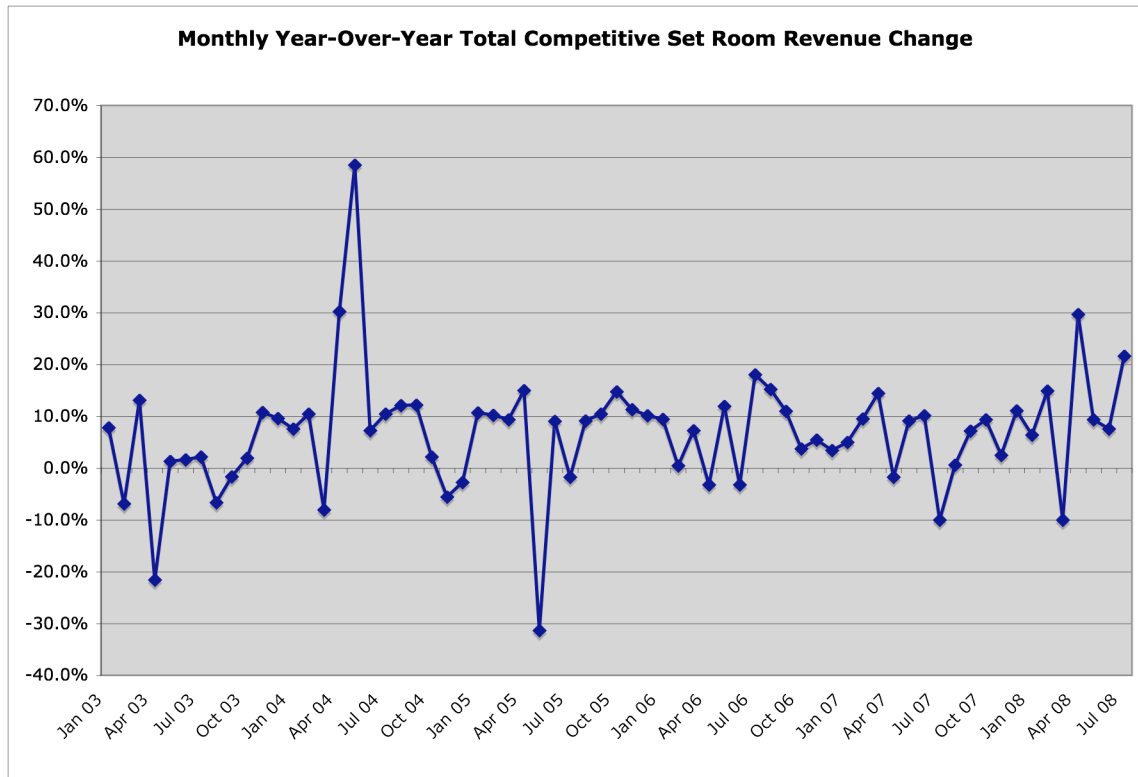
The figure below shows supply and demand for rooms within the set over the 2002 – 2008 period.

Figure 5-4



The figure below shows room revenue changes by month (year over year).

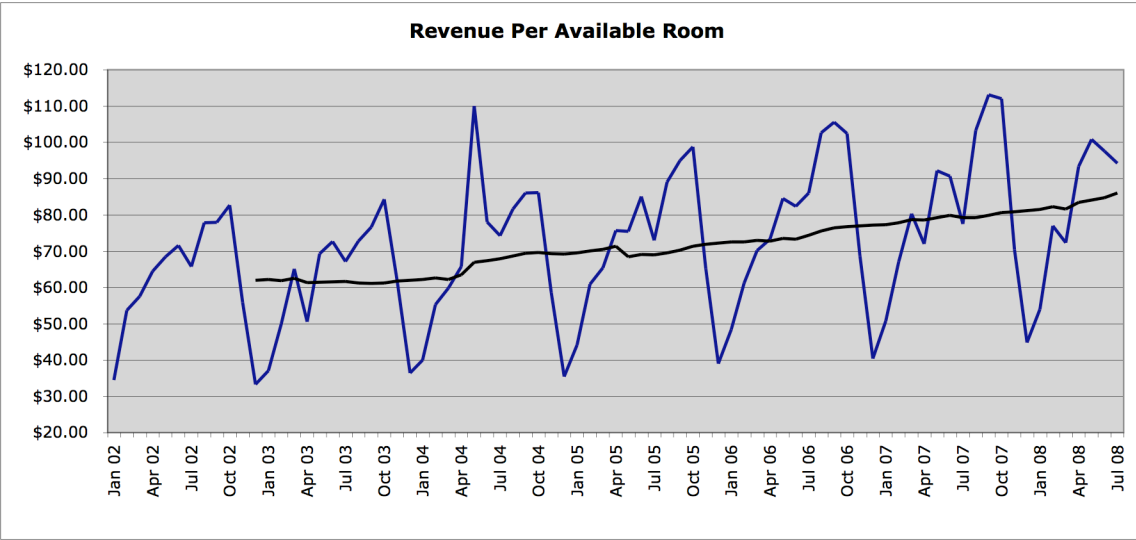
Figure 5-5



Since January 2003, nearly all months in the period have shown positive room revenue growth. This is helped by the fact that ADR has consistently risen each year.

The next figure shows Revenue Per Available Room, RevPAR, which is the product of occupancy and rate.

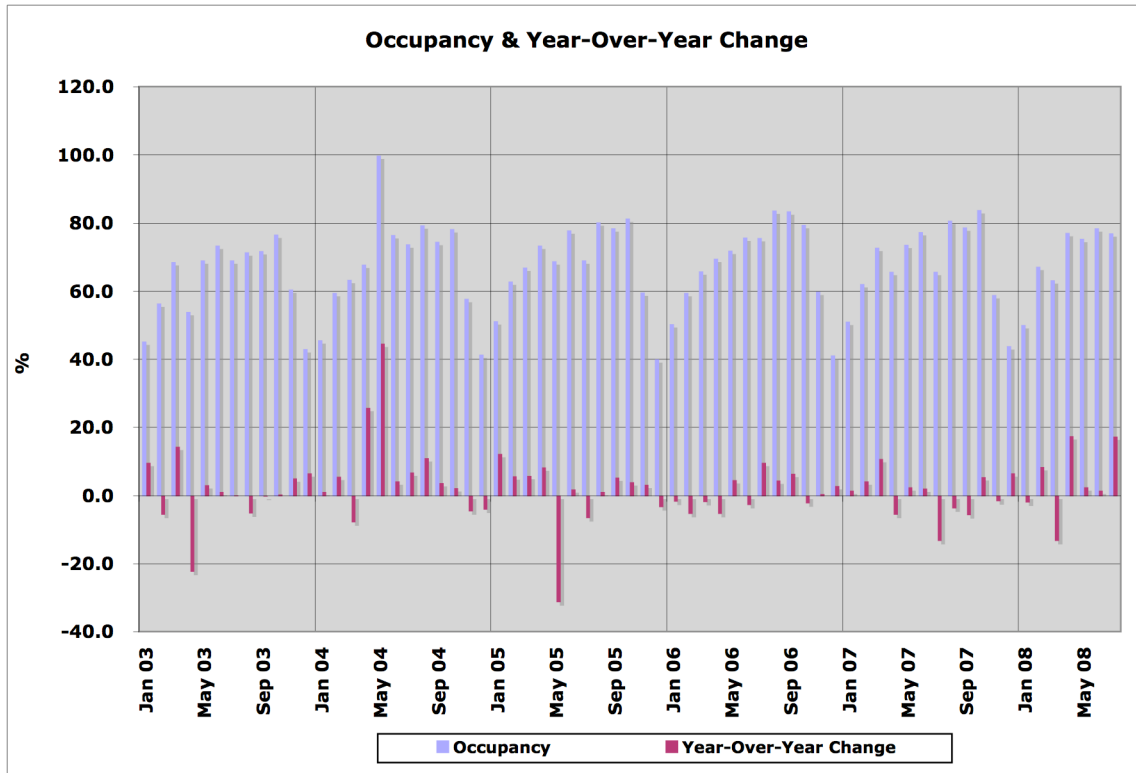
Figure 5-6



The smooth line above shows the 12-month moving average. RevPAR has generally increased since the beginning of the period in 2002. On average the revenue per available room has grown more than \$25 since 2002.

The figure below shows monthly year-over-year change in occupancy.

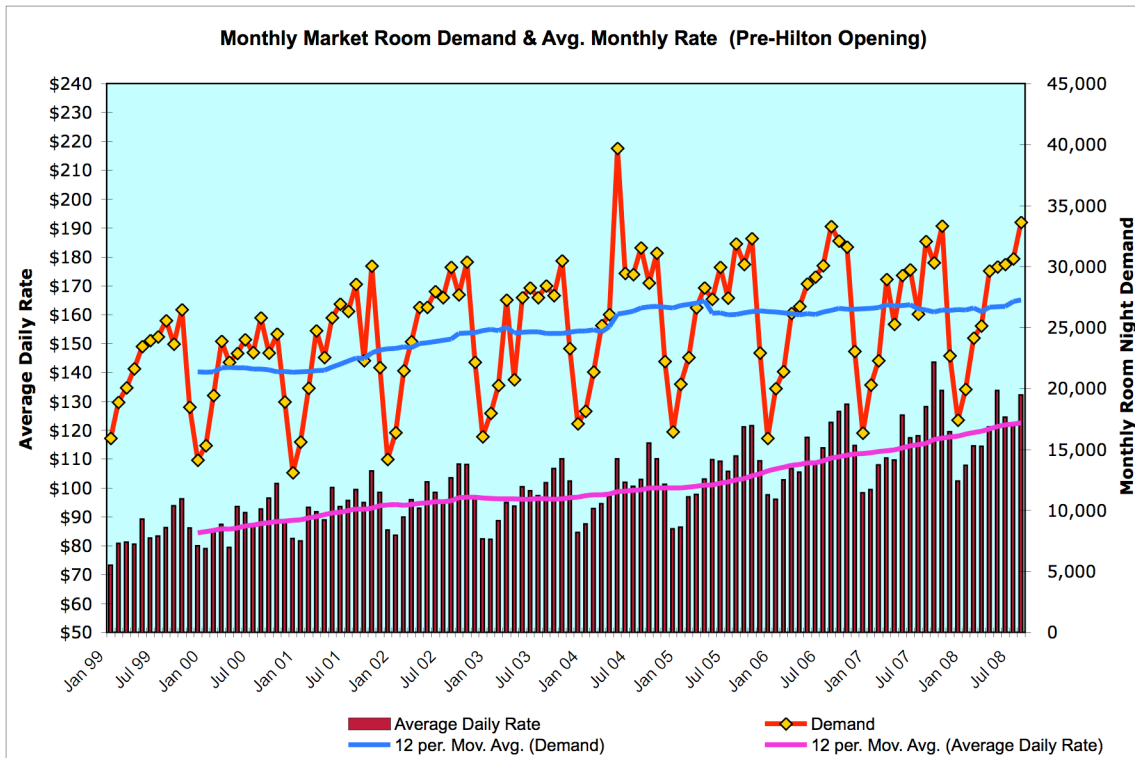
Figure 5-7



Occupancy has fluctuated year over year from 2003 through the first quarter of 2008. The market has experienced positive occupancy growth, for 12 of the last 19 months.

To gain perspective on the impact the Hilton Monona Terrace had on the Madison Market, the table below shows the monthly room demand and ADR trends extended back to 1999.

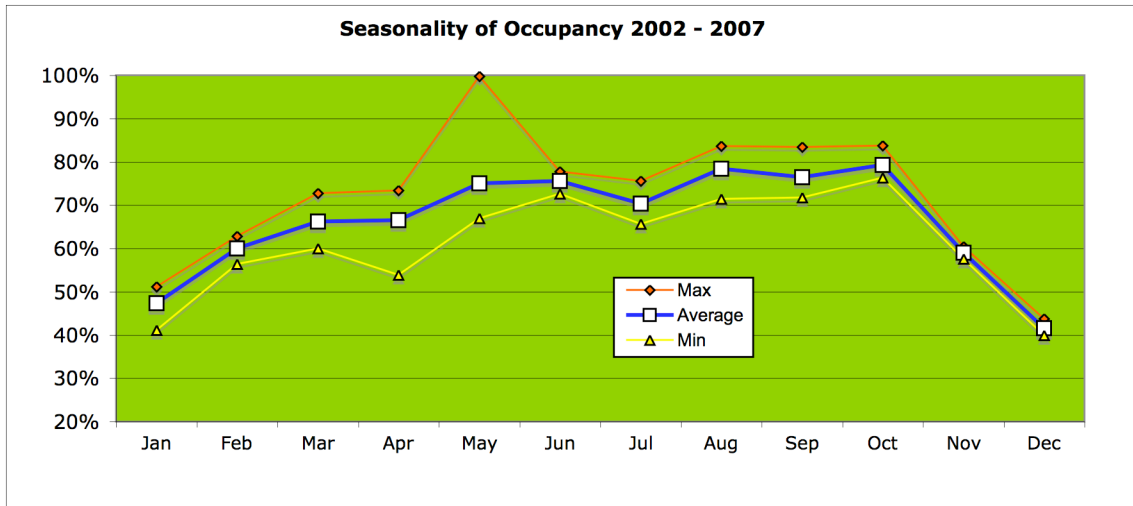
Figure 5-8



Monthly demand had been decreasing prior to the Hilton’s opening, then increased with its opening through 2005. Since 2005, demand has essentially been flat, while the average daily rate has continued to increase. This suggests that the Hilton was absorbed relatively quickly and no positive changes in the quality of supply or level of demand occurred from 2005 through the present.

The figure below displays the seasonality of occupancy during the last five years.

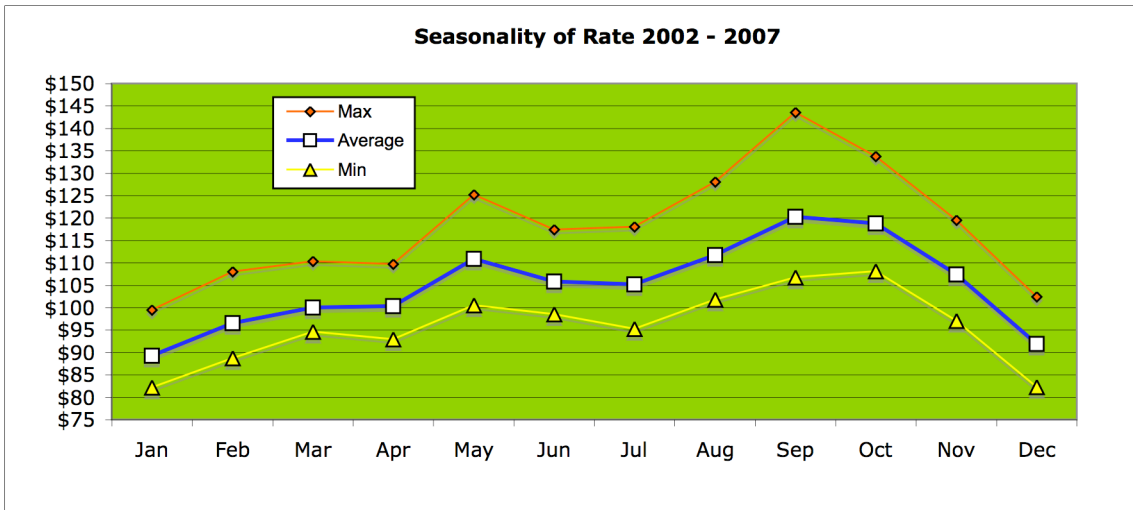
Figure 5-9



The competitive set's seasonality averages show that the strongest months for room demand are August and October, with October as the highest month, averaging 80 percent. December and January are the weakest months, as is typical for many northern markets. During one May, occupancy hit 99 percent through a confluence of events, including graduation.

The figure below shows the seasonality of rate.

Figure 5-10

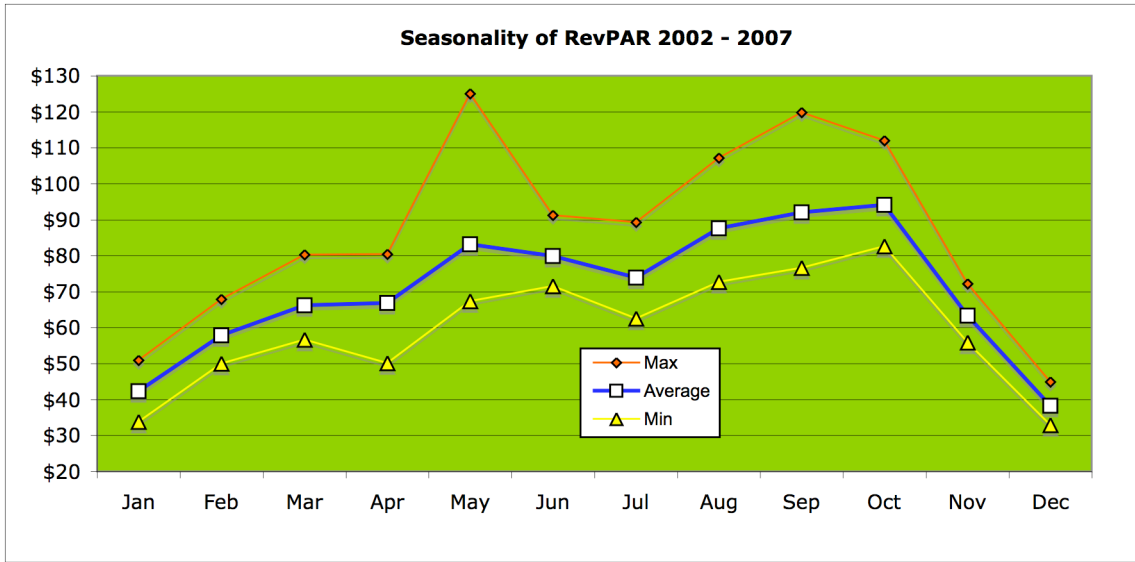


Average rates in September and October are highest as is common for many markets, especially college markets. This is during football season, parents moving kids to college, and the heaviest meeting and convention months. There is a small peak in the month of May due to University of Wisconsin commencement

ceremonies. Summer rates are lower, due to the influx of leisure travelers, who are more cost conscious, and the winter months experience less demand due to the holidays and the off-season for meetings and events.

The following figure shows the seasonality of RevPAR.

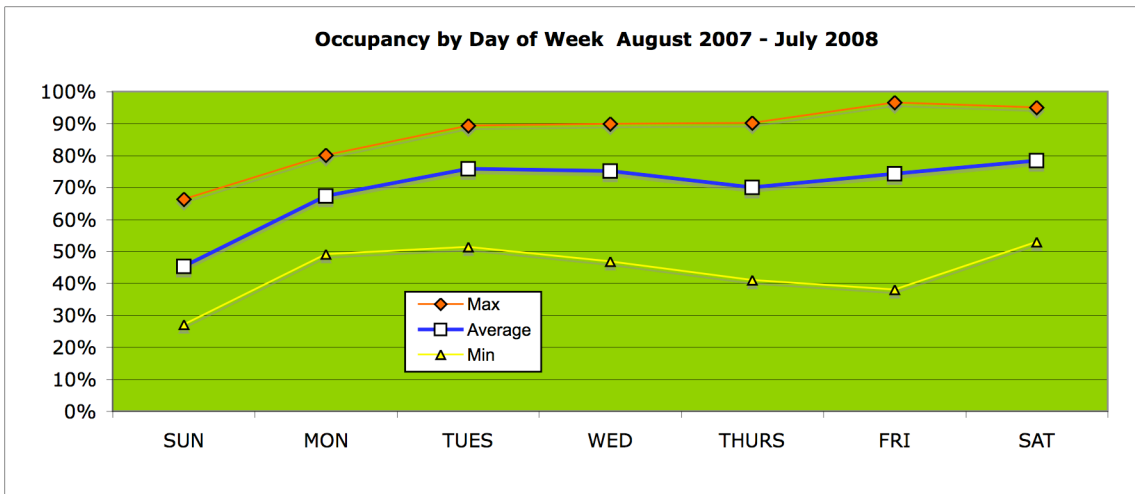
Figure 5-11



As would be expected from the prior graphs, RevPAR is highest in September and October, when the combination of rate and occupancy is highest. December is the lowest month for RevPAR.

The figure below shows occupancy by day of week during the last 12 months of data.

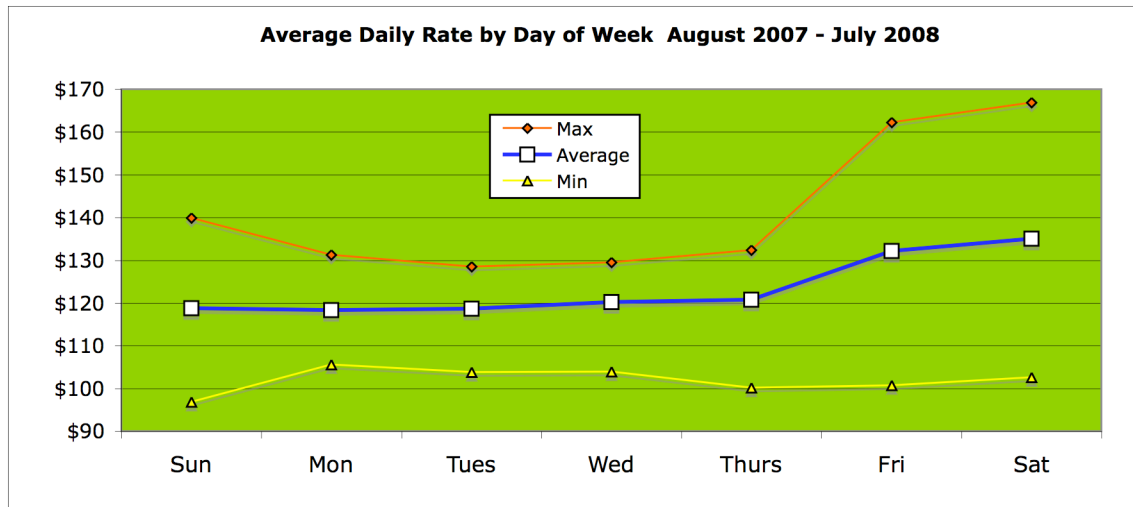
Figure 5-12



Sunday is typically the slowest night in the hotel business and this holds true in Madison. Monday through Wednesday averages occupancies between 70 and 80 percent. Occupancy dips on Thursday before climbing to roughly 80 percent on Saturday nights.

The figure below shows average daily rate by day of week.

Figure 5-13



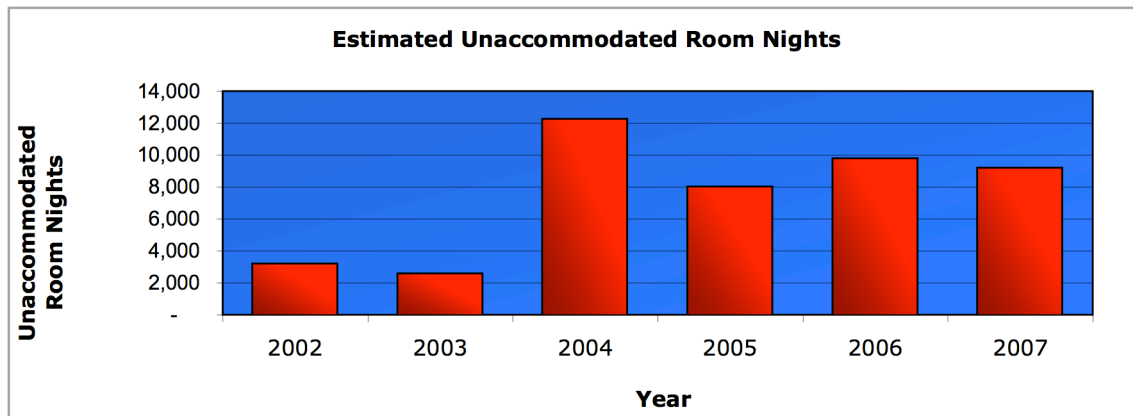
In most markets, the weekend nights of Friday and Saturday typically represent the lowest rates of the week, but Madison experiences the opposite trend. Weekend rates averaged \$133 during the period versus \$120 during much of the week.

Unaccommodated Demand

Unaccommodated demand is defined as demand that would have been captured by the market, but for a lack of available rooms. This demand is therefore deferred to later dates, accepts lesser accommodations, moves just outside the competitive set, moves its business to another area, or cancels plans altogether. As new properties are added to the market, it is expected that this demand will be accommodated in the new supply. In most markets, average monthly demand in excess of 70 percent indicates unaccommodated demand. For every month that occupancy was greater than 70 percent, it is assumed that a portion over that amount was unaccommodated.

The figure below shows the estimated number of unaccommodated room nights in the competitive set historically.

Figure 5-14



For the competitive set, it is estimated that there were 10,000 unaccommodated room nights in 2006. However, the demand decreased slightly, to roughly 9,000 room nights, in 2007. Based on figures to date in 2008, it appears that there are approximately the same number of unaccommodated room nights.

Our research may have uncovered even more such room nights. Based on our conversations with just the Hilton, there were 45,000 room night turnaways in 2007. With a newer, larger convention hotel facility, this demand could be recaptured as well as new demand induced.

Conclusion

The Madison hotel market is similar to many mid-sized markets with major universities in that there is a large amount of limited service product, and very little full-service, top quality hotel product, especially downtown. Madison is a bit different in that it is the state capitol as well as a convention center location. Given all of these positive demand generators and attributes, it is apparent that the proper hotel package does not exist to service these in the proper way, especially the convention center. The development of the Hilton was a necessity, in our view, to service Monona Terrace when it was developed. When it opened into a recessionary economy, it performed well and the local hotel market improved in the face of declines the hotel market in the rest of the U.S. However, it is the lone large, quality hotel within easy walking distance to Monona Terrace. The Concourse comes closest to fitting the bill, but even when including both hotels, this is fewer than 600 rooms.

The market remains strong and occupancy and rate at the Hilton show a flight to quality and location. HSP is of the opinion that if a large, high-quality, convention hotel is built near Monona Terrace, it will cause another flight to quality and simultaneously create demand that will spill over to the rest of the market.

CHAPTER 6

MEETING PLANNER SURVEY

HSP sent a survey to more than 275 meeting planners throughout Wisconsin as well as meeting planners of national associations that could potentially come to Madison. The survey was meant to understand their needs as well as their perceptions of a new convention hotel in Madison. The following is a discussion of results.

Each participant was asked the name of the organization for which they plan meetings. The table below shows examples of some of the responses that were given.

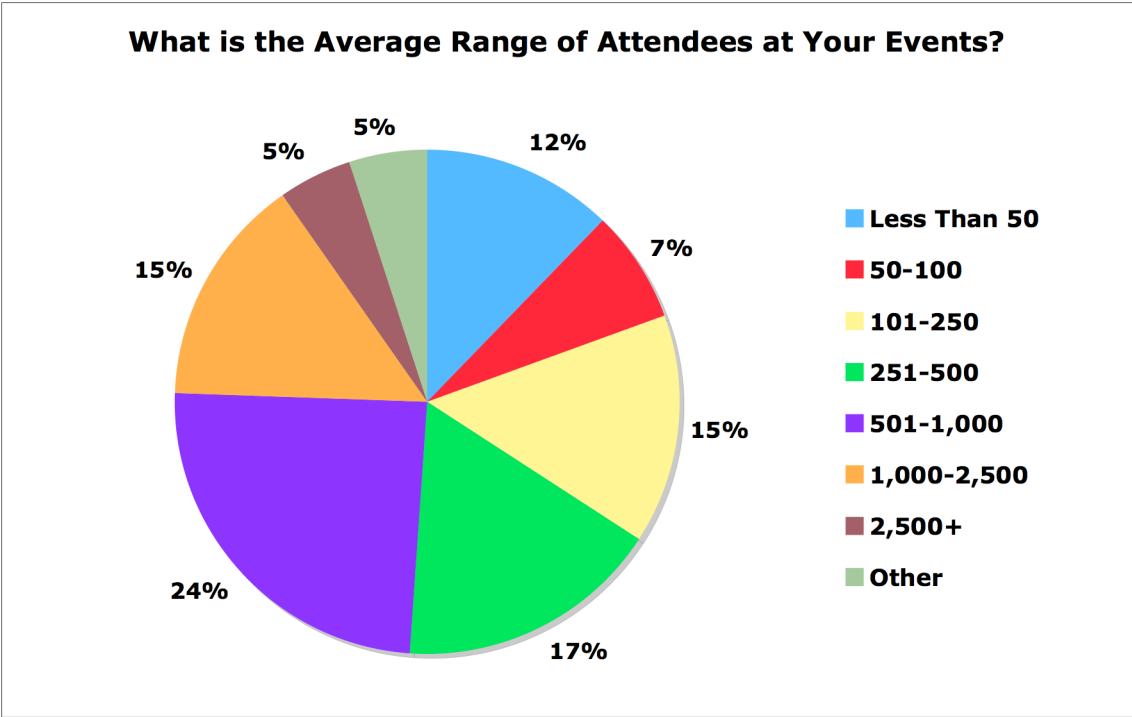
Table 6-1

Sample of Meeting Planner Survey Respondents
National Business Media
US Chapter of the International Association for Landscape Ecology (US-IALE)
WEMTA
Society for Industrial Microbiology
AmericInn International, LLC
WEAC
State Bar of Wisconsin
United Way
Wisconsin State SHRM Council
Water Quality Association of WI (WQAW)
Wisconsin Grocers Association (WGA)
Wisconsin Women in Government (WWIG)
Rural Sociological Society
HIMSS Dairyland Chapter
Bouchercon
Pioneer Network
Burk & Associates
SmokeFree Wisconsin
Tobacco Prevention and Control Program
URMIA (University Risk Managers Insurance Association)
Mathematical Association of America
LeMans Corp.
Council of Education Paraprofessionals
Wisconsin School Resource Officers
Wisconsin School Leadership Academy
Association of Wisconsin School Administrators
American Society for Photogrammetry & Remote Sensing
Distance Teaching & Learning Group
Community Bankers of Wisconsin
Source: HSP

Most of the responses given were from state or regional associations, however a number of the respondents planned either social or corporate meetings for national organizations.

The meeting sizes for these different groups vary between small educational/training sessions to large conventions and annual meetings. Below are the responses given when asked the range of attendees for the event(s) that each participant planned.

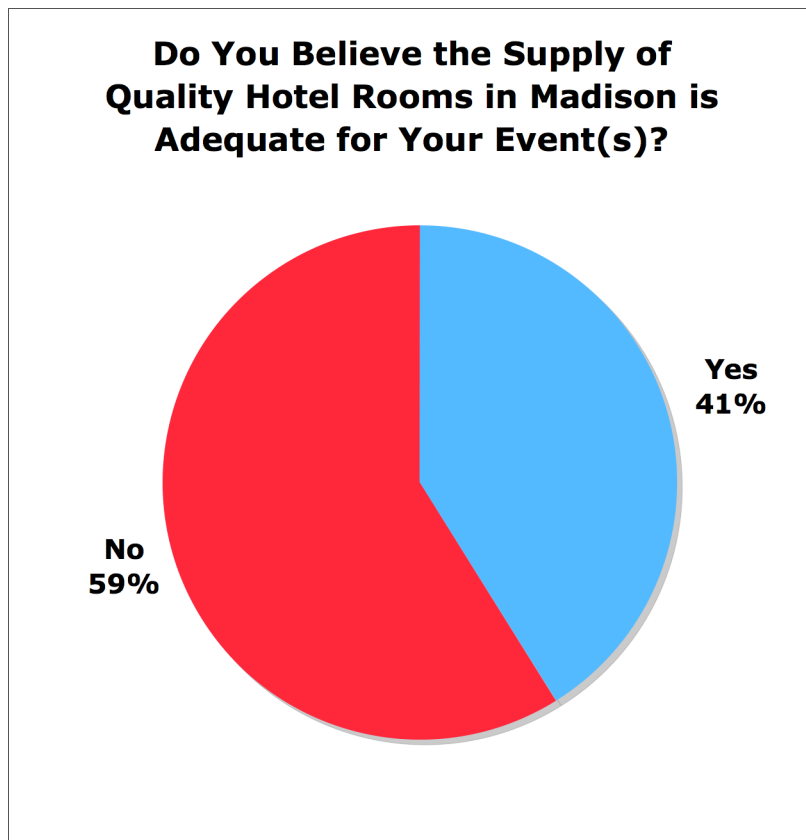
Figure 6-1



More than half of the responses, 57 percent, indicated that the range of attendance was between 250 and 2,500 people. Thirty-four percent reported meetings with less than 250 attendees. Five percent of respondents planned meetings for more than 2,500. These responses show that there are many opportunities to capture large groups of people in Madison.

Participants were next asked a set of questions regarding the conditions of the meeting and hotel market specific to Madison. The first asked if the respondents believed the supply of quality hotel room in Madison was adequate for the meeting(s) they planned.

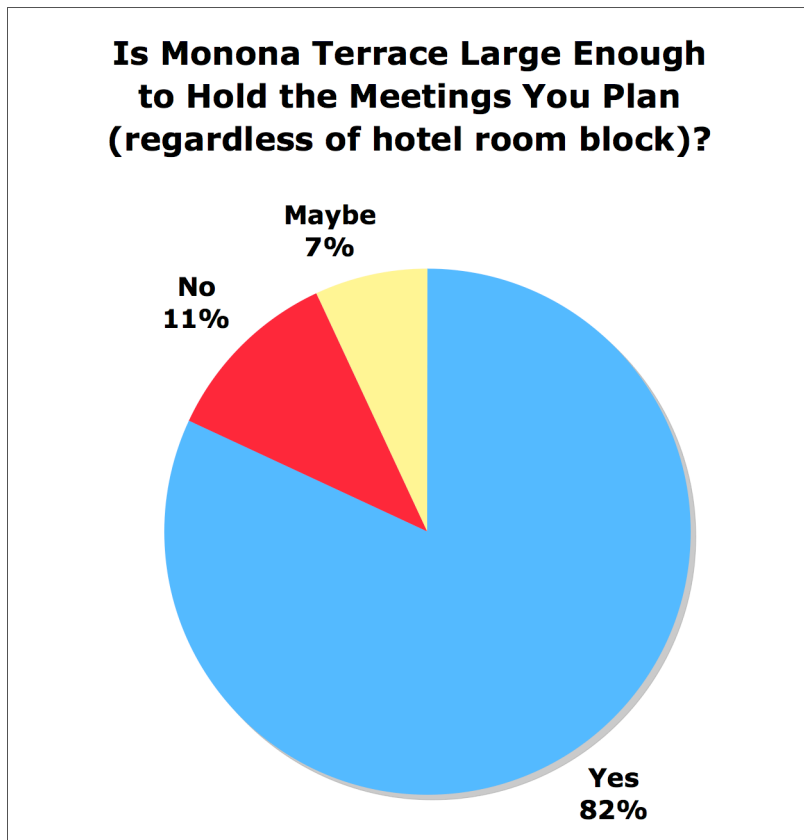
Figure 6-2



Nearly 60 percent felt that the supply of quality hotel product in Madison is not adequate. This corresponds to the number of respondents (57%) who plan meetings for 250 or more attendees. Discussions with individual meeting planners and others have shown that first hand visits often provide negative feedback about the quality of some hotel properties in and near downtown.

To understand if Madison is even able attract the meetings that the respondents plan, the next question asked if Monona Terrace is large enough to hold their meetings, regardless of hotel room block.

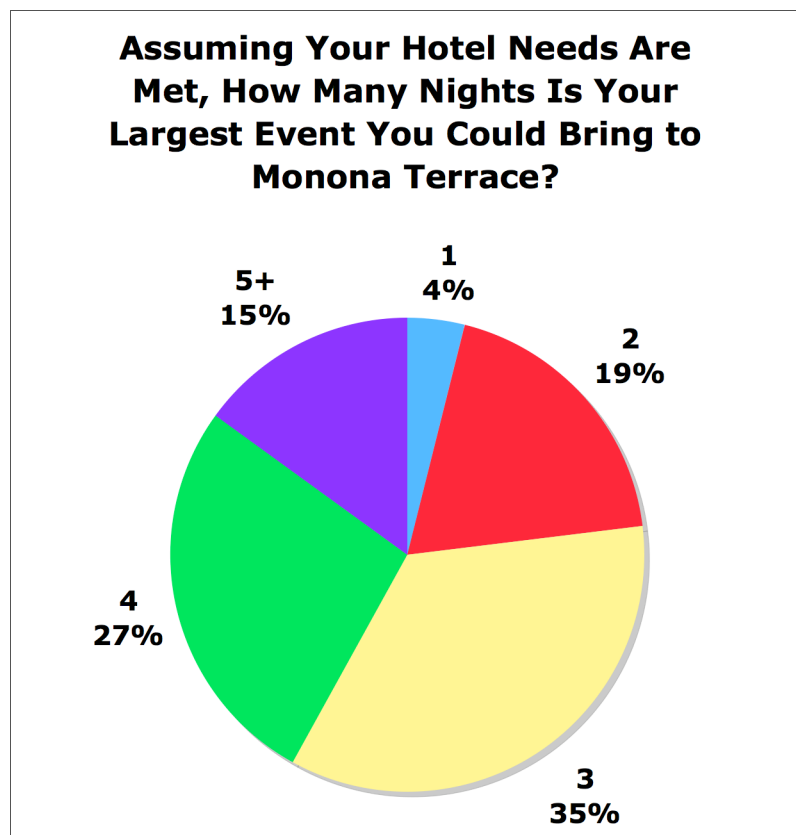
Figure 6-3



Most meeting planners, 82 percent, thought that Monona Terrace had adequate space to host meetings. Only 11 percent felt that it is not large enough and the remaining seven percent indicated they were unsure if their group(s) could fit in Monona Terrace. This implies that while Monona Terrace is large enough for most surveyed, most of these same planners do not believe the hotel situation fits their needs.

The next question asked meeting planners to indicate the length of the meetings they could bring to Madison.

Figure 6-4



The average length of events that could be held at Monona Terrace is three days, with 42 percent stating a length of four or more days.

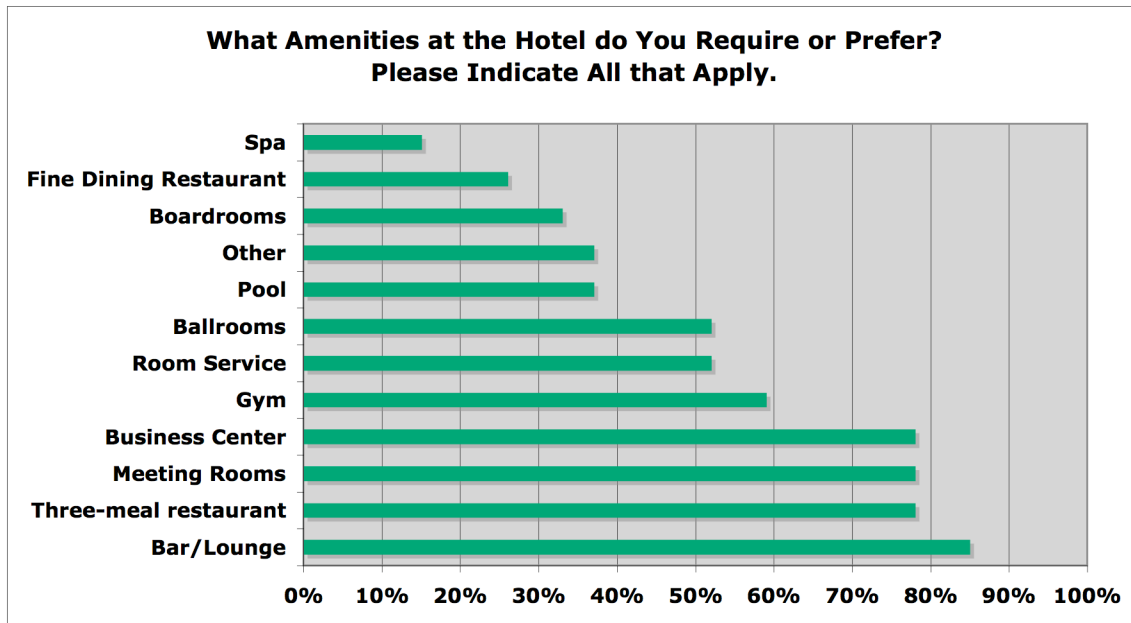
The next set of questions asked were related to the actual amount of space needed for the events that the participants would host in Madison. The responses were as follows:

- In terms of exhibit space, the necessary square footage for the events that the respondents plan ranged from 10,000 to 40,000 square feet of exhibit space, which would be unavailable at the proposed hotel but available at Monona Terrace.
- The minimum amount of ballroom space needed ranged from 1,000 to 18,000 square feet. Respondents indicated that these spaces must be able to comfortably accommodate up to 1,000 people for dining. Based on an average space need of 14 to 16 square feet per person (depending on the need for a dance floor or performance area), this suggests a ballroom of up to 16,000 square feet.
- The number of breakout rooms necessary at a convention facility ranged from two to 20 rooms. A majority of the respondents stated that the ideal

number for the individual meetings that their events required was between four and ten rooms of various sizes.

In addition to the meeting facility being adequate for the needs of the group, the lodging must also meet certain criteria. The next set of questions related to the preferences of overnight accommodations for event planners and their groups.

Figure 6-5



The most important hotel amenity to the meeting planners surveyed is the availability of a bar or lounge. The next most important amenities are a three-meal restaurant, business center and the availability of meeting rooms. Although many groups will host their events in a convention or conference center, meeting rooms at the headquarter hotel offer greater flexibility as well as convenience of being in the location where most attendees would be staying overnight. Ballrooms were required by more than half of respondents. These also offer an opportunity for leadership board meetings and related meetings that occur parallel to the conference agenda. Responses in the “other” category were access to high-speed wireless internet and high-end amenities such as golf that can be found in the area but not onsite.

Participants were asked about their room night requirements for the events that they plan.

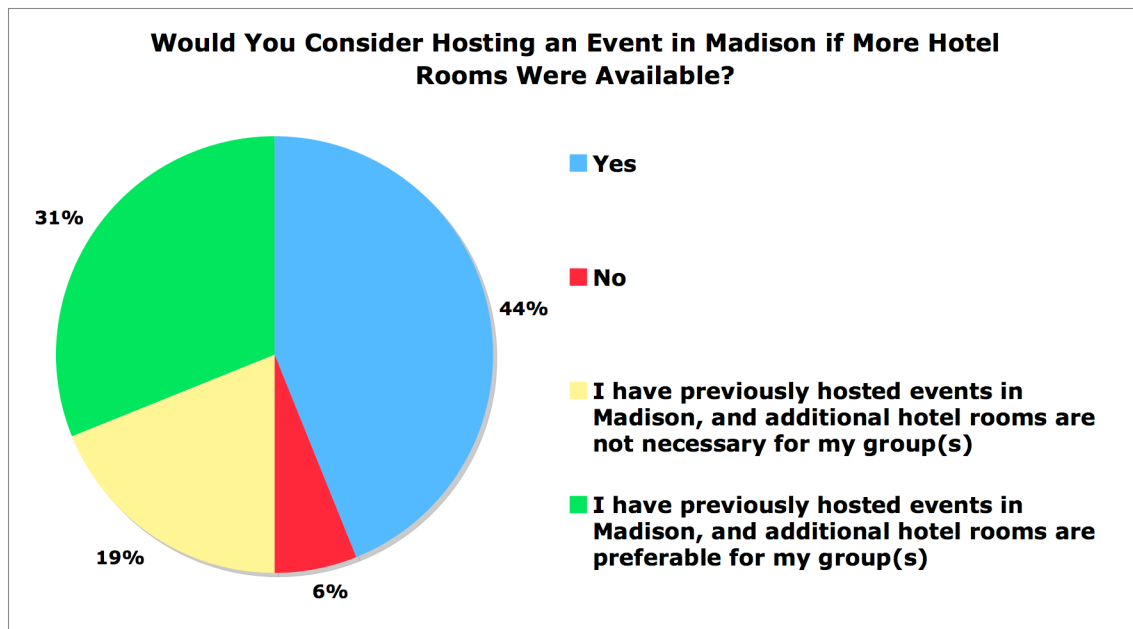
- Peak room nights are the total amount of room nights that are necessary for the evening(s) of the event with the largest number of overnight visitors. The peak number of rooms that are needed by respondents for their large events ranged from less than 50 to 500+ rooms. The majority of the planners stated that more than 400 rooms is an ideal room count

for peak nights. Because hotels rely on transient business for a considerable number of room nights, they cannot block all of their rooms for groups. As such, a block of 500 would suggest a minimum of 800 rooms available within the primary room block.

- Blocks of rooms that are set aside for attendees to reserve are important to event planners so that most of the group is able to stay in the same general vicinity, if not at the same property. The majority (36 percent) of respondents indicated that room blocks available should be between 301 and 350 rooms. Although it is ideal to have most attendees stay at the same property, these rooms can be spread among a small number of hotels in very close proximity. However, 56 percent of respondents said that it was either essential or very important that all rooms be blocked at one headquarters hotel. This would expose Madison's weakness and suggest the cure.
- The participants of the survey indicated that the highest room rates their attendees have paid range from \$100 to \$200 per night. More than half (54 percent) indicated paying a maximum of \$100 to \$150, and 42 percent paid between \$151 and \$200 for their nightly accommodations. Only four percent responded by saying they had experienced rates higher than \$200. This suggests that rate is not as much of a barrier for group business as is commonly thought, partially due to the "high rated" business nature of the groups.

Finally, participants were asked if they would consider hosting a meeting in Madison if more hotel rooms were available, if they have not come to Madison previously. Their responses are shown below.

Figure 6-6



Forty-four percent of the event planner participants who had not previously planned an event in Madison stated that they would consider hosting an event in Madison if a larger hotel block was available. For those who had come to Madison in the past, 31 percent stated that more hotel rooms would be preferred, while 19 percent stated that additional rooms were not necessary for their groups. Only six percent of the survey participants stated that they would not consider Madison as a meeting destination regardless of the number of hotel rooms available, which could be attributed to the specifics of travel logistics or meeting space requirements.

Conclusion

Very few respondents to this survey were adamantly opposed to considering Madison as a meeting option. Most respondents consider Monona Terrace Convention Center is a desirable facility to host meetings; however, the supply of quality hotel rooms near Monona Terrace is the clear disadvantage. The room block requirements and rate sensitivity indicate that potential demand exists for events in Madison. The current supply of hotel rooms is not able to provide a solid room block large enough to accommodate the needs of many of the meeting planners who would otherwise consider Madison. A room block of 800 rooms is preferred by a majority, as well as a headquarters hotel that can block 350 of its own rooms.

CHAPTER 7

COMPETITIVE AND COMPARABLE DESTINATIONS

This chapter includes an analysis of destinations across the country that are comparable or competitive to Madison in terms of their convention center size, market characteristics, and destination package. Some have developed quality hotel packages, while others have not. Most importantly the majority of the convention and hotel packages in this chapter are competing against Madison for event business, so each individually and all together as a group offer implications for the future development of hotels in Madison.

Competitive Cities

This section describes each of the convention center and hotel packages that are competitive regionally and nationally with Madison, based on discussions with the GMCVB and Monona Terrace staff.

The following table shows the regional and national comparable hotels.

Table 7-1

Competitive Facilities										
Meeting Facility	City	Headquarter Hotel/ Adjacent Hotel	Adjacent or Connected Rooms	Hotel Rooms within 1,200 FT	Convention Center				**Total Meeting Facility Function Space (SF)	Function Space Per Adjacent Room (SF)
					Exhibit Space (SF)	Ballroom Space (SF)	Meeting Space (SF)	Auditorium/ Theater (SF)		
Regional										
Kalahari Resort Convention Center*	Wisconsin Dells, WI	Kalahari Resort	750	750	0	37,760	23,659	0	61,419	82
Midwest Airlines Center	Milwaukee, WI	Hilton Milwaukee City Centre	730	1,903	188,695	37,506	39,364	24,000	289,565	239
		Hyatt Regency	484	--	--	--	--	--	--	--
Minneapolis Convention Center	Minneapolis, MN	Hilton Minneapolis	821	1,908	475,200	27,522	97,915	n/a	600,637	444
		Hyatt Regency	533	--	--	--	--	--	--	--
McCormick Convention Center	Chicago, IL	Hyatt Regency	800	800	2,700,000	199,000	700,000	0	3,599,000	4,499
Saint Paul RiverCentre	St. Paul, MN	Holiday Inn RiverCentre	194	541	67,996	27,111	19,237	44,800	159,144	820
KI Convention Center	Green Bay, WI	Holiday Inn	147	486	17,346	0	26,294	0	43,640	297
Iowa Event Center	Des Moines, IA	Marriott	415	754	218,923	0	59,218	0	278,141	670
<i>Average</i>			<i>696</i>	<i>1,020</i>	<i>524,023</i>	<i>46,986</i>	<i>137,955</i>	<i>9,829</i>	<i>718,792</i>	<i>1,007</i>
National										
DeVos Place	Grand Rapids, MI	JW Marriott	340	1,022	162,000	40,000	31,056	0	233,056	228
		Amway Grand	682	--	--	--	--	--	--	--
Greater Columbus Convention Center	Columbus, OH	Hyatt Regency	631	1,716	426,000	39,729	58,132	0	523,861	563
		Crown Plaza Hotel	300	--	--	--	--	--	--	--
Walter E. Washington Convention Center	Washington D.C.	Renaissance	807	2,572	703,000	52,000	118,710	0	873,710	1,083
Colorado Convention Center	Denver, CO	Hyatt Regency	1,100	2,634	579,000	94,720	91,652	0	765,372	696
Rhode Island Convention Center	Providence, RI	Westin Hotel	564	1,259	100,000	20,000	14,216	0	134,216	238
Albuquerque Convention Center	Albuquerque, NM	<i>To Be Built</i>	500	1,190	166,546	31,164	47,447	0	245,157	490
Oregon Convention Center	Portland, OR	<i>To Be Built</i>	600	1,022	212,000	59,400	51,891	0	323,291	539
Austin Convention Center	Austin, TX	Hilton Austin	800	2,980	125,972	23,418	46,964	0	196,354	245
Qwest Center	Omaha, NE	Hilton Omaha	450	450	194,300	41,876	22,050	0	258,226	574
<i>Average</i>			<i>753</i>	<i>1,649</i>	<i>403,588</i>	<i>45,776</i>	<i>93,280</i>	<i>4,914</i>	<i>547,269</i>	<i>748</i>
Monona Terrace Convention Center	Madison, WI	Hilton Monona Terrace	240	453	37,200	13,524	33,646	0	84,370	352
*Hotel and convention center are one facility										
**Foyers, Atriums, and Terraces are not included in function space.										
Source: HSP, STR, Mpoint.com, Respective Hotels										

What is immediately apparent is that Madison competes with destinations that are much larger and/or have much larger convention facilities and hotel packages, along with larger destination marketing budgets (not shown). This immediately puts it at a disadvantage, as many of these locations will beat Madison in every measure (including airfare costs) except perhaps the cost of renting the convention facility and hotel rooms. Regionally, Madison competes with Minneapolis, Chicago, Milwaukee, the Wisconsin Dells (occasionally), Des Moines, Green Bay and St. Paul. All but Green Bay have larger convention facilities and nearly all have more hotel rooms within 1,200 feet (four blocks) of the convention center than Madison.

The regional competitors average 696 hotel rooms connected to the convention center (nearly triple what Madison offers) and 1,020 rooms within walking distance (more than double Madison).

Madison competes nearly as often for business with a collection of national competitors that include Grand Rapids, Columbus, Washington, DC, Denver, Providence, Albuquerque, Portland, Austin, and Omaha. In every case on a national level, the convention facilities are larger, although some are not as compelling as Madison's. Nearly all have larger walkable hotel packages than Madison except for Portland (which has been working to develop a large convention hotel for many years). The table shows the proposed convention hotels in both Portland and Albuquerque in order to show what Madison will likely compete with in the future.

On average, the national competitors have or will have 753 rooms connected to the convention center (compared with one-third of that amount in Madison) and 1,649 rooms within walking distance (again, compared with one-quarter of that amount in Madison).

The following discusses each regional and national destination in terms of its convention center and hotel package.

Regional Competitors

Wisconsin Dells, WI

The Kalahari Resort and Convention Center is an African-themed resort and water park located in Wisconsin Dells, Wisconsin. This 750-room resort opened in 2000 and has 37,760 square feet of ballroom space and 23,659 square feet of meeting space, totaling 61,419 square feet of function space. The Kalahari Resort has a 77,000-square-foot outdoor water park, a 125,000-square-foot indoor water park, seven restaurants, a spa, the 27-hole Trappers Turn Golf Course, and shopping outlets. The lobbies have artificial trees, fountains, animals, and other African-inspired decor. The resort has two main restaurants: The Great Karoo and Kahunaville.

The following figure shows a picture of the indoor water park.

Figure 7-1



The indoor water park is the largest in Wisconsin and the second largest in the United States. Admission is included in the daily room rate for guests, but the public is able to purchase tickets for the day. In 2002, the resort underwent a \$12 million expansion that included the first indoor FlowRider surfing attraction and the Master Blaster water roller coaster. The outdoor water park, Noah's Ark, is the largest in the U.S.

The amenities and number of rooms that this resort offers makes it attractive to meeting planners, however given the character and seasonality of the resort, it is not often that it acts as a true competitor with Madison. It is the closest competitor geographically, so it will always offer some competition for certain pieces of business. The addition of a 350 to 400-room hotel in Madison would help it pull away from the Kalahari as a competitor.

Milwaukee, Wisconsin

The Midwest Airlines Center (MAC) is located in Milwaukee, Wisconsin and has two hotels attached/adjacent to the center: the Hilton Milwaukee City Center and the Hyatt Regency Hotel. There are approximately 1,900 hotel rooms within 1,200 feet of the MAC. The MAC offers approximately 188,700 square feet of exhibit space, 37,500 square feet of ballroom space, approximately 40,000 square feet of meeting space, and a 24,000-square-foot auditorium, giving the facility a total of almost 289,600 square feet of function space.

The primary convention headquarter hotel is the Hilton Milwaukee City Center, which has 730-rooms, nearly 13,000 square feet of ballroom space, more than 16,000 square feet of meeting space, and an indoor water park. The Hilton opened in 1928,

formally known as the Schroeder Hotel, Schroeder Sheraton, Marc Plaza Hotel and Milwaukee Hilton. In 1995, after a multi-million dollar renovation, the hotel was re-branded as a Hilton property.

The following figure displays a picture of the Hilton.

Figure 7-2



The Hilton has three restaurants including the fine dining restaurant the Milwaukee ChopHouse. The Hilton is attached to the Midwest Airlines Center via a skywalk, making it a popular hotel for meeting planners.

The secondary headquarters hotel is also much newer than the Hilton. The Hyatt Regency has 484-rooms, approximately 15,200 square feet of ballroom space, and nearly 4,700 square feet of meeting space, totaling 19,865 square feet of function space. The Hyatt opened in 1980 and was recently renovated in early 2008.

The following figure shows a picture of the hotel.

Figure 7-3



The hotel has two restaurants, including the revolving roof top restaurant called Polaris, a business center, 24-hour gym, sports bar and retail shops. The Hyatt is also connected to the Midwest Airlines Center via skywalk.

While Milwaukee has considered an expansion of the MAC and development of other hotels nearby in the past, nothing appears to have gained traction. However, the area north of the MAC is undergoing significant redevelopment that will include a mix of uses, including proposed hotels. This will add to its competitiveness.

Milwaukee's Midwest Airlines Center is an example of how two hotels serve the same convention center, similar to what is being proposed in Madison. The two hotels together provide more than 1,200 connected rooms to the MAC and there are an additional 700 rooms within walking distance of the MAC. Since Milwaukee is the state's largest city, it has better air access and larger and more plentiful convention amenities; it is a very strong competitor to Madison, especially for state and regional business. In terms of safety and quality of life, Madison still has a perceived advantage to Milwaukee. Adding a large convention hotel to Madison would make it more competitive with Milwaukee, and provide a much better balance of hotel rooms to convention space.

Minneapolis, Minnesota

The Minneapolis Convention Center (MCC) is located in downtown Minneapolis, Minnesota. There are more than 1,900 rooms within 1,200 feet of the MCC, with the 821-room Hilton and 533-room Hyatt Regency serving as the headquarter hotels. The MCC has 475,200 square feet of exhibit space, 27,522 square feet of ballroom space, and approximately 98,000 square feet of meeting space, totaling over 600,600 square feet of function space.

The Hilton Minneapolis, which opened in 1992, is the largest hotel in downtown and the entire market, with 821 rooms. It is located nearly two blocks from the MCC and is connected by skyway. Fifty-one suites are included in the total. It serves as the anchor headquarter hotel for the MCC and provides 45,000 square feet of function space, or 55 square feet per room. It was developed and opened in 1992 with substantial public financial support. The city profited from its investment in the facility and sold its stake at the height of the economic boom of the 1990s. The function space at the hotel is comparatively lower than many headquarter hotels in the US, especially as it relates to ballroom space. Most hotels of this size thrive with a grand and junior ballroom, but this hotel only has one large ballroom. In 2004 the hotel underwent a renovation, and remodeled all of the meeting space, restaurant, and bar.

The 533-rooms Hyatt Regency opened in 1957 and has undergone numerous renovations to keep it up to date. In 2009, the hotel is expected to undergo another full renovation. Each room features large picture windows that offer views of Loring Park and the Minneapolis skyline. The Hyatt has a 30,000-square foot exhibit hall, 23,356 square feet of ballroom space, and 4,500 square feet of meeting room space, totaling approximately 67,000 square feet of function space. Four restaurants are located on-site including the award-winning Manny's Steakhouse, an indoor pool and fitness center, spa and retail shops.

Minneapolis expanded its convention center always expecting that it would add another headquarter hotel to support it, however the political and financial pieces have not yet come together yet. HSP studied a 1,200-room convention hotel for Minneapolis in 2006 and as recently as this fall, the idea had yet to gain local political support. However, while this means Minneapolis suffers in its competition with major convention cities around the U.S., it also means that Minneapolis competes with smaller markets such as Madison for business, and does so very effectively. A convention hotel in Madison will help fend off advances from Minneapolis and similar sized markets.

Chicago, Illinois

Chicago is home to the largest convention center in the United States, McCormick Place with a total of 3.6 million square feet of function space, of which 2.7 million square feet is exhibit space. The newest expansion opened in August of 2007 and it added another 470,000 square feet of exhibit space, as well as a 100,000-square-foot ballroom, one of the world's largest. Attached to McCormick Place is the 800-room Hyatt Regency Hotel. A proposal for a 600-room expansion to the McCormick Place Hyatt to 1,400 rooms and a second proposal for a 1,500-room casino hotel across the street from McCormick Place provide additional opportunities to secure group business.

The following figure displays a picture of the Hyatt Regency.

Figure 7-4



The Hyatt Regency McCormick Place is attached to the McCormick Place and opened in 1998. The Hyatt has 45,866 square feet of ballroom space and 25,873 square feet of meeting space. The convention center and hotel are located on the south side of the city, approximately 1.5 miles from any meaningful downtown hotels. This puts Chicago at a bit of a disadvantage in some respects, although most of its competitors (Las Vegas, Orlando) have similar distance issues for many of their largest hotels.

Yet Chicago remains a competitor to Madison, not only due to the convention center and Hyatt, but primarily due to many of the large hotels that can offer more rooms and function space under one roof than the package that Madison can put together. This includes the Hilton Chicago, Palmer House Hilton and Hyatt Regency Wacker Drive, each with approximately 2,000 rooms and massive amounts of function space.

Chicago will always present a stiff challenge to regional competitors and adding a convention hotel adjacent to the Hilton in Madison will help, but will not eliminate the competition from Chicago. However, it will set up more of a fair competition between meeting packages, at least when competing with large Chicago hotels.

St. Paul, Minnesota

The \$250 million Saint Paul RiverCentre is located in downtown St. Paul, Minnesota. The RiverCentre has approximately 68,000 square feet of exhibit space, 27,111 square feet of ballroom space, 19,237 square feet of meeting space, and a 44,800-square foot auditorium, giving the facility a total of 159,144 square feet of function space. There are a total of 541 rooms within 1,200 feet of the RiverCentre, including the 254-rooms St. Paul Hotel adjacent to the facility.

The following figure displays a picture of the hotel.

Figure 7-5



The Saint Paul Hotel opened in 1910 and has 254 rooms. In 2005, the hotel underwent a renovation to give the rooms a classic décor and modern amenities. There are over 8,200 square feet of meeting space in the hotel as well as two restaurants.

Saint Paul has considered additional hotel development to support the RiverCentre (site of the 2008 Republican Convention), however no projects are in the works. Interestingly, most of the hotels in downtown St. Paul have had some form of public subsidy or ownership. Overall, St. Paul remains a competitor to Madison, but if Madison adds a 350 to 400-room convention hotel, it will be much stronger and out-compete St. Paul for many events.

Green Bay, Wisconsin

The KI Convention Center (KICC) is located in Green Bay, Wisconsin. The KICC has approximately 17,350 square feet of exhibit space, 26,300 square feet of meeting space, and no ballroom, totaling 43,640 square feet of function space. There are a total of 486 rooms within 1,200 feet of the KICC, with the 147-room Holiday Inn adjacent to the center.

The Holiday Inn has 4,620 square feet of meeting space and offers an indoor pool and fitness center. This hotel is not comparable to the hotel being proposed in Madison and the convention center is also not very competitive.

Any new development in Madison in terms of a convention hotel will continue to set Madison apart from Green Bay.

Des Moines, Iowa

The Iowa Events Center (IEC) is located in Des Moines, Iowa, and consists of the Veterans Memorial Auditorium, the Polk County Convention Center Complex, Hy-Vee Hall, and the Wells Fargo Arena. The IEC opened in 2004 at a cost of \$217 million. The convention center has nearly 219,000 square feet of exhibit space, no ballroom space, and over 59,200 square feet of meeting space, totaling 278,141 square feet of function space. There are 754 hotel rooms within 1,200 feet of the IEC, with the 415-room Marriott connected to the center.

The following figure shows a picture of the hotel.

Figure 7-6



The Marriott hotel was built in 1980 and was renovated in 2000. The hotel offers 9,800 square feet of exhibit space, 13,830 square feet of ballroom space and 45,000 square feet of meeting space. Amenities include the Rock River Grill and Tavern, a pool, sauna, and 24-hour gym. The city is considering adding another convention hotel and has studied the concept.

Des Moines has been surprisingly competitive in the last several years as it has developed its downtown. However, if Madison is able to develop a convention hotel as proposed, Madison will move ahead of Des Moines in terms of the hotel package available.

National Competitors

Grand Rapids, Michigan

DeVos Place is a state-of-the-art convention center with 1 million gross square feet of new and renovated space in downtown Grand Rapids. Initially DeVos Place was a 150,000-square foot facility that underwent an expansion of 85,000 square feet in 2005. The amount of current exhibit space is 162,000 square feet, 40,000 square feet of ballroom space, and over 31,000 square feet of meeting rooms. There are 1,022 hotel rooms attached and within 1,200 feet of the DeVos Place.

The Amway Grand Plaza is the largest hotel connected to the DeVos Place Convention Center. Originally opened in 1913 as the Pantlind Hotel, it was purchased by the Amway Corporation and reopened in 1981. It has 682 guest rooms and 35 meeting rooms. The hotel boasts all the modern amenities associated with a business hotel as well as first class dining and entertainment outlets and a walkway to DeVos Convention Center.

The following figure shows a picture of the hotel.

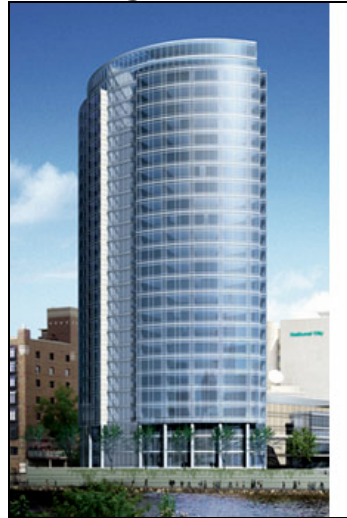
Figure 7-7



The JW Marriott, also owned by the Amway Corporation and connected to DeVos Place, is one of the newest hotels in town. It caters to the luxury traveler and has 340 rooms and suites as well as 20,000 square feet of meeting space. The Hotel has the JW signature six.one.six restaurant and lounge. At the other end of the spectrum, a Courtyard by Marriott is also attached to the center.

The following figure shows a picture of the JW Marriott.

Figure 7-8



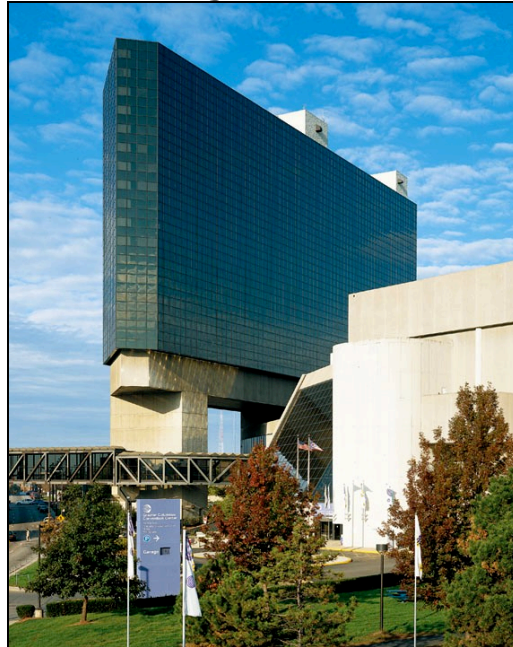
Grand Rapids suffers from similar airlift access and cost issues as Madison, but it has a much more compelling hotel and convention center package in terms of facilities and connectivity. If Madison builds a convention hotel, it will help to keep it competitive with Grand Rapids, although both its convention center and hotel package will still be smaller.

Columbus, Ohio

The Greater Columbus Convention Center (GCCC) is located in downtown Columbus, Ohio, and opened in 1993. The GCCC has 426,000 square feet of exhibit space, 39,729 square feet of ballroom space, and 58,132 square feet of meeting space, totaling nearly 524,000 square feet of function space. There are 1,716 hotel rooms within 1,200 feet of the GCCC, with the Hyatt Regency, which is connected to the center, serving as the headquarter hotel. There is also a 300-room Crowne Plaza Hotel adjacent to the facility.

The following figure shows a picture of the Hyatt Regency.

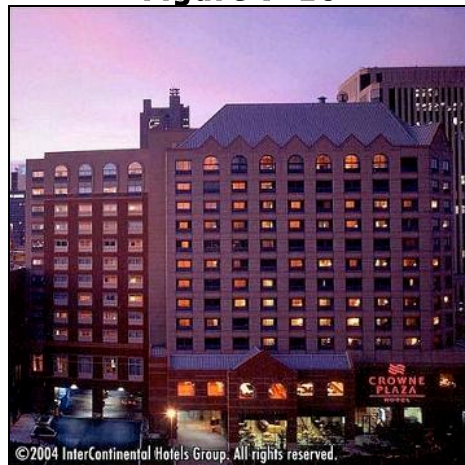
Figure 7-9



The 631-room Hyatt Regency, built in 1980, is connected to the GCCC via skywalk. The Hyatt has 22,550 square feet of ballroom space and approximately 37,800 square feet of meeting space, totaling 60,306 square feet of function space. The hotel has two restaurants, a fitness center and indoor pool.

The following figure shows a picture of the Crowne Plaza Hotel.

Figure 7-10



The 300-room Crowne Plaza Hotel is located adjacent to the GCCC and was renovated in 2005. The hotel has 19,676 square feet of meeting space including a 7,500 square foot ballroom, an indoor pool and fitness center, and two restaurants.

Columbus is an attractive, walkable convention city, with easy airport access and competitive fares. While it has been seeking a new convention hotel of at least 600 rooms for many years, it still has not achieved this goal. However, because it is already providing more than Madison can in its current or future state (with a new hotel), Madison will only work to be relatively more competitive with Columbus.

Washington D.C.

The Walter E. Washington Convention Center (WCC) is located in downtown Washington, D.C. The WCC has 703,000 square feet of exhibit space, 52,000 square feet of ballroom space, and 118,710 square feet of meeting space, totaling nearly 874,000 square feet of function space. There are 2,572 hotel rooms within 1,200 feet of the WCC with the 807-room Renaissance Hotel, which is adjacent to the center, serving as the headquarter hotel.

The following figure shows a picture of the Renaissance Hotel.

Figure 7-11



The Renaissance Hotel, a luxury hotel, has 807-rooms and is located adjacent to the WCC. Built in 1989, the hotel underwent a renovation in 1999. There is approximately 55,000 square feet of function space, including 39,000 square feet of ballroom space, 12,400 square feet of meeting space and a 4,500 square foot auditorium. The hotel also has a spa, fitness center, and an indoor pool.

Washington, DC is always a strong competitor for national meetings business as it is the nation's capitol and is home to more association headquarters than any other city. Madison can improve its relative strength with a new hotel, but will not make Washington, DC any less competitive. Interestingly, efforts to build a 1,500-room convention hotel in Washington have not been successful, after several years of effort.

Denver, Colorado

The Colorado Convention Center (CCC) is located on the west side of downtown Denver. In 2004, the CCC underwent a \$340 million expansion to double its function space to over 765,300 square feet. The CCC has 579,000 square feet of exhibit space, 94,720 square feet of ballroom space, 91,652 square feet of meeting space, and the 5,000 seat Wells Fargo Theatre. There are 2,634 hotel rooms within 1,200 feet of the CCC with the 1,100-room Hyatt Regency serving as the headquarters hotel.

The following figure shows a picture of the Hyatt Regency.

Figure 7-12



The 1,100-room Hyatt Regency has is located across from the CCC and was built in 2005 via a tax-exempt bond funding model. The hotel has 8,500 square feet of exhibit space, 36,000 square feet of ballroom space, and 7,848 square feet of meeting room space, totaling 62,207 square feet of function space. Amenities include three restaurants; including a roof-top lounge on the 27th floor, and a 6,700-square-foot fitness center that features an indoor lap pool, spa, sauna, and hot tub.

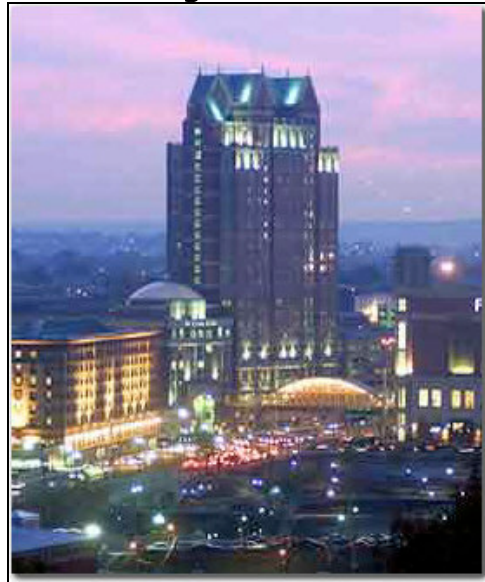
Denver took a major leap forward with the CCC's expansion and development of the Hyatt. As such, it competes favorably with Madison, however, whenever large facilities get even bigger, it provides an opportunity for smaller, quality venues like Madison. In smaller market, as long as the hotel package is appropriate, a meeting or event can 'own' the facility and hotels during its stay, whereas in a big city it is just one of many simultaneous events. If Madison provides the appropriate package, it can compete for business that is now too small for Denver.

Providence, Rhode Island

The Rhode Island Convention Center (RICC) is located in downtown Providence, Rhode Island and was built in 1994. The RICC has 100,000 square feet of exhibit space, 20,000 square feet of ballroom space, and 14,216 square feet of meeting space. There are 1,259 hotel rooms within 1,200 feet of the RICC, with the 564-room Westin serving as the headquarter hotel.

The following figure shows a picture of the Westin Hotel.

Figure 7-13



The 564-room Westin is connected to the RICC. The Westin has 15,700 square feet of ballroom space and 4,500 square feet of meeting space. Amenities include an indoor pool, fitness center, and the Agora Restaurant. The hotel was expanded by 200 rooms in 2006 in an effort to provide a better rooms package.

Providence took the necessary steps to improve its hotel package and so can compete very well with Madison. However, if Madison builds a hotel as proposed, it will come closer to competing evenly with Providence.

Albuquerque, New Mexico

The Albuquerque Convention Center (ACC) is located in downtown Albuquerque, New Mexico. The ACC has over 166,500 square feet of exhibit space, 31,164 square feet of ballroom space, and 47,447 square feet of meeting space. There are 690 hotel rooms within 1,200 feet of the center, but like Portland, no hotel serves as a headquarter hotel. The City of Albuquerque recently hired a consulting firm to do a study on a hotel and the study found that if the convention center gets the recommended renovations and the 12,000-square-foot event center is built, then the market can support a 550-room headquarter hotel.

Albuquerque has many similarities to Madison and it is logical that the city would be considering a convention headquarters hotel. The reason for the larger convention hotel is the larger convention center. If either city builds its proposed hotel, it will significantly enhance its position relative to the other.

Portland, Oregon

The Oregon Convention Center (OCC) is located Portland, Oregon, across the Willamette River from downtown. Built in 1990, the OCC underwent an expansion in 2003. The OCC is located adjacent to the Rose Quarter Campus, which includes the Memorial Coliseum complex. The OCC has 255,000 square feet of exhibit space, 59,400 square feet of ballroom space, and 28,100 square feet of meeting room space. The OCC does not have a headquarter hotel, but a 600-room headquarter hotel has been proposed for many years, and has been the subject of many studies and developer and financing proposals.

Figure 7-14



Oregon Convention Center

The lack of a convention center hotel has vexed the Oregon Convention Center and the City of Portland for many years, especially since its 2003 expansion. Madison will be able to extend its competitiveness over Portland with a new hotel, especially if no hotel is built attached to the OCC.

Austin, Texas

The Austin Convention Center (ACC) is located in downtown Austin, Texas. The ACC was built in 1992 and is owned and operated by the City of Austin. The facility completed a \$110 million dollar expansion in 2002. The ACC has 246,100 square feet of exhibit space, 66,700 square feet of ballroom space, and 54,500 square feet of meeting room space. There are 1,540 hotel rooms within 1,200 feet of the ACC with the 800-room Hilton Hotel serving as the headquarter hotel.

The following figure displays a picture of the Hilton.

Figure 7-15



The 800-room tax-exempt bond financed Hilton opened in 2003 and is located adjacent to the ACC in the Warehouse District. The Hilton has 43,000 square feet of ballroom space and 12,465 square feet of meeting room space. Amenities include a spa, fitness center, outdoor pool and sundeck, three restaurants, a business center and flat screen TV's in each room.

With the addition of the Hilton, Austin became a national mid-sized convention center destination with many similar attributes to Madison. If Madison can add a hotel to balance out its function space at Monona Terrace and provide it with a competitive hotel package, it will compete better against cities like Austin.

Omaha, Nebraska

The Qwest Center is a convention center and arena located in the NoDo ("North of Downtown") area of Omaha, Nebraska. The Qwest Center was built in 2003 and has 194,300 square feet of exhibit space, approximately 42,000 square feet of ballroom space, and 22,000 square feet of meeting space. There are 809 hotel rooms within 1,200 feet of the Qwest Center with the 450-room Hilton Hotel as the headquarter hotel.

The following figure displays a picture of the Hilton.

Figure 7-16



The tax-exempt bond financed Hilton, built in 2003, has 450-rooms and is connected to the convention center.. The Hilton is the only luxury property in Nebraska, and has 10,000 square feet of ballroom space, and 13,200 square feet of meeting space. Amenities include one restaurant, a pool and fitness center.

The Hilton was developed by the public sector, and Omaha immediately became a tough competitor for smaller and even large cities in the middle third of the U.S., including Madison. Without a new convention hotel, Madison will not be able to offer as compelling a package as Omaha.

Comparable Cities

HSP reviewed information from cities comparable to Madison with convention center hotel properties that have similar attributes to those of Monona Terrace. These facilities may not necessarily be competitive yet, but they have many amenities that place them in a competitive and comparable position. The following cities are considered to be comparable to Madison in terms of being a capital city, meeting space availability, university population, and hotel proximity to the convention center:

- Columbia, SC
- Little Rock, AR
- Boise, ID
- Raleigh, NC

The following table displays the comparable facilities convention space and hotel.

Table 7-2

Comparable Destinations								
City	Meeting Facility	Exhibit Space (SF)	Ballroom Space (SF)	Meeting Space (SF)	Theater/ Arena Space (SF)	Total Facility* (SF)	Adjacent Hotels	Rooms
Columbia	Columbia Metro CC	24,700	17,135	13,650	0	55,485	Hilton	222
Little Rock	State House CC	82,892	18,362	8,164	0	109,418	Peabody DoubleTree	418 287
Boise	Boise Center on the Grove	24,426	0	19,204	7,645	51,275	Hotel 43 The Grove Hotel <i>Adjacent Hotel to New CC</i>	112 253 250
Raleigh	Raleigh CC	29,900	28,560	15,933	19,600	93,993	Sheraton Marriott (new)	355 400
<i>Average</i>		<i>161,918</i>	<i>64,057</i>	<i>56,951</i>	<i>27,245</i>	<i>310,171</i>		<i>574</i>

**Foyers, Atriums, and Terraces are not included in function space.
Source: HSP, Respective Properties*

Of the four cities in the table above, total function space averaged approximately 107,061 square feet with adjacent hotel rooms (one or more hotels) averaging 574 rooms.

Columbia, South Carolina

The Columbia Metro Convention Center (CMCC) in Columbia, South Carolina is located in downtown Columbia next to the University of South Carolina. Columbia has an MSA population of approximately 704,000 people with its largest university, USC having a student population of 23,730.

The following table displays the breakout space at the CMCC.

Table 7-3

Columbia Metropolitan Convention Center Function Space			
	Total (SF)	By Division (SF)	Divisions
Exhibit Space			
Exhibit Hall	24,700	24,700	1
Ballroom Facilities			
Columbia Ballroom	17,135		3
Columbia Ballroom Salon A		5,375	
Columbia Ballroom Salon B		5,470	
Columbia Ballroom Salon C		6,290	
Meeting Rooms	13,650	13,650	9
	<u>55,485</u>	<u>55,485</u>	<u>13</u>
Adjacent Hotel Rooms	222		
Total Exhibit Space	24,700	Per Guest Room	111
Total Ballroom Space	17,135		77
Total Meeting Space	13,650		61
Other Space	0		0
Total Function Space	<u>55,485</u>		<u>250</u>
Total Exhibit Space Divisions	1	/100 Guest Rms	0
Ballroom Divisions	3		1
Meeting Room Divisions (incl. audit/amph)	9		4
Total Divisions (including Ballroom)	<u>13</u>		<u>6</u>

Source: Columbia CVB, mpoint.com, HSP

The CMCC has 24,700 square feet of exhibit space, approximately 17,100 square feet of ballroom space, and approximately 13,650 square feet of meeting room space totaling 55,485 square feet of function space. The CMCC has a 222-room Hilton Hotel adjacent to the center, which has one ballroom of 3,600 square feet and four meeting rooms totaling 2,356 square feet.

With such a small facility, it may not need many more hotel rooms to suit it, however as with most such facilities, expansion is likely to occur, which will suggest additional hotels.

Little Rock, Arkansas

The Statehouse Convention Center (SCC) is located in downtown Little Rock, Arkansas, near the historic River Market District. The River Market District has a large concentration of shops, entertainment venues and restaurants. Little Rock,

Arkansas, has an MSA population of approximately 657,400 people. The largest university in Little Rock is the University of Arkansas-Little Rock, with a student population of approximately 13,000.

The following table displays the breakout space at the SCC.

Table 7-4

Statehouse Convention Center Function Space			
	Total (SF)	By Division (SF)	Divisions
Exhibit Space			
The Governor's Exhibition Hall	82,892		4
The Governor's Exhibition Hall I		19,991	
The Governor's Exhibition Hall II		20,997	
The Governor's Exhibition Hall III		20,882	
The Governor's Exhibition Hall IV		21,022	
Ballroom Facilities			
Statehouse Ballroom	18,362		3
Ballroom A		9,959	
Ballroom B		4,516	
Ballroom C		3,887	
Meeting Rooms	8,168	8,168	11
	<u>109,422</u>	<u>109,422</u>	<u>18</u>
Adjacent Hotel Rooms			
Adjacent Hotel Rooms	418		
Total Exhibit Space	82,892	Per Guest Room	198
Total Ballroom Space	18,362		44
Total Meeting Space	8,168		20
Other Space	0		0
Total Function Space	109,422		262
Total Exhibit Space Divisions	4	/100 Guest Rms	1
Ballroom Divisions	3		1
Meeting Room Divisions (incl. audit/amph)	11		3
Total Divisions (including Ballroom)	18		4

Source: Little Rock CVB, mpoint.com, HSP

The SCC has 82,892 square feet of exhibit space, approximately 18,362 square feet of ballroom space, and approximately 8,168 square feet of meeting room space totaling 109,422 square feet of function space. The SCC is attached to the 418-room Peabody Hotel, a luxury hotel with a fine dining restaurant Capriccio Grill Italian Steakhouse, with a 10,800 square foot ballroom, and 11 meeting rooms totaling 13,096 square feet. A 287-room Doubletree Hotel is adjacent to the facility as well.

The hotel and convention center package in Little Rock is balanced and competitive. It is another example of a convention center in a mid-sized market with multiple hotels attached.

Boise, Idaho

The Boise Center on the Grove is located in downtown Boise, Idaho. Boise has an MSA population of approximately 568,000 people. The largest university in the area is Boise State University with a student population of approximately 16,300.

The following table displays the breakout space at the Boise Center.

Table 7-5

Boise Centre on the Grove Function Space			
	Total (SF)	By Division (SF)	Divisions
Exhibit Facilities			
The Eyries	24,426		1
Meeting Rooms	19,204	19,204	8
	43,630	19,204	9
Summit Auditorium	7,645		
Adjacent Hotel Rooms	253		
Total Exhibit Space	24,426	Per Guest Room	97
Total Ballroom Space	0		0
Total Meeting Space	19,204		76
Other Space	7,645		30
Total Function Space	51,275		203
Total Exhibit Space Divisions		1 /100 Guest Rms	0
Ballroom Divisions	0		0
Meeting Room Divisions (incl. audit/amph)	8		3
Total Divisions (including Ballroom)	9		4

Source: Boise Center on the Grove, mpoint.com, HSP

The Boise Center has 24,426 square feet of exhibit space, 19,204 square feet of meeting room space, and a theater that holds 350 people, with a total square footage of 51,275. The 253-room Grove Hotel is located adjacent to the Boise Center and is the only full service luxury hotel in Boise. Hotel 43, a 112-room hotel is also adjacent to the Center. The hotel developer John Q. Hammons has proposed a new 250-room Marriott hotel and 130,000 square foot convention center in downtown at a cost of \$100 million, but plans have been put on hold.

Raleigh, North Carolina

The Raleigh Convention Center (RCC) is located in downtown Raleigh, North Carolina and opened in September 2008. Raleigh has an MSA population of approximately one million. The largest university in Raleigh is North Carolina State University at Raleigh with a student population of approximately 28,600.

The following table displays the breakout space at the RCC.

Table 7-6

Raleigh Convention Center Function Space			
	Total (SF)	By Division (SF)	Divisions
Exhibit Space			
Exhibit Hall	146,843		3
Exhibit Hall A		45,638	
Exhibit Hall B		54,269	
Exhibit Hall C		46,936	
Ballroom Facilities			
Ballroom	32,617		3
Ballroom A		10,105	
Ballroom B		12,440	
Ballroom C		10,072	
Meeting Rooms	32,601	32,601	20
	<u>212,061</u>	<u>212,061</u>	<u>26</u>
Adjacent Hotel Rooms	400		
Total Exhibit Space	146,843	Per Guest Room	367
Total Ballroom Space	32,617		82
Total Meeting Space	32,601		82
Other Space	0		0
Total Function Space	212,061		530
Total Exhibit Space Divisions	3	/100 Guest Rms	1
Ballroom Divisions	3		1
Meeting Room Divisions (incl. audit/ampl)	20		5
Total Divisions (including Ballroom)	26		7

Source: Raleigh CVB, mpoint.com, HSP

The RCC has approximately 146,800 square feet of exhibit space, approximately 32,600 square feet of ballroom space, and approximately 32,600 square feet of meeting room space, with a total square footage of approximately 212,000. A new 400-room Marriott Hotel was built connected to the Convention Center. The Marriott Hotel has 9,000 square feet of ballroom space and 5,950 square feet of meeting

room space. Also adjacent to the RCC is a 353-room Sheraton Hotel, which offers 18,000 square feet of meeting space.

With the opening of the new Marriott, Raleigh should move from a comparable market to a competitive market, as it has a strong package of hotel rooms and a new facility in a vibrant, temperate climate.

Conclusion

Madison has a challenge when it comes to remaining competitive with other meetings venues across the region and country. Madison is a city with great destination appeal, steady demand generators as the state capitol and the University of Wisconsin. However, it lacks adequate supply of quality hotel rooms that can be dedicated to attract group business from out of town. Therefore it cannot capture the revenue and economic benefits from those groups that now choose another location for their events and meetings.

The data shows that Madison loses enough business to its competitors that could justify a significant addition to the supply of rooms in close proximity to Monona Terrace. The cities with which Madison competes will continue to win more business as they improve themselves as meetings destinations if Madison chooses to continue offering an often unmanageable, inconvenient and somewhat outdated set of rooms for groups.

CHAPTER 8

RECOMMENDATIONS

This chapter includes a discussion of implications for the proposed project and makes initial recommendations for the project that optimizes the opportunity.

As a result of the preceding study of supply, demand and opportunities, and synthesis of the various factors affecting the proposed project in Madison, HSP has determined that a convention hotel is necessary to remain competitive, optimize Monona Terrace, and is feasible after stabilization.

Discussion of Need, Strengths, Weaknesses, Opportunities and Threats

When considering the idea to develop a hotel, one must consider the strengths, weaknesses, opportunities and threats of and for such a development.

Strengths

- **Location.** Downtown Madison as a destination offers amenities that visitors and meeting attendees prefer such as choices for dining and shopping and cultural venues.
- **Access.** Potential sites that would be suitable for the project have good access that would make them attractive to users. Downtown Madison itself is not located on a major interstate but has access to I- 90/94 and I-39.
- **Increasing Population.** The population of the local and regional areas has grown significantly over the last ten years and continues to increase. This increasing population provides a growing base of business in every major segment for a hotel (business, group and leisure). The growing population also enlarges the group base for Monona Terrace public events.
- **Excellent Demographics.** The market has the third-highest educated workforce in the country, which has accompanied strong market growth and high wages. These factors bode well for events and hotel success.
- **Relatively Strong Hotel Market.** The hotel market for the competitive set is performing well, and has continued to improve, despite nationwide declines over the past year. Even during the last recession and addition of the Hilton, the market absorbed the property well and RevPAR only declined slightly in one year.
- **Balanced Economy.** The economy of the area, both regionally and locally, is fairly balanced and should not suffer at a greater rate than the overall economy due to the presence of large numbers of government, healthcare and education jobs.

- **City Owned Land.** The city owns land that could be suitable for a hotel downtown near the convention center. Some parcels are a combination of city and state ownership and can be made available to the project.
- **Strong Leadership.** Local civic and political leaders have shown the vision and commitment to move downtown projects forward.

Weaknesses

- **Airport Access and Cost.** Madison is not competitive in terms of airline fares and is also has limited direct flights to other cities. Demand for a new hotel can be impacted if groups, especially those from out of state cannot get to Madison easily or inexpensively. This is a factor that a convention hotel will not likely impact.
- **Existing Hotel Package.** This is a weakness for Monona Terrace, yet is an opportunity for a new hotel. There are no hotels that offer the combination of full-service amenities, adequate function space, location and quality that a convention center needs to thrive.
- **Weak CVB Funding.** Madison has a relatively small destination marketing budget to use for capturing visitors, compared to most of its competitors. Compounded with the lack of hotel rooms considerably puts Madison at a disadvantage when competing for business.

Opportunities

- **The Group Market is Relatively Stable.** The local market for meetings and events continues to grow with the business, education and government in the community and the regional population. Even when economic times are difficult, group business is less affected than corporate travel and therefore can offer a stabilizing effect on the hotel market.
- **Lack of Quality Hotels Downtown.** Except for the Hilton and the Madison Concourse, the quality of the downtown hotel room supply is lacking. A number of the properties in the market are considerably older and outdated. Feedback from guests has indicated that they would prefer newer accommodations.
- **Lack of Proper Headquarters Hotel.** No single hotel meets the needs of downtown and the convention center: a large, full-service, branded convention headquarter hotel with a large number of rooms and meeting space.

Threats

- **U.S. Economy and Declining Demand.** The U.S. economy has been experiencing signs of extreme weakness in the past few months due to the housing credit crisis and financial meltdown. This could dampen demand growth for a convention and hotel facility in the short-term.

However, the long-term tourism infrastructure needs of Madison and external competitive threats suggest that a large convention hotel be planned and developed despite the current market conditions.

- **Existing/Proposed Hotels Nearby.** There have been plans discussed for other new hotels downtown and enhancements to the existing supply. This could actually complicate matters for a convention hotel, as these plans would not aim to expand demand as they would not be directly increasing Madison’s “walkable” hotel room supply. Instead they would create more of the same situation of scattered hotel rooms throughout downtown, and likely dividing demand further.
- **Competitors with Improved Hotel Packages.** Cities that compete with Madison for meetings business pose a threat every time an improvement is made to one of their facilities or hotels. Meeting planners will often choose the city that had the most convenient and cost effective rooms. With room blocks scattered throughout the city, Madison is often beaten by other destinations that offer a tighter, larger hotel package of rooms.

Recommendations

Based on these various factors. The following table summarizes the recommendations for the hotel.

Table 8-1

Summary of Recommendations		
Proposed Improvements		
Assumed Opening Date	January 1, 2012	
Hotel	Full-Service, Branded, HQ Meeting Hotel	
Guest Rooms	400	
Function Space	Size (SF)	Divisions
Grand Ballroom	14,000	4
Junior Ballroom	4,800	3
Meeting rooms	10,000	13
Board Room	500	1
Total	29,300	20
Parking	380	
Source: HSP		

It is recommended that the hotel be a full-service branded hotel of 400 rooms. Unlike the Hilton, the hotel should have its own adequate function space, including two ballrooms, meeting rooms and a boardroom. This allows the hotel to generate

group business when the convention center may not be able. Parking at the hotel is recommended to be at least 380 spaces.

The table below shows more specifics for the hotel recommendation.

Table 8-2

Recommended Hotel Components		
Item	Count	Unit
Guest Rooms (Total)	400	Rooms
Grand Ballroom	14,000	Square Feet
Junior Ballroom	4,800	
Meeting Rooms (5)	10,000	
Board Room (1)	500	
Parking	380	Spaces
Three-meal Restaurant	96	Seats
Fine Dining/Steak Restaurant	80	
Sports Bar	72	
Lobby Lounge/Bar	16	
Spa	Yes	
Indoor Pool	Yes	
Fitness Center	Yes	
Concierge Desk	Yes	
Business Center	Yes	
Extended Hours Room Service	Yes	
High Speed Internet (Wi/Fi)	Yes	
Source: HSP		

The hotel is recommended to have its own substantial amount of function space, as detailed above. The purpose of internal function space is to allow the hotel to induce its own in-house meetings business when the CVB or Monona Terrace is not generating business for the hotel. It also provides an offsite meeting package for convention planners that may want to host board meetings or other side meetings during a convention. Additional meeting demand could be generated as well through the national sales force associated with the brand of the property. It is highly unlikely that a new convention hotel would be part of the Hilton brand family. Access to a new reservation pipeline and sales force would be an advantage for Madison as a destination. There are several brand options that would enhance the hotel.

Three restaurants are suggested in the hotel. One of the restaurants should offer three-meals per day and serve a generally upscale menu. This is where the morning breakfast buffet will be served. The other two restaurants will be similar in size, but one should likely offer a high-end steak and seafood style experience while the other is recommended to be a more casual sports bar concept, perhaps with live music on

certain nights of the week. In addition, a lobby bar that doubles as a coffee bar in the morning and a standard bar in the evening should be programmed into the hotel. A full-service spa, pool, business center and room service should also be included. Room service late at night (24 hours is recommended) should be included since it is a continual request of meeting planners and their attendees.

Site Discussion

Although no sites have been specifically chosen for consideration, there are parcels within downtown Madison that could be suitable for the project recommended in this report. This will be analyzed and recommendations provided in any Phase II study, which HSP recommends.

One of the most important factors is the proximity of the property to Monona Terrace. Typically, meeting attendees will tolerate a distance of less than four blocks between the hotel and convention center and in many cases the hotels are connected via a conditioned skywalk. HSP recommends a site that is adjacent or connectable to the Hilton and/or Monona Terrace for maximum impact.

CHAPTER 9

PROJECTION OF OCCUPANCY AND AVERAGE DAILY RATE

In this chapter, a penetration model is used to understand how the new hotel will penetrate the competitive set and what occupancy and rate will result.

Competitive Set Supply and Demand Growth

The table below shows the historical and expected competitive set growth by segment from 2001 through 2022. Growth in each segment can be natural growth, new induced growth or can be the set's ability to penetrate the market outside the competitive set's historical pattern.

Table 9-1

Estimated Competitive Set Demand Growth by Segment												
Year	Corporate Transient	% Change	Group	% Change	Leisure	% Change	Total Demand	% Change	Total Supply	% Change	Total Rooms	Occupancy
2001	130,533	--	127,566	--	38,566	--	296,665	--	468,295	--	1,283	63.4%
2002	130,533	0.0%	127,566	0.0%	38,566	0.0%	296,665	0.0%	468,295	0.0%	1,283	63.4%
2003	130,363	-0.1%	127,400	-0.1%	38,516	-0.1%	296,280	-0.1%	468,295	0.0%	1,283	63.3%
2004	143,634	10.2%	137,250	7.7%	41,494	7.7%	319,187	7.7%	468,295	0.0%	1,283	68.2%
2005	142,064	-1.1%	135,750	-1.1%	41,041	-1.1%	315,697	-1.1%	468,295	0.0%	1,283	67.4%
2006	143,314	0.9%	136,944	0.9%	41,402	0.9%	318,475	0.9%	468,295	0.0%	1,283	68.0%
2007	142,976	-0.2%	136,621	-0.2%	41,304	-0.2%	317,724	-0.2%	468,295	0.0%	1,283	67.8%
2008	143,262	0.2%	137,304	0.5%	40,891	-1.0%	321,457	1.2%	468,295	0.0%	1,283	68.6%
2009	141,113	-1.5%	137,304	0.0%	40,687	-0.5%	319,104	-0.7%	468,295	0.0%	1,283	68.1%
2010	141,113	0.0%	137,991	0.5%	40,890	0.5%	319,994	0.3%	468,295	0.0%	1,283	68.3%
2011	142,524	1.0%	139,371	1.0%	41,708	2.0%	323,603	1.1%	468,295	0.0%	1,283	69.1%
2012	153,213	7.5%	168,639	21.0%	44,627	7.0%	366,479	13.2%	614,295	31.2%	1,683	59.7%
2013	159,342	4.0%	188,875	12.0%	46,413	4.0%	394,630	7.7%	614,295	0.0%	1,683	64.2%
2014	161,732	1.5%	198,319	5.0%	47,341	2.0%	407,392	3.2%	614,295	0.0%	1,683	66.3%
2015	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%
2016	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%
2017	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%
2018	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%
2019	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%
2020	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%
2021	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%

Source: HSP

The projection shows the hotel opening at the beginning of 2012 (Total Supply column). The new hotel will represent a 31 percent increase in the competitive set room supply. Note that the Hilton opened in 2001, although demand remained flat the following year, occupancy held steady – just after a period of a travel recession throughout the U.S. This speaks to the ability of high quality product to be absorbed quickly as there is a flight to quality.

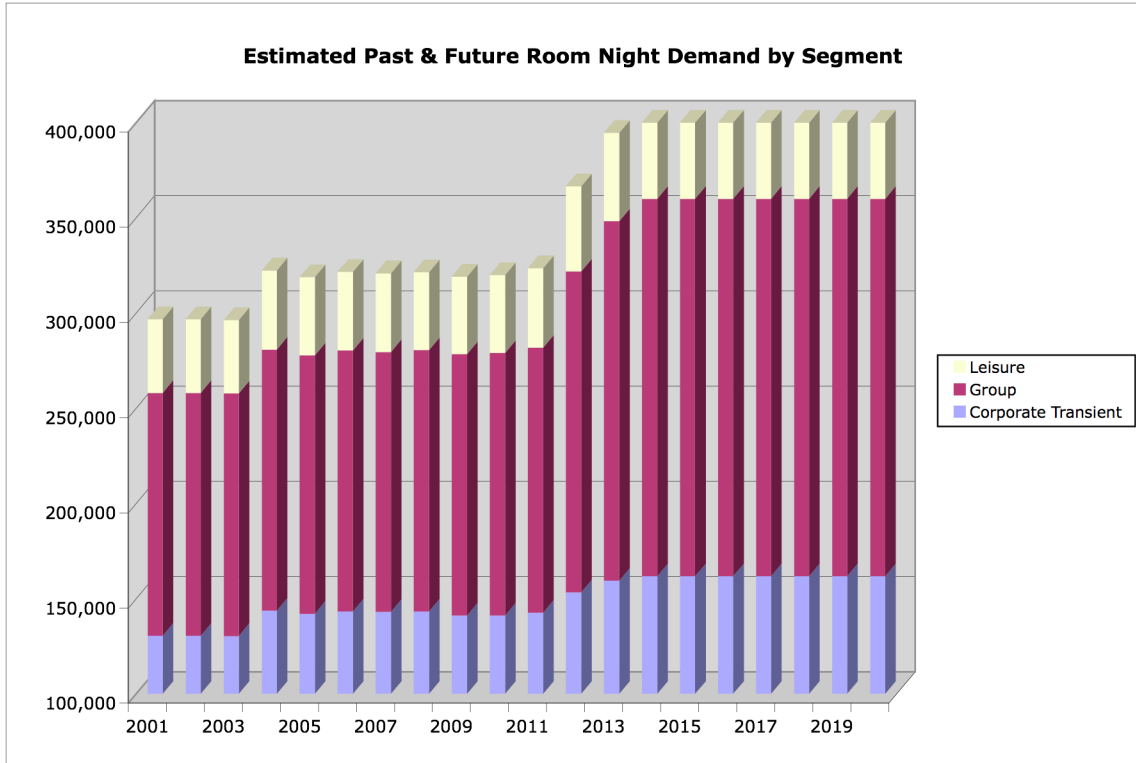
It is assumed the hotel will be absorbed over a three-year period.

Based on the new hotel, overall group room nights are projected to increase from approximately 139,000 before the hotel and convention center open, to 198,000 at

stabilization of the property. Much of this is due to the proposed hotel offering a larger room block for the city and the fact that it will have its own meeting space. Overall occupancy is projected to decrease to 60 percent for the competitive set in 2012 and increase to 66 percent by 2015 as it is expected the new rooms will be nearly absorbed within the period. Absorption for the hotel will occur over four years.

The figure below shows the projection of demand for the competitive set.

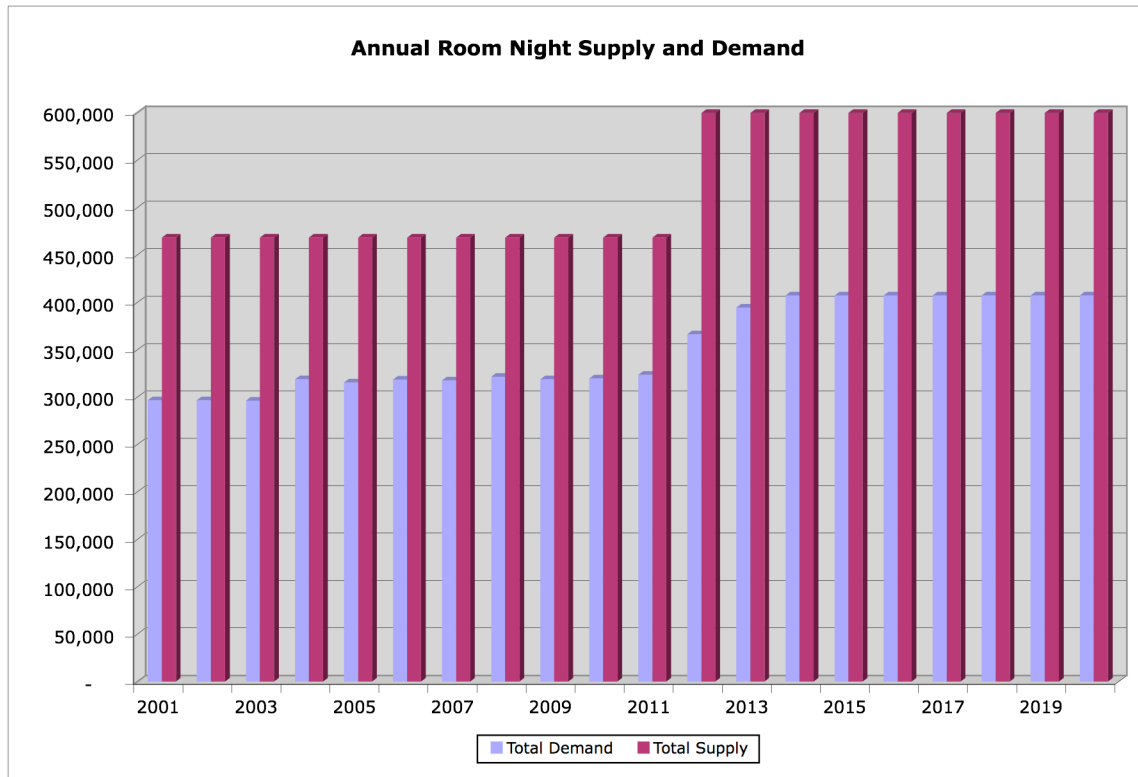
Figure 9-1



As shown, demand is expected to increase due to the opening of the hotel, especially in the group segment.

The next figure shows demand and supply changes.

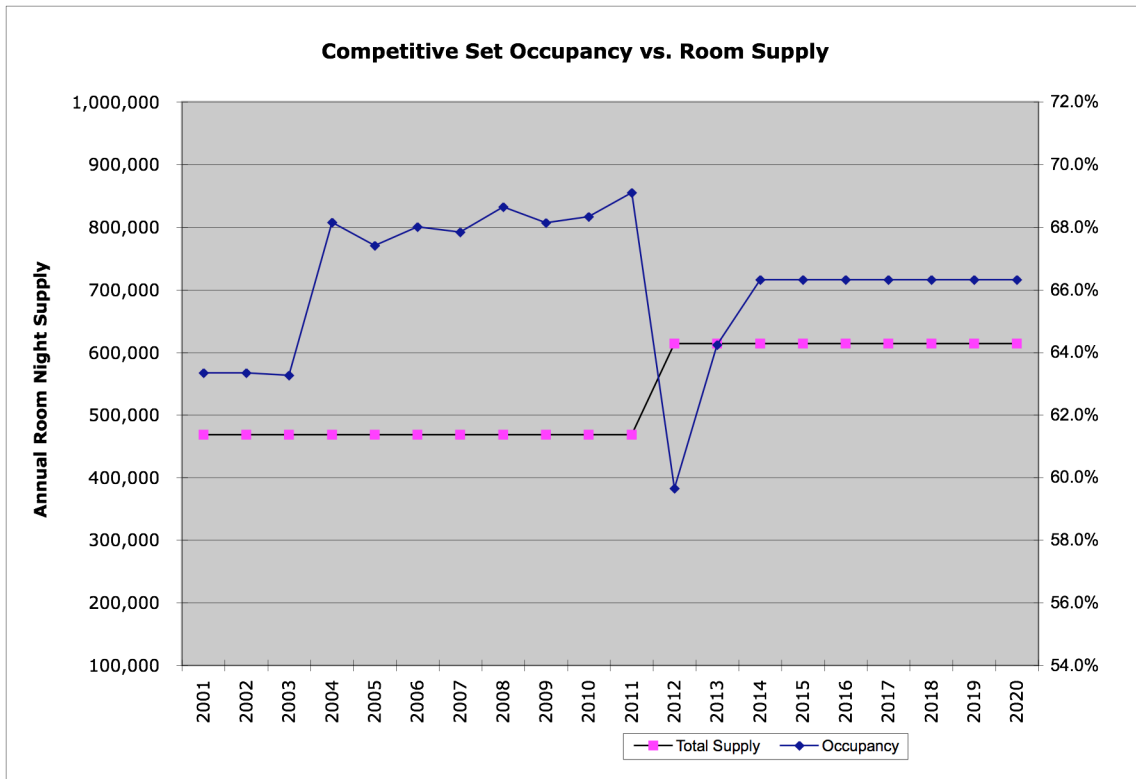
Figure 9-2



As shown, supply will increase from 468,300 room nights in 2008 to 614,300 room nights in 2012. Despite the large increase, demand is projected to increase at a similar rate, albeit more slowly.

The next figure shows supply versus occupancy.

Figure 9-3



As shown, occupancy rose in 2004, and is expected to peak in 2011 before dipping in 2012 as a result of the added supply. It is projected to climb again up to the hotel's stabilization. The stabilized occupancy for the set is 66 percent.

Penetration Rate Analysis

Occupancy penetration is the ratio of a particular property's actual room nights captured compared to its fair share. Fair share is defined as the ratio of the property's number of rooms to the total rooms in the defined competitive supply. For example, if a hotel has 100 rooms and the market has 1,000 rooms, its 'fair share' of business would be 10 percent of market room nights. The ratio is then applied to the total market demand by segment to measure the property's actual room nights captured compared to its fair share of room nights.

The table below shows how the property would fare if it captured its fair share of the competitive set demand.

Table 9-2

Fair Share for Proposed Hotel - Room Nights												
Year	Corporate Transient	% Change	Group	% Change	Leisure	% Change	Total Demand	% Change	Total Supply	% Change	Total Rooms	Occupancy
2012	36,414	--	40,081	--	10,607	--	87,101	-13.7%	146,000	0.0%	400	59.7%
2013	37,871	4.0%	44,890	12.0%	11,031	4.0%	93,792	7.7%	146,000	0.0%	400	64.2%
2014	38,439	1.5%	47,135	5.0%	11,252	2.0%	96,825	3.2%	146,000	0.0%	400	66.3%
2015	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%
2016	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%
2017	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%
2018	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%
2019	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%
2020	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%
2021	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%

Source: HSP

In a "fair-share" scenario, the hotel would capture 38,400 corporate transient room nights by stabilization in 2015, more than 47,000 room nights in the group segment, and 11,300 room nights from the leisure category. At stabilization, the hotel would perform at 66.3 percent occupancy.

After preparing projections of overall market occupancy, the analysis provides an assessment of the expected qualities of the proposed hotel in relation to the competitive supply to formulate projections of occupancy. This projection represents the hotel's relative performance, or "penetration" within the competitive supply. Characteristics considered in this analysis include, but are not limited to, location, market orientation, pricing strategies, contracted rooms, chain affiliation, facilities, and amenities.

The table below shows the projected penetration of the market segments by the hotels.

Table 9-3

Estimated Market Penetration of Proposed Hotel						
Year	Corporate Transient	Group	Leisure	Total Penetration	Projected Set Occupancy	Subject Occupancy
2012	95%	113%	45%	97%	60%	58%
2013	100%	118%	50%	103%	64%	66%
2014	105%	125%	55%	109%	66%	72%
2015	105%	125%	55%	109%	66%	72%
2016	105%	125%	55%	109%	66%	72%
2017	105%	125%	55%	109%	66%	72%
2018	105%	125%	55%	109%	66%	72%
2019	105%	125%	55%	109%	66%	72%
2020	105%	125%	55%	109%	66%	72%
2021	105%	125%	55%	109%	66%	72%

Source: HSP

The hotel is projected to penetrate the corporate transient market from 95 to 105 percent during the period, primarily due the location of the hotel very close to the Capitol and within the CBD. In the group market, it is projected to show 113 percent penetration in the first year of operation and 125 percent by stabilization. Leisure

penetration is projected at 45 percent the first year of operation and 55 percent by stabilization. Total market penetration is projected to be 109 percent by stabilization, leading to an occupancy rate of 72 percent.

The table below displays the projected occupied room nights by sector and the occupancy rate for the hotel.

Table 9-4

Projected Demand for Proposed Hotel											
Year	Corporate Transient	% Change	Group	% Change	Leisure	% Change	Total Demand	% Change	Total Supply	Total Rooms	Occupancy
2012	34,594	--	45,291	--	4,773	--	84,658	--	146,000	400	58.0%
2013	37,871	9.5%	52,970	17.0%	5,515	15.6%	96,357	13.8%	146,000	400	66.0%
2014	40,361	6.6%	58,918	11.2%	6,188	12.2%	105,468	9.5%	146,000	400	72.2%
2015	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%
2016	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%
2017	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%
2018	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%
2019	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%
2020	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%
2021	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%

Source: HSP

As shown, corporate room nights are projected to increase from 34,600 to 40,400 during the period. Group nights are expected to increase from 45,300 in the first year of operation to more than 58,900 by stabilization. Overall occupancy is projected to increase from 58 percent to 72.2 percent during the four-year absorption period.

The table below shows the resulting stabilized demand mix for the hotel compared with the competitive hotels.

Table 9-5

Projected Hotel Stabilized Demand Mix vs. Comp Set		
Segment	Hotel at Stabilization	Comp Set
Corporate	38%	40%
Group	56%	49%
Leisure	6%	12%
Total	100%	100%

Source: HSP

Based on its penetration of the market, HSP expects the hotel to draw 38 percent of its business from the corporate transient sector (compared with 40 percent for the set), 56 percent from the group segment (compared to 49 percent for the comp set),

and six percent from the leisure segment (compared with 12 percent for the comp set).

AVERAGE RATE ANALYSIS

The average rate is the weighted average of the rates charged to all guests in all segments throughout the year. For example, due to seasonality, the winter months have low demand and therefore yield lower rates. Rates also differ depending upon how far in advance the room is sold and based on the user type. Groups usually are able to attain a discount because they are filling more rooms; however, their rates can exceed more discounted leisure business. Corporate travelers usually pay the highest rate, and leisure travelers generally pay the least amount for rooms. The resulting average provides a benchmark for performance measurement as well as a tool for managing target revenue generated per occupied and available room night.

Competitive Position

The competitive position of a property determines, in large part, its ability to generate rate. A hotel with high comparative quality to the rest of the competitive set as well as a good location and brand reputation will be able to penetrate the competitive set rate at greater than 100 percent. The proposed hotel will be generally well-located (for group and corporate transient), the newest hotel in the market, and a part of the strongest set of hotels. It is expected that rates for each segment will be slightly above that found at other hotels. For these reasons, we expect that the hotel will penetrate the average rate at 112 percent.

Projected Average Daily Rate

The table below displays the projected average daily rate in the competitive set and the proposed hotel's penetration and resulting rate. Given that the Hilton penetrates the competitive set rate by approximately 25 percent, it is believed that the proposed hotel will be able to meet or exceed this level of performance.

Table 9-6

Average Daily Room Rate Projections					
Year	Comp. Set ADR	Annual Increase	Hotel Rate Penetration	Projected Hotel Rate	Annual Increase
2002	\$98	--			
2003	\$98	0.3%	--	--	--
2004	\$102	3.7%	--	--	--
2005	\$107	5.4%	--	--	--
2006	\$114	6.0%	--	--	--
2007	\$120	5.5%	--	--	--
2008	\$123	3.1%	--	--	--
2009	\$124	0.5%	--	--	--
2010	\$128	3.5%	--	--	--
2011	\$134	4.5%	--	--	--
2012	\$138	3.0%	125%	\$173	--
2013	\$142	3.0%	125%	\$177	2.4%
2014	\$147	3.0%	124%	\$182	2.6%
2015	\$151	3.0%	124%	\$187	3.0%
2016	\$156	3.0%	124%	\$193	3.0%
2017	\$160	3.0%	124%	\$199	3.0%
2018	\$165	3.0%	124%	\$205	3.0%
2019	\$170	3.0%	124%	\$211	3.0%
2020	\$175	3.0%	124%	\$217	3.0%
2021	\$180	3.0%	124%	\$224	3.0%

Source: HSP

The hotel is projected to penetrate the market at 125 percent in the first year with a rate of \$173 and increase to \$187 by 2015.

The table below summarizes the projected performance of the hotel.

Table 9-7

Performance Projections				
Year	Average Daily Rate	Occupancy	Revenue per Available Room	Annual Increase
2012	\$173	58%	\$100	--
2013	\$177	66%	\$117	16.5%
2014	\$182	72%	\$131	12.3%
2015	\$187	72%	\$135	3.0%
2016	\$193	72%	\$139	3.0%
2017	\$199	72%	\$144	3.0%
2018	\$205	72%	\$148	3.0%
2019	\$211	72%	\$152	3.0%
2020	\$217	72%	\$157	3.0%

Source: HSP

The hotel is projected to achieve a \$173 average rate in its first year with occupancy of 58 percent. The average rate and occupancy are expected to be \$182 and 72 percent, respectively, at stabilization. Revenue per available room is projected to be \$100 in 2012 and increase to \$131 by 2014.

CHAPTER 10

ESTIMATE OF IMPACT FROM STATUS QUO – “WHAT IF THE RECOMMENDED HOTEL IS NOT BUILT?”

While a detailed economic, fiscal and employment projection is recommended for the next phase of analysis, HSP has undertaken a review of projections for critical impact items under two scenarios: if the hotel is built as proposed, and if it is not.

In general, there are many measurable and immeasurable areas of impact. The following would be negative impacts of the status quo:

- The relative, and absolute, strength of the hospitality and tourism industry would likely decline. This would be especially pronounced when comparing Madison to its peers and competitors. Those building and/or expanding their convention, hotel and event package would penetrate the market for events at a higher level relative to Madison. As a result, financial rewards to Madison would decline in relative terms.
- The hotel quality, capacity, and pricing power in Madison would stagnate, relatively speaking, compared to a scenario with a new, high quality, large and well-located facility.
- Hotel taxes collected would be less.
- Sales taxes collected would be less.
- Fewer people would be employed, both in the hotels and from spin-off impacts.
- The quality and quantity of meetings and events would stagnate and potentially decline.
- The incentive for hotels to improve, renovate, and promote high service levels will be less than if a strong new competitor was introduced.
- The existing lower quality hotels serving downtown would continue to serve downtown at similar levels of quality as today.
- Loss of a \$100 million+/- development project and the jobs, taxes and impact associated with it.
- There will be less revenue at Monona Terrace.
- There will be more subsidy needed to support Monona Terrace.

The impacts as measured for hotel room nights, hotel taxes collected, and events and revenue at Monona Terrace are shown below.

Table 10-1

Impact of Not Developing Recommended Hotel						
With Hotel	2012	2013	2014	2015	2016	Total
Total Monona Terrace Events	692	701	711	711	711	3,526
Total Monona Terrace Attendees	230,447	247,028	267,771	267,771	267,771	1,280,788
Monona Terrace Revenue	\$5,393,169	\$6,340,224	\$8,107,627	\$8,350,856	\$8,601,382	\$36,793,258
Monona Terrace Expense	\$8,582,652	\$8,840,131	\$9,105,335	\$9,378,495	\$9,659,850	\$45,566,464
Monona Terrace Net	-\$3,189,483	-\$2,499,908	-\$997,708	-\$1,027,639	-\$1,058,468	-\$8,773,206
Competitive Set Room Nights	366,479	394,630	407,392	407,392	407,392	1,983,285
Hotel Tax (TOT) Generated	\$4,557,955	\$5,055,306	\$5,375,356	\$5,536,616	\$5,702,715	\$26,227,948
Without Hotel	2012	2013	2014	2015	2016	Total
Total Monona Terrace Events	685	683	680	680	680	3,409
Total Monona Terrace Attendees	217,261	216,433	215,681	215,681	215,681	1,080,736
Monona Terrace Revenue	\$5,084,561	\$5,237,098	\$5,394,211	\$5,556,037	\$5,722,718	\$26,994,625
Monona Terrace Expense	\$8,332,672	\$8,565,987	\$8,805,834	\$9,052,398	\$9,305,865	\$44,062,755
Monona Terrace Net	-\$3,248,111	-\$3,328,889	-\$3,411,623	-\$3,496,360	-\$3,583,146	-\$17,068,130
Competitive Set Room Nights	326,839	330,107	333,408	333,408	333,408	1,657,170
Hotel Tax (TOT) Generated	\$4,024,289	\$4,182,403	\$4,346,730	\$4,472,785	\$4,602,496	\$21,628,702
Difference	2012	2013	2014	2015	2016	Total
Total Monona Terrace Events	7	18	31	31	31	117
Total Monona Terrace Attendees	13,187	30,595	52,090	52,090	52,090	200,052
Monona Terrace Revenue	\$308,608	\$1,103,126	\$2,713,417	\$2,794,819	\$2,878,664	\$9,798,633
Monona Terrace Expense	\$249,980	\$274,145	\$299,501	\$326,098	\$353,986	\$1,503,710
Monona Terrace Net	\$58,628	\$828,981	\$2,413,915	\$2,468,721	\$2,524,678	\$8,294,923
Competitive Set Room Nights	39,641	64,523	73,984	73,984	73,984	326,114
Hotel Tax (TOT) Generated	\$533,666	\$872,903	\$1,028,626	\$1,063,832	\$1,100,219	\$4,599,246

Source: HSP

As shown, over the next five years, a total of nearly 120 additional events would be foregone as well as more than 200,000 attendees. Revenue at Monona Terrace would be approximately \$10 million less and the net subsidy needed will be \$8.3 more. The number of lost room nights in the competitive set of hotels would be more than 325,000 over five years, leading to a loss of TOT of \$4.6 million over the period. At the hotel alone, more than 300 full-time equivalent jobs would be foregone.