



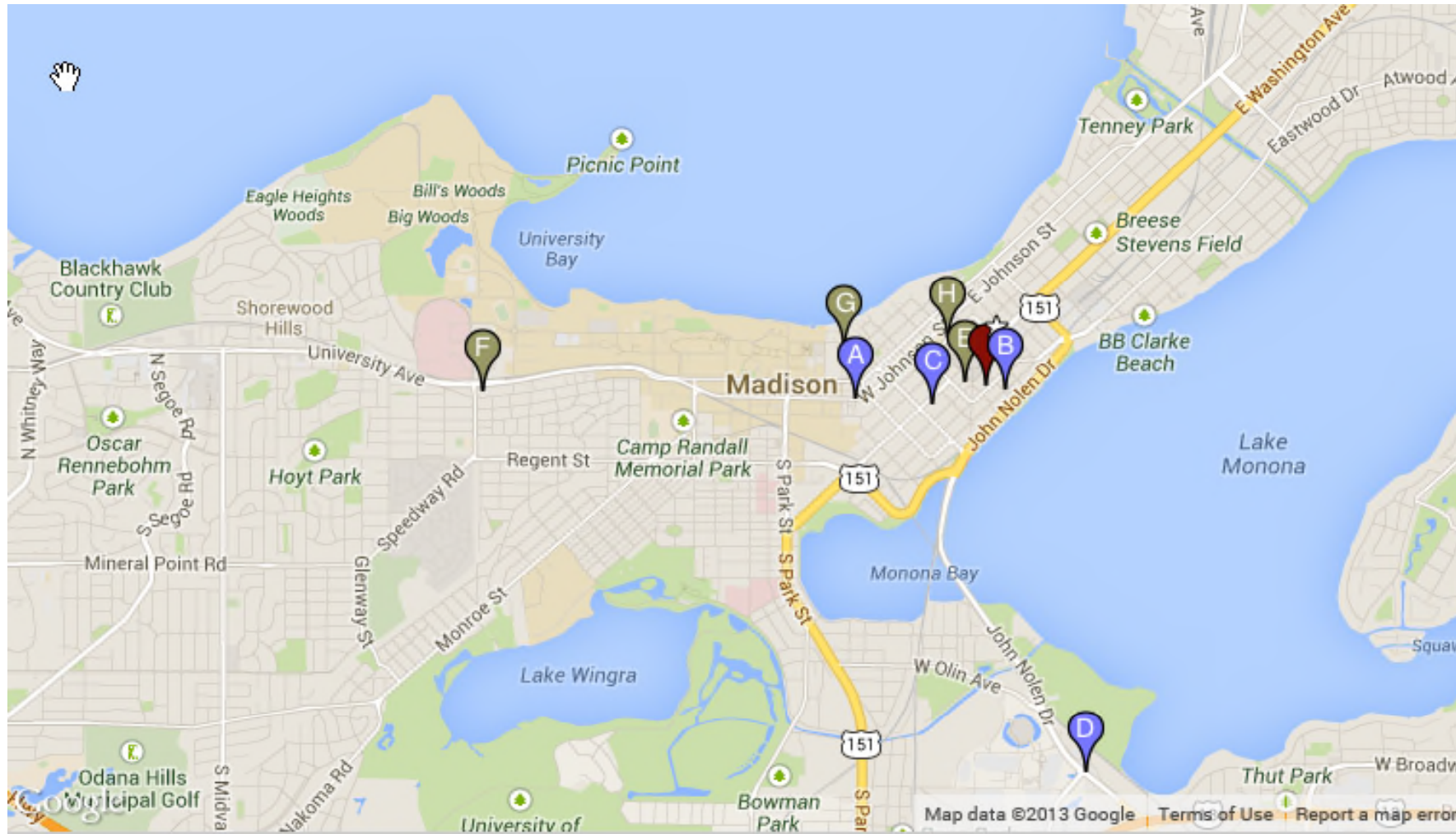
Hotel Market Analysis

Judge Doyle Square Mixed Use Development

Presented to the City of Madison

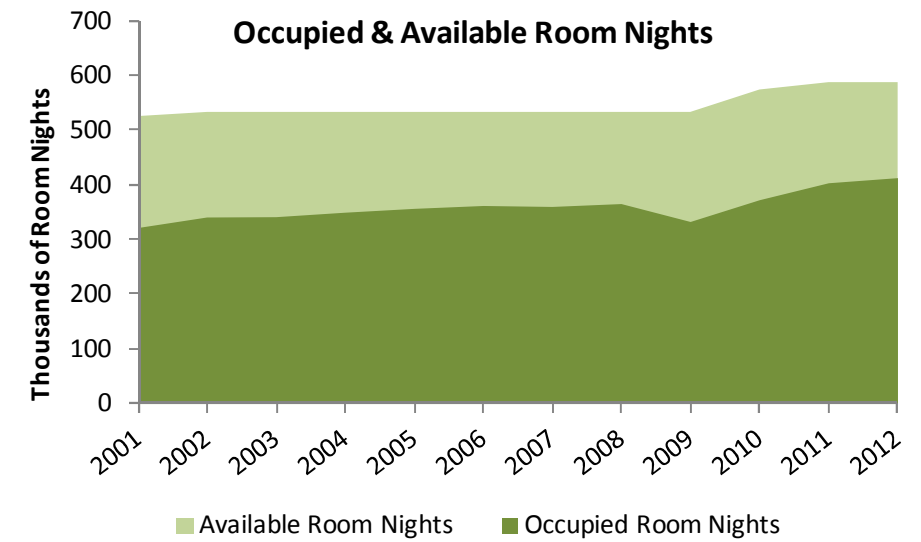
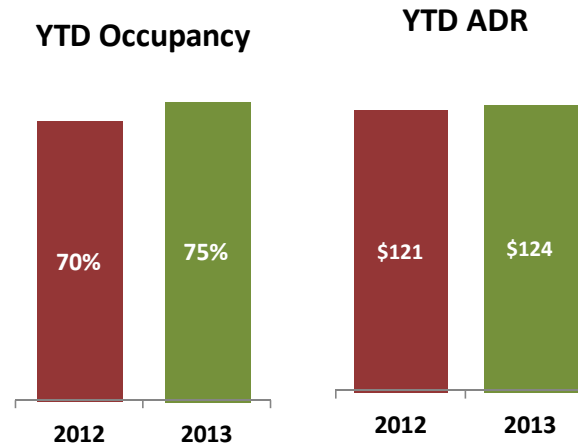
October 28, 2013

The Competitive Set Trends

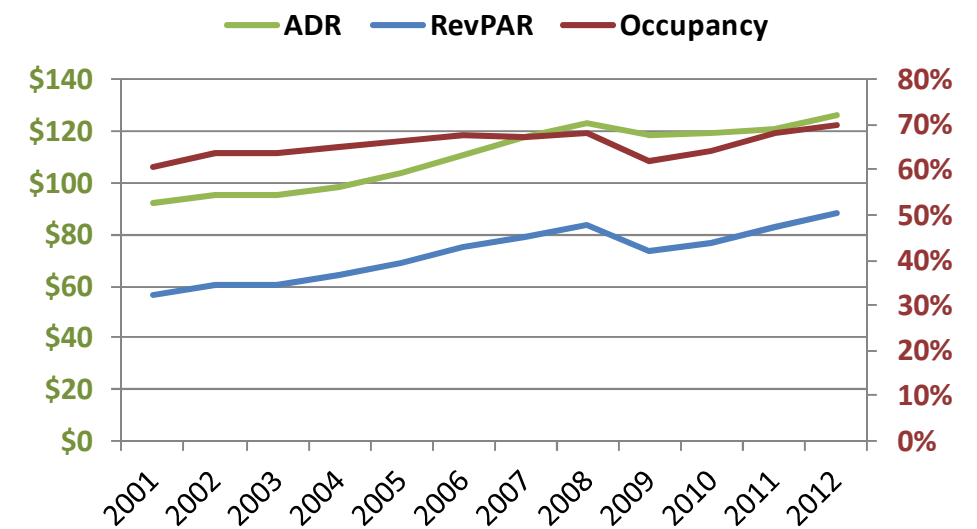


- Proposed hotel and mixed use district
- DoubleTree by Hilton Madison Downtown (Primary)
- Hilton Madison Monona Terrace (Primary)
- Hyatt Place Madison Downtown (Primary)
- Sheraton Madison (Primary)
- Best Western Inn On The Park (Secondary)
- Best Western Plus InnTowner Hotel & Highland Club (Secondary)
- Dahlmann Campus Inn (Secondary)
- Madison Concourse Hotel (Secondary)

HVS selected a set of hotels that compete with the proposed new hotel based on location and hotel type, quality and brand. Primary competitors are full service hotels, which would compete for all segments of demand. Secondary competitors include limited service hotels and lesser quality hotels that compete for leisure and transient business but not for group business.



The supply of room nights remained constant until 2010 when the Hyatt Place added 151 rooms. Room night demand fell in 2009 as a result of the Great Recession but quickly recovered to levels in excess of the recession. The new supply induced demand into the competitive set.

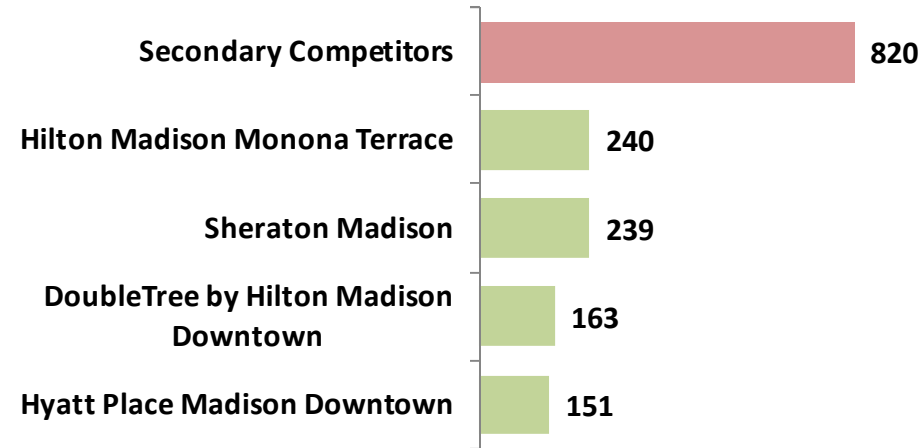


Average daily room rate (ADR) suffered little decline during the recession but remained relatively flat until 2012. Occupancy declined during the recession but increased during recovery despite the addition of new room supply—another indication of pent up demand or demand induced by the Hyatt Place.

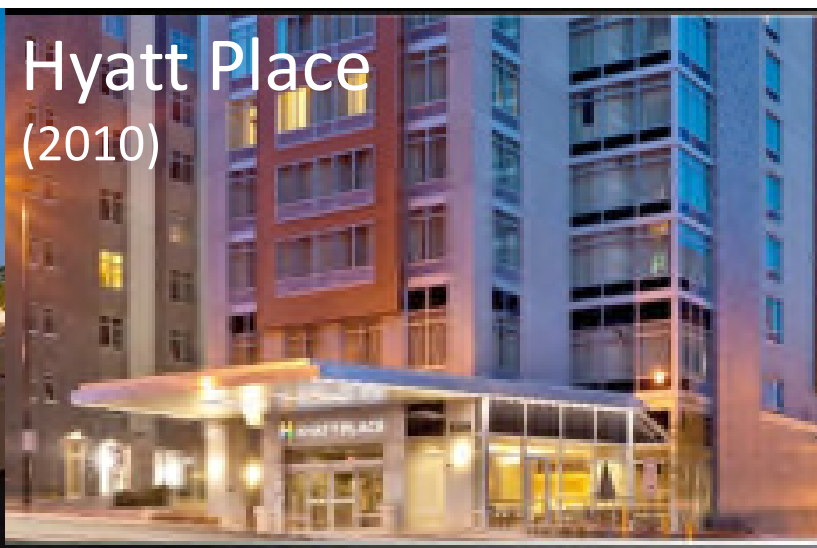
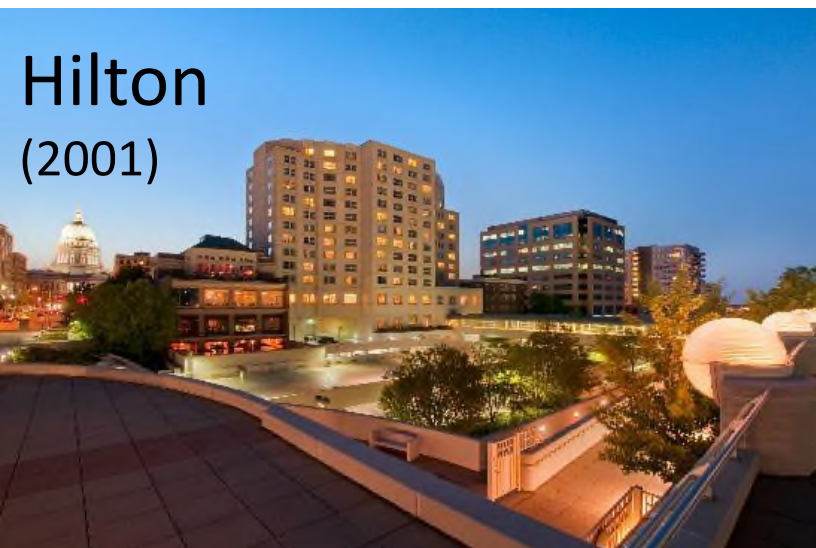
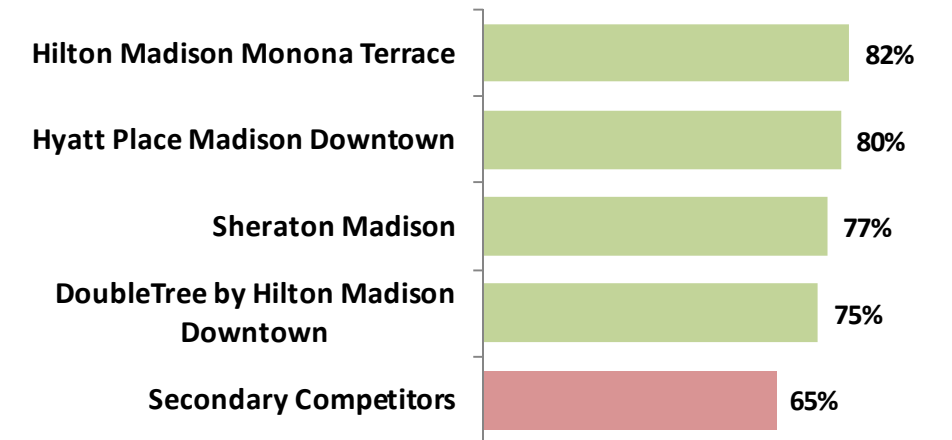
Market Analysis of the Competitive Set

The Hilton Madison Monona Terrace leads the market with respect to occupancy, average daily room rate, RevPAR and Yield Penetration. The Sheraton, located away from the Capital Square, has the poorest market penetration, indicating the relative strength of the downtown market. A quality full-service hotel property on Judge Doyle Square should perform at a level similar to the Hilton.

Room Count



Occupancy Rate



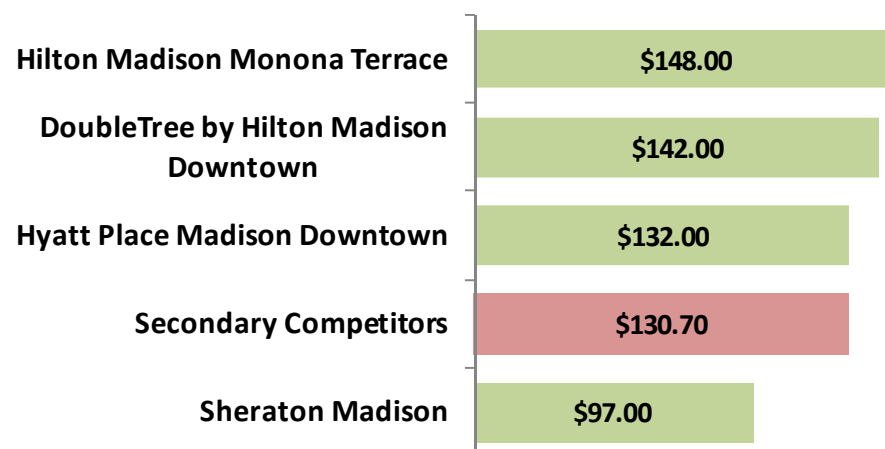
Hilton
(2001)

Hyatt Place
(2010)

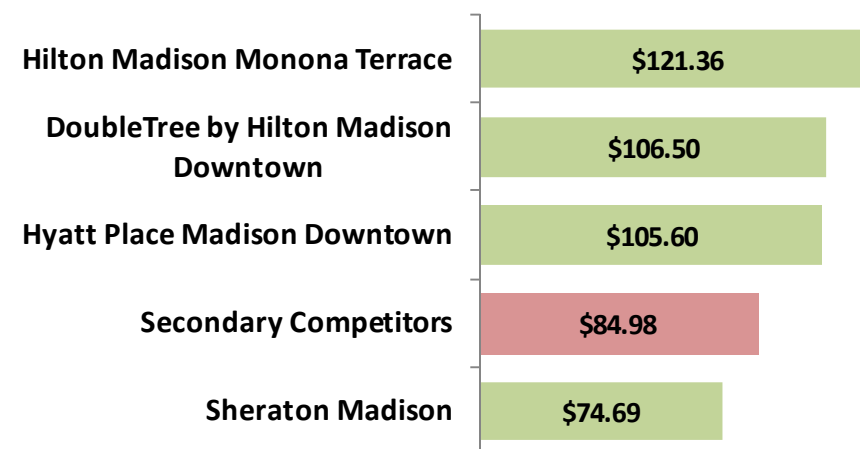
DoubleTree
(1974)

Sheraton
(1972)

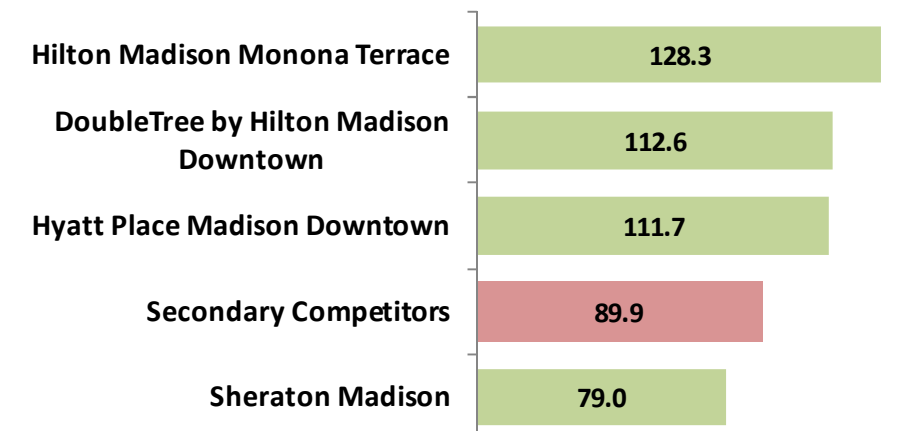
Average Daily Room Rate



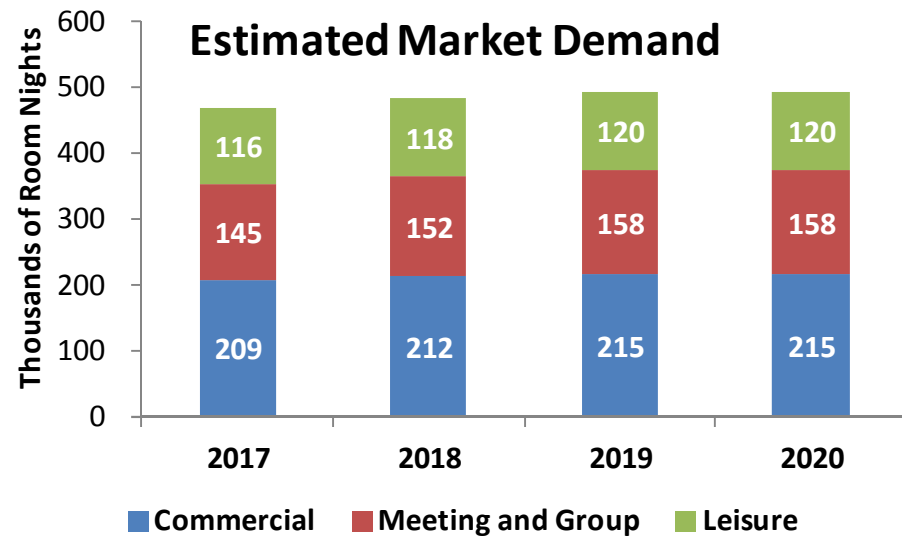
Revenue per Available Room (RevPAR)



Yield Penetration



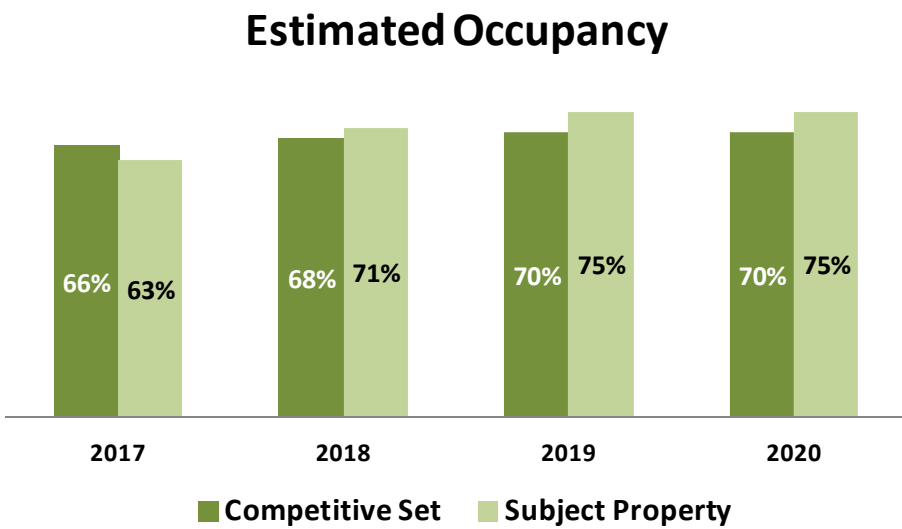
Demand and Rate Forecast for Proposed Hotel



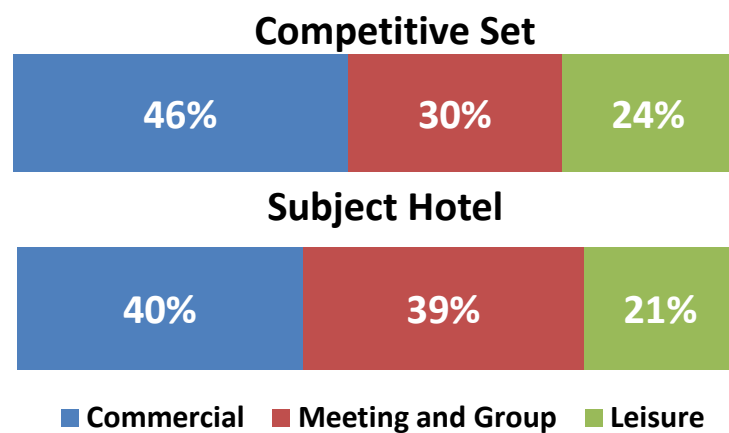
JDS Rendering of Project



Journeyman Rendering of Project



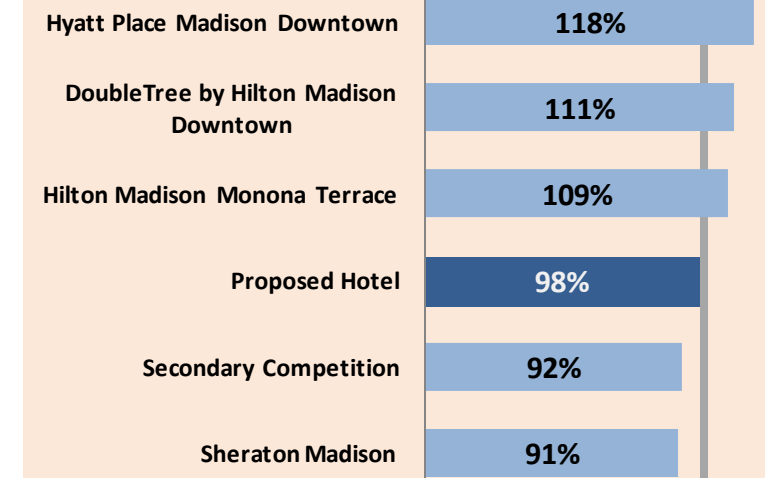
Market Segmentation



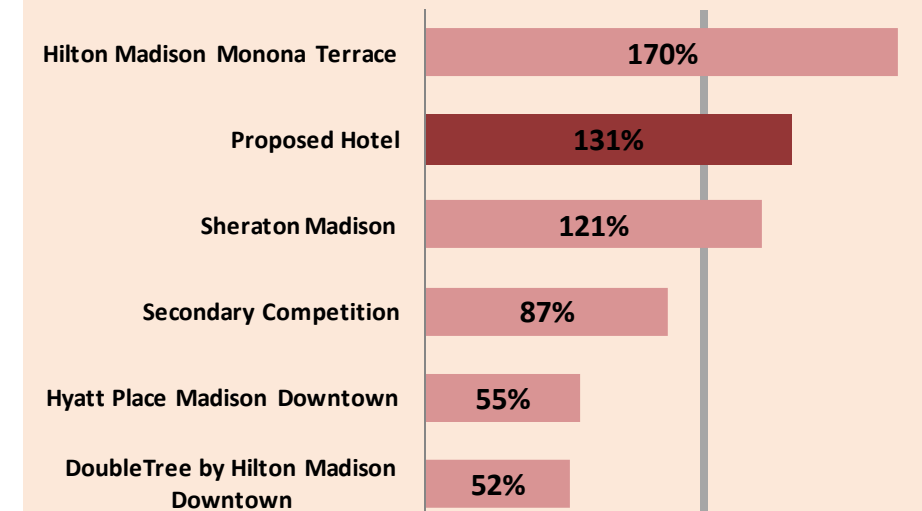
The proposed hotel could take advantage of recent growth in market rate and occupancy. HVS estimates that it would take three years to achieve a stabilized occupancy of approximately 75%. This compares to the competitive set stabilized occupancy of 70%. The Hilton would most likely remain the market leader in rate and occupancy because it has the highest penetration in all market segments. Like the Hilton, the proposed property would attract more than its fair share of group business but underpenetrate the leisure and group segments because it has more rooms to fill.

Market Penetration

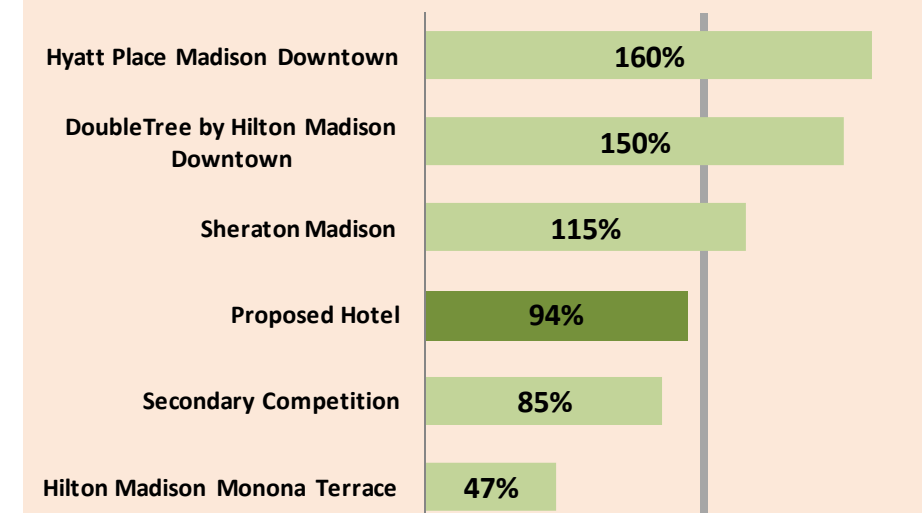
Commercial



Meeting and Group

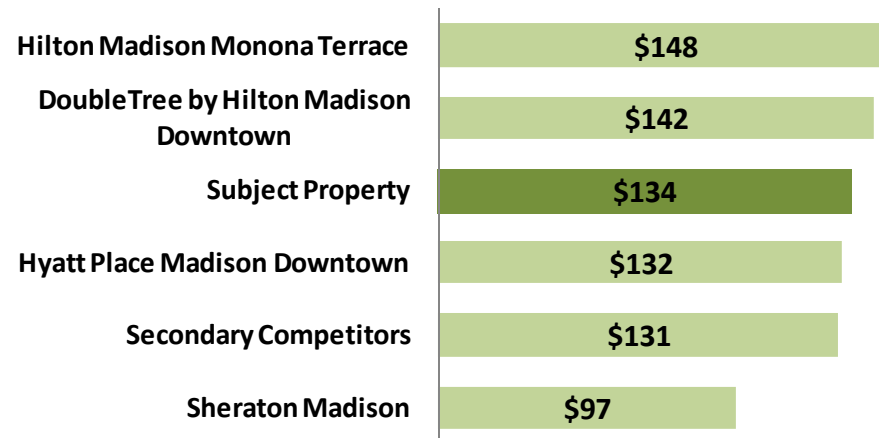


Leisure



Financial Operations of the Proposed Hotels

Average Rate Position in Base Year



The average daily room of the proposed hotel would most likely fall in the mid-range of the primary competitors. It's location and quality will allow it to command comparable rates during peak periods, but with a larger room count than its competitors, it will have to see more low rated business during low periods of demand.

Analysis of Five Comparable Hotels Revenue and Expense Ratios

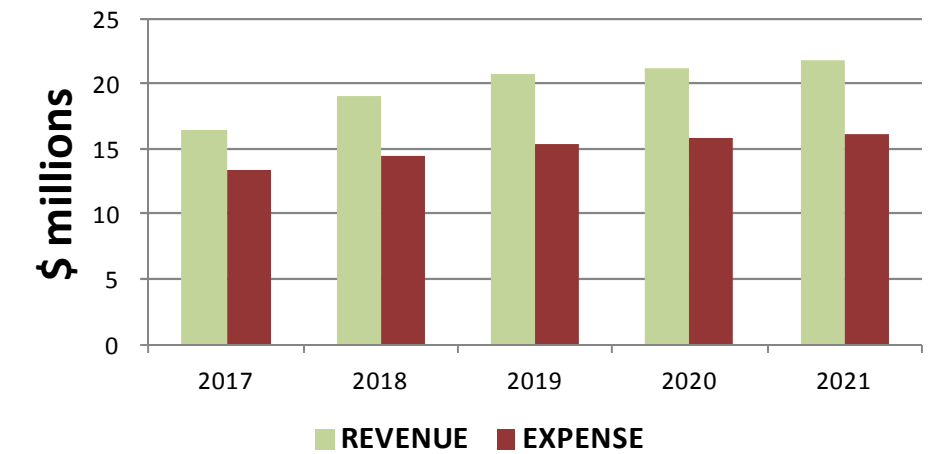
Line Item	Comparable Hotels	Subject
REVENUE		
Rooms	63.9%	73.8%
Food & Beverage	32.2%	22.0%
Other Operated Departments	3.6%	3.7%
Rentals & Other Income	0.3%	0.5%
DEPARTMENTAL EXPENSES*		
Rooms	20.9%	23.0%
Food & Beverage	60.0%	70.0%
Other Operated Departments	63.5%	33.0%
Rentals & Other Income	0.0%	0.0%
Total	35.0%	33.6%
DEPARTMENTAL INCOME	65.0%	66.4%
OPERATING EXPENSES		
Administrative & General	8.4%	8.0%
Marketing	5.4%	4.6%
Franchise Fee	5.4%	5.8%
Property Operations & Maintenance	4.1%	3.6%
Utilities	3.6%	3.6%
Total	27.0%	25.7%
HOUSE PROFIT	38.0%	40.7%

Pro Forma Operating Statement for A Stabilized Year (\$ thousands)

LINE ITEM	350 Rooms	305-Rooms	Variance
REVENUE			
Rooms	\$15,296	\$13,329	\$1,967
Food & Beverage	4,556	3,970	586
Other Operated Departments	142	124	18
Garage/Parking	626	546	81
Rentals & Other Income	114	99	15
Total	\$20,734	\$18,068	\$2,666
DEPARTMENTAL EXPENSES			
Rooms	\$3,518	\$3,066	\$452
Food & Beverage	3,189	2,779	410
Other Operated Departments	128	112	16
Garage/Parking	125	109	16
Total	\$6,960	\$6,065	\$895
DEPARTMENTAL INCOME	\$13,774	\$12,003	\$1,771
UNDISTRIBUTED OPERATING EXPENSES			
Administrative & General	\$1,664	\$1,450	\$214
Marketing	957	834	123
Franchise Fee	1,207	1,052	155
Prop. Operations & Maint.	749	653	96
Utilities	749	653	96
Total	\$5,326	\$4,641	\$685
HOUSE PROFIT	\$8,448	\$7,361	\$1,086
Management Fee	622	542	80
INCOME BEFORE FIXED CHARGES	\$7,826	\$6,819	\$1,006
FIXED EXPENSES			
Property Taxes	\$1,466	\$1,277	\$189
Insurance	166	145	21
Reserve for Replacement	829	723	107
Total	2,462	2,145	317
NET INCOME	\$5,364	\$4,674	\$689

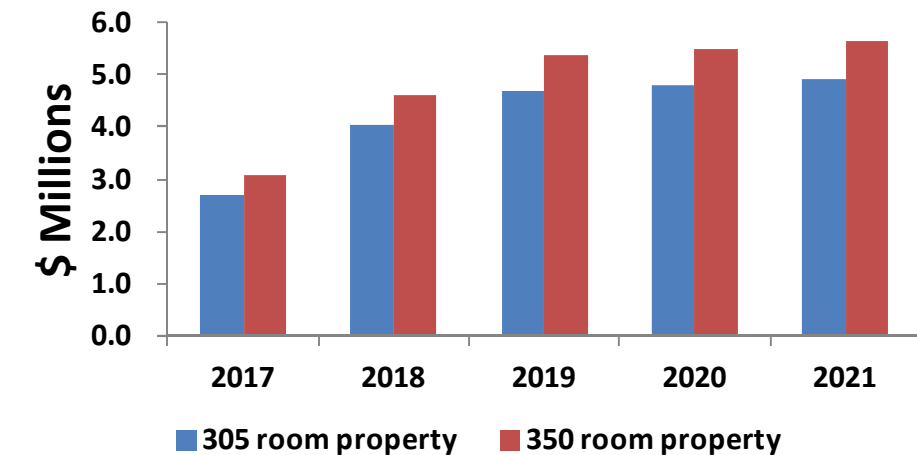
HVS calculated room revenue based on estimates occupied room nights and ADR. F&B Revenue and expenses estimates relied on analysis of the operation of five comparable hotels. With a proportionally smaller amount of functions space, the proposed hotel would generate a lower ratio of food & beverage revenue than most of the comparable venues.

Financial Operations (350 rooms)



In the first three years of operation, revenues should grow faster than expense as the hotel's rate and occupancy grow to a stabilized level. Thereafter, revenue and expenses would grow at an inflationary rate.

Estimated Net Operating Income

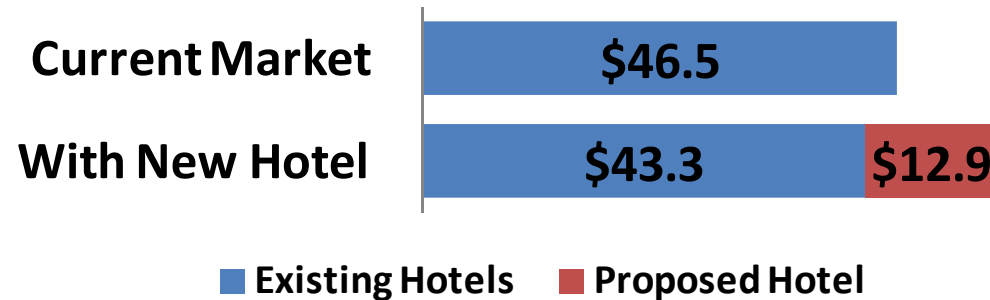


In a stabilized year, a 350-room property would generate nearly \$700,000 more in net operating income than a 305 room property. Net Income would be available to pay debt and a return on equity.

Impact of the Proposed Hotel

Estimated Room Revenue

In Millions of 2012 Dollars



With the proposed hotel, rooms revenue in the competitive set would grow from \$46.5 million to \$56.2 million. But the comp set share of rooms revenue would decrease by \$3.2 million.

New Room Nights Generated by the Proposed Project

Source	Stabilized Year
Induced by Convention Center	24,000
Induced by Hotel	
Meeting and Group	6,000
Commercial	2,400
Leisure	4,800
Unaccommodated Demand	37,200
Total Latent Demand	<u>74,400</u>

The proposed hotel has potential to generate nearly 75,000 new room nights the Madison downtown market.

Impact of Convention Hotels in Other Cities

City	Brand	Year Opened	Number of Rooms	Number of Years until occupancy recovery
Denver	Hyatt	2005	1,100	1
Houston	Hilton	2004	1,203	1
Louisville	Marriott	2005	615	1
Carlotte	Westin	2003	600	2
Austin	Hilton	2002	800	2
Indianapolis	JW Marriott	2011	1,005	2
St. Louis	Renaissance	2003	917	2
San Diego	Hilton	2008	1,190	3
Baltimore	Hilton	2008	757	4
San Antonio	Grand Hyatt	2008	1,003	5

Sources: STR and SAG

In most cities convention hotels have been absorbed in the market within two years and market occupancy returned to the levels prior to the introduction of the new property. Hotels that opened in 2008, during the Great Recession took longer to be absorbed, which illustrates that larger economic trends create most of the risk for new hotel development.

Pro Forma Operating Statement for a 350-Room Full-Service Hotel

	2017 (Calendar Year)				2018				Stabilized				2020				2021			
Number of Rooms:	350				350				350				350				350			
Occupancy:	63%				71%				75%				75%				75%			
Average Rate:	\$147.39				\$154.19				\$159.64				\$163.63				\$167.72			
RevPAR:	\$92.86				\$109.48				\$119.73				\$122.72				\$125.79			
Days Open:	365				365				365				365				365			
Occupied Rooms:	80,483	%Gross	PAR	POR	90,703	%Gross	PAR	POR	95,813	%Gross	PAR	POR	95,813	%Gross	PAR	POR	95,813	%Gross	PAR	POR
REVENUE																				
Rooms	\$11,862	72.3 %	\$33,891	\$147.39	\$13,985	73.3 %	\$39,957	\$154.19	\$15,296	73.8 %	\$43,703	\$159.65	\$15,678	73.8 %	\$44,794	\$163.63	\$16,070	73.8 %	\$45,914	\$167.72
Food & Beverage	3,816	23.3	10,902	47.41	4,267	22.4	12,191	47.04	4,556	22.0	13,016	47.55	4,670	22.0	13,342	48.74	4,786	22.0	13,675	49.95
Other Operated Departments	116	0.7	331	1.44	132	0.7	378	1.46	142	0.7	407	1.49	146	0.7	417	1.52	150	0.7	427	1.56
Garage/Parking	510	3.1	1,458	6.34	582	3.1	1,662	6.41	626	3.0	1,790	6.54	642	3.0	1,834	6.70	658	3.0	1,880	6.87
Rentals & Other Income	93	0.6	265	1.15	106	0.6	302	1.17	114	0.5	325	1.19	117	0.5	334	1.22	120	0.5	342	1.25
Total Revenues	16,397	100.0	46,848	203.73	19,072	100.0	54,490	210.26	20,734	100.0	59,241	216.40	21,252	100.0	60,721	221.81	21,784	100.0	62,239	227.36
DEPARTMENTAL EXPENSES *																				
Rooms	3,134	26.4	8,955	38.94	3,359	24.0	9,597	37.03	3,518	23.0	10,051	36.72	3,606	23.0	10,303	37.64	3,696	23.0	10,560	38.58
Food & Beverage	2,871	75.3	8,204	35.68	3,055	71.6	8,729	33.68	3,189	70.0	9,111	33.28	3,269	70.0	9,339	34.12	3,350	70.0	9,573	34.97
Other Operated Departments	117	100.6	333	1.45	123	93.2	352	1.36	128	90.0	366	1.34	131	90.0	375	1.37	135	90.0	385	1.40
Garage/Parking	114	22.4	326	1.42	120	20.7	344	1.33	125	20.0	358	1.31	128	20.0	367	1.34	132	20.0	376	1.37
Total	6,236	38.0	17,818	77.49	6,658	34.9	19,022	73.40	6,960	33.6	19,887	72.65	7,134	33.6	20,384	74.46	7,313	33.6	20,893	76.32
DEPARTMENTAL INCOME	10,161	62.0	29,030	126.25	12,414	65.1	35,468	136.86	13,774	66.4	39,354	143.76	14,118	66.4	40,337	147.35	14,471	66.4	41,345	151.03
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	1,517	9.3	4,334	18.85	1,600	8.4	4,572	17.64	1,664	8.0	4,755	17.37	1,706	8.0	4,874	17.80	1,748	8.0	4,995	18.25
Marketing	872	5.3	2,492	10.84	920	4.8	2,629	10.15	957	4.6	2,734	9.99	981	4.6	2,802	10.24	1,005	4.6	2,872	10.49
Franchise Fee	945	5.8	2,699	11.74	1,107	5.8	3,163	12.20	1,207	5.8	3,450	12.60	1,238	5.8	3,536	12.92	1,268	5.8	3,624	13.24
Prop. Operations & Maint.	683	4.2	1,950	8.48	720	3.8	2,058	7.94	749	3.6	2,140	7.82	768	3.6	2,193	8.01	787	3.6	2,248	8.21
Utilities	683	4.2	1,950	8.48	720	3.8	2,058	7.94	749	3.6	2,140	7.82	768	3.6	2,193	8.01	787	3.6	2,248	8.21
Total	4,699	28.8	13,427	58.39	5,068	26.6	14,480	55.87	5,326	25.6	15,218	55.59	5,459	25.6	15,598	56.98	5,596	25.6	15,988	58.40
HOUSE PROFIT	5,461	33.2	15,604	67.86	7,346	38.5	20,988	80.99	8,448	40.8	24,136	88.17	8,659	40.8	24,739	90.37	8,875	40.8	25,357	92.63
Management Fee	492	3.0	1,405	6.11	572	3.0	1,635	6.31	622	3.0	1,777	6.49	638	3.0	1,822	6.65	654	3.0	1,867	6.82
INCOME BEFORE FIXED CHARGES	4,969	30.2	14,198	61.74	6,774	35.5	19,354	74.68	7,826	37.8	22,359	81.68	8,021	37.8	22,917	83.72	8,222	37.8	23,490	85.81
FIXED EXPENSES																				
Property Taxes	1,396	8.5	3,987	17.34	1,431	7.5	4,087	15.77	1,466	7.1	4,189	15.30	1,503	7.1	4,294	15.69	1,540	7.1	4,401	16.08
Insurance	158	1.0	453	1.97	162	0.9	464	1.79	166	0.8	475	1.74	171	0.8	487	1.78	175	0.8	500	1.82
Reserve for Replacement	328	2.0	937	4.07	572	3.0	1,635	6.31	829	4.0	2,370	8.66	850	4.0	2,429	8.87	871	4.0	2,490	9.09
Total	1,882	11.5	5,377	23.38	2,165	11.4	6,186	23.87	2,462	11.9	7,034	25.70	2,524	11.9	7,210	26.34	2,587	11.9	7,391	27.00
NET INCOME	\$3,087	18.7 %	\$8,821	\$38.36	\$4,609	24.1 %	\$13,168	\$50.81	\$5,364	25.9 %	\$15,325	\$55.98	\$5,497	25.9 %	\$15,707	\$57.38	\$5,635	25.9 %	\$16,100	\$58.81

*Departmental expenses are expressed as a percentage of departmental revenues.

Pro Forma Operating Statement for a 305-Room Full-Service Hotel

	2017 (Calendar Year)				2018				Stabilized				2020				2021			
Number of Rooms:	305				305				305				305				305			
Occupancy:	63%				71%				75%				75%				75%			
Average Rate:	\$147.39				\$154.19				\$159.64				\$163.63				\$167.72			
RevPAR:	\$92.86				\$109.48				\$119.73				\$122.72				\$125.79			
Days Open:	365				365				365				365				365			
Occupied Rooms:	70,135	%Gross	PAR	POR	79,041	%Gross	PAR	POR	83,494	%Gross	PAR	POR	83,494	%Gross	PAR	POR	83,494	%Gross	PAR	POR
REVENUE																				
Rooms	\$10,337	72.3 %	\$33,892	\$147.39	\$12,187	73.3 %	\$39,957	\$154.19	\$13,329	73.8 %	\$43,702	\$159.64	\$13,662	73.8 %	\$44,793	\$163.63	\$14,004	73.8 %	\$45,915	\$167.73
Food & Beverage	3,325	23.3	10,902	47.41	3,718	22.4	12,191	47.04	3,970	22.0	13,016	47.55	4,069	22.0	13,342	48.74	4,171	22.0	13,675	49.95
Other Operated Departments	101	0.7	331	1.44	115	0.7	378	1.46	124	0.7	407	1.49	127	0.7	417	1.52	130	0.7	427	1.56
Garage/Parking	445	3.1	1,458	6.34	507	3.1	1,662	6.41	546	3.0	1,790	6.54	560	3.0	1,834	6.70	573	3.0	1,880	6.87
Rentals & Other Income	81	0.6	265	1.15	92	0.6	302	1.17	99	0.5	325	1.19	102	0.5	334	1.22	104	0.5	342	1.25
Total Revenues	14,289	100.0	46,849	203.73	16,620	100.0	54,490	210.27	18,068	100.0	59,240	216.40	18,520	100.0	60,720	221.81	18,983	100.0	62,239	227.36
DEPARTMENTAL EXPENSES *																				
Rooms	2,731	26.4	8,955	38.94	2,927	24.0	9,597	37.03	3,066	23.0	10,051	36.72	3,142	23.0	10,303	37.64	3,221	23.0	10,560	38.58
Food & Beverage	2,502	75.3	8,204	35.68	2,662	71.6	8,729	33.68	2,779	70.0	9,111	33.28	2,848	70.0	9,339	34.12	2,920	70.0	9,573	34.97
Other Operated Departments	102	100.6	333	1.45	107	93.2	352	1.36	112	90.0	366	1.34	114	90.0	375	1.37	117	90.0	385	1.40
Garage/Parking	99	22.4	326	1.42	105	20.7	344	1.33	109	20.0	358	1.31	112	20.0	367	1.34	115	20.0	376	1.37
Total	5,435	38.0	17,818	77.49	5,802	34.9	19,022	73.40	6,065	33.6	19,887	72.65	6,217	33.6	20,384	74.46	6,373	33.6	20,893	76.32
DEPARTMENTAL INCOME	8,854	62.0	29,031	126.25	10,818	65.1	35,468	136.86	12,003	66.4	39,353	143.75	12,302	66.4	40,336	147.35	12,610	66.4	41,346	151.04
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	1,322	9.3	4,334	18.85	1,395	8.4	4,572	17.64	1,450	8.0	4,755	17.37	1,486	8.0	4,874	17.80	1,524	8.0	4,995	18.25
Marketing	760	5.3	2,492	10.84	802	4.8	2,629	10.15	834	4.6	2,734	9.99	855	4.6	2,802	10.24	876	4.6	2,872	10.49
Franchise Fee	823	5.8	2,699	11.74	965	5.8	3,163	12.20	1,052	5.8	3,450	12.60	1,078	5.8	3,536	12.92	1,105	5.8	3,624	13.24
Prop. Operations & Maint.	595	4.2	1,950	8.48	628	3.8	2,058	7.94	653	3.6	2,140	7.82	669	3.6	2,193	8.01	686	3.6	2,248	8.21
Utilities	595	4.2	1,950	8.48	628	3.8	2,058	7.94	653	3.6	2,140	7.82	669	3.6	2,193	8.01	686	3.6	2,248	8.21
Total	4,095	28.8	13,427	58.39	4,416	26.6	14,480	55.87	4,641	25.6	15,218	55.59	4,757	25.6	15,598	56.98	4,876	25.6	15,988	58.40
HOUSE PROFIT	4,759	33.2	15,604	67.86	6,401	38.5	20,988	80.99	7,361	40.8	24,135	88.17	7,545	40.8	24,738	90.37	7,734	40.8	25,358	92.63
Management Fee	429	3.0	1,405	6.11	499	3.0	1,635	6.31	542	3.0	1,777	6.49	556	3.0	1,822	6.65	569	3.0	1,867	6.82
INCOME BEFORE FIXED CHARGES	4,331	30.2	14,198	61.75	5,903	35.5	19,354	74.68	6,819	37.8	22,358	81.67	6,990	37.8	22,916	83.71	7,165	37.8	23,491	85.81
FIXED EXPENSES																				
Property Taxes	1,216	8.5	3,985	17.33	1,246	7.5	4,085	15.76	1,277	7.1	4,187	15.30	1,309	7.1	4,292	15.68	1,342	7.1	4,399	16.07
Insurance	138	1.0	453	1.97	141	0.9	464	1.79	145	0.8	475	1.74	149	0.8	487	1.78	152	0.8	500	1.82
City Payments	0	0.0	0	0.00	0	0.0	0	0.00	0	0.0	0	0.00	0	0.0	0	0.00	0	0.0	0	0.00
Reserve for Replacement	286	2.0	937	4.07	499	3.0	1,635	6.31	723	4.0	2,370	8.66	741	4.0	2,429	8.87	759	4.0	2,490	9.09
Total	1,639	11.5	5,375	23.37	1,886	11.4	6,184	23.86	2,145	11.9	7,032	25.69	2,198	11.9	7,208	26.33	2,253	11.9	7,388	26.99
NET INCOME	\$2,691	18.7 %	\$8,823	\$38.37	\$4,017	24.1 %	\$13,170	\$50.82	\$4,674	25.9 %	\$15,326	\$55.98	\$4,791	25.9 %	\$15,708	\$57.38	\$4,911	25.9 %	\$16,102	\$58.82

*Departmental expenses are expressed as a percentage of departmental revenues.