



HOTEL FEASIBILITY STUDY
WATERTOWN, WISCONSIN

December 2016

Prepared for:

City of Watertown



Mayor John David
City of Watertown
106 Jones Street
Watertown, WI 53094

Dear Mayor David:

The Hospitality Consulting Group is pleased to present the accompanying report entitled: "Hotel Feasibility Study–Watertown, Wisconsin" which has been prepared in accordance with our engagement letter dated September 13, 2016.

Incorporated within this report are discussions of the local and area market conditions, characteristics of competitive hotels, analysis of the potential lodging demand available to a new hotel, recommendation of hotel facilities, estimates of hotel and event center utilization, and financial projections for the hotel and event center's first five years of operation.

Our conclusions are based on information developed from research of the market, discussions with local government officials, representatives of the business community, and on our knowledge of the industry. The sources of information and bases of the estimates and assumptions are stated in the body of the report. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will vary from our projections and the variations may be material.

Further, we are not responsible for future marketing efforts and other management actions upon which actual results will depend.

We have no responsibility to update this report for events and circumstances that occur after the conclusion of our field work, which is concurrent with the report date shown below. However, we are available to discuss the necessity for revision in view of changes in the economic and market factors affecting the project.

Our report is intended solely for the City of Watertown's information for use in developing a hotel. It may also be used to obtain funding for the hotel. Otherwise, neither the report nor its contents, nor any reference to our Firm may be referred to or quoted in any registration statement, sales brochure, prospectus, loan, appraisal or other agreement or document without our prior written consent.

December 2, 2016

Hospitality Consulting Group, Inc.

HOSPITALITY CONSULTING GROUP, INC.

HOTEL FEASIBILITY STUDY WATERTOWN, WISCONSIN

Letter of Transmittal

CONTENTS

	<u>PAGE</u>
<u>1. INTRODUCTION</u>	1
BACKGROUND.....	1
SCOPE OF STUDY.....	1
<u>2. EXECUTIVE SUMMARY</u>	3
<u>3. SITE REVIEW</u>	12
DOWNTOWN REDEVELOPMENT PLAN	12
HOTEL SITE	13
LOCATION AND ACCESS	14
<u>4. REGIONAL CHARACTERISTICS</u>	17
INTRODUCTION	17
LOCATION.....	17
DEMOGRAPHICS.....	19
EMPLOYMENT	20
TRANSPORTATION	23
RESTAURANTS	23
AREA ATTRACTIONS	24
<u>5. AREA HOTEL SUPPLY</u>	27
HOTEL SUPPLY.....	27
MEETING FACILITIES.....	32
<u>6. AREA HOTEL DEMAND</u>	34
HOTEL INDUSTRY TRENDS.....	34
HOTEL DEMAND	35
AREA HOTEL MARKET PERFORMANCE.....	37
HOTEL DEMAND PROJECTIONS	39

HOTEL FEASIBILITY STUDY WATERTOWN, WISCONSIN

CONTENTS (Continued)

	<u>PAGE</u>
<u>7. RECOMMENDED FACILITIES</u>	42
DEVELOPMENT TRENDS	42
HOTEL FACILITY RECOMMENDATIONS	42
RESTAURANT	43
EVENT CENTER.....	44
PARKING.....	44
CONCLUSION	45
<u>8. UTILIZATION PROJECTIONS</u>	46
PROJECTED OCCUPANCY	47
PROJECTED AVERAGE RATE	50
PROJECTED ROOM REVENUE	51
PROJECTED EVENT CENTER REVENUE	52
<u>9. FINANCIAL PROJECTIONS</u>	54
NOTES TO FINANCIAL PROJECTIONS	54
ECONOMIC FEASIBILITY ANALYSIS.....	58
ADDENDUM: CONSULTANT'S QUALIFICATIONS	

SECTION 1: INTRODUCTION

BACKGROUND

Watertown, Wisconsin is a stable community located midway between Madison and Milwaukee. The city's hotel stock is aging and has only limited meeting facilities. As a result, it is losing lodging demand to newer hotels in the neighboring communities of Johnson Creek and Oconomowoc. Having recognized this situation the City of Watertown is interested in attracting a new hotel with an event center to a redevelopment site located in the downtown area.

Hospitality Advisors has extensive experience working with hotel developments throughout the United States. We were retained to research the market support for a new hotel and to recommend the scope of facilities that can be market supported, develop estimates of utilization and prepare projections of the hotel's room revenues and operating results. The scope of our work in conjunction with this engagement is summarized below.

SCOPE OF WORK

Our research into the market support for a new hotel included the following:

- Determination of the primary market area and evaluation of pertinent demographic and economic information;
- Identification and evaluation of competitive lodging facilities;
- Interviews with local employers regarding their hotel needs;
- Identification of likely sources of lodging demand;
- Review of area meeting space and event centers;

- Projection of the lodging demand that a new hotel in Watertown could reasonably expect to capture;
- Development of facilities recommendations for a new hotel and event center;
- Projection of the average daily rate and levels of utilization the hotel and event center could expect to achieve in its first five years of operation;
- Preparation of financial projections for the proposed hotel and event center's first five years of operation;
- Preparation of this final report documenting our findings, conclusions, recommendations, and financial projections for the hotel and event center.

SECTION 2: EXECUTIVE SUMMARY

This section describes, in brief, the findings and conclusions derived from our study of the market for a new hotel in Watertown, Wisconsin. This overview includes our review of the market area, the competitive environment, the recommended facilities, and financial projections for the hotel’s operations. The estimates and the information presented in this section are meant as a summary of, not a substitute for, the body of the report which contains additional information and detail critical to a full understanding of the basis for the estimates made and the context within which they were formed.

Project Description

Watertown’s hotel stock is aging and has only limited meeting facilities. As a result, it is losing lodging demand to neighboring communities. Having recognized this situation the City of Watertown is interested in attracting a new hotel with an event center to a redevelopment site located in the downtown area.

Site Review

The City is in the process of implementing a redevelopment plan for its downtown. The redevelopment plan is aimed at improvements that will enhance the downtown and ensure that it will remain the center of commerce in the future. A major element of the plan is to repurpose the riverfront land uses to residential, commercial and leisure functions, of which the subject hotel is a key component.

The site for the proposed hotel and event center is located on the edge of the central business district along the Rock River. The city plans to acquire the several older buildings located between the site and West Main Street and remove them to make way for a new town square. This would make the hotel highly visible and easily accessible from Main Street.

We believe that the subject hotel site is convenient enough to the suburban lodging demand generators to compete effectively with the existing hotels

and will have a competitive advantage for downtown-oriented demand. Based on our review, we believe this site is suitable for a hotel development once the town square is completed.

Local Market Conditions

Watertown’s population increased by nearly 10 percent between 2000 and 2010 and presently has around 25,000 residents. It is located on the northern edge of Jefferson County and borders Dodge County, which have a combined population of around 174,000 residents. Watertown and Jefferson County are expected to grow at rates similar to their historic levels of slightly under 1% annually over the next 10 years.

The local economy benefits from a relatively large manufacturing component and a number of strong companies operate plants in the community. Watertown also benefits from a regional hospital and a small college. The county’s unemployment rate of only 3.5 percent is below both the state and the federal rate.

Hotel Supply

There are two nationally franchised hotels in Watertown with a total of 124 guest rooms. Only one of these hotels, the 79-room Holiday Inn Express, would be considered to be competitive with a new hotel. The 100-room Comfort Suites in Johnson Creek would also be competitive as it captures some Watertown lodging demand. We also identified two hotels located in Oconomowoc that, while not directly competitive, do capture some demand from the market. These hotels are a 100-room Hilton Garden Inn and a 128-room Staybridge Suites.

The Comfort Suites in Johnson creek is the only hotel with a significant amount of meeting space in the market. In Watertown, large events are restricted to two older banquet facilities and two country clubs.

A new hotel and event center with an adjacent restaurant would provide a high quality facility for meetings, banquets, and social functions that would be capable of successfully competing with the area’s hotels and meeting venues.

Hotel Demand

In 2014 and 2015 the hotel industry achieved its highest level of occupancy in the last 25 years and the industry is expected to maintain a 65 percent occupancy over the next few years. The increase in room rates is expected to slow somewhat, but should still achieve a 4 percent annual growth.

Due to the proximity of Johnson Creek, Oconomowoc, and Sun Prairie, Watertown's primary market area is defined by the area within about a 10-minute drivetime. A new hotel in Watertown would capture local commercial, group, and leisure demand that are leaving the market now due to the lack of new hotel facilities and capacity. We obtained lodging tax data to evaluate recent trends regarding both the levels and seasonality of demand that is accommodated by the existing competitive hotels. In addition, we contacted area companies and the local hospital to gain insight into their lodging needs and to identify the hotels they utilize. Based on our market research and data available to us, we estimated the amount of demand that is accommodated by the four hotels judged to be competitive with a new hotel in Watertown.

The two competitive hotels in Watertown and Johnson Creek, with a total of 179 guest rooms, are estimated to experience 37,000 occupied roomnights in 2016. In addition, we estimate that approximately 2 percent of the demand accommodated at the two competitive hotels in Oconomowoc could be recaptured by the recommended hotel (1,500 roomnights).

In addition, we estimate that a new hotel with an event center could attract approximately 2,700 new roomnights to the market arising from new group and wedding business and from the additional capacity available during nights the Watertown hotels are full.

We have assumed an annual 1.0 percent growth in the area's base lodging demand. The projected market growth is summarized below. The average compound annual growth rate over the projection period is 2.7 percent.

COMPETITIVE LODGING MARKET
Projected Growth (With 75-Room Hotel)

Year	Available Rooms	Demand (Roomnight:	Growth Rate
2016 (1)	179	38,500	
Projected:			
2017	179	38,900	1.0%
2018	179	39,300	1.0%
2019(2)	254	44,700	13.7%
2020	254	45,200	1.1%
2021	254	45,700	1.1%
2022	254	46,100	0.9%
2023	254	46,600	1.1%

Note 1. Estimated based on 9 months in 2016

Note 2. Assumes subject hotel opens with 75 rooms

Recommended Facilities

Based on our evaluation of the local hotel supply and demand conditions we believe that an upper midscale **hotel** with approximately 75 rooms carrying a well-recognized national or regional franchise should be considered for Watertown. The hotel should provide a breakfast free of charge to hotel guests and other amenities should include an indoor pool, a room with fitness equipment, high speed wireless internet access, a business center, and a guest laundry. Five or six 1-bedroom suites with kitchens should be included in the hotel's room mix. Also, a small meeting room of approximately 500 square feet should be considered to accommodate small business meetings outside of the event center.

Our research into the market found that a predominant reason for lodging demand leaving the market for Johnson Creek hotels was the lack of a restaurant suitable for commercial travelers and entertaining. In order to recapture this hotel demand, we believe that a high quality restaurant will be integral to the success of the new hotel. To take advantage of both the hotel and the local market, we recommend that the **restaurant** offer at least 80 seats, be free-standing and conveniently located adjacent to the hotel. It should serve lunch and dinner and provide upscale food and beverage service in a comfortable atmosphere. An outdoor patio would be an attractive amenity and

would also provide a location for receptions. The restaurant could also cater events at the recommended event center.

We recommend that an **event center** of around 4,500 square feet with approximately 3,000 rentable square feet be developed with the hotel. This size facility could accommodate 250 for a banquet, approximately 300 for a reception, or 330 with theater-style seating. Events at the center could be catered by the adjacent restaurant as well as other local caterers. A patio for coffee breaks and small receptions should also be considered.

Adequate, convenient, and free parking will be required for the success of the hotel. Based on Watertown’s zoning code, the project will require a total of 172 **parking spaces** as summarized below:

<u>Component</u>	<u>Parking Spaces</u>
Hotel	83
Event Center	62
Restaurant	<u>27</u>
Total	172

Projected Occupancy

By calculating the ratio of the rooms available at the subject hotel to the total number of rooms available within the competitive market, the “fair share” percentage of demand for the hotel may be determined. The fair share calculation reflects the market share that the hotel could expect to capture if all available competitive rooms in the market were favored equally by potential guests and choices were made on a purely random basis.

Based on the results of our market study, we estimate that the subject hotel would be able to capture 100 percent of its fair share of the demand currently being accommodated at the Holiday Inn Express and 40 percent of its fair share of the Comfort Suites demand.

In addition, we believe that the new hotel could recapture some of the demand that is leaving the market to stay at the Hilton Garden Inn (for higher quality) and the Staybridge Suites (for suite accommodations). We have calculated this recaptured demand to be 1 and 3 percent of these hotels’ estimated total demand, respectively.

We also estimate that the additional capacity from the new hotel will allow the community to capture more demand during the periods when events and summer travel fill all available hotels, and the event space should generate around a 10 percent increase in the area’s group business.

The size and segmentation of the lodging demand available to the new hotel is summarized in the following table.

Estimated Potential Watertown Market Demand (2016)

Market Segment	Total	Commercial	Leisure	Group	Extended Stay
Two Competitive Hotels	37,000	14,500	12,000	10,100	400
Recapture from Two Oconomowoc Hotels	1,500	500	0	0	1,000
New Business	2,700	400	1,100	1,200	0
Totals	41,200	15,400	13,100	11,300	1,400
Percent of Total	100%	37%	32%	27%	3%

The results of our utilization analysis are presented in the following table, which show the subject hotel achieving projected annual occupancies that range from 54 percent in its first year to 62 percent in its fifth year.

RECOMMENDED HOTEL
Projected Market Mix and Occupancy
75 Rooms

Market Segment	2019	2020	2021	2022	2023
Commercial	5,700	6,100	6,500	6,600	6,600
Leisure Travelers	4,700	5,000	5,400	5,400	5,500
Group	3,400	3,600	3,800	3,800	3,800
Extended Stay	1,000	1,100	1,200	1,200	1,200
Totals	14,800	15,800	16,900	17,000	17,100
Annual Occupancy	54%	58%	62%	62%	62%

Occupancies projected for the first two years are lower than the stabilized level of operation, as the hotel will require time to develop its marketing program, particularly for group business, and to maximize public awareness of the hotel facilities.

Average Daily Room Rate

The analysis from which we developed our projections of average daily rate for the subject hotel included the quality and pricing structure of the other competitive hotels. The average daily rate this year at these hotels is estimated to range between \$90 and \$125. Based on our analysis, we have determined that the subject hotel should be able to achieve an average rate of \$105 expressed in 2016 dollars.

Factored into the room rates projected for the subject hotel are an inflation factor of 2 percent and a real growth factor of 1 percent, for a total increase of 3 percent annually. The inflated average rate in 2019, its first full year of operation, is projected to be \$114.75, increasing to \$129.15 by its fifth year of operation.

Event Center Utilization

We have assumed the event center will be owned and operated by the hotel. While the hotel would control bookings, the center would be available to the public on a rental basis. Hotels typically waive rental fees if a certain number of hotel rooms are rented by an event or a sufficient amount of food and beverage is purchased. Thus, we have projected no rental revenue for hotel and banquet events at the center.

EVENT CENTER UTILIZATION PROJECTIONS Third Year of Operation (Stabilized)

<u>Event</u>	<u>Rent</u>	<u>Annual Events</u>	<u>Rental Revenue</u>
Weddings	\$600	24	\$14,400
Banquets	\$0	24	0
Large events	\$500	26	13,000
Small events	\$100	104	10,400
Hotel events	\$0	156	0
		334	\$37,800

At the stabilized level of operation, the event center is projected to have 334 use-days. This represents about a 90 percent utilization.

In addition to rental income, we have projected a 15% catering commission for the event center of about \$44,000 in its stabilized year of operation.

Financial Projection Summary

Our financial projections prepared for the first five full years of operations for the recommended hotel and event center are summarized in the following table.

FINANCIAL PROJECTION SUMMARY 75-ROOM HOTEL AND EVENT CENTER

	2019	2020	2021	2022	2023
Occupancy	54%	58%	62%	62%	62%
Average Daily Rate	\$114.75	\$118.19	\$121.74	\$125.39	\$129.15
Total Revenue	\$1,850,174	\$2,050,387	\$2,255,922	\$2,335,952	\$2,418,665
Departmental Expenses	(458,569)	(475,349)	(512,673)	(525,288)	(538,204)
Undistributed Expenses	(407,436)	(456,417)	(510,874)	(523,945)	(537,348)
Fixed Charges	(274,053)	(373,545)	(420,371)	(433,156)	(445,837)
Cash Flow For Debt Service	\$710,116	\$745,076	\$812,004	\$853,562	\$897,276

Economic Feasibility Analysis

For purposes of analysis, Hospitality Consulting Group assumed the hotel and event center to have a total cost of \$8,598,000, or approximately \$115,000 per guest room. This cost does not include the site cost, which has not yet been determined.

The financing terms utilized in the analysis assumed an equity investment of \$2,149,000, leaving a loan of \$6,449,000 to provide funds for the \$8,598,000 total project cost.

Source of Funds:

Equity	\$2,149,000	25%
Debt	<u>6,449,000</u>	<u>75%</u>
	\$8,598,000	100%

Debt Term Assumptions:

Annual Interest Rate:	5.00%
Amortization:	20 years
Annual Payment:	\$510,727

The results of the feasibility analysis are presented in the following table.

**Proposed Hotel & Event Center-Watertown, WI
Economic Feasibility Analysis
Project Cost: \$8,598,000**

	2019	2020	2021	2022	2023
Cash Flow Available for Debt Service	\$710,116	\$745,076	\$812,004	\$853,562	\$897,276
Debt Service	\$510,727	\$510,727	\$510,727	\$510,727	\$510,727
Debt Service Coverage	1.39X	1.46X	1.59X	1.67X	1.76X
Cash Flow to equity	\$199,389	\$234,349	\$301,277	\$342,836	\$386,550
Equity	\$2,149,500	\$2,149,500	\$2,149,500	\$2,149,500	\$2,149,500
Return on Equity	9.3%	10.9%	14.0%	15.9%	18.0%

A debt coverage ratio (cash flow/annual debt service) of a minimum of 1.2 times is required and 1.4 times is typically preferred by lenders. This analysis shows that the hotel is projected to generate sufficient cash flow to meet its debt service requirements. Also, in this simple analysis, the projected cash on cash return on equity reaches 14 percent in the hotel’s third year and reaches 18 percent in the fifth year.

Therefore, under the project cost and terms of financing assumptions utilized in this analysis, we conclude that the hotel project is economically feasible.

SECTION 3: SITE REVIEW

The City is in the process of implementing a redevelopment plan for its downtown¹. The downtown has been able to avoid much of the decline experienced by many cities when businesses are lost to their suburbs. Many of the downtown buildings date back to the turn of the century and house retail, restaurants, and service businesses that are supported by the community. Over 120 buildings are eligible for the National Historic Register. The redevelopment plan is aimed at improvements that will enhance the downtown and ensure that it will remain the center of commerce in the future. A major element of the plan is to repurpose the riverfront land uses to residential, commercial and leisure functions, of which the subject hotel is a key component.

DOWNTOWN REDEVELOPMENT PLAN

The redevelopment plan represents a comprehensive effort to upgrade various elements of the downtown and to create new amenities that will draw residents and visitors to downtown Watertown. The Plan's key strategies include:

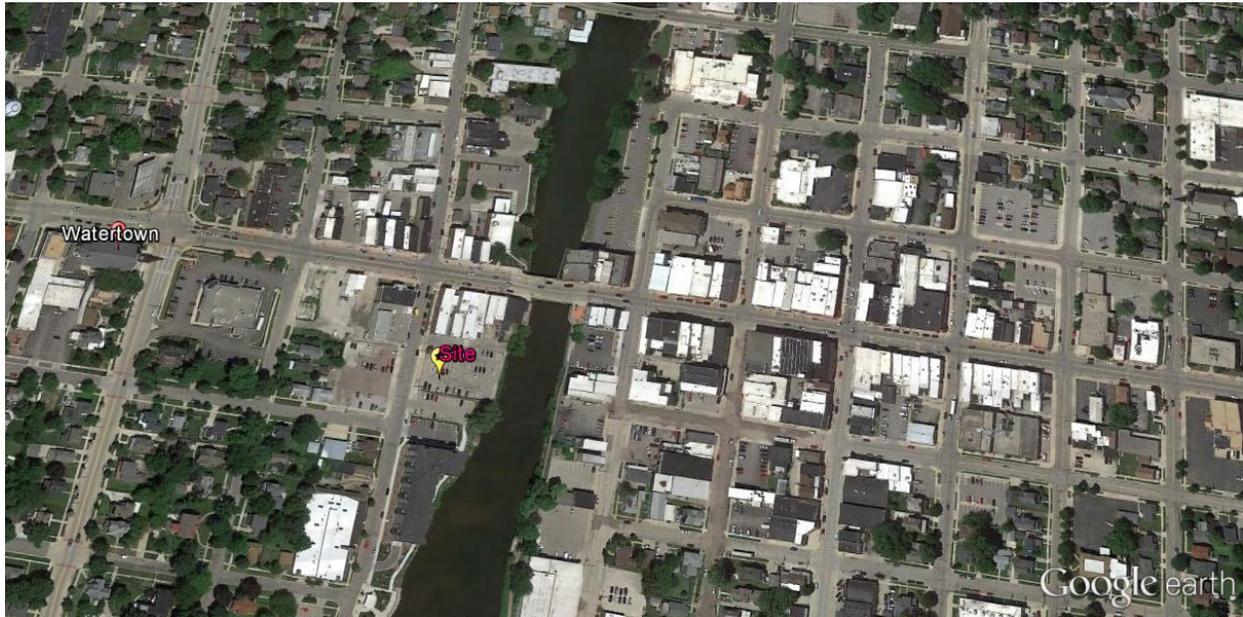
1. Blight elimination;
2. Commercial rehabilitation and façade improvements;
3. Streetscape improvements which include decorative street lighting, landscaping and lighting the Main Street Bridge;
4. Riverfront improvements which include upgrading and extending the existing riverwalk and reconstructing the riverbanks; and
5. Construction of a town square capable of hosting community events.

¹ Watertown Downtown Redevelopment Plan, October 2014

The subject hotel and event center is an important element to the redevelopment plan as it will draw visitors to the downtown and will be an amenity for the community. It is planned to front onto the town square and the river.

HOTEL SITE

The site for the proposed hotel and event center is located on the edge of the central business district along the Rock River. It is located near the main entrance into downtown from Highway Business 26. Specifically, it is the block bounded by South Water Street to the west, West Main Street to the north, Emmet Street to the south, and the Rock River to the east.



The city library is located across South Water Street from the site. One block to the west is the South Washington Street Historic District which consists of eight blocks of large homes that were constructed between the 1850s and early 1900s by prominent Watertown businessmen. The homes are well-maintained and represent a variety of architectural styles.

Several recent redevelopments have opened near the site along Water Street on the west bank of the river:

- River Mill Senior Residences – a relatively new five story apartment building with 54 mixed income units located on the river.
- Millrace Terrace Apartments – a market rate riverfront apartment project located in what was once a shoe factory.
- The Market Mall – a small retail mall with several specialty shops, some services, a family restaurant and a cocktail lounge.

The city plans to acquire the several older buildings located between the site and West Main Street and remove them to make way for a new town square. This would make the hotel highly visible and easily accessible from Main Street.

Proposed Site Plan

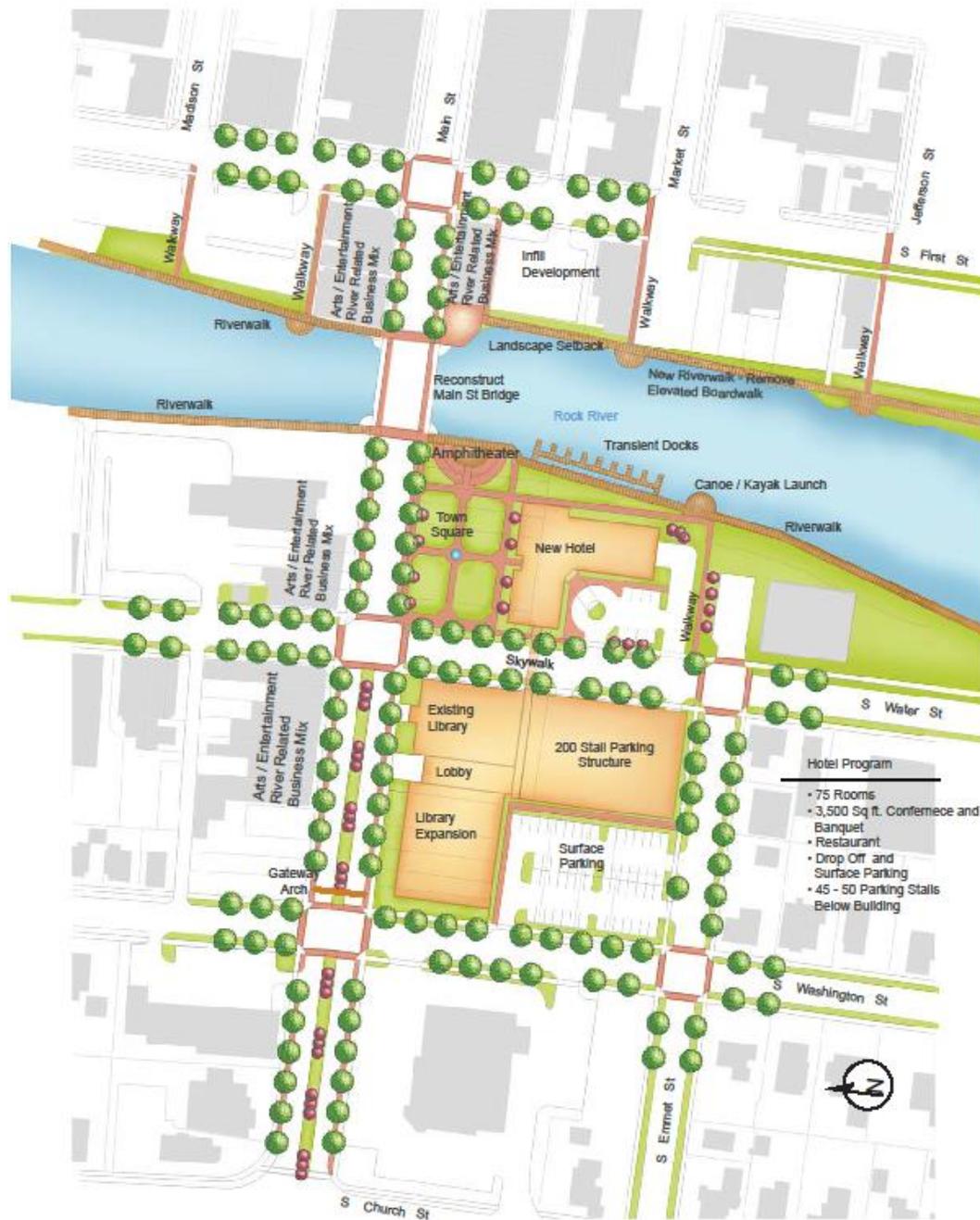
A conceptual plan (shown on the following page) has been developed for the area around the site. Constructing a town square and opening up the area to the river are key elements to the plan. Highlights of the plan include:

- An open town square with an amphitheater;
- Riverwalk on the west side of the river;
- Access to the river and docks;
- Library expansion;
- Structured parking; and
- Lighting and other bridge enhancements

LOCATION AND ACCESS

The site is located at the main entrance into downtown Watertown, so it is close to downtown businesses and to city government. The site is accessed from Highway Business 26 (Church Street) via West Main Street, which leads into downtown Watertown via the Main Street Bridge. The largest industrial park and the municipal airport are located south of town along Highway Business 26. The highway between downtown and this area is lined with typical strip retail outlets, some services, and several restaurants and fast food outlets. Closer to town are several blocks of single family houses. The two existing franchised hotels are located along this strip.

Proposed Site Area Plan



We believe that the subject hotel site is convenient enough to the suburban lodging demand generators to compete effectively with the existing hotels and will have a competitive advantage for downtown-oriented demand. The newer facilities and recommended adjacent restaurant will help to draw patrons to the subject hotel. Other convenient restaurants include the midscale restaurant in the nearby Market Mall and several restaurants downtown.

Based on our review, we believe this site is suitable for a hotel development once the town square and supporting parking is completed.

SECTION 4: REGIONAL CHARACTERISTICS

INTRODUCTION

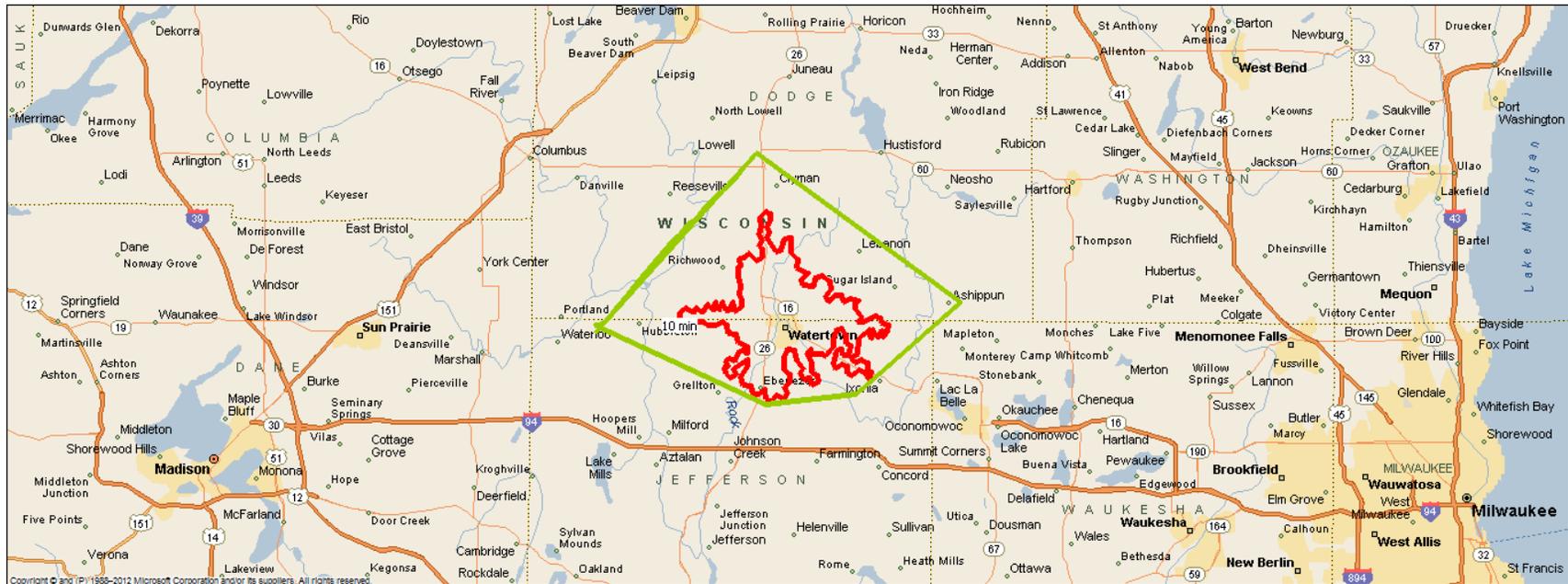
The following section provides an overview of the market environment within which a new hotel would operate. Included within this section is a review of selected economic and demographic data, along with descriptions of the transportation infrastructure, tourism and attractions in the area.

LOCATION

The City of Watertown is located on the northern edge of Jefferson County and abutting Dodge County in southeastern Wisconsin. It is located nearly midway between the 75 miles that separate Milwaukee and Madison.

Watertown's location approximately 10 minutes north of Interstate 94 provides for easy access to businesses and communities in and around Milwaukee and Madison. The local hotel market is restricted to the west by hotels in Sun Prairie, to the south by hotels in Johnson Creek, and to the east by hotels in Oconomowoc. The subject hotel's location and primary market are shown on the map on the following page. The irregular red line depicts a 10-minute drive time. The green outline represents the subject hotel's primary market area.

Watertown, WI Primary Hotel Market Area



DEMOGRAPHICS

Population data for Watertown, a 10-minute drivetime around Watertown, Jefferson County, the neighboring Dodge County, and the State of Wisconsin are presented in the table below. Between 2000 and 2010, the population of Watertown increased by nearly 10 percent, representing a compound annual average growth rate of 0.9 percent. Jefferson County grew at a similar compound annual average rate of 1.0 percent. The state’s population increased by a slower rate of 0.6 percent annually during this period.

POPULATION CHANGE

Primary Market Area

	2000	2010	Change	Compound Annual Growth
Watertown	21,779	23,844	9.5%	0.9%
10 Minute Drivetime	23,748	26,050	9.7%	0.9%
Jefferson County	75,928	83,686	10.2%	1.0%
Dodge County	86,015	88,759	3.2%	0.3%
Wisconsin	5,363,675	5,686,986	6.0%	0.6%

Source: U.S. Census; ESRI

Population projections prepared by the Wisconsin Department of Administration for 2015 to 2025 are presented in the following table. They show that Watertown and Jefferson County are expected to grow at rates similar to their historic levels (slightly under 1% annually), while the rate of growth in Dodge County is expected to double.

POPULATION PROJECTIONS

	Estimated 2015	Projections(2)		Increase 2015-2025	Compound 2015-2025
		2020	2025		
Watertown	24,175	25,426	26,465	9.5%	0.9%
Jefferson County	85,455	90,120	93,860	9.8%	0.9%
Dodge County	88,830	92,035	94,820	6.7%	0.7%
Wisconsin	5,783,015	6,005,080	6,203,850	7.3%	0.7%

Source: 1. U.S.Cencus

2. Wisconsin Department of Administration

Household Incomes

The median household incomes for Watertown, a 10-minute drivetime around Watertown, Jefferson and Dodge Counties, and the State of Wisconsin are shown in the following table. The median is the midpoint at which there are an equal number of households with larger and smaller incomes. The median household income in Watertown and the immediate surrounding area is 2 percent lower than the median for the state and 7 percent lower than Jefferson County.

**MEDIAN HOUSEHOLD INCOME
2015**

Watertown	\$49,926
10 Minute Drivetime	\$52,674
Jefferson County	\$56,877
Dodge County	\$53,785
Wisconsin	\$53,357

Source: U.S. Census, ESRI

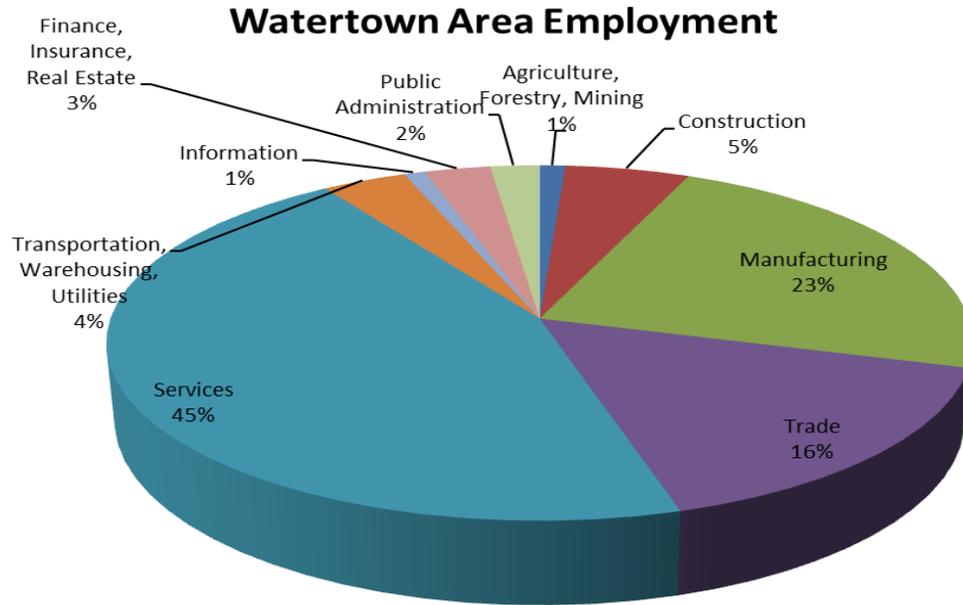
EMPLOYMENT

Employment is a strong indicator of an area’s economic health. Watertown has a large Services sector followed by a relatively large Manufacturing sector that accounts for nearly one quarter of the area’s employment. Manufacturing is typically a strong generator of lodging demand as vendors, customers, corporate personnel, and sales meeting participants frequently require lodging accommodations.

Major Employers

There are a number of large companies in the area who utilize hotel accommodations in Watertown:

Eaton Corporation operates a plant here that manufactures machinery, equipment and supplies used in power management solutions for electrical, hydraulic and mechanical power. It employs more than 200 people.



Fisher Barton Blades, Inc. manufactures primarily lawn mower blades for distribution throughout the world. The company operates a 94,000-square foot facility and has approximately 180 employees.

Glory Global Solutions manufactures automated cash handling machines which it sells throughout the world. It operates other plants in Europe, Africa, and the Middle East; its US headquarters is located in Illinois. It employs approximately 180 people at the local plant.

Perry Way Foods (Johnsonville Foods) operates a food processing sausage plant in Watertown. It recently expanded its plant to 117,000 square feet and employs approximately 150 people.

Wis-Pak, Inc. manufactures and distributes Pepsi-Cola and other soft drinks. It employs approximately 200 people at the Watertown plant.

Morris Material Handling (Konacranes) manufactures overhead cranes and various hoists. It has approximately 100 employees.

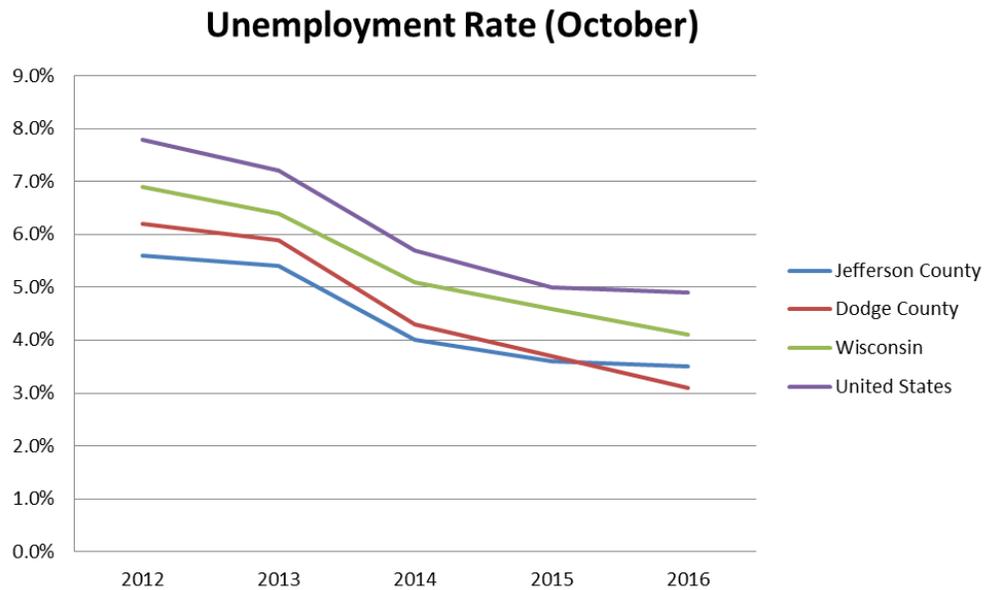
Western Industries – Engineered Products Group is headquartered in Watertown. It is a contract manufacturer of components, appliance products, and electro-mechanical assemblies. The company’s services include design, testing, manufacturing, assembly, packaging and fulfillment. It employs approximately 100 people at the local plant.

Ad-Tech Industries, Inc. operates a materials coating facility. The 165,000-square foot plant employs over 100 people.

Reiss Industries LLC. manufactures rubber and plastic products. It employs approximately 175 people.

Unemployment

The unemployment rate in Jefferson County as of October 2016 was 3.5 percent, a level that is lower than the Wisconsin statewide rate of 4.1 and significantly lower than the nationwide rate of 4.9 percent.



Source: Federal Reserve Bank of St. Louis

TRANSPORTATION

Highways

Watertown is located on State Highway 26, which connects Janesville in southern Wisconsin to Oshkosh in the central part of the state. A bypass was constructed which has three exits to the city. According to traffic counts taken by the Wisconsin Department of Transportation, a daily average of approximately 13,000 vehicles travel this highway between Watertown and Johnson Creek.

Airport

The Watertown Municipal Airport can accommodate personal aircraft and business jets. It has two paved runways of 4,429 feet and 2,801 feet, respectively. The airport has approximately 58,000 aircraft operations a year.

Commercial air service is available at General Mitchell Airport in Milwaukee located approximately 50 miles to the east and at Dane County Regional Airport in Madison located approximately 40 miles to the west.

RESTAURANTS

Restaurants can be an important hotel requirement, particularly for commercial travelers. Watertown has several midscale restaurants that serve dinner:

- **Elias Inn Supper Club** – operated as a restaurant since 1935, this well established restaurant has an excellent reputation. It is relatively small and frequently has a lengthy wait for seating. The restaurant has an American cuisine serving steaks and seafood with dinners priced between \$15 and \$30. It is located in the downtown area.
- **Amando's Restaurant** – serves Mexican and Caribbean cuisine with dinners priced between \$9 and \$14. It is located in the downtown area.
- **Sake House** – serves Japanese/Asian cuisine with dinners priced between \$8 and \$16. The restaurant is located south of town along the Highway Business 26 strip.

- **El Mariachi Mexican Restaurant** – serves Mexican cuisine with dinner priced between \$9 and \$13. It is located south of town along the Highway Business 26 strip.
- **Applebee's** – serves burgers, steaks and pub food with dinners priced between \$10 and \$20. The restaurant is located south of town along the Highway Business 26 strip.

Several employers mentioned that many visitors believe the local restaurant offerings are insufficient and therefore stay in a surrounding community where more desirable restaurants are available. Based on these findings, we believe that a more upscale restaurant should be developed to support the new hotel.

AREA ATTRACTIONS

There is a variety of institutions and attractions in Watertown that draw visitors to the area. The more prominent ones are described below.

Watertown Regional Medical Center

This medical complex consists of a 55-bed hospital and a large clinic. The hospital supports clinics in the surrounding communities of Ixonia, Johnson Creek, Juneau, Lake Mills, and Waterloo. Recent patient statistics show that it serves approximately 20,000 patients and has approximately 2,000 admissions annually. The medical center is operated by LifePoint Health who is based in Tennessee.

Maranatha Baptist University and Seminary

This educational institution is located on a 79-acre campus on the west side of Watertown. Founded in 1968, it offers undergraduate degrees in 31 majors and graduate degrees in 8 programs. It has approximately 1,400 students who originate from 44 states and 11 foreign countries. The university competes in 11 intercollegiate sports within the NCAA Division III program.

Luther Preparatory School

This private institution is the oldest Lutheran high school in the country with its roots dating back to 1865. There currently are 427 students enrolled in grades 9 through 12. These students originate from 29 states and 9 foreign countries. The campus is located a short distance from the downtown core.

Octagon House

This three story brick structure was constructed in 1854 by one of Watertown's early residents. There are 57 rooms and spaces in the home, as well as early plumbing and heating systems. Two additional historic structures have been moved to the grounds: a pioneer barn and the first American Kindergarten building. The complex is maintained and operated as a museum by the Watertown Historical Society. Tours are available daily from May through October.

Rock River Trail

The Rock River Trail follows the entire 320-mile path of the river from its source in Waupun County Park in Fond du Lac County to its end at the Mississippi River in Beloit. The trail can be driven, biked, hiked, or paddled. The river is a designated Natural Waters Trail and has 155 access points along its route. The trail passes through 11 counties and 37 towns; its route through downtown Watertown passes across the Main Street Bridge and in front of the proposed hotel site.

Watertown Festivals and Events

Watertown promotes an active calendar of events, several of which are reported to fill area hotels:

- Riverfest, held 4 days in August, is popular festival that has been supported for 30 years. Its attractions center around music with 4 bands performing each day, along with carnival rides, a car show, a water ski show, food vendors and fireworks.
- Softball tournaments are hosted at the City's ball park complex which has five lighted diamonds. The largest is a four day girl's fast pitch tournament with 14 teams.

- GRB Academy Baseball tournaments are held each summer in Watertown. Three or four of these 2-day youth baseball tournaments are hosted and attract teams from throughout the region.

EAA AirVenture Fly In Convention

Held in Oshkosh, Wisconsin during the last week in July, this gathering is the largest aeronautical convention in the world. Sponsored by the Experimental Aircraft Association, this 7 day event attracts over 500,000 visitors including 10,000 aircraft. The event fills all hotels in Oshkosh and surrounding communities, including Watertown.

SECTION 5: AREA HOTEL SUPPLY

A new hotel would capture lodging demand from business activities in and around Watertown, through travelers on Highway 26/16, visitors to area residents, visitors drawn by athletic tournaments, community events and leisure activities on the Rock River.

In this section of the report we present information regarding the area’s hotels that would be competitive with a new hotel in Watertown.

HOTEL SUPPLY

The proposed hotel would compete with one of the two existing franchised hotels in Watertown, one upper midscale hotel in nearby Johnson Creek, and two hotels in Oconomowoc.

Watertown Lodging Supply

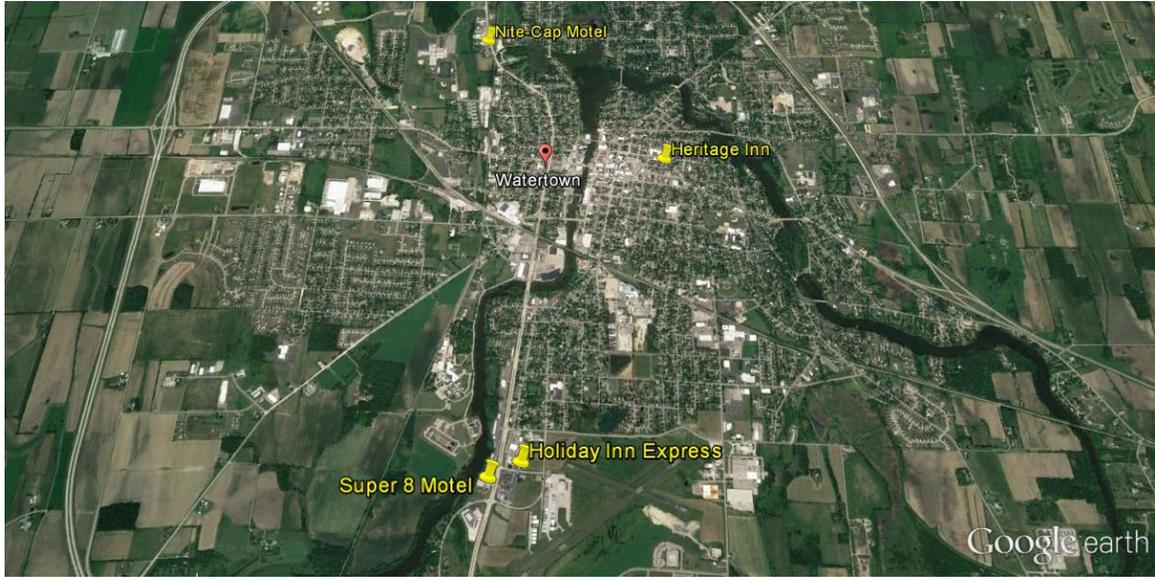
There are four lodging properties in Watertown with a total of 178 guest rooms.

WATERTOWN HOTELS

Hotel	Rooms	Quality	Age
Holiday Inn Express	79	Upper midscale	20 Years
Super 8	45	Economy	24 Years
Heritage Inn	38	Economy	43 Years
Nite-Cap Motel	<u>16</u>	Economy	50+ Years
	178		

Source: STR Global

Only the Holiday Inn Express would be considered to be competitive with a new hotel. The other three properties are economy facilities that would not be competitive due to their age and/or lack of quality. The locations of the Watertown hotels are shown on the following map.



Competitive Lodging Supply

Based on our market research, we identified three other hotels located in two surrounding communities that accommodate lodging demand from Watertown. One of these hotels is located in Johnson Creek, approximately 10 minutes south of Watertown and two are located in Oconomowoc, approximately 25 minutes to the southeast. The locations of these properties are shown on the following map.



The four hotels judged to be competitive with a new hotel in Watertown are listed in the table below, along with their 2017 posted room rates. The two Oconomowoc hotels are included because local employers reported that some of their visitors stay at these hotels.

COMPETITIVE AREA HOTELS

Hotel	Location	Quality	Year Opened	Rooms	Amenities
Holiday Inn Express	Watertown	Upper midscale	1996	79	Pool, fitness room, 3 meeting rooms(1,250 sf)
Comfort Suites	Johnson Creek	Upper midscale	2005	100	Large pool area, whirlpool, fitness center, Conference Center (9,500 sf)
Hilton Garden Inn	Oconomowoc	Upscale	2007	100	Restaurant, bar, pool, fitness room, Meeting room (1,200 sf)
Staybridge Suites	Oconomowoc	Upscale	2009	128	Pool, fitness room, meeting rooms (344 sf), Outdoor recreation

Source: STR Global and Hospitality Consulting Group

Holiday Inn Express & Suites - Watertown



This 79-room hotel is located along Business 26 on the southern edge of the city near the airport. This Intercontinental Hotel Group (IHG) franchise opened in 1996 and has recently been renovated. Its amenities include an indoor pool, a fitness room, and three meeting rooms with a total of 1,250 square feet. The largest room is 530 square feet with a

capacity of 40 people; the other two rooms each have approximately 360 square feet. The hotel provides breakfast service for functions but lunch and dinner events are catered by outside providers. The hotel serves a complimentary hot breakfast to guests. Room rates at this upper midscale property are \$140 during

the week and are reduced approximately \$20 on most weekends. The hotel offers a 10% discount for none-refundable advance purchase and for seniors. We estimate the hotel will achieve an average rate of between \$100 and \$105 for 2016.

Comfort Suites – Johnson Creek



This 100-room hotel is a Choice Hotels franchise that is located near the Highway 26 interchange on Interstate 94 in Johnson Creek. While the property is visible from the interstate, its access is poor because there is no

direct route via a frontage road. It is located in a developing industrial park with no retail outlets in the immediate surrounding area. However, it is only several blocks from the Johnson Creek Premium Outlet Mall and several restaurants at the interchange. Opened in 2005, it features an 8,000-square foot aquatic center with a pool, kiddie pool, and whirlpool. It also has a 9,500-square foot convention center. Other amenities include a fitness room and free breakfast. The hotel's rooms have a microwave and small refrigerator and are configured with a half wall separating the living area from the bedroom area; they are not true suites. The hotel does, however, have five 2-room suites. The hotel was reported to have had financial difficulties and several owners in the past. Room rates at this upper midscale property are \$99 to \$127 for regular rooms and \$137 to \$147 for suites. Rates frequently increase by \$7 or \$8 on weekends. The hotel offers a 10% discount for none-refundable advance purchase and for seniors. We estimate the hotel will achieve an average rate of between \$90 and \$95 in 2016.

Hilton Garden Inn – Oconomowoc



This 100-room upscale hotel has a loyal following among commercial travelers. Opening in 2007, it features 8 suites, a limited restaurant and bar, indoor pool and whirlpool, a small market, exercise room, and 1,200 square feet of meeting space. Room service is available but

it does not have a free breakfast for guests. Room rates are \$109 to \$129 during the winter, \$169 during the shoulder months, and \$199 during the summer. A 3% discount is offered to Hilton Honors Club members, a 20% discount is available for non-refundable advance purchase, and a 10% discount is available to seniors. We estimate the hotel will achieve an average rate of between \$120 and \$125 for 2016.

Staybridge Suites - Oconomowoc



This 128-room upscale hotel is a franchise of Intercontinental Hotel Group. It is oriented towards extended stays as the rooms are appointed with residential amenities such as a fully equipped kitchen. Opened in 2009, it features an indoor pool, a small market,

exercise room, a 344-square foot meeting space, a small movie theater, putting green and a barbecue pavilion. A free hot buffet breakfast is provided to guests and a cocktail reception is offered three nights a week. Room rates are \$140 to \$150 for a studio suite and \$160 to \$170 for a 1-bedroom suite. Rates increase by \$10 to \$20 during the summer. The hotel discounts its rates for stays of a week or more and offers a 10% discount for none-refundable advance purchase and for seniors. We estimate the hotel will achieve an average rate of between \$120 and \$125 for 2016.

MEETING FACILITIES

A community needs public space to accommodate functions such as business meetings, training sessions, seminars, banquets, fund raisers, reunions and receptions. Several decades ago, most hotels had restaurants and large meeting spaces to fulfill these needs. However, the development of large numbers of economy and limited service hotels that lack food service and meeting space have greatly reduced the number of new full service hotels. As a result, restaurants, golf clubs and banquet halls are capturing increasing shares of this business.

There are four venues in Watertown that can accommodate group functions with more than 100 participants: two country clubs, an older Elks Club and a banquet hall located in a renovated building.

The nearest hotel with a significant amount of meeting space is the Comfort Suites located in Johnson Creek. There is also a resort with a large amount of public function space in Oconomowoc.

These properties are described below:

Elks Lodge is located in the former Concordia Opera House in downtown Watertown that was constructed in 1888. A lounge that can seat up to 180 people occupies the second floor of the building which is available to community and civic groups, military organizations, fraternal organizations and clubs. The Grand Ballroom occupies the third floor and is available to the public. It can seat 210 for a banquet and can accommodate 325 people for a reception. Amenities include a stage, dance floor, sound system and a bar. The building has elevator service to all floors.

Turner Hall is a banquet facility in Watertown housed in an older historic building that was most recently used as a National Guard armory. The unobstructed room is used for wedding receptions, concerts, training, and community activities such as craft and gun shows. The Hall provides its own catering.

Winwood of Watertown Golf Club, located about 3 miles east of town, has a clear span banquet hall that overlooks the golf course and a lower level that has visible ceiling supports. The main hall can seat 300 for a banquet and the lower hall can seat 125. The golf club is a popular venue for wedding receptions.

Watertown Country Club is a private golf club that makes its food and beverage facilities available to the public. The dining room in this older facility has a pleasant view of the golf course and can seat up to 240 for a banquet.

Comfort Suites Hotel & Conference Center is located approximately 8 miles south of Watertown in Johnson Creek. The center has six meeting rooms and a nearly 1,200-square foot pre-function area. The Ballroom has over 5,100 square feet and can be divided into six smaller rooms. It has a banquet capacity of 425 persons and over 500 for a reception.

Olympia Resort & Conference Center is an older resort located in Oconomowoc. It has 255 guest rooms and, with 45,000 square feet of public space, has the seventh largest amount of function space in the state. The largest space has 10,600 square feet and the resort's ballroom has 8,500 square feet. Due to its age, the resort is only marginally competitive and the owners have announced their intent to close the resort and convert it into a senior housing complex.

Milford Hills Hunt Club, located about six miles southwest of town, hosts weddings, corporate retreats and social gatherings. It can seat 200 in its dining room and has three other smaller function rooms. The club also has a lodge that it rents out with four bedrooms and three bathrooms.

Bennet Barn, located about six miles west of town is a rustic wedding venue that consists of a restored barn and farmhouse. A small white country church is located within walking distance of the barn that can be used for wedding ceremonies. The barn can accommodate up to 300 for a banquet.

A new hotel and event center with an adjacent restaurant would provide a high quality facility for meetings, banquets, and social functions that would be capable of successfully competing with the area's hotels and meeting venues.

SECTION 6: AREA HOTEL DEMAND

HOTEL INDUSTRY TRENDS

The hotel industry achieved its highest level of occupancy in the last 25 years in 2014 and 2015. This was the result of increased commercial and leisure travel after the Recession, combined with a lack of new hotel supply which was thwarted during the Recession. Industry forecasts released by CBRE anticipate that the average national occupancy will achieve 65 percent in 2017, a level that is the same as the industry achieved in each of the last two years.

The increase in the number of new hotel rooms has caught up to and has even exceeded the growth in demand in many markets. CBRE forecasts that the growth in supply (at 2.0 percent) will exceed the growth in demand (1.8 percent) in 2017. However, the high occupancy levels will provide the leverage necessary to achieve large real average daily rate growth for the next two to three years. Average daily rates are forecast to increase by 4.1% next year.

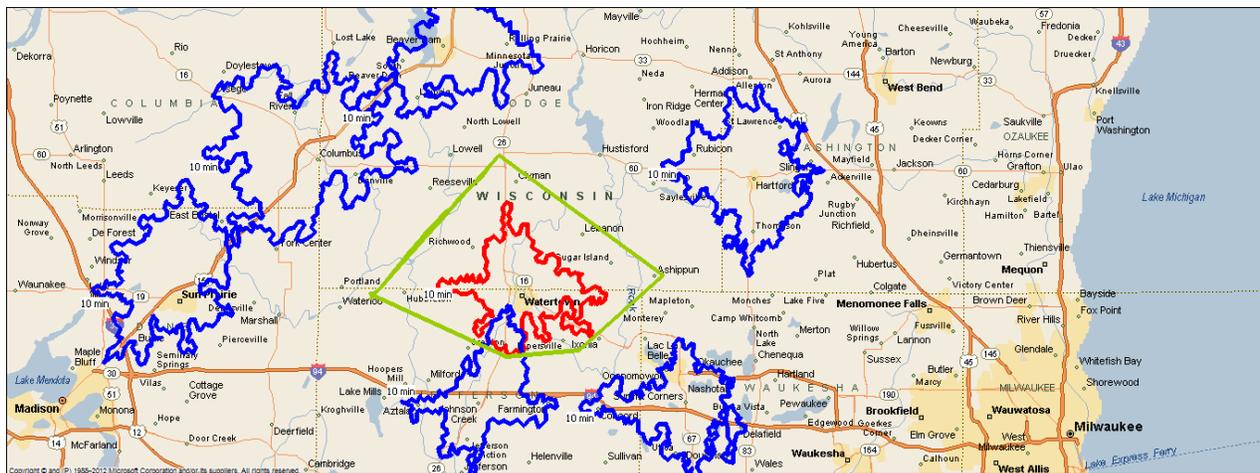
The gains in ADR will offset the slight decline in occupancy resulting in a forecasted gain in Revenue Per Available Room or RevPAR (average rate multiplied by occupancy) of 3.9%.

The increases in average daily rate that have occurred since 2009 have made new hotel construction feasible in many markets. The building standards, quality, and amenities required by hotel franchises resulted in project costs that previously could not be supported by the local market hotel rate structure. As a result of the higher RevPARs experienced in recent years, hotel development activity is occurring in markets where a new hotel has not been developed in over a decade, or which has never had a hotel.

The hotel chains have developed new prototypes for this surge in development. These new facilities not only raise guest expectations for their lodging experience, but also push older prototype hotels closer to obsolescence.

HOTEL DEMAND

The size of Watertown’s potential hotel market is limited by the proximity of Johnson Creek to the south, Oconomowoc to the southeast, Sun Prairie to the west, and several communities to the north and east, as shown on the map below. The primary market area is depicted by the green shape and the irregular shapes represent a 10-minute drive time zone around Watertown and the surrounding cities with midscale hotels.



A new hotel in Watertown would capture local commercial, group, and leisure demand that is leaving the market now due to the lack of new hotel facilities and capacity. In order to quantify the amount of local demand that can be expected, we obtained lodging tax data to evaluate recent trends regarding both the levels of demand and seasonality that is accommodated by the existing competitive hotels. In addition, we contacted area companies and the local hospital to gain insight into their lodging needs and to identify the hotels they utilize.

In conducting our market analysis, we looked at the characteristics of each demand component. A description of these characteristics follows.

Commercial Demand

Commercial demand occurs steadily throughout the year with little seasonal fluctuations other than a decline in business travel during holiday periods. This segment of demand occurs mostly during the weekdays. It originates from vendors, customers, sales meetings, and other business related travelers in the area.

Commercial travelers generally seek out franchised hotels that are located near their business destination. Since they are typically on expense accounts, many seek out the newer and higher quality hotels. The availability of a conveniently located quality restaurant is often an important factor in hotel selection for this segment.

Discussions with representatives of the larger companies found that the Holiday Inn Express is generally acceptable for their guests. However, their board of directors, visitors from headquarters, and international visitors frequently stay at the Hilton Garden Inn in Oconomowoc. Several people mentioned that some of their visitors stay at the Comfort Suites in Johnson Creek or go to Oconomowoc because of the limited restaurant options available in Watertown. Maintenance teams were more likely to stay at the local Super 8 because of its more economical rates.

Leisure Demand

The Leisure demand segment consists primarily of weddings and other social gatherings, visitors to local friends and relatives, recreational activities on the Rock River, and visitors to the area's special events. This market segment is largest during the summer months, when leisure travel is at its peak, and reaches its low point in December and January. Leisure demand is typically more price sensitive than commercial demand.

Group/Social Demand

Group business is generated by area employers who hold training sessions, sales meetings and planning sessions, government agencies, associations and area residents who hold weddings, reunions and other social gatherings attended by out-of-town guests.

The possibility of a large event space with convenient lodging rooms was greeted enthusiastically by the people we interviewed.

Extended Stay Demand

Extended stay demand refers to guests whose visit exceeds five nights. This demand originates from professionals on assignment, people attending training sessions, healthcare-related visits, transferring employees, and people awaiting housing.

AREA HOTEL PERFORMANCE

In order to assess the recent business trends in the Watertown area lodging market, we obtained lodging tax data for Watertown and for Johnson Creek.

Lodging Revenues

Both towns collect a lodging tax from the lodging facilities in their community in the amount of 5% in Watertown and 8% in Johnson Creek. The tax is collected on room rentals of less than 30 consecutive days. Since the Super 8 Motel in Watertown rents some rooms for a period of more than 30 days, some of its revenue is not reflected in these data.

The tax revenue, which represents a combination of occupancy and room rates, shows a slightly positive trend for the Watertown market, as shown in the graph below. For the first nine months of 2016 lodging tax collections have increased by 5 percent over the same period in 2015. It appears that demand has been stable in recent years and the increase in revenue is mostly a result of increases in room rates. The graph also provides an indication of the seasonality of lodging demand which peaks during the summer months.

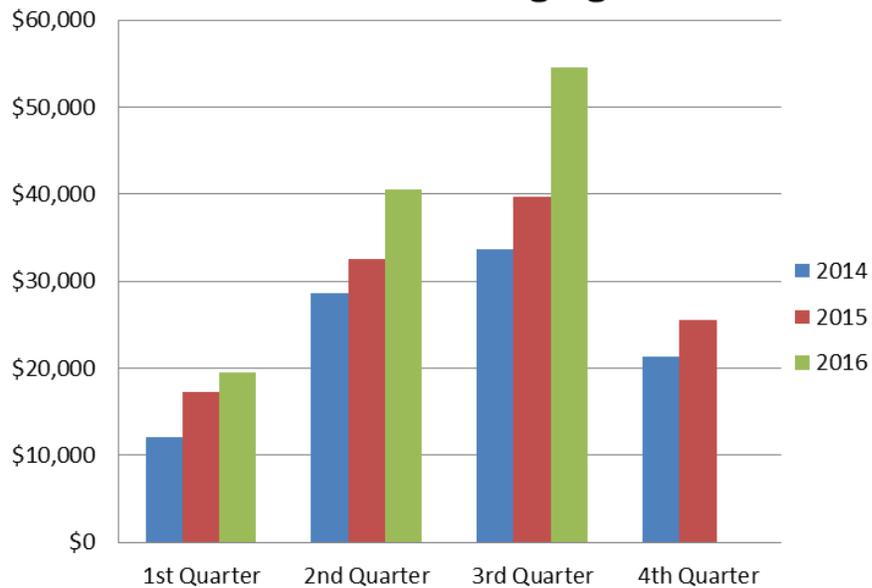
Watertown Lodging Tax



Source: City of Watertown

Quarterly lodging tax collections for Johnson Creek are shown in the following graph. The Comfort Suites is the only contributor to the tax. The tax collections show that hotel revenues have increased in each quarter for the last three years.

Johnson Creek Lodging Tax



Source: City of Johnson Creek

Tax collections for the first three quarters of 2016 have increased by 28 percent over the same period in 2015. We believe that much of this increase can be attributed to the recovery of the Comfort Suites from financial difficulties it experienced in its early years. Also, the hotel is located on Interstate 94 so it has benefited from the increase in leisure travel that has occurred in recent years.

Estimated Hotel Performance

Based on our market research and data available to us, we have estimated the occupancy and average daily room rate for the four hotels judged to be competitive with a new hotel in Watertown. These hotels are summarized in the following table.

COMPETITIVE AREA HOTELS

Hotel	Location	Quality	Dec. 2017 Rack Rates		Estimated 2016 ADR	Estimated 2016 Occupancy
			Regular	Suite		
Holiday Inn Express	Watertown	Upper midscale	\$125-\$140	\$135-\$150	\$100-\$105	60%-65%
Comfort Suites	Johnson Creek	Upper midscale	\$99-\$127	\$137-\$147	\$90-\$95	55%-60%
Hilton Garden Inn	Oconomowoc	Upscale	\$109-\$169	\$109-\$169	\$120-\$125	70%-75%
Staybridge Suites	Oconomowoc	Upscale	na	\$140-\$170	\$120-\$125	70%-75%

HOTEL DEMAND PROJECTIONS

For purposes of our demand analysis, we have assumed that the Holiday Inn Express and the Comfort Suites would be directly competitive with the new hotel. We also believe that a new hotel could capture some of the Watertown demand that stays in the two Oconomowoc hotels. A new hotel with a convenient quality restaurant and meeting space could retain some of the business that is going to the Hilton Garden Inn for quality and the Staybridge Suites for suites with cooking facilities.

The two competitive hotels in Watertown and Johnson Creek, with a total of 179 guest rooms, are estimated to experience 37,000 occupied roomnights in 2016. In addition, we estimate that approximately 2 percent of the demand accommodated at the two competitive hotels in Oconomowoc could be recaptured by the recommended hotel (1,500 roomnights).

In addition, we estimate that a new hotel with an event center could attract approximately 2,700 new roomnights to the market arising from new group and

wedding business and from the additional capacity available during nights the Watertown hotels are full, such as during baseball and softball tournaments, city festivals, the air show in Oshkosh, and certain summer nights.

Based on our market research the quantity and mix of the competitive lodging demand is estimated to consist of the following:

Estimated Potential Watertown Market Demand (2016)

Market Segment	Total	Commercial	Leisure	Group	Extended Stay
Two Competitive Hotels	37,000	14,500	12,000	10,100	400
Recapture from Two Oconomowoc Hotels	1,500	500	0	0	1,000
New Business	2,700	400	1,100	1,200	0
Totals	41,200	15,400	13,100	11,300	1,400
Percent of Total	100%	37%	32%	27%	3%

We estimate that approximately 37percent of the potential lodging demand in the area market is generated by commercial activity, 32 percent is generated by leisure travelers, 27 percent is generated by meetings and other group functions, and 3 percent comes from extended stay travelers.

Lodging Demand Growth

In estimating future levels of the market’s lodging demand, we considered the following factors:

1. The hotel industry is tied directly to the regional and national economy. As the economy recovered after the recession both business and leisure travelers returned to the road, resulting in annual demand growth rates of between 2.0 and 4.7 over the last three years and an estimated 1.7 percent in 2016. CB Richard Ellis forecasts demand to increase by 1.8 percent in 2017 and continue a long run average growth at this rate.
2. The lodging demand accommodated by the Watertown hotels grew slightly over the last 12 months.

3. Population of Watertown and the 10-minute drive time around the city grew at a compound annual rate of 0.9% between 2000 and 2010 and both Watertown and Jefferson County are projected to increase at a similar rate over the next 10 years.
4. The event center will provide the facilities necessary for the hotel to capture Watertown based group business from the Comfort Suites in Johnson Creek and from the Olympia Resort in Oconomowoc that will be closing soon.
5. The additional hotel capacity will allow the market to accommodate more demand during the summer and other times when the local hotels are full.

Based on these factors of growth, we have assumed an annual 1.0 percent growth in the area’s base lodging demand. In addition to this growth in the lodging base, new demand will be attracted by the subject hotel’s meeting facilities, its extended stay rooms, and increased capacity during periods when the market is sold out.

The projected market growth is summarized below. The average compound annual growth rate over the projection period is 2.7 percent.

**COMPETITIVE LODGING MARKET
Projected Growth (With 75-Room Hotel)**

Year	Available Rooms	Demand (Roomnight)	Growth Rate
2016 (1)	179	38,500	
Projected:			
2017	179	38,900	1.0%
2018	179	39,300	1.0%
2019(2)	254	44,700	13.7%
2020	254	45,200	1.1%
2021	254	45,700	1.1%
2022	254	46,100	0.9%
2023	254	46,600	1.1%

Note 1. Estimated based on 9 months in 2016

Note 2. Assumes subject hotel opens with 75 rooms

SECTION 7: RECOMMENDED FACILITIES

This section of the report presents the facilities that are recommended for a new hotel in Watertown. Estimates of the utilization of the hotel are presented in the next section of the report.

DEVELOPMENT TRENDS

New full service hotels have all but disappeared in recent years for locations other than urban areas, large office parks, and corporate centers. This is due to their higher cost (and higher room rates) relative to limited service hotels that can offer the same quality room but at a lower rate. Several hybrid concepts, known as “focused service” hotels, have emerged that offer a limited menu buffet restaurant and a small bar. Hilton Garden Inn and Courtyard by Marriott are examples of this concept. Due to the challenges of operating a restaurant, full service hotels are also considered to be of greater risk by lenders and investors.

HOTEL FACILITY RECOMMENDATIONS

Based on our evaluation of the local hotel supply and demand conditions we believe that an upper midscale hotel with approximately 75 rooms carrying a well-recognized national or regional franchise should be considered for Watertown. Examples of possible considerations are:

Marriott International:	Fairfield Inn & Suites
Hilton Hotels & Resorts:	Hampton Inn & Suites
Carlson-Rezidor Hotel Group:	Country Inn & Suites
GrandStay Hospitality:	GrandStay Inn & Suites
Cobblestone Hotels:	Cobblestone Inn & Suites

These upper midscale hotels are all limited service properties in that they do not have restaurants and typically offer smaller meeting spaces. The smallest hotel prototype will have at least 60 rooms and most have 80 or more rooms. They all provide breakfast free of charge to hotel guests. Other amenities include an

indoor pool, a room with fitness equipment, high speed wireless internet access, a business center, and a guest laundry. The size of meeting space depends on the opportunities in the local market. These hotels provide great value to guests because they provide high quality rooms and amenities without the financial burden of operating a restaurant.

We suggest that five or six 1-bedroom suites with kitchens be included in the hotel to accommodate the community's employee transfers, lengthy professional assignments, new home construction, and other situations that create a long term hotel stay situation. The Staybridge Suites in Oconomowoc accommodates this business now.

We also recommend that a small meeting room of approximately 500 square feet be included in the hotel to accommodate small business meetings outside of the event center.

RESTAURANT

Our research into the market found that a predominant reason for lodging demand leaving the market for Johnson Creek hotels was the lack of a restaurant suitable for commercial travelers and entertaining. Highway Harry's, a supper club in Johnson Creek, is popular with area visitors.

In order to re-capture this hotel demand, we believe that a high quality restaurant will be integral to the success of the new hotel. The restaurant could be operated by the hotel, leased to an independent operator, or developed by an unrelated entity on a separate site pad. The first two options require a greater investment by the hotel, but allow it to maintain some control over the restaurant operation and therefore are preferable to a completely separate restaurant. However, a well-known national franchised restaurant or an experienced restaurant group would reduce this concern.

To take advantage of both the hotel and the local market, we recommend that the restaurant offer at least 80 seats, be free-standing and conveniently located adjacent to the hotel. It should serve lunch and dinner and provide upscale food and beverage service in a comfortable atmosphere. An outdoor patio would be an attractive amenity and would also provide a location for receptions.

Its location near the hotel, the Rock River and the downtown should enable it to capture patronage from hotel guests, local residents, and downtown workers. Although the hotel would have a free breakfast, some guests would dine in the restaurant for a more substantial breakfast or to host a meeting, if the restaurant chose to open for this meal. The restaurant could also cater events at the recommended event center described in the following section of the report.

EVENT CENTER

We recommend that an event center of around 4,500 square feet with approximately 3,000 rentable square feet be developed with the hotel. This size facility could accommodate 250 for a banquet, approximately 300 for a reception, or 330 with theater-style seating. The space should be divisible into three smaller rooms and have a pre-function area. The facility should have a catering kitchen and adequate storage for tables and chairs. The center should be wired for sound equipment and high speed internet, and should have flexible lighting to accommodate both business and social functions. Events at the center could be catered by the adjacent restaurant as well as other local caterers. A patio for coffee breaks and small receptions should also be considered.

The availability of a large event space, supported by hotel rooms, would draw new events to the community and recapture locally-based group functions that presently are hosted by the conference center at the Comfort Suites in Johnson Creek and by the Olympia Resort in Oconomowoc.

PARKING

Adequate and convenient parking will be required for the success of the hotel. Paid parking is almost non-existent in Watertown and parking is free at all the competitive hotels in Watertown, Johnson Creek, and Oconomowoc. Also, since the proposed site is surrounded mostly by residential areas, overflow parking along the streets would compete with local residents' parking needs.

Watertown's zoning code for a hotel requires 1 space per guest room and 1 space per employee. The hotel would average 8 employees during a typical day so 83 parking spaces would be required for the hotel.

The zoning code for the event center requires 1 parking space per 4 seats. With a maximum banquet capacity of 250, the event center would require 62 parking spaces.

The zoning code for a restaurant requires 1 parking space per 3 seats. Thus, an 80-seat restaurant would require 27 parking spaces.

The project’s parking requirements total 172 spaces and are summarized below:

<u>Component</u>	<u>Parking Spaces</u>
Hotel	83
Event Center	62
Restaurant	<u>27</u>
Total	172

CONCLUSION

Based on our analysis of the lodging demand that exists in the area, we believe that a **75-room** hotel with upper midscale quality and amenities can be market supported in Watertown. The adjacent restaurant and event center will allow it to function as a full service hotel and will recapture some local demand and attract new business to the Watertown market.

SECTION 8: UTILIZATION PROJECTIONS

Based upon an assessment of the market demand, we have estimated the potential utilization for the recommended hotel's first five full years of operation, assumed to begin in 2019 and stabilize in 2021. In developing the utilization estimates, several key assumptions were made including the following:

- The hotel will obtain and be operated under a national or regional franchise;
- The hotel will include or have access to a modern event center of at least 3,000 rentable square feet in size;
- A high quality restaurant will be located within easy walking distance from the hotel;
- The hotel will be competently managed;
- Hotel management will implement a comprehensive program of on-going maintenance covering all facilities, furnishings and equipment;
- Management will conduct an aggressive program of pre-opening marketing for both the hotel and the event center and will continue an effective program of advertising and group promotions targeted toward area groups and social gatherings throughout the projection period; and
- No new hotels, other than the subject, will be constructed in Watertown during the projection period.

In addition, all findings, estimates, assumptions and conclusions discussed in this report are integral parts of the analyses and estimates that follow.

PROJECTED OCCUPANCY

In order to calculate the occupancy that the subject hotel is projected to achieve, we looked at the performance of the other competitive hotels in the primary market and analyzed the lodging demand that is generated by employers, leisure visitors, and Watertown activities.

Customer Loyalty

There is a trend within the hotel industry whereby guests select a hotel based on its company's rewards program, rather than on convenience of location, room rates or amenities. The large franchise companies award points for staying in their hotels which can then be redeemed for free or discounted stays at any hotel within their respective chains. Thus, it is not unusual for travelers to drive an extra distance to stay at a hotel whose rewards program they participate in.

Marriott, Hilton, and Intercontinental Hotel Group have the most popular programs, as they have hotels throughout the world, including a number of popular resorts, where rewards can be redeemed. Choice Hotels has a liberal rewards program that provides free hotel rooms, but its inventory of hotels and resorts is not nearly as extensive as the three aforementioned hotel companies.

This factor can distort the competitive environment within a particular hotel market. Thus, a new hotel in Watertown will continue to face competition from the local Holiday Inn Express (an Intercontinental Hotel Group property), and the Hilton (Hilton Worldwide) and the Staybridge Suites (also an Intercontinental Hotel Group property) located in Oconomowoc.

Projected Hotel Utilization

A new hotel would capture some demand from existing hotels, recapture some of the demand that is leaving the market, attract new demand, and provide capacity for additional business during periods when local hotels are full.

In preparing the utilization estimates, we considered the hotel's competitive advantages:

- Newest hotel in the market;
- Site location that is highly visible and easily accessible;
- Only hotel in Watertown with an upscale adjacent restaurant;
- Only modern hotel with a conference center/banquet facility; and
- Only hotel with 2-room suites with kitchen facilities.

We also considered the fact that a new hotel will have to compete with existing hotels that are franchised by International Hotel Group, Choice Hotels, and Hilton Worldwide which are well-established hotel chains with loyal followings.

By calculating the ratio of the rooms available at the subject hotel to the total number of rooms available within the competitive market, the “fair share” percentage of demand for the hotel may be determined. The fair share calculation reflects the market share that the hotel could expect to capture if all available competitive rooms in the market were favored equally by potential guests and choices were made on a purely random basis. The recommended 75 room hotel represents 29.5 percent of the primary competitive supply consisting of the Holiday Inn Express and the Comfort Suites ($75 / 254 = 29.5\%$).

Based on the results of our market study, we estimate that the subject hotel would be able to capture 100 percent of its fair share of the demand currently being accommodated at the Holiday Inn Express and 40 percent of its fair share of the Comfort Suites demand, which includes a portion of its group business.

In addition, we believe that the new hotel could recapture some of the demand that is leaving the market to stay at the Hilton Garden Inn (for higher quality) and the Staybridge Suites (for suite accommodations). We have calculated this recaptured demand to be 1 and 3 percent of these hotels’ estimated total demand, respectively.

We also estimate that the additional capacity from the new hotel will allow the community to capture more demand during the periods when events and summer travel fill all available hotels, and the event space should generate around a 10 percent increase in the area’s group business. Events which fill the local hotels include the softball and baseball tournaments, the experimental airplane show in Oshkosh, and Riverfest.

The size and segmentation of the lodging demand available to the new hotel is summarized in the following table.

Estimated Potential Watertown Market Demand (2016)

Market Segment	Total	Commercial	Leisure	Group	Extended Stay
Two Competitive Hotels	37,000	14,500	12,000	10,100	400
Recapture from Two Oconomowoc Hotels	1,500	500	0	0	1,000
New Business	2,700	400	1,100	1,200	0
Totals	41,200	15,400	13,100	11,300	1,400
Percent of Total	100%	37%	32%	27%	3%

The results of our utilization analysis are presented in the following table, which show the subject hotel achieving projected annual occupancies that range from 54 percent in its first year to 62 percent in its fifth year.

RECOMMENDED HOTEL
Projected Market Mix and Occupancy
75 Rooms

Market Segment	2019	2020	2021	2022	2023
Commercial	5,700	6,100	6,500	6,600	6,600
Leisure Travelers	4,700	5,000	5,400	5,400	5,500
Group	3,400	3,600	3,800	3,800	3,800
Extended Stay	1,000	1,100	1,200	1,200	1,200
Totals	14,800	15,800	16,900	17,000	17,100
Annual Occupancy	54%	58%	62%	62%	62%

Occupancies projected for the first two years are lower than the stabilized level of operation, as the hotel will require time to develop its marketing program, particularly for group business, and to maximize public awareness of the hotel facilities. The hotel is expected to achieve its full market share of commercial and leisure demand in the second year and its full market share of the group demand in its third year. Thus, its market penetration should stabilize in its third year of operation.

Market Mix

The mix of the hotel’s lodging demand at its stabilized level of operation is estimated to be the following:

**STABILIZED MARKET MIX
75-Room Hotel**

Market Segment	2021	% of Total
Commercial	6,500	38%
Leisure	5,400	32%
Group	3,800	22%
Extended Stay	1,200	7%
Totals	16,900	100%

PROJECTED AVERAGE RATE

The analysis from which we developed our projections of average daily rate for the subject hotel included the quality and pricing structure of the other area hotels. As shown in the table below, current rates for regular rooms at the upper midscale hotels in the area range from \$99 to \$140.

The average daily rate at a hotel falls below its rack rates due to the numerous discounts that are offered to guests and large corporate clients, and to lower rates charged during slack periods. The estimated average rates at the competitive hotels for 2016 range between \$90 and \$125.

COMPETITIVE AREA HOTELS

Hotel	Quality	Dec. 2017 Rack Rates		Estimated 2016 ADR
		Regular	Suite	
Holiday Inn Express	Upper midscale	\$125-\$140	\$135-\$150	\$100-\$105
Comfort Suites	Upper midscale	\$99-\$127	\$137-\$147	\$90-\$95
Hilton Garden Inn	Upscale	\$109-\$169	\$109-\$169	\$120-\$125
Staybridge Suites	Upscale	na	\$140-\$170	\$120-\$125

Based on our analysis, we have determined that a new upper midscale hotel in Watertown should be able to achieve an average rate of \$105 expressed in

2016 dollars. The industry-wide ADR is forecasted to increase at an average of 3.0 percent annually over the next few years. We believe that the subject hotel will be able to achieve a similar rate of increase in this market. Factored into the room rates projected for the subject hotel are an inflation factor of 2 percent and a real growth factor of 1 percent. The total increase is projected to be 3 percent annually over the projection period. The inflated average rate in 2019, assumed to be its first full year of operation, is projected to be \$114.75.

WATERTOWN HOTEL
Projected Average Daily Rate

Year	Average Daily Rate
2016	\$105.00
2019	\$114.75
2020	\$118.20
2021	\$121.75
2022	\$125.40
2023	\$129.15

PROJECTED ROOM REVENUE

Based on the occupancy and average rate projections developed in this market study, we project that the subject hotel should be able to achieve the levels of room sales shown in the table below.

RECOMMENDED WATERTOWN HOTEL
Projected Room Revenue
75 Rooms

	2019	2020	2021	2022	2023
Available Rooms	27,375	27,375	27,375	27,375	27,375
Occupied Rooms (Rounded)	14,800	15,800	16,900	17,000	17,100
Annual Occupancy	54%	58%	62%	62%	62%
Occupied Rooms (Rounded)	14,800	15,800	16,900	17,000	17,100
Average Daily Rate	\$114.75	\$118.20	\$121.75	\$125.40	\$129.15
Room Sales (Rounded)	\$1,698,300	\$1,867,560	\$2,057,507	\$2,131,800	\$2,208,465

PROJECTED EVENT CENTER REVENUE

Projections of utilization for the event center were developed from discussions with area employers, evaluation of the alternative facilities in the community, and a review of operating statistics of existing conference and event centers. The assumptions underlying the rental revenue and operating expenses for the center are explained below.

Rental Revenue

We have assumed the event center will be owned and operated by the hotel. While the hotel would control bookings, the center would be available to the public on a rental basis. Hotels typically waive rental fees if a certain number of hotel rooms are rented by an event or a sufficient amount of food and beverage is purchased. Thus, we have projected no rental revenue for hotel and banquet events at the center.

EVENT CENTER UTILIZATION PROJECTIONS Third Year of Operation (Stabilized)

Event	Rent	Annual Events	Rental Revenue
Weddings	\$600	24	\$14,400
Banquets	\$0	24	0
Large events	\$500	26	13,000
Small events	\$100	104	10,400
Hotel events	\$0	156	0
		334	\$37,800

At the stabilized level of operation, the event center is projected to have 334 use-days. This represents about a 90 percent utilization. The number of events hosted at the event center in the first two years will be less as the facility will require time to develop both its awareness and its reputation.

Food & Beverage Commission

Projections of food and beverage sales at the event center were developed from the experience of existing hotels and event centers. The projections assume a base sales level of approximately \$225 per square foot or \$675,000 annually for the center. While food and beverage service will be provided by the adjacent

restaurant or outside caterers, the hotel should receive a commission on those sales. The projections assume a commission equal to 15 percent of total food and beverage sales.

SECTION 9: FINANCIAL PROJECTIONS

Estimates of cash flow from operations before debt service have been prepared for the first five years of operation for the hotel and event center, with 2019 assumed to be the first full year of operation. A separate financial projection is presented for the event center. The major assumptions as to the hotel occupancy and room rate are noted at the bottom of the projection columns and have been developed from an analysis of the local lodging market. The operating expense projections are derived from comparable hotels and industry data for small limited service hotels. All revenue and expense categories are consistent with the Uniform System of Accounts for Hotels.

Room revenues reflect an annual increase of 3.0 percent in the average daily rate for the projection period and other revenues have also been increased by 3.0 percent annually. Expense categories have been inflated at an annual rate of 2.0 percent. Many of the expenses were projected on an amount per occupied room basis, while the fixed expenses reflect only inflationary increases.

NOTES TO FINANCIAL PROJECTIONS

Revenue

Guest Room Revenue projections are based upon the occupancy and average rate estimates previously presented.

Event Center Revenue consists of rental fees, a 15% commission received on banquet revenue and fees for rental of audio-visual and other equipment. This equipment may be owned by the hotel or rented from a supplier.

Vending Income (net) projections reflect vending sales of soda and snacks sold at the hotel net of the cost of goods sold and machine lease fees.

Combined Hotel and Event Center Financial Projections

PROPOSED HOTEL AND CONFERENCE CENTER - WATERTOWN, WI										
PROJECTED CASH FLOW FROM OPERATIONS										
BEFORE DEBT SERVICE - 75 ROOMS										
	2019		2020		2021		2022		2023	
	AMOUNT	%								
REVENUE:										
Rooms	\$1,698,300	91.8%	\$1,867,560	91.1%	\$2,057,507	91.2%	\$2,131,800	91.3%	\$2,208,465	91.3%
Event Center Revenue	129,816	7.0%	158,781	7.7%	172,152	7.6%	177,317	7.6%	182,636	7.6%
Vending Income (net)	2,426	0.1%	2,667	0.1%	2,939	0.1%	3,045	0.1%	3,155	0.1%
Miscellaneous Income (net)	19,632	1.1%	21,378	1.0%	23,324	1.0%	23,790	1.0%	24,410	1.0%
Total Revenue	1,850,174	100%	2,050,387	100%	2,255,922	100%	2,335,952	100%	2,418,665	100%
DEPARTMENTAL EXPENSES:										
Rooms Depart. Expenses	402,702	23.7%	417,115	22.3%	452,966	22.0%	464,565	21.8%	476,445	21.6%
Telecommunications Expenses	17,386	13.4%	17,560	11.1%	17,736	10.3%	17,913	10.1%	18,092	9.9%
Event Ctr. Labor Expenses	38,481	2.3%	40,674	2.2%	41,971	2.0%	42,810	2.0%	43,667	2.0%
TOTAL DEPART. EXPENSES	458,569	24.8%	475,349	23.2%	512,673	22.7%	525,288	22.5%	538,204	22.3%
UNDISTRIBUTED OPERATING EXPENSES:										
Administrative & General Expenses	209,427	11.3%	220,871	10.8%	233,151	10.3%	238,532	10.2%	244,035	10.1%
Marketing Expenses	71,201	3.8%	78,091	3.8%	85,818	3.8%	88,860	3.8%	92,004	3.8%
Utility Costs	87,125	4.7%	93,414	4.6%	100,261	4.4%	102,675	4.4%	105,145	4.3%
Property Operations & Maintenance	39,682	2.1%	64,040	3.1%	91,644	4.1%	93,878	4.0%	96,163	4.0%
Total Undistrib. Operating Expenses	407,436	22.0%	456,417	22.3%	510,874	22.6%	523,945	22.4%	537,348	22.2%
GROSS OPERATING PROFIT	984,169	53.2%	1,118,621	54.6%	1,232,375	54.6%	1,286,718	55.1%	1,343,114	55.5%
Franchise Fee (Royalty)	84,915	4.59%	93,378	4.6%	102,875	4.6%	106,590	4.6%	110,423	4.6%
Management Fee	73,910	4.0%	81,909	4.0%	90,119	4.0%	93,316	4.0%	96,138	4.0%
INCOME BEFORE FIXED CHARGES	825,344	44.6%	943,334	46.0%	1,039,380	46.1%	1,086,812	46.5%	1,136,552	47.0%
FIXED CHARGES:										
Property Taxes	58,181	3.1%	118,689	5.8%	121,062	5.4%	123,484	5.3%	125,953	5.2%
Insurance	23,081	1.2%	23,543	1.1%	24,014	1.1%	24,494	1.0%	24,984	1.0%
Replacement Reserve	33,966	1.8%	56,027	2.7%	82,300	3.6%	85,272	3.7%	88,339	3.7%
Total Fixed Charges	115,228	6.2%	198,258	9.7%	227,377	10.1%	233,250	10.0%	239,276	9.9%
CASH FLOW AVAIL. FOR DEBT SERVICE	\$710,116	38.4%	\$745,076	36.3%	\$812,004	36.0%	\$853,562	36.5%	\$897,276	37.1%
OCCUPANCY	54%		58%		62%		62%		62%	
ADR	\$114.75		\$118.19		\$121.74		\$125.39		\$129.15	
OCCUPIED ROOMNIGHTS	14,800		15,800		16,900		17,000		17,100	

The comments and assumptions contained in the report are an integral part of these financial projections.

Miscellaneous Income consists of movie rentals, guest laundry, interest and other ancillary revenue sources.

Departmental Expenses

Rooms Departmental Expenses include payroll and related benefit expenses for the front desk and housekeeping. This category also includes other miscellaneous rooms expenses such as breakfast expense, cleaning and guest room supplies, cable TV fees, linens and cleaning supplies, and other direct operating costs for the rooms department. The projected expense has both a fixed and a variable component. The payroll component is relatively fixed, varying only slightly in response to changes in occupancy, as housekeeping staff and certain other hourly workers have variable schedules.

Event Center Departmental Expenses include payroll and related operating costs associated with the marketing and operation of the event center. The payroll costs include a part time sales person/manager and wages paid for set-up, tear-down and clean-up for events held at the facility. Wages paid for food preparation and service are assumed to be paid by the caterer for the banquets that they cater. The costs incurred for administration, marketing, utilities and maintenance at the event center are included in the Unallocated Expense categories of the financial projections.

Telecommunication Expense consists of the costs associated with providing telephone and internet service to the hotel.

Undistributed Operating Expenses

Administrative and General Expenses include management and administrative payroll and the general costs associated with operating the hotel and the event center, including credit card commissions, bank charges, professional fees, travel and entertainment and other miscellaneous costs. The projected expense has both a fixed and a variable component.

Marketing Expenses include the costs associated with advertising, sales and promotion, and include travel agent commissions, promotional materials, guest loyalty program costs, and other promotional expenditures. This expense includes a marketing fee paid to the franchisor equal to 2.0% of room revenue.

Utility Costs expense includes costs related to heating and cooling, electricity, gas, water and sewer. Utilities expense for the hotel is projected from a current base of \$5.00 per occupied room and includes both a fixed and a variable portion. Utility expense for the event center is projected from a current base of \$3.00 per square foot.

Property Operations & Maintenance expenses includes the costs associated with repairs, maintenance, grounds keeping, and other related property operating costs. The projected expense has both a fixed and a variable component. Expenses for the event center were projected from an annual base of \$.95 per square foot. . This expense is reduced in the early years as the hotel will be new and its equipment under warranty.

Franchise Fee is the royalty fee paid to the hotel franchisor and is calculated to be 5.0 percent of room revenue.

Management Fee – We have assumed that the hotel will be managed by an outside management company for a fee equal to 4.0 percent of room and event center revenue.

Fixed Charges

Property tax expense is projected from an estimate of \$1,450 per room for the hotel and \$.20 per square foot for the event center based on the experience of existing centers. In the first year, the tax expense assumes the complex is only half completed at the time of assessment.

Insurance expense is projected to be \$250 per room, similar to the premiums paid by other hotels with pools, plus an annual cost of \$1.00 per square foot for the event center.

Replacement Reserve represents funds that will be set aside from operating cash flow to fund the future cost of replacing and upgrading furnishings and fixtures in the hotel that will be required to maintain its competitive standing in the market on a continuing basis. This reserve is calculated at 2.0 percent of projected room revenue in the first year, increasing by an additional 1.0 percent of revenue in each of the next two years and stabilizing at 4.0 percent.

Event Center Financial Projections

RECOMMENDED HOTEL - WATERTOWN, WI										
PROJECTED CASH FLOW FROM OPERATIONS BEFORE DEBT SERVICE										
EVENT CENTER										
	<u>2019</u>		<u>2020</u>		<u>2021</u>		<u>2022</u>		<u>2023</u>	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
REVENUE:										
Rental Income	\$33,044	25.5%	\$40,417	25.5%	\$43,821	25.5%	\$45,135	25.5%	\$46,489	25.5%
Catering Commission	88,511	68.2%	108,260	68.2%	117,377	68.2%	120,898	68.2%	124,525	68.2%
Equipment Rental	8,261	6.4%	10,104	6.4%	10,955	6.4%	11,284	6.4%	11,622	6.4%
Total Revenue	129,816	100.0%	158,781	100.0%	172,152	100.0%	177,317	100.0%	182,636	100.0%
OPERATING EXPENSES:										
Event Center Manager	31,040	23.9%	31,661	19.9%	32,294	18.8%	32,940	18.6%	33,599	18.4%
Labor & Related Costs	7,441	5.7%	9,012	5.7%	9,677	5.6%	9,870	5.6%	10,067	5.5%
Marketing & Promotion	2,484	1.9%	2,534	1.6%	2,585	1.5%	2,636	1.5%	2,689	1.5%
Repairs & Maintenance	1,192	0.9%	2,166	1.4%	3,101	1.8%	3,163	1.8%	3,227	1.8%
Utilities	8,596	6.6%	9,255	5.8%	9,937	5.8%	10,135	5.7%	10,338	5.7%
Insurance	3,184	2.5%	3,247	2.0%	3,312	1.9%	3,378	1.9%	3,446	1.9%
Materials & Supplies	1,060	0.8%	1,284	0.8%	1,378	0.8%	1,406	0.8%	1,434	0.8%
Miscellaneous Expenses	795	0.6%	963	0.6%	1,034	0.6%	1,054	0.6%	1,076	0.6%
Real Estate Tax	478	0.4%	974	0.6%	994	0.6%	1,014	0.6%	1,034	0.6%
Management Fee	5,193	4.0%	6,351	4.0%	6,886	4.0%	7,093	4.0%	6,823	3.7%
Total Operating Costs	61,462	47.3%	67,448	42.5%	71,198	41.4%	72,691	41.0%	73,733	40.4%
Cash Flow Before Debt Service	\$68,354	52.7%	\$91,333	57.5%	\$100,954	58.6%	\$104,626	59.0%	\$108,903	59.6%

ECONOMIC FEASIBILITY ANALYSIS

In order to test the economic feasibility of the project, we prepared an analysis of the project’s ability to generate sufficient funds to cover its estimated debt service.

Project Cost

The following development budget estimate was prepared by Hospitality Consulting Group for purposes of testing the economic feasibility of the project. It is based on budgets from other hotel projects on which we have worked. However, the quality and scope of amenities selected for the actual project could cause the costs to vary significantly. Also, these costs do not

include the recommended restaurant.

No land cost for the hotel site has been included in the project’s cost. The City has indicated that there may be some flexibility in the price of the site that will be influenced by acquisition costs and the overall economics of the hotel project.

For analysis purposes, we have assumed the hotel and conference center to have a total cost of \$8,598,000, or approximately \$115,000 per guest room.

Recommended 75-Room Hotel Watertown, WI

75 guest rooms with a pool, several extended stay suites, breakfast area, and a 4,500 square foot event center

	<u>Cost</u>	<u>Per Room</u>
Land	\$0	\$0
Utilities, Grading, Paving, Landscaping	300,000	4,000
Hotel Building Construction	5,250,000	70,000
Event Center Building Construction	585,000	na
Hotel Fixtures, Furnishings, and Equipment	750,000	10,000
Event Center Fixtures, Furnishings, and Equipment	213,000	na
Indirect Costs	<u>1,500,000</u>	<u>20,000</u>
Total	<u>\$8,598,000</u>	<u>\$115,000</u>

Financing Assumption

For analysis purposes we have assumed an equity investment of \$2,149,000, leaving a loan of \$6,449,000 to provide funds for the \$8,598,000 total project cost.

Source of Funds:

Equity	\$2,149,000	25%
Debt	<u>6,449,000</u>	<u>75%</u>
	\$8,598,000	100%

Debt Term Assumptions:

Annual Interest Rate:	5.0%
Amortization:	20 years
Annual Payment:	\$510,727

The results of this analysis are presented in the following table.

Proposed Hotel & Event Center-Watertown, WI
Economic Feasibility Analysis
Project Cost: \$8,598,000

	2019	2020	2021	2022	2023
Cash Flow Available for Debt Service	\$710,116	\$745,076	\$812,004	\$853,562	\$897,276
Debt Service	\$510,727	\$510,727	\$510,727	\$510,727	\$510,727
Debt Service Coverage	1.39X	1.46X	1.59X	1.67X	1.76X
Cash Flow to equity	\$199,389	\$234,349	\$301,277	\$342,836	\$386,550
Equity	\$2,149,500	\$2,149,500	\$2,149,500	\$2,149,500	\$2,149,500
Return on Equity	9.3%	10.9%	14.0%	15.9%	18.0%

A debt coverage ratio (cash flow/annual debt service) of a minimum of 1.2 times is required and 1.4 times is typically preferred by lenders. This analysis shows that the hotel is projected to generate sufficient cash flow to meet its debt service requirements. Also, in this simple analysis, the projected cash on cash return on equity reaches 14 percent in the hotel's third year and reaches 18 percent in the fifth year.

Therefore, under the project cost and terms of financing assumptions used in this analysis, we conclude that the hotel project is economically feasible.

Our financial projections are based on the results of our market study and our analysis of comparable hotel operating data. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will vary from our projections and the variations may be material. Further, we are not responsible for future marketing efforts and other management actions upon which actual results will depend.

ADDENDUM

CONSULTANT QUALIFICATIONS HOSPITALITY CONSULTING GROUP

Stephen Sherf – President, Hospitality Consulting Group

Stephen Sherf has over 30 years of consulting experience in the hospitality industry. He spent 15 years with a large national public accounting firm, where he was the partner-in-charge of the hospitality consulting division for the Upper Midwest. He also started a gaming consulting company where he worked for 15 years, and most recently, founded a hospitality consulting company. He is presently active as a sales agent with Minneapolis-based Leines Hotel Advisors.

Mr. Sherf has an extensive background in hospitality consulting that encompasses market studies, valuations, appraisals, acquisitions and sales. He has performed market studies and other advisory services for over 200 hotel projects located mainly throughout the Midwest for clients that include developers, lenders, hotel companies, and municipalities.

He also has particular expertise in development consulting to the gaming industry and has worked on numerous income producing real estate projects that include nursing homes, elderly housing, subsidized and market rate housing, office buildings, retail developments, convention centers, ice arenas, restaurants, convenience stores, bowling alleys and cinemas.

Operating positions held during Mr. Sherf's career include restaurant manager, auditor, Vice President of Development for a hotel company with 13 properties, and Treasurer for a gaming company where he oversaw the operations of three Colorado casinos.

Mr. Sherf is known for his hands-on involvement and realistic conclusions. Where appropriate, development recommendations are backed by an economic feasibility analysis and a sensitivity analysis to assess risk.

He has provided expert witness testimony relating to the valuation of hotels and restaurants and business interruption claims. He has taught continuing education seminars and spoken at gaming, investment, and state appraisal conferences. He has been a guest lecturer at the University of Minnesota Graduate School of Business and Stout University. He is frequently quoted in local newspapers and business magazines.

Mr. Sherf received an undergraduate degree in economics and an MBA in finance from Cornell University. He holds a real estate license in Minnesota and Wisconsin and has taken several American Appraisal Institute courses. He is a Certified Public Accountant (inactive), is active in the Minnesota Lodging Association, has served on the planning commission for the City of Minnetrista, and has held a Colorado gaming license.