



CEDARBURG, WISCONSIN

HOTEL MARKET AND FINANCIAL FEASIBILITY ANALYSIS

AUGUST , 2016

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August 5, 2016

August, 2016

In accordance a request by the City of Cedarburg Economic Development Corporation, I have completed a hotel market analysis for the Cedarburg, Wisconsin market in relation to the development of a new hotel.

As in all studies of this type, the estimated results are based upon competent and efficient management and presumes no significant changes in the competitive position of the lodging industry in the immediate area from that set forth in this report. The conclusions reached are based upon my present knowledge of the competitive area as of the completion of my fieldwork and research in July, 2016. The terms of our engagement are such that I have no obligation to revise this report or the estimated operating results to reflect events or conditions, which occur subsequent to the date of completion. However, I am available to discuss the necessity for revisions in view of changes in the economic or market factors affecting the proposed development.

Since the estimated results are based upon estimates and assumptions, which are subject to uncertainty and variation, I do not include the possible impact of government restrictions or environmental regulations on the project except those set forth in this report.

This study has been specifically designed to address the development of a new hotel to be located in Cedarburg, Wisconsin.

I would like to thank you for the opportunity to provide assistance in this project. I would be pleased to hear from you if I can be of any further assistance in the interpretation and application of these findings and conclusions.

Sincerely,

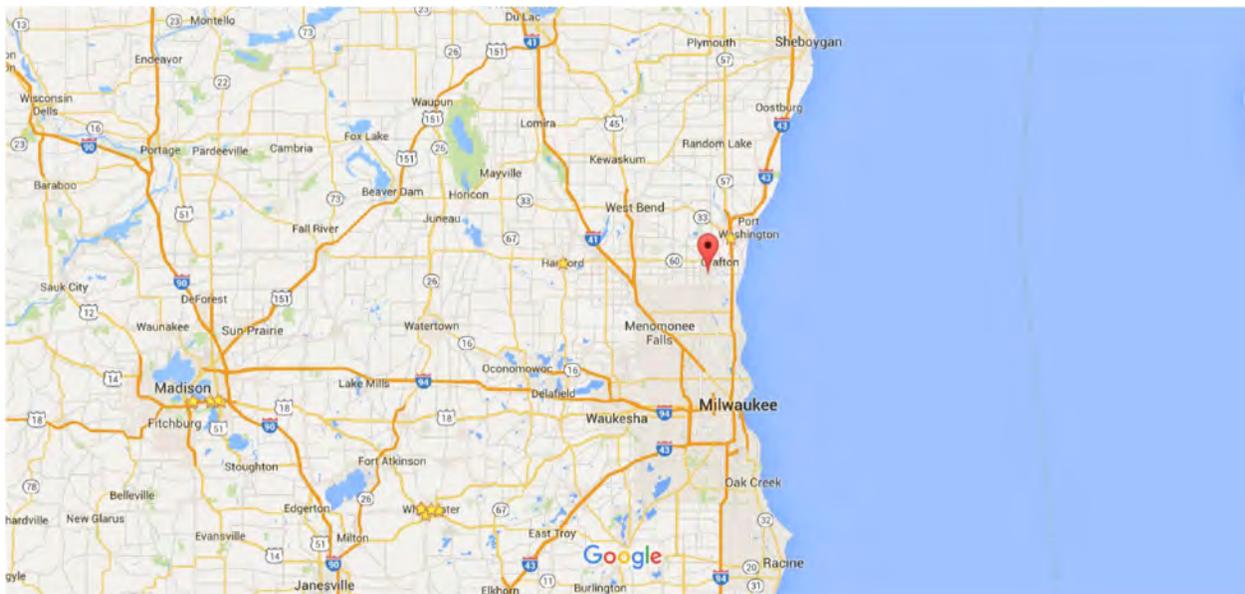
Michael P. Lindner

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INTRODUCTION

The following is an analysis of the Cedarburg, Wisconsin market in regards to the feasibility of developing a new hotel. This analysis is designed to draw specific conclusion and recommendations regarding the scope, class and location of a new hotel in Cedarburg. These conclusions and recommendations are the result of a positive “preliminary analysis” provided to the client.

The City of Cedarburg, Wisconsin is a unique destination community located in the southern half of Ozaukee County just north of Milwaukee County. Surrounded by mid to upscale residential neighborhoods and scenic agricultural land, Cedarburg is well-known for its historic downtown business district and many family-oriented festivals, events and attractions. These attributes categorize Cedarburg as a regional destination well beyond the local southeast Wisconsin market area.



Among the top events held in Cedarburg each year are:

Strawberry Festival

This June event attracts a reported 100,000 visitors to the area for food, crafts, music and entertainment celebrating strawberries and more.

Wine & Harvest Fest

Held in September, this event attracts approximately 70,000 visitors for fall harvest foods and locally created wines.

Octoberfest	Cedarburg’s version of this international event attracts a reported 5,000 visitors for a variety of activities.
A Cedarburg Christmas	Extending from November until Christmas, the actual events attract an estimated 2,000 visitors. However, as all of downtown Cedarburg turns into a “Rockwell-like” Christmas throughout the season, the number of visitors is most likely much higher during the entire season.
Winterfest	A reported 10,000 visitors attend the Winterfest activities in February each year offering entertainment, games, food and other indoor and outdoor activities.
CedarBrew	A new event in 2015, CedarBrew focuses on locally brewed beers and wines as well as foods prepared by local establishments.

Along with the festivals and events of Cedarburg, the community is well recognized for its attractions including Cedar Creek Settlement, Cedar Creek Winery and as home to Cedar Creek Ice Cream. The natural attraction of the Milwaukee River winding through the community offers recreational amenities including canoeing, kayaking and fishing. Many other attractions, especially cultural and historic, are located in Cedarburg further enhancing its status as a top tourist destination of Wisconsin. This status is equal with much of Ozaukee County which includes the shoreline of Lake Michigan, Port Washington harbor, numerous historic sites, parks and shopping districts. Coupled with the 15 minute proximity to downtown Milwaukee, Cedarburg and Ozaukee County are well-positioned to attract a strong tourist trade, especially during the summer vacation months.

Tourism Impact on Lodging

The strength of the tourism related activities in Cedarburg can create a surge in both occupancy levels and rates. Locally, the bed & breakfast inns in Cedarburg and hotels in the surrounding markets command room rates that are \$20 - \$40 above annual averages as occupancy levels reach 15% - 20% above annual averages. Aside from the peak summer vacation periods from Memorial Day to Labor Day (typically), local and regional fall activities and events bring tourists to the area during fall and winter weekends.

The chart on the following page illustrates the average monthly occupancy levels for the Metropolitan Milwaukee region along with the Wisconsin average and the Cedarburg competitive set defined later in this report.

Monthly Occupancy Trends			
	Milwaukee	Wisconsin	Competitive
January	48.9%	44.1%	42.4%
February	56.9%	49.5%	45.1%
March	57.7%	51.0%	49.9%
April	59.6%	54.4%	51.8%
May	64.3%	57.2%	58.5%
June	70.1%	64.5%	71.3%
July	79.2%	74.0%	78.9%
August	77.5%	72.6%	77.9%
September	68.4%	66.3%	69.5%
October	66.8%	63.0%	64.4%
November	53.3%	47.0%	50.1%
December	45.7%	40.9%	41.6%
ANNUAL	62.7%	57.3%	60.1%

Source: Smith Travel Research 2013 - 2015 Average

Commercial Business Activity

While it is established that Cedarburg is a high-level tourist destination, a commercial business environment exists. The manufacturing and service sectors create the majority of jobs as well as attract the majority of business travelers to the region. Among the key companies in Cedarburg include:

Cedarburg Top Private Employers	
Company	Employees
LaSata Care Center	200
Piggly Wiggly	160
Carlson Tool & Manufacturing	120
Ataco Steel Corp	100
Cedar Springs Health	95
Cedarburg Auctions	75
Kemp's Dairy	70
Flagstone Landscaping Design	60
Cedar Mills Medical Group	58
Well Pump	60
Cedar Crest Ice Cream	55
Karak Machine Corp	55
Scott Pump	55
M Magazine	50
Amy's Candy Kitchen	50
BMO Harris	50
Riteway Bus Services	50

Source: Reference USA; Wisconsin Worknet

In addition to the local businesses that generate commercial demand for the Cedarburg market, there are a number of large companies in the surrounding communities that bring high volumes of corporate travelers into the Ozaukee County region. Among the top employers close to Cedarburg include:

Ozaukee County Top Private Employers		
Company	Location	Employees
Rockwell Int'l	Mequon	5000
Concordia College	Mequon	1000
Legget & Platt	Grafton	750
Columbia-St. Marys	Mequon	750
Charter Steel	Mequon/Saukville	580
Kleen-Test	Mequon	300
HB Performance	Mequon	250
Telesmith	Mequon	225

Source: Milwaukee 7

Commercial Business Impact on Lodging

Commercial oriented demand for overnight accommodations usually provides consistency in hotel occupancies. Business travelers tend to visit during weekdays and throughout the year. Consistency and volume often justifies discounted rates and incentive programs. Thus, the commercial demand market tends to be lower rated than leisure or transient. Discounts of 10% - 20% were noted at hotels in the competitive market area.

MARKET ANALYSIS SUMMARY– CEDARBURG AND OZAUKEE COUNTY

The Market Analysis reports and evaluates a variety of economic conditions and trends that can impact the hotel industry in the local area. Key factors of population, retail sales, lodging revenue, food and beverage revenue and employment are represented.

Key Economic Factors – Ozaukee County

Economic Factor	2008	2009	2010	2011	2012	2013	2014	2015
Population	87,008	87,173	87,474	86,530	86,635	86,705	87,116	87,630
Retail Revenue	\$ 634,477,200	\$ 602,328,400	\$ 621,513,600	\$ 627,831,600	\$ 657,297,000	\$ 693,898,200	\$ 745,508,800	\$ 774,051,800
Lodging Revenue	\$ 11,053,200	\$ 10,230,400	\$ 10,843,600	\$ 11,052,800	\$ 11,686,800	\$ 11,902,600	\$ 12,658,200	\$ 14,161,000
Food & Beverage	\$ 94,590,200	\$ 89,647,400	\$ 91,942,800	\$ 94,243,600	\$ 98,968,000	\$ 103,695,400	\$ 121,078,600	\$ 121,321,000
Total Employment	54,104	51,997	52,270	53,192	53,493	54,423	55,979	56,500

Annual Growth of Economic Factors

Economic Factor	2008	2009	2010	2011	2012	2013	2014	2015	2010 - 2015	CAGR
Population		0.2%	0.3%	-1.1%	0.1%	0.1%	0.5%	0.6%	0.2%	0.0%
Retail Sales		-5.2%	2.8%	2.1%	4.6%	5.5%	6.9%	3.2%	24.5%	3.7%
Lodging Sales		-7.6%	5.6%	3.0%	5.6%	1.8%	5.8%	11.2%	30.6%	4.5%
Food & Beverage		-5.4%	2.2%	3.6%	4.9%	4.7%	16.2%	-0.4%	32.0%	4.7%
Total Employment		-3.9%	0.5%	1.8%	0.6%	1.7%	2.9%	0.9%	8.7%	1.3%

Source: Wisconsin Department of Revenue; CAGR represents Compounded Annual Growth Rate

This snapshot of the key economic factors in Ozaukee County indicate a favorable environment for the lodging industry. The growth of lodging revenue is an obvious positive factor for the hotel sector. Increases in food and beverage and retail sales is equally supportive as these illustrates local economic confidence. The combination of minimal local population growth and significant retail and service industry sales can also indicate outside (visitor) influence.

Peer City Comparisons

Peer city comparisons will provide an unscientific but potentially relevant view of how the subject market compares to similar communities of size, location and demographics. In this case, the comparable communities are within the immediate area of Ozaukee and Milwaukee County. The chart below illustrates the ratio of “rooms to residents” in the subject market. The Cedarburg ratio is split to include and exclude the two primary bed and breakfast inns.

Peer Cities Rooms to Population Ratio			
City	Population	Rooms	Ratio
Cedarburg	11506	0/44	0/1:262
Grafton	11459	150	1:76
Glendale	12872	460	1:28
Port Washington	11250	181	1:62

As the chart illustrates, Cedarburg offers from 0 to 1 lodging room per 262 residents while the other three peer cities offer 1 room for every 28 – 76 residents.

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Conclusions & Recommendations

Based on the initial fieldwork and analysis for this hotel market study, it is determined that Cedarburg can support new modern lodging development. A range of 50 – 60 rooms is the optimum number of rooms recommended for a new hotel.

A city well known for its family-oriented festivals, quaint, picturesque downtown business district and numerous other visitor-destination attractions, Cedarburg has a gap in the type of accommodations that cater to a large percentage of these visitors. A new modern hotel designed within the architectural standards of the community will ultimately complement the ambiance of the city, including the luxury-level bed & breakfast inns and guest houses. Yet, a new property, with amenities including indoor pool, complimentary breakfast, wire-less internet and meeting facilities would appeal to a greater traveling audience. Equally important, a new hotel will allow the city to capture a greater share of visitors forced to seek lodging in other communities due to unavailability at the existing inns or as a preferred alternative.

The fieldwork portion of this study evaluated the competitive supply of hotel rooms located from Port Washington to the north, to Mequon and Brown Deer Road to the south. These properties are categorized as Primary, Secondary and Alternative or Non-Competitive hotels.

Regional Hotel Supply						
	Hotel	City	Distance	Rooms	Year Open	Class
Primary						
	Hampton Inn	Grafton	3.7	83	2009	Upper Mid
	Comfort Inn	Grafton	3.4	67	2001	Mid
	Total/Average		3.55	150	2005	
Secondary						
	Baymont Inn	Mequon	7.1	54	1995	Mid
	Candlewood Suites	BrownDeer	7.7	75	2008	Mid
	Holiday Inn Exp	BrownDeer	7.7	78	2000	Upper Mid
	Country Inn	Pt Wash	10.1	85	2001	Upper Mid
	Total/Average		8.15	292	2001	
Alternative						
	Hotel	City	Distance	Rooms	Year Open	Class
	Washington House	Cedarburg	1	34	1985	Ind - B&B
	Stagecoach Inn	Cedarburg	1	9	1984	Ind - B&B
	Total/Average			43	1985	
	Motel 6	Saukville	6.6	70	1987	Economy
	Sheraton 4 Points	BrownDeer	8.2	149	1985	Upscale
	Courtyard Marriott	BrownDeer	8.2	122	2001	Upscale
	Holiday Inn	Pt Wash	8.6	96	1974	Upper Mid
	Total/Average		7.9	437	1987	
TOTAL				922	1994	

The evaluation of these properties determines that the Midscale and Upper Midscale class of hotels are collectively the strongest performers and are classified as Primary and Secondary competition to any new modern hotel in the Cedarburg market. Thus, the recommendation is that a new property in Cedarburg should be designed and operated within the Midscale or Upper Midscale class. This study uses the *Smith Travel Research* definition of classes (see attached) which is based on chain wide Average Daily Rates (ADR). The projected ADR of a new hotel in

The following chart illustrates the average rate structures of the Primary and Secondary Competitive hotels to Cedarburg plus the Washington House Inn. The Inn is included to offer the current rate “ceiling” established in the Cedarburg market. It’s average rates and occupancy level is an estimate for this analysis only. The franchised hotel performance data was gathered during interviews with the individual properties and/or franchise representatives.

Competitive Properties - Best Available Rates								
	Hampton	Comfort	Country Inn	Holiday Inn Express	Baymont	Holiday Inn PW	Washington House	Average
AVERAGE RACK RATE	\$ 136.38	\$ 106.65	\$ 91.12	\$ 106.19	\$ 101.50	\$ 115.81	\$ 140.27	\$ 113.99
Franchise ADR	\$ 131	\$ 86	\$ 94	\$ 104	\$ 63	\$ 118	\$ -	\$ 99.37
ACTUAL PROJECTED ADR	\$ 124	\$ 75	\$ 81	\$ 89	\$ 74	\$ 97	\$ 120	\$ 94.26
Number of Rooms	83	67	85	78	54	96	34	497
Annual Rooms	30,295	24,455	31,025	28,470	19,710	35,040	12,410	181,405
Projected Occupancy	73%	55%	60%	65%	58%	60%	50%	61.4%
Annual Rooms Sold	22,115	13,450	18,615	18,506	11,432	21,024	6,205	111,347

Cedarburg Hotel Projections

The recommendations in this study suggest a 50-60 room Midscale to Upper Midscale hotel would be the optimum development in Cedarburg. The Average Daily Rates of a new hotel in Cedarburg will range \$101 - \$108 within the first year of operation. Occupancy levels will range from 62% - 65% during the first year based on the existing performance of Midscale and Upper Midscale properties. Both rate and occupancy projections allow for slightly higher corporate rate discounting to lure business travelers to this new hotel market. Equally, the rates represent strong rate structures equal or higher than the competitive supply during the peak tourist season centered in Cedarburg. While much of the areas tourist-related demand is generated in Cedarburg, business oriented demand will be generated by companies located in the community as well as within a 5-mile radius – especially south towards the city of Mequon.

While Cedarburg would most likely support an Upscale to Luxury level hotel during the peak visitation periods of summer, this class of property would struggle to achieve adequate occupancy levels during the remainder of the year. An upscale or luxury property would also create a more competitive environment with the existing bed & breakfast inns and guest houses in the city. This is not just an analytical theory but is also the opinion of the management of the existing inns.

Operating Projections

Based on the recommendations and projections offered in this study, the following chart represents the projections of Occupancy, Average Daily Rate, Revenue Per Available Room and overall Revenue. Year 1 represents the first full year (12 months) of operations.

Operating Projections - 60 rooms					
	Year 1	Year 2	Year 3	Year 4	Year 5
Occupancy	65%	69%	71%	73%	75%
Average Daily Rate	101.96	104.4	106.96	109.63	112.32
RevPar	\$ 66.27	\$ 72.04	\$ 75.94	\$ 80.03	\$ 84.24
Room Revenue	\$ 1,451,401	\$ 1,577,588	\$ 1,663,121	\$ 1,752,655	\$ 1,844,856

Details of these projections are provided in the Demand Analysis and Financial Analysis section of this study. Year 1 assumes Year 2018 is the first full year of operations.

Site Evaluation

Three site vicinities were evaluated during the initial fieldwork portion of this study.

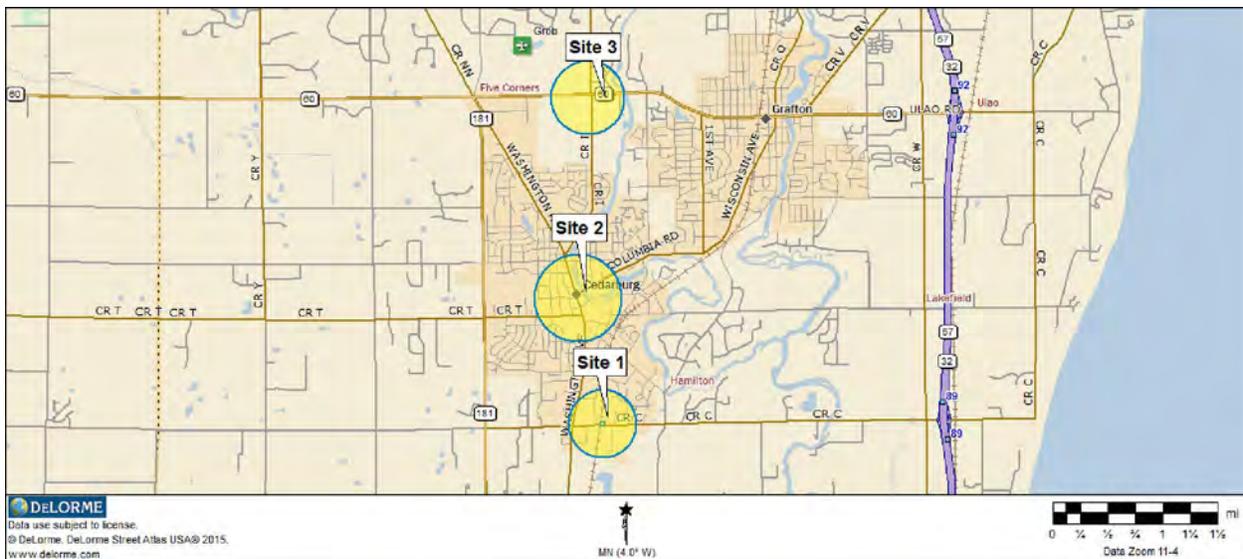
- 1) Pioneer Road east of Washington Street
- 2) Downtown business district
- 3) Highways I and 60.

Walkability to the **downtown district** businesses in Cedarburg would be the strongest attribute a new hotel could possess. However, there are no available sites in the downtown district that would be large enough to position a new modern hotel design. Additionally, a modern hotel development would not be suitable for the historic and quaint streetscape of Cedarburg. Therefore, any downtown location is eliminated from consideration in this study.

The **Highways I and 60** vicinity is a high traffic intersection of Cedarburg and Ozaukee County. However, it is relatively undeveloped and is not conducive to transient traffic that would be targeted by a modern hotel. This location would also leave a new hotel susceptible to the established Grafton area properties that offer the support services required to attract overnight visitors.

The most suitable location for a new hotel in Cedarburg would be along Pioneer Road and west of Washington Street. Pioneer Road (Highway C) is the direct gateway entrance into Cedarburg from Interstate 43. There are an adequate number of support services such as dining, automotive and convenience stores near this interchange yet the downtown district is only 1 mile away. A number of the city’s larger manufacturing employers and the Ozaukee Ice Center are located along Pioneer Road. Pioneer also offers direct access to Interstate 43 and Port Washington and Green Bay Avenues. These are secondary routes parallel to I-43 and travel south towards several of the regions’ larger demand generators (Columbia/St. Mary’s Hospital and Concordia College).

Still, the Pioneer Road location is approximately 3 miles from the interstate requiring additional signage to the property. This becomes an operational issue that can overcome the lack of visibility to the property.



RECAP OF RECOMMENDATIONS

Size: 50 – 60 Rooms

Types: Two – Queen 55%

Standard King 30%

Suites 15%

Jacuzzi	4
Ext Stay	4
2-room	1

The recommendations of room types are based on current competitive and franchise standards. Extended stay (kitchenettes) are recommended to accommodate long term corporate and relocating guests.

Features and Amenities

- Indoor Pool
- High quality breakfast buffet
- Multi-purpose gathering room for breakfast, optional evening open-receptions including beer and wine (minimum) lounge; gathering room should include strong wifi availability, casual seating, large screen TV's and optional grab 'n go vending service
- Exercise facilities including treadmill(s), cycles and weight training
- Business center – optional private room
- Meeting Rooms – minimum two room bays (600 s.f)
- In-room USB port/charging stations
- Quality wifi network

Branding

The preliminary analysis of the Cedarburg market suggests that branding a new hotel with a recognizable national or regional franchise would secure the “marketability” of the property. Despite the strong and successful focus of independent retail and service sector businesses in Cedarburg, a proper franchise can co-exist within this environment. A national or regional brand, can also enhance the recognition of the subject market to an audience that may not otherwise venture beyond the immediate boundaries of the nearby interstate.

In a community with no national hotel franchises, the choice may appear to be open to any and all brands within the recommended class of lodging. However, most franchises offer “areas of protection” that prevent same-brand development within their competitive radius.

The conclusions of the analysis determine that the Midscale to Upper Midscale class of lodging would be best suited for the Cedarburg market. Class segmentation of properties can be subjective based on location, market strength and individual market performance. Smith Travel Research, an international consulting organization and leading provider of hotel industry performance trends provides the standard class of every franchise in the industry. Class is strictly based on average daily rates of each brand. The top performing and/or recognizable brands in these categories are:

Midscale

AmericInn
Baymont Inns
Best Western
GrandStay Residential Suites
LaQuinta Inn & Suites
Quality Inn
Settle Inns
Wingate

Upper Midscale

Cobblestone Inns
Comfort Inn/Comfort Suites
Country Inn & Suites
Fairfield Inn
Hampton Inns
Holiday Inn Express
Wyndham Garden Inn

Some properties in the Primary and Secondary markets of Cedarburg achieve average rates that may alter the standard class definition as provided by STR. For example, The Hampton Inn exceeds or nearly exceeds the ADR of the brand average. By industry definition, Hampton could be defined as an Upscale class. Equally, the Country Inn in Port Washington and Comfort Inn in Grafton ADR would most likely classify these properties as Midscale compared to Upper Midscale.

Localized Brand Choice

Of the brands listed earlier in this section, those most likely unavailable due to existing franchises in the competitive market are:

Comfort Inn
Country Inn
Hampton Inn
Holiday Inn Express

Brands that fit the physical descriptions recommended in this study AND the average rate structures are:

AmericInn

Approximately 200 properties located primarily in the Midwest; closest to Cedarburg West Bend 14.5 miles

Best Western

Over 4,000 properties worldwide including Plus and Premier; closest to Cedarburg Germantown 9.8 miles

Cobblestone

Approximately 80 properties in 16 states; closest to Cedarburg Oshkosh, Wisconsin 54 miles

Fairfield Inn by Marriott

Strong mid brand of Marriott with restrictive development criteria and higher-than midscale or upper midscale development costs' closest to Cedarburg downtown Milwaukee 18 miles

GrandStay

Approximately 30 properties in Upper Midwest; Closest to Cedarburg Sheboygan 36 miles

The remaining potentially available brands are lesser known or are not well represented in the southeastern Wisconsin market area. Ultimately, brand selection will be driven by the owner/developer and relationships with the franchise.

MARKET DESCRIPTION AND ANALYSIS

Subject Market Description

The proposed hotel of this study will be located in the City of Cedarburg, Wisconsin. Cedarburg is a community of approximately 11,500 residents located along the Cedar Creek in Southeast Wisconsin. Cedarburg is located on Ozaukee County, 18 miles north of downtown Milwaukee.



Ozaukee County has a current population of approximately 87,500 residents. The geography of Ozaukee County offers a unique mix of landscapes ranging from the eastern boundary shoreline along Lake Michigan to the sprawling rural and agricultural environment throughout the northern and western sections of the county. Situated among these unique features are equally unique communities each possessing individual traits that highlight their geographic or historic nature.

Among the other key communities located in Ozaukee County are:

Port Washington, highlighted by its lakeside downtown business district and panoramic views of Lake Michigan.

Grafton, the “commercial” center of Ozaukee County with most national brand big box stores and industrial and manufacturing companies.

Mequon, the largest community in the county and just north of the Milwaukee County line offers a mix of suburban neighborhoods, a sizeable manufacturing and industrial corridor plus retail and service businesses that adhere to somewhat strict uniform architectural standards.

Key Communities of Ozaukee County



Aside from its distinct geographic features, Ozaukee County also ranks high among several key demographic categories. Ozaukee County has the highest per capita income in Wisconsin and is ranked within the top 100 highest income counties in the United States. Along with that accolade, the county is also often listed as one of the best places to live, to raise a family, to start a business and get an education through a variety of national publications.

Accessibility

Interstate 43 is the primary transportation route into and through Ozaukee County and is accessible approximately 3 miles east of Cedarburg. I-43 is routed along the southern and eastern portion of Wisconsin extending 191 miles from Beloit to Green Bay. Regionally, it is a heavily traveled commuter route from Milwaukee to Ozaukee County and north. It is at its peak volume during summer months with the added traffic volume between Chicago and the Door County vacation destination of Wisconsin.

The interstate is accessible from Cedarburg via County Highway C or State Highway 60 in Grafton. Highway C is a relatively undeveloped interchange that becomes Pioneer Road as it nears Cedarburg. Despite the lack of development at the intersection, the interchange ingress and egress volumes are consistent with commuter use as the map below indicates.

Interstate 43 and Highway C (Pioneer Road)



Just west of the interstate, Highway C/Pioneer Road record 12,900 vehicles per day, according to the Wisconsin Department of Transportation. Continuing west past County Highway W (Port Washington Road) volume of 9,200 vehicles is recorded until just east of Washington Avenue where it increases to 9,500 vehicles.

The ramps at I-43 and Highway 60, offer an alternative access point to Cedarburg three miles north of Highway C. The traffic volume at the egress and ingress ramps here are similar to Highway C except for the entrance onto I-43 southbound where volumes double the other ramps.

Interstate 43 at Highway 60



Traffic volume along I-43 both north and south of Highway C is recorded at 48,413 vehicles per day. This volume has remained relatively consistent (plus or minus 5%) since 2005.

A variety of secondary routes offer access into and out of Cedarburg from each direction. Highway W/Port Washington Road runs parallel to I-43 and is routed into Milwaukee often as a local commercial corridor. Port Washington Road is also a key route between Cedarburg and two major employers – Columbia St. Mary’s Hospital and Concordia University both are approximately 2.5 miles from Pioneer Road.

County Highway C/Pioneer Road is also a key entrance route into Cedarburg from the west. The county highway intersects US Highway 45 and Interstate 41 in Washington County approximately 10 miles from Cedarburg. Highway 181 is a cut-off route running diagonally from Cedarburg to Highway 60 west of Grafton.

Transportation

Along with the numerous highway routes into and out of Cedarburg, alternative forms of transportation exist. Public bus service is available from the city to downtown Milwaukee and throughout the metro area including Mitchell International Airport. The airport is 30 miles south of Cedarburg and offers 34 daily non-stop flights and 200 total flights to major commercial and vacation hubs around the country, Canada, Mexico and the Caribbean. A reported 6.6 million passengers utilized Mitchell Airport in 2015, a slight increase after 3 years of substantial decreases.

Milwaukee also offers additional transportation sources including Amtrak, Lake Michigan Ferry service and Greyhound and other bus lines.

Distance from Cedarburg to Key Feeder Markets

Distance from Cedarburg	
Milwaukee	23
Sheboygan	40
Madison	90
Green Bay	103
Chicago	112
LaCrosse	197
Minneapolis	324



The City of Cedarburg

Cedarburg was incorporated in 1884 influenced by its location along the Cedar Creek. The significant drop in grade as Cedar Creek flows towards the Milwaukee River resulted in the construction of numerous dams that spurred the development of grist, saw and woolen mills. Among these was the Wittenberg Mill, which still stands today as the Cedar Creek Settlement, a complex of shops, restaurants, artists' studios and winery.

Preservation and restoration of many of Cedarburg's original structures has allowed the city to maintain its historic ambiance, especially in the downtown business district. Cedarburg's downtown Washington Avenue area is listed in the National Register of Historic Places, with over 100 buildings considered historically significant. Columbia Road Historic District is listed on the National and State Registers of Historic Places including almost 130 structures.

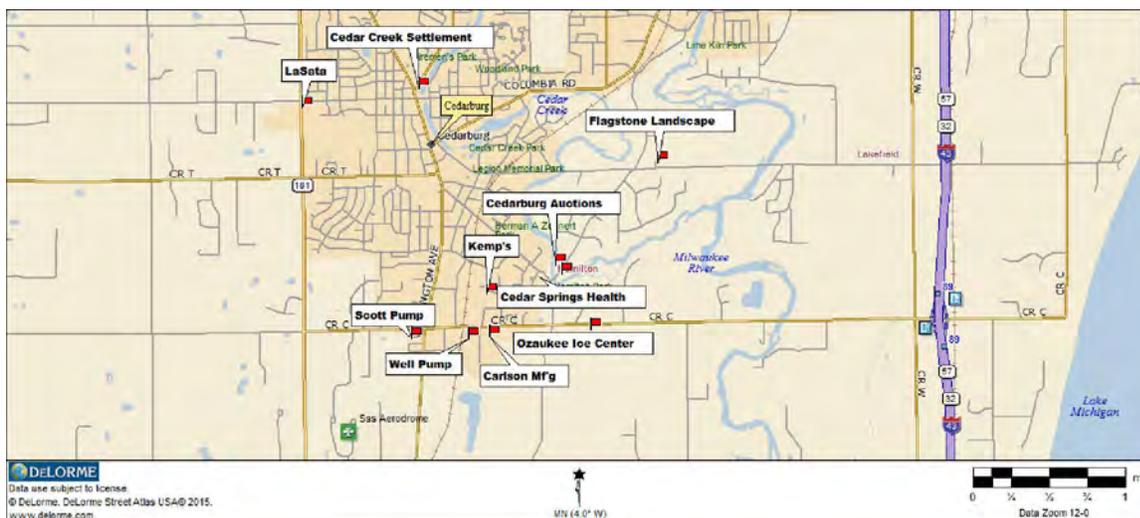
The Department of Administration's estimated population for the City of Cedarburg in 2015 was 11,500. According to the 2010 Census, 30% of the families in the City of Cedarburg have children less than 18 years of age. There are currently 4,795 housing units in the City, of which 3,670 are single family. The total equalized value of the City is \$1,204,323,800 with the average equalized value on a single-family home being \$280,000.

Cedarburg is a diverse business community whose downtown area has remained essentially unchanged for the past 100 years. Today, these restored structures serve as the "heart" of the City and are utilized for shops, homes, offices, museums, art galleries, restaurants and public buildings, resulting in a vital downtown district. Historic preservation is a priority in this community.

A diversified cross section makes up Cedarburg's largest employers. Businesses that have located in the city's business park include: L.S.Research Inc., Milwaukee Journal/ Sentinel, Community Printing, AE Commerce LLC, Eastern Wisconsin Water Conditioning, Inc., and others; ranging from local importers of medicinal herbs to software developers. The city's largest employers are listed in the chart below:

Cedarburg Top Private Employers	
Company	Employees
LaSota Care Center	200
Piggly Wiggly	160
Carlson Tool & Manufacturing	120
Ataco Steel Corp	100
Cedar Springs Health	95
Cedarburg Auctions	75
Kemp's Dairy	70
Flagstone Landscaping Design	60
Cedar Mills Medical Group	58
Well Pump	60
Cedar Crest Ice Cream	55
Karak Machine Corp	55
Scott Pump	55
M Magazine	50
Amy's Candy Kitchen	50
BMO Harris	50
Riteway Bus Services	50

Source: Reference USA; Wisconsin Worknet



In addition to the companies listed above, a diverse number of major regional employers are located throughout Ozaukee County and within close proximity to Cedarburg:

Ozaukee County Top Private Employers		
Company	Location	Employees
Rockwell Int'l	Mequon	5000
Concordia College	Mequon	1000
Legget & Platt	Grafton	750
Columbia-St. Marys	Mequon	750
Charter Steel	Mequon/Saukville	580
Kleen-Test	Mequon	300
HB Perfornace	Mequon	250
Telesmith	Mequon	225

Source: Milwaukee 7

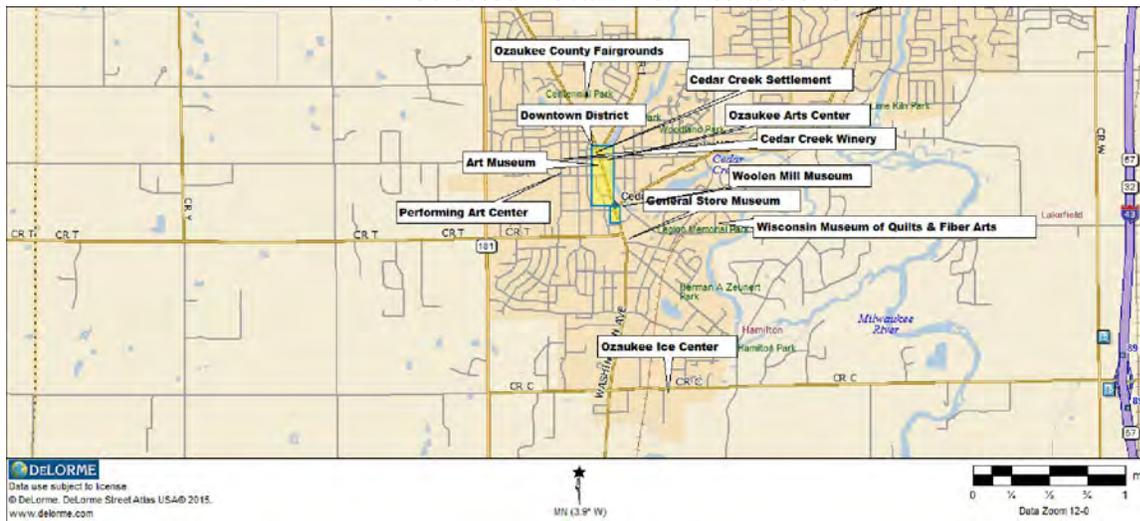
Top Local Area Employers



Even with the number of commercial businesses in and surrounding the Cedarburg market, the community may be best known as a family destination. Downtown Cedarburg draws hundreds of thousands of visitors each year to the unique shops, restaurants, historic tours and attractions. In addition, a variety of festivals and other events rank among the states’ highest attended. Many of these events are held downtown or at the Cedar Creek Settlement, a restored, 1864 woolen mill on the banks of Cedar Creek. The historic structure offers over 30 stores, artists studios and restaurants. Among the many other attractions in the area are:

- Cedar Creek Winery
- Cedarburg Cultural Center
- Cedarburg Performing Art Center
- Covered Bridge Park
- Ozaukee Interurban Trail
- Riveredge Nature Center
- Cedarburg Art Museum
- Cedarburg General Store Museum
- Cedarburg Woolen Mill Museum
- Kuhfuss House Museum
- Pioneer Village
- Wisconsin Museum of Quilts and Fiber

Selected Local Area Attractions



Proximity to Milwaukee

The description of the Cedarburg and Ozaukee County markets provides a portrait of strong tourism and moderate business activity that supports the lodging industry. Local and regional companies alone can provide a consistent year-round demand for overnight accommodations while annual festivals and ongoing attractions can generate a surge in hotel demand.

Even with this strength in potential visitations, Cedarburg’s proximity to the Metropolitan Milwaukee area offers additional support to lodging and other local businesses. Cedarburg is 23 miles north of downtown Milwaukee and can offer metro visitors an “overflow” or an alternative location to the bigger city environment. Interstate 43 offers direct access to downtown Milwaukee as well as the suburban destinations. The demand analysis section of this report will further evaluate the potential business generated in the Milwaukee area for Cedarburg and Ozaukee County.

MARKET ANALYSIS

Analysis of the subject market provides trends in key economic factors that can be directly or indirectly correlated with the success of a hotel operation. Historic trends can determine whether the market is stable, growing or in decline.

This section will evaluate Population, Per Capita Personal Income, Employment and Retail and related Sales activity.

Population

Cedarburg and most of Ozaukee County were the beneficiaries of suburban sprawl beginning in the 1960’s. Double digit growth was further enhanced by the development of Interstate 43 from Milwaukee to Sheboygan allowing quicker and easier access from downtown Milwaukee to the growing northern suburbs and north towards Green Bay. Creation of new subdivisions continued through the 1990’s during strong economic growth experienced throughout the region and much of the U.S. The local exception was Milwaukee County. Like many other large urban centers, Milwaukee County experienced steady declines in population from 1970 – 2000. Only recently, with the resurgence in downtown housing lifestyle changes, has Milwaukee County reversed the decline in population.

Population growth in Cedarburg and Ozaukee County subsided during the 2000’s. This was most likely the result of the global recession, housing crisis and overall stabilization of suburban sprawl. Still, Ozaukee County population increased by 1.5% from 2010 – 2015, stronger growth than the metro region and state.

Cedarburg and Area Population Trends												
Year	Cedarburg			Ozaukee County			Milwaukee County			Wisconsin		
	Population	% Change	CAGR*	Population	% change	CAGR*	Population	% chg	CAGR*	Population	% chg	CAGR*
1970	7,697			54,461			1,054,249			4,417,821		
1980	9,005	17.0%	1.6%	65,761	20.7%	1.9%	964,988	-8.5%	-0.9%	4,705,642	6.5%	0.6%
1990	10,086	12.0%	1.1%	72,995	11.0%	1.0%	959,275	-0.6%	-0.1%	4,891,769	4.0%	0.4%
2000	11,102	10.1%	1.0%	82,317	12.8%	1.2%	940,164	-2.0%	-0.2%	5,363,715	9.6%	0.9%
2010	11,412	2.8%	0.3%	86,395	5.0%	0.5%	947,735	0.8%	0.1%	5,694,236	6.2%	0.6%
2015	11,500	0.8%	0.1%	87,682	1.5%	0.1%	949,795	0.2%	0.0%	5,753,324	1.0%	0.1%

* CAGR is Compounded Annual Rate of Growth

Source: Wisconsin Department of Administration Demographic Center

Local population may not have a significant impact on local hotel occupancies but can reflect overall economic growth and stability. Directly, growth in incoming residents can involve the need for overnight accommodations during housing transitions and construction.

Per Capita Personal Income

Per Capita Personal Income is the sum of wages and other supplemental income ranging from public assistance to capital gains, insurance payments and any other source of income to an

individual. This differs from Per Capita Income which includes wages, certain benefits and excludes most other non-wage income. The US Bureau of Economic Analysis provides data for PCPI while the US Census offers Per Capita Income from historic trends.

Similar to population, the relevancy of the income of local residents and the performance of a hotel can be debatable. However, Per Capita Personal Income directly reflects the general environment in which a new hotel may be developed. Ozaukee County residents achieve the highest Per Capita Personal Income in the State and one of the highest in the country. This PCPI is over 60% above the state average although the rate of growth is just slightly above the state rate.

Per Capita Personal Income											
	2010	2011	2012	2013	2014	2010 - 2014	CAGR				
Ozaukee County	\$61,222	\$65,776	7.4%	\$68,323	3.9%	\$68,910	0.9%	\$71,126	3.2%	16.2%	3.0%
Metro Milwaukee	\$43,507	\$45,512	4.6%	\$47,330	4.0%	\$47,118	-0.4%	\$48,638	3.2%	11.8%	2.3%
Wisconsin	\$38,815	\$40,837	5.2%	\$42,463	4.0%	\$42,737	0.6%	\$44,186	3.4%	13.8%	2.6%

The unscientific appeal of a high-income community to new hotel development is the assumption that local companies, businesses and services cater to a higher-end resident and thus, could attract a “higher-end” overnight visitor. This can accommodate the justification for a Midscale to Upper Midscale or higher class of lodging development more conducive to the community than an economy or budget brand. While an analysis of demand for lodging ultimately supports the decision for brand type and class, a community’s economic environment may play an important role.

Employment by Industry

The correlation between employment by industry and hotel occupancies is significant. This is especially true with key industry sectors that tend to generate more demand for overnight accommodations than others. Among the key industries pertinent to lodging demand are:

- Manufacturing company related personnel including sales, technical and new hires, vendors, suppliers and customers
- Wholesale customers, company personnel and distribution staff
- Finance/Insurance customers, auditors, company personnel
- Real Estate clients including relocating personnel, staff
- Professional personnel training, technical support staff and consultants
- Retail customers, vendors and suppliers

Educational	visiting students, family, related personnel, guest educators, athletic teams, academic program attendees
Health care	visiting staff, specialists, families of patients, training personnel
Government	other government officials, technical support personnel, meeting attendees
Arts, Entertainment	performers, tours, event participants, audience

The **Manufacturing** sector is the largest employing source in Ozaukee County generating 18% of the total employment. While manufacturing is just starting to recover in other local regions (including Milwaukee) from the recent global recession, Ozaukee County saw a 16.4% increase from 2010 – 2014. Manufactured products in the county tend to be more specialized and are supported by growth in the customer industries they serve. For example, Rockwell International (5,000 employees) provides specialty control components to a variety of industries including automotive, aerospace and industrial. Charter Manufacturing and Charter Steel (1,000 employees collectively) have a global customer base in the automotive industry providing specialty coils and wiring. Other unique manufacturing companies that are also among the county’s largest employers include Allen-Edmond Shoes, Lakeside Foods and Kleen Test.

Healthcare is the second largest employing industry in Ozaukee County anchored by Columbia/St. Mary Medical Center (750 employees) and in Cedarburg, Lasata Health Care center with 200 employees. The healthcare sectors experienced 13.5% growth from 2010 – 2014.

Educational Services experienced the greatest increase in employment opportunities from 2010 to 2014 with 27% growth. While it only makes up 5% of total employment, educational institutions, including Concordia College in nearby Mequon, are typically strong hotel room demand generators in both commercial and leisure segments.

Employment by Industry - Ozaukee County							
Industry	2010	2011	2012	2013	2014	% of Total 2014	% chg 2010-2014
Total Employment	52,270	53,498	53,493	54,423	55,979	100%	7.1%
Farm employment	555	546	503	538	528	1%	-4.9%
Construction	1,940	1,889	1,885	1,984	2,078	4%	7.1%
Manufacturing	8,433	8,829	9,249	9,344	9,817	18%	16.4%
Wholesale trade	1,909	1,908	1,827	1,873	1,931	3%	1.2%
Retail trade	5,710	5,664	5,611	5,673	5,749	10%	0.7%
Information	469	490	478	466	434	1%	-7.5%
Finance and insurance	3,573	3,652	3,388	3,485	3,681	7%	3.0%
Real estate and rental and leasing	2,294	2,292	2,337	2,306	2,316	4%	1.0%
Professional, scientific, and technical services	3,905	4,063	4,135	4,306	4,360	8%	11.7%
Management of companies	334	322	343	337	354	1%	6.0%
Administrative	2,912	3,053	2,752	2,768	2,883	5%	-1.0%
Educational services	2,004	2,078	2,163	2,334	2,545	5%	27.0%
Health care and social assistance	5,247	5,829	5,882	5,881	5,955	11%	13.5%
Arts, entertainment, and recreation	1,336	1,333	1,441	1,495	1,542	3%	15.4%
Accommodation and food services	3,676	3,716	3,639	3,890	3,991	7%	8.6%
Other services (except public administration)	2,869	2,857	2,851	2,845	2,916	5%	1.6%
Government and government enterprises	4,283	4,117	4,034	3,948	3,959	7%	-7.6%
Federal, civilian	163	149	149	146	146	0%	-10.4%
Military	242	243	243	239	238	0%	-1.7%
State and local	3,878	3,725	3,642	3,563	3,575	6%	-7.8%
State government	205	198	200	204	208	0%	1.5%
Local government	3,673	3,527	3,442	3,359	3,367	6%	-8.3%

Ozaukee County's **Retail Trade** is the third largest employment sector but has experienced marginal growth from 2010 – 2014. Communities such as Mequon and Grafton saw significant retail growth during the late 1990's and early 2000 with the onslaught of big box retailers and smaller national franchises. While these retail centers continue to fluctuate in annual sales, specialty retailers such as those located in downtown Cedarburg often follow the trends of the overall economy. Cedarburg's ability to maintain a well-known retail district intertwined with historic attractions and events hopefully supports the majority of the small, independent shops in the area.

Overall, Ozaukee County saw a 7.1% increase in employment from 2010 – 2014. This compares to 3.1% growth in Milwaukee County and 4.5% growth in the State of Wisconsin.

Retail and Related Sales Trends

The following section provides a snapshot view of the retail sales trends of Ozaukee County with comparisons to the State of Wisconsin. This analysis is extended to a quasi-surplus and leakage analysis to illustrate how key retail sectors are performing compared to their potential.

Similar to the other economic factors in this section, strength of local sales can indicate the level of support retail businesses obtain from outside sources (visitors).

Table 1 Retail Sales Ozaukee County

The chart below illustrates the sales trends of the Retail, Lodging and Food & Beverage industries in Ozaukee County. In addition, the Compounded Annual Growth Rate (CAGR) is calculated. As illustrated, all three sectors have experienced relatively stable annual increased between 2010 and 2015. Lodging sales have enjoyed 4.5% annual compounded growth, including a nearly 12% increase from 2014 to 2015. Eating and drinking places experienced a considerably smaller increase during the same period but saw a near 17% increase from 2013 to 2014.

Ozaukee County							
Economic Factor	2010	2011	2012	2013	2014	2015	CAGR
Population	87,474	86,530	86,635	86,705	87,116	87,630	0.0%
Retail Revenue	\$ 554,922,857	\$ 560,563,929	\$ 586,872,321	\$ 619,551,964	\$ 665,632,857	\$ 691,117,679	3.7%
Lodging Revenue	\$ 9,681,786	\$ 9,868,571	\$ 10,434,643	\$ 10,627,321	\$ 11,301,964	\$ 12,643,750	4.5%
Food & Beverage	\$ 82,091,786	\$ 84,146,071	\$ 88,364,286	\$ 92,585,179	\$ 108,105,893	\$ 108,322,321	4.7%
Per Cap Pers Inc	\$ 61,222	\$ 65,776	\$ 68,323	\$ 68,910	\$ 71,126	*	3.0%

Source: Wisconsin Department of Revenue

Table 2 Per Capita Retail Sales Ozaukee County and Wisconsin

The tables below offers the per capita sales trends in the same retail sectors. As illustrated, Ozaukee County achieves per capita retail sales that are 10.7% higher than the state average.

However, per capita Lodging Sales in Ozaukee County are nearly 56% below the state average. Eating and Drinking place sales in the county are also lower than the state average by 6%.

This data will continue to support the remaining tables.

Table 2/2A

Ozaukee County Retail Sales per Capita

Per Capita Sales	2010	2011	2012	2013	2014	2015	CAGR
Retail	\$ 6,344	\$ 6,478	\$ 6,774	\$ 7,146	\$ 7,641	\$ 7,887	3.7%
Lodging	\$ 111	\$ 114	\$ 120	\$ 123	\$ 130	\$ 144	4.5%
Food & Beverage	\$ 938	\$ 972	\$ 1,020	\$ 1,068	\$ 1,241	\$ 1,236	4.7%

Wisconsin Retail Sales per Capita

Wisconsin							
Economic Factor	2010	2011	2012	2013	2014	2015	
Population	5,691,000	5,709,000	5,725,000	5,743,000	5,758,000	5,771,000	0.2%
Retail Revenue	\$ 5,927	\$ 6,066	\$ 6,244	\$ 6,529	\$ 6,834	\$ 7,143	3.2%
Lodging Revenue	\$ 238	\$ 253	\$ 265	\$ 272	\$ 290	\$ 310	4.5%
Food & Beverage	\$ 1,335	\$ 1,113	\$ 1,159	\$ 1,190	\$ 1,246	\$ 1,320	-0.2%

Table 3 Ozaukee County Retail Sales and PCPI Compared to Wisconsin Average

The following table offers the Index, as a percentage, that Ozaukee County achieves in sales and income compared to the Wisconsin average. For example, Ozaukee County achieves a Per Capita Personal Income that is 161% above the state average (2014). Retail Sales in the County are 110.4% above the state average in 2015. Lodging sales, in contrast, only achieves 46.5% of the state average while eating and drinking place sales achieves 93.7% of the state average.

These last two indicators express under-performance of the lodging industry in Ozaukee County. This can be due to actual under-performance of occupancy and/or rate. However, it is more likely that Ozaukee County is under-supplied with adequate lodging operations as expressed in the Demand Analysis section of this report.

Table 3
Ozaukee County Retail Sales (and PCPI) Achievement

Economic Factor	2010	2011	2012	2013	2014	2015
Per Cap Pers Income	157.7%	161.1%	160.9%	161.2%	161.0%	
Retail Revenue	107.0%	106.8%	108.5%	109.4%	111.8%	110.4%
Lodging Revenue	46.4%	45.1%	45.5%	45.0%	44.7%	46.5%
Food & Beverage	70.3%	87.4%	88.0%	89.7%	99.6%	93.7%

Table 4 Actual Sales Above/Below State Average

Similar to Surplus and Leakage calculations in a Retail Analysis, Table 4 offers the actual dollar amount (per capita) that Ozaukee County could achieve if it reached its “fair share” of the state average. While the previous chart indicates that Ozaukee County achieves higher Retail Sales per capita than the state, the “fair share” of Retail Sales in Table 4 is based on a calculation including Per Capita Personal Income. In other words, despite its higher-than-state-average retail sales, the level of Personal Income in Ozaukee County could support an even higher dollar amount of sales. Ozaukee County achieves retail sales of \$7,887 per capita. Its “fair share” is \$11,000. Lodging and eating and drinking place sales follow similar but higher deficiencies compared to the potential sales. Table 4a illustrates the percentage of “fair share” Ozaukee County achieves in Retail and related sales.

Table 4

Potential Sales	2010	2011	2012	2013	2014	2015
Retail Sales	\$ 9,349	\$ 9,770	\$ 10,047	\$ 10,527	\$ 11,000	
Lodging Sales	\$ 376	\$ 407	\$ 426	\$ 439	\$ 467	
Food & Beverage	\$ 2,105	\$ 1,793	\$ 1,865	\$ 1,919	\$ 2,006	

Table 4a

Economic Factor	2010	2011	2012	2013	2014
Leakage/Surplus					
Retail Sales	67.9%	66.3%	67.4%	67.9%	69.5%
Lodging Sales	29.4%	28.0%	28.3%	27.9%	27.8%
Food & Beverage	44.6%	54.2%	54.7%	55.6%	61.9%

Recap

The Market Analysis shows the strengths and weaknesses of Ozaukee County with economic indicators directly or indirectly associated with the lodging industry. Growth in population, employment, income and sales are all positive factors in the county.

The deficiencies in Retail and related sales compared to the potential sales are only an indication that there may be more room for new development in these sectors. Again, sales leakage (sales below state average) in Ozaukee County is influenced by the significant strength of the local per capita personal income.

COMPETITIVE LODGING SUPPLY

Lodging accommodations in Cedarburg consist of a variety of bed & breakfast inns, guest houses and cottages. While these properties represent the local lodging industry, they are not considered competitive with a new modern hotel operation. The only inn that could be considered competitive is the 34-room Washington House Inn located downtown. This well-known historic property offers upscale accommodations in a bed and breakfast environment. Rates range from \$130 to over \$300. The 9-room Stagecoach Inn, also located downtown, offers a similar variety of high-quality rooms and a quant tavern.

Primary versus Secondary versus Non-Competitive Lodging

Generally, Primary Competition to a new hotel are those properties within similar class, rate ranges and are the closest in proximity. Secondary Competition to a new hotel may or may not share similar class features and are usually more distant from the subject location. However, local properties can also be considered Secondary competition if the class, rate structure, features and amenities are considerably different from the subject hotel. Differences can include age, size and quality. Non-Competitive properties are typically located outside of the subject market borders and/or are substantially dissimilar in class, features and rates.

Primary competition for a Cedarburg hotel consists of an 83-room Hampton Inn and a 67-room Comfort Inn located 3.5 miles north in the City of Grafton. Both of these properties are located within close proximity to I-43 at Highway 60. The Hampton Inn is the newest hotel in the region (2009) and is the strongest performing property of the Primary and Secondary competition. The Comfort Inn opened in 2001 as a Baymont Inn and rebranded to this Choice Hotel franchise in 2014.

Secondary Competition consists of 4 hotels offering 292 total rooms. These properties, listed in the chart below, are 7 – 10 miles from Cedarburg and are an average of 15 years old.

The chart below illustrates the Primary and Secondary competitive hotels along with the “Alternative” or non-competitive properties in the region. A total of 922 rooms are in the subject market area. The average age of these rooms is 22 years.

Regional Hotel Supply						
	Hotel	City	Distance	Rooms	Year Open	Class
Primary						
	Hampton Inn	Grafton	3.7	83	2009	Upper Mid
	Comfort Inn	Grafton	3.4	67	2001	Mid
	Total/Average		3.55	150	2005	
Secondary						
	Baymont Inn	Mequon	7.1	54	1995	Mid
	Candlewood Suites	BrownDeer	7.7	75	2008	Mid
	Holiday Inn Exp	BrownDeer	7.7	78	2000	Upper Mid
	Country Inn	Pt Wash	10.1	85	2001	Upper Mid
	Total/Average		8.15	292	2001	
Alternative						
	Washington House	Cedarburg	0	34	1985	Ind - B&B
	Stagecoach Inn	Cedarburg	0	9	1984	Ind - B&B
	Total/Average			43	1985	
	Motel 6	Saukville	6.6	70	1987	Economy
	Sheraton 4 Points	BrownDeer	8.2	149	1985	Upscale
	Courtyard Marriott	BrownDeer	8.2	122	2001	Upscale
	Holiday Inn	Pt Wash	8.6	96	1974	Upper Mid
	Total/Average		7.9	437	1987	
TOTAL				922	1994	

Map of Cedarburg Area Lodging Supply



Competitive Chain Scale Distribution

Using the definitions of chain scale or class distribution of hotels created by Smith Travel Research, the chart below illustrates this distribution:

Distribution of Class		
Class	Rooms	% of Total
Economy	70	8%
Midscale	196	21%
Upper Midscale	342	37%
Upscale	271	29%
Upper Upscale	0	0%
Luxury	0	0%
Other	43	5%
Total/Average	922	100%

Chain Scale Segments are a method by which branded hotels are grouped based on the actual average room rates. Independent hotels, regardless of their average room rates, are included as a separate Chain Scale category. The Chain Scale Segments are:

Luxury Chains
 Upscale Chains
 Midscale Chains
 Independents

Upper Upscale Chains
 Upper Midscale Chains
 Economy Chains

Chain Scales are also sub-categorized as limited service, Select Service and Full Service.

The **Limited-Service** class is defined as a hotel without restaurant or banquet facilities. On-site services and amenities of limited-service hotels were initially basic. However, over recent years, services and amenities have expanded to include business centers, fitness facilities, a convenience pantry, small meeting rooms and an enhanced breakfast often including hot food items and full breakfast features.

"Budget" limited-service hotels offer no-frills rooms at usually the lowest rates in the area. Higher-end limited-service hotels offer many of the same amenities that guests would expect from full-service hotels. However, limited-service hotels do not provide dedicated, revenue producing food and beverage outlets. Room rates are usually on the low to middle range of the scale since demand for limited-service properties generally comes from a more price-sensitive traveler. However, in a market with limited supply, limited service hotels can also include the highest rated properties (such as the Hampton Inn in Grafton).

A **Select-Service** Hotel is a "hybrid" hotel between a limited-service and full-service hotel. It offers the fundamentals of limited-service properties combined with a selection of the services and amenities characteristic of full-service hotel properties. Generally, these hotels do not feature public restaurants, but provide menu-level dining targeting in-house guests.

Full-Service Hotels typically provide extensive food and beverage services including sit down dining targeting in-house guests and public. These hotels play a major role for the meeting and special event needs in their market area. Therefore, on-site restaurant, lounges and group meeting spaces with banquet facilities are likely features of the full-service facility.

As the chart above illustrates, the majority of hotels in the Primary and Secondary competitive markets are Upper Midscale followed by Midscale. The only Upscale properties in the region are located 8 miles south of Cedarburg along Brown Deer Road. These are not considered competitive with the proposed hotel in Cedarburg.

Primary Competitors

Hampton Inn and Suites
I-43 and Highway 60 Grafton
83 rooms
Opened in 2008
Owned/Operated by Kineth Hospitality (and others)



The Hampton Inn Grafton is the strongest performing hotel in the Primary and Secondary market. The property opened in 2009 and consists of 83 rooms including 30 suites offering 1 king or 2 queen beds and most with a separate living room. A meeting room on-site has a capacity of 30-35 people classroom style.

(Hampton Inn)

Projected Occupancy 2015:	73%
Projected ADR 2015:	\$124
Rack Rate Range	\$109 – 189
Average Rack	\$136.38

Strengths

The strengths of the Hampton Inn include the affiliation with Hilton Hotels, which is currently one of the top if not the top performing franchises in the industry. Hilton Honors frequent guest program is a strong draw for business travelers. The brand is also well known for its “Sleep Number Beds”, expanded breakfast buffet and upscale features and amenities.

Another strength is the hotel’s visibility and accessibility from Interstate 43. Property staff indicated that the majority of corporate and tourist guests were destined for other nearby markets (the hotel promotes its proximity to Cedarburg in its location description). Additionally, a regionally popular restaurant, Water Street Brewery is located adjacent to the hotel.

Potential Weaknesses

The Hampton is the newest hotel within a 10-mile radius and has a very limited number of competitors. The strength of its brand and location along the interstate allows it to draw customers from other markets including Port Washington, Mequon and the subject market of Cedarburg.

However, if or when new, similar class properties open within these other markets, it will most likely have an impact on the Hampton occupancy. The hotel also achieves the highest Average Daily Rate among Primary, Secondary and non-competitive hotels. This too, could be impacted as newer competition enters the market area.

Demand Market Mix

The Demand Market Mix is the percentage of customers categorized as Corporate (business travelers), Leisure (tourist and social purpose of visit), Transient (highway travelers, ‘walk-in’ and other non-reservation guests) and Group/Other. The projected distribution of the demand market mix are based on interviews with property staff, franchise personnel and additional research.

Corporate	65%
Leisure	20%
Transient	10%
Group *	5%

Group demand, in this instance, is considered more corporate or business group than social. Leisure demand includes a high percentage of sports teams and other social groups.

Comfort Inn Grafton

1415 Port Washington Road

67 rooms

Opened in 2001

Owned/Operated by Mequon Investment Group LLC

Gandabhai M Patel



The Comfort Inn Grafton opened in 2001 as a Baymont Inn. The hotel is located along Port Washington Road, a strong commercial corridor extending from Milwaukee through Cedarburg. Port Washington Road runs parallel to I-43.

When the Comfort Inn opened in 2001, it was one of the first developments at the intersection of I-43 and Highway 60 and one of three hotels to open along the freeway the same year (Country Inn Port Washington and Marriott Courtyard Brown Deer). The Comfort Inn possessed moderate visibility from the interstate until the 2002 opening of the Home Depot. The land surrounding the intersection saw rapid development of big box and other commercial businesses.

Despite its proximity to the Grafton business community, the Comfort Inn is slightly hidden from the main traffic and activity flow along Highway 60. Equally, the competitive pressure of the Hampton Inn by the interstate, may be the reason for the change of franchise and presumably, sale to the current owners.

Projected Occupancy 2015: 55%
Projected ADR 2015: \$75
Rack Rate Range: \$69 - \$149

Strengths

The re-branding from a Baymont Inn to a Comfort Inn should provide a stronger reservation system and thus, result in higher occupancy levels. Choice Hotels have a limited presence in the region and typically perform well among Midscale chains. The Comfort Inn Grafton has a higher-than-average appearance in both exterior and interior sides.

Weaknesses

Lack of visibility from the interstate along with lack of signage on Highway 60 hides the property from the traveling public. Despite some sizeable companies in Grafton, it appears that the majority of business travelers stay at the Hampton and several other regional properties. As the hotel has reached its 15th year of operations, tours of the rooms and public space indicate a need for some updates. Another weakness is a lack of dining options within walking distance of the hotel.

Demand Market Mix

The Demand Market Mix is the percentage of customers categorized as Corporate (business travelers), Leisure (tourist and social purpose of visit), Transient (highway travelers, ‘walk-in’ and other non-reservation guests) and Group/Other. The projected distribution of the demand market mix are based on interviews with property staff, franchise personnel and additional research.

Corporate	45%
Leisure	30%
Transient	20%
Group *	5%

This distribution of market demand is based on limited information provided by hotel staff and additional research. Leisure demand consists of some groups such as youth athletics, amateur athletics, rooms only business.

Secondary Competition

Secondary Competition to the proposed hotel in Cedarburg are defined as properties that may compete for a percentage of the same demand generators but are either located farther from the subject market or are a different class that caters to other demand markets.

As the list below illustrates, there are four hotels with a total of 292 rooms that are considered Secondary Competition to the Cedarburg market. These properties range from 7 – 8 miles south in Mequon and Brown Deer to 10 miles north in Port Washington (I-43).

Secondary					
Baymont Inn	Mequon	7.1	54	1995	Mid
Candlewood Suites	BrownDeer	7.7	75	2008	Mid
Holiday Inn Exp	BrownDeer	7.7	78	2000	Upper Mid
Country Inn	Pt Wash	10.1	85	2001	Upper Mid
Total/Average		8.15	292	2001	

Baymont Inn – Mequon

The 54 room Baymont Inn was recently re-branded from the Best Western Quiet House Inn. The property is located on Port Washington Road in a strong commercial district. The hotel caters to local business travelers including Concordia College and Columbia/St. Mary Hospital. Built in 1995, the property has maintained an attractive exterior but shows signs of age and wear. The rebranding from Best Western to Baymont is a lateral change within the Midscale chain scale. However, the franchise ADR for Baymont is \$68 compared to Best Western at \$90.

Candlewood Suites – Brown Deer

The 75-room Candlewood Suites is located in Brown Deer in a commercial/industrial district on the Milwaukee County side of the Ozaukee/Milwaukee County line. Candlewood is a Midscale all-suites hotel brand

of Intercontinental Hotel Group (Holiday Inns). Candlewood Brown Deer appears to have a strong local corporate customer base of extended-stay guest from companies within 1-2 miles of the hotel. Despite a rack rate structure averaging \$119 - \$149, the ADR is estimated at \$91 due to long-term stay and corporate discounts. Still, this is slightly higher than the Candlewood chainwide ADR of \$89. Because of its focus on corporate extended stay demand, the Candlewood is not calculated in the Secondary competitive hotels in this report.

Holiday Inn Express – Brown Deer

Similar to its sister property Candlewood Suites, the Holiday Inn Express in Brown Deer attracts a strong corporate demand base from numerous companies within a 1-2 mile radius of the property. In addition, the hotels leisure demand base is strong with its ability to attract Milwaukee area tourism and local activity from a neighboring aquatics center, colleges and other attractions. According to property management, the hotel has experienced a slight decline in occupancy levels during the past two years. However, ADR has increased with similar trends among nearby hotels. ADR is currently estimated at \$104, compared to the chain average of \$108.

Country Inn Port Washington

While the other Secondary competitive properties are located 7-8 miles south of Cedarburg, the Country Inn is located 10 miles north of the subject market in Port Washington. This is only one of two limited service Upper Midscale properties between Cedarburg and Sheboygan (along I-43), approximately 40 miles north. Country Inn is a standard prototype of the brand which is a sister franchise of Radisson Hotels. However, unique to the brand is its 8,000 square foot (usable) banquet facility. This facility hosts a variety of social functions and government-related and association business meetings. Corporate franchise personnel stated that the property achieves higher than chain average ADR (\$91 compared to \$89 chainwide) at a 60% - 65% occupancy level.

Key Non-Competitive Supply

Other lodging operations in the subject region that currently are considered non-competitive but may influence a unique customer based or have a greater impact on the subject market in the future include:

Washington House Inn Located downtown Cedarburg, this historic bed & breakfast is an anchor of the downtown business district since 1985. The Inn offers upscale accommodations with vintage style décor coupled with modern conveniences including a nearly 800 square foot conference room. Continental breakfast buffet is served in a restaurant setting also available as a gathering room during non-breakfast hours.

Holiday Inn Port Washington The Holiday Inn could be classified as a Secondary Competitor due to its franchise strength and location of 8.6 miles from Cedarburg. However, the full service hotel is located along the harbor in Port Washington within walking distance of shops, restaurants and unmatched views of Lake Michigan. According to property data, approximately 50% of the hotels customer base consists of leisure (tourist) visitors while corporate, group and transient generate about 10-20% each of the remaining demand. The Holiday Inn has been marketed for sale for 4-5 years and may have recently been purchased. Retirement of the long-time owner is the stated reason for sale as the property maintains relatively strong performance of 62% at a \$104 ADR. Still, if purchased, new ownership may be hesitant to invest the required renovation costs to maintain its current Holiday Inn franchise. Thus, a new brand, more or less competitive with the proposed hotel in Cedarburg, could enter the market.

The chart below provides a list of the non-competitive/alternative lodging operations located in the surrounding market. Included in this list is the Stagecoach Inn, a higher-end bed & breakfast in downtown Cedarburg. The Sheraton Four Points and Marriott Courtyard in Brown Deer as well as Motel 6 in nearby Saukville are included in this list. These properties mostly attract a demand audience that is considerably different than the proposed hotel of this study.

<i>Alternative</i>					Year	
Hotel	City	Distance	Rooms	Open	Class	
Washington House	Cedarburg	1	34	1985	Ind - B&B	
Stagecoach Inn	Cedarburg	1	9	1984	Ind - B&B	
Total/Average			43	1985		
Motel 6	Saukville	6.6	70	1987	Economy	
Sheraton 4 Points	BrownDeer	8.2	149	1985	Upscale	
Courtyard Marriott	BrownDeer	8.2	122	2001	Upscale	
Holiday Inn	Pt Wash	8.6	96	1974	Upper Mid	
Total/Average			7.9	1987		
TOTAL			922	1994		

DEMAND FOR LODGING

The demand for lodging in Cedarburg is generated by a variety of sources ranging from local companies and organizations to strong seasonal tourist attractions and events. However, the lack of modern, commercial accommodations in the city make historic trends in demand difficult. Therefore, a “build-up” approach is utilized involving contact with local businesses to determine the local need.

Demand for lodging is typically classified as:

Commercial/Corporate	demand generated by local companies
Social/Leisure	tourists and other non-business visitors to the local market
Transient	travelers from an origin to a destination not necessarily related to the subject market; visitors without reservations often considered “highway transient” travelers
Group/Other	business meetings, social functions, tour groups and unclassified visitors

Each of these general classifications can be further detailed with subcategories and various definitions. Still, the segments of demand listed above are the main categories utilized in the Demand Analysis.

Although it is the second largest city in Ozaukee County after Mequon, Cedarburg maintains a unique small town setting that has long avoided nationally recognized retail and other developments that spread throughout other communities in the region. Visitors to the community tend to associate the downtown historic business district as “Cedarburg” while the surrounding areas that include the city’s industrial base and a scattering of newer and perhaps franchised retail and service businesses may lack a geographic identity. This is especially true along the city’s northern borders along Highway 60. Cedarburg blends into Grafton, in the visitor’s point of view, with no distinct noticeable boundary – typical of most suburban and rural settings.

With the combination of a strong reputation as a historic tourist destination along with the lack of national brands that tend to attract “non-tourist” travelers, Cedarburg may not be able to attract visitors from other Ozaukee County destinations (or Milwaukee area overflow). More important, the lack of certain modern or franchised businesses may also be forcing locally generated demand to seek lodging in other communities.

A new hotel in Cedarburg should not only satisfy these local and overflow demand generators but could likely induce new visitors to the area.

The following section reviews and evaluates the sources of room demand that will most likely be targeted by a new hotel in the subject market area.

Commercial Demand

Typically, large-employing businesses located in a community can provide an indication of the amount of commercial demand available to a hotel. Cedarburg and the surrounding markets have a substantial number of employers including some that have few employees but can generate a high volume of commercial visitors.

Based on the information gathered in this study, it is determined that commercial demand (business travelers) will generate about 45% - 55% of the annual demand for lodging at the proposed hotel in Cedarburg.

A sample of the types and levels of demand generated by several local and regional companies are listed below. This is just a small collection from the results of contacts made to the local businesses.

Columbia/St Mary Hospital– branch of the downtown Milwaukee health center, the Mequon location is a 182-bed facility and includes Physician Center and nursing training programs that bring a variety of visitors to the area. Estimates of 1,000 – 2,000 room nights per year include patient related, training and visiting or relocating staff. The hospital generally refers visitors to Milwaukee area properties or Hampton Inn Grafton. Strong support for Cedarburg property and potential location along Pioneer Road. Shuttle ability would be advantage. Approximately 5 miles from Pioneer Road and Washington.

Concordia University- This 4-year private college has approximately 4,400 students at the main campus in Mequon (5.5 miles from Cedarburg). Main campus is home to Division III athletic events, continuing educational seminars and conferences, events for families of students, visiting performing and educators and numerous other visitations. College provides list of hotel options from Grafton to Milwaukee. Teams and other “high-profile” groups stay at Hampton, Sheraton (Brown Deer) and Holiday Inn Express. Estimates of annual demand exceed 2,000 rooms nights.

Carlson Manufacturing – estimate 20-30 rooms per year with some staying up to a week at a time. Other visitors including potential customers tend to make own reservations. Currently use Washington House Inn and Hampton Inn. Would like to see a property with “basic lounge” for guests unfamiliar with the area. Also, smaller meeting room would be utilized.

Norstar Aluminum – limited need for overnight accommodations but experiencing slight increase. Currently stay at Washington House Inn or Hampton. Most visitors make own reservations.

Ataco Steel – book 18-24 rooms at the Hampton Inn of company personnel. Other visitors may double the number and make reservations on own. Strong support for new hotel in Cedarburg. Despite location on Highway 60, Ataco would utilize hotel along Pioneer Road or any other location.

Kemps- frequent visits from headquarter personnel (St. Paul, MN) and sales force throughout Midwest. VIP’s stay at Washington House Inn, others stay Hampton or downtown Milwaukee/Airport. Estimate 30-40 per year.

Cedar Springs Health Center – visits from guest technical and professional support staff, family of patients, auditors and suppliers. Most stay at Comfort or Hampton in Grafton – most make own reservations.

Cedarburg has only 3 manufacturing firms with more than 100 employees. However, there are 55 manufacturers with less than 100 employees. Within a 5-mile radius, these numbers increase to 10 and 114 respectively. In addition, there are 418 businesses in the Service industry, 86 in the Financial, Insurance and Real Estate and 220 retailers in the city. While the number of employees may not correlate with the amount of room nights generated in an area, strength in numbers can be associated with the likelihood of visitor probability.



Leisure Demand

Room demand generated by tourist attractions and events create a surge in hotel occupancy and rate levels in Cedarburg similar to many other Wisconsin markets. The majority of this activity occurs during summer months but extends into weekends and holidays throughout the year. Leisure demand is expected to generate 40% - 45% of the demand for lodging in Cedarburg.

The key tourist events and attractions in the subject area are:

Strawberry Festival	This June event attracts a reported 100,000 visitors to the area for food, crafts, music and entertainment celebrating strawberries and more.
Wine & Harvest Fest	Held in September, this event attracts approximately 70,000 visitors for fall harvest foods and locally created wines.
Octoberfest	Cedarburg’s version of this international event attracts a reported 5,000 visitors for a variety of activities.
A Cedarburg Christmas	Extending from November until Christmas, the actual events attract an estimated 2,000 visitors. However, as all of downtown Cedarburg turns into a “Rockwell-like” Christmas throughout the season, the number of visitors is most likely much higher during the entire season.
Winterfest	A reported 10,000 visitors attend the Winterfest activities in February each year offering entertainment, games, food and other indoor and outdoor activities.
CedarBrew	A new event in 2015, CedarBrew focuses on locally brewed beers and wines as well as foods prepared by local establishments.

Area Attractions

Cedar Creek Settlement – along with the Cedar Creek Winery, is a year-round shopping destination downtown Cedarburg. Especially strong bus (and smaller) tour destination.

Cedarburg Art Museum – also located downtown, this historic former bank building with its art collection is always listed as part of bus tour itineraries along with other attractions in the area.

Cedarburg Cultural Center, located downtown is primarily a performing arts destination for local residents but also hosts weddings, meetings and small conferences that can bring out-of-town visitors to the area.

Cedarburg General Store Museum – operated by the Cedarburg Cultural Center, this museum specializes in antique packaging and advertising. This is also home to the visitor center and chamber of commerce.

Cedarburg Performing Art Center – an exceptional 580-seat theater that brings local, regional and nationally recognized entertainers and artists to the area each year. A strong local attraction that can attract a larger regional audience.

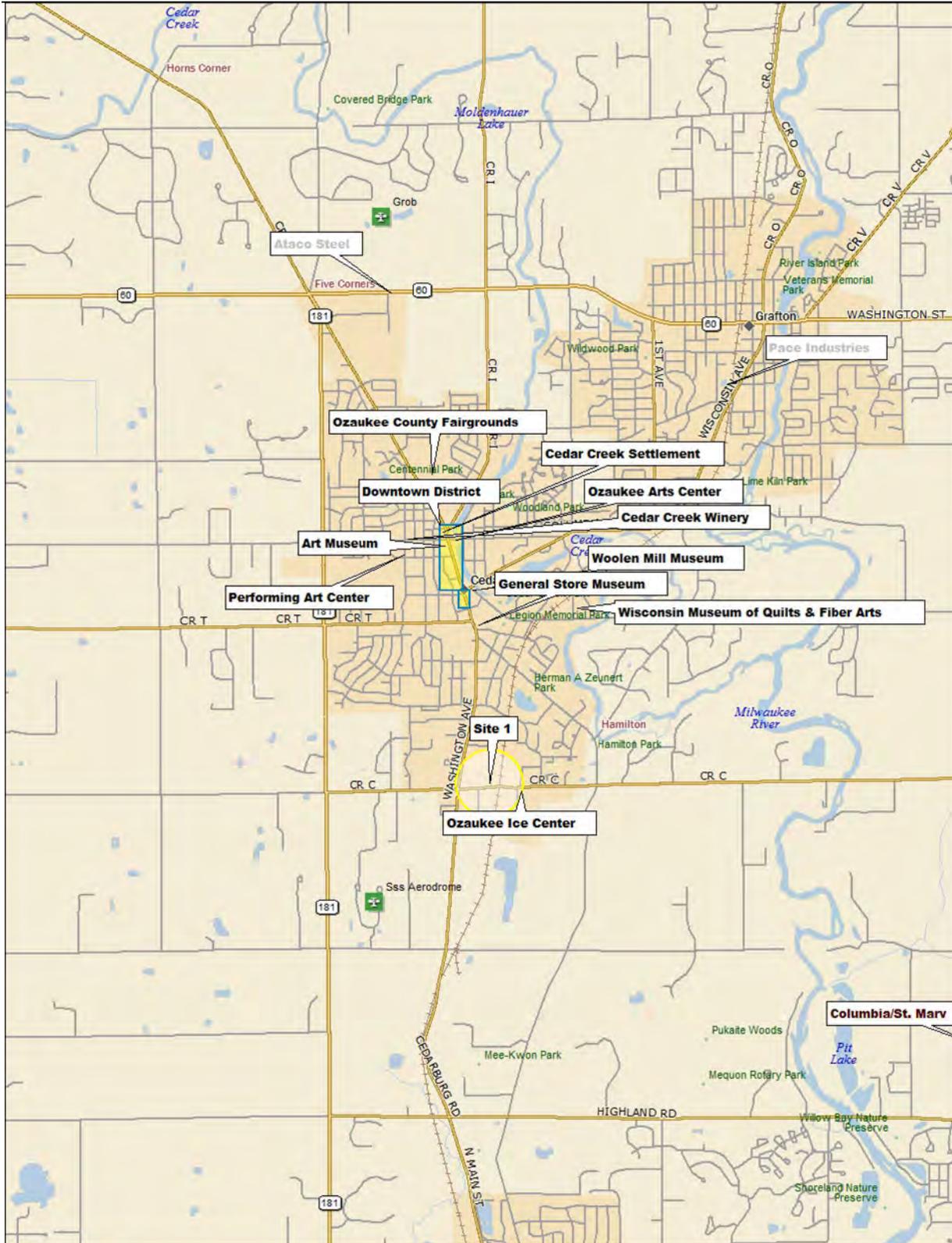
Cedarburg Woolen Mills Museum – offers an additional view of historic Cedarburg and its unique woolen mill industry.

Ozaukee Interurban Trail – a 30-mile paved trail covering all of Ozaukee County attracting bicyclers, hikers and general sightseers that combine recreation with visits to the downtown business district.

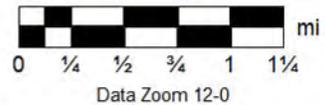
Ozaukee Ice Center – Hockey and skating complex primarily used by local leagues and individual skaters. High school and collegiate tournaments also attract out-of-town teams during hockey season.

Ozaukee County Fairgrounds – home to the free Ozaukee County Fair and includes private rentals of a variety of venues. Also home to the Milwaukee Curling Club which holds several “bonspiels” each winter that can attract up to 30 teams.

In addition to the attractions listed above, Cedarburg and Ozaukee County offer an abundance of golf courses, museums, small town shopping districts and other recreational activities. Beach and boat access to Lake Michigan is available in Port Washington and including 16 charter fishing operations. Downtown Milwaukee attractions and event venues are approximately 22 miles from Cedarburg and generate overflow and alternative lodging demand throughout the year.



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Transient Demand

Despite being 3-4 miles from access to I-43, highway transient demand could be a moderate and consistent generator of demand for the proposed hotel. Pioneer Road is the visible “gateway” into Cedarburg from the freeway while Highway 60 provides a strong alternative.

The Wisconsin Department of Transportation recorded an Average Daily Traffic volume of 48,400 vehicles along I-43 just north of Pioneer Road (Highway C) 2014. This number has been consistent with previous years counts provided in the chart following this section.

While Cedarburg may be less accessible to the interstate than other nearby lodging markets, it is the next closest community from Mequon to the greater Milwaukee area.

Group Demand

Group demand in the Cedarburg market is currently generated by more social events (weddings, reunions, organizations) and bus tours. However, this study has determined a strong potential for commercial group functions held by regional companies and in conjunction with events and activities in the Greater Milwaukee Area.

Meeting functions tend to be generated by local companies and organizations with direct affiliation to government agencies (associations). Ozaukee County Fairgrounds has potential to host these types of functions but may be overlooked due the lack of nearby lodging. The Country Inn in Port Washington and the Sheraton Four Points in Brown Deer are currently the only lodging operations in the competitive market with sizeable meeting and banquet facilities. This wouldn't be a strong source of demand for the proposed hotel. However, if marketed with the fairgrounds and other private venues in Cedarburg, this could be a growing source of demand for overnight accommodations.

Bus Tours of the downtown business district is currently the largest generator of room demand in the Cedarburg area. Tour group activity occurs nearly year round but is strongest during festival season and fall color and event seasons.

Another growing source of group demand for overnight accommodations is the youth and amateur athletic market. Area schools and clubs host regional soccer, baseball, basketball, hockey and other athletic tournaments from “pee-wee” programs to high school and amateur functions. The Ozaukee Ice Center and Milwaukee Curling Club also attract teams and families of participants.

Local Hotel Performance Trends

The following section reviews and evaluates the performance trends of the competitive hotels in the subject area. Through this evaluation, the projections of performance for the subject hotel are made.

Competitive Lodging Defined

The chart below recaps the Primary, Secondary and Non-Competitive properties in the subject region of Cedarburg as described earlier in this report.

Regional Hotel Supply						
	Hotel	City	Distance	Rooms	Year Open	Class
Primary						
	Hampton Inn	Grafton	3.7	83	2009	Upper Mid
	Comfort Inn	Grafton	3.4	67	2001	Mid
	Total/Average		3.55	150	2005	
Secondary						
	Baymont Inn	Mequon	7.1	54	1995	Mid
	Candlewood Suites	BrownDeer	7.7	75	2008	Mid
	Holiday Inn Exp	BrownDeer	7.7	78	2000	Upper Mid
	Country Inn	Pt Wash	10.1	85	2001	Upper Mid
	Total/Average		8.15	292	2001	
Alternative						
	Hotel	City	Distance	Rooms	Year Open	Class
	Washington House	Cedarburg	1	34	1985	Ind - B&B
	Stagecoach Inn	Cedarburg	1	9	1984	Ind - B&B
	Total/Average			43	1985	
	Motel 6	Saukville	6.6	70	1987	Economy
	Sheraton 4 Points	BrownDeer	8.2	149	1985	Upscale
	Courtyard Marriott	BrownDeer	8.2	122	2001	Upscale
	Holiday Inn	Pt Wash	8.6	96	1974	Upper Mid
	Total/Average		7.9	437	1987	
TOTAL				922	1994	

Table 1: RECAP OF LOCAL COMPETITIVE LODGING PERFORMANCE

The table below provides an overview of the performance, measured by occupancy and average daily rate, of the Primary, Secondary and Non-Competitive (Alternative) Lodging Supply in the Cedarburg region.

Cedarburg Competitive Supply												
Property	Rooms	Opened	Low Single	High Single	Low Double	High Double	Rooms Available	Estimated Occupancy	Rooms Sold	Estimated ADR	Average Single	
Primary Competition												
Hampton Inn	83	2009	\$ 139.00	\$ 189.00	\$ 139.00	\$ 189.00	30295	73.0%	22115	\$ 124.00	\$ 136.48	
Comfort Inn	67	2001	\$ 94.00	\$ 159.00	\$ 94.00	\$ 159.00	24455	61.0%	14918	\$ 81.00	\$ 106.65	
TOTAL	150	2005	\$ 116.50	\$ 174.00	\$ 116.50	\$ 174.00	54750	67.6%	37033	\$ 106.68	\$ 121.57	
Secondary Competition												
	Rooms	Opened	Low Single	High Single	Low Double	High Double	Rooms Available	Estimated Occupancy	Rooms Sold	Estimated ADR	Average Single	
Baymont Mequon	54	1995	\$ 90.00	\$ 160.00	\$ 90.00	\$ 160.00	19710	58.0%	11432	\$ 84.00	\$ 101.50	
Candlewood Brn Deer	75	2008	\$ 98.00	\$ 136.00	\$ 98.00	\$ 136.00	27375	72.1%	19737	\$ 77.00	\$ 98.77	
Holiday Inn Ex BrnDeer	78	2000	\$ 107.00	\$ 148.00	\$ 107.00	\$ 148.00	28470	66.0%	18790	\$ 98.00	\$ 110.50	
Country Inn Port Wash	85	2001	\$ 76.00	\$ 122.00	\$ 76.00	\$ 122.00	31025	60.0%	18615	\$ 86.00	\$ 102.00	
TOTAL	292	2001	\$ 92.75	\$ 141.50	\$ 92.75	\$ 141.50	106580	64.3%	68574	\$ 86.36	\$ 103.19	
Non/Alternative Competition												
	Rooms	Opened	Low Single	High Single	Low Double	High Double	Rooms Available	Estimated Occupancy	Rooms Sold	Estimated ADR	Average Single	
Washington House Inn	34	1985	\$ 139.00	\$ 240.00	\$ 139.00	\$ 240.00	12,410	52.0%	6,453	\$ 148.00	\$ 157.00	
Motel 6 Saukville	70	1987	\$ 54.00	\$ 80.00	\$ 54.00	\$ 80.00	25,550	69.0%	17,630	\$ 64.00	\$ 71.00	
Sheraton Four Points	149	1985	\$ 109.00	\$ 189.00	\$ 109.00	\$ 189.00	54,385	62.0%	33,719	\$ 107.00	\$ 152.00	
Marriott Courtyard	122	2001	\$ 116.00	\$ 212.00	\$ 116.00	\$ 212.00	44,530	72.0%	32,062	\$ 121.00	\$ 148.88	
Holiday Inn Port Wash	96	1974	\$ 97.00	\$ 196.00	\$ 97.00	\$ 196.00	35,040	62.0%	21,725	\$ 97.00	\$ 115.81	
TOTAL	471	1986	\$ 103.00	\$ 183.40	\$ 103.00	\$ 183.40	171,915	64.9%	111,588	\$ 104.65	\$ 128.94	
Region												
	Rooms	Opened	Low Single	High Single	Low Double	High Double	Rooms Available	Estimated Occupancy	Rooms Sold	Estimated ADR	Average Single	
Region	913	1997	\$ 101.73	\$ 166.45	\$ 101.73	\$ 166.45	333,245	65.2%	217,195	\$ 98.82	\$ 118.24	
Milwaukee Metro								62.7%		\$ 103.30		
Wisconsin								57.3%		\$ 99.39		

As the table illustrates, the competitive region (Primary, Secondary and Non-Competitive or Alternative) achieves an occupancy level of 65.2% compared to 62.7% in the Milwaukee area and 57.3% statewide. The Primary competitive properties achieve a 67.6%.

Average Daily Rates in the region reached \$98.82 compared to the average rack (Best Available Published Rates) of \$118.24. This indicates that hotels in the region discount an average of 19.7% which may include corporate and seasonal discounts. Overall, the chart above indicates that the Primary Competition are the strong performing properties although the entire region outperforms the Milwaukee average and state wide average.

Data in this section is supported by area wide performance statistics by Smith Travel Research for 2015. Individual performance data was gathered from interviews with property management and staff, franchise representatives and financial data available from published resources.

Table 2: Market Segmentation of Demand

This table below provides a projection of the percentage of Demand Market Segments captured by each hotel in the Primary and Secondary Competitive markets. The purpose of understanding market segmentation is to determine the various types of visitors to the subject market as well as in determining the most suitable property type for new development.

Occupancy and Market Segmentation												
PRIMARY COMPETITION												
Property	Rooms	Occupancy	Rooms Sold	Corporate Percent	Rooms	Leisure Percent	Rooms	Transient Percent	Rooms	Group/Other Percent	Rooms	Rooms
Hampton Inn	83	73.0%	22115	65%	14375	20%	4423	10%	2212	5%	1106	
Comfort Inn	67	61.0%	14918	45%	6713	30%	4475	20%	2984	5%	746	
TOTAL	150	67.6%	37033	57%	21088	24%	8898	14.0%	5195	5%	1852	
SECONDARY COMPETITION												
Property	Rooms	Occupancy	Rooms Sold	Corporate Percent	Rooms	Leisure Percent	Rooms	Transient Percent	Rooms	Group/Other Percent	Rooms	Rooms
Baymont Mequon	54	58.0%	11432	50%	5716	30%	3430	15%	1715	5%	572	
Candlewood Brn Deer	75	72.1%	19737	65%	12829	20%	3947	5%	987	10%	1974	
Holiday Inn Ex BrnDeer	78	66.0%	18790	55%	10335	25%	4698	10%	1879	10%	1879	
Country Inn Port Wash	85	60.0%	18615	40%	7446	25%	4654	25%	4654	10%	1862	
TOTAL	292	64.9%	68574	53%	36326	24%	16728	13.5%	9234	9%	6286	
AREA WIDE	442	65.5%	105607	54%	57414	24%	25627	14%	14429	8%	8137	

This chart estimates that 54% of the visitors to the subject region are Corporate or business travelers; 24% are tourists; 14% are transient guests and 8% are Group function attendees or other non-classified travelers. This doesn't change significantly between Primary and Secondary markets. However, the table illustrates the strength of the Hampton Inn Grafton in attracting corporate travelers. The Candlewood Suites (secondary market) in Brown Deer also captures a strong share of corporate business but most likely with extended stay travelers, the target market of this brand.

The table also indicates that the primary and secondary competitive hotels capture the same level of leisure or tourist demand. The individual properties that capture a stronger than area wide average percentage of leisure demand are also those with the lowest average daily rates. This may indicate that a higher number of leisure guests to this area are more rate sensitive.

Table 3: Performance of Competitive Hotels by Demand Market Segmentation

Once an area wide occupancy is determined, each property occupancy is compared to the area-wide average to determine which hotels perform best, by market segment. This “penetration” of fair share is then used in projecting the performance of the subject hotel.

Performance of Competitive Hotels by Demand Market Segments

PRIMARY COMPETITION	Rooms	OCCUPANCY		Corporate		Leisure		Transient		Group	
		Occupancy	Penetration	Percent	Penetration	Percent	Penetration	Percent	Penetration	Percent	Penetration
Hampton Inn	83	73.0%	111.52%	65%	120%	20%	82%	10%	73%	5%	65%
Comfort Inn	67	61.0%	93.19%	45%	83%	30%	124%	20%	146%	5%	65%
TOTAL	150	67.6%	103.33%	57%	105%	24%	99%	14%	103%	5%	65%
SECONDARY COMPETITION											
Baymont Mequon	54	58.0%	88.60%	50%	92%	30%	124%	15%	110%	5%	65%
Candlewood Brn Deer	75	72.1%	110.14%	65%	120%	20%	82%	5%	37%	10%	130%
Holiday Inn Express -	78	66.0%	100.82%	55%	101%	25%	103%	10%	73%	10%	130%
Country Inn Port Wash	85	60.0%	91.66%	40%	74%	25%	103%	25%	183%	10%	130%
TOTAL	292	64.9%	99.16%	53%	97%	24%	101%	13%	99%	9%	119%
Primary	150	67.6%	103.33%	57%	105%	24%	99%	14%	103%	5%	65%
Secondary	292	64.9%	99.16%	53%	97%	24%	101%	13%	99%	9%	119%
AREA WIDE	442	65.5%	100.00%	54%	100%	24%	100%	14%	100%	8%	100%

As the chart above illustrates, the Hampton Inn in Grafton is the strongest performing hotel in the Primary and Secondary competitive markets in overall occupancy achieving 111.5% of the area wide fair share. The Hampton, along with the Candlewood Suites in Brown Deer, capture the greatest share of regional corporate demand at a 120% index. The Comfort Inn in Grafton, while capturing only 93% of its share of total area wide demand, captures the strongest share of Leisure Demand along with the Baymont in Mequon. The Comfort Inn also captures a strong share of transient demand second only to the Country Inn in Port Washington. This can indicate rate sensitivity of these demand markets, compared to the corporate sector.

Still, with the overall strength of the Primary and Secondary competitive hotel markets (65.5% occupancy), even those properties “under-performing” in occupancy index, perform better than other lodging districts outside of the subject market area.

Table 4 Growth Trends of Competitive Markets

The chart below provides the annual growth of lodging revenue in the various competitive communities.

Lodging Revenue							
	2010	2011	2012	2013	2014	2015	*CAGR
Grafton							
Tax \$	181,665	179,504	194,179	221,488	224,871	249,068	
Revenue \$	2,595,214	2,564,343	2,773,986	3,164,114	3,212,443	3,558,114	
		-1.2%	8.2%	14.1%	1.5%	10.8%	5.4%
Brown Deer							
Tax \$	476,934	492,759	504,958	580,404	589,710	613,636	
Revenue \$	6,813,343	7,039,414	7,213,686	8,291,486	8,424,429	8,766,229	
		3.3%	2.5%	14.9%	1.6%	4.1%	4.3%
Cedarburg							
Tax \$	49,619	61,787	68,814	69,138	67,749	67,000	
Revenue \$	992,380	1,235,740	1,376,280	1,382,760	1,354,980	1,340,000	
		24.5%	11.4%	0.5%	-2.0%	-1.1%	5.1%
Ozaukee County							
Revenue \$	9,681,785.7	9,868,571.4	10,434,642.9	10,627,321.4	11,301,964.3	12,643,750.0	
		1.9%	5.7%	1.8%	6.3%	11.9%	4.5%
Milwaukee County							
Revenue \$	18,892,982	20,296,268	20,998,536	22,679,661	24,853,750	26,051,804	
		7.4%	3.5%	8.0%	9.6%	4.8%	5.5%
Wisconsin							
Revenue \$	74,631,537	79,419,606	83,349,821	85,999,847	91,958,935	98,492,822	
		6.4%	4.9%	3.2%	6.9%	7.1%	4.7%

* CAGR = Compounded Annual Growth Rate

Sources: Grafton, Brown Deer, Cedarburg City Budgets, Wisconsin Department of Revenue

The somewhat consistent annual growth of lodging revenue in the competitive market as well as Milwaukee and the State of Wisconsin is inconsistent with industry trends in other parts of the country. This is especially true during the 2011 – 2013 period when most of the lodging industry was still attempting to rebound from the Global Recession.

It is noted that Milwaukee County also experienced an 11% increase in its number of rooms from 2013 – 2015 which can have an impact on lodging revenue even if resulting in a decrease in Revenue Per Available Room. However, the revenue increases experienced in Grafton, Brown Deer, Cedarburg and all of Ozaukee County is considered true growth as there were no new additions to lodging supply in these areas.

Aside from a slight decrease in revenue in Grafton from 2010 – 2011, Cedarburg is the only community that experienced declines in multiple years. After significant increases in 2011 and 2012, Cedarburg lodging revenues went flat to a slight loss. Cedarburg revenue per available room is somewhat difficult to calculate with the number of guest houses, their seasonality and changes in operations.

Still, the overall compounded annual growth in the region is impressive. Much of the growth is attributed to more aggressive rate structuring compared to previous years according to the management of the Primary and most Secondary competitive hotels. Overall, occupancy levels have increased slightly from 2013 – 2015.

The chart below offers similar results in Occupancy and ADR growth of lodging in Wisconsin and the Greater Milwaukee Area.

2014	Occupancy	ADR	RevPar
Wisconsin	57%	\$ 93.34	\$ 53.05
Milwaukee	63%	\$ 98.10	\$ 62.18
2015			
Wisconsin	57%	\$ 99.37	\$ 56.96
Milwaukee	63%	\$ 103.30	\$ 64.79
Percent Change	Occupancy	ADR	RevPar
Wisconsin			
2013 - 2014	3.0%	3.7%	6.7%
2014 - 2015	1.3%	5.3%	6.7%
Milwaukee			
2013 - 2014	3.1%	1.9%	5.1%
2014 - 2015	-0.8%	5.1%	4.2%

Source: Smith Travel Research

RECAP

Based on the analysis in this section, the following are the current (2015) performance levels of the Primary, Secondary and regional hotels in the subject market:

Market	Occupancy	ADR	CAGR Revenue
Primary	67.6%	\$ 106.68	5.4%
Secondary	64.3%	\$ 86.36	4.7%
Regional	65.2%	\$ 98.82	4.5%

The following section utilizes the historic growth data in projecting future growth by demand market segment.

Table 5 Competitive Demand by Market Segment

The chart below provides the Demand by Market Segment for the Primary and Secondary competitive hotels in the Cedarburg area. The boxed section provides the estimated percentage of competitive rooms. The estimated percentage of competitive rooms in the Secondary market is 75% of the total 292 rooms. This excludes the 75 room Candlewood Suites which targets more extended stay demand than the proposed hotel in Cedarburg. It is only included in the Secondary supply since it also targets extended stay demand from several key demand generators in the subject market.

Total Market Demand by Segment and Actual Competitive Rooms								
	Available Rooms	Competitive Factor	Competitive Rooms	Corporate Demand	Leisure Demand	Transient Demand	Group Demand	Total Demand
Primary Competition	150	100%	150	21,088	8,898	5,195	1,852	37,033
Secondary Competition	292	75%	219	36,326	16,728	9,234	6,286	68,574
TOTAL	442	83%	369	57,414	25,627	14,429	8,137	105,607
TOTAL COMPETITIVE				47,931	21,394	12,046	6,794	88,165

Therefore, this chart indicates that there are 369 competitive rooms in the Primary and Secondary markets compared to 442 total rooms. The individual calculations of demand by market segment are adjusted for the 369 competitive rooms.

Table 6 Projected Demand Growth by Market Segment

Despite an compounded annual rate of growth ranging from 4.3% - 5.7% as indicated in Table 4, the projections of growth are considerably more conservative at approximately 2%. The Table 4 growth rates were based on no additional increases in Supply. The growth projections below consider the addition of 60 new rooms (subject property). This impact is further illustrated on Table 7.

PROJECTED GROWTH BY MARKET SEGMENT								
	Available Rooms	Competitive Factor	Competitive Rooms	Corporate Demand	Leisure Demand	Transient Demand	Group Demand	Total Demand
TOTAL	442	83%	369	47931	21394	12046	6794	88165
Annual Growth.....				2%	2%	1%	2%	1.9%
Room Demand Growth - Actual								
			Year 1	48,890	21,822	12,167	6,929	89,808
			Year 2	49,868	22,259	12,288	7,068	91,483
			Year 3	50,865	22,704	12,411	7,209	93,189
			Year 4	51,882	23,158	12,535	7,354	94,929
			Year 5	52,920	23,621	12,661	7,501	96,702

Corporate Demand estimates are partially based on the historic trends of employment in Ozaukee County. The general opinion of the Ozaukee County Economic Development Corporation and Milwaukee 7, an economic development organization in Milwaukee and the surrounding counties is that this region is in a commercial growth mode. Each group stated a number of potential new companies researching sites in the county.

Leisure Demand tends to follow general economic trends and the spendable income habits of tourists. The number of events and recent attendance throughout the greater Milwaukee area indicate continued strength in the tourism industry. Cedarburg Festivals continually enhance the major festivals in the city and have reported strong attendance so far during the 2016 season.

Transient Demand is expected to remain as a marginal source of demand for most hotels in the Primary and Secondary competitive markets. Highway traffic counts have remained relatively stagnant although I-43 volume is strong.

Group Demand could experience strong growth if a new modern hotel is added to the Cedarburg market. Historically, groups requiring higher number of rooms have been forced to seek lodging in other markets including outside the competitive market area. In addition, events that haven't been held in the Cedarburg area due to the lack of rooms – such as the Fairground events and Ice Center tournaments could become new group business to the market.

The projections of demand growth highlighted in this section are a forecast for the entire Primary and Secondary market area. A new hotel in the subject market will most likely capture a higher share of certain demand segments both induced by a new property and captured from competitors within the market area.

The chart below illustrates the impact of the projected growth on the Competitive market area along with the addition of 60 rooms, the determined optimum number of rooms for the proposed hotel.

Table 7 Areawide Occupancy with Additional 60 Rooms

	<u>Competitive Rooms</u>	<u>Annual Rooms</u>	<u>Rooms Sold</u>	<u>Area wide Occupancy</u>
Existing	369	134685	88165	65.5%
Year 1	429	156585	89808	57.4%
Year 2	429	156585	91483	58.4%
Year 3	429	156585	93189	59.5%
Year 4	429	156585	94929	60.6%
Year 5	429	156585	96702	61.8%

This illustration is a conservative approach using 2% annual growth for the next 5 years. With this smaller growth index (half of the annual growth from 2010 – 2015), the rebounding of area wide occupancy levels takes more than 5 years.

The next section determines the percentage of demand markets a new hotel in Cedarburg is expected to capture.

Table 8: Projected Performance of Subject Hotel

Occupancy projections of the subject hotel are calculated by listing the “fair share” percentage of demand (subject rooms divided by total room count) and then adding the estimated penetration of the hotel (by market segment). This estimated penetration is determined by averages achieved by other competitive hotels.

PROJECTED PERFORMANCE OF SUBJECT 60 ROOM HOTEL									
Based on AREA WIDE Demand Estimates									
Corporate									
	Total Competitive Rooms	Subject Property Rooms	Fair Share Percent	Corporate Rooms Sold	Subject Hotel Share	Subject Hotel Penetration	Projected Rooms Sold	Percentage of Occupancy	Estimated Average Rate
YEAR 1	429	60	14.0%	48,890	6,838	100%	6,838	48%	\$ 95.00
YEAR 2	429	60	14.0%	49,868	6,975	100%	6,975	46%	\$ 97.38
YEAR 3	429	60	14.0%	50,865	7,114	100%	7,114	46%	\$ 99.81
YEAR 4	429	60	14.0%	51,882	7,256	100%	7,256	46%	\$ 102.30
YEAR 5	429	60	14.0%	52,920	7,401	100%	7,401	45%	\$ 104.86
Leisure									
	Total Competitive Rooms	Subject Property Rooms	Fair Share Percent	Leisure Rooms Sold	Subject Hotel Share	Subject Hotel Penetration	Subject Rooms Sold	Percentage of Occupancy	Estimated Average Rate
YEAR 1	429	60	14.0%	21,822	3,052	200%	6,104	43%	\$ 109.00
YEAR 2	429	60	14.0%	22,259	3,113	200%	6,226	41%	\$ 111.73
YEAR 3	429	60	14.0%	22,704	3,175	200%	6,351	41%	\$ 114.52
YEAR 4	429	60	14.0%	23,158	3,239	200%	6,478	41%	\$ 117.38
YEAR 5	429	60	14.0%	23,621	3,304	200%	6,607	40%	\$ 120.32
Transient									
	Total Competitive Rooms	Subject Property Rooms	Fair Share Percent	Transient Rooms Sold	Subject Hotel Share	Subject Hotel Penetration	Subject Rooms Sold	Percentage of Occupancy	Estimated Average Rate
YEAR 1	429	60	14.0%	12,167	1,702	50%	851	6%	\$ 109.00
YEAR 2	429	60	14.0%	12,288	1,719	50%	859	6%	\$ 111.73
YEAR 3	429	60	14.0%	12,411	1,736	50%	868	6%	\$ 114.52
YEAR 4	429	60	14.0%	12,535	1,753	50%	877	6%	\$ 117.38
YEAR 5	429	60	14.0%	12,661	1,771	50%	885	5%	\$ 120.32
Group									
	Total Competitive Rooms	Subject Property Rooms	Fair Share Percent	Group Rooms Sold	Subject Hotel Share	Subject Hotel Penetration	Subject Rooms Sold	Percentage of Occupancy	Estimated Average Rate
YEAR 1	429	60	14.0%	6,929	969	50%	485	3%	\$ 99.00
YEAR 2	429	60	14.0%	7,068	989	100%	989	7%	\$ 101.48
YEAR 3	429	60	14.0%	7,209	1,008	125%	1,260	8%	\$ 104.01
YEAR 4	429	60	14.0%	7,354	1,028	125%	1,286	8%	\$ 106.61
YEAR 5	429	60	14.0%	7,501	1,049	150%	1,574	10%	\$ 109.28

Table 9

PROJECTED PERFORMANCE OF SUBJECT HOTEL		Rooms Sold and Occupancy					
TOTALS		Corporate	Leisure	Transient	Group	Total Occupancy	Estimated Average Rate
Year 1	Fair Share	6,838	3,052	1,702	969	12,561	57%
	Projected	6,838	6,104	851	485	14,277	65% \$ 101.96
Year 2	Fair Share	6,975	3,113	1,719	989	12,795	58%
	Projected	6,975	6,226	859	989	15,049	69% \$ 104.40
Year 3	Fair Share	7,114	3,175	1,719	989	12,997	59%
	Projected	7,114	6,351	868	1,260	15,593	71% \$ 106.96
Year 4	Fair Share	7,256	3,239	1,753	1,028	13,277	61%
	Projected	7,256	6,478	877	1,286	15,896	73% \$ 109.63
Year 5	Fair Share	7,401	3,304	1,771	1,049	13,525	62%
	Projected	7,401	6,607	885	1,574	16,468	75% \$ 112.32

These projections of occupancy and Average Daily Rate are based on the historic operating trends of hotels in the subject market along with calculations of growth and impact of a newly constructed hotel with strong national brand support.

The following pages contain a pro forma of operations for the subject hotel using the calculations above. The pro forma includes an opening year column that serves as the first running 12-months (ramp-up period) of operations.

FINANCIAL PROJECTIONS

The following section provides a 5-year pro forma of operations based on the conclusions, recommendations and noted assumptions. The chart below offers a summary of the Profit & Loss Statement for a 60-room hotel using concluded Occupancy and Average Daily Rate. Additional revenues include:

Meeting Room Rental: Assumes a 30 person (2 room-bay) meeting room occupied 20% of the year at a net rental rate of \$150 per day.

Miscellaneous income includes fax, copier machine commissions, guest laundry and vending. Rentals and other income are net of expenses. Vending revenue in can be slightly higher with upgraded vending facilities. These figures are based on industry averages for the Limited Service sector of lodging.

Mid - Upper Midscale
Cedarburg, Wisconsin

CASH FLOW PROJECTIONS

Analysis Year	Breakeven	1	2	3	4	5
ADR	\$88.00	\$101.96	\$104.40	\$106.90	\$109.63	\$112.32
% Increase		2.4%	2.4%	2.4%	2.6%	2.5%
Occupancy	49.0%	65.0%	69.0%	71.0%	73.0%	75.0%

		Year 1 \$/Room/yr											
Revenues (% of Total Revenue)		\$24,190	\$1,451,401	98.2%	\$1,577,588	98.2%	\$1,662,188	98.3%	\$1,752,655	98.3%	\$1,844,856	98.3%	
Room (Includes Breakfast & Reception)	\$944,328	97.7%	\$1,531	0.0%	\$1,531	0.7%	\$1,531	0.7%	\$1,531	0.6%	\$1,531	0.6%	
Meeting Room	\$11,250	1.2%	\$15,466	1.0%	\$16,829	1.0%	\$17,749	1.0%	\$18,705	1.0%	\$19,698	1.0%	
Other Miscellaneous Income	\$11,375	1.2%	\$258										
Total Revenue	\$966,953	100.0%	\$1,478,398	100.0%	\$1,605,948	100.0%	\$1,691,469	100.0%	\$1,782,892	100.0%	\$1,876,086	100.0%	
Departmental Expenses (% of Total Revenue)		\$5,778	\$346,702	23.5%	\$367,841	22.9%	\$382,865	22.6%	\$398,414	22.3%	\$414,454	22.1%	
Room (Includes Breakfast & Reception)	\$252,178	26.1%	\$93	\$3,794	0.3%	\$4,128	0.3%	\$4,354	0.3%	\$4,588	0.3%	\$4,832	0.3%
Telephone	\$2,790	0.3%	\$0	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%
Meeting Room	\$0	0.0%	\$85	\$5,125	0.3%	\$5,440	0.3%	\$5,598	0.3%	\$5,755	0.3%	\$5,913	0.3%
Other Miscellaneous	\$3,863	0.4%											
Total Departmental Expenses	\$258,831	26.8%	\$5,927	\$355,620	24.1%	\$377,408	23.5%	\$392,816	23.2%	\$408,758	22.9%	\$425,198	22.7%
GROSS OPERATING INCOME	\$708,122	73.2%	\$18,713	\$1,122,778	75.9%	\$1,228,540	76.5%	\$1,298,652	76.8%	\$1,374,134	77.1%	\$1,450,887	77.3%
Undistributed Operating Expenses (% of Total Revenue)		\$2,104	\$126,218	8.5%	\$131,957	8.2%	\$136,558	8.1%	\$141,368	7.9%	\$146,293	7.8%	
General & Administrative	\$110,329	11.4%	\$1,996	\$119,741	8.1%	\$130,151	8.1%	\$137,131	8.1%	\$144,594	8.1%	\$152,201	8.1%
Franchise Fees	\$77,907	8.1%	\$1,068	\$64,071	4.3%	\$68,978	4.2%	\$68,804	4.1%	\$70,648	4.0%	\$72,510	3.9%
Sales & Marketing	\$63,380	6.6%	\$1,607	\$101,844	6.9%	\$110,814	6.9%	\$116,877	6.6%	\$123,174	6.9%	\$129,712	6.9%
Utilities	\$74,902	7.7%	\$780	\$46,812	3.2%	\$47,982	3.0%	\$49,182	2.9%	\$50,411	2.8%	\$51,671	2.8%
Repairs & Maintenance	\$45,670	4.7%	\$7,645	\$458,686	31.0%	\$487,883	30.4%	\$508,552	30.1%	\$530,195	29.7%	\$552,387	29.4%
Total Undistributed Operating Expenses	\$372,188	38.5%	\$11,068	\$664,092	44.9%	\$740,657	46.1%	\$790,101	46.7%	\$843,939	47.3%	\$898,501	47.9%
INCOME BEFORE FIXED CHARGES	\$335,933	34.7%	\$6,645	\$456,686	30.9%	\$487,883	30.4%	\$508,552	30.1%	\$530,195	29.7%	\$552,387	29.4%
Fixed Operating Expenses (% of Total Revenue)		\$1,150	\$69,000	4.7%	\$70,000	4.4%	\$71,400	4.2%	\$72,828	4.1%	\$74,285	4.0%	
Real Estate Taxes	\$12,000	1.2%	\$887	\$53,207	3.6%	\$54,602	3.4%	\$54,127	3.2%	\$57,053	3.2%	\$60,035	3.2%
Management Fee	\$38,678	4.0%	\$246	\$14,784	1.0%	\$32,119	2.0%	\$50,744	3.0%	\$71,316	4.0%	\$75,043	4.0%
Insurance	\$20,000	2.1%	\$0	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%
Reserve for Replacement	\$0	0.0%	\$0	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%
FF&E Lease	\$0	0.0%											
Total Fixed Operating Expenses	\$70,678	7.3%	\$2,625	\$157,491	10.7%	\$177,721	11.1%	\$197,771	11.7%	\$223,196	12.5%	\$231,863	12.4%
CASH FLOW BEFORE DEBT SERVICE	\$265,255	27.4%	\$8,443	\$506,601	34.3%	\$562,936	35.1%	\$592,330	35.0%	\$620,743	34.6%	\$666,638	35.5%

Disclaimer: The first year projection of occupancy and ADR assume 1 full year of operations. The above proforma statement of cash flow from operations and debt service coverage represents a compilation of data and information gathered from historical data and industry statistics for similar types of properties. The preparer does not guarantee the data, and assumes no liability for any errors in fact, omissions, analysis or judgement. The data is based on the best judgments of the preparer and client. We make no guarantees or assurances that the projections will be realized as stated.

Each revenue source and expense line item is defined in the following section that offers a full page view of the chart above.

CEDARBURG, WISCONSIN

HOTEL MARKET ANALYSIS

FINANCIAL ANALYSIS AND PROJECTIONS 60-ROOM MID-UPPER MIDSCALE

- I. Summary of Five Year Pro forma (Cash Flow Projections)
- II. Allowable Development Costs and Debt (Maximum and Recommended)
- III. Sample Development Budget
- IV. Summary of Operating Revenues
- V. Rooms Department Expenses
- VI. General & Administrative Expenses
- VII. Sales & Marketing Expenses
- VIII. Property Repairs and Maintenance Expenses

CASH FLOW PROJECTIONS

Analysis Year	Breakeven		1		2		3		4		5		
ADR	\$88.00		\$101.96		\$104.40		\$106.90		\$109.63		\$112.32		
% Increase			2.4%		2.4%		2.4%		2.6%		2.5%		
Occupancy	49.0%		65.0%		69.0%		71.0%		73.0%		75.0%		
			Year 1 \$/Room/Yr										
Revenues (% of Total Revenue)													
Room	\$944,328	97.7%	\$24,190	\$1,451,401	98.2%	\$1,577,588	98.2%	\$1,662,188	98.3%	\$1,752,655	98.3%	\$1,844,856	98.3%
Meeting Room	\$11,250	1.2%	\$192	\$11,531	0.8%	\$11,531	0.7%	\$11,531	0.7%	\$11,531	0.6%	\$11,531	0.6%
Other Miscellaneous Income	\$11,375	1.2%	\$258	\$15,466	1.0%	\$16,829	1.0%	\$17,749	1.0%	\$18,705	1.0%	\$19,698	1.0%
Total Revenue	\$966,953	100.0%	\$24,640	\$1,478,398	100.0%	\$1,605,948	100.0%	\$1,691,469	100.0%	\$1,782,892	100.0%	\$1,876,086	100.0%
Departmental Expenses (% of Total Revenue)													
Room (Includes Breakfast & Reception)	\$252,178	26.1%	\$5,778	\$346,702	23.5%	\$367,841	22.9%	\$382,865	22.6%	\$398,414	22.3%	\$414,454	22.1%
Telephone	\$2,790	0.3%	\$63	\$3,794	0.3%	\$4,128	0.3%	\$4,354	0.3%	\$4,588	0.3%	\$4,832	0.3%
Meeting Room	\$0	0.0%	\$0	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%
Other Miscellaneous	\$3,863	0.4%	\$85	\$5,125	0.3%	\$5,440	0.3%	\$5,598	0.3%	\$5,755	0.3%	\$5,913	0.3%
Total Departmental Expenses	\$258,831	26.8%	\$5,927	\$355,620	24.1%	\$377,408	23.5%	\$392,816	23.2%	\$408,758	22.9%	\$425,198	22.7%
GROSS OPERATING INCOME	\$708,122	73.2%	\$18,713	\$1,122,778	75.9%	\$1,228,540	76.5%	\$1,298,652	76.8%	\$1,374,134	77.1%	\$1,450,887	77.3%
Undistributed Operating Expenses (% of Total Revenue)													
General & Administrative	\$101,329	10.5%	\$1,950	\$116,993	7.9%	\$122,501	7.6%	\$126,866	7.5%	\$131,434	7.4%	\$136,110	7.3%
Franchise Fees	\$77,907	8.1%	\$1,996	\$119,741	8.1%	\$130,151	8.1%	\$137,131	8.1%	\$144,594	8.1%	\$152,201	8.1%
Sales & Marketing	\$66,380	6.9%	\$1,119	\$67,146	4.5%	\$70,130	4.4%	\$72,035	4.3%	\$73,959	4.1%	\$75,904	4.0%
Utilities	\$74,902	7.7%	\$1,697	\$101,844	6.9%	\$110,814	6.9%	\$116,877	6.9%	\$123,174	6.9%	\$129,712	6.9%
Repairs & Maintenance	\$45,670	4.7%	\$780	\$46,812	3.2%	\$47,982	3.0%	\$49,182	2.9%	\$50,411	2.8%	\$51,671	2.8%
Total Undistributed Operating Expenses	\$366,188	37.9%	\$7,542	\$452,536	30.6%	\$481,579	30.0%	\$502,090	29.7%	\$523,572	29.4%	\$545,598	29.1%
INCOME BEFORE FIXED CHARGES	\$341,933	35.4%	\$11,171	\$670,242	45.3%	\$746,961	46.5%	\$796,562	47.1%	\$850,562	47.7%	\$905,289	48.3%
Fixed Operating Expenses (% of Total Revenue)													
Real Estate Taxes	\$12,000	1.2%	\$1,150	\$69,000	4.7%	\$70,000	4.4%	\$71,400	4.2%	\$72,828	4.1%	\$74,285	4.0%
Management Fee	\$38,678	4.0%	\$887	\$53,207	3.6%	\$54,602	3.4%	\$54,127	3.2%	\$57,053	3.2%	\$60,035	3.2%
Insurance	\$20,000	2.1%	\$342	\$20,500	1.4%	\$21,000	1.3%	\$21,500	1.3%	\$22,000	1.2%	\$22,500	1.2%
Reserve for Replacement	\$0	0.0%	\$246	\$14,784	1.0%	\$32,119	2.0%	\$50,744	3.0%	\$71,316	4.0%	\$75,043	4.0%
FF&E Lease	\$0	0.0%	\$0	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%
Total Fixed Operating Expenses	\$70,678	7.3%	\$2,625	\$157,491	10.7%	\$177,721	11.1%	\$197,771	11.7%	\$223,196	12.5%	\$231,863	12.4%
CASH FLOW BEFORE DEBT SERVICE	\$271,255	28.1%	\$8,546	\$512,751	34.7%	\$569,240	35.4%	\$598,791	35.4%	\$627,366	35.2%	\$673,426	35.9%

Disclaimer: The first year projection of occupancy and ADR assume 1 full year of operations. The above proforma statement of cash flow from operations and debt service coverage represents a compilation of data and information gathered from historical data and industry statistics for similar types of properties. The preparer does not guarantee the data, and assumes no liability for any errors in fact, omissions, analysis or judgement. The data is based on the best judgements of the preparer and client. We make no guarantees or assurances that the projections will be realized as stated.

60 Rooms Mid-Upper Midscale

	Year 1		Year 2		Year 3		Year 4		Year 5						
Average Daily Rate	\$	101.96	\$	104.40	\$	106.90	\$	109.63	\$	112.32					
Occupancy		65.0%		69.0%		71.0%		73.0%		75.0%					
Revenues															
Room	\$	1,451,401	98%	\$	1,577,588	98%	\$	1,662,188	98%	\$	1,752,655	98%	\$	1,844,856	98%
Meeting Room	\$	11,531	1%	\$	11,531	1%	\$	11,531	1%	\$	11,531	1%	\$	11,531	1%
Other Miscellaneous Income	\$	15,466	1%	\$	16,829	1%	\$	17,749	1%	\$	18,705	1%	\$	19,698	1%
Total Revenue	\$	1,478,398	100%	\$	1,605,948	100%	\$	1,691,469	100%	\$	1,782,892	100%	\$	1,876,086	100%
Net Revenue Available for Debt Service		\$512,751	34.7%		\$569,240	35.4%		\$598,791	35.4%		\$627,366	35.2%		\$673,426	35.9%

Maximum Allowable Development (not recommended)

	1.3		1.3		1.4		1.4		1.5	
Targeted Debt Service Coverage										
Maximum Debt Payment	\$	394,424	\$	437,877	\$	437,877	\$	437,877	\$	437,877
Debt on 70% LTV @ 5.5% for 20 yrs	\$	7,100,000	\$	7,100,000	\$	7,100,000	\$	7,100,000	\$	7,100,000
Total Maximum Project Cost Allowance	\$	10,142,857								
Required Equity (30%)	\$	3,042,857								
Cash Flow After Debt Payment		\$118,327		\$131,363		\$160,914		\$189,489		\$235,549
Return on Equity Investment		3.9%		4.3%		5.3%		6.2%		7.7%

Optimum Development (recommended)

Projected Debt Payment	\$	262,377	\$	393,788	\$	393,788	\$	393,788	\$	393,788
Debt on 70% LTV @ 5.5% for 20 yrs		\$4,770,500		\$ 4,635,726		\$ 4,493,349		\$ 4,342,941		\$ 4,184,050
Project Cost	\$	6,815,000								
Required Equity	\$	2,044,500								
Cash Flow After Debt Service		\$250,374		\$175,452		\$205,003		\$233,578		\$279,638
Return on Equity Investment		12.2%		8.6%		10.0%		11.4%		13.7%
Debt Service Coverage		2.0		1.4		1.5		1.6		1.7

SAMPLE CONSTRUCTION COSTS

		Per Room	Total \$	% of TTL
Land Value	\$	8,333	\$ 500,000	7.3%
Construction Hard Costs	\$	74,000	\$ 4,440,000	65.2%
Site Work	\$	4,000	\$ 240,000	3.5%
Landscaping	\$	750	\$ 45,000	0.7%
FF&E/OS&E	\$	14,000	\$ 840,000	12.3%
Architectural & Engineering	\$	700	\$ 42,000	0.6%
Appraisal	\$	87	\$ 5,200	0.1%
Surveys	\$	110	\$ 6,600	0.1%
Construction Interest	\$	3,387	\$ 203,200	3.0%
Legal & Accounting Fees	\$	65	\$ 3,900	0.1%
Franchise Fees (Application & Fees)	\$	600	\$ 36,000	0.5%
Insurance	\$	260	\$ 15,600	0.2%
Signage	\$	750	\$ 45,000	0.7%
Permits & Fees & Hook-ups	\$	200	\$ 12,000	0.2%
Working Capital/Contingency	\$	3,175	\$ 190,500	2.8%
Pre-Opening Marketing, Staff & Training	\$	1,500	\$ 90,000	1.3%
Development Fees	\$	1,667	\$ 100,000	1.5%
Total Development Costs	\$	113,583	\$ 6,815,000	100.0%

Rooms	Per Occupied Room	Annual Increase	Break-even	Year 1	Year 2	Year 3	Year 4	Year 5
Rooms in Hotel	60		60	60	60	60	60	60
ADR	\$101.96		\$ 88.00	\$101.96	\$104.40	\$106.90	\$109.63	\$112.32
Rooms Avail.	21,900		21,900	21,900	21,900	21,900	21,900	21,900
Occupancy	65.0%		49.0%	65.0%	69.0%	71.0%	73.0%	75.0%
Occupied Rooms	14,235		10,731	14,235	15,111	15,549	15,987	16,425
Revenue	1,451,401		944,328	1,451,401	1,577,588	1,662,188	1,752,655	1,844,856

Telephone Telephone revenue is virtually non-existent. Internet revenue is now included in this category. However, charging for internet is not a recommended practice in the lodging industry (at this time). Therefore, this category illustrates no revenue and equipment and land-line service throughout the property.

Revenue	\$0.00	2.5%	\$0	\$0	\$0	\$0	\$0	\$0
Expense/Lease	\$0.26	2.5%	<u>\$2,790</u>	<u>\$3,794</u>	<u>\$4,128</u>	<u>\$4,354</u>	<u>\$4,588</u>	<u>\$4,832</u>
Total Expense	\$0.26		\$2,790	\$3,794	\$4,128	\$4,354	\$4,588	\$4,832

Food & Beverage

Food & Beverage revenue is not calculated in this example. Typical f&b revenue would include commissions on catered events and vending.

Revenue	\$0.00	2.5%	\$0	\$0	\$0	\$0	\$0	\$0
Expense	40%	2.5%	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Profit	\$0.00		\$0	\$0	\$0	\$0	\$0	\$0

Meeting Room Rental

Executive Board Room (2 room bays) for 35 people/650 - 800 square feet.

Area wide average of \$150 per full day with discounts for 10 or more sleeping rooms

Revenue	\$11,250.00	2.5%	\$11,250	\$11,531	\$11,531	\$11,531	\$11,531	\$11,531
Expense	\$0.00	2.5%	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Profit	\$11,250.00		\$11,250	\$11,531	\$11,531	\$11,531	\$11,531	\$11,531

Miscellaneous

Miscellaneous income includes fax, copier machine commissions, guest laundry and vending. Rentals and other income are net of expenses. Vending revenue in an extended stay can be slightly higher with upgraded vending facilities. These figures are based on industry averages for the Limited Service sector of lodging.

Revenue	\$1.06	2.5%	\$11,375	\$15,466	\$16,829	\$17,749	\$18,705	\$19,698
Expense	\$0.36	2.5%	<u>\$3,863</u>	<u>\$5,125</u>	<u>\$5,440</u>	<u>\$5,598</u>	<u>\$5,755</u>	<u>\$5,913</u>
Profit	\$0.70		\$7,512	\$10,342	\$11,389	\$12,152	\$12,950	\$13,785

DEPARTMENTAL EXPENSES

Departmental or Rooms Expenses include payroll and related costs for front desk and housekeeping and the costs of supplies.

Payroll expenses are based on current area wages plus FICA, SUTA and FUTA taxes.

		<i>Annual</i>							
		<i>Increase</i>	<i>Opening</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	
Front Desk Supervisor	\$ - sales coordinator	2.5%		-	-	-	-	-	
Front Desk Staff	<u>365</u> Days								
and Reservations	<u>16</u> Hours per Day								
	5,840								
	<u>\$ 9.00</u> Rate per Hour	2.5%	9.00	9.00	9.23	9.46	9.69	9.93	
	52,560		33,320	52,560	53,874	55,221	56,601	58,016	
Front Desk staffing equals one clerk per 8 hour shift for first and second shift assuming Manager assistance when necessary.									
Night Auditor and Security/front desk	<u>365</u> Days								
	<u>8</u> Hours per Day								
	2,920								
	<u>\$ 11.00</u> Rate per Hour	2.5%	11.00	11.28	11.56	11.85	12.14	12.45	
	32,120		18,620	32,923	33,746	34,590	35,454	36,341	
Subtotal-Wages			51,940	85,483	87,620	89,811	92,056	94,357	
Taxes & Benefits	<u>12.0%</u>		6,233	10,258	10,514	10,777	11,047	11,323	
Total Wages & Benefits			58,173	95,741	98,134	100,588	103,103	105,680	
Miscellaneous									
Printing/material	\$0.06 per Occupied Room	2.5%	622	846	921	971	1,024	1,078	
Office Supplies	\$125 per Month	2.5%	1,500	1,538	1,576	1,615	1,656	1,697	
Van Lease/Operations	\$0 per month	2.5%	-	-	-	-	-	-	
Commissions (T/A only)	1.2% of Room Revenue		11,332	17,417	18,931	19,946	21,032	22,138	
Total Miscellaneous Expenses			13,454	19,801	21,428	22,533	23,711	24,913	
TOTAL FRONT DESK EXPENSES			71,627	115,542	119,562	123,121	126,814	130,593	
Executive Housekeeper	- None	2.5%	-	-	-	-	-	-	
Laundry & Housemen	<u>365</u> Days								
also van driver	<u>8.00</u> Hours per Day								
	2,920								
	<u>\$ 9.00</u> Rate per Hour	2.5%	9.00	9.23	9.46	9.69	9.93	10.18	
Total Laundry/Houseman	26,280		26,280	26,937	27,610	28,301	29,008	29,733	
Housekeepers	14,235 # of Occupied rooms		10,731	14,235	15,111	15,549	15,987	16,425	
	<u>13</u> Rooms cleaned/Housekeeper day		13	13	13	13	13	13	
	1,095 # of Housekeeper Days		825	1,095	1,162	1,196	1,230	1,263	
	<u>6</u> Hours per Day		6	6	6	6	6	6	
	6,570		4,953	6,570	6,974	7,176	7,379	7,581	
	<u>\$ 8.50</u> Rate per Hour	2.5%	8.50	8.71	8.93	9.15	9.38	9.62	
	55,845		42,099	57,241	62,283	65,690	69,229	72,904	
Subtotal-Housekeeping Wages			68,379	84,178	89,893	93,991	98,237	102,637	
Taxes & Benefits	<u>12.0%</u>		8,205	10,101	10,787	11,279	11,788	12,316	
Total Wages & Benefits			76,584	94,280	100,680	105,270	110,026	114,954	

Miscellaneous Expenses

INDUSTRY AVERAGE EXPENSES

Drapery	\$0.00	per month	2.5%	-	-	-	-	-	-
Carpet Cleaning	\$5.00	per room	2.5%	600	615	630	646	662	679
Linen	\$0.48	per occupied rooms	2.5%	5,151	6,833	7,620	8,037	8,470	8,920
Satellite/Cable/Internet	\$700.00	per month	2.5%	8,400	8,610	8,825	9,046	9,272	9,504
Printed Material	\$0.00	per occupied rooms	2.5%	-	-	-	-	-	-
Paper Products	\$0.19	per occupied rooms	2.5%	2,039	2,772	3,016	3,181	3,353	3,531
Soap	\$0.06	per occupied rooms	2.5%	644	875	953	1,005	1,059	1,115
In-room coffee	\$0.28	per occupied rooms	2.5%	3,005	4,085	4,445	4,688	4,941	5,203
Cleaning Supplies	\$0.24	per occupied room	2.5%	2,575	3,502	3,810	4,019	4,235	4,460
Laundry Supplies	\$0.22	per occupied room	2.5%	2,361	3,210	3,493	3,684	3,882	4,088
Maintenance	\$50.00	per month	2.5%	600	615	630	646	662	679
Miscellaneous	\$50.00	per month	2.5%	600	615	630	646	662	679
Plants & Gst. Bldg. Exp.	\$0.00	per month	2.5%	-	-	-	-	-	-
Total Housekeeping				102,559	126,012	134,734	140,869	147,225	153,812

Complimentary Breakfast/Reception**Per Occupied Room**

Continental Breakfast	\$5.00		\$	53,655	\$	72,954	\$	79,380	\$	83,723	\$	88,233	\$	92,917
Manager's Reception	\$4.00		\$	24,037	\$	31,886	\$	33,849	\$	34,830	\$	35,811	\$	36,792
Miscellaneous per month	\$25.00	2.5%	\$	300	\$	308	\$	315	\$	323	\$	331	\$	339
			\$	77,992	\$	105,148	\$	113,544	\$	118,876	\$	124,375	\$	130,048

TOTAL ROOMS EXPENSE				252,178	346,702	367,841	382,865	398,414	414,454
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Administrative and general expenses include costs associated with administering the hotel such as key personnel salaries, office supplies bad debt, credit card and other costs.

General Manager Wages are based on Milwaukee area averages of same-size hotels.

Industry standards for Mid-Upper Midscale properties is 12.1% of gross revenue according to *the 2015 Host Report*. However, some wages, including accountant, night audit, and other fees that are included in industry averages are located in the Rooms and other sections of this pro forma.

Mileage:	monthly allow for hotel related travel using \$0.50/mile
Insurance:	Insurance-general comprises the premiums for policies that cover liability, life insurance, and liability insurance that covers third-party actions involving bodily injury and personal property demand.
Office Expenses:	general front office and general manager expenses not covered in Rooms Expense
Telephone	front office communication expenses (cell phone allowance)
Credit Card Commission	Standard industry expense that fluctuates with occupancy/revenues
Licenses	annual license for occupancy, elevator and food service
Accounting Fees	Assuming Professional accounting or other services

		<i>Annual</i>	<i>Increase</i>	<i>Opening</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>
<u>General Manager</u>	\$ 45,000		2.5%	45,000	46,125	47,278	48,460	49,672	50,913
Front Desk Mgr	\$ -	None	2.5%	-	-	-	-	-	-
Bonus	0.0%			-	-	-	-	-	-
Subtotal - Wages				45,000	46,125	47,278	48,460	49,672	50,913
Taxes & Benefits	14.0%			6,300	6,458	6,619	6,784	6,954	7,128
Total Wages & Benefits				51,300	52,583	53,897	55,244	56,626	58,041

Miscellaneous Expenses based on Industry Averages

Misc. Benefits	250	per month	2.5%	3,000	3,075	3,152	3,231	3,311	3,394
Uniform Cleaning	-	per month	2.5%	-	-	-	-	-	-
Franchise Meetings	-	1	2.5%	-	-	-	-	-	-
Lodging (3 times per year)	-	1	2.5%	-	-	-	-	-	-
Mileage	250	per month	2.5%	3,000	3,075	3,152	3,231	3,311	3,394
Insurance	350	per month	2.5%	4,200	4,305	4,413	4,523	4,636	4,752
Office Expense	0.37	per occupied room	2.5%	3,970	5,399	5,874	6,195	6,529	6,876
Telephone Expense	0.19	per occupied room	2.5%	2,039	2,772	3,016	3,181	3,353	3,531
Credit Card Commission	2.3%	of room revenue		21,720	33,382	36,285	38,230	40,311	42,432
Licenses	700	Annually	2.5%	700	718	735	754	773	792
Accounting Fee	750	per month	2.5%	9,000	9,225	9,456	9,692	9,934	10,183
Help Wanted Ads	-	per month	2.5%	-	-	-	-	-	-
Miscellaneous	200	per month	2.5%	2,400	2,460	2,522	2,585	2,649	2,715
Total General & Administrative				101,329	116,993	122,501	126,866	131,434	136,110

Berlin, Wisconsin

SALES & MARKETING EXPENSES

Total Sales and Marketing expenses are projected at 4.5% of total revenue compared to 4.3% industry average.

This Sales and Marketing budget excludes any personnel expenses assuming that the General Manager and Management company is responsible for sales call activity and correspondence.

This Sales and Marketing budget enhances the advertising budget with aggressive billboard placement and higher-than average general advertising.

Dues include Chamber of Commerce and/or Convention Bureau membership.

Franchise Fees are based on an average of Choice, BW, AmericInn and Wyndham franchises. This excludes any initial fees, application fees, and other service fees that may be charged by the franchise company.

Travel website commissions are based on actual averages from such including Travelocity, Expedia, Hotel.com, etc.

		<u>Annual</u>	<u>Opening</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
		<u>Increase</u>						
Director of Sales	\$ -	2.5%	-	-	-	-	-	-
Sales Coordinator	-	2.5%	-	-	-	-	-	-
Subtotal - Wages			-	-	-	-	-	-
Taxes & Benefits	12.0%		-	-	-	-	-	-

Sales and Marketing Expenses, especially advertising tend to be expensive and difficult to quantify. This pro forma includes Billboard advertising due to the distance from the potential hotel site to the interstate. The cost listed is the low-end for billboard advertising and may not even be available in the subject market. Membership to local and regional chambers, convention bureaus and other hospitality organizations are important, and less costly forms of advertising.

		<u>Annual</u>	<u>Opening</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
		<u>Increase</u>						
<u>Expenses</u>								
Billboards	1500 per month	2.5%	18,000	18,450	18,911	19,384	19,869	20,365
Direct Mail	- per month	2.5%	-	-	-	-	-	-
Collateral Material	150 per month	2.5%	1,800	1,845	1,891	1,938	1,987	2,037
Other Advertising	750 per month	2.5%	9,000	9,225	9,456	9,692	9,934	10,183
Dues	650	2.5%	650	666	683	700	717	735
Uniform (Dry Cleaning)	- per month	2.5%	-	-	-	-	-	-
Incentive Programs	per month	2.5%	-	-	-	-	-	-
Food & Bev. & Non Food	-	2.5%	-	-	-	-	-	-
Gifts	1,200	2.5%	1,200	1,230	1,261	1,292	1,325	1,358
WebSite Commissions	\$2.51 per occ room		\$35,730	\$35,730	\$37,929	\$39,028	\$40,127	\$41,227
Total Sales & Marketing			66,380	67,146	70,130	72,035	73,959	75,904

FRANCHISE FEES

Advertising & Marketing Fee	2.00% of Gross Room Rev	18,887	29,028	31,552	33,244	35,053	36,897
Franchise Royalty Fee	5% of Gross Room Rev	47,216	72,570	78,879	83,109	87,633	92,243
Reservation Fees	1.25% of Gross Room Rev	11,804	18,143	19,720	20,777	21,908	23,061
		77,907	119,741	130,151	137,131	144,594	152,201

REPAIRS & MAINTENANCE

Repairs and Maintenance, also referred to as Property Operations and Maintenance, is another expense that is largely controlled by management. Repairs can be a deferred or accumulating expense and usually depend on the age of the hotel and the practice of preventive maintenance. Maintenance payroll listed is based on part time, lawn care/snow removal, minor repairs. Miscellaneous fees are industry standards.

Utility expenses are based on similar size properties in the Upper Midwest.

Salaries & Wages		Increase/Year	Opening	Year 1	Year 2	Year 3	Year 4	Year 5
Chief Engineer	\$ -	2.5%	-	-	-	-	-	-
Maintenance Workers	2,000 Hours per year							
	\$ 12.00 Rate per Hour	2.5%	12.00	12.30	12.61	12.92	13.25	13.58
	24,000		24,000	24,600	25,215	25,845	26,492	27,154
Subtotal - Salaries & Wages			24,000	24,600	25,215	25,845	26,492	27,154
Taxes & Benefits	12.0%		2,880	2,952	3,026	3,101	3,179	3,258
Total Salaries & Wages			26,880	27,552	28,241	28,947	29,670	30,412
Expenses based on Industry Averages								
Electrical & Plumbing	150 per month	2.5%	1,800	1,845	1,891	1,938	1,987	2,037
HVAC	150 per month	2.5%	1,800	1,845	1,891	1,938	1,987	2,037
Building (Ext.)	25 per month	2.5%	300	308	315	323	331	339
Pool/Spa	4,000 Annually	2.5%	4,000	4,100	4,203	4,308	4,415	4,526
Lawn	2,500 Annually	2.5%	2,500	2,563	2,627	2,692	2,760	2,829
Parking Lot/Snow Removal	3,200 Annually	2.5%	3,200	3,280	3,362	3,446	3,532	3,621
Pest Control	10 per month	2.5%	120	123	126	129	132	136
Light Bulbs	5 per month	2.5%	60	62	63	65	66	68
Sub contracting	50 per month	2.5%	600	615	630	646	662	679
Uniforms	-	2.5%	-	-	-	-	-	-
Flag	150	2.5%	150	154	158	162	166	170
Trash	355 per month	2.5%	4,260	4,367	4,476	4,588	4,702	4,820
Total Repairs & Maintenance			45,670	46,812	47,982	49,182	50,411	51,671
Utilities								
Electric, Gas, Water/Sewer	6.98 per occupied room	2.5%	74,902	101,844	110,814	116,877	123,174	129,712

Hotel R&D, llc

Providing accurate Research and Development services for hotels and other tourism industry ventures.

Research through the eyes of an owner, operator and developer.

**Hotel R&D, llc.
944 Evans Street
Oshkosh, Wisconsin 54901**

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Hotel R&D, llc

FEASIBILITY STUDY PROCESS

Phase 1 Field Work

1) Field Work and Analysis

Hotel R&D, Inc gathers all available data and information on the subject market including a *Smith Travel Research* report on area hotel performance trends; sales data for existing competition; listing of local companies, organizations and attractions, highway traffic data and existing competition.

Visit the subject market to interview potential demand generators, evaluate existing supply and closest available competitive supply, and determine initial strength and support of the subject market.

2) Site Analysis

Hotel R&D, Inc will inspect the proposed site(s) for general development approval and obtain information regarding zoning and building restrictions, setbacks, easements and utility tap fee calculations. In addition, a "Site Marketability Analysis" will describe the potential strengths and weakness of the parcel ranging from size limitations to visibility, accessibility and value of nearby support services.

3) Initial Overview

A brief report on these initial findings will be presented. This will involve the determination of positive or negative findings during the fieldwork portion of the study.

If a weakness in the market is determined during the fieldwork phase of the study, such as previously unannounced competition or a potential loss of a major demand generator, further analysis will be terminated until an agreement is made with you to continue with the market study. If the project is terminated, all information and market data will be presented to you. No additional charges, except the retainer fee and stated travel expenses, will be incurred.

1) Transmittal Letter and Conclusions

- * Project Summary and Feasibility Conclusions
- * Summary of Operating Performance (5 years)
- * ADR (average sales price per unit)
- * Usage (annual occupancy, visitors, rounds, covers, etc.)
- * Revenues
- * Net Operating Income
- * Recommendations of size, property type, features and amenities.
- * Suggestions of franchise affiliations (if necessary) and marketing strategies

2) Market Area Analysis

- * Regional Map
- * General Market Characteristics
- * Population Growth Trends and Forecasts
- * Employment Trends and Distribution
 - * Major Employers
 - * Unemployment Trends
- * Transportation
 - Highway System (traffic counts)
 - Airport usage trends
 - * Other transportation activity
- * Tourism Attractions and Attendance Patterns
- * Commercial Real Estate Overview
 - * Proposed Commercial Development

3) Site Analysis

- * Neighborhood Map
- * Location
- * Proximity to Major Demand Generators
- * Access and Visibility
- * Surrounding Area Characteristics

4) Lodging Market Overview

- * Current Competitive Supply
- * Primary Competition
- * Competition Supply Table
 - * Property
 - * Number of Rooms/Size/Sq. Footage/Capacity
 - * Year Opened
 - * Occupancy/Usage trends
 - * Average Rate/average sales per unit
 - * Demand Segmentation (percentage of corporate/tourist/group)
- * Competitive Supply Map
- * Proposed Additions to Supply

5) ***Demand Analysis***

- * Identification of Demand Segments (corporate/tourist/group/incentive)
- * Demand Generator Interviews – commercial businesses and attractions
- * Estimates of Accommodated Demand by Segment for the Competitive Supply
- * Daily/Seasonal Variations in Demand
- * Unaccommodated Demand
- * Estimated Growth by Demand Segment

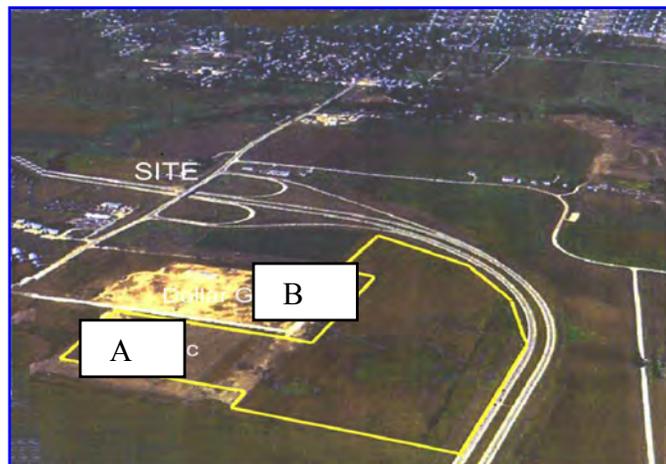
6) ***Estimated Occupancy/Usage and Average Rate/Price***

- * Market Demand Penetration
 - * Fair Market Share
 - * Estimated Penetration by Demand Segment for Proposed Hotel/Attraction
 - * Estimated Occupancy/Usage - 12 month and 5 year
- * Estimated Average Rate/Price per unit sold (5 year)

7) ***Prospective Financial Analysis***

- * Monthly (first year) and 5-year pro forma of operating revenue complete to Net Operating Income. The five-year pro forma can also be modified to include Return on Investment and Debt Service Coverage.

This report format has been approved by hotel franchise companies, major financial and lending institutions, community economic development organizations and the United States Small Business Administration.



SYNOPSIS OF EXPERIENCE

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Michael P. Lindner

Involved in the hospitality industry for over 35 years, Mike's experience is diverse including the management of two independent commercial motels, a Hilton Garden Inn and a water park resort in Wisconsin Dells. Mike has also developed two limited service properties and an extended stay suites hotel. Area of studies include hotel, restaurant, conference centers, golf courses, condominium resorts, water parks, aquatic recreation and retail.

The Marriott Corporation's Franchised Hotel program provided experience in the areas of management, marketing and sales. Experience in front office operations and specialized sales and marketing techniques has resulted in the development of a unique, understandable research and development process which views projects from the eyes of an operator, not an outside industry consultant. This process is well accepted by lodging operators, investors, lenders and developers.

Mike received his General Managers' Certification from Hilton Hotels as a General Manager of a Hilton Garden Inn. It is the experience as a manager of this brand that led to the re-creation of the proformas and demand analysis of our Hotel Market Studies by utilizing real-life profit and loss projections and in depth Demand Generator Interviews.

The Development of a Hearthside Extended Stay hotel and two GrandStay Inns as well as co-development of numerous limited service brands enables our fieldwork and analysis of a market and site to be performed through the eyes of a developer. This allows focus on those particular issues that can mean the difference between a successful and unsuccessful project.

Recent assignments have included:

- Conducted over 450 market studies for new hotel and tourist developments in a variety of major, secondary, and foreign markets for independent developers, lenders and operators.
- Coordinated and implemented a marketing and sales program for several major market, limited service hotel property, as well as for a chain of full service hotels located throughout the Midwest.
- Assisted numerous first-time buyers in acquisition, franchise selection and market repositioning, resulting in a successful turnaround of several distressed properties.
- Co-author of Hotel Research and Market Analysis Strategies, an independent study guide and text supplement for the University of Wisconsin.