



hunden
strategic
partners

destination development consulting

Downtown Madison Hotel Proposal Review

August 2009

August 27, 2009

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

Dear Mr. Mendoza:

The City of Madison engaged Hunden Strategic Partners (HSP), to conduct a study to review and make recommendations related to four proposed hotel projects in downtown Madison. The attached is our report and includes analysis as of our due diligence period that occurred during August of 2009.

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

Sincerely yours,

HUNDEN STRATEGIC PARTNERS

Attachment

ASSUMPTIONS AND LIMITING CONDITIONS

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

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

INTRODUCTION, SUMMARY & CONCLUSION

The City of Madison retained Hunden Strategic Partners to complete a summary analysis of several hotel proposals it had received recently. In order to help the city make decisions regarding priority and financial commitment, HSP reviewed key aspects of the project proposals and compared them to the opportunity for expanding the base of business the City could expect as a destination. Hunden Strategic Partners analyzed the proposals and completed market and financial models for each.

A summary of the projects and results is shown below.

Table 1

Madison Hotel Proposal Matrix				
Measure	Marcus Project	Edgewater Project	APEX Project	Library Project
Room Count	275	227	300	160
Hotel Class	Upscale Full-Service	Upscale Full-Service	Upscale Full-Service	Extended Stay
Additional Development Attributes	N/A	Lakefront Access, Retail, Public Space, Parking	Lakefront Access, Public Space, Office, Residential, Parking	Library, Public Space, Parking
Function Space	27,500 SF	12,542 SF	12,000 SF	800 - 5,300 SF
Parking	700 Stalls	346 Stalls	550 Stalls	N/A
Total Development Budget	N/A	\$109,000,000	\$100,000,000	\$88,600,000
TIF Requested	N/A	\$35,000,000	None Currently	N/A
Estimated Hotel Budget	\$66,000,000	\$59,020,000	\$64,500,000	\$26,400,000
Estimated Gap in Hotel Feasibility	\$25,000,000	\$22,520,000	\$24,000,000	\$3,900,000
Requested TIF	Not Applicable	\$16,800,000	None for this Scenario	TBD for Parking

Source: Respective Developers, City of Madison, HSP

HSP completed a prior study for the City regarding a convention hotel downtown. In that study, HSP strongly recommended that a convention hotel be induced as physically close to Monona Terrace as possible. However, HSP cautioned that the project would need public investment, should have a minimum of 300 rooms and at least 75 square feet of net function space per room, and should be located adjacent or connected to the center if possible and at minimum be 1,200 feet from Monona Terrace.

Conclusions. Currently, there are no proposals that meet those minimum standards suggested by the earlier report. If one had been seriously proposed, it would be given top priority in this analysis. The one that came closest appears to be non-existent at this point. As will be discussed below, Marcus' preliminary proposal appears to be off the table now and no proposal exists. As such, the City must re-evaluate its position in terms of a convention hotel.

Our recommendation is to table the convention hotel effort until public leverage improves for better options adjacent to Monona Terrace. This could be two years away. However, the City can move concept timing forward and improve the parking situation by proceeding with underground parking on the Municipal building block and the adjacent block, which has been slated to occur with or without a hotel. This would benefit any project on that site. However, the City should be careful on timing of any parking announcement based on any potential loss of leverage. If Marcus or any other firm comes to the table for a convention hotel, the absolute minimum hotel size should be 300 rooms and it should have at least 75 square feet of NET function space per room. A convention hotel project of 300 – 400 rooms should be the first priority once the right of first refusal expires or is rendered moot. However, it should be timed to open no sooner than 18 months from the opening of any other hotel, such as Edgewater, which is our current recommended priority for the city, given how far advanced the project is and what it will mean to Madison as a destination.

The Edgewater project is compelling, has advanced to a significant stage of pre-development, and would expand what Madison has to offer. It is not a convention hotel and does not need to be within the 1,200-foot radius for such a hotel. However, the project will contribute significantly to the destination's offerings and will provide an additional high quality block of rooms downtown. The subsidy requested passes the 'but for' test, is not excessive, and the project deserves public political and financial support. Because the project engages the water and provides a very high level of service and quality, it should truly expand what Madison offers as a destination (and a destination for residents as well). Overall, HSP's review of the project resulted in a recommendation of first priority for this project.

The Apex project would be compelling if it appeared to be a feasible project. However, it does not appear to be feasible, and is not likely to be financed given what we know of the project sponsors, the market and the project itself. The City should encourage the developer to continue their individual efforts on the project as it may have some merit during the convention hotel discussion in approximately two years, however at this time it does not appear a realistic project without significant public support. However, no public support has been requested, which suggests that the project may simply be unrealistic at this time.

Again, we like much about the idea and suggest refinement for the convention hotel development in about two years.

The Library Block project from a hotel perspective would not materially advance the cause of the destination. While it is a positive project, it would add room supply to the market without inducing new demand that we believe is needed. This in turn would siphon business from existing and proposed compelling hotels.

As a result, the City should advance the Edgewater project immediately, work to expand its future options for convention hotel development over the next 18 – 24 months, and suggest to the other two projects that they should adjust their hotel plans and wait until the other projects have been absorbed into the market. At such time the projects will be reconsidered for city investment and/or priority.

PROPOSAL PROFILES

This section profiles each of the four hotel proposals that have been introduced to the City of Madison recently.

APEX Mixed-Use Project

Apex Enterprises is a Madison-based company that primarily manages rental property throughout the city. This is the first hotel project the company has proposed and they have little to no prior experience developing hotels. APEX has teamed with Iconica to be the project architects and contract administrators for the mixed-use development.

The following table shows details of the project based on materials that APEX supplied to the City of Madison.

Table 2

APEX Project		
Location	Intersection of Wilson, Henry, Hamilton Streets	
Developer	Apex Enterprises	
Project Attributes	Hotel	300 Rooms
	Function Space	12,000 SF
	Office Space	90,000 SF
	Parking	550 Stalls
	Condo	50,000 SF
	Restaurants	
	Grocery Store	
Development Budget	\$100,000,000	
Requested Subsidy	Depends on Scenario	
Source: APEX Enterprises		

The project is proposed to be a mixed-use development. The 300-room full-service hotel component is proposed to include roughly 12,000 square feet of meeting space, consisting of a 7,000-square foot ballroom and various other meeting rooms. The project is also planned to include 90,000 square feet of office space, 50,000 square feet of residential space and 550 stalls of underground parking. Restaurants and a grocery store are all proposed in the project.

The development parcel is two blocks to the west of Monona Terrace. If built, the hotel would improve the situation of the center by providing more quality hotel rooms within 1,200 feet of the facility. The following figure shows the site as configured currently.

Figure 1



Figure 2



APEX is not currently asking for assistance from the city to develop the project outlined above. The company did indicate, however, that assistance would be needed if additional components are added to the plan such as a pedestrian connection to Monona Terrace, access to Lake Monona, and public space.

Implications

Although the hotel component of the APEX development would be a benefit to Monona Terrace, it will not have as large of an impact as a headquarter hotel which was recommended in a previous study conducted by HSP. For example, while the room count is large enough to provide a room block benefit, there is too little meeting and ballroom space programmed to qualify the hotel as a true convention hotel that could induce its own solid meetings business and assist Monona Terrace. It really should have approximately 75 square feet of net function space per room (22,500 square feet for a 300-room hotel) to be a true headquarters hotel. This would mean a grand ballroom of 10,000 square feet, a junior ballroom of 4,000 square feet and 10 other meeting rooms totaling 8,500 square feet. The cost of such a hotel is at least \$60 million and more likely \$68 - \$72 million plus parking. The current market may support a \$45 - \$50 million project, but the gap would need to be covered by the City or others.

The city should take caution because although the developer has notable experience in Madison they have not been involved on a previous hotel project. Representatives from APEX indicated that they have been in talks with numerous hotel brands and all have expressed interest in the site and in the market, but the brands would not get involved in the project until it is actually built. APEX also stated that financing for the project has yet to be secured and without assistance from the city, the project may not be completely feasible. HSP arrived at the conclusion regarding feasibility for the hotel primarily, but it also concerned that a downtown grocery is not feasible without significant assistance from the City, as our experience indicates from other, more robust markets.

Overall, there is much to like about the project in concept, but the reality becomes very expensive and not feasible without public support. If this is to be a potential convention hotel project, the developer should adjust its plans to propose a true convention hotel and should align itself with partners with some hotel experience. Otherwise, we do not see the project moving forward with or without public participation.

Given what is known of the other projects, we suggest the developer refine their approach to match the city's needs for a convention hotel and pitch it when the city formally moves into a competitive situation for a convention hotel project on one of multiple potential sites.

Marcus Hotel Project

The Marcus Corporation out of Milwaukee, Wisconsin holds the right of first refusal to develop a hotel on the current block of the Madison Municipal Building. The company has released a preliminary plan to redevelop the existing structure into meeting and banquet space and construct a hotel tower behind the building with 275 rooms. The property is planned to connect directly to the Hilton, which is also owned by Marcus. This pedestrian walkway would allow for guests of the new hotel to access Monona Terrace by way of the Hilton.

The following table shows the details of the Marcus project as preliminarily proposed several months ago.

Table 3

Marcus Preliminary Proposed Project			
Location	Madison Municipal Block		
Developer	Marcus Corporation		
Project Attributes	Hotel	275 Rooms	
	Function Space	27,500 SF	
	Retail	9,000 SF	
	Parking	700 Stalls	
Development Budget	N/A		
Subsidy Requested	N/A		
Source: Marcus Corporation			

The Marcus project, if developed as proposed, would be the primary headquarters hotel for Monona Terrace, although smaller than the 400 rooms originally recommended by our prior study. The hotel will have extensive meeting space totaling more than 27,000 square feet, which is critical for a headquarter hotel. Groups hosting events at Monona Terrace could also utilize the hotel’s function space for meetings or the hotel can book its own groups in that space when space at Monona Terrace is being used.

Retail space is planned to occupy the ground level on Pinckney, Wilson and Doty Streets, which is expected to increase foot traffic surrounding the block. Extensive parking is also included in the project. An underground parking ramp with 700 stalls is part of the Marcus plan. Of these spaces, 150 are exclusively for hotel use, 50 are dedicated to hotel overflow use and the remainder are for public use.

While the preliminary plan had some very promising elements that moved the project toward one that would answer the call for a convention hotel, the project is now apparently not being considered by the developer. Requests to Marcus for any information about the proposed project, the proposed subsidy, budget, size, etc. were not able to be answered. There were essentially no deal points provided or confirmed by Marcus. Our discussions with the City indicated that Marcus may not currently be in a position to pursue any such project. Given the current financing conditions for hotels, as well as market conditions, this is not surprising if true and also would not reflect poorly on Marcus. It simply is a reflection of market conditions and these impact different companies in different ways.

Implications

All projects and financing opportunity being equal, this project, if still in play and if it met some of the minimum requirements for size (300 rooms minimum and up to 400 optimally), would likely be at the top of our list of recommended projects. The Marcus project would be the closest product to what was recommended for a convention headquarters hotel in Madison, the additional rooms would be an asset to Monona Terrace, and the room count could/should be increased to a number closer to 400 for optimum impact. The key advantage to the Marcus proposal is its connectivity to the convention center and the amount of function space it was originally planned to have. It would help Madison increase

its marketability for new groups, especially if it increases its room count from the original 275 rooms.

However, given that the project appears to be either on hold or dead, it presents a different scenario for the City. The City cannot force Marcus to develop a hotel on the site and it would not be smart to do so, as that would give any leverage away that the City has. It has been established that any true convention hotel will need public participation and therefore the City has considerable leverage. Because Marcus retains the right of first refusal on the Municipal Building site and the project is not moving, we suggest the City move toward a situation where it retains and improves its leverage for multiple headquarter hotel options down the road, approximately two years. The goal is to have at least three solid site and development options by the time a new hotel could be considered.

As no convention hotels are feasible at this time, it suggests another hotel could and should move forward. The convention hotel should still remain a top priority for the City, but the hope for one should not stop another good project from being developed. The timing, however, must be such that the City does not induce a hotel project opening any sooner than 18 months after another hotel project opens. Any major hotel will need at least this long to be absorbed into the market.

Edgewater Hotel Redevelopment

The Hammes Company submitted a redevelopment plan of the current 127-room Edgewater hotel to the City of Madison. The Hammes Company is a local development firm that specializes in hospitality, healthcare and sports facility development.

The Edgewater hotel was originally constructed in 1948 and the vision for the project is to restore, expand and reposition the property to be an asset to the city of Madison as a destination. Currently the hotel is outdated and does not participate as a high quality hotel player for Madison as a destination.

Below is a table that shows the specifics of the proposed Edgewater project.

Table 4

Edgewater Hotel Redevelopment Project		
Location	Intersection of Wisconsin Avenue and Langdon Street	
Developer	Hammes Company	
Project Attributes	Hotel	227 Rooms
	Function Space	12,500 SF
	Parking	364 Stalls
	Public Space	47,000 SF
	Restaurants	
	Retail Pier	
Development Budget	\$109,000,000	
Subsidy Requested	\$16,800,000	
Source: Hammes Co.		

The project is proposed to add another 100 rooms to the current 127-room property for a total of 227 upper upscale rooms (the quality level is proposed to be higher than any current property in Madison). The independent-name property is expected to have more than 12,300 square feet of meeting and banquet space. In addition to the hotel, the property will have two restaurants, retail space, and 47,000 square feet of public space including a pier on Lake Mendota. A parking structure of 364 stalls is also included in the plan.

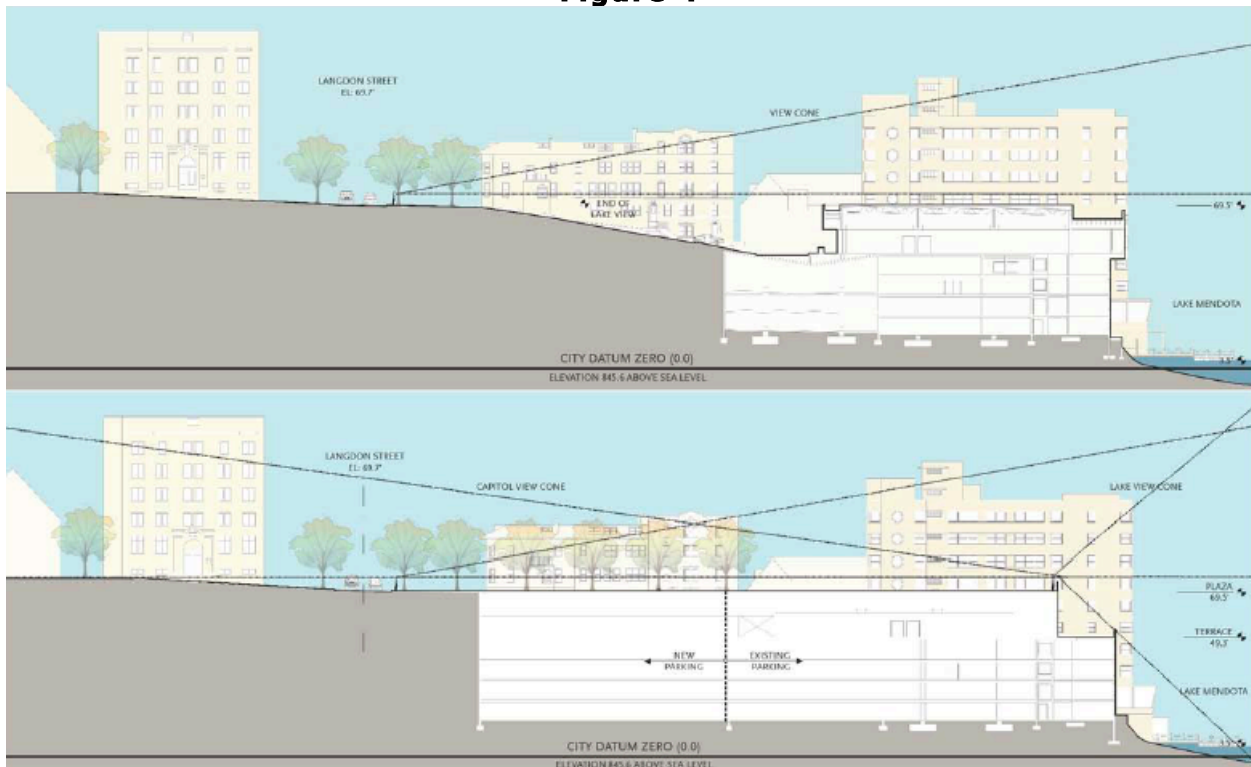
The total development budget for the project is set at \$109 million, of which \$74 million is for the hotel and other private uses, the remaining \$35 million is for public improvements, such as parking. Assistance from the city is necessary for the project to finalize and begin construction. The City is considering a request for \$16.8 million in TIF funding for the public improvements. Approximately one quarter of the TIF funds would be generated by the project itself (as part of an expanded TIF district), while the balance would be provided from the existing TIF district.

The following figures show the layout of the Edgewater hotel redevelopment.

Figure 3



Figure 4



As shown, the project induces significant interactivity with the lake via restaurants and decks, a key element in its design.

Implications

This project is the most advanced in terms of pre-development of the larger hotel projects. It is not a headquarters hotel and the Edgewater hotel development is beyond the 1,200-foot range from Monona Terrace that would have the greatest impact on the City's group meetings business. However, it would provide a new, high-quality block of rooms downtown. The project also adds an element that is lacking from Madison's attractiveness as a destination, a very high-quality full-service destination hotel (where the hotel is part of the draw, not just a place to sleep). Although Madison does have quality hotels downtown, it lacks a product that it can 'show off' to those considering Madison for leisure or business travel. The Edgewater plans to use Lake Mendota as a major destination sales element of its project, which no other hotel, public building, or mixed-use property in Madison does (outside of the University campus). This is perhaps the largest selling point beyond the high quality accommodations and service proposed. While Madison prides itself on its outdoor amenities, unless a visitor is an avid outdoors person, they have little to no opportunity to enjoy the two lakes bordering downtown. This proposal changes that reality and opens up the water for those who want to dine on the lake, look at it from their hotel window, or simply walk by. They could even boat to the project from the lake. Overall, the plan is for a very interactive project for pedestrians, boaters, hotel visitors, and others.

After reviewing the benefits of the project to the community and destination, as well as the public investment requested, it appears the project is worthy of approval by the City as proposed. But for the incentives requested, the project would not be feasible, suggesting that the developer will not profit off of city incentives.

If a feasible, achievable and smart headquarters hotel development were ready to be developed and agreed to in principle near Monona Terrace, its timing and investment would take priority over other projects, as it would increase the demand for the City more than any other project. However, given that such a project does not currently exist, the Edgewater project has the most transformative power for the destination, and should stretch the quality offerings beyond what Madison provides today. It also provides a critical access to the water that really cannot be offered today. This expands Madison as a destination. For these reasons, this analysis concludes that the Edgewater is worthy of priority amongst the projects.

Madison Central Library Redevelopment

The Fiore Company (a strong local real estate development and management company), in collaboration with Ingrems (a development firm with offices in Milwaukee, Phoenix and Chicago), has proposed a mixed-use project on Block 66 downtown. The focal point of the Madison Central Library Redevelopment is the construction of a new library. The hotel component would be a secondary piece of this mixed-use development according to the proposal submitted to the city.

The following table shows the details of the Fiore-Ingrems Library redevelopment.

Table 5

Central Library Redevelopment Project									
Location	Block 66 at Wasington Ave and Fairchild St.								
Developer	Fiore-Irgens Venture I, LCC								
Project Attributes	<table border="0"> <tr> <td>Hotel</td> <td>140 - 270 Rooms</td> </tr> <tr> <td>Function Space</td> <td>800 - 5,000 SF (approx)</td> </tr> <tr> <td>Library</td> <td></td> </tr> <tr> <td>Commercial Space</td> <td></td> </tr> </table>	Hotel	140 - 270 Rooms	Function Space	800 - 5,000 SF (approx)	Library		Commercial Space	
Hotel	140 - 270 Rooms								
Function Space	800 - 5,000 SF (approx)								
Library									
Commercial Space									
Development Budget	\$88,600,000								
Subsidy Requested	TBD for parking structure								
Source: Fiore-Irgens									

Figure 5



Representatives from the development company indicated that the hotel could range in size from 140 to 250 rooms. The hotel would be a limited-service, all-suite extended-stay property. This is a product that does not currently exist in the downtown market, however these types of hotels typically accommodate existing demand and do not create new demand. The hotel would have limited function space to accommodate small meetings on property.

A timeline for development shows the library being constructed first and the hotel component would not begin for at least two years after the library opens. This means the hotel would not be introduced into the market for at least four years from now, and the

downtown hotel market could certainly change in that time. It may be a perfect compliment for the market at that time, or it could siphon demand from others.

Implications

The library project would be an asset to the community, but would do little to add depth to Madison's appeal as a destination. Although the project would introduce a new hotel product type downtown, the effect on Monona Terrace and Madison overall would not be material. Instead, the project may, if timed poorly, siphon demand from new and existing hotels that are establishing themselves after the recession (and for one or two, after opening). The hotel portion of the project should not be a priority for the city at this time. Providing TIF funds to the project, even for parking, in essence subsidizes the hotel and creates a cycle of additional funding needs for both. The city has to choose carefully which projects to induce and the timing of those projects. This project would fall behind a true convention hotel, the Edgewater project, and a larger full-service project in terms of priority for City participation.