CHAPTER 1

INTRODUCTION, REPORT LAYOUT, AND EXECUTIVE SUMMARY

Subject of the Study

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

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

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

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

Table 1-1

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

Company Description

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

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

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

Report Layout

The report is organized as follows:

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

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

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

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

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

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

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

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

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

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

Initial Conclusions & Next Steps

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

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

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

Executive Summary

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

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

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

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

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

Table 1-2

Recommended Hotel Components

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

Source: HSP

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

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

Conclusions & Projections

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

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

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

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

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

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

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

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

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

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

Table 1-3

Hotel Room Nights Generated by Monona Terrace

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

Source: Monona Terrace, Hilton

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

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

Table 1-4

Madison Lost Business Due to Room Availabiltiy

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

Source: GMCVB, City of Madison

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

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

Table 1-5

Lost Business Decision Dates

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

Source: GMCVB

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

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

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

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

Table 1-6

Downtown Madison Competitive Set Hotels

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

Source: Smith Travel Research

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

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

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

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

Figure 1-1

Given the positive demand generators and attributes, the proper hotel package does not exist to service current needs, especially those of the convention center. Despite this quality supply gap, the well-located and high-quality Hilton achieves the best performance in the market, suggesting that the right hotel in the right location, can perform extremely well.

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

Table 1-7

Estimated Competitive Set Segmentation	
Corporate Transient	45%
Group	43%
Leisure	13%
Total	100%

Source: HSP

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

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

Table 1-8

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

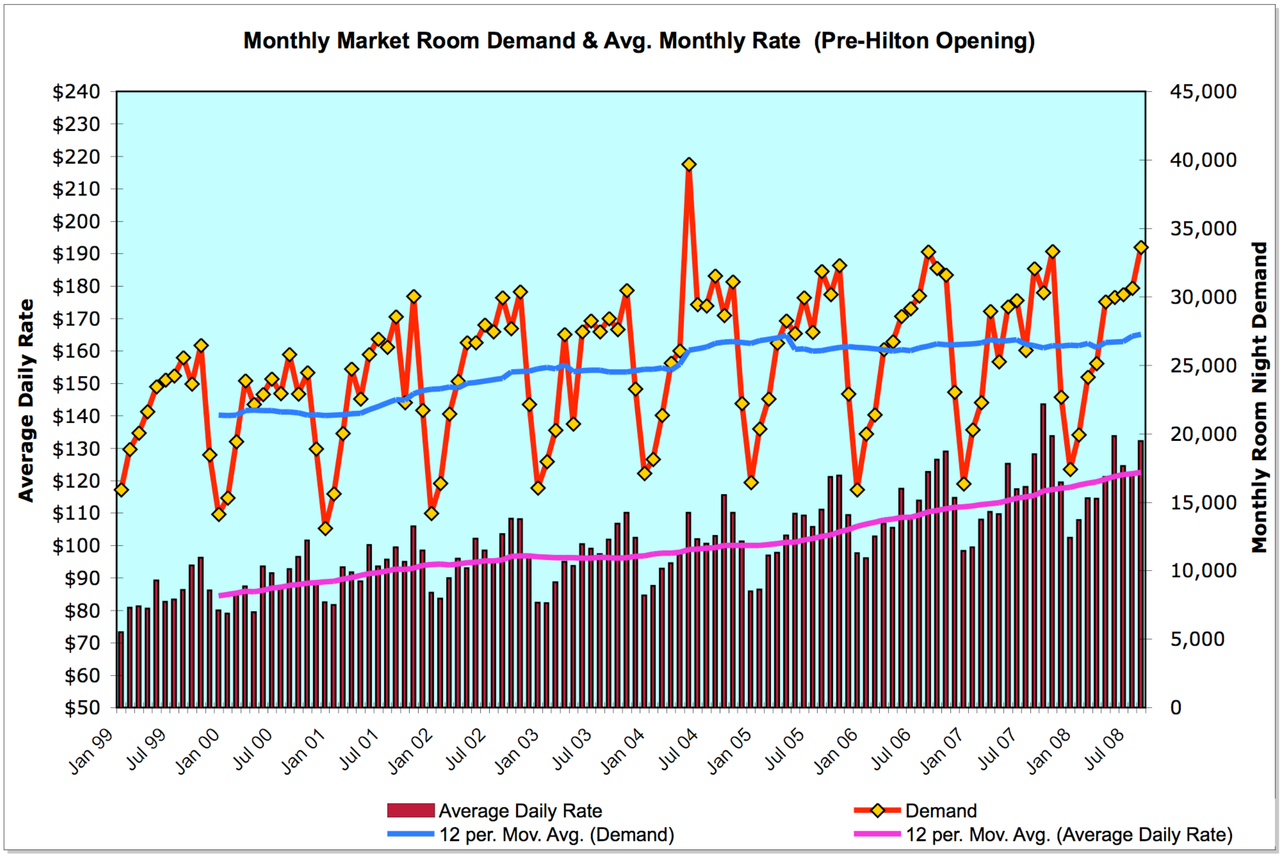
*Compound Annual Growth Rate
Sources: STR, HSP

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

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

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

Figure 1-2



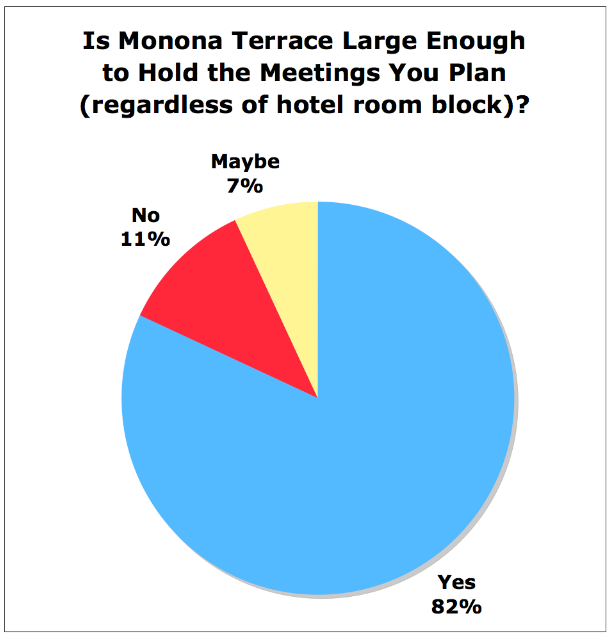
Monthly demand had been decreasing prior to the Hilton's opening, then increased with its opening through 2005. Since 2005, demand has essentially been flat, while average daily rate has continued to increase. *This suggests that the Hilton was absorbed relatively quickly. No positive changes in the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

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

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

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

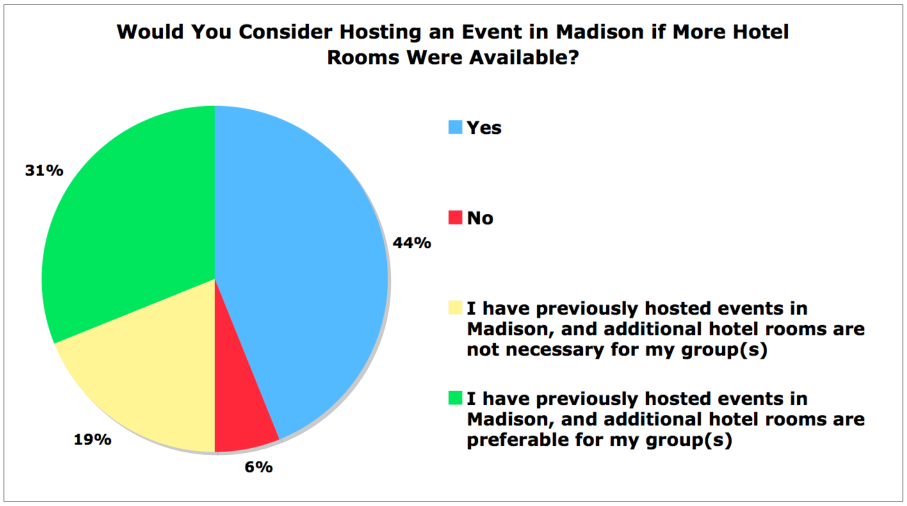
Figure 1-3



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

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

Figure 1-4



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

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

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

Table 1-9

Competitive Facilities

Meeting Facility	City	Headquarter Hotel/ Adjacent Hotel	Adjacent or Connected Rooms	Hotel Rooms within 1,200 FT	Function Space Per Adjacent Room (SF)
Regional					
Kalahari Resort Convention Center*	Wisconsin Dells, WI	Kalahari Resort	750	750	82
Midwest Airlines Center	Milwaukee, WI	Hilton Milwaukee City Cente	730	1,903	239
		Hyatt Regency	484	--	--
Minneapolis Convention Center	Minneapolis , MN	Hilton Minneapolis	821	1,908	444
		Hyatt Regency	533	--	--
McCormick Convention Center	Chicago, IL	Hyatt Regency	800	800	4,499
Saint Paul RiverCentre	St. Paul, MN	Holiday Inn RiverCentre	194	541	820
KI Convention Center	Green Bay, WI	Holiday Inn	147	486	297
Iowa Event Center	Des Moines, IA	Marriott	415	754	670
Average			*696*	*1,020*	*1,007*
National					
DeVos Place	Grand Rapids, MI	JW Marriott	340	1,022	228
		Amway Grand	682		--
Greater Columbus Convention Center	Columbus, OH	Hyatt Regency	631	1,716	563
		Crown Plaza Hotel	300	--	--
Walter E. Washington Convention Center	Washington D.C.	Renaissance	807	2,572	1,083
Colorado Convention Center	Denver, CO	Hyatt Regency	1,100	2,634	696
Rhode Island Convention Center	Providence, RI	Westin Hotel	564	1,259	238
Albuquerque Convention Center	Albuquerque, NM	*To Be Built*	*500*	1,190	490
Oregon Convention Center	Portland, OR	*To Be Built*	*600*	1,022	539
Austin Convention Center	Austin, TX	Hilton Austin	800	2,980	245
Qwest Center	Omaha, NE	Hilton Omaha	450	450	574
Average			*753*	*1,649*	*748*
Monona Terrace Convention Center	Madison, WI	Hilton Monona Terrace	240	453	352

**Hotel and convention center are one facility*
***Foyers, Atriums, and Terraces are not included in function space.*

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

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

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

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

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

Discussion of Need, Strengths, Weaknesses, Opportunities and Threats. When considering the idea to develop a hotel, one must consider the strengths, weaknesses, opportunities and threats of and for such a development.

Strengths

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

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

Weaknesses

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

Opportunities

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

Threats

- **U.S. Economy and Declining Demand.** The U.S. economy has been experiencing signs of extreme weakness in the past few months due to the housing credit crisis and financial meltdown. This could dampen demand growth for a convention and hotel facility in the short-term. However, the long-term tourism infrastructure needs of Madison and external competitive threats suggest that a large convention hotel be planned and developed despite the current market conditions.

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

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

Table 1-10

Performance Projections

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

Source: HSP

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

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

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

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

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

Table 1-11

Impact of Not Developing Recommended Hotel

With Hotel	2012	2013	2014	2015	2016	Total
Total Monona Terrace Events	692	701	711	711	711	3,526
Total Monona Terrace Attendees	230,447	247,028	267,771	267,771	267,771	1,280,788
Monona Terrace Revenue	$5,393,169	$6,340,224	$8,107,627	$8,350,856	$8,601,382	$36,793,258
Monona Terrace Expense	$8,582,652	$8,840,131	$9,105,335	$9,378,495	$9,659,850	$45,566,464
Monona Terrace Net	-$3,189,483	-$2,499,908	-$997,708	-$1,027,639	-$1,058,468	-$8,773,206
Competitive Set Room Nights	366,479	394,630	407,392	407,392	407,392	1,983,285
Hotel Tax (TOT) Generated	$4,557,955	$5,055,306	$5,375,356	$5,536,616	$5,702,715	$26,227,948
Without Hotel	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Total Monona Terrace Events	685	683	680	680	680	3,409
Total Monona Terrace Attendees	217,261	216,433	215,681	215,681	215,681	1,080,736
Monona Terrace Revenue	$5,084,561	$5,237,098	$5,394,211	$5,556,037	$5,722,718	$26,994,625
Monona Terrace Expense	$8,332,672	$8,565,987	$8,805,834	$9,052,398	$9,305,865	$44,062,755
Monona Terrace Net	-$3,248,111	-$3,328,889	-$3,411,623	-$3,496,360	-$3,583,146	-$17,068,130
Competitive Set Room Nights	326,839	330,107	333,408	333,408	333,408	1,657,170
Hotel Tax (TOT) Generated	$4,024,289	$4,182,403	$4,346,730	$4,472,785	$4,602,496	$21,628,702
Difference	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Total Monona Terrace Events	7	18	31	31	31	117
Total Monona Terrace Attendees	13,187	30,595	52,090	52,090	52,090	200,052
Monona Terrace Revenue	$308,608	$1,103,126	$2,713,417	$2,794,819	$2,878,664	$9,798,633
Monona Terrace Expense	$249,980	$274,145	$299,501	$326,098	$353,986	$1,503,710
Monona Terrace Net	$58,628	$828,981	$2,413,915	$2,468,721	$2,524,678	$8,294,923
Competitive Set Room Nights	39,641	64,523	73,984	73,984	73,984	326,114
Hotel Tax (TOT) Generated	$533,666	$872,903	$1,028,626	$1,063,832	$1,100,219	$4,599,246

Source: HSP

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

Summary

Madison is an attractive destination for conventions, meetings and other groups, due to its attractive and interesting convention center, Monona Terrace, the beauty and dynamics of the city itself, and the fact that it is the location of the state capital and the University of Wisconsin-Madison. However, lack of quality, full service hotel rooms adjacent to Monona Terrace limit that facility's growth. Madison would profit from a new full-service hotel within walking distance of the convention center. HSP recommends that the city encourage and assist development of a 400-room high-quality hotel in downtown Madison.