

CHAPTER 5

GREATER MADISON LODGING MARKET & COMPETITIVE SET

This chapter reviews both the total Madison market and the competitive set of hotels that a new downtown convention hotel will be entering, if built.

Greater Madison Lodging Market

The Greater Madison lodging market includes a wide variety of hotels, ranging from limited service to full service upscale hotels. The table below shows the breakdown of hotels in the area by type of property.

Table 5-1

Madison Area Hotel Market					
Type	Number	Percent of Total	Rooms	Percent of Total	Avg. Room per Hotel
Luxury	0	0%	0	0%	--
Upper Upscale	3	8%	640	14%	213
Upscale	3	8%	419	9%	140
Midscale w/ F&B	5	13%	758	17%	152
Midscale w/o F&B	7	18%	682	15%	97
Economy	11	28%	1,108	25%	101
Indep. Upper	4	10%	637	14%	159
Indep. Middle	2	5%	60	1%	30
Indep. Lower	5	13%	174	4%	35
Total	40	100%	4,478	100%	116

Source: Smith Travel Research, HSP

Of the forty properties considered a part of the area market, 30 percent of the rooms are considered to either be low quality or serve the lowest paying customers, which include branded economy properties as well as lower quality independent hotels. Only 28 percent of the rooms, or 1,277, are considered to be Upper Upscale or Independent Upper properties. The remaining 42 percent of room in the market are limited service in nature. There are no luxury properties in the market. When groups are considering the selection of Madison for an event, it is the full service hotels near the event venue (primarily Monona Terrace), that matter, and in this regard, Madison only has two worthy hotels totaling less than 600 rooms.

The table below shows the historical performance of the hotel market in the Madison area.

Table 5-2

Madison Hotel Market Performance 2002 - July 2008							
Average Daily Rate							
Month	2002	2003	2004	2005	2006	2007	2008
January	\$ 64.90	\$ 66.12	\$ 67.57	\$ 69.39	\$ 76.40	\$ 80.07	\$ 83.57
February	\$ 69.72	\$ 69.05	\$ 72.01	\$ 75.02	n/a	\$ 84.45	\$ 87.90
March	\$ 71.84	\$ 73.46	\$ 72.97	\$ 77.03	\$ 80.71	\$ 86.69	\$ 86.55
April	\$ 70.23	\$ 70.22	\$ 72.99	\$ 77.48	\$ 79.97	\$ 85.19	\$ 91.17
May	\$ 72.35	\$ 72.95	\$ 78.97	\$ 79.38	\$ 81.73	\$ 88.78	\$ 92.56
June	\$ 72.33	\$ 72.45	\$ 75.68	\$ 79.95	\$ 81.61	\$ 87.32	\$ 87.32
July	\$ 71.62	\$ 71.99	\$ 74.04	\$ 78.89	\$ 83.52	\$ 86.31	\$ 90.46
August	\$ 76.45	\$ 74.50	\$ 75.06	\$ 79.76	n/a	\$ 89.59	--
September	\$ 75.53	\$ 75.85	\$ 82.25	\$ 86.18	\$ 89.83	\$ 96.63	--
October	\$ 78.65	\$ 79.42	\$ 79.76	\$ 89.20	\$ 94.65	\$ 97.72	--
November	\$ 71.96	\$ 73.52	\$ 75.02	\$ 80.47	\$ 84.41	\$ 88.04	--
December	\$ 63.26	\$ 65.54	\$ 67.30	\$ 72.34	\$ 75.81	\$ 79.96	--
Average	\$ 71.57	\$ 72.09	\$ 74.47	\$ 78.76	\$ 82.86	\$ 87.56	--
YTD	\$ 70.43	\$ 70.89	\$ 73.46	\$ 76.73	\$ 80.66	\$ 85.54	\$ 88.50
Downtown Hotels							
Average	\$ 97.78	\$ 98.07	\$ 101.65	\$ 107.13	\$ 113.51	\$ 119.72	--
YTD	\$ 98.47	\$ 99.01	\$ 101.98	\$ 109.30	\$ 108.66	\$ 117.35	\$ 124.44
Occupancy							
Month	2002	2003	2004	2005	2006	2007	2008
January	44.8%	44.3%	44.8%	47.9%	47.9%	46.9%	45.7%
February	55.0%	54.1%	55.7%	58.7%	n/a	55.6%	58.4%
March	59.2%	62.9%	56.9%	58.6%	63.2%	63.1%	56.3%
April	65.3%	56.4%	60.6%	64.5%	60.5%	57.4%	64.7%
May	63.1%	59.0%	67.5%	64.5%	63.8%	60.1%	60.8%
June	73.0%	73.2%	75.4%	71.1%	69.9%	68.1%	70.5%
July	71.9%	73.2%	74.7%	67.0%	70.3%	63.7%	--
August	76.4%	72.9%	73.7%	71.5%	70.3%	70.7%	--
September	69.4%	68.9%	71.4%	68.5%	70.7%	69.9%	--
October	74.2%	70.3%	69.1%	71.2%	73.4%	72.6%	--
November	54.7%	55.1%	54.3%	53.3%	55.2%	51.7%	--
December	41.6%	41.4%	41.9%	41.6%	42.7%	41.7%	--
Average	62.4%	61.0%	62.2%	61.5%	62.5%	60.1%	--
YTD	60.1%	58.3%	60.2%	60.9%	61.1%	58.5%	59.4%
Downtown Hotels							
Average	63.4%	63.3%	68.2%	67.4%	68.0%	67.8%	--
YTD	72.7%	73.4%	76.5%	77.8%	75.8%	77.3%	78.4%

Source: Smith Travel Research

According to the Smith Travel Research, average rates for the Madison market increased to \$87.56 in 2007, compared to \$82.86 in 2006. Rates for January to July of 2008 were \$88.50, approximately \$3.00 more than the amount of \$85.54 for the same period during the previous year. The Madison lodging market achieved an occupancy rate of 60.1 percent in 2007, down 2.4 percent from 2006. Occupancy for the first half of 2008 increased from the same period in 2007, counter to the national

trend. Traditionally, the limited service hotels, clustered around interstate interchanges, operate at lower occupancy and rate levels than the hotels in business centers, such as downtown. This tends to lower the total occupancy and rate figures for the market as a whole, but the figures listed for downtown hotels as a comparison show a much stronger situation.

The revenue collected from the taxes imposed on the sales of hotel room nights is an important income stream for many meeting destinations. Monona Terrace receives funds from the city, which are derived from the hotel room tax fund. The table below shows the historical collection of hotel room taxes in the city of Madison since it was introduced in 1970.

Table 5-3

City of Madison Historical Room Tax Revenues					
Year	Room Tax Revenues	% Change	Rate	Rate Increase	% Change Less Rate Increase
1970	\$338,698	n/a	6.0%	n/a	n/a
1971	\$356,457	5.2%	6.0%	0.0%	5.2%
1972	\$386,956	8.6%	6.0%	0.0%	8.6%
1973	\$441,820	14.2%	6.0%	0.0%	14.2%
1974	\$495,082	12.1%	6.0%	0.0%	12.1%
1975	\$574,339	16.0%	6.0%	0.0%	16.0%
1976	\$640,002	11.4%	6.0%	0.0%	11.4%
1977	\$714,736	11.7%	6.0%	0.0%	11.7%
1978	\$800,432	12.0%	6.0%	0.0%	12.0%
1979	\$903,649	12.9%	6.0%	0.0%	12.9%
1980	\$1,010,615	11.8%	6.0%	0.0%	11.8%
1981	\$1,083,086	7.2%	6.0%	0.0%	7.2%
1982	\$1,348,618	24.5%	7.0%	16.7%	7.8%
1983	\$1,480,000	9.7%	7.0%	0.0%	9.7%
1984	\$1,607,779	8.6%	7.0%	0.0%	8.6%
1985	\$1,797,202	11.8%	7.0%	0.0%	11.8%
1986	\$1,978,409	10.1%	7.0%	0.0%	10.1%
1987	\$2,244,865	13.5%	7.0%	0.0%	13.5%
1988	\$2,488,123	10.8%	7.0%	0.0%	10.8%
1989	\$2,809,918	12.9%	7.0%	0.0%	12.9%
1990	\$2,902,682	3.3%	7.0%	0.0%	3.3%
1991	\$2,941,291	1.3%	7.0%	0.0%	1.3%
1992	\$3,195,849	8.7%	7.0%	0.0%	8.7%
1993	\$3,368,111	5.4%	7.0%	0.0%	5.4%
1994	\$3,580,460	6.3%	7.0%	0.0%	6.3%
1995	\$3,840,275	7.3%	7.0%	0.0%	7.3%
1996	\$4,656,733	21.3%	8.0%	14.3%	7.0%
1997	\$4,965,509	6.6%	8.0%	0.0%	6.6%
1998	\$5,328,204	7.3%	8.0%	0.0%	7.3%
1999	\$5,635,633	5.8%	8.0%	0.0%	5.8%
2000	\$5,997,504	6.4%	8.0%	0.0%	6.4%
2001	\$5,980,482	-0.3%	8.0%	0.0%	-0.3%
2002	\$6,311,554	5.5%	8.0%	0.0%	5.5%
2003	\$6,357,051	0.7%	8.0%	0.0%	0.7%
2004	\$6,544,618	3.0%	8.0%	0.0%	3.0%
2005	\$6,708,363	2.5%	8.0%	0.0%	2.5%
2006	\$7,130,648	6.3%	8.0%	0.0%	6.3%
2007	\$8,359,039	17.2%	9.0%	12.5%	4.7%
Total	\$117,304,792				
Average					8.0%

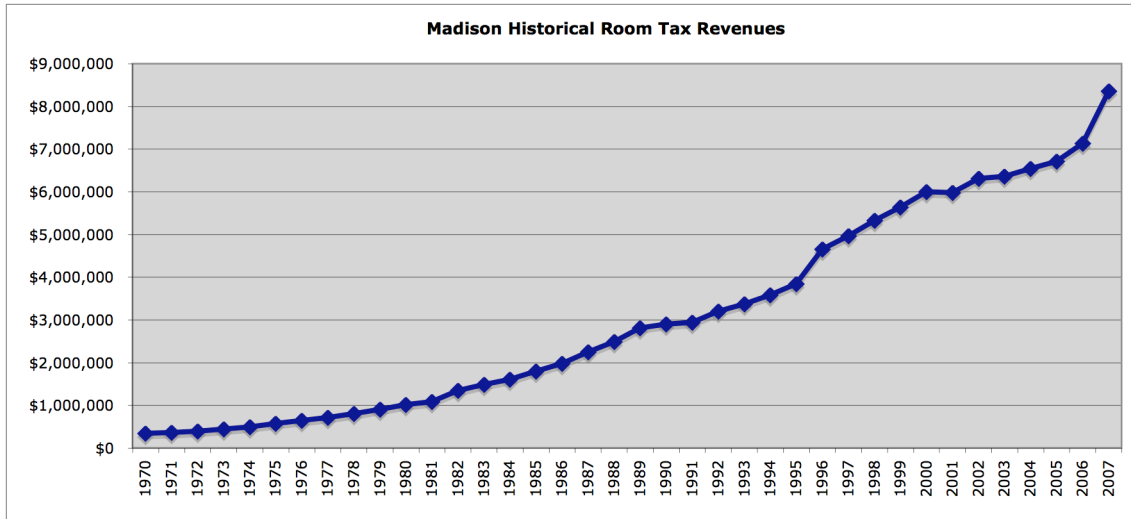
Source: City of Madison

The average annual increase over the period is eight percent per year. The tax rate has increased three times since the room tax was introduced, in 1982, 1996 and most recently in 2007. The introduction of the 240-room Hilton has been positive to the City of Madison in terms of room tax collection. Since opening in 2001, the room

tax revenues have increased each year. This is in contrast to the national hotel room revenue, which declined by 6.7 percent in 2001 and an additional 2.8 percent in 2002 before stabilizing in 2003. In relative and absolute terms, the Madison market increased in size and total revenue as a result of the Hilton’s introduction. This is instructive as the City considers the addition of an even larger hotel downtown.

The figure below illustrates the trend from the data shown above.

Figure 5-1



The figure above illustrates that total revenue has continually increased, and spiked when the tax rate was increased.

Analysis of the Competitive Hotel Market

As a result of the review of the Madison hotel supply discussed above, the Consulting Team 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 5-4

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
<i>Average</i>	<i>Aug-74</i>	<i>214</i>

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 not 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.

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 5-2



The following section describes the primary competitive hotel facilities, their recent improvements or expansions, their market and other important characteristics.

Madison Concourse Hotel - The Madison Concourse Hotel, opened in 1974, and is the largest hotel in Madison, with 356-rooms and approximately 33,100 square feet of meeting space.

Although the hotel is nearly six blocks away from Monona Terrace, it is often used for room blocks due to its size. Transporting guests to and from events at Monona Terrace can be costly to attendees and most would prefer to be able to walk. The property is in the top tier in terms of the quality, however it is not as new, and therefore not as attractive compared to the Hilton. It should be noted that although the situation is not ideal, without the Madison Concourse Hotel, Madison would be even less competitive as a meetings destination.

Hilton Madison Monona Terrace - The Hilton Madison Monona Terrace is the second-largest hotel in the Madison market, with 240 guest rooms and over 3,500 square feet of function space. Built in 2001, the Hilton is the newest property in Madison and will complement a new convention center hotel.

When the hotel opened it was the first hotel built in Madison since 1990, and developed by the Marcus Corporation out of Milwaukee. The hotel is credited with improving Madison's competitiveness as a meeting and event destination as well as moving downtown forward as a cosmopolitan urban center. When Monona Terrace was built in 1997 it had no adjacent or connected hotel rooms until nearly five years later. The availability of quality hotel rooms at the Hilton is critical to the success of Monona Terrace. The hotel is discussed in further detail later in this chapter.

Sheraton Hotel - The Sheraton is the farthest hotel from the Monona Terrace of the set and was built in 1972. The Sheraton Hotel has 237 rooms and approximately 17,000 square feet of function space.

The Sheraton can contribute rooms, typically 75 to 100, for a meeting block if necessary, but this primarily occurs during the city-wide events such as World Dairy Expo, Ironman and university events. Location is the biggest disadvantage the Sheraton has to capture more group room nights. The Sheraton caters primarily to the corporate transient segment, which is estimated to contribute 60 percent of its total room nights sold, followed by 30 percent group business and 10 percent leisure.

Best Western Inn on the Park - The Best Western Inn on the Park is the second closest hotel to Monona Terrace. The Best Western Inn opened in 1963, has 213-rooms and over 18,500 square feet of meeting space.

Although the Best Western is within a short walking distance to Monona Terrace, the quality and condition of the property have recently started to become noticeable to visitors. The rate is the lowest out of the competitive set, which could make it appealing to certain pieces of business, but overall most would rather have higher quality accommodations. The Best Western can contribute roughly 75 to 100 rooms to a block if necessary.

Doubletree Madison Downtown – The Doubletree Madison Downtown is located near the University of Wisconsin campus. The Doubletree opened in 1974 and has a total of 163-rooms and approximately 4,900 square feet of meeting space.

It is not often that the Doubletree will need to offer rooms to a room block, however city-wide events demand more rooms and the Doubletree will then participate. The hotel primarily caters to corporate transient business that is often university related. The proximity of the Doubletree makes it challenging and often more costly to transport visitors to and from downtown.

Campus Inn – The Campus Inn is the smallest and oldest hotel in the competitive set, and located next to the University of Wisconsin. The Campus Inn opened in 1961, has 74-rooms and no meeting space.

The Campus Inn will not often participate in room blocks, primarily due to its size. With less than 75 rooms the hotel relies on corporate transient business that seek higher quality accommodations. It is estimated that the hotel generates 70 percent of its business from corporate transient visitors, 12 percent from group and 16 percent from leisure business.

HSP conducts interviews with local hoteliers and others familiar with the market to better understand the dynamic of the properties within the competitive set and make assumptions on each hotel’s performance.

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. The following table shows the estimated market segmentation for the competitive set.

Table 5-5

Estimated Competitive Set Segmentation	
Corporate Transient	45%
Group	43%
Leisure	13%
Total	<u>100%</u>
Source: HSP	

New Competitive Hotels

Currently there are no new hotels under construction or in the planning phase that would be a part of the competitive set in downtown Madison, although the Marcus Corporation owns the Madison Municipal Building site across the street from Monona

Terrace that has been considered by some to be a potential site for a proposed hotel. The only possible change to the competitive set would result from the possible renovation of the Edgewater Hotel. The property currently has 107 rooms and the owner of the property, Hammes Co., has indicated that it would like to expand the number of rooms, and that the site could support more meeting and convention space. A specific redevelopment plan has not been established.

Other projects at various stages of the planning and development process in the Madison market that may be competitive to the proposed project are:

- Hotel Indigo – Near west side, 140 rooms
- aLoft – Possible site behind the Sheraton, rooms TBD
- Hilton Garden Inn – Possible site near the Sheraton, rooms TBD
- Hyatt Place – 300 block of West Washington Ave, rooms TBD. This potential project would be located within walking distance from the Capitol and relatively close to Monona Terrace, which would qualify it to be competitive to the proposed hotel discussed in this report.
- Union South – A university development that is planned to have 60 rooms. The project, scheduled to open in early 2011, is expected to have meeting and activity rooms, food and beverage facilities.

In addition, the City has issued an RFP for developers to redevelop the “Library” block and this could include a hotel component. The proposed site includes the all parcels that come to a point on State Street along West Johnson and North Henry Streets.

Competitive Set Performance

HSP used Smith Travel Research data to analyze the competitive set of six hotels described above. The following table displays historical room supply, demand, occupancy, rate, and RevPAR for the selected primary competitive supply of hotels that were operational prior to March 2008.

Table 5-6

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
2002	1,283	468,295	--	296,665	--	63.4%	--	\$97.78	--	\$61.95	--
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%
Projected 2008	1,283	468,295	0.0%	325,349	2.4%	69.5%	2.4%	\$123.43	3.1%	\$85.75	5.6%
CAGR* (2002-2007)	0.0%	0.0%	--	1.4%	--	1.4%	--	4.5%	--	6.2%	--

*Compound Annual Growth Rate
Sources: STR, HSP

Demand growth for room nights in the set ranged from a decline of 0.2 percent to nearly an eight percent increase despite the effects of 9/11 and the travel recession during that time. Most markets in the U.S. experienced noticeable decreases in demand during that time period, while the Madison market held relatively steady with the exception of a significant decrease in 2005. Average daily rate growth has been positive since 2002, with increases up to six percent during the period.

The table below shows the same information as above but includes the data two years prior to the Hilton Monona Terrace opening, to highlight the effect this hotel had on the competitive market.

Table 5-7

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%
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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* (1999-2007)	2.9%	2.9%	--	3.0%	--	0.1%	--	5.1%	--	5.2%	--

*Compound Annual Growth Rate
Sources: STR, HSP

The Hilton Monona Terrace opened in February of 2001 and despite the weak economy, approximately 50 percent of its room supply was absorbed in the first year (In the year that the hotel opened occupancy fell 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.

The following table shows how the competitive set fared compared with the national hotel market during a difficult time in the industry: 2001 through 2003, as well as the succeeding years.

Table 5-8

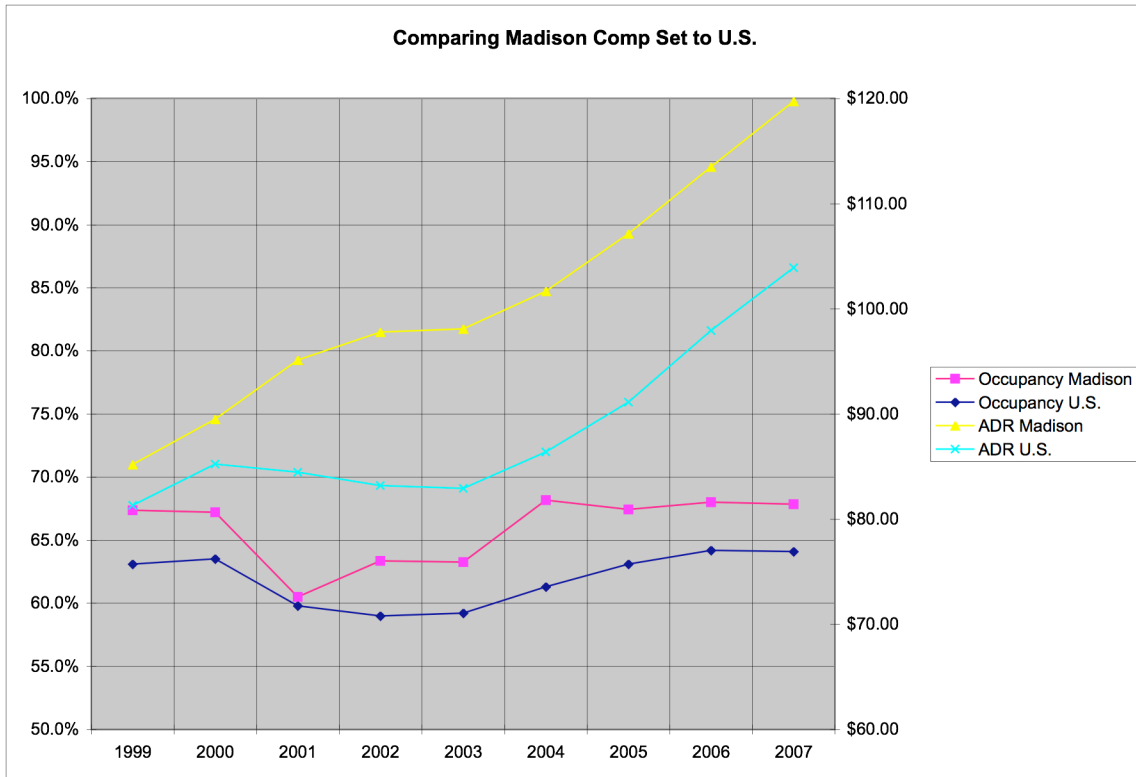
Year	Madison								U.S.							
	Supply Change	Demand Change	Occ.	% Change	ADR	% Change	RevPar	% Change	Supply Change	Demand Change	Occ.	% Change	ADR	% Change	RevPAR	% Change
1999	--	--	67.4%	--	\$85.19	--	\$57.38	--	4.1%	3.0%	63.1%	--	\$81.29	--	\$51.29	--
2000	0.0%	-0.3%	67.2%	-0.3%	\$89.49	5.0%	\$60.12	4.8%	3.4%	4.4%	63.5%	0.6%	\$85.24	4.9%	\$54.13	5.5%
2001	21.1%	9.0%	60.5%	-10.0%	\$95.13	6.3%	\$57.54	-4.3%	2.0%	-3.7%	59.8%	-5.8%	\$84.45	-0.9%	\$50.50	-6.7%
2002	1.6%	6.4%	63.4%	4.7%	\$97.78	2.8%	\$61.95	7.7%	1.8%	0.8%	59.0%	-1.3%	\$83.20	-1.5%	\$49.09	-2.8%
2003	0.0%	-0.1%	63.3%	-0.1%	\$98.07	0.3%	\$62.05	0.2%	1.0%	1.3%	59.2%	0.3%	\$82.92	-0.3%	\$49.09	0.0%
2004	0.0%	7.7%	68.2%	7.7%	\$101.65	3.7%	\$69.29	11.7%	0.4%	4.0%	61.3%	3.5%	\$86.37	4.2%	\$52.94	7.9%
2005	0.0%	-1.1%	67.4%	-1.1%	\$107.13	5.4%	\$72.22	4.2%	-0.1%	2.8%	63.1%	2.9%	\$91.12	5.5%	\$57.50	8.6%
2006	0.0%	0.9%	68.0%	0.9%	\$113.51	6.0%	\$77.19	6.9%	0.2%	0.5%	64.2%	1.7%	\$97.94	7.5%	\$62.88	9.4%
2007	0.0%	-0.2%	67.8%	-0.2%	\$119.72	5.5%	\$81.23	5.2%	1.3%	1.0%	64.1%	-0.2%	\$103.91	6.1%	\$66.61	5.9%
CAGR	--	--	0.1%	--	5.1%	--	5.2%	--	--	--	0.2%	--	3.5%	--	3.7%	--

Source: HSP, STR

In the year that the Hilton was introduced, which was a 21 percent increase in supply, demand increased by nine percent, average daily rate increased by 6.3 percent, and occupancy only declined by ten percent. This compares to the U.S. market which experienced a very small two percent increase in supply, yet a -3.7 percent decline in demand and a decline in average daily rate. Average daily rate declined for three years in the U.S. as a whole, but never declined in Madison. This suggests that the level of quality introduced by the Hilton was significant advance from existing product and there was a resulting flight to quality.

The following figure graphically shows similar information.

Figure 5-3

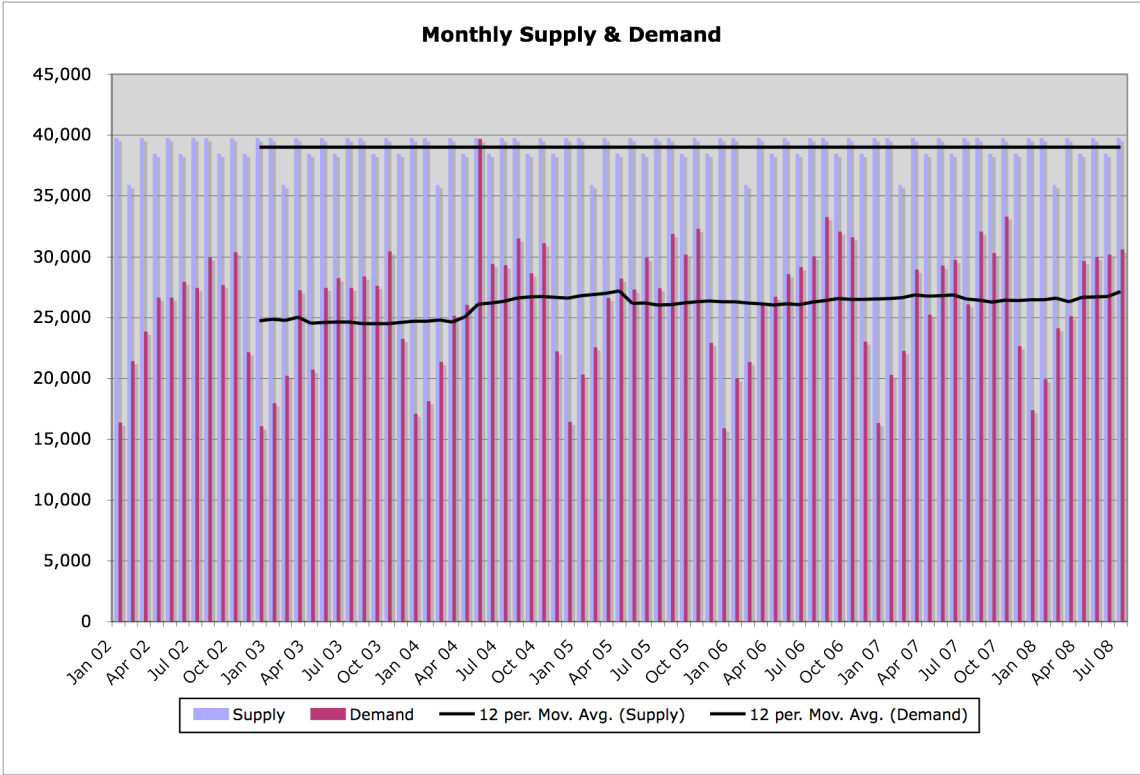


As shown above, occupancy declined briefly, but recovered quickly and reached a high as early as 2004, two years before the U.S. market reached its high point. The average daily rate, as previously discussed, increased every year, despite the large increase in supply and the recession in the U.S.

The market response to the Hilton opening indicates that downtown Madison hotels experienced a boost from the new business it brought to the market. Often when a new high-quality hotel is introduced into a market with limited quality (and quantity), new business is generated, existing business is expanded and a flight to quality occurs and visitors tend to gravitate to the newer higher quality rooms. If the new property is similar to the existing properties, the existing demand will simply be divided up a bit more. However, if a property with higher quality, more amenities and a higher room count is introduced, new demand can be generated, which allows existing hotels to benefit, despite some shifting of demand.

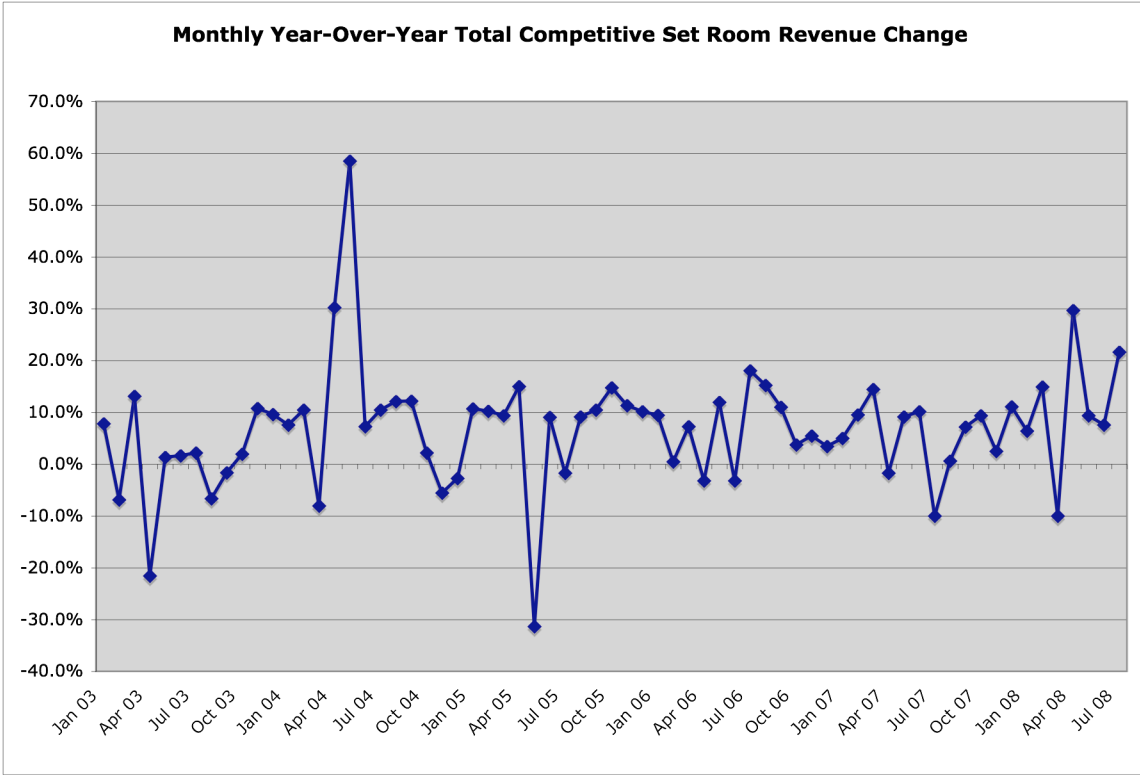
The figure below shows supply and demand for rooms within the set over the 2002 – 2008 period.

Figure 5-4



The figure below shows room revenue changes by month (year over year).

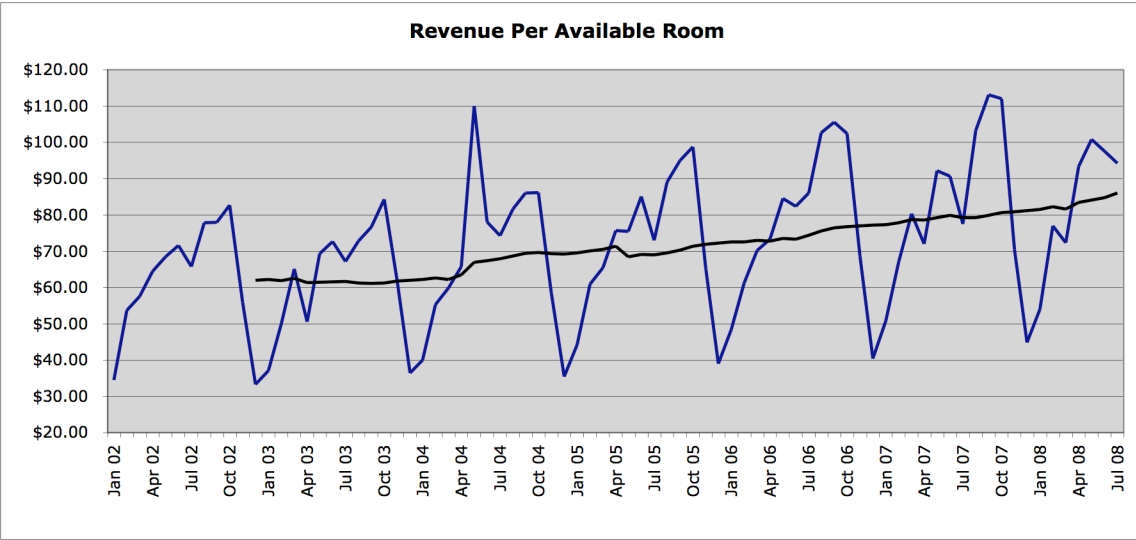
Figure 5-5



Since January 2003, nearly all months in the period have shown positive room revenue growth. This is helped by the fact that ADR has consistently risen each year.

The next figure shows Revenue Per Available Room, RevPAR, which is the product of occupancy and rate.

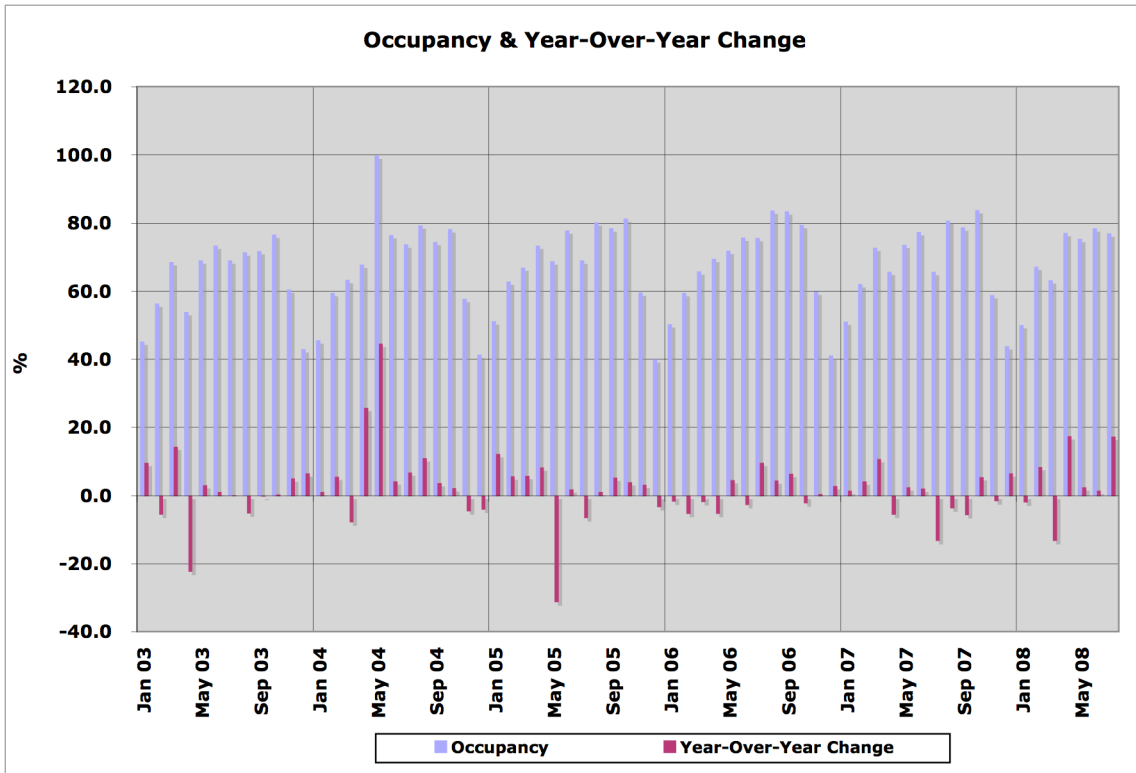
Figure 5-6



The smooth line above shows the 12-month moving average. RevPAR has generally increased since the beginning of the period in 2002. On average the revenue per available room has grown more than \$25 since 2002.

The figure below shows monthly year-over-year change in occupancy.

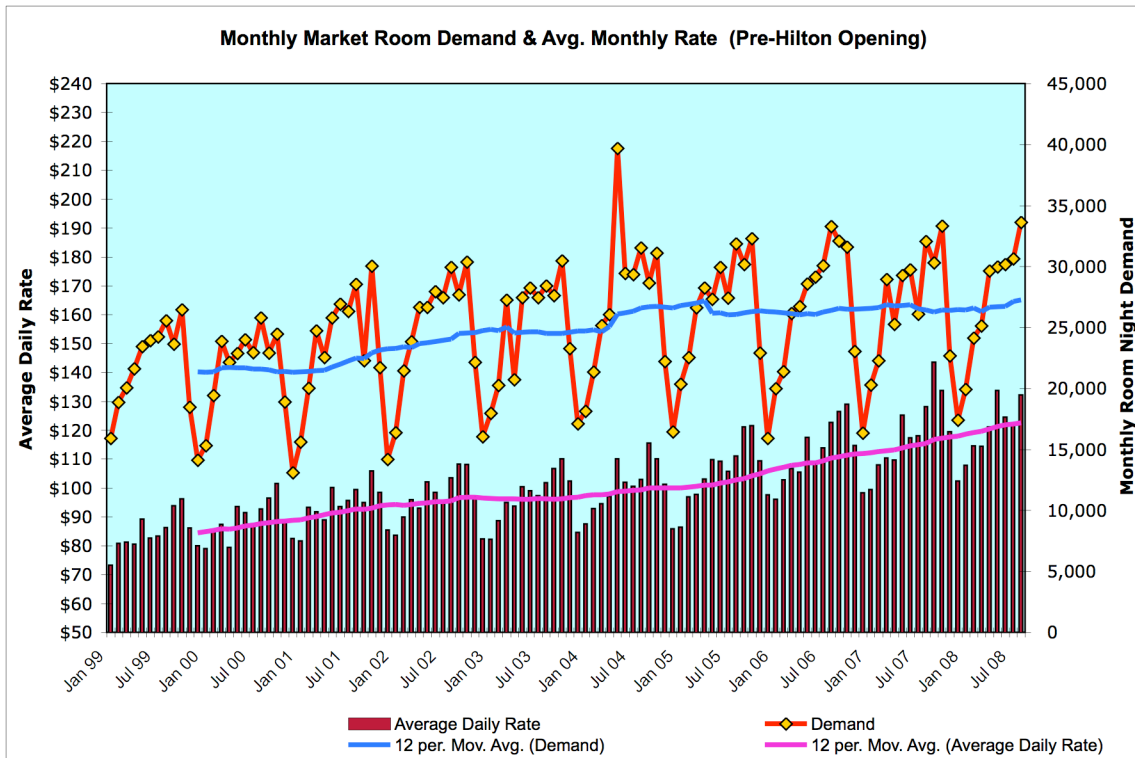
Figure 5-7



Occupancy has fluctuated year over year from 2003 through the first quarter of 2008. The market has experienced positive occupancy growth, for 12 of the last 19 months.

To gain perspective on the impact the Hilton Monona Terrace had on the Madison Market, the table below shows the monthly room demand and ADR trends extended back to 1999.

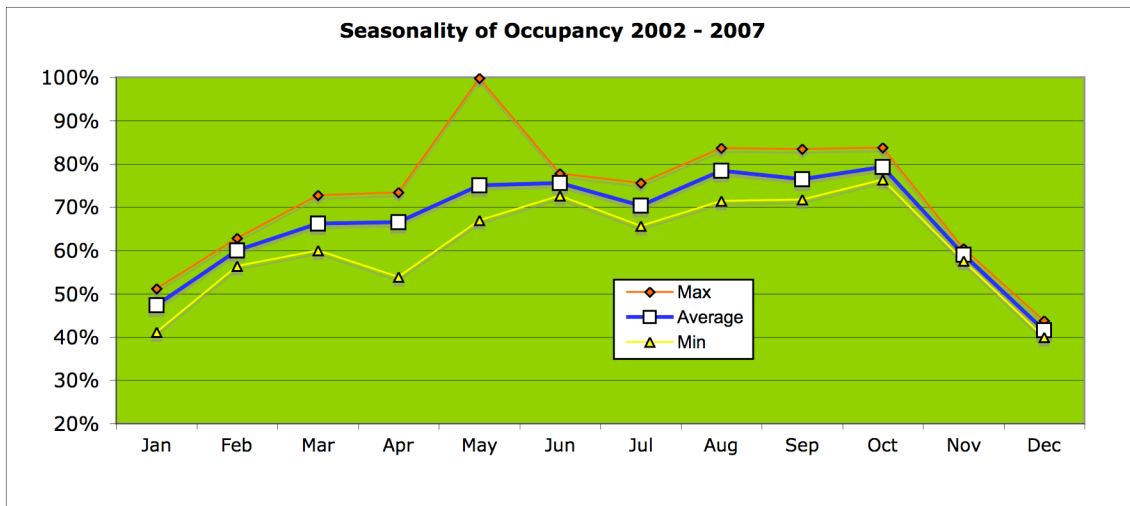
Figure 5-8



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 the average daily rate has continued to increase. This suggests that the Hilton was absorbed relatively quickly and no positive changes in the quality of supply or level of demand occurred from 2005 through the present.

The figure below displays the seasonality of occupancy during the last five years.

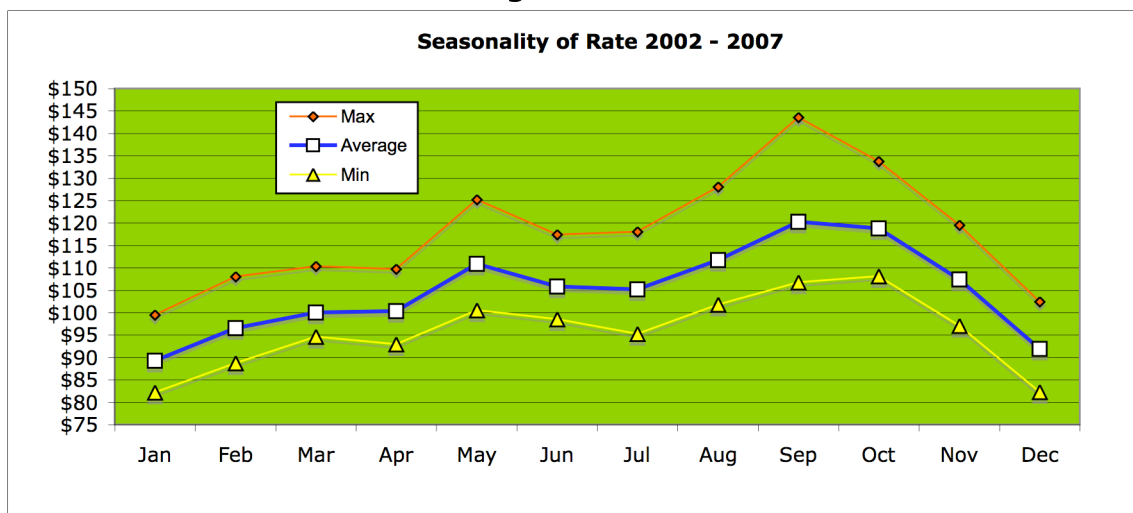
Figure 5-9



The competitive set's seasonality averages show that the strongest months for room demand are August and October, with October as the highest month, averaging 80 percent. December and January are the weakest months, as is typical for many northern markets. During one May, occupancy hit 99 percent through a confluence of events, including graduation.

The figure below shows the seasonality of rate.

Figure 5-10

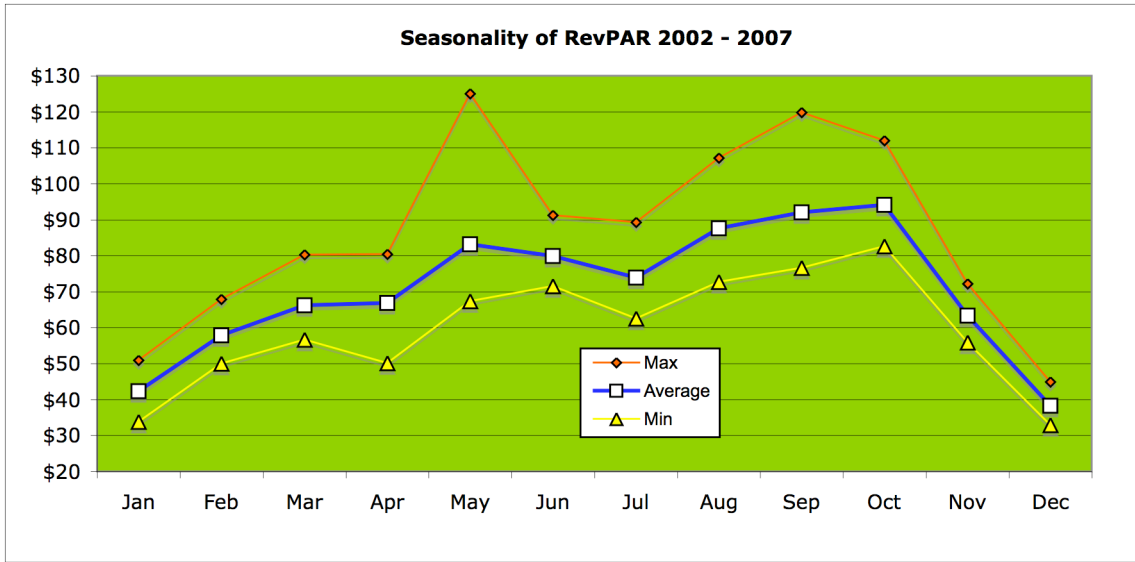


Average rates in September and October are highest as is common for many markets, especially college markets. This is during football season, parents moving kids to college, and the heaviest meeting and convention months. There is a small peak in the month of May due to University of Wisconsin commencement

ceremonies. Summer rates are lower, due to the influx of leisure travelers, who are more cost conscious, and the winter months experience less demand due to the holidays and the off-season for meetings and events.

The following figure shows the seasonality of RevPAR.

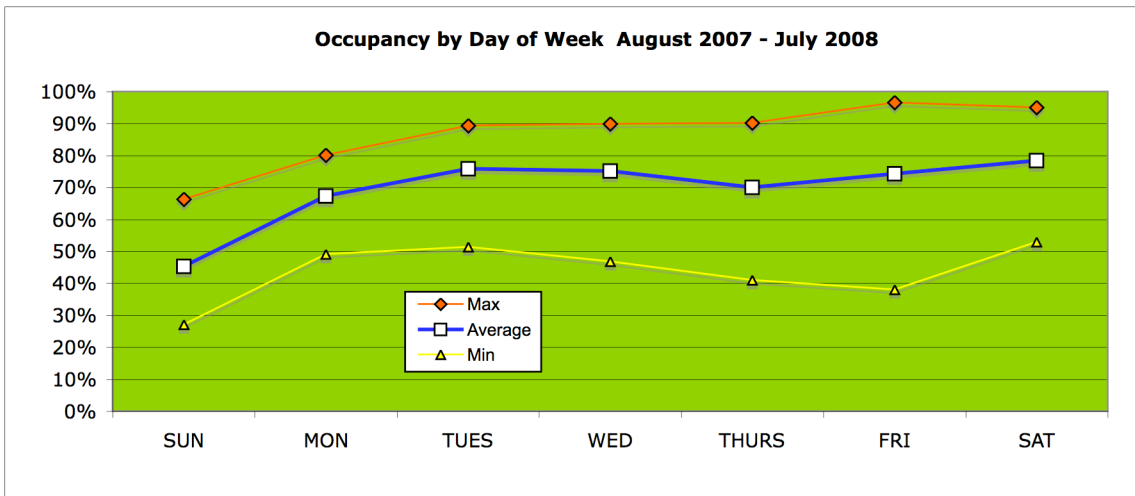
Figure 5-11



As would be expected from the prior graphs, RevPAR is highest in September and October, when the combination of rate and occupancy is highest. December is the lowest month for RevPAR.

The figure below shows occupancy by day of week during the last 12 months of data.

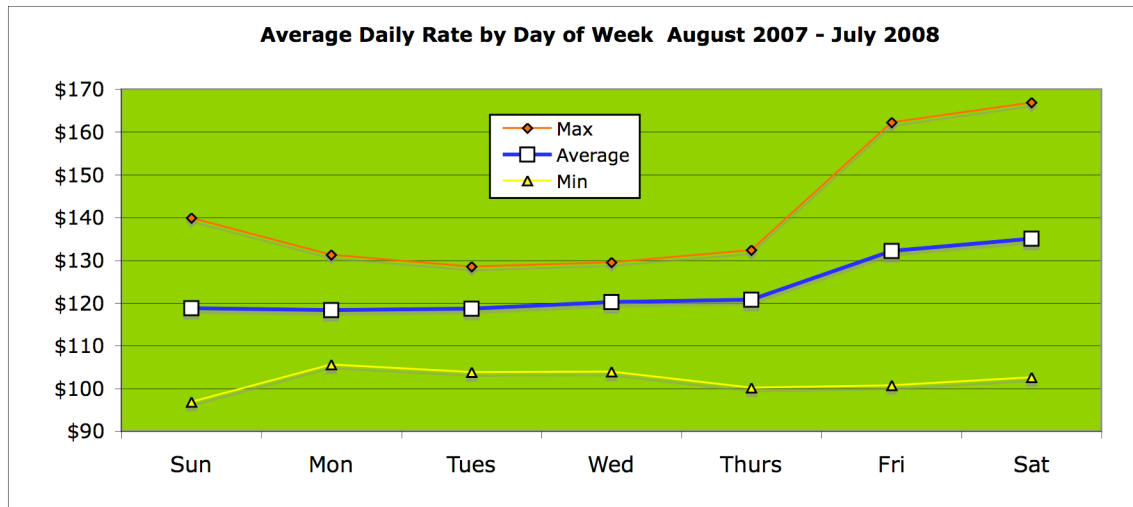
Figure 5-12



Sunday is typically the slowest night in the hotel business and this holds true in Madison. Monday through Wednesday averages occupancies between 70 and 80 percent. Occupancy dips on Thursday before climbing to roughly 80 percent on Saturday nights.

The figure below shows average daily rate by day of week.

Figure 5-13



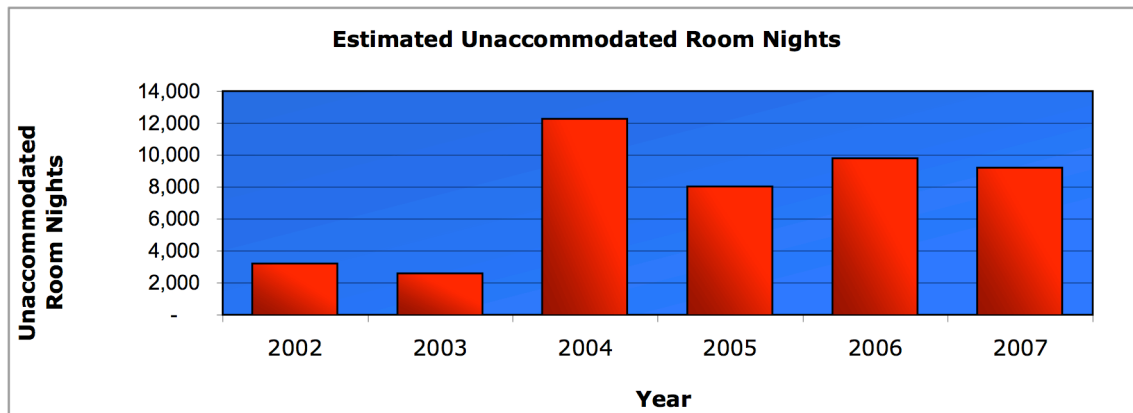
In most markets, the weekend nights of Friday and Saturday typically represent the lowest rates of the week, but Madison experiences the opposite trend. Weekend rates averaged \$133 during the period versus \$120 during much of the week.

Unaccommodated Demand

Unaccommodated demand is defined as demand that would have been captured by the market, but for a lack of available rooms. This demand is therefore deferred to later dates, accepts lesser accommodations, moves just outside the competitive set, moves its business to another area, or cancels plans altogether. As new properties are added to the market, it is expected that this demand will be accommodated in the new supply. In most markets, average monthly demand in excess of 70 percent indicates unaccommodated demand. For every month that occupancy was greater than 70 percent, it is assumed that a portion over that amount was unaccommodated.

The figure below shows the estimated number of unaccommodated room nights in the competitive set historically.

Figure 5-14



For the competitive set, it is estimated that there were 10,000 unaccommodated room nights in 2006. However, the demand decreased slightly, to roughly 9,000 room nights, in 2007. Based on figures to date in 2008, it appears that there are approximately the same number of unaccommodated room nights.

Our research may have uncovered even more such room nights. Based on our conversations with just the Hilton, there were 45,000 room night turnaways in 2007. With a newer, larger convention hotel facility, this demand could be recaptured as well as new demand induced.

Conclusion

The Madison hotel market is similar to many mid-sized markets with major universities in that there is a large amount of limited service product, and very little full-service, top quality hotel product, especially downtown. Madison is a bit different in that it is the state capitol as well as a convention center location. Given all of these positive demand generators and attributes, it is apparent that the proper hotel package does not exist to service these in the proper way, especially the convention center. The development of the Hilton was a necessity, in our view, to service Monona Terrace when it was developed. When it opened into a recessionary economy, it performed well and the local hotel market improved in the face of declines the hotel market in the rest of the U.S. However, it is the lone large, quality hotel within easy walking distance to Monona Terrace. The Concourse comes closest to fitting the bill, but even when including both hotels, this is fewer than 600 rooms.

The market remains strong and occupancy and rate at the Hilton show a flight to quality and location. HSP is of the opinion that if a large, high-quality, convention hotel is built near Monona Terrace, it will cause another flight to quality and simultaneously create demand that will spill over to the rest of the market.