

CITY OF WATERTOWN, WISCONSIN

**Market Feasibility Study for a Proposed
Limited-Service Hotel to be located in
Watertown, Wisconsin**

November 2020

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November 5, 2020

Mayor Emily McFarland
City of Watertown
P.O. Box 477
106 Jones Street
Watertown, Wisconsin 53094-0477

Dear Mayor McFarland:

In accordance with our agreement, Patek Hospitality Consultants, Inc. has completed a study of potential market demand and prepared a statement of estimated annual operating results for a proposed 61-room limited-service hotel affiliated with a major hotel brand to be located in Watertown, Wisconsin.

It should be noted that the fieldwork for this proposed hotel development was conducted in September 2020 in the midst of the Covid-19 pandemic that began to impact the global, national, state, and local economies and significantly affect the hospitality industry starting in mid-March 2020. Throughout the report, we have included comments, footnotes, and disclaimers regarding the pandemic's impact as it pertains to the information in the study including our estimates and recommendations, as the full impact of the pandemic has yet to be realized and there is still little clarity going forward.

As in all studies of this type, the estimated results are based upon competent and efficient management and an effective marketing program and presume no significant change in the competitive position of the hotel industry from that set forth in this report. We have no responsibility to update this report for events and circumstances occurring after completion of our fieldwork and research conducted in September 2020. These projections are based upon estimates, assumptions and other information developed from our research and we do not warrant that they will be attained. We did not consider the legal and regulatory requirements applicable to this project, including zoning, permits, licenses and other state and local government regulations.

This report has been prepared for your use and guidance in determining whether to pursue development of this project and to share with potential developers, hotel companies, and lenders/investors. Neither our name nor the material submitted may be used in any prospectus or used in offerings or representations in connection with the sale of securities or participation interests without our express written permission.

Please do not hesitate to call if we may be of further assistance in the interpretation and application of our findings, recommendations and conclusions. We appreciate the cooperation you extended to us during the course of our engagement and look forward to working with you again in the future.

Sincerely,

Patek Hospitality Consultants, Inc.

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EXECUTIVE SUMMARY

The City of Watertown, Wisconsin have retained Patek Hospitality Consultants, Inc. to provide consulting services to determine the potential market demand and estimate occupancy and average daily rate for a proposed 61-room limited-service hotel in Watertown, Wisconsin. The report that follows provides more information about the proposed site, an overview of Watertown and Jefferson and Dodge counties, the competition, and the proposed future market position of the proposed hotel. Below are bullet statements summarizing the project followed by the full report.

- The City of Watertown is located primarily in Jefferson County with the northern sector of the city located in Dodge County in the southern part of the state of Wisconsin. Ixonia and Oconomowoc surround Watertown to the east, Johnson Creek and Jefferson to the south, Waterloo to the west, and the Town of Emmet to the north. Watertown is located midway between the larger metropolitan areas of Milwaukee and Madison, about 50 miles to the east and west, respectively.
- During our tour of Watertown we were shown nine potential sites for development of the proposed hotel. Based on our research in the market, we are recommending both the downtown site at 111 South Water Street and the Business 26 corridor be considered for development of the hotel. Our analysis of the nine sites can be found in the Site Analysis section of this report along with our reason for recommending two very different locations.
- The proposed limited-service hotel is recommended to be a brand new hotel with 61 rooms that is estimated to open in January 2023. It will feature the facilities and amenities typical of a limited-service concept including a multi-function lobby, king and double queen guest rooms, and an indoor pool, fitness room, small meeting space, and will be affiliated with a national or regional hotel company. Other features could be included depending on the brand selected.
- There are five lodging properties currently located in Watertown, the 79-room Holiday Inn Express, the 45-room Super 8, the 38-room Heritage Inn Hotel, and two B&B's. Our competitive set is comprised of six hotels with 568 rooms and located in Watertown, Johnson Creek, Fort Atkinson, and Oconomowoc.
- The STR report for the six competitive hotels showed occupancy of 60.2 percent, ADR (average daily rate) of \$108.20, and RevPAR (revenue per available room) of \$65.10 for year-end 2019. Year-to-date through August 2020, occupancy was 36.7 percent, ADR was \$95.51, and RevPAR was \$35.02. The year-to-date figures reflect the impact of the Covid-19 pandemic that began to affect the global, national, and local economies beginning in mid-March 2020.

EXECUTIVE SUMMARY cont'd

Brand Name:	To be determined
Number of Rooms:	61
Opening Date:	January 2023
Occupancy (Stabilized):	65%
ADR (2020 dollars):	\$95.00
Stabilized Year:	2025

Site Evaluation: We reviewed nine sites that City of Watertown officials showed us and recommend the proposed hotel be developed either downtown (if the size of the site and parking can be configured) or along the Church Street (Business Highway 26) commercial corridor, preferably with frontage on Church Street.

Competitive Lodging Market Summary – (568 Rooms):

Holiday Inn Express Watertown	79 Rooms
Comfort Suites Johnson Creek	100
Hilton Garden Inn Oconomowoc	100
Staybridge Suites Oconomowoc	128
Holiday Inn Express & Suites Ft. Atkinson	78
Country Inn & Suites Ft. Atkinson	83

Competitive Market Performance (STR)	Occup.	ADR	RevPAR
Year-End 2012	56.6%	\$87.37	\$49.41
Year-End 2013	56.8%	\$93.31	\$53.02
Year-End 2014	62.2%	\$93.95	\$58.47
Year-End 2015	63.6%	\$99.97	\$63.63
Year-End 2016	66.2%	\$101.81	\$67.41
Year-End 2017	65.8%	\$106.73	\$70.19
Year-End 2018	69.7%	\$106.98	\$74.56
Year-End 2019	60.2%	\$108.20	\$65.10
YTD August 2019	61.7%	\$109.95	\$67.89
YTD August 2020	36.7%	\$95.51	\$35.02

**Projections – Proposed Limited-Service Hotel
Watertown, Wisconsin**

Year	Occupancy	ADR	RevPAR
2023	55.0%	\$105.70	\$58.14
2024	60.0	114.20	68.52
2025	65.0	121.00	78.65
2026	65.0	124.70	81.06
2027	65.0	128.40	83.46

**Estimated opening January 2023*

Source: Patek Hospitality Consultants, Inc.

PROJECT CONCEPT AND RECOMMENDATIONS

The proposed hotel is recommended to be a three to four-story limited-service hotel offering 61 +/- rooms that would include a mix of double queen and king standard guest rooms and extended-stay suites. The mix of guest rooms would be determined by the hotel brand that would allow flexibility in capturing the various market segments in Watertown and Jefferson County including the transient business comprised of Corporate/Individual, Group/SMERF, Tourist/Other, and Extended-Stay. For purposes of our study, we used 61 rooms that is recommended to include six to eight extended-stay suites.

As a brand hasn't been selected, the description of the hotel's public space and guest rooms is fairly generic for limited-service hotels. All standard guest rooms are recommended to include digital key access, a desk and ergonomic chair, MP3 alarm clock radio, a wall-mounted LCD flat panel television with HD channels, coffee maker, hairdryer, free high speed internet access in all guest rooms and the lobby, microwave and refrigerator, iron/ironing board, and telephone with voice mail and data port. The kitchenette, depending on brand, should offer a full size refrigerator, cook top, microwave, dishes, pots and pans, utensils, and other amenities to make the long-term guest feel at home.

The hotel is recommended to offer an indoor pool, whirlpool, and fitness room, complimentary breakfast, business center, convenience store, and guest laundry. An outdoor patio/grill area is a popular feature for extended-stay guests. A small beer/wine bar area is recommended that could serve a weekday evening reception and a light finger food meal. This is recommended as a convenience for corporate guests that may not want to venture out after working all day. It is recommended that meeting space include a boardroom (one guest room bay) to seat 10 people and a second meeting room (two guest room bays) that would seat 30 people classroom style. Shuttle service was mentioned by several of our demand interviews, namely the wedding venues, and should at least be discussed by the developer on whether to offer this as an amenity.

The need for meeting and banquet space was mentioned in some of our demand interviews and discussions with local officials. While there are occasions where space for a large number of people is needed, the financial constraints of developing and operating such large space becomes almost cost prohibitive without city incentives. With the expansion of the library, which is to include meeting space for 180 people, we do not believe a standalone conference center/banquet facility, as part of the hotel development is economically feasible in today's economic and business climate.

The recommended facilities and amenities discussed in this section reflect what limited-service hotels "typically" have provided to its guests. Since the Covid-19 pandemic's impact on the hotel industry, there has been significant discussion on making hotels safe to stay in. Some of these changes, according to a May 2020 *Hotel Management* article, are as follows:

- Hotels over the last several years have created more communal spaces with lobbies and outdoor decks to allow for more social interaction. This is expected to change for the foreseeable future as the pandemic has changed guest's comfort level for safety.
- Cleaning protocols will be intensified, especially on high-touch areas, and there will be a need to communicate this information to guests.
- Sanitizing stations located throughout the hotel.
- Common spaces need to be reorganized to allow for and observe the 6-feet of social distancing recommendations.
- Guest room functionality and technology will be needed to accommodate the way guests utilize the room, i.e. guests may choose to work in their room rather than shared lobby space. In addition to working in the room, guests may choose to have room service/delivery service brought to their room for in-room dining.

This list is just an example of what existing hotels can do in the foreseeable future to make consumers feel safe about traveling. Developers of new hotels will need to take into consideration more long-term solutions that would benefit the hospitality industry and society as a whole. These are mentioned as points of discussion among industry professionals; the development team for a proposed hotel will incorporate what is required by the brands.

- Sanitizing innovations to allow for efficient cleaning of large spaces
- Welcoming way-finding signage integrated into the aesthetics and decor
- Advances in technology to allow for touchless or voice activated interface solutions throughout the hotel
- Evolution of HVAC systems in order to sanitize recirculating air within buildings, especially in public areas. Like healthcare facilities, interior environments would be designed to reduce pathogen transmission
- Implement materials for wall coverings, hard surfaces, and FF&E that are antibacterial and germ-resistant.

It is our opinion hotel design will evolve with the times we are in and as new products, technology, and information become more readily available.

BRAND DEVELOPMENT IN THE COMPETITIVE MARKET

At the present time, IHG and Wyndham brands are represented in Watertown with the Holiday Inn Express and Super 8, respectively. The competitive market includes hotels that are affiliated with Hilton, IHG, Carlson, and Wyndham.

SITE ANALYSIS

During our meeting and tour with Jacob Maas and Andrew Beyer, City of Watertown representatives, we reviewed nine potential sites for development of a hotel. To evaluate potential sites for hotel development, we consider criteria such as a site's access, visibility,

proximity to demand, proximity to support amenities such as restaurants, and overall advantages/disadvantages of the site versus the competition. Following is a summary of the sites we reviewed and our analysis of each.

Site #1 – Downtown adjacent to the proposed Town Square and the Rock River (111 South Water Street)

This Downtown site is approximately 0.83 acres (as provided by the City of Watertown) and located between Water Street and the Rock River with Main Street just north of the adjacent proposed Town Square. This site is owned by the City of Watertown and was the only site discussed in the 2016 hotel study. The site has potential for hotel development. It is part of the revitalization that is taking place in downtown Watertown that includes the library expansion currently under construction and the planned Town Square that should break ground in spring 2021. There is continued interest in revitalizing the Riverfront, which is a great asset for the community, as well as other areas of downtown. The proximity to Main Street and the walkability factor to restaurants, bars, and retail shops in downtown are also very favorable. We recommend this site be considered for development of the hotel. Our concern for this site is the size of the parcel and how parking would be configured. If parking would have to be underground, that can add a considerable dollar amount to the hotel's development costs, particularly for a 60-70-room hotel. If surface parking or structured parking were to be provided at the library across Water Street or in the immediate vicinity, then you have guests parking off-site and walking to the hotel. This site requires much more discussion between the City and a developer to be considered as a viable site for hotel development. We understand the interest in this site by City officials that see this as a catalyst for continued development and revitalization of downtown Watertown, however the economic feasibility of this site will require city incentives.

Site #2 – Downtown at First and Jones streets (204 N. First Street)

The City of Watertown also owns this 1.091-acre site (size provided by the City of Watertown) located diagonally from city hall on the east side of the Rock River. The site is a rectangular shaped parking lot located about one block north of Main Street. We believe this site is also small for a hotel and if the hotel were to locate downtown, we believe the location by the Town Square would be more aesthetically pleasing.

Site #3 – 5 lots for sale along Air Park Drive (12.7 acres total east of Church Street) near the Bypass

The five sites are privately owned and are located between Berres Brothers Roasters to the west and Fisher-Barton to the east. All five sites are vacant and located close to industry and the Watertown Municipal Airport. The lots are about one-quarter mile east of Highway 26. We like the southern area of Watertown for hotel development. However, while these parcels could be considered for the hotel, it is our opinion that a site on Highway 26 should be considered for greater visibility and access.

Site #4 – Shopko site (701 S. Church Street)

The Shopko closed in May 2019 and the property is for sale. On the western end of the Shopko building is Sherwin Williams and Dollar Tree, both of which are separate leases from the Shopko from what we understand. This site is located within the primary commercial area of Watertown and would be very appropriate for a hotel. The site is located along the commercial corridor of Church Street and minutes from Downtown and Main Street. Our concern for this site is the redevelopment costs associated with purchasing the site, razing the Shopko building and redeveloping the site; costs that would be on top of the hotel development costs. It is not likely an economically feasible site for those reasons. However, if an outlot would be available to purchase rather than the Shopko building itself, this general area would be appropriate for hotel development and should be explored further.

Site #5 – Bethesda Lutheran Communities owned property

This 5.6-acre site is located behind the Ace Hardware and Joann Fabrics and Craft Store off of Church Street, across from the Shopko site. This site that faces the back of the Ace Hardware Store does not offer very good curb appeal for a hotel guest that would have to pull off of Church Street and turn onto Montgomery Street. City officials also indicated DNR permitting could be more difficult as the site fronts on the Rock River and a 75' setback would be required.

Site #6 – 26 Bypass and Highway 19 (1402 W. Main Street)

There are about 76 acres in the northeast quadrant of this interchange. There is farmland in three of the four quadrants at this interchange. The Westside Industrial Park is just east and south of the interchange and Maranatha Baptist University is further east along Highway 19. Support amenities are lacking in the immediate area and we believe the interchange needs to see more development before a hotel should be considered.

Site #7 – 760 N. Church Street

This 8-acre site is currently vacant but formerly housed a motel structure that was razed. This north side site is immediately east of Watertown High School and adjacent to Watertown Bowl North. Our opinion is this area is lacking in support amenities and traffic counts are lower as compared to other entryways into Watertown.

Site #8 – 323 Summit

This vacant site is located on the far eastern edge of Watertown on Summit Avenue (Highway 19). The site is currently vacant. We would not recommend this site because the area lacks support amenities and it is our opinion it is more of a commuter route to Oconomowoc to the east than a thoroughfare that visitors to Watertown would travel.

Site #9 – 154 Hospital Drive

This vacant site is located north of Highway 16 and the Frontage Road in the northeast sector of Watertown. The immediate area is comprised of residential and medical related development including the Watertown Regional Medical Center. There is some commercial development in the area including car dealerships, dining establishments and the Piggly

Wiggly. However, our discussion with the Hospital indicated there are some overnight stays for a hotel, but not a significant amount. We believe this site is located further from more of the industry and other demand generators in Watertown and like Site #8, the location off of Highway 16 is more of a commuter route between Watertown and Oconomowoc and points east.

Site Recommendation Summary

We provided commentary about the nine sites and whether they should be considered for development of a hotel. We are not recommending a specific site in this report but rather two areas of Watertown that we believe would provide the community with a good hotel project and potential success for a hotel developer. The downtown site between the Rock River and Water Street is recommended for reasons stated previously. We believe the potential exists for hotel development on this downtown site however much more discussion will be required regarding site size and parking.

We are also recommending that a site be considered along the Church Street (Business Highway 26) corridor with frontage preferably on Highway 26. We believe that a site on the southern end of Business Highway 26, possibly near Wal-Mart and the 26 Bypass would be more accessible to visitors traveling Interstate 94 and the eight miles to the Watertown city limits. The 2018 traffic counts for this southern end of Watertown averaged 12,700 vehicles on Church Street just north of the Holiday Inn Express and near the airport. We are not aware of site availability/costs (outlots) by Wal-Mart, as these were not discussed during our fieldwork and we did not conduct our own research. We also like the area around the Shopko, as it is very convenient to downtown and the Highway 26 commercial corridor.

The 26 Bypass is a regional connecting route for those travelers traveling between Rockford, Illinois and Green Bay that want to avoid the busier I-94 and I-41 highways. A hotel located near the Bypass would provide greater visibility for these travelers.

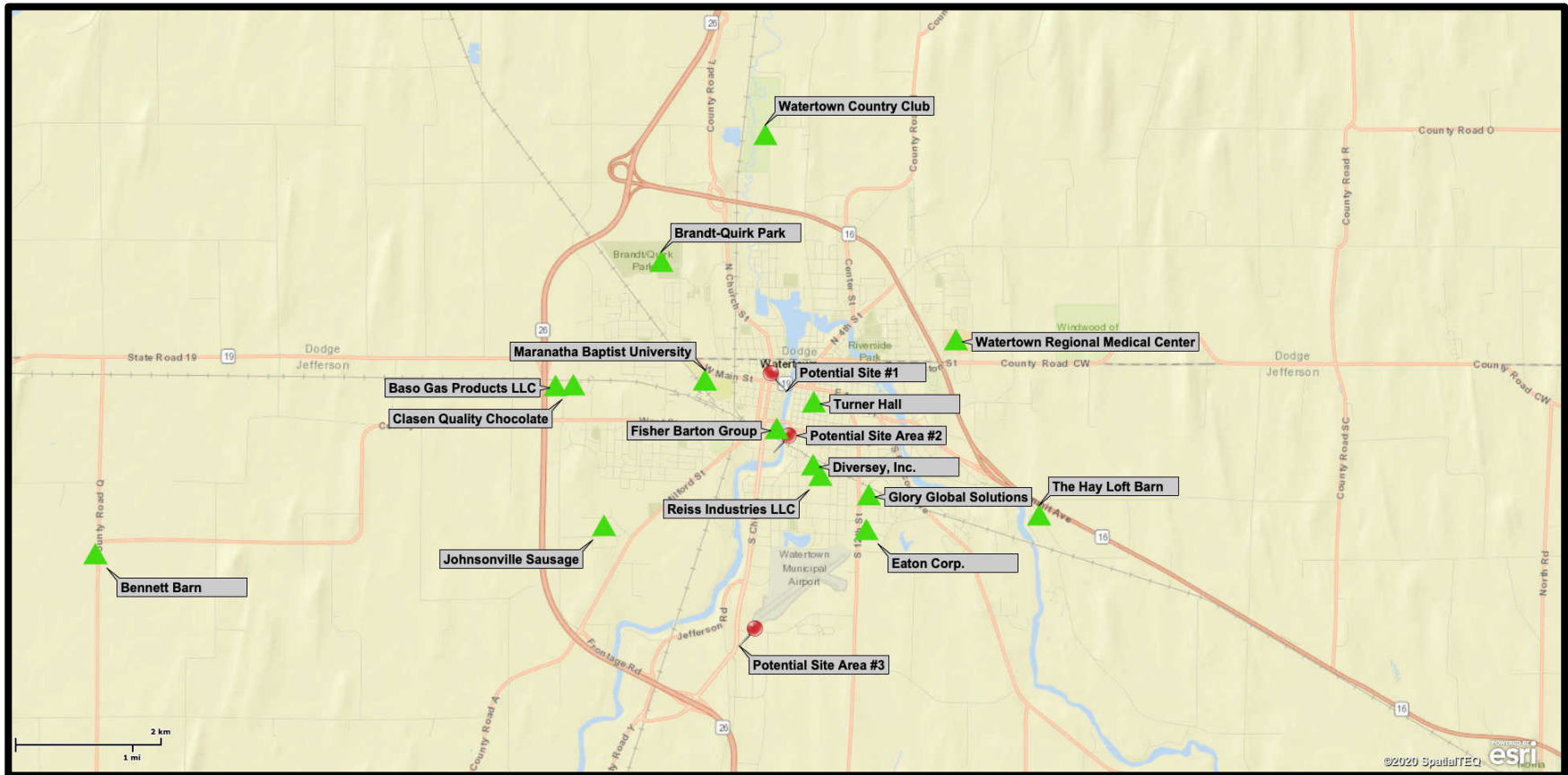
Watertown not being on Interstate 94, in our opinion, provides some challenge for a hotel to compete with those hotels in communities that are located along I-94 like Johnson Creek and Oconomowoc. In our view, Watertown is a destination and visitors to the community are there because they either have business in the city or are there for an event (wedding or sports), or visiting the tourism related attractions/activities and are not just passing through and decide to “pull off the interstate”.

The City of Watertown is located about midway between the metropolitan areas of Milwaukee (one hour to the east), which is the largest city in Wisconsin and Madison (one hour to the west), the state capitol and home to the University of Wisconsin. Both metropolitan areas offer a large employment base, cultural and tourism activities, healthcare, shopping, and entertainment offerings. Watertown’s proximity to Milwaukee and Madison is a positive factor for many reasons, but it can also be a negative because travelers traveling on I-94 could

choose to stay in the larger metropolitan areas because of the interstate access and the amenities offered.

A map identifying potential demand generators in relation to potential sites follow.

POTENTIAL SITE LOCATIONS AND LOCAL DEMAND GENERATORS WATERTOWN, WISCONSIN



MARKET AREA OVERVIEW

Watertown and Jefferson/Dodge County

Watertown is located in both Jefferson and Dodge counties, about halfway between Milwaukee and Madison. About two-thirds of the southern portion of Watertown is located in Jefferson County with the northern one-third located in Dodge County. State Highway 19 is the dividing line between the two counties.

Jefferson County is surrounded by Dodge County to the north, Waukesha County to the east, Walworth County to the southeast, Rock County to the southwest, and Dane County to the west. Proximity to these surrounding counties uniquely positions Jefferson County to communities such as Madison, the state capitol and home of the University of Wisconsin in Dane County, Janesville/Beloit in Rock County, and Waukesha in Waukesha County and proximity to the major metropolitan area of Milwaukee and Milwaukee County.

Jefferson County offers a diversified economy with over 25 percent of its economic base in manufacturing, a figure that is higher than both the state and the nation. The service industry also represents a significant employment sector. Over 10,000 jobs are linked to agriculture, which is a \$1.5 billion industry in the County. Jefferson County offers several “niche” economic sectors that include advanced manufacturing, food processing, and agribusiness.

Dodge County is a leading county in the production of cheese, barley, alfalfa, hay, and peas for canning. Industries include the manufacture of wood products, shoes, metal products, lawn care equipment, magazines, stainless steel equipment, and ice fishing equipment.

Demographics, Business, and Economic Base

Although there is no correlation between the size of an area’s population and its level of transient visitation, historical and projected population trends often reflect the economic climate of a locale. Population trends for Watertown, Jefferson and Dodge counties, and the state of Wisconsin follows:

Population Estimates

Community	April 2000 Census	April 2010 Census	July 2019 Estimate	% Change 2000- 2010	% Change 2010- 2019	2018 Median HH Income
Watertown	21,598	23,872	23,479	10.5%	(1.6%)	\$49,402
Jefferson County	76,032	83,688	84,769	10.0%	1.3%	\$63,676
Dodge County	85,962	88,750	87,839	3.2%	(1.0%)	\$58,870
State of Wisconsin	5,363,675	5,687,285	5,822,434	6.0%	2.4%	\$59,209

Source: US Census Bureau

Jefferson County ranks as the 20th most populous county in the state (of 72 counties), while Dodge County is the 17th largest. Five of the ten largest municipalities in Jefferson County are situated along State Highway 26 and the Rock River. Ixonia, Lake Mills, and the Village of Johnson Creek recorded the largest population increase between 2010 and 2018. In Dodge County, the municipalities that recorded the largest growth in population were Beaver Dam, Waupun, and Watertown for the same time period.

The South-Central WDA (Workforce Development Area comprised of Columbia, Dane, Dodge, Jefferson, Marquette, and Sauk counties) had the fastest rate of population growth from 2010-2018 among all 11 of Wisconsin's WDAs, driven largely by Dane County, home of the state capitol in Madison and the University of Wisconsin-Madison. The South-Central WDA contains about 14.4 percent of Wisconsin's residents.

Employment Trends

The strength of the various counties within the South-Central WDA is varied; Dane County's core supersector is Education and Health Services anchored by the University of Wisconsin-Madison and SSM Health Dean Medical Group. Manufacturing is the dominant industry in Columbia, Dodge, Jefferson, and Marquette counties. Sauk County is one of only five counties in the State where Leisure & Hospitality has the most employment with many of the Wisconsin Dells' hotels and waterparks located in Sauk County. Dane County has about 72 percent of the total jobs in the South-Central WDA.

From 2016-2026, the South-Central WDA is projected to add nearly 45,000 jobs, growing 8.8 percent. This is higher than the state's projected job growth of 6.8 percent for the same period and second highest among the 11 WDAs (Southeast 12.9%). Education and Health Services and Professional and Business Services are expected to drive the growth rate for this area.

The labor force estimates for Jefferson and Dodge counties and the state of Wisconsin for year-end 2017-2019 and for the month of August 2019 versus August 2020, which reflects the Covid-19 impact, is shown in the following table.

Labor Force Estimates
Jefferson County, Dodge County, and State of Wisconsin,
Year-End 2017-2019 and Month of August 2019 vs. August 2020

Area	Labor Force	Employed	Unemployed	Unemployment Rate
2017				
Jefferson County	45,636	44,181	1,455	3.2%
Dodge County	48,430	47,025	1,405	2.9%
State of WI	3,133,405	3,030,655	102,750	3.3%
2018				
Jefferson County	46,054	44,733	1,321	2.9%
Dodge County	47,964	46,703	1,261	2.6%
State of WI	3,118,301	3,024,747	93,554	3.0%
2019				
Jefferson County	45,857	44,416	1,441	3.1%
Dodge County	47,544	46,107	1,437	3.0%
State of WI	3,105,142	3,001,215	103,927	3.3%
August 2019				
This area		Intentionally	Left blank	
Jefferson County				3.1%
Dodge County				3.0%
State of WI				3.4%
August 2020				
Jefferson County	46,858	44,579	2,279	4.9%
Dodge County	46,697	44,405	2,292	4.9%
State of WI	3,062,770	2,876,913	185,857	6.1%

Source: Wisconsin Department of Workforce Development

The average quarterly employment for Jefferson and Dodge counties as of first quarter 2020 is presented in the following table.

**Quarterly Census of Employment
Average Monthly Employment – First Quarter 2020
Jefferson and Dodge Counties, Wisconsin**

Industry	1 st Quarter 2020			
	Jefferson County		Dodge County	
	Employment	% of Total	Employment	% of Total
Manufacturing	9,238	28.3%	10,248	29.4%
Trade, Transportation, Utilities	6,273	19.2	6,160	17.7
Education & Health Services	5,549	17.0	6,921	19.9
Professional & Business Services	3,261	10.0	2,435	7.0
Leisure & Hospitality	2,886	8.9	2,068	5.9
Construction	1,377	4.2	1,841	5.3
Public Administration	1,333	4.1	2,703	7.8
Financial Activities	872	2.7	612	1.8
Other Services	728	2.2	894	2.6
Natural Resources & Mining	661	2.0	821	2.4
Information	421	1.3	135	0.4
Total	32,598	100.0%	34,837	100.0%

Numbers may not add due to rounding

Source: Wisconsin Department of Workforce Development

The top four industries, Manufacturing, Trade/Transportation/Utilities, Education & Health Services, and Professional & Business Services comprised about 75 percent of the average employment in Jefferson County for first quarter 2020. In Dodge County, the top three industries together with Public Administration account for about the same 75 percent.

According to The City of Watertown 2019 Comprehensive Plan with information provided by the Wisconsin Department of Workforce Development, the largest employers in Watertown are as follows:

**Largest Employers
Watertown, Wisconsin**

Employer	Product or Service	# of Employees
Watertown Unified School District	Education	500-999
Watertown Regional Medical Center	Healthcare	500-999
Wal-Mart	Retail	250-499
Maranatha Baptist University	Education	250-499
Eaton Corp.	Manufacturing	250-499
Glory Global	Financial	250-499
Marquardt Village	Residential Lessors	250-499
Maranatha Strings Prep School	Education	100-249
Talaris	Commercial Banking	100-249
Fisher-Barton Group	Office Admin. Services	100-249
Reiss Industries LLC	Manufacturing	100-249
United States Chemical	Manufacturing	100-249
Bethesda Lutheran Communities*	Nursing Care facilities	100-249
Sealed Air Corp. (Diversey)	Manufacturing	100-249
Pick N' Save	Grocery Store	100-249
UPS	Direct Mail Advertising	100-249
Clasen Quality Chocolate	Wholesaler	100-249
Johnsonville Sausage LLC	Food Processing	100-249
Baso Gas Products LLC	Natural Gas Distribution	100-249
Beverly Enterprises Inc.	Cont. Care Retirement Communities	100-249
Blain's Farm & Fleet	Farm Supply Wholesaler	100-249
Madison Area Technical College	Education	100-249
Spuncast Inc.	Machine Shop	100-249

**Employment figure prior to October 2020 announced closures and employee reduction*

Source: Wisconsin Department of Workforce Development, 2019

Transportation

Highway

State Highways 16, 19, and Business Highway 26 are the primary automobile routes serving Watertown. State Highway 16 runs east/west across the state for about 193 miles between Pewaukee and La Crosse with much of the route running parallel to I-94 or I-90. In Watertown, State Highway 16 travels around Watertown via a bypass in the northern and eastern sectors of the city. State Highway 19 begins in Watertown and travels for 59 miles westward to Sun Prairie and other communities in Dane County. In Watertown, Highway 19 is referred to as Main Street, which becomes Summit Avenue in the eastern portion of the city.

Business Highway 26 is a two-lane north/south highway that begins in Rock County and extends northeast to Winnebago County; along the route are a few urban multi-lane arterials including Watertown. Bypass 26, which was completed between 2009 and 2014, currently runs for about 48 miles. In Watertown, it runs on the western edge of the community where there are three interchanges at Business 26, State Highway 19, and State Highway 16. Bypass 26 provides the connection between Interstate 94 and the Watertown city limits, a distance of approximately eight miles. Bypass 26 between north of Watertown and State Highway 60 East has not yet been completed.

Business 26, known as Church Street in Watertown, travels north/south and is the primary commercial corridor in Watertown. Business 26 intersects with Main Street (State Highway 19) about three miles north of the Bypass 26 interchange in the southern sector of Watertown. Other arterial streets include County Highways CW, T, X, A, and E.

Airport

The Watertown Municipal Airport is located in the southern sector of Watertown; it is a public airport and owned by the City of Watertown. For the 12-month period ending June 2018, the airport had 58,000 aircraft operations. In June 2020, there were 62 aircraft based at this airport. Wisconsin Aviation is the airport's general aviation service provider offering charters, flight training and aircraft rental, aircraft maintenance and avionics, aircraft interiors and detailing, and sales.

The closest commercial airport is the Dane County Regional Airport located in the northeast section of Madison, about 40 miles from Watertown via I-90/94. Five airlines serve this regional airport, American, Delta, Frontier, Sun Country, and United with service to 23 destinations around the country.

Mitchell International Airport, located on the south side of Milwaukee, is located approximately 54 miles southeast of Watertown. The Airport is served by nine airlines including Air Canada, Alaska, American, Delta, Frontier, Southwest, and United, as well as Swift Air (Apple Vacations and Funjet Vacations). Milwaukee offers non-stop flights to 37 destinations coast-to-coast and 160 international destinations are available from Milwaukee with just one connection.

Economic Development

Jefferson County is surrounded by Dodge County to the north, Waukesha County to the east, Walworth County to the southeast, Rock County to the southwest, and Dane County to the west. Proximity to these surrounding counties uniquely positions Jefferson County to communities such as Madison in Dane County, Janesville/Beloit in Rock County, Waukesha in Waukesha County to the east, and the largest metropolitan area in the state of Milwaukee and Milwaukee County slightly further to the east.

Watertown is well positioned within the counties of Jefferson and Dodge and well connected with other cities and counties in the southern region of the state through roadways, a municipal airport, and freight rail services. Watertown is located about eight miles south of I-94 via Bypass 26. Business 26 and Bypass 26 as well as State Highways 16 and 19 connect to other thoroughfares that provide access to major urban areas such as Chicago and Minneapolis and points in between.

Like many Midwest cities over the years, the City of Watertown's economy has diversified, with less employment based on manufacturing and a blue-collar workforce and driven more toward employment in education, health services, and trade.

According to the City of Watertown Comprehensive Plan, adopted December 17, 2019, commercial/office development encompasses about 4 percent of the City's total land area; industrial development comprises approximately 7 percent; institutional land use is about 14 percent; and public parks and open space is about 6 percent. Much of the commercial development is located along Church Street. Industrial development is located on the west side in the Westside Industrial Park that is nearly built out and includes companies such as Clasen Quality Chocolate, Baso Gas, Temp-Air, Inc. and Wis-Pak. Ad-Tech and Baker-Rullman Manufacturing are also located in the northwest sector of Watertown but not within the Westside Industrial Park. Other industrial development has occurred near the airport in the southeast sector of the city with Fisher-Barton, Konecranes, and Eaton Corp.

Institutional uses include Watertown Regional Medical Center on the northeast side, Maranatha Baptist University, Watertown School District, Luther Preparatory campus, Marquardt Village, and Bethesda Lutheran campus.

Downtown Watertown is considered a central mixed-use area with commercial development as well as office, and residential. The downtown area offers a unique historic character; the Main Street Commercial Historic District was placed on the National Register of Historic Places list in June 1989. The District runs along Main Street from North Washington Street to South Seventh Street. According to Watertown Main Street in 2018, six new businesses opened or expanded downtown and over \$821,000 was spent on private interior and exterior building improvement projects with over \$6,000 shared in façade and grant signs. In 2019, nearly \$24,000 was shared in façade and grant signs and more than \$470,000 was invested in private building improvement projects. In 2019, Main Street Program events generated \$59,000 in revenue and attracted more than 15,000 people.

In 2017, the City established the Watertown Redevelopment Authority (RDA), whose focus was to take on blight elimination, slum clearance, and urban renewal projects. One of the first major projects that RDA became involved with was the redevelopment of the 100 block of Main Street that included purchasing buildings, clearing the land, and getting it ready for the development of the Town Square. Demolition of the buildings took place in summer 2020 with construction of the Town Square to occur in spring 2021 with completion scheduled for fall 2021. The location of the proposed Town Square is bordered by Main Street to the north,

the Rock River to the east, Water Street and the Watertown Public Library to the west, and a vacant site (possible hotel site) and the Globe Apartments to the south.

Town Square has been designed to include an interactive fountain, performance plaza/event lawn space, and a floating dock on the Rock River for kayaks and canoes. Water Street will not be permanently closed between the library and the Town Square but could be closed off to vehicular traffic during larger events/festivals. Public restrooms will not be built at the Town Square but would be accessed inside the library; for large events portable restrooms would be provided. Funding for the \$3.5 million Town Square project is derived from \$1 million from the RDA, \$1 million from the City of Watertown, and \$1.5 million coming through fundraising, grants, and private donations.

Another project in this immediate area is the expansion and remodeling of the Watertown Public Library. The library is located across from the proposed Town Square and also fronts on Main Street. The \$6.6 million Watertown Library Center broke ground in August 2020 and will include a 180-person meeting space, several smaller meeting rooms, a drive-up book drop, and a 3,000 square foot center for children. A glass wall will overlook the Town Square.

Further revitalization of downtown and particularly the Riverfront continues to be a focus for city leaders, as discussed in the December 2019 Comprehensive Plan.

Tourism

Tourism had a \$22.2 billion impact on Wisconsin's economy in 2019, up 3.0 percent from the 2018 figure of \$21.6 billion. Tourism in the state was up over 40.0 percent from the 2011 figure of \$14.8 billion. Wisconsin ranks No. 1 among its Midwest competitors in fun, family-friendliness, affordability, and a welcoming, worry-free atmosphere.

Jefferson County's tourism sales were \$185.0 million in 2019, an increase of 2.6 percent over the 2018 figure of \$180.4 million. Tourism directly and indirectly supports over 1,700 jobs in Jefferson County. Direct visitor spending in Jefferson County totaled \$105.0 million in 2019, an increase of 1.8 percent over the 2018 figure. Tourism sales in Dodge County were reported to be \$163.3 million in 2019, an increase of 2.5 percent over the 2018 figure of \$159.2 million.

When asked what brings visitors to Watertown, several events/attractions were mentioned:

Wedding venues – two wedding barns, Watertown Country Club, Turner Hall, and Elk's Lodge

Baseball/Softball Tournaments – Three local parks provide sites for baseball and softball rental between early May and early August. Almost all weekends are booked with youth tournaments ranging in age from U8-U16. Brandt-Quirk Park is the site of the Brandt Baseball Center.

Watertown High School – hosts a variety of athletic and academic tournaments such as robotics and dance team

Five historic districts offering walking/driving tours

Octagon House and the First Kindergarten in a restored pioneer barn. Over 4,000 visitors visit the Octagon House museum annually

Watertown Riverfest – This free four-day festival held in August is held in Riverside Park and features national acts, a Taste of Watertown, carnival rides and games, craft fair, and car show. While the number of attendees is not counted, it is estimated the event attracts tens of thousands of visitors, some of which could visit from outside the region and need to stay overnight.

Jefferson County Tourism

The Jefferson County area is known as the Glacial Heritage Area (GHA), an area that is promoted by the Jefferson County Economic Development Corporation as the “outdoor recreation epicenter of the Midwest”. The GHA is a network of parks, wildlife and natural areas, historic and cultural sites, waterways and preserves, all connected by trails and waterways. GHA has a formal partnership with the Wisconsin Department of Natural Resources. The focus is to increase the area’s exposure of recreation opportunities to roughly half the state’s population between the Madison and Milwaukee corridor that includes hiking, biking, fishing, watching wildlife, camping, hunting, horseback riding, cross country skiing, winter sports, and other outdoor activities.

Jefferson County is also the closest rural outdoor recreation hub to those larger metropolitan areas mentioned in the previous section and is designed to connect visitors to the recreation, conservation, and tourism offered in the area. The GHA is primarily in Jefferson County with some portions in Rock, Dodge, and Dane counties.

The Rock River runs through Watertown. The Rock River Trail was designated a National Trails Water System in 2013 to promote the 320 miles of the Rock River. The trails runs along the Rock River beginning in Fond du Lac County in the north to the Mississippi River in Rock Island, Illinois in the south.

Each community in Jefferson County has its own recreation, shopping, dining, and the arts that they promote. These primary Jefferson County communities include Watertown, Fort Atkinson, Jefferson, Cambridge, Johnson Creek, Palmyra, Lake Mills, and Whitewater. Other popular tourism activities include the 52-mile Glacial Drumlin State Bike Trail that parallels I-94 between Waukesha and Dane counties, Fireside Dinner Theater, Kettle Moraine State Forest, Jefferson County Fair, Lake Mills Main Street, the Trek Bicycle Tour, and the University of Wisconsin Whitewater campus. The agri-tourism industry has seen growth with the opening of wineries, distilleries, and breweries throughout the county.

The Jefferson County Fair Park is located in Jefferson near the intersection of Bypass 26 and USH 18 on the west side of Jefferson. The fair park has been in existence since 1852

and the Jefferson County Fair is considered one of the premier county fairs in the state of Wisconsin. Approximately 43,000 people attend the county fair annually which is held in July.

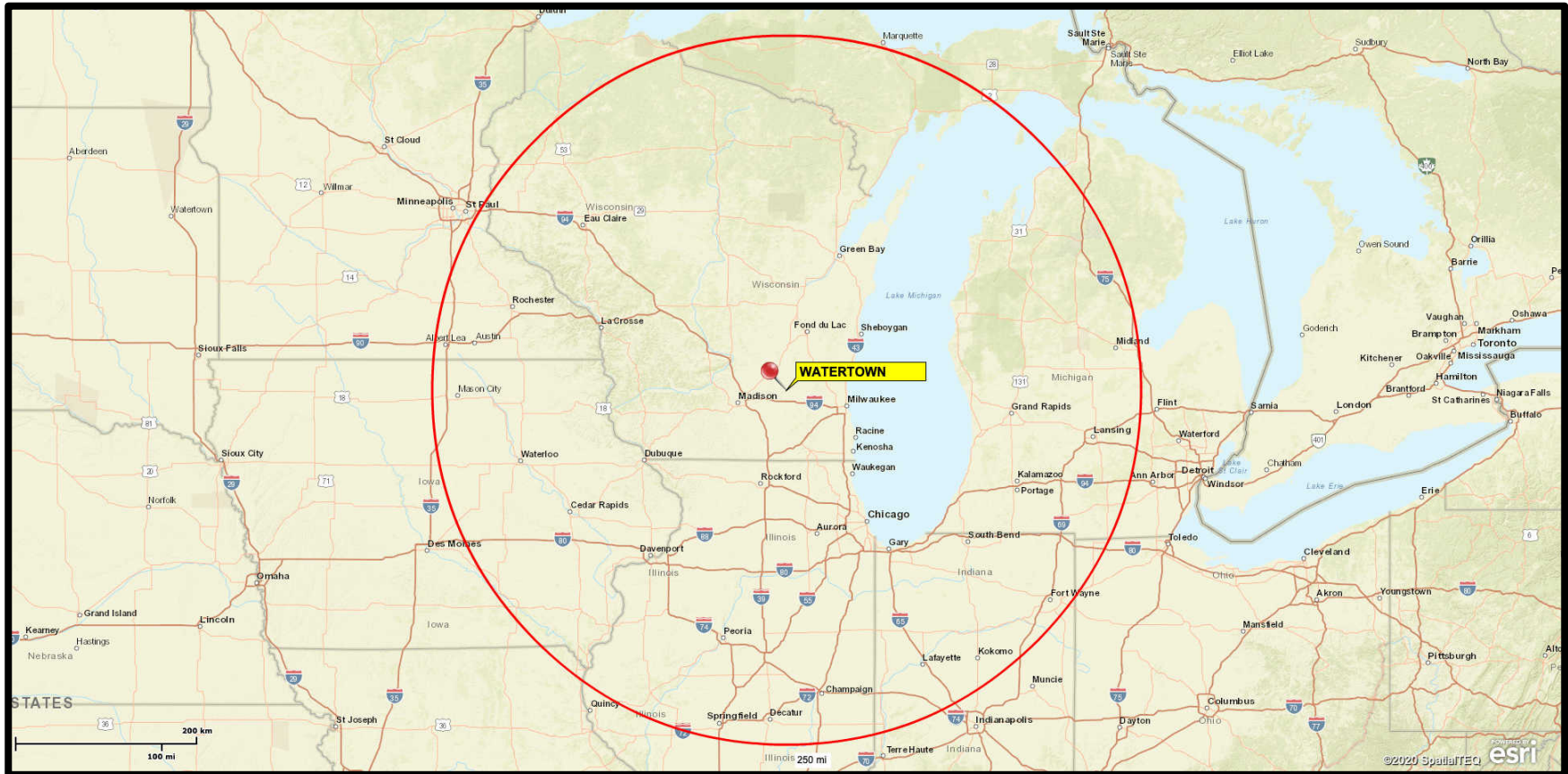
The facilities at the fair park are varied and include the Activity Center, a 12,000 square foot multi-purpose building that can be rented and has hosted receptions, dances, Gemuetlichkeit Days, auctions, flea markets, trade shows, and animal shows and seminars. Other exhibit/meeting/banquet facilities include the Commercial Exhibit Hall with 6,720 square feet, the East Exhibit Hall with 8,960 square feet, the West Exhibit Hall with 6,400 square feet that can be opened up to the Activity Center for larger convention space, and M.A.P. Exhibit Hall with 6,000 square feet that can be used for horse shows and trade shows. In addition to the exhibit halls, there are seven barns, a grandstand that seats 2,200 people, and horse arena. There are also 199 RV camping sites and ten acres for tent camping. Over the past 20+ years, the fair park has made extensive improvements to the facilities that are used throughout the year.

It was estimated between 200,000 and 250,000 people annually drive into the fair park. According to the website, some of the activities and events that take place include:

- Horse shows every weekend between May and October
- Spring and fall Car Show and Swap Meet
- Gemuetlichkeit Days Festival
- Dairyland Classic Dog Show – May
- Wisconsin Livestock Spring Preview
- Jefferson County Fair - July
- Wisconsin Sheep & Wool Festival – September
- The Activity Center is rented almost every weekend for flea markets, family reunions, auctions, dances, banquets, Home Show, Snowmobile Grass Drags, picnics, dairy shows, rabbit shows, dog shows, llama and alpaca, rabies clinics, camping rallies, youth rally, meetings, dairy breakfast, pet swaps, 4-H project meetings, and a number of other uses.

A regional location map follows.

REGIONAL LOCATION - 250-Mile Radius WATERTOWN, WISCONSIN



HOTEL SUPPLY AND DEMAND ANALYSIS

According to STR, there are currently five lodging properties located in Watertown, the 79-room Holiday Inn Express, the 45-room Super 8, the 38-room Heritage Inn Hotel, and two bed and breakfast facilities, the Jesse Stone House Bed & Breakfast, and the Katherine Holle House. We understand the Holiday Inn Express was purchased in October 2019 together with the Comfort Suites and Days Inn properties in Johnson Creek. Minkin Management, a property management company based in West Milwaukee, Wisconsin manages the three properties. The Holiday Inn Express will be undergoing a renovation to enlarge the breakfast area, which will result in the loss of some meeting space square footage. Effective January 2021, the Holiday Inn Express will be converted to a Best Western as the franchise license was not renewed by IHG, the parent company of Holiday Inn Express. At the present time, the Days Inn in Johnson Creek is closed for renovation. Due to the pandemic, it is unclear when the renovations to these two properties will occur but the conversion to Best Western will take place.

Our opinion is that a new hotel in Watertown would directly compete with the Holiday Inn Express/Best Western but would not compete with the Super 8 or the Heritage Inn due to their market orientation toward the price conscious traveler, lower rate structure, and economy facilities/amenities offered.

Competitive Hotel Supply

Based on our knowledge of Jefferson County and the I-94 corridor between Milwaukee and Madison, we expanded our focus to more of a regional basis to arrive at a competitive set for the proposed hotel in Watertown. Our competitive set includes properties in Watertown, Fort Atkinson, Johnson Creek, and Oconomowoc. Our demand interviews with local companies and organizations indicated that most visitors to Watertown were staying at the Holiday Inn Express, Comfort Suites Johnson Creek and Hilton Garden Inn Oconomowoc. We chose six hotels with 568 guest rooms as competitive, which was based on brand affiliation, market orientation, rate structure, facilities and amenities offered, and location.

**Competitive Hotel Supply
Proposed Limited-Service Hotel
Watertown, Wisconsin**

Hotel	Class	Parent Company	Number Of Rooms	Year Open/Changed
Watertown				
Holiday Inn Express	Upper Midscale	IHG	79	1996
Johnson Creek				
Comfort Suites	Upper Midscale	Choice	100	2005/2012
Fort Atkinson				
Holiday Inn Express & Suites	Upper Midscale	IHG	78	2000
Country Inn & Suites	Upper Midscale	Radisson	83	2018
Oconomowoc				
Hilton Garden Inn	Upscale	Hilton	100	2007
Staybridge Suites	Upscale	IHG	128	2009
Total			568	

Source: Patek Hospitality Consultants, Inc. and STR

The Comfort Suites in Johnson Creek, as mentioned previously, was purchased along with the Holiday Inn Express and Days Inn in October 2019. The hotel offers 12,000 square feet of meeting/banquet space, which is quite large and unusual for a limited-service hotel to offer. The location of the Comfort Suites, while visible from I-94, is not easily accessed and we believe this along with the size of the property has hampered the hotel from performing at a higher level. We did not include the Days Inn in Johnson Creek as competitive. As a brand, Days Inn is classified as an economy brand, which we do not believe is the same type of customer that a new hotel to Watertown will attract.

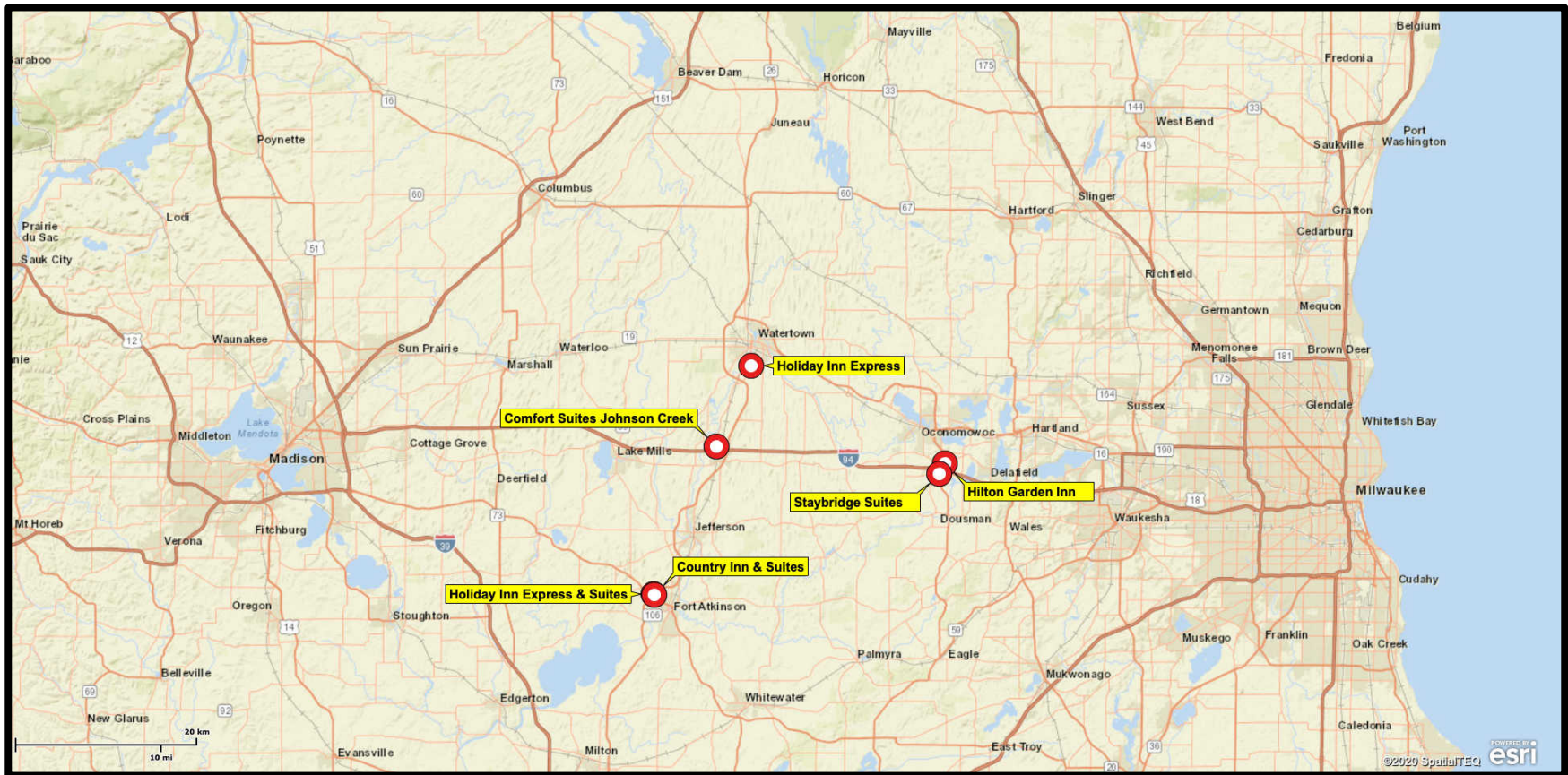
The Holiday Inn Express & Suites and the Country Inn & Suites in Fort Atkinson are both managed by Cornerstone Hotel Management, Inc. of DeForest, Wisconsin. The two hotels are located at the interchange of Bypass 26 and U.S. Highway 12 in Fort Atkinson, about 15 miles south of Watertown via the Bypass. Both of these hotels are well managed and maintained. While they may not be considered as direct competitors to a new hotel in Watertown due to their distance from Watertown, their brand affiliations and the product quality make them competitive in our opinion for Jefferson County business.

Fifteen miles to the east of Watertown is Oconomowoc where the Hilton Garden Inn and Staybridge Suites are located at the interchange of I-94 and State Highway 67. SH 67 is a busy commercial corridor in this western Waukesha County community with restaurants, shopping, the Advocate Aurora Hospital and Clinic, and business parks. Like Fort Atkinson, the hotels in Oconomowoc are not direct competitors to a new hotel in Watertown but they are affiliated with strong brands, they are well maintained, and are located along I-94 with easy access.

The hotels in Fort Atkinson and Oconomowoc would likely capture overflow demand generated by Watertown or Jefferson County events. A competitive property profile, a map of the competitive hotels, and pictures of the competition follow.

Source: Patek Hospitality Consultants, Inc., Hotel Interviews, and Internet

COMPETITIVE SUPPLY WATERTOWN, WISCONSIN





Holiday Inn Express – Watertown



Comfort Suites – Johnson Creek



Hilton Garden Inn – Oconomowoc



Staybridge Suites - Oconomowoc



Holiday Inn Express & Suites – Ft. Atkinson



Country Inn & Suites – Ft. Atkinson

Additions to Supply

Taking the regional focus as we did with arriving at a competitive set, there are several hotels in the “region” that have recently opened, are under construction, or proposed.

Country Inn & Suites – Fort Atkinson. This hotel opened in 2018 and is included in our competitive set, which was discussed previously.

Holiday Inn Express & Suites – Beaver Dam (Dodge County). This hotel opened in October 2019 along U.S. Highway 151 in Beaver Dam. The hotel is managed by Kinseth Hospitality Companies of North Liberty, Iowa, who with other partners manage 17 hotels in the state of Wisconsin with three hotels in the development stage. Beaver Dam is located about 23 miles north of Watertown and would not be considered competitive due to distance.

Comfort Suites - Cottage Grove. The 82-room Comfort Suites broke ground in August 2020 in Cottage Grove. The five-story hotel will be located near the interchange of I-94 and County Highway N in this Dane County community, located just east of Madison and about 30 miles west of Watertown. Greywolf Partners of Milwaukee is developing the hotel and S&L Hospitality of Verona will manage the property, a management company that has ten hotels in its portfolio.

Best Western Plus – Jefferson. A 50-room Best Western Plus broke ground in November 2019 with completion expected in late spring 2020. Due to the pandemic, we estimated the hotel would be completed in mid-2021. The hotel is located at the intersection of Junction Road and Business Highway 26, near the Bypass on the north side of Jefferson. Along with the hotel is a BP service station and a Burger King.

TownePlace Suites by Marriott – Oconomowoc. An 87-room extended-stay hotel affiliated with Marriott is proposed for the northwest quadrant of I-94 and SH 67 in Oconomowoc. The hotel is under development by Kinseth Hospitality Companies and its partners and is estimated to break ground in spring 2021 with an opening scheduled for spring 2022. This timeline could be altered due to the pandemic but it is a project that will likely be built.

For purposes of our analysis, we included the Best Western Plus in Jefferson as new supply due to its location on the north side of Jefferson near Highway 26, the brand affiliation, and similar facilities and amenities and rate structure to the proposed hotel in Watertown. The TownePlace Suites by Marriott in Oconomowoc is also included as an addition to supply due to its location along I-94 and because we included the two existing hotels in Oconomowoc as existing competition. It is our opinion the TownePlace Suites will be direct competition to the Hilton Garden Inn and the Staybridge Suites in Oconomowoc and therefore have included only 50 percent of the guest rooms (or 44 rooms) as competitive to the proposed hotel due to its strong brand affiliation and being the only Marriott branded hotel between Oconomowoc and Madison.

Based on the opening of the subject 61-room limited-service hotel in January 2023; the opening of the 50-room Best Western Plus in mid-2021; and the opening of the TownePlace Suites by Marriott in Oconomowoc (50% competitive or 44 rooms) in May 2022, it is estimated a compound annual growth rate of 3.1 percent in supply will be realized between 2019 and 2027. On an annual basis, supply is estimated to increase 0.0 percent in 2020, 4.4 percent in 2021, 9.1 percent in 2022 and 11.7 percent in 2023. The base number of competitive rooms would increase from 568 to 723 or 155 rooms. Demand during this same period is estimated to increase at a compound annual growth rate of 3.6 percent.

AREA ROOM DEMAND

Hotel room demand is categorized as “demonstrated” demand, or that demand which can be quantified by examining occupancies at existing hotels; “unsatisfied” demand, or that demand which is turned away or denied at existing hotels because of capacity limits and finding accommodations outside the defined competitive market; and “induced” demand, defined as that demand which does not now seek accommodations in the market but which would, given an acceptable quality hotel, the proper sales efforts and the availability of additional rooms supply. In this market, all three types of demand have been evaluated.

Demand for hotel rooms in any given area is measured by occupancy percentages and average daily rates (ADR). Although these statistics vary between properties because of age, location, condition, marketing efforts and seasonality, area averages are useful in analyzing historical trends and projecting future conditions as they relate to the market potential of a proposed project. Smith Travel Research (STR) tracks room supply and demand characteristics in markets across the country, maintains an up-to-date inventory of all hotels and receives actual operating statistics from a large sample in each market. Data from the STR report is presented in the following table that shows occupancy, average daily rate, demand, supply and revenue on an annual basis for the period 2012-2019 and year-to-date August 2019 and 2020 for the six competitive hotels identified previously. The complete STR report has been retained in our files.

**Standard Historical Trend
Select Competitive Set
Watertown, Wisconsin**

Year	Room Supply	% Change	Room Demand	% Change	Occupancy	ADR ¹	RevPAR ²
2012	177,025	---%	100,123	---%	56.6%	\$87.37	\$49.41
2013	177,025	0.0	100,591	0.5	56.8	93.31	53.02
2014	177,025	0.0	110,178	9.5	62.2	93.95	58.47
2015	177,025	0.0	112,675	2.3	63.6	99.97	63.63
2016	177,025	0.0	117,217	4.0	66.2	101.81	67.41
2017	177,025	0.0	116,414	(0.7)	65.8	106.73	70.19
2018	187,151	5.7	130,438	12.0	69.7	106.98	74.56
2019	207,320	10.8	124,729	(4.4)	60.2	108.20	65.10
2019*	138,024	---	85,223	---	61.7	109.95	67.89
2020*	138,024	0.0	50,607	(40.6)	36.7	95.51	35.02

*Through August. Year-to-date 2020 data is impacted by the Covid-19 pandemic that began in March

¹ Average Daily Rate

² RevPAR (Revenue Per Available Room) = occupancy x average daily rate

Source: STR

The six hotels with 568 rooms were included in our competitive set, which is made up of upper midscale and upscale brands. It is our opinion that some of the properties perform at levels below this market average while other properties perform above the market average. A competitive set's performance can be impacted based on product quality, age, management/ownership, brand affiliation, reputation, availability, and whether the product is meeting the guest's needs or they are choosing to stay outside the competitive set because their needs are not being met or the rooms are not available.

Occupancy grew steadily between 2012 and 2018 before declining 13.7 percent in 2019. Some of this decline could be attributed to the opening of the 83-room Country Inn & Suites Fort Atkinson in September 2018. Other markets we have completed studies in also saw declines in occupancy in 2019; industry experts had predicted a slowdown in 2019 as the economy had started to slow down, which began to affect travel. However this slowdown in 2019 was nothing compared to the impact that the Covid-19 pandemic has had, and continues to have on the hotel and hospitality industries in 2020.

As the table shows, the competitive market was significantly impacted by the pandemic in 2020, resulting in a decline in demand of 36.7 percent through August. Occupancy in the months of January and February 2020 were at or slightly below average as compared to these same months between 2012 and 2019. The months of March through August recorded occupancies ranging from 16.7 percent to 45.5 percent as a result of the "stay at home" order mandated in March by the governor of Wisconsin and overturned by the legislature on May 13, 2020. During this order, non-essential businesses were closed and those companies that

could still operate likely had employees working remotely and not traveling, which is still the case today for many companies.

The economy came to a standstill, which had a devastating affect on travel, hotels, airlines, restaurants, and the overall hospitality industry. Nationwide most hotels remained open although staff were either laid off or furloughed in many properties; hotel closures did occur with more of those closures occurring in the larger metro areas that were more heavily stricken with the Covid-19 virus early on. None of the hotels in the competitive set were closed during the months included in the STR report.

As of the writing of this report, the nation's economy continues to be impacted as does travel. The pandemic and its impact on the United States economy is very fluid and while positive news may be reported one week, the next week's results could easily change depending on the pandemic's numbers. The summer months are traditionally stronger for hotels as leisure travel peaks and pre-Covid, corporate travel was still occurring. Leisure travel typically slows after Labor Day and since the corporate traveler and group business has not returned due to the pandemic, it is expected that the fall and winter months will be even worse for hotels heading into 2021.

Prior to the pandemic, the competitive set experienced fairly steady rate growth; on average, ADR increased 3.1 percent between 2012-2019.

For the first eight months of 2020, ADR was down 13.1 percent as compared to the same period in 2019 due to the pandemic. The decline in hotel demand is always going to have an affect on average daily rate. According to *STR and Tourism Economics* in an article dated June 29, 2020, "ADR's recovery is particularly uncertain and will depend on the pace of recovery and the extent in which hotel operators engage in discounting, both of which will influence rate growth". STR predicts declines in ADR through Quarter 1 of 2021 and then gradually normalizes. Nationally occupancy and average daily rate are not expected to return to 2019 or pre-Covid-19 levels until 2023 according to both STR and CBRE.

STR and Tourism Economics revised their prediction and in an article dated August 13, 2020 "full recovery in U.S. hotel demand and room revenue remains unlikely until 2023 and 2024, respectively. According to STR's President, Amanda Hite, "performance recovery is going to remain slow and well off of the pre-pandemic pace until the context for travel improves and group business begins to return". "While the economic recovery is on-going but fragile, the Covid-19 pandemic is expected to continue to define the travel environment through the first quarter of 2021", according to Adam Sacks, Tourism Economics President. "Cautious recovery is expected in the near term with much stronger growth anticipated in the second half of 2021".

While the national predictions are a good reference point for the hotel industry as a whole, we believe it is prudent to look at the specific market being studied, the potential demand generators and existing competition, and the project being proposed.

The STR report also presents an analysis for the day of week showing weekday versus weekend demand for the comp set, which is presented in the following table. The three-year trailing twelve-month period starts September 2017 and ends August 2020.

**Day of Week Analysis
Select Competitive Set
Watertown, Wisconsin**

Period	Sun.	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	Avg.
9/17-8/18								
Occupancy	47.6%	70.2%	79.2%	78.3%	69.0%	68.4%	76.9%	69.9%
ADR	\$95.70	\$100.49	\$102.11	\$103.23	\$101.51	\$113.80	\$119.22	\$105.69
RevPAR	\$45.51	\$70.59	\$80.91	\$80.86	\$70.01	\$77.79	\$91.71	\$73.92
9/18-8/19								
Occupancy	40.8%	63.6%	70.0%	68.2%	60.1%	64.2%	73.8%	63.0%
ADR	\$98.95	\$104.06	\$105.95	\$105.60	\$102.93	\$115.76	\$121.82	\$108.69
RevPAR	\$40.37	\$66.19	\$74.18	\$71.97	\$61.91	\$74.36	\$89.88	\$68.47
9/19-8/20								
Occupancy	27.4%	41.6%	47.6%	45.9%	42.9%	46.7%	52.4%	43.5%
ADR	\$89.49	\$94.30	\$96.85	\$96.08	\$94.90	\$107.49	\$110.63	\$99.42
RevPAR	\$24.51	\$39.27	\$46.10	\$44.13	\$40.74	\$50.21	\$57.96	\$43.21
3-yr Avg.								
Occupancy	38.1%	57.8%	64.9%	63.4%	56.8%	59.4%	67.3%	58.2%
ADR	\$95.33	\$100.28	\$102.21	\$102.31	\$100.29	\$112.81	\$117.91	\$105.19
RevPAR	\$36.28	\$57.96	\$66.37	\$64.89	\$56.93	\$67.00	\$79.34	\$61.25

Source: STR

Saturday night has been the strongest night of demand for the comp set with Tuesday and Wednesday nights fairly strong prior to the pandemic. Average daily rate has been significantly higher on weekends as compared to weekday rates, by as much as \$14.00-\$16.00. For the trailing twelve-month period ending August 2020, the average rate on Saturday night ranged from \$84.16 (April 2020) to \$136.71 (September 2019). The trailing twelve-month period ending 8/2020 reflects five months of the impact of the pandemic.

Additional data from the STR Report shows the range of (low to high) and the average occupancy, ADR, and RevPAR (Revenue per Available Room) for the 12-month period for each of the past eight years, 2012-2019 and through August 2020. This information shows the fluctuation in the performance of the competitive set throughout the year and specifically shows that May through October are the busiest months for the market in all three metrics (in a typical year).

Occupancy, ADR, and RevPAR Trends
Competitive Set – Watertown, Wisconsin
2012-August 2020

Month	Occupancy		ADR		RevPAR	
	Range	Average	Range	Average	Range	Average
January	37.2%-60.2%	44.8%	\$81.26-\$99.96	\$92.60	\$32.16-\$57.44	\$41.47
February	48.1%-66.5%	53.0%	\$81.27-\$98.45	\$90.42	\$42.64-\$62.18	\$47.90
March	29.5%-61.3%	50.6%	\$81.22-\$99.85	\$93.43	\$27.51-\$59.08	\$47.32
April	16.7%-68.7%	55.9%	\$82.37-\$105.18	\$94.33	\$13.99-\$68.95	\$52.72
May	28.4%-73.6%	61.8%	\$84.26-\$111.00	\$99.81	\$24.36-\$79.75	\$61.70
June	37.5%-80.7%	69.7%	\$92.97-\$136.06	\$109.42	\$34.90-\$107.64	\$76.30
July	45.5%-84.0%	71.9%	\$94.75-\$119.29	\$107.37	\$45.91-\$93.15	\$77.21
August	41.6%-85.3%	74.0%	\$91.19-\$118.47	\$107.68	\$45.78-\$101.00	\$79.63
September	67.0%-76.7%	72.6%	\$91.10-\$116.49	\$105.61	\$60.81-\$89.31	\$76.66
October	61.3%-76.1%	68.8%	\$87.30-\$106.68	\$100.07	\$53.53-\$81.19	\$68.80
November	44.9%-60.7%	53.2%	\$86.20-\$100.70	\$95.33	\$38.70-\$59.44	\$50.75
December	41.7%-55.8%	48.1%	\$85.88-\$97.24	\$91.45	\$35.85-\$50.78	\$43.98
Average	56.6%-69.7%	62.6%	\$87.37-\$108.20	\$100.35	\$49.41-\$74.56	\$62.86

NOTE: January-August includes 2020 in the range and the average; September-December reflects 2012-2019

The red highlight shows the impact of the pandemic from March to August 2020

The months in bold reflect the busier months of demand for the competitive set

Source: STR

One figure that stands out is the ADR in June 2017. The U.S. Open held its 117th U.S. Open tournament at Erin Hills Golf Course in Erin, Wisconsin. Hotels throughout southeastern and south-central Wisconsin benefitted by this tournament, which produced high occupancies and average daily rates for the month of June 2017. The high end of the range, \$136.06, reflects the average rate these six hotels were able to achieve during the U.S. Open.

Demand in the competitive market has traditionally been strongest from May through October. This is typical for upper Midwest markets that rely on the summer months that would see an influx of tourists visiting the various events, festivals, and attractions and general summertime travel. Corporate travel is typically fairly consistent throughout the year although there might be a slight slowdown in the months of November to March due to inclement weather and holidays. It should be noted that the description of the seasonality of demand is pre-Covid-19. We believe the trend described here will become the norm once again for the competitive set, although it is difficult to predict when “normal” could return.

For comparison purposes only, we present annual national performance figures from 2007-2019 and year-to-date through August for 2019-2020 as provided by STR. The table below shows the impact the recession had on the national hotel industry from 2008-2010 and the

recovery that began in 2011 that continued until February 2020. The year-to-date 2020 figures reflect the pandemic, which has curtailed travel nationwide.

**National Hotel Performance Data
2007-2019 and YTD August 2019-2020**

Year	Occupancy	ADR	RevPAR
2007	62.9%	\$104.05	\$65.59
2008	60.4	106.55	64.37
2009	55.1	97.51	53.71
2010	57.6	98.04	56.45
2011	60.0	101.76	61.05
2012	61.4	106.06	65.14
2013	62.3	110.06	68.53
2014	64.4	115.21	74.16
2015	65.4	120.42	78.71
2016	65.4	124.07	81.16
2017	65.9	126.82	85.54
2018	66.1	129.91	85.91
2019	66.1	131.11	86.65
2019*	71.4	132.47	94.55
2020*	48.6	102.46	49.83

*Through August

Source: STR

Watertown Room Tax

Another source for how hotels are performing in a community is through the room tax that is collected. Room tax for hotels in Watertown is 5.0 percent and the City has a separate fund that room tax dollars are placed. From this fund, 70 percent of the tax is distributed to Watertown Tourism and the remaining 30 percent of the tax can be spent by the City of Watertown's City Council as needed.

A breakdown of this room tax is shown in the following table with information provided by the City of Watertown.

Room Tax Collected Watertown, Wisconsin			
2017	2018	2019	2020 (YTD August)
\$135,036	\$133,354	\$121,970	\$39,389

Source: City of Watertown

Room tax declined 1.25 percent in 2018 and 8.53 percent in 2019. Year-to-date through August 2020, which was payable in September reflects the impact of the pandemic. The funds collected through August 2020, which would normally reflect a busy time due to summertime leisure travel, shows a significant decline. This decline in room tax has had a devastating impact on communities in general that depend on these funds for tourism promotion and general uses of funds.

Demand Mix and Projected Growth in Demand

We estimate the 2019 market mix of the competitive supply to be 49 percent Corporate Individual, 13 percent Group/SMERF, 23 percent Tourist/Other, and 15 percent Extended-Stay.

Corporate Individual is the largest segment of demand (54,200 room nights) for the competitive market. This segment includes executives, salespeople, vendors, buyers, consultants and other types of people doing business with the corporations and institutions located in Watertown and the surrounding communities located in Jefferson and Dodge counties. This demand segment is typically strongest on Tuesday and Wednesday nights. Based on our current knowledge of the market and discussions with local officials and local hotel operators, we estimated that this market segment could experience a compound annual growth rate of 2.7 percent for the period 2019-2027. It was estimated corporate demand would take a significant hit in 2020 and make a slow recovery.

Our estimates reflect the opening of the additions to supply which could attract demand that has not previously been accommodated in any of the competitive hotels, induced demand which is demand that is loyal to the franchises entering the market and/or that previously did not patronize the hotels in the competitive supply because they did not meet their needs. The estimated growth in corporate individual should vary by year.

Corporate demand going forward is going to be more difficult to predict due to the pandemic. There were companies that shut down and laid off or furloughed employees and companies that were able to remain open but had employees working remotely. No matter the circumstance, corporate travel came to a standstill in March 2020 and has been slow to return. We estimated corporate travel will decline 40 percent in 2020 but will be able to slowly return to its pre-Covid-19 levels over the projection period.

Group/SMERF – The Group/SMERF segment with 14,700 room nights is comprised primarily of SMERF (social, military, education, religious, fraternal) groups, sports groups, and weddings. Typically, this segment's room nights are booked as a block of rooms from the various groups identified here. The competitive hotels are limited in the amount of meeting space they currently offer with the exception of the Comfort Suites Johnson Creek. We estimated this market segment could experience a compound annual growth rate of 3.2 percent annually from 2019-2027.

This segment has been impacted as weddings have been cancelled or postponed, as have youth sports and other sporting events that typically travel to this area. It remains to be seen how quickly these types of groups as well as conferences, banquets, and corporate meetings begin to travel again.

The **Tourist/Other** segment with 26,000 room nights is comprised of those travelers visiting the attractions, events, and festivals in Watertown and Jefferson and Dodge counties. This market area can also benefit from overflow demand from large events held in Milwaukee and Madison and even the EAA held annually in Oshkosh. This segment would also include those individuals attending weddings or sports tournament but are not part of a block of rooms.

Transient traffic typically grows at lower rates unless there is a new attraction or major development or other specific reason for significant increases in visitation. A new hotel will typically induce demand that has previously not been accommodated by the competitive properties. This is often because of loyalty to a chain, a more desirable location or simply the availability of a new property. This demand segment is the most volatile because visitation can be dependent on the weather, scheduled activities, nation-wide economic conditions and such.

The pandemic has had a significant impact on the tourism industry where communities were forced to cancel or postpone festivals, events such as weddings, and other community related gatherings in 2020. The hope is that most if not all of these events would be rescheduled in 2021 and we considered this in our growth estimates. As people's needs and desires to "escape", tourism leaders began to promote the "staycation" where individuals and families travel by car and stay closer to home or within a convenient driving distance in 2020. The tourist/other segment is estimated to bounce back quicker and this growth is reflected in our compound annual growth rate that we estimated to be 8.0 percent annually over the period 2019-2027.

The **Extended-Stay** segment is typically defined as those stays of five nights or longer for people that are visiting the area such as consultants working on projects, relocation, training, or for other reasons. Guests staying in extended-stay properties can also be the result of domestic situations including buying/selling homes, natural disasters, family visits and other situations. In 2020, the year of the pandemic, extended-stay demand and those hotels catering to this type of demand have performed better than typical limited-service hotels as a result of medical personnel traveling to other parts of the country, construction crews, people transitioning to a new job or a new area, and consultants on extended assignments.

This segment of demand is not a significant source of demand for the competitive market at the present time. Limited-service hotels do not typically capture this type of demand because the facilities are not as conducive for long-term stays. The existing Staybridge Suites in Oconomowoc accounts for the vast majority of extended-stay demand in this competitive set. The Staybridge Suites together with the proposed TownePlace Suites by Marriott in Oconomowoc and our recommendation that the proposed limited-service hotel in Watertown

offer a minimum of six extended-stay suites, we estimated this segment to grow 8.5 percent over the period 2019-2027.

The following table summarizes our estimates regarding market supply and demand during the projection period.

**Total Competitive Market
Proposed Limited-Service Hotel
Watertown, Wisconsin**

Year	Annual Avail. Rooms	Annual Growth Supply	Annual Occupied Rooms	Annual Growth Demand	Market Occupancy
2019	207,320	---%	124,900	---%	60.0%
2020	207,320	0.0	74,700	(40.2%)	36.0
2021	216,445	4.4	90,400	21.0	42.0
2022	236,155	9.1	110,700	22.5	47.0
2023	263,713	11.7	136,100	22.9	52.0
2024	263,713	0.0	151,100	11.0	57.0
2025	263,713	0.0	159,200	5.4	60.0
2026	263,713	0.0	165,500	4.0	63.0
2027	263,713	0.0	165,500	0.0	63.0
CAG		3.1%		3.6%	

Note: Numbers have been rounded. Additions to supply include the 50-room Best Western Plus Jefferson in 2021, the 87-room TownePlace Suites by Marriott Oconomowoc (50% or 44 rooms) in May 2022, and the Subject 61-room limited-service hotel in Watertown in January 2023

CAG – Compound Annual Growth

Source: Patek Hospitality Consultants, Inc.

Between 2019 and 2027, supply is estimated to grow at a compound annual growth rate of 3.1 percent while demand is estimated to grow 3.6 percent during this same period. While we believe that occupancies can exceed our estimates stated above, we also know that unforeseen circumstances can cause occupancies to fall below our estimates. From an historical perspective we believe a stabilized occupancy of 63.0 percent for the competitive set is reasonable. The compound annual growth rate takes into account a decline in demand estimated to be an unprecedented 40.2 percent in 2020 and an increase in supply of three hotels between 2021 and 2023.

PROJECTED MARKET POSITION AND PENETRATION OF THE PROPOSED HOTEL

Demand Interviews

In conducting market research for a proposed hotel in Watertown, we believe it was important to conduct demand interviews with companies and organizations that are generators of hotel room demand. These interviews provided us with insight into the

travel volume, needs, hotel preferences, desired room rates, and types of travelers (i.e. executives, sales reps, vendors, meetings, etc.) for each organization. In addition, the interviews helped us to gauge the prospective interest in a proposed hotel and provide helpful input for the facilities, amenities, and services for a property. The demand interviews provided us with more qualitative information rather than quantitative data.

We contacted 23 companies/organizations in Watertown and spoke to 15 of them. We asked companies to estimate the number of room nights generated by their company as best they could. This can sometimes be a difficult task as the company's need for hotel rooms can vary based on production schedules, training and meetings, seasonality, various individuals making the reservation, and whether customers/distributors are visiting other facilities in the region and choosing to stay elsewhere. Gathering this information on room nights is very helpful in determining the potential for a new hotel development, however there are other factors that are taken into consideration in making an assessment on a community's ability to support additional rooms and these are discussed in the Methodology and Assumptions section.

The telephone calls were made in late September 2020, still in the midst of the shutdown due to the pandemic. We point this out because some of the responses to facilities and amenities preferred for a new hotel may no longer be offered or may have changed in how they are presented due to the pandemic, at least for the foreseeable future. A summary of our demand interviews follows.

Demand Generator Interviews - Watertown, Wisconsin (Conducted September 2020)				
Company/Contact	Types of Visitors Annual Room Nights (if Available)	Hotels Used/Rate Paid	Facilities/Amenities Preferred	Comments
Bennett Barn Anita	Wedding parties Room Nights - NA	Comfort Suites Holiday Inn Express Rate - NA	Shuttle	Would like a hotel with a restaurant. No preference on location. Hotels need to do a better job with room blocks
Bethesda Lutheran Communities Kendall	Going forward there will be very little travel generated. Used to have staff and board meetings, training, events, and interviews. Watertown is HQ for Bethesda Room Nights - NA	Have used Holiday Inn Express, Comfort Suites and Hilton Garden Inn Rate - \$79-\$99	Complimentary breakfast, banquet/meeting space, room service, bar	Feels there is a need for meeting/banquet space for both corporate and weddings. A location with good visibility is important
Fisher -Barton Group Dawn	Interviewees and training Room Nights - <25/year	Comfort Suites, Holiday Inn Express Rate - \$90	Food on-site would be nice. Meeting space for <50 people	Location on Business 26 or Downtown would be preferable
Glory Global Rich	Service technicians 10-15/week, stay 3 nights Room Nights Range from 1500-2250	Holiday Inn Express Rate - NA	Typical limited-service hotel offerings	None provided
Maranatha Baptist University Steve	Parents, potential students, high school tournaments, Fall drop-off, May graduation, activities and special events (sports, plays), seminars Room Nights - NA	Holiday Inn Express, Katherine Holle B&B, On campus they have 3 guest suites and some events use dorms Hotel Rate - \$90	Convenience, clean, indoor pool. No need for meeting space, they use their dining room on campus that seats 250-300 people	Location on Business 26, Main Street, or near hospital was mentioned
Marquardt Village Matt	No need to use hotels. They have 9 guest suites on their campus for resident's families to use	NA	NA	Marquardt provides retirement communities for independent, assisted, and skilled living

Demand Generator Interviews – Watertown, Wisconsin (Conducted September 2020)				
Company/Contact	Types of Visitors Annual Room Nights (if Available)	Hotels Used/Rate Paid	Facilities/Amenities Preferred	Comments
Octagon House Melissa	Visitors to Octagon House and the First Kindergarten come from all 50 states and international Room Nights - NA	NA	NA	It is estimated 4,500 visitors/year visit the Museum. The Museum is not a destination as much as it's an add-on stop for people visiting Watertown for other reasons.
Reiss Industries Tom	Customers, Vendors Room Nights – NA. Very few compared to the 1970s-1980s	NA Have used Milwaukee lodging	There is a need for a higher end restaurant in Watertown	Believes travel and staying in hotels will continue to decline as business can be done online. Oconomowoc is close and offers more dining options
Spuncast Kris	Customers, candidates <10/year	NA	NA	Do not really have a need to use hotels
Turner Hall Rich	Weddings, one day meetings Room Nights - NA	Holiday Inn Express, Super 8, Comfort Suites Rate - NA	Typical limited-service hotel facilities/amenities	Feels there needs to be more things offered to attract visitors to Watertown
Watertown Country Club Jorden	Weddings, golf outings Room Nights - NA	Holiday Inn Express, Super 8, Comfort Suites Rate - NA	None provided	Would like to see the location north side or Downtown. Needs to be a better room block arrangement for weddings
Watertown Regional Medical Center Steve	Corporate, traveling physicians stay in apartments, interviews, relocation, very few patients Room Nights – 7-10/month stay for 1 night = 80-120 annually	Hilton Garden Inn, Holiday Inn Express Rate - NA	Clean, quality product, business center, fitness center, free Wi-Fi, complimentary breakfast. No need for meeting space	The hospital is owned by Life Point and Watertown is the only facility in WI. Location near the Hospital would be nice, although not much in the way of support amenities.

Demand Generator Interviews - Watertown, Wisconsin (Conducted September 2020)				
Company/Contact	Types of Visitors Annual Room Nights (if Available)	Hotels Used/Rate Paid	Facilities/Amenities Preferred	Comments
Watertown Unified School District Jesse	Robotics tournaments. Estimate 70 room nights annually. The High School hosts sectionals	NA	NA	Did not have an opinion on a specific location but there needs to be a sign on Highway 26
City of Watertown Parks & Rec Randy	Baseball/softball tournaments held early May to early August, almost all weekends Room Nights - NA	Holiday Inn Express, I-94 hotels Rate - NA	Complimentary breakfast, indoor pool, game room/arcade, bar	Sees a need for a new hotel, which would be good for the city. Likes the Downtown location, accessible and walkable
The Hay Loft Barn Tim	Weddings Room Nights - NA	Holiday Inn Express, Comfort Suites, Oconomowoc hotels Rate - NA	None provided	A location near bars - Downtown makes sense. Needs to be a better room block arrangement with hotels
<i>NA - Information Not Available</i> <i>Source: Patek Hospitality Consultants, Inc. Contact names and phone numbers provided by Watertown Area Chamber of Commerce</i>				

Methodology and Assumptions

We assessed the prospective competitive status of the proposed hotel as compared to the defined competitive lodging supply and as it will be affected by such factors as location, setting, nature and quality of facilities and the extent to which the hotel could capture each demand segment by performing a fair share/penetration analysis. A hotel's fair share of the market is defined as the number of rooms in the hotel divided by the total supply of rooms in the market including the subject hotel. In 2025, the year the property is estimated to reach stabilization, there will be 723 available rooms in the competitive market. Accordingly, the subject's fair share is 61 divided by 723 or 8.4 percent.

The methodology used in this analysis considered the factors that we believe influence the prospective success of the proposed limited-service hotel.

- While the Holiday Inn Express is capturing demand generated in the market, we also believe demand is leaving the market and staying along I-94 in Johnson Creek or Oconomowoc because of the product and brands offered there. Another reason could be that the Holiday Inn Express is full and the other two lodging properties in Watertown are not serving the needs of visitors. It is our opinion a new hotel offering the facilities and amenities discussed in the demand generator table and in our Project Concept and Recommendations section would be supported in the market and would keep a greater portion of the revenue in the community rather than going elsewhere.
- In speaking with some of the organizations in Watertown, we were told with more rooms available in the community that they would be able to bring more visitors and events that they are not able to do so now because of the limited number of quality rooms available during peak periods of demand. We believe the proposed hotel would have the ability to induce demand into the Watertown market.
- The hotel will be brand new construction. The recommendation of extended-stay suites will fill a void in the market and could work to serve the long-term guest or those families looking for larger space. While a brand has not been identified in this study, a separate letter identifying potential branding options that we believe would be a good fit for the community will be provided to the City of Watertown. The brand options would be reputable and known for their quality, consistency, reservation system, national marketing program, and frequent stay guest program.

To project occupancy for the proposed limited-service hotel, we considered the property's recommended facilities, services, and amenities; the site's location; the competitive properties; and the competitive environment in which the hotel will operate. The advantages and disadvantages of the site were discussed in the Site Analysis section of this report. Our assumptions together with other advantages and disadvantages, as well as other factors that will influence the property's ability to capture market demand (and therefore provide the ability to achieve the projected occupancy and ADR levels) are:

1. The Subject hotel will be affiliated with a major hotel brand that is well recognized and offers an excellent reservation system, guest loyalty program, and national marketing.
2. The Subject Hotel will be open by January 2023. If the hotel opening is delayed, our estimates regarding future performance could be affected. Our estimates were based on a calendar year.
3. The Subject Hotel will feature 61 rooms and will include the amenities and facilities discussed in the Project Concept section of this report.
4. Ownership and management of the hotel has not been determined. We recommend that the hotel be developed and managed by experienced individuals familiar with this type of hotel development/operations.
5. The additions to supply have been taken into account in our analysis. If additional hotels enter the market during our projection period, our occupancy and average daily rate estimates for the proposed hotel could be impacted.

Penetration Analysis

Factors indicating that a hotel would possess competitive advantages suggest a market penetration rate in excess of 100 percent of fair share while competitive weaknesses are reflected in penetration levels of less than 100 percent. There is usually a period of time required after opening for a new hotel to reach its full market penetration. We estimate that the proposed hotel will achieve a stabilized penetration of 108 percent of fair share that is higher than its fair share. Stabilization is estimated to occur in the hotel's third year of operation in 2025. The projected penetration levels reflect the following advantages and disadvantages.

Corporate Individual - We estimate the subject hotel would achieve above its fair share in this segment primarily due to the recommended product concept that appeals to corporate travelers, the facilities and amenities offered, and the affiliation with a strong hotel brand that can induce brand loyal guests. It is our opinion the proposed hotel can also capture demand from other communities in Jefferson and Dodge counties. We estimated the penetration rates to range between 128 percent and 134 percent throughout the projection period. Our projections for this demand segment are for approximately 7,300 room nights to be accommodated at the Subject hotel in the stabilized year of operation, which represents 51.0 percent of the hotel's overall captured room nights. The demand is estimated to be fairly consistent throughout the projection period.

Group/SMERF - The proposed limited-service hotel is estimated to capture approximately 1,500 room nights in the stabilized year of operation that is estimated to account for 10.0 percent of total demand. The suites could be appealing to families coming for tournaments or weddings or other events. We estimated the penetration rates to range between 99 percent

and 100 percent throughout the projection period. This demand is likely to be generated from SMERF (social, military, education, religious, and fraternal) groups, weddings, and sports groups.

Tourist/Other - We estimate the Subject hotel will achieve above its fair share in this segment. The facilities and amenities offered will appeal to tourists and families visiting the recreational opportunities offered in the area. We estimate penetration rates to range from 110 percent to 115 percent from 2023-2027. The proposed hotel is expected to accommodate approximately 4,500 room nights in the stabilized year of operation that represent approximately 31 percent of total demand. This figure remains fairly steady throughout the projection period.

Extended-Stay - It is recommended the proposed limited-service hotel offer some extended-stay suites that would include spacious studio and one-bedroom suites and the facilities and amenities within those suites including the fully equipped kitchens. The complimentary breakfast and the recommended outdoor grills and fire pits are popular features for the long-term guest as is a 24/7 pantry that offers food, beverages, and other essentials. We do believe there could be unaccommodated extended-stay demand in this market for this type of product meaning there is demand but the supply is not accommodating it. We estimate this segment would penetrate at between 45 percent and 50 percent throughout the projection period that correlates to approximately 1,200 room nights in the stabilized year of operation, which represents approximately 8.0 percent of total demand; that figure remains fairly constant throughout the projection period.

As a product type or group of hotels, extended-stay hotels typically operate at higher occupancies primarily due to the longer length of stay as compared to transient limited-service hotels. Depending on factors such as local demand generators, market conditions, price, product offerings, and brand affiliation, extended-stay demand can typically account for between 30 percent and 60+ percent of total demand. Extended-stay guests will typically stay over a weekend or at least have the room booked for the entire length of stay while a transient corporate traveler will typically stay one to three nights, which usually doesn't include a weekend. Since we are recommending only about six to eight extended-stay rooms be offered at the proposed hotel, the percentage of overall demand captured by this segment is estimated to be lower. In addition, the existing Staybridge Suites and the proposed TownePlace Suites by Marriott, both extended-stay hotels located in Oconomowoc are expected to capture a significant portion of the extended-stay demand generated in the market area.

We estimate the penetration and segmentation of demand for the proposed limited-service hotel over the five-year period 2023-2027 to be as follows:

**Estimated Penetration and Market Segmentation
Proposed Limited-Service Hotel
Watertown, Wisconsin**

Year/Category	Corporate/ Individual	Group/ SMERF	Tourist/ Other	Extended- Stay	Total
2023					
Penetration	130%	100%	115%	50%	107%
Room Nights	6,100	1,300	3,800	1,100	12,300
Segmentation %	50.0%	10.0%	31.0%	9.0%	100.0%
2024					
Penetration	130%	99%	115%	45%	105%
Room Nights	6,700	1,400	4,200	1,100	13,400
Segmentation %	50.0%	11.0%	31.0%	8.0%	100.0%
2025					
Penetration	134%	100%	115%	45%	108%
Room Nights	7,300	1,500	4,500	1,200	14,500
Segmentation %	51.0%	10.0%	31.0%	8.0%	100.0%
2026					
Penetration	128%	100%	110%	45%	104%
Room Nights	7,200	1,600	4,500	1,200	14,500
Segmentation %	50.0%	11.0%	31.0%	8.0%	100.0%
2027					
Penetration	128%	100%	110%	45%	104%
Room Nights	7,200	1,600	4,500	1,200	14,500
Segmentation %	50.0%	11.0%	31.0%	8.0%	100.0%

Source: Patek Hospitality Consultants, Inc.

Projected Performance – Occupancy and Average Daily Rate

We have chosen to use a stabilized occupancy of 65 percent, which we believe will be achieved in the third year of operation or 2025. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given any and all changes in the life cycle of the hotel. Therefore, the stabilized occupancy excludes from consideration any abnormal relation of supply and demand as well as any favorable or unfavorable non-recurring conditions that may result in unusually high or low occupancies. Although the Subject hotel may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this anticipated stabilized level.

Based on the rate structures at the competitive facilities and their locations, quality levels, chain affiliations, services and facilities offered in comparison to the proposed hotel, we estimate the proposed limited-service hotel will be able to achieve an average room rate of

\$95.00 in 2020 value dollars. As mentioned throughout this report, the pandemic has caused hotel occupancies and average daily rates to decline significantly in 2020 with negative growth expected throughout the year. An upper midscale limited-service hotel like we are recommending should be able to achieve an average rate much higher than this, at least \$10.00 to \$15.00 higher. We do believe the ADR will begin to increase in 2021 at a greater rate of inflation per industry experts.

The projected rate takes into account rack rates, discounted rates offered to preferred customers, transient discounted rates, and franchise corporate rates. It also considers the mix of demand and achievable rate by market segment. The proposed hotel's ADR will be influenced by the mix of demand and can be maximized by careful balance of room availability and corporate, group/SMERF, tourist/other, and extended-stay demand. Rack rates for the proposed hotel are estimated to range from \$89-\$129 depending on the demand segment (lower end is suggested for long-term stays), time of year, and room type. These rack rates also reflect the discounting that is taking place due to the pandemic.

Based on the local, regional, and national economic recessionary trends, the impact from the pandemic, and average rate growth for the comp set as shown in the STR report, we forecast the rate increase to be 5.0 percent from 2020-2021, 6.0 percent from 2021-2022, 8.0 percent from 2022-2023, 6.0 percent from 2023-2024, and 3.0 percent thereafter. The stabilized growth rate (3.0%) is more in line with ADR growth rates achieved by the comp set over the past eight years, which on average was 3.1 percent. This growth level is intended to reflect the long-term average growth in ADR; actual year-to-year changes may vary. Assuming a January 2023 opening date, the following occupancy and average daily rates are projected for the proposed hotel based on a calendar year.

**Prospective Performance
Proposed Limited-Service Hotel
Watertown, Wisconsin**

Year	Market Occupancy	Hotel Occupancy	Average Daily Rate	RevPAR
2019	60.0%			
2020	36.0			
2021	42.0			
2022	47.0			
2023*	52.0	55.0%	\$105.70	\$58.14
2024	57.0	60.0	114.20	68.52
2025	60.0	65.0	121.00	78.65
2026	63.0	65.0	124.70	81.06
2027	63.0	65.0	128.40	83.46

**Hotel opening estimated to be January 2023*

Source: Patek Hospitality Consultants, Inc.

CONCLUSION

Based on our market research and the information presented in this report, it is our opinion that the development of a 61-room limited-service hotel is market justified and would be well suited for the Watertown market. Our assumptions are based on the hotel being developed as described in this report and operated as a national hotel brand. It is assumed an aggressive sales effort will be in place prior to the hotel's opening, and aggressive and competent management in place once the hotel is open.

Throughout this report, we have discussed the Covid-19 pandemic's impact on the hotel industry. While the hospitality industry has experienced and survived 9/11 and the 2008-09 recession, this pandemic has taken a much greater toll on hotels. Our information in this report is only as good as the research conducted by the industry prognosticators and that information changes frequently as does the pandemic on a daily basis. Our recommendation for the development of the proposed hotel is based on our years of experience and that of the resources available to us at the time of this report writing.

We have assumed that the local economy can return to pre-Covid-19 levels and will continue to bring corporate, group, and leisure visitors to Watertown, Jefferson and Dodge counties, and the surrounding markets, prior to the opening of the proposed hotel in 2023. Should any of these assumptions not occur as projected or if unforeseen circumstances occur locally or on a national level, our estimates could be negatively affected.

PROJECTIONS OF INCOME AND EXPENSE

Methodology

In order to project financial operating results for the proposed limited-service hotel, we utilized financial operating results for Limited-Service Hotels as reported by STR's 2020 HOST Almanac (2019 data) and by CBRE's Trends In the Hotel Industry 2020 (2019 data). We also referred to actual financial operating statements in our files for limited-service hotels.

The comparable information that is presented in the following tables was provided by the HOST Almanac and includes All Chain Affiliated Hotels from across the country, East North Central Region that includes the state of Wisconsin, Small Metro/Town Location, and the Upper Midscale and Midscale/Economy Class segments. The CBRE Trends included categories in All Limited-Service Hotels, North Central Region, Rate (\$75-\$115), and Size (< 100 rooms).

The following paragraphs provide a brief explanation of the basis used to prepare the projection for each line item. Data is presented as various input forms such as Per Available Room (PAR), Per Occupied Room (POR), or Ratio to Sales. Critical factors for the various properties were taken into consideration when reviewing the comparable data and adjustments for the subject hotel were made based on location, facility, occupancy and rate, and other relevant operational issues.

All amounts have been rounded to the nearest thousand dollars and account classifications for the hotel component conform to the definitions prescribed by the 11th revised edition of the *Uniform System of Accounts for the Lodging Industry*.

Inflation and Growth in Revenues and Expenses

Our projections incorporate an estimate of general price inflation based upon econometric projections from various sources, tempered by our observations and expectations based on historical perspectives both locally and nationally.

To portray price level changes, we have assumed an inflation rate of 3.0 percent throughout our projection period. Overall, the 3.0 percent rate reflects our long-term outlook for the future movement of prices in the area and is intended only to portray an expected long-term trend in price movements, rather than for a specific interval in time. Our growth assumptions for average rate have been presented previously in this report, and all other line item expenses are projected to increase at the level of general inflation.

Departmental Revenues and Expenses

Rooms Department: Room revenue is estimated by multiplying the occupancy rate by the average daily rate (ADR) projected in the Hotel Supply and Demand section of the report.

**Proposed Limited-Service Hotel
Watertown, Wisconsin
Projected Performance**

Year	Occupancy	ADR	RevPAR	Room Revenue
2023*	55.0%	\$105.70	\$58.14	\$1,294,400
2024	60.0	114.20	68.52	1,525,600
2025	65.0	121.00	78.65	1,751,100
2026	65.0	124.70	81.06	1,804,700
2027	65.0	128.40	83.46	1,858,200

*Estimated opening January 2023

Source: Patek Hospitality Consultants, Inc.

Rooms Department expenses include payroll and related costs associated with the front desk and housekeeping, operating supplies, laundry, linens, cable television, and other items necessary to maintain guest rooms. Based on the available information from STR, CBRE, and the characteristics of the subject hotel, we have estimated rooms department expense to be \$28.00 per occupied room or 29.5 percent in the base year and range from \$30.94 and \$32.46 per occupied room over the five-year period, which equates to approximately 25.3 percent to 29.3 percent of room revenue. It is anticipated that Rooms Expense will be higher going forward because of Covid-19 protocols that hotel chains have and will continue to have to put in place in order to keep guests and employees safe. Cleaning rooms by housekeeping staff will likely take longer therefore labor costs will increase as well as the cost of supplies.

Rooms Expense

HOST Almanac	Limited-Service Hotels		CBRE Trends	Limited-Service Hotels	
Category	POR	Ratio to Sales	Category	POR	Ratio to Sales
Chain Affiliated	\$30.59	24.7%	All Hotels	\$32.57	27.4%
East North Central Region	\$26.78	25.8%	North Central Region	\$29.78	27.5%
Small Metro/Town	\$28.19	24.8%	Rate (\$75-\$115)	\$29.24	29.8%
Upper Midscale Class	\$34.64	28.8%	Size (<100 rooms)	\$30.74	27.4%
Midscale/Economy Class	\$18.84	23.6%			
PHC Estimate (Base Year)				\$28.00	29.5%

Source: STR HOST Almanac, CBRE Trends, Patek Hospitality Consultants, Inc.

Food & Beverage Department: Since the proposed limited-service hotel will not be offering a restaurant, we have not estimated food and beverage revenue and expense. The cost associated with the complimentary breakfast is included in the Rooms Department Expense. Again, we don't know going forward if the complimentary breakfast will return to what it once was but at the present time, most breakfast offerings are pre-packaged grab and go items.

Miscellaneous Income and Expense: This category is comprised of sundry, food and beverage sales associated with the recommended wine/beer bar, sales from the

sundry/convenience shop, interest income, vending machine commissions, guest laundry, fax income, and other miscellaneous income. We have estimated Miscellaneous Revenue of approximately \$28,900 or \$2.00 per occupied room in the base year.

Corresponding expenses were estimated to be 25.0 percent of departmental revenue or \$7,200 in the base year. This category does not include telephone expense, which is in the line item Information & Telecommunication Systems.

Undistributed Operating Expenses

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses in accordance with the 11th Revised Edition of the *Uniform System of Accounts for the Lodging Industry*. These expenses are discussed in the following paragraphs.

Administrative and General (A&G): This category covers expenses such as salaries and wages for management staff, bookkeeping, credit card commissions, data processing charges, corporate office charges, office supplies, legal, accounting, allowance for bad debts, travel expenses, licenses and permits, and similar items.

We estimated \$2,500 per available room (PAR) to be sufficient to cover administrative expenses in the base year of operation that equates to 10.9 percent of total revenue. A&G was estimated to range between 9.4 and 11.7 percent over the five years or \$2,535 to \$2,898 per available room.

A&G Expense

HOST Almanac	Limited-Service Hotels		CBRE Trends	Limited-Service Hotels	
Category	PAR	Ratio to Sales	Category	PAR	Ratio to Sales
Chain Affiliated	\$3,079	8.7%	All Hotels	\$2,761	8.6%
East North Central Region	\$2,634	9.3%	North Central Region	\$2,559	9.3%
Small Metro/Town	\$2,697	9.1%	Rate (\$75-\$115)	\$2,448	9.7%
Upper Midscale Class	\$2,786	8.5%	Size (<100 rooms)	\$2,977	10.1%
Midscale/Economy Class	\$2,250	10.2%			
PHC Estimate (Base Year)				\$2,500	10.9%

Source: STR HOST Almanac, CBRE Trends, Patek Hospitality Consultants, Inc.

Information & Telecommunication Systems: This category includes the cost of management information system services, supplies, and equipment as well as the expenses associated with the maintaining these systems. These systems also include telecommunication systems such as local, long distance, and Internet communications. In the base year of operation, we estimated this expense to be \$375 per available room or 1.6 percent of total revenue.

Sales and Marketing: Sales and Marketing expenses include local advertising, the cost of printing brochures, salaries, entertainment, dues and subscriptions and other related items. This expense also includes fees associated with brand advertising, reservation sales, and fees associated with a guest loyalty program. Based on the marketing expenses reflected in the compiled STR data and information on limited-service hotels in our files, we estimated marketing expenses in the base year of operation at \$1,100 per available room, an amount that represents 4.8 percent of total revenue. The expense is estimated to range between 4.1 and 5.1 percent during the five-year projection period or \$1,107 to \$1,275 per available room.

Sales and Marketing Expense

HOST Almanac	Limited-Service Hotels		CBRE Trends	Limited-Service Hotels	
Category	PAR	Ratio to Sales	Category	PAR	Ratio to Sales
Chain Affiliated	\$2,051	5.8%	Marketing expense from CBRE does not break out Franchise Fee whereas we like to show these as two separate line items.		
East North Central Region	\$1,764	6.2%			
Small Metro/Town	\$1,554	5.2%			
Upper Midscale Class	\$1,814	5.5%			
Midscale/Economy Class	\$1,285	5.9%			
PHC Estimate (Base Year)				\$1,100	4.8%

Source: STR HOST Almanac, CBRE Trends, Patek Hospitality Consultants, Inc.

Franchise Fees: This category includes the Franchise Royalty fee that is charged by national hotel companies. According to *HVS International*, “all franchisors collect a royalty fee, which represents compensation for the use of the brand’s trade name; service marks and associated logos; goodwill; and other franchise services. Royalty fees represent a major source of revenue for a franchisor and are calculated based on a percentage of rooms revenue”. Throughout the projection period, we estimated franchise fees to be 5.0 percent of room revenue. Over the five-year period, franchise fees are estimated to range from \$64,700 to \$92,900 or \$1,061 to \$1,523 per available room.

Utilities: We estimated the Utilities expense at 4.8 percent of total sales or about \$1,100 per available room in the base year of operation. This expense is estimated to range from 4.1 and 5.1 percent over the five-year projection period or \$1,107 to \$1,275 per available room.

Utilities Expense

HOST Almanac	Limited-Service Hotels		CBRE Trends	Limited-Service Hotels	
Category	PAR	Ratio to Sales	Category	PAR	Ratio to Sales
Chain Affiliated	\$1,281	3.6%	All Hotels	\$1,181	3.7%
East North Central Region	\$1,167	4.1%	North Central Region	\$1,113	4.1%
Small Metro/Town	\$1,214	4.1%	Rate (\$75-\$115)	\$1,093	4.3%
Upper Midscale Class	\$1,236	3.8%	Size (<100 rooms)	\$1,140	3.9%
Midscale/Economy Class	\$1,062	4.8%			
PHC Estimate (Base Year)				\$1,100	4.8%

Source: STR HOST Almanac, CBRE Trends, Patek Hospitality Consultants, Inc.

Property Operations and Maintenance: Property Operations and Maintenance expenses include salaries and wages, employee benefits, other payroll costs, normal maintenance of the building and grounds, landscaping, and electrical and mechanical equipment. Based on the comparable information, we estimated approximately \$1,000 per available room or 4.3 percent of total sales for the base year of operation. This category is estimated to range from 3.7 and 4.7 percent during the projection period or \$1,014 and \$1,159 per available room.

Property Operations & Maintenance Expense

HOST Almanac	Limited-Service Hotels		CBRE Trends	Limited-Service Hotels	
Category	PAR	Ratio to Sales	Category	PAR	Ratio to Sales
Chain Affiliated	\$1,663	4.7%	All Hotels	\$1,502	4.7%
East North Central Region	\$1,486	5.2%	North Central Region	\$1,375	5.0%
Small Metro/Town	\$1,449	4.9%	Rate (\$75-\$115)	\$1,373	5.2%
Upper Midscale Class	\$1,569	4.8%	Size (<100 rooms)	\$1,472	4.7%
Midscale/Economy Class	\$1,309	6.0%			
PHC Estimate (Base Year)				\$1,000	4.3%

Source: STR HOST Almanac, CBRE Trends, Patek Hospitality Consultants, Inc.

Management Fees: A management fee of 4.0 percent of gross sales has been used throughout the projection period; management fees typically range between three and five percent of total sales.

Fixed Charges

Property Taxes: We utilized property tax information for the Holiday Inn Express Watertown as a resource for estimating property taxes for the proposed hotel.

In the first year of operation, property taxes are estimated to be \$51,500 because the hotel will be under construction in 2022, which are payable in 2023. Taxes in 2024 are estimated

to be \$85,000 or \$1,393 per available room and increase to \$104,300 in 2027 or \$1,710 per available room. Property taxes were inflated 3.0 percent annually throughout the projection period. The development team for the proposed hotel should verify this information with the City for more definitive information.

Insurance: This insurance category covers the cost of building and contents insurance as well as liability insurance. Based on the experience of similar properties, we estimated this expense to be \$275 per available room or a total of \$16,800 in the base year of operation or 1.2 percent. Insurance was estimated to range from \$17,300 in 2023 to \$19,400 in 2027.

Insurance Expense

HOST Almanac			Limited-Service Hotels		
Category	PAR	Ratio to Sales	Category	PAR	Ratio to Sales
Chain Affiliated	\$385	1.1%	All Hotels	\$368	1.1%
East North Central Region	\$259	0.9%	North Central Region	\$245	0.9%
Small Metro/Town	\$364	1.2%	Rate (\$75-\$115)	\$345	1.4%
Upper Midscale Class	\$438	1.3%	Size (<100 rooms)	\$330	1.1%
Midscale/Economy Class	\$276	1.3%			
PHC Estimate (Base Year)				\$275	1.2%

Source: STR HOST Almanac, CBRE Trends, Patek Hospitality Consultants, Inc.

Reserve for Replacement: As is standard for income-producing properties, provision has been made for a reserve for replacement for furniture, fixtures, and equipment, as well as other long-lived items. Studies have indicated that on an ongoing basis a minimum of 4.0 percent is required to properly maintain hotels. Because the proposed limited-service hotel will be new construction, we used a “step-up” approach whereas in the first year of operation, the reserve was estimated to be 1.0 percent, in year two it was 2.0 percent and in subsequent years the reserve for replacement was estimated to be 4.0 percent of total sales and that is estimated to provide sufficient funds for future capital improvements. In 2023, this figure is estimated to be \$13,200 and in 2027 it is estimated to be \$75,600.

Cash Flow Projections

Our projections for the proposed limited-service hotel, before deductions for interest, taxes, depreciation, and amortization are presented in the following table. We project that, after reserve for replacement, the subject hotel would have a net operating income or EBITDA equal to 26.6 percent of total sales in the base year of operation; the EBITDA ranges between 27.3 percent and 32.5 percent of total sales throughout the projection period.

EBITDA
(Earnings Before Interest, Taxes, Depreciation, and Amortization)

HOST Almanac	Limited-Service Hotels	CBRE Trends	Limited-Service Hotels
Category	Ratio to Sales	Category	Ratio to Sales
Chain Affiliated	36.8%	All Hotels	27.1%
East North Central Region	33.8%	North Central Region	21.9%
Small Metro/Town	34.9%	Rate (\$75-\$115)	32.8%
Upper Midscale Class	32.9%	Size (<100 rooms)	33.7%
Midscale/Economy Class	41.9%		
PHC Estimate (Years 1-5)			27.3%-32.5%

Source: STR HOST Almanac, CBRE Trends, Patek Hospitality Consultants, Inc.

The ratio to sales for the HOST Almanac includes a reserve for replacement ranging from 1.3 percent to 1.8 percent for the five categories. The CBRE Trends does not show a reserve for replacement in the data.

The Statement of Estimated Annual Operating Results for the proposed limited-service hotel in Watertown for the period 2023-2027 is shown on the following page.

**Statement of Estimated Annual Operating Results in Inflated Dollars for A
Proposed Limited-Service Hotel
Watertown, Wisconsin**

Year #:	1.000			2.000			3.000			4.000			5.000		
Year:	2023			2024			2025			2026			2027		
Available Rooms:	61			61			61			61			61		
Stabilized Occupancy	55%			60%			65%			65%			65%		
Occupied Rooms:	12,246			13,359			14,472			14,472			14,472		
Average Rate:	\$105.70			\$114.20			\$121.00			\$124.70			\$128.40		
	RevPAR			RevPAR			RevPAR			RevPAR			RevPAR		
	\$58.14			\$68.52			\$78.65			\$81.06			\$83.46		
	Amount	Ratio	Per Occ/ Avail Room	Amount	Ratio	Per Occ/ Avail Room	Amount	Ratio	Per Occ/ Avail Room	Amount	Ratio	Per Occ/ Avail Room	Amount	Ratio	Per Occ/ Avail Room
	(\$000)			(\$000)			(\$000)			(\$000)			(\$000)		
REVENUES															
Rooms	\$1,294.4	98.1%	\$105.70	\$1,525.6	98.2%	\$114.20	\$1,751.1	98.3%	\$121.00	\$1,804.7	98.3%	\$124.70	\$1,858.2	98.3%	\$128.40
Food Sales	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00
Beverage Sales	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00
Total Food and Beverage	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00
Telephone	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00
Minor Operated Departments	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00
Misc. Other Income	25.7	1.9%	2.10	28.6	1.8%	2.14	29.4	1.7%	2.03	30.3	1.7%	2.10	31.2	1.7%	2.16
GROSS REVENUE	\$1,320.1	100.0%	\$107.80	\$1,554.2	100.0%	\$116.34	\$1,780.6	100.0%	\$123.03	\$1,835.0	100.0%	\$126.80	\$1,889.5	100.0%	\$130.56
DEPARTMENTAL EXPENSES															
Rooms	\$378.9	29.3%	\$30.94	\$410.1	26.9%	\$30.70	\$442.8	25.3%	\$30.60	\$456.1	25.3%	\$31.51	\$469.8	25.3%	\$32.46
Food and Beverage	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	45.1%	0.00	0.0	45.1%	0.00
Telephone	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00
Misc. Other Expense	6.3	24.6%	0.52	7.1	24.8%	0.53	7.9	26.9%	0.55	8.1	26.9%	0.56	8.4	26.9%	0.58
TOTAL DEPT EXPENSES	\$385.2	29.2%	\$31.45	\$417.1	26.8%	\$31.23	\$450.7	25.3%	\$31.14	\$464.2	25.3%	\$32.08	\$478.2	25.3%	\$33.04
DEPARTMENTAL PROFIT	\$934.9	70.8%	\$76.35	\$1,137.0	73.2%	\$85.11	\$1,329.9	74.7%	\$91.89	\$1,370.8	74.7%	\$94.72	\$1,411.3	74.7%	\$97.52
UNDISTRIBUTED EXPENSES															
Administrative and General	\$154.7	11.7%	\$2,535	\$160.5	10.3%	\$2,632	\$166.6	9.4%	\$2,732	\$171.6	9.4%	\$2,814	\$176.8	9.4%	\$2,898
Information & Telecommunications	23.2	1.8%	\$380	24.1	1.5%	395	25.0	1.4%	410	25.7	1.4%	422	26.5	1.4%	435
Management Fee	52.8	4.0%	866	62.2	4.0%	1,019	71.2	4.0%	1,168	73.4	4.0%	1,203	75.6	4.0%	1,239
Sales & Marketing	67.5	5.1%	1,107	70.4	4.5%	1,154	73.3	4.1%	1,202	75.5	4.1%	1,238	77.8	4.1%	1,275
Franchise Royalty Fee	64.7	4.9%	1,061	76.3	4.9%	1,250	87.6	4.9%	1,435	90.2	4.9%	1,479	92.9	4.9%	1,523
Utilities	67.5	5.1%	1,107	70.4	4.5%	1,154	73.3	4.1%	1,202	75.5	4.1%	1,238	77.8	4.1%	1,275
Property Op & Maintenance	61.9	4.7%	1,014	64.2	4.1%	1,053	66.7	3.7%	1,093	68.7	3.7%	1,126	70.7	3.7%	1,159
TOTAL UNDIST EXPENSES	\$492.3	37.3%	\$8,070	\$528.0	34.0%	\$8,656	\$563.7	31.7%	\$9,241	\$580.7	31.6%	\$9,520	\$598.1	31.7%	\$9,805
GROSS OPERATING PROFIT	\$442.6	33.5%	\$7,256	\$609.0	39.2%	\$9,984	\$766.2	43.0%	\$12,560	\$790.1	43.1%	\$12,952	\$813.2	43.0%	\$13,332
FIXED CHARGES															
Property Taxes	\$51.5	3.9%	\$844	\$85.0	5.5%	\$1,393	\$98.3	5.5%	\$1,612	\$101.3	5.5%	\$1,661	\$104.3	5.5%	\$1,710
Insurance	17.3	1.3%	283	17.8	1.1%	292	18.3	1.0%	300	18.9	1.0%	310	19.4	1.0%	319
TOTAL FIXED CHARGES	\$68.8	5.2%	\$1,128	\$102.8	6.6%	\$1,685	\$116.7	6.6%	\$1,913	\$120.2	6.5%	\$1,970	\$123.8	6.6%	\$2,029
NET INC. BEFORE RESERVES	\$373.8	28.3%	\$6,129	\$506.2	32.6%	\$8,299	\$649.5	36.5%	\$10,647	\$669.9	36.5%	\$10,982	\$689.4	36.5%	\$11,302
OTHER CHARGES															
Reserve for Replacement	\$13.2	1.0%	\$216	\$31.1	2.0%	\$510	\$71.2	4.0%	\$1,168	\$73.4	4.0%	\$1,203	\$75.6	4.0%	\$1,239
TOTAL OTHER CHARGES	\$13.2	1.0%	\$216	\$31.1	2.0%	\$510	\$71.2	4.0%	\$1,168	\$73.4	4.0%	\$1,203	\$75.6	4.0%	\$1,239
EBITDA*	\$360.6	27.3%	\$5,912	\$475.1	30.6%	\$7,789	\$578.3	32.5%	\$9,480	\$596.5	32.5%	\$9,778	\$613.9	32.5%	\$10,063

This statement should be read subject to the comments contained in the attached report

**Earnings Before Interest, Taxes, Depreciation, and Amortization but does not include Rent or other Fixed or Non-Operating Expenses*

Source: Patek Hospitality Consultants, Inc.

ECONOMIC FINANCIAL FEASIBILITY

We have prepared a development budget and presented financing assumptions based on market conditions today. This is a vastly different economy as compared to four years ago when the original hotel study was completed in 2016. Due to the Covid-19 pandemic, the hotel industry has been upended and significantly impacted. According to a presentation at The Lodging Conference's online event held in September 2020, economist Bernard Baumohl shared three critical factors that could affect the economic recovery and in turn the hospitality industry going forward.

Covid-19 virus – This is first and foremost the factor that has to be dealt with before the economy can be fixed and that includes a vaccine becoming available in the first half of 2021.

Government Financial Aid – a U.S. stimulus package is essential but will not likely occur until after the presidential election in early November 2020. This is essential for small businesses and individual households.

Presidential Election – this is the third factor that will affect the economic recovery as the two candidates have vastly different personalities and agendas to fix the economy.

How these factors affect the hospitality industry going forward is still unknown with little clarity provided. Mr. Baumohl expects more companies will transition to having employees working from home with changes to corporate travel policies. Videoconferencing has become a viable way to communicate, which means less time traveling and more productivity among employees.

We have presented this information about the challenges to our economic recovery as we attempt to prepare an economic feasibility analysis for a proposed hotel development in Watertown. We have presented two different debt and equity scenarios that will likely change between the date of this report and the date the developer secures financing.

Development Budget (Project Cost)

A development budget has been prepared based on the number of rooms and facilities recommended. The information was based on budgets retained in our files from other projects we have completed and discussions with hotel developers and franchise companies. This is only an estimate and the figures would likely vary based on the facilities and amenities developed according to the franchise. In addition, this estimate does not include land costs because a site has not been selected. For purposes of our analysis, we have assumed the development cost for a 61-room limited-service hotel would be approximately \$7,826,700 or \$128,307 per available room (**without land**).

Proposed Limited-Service Hotel Development Budget Watertown, Wisconsin

Building Specifications include a 61-room limited-service hotel with standard and six to eight extended-stay rooms, hot breakfast, guest wine and beer bar, indoor pool, fitness room, and outdoor patio

Land & Site Prep	\$0
<i>Per room</i>	<i>\$0</i>
Building Construction	\$6,100,000
<i>Per room</i>	<i>\$100,000</i>
Fixtures, Furnishings & Equipment (FF&E)	\$854,000
<i>Per room</i>	<i>\$14,000</i>
Indirect Costs	
Financing/Amortization	\$300,000
Contingency/Working Capital	\$200,000
Development Services	<u>\$372,700</u>
Total Indirect Costs	\$872,700
<i>Per room</i>	<i>\$14,307</i>
Total Projected Costs	\$7,826,700
<i>Per Room</i>	<i>\$128,307</i>

Please Note: Pricing noted above is valid for 90 days from the date of this document

Financing Assumptions

Our assumptions regarding the economic feasibility of the project including debt and equity assumptions follow. We surveyed a large national hotel developer/owner/operator and a regional hotel company for their input on the amount of equity required for new hotel development in today's market. These two scenarios are presented below. As noted above, the projected cost of development of the hotel is estimated to be \$7,826,700.

At 40% Equity

\$3,130,680 equity (40%)
\$4,696,020 debt (60%)
 \$7,826,700

At 30% Equity

\$2,348,010 equity (30%)
\$5,478,690 debt (70%)
 \$7,826,700

In the 40% equity scenario, we have assumed an equity investment of \$3,130,680 with a loan amount of \$4,696,020. In the 30% scenario, an equity investment of \$2,348,010 would be required leaving a loan amount of \$5,478,690.

Our assumptions regarding debt include the following:

Annual Interest Rate	4.00% (as of 10/13/2020)	
Amortization	20 years	
Annual Payment	60% Debt	70% Debt
	\$341,484	\$398,397

**Proposed Limited-Service Hotel
Economic Feasibility Analysis
40% Equity/60% Debt
Watertown, Wisconsin**

	2023	2024	2025	2026	2027
Cash Flow Available for Debt Service	\$360,600	\$475,100	\$578,300	\$596,500	\$613,900
Debt Service	\$341,484	\$341,484	\$341,484	\$341,484	\$341,484
Debt Service Coverage	1.05x	1.39x	1.69x	1.75x	1.80x
Cash Flow to Equity	\$19,116	\$133,616	\$236,816	\$255,016	\$272,416
Equity	\$3,130,680	\$3,130,680	\$3,130,680	\$3,130,680	\$3,130,680
Return on Equity	0.6%	4.3%	7.6%	8.1%	8.7%

Source: Patek Hospitality Consultants, Inc. based on research and sources cited in the report

**Proposed Limited-Service Hotel
Economic Feasibility Analysis
30% Equity/70% Debt
Watertown, Wisconsin**

	2023	2024	2025	2026	2027
Cash Flow Available for Debt Service	\$360,600	\$475,100	\$578,300	\$596,500	\$613,900
Debt Service	\$398,397	\$398,397	\$398,397	\$398,397	\$398,397
Debt Service Coverage	0.9x	1.19x	1.45x	1.50x	1.54x
Cash Flow to Equity	(\$37,797)	\$76,703	\$179,903	\$198,103	\$215,503
Equity	\$2,348,010	\$2,348,010	\$2,348,010	\$2,348,010	\$2,348,010
Return on Equity	(1.6%)	3.3%	7.7%	8.4%	9.2%

Source: Patek Hospitality Consultants, Inc. based on research and sources cited in the report

In both scenarios, the first year or two of operation shows a slightly lower debt service coverage ratio, which most hotels lenders like to see at 1.2 times or preferably 1.4 times

cash flow. The debt service coverage ratio is $\text{cash flow} \div \text{debt service}$ and is the measurement of a hotel's available cash flow to pay current debt obligations.

This analysis also shows the cash on cash return on investment, which measures the net income produced by a property, relative to the initial cash investment that was made to develop the property. The cash on cash return tells how much of the out-of-pocket investment is being earned each year. The cash on cash return is a simple metric and can vary based on property type, location, and other factors such as an economic health crisis. To reiterate, this analysis is being conducted during an unprecedented time in our country with the pandemic affecting our economy and the hospitality industry. The figures presented in this analysis are as of the date of this report and will likely differ at the time the hotel is in its development and opening stages.

ASSUMPTIONS AND LIMITING CONDITIONS

1. This document is to be used in whole and not in part.
2. Our conclusions are explicitly based upon the assumption that the proposed hotel will be developed and constructed to competitive standards, operated in a manner typical of a high-quality hotel, and include the assumed facilities and amenities as set forth in this report. It is expressly understood that the conclusions of this analysis could change upon any deviation from this assumption. Furthermore, the changes that might arise could be material. For the purposes of this engagement we have assumed that the proposed hotel will open in January 2023, and contain approximately 61 rooms, will operate as a chain affiliated hotel, be operated by competent management and be effectively marketed to the appropriate demand segments identified in this report. We have no obligation to update our findings regarding changes to the scope of the proposed development including (but not limited to) changes in the guestroom inventory, ancillary facilities program, and lodging product concept.
3. As in all studies of this type, the estimated annual operating results are based upon competent and efficient management and assume no significant change in the competitive position of the lodging industry in the immediate area from that set forth in the study.
4. Estimated results are also based on an evaluation of the present general economy of the area and do not take into account, or make provision for, the effect of any sharp rise or decline in local or general economic conditions, which may occur. There usually will be differences between the estimated and actual results, because events and circumstances frequently do not occur as expected. Such differences may be material.
5. We do not warrant that our estimates will be attained; they will be developed based upon information obtained during the course of our market research and are intended to reflect the expectations of a typical hotel developer/investor as of the report date.
6. We have no obligation to update our findings regarding changes to the scope of the proposed development or changes in market conditions subsequent to the completion of our fieldwork. The information gathered during the course of the fieldwork and used in this analysis is assumed to be accurate, although we cannot guarantee its accuracy.
7. Neither all nor part of the contents of this report shall be disseminated to the public through advertising media, news media, sales media, or any public means of communication without the prior written consent and approval of PHC.

8. The Client (City of Watertown, Wisconsin) has disclosed to Patek Hospitality Consultants, Inc. (PHC) all relevant information, conditions, data, and other information that Client deems relevant to PHC's production of the Report. Unless specifically brought to the attention of PHC, PHC will assume that there are no hidden or unexpected conditions or information that would adversely or otherwise affect the study and analysis leading to the Report. PHC expresses no opinion and gives no advice concerning matters that require legal or specialized expertise, investigation or knowledge such as, without limitation, engineering, tax, accounting, zoning, signage, hazardous substance/waste, wetlands, franchise or other technical or developmental matters. Market studies involve the interpretation of evolving events and the research and review of highly confidential information, the accuracy of which cannot be assured. The risk of unknown or unanticipated events or conditions is an additional variable for which there is no remedy. Client understands these limitations and interprets all research, analysis, and projections accordingly.
9. It is expressly understood that the scope of our study and report thereon does not include the possible impact of zoning or environmental regulations, licensing requirements or other such restrictions concerning the project except where such matters have been brought to our attention and disclosed in the report.
10. Our liability with respect to this report is limited to the total fees as set forth herein. Our responsibility is limited to the Client and use of this report by third parties shall be solely at the risk of the Client and/or third parties.
11. We are not required to give testimony or attendance in court by reason of this assignment, with reference to the property in question, unless prior arrangements have been made and agreed to in writing.
12. Patek Hospitality Consultants, Inc. is not obligated, or qualified, to predict future political, economic, or social trends, which may or may not occur as a result. The World Health Organization (WHO) declared the Novel Coronavirus (Covid-19) a global pandemic on March 11, 2020. Many countries, including the United States, implemented strict travel restrictions with quarantine and social distancing measures that are ongoing as this report is being written. We are faced with unprecedented circumstances on which to base a recommendation because this global pandemic has caused significant uncertainty in the economy and capital markets. Our estimates and recommendations are based on data and research that is available as of the date of this report. We are not responsible for events that occur after the date of this final report and its impact on hotel development, particularly as the scale and longevity of the pandemic is unknown.

PATEK HOSPITALITY CONSULTANTS, INC.

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Experience:

- 6/93-Present ***Patek Hospitality Consultants, Inc.***, President
Sussex, Wisconsin
Conduct market demand, economic financial feasibility and impact studies for the hospitality industry. Provide consulting services to owners, operators, developers, municipalities, and lending institutions in the hospitality industry.
- 3/89-5/93 ***BDO Seidman***, Senior Manager, Hospitality Consulting Group
Chicago, Illinois
Hired, trained and supervised four staff consultants. Conducted studies regarding market demand, economic feasibility, impact analysis and site selection for the hospitality industry.
- 3/83-3/89 ***Pannell Kerr Forster***, Senior Manager, Management Advisory Services
Chicago, Illinois
Conducted market demand and economic feasibility studies for hotels, resorts and conference/convention centers; supervised three staff consultants together with six-month intern program; coordinated publication for the Midwest edition of Trends, a monthly survey outlining trends in the industry including collection, calculation and analysis of all data used.
- 1/82-2/83 ***University of Wisconsin***, Market Research Assistant,
Recreation Resources Center, Madison, Wisconsin
Did market research for feasibility studies and valuation of hotels.
- Education:** University of Wisconsin - Stout
Menomonie, Wisconsin
Bachelor of Science in Hotel and Restaurant Management, December 1981
- Memberships:** Wisconsin Hotel & Lodging Association