



**Addendum To
City of West Allis, Wisconsin
PHASE II COMPREHENSIVE MARKET
STUDY REPORT
of May, 2005
BENCHMARK DEVELOPMENT COSTS
&
PRELIMINARY FUTURE PROJECT VALUATIONS
Updated JANUARY, 2009**

Management
Research
Marketing

Prepared Exclusively For:

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The information contained in this Addendum to the Phase II Comprehensive Market Study dated January, 2009, should be used as an advisory tool in evaluating financial decisions regarding this project. Specific cost information for the project should be thoroughly investigated by the developer or other interested parties of this Addendum to the original report. The Benchmark Development Cost, Valuation and Internal Rates of Return information, included herein, are intended to be used as guidelines. Due to the specific nature of each project and the multitude of differences and nuances including, but not limited to, geographic location, land costs, construction costs, property taxes, incentives, grants, lending structure, depreciation and the local economy, the developer should be sure to work through their own specific return analysis.

These estimates are benchmarks, and variations to the actual project costs that may occur. The Benchmark Development Costs should be evaluated with the Internal Rates of Returns established, based upon the Preliminary Future Project Valuations. HMI will be available to review this analysis with you as you prepare your actual development costs and desired rates of return for this project.

BENCHMARK DEVELOPMENT COST FACTOR

The benchmark calculation, based upon Occupancy and Average Daily Room Rate projections, was established for Benchmark Development Costs. This provides a preliminary indication of the viability of developing this hotel project based upon these Occupancy and Average Daily Room Rate projections. More comprehensive feasibility research should be performed regarding anticipated operational expenses and fixed cost structuring such as debt service, property taxes, insurance, and depreciation, to formulate a more thorough analysis of the financial viability of this hotel project. The land cost will also be another factor that will have significant impact on the Benchmark Development Costs.

Benchmark Development Costs take into account all costs associated with the hotel's development up to its stabilized year of operation. This includes: land costs; land preparation costs; development costs; construction/renovation costs; furniture, fixtures and equipment (FF&E); pre-opening operational and marketing expenses; and cash flow shortages to a stabilized year of operation. Any other associated development costs would also be part of this calculation. A developmental Occupancy factor of 62.5% for this upper mid-priced to upscale, select service hotel was used.

A development cost factor of \$1.550 of Average Daily Room Rate per thousand dollars of development cost was utilized for an upper mid-priced to upscale, select service hotel. Deviations from the developmental Occupancy and Average Daily Room Rate Factors were calculated based upon Occupancy and Average Daily Room Rate Projections established in this report.

Using this calculation, the following preliminary Benchmark Development Costs were established.

BENCHMARK DEVELOPMENT COSTS		
	ALLOWABLE PER ROOM*	ALLOWABLE TOTAL PROJECT COST*
100 Rooms	\$119,133	\$11,913,338
<i>*These projections will be affected by changes in Projected Occupancy or Projected ADR.</i>		
<i>Source: HMI</i>		

Ideally, as the developer calculates development costs for this property, the total development costs should not exceed these preliminary break-even Benchmark Development Costs. Exceeding these Benchmark Development Costs may indicate that the property is not financially feasible to pursue. However, projected development costs below these Benchmark Development Costs may indicate that additional research should be performed by the developer to determine the overall economic feasibility of developing this hotel property.

To further assess the value of this hotel project at the end of the third full year of operation (2012), calculations of Room Revenue Multipliers and Capitalization rates were applied. These were based on the *Hotel Investment Survey* by U.S. Realty Consultants. Also, the Smith Travel Host Report was used to establish industry standards to establish Gross Operating Profit before Fixed Costs (35.08%).

100-Room Hotel

On a Revenue Multiplier basis, the average value of the facility was calculated at \$14,732,709 with a range from \$8,517,347 to \$18,415,886. Industry ranges were between 1.9 and 4.0 times sales, with an average of 3.2 times sales.

On a Terminal Capitalization Rate basis, the average value was calculated at \$17,749,744 and ranged from \$14,045,449 to \$20,576,136. Industry ranges were between 7.85% and 11.50%, with an average of 9.10%.

The replacement cost of constructing the property in was calculated at \$12,641,314.

The average value of the property in 2012 was estimated at \$15,041,256 on an estimated Benchmark Development Cost of \$11,913,338. The increase in value is estimated at \$3,127,918. With an estimated 30% equity, or \$3,574,001 on the

Benchmark Development Cost, the return based on the increase in value over the Benchmark Development Cost is 87.52% or 21.88% per year. These calculations do not factor in any of the benefits of utilizing the any city/municipal tax credits to help finance this project.

The Benchmark Development Cost calculation above, as well as the return calculations above, are two of many benchmarks which the developer should utilize in determining the feasibility of this project.

SPECIAL NOTE

--It should be noted that the above Benchmark Development Costs are based upon selling the hotel after the third year of operation.

-- It also depicts only the return on an investment of 30% of the Benchmark Development Cost, and the total increase in value based on the sales price. It does not take into account any Cash Flow returns from operations. HMI could assist in developing a Cash Flow analysis from an Operational Proforma developed for this hotel project. This would generate a more detailed Cash Flow Analysis and potential Return on Investment Analysis for the hotel.

-- Also, this calculation shows a projected Return on Investment of 21.88% per year. If this Return is adjusted, the Benchmark Development Cost would also be adjusted. (i.e. If the Return on Investment is adjusted to 15.00% per year, on the sale of the hotel, the Benchmark Development Cost increases to \$127,472.71 per room.)

-- This calculation does not take into account any present value calculations. This would be accounted for in an actual Operational Proforma or an Analysis of Cash Flow and Return on Investment.

-- The actual Return on Investment should include returns on both the projected sales value and Cash Flow analysis for the property.

DISCLAIMER

The decisions presented herein were based upon the information available and received at the time this report was compiled. Hospitality Marketers International, Inc., (HMI) has taken every possible precaution to evaluate this information for its completeness, accuracy and reliability. To the best of its knowledge, HMI feels the information and decisions presented herein are sound and reliable.

It must be noted that on September 11, 2001, the United States was attacked by terrorists. The results of that attack had significant affects on the economy and social attitudes of the United States. These attacks also significantly altered normal travel patterns by various market segments generating potential lodging demand. At the time of the writing of this report, the United States travel industry, and specifically, the hotel industry are still recovering from these events. The actual long-term results are still uncertain. There are expectations that the United States will ultimately recover from these events and their affects on the economy and society. There are further expectations that some travel patterns will be changed indefinitely. This report will look at historical trends prior to these significant events. Performance since September 11th to the time of this report will also be reviewed and will attempt to factor the effects of these events into the future projections and conclusions presented in this report. Given the present state of uncertainty, HMI is not responsible for affects that occur from future political, economic or social events that ultimately alter these projections.

Also, it should be understood that normal economic and marketplace conditions change constantly. HMI assumes no responsibility for information that becomes outdated once this report is written; nor is it responsible for keeping this information current after January, 2009.

It should be understood that the results presented in this report are the professional opinion of HMI and are based upon the information available at this time. These opinions inter proper and professional management of the business operation. The opinions also infer that market conditions do not change the information received upon which those opinions have been based. HMI assumes no responsibility for changes in the marketplace.

Furthermore, it is presumed that those reading this report completely understand its contents and recommendations. If the reader is unclear of the understanding of the contents, clarification should be received from its writer, HMI.

Lastly, HMI assumes that those who receive this study act in accordance with its recommendations. Any deviation from these recommendations is solely the responsibility of those receiving this report.

Further questions concerning this report should be directed to HMI.

Sincerely,
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