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Hotel Service Network

## FIELD RESEARCH OVERVIEW REPORT

### BERLIN, WISCONSIN

### JANUARY, 2018

**Prepared Exclusively for:**

**City of Berlin, Wisconsin**

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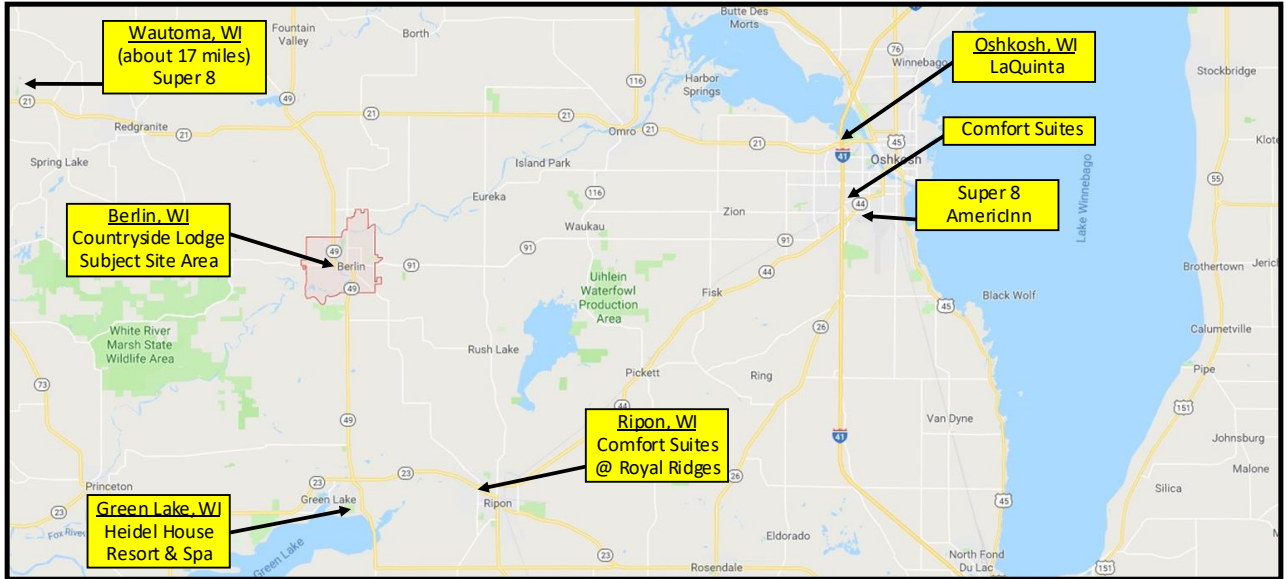
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## **EXHIBITS**

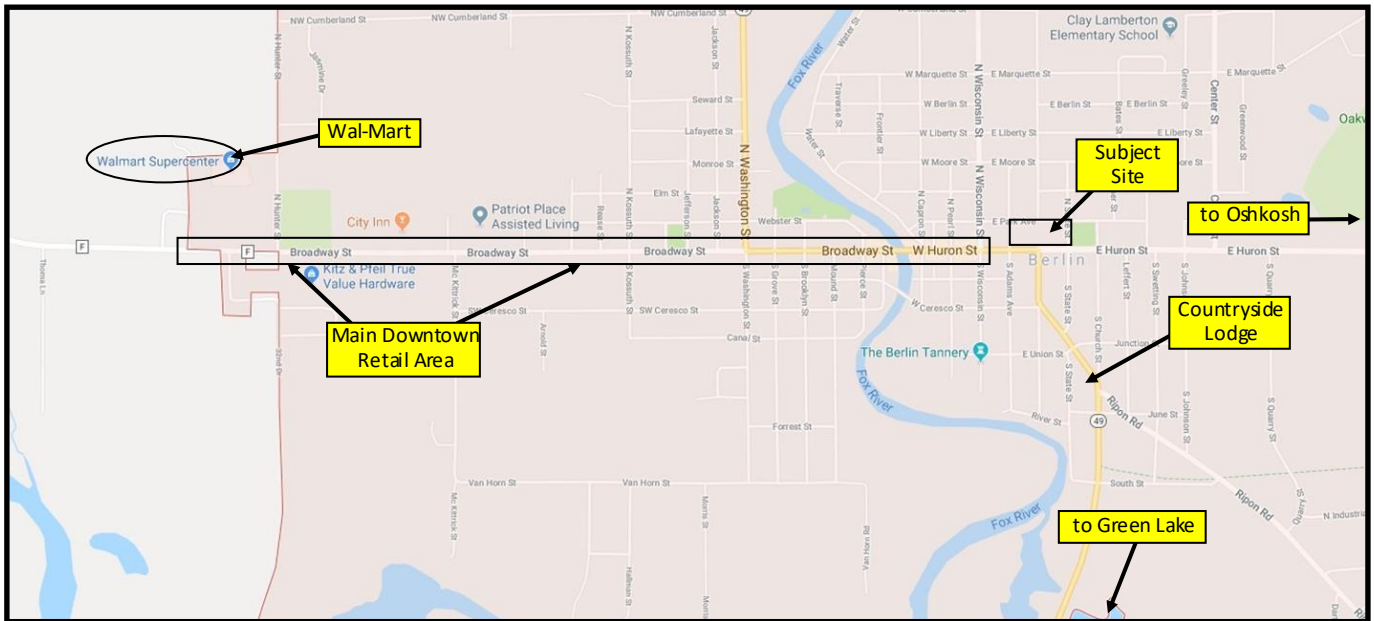
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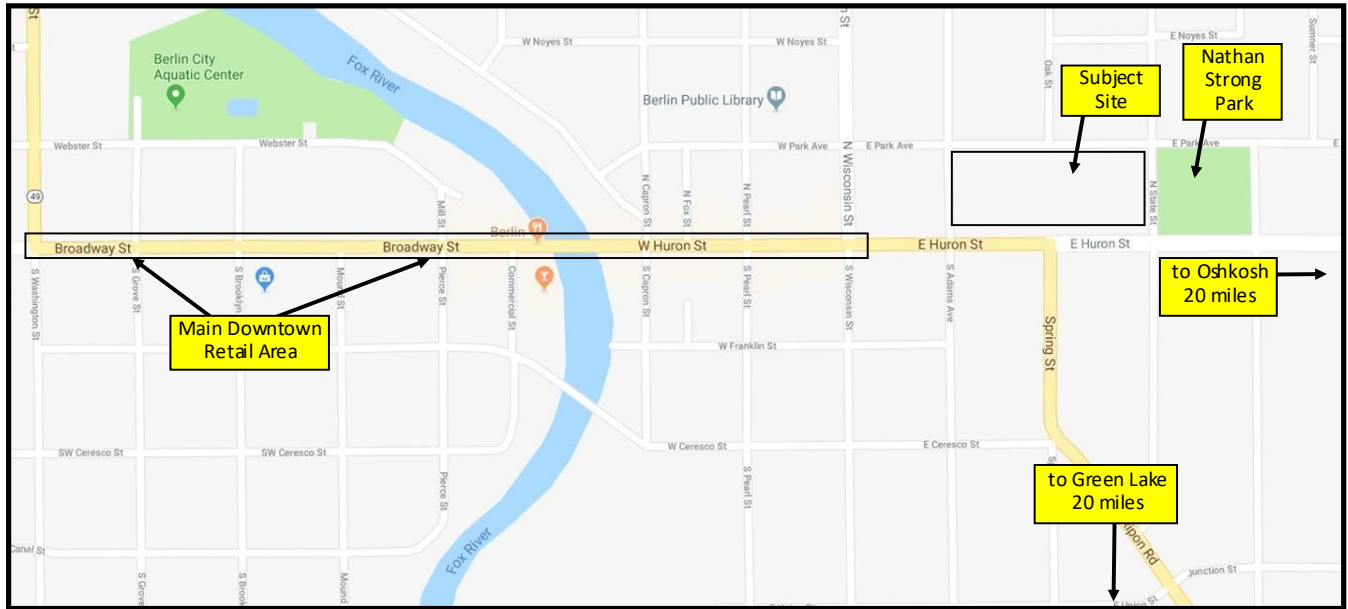
**Exhibit 1— The Geographic Location of the Subject Market to Wisconsin and the Surrounding Area**



**Exhibit 2— The Geographic Location of the Subject Market Area to the Regional Market Area Including the Hotels in the Competitive Set**



**Exhibit 3— The City of Berlin and the Major Lodging Demand Generators and Support Services Including the Subject Site Area**



**Exhibit 4— Closer View of the Proposed Subject Site**

## **INTRODUCTION/OBJECTIVE**

The following Field Research Overview Report was prepared based upon the field research performed by Hospitality Marketers International, Inc. in November, 2017. This report provides an overview of the highlights observed in the City of Berlin, Wisconsin and the surrounding market area. It provides preliminary Operational Projections for this market's ability to support a limited service, mid-priced hotel in this market. Based upon the research performed, this report also includes preliminary projections for this market supporting a 35-room hotel. It was also requested by city officials that a scenario for a 50-room hotel also be included.

Recommendations will be made for a possible continuation of the Hotel Market Study, based upon the research presented in this report, in the form of a complete Comprehensive Hotel Market Study. At that point, whether to perform an additional Hotel Market Research can be decided.

This report serves as an overview report presenting preliminary Operational Projections and recommendations. Its purpose is to determine if further research of the subject market is necessary and if a more detailed Hotel Market study should be completed. In a full Comprehensive Hotel Market Study, these preliminary report comments would be expanded and presented in detail.

This report is the sole property of the City of Berlin. It cannot be used without the expressed written permission of the appropriate representative from the City of Berlin.

## **PROPOSED PROPERTY DESCRIPTION**

It was determined that a limited service, mid-priced hotel would be the best fit for this market and this Field Research Analysis Report will investigate the potential feasibility of developing a hotel of this style. Based upon the research performed to date, the following recommendations for this type of property were developed:

- PROPERTY TYPE: Mid-Priced
- PROPERTY STYLE: Limited-Service
- PROPERTY SIZE: Range of 35 Rooms to 50 Rooms
- SLEEPING ROOM CONFIGURATION:
  - 60-70% Queen Bedded Rooms
  - 30-40% King Bedded Rooms
  - Up to 10% Suites



- **PROPERTY SERVICES/AMENITIES**
  - Typical of This Product Type and Style:
    - Complimentary Breakfast Area
    - Exercise Area
    - Indoor Pool/Whirlpool - Optional
    - Small Business Center
    - Small Meeting Room
- **OPENING DATE:** Late Winter to Early Spring (to ramp up for the higher Occupancy months.)
- **SUPPORT SERVICES:** At this time, support services are located within walking distance of the subject sites for the proposed hotel. These support services are located along Huron Street and Broadway Street which serve as the main traffic route through downtown Berlin. The site being located on the east end of Huron Street offers excellent access to this downtown area. The downtown support services include a variety of locally owned restaurant and retail venues including but not limited to Jeff's on the Square, Bellissimo Ristorante Italiano and Pizzeria, Izzy's Dockside Diner and Pub, and Clem's. Nationally franchised restaurants in the downtown area include Dominos, Subway and Mc Donald's. It should be noted that this site will also be located in close proximity to the Fox River and the numerous parks which surround it.

### **PRELIMINARY OPERATIONAL PROJECTIONS**

(Occupancy, Average Daily Room Rates and Sales Revenue)

It was requested that this Fieldwork Research Report include Preliminary Operational Projections for a 35-Room and a 50-Room property. The feasibility of each room count could be further determined by a developer, lender and/or brand representative. These are preliminary projections and they would be reviewed, potentially modified, and expanded in a Comprehensive Hotel Market Study. They are projected for the third full year of operation, which is the estimated stabilized year of operational performance for the proposed hotel.

### 35-Room Property

Based upon the research performed, the following chart shows the preliminary Operational Projections for Occupancy, Average Daily Room Rates and Sales Revenue for a 35-room, mid-priced, limited service hotel.

PROJECTED PERFORMANCE FOR A 35-ROOM MID-PRICED, LIMITED-SERVICE PROPERTY			
	PROJECTED MARKET PERFORMANCE <i>PRESENT MARKET</i>	PROJECTED MARKET PENETRATION	PROJECTED HOTEL PERFORMANCE <b>35 ROOMS</b>
OCCUPANCY			
Probable	41.7%	168.0%	70.0%
ADR			
Probable	\$116.04	82.5%	\$95.73
RevPAR			
Probable	\$48.34	138.6%	\$67.00
REVENUE			
Probable	NA	NA	\$855,866
*Projected performance is +/- 5 percentage points and will be affected by changes in Lodging Supply and Demand growth levels used to formulate these projections.			
Source: HMI			

- The above preliminary projections take into account the following:
  - Lodging Demand growth was estimated to grow at a cumulative average rate of 1.01% from 2019 to 2021. This projection is conservative as it is equal to the average growth rate from 2015-2016 of 1.06% but slightly higher than the average growth rate from 2011-2014 of -2.64%. These projections take into account the -3.97% growth rate projected for 2017. Projected future Lodging Demand Growth from 2018 to 2021 is 1.00% for each year. A conservative approach was taken in these projections due to the Competitive Set data being drawn from the larger commercial areas of Oshkosh and Ripon.
- The 35 rooms of the proposed hotel will be smaller than the average room count in this market at 86.3-rooms, yielding 246.57% to the average sized property in the Competitive Set which will be defined later in this report. In order to remain conservative, only a portion of the total size yield of 246.57% was used. It was felt necessary to cap the projected third-year Occupancy at 70.0%. Typically, this Occupancy level would be capped at 80%. This projected third year occupancy was the result of using a size yield of 168%. This Occupancy level was felt to be the potential maximum Occupancy level for the proposed hotel in this market, at this time. This does not take into account changes to present economic and competitive factors that could affect these projections.

- At the time of this report no hotel projects were identified or planned to be developed for the immediate market area, therefore, no new Lodging Supply was factored into these projections.
- A conservative impact factor of 100% was used in these projections to account for the majority of hotel room nights being generated by Berlin currently staying outside of the city, and in the hotels in the competitive set.
- ADR growth is estimated to increase 0.02% in 2017. It is estimated to grow an average of 2.95% per year from 2019 to 2021. This a conservative growth rate when compared to the 3.35% growth rate between 2011 and 2016. Again, this conservative approach was taken due to the Oshkosh market being a larger commercial area with higher rate structures.
- At this time, the proposed hotel was rate-positioned with an 82.5% yield to the ADR of the Statistical Competitive Set. This positioning will be defined in this report as being equal to the average ADR of the Competitive Set. There is the potential that in a more complete Comprehensive Hotel Market Study this rate positioning could change.

#### 50-Room Property

- Based upon the research performed, the following chart shows the preliminary Operational Projections for Occupancy, Average Daily Room Rates and Sales Revenue for a 50-room, mid-priced, limited service hotel.
- These projections are based on the same Lodging Demand and ADR growth rates discussed above in the 35-room projections.

<b>PROJECTED PERFORMANCE FOR A 50-ROOM MID-PRICED, LIMITED-SERVICE PROPERTY</b>			
	PROJECTED MARKET PERFORMANCE <i>PRESENT MARKET</i>	PROJECTED MARKET PENETRATION	PROJECTED HOTEL PERFORMANCE <i>50 ROOMS</i>
<b>OCCUPANCY</b>			
Probable	40.7%	168.0%	68.4%
<b>ADR</b>			
Probable	\$116.04	82.5%	\$95.73
<b>RevPAR</b>			
Probable	\$47.23	138.6%	\$65.46
<b>REVENUE</b>			
Probable	NA	NA	\$1,194,623
<i>*Projected performance is +/- 5 percentage points and will be affected by changes in Lodging Supply and Demand growth levels used to formulate these projections.</i>			
<i>Source: HMI</i>			

- The 50 rooms of the proposed hotel will be smaller than the average room count in this market at 86.3 rooms, yielding 172.6% to the average sized property in the Competitive Set which will be defined later in this report. In order to remain conservative, only a portion of the total size yield of 172.6% was used. It is estimated that a 50-room property would likely have a slightly lower third year projected Occupancy than the smaller 35-room property. For this reason the same Occupancy yield used in the 35-room model, 168.0%, was used in the 50-room model. This 168.0% third year Occupancy at a 50-room property allows for a third year projected Occupancy of 68.4%. This does not take into account changes to present economic and competitive factors that could affect these projections.
- Specific information and analysis of the data provided in this section of the Field Research Analysis Report would be included in a Comprehensive Hotel Market Study.

#### **BENCHMARK DEVELOPMENT COSTS**

- The following Benchmark Development Cost chart depicts the support level for this possible hotel in Berlin, Wisconsin based upon the operational projections for Occupancy and Average Daily Room Rates contained in this report. A scenario was developed for a proposed 35-room and a proposed 50-room, limited-service, mid-priced hotel.
- Based on preliminary Occupancy and Average Daily Room Rate projections, Benchmark Development Costs were calculated. These provide a preliminary indication of viability for developing this hotel. More comprehensive feasibility research should be performed to obtain anticipated operational expenses and fixed cost structuring such as debt service, property taxes, insurance, and depreciation. This would in turn formulate a more thorough analysis of the financial viability of this hotel project. Land cost is another factor that will have significant impact on Benchmark Development Costs.
- Benchmark Development Costs include all costs associated with the proposed hotel's development up to its stabilized year of operation: 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. Any other associated development costs would also be part of this calculation. An estimated developmental industry average Occupancy factor of 60.0% was used for this proposed 35-room or 50-room, limited-service, mid-priced hotel.

- For this proposed hotel, an estimated industry average factor of \$1.375 of Average Daily Room Rate per thousand dollars of development cost was utilized. This factor is in the lower range for a limited-service hotel. The range is typically between \$1.375 - \$1.425 for a limited-service hotel. This would be due to land costs, development costs and operational costs (i.e. Real Estate Taxes, Utilities costs, Wage Scales, etc.). 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.
- With that in mind, the following preliminary Benchmark Development Costs were calculated.

Limited-Service Mid-Priced Hotel 35 Rooms

BENCHMARK DEVELOPMENT COSTS		
	ALLOWABLE COST PER ROOM*	ALLOWABLE TOTAL PROJECT COST*
<b>35 Rooms</b>	<b>\$81,689</b>	<b>\$2,859,108</b>
<i>*These projections will be affected by changes in Projected Occupancy or Projected ADR.</i>		
<i>Source: HMI</i>		

Limited-Service Mid-Priced Hotel 50 Rooms

BENCHMARK DEVELOPMENT COSTS		
	ALLOWABLE COST PER ROOM*	ALLOWABLE TOTAL PROJECT COST*
<b>50 Rooms</b>	<b>\$79,815</b>	<b>\$3,990,760</b>
<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 cost should not surpass these preliminary break-even Benchmark Development Costs. Exceeding these Benchmark Development Costs may indicate that the proposed hotel 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.

- Based upon the 25% equity investment, the Rate of Return for the proposed 35-room and the 50-room model was estimated at 15% per year. If the equity investment or Rate of Return was adjusted, there would be an effect on the Benchmark Development Costs.
- At the time of this report, based on the research and preliminary operational projections presented, a 35-room property is recommended. It is felt that this size property would allow for the strongest performance of the two room scenarios presented.
- The Benchmark Development Cost calculations and the return calculations listed above are only a few of many benchmarks the developer should utilize in determining the feasibility of this project. This calculation does not take into account any present value calculations. These would be calculated in an actual Operational Proforma or in an Analysis of Cash Flow and Return on Investment. The actual Return on Investment should include returns on both the projected sales value and the Cash Flow analysis.

### **GENERAL MARKET**

- The City of Berlin is located in Green Lake and Waushara County in east central Wisconsin.
- The Berlin market is located along State Highway 49 and State Highway 91.
  - 22 miles west of Oshkosh
  - 19 miles northwest of Ripon
  - 72 miles southwest of Green Bay
  - 76 miles northeast of Madison
- The chart below gives an overview of the population and per capita income growth in this market area.

<b>POPULATION</b>				
	2011	2016	% CHG.	Avq. Annual % CHG.
City of Berlin	5,458	5,471	0.2%	0.05%
Green Lake County	19,089	18,881	-1.1%	-0.22%
Waushara County	24,614	24,238	-1.5%	-0.31%
State of Wisconsin	5,664,893	5,754,798	1.6%	0.32%
<b>MEAN FAMILY INCOME</b>				
	2011	2016	% CHG.	Avq. Annual % CHG.
City of Berlin	\$59,979	\$59,232	-1.2%	-0.25%
Green Lake County	\$71,606	\$72,696	1.5%	0.30%
Waushara County	\$60,837	\$70,587	16.0%	3.21%
State of Wisconsin	\$79,821	\$85,975	7.7%	1.54%
<b>PER CAPITA INCOME</b>				
	2011	2016	% CHG.	Avq. Annual % CHG.
City of Berlin	\$22,548	\$23,021	2.1%	0.42%
Green Lake County	\$25,762	\$26,115	1.4%	0.27%
Waushara County	\$22,363	\$24,861	11.2%	2.23%
State of Wisconsin	\$27,192	\$29,253	7.6%	1.52%
2011 - Population - 5,524*				
2017 Final Estimate - Population - 5,582*				
*Source: WI Demographic Services Center				
Source: US Census- American Fact Finder				

- The top industries in Berlin are:
  - Manufacturing 35.5%; Retail Trade 15.4%; and Health and Social Assistance 11.7%. These represent 62.7% of the employment which is above the desired maximum 50% diversity employment level for the top three industries.
- In 2016, Unemployment in the City of Berlin was 4.4% compared to Green Lake County at 5.0%, Waushara County at 5.2% and Wisconsin's 4.1% unemployment rate.
  - The average Unemployment rate from 2007 to 2016 was 6.8% in the city compared to 7.0% in Green Lake County and 7.8% in Waushara County. Wisconsin's had a 7.1% average during this time period.
- At the time of this report, city officials reported a significant shortage of Labor Supply and evidence of Wage Pressure within the service industries in the city. This indicates that it will likely be necessary to draw employees from the surrounding area to operate the proposed hotel.
- The main regional traffic route in Berlin is State Highway 49 (North/South) and State Highway 91 (East/West). Highway 49 connects the city to Green Lake approximately 10 miles south of the city where Highway 49 connects with State Highway 23 which travels between I-39 and I-41. Highway 91 is the main connection between Berlin and Oshkosh located approximately 22 miles east of Berlin. I-41 also travels north and south through Oshkosh and connects to Milwaukee and Green Bay.
  - Traffic counts on Highway 49 north of Cumberland Street have increased at an average annual rate of 3.2%.
  - Traffic counts on Highway 49, south of Highway A have decreased slightly at an average annual rate of -4.7%. It should be noted that this traffic route has seen road construction at the time of these counts. This may have contributed to the -4.7% decrease in traffic counts.
  - Traffic on Broadway Street, near the location of the proposed subject site have increased at an average annual rate of 0.5%.
- Berlin is home to a small private airstrip for small aircraft. Commercial air service is located 40 miles northeast of Berlin in Appleton at the Appleton International Airport. This international airport offers flights to numerous major United States hub and destination cities on American Airlines, Delta, Allegiant, and United.
- The City of Berlin is heavily residential with a diverse collection of industrial and agricultural land.

- The city is home to a number of manufacturing companies specializing in a diverse collection of products and services. The city is currently home to two industrial parks which are well occupied but still offer land for new development. It was reported that many companies in the city have recently expanded or are in the process of expanding.
- ThedaCare Hospital is located just north of the subject site and offers emergency room and acute care as well as a number of specialties. ThedaCare is based out of Neenah, Wisconsin located 35 miles northeast of Berlin. It was reported that this hospital largely serves the local and immediate regional area with major medical service offered in Oshkosh and Appleton. The city is also home to a number of assisted living facilities.
- Social/Leisure activities are highlighted by the outdoor recreation market in the city due to its location on the Fox River. Activities including kayaking, canoeing, boating and fishing are very popular in the city. The area is also known for snowmobiling, biking and hunting. Additionally, Berlin has an active historical preservation market and offers a number of festivals throughout the year. It was reported that weddings and reunions were very common in this area as well as youth sports tournaments and high school alumni events.

#### **SUBJECT SITE**

- The proposed subject site for the hotel development is located at the intersection of State Highway 49 and Huron/Broadway Street in the heart of downtown Berlin. This site is currently vacant, cleared and ready for development. This site is currently surrounded by residential areas with the main retail corridor of the city located less than one block west of site and Nathan Strong park located less one block east of the site. This land is currently for sale by ThedaCare, as the previous development on the site was a nursing home.
- This site consists of 2.4 total acres with approximately 1.5-1.75 acres needed for hotel development. The remaining acreage could possibly be used for a meeting and banquet component or restaurant. At the time of this report, feedback gathered from area businesses and representatives indicated a greater need for a restaurant immediately adjacent to the proposed hotel rather than a meeting and banquet center.
- This site is bordered by East Huron Street to the south, South Adams Street to the west, East Park Avenue to the north, and North State Street to the east.



- At this time, this site is located in a Tax Incremental Financing District. The specifics of this TIF should be confirmed with the city prior to development.
- The following provides an evaluation of the proposed Subject Site Area.

<b>SUBJECT SITE EVALUATION</b> <b>Highway 49 and Huron/Broadway Street</b> <b>Berlin, WI</b>	
CATEGORY	
Visibility	Very Good
Accessibility	Excellent
Parking	Excellent
Site Prep	Excellent
Environmental	Excellent -Investigate
Major Utilities	Excellent
Zoning	Excellent
Architectural Controls	Excellent
Area Support Services	Very Good
Competitive Position	Very Good
<b>Overall</b>	<b>Excellent</b>
<i>Source: HMI</i>	

- Based upon Field Research, the overall rating of the Subject Site is Excellent with a rating of 4.85. These ratings are based on a 5-point scale with 5 being Excellent.
- *Visibility* of the site would be Very Good due to its location within one block of the downtown, main retail area of the city as well as its location along State Highway 49 a main traffic route through the area. The only limitation to this area of the city is that it is not located along an interstate highway. The closest interstate route is I-41, traveling through Oshkosh approximately 22 miles east of Berlin. At this time State Highway 49 serves as a traffic route through the surrounding rural area connecting to other local highways in the area. Highway 49 does not currently serve as a major traffic route through the state which could limit lodging demand generated by the transient traffic segment. Traffic signage on Highway 49 would assist in providing property visibility and awareness.

- *Major Utilities and Zoning* were reported to be in place due to the previous use of the site as a nursing home and the close proximity of this site to the downtown area. It was reported that this site should be environmentally ready for development. Still, additional research may need to be performed by the developer to verify the Environmental condition of this site. The previous use of this site should be favorable but should be investigated fully prior to development.
- *Support Services* in the area were ranked as Very Good. Being located within less than a block east of the downtown area provides this subject site with a variety of locally owned support services including restaurants and retail.
  - The Very Good ranking is due to the fact that the proposed hotel would not be located immediately across from the support services in downtown. Access to these services would require a one to three block walk or a short drive. It was reported that access to a restaurant immediately next to the hotel is an important competitive factor for area guests and these support services are offered at the existing hotels in Ripon and Oshkosh. It should also be noted that the support services in Berlin are largely locally owned with Subway, Dominos, and Mc Donald's being the only nationally franchised restaurants in the city. Currently Oshkosh and Ripon offer a wide variety of nationally franchised restaurants.
- The *Competitive Position* of the proposed hotel should be Very Good as it will be located on Highway 49 and near the downtown area. Being located near the downtown puts this subject site in close proximity to the area businesses and major Lodging Demand generators in the city. The only factors limiting the competitive factor of this subject site is its distance from I-41 or any other major state traffic route and the fact that there is not a sit-down style restaurant located immediately next to the subject site.

### **LODGING DEMAND**

The chart below shows the current distribution of Lodging Demand in the Competitive Set. This is explained later in the Lodging Supply section. It includes Corporate/Commercial and Social/Leisure market segments as well as the anticipated Lodging Demand for the proposed hotel in Berlin.

<b>MARKET SEGMENTATION</b>					
	SUBJECT MARKET PROBABLE PERCENT OF MARKET	RANGE	PROPOSED PROPERTY PROBABLE MARKET	MARKET PENET.	RANGE
Individual Travel Markets	75.0%	72.5%-77.5%	75.0%	100.0%	72.5%-77.5%
Corporate/ Commercial	45.0%	42.5%-47.5%	45.0%	100.0%	42.5%-47.5%
Social/ Leisure	30.0%	27.5%-32.5%	30.0%	100.0%	27.5%-32.5%
Group Markets	25.0%	22.5%-27.5%	25.0%	100.0%	22.5%-27.5%
Business Related	10.0%	7.5%-12.5%	10.0%	100.0%	7.5%-12.5%
Social/ Leisure Related	15.0%	12.5%-17.5%	15.0%	100.0%	12.5%-17.5%
TOTAL	100.0%		100.0%		
<i>Source: HMI</i>					

- As seen in the above chart, the subject market and the overall market will share the same market segmentations. This is largely due to the fact that there is currently only one hotel and one motel in Berlin which will allow the proposed hotel to serve all segments of the existing Lodging Demand in the city. At this time, the Group Lodging Demand market segments in the city were reported to be more limited than the Individual Lodging market segments. The Competitive Hotel Set will be defined in the Lodging Supply section of this report.
- The chart below is an overview of the Lodging Demand sources in the Berlin market area.

MARKET SEGMENTATION PROFILES		
	Demand Potential	
	Transient = T Extended= E Group= G	Subject Property Potential
Social/Leisure Markets		
Visiting Friends & Relatives	T, E	Excellent
Berlin and Green Lake County Tourism and Recreation	T, G	Very Good
Area Events and Festivals	T,G,E	Good
Outdoor Recreation	T,G	Good
Distressed, Social Interim Housing & Relocation	T, E	Good
Transient Traffic	T	Fair
Overflow Traffic	T,G	Good
Weddings	G	Very Good
Reunions	G	Very Good
Funerals	G	Very Good
Other	G	Very Good
Motorcoach Tours	G	Low
Social, Military, Educational, Religious & Fraternal Groups	G	Good
Amateur and Youth Sports	G	Good
	Potential	Good
Corporate/Commercial Markets		
Agriculture	T	Very Good
Mining, Quarrying & Oil and Gas Exploration	T	Good
Utilities	T, E, G	Good
Construction	T,E	Good
Manufacturing	T, E, G	Very Good
Wholesale Trade	T	Good
Retail Trade	T	Good
Transportation and Warehousing	T	Good
Information	T	Good
Finance, Insurance and Real Estate	T	Very Good
Real Estate, Rental & Leasing	T	Very Good
Services		
Professional, Scientific & Technical	T,E	Good
Management of Companies and Enterprises	T	Good
Administrative, Support, Waste Management and Remediation	T	Good
Educational	T,E	Good
Health and Social Assistance	T,E	Very Good
Visiting Family and Friends	T,G	Very Good
Visiting Speakers and Physicians	T,G	Very Good
Donors	T	Good
Vendors and Technicians	T	Very Good
Administration		Very Good
Other	T,E	Good
Public Administration	T	Good
Vendors & Suppliers to Local Market	T	Good
Transient Traffic	T, G	Fair
Overflow Traffic	T,G	Good
Corporate Business Groups	G	Good
Professional Business Associations	G	Good
Government Groups	G	Good
Inventory and Auditing Companies	G, E	Good
	Potential	Good
Overall Potential		Good
Source: HMI		

- The following chart highlights the major employers in Berlin County.

MAJOR EMPLOYERS Berlin, WI		
COMPANY	ESTIMATED EMPLOYEES FT/PT	SERVICE OR PRODUCT
ThedaCare	464	Healthcare
Badger Mining	350	Sand Mining
Generac	310	Generator Manufacturing
School District	250	Education
Walmart	195	Retail
Ripon Athletic	160	Athletic Uniform Manufacturing
Fortifi	117	Financial
WI Spice	80	Food Products
Farmers and Merchants	70	Financial
Wilson Hurd	66	Electronics Manufacturing
HyPro, Inc.	57	CNC Machining and Manufacturing
AIS	46	Powder Coating and E Coating Equipment
Aurora	31	Powertrain Parts Supplier
Alliant Energy	27	Utilities
J.P. Luther Co.	10	Masonic Aprons

Source: City of Berlin

- The leading employment sector in Berlin is Manufacturing. This industry segment consists of numerous companies located either in the industrial park located on the north or south side of the city. These companies produce a wide variety of products which service a diverse collection of industries. Some of the leading manufactures are seen in the chart above and all were reported to have the potential to bring vendors, technicians, administration, and regulation officials into the area throughout the year. It was also reported that these companies have national and international ties.
  - It should be noted that a number of these companies reported to currently be using hotels located in Ripon and Oshkosh as well as the Heidel House in Green Lake. A full-service restaurant was reported to be an amenity that many of their guests require and this factor has the potential to limit this demand from staying at the proposed hotel if a restaurant is not included.
  - It was also reported by area businesses that some of their visitors have contracts with national hotel franchises and this may force some guests to stay in the Oshkosh or Ripon market area.

- The Medical market segment in the city is led by the ThedaCare Medical Center located on the north side of the city. This hospital serves the city and the immediate regional area and is affiliated with ThedaCare which operates throughout the central Wisconsin market area. There is the potential for this medical center to bring visiting physicians, vendors, suppliers, and technicians to the market area. There is also the potential for the human resource department to require overnight rooms for recruited employees. Major medical services are offered in nearby Oshkosh.
- The Retail and Food Services industry has the potential to generate some Lodging Demand from vendors, suppliers, administration, and inventory teams. This demand potential is slightly limited as the only big box retailer in Berlin is Wal-Mart. Additionally, being located approximately 22 miles west of Oshkosh has the potential to limit this demand due to its larger collection of retail. It is likely that a portion of this demand would choose to stay in Oshkosh as they cover a wide collection of retailers.
- The real estate industry has the potential to generate Lodging Demand as new residents move into the area and are looking for permanent housing. There is still land available in the city for more residential development.
- At this time, there is some group Corporate/Commercial Lodging Demand from the area businesses holding potential trainings, meetings, and conferences in the city. The meeting space offered at City Inn and the Boys and Girls Club was reported to be the most used for these group events.
- The Social/Leisure markets are assisted by being located on the Fox River. Berlin offers canoeing, kayaking, fishing and boating. The Eureka locks allow for travel from Berlin to Lake Winnebago in Oshkosh. It was also reported that there are a number of hiking and biking trails in the city and the hunting and snowmobile seasons were reported to be very popular and have the potential to draw Social/Leisure visitors to the area.
- There is also Riverside Campground located along the Fox River which is a popular campground in the city offering seasonal campsites. It was reported that it is common for seasonal campers to require hotel rooms for visiting guests who are not able to stay at the campground.

- A number of annual festivals are held in the city including the annual Shooting for a Reason event, antique car show, and corn roast. These events were reported to bring some overnight visitors to the city. There are also a collection of very large annual events held in nearby Oshkosh which have a strong potential to generate overflow lodging demand in Berlin. These large events include EAA, Country USA, and Lifest. In addition to the attendees requiring overnight rooms, there is the potential for vendors and performers to also require overnight rooms.
- The visiting family and friends market will be one of the leading sources of Social/Leisure Lodging Demand in Berlin. A portion of this lodging demand is due to the assisted living facilities in the city which typically draw visiting family and friends to a market. Additionally, it was reported that family gatherings including weddings and funerals are large events in the city which have the potential to draw visitors from outside the area.
  - It should also be noted that Berlin is a popular location for genealogy research due to it being one of Wisconsin's earliest developed areas. The location along the Fox River made this area a very popular location for early settlers and industry and the city offers extensive historical records as well as a historical cemetery which were reported to bring visitors to the city from across the region and country.
  - The youth and amateur sports market segment was also noted as currently being limited due to the lack of lodging available in the city. There is currently a collection of one day tournaments held in the city and there is the potential to expand these events if lodging was added to the city.
    - It should be noted that these types of groups typically require food and beverage in close proximity to the hotel and also typically prefer a hotel with a pool.
- Transient traffic will be limited due to Berlin not being located along a main highway or interstate route. The nearest interstate is located approximately 22 miles east of the city in Oshkosh. There are a number of state highways which pass through the city, including Highways 49 (north/south) and 91 (east/west), however these highways largely travel through the rural areas surrounding Berlin.

To analyze Lodging Demand in the subject market area, a Competitive Set of hotels in the Berlin area was identified. These are the hotels that local officials indicated were being utilized by visitors to this market area. A listing of these hotels is provided below in the Lodging Supply section of this report.

- Lodging Demand in the Competitive Set increased by 0.2% in 2016. The historic average annual growth rate was -2.64% from 2011 - 2016. This time period included negative growth in 2012, 2013, and 2014. If these negative growth years were removed the average annual growth rate increases to 1.06% from 2014 to 2016.
- At the time of this report the final 2017 data was unavailable. Data through November 2017 was available at the time of this report and based on this data 2017 is projected to see a decrease of -3.97% and this growth rate was used in the projections presented later in this report. A specific reason for this decrease in Lodging Demand was not determined and its effect will be taken into consideration when presenting the projections later in this report.
- Lodging Demand Annual Seasonality of the subject market showed Lodging Demand strength from March through October.
  - Revenue was maximized from June to September. It is likely that the Berlin lodging market could follow a similar pattern with strength in the summer due to the outdoor amenities in Berlin and the potential for some overflow from the Oshkosh market to come to Berlin during this time.
  - Within the Competitive Set, there is the potential for rates to increase which would better match Lodging Demand levels from June to October. This is especially true in July when the very large EAA Airventure event is held in Oshkosh.
  - The weakest Lodging Demand period is December through February.
- During the three-year period from December, 2014 through November, 2017, this market appears to have an average weekday ADR of \$91.55 which is lower than the average ADR of \$99.84.
- The average weekend ADR is \$111.74, which is higher than the average annual ADR of \$99.84. This indicates the strength of the tourism and youth sports market in this overall market area.



- The Social/Leisure market has the potential to be more limited in Berlin due to the more limited tourism amenities. Berlin has the potential to focus more specifically heavily on the Corporate/Commercial markets which may require corporate or negotiated rates. Additionally, due to Berlin being a slightly smaller market than Oshkosh, it is likely that the proposed hotel would offer a lower rate structure and this will be taken into account in the projections presented later in this report.
- The average low single rate advertised in the market is \$72.57. Based upon this rate, the overall market is experiencing below average Rate Sensitivity as the average advertised low single rate is well below the ADR in this market of \$102.44. It appears that the weekday Lodging Demand and the weekend Lodging Demand both have very similar below average Rate Sensitivity.
- *Unaccommodated Lodging Demand* is described in two ways. 1) It is Lodging Demand that prefers to stay in the subject market but is currently staying in other areas due to the lack of adequate accommodations. This is due either to condition or number of available rooms. 2) It can also be described as Lodging Demand that is staying in the subject market but actually desires accommodations in other areas.
  - In Berlin, there is currently one independently operated hotel, the Countryside Lodge and one independently operated motel, Riverside Motel. Due to these properties reportedly offering a lower level of service, area representatives stated that many visitors to the city choose to stay in Green Lake, Ripon, and Oshkosh.
  - The second definition was reported to occur, especially during large events in Oshkosh, including the EAA Airventure, Country USA and Lifest all held in the summer months. During these events there is the potential for Berlin to serve as an overflow lodging option.
  - A review of the Competitive Set's performance from December, 2016 through November, 2017 reveals that 38.25 nights (10.5% of the year) achieved Occupancies of 70.0% or greater. This is considered an Occupancy performance level at which newer and better hotels are reaching maximized Occupancy.
    - Of the 38.25 nights over 70%, there were 8.5 nights (2.3%) with Occupancy levels over 80%. The nights with over 80% Occupancy occur on Friday and Saturday nights in July.

- The 10.5% nights per year over 70% Occupancy show below average Unaccommodated Lodging Demand.
- It should be noted that this performance is based mainly on hotels in larger markets than Berlin. While it is estimated that similar demand patterns may be seen, a conservative approach will be taken in the projections for the proposed hotel to account for the more rural nature of the Berlin market.

More detailed information and analysis of the data provided in this section of the Field Research Hotel Evaluation Report would be provided in a Comprehensive Hotel Market Study.

## **LODGING SUPPLY**

- There is currently one hotel in Berlin, the Countryside Lodge and one independently operated motel in Berlin, the Riverside Motel.
  - It should be noted that due to the motel style of the Riverside Motel it was not included in the lodging supply analysis of this report. It was not felt that this property will offer the proposed property a high level of competition.
- There are numerous nationally branded hotels in Oshkosh which is located 22 miles east of Berlin. There is a collection of hotels in Ripon located 19 miles southeast of Berlin including a collection of independently owned hotels as well as a Comfort Suites property.
- Green Lake located 10 miles south of Berlin is home to the Heidel House resort.
- Hotels in these three market areas were reported to be most commonly used by visitors to the area. A selection of these properties which were felt to be similar in size and style to the proposed hotel for Berlin were selected to generate a Competitive Set.
- Eight hotels comprise the Overall Competitive Set. They are located in the immediate region and are identified as follows:
  - BERLIN
    - Countryside Lodge - 20 Rooms - 34 Years Old – Mid Priced
  - GREEN LAKE
    - Heidel House Resort – 180 Rooms - 73 Years Old – Upper Upscale
  - OSHKOSH
    - Super 8 – 61 Rooms - 31 Years Old – Economy Priced
    - AmericInn Lodge and Suites – 64 Rooms - 25 Years Old – Mid-Priced
    - Comfort Suites – 80 Rooms – 10 Years Old – Upper Mid-Priced
    - La Quinta Inn and Suites – 45 Years Old – 96 Rooms – Mid-Priced
  - RIPON
    - Comfort Suites at Royal Ridges – 72 Rooms - 13 Years Old – Upper Mid-Priced
  - WAUTOMA
    - Super 8 – 51 Rooms - 27 Years Old – Economy Priced

- Competitive Set characteristics are as follows:
  - Average Size – 86.29 Rooms
  - Average Age – 32.25 Years
    - No Hotels in the 5-7 Year Renovation Period
    - 1 Hotel in the 12-15 Year Renovation Period
    - 5 Hotels require On-going Renovations and Maintenance
    - No new hotels in the market area under construction.
  - Product Category
    - Economy – 3 Hotels – 132 Rooms – 21.0%
    - Mid-Priced - 2 Hotels – 160 Rooms – 25.4%
    - Upper Mid-Priced – 2 Hotels – 152 Rooms – 24.1%
    - Upper Upscale-Priced – 1 Hotel – 180 Rooms – 29.6%
  - Seven of these hotels are affiliated with major national hotel brands.  
Two hotels are independently operated hotels.
  - Total Rooms – 624 Rooms

- The following chart shows the projected ADR performance of the hotels in the Overall Competitive Set:

COMPETITIVE HOTEL OCCUPANCY & RATES				
PROPERTY	Occ. Perform.	RATE ANALYSIS		PROJECTED ADR
		WINTER	SUMMER	
<u>Berlin, WI</u>				
Countryside Lodge	Average	\$64-\$73	\$75-\$84	\$64.07
<u>Green Lake, WI</u>				
Heidel House Resort	Average	\$83-\$129	\$149-\$159	\$122.20
<u>Oshkosh, WI</u>				
AmericInn	Average	\$85-\$147	\$105-\$160	\$115.55
Comfort Suites	Average	\$81-\$93	\$127-\$135	\$100.28
LaQuinta Inn	Average	\$72-\$139	\$82-\$150	\$98.57
Super 8	Average	\$56-\$90	\$65-\$92	\$65.15
<u>Ripon, WI</u>				
Comfort Suites @ Royal Ridges	Average	\$72-\$94	\$127-\$135	\$95.23
<u>Wautoma, WI</u>				
Super 8	Average	\$59-\$92	\$68-\$95	\$67.51
Competitive Market Average Daily Room Rate (ADR):				\$99.99
* Rates shown reflect the low single to high double for each season. *** Where seasonal rate range was not available, similar available rate range was used.  Source: HMI				

- In this Competitive Set, there appears to be three rate tiers. The top rate tier is highlighted in Red. The next highest rate tier is highlighted in Green. The lowest rate tier is highlighted in Blue.
  - To accurately rate position the proposed hotel, it was thought appropriate to remove the hotels in the highest rate tier as well as the Comfort Inn in Oshkosh. Therefore, the proposed hotel's rate positioning would be on the lower end of the middle rate tier. At this time, the average rate positioning would yield 82.5% to the Smith Travel Research Competitive Set ADR of \$101.19
  - This positioning within the middle rate tier is thought to be justified since the proposed hotel will be the newest and highest quality hotel in Berlin. Additionally, it was reported that most Berlin visitors are currently staying in Oshkosh and Ripon where they are paying higher prices for hotels rooms.

- It would position the proposed hotel below the Comfort Suites in Ripon and, and above the Super 8 in Wautoma.
- This rate positioning would be analyzed along with a more detailed review of the members of the Competitive Set in a Comprehensive Hotel Market Study report.
- The Competitive Position of these hotels shows the following:
  - The *Average Age* of the Competitive Set hotels is 32.25 years, placing these hotels at a competitive disadvantage. All of the Competitive Set hotels are beyond the first major renovation period and over half are in a stage of constant maintenance and repair. Currently the 10-year old Comfort Suites in Oshkosh is the newest hotel. This should provide a positive competitive position for the new hotel.
  - *Competitive Rate Positioning* was discussed above and would position the proposed hotel at 82.5% to the Competitive Set.
  - The *Facilities* in the market immediately surrounding the subject site will likely be fairly competitive due to the typical standards of the national brands in this market area. Still, the age of these properties is likely evident at many of the older properties in this market. It was reported that the Countryside Lodge in Berlin is showing its age and did not offer a high level of customer service. This was reported to be one of the main reasons for Berlin visitors to utilize the hotels outside the city. The proposed hotel should compete very well with the Countryside Lodge.
  - *Brand Competition* within the Competitive Set will be above average. Operating the proposed hotel with a national brand representation could improve its competitive position in this market. However, the size of the proposed hotel may limit the selection of brands for this property. If a national brand is not feasible then a strong regional brand is highly recommended. It should be noted that some area companies reported that some guests have contracts with some national brands and therefore may only stay in the Oshkosh market due to the wide selection of national brands present.

- The *Location* of the new hotel near the downtown Berlin and centrally located to the businesses in the city should offer a competitive advantage in serving the Lodging Demand in the city. This site will be located within short walking distance of the retail and dining located in downtown Berlin. Still, this site will be located away from any interstate routes which will limit the transient traffic lodging demand potential. Additionally, the support services in Berlin are slightly more limited than those offered in Oshkosh or Ripon. The greater offering of nationally branded dining and retail may provide a competitive advantage to the competitive set over the proposed hotel. These support services being in close proximity to area hotels was noted by area business owners as an important factor for a portion of their guests when choosing a hotel.

#### HISTORICAL LODGING PERFORMANCE

- *Lodging Demand* in this market increased in 2015 and 2016 after seeing a decrease each year from 2011 to 2014. The most significant decrease was seen in 2013 at -16.5%. The largest increase was seen in 2015 at 8.3%. Data through November, 2017 was available at the time of this report and based on this date 2017 Lodging Demand is projected to decrease by - 3.97%. No specific reason was given for this decrease and this growth rate should be monitored in the coming years. It should also be noted that this demand performance is based largely on hotels which are not located in Berlin. It is conservatively projected that Lodging Demand in the city should increase in coming years as the offering of a new, quality place to stay has the potential to generate some additional Lodging Demand in the city. Being the newest hotel in the city and being located in near the downtown area should give this property a competitive advantage.
- *Occupancy* followed a trend similar to that of Lodging Demand with decreases from 2011 to 2014 and increases in 2015 and 2016. The highest Occupancy rate (at 50.2%) occurred in this market in 2011. In 2017, Occupancy is projected at 42.3% for the Competitive Set. The projections presented in this report reflect future Occupancy growth specifically for the Berlin market.
- *Lodging Supply* has not seen new growth since 2008 when the Comfort Suites was added to the Oshkosh market. At the time of this report no new hotels were planned for this market area.

- *Average Daily Room Rates (ADR)* experienced positive growth in all years analyzed from 2011 to 2016. The highest growth rate occurred in 2013 with a growth rate of 6.1%. By the end of 2017, ADR is projected to increase by 0.02% to \$101.14 from \$101.12 in 2016. The 2011 to 2016 historic average annual change in ADR was 3.35%.
  - It should be noted that due to the more rural nature of Berlin compared to the larger hotel markets used in the Competitive Set, a conservative approach will be taken when projecting ADR for the proposed hotel. The lower rates of the Countryside Lodge in Berlin will also generate competition and will require a more conservative rate positioning at the proposed hotel.
- *Revenue Per Available Room (RevPAR)* has seen positive growth each year from 2011 to 2016 with the exception of 2013. The highest growth rate occurred in 2015 with a growth rate of 9.2%. This resulted in a RevPAR of \$42.87 in 2015. In 2017, RevPAR is projected to decrease by -3.96% to \$42.79. The average annual increase from 2011 to 2016 was 0.21%.

More detailed information and analysis of the data provided in this section of the Field Research Hotel Evaluation Report would be provided in a Comprehensive Hotel Market Study.



## **EXHIBITS**

The following exhibits describe the geographic location of the subject market and Subject Site.

- Exhibit 1 of this report shows the geographic relationship of the subject market to Wisconsin and the surrounding states.
- Exhibit 2 shows the geographic relationship of the subject market area to the regional market area. The hotels in the Competitive Set are also shown.
- Exhibit 3 of this report shows the City of Berlin and the major Lodging Demand generators and support services. The Subject Site area is also shown.
- Exhibit 4 of this report shows a closer view of the proposed subject site.



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Further questions concerning this report should be directed to HMI.

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