



# **An appraisal of the Concourse Hotel, One West Dayton Street, Madison, Wisconsin. July 1, 1986**

Landmark Research, Inc.

[s.l.]: [s.n.], July 1, 1986

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AN APPRAISAL OF  
THE CONCOURSE HOTEL  
MADISON, WISCONSIN

Landmark  
Research  
Inc.

AN APPRAISAL OF

THE CONCOURSE HOTEL  
ONE WEST DAYTON STREET  
MADISON, WISCONSIN

AS OF

JULY 1, 1986

PREPARED FOR  
DARRELL R. WILD, PRESIDENT  
WILD, INC.  
MADISON, WISCONSIN

PREPARED BY

LANDMARK RESEARCH, INC.

Landmark  
Research  
Inc.

August 4, 1986

James A. Graaskamp, Ph.D., S.R.E.A., C.R.E.

Jean B. Davis, M.S.

Mr. Darrell R. Wild  
Wild, Inc.  
131 West Wilson Street  
Madison, WI 53703

Dear Mr. Wild:

We are transmitting herewith our analysis and report on the property known as the Concourse Hotel, located at One West Dayton Street, Madison, Wisconsin.

It is the opinion of the appraiser that the market value of the subject property as of July 1, 1986, assuming completion of those items specifically discussed in the attached report, reflecting the assumptions and limiting conditions presented in the attached report, and financed with a non-participating mortgage loan at 10 percent interest fixed for five years with 30-year amortization and a 1.50 debt cover ratio in the second year of the projections is:

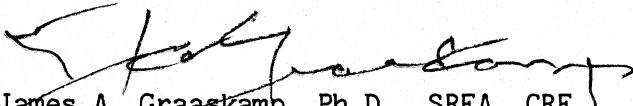
TWENTY ONE MILLION ONE HUNDRED THOUSAND DOLLARS

(\$21,100,000)

Because of the uncertainty regarding the potential construction of a convention center downtown, the projections do not consider any demand growth caused by such a facility. If completed, the extent of the positive effect on the Concourse would be dependent on the convention center location and design.

We are pleased to have been of service and remain available to answer any specific questions you may have regarding this report.

FOR LANDMARK RESEARCH, INC.

  
James A. Graaskamp, Ph.D., SREA, CRE  
Urban Land Economist

  
Paul J. Gleason  
Real Estate Appraiser/Analyst

Enclosure

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## I. PURPOSE OF THE APPRAISAL

The issue for which this appraisal is sought is the desire to refinance the debt and equity structure of the Concourse Hotel, a modern full-service 376 room hotel located at 1 West Dayton Street, in downtown Madison, Wisconsin. For that purpose the appraiser has been asked to estimate the fair market value or most probable price of the real estate portion of the going concern value, including land, building, all personal property outfitting, assuming continued normal level of operations. Not included in the value are the going concern values of trained staff, good will, cash and receivables, or the going concern values created by management in excess of the rental values of bar, restaurant, retail, or service areas. It is presumed that financing collateral includes necessary licenses and permits and other elements necessary to permit continuous operation with a smooth transition to new ownership although no specific value has been allocated to this property characteristic. The values reported are representative of the market as of July 1, 1986.

### A. The Appraisal Problem

This appraisal was authorized by Mr. Darrell R. Wild, general partner of Madison Hotel Associates Limited Partnership, the owner of the Concourse Hotel. Mr. Wild is also president of Wild, Inc., the corporate general partner. The appraisal is to be used in connection with obtaining mortgage financing that is to be used to refinance existing debt and provide additional funds for planned improvements.

B. Identification of the Subject Property and the Legal Interest Appraised

1. Subject Property

The Concourse Hotel is a 376-room full-service hotel located in downtown Madison, Wisconsin. (See Exhibit I-1.) The hotel contains two restaurants, meeting and banquet facilities, retail space, a small amount of office space, and underground parking. The west ground-level end of the building, formerly a drive-up bank facility, is slated for development as either additional rental or restaurant/bar space. The subject, as shown in Exhibit I-2, is located on West Dayton Street between Wisconsin Avenue and North Carroll Street. This is the back half of a city block; the front half faces directly on the State Capitol. The subject site contains a total ground area of approximately 1.01 acres (43,891 square feet). The tax parcel number is 0709-144-2501-6. The parcel is zoned C4 Commercial. The legal description is contained in Appendix A.

2. Identification of the Interest Appraised

The collateral value determined by this appraisal is of all assignable interests in the land, improvements, and personal property related to the hotel operation and presumably subordinated to the financing. Specifically, the appraisal includes all furnishings, equipment, and fixtures located in guest rooms, common areas, restaurant and bar areas, kitchen areas, administrative offices, and maintenance work rooms. However, it does not include going concern values, cash and working capital, the value of a trained staff, or marketing momentum even though it is presumed the collateral would be transferred as an operating entity rather than liquidated under forced sale. The appraisal treats these assignable interests as unencumbered by

EXHIBIT I-1  
LOCATION MAP

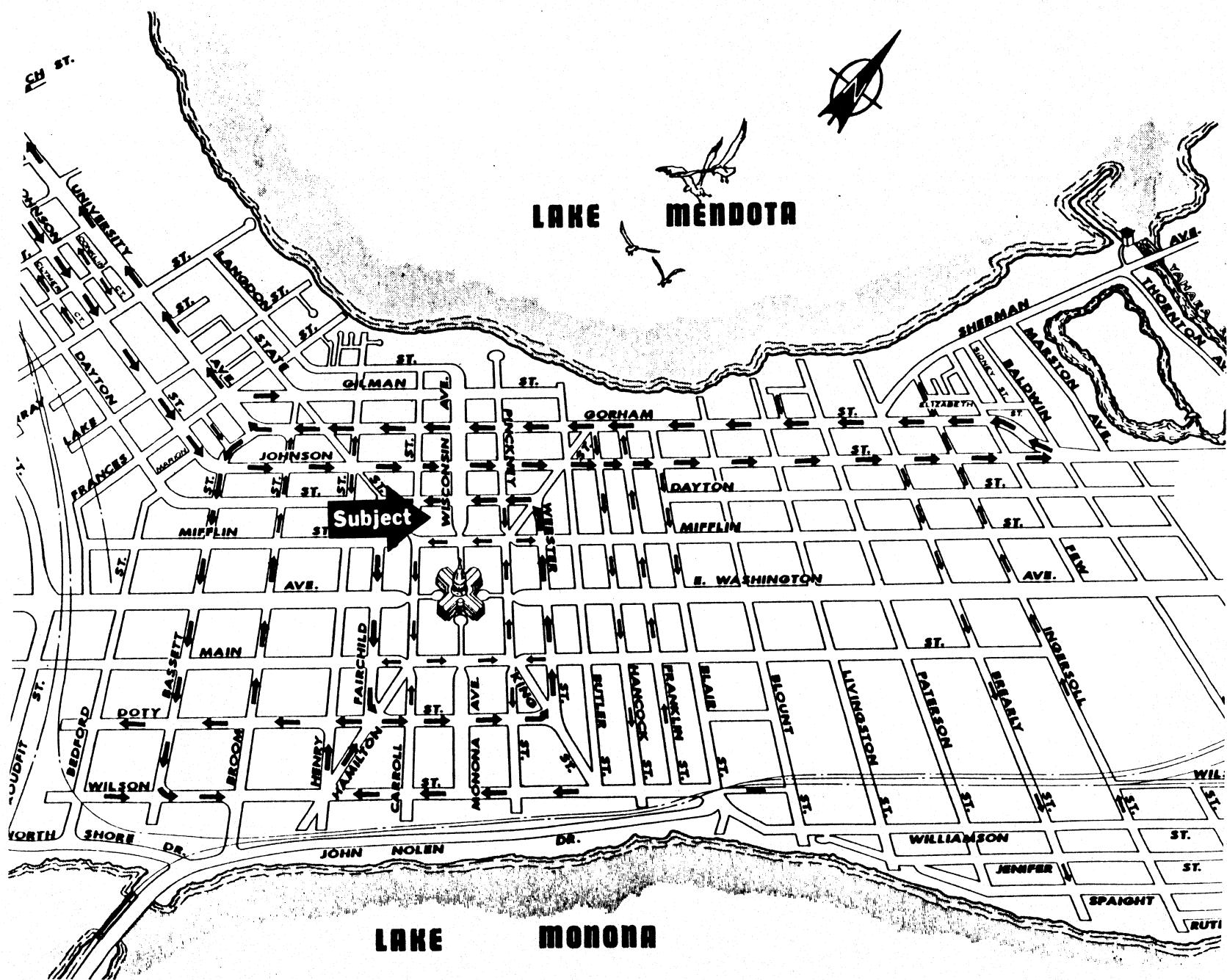
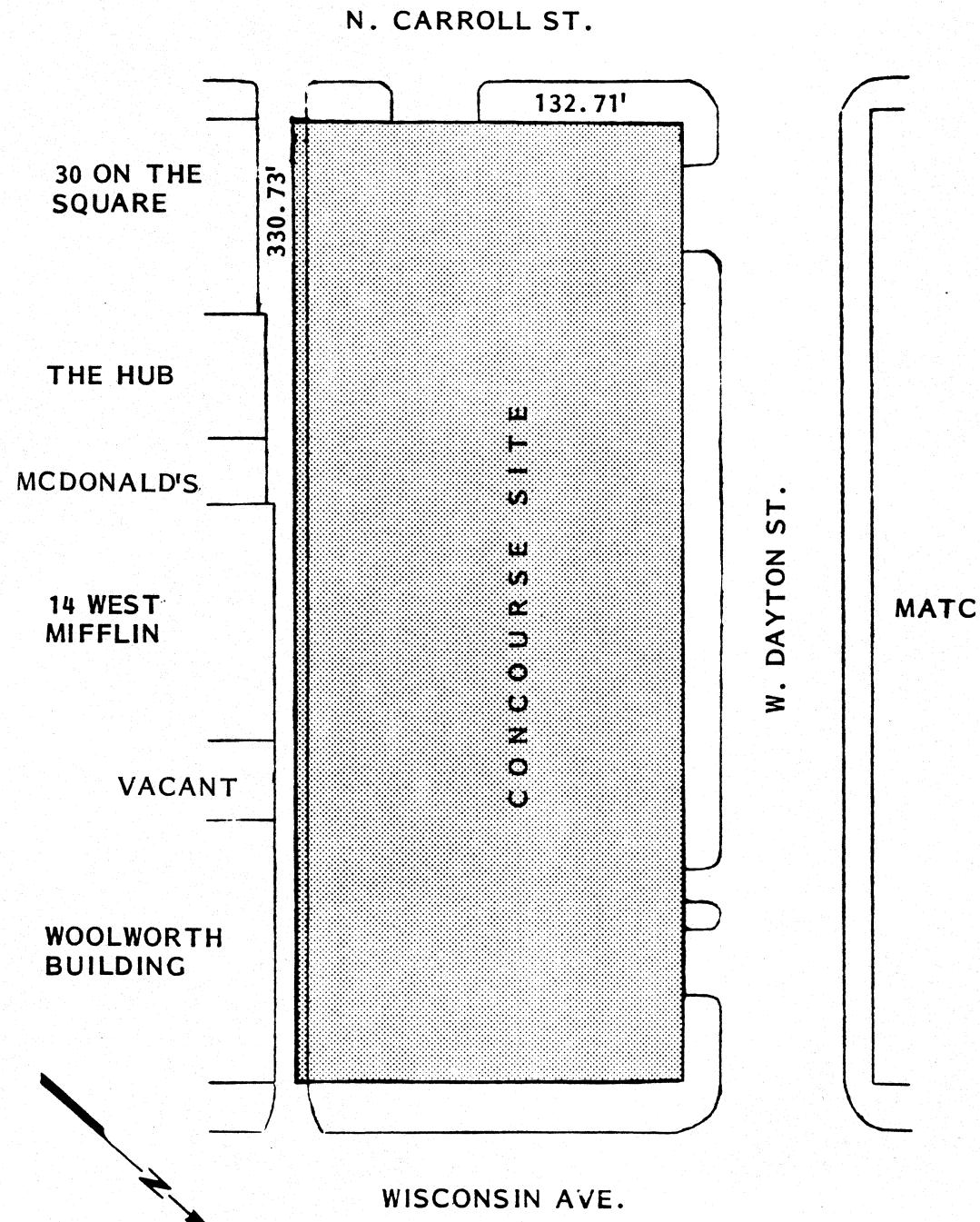


EXHIBIT I-2

SITE PLAN



trade credit, or other liens which may exist, other than an institutional third-party mortgage. No legal opinion on title to the property included was either made or provided for use in this appraisal and no itemized inventory of personal property required to fully outfit the existing hotel was provided, requested, or attempted. The appraiser has attempted to value tangible assets which are assignable as physical collateral under the presumption that business would be carried forward under normal conditions rather than liquidated piecemeal. At the time of the initial inspection on June 9, 1986, some suites were not fully outfitted and it is presumed in this appraisal that these furnishings were in place by July 1, 1986.

However, the appraisal does recognize a four-foot alley easement that runs along the entire rear of the property. The Concourse site is also subject to conditions and special assessments of the Madison Capitol Concourse.

C. Date of Appraisal

This appraisal is made as of July 1, 1986, and the analysis and conclusions are applicable to that date. The most recent inspection of the property was made on July 30, 1986.

D. Definition of Value

As used in this appraisal and report, the term "market value" is defined as:

The most probable price in terms of money which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated.
2. both parties are well informed or well advised, and each acting in what they consider their own best interest.
3. a reasonable time is allowed for exposure in the open market.
4. payment is made in cash or its equivalent.
5. financing, if any, is on terms generally available in the community at the specified date and typical for the property type in its locale.
6. the price represents a normal consideration for the property sold unaffected by special financing amounts and/or terms, services, fees, costs, or credits incurred in the transaction.

[1]

E. Statements of General Assumptions and Limiting Conditions

1. Contributions of Other Professionals

- Information furnished by others in this report, while believed to be reliable, is in no sense guaranteed by the appraiser.
- Because no legal advice was available, the appraiser assumes no responsibility for legal matters.
- All information furnished regarding property for sale or rent, financing, or projections of income and expenses is from sources deemed reliable. No warranty or representation is made regarding the accuracy thereof, and it is submitted subject to errors, omissions, change of price, rental or other conditions, prior sale, lease, financing, or withdrawal without notice.

2. Facts and Forecasts Under Conditions of Uncertainty

- The comparable sales data relied upon in this appraisal is believed to be from reliable sources. Though all the comparables were examined, it was not possible to inspect them all in detail. The value conclusions are subject to the accuracy of said data.

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[1] Byrl N. Boyce, AIREA, SREA, Revised Edition, Real Estate Appraisal Terminology, (Cambridge, Mass.: Ballinger Publishing Company, 1981), pp. 160-161.

- Projections of the effective demand for space are based upon the best available data concerning the market, but are projected under conditions of uncertainty.
- Since the projected mathematical models are based on estimates and assumptions, which are inherently subject to uncertainty and variation depending upon evolving events, we do not represent them as results that will actually be achieved.
- Engineering analyses of the subject property were neither provided for use nor made as a part of this appraisal contract. Any representation as to the suitability of the site for uses suggested in this analysis is therefore based only on a rudimentary investigation by the appraiser and the value conclusions are subject to said limitations.
- Since the projected mathematical models are based on estimates and assumptions, which are inherently subject to uncertainty and variation depending upon evolving events, we do not represent them as results that will actually be achieved.
- Sketches in this report are included to assist the reader in visualizing the property. These drawings are for illustrative purposes only and do not represent an actual survey of the property.
- The appraiser did not compile an itemized inventory of personal property and at the time of inspection some rooms were not fully furnished. The appraiser inspected a representative number of rooms and public areas within the property. There is no implied warranty that all required fittings are in place.

### 3. Controls on Use of Appraisal

- Values for various components of the subject parcel as contained within the report are valid only when making a summation and are not to be used independently for any purpose and must be considered invalid if so used.
- Possession of this report or any copy thereof does not carry with it the right of publication nor may the same be used for any other purpose by anyone without the previous written consent of the appraiser or the applicant and, in any event, only in its entirety.
- Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent and approval of the author, particularly regarding the valuation conclusions and the identity of the appraiser, of the firm with which he is connected, or any of his associates.
- The appraiser has not necessarily prepared this report to meet standards imposed by R41b for savings and loan associations or similar controls imposed by the Federal Deposit Insurance Corporation. Should additional information, analysis, or reformatting by required, additional charges must be agreed upon in advance.

- This report shall not be used in the client's reports or financial statements or other documents filed with any governmental agency, unless: (1) prior to making any such reference in any report or statement or any document filed with the Securities and Exchange Commission or other governmental agency, Landmark Research, Inc., is allowed to review the text of such reference to determine the accuracy and adequacy of such reference to the appraisal report prepared by the appraiser; (2) in the appraiser's opinion the proposed reference is not untrue or misleading in light of the circumstances under which it is made; and (3) written permission has been obtained by the client from the appraiser for these uses.

## II. DESCRIPTION AND ANALYSIS OF THE SUBJECT PROPERTY

The economic productivity of the subject property depends on the interrelationships of the static or physical site characteristics of the parcel, the linkages of the location to generators of room and restaurant demand which contribute to its revenue potential, and the dynamics of people's perception of the location and related improvements.

### A. Physical Attributes of the Site

The subject property is the rear half of the 100 block west facing the State Capitol Square in downtown Madison and is identified on Exhibit I-1, and more specifically dimensioned in Exhibit I-2, with approximately 330 front feet on West Dayton Street and an approximate depth of 132 feet on both North Carroll Street and Wisconsin Avenue. It adjoins a narrow alley to the rear of a series of retail and office buildings on the northwest side of the Capitol Square. The site is relatively flat except for a six foot rise in grade from Dayton and Carroll to the alley on the Wisconsin Avenue side. In years past, the site contained a very old church building, medical clinic, and some old retail space, but these were demolished and replaced with an asphalt parking lot serving Manchester's Department Store and others on the Square, prior to development as a hotel. Soil conditions are generally excellent with a deep sand and gravel base.

### B. Site Linkages

The linkages of the site to immediate traffic and pedestrian patterns, as well as to activity generators which complement and support the hotel,

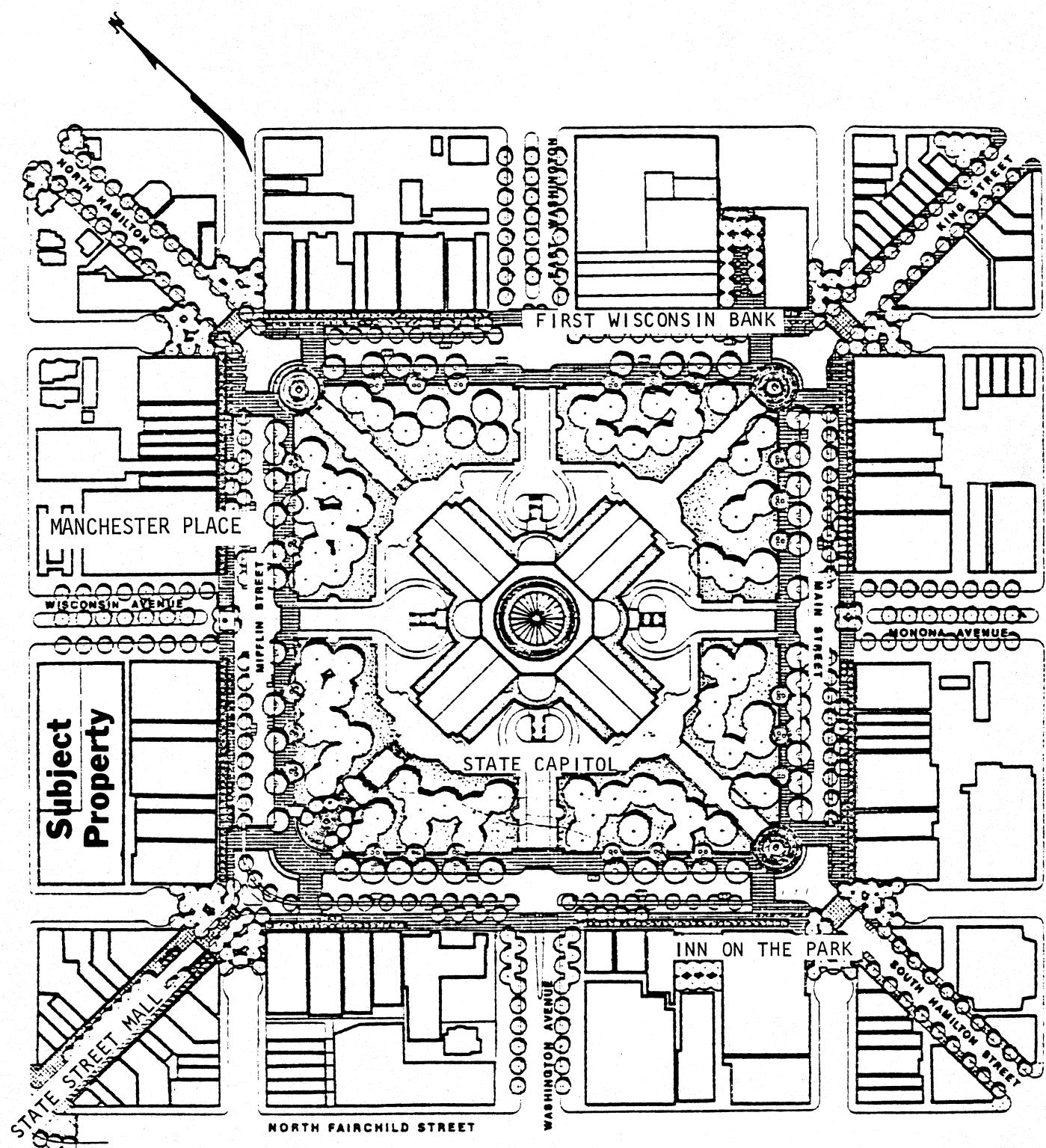
underwent significant change during the 1970s and early 1980s. While the downtown retail sector has been shrinking, state government, financial, and office development as well as the Capitol Concourse have provided for a relatively stable environment in the immediate area.

The primary linkage for identification of the hotel is the Capitol Square, now often referred to as the Capitol Concourse (see Exhibit II-1), center of state government and state offices, together with a major financial district on the southern portions of the Square. The First Wisconsin National Bank, Mutual Saving, American Exchange Bank, M & I Bank, Anchor Savings and Loan, and Home Savings and Loan are all located in this area of the Square. The State Historical Museum occupies recently-renovated quarters at 30 North Carroll Street. Centre Seven, The Atrium, and the Tenney Building provide renovated office and retail space on Pinckney Street. Manchester Place, a major office development under construction at the corner of Wisconsin Avenue and East Mifflin, should provide additional impetus for growth on the Square.

Retailing in downtown Madison has been sharply curtailed as a result of shopping center development on the perimeter of the city to the east, west, and south. There are major retail vacancies near the subject site. The Manchester's Department Store building on the northeast corner of East Mifflin and Wisconsin Avenue was vacant for a number of years and is now being replaced by the Manchester Place office development. The Penney's department store on East Main Street, the last large retailer on the Square, has closed. At least seven other ground-floor retail vacancies exist on the Square, not counting several temporary political campaign offices. The character of retailing on the Square has gradually been changing to those types of retailers catering to noontime or impulse purchases by employees of downtown establishments. This

EXHIBIT II-1

CAPITOL CONCOURSE



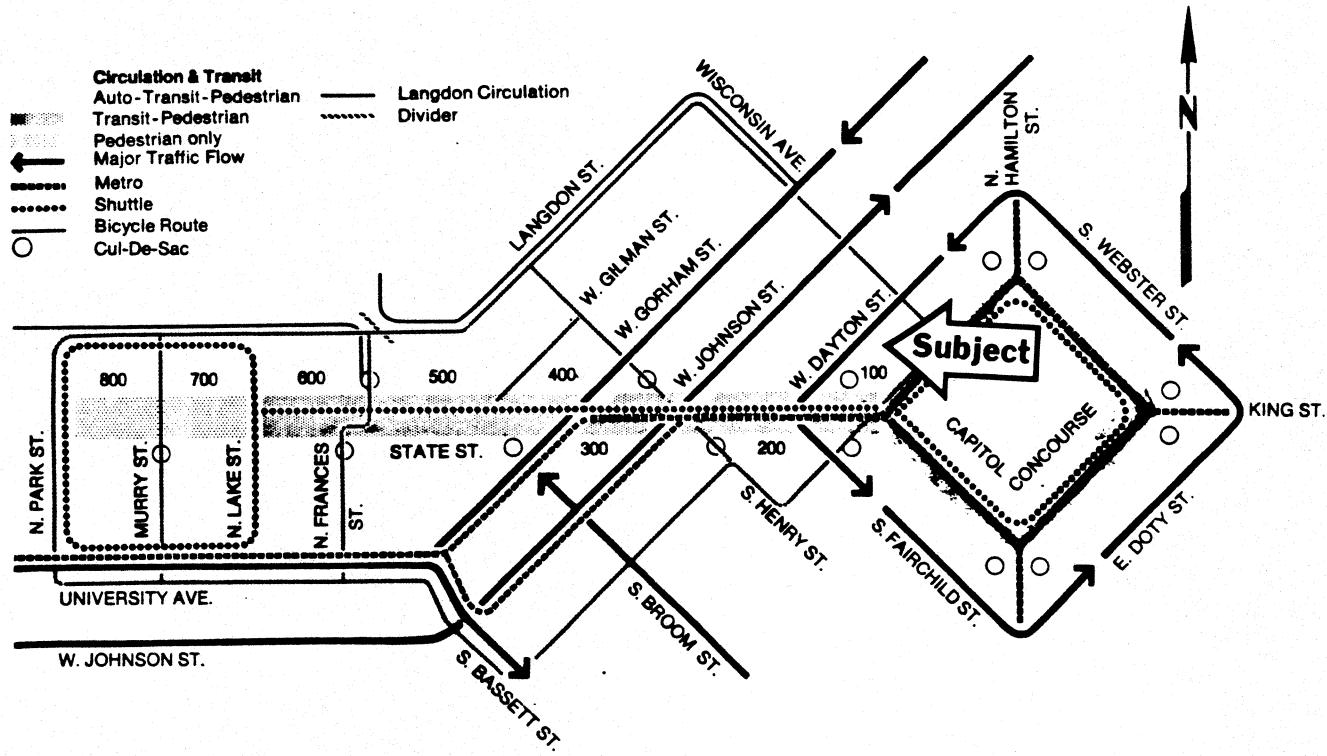
trend can be expected to continue as the downtown office market continues to expand.

Off the Square, several other major developments are also having significant effects on the downtown area. The Madison Civic Center, just west of the subject on State Street, draws large crowds to the downtown area for cultural events. The new Federal Courthouse building was recently completed two blocks west of the subject, bringing the first major government facility to the west side of the Square. Major office renovations have been completed at 100 North Hamilton and 121 East Wilson.

The Capitol Concourse is complete and while its design has its critics, generally, it has served to link the relatively vibrant retail area of State Street with the office workers near the Capitol Square area. The Capitol Concourse plan drastically reorganized the traffic plan in the area of the Square. (See Exhibit II-2.) The inner ring, which is on the Square proper, has limited use traffic lanes and restricted access for the purpose of reducing traffic volume on the Square. The outer ring, which includes Dayton Street on which the Concourse Hotel fronts, bears the majority of the circulation in the immediate area of the Square. The subject property, therefore, enjoys increased visibility and traffic volume as a result of the implementation of the Capitol Concourse plan. Unfortunately, cars must enter the auto ramp to unload from the right or stay on the street to unload at the curb on the left. A public ramp with 324 attended, 15 handicapped, and 181 metered parking stalls is available directly west of the subject property. A major competitor, the Inn on the Park, while directly on the Square, has reduced access as a result of the traffic reorganization. Access to the inner ring of the Capitol Concourse is confusing and since right turns are no longer allowed from South Carroll to West Main Street, Inn on the Park guests must follow a circuitous route to reach public parking when the hotel's small, on-site parking area is

EXHIBIT II-2

CIRCULATION AND TRANSIT  
CAPITOL CONCOURSE AND STATE STREET MALL



full. The subject property is, therefore, on a major traffic artery, has immediate name identification with the Capitol Concourse, and easy access to the State Street Mall with all of its small specialty shops and restaurants.

Three blocks north of the subject's immediate environment the student housing district begins. The University Adult Education Facilities at Lowell Hall and the Wisconsin Center are seven blocks to the west. Two blocks to the south on South Henry and West Mifflin, the new Federal Courthouse building has been completed, while city and county government buildings are centered at the opposite side of the Square from the subject site on Monona Avenue. State government, over the last decade, has added some three-quarters of a million square feet of office space four blocks to the southeast of the subject in the General Executive Facilities complex.

The economics of a downtown hotel require close linkages to several generators of demand which require rooms at different times of the week. State government, particularly when the legislature is in session, generates room demand from Sunday night through Thursday, supported in part by the commercial office activities throughout the year. Small convention and University activities tend to favor the latter part of the week and weekend. Business meetings, as well as state association conventions, favor a site closely linked to the retail diversity and night life on State Street and the sports events of the University, together with cultural presentations at the Madison Civic Center and University Centers.

A major uncertainty facing the Concourse is the ultimate use of the block directly across Dayton Street from the hotel and the possibility of a convention center in downtown Madison. Currently, Madison Area Technical College (MATC) occupies the entire block. Plans call for relocating the bulk

of MATC functions to an east side facility soon. MATC has agreed to maintain the downtown facility as an adult education center.

There has been considerable discussion recently of the need for a downtown convention center as a means to compete with other Wisconsin cities for convention dollars and continue revitalization of the downtown area. Block 82 (the MATC site) was the recommended site of four possible sites in a study done by National Feasibility Corporation (NFC) for Downtown Madison Partners, Inc. Both the NFC study and one prepared by Bowen Williamson Zimmerman, an architectural and planning firm, specifically dealing with a convention center on the east half of Block 82 support the feasibility of a convention center on the site. If completed, this would be a tremendous asset to the Concourse, provided the convention center did not include a new hotel facility on-site.

### C. Site Dynamics

The subject site enjoys high visibility to auto traffic approaching from the east on Dayton Street and the north on Wisconsin Avenue. The MATC is currently maintaining its campus facility across Dayton Street to the north. The subject site, thus far, has avoided the image problems associated with the east and southeast areas of the Square that are perceived as having an unsavory character. Continued revitalization of the area around the Concourse should prevent any such problems from occurring. The site lacks tight proximity to highways, airports, exhibition halls, major retailing, or major recreational draws which characterize the best hotel sites. However, it has just enough proximity to a diversity of necessary ancillary generators to do well. Current land uses do not suggest any major sites which would permit competitive interception of university, government, convention, or business travel.

D. Physical Attributes of the Subject Structure

The Concourse is 13 stories high with three sublevels. Floors are numbered 1 through 12 and 14 with sublevels A, B, and C. All revenue and hotel facilities are located on the first floor and above, with the exception of Georgio's Hair Styling, the fitness center, and the parking garage of 267 stalls. Levels B and C consist solely of parking.

Level A, the first sublevel, houses most of the service areas of the hotel. Included on this level are the telephone room, television repair room, the electrical rooms, the gas meter and sewer trap rooms, boilers, water heaters, water softeners for the common areas, corridors, kitchens, and restaurant areas, a number of large walk-in cooling refrigerator and freezer rooms for the kitchens, liquor lockers, dry good storage, repair shops, etc.

Level A also houses Georgio's Hair Styling and the fitness center. Georgio's is currently leased to an outside operator. The fitness center is an in-house operation, however, Concourse management is working on an agreement to lease the space to the fitness center manager. The Low Score Bar previously occupied about 3,735 square feet of level A, but it is now being used as an engineering room in connection with the renovation work.

The Concourse maintains its own maintenance staff consisting of a chief engineer, carpenter, refrigeration technician, and five general maintenance people who are responsible for operation, general upkeep, and most repairs including rebuilding of chillers and other major mechanical work unless repairs are extremely large in scope.

Most of the service functions of the hotel are housed on level A which has access to the rest of the hotel by two service elevators and a large elevator

which goes to the first floor, banquet areas, and kitchen. In this way, contact between hourly service employees and the hotel guests is minimized while at the same time providing efficient service to all areas of the hotel. In the peak seasons the hotel staff numbers close to 300. The hotel has the character of an efficient large city hotel with respect to its centralized service areas, its large and flexible banquet and meetings areas, and the amenities including several restaurants and bar/lounges in it.

Installation of a new telephone system by NEC was completed last November. The installation included new phones for the guest rooms as well as other equipment. According to management, the system does not generate sufficient revenue to offset lease payments on the equipment, therefore, the telephone department can be expected to operate at a slight loss. One observation noted by management is that, with the new push-button phones installed, more guests are using telephone credit cards to make long-distance calls. This results in reduced telephone revenue for the hotel.

An energy management system has been installed and is now operating in the common areas. It is intended to add the guest rooms to the system at a later date. The bugs are currently being worked out of the system, but John Smith, Concourse General Manager, stated that he is pleased with the system to date. He feels that utility bills now are comparable to the situation before addition of the energy management system and the new rooms.

The first floor (outlined in Exhibit II-3), contains a main entrance lobby off West Dayton Street, the registration area tied to the hotel offices, an elevator lobby, and a grand ballroom staircase to the convention facilities on the second floor. First on Dayton, the main cocktail lounge and restaurant, is open to the main lobby and has street-level window exposure on Dayton Street. The Greenhouse restaurant and coffee shop is located to the rear of First on

EXHIBIT II-3

FIRST AND SECOND FLOOR PLANS

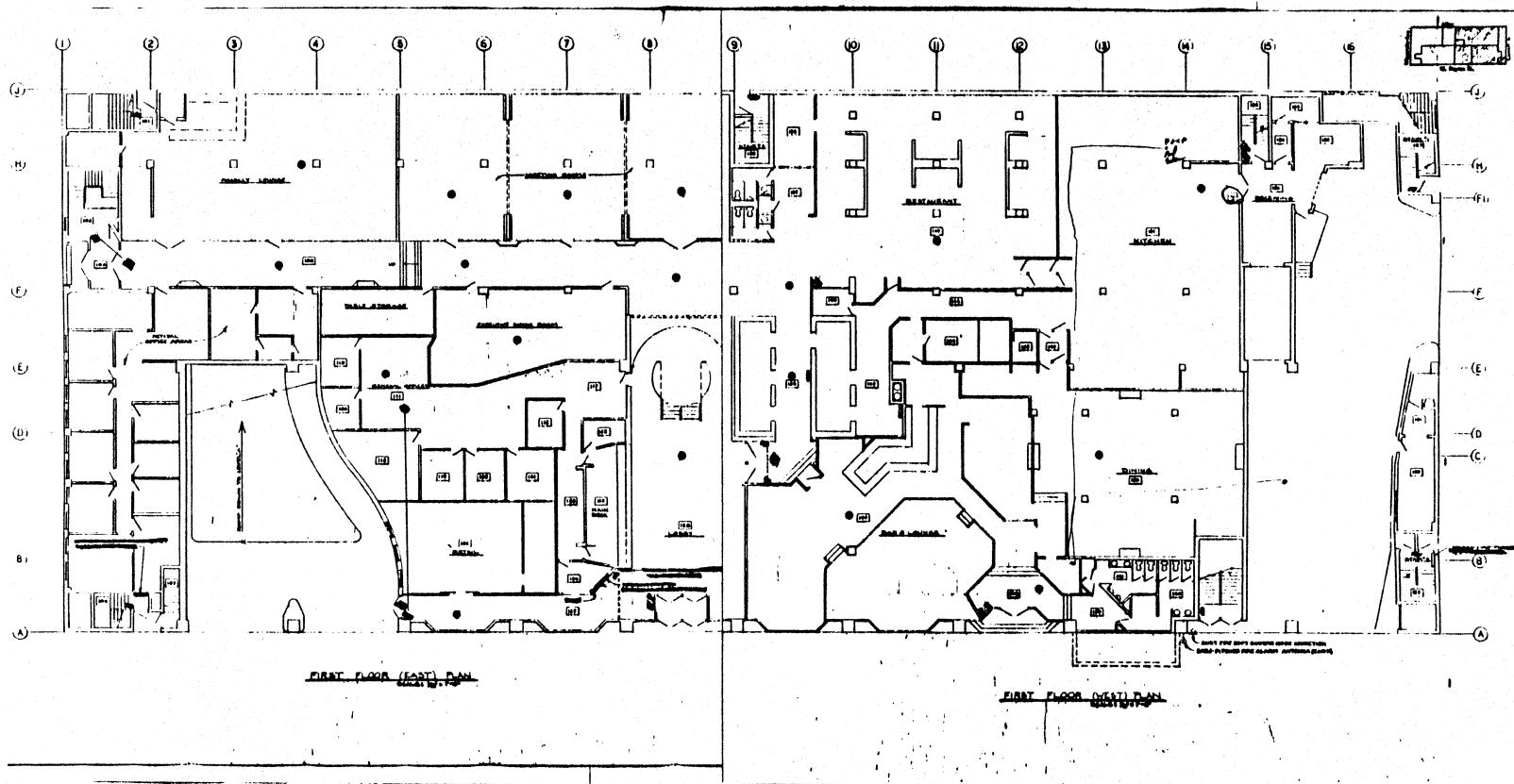
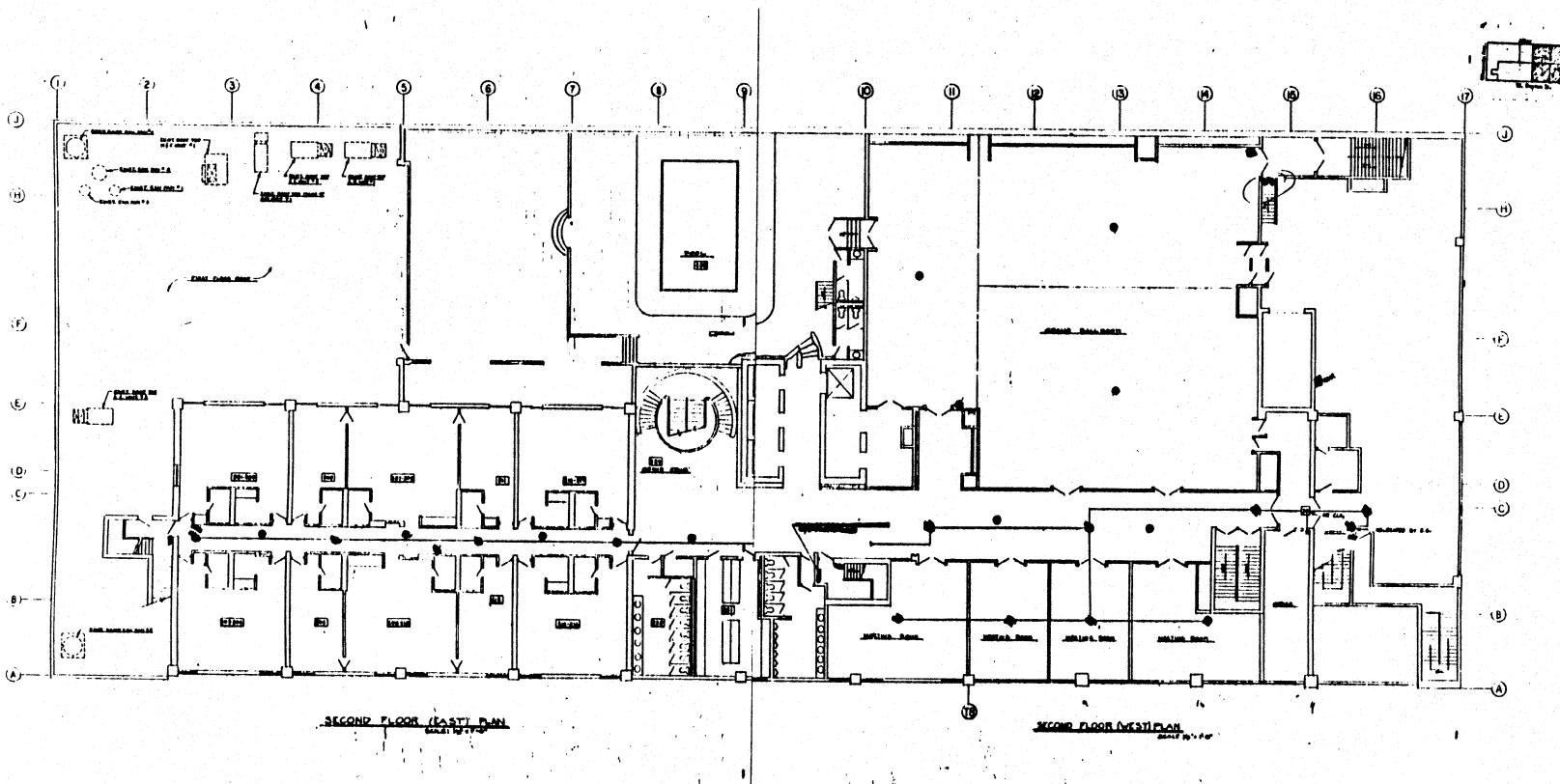


EXHIBIT II-3 (Continued)



Dayton adjacent to the kitchen and kitchen receiving areas. Retail space totaling 753 square feet is also located in the first floor east corner of the building on a street-side pedestrian gallery. The first-floor meeting rooms and Picadilly Pub are accessed from a dark interior hall which needs relief from a skylight positioned on the roof deck patio above. Space in the first floor west corner (West Dayton and North Carroll Street corner) had been leased to the Commercial State Bank as a triple-lane drive-in bank facility. This space is currently being used as a workshop to assist in the renovation work. Final uses under consideration by Concourse management for the approximately 2,400 square feet of space are additional restaurant/bar area, rental office space, and a studio for a radio station.

The second floor of the hotel (see Exhibit II-3) contains convention facilities to accommodate 700 people in the banquet room, which can be subdivided as required. Since the guest rooms are contained in a narrow slab rising above only the smaller meeting rooms, the banquet room area and the spacious pool area are free-span high-ceiling areas. The pool area is supplemented with adjoining bathroom facilities and a small bar. Some guest rooms on the third floor overlook the pool area through sliding doors so that the pool area can be rented for private parties. The enclosed sundeck area of the pool has limited orientation to the summer sun.

The third floor contains guest rooms including an elaborate honeymoon suite overlooking the pool, linen and service rooms, ice and vending areas, and mechanical rooms for the convention area below. Floors 4 to 14 contain the balance of the guest rooms of various layouts plus maid rooms and ice and vending areas. Appendix B contains floor plans of floors 3 to 14 as provided

by management. The total room count is as follows:

182	Double Doubles
55	Kings
14	Queens
3	Waterbeds
1	Bridal Suite
96	King Leisures (Governor's Club)
3	Jacuzzi Suites (Governor's Club)
9	Large Parlors (2 Governor's Club, 6 on 6th Floor)
2	Large Suites (6th Floor)
<u>11</u>	Small Parlors (2 Governor's Club)
376	Total Guest Rooms
====	

In addition to construction of the new rooms on the west end, the existing sixth floor was totally renovated to create the large parlors and large suites. The existing eleventh, twelfth, and fourteenth floors were renovated to create the Governor's Club rooms. The addition and renovation are discussed further in a later section of this report.

The entire building from the third sub-basement to the 14th floor is serviced by three passenger elevators, one maid's elevator, and one service elevator for room service, kitchen, etc. A fourth passenger elevator recently added is accessible by key only and serves the Governor's Club rooms on floors 11, 12, and 14. In addition, there is an automobile-sized elevator serving the loading dock, first floor, level A, and banquet area. In the renovation of the former drive-in bank area, this large elevator could be blocked off at the current loading dock to serve primarily as a kitchen elevator with stops at the first floor, level A, and banquet area.

Exterior materials are face brick panels, and gold tinted glass with anodized gold aluminum trim between accent columns rising to arches forming a top floor parapet wall that is covered with a white, textured epoxy surface. Photos of the Concourse Hotel are contained in Exhibit II-4.

EXHIBIT II-4

PHOTOS OF THE SUBJECT PROPERTY



View of Concourse looking east along Dayton Street

View looking across Dayton Street at former driveup facility.

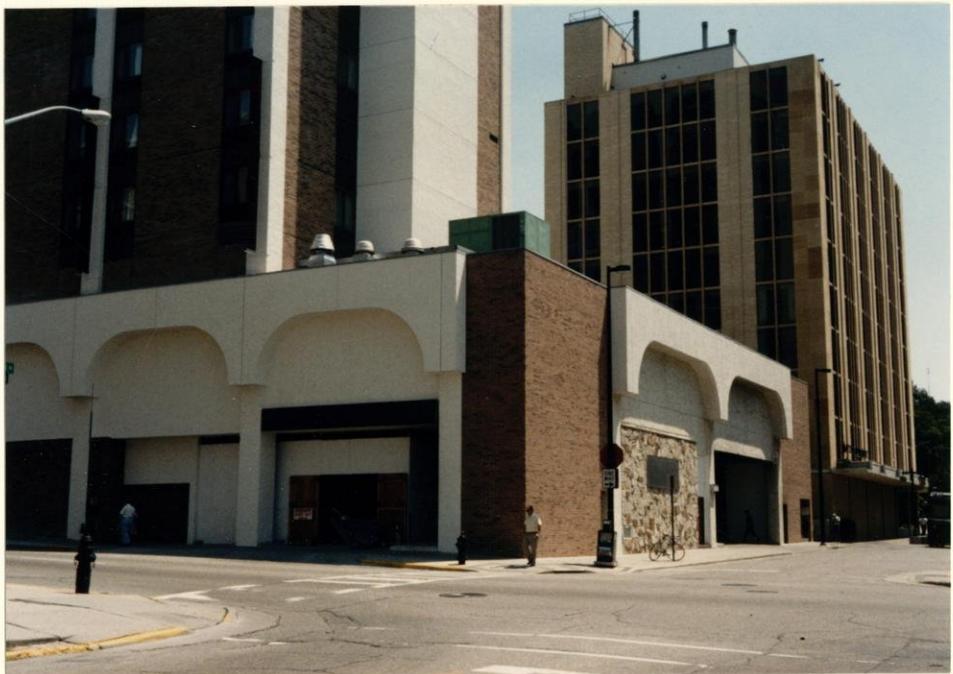


EXHIBIT II-4 (Continued)



Main lobby entrance on First on Dayton entrance.



Main lobby entrance and one of two airport shuttles.

EXHIBIT II-4 (Continued)

View looking southwest across Wisconsin Avenue.



View looking southwest down Dayton Street.



EXHIBIT II-4 (Continued)

Wisconsin Avenue entrance to Piccadilly Pub and rental office space.



View of Capitol from Wisconsin Avenue entrance.



EXHIBIT II-4 (Continued)



Alley behind Concourse looking toward Carroll Street.

View from Capitol Square. Governor's Club is visible at upper left.



EXHIBIT II-4 (Continued)



View looking north along Wisconsin Avenue past Concourse.

Manchester Place construction site is at right  
and potential convention center site is at left just beyond Concourse.



View of Concourse from west edge of Capitol Square.

EXHIBIT II-4 (Continued)



Main lobby looking toward Dayton Street.



First on Dayton entrance from main lobby. Bar is at left.

EXHIBIT II-4 (Continued)



Lounge and dining area in First on Dayton.



Dining area in First on Dayton.

EXHIBIT II-4 (Continued)



Piano bar in  
First On Dayton.

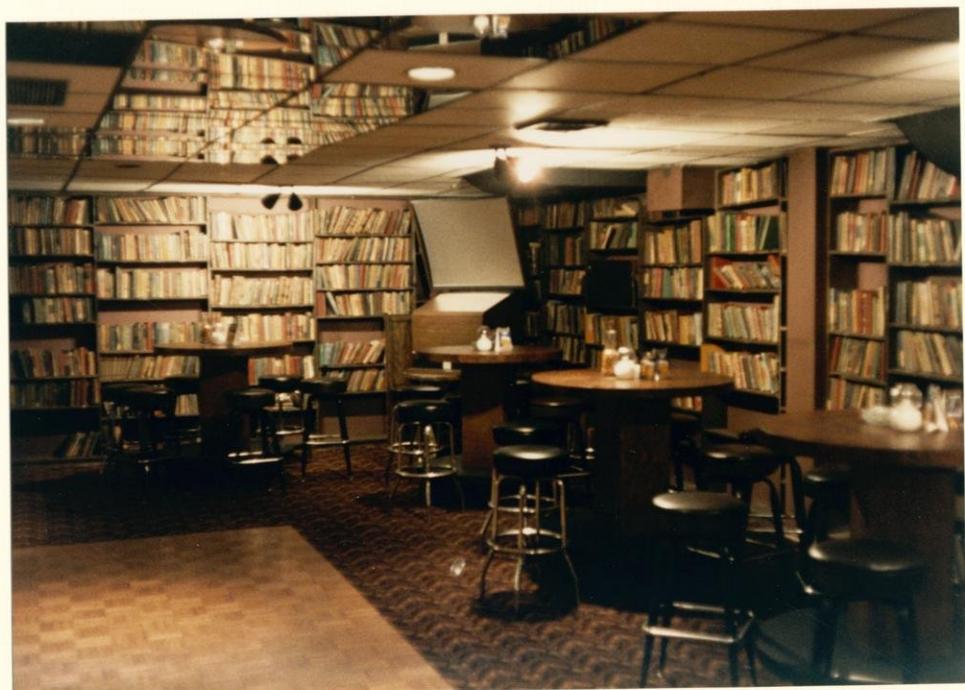


Main floor  
elevator lobby.

EXHIBIT II-4 (Continued)



Greenhouse restaurant.



Piccadilly Pub lounge area.

EXHIBIT II-4 (Continued)

Piccadilly Pub dance floor.



Fitness Center on Level A.



EXHIBIT II-4 (Continued)



Second floor elevator lobby.



Pool area on second floor.

EXHIBIT II-4 (Continued)



Grand Ballroom.



Dividable smaller meeting room.

EXHIBIT II-4 (Continued)



Twelfth floor elevator lobby.



Entrance to Governor's Club lounge on twelfth floor.

EXHIBIT II-4 (Continued)



Governor's Club lounge.



Octagon bar in Governor's Club lounge.

EXHIBIT II-4 (Continued)



View of Capitol from Governor's Club lounge.



Typical Governor's Club room.

EXHIBIT II-4 (Continued)



Governor's Club suite.

EXHIBIT II-4 (Continued)



Large hospitality suite on 6th floor.

EXHIBIT II-4 (Continued)



Typical double double.



Typical king.

E. Recent Expansion and Renovation

Beginning in late 1985, the Concourse has undergone a major expansion and renovation program. There were two aspects to this program. The first was construction of the guest tower atop the west wing, formerly the drive-up banking facility. The second was substantial improvements and renovations to portions of the existing hotel.

The westerly portion of the hotel, at the corner of North Carroll and West Dayton, was originally constructed a single story high, but with capacity to bear the weight of upward expansion. It previously housed the entrance to the Normandy dining room and a drive-up bank facility rented to the Commercial State Bank. An additional 117 rooms were constructed atop this west wing, extending it to the full 13-story height of the existing guest tower. Because there were no additional costs relating to land, foundation, meeting rooms, bars, restaurants, or kitchens, the cost of this addition was low when compared with the cost of constructing a new hotel. The entire roof was replaced during this process.

A number of areas were remodeled or upgraded in addition to the expansion. Seventy-five existing rooms on the top three floors were remodeled to create the Governor's Club, totaling 103 rooms on floors 11, 12, and 14. The Governor's Club is a more exclusive, higher class of room aimed specifically at the commercial business traveler. It includes all of the top three floors. Rates for Governor's Club rooms are higher than for the regular rooms and include a number of additional features.

Each Governor's Club suite includes a hair dryer, marble vanity, terry cloth robe, mirrored closet doors, and higher quality furniture. The larger suites contain VCRs, stereo systems, microwave ovens, and refrigerators. All

suites include turn-down service and complimentary chocolates, breakfast, and newspaper.

In addition, the Governor's Club lounge, located on the 12th floor, is exclusively available to Governor's Club guests. It contains oak flooring, fireplace, octagon bar, and appetizer table all matched with polished granite, mirrored ceiling, brass trim and ornaments, and a bubble glass window featuring a view of the State Capitol. The walls contain pictures of past Wisconsin governors in brass frames. The atmosphere is very conducive to relaxation or quiet conversation. All drinks and appetizers are included in the room price.

Additional areas of the hotel were also improved. A former meeting room on level A was remodeled into a health and fitness center. The sixth floor was entirely rebuilt to provide eight hospitality suites available for overnight guests or small meetings. A new fire protection system was added including a sprinkler system for the entire building. All hallways were remodeled to brighten the atmosphere with lighting and color. The lobby, front desk, entry, and elevator lobby areas have been considerably brightened and improved with the addition of marble flooring and columns and heating, air-conditioning, and lighting improvements. A keyed express elevator was also added that serves exclusively the Governor's Club floors.

Other improvements are planned or in process in anticipation of completing the planned refinancing. The Normandy dining room and Haymarket Lounge are being remodeled and combined into First on Dayton, a lounge/restaurant with a more modern, brighter, and more open design. It faces Dayton Street at sidewalk level and is also open to the main lobby. Also planned are extensive remodeling and improvements to the Grand Ballroom, meeting rooms, second floor hallway and elevator lobby, Grand Stairway, pool terrace and sundeck areas, Picadilly Pub, Greenhouse restaurant, main lobby, gift shop, and former

drive-up bank area. Improvements planned include painting or wallpaper, carpet, ceiling tile, chandeliers, mirrors, brass and glass trim, additional marble flooring, hot tubs, skylights, and lighting improvements. The drive-up bank area is to be converted to a bar and/or restaurant or rental space. Major equipment purchases have already been made for the fitness center. Appendix C contains management's list of improvements and original estimated costs.

The other major area in need of improvements is the parking ramp. Rusting of steel reinforcing rods within the concrete, caused by salt deposited from city streets, is considerably weakening the structure. This must be repaired by removing the rusted reinforcing rods, replacing them and the concrete surface, and also inserting a waterproof coating to prevent similar damage in the future. Management's estimate of the cost of this repair is \$750,000.

F. Downtown Madison Hotel Market

1. Existing Hotels

The first-class hotel market in downtown Madison is generally considered to consist of the following five establishments totaling 1,144 units.

<u>Name</u>	<u>After Expansion</u>		<u>Before Expansion</u>	
	<u>Rooms</u>	<u>%</u>	<u>Rooms</u>	<u>%</u>
Concourse	376	32.9	273	28.2
Edgewater	143	12.5	143	14.8
Howard Johnson Executive Hotel	163	14.2	163	16.9
Inn on the Park	222	19.4	148	15.3
Sheraton Inn and Conference Center	240	21.0	240	24.8
	-----	-----	---	-----
<b>TOTAL</b>	<b>1,144</b>	<b>100.0</b>	<b>967</b>	<b>100.0</b>
	=====	=====	==	=====

In addition, several other hotels and motels throughout Madison are competitive to a lesser degree with the downtown facilities due to size, amenities, availability of meeting space, or proximity to business centers

outside the downtown area. Exhibit II-5 contains selected information on 12 Madison hotels and motels that have 119 or more guest rooms, meeting rooms, and restaurant facilities. Exhibit II-6 shows the location of these establishments. Not included is the Mansion Hill Inn which offers 12 rooms, luxuriously appointed at \$90 to \$150 per night which currently enjoys 70 to 80 percent occupancy as the top of the line facility downtown.

The Concourse is the largest hotel in Madison with 376 guest rooms after the recent addition and renovation. Because of this and the large meeting and banquet space, it is in the best position to handle meeting and convention business.

The Edgewater is located north of the Capitol Square at the end of Wisconsin Avenue, overlooking Lake Mendota. The views to the north are exceptional. Though it once had a reputation as the finest hotel in Madison, the competition has caught and probably surpassed it at this point. Its location is away from main traffic routes making it somewhat difficult to reach for travelers unfamiliar with Madison.

The Howard Johnson Executive Hotel is located west of the Capitol Square, near the University campus, at 525 West Johnson Street. It contains 163 guest rooms including an executive section on the top two floors. It has recently been renovated to allow it to compete more effectively with other downtown hotels.

The Inn on the Park probably provides the most direct competition with the Concourse for downtown business. It was expanded in 1985 to 222 rooms to allow it to compete more effectively for larger groups. It is located directly on the Square, however, access is difficult due to traffic patterns on the Capitol Concourse and on-site parking is limited. Its facilities and management do not appear to be up to par with the Concourse.

EXHIBIT II-5

DATA ON SELECTED MADISON  
HOTELS AND MOTELS

MAP #	NAME/ADDRESS	NO. GUEST ROOMS	NO. MEETING ROOMS	CAPACITY LARGEST	COCKTAIL LOUNGE	POOL/AMENITIES	ROOM RATES		
							SINGLE	DOUBLE	SUITE
1	Concourse 1 W. Dayton	376	18	700	Yes	Indoor Sauna	\$59-84	\$69-104	\$194-319 [1]
2	Edgewater 666 Wisconsin Ave.	143	7	600	Yes	Lakefront	\$65-85	\$75-95	\$125-270
3	Howard Johnson's Executive Hotel 525 W. Johnson	163	4	300 theater 250 banquet	Yes	Indoor Whirlpool	\$51	\$63	\$72-75
4	Inn on the Park 22 S. Carroll	222	13	500-700	Yes	Indoor Sauna Fitness Center	\$55	\$63	\$66-74 [2]
5	Sheraton Inn & Conference Center 706 John Nolen Drive	240	13	500	Yes	Indoor	\$55	\$63	\$100-200 [3]
6	Holiday Inn Southeast 6301 E. Broadway	188	7	300 theater 1000 banquet	Yes	Indoor Sauna	\$49	\$56	\$100-130 [4]
7	Holiday Inn Northeast [5] 4402 E. Washington	165	5	250	Yes	Indoor	\$45	\$52	\$67
8	Howard Johnson's East Towne Hotel & Conference Center 4822 E. Washington	163	11	70 theater 200	Yes	Pool under construction Whirlpool	\$38-48	\$45-55	\$51-77 [6]
9	Inntowner-Best Western 2424 University Ave.	119	4	100	Yes	Whirlpool Fitness Center	\$49	\$57	\$100
10	Quality Inn South 4916 E. Broadway	156	21	300 theater 275 banquet	Yes	In/Outdoor	\$38.50	\$44.50	None
11	Radisson Inn Madison 517 Grand Canyon Dr.	135	9	400	Yes	Indoor Sauna	\$61	\$71	\$120
12	Ramada Inn 3841 E. Washington	193	7	300	Yes	Indoor Whirlpool	\$38	\$48	\$44-49

[1] Also offers the Governor's Club @ \$84-104 with breakfast, wet bar, cocktails & hors d'oeurves.

[2] Also has room @ \$85/night with canopy waterbed, wet bar, stereo at edge of bed, with breakfast & champagne is \$89; has a room @ \$125 which has a Kohler habitat bathroom.

[3] The suite @ \$200 has a kitchen, bedroom, and living area.

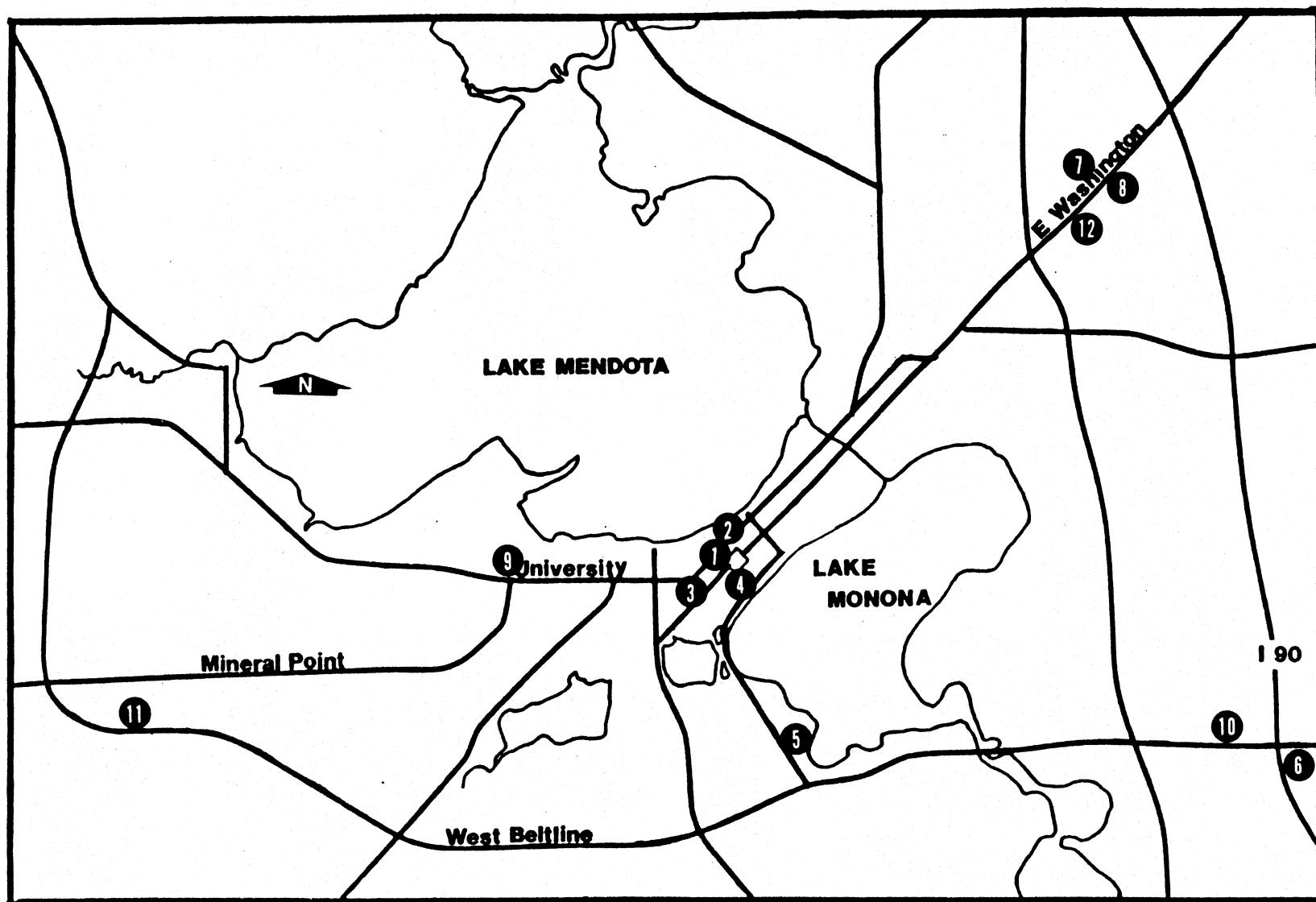
[4] One suite has a kitchenette.

[5] Holiday Inn Northeast plans to remodel in the fall of 1986 and have a total of 200-250 rooms with suites on each floor.

[6] The suite @ \$77 has a wet bar.

EXHIBIT II-6

LOCATION OF SELECTED MADISON  
HOTELS AND MOTELS



The Sheraton Inn and Conference Center, though not located directly downtown, is considered competitive with the other downtown facilities because of its quick access to the downtown area via John Nolen Drive, size, and meeting, cocktail, and dining facilities. It contains 240 guest rooms including an executive section aimed at the upscale business traveler.

## 2. Summary of Downtown Room Demand

The room demand in the downtown hotel market is generally considered to come from three sources. These sources are the group, commercial, and tourist segments. Some recent studies indicate there may be a fourth segment called educational seminars spilling over from the University, but statistics on this are unavailable. Exhibit II-7 shows the estimated shares of total occupied rooms for 1985 for each of these segments for the Concourse and the five major downtown hotels in total. As can be seen from Exhibit II-7, the Concourse draws a significantly larger share of its business from the group trade than does the overall downtown market. Although before expansion the Concourse had 28.2 percent of total rooms in the five-hotel market, it drew approximately 39 percent of the group trade. In the commercial and tourist segments, however, the Concourse fell behind a proportional market share with 22 percent and 9 percent respectively. Clearly, the challenge for Concourse management is to hold its share of the group trade while increasing market penetration in the other two areas.

The apparent dominance of the Concourse in the group area is understandable considering size, extensive meeting and banquet facilities, location near downtown and campus, and proximity to Civic Center and State Street attractions. Concourse management feels, however, that the strong group trade has had a negative effect on the commercial segment and the average room rate.

EXHIBIT II-7

1985 ESTIMATED MARKET SEGMENTS FOR  
THE CONCOURSE AND DOWNTOWN HOTELS

	CONCOURSE			DOWNTOWN HOTELS		
	NO. ROOMS	PERCENT	PERCENT OF TOTAL ROOMS OCCUPIED	NO. ROOMS	PERCENT	
			OCCUPIED			
Group	28,452	47	39	73,780	30	
Commerical	28,452	47	22	130,345	53	
Tourist	3,633	6	9	41,809	17	
Total	60,537	100	25	245,934	100	

Sources: Estimates by John Smith, General Manager of the Concourse, as to Concourse market shares and the study titled "Proposed Convention Center" prepared by National Feasibility Corporation as to market shares for the downtown hotels as a group.

In order to serve conventions of increasing size, the Concourse has been put in a position of having to set aside as many as 250 rooms for conventions, leaving only 23 for business travelers. This has forced them to turn away individual business travelers who generally pay rack rate and frequently can justify premium rates on their expense accounts.

The logic for the just-completed expansion is to continue to serve the gradually increasing group trade and still have sufficient room to handle a proportional share of the commercial trade. This should serve ultimately to increase overall occupancy and average room rate.

Secondarily, Concourse management must be concerned with capturing a larger share of the tourist segment. Because the Concourse is not located on major travel routes, this segment is limited to those people who can be attracted to Madison for specific events such as University of Wisconsin athletic events and cultural events at the Civic Center and the University. The bulk of this demand is on weekends--the time of lowest occupancy for the Concourse, therefore, increasing trade from this segment will probably not come at the cost of reducing the group and commercial segments.

### 3. Proposed Convention Center

A development that could have a major impact on the Concourse and the downtown hotel market in general is the possibility of construction of a downtown convention center. Madison currently lacks the type of facility that can accommodate conventions that need, in addition to meeting and banquet space, a large amount of booth or exhibit space. As a result, Madison is not in a position to compete with other cities for many events.

Earlier this year Downtown Madison Partners, Inc., an organization comprised of local business people and devoted to downtown revitalization,

commissioned an independent study by National Feasibility Corporation of Hollywood, Florida to determine the feasibility of developing a convention center in downtown Madison. The report stated that its purpose was to determine:

(1) the amount of new convention business which could be attracted to downtown Madison, Wisconsin with a new convention center; (2) the size of the convention facility, the increased demand in lodging units, parking, and other related items; (3) the demand for new hotel/motel rooms required to service the increased demand generated as a result of a new convention center, and the time period when these units should come on-stream; (4) a preliminary five-year cash-flow for the convention facility; and (5) the best site location of those presented for analysis.

The NFC study concluded that a properly-designed convention facility in Madison would attract significant additional convention usage and ultimately create demand for additional first class hotel rooms nearby. As to location, four sites in downtown Madison were analyzed. Block 82, located directly across Dayton Street northwest of the Concourse, was the site recommended by the NFC study. Block 88, located southeast of the Capitol Square and about five blocks from the Concourse was the second choice.

It is clear that a new convention center will be a very favorable development for the Concourse if it is built on the Block 82 site and no new hotel facility is constructed on site. This scenario would allow the Concourse to be the headquarters hotel for events at the convention center.

Less clear is the effect on the Concourse if another alternative is chosen. At this point two other alternatives appear possible. First, the Block 82 site could be chosen, but in conjunction with development of another hotel on the convention center site as has been proposed by an Eau Claire, Wisconsin developer. This could relegate the Concourse to a position as a

secondary hotel with respect to many convention center events. Second, the Block 88 site could be chosen, probably including construction of an additional hotel. Because of the distance from the Concourse, this choice would provide significantly less benefit to the Concourse. Because the Inn on the Park is closer to that site, it would probably serve as the primary overflow hotel.

The NFC study projected that additional room demand created by the convention center would require 363 additional rooms in 1989, increasing to 466 rooms in 1993. If their projections are accurate, a convention center should still have some positive effect on existing hotels if the new hotel is limited to the 200 to 250 room range as is expected.

At this point the question of whether a convention center will be built and if so, on what site, is very much unsettled. The Madison City Council appears to favor almost unanimously the development of a center. Whether they can agree on a final plan is another matter. In a recent informal poll, 12 of 19 Council members reached favored the Block 82 site. Seven favored Block 88. None opposed a convention center.

Development of Block 82 is not without difficulties, however. The site is currently occupied by the MATC downtown campus. The proposal that includes a hotel would require the entire block. Development of a convention center only on the east half of the block appears to have more support. MATC plans to demolish the structure on the east half anyway. The MATC board has indicated however, that they want to sell the whole block or none. Complicating the matter further is the commitment by MATC and many Council members to maintaining an MATC presence downtown. Therefore development on the Block 82 site will probably require either purchase of Block 82 and relocation of MATC to another downtown site or a compromise whereby MATC remains on the west half of the site.

The Block 88 site appears considerably less favorable from the standpoint of accessibility and desirability of surrounding uses. It could be chosen, however, if compromise with MATC proves to be unattainable. This choice would probably require construction of a new hotel on Block 89 across Doty Street in order to serve the convention center. If substantial public assistance were needed to fund this hotel, it could run into strong political opposition.

In summary, the appraiser believes that construction of a convention center in downtown Madison is a strong possibility. Regardless of exact location, the project will certainly be an asset to the downtown hotel market. Its positive effect on the Concourse, however, may be diluted by location and timing of the development option chosen.

#### 4. Other Potential Hotel Developments

Related to the convention center, several other possible developments need to be considered in connection with the Concourse. As mentioned previously, an Eau Claire developer has proposed construction of a 264-unit Embassy Suites Hotel on the Block 82 site in conjunction with the convention center. This would require relocation of MATC and substantial city financial assistance.

Dan and Bruce Neviaser, local developers and owner of the Strand Theater, have announced plans for a 200-room Holiday Inn facing the Capitol Square on East Mifflin Street. It would be in the block directly east of the Concourse and within one block of a convention center on the east half of Block 82. It also appears to be contingent on choice of the Block 82 site and is complicated by the fact that a local architect, Kenton Peters, has an option on certain retail properties contiguous to the theater, the central part of the proposed development.

Encore Development of Dallas, Texas has proposed a mixed-use development on Block 89 (southeast side of the Capitol Square) to include office, retail, and hotel facilities. This proposal is contingent on choice of the Block 88

site for the convention center. However, the top three floors of a 200,000 square foot office building would provide hotel rooms without suitability as a convention headquarters hotel. Encore is fishing for heavy subsidies from the City and sees negotiation opportunity in promising a small hotel.

Darrell Wild has, himself, announced plans for Concourse expansion if the MATC site is chosen. Those plans include retail space and two towers totaling 200 to 250 suites with an atrium in between. The project would require demolition of most structures on the southeast portion of the block on which the Concourse sits. The retail portion of the project would face the Capitol Square. A less ambitious alternative for expanding the Concourse would also be possible by demolishing only the Woolworth Building.

Finally, John Hammons, a national developer of Holiday Inns from Springfield, Missouri, has asked for rezoning of a site on Madison's west side in order to build a 275-room Holiday Inn and conference center. This appears to be the only proposal not prompted by the convention center. The city has delayed consideration of the request until February 3, 1987, to allow time to settle the convention center question. Holiday Inns currently have two facilities in Madison, near the northeast and southeast connectors to the Interstate 90 and 94. It is believed that the southeast unit will lose its Holiday Inn franchise as it no longer meets required physical standards. The cost to cure is not financially justified. The unit on the northeast side is undergoing intensive renovation to compete with a nearby expanded Howard Johnson's. Thus, Holiday Inn wants to follow Radisson to the far west side. The Hammons organization is financially strong and capable of accomplishing its west side goals. However, downtown Madison, with the Legislature, University campus, and State Street amenities will maintain a competitive edge for regional group meetings.

G. Most Probable Use of Subject Property

Analysis of the property and the site as well as hotel demand and the trend in surrounding land uses permits the appraiser to establish an assumption as to the most probable and productive use of the subject property. The following completed or potential developments are indications of the continued suitability of the site for hotel purposes.

1. Construction of the Capitol Concourse and State Street Mall and attendant renovations on State Street.
2. Completion of the Madison Civic Center.
3. Renovation of 30 North Carroll into the State Historical Museum.
4. Completion of the Federal Courthouse building.
5. Major office building renovations at 100 North Hamilton and 121 East Wilson.
6. The Manchester Place office development currently under construction at the corner of Wisconsin Avenue and East Mifflin.
7. Potential development of a convention center immediately northwest of the Concourse on the MATC site.

Due to the effect of recently completed expansions of the Inn on the Park and the Concourse, occupancy at the Concourse has dipped but is showing signs of making a strong comeback. Demand for downtown hotel rooms should continue steady growth due to office market growth and continued demand from government and University sources.

Although, a number of proposals have been made public that would add to the downtown hotel stock, there are none under construction and all face significant uncertainties at this time. It seems unlikely that any will materialize downtown without completion of a convention center. Furthermore, the most suitable site for the convention center as recommended by the NFC

study is the MATC site across Dayton Street from the Concourse. If completed on this site, the only possibility for interception of convention traffic is by the proposed new hotel on the convention center site. The Concourse appears to be the facility most likely to benefit from construction of a convention center, even if an additional hotel is constructed several years after the opening of the convention center.

Therefore, the appraiser concludes that as of July 1, 1986, the most probable use for the site and structure is continued profitable use as a full-service hotel operation.

H. Most Probable Buyer-Investor

Determination of the most probable use permits the appraiser to make some inference about the most probable buyer for this type of property or investment, an inference which guides the appraiser in a search for comparable transactions in the marketplace which suggest the investment factors or assumptions which guide the investor in determining the most probable price such an investor would pay. As a class, downtown hotel properties have represented poor investments for the original builders. Where they have succeeded, it has either been the second or third owner who bought at sharp discounts from cost to replace or the original builders who had hung on through difficult early years and are now beginning to enjoy more stable profits. Profits are principally to be made in the management of the hotel, particularly in the marketing of conventions, restaurants, and bars. The management companies are typically compensated on both a percentage of gross and incentive share of cash flow in excess of debt service requirements of the owner.

However, hotel ownership without operating responsibility does appeal to a variety of institutional and individual investors. A hotel is largely a fixed-cost, variable-revenue operation so that once it reaches break-even point, additional revenues as a result of sophisticated management can produce a rapid increase in profits to the owner. Food and beverage prices and, to some degree, room prices, are tied directly to the general level of retail prices during a period of inflation. At the same time, the cost of duplicating facilities rises so quickly that in the long run, the modern high-rise motor inn in a downtown location will enjoy some monopoly characteristics because the cost of entry of a competitor is so high. New high rise construction results in an average cost per room far higher than the average cost of existing modern facilities, and in the future these new costs will receive less favorable federal income tax subsidies than before. Since Madison hotel room rates and food and beverage prices are significantly lower than patterns in major urban centers, even though construction costs are closer to those of larger cities, it is difficult to build a downtown hotel including all the required public facilities and compete with Madison's average rate per room unless the community provides a heavy subsidy. Alternatively, the supply of hotel rooms can be expanded by adding to existing facilities where the marginal revenue is sufficient to support the marginal cost. Thus, there is a significant investment demand for proven hotel facilities which have been built in the last fifteen years.

The most probable buyer for the Concourse Hotel would be an institutional investor with an established relationship to a hotel management firm or a chain of hotel operations that could provide the critical intensive management necessary to exploit the well-positioned real estate represented by the

Concourse Hotel. This group would be willing to purchase the contribution of land, building space, furnishings and the rental values of the various enterprises within the hotel on which this appraisal is based.

## III. VALUATION OF THE SUBJECT PROPERTY

A. The Valuation Method

The traditional appraisal process attempts to apply three approaches to each appraisal problem. Those three approaches are the Cost Approach, the Comparable Sales Approach, and the Income Approach. Each uses a different method to estimate value and, if sufficient reliable data is available, each should arrive at a similar conclusion.

The Cost Approach is an attempt to determine the cost to replace a property with new construction and deduct from that cost the estimated depreciation inherent in the subject, thereby arriving at its current value. This method is most applicable to new or nearly new properties, where the effect of a subjective depreciation estimate is minimized. It also does not consider the value added by an ongoing hotel operation that is already in place. For these reasons the Cost Approach is not thought to be applicable to this appraisal problem.

The following data on hotel development costs is, however, presented for comparison purposes only. It is based on a survey of 1985 hotel development costs done by Hospitality Valuation Services, Inc., a national consulting firm and indicates a range of costs per room for luxury hotels.

	Cost Per Room <u>Low</u>	Cost Per Room <u>High</u>
Land	\$11,000	\$ 26,500
Improvements	13,400	30,000
Furniture and Equipment	<u>60,000</u>	<u>115,000</u>
TOTAL COST PER ROOM	\$84,400	\$171,500
	=====	=====

The Comparable Sales Approach attempts to arrive at a value estimate for the subject by analyzing known sales of similar properties in communities of similar economic status and making adjustment for differences between those sales and the subject. It is most applicable in a situation where several properties with few dissimilarities are sold in the same market area and in a short period of time. This situation rarely exists with respect to hotel sales.

On first consideration there have been three major hotel transactions in the Madison market area that might relate to the market for the subject property. The Sheraton Hotel was purchased out of receivership in 1981 by Helmsley-Spear, a New York chain hotel management operator. The Helmsley-Spear organization had been named as manager in the receivership process, had diverted receivership funds to major alterations of the hotel, and was at time of purchase, in a favored, non-arms-length position as a result of long-term relationships with the New York savings bank which held the mortgage. The indicated price per room for the 240-room Sheraton as a going concern in which the buyer had a vested interest in the management contract was \$19,583. After investing heavily in expanded public space and interior decor, the Sheraton is now being privately offered at an asking price of 10.425 million cash based on a 10 percent capitalization rate. This suggest a price per room of \$43,438.

The second potential comparable sale was that of the 135-unit Radisson Inn Madison on Madison's far west side. A 90 percent interest was sold in 1985 at a price of approximately \$56,889 per room by the partnership represented by Mr. David Lenz of North Central Management, Inc. The price is contingent on achieving a level of net operating income equivalent to a 12.76 percent capitalization rate. The interest was sold to a Milwaukee syndicator for public resyndication prior to consideration of the proposed tax law changes.

North Central Management, Inc., retained a management contract as part of the transaction. The sale price in excess of existing debt was paid through a minimal cash down payment and deferred payments due over a period of four years. The sale price included the restaurant and bar operations and approximately 11,000 square feet of retail and office space leased at \$10.50 per square foot triple net. The sale is not considered comparable because of its low-rise, suburban design, small size, and limited meeting and banquet facilities.

The newly-remodeled 75-room Madison Inn at 601 Langdon Street was sold on June 6, 1986, at a price of \$2,100,000, including furnishings. The price per room, including the cost of restaurant space now leased to the owner of the Ginza of Tokyo restaurant, was \$28,000. First mortgage financing of \$1,500,000 was obtained from National Guardian Life at 10 percent interest fixed for 10 years with 20 year amortization and no points. Participation is 15 percent of net cash flow after debt service. A seller second mortgage of \$600,000 was obtained at 9 percent interest only, \$100,000 principal due in each of the first three years, and the balance due in 10 years. The facility caters mainly to University visitors on a low budget.

For reference purposes only, Exhibit III-1 provides price-per-room information on certain hotel/motel sales nationally for properties with 300 to 500 rooms sold after 1982. This information is provided only to illustrate the range of prices paid by buyers. Due to a lack of comparable transactions, the Comparable Sales Approach is not considered applicable in this case.

After considering and rejecting both the Cost and Comparable Sales Approaches, we are left with the Income Approach on which primary emphasis will be placed. Hotels and motels are typically purchased by buyers in anticipation of the income they are expected to produce. Determination of the price to be

## EXHIBIT III-1

## SELECTED HOTEL/MOTEL SALES INFORMATION

PROPERTY	LOCATION	SALE DATE	SALE PRICE	NO. ROOMS	PRICE/ROOM
Lancaster	New York, NY	830101	\$12,500,000	461	\$27,115
Days Inn	Kissimee, FL	830101	\$19,500,000	368	\$52,989
Hilton South	Denver, CO	830101	\$24,200,000	306	\$79,085
Sheraton Harbor Island	San Diego, CA	830201	\$19,000,000	351	\$54,131
International Inn	Washington, D.C.	830401	\$6,500,000	343	\$18,950
Mark Hopkins	San Francisco, CA	830401	\$41,000,000	370	\$110,811
Four Seasons-Clift Hotel	San Francisco, CA	830501	\$40,000,000	379	\$105,541
Vacation Village	Mission Bay, CA	830501	\$50,025,000	449	\$111,414
University Hilton	Philadelphia, PA	830701	\$14,750,000	378	\$39,021
Sir Francis Drake	San Francisco, CA	830701	\$26,000,000	415	\$62,651
Castaway Motel	Daytona Beach, FL	830801	\$7,500,000	300	\$25,000
Sheraton Hotel	Baton Rouge, LA	830801	\$12,000,000	300	\$40,000
Sheraton	San Francisco, CA	830801	\$24,000,000	306	\$78,431
Holiday Inn South Airport	Louisville, KY	830811	\$7,512,168	345	\$21,774
Stouffer National Center	Arlington, VA	830830	\$22,750,000	383	\$59,399
Holiday Inn - Fairgrounds	Louisville, KY	830901	\$8,100,000	310	\$26,129
Sheraton Hopkins	Cleveland, OH	831001	\$10,800,000	414	\$26,087
Stouffers	Wailea Beach, HI	831001	\$35,000,000	347	\$100,865
Marriott Hunt Valley	Hunt Valley, MD	831101	\$28,000,000	392	\$71,429
Sheraton	Tyson's Corner, VA	831201	\$3,264,180	500	\$6,528
Radisson Inn	Atlanta, GA	831201	\$14,050,000	440	\$31,932
Denver Hilton South	Englewood, CO	831201	\$24,200,000	306	\$79,085
Hilton Inn	Tampa, FL	831215	\$11,000,000	348	\$31,609
Holiday Inn Crowne Plaza	Seattle, WA	831228	\$32,500,000	434	\$74,885
Hilton Riviera	Palm Springs, CA	840105	\$16,000,000	500	\$32,000
La Mansion	Austin, TX	840323	\$34,272,000	350	\$97,920
Holiday Inn Downtown	Denver, CO	840710	\$16,900,000	396	\$42,677
Airport Holiday Inn	Delaware County, PA	840917	\$8,415,000	307	\$27,410
Taft Hotel	New York, NY	840926	\$31,505,280	403	\$78,177
Radisson Ferncroft	Essex County, MA	841001	\$16,000,000	300	\$53,333
Sheraton Charleston	Charleston, SC	841012	\$13,500,000	339	\$39,823
Winston-Salem Hyatt	Winston-Salem, NC	841231	\$13,050,000	305	\$42,787
Alden Hotel	New York, NY	841231	\$38,228,576	385	\$99,295
Pontchartrain Hotel	Detroit, MI	850104	\$20,000,000	408	\$49,020
Sunnyvale Hilton	Sunnyvale, CA	850228	\$36,000,000	376	\$95,745
Hyatt Arlington	Roslyn, VA	850327	\$25,950,000	301	\$86,213
Sheraton O'Hare	Rosemont, IL	850531	\$33,000,000	458	\$72,052
Holiday Airport	St. Louis, MO	850822	\$18,100,000	335	\$54,030
Guest Quarters	Houston, TX	850901	\$11,000,000	450	\$24,444
Marriott Austin	Austin, TX	850901	\$22,000,000	300	\$73,333
MEAN					\$57,578
MEDIAN					\$53,333

paid is based on an estimate of that income. The estimate of income available for debt service considers occupancy rate, average room rate, operating expenses, market strength, relative merits of the subject with respect to its competition, and all other factors that affect the profitability of the hotel. The Income Approach, therefore, appropriately views the Concourse in terms of its characteristics as an investment vehicle. The following section of this report describes the application of the Income Approach to the valuation of the Concourse Hotel.

B. The Income Approach

The Income Approach to value is an appraisal technique that is predicated upon the assumption that the present market value of the subject property is equal to the present value of cash flows which it is expected to produce. One method by which this approach is commonly applied, referred to as mortgage equity capitalization, values the property as the sum of two components: the value of the equity position and the value of the mortgage. The latter is derived from the current market norm for debt coverage ratios (DCR), annual mortgage constants for current market interest rates, and amortization schedules for conventional hotel/motel mortgage loans. The value of the equity is the capitalized value of the cash throw off (cash available after payment of operating expenses and the required debt service) based upon equity yield requirements. The justified mortgage loan and the justified equity investment are summed to arrive at the value of the hotel by the Income Approach.

C. Valuation of the Concourse Hotel

The valuation of the Concourse is the sum of the values of the annual cash flows to the equity investor, the annual cash flows to the mortgage lender, and

the net reversion on sale at the end of the projection period, all in present value terms. The projection period used is five years commencing July 1, 1986, and assumes a sale as of June 30, 1991.

There are two sources of annual cash flows to be considered: net revenues from the rooms operation of the hotel and net revenues from parking, rental of retail space, office space, restaurant, bar, and kitchen. These two revenue streams less the fixed costs of insurance, real estate taxes, and personal property taxes equal the total project income before debt service. The amount of the total project income before debt service that is available for debt service is calculated by dividing total project income before debt service by the appropriate debt cover ratio. Cash flow after debt service represents cash throw-off to the equity position.

#### 1. Occupancy

The first major step in the valuation process is to estimate the rate of occupancy that can be achieved by the Concourse for the projection period. National Feasibility Corporation reported in its convention center study that the five first-class downtown hotels had 245,934 and 227,754 occupied rooms respectively in 1985 and 1984 (an 8 percent increase from 1984 to 1985). Furthermore, their research showed that the 1985 room demand consisted of 53 percent commercial, 30 percent group, and 17 percent tourist. (See Exhibit II-7.) This information is the basis for estimating future room demand for the first-class downtown hotel market.

Exhibits III-2 and III-3 present additional historical information on occupancy and average room rate for the five-hotel group and for the Concourse separately. Exhibit III-2 contains the average room rate and occupancy for the group and the Concourse from 1980 to 1985. The NFC study was the source of the group information. Note that the average room rate for the group has

## EXHIBIT III-2

HISTORICAL AVERAGE ROOM RATE AND OCCUPANCY  
INFORMATION FOR FIVE-HOTEL GROUP AND CONCOURSE

	FIVE-HOTEL GROUP		CONCOURSE	
	AVERAGE ROOM RATE *	OCCUPANCY	AVERAGE ROOM RATE *	OCCUPANCY
1980	\$33.65	68.8%	\$39.50	66.3%
1981	\$36.78	67.8%	\$41.55	64.5%
1982	\$39.85	69.4%	\$43.55	61.5%
1983	\$42.32	67.6%	\$45.95	61.0%
1984	\$44.71	66.1%	\$43.26	57.6%
1985	\$47.45	65.8%	\$48.42	60.8%
* Compounded Annual Increase	7.1%		4.2%	

EXHIBIT III-3

CONCOURSE OCCUPANCY AND AVERAGE ROOM RATE DATA  
BY MONTH FROM DAILY REPORTS

	Year	Single	Single %	Double	Double %	Compli- mentary	Total Occ.	% Occ.	Vacant	Out of Order	Total Avail.	Room Revenue	Average Room Rate
January	1984	2,881	75%	953	25%	123	3,957	46.8%	4,506		8,463	189,937	48.00
February	1984	3,154	70%	1,321	30%	162	4,637	58.6%	3,280		7,917	222,981	48.09
March	1984	3,072	55%	2,517	45%	179	5,768	68.2%	2,695		8,463	261,470	45.33
April	1984	2,610	70%	1,114	30%	153	3,877	47.3%	4,313		8,190	185,737	47.91
May	1984	3,135	56%	2,424	44%	181	5,740	67.8%	2,723		8,463	280,520	48.87
June	1984	2,778	62%	1,722	38%	235	4,735	57.8%	3,453	2	8,190	222,743	47.04
July	1984	2,725	67%	1,352	33%	161	4,238	50.1%	4,213	12	8,463	203,088	47.92
August	1984	2,808	55%	2,330	45%	229	5,367	63.4%	3,093	3	8,463	254,951	47.50
September	1984	2,907	63%	1,729	37%	224	4,860	59.3%	3,330		8,190	242,779	49.95
October	1984	4,154	64%	2,376	36%	142	6,672	78.8%	1,791		8,463	346,938	52.00
November	1984	3,073	73%	1,120	27%	170	4,363	53.3%	3,827		8,190	213,286	48.89
December	1984	2,100	66%	1,102	34%	134	3,336	39.4%	5,127		8,463	152,949	45.85
1984 Total		35,397	64%	20,060	36%	2,093	57,550	57.6%	42,351	17	99,918	2,777,379	48.26
January	1985	3,002	79%	799	21%	172	3,973	46.9%	4,490		8,463	186,442	46.93
February	1985	3,858	72%	1,522	28%	99	5,479	71.7%	2,164	1	7,644	247,108	45.10
March	1985	2,993	56%	2,350	44%	146	5,489	64.9%	2,974		8,463	269,043	49.01
April	1985	2,789	62%	1,709	38%	119	4,617	56.4%	3,573		8,190	226,859	49.14
May	1985	3,290	62%	1,988	38%	126	5,404	63.9%	3,059		8,463	265,131	49.06
June	1985	3,562	70%	1,500	30%	116	5,178	63.2%	2,988	24	8,190	242,445	46.82
July	1985	2,317	50%	2,338	50%	121	4,776	56.4%	3,353	334	8,463	217,244	45.49
August	1985	3,570	60%	2,398	40%	116	6,084	71.9%	2,367	12	8,463	294,244	48.36
September	1985	3,501	70%	1,522	30%	125	5,148	62.9%	2,962	80	8,190	259,272	50.36
October	1985	4,100	61%	2,597	39%	62	6,759	79.9%	1,587	117	8,463	358,727	53.07
November	1985	2,808	65%	1,516	35%	66	4,390	53.6%	2,560	1,240	8,190	217,831	49.62
December	1985	1,897	60%	1,282	40%	61	3,240	38.3%	3,509	1,714	8,463	146,941	45.35
1985 Total		37,687	64%	21,521	36%	1,329	60,537	60.8%	35,586	3,522	99,645	2,931,287	48.42
January	1986	2,153	68%	1,009	32%	66	3,228	38.1%	4,694	541	8,463	164,868	51.07
February	1986	2,980	68%	1,408	32%	85	4,473	58.5%	3,127	51	7,651	234,804	52.49
March	1986	2,466	57%	1,873	43%	147	4,486	52.7%	4,021		8,507	234,367	52.24
April	1986	2,702	60%	1,786	40%	156	4,644	54.3%	3,880	36	8,560	245,850	52.94
May	1986	3,503	64%	1,993	36%	191	5,687	49.7%	5,482	281	11,450	312,033	54.87
June	1986	3,782	60%	2,499	40%	394	6,675	59.2%	4,262	343	11,280	346,949	51.98
July (thru 7/24)	1986	1,885	51%	1,789	49%	151	3,825	42.4%	5,011	188	9,024	201,377	52.65
1986 Total		19,471	61%	12,357	39%	1,190	33,018	50.8%	30,477	1,440	64,935	1,740,248	52.71

experienced a compounded rate of increase of 7.1 percent from 1980 to 1985. Exhibit III-3 summarizes occupancy and average room rate information for the Concourse from the daily report for the last day of each month from January 1984 to July 1986.

Comparison of 1986 and 1985 occupancy statistics by themselves can be misleading in the case of the Concourse. Although the Governor's Club rooms were just completed in April the expansion is having a significant effect on total room revenue already. Following is a comparison of room revenue dollars for 1986 and 1985 for May, June, and July (through July 24).

	<u>1986</u>	<u>1985</u>	<u>Percent Increase</u>
May	\$312,033	\$265,131	17.7
June	346,949	242,445	43.1
July (through July 24)	<u>201,377</u>	<u>172,565</u>	16.7
TOTAL	\$860,359	\$680,141	26.5
	=====	=====	

Exhibit III-4 estimates the percent occupancy for the five competing hotels as a group and for the Concourse separately for the next five years. This is accomplished by separately estimating the growth in demand for each of the three market segments and then separately estimating the Concourse's share of each market. The following discussion explains the assumptions used.

The NFC study previously estimated the room demand from group activities on a calendar year basis, assuming no convention center. By using half-year segments, we calculated the group demand for each year of the projection from the NFC data. We previously noted that, because of its superior size and facilities, the Concourse in 1985 captured about 39 percent of the group business for the five hotels, though it contained only 28.2 percent of available rooms. The expansion now gives the Concourse 32.9 percent of the

EXHIBIT III-4

ESTIMATED SHARES OF MARKET SEGMENTS AND OVERALL OCCUPANCY

	1986-87	1987-88	1988-89	1989-90	1990-91
<b>Group Segment</b>					
Total Room Demand for Five Competing Hotels	76715	78730	80805	82945	85015
Concourse Share of Total	39.0%	39.0%	39.0%	39.0%	39.0%
Concourse Share in Room-Nights	29919	30705	31514	32349	33156
<b>Commercial Segment</b>					
Total Room Demand for Five Competing Hotels	138166	143692	149440	155418	161634
Concourse Share of Total	30.0%	32.0%	32.9%	32.9%	32.9%
Concourse Share in Room-Nights	41450	45982	49166	51132	53178
<b>Tourist Segment</b>					
Total Room Demand for Five Competing Hotels	44318	46090	47934	49851	51845
Concourse Share of Total	12.0%	15.0%	18.0%	18.0%	18.0%
Concourse Share in Room-Nights	5318	6914	8628	8973	9332
<b>Totals for Five Competing Hotels</b>					
Total Occupied Room-Nights	259198	268513	278179	288214	298495
Potential Room-Nights	417560	417560	417560	417560	417560
Occupancy Percent	62.1%	64.3%	66.6%	69.0%	71.5%
<b>Totals for Concourse</b>					
Total Occupied Room-Nights	76687	83600	89308	92454	95666
Potential Room-Nights	137240	137240	137240	137240	137240
Occupancy Percent	55.9%	60.9%	65.1%	67.4%	69.7%
Annual Rate of Increase in Commercial Segment from 1985 Base=					4.0%
Annual Rate of Increase in Tourist Segment from 1985 Base=					4.0%

available 1,144 first-class rooms. Exhibit III-4 assumes that the Concourse will continue to serve 39 percent of the group business in its market.

Because a large portion of the hotel was frequently devoted to group business, the Concourse has not always captured its proportional share of the commercial segment. For example, in 1985 the Concourse captured about 22 percent of the commercial segment with 28.2 percent of available rooms. A prime reason for the renovation and expansion was to allow the Concourse to capture its fair share of the commercial market without losing group business. The Governor's Club rooms should allow the Concourse to do this by offering a package of facilities and amenities at a price that is low in comparison to many other hotel markets. Exhibit III-4 assumes that the Concourse will be able to capture its fair share (32.9 percent) of the downtown commercial market by the third year of the projection period.

The Concourse has also lagged behind in capturing the tourist market, with only 9 percent captured in 1985. Concourse management has indicated plans for marketing and promotional aids to increase the market share. Due to price, we do not feel that a 32.9 percent share is achievable. We have assumed in Exhibit III-4, however, that the Concourse will eventually double its share of the tourist market to 18 percent.

After review of available historical information, estimation of future demand growth by market segments, consideration of the effects of the Governor's Club addition on the hotel market, and discussions with Concourse management, the appraiser's estimate of occupancy for the Concourse for the projection period is shown in Exhibit III-5. Estimates are shown separately for the Governor's Club and the remainder of the rooms in addition to the overall occupancy. Because of the uncertainty, we assume only normal growth of the market segments and the addition of no new facilities in the near term.

EXHIBIT III-5  
PROJECTED CONCOURSE OCCUPANCY

	1986-87	1987-88	1988-89	1989-90	1990-91
Governor's Club (103 rooms)	51.7%	63.0%	65.0%	67.0%	67.0%
Balance of Hotel (273 rooms)	58.0%	50.0%	62.0%	64.0%	66.0%
Weighted Average (376 rooms)	56.3%	60.8%	62.8%	64.8%	66.3%

Any positive effect from a convention center would result in additional room demand.

## 2. Average Room Rate

The average room rate is the total dollars of room sales divided by the number of occupied room nights. Like occupancy, it is a critical assumption in projecting future operations. Because of the distinct differences between the Governor's Club and the balance of the hotel, the appraiser has chosen to calculate separate average room rates and combine them using the occupancy factor for each portion.

The Concourse's average room rate is presented on a monthly basis from January 1984 to July 1986 in Exhibit III-3. Although the average room rate was flat from 1984 to 1985, 1986 has already shown a significant upward trend, reflecting the effects of rack rate increases and the higher Governor's Club rates. The average rate for 1986 through July 24, 1986, was \$52.71, an 8.9 percent increase over 1985.

Because the Governor's Club began to generate revenue in April, the period from January through March is more useful in predicting the average room rate likely for the 273 regular rooms. This period produced \$634,039 in room revenue from 12,187 occupied room-nights for an average room rate of \$52.03. Because a routine rack rate increase of \$2.00 is planned for January 1, 1987, and about 75 percent of this increase can be expected to flow through to the average room rate, the appraiser has assumed an average room rate for the year beginning July 1, 1986 at \$52.75, increasing 5 percent annually thereafter.

Because the Governor's Club concept is new to the Concourse, the appraiser has the benefit of limited past operations in predicting the average room rate. Exhibit III-6 summarizes that information. Management has indicated that the various scheduled discounts that apply to the regular rooms, such as

## EXHIBIT III-6

## GOVERNOR'S CLUB OCCUPANCY AND AVERAGE ROOM RATE DATA BY WEEK

		Single	Single %	Double	Double %	Compli- mentary	Total Occ.	% Occ.	Vacant	Total Avail.	Room Revenue	Average Room Rate
Week Ended	5-3-86	129	59%	90	41%	26	245	34.0%	476	721	17,668	72.11
Week Ended	5-10-86	113	93%	9	7%	14	136	18.9%	585	721	8,302	61.04
Week Ended	5-17-86	301	80%	77	20%	14	392	54.4%	329	721	25,995	66.31
Week Ended	5-24-86	73	71%	30	29%	36	139	19.3%	582	721	8,698	62.58
Week Ended	5-31-86	53	80%	13	20%	12	78	10.8%	643	721	5,905	75.71
Week Ended	6-7-86	152	89%	18	11%	27	197	27.3%	524	721	14,281	72.49
Week Ended	6-14-86	211	88%	29	12%	24	264	36.6%	457	721	18,861	71.44
Week Ended	6-21-86	83	80%	21	20%	12	116	16.1%	605	721	8,867	76.44
Week Ended	6-28-86	96	92%	8	8%	14	118	16.4%	603	721	8,013	67.91
Week Ended	7-5-86	37	32%	78	68%	14	129	17.9%	592	721	10,200	79.07
Week Ended	7-12-86	59	55%	48	45%	19	126	17.5%	595	721	9,917	78.71
		1,307	76%	421	24%	212	1,940	24.5%	5,991	7,931	136,707	70.47
		=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

the convention, corporate, government, and University of Wisconsin rates do not apply to the Governor's Club. However, weekend discounts and occasional upgrading of guests to Governor's Club status without charge will still hold the average room rate somewhat below the rack rate.

Significant assumptions to be made are the extent of this discount, the percent of Governor's Club occupancy from single and double occupancy, and the additional cost of providing Governor's Club amenities. The average discount from rack rate on regular rooms typically approaches 20 percent. Considering that a much larger proportion of Governor's Club rooms will be rented at rack rate than regular rooms, the appraiser has assumed a 6 percent discount.

Past experience of the Concourse on single and double occupancy has consistently been about 64 percent single and 36 percent double. The limited operating history of the Governor's Club averaged 24 percent double occupancy. The appraiser believes that the Governor's Club, because of its orientation toward high-end business travelers, will attract more single occupancy guests. We have assumed 20 percent double occupancy. As to the additional cost of Governor's Club services and amenities, management has estimated the cost at \$12.50 per occupied room-night. The appraiser has reduced room revenue by this amount in arriving at an average room rate for the Governor's Club attributable to room rental.

These assumptions generate an average room rate for the Governor's Club for the initial projection year of \$70.22. As with the regular rooms, we assume a 5 percent annual increase in the average room rate.

For comparison purposes, the eleven-week operating history summarized in Exhibit III-6 shows an average room rate of \$70.47 before deduction of the additional costs, or about \$58.00. Although this is significantly lower than our estimate of \$70.22, the difference appears explainable. First,

approximately 11 percent of the rooms occupied were complimentary in order to familiarize people with the Governor's Club. The normal for the Concourse has been about 3 percent. Second, also to promote the concept, many guests were upgraded to the Governor's Club at no additional charge. Both these factors reduced the average room rate in the early weeks of operation. Elimination of these factors should significantly increase the average room rate in the future. Therefore, we believe our estimate of \$70.22 is reasonable.

Based on the assumptions contained in the previous discussion regarding average room rates and the projected occupancy factors contained in Exhibit III-5, Exhibit III-7 shows the estimated average room rate for each year for the Governor's Club, the balance of the hotel, and the entire hotel in total.

### 3. Financing

Three assumptions with respect to financing affect the amount of financing available to the subject property. They are the debt cover ratio required by lenders, the interest rate, and the amortization term. Several sources were consulted by the appraiser prior to making these assumptions. Information published by the American Council of Life Insurance and by Pannell Kerr Forster, Certified Public Accountants was reviewed. The latest published information pertained to the fourth quarter of 1985. Persons involved in the lending, appraisal, and mortgage banking fields were also consulted for more up-to-date information. A discussion of the appraiser's conclusions follows.

Depending on individual circumstances, the range of debt cover ratios encountered for hotel loans was from 1.25 to 1.50. Although the Concourse has a proven operating history, the Governor's Club concept is new to Madison and creates some uncertainty. Therefore, the appraisers have chosen a debt cover ratio in the high end of the range at 1.50 to reflect the need to firmly establish the market for the Governor's Club.

EXHIBIT III-7

PROJECTED AVERAGE ROOM RATE

	1986-87	1987-88	1988-89	1989-90	1990-91
Governor's Club *					
(103 rooms)	\$70.22	\$73.73	\$77.42	\$81.29	\$85.35
Balance of Hotel *					
(273 rooms)	\$52.75	\$55.39	\$58.16	\$61.06	\$64.12
Weighted Average Based on Occupancy					
(376 rooms)	\$57.14	\$60.59	\$63.62	\$66.79	\$70.00

\* Assumes a 5% annual increase after the 1986-87 base year.

Interest rates have dropped significantly since late 1985. The appraiser's analysis and discussions indicate a potential range of 9 to 9.625 percent for four recent hotel loans by a major life insurance company on similar-sized hotels. (See Exhibit III-8.) Because of the recent slight upturn in rates the appraiser believes that a 10 percent rate should reasonably be available to the Concourse in the current market, fixed for five to ten years. With respect to amortization period and considering the recent major renovation, the appraiser believes that amortization on a 30-year schedule is reasonable for a high quality, recently renovated property such as the Concourse.

#### 4. Valuation Procedure

Exhibit III-9 is the schedule of projected income and expenses for a five year projection period. It incorporates the assumptions discussed previously regarding occupancy, average room rate, and financing. Additional assumptions are contained in the notes to Exhibit III-9. Exhibit III-10 summarizes the rental income under current leases for retail and office space. Exhibits III-11 and III-12 summarize potential rental income from the bar and restaurant space under the assumption that these spaces are leased to outside operators and the rental income represents income to real estate.

The justified mortgage loan is calculated based on application of the assumptions discussed previously to the Project Income Before Debt Service in the second year of Exhibit III-9. The justified equity contribution is calculated by summing the present value of the net reversion to equity on sale and the cumulative present value of the cash flow to the equity position. The net reversion to equity before taxes is calculated in Exhibit III-13. Project value is the sum of the justified mortgage loan and the justified equity contribution as calculated in Exhibit III-14.

## EXHIBIT III-8

## RECENT HOTEL LOANS

	Loan No. 1 *	Loan No. 2 *	Loan No. 3 *	Loan No. 4 *	Loan No. 5 **	Loan No. 6 **
Number of Rooms	500+	500+	164	255	135	75
Date	May, 1986	June, 1986	August, 1986	August, 1986	July, 1986	June, 1986
Interest Rate	9.25% Fixed for 8 years	9.00%	9.625%	9.125% Fixed for 5 years	10.5% Fixed	10% Fixed for 10 years plus 15% of net cash flow
Amortization	3 years interest only, then 30 yr. amortization	4 years interest only	5 years interest only	3 years interest only	30 years, 10 year balloon	20 years
Debt Cover Ratio	1.36	1.38	1.35	1.49	Over 1.50	Unknown
Loan to Value Ratio	75%	68%	74%	67%	68%	71%
Standby Fees	4%	4%	4%	4%	None	None

\* Source: Data on loans from a major life insurance company supplied by L.W. Ellwood & Co.

\*\* Loans on smaller Madison properties from small life insurance companies.

EXHIBIT III-9

SCHEDULE OF PROJECTED INCOME AND EXPENSES--  
ROOM AND RELATED OPERATIONS FOR A PERIOD OF  
FIVE YEARS, BEGINNING JULY 1, 1986

Period	1986-87	1987-88	1988-89	1989-90	1990-91
<b>Room Revenue</b>					
Available Rooms	376	376	376	376	376
Available Room Nights	137,240	137,240	137,240	137,240	137,240
Occupancy Percent (Exhibit III-5)	56.3%	60.8%	62.8%	64.8%	66.3%
Average Room Rate (Exhibit III-7)	57.14	60.59	63.62	66.79	70.00
Hotel Room Revenue	4,412,598	5,057,760	5,484,759	5,941,814	6,366,685
Public Rooms Revenue (Note 1)	22,063	25,289	27,424	29,709	31,833
<b>Total Room Revenue</b>	<b>4,434,661</b>	<b>5,083,049</b>	<b>5,512,183</b>	<b>5,971,523</b>	<b>6,398,519</b>
<b>Costs and Expenses</b>					
Direct Room Costs (Note 2)	% 26.0%	25.0%	24.0%	24.0%	24.0%
	\$ 1,147,275	1,264,440	1,316,342	1,426,035	1,528,004
Administrative and General (Note 3)	% 6.0%	6.0%	5.5%	5.5%	5.5%
	\$ 264,756	303,466	301,662	326,800	350,168
Advertising and Promotion (Note 4)	% 6.0%	5.5%	5.0%	5.0%	5.0%
	\$ 264,756	278,177	274,238	297,091	318,334
Heat, Light, and Water (Note 5)	450,000	475,000	500,000	525,000	550,000
Repairs and Maint- enance (Note 6)	233,750	246,500	255,000	272,000	293,250
Replacement Reserve (Note 7)	% 2.5%	2.5%	2.5%	2.5%	2.5%
	\$ 110,867	127,076	137,805	149,288	159,963
<b>Total Costs and Expenses</b>	<b>2,471,404</b>	<b>2,694,659</b>	<b>2,785,047</b>	<b>2,996,214</b>	<b>3,199,719</b>
Room Revenue Less Costs and Expenses	1,963,257	2,388,390	2,727,137	2,975,309	3,198,799
<b>Other Income</b>					
Net Telephone Income (Note 8)	% -0.5%	-0.5%	-0.5%	-0.5%	-0.5%
	\$ (22,063)	(25,289)	(27,424)	(29,709)	(31,833)
Miscellaneous Income (Note 9)	% 0.5%	0.5%	0.5%	0.5%	0.5%
	\$ 22,063	25,289	27,424	29,709	31,833
<b>Total Operating Income</b>	<b>1,963,257</b>	<b>2,388,390</b>	<b>2,727,137</b>	<b>2,975,309</b>	<b>3,198,799</b>

Landmark Research, Inc.

EXHIBIT III-9 (Continued)

Total Operating Income	1,963,257	2,388,390	2,727,137	2,975,309	3,198,799
Less: Hotel Management Fee (Note 10)	% 4.0%	4.0%	4.0%	4.0%	4.0%
	\$ 177,386	203,322	220,487	238,861	255,941
Operating Income Before Property Taxes, Insurance, and Debt Service	1,785,871	2,185,068	2,506,649	2,736,448	2,942,859
Parking Income-Net of Costs (Note 11)	% 1.0%	1.0%	1.0%	1.0%	1.0%
	\$ 44,347	50,830	55,122	59,715	63,985
Rental Income-Retail and Office (Note 12)	45,713	47,999	50,399	52,919	55,564
Rental Income-Bar and Restaurant (Note 13)	413,080	429,603	446,787	464,658	483,245
Total Parking and Rental Income	503,140	528,432	552,307	577,292	602,795
Real Estate Management Fee of 6% of Rental Income (Note 10)	27,528	28,656	29,831	31,055	32,329
Net Parking and Rental Income	475,612	499,776	522,476	546,237	570,466
Project Income Before Property Taxes, Insurance, and Debt Service	2,261,483	2,684,844	3,029,125	3,282,685	3,513,325
Insurance (Note 14)	35,000	37,100	39,326	41,686	44,187
Real Estate Taxes (Note 15)	350,000	371,000	393,260	416,856	441,867
Personal Property Taxes (Note 16)	35,000	37,100	39,326	41,686	44,187
Project Income Before Debt Service	1,841,483	2,239,644	2,557,213	2,782,459	2,983,084
Debt Service at 1.5 DCR	1,493,096	1,493,096	1,493,096	1,493,096	1,493,096
Cash Flow After Debt Service	348,387	746,548	1,064,117	1,289,362	1,489,988
Present Value at 16% (Note 17)	300,333	554,807	681,735	712,103	709,403
Cumulative Present Value	300,333	855,140	1,536,875	2,248,978	2,958,381

EXHIBIT III-9 (Continued)

Notes to Schedule of Projected Income and Expenses

1. Public Rooms Revenue

Due to significant discounting on package deals, revenue from rental of public rooms has averaged 0.5 to 0.75 percent of Hotel Room Revenue in past years and is expected to remain in that range.

2. Direct Room Costs

Based on past operating experience of the Concourse and Pannell Kerr Forster's Trends in the Hotel Industry--USA Edition 1985, it is expected that initially direct room costs will be approximately 26 percent of Hotel Room Revenue, decreasing slightly to 24 percent as occupancy increases.

3. Administrative and General

Efficiencies generated by the addition of 103 higher-priced rooms to the Concourse should enable management to hold administrative and general expenses to 6 percent of Hotel Room Revenue initially, decreasing slightly as occupancy increases.

4. Advertising and Promotion

Advertising and promotion costs are expected to approximate 6 percent of Hotel Room Revenue initially, decreasing to 5 percent of Hotel Room Revenue, considering past operating experience.

5. Heat, Light, and Water

Utility costs were estimated by Concourse management and vary from 8.8 to 9.8 percent of Hotel Room Revenue. This is in line with Pannell Kerr Forster's Trends in the Hotel Industry--USA Edition 1985 and lower than past operating experience, reflecting economies of renovation and expansion. This category includes all utility costs on the retail and office rental space and the restaurant and bar space.

6. Repairs and Maintenance

Repairs and maintenance costs were estimated by Concourse management. Their estimate has been reduced by 15 percent in order to exclude repairs and maintenance applicable to the restaurant and bar space.

7. Replacement Reserve

Replacement of capital items such as furniture, fixtures, and equipment is an ongoing process with a hotel operation having a substantial investment in personal property. In recognition of this, a reserve of 2.5 percent of Total Room Revenue has been established to fund replacements.

EXHIBIT III-9 (Continued)

8. Net Telephone Income

Pannell Kerr Forster data shows a slight net loss from telephone operations and Concourse experience after installation of the new telephone system in November, 1985 bears this out. The annual net loss has been estimated at 0.5 percent of Hotel Room Revenue.

9. Miscellaneous Income

This consists of laundry, soda, machine income, and various other income sources. It is estimated based on past experience at 0.5 percent of Hotel Room Revenue.

10. Hotel Management Fee

Although hotel management fees vary widely within the industry, it is estimated at a minimum of 4 percent of Total Room Revenue. Management fees of 6 percent of real estate rentals are also deducted in arriving at Net Parking and Rental Income.

11. Parking Income--Net of Costs

Parking is provided free to hotel guests in the 267-space underground ramp. Management is in the process of phasing out monthly-fee parking leaving hourly parking as the only revenue source. It is estimated to net after expenses 1 percent of Total Room Revenue or about \$122 per day.

12. Rental Income--Retail and Office

The Concourse currently rents to outside parties 2,399 square feet of office space, 1,051 square feet of retail space, and various display windows and antenna installations. Current agreements call for total annual rent of \$45,713. It is assumed that rents from these spaces will increase at 5 percent annually. Exhibit III-10 contains a listing of these leases and current rentals. They are assumed to approximate market rental rates.

13. Rental Income--Bar and Restaurant

Exhibit III-12 summarizes estimated rental income from bar and restaurant space. The rents include all interior finishes, leasehold improvements, equipment, furnishings, utilities, and property taxes. They are estimated to increase 4 percent annually after the first year.

14. Insurance

Taking into account past experience, Pannell Kerr Forster data, and the recently completed expansion, insurance cost is estimated at \$35,000 initially increasing 6 percent per year, or about 0.7 percent of Hotel Room Revenue.

EXHIBIT III-9 (Continued)

15. Real Estate Taxes

Based on 1985 actual real property taxes and the 1986 assessed value, real estate taxes for the first projected year are estimated at \$350,000, increasing 6 percent annually thereafter. It is anticipated that property taxes will increase more rapidly than inflation due to reduced federal and state funding of local governments.

16. Personal Property Taxes

Taking into account prior experience and recent additions, this is estimated at \$35,000 initially, increasing at 6 percent annually thereafter. It is anticipated that property taxes will increase more rapidly than inflation due to reduced federal and state funding of local governments.

17. Equity Discount Rate

This represents the compounded rate of return expected on equity dollars invested, before tax considerations.

## EXHIBIT III-10

## RENTAL INCOME--RETAIL AND OFFICE

Tenant	Square Feet	Current Monthly Rent	Annual Rent/SF
Mike Lotto (lobbyist)	399	\$380.60	\$11.45
Mary's Gift Shop	753	\$366.94	\$5.85
Georgio's Hair Styling	298	\$263.85	\$10.62
Robert Schroeder		\$180.31	
WI Electric Power Company		\$550.00	
WI Independent Businessmen's Association	2000	\$1,617.72	\$9.71
<hr/>			
Display Windows:			
Astor's Card Shop		\$50.00	
Basketree Gifts		\$45.00	
The Puzzlebox		\$50.00	
Wisconsin House of Cheese		\$37.50	
Moseley's		\$37.50	
<hr/>			
Antenna Sites:			
Curtin Call Communications		\$60.00	
General Communications		\$120.00	
McKee Associates		\$50.00	
<hr/>			
	Total Monthly	\$3,809.42	
	Total Annual	\$45,713.04	

## EXHIBIT III-11

## COMPARABLE RESTAURANT RENTS

Name/Address	Date	Area	Base rent Per SF	Terms	Source
Barbero's Seafood Grotto Highpoint Center 7475 Mineral Point Rd.	7/1/85	4,400	\$13.00	Triple net with 5% annual step, landlord provided all leasehold improvements, furnishings, equipment; landlord feels he rented too low and rent should have been at least \$15.00/SF	George Gialamas
TCI Friday's 420 Gammon Place	6/81	8,500 on a 43,000 SF lot	\$12.94	Triple net with 4% annual step, tenant provided all leasehold improvements, furnishings, equipment; % clause hasn't kicked in yet	Parkwood Group
Bonanza Restaurant			\$10.00	Triple net for shell only, tenant supplied all including air conditioning	Parkwood Group
Casa de Lara 341 State St.	1983	3,000	\$10.00	Triple net indexed to CPI, tenant provided leasehold improvements, furnishings, equipment	Brad Binkowski
Pizzaria Uno 222 W. Gorham	1985	5,400	\$14.00	Triple net, overage clause, tenant provided leasehold improvements, furnishings, equipment	Brad Binkowski
Le Bistro Cafe 5618 Odana Rd.	1984	5,000	\$15.00	Triple net, finish included ceiling and lights, HVAC, concrete floor, balance provided by tenant, no escalator but a participation clause	Livesey Company
Ruby Chinese-American Restaurant South Towne Mall	1982	6,000	\$10.00	Triple net, finish included ceiling and lights, HVAC, concrete floor, balance provided by tenant, no escalator but a participation clause	Livesey Company

## EXHIBIT III-12

## BAR AND RESTAURANT RENTAL REVENUE

	Square Feet	Shell Rent /SF	Utilities and Taxes /SF	Landlord Costs [3]	Cost to Amortize [4]	Gross Rent /SF	Annual Increase	1986-87	1987-88	1988-89	1989-90	1990-91
Low Score [1]	3,735	0.00	0.00	0.00	0.00	0.00	4%	0	0	0	0	0
Picadilly Pub	2,600	10.00	3.00	25.00	4.42	17.42	4%	45,304	47,116	49,001	50,961	52,999
First On Dayton	6,250	10.00	3.00	40.00	7.08	20.08	4%	125,496	130,516	135,737	141,166	146,813
Greenhouse Restaurant	3,550	10.00	3.00	25.00	4.42	17.42	4%	61,857	64,332	66,905	69,581	72,364
Main Floor Kitchen	4,620	10.00	3.00	30.00	5.31	18.31	4%	84,590	87,974	91,493	95,152	98,958
Second Floor Kitchen	2,950	10.00	3.00	30.00	5.31	18.31	4%	54,013	56,174	58,421	60,757	63,188
Former Drive-up Area [2]	2,400	10.00	3.00	25.00	4.42	17.42	4%	41,819	43,492	45,231	47,041	48,922
								413,080	429,603	446,787	464,658	483,245

[1] Several bar operations have been unsuccessful in this space and its future potential is unclear. We have assumed no current rental value.

[2] This area is currently being used as workshop space. When no longer needed for this purpose, it will be renovated for use as additional bar or rental space.

[3] Landlord furnishes all leasehold improvements, furnishings, and necessary equipment. Recent Madison restaurant leases are detailed in Exhibit III-11.

[4] Assuming 12% rate and 10 year amortization.

EXHIBIT III-13

NET REVERSION TO EQUITY ON SALE BEFORE TAXES

Estimated 1991-92 Project Income Before Debt Service (4% increase from 1990-91)	\$3,102,408
Net Income Multiplier (14.08% Capitalization Rate)	7.1
Indicated June 30, 1991, Resale Price	\$22,027,094
Less: Mortgage Balance	\$13,692,592
Net Reversion to Equity on Sale Before Taxes	\$8,334,502

EXHIBIT III-14

SUMMARY OF JUSTIFIED PROJECT VALUE

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Present Value at 16% of Net Reversion to Equity on Sale Before Taxes	\$3,968,165
Cumulative Present Value of Cash Flow to Equity After Debt Service (Exhibit III-9)	\$2,958,381
Justified Equity Contribution	\$6,926,546
Justified Mortgage Loan	\$14,178,295
Justified Project Value	\$21,104,841

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Because of the start-up nature of the Governor's Club operation and the time required to negotiate and close on a mortgage loan, the appraiser feels that it is reasonable to base the calculation of justified debt on the second year (July 1, 1987, to June 30, 1988) of the projection period. The justified mortgage loan is therefore calculated as follows:

$$\begin{aligned}
 \text{Debt Service} &= \frac{\text{Project Income}}{\text{Before Debt Service}} = \frac{\$2,239,644}{1.5} = \$1,493,096 \\
 \text{Justified} \\
 \text{Mortgage Loan} &= \frac{\text{Debt Service}}{\text{Debt Constant}} = \frac{\$1,493,096}{0.10530862} = \$14,178,295
 \end{aligned}$$

The estimated market value based on the information and assumptions presented in this report can be summarized as follows:

Justified Mortgage Loan	\$14,178,295
Justified Equity Contribution	<u>6,926,546</u>
Justified Project Value	\$21,104,841
	=====

The following key assumptions and ratios are presented here for comparison with hotel loans summarized in Pannell Kerr Forster's (PKF) "Hospitality Investment Survey" for the Fourth Quarter, 1985, North Central Region.

	Concourse	PKF
Price Per Room	\$56,117	N/A
Debt Cover Ratio	1.50 *	1.23
Loan-to-Value Ratio	67%	75%
Fixed Interest Rate	10%	11.03%
Amortization Period	30 years	28.7 years
Balloon Period	5 years	9.3 years
Overall Capitalization Rate	10.6% *	11.3%
Holding Period	5 years	10 years
Terminal Capitalization Rate	14.08%	11.4%
Before Tax Internal Rate of Return	16%	13.2%

\* Based on the year from July 1, 1987, to June 30, 1988.

Based on this analysis, the estimated market value of the real estate and tangible property interests described in the existing 376-room Concourse Hotel as of July 1, 1986, (subject to completion of the improvements discussed in this report), assuming financing is available at 10 percent interest fixed for a minimum of five years and with 30 year amortization is:

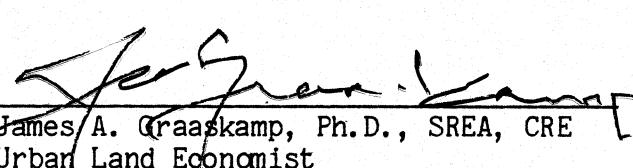
TWENTY ONE MILLION ONE HUNDRED THOUSAND DOLLARS  
(\$21,100,000)

CERTIFICATION OF APPRAISAL

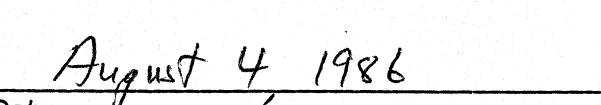
We hereby certify that we have no interest, present or contemplated, in the property and that neither the employment to make the appraisal nor the compensation is contingent on the value of the property. We certify that we have personally inspected the property and that according to our knowledge and belief, all statements and information in the report are true and correct, subject to the underlying assumptions and limiting conditions. Based on the information and subject to the limiting conditions contained in this report, it is our opinion that the market value, as defined herein, of the existing Concourse Hotel financed with a third party non-participation, 10 percent, 30-year loan with a debt cover ratio of 1.50 in the second fiscal year, as of July 1, 1986, is:

TWENTY ONE MILLION ONE HUNDRED THOUSAND DOLLARS

(\$21,100,000)

  
James A. Graaskamp, Ph.D., SREA, CRE  
Urban Land Economist

  
Paul J. Gleason  
Real Estate Appraiser/Analyst

  
August 4, 1986  
Date

QUALIFICATIONS OF THE APPRAISERS

JAMES A. GRAASKAMP

PROFESSIONAL DESIGNATIONS

SREA, Senior Real Estate Analyst, Society of Real Estate Appraisers

CRE, Counselor of Real Estate, American Society of Real Estate Counselors

CPCU, Certified Property Casualty Underwriter, College of Property Underwriters

EDUCATION

Ph.D., Urban Land Economics and Risk Management - University of Wisconsin  
Master of Business Administration Security Analysis - Marquette University  
Bachelor of Arts - Rollins College

ACADEMIC AND PROFESSIONAL HONORS

Chairman, Department of Real Estate and Urban Land Economics,  
School of Business, University of Wisconsin

Urban Land Institute Research Fellow  
University of Wisconsin Fellow

Omicron Delta Kappa

Lambda Alpha - Ely Chapter

Beta Gamma Sigma

William Kiekhofer Teaching Award (1966)

Urban Land Institute Trustee

PROFESSIONAL EXPERIENCE

Dr. Graaskamp is the President and founder of Landmark Research, Inc., which was established in 1968. He is also co-founder of a general contracting firm, a land development company, and a farm investment corporation. He is formerly a member of the Board of Directors and treasurer of the Wisconsin Housing Finance Agency. He is currently a member of the Board and Executive Committee of First Asset Realty Advisors, a subsidiary of First Bank Minneapolis. He is the co-designer and instructor of the EDUCARE teaching program for computer applications in the real estate industry. His work includes substantial and varied consulting and valuation assignments to include investment counseling to insurance companies and banks, court testimony as expert witness and the market/financial analysis of various projects, both nationally and locally, and for private and corporate investors and municipalities.

**PAUL J. GLEASON**

**EDUCATION**

**Master of Science - Real Estate appraisal and Investment Analysis, University of Wisconsin**

**Bachelor of Business Administration - Comprehensive Public Accounting, University of Wisconsin - Eau Claire**

**PROFESSIONAL MEMBERSHIPS**

**Urban Land Institute**

**American and Wisconsin Institutes of Certified Public Accountants**

**PROFESSIONAL EXPERIENCE**

Prior to association with Landmark Research, Inc., Mr. Gleason had approximately four years experience in analysis, development, and syndication of income properties and extensive experience in the practice of public accounting.

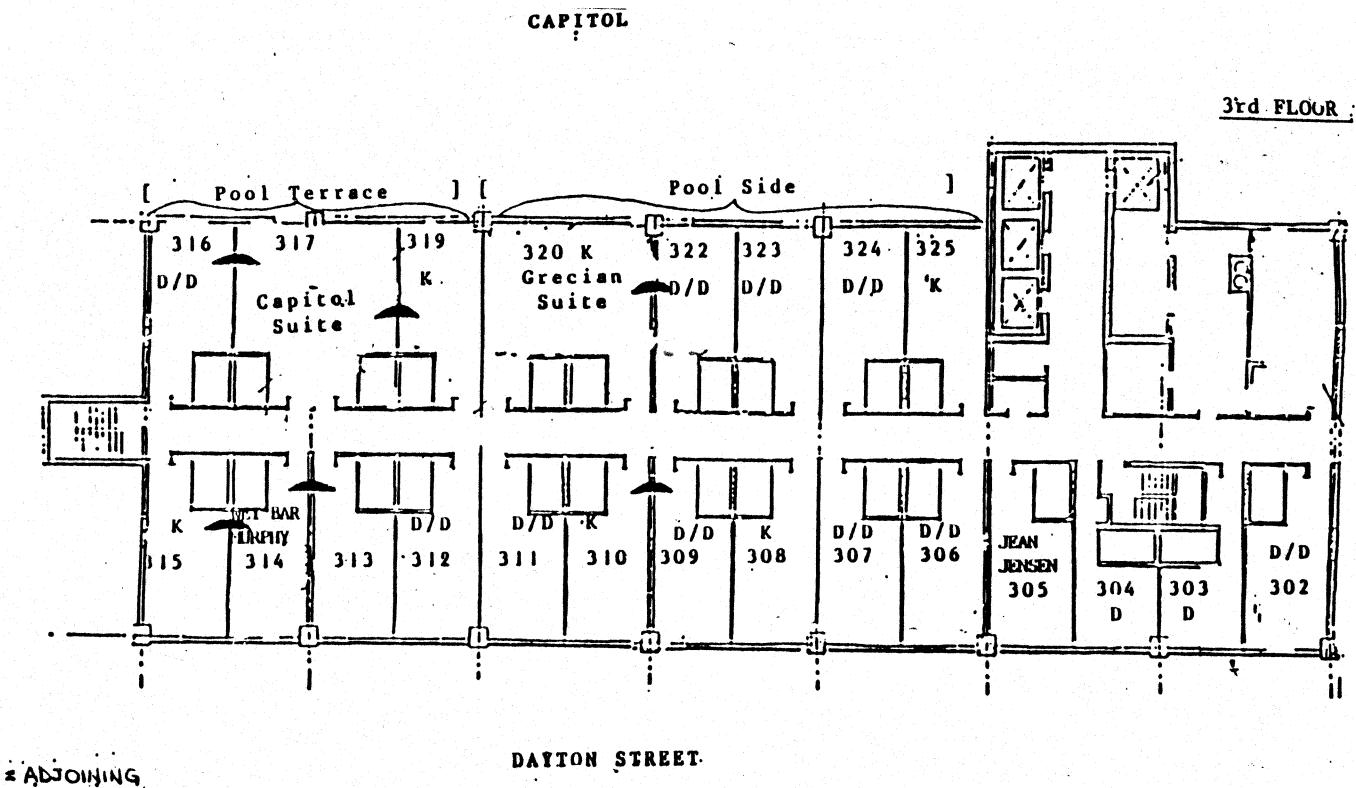
APPENDIX A

LEGAL DESCRIPTION

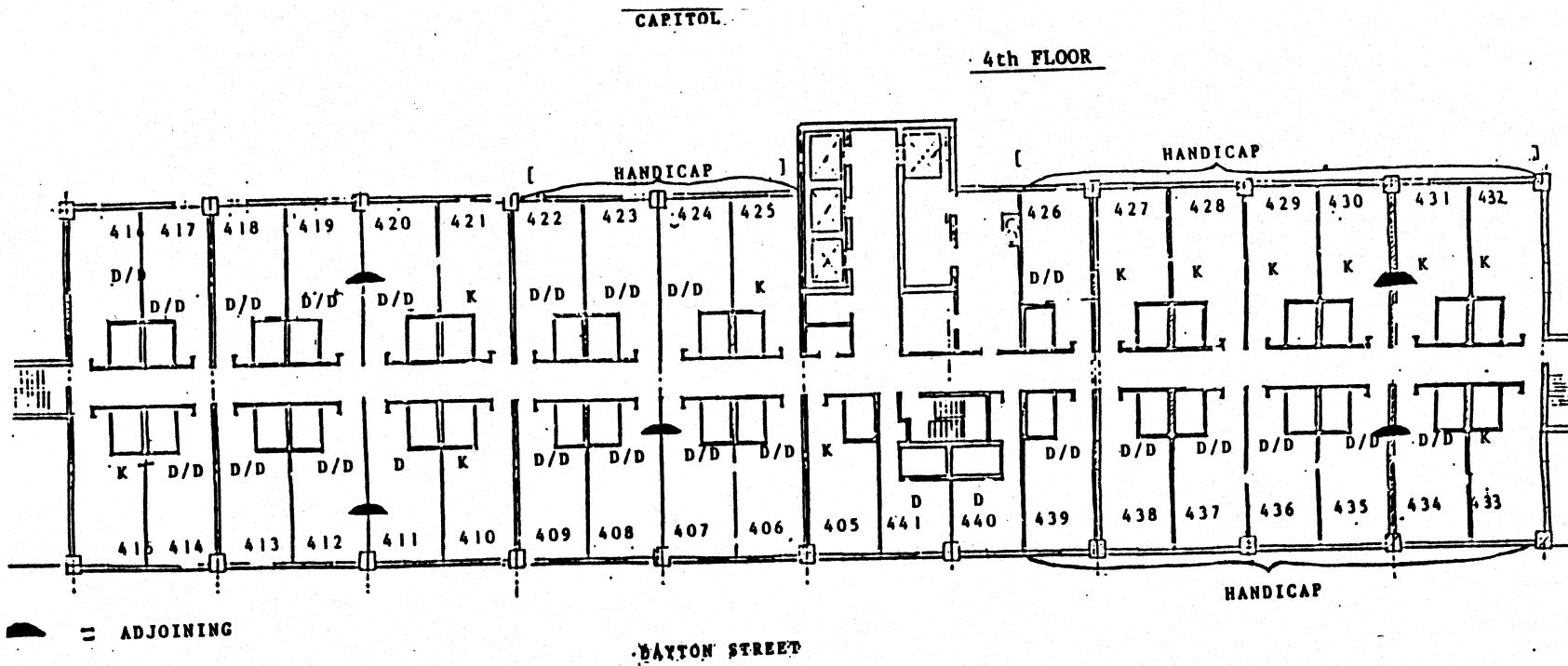
Lots 1, 2, and 4, the northwest 128 feet of Lot 3, and the northwest 62 feet of Lot 5, original plat of the City of Madison.

**APPENDIX B**  
**FLOOR PLANS**

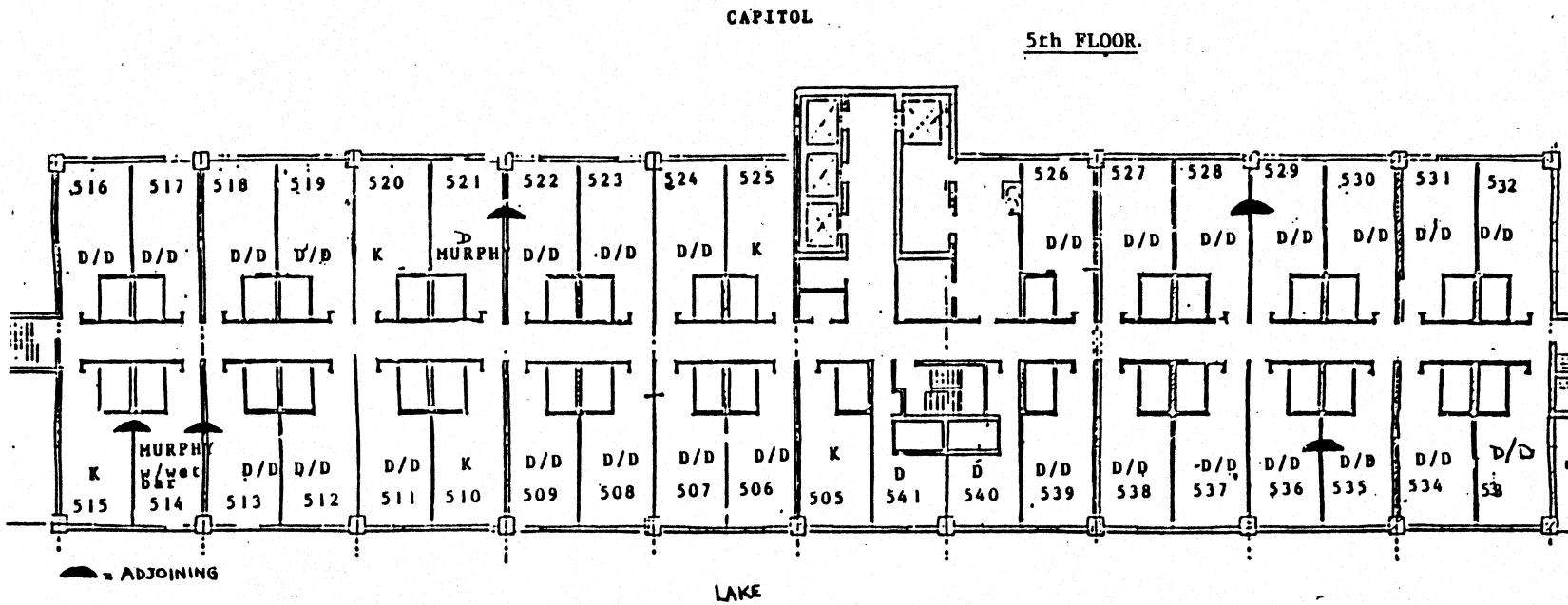
APPENDIX B (Continued)



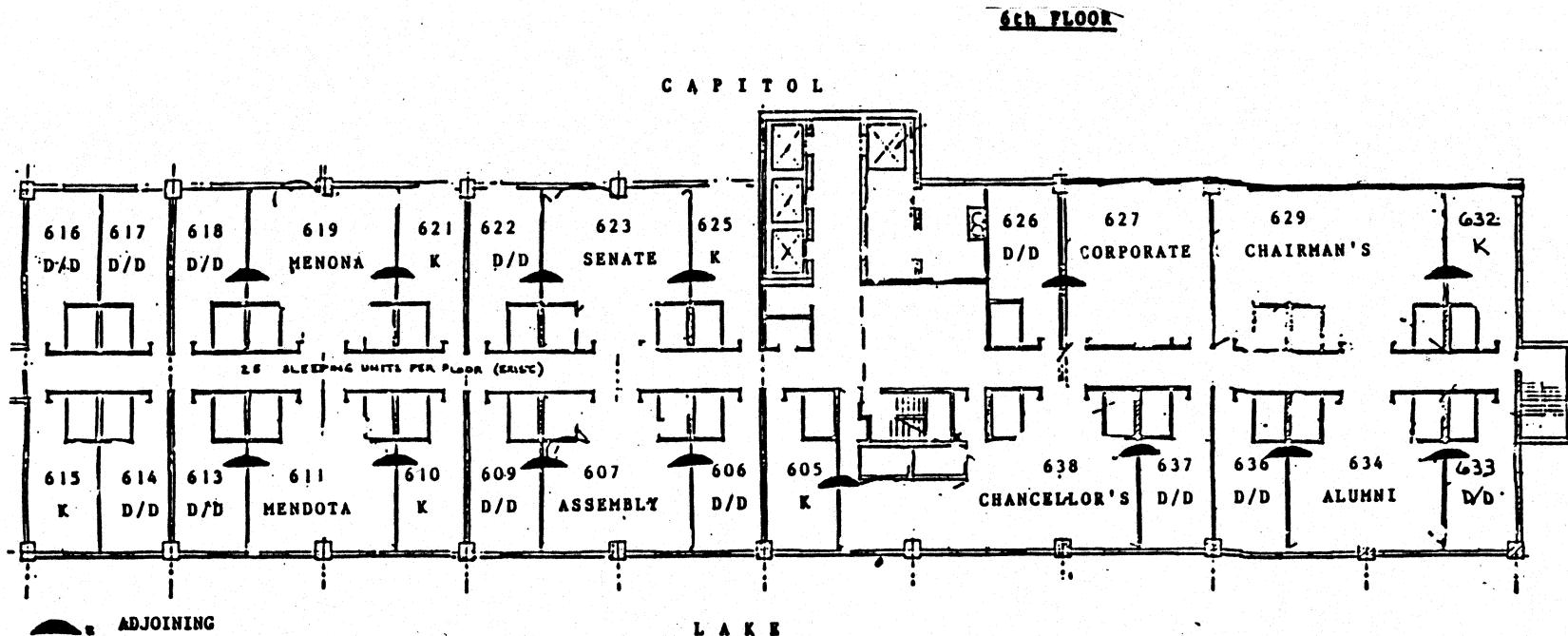
APPENDIX B (Continued)



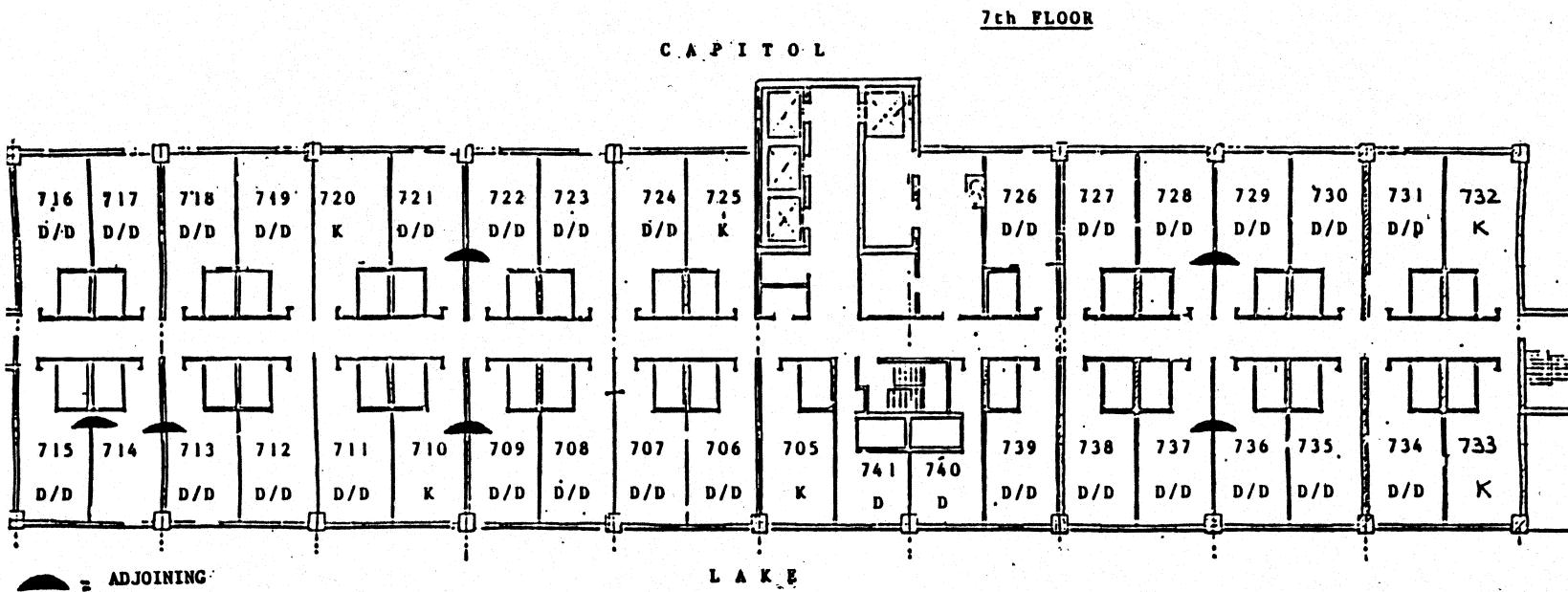
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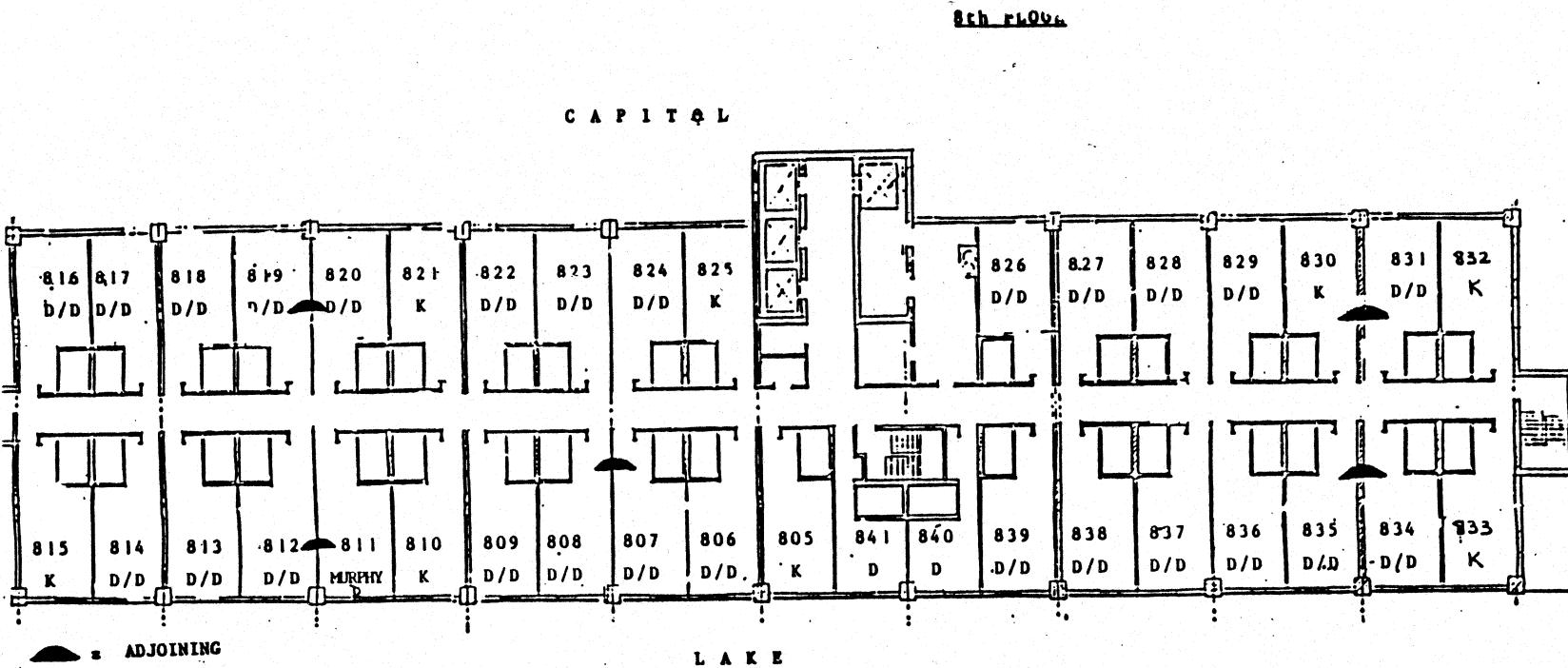
APPENDIX B (Continued)



APPENDIX B (Continued)

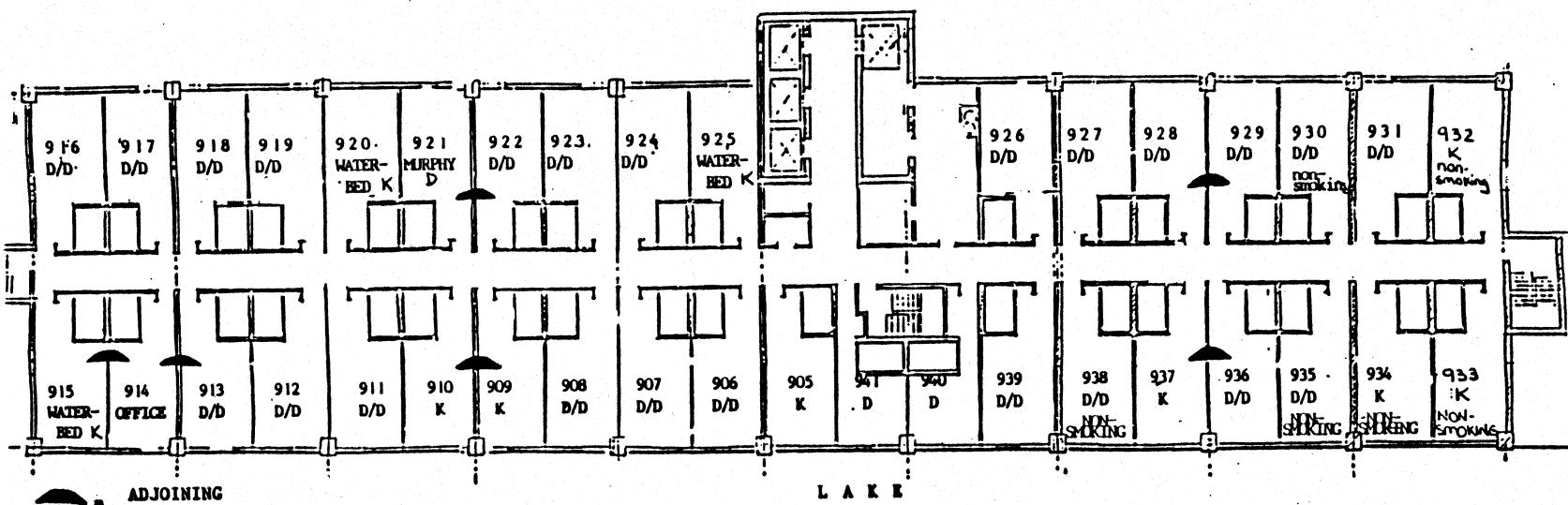


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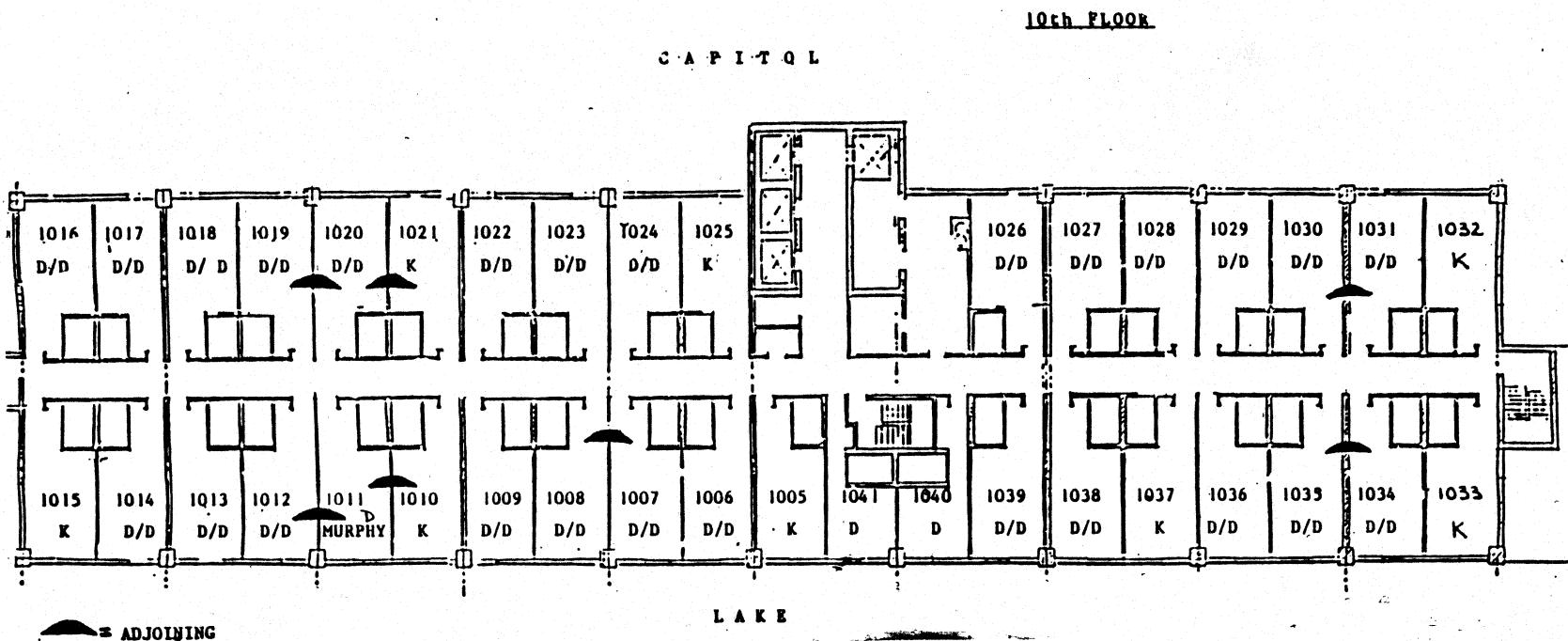
9th FLOOR

## C A P I T O L

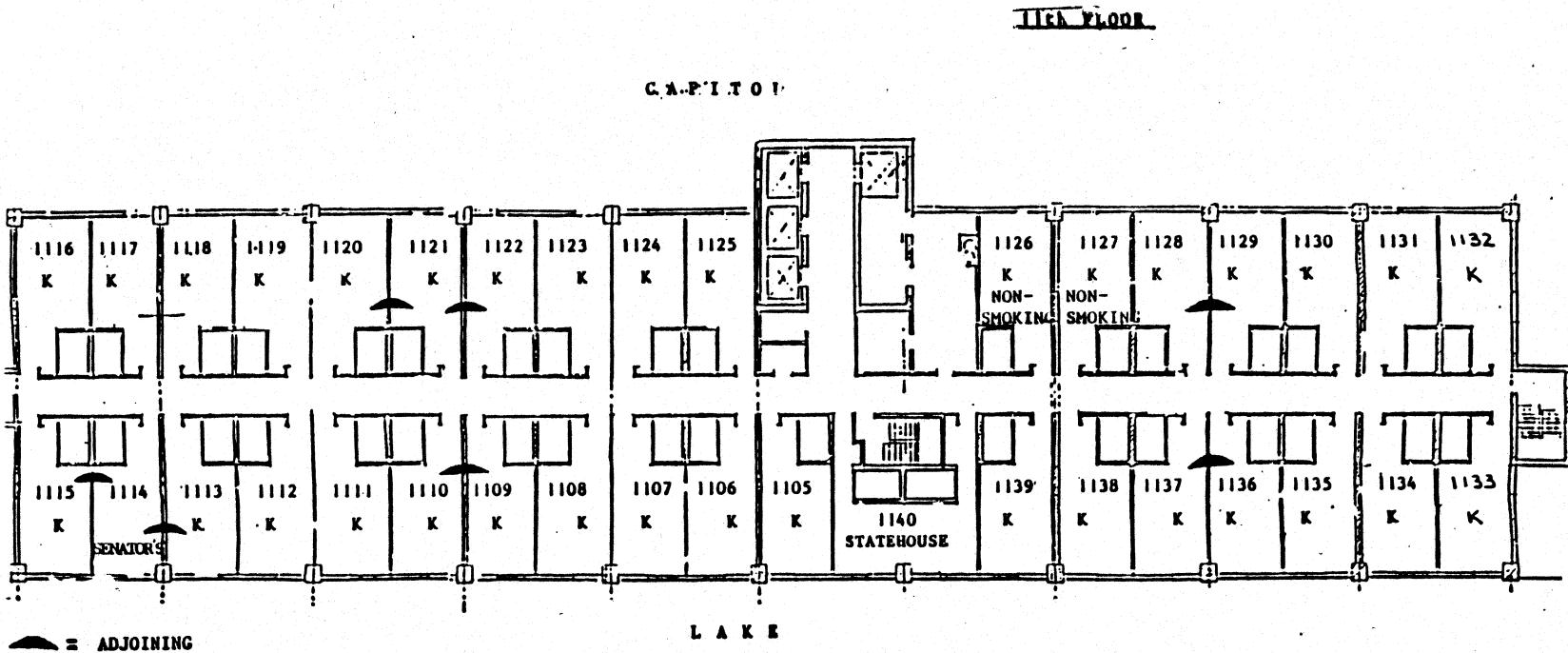


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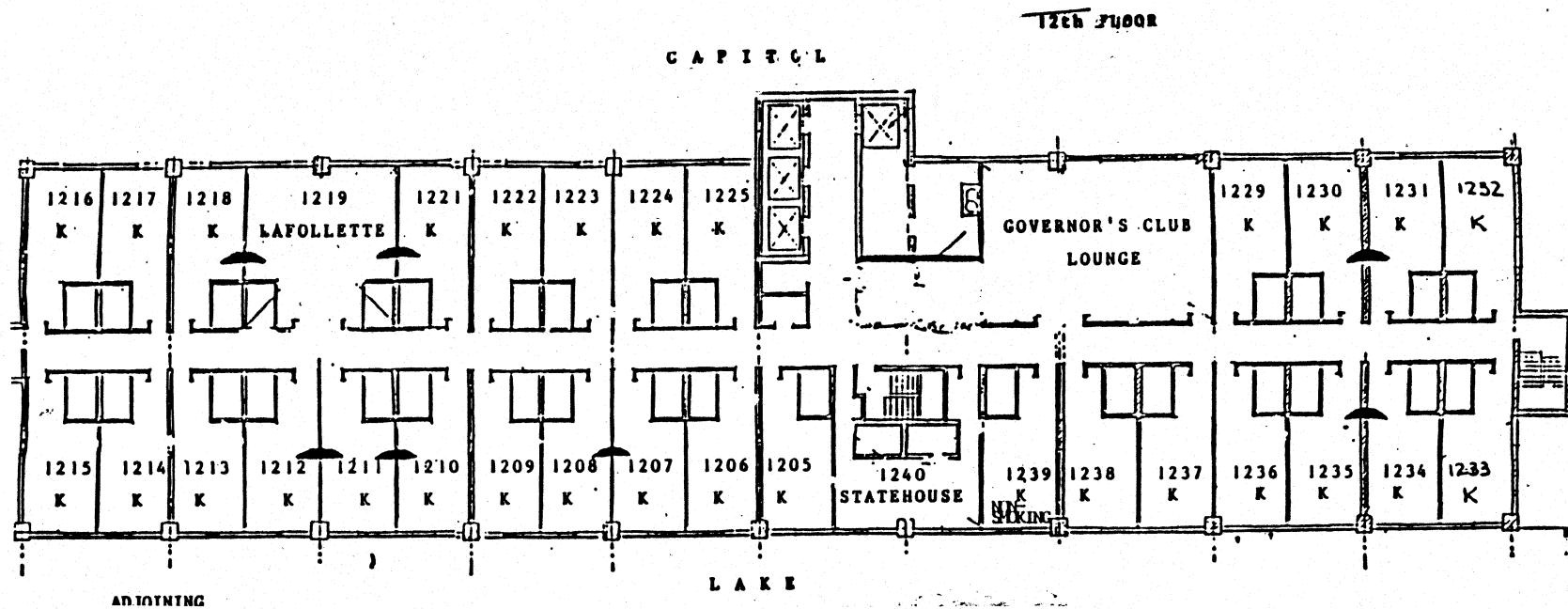
APPENDIX B (Continued)



APPENDIX B (Continued)



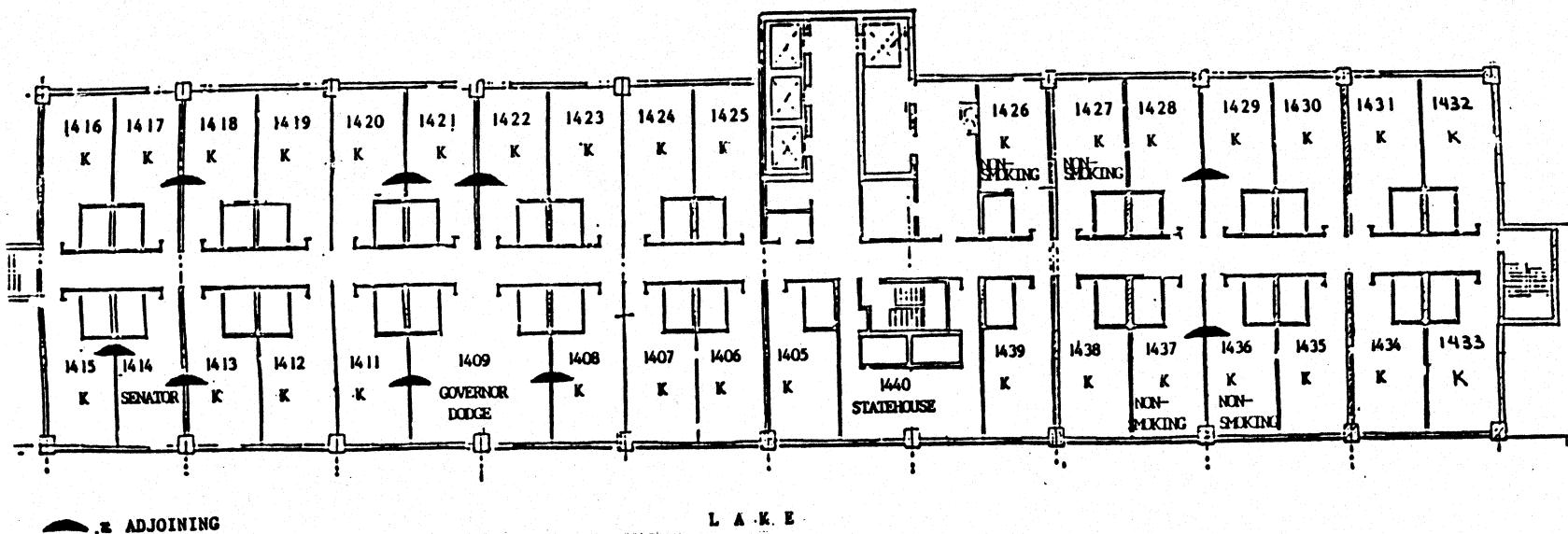
APPENDIX B (Continued)



APPENDIX B (Continued)

14th FLOOR

C A P I T O L



APPENDIX C  
PLANNED IMPROVEMENTS

## APPENDIX C (Continued)

CONCOURSE, HOTEL Estimated Cost Breakdown - Additional Remodeling 6/13/86				
	Estimated Cost	Concourse Already Paid	Work Completed but Not Paid	Estimated Balance to Complete
Demolition	\$ 18 000	\$ 15 682	\$ -0-	\$ 2 318
Ramp - Concrete	79 200	1 274	2 717	75 209
Ramp - Labor & Material	487 000	123 503	16 712	346 785
Ramp - Demolition	114 000	-0-	-0-	114 000
Flaming & Decking	23 500	-0-	2 022	21 478
Carpentry Labor (Rough)	100 000	42 827	21 079	36 094
Carpentry Labor (Finish)	35 000	2 504	1 927	30 569
Cabinets & Millwork	15 000	3 233	4 092	7 675
Doors & Frames ETC.	20 000	-0-	-0-	20 000
Windows & Mirrors	50 000	26 559	16 615	6 826
Hardware	15 000	68	7 553	7 379
Drywall	25 000	3 247	3 102	18 651
Ceilings	25 000	2 542	7 087	15 371
Carpeting	120 000	24 052	9 060	86 888
Painting & Wallcovering	80 000	10 939	5 990	63 071
Marble & Ceramics	65 000	35 417	6 448	23 135
Brassworks	50 000	4 570	11 863	33 567
Hot Tub, Spa & Excer Equip.	63 000	19 373	3 338	40 289
Signage	5 000	-0-	-0-	5 000
Audio Visual	50 900	-0-	-0-	50 900
Furniture	65 000	31 689	3 647	29 664
Upholstery, Awnings ETC	25 000	6 877	7 818	10 305
Plumbing	50 000	21 672	6 367	21 961
Fire Protection	24 000	-0-	-0-	24 000
HVAC	20 400	5 040	3 687	11 673
Electrical	60 000	15 260	7 287	37 453
Permits & Fees	20 000	2 218	-0-	17 782
Supervision	20 000	-0-	-0-	20 000
Overhead and Profit	200 000	-0-	-0-	200 000
	\$1 925 000	\$398 546	\$148 411	\$1 378 043
Architectural & Engineering	75 000	58 942	2 968	13 090
	\$2 000 000	\$457 488	\$151 379	\$1 391 133

