

**Proposal for a Proposed Cobblestone Hotel
To be located in
Richland Center, Wisconsin**

July 13, 2023

Prepared for:

**Ms. Candace Fagerlind and
City of Richland Center, Wisconsin**

Patek Hospitality Consultants, Inc.

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City of Richland Center
Ms. Candace Fagerlind
City of Richland Center Municipal Building
450 South Main Street
Richland Center, Wisconsin 53581

Dear Ms. Fagerlind and the City of Richland Center:

We are pleased to submit this proposal to conduct a study of potential market demand and prepare a statement of estimated annual operating results for a proposed Cobblestone Hotel to be located in Richland Center, Wisconsin. In addition, we will prepare a Breakeven Analysis and an Economic Financial Analysis for the proposed hotel, two analyses that Cobblestone Hotels requires as part of the feasibility study. We understand you have had discussions with Cobblestone Hotels and will keep this brand in mind as we conduct our research.

To assist you in evaluating the potential demand for the project and to provide critical planning parameters for you and other interested parties, we have provided the following proposal. This document would identify potential market demand for the subject hotel including a discussion on the market and potential site, recommendations on the type of property best suited for the market, a supply and demand analysis, a five-year estimate of occupancy and average daily rate, and a statement of estimated annual operating results that could be used to obtain financing, a franchise or management agreement. In addition, we would provide you with a breakeven analysis, and an analysis of the economic feasibility of the project. We intend to conduct a study as detailed below.

APPROACH TO THE STUDY

The study would be concerned with the determination of current and potential future demand for hotel accommodations in the market area; assessment of existing and potential future competitive supply; and the share of the market that could reasonably be attained by the proposed hotel. We would visit Richland Center and meet with you, city officials and other interested parties to gather information about the community and the potential need for a hotel. We would tour the community and conduct our research and analysis. Our approach to such a study would be as follows:

Site Analysis: We understand you have identified a block in downtown Richland Center as a potential site. The following attributes of this site will be evaluated: access, visibility, surrounding area, present use, relationship to demand generators, relationship to area amenities, and advantages/disadvantages of the site. As we tour Richland Center, we will discuss with you if there are additional sites/areas of the community that could be considered and provide a recommendation on the most appropriate site for hotel development.

Area Review: Based on economic data gathered during the fieldwork, it will be determined whether the market area appears to be economically viable to support hotel development. Economic data is also assembled using local, city, and county websites, state agency websites, U.S. Census Bureau, U.S. Bureau of Labor Statistics, and other sources deemed relevant.

Primary Research: Primary research would consist of interviews with key demand generators and those persons knowledgeable with the local economic development situation and local hotel market. These interviews could be done in person or by telephone and include, but not be limited to city officials in economic development and planning, Chamber of Commerce, Convention & Visitors Bureau or comparable tourism organization, competitive hotels including an inspection of the hotel properties, and potential demand generators.

During our fieldwork, we will discuss with you and local officials the potential demand generators (corporate, leisure, and group) that are in Richland Center and Richland County. We would need to call on these demand generators and would ask for assistance in this process. We have found that we have more success when we receive contact names and phone numbers from local officials and in many cases, an introduction will be made that our company would be calling on them. We usually ask to speak with the person within the organization that is making hotel reservations. The survey that we would conduct would be to garner information on that company's needs for hotel rooms, rates they are willing to pay, and the type of amenities and facilities they would like to see developed. This task is something that we will discuss further during our fieldwork. The information obtained through this telephone survey would be summarized and presented in our report.

Competitive Market - The present supply of hotel rooms in the market area, the potential additions to supply and the markets served or to be served by those properties will be reviewed. An inspection of the competitive hotels will be conducted during our fieldwork. A competitive property profile and projections of growth in supply will be prepared. Through interviews, file data, and a STR* report, an estimate of market occupancy and average daily rate (ADR) will be provided.

Demand - We will determine the major segments of demand and discuss the growth in demand for each of those segments, based on historical data. Based on our research, we will estimate demand for hotel rooms over a five- to seven-year period.

Recommended Facilities: Recommendations for appropriate facilities will be provided for the proposed hotel, based on our market findings which will best meet demonstrated market

demand. These facilities could include: type of hotel (i.e. limited-service, extended-stay, all-suite), number and type of guest rooms, meeting rooms, and other amenities and facilities deemed appropriate such as food and beverage outlets and recreational features. These recommendations could assist an architect and planner with the basis for a design program for the subject hotel and will provide the basis for our estimate of occupancy and average daily rate.

We understand you have had discussions with Cobblestone Hotels, and we will keep this brand in mind as we conduct our fieldwork and research. Should we determine there could be other hotel brand options that would be appropriate for the Richland Center market, we will discuss this with you and provide that information in a separate letter. This letter would provide you with contact information for franchise representatives of these hotel companies; we would be happy to provide an introduction to these individuals and assist in whatever way we can to facilitate a discussion. If it is determined during our fieldwork that more than one hotel company would be appropriate and potentially interested in the market, the report will address the development as a proposed "limited-service" hotel, otherwise if a Cobblestone Hotel is the recommendation, the report will be addressed as a Cobblestone Hotel. This determination will be made during our research and the report will be referenced accordingly.

Market Position of the Subject Property (Occupancy and Average Daily Rate): After completing the estimate of the future supply and demand for rooms in the market area, we will estimate the share of the market that the subject property should reasonably be expected to capture, by market segment, for the first five years of operation. Occupancy and average daily rate for the subject hotel for each of those five years will be estimated. This is intended to be representative of potential results that may be achieved assuming efficient and competent management and an effective marketing program. Our analysis will include an evaluation of the future market position of the subject hotel versus the existing competition.

Statement of Estimated Annual Operating Results: Using the market research as a basis, we would prepare a statement of estimated annual operating results that would include occupancy, average daily rate, sales and operating expenses for each of the first five years of operation. This statement would include all revenues and expenses and result in a "bottom line" of Income Before Rent, Depreciation, Interest and Taxes on Income. Since the estimated operating results would be based on estimates and assumptions that are subject to uncertainty and variation, we would not represent them as results that will actually be achieved. The report that includes the statement of estimated annual operating results could be used in obtaining mortgage financing, or in negotiating a lease, franchise or management agreement.

Breakeven Analysis: Included in this financial assessment, we will provide you with a break-even analysis to determine the margin of safety for the proposed hotel based on the revenues collected and the associated fixed costs.

Economic Feasibility Analysis: A development budget will be provided based on the number of rooms and facilities recommended (provided by Cobblestone Hotels) and assumptions will

be made regarding debt and equity for the project to determine the economic feasibility of the hotel development and the return on investment.

REPORT

The information will be presented in a report for your internal use and guidance to determine whether to proceed with development of this hotel. The report will also be appropriate to share with hotel companies, developers, management companies, and lenders/investors. The report will include a discussion of the market area, the site, the competitive hotel market, recommendations on the type of property best suited for the market, estimates of occupancy and average daily rate for the first five years of operation, a statement of estimated annual operating results, a breakeven analysis, and an economic feasibility analysis.

Two copies of the report will be delivered to you at the completion of the assignment as well as an electronic version of the report. The following section headings will appear in the final report.

- Executive Summary
- Project Concept and Recommendations
- Site Location Analysis
- Market Area Overview
- Hotel Supply and Demand Analysis
- Market Position and Penetration of the Proposed Hotel
- Statement of Estimated Annual Operating Results/Breakeven Analysis
- Economic Financial Feasibility

ASSUMPTIONS AND LIMITATIONS OF THE STUDY

The report will be subject to the following limitations.

1. The conclusions reached are based upon our present knowledge of the lodging market in the competitive area as of the completion of fieldwork.
2. As in all studies of this type, the estimated operating results are based upon competent and efficient management and assume no significant change in the competitive position of the lodging industry in the immediate area from that set forth in the study.
3. Estimated operating results are also based on an evaluation of the present general economy of the area and do not take into account, or make provision for the effect of any sharp rise or decline in local or general economic conditions which may occur.
4. The estimates of operating results, to the best of our knowledge and belief, reflect our best judgment, based on present circumstances of the expected conditions and the expected course of action for the operation of the hotel. There will usually be differences

between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

5. We do not warrant that our estimates will be attained; they will be developed based upon information obtained during the course of our market research and are intended to reflect the expectations of a typical hotel developer/investor as of the report date.
6. It is understood that the report will be prepared primarily for your internal use and guidance as well as that of developers, hotel companies, and lenders/investors. The report and material submitted may not be used in any prospectus or printed material used in connection with the sale of real estate, securities or participation interests to the public or through advertising, public relations, news, sales, or other media without our prior written consent.
7. The scope of the study would not include the possible impact of zoning or environmental regulations, licensing requirements or other such matters unless they have been brought to our attention and are disclosed in the report.
8. We have no obligation to update the findings regarding changes in market conditions that occur subsequent to the completion of fieldwork.
9. Any drafts or preliminary information communicated to you during the course of the assignment are for internal management use only, and may not be disclosed to any outside third parties without our prior written consent.
10. The Client (City of Richland Center and Ms. Candace Fagerlind) has disclosed to Patek Hospitality Consultants, Inc. (PHC) all relevant information, conditions, data, and other information that Client deems relevant to PHC's production of the Report. Unless specifically brought to the attention of PHC, PHC will assume that there are no hidden or unexpected conditions or information that would adversely or otherwise affect the study and analysis leading to the Report. PHC expresses no opinion and gives no advice concerning matters that require legal or specialized expertise, investigation or knowledge such as, without limitation, engineering, tax, accounting, zoning, signage, hazardous substance/waste, wetlands, franchise or other technical or developmental matters. Market studies involve the interpretation of evolving events and the research and review of highly confidential information, the accuracy of which cannot be assured. The risk of unknown or unanticipated events or conditions is an additional variable for which there is no remedy. Client understands these limitations and interprets all research, analysis, and projections accordingly.
11. Our liability with respect to this report is limited to the total fees as set forth herein. Our responsibility is limited to the Client and use of this report by third parties shall be solely at the risk of the Client and/or third parties.

12. Payment of our fees and expenses billed to conduct this assignment are payable within 30 days. Fees and expenses are due and payable regardless of whether or not conclusions reached by PHC coincide with Client's expectations. Fees and expenses are in no way related to conclusions reached or projections provided by PHC.

FEES AND STUDY TIMETABLE

At the beginning of this study, we will plan to meet with you to discuss your plans for the proposed hotel and how to proceed with the project. We will keep you informed of the progress of our work by telephone. If at any time during the course of the study, we form an initial opinion that there is insufficient demand for the project, all work will be stopped at that point and the findings will be discussed with you. If you would like the assignment to be terminated at that time, you will be billed only for the time actually incurred to date at a fee not to exceed \$5,000.

Our fee for this project will be \$10,000 inclusive of out-of-pocket expenses such as travel, hotel, meals, telephone, postage, and report production.

A Smith Travel Research (STR*) historical trend report is an outside resource that we usually commission to supplement our research and analysis regarding occupancy and average daily rate trends for hotels in a market area. The cost of this report is \$660, which will be billed to you in our final invoice; the cost of the STR report is not included in the all-inclusive fee stated above. It will be determined during fieldwork whether a STR report could be ordered for the competitive market, and this will be discussed with you prior to commissioning the STR report.

*STR is a research company based in Hendersonville, Tennessee that began collecting data in the 1980s and today 68,000 hotels with 9.1 million rooms globally submit monthly data to the STR program. STR reports are specific to a market, and we would include those hotels, which would be determined by the demand interviews, of where demand from Richland Center is currently staying. The report would provide historical performance for a competitive set including occupancy, average daily rate, supply and demand changes, revenue, and weekday versus weekend demand. We believe this would be beneficial for this hotel project in order to have a better understanding of the historical competitive market performance and to prepare estimates of future performance for the proposed hotel. The report presents the information as an aggregate and does not provide individual property data.

Our fees include meetings with city officials that are conducted during our fieldwork. Our fees do not include attending additional meetings requested such as city council, economic development, or similar such meetings to discuss/present our findings and recommendations. Should you require our attendance at such meetings, you would be billed for our time and travel at our regular per diem rate of \$150 per hour.

A retainer of \$5,000 is requested at the start of the assignment. The remaining fees and expenses will be billed at the completion of the assignment and will be payable within 30 days. A draft of the report will be sent to you for your review. If you do not respond to the draft report within 30 days, we may be required to update our findings at an additional fee.

Based on our present scheduling, we could begin the assignment in early September pending receipt of your signed proposal and requested retainer. We anticipate discussing our preliminary findings within two to three weeks from the start of the assignment with a draft report to follow within two to three weeks from our preliminary results, barring unforeseen circumstances. Upon receiving your approval of the draft report, an additional week would be required for printing the final report.

ACCEPTANCE

If this proposal, valid until, September 30, 2023, is correct in stating the type of work you are requesting and if the arrangements are satisfactory, please sign a copy of this proposal and return it to us, together with the retainer, as our authorization to schedule the assignment. If you have any questions, please call us at (262) 538-0445. We appreciate the opportunity to submit this proposal and look forward to working with you.

Sincerely,

Patek Hospitality Consultants, Inc.

Patek Hospitality Consultants, Inc.

ACCEPTED:

BY: _____

DATE: _____