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File: East Riverfront District Hotel Analysis
Wausau EPA Area-wide Planning
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Reference: East Riverfront District Hotel Analysis

INTRODUCTION

In January 2014, Stantec completed a market analysis for the East Riverfront District that focused on a number of potential uses, including multifamily housing (both owned and rented), retail, and offices. This memo expands upon the January 2014 analysis to include an assessment of the market potential for a hotel use in the East Riverfront District.

The following sections present data and critical findings related to the East Riverfront District's location, the overall condition of the hotel market, and the potential of the District to capture future hotel demand.

SITE ANALYSIS

Traffic Volumes

Hotel developers pay close attention to traffic counts because high levels of traffic can drive significant "walk-in" and leisure traveler business. The most recent traffic volume data from the Wisconsin DOT shows about 6,300 vehicles per day along 1st Street, which would provide the most direct access to the East Riverfront District. These traffic levels are far too low to capture any significant amount of business from "walk-ins" and leisure travelers, particularly since most travelers along 1st Street are local residents and downtown workers who do not have a need for lodging. Without a substantial increase in traffic to or through the East Riverfront District, hotel developers would likely consider other characteristics of the site as key drivers of hotel demand.

A feasibility study was conducted to determine the potential of extending 1st Street, which currently terminates just north of McIndoe Street, through the District to be linked up with East Wausau Avenue north of Bridge Street, which would increase access to the District from the north. However, the feasibility study did not include a traffic analysis of 1st Street given this extension. Therefore, it is difficult to determine how much impact such an extension would have on traffic volumes along 1st Street. Given the roadway constraints outlined in the feasibility study, it is assumed the traffic volumes would not increase to the point of altering developer perception.

Neighborhood Orientation

Currently, the East Riverfront District is mostly vacant and does not have a strong neighborhood orientation. Redevelopment of the District, however, presents a significant opportunity to introduce new uses into the area that would complement a hotel. In particular, the potential for new office space, restaurants, and retail uses would be strongly compatible with a hotel and even provide a source of market demand. Furthermore, given the District's proximity to Downtown, a hotel use

Reference: East Riverfront District Hotel Analysis

would likely be able to attract guests who want to be in or near the Downtown. This would be especially true if connections are improved between the core of Downtown and the East Riverfront District.

Proximity to Lodging Demand Drivers

The primary demand drivers for a hotel located in the East Riverfront District would be employers located in the Downtown, events in or near the Downtown that draw non-local attendees, and the shopping and restaurants located in and around Jefferson Street. Other important demand drivers for lodging, such as area medical centers and the Patriot Center, the region's largest convention and event center, are located closer to the highway network and existing hotels. Therefore, the impact of these drivers would only occur when other competitive properties are filled.

It should be noted that in many downtown markets, the key hotel demand driver is the presence of a convention center. Therefore, because the Patriot Center is already located close to a highway, well south of the downtown, it is unlikely that it would generate a significant amount of demand for a downtown hotel. However, if this situation were to change and a downtown convention center were to be built, they often can support significant hotel facilities because of their consistency and volume of demand.

Visibility and Access

The East Riverfront District is adjacent to downtown Wausau. Although regional access is good because the District is centrally located within Wausau and the surrounding region, there is no access to any of the highways serving the region. Therefore, demand from certain segments of the hotel market, particularly "walk-in" and leisure travelers, will be limited. Furthermore, local access, which currently is constrained by the lack of a direct connection to Bridge Street north of the District, will further limit certain market segments as the hotel could be difficult to find by out-of-town travelers not familiar with Wausau.

In terms of visibility, the East Riverfront District is both excellent and poor, depending on the vantage point. Due to its location along the Wisconsin River, those crossing either the Bridge Street bridge or the US Highway 51 bridge will have very prominent views and potentially dramatic vistas of a hotel facing the River. However, if one is approaching a hotel in the District from anywhere east of the Wisconsin River and, therefore, must rely on viewing the building from the existing local road network, visibility is much more constrained. This is because of very low traffic volumes along 1st Street north of McIndoe Street. If 1st Street were to be extended as previously mentioned, this could potentially increase traffic volumes and thus visibility from the local street network. However, without a formal traffic analysis, it is difficult to determine how much benefit this additional visibility would create.

HOTEL MARKET OVERVIEW**Hotel Categories**

The hotel industry generally relies on several basic descriptions to help differentiate properties by their level of service, price, and, thus, primary target market. Although the industry has been blurring these definitions in recent years due to ever evolving market preferences and increased

Reference: East Riverfront District Hotel Analysis

competition, they generally still hold true and can help identify where gaps or opportunities may exist in the marketplace. The following are the basic descriptions:

- 1) **Full-Service:** these hotels provide a full-range of services and amenities to their guests. Not every full-service hotel will offer the exact same set of services. Regardless, what tends to be consistent from one full-service property to another is a commitment to provide a high-level of attention to their guest's needs through higher staffing levels, on-site foodservices that include a restaurant and room service, and meeting facilities. Full-service hotels tend to cater to business travelers and affluent leisure travelers.
- 2) **Limited-Service:** these hotels, in many cases, provide the same or nearly the same level of in-room furnishings and amenities that can be found at many full-service hotels. They also typically offer many of the same common area amenities, such as pools, spas, and business centers. However, they do not have on-site foodservice beyond the basic breakfast bar and often lack high-end finishes in the common areas as well as additional staff to handle guest needs. Without the additional foodservice and staff costs, these properties therefore are able to provide a relatively high-level of comfort at a more reasonable price. However, the lack of key services means that the market tends to skew toward the leisure traveler and budget-conscious business traveler and misses the lucrative conference and specialty meeting market.
- 3) **Economy:** these hotels provide a very basic level of service. There are next to no common area amenities and the rooms typically lack many amenities beyond a television. Although room rates at economy hotels can vary significantly depending on the size of the city and supply of competition, they almost always are priced well below even limited-service hotels. As a result, these hotels heavily skew toward the budget-conscious traveler or the traveler who is en-route to a further destination and is need of few amenities because their stay is very brief. Economy hotels can often be the only option in many small markets where larger limited- and full-service hotels cannot be supported.

There are numerous other hotel categories that cater to specific market niches, such as extended stay hotels, theme hotels, boutique hotels, and resorts. However, these other categories tend make up only a small amount of the overall market.

Historical Trend Analysis

Stantec acquired hotel trend data from Smith Travel Research (STR) to identify occupancy rates, room revenue, and average room rates for the Wausau region. STR is an international leader in the collection and dissemination of hotel data. It should be noted that the trend data report secured from STR includes hotels in the Wausau area as well as other prominent regional centers in north central Wisconsin, such as Stevens Point and Wisconsin Rapids. However, since Wausau is the primary market in north central Wisconsin, Stantec believes that the trends found in the STR report are highly indicative of the local Wausau hotel market.

Table 1 displays STR's aggregate data regarding occupancy rates, average room rates, and revenue per room for the Wausau region. The three common hotel-industry benchmarks used in the analysis are summarized as follows:

Reference: East Riverfront District Hotel Analysis

- **Occupancy Rates** are calculated by dividing the number of rooms sold by the number of rooms available
- **Average Daily Rate** (“ADR”) is the average rate charged daily per rented room, or in the other words the mean price charged for all hotel rooms sold in a given period
- **Revenue Per Room** (“RevPAR”) is calculated by dividing revenue by the number of rooms available for sale

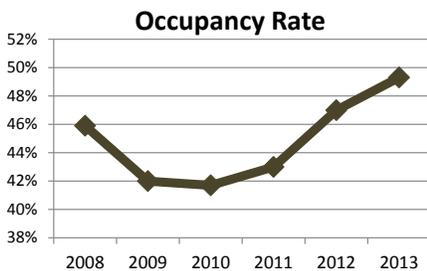
According to data included in Table 1 and the three accompanying graphics, the Wausau hotel market bottomed out between 2009 and 2010 when occupancy, daily rates, and revenue reached their lowest point. Since 2010, though, the market has been in recovery with strong year-over-year increases in all three metrics. For example, the average annual occupancy rate has increased from a low of 41.7% to 49.3% during this period. Meanwhile, revenue per room has increased nearly 26% during this time as well.

Typically, a healthy occupancy rate for most hotel markets is around 65%. According to key contacts interviewed as part of this study, the low occupancy rate for the region (49%) and the local Wausau market (53%) is attributed to two primary reasons. First, the recession from several years ago severely impacted the entire hotel industry as travel was one of the first things businesses and households cut back on to save money. Second, the Wausau area experienced a hotel building boom about 10 years ago when six new hotels totaling over 600 rooms were added to the local market. This added substantial supply to the market. As a result, the combination of a recession and overbuilding has led to a condition of relatively low occupancy levels that will require several years of strong growth needed for recovery.

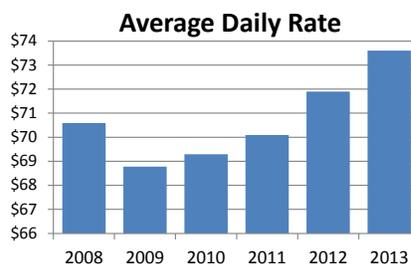
Table 1: Occupancy, Room Rate, and Room Revenue, Wausau/Stevens Point Region 2008-2013

Hotel Metric	Annual Average						Annual Change				
	2008	2009	2010	2011	2012	2013	'08-'09	'09-'10	'10-'11	'11-'12	'12-'13
Occupancy Rate	45.9%	42.0%	41.7%	43.0%	47.0%	49.3%	-3.9%	-0.3%	1.3%	4.0%	2.3%
Average Daily Rate (ADR)	\$70.59	\$68.78	\$69.29	\$70.09	\$71.90	\$73.60	-2.6%	0.7%	1.2%	2.6%	2.4%
Revenue per Room (RevPAR)	\$32.37	\$28.89	\$28.87	\$30.15	\$33.79	\$36.30	-10.8%	-0.1%	4.4%	12.1%	7.4%

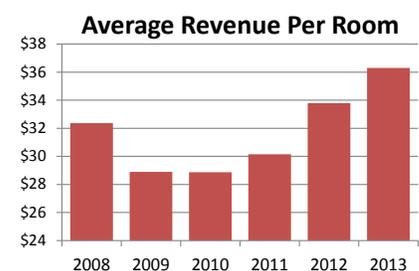
Sources: Smith Travel Research; Stantec



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Table 2 displays the amount of demand in the market relative to the amount of supply for each year since 2008. Room demand follows a similar pattern to the daily rate and revenue data in that demand declined sharply from 2008 to 2009 but has been in recovery each year since 2010. The recovery in the hotel market has also been aided by a drop in the overall supply of hotel rooms.

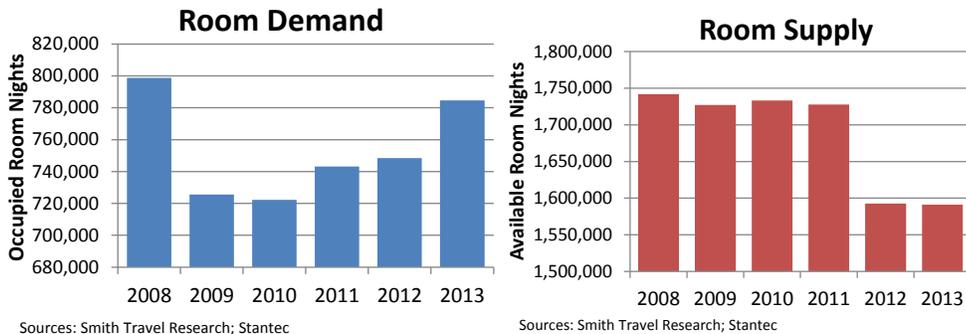
Reference: East Riverfront District Hotel Analysis

Between 2011 and 2012, the supply of available room nights in the market declined by nearly 135,000 or about 8%. The decline in supply was likely the result of several hotel closings in the broader Wausau/Stevens Point region.

Table 2: Hotel Room Supply and Demand Trends, Wausau/Stevens Point Region 2008-2013

Hotel Metric	Annual Average						Annual Change				
	2008	2009	2010	2011	2012	2013	'08-'09	'09-'10	'10-'11	'11-'12	'12-'13
Room Demand	798,813	725,548	722,237	743,226	748,441	784,619	-73,265	-3,311	20,989	5,215	36,178
Room Supply	1,741,862	1,727,262	1,733,322	1,727,622	1,592,459	1,591,060	-14,600	6,060	-5,700	-135,163	-1,399

Sources: Smith Travel Research; Stantec



Wausau Area Hotels

In order to augment the trend data available through STR, Stantec collected data on hotels in Wausau and surrounding communities in order to better understand where hotels are concentrated within the region and how they are segmented by size and market position. Table 3 lists the area's hotels with information on location, geographic submarket, market category, size, meeting facilities, and quoted on-line rates. Key findings from the table are as follows:

- Hotels in the Wausau area tend to be concentrated in four districts: 1) West Wausau near the interchange of US Highway 51 and State Highway 52; 2) Rib Mountain near the interchange of US Highway 51 and North Mountain Road; 3) the State Highway 29 corridor east of Interstate 39; and 4) the Cedar Creek Mall area near the interchange of Interstate 39 and Old Highway 51.
- There is only one hotel located in Downtown Wausau, the Jefferson Street Inn, an upscale full-service hotel.
- There are five full-service hotels in the Wausau area with a combined total of nearly 700 rooms. Hotels in this category are some of the largest in the area with an average size of 140 rooms. Each hotel has meeting space to accommodate large groups. Moreover, these hotels tend to be spread throughout the region in order to meet the need of nearby concentrations of employers. Hotels in this category are divided by independent operators and chains or "flags" as they are known in the hotel industry.

Reference: East Riverfront District Hotel Analysis

- There are eight limited-service hotels in the Wausau area with a combined total of nearly 650 rooms. Hotels in this category tend to range in size from 60 to 100 rooms with an average size of 80 rooms. Hotels in this category are heavily concentrated along the State Highway 29 corridor east of Interstate 39. Hotels in this category are almost entirely chain operations with familiar brand names.
- There are 10 economy hotels in the Wausau area with a combined total of just over 500 rooms. These properties can range in size from very small (5 rooms) to somewhat large (120 rooms) for the Wausau area. However, the average size is around 50 rooms. The smaller size reflects that economy hotels, which have very few if any amenities, can often achieve feasibility when overall market demand may be limited or other hotel categories are saturated. Economy hotels can be found throughout the Wausau area in each submarket. Hotels in this category are equally divided between independent operators and chains.
- The Wausau area also has one extended stay hotel that primarily caters to travelers who need to stay longer than a week. There are two hotels classified as resorts because they have a major on-site feature (waterpark) or nearby amenity (skiing) that drives a significant amount of demand.

Table 3: Wausau Area Hotel Properties

Name	Address	City	Submarket	Market Category	Rooms	Meeting Space		Quoted Rates	
						Total SF	Max Cap	Lo	Hi
Holiday Inn Hotel & Suites	1000 Imperial Ave	Rothschild	Cedar Creek Mall	Full-Service	148	7,800	600	\$114	\$160
Jefferson Street Inn	201 Jefferson St	Wausau	Downtown	Full-Service	100	8,000	730	\$129	\$169
Best Western Midway Hotel	2901 Hummingbird Rd	Wausau	Rib Mountain	Full-Service	97	5,000	440	\$69	\$74
Howard Johnson Inn	2101 N Mountain Rd	Wausau	Rib Mountain	Full-Service	120	4,000	300	\$79	\$109
Plaza Hotel & Suites	201 N 17th Ave	Wausau	West Wausau	Full-Service	230	23,000	900	n/a	n/a
Stoney Creek Inn	1100 Imperial Avenue	Rothschild	Cedar Creek Mall	Limited-Service	107	11,000	900	\$71	\$180
AmericInn Lodge and Suites	4115 Barbican Ave	Weston	Hwy 29 Corridor	Limited-Service	67	1,500	60	\$79	\$135
Country Inn & Suites	1520 Metro Dr	Schofield	Hwy 29 Corridor	Limited-Service	60	450	25	\$108	\$124
Fairfield Inn & Suites by Marriott	7100 Stone Ridge Dr	Weston	Hwy 29 Corridor	Limited-Service	80	4,800	250	\$109	\$129
Holiday Inn Express Hotel & Suites	4210 Barbican Ave	Weston	Hwy 29 Corridor	Limited-Service	103	1,000	80	\$104	\$110
Weston Inn & Suites	5810 Schofield Ave	Weston	Hwy 29 Corridor	Limited-Service	60	1,500	75	n/a	n/a
Courtyard by Marriott	1000 S 22nd Ave	Wausau	West Wausau	Limited-Service	84	0	0	\$139	\$154
Hampton Inn	615 S 24th Ave	Wausau	West Wausau	Limited-Service	88	0	0	\$129	\$139
Nite Inn/Interim Lodging Motel	425 Grand Ave	Schofield	Airport	Economy	40	0	0	n/a	n/a
Ponderosa Motel	2101 Grand Ave	Wausau	Airport	Economy	16	0	0	n/a	n/a
EconoLodge	1510 County Rd XX	Rothschild	Cedar Creek Mall	Economy	60	850	40	\$80	\$130
Motel 6	904 Industrial Park Ave	Rothschild	Cedar Creek Mall	Economy	39	530	32	\$36	\$40
Budge Inn Motel	1106 East Grand Ave	Rothschild	Hwy 29 Corridor	Economy	25	0	0	\$30	\$40
Rothschild Inn Motel	1114 East Grand Ave	Rothschild	Hwy 29 Corridor	Economy	5	0	0	n/a	n/a
Days Inn & Suites - Rib Mountain	4700 Rib Mountain Dr	Wausau	Rib Mountain	Economy	60	1,600	100	\$69	\$100
Days Inn - Wausau North	116 S 17th Ave	Wausau	West Wausau	Economy	120	250	12	n/a	n/a
La Quinta Inn & Suites	1910 Stewart Ave	Wausau	West Wausau	Economy	60	0	0	\$95	\$95
Super 8	2005 Stewart Ave	Wausau	West Wausau	Economy	80	0	0	\$65	\$65
Candelwood Suites	803 Industrial Park Ave	Rothschild	Cedar Creek Mall	Extended Stay	80	0	0	n/a	n/a
Grand Lodge Waterpark Resort	805 Creske Ave	Rothschild	Cedar Creek Mall	Resort	139	3,400	230	\$81	\$179
Rib Mountain Inn	2900 Rib Mountain Way	Wausau	Rib Mountain	Resort	22	0	0	\$79	\$119
Totals/Averages					2,090	74,680	--	\$88	\$118

Source: Visit Wausau; Hotel Websites; Stantec

Reference: East Riverfront District Hotel Analysis

PLANNED OR PENDING HOTELS IN THE MARKET AREA

According to staff at the City of Wausau, there currently are no planned or proposed hotels in Wausau or surrounding communities that may impact the overall market demand for area hotel rooms. Through interviews with key contacts, however, Stantec learned that the Plaza Hotel, the largest in the area with 230 rooms and 23,000 square feet of meeting space, is being evaluated for a major renovation. The hotel is one of the oldest in the area. Therefore, a major updating and renovation, given its number of rooms and size of facilities, would have a strong impact on the local market. In particular, the impact would be strongest on any new hotel developments.

TARGET MARKET

Demand for Wausau area hotel rooms generally comes from three primary target markets, each with separate characteristics and needs, and can be described as follows:

- 1) **Group Meeting Market:** this demand segment consists of visitors traveling to the area to attend conferences, seminars, trade shows, training sessions, or other activities that generally includes 10 or more people. Peak periods of demand usually occur between Monday and Thursday. Group travelers typically require full-service accommodations, proximity to transportation facilities, quality meeting space and banquet facilities, and an adequately trained staff to deliver efficient meeting coordination.
- 2) **Commercial Market:** this demand segment generally includes individuals traveling on business. Commercial demand is strongest Monday through Thursday nights, while declining significantly on Friday and Saturday nights. The typical length of stay ranges from one to three days and demand is generally consistent year-round. Business travelers tend to be not as price-sensitive as leisure travelers, and tend to utilize a property's food and beverage amenities when available.
- 3) **Leisure Market:** Leisure demand is generated by people visiting the area for non-business reasons and travelers passing through the area en-route to another destination. Leisure demand is strongest Friday and Saturday nights during holidays and summer months. The leisure traveler tends to be the most price-sensitive segment of the lodging industry.

A downtown waterfront location will appeal to all three of these segments as long as there are the facilities and amenities in place to meet their needs. The proximity to downtown employers will attract the commercial/business traveler. The potential to offer nearby nightlife options along with a scenic waterfront setting will appeal to the Group Meeting market. The access to shopping and other downtown amenities will attract a portion of the leisure market. However, travelers passing through Wausau en-route to other destinations will not be a significant component of demand as the East Riverfront District does not have the same highway access and visibility that many other existing hotels have.

CALCULATION OF ROOM DEMAND

Table 4 calculates current and projected room demand for the Wausau area. Projected demand is estimated based on recent growth in room demand, which is depicted in Figure 1. According to the table and figure, the Wausau area is projected to increase room demand by nearly 40,000 room

Reference: East Riverfront District Hotel Analysis

nights by 2019. Despite this significant amount of growth, there will still be a substantial excess supply of rooms in the market through 2019.

Table 4: Wausau Area Hotel Room Demand 2014-2019

	2014	2019
Room Demand ^{1,2}	396,200	434,226
(divide by) Room Supply ^{2,3}	÷ 762,900	762,900
(equals) Occupancy Rate	= 51.9%	56.9%
Room Supply ^{2,3}	762,900	762,900
(times) Equilibrium Occupancy ⁴	x 65.0%	65.0%
(equals) Room Demand at Equilibrium	= 495,900	495,900
Room Demand ^{1,2}	396,200	434,226
(less) Room Demand at Equilibrium	- 495,900	495,900
(equals) Under/Over Supply of Room Nights	= -99,700	-61,674

¹ Assumes an annual growth rate of approximately 1.9% in room demand per year

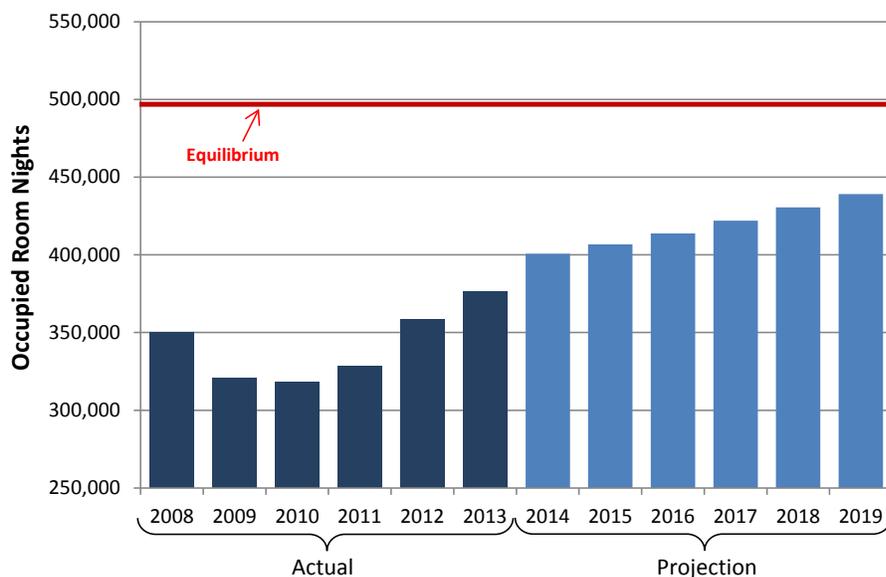
² Calculated as nights per year

³ Assumes no new hotel development between 2014 and 2019

⁴ Industry average is 65%

Source: Stantec

Figure 1: Wausau Area Hotel Room Demand 2008-2019



Sources: Smith Travel Research; Stantec

Reference: **East Riverfront District Hotel Analysis**

CONCLUSIONS

Previous sections of this memo addressed the East Riverfront District as a location for a hotel, the occupancy and revenue trends of area hotels, the segmentation of the local hotel market, potential target markets for a downtown hotel, and the projected demand for additional hotel rooms in the market through 2019. The following are key findings from the analysis:

Strengths

- The East Riverfront District has strong neighborhood amenities that would help attract key target markets because of its proximity to downtown employment and events, access to parks and trails, waterfront views, and accessibility to nearby shops and restaurants.
- The hotel market appears to be in the midst of a strong recovery period with impressive year-over-year increases in occupancy and revenues.
- The downtown market only has one existing hotel. As a result, there is little consumer choice and market differentiation for those wanting to stay in the downtown.

Weaknesses

- With an occupancy rate currently around 53%, the market remains significantly over-bedded despite strong increases in demand over the last two to three years.
- The East Riverfront District does not have the kind of highway access enjoyed by most other hotels in the market. As a result, the location would not be able to capture critical “walk-in” and leisure travelers and would be highly dependent on being a destination hotel.
- Although downtown Wausau has a number of characteristics that are highly compatible and complementary to hotels, there are no major hotel generators. The region’s largest convention/conference facility, the Patriot Center, is located in Rothschild. The two largest medical facilities are located in West Wausau and Weston. The University of Wisconsin-Marathon County is located in northwest Wausau.
- The downtown only accounts for about 10% of Wausau area jobs and a large proportion of those are public administration jobs, which do not generate as many business travelers as other industry sectors.
- The planned renovation of the Plaza Hotel, given the number of hotel rooms and size of meeting facilities, could significantly impact the overall hotel market by upgrading a prominent property. Depending on the extent and quality of the renovation, it could potentially be tantamount to building a new hotel because the existing property is at least 40 years old and likely very out-of-date.

Based on the above findings and to prevent an unhealthy cannibalization of the local hotel market, we would not recommend developing a hotel in the East Riverfront District until several conditions are satisfied first:

1. The overall occupancy rate for the Wausau hotel market will need to exceed 65% in order to tap into pent-up demand and, thus, not solely rely on capturing market share from other existing properties.

Design with community in mind

Reference: East Riverfront District Hotel Analysis

2. One or more significant “room-night” generators are introduced into the downtown. Most feasible generators would be another major employer(s) or a convention center, one preferably adjacent to a hotel.
3. The significant build out of the East Riverfront District, which would include a mixture of offices, retail, restaurants, and housing. The transformation of the District into a destination neighborhood will significantly help support a new downtown hotel as the new neighborhood could possibly be a room-night generator in and of itself. However, if a hotel were included in the East Riverfront District as part of an early phase of redevelopment, there is substantial risk that it would be isolated from the amenities that would make a downtown location desirable.

The second condition noted above requires further discussion. During the course of this research, it was learned that the Patriot Center in Rothschild recently went through foreclosure and is now being temporarily managed by the Wausau Convention and Visitors Bureau. This facility has approximately 75,000 square feet of meeting and exhibit space. However, it is located in a portion of the Cedar Creek Mall and, therefore, is not purpose built for convention needs and thus lacks many amenities and features. Although there are over 500 hotels rooms in very close proximity to the center, and it has excellent highway access, there are limited nightlife and recreational opportunities in the area it is located. Furthermore, at 75,000 square feet, there are certain groups and events it is unable to accommodate even though it is the largest facility in the region.

According to the executive director of the Convention and Visitors Bureau, a new purpose-built convention facility located in the downtown with an adjacent hotel would not only support the new hotel but it would likely not have a significant cannibalizing effect on other area hotels because a larger convention facility would bring meetings and events not currently coming to the Wausau area.

In many respects, a model of building a downtown convention center with supporting lodging has been successfully implemented in other nearby regional markets. La Crosse probably represents the best example in which their convention facility is located along the Mississippi River on the southern edge of the downtown near an old industrial district. Duluth is another example in which the convention center is located downtown and helps support a number of new hotels that have been built in the Canal Park district, which is a former industrial district along the lakefront that has been redeveloped into a mixed use district with restaurants, shops, recreational amenities, offices, and lodging. St. Cloud also offers another example in which there is a convention center located downtown along the Mississippi River with an adjoining full-service hotel.