

March 6, 2007

*(Via Facsimile)*

Mayor Tom Barrett  
Milwaukee City Hall  
200 E. Wells Street  
Room 201  
Milwaukee, WI 53202

Dear Mayor Barrett:

Pursuant to our conversation yesterday, I discussed the use of public finance mechanisms for the development of hotel rooms with our management team. I would like to share those thoughts with you.

It is our opinion that financial aid should first be used to stimulate demand rather than supply, whether it is demand for eating establishments, retail outlets, lodging facilities, office space or any other development that will increase the overall value of the real estate tax base. To simply provide financial aid to increase supply of any of the aforementioned development types without a commensurate increase in demand will ultimately prove to be counterproductive.

The development of a hotel in and of itself does not stimulate demand. It is not a case of "if we build it, they will come." Rather, hotel rooms should be developed in response to an increase in demand. If subsidies are used to increase demand, then the supply of hotel rooms will develop naturally without the need for governmental assistance. Subsidized demand (both public and private) can be generated in many ways. For example, building convention facilities (attracting more convention traffic), incentivizing companies to move to Milwaukee (bringing more people to work downtown), or developing special regional attractions, like Summerfest, Discovery World and the Art Museum (making us an even more attractive tourist destination) all stimulate demand and subsequently drive supply growth.

We have already demonstrated this in Milwaukee with the development of the Midwest Airlines Center. When the Midwest Airlines Center was built, (obviously with government assistance), the City saw a 50% increase in the supply of hotel rooms downtown without the need for any financial aid. The community subsidized the demand generators and the development of supply followed naturally.

If this equation is reversed where instead of subsidizing demand, supply is instead subsidized, the community risks spending unnecessary amounts of precious public aid to foster the development it desires. This is because it is unlikely that demand generators such as convention facilities or inducements to bring new corporations to Milwaukee will come without subsidy.

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In other words, subsidizing new hotel rooms into existence will not obviate the need for public assistance necessary to increase the size of the Midwest Airlines Center to accommodate larger conventions. On the other hand, subsidizing the growth of the convention center and other regional attractions will make it unnecessary to subsidize new hotel rooms.

Worse, if the City subsidizes the construction of hotel rooms without first stimulating demand for those rooms, it will only divide the current demand pie into thinner slices, and it will not meet its goal of increasing the tax base. Sure, the value of the new development will go up, but that new development will simply siphon off demand from the existing (privately financed) hotel rooms. Thus, the existing properties will experience a commensurate decrease in real estate value, thereby creating a zero sum game. Further, if subsidy induced supply depresses the overall market, the distress may prevent owners from making necessary reinvestments to maintain their facilities, and the result could be even worse than zero sum. As I said, it's counterproductive.

For example, addressing the current proposals specifically, it would seem unlikely that book stores, bowling alleys, bars and restaurants or apartments will, in and of themselves, create additional demand for hotel rooms. Those rooms will simply take the customers from the existing downtown facilities, thereby diluting their value. This looks more like the case of a developer who is simply trying to maximize the amount of development on his site, and knows the availability of financial aid will put more dollars in his investor's pockets.

To summarize, it is our belief that the City does not need to use our tax dollars to induce supply, when it would be more advantageous to use those dollars to induce demand. The supply will come naturally. Our own actions provide significant substance to this position. We developed the addition to the Hilton in response to the redevelopment of the convention center and did so without the need for subsidy. Most recently we made substantial investments in both the Intercontinental (formerly the Wyndham) and the Pfister in response to the vibrant growth downtown. In total, we have had the courage to invest over \$85,000,000 in our community without the need for public subsidy. Why don't others?

I would be happy to discuss this with you at any time if you wish. Thank you for your interest in this critical issue.

Best regards,



Greg Marcus