

---

# **Financial Projections for Lancaster Marriott at Penn Square**

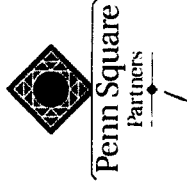
**February 2005**



# PRESENTATIONS

## **Common Questions**

- Can Lancaster City support a new, full-service hotel and convention center?
- Are the financial projections for Lancaster Marriott at Penn Square realistic?
  - Are they based on valid information?
- What is the risk to the public sector?
- How committed is Penn Square Partners?
  - How much capital?



# **Agenda For This Presentation**

- Revenue assumptions
- Operating metrics
- Cash distributions
- Benefits to the School District of Lancaster, the City of Lancaster and Lancaster County

# Sources of Information

- 2005 Smith Travel Report: (competitive properties)
  - *Full Service:* Willow Valley, Best Western Eden Resort, Holiday Inn
  - *Limited Service:* Hampton Inn, Hilton Garden Inn
- 2004 PKF Consulting & Hospitality Research Group
- 2003 HVS International market study for Lancaster Marriott at Penn Square

# **Pro-Forma Assumptions**

- **Gross revenue**
  - Average daily rate (ADR)
  - Occupancy assumptions
  - Food & beverage assumptions (F&B)
- **Departmental expenses**
- **Gross operating income**
- **Net operating income**



# Average Daily Rate Analysis

	2004	2007	2009
Avg. Comp. Set	\$105.90	\$117.40	\$125.75
Lancaster Marriott	NA	\$130.50	\$142.50
Premium		\$ 13.10	\$ 16.75

(1) Source: 2005 Smith Travel Research Report

(2) Actual 3 year ADR growth 4.2%

(3) Projected ADR growth 3.5%

# Occupancy Analysis

	2004	2007	2009
3-year Avg. Comp. Set	68 <sup>0</sup> %	68 <sup>0</sup> %	68 <sup>0</sup> %
Lancaster Marriott	NA	57 <sup>0</sup> %	68 <sup>0</sup> %

(1) Source: 2005 Smith Travel Research Report  
(2) 3 year occupancy ranged from 67% to 69%





# Projected Food & Beverage

	Lancaster Marriott		Benchmark <sup>(1)</sup>	
	2009	\$ Per Available Room	Average All Hotels	Top 25%
Hotel Outlets F&B	\$4,508,000	15,300	12,900	21,300
CC Outlets F&B	\$2,778,000			
<b>TOTAL Project F&amp;B</b>	<b>\$7,286,000</b>	<b>24,800</b>	<b>23,000</b>	<b>31,500</b>

(1) Source: 2004 – PKF Consulting, Hospitality Research Group  
2003 increased annually by 3%

(2) Rounded to nearest \$1,000

(3) Rounded to nearest \$100

# Operating Metrics

	2007	2008	2009
Total Gross Income	\$14,216,000	\$16,470,000	\$18,043,000
Occupancy Ramp-Up	57%	64%	68%
Total Dept. Expenses	(\$6,318,000)	(\$7,048,000)	(\$7,465,000)
Gross Operating Income	\$7,898,000	\$9,422,000	\$10,578,000
% of Sales	55.6%	57.2%	58.6%
Benchmark <sup>(1)</sup> :			
FS Hotels			55.9% - 57.2%
Convention Hotels			56.7% - 58.6%
Net Operating Income	\$2,354,000	\$3,461,000	\$4,299,000
% of Sales	16.6%	21.0%	23.8%
Benchmark <sup>(1)</sup> :			
FS Hotels			20.2% - 26.4%
Convention Hotels			25.4% - 32.0%

(1) Source: 2004 PKF Consulting, Hospitality Research Group

(2) Rounded to nearest \$1,000



Penn Square  
Partners



# Hotel Cash Flow Projections

	2007	2008	2009
Net Operating Income	\$2,354,000	\$3,461,000	\$4,299,000
Less FF&E Reserves	\$426,000	\$494,000	\$722,000
Less Structural Reserves	0	0	\$180,000
Cash Flow B4 Debt Service	\$1,928,000	\$2,967,000	\$3,397,000
Debt Service	\$1,300,000	\$1,300,00	\$1,300,000
Available for Distribution	\$628,000	\$1,667,000	\$2,097,000

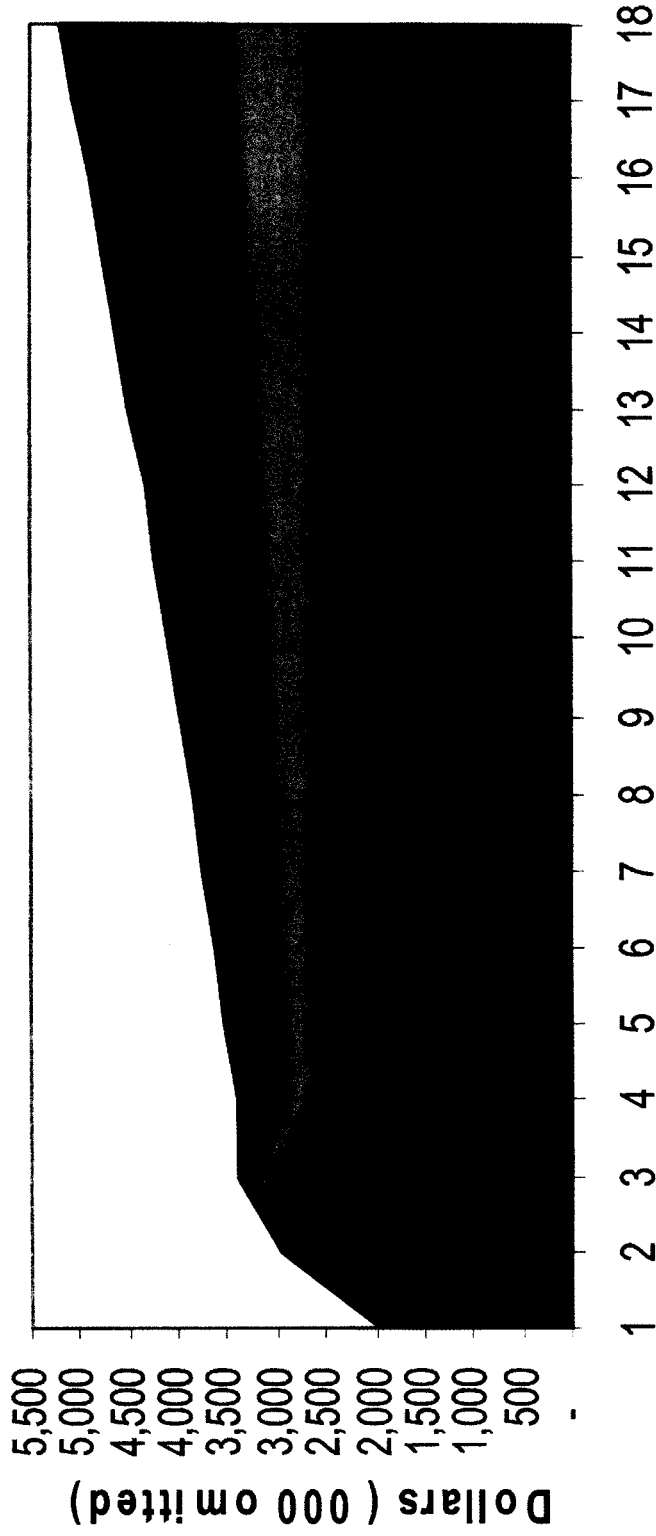
(1) Debt Service: Assumes 7% Fixed Rate Financing

(2) Rounded to nearest \$1,000



Penn Square

# Estimated Cash Distributions



Years of TIF District (From Opening)

- Debt Service
- PSP Priority
- PSP Participation
- Priority Distribution to Tax Authority
- Participation to Tax Authority

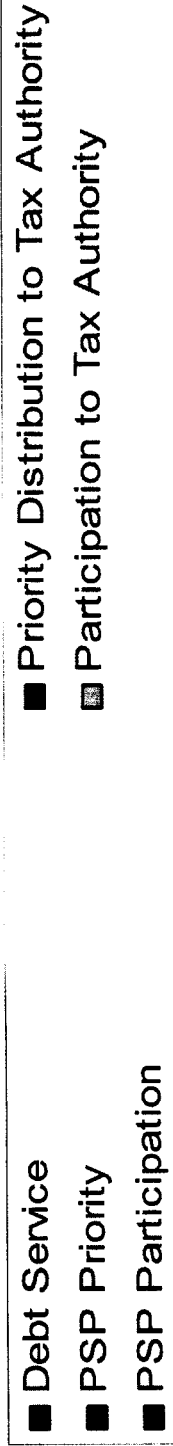
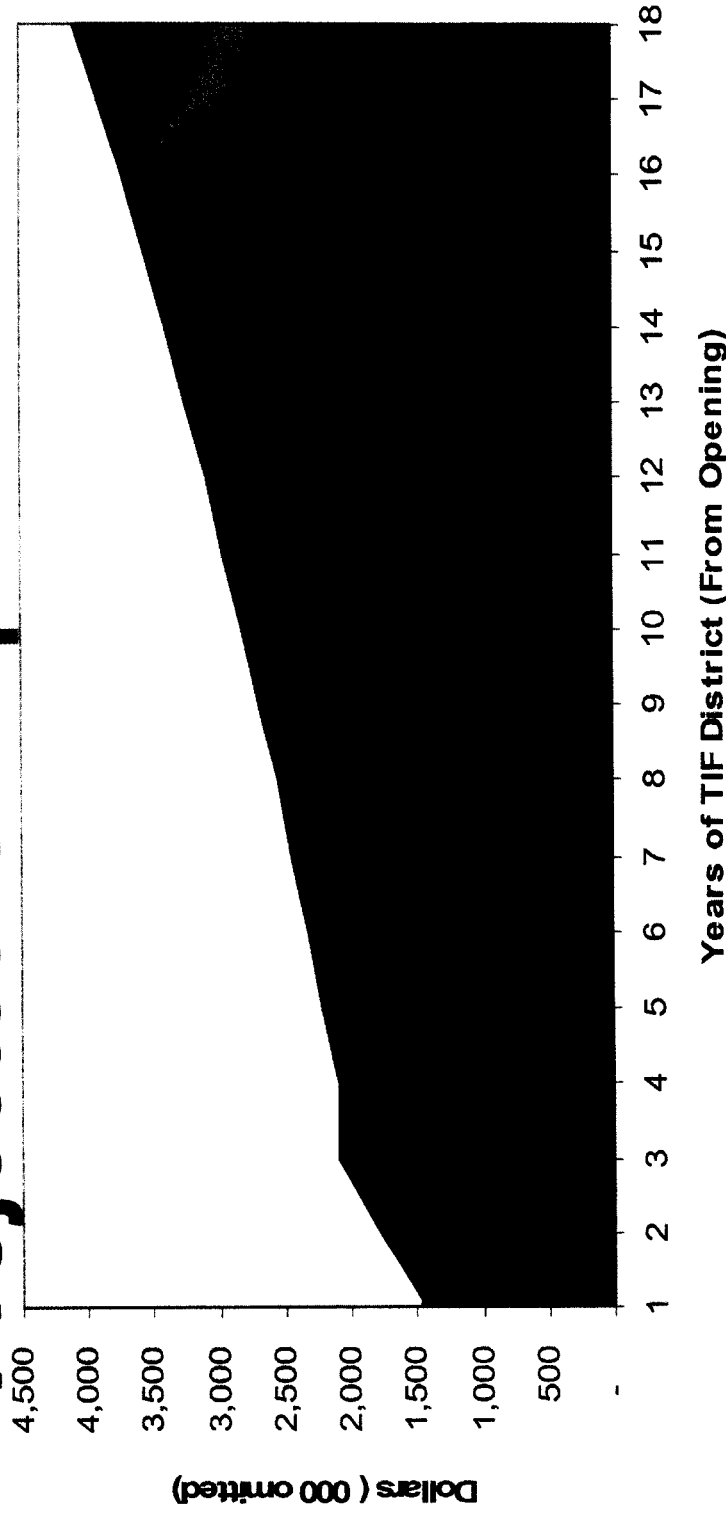


Penn Square  
Partners

# What if ...?

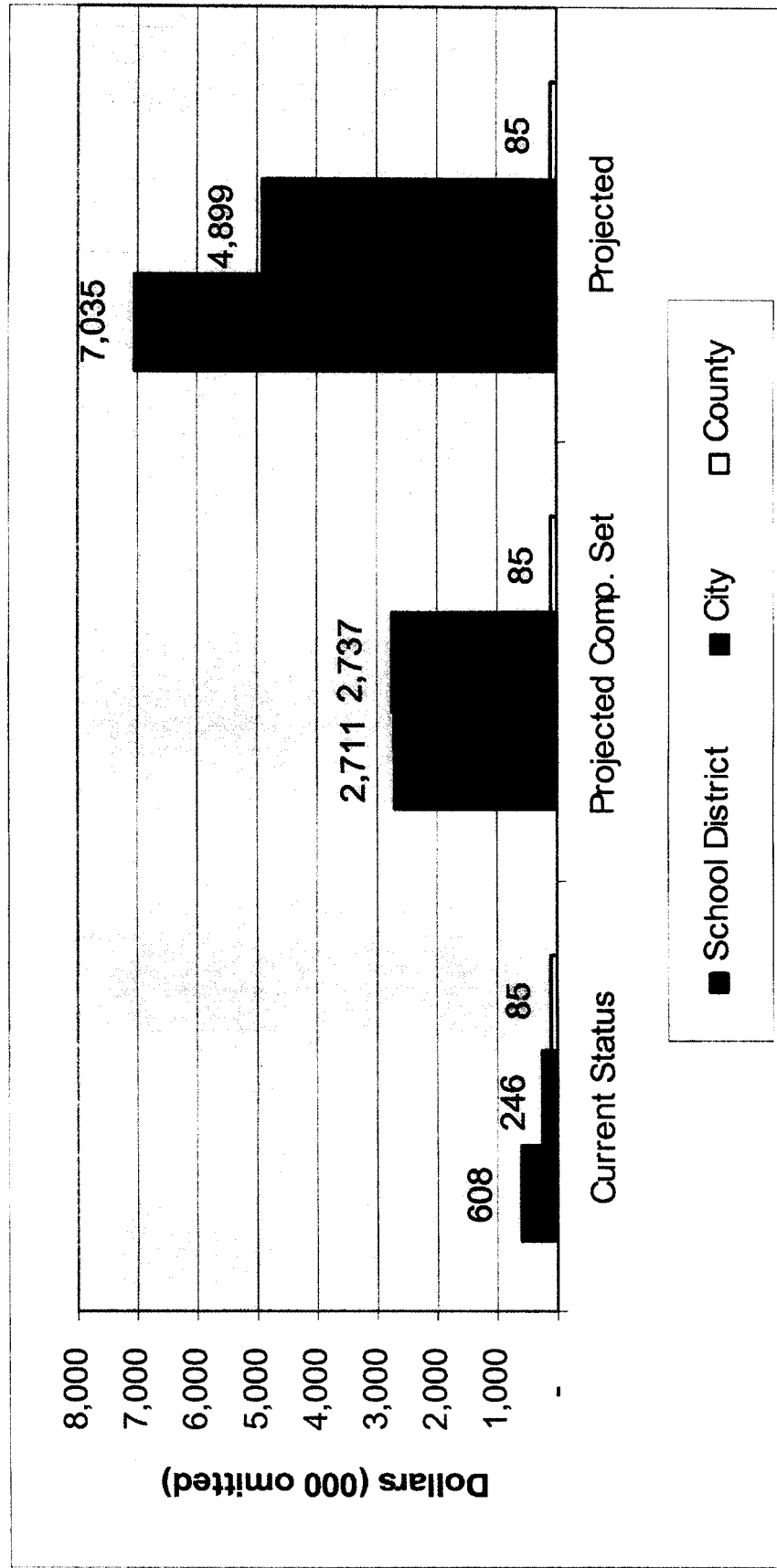
- Lancaster Marriott at Penn Square cannot achieve projected rate premium compared with competitive properties:
  - Projected Marriott rate: \$130.50 ADR
  - Projected market rate: \$117.40 ADR
  - Approximate reduction in rate: 10%
  - Increase occupancy in first year: 62%
- Reduction in Food & Beverage Revenue:
  - Hotel: 85% of projected
  - Convention Center: 85% of projected

# Performance Based on Projected Competitive Set



Penn Square  
Partners

# Summary (20 year period)



# Discussion

## Your Questions



SUPPORTING

DOCUMENTS

**Average Daily Rate Analysis**

	2002	2003	2004	2005	2006	2007	2008	2009
Average ADR	97.58	100.15	105.87	109.58	113.41	117.38	121.49	125.74
Projected ADR Marriott						130.51	137.04	142.52
Variance to Competitive Set						13.13	15.55	16.78

Actual Rate Increase 4.2%

Projected Rate Increase 3.5%

Competitive Properties Include: Willow Valley, Best Western Eden Resort, Holiday Inn  
Hampton Inn, Hilton Garden Inn

Source: Smith Travel Research, February 2005

### Occupancy Analysis

Average ~~ADR~~ <sup>Occupancy</sup>  
 Projected ~~ADR~~ Marriott  
 Variance to Competitive Set

2002	2003	2004	2005	2006	2007	2008	2009
69%	67%	68%	68%	68%	68%	68%	68%
					57%	64%	68%
					-11%	-4%	0%

Three Year Average

67.9%

Competitive Properties Include:

Willow Valley, Best Western Eden Resort, Holiday Inn  
 Hampton Inn, Hilton Garden Inn

Source:

Smith Travel Research, February 2005

# Tab 8 - assic

Lancaster, PA Selected Properties

Job Number: 40981 Staff: AR Created: February 28, 2005

str.

Date	Occupancy		ADR		RevPar		Supply		Demand		Revenue		Census & Sample %		% Rooms STAR
	This Year	% Chg	This Year	% Chg	This Year	% Chg	This Year	% Chg	This Year	% Chg	This Year	% Chg	Census Props	Census Rooms	
Jan 02	45.5	-2.7	84.35	3.8	38.40	1.0	33,852	0.0	15,412	-2.7	1,300,003	1.0	5	1,092	100.0
Feb 02	54.1	2.5	82.06	-4.0	44.42	-1.7	30,576	0.0	16,551	2.5	1,358,210	-1.7	5	1,092	100.0
Mar 02	58.0	-7.2	85.72	3.6	49.73	-3.8	33,852	0.0	19,637	-7.2	1,683,327	-3.8	5	1,092	100.0
Apr 02	77.0	6.2	91.11	0.5	70.14	6.7	32,760	0.0	25,220	6.2	2,297,894	6.7	5	1,092	100.0
May 02	74.3	5.2	89.50	-3.9	66.49	1.2	33,852	0.0	25,147	5.2	2,250,764	1.2	5	1,092	100.0
Jun 02	80.1	-1.9	98.57	0.1	78.98	-1.8	32,760	0.0	26,249	-1.9	2,587,301	-1.8	5	1,092	100.0
Jul 02	82.8	1.4	109.75	3.0	90.88	4.5	33,852	0.0	28,032	1.4	3,076,494	4.5	5	1,092	100.0
Aug 02	91.3	0.4	118.36	1.4	108.03	1.8	33,852	0.0	30,896	0.4	3,656,878	1.8	5	1,092	100.0
Sep 02	73.9	-8.4	100.35	2.9	74.16	-5.7	32,760	0.0	24,209	-8.4	2,429,326	-5.7	5	1,092	100.0
Oct 02	77.5	0.6	101.93	2.9	79.04	3.5	33,852	0.0	26,249	0.6	2,675,537	3.5	5	1,092	100.0
Nov 02	63.6	-4.1	93.93	-1.3	59.72	-5.3	32,760	0.0	20,828	-4.1	1,956,409	-5.3	5	1,092	100.0
Dec 02	44.4	-6.5	93.90	8.0	41.71	1.0	33,852	0.0	15,038	-6.5	1,412,064	1.0	5	1,092	100.0
Jan 03	40.6	-10.8	89.61	6.2	36.40	-5.2	33,852	0.0	13,750	-10.8	1,232,187	-5.2	5	1,092	100.0
Feb 03	48.3	-10.7	87.10	6.1	42.10	-5.2	30,576	0.0	14,779	-10.7	1,287,225	-5.2	5	1,092	100.0
Mar 03	52.8	-9.1	87.71	2.3	46.27	-7.0	33,852	0.0	17,857	-9.1	1,566,230	-7.0	5	1,092	100.0
Apr 03	68.8	-10.7	96.26	5.6	66.19	-5.6	32,760	0.0	22,528	-10.7	2,168,515	-5.6	5	1,092	100.0
May 03	66.9	-9.9	96.31	7.6	64.46	-3.1	33,852	0.0	22,655	-9.9	2,181,998	-3.1	5	1,092	100.0
Jun 03	78.6	-1.8	100.00	1.5	78.65	-0.4	32,760	0.0	25,765	-1.8	2,576,533	-0.4	5	1,092	100.0
Jul 03	85.6	3.4	110.57	0.7	94.64	4.1	33,852	0.0	28,974	3.4	3,203,684	4.1	5	1,092	100.0
Aug 03	93.8	2.8	116.36	-1.7	109.19	1.1	33,852	0.0	31,766	2.8	3,686,159	1.1	5	1,092	100.0
Sep 03	73.3	-0.8	102.24	1.9	74.97	1.1	32,760	0.0	24,021	-0.8	2,455,962	1.1	5	1,092	100.0
Oct 03	81.7	5.4	101.59	-0.3	82.99	5.0	33,852	0.0	27,655	5.4	2,809,374	5.0	5	1,092	100.0
Nov 03	63.4	-0.3	94.96	1.1	60.22	0.8	32,760	0.0	20,775	-0.3	1,972,867	0.8	5	1,092	100.0
Dec 03	43.8	-1.5	96.08	2.3	42.06	0.8	33,852	0.0	14,817	-1.5	1,423,659	0.8	5	1,092	100.0
Jan 04	46.1	13.5	91.33	1.9	42.11	15.7	33,852	0.0	15,607	13.5	1,425,343	15.7	5	1,092	100.0
Feb 04	52.8	9.2	92.63	6.3	48.88	16.1	30,576	0.0	16,134	9.2	1,494,421	16.1	5	1,092	100.0
Mar 04	59.1	12.0	89.58	2.1	52.94	14.4	33,852	0.0	20,004	12.0	1,792,023	14.4	5	1,092	100.0
Apr 04	72.4	5.3	99.33	3.2	71.89	8.6	32,760	0.0	23,712	5.3	2,355,206	8.6	5	1,092	100.0
May 04	62.7	-6.2	100.32	4.2	62.95	-2.3	33,852	0.0	21,241	-6.2	2,130,961	-2.3	5	1,092	100.0
Jun 04	79.5	1.1	108.89	8.9	86.55	10.0	32,760	0.0	26,040	1.1	2,835,365	10.0	5	1,092	100.0
Jul 04	85.7	0.2	117.79	6.5	100.98	6.7	33,852	0.0	29,020	0.2	3,418,301	6.7	5	1,092	100.0
Aug 04	90.8	-3.3	126.01	8.3	114.37	4.7	33,852	0.0	30,725	-3.3	3,871,631	4.7	5	1,092	100.0
Sep 04	77.2	5.3	112.05	9.6	86.55	15.4	32,760	0.0	25,304	5.3	2,835,287	15.4	5	1,092	100.0
Oct 04	83.6	2.3	109.19	7.5	91.27	10.0	33,852	0.0	28,298	2.3	3,089,794	10.0	5	1,092	100.0
Nov 04	63.2	-0.3	100.32	5.6	63.43	5.3	32,760	0.0	20,714	-0.3	2,078,101	5.3	5	1,092	100.0
Dec 04	45.2	3.3	96.73	0.7	43.72	3.9	33,852	0.0	15,299	3.3	1,479,877	3.9	5	1,092	100.0

### Food & Beverage Assumptions

Marriott	2007	2008	2009
Total Hotel Food & Beverage	3,770,082	4,225,264	4,508,131
Per Available Room	12,823	14,372	15,334
Total CC Food & Beverage	2,176,445	2,505,324	2,777,945
Total Food & Beverage	5,946,527	6,730,588	7,286,076
	20,226	22,893	24,783

PKF Consulting, Hospitality Research	2003		2009	
	All Hotels	Top 25%	All Hotels	Top 25%
Total Hotel per Available Room	10,790	17,858	12,884	21,323
Total CC per Available Room	19,235	26,402	22,968	31,525
Inflation	3.0%			

**Full-Service Hotels**  
**Summary – Dollars per Available Room**  
**Figure Number 12**

	<b>All Full-Service Hotels</b>		<b>Average for Top 25%<sup>3</sup></b>	
	2003	Compared with 2002	2003	Compared with 2002
	(\$)	(%)	(\$)	(%)
<b>Revenues:</b>				
Rooms	24,374	(2.1)	37,828	0.9
Food - including Other Income	8,884	(1.2)	14,405	0.9
Beverage	1,906	1.0	3,453	4.1
Telecommunications	557	(18.8)	1,065	(15.8)
Other Operated Departments	1,295	7.9	2,471	12.9
Rentals and Other Income	400	(10.3)	820	(7.7)
<b>Total Revenues</b>	<b>37,417</b>	<b>(1.8)</b>	<b>60,043</b>	<b>1.0</b>
<b>Departmental Costs and Expenses:</b>				
Rooms	6,872	1.9	9,921	3.8
Food	7,477	2.3	11,959	3.6
Beverage	927	(6.0)	1,546	(4.3)
Telecommunications	430	1.7	670	3.8
Other Operated Departments	783	8.6	1,612	9.2
<b>Total Costs and Expenses</b>	<b>16,489</b>	<b>1.9</b>	<b>25,708</b>	<b>3.5</b>
<b>Total Operated Departmental Income</b>	<b>20,928</b>	<b>(4.6)</b>	<b>34,335</b>	<b>(0.8)</b>
<b>Undistributed Operating Expenses:<sup>2</sup></b>				
Administrative and General	3,426	(0.6)	4,822	0.4
Franchise Fees - including Marketing Fees	1,101	(0.4)	1,296	5.0
Marketing	2,188	1.7	3,135	2.0
Property Operation and Maintenance	1,965	3.8	2,692	4.5
Utility Costs	1,661	7.0	2,025	6.6
Other Unallocated Operated Departments	1	N/C	1	N/C
<b>Total Undistributed Expenses</b>	<b>10,341</b>	<b>1.8</b>	<b>13,971</b>	<b>2.6</b>
<b>Income before Fixed Charges</b>	<b>10,587</b>	<b>(10.1)</b>	<b>20,364</b>	<b>(3.0)</b>
<b>Management Fees, Property Taxes, and Insurance:<sup>2</sup></b>				
Management Fees	1,034	(2.3)	1,569	0.7
Property Taxes and Other Municipal Charges	1,454	1.8	2,228	3.8
Insurance	528	22.5	700	19.6
<b>Total Management Fees, Property Taxes, and Insurance</b>	<b>3,017</b>	<b>3.4</b>	<b>4,497</b>	<b>4.8</b>
<b>Income before Other Fixed Charges<sup>1</sup></b>	<b>7,570</b>	<b>(14.6)</b>	<b>15,867</b>	<b>(5.1)</b>
<b>Percentage of Occupancy</b>	<b>63.7%</b>	<b>-</b>	<b>71.2%</b>	<b>2.4</b>
<b>Average Daily Rate per Occupied Room</b>	<b>\$ 105.58</b>	<b>(2.2)</b>	<b>\$ 146.90</b>	<b>(1.6)</b>
<b>Average Size (Rooms)</b>	<b>261</b>	<b>(0.1)</b>	<b>293</b>	<b>(0.1)</b>

Note: Payroll Taxes & Employee Benefits distributed to each department

**SOURCE: HRG / PKF Consulting**

**Convention Hotel**  
**Summary – Dollars per Available Room**  
**Figure Number 27**

	<b>All Convention Hotels</b>		<b>Average for Top 25%<sup>3</sup></b>	
	<b>2003</b>	<b>Compared</b>	<b>2003</b>	<b>Compared</b>
	<b>(\$)</b>	<b>with 2002</b>	<b>(\$)</b>	<b>with 2002</b>
		<b>(%)</b>		<b>(%)</b>
<b>Revenues:</b>				
Rooms	36,631	(2.6)	47,009	(2.6)
Food - including Other Income	15,975	(1.7)	22,122	0.8
Beverage	3,260	(2.7)	4,280	(3.3)
Telecommunications	1,150	(14.6)	1,562	(14.8)
Other Operated Departments	1,615	7.8	2,336	8.8
Rentals and Other Income	1,428	(8.8)	1,943	(4.7)
<b>Total Revenues</b>	<b>60,059</b>	<b>(2.6)</b>	<b>79,252</b>	<b>(1.8)</b>
<b>Departmental Costs and Expenses:</b>				
Rooms	10,275	4.1	12,331	5.0
Food	12,891	1.8	17,126	4.7
Beverage	1,330	(3.9)	1,554	3.0
Telecommunications	599	3.5	697	5.7
Other Operated Departments	931	14.7	1,144	8.7
<b>Total Costs and Expenses</b>	<b>26,027</b>	<b>2.8</b>	<b>32,853</b>	<b>4.9</b>
<b>Total Operated Departmental Income</b>	<b>34,032</b>	<b>(6.3)</b>	<b>46,399</b>	<b>(6.0)</b>
<b>Undistributed Operating Expenses:<sup>2</sup></b>				
Administrative and General	4,405	4.0	4,656	0.3
Franchise Fees - including Marketing Fees	796	(3.6)	925	(4.6)
Marketing	2,963	0.2	3,103	(1.6)
Property Operation and Maintenance	2,882	3.5	3,309	5.9
Utility Costs	2,236	5.0	2,470	1.0
Other Unallocated Operated Departments	3	N/C	8	N/C
<b>Total Undistributed Expenses</b>	<b>13,286</b>	<b>2.7</b>	<b>14,471</b>	<b>0.9</b>
<b>Income before Fixed Charges</b>	<b>20,746</b>	<b>(11.3)</b>	<b>31,928</b>	<b>(8.8)</b>
<b>Management Fees, Property Taxes, and Insurance:<sup>2</sup></b>				
Management Fees	1,484	(2.0)	1,396	(3.4)
Property Taxes and Other Municipal Charges	3,285	7.1	4,261	6.9
Insurance	755	19.6	899	20.7
<b>Total Management Fees, Property Taxes, and Insurance</b>	<b>5,524</b>	<b>5.9</b>	<b>6,556</b>	<b>6.2</b>
<b>Income before Other Fixed Charges<sup>1</sup></b>	<b>15,223</b>	<b>(16.2)</b>	<b>25,372</b>	<b>(12.0)</b>
<b>Percentage of Occupancy</b>	<b>68.3%</b>	<b>0.3</b>	<b>75.1%</b>	<b>1.6</b>
<b>Average Daily Rate per Occupied Room</b>	<b>\$148.25</b>	<b>(2.9)</b>	<b>\$172.65</b>	<b>(4.3)</b>
<b>Average Size (Rooms)</b>	<b>814</b>	<b>0.3</b>	<b>1,018</b>	<b>0.4</b>

Note: Payroll Taxes & Employee Benefits distributed to each department

SOURCE: HRG / PKF Consulting

**Convention Hotel**  
**Ratios to Total Revenues**  
*Figure Number 25*

	<b>All Convention Hotels (%)</b>	<b>Average for Top 25%<sup>3</sup> (%)</b>
<b>Revenues:</b>		
Rooms	61.0	59.3
Food - including Other Income	26.6	27.9
Beverage	5.4	5.4
Telecommunications	1.9	2.0
Other Operated Departments	2.7	3.0
Rentals and Other Income	2.4	2.5
<b>Total Revenues</b>	<b>100.0</b>	<b>100.0</b>
<b>Departmental Costs and Expenses:</b>		
Rooms	17.1	15.6
Food	21.5	21.6
Beverage	2.2	2.0
Telecommunications	1.0	0.9
Other Operated Departments	1.6	1.4
<b>Total Costs and Expenses</b>	<b>43.3</b>	<b>41.5</b>
<b>Total Operated Departmental Income</b>	<b>56.7</b>	<b>58.6</b>
<b>Undistributed Operating Expenses:<sup>2</sup></b>		
Administrative and General	7.3	5.9
Franchise Fees - including Marketing Fees	1.3	1.2
Marketing	4.9	3.9
Property Operation and Maintenance	4.8	4.2
Utility Costs	3.7	3.1
Other Unallocated Operated Departments	-	-
<b>Total Undistributed Expenses</b>	<b>22.1</b>	<b>18.3</b>
<b>Income before Fixed Charges</b>	<b>34.5</b>	<b>40.3</b>
<b>Management Fees, Property Taxes, and Insurance:<sup>2</sup></b>		
Management Fees	2.5	1.8
Property Taxes and Other Municipal Charges	5.5	5.4
Insurance	1.3	1.1
<b>Total Management Fees, Property Taxes, and Insurance</b>	<b>9.2</b>	<b>8.3</b>
<b>Income before Other Fixed Charges<sup>1</sup></b>	<b>25.4</b>	<b>32.0</b>
<b>Percentage of Occupancy</b>	<b>68.3%</b>	<b>75.1%</b>
<b>Average Daily Rate per Occupied Room</b>	<b>\$ 148.25</b>	<b>\$ 172.65</b>
<b>Average Size (Rooms)</b>	<b>814</b>	<b>1,018</b>

Note: Payroll Taxes & Employee Benefits distributed to each department



**Full-Service Hotels**  
**Ratios to Total Revenues**  
*Figure Number 10*

	<b>All Full-Service Hotels (%)</b>	<b>Average for Top 25%<sup>3</sup> (%)</b>
<b>Revenues:</b>		
Rooms	65.1	63.0
Food - including Other Income	23.7	24.0
Beverage	5.1	5.8
Telecommunications	1.5	1.8
Other Operated Departments	3.5	4.1
Rentals and Other Income	1.1	1.4
<b>Total Revenues</b>	<b>100.0</b>	<b>100.0</b>
<b>Departmental Costs and Expenses:</b>		
Rooms	18.4	16.5
Food	20.0	19.9
Beverage	2.5	2.6
Telecommunications	1.2	1.1
Other Operated Departments	2.1	2.7
<b>Total Costs and Expenses</b>	<b>44.1</b>	<b>42.8</b>
<b>Total Operated Departmental Income</b>	<b>55.9</b>	<b>57.2</b>
<b>Undistributed Operating Expenses:<sup>2</sup></b>		
Administrative and General	9.2	8.0
Franchise Fees - including Marketing Fees	2.9	2.2
Marketing	5.9	5.2
Property Operation and Maintenance	5.3	4.5
Utility Costs	4.4	3.4
Other Unallocated Operated Departments	-	-
<b>Total Undistributed Expenses</b>	<b>27.6</b>	<b>23.3</b>
<b>Income before Fixed Charges</b>	<b>28.3</b>	<b>33.9</b>
<b>Management Fees, Property Taxes, and Insurance:<sup>2</sup></b>		
Management Fees	2.8	2.6
Property Taxes and Other Municipal Charges	3.9	3.7
Insurance	1.4	1.2
<b>Total Management Fees, Property Taxes, and Insurance</b>	<b>8.1</b>	<b>7.5</b>
<b>Income before Other Fixed Charges<sup>1</sup></b>	<b>20.2</b>	<b>26.4</b>
<b>Percentage of Occupancy</b>	<b>63.7%</b>	<b>71.2%</b>
<b>Average Daily Rate per Occupied Room</b>	<b>\$ 105.58</b>	<b>\$ 146.90</b>
<b>Average Size (Rooms)</b>	<b>261</b>	<b>293</b>

Note: Payroll Taxes & Employee Benefits distributed to each department

Tax	Rate	Beneficiary	Comment
Property Taxes			
Base Market Value	\$ 1,458,600		Current Assessed Market Value
Projected Market @ Stabilization	28,310,000		Projected NOI Capped @12%
Common Value Ratio	1		County Wide Re-assessment in 2004
City Millage Rate	0.824%	City	2004 Millage
County Millage rate	0.285%	County	2004 Millage
School Millage rate	2.032%	School	2004 Millage
Total Millage	3.141%		
Inflation Factor	2.50%		
Wage Tax			
Construction Jobs	550	City/County	2 Years
Average Construction Wage	35,000		
Full Time Equivalent Positions Hotel/Convention Center: Service	163	City/County	
Average Service Wage	16,500		
Full Time Equivalent Positions Hotel/Convention Center: Mgmt	44	City/County	
Average Management Wage	37,500		
Percentage City Residents	55%		
Emergency Maintenance Service Tax	52	City	Flat Tax Per Employee
Earned Income Tax: School District	0.50%	School	
Earned Income Tax: City	0.60%	City	
Average Hotel Wage	20,964		

1,000: per Room  
300 Rooms

Source of Tax Revenue				Uses of Tax Revenue				FSP Contribution				Total Revenue Collected			
Year	Property	EMS	Wage	Total	City	School	County	Bonds/Capital	Total	City	School	County	City	School	County
2005	47.0	15.7	116.5	179.2	91.6	83.3	4.3	0.0	179.2	0	0	0	91.6	83.3	4.3
2006	48.1	15.7	119.4	183.2	93.2	84.6	4.3	1.2	183.2	0	0	0	93.2	84.6	4.3
2007	800.3	10.8	26.3	837.3	37.4	42.3	4.3	753.3	837.3	87.7	69.6	0	125.1	111.9	4.3
2008	820.3	10.8	26.9	858.0	37.8	42.6	4.3	773.4	858.0	87.7	69.6	0	125.1	111.9	4.3
2009	840.8	10.8	27.6	879.2	38.1	42.9	4.3	793.9	879.2	118.8	131.9	0	157.0	174.9	4.3
2010	861.8	10.8	28.3	900.9	38.5	43.2	4.3	814.9	900.9	161.3	216.8	0	199.8	260.0	4.3
2011	883.4	10.8	29.0	923.1	38.9	43.6	4.3	836.4	923.1	171.8	237.8	0	210.7	281.4	4.3
2012	905.5	10.8	29.7	945.9	39.3	43.9	4.3	858.5	945.9	182.7	259.6	0	221.9	303.5	4.3
2013	928.1	10.8	30.4	969.3	39.7	44.2	4.3	881.1	969.3	193.9	282.0	0	233.5	326.2	4.3
2014	951.3	10.8	31.2	993.3	40.1	44.6	4.3	904.3	993.3	205.4	305.0	0	245.5	349.6	4.3
2015	975.1	10.8	32.0	1,017.8	40.5	44.9	4.3	928.1	1,017.8	217.3	328.8	0	257.8	373.7	4.3
2016	999.5	10.8	32.8	1,043.0	41.0	45.3	4.3	952.5	1,043.0	229.5	353.2	0	270.5	398.5	4.3
2017	1,024.5	10.8	33.6	1,068.8	41.4	45.7	4.3	977.5	1,068.8	242.1	378.4	0	283.5	424.1	4.3
2018	1,050.1	10.8	34.4	1,095.3	41.9	46.0	4.3	1,003.1	1,095.3	255.1	404.4	0	296.9	450.4	4.3
2019	1,076.3	10.8	35.3	1,122.4	42.3	46.4	4.3	1,029.4	1,122.4	268.4	431.1	0	310.8	477.5	4.3
2020	1,103.2	10.8	36.2	1,150.2	42.8	46.8	4.3	1,056.3	1,150.2	282.2	458.6	0	325.0	505.5	4.3
2021	1,130.8	10.8	37.1	1,178.7	43.3	47.2	4.3	1,083.8	1,178.7	296.4	487.0	0	339.7	534.2	4.3
2022	1,159.1	10.8	38.0	1,207.9	43.8	47.7	4.3	1,112.1	1,207.9	311.0	516.2	0	354.8	563.8	4.3
2023	1,188.1	10.8	39.0	1,237.8	44.3	48.1	4.3	1,141.1	1,237.8	326.0	546.2	0	370.3	594.3	4.3
2024	1,217.8	10.8	39.9	1,268.5	44.9	48.5	4.3	1,170.8	1,268.5	341.5	577.2	0	386.3	625.7	4.3
	18,010.9	225.2	823.6	19,059.7	920.8	981.9	85.2	17,071.7	19,059.7	3,978.4	6,033.4	0	4,899.2	7,035.4	85.2

The financial analysis above is based on assumed inflation rates and interest rates and are subject to change based on actual rates and market conditions.

## Uses of Tax Revenue

Total New Revenue to City	4,652.8
Total New Revenue to School District	6,427.8

Total New Revenue to City	4,652.8
Total New Revenue to School District	6,427.8

Total New Revenue to City	4,652.8
Total New Revenue to School District	6,427.8

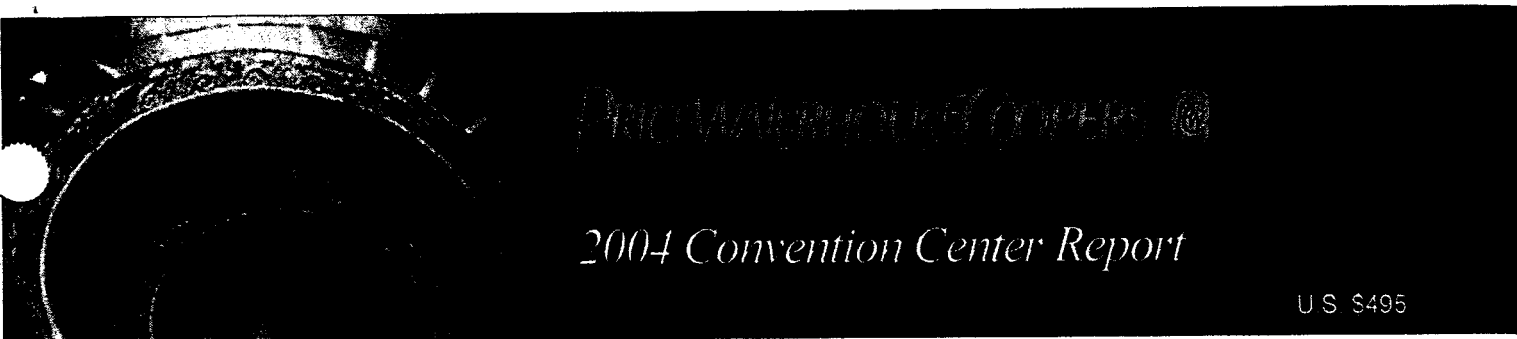
Total New Revenue to City	4,652.8
Total New Revenue to School District	6,427.8

**Breakdown of Sources of Revenue to Tax Authority**

City of Lancaster				
Real Estate	EMS	Wage	Priority	Participation
12.3	15.7	63.5	0.0	0.0
12.3	15.7	65.1	0.0	0.0
12.3	10.8	14.3	87.7	0.0
12.3	10.8	14.7	87.7	0.0
12.3	10.8	15.0	87.7	31.2
12.3	10.8	15.4	87.7	73.6
12.3	10.8	15.8	87.7	84.1
12.3	10.8	16.2	87.7	95.0
12.3	10.8	16.6	87.7	106.2
12.3	10.8	17.0	87.7	117.7
12.3	10.8	17.4	87.7	129.6
12.3	10.8	17.9	87.7	141.8
12.3	10.8	18.3	87.7	154.4
12.3	10.8	18.8	87.7	167.4
12.3	10.8	19.3	87.7	180.7
12.3	10.8	19.7	87.7	194.5
12.3	10.8	20.2	87.7	208.7
12.3	10.8	20.7	87.7	223.3
12.3	10.8	21.3	87.7	238.3
12.3	10.8	21.8	87.7	253.8
246.4	225.2	449.2	1,578.3	2,400.1
				4,899.2

Lancaster School District				
Real Estate	Wage	Priority	Participation	Total
30.4	52.9	0.0	0.0	83.3
30.4	54.3	0.0	0.0	84.6
30.4	11.9	69.6	0.0	111.9
30.4	12.2	69.6	0.0	112.2
30.4	12.5	69.6	62.3	174.9
30.4	12.9	69.6	147.1	260.0
30.4	13.2	69.6	168.2	281.4
30.4	13.5	69.6	190.0	303.5
30.4	13.8	69.6	212.3	326.2
30.4	14.2	69.6	235.4	349.6
30.4	14.5	69.6	259.1	373.7
30.4	14.9	69.6	283.6	398.5
30.4	15.3	69.6	308.8	424.1
30.4	15.7	69.6	334.8	450.4
30.4	16.0	69.6	361.5	477.5
30.4	16.5	69.6	389.0	505.5
30.4	16.9	69.6	417.4	534.2
30.4	17.3	69.6	446.6	563.8
30.4	17.7	69.6	476.6	594.3
30.4	18.2	69.6	507.6	625.7
607.6	374.3	1,253.2	4,800.3	7,035.4

# ARTICLES



## 2004 Convention Center Report

U.S. \$495

### Center Performance Suggests Convention and Trade Show Industry Rebounded in 2004

Despite recent controversial claims to the contrary, this edition of the PricewaterhouseCoopers Convention Center Report signals significant improvements in the performance of convention centers. As most of you know, the claims that I am referring to resulted from a one-sided and limited analysis of the largest 200 trade shows in North America and a comparison of recent attendance trends to figures that pre-date the economic recession, war, acts of terrorism threats, the "dot-com" collapse, and other factors that impacted not only convention centers, but most industries.

In this, our 20th year of publishing the *Report*, we continue to provide our survey participants and readers with responsible and objective indicators of convention center performance. For example, rather than rely on some inconsistent metrics reported by a limited number of event organizers—some of which may have little to gain from reporting accurate event performance data—we pioneered the use of *Occupied Square Foot Days* as the industry standard measure of exhibit hall demand—a metric that is based on actual hall usage as reported by convention center management.

We are encouraged by many of the performance indicators reported in this year's *Convention Center Report*, including:

- an increase in convention & trade show occupancy rates among centers with greater than 500,000 square feet and those with less than 100,000 square feet. For mid-sized centers, between 100,000 and 500,000 square feet, convention & trade show occupancy was stable, while total convention, trade show and consumer show occupancy increased by over two percentage points; and

- an increase in convention & trade show occupancy rates among all categories, when broken out by destination type (Gateway, National, and Regional centers).

Given that we naturally experience some inconsistency in the centers that report from one year to the next, and recognizing that comparing overall survey results may be misleading, we compared the convention and trade show performance (demand for space and attendance) among the subset of centers that reported results in both years (the majority of our participants). These results are also encouraging, and indicative of continued improvement in convention and trade show demand:

- 2003 to 2004 increase in occupied square foot days (demand for space) from conventions and trade shows of 9 percent!
- 2003 to 2004 increase in attendance to conventions and trade shows of 14 percent!

These are dramatic results that do not include public/consumer shows. They represent increases in demand associated with the high-impact events that spend millions of dollars in your communities' lodging, dining, entertainment, and other establishments.

You will notice, in response to your requests, that this year's *Report* incorporates those metrics reported last year, as well as a new metric: "Ballroom Occupancy." As in previous years, our destination categories include *Gateway* destinations (greater than 30,000 hotel rooms in the metropolitan area), *National* destinations (between 15,000 and 30,000 rooms), and *Regional* destinations (less than 15,000 hotel rooms or secondary/tertiary convention facilities in markets with more than 15,000 hotel rooms). Like last year, we've added size categories including centers with *greater than 500,000 square feet*, *100,000 to 500,000 square feet*, and *less than 100,000 square feet*.

I hope this year's *Convention Center Report* provides timely information during a period when many of you are fielding tough questions regarding the industry.

Robert V. Canton, Director  
PwC Convention & Tourism Service

## DISTRIBUTION OF SURVEY PARTICIPANTS

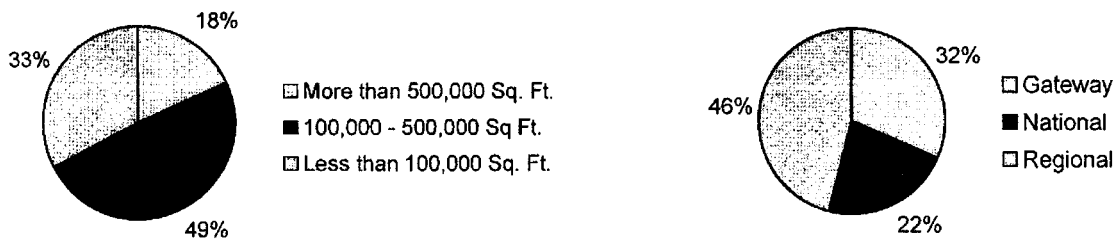
Our report presents results in terms of both exhibit hall size and destination type. Exhibit hall size categories include the following classifications:

- More than 500,000 square feet of exhibit space;
- Between 100,000 and 500,000 square feet of exhibit space; and
- Less than 100,000 square feet of exhibit space.

As in previous years, our destination categories include Gateway, National and Regional destinations, defined as follows:

- **Gateway** destinations contain more than 30,000 hotel rooms in the metropolitan area;
- **National** destinations contain between 15,000 and 30,000 hotel rooms in the metropolitan area; and
- **Regional** destinations have less than 15,000 hotel rooms, or are secondary/ tertiary convention facilities in markets with more than 15,000 hotel rooms.

The following charts present the distribution of survey participants.



As illustrated, nearly half of the centers (49 percent) fall within the range of 100,000 to 500,000 square feet of exhibition space. In terms of destination type, 46 percent of centers are classified as Regional destinations. It is important to note that such a large percentage of centers are located in Regional destinations because this category includes centers in destinations with less than 15,000 hotel rooms, as well as centers that are not the primary convention facility in the metropolitan area.

## CENTER MANAGEMENT

We have also presented a breakdown of the respondents by type of facility management.

	Private Company	Quasi-Public Convention Ctr Authority	Department of City/County Government	Other
<b>Center Size:</b>				
More than 500,000 Sq. Ft.	29%	36%	36%	0%
100,000 to 500,000 Sq Ft.	38%	11%	35%	16%
Less than 100,000 Sq. Ft.	24%	28%	36%	12%
<b>Destination Type:</b>				
Gateway	33%	21%	38%	8%
National	29%	24%	35%	12%
Regional	31%	20%	34%	14%

## CENTER PERSONNEL

The following table illustrates the number of permanent full-time, permanent part-time, and full-time-equivalent personnel employed by the responding centers.

	Full-time	Part-Time	Full-time Equivalent
<b>Center Size:</b>			
More than 500,000 Sq. Ft.	206	167	258
100,000 to 500,000 Sq. Ft.	91	108	135
Less than 100,000 Sq. Ft.	35	116	78
<b>Destination Type:</b>			
Gateway	168	131	210
National	77	122	124
Regional	52	116	99

## OCCUPANCY RATES

A good measure of facility utilization is exhibit hall occupancy rate, which describes the amount of space occupied or rented during the year as a percent of the total amount of space available for rent. It is impossible for any convention center to realize 100 percent occupancy of its exhibit hall space from conventions/trade shows and consumer shows. Major trade shows and conventions require "blocks" of several days to permit set-up and move-out, as well as time for the event itself. As a result, scheduling often leaves small gaps of time that cannot be filled by events requiring several days. Historically, it has been recognized industry-wide that the "practical" maximum exhibit hall occupancy rate is approximately 70 percent; however, we consider an "efficient" range to be approximately 50 to 60 percent. Generally speaking, occupancy levels less than 50 percent suggest the existence of marketable opportunities or open dates, while an occupancy rate of 60 percent or greater increases the potential for significant lost business or "turn-aways."

For the first time, we are reporting ballroom occupancy in addition to exhibit hall occupancy. The following chart illustrates both exhibit hall and ballroom occupancy rates for participating centers.

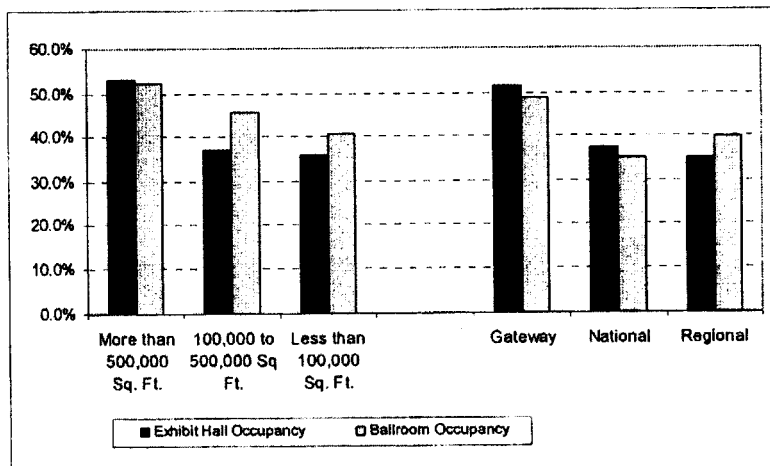
	EXHIBIT HALL OCCUPANCY			BALLROOM OCCUPANCY
	Conventions / Trade Shows	Consumer Shows	Total Ex. Hall Occupancy	
<b>Center Size:</b>				
More than 500,000 Sq. Ft.	44.5%	8.5%	53.0%	52.1%
100,000 to 500,000 Sq Ft.	22.0%	14.9%	36.9%	45.5%
Less than 100,000 Sq. Ft.	19.0%	16.7%	35.7%	40.3%
<b>Destination Type:</b>				
Gateway	42.4%	9.0%	51.5%	48.9%
National	21.6%	15.6%	37.2%	34.8%
Regional	18.7%	16.1%	34.8%	39.7%

Note: Occupancy is defined as the ratio of occupied square foot days (OSFD) to available square foot days (ASFD). These two terms refer to the gross square feet of exhibit space occupied or rented during the year as a percent of the total amount of space available for rent. OSFD is calculated as the product of total exhibit space utilized per event and the number of event days (including move-in/move-out). ASFD is calculated as the product of total exhibit space and 365 days.



The adjacent graph compares exhibit hall occupancy to ballroom occupancy rates for centers both by size and by destination type.

This graphic confirms what many of us already knew—that the exhibit halls are the most often used spaces in the largest centers, while mid-tier and smaller centers rely much more on their ballrooms relative to their exhibition halls.



## ATTENDANCE AND EVENTS

Survey participants were asked to identify the total number of events and total attendance associated with exhibit hall utilization. Therefore, the following tables present a summary of convention center attendance and event characteristics, excluding any small meetings or other events that did not utilize the exhibition hall. Some figures may not add due to rounding.

**Total Attendance and Event Characteristics for Exhibit Hall Events**

	ATTENDANCE			NUMBER OF EVENTS		
	Conventions / Trade Shows	Consumer Shows	Total Exhibit Hall	Conventions / Trade Shows	Consumer Shows	Total Exhibit Hall
<b>Center Size:</b>						
More than 500,000 Sq. Ft.	645,000	383,000	1,029,000	49	21	70
100,000 to 500,000 Sq. Ft.	173,000	286,000	459,000	43	26	69
Less than 100,000 Sq. Ft.	53,000	82,000	136,000	33	23	57
<b>Destination Type:</b>						
Gateway	430,000	341,000	771,000	48	21	69
National	217,000	218,000	435,000	39	30	70
Regional	66,000	170,000	236,000	38	25	62

**Average Attendance of Exhibit Hall Events**

	Conventions / Trade Shows	Consumer Shows
<b>Center Size:</b>		
More than 500,000 Sq. Ft.	14,500	24,800
100,000 to 500,000 Sq. Ft.	4,200	11,100
Less than 100,000 Sq. Ft.	2,000	3,800
<b>Destination Type:</b>		
Gateway	10,100	20,000
National	4,700	6,100
Regional	2,400	7,400

### Total Facility Event Count & Event Attendance Characteristics

	Average Event Count	Average Event Attendance
<b>Center Size:</b>		
More than 500,000 Sq. Ft.	170	1,178,000
100,000 to 500,000 Sq Ft.	309	714,000
Less than 100,000 Sq. Ft.	364	282,000
<b>Destination Type:</b>		
Gateway	228	1,039,000
National	272	684,000
Regional	367	384,000

We have also presented the total number of events and attendance from all events held in convention centers (both exhibit hall and non-exhibit hall events), regardless of size. Events are defined as one activity or a series of related activities. For example, either a three-day conference or single three-hour local banquet would be classified as a single event. A banquet that is part of the conference, however, would not be classified as a separate event.

### BUILDING RENTAL RATES

	Conventions / Trade Shows	Consumer Shows
<b>Center Size:</b>		
More than 500,000 Sq. Ft.	\$0.05	\$0.06
100,000 to 500,000 Sq Ft.	\$0.06	\$0.06
Less than 100,000 Sq. Ft.	\$0.09	\$0.09
<b>Destination Type:</b>		
Gateway	\$0.06	\$0.07
National	\$0.07	\$0.05
Regional	\$0.08	\$0.08

The adjacent table presents a summary of convention center rental rate characteristics. Centers were asked to identify gross rental revenue for leasable space (exhibit hall, meeting rooms, and ballroom) associated with the event types identified in the tables. Rates presented are per square foot per day. Figures are presented as "effective rates" per gross square foot of exhibit space occupied, thereby providing a method of comparison that accounts for free or discounted days for move-in and move out, discounts off published rates, and other such factors.

### FOOD & BEVERAGE REVENUE

The following tables present a summary of convention center food & beverage characteristics. Centers were asked to provide their gross food & beverage sales associated with exhibit hall events (conventions/trade shows and consumer shows).

	Conventions / Trade Shows	Consumer Shows
<b>Center Size:</b>		
More than 500,000 Sq. Ft.	\$19.11	\$2.01
100,000 to 500,000 Sq Ft.	\$15.17	\$2.35
Less than 100,000 Sq. Ft.	\$15.93	\$1.36
<b>Destination Type:</b>		
Gateway	\$17.41	\$1.92
National	\$13.80	\$2.59
Regional	\$16.50	\$1.54

We also report on the breakdown of centers that provide catering and concessions in-house, versus those that have an exclusive contractor or a flexible arrangement. As illustrated, the vast majority of centers use an exclusive, third-party provider for catering and concession service to events.

	Exclusive Center	Exclusive Contractor	Other / Multiple Contractors
<b>Center Size:</b>			
More than 500,000 Sq. Ft.	21.4%	78.6%	0.0%
100,000 to 500,000 Sq Ft.	29.7%	70.3%	0.0%
Less than 100,000 Sq. Ft.	20.0%	72.0%	8.0%
<b>Destination Type:</b>			
Gateway	20.8%	79.2%	0.0%
National	23.5%	76.5%	0.0%
Regional	28.6%	65.7%	5.7%

## HOTEL ROOM NIGHTS

Center management was asked to report on the estimated total hotel room nights associated with conventions and trade shows that utilized exhibit space. The following table presents the average number of room nights generated by convention centers, by destination type and center size. It is worth noting that room night estimates are often based on convention and visitor bureau reports or other measures of hotel room "pick-ups." However, particularly in well-established destinations, many event delegates and exhibitors will attend the event, yet fail to utilize the association's room-block. Booking "outside the block" is becoming particularly prevalent with more and more attendees booking rooms on-line or through corporate rates that may be more favorable. Therefore, the figures presented in these tables may understate the impact of convention centers on the hotel community, with some of the hotel's "corporate" or "leisure" demand actually resulting from center activity.

	Hotel Room Nights
<b>Center Size:</b>	
More than 500,000 Sq. Ft.	947,000
100,000 to 500,000 Sq Ft.	166,000
Less than 100,000 Sq. Ft.	36,000
<b>Destination Type:</b>	
Gateway	637,000
National	123,000
Regional	80,000



PricewaterhouseCoopers is the world's largest professional services organization. Drawing on the knowledge and skills of more than 125,000 people in 142 countries, we help our clients solve complex business problems and measurably enhance their ability to build value, manage risk, and improve performance.

The specialists in PricewaterhouseCoopers' Sports, Convention & Tourism practice have unparalleled experience providing strategic planning, market and economic analyses to the convention and tourism industries. Our clients include destination marketing organizations, owners/operators/managers of convention centers, conference centers, civic centers, exhibition centers, performing arts venues, sports venues, and other tourism sectors.



The Sports, Convention & Tourism practice provides focused services that support the sound decision-making and competitive advantage realized by our clients. We typically provide services in the following areas:

- market demand and utilization estimates
- expansion planning/building programs
- revenue and yield management analyses
- financial operations analyses
- economic and fiscal impact analyses
- best practices analysis
- financing and funding options
- development strategies and planning
- target market analysis
- site evaluation and ranking
- operational/performance audits
- headquarter hotel development and funding
- governance and organizational analyses
- marketing and management options
- development cost assessment
- benchmarking/competitive analysis

For further information regarding PricewaterhouseCoopers services, please contact:

PricewaterhouseCoopers  
Attn: Robert V. Canton, Director  
101 E. Kennedy Blvd., Suite 1500  
Tampa, Florida 33602  
Phone: (813) 218-2917  
E-mail: [robert.canton@us.pwc.com](mailto:robert.canton@us.pwc.com)  
Web: [www.pwc.com/tourism](http://www.pwc.com/tourism)



The International Association of Assembly Managers is the world's largest professional association dedicated to issues relevant to the management of public assembly facilities. Members of the association manage public assembly facilities such as amphitheaters, arenas, auditoriums, convention centers/exhibit halls, performing arts venues, stadiums and university complexes; or provide products, services or attractions to support the industry. IAAM has more than 3,500 members worldwide and is a founding member of the World Council for Venue Management (WCVM).

The International Convention Center Conference is a meeting hosted by IAAM that focuses on pertinent issues within the convention and exhibition industry. Its purpose is to facilitate an exchange of information and ideas between all stakeholders of the meetings industry including facility managers, convention bureau officials, exhibit hall operators, association executives, trade show managers, suppliers and many others. ICC is designed as an avenue to relay operational benchmarks, promote communication across entities, and encourage continuous improvement within the industry. It has also provided a forum to present the information contained within this survey.

For more information on IAAM or ICC, contact the IAAM World Headquarters at (800) 935-4226, or visit our website at [www.iaam.org](http://www.iaam.org).

## **Foreword**

As President of the International Association of Convention and Visitor Bureaus, I have had the pleasure of working with John Kaatz of CSL on this white paper.

Many industry experts have contributed to this work from an editing point of view. IACVB would especially like to acknowledge Jack Corgel, Ph. D. professor of Finance, Accounting and Real Estate at Cornell University Scholl of Hotel Administration for his contributions.

John Kaatz is an extremely qualified expert to author this white paper. As the pressure to maximize facility operating revenues has increased throughout the industry, John has assisted facility management in identifying and quantifying sources of revenue enhancement.

Prior to joining CSL, John was the Director of Coopers & Lybrand's Sports, Entertainment and Leisure Consulting Group. He has spoken at many industry forums related to market analysis and the economic impacts associated with the convention and public assembly industry. John has testified before local and state-wide public bodies related to public sector implications of convention center development and expansion projects. He has also been quoted in the *Wall Street Journal*, *New York Times*, *Meeting News* and numerous local publications.

Michael D. Gehrish  
mgehrisch@iacvb.org  
IACVB  
November 2004

## **Comments on Industry Supply, Demand and other Characteristics of Convention Industry Development**

We work in a highly measured industry, with numerous organizations attempting to track industry supply and demand. Event planners of every type are surveyed time after time to gauge direction in event size and number. Publications are dedicated to identifying new and planned convention center projects. There are literally hundreds of articles that discuss industry conditions, and hundreds more feasibility studies designed to measure viability of a project in a given market. Within this context of industry measurement and analysis, a somewhat profound disagreement has evolved as to the very basic underpinnings of convention center development and sustainability.

The process has become familiar; a convention center feasibility study is completed, after which a local opposition group searches the Internet to find one of several individuals who generally and consistently question the wisdom of facility development. In the thoughts that follow, an attempt is made to understand and critically evaluate the basis for the rash of industry criticism that has evolved over the past several years.

### **Who Pays the Bills?**

One aspect of the industry that is rarely discussed by the most vocal of critics is the fundamental source of capital for facility development. Who is paying for the expansion of facility capacity and the improvement to facility amenities?

Overwhelmingly it is the visitor industry that is footing the bill for facility development. In Cincinnati, the president of the hotel association argues in front of city council for an increase in the hotel tax of over 6 percent to fund a major convention center project. He understands the fundamental nature of the convention industry in supporting room night generation. In Denver, the hotel association strongly argues that an increase in the hotel tax to support center expansion will help build a foundation on which community-wide room nights can grow.

In effect, the public sector is often simply a conduit to allocate funds provided by the visitor industry to support added visitors, convention and overall economic impact. In cases where revenue bonds are issued, as in Washington D.C. for the new Washington Convention Center for example, there are no significant risks to the public sector. In fact, if there are shortfalls in paying debt, the tax on hotel sales is automatically increased.

It should be noted that there can be risks in cases where the public sector guarantees bond payments from the general fund if visitor industry tax revenues fall short. This was the difficult experience for the City of Los Angeles when the hotel economy significantly worsened shortly after bonds were issued and hotel tax collections failed to reach projections. For the most part, with sufficiently high debt service coverage ratios and reserves, risks can be mitigated even in cases where the public sector is on the hook for convention center bond payments. As an aside, convention center financing drawing on the entire base of hotels in a market does not carry the potential risks associated with single hotel financing which relies on revenues from one property.

### **One Size Fits One**

It has to be recognized that every market is unique, with differing demand generators and unique objectives for a facility. Critics of the industry routinely fail to recognize this, and always fall back on the "demand is stagnant and supply is growing – you do the math" argument. This is an overly simplistic argument, and usually wrong headed. Perhaps one has to have actually conducted an industry feasibility study in order to grasp the significant diversity in the types of events attracted to convention facilities in differing markets.

For example, one large-market center (Javits Center in New York, for example) may rely heavily on trade events drawn to the unique industries present in the market area, with rotating association events of less importance. Conversely, another large market (New Orleans, for example) may have relatively little corporate base, and it is the rotating association and corporate market that is drawn to the local entertainment environment.

I have read articles from critics of the industry that fail to grasp these differences, comparing all large markets with the same standards of event demand. And as pointed out later in this article, critics compound this shortcoming with a misinterpretation of published industry data to less than informed conclusions.

In many other cases, particularly in mid-sized communities, a facility event calendar may include conventions and tradeshow on a state, regional and national level, combined with consumer events, entertainment events, local government meetings, banquets, religious events, job training events, high school functions, fund raisers and a wide variety of other activities that create what is in effect a community gathering place. The rationale for these facilities is often the accommodation of a blend of events, with conventions and trade events serving as only one component of facility justification.

The critics of the industry offer simplistic assessments that focus solely on conventions and miss the point that such mid-market facilities often serve a broader purpose. This is an inherent flaw in many of the critical articles or papers I've read criticizing the industry. These papers, often published by University professors or major accounting firms, attempt to build a case against facility development by focusing solely on data sources that track demand for national association events, ignoring the wide variety of other events that create the vitality of event use for most centers around the country.

Lacking the necessary industry insight, these articles can and do result in incorrect assessments regarding the integrity of the study and the condition of the industry. In effect, as hard as critics may try, there isn't a brush broad enough to paint the demand picture for the entire industry.

### **Demand is Increasing**

As studied as the convention industry is, it is very difficult to represent current demand for convention space from all event types in all economic sectors. *Tradeshow Week*, a useful source for industry consultants and critics alike, doesn't focus on corporate activity. This means companies such as Microsoft, General Electric, and McDonalds - huge demand generators are not reflected. Yet industry critics, including major accounting firms and university professors, cite the data without interpretation, without any insight into the limitations of the data.

And that's not the extent of the misinterpretations. Industry critics also cite surveys included in various industry publications as sources for demand growth, or lack of it. The critics don't note that most of these surveys are extrapolated to a subscriber base (which in some cases hasn't changed materially in many years), and therefore don't fully reflect industry growth.

Again, we have a world of critics that dip an analytical toe into the convention industry, continually misinterpret data, and spread weakly supported findings as though gospel.

When you focus on reality, there are encouraging signs for the industry. CSL recently completed a survey of 127 planners of large convention and trade events from both association and corporate segments. Results indicate that between 63 and 75 percent of planners surveyed foresee exhibit space growth over the next two to five years. Similar data is registered for growth in attendance. Even more encouraging, between 96 and 97 percent of planners surveyed projected increases in number of events held.

Our recent surveys also indicate that the strongest source of event growth will come from the corporate sector (very difficult to consistently measure) as opposed to association or SMERF segments.



Finally, there is also a profit motive at work in the convention and tradeshow industry. Private show owners have invested millions of dollars acquiring and growing events, and they are not likely to simply watch their investments falter. A COMDEX may be postponed, but MediaLive isn't going to simply let an asset like that disappear. They will make the necessary investment to focus and enhance the show. Major tradeshow companies are continually researching market niches in which a new show could be launched. Corporations have realized that private events serve the simultaneous objectives of sales, marketing, training and motivation, and are investing more into these types of events.

The concept of the gathering of people works, and in a capitalist society, the private sector will exploit this fact to continually find profitable ways to utilize a growing inventory of facility space.

### **Supply Issues – A Space Glut?**

Here's where it can get tricky. Critics of convention center development first tend to cite problems with feasibility studies, and then continue to question the viability of facility development in general. A focal point for the criticism is the issue of facility supply and demand.

It is wise to be critical, especially when tens or hundreds of millions of dollars are at stake. However, it's my concern that there has been a misuse of the concept of supply and demand, ignoring industry characteristics that are central to this question.

For example, critics of facility development decry that the supply of space is growing at astounding rates, again citing data from sources such as *Tradeshow Week*. Consultants are criticized for not considering this supply growth data, and CVB's are accused of manipulating the process to secure facility development.

In reality, a typical feasibility study process will consider facility supply data on both a micro and macro level. *Tradeshow Week* data on overall facility growth may be noted, but the consultant will understand that this is very general data, and includes projects that (1) are speculative and often times won't materialize, and (2) focus very broadly without regard for a particular community that is being studied.

Regarding the first point, *Tradeshow Week* may cite several million square feet of new space to be developed in future years, and critics of the industry jump on this data as proof of overbuilding. Yet a closer examination of the data indicates that many of the projects included in the data are speculative, or may have been cancelled subsequent to the publication of the data. For example, markets as diverse as Boise, Bellevue and Buffalo; Los Angeles, New York and Nashville, have planned facility development for many years, only to see these plans derailed. Many of these projects help form the basis for supposed supply increases, yet many will not materialize for many years, if ever.

Similarly, in 2001 *Tradeshow Week* presented projections for potential added exhibit space from new facilities that would take place in 2003/2004. The total projected space of 2.4 million square feet included the never-to-be-seen-by-human-eyes World Expo Center in Kissimmee with over 2.0 million square feet (83 percent of the projected total for that year). *Tradeshow Week* correctly reported the planned project, industry consultants likely had the necessary skepticism to discount the project as speculative, but an outside observer without the industry background will cite the data as proof that our entire world is about to be covered in concrete with columns on 90 foot centers.

In the hands of an industry consultant, with direct experience throughout the country in studying these types of projects, nuances in the data are understood, and data from any single source are not relied on too heavily. But when a well intentioned observer of the industry, no matter how well trained in analyzing other types of projects, considers the data (at face value), serious misinterpretations can take place.

Now consider the second point, namely that *Tradeshow Week* data correctly strives to include a very broad cross section of facilities. A qualified consultant will carefully consider not just macro facility development issues, but will also assess data for a more specified set of directly competitive or comparable facilities. What does it matter to New Orleans if the Boise Center is planning an expansion? Will it significantly impact the 25,000 square foot Columbia, South Carolina center if Las Vegas does indeed add millions more square feet?

These issues have to be considered outside of the context of the macro data, and frankly I don't see critics of the industry considering these types of issues. Worse yet, these critics travel the country challenging the wisdom of convention center development – with little or no understanding of local conditions, and a misunderstanding of broad industry conditions.

### **Success Factors Beyond the Convention Center**

It's noteworthy that many of the studies CSL has been involved with in larger markets have led to conclusions that suggest exhibit space expansion is not necessary. In Miami, Miami Beach, Kansas City, Salt Lake City and Washington D.C., study results have indicated that a near-term expansion of exhibit space may not be supported by macro industry conditions. What seems to be happening is that a large cross section of second tier markets (those below markets such as Orlando, Las Vegas, New Orleans and Chicago) have gravitated (or will soon) to exhibit space levels in the range of 400,000 to 800,000 square feet. To get to these levels, significant expansion has taken place over the past ten years. Expansions in these markets over the next ten years may not keep pace.

I suggest that we have approached a period of time in the industry where equilibrium may direct facility development away from the routine tremendously large expansions of space, and into a period of more refined or targeted expansions. This may include improved meeting and general session space, enhanced technology, physical upgrades and greater focus on the attendee experience outside the center. For example, in New Orleans and Washington D.C., study recommendations incorporate renovation of an existing exhibit hall into a multi-use space, suitable for both high-end banquets as well as exhibits. In Anaheim, added meeting space will help leverage the existing exhibit space. In Miami Beach and Las Vegas, an added general session space will improve the desirability of the overall complex.

If you're looking for a trend for the next ten years, improving the overall attendee experience in a market may also be a particular focus. In Kansas City, Los Angeles, Houston and many other markets around the country, billions of dollars are being spent as part of a coordinated effort to support convention/tourism, office and downtown housing efforts. The success of an expanded Colorado Convention Center in Denver will be attributable in part to the retail, restaurant, entertainment and housing development that have taken place in the downtown area.

Like three legs of an economic development stool, these types of initiatives can create a 20-hour-a-day environment with economically viable restaurants, retail, entertainment and other such development. In fact, in markets where CS&L recommended against added exhibit space (some of which are noted above), the need to develop a more intensive entertainment base is cited as critical to setting the stage for any future center expansion. Studies for facility development in downtown Miami strongly recommended the creation of a more defined visitor and entertainment focus prior to significant investment in facility development. Similarly, previous studies recommended that any development of added exhibit space in Kansas City be preceded by the creation of a visitor industry district in the downtown area near the Center (as is taking place now).

### **Picking on the Weaklings**

A recurring pattern in criticizing convention center development is to point to specific examples in which actual convention and tradeshow demand has not reached levels projected in previous feasibility studies. We've all heard about Boston and the relatively low bookings for the new center. We know that in Los Angeles, the center has had difficulty in attracting events. Both are world class markets, so what happened to demand?

In Boston, the new BCEC opened in a demand cycle for the convention and tradeshow industry that had dropped significantly due to world events and economic conditions. I am amazed at the number of articles critical of the industry that barely mention these issues, or don't mention them at all – almost a disingenuous attempt to prove a point at the expense of basic facts. The center in Boston also opened without the availability of a headquarters hotel.

In Los Angeles, the investment in the Center came at a time of industry growth, with an expectation of significant increases to hotel inventory near the Center. With an economic downturn, this growth didn't materialize, leaving the Center at a significant competitive disadvantage. CS&L survey research consistently indicate that between 80 and 90 percent of event planners require a headquarters hotel, and almost all planners defining such a property as being very near the center.

This lack of a headquarters hotel had also impacted the George R. Brown Convention Center in Houston until recently. With the opening of a new headquarters property, as well as sports and entertainment venues in the vicinity of the Center, bookings have increased. The CVB reports that as much as 50 percent of the event activity at the Center is due to the new area development.

In Los Angeles and Boston, conditions are changing with hotel and entertainment projects being proposed. Let's wait a few years to assess the impact of added hotel and entertainment development before we judge such projects.

## **Conclusion**

On the surface, the convention and tradeshow industry seems quite simple; events are held every year, with modest changes in size and attendance reflecting specific industry development. For many years, this may have been a relatively accurate description of the progression of the industry.

Then, three things happened. First, corporations in the late '90's realized that private events were a very cost effective means of bringing together key employees, customers, suppliers and others in a very controlled environment. Secondly, the economic meltdown beginning in 2000/01, stifled this new area of corporate creativity in bringing new events to market; and at the same time, along with consolidation in several industries, severely hurt attendance and exhibitor levels at more traditional association events. Third, in this environment of supply change, large amounts of exhibit space were introduced to the market.

And now, as we emerge from a down cycle in our industry, there are new realities or a shifting of basic demand and supply characteristics. We see strong growth in some segments paralleling declines in other segments. Recent groundbreaking research from CEIR indicates that technology events may be down over a period, while medical events may be up over the same timeframe. To complicate things further, an entire category of events (association based for example) may not be growing substantially, while corporate events experience greater increases. From a supply perspective, communities are carefully considering facility additions, focusing heavily on creative means of enhancing the overall facility inventory.

To be certain, flawed studies have been conducted and facilities have been developed or expanded that have not met projections. Unfortunately, what we have seen is that much of the critique and criticism that calls into question the wisdom of facility development is based on questionable interpretation of industry data and a lack of understanding regarding the unique and changing market characteristics that drive much of the investment in the industry.

**Contact Information:**

The intent of this paper was to prepare you with information that may be helpful in your destination. Please let me know if you have further questions or comments.

I can be reached at [jkaatz@cslintl.com](mailto:jkaatz@cslintl.com)

John Kaatz  
CSL International  
November 2004