The Case for a Convention Center Hotel

City Council Economic Development Committee
January 11, 2008
Private Sector Committee
Introductory Remarks
Overview

I. History of the Convention Industry
II. The Competition
III. Business Case
IV. The Opportunity
I. History of the Convention Industry
National Convention Industry

• Positive economic impact
  ▪ In 2006, the exhibition industry represented over $62.0B in economic impact nationwide
  ▪ 11,086 exhibitions a year representing 70 million convention attendees. Of this amount, over 5,500 exhibitions held in Exhibition/Convention Centers
  ▪ The average convention attendee spends $290 per day
Dallas Convention Industry

- Positive economic impact to the City of Dallas
  - In 2005 economic impact from hospitality industry was $2.60 billion
  - Local taxes generated by hospitality industry in 2005 were $228 million
- Creates jobs in the City of Dallas
  - Hospitality industry spending supported 50,840 jobs in 2005
  - The diverse range of activities offered by this industry provides excellent job opportunities for people with varied skills and educational backgrounds
  - Income generated by hospitality industry is non-polluting with a minimal impact on city services
History of Dallas Convention Industry

• Pre 1970
  - In 1957, the Dallas Memorial Auditorium opened including 70,000 square feet of exhibit space, a 1,700 seat theater and a 9,000 seat arena
  - There were two quality convention hotels in Dallas – Fairmont and Dallas Hilton
History of Dallas Convention Industry cont.

• 1971 – 1995
  ▪ The Dallas Memorial Auditorium was re-named the Dallas Convention Center and expanded three times (1973, 1984, 1994)
  ▪ For most of this time period, the Dallas Convention Center was one of the largest centers in the nation
  ▪ Hilton Anatole and Hyatt Regency were unique hotels with large room inventory, special destination qualities and major marketing presence
  ▪ DFW Airport provided global accessibility
History of Dallas Convention Industry cont.

• 1995 – Present
  ▪ One of nine (9) major convention centers with over 1 million square feet of exhibition space
  ▪ An additional 23 convention centers with between 500,000 – 1 million square feet of exhibit space.
  ▪ The 2002 expansion provided more exhibit space, but did not include ballroom/meeting space
  ▪ Convention Center falling behind in meeting space to match exhibition space
    • A ratio of 1:2 meeting to exhibit space s.f. is the industry expectation, currently the convention center meeting to exhibit space square feet ratio is 1:5
  ▪ Parking has become more of a challenge for convention center attendees
  ▪ City begins to concentrate focus strategies and investment in the downtown core
The Investment

• In 1957 the City took its first step to become a major convention destination. Throughout the past 50 years, the City of Dallas has invested millions of dollars in its Convention Center facilities.

• The estimated replacement value of the facility today is $1 billion.
II. The Competition
National Convention Market

• Prior to 1990, there were only a few competitive convention markets and an abundance of potential customers for key convention destinations
• In the 1990s, there was an explosive growth in the number of exhibit halls in the United States
• Today, competition is fierce among cities for convention business with the following elements as keys to success:
  - Attached/Adjacent convention center hotel for convention center attendees
  - Quality and flexible convention center meeting space for educational programs
  - Destination appeal with a vibrant center city to provide easily accessible entertainment

<table>
<thead>
<tr>
<th>Facility</th>
<th>1990</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of single facilities within a city with more than 1 million square feet of total exhibit space</td>
<td>4</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Number of single facilities within a city with 500,000 to 1 million square feet of total exhibit space</td>
<td>8</td>
<td>22</td>
<td>23</td>
<td>23</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: Tradeshow Week
## National Market Growth

### Historic Growth of the Exhibit Space Supply in the United States and Canada

<table>
<thead>
<tr>
<th>Time Period</th>
<th>% Change in Square Feet of Exhibit Space</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historic²</td>
<td>3.6%</td>
</tr>
<tr>
<td>1980's</td>
<td>3.4%</td>
</tr>
<tr>
<td>1990's</td>
<td>3.0%</td>
</tr>
<tr>
<td>2000's</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

² Average historic growth rate from 1986 to 2004.

Sources: Tradeshow Week, HVS International
National Competition

• Our key competition includes the following premier destinations:
  - Chicago
  - Orlando
  - Las Vegas
  - Atlanta
  - Anaheim
  - San Diego
  - Denver
  - Phoenix
  - New Orleans

Chicago McCormick Place and Hyatt Hotel

Orange County Convention Center (Orlando)
National Competition cont.

• Our competition has grown due to aggressive marketing with an emphasis on the convention attendee experience—Las Vegas, Orlando, San Diego, Denver, and others

• In recent years, tier-two cities have begun selling to our core business and gaining market share—Kansas City, Cincinnati, Reno, and others
**Do our National Competitors have a Convention Center Hotel?**

<table>
<thead>
<tr>
<th>City</th>
<th>Yes/ No</th>
<th>Convention Center Hotel</th>
<th>Hotel Rooms</th>
<th>Hotel Opening</th>
<th>Connection to Convention Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANAHEIM</td>
<td>Yes</td>
<td>Hilton Anaheim&lt;br&gt;Anaheim Marriott</td>
<td>1,573</td>
<td>1984, renovated 1997&lt;br&gt;1982, renovated 2007</td>
<td>Adjacent to CC&lt;br&gt;Across the street from CC</td>
</tr>
<tr>
<td>ATLANTA</td>
<td>Yes</td>
<td>Omni Hotel at CNN Center</td>
<td>1,067</td>
<td>1975, expanded 2003</td>
<td>Plaza built in 2004 to connect to CC</td>
</tr>
<tr>
<td>CHICAGO</td>
<td>Yes</td>
<td>Hyatt Regency McCormick Place Hotel</td>
<td>800</td>
<td>August 2001</td>
<td>Connected at ground level by common doorway</td>
</tr>
<tr>
<td>DENVER</td>
<td>Yes</td>
<td>Hyatt Denver Convention Center Hotel</td>
<td>1,100</td>
<td>December 2005</td>
<td>Adjacent to CC</td>
</tr>
<tr>
<td>LAS VEGAS</td>
<td>Yes</td>
<td>Las Vegas Hilton</td>
<td>3,174</td>
<td>1969</td>
<td>Adjacent to CC</td>
</tr>
<tr>
<td>LOS ANGELES</td>
<td>Yes*</td>
<td>Marriott/Ritz-Carlton Hotel as part of LA Live development</td>
<td>1,000+</td>
<td>Late 2010</td>
<td>Adjacent to CC, connection unknown</td>
</tr>
<tr>
<td>NEW ORLEANS</td>
<td>Yes</td>
<td>Hilton New Orleans Riverside</td>
<td>1,616</td>
<td>1977, renovated 2007-08</td>
<td>One block from CC</td>
</tr>
<tr>
<td>ORLANDO</td>
<td>Yes*</td>
<td>Hilton Hotel Convention Center, plus others within walking distance</td>
<td>1,400</td>
<td>2009</td>
<td>Adjacent with access through sky bridge</td>
</tr>
<tr>
<td>PHOENIX</td>
<td>Yes*</td>
<td>Sheraton Phoenix Downtown Hotel</td>
<td>1,000</td>
<td>October 2008</td>
<td>One block from CC</td>
</tr>
<tr>
<td>SAN DIEGO</td>
<td>Yes*</td>
<td>Hilton Convention Center Hotel, plus others within walking distance</td>
<td>1,200</td>
<td>December 2008</td>
<td>Adjacent to CC</td>
</tr>
</tbody>
</table>

*Project Underway*
Statewide Competition

- Several cities within Texas are competing with the City of Dallas for convention business—San Antonio, Houston, Austin, Fort Worth
- Today, good convention facilities and hotels are prerequisites, not competitive advantages
Do our Statewide Competitors have a Convention Center Hotel?

<table>
<thead>
<tr>
<th>City</th>
<th>Yes/No</th>
<th>Convention Center Hotel</th>
<th>Hotel Rooms</th>
<th>Hotel Opening</th>
<th>Connection to Convention Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUSTIN</td>
<td>Yes</td>
<td>Hilton Austin</td>
<td>800</td>
<td>December 2003</td>
<td>Adjacent to CC</td>
</tr>
<tr>
<td>FORT WORTH</td>
<td>Yes*</td>
<td>Omni Fort Worth Hotel</td>
<td>607</td>
<td>November 2008</td>
<td>Adjacent to CC</td>
</tr>
<tr>
<td>HOUSTON</td>
<td>Yes</td>
<td>Hilton Americas-Houston</td>
<td>1,200</td>
<td>December 2003</td>
<td>Connected via two skywalks</td>
</tr>
<tr>
<td>SAN ANTONIO</td>
<td>Yes*</td>
<td>Grand Hyatt San Antonio</td>
<td>1,000</td>
<td>Spring 2008</td>
<td>Adjacent to CC</td>
</tr>
</tbody>
</table>

*Project Underway
## Local Market Share

### Greater Dallas Hotel Market Distribution Revenue

<table>
<thead>
<tr>
<th></th>
<th>1987</th>
<th>1997</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>City of Dallas</strong></td>
<td>$238,704,675</td>
<td>$490,642,930</td>
<td>$633,087,017</td>
</tr>
<tr>
<td>Percent of Total Market</td>
<td>54.5%</td>
<td>49.7%</td>
<td>40.1%</td>
</tr>
<tr>
<td><strong>Irving/Grand Prairie</strong></td>
<td>$88,657,404</td>
<td>$216,592,182</td>
<td>$322,334,195</td>
</tr>
<tr>
<td>Percent of Total Market</td>
<td>20.3%</td>
<td>21.9%</td>
<td>20.4%</td>
</tr>
<tr>
<td><strong>Addison/Carrollton/Farmers Branch</strong></td>
<td>$42,112,968</td>
<td>$112,829,297</td>
<td>$143,205,654</td>
</tr>
<tr>
<td>Percent of Total Market</td>
<td>9.6%</td>
<td>11.4%</td>
<td>9.1%</td>
</tr>
<tr>
<td><strong>Plano/Richardson/Frisco/Allen</strong></td>
<td>$17,426,221</td>
<td>$63,778,583</td>
<td>$176,193,540</td>
</tr>
<tr>
<td>Percent of Total Market</td>
<td>4.0%</td>
<td>6.5%</td>
<td>11.2%</td>
</tr>
<tr>
<td><strong>Garland/Rockwall/Mesquite</strong></td>
<td>$13,215,438</td>
<td>$21,307,168</td>
<td>$44,234,101</td>
</tr>
<tr>
<td>Percent of Total Market</td>
<td>3.0%</td>
<td>2.2%</td>
<td>2.8%</td>
</tr>
<tr>
<td><strong>Denton/Lewisville/McKinney</strong></td>
<td>$9,936,433</td>
<td>$38,152,197</td>
<td>$81,977,215</td>
</tr>
<tr>
<td>Percent of Total Market</td>
<td>2.3%</td>
<td>3.9%</td>
<td>5.2%</td>
</tr>
<tr>
<td><strong>Grapevine</strong></td>
<td>$27,681,144</td>
<td>$43,902,857</td>
<td>$176,468,994</td>
</tr>
<tr>
<td>Percent of Total Market</td>
<td>6.3%</td>
<td>4.4%</td>
<td>11.2%</td>
</tr>
<tr>
<td><strong>Total Rooms Revenue in the Greater Dallas Area Market</strong></td>
<td>$437,734,283</td>
<td>$987,205,214</td>
<td>$1,577,500,716</td>
</tr>
</tbody>
</table>

Sources: Smith Travel Research and Texas Comptroller of Public Accounts
Local Competition

• There are several major convention/hotel developments occurring outside of Dallas, but within the Metroplex that are competition for the City of Dallas
  ▪ The Gaylord Texan Resort & Convention Center in Grapevine is a $500 million destination hotel and currently expanding
  ▪ Planned development of expanded Convention Center and Hotel near Glory Park in Arlington
  ▪ Future plans for the Texas Stadium site in Irving
III. Business Case
Benefits

• A Convention Center Hotel and the addition of a meeting/ballroom space can:
  ▪ Make Dallas and the Dallas Convention Center competitive
  ▪ Provide job opportunities for people with varied skills and educational backgrounds
  ▪ Attract convention attendees and their dollars
  ▪ Create a major downtown destination that supports revitalization goals and stimulates new commercial development
Reclaim Market Share

• The lack of a Convention Center Hotel has already impacted us:
  ▪ Lost Opportunity
    • Over 80 groups that represent $800 million in direct spending; $2.6 billion in economic impact to the city
  ▪ Lost Business
    • From 2003-2007, we lost 68 meetings due to the lack of a CC Hotel and destination appeal, representing $300 million in direct dollars and $1 billion in economic impact to the city
    • Based on a 20% conversion rate, we would have captured $60 million in direct dollars and $200 million in economic impact to the city
Reclaim Market Share cont.

- Potential room night impact with a convention center hotel is 1,724,733 over the next 15 years and this is inclusive of such groups as:
  - American Heart Association
  - Newspaper Publishers Association of America
  - American Academy of Orthopedic Surgeons
  - American Academy of Otolaryngology – Head and Neck Surgery
  - American Urological Association
Dallas Economic Impact

- Hospitality industry spending supported 50,840 jobs in 2005:
  - 37,225 were directly employed by hospitality industry sectors
  - 7,022 were indirect jobs
  - 6,593 were induced jobs
- Economic impact for hospitality industry in 2005 was $2.60 billion
- Local taxes generated by hospitality industry in 2005 were $228 million

Source: Dallas Convention & Visitors Bureau
Downtown Connection

• Currently the Convention Center is isolated from downtown due to the lack of pedestrian-friendly access
• A Convention Center Hotel can support retail, entertainment and other commercial development and become an anchor for downtown
Improve Convention Center’s Connection to Downtown Core

• Currently, there are many improvements made or under development in Dallas:
  - Main Street Redevelopment and Downtown Residential
  - Arts District Expansion and the Nasher
  - Uptown/State-Thomas Area
  - The Latino Cultural Center
  - The Cedars
  - West Village
  - Victory Development and efforts to reinvent West End
  - Additional new parks inside the “loop”
Improve Convention Center’s Connection to Downtown Core cont.

• However, we Still Lack Critical Mass:
  ▪ Most of the improvements noted as advancing our urban experience are located outside the downtown core
  ▪ The visitor perspective is what they see when they step out of the convention center after their meetings
  ▪ Imagine what our visitor impression would be if downtown felt like West Village or Mockingbird Station
  ▪ Continue to find ways to accelerate the urbanization of downtown

• Critical Mass Thresholds:
  ▪ 10,000 Residential Units
  ▪ 250,000 s.f. of new mixed, unique retail and basic services to accommodate existing and anticipated residential population, downtown workers, visitors and the regional market
  ▪ Strong physical connections to surrounding neighborhoods
Improve Convention Center’s Connection to Downtown Core cont.

- A broad strategy, involving three distinct anchors promoting investment in the core were proposed in the “Revitalizing Downtown” briefing presented to City Council on December 5, 2007:
  - **Anchor One:** Utilize the Arts District as a Primary Anchor
  - **Anchor Two:** Redefine the downtown by utilizing the Woodall Rodgers Deck Park to incorporate Victory and a portion of Uptown
  - **Anchor Three:** Create an anchor around the Convention Center through investment in a Convention Center Hotel and adjacent retail, food and entertainment complex(es)
Economic Analysis of Convention Center Hotel

• The City of Dallas Office Economic Development analyzed the impact of a convention center hotel on Dallas’ economy, municipal finances and downtown connectivity.
Summary of Economic Impact Study

- Construction of a 1,000 room convention center hotel that includes up to $80 million in direct city participation would result in a positive net fiscal impact of $62.9 million between 2009 and 2038.
- From a total fiscal impact standpoint, the hotel would be a break-even development by 2022, its tenth full year of operation.
- The construction and operation of the hotel would result in approximately $2.5 billion in economic activity within the city over the 30 year period including direct, indirect and induced economic impacts.
- Over 3,000 temporary jobs from construction and over 800 permanent full time jobs from hotel operations would result.

Source: Draft Preliminary Study conducted by the City of Dallas Office of Economic Development: “The Impact of a Convention Center Hotel on Dallas’ Economy, Municipal Finances, and Downtown Connectivity”
Summary of Economic Impact Study cont.

- These favorable results likely depend on additional downtown economic development projects being built to connect the Dallas Convention Center and hotel to the West End Historic district.
- Without this associated entertainment and connectivity component, the hotel would be in a relatively isolated corner of the central business district and have diminished chance of serving as a third downtown development anchor.

Source: Draft Preliminary Study conducted by the City of Dallas Office of Economic Development: “The Impact of a Convention Center Hotel on Dallas’ Economy, Municipal Finances, and Downtown Connectivity”
Customers Have Spoken

- Customer surveys and comments continue to reinforce the requirement of a Convention Center Hotel as critical to the competitive edge of the Dallas Convention Center
### 2006 Survey of Meeting Planners

#### Deal Makers/Deal Breakers for Dallas Prospects

<table>
<thead>
<tr>
<th>Feature</th>
<th>An absolute must!</th>
<th>Secondary importance; maybe a tie-breaker</th>
<th>Of little, if any importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarters hotel within a 5 minute walk of the center</td>
<td>80.6%</td>
<td>19.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Great overall appeal</td>
<td>60.0%</td>
<td>37.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Perceived appeal of the destination acts as a draw to maximize attendance</td>
<td>57.5%</td>
<td>42.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>The center’s labor is easy to work with</td>
<td>52.5%</td>
<td>45.0%</td>
<td>2.5%</td>
</tr>
<tr>
<td>City infrastructure ideal for big conventions</td>
<td>46.2%</td>
<td>41.0%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Ample amount of quality dining and nightlife</td>
<td>42.5%</td>
<td>47.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Large quantity of potential attendees in close proximity to the host city</td>
<td>40.0%</td>
<td>42.5%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Favorable climate during time of your meeting</td>
<td>27.5%</td>
<td>52.5%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Single point of contact for all of your convention needs</td>
<td>27.5%</td>
<td>52.5%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Effective collaboration between CVB and the center</td>
<td>25.0%</td>
<td>52.5%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Center offers alternatives to &quot;exclusive&quot; vendors</td>
<td>23.1%</td>
<td>64.1%</td>
<td>12.8%</td>
</tr>
<tr>
<td>City is an airline hub</td>
<td>17.5%</td>
<td>72.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Value added incentives provided; i.e. free shuttles, a cocktail party, etc.</td>
<td>17.5%</td>
<td>62.5%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Center offers a fixed-cost &quot;package deal&quot; for the event</td>
<td>10.3%</td>
<td>64.1%</td>
<td>25.6%</td>
</tr>
<tr>
<td>Known for its diversity</td>
<td>0.0%</td>
<td>50.0%</td>
<td>40.0%</td>
</tr>
<tr>
<td>Destination features family friendly activities</td>
<td>1.5%</td>
<td>52.5%</td>
<td>40.0%</td>
</tr>
<tr>
<td>Golf</td>
<td>20.0%</td>
<td>80.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: Watkins Research Group, Inc. includes U.S. & Canadian Meeting Destinations
Additional Items Our Customers Are Looking For

- More Meeting Space
- Technology – Wireless
- Attendance Marketing Assistance
- Incentives, free space

Source: Tradeshow Week – Convention Center Outlook
Customer Requirements

- “Dallas is one of the nation’s outstanding cities. However, AAPA is not interested in hosting a conference where the convention center facility is not attached to the headquarter hotel.”
  - Amy Phillips, Director, Meeting and Industry Relations with American Academy of Physician Assistants

- “AFP has met in Dallas in the past, but the current hotel/conventions center package does not present an environment that is attractive to us. We have identified the importance of an attached, large and branded headquarter hotel as one of the ingredients that makes our meeting attractive to our attendees. This does not currently exist in Dallas. If and when it does, it would be possible for us to consider Dallas once again.”
  - Claire Whalen, Managing Director, Sales and Meetings with Association for Financial Professionals

- “It would greatly benefit your city to build a 1,000+ room attached headquarter hotel to the convention center. A hotel situation such as Dallas’ typically costs the client hundreds of thousands of dollars in shuttle expenses as well as additional time on a bus for the attendees.”
  - Chrissy Hart, Director, Conference & Exhibits with International Association of Chiefs of Police

Source: Excerpts from letters submitted to the DCVB
Customer Requirements cont.

• “In order for us to consider Dallas as a convention destination in the future, it is essential that a headquarter hotel be developed that is connected to the convention center.”
  ▪ Lauren Kramer-Whelan, Director of Meetings with American Academy of Otolaryngology – Head and Neck Surgery Foundation, Inc.

• “We use about 3,000 rooms on peak night, of those; we need at least 1,000 connected to the Center. Otherwise shuttling becomes nightmarish, not to mention the cost. Our attendees don’t want to take busses if they can help it or walk several blocks to attend sessions.”
  ▪ Eduardo J. Finkel, Director of Meetings and Travel with National Association of Secondary School Principals

• “As you know, Dallas was considered as a site for NAR’s 2013 Annual Convention, which was eventually awarded to another city due, in part, to the logistical package of the hotels. Having a major convention center hotel (i.e. over 1,000 rooms and 100K or more square feet of function space) would certainly increase Dallas’s logistical viability for the NAR Convention, which alone is one-third of our selection criteria.”
  ▪ Christy Richards, Managing Director of National Association of Realtors

• “The construction of a 1,000+ room hotel adjacent to the Convention Center will make Dallas more desirable to us (and many other citywide conventions) when considering a Texas location.”
  ▪ Wayne Stetson, Senior Staff Vice President with NAHB Conventions and Meetings Group

Source: Excerpts from letters submitted to the DCVB
Citywide Events

Citywide Roomnights vs Non-Citywide Roomnights

Notes: Definite Citywides = 2500+ on Peak
Sports Citywides are included in the Non-Citywide figures. They are calculated using Attendance and not Peak Room Nights.
Dallas’ Competitive Deficiencies

- No attached Convention Center Hotel
- Existing hotels are not within easy walking distance
- The lack of a pedestrian-friendly, 24-hour downtown urban core
- Inadequate ballroom/meeting space for existing exhibit halls
- Difficulty and high cost of transportation between the convention center, hotels, restaurants, shopping, and entertainment venues
IV. The Opportunity
Convention Industry is Resilient

• **1964**: First Purpose-built Convention Center
• **1986 – 2000**: 7.36% Compounded Annual Growth Rate (CAGR)
• **2001-2003**: Industry decline
• **2004-2006**: 3.6% to 5.8% annual growth
Convention Industry is Resilient

cont.

• **2005**: Exhibitions became number one marketing expenditure by U.S based companies surpassing print advertising for the first time in history
• **2006**: Retained number one position
• **2007**: Retained number one position
• Exhibitions are the last bastion of face-to-face marketing
Our Vision –
To Make Dallas Competitive

- Construct a minimum 1,000 room Convention Center Hotel
- Add a minimum of 200,000 square feet of ballroom/meeting space
- Enhance the destination by linking the Convention Center District with Downtown
- Market Dallas as a national convention destination
Questions?
Appendix
Financial Studies

• As previously briefed to this committee, staff will be presenting recommendations within the next month regarding the following:
  ▪ Selection of the Hotel Underwriting Team
  ▪ Selection of the Financial Consultant for consideration of Convention/Event Services debt restructuring
  ▪ Update to the 2001 and 2003 Hotel Market Study