

Memorandum



DATE April 4, 2008

TO Members of the Economic Development Committee:
Ron Natinsky (Chair), Tennell Atkins (Vice-Chair), Dwaine Caraway, Jerry R. Allen,
Sheffie Kadane, Mitchell Rasansky, Linda Koop, Steve Salazar

SUBJECT Convention Center Hotel – HVS Hotel Marketing Study

On Monday, April 7, 2008, you will be briefed on the Market Study report for a proposed convention center headquarters hotel.

Should you have any questions, please contact me at (214) 670-3314.



A.C. Gonzalez
Assistant City Manager

C: Mayor and Members of the City Council
Mary K. Suhm, City Manager
Ryan S. Evans, First Assistant City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor
Judge Jay Robinson, Judiciary
David O. Brown, Interim Assistant City Manager
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Jill Jordan, P.E., Assistant City Manager
David Cook, Chief Financial Officer
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Karl Zavitkovsky, Director, Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Chandra Marshall-Henson, Assistant to the City Manager

Convention Center Hotel - HVS Hotel Marketing Study

Economic Development Committee
April 7, 2008



Convention Center Hotel – HVS Hotel Marketing Study



Purpose

- To provide the results of a Market Study conducted by HVS Consulting and Valuation Services on a proposed convention center headquarters hotel in the City of Dallas



Background

- HVS was created in 1980 to address the growing demand for reliable and well documented hotel and motel valuations, market studies, and feasibility reports
- HVS associates specialize exclusively in hospitality-related consulting
- HVS was engaged in 2003 by the City of Dallas to perform a Market Study for a convention center headquarters hotel



Background (cont.)

- The 2003 updated market study was to evaluate the market demand, analyze the economics, project occupancy and rate, and provide income and expense projections for the convention center headquarters hotel property
- The 2003 study prepared by HVS presented data that demonstrated that marketing and use of the Dallas Convention Center had become increasingly crippled due to the lack of an adjacent headquarters hotel



Background (cont.)

- The 2003 study further emphasized that in the preceding three years downtown Dallas had experienced a considerable decline in hotel demand, due primarily to the weakened local economy and reduced activity levels at the Dallas Convention Center
- The decline realized in the local economy mirrored the national scene following September 11, 2001



Scope of Work

- The methodology used in the study is based on market research and valuation techniques established by the American Institute of Real Estate Appraisers and Appraisal Institute
- The proposed project site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors
- The surrounding economic environment, on both an area and neighborhood level, has been reviewed and HVS identified specific hostelry-related economic and demographic trends that may have an impact on future demands for hotels



Scope of Work (cont.)

- The market for hotel accommodations has been divided into individual segments to define specific market characteristics for the types of travelers expected to utilize the area's hotels
- HVS analyzed existing and proposed competition to provide an indication of the current accommodation demand, along with market penetration and the degree of competitiveness
- Documentation for occupancy and average rate projection was derived utilizing the build-up approach based on an analysis of lodging activity
- A detailed projection of income and expenses was made in accordance with the Uniformed System of Accounts for the Lodging Industry



HVS Market Study Conclusions

- The HVS market study projects that a Dallas headquarters hotel will achieve a profitable operation, with net income expected to total roundly 25% of total revenue by stabilization
- A vibrant highly-utilized convention center typically serves as a vital component to a major city's downtown visitation and downtown hotel utilization levels
- Once Dallas' headquarters hotel opens and when Downtown Dallas' massive 1,840 room Adam's Mark Hotel re-branded as a Sheraton, the city's competitive position should be significantly enhanced as it relates to capturing major conventions



Key Assumptions

- The hotel property will open on January 1, 2012
- HVS recommends that the hotel feature:
 - 1,200 rooms
 - Two restaurants, a lounge, a coffee kiosk
 - 100,000 to 140,000 square feet of meeting space
 - An outdoor pool and whirlpool, a fitness center, a business center, retail outlets, and vending areas
- The hotel's facilities are expected to be of a high quality level for a national convention market and managed by a first-tier management company



Key Assumptions (cont.)

- The hotel will serve as the primary convention headquarters property for groups utilizing the Dallas Convention Center
- Pre-selling of the hotel will begin no later than mid-year 2009
- The relationship between the hotel, Convention Center, and DCVB will be positive and effective
- Stabilized level of operation will be 2015
- The underlying inflation rate is 3.0% annually



The Neighborhood

- The neighborhood surrounding a lodging facility often has an impact on a hotel's status, image, class, style of operation, and sometimes its ability to attract and properly serve a particular market segment



The Neighborhood (cont.)

- The proposed headquarter hotel's neighborhood is defined by Woodall Rodgers Freeway to the north, Interstate 35E to the west, Interstate 30 to the south, and U.S. Highway 75 to the east
- The neighborhood is in the revitalization stage of its lifecycle with aggressive pockets of redevelopment and continued growth throughout the retail/restaurant and high-density residential sectors



The Neighborhood (cont.)

- According to the City of Dallas' Office of Economic Development, over \$157 million has been invested by the public during the last 10 years through TIF increments
- The headquarters hotel should be a positive influence on the area, and will be in character with and will compliment surrounding land uses



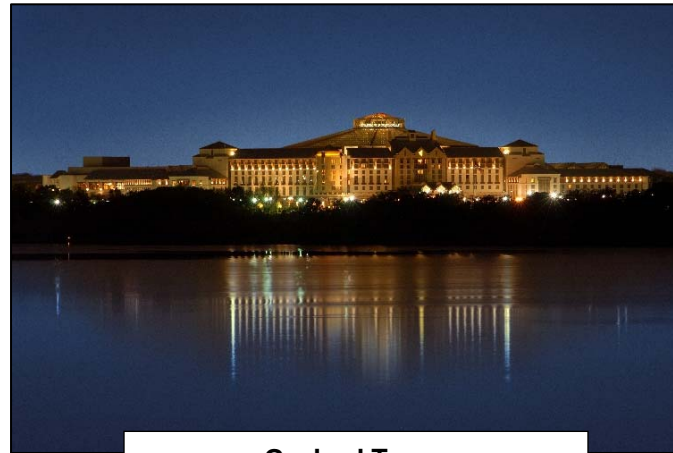
Industry Trends

- Trends in convention and meeting activity have shown considerable increases since 2003, indicating the economic importance of large convention centers and, more recently, headquarters hotels
- Data suggests that meeting planners select downtown, convention center-proximate hotels for logistical convenience
- The new meeting paradigm for planners has turned to housing attendees as close to the primary meeting space as possible, thereby alleviating extra costs associated with transportation, as well as eliminating the need to constantly negotiate pricing, events, and transportation with multiple hotels



Industry Trends (cont.)

- Every major city in the United States now has or is in the process of establishing a convention center headquarters hotel
- This dynamic has also allowed such hotels as the Gaylord resorts and self-contained Las Vegas resorts to capture small to mid-sized conventions as well



Gaylord Texan



Factors in Choosing an Association Meeting Location (Table 5-8)

- The table summarizes the factors cited as important by meeting planners when choosing a destination

Top Factors When Choosing Location	Association Meetings	Conventions
Availability of Suitable Hotels	68 %	84 %
Affordability of Destination	77	79
Safety and Security of Destination	62	65
Ease of Transportation	45	50
Transportation Costs	40	36
Distance Traveled by Attendees	53	50
Clean and Unspoiled Environment	26	29
Climate	17	19
Availability of Recreational Facilities	10	10
Sightseeing, Cultural Events, Attractions	10	16
Mandated by By-Laws	22	24
Glamorous/Popular Image of Location	10	10



Factors in Choosing an Association Meeting Facility (Table 5-8)

- The table summarizes the factors cited as important by meeting planners when choosing a hotel within a destination

Top Factors When Choosing Hotel Within Location	Association Meetings	Conventions
Number, Size, and Quality of Meeting Rooms	69 %	93 %
Negotiable Food, Beverage, and Room Rates	80	87
Cost of Hotel or Meeting Facility	80	82
Quality of Food Service	63	70
Number, Size, and Quality of Sleeping Rooms	54	79
Efficiency of Billing Procedures	53	53
Availability of Meeting Support Services	44	54
Assignment of One Staff Person To Handle Meeting	42	55
Efficiency of Check-in/Check-out Procedures	43	51
Availability of Exhibit Space	17	56
Previous Experience in Dealing with Facility and Staff	37	44
Proximity to Shopping, Restaurants, Off-site Entertainment	19	24
Number, Size, and Quality of Suites	13	22
Proximity to Airport	24	24
Convenience to Other Modes of Transportation	30	29
Provision of Special Meeting Services	9	16
Meeting Rooms with Multiple High Speed Lines/Outlets	25	30
High Speed Internet	30	36
Other On-site Recreational Facilities	6	8
On-site Golf Course	5	8

Source: 2006 Meetings Market Report, *Meetings & Conventions Magazine*



Supply and Demand

- An integral component of the supply and demand relationship that has a direct impact on the availability of lodging demand is the current and anticipated supply of competitive lodging facilities
- The proposed headquarters hotel will enter a dynamic market of varying product types and price points



Supply and Demand (cont.)

- Lodging trends have rebounded in Dallas, as the local economy and the strength of downtown's major employers have generated the need for business travel and training activities
- Large banking, accounting, and law firms in the area have increased business activity as Dallas' overall economy continues to grow ahead of the national average
- This growth continues to have a direct correlation on improved occupancy levels in the downtown area and neighboring markets



National Competition

- The national competitive set includes headquarters hotels adjacent to each city's respective convention center
- Data from our national competitors reflect a overall occupancy level of 68% in 2007, which compares to 66.1% for 2006
- Lodging trends within the national competitive set have experienced continual increases, even with the influx of new hotel rooms



National Competition (cont.)

- The trend of year-over-year growth in the corporate, convention, and association segments in terms of attendees and dollars spent have allowed headquarters hotels to achieve higher rate levels in addition to improved occupancy



Hilton Americas Houston



Chicago Hyatt Regency McCormick Place



National Market Historical Supply and Demand Trends (Table 6-9)

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
1997	3,504	1,279,115	—	953,458	—	74.5 %	\$140.25	—	\$104.54	—
1998	4,394	1,603,825	25.4 %	1,095,642	14.9 %	68.3	147.01	4.8 %	100.43	(3.9) %
1999	4,725	1,724,625	7.5	1,204,765	10.0	69.9	154.81	5.3	108.15	7.7
2000	4,725	1,724,625	0.0	1,227,610	1.9	71.2	158.57	2.4	112.87	4.4
2001	5,288	1,930,035	11.9	1,270,351	3.5	65.8	160.18	1.0	105.43	(6.6)
2002	5,340	1,949,100	1.0	1,289,481	1.5	66.2	160.63	0.3	106.27	0.8
2003	6,832	2,493,505	27.9	1,528,445	18.5	61.3	153.93	(4.2)	94.36	(11.2)
2004	9,792	3,574,080	43.3	2,207,923	44.5	61.8	149.40	(2.9)	92.29	(2.2)
2005	9,716	3,546,324	(0.8)	2,343,068	6.1	66.1	151.92	1.7	100.37	8.8
2006	10,884	3,972,705	12.0	2,626,515	12.1	66.1	156.41	3.0	103.41	3.0
2007	10,883	3,972,295	(0.0)	2,725,921	3.8	68.6	164.43	5.1	112.84	9.1
Average Annual Compounded Change (1997-2007):			12.0 %		11.1 %			1.6 %		0.8 %

Hotels Included in Sample	Number of Rooms	Year Opened
Omni Hotel @ CNN Center	1,067	Jun-74
Marriott Indianapolis Downtown	615	Feb-01
Hyatt Regency McCormick Place	800	Jun-98
Renaissance St Louis Grand & Suites Hotel	1,074	Jun-17
Marriott Kansas City Downtown	983	Apr-85
Hilton New Orleans Riverside	1,616	Sep-77
Hilton Americas Houston	1,203	Dec-03
Hilton Austin Convention Center	800	Dec-03
Hyatt Regency Denver Convention Ctr	1,100	Dec-05
Hyatt Manchester Grand San Diego	1,625	Dec-92
Total	10,883	

Source: Smith Travel Research



Projected Hotel Performance

- The HVS market study projects that a Dallas headquarters hotel will achieve a profitable operation, with net income expected to total roundly 25% of total revenue by stabilization
- The total revenue by the stabilized year is comprised primarily of room and food and beverage revenues with secondary source from other income sources
- Other income is comprised of the hotel's retail outlets, business center services, in-room movie and game charges, and vending areas



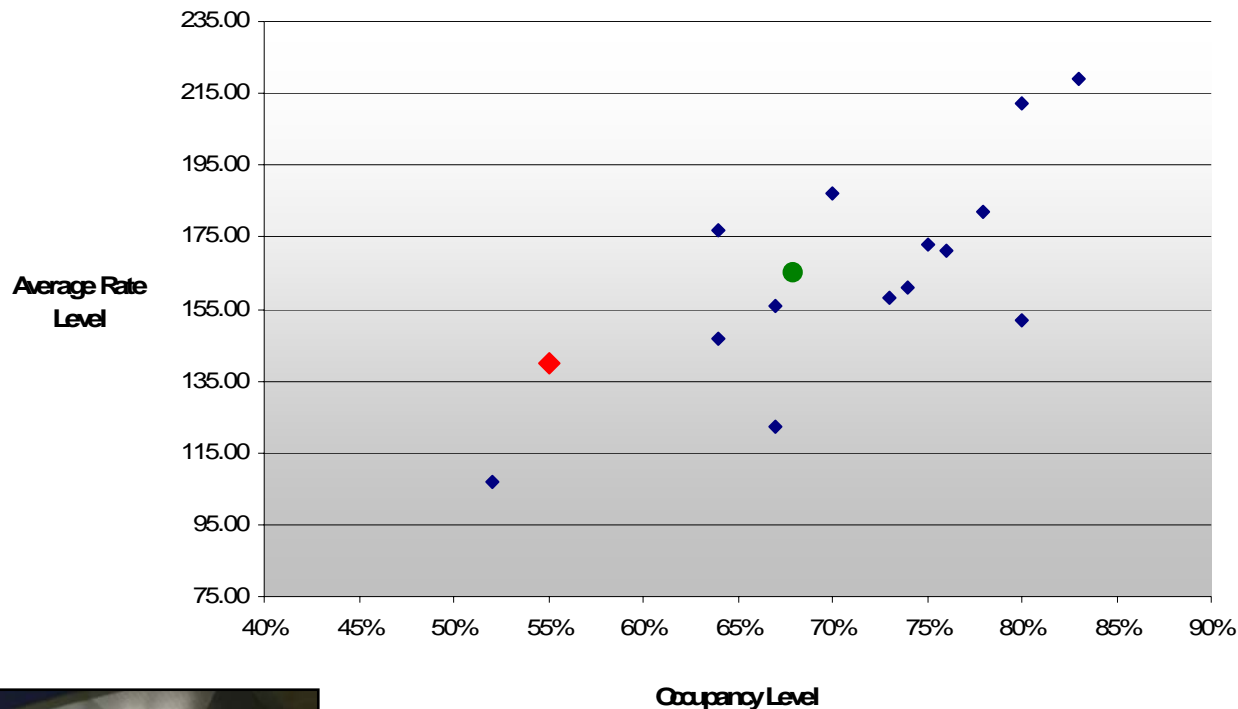
Projected Hotel Performance (cont.)

- Net Income is derived from daily operating activities and excludes debt service, property taxes, insurance, and reserves for capital replacement
- In the stabilized year 2015:
 - Occupancy level will be at 68%
 - Average room rate of \$209.00
 - RevPAR of \$142.12
- The value of the incentives from state and city to include State HOT, sales tax, City sales tax, 1% of the DCVB portion of HOT and other sources over the 10 year period is estimated at \$91.449 million (all incentives are project specific)
- For additional data, please see the Attachments section



Comparison of Rate Levels – Local Hotels vs. National Convention Properties (Chart 1-4)

The **green circle** represents the forecast stabilized occupancy level and average rate (in 2007 dollars) for the proposed property, the **red diamond** represents the position for the local competitive set, and the **blue diamonds** represent the national competitors



Landscape without a Hotel

- The City of Dallas Convention Center, a \$1 billion dollar asset, will continue to be underutilized and will continue to increase its requirement for general fund support
- Dallas will be relegated to an undesirable destination with an increasing loss of business profile
- After the opening of Fort Worth's Omni in the fall of 2008, Dallas will be the only major Texas city without a hotel connected to or adjacent to its convention center



Landscape without a Hotel (cont.)

- If the convention center headquarters hotel is not realized, the rebirth of the downtown Dallas landscape will be short lived and the capital investment by the City of Dallas, visionaries, and developers will not generate the return on investment that is required for their respective stakeholders
- The strategy of revitalizing downtown will lose one of the “anchors” in promoting investment in the core of Dallas



HVS Market Study Conclusions

- Despite a positive trend in the Dallas economy, the downtown hotel industry remains crippled due to the limited salability of the Dallas Convention Center, primarily due to a lack of an adjacent headquarters hotel
- A vibrant highly-utilized convention center typically serves as a vital component to a major city's downtown visitation and downtown hotel utilization levels
- The Dallas Convention Center remains underutilized due to the lack of an adjacent hotel which remains as a requirement high on the priority list of today's convention meeting planners



HVS Market Study Conclusions

cont.

- The HVS market study projects that a Dallas headquarters hotel will achieve a profitable operation, with net income expected to total roundly 25% of total revenue by stabilization
- A vibrant highly-utilized convention center typically serves as a vital component to a major city's downtown visitation and downtown hotel utilization levels
- Once Dallas' headquarters hotel opens and when Downtown Dallas' massive 1,840 room Adam's Mark Hotel re-branded as a Sheraton, the city's competitive position should be significantly enhanced as it relates to capturing major conventions



Questions?



Attachments

- Table 1-6: Ten-Year Forecast of Income and Expense
- Table 9-4: Comparable Operating Statements: Composite Statement



Ten-Year Forecast of Income and Expense (Table 1-6)

	2012		2013		2014		2015		2016		2017		2018		2019		2020		2021	
Number of Rooms:	1200		1200		1200		1200		1200		1200		1200		1200		1200		1200	
Occupied Rooms:	227,760		271,560		289,080		297,840		297,840		297,840		297,840		297,840		297,840		297,840	
Occupancy:	52%		62%		66%		68%		68%		68%		68%		68%		68%		68%	
Average Rate:	\$185.53	%of	\$194.05	%of	\$202.91	%of	\$209.00	%of	\$215.27	%of	\$221.73	%of	\$228.38	%of	\$235.23	%of	\$242.29	%of	\$249.56	%of
RevPAR:	\$96.47	Gross	\$120.31	Gross	\$133.92	Gross	\$142.12	Gross	\$146.39	Gross	\$150.78	Gross	\$155.30	Gross	\$159.96	Gross	\$164.76	Gross	\$169.70	Gross
REVENUE																				
Rooms	\$42,256	59.8 %	\$52,686	60.6 %	\$58,669	61.0 %	\$62,249	60.8 %	\$64,117	60.6 %	\$66,040	60.4 %	\$68,021	60.2 %	\$70,052	60.2 %	\$72,164	60.2 %	\$74,329	60.2 %
Food	19,430	27.5	23,364	26.9	25,612	26.6	27,320	26.7	28,412	26.9	29,549	27.0	30,731	27.2	31,653	27.2	32,602	27.2	33,580	27.2
Beverage	4,857	6.9	5,841	6.7	6,403	6.7	6,830	6.7	7,103	6.7	7,387	6.8	7,683	6.8	7,913	6.8	8,151	6.8	8,365	6.8
Telephone	865	1.3	1,064	1.2	1,159	1.2	1,226	1.2	1,263	1.2	1,301	1.2	1,340	1.2	1,380	1.2	1,422	1.2	1,464	1.2
Other Income	3,230	4.7	3,997	4.6	4,355	4.6	4,636	4.6	4,883	4.6	5,079	4.6	5,282	4.7	5,440	4.7	5,604	4.7	5,772	4.7
Total	70,718	100.0	86,952	100.0	96,228	100.0	102,320	100.0	105,779	100.0	109,366	100.0	113,056	100.0	116,448	100.0	119,942	100.0	123,540	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	13,675	32.4	15,000	28.5	15,827	27.0	16,496	26.5	16,991	26.5	17,501	26.5	18,026	26.5	18,566	26.5	19,123	26.5	19,697	26.5
Food & Beverage	19,614	80.8	21,555	73.8	22,829	71.3	23,697	70.0	24,733	69.6	25,599	69.3	26,485	69.0	27,230	69.0	28,108	69.0	28,952	69.0
Telephone	719	81.3	783	73.6	825	71.1	858	70.0	884	70.0	911	70.0	938	70.0	966	70.0	995	70.0	1,025	70.0
Other Expenses	684	20.8	738	18.5	777	17.7	810	17.3	839	17.2	868	17.1	898	17.0	925	17.0	953	17.0	982	17.0
Total	34,683	49.1	38,077	43.8	40,257	41.8	42,061	41.1	43,447	41.1	44,878	41.0	46,357	41.0	47,748	41.0	49,180	41.0	50,655	41.0
DEPARTMENTAL INCOME																				
	36,025	50.9	48,885	56.2	55,971	58.2	60,259	58.9	62,332	58.9	64,477	59.0	66,699	59.0	68,701	59.0	70,762	59.0	72,885	59.0
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	5,694	8.1	6,080	7.0	6,375	6.6	6,613	6.5	6,811	6.4	7,015	6.4	7,226	6.4	7,442	6.4	7,666	6.4	7,896	6.4
Marketing	5,366	7.6	5,740	6.6	6,009	6.2	6,233	6.1	6,419	6.1	6,612	6.0	6,810	6.0	7,015	6.0	7,225	6.0	7,442	6.0
Prop. Operations & Maint.	3,609	5.1	3,897	4.5	4,120	4.3	4,314	4.2	4,487	4.2	4,666	4.3	4,853	4.3	4,999	4.3	5,149	4.3	5,303	4.3
Utilities	3,338	4.7	3,570	4.1	3,737	3.9	3,876	3.8	3,993	3.8	4,112	3.8	4,236	3.7	4,363	3.7	4,494	3.7	4,629	3.7
Total	18,006	25.5	19,297	22.2	20,241	21.0	21,036	20.6	21,710	20.5	22,406	20.5	23,125	20.4	23,819	20.4	24,533	20.4	25,289	20.4
HOUSEPROFIT																				
	18,019	25.4	29,587	34.0	35,730	37.2	39,223	38.3	40,622	38.4	42,071	38.5	43,574	38.6	44,882	38.6	46,229	38.6	47,616	38.6
Management Fee	2,122	3.0	2,609	3.0	2,887	3.0	3,070	3.0	3,173	3.0	3,281	3.0	3,392	3.0	3,493	3.0	3,598	3.0	3,706	3.0
INCOME BEFORE FIXED CHARGES																				
	15,897	22.4	26,978	31.0	32,843	34.2	36,153	35.3	37,449	35.4	38,791	35.5	40,183	35.6	41,389	35.6	42,630	35.6	43,909	35.6
FIXED EXPENSES																				
Property Taxes	3,962	5.6	4,022	4.6	4,102	4.3	4,225	4.1	4,362	4.1	4,482	4.1	4,617	4.1	4,755	4.1	4,898	4.1	5,045	4.1
Insurance	1,113	1.6	1,146	1.3	1,181	1.2	1,216	1.2	1,253	1.2	1,290	1.2	1,329	1.2	1,369	1.2	1,410	1.2	1,452	1.2
Reserve for Replacement	1,414	2.0	2,609	3.0	3,849	4.0	5,116	5.0	5,289	5.0	5,468	5.0	5,653	5.0	5,822	5.0	5,997	5.0	6,177	5.0
Total	6,489	9.2	7,777	8.9	9,132	9.5	10,557	10.3	10,893	10.3	11,240	10.3	11,599	10.3	11,947	10.3	12,305	10.3	12,674	10.3
NET INCOME																				
	\$9,408	13.2 %	\$19,201	22.1 %	\$23,711	24.7 %	\$25,596	25.0 %	\$26,555	25.1 %	\$27,560	25.2 %	\$28,584	25.3 %	\$29,442	25.3 %	\$30,325	25.3 %	\$31,235	25.3 %
Rooms Occupancy Tax (13%)	\$5,493		\$6,850		\$7,626		\$8,092		\$8,336		\$8,585		\$8,843		\$9,108		\$9,381		\$9,653	
Sales Tax (8.25%) on Non Rooms	2,348		2,827		3,099		3,306		3,437		3,574		3,715		3,827		3,942		4,060	
Forecast Property Taxes	3,962		4,022		4,102		4,225		4,362		4,482		4,617		4,755		4,898		5,045	
Total Taxes	\$11,804		\$13,699		\$14,827		\$15,623		\$16,124		\$16,641		\$17,175		\$17,660		\$18,221		\$18,768	

* Departmental expenses are expressed as a percentage of departmental revenues.



Comparable Operating Statements: Composite Statement (Table 9-4)

	Number of Rooms:	6,900			
	Days Open:	365			
	Occupancy:	73.1%		Amount per	Amount per
	Average Rate:	\$162.38	Percentage	Available	Occupied
	RevPAR:	\$118.67	of Revenue	Room	Room
REVENUE					
Rooms	\$298,875	62.2 %	\$43,315	\$162.38	
Food & Beverage	146,604	30.5	21,247	79.65	
Telephone	7,891	1.6	1,144	4.29	
Other Operating Departments	1,617	0.3	234	0.88	
Other Income	25,564	5.3	3,705	13.89	
Total	480,551	100.0	69,645	261.09	
DEPARTMENTAL EXPENSES					
Rooms	84,657	28.3	12,269	46.00	
Food & Beverage	107,545	73.4	15,586	58.43	
Telephone	5,286	67.0	766	2.87	
Other Operating Departments	219	13.5	32	0.12	
Other Expenses	4,321	16.9	626	2.35	
Total	202,028	42.0	29,279	109.77	
DEPARTMENTAL INCOME					
	278,523	58.0	40,366	151.33	
OPERATING EXPENSES					
Administrative & General	36,021	7.5	5,220	19.57	
Marketing	31,840	6.6	4,614	17.30	
Property Operations & Maintenance	24,271	5.1	3,518	13.19	
Utilities	17,172	3.6	2,489	9.33	
Total	109,304	22.7	15,841	59.39	
HOUSE PROFIT					
	169,219	35.2	24,524	91.94	
Management Fee	10,478	2.2	1,519	5.69	
INCOME BEFORE FIXED CHARGES					
	158,741	33.0	23,006	86.25	
FIXED EXPENSES					
Property Taxes	19,393	4.0	2,811	10.54	
Insurance	4,844	1.0	702	2.63	
Miscellaneous Fixed Expenses	218	0.0	32	0.12	
Reserve for Replacement	11,097	2.3	1,608	6.03	
Total	35,552	7.4	5,152	19.32	
NET INCOME					
	\$123,189	25.6 %	\$17,853	\$66.93	

