


# Memorandum



DATE July 27, 2007  
TO The Honorable Mayor and Members of the City Council  
SUBJECT Convention Center Hotel Status Briefing

On your City Council Briefing Agenda for August 1, 2007, staff will make a presentation to you on the status of the Convention Center Hotel to include recommendations and proposed action plan.

  
A.C. Gonzalez  
Assistant City Manager

c: Mary K. Suhm, City Manager  
Deborah Watkins, City Secretary  
Thomas P. Perkins, City Attorney  
Craig Kinton, City Auditor  
Judge Jay Robinson, Judiciary  
Ryan S. Evans, First Assistant City Manager  
Charles W. Daniels, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Ramon F. Miguez, P.E., Assistant City Manager  
Dave Cook, Chief Financial Officer  
Karl Zavitkovsky, Director, Economic Development  
Chandra Marshall-Henson, Assistant to the City Manager

# Convention Center Hotel Project Status

Prepared for the Dallas  
City Council  
August 1, 2007

# Briefing Purpose

- To provide update on development of a convention center hotel.

# Focus Questions

- Do we need a convention center hotel?
- What are some key historical points?
- What kind of hotel?
- What are key factors for site selection?
- What are key project cost/revenue factors?
- What is the magnitude of the gap? And why?
- What sites are currently under consideration?
- What are strategies to overcome gap?
- What is proposed process?
- What are anticipated leadership challenges?
- What are next steps?

# Need for a Convention Hotel?

- Of 22 convention markets, Dallas is the only one of two cities without a convention center hotel or announced plans for such a development.
- Studies have estimated:
  - Lost business value related to lack of a convention center hotel – \$128,758,383 as measured since 2002.
  - Potential room night impact with a convention center hotel – 1,724,733 over the next 15 years
- Dallas has inadequate ballroom/breakout spaces – industry trends have seen a shift from 1:4 sf meeting to exhibit space ratio to 1:2 in meeting to exhibit space ratio. DCC currently has a 1:4 ratio. Hotel can help address this deficiency.
- Good convention facilities and convention center hotel have become prerequisites, not competitive advantages.

# Historical Notes

- 80's, early discussions regarding the need for a Convention Center hotel.
- 2001, the DCVB commissioned Convention Center (Headquarters) Hotel Impact Study. Study found a convention hotel was critical to Dallas' ability to maintain and improve its convention/tradeshows bookings.
- 2003, state law was passed to allow Dallas to use all the state's share of HOT and sales tax from a CC hotel for first 10 years of its operation.
  - This benefit could generate from state taxes an estimated \$50.6m over 10 years. Remaining city/county incentives – rebate of property tax, sales tax, CVB HOT from CC hotel estimated to be \$12.9m over 10 years.

# Historical Notes<sub>cont.</sub>

- In 2004 City received a marketing/financial feasibility report from HVS regarding the feasibility for development of a convention center hotel.
- In 2004 RFP process utilized to select developer and hotel operator for a CC hotel.
  - Assumed access to tax dollars generated by the CC hotel as part of the project financing as provided under state law.
  - Initial RFP sought either a privately owned/financed or public not for profit corporation structure for convention center hotel within 1000 ft of the DCC.
  - Three developers responded.
  - During the RFP process, Council altered the financing focus to private ownership/financing.

# Historical Notes<sub>cont.</sub>

- All three developers indicated desire to continue under a private ownership financing approach.
- Woodbine Development Corp (WDC)/Marriott team selected.
- Exclusive negotiation period with WDC expired without reaching a deal for a privately financed hotel.
- Conversations have continued with WDC.
- Additional parties have expressed interest and provided preliminary project information.



# Hotel Specs

- Minimum 1000 hotel rooms
- Multi-purpose space for meeting rooms and ballrooms – in excess of 70,000 sf
- Climate controlled pedestrian connection to the DCC
- Restaurants
- Exercise facilities
- Other amenities typically included in hotels with 4 star ratings
- Sufficient parking for minimum 1000 guest rooms
- Located within 1000' of DCC
- Seek development of LEEDS Silver Certified project

Note: Project scope does not include residential

# Potential Sites

- Woodbine
  - On the RPC (Reunion Parking Center)
  - Reunion Arena site (Next to Hyatt)
- John Bryant and Group - Baseball Proposal
  - On the RPC and Reunion Arena site
  - Came from minor league baseball proposal
- Hamilton
  - Off Young Street
  - Sante Fe conversion underway
- Chavez site
- Lot C
- More to follow



Dallas

Santa Fe

Chavez

Lot C

Reunion  
Arena

RPC

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# Key site selection factors

- As it relates to the DCC:
  - Provide easy access to DCC
  - Provide additional meeting space
  - Adequate property for a convention center hotel programming requirements
  - Engagement with the Center City
  - Improves the guest experience and pedestrian flow between center, hotel and center city – street level activity for retail
  - Connectivity to DCC – at what location?
  - Service entrances separate from “front door”
  - Proper traffic control and separation for taxi, shuttle and personal vehicles
  - Efficient design not adversely affected by constraints of site

# Key site selection factors cont.

- Hotel should be located to:
  - Improve Center visitors Urban Experience
  - Enhance DCC connection to downtown core through improved pedestrian amenities, streetscape and way finding tools
  - Link the DCC to Union Station, Hyatt Regency & the Reunion Parking Center
  - Foster economic development in the downtown core through retail and entertainment establishments
- Ideal site should accommodate 160,000 sf plus footprint or approximately 4 acres.

# Key cost/revenue factors

- Cost per room is estimated between \$275,000 to \$300,000 per key (includes hard/soft costs)
  - Does not include land costs, parking and impacts to street system based upon site consideration
- Land cost estimates range from \$0.00 (RA or Lot C) to over \$33.6 million (Chavez Property)
- Cost of money - 5% to 9% (public vs private)
- Parking development costs between \$0.00 (RA or RPC) to over \$20.0m (7 level parking garage for lot C)

# Key cost/revenue factors<sub>cont.</sub>

- Connection costs to DCC ranges from \$4.5m (RPC or Chavez) to approximately \$50.0m (RA/Hyatt)
- Assuming 2011 opening. Estimated room rate and occupancy range for stabilized year 4:
  - Rate \$166.00 - \$170.00
  - Room occupancy percentage 62%-70%

Note: Preceding estimates found on pages 13 and 14 are best available without benefit of site, drawings, firm project scope and property appraisals.

# Gap Magnitude

- Estimated project financing for a privately owned/funded convention center hotel has capital project budget gap of \$45.0 million to \$80.0 million.
- Additional factors that could impact “gap” - land cost, parking solution and connection to DCC.



# Why a gap?

- Hotel Pro Forma - rate/occupancy levels are impacted by location – convention center hotels are usually not in destination site locations.
  - Lack of critical mass of ancillary development – retail, entertainment, residential and corporate
- Meeting space above what is normally required in a non-convention center hotel.
- Building a significant sized facility will not necessarily reflect immediate market demand.

Note: 22 markets have announced or opened Convention Center hotels past 10 years. All have been publicly financed. Some include: Chicago, Houston, San Antonio (under development) Denver, Austin, and Phoenix (under development).

# Strategies to Overcome Gap

- Public financing/private ownership
- Public financing/public ownership
- Private financing/private ownership with city subsidizing the “gap”
- More aggressive private financing
- All financing options would require Convention Center hotel tax generated dollars available under current state legislation.

# Proposed Process

- Retain hotel consultant to update convention center hotel financial & marketing data.
- Collaborate with First Southwest, City's financial advisor, to secure an underwriter with expertise in these types of projects.
- Develop and refine financing options, to include DCC debt refunding.

# Proposed Process cont.

- Re-convene the Convention Center hotel task force – government/private sector participation.
- Periodically brief appropriate City Council Committee and City Council on progress.
- Position City Council to give a go/no go decision by Feb 2008.
- If a go, announce the development and schedule for a convention center hotel no later than May 2008.
  - To have a Convention Center hotel opening by January 2011

# Potential Leadership Challenges

- Hotel/Motel Assn
- Individual Hotel properties
- Shift from private ownership/financing to possible public ownership/financing
- Whether to resubmit a RFP for a Convention Center hotel or move forward with WDC
- City's budgeting priorities/fiscal impact
- State legislature could repeal legislation to support Convention Center hotel development – 2009 session
- If Convention Center hotel is not constructed, Dallas stands the real possibility of falling significantly behind in booking convention/tradeshows business

# Recommendation

- Re-convene the Convention Center hotel project task force to proceed with process to secure a Convention Center hotel:
  - Revise Convention Center hotel developer and hotel operator RFP to consider a various financing options including private and/or public funding.
  - Select experienced consultant(s) and underwriter(s) to support marketing/financial assessment for a Convention Center hotel and financing plans to include possible DCC debt refunding.
  - Identify best site for a Convention Center hotel considering connection to center city and DCC, ancillary commercial, retail, entertainment development & such other factors that would enhance the visitor/convention experience.

# Next steps

- Re-convene the Convention Center hotel task group – August 2007.
  - Task Group to support City Manager in site assessment
  - Project financing assessment
  - Developer/hotel operator selection process
- Potential future City Council actions - Fall 2007:
  - Retain hotel marketing/financial consultant
    - Update 2004 Market Study and financial projections
  - Authorize retention of convention center hotel experienced underwriter. Work in collaboration with First Southwest
  - Authorize DCC debt refunding if feasible
- Brief City Council and appropriate City Council committee periodically on Convention Center hotel progress from September 2007 – April 2008.

# Questions