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April 5, 2006

TO: **Michael McElwee**
FROM: **Terry Moore, David Helton, and Lorelei Juntunen**
SUBJECT: **Review of Documents Related to the Headquarters Hotel**

This memorandum contains ECO's review of existing research regarding the development of a Headquarters Hotel adjacent to the Oregon Convention Center (OCC) in Portland. The Portland Development Commission (PDC) retained ECONorthwest to (1) identify key issues related to the development of a Headquarters Hotel; (2) assess the methods used in existing research to arrive at divergent conclusions about these issues; and (3) state ECO's opinion about these issues and the implications for development of a Headquarters Hotel in Portland.

This memorandum does not conduct new research, but instead reviews existing research. This memorandum summarizes the conclusions of existing research on key issues related to development of a Headquarters Hotel. For each of these conclusions, we briefly describe the methods and data sources that researchers used to arrive at that conclusion. We assess the credibility of these conclusions and state our opinion on key issues based on our understanding of proper methods of market analysis, the convention and event industry, and the evidence provided by our review of existing research for this study.

This memorandum is organized by three questions that frame the key issues relevant to the development of a Headquarters Hotel in Portland:

1. What is the state of the national convention industry?
2. How has the OCC performed?
3. How will a Headquarters Hotel impact the Portland economy?

ECONorthwest focused primarily on relevant documents provided by PDC for the review of existing research. In addition to this memorandum, PDC has asked ECO to conduct some research using source data on the performance of the OCC and spending by convention and event organizers, exhibitors, and delegates. We will summarize the results of this research in a separate memorandum to PDC that will assess the impact of a Headquarters Hotel on the performance of the OCC and its economic impacts in the Portland region.

1. WHAT IS THE STATE OF THE NATIONAL CONVENTION INDUSTRY?

ECO's conclusions from review of existing research:

Demand for convention and exhibition space should continue to grow at rates close to the historical average over the long run.

The number of exhibition events using over 5,000 square feet increased from 3,289 in 1989 to 4,778 in 2004, which represents average annual growth of 2.5% over this period. The number of exhibition events has grown relatively steadily since 1989, with relatively small short-run downturns in 1998–1999 and 2001–2003. (Hazinski and Detlefsen 2005)

All other things equal, demand for exhibition events in the long-run should grow at a rate similar to population, employment, and business activity in the region. Continued growth in the amount of space rented and number of attendees at each event will accelerate demand for event space beyond that from growth in the number of events alone.

Two documents that we reviewed, Murphy (2005) and Sanders (2005), assert that there has been a "sea change" in demand for exhibition events. Their assertions are based on anecdotal evidence at selected facilities over the last few years and are not supported by more comprehensive long-run data summarized in this memorandum.

The long-run supply of convention and exhibition space will respond to market conditions, but the market will likely become increasingly competitive over time.

The amount of planned new or expanded exhibit space declined from 16.8 million square feet in 2001 to 6.9 million square feet in 2004. (Hazinski and Detlefsen 2005) We believe that this decline reflects the short-term drop in demand that occurred in 2002 and 2003.

The Brookings Institution report (Sanders 2005) concludes that continued construction of convention center space, combined with a structural decline in demand, will lead to a persistent "glut" of convention center space that will erode the economic impacts of the facilities. This conclusion, however, is based primarily on short-run and anecdotal information.

Hazinski and Detlefsen (2005) point out that five- to ten-year planning horizons are not uncommon for convention center projects because they typically require long periods of consensus building, governmental approvals, design, and construction. Thus it would not be surprising to find that the convention industry did not have time to respond to the sharp drop in demand for convention center space in 2001–2002. This situation is common in markets for offices, commercial space, and residential developments.

Other cities have made substantial investments in convention center facilities. These investments are often justified by the potential economic impacts they can generate. In addition, convention centers and supporting hotels benefit their communities by enhancing a community's image and increasing access to markets. We believe that cities will continue to invest in new and expanded facilities over the long run for these same benefits.

We reviewed five documents for this section:

- Ducate, Douglas. Space Available…The Rest of the Story. The Center for Exhibition Industry Research, White Paper. March 2005.
- Hacker, Steven. The Rhetoric Versus the Facts: What the Brookings Report Fails to Reveal. International Association for Exhibition Management. May 2005.
- Hazinski, Thomas and Hans Detlefsen. "Is The Sky Falling on the Convention Industry?" HVS Journal. May 2005.
- Sanders, Heywood. Space Available: The Realities of Convention Centers as Economic Development Strategy. The Brookings Institution, Research Brief. January 2005.

1.1 LONG-RUN DEMAND FOR CONVENTION CENTER EVENTS

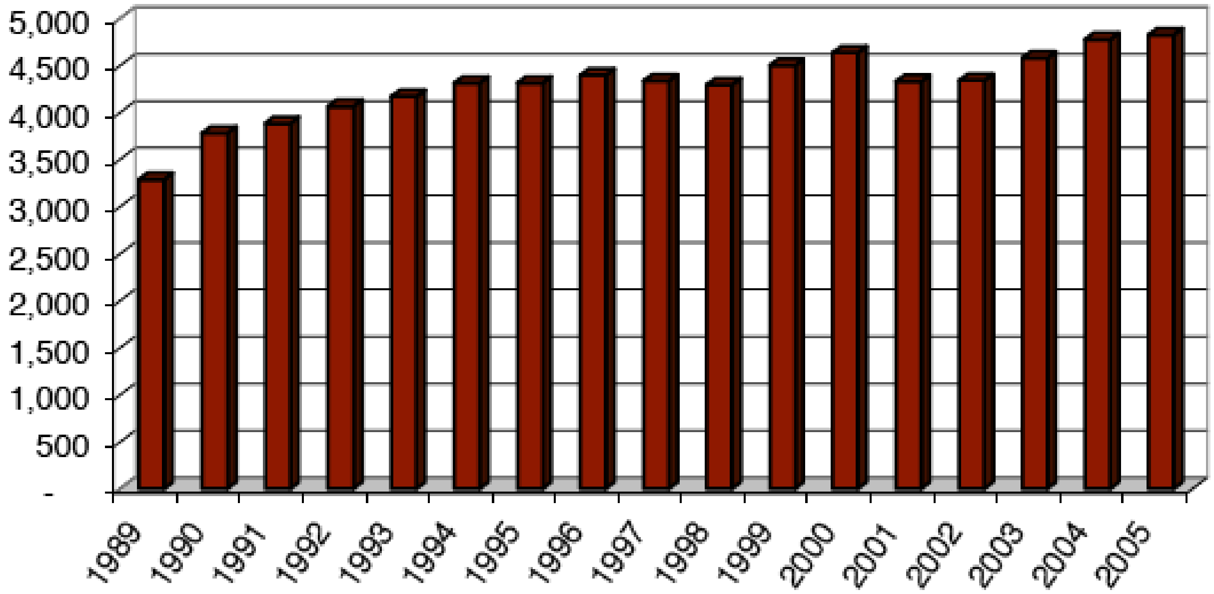
The Brookings Institution report (Sanders 2005) concludes that the convention industry has experienced a "sea change" that will limit future growth in the industry. This conclusion is based primarily on 2–3 years of data on attendance at a limited number of facilities and convention events. The methods and evidence presented in the Brookings Institution report are not sufficient to support the conclusion of a "sea change" in the industry.

To reach a conclusion of a "sea change" in demand, a market analysis should start by defining the market and describing how it works to identify key factors that underlie, indicate, or determine demand in the market. It should then examine comprehensive and long-run data on these factors and their correlation with demand in the market. In a similar manner, comprehensive and long-run data should be examined to reach conclusions about the supply of competing goods and services in the market. These are principles common to market analyses conducted for any good or service, not just for the convention and event industry.

The Brookings Institution report does not follow these standards for a market analysis. For example, it uses data from the *Tradeshow Week "200" Directory*, which represents self-reported attendance and space use at only 200 of the largest tradeshow events. Data from the Center for Exhibition Industry Research (CEIR) shows that there were 11,094 exhibition events in the U.S. in 2001. (Hacker 2005) Thus the Brookings Institution report draws conclusions from examination of data representing only a fraction of the national event market or the market for events at the OCC.

Analysis of more comprehensive and long-run data shows that there has been relatively stable growth in the number of convention and exhibition events. Figure 1 shows a chart of the number of events that used at least 5,000 sq. ft. of convention center space between 1989 and 2005. (Hazinski and Detlefsen 2005)

Figure 1. Number of exhibition events using at least 5,000 sq. ft. of convention center space, 1989–2005

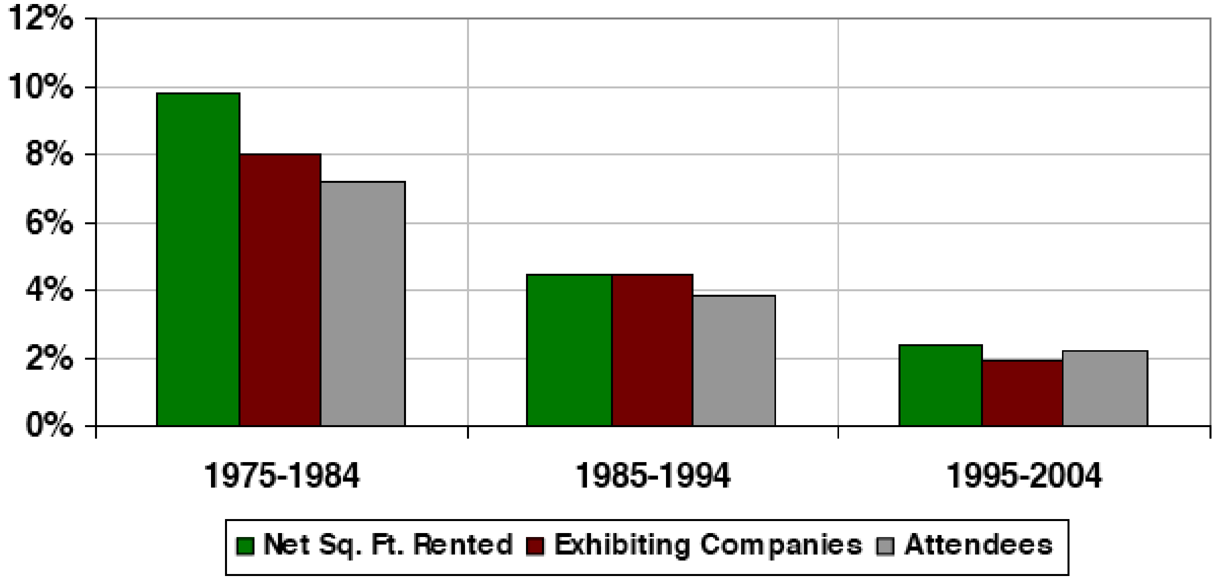


Source: Tradeshow Week, as reported in Hazinski and Detlefsen 2005 (p. 5).

Figure 1 shows relatively stable growth in the number of exhibition events over the last 17 years, with some slight downturns in 1997–1998 and 2001–2003. Hazinski and Detlefsen report that the number of exhibition events increased from 3,289 in 1989 to 4,778 in 2004, which represents average annual growth of 2.5%. (Hazinski and Detlefsen 2005)

Hazinski and Detlefsen present additional measures of demand for exhibition space from Tradeshow Week: the amount of exhibit space rented, the number of exhibitors that rent space at events, and annual attendance at these events. Tradeshow Week gathers this data by surveying 400 events that use at least 30,000 sq. ft. of net exhibit space. Hazinski and Detlefsen state that they believe this data is representative of industry trends because it has been gathered using consistent methods since 1972, so any bias would be consistent year-to-year. The average annual percent change in each of these measures of demand over the last three decades is shown in Figure 2.

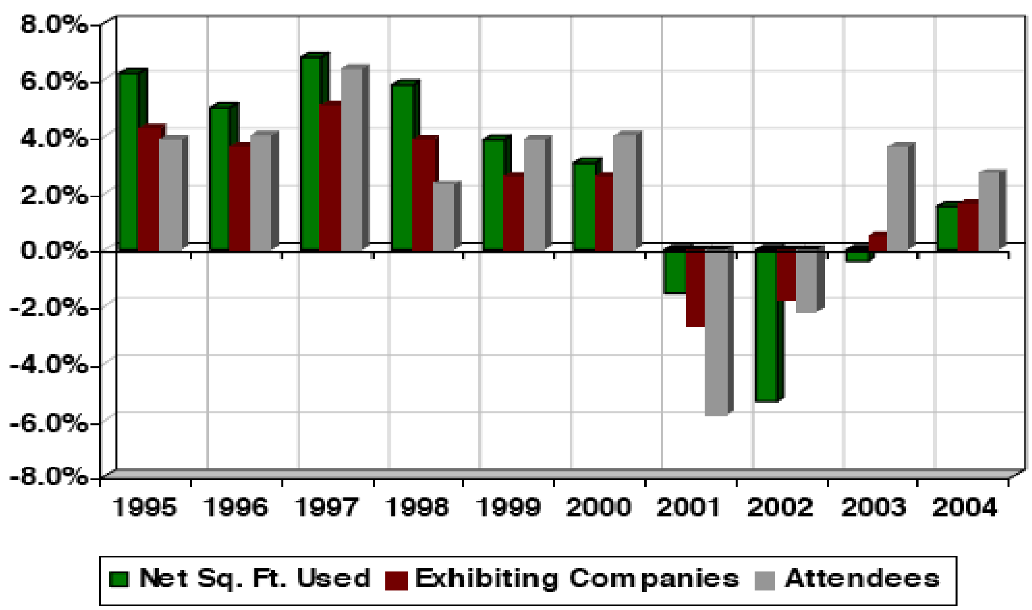
Figure 2. Average annual percent change in net space rented, number of exhibitors, and attendance at surveyed events, 1979–2004



Source: Tradeshow Week, as reported in Hazinski and Detlefsen 2005 (p. 6).

Figure 2 shows that each of these measures of demand grew in each of the three last decades, but that growth has slowed over time. Combining the demand indicators in Figure 1 and Figure 2 shows that demand for convention center space is growing more rapidly than just the number of events alone (see Figure 1), because events are also growing in rented space, their number of exhibitors, and attendees (see Figure 2). Decreasing growth rates over the decades suggests that the industry growth may be maturing over time.

Figure 3. Average annual percent change in net space rented, number of exhibitors, and attendance at surveyed events, 1995–2004



Source: Tradeshow Week, as reported in Hazinski and Detlefsen 2005 (p. 7).

Examination of year-to-year data for the 1995–2004 decade shows that growth in the demand indicators in Figure 2 would have been higher if not for two years—2001 and 2002—in which each of these indicators was negative. This year-to-year data in shown in Figure 3.

Figure 3 shows that each of the three measures of demand were positive over the 1995–2000 period but turned negative in 2001 and 2002. Data for 2003 shows some recovery in the number of event attendees, and data for 2004 shows growth for each of the three indicators. Overall, the data in Figures 1, 2, and 3 describe an industry that is maturing, with rapid growth in early years now leveling off at a lower level. Overall, long-run data shows a pattern of sustained growth in demand for convention and exhibition space, with a sharp drop in 2001–2002 that appears to primarily reflect conditions in the high-tech industry and 911.

The Center for Exhibition Industry Research (Ducate 2005) uses data from the Center's *Exhibition Industry Index* to refute many of the assertions in the Brookings Institution report. Their Index measures change in net square feet of space sold, professional attendance, number of exhibiting companies, and event revenue. While data from the *Index* is short-run, covering the period between 2000 and 2003, it covers a much broader number of events than data cited by The Brookings Institution.[1]

CEIR shows several trends that counter the assertion by the Brookings Institution that there has been a "sea change" in the demand for exhibition and convention space:

- Attendance at exhibition events declined only slightly between 2000 and 2003, with the largest drop of 2.9% occurring between 2000 and 2001.
- While each of the demand indicators declined between 2000 and 2002, each has since recovered to at least 95% of the 2000 level by 2003 except event revenue.
- While each of the demand indicators shows a substantial drop in demand for events in the Communications and Information Technology sectors since 2000, there has also been substantial growth in demand for events in the Medical and Health Care industry since 2000.

These trends suggest that there was a downturn in demand related primarily to conditions in the high-tech industry.

Overall, the data presented in this section suggests that demand for conventions and events will continue to grow in the long run, at an average below the peak rates of the 1990s. The convention and event industry has grown substantially over the last twenty years. While the industry experienced a sharp downturn in demand in 2001–2002, this appears to be primarily related to conditions in the high-technology sector and 911 rather than a shift in the underlying determinants of demand. Continued innovation and competition in technology should lead to a recovery in demand for events from this sector. The growth in demand for events from other sectors can supplant and eventually surpass lost business from any one sector. Data on event

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[1] According to Douglas Ducate of CEIR, the *Index* is based on a sample of events that is statistically representative of the market measured by CEIR's 2000 *Exhibition Industry Census* of the U.S. and Canada that reported data on 13,165 events. Data for the *Index* is reported by event organizers but verified by an accounting firm contracted by CEIS.

demand suggest that growth rates have been positive but are slowing over time, indicating an industry that is maturing.

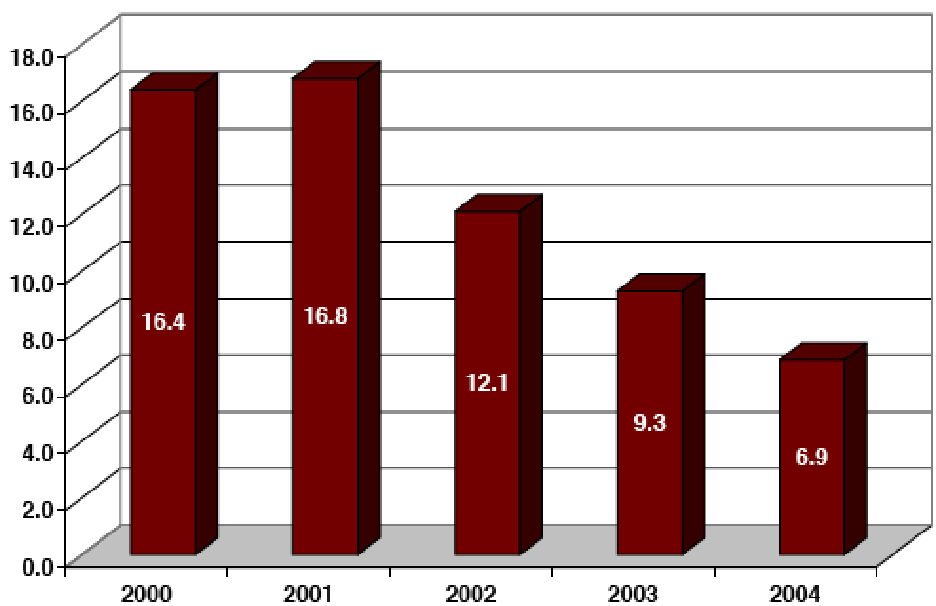
The data presented in existing research is primarily summarized over broad periods of time and for a wide range of event types and sizes. Examination of more disaggregated data would likely yield insights on trends in the market that are relevant to development of a Headquarters Hotel in Portland. For example, disaggregated data could help show the size of the potential market for events at the OCC by type and size. Examination of more disaggregated market data is necessary to assess the impact of a Headquarters Hotel on the number and type of events at the OCC and the resulting implications for occupancy at the Headquarters Hotel and its economic impacts.

1.2 LONG-RUN SUPPLY OF CONVENTION CENTER SPACE

The Brookings Institution report (Sanders 2005) concludes that expansion of space in the convention industry has not responded to softening demand. Continued construction of convention center space, combined with the "sea change" in demand, leads The Brookings Institute to conclude that there will be a persistent "glut" of convention center space and that investments in convention centers and supporting facilities are unlikely to yield economic impacts.

This conclusion is also based primarily on short-run and anecdotal information. The Brookings Institution reports total space built in periods and list cities that have added or planned to add exhibition space since 2000 without reporting the amount or space or the reasons for expansion. As with the demand analysis, an analysis of supply conditions should look at long-run comprehensive supply data, assess market trends that affect supply, and examine the level of use or occupancy in the industry. The Brookings Institution report does not present a comprehensive assessment of supply conditions or trends in the market.

Figure 4. Planned new or expanded exhibition space (millions of square feet)



Source: Tradeshow Week *Major Exhibit Hall Directories* 2000–2004, as reported in Hazinski and Detlefsen 2005 (p. 9).

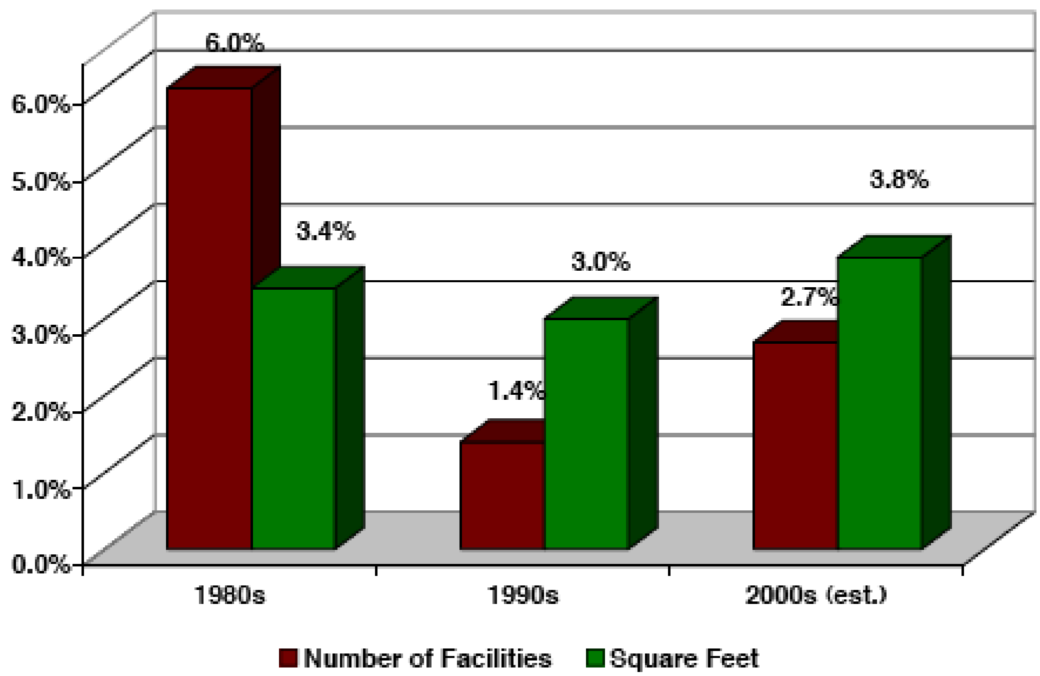
An important point that The Brookings Institution report does not address is how the long lead-time for planning and financing of convention facilities affects the pipeline of convention-related projects.

Hazinski and Detlefsen (2005) point out that five- to ten-year planning horizons are not uncommon for convention center projects because they typically require long periods of consensus building, governmental approvals, design, and construction. Thus it would not be surprising to find that the convention industry has not had time to respond to the sharp downturn in demand for convention center space in 2001–2002.

Recent data from Tradeshow Week's *Major Exhibit Hall Directories* from 2000 through 2004 shows that there has been a decline in the amount of planned new or expanded exhibition space in the industry. Figure 4 shows that the amount of planned new or expanded exhibit space declined from 16.8 million square feet in 2001 to 6.9 million square feet in 2004.

Data on the long-run growth of exhibit facilities and exhibit space in Figure 5 shows that the rate of growth during the current decade falls between the higher levels experienced in the 1980s and lower levels during the 1990s. This suggests that current expansion of space is in line with the historical rate and that current construction is not the "building boom" claimed by The Brookings Institution.

Figure 5. Average annual increase in the number of exhibition facilities and square feet of exhibition space, 1980–2004



Source: Tradeshow Week *Quarterly Reports*, as reported in Hazinski and Detlefsen 2005 (p. 8).

The Brookings Institution report shows that many cities have made and are planning substantial investments in convention centers, hotels, and other facilities. In our experience, these investments are primarily justified by their potential to attract visitor spending and the resulting economic impacts. Events at convention centers generate jobs and income from the event itself and the resulting spending in the community. We expect that cities will continue to make investments in new and expanded convention center facilities for the same reasons.

In our experience, economic impacts are often the focus of impact studies for convention centers because they are relatively easy to measure and explain, and they measure impacts in dollars that can be compared to facility costs. But convention centers have other well-known benefits that are more qualitative and not as easy to measure. Convention centers:

- help enhance the image of a community,
- attract visitors who may return later to visit again or move to the community,
- give local residents and businesses greater access to national and international markets
- allow local events that might not otherwise occur because of a lack of space.

These benefits also help drive investments in convention centers and supporting facilities.

2. HOW HAS THE OCC PERFORMED?

ECO's conclusions from review of existing research:

Use of the OCC has followed national trends, with a decline in the number of events in 2001–2002 followed by a recovery to pre-2001 levels in 2003–2004.

Conventions and Tradeshows composed roughly 15% of all events but 55% to 60% of attendee days at the OCC.

Conventions and Tradeshows have a disproportionate share of attendee days because they typically attract attendees for multiple days. For this reason, conventions and tradeshows generate more occupied room nights (ORNs) than other similarly-sized events.

Roughly half of Convention and Tradeshow events at the OCC in 2004 had a regional, national, or international scope, while 95% of other events have participants primarily from the state and local area.

Convention centers act as "loss-leaders" that generate visitation and economic impacts in their region.

The conclusion by some that convention centers are failing because of they do not generate enough revenue to cover their operating costs is wrong. We are not aware of any publicly-owned and operated convention centers where user fees and other revenue generated by the facilities are sufficient to cover operating costs. All publicly-owned and operated convention centers require some public funding for operations, frequently from taxes on hotel room stays and car rentals.

Convention centers act as a "loss-leader" for their community the way that meeting space at a hotel or restaurant acts as a loss-leader to generate room nights and food sales. But since a convention center cannot capture visitor spending on hotel rooms, meals, retail goods, and other services, it requires public funding to remain in operation. Other businesses in the regional economy capture this visitor spending, resulting in economic impacts (spending, jobs, and earnings) in the region.

Large national and international events represent the best opportunity to capture additional use at the OCC, and the lack of a HQ Hotel is the primary obstacle to attracting more of these events.

Over 60% of meeting planners indicated that it was highly unlikely or that they definitely would not select Portland as a location for their event given the existing number and type of hotel rooms near the OCC. (Strategic Advisory Group 2003)

The Portland Oregon Visitor Association collects data on the number of hotel room nights that would have been generated by events that choose to not use the OCC, and the primary reason why the event did not choose Portland. "HQ Hotel Issues" is the primary reason for lost room nights, accounting for over 250,000 lost future room nights in 2004 and 2005. (POVA 2005)

Other cities have and will continue to invest in convention centers, hotels, and support facilities. Without a HQ Hotel, the OCC's share of the national and international event market will decline.

Other facilities that the OCC competes with have more high-quality rooms adjacent or near their convention centers. Other cities have and will continue to invest in convention centers, hotels, and other support facilities because of the economic impacts they generate. Faced with increasing competition, an OCC without a HQ Hotel will likely experience a decline in its share of the national and international event market.

Documents reviewed for this section:

- KPMG. *Economic/Fiscal Impact Analysis for a Proposed HQ Hotel Adjacent to the Oregon Convention Center*. Prepared for Metro E R Commission. July 2005.

- KPMG. *Economic/Fiscal Impact Analysis for the Oregon Convention Center*. Prepared for Metro E R Commission. April 2005.

- KPMG. *Economic/Fiscal Impact Analysis for the Oregon Convention Center*. Prepared for Metro E R Commission. 2004.

- Oregon Convention Center Media Services. *Oregon Convention Center Five-Year Review 2000–2005*.

- Portland Oregon Visitors Association. *OCC Lost Business Report.*

- Strategic Advisory Group. *Convention Center Hotel Strategic Plan*. Prepared for the Portland Oregon Visitors Association. February 2003.

- Murphy, Victoria. "The Answer is Always Yes." *Forbes.com*. Posted February 28, 2005.

2.1 HOW TO MEASURE PERFORMANCE

When considering how to measure the performance of the Oregon Convention Center, the obvious question is "compared to what?" There are three common bases used for measuring the performance of convention centers and similar facilities:

- Market and feasibility studies conducted for the facility before it opened or expanded.

- The performance of similar facilities elsewhere.

- Industry averages and standards of performance for similar facilities.

The documents reviewed for this section provide some evidence of the performance of the OCC, but none compare its performance to these baseline measures. ECONorthwest will use data from the OCC budget to assess its financial performance relative to industry standards and comparable facilities. This section summarizes the data from existing research into three sections:

- Use of the OCC.

- Financial performance of the OCC.

- Outlook for performance of the OCC.

2.2 USE OF THE OCC

The recent *Economic/Fiscal Impact Analysis for the Oregon Convention Center* (KPMG 2005) reports data on several performance measures for the OCC. This data focuses on recent performance of the OCC since 2000.

The KPMG report groups events into five categories defined by the types of activities and participants. The KPMG grouping also makes some conclusions about hotel room nights generated by event types, which we have made explicit by describing the typical number of days and geographic scope of participants at the events:

- **Convention.** An assembly of attendees from an association, corporation, or other organization meeting for a common purpose. Conventions typically occur over several days and draw attendees from a wide area, requiring attendees to book hotel rooms.

- **Tradeshow.** An assembly of members from trade associations and organizations that meet to buy and sell products, exchange information, and generally conduct business. Tradeshows typically have large areas with exhibit booths and are generally not open to the public. Tradeshows also typically occur over several days and draw attendees from a wide area, requiring attendees to book hotel rooms.

- **Meeting.** Any gathering of persons for a common cause such as annual meetings of corporations and associations, religious gatherings, seminars, and other public and private assemblies. Meetings attract a mix of local and regional attendees but occur only one or part of a day. Meetings generate some hotel room nights but generally fewer than for a similarly-sized Convention.

- **Public Show.** Shows that are primarily intended to sell, display, and demonstrate goods and services to the general public. An admission fee may or may not be charged. These events typically occur over several days. These events attract a mix of local and regional exhibitors and attendees. Public Shows generate some hotel room nights, but generally fewer than for a similarly-sized Tradeshow.

- **Food & Beverage Event.** Special events that require catering services, such as luncheons, receptions, and banquets. These events typically occur only part of a day and draw attendees primarily from the local area, generating few hotel room nights.

Figure 6 shows the number of events and attendee days at the OCC by event type. Figure 6 reports attendee days (event attendance times event days) because this is a better measure of facility use than event attendance. Figure 6 shows several key patterns of OCC use:

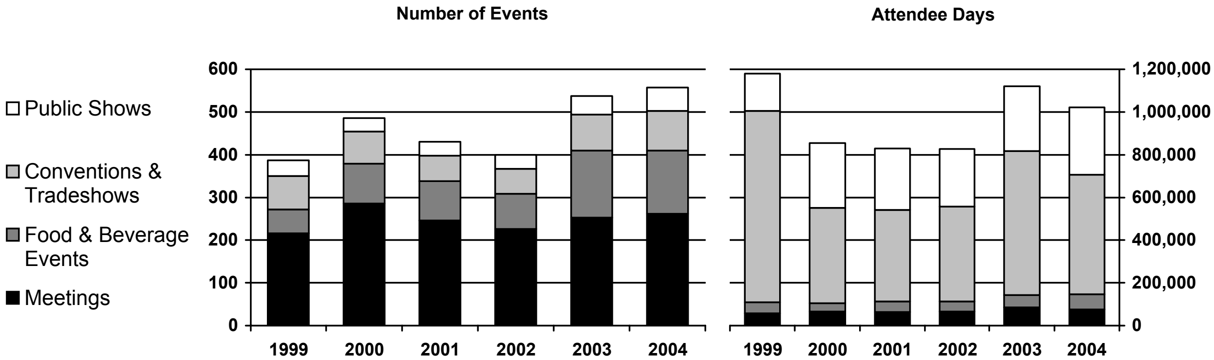
- The total number of events and attendee days at the OCC declined in 2001 and 2002 but recovered in 2003 and 2004 to levels higher than those in 2000. This pattern of growth generally applied to each event type at the OCC.

- Meetings and Food & Beverage Events constituted the majority of events at the OCC but generated relatively few attendee days. These events composed roughly 75%–80% of total events but less than 15% of attendee days.

- Conventions & Tradeshows had a small share of total events but generated the majority of attendee days at the OCC. These events composed roughly 15% of total events but 55%–60% of attendee days.

- Public Shows also had a relatively small share of total events but large share of attendee days, with roughly 10% of total events but 30% of attendee days.

Figure 6. Number of events and attendee days at the OCC by event type, 1999–2004



Source: KPMG. *Economic/Fiscal Impact Analysis for a Proposed HQ Hotel Adjacent to the Oregon Convention Center*. July 2005. Data presentation by ECONorthwest.

Table 2 shows the data behind Figure 6 plus the average attendee days per event by event type. This data confirms the implications of Figure 6, which is that Convention & Tradeshows and Public Shows typically have a larger number of attendee days per show than other events.

Table 2. Number of events, attendee days, and average attendee days per event at the OCC by event type, 1999–2004

	1999	2000	2001	2002	2003	2004
Number of Events						
Public Shows	37	32	32	33	44	54
Conventions & Tradeshows	78	75	60	59	84	93
Food & Beverage Events	56	93	92	82	157	148
Meetings	216	286	246	226	253	262
Total	387	486	430	400	538	557
Attendee Days						
Public Shows	173,689	304,022	287,309	270,360	302,727	316,141
Conventions & Tradeshows	896,927	446,083	427,481	443,828	673,866	559,670
Food & Beverage Events	52,371	39,787	50,511	46,826	57,672	71,540
Meetings	56,654	65,905	62,897	66,192	85,922	74,469
Total	1,179,641	855,797	828,198	827,206	1,120,187	1,021,820
Average Attendee Days per Event						
Public Shows	4,694	9,501	8,978	8,193	6,880	5,854
Conventions & Tradeshows	11,499	5,948	7,125	7,523	8,022	6,018
Food & Beverage Events	935	428	549	571	367	483
Meetings	262	230	256	293	340	284
All Event Types	3,048	1,761	1,926	2,068	2,082	1,835

Source: KPMG. *Economic/Fiscal Impact Analysis for a Proposed HQ Hotel Adjacent to the Oregon Convention Center*. July 2005. Attendee days per event calculated by ECONorthwest.

In addition to generating a large number of attendee days, the description of event types suggests that Conventions & Tradeshows also typically generate more hotel room nights because a larger share of participants are from outside the area. That suggestion is supported by the data in Table 3, which shows that roughly half of Convention & Tradeshow events at the OCC in 2004 had a regional, national, or international scope, while 95% of other events have participants primarily from the state and local area. (KPMG 2004)

Because Conventions & Tradeshows generate more hotel room nights (and related spending) than other event types, they are the focus of efforts to expand use of the OCC to generate economic impacts in the Portland area economy.

Table 3. Events at the OCC by geographic scope and event type, 2004

Event Type	State & Local	Regional, National & International	Total
Number			
Conventions & Tradeshows	47	46	**93**
Meetings	249	13	**262**
Other	191	11	**202**
Total	**487**	**70**	**557**
Percent by Area			
Conventions & Tradeshows	51%	49%	**100%**
Meetings	95%	5%	**100%**
Other	95%	5%	**100%**
Total	**87%**	**13%**	**100%**

Source: KPMG. *Economic/Fiscal Impact Analysis for a Proposed HQ Hotel Adjacent to the Oregon Convention Center*. July 2005. Attendee days per event calculated by ECONorthwest.

2.3 Financial Performance of the OCC

None of the documents we reviewed for this report make an assessment of the financial performance of the OCC. An assessment of financial performance would consider measures of performance at the OCC, such as costs and revenues by type, and compare them to adopted performance targets and performance measures at similar facilities. ECONorthwest will conduct an assessment of the financial performance of the OCC relative to industry standards and comparable facilities. The results of this assessment will be presented in a subsequent memo.

The Brookings Institution report (Sanders 2005), however, implies that convention centers are failing because they operate "at a loss" *despite* public funding of their construction costs:

> Despite dedicated taxes to pay off the public bonds issued to build convention centers, many—including Washington, D.C. and St. Louis—operate at a loss. (Sanders 2005, p.1)

While The Brookings Institution report makes this implication, it does include any substantive analysis of the financial performance of convention centers. Thus, we cannot say what exactly is meant when The Brookings Institution says that convention centers operate "at a loss." Clearly the meaning is not literal—convention centers, like any operation, must balance its books and pay its costs to remain in operation. Our guess is that The Brookings Institution means that convention centers operate "at a loss" because user fees and other revenue generated by the facilities do not cover operating costs.

The conclusion that convention centers are failing because of this, however, is wrong. *We are not aware of any publicly owned and operated convention centers where user fees and other revenue generated by the facilities are sufficient to cover operating costs*. Surely some exist, but they are the exception not the rule. All publicly-owned and operated convention centers require some public funding for operations, frequently from taxes on hotel room stays and car rentals. This is anticipated by every market and feasibility study that we have conducted and that we have seen for public convention centers and similar facilities.

The reason is that convention centers cannot charge enough for facility use to cover operating costs. There are three key reasons for this condition in the meeting and event market:

- Convention centers must compete with hotels, restaurants, and other facilities that offer meeting and event space at prices below cost in order to sell hotel rooms, meals, and other services.

- Convention centers compete with other facilities in regional, national, and international markets. Competing facilities often offer space at low costs to generate economic impacts from visitor spending.

- Convention facilities are economically inefficient buildings. Their functions mandate that they be designed primarily to provide very large open spaces and public corridors. This design requirement, combined with the set-up and take-down times required for large functions that reduces potential use, means that convention facilities generate a far lower return from rent per square foot than rents from office buildings, hotels, or even movie theatres.

The most profitable business activity associated with use of meeting and event space is the sale of hotel rooms. While food service is the other main business activity associated with meeting and event space, it generates less total revenue and profit than hotel rooms. Unlike private hotels that offer meeting and event space, publicly-owned and operated facilities cannot capture the profit from hotel room nights generated by use of their facility because they don't own or operate any hotels. In addition, private hotels only offer enough meeting space to generate room nights in their hotel, while public facilities offer large space to attract uses that generate impacts in the larger community.

Private hotels cover the loss from use of meeting space with profits from the sale of hotel rooms and food service. Thus, meeting and event space serves as a *loss leader* that these businesses use to generate other sales. On a larger scale, space at publicly owned convention centers serves as a loss leader to generate economic impacts in their community.

A 2005 article posted on Forbes.com (Murphy 2005) asserts that consultants and advisors regularly use flawed assumptions in their feasibility analyses for public convention centers because "the answer is almost always yes." This article cites recent disruptions in demand and the fact that some public convention centers are discounting space as evidence that feasibility studies are flawed. But the article relies on anecdotes about a few facilities and a few interviews without any overview of convention center financial operations or any detailed assessment of feasibility analyses sufficient to support the accusation of bias.

As we explain earlier in this report, every feasibility study that we have conducted or have seen for public convention centers shows that some level of public funding will be needed for the facility to operate. In this context, the result of feasibility studies for convention centers is almost always yes. This "yes" does not mean that the facility will generate enough revenue to cover costs—instead it means that <u>there are multiple ways that a public convention center can be</u>

operated with some mix of user fees, other facility-generated revenue, and public funds. This distinction is missed in the *Forbes.com* article.

2.4 Outlook for Performance of the OCC

As for the national convention industry, we would expect the number of conventions, exhibitions, meetings, and similar events at the Oregon Convention Center will grow along with population, employment, and business activity in the Portland area as long as other conditions remain unchanged. While growth of population, employment, and business activity in the region will increase demand for events at the OCC, other conditions in the market will affect the number and type of events that will use the OCC in the future.

None of the documents we reviewed made a comprehensive assessment of how the OCC would perform in the future without an adjacent Headquarters Hotel. The Strategic Advisory Group report (2003) instead focuses on the competitive environment faced by the OCC and the implications for the ability of the OCC to capture large national events. The Strategic Advisory Group focuses on large national events because they represent the best opportunity to capture additional use at the OCC:

> Portland currently captures the majority of the state and regional meetings that require the use of a convention center. There is limited potential to increase market share in this segment. For Portland to increase its market penetration, it must attract the national meetings market to the destination. (Strategic Advisory Group 2003)

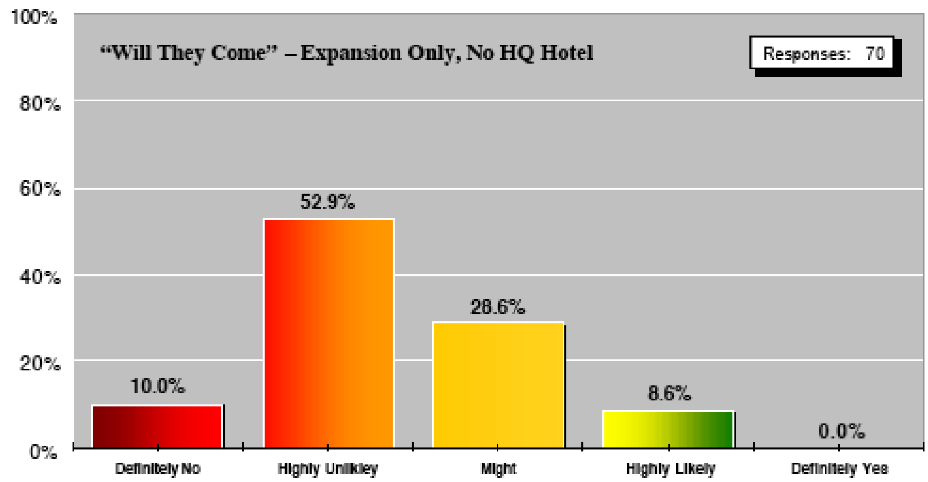
Strategic Advisory Group surveyed 100 meeting planners for groups sponsoring large national events. 70 meeting planners indicated that they would consider Portland as a location for their event. Portland's location was cited as the primary reason that 30 planners would not bring their event to Portland—it is too far for most meeting participants and requires too many flight connections to visit. The lack of interest by these planners may be due to their lack of familiarity with Portland as a destination—when asked to name the first thing that comes to mind when they think of Portland, 22 of the 100 planners could not respond. (Strategic Advisory Group 2003)

Respondents familiar with Portland commented on its beauty, friendliness, and environment. Of the 70 planners who would consider holding their event in Portland, roughly 60% felt that Portland has "about the same" appeal as other cities or is "more appealing," while 40% felt that Portland is "less appealing" than its competition. (Strategic Advisory Group 2003) The 60% share of meeting planners who see Portland as about the same or better as other meeting locations suggests that Portland has the potential to attract a share of national meetings and events that rotate among regional centers.

The size of the national meetings that Portland could attract is suggested by the events organized by the planners interviewed by Strategic Advisory Group. The 70 planners who would consider coming to Portland plan events that total nearly 300,000 occupied hotel room nights (ORNs). Strategic Advisory Group (2005) estimates that the target market of large national events for the OCC supports a total of 320,000 ORNs. Given this correlation and the use of targeted interviews, the Strategic Advisory Group felt that the group of meeting planners interviewed for their study represented the OCC's target market of national events. (Strategic Advisory Group 2003)

Meeting planners who would *consider* coming to Portland were asked the *likelihood* that they would select Portland as a host destination, given the OCC expansion and the existing supply of hotel rooms near the facility. Over 60% of respondents indicated that it was highly unlikely or that they definitely would not select Portland as a location for their event given existing conditions. (Strategic Advisory Group 2003) The range of responses is shown in Figure 7.

Figure 7. Likelihood that meeting planners would select Portland as destination given existing conditions



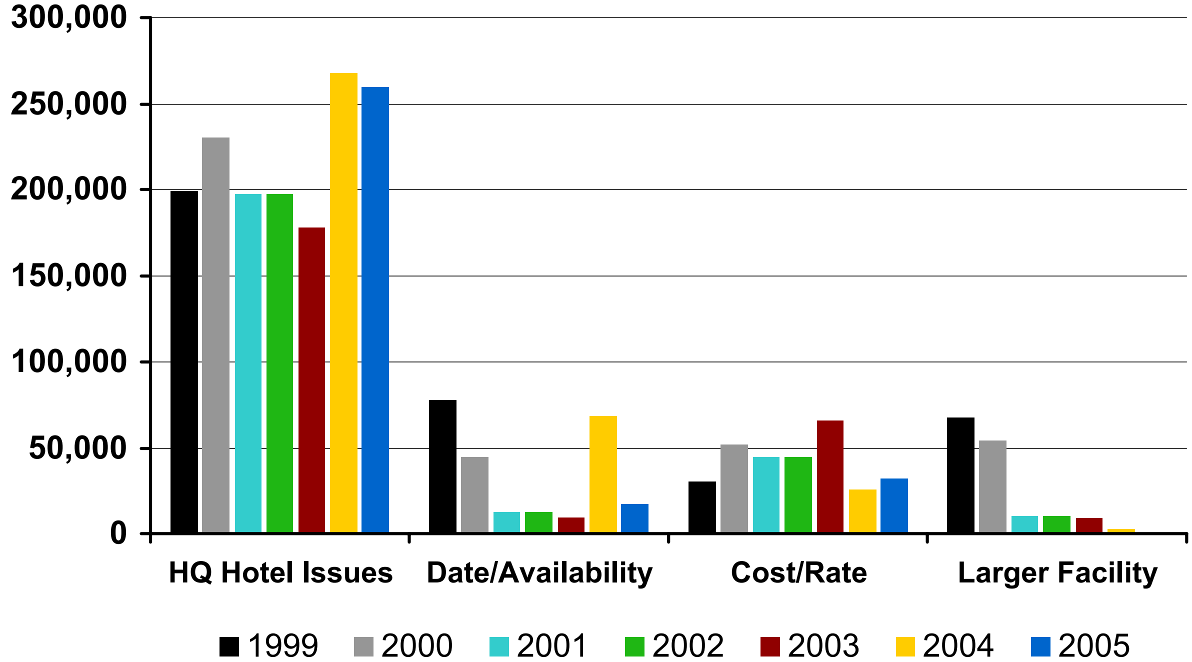
Source: Strategic Advisory Group. *Convention Center Hotel Strategic Plan*. February 2003.

Nationally, Successful Meetings magazine's survey of national meeting planners reports that the three most important factors that determine the location of their events are 1) the availability of hotel rooms, 2) distance of hotel rooms from the facility, and 3) hotel room rates. (Strategic Advisory Group 2003)

Local data confirms that the lack of a large high-quality hotel adjacent to the OCC is the biggest obstacle for securing events at the facility. The Portland Oregon Visitor Association collects data on the number of hotel room nights that would have been generated by events that choose to not use the OCC, and the primary reason why the event did not choose Portland. Figure 8 shows that "HQ Hotel Issues" accounts for the majority of lost room nights, accounting for over 250,000 lost room nights per year in 2004 and 2005. POVA staff report that the primary "issue" is the lack of high-quality hotel rooms adjacent to or near the OCC. (POVA 2005)

Figure 8 shows that the three other reasons most-often cited for not choosing Portland, Date/Availability (not available when needed), Cost/Rate (cost too high), and Larger Facility (OCC too small) together do not account for as many lost rooms as "HQ Hotel Issues" alone. 50 of the 70 meeting planners who would consider coming to Portland reported that the lack of a Headquarters Hotel of sufficient size was the only reason preventing them from coming to Portland with their event. (Strategic Advisory Group 2003)

Figure 8. Occupied hotel room nights lost at the OCC by cause, 1999–2005



Source: Portland Oregon Visitors Association.

The number of lost room nights reported by POVA is for a future booking period of eight to ten years. Thus, most of the reported lost room nights are not lost in the current year, but in future years. In addition, not every event that says they would have come to Portland would actually have come to Portland. While this may appear to reduce the number of lost rooms in any one year, these losses accumulate over time. For example, if Portland looses 30,000 room nights each year for the next five years for events in 2010, it will have lost 150,000 room nights in 2010. Thus, the POVA lost business report shows that the potential number of additional room nights that could be attracted by a Headquarters Hotel is substantial.

The Strategic Advisory Group report presents an inventory of hotel rooms at the OCC and selected West Coast facilities. In the convention center industry, the proximity and quality of the hotel rooms is important. The OCC has a 174-room Red Lion Inn across the street, a 476-room Doubletree Hotel four blocks away, a 202-room Marriott Courtyard, and three other limited-service hotels nearby for a total block of about 900 rooms. Another 3,000 rooms are available in downtown Portland across the river, accessible by a free 10-minute light rail trip.

Convention centers in Anaheim, Denver, Long Beach, Phoenix, Salt Lake, San Diego, San Francisco, and Seattle all have over 700 rooms adjacent to or across the street from the facility. These rooms are primarily in hotels with brands perceived to be of higher quality than the hotels near the OCC.

The expansion of the OCC from approximately 200,000 sq. ft. of exhibit space to nearly 370,000 sq. ft. made the OCC one of the 50 largest convention centers in the United States. According to research by Tradeshow Week, the expanded OCC will be able to accommodate 90% of all events in the industry, or roughly 3,500 events[2]. (Strategic Advisory Group 2003)

The Strategic Advisory Group survey of meeting planners for large national events found that a majority—70%—would consider bringing their event to Portland given the right conditions, and that roughly 60% of these planners felt that Portland has "about the same" appeal or is "more appealing" than competing cities. So, Portland appears well positioned to attract a share of the national convention market, except that it lacks enough high-quality hotel rooms near the facility. Over 60% of surveyed planners who would consider selecting Portland said that it was highly unlikely that they would actually select Portland as a location for their event given existing conditions. The next section reviews documents to describe how a Headquarters Hotel would affect the performance of the OCC.

[2] The Strategic Advisory Group does not explicitly define the "industry" to which they refer. We believe that the total market of roughly 3,900 events, of which 90% or 3,500 can be accommodated by the OCC, is for national events that rotate among large convention centers in regions of the United States.

3. HOW WILL A HEADQUARTERS HOTEL IMPACT THE PORTLAND ECONOMY?

ECO's conclusions from review of existing research:

A Headquarters Hotel will increase the OCC's penetration of the national and international event market.

A survey by the Strategic Advisory Group shows that the level of market penetration increases rapidly as the proposed HQ Hotel gets larger, but levels off after 800 rooms. (Strategic Advisory Group 2003)

A Headquarters Hotel has the potential to generate a substantial number of occupied room nights (ORNs) and visitor spending in the Portland region.

The Strategic Advisory Group (2003) reports that the meeting planners they surveyed represent events with an average 3,000 attendees over 3.5 days. If each of these attendees stayed in a hotel room 3 nights (an optimistic assumption), the OCC would need to attract an average of 21 of these events per year, or almost two per month, to generate the ORN impact estimated for an 800-room HQ Hotel. This outcome is possible but at the high end of what we would expect at the OCC.

Regardless, the Strategic Advisory Group analysis and POVA lost business report shows that a Headquarters Hotel has potential to generate a substantial number of ORNs and related visitor spending in the Portland region.

A Headquarters Hotel could generate substantial spending, jobs, earnings, and tax revenue in the Portland region.

KPMG (2005) estimates that the hotel could generate total spending of $84 to $112 million, the equivalent of 1,250 to 1,600 full-time jobs, and earnings of $36 to $49 million per year in the tri-county region (Multnomah, Clackamas, and Washington counties). The Headquarters Hotel would also generate annual tax revenue of $3.6 to $4.6 million to the State and counties in the region (all in 2005 dollars).

In addition to the economic impacts that can be easily quantified, the tri-county region would experience several qualitative benefits from operation of a Headquarters Hotel adjacent to the OCC:

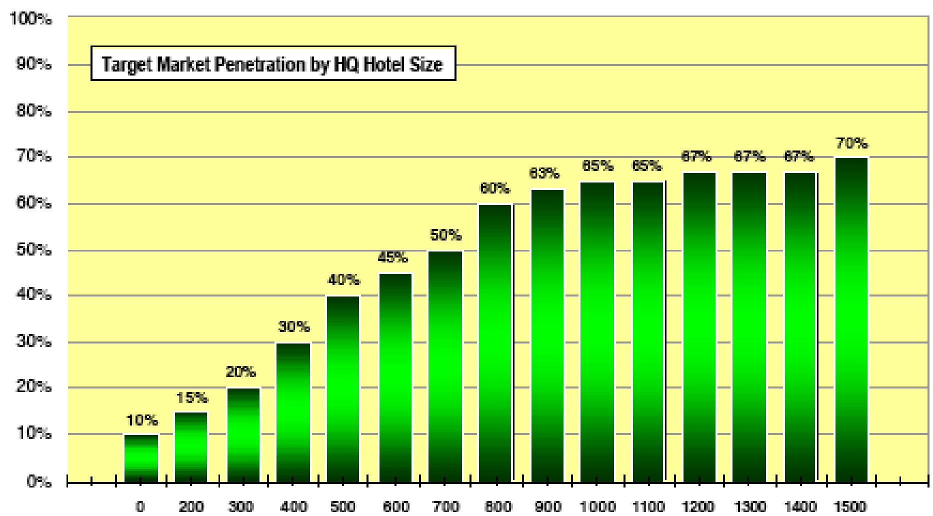
- Enhancing the area's image as a business, meeting, and tourist destination.
- Regional and national exposure through destination marketing and visitation.
- Providing a first-class support hotel for the OCC.
- Providing a catalyst for urban redevelopment projects in the Lloyd Center District.
- Supporting new and niche industries in Portland by giving them exposure to national markets.

Documents reviewed for this section:

- Gerald, Paul. “Ill-Starred: Why Portland Never Gets the NBA All-Star Game.” *Willamette Week*. February 15, 2006.
- KPMG. *Economic/Fiscal Impact Analysis for a Proposed HQ Hotel Adjacent to the Oregon Convention Center*. Prepared for Metro E R Commission. July 2005.
- PKF Consulting. Presentation to Portland Development Commission. March 15, 2005.
- Portland Oregon Visitors Association. *OCC Lost Business Report.*
- Strategic Advisory Group. *Convention Center Hotel Strategic Plan*. Prepared for the Portland Oregon Visitors Association. February 2003.

The Strategic Advisory Group report found that the lack of enough high-quality hotel rooms near the facility is the primary obstacle to attracting national conventions to the OCC. They asked the 70 meeting planners to estimate the smallest number of blockable rooms that a Headquarters Hotel near the OCC would need to offer to shift the chance that they would bring their event to Portland from “Definitely No” and “Highly Unlikely” to “Highly Likely” or “Definitely Yes.” Their responses are shown graphically in Figure 9, which shows the percent of planners who shift their response by hotel room size.

Figure 9. Target market penetration by number of blockable rooms



Strategic Advisory Group. *Convention Center Hotel Strategic Plan*. February 2003.

Figure 9 shows that the level of market penetration increases rapidly as the proposed HQ Hotel gets larger, but levels off after 800 rooms. Table 4 summarizes the data from Figure 9 to calculate the marginal increase of market penetration by HQ Hotel room size. This table shows that the share of meeting planners who switch their answer for each increase in the number of hotel rooms. The share increases by 5–10% with each increment until 800 rooms, after which the increases diminish. This suggests that an 800-room hotel is the largest facility that should be considered for a Headquarters Hotel near the OCC.

Table 4. OCC target market penetration by number of blockable rooms

Blockable Rooms	Target Market Penetration	Marginal Increase
0	10%	
200	15%	5%
300	20%	5%
400	30%	10%
500	40%	10%
600	45%	5%
700	50%	5%
800	60%	10%
900	63%	3%
1,000	65%	2%
1,100	65%	0%
1,200	67%	2%
1,300	67%	0%
1,400	67%	0%
1,500	70%	3%

Source: Strategic Advisory Group. *Convention Center Hotel Strategic Plan.*February 2003. Marginal increase calculated by ECONorthwest.

The Strategic Advisory Group estimates the appropriate size of the Headquarters Hotel for Portland by looking at the total new hotel room nights it would generate by bringing additional events to the OCC, and the number room nights that would be at the new Headquarters Hotel assuming it has 70% occupancy. This analysis concludes that the optimal size for a Headquarters Hotel in Portland is 800 rooms, because this size would generate more total room nights than it could accommodate at 70% occupancy, and an 800-room hotel maximizes the excess rooms that will generate demand for other hotels in the Portland market. (Strategic Advisory Group 2003).

Data presented by the Strategic Advisory Group shows that some other convention centers on the scale of OCC generate the number of ORNs estimated for the OCC with its expansion and a hotel.[3] This suggests that the number of new ORNs estimated by the Strategic Advisory Group is possible.

Data from the Portland Oregon Visitors Association shows that over 250,000 ORNs were lost to Portland in each of the last two years because of “HQ Hotel Issues.” (POVA 2005) This data is reporting the number of lost ORNs over a future booking period, often 8–10 years. While this may appear to reduce the level of lost business per year, these losses accumulate over time. For example, if POVA reports loosing 20,000 ORNs this year for an event in 2010, and looses another 20,000 ORNs next year for events in 2010, by the time 2010 arrives Portland will have lost over 100,000 ORNs in 2010 alone. Without reviewing the individual data records used to produce the POVA lost business report we cannot estimate the exact number of ORNs lost in each individual future year. But the magnitude of the lost business reported by POVA due to “HQ Hotel Issues” suggests that the economic impact of a HQ Hotel has the potential to be substantial.

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[3] Strategic Advisory Group 2003, Table 2, p. 5.

The Strategic Advisory Group does not present any information on the pattern of facility use by events that they have included in the target market. Given the lack of a specific methodology in the Strategic Advisory Group report, we cannot say for certain whether their methods are reasonable. But the number of ORNs the Strategic Advisory Group estimates would be generated by an HQ Hotel appears optimistic on its face.

The Strategic Advisory Group reports that the meeting planners they surveyed represent events with an average 3,000 attendees over 3.5 days. If each of these attendees stays in a hotel room 3 nights (an optimistic assumption), the OCC would need to attract an average of 21 of these events per year, or almost two per month, to generate the ORN impact estimated for an 800-room HQ Hotel. This outcome is possible but at the high end of what we would expect at the OCC.

To better assess the likely impact of a Headquarters Hotel on ORNs generated by use of the OCC, a market analysis would use more detailed market data showing the number of events by size in the market and the number of ORNs generated by these events. An assessment of market segments, the factors that determine the location of events, and competition in the market would allow a reasonable estimate of the number of events that could be attracted to the OCC with the addition of a Headquarters Hotel, and the economic impact associated with these events.

KPMG conducted an analysis of the economic impacts generated by a Headquarters Hotel adjacent to the Oregon Convention Center (KPMG July 2005). This analysis used IMPLAN, a model of the regional economy, to estimate the total spending, jobs, and earnings generated by OCC-related hotel guest spending, non-OCC related hotel guest spending, and spending from operation of the Headquarters Hotel. IMPLAN uses multipliers to estimate the total impact of these expenditures as they circulate through the local economy.

The KPMG analysis cites the Strategic Advisory Group report from 2003, but KPMG is not explicit about the inputs for ORNs and visitor spending that were used in their estimate of economic impacts. To the extent that KPMG relied on the Strategic Advisory Group for the number of ORNs generated by the Headquarters Hotel, their estimates of economic impacts may also range to the optimistic end of the possible impacts.

Table 5 summarizes the annual economic impacts estimated by KPMG for a 500-room and 600-room Headquarters Hotel. They estimate that the hotel could generate total spending of $84 to $112 million, the equivalent of 1,250 to 1,600 full-time jobs, and earnings of $36 to $49 million per year in the tri-county region (Multnomah, Clackamas, and Washington counties).

Table 5. Annual economic impact in the tri-county region from operation of a new Headquarters Hotel (2005 dollars)

	500 Rooms		600 Rooms	
	Low	High	Low	High
Total Spending	$83,823,000	$97,256,000	$89,871,000	$111,728,000
Total Employment (FTE)	1,250	1,400	1,300	1,600
Total Earnings	$36,030,000	$42,560,000	$39,033,000	$48,988,000

Source: KPMG. *Economic/Fiscal Impact Analysis for a Proposed HQ Hotel Adjacent to the Oregon Convention Center*. Prepared for Metro E R Commission. July 2005.
Notes: Tri-county region is composed of Clackamas, Multnomah, Washington Counties. Total spending, employment, and earnings include direct, indirect, and induced impacts generated as initial spending circulates through the regional economy. FTE is full-time equivalent.

In addition to spending, jobs, and earnings in the tri-county region, operation of a Headquarters Hotel would also generate tax revenue to the State and three counties that compose the region. KPMG estimated the amount of personal income tax, business income tax, transient lodging/hotel occupancy tax, and motor vehicle rental tax revenue generated by a 500-room and 600-room hotel. The results are summarized by jurisdiction in Table 6, which shows that the Headquarters Hotel could generate annual tax revenue of $3.6 to $4.6 million to the State and counties in the region.

Table 6. Annual tax revenue generated by operation of a new Headquarters Hotel (2005 dollars)

	500 Rooms		600 Rooms	
	Low	**High**	**Low**	**High**
State of Oregon	**$1,317,000**	**$2,535,000**	**$1,416,000**	**$1,764,000**
Personal Income Tax	$1,049,000	$1,239,000	$1,137,000	$1,427,000
Business Income Tax	$97,000	$112,000	$104,000	$129,000
Transient Lodging Tax	$171,000	$1,184,000	$175,000	$208,000
Clackamas County	**$123,000**	**$133,000**	**$126,000**	**$149,000**
Hotel Occupancy Tax	$123,000	$133,000	$126,000	$149,000
Multnomah County	**$2,043,000**	**$2,225,000**	**$2,119,000**	**$2,525,000**
Motor Vechicle Rental Tax	$275,000	$300,000	$300,000	$353,000
Personal Income Tax	$178,000	$210,000	$192,000	$241,000
Business Income Tax	$16,000	$19,000	$17,000	$22,000
Transient Lodging Tax	$1,574,000	$1,696,000	$1,610,000	$1,909,000
Washington County	**$144,000**	**$155,000**	**$147,000**	**$174,000**
Hotel Occupancy Tax	$144,000	$155,000	$147,000	$174,000
Total Tax Benefits	**$3,627,000**	**$5,048,000**	**$3,808,000**	**$4,612,000**

Source: KPMG. *Economic/Fiscal Impact Analysis for a Proposed HQ Hotel Adjacent to the Oregon Convention Center*. Prepared for Metro E R Commission. July 2005.

In addition to the tax revenue summarized in Table 6, it is likely that the City of Portland would receive additional tax revenue as well from operation of a Headquarters Hotel. KPMG did not estimate tax revenue that would go to the City of Portland.

In addition to the economic impacts that can be easily quantified, KPMG identifies several qualitative economic benefits that the tri-county region would experience from operation of a Headquarters Hotel adjacent to the OCC:

- Enhancing the area’s image as a business, meeting, and tourist destination.
- Regional and national exposure through destination marketing and visitation.
- Providing a first-class support hotel for the OCC.
- Providing a catalyst for urban redevelopment projects in the Lloyd Center District.

In addition, we would add:

- Supporting new and niche industries in Portland by giving them exposure to national markets.

On this last point, by allowing the OCC to bring more national and international events to Portland, a Headquarters Hotel can allow the OCC to better support new and niche industries in Oregon by showcasing these industries and giving them exposure to national and international markets. For example, attracting a national or international wine-related event could showcase Oregon wineries and give them exposure to potential customers that they otherwise might not have the budget to reach. In this way, the OCC can allow the Portland region to transition from old declining industries to new growing industries. Examples of industries that could benefit in this way include craft brewing, high technology, biotechnology, alternative energy, computer security, and food processing.

A recent article in the Willamette Week illustrates another point about qualitative economic impacts associated with a Headquarters Hotel. The article claims that Portland has never gotten the NBA All-Star Game because it lacks a Headquarters Hotel near the Rose Garden arena. In addition to the spending by players and visitors that such an event would bring, it would also bring national exposure to Portland through televised shots of the city that would cost millions if Portland were to buy that airtime for advertising.