The Answer Is Always "Yes"

How Our Cities Repeatedly Ignore The Evidence And Choose To Construct Unprofitable And Unneeded New Convention And Hotel Capacity

THE ANSWER IS ALWAYS "YES": HOW OUR CITIES REPEATEDLY IGNORE THE EVIDENCE AND CHOOSE TO CONSTRUCT UNPROFITABLE AND UNNEEDED NEW CONVENTION AND HOTEL FACILITIES

– "The Answer Is Always Yes" description comes from Forbes magazine, Feb. 28, 2005

Alas, the 2005 Forbes magazine observation remains largely on target in 2014. Virtually every one of Hampton Roads' major cities and tourist destinations either has constructed, or is planning to construct, new convention space, usually to be accompanied by increased hotel capacity. This is despite the reality that: (1) both nationally and regionally, convention business has been struggling with declining attendance for well more than a decade;[1] and (2) by nearly every measure, our region's hotel/motel sector prosperity and performance stand below where they were in 2007.

Whether serious analysis of these issues comes from the political right (Manhattan Institute), or the political left (Brookings Institution), they are unanimous in concluding that investments in additional convention/conference/hotel capacity hardly ever break even, much less generate a respectable, positive rate of return on the funds the public invests.

Here is a sample of their conclusions:

- *"The overall convention marketplace is declining in a manner that suggests that a recovery or turnaround is unlikely to yield much increased business for any given community, contrary to industry projections."* (Brookings Institution, 2005)[2]
- *"Many of these expansions appear to have been based on feasibility studies that failed to present rigorous reviews and examinations regarding alleged claims of positive impacts and over-optimistic operational pro-forma statements."* (Gerald Kock, University of Central Florida, 2007)[3]
- *"The whole thing is a racket."* (Boston Globe, 2011)[4]
- *"Convention Center Expansion: Build It and They Won't Come."* (Baltimore Sun, 2011)[5]
- *"From Boston to Austin, politicians spend money on fancy white elephants."* (Manhattan Institute, 2011)[6]
- *"The Dubious Economics of Convention Centers"* (ThinkProgress, 2011)[7]

[1] Convention center attendance nationally fell by almost 32 percent from 126 million to 86 million between 2000 and 2010. Joe Lawlor, "City officials suffer from conference center Fever," *Daily Press* (April 11, 2013), www.dailypress.com.

[2] Heywood Sanders, "Space Available: The Realities of Convention Centers as Economic Development Strategy," Brookings Institution (January 2005).

[3] Gerald Kock, "Proposing an Alternative Framework for Feasibility Studies for Large Public Tourism Investments: A Quantitative Analysis of the Orange County Convention Center," Master of Science thesis, Rosen College of Hospitality Management, University of Central Florida, 2007.

[4] Steven Malanga, "Have We Got a Convention Center to Sell You!," *The Wall Street Journal* (Dec. 31, 2011), http://online.wsj.com/news/articles/SB10001424052970204720204577126603702369654

[5] Marta H. Mossberg, "Convention Center Expansion: Build It and They Won't Come." *Baltimore Sun* (June 7, 2011), http://articles.baltimoresun.com/2011-06-07/news/bs-ed-mossburg-20110607_1_heywood-sanders-attendance-hilton-baltimore

[6] Steven Malanga, "Have We Got a Convention Center to Sell You!," Manhattan Institute (Dec. 31, 2011), www.manhattan-institute.org/html/miarticle.htm?id=7759

[7] Matthew Yglesias, "The Dubious Economics of Convention Centers," ThinkProgress (March 18, 2011), http://thinkprogress.org/yglesisas/2011/03/18/200256/the-dubious-economics-of-convention-centers

- *"Yet they have continued to pour money into the convention business, even in the face of a national glut of meeting space and Charlotte's inability to fill its building."* (Charlotte Observer, 2012)[8]

- *"City officials suffer from conference center fever."* (Daily Press, 2013)[9]

- *"The heyday of conventions is over. More meetings are being held online."* (The Daily Page, 2013)[10]

The truth is that it is difficult to generate any reliable evidence in favor of the public subsidization of the construction of new convention/conference/hotel/motel facilities in Hampton Roads (or hardly anywhere else in the United States). As the foremost national expert on the economics of convention centers has put it, the studies that cities have presented in favor of their convention centers "have been consistently flawed and misleading."[11] We'll present persuasive data in this chapter that clearly call into question any publicly financed project that would add to what already is a glut of convention/conference/hotel/motel space in Hampton Roads. Such investments constitute a distinctly inferior economic development strategy either for individual cities, or for the region as a whole.

Where Does Real Economic Development Come From?

Barring the discovery of a huge vein of gold during the construction of a new highway or building, or a wildly successful, but unexpected, new invention or business, reality is that economic growth is a very long-term process. A city or region grows faster than its neighbors either because: (1) it has found attractive ways to sell its goods and services to those outside that city or region; or (2) it has become a more powerful magnet that keeps increasingly large proportions of its citizens' expenditures within its boundaries.

FINDING WAYS TO SELL TO OR ATTRACT OUTSIDERS

With respect to (1), unless we unexpectedly discover oil in Pungo or Poquoson, smart, well-educated, ambitious, entrepreneurial citizens are the key to our being able to sell more goods and services to those outside the region. Such individuals are an important part of what economists refer to as our "human capital." Non-economists shorthand this by saying "great schools" and they should be referring to kindergarten through Ph.D.

Our experience in Hampton Roads is mixed. We have pockets of excellence in our schools and colleges, but if we pay attention to measures such as SOL performance and school rankings, we must acknowledge that we often fall short of the nation's leadership regions. In the business sector, we've prospered from more than a few firms in our region that have met the market test and have found ways to sell their attractive wares outside of Hampton Roads. These firms range in size from large, highly visible enterprises, such as Amerigroup, Ferguson Enterprises, Newport News Shipbuilding and Sentara, to small and medium-sized firms, such as Measurement Specialties, Paramount Sleep and Stihl.

Real economic growth – the kind that does not involve transferring money from one pocket to another inside our region – also can be generated by universities and medical schools. These institutions not only can draw students from outside our region, but also can attract significant research grant money. When they succeed in doing so, they provide us with a readily understandable model of selling goods and services to outsiders: we produce something that others want to use or purchase.

Some Virginians may take umbrage when the College of William & Mary grants admission to out-of-state residents, but this is a positive source of economic development that must not be forgotten. Analogously, when Old Dominion University logs approximately $100 million in annual research and development

[8] Steve Harrison, "Selling Charlotte: Convention Business Requires Millions From Taxpayers," *The Charlotte Observer* (Aug. 20, 2012), www.charlotteobserver.com/2012/08/20/v-print/3464298/cost-of-convention.html
[9] Joe Lawlor, "City officials suffer from conference center fever," *Daily Press* (April 11, 2013), www.dailypress.com
[10] Joe Tarr, "Convention Center Researcher Heywood Sanders Warns Against Building New Monona Terrace Hotel," *The Daily Page* (Nov. 15, 2013), www.thedailypage.com/daily/article.php?article=41421
[11] Heywood T. Sanders, "Convention Myths and Markets: A Critical Review of Convention Center Feasibility Studies," *Economic Development Quarterly*, 16 (2002), 195-209, p. 195. Sanders also noted, "The errors and failings of these studies are not limited to the case of convention centers. Other equally flawed market analyses and forecasts have been employed to support light rail projects, stadiums, arenas, cultural attractions, and aquariums." p. 208.

Paramount Sleep, headquartered in Norfolk, provides an excellent example of real economic development in action. In 2008, Paramount, which manufactures and sells mattresses to a wide variety of customers, including the government, sold more than 52 percent of its mattresses inside Virginia on annual sales of about $18 million. By 2014, the company had expanded its revenues to more than $30 million through four manufacturing/licensing partnerships with out-of-state firms. Paramount's out-of-Virginia sales constitute about 70 percent of its business. Paramount now sells in U.S. Navy Exchange stores around the world, and its products appear in Bloomingdale's and Costco stores throughout the country. This is genuine economic growth that did not come at the expense of other companies in our region.

funding, this too fuels the engine of economic development because the great proportion of these dollars comes to the university from outside Hampton Roads.

Contrast the examples of Paramount Sleep and Old Dominion University to the "economic development" that allegedly occurs when a city chooses to subsidize a local business that is not capable of attracting outside expenditures because it has little or no magnetic power. A quintessential illustration is an approximate $250,000 subsidy that one Hampton Roads city once provided a fast food outlet. The city claimed additional jobs and tax revenues would be generated from the expanded/renovated business. However, this dubious claim evaded the critical question: Where are the customers for this fast food outlet going to come from? Are customers going to drive in from Richmond to patronize it? Not likely. Will local customers stay in Hampton Roads to spend their food money because of this restaurant? Again, it's not likely.

Virtually all additional sales, jobs and tax revenues emanating from the fast food restaurant will come from existing fast food restaurants. One restaurant's gain is another's loss. **This illustrates the economic phenomenon known as displacement – one restaurant's increasing sales come from another restaurant's decreasing sales. In net terms, there is no new economic development from such "investments."**

Those interested in actual rather than imaginary economic development must be wary of the displacement of existing expenditures, which does not constitute net, new economic development. Instead, such redistribution disappointingly often also involves crony capitalism, whereby a few favored businesses are subsidized at the expense of all the others. In fairness, however, we must note that expenditure displacement certainly is not limited to fast food restaurants. It also often afflicts new or expanded arenas, convention centers and hotels.

Consider the case of a new or renovated hotel. If a new hotel or motel can only be made viable by means of a public subsidy, then one should ask whether that new hotel or motel actually will add to total hotel/motel patronage in our region, or instead simply redistribute expenditures, jobs and tax collections from one place to another. Will it effectively impoverish existing hotels and motels? To be sure, existing hotels must be renovated or improved periodically (and we are pleased when this occurs), but it is not clear why other hotels and businesses should be asked to pay for such improvements.

All too often, elected officials and regional economic development personnel ignore displaced expenditures. They revel in trumpeting the additional jobs and tax payments connected to a subsidized project without acknowledging that some or all of those jobs and tax payments will be realized only because the subsidized business will take those jobs and tax payments away from existing competitors.

INCREASING REGIONAL MAGNETISM

But, it is legitimate to ask: Shouldn't we endeavor to improve our region and make it more attractive to ourselves and to others? And, doesn't that take investment? The answer to both questions is "yes," but we must be careful how we go about this. We are capable of making our region more attractive – increasing its magnetism – by well-chosen investments in infrastructure and amenities. Attractions such as the Norfolk Tides, The Mariners' Museum and the Virginia Aquarium not only entice outside guests, but also keep our own expenditures within Hampton Roads. The entire Virginia Beach oceanfront acts as a magnet that attracts visitors and retains expenditures inside the region.

A well-devised, efficient transportation system pays dividends by reducing travel costs even while it pleases guests and makes our region a more attractive place to live. We improve our quality of life and reduce travel costs when we make cost-efficient investments in our transportation system. (Route 460, however, was the opposite kind of public investment – one in which the costs exceeded the benefits.)

If, however, the only customers that a conventional business or attraction ever attracts are local and regional citizens, then even though we should praise those businesses and attractions for serving local citizens well, it is difficult to fashion a respectable economic argument why either should be subsidized by the public. This is particularly true when displaced expenditures are involved – for example, when the construction of a new hotel would simply take patronage away from existing local hotels.

Even so, let's be clear – public policy should not discourage the construction of a new, nonsubsidized hotel (or any other business) unless doing so would unleash noticeable spinoff costs on other citizens. Entrepreneurs sensing opportunities and taking advantage of them is intrinsic to a market-based economy. We usually end up better off when entrepreneurs leap to meet our needs. Only a brief look at the massive oppression of consumers in the former Soviet Union is necessary to understand this principle. Nevertheless, providing entrepreneurs with the freedom to innovate and invest does not justify subsidizing such ventures with public funds.

It's not clear why taxpayers should subsidize a new hotel or conference center at the expense of existing hotels and centers unless the new hotel demonstrably would be able to attract incremental new visitors from outside the region. Or, alternatively, perhaps the new hotel would provide the critical amenities and capacity that would complement existing facilities and amenities and complete a package capable of attracting incremental new visitors and customers. (Unfortunately, while decision makers often make the argument, it seldom holds water.)

We should not limit our analysis to hotels. Athletic facilities, convention centers, fine and performing arts venues and recreational facilities such as golf courses also should be in our purview. In each case, we need to ask three critical questions:

(1) Will this public investment attract incremental new visitors and customers from outside our region and, if so, how many will come and how much money will they spend?

(2) Will this public investment act as a magnet and induce local and regional citizens to spend their time and money in Hampton Roads rather than somewhere else? And, if so, in how many cases will this be true and how much money is involved?

(3) When we add up the benefits we have calculated in (1) and (2) – most of which will spread out over future years and therefore must be discounted appropriately[12] – are they at least as large as the cost of the public investment?

The problem is that numerous studies of public investments in hotel and convention center complexes reveal that the answer to question (3) often is not simply "no," but a resounding "NO!" Put simply, the benefits often do not exceed the costs despite the rosy forecasts of those investing the public funds. While those advocating such investments usually point to increased tax revenues and incremental jobs, they consistently ignore displacement in their calculations. It does our region no good if a public investment adds $10 million of tax revenues from a new source, even while it reduces tax revenues from existing sources by $10 million. This is not economic development; it is an exercise in crony capitalism.

None of this should be taken to mean that our region should not invest in new buildings, new plants and equipment, new roads, new and improved homes, etc. Such investments can improve the quality of our lives and some will make us more productive. Nevertheless, such investments do not generate the economic development jolt we receive from regional economic activities that enable us to sell to those outside our region.

[12] This means we must find the "present value" of the future benefits and requires us to "discount" the future benefits in order to reduce them to current dollars so that we can compare these future benefits to the current investment costs. Present value is an absolutely fundamental concept in economics and finance and underpins analysis and decision making both on Wall Street and Main Street.

Convention Facilities In Hampton Roads

Let's take a look at the convention/conference/meeting facilities (hereafter shortened to "convention facilities") currently available in Hampton Roads.

THE SUPPLY SIDE OF THE MARKET

Table 1 reports the major convention and meeting facilities in Hampton Roads along with the number of guest rooms attached to these locations. It is important to note that these facilities differ significantly in terms of their characteristics. The largest facility in our region is the Virginia Beach Convention Center, which provides 516,000 square feet of potential space for conventions or meetings, followed by the Hampton Roads Convention Center in Hampton (344,000 square feet) and the Boo Williams Sportsplex in Hampton, a successful, specialized, sports-oriented venue (135,000 square feet).

The Virginia Beach Convention Center also is capable of hosting the largest banquets (2,000 capacity), followed by the Hampton Roads Convention Center (1,800), and the Norfolk Waterside Marriott (1,000) and Norfolk Sheraton (1,000). While many national conventions involve banquets much larger than these capacity limits, it is not clear that our region is capable of attracting such events because of hotel room and transportation constraints.

Where hotel rooms are concerned, our largest regional facility is Kingsmill Resort in Williamsburg (605 rooms), but several cities are capable of exceeding this number by combining the room capacities of existing, nearby facilities. In the case of Norfolk, for example, the Waterside Marriott and Sheraton Waterside together field 873 hotel rooms. Similarly, both Virginia Beach and Williamsburg are capable of fielding much larger combinations of hotel rooms by piggybacking multiple hotel locations, but these possibilities usually involve transporting some guests from hotels to meeting facilities.

All things considered, Hampton Roads fields a rather wide, though often duplicative, variety of convention, meeting and hotel facilities. The region is capable of hosting many different types of conventions and meetings, though not the largest meetings, which often are trade and business shows, political conventions and some academic meetings. The 2012 Consumer Electronics Show in Las Vegas, for example, reportedly attracted 156,000 visitors. Even if this number is exaggerated by a factor of five, such numbers vastly exceed the hosting abilities of Hampton Roads.[13]

UTILIZATION OF OUR CURRENT SUPPLY

"If they don't want to tell you how often their facilities are being used, then that usually means that the numbers are bad," a well-placed national meetings official told us. If this observation holds water with respect to Hampton Roads, then the underlying event and attendance data for our region's convention and hotel facilities must be sour indeed. Even public convention and tourism agencies routinely decline to supply data on events hosted and attendance, though they have a legal obligation to do so.

Only six of the 24 facilities listed in Table 1 were willing to supply information that would allow one to infer how intensively these facilities are used. Nevertheless, one can sneak a peek at reality by inspecting city budgets (though convention center numbers often are well disguised) and by listening to the periodic debates that occur in city councils when a council member discovers or rediscovers the fact that their convention center is losing money. For example, the $106 million Hampton Roads Convention Center in Hampton, which opened in 2005, has been losing millions of dollars every year, but city officials nevertheless argue that the facility attracts sufficient business from the outside that it overcomes these losses.[14] This evidence, however, has not been shared with anyone.

Hampton, however, is more forthcoming than Newport News, which supplied $26 million of public funds to construct the Conference Center at the Marriott Hotel in City Center. The investment dollars may have been public, but the financial books of the conference center are not. Newport News signed an agreement with the Marriott that does not require the Marriott to make public any financial information concerning the taxpayer-subsidized conference center. This is an unusual arrangement.

[13] www.vegasinc.com/business/public-record/2013/jan/07/list-2012-largest-conventions.
[14] Joe Lawlor and Robert Brauchle, "Taxpayer Money for Conference/Convention Centers Scrutinized," *Daily Press* (June 25, 2012), www.dailypress.com

TABLE 1

HAMPTON ROADS CONVENTION/CONFERENCE FACILITIES AND RELATED HOTELS: MARCH 2014

Name	City	Total Meeting Space: Sq. Ft.	Largest Meeting Room: Sq. Ft.	Largest Banquet Capacity	Guest Rooms
Boo Williams Sportsplex	Hampton	135,000	N/A	N/A	N/A
Cavalier Hotel	Virginia Beach	50,000	16,320	1,500	400
Chesapeake Conference Center	Chesapeake	22,700	20,000	1,100	N/A
Doubletree (now The Williamsburg Hotel & Conference Center)	Williamsburg	45,000	13,303	1,030	281
Fort Magruder Hotel & Conference Center	Williamsburg	26,000	5,680	500	303
Founders Inn and Spa	Virginia Beach	25,000	12,876	1,000	240
Great Wolf Lodge	Williamsburg	14,500	4,524	350	406
Hampton Coliseum	Hampton	88,599	26,263	500	N/A
Hampton Roads Convention Center	Hampton	344,000 101,000 **arena space	14,000 4,000 **	1,800	N/A
Hampton University	Hampton	14, 916	14,000	N/A	N/A
Hilton Garden Inn Suffolk Riverfront	Suffolk	14,000	7,260	500	150
Hilton Virginia Beach Oceanfront	Virginia Beach	12,196	7,100	1,000	289
Holiday Inn Virginia Beach/Norfolk Hotel	Virginia Beach	22,000	5,220	450	307
Holiday Inn & Suites North Beach	Virginia Beach	8,000	2,100	350	321
Kingsmill Resort	Williamsburg	17,101	6,050	500	605
Newport News Marriott at City Center	Newport News	25,000	12,032	880	250
Norfolk Waterside Marriott	Norfolk	60,000	14,400	1,400	405
Renaissance Hotel and Conference Center	Portsmouth	24,355	11,858	1,000*	249
Sheraton Norfolk Waterside	Norfolk	35,000	12,685	1,000	468
Sheraton Virginia Beach Oceanfront Hotel	Virginia Beach	13,138	5,700	500	214
Smithfield Center	Smithfield	16,000	8,000	340	N/A
Virginia Beach Convention Center	Virginia Beach	516,000	31,029	1,800	N/A
Williamsburg Lodge	Williamsburg	45,000	11,190	1,000	323
Wyndham Hotel Oceanfront	Virginia Beach	16,000	5,218	550	244

*Per Sales and Service - Renaissance
**Arena space can be configured for banquets. The 14,000 square foot space is considered the largest meeting space other than arena.

In 2012, when Virginia Beach rejected a proposal to supply $67 million in taxpayer funds to spur the construction of a $109 million four-star Hyatt Regency hotel near its $207 million convention center (which opened in 2007), some council members and many taxpayers grumbled that the convention center had yet to fulfill its promise. Instead, the convention center appeared to specialize in local and regional events rather than attracting larger, national events.

The relevant point of these examples is that convention/conference centers virtually never make money; they nearly always require subsidies. In an attempt to make them profitable, elected officials frequently propose public investments in complementary facilities, such as hotels. One losing proposition frequently leads to another for taxpayers. Virginia Beach is one of the few cities that has resisted what one external industry observer termed "second-stage developments."

The Founders Inn and Spa (at Regent University) did tell us that it hosted more than 500 events in 2013, while the Smithfield Center, a public endeavor, indicated it hosted 480. The Chesapeake Conference Center, while losing money, reported hosting 440 events between June 2012 and July 2013. The Wyndham Hotel in Virginia Beach reported that it hosted more than 300 events in 2013. Nearly every other facility declined to supply any data concerning events, usage or profitability.

NATIONAL UTILIZATION DATA

While those that operate our region's convention facilities are very close to the vest with their data, we do have access to national data on convention attendance, convention revenues and space utilization. Graph 1, which is derived from Center for Exhibition Industry Research (CEIR) data, reveals that times have been very tough for conventions, meetings and exhibitions since 2000. We'll refer to these collectively as "events." Graph 1 discloses that:

- Total attendance at events in 2013 remained below that in 2007 and was only about 2 percent higher than in 2000.
- Revenues derived from these events were about 15 percent below those in 2007 and about 2 percent below those in 2000.
- The number of exhibitors at events was about 8 percent below that in 2007 and about 7 percent below that in 2000.
- Space utilization at events was about 8 percent below that in 2007, but about 2 percent higher than that in 2000.

At the very least, the data and trends illustrated in Graph 1 are very discouraging to any city contemplating the subsidized construction of additional convention space. The problem is exacerbated by the new event-hosting capacity that has been coming on line. Graph 2 reveals that event-hosting capacity has grown by about one-third since 2000, even while attendance has barely budged above 2000 levels.

Further, as Graphs 3 and 4 demonstrate, the adverse trends observed in Graph 2 apply both to large and small venues. **The convention market is in the midst of a long-term slump that applies to virtually all types of venues.**

Optimists blame the Great Recession that began in 2008 for the demise of the convention market. While there is no doubt that the recession has contributed to the attendance and revenue challenges facing convention venues, it would be a mistake to assume that convention problems will disappear if economic conditions improve. First, the industry suffers from overcapacity. The blunt truth is there are far too many convention venues available relative to even the most generous estimates of future demand. Graph 2 drives this point home.

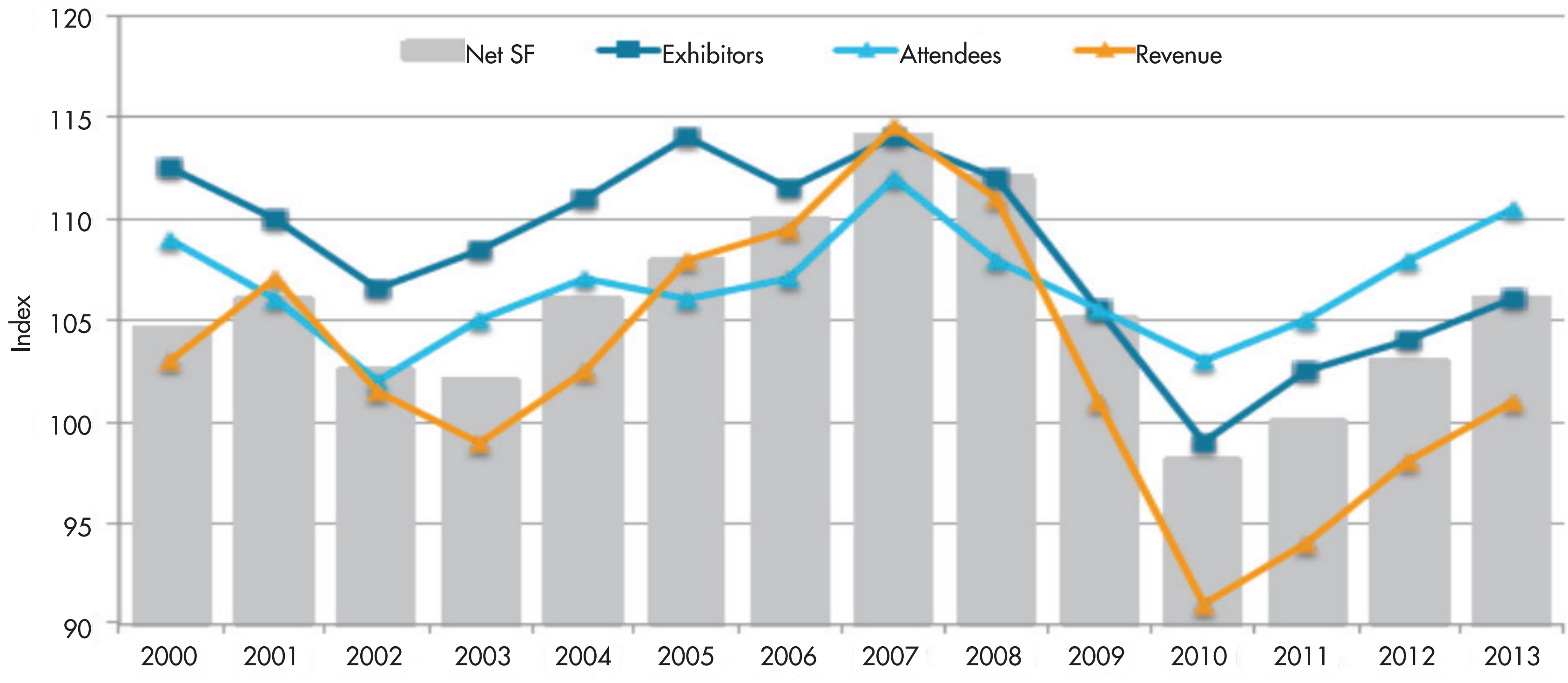
Second, the funk into which the convention market has descended already preceded the Great Recession. Convention attendance and revenues have been stagnant or falling since the end of the 1990s. An increasingly important reason for this is the ability that individuals now have to see and talk with each other in high definition over the Internet. This has put a serious dent in the need for employees and individuals to attend a convention in a distant city.

Even Voltaire's Dr. Pangloss (in "Candide") would have difficulty pulling an optimistic interpretation from the data and trends found in Graphs 1 through 4. Is it possible that Hampton Roads could constitute an exception to these adverse national trends? This is unlikely. Our region is highly dependent upon federal expenditures (especially those involving defense) and there is little prospect that federal expenditures on travel and meetings are going to climb.

In fact, our region has been unable to make headway in the face of the strong national winds that have buffeted convention venues and hotels. The next section provides data that demonstrate this point.

GRAPH 1

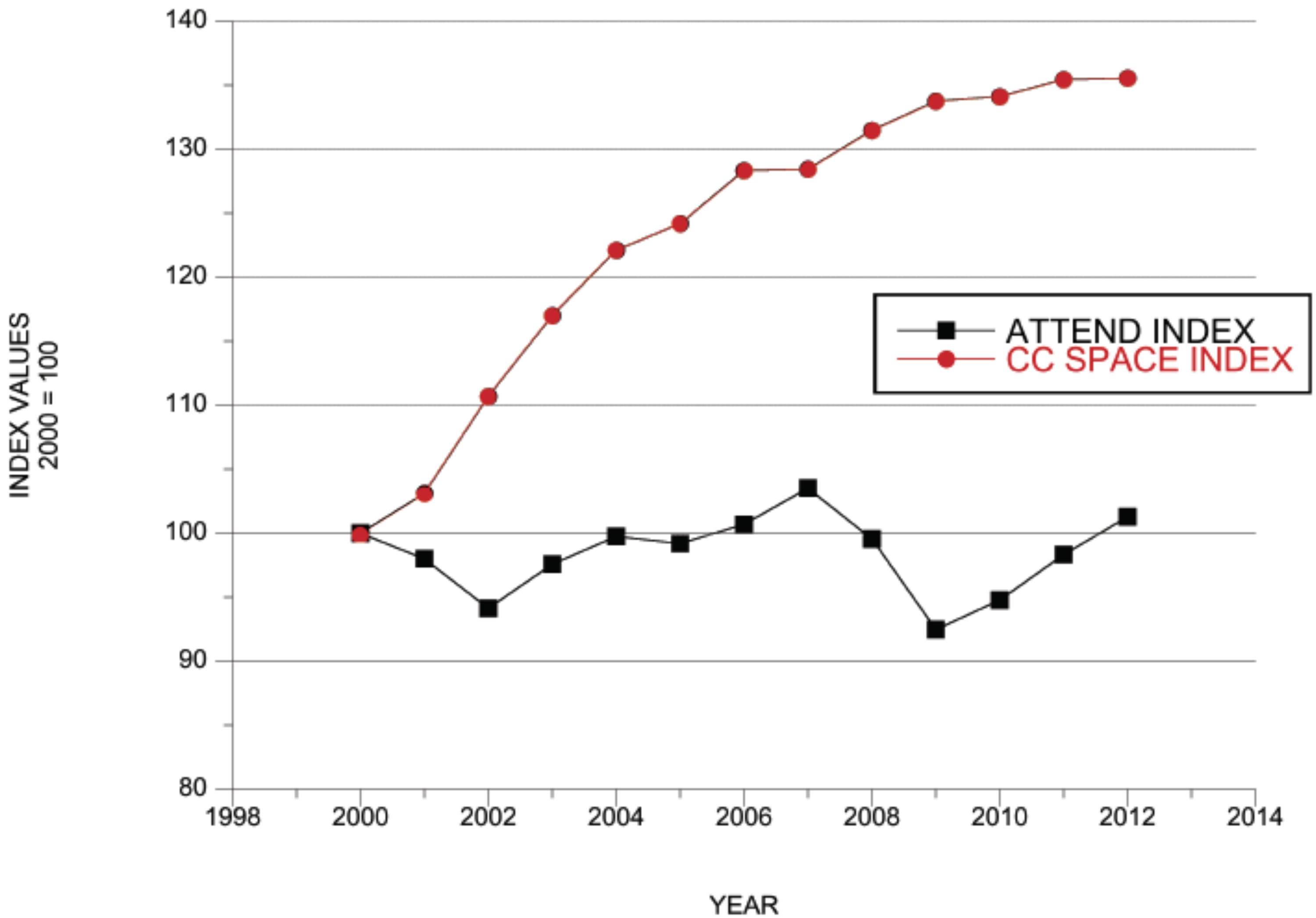
HISTORIC AND FORECAST CONDITIONS INDEX — MEETINGS AND EXHIBITION INDUSTRY



Sources: Heywood T. Sanders, "Convention Centers, Hotels, and the Case for Monona Terrace: A Case of Information Asymmetry," University of Texas at San Antonio, November 2013, and CEIR Index Report, 2013, Center for Exhibition Industry Research, www.ceir.org

GRAPH 2

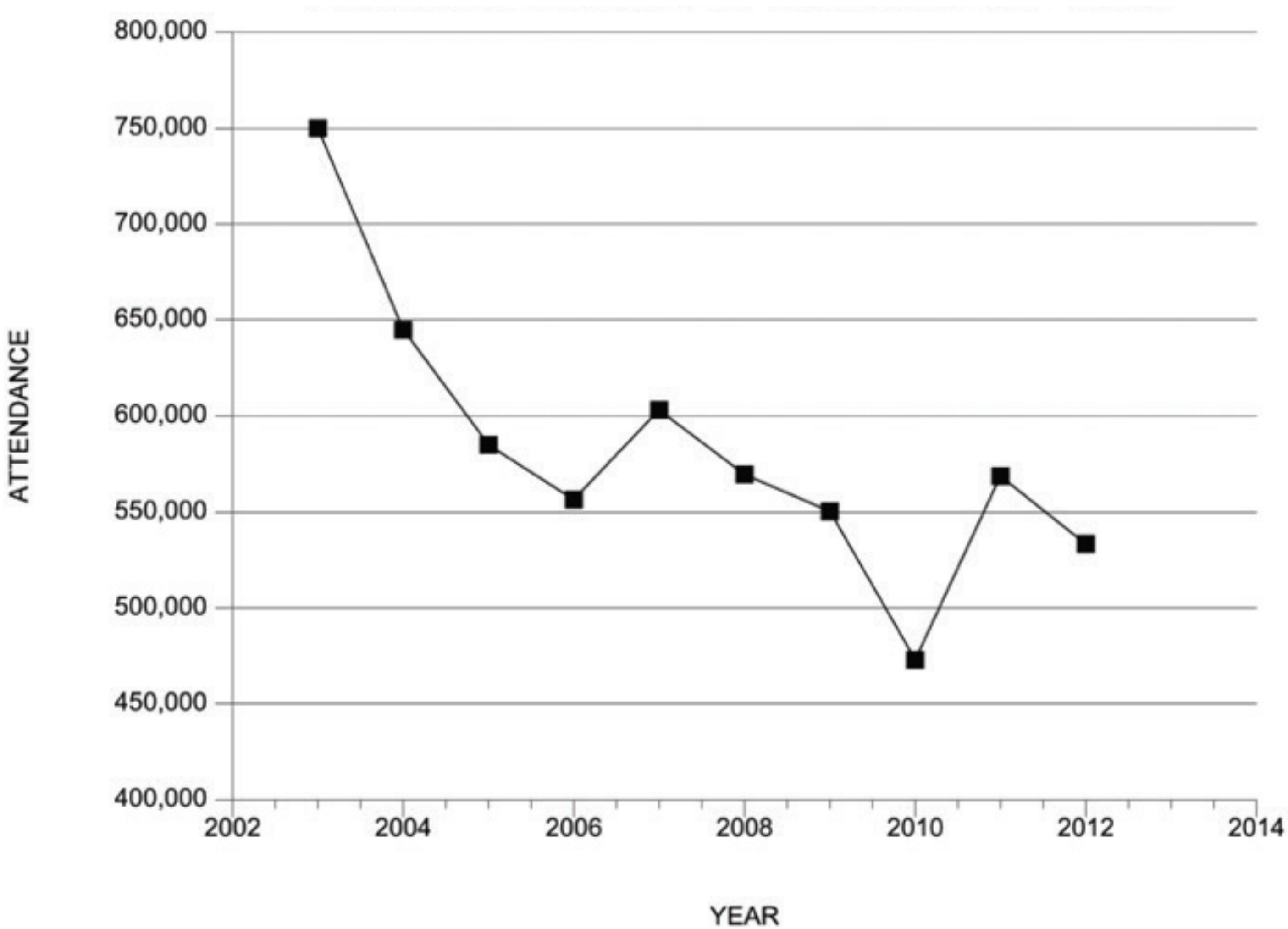
CEIR ATTENDANCE INDEX AND EXHIBIT SPACE SUPPLY BY YEAR



Note: CEIR stands for the Center for Exhibition Industry Research.
Sources: Heywood T. Sanders, "Convention Centers, Hotels, and the Case for Monona Terrace: A Case of Information Asymmetry," University of Texas at San Antonio, November 2013, and CEIR Index Report, 2013, Center for Exhibition Industry Research, www.ceir.org

GRAPH 3

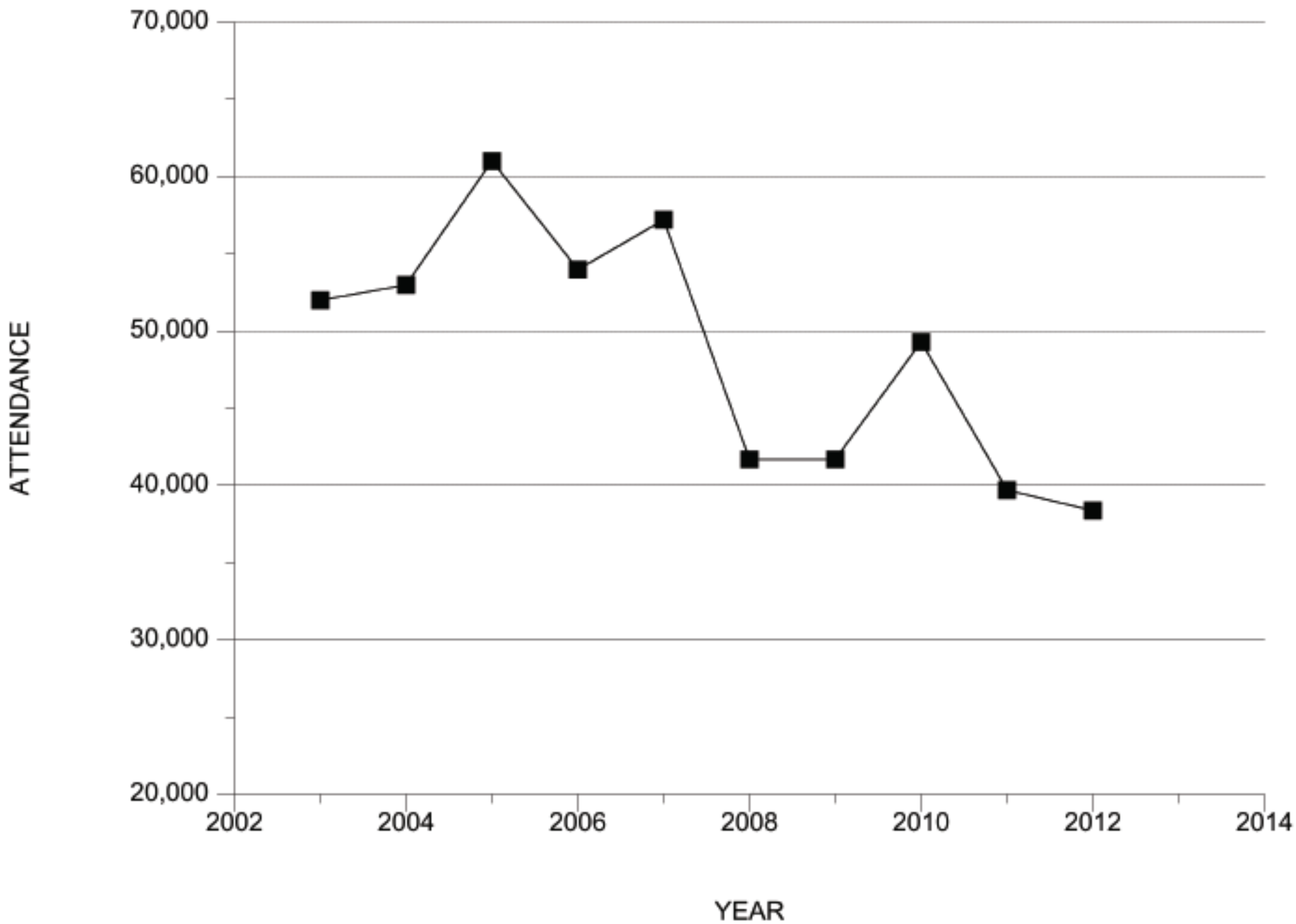
PWC LARGE CONVENTION CENTERS AVERAGE CONV/TS ATTENDANCE BY YEAR



Note: PwC stands for PricewaterhouseCoopers. CONV/TS stands for conventions/trade shows.
Source: Heywood T. Sanders, "Convention Centers, Hotels, and the Case for Monona Terrace: A Case of Information Asymmetry," University of Texas at San Antonio, November 2013

GRAPH 4

PWC SMALL CONVENTION CENTERS AVERAGE CONV/TS ATTENDANCE BY YEAR



Note: PwC stands for PricewaterhouseCoopers. CONV/TS stands for conventions/trade shows.
Source: Heywood T. Sanders, "Convention Centers, Hotels, and the Case for Monona Terrace: A Case of Information Asymmetry," University of Texas at San Antonio, November 2013

Hotel Facilities In Hampton Roads

While our region's cities jealously guard data concerning the utilization of their convention centers, a variety of trade groups collect data concerning hotel/motel (we'll henceforth abbreviate this to "hotel") utilization and prosperity.

Simply put, the Hampton Roads hotel industry is smaller now than it was in 2007 and room utilization fell during that time as well. **One can see in Graph 5 that total hotel revenues in our region peaked in 2007 and still are expected to be 4.6 percent below that level in 2014. In real, inflation-adjusted terms, total hotel revenues in Hampton Roads in 2013 were 18.1 percent below those in 2007.**

The coin of the realm in the hotel business is REVPAR – revenue per available room – because REVPAR takes into account how many rooms are being utilized to generate revenue. Implicitly, it reflects the costs attached to generating revenue. One can see in Table 2 that REVPAR in 2013 lagged the 2007 high-water mark by 10.7 percent.

The most easily understood statistic for those not closely connected to the hotel industry is the hotel vacancy rate – the average percentage of rooms that are occupied by guests. Vacancy rates in 2013 also were below those in 2007 and, in contrast to the hopes of some, continued to decline in 2013. Graph 6 reveals that the Historic Triangle (Williamsburg) was the sole exception to this trend.

In May 2014, Norfolk announced an approximate $90 million public investment in a conference center/hotel/parking complex on Main Street. Norfolk decision makers say they are aware of the seriously adverse market conditions they will confront as they move ahead with this project, but for public consumption have argued that: (1) the "conference center" they contemplate differs from a typical convention center and therefore will attract upscale, technologically savvy guests capable of paying perhaps a $30 per night premium at a new, upscale hotel made more attractive by high-quality dining opportunities; (2) the project will attract new conferences and meetings that heretofore have skipped by Norfolk and therefore will not diminish the number of guests served by nearby hotels, such as the Waterside Marriott and Sheraton Waterside; and (3) combined with other downtown improvements, the project will enable Norfolk to assemble a highly attractive overall package that would make the city competitive for many additional conventions and meetings.

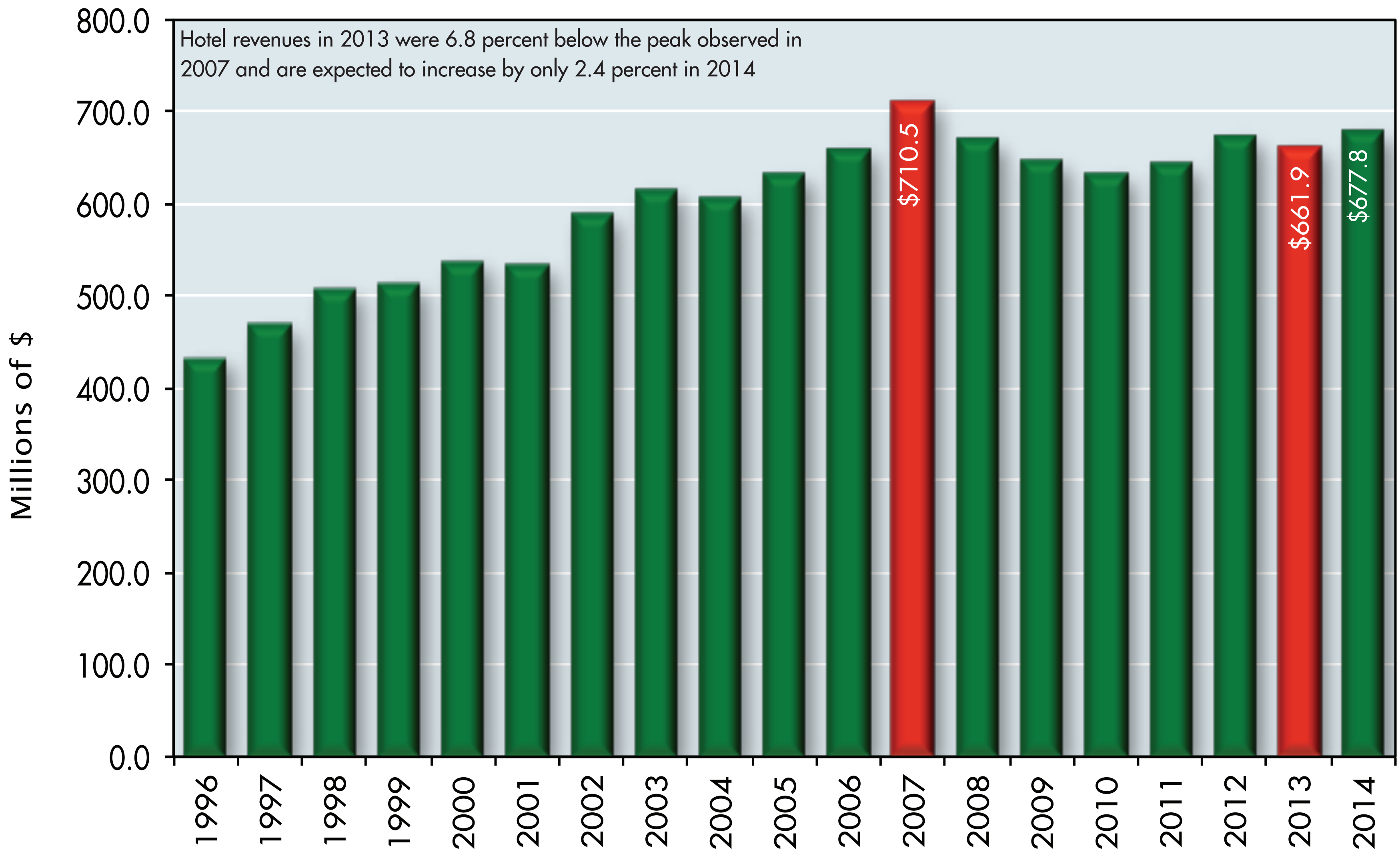
These are strong assertions that are inconsistent with the national and regional trends delineated in Graphs 1 through 7 and therefore are an uncertain basis for an investment of $90 million of public funds. This is especially true since during the project's development the city declined to share any relevant data that would illuminate why it believes this particular project constitutes the best available use of its scarce funds.

Both Norfolk's new downtown project and the renovation of Virginia Beach's historic Cavalier Hotel are being spearheaded by Bruce Thompson, an experienced and savvy developer. According to Inside Business (May 12-18, 2014), Mr. Thompson will receive an $18 million subsidy from Virginia Beach in addition to an approximate $90 million subsidy from Norfolk. Inside Business quotes Mr. Thompson: "Another hotel in downtown Norfolk would be a disaster." Mr. Thompson will earn the title of wizard if he can simultaneously: (1) buck the adverse patronage trends that have afflicted national and regional hotels and conference centers for many years; (2) successfully position the new Norfolk development so that it is not regarded as just "another hotel;" and, (3) not harm the existing Marriott and Sheraton hotels as he does so.

"Providing more hotel space to attract more convention business has been the philosophy behind cities across the country that have publicly financed and built convention center hotels. But too often, the convention groups and visitors that are supposed to fill those new rooms never show." Baltimore Business Journal (March 1-7, 2013), www.baltimorebusinessjournal.com

GRAPH 5

TOTAL ANNUAL HOTEL REVENUE IN HAMPTON ROADS, 1996-2013

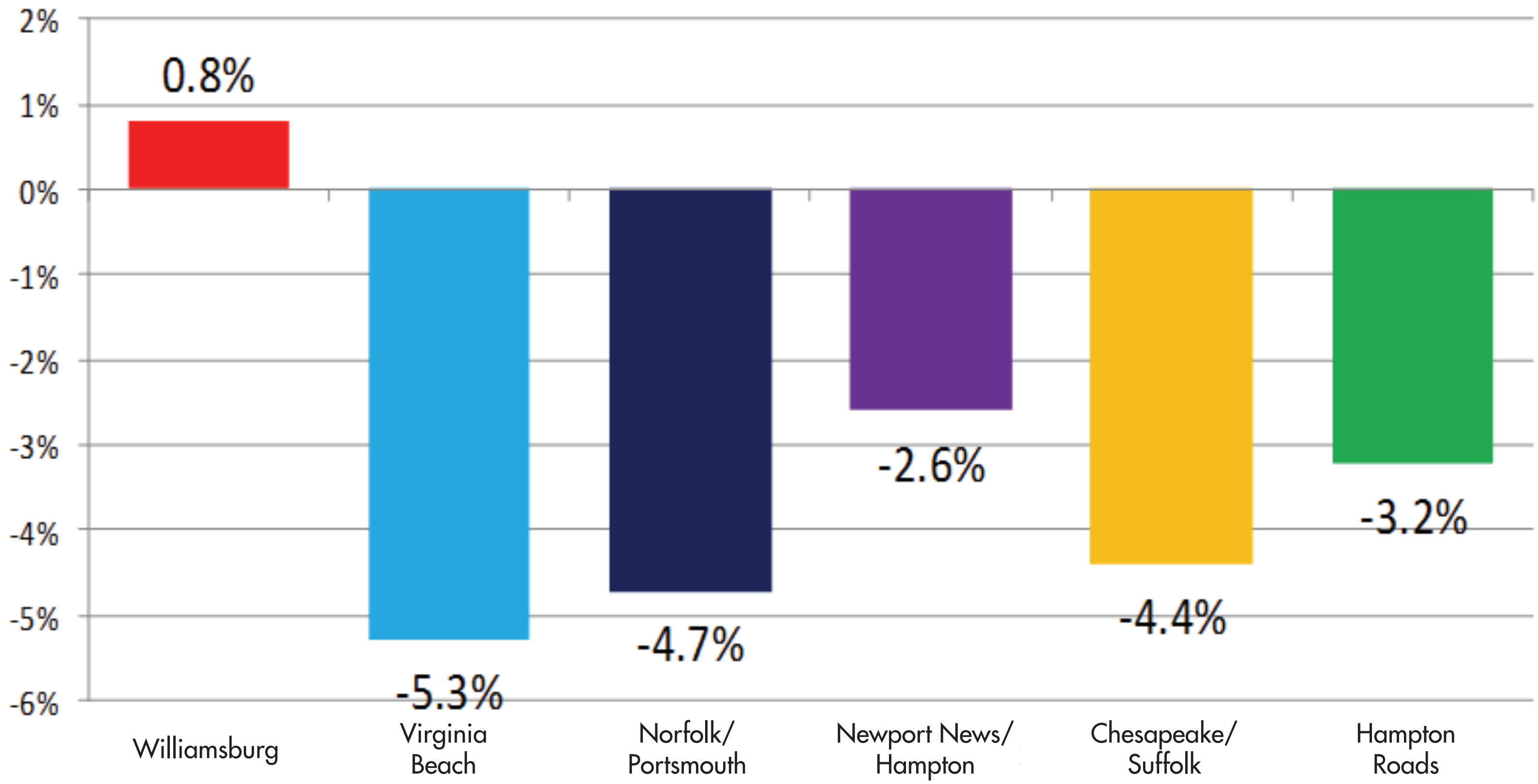


Sources: Smith Travel Research Trend Report, January 7, 2014 and the Old Dominion University Economic Forecasting Project.

TABLE 2 REVPAR IN SELECTED MARKETS, 2007-2013			
	2007	2013	Percentage Change
U.S.	$65.58	$68.69	+4.7%
Virginia	$61.95	$55.69	-10.1%
Hampton Roads	$52.90	$47.25	-10.7%
Myrtle Beach	$54.03	$56.40	+4.4%
Coastal Carolina	$55.83	$56.26	+0.8%
Ocean City	$71.74	$68.81	-4.1%
Virginia Beach	$64.73	$64.64	-0.1%
Newport News/Hampton	$41.49	$36.12	-12.9%
Norfolk/Portsmouth	$54.05	$45.35	-16.1%
Williamsburg	$47.48	$39.08	-17.7%
Chesapeake/Suffolk	$52.90	$41.11	-22.3%

GRAPH 6

PERCENT CHANGE IN OCCUPANCY RATES FOR REGIONAL CITIES, 2012-2013



Final Thoughts

There is real economic development and then there is alleged economic development. Real economic development occurs when a city or region becomes increasingly capable of producing goods and services that those outside the region want to purchase, or when it becomes increasingly capable of retaining the expenditures of its own citizens rather than watching those expenditures go elsewhere.

"Smarter, better" is the time-honored way cities and regions increase their external sales capabilities, or enhance their own magnetism. This requires well-devised, cost-efficient investments in education and health, strategic infrastructure, well-chosen amenities, and both basic and applied research and development.

Antithetical to real economic development are activities that merely redistribute sales within a city or region, or that blatantly redistribute income by favoring one firm or organization over another without any sound economic rationale for doing so. On closer inspection, it becomes apparent that this is a form of crony capitalism and in the long run this actually discourages real economic growth.

Unfortunately, most (though not all) investments governments make in convention venues, arenas and attached hotel capacity fall into this latter, suspect category. Such investments usually do little more than redistribute existing sales and do not actually produce any incremental tax revenue. Further, they favor some firms and entrepreneurs over others, and therefore often do not pass the proverbial smell test.

All of this occurs in city after city, year after year, despite the accumulated negative empirical evidence. Some elected officials in our region appear to be seduced by their own flashy announcements of large projects that falsely promise economic growth. "Our city is on the move!" Unfortunately, in the wrong direction.