
# Market Validation & Financial Feasibility Study

## Multi-Purpose Conference Center

# EXECUTIVE SUMMARY REPORT

2014

StrategicAdvisoryGroup

May 22, 2014

Mr. Tyler Schenck, MPA
Economic Development Coordinator
City of Winchester
15 N. Cameron Street
Winchester, VA 22601

RE: MULTI-PURPOSE CONFERENCE CENTER REPORT

Dear Mr. Schenck:

The Strategic Advisory Group is pleased to present its executive summary report of the market and financial feasibility assessment for the proposed multi-purpose conference center project in Winchester. This report summarizes our research, analyses, conclusions and recommendations for the potential project.

On behalf of all SAG partners and staff, we truly appreciate the opportunity to work with the City, its Economic Development professionals, and other community stakeholders on this engagement. Should you have any questions or require additional information, please contact us at (404) 307-9279.

Sincerely,

Tony Peterman, Senior Partner
*Strategic Advisory Group*

Tom Reifert, Principal
*Strategic Advisory Group*

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## INTRODUCTION

As the county seat of Frederick County and the home to Shenandoah University and Valley Health Systems, Winchester is the principle city of an area that encompasses approximately 130,000 residents. Although it is customary for communities of this size to host within its core at least one facility that accommodates larger public and private functions and events of various types, none currently exists within the city limits of Winchester, or at least none that meet the modern demands of today's meetings industry.

Multi-Purpose Facility Event

Moreover, as the City's economic development efforts of the past decade continue to bring about meaningful improvements and enhance Winchester's ability to attract the live-work-play element into the community, the dearth of event space grows even more apparent.

As a result, the City engaged the Strategic Advisory Group to understand if the Winchester market could support an event facility, and if so, to help define the type, size, and location of the facility that would allow Winchester to both complement and advance its rejuvenation.

This executive summary report presents the highlights of the research, conclusions, and recommendations of the study effort and is accompanied by the appendix that contains the more detailed oral presentation provided to the community and its leaders earlier in the year.

## State of the Industry

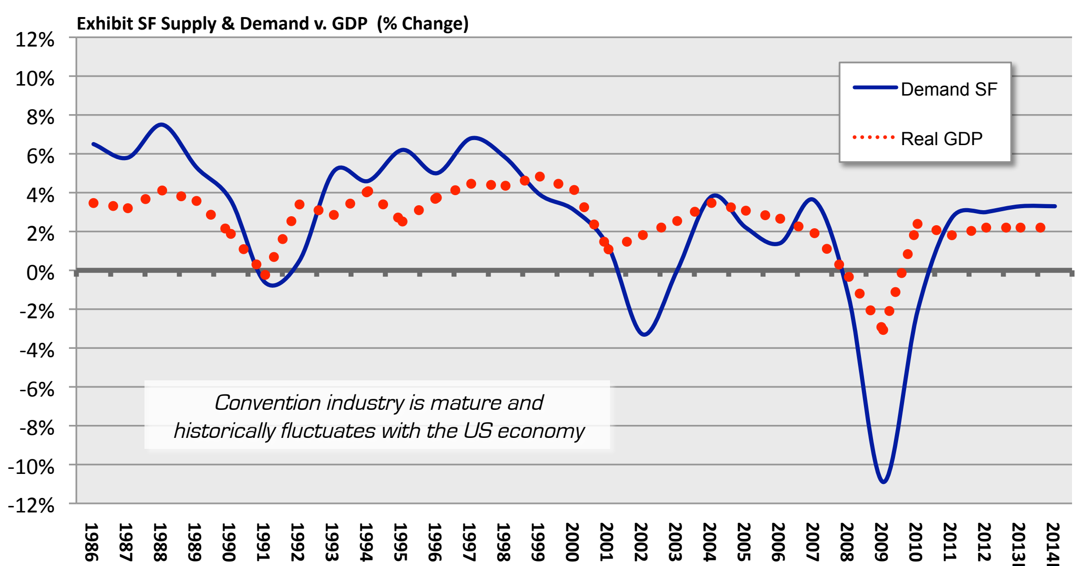
As shown in the graphics below and on the following page, over the past two decades the demand for event and meeting space in the United States has correlated closely to the changes in the Real GDP of the US economy. In terms of future changes, especially in light of the Great Recession and other changes to the "new normal" of the economy, a survey of meeting planners reported that growth, albeit slow growth, is anticipated going forward.

When selecting a destination, it is a given that event planners first look to those communities that offer the size, type, and quality of function space needed for that event. Trends in the industry as well as event attendee travel preferences have brought the need for adequate and quality hotel rooms in close proximity to the event facility to a very close second in terms of destination selection priorities. As shown in the graphics on the following page, function space, hotels, and affordability are (and will likely continue to be) the three most important factors cited by event planners.

As Winchester is arguably an affordable destination, especially relative to the metropolitan areas that border it to the north, east, and south, if a multi-purpose event facility is ever to be planned in the City, quality hotel rooms within close proximity to the facility must be a primary consideration.

# State of the Industry

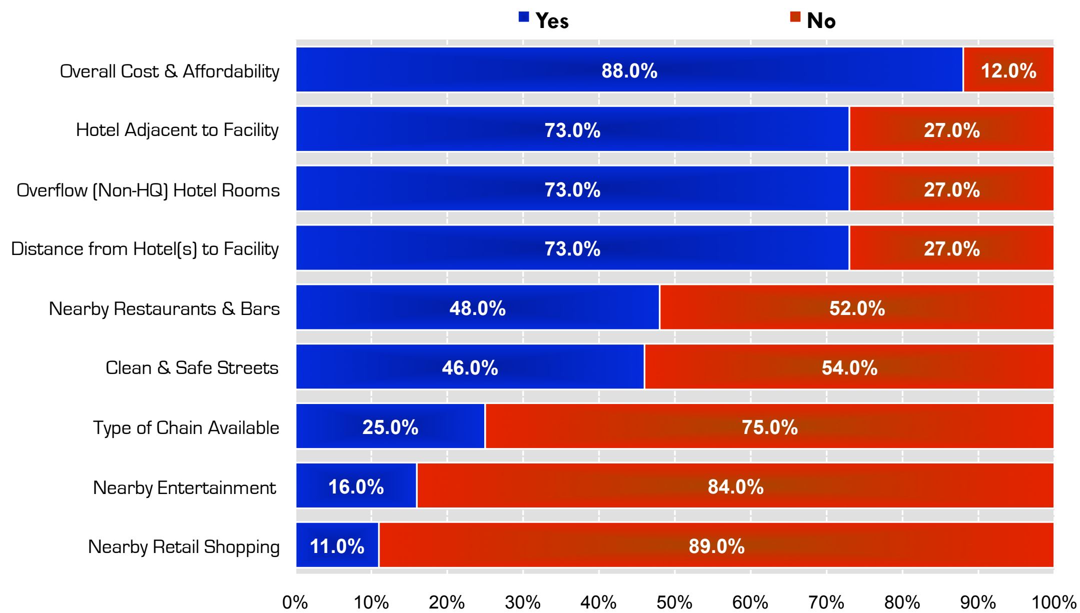
US Convention Center Market




*Source: Center for Exhibition Industry Research; CBO; Bureau of Economic Analysis; TradeShow Week; PwC.*

# Destination Factors

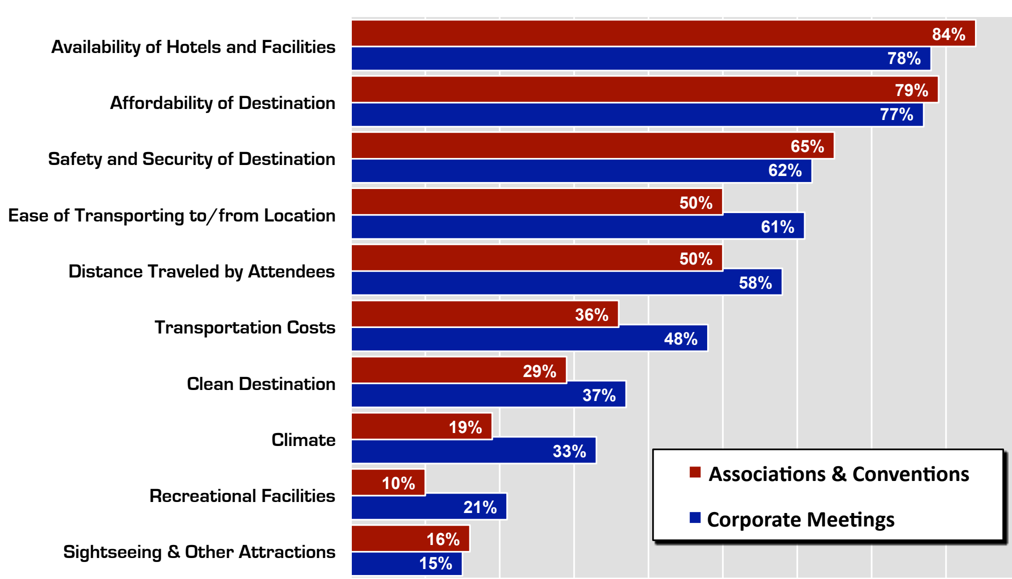
*Top 9 factors with potential to be a Deal-Breaker*




*Source: Meeting Planner Survey.*

# Important Selection Criteria

*What Matters When Selecting a Destination?*




*Source: Meeting Planner Survey.*

## Local Hotel Market

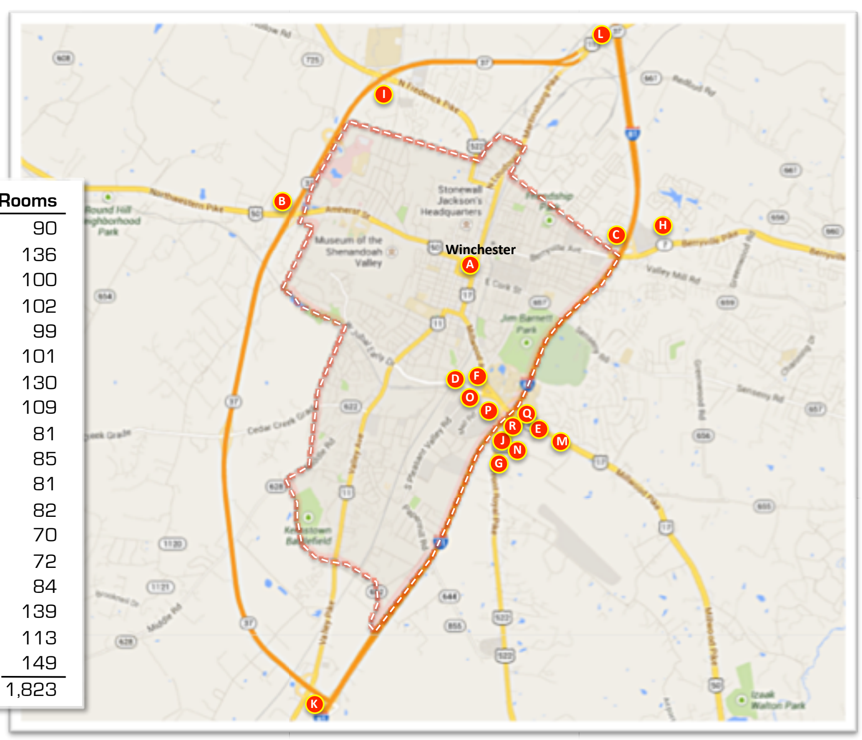
As shown in the graphics below and on the following page, at the time of the study, there were approximately 1,823 hotel rooms in 18 properties located in or near the Winchester city limits. Within this market, there is a subset of four that represent the leading hotels in terms of quality, occupancy rate, and average daily room rates ("ADR"). These four properties are generally consistent with the type of hotels that meeting planners seek when selecting a secondary and/or tertiary destination to host an event.

Given that hotels were shown to be a primary consideration for event planners when selecting a destination, it is important to understand (i) if the overall market is robust enough to potentially support new supply if required, and (ii) the preferred location area for the proposed facility relative to the quality hotels currently present in the market.

The Winchester hotel market performance has steadily rallied since the recession that began in late 2007/early 2008. Furthermore, the four leading properties generated a healthy occupancy rate above 73% in 2013 and with an approximate $17 ADR premium over the market as a whole (inclusive of the four market leaders). In very general terms, and with all else being equal, hotel markets that are near or above 70% occupancy typically can support new hotel supply in the future.

# Local Hotel Supply

| | Property | Rooms |
|---|---|---|
| A | Wyndham GW Hotel | 90 |
| B | Marriott Courtyard | 136 |
| C | Hampton Inn North | 100 |
| D | Hilton Garden Inn | 102 |
| E | aLoft Hotel | 99 |
| F | Hampton Inn @ Mall | 101 |
| G | Holiday Inn | 130 |
| H | Towne Place Suites | 109 |
| I | Holiday Inn Express | 81 |
| J | Fairfield Inn | 85 |
| K | Country Inn & Suites | 81 |
| L | Comfort Inn | 82 |
| M | Candlewood Suites | 70 |
| N | Sleep Inn | 72 |
| O | Wingate | 84 |
| P | Best Western | 139 |
| Q | Red Roof Inn | 113 |
| R | Travelodge | 149 |
| | | 1,823 |



# Market Subset: *"Leaders"*

| | Property | Rooms |
|---|---|---|
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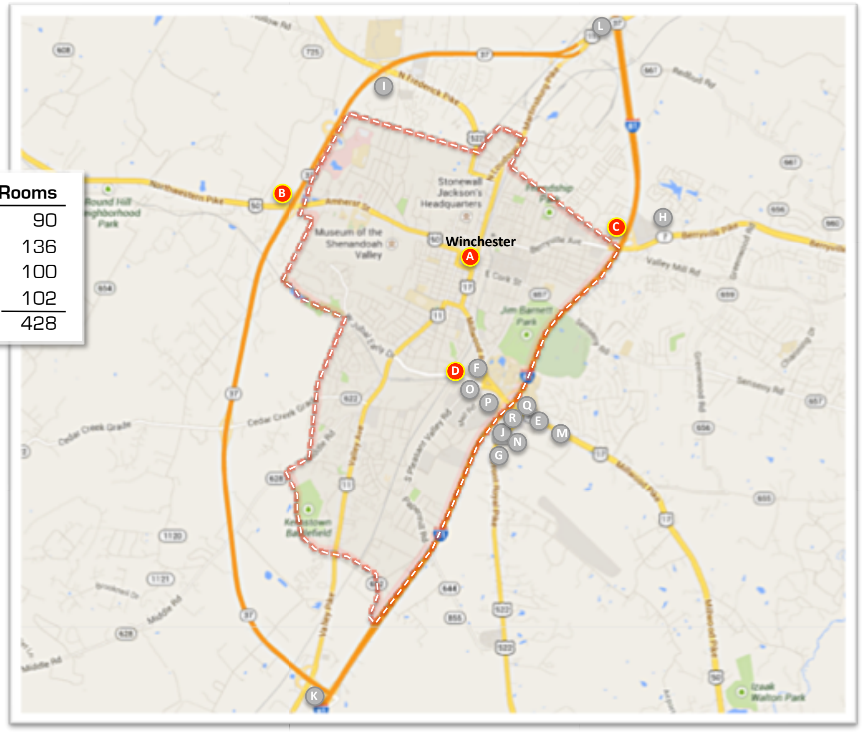
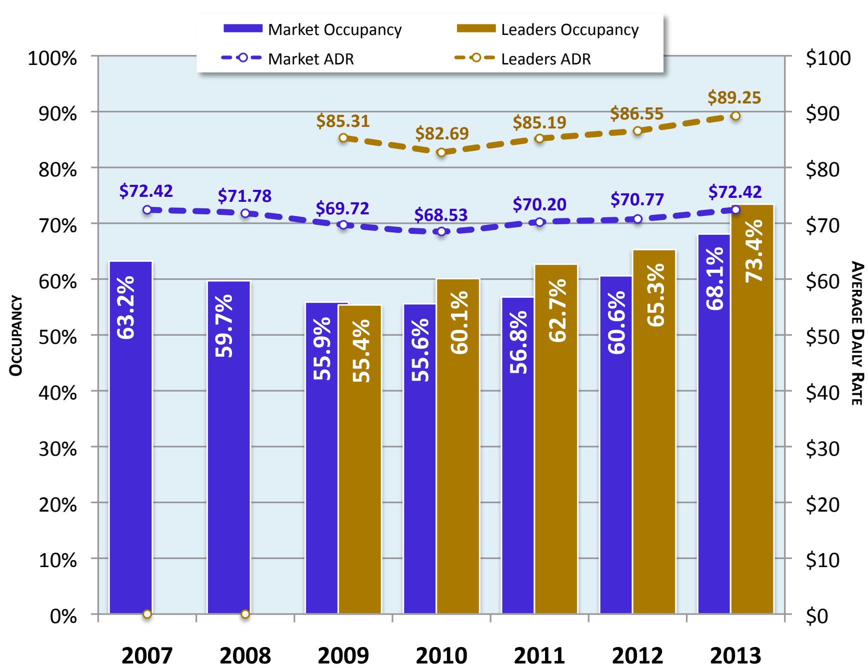
| D | Hilton Garden Inn | 102 |
| | | 428 |




# Hotel Market Performance




Source: STR, SAG.

## Facility Location Considerations

In terms of a general geographic area within Winchester that would be the best fit for a facility, and from a hotel perspective alone, it would be ideal if all of the four leading hotels were in close walking proximity to each other. However, while each is only a few minutes drive from another, none is within an acceptable walking distance to any other.

The goal therefore, with respect to site considerations, should be (i) to take advantage of one of the existing four leaders by minimizing to the extent possible the need to build new supply; and (ii) selecting a site area that is the most consistent with what event planners desire in a destination.

All four of the leading hotels in the community could make some claim as to why their geographic location within the City is the most desirable for a proposed facility. The Hampton Inn is located directly along I-81 and would offer the best highway visibility. The Hilton Garden Inn is located near the Apple Blossom Mall and Shenandoah University and is less than one mile to I-81. The Courtyard by Marriott is the newest and largest of the four leading hotels and is adjacent to the largest area employer, the Winchester Medical Center. Although these three properties would serve as fine complements to any proposed event facility and would be a component to successfully marketing such a facility and the overall Winchester "package," the area of focus should be in the downtown corridor.

The George Washington Hotel is the most central of the group, being approximately 1.5 to 2.0-miles to any of the other three. The GW is the only full-service hotel in the community and is clearly the highest quality that Winchester has to offer. It has the best-appointed meeting space as well as the only one to offer three-meal dining. Finally, and most importantly, the area around the GW is located where the City has and continues to focus its major economic development initiatives aimed at enhancing visitor foot-traffic along the Old Town corridor.

What also makes this geographic area the most desirable for any proposed facility is that all of these factors combined are what stir the emotions of prospective event planners: upscale full-service hotel quality at affordable rates (relative to competitive destinations), a variety of entertainment-nightlife-shopping-restaurant choices within walking distance, clean and safe streets, less than two miles to interstate highway access, and all within a unique, authentic setting that cannot be found in most other competitive destinations.

Therefore, it is the recommendation of this report that Winchester consider and fully explore the potential sites around and adjacent to the GW Hotel if it chooses to pursue the development of the proposed facility.

## Facility Site Alternatives

With the GW Hotel site as a starting point, potential sites were considered for the proposed facility. Although any existing property or collection of properties around the GW could theoretically be razed, it was recognized that such an endeavor would not be desirable from many different perspectives. Therefore, while not an exhaustive list of every possibility, it appears that two sites could offer the best opportunity of overcoming reasonable development obstacles for bringing the proposed project to fruition. These sites are displayed as "Site A" and "Site B" on the following page, and whose primary benefits and challenges are summarized as follows:

**Site A**

- ⊕ Could be developed adjacent/attached to the GW allowing for shared use of existing space and facilities and managed as one facility
- ⊕ Would likely reduce the need for public incentives as only new guestrooms would need to be constructed
- ⊕ Slightly closer to the more desirable part of Winchester and Old Town
- ⊕ Almost entirely in a commercial and business area
- ⊕ More likely the ideal site if available; as the overall project is less costly and less hurdles to develop
- ⊖ Potentially unavailable pending County's relocation decisions
- ⊖ Site ingress/egress challenges to/from existing parking deck
- ⊖ Parking issues

**Site B**

- ⊕ Allows for revitalization of derelict building that could be conducive to adaptive hotel use
- ⊕ Activates key piece of Piccadilly Street frontage
- ⊕ Could be catalyst for future development north of Piccadilly Street
- ⊕ New hotel across from GW would provide events with additional options and hotel brands
- ⊕ Total rooms within walking distance to the facility would likely be greater than simply expanding the GW guestrooms under Site A, making the entire package more attractive to a greater number of events
- ⊕ Site is currently available
- ⊖ More costly development as entire new hotel would need to be developed in conjunction with facility
- ⊖ Likely more public incentives required as total project cost increases
- ⊖ Slightly further from the more desirable areas of Winchester and Old Town
- ⊖ Closer to residential areas
- ⊖ Parking issues

*Preferred Site Alternatives*

## Recommended Facility Program

Based on extensive stakeholder/potential user interviews, a review of the other facilities in the greater Winchester area, meeting planner surveys, an assessment of Winchester's historical and future growth patterns, the location of Winchester within the region relative to major feeder markets, the success of Old Town and the growth of Shenandoah University, Medical Center and other local demand generators, the strong and increasing notoriety of the Apple Blossom Festival, the strength of the local hotel market, the uniqueness and authenticity of the downtown, and the ability of a facility to complement and further the City's primary economic development goals, it is recommended that Winchester consider the development of a multi-purpose event facility to be potentially developed on Site A or Site B.

Using an analysis of comparable facilities, as well as standard industry ratios for size of net rentable function space relative to the total number of attached or adjacent guestrooms, and assuming that the total number of guestrooms attached or adjacent to the proposed facility will be in the range of 150 to 250 (depending on Site A/B and other factors), it is recommended that the facility include no less than 9,100 net square feet ("NSF") of function space and up to 18,750 NSF, equating to roughly 16,000 to 33,000 gross square feet ("GSF").

The facility is envisioned to offer primarily one large, highly divisible space with complimentary smaller spaces depending on the final site choice and total number of net square feet. If designed as such, the proposed facility could host a banquet function capable of seating approximately 600 to 1,200 guests. This banquet capacity is also consistent with the stakeholder interviewees who identified the City's minimal needs of today as well as their "ideal" space needs into the future.


**10,000 Net SF Ballroom**
*Marriott Convention Center - Lancaster PA*

## Cost & Funding Plan Options

Based on an all-in development cost estimate of $300 to $400 per gross square foot, the 9,100 net square foot option which equates to approximately 16,000 gross square feet, would cost between approximately $4.8M to $6.4M excluding land and parking costs. At this level of estimated cost, the resulting facility would be one that Winchester would be proud to claim and one capable of competing with other similar destinations in the industry from a physical standpoint.

Apple Blossom Festival

To assess the viability of funding this proposed facility, a tax increment finance (TIF) mechanism was modeled that included a 25-year taxable bond issuance from the City or a duly appointed Authority with an interest rate of 5.5% and a 1.20 debt service coverage ratio with two years of capitalized interest. Furthermore, it was assumed that the TIF would include all tax revenues collected from the existing GW Hotel plus all tax revenues generated from the proposed 60 new GW guestrooms plus all tax revenues generated at the new facility. In all, it was estimated that $23M in total TIF revenues would be collected over the term of the bonds.

Based on these assumptions, the expected net bond proceeds that could be generated and used to develop the project would be approximately $7.5M.

Using this same development scenario, the direct economic impact for the one-time construction period of the project would be approximately $1.1M. The direct economic impact of the annual on-going operations of the new facility would be approximately $2.2M. These estimates are based on industry standard spending estimates for similarly sized markets and assume 10,000 new occupied room nights will be generated in the community each year and upon the stabilization of the facility.

Although this is one scenario based on the facility and new hotels being developed on Site A as well as other assumptions, it is clear that many alternative decisions could be made that would impact both the cost and funding viability of the project. Strategic Advisory Group is available to work with the City's economic development professionals to model other scenarios as needed and as public decisions are made and if/when the project moves forward.

## KEYS TO SUCCESS

There are four keys that Winchester must satisfy in order to maximize the facility's chances for success:

❶ First, as noted earlier in the report, the adjacency of hotel rooms to the proposed facility is paramount if the City desires to attract attendees and visitors primarily from outside of the local area. Winchester should not pursue a multi-purpose facility without adequate attached or adjacent guestrooms. There is a general relationship between the amount of event space offered at the event facility and the number of nearby hotel rooms needed to meet the requirements of many event planners. Although individual events have individual needs, in general, a favorable relationship equates to approximately one hotel guestroom needed for every 60 to 100 net square feet (NSF) of event space. Given that the 7,400 square feet of space in the GW Hotel is serviced by its existing 90 rooms (a ratio of 80 SF per guestroom), the proposed 9,100 NSF event facility would need to add between approximately 90 and 150 of its own rooms if it were built separate from the GW. If the proposed event facility were developed in conjunction with the GW, the additional hotel rooms required would be less than 90.

❷ Secondly, the proposed facility should be within walking distance to Old Town.

❸ Thirdly, the City or the appropriate entity must engage an experienced sales professional to market both the proposed facility and Winchester as a destination to those groups or events that fit the community's profile for size and geographic location. The sales professionals' compensation should include financial incentives for success. Given the elevated need based on the presence of the proposed facility, it is highly recommended that the new facility/destination marketing entity would either: (i) work in collaboration with the existing Winchester-Frederick County Convention & Visitors Bureau office but not be part of it, or (ii) major changes be made to the existing CVB organizational structure in order to allow it and the facility to achieve success.

❹ Finally, as foot traffic and overnight guest activity is the City's ultimate goal, the facility and its sales team should not solely focus on penetrating the traditional conference and group meetings market, but rather keeping the facility active with any and all types of events that accomplish the goal. In time, as the facility calendar fills and the opportunity to choose from competing events becomes an option, the sales team can move those events that have smaller economic impact to the community to less desirable dates or possibly eliminate them altogether to make accommodations for other, higher-impact events. The mindset from the outset should be that the multi-purpose facility is in the activity business, not the conference business.

## **APPENDIX:** *Oral Presentation*

**Feasibility Study:** Multi-Purpose Conference Center

# Oral Presentation

StrategicAdvisoryGroup

# Why the Study?

- Lack of large, quality event space
- Growth exists
  - Population
  - Shenandoah University
  - Medical Center
  - Old Town
- *Possible to complement and augment that growth with a facility?*

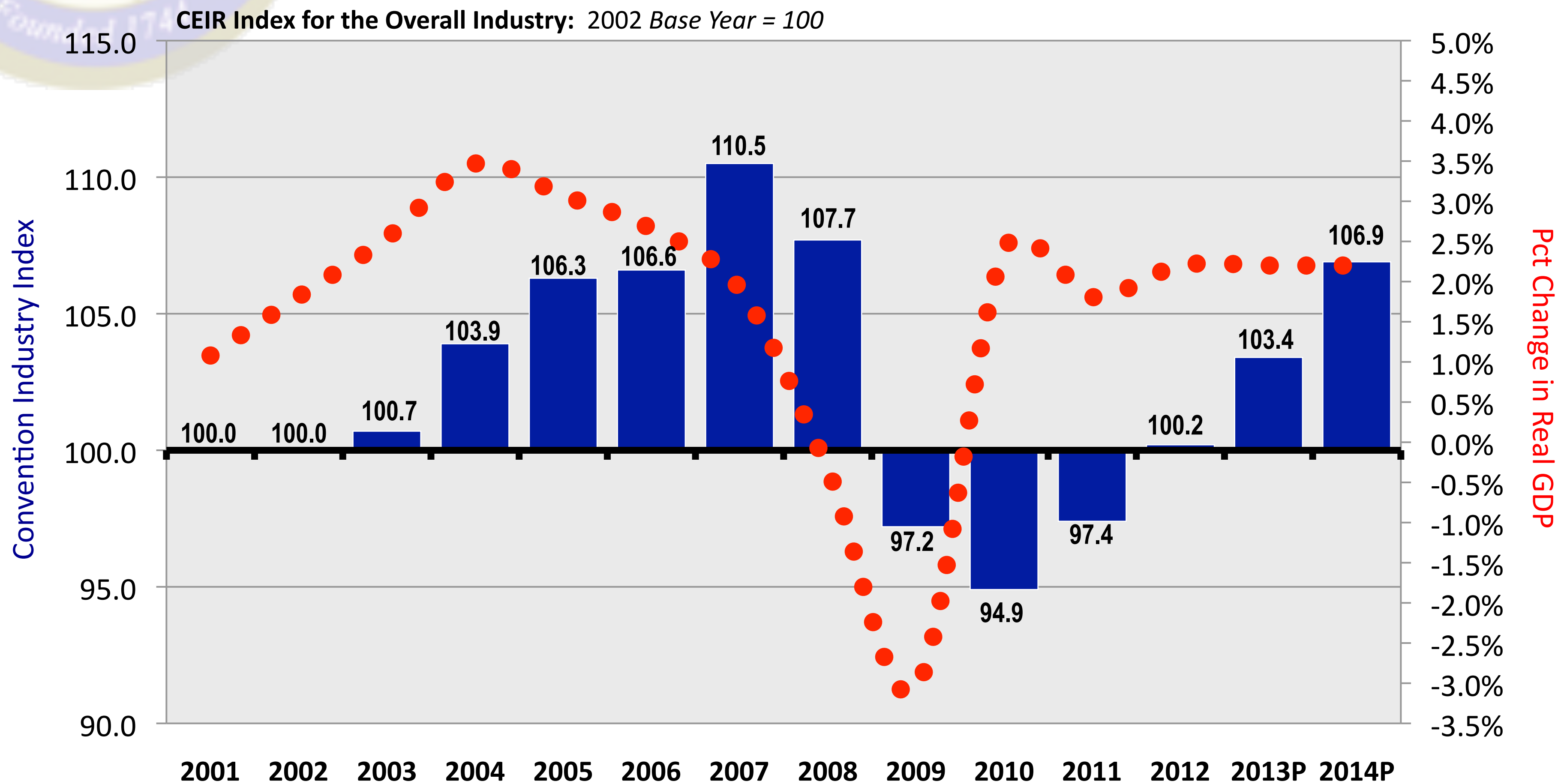
# Research Process

- Stakeholder interviews
- Industry trends
- Local market assessment
- Regional & national market observations
- Comparable facility analysis
- Conclusions & recommendations
- Financial framework
- Next Steps

# Industry Trends

# State of the Industry

## US Convention Center Market






*Source: Center for Exhibition Industry Research; Bureau of Economic Analysis; CBO.*

# State of the Industry
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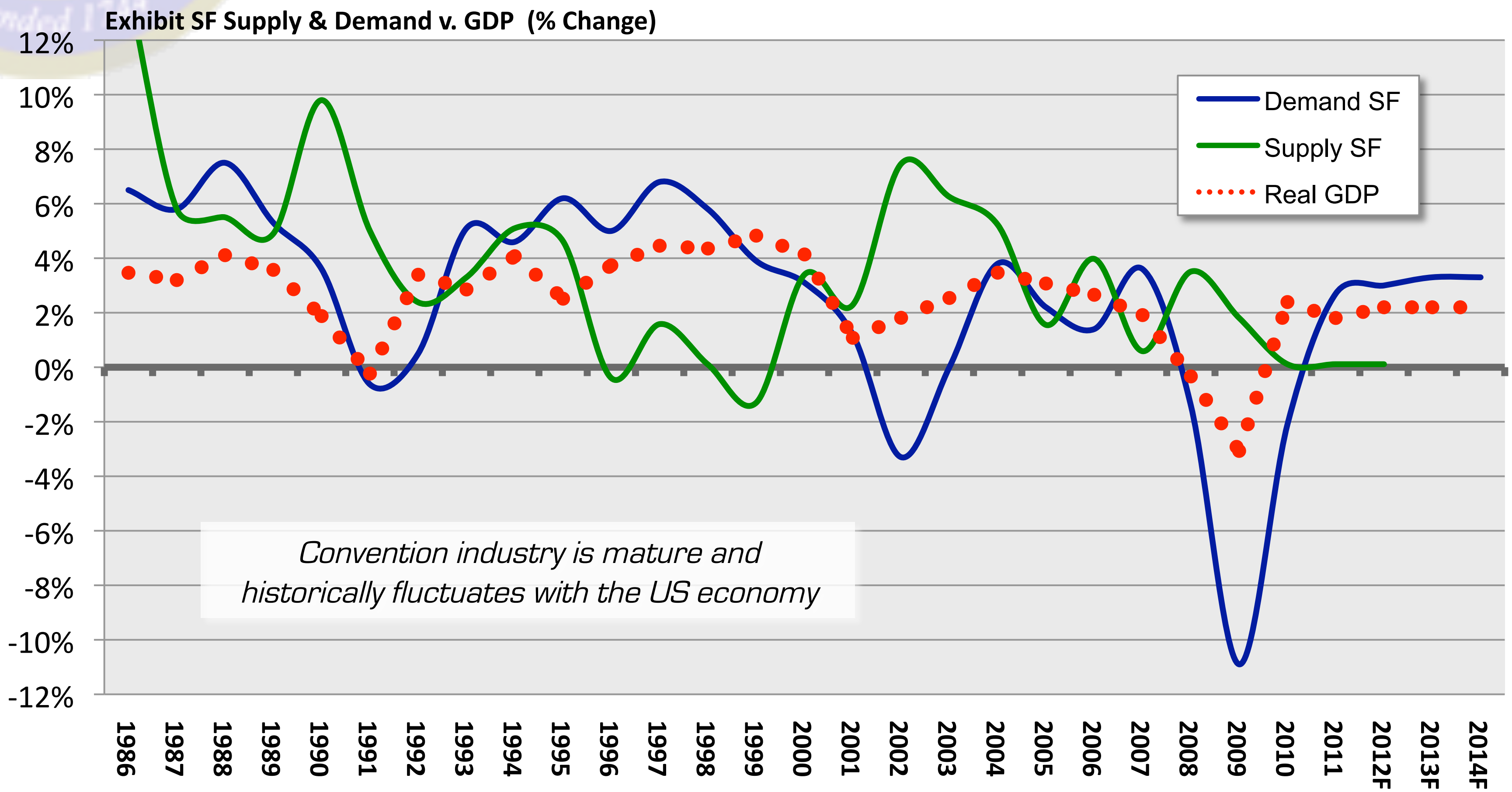
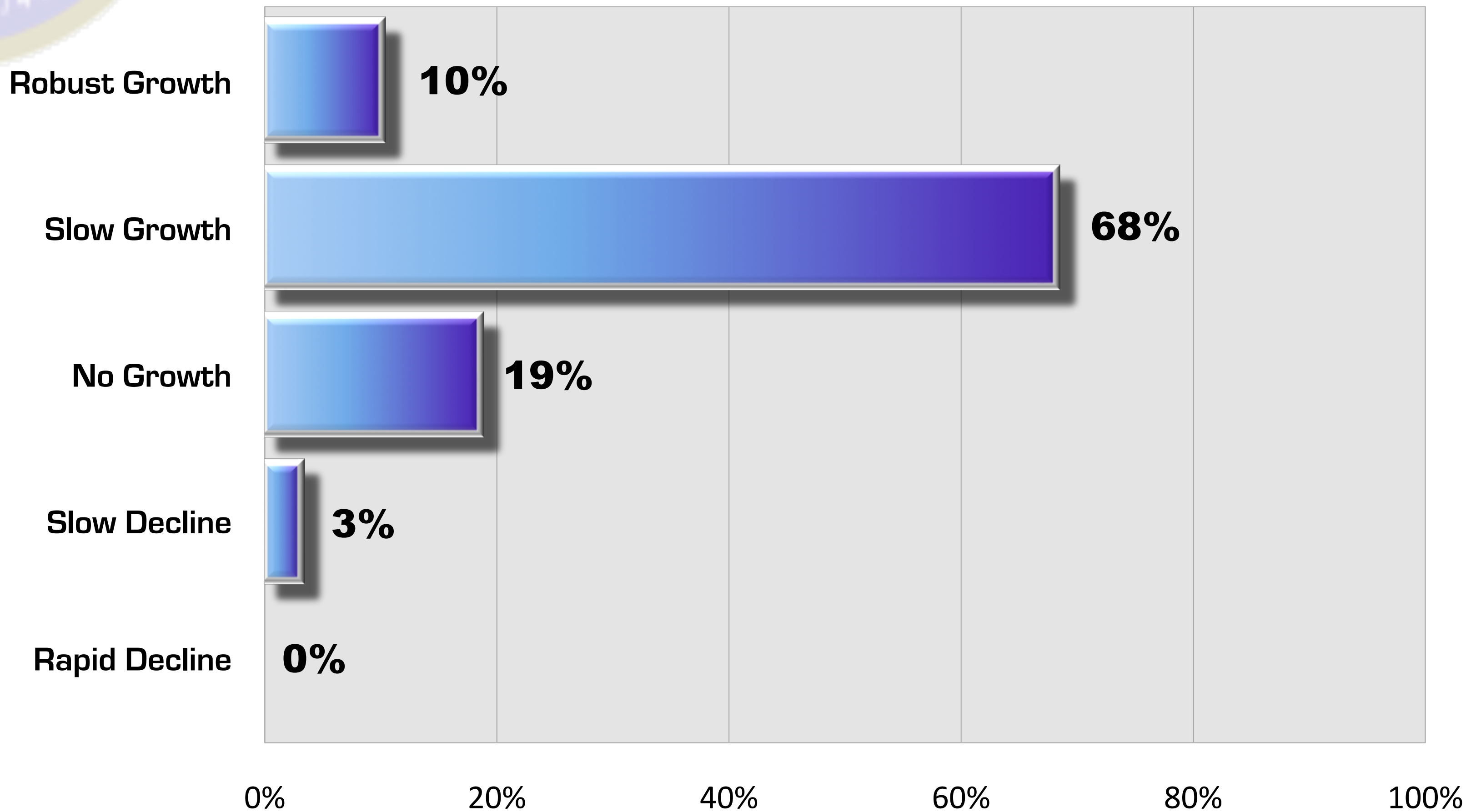





*Source: Center for Exhibition Industry Research; CBO; Bureau of Economic Analysis; TradeShow Week; PwC.*

# Growth in Future?

Meeting Planners were asked, "*Given this past recession and changes in the economy, how does your event most likely view its future*?"






*Source: Meeting Planner Survey.*

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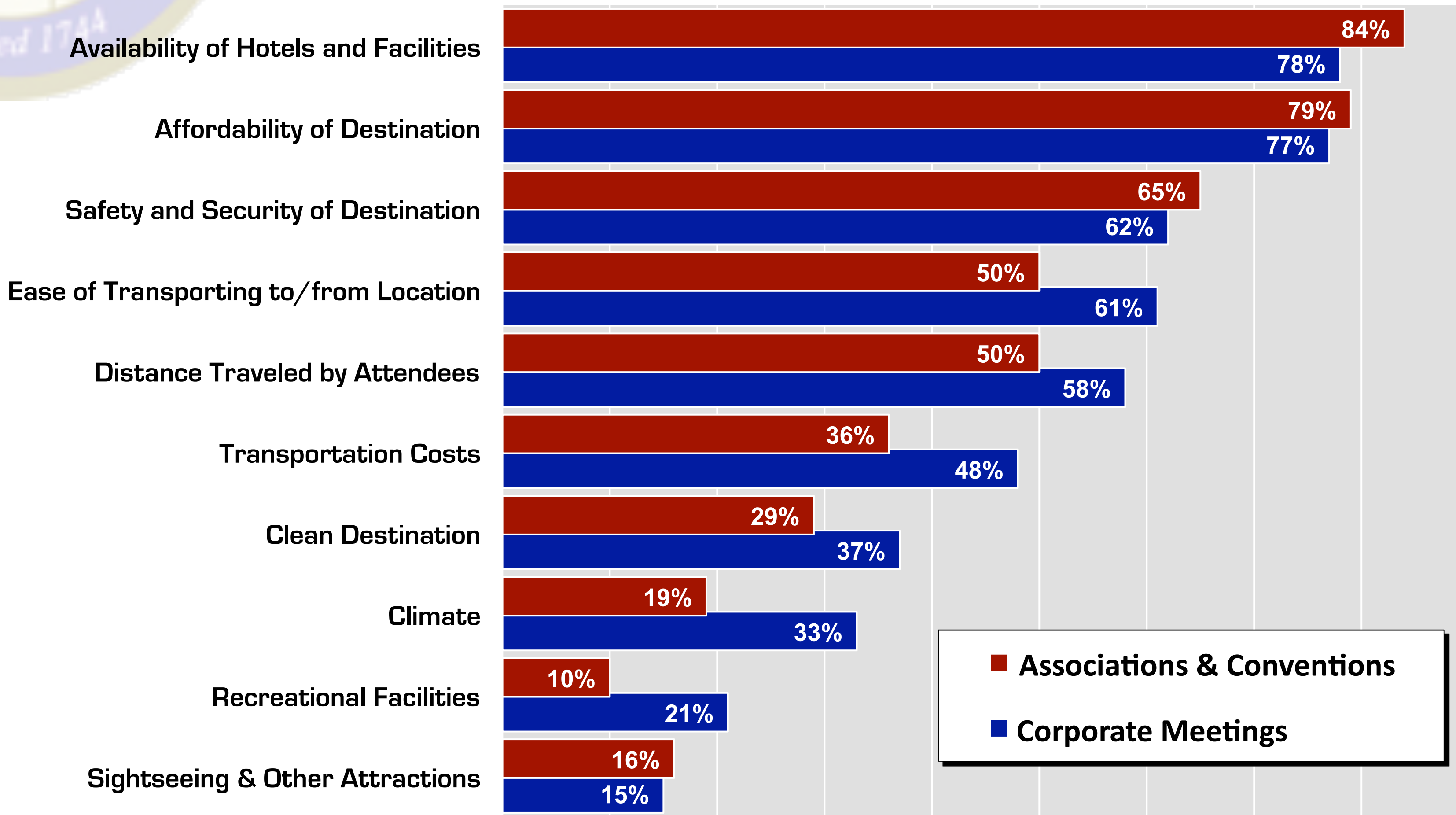
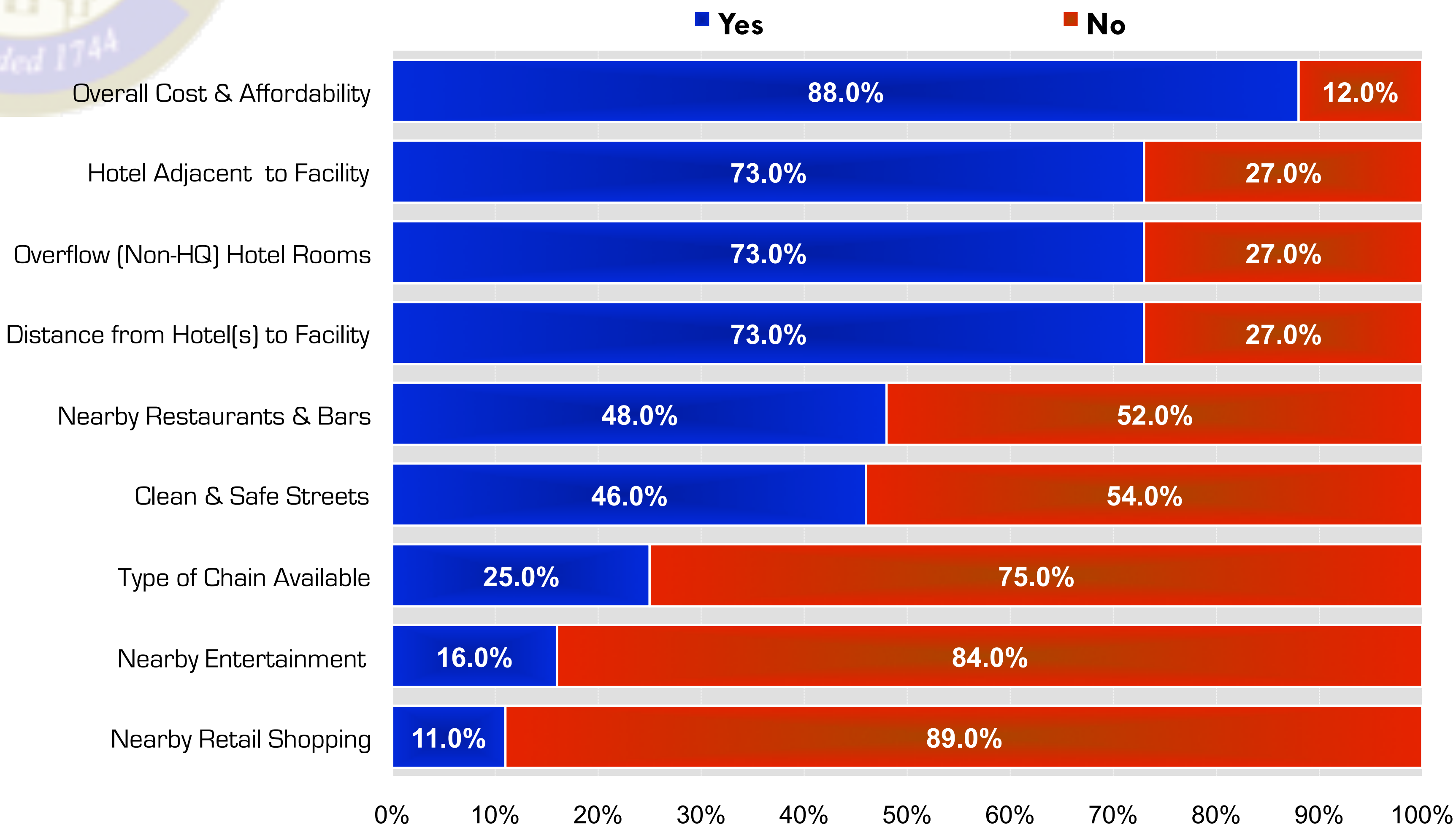



*Source: Meeting Planner Survey.*

# Destination Factors

*Top 9 factors with potential to be a Deal-Breaker*




*Source: Meeting Planner Survey.*

## **Hotel Market:** *Winchester*

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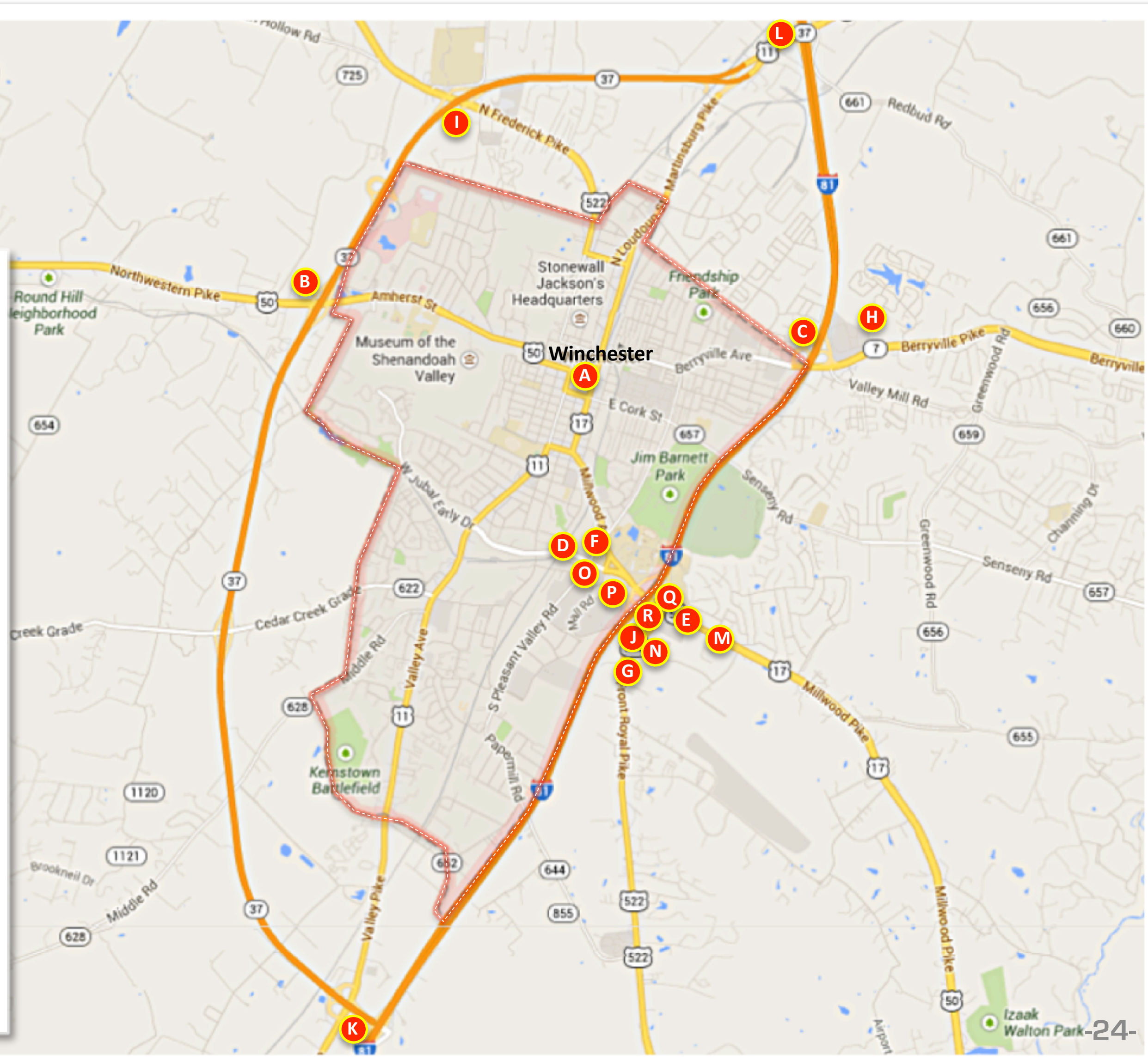

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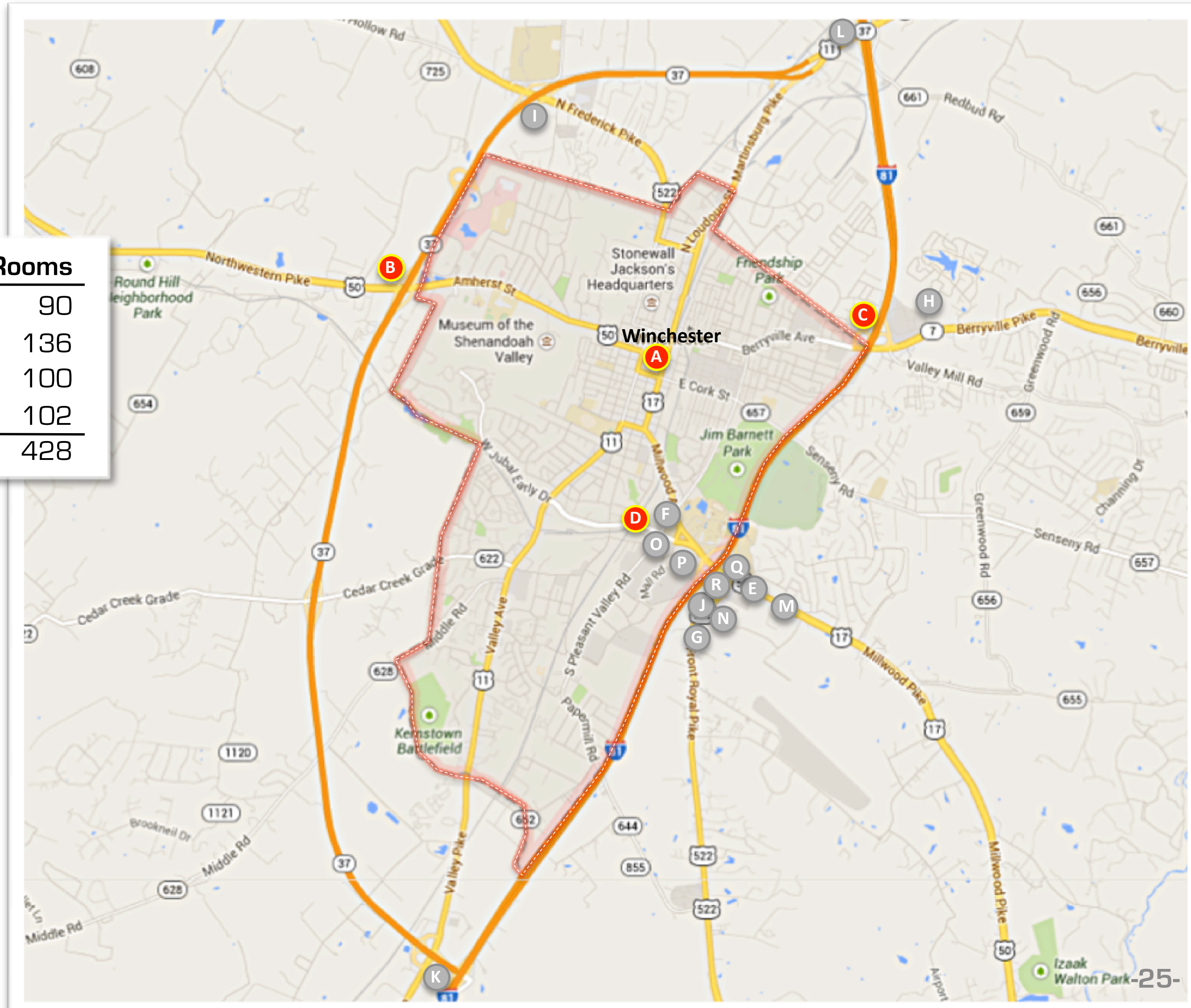
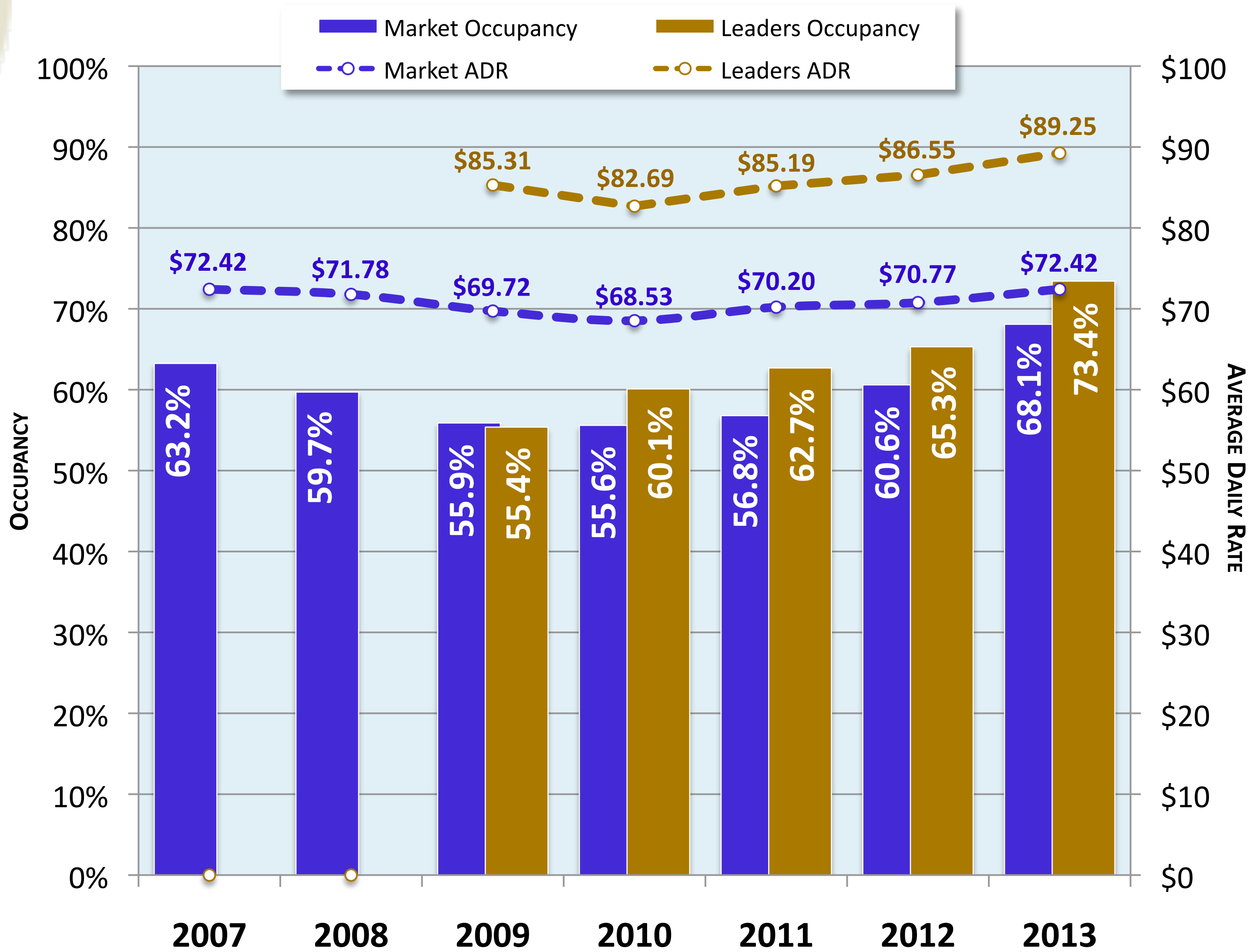


# Hotel Market Performance

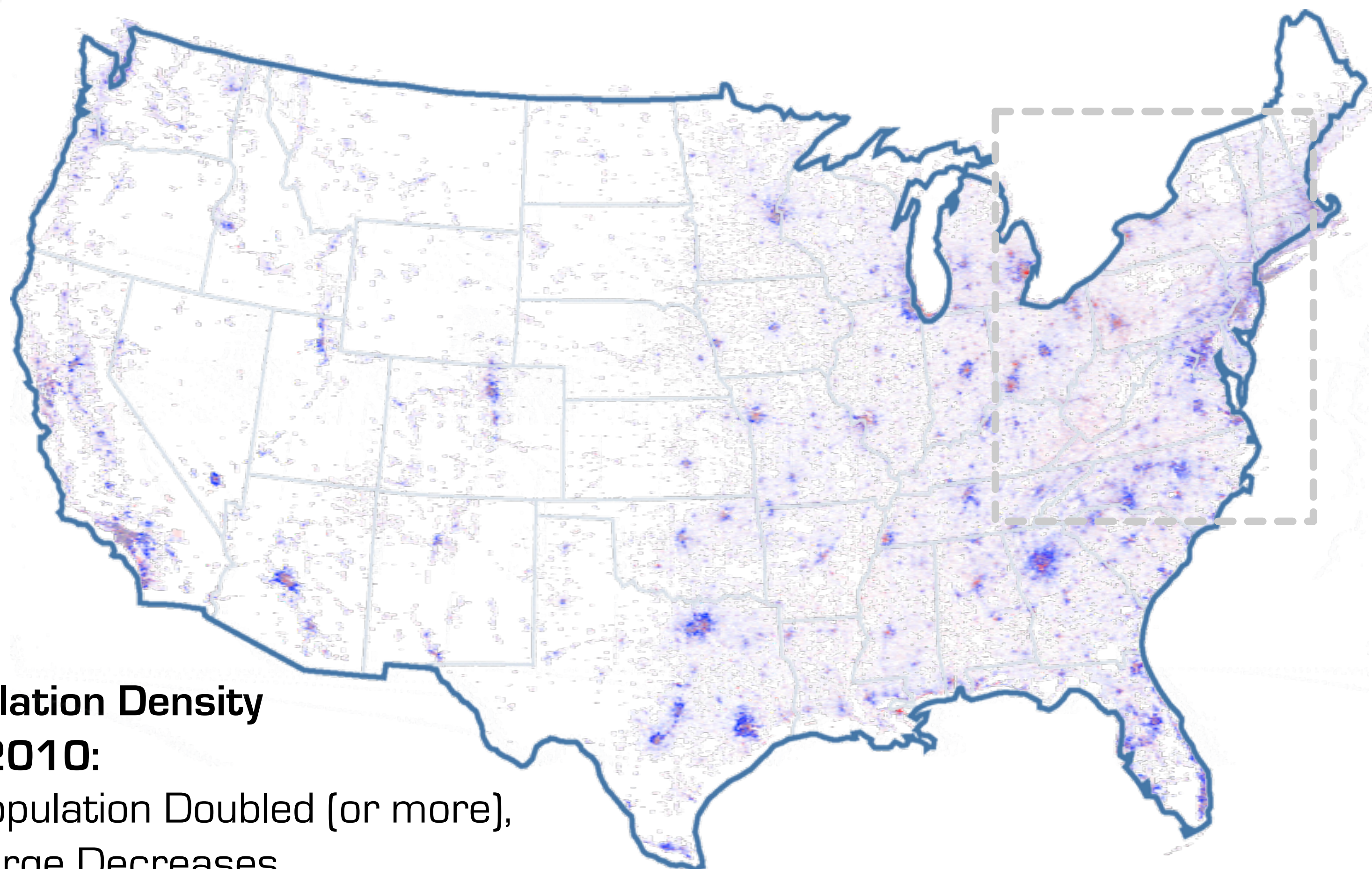





Source: STR, SAG.

# Demographics

# Population Density Shift



**Change in Population Density from 2000 to 2010:**

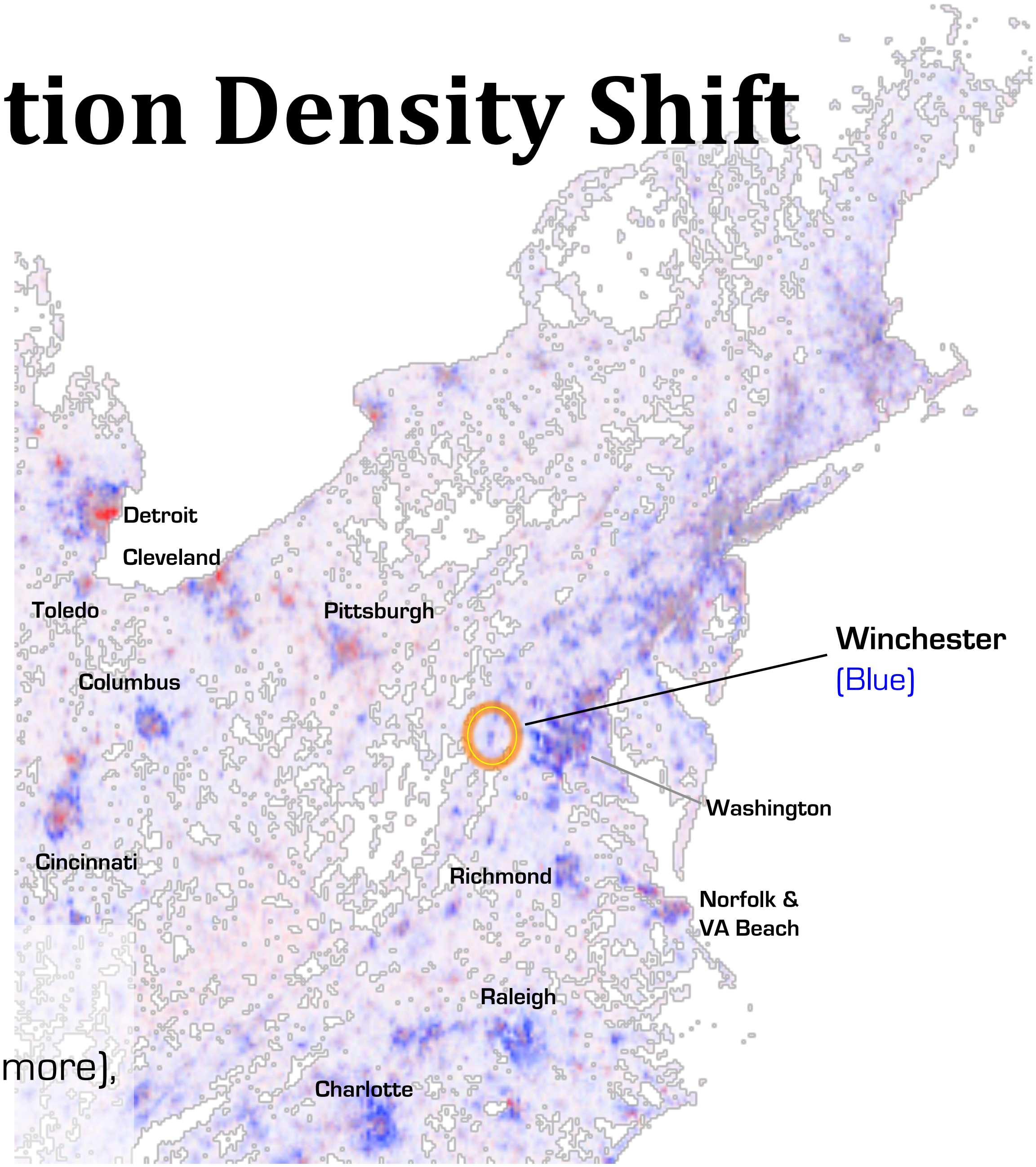
Blue = Population Doubled (or more),

Red = Large Decreases,

White = Little or No Change

Source: Stephen Von Worley 2011

# Population Density Shift




**Change in Population Density from 2000 to 2010:**

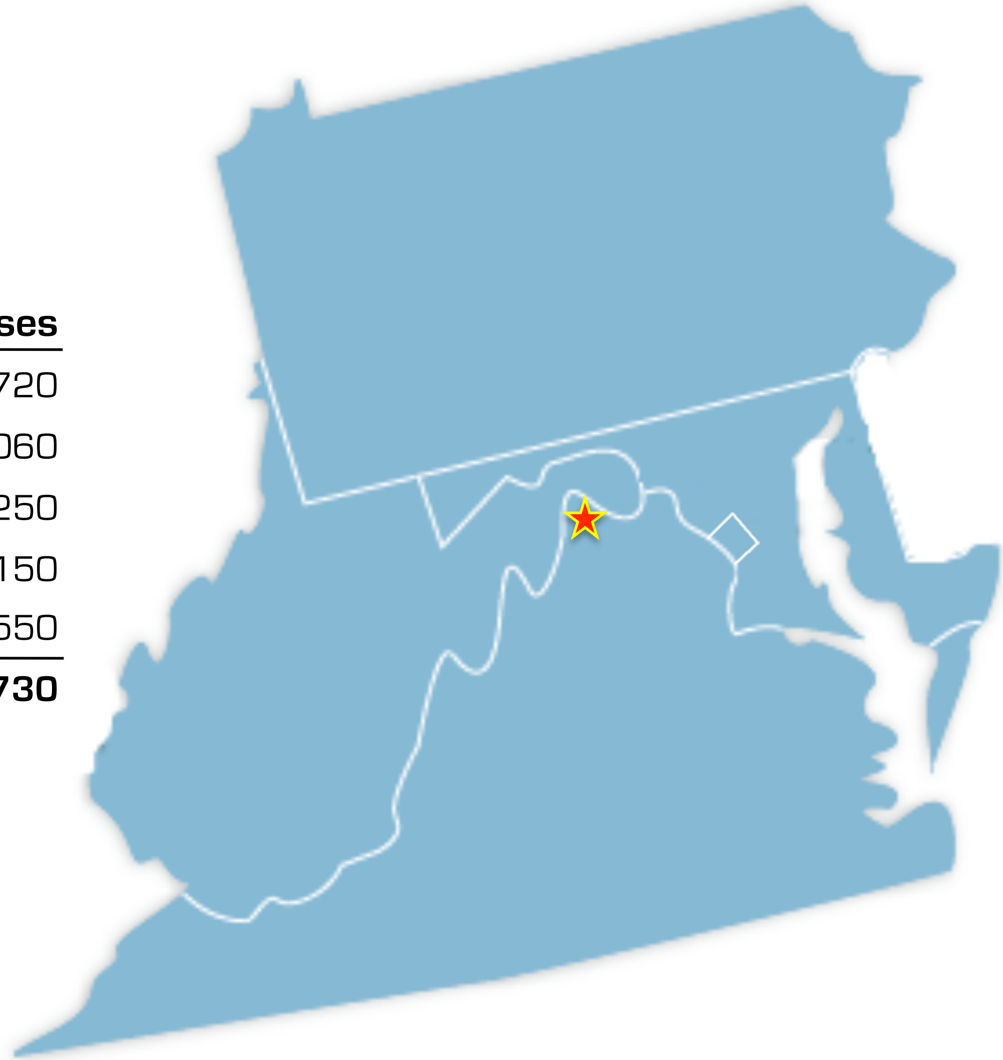
Blue = Population Doubled (or more),
Red = Large Decreases,
Grey = Little or No Change

Source: Stephen Von Worley 2011

# Key Demographics

*What Drives Group Events?  People.*

| | Population | Businesses |
|---|---|---|
| PA: | 12,702,000 | 295,720 |
| VA: | 8,001,000 | 191,060 |
| MD: | 5,774,000 | 133,250 |
| WV: | 1,853,000 | 35,150 |
| DC: | 602,000 | 21,550 |
| **TOTAL:** | **28,932,000** | **676,730** |



# Types of Group Events

- Association/Conventions
- Tradeshows
- Consumer/Public Shows
- Corporate
- SMERF/Affinity
  - Social, Military, Educational, Religious, Fraternal
- Other

# Regional A/C/TS Business

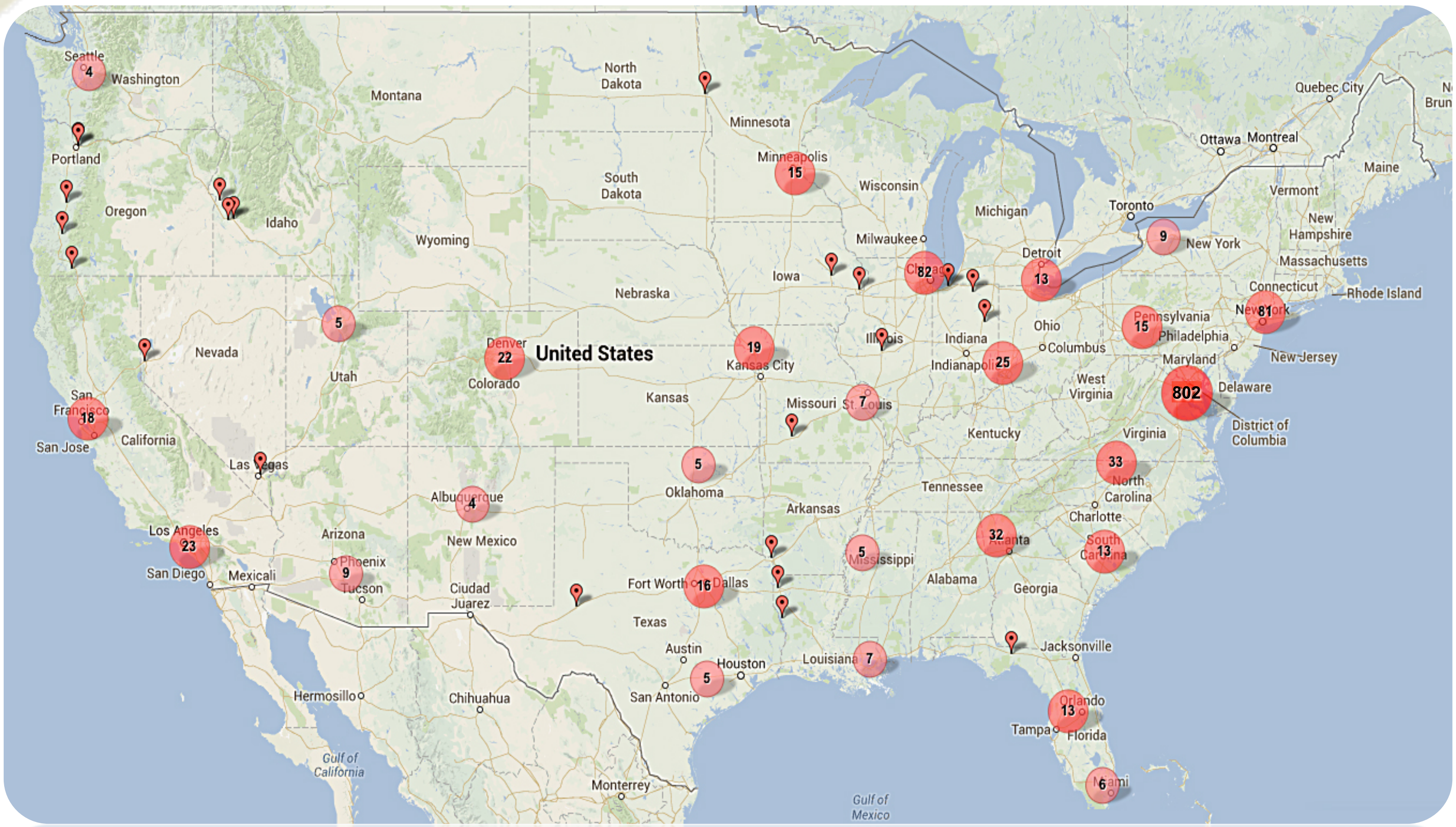
*Collected from Largest Industry Database*

| Held in: | No. of Events |
|---|---|
| PA: | 22 |
| VA: | 285 |
| MD: | 203 |
| WV: | 3 |
| DC: | 267 |
| Other: | 553 |
| **TOTAL:** | **1,333** |

Source: MINT Database; SAG

# Event Headquarters

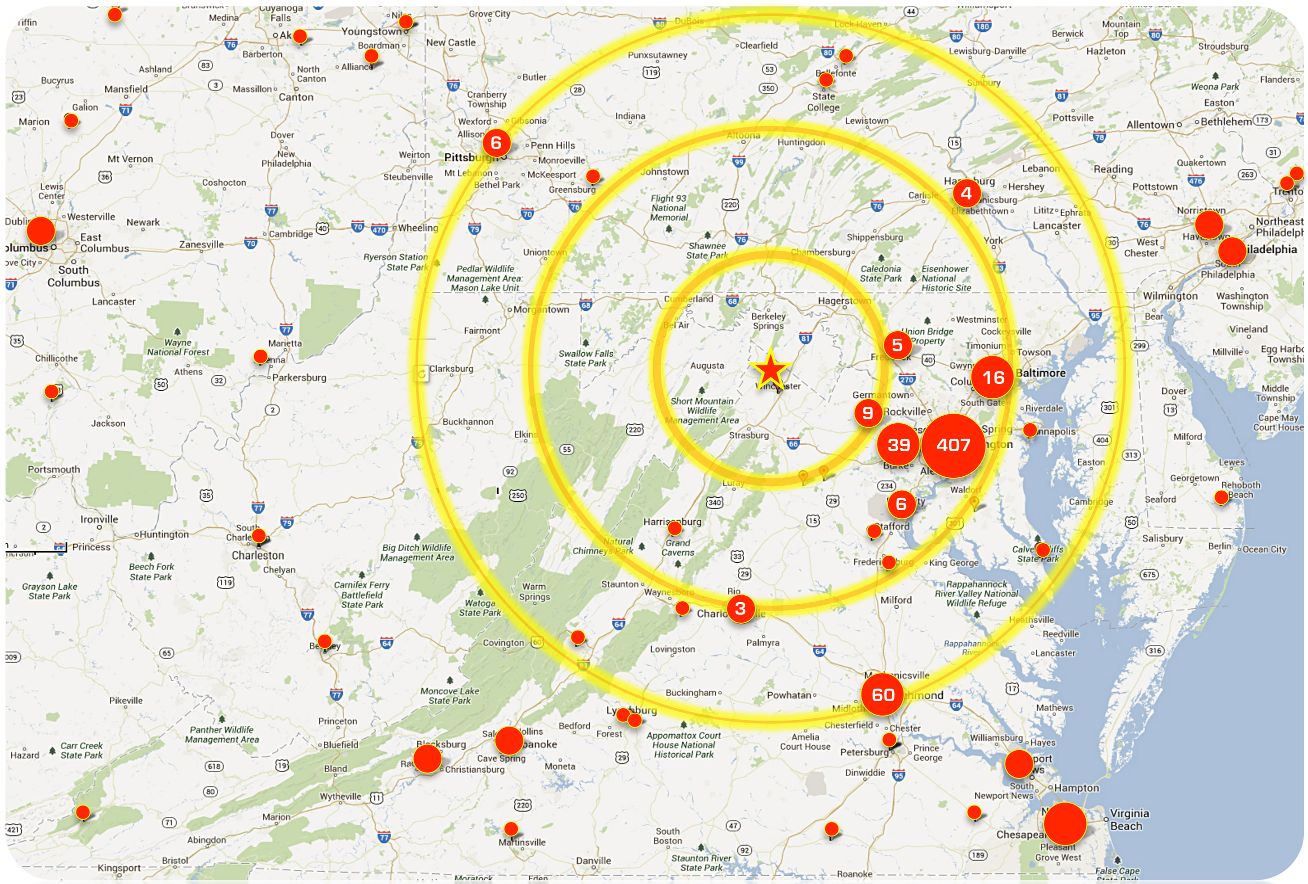
Where the 1,333 Events that met in VA-MD-PA-DC-WV are based:



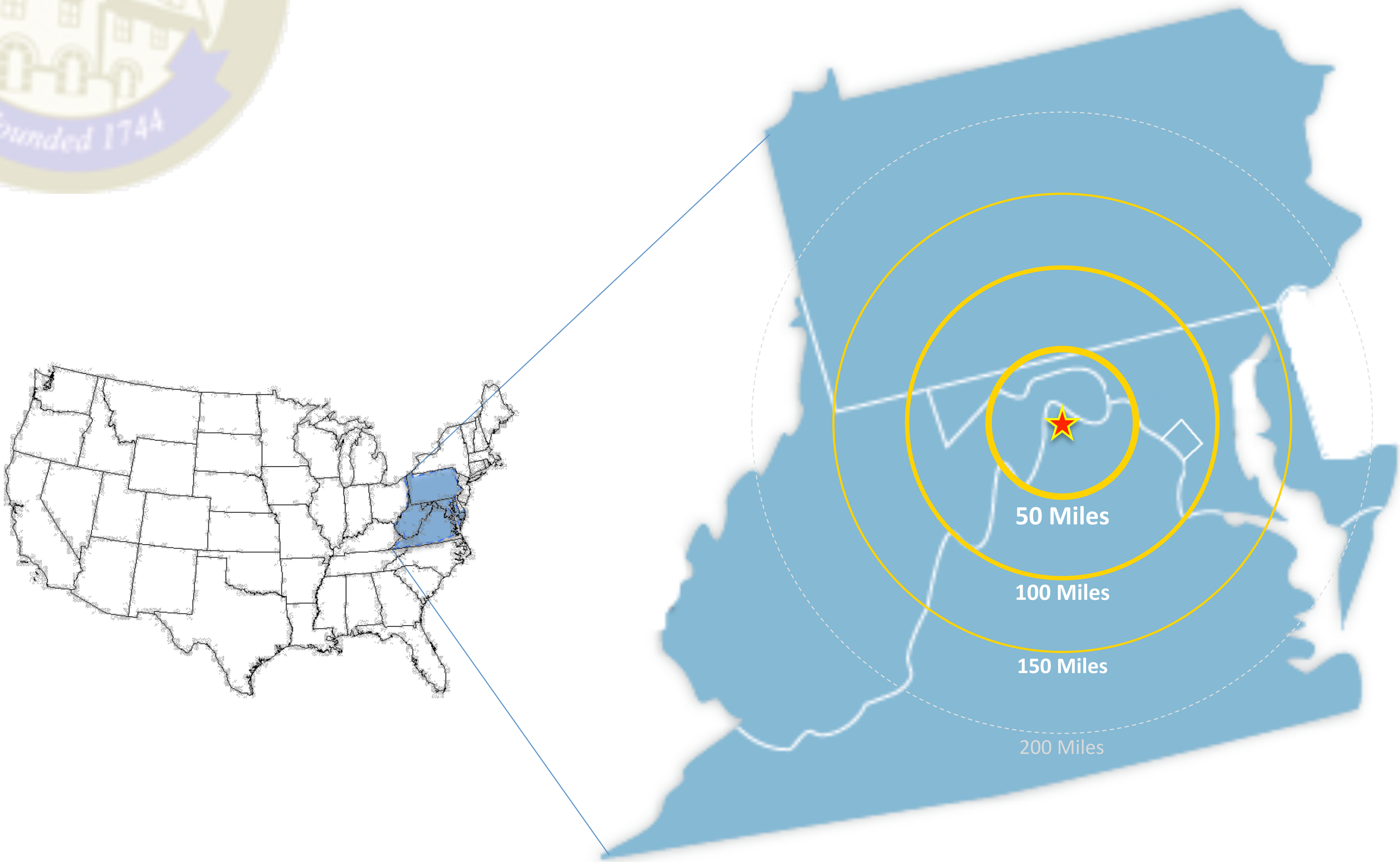
# Event Headquarters

Where the 1,130 Events that met in VA-PA-DC-WV are based:

[*Location data for 203 MD events not available.*]



# Primary Target Market



# Where Workers Live


**Within 150 Miles of Winchester:**

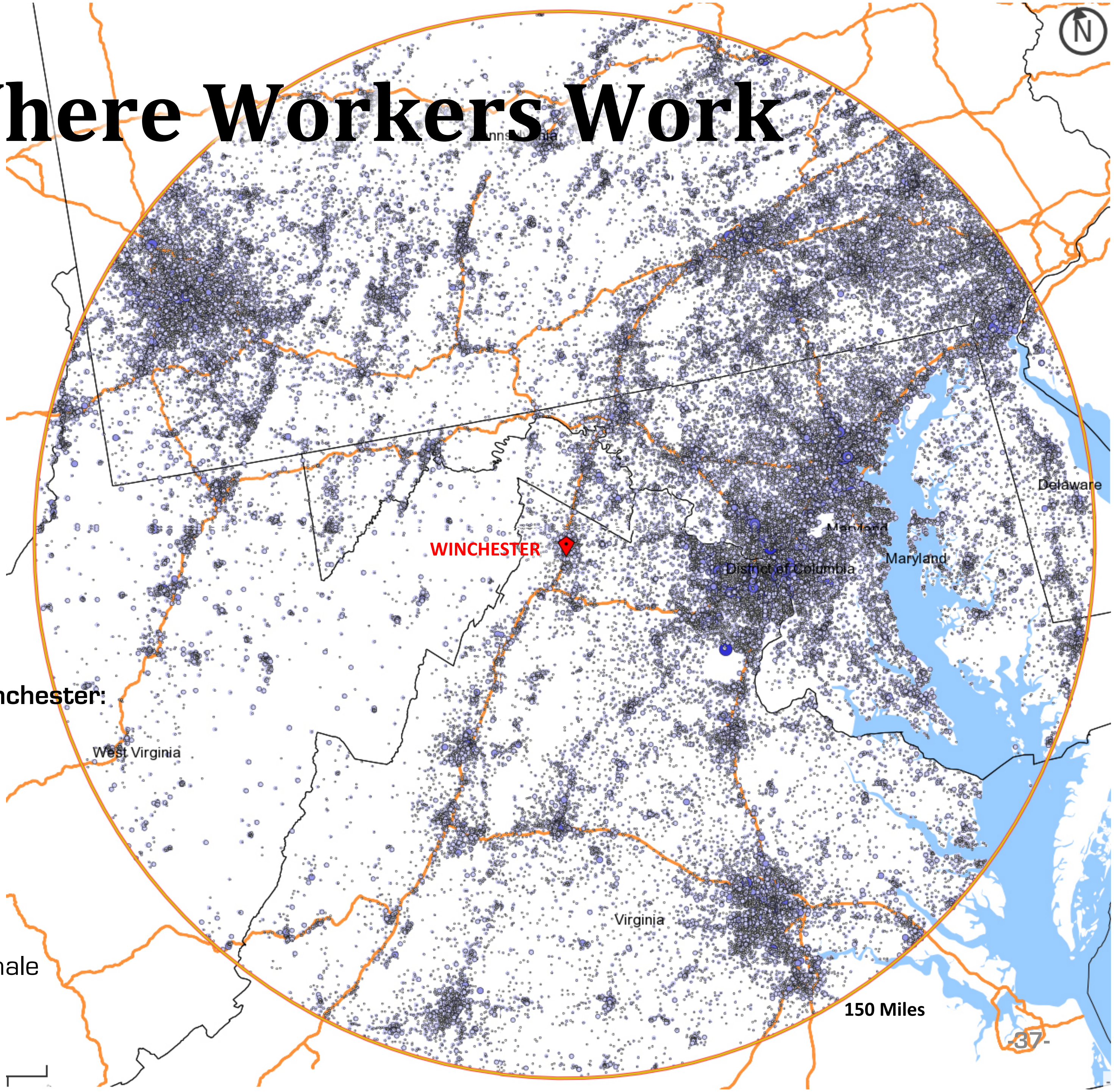
8.2M Primary Jobs
- 14% Healthcare
- 10% Science/Tech/Prof
- 10% Education

56% Aged 30 to 54

49%+ College Educated

49.9% Male/50.1% Female

# Where Workers Work

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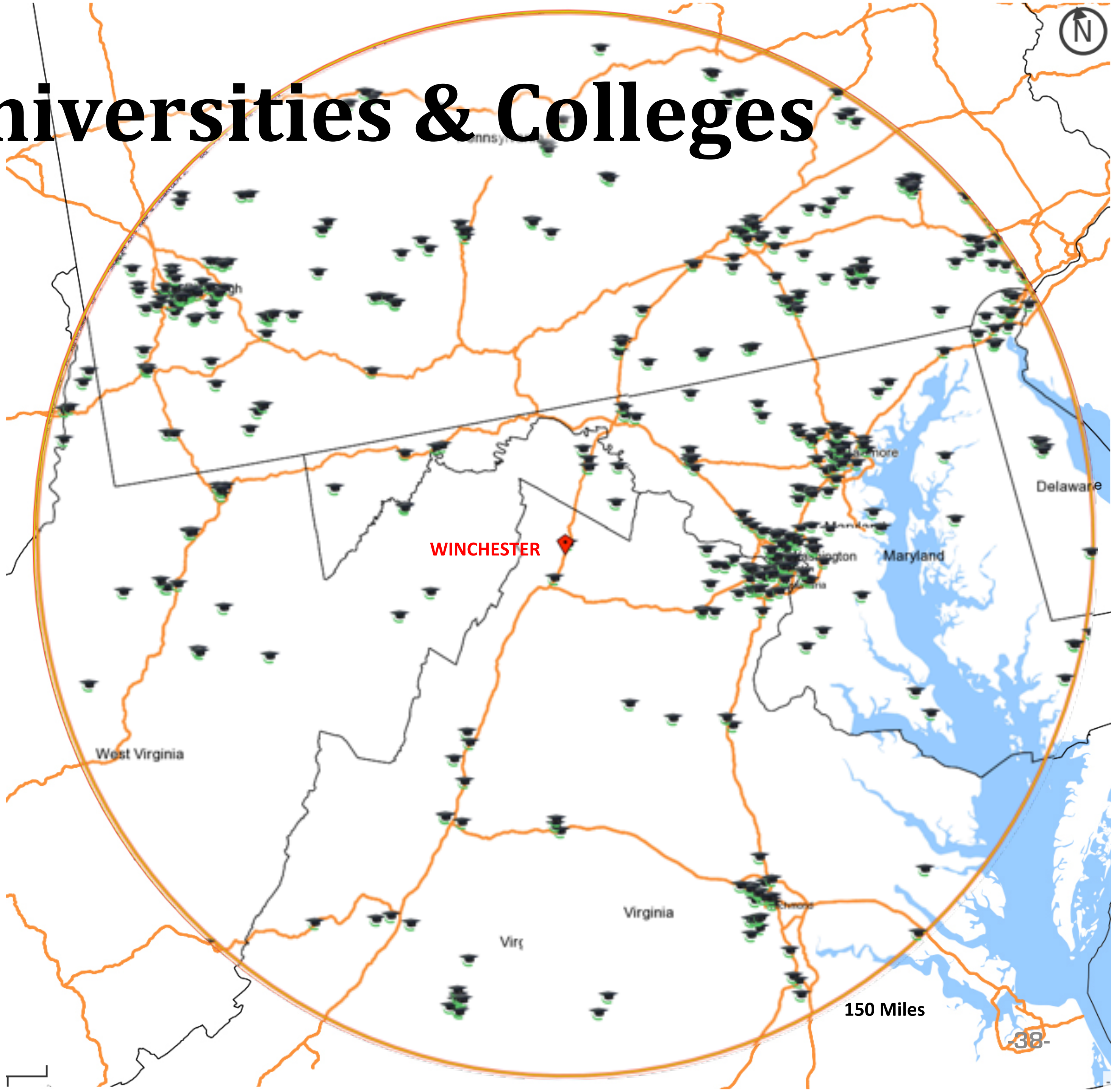
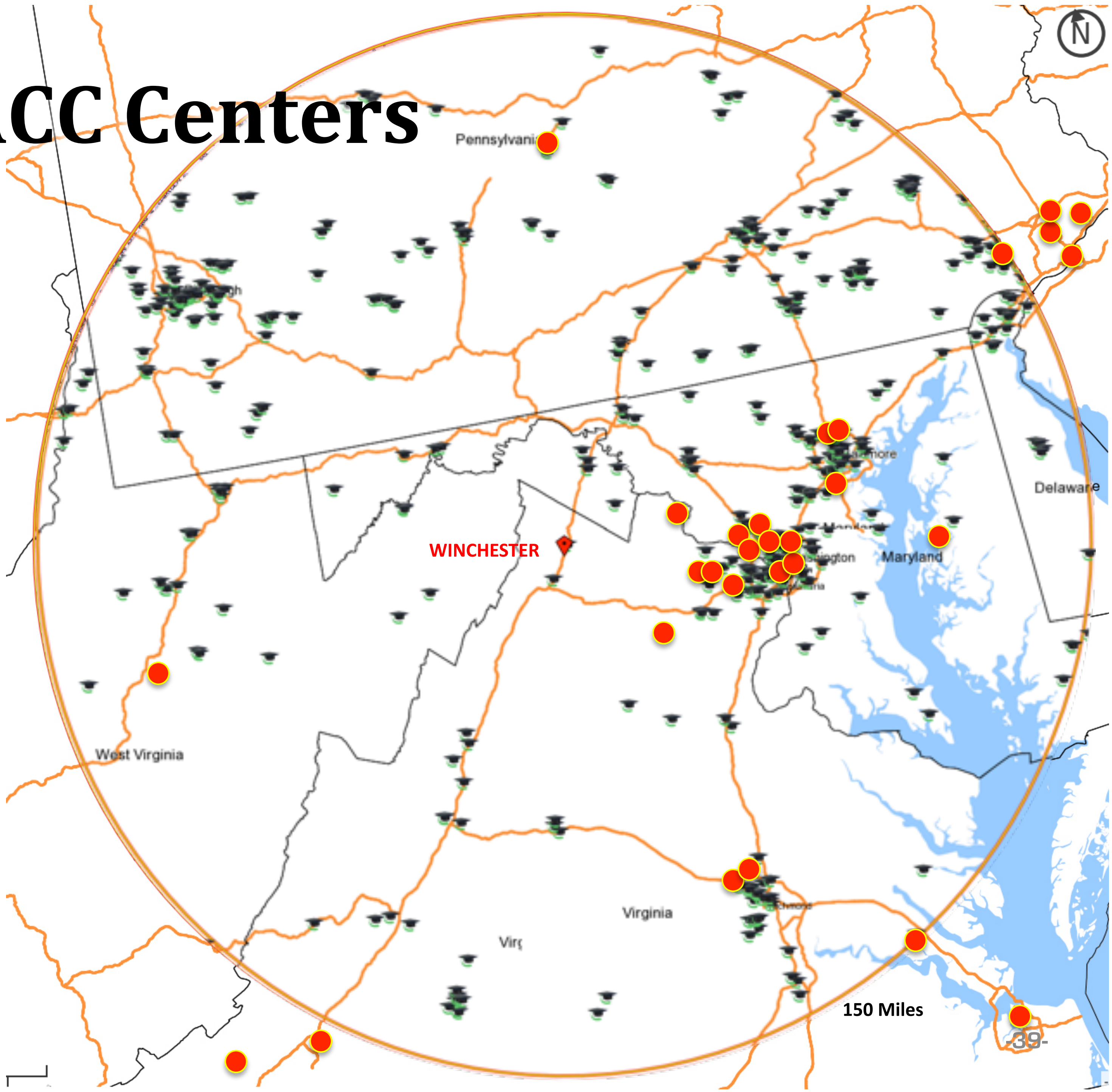
# Universities & Colleges



# IACC Centers

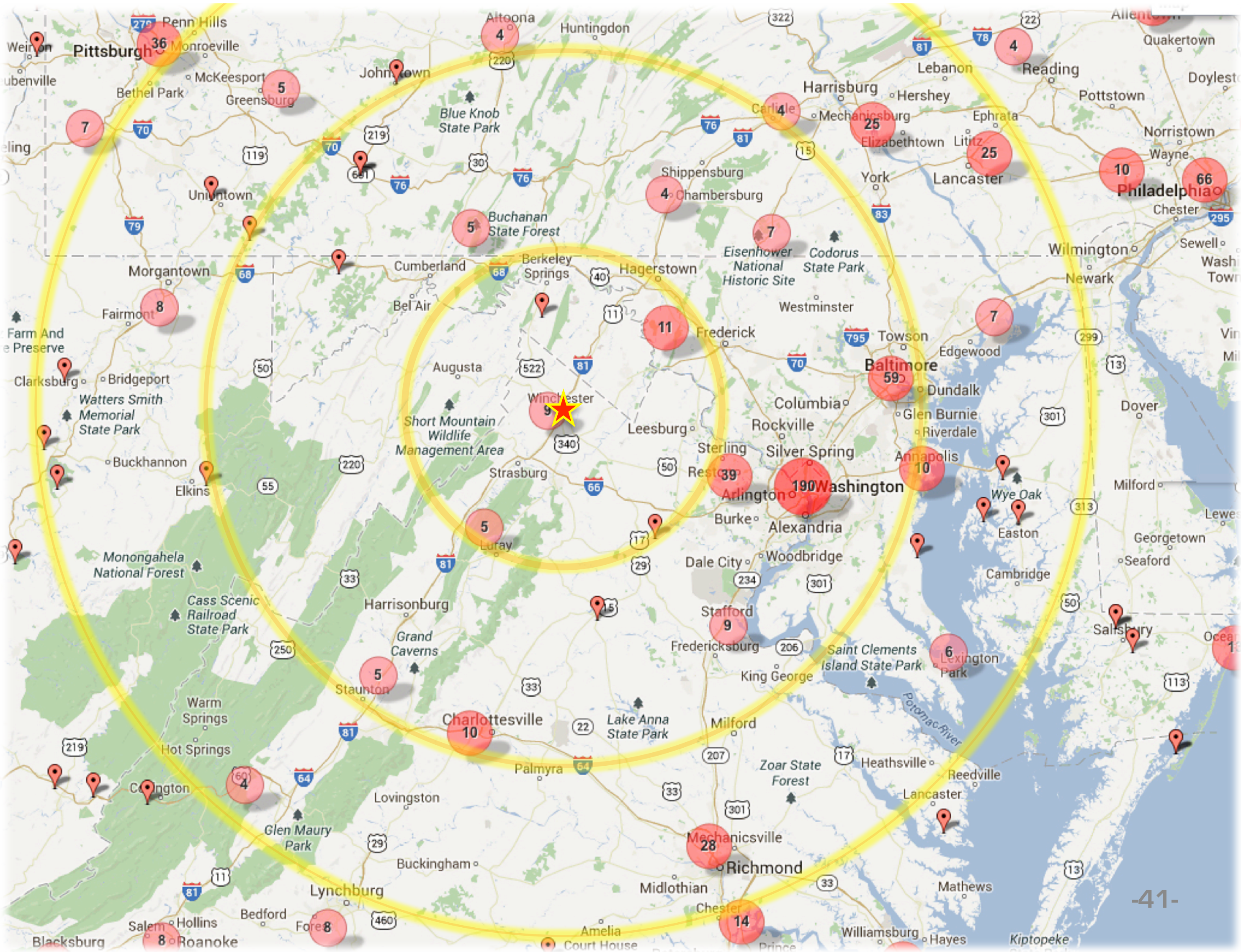


# IACC Centers in Region

| | | | | | | Hotel Published Rates | | | Function Space | | | Ratio per Guestroom | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Name | City | State | Guest Rooms | Hotel Brand | Gov't | Low | High | No. Rooms | Total SF | Ballroom SF | Total SF | Ballroom SF | Facility Type | Facility Mgmt |
| 1. | Maritime Institute Conference Center | Linthicum Heights | MD | 232 | Indep | - | n/a | n/a | 45 | 100,000 | 8,000 | 431 | 34 | Airport | - |
| 2. | ACE Conference Center | Lafayette Hill | PA | 120 | Indep | - | n/a | $189 | 38 | 50,000 | 4,600 | 417 | 38 | Resort | - |
| 3. | National Conference Center | Leesburg | VA | 917 | Indep | - | $108 | 108 | 250 | 250,000 | 16,500 | 273 | 18 | Rural/Airport | Aramark |
| 4. | Villanova Conference Center | Radnor | PA | 58 | Indep | $95 | 143 | 159 | 24 | 14,000 | 5,500 | 241 | 95 | College | Aramark |
| 5. | Kellogg Conference Center | Washington | DC | 87 | Indep | - | 215 | 239 | 20 | 17,000 | 5,000 | 195 | 57 | College | FLIK |
| 6. | Penn Stater Conference Center Hotel | State College | PA | 300 | Indep | - | 94 | 194 | 41 | 58,000 | 15,000 | 193 | 50 | College | - |
| 7. | Hotel Roanoke Conference Center | Roanoke | VA | 331 | Doubletree | 97 | 132 | 286 | 36 | 63,000 | 16,000 | 190 | 48 | Urban | - |
| 8. | Mt. Washington Conference Center | Baltimore | MD | 56 | Indep | - | n/a | n/a | 13 | 10,500 | 1,700 | 188 | 30 | College | Aramark |
| 9. | Lansdowne Resort | Lansdowne | VA | 296 | Indep | - | n/a | 199 | 33 | 50,000 | 9,500 | 169 | 32 | Resort | Destination |
| 10. | Marriott Conference Center | Hyattsville | MD | 237 | Marriott | - | n/a | n/a | 39 | 39,000 | 11,000 | 165 | 46 | College | - |
| 11. | Normandy Farm Conference Center Hotel | Blue Bell | PA | 141 | Indep | - | 151 | 199 | 17 | 23,000 | 6,100 | 163 | 43 | Suburban | - |
| 12. | Bolger Center | Potomac | MD | 432 | Dolce | - | 85 | 99 | 75 | 70,000 | 7,100 | 162 | 16 | Suburban | Dolce |
| 13. | Skelton Conference Center | Blacksburg | VA | 147 | Indep | 107 | 129 | 139 | 11 | 21,000 | 8,800 | 143 | 60 | College | Benchmark |
| 14. | Virginia Crossings Conference Center | Glen Allen | VA | 183 | Wyndham | 83 | 109 | 129 | 24 | 23,000 | 4,700 | 126 | 26 | Suburban | - |
| 15. | Airlie Center | Warrenton | VA | 150 | Indep | - | 149 | 209 | 17 | 18,000 | 2,800 | 120 | 19 | Suburban | - |
| 16. | Founders Inn & Spa | Virginia Beach | VA | 240 | Indep | 118 | 98 | 109 | 20 | 25,000 | 12,800 | 104 | 53 | Resort | Benchmark |
| 17. | Aspen Wye River Conference Center | Queenstown | MD | 86 | Marriott | - | n/a | n/a | 11 | 8,600 | 1,500 | 100 | 17 | Resort | - |
| 18. | Mason Inn Conference Center Hotel | Fairfax | VA | 148 | Indep | 103 | 143 | 169 | 11 | 13,000 | 4,900 | 88 | 33 | College | - |
| 19. | Great Valley Conference Center | Malvern | PA | 194 | Indep | - | 189 | 209 | 15 | 14,700 | 4,000 | 76 | 21 | Suburban | - |
| 20. | Liberty Conference Center | King of Prussia | PA | 225 | Crowne Plaza | - | 197 | 215 | 17 | 17,000 | 8,400 | 76 | 37 | Suburban | - |
| 21. | Stonewall Resort | Roanoke | WV | 208 | Indep | 83 | 143 | 159 | 14 | 15,000 | 4,200 | 72 | 20 | Resort | Benchmark |
| 22. | Assembly of Five Meeting Center | Philadelphia | PA | 432 | Doubletree | - | 229 | 349 | 6 | 27,000 | 5,500 | 63 | 13 | Urban | - |
| 23. | Executive Meeting Center | Rockville | MD | 315 | Hilton | 184 | 184 | 189 | 14 | 19,500 | 5,000 | 62 | 16 | Suburban | - |
| 24. | Marriott Conference Center | Towson | MD | 191 | Marriott | - | n/a | n/a | 19 | 11,000 | 2,800 | 58 | 15 | College | - |
| 25. | Executive Meeting Center | Hernodon | VA | 316 | Hyatt | - | 135 | 169 | 6 | 18,000 | 8,800 | 57 | 28 | Airport | - |
| 26. | Executive Meeting Center | Bethesda | MD | 270 | Doubletree | 184 | 198 | 219 | 14 | 13,200 | 5,900 | 49 | 22 | Suburban | - |
| 27. | Kingsmill Resort | Williamsburg | VA | 425 | Indep | - | 152 | 169 | 16 | 20,000 | 6,000 | 47 | 14 | Resort | - |
| 28. | Executive Meeting Center | Richmond | VA | 224 | Embassy Suites | 169 | 179 | 189 | 10 | 10,000 | 2,400 | 45 | 11 | Suburban | - |
| 29. | Executive Conference & Training Center | McLean | VA | 545 | Crowne Plaza | - | 209 | 222 | 5 | 5,000 | 1,700 | 9 | 3 | Suburban | - |
| | Minimum | | | 56 | | $83 | $85 | $99 | 5 | 5,000 | 1,500 | 9 | 3 | | |
| | MEDIAN | | | 225 | | $105 | $146 | $189 | 17 | 19,500 | 5,500 | 120 | 28 | | |
| | AVERAGE | | | 259 | | $122 | $153 | $188 | 30 | 35,293 | 6,766 | 141 | 32 | | |
| | Maximum | | | 917 | | $184 | $229 | $349 | 250 | 250,000 | 16,500 | 431 | 95 | | |

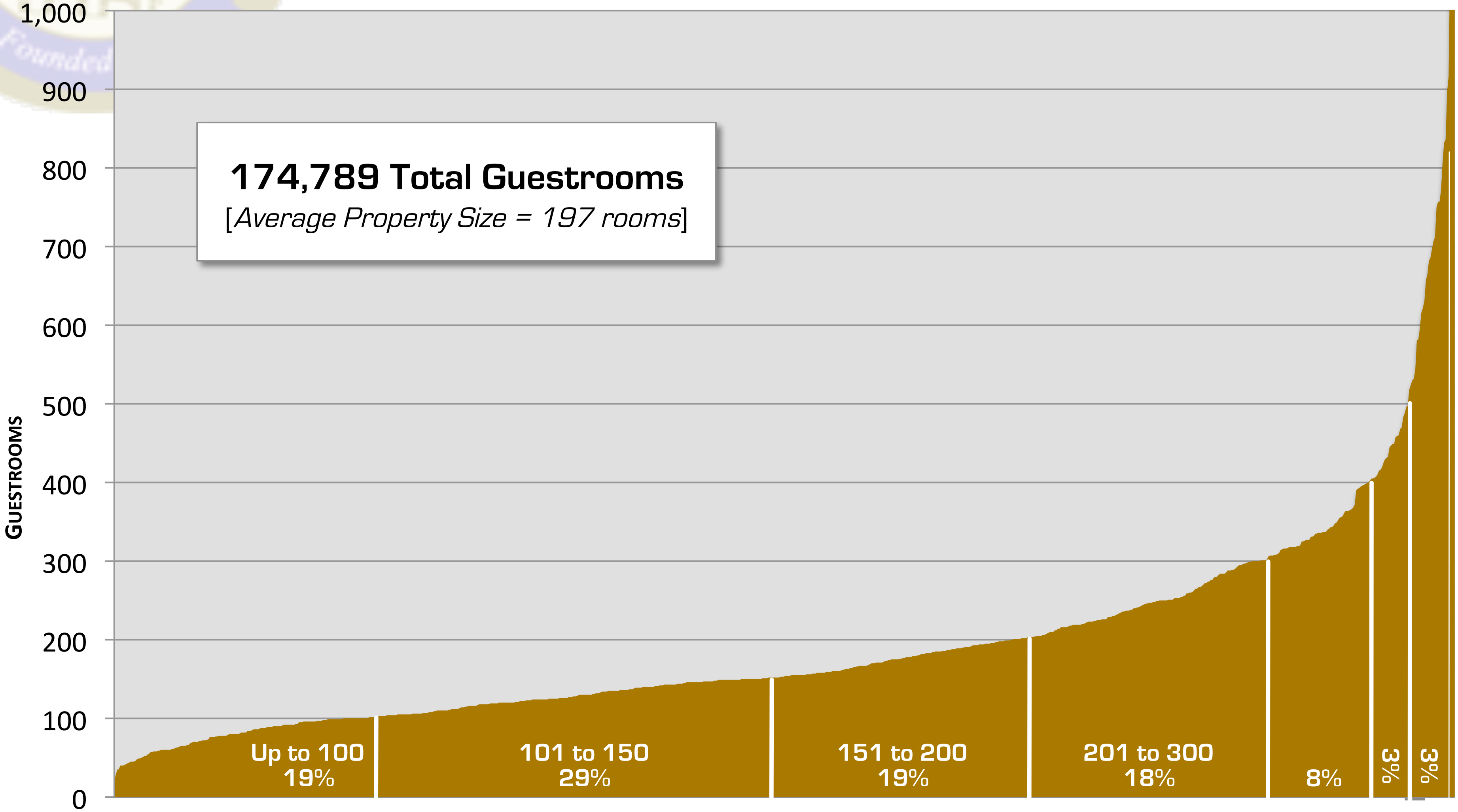
# Full Service Hotels

*886 Full-Service Hotels in VA-DC-MD-PA-WV*



# Full Service Hotels

*886 Full-Service Hotels in VA-DC-MD-PA-WV*



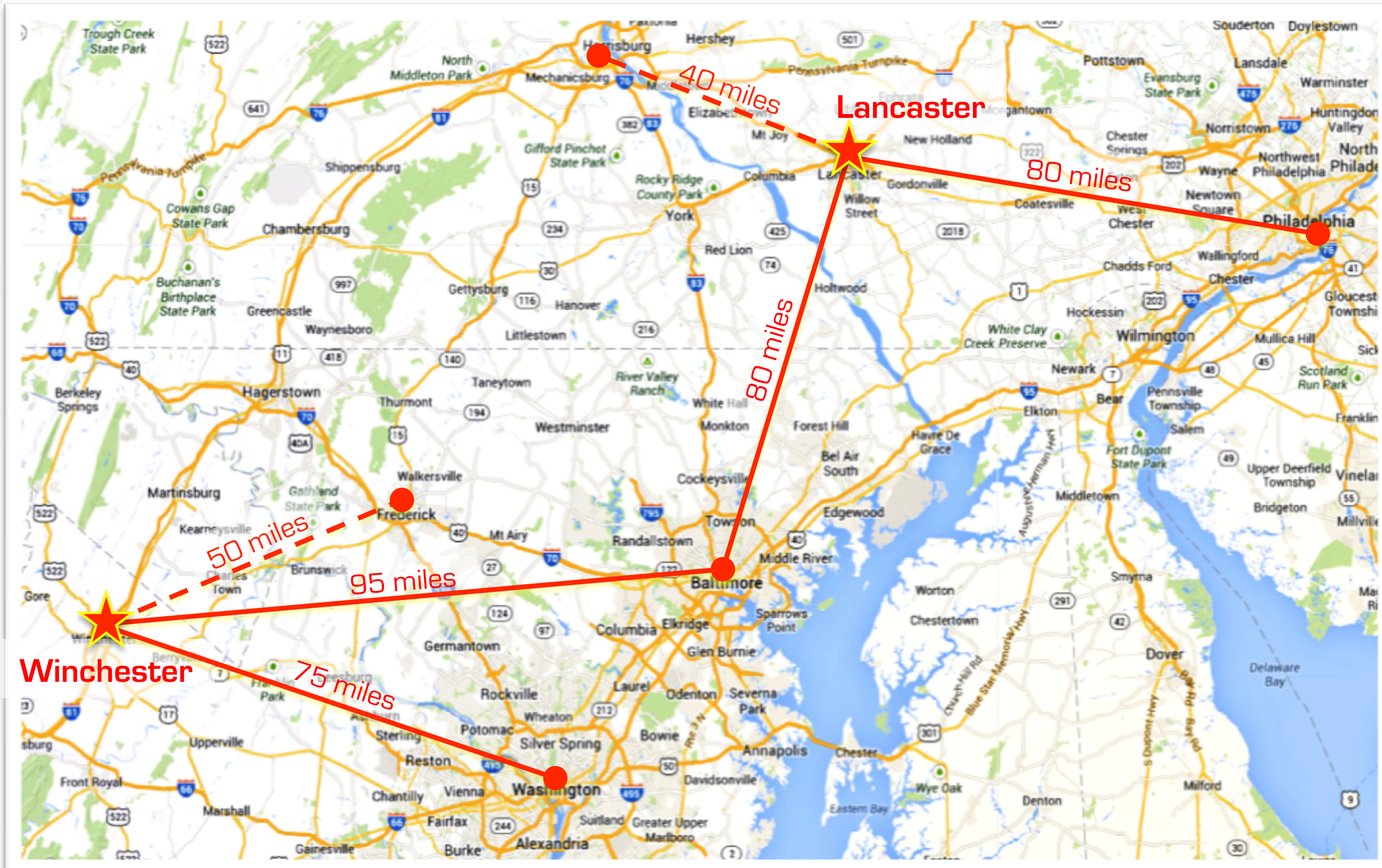
# **Case Study:** *Lancaster PA*

# Comparison: *Lancaster*

| | Winchester VA | Lancaster PA |
|---|---|---|
| **People** | | |
| 2012 Population | 26,881 | 59,360 |
| Pct Change 2010 to 2012 | 2.6% | 0.1% |
| Land Area in Square Miles | 9.23 | 7.23 |
| Density: People per SM | 2,912 | 8,210 |
| **Demographics** | | |
| Median Age | 35.1 | 30.5 |
| Under 5 Years | 6.8% | 8.0% |
| Age 5 to 19 | 19.5% | 21.8% |
| Age 20 to 24 | 8.8% | 10.3% |
| Age 25 to 34 | 14.9% | 16.7% |
| Age 35 to 54 | 25.2% | 25.4% |
| Age 55 to 64 | 10.9% | 9.2% |
| Age 65 & Over | 13.9% | 8.6% |
| **Diversity** | | |
| Born in the U.S. | 87.6% | 77.8% |
| Pct Households Speaking English Only | 84.7% | 65.0% |
| **Education** | | |
| High School Diploma | 29.6% | 39.5% |
| Assoc. Degree/Some College | 23.4% | 20.1% |
| Bachelor Degree | 16.6% | 10.4% |
| Graduate Degree | 12.6% | 5.7% |
| **Housing** | | |
| No. of Units | 11,905 | 23,377 |
| Home Ownership Rate | 49.8% | 44.4% |
| Median Value | $255,000 | $98,500 |
| Persons per Household | 2.47 | 2.47 |
| **Employment** | | |
| Primary Jobs within City Limits | 22,400 | 36,800 |
| Primary Jobs within 5 Mile Radius | 39,700 | 122,300 |
| Average Commute Time in Minutes | 22.7 | 19.2 |
| **Income** | | |
| Per Capita | $26,343 | $16,212 |
| Median Household | $46,065 | $33,115 |
| Persons below Poverty Level | 18.7% | 28.0% |
| **Businesses** | | |
| Total Number of Firms | 2,973 | 4,332 |
| Retail Sales (000) - 2007 | $998,681 | $950,870 |
| Retail Sales per Capita - 2007 | $38,614 | $17,209 |
| Accommodations & Food Services Sales (000) - 2007 | $104,640 | $127,406 |

Source: US Census Bureau.

# Comparison: *Lancaster*



# *Lancaster PA*

# Lancaster Convention Complex

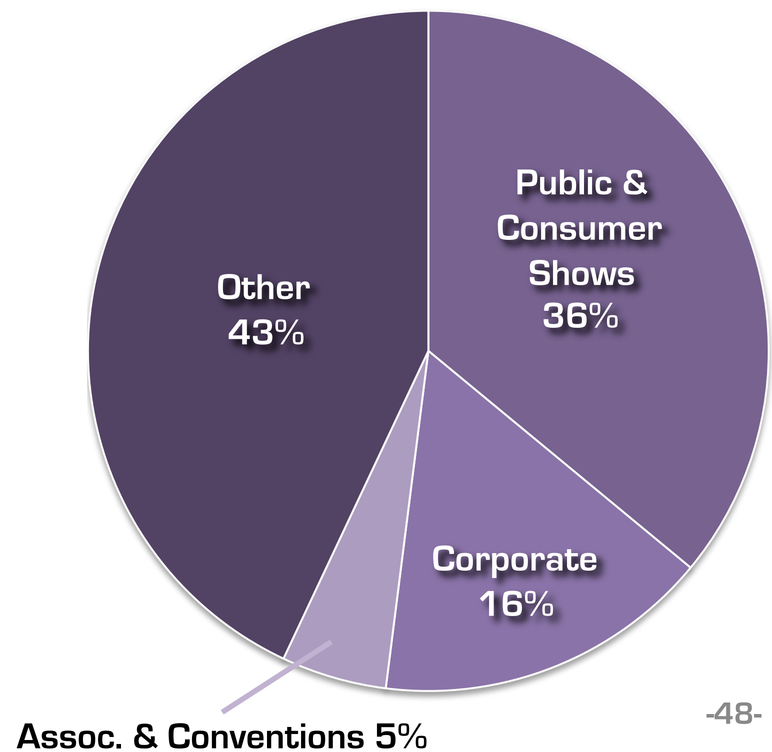
- Facility opened in 2009 for $178M
- In downtown core using the façade of historic Watt & Shand dept. store
- 299-room attached Marriott hotel
- 46,500 SF Exhibit space
- 9,700 SF + 8,700 SF Ballrooms
- 6,700 SF Meeting space (16 rooms)
- Operated as one facility by Interstate

# Lancaster Convention Complex

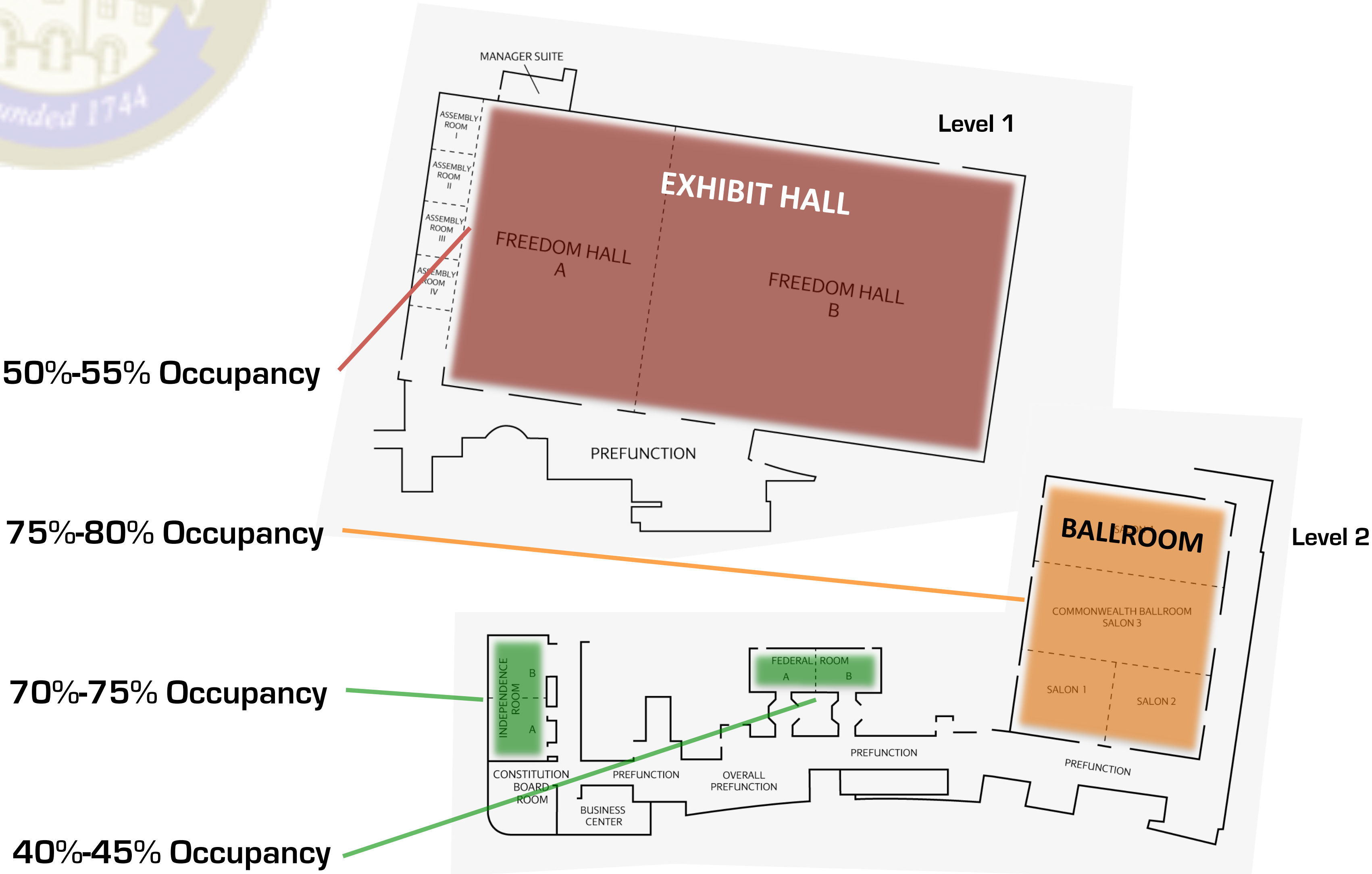
- Hotel occupancy 63% - 70% in last 3 years
- Facility hosts approx. 250 events per year
  - "Other" : Graduations/concerts/sports/dinners/dances

- Larger Events

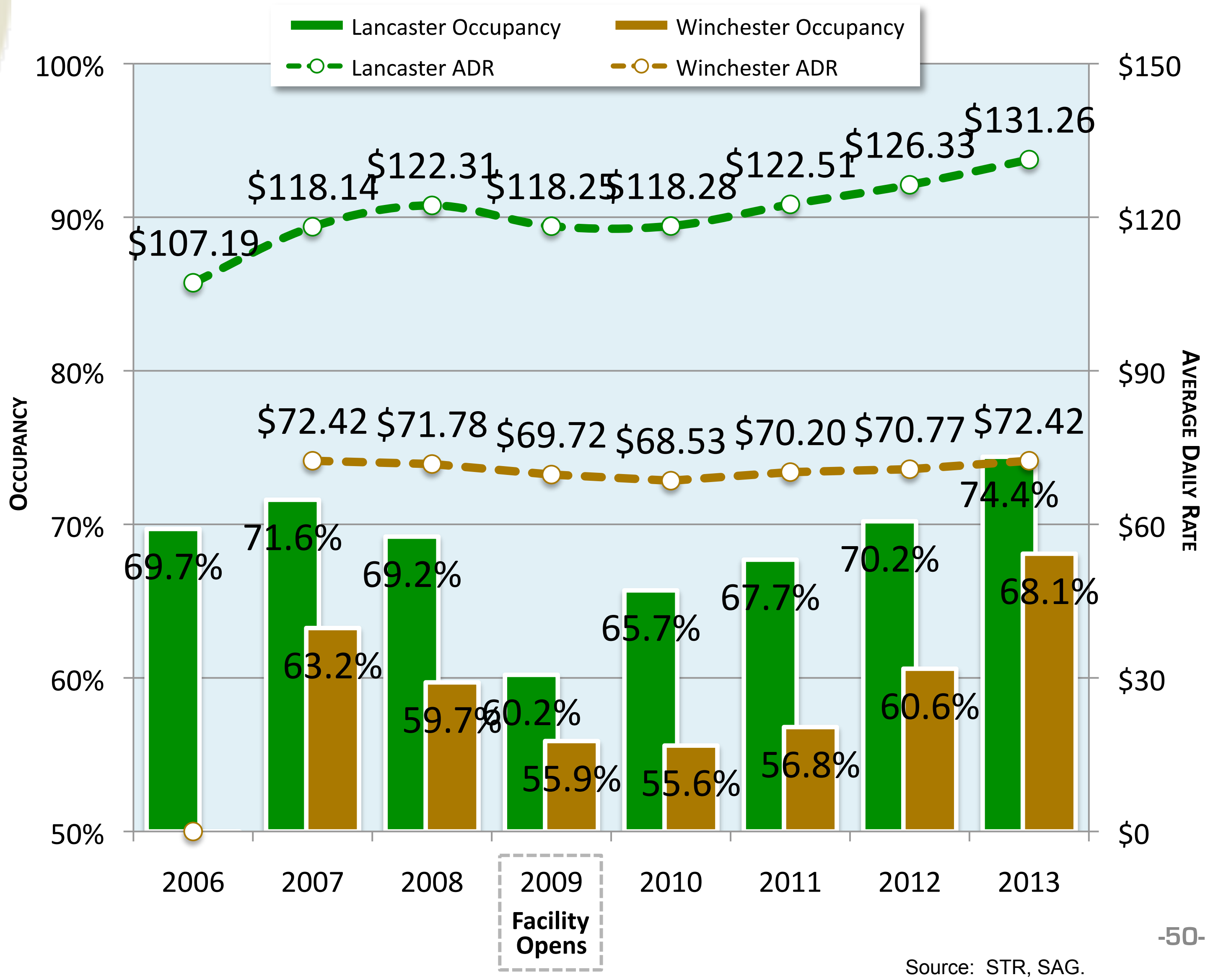
| | |
|---|---|
| – American Quilt Society Show | 16,000 |
| – American Consumer Show | 15,000 |
| – Global Awakening | 14,000 |
| – Mission Fest | 9,000 |
| – Starquest | 8,000 |
| – Leadership Team Development | 7,500 |
| – Show Stoppers | 7,200 |
| – Life Expo | 6,000 |
| – Baby & Toddler Show | 6,000 |
| – LaunchMusic | 6,000 |
| – MLK Volleyball | 6,000 |



# Lancaster Convention Complex

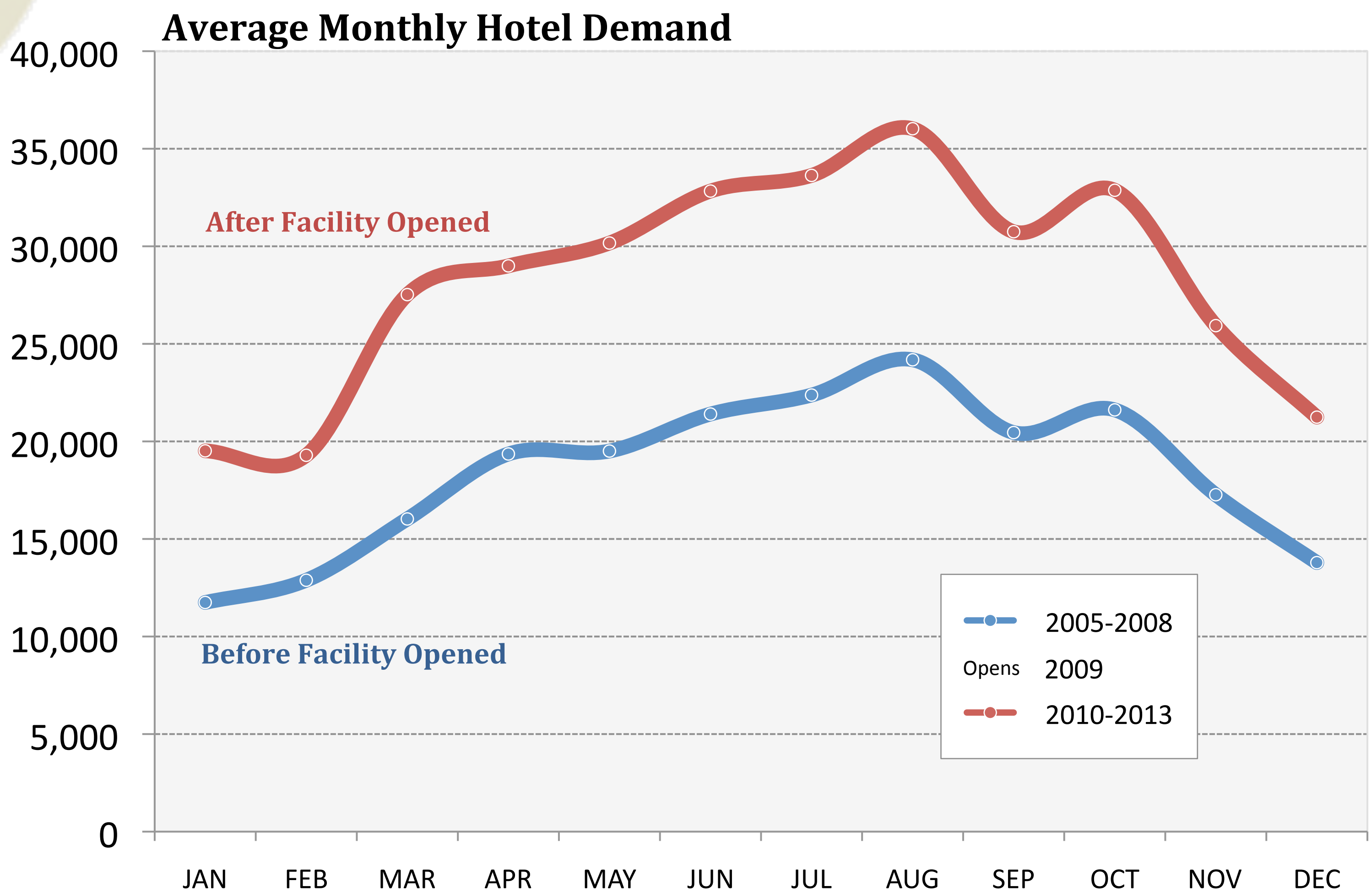


# Lancaster Hotel Market




Source: STR, SAG.

# Lancaster PA: *Before & After*



# **Financial Comps:** *Conference Center Hotels*

# Comparable Facilities




# Comparable Facilities

**Edith Macy Conference Center**
*White Plains NY Area*

58 Guestrooms
14,000 SF Total Function Space
No Formal Ballroom
Independent

**Marietta Hotel & Conference Center**
*Suburban Atlanta GA*

198 Guestrooms
25,000 SF Total Function Space
6,500 SF Ballroom
Hilton

***Average Property Size is 147 rooms with 129 NSF function space per room***

**Virginia Crossings Conference Center**
*Suburban Richmond VA*

183 Guestrooms
24,000 SF Total Function Space
4,700 SF Ballroom
Wyndham

**Mason Inn & Conference Center**
*Fairfax VA - Suburban DC*

148 Guestrooms
13,000 SF Total Function Space
4,900 SF Ballroom
Independent

# **Comps:** *Average Financials*

| | 2012 | | |
|---|---|---|---|
| | Ratio to Sales | Amount Per Available Room | Amount Per Occupied Room Night |
| **REVENUE** | % | $ | $ |
| Rooms | 47.9 % | $ 21,621 | $ 108.91 |
| Food | 25.9 | 11,710 | 58.99 |
| Beverage | 4.3 | 1,938 | 9.76 |
| Other Food & Beverage | 10.3 | 4,663 | 23.49 |
| *Total F&B* | | | *92.24* |
| Telecommunications | - | 13 | 0.06 |
| Other Operated Departments | 9.9 | 4,462 | 22.48 |
| Rentals & Other Income | 0.1 | 63 | 0.32 |
| Cancellation Fee | 1.6 | 704 | 3.55 |
| **Total Revenue** | **100.0 %** | **$ 45,173** | **$ 227.56** |
| **DEPARTMENTAL EXPENSES** | | | |
| Rooms | 28.3 % | $ 6,113 | $ 30.79 |
| Food & Beverage | 69.8 | 12,777 | 64.36 |
| Telecommunications | 1,360.0 | 173 | 0.87 |
| Rental Income | 1.4 | 11 | 0.06 |
| Other Expenses | 50.7 | 2,263 | 11.40 |
| **Total Departmental Expenses** | 47.2 % | $ 21,337 | $ 107.48 |
| **UNDISTRIBUTED OPERATING EXPENSES** | | | |
| Administrative & General | 12.0 % | $ 5,431 | $ 27.36 |
| Marketing | 9.3 | 4,179 | 21.05 |
| Utility Costs | 6.1 | 2,751 | 13.86 |
| Property Operation & Maintenance | 5.4 | 2,447 | 12.33 |
| **Total Undistributed Expenses** | 32.8 | $ 14,808 | $ 74.60 |
| **GROSS OPERATING PROFIT** | 20.0 % | $ 9,028 | $ 45.48 |
| Franchise Fees (Royalty) | 0.9 | 419 | 2.11 |
| Management Fees | 2.6 | 1,180 | 5.94 |
| **Income before Fioxed Charges** | 16.4 % | $ 7,429 | $ 37.42 |
| **SELECTED FIXED CHARGES** | | | |
| Taxes | 0.3 % | $ 123 | $ 0.62 |
| Insurance | 0.7 | 328 | 1.65 |
| Reserve For Capital Replacement | 1.4 | 629 | 3.17 |
| **EBITDA** | **14.1 %** | **$6,349** | **$31.98** |

# Recommendations

# Conclusions

- Winchester is in population growth zone of US and offers easy regional accessibility
- Success of Nationally- and State-recognized "*Old Town Winchester*" has spurred over $110M+ in private investment
- Growth at Shenandoah University and Winchester Medical Center
- Leading hotels in Winchester support healthy fundamentals
- Current lack of large, quality event space within the community
- Winchester has the destination components to penetrate group market
- Community already has signature event to help communicate and expedite the message

# Recommendations

- Pursue a 16,000± GSF facility to be attached/adjacent to GW Hotel; equating to 9,100± NSF of Rentable Function Space
  - One highly flexible & divisible space
- Concurrent development of 50-60± additional guestrooms at GW Hotel
  - Likely above new facility
- Establish marketing strategy for new facility

# Recommended Site

# Keys to Success

- Adjacency to hotel rooms
  - Existing GW is most cost effective
- Sell: Affordability; Convenience; Old Town
  - Facility must be proximate to Old Town
- Don't get into the "conference" business but rather pursue the activity business
  - Fill facility, fill hotels, fill streets, fill restaurants, fill shops
- Utilize an experienced sales professional that understands that business
  - Provide incentives for success
  - Don't expect to simply turn on lights

# Marketing Recommendations

- Create new sales & marketing position within one of the existing DMO organizations
- Sell the facility and the destination
- Budget of $200,000-$350,000± annually
- Consider re-alignment of strategy and resources for all area DMO's

# Keys to Success

- Facility must be proximate to Old Town
  - Where people want to be
- Adjacency to hotel rooms
  - Existing GW is most cost effective
- Don't get into the "conference" business but rather pursue the activity business
  - Fill facility, fill hotels, fill streets, fill restaurants, fill shops
- Hire an experienced sales professional that understands that business
  - Provide incentives for success

## **TIF Potential:** *How Could it be Paid For?*

# TIF: *Major Assumptions*

- Facility is managed as one property by GW Hotel management
- Hotel expands with 60 additional guestrooms, likely above new facility
- Hotel 72% occupancy and $105 ADR
- Based on current City & State tax rates
- Annual inflation of 2.5%

# TIF: *One Scenario*

- All TIF revenues for existing GW + 60 New Rooms + Facility
  - Opens in 2016
- City or Public Entity collects tax revenues and issues debt based on TIF
  - 5.5% for 25 Years with 1.20 DSCR
  - Two years capitalized interest
- Facility leased to GW Owner

# TIF: *One Scenario*

- Bond proceeds generate approx. $7.5M ± to build project
  - $23M TIF revenues collected over 25 yrs
- The development cost of facility could be approx. $4.8M± to $6.4M±
  - Assumes $300-$400± cost per SF
  - Excludes land and parking costs
- New hotel rooms to be privately funded
- Economic impact approximately $4.5M over 30 year life of project

# Summary & Next Steps

- [x] Lack of large, quality event space
- [x] Complement and augment growth
- [ ] Is GW a willing partner? Or must another development partner be found?
- [ ] Create fair & equitable deal structure
- [ ] Formalize a Room Block Agreement

**Feasibility Study:** Multi-Purpose ~~Conference~~ Center

Event Facility

# ORAL PRESENTATION

StrategicAdvisoryGroup