

COALITION TO SAVE THE VIEW

Review of Criterion Communications Inc. and HLT Advisory Reports Regarding WTCC, Halifax, NS

Media headlines have consistently reported that these consultants' reports promote the idea of building a new convention centre for downtown Halifax. Unfortunately, these conclusions can only have resulted from a very superficial reading of the reports because it is very clear from material in these reports that there are serious problems with the project.

Any discussion of this project needs to start with the estimated cost of \$144,000,000 exclusive of furnishings, etc. to build this project. This is an amount agreed on in both reports.

Without an allowance for cost overruns and using the Provincial government's borrowing costs of 6.22% it would cost almost \$9 million a year just to service a loan for the construction of the Centre. This is far in excess of any tax benefits the centre would produce. In addition, it would require hefty annual subsidies from both the municipal and provincial governments to cover operating costs, and would be coming on stream at a time when there is a huge (and growing) oversupply of convention space in North America and a nearly ruinous competitive market as a result.

In spite of all the positive media spin, all of these factors are clearly laid out in the consultants' reports. Unfortunately, the consultants failed to use the information in their conclusions...but it is all there.

OVER-SUPPLY OF CONVENTION CENTRE SPACE...

"Since 1996, the amount of exhibit space in Canada and United States venues has increased 38.5% from 62.0 million sq. ft. to 85.9 million sq. ft." "Total exhibit space in Canada and the United States in all venue types...is projected to increase by 9% or 7.8 million sq. ft." (HLT pg 21)
n.b. For a list of all new (since 2008), in-process and planned convention space see page 23 of the HLT report

"There has been a significant increase in supply with both new and expanded facilities entering the market. This in turn has resulted in increased competition for available business." (Criterion Communications, pg.15)

"There is a huge supply of often underutilized facilities in the US, many of which are attracting business with incentives which include deep cuts or elimination of rental charges and other measures which will be difficult to replicate in Canada." "There are many US-based alternatives for convention facilities on the east coast of North America." "For all of these reasons, it would not appear reasonable to expect any major growth in this segment in the immediate future." (Criterion Communications, pg. 36)

"WTCC Halifax would most appropriately belong to the category of major convention centres [in Canada]". There are currently some 20 Canadian centres which meet this definition..." "Major expansions and/or renovations are either currently underway or have recently taken place in 13 of these centres. In addition, there is now a new centre under development in

Niagara Falls and a feasibility study underway for a centre in Saint John, New Brunswick.”
(*Criterion Communications*, pg 20)

CONVENTION ORGANIZERS ARE IN THE DRIVER’S SEAT, NEGOTIATING MORE AND BETTER DEALS FROM CITIES...

“There is an increasing reluctance by many (particularly larger and more mobile event organizers) to pay for convention space.” (*Criterion Communications*, pg. 17)

“...event organizers expect major concessions...and as a result the rate structure in the industry is based on the assumption that centres operate essentially as loss leaders...” (*Criterion Communications*, pg. 10)

“...convention centres are often used as low-cost attractors with competition on a ‘price’ basis becoming increasingly common. In fact, some destinations (generally second and third tier US cities, but a growing number of Tier One and Two Canadian cities as well) not only have the ability to provide the convention centre rent-free but also are aggressively doing so...” (*HLT*, pg. 8)

And in many cities the expectations of convention centre benefits have not been realized...“The success experienced by major convention and trade show destinations has prompted development of facilities in a host of second, third and even fourth tier cities. In many cases expectations of market demand have not been met...” (*HLT*, pg. 40)

AND THEN THERE ARE THE SUBSIDIES...

Both reports make no bones about the fact that convention centres require substantial on-going subsidies.

In discussing options for government support of the centres the Criterion report notes...“Few centres are profitable in a commercial sense.” “This leaves government as the only entity which can operate to the larger public benefit.” (*Criterion Communications*, pg. 53)

A NEW CONVENTION CENTRE AS A CATALYST FOR DOWNTOWN REVITALIZATION

In spite of enthusiasm for this project as a way to revitalize downtown, information in the consultant’s reports shows that convention centres are ‘dark’ (to use a theatre term) at least one third of the time.

Saleable weeks given seasonality, holidays, etc. are approximately 25-30. Functional capacity for a major convention centre is +/-65%. (the current centre operates at 60%). (*HLT*, pg. 38)

In fact, these statistics are more optimistic on the subject than earlier research compiled by the Coalition to Save the View that indicated the convention business is active only five months of the year: April, May and June, and September and October. In addition, the consultants’ reports indicate that they include arrival and departure days which are not full delegate/activity days.

THOSE 60 OR 70 CONVENTIONS THAT HAVE PASSED US BY BECAUSE THE PRESENT CENTRE IS TOO SMALL are a red herring....

Information in WTCC publications shows very clearly that the question of space is a red herring. The consultants did not do their homework. In the recent past the Halifax WTCC has successfully hosted a convention of up to 2,000 delegates.

(In 2005, the ADVOCIS Convention (1,500), the World Conference on Breast Cancer (1,000), and the Barbershop Convention (2,000). In 2006, The PC leadership convention (2,200), the National Trade Skills Competition (2,000), the International Conference on Emergency Medicine (1,500), and the Global Microcredit Summit (2,500). In 2007, the FITT Skills event (1,600) and the CESSE conference (1,000), and in 2008 the Canadian Public Health Association (1,000), the Canadian Anesthesiologists AGM (1,400), the International Foundation of Employee Benefits (1,050), and the Association of Teachers of Exceptional Children (1,000).

Not only do the consultant's reports fail to recognize this, the Criterion Communications report is thoroughly confused on the topic. They can't decide whether the capacity is 200-300 or 600-700 (or is it 500?).

On the one hand... "the overall capacity of the centre for a full convention program [is] between 200 and 300 delegates." (*Criterion Communications, pg. 26*) On the other hand... "The existing WTCC is nominally able to accommodate a convention of approximately 600-700 delegates based on the maximum limit for a banquet function... However, this number typically drops to less than 500 when there is also a requirement for related exhibition space..." (*Criterion Communications, pg. 46*)

And it would appear that the present convention centre could accommodate most international conventions. Because of high per-delegate spending, these conventions are the most desirable events. "Some 15% of these events [international conferences] have more than 1,000 delegates while the majority are between 250 and 500 delegates." (*Criterion Communications, pg. 37*)

OTHER IMPORTANT ISSUES RAISED BY THE REPORTS...

P3 Funding - "While public/private partnerships have been successfully applied to various areas of public facility development, there are challenges associated with their use for the development of convention centres. The major issue is the lack of any inherent mechanism for payment of the private partner other than direct payment by government itself (as direct user fees do not figure in the economics of today's convention market...)" (*Criterion Communications, pg.52*)

Tied Suppliers - "Many clients are increasingly demanding that they be given greater flexibility in choosing which suppliers are retained to provide services for their events. Under these conditions, any services which are 'tied' to a centre (either as in house staff or exclusive suppliers) may present a source of concern in this regard, and often needs to be addressed in a centre's supplier policy". *Criterion Communications, pg 37*

n.b. This could threaten aspects of the WTCC operation like Windows restaurant and the food service as well as the local workforce. It raises the spectre that conventions might import most of their support needs.

The Cunard Centre - One possibility for accommodating larger conventions more comfortably would be for the WTCC to partner with the Cunard Centre which has 53,000 sq. ft. of column-free banquet space, more than would be available in the proposed WTCC expansion. (*HLT pg. 25*) Regarding the availability of local attractions and facilities... "Halifax offers a good range of

these, including...the Cunard Centre, all of which can be utilized for events that could accommodate convention delegates." (*Criterion Communications, pg. 23*)

Sustainable Design - The following disturbing sentence appears in the Criterion Communications report with respect to the sustainability of a new building. Presumably it is prompted by the dismal financial outlook for the convention industry.

"Sustainable design needs to be addressed carefully as it can not only add considerable cost but actually interfere with functionality and/or marketability if not developed in close association with program requirements." (*Criterion Communications, pg. 43*)

Prepared by:
Beverly W. Miller, MA, MBA
For: The Coalition to Save the View
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Appendix

WHY NOVA SCOTIANS CAN'T AFFORD A NEW CONVENTION CENTRE

Nova Scotians have seen a lot in the media about the proposed new World Trade and Convention Centre (WTCC) for Halifax, and heard about the conventions that have been lost in the last three years because our 26-year-old facility is, in the words of one industry supporter, “way past its best-before date”.

The four consultants’ reports concerning the proposed new centre were released by the provincial government at the end of April. According to the reports, a recommended new convention centre of from 150,000 to 170,000 square feet of rentable space (300,000 to 340,000 gross square feet) would cost from \$400 to \$500 per square foot. The midpoints of these figures suggest a likely cost of roughly \$144 million.

The Request for Proposals subsequently issued by the Province called for a rentable area of only 120,000 square feet (with, presumably, a decrease in attendance expectations). At the same cost of \$450 per square foot, this would mean a construction cost of \$108 million.

But what we have not seen is any discussion about how we are to pay for a new centre; money which would have to be borrowed by the Province. The additional tax revenue needed to cover the borrowing costs would have to come from out-of-province delegates to a new, enlarged convention centre.

Paying the interest on a loan of \$144 million or \$108 million

The consulting reports assume that a new convention centre would attract 17 new conventions, four new trade shows, and four new consumer shows a year. The reports also suggest that this new business would result in increased provincial tax revenue of roughly \$2.7 million per year. Economists reviewing the studies, however, find that the proposed impact of the new center is considerably overstated, and that the real figure is closer to \$1.5 million.

Based on the province’s cost of borrowing of about 6.22%, the annual interest payments on a \$144 million loan would be about \$9 million a year; *six times* the additional \$1.5 million in taxes. If the smaller figure of \$108 million is used, the annual interest payments would be about \$6.7 million; *four-and-a-half times* the additional \$1.5 million in taxes.

Put another way, the number of new conventions, trade shows and consumer shows that would be needed to cover the interest costs on these loans would be from *four-and-a-half* to *six times* the number forecasted in the consulting reports.

This means the expanded facility would have to attract from 76 to 102 new conventions a year (the current average is around 15), from 18 to 24 new trade shows a year, and from 18 to 24 new consumer shows a year (all with out-of-province delegates) to provide the necessary additional provincial tax revenue.

Can Halifax do this?

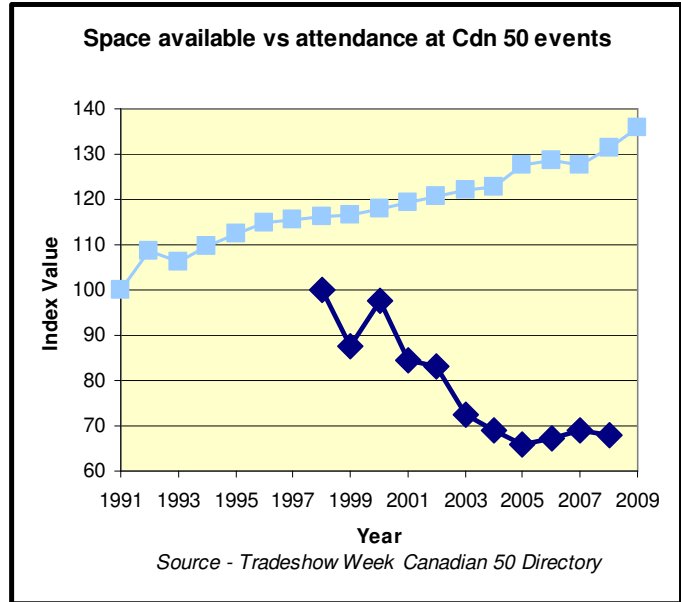
But with a spanking new convention centre and Nova Scotia’s reputation for great hospitality, wouldn’t it be possible to attract an additional 76 to 102 new conventions, 18 to 24 new trade shows, and 18 to 24 new consumer shows each year to make this possible?

Probably not. Consider that in its 23 year history the Toronto Convention Centre has averaged 61 conventions a year; an average Halifax would have to beat by a sizeable margin.

Also, cities all over North America have had the same idea as Halifax and have been bullishly expanding and building new convention space. For example, Montreal did a major expansion about ten years ago, Vancouver has just completed a huge new centre costing almost \$1 billion, Ottawa has a major expansion underway due to open in 2011, Fredericton is building a new centre, and Charlottetown is considering one.

Discounts and freebies are where it's at!

At the same time, research into the convention business indicates it has been pretty much stagnant since the mid-1990s. The graph to the right illustrates the split between the total convention space available in Canada (top line) and the actual level of convention activity (bottom line). As a result of this over-building, competition is fierce and industry sources say that the “winning” city in many cases is not the one with the most charm or the best hospitality, but the one which can offer convention planners the best deal. Discounts and freebies are the decision makers; a bleak prognosis for a new centre in Halifax.



Beverly Miller, MA, MBA
Allan Robertson, B.Sc., B.Eng., M.Sc., P.Eng., FCMC
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