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The Rhetoric Versus the Facts: What the Brookings Report Fails to Reveal

The Brookings Institution Report: Space Available: The Realities of Convention Centers as Economic Development Strategy

Executive Summary

The publication of the Brookings Institution Report, "Space Available" in January 2005 has stirred a burst of media attention about two questions:

Is there now a glut of convention center space?

Is the business travel and meetings industry in eclipse?

This document discloses that the conclusions contained in "Space Available" are fatally flawed because the author relies upon notoriously inaccurate data and then reaches conclusions that are based upon simplistic and incomplete data analysis. The value of the 35-page report can be summarized in a nine word self-evident sentence:

"Cities should be careful when evaluating convention center projects"

Disturbingly, the author of "Space Available" completely ignores highly reliable and freely available data first published in 2001 by the Center for Exhibition Industry Research (CEIR) as well as several other sources of credible data that clearly reveal a robust industry recovery is underway, largely dispelling the validity of most of the notions contained in the report --- notions that provide the underpinnings of the author's faulty conclusions

This response contains data and data sources that address the questions above and that can be simply summarized:

- The once-again rising demand for meeting and exhibit space both now and in the future suggests that a glut of convention center space does not exist. For the years 2000-2003 there was a temporary imbalance between facility supply and event demand. The pace of supply expansion has substantially diminished since 2000 while the demand for space is once again accelerating.

- The demand for face-to-face events of all types continues to grow and is expected to become even more robust in the years ahead.

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What is wrong with the Brookings Institution Report?

1. **The data cited and the author's analysis of that data (and thus many of the conclusions of the BIR) are gravely flawed.**

    - The conclusions drawn by the author of the Brookings Institution Report (BIR) are based upon data reported by Tradeshow Week. This data is notoriously imprecise as the author concedes. The Tradeshow

Week data is self-reported by event organizers, is not independently audited, and reflects the results of only 200 of the 11,094 events that took place in the U.S. in 2001.

- The author's forecasts which are based upon the reported results of the Tradeshow Week 200 do not reflect the experiences of thousands of other and much smaller events. The dynamics of the TSW 200 events are atypical when compared to the experiences of the 10,894 exhibitions that are not among the nation's 200 largest.
- Apart from the inaccurate data presented by the author about exhibitions, no data purporting to represent activity of association and corporate-sponsored meetings and events is cited even though both represent very significant sources of event attendance. Much of the apparent decline in exhibition industry attendance, for example, is accounted for when one considers the very substantial growth since 2000 of corporate-sponsored exhibitions and meetings. Some traditional exhibition attendance has shifted to exclusive corporate exhibitions which the BIR completely fails to capture.
- The BIR fails to address the thousands of events and millions of attendees who participate in meetings that are located near to but outside of the convention centers. Even in the exhibition industry, only 38 percent of all events take place in convention centers; 62 percent take place in hotels[1]. The omission of this important component of the industry further distorts the author's already incorrect conclusions about event attendance both now and in the future.
- The BIR inexplicably omits any reference whatsoever to highly accurate and certified exhibition industry data that is freely available from the Center for Exhibition Industry Research (CEIR) even though *the author was made aware of this data source nine months prior to the publication of his report*[2].

2. **The highly selected and filtered data cited in the BIR, flawed though it is, still only captures a three-year moment in time, a snapshot, which coincides with events that proved to be both unique and calamitous to the meetings, convention, and exhibition industry. The author fails to note the attendance rebound that is underway and that has been widely reported beginning in 2004 throughout the business travel and events industry.**

[1] CEIR Industry Census, published in 2001, reveals that there are 11,094 exhibitions of 3,000 net square feet or more in the United States. Most are business-to-business events (85%); the rest are business-to-consumer events (15%). Most are owned and produced by not-for-profit associations (67%); the balance is produced by for profit organizations (33%). Only 38% of exhibitions are conducted in convention centers; 62% take place within hotels.

[2] The BIR bases much of its conclusions upon self-reported data contained in the Trade Show Week Data Book that the author says covers "more than 4,500 conventions". Yet BIR ignores the highly accurate Census Data compiled for 11,084 U.S. events by the Center for Exhibition Industry Research (CEIR). Furthermore, the author was informed of the CEIR Census data on April 27, 2004 when he and I debated these issues at an Urban League Institute conference at MIT in Cambridge, Massachusetts.

- The convergence of five factors resulted in the temporary and very substantial decline in attendance at many face-to-face events from 1999 through 2003. The five factors:
    i. The collapse in the late 1990s of the dot.com segment of the IT industry, triggering a general IT industry depression;
    ii. The realization among corporate exhibitors of the fast rising costs of exhibiting at the same time that many discovered they could successfully sponsor their own events in lieu of continued participation as exhibitors elsewhere[3];
    iii. The onset of a worldwide economic recession that in retrospect was among the most destructive in recent history;
    iv. The acceleration of corporate mergers, acquisitions, and consolidations across most industrial sectors.
    v. The events and aftermath of September 11th.
- The industry is rebounding well from the attendance declines of 1999-2003.
    - The BIR states in part, "The Travel Industry Association's [4] annual estimate of business and convention travel, for example, has declined from 164.3 million person-trips in 1999 to 142.4 million in 2002 and 138.2 million trips in 2003" to validate the author's contention that the travel demand generated by the exhibition and business travel industry is declining. Inexplicably, the author fails to reveal that according to the Travel Industry Association, the same source he quotes, the number of person-trips in 2004 rose to 143.7 million and is projected to be 148.9 million in 2005. TIA estimates that the level will rise to 165 million by 2008. All current evidence suggests that the industry suffered a temporary setback and is not in decline as BIR suggests.
    - <u>Ernst & Young Real Estate Advisory Services</u>[5] report that as the result of increasing hotel RevPAR[6] and room occupancy in 2003 and 2004, hotel equities are among the hottest Wall Street issues and have increased in value 60% year-to-date in 2004. Clearly, a strong indicator of the hospitality industry's recovery, much of it fueled by increased business travel to meetings and exhibitions.
    - <u>PriceWaterhouseCoopers 2004 Convention Center Report</u> reveals that "occupied square foot days (demand for space and

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[3] Even though many corporations like Nike, Microsoft, and Oracle, have launched their own exhibitions and events, some have discovered that customers still prefer to attend larger events where they can see all competitors. Corporate sponsored events will continue to grow but they are very unlikely to materially displace the need for sellers to participate as exhibitors at appropriate exhibitions.
[4] See TIA.org
[5] Ernst and Young, LLP, SCORE: Retrieval File No. AL0057
[6] A computation of revenues per room

attendance) from conventions and tradeshows increased over 2003 by nine percent.
- PriceWaterhouseCoopers 2004 Convention Center Report discloses that attendance at conventions and tradeshows increased from 2003 to 2004 by 14 percent.[7]

3. **The author fails to make necessary distinctions between the different dynamics that define the events markets in different sizes and types of cities.**

The author fails to understand that not only are exhibitions distinctly different from each other (each based upon the markets that they serve, their objectives, and the dynamics that drive different sizes and types of events), but more important for the purposes of his work, he fails to grasp the very significant differences among the nation's cities and convention center facilities.

As John Kaatz, of CSL International writes, "one large-market center (Javits Center in New York, for example) may rely heavily on trade events drawn to the unique industries present in the market area, with rotating association events of less importance. Conversely, another large market (New Orleans, for example) may have relatively little corporate base, and it is the rotating association and corporate market that is drawn to the local entertainment environment."[8]

Compounding inaccuracies, the author goes on to draw general conclusions based upon the anecdotal and vastly different experiences of events and cities.

A more appropriate and meaningful review would have examined certifiable data across 11 specifically defined industry sectors[9] cross-indexed by the dynamics that are peculiar to different city sets.

4. **The report wrongly suggests that all convention center projects place public money at risk.**

In truth, revenues derived from hotel room taxes, which are paid by visitors (the users of the facilities) and not residents, support the vast majority of convention center construction projects. Likewise, in many

[7] PWC 2004 Convention Center Report, © PriceWaterhouseCoopers, Attn: Robert Canton, 101 E Kennedy Blvd., Suite 1500, Tampa, FL 33602, Robert.canton@us.pwc.com
[8] Comments on Industry Supply, Demand and other Characteristics of Convention Industry Development, by John Kaatz, Vice President, Conventions, Sports & Leisure, International
[9] See CEIR Index published in September 2004

cases, it is visitors who underwrite construction costs through other additional levies such as surcharges on rental cars. A recent study correctly points out that even when revenue bonds are issued by cities, "there are no significant risks to the public sector."[10] If there were any level of risk to the bond issues that assist in convention center construction projects then certainly Moody's, Standard & Poor's, or Fitch would have reacted by issuing warnings or credit watches for these instruments. That has not happened, not even in the darkest days following September 11th.

Moreover, convention center facilities are unique in that they are one of the very few public structures that can substantially contribute to the economy and tax bases of local communities[11].

5. **BIR fails to mention any of the many instances in which convention center and/or convention center hotel projects met or exceeded their performance expectations. Here are some examples:**

The expansion of the **Denver** Convention Center and the addition of a 1,000 room Hyatt Hotel adjacent to it has doubled the confirmed booking rate of events in that city and tripled the number of tentative commitments.

In 2000 **Milwaukee** increased its exhibit space by 42 percent, quadrupled the size of its ballroom, and doubled the number of meeting rooms at its convention center. The city is now considered a national venue and has doubled the number of convention hotel room nights that are occupied annually.

In **Tampa** the Marriott Waterside Hotel and Marina and the city's new Convention Center opened in January 2000 with $30 million of public money. Downtown room inventory increased 25 percent and an additional 20 percent more will open in late 2005. The hotel has boosted convention center business by more than 40 percent. In the first year of it operation, the Convention Center helped downtown Tampa hotels enjoy their best year ever.

Minneapolis was the first city to have an ownership stake in a convention center hotel. It subsequently sold its share to a commercial developer and still has its original investment in the bank accruing interest. The city is now studying the feasibility of replicating its earlier investment strategy in another facility.

The hugely successful downtown renaissance of **San Diego** was fueled by three key developments:

- Construction of Horton Plaza with redevelopment funding

[10] ibid, Kaatz
[11] The Sky is falling! Or is it Just a Little Rain? By Robert Canton, Facility Manager, April/May 2004

- Doubling of the space at the San Diego Convention Center financed entirely by visitor taxes
- Construction of the San Diego Padres Ballpark adjacent to the Convention Center also funded by visitor taxes.

Before the opening of the **Austin** Convention Center, 70 percent of pre-opening bookings came from groups who had never before been to the city.

In January 1999, the Loews **Miami Beach** Hotel opened with $60 million of public assistance. Since then more than 50 additional hotels have opened. Miami Beach is now a highly desirable national meeting and convention venue where demand outstrips the supply of accommodations.

The 1200-room Hilton of the Americas opened in December 2003 resulting in more than 20 conventions committing to **Houston** in the six months following its opening.

The announcement in 2003 of a major expansion to the **Phoenix** Convention Center increased the number of definite bookings from 91,000 definite delegates in 2003 to 219,000 booked in 2004.

These are just a small sampling of many similar results from cities that have carefully studied and then responded to their local market demands and meeting space supply.

What is right with the Brookings Institution Report?

The BIR is correct in two important respects.

- Because the financial costs of convention center construction and expansion are substantial, cities must take appropriate care to analyze the likely impact of the projects before deciding to break ground.

- Convention centers by themselves cannot “revitalize or redeem a downtown core.”

A convention center itself is not a destination. It can be a very important asset of a city or region that is first a genuine destination.

If the city or region is a true travel destination, the convention center and the ancillary facilities that may support it, such as a large convention center hotel, can materially enhance a city’s success as a business meeting and exhibition travel venue.

Furthermore, the convention center facilities can play a vital role in a city's efforts to revitalize its urban core.

The author's contention that cities would be well advised to forego any further investment in urban redevelopment projects such as convention center and entertainment facilities is, at the very least, truly disturbing.

If it is not the role of local governments to nurture and support the revitalization of their inner cores what, it must be asked, is a more important role for them to play?