



# South Padre Island



## **Feasibility and Masterplan Study for the South Padre Island Convention Center**

Submitted to:  
South Padre Island Convention &  
Visitors Bureau

Submitted by:  
C.H. Johnson Consulting, Inc.  
TVS&A

May 2005

**DRAFT**

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**I. TRANSMITTAL LETTER**

# C.H. JOHNSON CONSULTING, INC.

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May 17, 2005

Dan Quandt  
South Padre Island CVB  
7355 Padre Blvd.  
South Padre Island, TX 78597

Dear Mr. Quandt:

Pursuant to our contract with the South Padre Island Convention and Visitors Bureau (SPICVB), C.H. Johnson Consulting, Inc. (Johnson Consulting) in conjunction with Thompson, Ventulett, Stainback and Associates (TVS&A) prepared a feasibility study and master plan study for the South Padre Island Convention Center (Convention Centre). The plan includes a market analysis, historical demand and financial operating review, facilities master plan, demand and operating projections, and strategic expansion recommendations. The attached report explains the methods used to conduct this evaluation and discusses the results.

Operating estimates and costs analysis presented in this study are based on trends, assumptions, and current market factors, which usually result in differences between the projected results and actual performance. As events and circumstances often do not occur as expected, those differences may be material. Capital and construction costs presented herein are initial estimates about a hypothetical project, based on prevailing cost. Actual costs will vary based on decisions made by the Authority, changes in market conditions, materials costs, or other factors.

Johnson Consulting has no responsibility to update this report for events and circumstances that occur after the date of this report. The findings presented herein reflect analysis of primary and secondary sources of information. Johnson Consulting and TVS&A utilized sources deemed to be reliable but cannot guarantee their accuracy.

We have enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely yours,

**DRAFT**

C.H. Johnson Consulting, Inc.

Attachment



## **II. INTRODUCTION AND EXECUTIVE SUMMARY**

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## INTRODUCTION

The South Padre Island Convention and Visitors Bureau (SPICVB) engaged C.H. Johnson Consulting, Inc. (Johnson Consulting) to conduct an evaluation of the South Padre Island Convention Centre (Convention Centre) as well as the state of the overall convention product. Opened in 1992, the Convention Centre is a multipurpose building located at the north end of South Padre Island, Texas. The Convention Centre, which includes an exhibit hall and banquet hall, is the largest events site in South Padre Island.

The elements of this evaluation include:

- A review of the Convention Centre's role in the future development of South Padre Island,
- A market analysis to review the Convention Centre's capacity to meet demand for public, private, and civic use,
- An assessment of South Padre Island's ability to support expanded exhibit and meeting space, as well as specific facility amenities,
- A review of amenities required to support an expanded convention center, including hotel inventory, a potential amphitheater, and other uses, and
- A review of the Convention Centre's relationships with organizations such as the South Padre Island Convention and Visitors Bureau.

This report presents the results of the evaluation and outlines recommendations in regard to operations and the appropriate facility for the South Padre Island marketplace. It also estimates economic impact and discusses the challenges and opportunities associated with the potential improvement and expansion of the Convention Centre. This report should be read concurrently and used in its entirety as each element of the analysis builds on information presented in successive sections. The contents of this report are organized as follows:

- **Section 1** – Report Letter.
- **Section 2** – Introduction, Methodology Review, and Executive Summary & Recommendations.
- **Section 3** - Market Analysis. Presents an economic and demographic overview of the local market, as defined by the Brownsville-Harlingen-San Benito Metropolitan Statistical Area. The information in this section is an essential component in understanding the economic and market framework that supports the Convention Centre.



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- **Section 4** - presents an overview of trends and factors in the convention and meetings industry that may impact the development and performance of a facility in South Padre Island. In addition, this section, summarizes analyses of the existing facility's operations, as well as convention, conference, meeting, and hotel facilities in Texas markets and provides implications for South Padre Island. It also summarizes a study of South Padre Island tourism, a survey of Texas meeting planners, and our interviews and observations with stakeholders of the Convention Centre.
- **Section 5** - discusses the amphitheater and concert market and the potential for South Padre Island to support such a development.
- **Section 6** - reviews product features, site characteristics, and other factors that are critical to the success of a convention/conference center. Subsequently, a recommended building program is presented for an expanded facility in South Padre Island as well as an initial estimate of costs. In addition, a recommendation for the potential governance and management option is provided.
- **Section 7** - contains profiles of comparable facilities and markets in the US that have or are constructing convention and related hotel facilities.
- **Section 8** - presents a projection of demand and operating statistics for the expanded convention center, as well as hotel room night generation by the expanded facility.
- **Section 9** - contains a review and discussion of the US and South Padre Island hotel market, as well as an analysis of the competitive set of hotels for a convention hotel in South Padre Island.
- **Section 10** - presents profiles of the proximate hotel and destination appeal in six competitive Texas markets and provides implications for South Padre Island's success.
- **Section 11** - makes recommendations for the potential headquarter hotel and projects occupancy and rate characteristics of the proposed hotel.
- **Section 12** - presents an analysis of economic impact for the expanded facility.



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## About the Authors

**C.H. Johnson Consulting** is a nationally-recognized real estate and economic development consulting firm with extensive experience in the development of public assembly facilities such as conference centers, convention centers, hotels, and other multi-purpose facilities. Johnson Consulting served as the engagement manager for this project and conducted the market study, operations analysis, competitive positioning analysis, hotel market review, prepared the demand and operating projections, and provided general strategic advisory services.

**TVS&A** is an Atlanta-based architectural firm that is highly respected for its planning and design of convention centers and was selected by the American Institute of Architects as the 2002 National Firm of the Year. Johnson Consulting has worked with TVS&A on numerous projects including the San Juan Convention Center and the Overland Park Convention Center and Hotel. We are currently working together in Corpus Christi on the Bayfront Masterplan project. In addition, TVS&A is involved in the American Bank Center expansion and arena projects now under construction in Corpus Christi.

## METHODOLOGY

In order to complete its assessment and recommendations concerning the South Padre Island Convention Centre, Johnson Consulting performed the following tasks:

- Analyzed economic and demographic characteristics of the metropolitan area, such as population, employment, and corporate presence,
- Toured the facility and met with the personnel responsible for its operation,
- Reviewed the operations of the Convention Centre and evaluated management practices,
- Analyzed current and expected future trends in the meetings and convention industries,
- Met with and interviewed local and regional event promoters and others in the meetings, hospitality, and entertainment industries,
- Reviewed documentation regarding recent and development efforts and interviewed local planning officials,
- Interviewed local business leaders and economic development officials,
- Interviewed South Padre Island governmental officials and other civic stakeholders,



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- Surveyed and interviewed area businesses and organizations to assess the market for an expanded Convention Centre and gauge interest in facility features such as exhibit space,
- Interviewed current and potential facility users on their thoughts about the facility and local market,
- Developed case studies on comparable facilities and markets,
- Analyzed the market's ability to support an expanded facility and additional exhibition space relative to other facilities in the marketplace,
- Recommended facility operation and program improvements and additions for the Convention Centre,
- Prepared a financial model and projections regarding the expanded facility's future operating revenues, expenses, and demand schedule, and
- Estimated current and future economic and fiscal impacts related to the construction and continuing operation of an expanded Convention Centre.

### EXECUTIVE SUMMARY

The following are conclusions and recommendations associated with our analysis.

- **South Padre Island (the Island) has a unique market appeal that could be better leveraged.** The Island has developed into a well-known destination throughout the US and Mexico over the last 15 years. Yet the supporting infrastructure has not kept pace. The Convention Centre, while appropriate perhaps when built, has become outmoded and lacks certain amenities and back-of-house components necessary for a competitive marketplace. The Island's hotel stock has not been markedly improved in 20 years and in fact, many of the larger hotels have begun to show their age.
- **There has been a decline in convention activity on the Island over the last several years** and this is not believed due solely to the recession in the travel industry from 2001 - 2003. Instead, our results show that groups have either outgrown the facility or simply are demanding better quality facilities with quality full-service hotels in the package. South Padre Island has not kept pace in either category. We also believe that lack of coordination or cooperation between the major hotels could be exacerbating the issue. A stronger relationship between the CVB and the hotel community is imperative for this cooperation and proper coordination.
- **Skepticism amongst the hotel community and toward the CVB hampers success.** Our interviews with hoteliers shows that there is a feeling prevalent among some of the competitive full-service hoteliers that the CVB could do a



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better job of making better marketing choices, maximizing resources and providing equal opportunity to all players in the marketing process. We hasten to add that these are stakeholder feelings and not facts provable by our firm. There is also a sense that complaining may fall on deaf ears within the community, due to perceived close relationships between city officials and those involved at the Convention Centre and/or CVB. While these concerns may or may not be accurate, the reality is such perceptions only hinder marketing South Padre Island as a destination.

- **A dedicated convention/tourism authority structure should be formed** that (1) operates as a separate entity from the City (with three equal appointments knowledgeable about the industry made by city elected officials and the hotel community plus the city manager), (2) is charged with disbursing the hotel/motel tax to tourism capital projects, the Convention Centre, and the CVB, (3) and contracts directly with dedicated Convention Centre management, the CVB for their services, and an exclusive caterer for the Centre. While the details require further discussion, this in our experience provides the most responsive, responsible and effective governance structure and ensures cooperation amongst the key components of the Island's top industry.
- **Monthly meetings between major hoteliers, the CVB, the Convention Centre management (as proposed), and the authority and/or city manager should be strengthened.** Working together as a team, yet with a competitive spirit, is the best way to maximize business to the island. Currently, not all key general managers regularly appear at these meetings. Their attendance, along with their sales teams, should be encouraged.
- **Transportation and access to the Island, long a challenge, is exacerbated by lack of continuous shuttle service from the three area airports to the hotels.** Most destinations have worked out cooperative shuttling amongst major hotels. Once on the Island, due to its linear nature, a shuttle running the length of Padre Boulevard would help connect tourists and meeting attendees to the Island's assets, alleviate some traffic, and provide a guard against drunk driving. The benefits of such a strategy on the Island should be considered.
- **The small town atmosphere inhibits change.** Because much of the Island was developed and governed by those who have been present for many years, there is a sense by newer stakeholders that they have less of a voice. While the new city manager has helped mitigate this, more open dialogue between parties is needed to compete as a group, not against one another. The suggested changes should help build trust.



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- **The Convention Centre operation could be improved with dedicated management.** It is exceedingly rare that CVBs and convention centers are run by the same people. It is not rare to have the CVB and Convention Centre run by the same authority or board, or even to share some sales staff. The reason actual operating and sales functions are separate in most communities is due to the level of expertise necessary to perform these functions well. Managing buildings is a full-time job. We recommend the hiring of either a private operator or hiring a general manager to run the Convention Centre. This person/firm should report to an authority or board, just as the CVB should. We do not recommend this be a city department, but a dedicated authority, as discussed above.
- **The Convention Centre should have exclusive catering via one provider.** This will allow for better review of quality standards, focus on customer service, and improved care for the kitchen and catering areas of the building. This is especially true with the addition of a ballroom. It will also provide an incentive for the winning bidder, of which there are many locally- and nationally-qualified companies, to invest hard dollars in the renovated and expanded kitchen.

**The Convention Centre building is missing certain components and should be improved.** We do not believe there is a significant need for a massive exhibit hall expansion, but many groups have outgrown the Centre and 30,000 square feet is considered the minimum exhibit hall size in the industry today. More pressing, however, is the lack of a ballroom. This void inhibits the building's ability to attract events. We have recommended the following:

- Addition of a 12,000-square foot ballroom adjacent to the exhibit hall.
- Expansion of the exhibit hall to 30,000 square feet. This assumes the new ballroom can be made part of the exhibit hall if necessary, increasing total flat floor space to 42,000 square feet. The design of the exhibit hall should consider civic, entertainment and sports uses, which may require greater ceiling heights than are typical.
- Addition of 5,000 square feet of breakout meeting rooms.
- Elimination of many of the tourism offices onsite, save for convention sales offices shared with Centre management. Conversion of these into meeting rooms maximizes the building.
- Improvement of all systems, especially HVAC. Improved finishes and amenities.
- Addition of a 300-room full-service group resort hotel onsite. Estimated cost of \$60 million (to be discussed later in this report).



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- Physical and/or visual connections from both the hotel and Convention Centre to the Birding Center.
- Potential small scale amphitheater with seating for 2,000 under cover and 5,000 on the lawn/sand. This deserves further study, as the economics are tenuous. In addition, environmental issues (tidal flats) will add cost and time to project.
- Reconfigured and expanded parking. With the amphitheater, structured parking will be required.
- **The Island does not provide a compelling hotel package and should work to develop one.** The lack of branded hotels, full-service hotels, hotels with function space, and hotels within walking distance of the Convention Centre all present challenges to the maturing of this destination. We recommend the addition of a 300-room full-service convention hotel onsite with in-house function space, attached via walkway to the Convention Centre and parking. The hotel could also sit aside or atop the Centre to enhance views and proximity. In today's market, a convention center should not be allowed to be built without a headquarter hotel. This will require public inducements and a discussion of these can follow in a separate analysis.
- **The Island lacks entertainment and has no existing plan or district for such activity.** We have studied the option of developing an outdoor amphitheater adjacent to the Convention Centre. This market for such a use is difficult, especially in a seasonal and small market getaway like South Padre Island. While this would be an additional appeal for the Island and provide an opportunity for entertainment, it should not be viewed as a money making venture. The amphitheater industry is going through much difficulty and even if the venue is provided free, promoters have a difficult time making money. Therefore, if anything, we recommend developing only the most modest venue.
- **A restaurant, retail and entertainment district could be designed into the site, creating a stronger package and adding depth to the Island's offerings.** Examples of such successful districts can be found in downtown Louisville, Baltimore, and at the new Hard Rock Hollywood Casino in Florida. Our firm is currently working to help similar efforts in Milwaukee and Kansas City.
- **South Padre Island's resort status would be enhanced with a stronger golf package.** Golfers are dedicated to their sport and demand superior quality via multiple championship courses during their stay. Myrtle Beach and Hilton Head Island have leveraged this to great success. In the absence of quality product in the region, the newly-created authority could induce the development of such courses off the island.



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- **Other entertainment options are possible.** Entertainment, nightclub, and restaurant/retail districts have been developed in certain destinations and have enhanced their destination appeal. Examples include Louisville, Baltimore, and Kansas City (under construction). The development of such a district should be studied in more depth.

South Padre Island has the opportunity to improve the governance, operation, marketing, cooperation and physical offerings in its convention infrastructure. Our firm has recommended specific actions for each that will position the Island to gain prestige as a destination and maximize its business model.

### **III. TOURISM AND GENERAL MARKET AREA ANALYSIS**



## **TOURISM AND GENERAL MARKET AREA ANALYSIS**

Local market area characteristics influence the demand potential for convention centers and hotels. This section profiles the metropolitan area, and characteristics of the area that affect the hotel and convention industry, and provides a brief overview of the economic characteristics of the market.

### **Overview**

The Town of South Padre Island, with a population of 2,422 people as of 2000, is part of the one-county Brownsville-Harlingen-San Benito Metropolitan Statistical Area (MSA). It is located approximately 30 miles northeast of Brownsville in Cameron County in far southern Texas, the "Tropical Tip of Texas. Figure 3-1 shows a map of the Town of South Padre Island in relation to the State and the U.S.



The Town of South Padre Island is located at the eastern edge of the MSA/County on the Gulf of Mexico. Located on Padre Island, the Town is accessible by road from the north by U.S. Routes 77 and 83 via State Route 100.

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## **Brief History**

South Padre Island was originally used as a summer camp by Native Americans, who came into frequent contact and conflict with Spanish shipwreck survivors who were washed ashore during the peak of Spanish dominance of the area. A Catholic missionary priest founded the first European settlement on the island in 1804, Rancho Santa Cruz, where he raised cattle and horses.

In 1964, the Port Mansfield Gulf Channel was completed, permanently separating South Padre Island from the rest of Padre Island. The Town of South Padre Island was formerly incorporated in 1973. One year later, the 2.5 mile long Queen Isabella Causeway, the longest bridge in Texas, was completed, which further spurred the development of South Padre Island into a national tourist destination.

Tourism has been a part of the South Padre Island for over 100 years, primarily as a destination for local residents. However, in the last forty years, with hotel and other commercial development, the area has begun to draw tourists from across the U.S. and Mexico, in addition to regional and local travelers. The major draw is the area's ocean-side location, with some of the most unspoiled and beautiful beaches in the country. South Padre Island's tropical location on the Gulf of Mexico offers strategic advantages in terms of natural surroundings and climate, in comparison to other points within the State.

Cameron County, which has South Padre Island as its tourism anchor, has enjoyed above average population and economic growth over the last decade, which may also represent an expanding user base for event activities.

## **Regional Access**

Due to its location in the far southern tip of Texas, South Padre Island is accessible by car, but not as readily as other destinations. However, this is not a detractor as South Padre Island draws its visitors on a more regional and national basis than from the immediate local area. Several airports are located within an hour drive from South Padre Island. The environment and climate serve as the main draw for South Padre Island, as opposed to a centralized location.

The only highway into South Padre Island is State Road 100, which is connected to U.S. Route 77 to the north and U.S. Route 83 to the west. These highways allow for easy access to the three major airports in the area, as well as other cities in south Texas including McAllen and Corpus Christi.



## **Airport Access**

The South Padre Island area is serviced by three major airports all located within 75 miles of the Town. Brownsville South Padre Island International Airport is located approximately 25 miles west of South Padre Island, which is served by one major carrier and is lengthening its runway and adding a new terminal in the near future. Located approximately 40 miles from South Padre Island in Harlingen, Valley International Airport is serviced by two major and three smaller carriers, offering over 30 flights daily. McAllen-Miller International Airport, located in McAllen, approximately 75 miles west of South Padre Island, is serviced by three major carriers. Some of the airlines that serve the South Padre Island area airports are:

- American Airlines;
- Continental Airlines;
- Northwest Airlines; and
- Southwest Airlines.

Air access is a general challenge for South Padre Island (SPI) because three separate airports have attempted to be the primary airport for the region and island. As such, they have divided up air demand amongst carriers and kept any synergies from allowing broader access through one airport. Additionally, from a tourist and convention perspective, direct flights are very limited to these airports from most of the U.S. and Mexico. As a result, travelers have multiple flights coming and going to SPI, which takes additional time and planning. As an example, coming to SPI from New York would require a trip most likely on Continental to Houston (3 hours), layover, and then onto McAllen (one hour), then a 45 minute drive. All told, a six hour trip at minimum.

## **Economic and Demographic Overview**

The following text and tables summarize important characteristics of the local market, as defined by various geographical regions, such as the Town of South Padre Island, Cameron County, and the Brownsville-Harlingen-San Benito MSA. These characteristics will help to define the strength of the market and will support the demand projections developed later in this report.

### **Population**

A strong population base is important to the success and demand of a convention center because a share of its users will be local residents, especially for consumer shows and local meetings and banquets. However, in a community that is heavily



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tourism-oriented year round, local demand would help to alleviate some seasonality that may exist and generate additional demand for weekdays.

Table 3-1 shows the population changes in the U.S., the State of Texas, the Brownsville-Harlingen-San Benito MSA, Cameron County, and the Town of South Padre Island from 1990 to 2003.

Table 3-1

Brownsville-Harlingen-San Benito, TX MSA, State and Regional Population and Growth Rates					
	Population			Annual Growth Rate*	Increase (Decrease)*
	1990	2000	2003		
US	248,709,873	281,421,906	290,809,777	1.2%	16.9%
State of Texas	16,986,510	20,851,820	22,118,509	2.1%	30.2%
Brownsville-Harlingen-San Benito, TX MSA	260,120	335,227	363,092	2.6%	39.6%
Cameron County	260,120	335,227	363,092	2.6%	39.6%
Town of South Padre Island	1,677	2,422	2,475	3.0%	47.6%
Town pop. as % of MSA pop.	1%	1%	1%	--	--

\*From 1990 through 2003.  
Source: US Census Bureau, Johnson Consulting

The population growth for the MSA, County, and South Padre Island, from 1990 to 2003, were more than double that of the U.S. The total population of South Padre Island has increased by almost 50 percent from 1990 to 2003, with Texas adding over 5 million residents during the same period. However, the yearlong resident population is still only 2,500. This swells during the warm months to approximately 20,000 people, as vacationers stay in hotels, timeshares, and second homes.

A portion of the seasonal population of South Padre Island is comprised of 'Winter Texans'. Winter Texans are what many refer to as 'snowbirds' in other parts of the country. Simply put, they are retired or semi-retired citizens from other parts of the U.S. and Canada, who spend the winter months in the Rio Grande Valley, including South Padre Island. Much of the success of the area can be attributed to these seniors who either fly or drive (most in a variety of recreational vehicles) to the valley. Many end up investing in permanent residences here due to the climate, low cost of living, and easy access to Mexico, which provides prescription drugs for sometimes just 10% compared to the cost in the US.

It is estimated that there are 100,000 to 125,000 Winter Texans annually in the region, usually staying in RV or Mobile Home parks. 92 percent of Winter Texans are retired couples, while the balance are mostly single widowed women. 70 percent of Winter Texans come from the Midwest and of the remaining amount 12 percent from western states and 6 percent from northeastern or southeastern states.



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### Income and Employment

The depth and strength of a market's employment base and income levels are strong indicators of its potential ability to support a convention center. In general, higher income levels lead to greater amounts of disposable income, which can be spent on non-essential items such as recreation and entertainment (at events such as concerts, consumer shows, trade shows, and banquets). Markets with more wealth also tend to be attractive regionally and nationally for tourism such as conventions and trade shows as the likelihood of quality facilities is directly tied to the capacity of the public sector to provide amenities to support quality of life locally and economic growth regionally. Indicators of a market's overall wealth and growth can include trends in its income and employment.

A healthy and diversified economy provides not only employment and disposable income for a market's residents, helps to insulate an area from economic downturns. Markets that have historically relied on one sector, such as manufacturing, have often had difficulty recovering from market shifts to other sectors, which led to an overall loss of local income and employment. This situation will often lead to declining population trends, as residents move to other areas with better opportunities. Tourism markets are more susceptible to such changes as the economy is entirely dependent on the well-being of the surrounding economies from which it draws its tourists.

Table 3-2 summarizes the historical growth in income and employment in the MSA from 1975 through 2002, based on the latest date provided by the Bureau of Economic Analysis.

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Table 3-2

Brownsville-Harlingen-San Benito, TX MSA Income and Employment				
Year	Personal Income*		Total Employment	
	(\$Millions)	% Change	(000's)	% Change
1975	631.8	—	65.0	—
1980	1,206.8	13.8%	81.9	4.7%
1985	1,888.6	9.4%	85.5	0.9%
1990	2,578.8	6.4%	99.4	3.1%
1991	2,779.9	7.8%	102.0	2.6%
1992	3,083.8	10.9%	105.4	3.3%
1993	3,343.0	8.4%	110.6	4.9%
1994	3,562.9	6.6%	116.3	5.2%
1995	3,702.7	3.9%	118.7	2.0%
1996	3,908.5	5.6%	122.1	2.9%
1997	4,177.5	6.9%	125.5	2.8%
1998	4,468.2	7.0%	128.8	2.7%
1999	4,647.6	4.0%	133.7	3.8%
2000	5,023.1	8.1%	140.7	5.2%
2001	5,340.4	6.3%	143.8	2.2%
2002	5,697.0	6.7%	148.4	3.2%
<b>Average Annual Change</b>				
<b>1975-02</b>	<b>8.5%</b>		<b>3.1%</b>	
<b>1993-02</b>	<b>6.1%</b>		<b>3.3%</b>	
<i>*Income figures are not adjusted for inflation.</i>				
<i>Source: Bureau of Economic Analysis</i>				

The MSA has experienced growth in income and employment throughout the time period shown in the above table. Figures for 2003 through 2004 are not yet available.

Table 3-3 displays the MSA's earnings by industry sector for each year between 2001 and 2002.



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Table 3-3

Brownsville-Harlingen-San Benito, TX Non-Farm Earnings By Sector (\$Millions)*		
Sector	2001	2002
Construction and Utilities	142.2	143.9
Percent of Total	4.0%	3.8%
Manufacturing	383.5	378.8
Percent of Total	10.7%	9.9%
Transport and Warehousing	177.8	162.2
Percent of Total	5.0%	4.3%
Wholesale Trade	138.0	140.6
Percent of Total	3.9%	3.7%
Retail Trade	328.5	346.1
Percent of Total	9.2%	9.1%
FIRE**	107.8	115.9
Percent of Total	3.0%	3.0%
Services	1,160.5	1,293.6
Percent of Total	32.4%	33.9%
Government	974.8	1,041.0
Percent of Total	27.2%	27.3%
Other	166.0	194.4
Percent of Total	4.6%	5.1%
Total	3,579.0	3,816.6
Percent Growth	—	6.6%
*Earnings figures are not adjusted for inflation.		
**Finance, Insurance and Real Estate		
Source: Bureau of Economic Analysis		

From 2001 to 2002, the fastest growing sector of the economy was services. Services also accounts for the largest sector of non-farm earnings at approximately 34 percent. All other sectors remained fairly stable or experienced slight decreases. Overall non-farm earnings have increased by 6.6 percent from 2001 to 2002. In 2001, the earnings data information was revised to a new format, preventing figures from the two different formats from being readily comparable. As with income and employment information, earnings information is not yet available for 2003 and 2004.

## Income

Residents' effective buying income also helps to demonstrate the amount of disposable income that is available locally, as shown in Table 3-4.

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Table 3-4

Location	Total EBI (000,000)	Median Household EBI	Effective Buying Income (EBI) 2004 % of Households by EBI Group			
			Under \$20,000	\$20,000 - \$34,999	\$35,000 - \$49,999	\$50,000 +
Brownsville-Harlingen- San Benito, TX MSA	\$3,682	\$26,053	38.7%	26.3%	15.7%	19.3%
State of Texas	\$398,734	\$37,554	23.4%	23.2%	18.3%	35.1%
United States	\$5,466,880	\$38,201	22.4%	23.3%	19.0%	35.4%

Source: Sales and Marketing Management

As the table shows, the MSA had a total effective buying income (EBI) of \$3.68 billion and a median household EBI of \$26,053 in 2004. This is lower than the State of Texas as a whole (and U.S.), primarily due to the large proportion of the population who are seasonal service industry workers. Overall, the composition of the market population is lower-wage workers.

## Corporate Presence

The market in South Padre Island is driven by its tourist industry as demonstrated by the area's large employers. The majority of demand for event facilities will be driven primarily by state and regional groups traveling to South Padre Island for the amenities offered and the climate. Table 3-5 shows the largest employers in the South Padre Island area, by number of employees.



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**Table 3-5**

Largest Employers in the South Padre Island Area			
Name	Industry	# of Employees	
		Peak	Off-Peak
Schlitterbahn Beach Water Park	Recreation/Entertainment	350	80
Point Isabel Independent School District*	Education	350	350
Town of South Padre Island	Government	226	126
Sheraton South Padre Island Beach Hotel	Hospitality	225	135
Radisson Resort	Hospitality	200	160
Blackbeard's Restaurant	Restaurant	180	115
Bahia Mar Resort	Hospitality	150	75
Louie's Backyard	Restaurant	130	60
Holiday Inn Sunspree Resort	Hospitality	125	85
Sea Ranch Enterprises	Restaurants	90	70

\*Located in nearby Port Isabel  
Source: South Padre Island Economic Development Corporation, Respective Employers, Johnson Consulting

Schlitterbahn Beach Water Park and Point Isabel Independent School District are the top employers in the area with approximately 350 employees each. Point Isabel Independent School District is also the largest non-seasonal employer. With the exception of the Town of South Padre Island, all other major employers are centered on the tourism industry and employ larger number of employees during the peak tourism season.

A number of South Padre Island residents also depend upon Cameron County businesses for employment. Table 3-6 displays a list of the top ten Cameron County employers.

**Table 3-6**

Cameron County - Large Employers	
Employer	Type of Business
Brownsville ISD	Public Education
Department of Homeland Security	Government
Harlingen CISD	Public Education
H-E-B Grocery Company	Retail
San Benito ISD	Public Education
Cameron County	Government
Texas Visiting Nurse Service	Health Care
University of Texas-Brownsville/Texas	Higher Education
Southmost College	
Valley Baptist Medical Center	Health Care
Wal-Mart	Retail

Source: Rio Grande Valley Partnership, Johnson Consulting



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Six of Cameron County's ten largest employers are public entities with the remaining private employers in the fields of either retail or health care.

### Higher Education

The presence of colleges, universities, and educational institutions can serve not only as a demand base for convention and entertainment centers, but also a source of event demand. The number of college students in the area is important because it represents a target audience for education-related events, such as assemblies, graduations, and performances. University markets are obviously rich in these resources and can have a profound impact on convention and conference center performance if the quality level at the facilities meet university-related needs.

Table 3-7 displays the colleges in the Brownsville-Harlingen-San Benito MSA and their respective student enrollment.

Table 3-7

Academic Institutions in Brownsville-Harlingen-San Benito, TX MSA		
Institution	Location	Enrollment
University of Texas-Brownsville/Texas Southmost College	Brownsville	10,000
Texas State Technical College-Harlingen	Harlingen	4,000
Total Enrollment		14,000
Source: Respective colleges, Johnson Consulting		

The largest school in the MSA is the University of Texas-Brownsville/Texas Southmost College partnership with approximately 10,000 students. Texas State Technical College has seven locations in Texas, including the campus in Harlingen which has an enrollment of approximately 4,000 students. This is a low number of college students in the region, but is typical for a region of its population base. We would not expect colleges to have a material effect on the performance of any public assembly facility in the region.

### South Padre Island Convention and Event Facilities

Convention and event facilities in South Padre Island, Texas include the South Padre Island Convention Centre and area hotels with meeting facilities.

#### South Padre Island Convention Centre

Constructed in 1992, the South Padre Island Convention Centre (Convention Centre) is located approximately three miles north of downtown South Padre



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Island. The Convention Centre is a 45,000-square foot facility with approximately 500 parking spaces. It is supported by approximately 2,600 hotel rooms in the Town. The Convention Centre is described in greater detail in Sections 4 and 6.

### **Hotels and Hotel Meeting Facilities**

South Padre Island is home to a number of hotel properties, including a number of independent operators, as will be more fully discussed in Section 9.

Figure 3-2 displays a map of South Padre Island, showing major hotels, the Convention Centre, and other attractions on the island.

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### Figure 3-2





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Table 3-8 shows a list of hotel properties in South Padre Island.

Table 3-8

South Padre Island - Hotels	
Hotel	Number of Rooms
Sheraton Hotel South Padre Island Beach	250
Bahia Mar Resort	232
Holiday Inn Sunspree Resort	228
Radisson Resort South Padre Island	180
Travelodge South Padre Island	150
La Quinta Inn & Suites	147
La Copa Inn & Suites	147
Tiki Hotel	144
Miramar Resort	140
Suntide III	118
Holiday Inn Express Hotel & Suites	106
Howard Johnson Express Inn & Resort	91
Padre South Resort	87
Comfort Suites South Padre Island	74
Sunchase IV Condominiums	70
Super 8 South Padre Island	66
Beachside Inn	65
America's Best Value Inn	64
Best Western Fiesta Isles Hotel	60
Days Inn South Padre Island	58
Motel 6 South Padre Island	52
Ramada Limited South Padre Island	49
Quality Inn	49
Suntide II	45
Casa Bella	45
Budget Host Flamingo Motel	30
Surf Motel	23
Island Inn	22
South Padre Motel	16
South Beach Inn	12
<b>Total</b>	<b>2,820</b>
<i>Source: South Padre Island CVB, Smith Travel Research, Johnson Consulting</i>	

Based on information from the South Padre Island Convention and Visitors Bureau, there are 30 hotels in South Padre Island, as shown in the above table, with over 2,800 rooms.

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Of the hotels listed above, six provide meeting space, ranging from 13,792 square feet of meeting space at the Radisson Resort South Padre Island to several small meeting rooms of 500 square feet and under. Table 3-9 lists hotels with large meeting space in South Padre Island.

Table 3-9

Hotels with Meeting Facilities in South Padre Island, TX			
	# of Rooms	Total SF of Meeting Space	Largest Meeting Rm SF
Radisson Resort South Padre Island	180	13,792	6,000
Sheraton South Padre Island Beach Hotel	250	8,076	3,456
Bahia Mar Resort & Conference Center	232	8,012	4,214
Holiday Inn Sunspree Resort	228	6,590	3,990
La Copa Inn Resort	147	5,625	4,500
La Quinta Inn & Suites South Padre Beach Resort	147	3,972	1,400

Source: South Padre Island CVB, Mpoint, Respective Facilities, Johnson Consulting

As shown in the table, these hotels do not have large meeting facilities. The largest is the 6,000 square foot hall at the Radisson Resort, which is only about one quarter the size of the exhibit hall in the Convention Centre.

### Arts, Culture, Nature, Recreation, and Entertainment

South Padre Island has a variety of attractions that add to its appeal. Attractions include, but are not limited to:

- **Laguna Atascosa National Wildlife Refuge** - located near South Padre Island, is a 45,000-acre preserve for the observation of wildlife and birds. The refuge has numerous trails and roads and also includes a visitor's center and guided tours.
- **South Padre Island Birding and Nature Center** - located adjacent to the Convention Centre, these 50 acres provides an overview of habitats located throughout the barrier islands. The birding trails throughout the area are free and open to the public seven days a week.
- **Dolphin Research & Sea Life Nature Center** - offers hand-on experiences with a variety of sea creatures and daily lectures on the dolphins of South Padre Island area.
- **Sea Turtle, Inc.** - a converted private home, Sea Turtle, Inc. has been dedicated to the preservation of sea turtles since its organization by the late "Turtle Lady" in 1977.



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- **Schlitterbahn Beach Waterpark** – located in South Padre Island, is a seasonal water park attraction offering over a dozen water rides and children's play area centered around a five-story sand castle.
- **Matamoros, Mexico** – festive dining and shopping experience located only 30 minutes from South Padre Island. Shopping includes bargains for silver, leather goods, and other hand crafted items.

### Annual Events

South Padre Island is host to numerous annual events, including:

- **Windsurfing Blowout** – In its 25<sup>th</sup> year, the BlowOut is an annual windsurfing race for competitors of all experiences held in South Padre Island.
- **Texas Kiteboarding Rodeo** – Hosted annually in South Padre Island, the Rodeo is in its fourth year and includes three days of events, including free clinics for riders of all experience levels and manufacturer demonstrations.
- **Kite Fest** – An annual, two-day kite flying festival is held in South Padre Island, in addition to the monthly Kite Fly on the first Saturday of each month located just north of the Convention Centre.
- **South Padre Island Chamber of Commerce Events** – The Chamber hosts several events annually, including the Taste of South Padre Island, in its 16<sup>th</sup> year and the Lady Kingfish Tournament, an annual weekend fishing event, among others.
- **Texas International Fishing Tournament** – A five day event, the Tournament is in its 67<sup>th</sup> year, and has drawn as many as 1,500 participants and over 500 boats for past tournaments.
- **SPI BikeFest** – In its 11<sup>th</sup> year, the BikeFest is a four-day event and includes a concert, numerous contests, and other activities.
- **SPI Sand Castle Days** – An annual event in its 18<sup>th</sup> year, the event is a three-day competition of sand castle building featuring professionals from throughout North America and amateurs from throughout the state.
- **Spring Break** – South Padre Island is renowned as a spring break destination for college students throughout the U.S. Events catering to college students are offered throughout South Padre Island in March and include concerts and other special events.

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### **Recent Expansions in South Padre Island Area**

Numerous recent and proposed developments in the South Padre Island area add to the attractiveness of the area, improving accessibility, destination appeal, and providing a foundation for future complementary development.

Several new large condominium developments are under construction and consideration in South Padre Island including:

- *Ocean Tower Condominiums*
- *Alegria Condominiums*
- *Laguna Bay Condominiums*

### **Market Area Conclusion**

The appeal of South Padre Island as a tourist destination has continued to endure, in spite of numerous setbacks to the tourism industry as a whole. The climate and natural surroundings of South Padre Island lend to this enduring appeal and draw of the area; yet the quality and amenities of the existing facilities are sub-standard to the expectations of groups that wish to host events in the market. The introduction of an improved convention facility, new high-quality hotels and an/or entertainment facility would further add to the appeal of South Padre Island as a national tourist destination, a potential entertainment destination, and a destination for meeting planners looking to host their events in an attractive environment with a desirable climate.



#### **IV. CONVENTION AND MEETINGS INDUSTRY**

## **CONVENTION AND MEETINGS INDUSTRY OVERVIEW**

In order to provide an understanding of market growth and the factors that are shaping the future of the meeting and event industries, this section provides a current overview of trends and developments that are impacting meeting and convention facilities. This data should be reviewed in context with the potential renovation and expansion of the South Padre Island Convention Centre (Convention Centre).

Conventions, exhibitions, and trade shows are conducted for the purposes of exchanging information, conducting business transactions, and for educational, cultural, and social enrichment. The increasing need to carry out these purposes is driving the growth of the meetings industry. As developments occur in the larger economy, simultaneous developments occur in the meetings market.

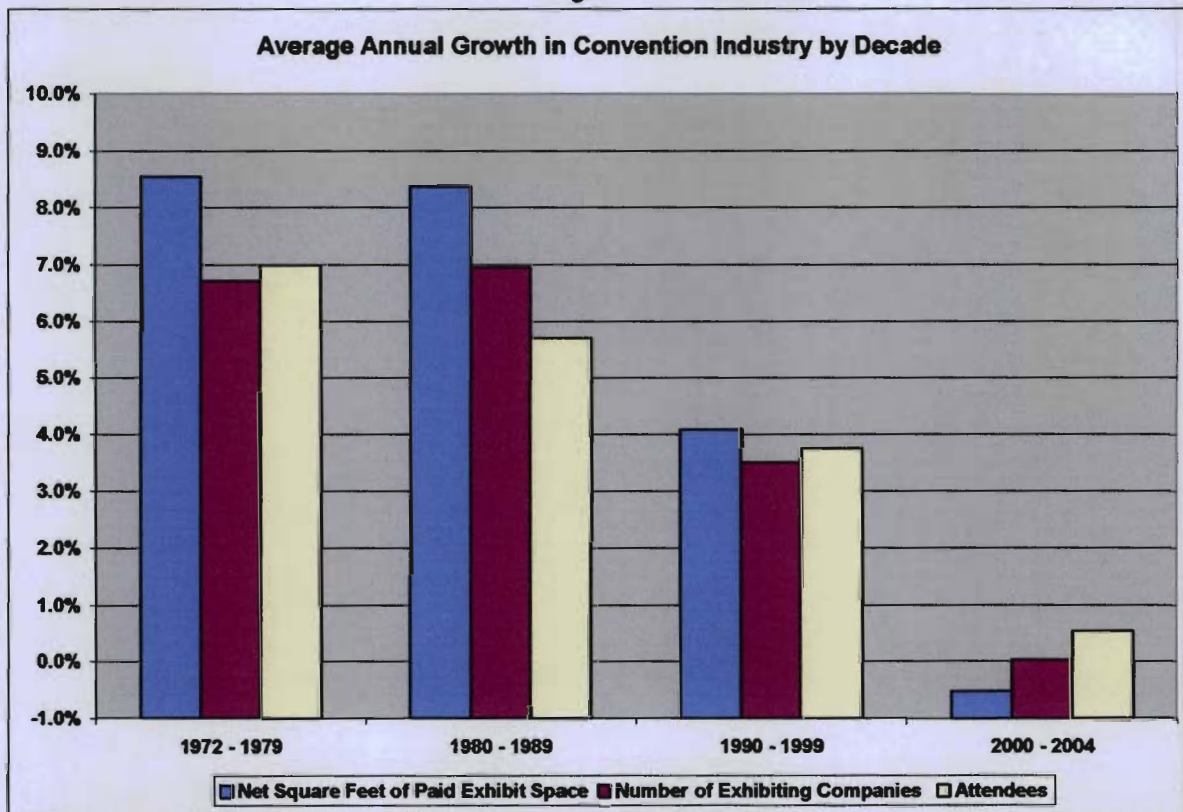
Figure 4-1 shows the growth in the number of events, net square feet used, exhibiting companies, and attendees by decade, from 1972 through 2004.



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Figure 4-1



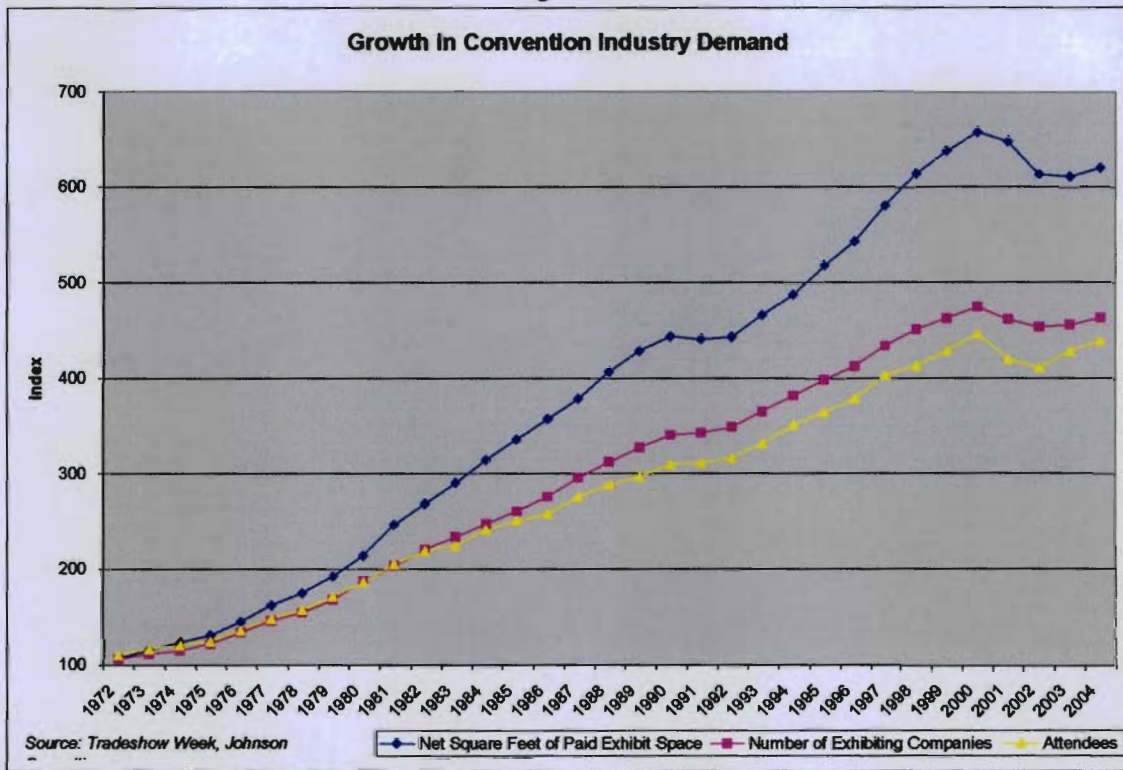
As the figure shows, annual average demand increased at significant levels through the 1970s and 1980s. The first Gulf War and short recession tempered growth at the beginning of the 1990s, but the decade still showed strong year-over-year growth of nearly four percent in every category. With the triple-hit of the dot-com bust, economic recession in the U.S. and abroad, and the travel depression following September 11, the industry showed its first serious negative change in demand.

As Figure 4-2 shows, while the impact on demand was real, there appears to be a return to growth, with a noticeable rebound in attendee traffic.

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Figure 4-2

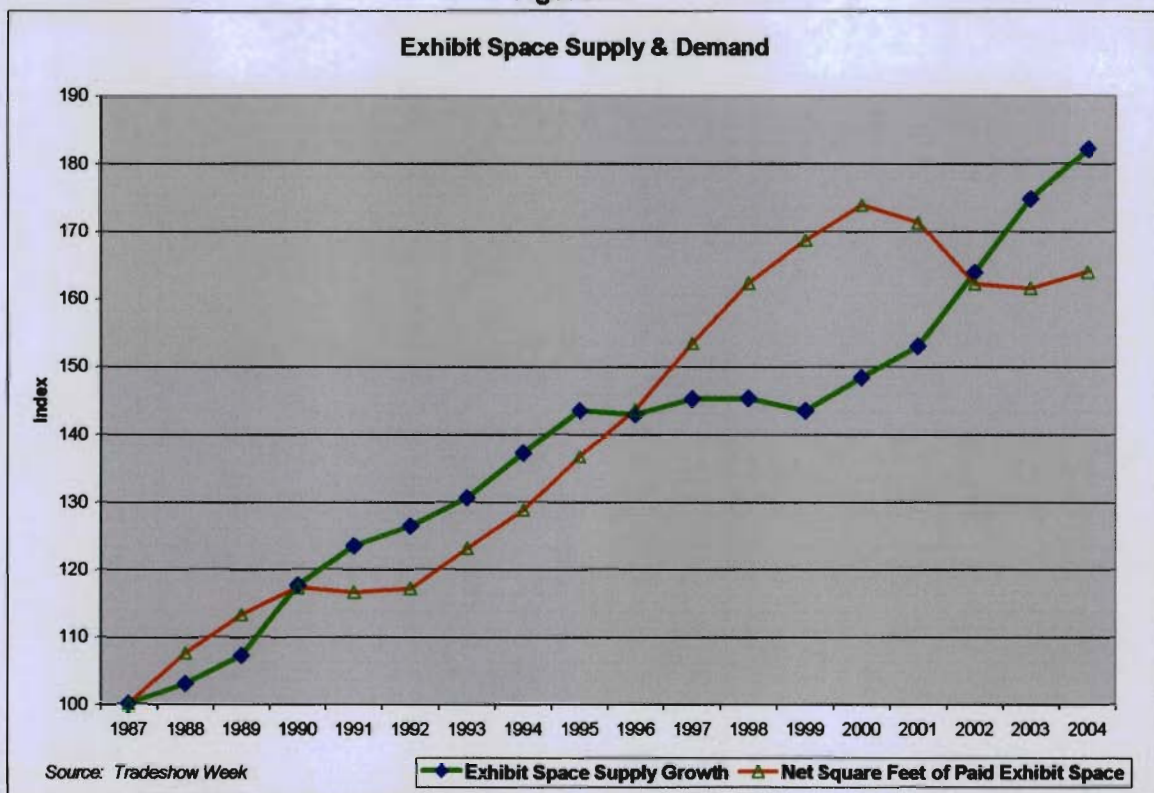


As shown, long-term demand trends show a greater need for space with fewer companies and attendees. This has been a trend since the 1970's as companies continue to merge (limiting growth in the number of companies in any given industry) and there is continuing pressure on doing more with fewer employees. Where an entire sales force might have been dispatched to several conventions in decades past, now it is expected that a handful of people will represent a company at a convention or tradeshow. Yet these trends have not stopped growth in attendance.

Figure 4-3 shows the comparison of supply and demand growth by a three-year period, beginning in 1987.



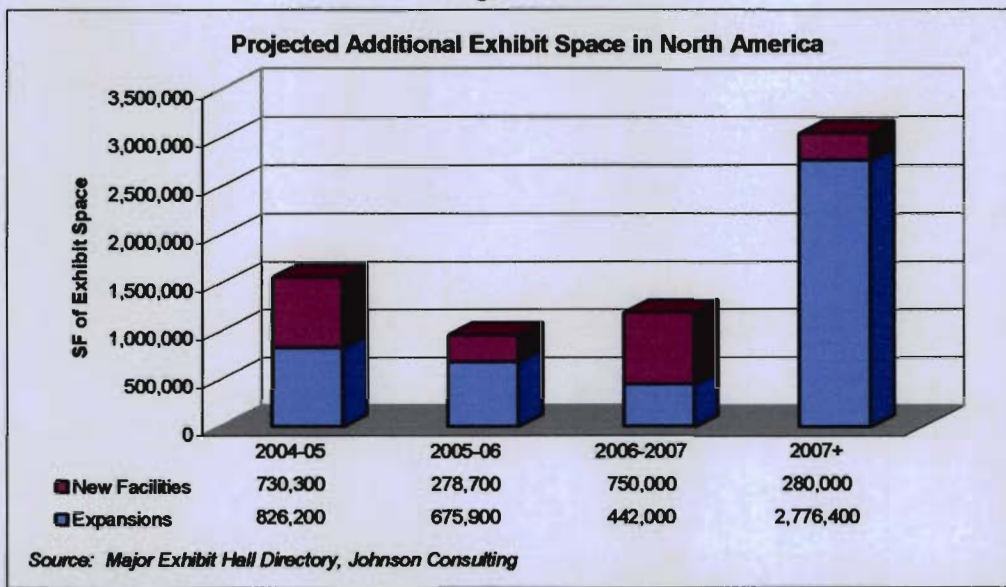
Figure 4-3



The figure shows a very compelling and rational picture of supply growth in response to demand growth. From 1987 to 1989, demand outpaced supply. By the time supply caught up, a recession was on and it took until 1996 for demand growth to catch up to supply. What is stunning is the rate of growth in demand from 1993 through 2000, with an average increase of 5.1 percent. Supply stagnated during much of this period. By the mid-1990s, cities released the economic impact potential that was not being adequately captured. New facilities and expansions began opening with force in 2000 – just as a recession was about to begin. With the time horizon for developing facilities long, the increase in supply continued unabated through 2004, as long-held plans were finally brought to fruition.

Projections for future supply growth show a tempered situation. Figure 4-4 displays this data, according to Trade Show Week's Major Exhibit Hall Directory.

Figure 4-4



As the figure shows, 1.5 million square feet of new and expanded exhibit and meeting space are expected to be added between August 2004 and July 2005. The 2005-2006 fiscal year will see a smaller amount of new facilities with 279,000 square feet and 675,900 square feet of expansions. The vast majority of expansions and new facilities are to be U.S. facilities, as approximately 85 percent of the exhibition market is in the U.S. It should be noted that some of the projected additions are in various stages of planning – such as feasibility study, design, and construction. Some of the proposed facilities are being studied and may not actually be developed.

Demand for meeting and exhibition space allowed many communities in the U.S. to develop successful convention and trade show facilities during the 1970s and 1980s. Public sector involvement in these developments was motivated primarily by the desire to capture the economic benefits of the events they accommodate in their communities.

Table 4-1 summarizes the ownership and management structure of U.S.-based exhibit halls.



**Table 4-1**

<b>Ownership and Management of US Exhibit Halls</b>		
<b>Type of Entity</b>	<b>Ownership</b>	<b>Management</b>
Private	36%	58%
City	34%	22%
County	10%	5%
State	8%	5%
Combination Government	5%	2%
Non-Profit Organization	0%	0%
Other	5%	8%

*Source: Tradeshow Week - Major Exhibit Hall Directory, Johnson Consulting*

As the table shows, approximately one-third of US exhibition halls are privately owned, but almost 60 percent are operated by a private-management company. Public ownership of exhibit hall facilities often occurs because they usually do not generate profits to an owner, but the public sector will take ownership as a service in order to capture the related economic benefits within its jurisdiction. Private management is common because, unlike governments, these companies have professional expertise in managing and operating facilities, and often have longstanding relationships with vendors, suppliers, and other industry organizations. In addition, a private-management company's experience and efficiency can help insulate a facility's operations from political issues and can help to reduce annual deficits as much as possible.

PricewaterhouseCoopers (PwC) has conducted an annual survey for the past 20 years of event characteristics at convention centers throughout the U.S. The survey may not be representative of the entire industry as an indeterminate number of convention centers responded to the survey. However, results of the survey are presented by size of facility and are useful in outlining differences in trends between small, mid-sized, and large convention facilities. In terms of PwC survey responses, small convention centers are defined as having less than 100,000 square feet of exhibit space, mid-sized 100,000 to 500,000 square feet of exhibit space, and large as having greater than 500,000 square feet of exhibit space.

Table 4-2 presents the percentage of survey respondents by type of management utilized by their convention facility.



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Table 4-2

Size	Convention Center Management Type				Total
	Private Company	Quasi-Public Conv. Center Auth.	Dept. of Municipal Government	Other	
Less than 100,000 square feet	24%	28%	36%	12%	100%
100,000 to 500,000 square feet	38%	11%	35%	16%	100%
More than 500,000 square feet	29%	36%	36%	0%	100%

Source: PricewaterhouseCoopers

In terms of survey respondents, small convention centers are more likely to be managed as a department of a municipal government (36 percent). Quasi-public authorities and private companies manage 28 percent and 24 percent, respectively. Mid-sized convention center respondents were primarily managed by private companies at 38 percent, with management through a department of municipal government representing 35 percent. Large convention facility respondents were equally divided at 36 percent each between a department of a municipal government and a quasi-public authority, with the remaining, at 29 percent, being managed by private companies.

Exhibit hall occupancy can be difficult to measure as it is impossible to have 100 percent occupancy due to days required for set-up and tear-down. As defined by PwC, a maximum occupancy rate for an exhibit hall would be approximately 70 percent; however, 50 percent to 60 percent occupancy is considered to be practical maximum occupancy. Rates below 50 percent would indicate the potential for increased marketing of the facility, with occupancy of over 60 percent possibly indicating an increased number of lost business due to insufficient available dates.

Table 4-3 presents the occupancy rates, by exhibit hall size for respondents to the PwC survey.

Table 4-3

Size	Exhibit Hall and Ballroom Occupancy Rates			
	Conventions / Trade Shows	Consumer Shows	Total Ex. Hall Occupancy	Ballroom
Less than 100,000 square feet	19.0%	16.7%	35.7%	40.3%
100,000 to 500,000 square feet	22.0%	14.9%	36.9%	45.5%
More than 500,000 square feet	44.5%	8.5%	53.0%	52.1%

Source: PricewaterhouseCoopers

Based on the PwC benchmarks, large size convention center respondents are within the range determined to be close to maximum occupancy. Small to mid-sized convention centers fared better in terms of occupancy rates for consumer shows at



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approximately 15 percent versus nine percent for large convention centers. More economic impact occurs with non-consumer shows, but consumer shows pay more rent and gate. Interestingly, ballroom occupancy rates for small and mid-sized convention centers were considerably higher, approximately five to ten percent than that of their exhibit halls. Ballroom occupancy for large convention centers is fairly close to total exhibit hall occupancy at 52 percent versus 53 percent.

Table 4-4 presents total attendance for convention/trade shows and consumer shows.

**Table 4-4**

<b>Exhibit Hall Attendance</b>			
<b>Size</b>	<b>Conventions / Trade Shows</b>	<b>Consumer Shows</b>	<b>Total</b>
Less than 100,000 square feet	53,000	82,000	135,000
100,000 to 500,000 square feet	173,000	286,000	459,000
More than 500,000 square feet	645,000	383,000	1,028,000

*Source: PricewaterhouseCoopers*

As shown by the table, small and mid-size convention centers generate a higher portion of their total attendance from consumer shows versus convention and trade shows. Conversely, the majority of attendance for large convention centers is generated from conventions and trade shows. In terms of attendance, small and mid-sized convention centers have been more successful and generated higher demand from their consumer show events.

Table 4-5 displays the number of convention/trade show and consumer show events hosted by survey respondents.

**Table 4-5**

<b>Exhibit Hall Number of Events</b>			
<b>Size</b>	<b>Conventions / Trade Shows</b>	<b>Consumer Shows</b>	<b>Total</b>
Less than 100,000 square feet	33	23	56
100,000 to 500,000 square feet	43	26	69
More than 500,000 square feet	49	21	70

*Source: PricewaterhouseCoopers*

All three convention center size respondents receive the majority of their demand from conventions and trade shows. Large convention centers have a higher



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percentage of convention and trade shows as a percent of their total exhibit hall business at approximately 70 percent versus approximately 62 percent and 60 percent for mid-size and small convention centers, respectively. When compared with Table 4-4, small and mid-size convention centers draw larger crowds for consumer shows even with a fewer number of events than conventions and trade shows. This relationship is further shown in Table 4-6

Table 4-6

Exhibit Hall Events - Average Attendance		
Size	Conventions / Trade Shows	Consumer Shows
Less than 100,000 square feet	1,606	3,565
100,000 to 500,000 square feet	4,023	11,000
More than 500,000 square feet	13,163	18,238

Source: PricewaterhouseCoopers

As described previously, small and mid-size convention centers host more convention and trade show events, but receive more total attendees from consumer shows, as is more clearly evidenced by average attendance for type of event as displayed in the table. Both small and mid-size convention centers have almost three times as higher average attendance for consumer show events than convention and trade show events. Although large convention centers have both a greater number of attendees and number of events of the convention and trade show type, the average attendance for consumer type show events is also higher as with small to mid-size convention centers. Average attendance for large convention centers for consumer shows was approximately 18,000 versus approximately 13,000 for conventions and trade shows.

In addition to convention, trade show, and consumer show events within their exhibit halls, convention centers also host a variety of other events at ballrooms and meeting rooms located on site.

Table 4-7 shows the average event count and attendance for survey respondents by facility size.



Table 4-7

Convention Centers - All Event Characteristics		
Size	Average Event Count	Average Total Attendance
Less than 100,000 square feet	364	282,000
100,000 to 500,000 square feet	309	714,000
More than 500,000 square feet	170	1,178,000

Source: PricewaterhouseCoopers

Unsurprisingly, convention centers with large square footage capacities tend to host events with a higher number of attendees, even though fewer overall events are hosted.

Table 4-8 shows the average number of room nights generated annually by respondents to the convention center survey.

Table 4-8

Convention Centers - Hotel Room Nights	
Size	Average Number of Nights
Less than 100,000 square feet	36,000
100,000 to 500,000 square feet	166,000
More than 500,000 square feet	947,000

Source: PricewaterhouseCoopers

Again, larger convention centers host shows which not only attract higher attended events, but also events with a higher portion of attendees from outside areas requiring overnight accommodations.

### Types of Meetings and Facility Needs

The meeting industry includes a variety of meeting types, ranging from large trade and exhibition events to corporate meetings and conferences. As one can imagine, there are countless meetings occurring nationally and South Padre Island must identify its potential niche or niches and then develop a competitive product with which to compete. The proposed convention center has successfully done this in the past, focusing on local and regional meetings. However, there appears to be a much more significant demand for higher-rated events. Each type of event has unique



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facility needs, with some requiring large amounts of contiguous space and others requiring many smaller meeting rooms.

Often, a single event will use many different types of spaces, including exhibit halls, banquet facilities, and breakout meeting rooms. Well-designed multi-purpose facilities offer the proportions of different types of spaces that are appropriate for their market. In addition, they offer the flexibility to host multiple events at one time. Table 4-9 summarizes the key attributes of various types of meetings, including facility requirements, as well as the South Padre Island area's current capacity to host these types of events.

Table 4-9

Meeting Types and Related Facility Requirements					
Meeting Type	Attendance Range	Primary Purpose	Major Facility Requirement	Typical Facility Used	South Padre Island's Current Capacity to Host
Corporate & Other Meetings	Less than 100	Training and information exchange	Meeting space (minimal)	Hotels/Conference Centers	Average
Conferences	50 to 2,000	Information exchange	Meeting space and banquet space	Hotels/Conference Centers and Convention Centers	Below Average Due to Lack of Ballroom
Conventions	300 to 15,000	Information exchange	Meeting space and banquet space	Hotels/Conference Centers and Convention Centers	Below Average Due to Lack of Ballroom
Conventions with Exhibits	2,000 to 20,000	Information exchange and sales	Exhibition, breakout meeting space, and banquet space	Convention Centers	Below Average Due to Lack of Ballroom
Trade Shows	1,000 to 50,000	Sales	Exhibition and breakout meeting space for some events	Convention Centers, Trademarts, Fairgrounds	Average
Consumer Shows	10,000 to 1,000,000	Advertising and sales	Exhibition Space	Convention Centers, Trademarts, Fairgrounds	Average
Combination Shows*	10,000 to 150,000	Advertising and sales	Exhibition Space	Convention Centers, Trademarts, Fairgrounds	Average
Assemblies	5,000 to 50,000	Information exchange	Stage, seating, breakout meeting rooms	Convention Centers, Arenas, Stadiums, Fairgrounds	Poor
Community, Entertainment, and Social	500 to 10,000	Social and Entertainment	Banquet or multi-purpose space	Convention Centers, and Multipurpose Facilities	Average

\*A tradeshow with private access is followed by a consumer show with public access.  
Source: Johnson Consulting



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The various types of meeting events are described below:

Corporate and Other Meetings - Corporate meetings include training seminars, professional and technical conferences, incentive trips, and management meetings. Attendance generally ranges from 10 to 100, with an average of fewer than 50. These meetings are held in city-center hotels, specially-designed conference centers, and resort hotels. Corporate meeting planners and attendees demand high-quality facilities. The existing facilities can accommodate most of these types of meetings; however, there are catering challenges for some users. With a higher-quality and expanded program of spaces, higher-rated and larger corporate meetings can be accommodated.

Conferences - Conferences are meetings typically held by associations, professional groups, and other membership organizations. Educational institutions also host conferences, which attract an average of 300 attendees. These events do not usually require exhibit space, but otherwise their facility demands are similar to those of conventions—such as meeting space for general sessions, food service facilities, and breakout rooms. Hotels and conference centers typically serve as venues for conferences.

Conventions and Trade Shows - Associations, professional groups, and other membership organizations hold conventions and trade shows, with attendance ranging from 300 to 50,000 attendees. The larger of these meetings take place in convention centers with exhibit halls of 100,000, but as a Center for Exhibition Industry Research (CEIR) survey indicates, the vast majority of events require less than 50,000 square feet. Conventions and trade shows may feature a single meeting, but they usually offer a number of concurrent meetings and exhibitions. Facility needs include assembly space for general sessions and displays, banquet facilities, and numerous breakout-meeting rooms. Two-thirds of conventions and trade shows use exhibit space as a means to communicate ideas and to display products.

Conventions are high-impact events economically because a large percentage of attendees originate from outside the local area, typically stay several nights in the host city, and spend money on accommodations, food, transportation, retail goods, and entertainment. Spouses, family, or companions typically accompany 40 percent of attendees.

Like conventions, trade shows offer a forum for exchanging industry ideas. They vary slightly from conventions in that they are more product- and sales-oriented. Trade shows are exhibit-intensive, and exhibitors prefer column-free, open-space facilities in which they construct temporary custom booths for product display. Trade shows typically attract a large number of attendees, who originate from outside the host city but tend to have a shorter average stay than convention attendees. Meeting programming is increasing as trade shows attempt to educate buyers about products.



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South Padre Island's only current capacity to accommodate large conventions or tradeshows is through the Convention Centre. Based on latent demand and accommodated needs, larger- and higher-quality facilities will enhance the Convention Centre's ability to compete for such shows and create the most significant economic impact of any event type. In addition, an attached, corresponding full-service hotel would help to further maximize its performance. The existing full-service hotels can accommodate some large groups, but not on the scale of a combined convention center and hotel.

Consumer Shows - Consumer shows are public, ticketed events featuring exhibitions of merchandise for sale or display. Consumer shows provide a means of product distribution and advertising. Some, such as auto and boat shows, have a recreational and entertainment function as well. Consumer shows range in size from small local and specialized shows with a few hundred attendees to large shows with thousands of attendees. The larger consumer shows may occur in convention centers, shopping malls, fairgrounds, and other public-assembly facilities with large exhibition areas. The majority of attendees are local, but exhibitors often come from out of town. Site selection considerations for consumer shows include the size and income of the local population, availability of facilities, and the number of competitive shows in the market.

The Convention Centre has sufficient capacity to host small- to mid-sized consumer shows with its existing facilities; however, South Padre Island is somewhat limited in its ability to host consumer shows with its small year-round population. Consumer shows do not have a significant economic draw from outside the home-county; however, they can if the home county is the destination of choice for a larger geographic area, as could be the case in South Padre Island. Also, consumer shows help support the financial viability of a convention center by paying rent and generating per-attendee admission fees for the facility.

Assemblies - Assembly events are social, military, educational, religious, and fraternal (SMERF) events. They attract larger numbers of people and require arena or stadium seating. Similar to conventions, attendees originate from outside the host city, but, unlike conventions, these events do not usually require large amounts of exhibit and meeting room space. With no arena or comparable venue, the ability of South Padre Island to host such events is limited; however, an outdoor venue such as an amphitheatre would be able to accommodate some of these events, but would be limited by the weather and also during the summer months by the temperature.

Community, Social, and Entertainment Events - Entertainment events are ticketed events that are typically held in arenas by outside promoters. This includes many types of events, including sporting events, touring concerts, and family shows. Community and social events are similar, and include gatherings such as graduations. Most attendees are local residents, and attendance is limited to the



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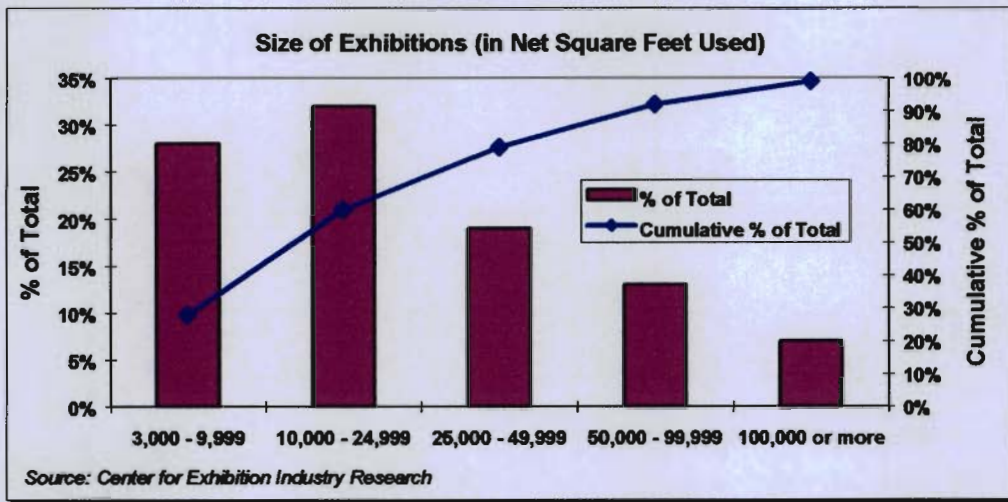
fixed seating area of the arena, including floor seats for concerts. Entertainment events require concessions with numerous points of sale throughout a facility. Entertainment events could possibly utilize a portion of the facility dependent upon the types of events held at the proposed amphitheater.

### Size of Events

The majority of convention and trade show events are held in facilities with moderate space capacity. While there are a number of events that require more than 100,000 net square feet of exhibit space, a majority of events are held in facilities with 10,000 to 49,999 net square feet of space. (Gross square footage is considered to be the total amount of space within a room or facility, as measured from wall to wall, while the net square footage measures the amount of space that is actually used by exhibits, booths, and other items, not including aisles and other areas. Net square footage is generally 50 percent of gross square footage.) The proposed convention center's existing space falls in the lower-to-middle of the spectrum of space availability. With 30,000 gross square feet and 15,000 net exhibit space, the proposed convention center will be able to penetrate the state and regional convention market at a moderate level.

Figure 4-5 shows the distribution of event size for events of 3,000 net square feet or more and ten or more exhibitors. The figure also graphs the cumulative share of the events market that is included within each segment and all smaller segments. By definition, this does not consider the entire events market, as meetings without exhibitions, for example, are not included in this sample. However, events that require 100,000 net square feet of space (or 200,000 gross square feet) comprise only seven percent of these events, while **60 percent of events require 25,000 net (50,000 gross) square feet or less**, which we believe is the proposed convention center's target market. With 30,000 square feet of exhibit space and over 25,000 of ballroom and meeting room space, the expanded Convention Centre will be able to more effectively compete with other facilities in its competitive set.

Figure 4-5

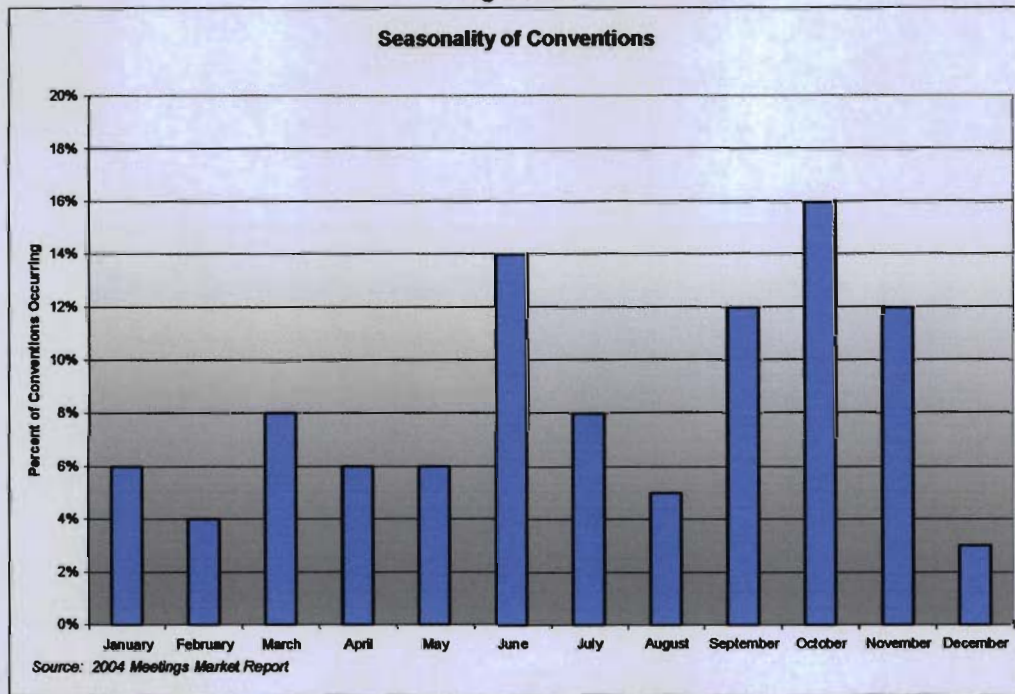


As the table shows, approximately 80 percent of the exhibition market (which is represented in the first three bars from the left of the table) can be accommodated with less than 50,000 net (100,000 gross) square feet of exhibit space.

Figure 4-6 shows the seasonality of the convention calendar across the U.S.



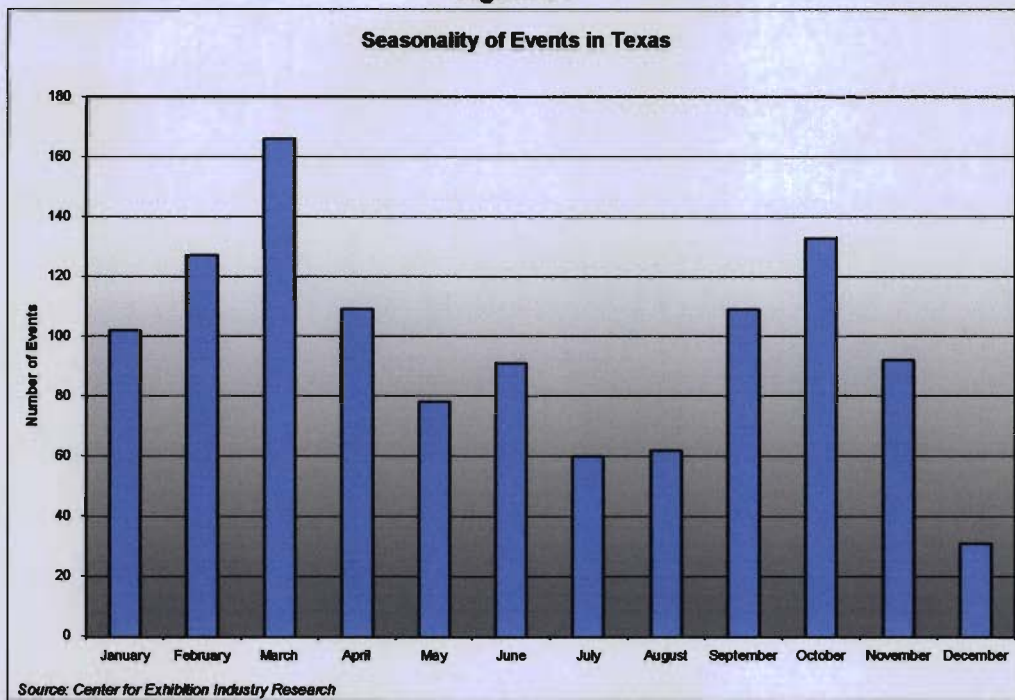
Figure 4-6



The heaviest month for conventions in the U.S. is October, with June, September and November also sharing a percentage of convention demand.

Figure 4-7 displays a seasonality of events held within Texas.

Figure 4-7



Texas event demand mirrors the U.S. seasonality from September to December, as shown in Figure 4-6. However, March is the peak demand month for events held within Texas, with over 160 events. In general, peak months for Texas events occur late winter and early summer.

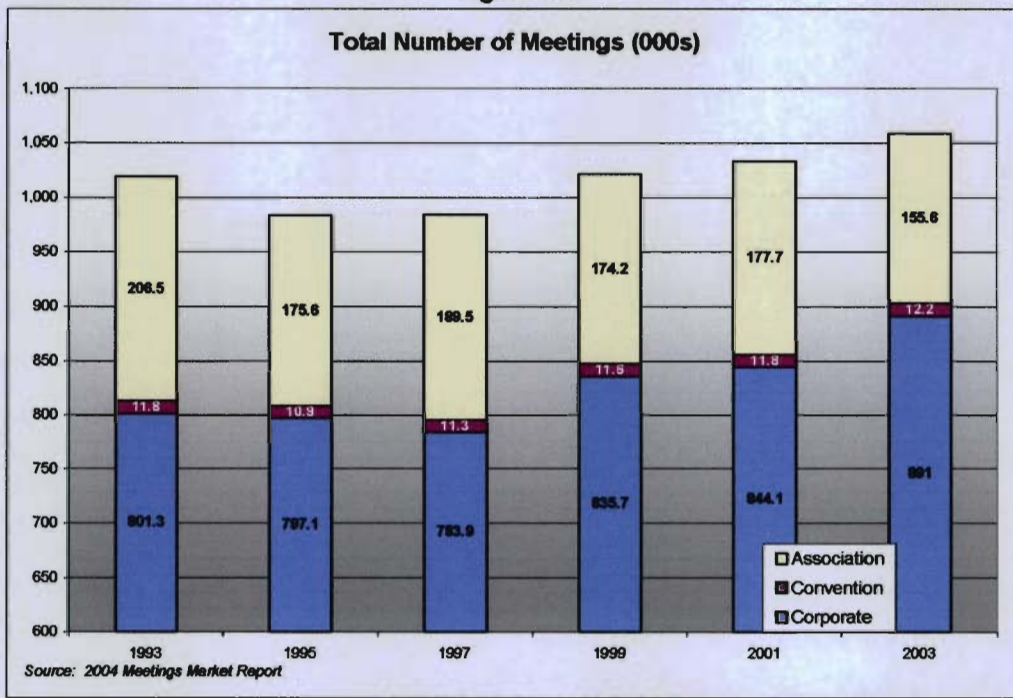
### Meetings Industry Data

*Convention and Meetings Magazine* issued a 2004 Meetings Market Report that provided data on the meetings and conventions industry, as well as the opinions of meeting planners.

Figure 4-8 shows the total number of meetings over the 1993 through 2003 period, by category.



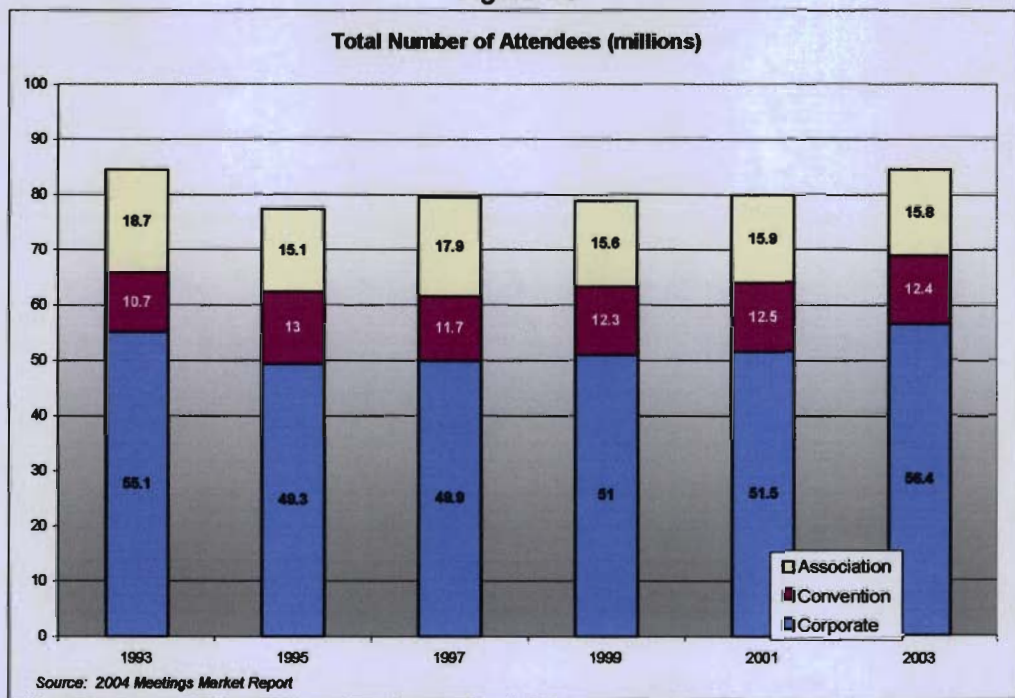
Figure 4-8



The majority of meetings were corporate meetings, followed by association meetings. Conventions represented a small portion of total meetings.

Figure 4-9 shows the total number of attendees per category of meetings.

Figure 4-9

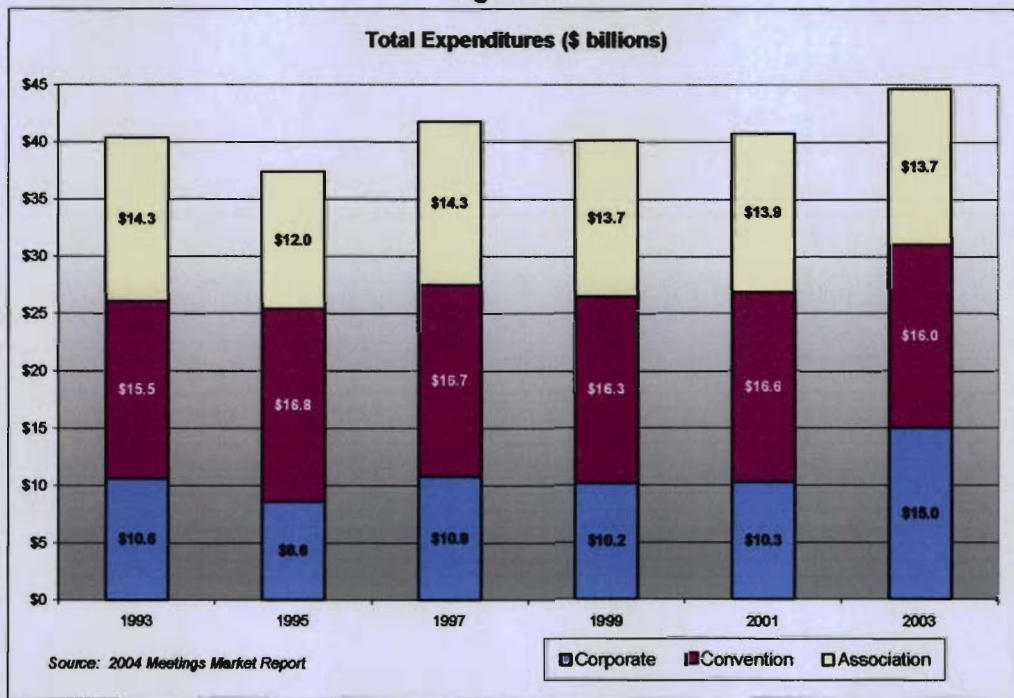


Corporate meetings had the most attendees by far, followed by association attendance and convention attendance. Total attendance was approximately 80 million for all categories throughout the period, except for 1993 and 2003, when attendance spiked to nearly 85 million in each year.

Figure 4-10 shows total expenditures on meetings during the periods.



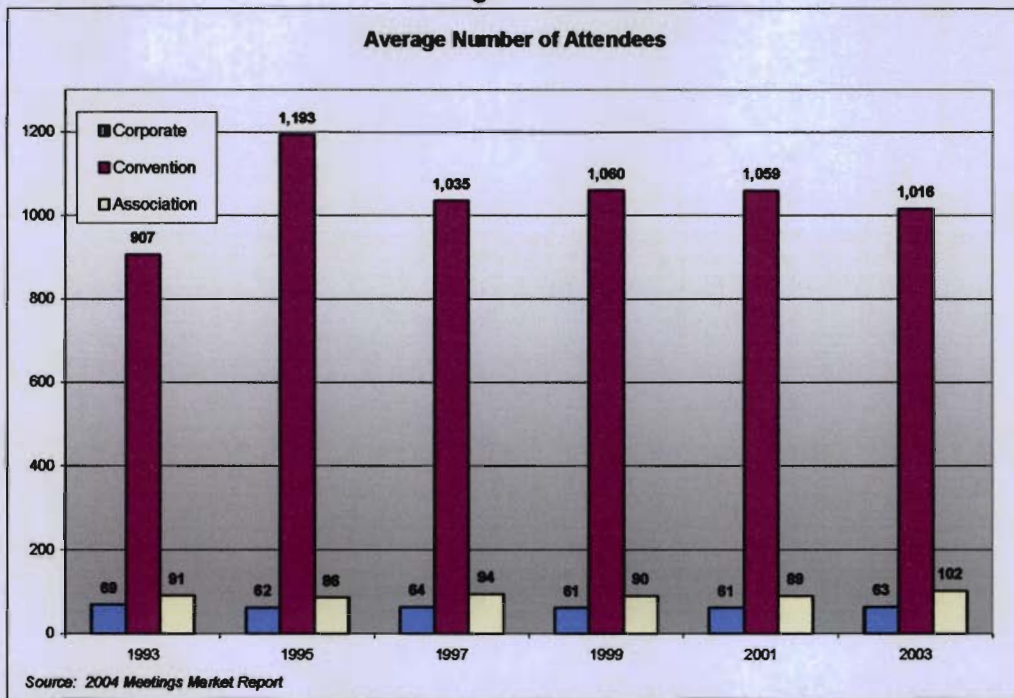
Figure 4-10



Total expenditures on meetings were estimated to have increased from approximately \$40 billion to \$45 billion over the period. In 2003, conventions and corporate meetings spent the most, at \$16 billion and \$15 billion, respectively.

Figure 4-11 shows the average number of attendees at each type of meeting.

Figure 4-11



The average number of attendees is highest at conventions, with an average of just over 1,000. This has varied over the years, but since 1997, the range has been within five percent over or under. Association meetings are the next largest in terms of average attendance with approximately 90 attendees per meeting. Corporate meetings are about one-third smaller at 60 attendees per event. Both association and corporate meetings are the day-to-day bread and butter business of many hotels and even convention centers.

Figure 4-12 shows the estimated breakdown of association and corporate meetings by type.



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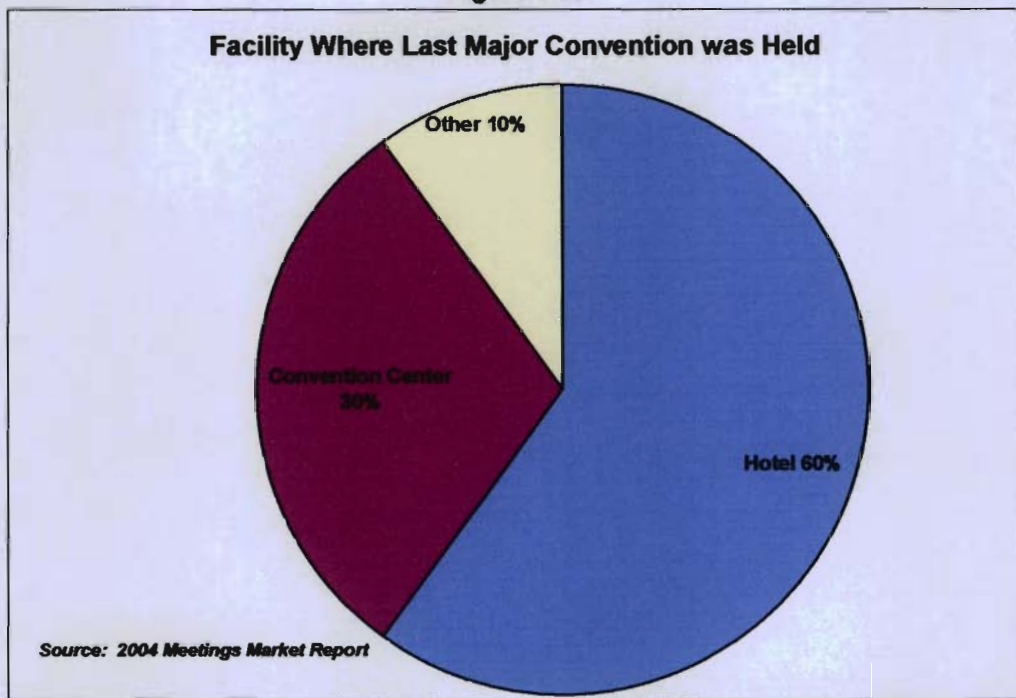
Figure 4-12

Estimated Meetings Market Breakdown (Data from 2001)			
Type	Number	Events % of Total	Avg. Attendance
<b>Corporate Meetings</b>			
Training and Education Seminars	253,200	30%	22
Sales and Marketing Meetings	177,300	21%	90
Management Meetings	151,900	18%	34
Professional & Technical Meetings	76,000	9%	142
New Product Introductions	59,100	7%	96
Group Incentive Meetings	59,100	7%	96
Individual Incentive Meetings	42,200	5%	12
Stockholder Meetings	16,900	2%	61
Other Meetings	8,400	1%	123
Total	844,100	100%	61
<b>Association Meetings</b>			
Training and Education Seminars	65,700	37%	99
Board Meetings	33,800	19%	80
Professional & Technical Meetings	30,200	17%	95
Regional/Local Chapter Meetings	30,200	17%	37
Other Off-Premises Meetings	17,800	10%	152
Total	177,700	100%	89
Source: 2002 Meetings Market Report			

Of the nearly 844,100 corporate meetings, 30 percent were training and education seminars, 21 percent were sales and marketing meetings, and 18 percent were management meetings. The largest single type of corporate meeting (by average attendance) was professional and technical, with 142 attendees. The smallest type was individual incentive with 12 attendees. Association events were comprised of training and education seminars (37 percent), with an average of 99 attendees, followed by board meetings, with an average of 80 attendees. Overall, the 2002 Meetings Market Report shows over one million corporate and association meetings.

Figure 4-13 shows the facility type where an association's annual meeting and/or convention was held.

**Figure 4-13**



While convention centers hold 30 percent of conventions, hotels actually host approximately twice as many, with 60 percent. Resorts and other facilities host a total of 10 percent of annual meetings and/or conventions. This again shows the relative importance of hotels.

Table 4-10 shows the types of facilities used for all conventions and meetings (respondents could give more than one answer).



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**Table 4-10**

<b>Types of Facilities Used</b>	
Downtown Hotels	81%
Resort Hotels (excluding golf resorts)	60%
Suburban Hotels	54%
Convention Centers	52%
Airport Hotels	45%
Golf Resorts	37%
Suites Hotels	31%
Gaming Facilities	18%
Residential Conference Centers	13%
Nonresidential Conference Centers	11%
Cruise Ships	4%
<i>Source: 2004 Meetings Market Report</i>	

Downtown hotels were used by over 80 percent of corporate meetings, a persuasive figure for the enduring appeal of these types of facilities. Resort and suburban hotels and convention centers were used by over half of all meetings. There are no statistics yet for those that use both or would use both downtown hotels and convention centers.

Table 4-11 shows the important factors when choosing a meeting destination/city.

**Table 4-11**

<b>Important Factors when Selecting a Destination</b>			
	<b>Convention</b>	<b>Association Meeting</b>	<b>Corporate Meeting</b>
Availability of hotels and/or other facilities suitable for meetings	83%	79%	74%
Affordability of Destination	77%	81%	77%
Safety and Security of Destination	46%	na	na
Ease of Transporting Attendees to/from Location	43%	na	62%
Transportation Costs	43%	na	na
<i>Source: 2004 Meetings Market Report</i>			

Between convention, association, and corporate meeting planners, there was little differentiation in the factors driving their decision. The top criteria for convention

planners was the availability of hotels and/or other facilities suitable for meetings. It was the second-most important item for both association and corporate planners. Affordability was the most important factor for association and corporate planners and the second most important for convention planners, although based on our experience, convenience is key for state association planners.

Once a destination is selected, planners must then choose a hotel. Table 4-12 shows the important factors for selecting hotels within the destination.

**Table 4-12**

<b>Important Factors when Selecting a Hotel within a Location</b>			
<b>Item</b>	<b>Convention</b>	<b>Association</b>	<b>Corporate</b>
Number, Size and Quality of Meeting Rooms	88%	81%	84%
Number, Size and Quality of Sleeping Rooms	86%	68%	74%
Cost of Hotel or Meeting Facility	84%	86%	82%
Negotiable Food, Beverage and Room Rates	83%	73%	79%
Quality of Food Service	71%	65%	76%

*Source: 2004 Meetings Market Report*

The most important factor for convention and corporate planners when selecting a hotel is the number, size and quality of meeting rooms. This speaks to the power of full-service properties versus limited-service, or rooms-only hotels. This criterion is second most important for association planners. Association and corporate planners share number, size and quality of meeting rooms and affordability of the facility as their two most important factors, which highlights the balance that must be struck between quality and affordability. Cost of the meeting facility is an important criterion for convention planners as well. Note that while the number, size and quality of sleeping rooms is very important for convention planners, it is considerably less important for association and corporate planners, showing convention planners are more concerned with the availability of quality versus affordable hotels. The ability to negotiate food and beverage and room rates is the third most important factor for association and corporate planners, but does not rank nearly as high percentage wise as meeting room amenities and affordability of facilities.

Table 4-13 shows the breakdown of hotel rates paid by groups.



**Table 4-13**

Average Room Rates Paid	
\$0 to \$70	1%
\$71 to \$90	9%
\$91 to \$100	12%
\$101 to \$120	10%
\$121 to \$140	17%
\$141 to \$150	14%
\$151 or more	37%
<b>Average Daily Room Rate</b>	<b>\$151</b>
<i>Source: 2004 Meetings Market Report</i>	

While groups have a reputation for obtaining the lowest room rates, the rates paid by many groups (37 percent) are over \$151. These are usually in resort or popular urban destinations like New York, Chicago, Boston, San Francisco, or Miami. However, for all meetings, only 22 percent paid less than \$100 per room. The other 78 percent were willing to pay more than \$100 per night.

### **South Padre Island Convention Centre Demand**

The Convention Centre is a single-level facility with limited amount of flexibility due to a small number of breakout rooms and one space for exhibitions. Most convention centers provide three essential space types:

- **Exhibit Halls** – As the largest spaces in a convention facility, exhibit halls should be column-free spaces with utilities available through the floor on 30-foot squares. Exhibit halls are used for conventions, tradeshow, and consumer shows that require exhibits, booths, concessions, and large flat-floor expanses. Thirty-foot ceilings are standard and loading docks generally flank one side. Most exhibit halls are divisible. The Convention Centre is currently not divisible.
- **Ballroom(s)** – Ballrooms are the highest-quality spaces in a facility, providing carpeted, chandeliered space for large banquets, performances, and other social events. These can and should also be adaptable for convention usage. Ceiling heights range from 16 to 30 feet (24 to 30 feet is recommended) and multiple divisions via air walls are common. The Convention Centre currently does not have a ballroom.
- **Breakout Meeting Rooms** – Meeting rooms are available not only for individual meetings, but to accommodate the breakout education/demonstration sessions at conventions and tradeshow. The market is trending towards heavier usage of meeting rooms and therefore a competitive advantage can be programmed into a facility by providing more



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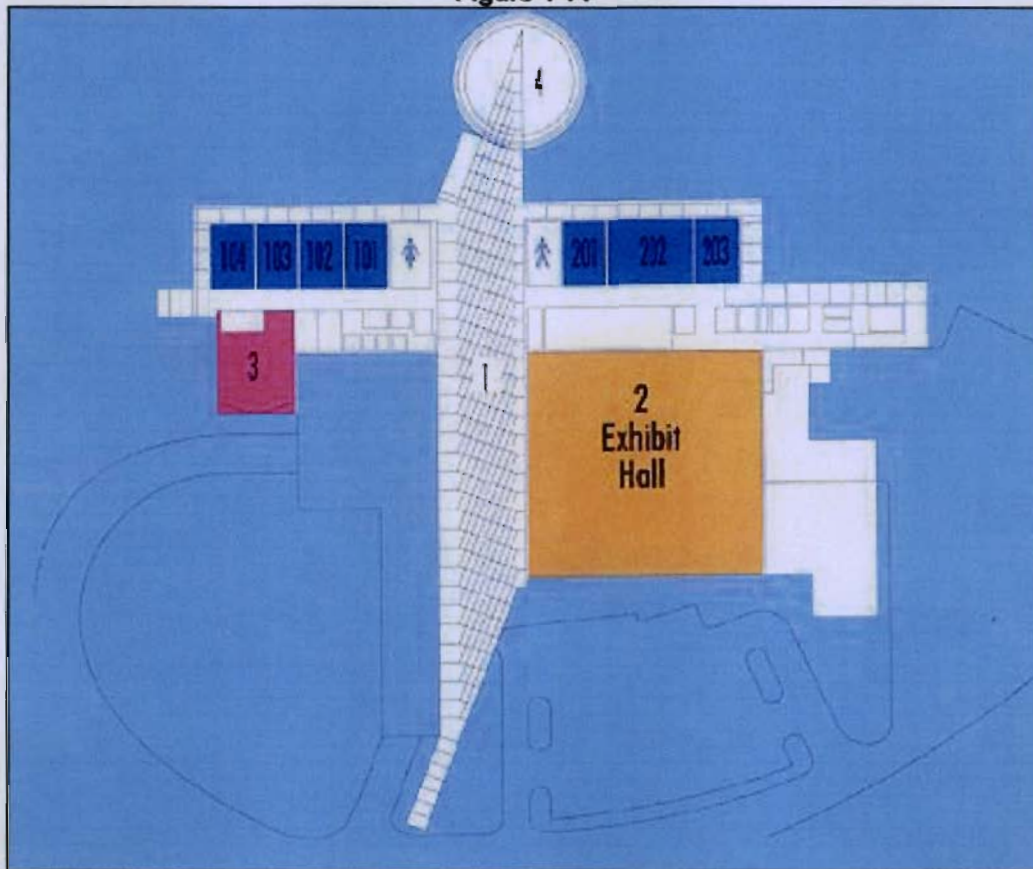
meeting rooms than the competitor buildings. The Convention Centre currently provides several meeting rooms, but their quality requires an upgrade.

In addition to these types of spaces, other specialized spaces are helpful for convention centers. The current Convention Centre offers outdoor event areas and the possible addition of an amphitheater would allow the Convention Centre to further leverage these spaces.

### Physical Layout

Figure 4-14 shows the floor plans of the facility.

Figure 4-14



As shown in the floor plans, the primary multipurpose space is the exhibit hall, offering a total of 22,500 square feet of space. In addition to the exhibit hall, there is the theater, offering 2,633 square feet, seven meeting rooms, totaling 8,381 square



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feet, and two conference rooms with approximately 678 square feet. Combined, the Convention Centre has a total of 34,192 square feet of function space in 11 different rooms, as summarized in Table 4-14.

Table 4-14

South Padre Island Convention Centre Function Spaces				
Area	Square Feet	Capacity		
		Classroom	Theater	Banquet
Exhibit Hall	22,500	1,552	2,200	1,440
Theater	2,633	150	230	180
Meeting Room 101	1,055	48	100	70
Meeting Room 102	1,055	48	100	70
Meeting Room 103	1,055	48	100	70
Meeting Room 104	1,055	48	100	70
Meeting Room 201	1,055	48	100	70
Meeting Room 202	2,165	125	250	170
Meeting Room 203	941	48	100	60
Conference Room H	376	na	na	na
Conference Room J	302	na	na	na
<b>Totals</b>	<b>34,192</b>	<b>2,115</b>	<b>3,280</b>	<b>2,200</b>

Source: South Padre Island Convention Centre

The exhibit hall has the largest capacity with approximately 22,500 square feet, which can accommodate between 1,440 to 2,200 people depending upon configuration. The Convention Centre also includes a flat-floor theater, seven meeting rooms, and two conference rooms.

The Convention Centre is owned by the Town of South Padre Island and managed by the South Padre Island Convention and Visitors Bureau. The operations and debt service for the facility are primarily financed through local hotel/motel occupancy taxes.

Table 4-15 displays financial operating information for the Convention Centre for fiscal year 2003.

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Table 4-15

<b>South Padre Island Convention Centre</b> <b>Actual Revenues and Expenditures Fiscal Year 2003</b>	
	Convention Center Fund
<b>Direct Revenues</b>	
Rental Fees	\$193,126
Concession Food Commissions	3,102
Catering Commissions	46,069
Beverage Commissions	5,215
AV Rental Commissions	3,958
Convention Decorating Commissions	3,435
Equipment Rental	16,195
Event Security Fees	1,500
Event Electric Fees	10,999
<b>Total Direct Revenue</b>	<b>\$283,599</b>
<b>Direct Expenditures</b>	
Supervision	\$45,450
Clerical	32,350
Labor	165,126
Temporary Employees	11,972
Overtime	4,463
Benefits	67,441
Other	7,837
Goods and Supplies	54,722
Repair and Maintenance	41,492
Miscellaneous Services	256,849
<b>Total Direct Expenditures</b>	<b>\$687,703</b>
<b>Operating Loss</b>	<b>(\$404,103)</b>
<b>Supporting Revenues</b>	
Hotel/Motel Occupancy Tax	\$1,819,525
Miscellaneous	34,872
<b>Total Supporting Revenue</b>	<b>\$1,854,397</b>
<b>Capital &amp; Other Expenditures</b>	
Equipment	\$585,201
Transfer to Debt Service Fund	809,625
Transfer to Miss Teen USA Fund	57,767
<b>Total Capital &amp; Other Expenditures</b>	<b>\$1,452,593</b>
<b>Total Revenues</b>	<b>\$2,137,996</b>
<b>Total Expenditures</b>	<b>\$2,140,295</b>
<b>Ending Balance</b>	<b>(\$2,299)</b>
Source: SPICVB, Johnson Consulting	



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Total revenues received directly from the operation of the Convention Centre total \$284,000. Total direct expenditures are \$688,000, resulting in a \$404,000 annual loss for the Convention Centre. The loss is subsidized through the hotel/motel occupancy tax of approximately \$1.82 million. The hotel/motel occupancy tax is also used to fund debt service, capital expenditures, and the Miss Teen USA fund. The hotel/motel occupancy tax is currently levied at a total of 7.5 percent, with four percent dedicated to fund the South Padre Island CVB, three percent to fund the Convention Centre, with the remaining 0.5 percent to fund special projects.

## Event Demand

In 2004, the Convention Centre hosted 56 events and generated 58,500 attendees. Table 4-16 shows the historical facility's event demand by type from 1996 to 2004.

Table 4-16

South Padre Island Convention Centre									
Total Annual Events									
Year	Conventions/ Conferences	Meetings	Box Office	Trade Show	Function	Special Event	Sports	Totals	Attendance
1996	15	18	12	10	16	6	0	77	87,169
1997	15	16	10	12	17	7	0	77	111,051
1998	29	20	9	13	15	5	0	91	91,531
1999	31	14	10	7	17	4	0	83	72,320
2000	41	6	7	5	12	10	0	81	75,980
2001	25	6	9	6	12	9	0	67	76,815
2002	24	4	6	6	5	10	5	60	58,315
2003	29	5	3	7	4	16	5	69	72,320
2004	23	0	2	6	0	13	12	56	58,525
<b>Averages</b>	<b>26</b>	<b>10</b>	<b>8</b>	<b>8</b>	<b>11</b>	<b>9</b>	<b>2</b>	<b>73</b>	<b>78,225</b>

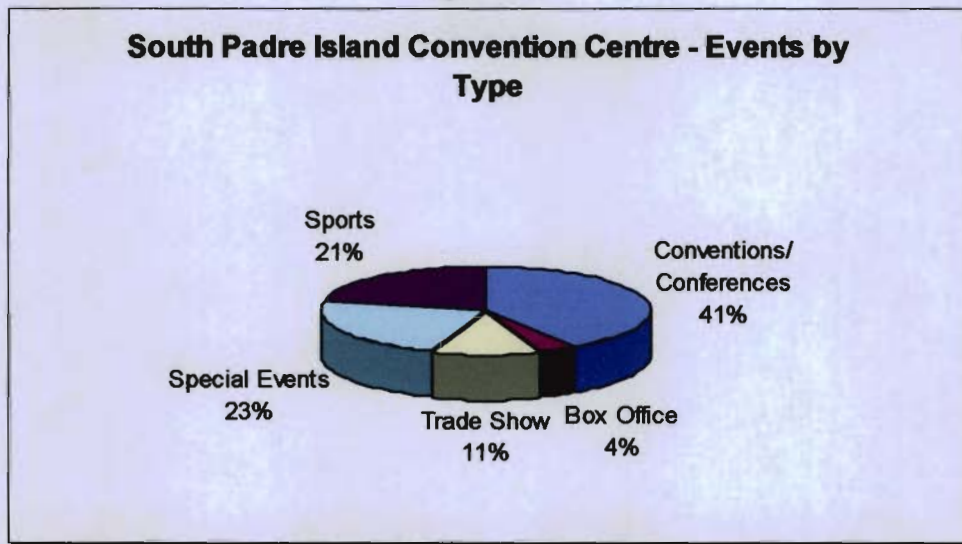
Source: SPICVB, Johnson Consulting

Demand has steadily decreased in terms of number of events and attendance since 1996. The number of events and attendance for 2004 is well below the average since 1996 of 73 events and approximately 78,000 attendees. Conventions/Conferences account for the majority of lost events, from a peak of 41 events in 2000 to a current 23 events in 2004. According to the CVB, figures for 2005 will show an increase from 2004.

Figure 4-15 shows how this usage is broken down by event type for 2004.



Figure 4-15



Even with the considerable decrease over the last four years, the Conventions/Conferences category accounts for the largest event demand at 41 percent. Special events generated approximately 23 percent of total events hosted in 2004.

South Padre Island is unique as a market due to its natural amenities with its location on the Gulf. It is also, as discussed, a very popular regional tourist destination. However, the Convention Centre has been particularly hampered in recent years by a lack of breakout space and higher-quality amenities similar to that of full-service hotels with which it regularly competes.

However, it is difficult to quantify the exact amount of decreased business at the Convention Centre due to the lack of facility specific data for the Convention Centre. As with the financials presented previously, the tracking of event information is not always segregated between facilities within South Padre Island. While some data is Convention Centre specific, such as number of events and total attendance, data concerning marketing efforts and lost business is for South Padre Island as a whole. This is due to the South Padre Island CVB serving in a dual capacity in marketing all of South Padre Island's tourism amenities and as operator of the Convention Centre. In order to more fully understand the impact of an improved facility and to better justify the likely operating subsidy the improved Convention Centre will require, we recommend accounting for the all Convention Centre operation and marketing efforts to the highest level of segregation possible.

The South Padre Island CVB markets not only South Padre Island as a destination in general, but also the Convention Centre. As previously mentioned, the staff



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attributed to the Convention Centre is for operations only, the marketing of the facility is accounted for through the operations of the SPICVB. However, the director of the Convention Centre left in late 2004, with the current SPICVB Director of Sales now filling both her current position and as Convention Centre director.

Table 4-17 displays the total revenues by category and expenditures by department for the South Padre Island CVB.

Table 4-17

South Padre Island Convention and Visitors Bureau Actual Revenues and Expenditures - Fiscal Year 2003	
	Hotel/Motel tax Fund
<b>Revenues</b>	
Hotel/Motel Occupancy Tax	\$2,428,782
Other Non-Property Taxes	3,142
Fees and Services	10,765
Miscellaneous	12,345
<b>Total Revenue</b>	<b>\$2,455,034</b>
<b>Expenditures</b>	
Visitors Bureau	\$314,664
Sales & Marketing	1,794,082
Events Marketing	385,860
<b>Total Expenditures</b>	<b>\$2,494,606</b>
<b>Ending Balance</b>	<b>(\$39,572)</b>
Source: Town of South Padre Island, SPICVB, Johnson Consulting	

The South Padre Island CVB is funded primarily through a portion of the hotel/motel occupancy tax. Currently the hotel/motel occupancy tax is levied at 7.5 percent with the South Padre Island CVB funded through four percent of the tax. However, for the 2005 budget year this has been increased to 4.5 percent. The South Padre Island CVB is divided into three departments with expenditures totaling approximately \$2.5 million. The net deficit of the South Padre Island CVB was approximately \$40,000 in fiscal year 2003.

Table 4-18 shows a detail of expenditures by department for the South Padre Island CVB.

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Table 4-18

South Padre Island Convention and Visitors Bureau Expenditures Detail - Fiscal Year 2003				
Expenditure Category	Visitors Bureau	Sales & Marketing	Events Marketing	Total
Personnel Services:				
Supervision	\$28,635	\$130,575	\$0	\$159,211
Clerical	0	94,585	0	94,585
Labor	20,777	133,627	34,079	188,483
Benefits & Other	57,474	104,398	7,319	169,191
Sub-total	\$106,886	\$463,186	\$41,398	\$611,470
Goods & Supplies	134,803	71,935	533	207,271
Bulk Goods & Supplies	5,280	66,591	0	71,871
Repair & Maintenance	10,146	4,694	1,409	16,249
Miscellaneous Services	37,279	1,178,086	6,867	1,222,232
Equipment	20,271	9,590	0	29,861
Spring Break Expenses	0	0	43,349	43,349
Tourism & Cultural Expenses	0	0	253,385	253,385
Interfund Transfers	0	0	38,919	38,919
Total Expenditures	\$314,664	\$1,794,082	\$385,860	\$2,494,606

Source: Town of South Padre Island, SPICVB, Johnson Consulting

The Sales and Marketing department is the largest department in terms of expenditures with approximately \$1.8 million and includes expenses for the majority of South Padre Island CVB staff and most of its advertising and media expenditures. The expenditures of the Events Marketing department are primarily used for the staging of special events in South Padre Island. The Visitors Bureau department primarily consists of goods and supplies, with the majority of this being postage expenses.

## Turnaway Demand

Turnaway demand is group business that considered South Padre Island but after learning of certain deficiencies, decided not to hold their meeting or convention in the city. Table 4-19 displays total number if lost business by reason for fiscal year 2003-2004.



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Table 4-19

South Padre Island - Lost Business FY 2003-04	
Reason	Number of Responses
Internal Organization Decision	24
Cancelled	20
Hotel Rates Too High	8
No Reason Provided	5
Previous Destination	4
Hotel Room Inventory Too Low	3
No Available Rooms	2
Limited Air Service	2
Insufficient Meeting Space	2
Economy	2
Meeting Space Not Available	1
<b>Total</b>	<b>73</b>

Source: South Padre Island CVB, Johnson Consulting

The majority of lost business for South Padre Island consisted of either events being canceled or due to extenuating circumstances beyond South Padre Island's control. However, for those listing deficiencies with the amenities offered in South Padre Island, hotel rates and lack of hotel room inventory were most common. It is unclear why so many events cancelled. This is an unusually high number.

## Latent Demand

Latent demand refers to groups that would come if they could be accommodated or the quality level they require cannot be met. There are groups in the table above that clearly could not be accommodated either due to lack of rooms or lack of space at the Convention Centre or hotels. Yet we also believe that there is latent demand from many of the groups that were surveyed as they need higher quality accommodations and meeting spaces. There are presently a number of quality offerings in Texas and in order to compete effectively, South Padre should offer a solid package of quality hotel and meeting/convention options. Currently, the area is dominated by older properties and independent offerings, as well as a Convention Centre that is showing its age. If quality and quantity were improved, this latent demand (which is difficult to calculate), would likely be attracted to South Padre Island. For example, half of our survey respondents would return to the island if there were larger accommodations. So clearly, there are happy clients who simply cannot fit in the existing facilities.

### **Regional and Local Convention and Hotel Facilities**

The State of Texas has a number of major convention and conference facilities, as would be expected for a State of its size. As shown in Table 4-20, 23 facilities in Texas offer exhibition space of at least 18,000 square feet with an average offering of over 180,000 square feet. The high average within the State is due to seven facilities offering over 200,000 square feet of exhibition space, with the Dallas Convention Center offering nearly 1 million square feet of space. In addition to exhibition space at convention centers, the State also has a large number of hotels with exhibition space.



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Table 4-20

State of Texas Convention Centers		
City	Facility	Exhibit Hall Space (Square Feet)
<b>Convention Centers:</b>		
Dallas	Dallas Convention Center	951,726
Houston	George R. Brown Convention Center	853,000
Houston	Reliant Center	582,647
San Antonio	Henry B. Gonzalez Convention Center	421,687
Austin	Austin Convention Center	246,097
Fort Worth	Fort Worth Convention Center	228,000
Dallas	Dallas Market Hall	202,375
Mesquite	Big Town Exhibit Hall	93,000
El Paso	El Paso Convention & Performing Arts Center	80,000
Corpus Christi	American Bank Convention Center	76,500
Amarillo	Amarillo Civic Center	63,545
Arlington	Arlington Convention Center <sup>1</sup>	48,600
Waco	Waco Convention Center	47,000
Longview	Maude Cobb Convention Center	44,978
Lubbock	Lubbock Memorial Civic Center	40,000
Wichita Falls	Multi-Purpose Events Center	38,000
Tyler	Harvey Convention Center	26,027
Pasadena	Pasadena Convention Center	23,000
South Padre Island	South Padre Island Convention Centre	22,500
Plano	Plano Centre	21,600
Abilene	Abilene Civic Center	20,000
Port Arthur	Port Arthur Civic Center - Convention	20,000
Temple	Frank W. Mayborn Civic & Convention Center	18,500
<b>Average</b>		<b>181,251</b>
<b>Hotels with Exhibit Facilities:</b>		
Grapevine	Gaylord Texan Resort & Convention Center	179,040
Dallas	Wyndham Anatole Hotel	118,000
Dallas	Hyatt Regency Dallas	55,000
Galveston	Moody Gardens Hotel, Spa & Convention Center	52,780
Galveston	Galveston Island Convention Center at The San Luis Resort	43,100
Frisco	Embassy Suites Hotel Dallas	41,760 <sup>2</sup>
San Antonio	Marriott San Antonio Rivercenter	41,600 <sup>2</sup>
Dallas	Adam's Mark Dallas	40,800 <sup>2</sup>
Houston	Hilton Americas - Houston	39,138 <sup>2</sup>
The Woodlands	The Woodlands Waterway Marriott Hotel & Convention Center	37,180
Houston	Hyatt Regency Houston	28,000
Austin	Hilton Austin	27,452 <sup>2</sup>
Houston	The Westin Galleria	26,034
Dallas	Hyatt Regency D/FW Airport	26,000
Addison	InterContinental Dallas	25,400 <sup>2</sup>
Horseshoe Bay	Horseshoe Bay Resort Marriott Hotel	12,012 <sup>2</sup>
San Antonio	Marriott San Antonio Riverwalk	9,800 <sup>2</sup>
<b>Average</b>		<b>47,241</b>

<sup>1</sup> Expansion under consideration.

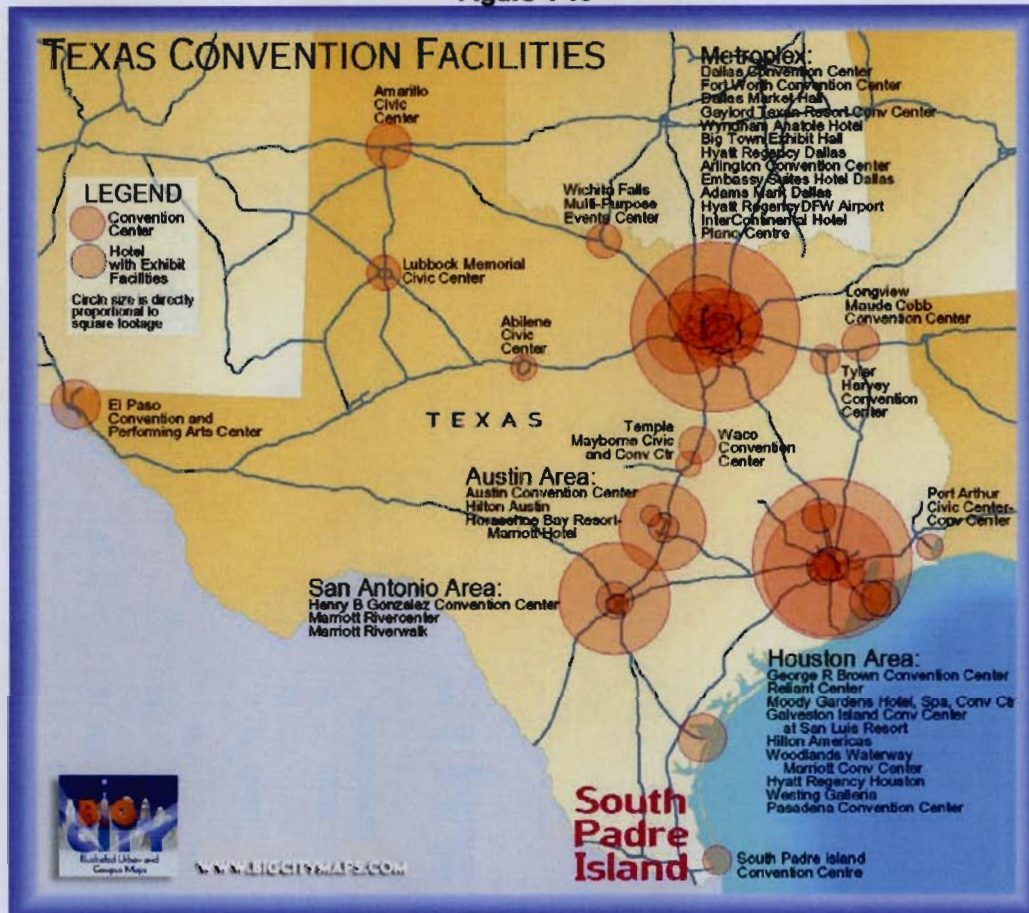
<sup>2</sup> Denotes capacity of largest function space

Source: Mpoint, Johnson Consulting



Figure 4-16 presents the above data in a geographic format.

Figure 4-16



As shown by the map, most facilities with exhibition space are primarily centered around the Metroplex and Houston areas, and to a lesser degree Austin and San Antonio. Both the Metroplex and Houston areas are home to several facilities with 100,000 or more square feet of exhibition space. With the exception of a few facilities along the coast in the Houston area, few exhibition facilities are located along the Gulf Coast or south of San Antonio.

Among the major facilities in the state, the Dallas Convention Center is the largest, offering in excess of 950,000 square feet of exhibit space. While Texas offers a variety of convention spaces, including several large spaces, over half offer exhibition spaces of less than 50,000 square feet. Total exhibition space ranges from 18,500 square feet at the Frank W. Mayborn Civic & Convention Center in Temple to over 950,000 square feet at the aforementioned Dallas Convention Center.



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The current Convention Centre, with 22,500 square feet, is one of the smaller facilities in the State. As such, the current Convention Centre is small enough that it competes directly with a number of meeting hotels in the major metropolitan areas throughout the state. Yet it also is the only facility for hundreds of miles.

There are approximately 17 hotels throughout the State with exhibition halls of sufficient space to compete with the State's convention centers. The hotels with exhibit facilities tend to be concentrated in the major metropolitan markets of Dallas, Houston, and to a lesser extent San Antonio. A notable exception to this is Galveston with Moody Gardens and the Galveston Island Convention Center at the San Luis Resort. All can compete against the current Convention Centre, with the Convention Centre directly competing with the Gaylord Texan, Horseshoe Bay Resort and Marriott Riverwalk. The Gaylord Texan represents the largest hotel with exhibit facilities at approximately 180,000 square feet and the Marriott Riverwalk the smallest at 9,800 square feet. As these exhibit facilities are attached to hotels that are some of the highest quality in the State, all offer a level of quality non-existent in the current Convention Centre. The average size of exhibit facilities offered in State's hotels is approximately 47,000 square feet, double that of the current Convention Centre.

In order for the current Convention Centre to compete with either statewide convention centers or meeting hotels, it needs to add function space, increase quality, and provide additional adjacent hotel rooms.

### **State Association Survey**

Johnson Consulting conducted a survey to determine meeting planners' assessment of South Padre Island. The list was provided by the SPICVB, so it includes those groups and planners whom South Padre Island may have targeted already. This skews the results heavily toward those who are familiar with South Padre's offerings. While results cannot be relied upon to generate absolute numbers, they provide clear insight into the decision-making of state association meeting planners. Result data points follow:

#### **1. *Where is your organization based?***

All but three of the respondents were based in Texas, primarily Austin. The other three respondents were based in Research Triangle Park, North Carolina; Madison, Wisconsin; and Washington, D.C.

#### **2. *What facility or facilities have you held your annual meeting/convention in the last three years? Please comment on reason for any variation.***



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Approximately two-thirds of respondents hosted an event in South Padre Island in the last three years, with approximately half of those respondents utilizing the Convention Centre. The Radisson was the primary other venue used in South Padre Island, with the Sheraton, La Quinta, Bahia Mar, and La Copa also mentioned by at least one organization. All except two other organizations had hosted events in Texas in the last three years, with the two hosting events in Washington, D.C. and various cities in Florida.

### 3. *What is your annual average attendance?*

Average attendance was widely varied from a low of 30 attendees to as many as 10,000 attendees. The average attendance listed by survey respondents was approximately 500 people.

### 4. *What is the gross amount of exhibit space required?*

Approximately 75 percent of those surveyed required exhibit space of 10,000 square feet or less. The remaining 25 percent ranged from 20,000 square feet to 80,000 square feet, with an average of approximately 30,000 square feet.

### 5. *What is the ballroom size required?*

A wide range of answers were received from respondents to this question. One-third of respondents felt a ballroom of approximately 7,000 square feet or less would be sufficient for their events needs. The remaining ranged from 10,000 square feet to 20,000 square feet, with several respondents specifying ballroom needs of approximately 50,000 square feet.

### 6. *How many breakout meeting rooms would be ideally available?*

In general respondents required approximately six to eight break out rooms, with a low of two rooms to one respondent requiring 100 rooms. The average number of breakout rooms required was approximately 12 rooms.

### 7. *If a room block is required, how many rooms on the peak night?*

The average room block required on a peak night was approximately 300 to 400 rooms. A room block of between 700 to 800 rooms was also specified by approximately four respondents. However, as with size of facilities required, the range was considerable, from as few as 25 rooms to as many 6,000 rooms.



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### **8. *What type of hotel do you prefer?***

Over half of respondents preferred a full-service property, with the remaining seeking affordable accommodations, specifically within the State specified rate (currently the State daily reimbursable rate for lodging is not to exceed \$80.00).

### **9. *How close should it be to the convention center?***

Over two-thirds of respondents preferred hotels within walking distance of convention center, with the majority of these respondents requesting facilities that are attached. Those respondents not requiring the convention center to be within walking distance of the hotel, at minimum required the facilities to be within, on average, two miles or less, preferably with transportation by shuttle.

### **10. *What amenities, services, and facilities do you require at your headquarter hotel?***

Amenities specified tended to be on-site restaurants and food service, in addition to such amenities as exercise facilities and high levels of available technology (audio/visual, business center, wireless internet, etc.). Exercise facilities and a pool were also frequently mentioned by respondents as required amenities.

### **11. *How many days is your annual meeting/convention?***

On average, respondents' events lasted approximately three and one-half days. The range for respondents sponsored events was one to seven days, with one respondent hosting a seven week (Monday through Friday) event.

### **12. *Have you held a meeting or convention in South Padre Island?***

Almost 80 percent of the respondents have hosted an event in South Padre Island. This likely means that our survey group did not include many larger groups that cannot currently be accommodated.

### **13. *If so, what facility?***

The Convention Centre was used by just under half of all respondents, with half of these respondents using the Convention Centre in conjunction with other facilities in South Padre Island. The Radisson and Sheraton were the two other facilities mentioned most often, each utilized by approximately 40 percent each of respondents (respondents often mentioned several facilities in their response to this question).



**14. *Why would you return?***

The location was cited by almost half of respondents, with the staff at the Convention Centre closely following.

**15. *Why would you NOT return?***

Almost half of respondents cited lack of space as main reason for not being able to return to South Padre Island. Approximately 20 percent stated they could not think of any reason not to return to South Padre Island. Another 20 percent cited lack of excellent service would prevent their group's return, with one stating hotels were difficult to work with and had a hotel not fulfill its commission promise.

**16. *If you have not used South Padre Island, would you consider using the convention center there in its current state?***

Respondents were almost evenly divided on this question.

**17. *If no, why not?***

Two reasons were specified for not hosting an event at South Padre Island, primarily the small size of the Convention Centre followed closely by hotels not being located within close enough proximity to the Convention Centre.

**18. *What quality of space would you need in order to consider South Padre Island?***

Respondents were more concerned with quantity versus quality of space offered in their responses. Any reference to quality of facility included cleanliness. A number cited the need for high levels of technology.

**19. *What services would you require?***

A number of services were cited, typically along the lines of what are offered at full service hotels, with respondents specifically citing catering, audio/visual, and transportation.

**20. *What level and quality of catering do you require?***

While some respondents specified both excellent quality and service as a must for catering, the majority of respondents sought catering of good quality coupled with reasonable prices and cooperative staff. Approximately 25 percent of respondents had minimal to no catering requirements.



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- 21. *If an expanded/improved convention center were in place, how often do you think your group would go to South Padre Island?***

Over half of respondents would use the facility at least once a year with improvements to the facility. Remaining respondents envisioned using facility on a rotating basis, approximately once every three to five years.

- 22. *Would this be enhanced if a full-service hotel were included?***

Over 80 percent of respondents felt an improved facility would be enhanced by a full-service hotel included.

- 23. *How large a hotel would need to be part of the convention complex?***

Average number of rooms cited by respondents was approximately 450 rooms. Approximately 30 percent would require a hotel of approximately 200 to 300 rooms, with another 30 percent requiring a hotel with approximately 500 to 600 rooms. Several respondents required hotels with room offering of 800 rooms or more.

- 24. *Would South Padre Island's location inhibit your using it for your organization's events?***

Over 75 percent of respondents would not be inhibited by South Padre Island's location for future events.

- 25. *Would the addition of an outdoor concert venue near the existing convention center influence your decision to host your event at South Padre Island?***

The addition of an outdoor concert venue would influence 40 percent of respondents' decisions to host an event at South Padre Island.

- 26. *If yes, in what way?***

Not many specifics were cited by respondents on the addition of an outdoor concert venue, except that it would add to the overall appeal of South Padre Island and its potential as additional function space for their events.

- 27. *How much would attendance decrease or increase if an event were hosted in South Padre Island?***

Half of all respondents stated hosting an event at South Padre Island would impact their attendance, with all but one of these foreseeing an increase of



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anywhere from 10 percent to 50 percent. Other respondents believed their attendance would remain the same or felt it was too difficult to judge.

*Overall, comments from planners who could go to South Padre Island urged the expansion of the Convention Centre with inclusion of an attached hotel.*

### **Texas Tourism Industry**

The following information was summarized from "The Economic Impact of Travel on Texas" study completed for Texas Economic Development in October 2004.

In 2003, total direct travel spending in Texas was \$41.2 billion, an increase over 2002, but still nearly \$1.0 billion below the peak in 2000. Total direct spending in Cameron County was estimated at \$557.0 million, which represents an approximate three percent average annual increase over the last ten years. However, as with the State as a whole, total direct travel spending has leveled since 2001.

Tourism in Texas is supported to a large extent by intrastate travel, with 51 percent of travel spending within Texas done by Texas residents. Out-of-state residents accounted for approximately 40 percent of travel spending in the State, with nine percent from international tourists. Only Florida and California have a higher percentage of intrastate travel spending.

The Texas tourism industry supports 477,000 jobs with total earnings of approximately \$13.3 billion. In Cameron County alone, 7,650 jobs were supported by tourism in 2003, which represents an average growth rate of approximately one percent over the last ten years. The multiplier effect of re-spending of travel related revenue accounted for an additional 419,000 jobs and \$13.3 billion in earnings.

Travel spending generated \$2.9 billion in state and local taxes (excluding property taxes) in 2003. For Cameron County, \$43.5 million in state and local taxes were generated in 2003, with an annual growth rate of 3.5 percent since 1994.

The strength of the Texas tourism industry is considerable and its future quite strong, especially with the high number of travelers from locations within the State.

### **South Padre Island Group Demand Implications**

South Padre Island continues to host a number of group events, even with the limited amenities of the Convention Centre. A number of group demand needs are filled by packaging area hotels and the Convention Centre together. The Radisson and Bahia Mar, in particular, have a high percentage of their overall demand driven by groups. These hotels, in addition to several others, with multiple meeting rooms



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and a considerable amount of space for facilities of their type, have hosted a variety of group business types.

Based on national surveys, our survey of Texas meeting planners, anecdotal and recorded evidence of local civic leaders, and our own collective industry experience, those interested in bringing their meetings and conventions to South Padre Island, but currently cannot or do not, have the following needs:

- Additional hotel with a minimum of 250 rooms,
- Additional function space, including ballroom and breakout rooms,
- Full-service amenities, including late-hour room service and high-speed internet,
- Connectivity or ease of access to the Convention Centre, and
- On-site or easy parking options to cut down on transport.

With these needs met via a new development adjacent to the Convention Centre, the impact of the renovated Convention Centre, the proposed hotel, and other amenities together will be maximized.

### **Other Critical Factors**

The success of a group destination has been interpreted by some experts as a stool with three legs: without just one leg, the stool falls over and is ineffective. The three legs are the convention facility, the hotel package, and the sales and marketing infrastructure. The first leg, the facility, has become a public priority as it is addressed within this study, with the second, the hotel package, will also be addressed, as it may be lacking. The third, sales and marketing infrastructure is just as critical to success. We also address this issue.

The effectiveness of sales efforts by the SICVB and Convention Centre and the area hotels, including any new hotel, all play a vital role. Finally, our experience in numerous markets has led us to the conclusion that cooperation amongst market-wide stakeholders is critical to the success of the whole.

South Padre Island has begun to address the need to redevelop and improve itself; however, the lack of sufficient function space and hotel capacity near the Convention Centre may inhibit the overall vitality of South Padre Island. Fostering the success of an improved Convention Centre and possible proximate hotel will have positive spillover benefits for the other hotels throughout South Padre Island. Yet the other hotels throughout South Padre Island are also critical partners in the effort to lure new business to South Padre Island and should be encouraged to help in market-wide group sales efforts as well as track the business they receive from the improvements to the Convention Centre.



### **Industry Implications for South Padre Island**

The meetings and convention industry has expanded significantly over the past ten years in both supply of events and new and/or expanded quality venues. This expansion has led to an increase in the size and quality of convention and meeting facilities as well as the development of adjacent headquarter hotel properties to support these complexes. As the supply improved, expectations by planners increased as well. Those complexes that have not or do not meet the needs of planners will lose customers.

For any locality wanting to participate fully in the business of hosting meetings and conventions, preparations should be made to:

- Build or upgrade meeting facilities to industry standards,
- Work to leverage the community's unique market niche (for South Padre Island, the climate/location factor is crucial),
- Focus the physical program of the building to meet the market's needs, and
- Induce the development of high-quality hotel stock connected, adjacent, or within easy walking distance of the meeting complex.

Additionally, planners are also looking for entertainment, food, and retail offerings in their destinations. South Padre Island could further set itself apart from its competition by offering a total package of such items for visitors.

South Padre Island already produces a steady stream of mostly regional and some national event business at the current Convention Centre. In order to tap a wider spectrum of business, especially events that bring overnight guests, significant improvements will be necessary.



## **V. AMPHITHEATER MARKET ANALYSIS**

## **AMPHITHEATER MARKET ANALYSIS**

### **Amphitheater Industry History**

Amphitheaters, which generally consist of a permanent pavilion with any combination of fixed, indoor, outdoor, covered, and lawn seating, are among the oldest public assembly facility types. Similar to other types of public assembly facilities, public and private investment in amphitheater development increased dramatically in the 1990s and during 2000 - 2001. Half of the country's amphitheaters have been built in the last 20 years.

Amphitheaters vary in size and orientation, and have as few as approximately 500 seats or as many as 20,000 plus. In addition, depending on a market's climate, amphitheaters may be outdoor facilities, may have a combination of indoor, outdoor, and covered seating, or may have the capability to convert covered seating areas to a completely enclosed facility in order to provide for year-round use. New amphitheater development did not become popular until the mid-1970s, when increased demand for and acceptance of such facilities by both performers and attendees led to a building boom. As the supply of indoor arenas increased across the country, performers and promoters looked for alternative venues that had lower production and overhead costs; as a result, promoters and others began investing in amphitheaters and other similar facilities. During this period, event demand at amphitheaters led directly to a decline in the number of concerts held at indoor arenas, particularly during the late spring, summer, and early fall, when the weather is more conducive to outdoor events.

More often, the facilities are owned, operated, managed, or exclusively booked by concert promoters, which has given the promoters incentive to book their acts at their own facilities and has led to increased overall event demand at these facilities. However, as the number of facilities has increased, so has competition between facilities to host a fairly finite number of events, which has further exacerbated problems within the music industry, in particular outdoor concert venues.

### **Summer Tour Trend 2004 to Present**

While amphitheaters have been the centerpiece of growth in the summer touring industry throughout the 1990's and the early 2000's, 2004 marked a shift. While it was not certain at first if this was an anomaly or the beginning of a negative trend, initial indications for the 2005 summer tour season have confirmed this is not a one year anomaly.

In the first half of 2004, the total number of tickets sold for the Top 50 clubs was up about 400,000 tickets, while the Top 50 indoor theatres showed an increase of



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840,000 tickets. The Top 50 Arenas also sold more than 800,000 tickets than was reported in 2003 (Pollstar). Total ticket sales were down for the first half of 2004 by 2 percent, but gross receipts were up 11 percent. This was due to the average ticket price increasing 14 percent, from \$51.76 to \$58.87.

The amphitheater market, however, did not perform as well as the rest of the venue types. In fact, the 50 largest 'sheds' in the country, the mega-amphitheaters of 18,000 - 20,000 capacity, reported a 1.1 million ticket decrease in sales from 2003, a decline of 35 percent. One potential reason for the drop in attendance is the attempt by the industry to swing for the fences when it comes to ticket prices. Madonna topped the average ticket price with her tour at \$175. Most groups base their prices based on what was achieved by similar acts recently, but in mid-April 2004, the buying public simply stopped buying tickets en masse. As a result, some tours were cancelled and many others were downsized. Other tactics included ticket giveaways or merely not selling all of the prime seats. One exception to the trend in 2004 was that country music remained strong throughout the season.

Initial indications for 2005 show the outdoor concert market has improved little. The primary reason for the drop in the industry has been ever increasing performer fees, which have led to decreased profits for the venue owners and promoters as ticket prices have already been increased to their limit, as evident by the decrease in demand in 2004. This has caused many promoters to abandon outdoor venues unless the performer is guaranteed to sell out shows.

A further indication of decreased profitability in the market is Clear Channel, one of the largest promoters, particularly in outdoor venues, spinning off its entertainment division. While Clear Channel states this is to allow its entertainment division more flexibility, according to industry insiders, it is more likely Clear Channel is attempting to divest itself of a money-loser, as its profits fell by more than half in the first quarter of 2005.

### Promoter interviews

Several promoters were contacted to gauge interest in an amphitheater in South Padre Island.

- **House of Blues Entertainment, Inc. (HOB)** - Currently, HOB books 20 amphitheaters around the U.S. of which it owns and operates 12 of these. HOB staff stressed the need for a strong local base from which to draw concert attendees as this is the core of attendees to any concert at an amphitheater. From their past experience in such locales as Myrtle Beach, tourists are likely to attend concerts, but only during the limited tourist season, thus necessitating a strong local market to support the amphitheater during the off-season. Myrtle Beach, a market of approximately 40,000



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people, has had a difficult time attracting sufficient local demand, a very realistic consideration for South Padre Island with a population of less than 3,000 people. In addition, the amphitheater business is exceptionally tough due to competition and the high overhead of production costs and musician fees.

- **Direct Events, Austin** – Direct Events promotes concerts throughout Texas, including for several facilities that it owns and operates in Austin. As a general rule, Direct Events avoids markets with free, popular competing attractions, such as a beach. Tourists may be an advantage since they are a captive audience; however, this needs to be taken in consideration that tourists are generally on a fixed budget and would only attend events where ticket prices were kept at \$20 or less. Direct Events has some experience with tourist markets, as it promoted three shows in Galveston, where it had a difficult time attracting attendees. HOB in Myrtle Beach and Direct Events are both important examples for South Padre Island. An additional consideration voiced by Direct Events is the potential noise problems for neighboring homes and condominiums located near the amphitheater. The Southpark Meadows amphitheater in Austin was recently closed because of this, and Direct Events has had considerable complaints about noise from its outdoor concert venue.

### **State-Wide Facilities**

The State of Texas currently has a number of amphitheaters that serve the concert and special events markets. These facilities range in size from less than 3,000 seats to more than 20,000 seats, and include venues with a variety of seating arrangements and weather protection for concerts, performing arts, and other events.

Table 5-1 summarizes these facilities, listed by size.



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**Table 5-1**

Supply of Amphitheater Seats in the State of Texas				
Venue	Location	Seating		
		Fixed Seats	Additional Capacity	Total Capacity
Smirnoff Music Center	Dallas	7,533*	12,578	20,111
Cynthia Woods Mitchell Pavilion	The Woodlands	4,709**	11,442	16,151
Concrete Street Amphitheater	Corpus Christi	0	8,000	8,000
Wolf Pen Creek Amphitheatre	College Station	0	7,700	7,700
Southern Star Amphitheatre at Six Flags Astroworld	Houston	1,650	5,000	6,650
Cole Park Anderson Amphitheater	Corpus Christi	0	5,000	5,000
Somervell County Texas Amphitheater	Glen Rose	3,250	1,750	5,000
Fair Park Band Shell	Dallas	3,800	700	4,500
Sunken Garden Theater	San Antonio	872	1,828	2,700
<b>Averages</b>		<b>2,424</b>	<b>6,000</b>	<b>8,424</b>

\* Covered  
 \*\* 2,741 covered, 1,968 uncovered.  
 Source: AudArena Guide, respective facilities

As shown by the table, all but two of the Texas amphitheaters, have capacity for between 3,000 to 8,000 spectators. The two largest amphitheatres in Texas are correspondingly located in or near its two largest metropolitan areas, Dallas and Houston. On average, venues within the state have approximately 2,400 fixed seats, with capacity for an additional 6,000 spectators on lawn seating. With the exception of the two larger venues, the mid-size amphitheaters are open-air.

Of note is the recent loss of the aforementioned Southpark Meadows 20,000-seat amphitheater in Austin due to complaints from adjoining residential neighborhoods. The loss of a major music venue in a city renowned for its support of live music may be indicative of future trends previously outlined for the outdoor music industry.

The facilities represented by Table 5-1 are oriented towards different types of events, which further limits the direct competition between venues. For example, the two largest venues primarily focus on large, national summer concert events, while such venues as the Sunken Garden Theater and Fair Park Band Shell are more oriented to local concert and community events. The Concrete Street Amphitheater and Wolf Pen Creek Amphitheatre are able to also draw mid-level nationally recognized acts with available seating of approximately 8,000 in each venue. However, the remaining amphitheaters are more community-oriented, with the Southern Star Amphitheatre designed to capture visitors to Six Flags Astroworld.



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In addition to the above-referenced amphitheaters, indoor venues throughout the state continue to host concert events during the summer months. Table 5-2 displays a list of the primary arenas for concert events throughout the state.

Table 5-2

Supply of Primary Arenas* in the State of Texas			
Venue	Location	# of Seats**	Approx. Distance from SPI (miles)
American Airlines Center	Dallas	20,000	570
Toyota Center	Houston	19,300	380
Reunion Arena	Dallas	19,206	570
SBC Center	San Antonio	18,000	300
Erwin Special Events Center	Austin	17,800	375
Fort Worth Convention Center Arena	Fort Worth	13,000	560
American Bank Center Arena	Corpus Christi	10,500	180
Laredo Entertainment Center	Laredo	10,000	220
Travis County Expo Center	Austin	9,500	375
Southeast Texas Entertainment Complex	Beaumont	8,200	465
Ector County Coliseum	Odessa	7,569	640
Amarillo Civic Center	Amarillo	7,500	900
Lubbock Municipal Coliseum	Lubbock	7,013	705
San Angelo Coliseum	San Angelo	6,500	510
Dodge Arena	Hidalgo	6,000	80
* Primary Arena defined as a venue with a professional sports franchise tenant.			
** For concert configuration.			
Source: Revenues from Sports Venues, AudArena Guide, respective facilities			

As shown by the table, the number of primary arenas (defined as having a professional sports tenant) within the state is far more plentiful than the number of amphitheaters. Primary arenas range in size from 20,000 seats to as few as 6,000 seats. Located throughout the state, primary arenas are well represented in large metropolitan areas, but also are present in a smaller capacity, in such communities as Odessa and Hidalgo. Further, the number of primary arenas located proximate to South Padre Island is limited to the Dodge Arena in Hidalgo, approximately 80 miles away and venues in Corpus Christi and Laredo, approximately 180 and 220 miles from South Padre Island. The Dodge Arena hosted 115 events over a one year period, including 25 concerts. The limited number of concert venues within close proximity to South Padre Island would allow for a greater ease of entry into the market place for a potential outdoor concert venue.



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### Comparable Facility Performance

In order to evaluate the potential performance of a South Padre Island amphitheatre, Johnson Consulting reviewed the demand calendars of two facilities which have amenities that could eventually being incorporated into a facility for South Padre Island. The two facilities are briefly described below.

*Mud Island Amphitheater, Memphis, Tennessee* – is owned by the City of Memphis and features 5,000 seats rising up the bank of the Island from a stage set near the Mississippi River. The venue is situated in Mud Island River Park, which features a scale-model flowing replica of the Mississippi River complete with topographical details of cities, sandbars, and river system tributaries. Also located within the Park are the River Museum, River Terrace Restaurant, and a tram and pedestrian walkway to Mud Island.

*Scene Pavilion, Cleveland, Ohio* – opened in 1987, the Scene Pavilion is located in the Flats Entertainment District on the Cuyahoga River, which draws approximately 2.5 million visitors per year. The facility recently underwent a \$4.6 million renovation and also added the House of Blues as the exclusive promoter and manager. The renovation of the facility included a dramatic tensile style cover, permanent rest rooms, and additional concession stands in addition to increasing its capacity to 5,000 seats.

Table 5-3 shows the demand characteristics for each of the amphitheaters listed above.

Table 5-3

Comparison of Amphitheater Performance			
	Mud Island Amphitheatre - Memphis, TN	Scene Pavilion - Cleveland, OH	Average
Total Capacity	5,100	4,834	4,967
Total Events	10	28	19
Total Attendance	25,634	77,309	51,472
Average Attendance	2,563	2,761	2,662
Source: Respective facilities, Johnson Consulting			

As the table shows, the volume of events varies markedly by facility, but the private facility (Scene) is far more aggressive in its programming than the public facility (Mud Island). Nonetheless, each venue has developed a strong identity in their marketplace, and, if properly programmed and promoted by professionals, there is



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no reason to believe that a potential South Padre Island amphitheater would not evolve to this level.

### South Padre Island Recommendations

Several important considerations need to be weighed in determining a recommendation for an amphitheater in South Padre Island, including:

- Small market size,
- Climate, primarily wind and humidity,
- Physical environment, i.e. sand,
- Seasonality of market,
- Noise considerations, and
- Utilization of professional management and promoter.

As shown by the comparable facilities outlined above, amphitheaters tend to average 10 to 30 events annually, with attendance varying widely due to capacity, market, etc. With so few permanent residents, we believe that any facility built should be conservative until the market is truly tested.

The initial facility for South Padre Island should provide:

- An amphitheater with a full stage and basic lighting and sound capability (most acts will bring their own).
- Seating for 2,000 people undercover, with additional capacity, up to 5,000, in lawn seating behind the covered area.
- Ability to expand.
- Premium seating/service options.
- Concession, novelty sale, and bathroom areas.
- Dressing rooms and storage areas.

While not as large as the comparable facilities or the majority of other facilities located throughout the state, this configuration allows for South Padre Island to test the market for such a venue, without overburdening its operating and capital costs with a large, underutilized facility. Local radio stations and other promoter organizations should be tapped to generate events for the new facility or a formal request for proposal process should be initiated for professional management and booking. In addition, the amphitheater would be another asset to distinguish South Padre Island from competitors assisting the CVB in its efforts to market the Convention Centre. The above serves as phase one analysis and recommendation.



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We believe the topic, like the retail, restaurant and entertainment developments discussed, deserve further detailed study and recommendations. Also, a business plan for moving forward is recommended.

## **VI. DEVELOPMENT CRITERIA AND PROGRAM RECOMMENDATIONS**



## **DEVELOPMENT CRITERIA AND PROGRAM RECOMMENDATIONS**

Based on the market demand, current physical issues and opportunity for future business, we recommend the following improvements:

- Addition of a 12,000-square foot ballroom adjacent to the exhibit hall.
- Expansion of the exhibit hall to 30,000 square feet. This assumes the new ballroom can be made part of the exhibit hall if necessary, increasing total flat floor space to 42,000 square feet. The design of the exhibit hall should consider civic, entertainment and sports uses, which may require greater ceiling heights than are typical.
- Elimination of many of the tourism offices onsite, save for convention sales offices shared with Centre management. Conversion of these into meeting rooms maximizes the building.
- Addition of 5,000 square feet of breakout meeting rooms.
- Improvement of all systems, especially HVAC. Improved finishes and amenities.
- Addition of a 300-room full-service group resort hotel onsite. Estimated cost of \$60 million (to be discussed later in this report).
- Physical connections from both the hotel and Convention Centre to the Birding Center.
- Potential small scale amphitheater with seating for 2,000 under cover and 5,000 on the lawn/sand. This deserves further study, as the economics are tenuous. In addition, environmental issues (tidal flats) will add cost and time to project. Estimated cost of the amphitheater is approximately \$9 million, which does not include any site-related mitigation costs.
- Reconfigured and expanded parking. With the amphitheater, structured parking will be required. The cost of a structured parking facility has not been included in any of the cost estimates presented within this report.

When considering how the improvement and expansion of the South Padre Island Convention Centre (Convention Centre) will best be accomplished, the long term development of the facility must be considered with the expectation of anticipating, if not directing, the impacts to the surrounding areas. The facility must be located adjacent to and supported by hospitality infrastructure that includes lodging, dining, shopping, and entertainment. Convention center facilities rely heavily on these elements for support, and conversely, these elements cannot survive solely on the business generated by the convention center. Planning these relationships is critical. While South Padre Island is not known for its well-executed planning, the



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existing location of the Convention Centre is positive for the long-term success of the complex, as it is in the path of growth, yet has available land upon which to expand.

The approach to facility development should combine both site attributes and design flexibility to achieve the best combination of responses to all of these issues. Weighing costs against the importance of achieving specific attributes will ultimately be a difficult aspect during the decision making process.

### **Building Program Recommendations**

What follows is the first step in an iterative design process.

Currently, there are 11,600 square feet of meeting rooms, including the 2,600 square foot flat floor "theater" space, and a 22,500-square foot exhibit hall. There is currently no ballroom, which can typically be the busiest portion of the building. There is little back-of-house space and inadequate storage capacity. The reconfigured space will allow for 13,800 square feet of breakout meeting rooms, public circulation/pre-function space, provide dedicated back-of-house space, and new kitchen and storage facilities. Additional administrative office space is also required to house two additional office staff.

Figure 6-1 shows the configuration of the existing facility and Table 6-1 shows the existing facility program.



Figure 6-1

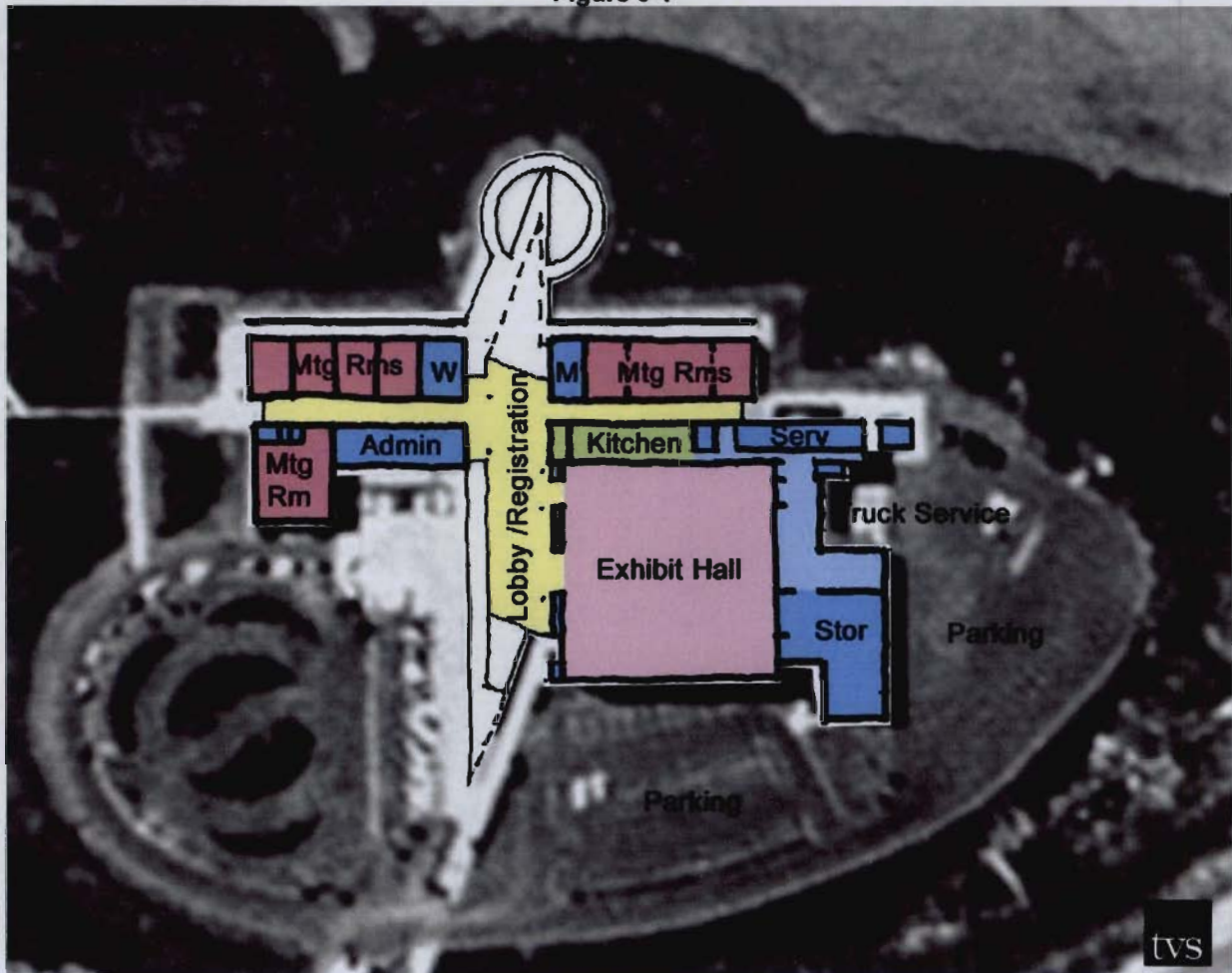


Table 6-1

Current South Padre Island Convention Centre Program		
Function Area	Square Feet	% of Total
Exhibit Hall	22,500	29%
Meeting Rooms	11,600	15%
Total	34,100	44%
<b>Pre-Function, Kitchen, Service, Storage</b>		
Existing Building	42,750	56%
<b>Gross Building Area</b>	<b>76,850</b>	<b>100%</b>
Source: TVS, Johnson Consulting		

Optimally, the facility would provide a ratio of six (6) square feet of support space for every five (5) feet of function space. As shown above, the existing facility has an appropriate overall ratio of support space to function space; however the relative mix of these support spaces is disproportionately weighted toward public circulation space, leaving inadequacies in the back-of-house spaces. This imbalance has led to a difficult operation and storage situation at the current facility. As stated previously, the lack of ballroom has inhibited the overall performance of the facility.

In addition to the above, a minimum of 800 parking spaces should be available to the facility. There are currently 600 spaces, but it is assumed other planned development on the property will eliminate approximately one-half of these spaces. In addition, parking for the proposed amphitheater will be required totaling approximately 1,500 spaces. While this parking can be shared, additional parking, either as surface parking or in structured parking will be required for the Convention Centre itself totaling 500 spaces.

The following proposed program in Table 6-2 displays how meeting the needs for back-of-house space as well as a slightly expanded exhibit space and new ballroom would more than double the amount of space under roof.



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Table 6-2

Proposed South Padre Island Convention Centre Program		
Function Area	Square Feet	% of Total
Exhibit Hall	30,000	18%
Ballroom	12,000	7%
Meeting Rooms	16,500	10%
Total	58,500	35%
<b>Pre-Function, Kitchen, Service, Storage</b>		
Existing Building	42,750	25%
New Support Space	67,600	40%
Total	110,350	65%
<b>Gross Building Area</b>	<b>168,850</b>	<b>100%</b>
Source: TVS, Johnson Consulting		

In the proposed expanded facility, there will be a total gross building area of 168,850 square feet. Of this, 35 percent, or 58,500 square feet will be function space and the balance, 110,350 square feet, will be programmed for pre-function, docks, storage, kitchen, etc. Note that the balance of space in this case does not achieve the optimal ratio of function space to support space noted above. The primary factor in this is the facility's configuration, which is driven by the arrangement of the site. The proposed concept plan locates all the function spaces on one level, requiring both service and public circulation spaces that connect the facility together, leading to a higher than normal ratio of circulation to other spaces.

In addition to the above building recommendations, at minimum 800 parking spaces should be available to the expanded Convention Centre. This will only be possible to accomplish via structured parking or significant expansion of the existing surface parking.

Figure 6-2 shows the proposed configuration of the expanded facility. We recommend approximately 30,000 square feet of exhibit space, created by adding a sixty-foot bay to the east side of the existing space. We also recommend that an operable wall be added to the expanded space to permit its division into two 15,000 square foot spaces. A new 12,000 square foot ballroom should be provided along with an adjacent full service banquet kitchen and appropriate pre-function space. Finally, four new meeting rooms, one of which is to be treated as a board room, are recommended bringing the facility's meeting room space total to 16,500 square feet.

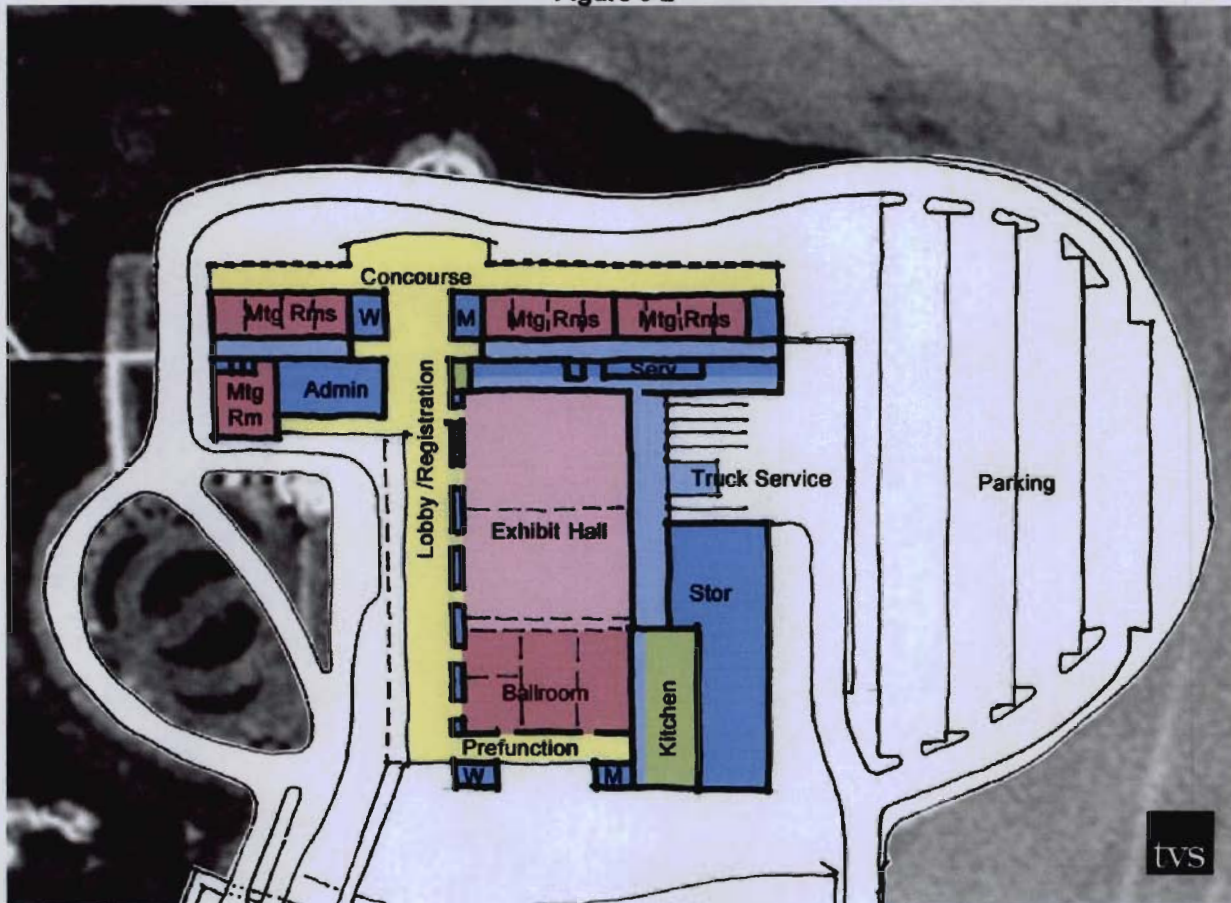


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One of the key aspects of the renovation of the existing space is the conversion of the current meeting room concourse areas to back-of-house service space. This will help mitigate the current lack of storage space as well as allow the facility staff to provide a higher level of service than is presently possible. In addition, we recommend that the removal of the permanent walls remaining between the existing meeting rooms and the removal of the columns at the center of these walls. This will allow greater flexibility in the size of the rooms that can be provided, enhancing the marketability of the Convention Centre's meeting room space.

Figure 6-2



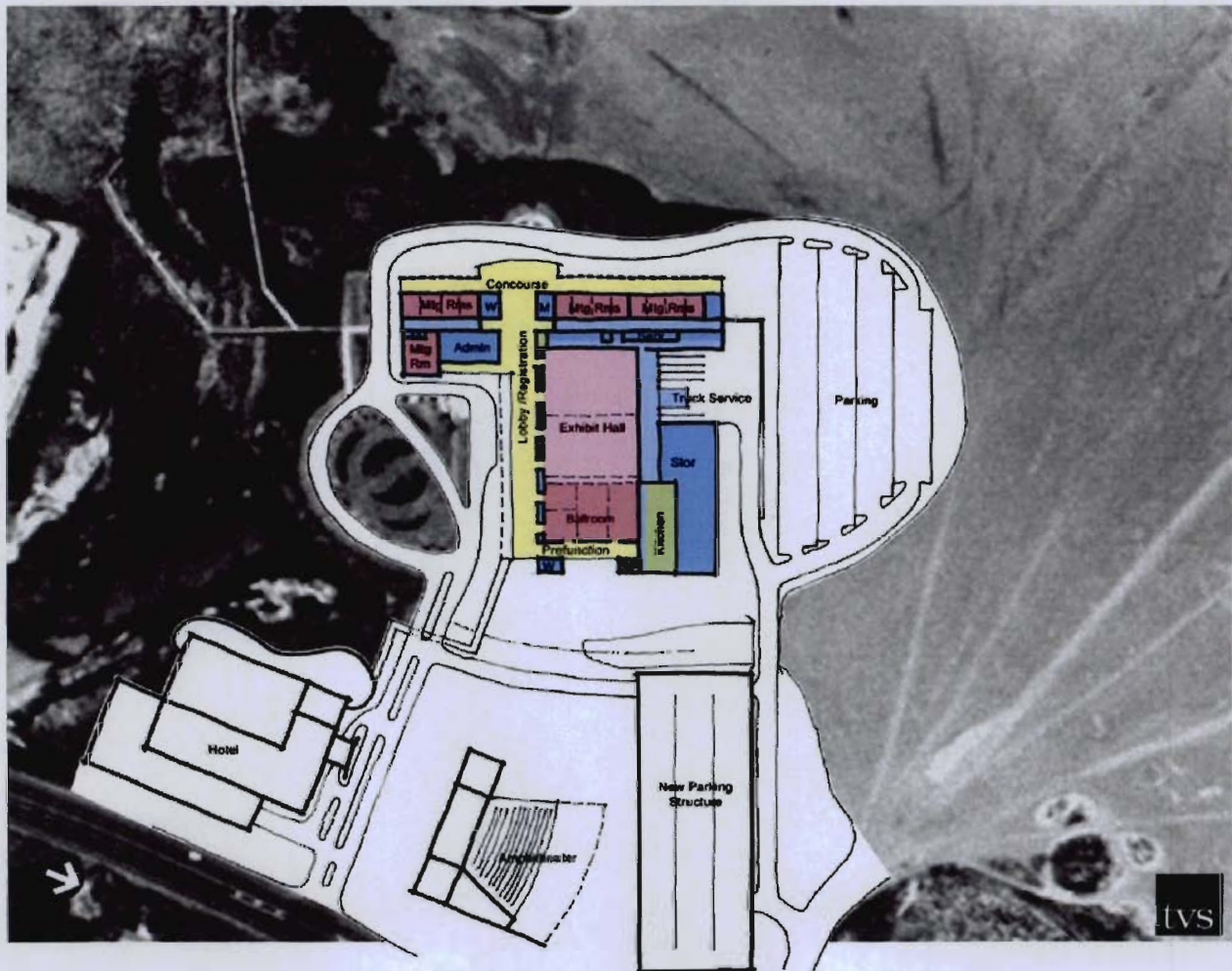
As shown, the focus for the pre-function space becomes the bay front. Whereas before there was little focus on the nature surrounding the building, in this scenario, anyone using the ballroom or meeting rooms would be treated to a view of the bay front. The connection to the Birding Center would need to be adjusted.



## Master Plan Narrative

Figure 6-3 shows a plan for the site lay-out. The master plan includes a recommended location for the 300-room hotel as well as a basic amphitheater facility.

Figure 6-3



The Convention Centre expansion is contained within the elevated building pad already created for the existing facility. Although some additional fill will be required, it is minimal. The key modification to the existing facility is the reorientation of the public circulation spaces toward the bay, enhancing the attendee's opportunities to experience this unique feature of the site. The orientation



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of the ballroom pre-function and concourse also provides additional animation to the building facade as visitors approach, enhancing the facilities "front door" image. In addition, a new drop off road is provided along the bay side, giving access to additional parking on the north as well as providing another front door option.

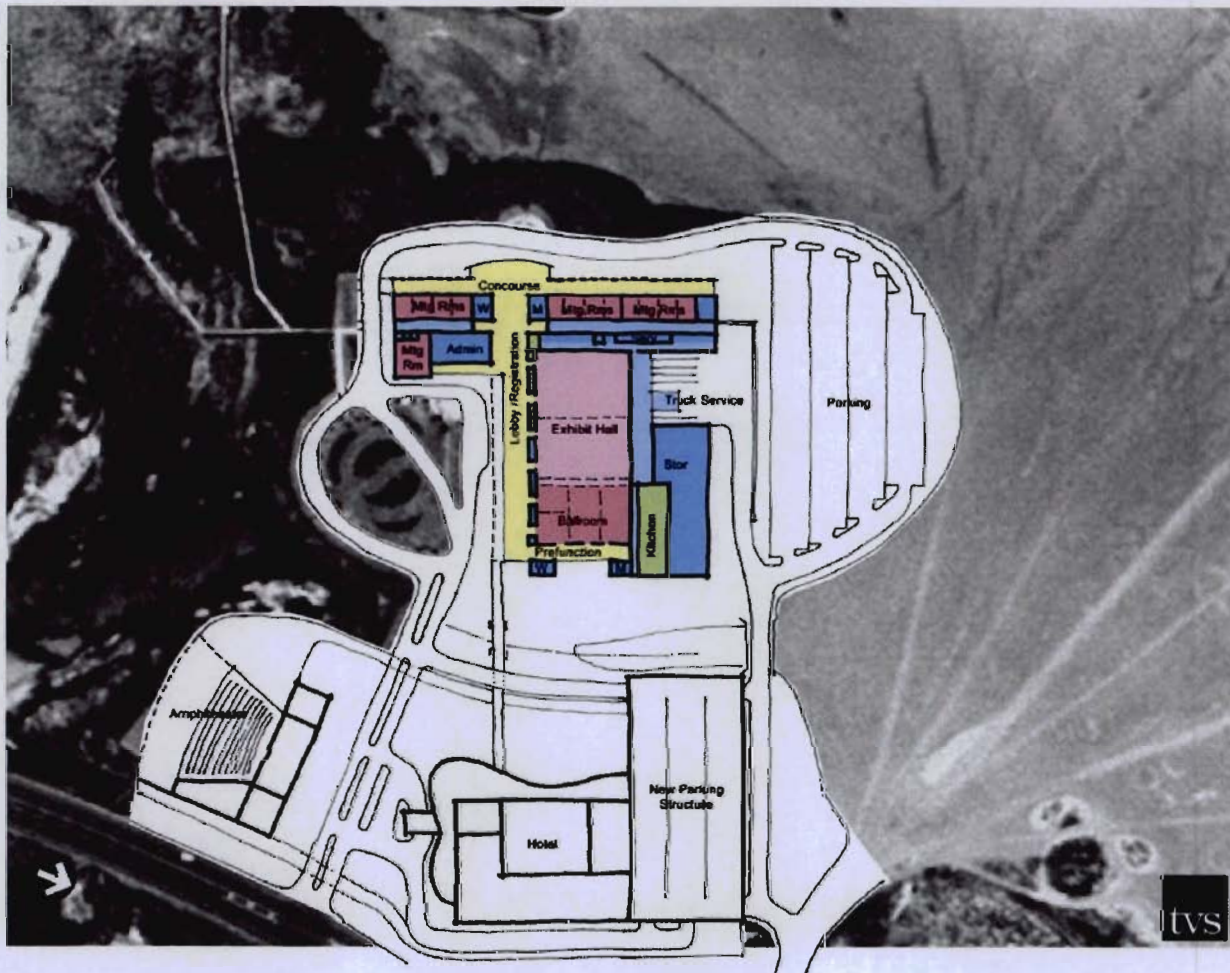
One option for the hotel's location takes advantage of the wetlands and bird sanctuary area as an amenity since a beach location would be very difficult and expensive to construct given the anticipated regulatory constraints. Another option is to have the hotel sit atop the pre-function and other columned areas, providing enhanced views of the Bay.

The amphitheater is configured to allow for 2,000 seats under cover plus additional lawn seating, and is located across the entry drive from the hotel. The parking required for the amphitheater is shown as a new parking structure, replacing the existing surface lot and adding parking for the amphitheater. Access would be provided from the existing entry drive as well as from the existing access point to the tidal flats just to the north.

A second option, shown in Figure 6-4, would reverse the arrangement of the hotel and amphitheater. This arrangement would place the hotel in a location that would allow a more direct connection to the convention centre. Parking for the hotel and amphitheater would be combined in the new parking structure shown.



Figure 6-4



The Phase 1 master plan options shown above anticipate additional future expansion, leading to a 90,000 square foot exhibit hall, a 30,000 square foot ballroom, and 30,000 square feet of additional meeting space along with appropriate support spaces. This full master plan is illustrated, with both hotel and amphitheater options in Figure 6-5 and Figure 6-6.

Figure 6-5

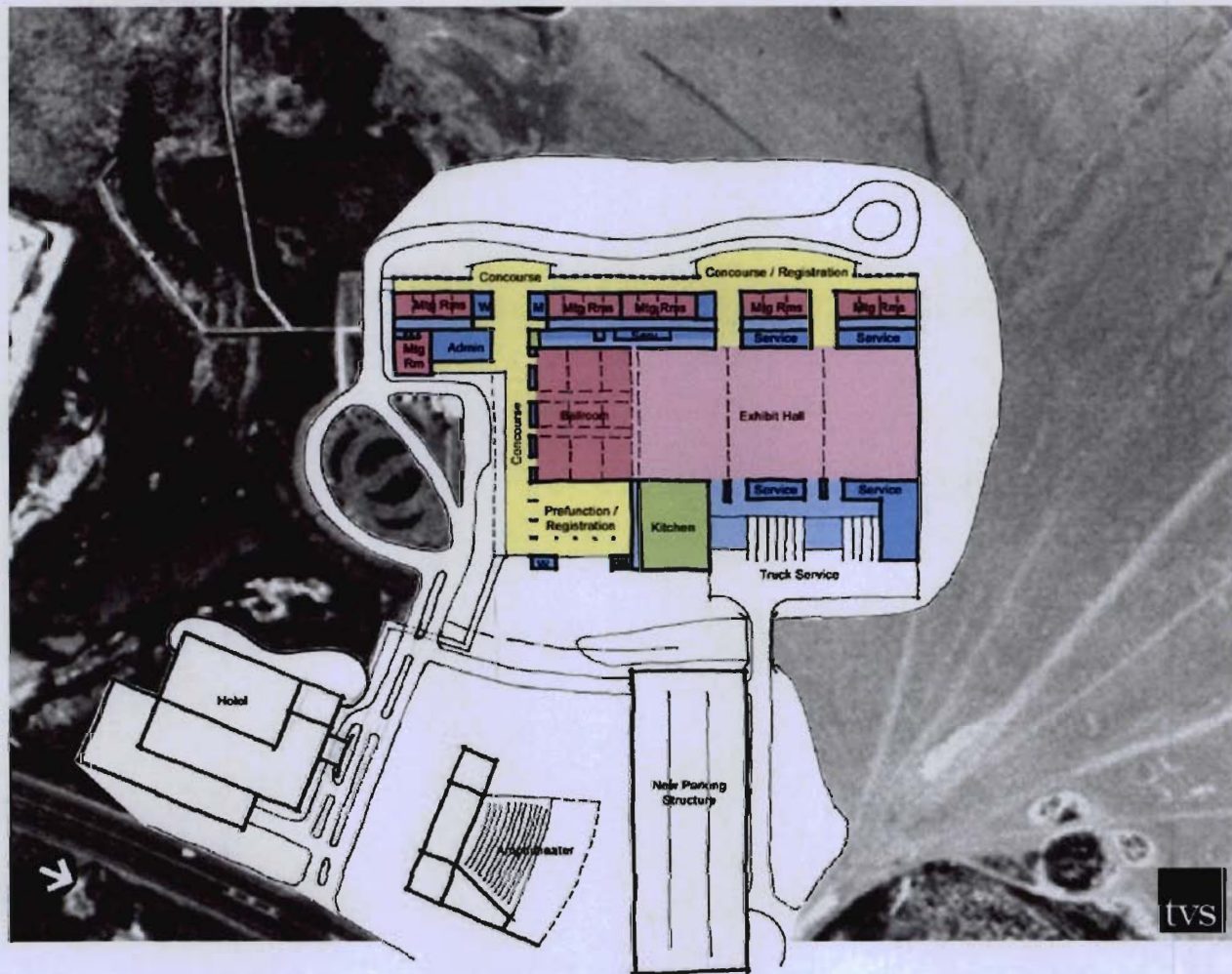
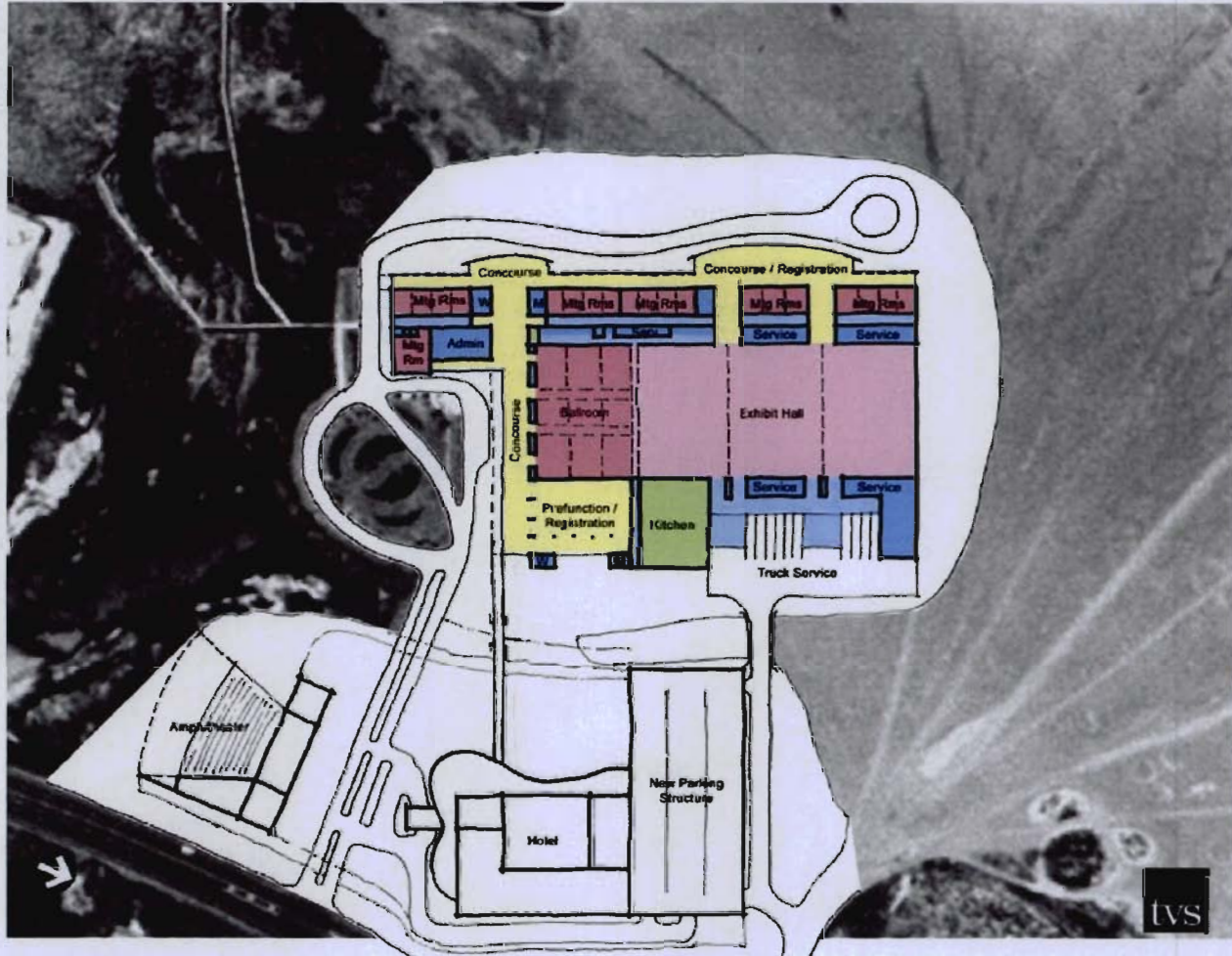




Figure 6-6



### Preliminary Statement of Probable Cost

Based on the building program summarized earlier in this section, TVS developed a preliminary capital cost estimate for the expanded convention center facility, as shown in Table 6-3. This initial capital cost represents the highest level of quality that could be supported in the market, but is not the only cost option, as various trade-offs with regard to finishes or phasing could be adopted to minimize the initial capital outlay.



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Table 6-3

South Padre Island Convention Centre Expansion Estimated Development Budget			
	Size or units	Unit Cost	Cost
I. Enclosed Space			
New Construction	92,000 SF	\$180 /sf	\$16,560,000
Existing Facility Renovation	76,850 SF	\$120 /sf	\$9,222,000
Total Enclosed Space	168,850 SF		\$25,782,000
II. Landscape and Site Amenities			\$1,000,000
<b>Total Construction Costs</b>			<b>\$26,782,000</b>
Soft Cost Allowances			
Professional Services		15.0% of const. cost	\$4,017,000
FF&E Allowance		10.0% of const. cost	\$2,678,000
Contingency		10.0% of subtotal cost	\$3,348,000
<b>Potential Project Budget</b>			<b>\$36,825,000</b>

Source: TVS, Johnson Consulting

As shown in the table, the expanded Convention Centre, at the upper end of the quality spectrum and incorporating all recommended program elements, will cost approximately \$25.8 million to construct. Including the soft costs (i.e., professional services, allowance for fixture, finishes, and equipment, and contingency), total development budget is approximately \$36.8 million.

Table 6-4 shows the total expected cost for the expansion, additional parking, an amphitheater, and a convention hotel. Please note that the hotel costs could likely be less than this and the project would not necessarily be totally funded by the public sector.

Table 6-4

South Padre Island Convention Centre Total Project Costs	
Project	Cost
Convention Centre Renovation/Expansion	\$36,825,000
New Hotel Construction	\$60,000,000
Amphitheatre	\$9,000,000
Parking Structure*	\$12,800,000
<b>Total Project Costs</b>	<b>\$118,625,000</b>

\*800 spaces at \$16,000 per space.

Source: TVS, Johnson Consulting

The total costs are nearly \$119 million, of which half is the suggested hotel program.



## **VII. COMPARATIVE FACILITY ANALYSIS**

## **COMPARATIVE FACILITY ANALYSIS**

Johnson Consulting compiled market and facilities data for several cities throughout the United States that have some comparability with South Padre Island or its facility. While each of these markets varies from South Padre Island in many regards, they have been chosen to illustrate the strategies that have been used to develop assembly facilities, and review the market factors that point to the demand potential in South Padre Island if an appropriately competitive facility is in place.

Further, information about the event demand and financial performance of these similar facilities provides insight into the general parameters within which an improved facility in South Padre Island can reasonably expect to operate. As a rule, it typically takes three to seven years for an events facility to stabilize its operations, including a renovated venue. This reflects the time required for an improved facility to get into the sales cycle in the convention and meetings industry (18 months to five years), the need of direct market and support organizations such as a CVB to become more sophisticated in their event targeting and sales functions, and the maturity required within the overall market to identify opportunities to create or grow local events.

This section provides case-study analysis of four existing convention center facilities that share either market or venue characteristics to the situation proposed for South Padre Island. The facilities analyzed are:

- The Monona Terrace Community and Convention Center, Madison, Wisconsin;
- The Pueblo Convention Center, Pueblo, Colorado;
- Lake Terrace Convention Center, Hattiesburg, Mississippi;
- The Grand Wayne Center, Fort Wayne, Indiana;

There are also two centers under construction or recently opened with similar characteristics:

- The Coralville Convention Center, Coralville, Iowa; and
- The St. Charles Convention Center, St. Charles, Missouri.



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### **Monona Terrace Community and Convention Center, Madison, Wisconsin**

The Monona Terrace Community and Convention Center is located in Madison, Wisconsin, which is both the capital of the state and home to the University of Wisconsin. As with South Padre Island, Madison serves a regional market, drawing business from throughout Wisconsin. The Madison metro area has a population of 435,000 and is supported by 97 hotels/motels with approximately 7,500 rooms. Specifically, the Hilton Madison Monona Terrace is located adjacent to the facility and offers 240 rooms. The Hilton features direct access to Monona Terrace in an enclosed, climate-controlled skywalk and offers 2,400 additional square feet of meeting space.

Figure 7-1 shows a picture of Monona Terrace.

Figure 7-1



Monona Terrace, which was originally planned and designed by Frank Lloyd Wright in 1938, opened in 1997 at a cost of \$67.1 million and sits on Madison's Lake Monona. The project was funded by multiple sources including the State of Wisconsin, Dane County, the City, and private contributions. The City's share of the project costs were funded by a combination of referendum approved general obligation bonds and lease revenue bonds issued by the City's Community Development Authority. As with South Padre Island, the debt service on the lease revenue bonds is being paid by hotel/motel room tax revenues. These bonds provided the initial phase of funding for the project. The GO Bonds and GO promissory notes financed the City's tax supported portion of the Monona Terrace Community and Convention Center and the debt financial portion of the City's capital improvement budget.

Monona Terrace offers 85,000 square feet of total meeting and exhibit space, a 37,200-square-foot Exhibition Hall, a 13,500-square-foot Madison Ballroom, 21



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break-out rooms, the 45,600-square-foot William T. Evjue Rooftop Gardens, and 600 parking spaces.

Table 7-1 shows the room sizes and capacities.

Table 7-1

Monona Terrace Community and Convention Center Function Spaces					
Room	Square Feet		Capacity		
	Largest	Divisions	Theater	Class Room	Banquet
Exhibition Hall	37,200	-	3,120	1,656	1,992
Halls A and B (each)	-	18,600	1,600	852	968
Madison Ballroom	13,524	-	1,560	936	1,017
Ballrooms A and B (each)	-	3,822	396	260	208
Ballrooms C and D (each)	-	2,940	286	180	168
Lakeside Commons	3,500	-	na	na	224
Community Terrace	5,500	-	na	na	312
Hall of Fame Room	600	-	48	24	32
Wisconsin and Dayne Rooms (each)	493	-	na	15	na
Hall of Ideas	6,840	-	700	448	400
Hall of Ideas Rooms E - J (each)	-	1,140	104	66	72
Meeting Rooms K - R (each)	460	-	40	18	32
Grand Terrace	7,000	-	na	na	432
Lecture Hall	5,540	-	308	na	na
East and West Circle (each)	5,430	-	200	na	200
Center Space	34,730	-	2,600	na	928
Olin Terrace	5,000	-	104	na	96
Total	134,960	-	9,160	3,238	6,089

Source: Monona Terrace Community and Convention Center

Monona Terrace's first level contains a 37,200-square foot exhibit hall that can be divided into two sections. A nearly 14,000-square foot ballroom is divisible into four sections between approximately 3,000 and 4,000 square feet. In addition, the facility features 14 meeting rooms and more than 28,000 square feet of flexible meeting space, and a 68,000-square foot rooftop garden that is used for numerous public and private events. The Lecture Hall, which is adjacent to the ballroom, Hall of Ideas, meeting rooms K through R, and the Grand Terrace on Monona Terrace's fourth level, seats up to 300 people. In 2004, the facility completed a renovation that upgraded the physical stature of the building as well as improved the quality and functionality of the meeting space. As a result, utilization of the meeting space increased 30 percent in comparison to 2003.

Table 7-2 summarizes Monona Terrace's demand by type of event for calendar year 2003 and 2004.



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Table 7-2

Monona Terrace Event and Attendance				
Type of Event	2003		2004*	
	# of Event Days	Total Attendance	# of Event Days	Total Attendance
Conventions and Conferences	73	39,468	70	37,774
Banquets	307	77,845	273	70,779
Consumer Shows	17	30,448	12	27,100
Meetings	260	38,224	220	32,007
Not-for-Profit Meetings	31	537	18	280
Community Events	57	21,368	50	20,932
Entertainment Events	36	49,774	26	21,524
Total	781	257,664	669	210,396

\* Monona Terrace was closed for 5 1/2 weeks from Jan. through Feb. for renovations.  
Source: Monona Terrace

As with the projected demand for the expanded South Padre Island Convention Centre, the majority of Monona Terrace's demand are comprised of meetings and banquets, largely generated by the University of Wisconsin (40,922 students). Of the remaining events, the vast majority were conventions and conferences and free community program events. Consumer shows represented a small portion of Monona Terrace's demand, similar to South Padre's current and projected demand mix.

The City of Madison owns and operates Monona Terrace, which functions as a department within City government, which mirrors South Padre Island's current operational structure. The venue employs 58 people. It operates under an annual budget of approximately \$5.6 million, which is largely made up of transient occupancy tax (eight percent room tax, which also funds the Greater Madison CVB and Destination Marketing) and event revenue.

Table 7-3 shows the financial statement for the facility from 2003 and 2004.

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Table 7-3

Monona Terrace Revenues and Expenses		
	2003	2004
<b>Revenues</b>		
Facility Rental	\$ 1,150,695	\$1,002,707
Equipment	732,313	718,098
Labor	79,747	83,297
Catering Commission	1,102,222	1,053,730
Utilities	110,655	111,261
Parking	58,360	55,078
Business Center	11,383	7,511
Coat Check	0	0
Telecommunications	10,522	48,624
Other Commissions	200	0
Other Outside Revenue	48,089	47,009
<b>Total Revenues</b>	<b>\$ 3,304,186</b>	<b>\$ 3,127,315</b>
<b>Operating Expenses*</b>		
Salaries & Benefits	\$ 3,404,756	\$ 3,509,541
Purchased Services	\$1,650,031	\$1,618,097
Supplies	498,162	451,231
Inter-Departmental Charges	125,614	100,866
Misc./Reserve Financing	38	0
PILOT	251,000	259,000
Fixed Assets/Other Year Encumbrances	5,564	0
<b>Total Expenses</b>	<b>\$ 5,935,165</b>	<b>\$ 5,938,735</b>
<b>Net Operating Income (Deficit)</b>	<b>\$ (2,630,979)</b>	<b>\$ (2,811,420)</b>
* Projected in 2004. Monona Terrace was closed for 5 1/2 weeks in early Jan. through Feb. for renovations.		
Source: Monona Terrace		

As the table shows, Monona Terrace typically experiences an operating loss of more than \$2.5 million per year. The building not only serves as a convention center, but also as a community center and a tourist destination, which results in significantly higher expenses because the building is open seven days a week from at least 8 a.m. to 5 p.m. whether it is hosting events or not. Although the public ownership and operation of Monona Terrace allows it to operate at a loss, the demand for conference and convention space in the Madison community, along with the quality of the facility, has ensured that it is successful on a bookings and attendance basis.

For South Padre Island, the compelling aspects of Monona Terrace rest in the continued support of Monona Terrace, even with its large operating loss. The



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number of events, and in turn visitors and economic benefit to the community, that Monona Terrace attracts to the community, more than outweigh the annual operating subsidy. Monona Terrace illustrates with the appropriate level and experienced staff, a municipally owned and operated facility can readily market a facility to full capacity.

### **Pueblo Convention Center, Pueblo, Colorado**

The Pueblo Convention Center is located in Pueblo, Colorado, approximately 40 minutes from the Colorado Springs Airport. The Pueblo Convention Center, the second largest convention center in the State of Colorado, opened in June 1997 and was financed with bonds secured through tax increment finance (TIF) money and a sales tax/vendor fee. The facility is privately managed by Global Spectrum, which was hired by the Urban Renewal Authority of Pueblo in 1997. The facility is connected to a 164-room full-service Marriott Hotel. In addition, a total of more than 2,000 hotel rooms are available within Pueblo.

Figure 7-2 shows a picture of the Pueblo Convention Center and the Marriott hotel.

**Figure 7-2**



The convention center features more than 21,000 square feet of function space, as summarized in Table 7-4.

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**Table 7-4**

Pueblo Convention Center Function Spaces					
Room	Square Feet		Capacity		
	Largest	Divisions	Theater	Class Room	Banquet
Grand Hall	16,200	-	1,620	1,240	1,080
Grand Hall A	-	5,400	540	400	360
Grand Hall B	-	5,400	540	400	360
Grand Hall C	-	5,400	540	400	360
Bernstein Brothers Room	2,000	-	200	154	134
Meeting Rooms 1- 5 (each)	580	-	40	30	30
<b>Total</b>	<b>21,100</b>	<b>-</b>	<b>2,020</b>	<b>1,544</b>	<b>1,364</b>

*Source: Pueblo Convention Center*

Grand Hall, the convention center's exhibit hall, contains 16,200 square feet and is divisible into three main sections of 5,400 square feet each. In addition, Grand Hall C can be further divided in half (2,700 square feet each) for a total of four separate spaces. The Bernstein Brothers Meeting Room provides 2,000 square feet of pre-function meeting space, and five meeting rooms contain a total of approximately 3,000 square feet. Meeting Rooms 2 and 3, as well as Rooms 4 and 5, are connected by moveable walls that can be removed as needed.

Table 7-5 summarizes the convention center's demand, by number of events and attendance, for the last two years.

**Table 7-5**

Pueblo Convention Center Event and Attendance				
Type of Event	FY 2001-02		FY 2002-03	
	# of Event Days	Total Attendance	# of Event Days	Total Attendance
Conventions	89	12,572	92	17,589
Trade Shows	46	8,546	44	9,064
Meetings	322	16,610	416	15,731
Banquets	135	21,187	126	19,438
Other	101	26,676	47	10,537
<b>Total</b>	<b>693</b>	<b>85,591</b>	<b>725</b>	<b>72,359</b>

*Source: Pueblo Convention Center*



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As the table shows, the facility has an active events calendar, with more than 700 event days last year, indicating almost daily use, and that the facility is often hosting multiple events on the same day. Over the last two years, approximately 60 percent of the events in the building were meetings. Banquets had the highest total attendance (nearly 41,000), which shows the value of ballroom and the support/use that can be generated for facility from within the local market.

Table 7-6 shows the convention center's operating revenues and expenses for 2001-2002 and 2002-2003.

Table 7-6

Pueblo Convention Center Revenues and Expenses		
	FY 2001-2002	FY 2002-2003
<b>Operating Revenues</b>		
Rent Revenue	\$267,406	\$215,464
Service Income	(70,344)	(35,550)
Concessions	330	0
Catering	352,990	263,120
Electrical & Telecom	0	0
Audio Visual	0	0
Total Revenues	\$550,382	\$443,034
<b>Operating Expenses</b>		
Salaries	\$133,794	\$117,414
Marketing	125,553	118,284
Finance	104,453	87,908
Event Services Costs	81,750	68,029
Operations	197,780	211,556
Food and Beverage	189,557	170,497
Other	183,598	172,539
Total Expenses	\$1,016,485	\$946,227
<b>Net Operating Income (Deficit)</b>	<b>(\$466,103)</b>	<b>(\$503,193)</b>

Source: Pueblo Convention Center

In keeping with industry norms, the convention center operates with a negative cash flow. In 2001-02, the facility was able to generate \$550,000 in revenue from 693 events. However, in 2002-03, the number of events hosted increased to 725 while the revenues decreased (\$443,000). The facility has kept its expenses steady over this period, hovering around \$1 million per year.

As with South Padre Island, the Pueblo Convention Center is in the midst of planning an expansion that will include a 30,000-square-foot exhibit room and an additional 10,000 square feet in meeting room space. The expansion, planned in



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light of robust demand throughout its existence, as shown in Table 7-6 above, suggests that a facility can start small and wait for demand to bear out before expanding as long as that capacity is built into initial master planning process.

This is a model that illustrates a facility's potential with sufficient marketing and amenities similar to South Padre Island. Pueblo entered the market with no previous identity for this type of function, but has quickly developed such a robust business the facility is currently pursuing an expansion program, despite its more remote destination and small size. While South Padre Island does have an identity for meetings, it is overshadowed by the metropolitan areas within Texas. The strategy employed in Pueblo has been to nurture growth by marketing to drive-in regional business at first (state association and regional corporate), then expand when the user base could reasonably be extended, a strategy which can be utilized by South Padre Island. In addition, expansion also allows the facility to grow the size of its existing events, which attracts more users and, subsequently, generates more business in the form of increased hotel room nights, retails sales, etc.

### **Lake Terrace Convention Center, Hattiesburg, Mississippi**

The Lake Terrace Convention Center (LTCC) is a multipurpose convention, event, and group meeting facility situated on 32-acres in Hattiesburg, Mississippi. With a population of nearly 50,000 the fourth largest city in the state, Hattiesburg is centrally located less than 90 minutes from New Orleans, Mobile, the Gulf Coast, and Jackson, Mississippi. Similar to South Padre Island and Pueblo, Hattiesburg competes with other larger markets within the state for events.

The LTCC was completed in 1998 at an original construction cost of approximately \$14 million, with an additional \$910,000 expended to acquire the site. The facility was paid for through a two percent tax on city restaurant and liquor sales and a \$6.5 million bond issue. Hattiesburg also has a two percent Tourism Promotion tax, which helps fund the operations of the Hattiesburg Convention and Visitors Bureau. Figure 7-3 shows a view of the back entrance to the LTCC.



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Figure 7-3



The LTCC contains 17,700 square-feet of exhibition space and 26,762 square feet of meeting space, plus a complement of pre-function space, a full service kitchen, and administrative space, as shown in Table 7-7.

Table 7-7

Hattiesburg Lake Terrace Convention Center Convention and Meeting Room Size and Capacity						
	Size (SF)			Capacity		
	Smallest Section/ Room	Combined	Theater	Class Room	Banquet	Exhibits (10'x10')
<b>Exhibit Hall</b>						
Hall 1	6,960		800	475	575	45
Hall 2	3,480		400	235	275	45
Hall 3	3,480		400	235	275	45
Hall 1-3 Combined		17,700	2,000	1,200	1,425	90
<b>Meeting Rooms</b>						
Smallest Room (Single)	400		45	30	30	na
Largest Room (Combined)		3,250	370	220	260	20
Total SF of Meeting Rooms		9,100				
Number of Rooms	9	8				

Source: Hattiesburg Lake Terrace Convention Center, mpoint.com, Johnson Consulting

Among the myriad objectives of the LTCC is to serve as a generator of economic activity by attracting group meeting, convention, and social activity. While a



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significant target market is non-resident or out-of-town groups, the LTCC also serves a vital resource to Lamar and Forrest County businesses, organizations, and residents by providing high quality event, meeting, and ballroom space.

The LTCC was built in response to the growing demand for meeting space and to attract new dollars into the area. Since opening in 1998, the Lake Terrace Convention Center has earned a reputation as a high quality, service focused convention center. This service distinction, the environment and setting of the center, and affordability of the Hattiesburg market have allowed the CVB and LTCC staff to attract a high volume of events and provide a strong contribution to the local economy. As with the LTCC, the South Padre Island staff is generally known for their excellent service; this coupled with the offering of higher quality and improved amenities at the expanded Convention Centre would only help in attracting events to South Padre Island.

At times, demand for the facility has been so robust that the LTCC staff has been forced to make creative use of the entire event grounds by converting the public plaza space outside of the facility into active use through employment of temporary structures (e.g., canvas tents) to supplement some of the larger sized events. An additional factor in developing this reputation has been the relative lack of convention, exhibition, and group meeting space in the State of Mississippi. This market condition, however, is about to change as new facilities come online in the Jackson MSA, and facilities in Vicksburg, Natchez, and along the Gulf Coast develop more traction. As this occurs, the prospect of erosion in the LTCC's calendar increases which, in turn, could further deprive the market of the economic and fiscal activity outlined in the preceding section. This is an important consideration for South Padre Island as facilities in Corpus Christi continue to improve their offerings and with the construction of a new facility in McAllen.

As a result and as with South Padre Island, the LTCC has been studying expansion over the last few years after realizing that it has been losing business because of its size. The LTCC finished 2004 with a 116 percent occupancy rate and is at a 111 percent occupancy rate for the current fiscal year, meaning that it is renting out its rooms more than once a day, which has required the center staff to juggle conventions. LTCC would have been larger under its original design by about 17,000 square feet, but the space for an additional exhibit hall was cut because of public opposition to the cost of the project. While projected costs have not been proposed at this point, the current expansion plan contemplates a total of 33,000 square feet with an addition of approximately 22,000 square feet of rentable space.

In the years since the LTCC opened, the facility has emerged as an important economic resource for the community. On an annual basis, the LTCC hosts more approximately 800 events, which attract approximately 170,000 visitors to



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Hattiesburg. Table 7-8 shows the event demand for the LTCC from January 2004 through December 2004.

Table 7-8

Lake Terrace Convention Center Event Calendar 2004			
Event Type	# of Events	# of Event Days*	# of Attendees
Conference	1	2	25
Conventions	71	132	18,380
Meeting	401	479	23,375
Trade Shows	12	26	43,500
Banquet	130	134	22,590
Consumer Shows	2	4	1,500
Miscellaneous	40	65	4,137
Performance**	77	286	44,443
Reception	62	87	10,310
<b>Total</b>	<b>796</b>	<b>1,215</b>	<b>168,260</b>

\* Includes move-in and move-out days.  
\*\* Includes sporting events  
Source: Lake Terrace Convention Center

As the table indicates, the LTCC handles approximately 800 events annually, attracting approximately 170,000 attendees. The volume of event activity historically hosted by the LTCC demonstrates the facility is heavily used and appealing to users in the state and local market.

Table 7-9 shows the LTCC's operating revenues and expenses in 2004.

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Table 7-9

Hattiesburg Lake Terrace Convention Center	
Financial Statements	
Year Ending 2004	
<b>Revenues</b>	
Exhibit and Convention Rents	\$257,659
Ticket Revenues	52,720
Food and Beverage	834,026
Interest	12,631
Miscellaneous	13,778
Total	<u>\$1,170,814</u>
<b>Expenditures</b>	
Salaries and Wages (inc. benefits)	\$1,077,182
Food and Beverage	367,046
Building and Equipment Maintenance	372,128
Utilities	255,232
Professional and Management Fees	95,065
Insurance	76,004
Advertising & Public Relations	42,104
Other	107,331
Total	<u>\$2,392,092</u>
Deficiency of Revenues over Expenditures Before Other Financing Sources	(\$1,221,278)
Other Financing Sources (Special Sales Tax and MDOT Grant)	<u>\$3,340,438</u>
Excess of Revenues and Other Financing Sources over Expenditures	\$2,119,160
Fund Balances, Beginning of Year	\$2,404,582
Debt Service*	\$1,656,874
Special Projects**	<u>\$1,305,021</u>
Fund Balances, End of Year	<u>\$1,561,847</u>
*Includes CC bond funding and Master lease, as well as Seenger Theater Bonds (\$537,252) (final year of this note will be FYE2005)	
**Includes one-time capital outlay for Visitor Center (\$805,021) and donation (\$500,000) for lighted soccer fields (6) development	
Source: Lake Terrace Convention Center	

In keeping with industry norms, the Center operates with higher expenses than revenues, by approximately \$1.2 million. However, the building receives special taxes and other revenue sources that allow it to operate with a positive cash flow on



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annual basis. In 2004, the facility was able to generate \$1.2 million in revenue from its events, while generating expenses of \$2.4 million.

Similar to South Padre Island current position, the LTCC is about to become an extremely competitive regional landscape from the likes of Jackson, Natchez, Vicksburg, and the Mississippi's Gulf Coast. While the facility in Hattiesburg is already an extremely aesthetically pleasing building, they plan a moderate expansion to help mitigate any potential lost business to these areas. If the size of the building is determined to be suitable for the market, a physical enhancement to the building should provide ancillary power to help distinguish it among the regional competition, as with the proposed option of an amphitheater in South Padre Island. If the building is determined to be too small, then a moderate expansion as well as a physical improvement could provide the footing necessary for the South Padre Island Convention Centre to compete in the regional market.

### **Grand Wayne Center (GWC) – Fort Wayne, Indiana**

The Grand Wayne Center, opened in 1985, is Fort Wayne's primary convention facility. It is located downtown and is undergoing an expansion that will double its size by spring 2005. It is this expansion and success of the existing GWC that prompted its inclusion within this study.

Figure 7-4 shows a rendering of the expansion from Jefferson Street looking east.

Figure 7-4



Figure 7-5 shows a model looking west on Jefferson. The pedestrian skybridge is connected to the Embassy Theater from the Grand Wayne Center. Figure 7-6 shows a view of the model facing northeast from the corner of Jefferson and Webster. The



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Hilton Hotel is in the upper right corner. The expanded center takes out Harrison Street between Washington and Jefferson, although the architects have opened a view corridor with glass in its place in order to keep the visual connectivity between both parts of downtown Fort Wayne. The City will be working over the next two to four years to develop a 360-room convention headquarters hotel across Jefferson to the south.

Figure 7-5

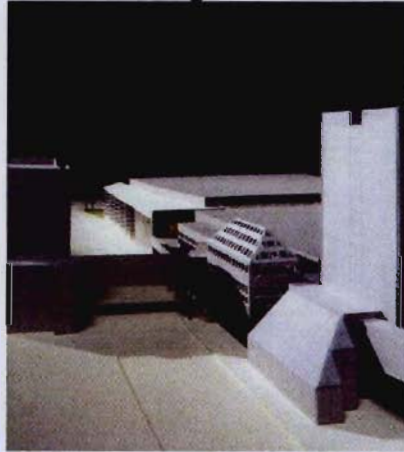
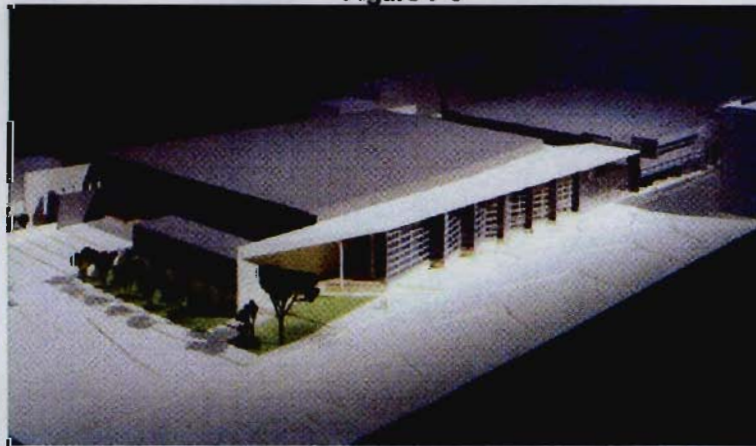


Figure 7-6



The expansion is being financed through an increase in the local hotel tax, tax increment financing, state support through the Build Indiana program, and other private fundraising efforts. The new GWC will include a 50,000-square foot exhibition hall with 30-foot ceilings, divisible into four smaller halls, a 10,000-square foot ballroom and 15,000 square feet of meeting space in 13 meeting rooms. This will be supported by 30,000 square feet of public and pre-function space. The



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improvements include convenient support corridors, ample loading and unloading zones, and high-tech equipment throughout. There will also be an onsite business center for customers. The new facilities will enable it to accommodate 3,000 guests at one sitting for meals. The GWC is connected directly to the 246-room Fort Wayne Hilton, which has acted as the center's primary convention hotel since 1989. With exception of the larger exhibit hall, the GWC's building program is similar to that of the one proposed for South Padre Island.

Table 7-10 shows the average show and attendance history for the GWC during the years 1994-96.

**Table 7-10**

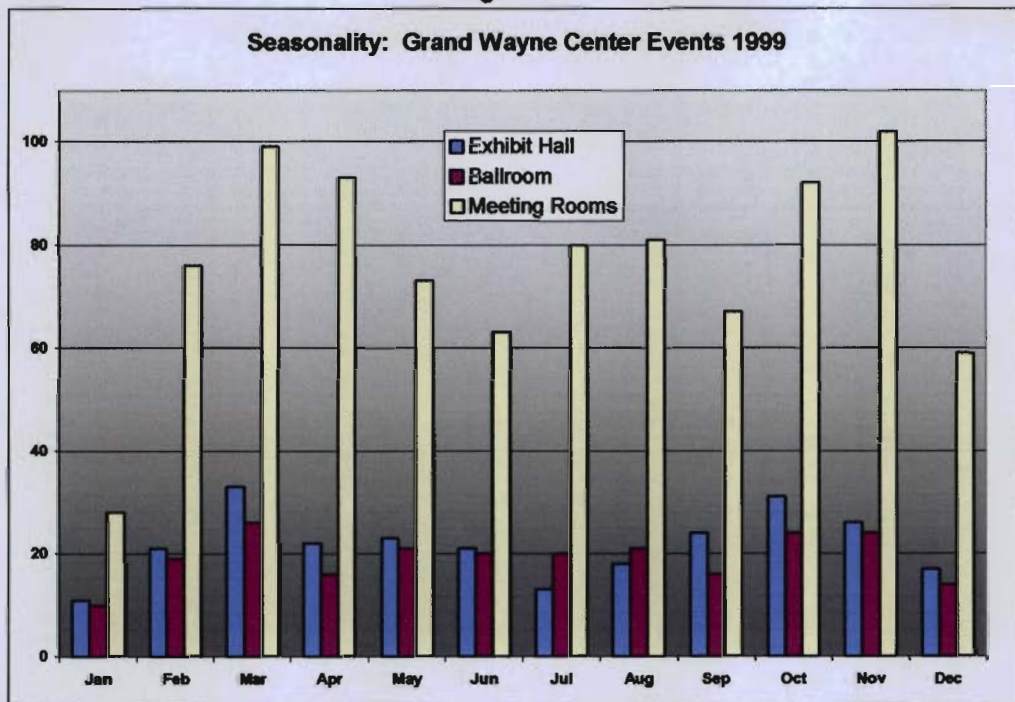
<b>Grand Wayne Center Event &amp; Attendee History (Average for 1994-96)</b>	
<b>Events</b>	
Local	471
Non-Local	71
	<hr/> 542
<b>Attendees</b>	
Local	129,000
Non-Local	29,000
	<hr/> 158,000
<b>Attendee Days</b>	
Local	178,000
Non-Local	81,000
	<hr/> 259,000
<i>Source: Coopers &amp; Lybrand Study</i>	

During the study period, the GWC averaged 542 events, with 71 considered non-local or higher impact events. Typically, this has included 35 - 40 conventions with 400 - 1,200 delegates each. With the expansion, the number of conventions is expected to increase somewhat, but more important, the size of the conventions is expected to increase. Attendance averaged 158,000 during the study years, with non-local events averaging 400 attendees, and attendee days averaged nearly 260,000.

We examined the most recent year available with detailed room usage, 1999, by month in order to determine how seasonality affects the convention and meetings business in Fort Wayne. Figure 7-7 shows the results in terms of events by room type.



Figure 7-7



The number of exhibit hall events varied from 11 to 31 in 1999, with the months of March and October the strongest, while January and July were the weakest. Ballroom events showed a similar pattern, but with more consistency, ranging from 10 to 26 events, with March, October and November the strongest months and December and January the weakest months. The meeting rooms booked between 28 and 102 events per month, with March and November the strongest months and January the weakest month. The month with the fewest total events was January, with 49, and the most events occurred in March (158), November (152), and October (147). This illustrates for South Padre Island that with increased activity at an improved Convention Centre in the winter months, particularly November and December, would help to mitigate seasonality within the hotel market.

## TRENDS IN DEVELOPMENT

### Coralville Conference Center/Hotel, Coralville, Iowa

The City of Coralville, Iowa (City) is part of the Iowa City/Coralville Metropolitan Statistical Area (MSA) in eastern Iowa. The MSA has a population of approximately 111,000 people and, as home of the University of Iowa, which is located in Iowa City, and is one of the main educational, cultural, and tourism centers of the state.



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As with the other cities within this section and South Padre Island, Coralville is a smaller market within Iowa and will compete with other, currently better-positioned markets throughout the state.

The Coralville Conference Center/Hotel is part of an initiative of the City of Coralville to redevelop a 100-acre industrial park as a retail, residential, and cultural district. Construction on the Coralville center began in spring 2004, with an opening date of spring 2006. The planned facility will include 30,000 square feet of exhibition space (with the potential to expand to 60,000 square feet in the future), 15,000 square feet of meeting room space, a 15,000-square foot ballroom, with an adjacent 250-room high quality hotel, highly comparable to the proposal for South Padre Island. Table 7-11 shows the initial building program and capital cost estimates, for the convention center element only.

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Table 7-11

<b>Coralville Conference/Convention Center Space Program Tabulation - Phased</b>	
<b>Building Area</b>	<b>Phase 1</b>
Public Lobbies, Concourses & Registration	24,300 SF
Exhibition Hall	30,000 SF
Ballroom	15,000 SF
Meeting Rooms	15,000 SF
Support Areas	6,250 SF
Service Areas	43,750 SF
Food Service Areas	11,000 SF
Vertical Circulation	2,200 SF
Administration	4,700 SF
<b>Total Enclosed Area</b>	<b>152,200 SF</b>
Exterior Terraces, Drop-Off Curb	8,400 SF
Truck Dock Apron	25,200 SF
<b>Total Unenclosed Area</b>	<b>33,600 SF</b>
<b>Total Constructed Area</b>	<b>185,800 SF</b>
<b>Construction Cost @ \$150.00 per SF</b>	<b>\$22,830,000</b>
Prof Fees, Testing & Soft Costs	\$3,425,000
Furnishings, Fixtures & Equipment	\$2,740,000
Project Contingency @ 10%	\$2,900,000
<b>Total Project Cost (Less Land)</b>	<b>\$31,895,000</b>
<i>Source: Conventional Wisdom</i>	

The cost for the convention center component is approximately \$32 million, with inclusion of the hotel and site development activities; the project budget becomes approximately \$72 million. The finance mechanism for the project are revenue bonds issues against a sales TIF, which are re-directed property taxes paid on construction in the 200-store Coral Ridge Mall, and an extended catchment area that includes numerous big-box retailers. The bonds are to be issued in two series, with the initial \$33 million issued in 2004.

Event demand in the first year of operation is projected to be approximately 299 events. As with projected demand at the improved South Padre Island Convention Centre, a substantial amount of this demand is expected to be for meetings/conferences or banquets/receptions, with extensive demand expected



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from the medical and other programs of the University of Iowa. Projected demand by event type is summarized in Table 7-12.

**Table 7-12**

Projected Event Demand	
Event Type	# of Events
Consumer Shows	8
Meetings/ Conferences	155
Banquets/ Receptions	110
Conventions/ Trade Shows	8
Other	18
Total	299
Source: Johnson Consulting	

As stated earlier, the hotel and convention center will be managed under one entity, a hospitality integrated enterprise. The relatively small amount of event activity at the Coralville center is due to the fact that it is a pioneering facility for the city, without precedent and without an existing book of business, unlike the South Padre Island Convention Centre. Table 7-13 illustrates the projected financial performance of the enterprise in Year 1, Year 5, and Year 10.

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Table 7-13

Consolidated Hotel Conference Center Proforma						
	2004		2008		2013	
<b>Revenue</b>						
Rooms	\$1,902	54.7%	\$4,951	48.9%	\$5,633	48.8%
Food & Beverage	1,124	32.3%	3,652	36.0%	4,178	36.2%
Exhibit Hall Rent	127	0.0%	435	4.3%	493	4.3%
Gross Event Services	114	0.0%	392	3.9%	443	3.8%
Meeting Room Rent	27	0.0%	70	0.7%	79	0.7%
Other Meeting Revenue	51	0.0%	174	1.7%	197	1.7%
Communications/Telephone	74	2.1%	222	2.2%	252	2.2%
Other Operated Departments	42	1.2%	194	1.9%	220	1.9%
Rentals and Other Hotel Income	16	0.5%	45	0.4%	51	0.4%
<b>Total Revenue</b>	<b>\$3,477</b>	<b>100.0%</b>	<b>\$10,134</b>	<b>100.0%</b>	<b>\$11,546</b>	<b>100.0%</b>
<b>Expenses</b>						
Departmental Expenses						
Rooms	\$443	23.3%	\$1,153	23.3%	\$1,313	23.3%
Food and Beverage	593	52.8%	1,948	53.3%	\$2,226	53.3%
Event Services Costs	92	80.0%	313	80.0%	\$355	80.0%
Communication	33	45.1%	100	45.3%	\$114	45.3%
Other Operated Departments	1	1.4%	3	1.4%	\$3	1.4%
<b>Subtotal</b>	<b>\$1,162</b>	<b>33.4%</b>	<b>\$3,518</b>	<b>34.7%</b>	<b>\$4,010</b>	<b>34.7%</b>
Undistributed Operating Expenses						
Administrative and General	\$540	15.5%	\$1,509	14.9%	\$1,722	14.9%
Franchise Fee	92	2.6%	261	2.6%	296	2.6%
Marketing and Guest Entertainment	184	5.3%	447	4.4%	508	4.4%
Prop. Ops., Maint. & Repairs	163	4.7%	429	4.2%	487	4.2%
Materials & Supplies	23	0.7%	51	0.5%	58	0.5%
Energy/Utilities	167	4.8%	428	4.2%	487	4.2%
<b>Subtotal</b>	<b>\$1,168</b>	<b>33.6%</b>	<b>\$3,124</b>	<b>30.8%</b>	<b>\$3,557</b>	<b>30.8%</b>
Other Fixed Charges						
Insurance	23	0.7%	54	0.5%	61	0.5%
Management Fees	141	4.0%	348	3.4%	395	3.4%
Reserve for Replacement	98	2.8%	351	3.5%	404	3.5%
<b>Subtotal</b>	<b>\$261</b>	<b>7.5%</b>	<b>\$752</b>	<b>7.4%</b>	<b>\$860</b>	<b>7.4%</b>
<b>Total Expenses</b>	<b>\$2,591</b>	<b>74.5%</b>	<b>\$7,394</b>	<b>73.0%</b>	<b>\$8,427</b>	<b>73.0%</b>
<b>Net Operating Income</b>	<b>\$885</b>	<b>25.5%</b>	<b>\$2,740</b>	<b>27.0%</b>	<b>\$3,118</b>	<b>27.0%</b>

Source: Johnson Consulting

As the table shows, the combined operation is projected to operate at with a net operating income of \$885,000 in Year 1, \$2.74 million in Year 5, and \$3.1 million in Year 10. The net positive income is due to the inclusion of the hotel in the combined facility.

## St. Charles Convention Center, St. Charles, Missouri

The City of St. Charles, Missouri, with approximately 60,000 residents, is the second largest city in the St. Louis MSA and has experienced strong growth in the last



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decade. The growth of the overall market has moved west from St. Louis, and St. Charles has been a prime beneficiary of this growth. The city's population and corporate base have both grown significantly in recent years, and as a result, its overall infrastructure for residents, businesses, and visitors has improved.

The convention center and a 300-room headquarters hotel, currently under development, will be located along I-70 in St. Charles, between the Fifth Street and First Capitol Drive exits. The 21-acre site will feature the convention center, a headquarters hotel (a John Q. Hammons property, which broke ground in September 2003), and 1,243 parking spaces. The venue is expected to open in 2005. In addition to the site's accessibility and visibility from I-70, it is five minutes from St. Charles' historic district and the Ameristar Casino, 15 minutes from Lambert Airport, and 30 minutes from downtown St. Louis. In addition, there are approximately 2,000 hotel rooms within one mile of the site.

The convention center will feature approximately 27,650 square feet of exhibit space, 16,200 square feet of ballroom space, a 6,359 square foot junior ballroom (with a lower ceiling height), and a total of 7,110 square feet of meeting rooms. The on-site and connected 300-room Embassy Suites Hotel will offer an additional 5,200 square feet of meeting space. The convention center is estimated to cost \$48.1 million to construct and equip. It will be paid by the following sources of revenues:

- Hotel/ motel tax revenues available at the time of closing \$9.7 million,
- Hotel/ motel tax revenues collected during construction \$1.7 million,
- A grant from the State of Missouri \$4.0 million,
- Amounts already paid for the City for land acquisition. \$9.1 million,
- Proceeds from General Obligation bond issuance \$23.6 million.

The General Obligation bonds were issued by the City of St. Charles in November 2003, for a total of \$29.7 million. The convention center will be owned by the City of St. Charles, but privately managed by Global Spectrum, while the hotel will be managed by John Q. Hammons. However, the two entities, along with the St. Charles CVB, will share responsibility for marketing the venues and attracting convention and meeting business to fill the occupancy.

Table 7-14 summarizes the projected event demand and attendance in the opening year and the first stabilized year of operation.

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Table 7-14

Planned St. Charles Convention Center Projected Event Demand and Attendance				
	Year 1		Year 5	
	# of Events	# of Attendees	# of Events	# of Attendees
Exhibit Events				
Conventions/ Trade Shows	20	20,000	36	42,000
Consumer Shows/ Specialty Expos	8	22,000	16	54,000
Subtotal	28	42,000	52	96,000
Non Exhibit Events				
Meeting and Seminars	26	8,000	44	17,000
Banquets	55	28,000	88	51,000
Sports Events	0	0	0	0
Concerts and Entertainment	3	9,000	6	19,000
Other/Civic Events	7	7,000	12	13,000
Subtotal	91	52,000	150	100,000
Total Events	119	94,000	202	196,000

Source: Johnson Consulting

The facility in St. Charles is projected to accommodate a total of 119 events and approximately 94,000 attendees in its first year of operation. By its fifth year, 202 events and 196,000 attendees are projected, and this demand is projected to generate approximately 46,100 hotel room nights in the area. These event projections include conventions and trade shows, consumer shows, meetings, banquets, concerts and entertainment events, and civic events.

Table 7-15 shows the projected revenues and expenses of the facility, in Year 1 and Year 5.



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Table 7-15

Planned St. Charles Convention Center Projected Operating Proforma (\$000's)		
	Year 1	Year 5
<b>Revenues</b>		
Space and Equipment Rental	\$348	\$708
Event Services	95	195
Food and Beverage	445	565
Other Operating Revenues	250	371
Total	\$1,137	\$1,839
<b>Expenses</b>		
Direct Expenses	\$375	\$793
Indirect Expenses	1,192	1,417
Total	\$1,567	\$2,211
<b>Net Surplus (Deficit)</b>	<b>(\$430)</b>	<b>(\$371)</b>
Source: Johnson Consulting		

Based on the projected demand schedule and the facility operating assumptions, the convention center is projected to generate an annual net operating deficit of approximately \$430,000 in Year 1. This deficit is projected to decrease to \$371,000 in Year 5. This level of the operating deficit is consistent with the scale of the convention center's size, demand, and that of other comparable facilities. It is expected for a convention center such as the one planned for St. Charles to generate annual operating deficits, particularly in its early years, and the benefits that accrue to a market, such as increased visitation and hotel demand, are justification for public investment and funding.

The St. Charles Convention Center provides an example of how the efforts of several groups can be combined to market one facility.

## Implications

Texas is a state that heavily favors its large metropolitan areas as meetings destination due to their more centralized locations, especially given the geographic size of the state. However, as illustrated by the comparable facilities, smaller and less accessible destinations have proven to be able to generate a sufficient number of events and resulting economic benefits, in order to justify their continued operation and in most cases subsidization by their respective communities.

The primary difference with South Padre Island when compared to the analyzed comparable facilities and most other facilities in Texas, is its advantageous location on the Gulf of Mexico. The drawing power of the beach for South Padre Island is a strategic benefit that should not be overlooked. If the somewhat isolated, secondary

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markets outlined above can successfully draw a number of events, then South Padre Island, given the right mix of marketing and appropriately improved facilities, should be able to effectively compete with destinations throughout the region and beyond.



## **VIII. DEMAND AND OPERATING PROJECTIONS**

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## DEMAND AND OPERATING PROJECTIONS

This section presents demand and operating projections for the improved (as recommended) South Padre Island Convention Centre. The projections assume that the Convention Center and the adjacent 300-room hotel will be two distinct facilities, managed separately, but preferably connected by a covered or climate-controlled walkway. Therefore, demand and operating projections for the South Padre Island Convention Centre (Convention Centre) and the hotel are performed separately. Also, this analysis assumes that the Convention Centre is expanded, but that the hotel is not constructed. A separate iteration can be performed to show the impact of the recommended hotel development.

### Convention Centre Demand Projections

Johnson Consulting projected the performance for the renovated and expanded Convention Centre for the first ten years of its operation. Table 8-1 summarizes the projected event schedule for the facility by event type, assuming the expanded facility opens in 2008.

Table 8-1

Event Type	Projected Events at Expanded SPI Convention Centre									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Exhibit Events</b>										
Conventions and Trade Shows	16	18	20	22	25	25	25	25	25	25
Consumer Shows	1	2	2	3	3	3	3	3	3	3
Corporate Events	5	7	8	9	9	9	9	9	9	9
Sports Events	12	13	14	15	16	16	16	16	16	16
Sub-total Exhibit Hall	34	40	44	49	53	53	53	53	53	53
<b>Non-Exhibit</b>										
Banquets	12	18	25	31	37	37	37	37	37	37
Meetings and Conferences	20	24	30	34	38	38	38	38	38	38
Sub-total Non-Exhibit	32	42	55	65	75	75	75	75	75	75
<b>Total</b>	<b>66</b>	<b>82</b>	<b>99</b>	<b>114</b>	<b>128</b>	<b>128</b>	<b>128</b>	<b>128</b>	<b>128</b>	<b>128</b>
<b>Exhibit Hall Occupancy</b>	<b>31%</b>	<b>35%</b>	<b>38%</b>	<b>42%</b>	<b>49%</b>	<b>49%</b>	<b>49%</b>	<b>49%</b>	<b>49%</b>	<b>49%</b>
<b>Ballroom &amp; Meeting Room Occupancy</b>	<b>16%</b>	<b>19%</b>	<b>21%</b>	<b>24%</b>	<b>27%</b>	<b>27%</b>	<b>27%</b>	<b>27%</b>	<b>27%</b>	<b>27%</b>

Source: Johnson Consulting

In the first year of operation, the expanded convention center is projected to host 66 events. The exhibit hall is projected to host 34 events, including 16 conventions or trade shows and 12 sports events. Another 32 non-exhibit events are projected for the convention center's ballroom division and meeting space. By the fifth year of operation (2012), the convention center is projected to host 25 conventions or trade shows, 16 sports events, nine corporate events, and three consumer shows. Total event activity is expected to be 128 events. This activity will lead to exhibit hall



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occupancy of 31 percent in the first year, growing to 49 percent by the fifth year. Seventy percent is generally considered to be maximum practical occupancy in the convention industry due to move-in/out constraints and event overlap. Ballroom and meeting room occupancy, a relatively untapped market for the Convention Centre, is expected to increase from 16 percent in 2008 to 27 percent in 2012.

Table 8-2 shows the projected event, move in/out, and total usage days at the expanded Convention Centre.

**Table 8-2**

<b>Show, Move In/Out, and Total Use Days - SPI Convention Centre</b>										
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Show Days	111	132	154	175	206	206	206	206	206	206
Move In/Out Days	28	33	37	42	38	38	38	38	38	38
Use Days	139	165	191	217	244	244	244	244	244	244

Source: Johnson Consulting

Use days are counted as groups using a portion of the facility for one day, so if one group uses the ballroom the same day that another group uses a meeting room, then that counts as two use days. However, all the meeting rooms are considered in aggregate, not individually. In 2008, the first year of the expansion, we project 139 use days, including 111 show days. By 2012, 244 use days are projected, including nearly 206 show days.

Table 8-3 summarizes the projected total annual attendance at the expanded Convention Centre by event type.

**Table 8-3**

<b>Projected Attendance at the SPI Convention Centre</b>										
<b>Event Type</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Exhibit Events</b>										
Conventions and Trade Shows	19,000	22,300	24,700	27,100	32,800	33,200	33,600	34,100	34,100	34,100
Consumer Shows	3,000	4,000	4,100	7,200	7,300	7,400	7,400	7,500	7,500	7,500
Corporate Events	1,900	2,600	3,200	3,500	3,500	3,500	3,500	3,600	3,600	3,600
Sports Events	18,000	19,800	21,600	23,400	25,300	25,600	25,900	26,200	26,200	26,200
Sub-total Exhibit Hall	41,900	48,700	53,600	61,200	68,900	69,700	70,400	71,400	71,400	71,400
<b>Non-Exhibit</b>										
Banquets	3,300	5,000	6,700	8,500	10,000	10,000	10,000	10,000	10,000	10,000
Meetings and Conferences	6,000	7,300	9,400	10,600	11,600	11,600	11,600	11,600	11,600	11,600
Sub-total Non-Exhibit	9,300	12,300	16,100	19,100	21,600	21,600	21,600	21,600	21,600	21,600
<b>Total</b>	<b>51,200</b>	<b>61,000</b>	<b>69,700</b>	<b>80,300</b>	<b>90,500</b>	<b>91,300</b>	<b>92,000</b>	<b>93,000</b>	<b>93,000</b>	<b>93,000</b>

Source: Johnson Consulting



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As the table shows, total attendance is projected to be approximately 51,200 in 2008, including 41,900 attendees from the exhibit hall events and 9,300 from the non-exhibit events. In 2012, attendance is projected to increase to 90,500, with a further increase to 93,000 in 2017.

The projected demand of the expanded Convention Centre will generate room nights in South Padre Island area hotels and motels. Table 8-4 summarizes the projected annual number of room nights from the convention center's demand.

**Table 8-4**

Attendee & Exhibitor Room Nights Generated at the SPI Convention Center										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Exhibit Events</b>										
Conventions and Trade Shows										
Attendees	4,100	4,800	5,300	5,900	11,800	12,000	12,100	12,300	12,300	12,300
Exhibitors	4,800	5,700	6,100	6,600	8,300	8,300	8,300	8,300	8,300	8,300
Subtotal	8,900	10,500	11,400	12,500	20,100	20,300	20,400	20,600	20,600	20,600
Consumer Shows										
Attendees	0	0	0	100	100	100	100	100	100	100
Exhibitors	200	200	200	400	400	400	400	400	400	400
Subtotal	200	200	200	500	500	500	500	500	500	500
Corporate Events										
Attendees	300	400	500	600	600	600	600	600	600	600
Exhibitors	100	200	200	300	300	300	300	300	300	300
Subtotal	400	600	700	900	900	900	900	900	900	900
Sports Events										
Attendees	1,400	1,500	1,600	1,800	1,900	2,000	2,000	2,000	2,000	2,000
Exhibitors	0	0	0	0	0	0	0	0	0	0
Subtotal	1,400	1,500	1,600	1,800	1,900	2,000	2,000	2,000	2,000	2,000
Sub-total Exhibit Hall	10,900	12,800	13,900	15,700	23,400	23,700	23,800	24,000	24,000	24,000
<b>Non-Exhibit</b>										
Banquets	600	800	1,100	1,400	1,700	1,700	1,700	1,700	1,700	1,700
Meetings and Conferences	1,600	2,000	2,500	2,900	3,100	3,100	3,100	3,100	3,100	3,100
Sub-total Non-Exhibit	2,200	2,800	3,600	4,300	4,800	4,800	4,800	4,800	4,800	4,800
<b>Total</b>	<b>13,100</b>	<b>15,600</b>	<b>17,500</b>	<b>20,000</b>	<b>28,200</b>	<b>28,500</b>	<b>28,600</b>	<b>28,800</b>	<b>28,800</b>	<b>28,800</b>

Source: Johnson Consulting

As the table shows, a total of 13,100 room nights are projected in 2008, and the majority of the room nights are attributable to exhibit hall events. The exhibit hall helps in not only generating room nights through convention attendees, but through exhibitors at conventions, tradeshow, and consumer shows. In 2012, the number of room nights is projected to increase to approximately 28,200, and further increasing to approximately 28,800 in 2017.

## Convention Centre Operating Projection

Table 8-5 presents the projected operating statement for the facility's first ten years of operation. The projection uses inflated dollars and accrual-based accounting,



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wherein revenues are recognized when they are earned and expenses are recognized when they are incurred. Revenues include all revenues of the Convention Centre that can be used for operations. Expenses are categorized into two groups: 1) *Direct operating expenses*, which are expenses related directly to the operation and demand of the facility that vary depending on the volume of activity, and 2) *Indirect expenses*, which are incurred regardless of the level of activity at the facility. All revenues and expenses are inflated at a three percent annual rate.

**Table 8-5**

SPI Convention Centre - Pro Forma Operating Statement of Revenue and Expenses (\$000's, Inflated)										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>										
<b>Event Revenue</b>										
Space Rental	\$253	\$315	\$363	\$425	\$516	\$529	\$543	\$556	\$570	\$584
Equipment Rental	30	38	44	51	62	64	65	67	68	70
Net Food and Beverage	140	177	214	250	297	307	317	328	336	344
Event Services Income	282	355	432	509	594	609	624	639	654	670
Sub-total	\$704	\$885	\$1,054	\$1,235	\$1,470	\$1,509	\$1,549	\$1,589	\$1,629	\$1,669
<b>Other Revenue</b>										
Advertising and Sponsorships	5	5	5	5	6	6	6	6	6	7
Parking	52	53	54	56	57	58	59	60	61	63
Other Revenue	16	19	23	26	31	32	33	34	35	35
Sub-total	\$73	\$78	\$82	\$87	\$94	\$96	\$98	\$100	\$102	\$105
<b>Total Operating Revenue</b>	<b>\$777</b>	<b>\$963</b>	<b>\$1,136</b>	<b>\$1,323</b>	<b>\$1,564</b>	<b>\$1,605</b>	<b>\$1,646</b>	<b>\$1,690</b>	<b>\$1,731</b>	<b>\$1,774</b>
<b>Expenses</b>										
Salaries and Wages	\$519	\$535	\$551	\$539	\$555	\$572	\$589	\$607	\$625	\$644
Employee Benefits	166	171	176	172	178	183	188	194	200	206
Passthrough Labor	30	39	46	90	129	132	136	139	143	147
Maintenance & Repairs	24	29	33	38	47	49	50	52	53	55
Cleaning	31	37	42	49	56	58	60	62	64	65
Utilities	258	273	288	305	326	331	335	340	345	350
Sales and Marketing	125	129	85	87	90	93	96	98	101	104
General and Administrative	88	90	93	96	99	102	105	108	111	114
Insurance	68	70	72	74	76	78	81	83	86	88
Other Operating Expenses	84	88	88	93	99	102	105	107	110	113
Reserve For Replacement	10	24	37	43	63	78	106	109	112	114
<b>Total Expenses</b>	<b>\$1,189</b>	<b>\$1,483</b>	<b>\$1,511</b>	<b>\$1,587</b>	<b>\$1,719</b>	<b>\$1,777</b>	<b>\$1,850</b>	<b>\$1,899</b>	<b>\$1,949</b>	<b>\$2,001</b>
<b>Net Operating Income</b>	<b>(\$526)</b>	<b>(\$521)</b>	<b>(\$375)</b>	<b>(\$264)</b>	<b>(\$155)</b>	<b>(\$173)</b>	<b>(\$204)</b>	<b>(\$210)</b>	<b>(\$218)</b>	<b>(\$227)</b>

Source: Johnson Consulting

As shown in the table, in 2008, the first year of operation, the expanded Convention Centre is projected to generate revenues of \$777,000 and incur approximately \$1.2 million in operating expenses. The facility's net deficit is projected to be \$526,000 in 2008. In 2012, the facility's net deficit is projected to decrease to \$155,000, with the deficit increasing to \$227,000 in 2017 due to event stabilization and the inflation of operating expenses over time.

The assumptions and methodology used to estimate the financial performance of the facility is described in the following subsections.



## Operating Revenues

The following text describes the individual line items listed in Table 8-5.

- **Space Rentals** - include the temporary rental of exhibition space, the ballroom and meeting rooms, and other facilities for events. Assumptions of rental revenue per square foot are based on comparable facilities. Table 8-6 summarizes the projected rental rates for event spaces and equipment, as well as the ratio of event services revenue to rental revenue.

Table 8-6

Rental Revenue Assumptions		
Revenue	Base	Unit
Exhibit Hall Rental (Stabilized)	\$2,250	per show day (full hall)
	\$1,125	per moving day (full hall)
Ballroom Rental (Stabilized)	\$1,200	per show day (full ballroom)
	\$600	per move day (full ballroom)
Meeting Room Rental	\$1,600	per show day (all rooms)
	\$800	per move day (all rooms)
Equipment Rental	12%	% of space rental

Source: Johnson Consulting

The projections assume rental rates of \$2,250 for conventions, trade shows, consumer shows, specialty expos, and other/ civic events, \$1,200 for ballroom rental and \$1,600 to rent all meeting rooms.

- **Equipment Rental** - includes the rental of furniture, audio/visual, and other equipment. In this analysis, equipment rental is expected total 12 percent of room rental revenue.
- **Food and Beverage Services (Net)** - are based on event attendance, and reflect net sales that the Convention Centre will generate through its events in concessions, catered meals, and other services such as coffee break services for meetings. The projections are based on per capita food and beverage revenues, estimated to reflect an expectation of the quality in the facility.

Currently the Convention Centre has an approved list of caterers that event planners may use, with the Convention Centre receiving a 15 percent commission from catering, a 10 percent commission from concession sales, and 15 percent from alcohol sales. We recommend the Convention Centre designates an in-house cater and receives a 25 percent commission from the caterer.



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Table 8-7 shows the assumptions for per capita food and beverage revenue, in current price levels.

Table 8-7

Gross Food and Beverage Service Assumptions		
Revenue	Base	Unit
Conventions and Trade Shows	\$18.00	per attendee
Consumer Shows	\$3.00	per attendee
Corporate Events	\$22.00	per attendee
Sports Events	\$5.00	per attendee
Banquets and Seminars	\$18.00	per attendee
Meetings and Conferences	\$18.00	per attendee

Source: Johnson Consulting

As the basis for the analysis, net food and beverage sales are assumed to be \$18.00 per convention/trade show attendee, \$3.00 per consumer show attendee, \$22.00 for corporate events, \$5.00 for sports events, \$18.00 for banquets and seminars, and \$18.00 for meeting and conferences.

- **Event Services** - include revenue from services and reimbursements for labor provided to exhibitors and other facility users. Facilities charge its users for a range of services, including electrical, cleaning, telephone, Internet, decorating, audio-visual, and security services. The facility will receive revenue from the provision of these services, either through direct charges for services provided by facility staff, or through shared revenues from services provided by third-party vendors. The costs of temporary labor for stagehands, police, ushers and paramedics, and others, are also recovered from facility tenants.

Currently, the Convention Centre does not own any audio/visual equipment, and contracts this service to outside vendors, with a 15 percent commission. Electrical set-up is done in house and is charged to the event at a cost of \$35.00 per booth, or in some cases a flat fee can be arranged. Pipe and draping set-up is currently done in house if 20 booths or less are used at a cost of \$55.00 per booth. If more booths are required, or if the event requires a wider variety of colors, the service is contracted out, with the Convention Centre receiving 15 percent. All other services, including cleaning, are included in the total fee for renting the facility.

The projection assumes that event services are charged per booth for events using the exhibit hall. Services include electrical, cleaning, audio/visual, and telecommunications.



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- **Advertising Revenue** - the Convention Centre's design is expected to include opportunities for signage in several strategic locations in the exhibition hall, concourses, and other areas, which would allow the facility to generate advertising revenue. The total value of advertising inventory in the Convention Centre is projected to be \$5,000, inflated each year.
- **Parking** - It is assumed that the facility will be able to charge an average of \$1.00 per space for 800 spaces, based on the utilization of the facility. Parking will only be charged for sports events, conventions, and other large exhibit hall events.
- **Other Revenues** - other revenues includes any revenue from other sources that do not fit into previous categories, including interest generated from facility revenues. Examples include vending commissions, interest, or income from a coat check booth. The projection estimates that Other Revenue will amount to approximately two percent of total revenues.

### Expenses

The expense assumptions are described below.

- **Salaries and Wages** - Table 8-8 summarizes the assumptions relating to the facility's staffing.

Table 8-8

Base Salary Expenses for the SPI Convention Centre*		
	Number of Staff	Salary per Staff Member
Gen. Manager	1.0	\$70,000
Controller	1.0	\$55,000
Sales/Marketing/PR Mgr.	1.0	\$45,000
Event Manager	1.0	\$37,000
Convention Services Manager	2.0	\$32,000
Engineers, Building Maintenance/Grounds	2.0	\$30,000
Housekeeping/Event Turnover	4.0	\$30,000
Clerical and Receptionist	1.0	\$20,000
Security	3.0	\$16,000
<b>Total</b>	<b>16.0</b>	<b>\$519,000</b>

\*Benefits calculated at additional 30% of salary  
Source: Johnson Consulting

The projections assume that a staff of 16 full-time equivalents would be hired to work at the facility, as shown in Table 8-8. Total wages and salaries



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expense is projected to be approximately \$519,000 in 2008, increasing at three percent per year. This assumes that at minimum, the Convention Centre would hire additional administrative personnel to oversee the operations of the facility. Currently, the Convention Centre is at a disadvantage as it does not have sufficient staff dedicated full-time to the facility, not only to ensure the facility is marketed to the fullest extent, but also to coordinate events currently taking place at the facility.

- **Employee Benefits** – are estimated as a percent of Wages and Salaries expense. Employee benefits include workers' compensation, taxes, health and life insurance, vacation, and pension benefits. Benefits are assumed to be 32 percent of wages and salaries expense each year.

Table 8-9 shows a summary of the assumptions utilized for projections of most other operating expenses.

Table 8-9

Expense Assumptions		
Expenses	Base	Unit
General and Administrative	\$1.50	per SF of facility
Salaries and Wages	—	see Salary Table
Employee Benefits	32%	% of salaries
Maintenance & Repairs	\$250	per show day
	\$200	per move in/ out day
Insurance	\$2.25	per SF of exhibit space
Advertising	\$125,000	per year in first 2 years
	\$80,000	per year afterwards
Utilities	\$800	per event day
	\$3.00	per building net sq. foot
Cleaning	\$300	per event day
Other Operating Expenses	6%	% of sub-total
Reserve For Replacement	5%	% of revenues

Source: Johnson Consulting

- **Passthrough Labor/Contract Services** – depend on the level of facility utilization and are calculated based on the number of rental days in the exhibition hall. Contract services include cleaning, security, and electrical services.
- **Building Maintenance and Repair** – reflects unscheduled maintenance associated with particular events occurring in the exhibit hall. Consequently, the projected amounts are calculated based on facility usage for exhibit hall events at \$250 per event day and \$200 per move-in/out day.



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- **Cleaning** - depends on event activity and is separate and additional to passthrough labor charges for cleaning. Currently, the Convention Centre includes cleaning and associated fees in the total rent charged for the facility.
- **Utilities** - reflect the facility's utility cost and are based on the volume of activity in the convention center (usage of the facility will spike utility usage) as well as a base amount for continuous utility service for the total building space. The projections assume a rate of \$800 per event day from exhibit hall events on top of a base of \$3.00 per square foot of function space.
- **Sales and Marketing** - reflects the expense incurred by the facility for marketing activities such as the purchase of media space and production of marketing materials and brochures. Much of the expense related to the production and printing of materials will be part of the facility's pre-opening budget, which is not projected in this report. In addition, the South Padre Island CVB will take responsibility for a majority of the facility's long-term sales and marketing effort. As a result, the facility's sales and marketing expense will be relatively low. Advertising and marketing expenditures are projected to be \$125,000 in 2008 and \$129,000 in 2009, and then are decreased to \$85,000 (plus inflation) for 2010. The expense is estimated to increase at three percent per year beyond 2010.
- **General and Administrative** - expenses are related to expenditures for staff training, travel, registrations and memberships, printing, postage, and other expenses. Based on the experience of similar facilities, general and administrative expense is projected to be \$1.50 per square foot of function space or approximately \$88,000 in the first year. This amount is then inflated throughout the course of the projections.
- **Insurance** - this projected expense is based on the premiums paid by facilities that are similar to the renovated and expanded Convention Centre, based on facility size at \$2.25 per square foot of exhibit space.
- **Other Operating Expenses** - include miscellaneous expenses, uniforms, tools, small equipment, dues and subscriptions, and transportation. These expenses are estimated as six percent of total direct expenses.
- **Reserve for Replacement** - Generally, a facility will make annual contributions to a reserve for replacement account, which would fund capital projects such as roof replacement or new carpeting. For the expanded Convention Centre, this amount is calculated at two percent of facility revenues in 2008 increasing by approximately one percent annually to eight percent in 2014.



## **IX. HOTEL MARKET SUPPLY AND DEMAND ANALYSIS**

## **HOTEL MARKET SUPPLY AND DEMAND ANALYSIS**

This chapter presents an overview of the nation's broader hotel market and then analyzes the South Padre Island hotel market in greater detail, including supply and demand growth as well as the changing quality level of hotel supply.

### **US Lodging Industry**

The US lodging industry is currently experiencing a rebound in demand after the severe downturn from 2001 through 2003. Table 9-1 shows selected characteristics of the US lodging industry from 1992 through 2004.



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Table 9-1

National Lodging Industry Annual Summary											
Year	Room Night Supply (millions)	Change	Occupied Room Nights (millions)	Change	Hotel/Motel Receipts (billions)	Change	Occupancy	Change	Average Daily Rate	Change	Revenue per Available Room
1992	1,179	--	738	--	\$43.60	--	61.9%	--	\$59.62	--	\$36.90
1993	1,190	0.9%	756	2.4%	\$46.00	5.5%	63.1%	1.9%	\$61.30	2.8%	\$38.68
1994	1,207	1.4%	782	3.4%	\$49.50	7.6%	64.7%	2.5%	\$64.24	4.8%	\$41.56
1995	1,228	1.7%	799	2.2%	\$52.90	6.9%	65.1%	0.6%	\$67.17	4.6%	\$43.73
1996	1,258	2.4%	817	2.3%	\$57.60	8.9%	65.0%	-0.2%	\$70.81	5.4%	\$46.03
1997	1,303	3.6%	840	2.8%	\$62.80	9.0%	64.5%	-0.8%	\$75.31	6.4%	\$48.57
1998	1,358	4.2%	866	3.1%	\$67.70	7.8%	63.8%	-1.1%	\$78.15	3.8%	\$49.86
1999	1,413	4.1%	892	3.0%	\$72.70	7.4%	63.1%	-1.1%	\$81.29	4.0%	\$51.29
2000	1,461	3.4%	931	4.4%	\$80.10	10.2%	63.5%	0.6%	\$85.24	4.9%	\$54.13
2001	1,490	2.0%	897	-3.7%	\$78.04	-2.6%	59.8%	-5.8%	\$84.45	-0.9%	\$50.50
2002	1,517	1.8%	904	0.8%	\$77.50	-0.7%	59.1%	-1.2%	\$83.35	-1.3%	\$49.26
2003	1,536	1.3%	918	1.6%	\$78.73	1.6%	59.2%	0.2%	\$83.28	-0.1%	\$49.30
2004	1,629	6.1%	997	8.6%	\$86.22	9.5%	61.3%	3.5%	\$86.41	2.4%	\$52.97
<b>Compound Annual Growth Rate</b>		<b>2.7%</b>				<b>5.8%</b>		<b>-0.1%</b>		<b>3.1%</b>	<b>3.1%</b>

Source: Smith Travel Research, Johnson Consulting



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Across the US, hotel supply growth peaked in the late 1990's and the rate of new construction has declined since then. However, the room night supply increased by over six percent in 2004 and is expected to increase more rapidly in 2005. Demand has grown each year except 2001 and growth in demand reversed RevPAR declines by the summer of 2002. RevPAR is defined as revenue per available room and is a product of occupancy and average daily rate. It provides a measure of financial performance. In general, the condition of the hotel market is strong after a period of severe weakness.

### South Padre Island Lodging Market

The South Padre Island Lodging Market consists of a range of properties, split between nationally recognized brands and independent operators. A number of small, independent, lower-quality properties are not represented by the following statistics, as they do not submit data to Smith Travel Research. A concentration of hotels occurs at the southern end of the island, however properties are dispersed throughout South Padre Island. All properties referenced by the below table are located within South Padre Island.

Table 9-2 shows the hotel quality divisions in South Padre Island.

Table 9-2 South Padre Island Hotel Market					
Type	Number	Percent of Total	Rooms	Percent of Total	Avg. Rooms per Hotel
Luxury	0	0%	0	0%	na
Upper Upscale	1	5%	250	11%	250
Upscale	1	5%	180	8%	180
Mid w/Food & Bev.	2	9%	287	12%	144
Midscale no F&B	4	18%	375	16%	94
Economy	6	27%	444	19%	74
Independent Upper	5	23%	654	28%	131
Independent Midscale	3	14%	188	8%	63
Independent Lower	0	0%	0	0%	na
Total	22	100%	2,378	100%	108
Source: Smith Travel Research, Johnson Consulting					

Of the 30 lodgings in the market, approximately one-quarter are economy motels and one-quarter are independent (small) up-scale hotels. The remaining hotels are split between upper national-brand hotels, mid-scale independent properties, and more limited service mid-scale properties. For a national resort destination, the



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number of upper scale hotels is low, as is the overall number of national-brand hotels. New additions have been added to the market, such as the Holiday Inn Express, although South Padre Island has a number of condominiums for rent as well, which may contribute, in part, to lack of new hotel development. The overall sophistication of the hotel market is low with approximately 70 percent of hotels in South Padre Island of mid-scale quality or lower, with a number of these hotels of a lower quality, independent nature.

### Additions to Supply

In response to demand for branded hotel rooms throughout South Padre Island, a Holiday Inn Express was recently completed near the South Padre Island Convention Centre (Convention Centre). The property includes 106 rooms and is a mid-scale quality property not offering food and beverage service. The majority of other development on South Padre Island has consisted of condominiums and second homes.

### Demand Analysis

Given the above assessment of supply, we now analyze demand growth in order to predict the environment for success for the proposed hotel.

### Segmentation

Table 9-3 shows the estimated segmentation of the South Padre Island hotel market. This data is based data gathered from hotel interviews and other market research.

Table 9-3	
Estimated South Padre Island Market Segmentation	
Commercial	5%
Group	15%
Leisure	80%
Total	100%
Source: Johnson Consulting	

The South Padre Island market is highly reliant upon the leisure market and to a lesser extent the group travel market. This leads to severe peaks and valleys of demand, with weekends very strong and weekdays and colder months weak.

The following briefly describes the market segments.



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- **Commercial Segment** - The commercial segment consists of those who are traveling for business purposes, except for large meetings, conventions and tradeshow. Sales visits, research, small training sessions, and executive education are all considered to be in the commercial segment. Most commercial travelers will fly to a market and rent a car for local transportation, as is the case in the South Padre Island market, which is further hampered by its distance from area airports. With its isolated location, South Padre Island draws a limited number of business travelers. It is estimated that the commercial market makes up approximately five percent of the room night demand in the market and supports approximately 135 rooms.
- **Group Market** - The group segment consists of those visiting South Padre Island either as part of an association, SMERF (social, military, educations, religious, fraternal), or corporate convention or tradeshow. It also includes other corporate group functions, although these are sometimes counted as individual commercial travelers. It is estimated that the group segment currently accounts for 15 percent of the market demand, supporting approximately 410 hotel rooms in the market.
- **Leisure Segment** - The leisure segment consists of those individuals, couples, families, or small groups that travel for pleasure or to visit friends or family. As tourism is the primary industry in the South Padre Island market, it is estimated that the leisure segment accounts for 80 percent of the hotel market and supports approximately 2,170 rooms.

### Demand Diversification

South Padre Island has historically included a wide range of hotel properties, from the numerous low quality independent motels to higher quality accommodations catering to group travelers and more upscale tourists. In addition, South Padre Island has a number of condominiums, which are used by long-term vacationers and 'snow birds'. During peak demand times, rates are driven very high, as occupancy rates are at or near full capacity.

The primary hotels in the market are concentrated at the north and south ends of South Padre Island, with a smaller number of lower quality, independent properties located in between. With the Convention Centre located at the far northern edge of South Padre Island and several of the higher quality properties located at the southern end, this can make for difficult transportation arrangements, particularly during peak seasons. A Holiday Inn Express has recently been developed near the Convention Centre, but this property is of limited service and size. Greater synergy between the Convention Centre and accommodations needs to be achieved in order to maximize the potential of all facilities, especially with the proposed expansion.



## **ANALYSIS OF THE COMPETITIVE HOTEL MARKET**

Reflecting on the larger context of the South Padre Island hotel supply presented earlier, Johnson Consulting chose a set of primary competitive hotels to analyze. Because there are too few hotels concentrated near the Convention Centre, a set of hotels in the broader South Padre Island area that will be most competitive and similar in amenities to the proposed hotel were selected. The factors considered were quality, amenities, size, function space, location, age, brand, and market demand mix.

Table 9-4 shows a summary of the competitive set.

**Table 9-4**

<b>Competitive Set Hotels</b>			
<b>Name</b>	<b>Year Opened</b>	<b>Rooms</b>	<b>Function Space (SF)</b>
Radisson Resort South Padre Island	1969	180	13,792
Bahia Mar Resort	1978	232	8,931
Sheraton Hotel South Padre Island Beach	1986	250	7,326
Sunspreet Resorts South Padre Island	1986	228	6,590
Holiday Inn Express Hotel & Suites South Padre Island	2005	106	720
Total	—	996	37,359
Average	1985	199	7,472

*Source: Johnson Consulting, Smith Travel Research, Mpoint.com*

The competitive set consists of five hotels, ranging in size from the new 106-room Holiday Inn Express to the 250-room Sheraton Hotel South Padre Island Beach. Function space (consisting of net ballroom, and meeting space) ranges in size from 720 square feet at the Holiday Inn Express to 13,792 square feet at the Radisson Resort. As mentioned previously, the newest hotel is the Holiday Inn Express opening in March 2005. The average age of the five properties is over 20 years old. The competitive set hotels account for over one-third of the total hotel properties on the island.

### **Primary Competitive Hotel Facilities**

The following section describes each of the primary competitive hotel facilities, their recent improvements or expansions, their market, and other characteristics.



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### **Radisson Resort South Padre Island**

The Radisson Resort South Padre Island was completed in 1969 and has a total of 180 rooms, including 100 condominiums. On-site function space totals approximately 13,800 square feet, including a 6,000 square foot ballroom and a 3,000 square foot junior ballroom. Hotel amenities include two outdoor pools, three whirlpools, tennis courts, and a full-service restaurant and bar. The Radisson is located on the south end of South Padre Island adjacent to the visitors center.

Based on data provided by management, demand at the hotel is 55 percent leisure, 40 percent group, and five percent corporate transient. Average daily rate varies widely from approximately \$140 to \$170 for groups during the summer on weekends to \$80 to \$100 during the week; however, average daily rate for groups drops to approximately \$65 in January.

### **Bahia Mar Resort**

Completed in 1978, Bahia Mar Resort is located at the north end of South Padre Island, near the Convention Centre. The property consists of 347 total units, of which 147 are condominiums. Bahia Mar operates approximately 40 of the condominiums, giving it an available room block of approximately 232 rooms. Bahia Mar has 8,900 square feet of function space, consisting of the two 4,000 square foot plus ballrooms. Additional amenities include two outdoor pools, a jacuzzi, fitness center, and a full-service restaurant. According to management, demand at the hotel is 55 percent group and 45 percent leisure. Occupancy for 2005 is projected to be in the high 50's percent by management.

### **Sheraton Hotel South Padre Island Beach**

The Sheraton Hotel South Padre Island Beach was completed in 1986 and has a total of 250 rooms. Hotel amenities include an outdoor pool, a whirlpool, tennis courts, fitness center, business center, and several restaurants and lounges. The Sheraton includes approximately 7,300 square feet of function space, including a 3,500-square foot ballroom. The Sheraton is located on the south end of South Padre Island. According to management, demand at the hotel includes 32 percent group.

### **Sunsree Resorts South Padre Island**

The Sunsree Resorts South Padre Island has a total of 228 rooms and was completed in 1986, with its last renovation in 2001. Hotel amenities include an outdoor pool, whirlpool, fitness center, laundry facilities, restaurant, and lounge. Function space at the Sunsree includes a total of approximately 6,600 square feet



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within two, divisible meeting rooms. The Sunspree is located on the south end of South Padre Island, just south of the Radisson and Sheraton. Based on data provided by management, demand at the hotel includes approximately 20 percent group demand.

### Holiday Inn Express Hotel & Suites South Padre Island

The Holiday Inn Express Hotel & Suites is the newest hotel in the competitive set and in South Padre Island, complete in March 2005. The property includes 106 rooms and a 720-square foot meeting room. Amenities offered at the Holiday Inn Express include an outdoor pool, whirlpool, fitness center, and laundry facilities.

### Competitive Set Segmentation

Based on a weighted average of each competitor's segmentation, we have generated the following estimate of competitive set segmentation, shown in Table 9-5.

**Table 9-5**  
**Estimated Competitive Set Segmentation**

Commercial	3%
Group	37%
Leisure	60%
Total	100%

*Source: Johnson Consulting*

The leisure market accounts for 60 percent of demand in the set and is logical considering that the primary draw for South Padre Island is the leisure tourism industry. The group traveler makes up 37 percent of the set's business. Commercial transient business accounts for only three percent of room nights sold. Group demand assists in generating additional room nights during off-peak months and during weekdays, helping to stabilize occupancy rates and average daily rates.

### Accommodated Demand and Primary Competitive Set Occupancy

Johnson Consulting used Smith Travel Research data to analyze the competitive set. Table 9-6 displays historical room supply, demand, occupancy, rate, and RevPAR for the selected primary competitive supply of hotels.

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Table 9-6

Historical Supply, Demand, Occupancy, ADR, and RevPar for Competitive Hotels											
Year	Available Rooms	Available Room Nights	% Change	Room Nights Sold	% Change	Occupancy	% Change	ADR	% Change	RevPar	% Change
1999	890	324,850	—	181,365	—	55.8%	—	\$112.93	—	\$63.05	—
2000	890	324,850	0.0%	191,635	5.7%	59.0%	5.7%	\$116.84	3.5%	\$68.92	9.3%
2001	890	324,850	0.0%	179,168	-6.5%	55.2%	-6.5%	\$119.42	2.2%	\$65.87	-4.4%
2002	890	324,850	0.0%	181,689	1.4%	55.9%	1.4%	\$125.71	5.3%	\$70.31	6.7%
2003	890	324,850	0.0%	171,710	-5.5%	52.9%	-5.5%	\$125.27	-0.4%	\$66.21	-5.8%
2004	890	324,850	0.0%	171,217	-0.3%	52.7%	-0.3%	\$128.92	2.9%	\$67.95	2.6%
<b>CAGR* 1999 - 2004</b>			<b>0.0%</b>		<b>-1.1%</b>		<b>-1.1%</b>		<b>2.7%</b>		<b>1.5%</b>
2004 YTD (March)	890	80,100	0.0%	39,851	0.9%	49.8%	0.9%	\$111.16	-3.4%	\$55.30	-2.4%
2005 YTD (March)	996	83,386	4.1%	42,301	6.1%	50.7%	2.0%	\$118.26	6.4%	\$59.99	8.5%

\*Compound Annual Growth Rate  
Sources: Smith Travel Research & Johnson Consulting

Since 1999 available room nights in the primary competitive set have remained static, until the addition of the Holiday Inn Express in March 2005. A drop in occupancy occurred in 2001 due to the weakened economy and reaction to 9/11, and has continued to struggle since then, at just under 53 percent. Days after the terrorist attacks, a barge struck the Queen Isabella Causeway, blocking access to South Padre Island for several months further contributing to the decline in business. Average daily rate decreased slightly from 2002 to 2003, but has rebounded by almost three percent in 2004 to approximately \$129.

The renewed market strength of the competitive set is evident by a comparison of year-to-date figures for March 2004 and March 2005. Even with a 4.1 percent increase in available room nights, total room nights sold has increased by 6.1 percent for 2005. Further, occupancy and average daily rates have also shown increases to date in 2005, of 2.0 percent and 6.4 percent, respectively.



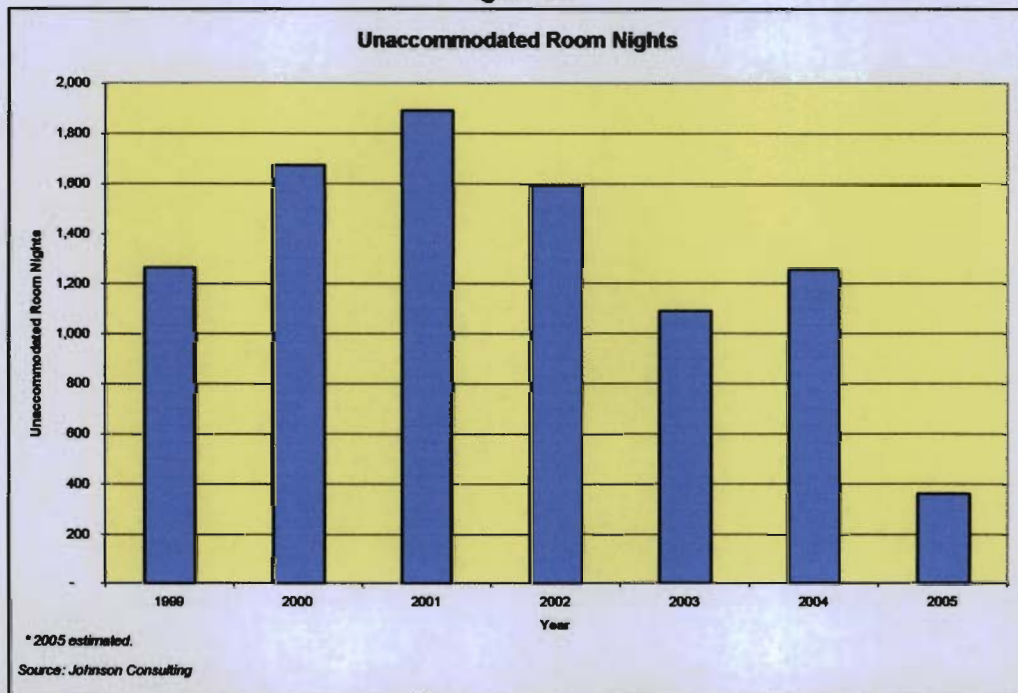
## Unaccommodated Demand

As discussed in the previous section, unaccommodated demand is defined as demand that would have been captured by the market, but for a lack of available rooms. This demand is therefore deferred to later dates, accepts lesser accommodations, moves just outside the islands its business to another location, or cancels plans altogether. As new properties are added to the market, it is expected that this demand will be accommodated in the new supply. In most markets, average monthly demand in excess of 70 percent indicates unaccommodated demand.

For every month that occupancy was greater than 70 percent, it is assumed that a portion over that amount was unaccommodated.

Figure 9-1 shows the estimated number of unaccommodated room nights in the competitive set.

Figure 9-1



For the competitive set, we estimate that there were between 1,000 and 2,000 annual room nights unaccommodated in the competitive set from 1999 to 2004, concentrated in the peak demand months of June and July. We conservatively



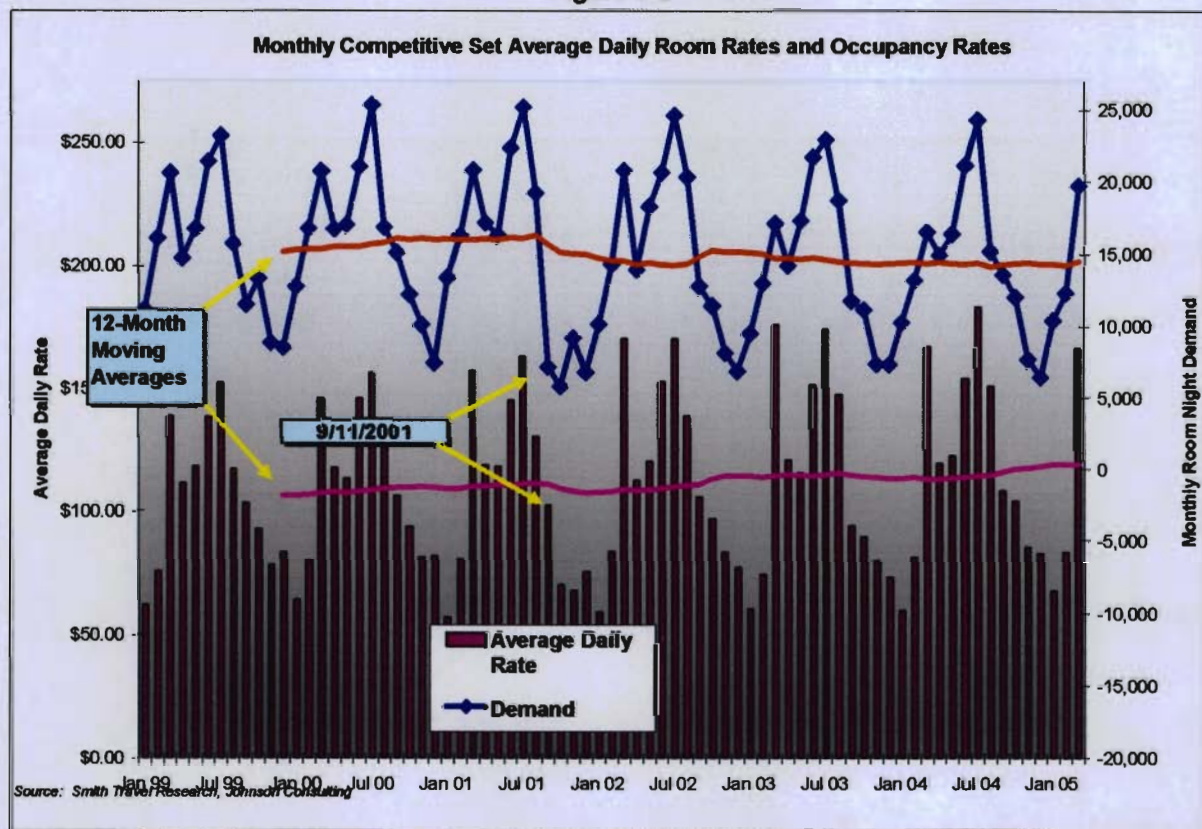
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estimate that there will be approximately 400 unaccommodated room nights in 2005, lower than previous years due to the addition of the Holiday Inn Express.

Figure 9-2 displays monthly average daily room rates and monthly room night demand between January 1999 and March 2005.

Figure 9-2

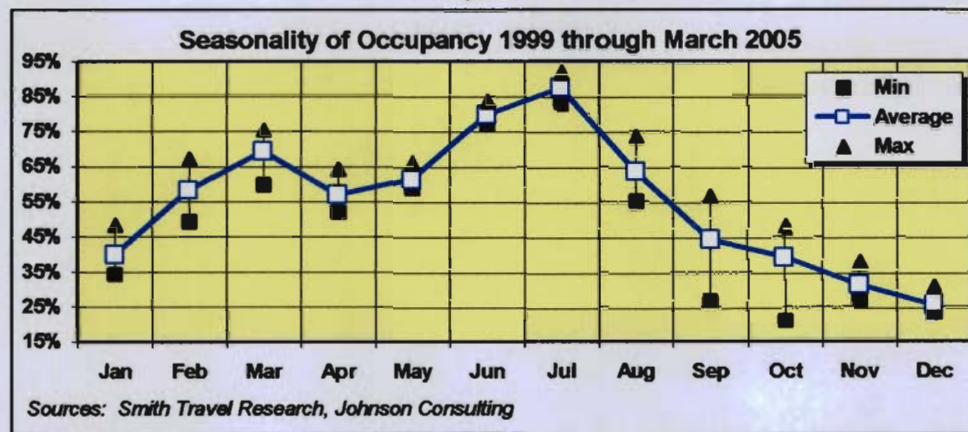


The pattern exhibited in the figure above shows that despite a recession and a slight drop in demand, the average rate paid for rooms has continued to slightly increase over the period. Demand has been essentially flat since the middle of 2003, with the exceptions of a slight upward trend prior to 9/11 and the resulting drop after 9/11. Of note are the wide swings in both average daily rate and demand due to the seasonality of the tourism market. Between the strong and weak months, demand ranges from 5,000 to 25,000 room nights, a fivefold change. Attraction of additional group business would help to mitigate some of this seasonality, particularly during off-peak periods.

Figure 9-3 displays the seasonality of occupancy during this period.



Figure 9-3



The competitive set's seasonality is widely varied, indicative of the tourist-orientation of South Padre Island and the impact of climate. June and July are the strongest months for occupancy, with July having occupancy near 90 percent and June averaging just over 80 percent. March also is a peak month with spring break tourists pushing average occupancy to near 70 percent. November and December are the weakest months, as a number of the "Winter Texans" typically do not travel to South Padre Island until the conclusion of the holiday season. The figure illustrates the need to diversify the demand base in order to attract new business into the market to alleviate the dramatic swings in seasonality.

## Conclusion

The South Padre Island market is unique in the high number of independent properties offered, which is indicative of its history as a remote Texas leisure getaway. While the destination has developed a national reputation and profile over the last ten years, its real estate development has continued to have local roots and orientation. Long-term planning has not been a hallmark of the Island and infrastructure improvements are slow in coming to fruition. Design standards and zoning also have led to a hodge podge of real estate development. As such, the Island is not maximizing its potential, but this also indicates opportunity for expansion and improvements in quality, especially in the hotel sector.

Group demand would help to balance demand throughout the year and would improve the economic model for hotels, allowing for the possibility of larger, brand-named properties. This in turn would help establish South Padre Island as a serious national destination for leisure and group travel. Additional group business would be attracted to South Padre Island with the addition of properties with the requisite amenities, assisted by the proposed expansion of the Convention Centre. In

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addition, unaccommodated demand exists within the market, especially during peak summer months and to a lesser extent during spring break. The private sector has begun to respond to the imbalance and opportunity via the aforementioned, recently completed Holiday Inn Express. In order to diversify the market mix, induce meeting and group demand, increase the profile of the Island, and maximize the convention center, it is recommended that a 300-room full-service branded group and leisure hotel be developed on the Convention Centre site.



## **X. COMPETITIVE MARKETS**

## **COMPETITIVE MARKETS**

Johnson Consulting has compiled data on competitive markets for South Padre Island. This section also provides context for a recommended hotel addition and specifics regarding size, quality, amenities, and site.

### **Competitive Markets/Facilities**

Johnson Consulting developed a set of competitive convention properties, based on interviews with South Padre Island convention professionals and meeting planners, convention center characteristics such as exhibit hall size, and geographic location. The competitive facilities with South Padre Island include convention centers in:

- Corpus Christi;
- Galveston; and
- McAllen.

Individual hotels also compete directly with the South Padre Island Convention Centre. These include:

- Rivercenter Marriott and Riverwalk Marriott, San Antonio;
- Gaylord Texan Resort & Convention Center, Grapevine; and
- Horseshoe Bay Resort Marriott, Horseshoe Bay.

Table 10-1 shows key data related to market size, convention center exhibit size, hotel rooms and proximate distance of hotel rooms for the competitive markets.



Table 10-1

Competitive Position									
Property	Location	Total Exhibit (SF)	Total Ballroom (SF)	Total Meeting Room Space	Total Function Space	Market Population	Peak Event Capacity	Proximate Hotel Rooms	Weighted Distance (Blocks)
American Bank Convention Center	Corpus Christi	76,500	45,539	19,625	141,664	407,000	3,477	475	5.5
Moody Gardens Convention Center	Galveston	52,780	15,180	17,985	85,945	5,076,000	2,399	428	0.0
McAllen Convention Center <sup>1</sup>	McAllen	60,000	10,000	15,000	85,000	636,000	2,727	0	0.0
Rivercenter Marriott & Riverwalk Marriott <sup>2</sup>	San Antonio	0	51,400	16,515	67,915	1,821,000	2,336	5,799	2.6
Gaylord Texan Resort & Convention Center	Grapevine	179,040	85,525	41,323	305,888	5,590,000	3,888	1,511	0.0
Horseshoe Bay Resort Marriott	Horseshoe Bay	0	12,012	7,245	19,257	18,143	546	349	0.0
<b>Median</b>		<b>56,390</b>	<b>30,360</b>	<b>17,250</b>	<b>85,473</b>	<b>1,228,500</b>	<b>2,563</b>	<b>452</b>	<b>0.0</b>
<b>South Padre Island Convention Centre<sup>3</sup></b>	<b>South Padre Island</b>	<b>22,500</b>	<b>0</b>	<b>11,600</b>	<b>34,100</b>	<b>363,000</b>	<b>1,023</b>	<b>834</b>	<b>2.8</b>

<sup>1</sup> Under construction, to be completed in 2007. No hotels are located within approximately 1.5 miles of new convention center, but McAllen has a considerable number of economy and mid-quality properties.

<sup>2</sup> Does not include 1,000 room hotel currently under construction. Function space for both facilities.

<sup>3</sup> Current capacity.

Source: Mpoint, Individual Properties, Johnson Consulting

Galveston and Grapevine are located within the large metropolitan markets of Houston and Dallas, respectively. Total function space of the properties competitive with South Padre Island varies widely from as small as 19,000 square feet at Horseshoe Bay Resort Marriott to over 300,000 square feet at the Gaylord Texan Resort and Convention Center. The Marriott properties in San Antonio and the Horseshoe Bay Resort Marriott do not have dedicated exhibit facilities, but have large ballroom facilities. All competitive facilities offer ballroom space of approximately 10,000 square feet or greater, an important note for South Padre Island. Four of the properties within the competitive set are self-contained facilities and offer a large number of hotel rooms on-site, including San Antonio, which also offers a number of additional properties proximate to the Marriott properties. The location of the new McAllen Convention Center is approximately 1.5 miles from the concentration of economy and mid-quality hotels centered near the city's airport.

South Padre Island has approximately 830 hotel rooms located within approximate weighted 2.8 blocks of the Convention Centre. As these properties are primarily mid-quality or less, a larger, full-service hotel adjacent to the Convention Centre is necessary to position South Padre Island among its competitors.

## **Competitive Markets**

There are six cities/facilities in South Padre Island's competitive set. Each is profiled below.

### **Corpus Christi**

Corpus Christi offers a number of attractions throughout its downtown, including several museums and an aquarium, in addition to its event facilities. In terms of location, Corpus Christi is slightly better positioned in terms of location to the rest of Texas than South Padre Island; however, it is still a two hour plus drive to the closest large metropolitan area, San Antonio, via Interstate 37.

Figure 10-1 shows a map of downtown Corpus Christi, with event, entertainment, and lodging facilities identified.



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Figure 10-1



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Corpus Christi offers the American Bank Convention Center and the Congressman Solomon P. Ortiz International Center banquet facility located on the edge of Corpus Christi Bay. The American Bank Convention Center completed a major expansion and renovation in late 2004. No hotels are located within proximate walking distance of the convention center or banquet facility, with exception of the lower quality Hoover Inn. As shown by the map, a concentration of hotels is centered in downtown Corpus Christi, approximately one mile south of the convention center, including two Omni properties and a number of mid-quality offerings.

Corpus Christi has been able to supplement its location on Corpus Christi Bay with a number of family attractions and event facilities; however, as with South Padre Island, the stock of available hotels within walking distance to its convention center is quite low.

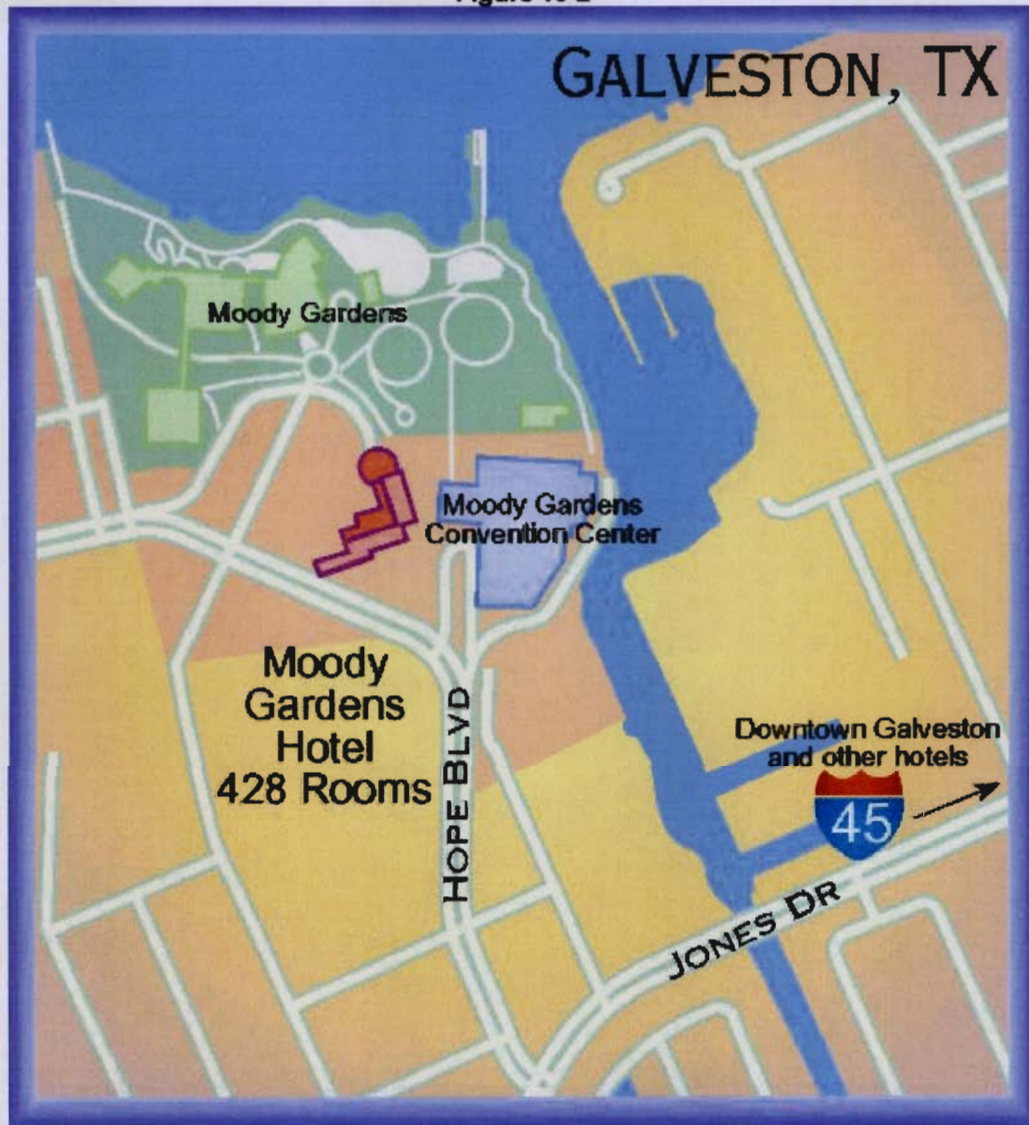
### Galveston

Two convention facilities are present within Galveston, with the Moody Gardens Convention Center being the primary facility that competes with the South Padre Island Convention Centre. Approximately three miles west of Moody Gardens is the Galveston Island Convention Center, which offers approximately 73,000 square feet of exhibit space and two nearby hotels with approximately 490 rooms. As the Galveston Island Convention Center has just recently opened, it is not yet fully established, but will become increasingly more competitive with South Padre Island as it does become established. Downtown Galveston and access to Interstate 45 are approximately six miles and three miles, respectively to the west of the Moody Gardens campus. In addition, Scholes Field Airport is located immediately adjacent to Moody Gardens to the east.

Figure 10-2 presents a map of Moody Gardens, Moody Gardens Hotel, and Moody Gardens Convention Center.



Figure 10-2



Moody Gardens is a self-contained facility that has multiple attractions within its grounds including an aquarium, several indoor rain forests, and other entertainment offerings. Moody Gardens Convention Center offers a varied set of event spaces that has recently been expanded to include 93,000 square feet of function space. The 428-room Moody Gardens Hotel is attached to the convention center and has also been recently expanded.



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While South Padre Island and Moody Gardens do compete for events, Moody Gardens is a self-contained campus that created an attraction that has become a destination. With a set of higher-quality amenities, South Padre Island would be able to lure event planners with its location and natural beauty.

### McAllen

McAllen has begun construction of a new convention center that is scheduled to open in 2007. Approximately 75 miles from South Padre Island, the new facility will position McAllen as an additional competitor. Currently, the McAllen Civic Center offers approximately 27,000 square feet of function space situated equidistant from downtown McAllen and the McAllen-Miller International Airport, which are located approximately two miles apart. The Civic Center is currently located near a number of mid-quality hotel properties.

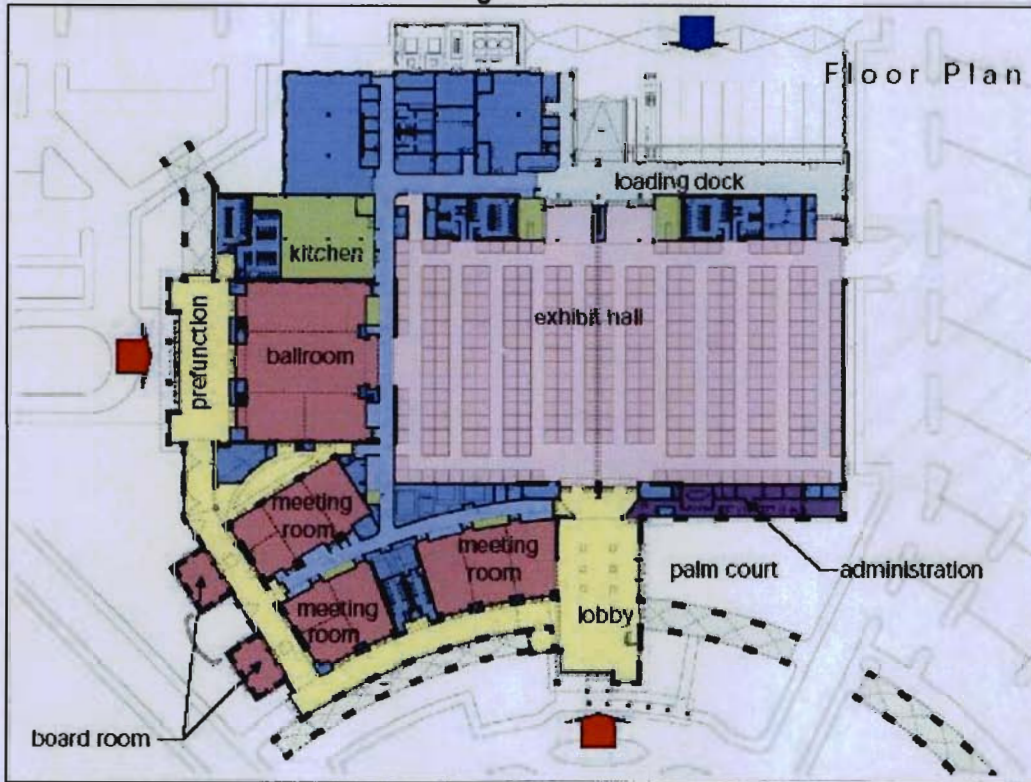
Figure 10-3 shows a rendering of the McAllen Convention Center and Figure 10-4 displays a layout of the facility.

**Figure 10-3**





Figure 10-4



The new McAllen Convention Center will be located approximately five miles from both downtown McAllen and the airport. The facility will have 60,000 square feet of high-quality exhibit space, 15,000 square feet of meeting space and a 10,000 square foot ballroom. In addition to the new convention center, 600,000 square feet of adjacent retail is planned. There are no hotels within approximately three miles of the facility and a request for proposals has been issued by the city for a 300-room hotel located adjacent to the convention center.

With the high level of quality and larger exhibit hall for the new McAllen facility and the projected opening in 2007, South Padre Island should not attempt to compete directly with McAllen in terms of size. South Padre Island should offer as high or higher quality of function space, but attract events which focus on an area's location rather than the event facility alone.



## Rivercenter Marriott and Riverwalk Marriott, San Antonio

While South Padre Island can not compete with the 420,000 plus square feet of the Henry B. Gonzalez Convention Center, it does compete with some of the large convention hotels, in particular the Rivercenter Marriott and Riverwalk Marriott. San Antonio offers an attractive downtown along the famous Riverwalk, which also includes the Rivercenter Mall and the Alamo. Downtown San Antonio is easily accessible by Interstate 37, which runs along its eastern edge.

Figure 10-5 shows a map of downtown San Antonio, with event and lodging facilities identified.

Figure 10-5



The Riverwalk and Rivercenter are located adjacent to one another, just north of the convention center. With their proximate location to the convention center, the hotels offer a large amount of total function space, with a number of breakout rooms. A new 1,000 room convention hotel is in development by FaulknerUSA and is scheduled to open in 2008 and operated by Hyatt.



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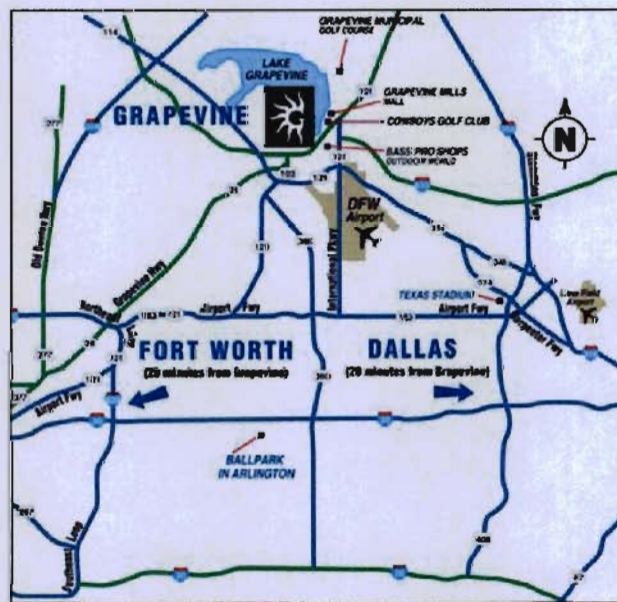
San Antonio features a number of attractions and event spaces that South Padre Island is unable to compete with in terms of quantity; however, with an improved quality of the Convention Centre, South Padre Island will be able to easily attract event planners who demand high quality, but seek a location more removed from an urban setting.

### Gaylord Texan Resort & Convention Center, Grapevine

The Gaylord Texan Resort & Convention Center (Gaylord) is located in Grapevine, Texas, approximately 20 miles from downtown Dallas, just north of the Dallas/Fort Worth International Airport. As such, the Gaylord is easily accessible via Interstate 635 and numerous other local highways.

Figure 10-6 displays a map of the Gaylord in relation to the Metroplex.

Figure 10-6



Opening in April 2004, the Gaylord is a self-contained facility, with over 300,000 square feet of event space and a 1,511 room hotel.

Figure 10-7 displays a layout of the Gaylord, including the convention center and the three sections of the attached hotel, Hill Country, Lone Star, and Riverwalk.

**Figure 10-7**



The Gaylord is the Metroplex's third-largest hotel and second-largest convention center. First year operations of the facility have exceeded the level of demand projected by the feasibility study for the project. The Gaylord is currently completing a 1,700-space parking garage at a cost of \$9.4 million. It is estimated the Gaylord will generate approximately \$66 million in tax revenue over 15 years for the City of Grapevine.

The Gaylord competes with South Padre Island, since it has become a destination throughout the state, due to its self-contained amenities. South Padre Island, already a destination with its natural amenities, could increase its position by offering a better set of amenities on-site such as a full-service hotel, in addition to an expanded Convention Centre of improved quality.

#### **Horseshoe Bay Resort Marriott**

Horseshoe Bay Resort Marriott is located in Horseshoe Bay in Llano County on the shores of Lake Lyndon B. Johnson approximately 50 miles northwest of Austin. Horseshoe Bay has a population of approximately 3,300 and Llano County a population of 18,100.

Figure 10-8 shows a map of Horseshoe Bay in relation to other cities in Texas.



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Figure 10-8



Figure 10-9 shows a view of the exterior of the Horseshoe Bay Resort

Figure 10-9



The Horseshoe Bay Resort offers a 349-room hotel with approximately 19,000 square feet of high quality function space. In addition, on-site offerings include a championship golf course, full service spa, and several restaurants.

South Padre Island needs to draw upon the examples of Horseshoe Bay Resort and the Gaylord, in their ability to attract attendees from around the state and beyond by creation of a destination. South Padre Island already has an advantage in this aspect that neither of these two facilities can copy: a great location with beaches on the Gulf of Mexico. By offering a high-quality facility, South Padre Island will be able to draw a number of visitors with its combination of amenities and location.

## **Conclusion**

South Padre Island's competitive set includes a varied range of facilities, from smaller regional convention centers to large metropolitan hotels to self-contained resort properties. While the majority of these facilities offer higher quality function space and, as with the case of the self-contained properties, a higher quality and larger set of proximate hotel rooms, none have the same advantage of location in an attractive natural setting. With the addition of higher quality meeting space and additional proximate, quality hotels, South Padre Island should be able to easily carve out an expanded market niche for itself within the well-served, but plentiful Texas meetings market.



## **XI. RECOMMENDATIONS**

## **RECOMMENDATIONS**

In contemplating a new hotel with the goal of maximizing business to the market, understanding the components of demand is essential. A new convention hotel can induce demand to a market, which is the primary goal of this type of development.

### **Induced Demand Components**

**Group** - The group market, whether convention, association event, trade or corporate (training, meetings, etc.) is the market segment where hotels can have a significant inducement capability. As shown earlier in this report, the majority of group meetings are actually held in hotels and when they outgrow hotels, they often move to convention facilities. Groups look for hotels that accommodate all of their meeting needs onsite, including function space, food and beverage options, hospitality suites, and sleeping rooms. A convention hotel has its largest inducement capability with this segment.

**Corporate Transient** - In the South Padre Island market, along with most others, hotels have little ability to induce additional commercial demand to a market. The exception to this is if there is little quality supply in a market that can accommodate the various types of existing demand. In these cases, commercial transient visitors will often choose a day-trip as opposed to an overnight trip due to a lack of quality product. This situation exists to some extent in South Padre Island, especially during peak demand periods during spring break and the summer months. Therefore, more supply could induce more overnight transient demand.

**Leisure** - Hotels do have some ability to induce new leisure demand to a market based on their unique characteristics or in conjunction with other leisure demand generators. Hotels with leisure amenities such as a pool, spa, destination restaurants, or other attractions or attractive features can generate weekend leisure demand via special packages and other promotions. Holidome-type hotels of the past are an example of this type of product in middle-markets. Resort hotels and specialty, boutique, and historic hotels have this ability as well and various market types and sizes. The South Padre Island market has a limited supply of high-quality full-service hotel, especially for its status as a regional destination, so there is some potential incremental demand that can be induced with a property that fills these gaps.

### **Full-service, Limited-Service, or Hybrid?**

Full-service meeting hotels accommodate the bulk of meetings business and as such, can induce this business to a market with or without a convention center. However,



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the synergy between an appropriately-sized convention hotel package and a convention center serves to generate even more business than the two could separately induce. The whole, in this case, is greater than the sum of its parts and in fact, the convention center cannot thrive and attract solid business levels without a solid hotel package. This has been shown in the many markets and has led to the recent increase in convention hotel development throughout the US. Now that enough markets have developed such appropriately-size hotel packages, meeting planners have come to expect such accommodations for their convention.

Groups and conventions that primarily use convention centers typically require not only convention space, but food and beverage capability on-site or directly connected or convenient via a hotel. They also require breakout space that is not always accommodated by the convention center. There are also often peripheral meetings that run parallel to conventions and conferences that need hotel space. Most importantly, conventions need sleeping room blocks. Meeting planners typically require or prefer a convention location with a full-service headquarter hotel adjacent to the convention center to meeting the guest room needs of their primary block of rooms, plus hotels that have the ability to handle room service, host special functions outside the convention center and provide the range of services offered by full-service properties.

Limited service, or rooms-only hotels, can help provide room-block capabilities but are often not attractive to meeting planners because they cannot meet the other needs of the group. From a market supply and demand perspective, limited service hotels offer a lower-cost option to those group visitors who want to go 'outside the block.' But these hotels have little ability to induce meetings and conventions themselves, so they are viewed by convention industries professionals as having a siphoning effect on demand for the full-service properties, which lowers average rate and occupancy for the other hotels without contributing to demand.

Upscale limited-service brands such as Courtyard by Marriott and Hilton Garden Inn are exceptional at attracting existing demand within a market and offer a consistent no-frills product. These hotels usually achieve a rate that is higher than most limited-service brands, but it is 10 - 30+ percent lower than a branded full-service hotel. They also are attractive enough and have strong enough rewards programs to lure customers away from other properties and therefore generate strong occupancies.

If a hotel is to be developed next to a convention center in order to help it attract conventions, a full-service product is usually critical to the success of the hotel, despite its higher cost. The reason is one of demand consistency. Convention centers provide room night demand via conventions, but it is not consistent and exhibits significant highs and lows. For example, if a convention center books a solid convention 30 times per year and the average length is two nights, then the adjacent



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hotel can only count on 60 potential sellouts per year from the convention center plus other smaller impacts. This leaves 300 days that the hotel will need to fill most of its rooms via its own resources, such as in-house meeting space and ballroom(s). Without these resources the hotel will need to steal existing demand at other hotels to survive, which will hurt the market.

For these reasons, it is generally accepted that a convention hotel should have at least a minimum of full-service amenities and function space in order to support itself and add, not subtract from, the vibrancy of the hotel market.

Having full-service amenities does not mean the solution is necessarily to have a traditional full-service branded hotel product. While it can be in the form of a full-service branded nationally-known convention brand such as Marriott, Hilton, Sheraton, or Hyatt or it can also be a hybrid product such as an Embassy Suites, *yet* with significantly expanded function space and food and beverage capability. The traditional full-service model has been used in most mid-to large-sized markets, but many smaller markets with a lower price-point have opted for the second approach. Examples include the Hilton Garden Inn & Conference Center at the Kentucky Fair and Expo Center, the Hilton Garden Inn Southpointe/Pittsburgh, and numerous Embassy Suites attached to or near convention centers in locations like St. Charles (MO), Covington (KY), Charleston (SC), and Myrtle Beach (SC). These all have lower cost capital and rate requirements, but provide the amenities necessary to support and expand the market.

Based on the occupancy and rate characteristics of the market, in addition to the limited supply of existing rooms and amenities, we believe that a true full-service headquarters hotel works at a modest level in South Padre Island, adjacent and attached to the Convention Centre.

### **Sizing and Amenities**

For a convention headquarters hotel to be effective it requires a block of rooms large enough to induce demand from groups that would be suitably sized for the convention center, along with the other convention hotels.

### **Room Count**

An available room block for convention can range from 60 to 90 percent, but in this market, we have assumed a 75 percent room block available to the convention center.

A 300+/-room hotel also fits the minimum threshold of what hotel companies accept as a full-service headquarters hotel concept. This size would also make it the



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largest hotel in the market, but not by a significant margin. Other markets have had success not by having the largest hotel versus its competitors, but by having a family of cooperative, appropriately-sized hotels adjacent or attached to the convention center. We believe South Padre Island can flourish with this incremental growth as well, which will not strain the existing supply of the competitive set.

## Function Space

The function space at a convention headquarters hotel must support the hotel's room count, but also provide synergy, not competition to the space offered at the convention center. Total function space at convention hotels is shown in Table 11-1 below.

Table 11-1

Function Space Data for Convention Small to Mid-Size Convention Hotels											
City	Hotel	Opened	Rooms	Grand Ballroom (SF)	Junior Ballroom (SF)	Other Ballroom (SF)	Meeting Room (SF)	Total Function Space (SF)	Total Function Space (SF) per Room	# Meeting Rooms	SF per Meeting Room
Overland Park	Sheraton	2002	412	10,800	5,518	0	54,223	70,541	171	12	4,519
Chesapeake	Hyatt	2002	400	11,259	4,860	0	17,112	33,231	83	8	2,139
Austin	Hilton	2003	800	27,452	15,608	0	12,465	55,525	69	11	1,133
Louisville	Marriott	2005	618	22,000	10,000	0	10,000	42,000	68	14	714
Philadelphia	Loews	1998	581	9,752	9,175	6,176	12,265	37,368	64	9	1,363
Indianapolis	Marriott	2001	615	21,008	8,320	0	8,866	38,194	62	14	633
Omaha	Hilton	2004	450	10,001	0	0	16,037	26,038	58	17	943
Syracuse (Planned)	Unknown	-	350	8,400	0	0	11,690	20,090	57	18	649
Tampa	Marriott	1998	716	17,169	8,432	0	12,887	38,488	54	15	859
Charlotte	Westin	2003	700	16,276	6,725	0	10,269	33,270	48	15	685
Wichita	Hyatt	1998	303	10,164	0	0	2,186	12,350	41	2	1,093
Sacramento	Sheraton	2001	503	10,280	0	0	9,416	19,696	39	15	628
Average			537	14,547	5,720	515	14,785	35,566	68	13	1,280
Per Room				27	11	1	28	66	--	0.02	--
Applied to 300 Rooms				8,100	3,200	300	8,300	19,900	--	7	1,189

Source: Johnson Consulting

Based on this collection of new convention headquarter hotels, a range of 39 to 171 square feet of function space per room exists, with most within the 54 to 69 square feet of function space per room range. Average function space per room is between 68 square feet. The most successful of these hotels has a somewhat higher proportion of meeting space.

The grand ballroom size averages 27 square feet per room and the secondary ballroom averages 11 square feet per room. Each ballroom can be broken into a number of breakout rooms. The number of meeting rooms outside the ballrooms ranges from two to 18, with an average of 13. These numbers can be somewhat misleading as some of the breakout rooms are divisible into two or three portions, so the average is actually higher, at 16.

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Considering the expanded Convention Centre is recommended to have a 12,000-square foot ballroom, we would suggest the ballroom at the new hotel have approximately 9,000 square feet, to limit direct competition and recognizing the fact that the hotel will need to provide its own in-house group business. A 3,500-square foot junior ballroom is also recommended.

Breakout meeting rooms and boardrooms account for 28 square feet per room, or 8,500 square feet in a 300-room facility. This space has become more important over the years, as training sessions and other education elements related to corporate and association events have grown. South Padre Island's convention hotel could help to distinguish itself by offering more than its competitors in terms of break-out space. It can also offer meeting rooms to supplement the Convention Centre (assuming a direct connection) in the event that the Convention Centre cannot provide enough. We therefore recommend at least eight meeting rooms plus one boardroom.

The suggested function space program for the property is shown in Table 11-2.

Table 11-2

Area	Recommended Function Space		Capacity		
	Square Feet	SF Per Guest Room	Classroom	Theater	Banquet
Rooms - 300					
Grand Ballroom	9,000	30	450	750	360
Junior Ballroom	3,500	12	175	292	140
Subtotal	12,500	42	625	1,042	500
Meeting Rooms	8,000	27	—	—	—
Board Rooms	500	2	—	—	—
Subtotal	8,500	28	—	—	—
<b>Total</b>	<b>21,000</b>	<b>70</b>			

Source: Johnson Consulting

A grand ballroom of 9,000 square feet will accommodate 360 for banquets and up to 750 in theater-style. The recommended junior ballroom of 3,500 square feet will accommodate between 140 and 292, depending upon the setup. The recommended amount of net function space for the property totals 21,000 square feet, or 70 square feet per room.



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### Amenities

We suggest that in order to maximize its ability to induce leisure demand, satisfy the expectations of planners, and support higher than typical rates, the hotel should include the following amenities:

- Outdoor resort pool and hot tub, plus indoor pool,
- Spa component
- Fitness center,
- Full-service 3-meal restaurant of 100 seats. In-house brands are typical, but a better-known chain is suggested to boost impact and destination dining from the community and surrounding area,
- Specialty restaurant seating 35. This is where a signature/destination restaurant would positively impact the hotel and Convention Centre.
- Lounge/Bar seating 25,
- Coffee bar,
- Room service until midnight, later on weekends,
- Appropriate-sized lobby and Porte-cochere,
- Parking for 200 cars at minimum and up to 250 maximum,
- Mini-spa or spa service available,
- Gift/sundries shop,
- Business center, and
- Concierge service desk.

The amenities suggested are designed to help attract all segments of demand at a higher price point, and due to the fact that the collection of amenities does not exist elsewhere in the market. For example, room service is not always offered beyond 10pm at most hotels, so having extended hours will help the hotel and South Padre Island compete for business. Spas have been growing in popularity and a spa feature would help improve the destination's quality and set the hotel and Convention Centre apart.

Table 11-3 shows a summary of recommendations for the project.

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Table 11-3

Recommended Project Components		
Item	Count	Unit
Guest Rooms (Total)	300	Rooms
King	108	
Double-Double	138	
Conference Suites	9	
Hospitality Suites	24	
Junior Suites	9	
Executive, Presidential, VIP Suites	12	
Grand Ballroom	9,000	Square Feet
Junior Ballroom	3,500	
Meeting Rooms	8,000	
Board Rooms	500	
Parking	200	Spaces
Three-meal restaurant	100	Seats
Specialty restaurant	35	
Lobby Lounge/Bar	25	
Coffee Bar	6	
Indoor Pool	Yes	
Outdoor Pool	Yes	
Spa Component	Yes	
Fitness Center	Yes	
Gift Shop	Yes	
Concierge Desk	Yes	
Business Center	Yes	

Source: Johnson Consulting

With this program, South Padre Island's hotel and convention package will be very competitive with other destinations in the state.

## PROJECTION OF OCCUPANCY AND AVERAGE DAILY RATE

The proposed Convention Hotel (Hotel) is assumed to be a 300-room hotel and is assumed begin marketing by 2006, once financing is in place. This will allow it to market events and business for up to two years prior to its opening, which is assumed to be January 2008.

Table 11-4 displays historical performance of the competitive set.



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**Table 11-4**

Historical Occupancy of Competitive Set						
	1999	2000	2001	2002	2003	2004
Competitive Set Occupancy	55.8%	59.0%	55.2%	55.9%	52.9%	52.7%

Sources: Smith Travel Research, Johnson Consulting

Table 11-5 shows the expected competitive set demand growth by segment from 2004 through stabilization of the proposed Hotel (2012).

**Table 11-5**

Estimated Competitive Set Demand Growth by Segment									
Demand Segment	2004	2005	2006	2007	2008	2009	2010	2011	2012
Commercial	5,137	5,188	5,240	5,293	5,346	5,399	5,453	5,508	5,563
Annual Growth	-0.3%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Group	62,562	63,188	63,819	64,458	74,771	84,491	93,785	101,288	105,339
Annual Growth	-0.3%	1.0%	1.0%	1.0%	16.0%	13.0%	11.0%	8.0%	4.0%
Leisure	102,326	103,349	104,383	105,427	111,752	117,340	122,033	125,694	128,208
Annual Growth	-0.3%	1.0%	1.0%	1.0%	6.0%	5.0%	4.0%	3.0%	2.0%
Total	171,217	171,725	173,443	175,177	191,869	207,230	221,272	232,490	239,110
Annual Growth	-0.3%	0.3%	1.0%	1.0%	9.5%	8.0%	6.8%	5.1%	2.8%
Available Room Nights	324,850	324,850	324,850	324,850	434,350	434,350	434,350	434,350	434,350
Annual Growth	0.0%	0.0%	0.0%	0.0%	33.7%	0.0%	0.0%	0.0%	0.0%
Occupancy	52.7%	52.9%	53.4%	53.9%	44.2%	47.7%	50.9%	53.5%	55.1%

Source: Johnson Consulting

The proposed Project is expected to open at the beginning 2008. The number of new rooms, at 300, increases the competitive supply by approximately 34 percent, but due to the significant upgrade in supply quality, should be absorbed very quickly and help induce formerly latent demand. The large amount of exhibit, ballroom, and meeting space will substantially distinguish the proposed hotel within the market. The proposed property is designed to be a demand driver that will generate demand for not just the Convention Centre and itself, but for neighboring properties as well. In this way, we believe it will be unable to accommodate all the meeting attendees the project itself attracts. In addition, its place in the market will be one that serves convention hotel groups, groups that are smaller than those targeted by the Convention Centre (for in-house meetings), and groups that need more space than the other area properties can handle.

We estimate that the project will induce new demand into the market due to its assumed strong national sales force, unique quality and amenity package and location. We also believe that the above factors will help the in-house, new business for the hotel even when the convention center side is not full. As a result, we expect group demand to increase by 16 percent in 2008, 13 percent in 2009, 11 percent in



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2010, eight percent in 2011, and four percent in its fifth year. This longer-than-average ramp-up is expected as it will take time for the market to be made aware of the improved product. Also, with many rotating meetings planned up to five years out, it will take some time to realize the gains from the initial investment. The resulting competitive set occupancy is projected to be 44 percent in 2008 and increase to 55 percent by the fifth year (2012).

### Penetration Rate Analysis

Occupancy penetration is the ratio of a particular property's actual room nights captured compared to its fair share. Fair share is defined as the ratio of the property's number of rooms to the total rooms in the defined competitive supply. For example, if a hotel has 100 rooms and the market has 1,000 rooms, its 'fair share' of business would be 10 percent of market room nights. The ratio is then applied to the total market demand by segment to measure the property's actual room nights captured compared to its fair share of room nights.

Table 11-6 shows how the property would fare if it captured its fair share of the competitive set demand.

Table 11-6

Fair Share Room Night Capture of Proposed Property					
	2008	2009	2010	2011	2012
Corporate	1,348	1,361	1,375	1,388	1,402
Group	18,850	21,300	23,643	25,535	26,556
Leisure	28,173	29,581	30,765	31,688	32,321
Total	48,370	52,243	55,783	58,611	60,280
Available Room Nights	109,500	109,500	109,500	109,500	109,500
Fair Share Occupancy	44.2%	47.7%	50.9%	53.5%	55.1%

Source: Johnson Consulting

In a "fair-share" scenario, the Hotel would capture 60,280 group room nights by 2012.

After preparing projections of overall market occupancy, Johnson Consulting assessed the expected qualities of the headquarters hotel in relation to the competitive supply to formulate projections of occupancy for the hotel's first ten years of operation. This projection represents the hotel's relative performance, or "penetration" within the competitive supply. Characteristics considered in this analysis include, but are not limited to, location, market orientation, pricing



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strategies, chain affiliation, facilities, and amenities. It is expected that the hotel will penetrate the market at over 100 percent through stabilization.

Table 11-7 shows the projected penetration of the market segments by the Project.

Table 11-7					
Estimated Market Penetration Rates of Proposed Property					
Segment	2008	2009	2010	2011	2012
Corporate	120%	120%	120%	120%	120%
Group	170%	166%	162%	159%	155%
Leisure/Other	75%	74%	74%	72%	72%
Total Market Penetration	111%	108%	107%	105%	103%
Projected Competitive Set Occupancy	44%	48%	51%	54%	55%
Proposed Property Occupancy	50%	54%	57%	59%	60%
Source: Johnson Consulting					

The Project is expected to penetrate the group market at 170 percent in its first year due to its proximity to the Convention Centre, function space, national brand name, standards and rewards program, and its full-service amenities. It is expected that this penetration level will be reduced somewhat over the first five years to approximately 155 percent. Total penetration of the competitive set is expected to be 111 percent in 2008, and decrease to 103 percent by 2012. The resulting Project occupancy is projected to be 50 percent in Year 2008, increasing to a stabilized 60 percent by 2012.

Table 11-8 displays the projected occupied room nights by sector and the occupancy rate for the Hotel.

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Table 11-8

Projected Occupied Room Nights of the Proposed Property					
Market Segment	2008	2009	2010	2011	2012
Commercial	1,600	1,600	1,600	1,700	1,700
Annual Growth	—	0.0%	0.0%	6.3%	0.0%
Group	32,000	35,400	38,300	40,600	41,200
Annual Growth	—	10.6%	8.2%	6.0%	1.5%
Leisure	21,100	21,900	22,800	22,800	23,300
Annual Growth	—	3.8%	4.1%	0.0%	2.2%
Total	54,700	58,900	62,700	65,100	66,200
Annual Growth	—	7.7%	6.5%	3.8%	1.7%
Available Room Nights	109,500	109,500	109,500	109,500	109,500
Occupancy	50%	54%	57%	59%	60%

Source: Johnson Consulting

Based on the estimated penetration rates for the growing group demand segment, as well as the leisure and corporate markets, we project the hotel to achieve occupancy rates beginning at 50 percent and ramping up to 60 percent by stabilization. We estimate group business will account for the majority of business accommodated by the Project.

Table 11-9 shows the resulting stabilized demand mix for the Project.

Table 11-9

Projected Hotel Market Demand Mix	
Segment	Stabilization
Group	62%
Leisure	35%
Corporate	3%
Total	100%

Source: Johnson Consulting

Based on its penetration of the market and its new/induced group demand, we expect the Hotel to rely on the group market for 62 percent of its demand. Leisure demand is estimated to account for 35 percent, with corporate demand generating approximately three percent of demand.



## **AVERAGE RATE ANALYSIS**

### **Average Rate**

The average rate is the weighted average of the rates charged to all guests in all segments throughout the year. For example, due to seasonality, June and July have high demand and therefore yield higher rates. Yet these are offset by low months, such as November and December. Rates also differ depending upon how far in advance the room is sold and based on the user type. Groups usually are able to attain a discount because they are filling more rooms; however, their rates can exceed more discounted leisure business. Corporate travelers usually pay the highest rate, and leisure travelers generally pay the least amount for rooms. The resulting average provides a benchmark for performance measurement as well as a tool for managing target revenue generated per occupied and available room night.

### **Competitive Position**

The competitive position of a property determines, in large part, its ability to generate rate. A hotel with high comparative quality to the rest of the competitive set as well as a good location will be able to penetrate the competitive set rate at greater than 100 percent. The proposed Project will be generally well-located, the newest hotel in the market, a part of the stronger convention hotel set of hotels, and offer the most function space of any hotel in the market. For that reason, we expect that the hotel will penetrate the average rate higher than 100 percent even with its higher reliance on group business. Its primary drawback is its lack of beachfront location. This will hurt leisure rates.

### **Average Rate Increases**

Average rate declined slightly in 2003, with demand showing strong growth through March of 2005 when compared to the same period for 2004. This is expected to continue to increase via an improved economy, natural growth, and due to the addition of the Project. This growth in demand should help support rate increases. By the first year of hotel's operation, we again expect annual increases in rate of 2.6 percent.

### **Projected Average Daily Rate**

Table 11-10 displays the projected average daily rate in the competitive set and the proposed hotel's penetration and resulting rate.

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Table 11-10

Average Daily Room Rate Projections					
Year	Comp. Set ADR	Annual Increase	Hotel Rate Penetration	Projected Hotel Rate	Annual Increase
2004	\$129	—	—	—	—
2005	\$133	3.0%	—	—	—
2006	\$136	2.6%	—	—	—
2007	\$140	2.6%	—	—	—
2008	\$141	1.0%	95%	\$134	—
2009	\$143	1.4%	96%	\$137	2.5%
2010	\$146	1.8%	97%	\$141	2.9%
2011	\$149	2.2%	98%	\$146	3.3%
2012	\$153	2.6%	98%	\$150	2.6%

Source: Johnson Consulting

The competitive set average daily rate was \$129 in 2004. We project rates to increase in the set as a whole by three percent in 2005, and increasing by 2.6 percent until opening of the Project. Rates will only increase by 1.0 percent in 2008, increasing by approximately 0.4 percent, returning to 2.6 percent annual growth, within the competitive set, by the Project's year of stabilization. Rates could achieve higher growth levels if demand outpaces supply by a greater-than-expected rate. We expect the proposed hotel will penetrate the competitive set at 95 percent, due to the non-beach location, leading to a first-year rate of \$134. The penetration is expected to increase to 98 percent in 2012 at a rate of \$150, representing a 2.8 percent average annual increase.



## **XII. ECONOMIC AND FISCAL IMPACT ANALYSIS**

## ECONOMIC AND FISCAL IMPACTS

This section analyzes the potential benefit(s) that would be generated by event activities at the South Padre Island Convention Centre (Convention Centre) upon expansion. It also reviews the potential economic and fiscal impacts induced through the construction of the proposed facility expansion. The figures used do not assume the recommended hotel is developed. If such a hotel were developed, results at the Convention Centre would be enhanced and the impacts from the hotel itself would also be measured.

For the purpose of this analysis, impact totals are discussed in terms of the Town of South Padre Island (Town) area economy. The levels of impacts are described as follows:

- **Direct impacts** - are an expression of the spending that occurs as a direct result of the events and activities that occur in the convention center. For example, a convention's attendee's expenditures on hotel rooms and meals are a direct economic impact.
- **Indirect impacts** - consist of re-spending of the initial or direct expenditures, or, the supply of goods and services resulting from the initial direct spending in these facilities. For example, an attendee's direct expenditure on a restaurant meal causes the restaurant to purchase food and other items from suppliers. The portion of these restaurant purchases that are within the local, regional, or state economies is counted as an indirect economic impact.
- **Induced impacts** - represent changes in local consumption due to the personal spending by employees whose incomes are affected by direct and indirect spending. For example, a waiter at the restaurant may have more personal income as a result of the convention attendee's visit. The amount of the increased income the waiter spends in the local economy is considered an induced impact.
- **Personal income** - measures increased employee and worker compensation related to the events being analyzed. This figure represents increased payroll expenditures, including benefits paid to workers locally. It also expresses how the employees of local businesses share in the increased outputs.
- **Employment impact** - measures the number of jobs supported in the study area related to the spending generated as a result of the events occurring in the convention center. Employment impact is stated in a number of full-time equivalent jobs.



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This analysis differentiates impacts from spending by people coming from out-of-town and by local residents, as defined below:

- **Net New Spending** - is spending by out-of-town attendees, exhibitors, and other visitors who come from outside the subject area, i.e., the Town, which represents the amount of "new dollars" that flow into this jurisdiction.
- **Transfer Spending** - In strict economic terms, spending by those who live in the market area represents "transfer" spending. For example, a resident of the Town who attends a seminar at the Convention Centre would transfer income from one sector of the Town's economy to another, and therefore is not bringing new dollars into the Town economy. Nevertheless, they are part of the economic activities attributable to the Convention Centre.

Therefore, the analysis will present total impacts of the proposed Convention Centre expansion as expressed through the sum of net new spending (to the Town) and transfer spending.

### South Padre Island Convention Centre Event Characteristics

In the first stabilized year after expansion (Year 5 or 2012), the Convention Centre is projected to host a total of 128 events, generating approximately 90,500 attendees. As the stabilized year represents what should be the effective level of performance for the expanded facility, the economic impacts are based on this year.

Table 12-1 summarizes the event demand by type of events.

Table 12-1		
South Padre Island Convention Centre		
Projected Event Demand and Attendance - Year 5		
	# of Events	# of Attendees
Conventions and Trade Shows	25	32,800
Consumer Shows	3	7,300
Corporate Events	9	3,500
Meetings and Conferences	38	11,600
Banquets and Social Events	37	10,000
Sport Events	16	25,300
Total	128	90,500
Source: Johnson Consulting		

The number of days that an attendee spends in the market (person-days) serves as the basis of the economic impact estimate. Based on the attendance figures

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presented above, Johnson Consulting estimated the number of person-days that resulted from the activities hosted at the Convention Centre.

Table 12-2 shows the assumptions of event length and visitor origin, derived from actual data (as available) and from experience with similar facilities in comparable markets, adjusted to reflect the South Padre Island market. The assumptions are also based on the size and population of the areas: the Town of South Padre Island (population 2,475), Cameron County (population 363,092) (County), and their respective location within the state and in relation to cities in the broader region. With the Town being of a small-size, it is expected that the majority of Convention Centre event attendees will come from outside the Town.

Table 12-2 also shows the assumptions used for estimating the number of room nights generated from the Convention Centre events. It is estimated that most of out-of-town visitors would stay overnight in the area and require lodging accommodations.

**Table 12-2**

<b>South Padre Island Convention Centre Event Length and Attendee Origin - Year 5</b>		
	<b>Average Event Length</b>	<b>% from Town</b>
Conventions and Trade Shows	3.0	10%
Consumer Shows	2.3	20%
Corporate Events	1.0	15%
Meetings and Conferences	1.0	15%
Banquets and Social Events	1.0	30%
Sport Events	2.5	15%
<i>Source: Johnson Consulting</i>		

The number of attendees, in combination with length of stay in the local market represents the two primary indicators of event impacts. Accordingly, Johnson Consulting, drawing on prior experience in similar markets, developed estimates of local and non-local person-days.

Table 12-3 shows these estimates, as well as the number to room nights generated, which corresponds to room night projections shown previously in Table 8-4 in Section 8.



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Table 12-3

South Padre Island Convention Centre Estimate of Person-Days and Room Nights - Year 5						
	# of Attendee s	Spouse/ Guest Factor	# of Person-Days			# of Room Nights
			Total	Local	Non-Local	
Conventions and Trade Shows	32,800	40%	92,537	8,460	84,077	20,100
Consumer Shows	7,300	20%	3,206	474	2,732	500
Corporate Events	3,500	20%	2,795	378	2,417	900
Meetings and Conferences	11,600	20%	12,506	1,876	10,630	3,100
Banquets and Social Events	10,000	33%	9,940	2,982	6,958	1,700
Sport Events	25,300	25%	9,101	1,365	7,736	1,900
<b>Total</b>	<b>90,500</b>		<b>130,085</b>	<b>15,536</b>	<b>114,549</b>	<b>28,200</b>

Source: Johnson Consulting

As shown in the table, events at the expanded facility are estimated to generate approximately 15,500 local person-days and 114,500 person-days from out-of-town visitors. These person-days include those from attendees and exhibitors. In year five, the non-local person-days are estimated to generate approximately 28,200 room nights. In addition, attendees to conventions, meetings, and other events in facilities such as this, frequently bring a spouse or guest with to the event. While these individuals do not register in the attendance figures for a convention center, they do represent a significant addition to the potential spending impacts, which is why they are reflected here.

The number of person-days by type is determined by the number of projected attendees, the average length of stay, and their origin (as shown previously in Table 12-2).

## Economic Impact Analysis

As the basis for direct spending estimates for the economic impact analysis, Johnson Consulting used the average daily spending per attendee by type of events as shown in Table 12-4. The average daily spending assumptions are derived from spending figures from the International Association of Convention and Visitor Bureaus and Johnson Consulting's experience with similar projects in comparably sized markets. The spending amounts below are shown in 2005 dollars.

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**Table 12-4**

<b>Average Daily Spending per Attendee (In 2005 Dollars)</b>	
	<b>\$ Amount</b>
<b>Type of Spending</b>	
Tickets/ Entertainment	\$8.00
Transportation	17.00
Eating and Drinking	34.00
Lodging	99.00
Shopping	24.00
Other	6.00
Total- Overnight	\$188.00
Total- Day-Trip	\$89.00

*Source: IACVB, Johnson Consulting*

As the table shows, the estimated average daily spending for convention attendees is \$89 per day (excluding lodging). For attendees that incur lodging, that expenditure is estimated to be \$99 per room night. While this rate is below that achieved in South Padre Island at selected times of the year, it is keeping with the annual ADR of the past few years, on a seasonally adjusted basis. The estimated daily spending for attendees to other types of events is adjusted from the convention attendee spending to reflect the characteristics of their daily activities.

Table 12-5 shows the estimated economic impact of events after the proposed Convention Centre expansion. Johnson Consulting utilized the IMPLAN input-output model to estimate indirect and induced impacts. IMPLAN is a nationally recognized model commonly used to estimate economic impacts. An input-output model analyzes the commodities and income that normally flow through the various sectors of the economy. The indirect and induced spending and employment effects represent the estimated changes in the flow of income and goods caused by the direct spending associated with the enhanced facilities.



Table 12-5

South Padre Island Convention Centre			
	Economic Impact (\$000's) - Year 5		
	From Transfer Spending by Locals	Net New to Town	Gross Total
	(a)	(b)	(c)
<b>Convention Centre</b>			
Direct Spending	\$1,211	\$12,072	\$13,282
Indirect Spending	6	413	418
Induced Spending	8	322	330
Total	\$1,224	\$12,807	\$14,031
Personal Income	\$16	\$685	\$701
Employment (in FTE)	1	49	50
Source: Johnson Consulting			

As shown in the table, Johnson Consulting projects, that in their stabilized year of expanded operation, the Convention Centre is estimated to generate approximately \$14.0 million in total direct, indirect, and induced spending, \$701,000 in earnings, and support for the equivalent of 50 full-time jobs, including impacts from both transfer spending and net new spending.

### Fiscal Impact Analysis

Fiscal impacts are tax revenues that result from the spending and income related to the activities at the proposed expansion of the Convention Centre. This analysis estimates fiscal impacts for the governmental units that levy taxes in the jurisdiction. Like the annual spending estimates on which they are based, fiscal impacts are based on event demand and attendance in their stabilized year of operation.

The fiscal impacts are the public sector's return of investment. Fiscal impacts provide a partial offset to the capital and operating expenditures required to support the development of the expanded facility. Although the incremental tax revenues cannot be expected to pay for a publicly-funded project in full, fiscal impacts are important because they improve the ability of the public sector to pay for the project. The overall economic impacts, including the fiscal impacts, provide a rationale for public participation in a project.

Based on the gross spending shown in Table 12-5, Johnson Consulting estimated the fiscal impacts from two major categories of tax revenues that are directly affected by

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event attendees' activity: general sales tax and hotel occupancy tax. Applicable tax rates include the following:

- **General Sales/Use Tax** - The sales tax rate is 8.25 percent, which includes:
  - State sales tax ..... 6.25 percent,
  - Town sales tax ..... 2.00 percent.
- **Hotel Occupancy Tax** - is 13.50 percent of hotel room sales, which includes:
  - State hotel occupancy tax ..... 6.00 percent,
  - Town hotel occupancy tax ..... 7.50 percent.

Not included in the analysis at this point are property tax and income tax estimates. Spending outside the Convention Centre would increase some of the values of commercial establishments in the area, which results in increased property tax supported by the project.

Table 12-6 summarizes the fiscal impact estimates from general sales tax and hotel occupancy tax.

**Table 12-6**

South Padre Island Convention Centre Estimate of Fiscal Impacts - Year 6					
	Taxable Spending (\$000's)	Tax Rate	Tax Revenues (\$000's)		
			From Transfer Spending	Net New	Gross Total
General Sales Tax					
State	\$7,654*	6.25%	\$56	\$422	\$478
Town	7,654	2.00%	18	135	153
Total Sales Tax		8.25%	\$74	\$558	\$631
Hotel/ Motel Tax					
State	\$2,792	6.00%	\$0	\$168	\$168
Town	2,792	7.50%	0	209	209
Total Hotel/ Motel Tax		13.50%	\$0	\$377	\$377
Total Tax Revenues			\$74	\$934	\$1,008

\*Includes a portion of the direct spending that is spent on eating and drinking, shopping, and other.  
Source: Johnson Consulting

As the table shows, direct spending generated by events at the expanded Convention Centre are projected to result in approximately \$1.0 million in tax revenues.



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The Town is likely to incur expenses related to providing services to the improved facilities that are not estimated in this analysis. These expenses include police, fire protection, emergency medical services, traffic control, street maintenance, sanitation, and other ongoing operating expenses required to maintain the environment around the facility. While many of these costs are charged back to facility users, inevitably these costs would, to some extent, decrease the overall fiscal benefit to the public sector.

### Construction Impact

In addition to the ongoing impacts from the operation of the facilities, the expansion of the Convention Centre would create a one-time influx of construction spending. The construction spending also results in employment in many sectors of the local economy.

Based on a \$35.4 million construction cost, Table 12-7 shows the total direct spending and the estimated indirect and induced impacts that the expansion of the facility would generate to the local economy. The estimate assumes that 60 percent of costs are attributable to labor and 40 percent of costs are reflected in materials (or \$14.2 million), upon which the fiscal impact estimate is based.

Table 12-7

Estimated Economic and Fiscal Impacts of Construction Activity	
	Impact (\$000's)
<b>Economic Impact</b>	
Direct Construction Spending*	\$14,176
Indirect and Induced Spending	1,877
Total Spending	\$16,053
Personal Income	\$5,167
Employment (in FTE)	91
<b>Fiscal Impact</b>	
General Sales Tax	
State	\$1,003
Town	321
Total Fiscal Benefit	\$1,003
*From spending on materials only.	
Source: Johnson Consulting	

As shown in the table, the construction activity is projected to account for total direct, indirect, and induced spending of \$16.1 million, increased earnings of \$5.2 million, and the equivalent support of 91 jobs. Because construction is a one-time event rather than an ongoing operation, these jobs are counted in "job-years" each

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representing one-year of work for one person. Assuming an 18-month construction period, the 91 jobs translate to 61 jobs. The estimated fiscal impact from the 8.25 percent sales tax applied to the total spending is approximately \$1 million.