



Market Study

Proposed Hotel At The GWCC Atlanta, Georgia

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1. PKF Hospitality Research Introduction

1. PKF Hospitality Research Introduction

Brief History

- Pannell Kerr Forster - 1912 to 1990
CPA's and Consultants
- PKF Consulting - 1991
Consulting, Research
- PKF Hospitality Research - 1998
Data Collection/Research, Econometric Forecasting,
Benchmarking Publications - Headquartered in Atlanta

Recent Relevant Work

- Econometric Forecasting- quarterly
 - Hotel Horizons 50 markets
 - Custom Forecasts
- Benchmarking Publications
 - Annual Trends – 175 detailed 2012 Convention Hotel P&L statements in Database.
- Seaport Convention Center Expansion
 - Impact analysis of a proposed Convention Center Hotel on existing area hotels.
- Projects in Downtown Atlanta
 - HGI, Embassy Suites, Glenn Hotel, former Days Inn, Ellis Hotel, Omni Expansion.



2. Approach to the Project

2. PKF Approach to the GWCCA Study

Traditional Approach Wherein We Analyzed Historic Market Conditions and Interviewed Select Industry Participants.

- Project Manager has 35 years of experience in analyzing the Atlanta CBD market.

Comparable Market Analysis - Case Studies

- Econometrically identified price and demand change attributable to a change in supply.
- 14 case studies in 12 markets of convention hotel openings within the last 18 years.
- Analyzed the market characteristics for each case study hotel to determine which factors had the most influence on the levels of induced demand.



3.1 Project Findings: Case Studies

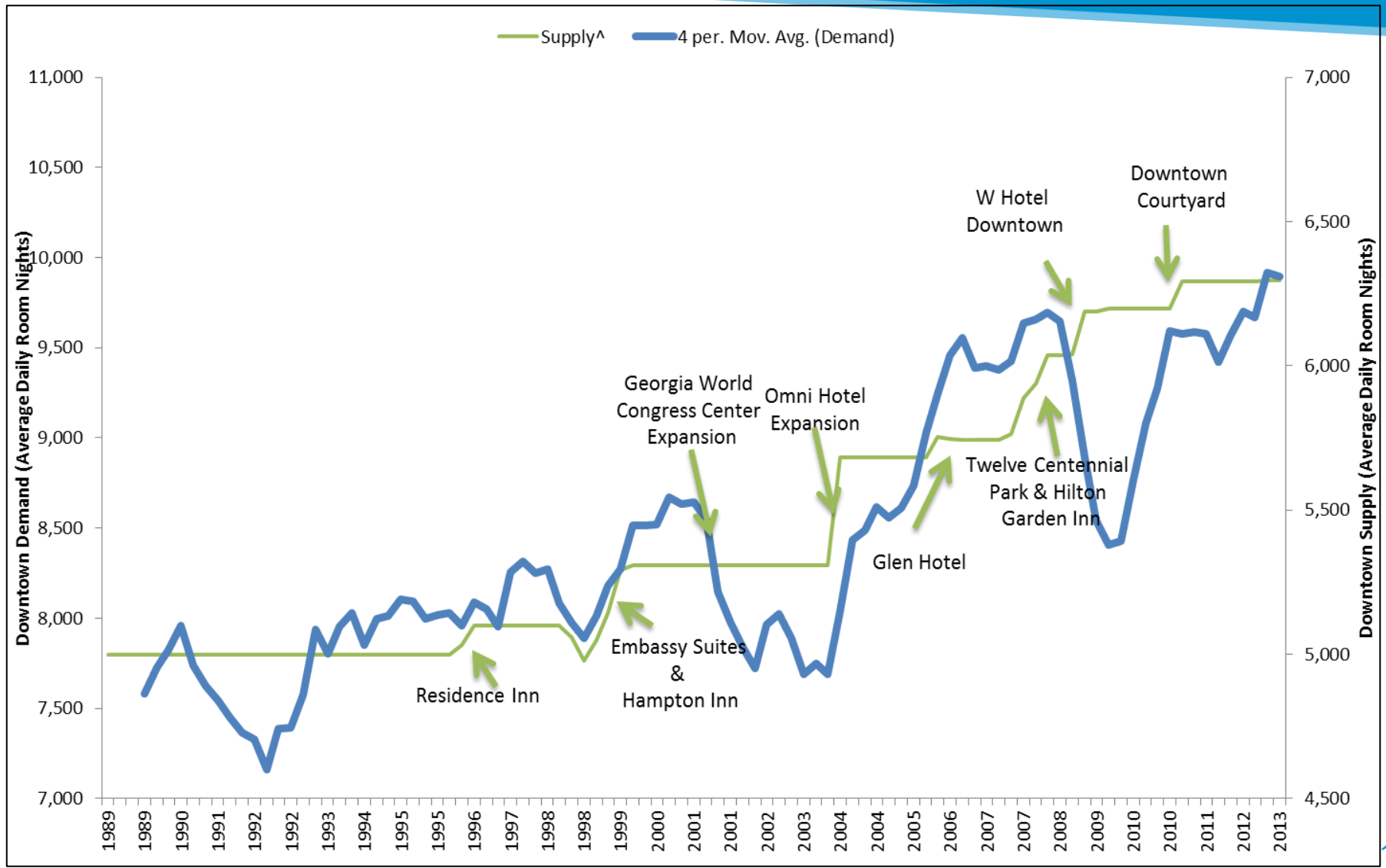
3.1 Project Findings – Case Studies

Key Objective: To determine the amount of induced demand that the proposed Hotel would generate.

- **Induced Demand**

- The concept that an increase in supply will result in an increase in demand or consumption.
 - By increasing capacity, a market can accommodate additional demand on nights that were previously sold out.
 - A destination can attract demand from other markets as a result of having a newer, more desirable product or simply more rooms.

Atlanta: Demand in Downtown Now at a Record Level – New Supply Creates the Capacity for New Demand



3.1 Project Findings – Case Studies

Case Study Summary:

- 14 convention hotels openings analyzed.
- The hotels studied induced demand equal to approximately 50 percent of the new rooms available into the market, on average.
- The volume of induced demand ranged between 32 and 74 percent of the new supply into the market.
- No consistent material impact on average daily rate.

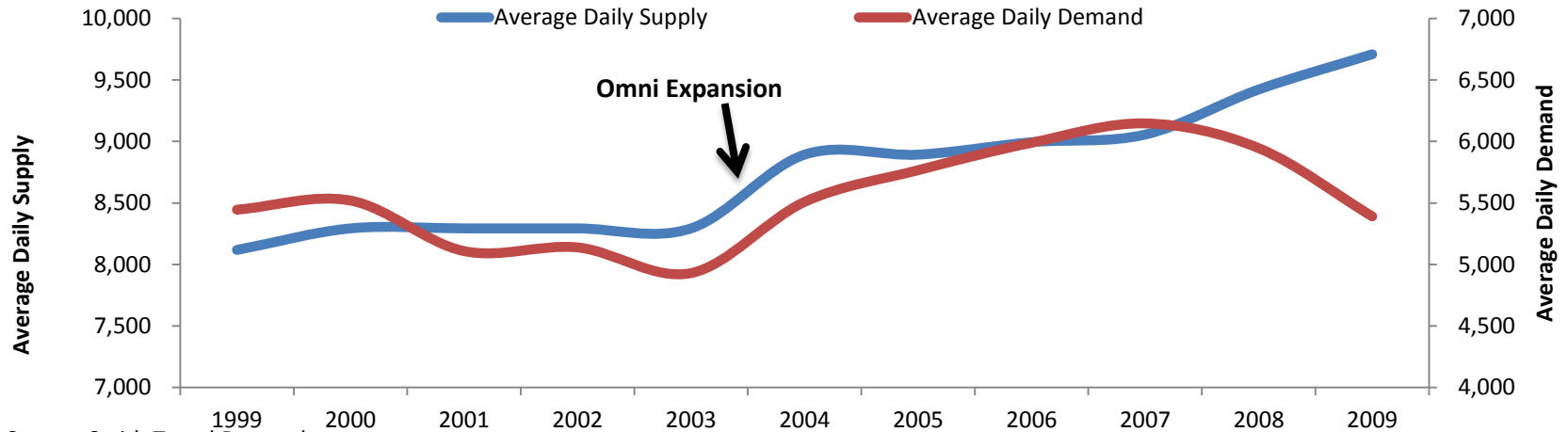
Findings: Influencers of the level of induced demand include:

- Capacity to absorb new group meetings:
 - Markets with a high amount of exhibit space per available guestroom (within 1 mile of the convention center) typically realized greater levels of induced demand.
 - Markets with a lower hotel occupancy level prior to the hotel opening typically showed greater levels of induced demand.

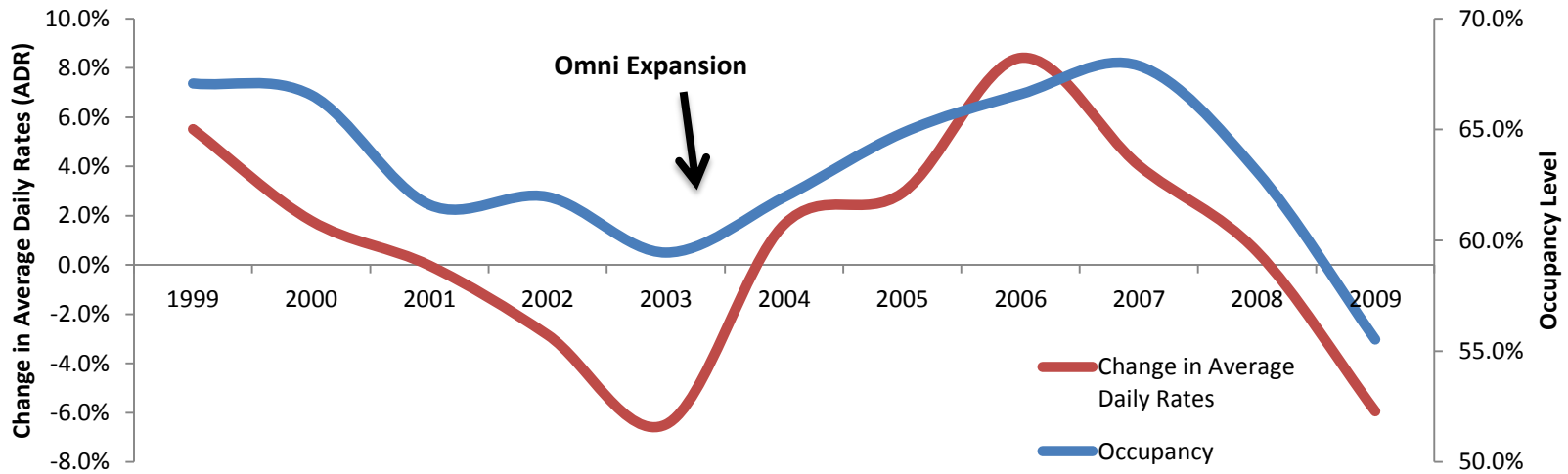
- **Influencers of the level of induced demand (cont.):**
 - Elapsed time since previous convention center opening or expansion.
 - Hotels that opened shortly after a convention center expansion tended to induce more demand than hotels that opened several years following an expansion.
 - Walkability.
 - Hotel developments that significantly increased the ratio of available rooms located within a short distance of the convention center (0.3 miles or less) tended to induce higher levels of demand.

3.1 Findings – Case Studies (Atlanta)

Omni Expansion



Source: Smith Travel Research



Source: Smith Travel Research, PKF-Hospitality Research, LLC

3.1 Project Findings – Case Studies (Atlanta)

Omni Expansion:

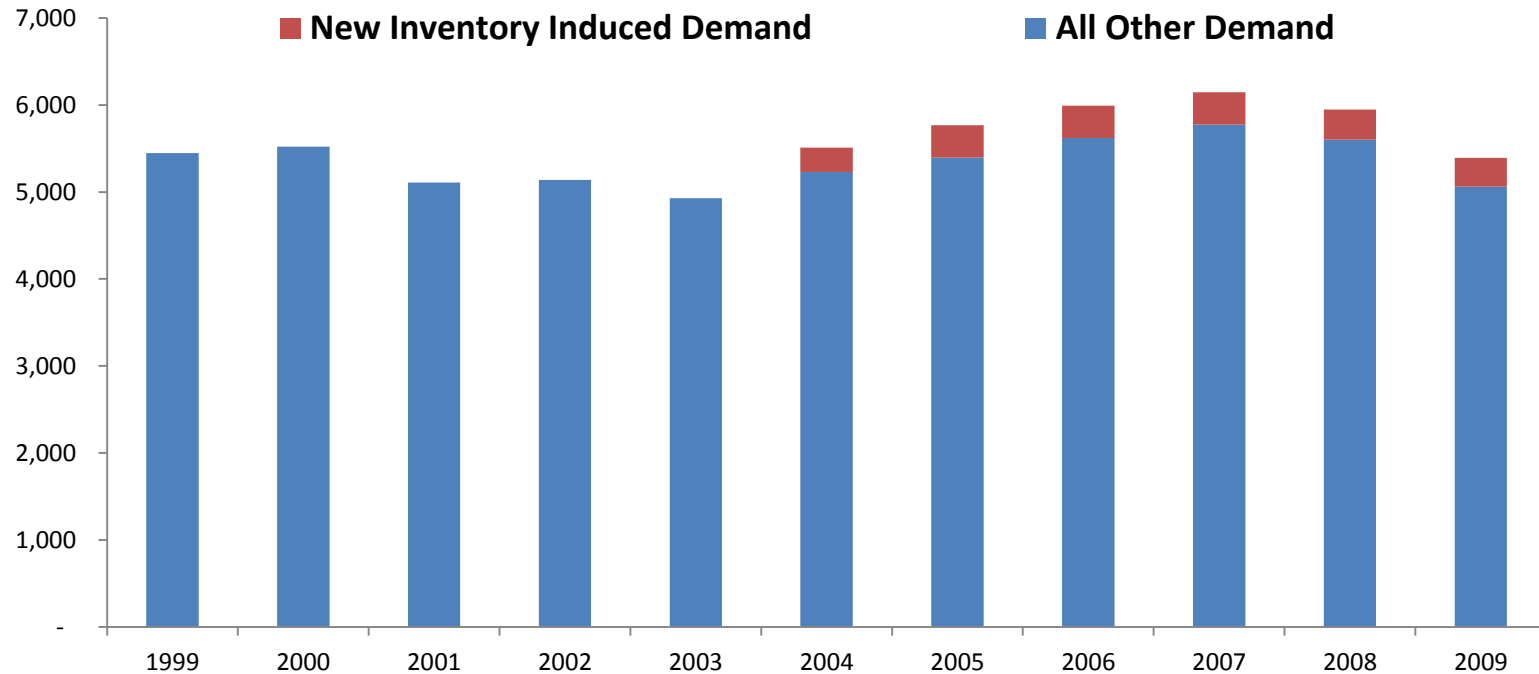
Table 1-D: Quantifying the Latent Demand and Real ADR Effect

Actual Year	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating Year Studied:	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Induced Average Daily Room Nights:	278	371	372	374	344	332	320	301	281
Induced Demand as a Percent of Rooms Added:	46.4%	61.9%	61.9%	62.3%	57.3%	55.3%	53.4%	50.2%	46.8%
Impact on Real Average Daily Rate	-\$4.75	-\$5.09	-\$4.81	-\$4.85	-\$3.92	-\$3.78	-\$4.05	-\$4.35	-\$4.30

Source: PKF Hospitality Research, LLC

3.1 Project Findings – Case Studies (Atlanta)

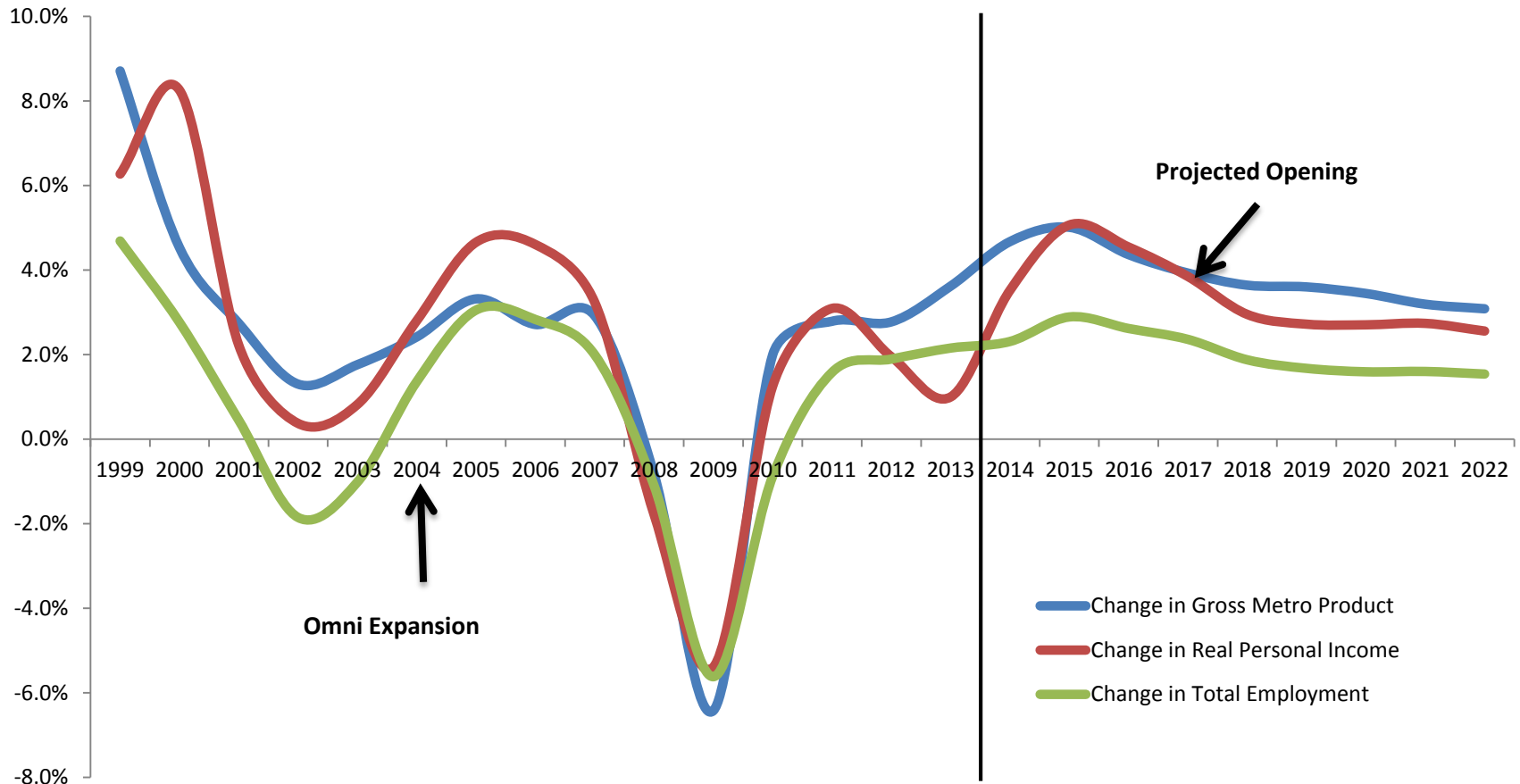
Omni Expansion Induced Demand – Relative to Market Total Demand



Source: PKF Hospitality Research, LLC, Smith Travel Research

3.1 Implications for Atlanta

Projected situation in Downtown Atlanta in 2017 :



Source: Moody's Analytics

Moody's – Stable economic outlook

3.1 Implications for Atlanta

Projected situation in Downtown Atlanta in 2017 :

- **Capacity to accommodate new group meetings:**
 - Convention Space: High Inducement Amount Suggested – There is significant capacity at the GWCC to accommodate new meetings.
 - Hotel Occupancy: Medium Inducement Amount Suggested – PKF-HR forecasts an occupancy rate of approximately 66% for Upper-Priced Downtown Atlanta Hotels in 2017.

3.1 Implications for Atlanta

Projected situation in Downtown Atlanta in 2017 :

- Time since previous convention center opening or expansion
 - Medium Inducement Amount Suggested : The GWCC last expanded in 2002, 15 years before the Hotel's projected opening date, but the new Falcons Stadium is expected to open in 2017 resulting in an improvement of the area's overall infrastructure.

Note: The expansion of the Omni in 2004, two years after the GWCC expansion, was determined to have created a 61.9 percent inducement factor.

3.1 Implications for Atlanta

Projected situation in Downtown Atlanta in 2017 (Cont.)

- Walkability

- The proposed Hotel will improve the “walkability” factor by 25 percent, as compared to a 39 percent improvement with the expansion of the Omni Hotel in 2004. As such, a slightly lower relative level of induced demand should be expected.

3.1 Project Findings – Case Studies

Conclusions:

- The development of an 800-room Hotel along the western perimeter of the GWCC complex would:
 - Improve walkability and access to the entire GWCC complex, and most notably buildings B and C. This will significantly enhance the competitive appeal of downtown Atlanta to new, and more, groups.
 - Improved infrastructure (in the form of the New Stadium) will generate additional demand which can be accommodated at the proposed Hotel.
 - Based on the above factors, we estimate a level of induced demand of approximately 55% (lower than that experienced with the Omni expansion, generally in line with the overall case study average). This equates to 440 additional rooms being sold in the market on average each day.

3.2 Project Findings – SWOT Analysis

3.2 Project Findings –SWOT Analysis

Strengths, Weaknesses Opportunities and Threats associated with the Project:

- Strengths

- The newest Hotel in the market.
- The closest Hotel to GWCC Buildings B and C.
- The first choice Hotel for conventioners.

3.2 Project Findings –SWOT Analysis

- **Weaknesses:**
 - Limited access to local transient corporate demand.
 - No existing supporting amenities (restaurants, retail, etc. on west side of the GWCC) requires additional investment in facilities and services offered at the proposed Hotel.

3.2 Project Findings –SWOT Analysis

- **Opportunities:**

- Safeguard or improve room block availability for events at the GWCC.
- Improve guest access to GWCC Buildings B and C.
- Further improve Atlanta's overall competitive position as a major convention market.
- Increase the occupancy of GWCC
- Increase overall hotel tax receipts.
- Stimulate economic growth

3.2 Project Findings –SWOT Analysis

- Threats:

- Other convention hotels in downtown Atlanta have increased their in-house meeting space capacity to the point where **they are no longer as dependent on the GWCC** to generate demand and thereby might not provide sufficient room blocks for groups.
- Competition from other cities who are improving their facilities (Nashville, Washington, Boston...)



3.3 Project Findings – Structure and Operation

Guestrooms

- Comparables range in size from 600-1,200 guest rooms.
- PKF Recommendation - 800 rooms – Four Star Quality.
 - Enough capacity to provide a sufficient room block for Key exhibitors and event organizers (Headquarters Hotel).
 - Not too many rooms to fill when the convention center is empty.

3.3 Project Findings – Structure and Operation

Meeting Space

- PKF Recommendation 60,000 SF net usable.

• Meeting Space Considerations

- Complimentary to existing space at the GWCC.
- More breakout rooms, divisible ballrooms.
- Depends on ownership structure and ability to use GWCC facilities.

• Other Considerations

- High quality meeting space is expensive to build – shared meeting space with the GWCC could reduce development costs.
- Private owners/operators will want to be able to attract “in-house” meetings when GWCC is empty or unavailable.

3.3 Project Findings – Structure and Operation

- **Other Amenities**

- Typical upper-upscale amenities found in good convention hotels – Restaurants, Lounges/Bars, Pool, Fitness Center, Business Center, Spa (?), Parking (enough already available?).
- More restaurants and lounges are needed because of location.

- **Other Considerations**

- Food and Beverage outlets are expensive to build and typically have lower profit margins. (these are reflected in our financial estimates).

3.3 Project Findings – Structure and Operation

- Branding considerations
 - Track record
 - Sales experience
 - Operating experience
 - Brand loyalty
 - Brand scale
 - Availability

Top Six Brands - Hotels >600 rooms			
Parent Company	# of Hotels> 600 rooms	# of Hotels> 800 rooms	# of Hotels> 1,000 rooms
Marriott	55	30	22
Starwood	43	23	15
Hilton	40	26	20
Hyatt	31	20	10
IHG	8	0	0
Omni	5	3	2
<i>Totals</i>	<i>182</i>	<i>102</i>	<i>69</i>

Source: STR, PKF Consulting USA, LLC

3.3 Project Findings – Structure and Operation

- Other Considerations:
 - Full service hotel development has essentially come to a standstill nationally. Market values remain well-below replacement costs.
 - Nearby current example is the Omni in Nashville, which has received significant publically-provided underwriting support.
 - Matching risks with rewards is often tempered with the political reality of public sector ownership of the Hotel.
 - North Georgia Mountains Authority – successful public/private partnership where the NGMA owns the asset, which was fee developed, and fee managed, by private sector experts.

3.3 Project Findings – Structure and Operation

- Other Considerations (continued):
 - Project efficiency is maximized through public ownership by:
 - Control over Hotel management and sales practices.
 - Control over the inventory.
 - Minimizing the amount of public space needed to support the new Hotel.
 - Interests of Hotel are aligned with those of the GWCCA i.e. maximizing the economic impact of the entire GWCC complex.

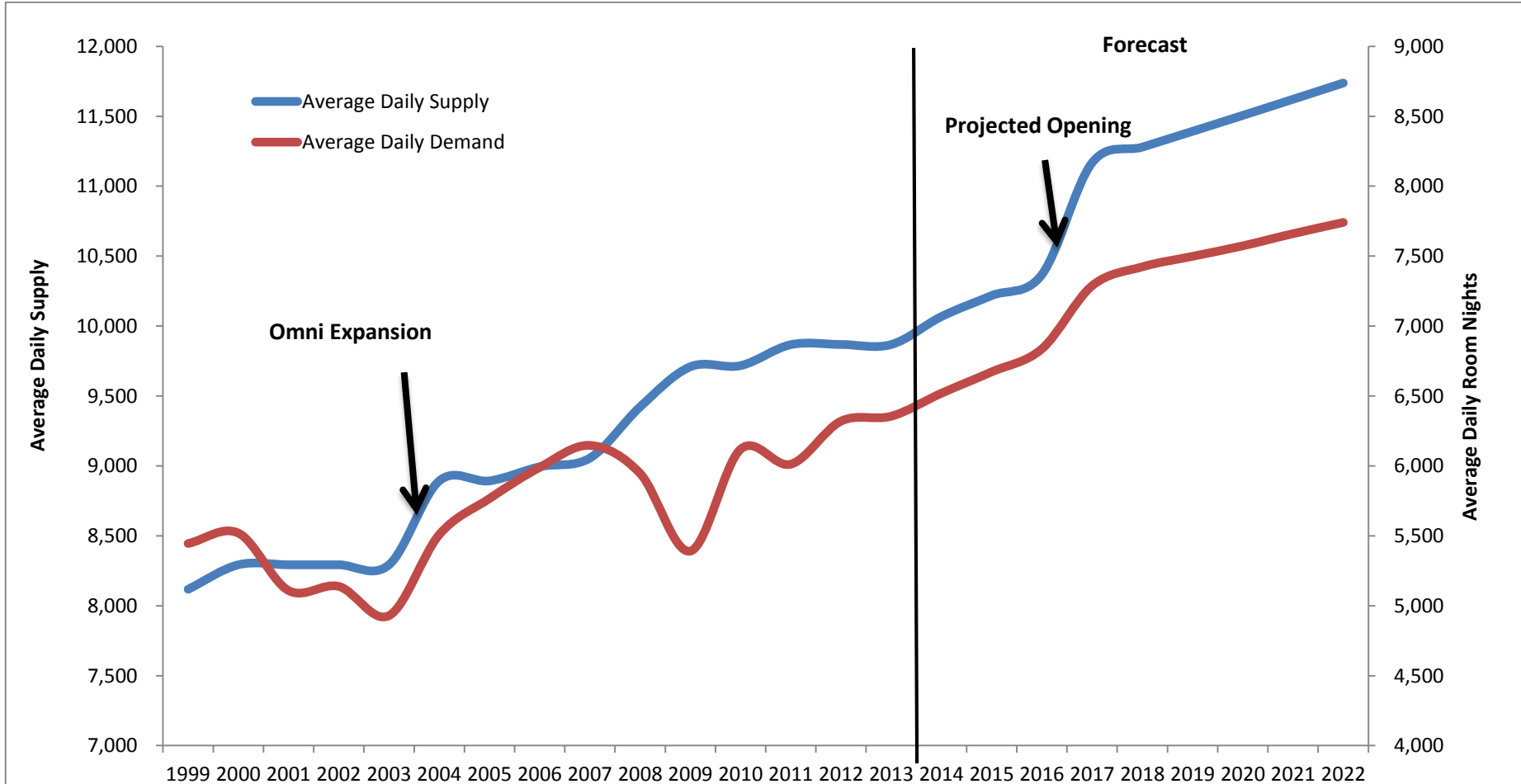
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3.4 Project Findings - Projections

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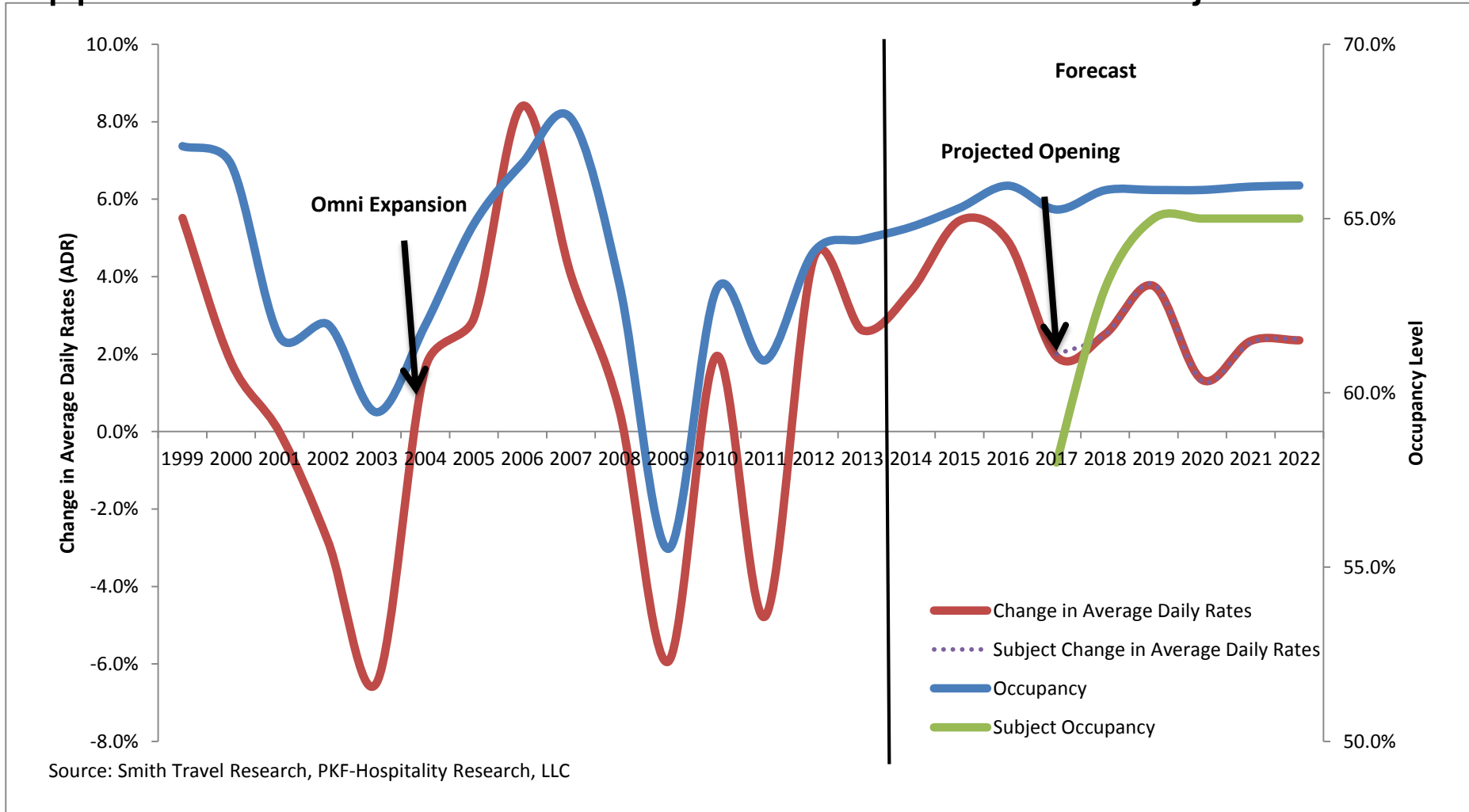
Upper-Priced Hotel Performance - Historical and Projected



Source: Smith Travel Research, PKF-Hospitality Research, LLC

3.4 Project Findings – Projections

Upper-Priced Hotel Performance - Historical and Projected



3.4 Project Findings – Projections

Summary of Estimated Annual Operating Results

Year	Total Revenue	Net Operating Income	Ratio to Total Revenues
2017	\$48,495,000	\$12,570,000	26%
2018	53,961,000	15,256,000	28%
2019	57,580,000	16,705,000	29%
2020	58,709,000	16,818,000	29%
2021	59,912,000	17,040,000	28%
2022	61,381,000	17,439,000	28%
2023	63,149,000	18,080,000	29%
2024	65,106,000	18,826,000	29%
2025	66,770,000	19,367,000	29%
2026	68,626,000	20,014,000	29%

See Handouts I and II



3.5 Project Findings – Cost and Ownership

3.5 Project Findings – Cost

- Very preliminary and rough estimates ranged from \$200 to \$300 million.
- Cost will depend on the level of amenities, the quantity of meeting space and the brand selected, method of financing used, among other factors.
- As real estate construction activity increases, so do construction costs.



4. Recommendations

4. Recommendations

■ **Project is worth investigating further:**

- Survey and focus groups of existing and potential meeting planners and clients to gain further insight into Atlanta and GWCC's competitive position, and the impact that a new Hotel would have on their decision making process.
- Prepare 10-year revenue and expense estimates for the GWCC with and without the proposed Hotel to estimate the direct financial benefits in terms of incremental revenues for the GWCC and profits from the Hotel.
- Brands: Explore which brands would want to bid on the opportunity.
- Funding Sources: Explore funding sources: Public/Private: pros and cons of each
- Determine what the total economic impact of the development might be.