

DRAFT



**MINUTES**  
**April 26, 2010**  
**8:00 a.m. – 10:00 a.m.**  
**BCEC Room 052**

**Attendees:** *Partnership Members:* David Colella, James Coyle, Senator John Hart, Colleen Keating, Representative John Keenan, Thomas Kinton, Bill Linehan, Patrick Moscaritolo, Charlayne Murrell-Smith, Joseph Nee, Richard Dimino, David Giblin, James E. Rooney, Paul Sacco, Darryl Settles, Lisa Calise Signori, Samuel Tyler, Darnell Williams *Others in attendance (partial list):* Lowell Richards, Kairos Shen, James Carmody, Tseng-Wei Chung, Howard Davis, Michelle Ho, Milt Herbert, Maureen Shea Baker, Ken Sinkiewicz, Bill Smith, Johanna Storella, Katie Tumiel, Robert O'Shea, Fred Peterson, Colleen Richards Powell, Peter Phillippi, Tom Hazinski, Rachel Roginsky, Lou Cabral, Bob Jones, Angela Olszewski, Mary Ann Williams, Terry Worden, Nesy Shems, Ellen McDonough, Casey Ross, BK Boley, Jim Doolin, Ann Vassos, George Tremblay

**1. Welcome & Recap**

Jim Rooney welcomed the members of the Partnership and began the meeting with a recap of the first three Convention Partnership meetings. Recapping the January and February meetings Mr. Rooney reminded attendees that we did the development of the BCEC the right way in 2004 and that Boston is a sought after and successful meetings destination. In order to remain competitive as a city, Mr. Rooney reminded the Partnership that we must view the development plan as a part of the overall T5 strategy. From the March joint meeting with the Customer Advisory Group, Mr. Rooney highlighted key remarks from CAG members that showed some of the drawbacks to doing business in Boston including high transportation fees, lack of available hotel room nights for large groups, and inconvenience to attendees who often spend long rides on the shuttles going to and from the center due to the lack of proximate hotels to the BCEC.

Next, Mr. Rooney covered an industry update for San Diego, Philadelphia and Chicago. San Diego is currently in the beginning stages of expansion after just recently securing a land deal and Philadelphia is 76% done with their convention center expansion. Both

cities are commonly cited as Boston's closest competitors. Mr. Rooney also spoke briefly about the industry turmoil occurring in Chicago. While Chicago often ranks as one of the top two convention centers in the country, recently event planners have been speaking out publicly regarding the high cost of doing business in that city and the frustrations involving some of Chicago's union labor work rules. Chicago legislators are now involved and have appointed an interim board and will eventually replace the board completely and will ultimately work to reform the management of McCormick Place.

- Lowell Richards asked Mr. Rooney to speak about how the economic downturn has affected event registration numbers. He asked whether or not this downturn has been different than others have been in the past for the hospitality industry. He also asked whether or not there has been a trend in reduced event registration numbers due to technology components like video-conferencing. Mr. Rooney noted Mr. Richards' question and responded that Johanna Storella had access to data sharing numbers from industry sources that would be made available by the next meeting.

## **2. BCEC & Hotels**

Mr. Rooney turned the presentation over to Howard Davis, Director of Capital Projects with the MCCA to discuss:

- The current relationship between the BCEC and Hotels
- Measuring the benefits of an additional headquarters hotel
- Responding to the current Boston hotel challenges
- The BRA's outlook on the Boston hotel situation

Mr. Davis introduced Milt Herbert of the Boston Convention Marketing Center and Rachel Roginsky, founder and owner of the Pinnacle Advisory Group, one of the best-known hotel consulting firms based in Boston. Mr. Herbert and Ms. Roginsky discussed the BCEC & Hynes' current relationship with city hotels. Mr. Herbert described the process an event planner goes through to book an event in Boston which typically includes blocking a substantial number of rooms to cover "peak" hotel room nights, or the busiest show days of an event. Using RIMS 2010 (Risk Insurance Management Society) who were occupying the BCEC during the Partnership's meeting, Mr. Herbert indicated how difficult it can be to coordinate not only space and hotel availability, but also the high cost of transportation to shuttle attendees from Back Bay hotels to the BCEC. Mr. Herbert also showed how the lack of Boston hotel inventory negatively affects the possibility of holding simultaneous Hynes and BCEC events. Ms. Roginsky explained the notion of a "limited-service" hotel which is a hotel that just offers hotel rooms, without additional meeting space or the amenities typically carried by a full-service hotel. Ms. Roginsky said she felt as though a BCEC expansion could entice more developers to consider limited-service hotels in the Waterfront district.

Next, Mr. Davis introduced Tom Hazinski with HVS International, one of the country's leading consultants for convention, sports and entertainment facilities. Mr. Hazinski's explained that his study sought to forecast what would happen in the event of adding an additional headquarters full-service, nationally-branded hotel of 1,000 rooms or more *without* any expansion to the BCEC. He studied the historical performance of hotel demand in Boston, evaluated Mr. Herbert's lost-business reports as well as event-planner surveys, and looked at comparable venues' relationships with hotels. In his findings, Mr. Hazinski suggested that the impact of an adjacent headquarters hotel with the above criteria would impact the Boston conventions and meetings industry positively in the following ways:

- BCEC could recover *some* lost business
- New hotel would relieve some pressure placed on Back Bay hotels which in turn leaves the possibility open for simultaneous Hynes & BCEC events.
- New visitor spending
- Increased related fiscal spending
- Stimulated complementary development in the Waterfront district

Mr. Davis then introduced Peter Phillippi with Piper Jaffray & Co, managing director in the public finance investment group of the investment banking firm. Piper Jaffray is the only investment banking firm with a specialized practice in the hospitality finance area, and is a market leader. Mr. Phillippi specializes in investment banking projects involving hotels and convention centers involving public-private partnerships or wholly public participants. Mr. Phillippi's presentation, geared at responding to the hotel challenge, overviewed hotel trends both nationally and specifically in Boston. Nationwide hotel development is on the decline. In Boston, Mr. Phillippi showed that high construction and land costs can delay or prevent development projects from ever being realized.

At this point, Ms. Roginsky added that in Boston, there are nearly 5,000 hotel rooms on the active pipeline, but not one of them has received any financing nor are they likely to begin construction in the next 5-10 years. Furthermore, there has been no hotel development in the South Boston Waterfront since 2008.

Next Mr. Phillippi overviewed the convention industry's headquarters hotel trends. He explained that since 2003, 10 convention center headquarter hotels with 750 rooms or more have entered the market. He explained the dynamic of the relationship of the hotel versus convention center management and walked through several different types of funding used by various convention center / hotel partnerships including:

- Private: privately developed with a goal to maximize profit, ADR and ROI.

- Public: publicly funded with a goal to support convention center and maximize economic impact for region while meeting event planner needs
- Public-Private: privately developed with some sort of public subsidy (i.e. tax exemptions, percentage of funding, land, etc.). All revenues go to a private developer, and/or equity investors, and a room block agreement is usually negotiated with the convention center.

Mr. Phillippi explained that privately owned convention center hotels generally require public financial subsidies because the economics do not often support conventional financing terms. All financial benefits inure to owner / equity investor under the private-ownership structure. On the other hand, Mr. Phillippi explained that public ownership offers an alternative for control integration with the convention center. Public ownership also has access to lower cost capital and financial benefits inure to government sponsor or owner.

Mr. Phillippi used the Washington, D.C. proposed hotel development (Marriott) as an example of a private-public model. He also used Dallas, Texas's proposed headquarters hotel and Denver, Colorado's existing Hyatt headquarters hotel to show publically-funded models.

- Mr. Shen of the BRA asked Mr. Phillippi to explain the total development cost, including the land, for Washington D.C.'s proposed hotel. Mr. Phillippi said the land cost around \$100 million (and was publicly funded) and estimated the development of the hotel to be at around \$625 million of which a total of \$308 million is the estimated public contribution.
- Mr. Richards commented that taxable or tax exempt the public is still responsible for paying those bonds. Public debt gets squeezed and you still have to pay it all. Moving forward, Mr. Richards said he felt like we needed to consider the risk profile of every concept presented and that today's market presents more of a direct risk for development of a hotel.
- Senator Hart asked Mr. Phillippi what he meant by "adjacent" and whether or not a hotel across the street could still be attractive to meeting planners. He also asked whether or not there were private land owners interested in development in spite of the economy. Mr. Rooney answered the second question by saying that we haven't issued an RFP yet for developer bids, but that it would be unlikely to get private interest based on the numbers presented by Mr. Phillippi. Mr. Hazinski added that even in an improved economy, public support would likely be necessary. Mr. Phillippi said that in an ideal situation the hotel would need to be connected to the convention center, but that there are numerous options for adjacent hotel locations that could be successful, including across the street.

- Mr. Sacco expressed concern over the math involved in Mr. Hazinski's suggestion that an additional hotel would benefit the Boston meetings and conventions industry. In this environment he said he'd love to see an added hotel, but felt like the numbers just didn't add up to equal a return on investment. Mr. Hazinski reminded Mr. Sacco to consider that the numbers he provided were for a hotel without expansion, but that with expansion the increased room nights would be even higher. Mr. Hazinski also stated that we should consider what would happen to the industry if we didn't build an additional hotel. He said that at some point, with the demand for hotel rooms already high in Boston, that a hotel would eventually have to be built. He feels as though we have the opportunity at this moment to direct that development in a way that is advantageous to us.
- Senator Hart said that we should look at the Renaissance, Westin and Seaport hotels as the perfect storm of hotel development in the Waterfront district. He also stated that we provided a significant public subsidy to the Westin developers who in turned flipped the hotel and sold it for a tremendous profit. In this situation Mr. Hart said we need to keep in mind the needs of the taxpayer.
- Ms. Keating commented on the lifecycle of a municipality looking to have a bond recovered. She said it takes about 30 years of operations to achieve that recovery. Public or privately developed, Ms. Keating said the exit strategy is to eventually sell, but you need to pay off the debt first. Ms. Keating used Sacramento as an example showing that they eventually sold their hotel for a \$44 million profit and put half of that profit to the economic development of their downtown area.
- Mr. Rooney commented on Chicago's situation where the city owns and operates their hotel, but net revenues go towards the operating expenses of McCormick Place. He said that the bottom line is that there are many different options to consider, but no decision needs to be made today.

### **3. BRA Boston Hotel Outlook**

Mr. Shen presented on hotel climate in the context of Boston. He spoke historically about occupancy rates for hotels in the mid-late nineties as being very high in the 80% range. He then showed that hotel business is very different today with occupancy stabilized at 75%. He said that this is a tremendously successful time for Boston hotels, but also a critical time. Mr. Shen's presentation showed that in the last 10 years we have added 450 rooms per year. Although there are about 2400 rooms permitted in Boston, at this time there is no actual financed hotel development forecasted for at least 5-7 years out. Even if we were to build those permitted 2400 rooms it would only represent 1% growth annually.

Mr. Shen's presentation also stressed the importance of considering not just the convention center's hotel needs, but the needs of (and impact on) the city in terms of

hotel rooms. Mr. Shen stated that it would be a “recipe for failure” to not consider the entire Boston hotel market in future planning. Mr. Shen said geographic location of the hotel, and legislation will be important factors in any future hotel development.

- Mr. Settles asked Mr. Shen to explain what type of hotels he was studying since Ms. Roginsky was looking at limited-service and Mr. Hazinski full-service. Mr. Shen said he was particularly interested in smaller hotels of about 450 rooms where meeting planners and event staff stay during the convention. Mr. Shen said from his perspective he wants to make sure there are big onsite hotels to accommodate the groups, but also a balance of smaller sites for other city hotel needs. Mr. Shen said creating hotel rooms at different price points ultimately helps conventioners.
- Mr. Nee asked why the Westin hadn’t added additional rooms yet. Mr. Rooney said they hadn’t got the ability to finance the additional 330 rooms owed to us yet.
- Mr. Phillippi stated that the building of a full-service headquarters hotel will spur the development of other smaller and limited-service hotels.
- Mr. Dimino asked if we expanded the convention center would there still be a dependency on Back Bay hotels? Mr. Rooney answered by saying, yes, there will always be a reliance on Back Bay hotels even with an additional hotel on the Waterfront. But, Mr. Herbert did state that a additional headquarters hotel would help tremendously.

#### 4. **Conclusions**

Mr. Rooney concluded with the following points:

- Hotels are important: you can't sell convention space without hotel rooms.
- Accessibility, large room blocks and different price points are critical elements of hotel inventory.
- With one relatively small HQ hotel, the BCEC is at a disadvantage
  - inconvenient for attendees
  - Adds to event planners’ transportation costs
- There are no moderately priced hotels in SB Waterfront.
- Even without expansion, a new HQ hotel would add business to the BCEC and the Hynes.
- Private sector is unlikely to develop hotels without government role.
- There are currently 5,000 planned hotels in Boston, but none have financing.
- Competitor cities are getting hotels built with public support.
- The most viable model: public, bond financed development with major hotel operator.
- There is land available around BCEC.

Meeting adjourned at 10:15 a.m.

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