

Convention center hotels require many tools for success

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Speakers at the Southern Lodging Summit outlined key ingredients required for a convention center hotel to experience prosperity from the outset.



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MEMPHIS, Tennessee—Convention center hotels need plenty of support to be successful, including the right funding mechanism, a captive base of business and sound operating fundamentals. But they also need the support of surrounding hotels and the overall community to ensure prosperity, according to speakers at the recent Southern Lodging Summit.

The basic formula for a successful convention center hotels includes the obvious—knowing the market and what type of business it can drive, said speakers on the “Convention center hotel impact on the market—does it lift all boats or drain the swamp?” session.

“It’s a lot of hotel rooms on any given night that you’re booking, so understanding how you fill that and looking in advance as to how much time it takes to fill that is very important,” said Chad Crandell, managing director and CEO for Boston-based CHMWarnick, which asset manages 14 convention center headquarters hotels (14,500 rooms and 1.1 million square feet of meeting space)—nine of which are publicly financed and five of which are privately owned.

Many Butch Spyridon, president of the Nashville Convention and Visitors Corporation, said Nashville boosters started selling the convention space and hotel rooms before the Music City Center and Omni Nashville Hotel were even approved. The complex in the city's downtown opened in May 2013.

"It was a bit of a task—I don't recommend that," Spyridon said of the early drive. "We had some success, and we committed to put a million rooms on the books before it opened. ... That solidified the project, and that really stopped the talk of 'Nashville's really not a destination' and 'conventions are dying'—all the things critics would like to say, we put that to rest.

"We engaged the business community at large," he added. "We took it out of the hands of the hospitality industry and we looked to (service it through the convention authority). We said, 'we need to make this an economic engine for the entire community,' and so the newspaper and AT&T and the university, healthcare, banks—they carried the argument for us."

A success story in Indy

That type of support was also true for Indianapolis, according to Bharat Patel, founder, chairman & CEO for Sun Development & Management Corp. Based in Indianapolis, Sun owns and operates three hotels and is developing three more in its hometown. Its portfolio includes 27 hotels open and 10 in development.

Indianapolis' dramatic transformation from a destination that couldn't handle citywide convention groups to one that is sought out by meeting planners was in large part driven by the hotel community, Patel said. It includes White Lodging Services' 1,005-room JW Marriott that is connected to the city's convention center, but Patel said it took more than just convention space to lure the big-box hotel that opened in 2011.

"The convention business is part business, part leisure, so you have to have some other attractions in the city," Patel said. "That happened with the professional football team (Indianapolis Colts of the NFL) and other sports, all the facilities here, the offices up there, the (Indianapolis Motor Speedway), other attractions. And because of all that, they were able to successfully sell it as a destination, and everybody benefitted."

A big driver for success is the addition of smaller overflow hotels close to the convention center, speakers said.

"They need these hotels—there's no Super Bowl coming otherwise, there's no other events coming otherwise," Patel said.

"Once the headquarters hotel stabilizes, you're seeing a lot of these feeder properties coming online," Crandell said.

“Omni didn’t listen to us and built 1,000 rooms instead of 800,” Spyridon said. “There are 4,600 rooms under construction right now. ... You have to have some alluring properties. You have to have air access. You have to have the overflow hotels. One thing doesn’t make it all happen. I think that’s critical to the conversation.”

Crandell said the Hilton Cleveland Downtown Hotel in Cleveland, Ohio, that opened in 2016 to serve as the city’s convention center hotel, has had varying degrees of success. On one hand, it has allowed the market to attract larger conventions. On the other hand, the new convention center and hotel have attracted other development to the point of the downtown market being oversupplied—in large part because it didn’t do the preparation work that Spyridon outlined.

“What you have to do is you have to look out—you have to be selling that business not after the hotel opens but selling it to two to three years, four to five years even, before that facility actually opens up online,” said Crandell, whose company asset manages the property for owner Cuyahoga County. “I don’t think there was a lot of committed effort selling convention business in downtown Cleveland early enough, and I think that’s contributed to some of the supply-and-demand imbalance that we’re experiencing now.”

Other markets that filled in with limited-service and select-service hotels once a convention center hotel was built include Austin, Texas; Denver; and Baltimore, Crandell said.

Financing remains a big question

Perhaps the biggest piece of the puzzle involving convention center hotels is financing, which can often be complicated and divisive, said Peter Phillippi, managing director-public finance investment banking for Piper Jaffray, an investment bank and asset management group.

“When it comes to financing the hotel, I think the convention centers are—and always have been—a clear cut public funding obligation,” he said.

Prior to changes in the federal tax laws in 1997, convention center hotels were privately owned and most of them were publicly subsidized in some way, Phillippi said.

“As the cost began to escalate, the amount of subsidy that was required in a lot of these markets, it really couldn’t be justified,” he said. “So you have this pent-up demand for convention center hotels in the mid to late ’90s, and you had municipalities who had funded large—hundreds of millions of dollars—in in convention centers. Then they realized we have no place to put our groups. With all this pent up demand, the changes to the ’97 tax code allowed for longer term management agreements, and really that kind of created the environment for the proliferation of the public benefit nonprofit ownership structure.”

Phillippi said new revised guidelines of qualified management agreement rules introduced in 2016 made it even more favorable for the public benefit nonprofit owners.

The hotel component can't be looked at as a panacea for a markets problems, he said.

"They need to be approached very cautiously because they're very expensive and they're very capital-intensive over time," he said.